Third ANNUAL REPORT

1995

Bangko Sentral ng Pilipinas

Manila, Philippines

THIRD ANNUAL REPORT 1995

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27 March 1996

HIS EXCELLENCY FIDEL V. RAMOS
President of the Philippines
Malacañang, Manila

Dear Mr. President :

I have the honor to submit the 1995 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 1995, the major policies and measures adopted by the monetary authorities and highlights of the BSP's operations and activities.

Very truly yours,

GABRIEL C. SINGSON
Governor

MONETARY BOARD MEMBERS

GABRIEL C. SINGSON
Chairman

RIZALINO S. NAVARRO*
Member

GUILLERMO N. CARAGUE
Member

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Member

CAYETANO W.PADERANGA, JR.
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AURELIO PERIQUET, JR.
Member

IÑIGO B. REGALADO, JR.
Member

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Governor

EDGARDO P. ZIALCITA
Deputy Governor
Banking Services Sector

ANDRE NAVATO
Deputy Governor
Resource Management Sector

ALBERTO V. REYES
Deputy Governor
Supervision and Examination Sector

*Secretary of Trade and Industry, Representative from the Government Sector.

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PART ONE : PHILIPPINE ECONOMY

Overview

The economy sustained the strong growth momentum in 1995 with the determined implementation of appropriate macro-economic policies and further deregulation measures under conditions of greater political stability. Exports responded to the opportunities offered by rising global demand, serving as major stimulus to growth. Prudent monetary and fiscal policies together played a critical role in securing financial stability that enabled the economy to weather adverse developments emanating locally and from abroad.

Early in the year, the Mexican crisis undermined investor confidence and led to a sharp reversal of capital inflows. Another major disturbance which became evident in the third quarter was the sharp increase in food prices. This created potentially destabilizing expectations of higher inflation and cast doubts about the sustainability of the country's economic and stabilization programs. Careful management of the situation characterized by restraint in the monetary stance allayed unwarranted inflationary expectations.

During the year, an updated monetary program was negotiated with the International Monetary Fund (IMF) to achieve price stability conducive to a balanced and sustainable economic growth. The revised program reflected the need for flexibility in monetary policy under conditions of financial liberalization and higher growth potential. As such, implementation of the program required a more comprehensive approach to monetary policy where movements, not only of monetary aggregates, but also those of other indicators as the exchange rate, interest rate, bank credits and stock prices, were also taken into account.

Strong export growth which outpaced that of imports, along with the continued remittances of overseas contract workers, contributed to the improvement of the external current account balance. The flow of foreign savings, notably investments into the country, though marred by bouts of nervousness on the part of investors, nonetheless remained considerable. This reduced the country's reliance on debt-creating flows to finance the current account deficit. The strong external situation allowed the BSP to maintain a comfortable level of gross international reserves (GIR) equivalent to about 2.6 months of imports of goods and services.

Sustained Growth Performance. The economy sustained the 1994 growth momentum by posting a real growth of 5.7 percent largely on account of the remarkable expansion in exports. On the supply side, the expansion was driven largely by the manufacturing sector.

Single-Digit Inflation. Prices were generally stable during the first eight months of the year until supply-side shortages accounted for mainly by rice, pushed inflation to double-digit levels starting September. The annual inflation rate averaged 8.1 percent during the year, exceeding the target range of 6.5-7.5 percent, but lower than 1994's 9.0 percent.

Healthy NG Cash Position. The government's cash position recorded a P10.2 billion surplus even as the expansion in expenditures outpaced the growth of revenues. This level, however, was P5.3 billion short of the program, and lower than the previous year's P18.1 billion surplus.

Monetary Aggregates Under Control. General movements in monetary aggregates during the year reflected BSP's commitment to price stability, as reserve money (RM) and base money (BM) were brought down to levels below program ceilings.

Strong External Position. The surplus in the balance of payments may be traced to the strong export performance which, combined with higher remittances from overseas contract workers and peso conversions of foreign currency deposits, served to reduce the current account deficit from 4.5 percent of Gross National Product (GNP) in 1994 to 2.5 percent in 1995. Significant purchases of foreign exchange, made possible by strong capital inflows pushed the level of international reserves to $7,776 million at year end, equivalent to 2.6 months of imports of goods and services.

Market Determined Foreign Exchange Rate. The average exchange rate of the peso vis-à-vis the U.S. dollar appreciated slightly by 2.7 percent from P26.417 in 1994 to P25.714 in 1995. The end-period exchange rate, however, reflected a depreciation of 7.4 percent to P26.21, as market concern over inflationary pressures fuelled by supply-side constraints in certain agricultural commodities, as well as prospects of more favorable investment alternatives abroad, created added demand for dollars and encouraged speculation in the foreign exchange market.

The generally stable adjustment in the exchange rate during the year could be attributed to the monetary authorities' timely efforts to implement measures that moderated sudden and extreme fluctuations in the market.

Lower Debt Service Ratio. Notwithstanding the increase in the stock of the country's external debt, the debt servicing capability of the economy continued to improve during the year, with the ratio to total exports of goods and services, and to current account receipts, declining from 17.4 and 16.7 percent in 1994 to 14.6 and 14.1 percent in 1995 , respectively.

Further Development of the Financial System. The financial sector continued to grow in number and in resources. With the entry of the ten new foreign banks and two new domestic banks, along with the asset build-up by domestic banks, total assets of the financial system expanded by 22.1 percent to P1,970.3 billion. In terms of number, 1,365 financial institutions were added during the year to bring the total to 12,438 at the close of 1995.

Indicative of the widening of financial services and increased competition engendered by the liberalization of the banking industry, the total deposit base of the banking system grew to P997.8 billion by end-1995 from the P786.1 billion in the previous year.

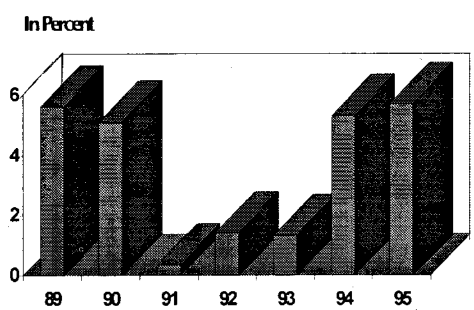
Stock Market. The impact of the series of exogenous shocks that rocked most emerging markets as well as growing domestic concerns on rising prices at the latter part of the year affected the performance of the stock market as the Philippine Stock Index (Phisix) declined by 9.6 percent to 2,592 points. Notwithstanding the slack in the bourse, reforms continued to be instituted to allow paperless trading and improve the Securities and Exchange Commission's (SEC) regulatory powers over the securities market.

Profitable Central Banking Operation. Preliminary data for the first eleven months of 1995 showed continued strength and profitability of BSP operations. BSP's net income reached P9.6 billion. This strong financial result will once again enable the BSP to make a hefty financial contribution in the form of dividends and rebates to the NG.

Real Sector

The Philippine economy sustained higher economic growth for the fourth consecutive year as real GNP grew from 5.3 percent in 1994 to 5.7 percent in 1995 even as this economic performance was still slightly below the 6.0 percent target (Table 1). Real gross domestic product (GDP) likewise grew

CHART 1
REAL GNP
ANNUAL GROWTH RATES, 1989-1995



by 4.8 percent from 4.4 percent in the preceding year, propelled by stronger investor and consumer confidence in the economy as well as the structural reform and liberalization measures implemented during the year. Net factor income from abroad, including overseas remittances, which rose by 40.1 percent from the previous year, also provided an additional boost to the economy.

Aggregate Demand

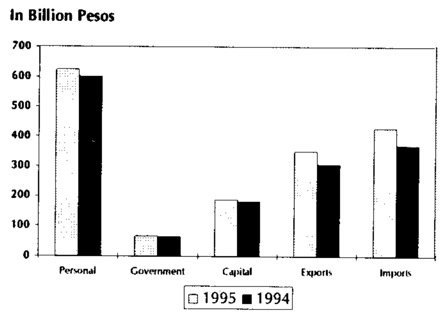
On the demand side, exports of goods and services served as the main catalyst of economic growth. Exports expanded by 13.8 percent in real terms, as a result of the remarkable performance of merchandise exports which grew by 17.7 percent. Semiconductors and garments, two of the country's top exports, rose substantially by 22.6 percent and 11.2 percent, respectively.

Meanwhile imports registered a growth of 15.7 percent reflecting robust economic activities. Base metals, feeding stuff, electrical machinery, apparatus and appliances as well as machinery other than electrical machinery exhibited substantial rate of expansion.

In nominal terms, merchandise exports advanced by 25.6 percent while merchandise imports rose 22.7 percent.

Aside from exports, capital formation also contributed to aggregate demand although at a slower pace of 3.5 percent compared to 8.7 percent in 1994 due to a slowdown in growth of durable equipment particularly for the power sector. Construction expenditures expanded with the continued development in industrial estates. Meanwhile, private consumption accelerated by 3.8 percent, further boosting aggregate demand owing to the

CHART 2
GNP BY EXPENDITURE SHARES, 1994-1995
LEVELS AT CONSTANT 1985 PRICES

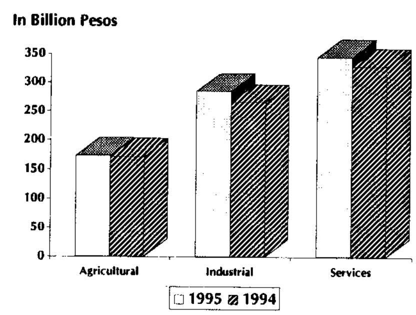


improvement in household income and the inflow of overseas remittances. The growth in public consumption, however, continued to moderate to 3.6 percent from 6.1 percent in 1994 in line with fiscal consolidation.

Sectoral Conditions

On the production side, the industry sector showed the highest growth, improving by 7.3 percent from the previous year (Table 1a). The manufacturing sector, which contributed about 71 percent of the industry's gross value-added, grew by 6.9 percent. Among its subsectors, basic metal industries, paper and paper products and transport equipment exhibited the highest growth at 26.8 percent, 23.8 percent and 21.5 percent, respectively. Meanwhile, mining and quarrying rebounded, growing by 5.9 percent from a 7.0 percent decline in 1994. The gross value added of stone quarrying, clay, and sandpits rose because of the booming construction sector. The growth of the construction subsector decelerated to 6.5 percent from 9.0 percent in 1994. Spurred primarily by non-residential construction, the utilities subsector (electricity, gas and water) reflected a high growth of 13.0 percent.

CHART 3
GNP BY INDUSTRIAL ORIGIN, 1994-1995
LEVELS AT CONSTANT 1985 PRICES



The expansion came about even as generation, distribution, and sales of power decreased due to the extensive damage on major power and transmission facilities caused by typhoon Rosing in the fourth quarter of the year.

The services sector also expanded in 1995. Services grew by 4.9 percent from 4.3 percent in the preceding year, led by transportation, communication and storage, trade, finance and housing.

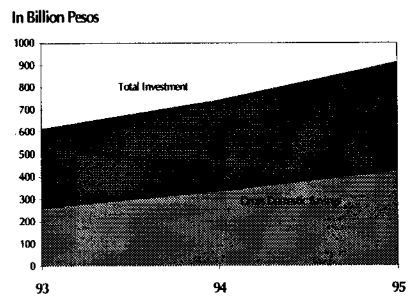
Meanwhile, the combined agriculture, fishery and forestry sector exhibited an expansion of only 0.9 percent compared to 2.7 percent in 1994.

Among the major crops, coconut recorded a high growth due to the impact of coconut replanting and fertilization program while sugarcane and corn production fell dramatically by 25.6 percent and 8.7 percent, respectively. Fishery improved slightly from last year's 1.1 percent growth, with a growth of 2.0 percent. Forestry production dropped significantly by 48.6 percent due to the log ban.

Savings and Investments

*I*n 1995, the savings-investment gap continued to decline to 3.2 percent of nominal GNP from 4.3 percent in 1994, as private savings expanded significantly from 14.1 percent to 16.7 percent of GNP during the last two years (Table 2). Gross domestic savings managed to grow by 27.2 percent in 1995 which was just slightly lower than the 27.5 percent growth in 1994. Private savings continued to account for a major share of total national savings. Unlike in 1994, the growth in private savings at 33.8 percent in 1995 outpaced public savings growth (9.1 percent). Factors which contributed to the expansion in private savings were higher income, positive real interest rates and improving financial intermediation with the liberalization of bank branching and the entry of foreign banks. The decline in the S-I gap was reflected in the narrowing of the current account deficit in the balance of payments.

CHART 4
SAVINGS AND INVESTMENTS LEVELS, 1993-1995



Concomitant with the authorities' efforts to promote foreign investments, aggressive savings mobilization measures, such as reduction in reserve requirement, liberalization of banking hours and promotion of banking services innovations (e.g. ATM and PNBig) were likewise undertaken to encourage domestic investments. National savings were translated into investments through direct plow back of profits to businesses for expansion or other additional investments and financial intermediaries as businesses borrow from banks to finance investments.

In 1995, total investments grew by 19.6 percent to reach P488.5 billion, a bigger proportion or 77.4 percent of which came from the private sector. Cognizant of the major role played by investments in sustaining Philippine economic growth, structural reforms were implemented in consultation with the private sector, to promote a more conducive investment environment. These reforms included: a) amendment to the Omnibus Investment Code or EO 226, b) establishment of legal framework and mechanisms for the creation, operation, administration and coordination of Special Economic Zones (SEZs) in different areas around the country by the Philippine Economic Zone Authority (PEZA) and the grant of fiscal incentives to establishments operating within the zones, and c) amendment of the Build-Operate-Transfer (BOT) law to the areas allowed for BOT undertaking and provide for unsolicited proposals under special circumstances. Other major developments in 1995 to improve the investment climate included the wider access to peso and foreign currency loans, particularly by exporters; lifting of price controls; deregulation of imports; and reduced tariffs.

On the other hand, measures instituted in 1995 designed to ensure the stability and soundness of the financial system helped promote the greater monetization of savings and financial intermediation. Foremost among these measures were the enhancement of deposit insurance protection through improved liquidity of the Philippine Deposit Insurance Corporation (PDIC) from P3.3 billion to P5.9 billion in June 1995 and increased minimum capital requirements for banks. Competition in financial intermediation was also encouraged via the liberalization of the entry of foreign banks.

Labor, Employment and Wages

The robust growth in domestic production in 1995 enabled the economy to generate employment opportunities to absorb the 2.6 percent increase in the labor force. Thus, the unemployment rate for 1995 at 9.5 percent remained unchanged from the 1994 level (Table 3).

Based on surveys conducted during the year, industry and services made up for the slack in agriculture in terms of job creation. These two sectors, which led the growth of the domestic economy in 1995, generated some 765,000 new jobs or 52.1 percent more than the 503,000 jobs created during the previous year. Meanwhile, weather-related disturbances led to the decline in job generation in the agriculture sector.

There was general slowdown in the deployment of both land- and sea- based Filipino overseas workers. Total deployment for overseas workers declined by 9.1 percent to reach only 653,905 in 1995 compared to the year-ago level of 719,602. A decline of 13.6 percent was observed among land-based workers due to the stricter implementation of rules and regulations governing contract workers particularly cultural workers and domestic helpers. Likewise contributing to the slowdown was the temporary ban on the sending of domestic helpers to Singapore. Deployment of sea-based workers on the other hand, rose by 7.1 percent in 1995.

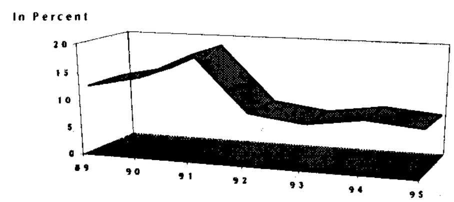
There were nominal increases in the daily wage rates of non-agricultural workers (ranging from 1.8 percent to 6.4 percent) and agricultural workers (1.9 percent to 6.0 percent) in 1995. This, notwithstanding, the real daily wage rates declined as a result of the surge in inflation during the latter part of the year due to agricultural supply bottlenecks. In particular, real daily wage rates of non-agricultural workers fell by as much as 11.0 percent for regions outside the National Capital Region (NCR), while real daily wages of plantation agricultural workers declined by as much as 8.5 percent.

A positive development in the labor sector was the increase in the proportion of wage and salary workers to 46.1 percent in 1995 from 45.2 percent last year. This indicated that there has been an employment shift from the informal sector to the more secure formal sector. At the same time, the number of underemployed declined resulting in the reduction in the underemployment rate from 21.4 percent last year to 20.0 percent.

Prices

Prices during the first half of 1995 were generally stable despite some unanticipated external shocks resulting in unstable money and foreign exchange markets, together with rising domestic liquidity in the early part of the year. However, this trend was reversed in the second semester as the rice shortage pushed inflation to double-digit levels in the last four months of

CHART 5
ANNUAL INFLATION RATES, 1989-1995
1988 = 100

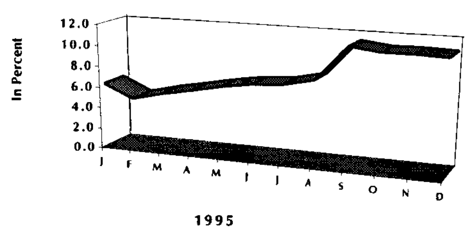


the year. The 1995 inflation rate computed from the Consumer Price Index (CPI) of the Philippines (1988 = 100) was 8.1 percent, surpassing the government's target range of 6.5 percent to 7.5 percent but lower than last year's 9.0 percent (Table 4).

On a quarterly basis, annual inflation showed a rising trend from 5.6 percent and 6.7 percent during the first two quarters to 8.9 percent and 11.0 percent during the third and fourth quarters, respectively.

Supply-side factors such as the dry spell which significantly affected rice and corn production, the resulting rice shortage which was aggravated by hoarding and delayed rice importation, and the foot-and-mouth disease in hogs contributed to the increase in prices. The impact of the above factors negated the positive influence on inflation of both the peso appreciation and lower interest rates, together with demand-side factors such as the deceleration of domestic liquidity growth in the second half of the year and lower consumption and investment demand compared to 1994 levels.

CHART 6
ANNUAL INFLATION RATE
JANUARY TO DECEMBER 1995



By commodity group, the average price of food, beverage and tobacco which comprises 58.5 percent of the total consumer basket, increased by 9.5 percent from 8.3 percent in the previous year despite the government's importation of rice to dampen the price effect of the rice shortage. On the other hand, average price increases of all other commodity groups decelerated in 1995 compared to 1994 levels. Among the non-food commodity groups, the steepest decline in average price increase was shown in the miscellaneous subgroup from 11.0 percent in 1994 to less than one percent in 1995.

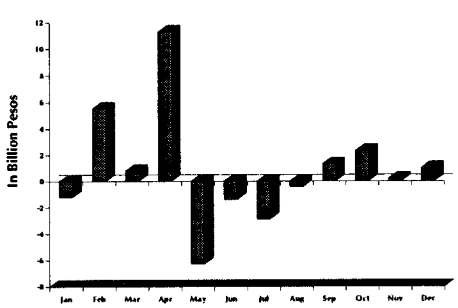
By region, the average inflation rate was the same in the NCR and in areas outside NCR at 8.1 percent.

Cash Operations of the National Government (NG)

In 1995, the cash operations of the NG recorded a P10.2 billion surplus, P5.3 billion short of its programmed level of P15.5 billion (Table 5). This year's surplus was also lower than the previous year's P18.1 billion as revenues grew by only 7.5 percent relative to the 10.4 percent growth in expenditures.

The P360.2 billion total revenue collections came mostly from tax (86.1 percent) and non-tax (13.9 percent) revenue sources. The improved collections of the Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC) resulted in the P38.5 billion increase in tax revenues. While the collections of BIR posted a 12.1 percent hike over the year-ago level, the amount was still below the targeted collections by P3.9 billion. Meanwhile, the slowdown in earnings from the government's privatization program largely caused the P13.5 billion decline in non-tax revenues. This was traced to the deferment in the sale of government shares in Philippine Associated Smelting and Copper Refining Corporation (PASAR), Philippine Phosphate Fertilizer Corporation (PHILPHOS), and Manila Electric Company (MERALCO), as well as the delay in the completion of the sale of The Manila Hotel.

CHART 7
NG CASH SURPLUS/(DEFICIT)
JANUARY-DECEMBER 1995



Government expenditures during the year aggregated P350.0 billion, an increase of P32.9 billion over the 1994 level, reflecting essentially the hikes in allotment to local government units, net lending and equity contributions to government corporations, and miscellaneous expenses. The latter was brought about mainly by higher outlays for the construction of damaged infrastructure caused by a series of typhoons that hit the country.

Owing to its positive fiscal position during the year, the NG was able to pay more debts than it borrowed. The net repayments of foreign liabilities during the period helped reduce the country's future debt service obligations.

Public Internal Debt

Outstanding public internal debt in 1995 grew by 8.5 percent to P677.9 billion, a turnaround from the 5.8 percent decline registered in 1994

(Table 6). The increase in public internal debt was due mainly to the issuance of Treasury bonds worth P24.9 billion to pay PNB-assumed NG liabilities and net sales of T-bills worth P23.0 billion. The outstanding balance was equivalent to 34.4 percent of GNP, lower than the 36.0 percent posted in the preceding year.

The NG continued to hold the biggest share of the debt pie at 98.8 percent while the government-owned and/or controlled corporations (GOCCs) and the BSP shared the remaining 1.2 percent.

Securities continued to dominate domestic borrowings by the government (98.3 percent) versus loans payable (1.7 percent).

Despite the accelerated sale of fixed rate Treasury Notes (FXTNs) during the year, the share of long-term and medium-term debt to total public borrowings in 1995 decreased from 32.9 percent to 29.1 percent as the issuance of T-bills continued and resulted in a net sale of comparable magnitude.

Monetary Conditions

Monetary developments in 1995 continued to reflect the impact of a changing environment in a period of globalized finance and financial liberalization. Against these challenges, the BSP implemented a flexible monetary policy mix to achieve the appropriate balance in attaining as close as possible the single-digit inflation target for the year and supporting economic growth.

Changes in the financial environment as a result of economic stabilization and financial liberalization led to continued capital inflows which brought about the dramatic growth of financial assets. In response to these changes, the BSP implemented a more responsive yet cautious monetary program with the IMF in the second half of 1995. From relatively tight monetary targets in the first half of 1995, the monetary program was revised and took into consideration the increased demand for money in an expanding economy. Hence, consistent with macroeconomic targets, monetary aggregates were allowed to grow faster without overheating the economy. Since June 1995, BM and RM levels were kept significantly below program ceilings with the IMF.

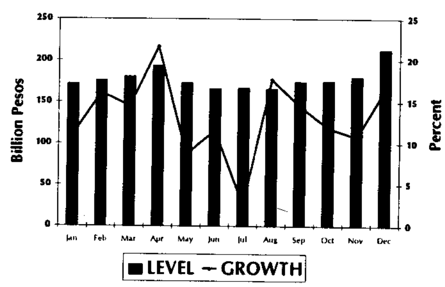
As the impact of financial liberalization continued to be felt, domestic liquidity (M3) rose by 25.3 percent from its year-ago level to P761.4 billion as of end-December 1995. This represented a deceleration from the high of 45.4 percent growth as of end-April (Table 7). Greater confidence in the economy, the ongoing financial liberalization and the growing sophistication of the banking industry expanded the demand for liquidity and credit transactions with banks.

The rapid growth in private credits of deposit money banks (DMBs) was the major source of M3 expansion. The productive sectors of the economy, in particular manufacturing, financial institutions, real estate and business services and wholesale and retail trade, absorbed the bulk of loanable funds, reflecting the increased absorptive capacity of the economy.

The expansion in M3 was likewise reflective of higher BM multiplier owing to the cut in banks' reserve requirement against peso deposit and deposit substitute liabilities which reduced intermediation costs of banks.

Increased confidence in the banking system and the establishment of foreign banks and bank branches continued to generate deposits in banks and even raised demand for bank services. In particular, all forms of deposits registered year-on-year growth. Savings deposits, which comprised close to 70 percent of M3 grew by 28.6 percent. In a similar vein, demand deposits and currency in circulation increased by 31.6 percent and 15.9 percent, respectively, reflective of higher transactions demand of the public. Meanwhile, deposit substitutes, which accounted for only 0.8 percent of total M3 in 1995 rose by 35.3 percent (Table 8).

CHART 8
RESERVE MONEY
LEVELS AND ANNUAL GROWTH



RM movements also influenced M3 growth. RM (consisting of currency issued net of cash in Treasury vault, and banks' deposit balances with the BSP) at P212.7 billion as of end-December 1995 reflected an expansion of 16.6 percent from the previous end-year level, an acceleration from the December 1994 increment of 6.2 percent (Table 9).

Growth in RM emanated mainly from the improvement in BSP-Net International Reserve Position (BSP-NIR) following the continued surge in capital flows during the year and BSP net purchases of US dollars. Other expansionary factors included withdrawals in NG deposits with BSP as well as redemption of maturing BSP and CB bills issued in the past.

Efforts on the part of the monetary authorities to keep RM below the ceilings involved the sale of BSP holdings of Treasury bills which averaged P117.9 billion in 1995, and borrowings under the reverse repurchase facility which averaged P26.9 billion in 1995 (Table 9). The average growth in fixed-term deposits of GOCCs also moderated the rise in RM. In step with the growth in RM, BM (defined as the sum of RM, reserve-eligible government securities, liquidity reserves or the two percent reserve requirement in the form of short-term government securities under BSP Circular No. 10, and if there is any, reserve deficiency of DMBs) rose by 17.0 percent by end-1995 from 11.5 percent a year earlier.

While inflation rose to double-digit levels in the latter part of the year, the BSP adopted appropriate monetary strategies to prevent unwarranted inflationary expectations in the face of domestic supply bottlenecks and changing economic and financial conditions.

Financial Condition and Capital Market Developments

Number and Resources of Financial Institutions. The financial sector continued to grow both in terms of aggregate resources and number of financial institutions amidst the government's program of financial liberalization to promote a stronger and more competitive financial system.

Total assets of the financial system rose by 22.1 percent reaching P1,970.3 billion as of end-December 1995 with commercial banks accounting for over 80 percent of the total increase in resources (Table 10A). The expansion in the financial system's resources reflected the entry of ten new foreign banks and two new commercial banks (International Exchange Bank and China Trust Bank) into the system as well as the asset build-up by domestic banks in anticipation of greater competition. The number of financial institutions also rose by 1,365 bringing the total number of financial institutions to 12,438 by end-1995 (Table 10).

The expansion of the financial system in terms of the broadening of the resource base and the rise in the number of financial institutions substantially increased the financial system's strength and capacity to intermediate funds and improve the delivery of the banking services to the public.

Deposit Liabilities of the Banking System. The total deposit base of the banking system grew from P786.1 billion in 1994 to P997.8 billion as of end-1995 (Table 11) as banks expanded their network and aggressively marketed improved and wider financial services.

Reflecting their edge in branching network over other financial institutions, commercial banks, which accounted for over 85 percent of the increase in total deposit base of the banking system, cornered P873.8 billion of total deposit liabilities. Meanwhile, thrift banks captured P91.1 billion of deposits; rural banks, P21.2 billion; and specialized government banks, P11.7 billion.

Some two-thirds of total deposits were in the form of savings deposits which grew following the expansion in bank branches and the linking up of two of the biggest ATM networks (Bancnet and Megalink) in the country. Meanwhile, time deposits which accounted for 23.5 percent of total deposit liabilities grew by 28.5 percent.

Foreign Currency Deposit System. Foreign Currency Deposit Units (FCDUs) continued to expand with total resources reaching \$12.3 billion as of end-December 1995 (Table 12). The growth was attributed mainly to higher deposits received by the FCDUs as well as the expansion in the number of FCDUs in the system. Moreover, the participation of four former offshore banking units, three former representative offices of foreign banks, two foreign banks which were granted licenses as local branches of foreign banks, two new commercial banks and five thrift banks contributed further to the growth in the foreign currency deposit (FCD) system's aggregate resources.

FCDU resources in the form of loans and discounts particularly to private sector residents posted the highest increment following the relaxation of access to this type of financing. The loans were infused mainly to the manufacturing industry (51 percent), financial institutions and real estate sector (11 percent) and the transportation/communication sector (9 percent). About three-fourths of the loans were short-term while the rest were of medium- and long-term maturities.

Meanwhile, almost three-fourths of the system's liabilities as of end-December 1995 remained in the form of deposit liabilities which went up to $9.1 billion, or 18.1 percent higher than in the same period last year. Of the amount, 91 percent comprised deposits of residents. Higher export proceeds and OCW remittances as well as the growth in the number of FCDUs contributed to the rise in the deposit base.

Offshore Banking System. As of December 1995, the aggregate resources of the Philippine Offshore Banking System reached $2.1 billion from the previous year's $2.0 billion (Table 13). At 3.1 percent, this year's growth decelerated from last year's 28.3 percent and was attributed mainly to the system's expansion in the following accounts: due from banks ($103 million), all other assets ($42 million) and investments in bonds and other securities ($10 million). The increase in the latter was accounted for by higher placements in bonds and stocks by residents. However, these increments were partly offset by the decline in loans and discounts to customers ($92 million) which accounted for nearly 40 percent of total resources in 1995. A major portion of these loans went to manufacturing, transport, and electricity, gas and water.

Meanwhile, notwithstanding a decline in OBUs' "due to banks" account, the system's liabilities expanded by $63 million at end-December 1995. This developed following an increase in deposit liabilities to non-residents and other liabilities. The account "due to banks" continued to be the main source of funds of the system and comprised the bulk (91.2 percent) of total liabilities of the offshore banking system.

During the year, five OBUs authorized to operate as full-fledged Philippine branches of foreign banks with full banking authority commenced operations. These are the Korea Exchange Bank, the Bank of Tokyo, Internationale Nederlanden Bank, Deutsche Bank AG and Chemical Bank. Of these, only the Korean Exchange Bank and the Bank of Tokyo ceased operations as an OBU resulting in the reduction of operating OBUs from 19 at the start of the year to 17 at year's end. European banks remained to have the biggest representation among OBUs in the Philippines with seven banks, followed by the US (6), Asia (2), Australia (1) and Canada (1).

Capital Market Developments

Money Market. In 1995, the total volume of money market transactions stood at P4,044.8 billion, up by 14.9 percent or P524.4 billion than in the previous year (Table 14). Market turnover, however, decelerated compared to last year, due in part to the relatively liquid market following the downward adjustment in reserve requirements in May and the continued inflow of foreign capital in the economy.

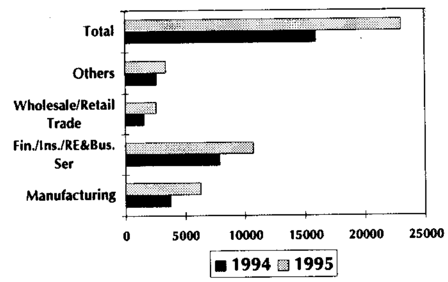
The volume of interbank call loan (IBCL) transactions, which accounted for 56.7 percent of total money market transactions, expanded by nearly 60 percent. Non-financial commercial papers, which accounted for 6.2 percent of total transactions, similarly grew by 40.5 percent, reflecting the increasing demand for funds by the non-financial sector to finance their investment projects and expansion programs. Private repurchase agreements, certificates of assignment and promissory notes continued to be actively traded in the market.

Despite the increase in money market transactions, trading in several securities, mostly government, fell during the year, reflecting the government's healthy financial position and the decision of BSP to actively use its overnight instruments to siphon off excess liquidity rather than the relatively longer-term T-bill instruments. Likewise, transactions in financial commercial paper fell by 85.6 percent as institutions found it cheaper to raise funds from other sources.

On average, interest rates on all instruments transacted during the year fell by 123.2 basis points as yields for most of the securities traded went down. The inflows of foreign investments, the substantial foreign exchange purchases by the BSP to build up the international reserves as well as the sustained surplus in the NG's cash position helped dampen interest rate movements and kept interest rates relatively low despite the rising inflation rates during the last quarter of the year.

Capital Investments. The year saw a steady inflow of foreign capital indicating continued investor confidence as well as the positive perception of the country as one of the promising emerging markets in Southeast Asia.

CHART 9
CAPITAL INVESTMENTS OF NEWLY REGISTERED BUSINESS ORGANIZATION BY INDUSTRY, 1994-1995
IN MILLION PESOS



During the first eleven months of 1995, a total of 14,235 newly-registered business establishments were put up with a combined paid-up capital of P25.1 billion. This amount represented an increase of 38.0 percent over the same period last year (Table 15). Investments in the manufacturing sector grew by 47.0 percent as industries geared up for greater market activity in 1996. Financing, insurance, real estate and business services, which accounted for nearly half of the capital investments during the period went up by 31.2 percent. A decline in investment in electricity, gas and water was noted as the market awaited the results of the proposed deregulation of the energy industry.

Stock Market Developments. Trading at the Philippine Stock Exchange (PSE) during the year slackened, reversing the bullish performance of the market in the previous year. This was reflected in the decline in the Philippine Stock Index (Phisix) of 9.6 percent to 2,592 points.

Trading, particularly during the first quarter of the year, was bearish following a succession of crises (i.e., Mexican crisis, fall of Baring) that tested investors' confidence in the country. However, renewed interest in the local equities market ensued following favorable domestic and external developments and as the adverse effects of the international disturbances were contained. Thus, the market saw the successful listing of initial issues such as La Tondena, Security Bank Corporation, William Lines, Inc., Piltel, Ionics, Camella and Palmera Homes, Inc. Sinophil Corp., and Filipino Fund, Inc., among others.

The bearish sentiment in the bourse market reappeared towards the last quarter of the year. The double-digit inflation rates, the rise in domestic interest rates and the build-up in inflationary expectations pending implementation of the oil price hike and the expanded value-added-tax (EVAT) contributed to the sluggish market.

As a result of these adverse shocks to the system, the value turnover in 1995 fell by 2.5 percent to P379.0 billion even as the volume of transactions rose by 42.1 percent. Moreover, notwithstanding the market's bearish performance, total capitalization as of end-1995 reached P1,545.7 billion, 11.5 percent higher than last year. The oil and property sectors recorded robust trading as both the volume and value of transactions increased.

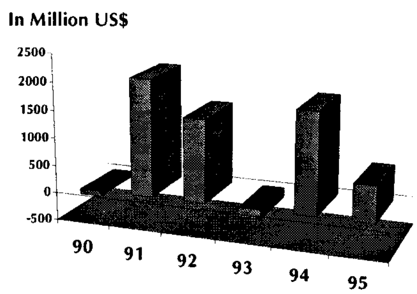
During the year, the PSE and three commercial banks (RCBC, Equitable Banking Corporation and Citibank) agreed to create the Securities Clearing Corporation of the Philippines (SCCP) that would complement the Philippine Central Depository Inc. (PCDI). The creation of the SCCP was expected to help speed up stock market transactions through an automated settlement and clearing system that would allow paperless trading.

Similarly, the Securities and Exchange Commission (SEC), the country's regulator of the securities market, was given more power to police the securities market and protect investors. Brokerages have been required by the SEC to meet minimum capital requirements before being allowed to continue trading in securities.

Balance of Payments

The country continued to post an overall surplus in the balance of payments (BOP) in 1995 amounting to $645 million (Table 17). Although lower than the $1,802 million surplus achieved in 1994, the 1995 surplus nonetheless reflected significant gains in reducing the current account deficit - both in absolute terms and as a percentage of GNP - in spite of the decline in the capital account surplus.

CHART 10
BALANCE OF PAYMENTS POSITION
1990-1995

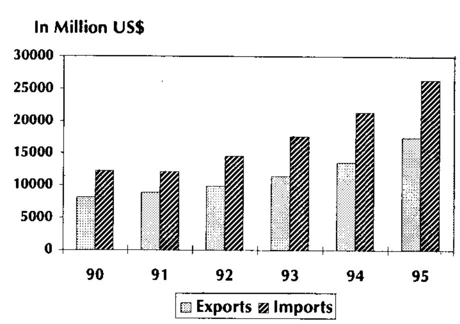


Current Account. The strong performance of exports, whose growth rate at 28.8 percent had finally outpaced import growth of 23.4 percent, as well as higher remittances of overseas contract workers and peso conversions of foreign currency deposits (FCDs), served to reduce the current account deficit to only $1,899 million from $2,950 million in 1994. As a ratio to GNP, the current account deficit (CAD) in 1995 shrank to 2.5 percent as against 4.5 percent in the previous year (Table 17).

Fuelled by increased foreign demand and favorable export prices, exports surged to $17,370 million led mainly by manufactures which included electrical and electronic equipment/ parts & telecommunications, garments and machinery & transport equipment (Table 17a). Other exports like coconut and mineral products likewise made appreciable gains in 1995 that helped boost aggregate exports.

Meanwhile, reflective of the steady pick-up in the domestic economy, imports continued to rise reaching a total of $26,333 million for the review period. This $5,000 million expansion in imports was made up principally of higher purchases of capital goods (22.4 percent) such as telecommunication equipment & electrical machinery and power generating & specialized machines, and of raw materials and intermediate goods (51.9 percent) while the rest of the increase came from the rise in imports of mineral fuels & lubricants and consumer goods (Table 17b).

CHART 11
MERCHANDISE EXPORTS AND IMPORTS
1990-1995



Also behind the marked decline in the current account deficit were the substantial inflows of personal income of overseas workers and peso conversion of FCDs which amounted to $4,928 million and $4,721 million, respectively, following the continued adoption of a liberalized foreign exchange regime in the country.

Capital Flows and International Reserves

Capital Flows. Capital flows in 1995 remained considerable notwithstanding the slowdown in net medium- and long-term loan availments precipitated by the government's policy to limit such availments with the anticipated increase in foreign investment inflows. Consequently, gross availments of medium- and long-term loans fell by about 14 percent (Table 17). Their impact on the capital account balance was mitigated by a similar deceleration in gross repayments of outstanding obligations.

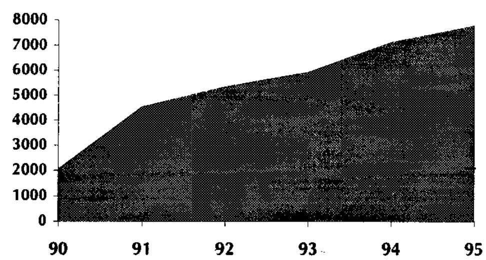
Net foreign investments surged to $2,390 million, advancing by more than half from the 1994 level as the country's economic prospects continued to attract international investors notwithstanding some periods of temporary slowdown occasioned by external shocks. Portfolio investments dominated the inflow of foreign capital comprising about 77 percent of the inflows while direct investments accounted for the remaining 23 percent.

Meanwhile, the net short-term capital account balance reversed to a $56 million deficit from its $1,002 million surplus position in 1994 while the change in commercial banks' net foreign assets rose further to $1,309 million. A substantial errors and omissions figure came out as fine-tuning of recording procedures is still underway following the recent deregulation of the foreign exchange system.

The challenges posed by the liberalization of the current and capital account regulatory framework and the adoption of the 5th Edition of the IMF's BOP Manual call for continuous refinement of the BOP methodology. Specifically, a crucial area to address is how to minimize possible cases of misclassification particularly in the "peso conversions of foreign currency deposits" under the services account. The methodology adopted during the year assumes an increased need of exporters to use foreign currency as a result of the various policy measures that gave exporters access to a wider variety of financial instruments and transactions for fund management which translated into higher usage of FCDU accounts. The new methodology ultimately raises the level of accuracy particularly of the CAD/GNP ratio matched with much smaller errors and omissions.

Gross International Reserves. The significant purchases of foreign exchange by the BSP during the year helped increase its total foreign assets - gross international reserves plus reserve position in the Fund - in 1995. These purchases were buoyed by the expansion of foreign investments in 1995, notwithstanding the impact of a temporary retreat of foreign fund managers from emerging economies spawned by the contagion effects of the Mexican peso crisis. From a level of $7,122 million at the beginning of 1995, the reserves grew to $7,776 million by the close of the year, equivalent to about 2.6 months of imports of goods and services (Table 18).

CHART 12
INTERNATIONAL RESERVES OF THE BSP
END-PERIOD, MILLION US DOLLARS



While movements in the level of international reserves during the year were influenced generally by the after-effects of exogenous shocks, developments in 1995 also highlighted the growing capacity of the Philippine economy to weather such disturbances. During the first quarter of 1995 when the Mexican crisis drove away most international investors from emerging markets, the Philippines included, international reserves dipped to $6,722 million by end-March. However, the continued stability of the domestic economy as evidenced by the strong macroeconomic fundamentals eventually encouraged these investors to return. This buoyed the level of reserves to a record high of $8,631 million in mid-August. The emergence of another round of market jitters, the bullish stock markets of major economies abroad and the speculation in the foreign exchange market during the last quarter of the year brought down anew the level of foreign reserves to $7,776 million by year-end. Nonetheless, this reserve level represented a 9.2 percent expansion compared to the previous year.

The $654 million increase in reserves could be traced primarily to substantial net foreign exchange purchases by the BSP from authorized agent banks amounting to $2,197 million, an amount which could have been higher were it not for the external disturbances, and other major inflows in the form of net availment of gold-backed loans ($600 million) and investment income ($345 million).

The BSP sold a net amount of $2,290 million in foreign exchange to NG for the latter's maturing debt obligations and paid $659 million worth for its own debt service payments thus limiting the increase in reserves.

The $7,776 million level of international reserves in 1995 consisted of foreign investments (78.8 percent), gold (18.0 percent), reserve position in the Fund (1.7 percent), foreign exchange (1.4 percent) and SDRs (0.1 percent). The higher level of GIR during the year boosted the net international reserve position of the BSP to $5,942 million at the close of 1995 as against $5,297 million in 1994.

Exchange Rate

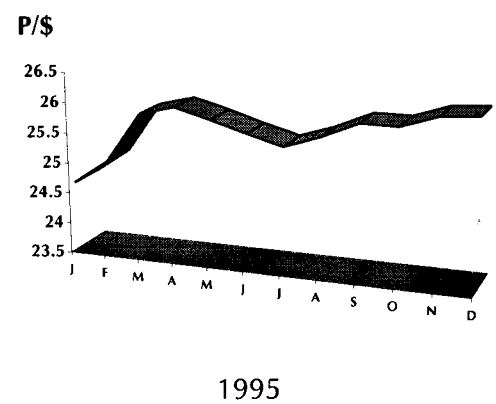
The Philippine peso showed mixed trends in 1995. For the first four months of the year, the peso weakened as the turbulence in financial markets adversely affected emerging economies, including the Philippines. However, the peso bounced back as investors showed renewed interest following the favorable domestic developments and as the impact of the external shock waned. In November, the stability of the peso was again tested following market concern over inflationary pressures fuelled by supply problem on certain agricultural commodities and the attractive investment opportunities in the US stock market (Table 19).

Thus, compared to the previous year, the exchange rate of the peso against the US dollar, based on the end-of-period exchange rate, depreciated by 7.4 percent to P26.21. However, in terms of the average exchange rate, the peso continued to appreciate by 2.7 percent compared to 1994.

During the first four months of 1995, the peso depreciated by an average of 1.9 percent. Dollar demand from oil companies following the gradual phasedown of the foreign exchange cover, the repayment of Paris Club debts, and demand from regular importers in anticipation of a tighter dollar supply ahead added to the pressure on the exchange rate.

In response, the BSP stepped up its dollar sales in the foreign exchange market, unloading a net amount of $173.4 million during the first quarter to ease the supply of dollars. Moreover, to eliminate speculative play in the market and shift investments away from foreign exchange into peso-denominated instruments, the BSP raised overnight borrowing rates from a low of 8.5 percent at the beginning of the year to a high of 30 percent in March. In addition, the BSP moved to reduce the banks' overbought position and increased the oversold position of banks to scale down banks' ability to engage in speculative activities. The coverage of foreign assets eligible for inclusion in the computation of the banks' overbought position was also modified to include import bills and dollar trust receipts with the view to further reducing the banks' ability to speculate by overbuying foreign exchange in the market. With the above measures in place, the depreciation of the peso slowed down to 0.6 percent in April and the BSP became a net purchaser of dollar during the month.

CHART 13
PESO-DOLLAR EXCHANGE RATE
1995, PERIOD AVERAGE



The peso began to strengthen in May following resurgence of capital inflows into the country. Key developments that served as impetus to the investors' renewed interests included the attractive initial public offerings of major companies, the positive interest rate differential and the peaceful conduct of the May elections. Thus, in sharp contrast to the experience during the first four months of the year, the oversupply of foreign exchange in the market pushed up the value of the peso. To moderate the appreciation of the peso, the BSP accelerated its gross purchases of foreign exchange at the Philippine Dealing System (PDS) buying a net amount of $1.8 billion from May-July.

The peso was relatively stable until October but became volatile again in November. Market concern over inflation, the accelerated importation of rice to augment shortages in the domestic supply and the improved prospects for investment opportunities in the US stock market created demand for dollars and led to some speculation in the foreign exchange market. To stabilize the market, the BSP sold over $398 million in November, the highest volume of sales recorded during the year. The BSP also hiked its borrowing rates several times to reduce the incentive for speculative activities. Following these moves, the peso depreciation decelerated to 0.1 percent in December from 0.8 percent in the previous month.

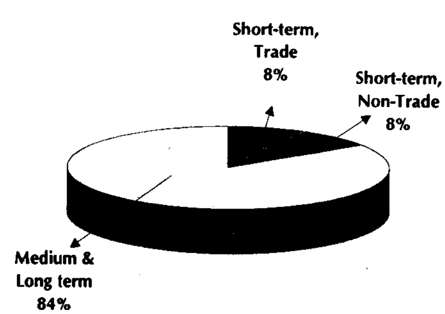
Against the currencies of major industrial countries (MICs), the external competitiveness of the peso as indicated by the real effective exchange rate (REER-MIC) moderately declined (5.4 percent) due largely to the higher inflation of the Philippines relative to those of the MICs. However, the extent of peso appreciation against the currencies of a broad number of competitor countries in real terms was smaller (3.0 percent) due to the lower inflation differential relative to competitor countries.

Foreign Exchange Liabilities

The country's foreign exchange liabilities as of end-June 1995 rose to US $40.6 billion, $2.9 billion higher compared to end-1994 level (Table 20). The increase was attributed mainly to revaluation losses, net availments of the non-monetary sector as well as higher reported liabilities of commercial banks.

Revaluation losses ($2.5 billion) which accounted for the bulk of the increase in the debt stock, resulted largely from the

Chart 14
Foreign Exchange Liabilities
Maturity Profile, As of 30 June 1995



appreciation of major industrial countries' currencies against the US dollar, in particular, the Japanese yen which comprised more than 35 percent of the country's external debt. On the other hand, net loan availments by the non-monetary sector ($197 million) consisted mainly of short-term trade credits and medium- and long-term loans to finance development projects for power generation, manufacturing, transportation, communication and other infrastructures and relending programs. Meanwhile, the increase in reported liabilities of the monetary sector ($637 million) was attributed mainly to higher "Due to Head Office" account of local branches of foreign banks following the entry of new foreign banks. Also contributing to the increase in the debt stock was the adjustments in external debt to reflect the late and erroneous reports ($235 million) on last year's transactions.

The expansion in foreign liabilities was, however, partly reduced by the downward adjustment in the external debt due to audit of export advances as of end-1994 ($281 million) and the reclassification of accounts as a result of assignments/trading of debt papers from foreign to domestic holders ($391 million).

By maturity structure, the bulk of the external debt remained medium- and long-term in nature (84.4 percent). Debt owed to bilateral creditors, mainly Japan and the US, remained the highest at 41.1 percent to total external debt, with multilateral sources at 20.6 percent, banks and other financial institutions, 16.9 percent, and the balance of 21.4 percent with other creditors.

Notwithstanding the increase in the stock of the external debt, the debt servicing capability of the economy continued to improve during the year. In terms of its ratio to total exports of goods and services and to current account receipts, the debt service burden (principal and interest payments) declined to 14.6 percent from last year's 17.4 percent in terms of the former; and to 14.1 percent from 16.7 percent in terms of the latter. The strong performance of exports and the current account receipts helped reduce the debt service burden, indicating the continued improvement in the country's capacity to service its debt.

Outlook for 1996

The sustained positive outlook for investments and exports is expected to bolster the ability of the economy to achieve an even more rapid growth of 6.5 to 7.5 percent in 1996. This optimism is anchored on the continued adoption of measures to deregulate the domestic economy, which is anticipated to further boost investors' confidence. Sustained global demand, particularly from the country's major trading partners is also projected to provide momentum for higher export growth. The ability of the economy to seize the opportunities for higher growth hinges though on the progress in establishing strong economic fundamentals.

Inflation expectation will continue to be a major determinant of the decision to expand business operations and commit long-term funds in the country. Thus, the monetary authorities will continue to focus their efforts on stemming inflationary pressures. In particular, the BSP will keep a tight watch on the financial aggregates to ensure a desirable growth of domestic liquidity that could sustain non-inflationary growth. This will require, among others, close coordination with the fiscal authorities in a joint effort to maintain sound macroeconomic conditions. The adoption of supply-related measures is also necessary, if the economy is to attain a single-digit level of inflation of 5.5 percent to 6.0 percent by the end of the year. A more liberal regime in the importation of agricultural products and timely decision on the importation of such important food items as rice and corn are crucial in preventing an unexpected and unnecessary rise in the prices of food products, which constitute around 58.5 percent of the country's Consumer Price Index.

The importance of maintaining a healthy balance in public finance cannot be overemphasized in the authorities' fight to control inflation and reduce the level of domestic interest rates, the latter being a major factor in fostering high-quality investments. The enactment into law of the bills on the Comprehensive Tax Reform Package and the streamlining of the bureaucracy is expected to sustain the headway achieved in improving public finance once the receipts from the privatization have run out. The latter measure will also help narrow the country's investment-savings gap and the deficit in the country's external current account.

The country's external transactions are expected to remain positive in 1996. Higher export performance of goods and services is anticipated to further enhance the current account balance. This, coupled with net inflows of capital, notably investments, will allow the BSP to maintain a healthy level of reserves to support the country's imports of goods and services as well as strengthen the confidence of the market. The BSP remains committed to a stable and market-oriented adjustment of the peso in response to a changing economic environment.

PART TWO: BANGKO SENTRAL NG PILIPINAS

Key Policies During the Year

Monetary and Credit Policies

The BSP, mandated to maintain price stability, continued to exercise prudent and flexible monetary policy in 1995. Prudence was exercised by ensuring that the levels of monetary aggregates such as the RM and BM were kept below program ceilings agreed with the IMF in order to reduce inflationary pressures due to domestic supply constraints that began to be manifested in the third quarter of 1995. At the same time, monetary policy remained flexible, in support of the increased demand for liquidity, consistent with the economy's growth objectives and the continuing process of financial deepening associated with the entry of new foreign banks, liberalization of bank branches, financial instrument innovations and increased capital inflows.

The general decline in interest rates during the year was achieved with a further relaxation of the reserve requirement and the reduction in intermediation cost. The favorable fiscal position of the NG, with a budgetary surplus of P10.2 billion in 1995, likewise tempered the demand for domestic credits by the public sector relative to the private sector's, contributing to lower cost of public sector borrowings.

Rediscount Window. The BSP continued to support the grant of rediscount loans to the export, agriculture and small- and medium-scale industries. The outstanding amount, however, has been governed by the RM program. Consistent with the thrust to make the rediscount rate more market-determined, rate adjustment had been made monthly, at one percentage point below the 91-day Treasury bill rate for the last auction of the preceding month. From 8.3 percent in December 1994, the rediscount rate rose to 10.8 percent in December 1995, indicative of the relative tightening in policy. As of end-1995, the total outstanding rediscount loans amounted to P4.7 billion, registering an 11.3 percent decline from P5.3 billion in 1994.

Reserve Requirement. In line with the objective to reduce intermediation cost, interest rate and consequently, the overall cost of borrowings, the BSP has implemented a gradual and phased-reduction in the reserve requirement against deposit and deposit substitute liabilities of banks since 1993. The legal reserve ratio for most banks was lowered from 17 percent in December 1994 to 15 percent, effective May 31, 1995.

A further reduction in the reserve requirement shall be pursued over time in line with the primary macroeconomic objective of price stability.

Open-Market Operations. In 1995, the BSP relied upon open-market operations (omo) as a major policy instrument towards achieving the desired level of domestic liquidity, consistent with the economy's price and growth objectives. In particular, the sale of BSP's Treasury bill holdings and borrowings under the reverse repurchase window were used extensively to keep the levels of monetary aggregates on track. As of end-December 1995, the outstanding levels of OMO instruments were as follows:

In Million Pesos

BSP Holdings of Treasury Bills	137,184
BSP Bills	-634
Reverse Repurchase (RPs) Agreements	
Reverse RPs (term)	-11,397
Reverse RPs (overnight)	-11,319

The BSP likewise actively participated in the foreign exchange market by selling some of its dollar holdings in order to neutralize the impact of speculations on the peso, as an aftermath of market uncertainties caused by the Mexican currency crisis and the Baring financial fiasco. As investor confidence strengthened, foreign investment inflows recovered and this allowed the BSP to build up its international reserve position. As a result, direct purchases of foreign exchange by BSP reached $3.4 billion, representing 33.5 percent of the total $10.1 billion volume traded in the PDS in 1995. The monetary impact of such transactions was partly sterilized through open market operations.

Interest Rate Policy

During the year, interest rate policy was directed towards achieving the twin goals of further enhancing the market orientation of interest rates and the promotion of overall macroeconomic stability.

In line with this thrust, the BSP widened the base rate on floating rate loans of banks to include Treasury bill rates and other market-based reference rates (Circular No. 99 dated December 23, 1995). Moreover, the BSP's rediscount window was also rationalized in August 1995 (MB Res. No. 784) with the determination of the rediscount rate changed from a quarterly basis to a monthly basis. The reform was adopted essentially to bring the rediscount rate closer to market rates.

Financial Structure Policy

In 1995, significant reforms were undertaken by the BSP to further strengthen the performance and operation of the financial system.

On February 22, 1995, the BSP raised the required minimum paid-in capital of expanded commercial banks (EKBs) and commercial banks (KBs) to P2.5 billion and P1.25 billion, respectively. In addition, thrift banks' capital base was increased to P150 million (with head office within Metro Manila) and P40 million (with head office outside Metro Manila). The BSP likewise adjusted the capital requirement of investment houses to P200 million (for those established in Metro Manila) and

P100 million (for those established outside Metro Manila). On the whole, this series of policy reforms was aimed at enhancing the competitiveness of local financial institutions against their highly-capitalized foreign counterparts in the market. As a complementary move, policies governing the establishment of bank branches were further liberalized during the year. In particular, capitalization requirements for new branches were also rationalized and are expected to further enhance the delivery of banking services especially in the countryside.

Foreign Exchange Policies

Exchange Rate Policy. The BSP continued to pursue a market-determined exchange rate policy. While still adhering to its basic policy of allowing market forces to determine the basic direction of the exchange rate, events during the year required BSP to intervene directly in the market to immediately dampen sharp fluctuations in the exchange rate. The authorities also raised interest rates on overnight reverse repurchase agreements and adopted administrative measures to complement direct intervention.

During the year, the BSP purchased a total of $3.4 billion from the market, representing 33.5 percent of the total volume of transactions, and sold $1.4 billion, or net foreign exchange purchases of $2.0 billion. This direct market intervention was complemented by a) interest rate adjustments in order to fend off the speculative attack on the peso and b) administrative measures aimed at influencing the demand for and supply of foreign exchange. In particular, the banks' allowable overbought foreign exchange position was reduced to 20 percent from 25 percent while oversold position was increased to 10 percent from 5 percent of banks' unimpaired capital to scale down their ability to engage in speculative activities. BSP lifted the documentary requirement for the sale of foreign exchange by banks to residents for amounts not exceeding $25,000. It also supported the decision of the Department of Finance to extend the forward cover for oil companies until December 1996. It also lowered the reserve requirements on peso deposit and deposit substitute liabilities of banks by 2 percentage points to effect a downward pressure on interest rates and narrow the domestic and international interest rate differentials.

Trade Regulations. The Philippines continued to pursue a more open trade policy regime with further reduction of the level of tariff rates and the elimination of the remaining quantitative restrictions, the promotion of the export and development program.

In line with this policy, the tariff system was restructured with the issuance of Executive Order No. 264 on July 22, 1995 which implements a multi-year tariff reduction program for industrial products covered under Chapters 25-97 of the Tariff and Customs Code of the Philippines.

Moreover, the President issued Executive Order No. 288 on December 12, 1995 which implements the tariff restructuring program for the period 1996-2000 for non-sensitive agricultural products under Chapters 1-24 of the Tariff and Customs Code. The Executive Order also provides for the adoption of a two-tiered tariff structure by the year 2003.

As part of the import liberalization program of the government, the BSP also issued Circular No. 92 on 19 October 1995 which liberalized the importation of new vehicles (cars, motorcycles, trucks and buses), used trucks above six tons and used buses above 12 tons.

To implement the Philippine commitment under the ASEAN Free Trade Agreement (AFTA), Executive Order No. 287 was issued by the President on December 12, 1995. EO 287 spelled out the Philippine program of tariff reduction for the period 1996-2003 towards achieving the final effective tariff ranging from zero to five (0-5) percent by 2003.

Circular No. 68 issued on 12 April 1995 allowed qualified banks to avail themselves of the Exporters Dollar Facility established under M.B. Resolution No. 1197, against the eligible dollar-denominated loans of their exporter-borrowers, including service exporters subject to certain terms and conditions.

Regulations on Invisibles. The BSP continued to ease restrictions in foreign exchange transactions in line with the envisioned regime of open trading and investments essential to promote competition and efficient resource allocation. Thus, measures introduced in 1995 liberalized further rules and regulations governing foreign exchange transactions. Among others, these measures lifted the requirement for OBUs to sell export proceeds coursed through the banking system, waived the documentary requirements for the sale by AABs of foreign exchange to residents for non-trade purposes for transactions not exceeding \$25,000, liberalized the rules on FCDU transactions and increased to P10,000 the maximum allowable Philippine currency that can be imported or exported.

The deregulation measures put in place by the monetary authorities since 1992 allowed the country to attain Article VIII status in the IMF, the first time that the country achieved such status since becoming a member of the IMF in 1945. IMF members accepting the obligations of Article VIII undertake to refrain from imposing restrictions on the making of payments and transfers for current international transactions or from engaging in discriminatory currency arrangements or multiple currency practices without IMF approval. By successfully completing the process of foreign exchange deregulation, the country confidently signaled to the world its economic maturity and willingness to play by liberal international rules.

Supervision and Regulation of Financial Institutions

Supervision of Banks. In 1995, the BSP, through the Supervision and Examination Sector, conducted regular examinations on 781 head offices and 1,619 branches/extension offices of expanded commercial banks (EKBs), commercial banks (KBs), thrift banks (TBs), rural banks (RBs) and specialized government banks (SGBs). Because of these regular examinations, eight (8) rural banks were placed under receivership of PDIC while seventy-one (71) closed banks were turned over to the same government agency.

Special examinations were also undertaken to conduct examinations-verifications of: 1) the EDP operations, systems, procedures and controls of eight (8) EKBs; 2) the derivatives transactions of nine (9) EKBs; and, 3) the integrity of the banks' inter-office system-float items.

In line with the policy of financial liberalization, the BSP supervised the chartering and approval of banking offices which involved applications for 1) conversion of banks to other types of banks; 2) establishment of bank branches; 3) extension of time within which to establish/open/relocate approved banking offices. The BSP also processed/approved the applications for rehabilitation of distressed rural banks, establishments of new rural banks and branches, and approval to accept and service government and demand deposits.

During the year, the BSP, under Resolution No. 1168 (dated 11 October 1995) and MB Resolution No. 1464 (dated 27 December 1995) approved the conversions of PDCP Development Bank and Bank of Southeast Asia - Savings and Mortgage Bank, respectively, from thrift banks to commercial banks. Moreover, the requests of Asian Bank and Banco de Oro, for conversions to EKBs from KBs were approved in principle by the Monetary Board. Meanwhile, the applications for conversions by Banco Filipino and Capitol Development Bank were evaluated during the year.

Regulation of Non-Bank Financial Intermediaries (NBFIs). As of end-December 1995, there were 6,869 non-banking institutions (5,226 head offices and 1,643 branches and other offices) under the supervision and examination of the BSP. Pawnshops and lending investors combined comprised 90 percent of all the NBFIs.

During the year, the BSP examined 137 head offices and 262 branches of NBFIs consisting of non-stock savings and loan associations, quasi-banks, investment houses, government non-bank financial intermediaries, pawnshops, bank subsidiaries and building and loan associations. While not all NBFI entities were examined during the year, there was full compliance with the required examination of 85 percent of total resources of head office and branches and at least 50 percent of branches and other banking offices.

The BSP also conducted special examinations on banks and non-bank financial institutions, processed the 1,498 applications for registration and chartering of NBFIs, and endorsed two thrift banks for controllership and one for receivership.

Management of International Operations

Foreign Exchange Operations. The BSP closely monitored the financial system's foreign exchange operations to ensure continued stability and order in the foreign exchange market.

In line with this, the BSP instituted a rigid system of monitoring banks' compliance with existing foreign exchange rules and regulations. The BSP monitored daily the consolidated foreign exchange assets and liabilities of 48 commercial banks. Moreover, evaluation of various reports of 17 offshore banking units, 15 representative offices and 40 expanded foreign currency deposit units were undertaken to determine compliance with existing regulations. The post verification/examination of the foreign exchange transactions was likewise undertaken to verify compliance with the provisions of BSP Circular 1389 and other BSP rules/regulations on foreign exchange denominated transactions. As a result, 21 commercial banks were asked to revise their bank reports in accordance with the classification of transactions/accounts contained in the IOS and SES Manual of Accounts. Meanwhile, to improve the monitoring of foreign capital inflows, the BSP devised a weekly summary of portfolio flows based on survey covering eight custodian banks which account for 90 percent of actual portfolio flows.

In recognition of the gaining popularity of derivatives instrument and the importance of sound risk management for the effective use of this financial instrument, the BSP issued BSP Circular 102 containing the rules and regulations on financial derivatives activities of banks and non-bank financial intermediaries performing quasi-banking functions. To improve the monitoring of derivatives transactions, the BSP revised the reporting format that captured the said transactions.

During the year, despite initial setback experienced in the beginning of the year due to adverse external developments, the number of Bangko Sentral Registration Documents (BSRDs) issued for foreign direct and portfolio investments increased by 20 percent. This excluded BSRDs for transfers/replacements which doubled during the year. Based on applications, top country sources of direct investments were Japan, Hongkong, Singapore, US and UK while for portfolio investments, US, UK, Hongkong, Singapore and Luxembourg.

International Trade Operations. The BSP's international trade operations remained focused on the adoption of additional measures to deregulate/simplify the country's trade regime. Initiative was undertaken to waive the prior BSP approval requirement on Letters of Credit with validity period beyond 360 days. A move was also initiated to simplify further the registration procedure for imports effected through documents against acceptance (DA) and open account (OA) arrangements. The corresponding circulars to ensure the orderly implementation of these measures will soon be issued. Likewise introduced in the inter-agency committee comprising the BSP, Department of Trade and Industry (DTI) and Department of Finance (DOF) was the transfer from the BSP to the SGS of processing operation of non-L/C applications. The joint order to implement this new ruling is already being finalized by the concerned agencies.

On the export side, the BSP supported the liberalization of exports of gold through legislative action and coordinated with the Export Development Council in recommending amendments to further liberalize other regulated exports (e.g., copper concentrate, cement and clinker, aircraft, etc.). Likewise completed during the year was the publication of the 1994 Directory of Philippine Exporters and the updating of information on library of firms as well as brochure on Financial Opportunities Available to Exporters. Seminar and information campaign was also conducted in cooperation with other concerned agencies on the topic of export financing. The BSP likewise continued to hold regular dialogue with the exporters.

During the year, the BSP extended Export Dollar Facility loans totalling $128 million.

Foreign Investments. BSP registered foreign investments in 1995, exhibited a robust 20 percent expansion from the previous year despite the contagion effects of the Mexican crisis and Baring fiasco in the early part of the year. Aggregate investments amounted to $4.9 billion, with portfolio investments accounting for the bulk (84 percent of the total) of the inflows while direct equity investments comprised the remainder (16 percent).

Meanwhile, inflows raised from 16 IPO issuances reported to the BSP totalled $460 million in 1995 of which about $411.5 million were converted into pesos. Secondary offerings in the international capital markets generated approximately $222 million, of which $203 million were converted into pesos.

External Debt. The thrust of external debt management remained focused on ensuring that new foreign borrowings would be for financing productive and priority development projects, carry internationally competitive terms, and consistent with the objective to maintain stability in the foreign exchange market.

In 1995, the continued strong performance of the economy coupled with the upgrading of the country's credit rating allowed Philippine borrowers to readily access the international capital markets. Total foreign loans approved during the year amounted to US$6.2 billion, up by 68 percent over the 1994 level. Private sector loan approvals aggregated an all time high of US$3.3 billion while the government accounted for the balance.

A substantial portion of private sector borrowings was channeled to finance projects under the Build-Operate-Transfer scheme, particularly power generation and telecommunications projects. About 58 percent of the total private sector foreign loans approved carried fixed interest rates, 39 percent, floating interest rate and the remaining 3 percent were non-interest bearing. Meanwhile, public sector loans were directed towards power and energy projects, infrastructure projects, balance of payments financing, transport and communications and social services. Substantial portion of the public sector loans were sourced from multilateral and bilateral (OECF and Japan Eximbank) sources.

In line with BSP Circular 40 dated August 27, 1994, authorizing private sector exporters/importers to avail themselves of short-term trade financing from offshore sources under voluntary trade credit arrangements without prior BSP approval, the BSP approved the lending programs of three banks totaling US$273 million and noted the renewal of previously approved lending programs of two banks aggregating US$141.5 million. In addition, a total of US$329 million private sector short-term loans used to refinance/prepay existing loans, finance plant construction as well as to provide bridge financing for medium/long-term l oans not yet finalized/ ready for drawdown were approved.

To remain current in the country's external obligations, the BSP authorized the remittance of US$1,306.1 million to service public sector loans and other fees. In addition, private and public sector loans from January to December 1995 aggregating US$151.9 million were prepaid in line with the objective of reducing debts and to take advantage of the continuing improvement in the terms of loans amidst the continued appreciation of the peso.

To enable servicing of foreign loans using foreign exchange purchased from the banking system, the BSP registered a total of 53 medium- and long-term private sector loans aggregating US$1.2 billion and issued a new registration certificate amounting to US$44.7 million. Only one short-term loan (US$0.1 million) was registered during the year as the liberalization of regulations lifted the individual registration requirement for short-term loans. Instead, these loans would merely be reported for registration purposes. The BSP likewise registered 78 guarantees in the amount of US$ 84.4 million, of which US$50.1 million represented guarantees issued by local banks/financial institutions in favor of non-residents, while US$34.3 million represented guarantees issued by foreign banks/financial institutions and entities to secure peso and/or FCDU loans of local firms.

BSP Operations as Fiscal Agent of the Government

For 1995, the BSP continued to issue and service government securities in behalf of the NG to meet government financing requirements and support its own open market operations.

As of December 31, 1995, total outstanding government securities directly administered by the BSP reached P664.7 billion, up by P52.2 billion or 8.5 percent compared to the end-1994 level. The composite weighted yield rate averaged 12.6 percent, higher by 39.7 basis points compared to the year-ago level. The outstanding balance consisted of issues of the National Government, P661.9 billion; GOCCs, P2.1 billion; and the BSP, P0.6 billion.

In line with the government's thrust towards capital market development and for longer term transformation of the domestic debt, the issuance of Fixed-Rate Treasury Notes (FXTNs) was accelerated by placing onstream 2-year and 5-year FXTNs amounting to P 24.0 billion and P30.0 billion, respectively. Likewise, 12-year Treasury bonds worth P 24.9 billion were issued during the year representing NG's payment of PNB-assumed liabilities.

The liberalization of dealership accreditation resulted in the addition of one (1) universal bank and one (1) foreign bank's branch, bringing the network membership from 29 to 31.

The year also saw the initial implementation of the program for the phaseout of BSP fiscal agency functions as mandated by the new BSP charter. Transferred to the Department of Finance-Bureau of the Treasury (DOF-BTr) were the following functions: (1) administration of the Bond Sinking Funds/Securities Stabilization Fund (July); (2) accreditation and evaluation of government securities dealers (October); and (3) auction of government securities (November). By 1996, the other remaining functions are expected to be assumed by DOF-BTr, except, possibly, debt servicing.

Other Activities

Gold Refinery. In 1995, gold purchased from gold panners/traders totaled 474.8 thousand troy ounces, equivalent to P4.5 billion. The quantity purchased was 16 percent higher than the previous year's gold purchases and was the highest since the panned gold program was implemented in 1983.

The gold purchases were limited to panned gold due to the continued suspension of purchases from primary gold producers and PASAR since August 4, 1992. The silver buying program remained suspended under M.B. Res. 372 dated April 20, 1992.

Meanwhile, the year's refined gold production consisted of 1,151 "good delivery" gold bars containing 466.0 thousand troy ounces of fine gold. The production of refined gold exceeded the annual target of 350.0 thousand troy ounces by 33 percent.

Refined gold released to the BSP Treasury Department for delivery to foreign counterparts totalled 1,776 "good delivery" gold bars with a weight of 721.5 thousand troy ounces. In addition, 30.6 thousand grams of gold grains/sheets were sold to local jewelers.

The Mint produced a total of 196,402 million circulation coins of the new series. It also coordinated/evaluated the delivery to the Cash Department of finished coins ordered from foreign mints totaling 49,374 million pieces with face value of P32.6 million. It coordinated the PAPAL VISIT '95 coin project and completed various medals/ tokens projects undertaken for various offices.

Total coins delivered to the Cash Department amounted to 225,631 million pieces with face value of P231.5 million.

Notes and Security Printing. The 1995 production of 735.05 million notes was 27.02 million notes more than the 708.03 million ordered by the Cash Department. This was 11.9 percent and 46.1 percent higher than the 656.99 million notes in 1994 and 1993's 503.04 million notes, respectively.

Production of regular checks at 102.0 million pieces and special checks at 10.1 million pieces decreased by 5.66 percent and 16.86 percent, respectively due to various reasons.

Order for regular checks slightly decreased by 3.8 percent due mainly to the complete transfer of BPI and Equitable Bank (personal check order) to private printers.

The 1995 order for passport was 1,016,649 booklets while production totaled 791,948 or 77.9 percent of the total production project for the year. The lower output as compared to previous year was attributed to the late approval by the Department of Foreign Affairs (DFA) of the new passport design and the retooling necessary to meet the high quality standards required in the production of machine readable passports.

Orders for Seafarer's Identification Record Book (SIRB) increased to 250,000 from last year's 60,000 books due to the shift from SSRB (Seaman's Service Record Book) to SIRB on account of the transfer of the record books from the Philippine Coast Guard to MARINA. Similarly, production of SIRB increased from 18,000 books in 1994 to 168,900 books in 1995.

About 1,990 of the remaining 2,800 Artist Record Books ordered in 1994 were also produced.

Currency Issuance. At end-1995, total currency issued by BSP amounted to P197.5 billion, consisting of P193.0 billion in notes and P4.5 billion in coins. Currency in BSP and banks' vaults, on the other hand, reached P66.7 billion. This placed total currency in circulation at P130.8 billion broken down into P126.4 billion notes and P4.4 billion coins. This was an improvement of P19.3 billion or 17.3 percent from the previous year.

In December 1995, BSP issued a new coinage in response to public clamor for the simplification of coin design and denominations to minimize confusion. The new set of coins contained a reduced number of denominations: 1-, 5-, 10- and 25-centavo; and 1- and 5-piso. A total of P95.3 million or 16.3 million pieces of new BSP coins were issued during the year.

The BSP also implemented in 1995 the Consolidated Rules and Regulations on Currency Notes and Coins. The new regulations covered treatment and disposition of counterfeit currency, reproduction and/or use of facsimiles of legal tender, replacement and redemption of mutilated currency and the "Clear Note Policy", which facilitated the receipt of banks' deposits and servicing of their cash withdrawals from the BSP.

Clearing Operations. In 1995, the 24 BSP clearing centers nationwide processed 41.6 million checks amounting to P1.3 trillion. This represented a P211.1 billion or 18.8 percent increase in value from the year-ago level. However, total checks processed declined by one million, indicating an increase in the average amount of checks issued during the year.

An increase in the value of clearing transactions could be due to the on-going computerization of all clearing units throughout the country and the liberalized entry of foreign banks, which brought in more investments and raised the volume of business transactions.

All Regional Clearing Units (RCUs) were computerized during the year, (13 RCUs in 1994 and 11 RCUs in 1995) paving the way for the second phase of the computerization program - "Electronic Clearing".

The new BSP charter allowed the BSP to charge administrative and other fees for the maintenance of the clearing facilities. Under M.B. Resolution No. 842, BSP was authorized to collect clearing fees from participating banks based on a standard billing rate and distributed on a per bank/branch mode of assessment. Total clearing charges collected in 1995 amounted to P69.9 million.

Loans and Credit Operations. Total loans and advances granted by the BSP to financial institutions in 1995 amounted to P13.9 billion, a 27 percent decrease from the previous year's level. This was due partly to BSP's continued prudent liquidity management during the year.

Commercial banks took the biggest share (81 percent) of the total loans released. There were no loans extended to the NG during the period. Majority of the availments by institutional borrowers went to export financing (79 percent), followed by agriculture (16 percent). Meanwhile, loans were extended to PDIC amounting to P150 million for relending under the Countryside Financial Institutions Enhancement Program (CFIEP).

In December 1994, the Exporters Dollar Facility (EDF) was opened to provide exporters cheap dollar-denominated financing. This latest facility for the export sector was first availed of on January 19, 1995. Availments under the EDF totalled $150.3 million for the whole of 1995. As of end-December 1995, there were 15 participating banks under this program.

The number of small and medium-sized borrowers which availed themselves of export credits comprised about 80 percent of total export borrowers. However, the large exporters absorbed 75 percent of the total export rediscounts granted during the year.

As a result of the reduction in the rediscounting availments during the period, total collections received by the BSP likewise went down by 21 percent to P18.1 billion.

Total rediscounting arrearages in 1995 amounted to P1.8 billion, declining by 5.4 percent from the previous year's level. Rural banks accounted for 80 percent of the total past due loans registered during the period. The reduction in arrearages may be attributed primarily to the ongoing rehabilitation program under R.A. No. 7353 and CB Circular No. 1369 which authorized the gradual liquidation of such arrearages over a period of fifteen (15) years.

Earnings from BSP's regular rediscounting operations totalled P494.5 million while income derived from the EDF, ALF and APEX Programs reached P584.2 million.

Regional Operations. In 1995, the BSP maintained three (3) regional offices in the cities of Cebu and Davao and in the capital town of San Fernando, La Union with direct supervision and functional control over fifteen (15) BSP regional units and administrative supervision over twenty four (24) clearing units nationwide.

Cash and Banking Operations. Significant gains characterized the 1995 performance of the regional economies. Total cash receipts amounted to P94.6 billion, 8.24 percent higher than the 1994 level of P87.4 billion while cash disbursements increased by 23.38 percent to P89.7 billion from the 1994 level of P72.7 billion . Cash deposits of the 830 banks serviced by the regional offices/units totalled P75.9 billion, 5.12 percent over last year's totals of P72.2 billion. Cash withdrawals amounting to P57.9 billion represented a 7.02 percent increase over the P54.1 billion level in 1994.

Loans and Rediscounting Operations. The BSP regional offices in Cebu, Davao and La Union and the DLC extension unit in Bacolod granted P2.01 billion worth of rediscount loans in 1995, a 16.60 percent decrease from the 1994 level of P2.41 billion. Of the total loans granted in 1995, 65.60 percent was channelled to commercial banks. Loan repayments totalled P1.96 billion while outstanding loans as of end-1995 stood at P0.74 billion.

Domestic Treasury Operations. Sale of Treasury Bills in 1995 in the three (3) BSROs amounted to P47.8 million, down by 23.64 percent from the 1994 level of P62.6 million.

Gold Buying Operations. For 1995, a total of 397.8 thousand troy ounces of gold valued at P3.74 billion was purchased by the Gold Buying Stations in Davao, Baguio and Zamboanga Cities, an increase of 27.13 percent over the 1994 purchases of 312.9 thousand troy ounces valued at P3.02 billion.

Bank Supervision and Examination. Of the 526 commercial and specialized bank branches assigned to the Department of Commercial Banks II units in BSROs Cebu, Davao and La Union, regular examination of 303 branches was completed , an increase of 21.69 percent from the previous year.

Clearing Operations. A total of 37.8 million checks and other documents payable on demand valued at P1,122.5 billion were cleared in the twenty four (24) regional clearing units in 1995. Of the total checks cleared, 51.85 percent were local checks, 40.74 percent were "On - Manila " checks and 7.41 percent were checks for inter-regional clearing.

Miscellaneous Income. Branch Operations contributed some P56.73 million to the income of the BSP in 1995, consisting of interest income from loans granted, building rentals, handling fees on FX receipts, penalties/fines and other miscellaneous income receipts excluding clearing fees collected by the Accounting Department for participating banks in regional clearing units.

International Economic Cooperation. The BSP participated actively in various activities and programs of international associations and organizations whose main task is to foster a growing regional and international cooperation among neighboring and trading partners.

The Thirtieth Conference of the Governors of South East Asian Central Banks (SEACEN) was held in Manila on May 24 to 26, 1995. It was attended by the Governors of the Bank of Korea, Bank Negara Malaysia, Central Bank of Myanmar, Nepal Rastra Bank, Bangko Sentral ng Pilipinas, Central Bank of Sri Lanka, the Bank of Thailand, the Central Bank of China, Taipei, the Managing Directors of the Monetary Authority of Singapore and Bank Indonesia. Representatives from the National Bank of Cambodia, the Reserve Bank of Fiji, National Reserve Bank of Tonga, and the Bank of Papua New Guinea participated in as observers. The BSP Governor was elected Chairman. At the meeting, the Governors and delegates exchanged views on the economic and financial developments in the region. All Governors stressed that the increased globalization of financial systems underscored the need for monetary authorities to adopt appropriate and timely policies to sustain economic growth with stability.

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.

In the area of trade promotion, the Economic Ministers from six ASEAN countries, the Philippines included, signed the Framework Agreement on Cooperation in Services during the Fifth ASEAN Summit held in Bangkok, Thailand in mid-December 1995. The Agreement which would complement the Common Effective Preferential Tariff Arrangement in the ASEAN, was aimed at promoting intra-ASEAN trade in services through: (a) enhanced economic cooperation to develop production and export capacities of member countries; and (b) progressive liberalization of the regulatory regime of the services sector.

New Committees. The BSP reconstituted seventeen (17) task forces/committees and created new ones in 1995. The major committees with brief description are as follows:

1. Ad Hoc Committee on Financial Derivatives Products (Office Order No. 10 dated 3 March 1995). This was created to undertake a study on the use of financial derivatives by banks, purposes of their use, risk management associated with their use and possible impact on domestic monetary management and bank supervision towards adoption of more detailed risk management guidelines and supervisory approaches for derivatives trading.

2. Task Force on Trade, Current Account and the Balance of Payments (Memorandum of the Governor dated 8 March 1995). This was created to study and provide recommendations to address the deficit in merchandise trade and the external current account and to look into the proper accounting and reporting of foreign currency deposit unit transactions in the balance of payments.

3. Task Force on Financial Accounting System (Office Order No. 26 dated 4 May 1995). This was created to amend Office Order No. 82 dated 22 October 1994 and to dissolve the Task Force for Demand Deposit Administration and Interbank Call Loans (DDA-IBCL) and the Task Force for Budget Planning (BP).

4. Committee on the Philippine Financial Program (Office Order No. 38 dated 19 June 1995). This was created to formulate and implement the country's Financial Program in support of the overall macroeconomic objectives.

5. Task Force on Foreign Investment Flows (Office Order No. 52 dated 19 July 1995). This was created to closely monitor foreign investment remittances into the country.

6. Ad Hoc Committee on Al-Amanah Islamic Investment Bank of the Philippines (Office Order No. 69 dated 28 August 1995). This was formed to review the provisions of the General Banking Act and BSP rules and regulations relative to R.A. 6848 (The Islamic Bank Charter) to formulate the necessary rules and regulations to carry out the provisions of the said charter.

7. Commission on Banking Reforms (Monetary Board Resolution No. 906 dated 16 August 1995 and as a supplement to Office Order No. 72 dated 30 August 1995 Office Order No. 93 dated 10 October 1995). This was created to review and propose amendments to existing General Banking Act (R.A. No. 337) and other laws and regulations governing financial institutions.

PART THREE : 1995 FINANCIAL CONDITION OF THE BSP

BSP Balance Sheet

In 1995, the financial condition of the BSP remained strong. Its net worth improved by P741.6 million compared to the previous year. This was achieved as assets expanded by P15.8 billion while liabilities increased by P15.0 billion.

Major sources of funds consisted of borrowings under the RRP facility (P22.2 billion), availments of additional foreign loans (P10.8 billion), collections from CB-BOL advances and other receivables (P7.1 billion) and collections from rediscounting and other loans (P2.8 billion).

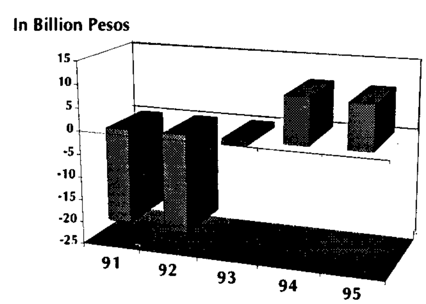
Funds generated were used primarily to build up BSP's holdings of international reserves (P22.8 billion) and domestic securities (P8.4 billion); as well as to fund the combined net deposit withdrawals (P20.0 billion) of the National Government, deposit money banks and other depositors. It should be noted that part of the P22.8 billion build-up in international reserves was due to the revaluation gains (P13.6 billion) on the BSP's holdings of foreign exchange.

During the year, the BSP continued to rely on its RRP facility to conduct its open market operations. This required the maintenance of a substantial stock of T-bills that served as collateral for these borrowings from the commercial banks . As soon as the BSP receives the additional P40 billion capitalization from NG, the BSP is expected to achieve a more solid position in conducting more effective and durable management of domestic liquidity. In the process, the use of the RRP facility as major open market instrument will be limited to the day-to-day smoothening out of reserve money fluctuations.

BSP Income Statement

BSP's operations during the first eleven months of 1995 yielded a net income of P9.6 billion, P0.6 billion lower than the income generated in January-November 1994. Said income level would have been higher at P10.8 billion if the P1.2 billion prior years' adjustments for 1993 and 1994 for transaction losses as a result of movements in the foreign exchange rate were excluded.

CHART 15
CBP/BSP NET INCOME POSITION
1991-1995



During the period, revenues earned totalled P33.8 billion while total expenses amounted to P23.0 billion. Interest income, which comprised 93.8 percent of total revenues, turned out P5.8 billion lower than the year-ago level following the decline in interest rates and the BSP's Treasury bill holdings. This was partly offset, however, by increased earnings from miscellaneous sources particularly from license fees and income from printing and minting operations.

Meanwhile, the P9.2 billion decline in total expenses could be traced to lower interest payments due largely to declining interest rates and lower NG deposit balances with the BSP.

As a result of BSP's continued healthy operations, dividends and interest rebates of about P8 billion are estimated to be remitted to NG in 1996.

Box Article No. 1

UNDERSTANDING PHILIPPINE INFLATION

*I*nflation in the Philippines has caught much of the public's attention due to its unusual behavior towards the end of 1995 when it hit double-digit for four consecutive months after staying at single-digit levels since the beginning of 1992. An analysis of the factors affecting inflation can help provide recommendations on how to maintain price stability, a critical ingredient to sustainable growth.

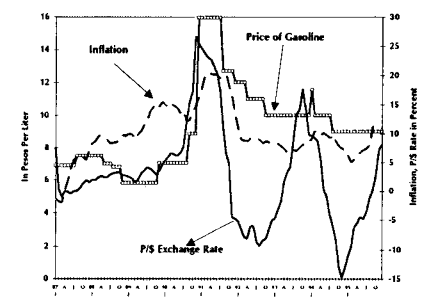
Causes. Inflation can be triggered by any of the following factors: increases in the cost of production (including sharp depreciation of the peso, rising interest rates), excess supply of money, structural rigidities, production bottlenecks, and even the public's expectations on the behavior of prices. Specifically, upward movements in the prices of production inputs such as the wage rate, oil prices, and raw materials all contribute to inflation. Exchange rate movements which reflect the cost of importation also influence pricing to the extent that inputs are imported. Production bottlenecks such as lack of infrastructure support sets back distribution of goods and can be a source of accelerating prices too.

Measure of Inflation. The inflation rate is computed as the growth rate in the consumer price index (CPI), which is a statistical measure of the average retail prices of commodities bought by a specific group of consumers in a given area in a given period of time. It measures the composite change in the retail prices of various commodities over time. The prices included in the CPI computation are weighted based on the various consumer items purchased by households as a proportion of total expenditures. The food, beverage and tobacco group accounts for the largest share in the CPI basket with a weight of almost 60 percent.

Philippine Experience. In the Philippines, several factors have pushed the inflation rate upwards such

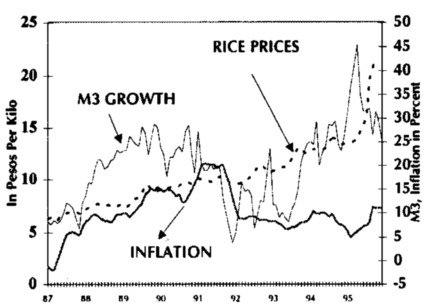
Chart 1

Price of Premium Gasoline and Rate of Change of P/$ Rate vs Inflation 1987-1995



as the upward adjustments in world oil price in the 1970's, sharp depreciations in the peso-dollar rate in the early 1980's and 1990's, and monetary expansions in the late 1980's and early 1990's. Inflationary pressures could also be triggered by the increase in rice prices due to production setbacks, higher domestic oil prices and wage hikes (Charts 1 and 2).

Chart 2
M3 Growth, Inflation and Price of Special Rice
1987-1995



A statistical analysis using Philippine monthly data from 1987 to 1995 showed that the peso-dollar rate, domestic price of kerosene, domestic liquidity (M3), reserve money (RM), the price of rice, the index of the value of manufacturing production, and the compensation index for manufacturing are strongly correlated with the movements in the CPI (Table 1).

Among the factors, six variables were used in the estimation of a simple inflation model based on the degree of correlation with CPI and the level of significance of the estimated coefficients in the simple linear regression runs where the CPI was regressed with each variable. A moving average term of order one was also appended to correct for serial correlation.

Table 1
Correlation Coefficients of Selected Variables with CPI

	COEFFICIENT
CPI Lagged One Period	0.9996
CPI Lagged Two Periods	0.9990
Peso-Dollar Rate	0.8221
Price of Premium Gasoline	0.4640
Price of Kerosene Per Liter	0.7962
Domestic Liquidity	0.9583
Value of Production for Manufacturing Index	0.9707
Price of Rice, Special	0.9696
ReserveMoney	0.9856
Compensating Index of Manufacturing	0.9550
Nominal Wage	0.9761

The results of the exercise suggest that monetary policy as proxied by RM is crucial in the determination of the behavior of average prices. The exchange rate, which roughly reflects the cost of importation, also significantly affects movements in the price level. Supply-side factors that are represented by the price of rice and the value of production index for manufacturing as well as demand-side variables embodied in M3 also contribute to the behavior of the CPI (Table 2).

Table 2
Regression Results

	COEFFICIENT	STD. ERROR	F STATISTIC	2-TAIL SIG
Constant	-1.10107	0.19796	-5.56210	0.0000
Peso-Dollar Rate	0.18687	0.04559	4.09844	0.0001
Price of Kerosene Per Liter	0.07855	0.01608	4.88433	0.0000
Domestic Liquidity (M3)	0.14213	0.03321	4.2797B	0.0000
Value of Production in Mfg.	0.14939	0.03215	4.64656	0.0000
Price of Rice, Special	0.15908	0.03366	4.77609	0.0000
Reserve Money (RM)	0.20433	0.02705	7.55272	0.0000
MA (1)	0.63395	0.07959	7.96528	0.0000
R2	0.99535			
Adjusted R2	0.99501			
Standard Error of Regression	0.01912			
Durbin Watson Statistic	1.58515			
S.D. of Dependent Variable	0.27341			
F. Statistic	2901.74100			

Inflation, on the other hand, affects other economic variables in the economy, particularly output and employment. Inflation, which introduces instability and increases the risks involved in investment ventures, tends to dampen output. Meanwhile, inflation increases production costs and firms may react by laying off workers to cut back on their expenses. High inflation rates can also decrease purchasing power of incomes, reduce return on savings and thus lead to lower domestic savings rate, and result in more expensive exports.

Recommendations. Given the recent inflation behavior, possible countermeasures may be considered, such as: increasing workers' productivity, implementing cautious monetary policy, deregulating commodity markets, maintaining stable interest rates and exchange rates, raising the country's productive capacity by encouraging investments, and increasing the country's domestic savings rate.

To attain lower inflation rates, the following recommendations with respect to current issues on inflation may be considered:

1. Increase agricultural productivity (especially rice and other food items) and improve the marketing system.

The NG must provide greater budgetary support to the agricultural sector to help increase rice production/supply as well as improve the marketing system for commodities. The implementing agencies and the private sectors involved in this endeavor must also do their share in helping the country achieve rice self-sufficiency. It may also be relevant to allow other sectors, aside from the NFA to import rice in periods of emergency.

2. Maintain stable fiscal position.

Consistent with the need to maintain a stable fiscal position, (which is a prerequisite for stable monetary condition) is for the NG to attain a surplus of P17.5 billion in 1996 to reduce the consolidated public sector deficit as programmed. A lower NG surplus will result in a higher CPSD that will in turn expand public sector borrowing requirement and raise interest rates.

3. Maintain prudent monetary policy.

With the upturn in the inflation rate, monetary policy should remain prudent and cautious by strictly maintaining the levels of monetary aggregates significantly below programmed levels to soften aggregate demand. Growth rates of domestic credits, which have been accommodating growth, must be monitored closely.

4. Wage rates must be consistent with productivity gains.

Wage rates must remain competitive based on labor productivity gains rather than on loss of purchasing power due to inflationary expectations from the implementation of the EVAT and oil price hike. Moreover, higher wages which add to cost of production and prices not only tend to discourage additional employment. They also become self-defeating as higher inflation eats up the nominal gain in wage increases.

5. Implement EVAT properly.

Inflationary expectations owing to the implementation of the EVAT cannot be directly linked to the law itself. Computed taxes tend to be overstated due to lack of information of some businessmen/entities. Nevertheless, as a basically progressive tax measure, the EVAT must continue to be implemented. The P8 to P10 billion that can be generated in revenues will be critical in attaining fiscal soundness for macroeconomic stability.

With lower tax receipts, the National Government (NG) would have to borrow to fund its programmed expenditures for development. Government borrowings to finance deficits could lead to higher interest rates. In the end, financing deficits through borrowings would raise interest expense of the NG, and widen the deficit which could expand money supply and exert pressure on inflation.

6. Adjust oil prices upwards.

The Oil Price Stabilization Fund as a buffer fund to stabilize domestic oil prices cannot be sustained in view of the deficits of the OPSF. Despite the possible inflow of dividends from PNOC, the buffer fund could remain inadequate due to changing world prices of crude oil and exchange rate fluctuations. Fixing domestic oil prices despite an OPSF deficit would eventually mean a wider consolidated public sector deficit. Hence, a justifiable option would be to increase domestic oil prices with minimum cost to consumers, not only to reduce inflationary expectations, but more importantly to sustain the stable position of the fiscal sector. The 55-centavo average increase in oil prices last February 2 was a step in the right direction.

In the medium term, the full deregulation of the oil sector must be implemented. Future deficits of the OPSF and the need for unpopular upward adjustments in oil prices would be minimized. The eventual abolition of the OPSF must be implemented as scheduled and price controls eliminated to achieve competitive but stable domestic oil prices.

Box Article No. 2

MONETARY POLICY FRAMEWORK IN THE PHILIPPINES IN THE FACE OF A MORE LIBERALIZED ECONOMY

*M*ost central banks or monetary authorities have as their primary objective the attainment of price stability, but they differ in the type of monetary policy framework used to attain this objective. The appropriate operating procedure depends on the structure of the financial sector of the country, the degree of openness of the economy, the nature of the dominant shocks to the economy, and the priorities of the country at the time.

In the case of the Philippines, a monetary aggregate targeting procedure is presently pursued in which a domestic liquidity (or M3) target is set in line with a given inflation target. This assumes that there is a stable and predictable relationship between M3 and the price level. To achieve the M3 target, the BSP uses reserve money as an operating target given certain assumptions on the money multiplier.

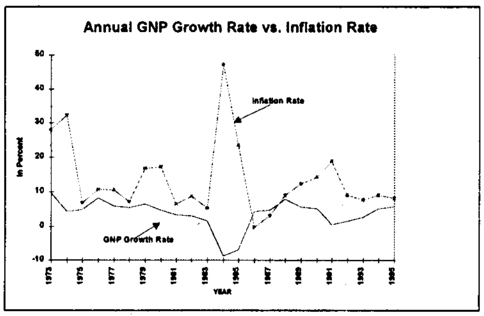
Changes in financial structures as a result of financial deregulation and liberalization, and the increased openness of the economy, however, have weakened the link between monetary aggregates and prices. For this reason, several countries have abandoned monetary targeting or have used monetary aggregates only as part of a basket of economic indicators which serve as information variables or operational guide for monetary policy decision making.

Monetary Policy Targets and Procedures in Selected Countries

*W*ith deregulation and globalization of financial systems, there have been significant changes in the orientation of monetary policy and in the way policy decisions are made in practice. There is general consensus as to the ultimate objectives of monetary policy, but there seems to be less agreement about what policymakers should take into account before arriving at policy decisions.

While some countries choose to adopt one aggregate over the other, say monetary aggregate over exchange rate, wide differences in the degree of commitment to each orientation and combinations of the two can be found. Implementing policy now may mainly involve action to influence interest rates, but during the period that the principal objective (i.e., price stability) is being pursued, other variables used as indicators and instruments employed could change over time in many cases.

Several countries have already dropped a policy of targeting monetary aggregates in view of the growing instability in the relationship between these aggregates and macroeconomic variables. The change in attitude toward monetary targeting since the early 1980s has been particularly pronounced in the United States. While targets are set on M2 (defined as the sum of currency in circulation, demand, savings and time deposits) and M3, these aggregates have increasingly been viewed only as leading indicators, particularly for predicting long-run inflationary pressures and short-term credit and economic developments. Other countries have also dropped monetary targeting and either adopted interest rate or exchange rate phon these off by selling a portion of its domestic securities holdings or issuing reverse repurchase papers, thus decreasing its NDA. Unless this is done, capital inflows would imply monetary expansion and lower interest rates. While growth is possible with the resulting reduction in the cost of money, the more immediate impact of monetary expansion is the increase in aggregate demand and ultimately, inflation. It is possible that in the dynamic working out of these cross effects, growth could be frustrated by high inflation as in the past.



The breakdown of accounts under NDA can take various forms. The presentation of accounts may be classified by sector, by instrument or a combination of both. Whatever presentation of accounts is desired, the important thing to remember is that the RM equation is a rearranged balance sheet of the MA and, therefore, any arrangement of accounts must always balance.

RM as Monetary Target

Because of its relatively shorter data lag compared to the intermediate target (domestic liquidity or M3), RM is used as the working target to get at the operating target (base money) by the monetary authorities. By monitoring RM, advance estimates of M3 are made possible by using the identity:

(4) $M3 = RM * k$

where K = the money multiplier, determined on the basis of the historical relationship between currency in circulation and deposit liabilities of banks as well as statutory reserves.

This enables the monetary authorities to determine on a more timely basis the level of open market operations that will be needed to achieve both the operating and the intermediate targets.

However, the present RM measure includes only the demand deposits with the BSP of commercial banks and rural banks. To be more accurate and effective, RM will have to include also the demand deposits with the BSP of other banks such as thrift banks. This implies that the corresponding measure of M3 will also have to be expanded for purposes of comparability.

Box Article No. 4

CHALLENGES POSED BY THE GROWING DERIVATIVES MARKET

I. Nature of Derivative Instruments

Derivatives are financial instruments whose value is dependent on or derived from the value of an underlying asset such as currency, equities, commodities or an underlying reference rate such as exchange rate, or price index. These instruments are either privately negotiated over the counter (OTC) or actively traded in organized exchanges (such as Singapore Mercantile Exchange or SIMEX, Sydney Futures Exchange or SFE, Tokyo Stock Exchange or TSE, etc.). Exchange-traded derivative contracts bear a standard maturity, contract size and delivery terms while OTC contracts are custom designed to suit the specific needs of counterparties.

Derivative instruments are useful and convenient for hedging many kinds of risk, including fluctuations in interest rates, exchange rates, and commodity prices, such as oil prices and grains prices. For example, a food manufacturer can lock in the price of grain by buying a **futures** contract. The owner of a common stock can guard against the losses by buying an option to sell the stock, called a **put option**, at a pre-determined price. A firm may protect itself against the appreciation of a foreign currency by purchasing a **call option**, which gives it the right to acquire currency at a pre-agreed price. Derivative instruments likewise permit one to unbundle the fundamental risks so that risks can be distributed to those willing to incur them. They can also be used to create synthetic financial instruments featuring desired combinations of cashflow, interest rates, currency, liquidity, and other characteristics.

Derivative instruments can be built up from four basic types: 1) **forwards,** 2) **futures,** 3) **options,** and 4) **swaps**. By combining the features of these basic types, more complicated products can be developed.

A **forward** is an agreement to buy or sell a given quantity of a particular asset at a specified future date at a pre-agreed price. Forward contracts could be written over a multitude of underlyings, including commodities, currencies (foreign exchange forwards), and interest rates (forward rate agreements or FRAs).

A **futures** contract is an agreement to exchange a standard quantity of a particular asset at a specified date in the future at a pre-agreed price. Unlike forwards, futures have standard delivery dates, trading units, and terms and conditions and are exchange-traded.

An **option** is a contract giving the holder the right but not the obligation to buy (in case of a call option) or sell (in case of a put option) a specified underlying asset at a pre-agreed price. If the option confers the right to purchase, it is a call option. If the option confers the right to sell, it is a put option.

A **swap** contract is an agreement between two parties or counterparties to exchange assets or a series of cash flows for a specified period of time. The swap contract is used to manage foreign exchange risk through a currency swap or interest rate risk through an interest rate swap.

II. Derivatives: A Global Perspective

Derivatives markets have grown rapidly in recent years. Between end-1986 and end-1994, the total notional principal of outstanding exchange-traded derivatives grew at an annual average of 40 percent, from $618.3 billion to $8,837.8 billion. More than half of the outstanding contracts was accounted for by the United States with majority of the remainder being shared by Europe and Japan. Meanwhile, over-the-counter (OTC) derivative markets have expanded at a similar pace. The notional principal of outstanding interest rate and currency swaps increased from $1,048.5 billion to $ 7,976.5 billion during the same period.

III. Derivatives Market in the Philippines

Derivatives market in the Philippines is still at its early stage of development. During the year, a survey was undertaken by the BSP to review the extent of the use of derivatives in the country. The survey respondents included commercial banks and some of their foreign exchange subsidiaries, offshore banking units, and non-bank entities. Results showed that foreign exchange forward transactions are being widely used by both financial and non-financial institutions as a hedging tool. Options and swap contracts are used to a more limited extent. A few banks reported transactions in options for gold, copper and aluminum, and Brady bonds. As of end-1994, the outstanding notional value of all derivatives contracts amounted to $1.3 billion.

IV. Policy Challenges Posed by Derivatives

While the derivatives market in the Philippines remains small in relation to the global market, there are very good reasons to believe that the volume of transactions can quickly multiply in the light of the foreign exchange liberalization and the increasing international integration of financial markets. As such, it is foreseen that the eventual growth of this market in the Philippines will lead to a restructuring of the financial industry. While the expanded use of derivatives strengthens the economy's resilience to shocks and allows the redistribution of risks to those that are more capable of managing them, it can pose new challenges for the monetary authorities and regulators for a number of reasons.

A. Supervisory

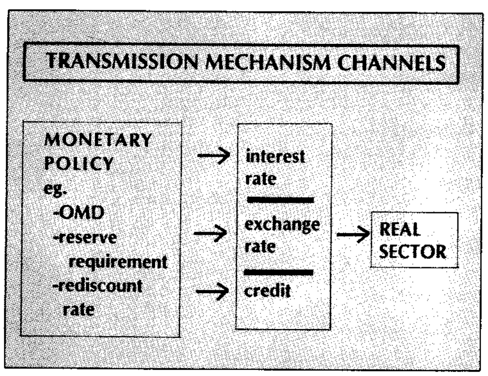
First, derivatives positions are held as off-balance sheet items and thus very limited information is available about a bank's activities in this area. **Second**, accounting standards in place were established before the introduction of derivatives and these were not designed to account for the risk exposures associated with these instruments. **Third**, the value of derivatives can be sensitive to changes in the prices of the underlying assets and thus a bank's portfolio can change very rapidly and in substantial magnitudes. **Finally**, derivatives transactions may involve many counterparties in different countries making it difficult for the regulators to gather and maintain market-wide information.

In addition to these challenges, the sudden collapse of Barings which occurred with little warning and great speed has focused attention on the adequacy of the existing regulatory framework for judging the safety and soundness of individual banks. Moreover, the misfortunes of various local end-users have also raised concerns about the adequacy of investor protection in the unregulated market.

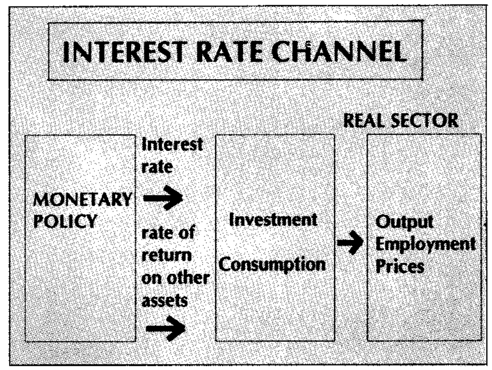
B. Macroeconomic Implications

A number of macroeconomic issues should likewise be addressed by the monetary authorities. **First**, derivatives can have the potential to modify the economy's sensitivity to interest rate and exchange rate changes by allowing individual economic agents to transform their financial exposures. This may change the way in which monetary policy actions are transmitted to the economy in general. **Second**, the use of derivatives may change the information content of the traditional monetary indicators used by the authorities to help judge the appropriateness of policy actions. **Third**, the development of currency options may complicate BSP's exchange rate smoothing operations by making it more difficult to anticipate the timing and extent of selling pressures.

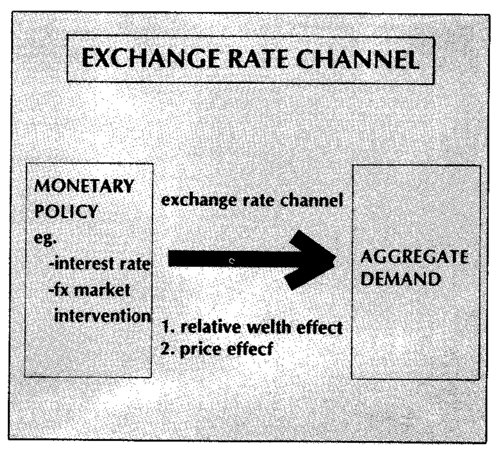
Derivatives may change the relative importance of the three channels through which monetary policy usually operates - the interest rate channel, the exchange rate channel, and the credit channel. To the extent that derivatives



allow economic agents to hedge against interest rate movements, the income and wealth effects of interest rate changes can be avoided to some extent.



The increased asset substitutability resulting from the growth of derivatives markets may strengthen the exchange rate channel. Changes in the differential between domestic and foreign interest rates may now produce larger changes in the exchange rate, implying a greater role for exchange rates in the transmission mechanism. On the other hand, derivative instruments have further expanded agents' ability to hedge against exchange rate movements in forward markets. This enables agents, at least partially, to insulate their existing investment or consumption plans from exchange rate changes and may weaken the exchange rate channel in the short-run.



Derivatives can provide a means of transforming risk-bearing assets into lower risk assets, thus facilitating the creation of new assets that are closer substitutes for the traditional interest-bearing components of monetary aggregates. The large- scale use of such financial assets by the public will change the information content of monetary aggregates.

The development of currency options could modify the timing of selling pressure on a currency and slow down the outbreak of an exchange rate crisis. If the local currency were to weaken and the options overhang was large, selling pressures could strengthen because of deferred hedging needs of options writers.

V. Recent BSP Initiative

All of these regulatory and macroeconomic challenges motivated the BSP to reassess the regulatory make-up of the financial system undergoing a fundamental change. Towards the latter part of the year the BSP issued a comprehensive circular which will govern the activities of the various institutions authorized by the BSP to engage in derivatives and will form the basis for regulating and monitoring the derivatives activities of banks.

Under the proposed regulation, any financial institution shall be allowed by the BSP to engage in financial derivatives activities provided that it can meet all the pre-qualification criteria relating to: minimum capitalization; net worth-to-risk assets ratio; required reserves against deposit liabilities; liquidity floor for government deposits; FCDU/EFCDU foreign currency asset cover; allowable foreign exchange position; profitable performance; electronic data processing capability; internal control system; minimum qualification for key officers; and, compliance with banking laws, orders, instructions issued by the monetary authorities. To ensure prudent management of derivatives, authorized institutions are required to adopt a policy manual that would contain the minimum features and principles embodied in the "Risk Management Guidelines for Derivatives" issued by the Basle Committee on Banking Supervision in July 1994. In addition, the regulation also requires the disclosure of credit and market risk as well as the submission of regular reports to aid the authorities in monitoring and assessing the risks inherent in the individual activities of the institutions.

1 GROSS NATIONAL PRODUCT BY EXPENDITURE SHARES
For the periods indicated
In million pesos, at constant 1985 prices

	1995	1994	1993	Percent Change 1994-95	Percent Change 1993-94
Personal Consumption Expenditures	622985	600106	578589	3.8	3.7
Government Consumption Expenditures	64579	62343	58746	3.6	6.1
Gross Domestic Capital Formation	187164	180797	166397	3.5	8.7
Fixed Capital Formation	185680	176388	164125	5.3	7.5
Construction	79576	72858	70258	9.2	3.7
Durable Equipment	93765	91658	82292	2.3	11.4
Breeding Stock Orchard Development	12339	11872	11575	3.9	2.6
Increase in Stocks	1484	4409	2272	-66.3	94.1
Exports	349654	307205	256451	13.8	19.8
Less: Imports	426978	369325	322548	15.6	14.5
Statistical Discrepancy	6336	-14547	-3479	143.6	318.1
Gross Domestic Product	**803740**	**766579**	**734156**	**4.8**	**4.4**
Net Factor Income From Abroad	27694	19768	12765	40.1	54.9
Gross National Product	**831434**	**786347**	**746921**	**5.7**	**5.3**

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

1a GROSS NATIONAL PRODUCT BY INDUSTRIAL ORIGIN
For the periods indicated
In million pesos, at constant 1985 prices

				Percent Change	
	1995	**1994**	**1993**	**1994-95**	**1993-94**
Agriculture, Fishery and Forestry	172999	171472	167053	0.9	2.7
Industrial Sector	285422	265972	251459	7.3	5.8
Mining and Quarrying	11396	10763	11571	5.9	-7.0
Manufacturing	203474	190374	181289	6.9	5.0
Construction	44492	41774	38344	6.5	9.0
Electricity, Gas and Water	26060	23061	20255	13.0	13.9
Services (Tertiary Sector)	345319	329135	315644	4.9	4.3
Transportation, Communication & Storage	47453	44893	42941	5.7	4.6
Trade	123430	116923	112479	5.6	4.0
Finance & Housing	77617	74019	71178	4.9	4.0
Other Services	96819	93300	89046	3.8	4.8
Private	55461	53159	50984	4.3	4.3
Government	41358	40141	38062	3.0	5.5
Gross Domestic Product	**803740**	**766579**	**734156**	**4.8**	**4.4**
Net Factor Income From Abroad	27694	19768	12765	40.1	[illegible]4.9
Gross National Product	**831434**	**786347**	**746921**	**5.7**	**5.3**

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

2 SAVINGS AND INVESTMENTS
For periods Indicated

	Nominal (Billion Pesos)			Percent to GNP		
	1993	1994	1995[p]	1993	1994	1995[p]
Gross Domestic Savings	**261.7**	**333.6**	**424.5**	**17.4**	**19.2**	**21.5**
Private Savings	197.6	245.6	328.5	13.2	14.1	16.7
Public Savings	64.0	88.0	96.0	4.3	5.1	4.9
Total Investment	**350.9**	**408.6**	**488.5**	**23.4**	**23.5**	**24.8**
Public Investments	86.2	93.9	110.5	5.7	5.4	5.6
Private Investments	264.7	314.7	378.1	17.6	18.1	19.2
Savings-Investment Gap	**-89.2**	**-75.0**	**-64.0**	**-5.9**	**-4.3**	**-3.2**
Public Surplus/Deficit[1]	-22.2	-5.9	-14.5	-1.5	-0.3	-0.7
Private Surplus/Deficit	-67.0	-69.1	-49.5	-4.5	-4.0	-2.5
MEMO ITEM:						
Nominal GNP	**1500.3**	**1737.3**	**1970.5**			

[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 1993-1995

	1995	1994	1993	Percent Change 1994-1995	Percent Change 1993-94
Employment Status					
Labor Force (In Thousands)	28,380	27,654	26,879	2.6	2.9
Employed	25,676	25,032	24,382	2.6	2.7
Unemployed	2,704	2,622	2,497	3.1	5.0
Employment Rate (%)	90.5	90.5	90.7	0.0[a]	2.2[a]
Unemployment Rate (%)	9.5	9.5	9.3	0.0[a]	2.2[a]
Overseas Employment (Deployed)	**653,905**	**719,602**	**696,630**	**-9.1**	**3.3**
Land-Based	488,504	565,226	550,872	-13.6	2.6
Sea-Based	165,401	154,376	145,758	7.1	5.9
Strikes					
Number of new strikes declared	94	93	122	1.1	-23.8
Number of works involved (In Thousands)	55	49	35	12.2	40.0
Legislated Wage Rates[1]					
In Nominal Terms					
Non-Agricultural					
National Capital Region (NCR)	157.08	154.37	146.25	1.76	5.55
Regions Outside NCR (ONCR)	100.39-149.50	96.78-140.56	100.75-138.66	3.73-6.36	(3.94)-1.37
Agricultural					
Plantation	89.31-146.25	86.30-143.54	99.75-135.41	3.49-1.89	(13.48)-6.00
Non-Plantation	67.53-134.88	63.74-132.17	67.70-124.04	5.95-2.05	(5.85)-6.55
In Real Terms (at 1988 prices)					
Non-Agricultural					
National Capital Region (NCR)	69.24	73.57	76.85	(5.89)	(4.27)
Regions Outside NCR (ONCR)	46.21-72.34	50.48-81.27	53.40-79.30	(8.46)-(10.99)	(5.47)-2.48
Agricultural					
Plantation	41.16-64.47	45.00-68.41	56.30-71.10	(8.53)-(5.76)	(20.07)-(3.78)
Non-Plantation	31.08-59.45	33.24-62.99	35.90-65.10	(6.50-(5.62)	(7.41)-(3.24)

[1]Includes basic minimum wage, COLA and daily equivalent of 13th month pay.
Sources: Bureau of Labor and Employment Statistics (BLES) and Philippine Overseas Employment Administration (POEA).
[a]In percentage points

4 CONSUMER PRICE INDEX IN THE PHILIPPINES, NATIONAL CAPITAL REGION (NCR) AND ALL AREAS OUTSIDE NCR
1994-1995
1988-100

Commodity Group	Philippines 1995	Philippines 1994	Philippines Percent Change	National Capital Region 1995	National Capital Region 1994	National Capital Region Percent Change	All Areas Outside NCR 1995	All Areas Outside NCR 1994	All Areas Outside NCR Percent Change
All Items	**210.0**	**194.3**	**8.1**	**226.8**	**209.8**	**8.1**	**204.6**	**189.3**	**8.1**
Food, Beverages & Tobacco	197.9	180.7	9.5	190.8	177.6	7.4	199.7	181.4	10.1
Non-Food	227.2	213.6	6.4	261.1	240.1	8.7	212.4	202.0	5.1
Clothing	181.2	175.3	3.3	173.2	167.8	3.2	183.1	177.2	3.3
Housing & Repairs	264.4	238.9	10.7	325.6	286.9	13.5	222.5	206.2	7.9
Fuel, Light & Water	217.0	210.7	3.0	210.5	211.7	-0.6	219.4	210.3	4.3
Services	229.4	215.5	6.4	232.3	219.4	5.9	228.1	213.8	6.7
Miscellaneous	192.1	190.3	0.9	190.6	188.1	1.3	192.4	190.9	0.8

Source: National Statistics Office (NSO)

5 NATIONAL GOVERNMENT CASH OPERATIONS
In million pesos

	1995[p]	1994
Revenues	**360,215**	**335,227**
Tax Revenues	309,978	271,456
Non-Tax Revenues	50,237	63,771
Expenditures	**350,041**	**317,113**
of which:		
Interest Payments	72,851	79,008
Equity & Net Lending	8,296	7,171
Surplus/Deficit(-)	**10,174**	**18,114**
Financing	**-10,174**	**-18,114**
External Financing	-12,895	-13,706
Domestic Financing	2,721	-4,408

[p]Preliminary; based on BTr's Cash Operations Report (COR) as of Jan. 18, 1996
Source: Bureau of the Treasury (BTr)

6 PUBLIC INTERNAL DEBT OUTSTANDING
As of end 1994-1995
In million pesos

	1995[P]	1994	Percent Change
Total[1]	677856	624620	8.5
National Government	669887	613673	9.2
Government Corporations	7335	6372	15.1
Guaranteed	5219	4508	15.8
Non-Guaranteed	2116	1864	13.5
Monetary Authorities	634	4575	-86.1

[1]As complied by the Bangko Sentral ng Pilipinas (BSP), 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 organizations and loans availed of under the Consolidated Foreign Borrowings Program (CFBP). Debt of government corporations consists of security issuances of government-owned/or controlled corporation, issued thru the BSP, security issuances of Land Bank of the Philippines (LBP) and loans by the BSP to the Philippine Deposit Insurance Corporation (PDIC). Debt of the monetary authorities consists of security issuances of the BSP.
[P]Preliminary

Sources of Basic Data: BTr, LBP, BSP

7 MONETARY DEVELOPMENTS
1994-1995
Levels in billion pesos, changes in percent

	1994	1995											
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Reserve Money (RM), 10-day average													
Actual n.s.a	180.3	167.7	173.8	179.3	186.0	175.8	166.0	163.8	168.1	169.6	175.6	182.6	203.0
(12-month % change)	6.1	12.0	14.9	17.1	20.8	12.5	8.1	5.6	17.6	15.4	15.3	16.2	12.6
Base Money (BM), 10-day average													
Actual n.s.a.	194.7	183.9	189.4	195.8	203.6	191.0	181.6	179.8	184.4	185.9	192.1	200.6	221.3
(12-month % change)	11.5	13.3	15.9	17.7	22.5	12.8	9.2	6.8	17.8	15.3	15.0	15.0	13.7
MS (current), end period													
Actual n.s.a.	607.6	605.2	626.6	638.4	656.8	635.0	629.4	641.3	660.3	655.5	688.0	707.0	761.4
(12 month % change)	26.5	31.5	36.9	40.9	45.4	34.8	31.4	31.5	32.1	26.3	31.5	28.9	25.3

[p]Preliminary

8 MONETARY SURVEY
In million pesos

	Levels			Flows	
	DEC 95ᴾ	NOV 95	DEC 94	DEC	DEC-DEC
1. NET FOREIGN ASSETS	**-88232**	**-82412**	**-35169**	**-5820**	**-53063**
A. Net International Reserves	-33345	-27380	21252	-5965	-54597
Bangko Sentral ng Pilipinas	156325	147731	129258	8594	27067
Foreign Assets	204419	196731	173771	7688	30648
Foreign Liabilities	-48094	-49000	-44513	906	-3581
Deposit Money Banks	-189670	-175111	-108006	-14559	-81664
Foreign Assets	159884	138139	142269	21745	17615
Foreign Liabilities	-349554	-313250	-250275	-36304	-99279
B. Medium and Long-Term-Foreign Liab.	-37410	-37294	-37474	-116	64
C. Net Non-Monetary Foregin Liab.	-17477	-17738	-18947	261	1470
Non-Monetary Foreign Assets	7949	8695	5743	-746	2206
Non-Monetary Foreign Liabilities	-25426	-26433	-24690	1007	-736
2. NET DOMESTIC ASSETS	**874635**	**813569**	**665970**	**61066**	**208665**
A. Net Domestic Credits	n.a.	1032292	821551		
Public Sector	n.a.	312188	299812		
National Government	n.a.	256190	243505		
Credits	n.a.	356544	356651		
Foreign Exchange Receivable	n.a.	8631	7812		
T-IMF Accounts	n.a.	-19356	-17934		
Deposits	n.a.	-89629	-103024		
Local Gov't & Others	n.a.	26107	21411		
Claims on CB-BOL	n.a.	29891	34896		
Private Sector	n.a.	720104	521739		
Other Financial Institutions	n.a.	47015	37362		
Other	n.a.	673089	484377		
B. Net Other Terms	n.a.	-218723	-155581		
Revaluation	n.a.	2056	14482		
Capital and Reserves	n.a.	-207190	-158810		
Other Assets/Liabilities	n.a.	-13589	-11253		
3. TOTAL LIQUIDITY	**786403**	**731157**	**630801**	**55246**	**155602**
A. M3	761420	706986	607614	54434	153806
Narrow Money	184921	167315	151952	17606	32969
Quasi-Money	570260	533658	451052	36602	119208
Deposit Substitutes	6239	6013	4610	226	1629
B. Other Laibilities	24983	24171	23187	812	1796
Bills Payable	21434	20219	19763	1215	1671
Marginal Deposits	3549	3952	3424	-403	125
Narrow Money	184921	167315	151952	17606	32969
Currency in Circulation	110882	94359	95675	16523	15207
Demand Deposits	74039	72956	56277	1083	17762
Quasi-Money	570260	533658	451052	36602	119208
Savings Deposits	527977	493029	410699	34948	117278
Time Deposits	42283	40629	40353	1654	1930

ᴾPreliminary

9 SOURCES OF RESERVE MONEY MOVEMENTS
1994-1995
In billion pesos

	End-December Levels		Average Levels		Flows	
	1995p	1994	1995p	1994	End-December	Average
Reserve Money	212.7	182.4	177.8	157.2	30.3	20.6
Net Foreign Assets	118.7	91.8	103.2	88.5	26.9	14.7
Net international reserves	155.9	129.3	143.3	130.1	26.6	13.2
Medium and long-term foreign Liabilities	-37.2	-37.5	-40.1	-41.6	0.3	1.5
Net Domestic Assets	94.0	90.6	74.6	68.7	3.4	5.9
Net credits to the National Gov't (NG)	152.0	139.2	137.8	113.2	12.8	24.6
of which: BSP holdings of Treasury bills	137.2	120.6	117.9	131.8	16.6	-13.9
NG deposits	-72.9	-84.5	-76.0	-125.1	11.6	49.1
Regular rediscounting	4.7	5.3	5.2	6.2	-0.6	-1.0
BSP debt instruments	-23.3	-31.5	-26.9	-42.1	8.2	15.2
of which: BSP/CB bills	-0.6	-4.6	-0.6	-17.9	4.0	17.3
Reverse RPs	-22.7	-26.9	-26.9	24.9	4.2	-2.0
Fixed-term deposits of GOCCs	-19.7	-22.4	-31.2	-9.1	2.7	-22.1
Other items	-19.7	-	-10.3	0.5	-19.7	-10.8

pPreliminary
..Not available
-nil or zero

10 NUMBER OF FINANCIAL INSTITUTIONS
As of end-December 1994-1995

Institutions	1995	1994	Percent Change
TOTAL	12,438	11,073	12.3
1. Commercial Banks[1]	3,221	2,924	10.2
2. Thrift Banks	925	821	12.7
Savings and Mortgage Banks	367	347	5.8
Private Development Banks	310	265	17.0
Stock Savings and Loan Associations	248	209	18.7
3. Specialized Government Banks[2]	77	77	0.0
4. Rural Banks	1,346	1,274	5.7
5. Non-Bank Financial Institutions[3]	6,869	5,977	14.9

[1]With Land Bank of the Philippines
[2]Without Land Bank of the Philippines
[3]Consisting of investment houses, finance companies, investment companies, securities dealers/brokers, pawnshops, lending investors, non-stock savings and loan associations, mutual building and loan associations, private insurance companies, government non-banks and venture capital corporations.

10a TOTAL RESOURCES OF THE PHILIPPINE FINANCIAL SYSTEM[1]
As of end-December 1994 - 1995
In million pesos

Institutions	1995	1994	Percent Change
TOTAL	**1,970,274.8[P]**	**1,613,161.5**	**22.1**
Commercial Banks	1,347,362.0	1,058,820.0	27.3
Thrift Banks	143,306.1	106,644.8	34.4
Savings Banks	88,391.9	69,320.3	27.5
Private Development Banks	42,376.4	28,472.3	48.8
Stock Savings & Loan Asso.	12,537.8	8,852.2	41.6
Specialized Government Banks	68,161.0	60,254.7	13.1
Rural Banks	33,347.8[a]	28,190.5	18.3
Non-Bank Financial Institutions[2]	378,097.9[b]	359,251.5	5.2

[1]Excluding Bangko Sentral ng Pilipinas.
[2]Consisting of government non-banks (GSIS, SSS and other government non-banks) and private non-banks (mutual building and loan associations, non-stock savings and loan associations, non-banks with quasi-banking functions and other private non-banks which include investment houses without quasi-banking functions, finance companies without quasi-banking functions, investment companies, securities dealers/ brokers, lending investors, venture capital corporations, pawnshops and private insurance companies).
[a]As of September 1995
[b]As of August 1995

11 OUTSTANDING DEPOSITS OF THE BANKING SYSTEM
As of end - December 1994 - 1995
In million pesos

Institutions	1995				1994				Percent Change			
	TOTAL	Demand	Savings	Time	TOTAL	Demand	Savings	Time	TOTAL	Demand	Savings	Time
TOTAL	**997,822.5[p]**	**87,068.8**	**676,435.5**	**234,318.2**	**786,112.5**	**67,917.4**	**535,815.4**	**182,379.7**	**26.9**	**28.2**	**26.2**	**28.5**
1. Commercial Banks	873,830.0	80,989.0	583,598.0	209,243.0	693,081.0	63,608.0	468,811.0	160,662.0	26.1	27.3	24.5	30.2
2. Thrift Banks	91,124.7	2,323.1	76,127.0	12,674.6	65,206.3	1,119.2	52,733.8	11,353.3	39.7	107.6	44.4	11.6
a. Savings Banks	56,774.0	1,420.7	49,136.4	6,216.9	42,223.7	808.3	36,331.3	5,084.1	34.5	75.8	35.2	22.3
b. Private Dev. Banks	25,562.6	857.0	20,660.6	4,045.0	16,854.7	310.2	12,722.9	3,821.6	51.7	176.3	62.4	5.8
c. Stock Savings and Loan Associations	8,788.1	45.4	6,330.0	2,412.7	6,127.9	0.7	3,679.6	2,447.6	43.4	6,385.7	72.0	(1.4)
3. Specialized Government Banks	11,665.7	3,570.9	5,341.7	2,753.1	10,272.6	3,001.5	4,665.8	2,605.3	13.6	19.0	14.5	5.7
4. Rural Banks	21,202.1[a]	185.8	11,368.8	9,647.5	17,552.6	188.7	9,604.8	7,759.1	20.8	(1.5)	18.4	24.3

[p]Preliminary
[a]As of September 1995

12 FOREIGN CURRENCY DEPOSIT SYSTEM FINANCIAL HIGHLIGHTS
1994-1995
In million U.S. dollars

	December 1995	December 1994	Percent Change
Assets	**12,329**	**9,765**	**26.3**
Due from Central Bank	58	63	-7.9
Due from Other Banks	2,644	2,395	10.4
Due from Head Off./Brs./Ags. Abroad	313	146	114.4
Interbank Loans Receivable	1,188	941	26.2
Loans and Discounts/Res. Loans	5,323	3,478	53.0
Investments	1,763	1,797	-1.9
Export Bills Purchased	70	0	-
Real and Other Property Owned or Acquired	1	0	-
Other Assets	969	945	2.5
Liabilities and Capital Accounts			
Deposit Liabilities	9,116	7,716	18.1
Bills Payable	1,560	965	61.7
Due to Head Off.Brs./Ags. Abroad	1,135	712	59.4
Due to Local Banks	133	0	-
Payment Orders Payable	21	0	-
Accrued Taxes & other Exp. Payable	54	0	-
Other Liabilities	222	319	-30.4
Total Liabilities	**12,241**	**9,712**	**26.0**
Undivided profits	88	53	66.0
Surplus	0	0	0.0
Total Liabilities & Capital Accounts	**12,329**	**9,765**	**26.3**

13 PHILIPPINE OFFSHORE BANKING SYSTEM FINANCIAL HIGHLIGHTS
1994 - 1995
In million U.S. dollars

	Dec 1995	Dec 1994	Percent Change
Assets			
Notes and Coins on Hand	0	0	0.0
Due from Banks	895	792	13.0
Loans and Discounts to Cutomers	806	898	-10.2
Bills Discounted/Purchased	2	3	-33.3
Investments in Bonds and Other Securities	294	284	3.5
All Other Assets	79	37	113.5
Total Assets	2076	2014	3.1
Less: Allowance for Probable Losses	3	4	-25.0
Total Assets After Allowance for Losses	**2,073**	**2,010**	**3.1**
Liabilities			
Deposit of Non-residents Other than Banks	37	18	105.6
Due to Banks	1890	1956	-3.4
Other Liabilities	146	36	305.6
Total Liabilities	**2,073**	**2,010**	**3.1**

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

	1995		1994		% Change
	Volume	WAIR	Volume	WAIR	Volume
TOTAL	**4,044,765**	**11.634**	**3,520,394**	**12.866**	**14.9**
Interbank Call Loans	2,295,228	12.061	1,438,219	13.519	59.6
Promissory Notes[1]	77,271	11.577	56,382	12.012	37.0
Repurchase Agreements (Private)[1]	10,240	20.538	1,900	15.263	438.9
Repurchase Agreements (Government)[1]	10,730	13.665	61,577	14.369	-82.6
Certificate of Assignment (Private)[1]	1,000	27.563	619	15.290	61.6
Certificate of Participation (Private)[1]					
Commercial Paper (Non-Financial)	250,120	11.579	178,070	12.622	40.5
Commercial Paper (Financial)	13	12.695	90	15.002	-85.6
CBCIs					
Treasury Bills	807,171	10.829	1,125,035	12.847	-28.3
DBP Bonds	0	0.000	3	12.990	-100.0
Other Government Securities	592,992	10.891	658,499	11.462	-9.9

[1]Including those with tax.

15 CAPITAL INVESTMENTS OF NEWLY REGISTERED BUSINESS ORGANIZATION BY INDUSTRY[1]
1994-95
In million pesos

	January - November		Percent Change
	1995[a]	1994[b]	
Total	**25,101.3**	**18,192.4**	**38.0**
Agriculture, Fishery and Forestry	165.3	139.7	18.3
Mining and Quarrying	258.3	214.9	20.2
Manufacturing	6,631.0	4,511.1	47.0
Construction	845.2	420.8	100.9
Electricity, Gas and Water	61.0	103.8	-41.2
Wholesale and Retail Trade	2,843.0	1,771.0	60.5
Financing, Insurance, Real Estate & Business Services	11,739.5	8,945.3	31.2
Transportation, Storage & Communication	1,080.0	991.1	9.0
Community, Social & Personal Services	1,478.0	1,094.7	35.0

[1]Includes capital investments of corporations, partnerships and single proprietorships.
[a]Data on capital investments of single proprietorship not yet available.
[b]Capital investments of single proprietorship excluded.
Sources: Securities and Exchange Commission (SEC), Department of Trade and Industry (DTI)

16 STOCK MARKET TRANSACTIONS

Volume in million shares/value in million pesos
1994-1995

	1995		1994[r]		Percent Change	
	Volume	Value	Volume	Value	Volume	Value
Total	**1006225**	**378983**	**707947**	**388739**	**42.1**	**-2.5**
Commercial & Industrial	34507	284857	27353	341228	26.2	-16.5
Mining	225800	7506	144001	10204	56.8	-26.4
Oil	733012	10896	532911	10836	37.5	0.6
Property [1]	12906	75724	3682	26471	250.5	186.1
Composite Index	2592		2869		-9.6	

[r] Revised
[1] Included starting October 4, 1994
Source: Philippine Stock Exchange (PSE)

17 BALANCE OF PAYMENTS[1]
1994 - 1995
In million U.S. dollars

Item	1995[a]	1994
I. Current Account Transactions		
A. Merchandise Trade	**-8963**	**-7850**
Exports	17370	13483
Imports	26333	21333
B. Services	**6184**	**3964**[b]
Receipts	15389	10550
Payments	9205	6586
C. Transfers	**880**	**936**
Inflow	1146	1041
Outflow	266	105
Current Account, Balance	**-1899**	**-2950**
(As % of GNP)	**-2.5**	**-4.5**
II. Capital and Financial Account		
A. Medium and Long-Term Loans	**1219**	**1313**[c]
Inflow	3751	4369
Outflow	2532	3056
B. Foreign Investments	**2390**	**1558**[d]
Inflow	6923	5276
Outflow	4533	3718
C. Net Short-Term Capital	**-56**	**1002**
D. Change in Commercial Banks' NFA	**1309**	**465**
E. Errors and Omissions	**-2413**	**160**
Capital and Financial Account, Balance	**2449**	**4498**
III. Others		
A. Monetization of Gold	**177**	**154**
B. Revaluation Adjustments	**-82**	**100**
IV. Overall BOP Position	**645**	**1802**
(As percent of GNP)	**0.8**	**2.7**

[1]After Adjustment, After Transfer
[a]Based on the new methodology.
[b]Revised as of March 6, 1996 to reflect actual data on interest expense.
[c]Revised as of December 6, 1995 to reflect updated data.
[d]Revised as of March 5, 1996 to reflect data on BOT-Schemes.

17a EXPORTS BY MAJOR COMMODITY GROUP
1994 - 1995
Volume in 000 metric tons; unit price in U.S.$/m t ; FOB value in million U.S. dollars

	1995[p]			1994			Percent Change
Commodity Group	Volume	Price	Value	Volume	Price	Value	(Value only)
Coconut Products			975			639	52.6
Copra	40	379	15	24	364	9	66.7
Coconut Oil	1311	615	806	849	560	475	69.7
Desiccated Coconut	74	933	69	75	934	70	-1.4
Copra Meal/Cake	777	89	69	574	92	53	30.2
Others			16			32	-50.0
Sugar and Products			77			77	0.0
Centrifugal & Refined	153	430	66	182	333	61	8.2
Molasses	124	80	10	255	53	14	-28.6
Others			1			2	-50.0
Fruits and Vegetables			467			429	8.9
Canned Pineapple	198	417	83	215	419	90	-7.8
Pineapple Juice	58	191	11	45	208	9	22.2
Pineapple Concentrates	41	592	24	38	562	22	9.1
Bananas	1213	188	228	1155	186	215	6.0
Mangoes	46	1000	46	29	1016	30	53.3
Others			75			63	19.0
Other Agro-Based Products			581			530	9.6
Fish, Fresh or Preserved	75	5020	377	79	4830	379	-0.5
Of which: Shrimps & Prawns	18	12350	220	22	10987	246	-10.6
Coffee, Raw, not Roasted	3	2953	9	4	2066	8	12.5
Abaca Fibers	23	1136	26	22	922	20	30.0
Tobacco,Unmanufactured	13	1697	22	16	1437	23	-4.3
Natural Rubber	25	1143	28	22	613	14	100.0
Ramie Fibers, Raw or Processed	1	1915	1	1	1208	1	0.0
Seaweeds, Dried	29	1345	39	24	933	22	77.3
Rice	0	0	0	0	0	0	0.0
Others			79			63	25.4
Forest Products[1]			32			26	23.1
Logs	0	0	0	4	46	0[a]	0.0
Lumber	95	211	20	41	236	10	100.0
Plywood	19	342	6	10	437	4	50.0
Veneer Sheets/Corestocks	15	400	6	30	399	12	-50.0
Others	0	0	0	0	0	0	0

Continued...Exports by Major Commodity Group

Commodity Group	1995P Volume	1995P Price	1995P Value	1994 Volume	1994 Price	1994 Value	Percent Change (Value only)
Mineral Products			906			780	16.2
Copper Concentrates	276	486	134	293	385	113	18.6
Copper Metal	124	2855	354	137	1963	270	31.1
Gold[2]	176	375	66	176	370	65	1.5
Iron Ore Agglomerates	4323	17	73	4666	16	74	-1.4
Chromium Ore	71	153	11	72	117	8	37.5
Nickel	0	0	0	0	0	0	0.0
Others			268			250	7.2
Petroleum Products			166			132	25.8
Manufactures			13784			10615	29.9
Elec & Elec Eqpt/Parts & Telecom			7377			4984	48.0
Garments			2567			2375	8.1
Textile Yarns/Fabrics			215			173	24.3
Footwear			206			210	-1.9
Travel Goods and Handbags			113			76	48.7
Wood Manufactures			133			129	3.1
Furnitures & Fixtures			278			240	15.8
Chemicals			342			306	11.8
Non-Metallic Mineral Manufactures			105			96	9.4
Machinery & Transport Equipment			712			469	51.8
Processed Food & Beverages			285			303	-5.9
Iron & Steel			49			53	-7.5
Baby Carr, Toys, Games & Sporting Goods			238			190	25.3
Basketwork, Wickerwork, & Other Articles of Plaiting Materials			127			134	-5.2
Misc. Manufactured Articles, n.e.s.			197			194	1.5
Others			840			683	23.0
Special Transactions			107			74	44.6
Re-Exports			275			181	51.9
TOTAL EXPORTS			**17370**			**13483**	**28.8**

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

Source of Basic Data: NSO

17b IMPORTS BY MAJOR COMMODITY GROUP
1994 - 1995
Volume in 000 metric tons; unit price in US$/mt; FOB value in million U.S. dollars

	1995p			1994			Percent Change
	Volume	Price	Value	Volume	Price	Value	(Value only)
Capital Goods			**7988**			**6868**	**16.3**
Power Generating & Specialized Machines			2859			2502	14.3
Office & EDP Machines			524			333	57.4
Telecommunication Eqpt & Elect Mach.			3142			2531	24.1
Land Transport Eqpt. excl. Passenger Cars & Motorized Cycle			635			401	58.4
Aircraft, Ships & Boats			471			799	-41.1
Prof. Sci. & Cont. Inst. Photo graphic Eqpt & Optical Goods			357			302	18.2
Raw Materials & Intermediate Goods			**12200**			**9606**	**27.0**
Unprocessed Raw Materials			1553			1278	21.5
Wheat	2030	165	335	2147	151	324	3.4
Corn	134	142	19	0	0	0	0.0
Unmilled cereals excl. rice & corn			1			2	-50.0
Crude materials, inedible			1108			862	28.5
Pulp & Waste paper			116			63	84.1
Cotton	62	1774	110	77	1390	107	2.8
Syn fibers	57	2211	126	64	1797	115	9.6
Metalliferous ores			395			299	32.1
Others			361			278	29.9
Tobacco,unmanufactured			90			90	0.0
Semi-Processed Raw Materials			10647			8328	27.8
Feeding stuffs for animals	1078	244	263	813	240	195	34.9
Animal & vegetable oils & fats			36			38	-5.3
Chemical			2406			2016	19.3
Chemical compounds			651			524	24.2
Medicinal & pharmaceutical chem.			293			262	11.8
Urea	670	173	116	689	131	90	28.9
Fertilizer excl. urea	621	127	79	690	116	80	-1.3
Artificial resins			707			576	22.7
Others			560			484	15.7
Manufactured goods			3632			2893	25.5
Paper & paper prodcuts	386	803	310	422	618	261	18.8

ntinued...Imports by Major Commodity Group

	1995[2] Volume	Price	Value	1994 Volume	Price	Value	Percent Change (Value only)
Textile yarn, fabrics & made-up articles			897			780	15.0
Non-metallic mineral manufactures			186			118	57.6
Iron & steel	3852	350	1347	2693	323	870	54.8
Non-ferrous metals			335			260	28.8
Metal products			297			391	-24.0
Others			260			213	22.1
Embroideries			480			411	16.8
Mat/Acc for the mftr. of elect. eqpt.			3737			2711	37.8
Iron ore, not agglomerated	4026	23	93	3254	20	64	45.3
Mineral Fuels & Lubricant			**2472**			**2040**	**21.2**
Coal, Coke	1800	35	63	1109	30	33	90.9
Petroleum Crude[1]	117.10	16.51	1933	86.04	15.20	1308	47.8
Others[1]	18.70	25.45	476	35.73	19.56	699	-31.9
Consumer goods			**2733**			**2109**	**29.6**
Durable			1456			1124	29.5
Passenger cars & motorized cycle			796			625	27.4
Home appliances			160			95	68.4
Misc. manufactures			500			404	23.8
Non-Durable			1277			985	29.6
Food & live animals chiefly for food			1167			815	43.2
Dairy products	229	1786	409	210	1505	316	29.4
Fish & fish preparation	131	420	55	126	421	53	3.8
Rice	237	283	67	0	0	0	0.0
Fruits & vegetables			90			99	-9.1
Others			546			347	57.3
Beverages & tobacco mfture.			60			138	-56.5
Articles of apparel, access			50			32	56.3
pecial Transactions			**940**			**710**	**32.4**
Articles temporarily imported & exported			530			434	22.1
Others			410			276	48.6
otal Imports			**26333**			**21333**	**23.4**

/oiume in million barrels; Price in US$/barrel
'reliminary
ɔurce of basic data: NSO

Bangko Sentral Ng Pilipinas

20 TOTAL FOREIGN EXCHANGE LIABILITIES
As of dates indicated
In million U.S. dollars

	June 30, 1995				December 31, 1994			
	Short-term				Short-term			
	Trade	Non-Trade	Medium Long Term	Total	Trade	Non-Trade	Medium Long Term	Total
Grand Total	**3,292**	**3,056**	**34,247[b]**	**40,595[c]**	**3,401**	**2,315**	**31,982**	**37,698**
Banking System	283	3,033	1,014	4,330	137	2,294	1,115	3,545
1. Commercial Banks	283[a]	2,028	915[a]	3,226[a]	137	1,538	1,016	2,690
Government	9	638	621	1,269	11	557	623	1,191
Private	275	1,390	293	1,958	126	980	393	1,499
Foreign Banks	2	670	255	927	4	538	353	895
Domestic Banks	273	720	38	1,031	122	442	40	604
2. Bangko Sentral ng Pilipinas		1,005	99	1,104[d]		756	99	855
Public and Private Non-Banks	3,009[a]	23	33,233	36,264	3,264	21	30,867	34,152
1. Public	79	3	28,841	28,923	88	3	27,102	27,193
Public (NG & Others)	79	3	27,170	27,252	88	3	25,435	25,526
Central Bank-BOL			1,671	1,671[e]			1,667	1,667
2. Private	2,929	20	4,392	7,341	3,176	18	3,765	6,959

[a]Details may not add up to totals due to rounding.
[b]Excludes foreign exchange revaluation of WB and ADB loans of US$1,381 and US$1,109 million.
[c]Excludes amounts owed to FCDUs.
[d]Excludes the following credits booked as RP Obligations:

a. IMF Credits	**1,045**
b. Rescheduled Accounts with Peso Blocking for which CB provides forward cover under enabling Circulars (1139, 1202, 1298, 1352 and 1375)	**1,498**
TOTAL	**2,543**

[e]Excludes Brady Bonds booked as RP obligations (US$1,525 million) but includes rescheduled accounts with peso blocking which were assumed by the old CB.

REGULATIONS ISSUED IN 1995

Financial System

Circular No. 60 - January 12, 1995. Provides the guidelines governing the establishment and relocation/voluntary closure of branches and other banking offices of rural banks. A rural bank with unimpaired paid-in-capital of P10 million or more (net of government equity) may establish banking offices in any region or in the region where its head office is located, except in the National Capital Region and in the cities of Davao and Cebu.

Circular No. 62-A - Febraury 22, 1995. Amends Books 1 and 11 of the Manual of Regulations for Banks and Other Financial Intermediaries by raising the minimum capital accounts of banks as follows:

a. Expanded commercial banks - P2.5 billion

b. Commercial banks - P1.25 billion

c. Thrift banks:

* with HO within MM - P150 million

* with HO outside MM - P40 million

Circular No. 64 - February 23, 1995. Amends Books 1, 11 and 1V of the Manual of Regulations for Banks and Other Financial Intermediaries by increasing the prescribed debt-to-equity ratio of the different industry groupings as follows: Group A, 70:30; Group B, 65:35; and Group C, 60:40.

Circular Letter to All Banks - March 2, 1995.Revises the definitions of foreign assets and non-monetary foreign asset accounts in the Manual of Operations for FED form 1 to include "Customers Liability-Import Bills (Foreign Currency)", "Customers Liability - Import Bills Under Trust Receipts (Foreign Currency)", and "Deposits of Banks with the Central Bank under Circular 343/547."

Circular No. 66 - March 9, 1995. Amends Book 1 of the Manual of Regulations for Banks and Other Financial Intermediaries so as to include the financial and commercial complex projects (including land development and building constructed therein) arising from or in connection with the Government's privatization program among the non-allied undertakings eligible for investment by expanded commercial banks.

Memorandum to All Banks - April 11, 1995. Issues guidelines and procedures to govern currency note deposits and withdrawals of banks to and from their demand deposit account with the BSP to facilitate the expeditious receipts of banks' deposits and servicing of their cash withdrawals.

Circular No. 71 - May 5, 1995. Revises the policy on the establishment of new rural banks (RBs) and branch offices such that new RBs may be established in any city or municipality except in the cities of Manila, Kalookan, Pasay, Mandaluyong, Cebu, Davao and Quezon City, and the municipalities of Malabon, Navotas, San Juan and Paranaque. The minimum capitalization requirements for RBs were set at a range of P2 to P20 million depending on the locality where they are established.

Circular No. 74 - May 15, 1995. Prescribes the minimum paid-in capital requirements for investment houses (IH) at P200 million for those in Metro Manila and P100 million for those outside Metro Manila.

Memorandum to All Banks - May 16, 1995. Defers the effectivity of Memorandum to All Banks dated April 11, 1993 re: Guidelines and Procedures to Govern Currency Note Deposits and Withdrawals of Banks to and from their Demand Deposit accounts with BSP until further notice.

Circular No. 76 - June 2, 1995 . Allows rural banks (RBs) to apply for a rediscount loan from the BSP in an amount not exceeding P900,000 for those with a credit rating of "A" or "B"; P700,000 for those with a credit rating of "C"; and P400,000 for those with a credit rating of "D" and for newly-established RBs, defined as those in operation for no more than one year.

Circular No. 77 - June 6, 1995. Amends Circular No. 1289 by reclassifying equity investments of banks with expanded commercial banking authority in an insurance company from "investments in non-allied financial undertakings" to "investments in allied financial undertakings", provided that said investments do not exceed 51 percent of the total subscribed capital stock and total voting stock of such insurance company.

Circular No. 82 - August 4, 1995. Retains the single borrower's limit of thrift banks at 25 percent of the unimpaired capital and surplus of the bank as provided under Circular No. 1371 dated December 17, 1992.

Circular No. 83 - August 17, 1995. Extends the date of submission by thrift banks of their capital build-up programs, as provided in Subsection 2106.2 of the Manual of Regulations Book II and as amended by Circular No. 62-A dated February 22, 1995 by two months or up to October 22, 1995.

Circular No. 84 - August 17, 1995. Allows inclusion of investments in clearing house companies, such as the Philippine Clearing House Corporation and the Philippine Central Depository, Inc., as non-allied financial undertakings of banks.

Circular No. 86 - September 11, 1995. Allows banks/bank branches to open/transact regular banking business for more than five days a week, subject to compliance with other relevant laws. Banks opting to open beyond the regular five days shall still comply with the minimum six-hour daily requirements for the five regular banking days; they may choose the number of hours within which to transact business on the days they are open in excess of the said five regular banking days.

Circular No. 87 - September 20, 1995. Increases the limit on equity investments of an expanded commercial bank, a commercial bank or a thrift bank, in financial allied undertakings to a range of 40 percent to 100 percent of total subscribed capital stock and voting stock of the allied undertakings.

Circular No. 88 - October 4, 1995. Amends rules on interbank loan transactions as contained in Books I, II and IV of the Manual of Regulations for Banks and Other Financial Intermediaries.

Circular No. 93 - October 30, 1995. Revises the guidelines governing the establishment, relocation and voluntary closure of local branches of expanded commercial banks and thrift banks.

Circular No. 94 - October 30, 1995. Revises the guidelines governing the establishment of additional branches of foreign banks.

Circular No. 95 - October 30, 1995. Revises the guidelines governing the establishment, relocation and voluntary closure of branches of rural banks.

Circular No. 96 - October 31, 1995. Redefines foreign firms as referring to (1) partnerships, more than forty percent (40%) of whose capital is owned by non-Filipino citizens; and (2) corporations, more than forty percent (40%) of whose total subscribed capital stock is owned by non-Filipino citizens.

Circular No. 97 - December 11, 1995. Lifts the limitation on the amount of dividends that may be declared by rural banks and the requirement to provide yearly 20 percent of undivided profits to surplus.

Circular No. 99 - December 23, 1995. Amends the rules on computation of floating interest rates.

Circular No. 101 - December 28, 1995. Provides basis for computation of annual fees to be collected from banks.

Cash Operations

Circular No. 61 - January 21, 1995. Promulgates rules and regulations governing treatment and disposition of counterfeit Philippine and foreign currency notes and coins; the replacement and/or use of facsimiles of legal tender Philippine currency notes and coins; the replacement and redemption of legal tender Philippine currency notes and coins considered mutilated or unfit for circulation; and the treatment and disposition of Philippine currency notes and coins called in for replacement.

Memorandum to All Banks - April 3, 1995. Warns the public on the possible proliferation of a new type of counterfeit 500-piso New Design Series containing a strip of silvery material as a security thread that may pass as genuine to the unsuspecting layman.

Circular No. 79 - June 16, 1995. Designates BSP personnel in the Cash Department who shall exclusively exercise the authority vested in BSP under Section 50 of R.A. No. 7653 to investigate, make arrests and conduct searches and seizures in cases adversely affecting the integrity of the currency.

Circular No. 81 - July 28, 1995. Provides for the retirement of all existing Central Bank circulation coins of the English, Pilipino, Ang Bagong Lipunan (ABL), Flora and Fauna and Improved Flora and Fauna Series. Said old series shall be legal tender for a period of one year ending January 1, 1997. BSP will continue to replace said coins at par and without charge up to January 2, 1998.

Foreign Exchange Operations

Circular No. 63 - February 23, 1995. Further amends Item 2 of Circular No. 1327 by revising the banks' allowable long and short FX positions to 20 and 10 percent of unimpaired capital, respectively.

Circular No. 65 - March 9, 1995. Modifies Section 25.2 of Circular No. 1389 to highlight that short-term loans should finance exclusively the foreign exchange requirements of eligible projects. Medium- and long-term loans may finance both the foreign exchange as well as local (excluding working capital) costs of eligible projects.

Circular Letter to All Banks - April 18, 1995. Amends the sanctions on banks for violation of net open FX position as provided in Item 4 of Circular-Letter dated July 10, 1992.

Circular No. 85 - August 29, 1995. Amends BSP Circular No. 1389, by raising to $25 thousand the amount of FX that can be sold by AABs to residents for any non-trade purpose without the need for supporting documents.

Circular No. 89 - October 4, 1995. Liberalizes further the rules on FCDU transactions by allowing commercial banks authorized to operate under the expanded foreign currency deposit system to engage in foreign currency-foreign currency swaps.

Circular No. 98 - December 11, 1995. Amends Section 4 of Circular 1389 by setting the amount of Philippine currency that may be brought in and out of the country without BSP authorization to P10,000.00.

Circular No. 102 - December 29, 1995. Sets the rules, regulations and guidelines governing derivative transactions of banks and non-bank financial intermediaries with quasi-banking functions.

Liquidity Management

Circular No. 62 - January 27, 1995. Amends Item 6 of Subsection 151.3 (Books I and II) of the Manual of Regulations for Banks and Other Financial Intermediaries as follows:

"The bank has not incurred chronic deficiency in its reserves against deposit liabilities and deposit substitutes during the last 120 days or four (4) months immediately preceding the date of application."

Circular No. 67 - March 17, 1995. Allows banks to include as eligible for liquidity floor the following: (1) the free portion of the "Due from Bangko Sentral-Local Currency" account after satisfying the legal and other reserve requirements; and (2) outstanding Fixed Rate Treasury Notes with original maturities of not more than two years which shall not in any way be encumbered or be subject to any transaction without prior approval of the BSP.

Circular No. 70 - April 21, 1995. Allows authorized government depository banks and authorized private banks to maintain exclusive of the required reserves against deposits and/or deposit substitutes, a 50 percent liquidity floor in the form of government securities. Government securities which are eligible as liquidity reserves for this purpose include: all Treasury notes, regardless of maturity; all outstanding regular issues of Treasury bills; and other government securities with remaining maturities of not more than one year, including the free portion of the "Due from Bangko Sentral-Local Currency" not otherwise earmarked or used as part of other reserve requirements.

Circular No. 72 - May 12, 1995. Clarifies the use of the term "abuse" in the privilege of offsetting reserve deficiencies against excess reserves to mean having reserve deficiencies occurring four or more times during any given week for two consecutive weeks, whether or not resulting in net weekly deficiencies.

Circular No. 73 - May 31, 1995. Reduces the reserve requirements on all types of deposits and deposit substitutes of banks and non-banks with quasi-banking functions (NBQBs); as well as the maximum proportion of deposits with the BSP that can earn interest.

Memorandum to All Banks and Other Financial Intermediaries Performing Trust, Other Fiduciary Business and Investment Management Activities - July 22, 1995. Provides implementing rules and guidelines on the MB decision implemented under BSP MAAB dated May 15, 1995 re: the increase in the required reserves against peso-denominated common trust funds (CTFs) and other similarly managed peso funds of all financial intermediaries authorized to engage in trust and other fiduciary business from 10 percent to 13 percent effective May 15, 1995 and an additional 2 percentage points from 13 percent to 15 percent effective June 15, 1995.

Memorandum to All banks and Non-Bank Financial Intermediaries with Quasi-Banking Functions - November 10, 1995. Clarifies the provisions of Circular No. 73 dated May 15, 1995 on reserve requirements against peso deposits and deposit substitute liabilities of financial intermediaries.

Circular No. 100 - December 28, 1995. Amends Subsections 1239.3, 2239.3 and 4291Q.2 of the Manual of Regulations for Banks and Other Financial Intermediaries by setting the liquidity floor on National Government deposits to 50 percent.

Trade and Non-Trade Activities

Circular No. 68 - April 12, 1995. Amends Circular No. 57 dated December 9, 1994, setting terms and conditions under which qualified banks may avail themselves of the Exporters' Dollar Facility (EDF) as follows: (1) that the interest rate shall be based on the prevailing three-month LIBID, provided that the bank's spread does not exceed 1 percent per annum after applicable taxes on foreign exchange loans; (2) that the loan value of the eligible credit instrument offered by the bank as collateral shall be 100 percent of the face amount or outstanding balance of the loan; and (3) that the maturity period for export packing credits should not exceed 90 days, but should not extend beyond the expiry date/validity period of the assigned LC/PO/SC. Credits to service exporters should have maturities not exceeding 180 days from date of availment or not later than the expiry date of the contract, whichever comes first.

Circular No. 69 - April 20, 1995. Revises the regulations and procedures governing the rediscounting of peso-denominated eligible export papers by commercial banks.

Memorandum to All Banks and All Concerned - April 24, 1995. Amends Joint Order No. 1-91 implementing the Comprehensive Import Supervision Scheme (CISS) by adding "works of art, current newspapers, periodicals, individually-owned motor vehicles and parcel posts" to the list of importations exempt from inspections.

Circular Letter to All Authorized Agent Banks and All Concerned- May 4, 1995. Advises all authorized agent banks and all concerned that the amendment to Joint Order 1-91 shall take effect on May 14, 1995 or two weeks after said amendment was published in major newspapers as required by law. Henceforth, shipments of "Fresh, Frozen or Chilled Foodstuffs, Fresh Fruits and Live Animals" beginning May 14, 1995 shall be subject to SGS pre-shipment inspection.

Circular Letter to Authorized Agent Banks and All Concerned - June 22, 1995. Advises all commercial banks and all concerned of the provision of Rule VII Section 2(a) of the Export Development Act of 1994 (R.A. No. 7844) exempting eligible exporters from the requirement of P.D. 1853 or the advance payment of customs duties and taxes.

Memorandum Circular to All Authorized Agent Banks- June 23, 1995. Advises all banks to adopt the Philippine Standard Commodity Classification.

Circular-Letter to All Authorized Agent Banks and All Concerned - July 5, 1995. Advises authorized agent banks and all concerned that the Committee on Scientific and Technical Cooperation with Socialist Countries (SOCCOM) has delisted the People's Republic of China (PROC) from the list of countries covered by Letter of Instruction (LOI) No. 444 dated August 9, 1976. Accordingly, all imports from or exports to the PROC shall no longer require Philippine International Trading Corporation (PITC) clearance, effective July 15, 1995.

Circular No. 92 - October 19, 1995. Deletes several items from the list of regulated commodities under Appendix 1-D of Circular No. 1389.

Small and Medium-Scale Enterprises

Circular Letter - May 9, 1995. Redefines small and medium scale enterprises as any business activity or enterprise engaged in industry, agribusiness and/or services whether single proprietorship, cooperative, partnership or corporation whose total assets fall under the following categories: micro, P150 thousand and below; cottage, P150 thousand to P1.5 million; small, P1.5 million to P15 million; and medium, P15 million to P60 million.

Circular Letter to All Banks - December 7, 1995. Circulates Resolution Nos. 9,10, and 11 of the Small and Medium Enterprise Development Council (SMED), relative to matters considered compliance with the mandatory allocation provision of R.A. No. 6977, otherwise known as the Magna Carta for Small and Medium Enterprises.

Government Securities

Circular Letter to All Banks, Accredited Government Securities Dealers, Non-Bank Financial Intermediaries Performing Trust, Other Fiduciary Business and Investment Management Activities - June 26, 1995. Provides that the custodian fee to be collected for government securities held for safekeeping/custody under the Custodianship Facility administered by the Government Securities Department (GSD) shall be 1/50 of 1 percent per annum based on the month-end balance of the face value of securities. The new custodian fee shall be applied to all securities that will be lodged is the Facility effective August 1, 95.

Memorandum Circular to All Accredited Government Securities Dealers, Banks and Non-Banks, Employee's Trust Funds and All Institutions/Investors Concerned - July 27, 1995. Issues guidelines governing the purchase of 5-year special series Fixed Rate Treasury Notes (FXTNs) for tax-exempt institutions.

Memorandum Circular to All Insurance Companies, Mutual Benefit Associations and Others Concerned - August 22, 1995. Notes the MB approval of the limited participation in the Book Entry System (BES) of insurance companies, mutual benefit associations and of the Security Funds Accounts for both life and non-life sectors currently administered by the Insurance Commissioner.

Circular Letter to All Banks, Accredited Government Securities Dealers, Government Financial Institutions, Government-Owned and Controlled Corporations and Insurance Companies - November 29, 1995. Sets the transfer fee to be collected from sales of government securities held under the Book Entry System (BES) administered by the Government Securities Department (GSD) at fifty pesos (P50.00) for every ten million pesos (P10,000,000.00) or a fraction thereof.

Circular Letter to All Financial Intermediaries - November 29,1995. Informs of the Department of Finance's new eligibility criteria for participation in the primary auction of government securities.