FIFTH ANNUAL REPORT

1997

Bangko Sentral ng Pilipinas
(Central Bank of the Philippines)

Bangko Sentral ng Pilipinas

MONETARY BOARD MEMBERS

GABRIEL C. SINGSON
Chairman

CESAR B. BAUTISTA *
Member

ANDRE NAVATO
~~**RIZALINO S. NAVARRO**~~
Member

VICENTE VALDEPEÑAS, JR.
~~**AURELIO PERIQUET, JR.**~~ +
Member

GUILLERMO N. CARAGUE
Member

CAYETANO W. PADERANGA, JR.
Member

TEODORO B. MONTECILLO
Member

Principal Officers

GABRIEL C. SINGSON
Governor

EDGARDO P. ZIALCITA
Deputy Governor
Banking Services Sector

ANDRE NAVATO Ret.
Deputy Governor
Resource Management Sector

ALBERTO V. REYES
Deputy Governor
Supervision and Examination Sector

---

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

CONTENTS

Part Two: The Bangko Sentral ng Pilipinas

Part Three: Financial Condition of the BSP

Part Four: Feature Articles

LIST OF STATISTICAL TABLES

Table No.

LIST OF ACRONYMS AND ABBREVIATIONS

AABs	Authorized Agent Banks
APEC	Asia-Pacific Economic Cooperation
APM	Automatic Pricing Mechanism
ASEAN	Association of Southeast Asian Nations
BAP	Bankers' Association of the Philippines
BIMP-EAGA	Brunei Darussalam-Indonesia-Malaysia-Philippines East-ASEAN Growth Area
BIR	Bureau of Internal Revenue
BM	Base Money
BOC	Bureau of Customs
BOP	Balance of Payments
BOT	Build-Operate-Transfer
BSP	Bangko Sentral ng Pilipinas
BSPD	Banknotes and Securities Printing Department
BSRD	Bangko Sentral Registration Document
BTr	Bureau of Treasury
CAD	Current Account Deficit
CAI	Certificate of Authority to Import
CISS	Comprehensive Import Supervision Scheme
COR	Capital-Output Ratio
CPI	Consumer Price Index
CRPP	Currency Risk Protection Program
CTFs	Common Trust Funds
CTRP	Comprehensive Tax Reform Package
DA/OA	Document Against Acceptance/Open Account Arrangement
DER	Department of Economic Research
DMB	Deposit Money Banks
DOF	Department of Finance
DOLE	Department of Labor and Employment
DTI	Department of Trade and Industry
ECB	European Central Bank
EDF	Exporters' Dollar Facility
EDP	Electronic Data Processing
EDS	Electronic Database System
EEC	European Economic Community
EMEAP	Executives' Meeting of East Asia and the Pacific (Central Banks)
EMI	European Monetary Institute
EMS	European Monetary System
EMU	European Monetary Union
ESCB	European System of Central Banks
EU	European Union

FCD	Foreign Currency Deposit
FCDU	Foreign Currency Deposit Unit
FED	Foreign Exchange Department
FIREBS	Financial Institutions, Real Estate, and Business Services
FX	Foreign Exchange
FXTNs/FXTBs	Fixed -Rate Treasury Notes/Bonds
GBA	General Banking Act
GDP	Gross Domestic Product
GIR	Gross International Reserves
GNP	Gross National Product
GOCCs	Government-Owned and -Controlled Corporations
GSIS	Government Service Insurance System
HTML	Hypertext Markup Language
IBCL	Inter-Bank Call Loan
IMF	International Monetary Fund
JEXIM	Japan Export-Import Bank
LAN	Local Area Network
LC	Letter of Credit
LIBID	London Interbank Bid
MAAB	Memorandum to Authorized Agent Banks
MEDD	Management of External Debt Department
MICs	Major Industrial Countries
MLT	Medium- and Long-Term
MRMP	Macroeconomic Reforms and Management Programme
MRR	Manila Reference Rate
NBFIs	Non-Bank Financial Intermediaries
NBQBs	Non-Banks and Quasi-Banks
NBQBFs	Non-Banks with Quasi-Banking Functions
NCR	National Capital Region
NDF	Non-Deliverable Forward
NEKB	Non-Expanded Commercial Bank
NG	National Government
NIR	Net International Reserves
NPC	National Power Corporation
NPF	National Provident Fund
NSP	National Shelter Program
OBUs	Offshore Banking Units
OFWs	Overseas Filipino Workers
OMOs	Open Market Operations
OTC	Over-The-Counter
PCDI	Philippine Central Depository, Inc.
PDIC	Philippine Deposit Insurance Corporation
PDS	Philippine Dealing System
PEC	Philippine Exchange Commission
PHISIX	Philippine Composite Index

PICC	Philippine International Convention Center
PSCC	Philippine Standard Commodity Classification
REER	Real Effective Exchange Rate
RIR	Revaluation of International Reserves
RM	Reserve Money
RP	Repurchase
RRP	Reverse Repurchase
SAS	Statistical Analysis System
SCCP	Securities Clearing Corporation of the Philippines
SDRs	Special Drawing Rights
SEACEN	Southeast Asian Central Banks
SEANZA	Southeast Asia, New Zealand, and Australia
SEC	Securities and Exchange Commission
SIRB	Seafarer's Identification Record Book
SMEs	Small- and Medium-sized Exporters
SOM	Senior Officials' Meeting
SSS	Social Security System
TIDWG	Trade and Investment Data Working Group
TOFAs	Trust and Other Fiduciary Accounts
TOP	Treasurer of the Philippines
UNDP	United Nations Development Programme
WTO	World Trade Organization

Part One : THE PHILIPPINE ECONOMY

Overview

The First Half of 1997. During the first half of 1997, the economy was performing quite remarkably. Output growth was strong at 6.0 percent and was underpinned by higher investments. Prudent monetary management enabled the economy to proceed along the path of non-inflationary growth as prices were stable, with inflation at near historic lows of 4.6 percent during the first half of the year. The National Government's fiscal position was in surplus, continuing a trend which had persisted for more than three years. In the external sector, merchandise exports showed strong growth at around 23.0 percent, while import growth decelerated. The accumulated stock of gross international reserves was on the uptrend, amounting to US$11.3 billion as of end-June. These developments were noteworthy not so much for what they were at that point in time but in terms of demonstrating the economy's capability to sustain broad-based growth through the pursuit of market-oriented reforms.

The Second Half of 1997. Starting the second half of 1997, however, a series of major shocks buffeted the country, and posed a serious challenge to its drive toward greater economic development. The proximate cause of the financial crisis in the Philippines was the flotation of the baht on 2 July, following negative investors' perception of the Thai economy because of the frailties of its financial system and the vulnerabilities in its external position. Developments in the Thai economy quickly undermined conditions in neighboring countries. The depreciation of the baht led to the erosion of the external competitiveness of neighboring countries which, in turn, put pressure on the latter's currencies, including the Philippine peso. More importantly, market players also saw in these countries, in varying degrees, some of the same problems plaguing the Thai economy, and regional currency markets were hit by a sudden loss of confidence.

The peso again suffered a series of sharp falls late in the year as the regional crisis deepened. Indonesia and Thailand found it difficult to undertake the necessary reforms proposed by the International Monetary Fund (IMF), while South Korea took some time to secure assistance from multilateral financial institutions, notably the IMF. The market took these developments as signs of inaction, and lack of positive prospects in the near term. In addition, the protracted nature of the crisis threatened to generate systemic risks in banking.

Roots of the Currency Crisis. However, the roots of the crisis in the Philippines had deeper origins, both domestic and external. For one, the competitive depreciation of the yuan in 1994 gave China a significant edge in pricing its exports in terms of foreign currency, posing a serious threat to the external competitiveness of the whole Asian region. For another, the crisis revealed starkly the perils of an underdeveloped domestic capital market, since the lack of long-term debt papers encouraged the holding of short-term instruments, thus contributing to the vulnerability of the country's financial markets. This was particularly true for the private corporate bond market which remains small and narrow. Moreover, the lack of a well-developed forward market that can provide instruments with which to hedge the currency risk proved quite costly. Other weaknesses of the economic structure suggested the need for policy adjustments. These weaknesses included asset price inflation or the dramatic increase in the prices of stocks and real estate, a rising current account deficit, and very rapid expansion of private sector credit.

In the wake of a dramatic shift in market sentiment, the peso depreciated by 51.4 percent as of year-end (when it traded at P39.98/US$1) relative to its value on 11 July 1997. In spite of the sharp plunge of the peso, the country's performance for the entire year proved to be quite sturdy, however, given its generally sound economic fundamentals. These factors enabled the economy to be in a better position to weather the tide of currency and financial crises that swept across most of Asia in the latter half of 1997.

Economic Performance. For the whole year of 1997, the Philippines managed to post a respectable economic performance. Real Gross National Product (GNP) grew by 5.8 percent, lower than last year's growth of 6.9 percent as all sectors registered slower growth. This was, however, better than earlier forecasts. Growth in aggregate demand was supported largely by the expansion in personal consumption expenditures, investments, and exports.

Inflation. Meanwhile, despite the sharp peso depreciation, inflation settled at a decade-low of 5.1 percent, significantly less than the 8.4 percent recorded in

1996 and well below the official target range of 6.0-7.0 percent. Prudent monetary management and favorable supply conditions were the major forces behind the inflation downtrend.

Fiscal Position. The fiscal position was favorable, with the cash operations of the National Government (NG) generating a surplus of P1.6 billion even as this was lower than the previous year's surplus of P6.3 billion.

Financial System. The enhanced ability of the financial system to intermediate funds between surplus and deficit units was reflected in the financial deepening that continued in 1997. The financial intermediation ratio (defined as the ratio of M4 to GNP) rose from 52.5 percent in 1996 to 58.5 percent in 1997, signaling more efficient utilization of financial resources.

External Payments. The merchandise trade account showed signs of consolidation as import growth was limited to 14.0 percent while the expansion of goods exports reflected a hefty annual growth of 22.8 percent. However, this was offset by the lackluster performance of the services account, thus resulting in the weakening of the current account. This development together with declining net capital inflows, notably portfolio investments, contributed to the deterioration of the overall balance of payments.

External Debt. The external debt profile of the country continued to improve steadily. As of end-September 1997, the total external debt was estimated at US$46.2 billion. The external debt service burden was reduced to just 11.3 percent of exports of goods and services. In addition, the level of short-term external debt was kept moderate at 18.5 percent of total foreign exchange liabilities.

Interest Rates. Nevertheless, the momentum of economic growth suffered as a result of higher interest rates, which reflected in large part the higher risk premium due to the volatility in the exchange rate and the general climate of uncertainty. While the Bangko Sentral ng Pilipinas (BSP), in the initial episode of the currency turmoil, increased its own interest rates and the liquidity reserve ratio to quell speculative activity against the peso, these rates were brought down quickly as circumstances allowed in order to minimize the adverse impact on the real sector without compromising the country's inflation objective.

Interest rates, however, were not simply a function of BSP policies. They were determined in large part by bank policies and by the state of government finances, which from September to November stood in deficit. The higher cost of doing business on account of higher interest rates and the peso depreciation impaired the prospects of some business enterprises. The less favorable economic environment also took its toll on the labor sector as the unemployment rate rose slightly to 8.7 percent from 8.6 percent a year ago, with fewer new jobs created in 1997.

Stock Market. The stock market likewise took a beating as trading thinned and stock prices dropped with the slump in investment activity. The prevailing climate of uncertainty owing to the regional turmoil, the erosion of investor confidence, and the generally poor corporate earnings in 1997 combined to pull down the Philippine Composite Index (PHISIX), the barometer of stock market performance, by 41.0 percent to 1,869.2 index points from the previous year's close of 3,170.6 index points.

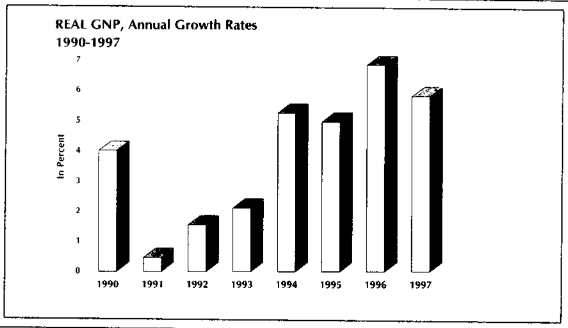
Other Dimensions of the Crisis. The crisis was not confined to the currency and equity markets. Asset deflation and higher burdens on foreign obligations exerted pressure on the banking system. Nevertheless, the Philippine financial system was better able than some of its neighbors to withstand the turmoil, since the external debt crisis in the mid-1980s had compelled Philippine banks as well as the supervisory authorities to implement measures to strengthen the system's institutional capabilities. These earlier reforms included increased minimum capitalization requirements, liberalization of bank branching, and the entry and operation of foreign banks which resulted in enhanced competition from both local and foreign players, reduction in reserve requirements, and tightening of banking supervision.

Furthermore, during the year, decisive action was taken to contain the crisis and restore confidence. In particular, additional prudential measures were put in place to further improve bank asset quality, reduce concentrated lending, achieve better loan loss provisioning, define better the responsibilities of bank directors, and align prudential rules with international standards.

As a result, the banking system's capital-adequacy standard (ratio of net worth to total risk assets) as of the third quarter of 1997 was 16.7 percent, one of the highest in the region. The proportion of non-performing loans to total loans of the commercial banking system at 4.7 percent as of end-December 1997 was manageable while commercial banks' exposure to the real estate sector was moderate at 14.5 percent as of end-December 1997. Moreover, because of policies requiring 100 percent cover on foreign currency deposit liabilities of banks—which account for the bulk of bank foreign liabilities—and mandating that 30 percent of this cover be kept in liquid form, banks were able to manage fairly well their foreign exchange exposure on the liability side.

The past year was thus an eventful year, characterized as it was by the many challenges that confronted the economy. Instead of throwing the Philippine economy off its course, however, these difficult conditions enabled the authorities to recognize systemic frailties and adopt appropriate corrective measures. Apart from addressing existing problems, the timely reaction to macroeconomic warning signals and the strategic implementation of monetary and foreign exchange policies served to check potential sources of instabilities in the economy. The 1997 crisis thus became an opportunity not only for employing effective "crisis management" but for further strengthening the economy, thereby ensuring that its growth prospects can be sustained for the long haul.

Real Sector



Economic growth decelerated in 1997 amidst the deepening Asian currency turmoil, declining investors' confidence, and rising domestic interest rates. Real Gross Domestic Product (GDP) expansion slowed down to 5.1 percent from 5.7 percent in the previous year. The growth of real Gross National Product (GNP) likewise moderated to 5.8 percent from 6.9 percent the previous year due to the decelerating growth in net factor income from abroad. Nonetheless, in per capita terms, real GNP, GDP, and personal consumption expanded.

The growth in aggregate output came largely from the expansion in the agriculture sector, the construction sub-sector, and the transportation, communication, and storage sub-sector. On the other hand, the growth of aggregate demand was underpinned mainly by the expansion in personal consumption expenditures and exports. Investments grew slower because of high domestic interest rates in the latter part of the year and the substantial drawdown of inventories.

Aggregate Output

A deceleration in the rate of expansion across all sectors was noted in 1997. The services sector grew by a lower 5.6 percent this year from 6.5 percent while the industry sector's growth fell to 5.7 percent from 6.3 percent the previous year. Agricultural output recorded a slightly lower growth of 2.8 percent, partly on account of the El Niño phenomenon, which started to be felt during the latter part of the year (Table 1).

The deceleration in the growth of the services sector reflected the rising cost of business operations, following the sharp depreciation of the peso and the upward trend in domestic interest rates. Except for the transportation, communication, and storage and private services sub-sectors, which showed some expansion, a general slowdown in the growth of output of most of the services sub-sectors was observed. This was quite pronounced in trade, finance and housing, and government services.

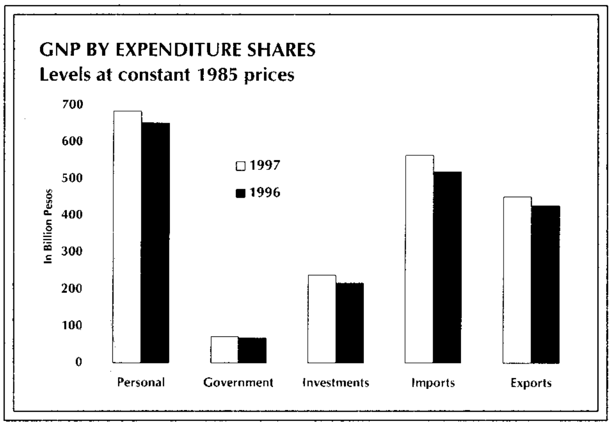
Industrial growth came largely from the sustained double-digit growth of the construction sub-sector, at 16.3 percent. The expansion of manufacturing output dropped to 4.0 percent from the previous year's 5.6 percent. The slowdown in manufacturing can be traced to the slower growth of food manufactures, textile manufactures, paper and paper products, rubber products, basic metals, metals, products of petroleum and coal, and transport equipment. Meanwhile, the sources of growth in the manufacturing sector included electrical machinery, non-metallic manufactures, chemical and chemical products, and miscellaneous manufactures. The growth of the utilities sub-sector fell to 4.1 percent from 7.5 percent last year as the slowdown in manufacturing as well as in most of the services sub-sectors resulted in lower water and electric power consumption. Also, a water rationing scheme was implemented by the country's two water utility firms to conserve the water reserves, which had dropped below critical levels long before the onset of the dry season.

Meanwhile, the 2.8 percent growth in agricultural output in 1997 can be attributed largely to the strong performance of other commercial crops and the continued growth in the production of livestock and poultry. The higher-than-expected fourth-quarter performance of agriculture reversed a deceleration that started in the second quarter of the year.

Aggregate Demand

On the demand side, growth was driven mainly by exports, investments, and consumption.

Following the sharp fall of the peso, export receipts registered a hefty 27.6 percent growth in the fourth quarter, although this was not sufficient to compensate for the decline in the first quarter and the relatively slow growth in the second and third quarters. The performance of the export sector for the year resulted in a much lower annual growth of 8.9 percent from last year's 20.3 percent. Growth in exports was due mainly to the 15.2 percent increase in merchandise exports, as exports of non-factor services decreased by 0.8 percent. The major export earners were semiconductors and electronic microcircuits, garments, and finished electrical machinery. Exports of semiconductors and electronic microcircuits and finished electrical machinery surged by 27.9 percent and 40.4 percent, respectively. Garment exports, on the other hand, shrank by 5.7 percent. Meanwhile, import growth decelerated to 8.7 percent from 21.1 percent last year.



Private consumption expenditures accelerated slightly by 5.0 percent from 4.6 percent in the previous year (Table 1a). In contrast, the growth of government consumption expenditures fell sharply to 3.6 percent compared to 5.2 percent last year, owing partly to the implementation of austerity measures in the public sector during the latter part of the year on account of the financial difficulties arising from the depreciation of the peso. Executive Order No. 454, which was issued by the President on 31 October 1997, instructed government agencies, government-owned and -controlled corporations (GOCCs), and local government units to reduce expenditures by at least 5 percent of the authorized regular appropriations for non-personal services items.

The sharp peso depreciation and high interest rates during the latter half of 1997 led to a deceleration in the annual growth of new investments. The growth in investments slowed down to 10.0 percent from 15.6 percent last year, despite the relatively strong performance of construction and durable equipment at 15.8 percent and 9.4 percent, respectively. This could be attributed to the 43.3 percent drawdown in goods inventories in 1997 vis-à-vis the 466.8 percent build-up in stocks recorded the previous year.

Savings and Investment

Despite the economic slowdown brought about by the regional currency turmoil, gross domestic savings in 1997 increased to P485.8 billion, 13.6 percent higher than the P427.7 billion recorded in 1996 (Table 2). The 1997 gross domestic savings as a ratio of GNP at 18.9 percent was also higher than the 18.7 percent registered in 1996. However, the growth in gross domestic savings in 1997 was significantly lower than the 26.2 percent growth registered during the previous year. Cognizant of the relevance of savings to sustaining the country's growth momentum, the government intensified its awareness campaign in 1997 to highlight the importance of savings. This was undertaken through the National Commission on Savings, which was created in August last year.

Both public and private savings increased in 1997 albeit at a slower pace than in 1996. Growth in public savings decelerated to 7.7 percent in 1997 from 65.7 percent in 1996 as a result primarily of higher debt-service expenditures due, in turn, to the higher-than-expected peso-dollar rate and interest rates brought about by the uncertainty in the foreign exchange market. Growth in private savings similarly decelerated to 15.4 percent in 1997 from 17.7 percent in 1996. Public and private savings in 1997 represented 4.2 percent and 14.8 percent of GNP, respectively. To increase public savings, fiscal reforms were put in place, the latest of which was the passage of the Comprehensive Tax Reform Package and the rationalization of National Government expenditures. Amidst heightened uncertainty in the foreign currency market and increasing government expenditures due to the weaker peso, the President signed Executive Order No. 454 in October 1997 directing the implementation of austerity measures to generate savings equivalent to a minimum of five percent of the non-personal services component of the budget of government agencies. To encourage private savings, the government continued to pursue measures to maintain low levels of inflation and interest rates.

The country's total investments in 1997 increased to P612.6 billion or 23.9 percent of GNP from P531.3 billion or 23.3 percent of GNP in 1996. Public sector investments as a percentage of GNP improved slightly to 4.9 percent in 1997 from 4.3 percent in 1996. Meanwhile, private sector investment remained at 19.0 percent as private business operations were squeezed by the rising cost of production brought about by the regional currency crisis.

The country's savings-investment gap widened to P126.8 billion or 4.9 percent of GNP in 1997 from P103.6 billion or 4.5 percent of GNP in 1996. The public sector savings-investment gap showed a complete turnaround from a surplus of 0.1 percent of GNP in 1996 to a deficit of 0.7 percent in 1997. The private sector savings-investment deficit, on the other hand, declined from 4.6 percent of GNP in 1996 to 4.2 percent in 1997.

The unification of the Social Security System (SSS) and the Government Service Insurance System (GSIS) into a National Provident Fund (NPF) has been proposed to increase domestic savings to finance investment needs and lessen the country's reliance on foreign savings. This proposed unified system is similar to those in Malaysia and Singapore and is expected to accelerate the country's savings rate to levels comparable with other countries in the region.

Labor, Employment and Wages

The economic slowdown in 1997 affected adversely the labor sector in terms of fewer jobs created and a slightly higher unemployment rate. The growth in the labor force slowed to 2.1 percent in 1997 from 4.8 percent in the previous year, but new jobs created during the same period grew by only 1.9 percent (Table 3). In addition, some 950 establishments closed shop in the first nine months of 1997 based on an initial report by the Department of Labor and Employment (DOLE). This resulted in a slight decline in the employment rate to 91.3 percent from 91.4 percent in 1996. Consequently, the unemployment rate rose to 8.7 percent from 8.6 percent in 1996, while the underemployment rate rose to 22.1 percent from its 1996 level of 21.0 percent.

Some 530,000 workers joined the ranks of the employed in 1997. However, employment growth was pared down as some 94,000 workers, mostly in establishments in the National Capital Region (NCR), Region IV, Region V, and Eastern Visayas became unemployed. New jobs created were mainly in the services and industry sectors, which accounted for 658,000 and 200,000 new jobs, respectively. The main employers in the services sector were the community, social, and personal services; the wholesale and retail trade; and the transportation, storage, and communication sub-sectors. In the industry sector, construction was the main provider of new employment opportunities. The number of employed persons in the agriculture, fishery, and forestry sector declined by 331,000.

The slack in domestic employment was mitigated by the renewed growth of overseas employment. The number of overseas workers deployed improved by 13.1 percent to 746,724 in 1997 from the previous year's growth of 0.9 percent. About three-fourths of the overseas workers deployed were land-based while the rest were sea-based. The deployment of overseas land-based workers and sea-based workers increased by 15.2 percent and 7.4 percent, respectively.

The number of new strikes recorded during the year increased by 4.5 percent to 93 strikes from the 88 strikes in 1996, and resulted in a 62.5 percent increase in the number of workers affected from 32,000 in 1996 to 52,000 this year.

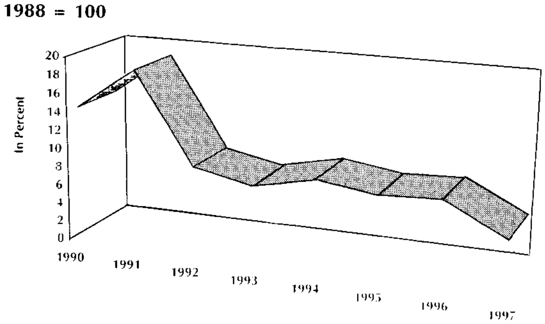
The daily wage rates in the agricultural and non-agricultural sectors improved in nominal terms and also in real terms following the decline in the annual inflation rate. In nominal terms, the non-agricultural daily wage in the NCR and regions outside the NCR stood at P199.07 and P106.17-P182.81, respectively. These figures represented an increase of 13.2 percent and 15.4 percent, respectively. On the other hand, the daily wage in agricultural plantations and non-plantations stood at P106.22-P179.02 and P86.32-P169.82, respectively, evincing a slowdown in the annual growth of wages in the agricultural sector.

In real terms, non-agricultural wages in the NCR and in regions outside the NCR as well as in agricultural plantations and non-plantations improved both in their annual levels and in their growth rates.

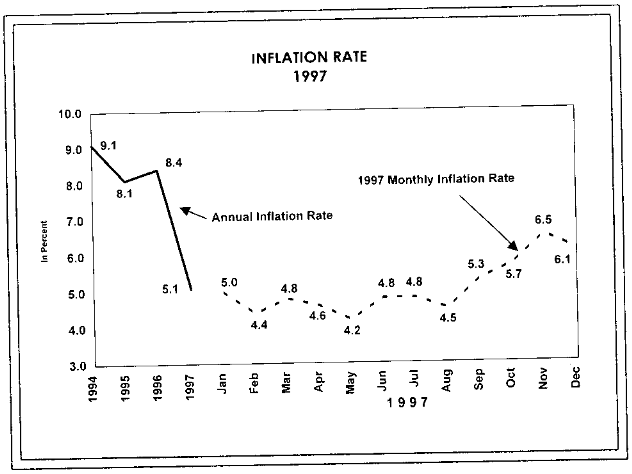
Prices

Domestic price movements were generally moderate in 1997 despite some instabilities in the economic environment triggered by the regional currency turmoil, which started in July 1997. The average inflation rate for 1997 was estimated at 5.1 percent, lower than the 6.0-7.0 percent projected for the year (Table 4). The 1997 average inflation rate was also much lower than the 8.4 percent recorded in 1996. The inflation rate for the NCR was recorded at 6.6 percent, higher than the 4.5 percent recorded for all areas outside the NCR. Average month-on-month inflation was contained at 0.5 percent.

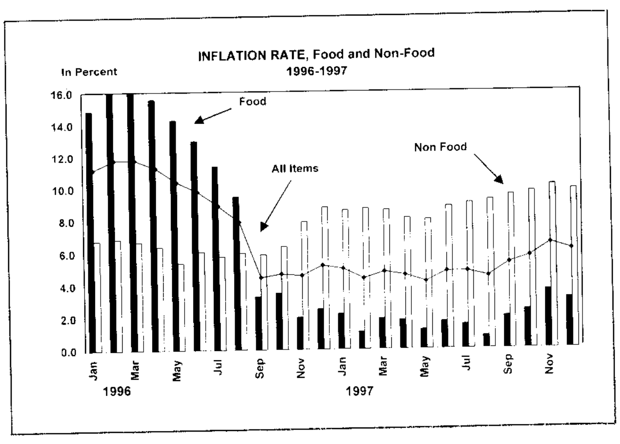
ANNUAL INFLATION RATES, 1990-1997
1988 = 100



As the regional currency turmoil contributed to the weakening of the peso, annual inflation for the last quarter of the year accelerated to 6.1 percent from 4.9 percent in the third quarter and an average of 4.7 percent from the first to third quarters. The impact of the weakening peso and the El Niño phenomenon was more evident in the prices of food items in the CPI basket. The fourth-quarter inflation rate of food items accelerated to 3.1 percent from the 1.3 percent average in the last three quarters. Price movements for rice and corn during the last quarter hit 2.3 percent and 3.9 percent, respectively, as against the previous three quarters' average growth of negative 3.0 percent and negative 6.5 percent, respectively.

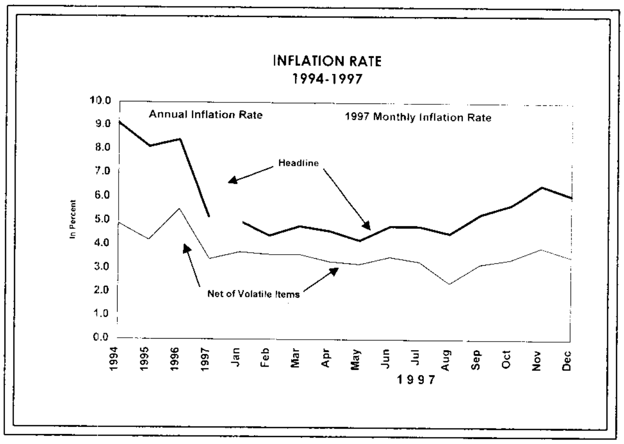


Factors which contributed to the build-up in prices in the last quarter included the seasonal increase in demand during the Christmas holidays and the higher food production costs due to the depreciation of the peso and the El Niño phenomenon. These factors also led to an increase in the inflation rate of other food items such as fish, dairy products, and eggs. However, prices of other food items, such as fruits and vegetables, remained stable. On the other hand, non-food items, except for fuel, light, and water, generally exhibited an uptrend during the last quarter of the year.



Compared to the previous year, the deceleration in the average inflation rate in 1997 was due mainly to the significant drop in the inflation rate of food, beverage, and tobacco items from 10.2 percent in 1996 to 1.9 percent. In contrast, the average inflation rate for non-food items accelerated to 9.0 percent in 1997 from 6.6 percent in 1996.

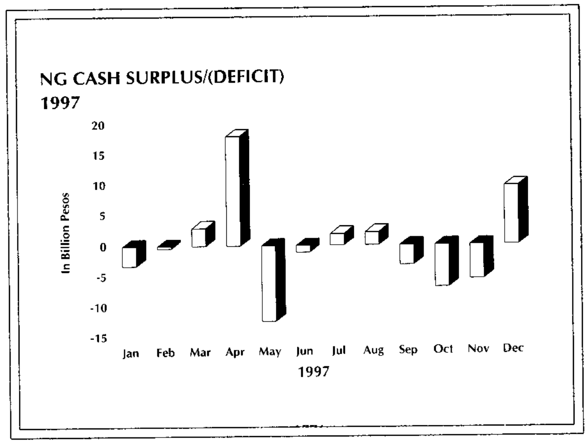
The inflation rate of food, beverages, and tobacco in areas outside the NCR was lower than that in the NCR, while the average inflation rate of all non-food items was the same in both areas. Except for fuel, light, and water and services items, the inflation rate of non-food items in the NCR was lower than the average for the entire country.



Meanwhile, based on the computations by the BSP's Department of Economic Research, the core inflation rate, which is computed after removing the top six most volatile items in the consumption basket, stood at 3.4 percent, lower than the 5.1 percent average headline inflation rate for 1997.

Compared with other ASEAN countries, the country's inflation rate in 1997 was lower than those of Indonesia (6.1 percent) and Thailand (5.6 percent). It was higher compared to those of Malaysia (2.7 percent) and Singapore (2.0 percent), however.

Cash Operations of the National Government (NG)



The cash operations of the NG resulted in a P1.6 billion surplus in 1997, P11.4 billion short of the programmed P13.0 billion. This year's surplus was likewise lower than the previous year's P6.3 billion surplus as expenditures grew by 16.4 percent while revenues rose by only 15.0 percent (Table 6).

Total revenues amounted to P471.8 billion, P61.4 billion more than the 1996 collections. Non-tax revenues provided the impetus for growth, posting a 40.2 percent hike over the year-ago level largely on account of higher proceeds from the privatization program, increase in the collection of fees and charges, and higher income by the Bureau of Treasury (BTr), mainly from dividends from government-owned and -controlled corporations (GOCC).

Tax revenues, which accounted for 87.4 percent of aggregate revenues, expanded by 12.0 percent due mainly to the increase in Bureau of Internal Revenue (BIR) collections. Of the total tax earnings, the BIR collected 76.3 percent or P314.7 billion. However, this was short of the original program as the regional currency crisis adversely affected productive activity in the second half of the year. On the other hand, tax receipts of the Bureau of Customs (BOC), which consisted largely of customs duties, posted a 9.3 percent decline as the depreciation of the peso led to a contraction in import demand.

Government expenditures aggregated P470.3 billion, up by P66.1 billion from the year-ago level, owing to higher interest payments in view of the increasing trend in interest rates, allotment to local government units, net lending to GOCCs, and miscellaneous disbursements. These were partly offset, however, by lower utilization of tax credits and assistance to corporations in the form of equity contributions and subsidies, in line with the policy thrust to promote greater self-reliance and efficiency among government entities.

Public Internal Debt

Outstanding public internal debt in 1997 amounted to P722.1 billion, 0.1 percent higher than the 1996 figure of P721.3 billion (Table 7). As a proportion of GNP, however, this balance is equivalent to 28.2 percent, lower than the 31.6 percent posted in the preceding year. The NG continued to be the biggest borrower, accounting for 98.8 percent of total domestic debt, although its share declined slightly from 99.0 percent in 1996 following the redemption of P3.6 billion worth of Treasury bonds.

Meanwhile, the outstanding domestic debt of GOCCs increased significantly by 20.4 percent due mainly to the P1.2 billion worth of loans granted by the BSP to the Philippine Deposit Insurance Corporation (PDIC) in May 1997. As a result, the GOCCs' share in the outstanding public internal debt increased to 1.2 percent from 1.0 percent in 1996.

Based on maturity, short-term debt comprised the largest share of the aggregate domestic public debt at 55.5 percent (Table 7a). This ratio was lower, however, compared to the 61.0 percent and 71.0 percent recorded in 1996 and 1995, respectively, indicating the continuing shift of the NG's borrowings to longer-term instruments.

Securities, as against loans payable, remained the major form of domestic borrowing by the government at 98.5 percent of the outstanding total domestic debt.

Monetary Developments

Monetary Conditions

The monetary policy stance in 1997, particularly in the latter half of the year, can be described as sufficiently cautious as monetary authorities endeavored to contain inflation within the range of 6.0-7.0 percent. To achieve this target, monetary aggregates were kept well below program ceilings agreed with the IMF even as the monetary authorities implemented measures to ease liquidity pressures sparked by the sharp depreciation of the peso and the consequent increase in interest rates. With monetary aggregates on track and with favorable food supply conditions, the monthly inflation rates during the year were kept consistently below indicative forecasts, reaching an annual average rate of 5.1 percent, well within the projected range.

During the year, average Base Money (BM) adjusted for BSP-Net International Reserve (NIR) position overperformance during the test period was P13.8 billion, or 5.1 percent below the ceiling. Reserve Money (RM), a major component of BM, was P13.2 billion or 5.4 percent below the indicative target for the year.

In terms of growth, RM grew at an annual average rate of 11.2 percent in 1997, slightly lower than the 13.3 percent average growth rate registered in the previous year. BM, on the other hand, exhibited an upturn of 16.9 percent in 1997 from the 13.2 percent growth recorded in 1996. The expansion in BM can be traced to the successive increases in the liquidity reserve requirement from 4.0 percent on 31 July to a high of 8.0 percent on 27 August, although this was subsequently reduced to 4.0 percent by 15 November 1997.

The currency-to-deposit ratio trended upward in the last quarter of 1997, to 15.6 percent in December from 12.6 percent in September, reflecting the public's increased propensity to hold cash in times of market uncertainty in the aftermath of the currency turbulence in the region. However, the decline in the currency-to-deposit ratio in the earlier months of 1997 offset the uptick in the last quarter of the year, resulting in the decline of the average annual currency-to-deposit ratio to

13.5 percent from 14.0 percent in 1996. In turn, the average BM multiplier rose to 3.738 from 3.623 during the period. The growth of domestic liquidity (M3) remained generally stable at an average annual rate of 20.4 percent in 1997 from 19.8 percent in the previous year. Similarly, M4 or the expanded measure of liquidity, which is the sum of M3 and Foreign Currency Deposit Unit (FCDU) deposits of residents, grew steadily at an average rate of 24.8 percent (Tables 8 and 9).

The growth in RM during the year can be traced to the monetary authorities' domestic transactions. The BSP purchased Treasury bills from the secondary market and slowed down its borrowings, particularly in the overnight reverse repurchase (RRP) window (Table 10). These moves aimed to ease the pressure on interest rates, which was driven by the increased preference of banks to remain liquid in the wake of market uncertainty following the Asian currency turbulence. The withdrawal of NG deposits with the BSP in order to meet higher disbursement requirements resulting from the sharp depreciation of the peso and increased interest rates also contributed to the increase in RM during the period. On the other hand, the decline in the BSP-Net International Reserves (NIR) position due largely to increased sales of foreign exchange in the second half of the year moderated the growth in RM.

On the asset side, the steady growth in domestic liquidity can be traced to the continued expansion in domestic credits, although at a slower pace compared to the previous year. The increase in domestic interest rates following the adjustments in the exchange rate led to a deceleration in the growth of total net domestic credits to 28.1 percent from 39.1 percent the previous year. The observed deceleration could also be an indication of stabilizing credit demand, one that is in tandem with sustainable economic growth. This allayed concerns on the inflationary impact of rapid credit growth in the earlier period.

Of the total net domestic credits, 91.3 percent was extended by deposit money banks (DMBs). In terms of relative share to total net domestic credits amounting to P1.93 trillion, the private sector continued to be the primary borrower, availing of P1.45 trillion or 75.1 percent, while the public sector absorbed the rest. Meanwhile, the latter stepped up its borrowings in the last quarter as cash inflows failed to keep pace with the disbursement requirements for various infrastructure projects. As of end-December 1997, public sector credits increased by 26.6 percent compared to the 12.5 percent growth recorded a year ago (Table 9). By economic activity, the manufacturing sector continued to be the main recipient of domestic credits, accounting for about 30.0 percent of the total outstanding loans of commercial banks as of end-December 1997.

DMB credits have been financed traditionally from the banks' peso deposit-taking activities. As of end-December 1997, peso deposits of banks (demand, savings, and time deposits and deposit substitutes) grew by 21.6 percent to reach P922.4 billion from 16.6 percent a year ago and accounted for 41.2 percent of the credit increment of DMBs. In recent years, foreign currency deposits (FCDs) and foreign currency liabilities of banks have become a significant source of credit financing. This was due to the financial liberalization measures put in place in recent years, which allowed greater access to the international capital markets. In peso terms, FCDs of residents rose by 36.5 percent to reach P433.4 billion as of end-December 1997 and contributed 29.1 percent to the total increment in DMB credit growth. Similarly, other foreign currency liabilities of DMBs, particularly bills payable, contributed 7.6 percent to the total increase in DMB credits. Other sources of credit growth were the improvement in banks' capital accounts and the increase in other domestic liabilities (Table 9).

Relative to other countries in the region, credit growth in the Philippines in recent years was modest. Despite the slowdown in credit growth in 1997, the ratio of net domestic credits to GDP in the Philippines increased to 78.8 percent from 68.6 percent in 1996. This ratio, however, was still below that of Thailand (99.3 percent in 1996) and Malaysia (97.4 percent in 1995). On the other hand, financial deepening was enhanced as reflected by the improvement in the M3-to-GNP[1] ratio from 38.6 percent in 1996 to 41.6 percent in 1997. Alternatively, financial deepening may be measured in terms of the M4-to-GNP[2] ratio, which rose from 52.5 percent in 1996 to 58.5 percent in 1997. Financial deepening is also measured in terms of the ratio of M2[3] to GNP. The Philippines' ratio of 41.1 percent in 1997 is lower than those of Indonesia (56.0 percent in 1996), Korea (46.0 percent in 1996), Malaysia (101.0 percent in 1996), and Thailand (81.0 percent in 1995).

[1]M3 or domestic liquidity comprises M1 (or narrow money, which includes currency, demand deposits, and traveler's checks), M2 (or broad money, which includes M1, savings and time deposits, and money market funds), and deposit substitutes of deposit money banks.
[2]M4 refers to M3 plus foreign currency deposits (FCDs) of residents.
[3]As defined in footnote number 1 above.

Interest Rate Developments

Interest rate movements were relatively calm during the early part of 1997 but traced an upward trend toward the second half of the year. The rise in market rates reflected banks' cautious stance on account of the highly volatile foreign exchange market. The BSP's borrowing and lending rates as well as yields on government securities moved upward as the BSP pursued a relatively tight monetary policy stance to check speculative movements against the peso during the latter half of the year. However, as inflation continued to remain relatively low, real interest rates for all instruments averaged higher during the year relative to their 1996 levels (Table 5).

BSP Borrowing and Lending Rates. The BSP's key interest rates were generally stable during the first quarter of the year. Starting April, however, rates on its lending or repurchase (RPs) and borrowing or reverse repurchase agreements (RRPs) were gradually raised to quell brewing speculation in the currency market following anxiety over the emerging financial crisis in Thailand. After a brief lull in June, the selling pressures on the peso resurfaced in July. This prompted the BSP to raise anew its RRP and RP rates to reach a high of 32.0 percent and 34.0 percent, respectively, on 10 July 1997.

Cognizant of the contractionary impact of high interest rates on economic growth, however, the BSP subsequently lowered its RRP and RP rates as the foreign exchange market began to show signs of stabilizing. From an average of 25.7 percent and 14.6 percent in July, overnight and term RRP rates dropped steadily to 11.5 percent and 12.0 percent, respectively in December. Similarly, the overnight RP rate was gradually reduced from an average of 24.7 percent to 15.4 percent during the same period. Complementing the lowering of the RP and RRP rates was the series of reductions in the liquidity reserve requirement, which had earlier been raised to rein in excess liquidity which could be used for speculation in the foreign exchange market.

On an annual basis, the series of adjustments pushed the year's average overnight RP and RRP rates to 17.0 and 15.0 percent, or 2.7 and 2.2 percentage points higher than their averages in 1996.

Yields on Government Securities. The improved financial performance of the NG enabled the yields on Treasury bills across all maturities to remain stable during the first half of the year. However, the trend was reversed in the second half of the year, with rates across all tenors moving up as the NG incurred substantial budgetary deficits for three consecutive months beginning September.

During the year, yields on the 364-day issues were the highest with an average of 13.6 percent, followed by the bellwether 91-day Treasury issues at 13.1 percent and 182-day issues at 13.0 percent.

Bank Borrowing and Lending Rates. Rates at the interbank call loan (IBCL) market followed the trend of the BSP rates. After hovering at an average of roughly 10.0 percent during the first four months of the year, the IBCL rate rose sharply to 15.0 percent in May and to 24.8 percent in July, as banks became jittery over the financial turmoil in Thailand. In October, the market tightened anew with the IBCL rate shooting up to a high of 33.9 percent as the contagion spread to Korea and Indonesia. The sharp rise in the IBCL rate likewise reflected the surge in demand for funds by banks to comply with the two-percentage point upward adjustment in the liquidity reserve requirement. As policy measures were put in place to infuse more liquidity into the system, the IBCL rate slowed to 16.7 percent in November and further down to 13.6 percent in December. For the year, the IBCL rate averaged 17.9 percent, or 5.3 percentage points higher than the average in 1996.

Meanwhile, rates on traditional time deposits (all maturities) dropped fractionally by 30.1 basis points from last year's average to 11.2 percent, while those on short-term promissory issues (MRRs) rose by about 137.5 basis points to average 13.1 percent during the year.

Financial System

The financial system remained strong amidst the vigorous challenges posed by the region-wide financial turmoil. Appropriate policy responses and prudential measures already in place enabled the financial system to withstand the currency and financial shocks generated by the regional crisis.

Continued Build-up in Resource Base. As of end-1997, the financial system's total resources stood at P3.3 trillion[4], higher by 26.2 percent than the end-1996 level. The increase in the number of banks' head offices and branches by 869, and the continued build-up in the capitalization of banks, contributed to the expansion in the financial system's aggregate resources (Tables 11 and 11a).

[4] Preliminary

The banking system, led by commercial banks, continued to be the major source of growth in the resources of the financial system as it accounted for 83.4 percent of total assets (Table 11a). Driven by intensified competition from local and foreign players and the need to meet higher capitalization requirements, banks raised their resources to P2.8 trillion, a 31.5 percent surge from the previous year's level. Assets of commercial banks registered the largest increase of 33.9 percent, while thrift banks and rural banks posted more modest increases of 12.6 percent and 11.9 percent, respectively.

The non-banking system likewise recorded growth in resource base of 4.9 percent to P551.7 billion.

Expansion of Financial Network. Financial reforms in the banking system and the increasing competitive environment induced the expansion in banks' operating network. As of end-1997, the banking system's head offices and branches totaled 7,201 units (Table 11). Commercial banks accounted for the widest branching network with 4,120 head offices and branches, followed by rural banks and thrift banks with 1,692 and 1,389 units, respectively. Against last year's performance, this year's financial network was larger by 1,623 units.

Growth in Deposit Liabilities of Banks. The continued expansion of network branching, improvement of banking services, and the competitive yields on deposits boosted the growth in deposit liabilities of the banking system by 28.3 percent to P1.6 trillion at end-1997 (Table 12). Savings deposits continued to account for the bulk, or 61.8 percent of deposit liabilities, followed by time and demand deposits which constituted 30.3 percent and 7.9 percent, respectively. Of banks' deposit liabilities, almost 90.0 percent was cornered by commercial banks while the remaining 10.0 percent was shared by thrift banks and rural banks.

Rise in Credit and Sound Loan Quality. Reflective of the sustained demand for funds, outstanding loans of commercial banks grew by 26.5 percent to P1.4 billion at end-1997. The sectors which registered strong increases in loans outstanding were the mining and quarrying sectors with a 70.3 percent growth; transportation, storage and communication sector, 47.7 percent; and financial institutions, real estate and business services (FIREBS), 42.6 percent.

The distribution of loans by industry showed that manufacturing, FIREBS, and construction continued to be the main recipients of bank financing. Together these sectors accounted for 70.8 percent of outstanding loans.

The loan exposure of commercial banks to the property sector as of end-December 1997 stood at 14.5 percent, below the 20 percent ceiling imposed by the BSP under Circular Letter dated 5 June 1997. Of the 49 commercial banks with real estate loan exposure, 80.0 percent remained below the set ceiling.

The asset quality of the banking system remains sound. The proportion of non-performing loans to total loans of the commercial banking system at 4.7 percent as of end-December 1997 was manageable. Meanwhile, the ratio of past due loans to total loans as of end-December 1997 stood at 5.4 percent, lower than the 6.8 percent registered in 1992, but higher than the ratios recorded for the years 1993-1996. Vis-à-vis selected Asian countries, the country's ratio of past due loans to total loans was lower than Indonesia's 8.0 percent (June 1997) and Thailand's 8.4 percent (September 1996) and was comparable with Malaysia's 3.9 percent (1996).

Adequacy of capital to cover risk assets as measured by the net worth-to-risk-assets ratio of banks exceeded the 10 percent mandated by law.

Foreign Currency Deposit System. The foreign currency deposit (FCD) system continued to expand in 1997, with aggregate resources growing by 15.3 percent to US$22.8 billion, despite the financial turbulence that swept the Asian region in the second half of the year (Table 13). The active participation of banks in facilitating foreign capital flows and the addition of 13 FCD units (four commercial banks and nine thrift banks) to the system's network bolstered the growth in its resource base during the year.

The increase in resources was attributed mainly to higher net placements/advances by head offices/branches abroad of foreign banks in their local branches as well as higher deposit liabilities from non-residents. The latter climbed sharply by 60.7 percent, resulting in an increase in the share of non-resident FCDs from only 13.0 percent in 1996 to 21.0 percent in 1997. Meanwhile, deposits from residents, which accounted for 79.0 percent of total deposit liabilities, dropped by 9.1 percent or US$1.1 billion. The decline may be attributed to withdrawals by depositors wanting to take advantage of the depreciation of the peso and to raise funds for operating requirements.

On the asset side, the increase in the FCD system's resources was due largely to the expansion of the Due from BSP account by 619.7 percent and the Due from Head Offices/Branches/Agencies Abroad account by 113.2 percent. However, loans and discounts, which constituted 46.2 percent of total resources, contracted by 2.4 percent, reflecting banks' more cautious lending operations as well as the slowdown in the demand for funds by prospective borrowers in view of the growing uncertainty in the currency market. Moreover, the increase in banks' liquid-asset cover discouraged FCD units from granting more foreign currency loans.

The manufacturing sector continued to be the largest recipient of FCDU loans and discounts, comprising 38.6 percent of the total, although total FCDU loans to this sector declined by 21.0 percent from the previous year's US$5.2 billion. A substantial amount of FCDU loans was likewise channeled to the financial institutions, real estate, and business services sector (US$1.9 billion or 18.1 percent of the total); transportation, storage, and communication sector (US$1.2 billion or 10.9 percent); and the wholesale and retail sector (US$1.2 billion or 10.8 percent).

Meanwhile, the growth in the liabilities of the system was due mainly to the substantial increases in deposit liabilities and in the Due to Head Offices/Branches/ Agencies Abroad account. The rise in deposit liabilities was traced, in turn, to the increase in non-resident deposits. On the other hand, the significant expansion in the Due to Head Office Account was attributable largely to the operations of foreign banks in the country.

Offshore Banking System. As of end-1997, the Philippine offshore banking system's total resources amounted to US$2.8 billion, representing a hefty growth of 22.9 percent from the previous year's level (Table 14). A total of 16 offshore banking units (OBUs) operated in the country during the year. Of these, six were from Europe, five from the United States, three from Asia, and one each from Canada and Australia.

Boosting the OBUs' resources were the foreign funds generated from their Head Offices/Branches (US$1.7 billion), and funds from other banks in the Philippines (US$913 million), which rose by US$150 million and US$450 million, respectively, from the previous year's levels.

The increase in OBUs' resources made possible higher lendings to customers as loans and discounts granted by OBUs expanded significantly by 30.0 percent to reach US$1.1 billion. Of this amount, non-bank residents were the major recipients of OBU loans cornering 96.0 percent. By sectoral distribution, the bulk or 65.0 percent of outstanding loans to non-bank residents was channeled to the manufacturing sector, particularly to oil companies to finance their importation of crude oil and petroleum products/refineries, among others. Other sectors that benefited from OBU loans were the transportation and communication sectors (16.0 percent), financial sector (5.1 percent), and electricity, gas, and water sectors (4.3 percent). In terms of maturity of loans, the majority or 97.0 percent of total loans was short-term in nature while the remaining three percent was medium- and long-term.

Capital Market Developments

Money Market. Market uncertainties drove down the aggregate volume of money market transactions by 23.9 percent to P3.3 trillion (Table 15).

Interbank call loan (IBCL) transactions, which accounted for almost 60.0 percent of the total volume of transactions, declined by 28.0 percent. The slowdown in IBCL loan transactions reflected the banks' relatively liquid position arising from the one-percentage point cut in the statutory reserve requirement that took effect on 4 July 1997, as well as their decision to take a more cautious stance on their lending operations amidst uncertain market conditions. Similarly, the volume of repurchase agreements (using government securities as underlying instrument) and trading of other government securities contracted significantly by 61.6 percent and 70.0 percent, respectively. The former was due in part to the BSP's closure of its term lending window during most of the year while the latter may be attributed to the decreasing supply arising from the settlement of some government securities other than those issued by the Bureau of Treasury.

In contrast, Treasury bill transactions, the second largest in terms of volume next to IBCL transactions, and non-financial commercial papers expanded by 1.5 percent and 2.5 percent, respectively, following the uptrend in interest rates toward the second half of the year.

Capital Investments. Despite the disturbance caused by the region-wide financial crisis, paid-in capital investments of newly registered business organizations (excluding single proprietorships) continued to rise, reaching P49.2 billion for the period January-October 1997, or a growth of about 44.0 percent from the comparable period in 1996 (Table 16). Similarly, the number of newly registered business organizations this year grew by about 11.0 percent with the addition of 1,506 firms from the level recorded during the comparable period last year.

Classified by industry, capital investments of newly registered business organizations were channeled mostly to finance, insurance, real estate, and business services (FIREBS) (52.2 percent), wholesale and retail trade (21.1 percent), and manufacturing (14.3 percent).

By type of organization, investments in corporations—which comprised 84.3 percent of total new capital investment—grew by 28.0 percent over last year's level. Meanwhile, investments in partnerships more than quadrupled from last year's level, resulting in an increase in the share of new investments in partnerships to 15.7 percent from only 5.2 percent in 1996.

By nationality, Filipinos remained the top investors, pouring in P39.6 billion, or about 80.0 percent of total capital investments. The remainder came from non-residents, mostly Japanese, Chinese, British, and Americans.

By region, the National Capital Region continued to corner the bulk of capital investments with a share of 88.0 percent, followed by the Southern Tagalog and the Central Luzon and Central Visayas regions, with 6.0 percent and 2.0 percent, respectively.

Stock Market Developments. The Philippine Composite Index (PHISIX), the barometer of stock market performance, nose-dived by 41.0 percent to 1,869.2 index points from the previous year's close of 3,170.6 index points (Table 17). The total volume and value of stocks traded plunged by 15.4 percent and 12.4 percent, respectively.

Contributing to the slowdown in the equities market was the string of negative events both in the domestic and global scenes: (1) volatile exchange rates; (2) erosion of investors' confidence in the country's banking system due to perceived structural weaknesses; (3) generally poor corporate earnings; (4) high interest rates; (5) perception of lower-than-projected economic growth; (6) oil price hike; (7) El Niño-induced drought and; (8) political uncertainty because of the forthcoming national elections.

Except for mining, all sectors in the local bourse suffered declines in volume and/or value of stocks traded. In particular, the volume and value of property stocks traded dropped substantially by 66.8 percent and 20.0 percent, respectively, from 1996, while trading in the banking sector remained volatile. This developed amidst investors' expectations of a possible property glut and its consequent adverse impact on the banking sector similar to that experienced in Thailand. News of cash-strapped companies that sought postponement of debt payments from the Securities and Exchange Commission likewise weakened investors' interest. The oil sector also suffered a mild setback registering declines in volume and value of 33.4 percent and 6.1 percent, respectively, to 1.1 trillion shares valued at P30.8 billion. In contrast, the mining sector's performance improved due to news of new gold explorations. Meanwhile, the commercial and industrial sector registered an increase in the volume of transactions by 89.9 percent while the value of shares dropped by 17.0 percent, due to investors' profit-taking activity.

These developments translated into a drop in market capitalization by almost 41.0 percent by end-1997. Similarly, average daily turnover declined by 11.6 percent from P2.7 billion in 1996 to P2.4 billion. Meanwhile, membership at the Exchange remained at 185, with 142 local and 43 foreign members.

Regulatory Reforms. To further enhance transparency and efficiency in the equities market, the following rules were issued by the Securities and Exchange Commission during the year:

(1) Rules to govern the dissemination of news on security issues. These rules are intended to stop any rumor from circulating at the trading floor thereby preventing the price of a particular issue or trade from being manipulated. Under the rules, any party who circulates unverified information shall be guilty of price manipulation and/or insider trading.

(2) Rules to govern trading by traders/salesmen of brokerage firms for their own personal accounts. All licensed traders/salesmen are prohibited from trading in the Exchange, directly or indirectly, for their personal account. The Circular also directs the Philippine Exchange Commission (PEC) to issue a Code of Conduct governing salesmen/traders in securities transactions.

(3) Clearing and settlement rule. This sets the rules governing the registration of clearing agencies and transfer agents as well as the clearing and settlement of

securities. It provides a logical framework within which the Securities Clearing Corporation of the Philippines (SCCP) and the Philippine Central Depository, Inc. (PCDI) could function effectively. This is in line with the thrust toward fully scripless trading and will help expedite the clearing and settlement of done transactions to at least four trading days after the transaction date.

Balance of Payments

The country's balance of payments (BOP) yielded a net deficit of US$3.4 billion, a turnaround from the prior year's surplus of US$4.1 billion (Table 18). The shortfall was due primarily to the capital outflows following the Asian currency turmoil which started in the second half of the year.

Current Account. The current account deficit (CAD) reached US$4.3 billion during the year, reflecting a moderate deterioration from last year's shortfall of US$4.0 billion. Likewise, the CAD-to-GNP ratio climbed to 4.9 percent from the previous year's 4.5 percent. The increase in the current account deficit was traced to the decline in net inflows from services which offset the rise in net transfers receipts and the improvement in the merchandise trade gap.

Aggregate merchandise exports grew by 22.8 percent to US$25.2 billion from US$20.5 billion a year ago, while imports rose by 14.0 percent to reach US$36.4 billion from the preceding year's US$31.9 billion (Tables 18a and 18b). Consequently, the trade-in- goods deficit of US$11.1 billion (12.7 percent of GNP) declined slightly from the previous year's shortfall of US$11.3 billion (13.0 percent of GNP).

The strong growth of exports (compared to 17.7 percent in 1996) was due to the impressive performance of manufactures of electrical equipment/parts and telecommunication (US$3.1 billion) and machinery and transport equipment (US$1.4 billion), as well as of coconut oil (US$102 million) on account of the sustained strong global demand for these products. Likewise, imports continued to rise, albeit at a slower pace of 14.0 percent compared to 20.8 percent in 1996. Imports of capital goods, particularly (i) telecommunications equipment and electrical machines, (ii) aircraft, ships, and boats, and (iii) office and electronic data processing (EDP) machines, as well as raw materials and intermediate goods (specifically semi-processed raw materials) supported investment growth in the economy.

Meanwhile, the services account netted a surplus of US$5.7 billion in 1997, 15.5 percent lower than the 1996 level of US$6.8 billion. Services receipts improved by US$3.8 billion or by 20.1 percent due mainly to the combined remittances of personal income of OFWs (US$5.7 billion), other services (US$4.9 billion), tourist-related services (US$2.3 billion), and peso conversion of FCDs (US$6.0 billion). Services payments, on the other hand, expanded by 40.0 percent. This was traced largely to increases in outlays for travel, freight and merchandise insurance, interest expense, and miscellaneous services.

On the whole, the trade deficit in goods and services rose by 18.5 percent to US$5.4 billion from the previous year's US$4.5 billion. As a percentage of GNP, the shortfall was higher at 6.2 percent compared to 5.2 percent in 1996.

Net inward transfers rose by 83.4 percent to US$1.1 billion in 1997 against the previous year's level of US$589 million. This developed on account of higher inflows of personal remittances.

Capital and Financial Account. The protracted regional currency crisis dampened investors' confidence in Asian financial markets, including those in the Philippines. As a result, net capital inflows in 1997 fell by 41.6 percent to US$6.5 billion from the 1996 level of US$11.1 billion, despite the rise in net medium- and long-term (MLT) loan availments to US$4.7 billion. The drop in capital inflows was traced to the reduction in commercial banks' borrowings, the sharp decline in net inflows of investments, and in the net availments of short-term capital by the non-bank sector. Net outflows representing redemption of Philippine-issued bonds and securities abroad likewise added to the decrease in the balance of the capital and financial account.

Only the MLT loans account exhibited strong growth as the net surplus on this account ballooned to US$4.7 billion, 65.0 percent higher than the US$2.8 billion surplus in 1996. The substantial increase in MLT loans was supported by the availments of loans from other institutions (particularly for the financing of planes under financial lease), which more than tripled to US$1.3 billion from the 1996 level of US$348 million, and from banks and financial institutions, which surged by 80.7 percent to reach US$1.4 billion compared to US$782 million the previous year. Contributing also to the higher net inflows of MLT loans were the large net availments from bond flotations.

A separate account on the trading of bonds in the secondary markets abroad has been included in the computation of the 1997 balance of payments. This account involves the purchase and sale abroad by foreign currency deposit units (FCDUs) of Philippine-issued bonds and securities in the secondary markets from non-resident holders. The purchase of these Philippine-issued bonds and securities in the offshore secondary markets by FCDUs reduces the country's debt with the rest of the world while a resale of these debt instruments increases the country's liabilities.

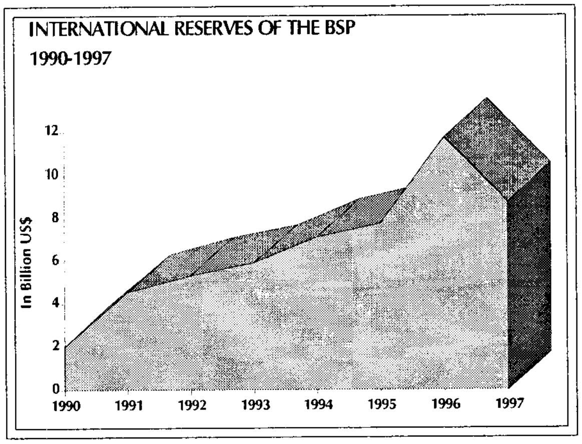
Meanwhile, a high volume of trading in resident-issued bonds was observed in the offshore secondary markets. The purchase and resale of these bonds, specifically by foreign-owned local banks, yielded a net outflow of US$676 million, substantially higher than the US$37 million net outflow in 1996. This trend indicated a shift in the source of loan financing from the international capital market to local sources. Hence, the stock of external liabilities was reduced by the same amount. In addition, the increase in net purchases of these debt instruments was reflective of residents' preference for dollar-denominated assets during the period of currency instability in the Asian region.

The country's net investment inflows reached US$766 million during the year, 78.2 percent below the US$3.5 billion registered during the previous year. The lower surplus was attributed primarily to the substantial withdrawals of portfolio investments and lower inflows of direct equity investments by non-residents in the country. The instability and uncertainty arising from the currency turmoil in the region led many foreign investors to withdraw from the local financial markets, thus reversing the 1996 net placement of non-resident portfolio investments of US$2.1 billion to a net withdrawal of US$406 million, and reducing the net direct equity investments of US$1.5 billion in 1996 to US$1.2 billion in 1997. Meanwhile, net foreign investments abroad by residents dropped to US$81 million from last year's US$104 million.

Net availment of short-term capital by the non-bank sector contracted to US$495 million from the previous year's level of US$540 million. The 8.3 percent decline was due to the decrease in net availment of short-term loans and lower repayment of trade credits particularly for D/As and O/As.

Meanwhile, commercial banks' net foreign assets posted a positive balance of US$1.2 billion, although lower by 71.7 percent than the 1996 level. This smaller contribution was the result of US$4.2 billion servicing of their bills payable abroad.

Gross International Reserves. The BSP's gross international reserves (GIR) amounted to US$8.8 billion at the end of 1997, 25.3 percent lower than the end-1996 level of US$11.7 billion (Table 19). At this level, the BSP-GIR was equivalent to 2.0 months' worth of imports of goods and services, including interest payments.



Efforts of the BSP to mitigate the sharp fluctuations of the peso in the foreign exchange market had significant repercussions on the country's GIR. While the GIR level traced a continuous uptrend during the first three months of the year, peaking at about US$12.0 billion at end-March, it declined gradually to a low of US$9.8 billion in July 1997, as the BSP sold some of its reserves to restore order in the currency market in the midst of the worsening regional currency turmoil. The GIR level increased anew beginning August to reach nearly US$11.0 billion by September. Proceeds from a Japan Export-Import Bank (JEXIM)-IMF Parallel Financing loan and deposits of the Treasurer of the Philippines (TOP) and other banks with the BSP, along with the BSP's restrained participation in the currency markets in August and September, provided the new boost to the country's foreign exchange reserves.

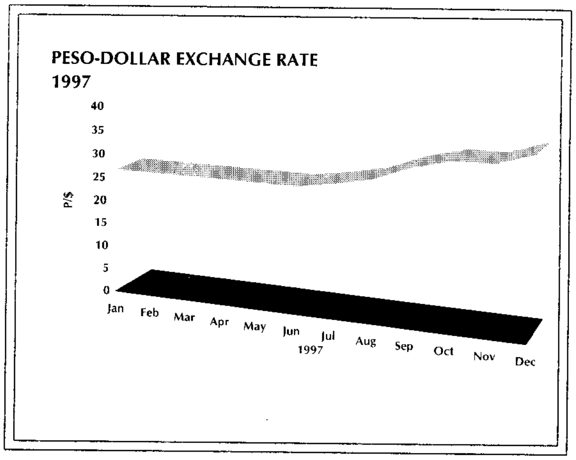
In the following months, however, the GIR resumed its downward trend, hitting a year-low level of US$8.8 billion at end-December. The decline in the GIR toward the end of the year was attributed largely to the substantial net foreign exchange sales by the BSP to authorized agent banks (AABs) of US$2.8 billion in an effort to stabilize the peso as speculative pressures resurfaced on account of negative developments in other countries in the region. Contributing also to the drop in the GIR were the net withdrawal from deposits with the BSP by the National Government (NG) (US$2.0 billion) to finance its debt-servicing requirements, and by the National Power Corporation (NPC) (US$401 million) and foreign banks/OBUs (US$59 million) to finance their import requirements. Likewise, net revaluation losses (US$465 million) were incurred due to the slump in gold prices and the depreciation of third currency-denominated assets/liabilities of the BSP vis-à-vis the US dollar. These foreign exchange disbursements negated the positive impact of the foreign exchange inflows in the form of other bank deposits (US$753 million), drawdowns from the

Treasurer of the Philippines (TOP) with the BSP, which included proceeds of loans from the JEXIM-IMF Parallel Finance Loan (US$324 million); Asian Development Bank Capital Market Development fund (US$70 million); and pipeline loans and others (US$360 million).

The general composition of the BSP-GIR in 1997 remained essentially unchanged from last year, as follows: foreign investments (79.5 percent); gold (16.8 percent); foreign exchange (2.0 percent); reserve position in the Fund (1.3 percent), and holdings of Special Drawing Rights (SDRs) (0.4 percent). The significant drop in the foreign exchange assets of the BSP during the year translated into lower net international reserves amounting to US$6.7 billion at end-1997, as against US$10.0 billion in 1996.

Exchange Rate

Movements of the peso-dollar rate during the year reflected largely the drastic change in market sentiment arising from both the perceived weaknesses in the domestic economy and the contagion effect of the Asian financial crisis. As a result, the peso experienced heavy selling pressures. However, strategic and timely implementation of policy measures adopted by the BSP moderated the impact of the contagion in the exchange market.



During the first half of the year, the Philippine peso was generally stable, hovering at an average of P26.35 to the US dollar (Table 20). However, pressures against the peso mounted as fears of a Thailand-style crisis plagued the country. On 2 July, speculative activities intensified as a reaction to the decision of the Bank of Thailand to shift from the daily setting of the Thai baht in reference to a weighted basket of currencies to a managed floating system. A concerted and determined speculative attack against the peso and other currencies in the region followed. The BSP countered these speculative activities by intensifying its sales of dollars in the market and implementing a series of upward adjustments in its key overnight interest rates. With the sustained attack on the peso, the BSP noted the changed configuration of the foreign exchange market. As the limitations of the initial policy responses became apparent, the BSP ceased its direct participation in the market and allowed the peso to trade within a wider range beginning 11 July 1997. This step was taken to avoid further depletion of international reserves and allow a reduction in interest rates. Following this policy decision, the peso immediately depreciated to an average of P27.67/US$1 in July.

In the succeeding months, the peso traced a depreciating trend as it succumbed to the ripple effects of the turbulence experienced by the Thai, Indonesian, and Korean currency markets. From its average of P27.67/US$1 in July, the peso depreciated steadily to P32.39/US$1 in September and further to P35.30/US$1 in the first half of December 1997. However, during the latter half of December, the value of the peso dropped sharply to an average of P39.74/US$1 due to a combination of external and domestic events. In Indonesia and Thailand, investors were concerned about the perceived reluctance of authorities in implementing reforms as outlined in their IMF-funded economic programs. This triggered a sell-off across currency markets in the region. On the domestic front, dollar demand increased due to the import requirements of oil companies and other corporations. Entities with outstanding foreign obligations also contributed to the rise in dollar demand. The climate of uncertainty was aggravated by dollar earners who delayed the unloading of their dollars. The foreign exchange market regained some stability, however, after the BSP, in conjunction with the BAP, established a foreign exchange pool system (which was operational only for two days, that is, 19 and 22 December 1997), to provide dollar liquidity for the legitimate requirements of some companies. The BSP also introduced the currency risk protection program (CRPP) or the non-deliverable forward (NDF)[5] hedging facility for unhedged borrowers of foreign exchange.

In 1997, the peso-dollar rate averaged P29.47/US$1, higher by 12.4 percent than the average in 1996. As of end-December 1997, the peso was trading at a rate of P39.98/US$1, representing a 51.6 percent depreciation from the 2 July level (date of Thai baht flotation). Other Asian currencies weakened as well, with the Indonesian rupiah depreciating by 109.7 percent, the Thai baht by 83.6 percent, the South Korean won by 69.3 percent, the Malaysian ringgit by 52.0 percent, the New Taiwan dollar by 17.0 percent, and the Singapore dollar by 16.8 percent.

Chronology of Asian Economic and Financial Developments, 1997

14-15 May	The Thai baht came under heavy selling pressure as traders scrambled to reverse their "carry trades" for fear that Japanese interest rates would rise.
15 May	Asian stocks stumbled in anticipation of a crisis.
2 July	The Bank of Thailand announced the flotation of the baht.
11 July	The BSP decided to allow the peso to trade within a wider band; the peso slid to P27.668/US$1. The Bank of Indonesia widened its dollar-rupiah intervention band from 8 percent to 12 percent.
16 July	The peso dropped significantly against the US dollar, reaching a low of P29.674/US$1.
11 August	The Malaysian ringgit fell to a 41-month low against the U.S. dollar.
14 August	Indonesia abolished its currency intervention band.
20 August	An IMF program worth US$17.2 billion was drawn up for Thailand, of which Hongkong agreed to provide US$1 billion.
15 September	Thailand's foreign exchange reserves had dropped by $2 billion in two weeks.
8 October	Indonesia announced it would seek IMF assistance.
16 October	The ASEAN financial turmoil spread to North Asia. The New Taiwanese dollar fell unexpectedly by 5.8 percent after official intervention was stopped.
20-23 October	The Hongkong Hang Seng index declined by 25 percent in four days due to high interest rates. The decline sent repercussions throughout the world.
28 October	The Hang Seng index declined by a further 14 percent.
5 November	The IMF approved a 3-year Stand-by Arrangement for Indonesia with a financial package amounting to US$23 billion.
17 November	The South Korean won breached the 1000/US$1 level.
18 November	Asian finance and central bank officials formulated the Manila Framework, or the New Framework for Enhanced Asian Regional Cooperation to Promote Financial Stability.
21 November	South Korea announced it would seek IMF assistance.
4 December	The IMF approved a 3-year Stand-by Arrangement for South Korea with a financial package amounting to US$55 billion.
16 December	South Korea abolished the 10-percent trading band around the won.
31 December	Global banks agreed to voluntarily roll over maturing short-term, debt of South Korea.

In terms of volatility, the exchange rate was relatively stable during the first six months of the year, moving within a standard deviation of P0.02. However, exchange rate volatility increased sharply to P3.44 during the second semester as a result mainly of the sharp fluctuations in the exchange rate in July and in the second half of December.

Reversing last year's position as a net buyer of foreign exchange at the Philippine Dealing System (PDS), the BSP this year was a net seller of foreign exchange. The BSP sold a total of US$6.5 billion and purchased US$3.9 billion, for a net sale of US$2.6 billion. This contributed to the decline in gross international reserves from US$11.7 billion in end-1996 to US$8.8 billion in end-1997.

During the year, the external competitiveness of the peso, as measured by the real effective exchange rate (REER), improved by about 4.5 percent against currencies of major industrial countries (MICs) as the peso experienced a large depreciation against the US dollar relative to these currencies. The peso likewise posted a 1.0 percent gain against the narrow basket of competing countries' currencies due to the relatively lower inflation in the Philippines vis-à-vis these countries. However, against the currencies of a broad number of competitor countries, the external competitiveness of the peso declined slightly (by a minimal 0.5 percent) due to relatively higher inflation in the Philippines compared with the countries in this basket.

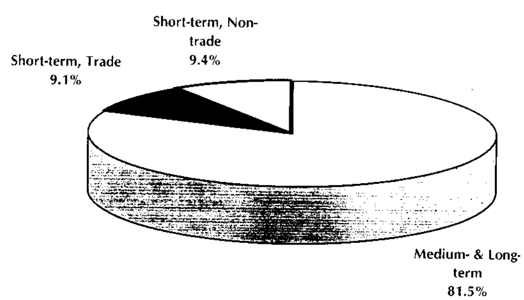
[5] See feature article on NDFs for a more detailed discussion.

Foreign Exchange Liabilities

The country's total foreign exchange liabilities as of end-September 1997 reached US$46.2 billion, an increase of US$4.4 billion or 10.4 percent from the end-1996 level (Table 21). The expansion in outstanding external debt was attributed mainly to net loan availments by the non-bank sector and the increase in liabilities of commercial banks. However, the adjustments due to revaluation gains and assignment of credits to residents partly offset the rise in debt stock.

Net loan availments of the non-bank sector for the first nine months of 1997 (US$3.2 billion) consisted mainly of medium- and long-term loans (MLT) to finance development projects for power and energy development, transportation and communications, construction of low-cost housing, and manufacturing. The loan availments also helped boost the country's gross international reserves. Meanwhile, the increase in the reported liabilities of commercial banks (US$1.8 billion) was attributed mainly to higher short-term non-trade bills payable and flotations of certificates of deposit. MLT loans of banks (US$815 million) mainly for relending to various projects/clients, as well as the adjustment in external debt to reflect the results of audit on last year's transactions (US$174 million) also contributed to the increase in outstanding foreign liabilities.

FOREIGN EXCHANGE LIABILITIES BY MATURITY
1997



The expansion in foreign liabilities was, however, partly offset by revaluation gains (US$1.1 billion) arising mainly from the depreciation of the Japanese yen and other currencies against the US dollar. As of end-September 1997, 23.8 percent of total external debt was denominated in Japanese yen. Meanwhile, adjustments to net out Philippine debt papers held by residents from the total debt stock also decreased outstanding external debt by US$396 million following the build-up of such holdings during the review period.

By maturity structure, a substantial portion of total outstanding external liabilities was medium- and long-term at 81.5 percent. The share of short-term external debt to total debt, on the other hand, increased slightly to 18.5 percent from 17.2 percent as of end-December 1996.

Debt owed to bilateral creditors, mainly Japan and the US, comprised the bulk of the total external debt at 30.5 percent, followed by banks and other financial institutions at 20.6 percent, and multilateral sources at 19.1 percent. Even as official creditors (multilateral and bilateral) remained the principal sources of credit, the country's creditor profile changed slightly during the past five years as borrowers gained access to alternative sources of credit, particularly bonds/notes issuances. Outstanding liabilities to bond/note holders continued to rise from 12.1 percent in 1992 to 24.2 percent as of end-September 1997. In terms of currency mix, the bulk of the country's external debt continued to be denominated in US dollars (55.8 percent) and the Japanese yen (23.8 percent).

Notwithstanding the growth in the country's debt stock, the debt- servicing capacity of the economy continued to improve during the year as shown by various debt-service indicators. The ratio of the debt-service burden to exports of goods and services and to current account receipts declined to 11.3 percent and 10.9 percent, respectively in 1997 from 12.7 percent and 12.3 percent, respectively, a year ago.

Outlook for 1998

Decisive action has been taken by the authorities to contain the currency and financial crises and restore confidence. As a result, some de-linking of the country from the regional sensitivity of currency markets has started to take place. The differences across countries affected by the turmoil are expected to become more apparent as countries respond in varying ways to the difficult conditions facing them. The policy challenge, therefore, lies not so much in the stabilization of the markets but more fundamentally in buttressing the foundations of the economy so that it becomes less vulnerable to destabilizing shocks. This is important as the trend toward globalization means that events in one country or region can more easily have some repercussions on others.

In the Philippines, one focus of the response to the financial turmoil is the maintenance of the momentum of domestic financial sector reforms that seek to maintain a strong, competitive, and well-regulated financial system. Effective regulation and supervision forces banks to recognize problems well before insolvency occurs and address them promptly by taking corrective actions.

Specific measures have already been taken in this regard, and these include: (1) upholding incentives for prudent behavior and enhancing the capacity of banks to withstand shocks by raising their capital and encouraging consolidation in the industry; (2) reducing banks' risks by tightening provisioning requirements; (3) gearing the bank resolution strategy to the twin objective of dealing expeditiously with problem banks while safeguarding the soundness of the banking system by ensuring that any intervention is premised on the principle that bank owners must bear the primary burden; and (4) shifting the focus of supervision to enhance banks' ability to identify and manage risks rather than merely pointing out violation of rules. In addition, a proposed bill to amend the General Banking Act (GBA) has been submitted by the BSP to Congress for legislation. Proposed amendments include provisions enabling the Monetary Board to adopt internationally accepted standards relating to risk-based capital requirements and clearly defining unsound banking practices. The amended GBA is expected to provide the appropriate legal and regulatory framework for the changing financial environment.

Another focus is capital market development, specifically through improvements in institutional capabilities and a grassroots program to raise savings consciousness. The growing national and regional interest in pension fund reform is noteworthy in this regard. Amendments to the Investment Company Act (Mutual Fund) and the Financing Company Act are also being proposed to strengthen the incentives of owners for well-thought out investments, encourage competition by raising limits on foreign equity participation, and reduce transaction costs.

A third focus of reforms involves putting in place a system conducive to greater transparency and disclosure of relevant, timely, and comprehensive information on government policy, macroeconomic indicators, and corporate performance. Increased openness in publishing economic data permits markets to operate competitively and professionally, thus strengthening market discipline. It also enables market players to use tools of objective analysis to make informed assessment of the returns and risks involved in participating in the markets and to react appropriately and quickly to market signals.

Finally, it cannot be overemphasized that sound macroeconomic policies are essential for economic stability. The development literature and actual country experiences suggest that a credible fiscal consolidation strategy, a consistent monetary policy framework, low inflation, a stable financial system, and the rule of law are crucial if a country is to derive the full benefits of financial reform.

In particular, a sound fiscal position will be a crucial factor in the normalization of interest rates. In this regard, the challenge for the Government will be to keep a close watch on its fiscal position—without unduly compressing aggregate demand—to ensure that it does not crowd out the private sector and drive up interest rates. A strong fiscal adjustment program is also necessary to reduce reliance on external saving, and contribute to the adjustment of the current account.

Meanwhile, monetary policy must be firm enough to avoid fanning inflationary pressures while providing sufficient liquidity to provide fuel to an economy that is expected to continue its growth, although at a more moderate pace than the previous years', with real GNP growth expected to be within the range of 3.0-4.0 percent in 1998. While expected to remain single-digit, inflation is nevertheless projected to rise in 1998 on account of the impact of the prolonged rise in interest rates and the higher cost of imported goods, and as the El Niño phenomenon takes its toll on agricultural production.

These policy initiatives need to be tied up in a comprehensive framework that is credible. In this regard, the country will seek the IMF's endorsement of its economic program for 1998 along with a request for a new precautionary financing arrangement, even as it pushes its strategy of exiting from the IMF. The IMF precautionary program, in turn, is expected to help in the program to build up dollar reserves through official and commercial borrowings in order to provide the market with greater assurance of liquidity.

These measures are expected to pave the way for reduced market uncertainty, greater exchange rate stability, more capital flows, and lower interest rates. Lower interest rates are expected, in turn, to ease corporate distress and relieve the pressure on the banking system.

The burden is thus on the policymakers not only to undertake sensible policies that would create an enabling environment conducive to efficient resource mobilization, but also to persist in their implementation of reforms, as well as make appropriate and timely adjustments, when needed.

Part Two : THE BANGKO SENTRAL NG PILIPINAS

Key Policies During the Year

Monetary and Credit Policies

Reserve Requirement. During the first half of 1997, the monetary authorities reduced the reserve requirement against peso deposit liabilities to help decrease banks' intermediation cost and bring domestic interest rates closer to Asian levels. From the 15 percent statutory reserve ratio as of December 1996, required reserves against peso demand, savings, and time deposit and deposit substitute liabilities of commercial banks (including the Land Bank of the Philippines, the Development Bank of the Philippines and the Al-Amanah Islamic Investment Bank of the Philippines), and against deposit substitute liabilities of non-bank financial intermediaries with quasi-banking functions were reduced to 14 percent on 3 January 1997, and further to 13 percent on 4 July 1997. The liquidity reserve requirement (in the form of high-yielding government securities purchased from the BSP) was maintained at two percent during the period. Along with the reduction in reserve requirements, the proportion of banks' required reserve balances with the BSP, which earn an annual yield of four percent, was lowered to 25 percent from 40 percent of statutory required reserves.

Effectivity Date	Statutory Reserves (in percent)	Liquidity Reserves (in percent)
July 30, 1993	22	-
December 31, 1993	20	2
August 15, 1993	17	2
May 31, 1995	15	2
January 3, 1997	14	2
July 4, 1997	13	2
July 31 1997	13	4
August 15, 1997	13	5
August 29, 1997	13	8
September 5, 1997	13	7
September 19, 1997	13	6
October 15, 1997	13	5
November 15, 1997	13	4

Note: The reserve requirement against peso demand, savings, and time deposit and deposit substitute liabilities shall be the sum of the statutory and the liquidity reserve ratios. Reserves may be held in the form of market-yielding government securities (purchased directly from the BSP), in addition to the required cash in banks' vault and balances with the BSP.

In the case of thrift and rural banks, a two-percentage point reduction in their required reserves against deposit liabilities was also implemented. Meanwhile, required reserves against trust and other fiduciary accounts-others (TOFA-Others) were imposed for the first time at 13 percent (10 percent statutory and 3 percent liquidity reserves), similar to the reserve ratio against common trust funds.

The emergence of the regional currency crisis led policymakers to rely on the reserve requirement as a supplementary means to contain domestic liquidity, and consequently dampen speculative demand against the peso. While the statutory reserve ratio was maintained at the existing level, the liquidity reserve requirement was gradually raised to 8 percent of the total deposit liabilities of commercial banks, thrift banks, and non-banks with quasi-banking functions (NBQBs), and to 9 percent in the case of common trust funds (CTFs) and TOFA-Others of financial intermediaries. Meanwhile, a liquidity reserve requirement of 5 percent of their total deposit liabilities was imposed on rural banks.

However, the monetary policy move to increase liquidity reserves tended to raise domestic lending rates. As the foreign exchange market regained some stability toward the end of the third quarter, the BSP gradually reduced the liquidity reserve ratio to 4 percent against peso deposit/deposit substitute liabilities of commercial banks and non-banks with quasi-banking functions (NBQBFs), 5 percent against Common Trust Funds (CTFs) and Trust and Other Fiduciary Accounts (TOFA)-Others, and 3 percent against deposit liabilities of thrift banks. To complement this measure, the BSP likewise lowered its overnight borrowing rate, thereby easing liquidity further, inducing a downtrend in interest rates, and averting a significant slowdown in output growth.

In 1997, average required reserves of commercial banks totaled P137.8 billion, around 16.3 percent of total peso deposit and deposit substitute liabilities which amounted to P844.3 billion. Average available reserves at P140.9 billion exceeded required reserves by P3.1 billion, higher than the 1996 average excess reserves of P1.8 billion. By type of reserve, banks' deposit balances with the BSP in 1997 accounted for a substantial average share of 63.0 percent, followed by government securities purchased from the BSP (19.0 percent), cash in banks' vaults (17.0 percent), and other government securities (one percent).

Rediscount Window. The BSP's credit policies under the rediscount window are used to influence the volume of credit consistent with the monetary authorities' objectives for growth, inflation, and balance of payments (BOP). Under its regular credit operations, the BSP may provide short-term commercial and production credits to banking institutions by rediscounting loans to preferred or priority activities.

In 1997, the rediscount budget for regular credits was reduced to P4.5 billion from the previous year's level of P6.5 billion. The interest rate on rediscounting loans is adjusted monthly at one percent below the 91-day T-bill rate of the last auction date of the previous month. For 1997, rediscounting rates reflected a generally increasing trend from 8.5 percent in April to 14.6 percent in December.

Meanwhile, availments under the Exporters' Dollar Facility (EDF) increased by 16.0 percent to US$318.1 million in 1997. Based on the prevailing 3-month London Interbank Bid (LIBID) rate, the interest rate on EDF loans is adjusted every three months. Interest rates under the EDF reflected the steadily increasing trend of foreign interest rates, from 5.4 percent (for the period 9 December 1996-3 March 1997), to 5.8 percent (for the period 9 December 1997- 8 March 1998).

Open Market Operations. Open market operations (OMOs) continued to be a major instrument of the BSP's monetary management. Through OMOs, the BSP was able to rein in liquidity and limit the ability of banks to take positions against the peso in the foreign exchange market. The BSP-OMOs are undertaken by the Treasury Department in line with the twin objectives of price stability and growth. The specific instruments of the BSP's OMOs include reverse repurchase agreements, repurchase agreements, and BSP's holdings of government securities.

During the year, the BSP used its holdings of government securities to mop up excess liquidity in the system. The outright sales of government securities in the secondary market siphoned off P10.6 billion from the liquidity stream. Complementing the OMOs was the BSP's adjustment of the liquidity reserve ratio in response to the changing configuration of the money and foreign exchange markets, particularly at the height of the currency crisis in the third quarter. Liquidity reserves, which are imposed on top of the 13 percent statutory reserve requirement and may be kept in the form of short-term market-yielding government securities purchased directly from the BSP, were raised gradually while keeping statutory reserves intact. However, as the currency situation began to show some signs of stabilizing, the BSP subsequently effected a series of reductions in liquidity reserve requirements.

Interest Rate Policy

The BSP continued to support a market-determined interest rate policy geared toward achieving the twin objectives of promoting credit and investments and containing inflation to sustain economic growth.

Consistent with this policy, the BSP in 1997 implemented measures directed toward reducing interest rates. In particular, the BSP lowered the reserve requirement against deposit and deposit substitute liabilities of banks and non-banks from 15.0 percent at end-1996 to 13.0 percent in July 1997 to bring down banks' cost of intermediation and, eventually, interest rates. However, starting 31 July 1997, the BSP gradually raised banks' liquidity reserve requirement from two percent to four percent and further to five percent and eight percent on August 15 and 28, respectively, to discourage speculation brought about by the Thailand financial crisis. Aside from initially raising the liquidity reserve requirement, the BSP also used open market operations to keep monetary aggregates under control to reduce speculative pressures on the peso. This resulted in the rise in the BSP's overnight borrowing rates to as high as 32.0 percent in July from only 9.9 percent in April. However, as the currency market showed signs of stabilizing and inflationary pressures softened toward the end of the year, the BSP gradually reduced the liquidity reserve requirement until it reached 4 percent on 15 November 1997, back to the 31 July level. The BSP likewise gradually cut its overnight borrowing rate to a low of 11.0 percent in December.

Financial Structure Policy

The BSP continued to institute financial reforms during the year to allow the financial system to withstand the new challenges of the decade. The recent foreign exchange crisis prompted the BSP to strengthen the regulatory environment and ensure stability in the banking system.

Improve Asset Quality. To improve the quality of banks' assets and encourage banks to exercise greater caution in their lending activities, the BSP redefined the criteria in determining past-due loans by reducing the number of installments in arrears from six and two to three and one in cases of loans payable in monthly and quarterly installments, respectively (Circular No. 143 dated 1 October 1997). Also consistent with this effort was the requirement by the BSP of a general loan-loss provision over and above the provision for probable losses linked to individually identified uncollectible accounts. On top of the existing provisioning requirements, banks are now required to put up 2.0 percent of their gross loan portfolio, less loans which are considered non-risk under existing laws/rules/regulations, as allowance for probable losses (Circular No. 143 dated 1 October 1997). This policy is intended to enhance banks' ability to absorb loan losses in case of default. Circular No. 148 dated 10 November 1997, meanwhile, extended the period of full compliance with the provisioning requirement to within three years from the date of the Circular.

Moreover, the BSP required a 30-percent liquidity cover on all foreign exchange liabilities of FCDUs to guard banks against the adverse consequences of the rapid growth of foreign exchange intermediation by the banking sector (Circular Letter dated 6 June 1997).

Guard Against Concentrated Lending. To protect banks from undue exposure to the real estate sector, the BSP directed commercial banks to reduce the loan value of the real estate used as collateral for bank loans from 70 percent to not more than 60 percent of the appraised value of the real estate property given as security for any loan granted by a commercial bank, exclusive of individual loans not exceeding P3.5 million. Furthermore, the BSP prescribed a regulatory limit on banks' loans to the real estate sector to not more than 20 percent of a bank's total loan portfolio, exclusive of loans to finance the acquisition or improvement of residential units amounting to not more than P3.5 million. However, the aggregate real estate loans, inclusive of such loans, should not exceed 30 percent of the banks' total loan portfolio. Housing loans extended or guaranteed under the government's National Shelter Program (NSP), being non-risk assets, are exempted from these ceilings on real estate loans (Circular Letter dated 5 June 1997).

Meanwhile, a proposed bill to amend the General Banking Act (GBA) in order to adhere to internationally accepted standards with respect to risk-based capital requirements and ensure sound banking practices, has been submitted by the BSP to Congress for deliberation.

Improve Quality of Bank Management. The BSP also issued guidelines governing the responsibilities and duties of the board of directors of banks to improve bank management (Circular No. 130 dated 6 June 1997).

Foreign Exchange Policies

Exchange Rate Policy. The BSP continued to support a freely floating exchange rate system. Under this system, the BSP leaves to market forces the determination of the exchange rate, with some scope for occasional BSP action to dampen sharp fluctuations in the exchange rate. On such occasions, the BSP enters the market, largely to provide indicative guidance to the market. At the same time, the BSP's participation in the market has been maintained at levels sufficient to service its own requirement as well as that of the National Government (NG) in its capacity as the fiscal agent of the NG.

During the early stages of the currency crisis, the BSP adopted the strategy that was successfully employed during the past episodes of speculative attack against the peso, that is, it intensified its dollar sales in an attempt to match the increased demand for dollars in the market, complementing this with upward adjustments in its overnight borrowing rate. This was done to raise the cost of borrowed peso funds that could be used for speculation and shift investments away from dollar- to peso-denominated assets. However, amidst heavy and unabated selling pressures, the limitation of this strategy became apparent.

On 11 July, the BSP reaffirmed its market-oriented exchange rate policy by allowing the exchange rate to move within a wider range, consistent with significantly changed market conditions. The rationale for the BSP action was two-fold. First, the BSP action was undertaken to facilitate more timely adjustments in light of more volatile conditions of currencies across the Asian region. Second, the measure was adopted to diffuse the speculative pressures in the exchange market. This greater flexibility was expected to remove the incentive for speculation against the peso and eventually lead to a gradual reduction in interest rates as financial markets stabilize.

After the sharp depreciation of the peso that followed the decision to let the peso trade within a wider range, foremost among the concerns of the BSP was the restoration of order in the foreign exchange market. Several measures were pursued to help stabilize the foreign exchange market and cool down speculative activities. These measures were aimed at reducing undue pressure on the peso while at the same time adding foreign exchange liquidity into the market.

In order to stabilize the exchange rate, the BSP implemented a set of direct and indirect measures aimed at moderating dollar demand and encouraging dollar supply in the market. Among these were: 1) prior BSP approval on the sale of non-deliverable forwards to non-residents; 2) tighter overbought position of banks complemented by a more relaxed oversold position; 3) consolidation of banks' foreign exchange accounts with subsidiaries and affiliates for purposes of calculating net open foreign exchange positions; 4) tighter rules in the computation of the foreign exchange position of banks; and 5) lower ceiling on over-the-counter (OTC) dollar sales, without need for documentary evidence.

In December 1997, when the foreign exchange market experienced a sudden contraction in liquidity, the BSP undertook measures to ease the pressure on the exchange rate. A pool system was agreed upon by the BAP and the BSP to provide liquidity in the foreign exchange market to satisfy the legitimate dollar requirements of some companies, particularly oil firms. The pool system was operational only for two days (19 and 22 December 1997). The BSP also offered a non-deliverable forward (NDF) or currency risk protection facility to enable eligible borrowers to limit their foreign exchange risk on unhedged foreign exchange obligations to FCDUs booked as of 19 December 1997 and outstanding as of the date of application of the NDF facility. This facility was used to ease the strain on the spot market due to demand pressure from borrowers wanting to cover unmatured foreign currency obligations because of fears of a further peso depreciation. Availment of this facility involves costs in the form of a market-based premium, expressed as swap points and service fees (to cover transaction costs) and does not lead to a reduction in the country's international reserves because settlement on maturity date will entail payment only of the net differential in pesos.

Apart from rationalizing foreign exchange trading, the BSP took other indirect measures to discourage exchange rate speculation. Aside from initially raising interest rates, liquidity reserves were also gradually raised while keeping statutory reserves intact. However, as this policy tightened liquidity and increased overall interest rates, the BSP gradually reduced liquidity reserves. There was room for this gradual relaxation as new data on inflation indicated moderate price movements.

As a result of these developments, the BSP's net sales of foreign exchange during the year totaled US$2.6 billion, representing about 6.1 percent of the total volume of transactions in the Philippine Dealing System (PDS). Such sales explained in large part the reduction in the level of BSP's gross international reserves to US$8.8 billion as of end-1997 from US$11.7 billion at end-1996.

Trade Regulations. During the year, the BSP issued and implemented the following circulars and memoranda pertaining to import liberalization and the regulation of certain commodities:

MAAB dated 22 January 1997 advising all commercial banks and all concerned of the issuance of Amended Joint Order No. 1-91 of the Secretary of Finance, the Secretary of Trade and Industry, and the Governor of the Bangko Sentral ng Pilipinas relative to the implementation of the Comprehensive Import Supervision Scheme (CISS). The said amended joint order eliminated the BSP's involvement in the processing of non-LC (letters of credit) import applications.

Circular Letter dated 2 June 1997 disseminating the authorized signatories of the Philippine Export Authority.

Circular Letter dated 5 June 1997 reminding AABs and all concerned of the list of motor vehicles requiring prior clearance from the Department of Trade and Industry-Bureau of Import Services and the Board of Investments.

The BSP also reviewed policies on BSP registration procedures on DA/OA transactions, amendments to which will be incorporated in the proposed revision of CB Circular No. 1389.

Regulations on Invisibles. The BSP continued to rationalize the rules and regulations governing foreign exchange transactions in 1997, with a view to ensuring that the conduct of the banks' foreign exchange transactions were consistent with the efforts of the monetary authorities to restore stability in the foreign exchange market.

To strengthen prudential rules on foreign exchange transactions of banks following the rapid growth of foreign exchange intermediation, the BSP issued Circular Letter dated 6 June 1997 prescribing a 30-percent liquid cover on all foreign exchange liabilities of FCDUs. On 24 December 1997, another Circular Letter was issued, which includes foreign currency notes and coins on hand and foreign currency checks and other cash items among the assets eligible as liquid asset cover.

The BSP instituted measures to prevent banks from using some of their financial products, that is, non-deliverable forward (NDF) contracts, to put undue pressure on the foreign exchange market. These NDFs were believed to be used to artificially increase the demand for dollars and, in turn, apply downward pressure on the peso. The BSP, through Circular No. 135 dated 22 July 1997, thus required prior clearance on the sale of NDF contracts to non-residents (including offshore banking units). At the same time, the BSP adjusted the allowable overbought foreign exchange position of banks from not more than 20 percent of their unimpaired capital to 10 percent (Circular No. 134 dated 22 July 1997) along with their oversold position, which was raised from not more than 10 percent of unimpaired capital to 20 percent. The allowable overbought position of banks was adjusted further to 5 percent of their unimpaired capital or US$10 million, whichever is lower, through Circular No. 137 dated 31 July 1997. Moreover, the BSP lowered the ceiling on the allowable over-the-counter (OTC) dollar sales of banks to US$25,000 from US$100,000 to moderate the demand for dollars. Any OTC sale exceeding US$25,000 had to be supported by a notarized application and documentary proof/s on the nature of the dollar requirement. Meanwhile, any OTC sale not exceeding US$25,000 required a written application only (Circular No. 138 dated 31 July 1998).

As the regional currency turmoil intensified, the BSP required banks to submit reports and additional documentation to strengthen the capability of the monetary authorities to monitor closely the foreign exchange transactions of banks. Under Circular Letters dated 5 and 17 September and 2 October 1997, the BSP required the consolidation of banks' accounts with their subsidiaries and affiliates in the computation of banks' foreign exchange positions. This was intended to prevent banks from diverting their dollar transactions to subsidiaries and affiliates to circumvent the limits set by the BSP on the allowable overbought/oversold foreign exchange positions. At the same time, application to purchase foreign exchange not exceeding US$6.0 million for outward investment which does not require BSP approval was required by the BSP to be supported by the applicant's income tax return (Circular Letter dated 11 September 1997).

Likewise, banks were required to submit reports on all forward sales contracts entered into with residents and non-residents, which were delivered or canceled after deal date beginning January 1997 pursuant to Circular Letter dated 9 October 1997. Subsequently, banks were required to submit reports on all cancellations or non-delivery of outstanding forward sales contracts not later than two banking days after cancellation/non-delivery (Circular Latter dated 24 October 1997).

(please turn to page 52)

IMPACT OF TAXATION ON FOREIGN CURRENCY DEPOSITS (FCDs)

I. The Growth of Foreign Currency Deposits

Foreign currency deposits have expanded remarkably in recent years. From US$2.5 billion in 1990, the total amount of FCDs rose to almost US$4.4 billion in 1992 and further ballooned to US$14.5 billion in 1997. The increasing importance of FCDs in the economy can be gleaned from their share to total deposits. In 1991, FCDs as a proportion of total deposits stood at 19.6 percent. By 1997, the ratio had grown to 34.5 percent.

The rise in the popularity of this type of deposit can be attributed to the increase in the demand for dollar accounts as residents engage more in international transactions. The vigorous liberalization of foreign exchange regulations since 1992 has likewise contributed to the accessibility of FCDUs. Moreover, dollar deposits have, until recently, enjoyed tax privileges, which made them relatively more attractive than their peso-deposit counterparts.

II. Tax Treatment of Interest Income from FCDs

Under the Tax Reform Act of 1997 (Republic Act 8424, enacted on 11 December 1997) the interest income of residents from their foreign currency deposits will be levied a 7.5 percent tax starting 1 January 1998. The imposition of the tax is intended to equalize the tax treatment between FCDU deposits and peso deposits. Previous rules on taxation which allowed dollar deposits to enjoy tax-free treatment may have encouraged the excessive growth of foreign currency deposits relative to other deposit instruments. This distortion had to be corrected as the decision to convert from one instrument to another should not be based on tax treatment but rather on risk and return analysis.

III. Impact of Taxation on FCDs

Some quarters have argued that the new tax measure will have a significant adverse impact on FCDs and capital inflows. The tax will allegedly increase transaction costs and, consequently, discourage foreign investments, induce capital outflows, and depress overseas contract workers' remittances. However, there is reason to believe that the adverse impact of the tax will be limited.

A. On Investment Inflows

The decision of foreign investors to locate in the Philippines is influenced primarily by the viability of their projects. This depends on, among other factors, the depth of the Philippine market, the skill of local labor, the availability of raw materials, the quality of infrastructure, and the soundness of macroeconomic policies. The impact of tax breaks on investment decisions thus tends to be marginal. On the other hand, creating a level playing field for all types of investment instruments by imposing taxes on FCDs will reinforce the market's belief in the government's commitment to pursuing market-based reforms and will, consequently, encourage investments.

B. On OFWs' Remittances

The FCDU tax is not expected to have a significant negative impact on the volume of OFW remittances. Under the new tax laws, overseas Filipino workers (OFWs) are exempt from the payment of income taxes. This arrangement will provide OFWs with additional savings which are expected to more than offset the amount they will have to pay as tax on the interest income from their FCDs. Another reason why the FCDU tax is not expected to significantly decrease the volume of OFW remittances is that the latter are sent basically to support the OFWs' families. The impact of the tax will thus be mainly on the financial channel through which the remittances are sent.

C. On Deposits of Exporters

Exporters use their dollar deposits to facilitate their external transactions and as a basis for contracting foreign currency loans to finance their operations. The imposition of the tax will thus increase their transaction costs. To avoid the tax-induced rise in transaction costs, exporters may opt to maintain their deposits abroad. However, transaction costs are also incurred when deposits are kept abroad and used for dollar loans. The transaction costs on deposits abroad may equal or may even exceed the tax payment incurred if the exporters maintain an FCDU account in the Philippines. This effectively removes any advantage of parking dollar earnings abroad over maintaining FCDs in the country. The impact of the FCDU tax on exporters' FCDs is thus expected to be minimal.

D. On Government Revenues

The FCDU tax is expected to generate additional revenues for the national government amounting to P1.94 billion in 1998. This will help improve the fiscal balance and reduce the pressure on the NG to borrow from or draw down its deposits with the BSP, and will thus, indirectly, effect a reduction in interest rates.

On 22 December 1997, the BSP, through Circular No. 149, introduced the currency risk protection program (CRPP). The CRPP, also known as the NDF facility, is a hedging facility that aims to cover or limit the foreign exchange risk of unhedged foreign exchange liabilities to FCDUs. This facility is offered by the BSP to eligible borrowers through the commercial banks.

Supervision and Regulation of Financial Institutions

Supervision of Banks. During the year, through its Supervision and Examination Sector, the BSP conducted its regular examination of all banking institutions. The annual examination is conducted to evaluate the solvency, liquidity, and profitability of banks, to assess their capability to identify, measure, and manage risks, and to ensure their compliance with banking laws, rules, and regulations.

The BSP's regular examination included on-site and off-site surveillance activities. The latter involved the verification and analysis of periodic reports on financial condition, results of operations, and compliance with banking regulations. Surveillance activities were undertaken by the BSP to monitor any abnormal movements in the financial condition of the banks and put in place the necessary supervisory actions to correct any detected weaknesses. This exercise likewise enabled the BSP to resolve swiftly the liquidity problem experienced by the Monte de Piedad Mortgage and Savings Bank. In addition, the existing requirement that banks submit reports in computer diskettes in a BSP-prescribed format was reinforced in view of the substantial savings in time, personnel, and power consumption on the part of the reporting bank under the new system. The report in diskette medium simplified the reporting system by eliminating the tedious data-encoding processes involved in preparing hard-copy reports.

At the onset of the regional financial crisis, the Department of Commercial Banks II conducted a special examination of non-expanded commercial banks (NEKBs), particularly foreign banks and their foreign exchange companies, to monitor closely the foreign exchange transactions of these NEKBs. From the period 11 July to year-end, 10 NEKB head offices and 5 foreign exchange companies were examined for this purpose.

During the period, the BSP received and processed a total of 132 applications to establish new banking offices, of which 102 applications were for the establishment or operation of a rural bank.

Regulation of Non-Bank Financial Intermediaries (NBFIs). Recognizing the need to further strengthen the financial system against the adverse effects of the region-wide financial turbulence, the BSP pursued with greater vigilance its regulatory responsibility over 10,500 non-bank financial institutions. In compliance with the transitory provision as provided for under Section 130 of R.A. No. 7653 (The New Central Bank Act), the joint BSP-SEC Committee finalized the procedural aspect of the transfer of BSP's responsibilities over the majority of said institutions to the Securities and Exchange Commission (SEC). The five-year turn-over period will expire in July 1998.

Management of International Operations

Foreign Exchange Operations. The BSP intensified the monitoring of foreign exchange operations of the financial system to determine compliance with existing prudential regulations.

During the year, the BSP monitored banks' compliance with foreign exchange regulations on foreign exchange position, financial derivatives, foreign currency cover, liquidity, and net office funds requirements. In particular, the various reports of 16 OBUs (six European, five American, two Indonesian, and one each from Singapore, Canada, and Australia), 51 commercial bank-FCDUs, 39 thrift bank-FCDUs, and 29 regional offices were evaluated. The BSP generated data on trade transactions, BSP-registered portfolio and direct investments, and matters pertaining to fiscal services.

To further facilitate the flow of foreign exchange transactions in the system, the BSP recommended for approval the applications of five foreign banks to establish representative offices in the country and the request of four commercial banks and nine thrift banks for authority to operate FCDUs. Moreover, the applications of seven banks to engage in derivatives trading were recommended for approval.

During the year, the BSP registered a total of US$10.2 billion inward foreign portfolio investments, an increase of US$1.2 billion or 13.0 percent from the previous year's total of US$9.1 billion. About 88.0 percent of these were funded by cash while 12.0 percent were reinvestments and debt-to-equity conversions. The United Kingdom, the US, and HongKong with investments amounting to US$3.2 billion, US$2.7 billion, and US$1.8 billion, respectively, retained their position as the top three country investors. Of total inward foreign portfolio investments, a large portion, or 57.0 percent was channeled to the banking institutions, while the public utilities sector, and investments in commercial papers, government securities, and bank deposits, cornered 17.0 percent each. Investments in commercial papers, government securities, and bank deposits surged by 84.0 percent as foreign investors found them attractive due to the higher yields offered by these instruments over other listed securities.

Meanwhile, the BSP registered a total of US$1.1 billion in inward foreign direct equity investments in 1997, a decrease of 18.0 percent from last year's US$1.3 billion. The three leading country investors were Japan (US$331.0 million), the British Virgin Islands (US$176.0 million), and the US (US$117.0 million). Meanwhile, the primary industry beneficiaries were public utility (US$312.0 million), construction (US$243.0 million), and financial institutions (US$226.0 million). Most of the investments were in the form of cash (93.0 percent) followed by stock dividends (5.0 percent), machinery, equipment, and raw materials (about 1.0 percent).

On the other hand, the BSP-registered outward investments by Philippine residents amounted to US$25.8 million, of which US$15.0 million, or 58.0 percent, were channeled to the United Kingdom for investments in the banking sector.

International Trade Operations. In 1997, the BSP continued to coordinate with other agencies in implementing the country's trade policies and provide linkages and assistance in international trade-related matters.

In line with the liberalization of foreign exchange transactions and the deregulation of exports, the BSP abolished the regulation requiring banks and exporters to submit reports on their foreign exchange and export transactions. BSP's involvement in the processing of non-LC import applications was also eliminated during the year with the issuance of the amended Joint Order No. 1-91 of the Secretary of Finance, the Secretary of the Department of Trade and Industry (DTI), and the Governor of the Bangko Sentral ng Pilipinas, relative to the implementation of the Comprehensive Import Supervision Scheme (CISS). As part of the BSP's assistance in the government's export-promotion activities, and in line with its information dissemination program, the BSP conducted out-of-town seminars on export financing, in close coordination with the Philippine Exporters' Confederation, Inc., the DTI, and the Bankers Association of the Philippines (BAP).

The development of a computerized system for the processing of export advances, FCDU loans, and the 1996 Directory of Philippine Exporters was also initiated during the year.

Meanwhile, based on the reports of AABs, imports financed through letters of credit amounted to US$9.8 billion, reflecting a decrease of 18.0 percent relative to the 1996 level. DA/OA availments, which decreased by 3.0 percent, totaled US$4.6 billion. Imports under payment modes other than L/C and DA/OA arrangements also fell substantially by 76.0 percent from US$1.0 billion to US$0.2 billion.

Export negotiations through AABs and Offshore Banking Units (OBUs) decreased by 13.0 percent to US$4.6 billion from its year-ago level. Export proceeds received also decreased by 10.0 percent to US$4.4 billion. The number of transactions on export negotiations and export proceeds received during the year represented only 88.0 percent and 90.0 percent, respectively, of corresponding transactions in 1996, indicating the growth preference among exporters to negotiate and accept export payments outside the banking system as a result of the liberalization of the export rules of the BSP.

Short-term export financing during the year reached US$9.0 billion, of which US$5.7 billion consisted of FCDU loan availments of exporters involving 30 different commodities and 33,445 transactions. The export group with the largest FCDU loan availments were electronics, garments, and food and beverages in the amounts of US$571.0 million, US$565.0 million, and US$403.0 million, respectively.

Lastly, the BSP's import operations and activities also included the processing and verification of 31,247 DA/OA availments as reported by AABs under FED Form 1, Schedule 13. A total of 185 requests for the evaluation of commodities based on the Philippine Standard Commodity Classification (PSCC) were also processed and acted upon during the year.

Foreign Investments. The regional currency turbulence, the sharp reversal in investors' sentiment and uncertainties in the domestic financial market led to the sharp fall in net foreign investments in 1997. Net foreign investments declined by 78.2 percent or US$2.8 billion to US$766.0 million from US$3.5 billion in 1996, largely due to the reversal in net portfolio investments and to the 17.6 percent decrease in net direct investments of non-residents in the Philippines. In 1997, net portfolio investments turned into a US$406.0 million net withdrawal compared to a US$2.1 billion net placements in the previous year. Similarly, net direct investments fell to US$1.3 billion from US$1.5 billion last year. Surprisingly, the amount of new foreign direct investments were barely unchanged at US$1.1 billion.

On the other hand, resident net investments abroad fell by 22.1 percent to US$81.0 million in 1997 from US$104.0 million in 1996. Similarly, direct investments declined by 25.3 percent to US$136.0 million while portfolio investments showed a 29.5 percent decrease in net withdrawals.

Meanwhile, total BSP-registered inward foreign investments in 1997, in the form of direct equity and portfolio investments, amounted to US$11.3 billion, representing a 9.0 percent increase over the US$10.4 billion foreign investments recorded in 1996. Portfolio investments, which accounted for 90.0 percent of these investments, totaled US$10.3 billion, or 13.0 percent more than the previous year's level while direct equity investments made up the rest of the investments.

The leading country investors were the United Kingdom, the US, and HongKong, which accounted for about three-fourths of total investments. The main recipients were the financial institutions sector, public utility sector, and investments in commercial papers, government securities and bank deposits. The latter showed a significant 84.0 percent increase in investments as foreign investors were attracted by the high yields they bore, compared to returns from listed securities.

On the other hand, BSP-registered inward foreign direct equity investments amounted to US$1.1 billion, a decrease of US$230.0 million or 18.0 percent from the 1996 level of US$1.3 billion. The leading investors were Japan, the British Virgin Islands, and the US while the main beneficiaries were public utility, construction, and financial institutions.

Most of the investments came in cash (93%). A minor portion took the form of stock dividends (5%), while the rest were in kind (less than 1%).

The investment profile showed a significant rise in investments in the communications sub-sector, which accounted for 94.0 percent of the total for the sector. The banking and general engineering sectors also received large infusions.

BSP-registered outward investments by Philippine residents amounted to US$25.8 million, of which US$15.0 million or 58.0 percent went to the United Kingdom for investments in the banking sector.

External Debt. The BSP's external debt management operations continued to focus on ensuring that new foreign borrowings were kept within manageable levels. Policies to further improve the system for monitoring external debt were likewise instituted.

During the year, foreign loans continued to be the major source of financing for priority projects as the domestic capital market remained underdeveloped. Medium- and long-term foreign borrowings approved by the BSP during the year amounted to US$8.2 billion compared to the US$8.0 billion approved in 1996. More than 60.0 percent of total foreign borrowings were private sector loans utilized to finance several big projects finalized during the year. These included the EDSA Metro Light Rail project (US$488.0 million), three independent power projects (US$1.3 billion) and six power projects (US$384.0 million) under the Build-Operate-Transfer (BOT) Program. Moreover, a total of US$1.0 billion worth of projects under the BOT and similar schemes were registered with the BSP. On the other hand, public sector loans approved during the year declined by 58.6 percent to US$2.9 billion. Public sector borrowings included the BSP's US$500.0 million long-dated Yankee bonds, which were intended primarily to boost the country's international reserves and provide a benchmark for pricing long-dated bonds in the international capital markets.

The currency crisis that took place in mid-1997 changed the outlook of the foreign borrowing environment as reflected by the widening spreads on Philippine debt papers. The country's 20-year bonds, which were traded at a spread of 176 basis points over the US Treasury bonds before the onset of the crisis, were trading at a spread of 414 basis points at the end of the year. The trading spread reached its peak at 1,006 basis points in November 1997. Likewise, the crisis made creditors more cautious in lending as they avoided long-term exposures. Consequently, a considerable amount of foreign borrowings in the medium-term category was authorized during the second half of the year. These borrowings consisted predominantly of syndicated loans from banks and other financial institutions. A positive development, however, is that there had been no withdrawal of commitment from foreign creditors in spite of the crisis.

Regulations on foreign borrowings were maintained during the year in view of constraints in the domestic capital market. Offshore borrowings for real estate were specifically limited to projects that were foreign exchange-generating or tourism-oriented, or those involving socialized housing, and to the establishment of industrial parks or economic zones. The BSP likewise allowed euro-peso issues in international capital markets. This effort prompted three supra-nationals to issue euro-peso notes amounting to P9.6 billion.

BSP Operations as Fiscal Agent of the Government

In 1997, the BSP continued to service outstanding and matured but unredeemed government securities and perform activities related to the issuance of Special BSP Series Treasury bills while pursuing further the turnover of its fiscal agency functions to the Department of Finance/Bureau of the Treasury (DOF/BTr) as mandated by the New Central Bank Act.

As of 31 December 1997, total outstanding government securities reached P711.6 billion, up by P0.4 billion or about 0.1 percent from the previous year's level of P711.2 billion. The composite weighted average yield rate of 14.7 percent was higher by 166.3 basis points from that of the preceding year. The aggregate balance consisted of issues of the National Government, (P705.6 billion); GOCCs (P6.0 billion); and the BSP (P28.3 million).

With the transfer to the DOF/BTr as of 10 October 1997 of all outstanding government securities aggregating P130.9 billion lodged under the BSP-administered Book Entry System, the outstanding government securities which remained under the administration of the BSP by end-1997 amounted to P19.7 billion.

Following the government's thrust for the longer-term transformation of domestic debt, 10 and-20 year Fixed Rated Treasury Notes/Bonds (FXTNs/FXTBs) amounting to P10.3 billion and P2.0 billion, respectively, were issued by the DOF/BTr during the year. Meanwhile, the two-, five- and seven- year FXTNs/FXTBs issued amounted to P31.2 billion, P7.5 billion, and P5.3 billion, respectively.

By end-1997, about 90.0 percent of the fiscal agency functions of the BSP had been effectively transferred to the DOF/BTr. BSP's remaining responsibilities as of yearend included: (1) servicing of outstanding and matured but unredeemed government securities; (2) backroom activities related to the issuance of Special BSP Series Treasury bills; (3) management of the BSP's Reserve for Currency Insurance Fund, pending its transfer to the BSP Provident Fund Office; (4) retirement/destruction by incineration of redeemed/paid securities/interest coupons; and (5) wind-up activities including inventory and disposal of records and property as well as personnel disposition.

Other Activities

Notes and Security Printing. In 1997, The Banknotes and Securities Printing Department (BSPD) produced 619.8 million pieces of notes, an increase of 4.2 percent from the previous year's production of 594.9 million pieces despite several operational constraints.

Actual deliveries to the Cash Department totaled 677.4 million pieces, higher than the year-ago level by 30.7 percent but lower than the ordered volume of about 1.1 billion pieces. The BSPD's capacity to cope with the order was hindered by the late approval of the proposed two-shift work schedule and the hiring of casuals.

Securities production of checks and non-check documents summed up to 122.3 million pieces, down by 5.1 percent from the previous year's figure. The non-check documents included certain BSP documents, Land Registration Authority papers, and Land Management Bureau Judicial Title forms. Orders for regular checks, special checks, and non-check documents decreased by 17.9 percent, 31.4 percent, and 13.5 percent, respectively. The decrease in orders was attributed to the splitting of orders by some banks between the BSPD and private printers and the transfer of orders to other accredited printers.

During the year, the BSPD also delivered 6.6 million pieces of documentary stamps ordered by the Bureau of Internal Revenue (BIR). Moreover, a total of 1,223,290 booklets of passports were produced together with 162,000 booklets of Seafarer's Identification Record Book (SIRB).

Gold Refinery. In 1997, gold purchased by the Bangko Sentral ng Pilipinas (BSP) from gold panners and traders totaled 471.9 thousand troy ounces, worth P4.5 billion. The quantity purchased was 9.0 percent lower than the previous year's 519.9 thousand troy ounces of gold purchases.

Meanwhile, refined gold production in 1997 consisted of 1,110 "good delivery" gold bars with a minimum assay of 99.5 percent and containing 446.8 thousand troy ounces of fine gold. The production of refined gold exceeded the annual target of 405.0 thousand troy ounces by 10.3 percent.

Refined gold released to the BSP Treasury Department for delivery to foreign counterparts totaled 1,043 "good delivery" gold bars with a weight of 421.0 thousand troy ounces. In addition, 41.2 thousand grams of gold grain/sheets were sold to local jewelers.

The Mint, operating on a single shift with 50 hours per month overtime, produced a total of 785.5 million pieces of circulation coins of the new series representing 352.5 percent of the Cash Department's 1997 coin order. The shipment of coin blanks from foreign sources started to arrive at the Mint in March 1997. Despite the delay, coin production increased significantly with the operation of a High Speed Grabener Coin Press Model MPU 106 unit. The 1-Piso coin constituted 77.5 percent of total output.

The shipment of coins of the 5-Piso, 25-sentimo and 10-sentimo denomination ordered from foreign mints delivered to the Cash Department through MROD totaled 1.6 billion pieces.

Currency Issuance. New currency banknotes amounting to P72.3 billion were issued in 1997, an increase of P12.6 billion, or 21.1 percent, from last year's P59.8 billion. Notes in the two highest denominations, that is, P1,000 and P500, comprised 67.7 percent of total banknotes issued. Coins issued during the year amounted to P1.870 billion consisting of P1.869 billion worth of BSP coins and P0.76 million worth of commemorative coins. The coin issuance in 1997 was higher by about P1.1 billion, or 150.3 percent, relative to the P747.0 million issued in 1996.

As of end-1997, stock-on-hand of new BSP banknotes was down to nil for all denominations except for the 5-piso notes. The stock was depleted due to the confluence of several factors, namely: the increased demand of banks during the Christmas season, the increased cash withdrawals from some banks due to rumored fragilities in the banking system, and an estimated 50.0 percent shortfall in the production and delivery of new banknotes by the BSPD. The Cash Department of the BSP experienced a serious problem in the supply of new banknotes due to factors beyond its control despite advanced forecasting of currency requirement. As a result, 2.7 percent of the cash withdrawals were sourced from the BSP's own holdings of "unfit"/canceled notes.

On the other hand, currency coins in stock as of end-1997 totaled 884.3 million pieces, with new BSP coins accounting for 99.8 percent of the total inventory.

The BSP launched a campaign to demonetize some P3.9 billion worth of coins two years ago with the deadline set last 2 January 1998. The campaign was aimed at phasing out 12 types of coins under the old Central Bank's "flora and fauna" series. The BSP replaced them with six new coins carrying the BSP's logo on the reverse side to minimize confusion. The new coin series has only P5, P1, 25-centavo, 10-centavo, 5-centavo, and 1-centavo denominations. As of 31 December 1997, the BSP has retrieved from the banks and the public a total of P1.6 billion or 1.5 billion pieces of the old coins for demonetization.

Clearing Operations. In 1997, a total of 52.2 million checks worth P1.9 trillion were cleared through the BSP's clearing facilities. The number of checks cleared was 12.3 percent higher than the 46.5 million checks, amounting to P1.6 trillion, that were cleared in 1996. The bulk, or 86.0 percent, of these checks was processed in the regional clearing units.

During the year, an additional regional clearing unit was established in Puerto Princesa, Palawan, increasing the total number of BSP clearing centers to 27. The Puerto Pincesa unit started operations in April 1997, using the new regional electronic checks clearing system of the BSP.

Clearing fees collected in 1997 amounted to P92.0 million, an increase of 15.0 percent from the P80.0 million collected in 1996. This was due partly to the increase in the number of participants in the clearing operations from 77 in 1996 to 93 in 1997, and partly to the continued expansion in the volume of financial transactions in the system. In July 1997, the Monetary Board retained the present levels of billing rates, and these shall be maintained until 1999 when they will be subjected to the next periodic review.

Loans and Credit Operations. Total loans and advances granted by the BSP to financial institutions in 1997 amounted to P15.2 billion, up by 72.7 percent or P6.4 billion from the P8.8 billion granted in 1996.

Commercial banks continued to receive the largest share of the loans released, at 60.0 percent or P9.1 billion. Most of the rediscounts granted during the period were channeled to emergency and liquidity loans (34.0 percent), export financing (30.0 percent), and agricultural loans (21.0 percent). There were no loans extended to the National Government.

Two hundred sixty-two small and medium-sized exporter-borrowers (SMEs) as against 41 large-enterprise borrowers, benefited from the rediscounting facility. This reflected the priority given by the BSP to small borrowers in the grant of credit. However, large exporters absorbed 70.0 percent or P3.2 billion of the total amount of loans rediscounted while SMEs accounted for the remainder or P1.4 billion.

Meanwhile, P9.2 billion (US$318.0 million) in loans were granted to 20 commercial banks under the Exporters' Dollar Facility (EDF). This was P2.0 billion or 28.0 percent higher than the P7.2 billion posted in 1996.

Loan collections for 1997 expanded to P27.4 billion, an increase of 78.0 percent from the 1996 level of P15.4 billion, following the P12.1 billion rise in peso collections from the EDF loans as a result of exchange rate movements during the second half of the year.

Total rediscounting arrearages during the year amounted to P1.574 billion, representing a 2.2 percent or P35.0 million decline from the P1.609 billion registered in 1996. This reflected the significant reductions in the past-due loans of commercial banks and thrift banks.

Total gross earnings realized from the BSP's lending operations reached P1.2 billion, up by P67.0 million from the P1.1 billion recorded in the preceding year. Of the total income earned, P697.6 million were generated from regular rediscounting operations while P481.3 million were derived from the EDF, Agricultural Loan Fund, and APEX programs.

Regional Operations. In 1997, the BSP—through its three regional offices (Cebu, Davao, and La Union), 15 regional units, and 27 regional clearing units—continued to extend important services aimed at supporting the expanding financial transactions in the regions.

Cash and Banking Operations. Total cash receipts amounted to P108.9 billion, 16.6 percent higher than the 1996 level of P93.4 billion. Cash disbursements also posted a growth of 19.8 percent from last year's total of P97.5 billion to P116.8 billion. Cash deposits of some 900 bank branches grew by 9.3 percent from P77.7 billion in 1996 to P85.0 billion. Likewise, cash withdrawals by banks amounted to P60.9 billion, increasing by 10.2 percent from the previous year's level of P55.3 billion.

Currency Retirement. A total of 392,113 bundles of mutilated and perforated notes amounting to P32.1 billion were retired in the various regions, a significant 39.5 percent increase from the previous year's P23.0 billion of 391,340 bundles.

Loans and Rediscounting Operations. The BSP regional offices in Cebu, Davao, and La Union and the Department of Loans and Credit extension unit in Bacolod City granted P1.1 billion in rediscount loans, a 15.0 percent drop from the 1996 level of P1.3 billion. Of the total loans granted in 1997, 76.3 percent was channeled to rural banks, 12.6 percent to commercial banks, 10.6 percent to thrift banks, and the remaining 0.4 percent to specialized government banks. Loan repayments aggregating P1.1 billion declined slightly by 9.2 percent compared to the 1996 figure of P1.2 billion.

Domestic Treasury Operations. Sale of Treasury bills in the three regional offices amounted to P79.3 million, down by 19.1 percent from the previous year's level of P98.0 million.

Gold Buying Operations. Total gold purchases in the three gold-buying stations in Davao, Baguio, and Zamboanga declined to 335.5 thousand troy ounces valued at P3.1 billion from 419.5 thousand troy ounces valued at P4.1 billion purchased in 1996.

Bank Supervision and Examination. Of some 596 commercial and specialized bank branches assigned to the Department of Commercial Banks II Units in Cebu, Davao, and La Union, 258 branches were examined. This number represented a decrease of 6.5 percent from last year's 276 regular examinations.

Clearing Operations. A total of 47.7 million checks and other documents payable on demand valued at P1.7 billion were presented for clearing in the 27 regional clearing units in 1997. Of the total volume of checks cleared, 53.8 percent were local checks, 38.1 percent were "On-Manila" checks, and 8.1 percent were checks for inter-regional clearing.

Income. BSP branches contributed P74.1 million to the 1997 income of the Bank. Their contribution consisted of interest income from loans granted, building rentals, handling fees on foreign exchange receipts, penalties/ fines collected, and other miscellaneous income receipts. The amount does not include the clearing fees collected by the Accounting Department from participating banks in regional clearing units.

BSP Demonetization Program. In 1997, BSP regional offices and units retrieved from circulation some 511,746 bags of demonetized CB coins worth P858.1 million. The substantial contribution of the regional offices/ units in the Demonetization Program of the Bank was a result of the their active participation in the Bank's information dissemination campaign on said program.

Training Programs/Technical Assistance. During its fourth year of existence, the Bangko Sentral ng Pilipinas (BSP) Institute continued implementing its program on career and employee development by holding seminars and training courses focused on establishing professionalism and excellence at all levels, improving technical and behavioral competence, enhancing managerial skills, increasing computer literacy, and improving the health, well-being and welfare of employees. Seminars and courses were also conducted aimed at updating and orienting the Bank's employees and officers on current issues and developments, namely, on pertinent banking laws and regulations, anchors of monetary policy, international financial crimes and money laundering, the Southeast Asian currency crisis, the global implications of the European Monetary Union (EMU), and the new GSIS Law (R.A. 829). Assistance in mounting special courses was provided and coordinated with other BSP Departments. These included the Civil Service Commission Distance Learning Program, the Department of Economic Research Policy Component of the UNDP-Workshop on Determining Alternative Monetary Policy Targets, Provision of Rural Banks as Participating Financial Institutions, Inflation Management, Family Solidarity, Forecasting and Computer Application, Preparation of Bank Plan and Loan Budget, Audit Entry, and SEACEN Course on Foreign Exchange Policies and Management. For financial institutions under the supervision of the BSP, programs on banking and managerial skills and development courses were also offered. Assistance to other agencies was also provided through lectures/fora on central banking, inflation and peso depreciation and comptrollership. By and large, the Institute conducted a total of 287 in-house training courses, attended by 8,358 participants, of which 6,766 were from the BSP.

The BSP Institute coordinated the participation of BSP personnel in training programs and career development courses conducted locally by other agencies and organizations. This included the Civil Service Distance Learning Program; Course on Electrical Wiring and System Design; Technical Analysis Seminar for Treasury Officers; Management Courses on Professional Security, Property Management and Control, Maintenance and Building Management; as well as courses and seminars aimed at updating professional knowledge on economics, statistics, computer applications, law, business and commerce, medicine, accounting, auditing, civil service, banking, treasury and finance, and public administration.

The BSP Institute extended assistance and facilitated the participation of BSP personnel in training programs and courses conducted by international organizations and institutions abroad. These included SEACEN seminars/workshops on Management Information Services, Bank Supervision and Management; Meeting of Directors of Audit, Examination and Supervision of Financial Institutions; Business Survey Methodologies; Meeting of Directors of Supervision; Special Data Dissemination Standard and General Data Dissemination Standard; and Inflation Measures and Targets: Implications for the Conduct of Monetary Policy. BSP personnel likewise attended courses offered by the International Monetary Fund Institute on Money and Banking Statistics, and External Sector Policies. Courses offered by the Executive Meeting of East Asia & Pacific (EMEAP) Central Banks on Risk Management and Electronic Money as well as the SEANZA Forum of Banking Supervisors and the Bank of Japan Seminar for SEANZA Central Banks were attended by BSP officials. BSP participants were likewise sent to attend seminars and training abroad on treasury operations and portfolio management, payments system, management information services, cash handling, Islamic banking, high-speed coining press, detection of counterfeit U.S. dollar banknotes, and real-time gross settlement.

International Economic Cooperation. In line with its commitment to foster economic cooperation with the country's neighbors and trading partners, the BSP participated actively in the various programmes and projects carried out during the year by international organizations and associations of which it is a member.

Meeting of the ASEAN Coordinating Committee on Services. The BSP participated in the meeting of the ASEAN Coordinating Committee on Services which was held on 4-6 March 1997 in Jakarta, Indonesia. The objective of the meeting was to supervise and administer the negotiation process in services of member-countries. A BSP representative was sent to advise the Philippine delegation on the BSP's policies and regulations on banking and financial services, as well as to ensure that the country's commitments to the ASEAN will be consistent with its commitments to the World Trade Organization (WTO).

4th Meeting of the BIMP-EAGA Working Group on Capital Formation and Financial Services. The Bank participated in the 4th Meeting of the Brunei Darussalam-Indonesia-Malaysia-Philippines East-ASEAN Growth Area (BIMP-EAGA) Working Group on Capital Formation and Financial Services that was held on 24-25 March 1997 in Brunei Darussalam. This is a flagship project of the National Government designed to enhance the economic growth of Mindanao and Palawan through trade, investment, and financial cooperation with its counterpart regions in Brunei, Indonesia, and Malaysia. The purpose of the meeting was to discuss the progress of the establishment of the BIMP-EAGA Growth Fund, which would serve as a catalyst to the growth of the BIMP-EAGA.

10th Meeting of the APEC Trade and Investment Data Working Group. On 28-30 May 1997, the BSP designated a representative to attend the 10th Meeting of the Trade and Investment Data Working Group of the Asia-Pacific Economic Cooperation (APEC) at the APEC Secretariat in Singapore. The Trade and Investment Data Working Group (TIDWG) is one of the original six working groups established by the APEC Senior Officials Meeting (SOM) in March 1990. The TIDWG aims to increase the utilization of data among member-economies and improve regional consultations in data collection methods and practices by setting up comparable or near-comparable databases on trade in goods and services and on investment for APEC member-economies.

Executive Meeting of East Asia and the Pacific Central Banks. The BSP participated in the Executive Meeting of East Asia and the Pacific Central Banks (EMEAP) on "Electronic Money and Its Implications on Central Banking" hosted by the Bank of Japan and held in Tokyo, Japan on 7-8 July 1997. The participants discussed the acceptability of electronic money, its effect on the financial and payments system and on the economy as a whole, and how the central banks should respond to its development. Furthermore, on 20 November 1997, the BSP for the first time hosted the 14th EMEAP Deputies' Meeting in Manila. During the conference, senior officials of the central banks and monetary authorities of the member-countries discussed economic developments and financial issues. In particular, participants exchanged views on reports received from working groups which had been studying issues on supervision, the development of financial markets, and central banking services.

World Trade Organization (WTO) Negotiation. In the area of international trade cooperation, the BSP participated in the negotiations sponsored by the WTO during the extended round of the multilateral negotiations on trade and financial services held in Jakarta, Indonesia on 8-10 July 1997.

Roadshow Presentations on the Philippine Economy. To promote the sustained strength of the country's economic fundamentals in the face of the regional currency turmoil, the BSP held a roadshow presentation in HongKong on 13-15 October 1997. A second promotional roadshow tour was held in Tokyo, Japan on 26-31 October 1997 for the same purpose.

Other International Seminars/Meetings. The BSP participated in the 3rd Meeting of the Working Group on Financial Monetary Development which was held in Beijing, China on 23-24 October 1997.

The Bank participated in the ASEAN Senior Finance Officials Meeting held last 30 November and 1 December 1997 in Kuala Lumpur, Malaysia, which served as a forum for finance ministers to exchange views on the financial crisis in Southeast Asia.

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

As part of its commitment to the SEACEN Centre, the BSP hosted a Course on Foreign Exchange Policies and Management on 8 to 19 December

1997. The course was attended by 26 participants, 7 of which were from the various departments of the BSP.

The BSP continued to participate in bilateral investment negotiations as a member of the Philippine delegation. In 1997, Bilateral Investment Agreements were initialed and signed with the following countries: Switzerland, Germany, Bangladesh, Russia, Denmark, Papua New Guinea, Austria, and Qatar.

New Committees. The BSP reconstituted twenty-three (23) task forces/ committees and created new ones in 1997. The new major committees are as follows:

1. ***Ad hoc Committee (Office Order No. 84, April 30, 1997).*** This Committee was created to take charge of the preparations for the celebration of the 50th Anniversary of central banking in the Philippines which will be on 3 January 1999.

2. ***Ad hoc Facilities Management Team (Office Order No. 146, August 7, 1997).*** This Committee was organized at the Information Technology Department to perform database, network, and systems administration.

3. ***PICC Inventory Task Force (Office Order No. 217-A, December 1, 1997).*** This Committee was created to conduct a physical inventory of the specific assets procured and installed in connection with the rehabilitation of the Philippine International Convention Center (PICC).

4. ***Task Force for the Panned Gold Buying Program (Office Order No. 230, December 29, 1997).*** This Committee was created to review existing policies on the panned gold buying program and recommend to Management appropriate revisions, if any.

Part Three : FINANCIAL CONDITION OF THE BSP

BSP Balance Sheet

In 1997, the BSP's financial condition remained strong as its total resources and net worth grew by 10.8 percent and 22.5 percent, respectively, despite the adverse effects of the regional currency crisis (Table 22).

Significant increments were noted in major balance sheet accounts that have foreign-currency components, particularly international reserves (P39.6 billion), loans and advances (P23.3 billion), other foreign currency deposits (P20.1 billion), deposits of foreign financial institutions (P11.8 billion), and foreign loans payable (P18.8 billion). The other assets account also grew by P18.1 billion due mainly to its gold and non-international reserves components.

However, the two accounts most affected by the depreciation of the peso were the revaluation of international reserves (RIR) account and the other liabilities account. These two accounts absorbed the revaluation and deferred gains resulting from the exchange rate fluctuations. The RIR posted a credit balance of P51.6 billion from a P4.2 billion debit balance at end-December 1996, indicating a total revaluation gain of P55.8 billion. The other liabilities account grew by 316.8 percent or P35.4 billion due mainly to the growth in the deferred income component under which most of the BSP's realized gains from the depreciation of the peso were booked.

At end-December 1997, the BSP's total assets stood at P686.0 billion, the highest level recorded since its inception in July 1993. While the growth in assets was due largely to exchange rate revaluation, the increased utilization by banks of the BSP's Exporters' Dollar Facility (EDF) and the repurchase (RP) facility also contributed to the expansion.

On the liabilities side, currency issue rose by 20.8 percent or P31.3 billion. The upsurge in currency issue can be traced mainly to the P28.2 billion withdrawal by the NG from its deposits with the BSP and the unwinding of P89.2 billion worth of BSP borrowings particularly under the reverse repurchase (RRP) facility. The issuance of the BSP's Yankee bonds in June last year also contributed P19.9 billion to the increase in total liabilities.

The BSP's net worth expanded by P5.8 billion, representing additional interest income from a higher interest-earning asset base such as international reserves, and loans granted and lower interest expense due to a declining interest-paying liability base, such as reduced BSP borrowings under the RRP facility and lower NG and banks' deposit balances.

BSP Income Statement

Preliminary data indicated that, in 1997, the BSP's operations yielded a net income of P8.7 billion, P2.3 billion higher than the income generated in 1996 (Table 23). During the year, revenues totaled P50.8 billion while total expenses amounted to P40.3 billion.

Interest income, which comprised the bulk of the BSP's revenues, turned out P0.4 billion higher largely on account of revalued international reserves and increased loans and advances under the Exporters' Dollar Facility and repurchase facility. Interest income on domestic securities declined as the BSP relied more on the outright sale of its Treasury holdings than on borrowings via its reverse repurchase facility in its open market operations.

Meanwhile, miscellaneous income, including interest on gold and silver deposits, discount on principal collateral and income from the sale of demonetized coins, increased by more than 150.0 percent to reach P10.5 billion.

The P4.6 billion hike in total expenses can be traced to higher operating expenses, including minting costs, which were pushed up by the depreciation of the peso. Interest expense was lower by P1.9 billion as the National Government maintained relatively lower deposit balances with the BSP and as the BSP kept its borrowings under the RRP facility to a minimum.

During the year, the BSP remitted to the NG P9.8 billion in dividends and interest rebates, including P5.0 billion in advance dividends due in 1998.

Part Four : **FEATURE ARTICLES**

Foreign Exchange Developments

Prior to July 1997, generally favorable market conditions made possible a stable peso, which had been trading at an average of P26.15/US$1 since 1994. Large capital inflows during the period enabled the BSP to build up its foreign exchange reserves to above-target levels through higher dollar purchases from the currency market. The BSP's net dollar purchases, in turn, checked the potential appreciation of the peso owing to the strong influx of foreign capital.

Market conditions changed significantly starting 2 July, however, after the de facto devaluation of the baht, which came on the heels of the persistent and determined assault on the Thai currency on account of Thailand's weakening economic fundamentals. Other regional currency markets soon came under heavy speculative selling pressures as they suffered contagion effects. The peso was not spared.

Initially, the BSP viewed the pressures as mainly speculative in nature and, consequently, took steps to moderate the destabilizing influences. It adopted the twin strategy—which had served it well in similar crises in the past—of increasing the supply of foreign exchange to match the higher dollar demand, and raising its overnight borrowing rate in order to increase the cost of borrowed peso funds that could be used for speculation. However, the limitations of this strategy soon became apparent as the selling pressures on the peso intensified. Along with heightened speculative activity, panic had taken hold of the market, as exporters held on to their foreign exchange earnings, while foreign investors in local shares and other portfolio investments reduced the size of their investment and some local firms started to hedge their US dollar-denominated loans.

Cognizant of the more difficult market conditions, and in a bid to conserve its foreign exchange reserves, the BSP allowed the exchange rate to move within a wider range starting 11 July, consistent with its market-oriented exchange rate policy.

The peso slid to P27.67/US$1. Subsequently, the peso traced a gradual decline, breaching the P30/US$1 mark by end-August. Meanwhile, as conditions in the currency market began to show signs of stabilizing, the BSP took steps to reduce interest rates and thus normalize the flow of credit to levels supportive of economic growth.

In the ensuing months, a resilient macroeconomic environment cushioned the plunge of the peso, which had shed 40.2 percent off its pre-crisis exchange value, and was trading at P36.99/US$1 as of 15 December. Its peer currencies traced a steeper fall: the Malaysian ringgit lost 51.1 percent; the Thai baht, about 84.1 percent; and the Indonesian rupiah, 105.5 percent. The South Korean won was not spared from the contagion as it plunged 102.9 percent from its pre-crisis value.

However, some unfortunate events converged in the latter half of December which subjected the peso to a new bout of selling pressures. On the external front, Indonesia and Thailand were reluctant in undertaking the necessary reforms as outlined in their IMF rescue packages, while South Korea delayed securing IMF assistance. These developments were perceived by the market as a sign of bleak prospects for the near future. On the domestic front, the import requirements of oil companies and other domestic corporations raised dollar demand. Dollar supply, on the other hand, remained tight as dollar earners and holders expectedly decided to wait for the best time to unload their dollars in the face of increasing market uncertainty. These forces combined to trigger a further peso plunge. By end-December, the peso was worth P39.98/US$1, about two-thirds its value six months before.

Non-Deliverable Forward Foreign Exchange Facility

Persistent selling pressures on the peso in the second half of 1997 led the BSP to float the peso within a wider range and to implement a package of measures to restore normalcy in the foreign exchange market. One of these measures addressed the strain on the exchange rate arising from the surge in dollar demand coming from borrowers with unhedged foreign exchange obligations. To ease the strain, the BSP introduced on 22 December 1997 the currency risk protection program (CRPP) otherwise known as the non-deliverable forward (NDF) hedging facility.[6]

Objective. The BSP approved the operation of the NDF hedging facility to ensure stability and order in the currency market (Circular 149 dated 22 December 1997). The steep slide in the foreign exchange rate from P35.07/US$1 on 10 December 1997 to P40.02/US$1 on 18 December 1997 triggered panic among borrowers with unhedged foreign exchange obligations, prodding them to compete for the scarce supply of dollars in the spot market to cover their foreign exchange exposure on fears of a further peso depreciation. The introduction of the facility aimed to alleviate the stress on the spot market due to demand pressure from these unhedged borrowers. By offering the CRPP, the BSP also helped limit the price risk of eligible obligors with existing unhedged foreign exchange liabilities.

Mechanics. Under the BSP-NDF hedging scheme, a borrower, through a commercial bank, purchases a forward contract from the BSP based on the NDF rate quotes set by the BSP Treasury Department from 1:00-2:30 P.M. daily on trading days. Quotes are based on the morning's weighted average of spot transactions in the Philippine Dealing System (PDS) on deal date. Completed NDF transactions between the BSP Treasury and banks are then forwarded to the BSP-Foreign Exchange Department (FED) for approval. Approval will depend on the review of documents supporting the NDF transactions submitted to said Department.

Tenor and Pricing. The BSP will quote forward rates for 30, 90, 120, and 360 days. As the need arises, quotes for other tenors can be given. Pricing of NDFs will be based on a formula to be determined by the BSP (refer to definition of terms below for formula). A day before the maturity date of the contract, a fixing rate will

[6] An NDF is an arrangement that involves an exchange of one currency for another on an agreed forward maturity date where the counterparties agree to settle their notional (principal amount) obligations on a net basis.

be agreed upon by the commercial bank and the BSP. Upon maturity of the contract, the net difference between the NDF rate and the fixing rate will be applied against the notional amount to compute the net peso settlement.

Coverage. Qualified for the BSP-CRPP are foreign exchange obligations registered in the "Inventory of Foreign Currency Loans Eligible for the NDF Facility". These obligations consist of FCDU loans, foreign currency trust receipts, and customer liabilities under acceptances booked in the Philippines. Moreover, these obligations must be unhedged (that is, without any outstanding hedge through forward contracts, options or matched foreign currency deposits securing the said obligation), booked as of 19 December 1997, and outstanding as of date of application for the NDF facility.

The BSP is considering the possibility of expanding the coverage of borrowers eligible for the NDF facility to include oil companies and exporters. The coverage for oil companies, however, would apply only to loans and advances arising from their non-crude oil and non-refined product importations or for short-term working capital requirements. Exporters, on the other hand, would be required to sell foreign exchange for pesos equal to the amount applied for under the facility.

Advantages of the Facility. The NDF facility is expected to:

1. *Ease the pressure on the spot market.* The availability of the BSP-NDF facility will help abate the demand for dollars in the spot market as borrowers seek the foreign exchange risk protection of the facility instead of competing for dollars in the spot market to cover their unhedged foreign exchange exposure.
2. *Conserve international reserves.* Availment of the CRPP will not deplete reserves because settlement on maturity date will involve payment only of the net difference between the contract and the market price.
3. *Reduce the pressure on interest rates.* As the demand pressure on the peso eases, a reduction in interest rates may be expected. The BSP is aware that high interest rates will strain the real sector and may jeopardize the attainment of sustained economic growth.
4. *Contain the growth of monetary aggregates.* In the event of a peso depreciation, the peso payment by the BSP will be limited to the net differential instead of the

full notional amount. This would result in fewer pesos being infused into the system. Monetary aggregates will increase only by the amount of the net difference between the contract and the market price instead of the full settlement amount which, under a regular forward, would include the payment of the principal or the notional amount.

Example of an NDF Transaction:

Notional amount	- US$1.0 million
Spot rate at deal date	- P37/US$1
Peso interest rate at deal date	- 17.0 percent (91-day Treasury bill rate)
US dollar interest rate at deal date	- 5.0 percent (LIBOR 90)
Tenor	- 90 days

NDF rate = 38.096 (applying the NDF rate formula, as stated below)

Settlement Amount = (NDF rate - fixing rate) x notional amount

In case of a depreciation, where fixing rate is P40/US$1:

= (38.096-40.0) x 1.0 million
= -1.904 x 1.0 million
= P1.904 million will be paid by the BSP to the borrower through the commercial bank

In case of an appreciation, where fixing rate is P36/US$1:

= (38.096-36) x 1.0 million
= 2.096 x 1.0 million
= P2.906 million will be paid by the borrower to the BSP through the commercial bank

Definition of Terms:

NDF rate formula:

$$\frac{\text{spot rate x [1 + (peso interest rate x tenor / 360)}}{\text{1 + (US dollar interest rate x tenor / 360)}}$$

Spot rate: Philippine Dealing System (PDS) A.M. weighted average peso-dollar rate on deal date or, if unavailable, the PDS P.M. weighted average peso dollar rate of the previous day

Peso interest rate: rate to be quoted by the BSP, for instance, 91-day T-bill rate

US dollar interest rate: London Interbank Offered Rate (LIBOR) as of deal date

Settlement amount: (NDF rate - fixing rate) x notional or principal amount

Fixing rate: on the Rate Fixing Date (day for settlement), the rate determined by the bank and the BSP using the A.M. PDS weighted average

Tenor: number of days from the value date to the Forward Settlement Date (should not exceed 12 months)

THE MONDEX PAYMENT SYSTEM[7]

Recent advances in telecommunications and information technology have accelerated the growth of new financial products and services. One such innovation is electronic currency. In the Philippines, three prominent banks, in collaboration with US-based National Westminster Bank and MasterCard International, have applied with the Bangko Sentral ng Pilipinas for authorization to operate the Mondex Payment System. The Mondex system is a smart card scheme that involves the use of plastic cards with reloadable microchips capable of storing monetary value equivalent to the amount of cash or deposits transferred to a subscriber's Mondex account. As a stored-value card, the Mondex card aims to complement the existing card product offerings of banks, which include credit and debit cards. Other banks have likewise started negotiations with service entities in marketing products of similar nature, for instance, smart cards. In the near term, these innovative products are likely to flood the local financial market and give rise to a new dimension in the country's payments system.

Benefits of MONDEX and Other Electronic Currency Products

The Mondex Payment System and other electronic products are perceived to provide a wide array of benefits to consumers and depositors, as well as issuers and retailers. These benefits include the following:

- the transfer of electronic value to and from the subscriber's electronic purse in exchange for traditional funds in his/her bank account;
- the purchase of goods and services using electronic money at retail outlets with the capability to effect electronic transactions;
- the transfer of electronic value directly from a subscriber's purse to other consumers' electronic purses;
- the ability to view the amount of electronic currency in the purse and the recent transfers the purse has made;

---

[7]Based on a collaborative report entitled "The Origination of the Philippine Peso Mondex Value" by the Bank of the Philippine Islands and the Hongkong and Shanghai Banking Corporation Limited (June 1996) and initial studies on electronic money products conducted by the Department of Economic Research (September 1997).

- additional security to depositors via the personal code number attached to the electronic product;
- access to consumers' bank accounts that are linked to the electronic purse;
- lower cash handling and till costs for retailers; and
- reduced transaction cost and float income for issuers.

Policy Implications of the Mondex Payment System

The introduction of the Mondex card bears significant implications on the following areas of monetary policy and management:

- ***On the Demand for Transactions Cash.*** Abstracting from cost considerations, the convenience and security offered by the Mondex card as an alternative transaction payments scheme would reduce the incentive for consumers and depositors to hold cash.

- ***On Domestic Liquidity.*** Use of the product would not affect the level of deposits or currency in the system. This is due to the fact that every transaction merely represents a redistribution of deposits from the subscriber's/user's bank account to another bank account, while the level of total deposits in the system remains unchanged. In view of the Mondex scheme's dampening impact on the demand for cash, however, the currency-to-deposit ratio is expected to decline, thereby raising the money multiplier. At a given level of base money, domestic liquidity could rise.

- ***On the Extent and Efficiency of Financial Intermediation.*** Depending on the degree of public acceptance of the Mondex product, the Mondex value originator could capture a large share of the market for the intermediation of deposits in the banking system. As the market for electronic financial services expands, however, the introduction of alternative forms of electronic money in the market would foster competition and, consequently, induce market players to increase efficiency.

- ***On the Financial System.*** Considering that the functions of the Mondex card would be restricted initially to storing and transferring local currencies, its adoption would not seem to have any significant impact on the overall operational framework of the financial system. However, as its features are expanded to accommodate other foreign currencies, the Mondex card could serve as a means to circumvent existing BSP rules and regulations governing foreign exchange transactions. Safety nets, such as low purse limits, regulations restraining transfer capabilities, and stronger monitoring capabilities, would therefore have to be installed to deter any possible violation of existing rules and regulations and to guarantee reduced risk.

Conclusion

The Mondex Payment System is one of the many innovative financial products introduced by recent advances in technology and by the increased global integration of financial systems. Though regarded as a novelty by many, the Mondex scheme's entry into the local financial scene should not be greeted by regulatory restrictions but should, instead, be appreciated for its contribution in facilitating financial transactions and in enhancing financial intermediation. As such, regulation should be structured not to constrain its growth and development but rather to address policy issues and risk factors accompanying the technology. For instance, regulatory authorities could, in the interest of preserving and protecting the integrity of the financial system and of the general public, set up a regulatory and monitoring framework for such schemes which would include the provision of insurance coverage and other safety nets that would reduce risks. Meanwhile, as an anticipatory move, the BSP can start formulating the guidelines for pilot tests of the Mondex system and other electronic products of similar nature.

TRANSITION TOWARD THE EUROPEAN ECONOMIC AND MONETARY UNION[8]

The advent of the European Economic and Monetary Union (EMU) on 1 January 1999 will constitute a major change in the international monetary system involving, as it will, the replacement of the national currencies of a number of highly developed economies of substantial size by a single common currency—the euro. However, this change will not be a sudden shift from one system to another. By the time the leaders of the 15 member-states of the European Union (EU) decide in May 1998 which countries will participate in the EMU once it becomes operational, they will already be putting some of the final touches to the third and last stage of the EMU, reflecting over forty years of progress in strengthening the economic, monetary, and political ties within Europe.

Design of Transition to the EMU

Beginning with the Treaty of Rome of 1957, which founded the European Economic Community (EEC), until the signing of the Maastricht Treaty in 1992, which formally established the European Union, Europe has been moving slowly toward market integration and a single currency. Furthermore, with Maastricht, the objective, timing, and conditions toward the economic and monetary union of Europe was set.

The Maastricht Treaty laid out a three-stage process leading to the EMU. The first stage, which began in July 1990, saw the remaining restrictions on international capital movements in all EU countries abolished. Stage II, which started in July 1994, is intended to be a period of transition toward Stage III, during which the basic organs and structure of the economic and monetary union would be set up. During this stage, the European Monetary Institute (EMI) will be established, replacing the Committee of Central Bank Governors, to make the necessary preparations for the conduct of a single monetary policy and the creation of a single currency. At the third and final stage of the EMU, the monetary union will become a reality and the participating member-states will irrevocably lock their exchange rates and introduce a common currency to replace national currencies. The European Central Bank (ECB) will be established which, along with the national central banks of member-states, will form the European System of Central Banks (ESCB) whose basic task shall be to formulate and implement the monetary and exchange rate policy of the EMU.

Stage III is scheduled to begin on 1 January 1999.

Changeover to a Single Currency

The Maastricht Treaty, while far-reaching, was notably unclear about one of the more, if not the most, essential step in the European integration process—the changeover to a single currency. To dispel uncertainties surrounding this aspect of the transition, the Madrid European Council of December 1995 came out with a chronological sequence of events for the smooth changeover of all currency users to a single currency, which they decided to call the euro. The scenario highlights three critical benchmark dates, within the time frame provided in Stages II and III of the EMU.

Phase A, as soon as possible in 1998. The European Council will name the first group of countries that are to take part in the EMU, that is, those member-states which meet the economic convergence criteria laid down in the Maastricht Treaty. As soon as this is accomplished, the ECB and the ESCB will be established and will prepare for their operation at the start of Stage III of the EMU. The conditions for conducting monetary policy will be determined and production of euro banknotes and coins will begin. Preparations in the participating countries will be stepped up throughout this phase, particularly in the areas of public administration and banking and finance. In other spheres, however, the economies of the member-states will continue to function as before, using their respective national currencies, which alone will continue to be legal tender at this phase.

Phase B, on 1 January 1999 (starting date of Stage III). The EMU will start to operate, with the rates of conversion between the euro and the currencies of the participating member-states being irrevocably locked or fixed. While national banknotes will continue to have legal force until the introduction of euro banknotes, participating national currencies will no longer be listed independently on the foreign exchange markets vis-à-vis other currencies and their external value will be set exclusively via the euro using the conversion rates. New issues of tradable public debt will be denominated in euros at the beginning of this phase. The ESCB will start conducting its single monetary policy in the euro.

Phase C, by 1 January 2002 at the latest. The ESCB will put euro banknotes in circulation and start exchanging the national banknotes and coins against them. National coins and notes will circulate alongside the euro for a maximum of six months, after which the euro currency alone will be legal tender. The exchange centers will be thoroughly prepared for this phase. In some cases, preparations will have to made much earlier to ensure that software and machinery are properly adapted.

The definitive changeover to the single currency should be completed by 1 July 2002, at the latest, with the final withdrawal of national currencies.

Convergence Criteria for Entry into the Union

To ensure greater stability of the euro and the smooth and effective functioning of the union, the EMU must encompass only countries which are well- managed economically. To this end, member-states should improve the performance of their economies to match those with the best track record. This is the concept of convergence.

In order to assess whether the degree of convergence is sufficient, the Treaty of Maastricht laid out pre-conditions embodying sound economic principles in so far as inflation, interest rates, exchange rate stability, and the government deficit and debt are concerned. Compliance with these convergence criteria will be the Council's basis for determining which country is eligible to join the EMU in 1999.

First, a country's consumer price inflation must not exceed by more than 1 and 1/2 percentage points the average for the three member-states with the lowest inflation rate. *Second,* the interest rates on long-term government securities must not be more than 2 percentage points higher than those in the same three-member states. *Third,* the currency must be held within the narrow band prescribed under the Exchange Rate Mechanism of the European Monetary System (EMS), without a realignment at the initiative of the member-state in question, during the previous two years. *Finally,* a sustainable financial position must be attained. This is defined as a general government deficit no greater than 3.0 percent of GDP and a ratio of public debt to GDP of no more than 60.0 percent. Other indicators of economic performance that should be taken into account include: unit labor cost, current account balance, and the status of market integration.

In the evaluation of progress toward the economic convergence criteria, the Treaty provides several allowances in interpretation. In particular, if the general government deficit and the debt-to-GDP ratio exceeded their respective reference values, the Treaty requires that, at the very least, the fiscal deficit should show substantial and continuous decline toward the reference value or, alternatively, the excess over the reference value is only exceptional and temporary, and that the debt ratio approaches the benchmark at a "satisfactory pace".

By March 1998, the European Commission is expected to come out with a report on which member-states are eligible to participate in the monetary union on the basis of their compliance with the convergence criteria and the compatibility of each member-state's national legislation, including its national central bank, with the provisions of the Maastricht Treaty and the Statute of the ESCB. The definitive decision on the participants for the first wave of the EMU will be made by the Council of the EU during their 2 May 1998 meeting which shall be attended by the heads of state or government of the member-states.

The BSP Website

The BSP Website at **http://www.bsp.gov.ph** is an on-line information service on the Internet through which the public can have access to the BSP's latest banking rules and regulations and its position on key economic and financial issues. Information on the latest official economic, monetary, and financial reports, including press releases, are also available from this website. Selected publications may likewise be accessed on-line. Furthermore, comments, inquiries, and subscription reservations may be requested by writing to the BSP at its e-mail address: **bsp@mnl.sequel.net.**

The BSP Website contains the following sections:

A. About the BSP — an overview of the BSP's mandate, organizational structure, and responsibilities.

B. BSP Bulletin Board

1. Selected Economic and Financial Indicators — a four-page summary of recent data on output, employment, and wages; prices, money, and interest rates; balance of payments, exchange rate, and external debt; and public finance and the stock market.

2. Weekly Key Indicators — a weekly update of selected economic and financial indicators.

3. Report on Financial and Economic Developments (overview) — a quarterly report to the President of the Philippines, the Senate President, and the Speaker of the House of Representatives on developments in the Philippine economy.

4. Selected Glossary of Terms — a compendium of definitions of various economic and financial terms and related concepts.

5. Quick Reference Guide to Various Laws and Regulations Governing Banks — a compilation of excerpts from various BSP issuances relating to the operations of banks in the Philippines.

C. BSP Publications (which can be ordered for subscription)

- Selected Philippine Economic Indicators (monthly, quarterly, annual)
- BSP Annual Report
  - Volume I — Economic and Financial Report
  - Volume II — Statistical Bulletin
  - Volume III — Major Economic Laws and Banking Regulations
- Quarterly Economic and Financial Report
- BSP Review
- Factbook on the Financial System

Information on subscription rates, available back issues, and current issues are given in this section.

D. Other Published Documents- various documents on important issues of the day such as the Thai financial crisis, the Monte de Piedad episode, the Asian currency turmoil, primers on the exchange rate and inflation, selected research papers, press releases, and recent speeches and interviews of the Governor.

E. Contact Points—phone and fax numbers of selected BSP offices and contact persons.

Electronic Database System (EDS)

In order to produce accurate and more timely information on various economic and financial indicators, the Department of Economic Research (DER), with support from the United Nations Development Programme (UNDP) through the Monetary Policy component of the Macroeconomic Reforms and Management Programme (MRMP), designed and developed its Electronic Database System (EDS). The EDS is expected to facilitate the processing, presentation, and analysis of data being monitored and released by the DER.

The sub-project "Design and Development of the DER-Statistical Analysis System (SAS) Database" involved the conversion of Lotus and/or Excel data files being maintained by the DER into an integrated database system. The new system replaced the old scheme of processing data manually, with the computer being used only to enhance formats and presentation.

The EDS. The EDS is user-friendly, works in a network environment, and facilitates report generation and data analysis. It is essentially a web page where any browser that can connect with the server can interact with the system. The DER server with databases and web pages for the database, der.bsp.gov.ph, can be accessed by workstations connected to the BSP Local Area Network (LAN).

The database is maintained using Hypertext Markup Language (HTML) where files can be opened using any type of text editor, thus allowing easy access and modification regardless of operating system. However, only authorized data administrators from the DER are allowed to modify the files and other users are given read-access permission only. Data from the EDS can be accessed for further statistical and econometric analysis using SAS.

Composition of the EDS. The database contains a wide range of time-series data monitored by the DER, which are classified into categories as follows:

- monetary aggregates
- foreign debt
- balance of payments
- real sector

- financial system
- foreign exchange rates
- money and capital markets
- foreign exchange transactions
- interest rates
- other external sector data
- external trade
- price indices
- international reserves
- public finance
- selected indicators of Asian countries

Each of these major categories contain sub-categories, which may be decomposed further. At each level of decomposition, time-series data are available for viewing and analysis. Data sets are stored on a daily, weekly, monthly, quarterly, semestral or annual basis.

Features of the EDS. The following describe the features of the EDS:

Accessing Database Files. The EDS allows the user to access database files in table formats. In selecting tables, users must indicate the variables, period coverage, and frequency of data required. The resulting tables can be downloaded for further reformatting using MS Word or Excel or they can be passed on to SAS for further analysis.

Change in Data Frequency. The EDS permits users to change the mode to some value other than the original frequency in which the data are stored. The user can select from any of the three operations, TOTAL, AVERAGE, and END-OF-PERIOD and can shift from a lower frequency to a higher mode, for instance, from monthly data to quarterly or annual data.

Graphical Capabilities. The system can generate graphical presentations of selected data sets. It can produce line graphs, pie charts, 3-D bars, and stacked bars, enabling users to have a quick graphical interpretation of the table.

Post-Processing of Data. The EDS allows post-processing of data to facilitate analysis. The system can compute percentage changes, percent shares, flows, standard deviations, and three-way running means.

Data Dictionary. A data dictionary is available in the system which provides the definition of concepts and other notes for each variable in the database.

Using the EDS. A simple task of pointing and clicking is needed to use the EDS. From a series of pages, one can select an economic sector and subsequently select a sub-sector of interest. This process continues until a table/data set is shown for final selection. Once a table is selected, the user may proceed to querying, analyzing, and post-processing of the data by choosing the relevant parameters.

REGULATIONS ISSUED IN 1997

FINANCIAL SYSTEM

Circular No. 121, January 13, 1997. Amends Circular No. 111, dated 6 July 1996, allowing rural or cooperative banks to add the phrase "A Rural/Cooperative Bank" under said bank's adopted business name. The size of the letters indicating "A Rural/Cooperative Bank" should at least be 1/2 of the size of the business name. Banks are given a period of six months to comply with this regulation.

Circular No. 122, January 7, 1997. Deletes Section 2148 of the Manual of Regulations for Banks and Other Financial Intermediaries, Book II (Thrift Banks) under the subtitle "Directors, Officers, and Employees". This pertains to the requisite bonds for directors, officers and employees (of a thrift bank) with money accountability. Henceforth, the regulation regarding the bonding of accountable bank officers and employees will be found under the subtitle "Internal Control".

Circular No. 125, April 29, 1997. Suspends the requirement of prior Monetary Board approval for any sale or transfer of ownership or control of more than 20 percent of the voting stock of a thrift bank or any sale or transfer which shall affect the majority ownership of the bank. This Circular is being issued in accordance with the provisions of Republic Act No. 7906, also known as the Thrift Bank Act of 1996, which provides for the moratorium on ownership ceilings for a period of ten years from the effectivity of the Act. The suspension shall last for the duration of the moratorium or until lifted by the Monetary Board.

Circular Letter, May 6, 1997. Directs all commercial banks to reduce the loan value of real estate security from 70 percent to not more than 60 percent of the appraised value and to observe an aggregate limit on real estate loans of 20 percent of total loan portfolio.

Circular No. 128, May 22, 1997. Amends Section 2377 of the Manual of Regulations for Banks and Other Financial Intermediaries - Book II by allowing thrift banks to invest in companies engaged in stock brokerage/securities dealer/broker.

Circular No. 129, May 27, 1997. Amends Books I and II of the Manual of Regulations for Bank and Other Financial Intermediaries by requiring prior Monetary Board approval for the appointment of bank officers, from Senior Vice-President and up, before said officers assume their respective positions. Those already holding such positions as of the effectivity of this Circular are required to resubmit their bio-data to the BSP not later than 30 June 1997 for confirmation by the Monetary Board.

Circular Letter, June 5, 1997. Amends Circular Letter dated 6 May 1997 by providing the following exemptions:

1. From the required reduction in the maximum loan value to not more than 60 percent, the following loans are exempted:

a. any loan not exceeding ₱3.5 million to finance the acquisition or improvement of residential units; and,

b. housing loans extended or guaranteed under the government's National Shelter Program (NSP).

2. From the required 20 percent aggregate loan limit, the loans described above and those loans considered non-risk assets under Section 22 of the General Banking Act and existing regulations are exempted. Provided that the total of these, including the housing loans, shall not exceed 30 percent.

Circular No. 130, June 6, 1997. Sets the basic duties and responsibilities of the board of directors of banks and quasi-banks. Any director of a bank or quasi-bank who fails to observe and/or perform any of these duties shall be imposed a fine of not more than ₱30,000 a day, without prejudice to other sanctions prescribed under Section 37 of R.A. No. 7653.

Circular No. 132, June 20, 1997. Amends item C.3e of Circular No. 1369 dated 26 November 1992, allowing a thrift bank operating normally, has complied with the minimum capital required of commercial banks and is direct participant in clearing with the BSP/Philippine Clearing House, to be designated and act as clearing banks for rural/cooperative banks.

Circular No. 143, October 1, 1997. Amends the provisions of the Manual of Regulations for Banks and Other Financial Intermediaries (Books I to IV) as follows:

1. The guidelines in determining past due loans were amended to reduce the number of installments in arrears from six and two to three and one in cases of loans payable in monthly and quarterly installments, respectively.

2. A general loan-loss provision over and above the provision for probable losses linked to individually identified bad accounts has been set up. On top of the existing provisioning requirements, banks are now required to put up two percent of the gross loan portfolio, less loans which are considered non-risk under existing laws/rules/regulations, as allowance for probable losses.

Circular No. 145, October 2, 1997. Requires all banks to develop and implement a compliance system and to appoint/designate a compliance officer to oversee its implementation.

Circular No. 146, October 16, 1997. Amends Books I, II and IV of the Manual of Regulations approving the basis in computing the annual fees to be collected from banks and quasi-banks for the assessable year 1997 and succeeding years.

Circular No. 148, November 10, 1997. Amends the provisions of the Manual of Regulations for Banks and Other Financial Intermediaries regarding allowance for probable losses. On top of the existing provisioning requirements, banks shall set up equivalent to two percent of gross loan portfolio, less interbank loans and loans which are considered non-risk under existing laws/rules/regulations. The BSP extended the period of full compliance to the provisioning requirement to within three years from the date of the circular.

FOREIGN EXCHANGE OPERATIONS

Circular No. 123, February 6, 1997. Provides guidelines governing the issuance of peso-denominated instruments in the international capital markets (offshore) as follows:

1) Prior BSP approval is required for all issuances which involve:

a. the inward remittance of foreign exchange (FX) and its sale thereof for pesos in the local banking system; and,

b. a resident enterprise, or any of its offshore offices, which participates as an issuer, guarantor or beneficiary and where proceeds shall be on-lent to or invested in resident companies.

2) Applications for approval shall be filed with the Management of External Debt Department (MEDD) of the BSP by prospective issuers or their underwriters. If the issuer is a resident enterprise, existing rules on foreign borrowings are to be complied with.

3) Approval shall be subject to the following conditions:

a. that the transaction shall not involve the importation of exportation of the peso; and,

b. compliance with existing rules/regulations of the BSP and other regulatory agencies/entities.

Circular No. 124, March 15, 1997. Am.2(a) and 81 of Circular No. 1389 (Consolidated Foreign Exchange Rules and Regulations), dated 13 April 1993, as follows:

1. Section 24.1, on Loans Not Requiring Prior Bangko Sentral Approval, provides that loans of resident private sector borrowers from FCDUs/offshore sources, irrespective of maturity, to be serviced using foreign exchange purshased from outside

of the banking system may be granted without prior approval of the BSP. Loans of non-residents from FCDUs, irrespective of maturity which shall be serviced using FX purchased from outside the banking system, are likewise exempted, provided that all applicable rules and regulations are complied with.

2. Section 73.2(a), on Eligible Asset Cover for Foreign Currency Liabilities, clarifies that the BSP-authorized foreign currency loans (with maturities beyond one year) which are eligible asset cover include not only those with specific approval by the BSP but also those granted tacit approval through Section 24.1 of the same Circular.

3. Section 81, on Eligibility as Collateral, provides that deposits under the Foreign Currency Deposit System are eligible as collateral for the peso and foreign currency loans of residents and non-residents.

Circular Letter, June 6, 1997. Requires all commercial banks that 30 percent of the 100 percent cover for all foreign exchange liabilities of FCDUs of banks be kept in liquid assets.

Circular No. 131, June 13, 1997. Amends Section 2 of Circular No. 1389 as amended by BSP Circular No. 85 dated 29 August 1995, increasing the ceiling for over-the-counter (OTC) dollar transactions from US$25,000 to US$100,000. For sales of foreign exchange exceeding US$100,000, the AAB shall require a written application and supporting documents from the purchaser of the foreign exchange.

Circular No. 134, July 22, 1997. Provides that bank's long FX position shall not go beyond 10 percent of their unimpaired capital and their short FX position to not more than 20 percent of said capital. These prescribed limits shall be effective for a period of 90 days from date of this Circular.

Circular No. 135, July 22, 1997. Provides that all forward contracts to sell foreign exchange to non-residents (including offshore banking units) with no full delivery of principal, including cancellations, roll-overs/renewals thereof shall be submitted for prior clearance to the BSP.

Circular Letter, July 25, 1997. Amends Monetary Board Resolution No. 657 dated June 4, 1997 so as to give banks whose unencumbered foreign currency cover for liabilities in the foreign currency deposit unit required to be maintained in the form of liquid assets falls below the minimum thirty percent (30%), a period of 6 months (from date of receipt of Circular Letter dated June 6, 1997) within which to comply.

Circular No. 137, July 31, 1997. Provides that bank's long FX position shall not go beyond 5 percent of their unimpaired capital or US$10 million whichever is smaller and their short FX position to not more than 20 percent of said capital. These prescribed limits shall be subject to review after 90 days from the date of this Circular.

Circular No. 138, July 31, 1997. Further amends Section 2 of Circular No. 1389, as amended, by adjusting the maximum amount of dollars that banks can sell over-the-counter (OTC), without need for documents, to US$25,000 from US$100,000. For sales of foreign exchange exceeding US$25,000, the AAB shall require a written notarized application and supporting documents from the purchaser of the foreign exchange.

Circular Letter, September 5, 1997. Requires all banks to submit a report on the daily consolidated foreign exchange position of banks which shall include the foreign currency position against pesos of any of the banks' branches/offices, subsidiaries and affiliates, here and abroad.

Circular Letter, September 11, 1997. Advises all authorized agent banks to require the submission of an applicant's income tax return to support an application to purchase foreign exchange not exceeding US$6 million for outward investment which does not require prior Bangko Sentral ng Pilipinas approval.

Circular No. 142, September 16, 1997. Provides that an investment funded by foreign exchange deposited in an investee's FCDU account for investment purposes pursuant to Section 32 of CB Circular No. 1389 as amended by BSP Circular No. 53 dated November 5, 1994, shall be issued a Bangko Sentral Registration Document (BSRD) evidencing BSP registration only after the amount deposited has been converted into pesos as certified by the AAB maintaining the said FCDU account, in addition to the following supporting documents required under existing rules:

1. Credit advice or bank certification of inward remittance required under Items 1.a.1 and 2.a.2 of Appendix 10 of CB Circular No. 1389, as amended; and

2. Sworn certification of the officer of the investee firm concerned attesting to the number of shares and amount paid for the investment, for direct equity investments; or purchase invoice, or subscription agreement and/or proof of listing in the local stock exchange for new/additional issues/stock rights, for foreign investment in government/listed securities.

Circular Letter, September 17, 1997. Issues the following clarifications to BSP Circular Letter dated 5 September 1997:

1. While it is recognized that the principal reason for being of forex subsidiaries/affiliates of banks is to trade in foreign exchange, they are nevertheless discouraged from taking net foreign exchange positions and whatever net foreign exchange positions are kept or maintained by them, are to be consolidated into the total net foreign exchange position of the respective banks with whom they are affiliated or are subsidiaries of;

2. To be considered in compliance with applicable foreign exchange rules and regulations of the BSP within the contemplation of paragraph 1 of aforesaid Circular-Letter, forex corporations/subsidiaries/affiliates shall not:

a. sell foreign exchange to non-residents;

b. sell foreign exchange to resident financial institutions other than Authorized Agent Banks (AABs) of the BSP and bank-affiliated forex corporations.

Circular Letter, October 9, 1997. Advises all commercial banks to submit to the Foreign Exchange Department a report on all Forward Sales Contracts which were entered into with residents and non-residents beginning January 1997, which were delivered or cancelled after deal data.

Circular Letter, October 24, 1997. Requires banks to include only forward sales contracts which have been delivered or consummated to be deducted from the computation of the daily foreign exchange position of banks.

Circular Letter, October 30, 1997. Provides that the unencumbered foreign currency cover for foreign currency liabilities in the foreign currency deposit units (FCDU) of commercial banks shall be as follows:

1. Minimum of 15% effective December 15, 1997; and

2. Minimum of 30% effective June 15, 1998.

Circular No. 149, December 22, 1997. Provides rules and regulations governing the non-deliverable forward foreign exchange facility (the "NDF Facility") of the Bangko Sentral ng Pilipinas.

Circular Letter, December 24, 1997. Provides that the following FCDU asset accounts shall also be included as among the eligible liquid asset cover:

a. Foreign Currency Notes and Coins on Hand; and

b. Foreign Currency Checks and Other Cash Items.

Circular No. 136, July 31, 1997. Imposes an additional four percentage-point required reserve against deposit liabilities and deposit substitute liabilities of banks and NBQBs which may be maintained in the form of short-term market-yielding government securities purchased directly from the BSP-Treasury Department, pursuant to Circular No. 10, dated 29 December 1993.

Circular No. 139, August 14, 1997. Raises from four percent to five percent the required reserve against deposit liabilities and deposit substitute liabilities of banks and NBQBs.

Circular No. 140, August 27, 1997. Increases further the required reserve against deposit liabilities and deposit substitute liabilities of banks and NBQBs to eight percent from five percent. In the case of rural banks, the additional reserve shall be five percent.

Circular No. 141, September 4, 1997. Reduces the ratio of liquidity reserves for all financial intermediaries as follows:

1. For expanded commercial banks, commercial banks, and nonbank financial intermediaries with quasibanking functions (NBQBFs), from eight percentage points to seven percentage points effective 5 September 1997, and to six percentage points effective 12 September 1997;

2. For thrift banks, from eight percentage points to seven percentage points effective 5 September 1997, to six percentage points effective 12 September 1997, and to five percentage points effective 19 September 1997;

3. For rural banks, from five percentage points to zero effective 5 September 1997.

Circular No. 144, October 1, 1997. Reduces the ratio of liquidity for all financial intermediaries except for rural banks, as follows:

1. For expanded commercial banks, commercial banks, and nonbank financial intermediaries with quasibanking functions (NBQBFs), from six percentage points to five percentage points effective 15 October 1997, and four percentage points effective 15 November 1997;

2. For thrift banks, from five percentage points to four percentage points effective 15 October 1997, and to three percentage points effective 15 November 1997.

TRADE AND NON-TRADE ACTIVITIES

Circular Letter, June 5, 1997. Reminds all authorized agent banks that the Importation of Certain Used Motor Vehicles, Parts and Components requires clearance/permit in the form of a Certificate of Authority to Import (CAI) from the DTI-BIS prior to opening of L/Cs.

SMALL AND MEDIUM-SCALE ENTERPRISES

Circular No. 126, May 9, 1997. Amends Section 2(a) of Circular No. 1288, dated 4 June 1991, as amended, allowing banks to determine their credit allocation to small enterprises after 31 December 1997, as follows: "5 percent by 31 December 1991; 10 percent by 31 December 1992 through 31 December 1995; 5 percent by 31 December 1996 through 31 December 1997. Thereafter, banks shall determine the portion of their loan portfolio to be set aside for credit to small enterprises.

Circular No. 127, May 16, 1997. Amends Sections 8 of Circular No. 1288, as amended, prescribing the imposition of administrative sanctions and penalties for non-compliance with/or non-reporting of mandated credit allocations to small enterprises, without prejudice to the penal sanctions of Republic Act No. 6977, as follows:

1. For non-compliance: suspension of rediscounting privileges and the privilege of establishing branches; imposition of fines ranging from ₱5,000–₱20,000 on the first offense, ₱10,000-₱25,000 on the second offense and ₱15,000-₱30,000 on subsequent offenses. For responsible officers, members of the Board and the bank's President/Chief Executive Officer: a warning on the first offense; a reprimand on the second offense; and, finex not exceeding ₱20,000 each on subsequent offenses.

2. *For non-reporting*: fines not exceeding ₱200 per day of delay for expanded commercial banks and regular commercial banks, ₱100 for thrift banks and ₱30 for rural banks.

3. *For other violations:* the fines stated for non-compliance shall be imposed.

Circular No. 147, October 24, 1997. Promulgates rules and regulations to govern the mandatory allocation of credit resources to small and medium enterprises.

CASH OPERATIONS

Circular-Letter, January 14, 1997. Enjoins all banks and non-bank financial intermediaries with quasi-banking functions to post in conspicuous places in all their branches/offices "Notice to the Public" regarding the demonetization of the old coins issued by the defunct Central Bank of the Philippines.

1 GROSS NATIONAL PRODUCT BY INDUSTRIAL ORIGIN

For the periods indicated
In million pesos, at constant 1985 prices

	1995	1996	1997	Percent Change 1995-96	Percent Change 1996-97
Agriculture, Fishery and Forestry	172844	178143	183146	3.1	2.8
Industrial Sector	284504	302482	319834	6.3	5.7
Mining and Quarrying	10681	10522	10183	-1.5	-3.2
Manufacturing	203271	214613	223118	5.6	4.0
Construction	44492	49339	57378	10.9	16.3
Electricity, Gas and Water	26060	28008	29155	7.5	4.1
Services (Tertiary Sector)	345518	367826	388550	6.5	5.6
Transportation, Communication & Storage	47366	50878	54916	7.4	7.9
Trade	123430	130247	135685	5.5	4.2
Finance & Housing	77617	84089	90593	8.3	7.7
Other Services	97105	102612	107356	5.7	4.6
Private	55461	58231	61207	5.0	5.1
Government	41644	44381	46149	6.6	4.0
Gross Domestic Product	802866	848451	891530	5.7	5.1
Net Factor Income From Abroad	22298	33948	41754	52.2	23.0
Gross National Product	825164	882399	933284	6.9	5.8

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

1a GROSS NATIONAL PRODUCT BY EXPENDITURE SHARES

For the periods indicated
In million pesos, at constant 1985 prices

	1995	1996	1997	Percent Change 1995-96	1996-97
Personal Consumption Expenditures	622985	651790	684254	4.6	5.0
Government Consumption Expenditures	65680	69074	71560	5.2	3.6
Gross Domestic Capital Formation	186151	215265	236831	15.6	10.0
Fixed Capital Formation	184667	206854	232059	12.0	12.2
Construction	78627	91115	105531	15.9	15.8
Durable Equipment	93701	102654	112335	9.6	9.4
Breeding Stock & Orchard Development	12339	13085	14193	6.0	8.5
Increase in Stocks	1484	8411	4772	466.8	-43.3
Exports	344181	414170	451196	20.3	8.9
Less: Imports	28475	518898	564265	21.1	8.7
Statistical Discrepancy	12344	17050	11954	38.1	-29.9
Gross Domestic Product	**802866**	**848451**	**891530**	**5.7**	**5.1**
Net Factor Income From Abroad	22298	33948	41754	52.2	23.0
Gross National Product	**825164**	**882399**	**933284**	**6.9**	**5.8**

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

2 SAVINGS AND INVESTMENTS
For the periods indicated
in billion pesos

	1995	1996	1997	As Percent of GNP 1995	1996	1997
Gross Domestic Savings	**338.9**	**427.7**	**485.8**	**17.3**	**18.7**	**18.9**
Public Savings	60.1	99.6	107.3	3.1	4.4	4.2
Private Savings	278.8	328.1	378.5	14.2	14.4	14.8
Total Investment	**423.6**	**531.3**	**612.6**	**21.6**	**23.3**	**23.9**
Public Investments	86.5	97.7	126.3	4.4	4.3	4.9
Private Investment	337.1	433.6	486.3	17.2	19.0	19.0
Savings-Investment Gap	**(84.7)**	**(103.6)**	**(126.8)**	**(4.3)**	**(4.5)**	**(4.9)**
Public Surplus/Deficit[1]	(26.4)	1.9	(19.0)	(1.3)	0.1	(0.7)
Private Surplus/Deficit	(58.3)	(105.5)	(107.8)	(3.0)	(4.6)	(4.2)
MEMO ITEM:						
Nominal GNP	**1,958.9**	**2,283.0**	**2,565.1**			

Notes:
[1]Includes that of the national government, 14 major non-financial corporations, government financial institutions, local government units, government security systems and the BSP.
Details may not add up due to rounding off.

Source: National Economic Development Board (NEDA)

3 SELECTED LABOR, EMPLOYMENT AND WAGE INDICATORS
1995 - 1997

	1997	1996	1995	Percent Change 1996-97	Percent Change 1995-96
Employment Status					
Labor Force (In Thousands)	**30,354**	**29,733**	**28,380**	2.1	4.8
Employed	27,714	27,187	25,676	1.9	5.9
Unemployed	2,640	2,546	2,704	3.7	-5.8
Employment Rate (%)	91.3	91.4	90.5	-0.1	1.0
Unemployment Rate (%)	8.7	8.6	9.5	1.2	-9.5
Overseas Employment (Deployed)	**746,724**	**660,122**	**654,022**	13.1	0.9
Land-Based	558,255	484,653	488,621	15.2	-0.8
Sea-Based	188,469	175,469	165,401	7.4	6.1
Strikes					
Number of new strikes declared	93	88	94	5.7	-6.4
Number of workers involved (In Thousands)	52	32	54	62.5	-40.7
Legislated Wage Rates[1]					
In Nominal Terms					
Non-Agricultural					
National Capital Region (NCR)	199.07	175.86	157.08	13.20	11.96
Regions Outside NCR (ONCR)	106.17-182.81	98.64-165.03	100.39-149.50	15.44	34.19
Agricultural					
Plantation	106.22-179.02	93.50-165.03	89.31-146.25	1.78	25.62
Non-Plantation	86.32-169.82	78.55-153.65	67.53-134.88	11.19	11.51
In Real Terms (at 1988 prices)					
Non-Agricultural					
National Capital Region (NCR)	75.11	71.67	69.24	4.80	3.51
Regions Outside NCR (ONCR)	41.39-89.41	42.09-76.08	46.21-72.34	41.28	30.08
Agricultural					
Plantation	40.92-82.04	39.50-67.24	41.16-64.47	48.23	19.00
Non-Plantation	35.09-67.75	33.54-62.54	31.09-59.45	12.62	2.22

Note:
[1]Includes basic minimum wage, Cost of Living Allowance (COLA) and daily equivalent of 13th month pay.

Sources: *Bureau of Labor and Employment Statistics (BLES) and Philippine Overseas Employment Administration.*

4 CONSUMER PRICE INDEX IN THE PHILIPPINES, NATIONAL CAPITAL REGION (NCR) AND ALL AREAS OUTSIDE NCR

1996-1997

1988=100

	Philippines			National Capital Region			All Areas Outside NCR		
Commodity Group	1997	1996	Percent Change	1997	1996	Percent Change	1997	1996	Percent Change
All Items	239.2	227.7	5.1	261.9	245.7	6.6	231.8	221.8	4.5
Food,Beverages & Tobacco	221.6	217.4	1.9	212.3	206.1	3.0	224.0	220.3	1.7
Non-Food	263.9	242.1	9.0	308.7	283.1	9.0	244.5	224.3	9.0
Clothing	194.7	187.6	3.8	183.3	178.9	2.5	197.6	189.8	4.1
Housing & Repairs	317.6	289.6	9.7	391.0	361.7	8.1	267.4	240.3	11.3
Fuel,Light & Water	252.0	231.3	8.9	251.9	227.9	10.6	252.0	232.6	8.3
Services	284.5	251.3	13.2	289.2	252.5	14.5	282.5	250.7	12.7
Miscellaneous	188.4	184.7	2.0	184.9	183.3	0.9	189.2	185.1	2.3

Source: National Statistics Office (NSO)

5 SELECTED DOMESTIC INTEREST RATES
For the periods indicated
In percent per annum

	Nominal Interest Rates		Real Iinterest Rates[5]	
	1997	1996	1997	1996
Borrowing Rates of Banks				
Interbank Call Loans	17.934	12.616	12.834	4.216
Savings Deposits*	9.111	7.954	4.011	-0.446
Time Deposits* (All Maturities)	11.188	11.489	6.088	3.089
Manila Reference Rates[1] (All Maturities)	13.125	11.750	8.025	3.350
Lending Rates				
All Maturities* [2]	16.222	14.822	11.122	6.422
Bangko Sentral Rates				
R/P (Overnight)[3]	17.025	14.362	11.925	5.962
R/P (Term)[3]	15.611	N.T.	10.511	-
RR/P (Overnight)[3]	15.037	12.879	9.937	4.479
RR/P (Term)[3]	11.174	12.207	6.074	3.807
Overdrafts[4]	23.461	21.000	18.361	12.600
Rediscounting	11.524	11.395	6.424	2.995
CB/BSP Bills (All Maturities)	10.129	11.319	5.029	2.919
Rate on Government Securities				
Treasury Bills (All Maturities)	13.297	13.014	8.197	4.614
91-Days	13.116	12.393	8.016	3.993
182-Days	13.007	12.908	7.907	4.508
364-Days	13.632	13.409	8.532	5.009

Notes:
*Of sample commercial banks
[1] Refers to the New MRR based on combined transactions on time and promissory notes of sample banks, all maturities
[2] Refers to the weighted average interest rate of sample commercial banks' interest incomes on their outstanding peso-denominated loans

6 CASH OPERATIONS OF THE NATIONAL GOVERNMENT

For the periods indicated
In million pesos

	1997[p]	1996	Percent Change (%)
Revenues	**471,843**	**410,449**	**14.96**
Tax Revenues	412,164	367,894	12.03
Non-tax Revenues	59,679	42,555	40.24
Expenditures	**470,279**	**404,193**	**16.35**
of which:	77,971	76,522	1.89
Interest Payments	3,589	3,176	13.00
Equity and Net Lending			
Surplus/Deficit (-)	**1,564**	**6,256**	**-75.00**
Financing	**-1,564**	**-6,256**	**-75.00**
External Financing	-6,818	-5,908	15.40
Domestic Financing	5,254	-348	-1,609.77

Note:
[p]preliminary

Source:*Bureau of the Treasury's (BTr) Cash Operations Report as of 14 January 1998*

7 PUBLIC INTERNAL DEBT[1]

As of end-periods indicated
In million pesos

	1997p	1996	Percent Change
TOTAL	722,073	721,335	0.1
National Government	713,689	714,150	-0.1
Government Corporations	8,356	6,940	20.4
Guaranteed	5,035	4,785	5.2
Non-Guaranteed	3,321	2,155	54.1
Monetary Institution	28	245	-88.6

Notes:

[1] As compiled 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 corporations issued thru the BSP, security issuances of the Land Bank of the Philippines (LBP) and loans by the BSP to the Philippine Deposit Insurance Corporation (PDIC). Debt of the monetary institution consists of security issuances of the BSP.

7a PUBLIC INTERNAL DEBT CLASSIFIED BY MATURITY

As of end-periods indicated
In million pesos

	1997[p]	1996	Percent Change
T O T A L	722,073	721,335	0.1
Short-term	400,705	440,046	809.7
Medium-Term	158,364	143,135	10.6
Long-term	163,004	138,154	18.0

Note:
[p]preliminary
Sources: BSP, BTr

8 Monetary Developments
1996 - 1997
Level in billion pesos, changes in percent

	1996	1997[p]											
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Reserve Money (RM), 10-day average													
Actual n.sa.	226.3	210.1	209.9	219.7	218.5	221.8	218.9	212.5	215.6	215.6	226.9	233.0	255.4
(12-month % change)	11.5	10.9	10.2	10.8	10.7	11.7	11.5	10.1	10.8	9.7	13.2	12.2	12.9
Base Money (BM), 10-day average													
Actual n.sa.	247.7	229.5	229.5	238.8	237.9	242.9	239.2	241.1	276.3	275.5	275.2	273.7	297.6
(12-month % change)	11.9	10.4	10.2	10.2	9.9	12.0	11.6	14.0	29.5	28.4	25.7	20.9	20.1
MS (current) end period													
Actual n.sa.	881.4	870.8	884.0	901.8	902.5	912.9	923.6	967.1	959.9	987.7	998.8	1022.9	1066.0
(12-month % change)	15.8	14.3	17.2	17.2	17.6	19.3	18.9	24.2	23.6	23.5	23.8	23.9	20.9

Note:
[p]preliminary

9 MONETARY SURVEY[1]

In million pesos

	Levels			Flows	
	DEC 97p	NOV 97	DEC 96	D E C	DEC-DEC
1. NET FOREIGN ASSETS	**-76,844**	**-61,616**	**80,052**	**-15,228**	**-156,896**
A. Net International Reserves	15,202	23,533	133,329	-8,331	-118,127
Bangko Sentral ng Pilipinas	266,699	268,682	263,806	-1,983	2,893
Foreign Assets	350,499	342,172	308,754	8,327	41,745
Foreign Liabilities	-83,800	-73,490	-44,948	-10,310	-38,852
Deposit Money Banks	-251,497	-245,149	-130,477	-6,348	-121,020
Foreign Assets	238,415	201,700	168,831	36,715	69,584
Foreign Liabilities	-489,912	-446,849	-299,308	-43,063	-190,604
B. Medium and Long-Term-Foreign Liab.	-54,792	-49,366	-31,134	-5,426	-23,658
C. Net Non-Monetary Foreign Liab.	-37,254	-35,783	-22,143	-1,471	-15,111
Non-Monetary Foreign Assets	19,167	16,260	10,633	2,907	8,534
Non-Monetary Foreign Liabilities	-56,421	-52,043	-32,776	-4,378	-23,645
2. NET DOMESTIC ASSETS	**1,684,681**	**1,543,436**	**1,196,920**	**141,245**	**487,761**
A. Net Domestic Credits	1,932,053	1,825,945	1,507,732	106,108	424,321
Public Sector	477,346	450,807	377,193	26,539	100,153
National Government	388,801	373,071	322,822	15,730	65,979
Credits	493,795	474,748	455,670	19,047	38,125
Foreign Exchange Receivable	11,596	10,878	10,318	718	1,278
T-IMF Accounts	-16,208	-16,208	-17,437	0	1,229
Deposits	-100,382	-96,347	-125,729	-4,035	25,347
Local Gov't & Others	37,625	36,258	25,136	1,367	12,489
Claims on CB-BOL	50,920	41,478	29,235	9,442	21,685
Private Sector	1,454,707	1,375,138	1,130,539	79,569	324,168
Other Financial Institutions	113,882	85,502	76,338	28,380	37,544
Other	1,340,825	1,289,636	1,054,201	51,189	286,624
B. Net Other Items	-247,372	-282,509	-310,812	35,137	63,440
Revaluation	-41,812	-21,235	4,187	-20,577	-45,999
Capital and Reserves	-367,525	-351,010	-273,243	-16,515	-94,282
Other Assets/Liabilities	161,965	89,736	-41,756	72,229	203,721
3. TOTAL LIQUIDITY	**1,607,837**	**1,481,820**	**1,276,972**	**126,017**	**330,865**
A. M4	**1,499,445**	**1,386,940**	**1,198,968**	**112,505**	**300,477**
M3	**1,066,017**	**1,022,884**	**881,404**	**43,133**	**184,613**
Narrow Money	58,318	236,436	221,957	21,882	36,361
Quasi-Money	795,631	775,707	652,806	19,924	142,825
Deposit Substitutes	12,068	10,741	6,641	1,327	5,427
FCDU Deposits Residents	433,428	364,056	317,564	69,372	115,864
B. Other Liabilities	**108,392**	**94,880**	**78,004**	**13,512**	**30,388**
Bills Payable	105,116	91,749	75,016	13,367	30,100
Marginal Deposits	3,276	3,131	2,988	145	288
Narrow Money	**258,318**	**236,436**	**221,957**	**21,882**	**36,361**
Currency in Circulation	143,643	120,092	122,954	23,551	20,689
Demand Deposits	114,675	116,344	99,003	-1,669	15,672
Quasi-Money	**795,631**	**775,707**	**652,806**	**19,924**	**142,825**
Savings Deposits	751,270	732,234	609,239	19,036	142,031
Time Deposits	44,361	43,473	43,567	888	794

Notes:

[1] Revised to reclassify resident accounts of foreign to domestic

[p] preliminary

10 SOURCES OF RESERVE MONEY MOVEMENTS

In billion pesos

	End-December Levels		Average Levels		Flows^{p}	
	1997^{p}	1996	1997^{p}	1996	End-Dec.	Average
Reserve Money	**266.5**	**243.3**	**224.2**	**202.5**	**23.2**	**21.7**
Net Foreign Assets	**211.9**	**232.7**	**225.2**	**187**	**-20.8**	**38.2**
Net International Reserves	266.7	263.8	266.0	221.6	2.9	44.4
Medium and Long-term Foreign Liabilities	-54.8	-31.1	-40.8	-34.6	-23.7	-6.2
Net Domestic Assets	**54.6**	**10.6**	**-1.0**	**15.5**	**44.0**	**-16.5**
Net Credits to the National Government (NG)	157.4	133.7	103.1	133.4	23.7	-30.3
of which: BSP Holdings of Treasury Bills	129.3	139.8	98.6	138.5	-10.5	-39.9
NG Deposits	-78.3	-106.5	-96.8	-105.1	28.2	8.3
Regular Rediscounting	4.9	4.5	4.6	4.4	0.4	0.2
BSP Debt Instruments	12.8	-91.6	-54.8	-85.2	104.4	30.4
BSP Bills	0.0	-0.2	-0.1	-0.6	0.2	0.5
Reverse Repurchase Agreements	-2.4	-91.4	-57.5	-85.1	89	27.6
Repurchase Agreements	15.2	0.0	2.8	0.5	15.2	2.3
Fixed-term Deposits of GOCCs	-7.8	-7.7	-7.5	-16.7	-0.1	9.2
Other Items	-112.7	-28.3	-46.4	-20.4	-84.4	-26.0

Note:

^{p}preliminary

11 NUMBER OF FINANCIAL INSTITUTIONS
As of periods indicated

Institutions	1997	1996	Percent Change
TOTAL	17,116[p]	15,493	10.5
Commercial Banks[1]	4,120[p]	3,647	13.0
Thrift Banks	1,389[p]	1,171	18.6
Savings and Mortgage Banks	523	426	22.8
Private Development Banks	524	432	21.3
Stock Savings and Loan Associations	342 [p]	313	9.3
Specialized Government Banks[2]	0	0	0.0
Rural Banks	1,692[p]	1,514	11.8
Non-Bank Financial Institutions[3]	9,915[a]	9,161	8.2

Notes:

[1]With Land Bank of the Philippines, Development Bank of the Philippines (as of February 1996) and Al-Amanah Islamic Investment Bank of the Philippines (as of June 1996)
[2]Consolidated with commercial banks
[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 associa tions, private insurance companies, government non-banks and venture capital corporations
[p]preliminary

11a TOTAL RESOURCES OF THE PHILIPPINE FINANCIAL SYSTEM[1]

As of periods indicated
In million pesos

Institutions	1997	1996	Percent Change
TOTAL	**3,326,841.2 p**	**2,635,481.0 p**	**26.23**
Commercial	2,512,975.0	1,876,217.0	33.94
Thrift Banks	208,394.0 p	185,137.6	12.56
Savings Banks	105,805.6	98,945.8	6.93
Private Development Banks	81,173.7	67,168.5	20.85
Stock Savings and Loan Associations	21,414.7 p	19,023.3	12.57
Specialized Government Banks[2]	0.0	241.7	-100.00
Rural Banks	53,756.8 a	48,039.1	11.90
Non-Bank Financial Institutions[3]	551,715.4 b	525,845.6 p	4.92

Notes:

[1]Excluding Bangko Sentral ng Pilipinas.
[2]Consisting of Al-Amanah Islamic Investment Bank of the Philippines (AAIIBP) only starting February1996; and starting 1997, the remaining specialized government bank (AAIIBP) is consolidated with commercial banks.
[3]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).
[p]preliminary
[a]As of June 1997
[b]As of November 1997

12 OUTSTANDING DEPOSITS OF THE BANKING SYSTEM
As of periods indicated
In million pesos

Institutions	1997				1996				Percent Change			
	TOTAL	Demand	Savings	Time	TOTAL	Demand	Savings	Time	TOTAL	Demand	Savings	Time
TOTAL	1,629,457.9[p]	128,369.6	1,006,734.7	494,353.6	1,270,494.0	109,856.8	802,897.4	357,739.8	28.25	16.85	25.39	38.19
Commercial Banks	1,457,911.0	122,958.0	874,136.0	460,817.0	1,119,560.00	105,440.0	687,356.0	326,764.0	30.22	16.61	27.17	41.02
Thrift Banks	136,303.6[p]	4,856.4	114,994.1	16,453.1	120,419.2	4,039.1	100,070.4	16,309.7	13.19	20.23	14.91	0.88
Savings Bank	66,600.3	2,560.2	57,485.6	6,554.5	62,485.2	1,898.3	52,492.3	8,454.6	5.98	34.87	9.51	-22.47
Private Development Banks	54,096.0	2,049.8	45,469.4	6,576.8	44,016.5	1,965.8	37,221.7	4,829.0	22.90	4.27	22.16	36.19
Stock Savings and Loan Associations	15,607.3[p]	246.4	12,039.1	3,321.8	13,557.5	175.0	10,356.4	3,026.1	15.12	40.80	16.25	9.77
Specialized Government Banks[1]	0.0	0.0	0.0	0.0	236.1	19.9	48.9	167.3	-100.00	-100.00	-100.00	-100.00
Rural Banks	35,243.3[a]	555.2	17,604.6	17.083.5	30,278.7	357.8	15,422.1	14,498.8	16.40	55.17	14.15	17.83

Notes:
[1]Specialized government banks consists of Al-Amanah Islamic Investment Bank of the Philippines (AAIIBP) only starting /February 1996; and starting 1997, the remaining specialized government bank (AAIIBP) is consolidated with commercials banks
[p]preliminary
[a]As of June 1997

13 FOREIGN CURRENCY DEPOSIT SYSTEM FINANCIAL HIGHLIGHTS 1996 - 1997

In million U.S. dollars

	December 1997	December 1996	Percent Change
Assets	**22,804**	**19,782**	**15.3**
Due from Central Bank	547	76	619.7
Due from Other Bank	3,171	3,421	-7.3
Due from Head Off/Brs/Ags Abroad	2271	1065	113.2
Interbank Loans Receivable	2,486	1,443	72.3
Loans and Discounts/Res. Loans	10,547	10,811	-2.4
Investments	2,908	1,749	66.3
Export Bills Purchased	73	118	0.0
Real and Other Property Owned or Acquired	7	0	0.0
Other Assets	794	1099	-27.8
Liabilities and Capital Accounts			
Deposit Liabilities	14,537	14,524	0.1
Bills Payable	2,186	2,144	2.0
Due to Head Off/Brs/Ags Abroad	4,585	2,328	97.0
Due to Local Banks	426	232	0.0
Payment Orders Payable	20	26	0.0
Bonds Payable	153	0	0.0
Accrued Taxes & Other Exp. Payable	113	114	0.0
Unearned Income & Other Credits	42	0	0.0
Other Liabilities	523	279	87.5
Total Liabilities	**22,585**	**19,647**	**15.0**
Undivided profits	219	135	62.2
Surplus	0	0	0.0
Total Liabilities & Capital Accts	**22,804**	**19,782**	**15.3**
Undivided profits	219	135	62.2
Surplus	0	0	0.0
Total Liabilities & Capital Accts	**22,804**	**19,782**	**15.3**

14 PHILIPPINE OFFSHORE BANKING SYSTEM FINANCIAL HIGHLIGHTS 1996 - 1997

In million U.S. dollars

	December 1997	December 1996	Percent Change
Assets			
Notes and Coins on Hand	1	1	0.0
Due from Banks	1,484	1,296	14.5
Loans and Discounts to Customers	1148	883	30.0
Bills Discounted/Purchased	2	0	0.0
Investments in Bonds and Other Securities	130	42	209.5
All Other Assets	71	82	-13.4
Total Assets	2836	2304	23.1
Less: Allowance for Probable Losses	7	3	133.3
Total Assets After Allowance for Losses	2829	2301	22.9
Liabilities			
Deposit of Non-residents Other than Banks	43	41	4.9
Due to Banks	2733	2193	24.6
Other Liabilities	53	67	-20.9
Total Liabilities	**2,829**	**2,301**	**22.9**

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

	1997 Volume	1997 WAIR	1996 Volume	1996 WAIR	% Change Volume
TOTAL	**3,322,136**	**14.447**	**4,366,324**	**12.460**	**-23.9**
Interbank Call Loans	1,987,341	16.100	2,761,461	12.746	-28.0
Promissory Notes[1]	79,453	13.556	51,222	11.300	55.1
Repurchase Agreements (Private)[1]	0	0	100	12.500	-100.0
Repurchase Agreements (Government)[1]	1,462	15.625	3,808	14.936	-61.6
Certificate of Assignment (Private)[1]	-	-	-	-	-
Certificate of Participation (Private)[1]	-	-	-	-	-
Commercial Paper (Non-Financial)	384,655	12.665	375,357	12.525	2.5
Commercial Paper (Financial)	-	-	-	-	-
CBCI'S	-	-	-	-	-
Treasury Bills	733,866	11.389	722,906	11.733	1.5
DBP Bonds	-	-	-	-	-
Other Government Securities	135,359	12.331	451,470	11.934	-70.0

Note:
[1]Including those with tax

16 CAPITAL INVESTMENTS OF NEWLY REGISTERED BUSINESS ORGANIZATION BY INDUSTRY[1]

1996-97

In million pesos

	January - October 1997	1996	Percent Change
Total	**49,218.1**	**34,238.4**	**43.8**
Agriculture, Fishery and Forestry	221.6	184.5	20.1
Mining and Quarrying	334.7	369.5	-9.4
Manufacturing	7,033.7	8,088.5	-13.0
Construction	2953.1	1127.0	162.0
Electricity, Gas and Water	324.1	81.4	298.1
Wholesale and Retail Trade	10,408.0	3,652.0	185.0
Financing, Insurance, Real Estate & Business Services	25,677.5	16,740.1	53.4
Transportation, Storage & Communication	1,038.1	956.5	8.5
Community, Social & Personal Service	1,227.4	3,039.0	-59.6

Note:

[1]Capital investment of corporations and partnerships

Source: *Securities and Exchange Commission (SEC)*

17 STOCK MARKET TRANSACTIONS[1]

For the periods indicated
Volume in million shares/value in million pesos
1996-1997

	1997		1996		Percent Change	
	Volume	Value	Volume	Value	Volume	Value
Total	1,923,992	586,173	2,273,835	668,866	-15.4	-12.4
Banking & Financial Services[1]	5,623	96,795	850	96,847	561.5	-0.1
Commercial & Industrial	225,257	310,673	118,624	374,332	89.9	-17.0
Mining	505,887	22,503	228,987	8,098	120.9	177.9
Oil	1,093,292	30,799	1,642,051	32,807	-33.4	-6.1
Property	93,933	125,403	283,323	156,782	-66.8	-20.0
Composite Index (Closing)	1,869.2		3,170.6		-41.0	

Note:
[1]Based on the expanded composition of share price indices to include banks and financial services effective November 15, 1996.

Source: *Philippine Stock Exchange (PSE)*

18 BALANCE OF PAYMENTS
1996 - 1997
In million US dollars

	1997[p]	1996[r]
I. Current Account		
A. Trade	**-5383**	**-4542**
(As percent of GNP)	-6.2	-5.2
Goods	**-11127**	**-11342**
(As percent of GNP)	-12.7	-13.0
Exports	**25228**	**20543**
Imports	**36355** [a]	**31885**[b]
Services	**5744**	**6800**
Receipts	22835	19006
Payments	17091	12206
B. Transfers	**1080**	**589**
Inflow	1670	1185
Outflow	590	596
Current Account	**-4303**	**-3953**
(As percent of GNP)	-4.9	-4.5
II. Capital and Financial Account		
A. Medium and Long-Term Loans	**4688**	**2841**
Availment	7427	6540
Repayment	2739	3699
B. Trading of Bonds in the Secondary Market	**-676**	**-37**
Resale of Bonds	3072	4148
Purchase of Bonds	3748	4185
C. Investments	**766**	**3517**
Non-Resident Investments in the Phil.	847	3621
Resident Investments Abroad	81	104
D. Short-Term Capital	**495**	**540**
E. Change in Commercial Banks' NFA	**1191**	**4211**
Capital and Financial Account, Net	**6464**	**11072**
III. Others	-360	-5
A. Monetization of Gold	105	198
B. Revaluation Adjustments	-465	-203
IV. Net Unclassified Items	-5164	-3007
V. Overall BOP Position	-3363	4107

Notes:
[a]Adjusted NSO data to exclude the $45 million worth of aircraft under operational lease and to include the $737 million worth of aircraft under capital lease
[b]Adjusted NSO data to exclude the $542 million worth of aircraft under operational lease.
[p]preliminary
[r]Revised to reflect data updates

18a EXPORTS BY MAJOR COMMODITY GROUP 1996 - 1997

Volume in 000 metric tons; unit price in US$/mt;
FOB value in million U.S. dollars

	1997[p]			1996			Percent Change
	Volume	Price	Value	Volume	Price	Value	(Value only)
Coconut Products			**835**			**730**	**14.4**
Copra	7	381	3	3	438	1	200.0
Coconut Oil	1109	607	673	793	720	571	17.9
Desiccated Coconut	77	1152	88	70	1220	85	3.5
Copra Meal/Cake	570	92	53	475	119	56	-5.4
Others			18			17	5.9
Sugar and Products			**99**			**140**	**-29.3**
Centrifugal & Refined	198	418	83	318	429	136	-39.0
Molasses	197	76	15	33	99	3	400.0
Others			1			1	0.0
Fruits and Vegetables			**459**			**486**	**-5.6**
Canned Pineapple	185	463	86	203	458	93	-7.5
Pineapple Juice	44	205	9	51	215	11	-18.2
Pineapple Concentrates	37	754	28	38	709	27	3.7
Bananas	1150	188	217	1253	188	237	-8.4
Mangoes	44	910	40	40	988	40	0.0
Others			79			78	1.3
Other Agro-Based Products			**506**			**507**	**-0.2**
Fish, Fresh or Preserved	79	3682	291	61	4821	295	-1.4
	11	12424	140	13	11405	150	-6.7
Coffee, Raw, not Roasted	1	1958	1	—	2634	1	0.0
Abaca Fibers	20	1132	22	17	1217	21	4.8
Tobacco,Unmanufactured	17	1689	30	18	1599	29	3.4
Natural Rubber	32	785	25	34	1007	34	-26.5
Ramie Fibers, Raw or Processed	0	0	0	—	2472	0 [a]	0.0
Seaweeds, Dried	28	1176	33	26	1590	42	-21.4
Rice	0	0	0	0	0	0	0.0
Others			104			85	22.4
Forest Products[1]			**45**			**43**	**4.7**
Logs	5	59	0 [a]	0	0	0	0.0
Lumber	144	178	26	146	171	25	4.0
Plywood	14	363	5	12	362	5	0.0
Veneer Sheets/Corestocks	31	464	14	26	488	13	7.7
Others			0			0	0.0
Mineral Products			**764**			**771**	**-0.9**
Copper Concentrates	117	371	44	159	329	52	-15.4
Copper Metal	96	2405	232	126	2351	297	-21.9
Gold [2]	149	330	49	202	270	55	-10.9
Iron Ore Agglomerates	4718	19	90	4435	16	70	28.6
Chromium Ore	91	69	6	64	131	8	-25.0
Nickel	0	0	0	0	0	0	0.0
Others			343			289	18.7

continuation:

	1997p Volume	Price	Value	1996 Volume	Price	Value	Percent Change (Value only)
Petroleum Products			**257**			**272**	**-5.5**
Manufactures			**21488**			**17095**	**25.7**
Elec & Elec Eqpt/Parts & Telecom			13052			9988	30.7
Garments			2349			2423	-3.1
Textile Yarns/Fabrics			299			252	18.7
Footwear			194			170	14.1
Travel Goods and Handbags			173			121	43.0
Wood Manufactures			134			151	-11.3
Furnitures & Fixtures			322			293	9.9
Chemicals			383			353	8.5
Non-Metallic Mineral Manufactures			105			95	10.5
Machinery & Transport Equipment			2686			1294	107.6
Processed Food and Beverages			346			334	3.6
Iron & Steel			47			80	-41.3
Baby Carr., Toys, Games & Sporting Goods			202			224	-9.8
Basketwork, Wickerwork, & Other Articles of Plaiting Materials			94			101	-6.9
Misc. Manufactured Articles, n.e.s.			209			221	-5.4
Others			893			995	-10.3
Special Transactions			263			117	124.8
Re-exports			512			382	34.0
Total Exports			25228			20543	22.8

Notes:
-Less than one thousand metric tons
[a]Less than one million US$
[1]Volume in 000 cubic meters; unit price in US$/cu.m.
[2]Volume in 000 ounces; unit price in US$/oz
[p]prelimnary
Source: National Statistics Office (NSO)

18b IMPORTS BY MAJOR COMMODITY GROUP 1996 - 1997

Volume in 000 metric tons; unit price in US$/mt; FOB value in million U.S. dollars

	1997p			1996			Percent Change
	Volume	Price	Value	Volume	Price	Value	(Value only)
Capital Goods			**14369**			**10472**	**37.2**
Power Generating & Specialized Machines			3804			3647	4.3
Office & EDP Machines			1418			867	63.6
Telecommunication Eqpt. & Elect. Mach			6437			4211	52.9
Land Transport Eqpt. excl. Passenger Cars & Motorized Cycle			803			822	-2.3
Aircraft, Ships & Boats			1439			459	213.5
Prof. Sci. & Cont. Inst.; Photographic Eqpt. & Optical Goods			468			466	0.4
Raw Materials & Intermediate Goods			**14634**			**14058**	**4.1**
Unprocessed Raw Materials			1645			1720	-4.4
Wheat	2459	172	423	1898	198	375	12.8
Corn	293	184	54	402	214	86	0.0
Unmilled cereals excl. rice & corn			2			2	0.0
Crude materials, inedible			1045			1195	-12.6
Pulp & waste paper			75			87	-13.8
Cotton	67	1588	107	77	1636	126	-15.1
Syn. fibers	70	1563	110	69	1710	118	-6.8
Metalliferous ores			349			384	-9.1
Others			404			480	-15.8
Tobacco, unmanufactured			121			62	95.2
Semi-Processed Raw Materials			12989			12338	5.3
Feeding stuffs for animals	1072	290	311	593	332	197	57.9
Animal & vegetable oils & fats			58			57	1.8
Chemical			2792			2574	8.5
Chemical compounds			685			655	4.6
Medicinal & pharmaceutical chem.			331			318	4.1
Urea	614	145	89	649	165	107	-16.8
Fertilizer excl. urea	753	166	125	607	143	87	43.7
Artificial resins			867			801	8.2
Others			695			606	14.7
Manufactured goods			3983			3948	0.9
Paper & paper products	495	681	337	422	732	309	9.1
Textile yarn, fabrics & made-up articles			919			825	11.4
Non-metallic mineral manufactures			284			276	2.9
Iron & steel	3870	326	1260	3992	360	1436	-12.3
Non-ferrous metals			374			347	7.8
Metal products			511			405	26.2
Others			298			350	-14.9
Embroideries			357			349	2.3
Mat/Acc for the mftr. of elect. eqpt.			5407			5130	5.4
Iron ore, not agglomerated	4102	20	81	4117	20	83	-2.4
Mineral Fuels & Lubricant			**3074**			**3008**	**2.2**
Coal, Coke	4037	27	109	3044	27	81	34.6
Petroleum Crude[1]	126.70	19.40	2458	129.82	18.93	2458	0.0
Others[1]	18.38	27.58	507	16.06	29.20	469	8.1
Consumer Goods			**3091**			**3331**	**-7.2**
Durable			1516			1653	-8.3

continuation:

	1997[p] Volume	Price	Value	1996 Volume	Price	Value	Percent Change (Value only)
Passenger cars & motorized cycle			643			932	-31.0
Home appliances			142			123	15.4
Misc. manufactures			731			598	22.2
Non-Durable			1575			1678	-6.1
Food & live animals chiefly for food			1435			1578	-9.1
Dairy products	244	1658	405	208	1870	389	4.1
Fish & fish preparati	165	425	70	170	406	69	1.4
Rice	717	294	211	862	341	294	0.0
Fruits & vegetables			137			123	11.4
Others			612			703	-12.9
Beverages & tobacco mfture.			75			46	63.0
Articles of apparel, access.			65			54	20.4
Special Transactions			**1187**			**1016**	**16.8**
Articles temporarily imported & exported			869			705	23.3
Others			318			311	2.3
Total Imports			**36355** [a]			**31885** [b]	**14.0**

Notes:

[1]Volume in million barrels; Price in US$/barrel
[p]preliminary
[a]Adjusted NSO data to exclude the US$45 million worth of aircraft under operational lease and to include the US$737 million worth of aircraft under capital lease
[b]Adjusted NSO data to exclude the US$542 million worth of aircraft under operational lease

Source : *National Statistics Office (NSO)*

19 INTERNATIONAL RESERVES OF THE BANGKO SENTRAL NG PILIPINAS

As of dates indicated
In million US dollars

		Total Assets (2+3) (1)	Reserve Position in the Fund (2)	BSP Gross Reserves Total (4 to 7) (3)	Gold (4)	SDRs (5)	Foreign Invest. (6)	Foreign Exchange (7)
1996	Jan	8,246.31	126.66	8,119.65	1,600.92	13.90	6,402.73	102.10
	Feb	8,551.00	128.34	8,422.66	1,598.96	1.39	6,772.07	50.24
	Mar	8,648.27	127.00	8,521.27	1,641.49	0.55	6,765.38	113.85
	Apr	9,170.33	126.60	9,043.73	1,627.60	2.30	7,327.17	86.66
	May	9,689.20	125.99	9,563.21	1,645.43	2.08	7,793.73	121.97
	Jun	10,084.50	125.67	9,958.83	1,641.08	0.48	8,201.45	115.82
	Jul	10,676.12	127.28	10,548.84	1,668.28	12.50	8,739.00	129.06
	Aug	11,679.06	127.10	11,551.96	1,702.08	5.02	9,735.17	109.69
	Sep	11,467.39	125.64	11,341.75	1,690.43	0.78	9,432.09	218.45
	Oct	11,332.58	125.78	11,206.80	1,697.86	12.63	9,420.06	76.25
	Nov	11,435.46	126.14	11,309.32	1,689.07	71.21	9,421.88	127.16
	Dec	11,745.08	125.04	11,620.04	1,715.39	2.40	9,774.78	127.47
1997	Jan	11,224.51	121.45	11,103.06	1,561.48	8.20	9,380.50	152.88
	Feb	11,909.76	120.60	11,789.16	1,606.34	2.70	10,059.13	120.99
	Mar	11,953.44	120.42	11,833.02	1,545.88	2.70	10,136.91	147.53
	Apr	11,679.77	118.80	11,560.97	1,514.53	2.66	9,912.39	131.39
	May	11,543.70	121.14	11,422.56	1,554.77	1.94	9,666.86	198.99
	Jun	11,312.15	121.24	11,190.91	1,531.42	1.96	9,503.13	154.40
	Jul	9,841.82	117.96	9,723.86	1,499.57	1.53	8,064.07	158.69
	Aug	10,421.41	118.44	10,302.97	1,541.11	0.43	8,572.43	189.00
	Sep	10,965.97	119.01	10,846.96	1,545.08	19.80	9,116.65	165.43
	Oct	10,077.76	120.53	9,957.23	1,514.85	3.74	8,330.97	107.67
	Nov	9,873.67	118.79	9,754.88	1,434.10	9.30	8,169.21	142.27
	Dec	8,767.97	118.06	8,649.91	1,472.06	31.18	6,972.43	174.24

Source: Treasury Department, Bangko Sentral ng Pilipinas

20 EXCHANGE RATES OF THE PESO

Period averages

Pesos per unit of foreign currency

	US Dollar	Japanese Yen	Deutsche Mark	Pound Sterling	French Franc	Swiss Franc	Hongkong Dollar	New Taiwan Dollar	South Korean Won	Singapore Dollar
1996 Ave	**26.2157**	**0.2412**	**17.4284**	**40.9377**	**5.1254**	**21.2312**	**3.3897**	**0.9641**	**0.0326**	**18.5983**
Jan	26.2116	0.2484	17.9553	40.1591	5.2426	22.2561	3.3900	0.9662	0.0333	18.4495
Feb	26.1588	0.2475	17.8524	40.2310	5.1917	21.8936	3.3833	0.9610	0.0335	18.5317
Mar	26.1957	0.2475	17.7404	40.0450	5.1811	21.9174	3.3882	0.9655	0.0335	18.5958
Apr	26.1897	0.2439	17.3951	39.7017	5.1247	21.4603	3.3863	0.9726	0.0335	18.5981
May	26.1759	0.2460	17.0671	39.6526	5.0434	20.8530	3.3838	0.9680	0.0335	18.5976
Jun	26.1944	0.2408	17.1527	40.4142	5.0609	20.8409	3.3844	0.9558	0.0328	18.5964
Jul	26.1995	0.2390	17.3419	40.7030	5.1240	21.1099	3.3855	0.9591	0.0322	18.5097
Aug	26.1994	0.2433	17.6709	40.5470	5.1788	21.7519	3.3874	0.9617	0.0320	18.5401
Sep	26.2356	0.2391	17.4418	40.9324	5.1206	21.3288	3.3931	0.9667	0.0319	18.6361
Oct	26.2693	0.2339	17.1918	41.5915	5.0839	20.8866	3.3978	0.9639	0.0317	18.6083
Nov	26.2658	0.2338	17.3852	43.5942	5.1400	20.6262	3.3973	0.9640	0.0318	18.7340
Dec	26.2925	0.2312	16.9461	43.6807	5.0135	19.8497	3.3995	0.9649	0.0314	18.7823
1997Ave	**29.4707**	**0.2434**	**16.9934**	**48.3390**	**5.0495**	**20.3514**	**3.8068**	**1.0263**	**0.0314**	**19.7974**
Jan	26.3173	0.2237	16.4433	43.8003	4.8725	18.9610	3.4008	0.9614	0.0310	18.7284
Feb	26.3411	0.2142	15.7545	42.8127	4.6667	18.1582	3.4003	0.9576	0.0304	18.5808
Mar	26.3319	0.2150	15.5257	42.3394	4.6025	17.9790	3.4000	0.9571	0.0300	18.3501
Apr	26.3642	0.2102	15.4234	43.0033	4.5780	18.0623	3.4028	0.9558	0.0295	18.2978
May	26.3721	0.2220	15.4804	43.0813	4.5909	18.4357	3.4065	0.9504	0.0296	18.3679
Jun	26.3761	0.2304	15.2855	43.3736	4.5281	18.3171	3.4063	0.9466	0.0297	18.4879
Jul	27.6679	0.2401	15.4592	46.3109	4.5818	18.7052	3.5725	0.9909	0.0310	19.0938
Aug	29.3305	0.2490	15.9371	47.1074	4.7283	19.3912	3.7883	1.0254	0.0328	19.6366
Sep	32.3945	0.2680	18.1174	51.9334	5.3889	22.0111	4.1832	1.1342	0.0357	21.3843
Oct	34.4639	0.2847	19.6166	56.2193	5.8476	23.7336	4.4549	1.1799	0.0374	22.1513
Nov	34.5178	0.2763	19.9529	58.2805	5.9575	24.5816	4.4652	1.1004	0.0339	21.8585
Dec	37.1706	0.2871	20.9252	61.8062	6.2507	25.8809	4.8005	1.1553	0.0260	22.6318

21 TOTAL FOREIGN EXCHANGE LIABILITIES

As of dates indicated
In million US dollar

	September 1997[a][e]				December 1996[a][e]			
	Short-term		Medium & Long-Term	Total	Short-term		Medium & Long-Term	Total
	Trade	Non Trade			Trade	Non-Trade		
Grand Total	4,227	4,334	37,681[b]	46,242	4,096	3,111	34,668[b]	41,875
Public Sector	37	1,211	26,337	27,585	32	1,322	25,031	27,385
Banks	30	1,208	2,803	4,040	12	1,319	1,922	3,252
Bangko Sentral ng Pilipinas		1,204	604	1,808		1,303	112	1,415
Others	30	4	2,199	2,233	12	16	1,810	1,838
Non-Banks	7	3	23,534	23,544	20	3	24,110	24,134
CB-BOL			984	984			1,189	1,189
NG and Others	7	3	22,550	22,560	20	3	22,920	22,943
Private Sector	4,190	3,123	11,344	18,657	4,064	1,789	8,637	14,490
Banks	1,243	3,123	2,672[d]	7,039	1,456	1,789	2,134[d]	5,379
Foreign Bank Branches	20	568	227	815[c]	1	119	227	348[c]
Domestic Banks	1,223	2,555	2,445	6,223[f]	1,455	1,670	1,907	5,031
Non-Banks	2,947		8,672[g]	-11,618	2,609	0	6,503[g]	9,112

Notes:
[a] Covers BSP approved/registered debt owed to non-residents, with classification by borrowers based on primary obligor per covering loan/rescheduling agreement/document
BSP-registered contracts under BOT and similar financing schemes for projects with estimated costs aggregating $7,010 million as of September 1997 and $6,816 million as of December 1996 which do not partake the nature of foreign loan are not part of extenal debt figures.
[b] Includes cummulative foreign exchange revluation on US dollar-denominated multi-currency loans from World Bank and asian Development Bank of $417 million as of December 1996 and $436 million as of September 1997
[c] Excludes "Due to Head Office/Branches Abroad" accounts amounting to $3,899 million as of September 1997 and $2,694 million as of December 1996
[d] Includes accounts restructured under CB Circular 1179 amounting to $176 million as of September 1997 and $183 million as of December 1996
[e] Details may not add up to totals due to rounding.
[f] Includes $4 million liability of private development bank.
[g] Excludes obligations under various capital lease agreements of $777 million as of September 1997 and $396 million as of December 1996.

22 BALANCE SHEET OF THE BANGKO SENTRAL NG PILIPINAS

As of periods indicated
In million pesos

	1997 [p]	1996	Percent Change (%)
Assets	**686,006.4**	**618,909.8**	**10.8**
International Reserves	345,094.8	305,466.9	13.0
Foreign Exchange Receivable	11,596.3	10,317.8	12.4
Domestic Securities	204,679.8	215,623.3	-5.1
Loans and Advances	67,498.8	44,178.2	52.8
Bank Premises and Other Fixed Assets	10,281.2	10,353.5	-0.7
Revaluation of International Reserves	0.0	4,228.2	-100.0
Other Assets	46,855.5	28,741.9	63.0
Liabilities	**654,566.7**	**593,243.1**	**10.3**
Currency Issue	181,637.9	150,328.7	20.8
Deposits	265,619.0	272,155.0	-2.4
Reserve Deposits of Banks & Other FIs	95,586.8	106,691.8	-10.4
of which:			
DMBs	84,822.7	92,929.6	-8.7
Other Deposits of Banks & Other FIs	7,806.9	7,415.1	5.3
Treasurer of the Philippines[1]	78,323.2	106,541.0	-26.5
Other Foreign Currency Deposits	36,584.6	16,454.4	122.3
Foreign Financial Institutions	36,707.1	24,860.7	47.7
Other Deposits[2]	10,610.4	10,192.0	4.1
Foreign Loans Payable	82,422.1	63,575.1	29.6
Bonds Payable	19,911.7	0.0	
Allocation of SDRs	4,407.3	4,407.3	0.0
Revaluation of International Reserves	51,628.7	0.0	
BSP Debt Instruments	2,424.3	91,617.6	-97.4
Other Liabilities	46,515.7	11,159.4	316.8
Net Worth	**31,439.7**	**25,666.7**	**22.5**
Capital	10,000.0	10,000.0	0.0
Surplus/Reserves	21,439.7	15,666.7	36.8

Notes:
[1]Includes foreign currency deposits
[2]Mostly GOCC deposits
[p]preliminary; unaudited

23 INCOME POSITION OF THE BANGKO SENTRAL NG PILIPINAS

For the periods indicated
In billion pesos

	1997 [p]	1996	Percent Change (%)
Revenues	50.76	43.96	15.47
Interest Income	40.24	39.82	1.05
International Reserves	15.39	10.43	47.56
Domestic Securities	21.93	27.15	−19.23
Loans and Advances	2.92	2.24	30.36
Miscellaneous Income	10.50	4.12	154.85
Net Income from Branches	0.02	0.02	0.00
Expenses	40.30	35.71	12.85
Interest Expenses	29.12	31.04	−6.79
Legal Reserve Deposits of Banks	29.12	1.97	. .
National Government Deposits	. .	13.80	. .
BSP Debt Instruments	. .	. .	10.36
Loans Payables and Other Foreign Currency Deposits	. .	. .	. .
Other Liabilities	. .	. .	4.20
Cost of Minting)	. .	1.19	0.71
Other Expenses[1])	11.18	3.48	139.40
Net Income Before Gain/(Loss) on FXR Fluctuations	10.46	8.25	26.79
Gain/Loss(-) on FXR Fluctuations	-1.79	-1.86	-3.76
Net Income/Loss (-)	8.67	6.39	35.68

Notes:

[1]Includes reserve for contingency of P1.7 billion in 1996.
[p]preliminary; unaudited
. .Not available