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Bangko Sentral ng Pilipinas

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Deputy Governor
Resource Management Sector
& concurrent General Counsel

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*Secretary of Trade and Industry, government representative.

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LIST OF ACRONYMS AND ABBREVIATIONS

AABs	Authorized Agent Banks
ABS	Asset-Backed Securities
ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
BAP	Bankers Association of the Philippines
BIR	Bureau of Internal Revenue
BIS	Bank for International Settlements
BM	Base Money
BOC	Bureau of Customs
BoJ	Bank of Japan
BOP	Balance of Payments
BOT	Build-Operate-Transfer
BPA	Bilateral Payment Arrangement
Bps	Basis Points
BSPI	BSP Institute
BSRD	Bangko Sentral Registration Document
BTr	Bureau of the Treasury
CA	Current Account
CARE	Capital and Reserve
CD	Currency to Deposit
CRPP	Currency Risk Protection Program
CSOC	Consolidated Statement of Condition
DA/OA	Document Against Acceptance/Open Account Arrangement
DBP	Development Bank of the Philippines
DBS	Development Bank of Singapore
DMBs	Deposit Money Banks
DOF	Department of Finance
DOSRI	Director, Officer, Stockholder and Related Interest
DST	Documentary Stamp Tax
ECU	European Currency Unit
EDF	Exporters' Dollar Facility
EDP	Electronic Data Processing
EEC	European Economic Community
EKB	Expanded Commercial Bank
EMEAP	Executives' Meeting of East Asia and the Pacific (Central Banks)
EMU	European Economic and Monetary Union
EU	European Union
FCDs	Foreign Currency Deposits
FCDU	Foreign Currency Deposit Unit
FED	Foreign Exchange Department of the BSP

LIST OF STATISTICAL TABLES

Table No.

FPC	First Pacific Corporation
FRCD	Floating Rate Certificates of Deposits
GDP	Gross Domestic Product
GDS	Gross Domestic Savings
GIR	Gross International Reserves
GNP	Gross National Product
GOCC	Government-Owned and/or-Controlled Corporations
HRMS	Human Resource Management System
IBCL	Interbank Call Loan
IDA	International Development Assistance
IBODI	Investments in Bonds and Other Debt Instruments
IBRD	International Bank for Reconstruction and Development
IMA	Investment Management Account
IMF	International Monetary Fund
LBP	Land Bank of the Philippines
LIBID	London Interbank Bid
MARINA	Maritime Industry Authority
MBS	Mortgage-Backed Securities
MICs	Major Industrial Countries
MLT	Medium- and Long -Term
MOA	Memorandum of Agreement
MRR	Manila Reference Rate
NBQB	Non-Bank with Quasi-Banking Function
NCR	National Capital Region
NEKB	Non-Expanded Commercial Bank
NG	National Government
NIA	National Income Accounts
NIR	Net International Reserves
NPC	National Power Corporation
NPL	Non-performing Loans
OFWs	Overseas Filipino Workers
OMO	Open Market Operations
OTC	Over-the-Counter
PAL	Philippine Airlines
PCD	Philippine Central Depository
PCHC	Philippine Clearing House Corporation
PDIC	Philippine Deposit Insurance Corporation
PDS	Philippine Dealing System
PHISIX	Philippine Composite Index
PLDT	Philippine Long Distance Telephone
PSE	Philippine Stock Exchange
PSCC	Philippine Standard Commodity Classification

RBA	Reserve Bank of Australia
REER	Real Effective Exchange Rate
RM	Reserve Money
ROPOA	Real and Other Property Owned and Acquired
RP	Repurchase
RRP	Reverse Repurchase
S & P	Standard & Poor's
SCCP	Securities Clearing Corporation of the Philippines
SEA	South East Asia
SEACEN	Southeast Asian Central Banks
SEANZA	Southeast Asia, New Zealand, and Australia
SEC	Securities and Exchange Commission
SIRB	Seafarer's Identification Record Book
SME	Small- and Medium-sized Exporter-borrower
WAIR	Weighted Average Interest Rates
Y2K	Year 2000

PART ONE: THE PHILIPPINE ECONOMY

Overview

The year following the onset of the regional financial crisis saw the Philippine economy emerge as one of the better performers amidst deep recessions in most of the affected Asian countries. The Philippine economy continued to adjust to the new and difficult environment, and despite periodic episodes of regional instability and quick succession of weather-related shocks, managed to avoid an economic contraction with a low but positive real GNP growth. Inflation climbed but was contained within the single-digit target level. However, with the economic slowdown, unemployment moved up.

On the external front, a more rapid adjustment was observed as the merchandise trade gap significantly narrowed in 1998. The strong performance of exports of goods combined with the slowdown in imports supported a current account surplus and contributed to an overall positive balance of payments position, a complete reversal from the deficit posted in 1997.

As the crisis progressed, concerns were raised about the ability of the Philippine financial system to overcome its negative effects. True, the banking sector suffered some deterioration in the quality of its assets but through the crisis, has remained generally robust as evidenced by manageable levels in key financial ratios. In fact the banking system was able to register an expansion in resources and in branch network.

Output and Employment Slowed Down. Real GNP growth slowed down to 0.1 percent in 1998 from 5.3 percent in the previous year. Growth was fueled by the continued expansion of the services sector (3.5 percent) which offset the drop in output of the agriculture, fishing and forestry sector (6.6 percent) and industry (1.7 percent). By type of expenditure, personal consumption and government consumption expenditures grew by 3.5 percent and 0.8 percent, respectively. However, a dip in the level of gross domestic capital formation by 17.1 percent and in the export of goods and services[1] by 10.4 percent negatively affected output performance in 1998. The economic slowdown contributed to a higher unemployment rate of 10.1 percent compared to 8.7 percent in 1997.

Inflation Kept Single Digit. Inflation accelerated to an average of 9.0 percent (1988=100) due mainly to weather-related supply disturbances and lagged effects of a sharply depreciated peso and high interest rates. However, the inflation rate was below the Government's target of 9.25-9.75 percent.

NG Incurred Shortfall. The cash operations of the national government led to a P50 billion deficit or a turnaround from the P1.6 billion surplus in the previous year. NG expenditures increased due to higher interest payments, higher allotment to local government units and increased miscellaneous disbursements. At the same time, revenues went down relative to 1997 levels on account mainly of lower privatization proceeds, reduction in the collection of fees and charges and lower dividends remitted by government-owned and controlled corporations.

Monetary Conditions Restrained. Open market operations and adjustments in reserve requirements were the main monetary tools used by the BSP to ensure that liquidity was kept consistent with inflation targets and at the same time allowed a reduction in interest rates to promote growth. Domestic liquidity or M3 growth slowed down to 7.4 percent as banks' cautious lending stance and weak demand for funds led to a decline in domestic credit.

Interest Rates on a Downtrend. Reflecting the cautious lending stance adopted by banks, the average bank lending rate increased in 1998. Average government T-bill rates likewise rose, as there was a shift in demand for risk-free financial instruments. However, both rates exhibited a general downtrend during the year. This was attributed partly to the downward adjustments in BSP policy rates, in particular, the BSP overnight borrowing and lending rates.

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[1] Exports and imports of goods and services in the National Income Accounts (NIA) differ from the same account in the Balance of Payments (BOP) in terms of coverage and valuation. Exports and imports of goods under the NIA concept exclude special transactions such as returned goods and temporary exports/imports. Such items are included in the BOP. Meanwhile, exports and imports of services under the NIA concept cover non-factor receipts/payments only. In contrast, the BOP includes both factor and non-factor receipts/payments. Moreover, analysis of performance in the NIA is based on constant prices while the BOP is based on current prices.

Financial System Remained Strong. Despite the economic downturn, the financial system expanded both in terms of resources by 1.5 percent and in terms of operating network by 1,067 offices (net of closures and consolidation). Some 22 bank closures were also reported during the year but altogether, these represented a mere 0.4 percent of total resources. In terms of asset quality, non-performing loans of the whole banking system as a proportion of total loans increased from 5.4 percent a year earlier to 11.0 percent in 1998 although the peak was reached in October 1998 at 12.5 percent. However, banks continued to build up loan-loss provisions to reach 4.0 percent of total loans. Moreover, their capital adequacy continued to improve at 17.65 percent, well above the statutory level of 10 percent and the 8 percent BIS standard.

External Accounts Yielded Surpluses. The country's balance of payments yielded a surplus of US$1.35 billion, a turnaround from the US$3.36 billion deficit in 1997. The strong growth of merchandise exports at 16.9 percent along with a substantial contraction of imports by 18.8 percent resulted in a narrowing of the merchandise trade gap. The small trade gap combined with a surplus in the services account contributed to the current account surplus of about 1.9 percent of GNP.

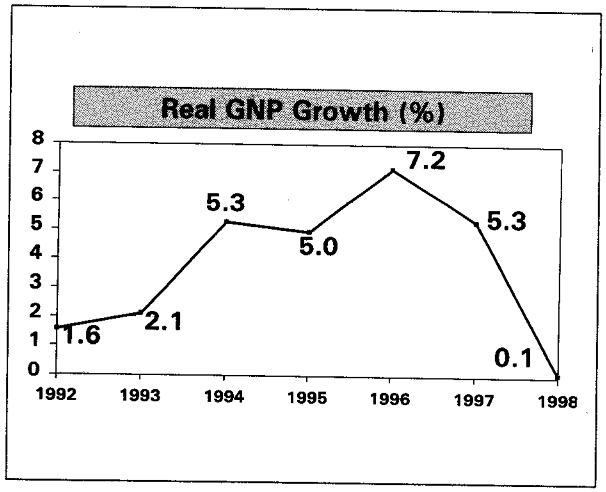
Exchange Rate More Stable. The peso depreciated by 38.8 percent in 1998 to average P40.89/US$1. However, the peso showed relative stability as indicated by the general decline in standard deviation of daily exchange rates from P3.93 in 1997 to P1.96 in 1998.

External Debt Remained Manageable. The economy's outstanding debt rose to US$46.4 billion as of end-September 1998 due mainly to new availments of loans by both private and public sectors. These loan availments were used to fund development projects in communications and transportation, manufacturing, power generation, and energy development as well as for balance of payments financing and reserve build-up by the BSP. Meanwhile, the debt service burden declined, although as a ratio to total exports of goods and services, it rose to 12.8 percent from 11.6 percent in 1997 due mainly to lower receipts from services.

Real Sector

The Philippine economy emerged out of the Asian financial crisis without significant dislocation owing partly to a resilient services sector, stronger net factor income from abroad, stable domestic consumption as well as a sound financial system. Domestic output performance in 1998 was influenced mainly by the sharp reduction in agriculture resulting from weather shocks, lower industrial production following a deep fall in investments, and the double-digit reduction in imports and exports.

In 1998, real gross national product (GNP) growth slowed down to 0.1percent from 5.3 percent in the previous year while real gross domestic product (GDP) growth turned negative 0.5 percent from positive 5.2 percent in 1997 (Table 1)



Aggregate Output

In 1998, the output in agriculture, fishing and forestry dropped by 6.6 percent as a result of unusual weather shocks while industry contracted by 1.7 percent owing largely to the decline of construction and manufacturing output (Table 1a). Services, however, showed marked resilience as it managed to post a 3.5 percent positive growth compared to 5.5 percent in 1997.

The drop in agricultural output was due to the substantial production shortfalls in palay, corn, coconut including copra, and sugarcane. Livestock and fishery output continued to expand by 4.1 percent and 1.2 percent, respectively, while poultry registered a slight 0.3 percent drop.

In the industrial sector, manufacturing contracted by 1.1 percent due to weak demand and rising production costs, while construction output shrank by 8.1 percent following a 10.1 percent real decline in the value added of private construction and a slowdown in public construction. The contraction in manufacturing was influenced largely by production cuts in petroleum and coal, non-metallic mineral products, transport equipment, metal industries and basic metals. The positive growth performance of a few industries in the sector like food manufacturing, electrical machinery, footwear and wearing apparel, paper and paper products, leather and leather products and miscellaneous manufactures along with the gains in mining and utilities subsectors mitigated the fall in overall industrial output.

Growth of all services subsectors decelerated in 1998, except for private services, which accelerated slightly to 4.9 percent. The latter was due mainly to higher spending for education, medical, personal and other private services together with the continued growth in business, recreational and hotel and restaurant services. The growth of transport, communication and storage, trade and finance and housing subsectors slowed down to 6.4 percent, 2.4 percent and 3.0 percent, respectively.

Aggregate Demand

Personal consumption and government consumption expenditures grew by 3.5 percent and 0.8 percent, respectively, in 1998, lower than the previous year's performance. The growth of most items of personal consumption expenditures decelerated, reflecting the effects of higher prices as well as the rise in unemployment.

Gross domestic capital formation dipped by 17.1 percent as investments in fixed capital formation contracted by 10.7 percent with construction and durable equipment investments declining by 3.8 percent and 18.4 percent, respectively. There was also a substantial net drawdown from stocks/ inventories during the year.

Exports of goods and services dropped by 10.4 percent in 1998. The 4.1 percent growth of merchandise exports was not enough to offset the 33.8 percent decline in the exports of non-factor services. The major export earners during the period were semiconductors and electronic microcircuits, finished electrical machinery, garments, crude coconut oil, ignition wiring sets, gold from copper ores and other manufactured products. Export growth of semiconductors, electronic microcircuits and finished electrical machinery, as well as crude coconut oil remained positive in 1998, albeit at a slower pace than in 1997. However, the exports of garments, ignition wiring sets and other manufactured products contracted in 1998. On the other hand, total imports of goods and services posted a bigger decline of 11.4 percent compared to exports. This resulted from the 11.9 percent decline in total merchandise imports and the 8.5 percent contraction in the import of non-factor services.

Savings and Investment

Gross domestic savings (GDS) in 1998 increased to P569.2 billion, 20.3 percent higher than the P473.1 billion recorded in 1997 (Table 2). The 1998 gross domestic savings as ratio of GNP at 20.4 percent was also higher than the 18.7 percent registered in 1997.

Private savings, which account for a large part of GDS, registered a growth of 48.0 percent to reach P538.8 billion in 1998. The growth in private sector savings were reflected in increased commercial banks' deposit liabilities during the year as household and businesses remained cautious in their investment decisions and preferred to hold on to their money amidst the uncertainty in the foreign exchange market. By contrast, public savings contracted by 72.1 percent from its-year-ago level to reach P30.4 billion. The decline in public savings was largely accounted for by the 88.3 percent decline in the savings of the National Government following increased government expenditures on, among others, interest payments, allotment to local government units and miscellaneous disbursements. Public and private savings in 1998 represented 1.1 percent and 19.3 percent of GNP, respectively.

The adjustment of the domestic economy to the changing environment following the regional financial and currency turmoil affected substantially the level of domestic investment, particularly in the construction sector. The country's total investments in 1998 declined to P537.1 billion or 19.3 percent of GNP from P601.9 billion or 23.8 percent of GNP in 1997. Public sector investment decreased by 2.9 percent to P122.6 billion and represented 4.4 percent of GNP. Private sector investment which decreased by 12.8 percent to P414.5 billion represented 14.9 percent of GNP.

As a result, the country's savings exceeded investment by P32.1 billion, representing 1.2 percent of GNP. This contrasted to the savings-investment gap of negative P128.8 billion (5.1 percent of GNP) recorded in 1997.

Labor, Employment and Wages

The economic slowdown in 1998 hit the labor sector, resulting in fewer jobs created and higher unemployment. Deployment of overseas workers also declined as some host economies went into deep recession. However, nominal wages across all sectors and regions improved during the year (Table 3).

While the growth in the total labor force increased slightly to 2.3 percent in 1998 from 2.1 percent in the previous year, the increase in new jobs created during the period slowed to only 0.7 percent from 1.9 percent in 1997. This resulted in a slight decline in the employment rate to 89.9 percent from 91.3 percent in 1997. Consequently, the unemployment rate rose to 10.1 percent from 8.7 percent in the previous year.

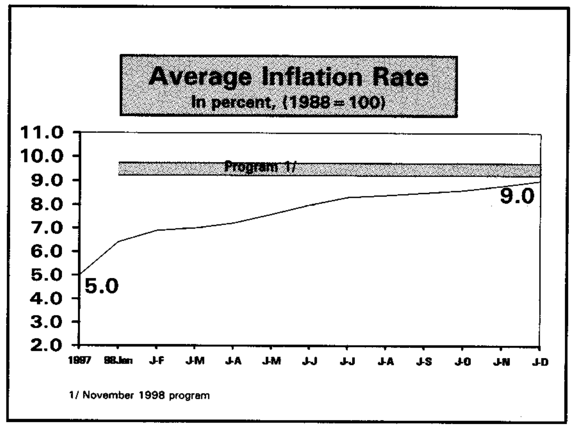
The new jobs created were mainly in services. These were opened in the community, social and personal services, transportation, storage and communication, wholesale, retail trade and financing, insurance, real estate and business services sub-sectors.

The number of overseas workers deployed declined by 14.3 percent to 640.1 thousand in 1998 in contrast to the previous year's 13.1 percent growth or 746.7 thousand. About three-fourths of the overseas workers deployed were land-based while the rest were sea-based. In 1998, the deployment overseas of 478.8 thousand land-based workers and 161.3 thousand sea-based workers was lower by 14.2 percent and 14.4 percent, respectively, compared to 1997.

The daily wage rates in both the agricultural and non-agricultural sectors improved in nominal terms. But in real terms, wages in the agricultural sector improved. In the non-agricultural sector, however, real wages were eroded by the higher prices during the period.

Prices

Domestic prices in 1998 accelerated on account mainly of weather-driven supply disturbances and the lagged effects of the regional currency crisis on the domestic economy. The average inflation rate for 1998 (1988=100) stood at 9.0 percent, below the Government's revised target of 9.25-9.75 percent for the year (Table 4). However, the 1998 inflation rate was higher than the 5.0 percent recorded in 1997. The inflation rate for the National Capital Region (NCR) was 9.4 percent, higher than the 8.9 percent recorded for all areas outside the NCR. Average month-on-month inflation rate for 1998 was 0.8 percent, higher than the 1997 rate of 0.5 percent.



The annual inflation rate in 1998 accelerated from 7.0 percent in the first quarter to 10.3 percent in the fourth quarter. The steady rise in the inflation rate was triggered by the weather-related shocks which caused decline in agricultural output. This was evident in the sharp rise in the annual inflation rate for food, beverages, and tobacco from 4.3 percent in the first quarter to 10.7 percent in the fourth quarter. In particular, the annual inflation rate of fruits and vegetables shot up from 1.3 percent in the first quarter to 31.8 percent in the fourth quarter.

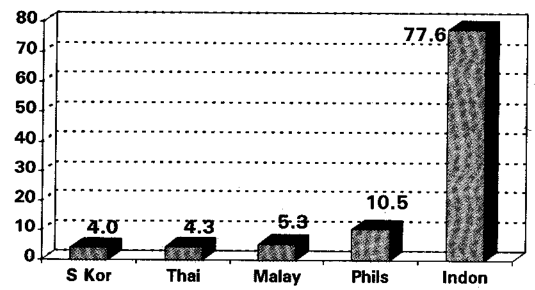
Other factors that contributed to the rise in the inflation rate were the currency crisis-related factors - sharp peso depreciation and high interest rates. These factors also led to an acceleration in the average price of non-food items from 8.9 percent in 1997 to 10.5 percent during the year.

The inflation rate of food, beverages, and tobacco in areas outside the National Capital Region (NCR) was higher relative to the NCR's, while the average inflation rate of all non-food items was lower. Except for fuel, light and water and services, prices of non-food items rose faster in the areas outside the NCR.

Meanwhile, based on the computations by the BSP, the core inflation rate, which is computed by excluding the top six most volatile items in the CPI basket, stood at 7.4 percent, four percentage points higher than the 3.4 percent registered in 1997 (1988=100).

Compared with other ASEAN countries, the end-1998 Philippine inflation rate of 10.5 percent was lower than that in Indonesia (77.6 percent), but higher than those in Malaysia (5.3 percent), Thailand (4.3 percent), South Korea (4.0 percent), Taiwan (2.1 percent), Japan (0.7 percent), and Hongkong (-1.6 percent).

Comparative Inflation Rate
In percent, end-1998



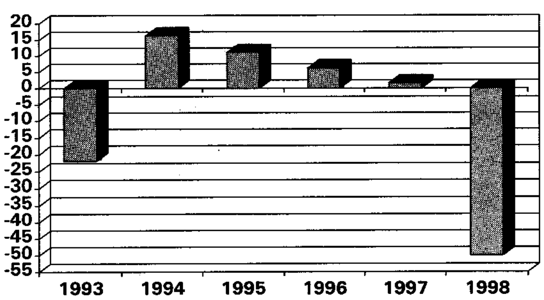
Source: AP Dow Jones News Report (26 January 1999)

Public Finance

Cash Operations of the National Government (NG)

The cash operations of the NG resulted in a P50 billion deficit in 1998, P1 billion higher than the programmed P49 billion agreed with the IMF. This year's deficit was a turnaround from the previous year's P1.6 billion surplus, as revenues fell by 2.0 percent while expenditures rose by 9.0 percent (Table 5).

NG Cash Surplus/(Deficit)
In billion pesos, 1998



Total revenues amounted to P462.5 billion, P9.3 billion less than the 1997 collections. Tax revenues, which accounted for 90 percent of aggregate revenues, expanded by 1.1 percent following the 7.1 percent increase in Bureau of Internal Revenue (BIR) collections from excise taxes, sales taxes and licenses. On the other hand, tax receipts of the Bureau of Customs (BOC) posted a 19.8 percent decline as imports contracted due to the slowdown in economic activity.

Non-tax revenues declined substantially by 23.0 percent from the year-ago level largely on account of lower proceeds from the privatization program, reduction in the collection of fees and charges, and lower income by the Bureau of the Treasury (BTr) due, in turn, to lower dividends remitted by government-owned and/or -controlled corporations (GOCCs).

Government expenditures aggregated P512.5 billion, up by P42.2 billion from the year-ago level, owing to higher interest payments due to the high domestic interest rates at the start of the year, higher allotment to local government units and increased miscellaneous disbursements. These were partly offset, however, by the decline in assistance to corporations in the form of net lending, equity contributions and subsidies, in line with the policy thrust of promoting greater self-reliance and efficiency among government entities.

Public Internal Debt

Outstanding public internal debt in 1998 aggregated P807.2 billion, an expansion of 11.2 percent from the previous year's level (Table 6). As a percentage of GNP, the public internal debt ratio increased marginally to 28.9 percent from 28.7 percent in 1997.

The NG remained the major borrower as it incurred 98.7 percent of total public domestic debt. Treasury bills, the main borrowing instrument of the NG, reached P442.1 billion at end-1998, representing a growth of 12.7 percent from its year-ago level. Meanwhile, consistent with the NG's policy to shift to longer-term indebtedness, the NG stepped up its flotation of medium- and long-term debt issues in the form of fixed-rate Treasury notes. From a level of P234.1 billion in 1997, fixed-rate Treasury notes rose to P258.1 billion, an increase of 10.3 percent from the previous year's level.

Outstanding debt of GOCCs increased by 11.4 percent to P10.1 billion due mainly to the P1.3 billion increase in bond flotation by the Land Bank of the Philippines (LBP). Of the total GOCC borrowings, 67.4 percent were guaranteed by NG.

By far, securities remained the major form of domestic borrowing, accounting for 98.6 percent of total debt. The rest were in the form of loans.

Based on maturity, short-term debt remained the largest component of aggregate domestic debt comprising 55.9 percent of the total (Table 6a).

Monetary Developments

Monetary Conditions

Monetary policy in 1998 was focused on containing inflation and restoring stability in the foreign exchange market. In line with this, monetary aggregates were kept below program ceilings with the International Monetary Fund (IMF). While using open market operations as the chief monetary instrument, the BSP also implemented a series of adjustments in the statutory and liquidity reserves as well as in the BSP policy rates to ensure that an appropriate level of liquidity was made available without fanning inflationary pressure to allow further declines of nominal interest rates. Despite severe supply constraints caused by adverse weather conditions and the pass-through effects of the peso depreciation, the inflation rate averaged at 9.0 percent (1988=100) in 1998, below the revised target of 9.25-9.75 percent.

During the year, the actual levels of base money (BM) and reserve money (RM) were on average, P34.2 billion and P28.8 billion, respectively or 10.8 percent and 11.8 percent, respectively, below the program ceilings (adjusted for overperformance in the BSP-Net International Reserves (NIR) position and unprogrammed changes in the reserve requirement).

RM growth steadily trended downward during the year and started to reflect negative growth rates beginning March 1998 as demand for money softened. As of end-1998, RM declined by 5.3 percent from the level a year ago (Table 7). The contraction in RM by P26.7 billion was due largely to the higher bank placements under the RRP window (Table 8). These more than offset the expansionary impact of net withdrawals by the National Government (NG) of its deposits with BSP; the build-up in the country's net international reserves (NIR); and the increase in emergency advances to banks by the BSP.

The level of BM was influenced largely by the increase in liquidity reserves of three percentage points beginning March 1998. BM in end-December 1998 rose by 5.4 percent to P313.6 billion compared to the level a year ago (Table 7).

The currency to deposit (CD) ratio rose to a peak of 14.9 percent in April 1998, about a month before the national elections. In the succeeding months, the CD ratio declined steadily to 12.4 percent in September 1998, but trended upward anew in the last quarter of the year to 14.6 percent in December 1998 due to higher cash requirements for the Christmas season. On the average, the CD ratio was estimated at 13.6 percent in 1998, higher than the 13.5 percent reached in the previous year.

The BM multiplier was influenced largely by the adjustments in both the statutory and liquidity reserves during the year. With the decline in the total reserve requirement to 15 percent in May 1998, the BM multiplier rose to 4.107 in August 1998 from 3.774 in May 1998. Conversely, BM multiplier declined to 3.650 in December 1998 following the 2-percentage point increase in the statutory reserves to 10 percent in October 1998.

Domestic liquidity or M3 growth decelerated sharply to 7.4 percent to reach P1.14 trillion as of end-December 1998 from the level a year ago (Table 9). Similarly, the growth in M4 or the expanded concept of domestic liquidity which is measured as the sum of M3 and foreign currency deposits (FCDs) of non-bank residents, slowed down to 8.2 percent to reach P1.62 trillion as of end-December 1998 from 25.1 percent in the previous year. This slowdown in liquidity growth developed as economic activity decelerated markedly in 1998.

On the asset side, the slowdown in domestic liquidity was traced to the decline in domestic credits. The observed slack in credit was a result of a slowdown in credit demand from the business sector and the banks' cautious lending stance. Net domestic credits of the monetary system declined by 2.8 percent to P1.87 trillion as of end-December 1998, against the year-ago growth of 27.5 percent.

Of the total net domestic credits, 91.8 percent was extended by deposit money banks (DMBs). In terms of relative share to total net domestic credits, the private sector remained the primary borrower, availing itself of P1.41 trillion or 75.4 percent, while the public sector absorbed the rest. Credits to both the public and private sectors declined by P8.4 billion and P45.4 billion or by 1.8 percent and 3.1 percent, respectively, during the period. By economic activity, the manufacturing sector continued to be the main recipient of domestic credits, accounting for 26.5 percent of the total outstanding loans of commercial banks as of end-December 1998.

DMB credits have been financed traditionally from the banks' peso deposit-taking activities. As of end-December 1998, 57.9 percent of the total

DMB credits were sourced from peso deposits of banks (demand, savings, and time deposits and deposit substitutes). In addition, FCDs of non-bank residents and foreign currency liabilities of banks have become a significant source of credit financing in recent years owing to the financial liberalization measures earlier put in place. In peso terms, FCDs of residents as of end-December 1998 financed 27.7 percent of the total DMB's domestic credits while foreign borrowings contributed 9.3 percent. As a percent of GDP, domestic credits declined to 70.2 percent in end-1998 from 79.3 percent in the previous year.

Interest Rate Developments

Although annual averages of domestic interest rates were generally higher in 1998 compared to 1997, the quarterly average rates trended downward during the course of the year. This reflected (a) the monetary authorities' efforts to bring down further banks' cost of borrowing, (b) the National Government's policy not to crowd out the private sector, (c) the steady recovery of regional currency markets and (d) the commitment by BAP member-banks to bring down their lending rates. Driven by the faster growth in inflation, real interest rates for all instruments dropped to lower averages but remained positive.

BSP Borrowing and Lending Rates. The movement of BSP's borrowing and lending rates reflected its desire to restore stability in the foreign exchange market while ensuring that the level of key policy rates are in line with objectives to bring about a decline in domestic interest rates. In January, the overnight borrowing or reverse repurchase (RR/P) rate of the BSP was adjusted upward by a total of 3 percentage points to 14 percent to calm the currency market as the peso dipped to an all-time low of P45.42 to the US dollar following the currency meltdown in Indonesia and the collapse of Peregrine Investments Holdings in Hong Kong. The BSP's overnight lending or repurchase (R/P) rate was likewise adjusted to 16 percent from 15.4 percent at the beginning of the year to align it with the RR/P rate. The RR/P and R/P

BSP Borrowing/Lending Rates
In percent

Period	Overnight RR/P Rates (Borrowing)	Overnight R/P Rates (Lending)
1998		
05-Jan	11.000	15.400
07-Jan	12.000	15.400
13-Jan	12.000	16.000
26-Jan	14.000	16.000
03-Feb	13.750	15.750
10-Feb	12.750	13.750
12-Feb	12.750	14.750
17-Feb	13.000	15.000
30-Apr	13.500	15.500
19-May	13.250	15.250
26-May	13.125	15.125
21-Jul	13.000	15.000
11-Aug	15.000	17.000
12-Aug	18.000	20.000
24-Aug	16.000	18.000
05-Oct	14.000	16.000
20-Oct	13.750	15.750
24-Nov	13.500	15.500
01-Dec	13.375	15.375

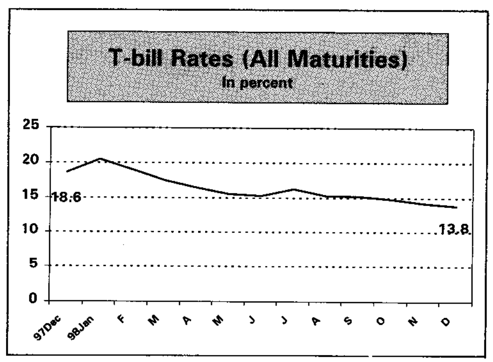
rates were, however, gradually reduced as soon as the foreign exchange market showed signs of stabilization. By end-July, overnight RR/P and R/P rates stood at 13.0 percent and 15.0 percent, respectively.

Beginning August, the BSP once again raised its policy interest rates to contain the disturbance in foreign exchange market brought about by investors' negative sentiment over developments in Indonesia, Japan and Russia, market expectations of a Chinese yuan devaluation and possible closure of the Philippine Airlines (PAL). Consequently, overnight RR/P and R/P rates by mid-August reached 18.0 percent and 20.0 percent, the highest levels posted during the year. The rates were lowered gradually as regional currency markets stabilized. By end-December 1998, overnight RR/P and R/P rates were down to 13.375 percent and 15.375 percent, respectively.

On an annual basis, the average overnight RR/P and R/P rates at 14.3 percent and 15.5 percent were down by 75 bps and 155 bps from the previous year (Table 10).

Meanwhile, interest rates on the BSP's rediscount facility reflected movements in the 91-day T-bill. With higher T-bill rates in 1998, the average rediscount rate went up by 267 bps to 14.2 percent.

Yields on Government Securities. The instability in the currency market in January and anticipation of a wider budget deficit in 1998 fueled higher nominal yields on Treasury bills across maturities during the month. From an average of 18.6 percent in December 1997, T-bill rates rose to an average of 20.5 percent in January 1998. Rates on each of the maturities also traced a similar uptrend.



In line with the overall policy thrust of bringing down interest rates, the National Government through the Auction Committee espoused a strategy of rejecting high bid rates for its auctioned Treasury instruments. To complement this move, foreign savings were tapped to finance fiscal operations in order to avoid crowding out of the private sector. Consequently, interest rates across all maturities consistently declined to reach an average of 13.8 percent in December 1998. Higher demand for government securities arising from banks' preference for secured investments and weak loan demand from the private sector also contributed to the reduction in T-bill rates.

Notwithstanding the steady drop in T-bill rates, the annual average interest rate across all maturities ended at 16.3 percent or 299 bps higher than the 1997 average (Table 10).

Bank Borrowing and Lending Rates. Interbank call loan (IBCL) rates closely followed the movement in BSP's overnight rates. During the period, the monthly IBCL rates fluctuated from a low of 13.0 percent in January to a high of 15.9 percent in September before levelling at 13.9 percent in December. On the average, the IBCL reached 13.8 percent, or about 4.1 percentage points lower than the previous year's 17.9 percent.

In contrast, rates on short-term promissory notes (MRRs) moved in line with the rates on relatively shorter-term government securities. During the year, rates on MRRs across maturities rose by 225 bps from its 1997 level to average 15.4 percent.

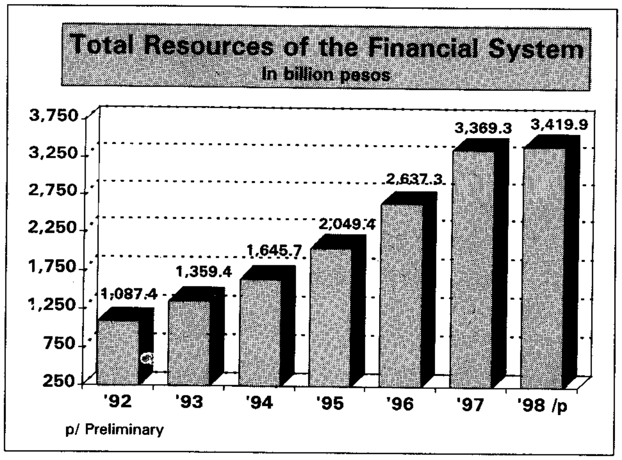
Meanwhile, bank lending rates soared to high levels at the beginning of the year but gradually dropped as conditions in the currency market improved. Lending rates offered to prime clients declined from a range of 24.7-26.8 percent in January to 16.2 -19.7 percent in December. Paving the way for the decline in banks' lending rate was the commitment by BAP member-banks to reduce their interest spread over the base rate (i.e., 91-day T-bill rate). However, on an annual basis, the average lending rate in 1998 was higher compared to a year ago.

Financial System

Performance of the Financial System

The financial crisis which led to a sharp reconfiguration of the economic landscape took its toll on the financial sector. However, timely BSP measures implemented well before and during the crisis to maintain the fundamental health of the financial system and to guard against risks that could arise from a further economic downturn, made the difference and helped avoid a systemic risk.

Resources and Operating Network of the Financial System. Aggregate resources of the financial system grew by 1.5 percent to P3.42 trillion at end-1998 due to the increase in assets across all major types of banks (Table 11). The growth in resources was financed mostly by the expansion in the banking system's deposit base and the increase in bank capitalization. The establishment of new offices of both banks and non-bank financial institutions (Table 11a) also contributed to the increase in the system's expansion in resources. Of the total resources, commercial banks accounted for 73.9 percent, followed by thrift banks with 6.3 percent and rural banks with 1.7 percent. Non-banks accounted for the remaining 18.0 percent (Table 11).



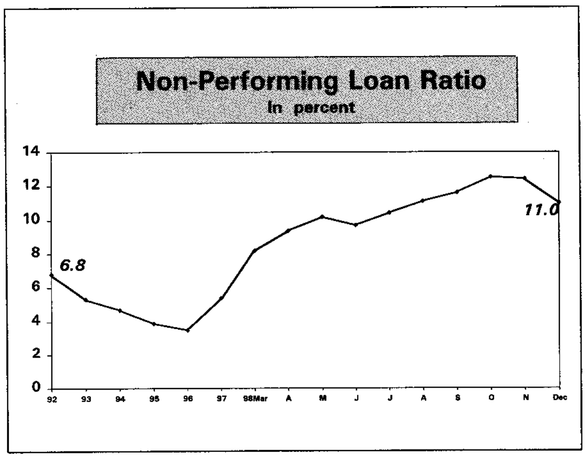
The number of financial institutions increased by 1,067 offices (net of closures and consolidations) to 18,353 in 1998. The increase comprised of 234 head offices and 833 branches. One commercial bank, six thrift banks and 15 rural banks closed during the year. However, the combined asset size of these closed banks comprised only 0.4 percent of total resources while their aggregate loans accounted for only 0.5 percent of total loans. During the year, the BSP approved the consolidation of Bank of Southeast Asia and the Development Bank of Singapore.

Deposits were boosted by the higher time deposit rates, sustained public trust in the banking system and stepped up efforts of banks to mobilize funds. Outstanding deposits of the banking system grew by 5.5 percent to P1.72 trillion as of 1998 (Table 12). Banks likewise augmented their capital base to comply with the phased increase in minimum capitalization required by the BSP. By 24 December 1998, the new levels of minimum capitalization were: P4.5 billion for expanded commercial banks; P2.8 billion for regular commercial banks; and P250 million for thrift banks located within Metro Manila. As of December 1998, preliminary figures show that 801 or 80 percent of the 996 operating banks had capital base in compliance with the minimum required by December 1998.

Performance of the Banking System

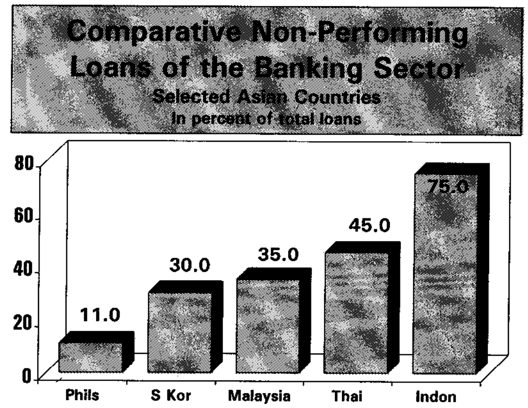
The Philippine banking system remained generally healthy in 1998 despite some isolated cases of bank closures. While indicators of asset quality and profitability revealed some deterioration of performance by banks, these did not lead to widespread failure of institutions, much less placed the entire system in danger of collapse so as to require government intervention. Banks' capital adequacy ratio or the ratio of net worth to risk assets to capital improved during the year to a level way above the statutory ratio and the Bank for International Settlements (BIS) standard. Loan-loss provisions to total loans also increased in response to the regulatory changes by the BSP. Exposure to the real estate sector remained at moderate levels. Banks' deposits, both peso and US dollar, grew relative to their year-ago levels.

Quality of Assets. From 5.4 percent in end-1997, the NPL ratio of banks trended upward to reach a peak of 12.5 percent in October 1998. The increase in the ratio was due to the poor performance of the corporate sector. In 1998, the number of firms that applied for debt suspension increased to 35 firms (from 20 in 1997) with the associated liabilities aggregating to some P96.1 billion or 6.2 percent of outstanding commercial banks. The rise in NPL ratio was also influenced by the implementation of a more stringent definition of past due loans which took effect in April 1998. However, as the exchange rate stabilized and domestic interest rates eased, the NPL ratio declined to 12.4 percent in November and 11.0 percent in December.



If the measure of NPLs were to be expanded to include foreclosed assets (referred to as real and other property owned or acquired or ROPOA) and restructured loans, the banking system's NPL ratio may have reached its peak level. As a ratio to total loans, NPL + ROPOA + restructured loans declined from 17.8 percent in October 1998 to 17.4 percent in December 1998.

Relative to the NPLs of other crisis-affected economies in the region, the country's NPL ratio remained one of the lowest when compared with Korea's 30 percent, Malaysia's 35 percent, Thailand's 45 percent and Indonesia's 75 percent.



Source: Deutsche Bank Research, Global Emerging Markets-Asia, "Asia's Economic Outlook for 1999"(December 1998)

Capital Adequacy and Loan-Loss Provision. Banks kept a comfortable average capital adequacy ratio of 17.6 percent as of December 1998 higher than the 16.0 percent recorded in 1997. The ratio surpassed the 10 percent minimum networth-to-risk-assets mandated by law and the 8 percent established by the BIS. At the same time, banks continued to build up their loan-loss provisions to comply with stricter provisioning requirements of the BSP. As a percent of the total loan portfolio, loan-loss provisions rose from 2.3 percent as of December 1997 to 4.0 percent at end-1998. Meanwhile, reserves for probable loan losses accounted for 36.3 percent of NPLs. The higher capital adequacy ratio and loan-loss provisions put the banks in a better position to absorb future shocks.

Real Estate Exposure of Banks. The ratio of real estate loans to total loans fell to 12.3 percent as of September from 13.7 percent at end-1997, as banks remained very cautious with their lending operations. The current ratio, however, remained far below the 20 percent ceiling allowed by the BSP on real estate lending.

Commercial Banks: Real Estate Loans/Total Loans Outstanding (%) 1/

March 1997	11.9
June 1997	12.0
September 1997	13.0
December 1997	13.7
March 1998	13.3
June 1998	12.1
September 1998	12.3

1/ gross of interbank loans: Current ceiling is 20%

Deposit Liabilities of the Banking System. Public confidence in the banking system was maintained as evidenced by the growth of the total deposit base of the banking system by 5.5 percent to P1.72 trillion (Table 12). Contributing to this expansion was the growth in the number of offices and the higher returns on deposits which enabled banks to mobilize more deposits. Average rates on short-term time deposits rose from 11.2 percent in 1997 to 12.7 percent in 1998 and those for long-term time deposits increased from 11.4 percent to 13.2 percent during the same period.

With their wider operating network, commercial banks accounted for over 90 percent of total deposits. Commercial banks recorded a 6.3 percent increase in deposits. Thrift banks, on the other hand, experienced a 2.8 percent drop in deposits as some thrift bank depositors transferred their deposits to larger and more established commercial banks. Rural banks likewise managed to post a modest 2.7 percent growth in their deposits. Savings deposits accounted for a major share (61.4 percent) of total deposits. Time and demand deposits comprised the remaining 29.8 percent and 8.8 percent, respectively.

Foreign Currency Deposit System. The system's resources dropped by 7.1 percent to US$21.2 billion as of end-1998 due mainly to the repayment of bills payable and of borrowings from offices abroad and from local banks (Table 13).

Loans and discounts which comprised 36.8 percent of total resources, dropped by 26.0 percent to US$7.8 billion, reflective of the borrowers' preference to limit their foreign exchange exposure and the banks' cautious stance to lend given the prevailing fragile market conditions. Of the total outstanding loans of FCDUs, 53.1 percent were infused in the manufacturing, communication and services sectors. By maturity, 61.7 percent of these loans were short-term in nature and the balance, medium- and long-term.

Meanwhile, investments in bonds and other debt instruments (IBODI) grew by 40.7 percent to US$4.1 billion as banks shifted some of their longer-term assets in the form of IBODI to comply with the BSP's requirement for the 30 percent liquid asset cover on all foreign exchange liabilities of FCDUs.

On the liabilities side, deposits continued to be a major source of funding, accounting for 71.2 percent of total liabilities. From US$14.5 billion as of end-December 1997, deposits grew modestly by 3.7 percent to US$15.1 billion. The minimal growth may be attributed partly to the implementation of the Tax Reform Act of 1997 which subjected income from FCDU deposits from zero to 7.5 percent withholding tax. Of the total deposits, more than 80 percent comprised placements of residents, making FCDUs less vulnerable to capital flight. In fact, deposits of residents posted an increase while those of non-residents recorded a decline.

Offshore Banking System. Total resources of the system as of end-December 1998 declined by 29.2 percent to US$2.01 billion (Table 14). The marked decline in resources may be attributed to the payment of deposit withdrawals by non-residents and borrowings from other banks.

Loans extended by OBUs as of 31 December 1998 reached US$877 million, the bulk of which were granted to resident clients. Meanwhile, investments in bonds and other securities amounted to US$86 million, part of which consisted of placements in Philippine public and private debt papers.

During the year, the system generated a net inflow of US$1.2 billion, which was utilized mainly for lending to local banks and other corporate clients, the purchase of commercial papers and for the financing of trade transactions.

Money and Capital Market Developments

The slowdown in economic activity in 1998 was also reflected in the decline in the volume of transactions in the money and capital markets.

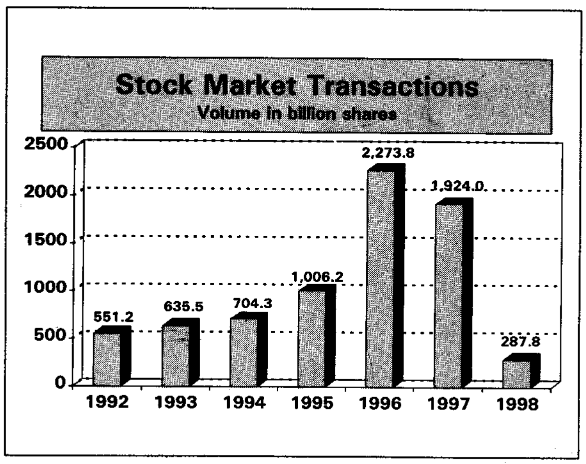
Money Market. The money market experienced its second year of decline in 1998 as aggregate volume of trading fell by 21.8 percent to P2.6 trillion (Table 15) due to the negative effects of the Asian crisis.

Interbank call loans (IBCL), which comprised more than 60 percent of total volume of transactions fell by 19.8 percent as banks remained generally liquid following the slowdown in their credit operations during the year. Meanwhile, Treasury bills, the second most actively traded instrument, recorded a significant decline of 43.6 percent in volume turnover as banks opted to keep their Treasury bill holdings as investments instead of using these as trading securities. Promissory notes and non-financial commercial papers likewise recorded declines. In contrast, an increase in volume traded was noted in other types of government securities such as DBP bonds and government certificates of participation.

The overall weighted average interest rates (WAIR) of money market transactions rose from 14.4 percent in 1997 to 14.9 percent in 1998 as the WAIR for money market instruments, except IBCLs, recorded an increase. The uptrend in interest rates was influenced by the hike in interest rates at the start of the year as part of the efforts to smoothen volatility in the currency market.

Capital Investments. Capital investments of newly registered business organizations dropped by 44 percent to P137.65 billion from the level recorded in 1997, weighed down by the persistent negative sentiment on the economy and perceived slowdown in aggregate demand (Table 16). Registering the largest decline was investments in transportation, storage and communication (96.0 percent) which offset the gains posted in agriculture, fishery and forestry (223.2 percent), mining and quarrying (38.5 percent), manufacturing (55 percent) and community, social and personal services (978.3 percent). A decline in investments was likewise registered in construction (36.1 percent) and financing, insurance, real estate and business services (49.3 percent) due partly to the slump in real estate industry and to concerns over financial institutions' increasing past due loans. Electricity, gas and water and the wholesale and retail trade sectors also registered a drop in investments of 72.6 percent and 3.5 percent, respectively due to the slack in industrial and consumer demand.

Stock Market Developments. Despite a rebound in the first and fourth quarters of the year, the stock market recorded an overall bearish performance as it sustained substantial losses in the second and third quarters. Thus, this year's volume turnover shrank by 85.0 percent while the value of transactions fell by 30.3 percent. The Philippine Composite Index (Phisix), however, posted a 5.3 percent increase in 1998 (Table 17).



The stock market retreated in the second quarter after posting gains in the first quarter due to investors' fears of a possible region-wide recession following reports of economic contraction in most Asian countries in the first quarter, concerns over the outcome of the local election in May, higher inflation and expected wider fiscal deficit for 1998. The volume turnover for all sectors during the second quarter dropped by as much as 61.2 percent from the previous quarter's level. In the succeeding quarter, confidence in the local equities market plunged further. However, the decline in the volume of transactions was smaller at 34.2 percent. The market was weakened by a confluence of unfavorable domestic and international developments, including the reported closure of Philippine Air Lines, the depreciation of the Japanese yen and the decline in the Dow Jones Industrial Average.

Notwithstanding the regional uncertainties, three initial issues were launched in the stock market during the year—Armstrong Holdings Inc., Philippine Seven Corporation and Euro-Med Laboratories Philippines Inc. As of end-December 1998, the Philippine Stock Exchange (PSE) reported 222 listed companies and 301 listed issues. Total market capitalization amounted to P1.37 trillion, 9.8 percent higher than the level recorded in end-1997.

Even as the stock market came under pressure from adverse domestic and external developments, efforts toward developing the local bourse remained on track. One significant development in 1998 was the granting of self-regulatory organization (SRO) status to the PSE. A full SRO status allowed the PSE to strengthen its policing power, leaving the Securities and Exchange Commission (SEC) with an oversight function. With the operation of the Securities Clearing Corporation of the Philippines (SCCP), the PSE was granted its SRO status.

The PSE also continued its efforts to develop new products and enhance its infrastructure facilities. Among the products and services were: call/put warrants; debt instruments (such as Treasury bonds, mortgage-backed securities); securities borrowing and lending; and short selling.

To manage settlement risks, the PSE together with its subsidiaries, the Philippine Central Depository (PCD) and SCCP created facilities for the safe and efficient conduct of trade settlement. The PCD offered a new service to allow market investors with low volume transactions to avail of the benefits of scripless trading. The SCCP had its first settlement trial run in December.

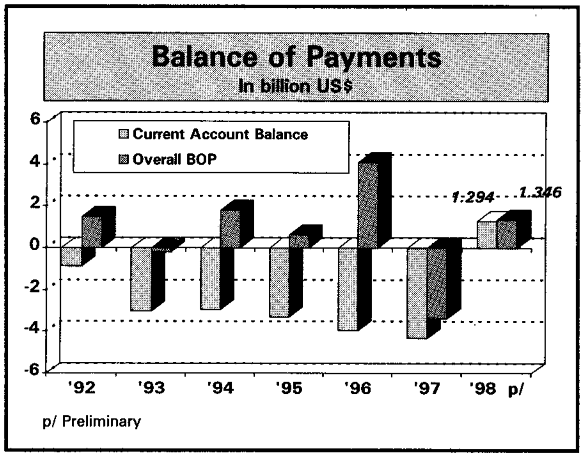
In addition, the PSE defined key result areas to maintain, among others, efficiency, integrity and transparency in its operations. Among the key result areas given priority were: 1) codification and systemization of regulatory procedures; 2) modernization of automated trading, clearing and settlement, firewalls and disaster recovery programs; 3) improvement and realignment of listing structures and disclosure processes; 4) establishment of a listing facility for small businesses; and 5) improvement of compliance and surveillance procedures capability.

External Developments

Balance of Payments

In 1998, the country's external transactions yielded an overall surplus of US$1.35 billion, a turnaround from the US$3.36 billion deficit recorded in 1997 (Table 18). Behind this development was the current account surplus, the first in 12 years.

Current Account. The current account (CA) balance yielded a surplus of US$1.29 billion (or 1.9 percent of GNP) in 1998 from a year-ago deficit of US$4.35 billion (or 5.1 percent of GNP). The sharp drop in the merchandise trade deficit coming from higher exports coupled with lower imports underpinned the strong current account position.



Export growth remained robust at 16.9 percent, albeit slower relative to the 22.8 percent growth in 1997. Total exports reached US$29.50 billion during 1998. Electric and electrical equipment, parts and telecommunication (up by US$4.13 billion) as well as machinery and transport equipment (up by US$633 million) accounted for most part of the growth performance (Table 18a). The increased capacity from new players in the industry, diversification of product lines and continuous efforts to tap new markets buoyed up the export performance of the local electronics industry. The substantial rise in the exports of manufactures neutralized the negative impact of the fall in mineral and other agro-based products.

The drop in aggregate demand, notably investment, following the economic uncertainty brought about by the regional financial turmoil, dampened import demand in 1998. Aggregate imports fell substantially by 18.8 percent or US$6.83 billion to US$29.52 billion during the year. All major commodity groups (i.e., capital goods, raw materials and intermediate goods, mineral fuel and lubricants as well as consumer goods) showed downtrends. In particular, imports of raw materials, especially semi-processed raw materials, fell by US$3.05 billion, while capital goods (e.g., power generating and specialized machines as well as aircraft, ships and boats), dropped by US$2.32 billion (Table 18b). Likewise, mineral fuels and lubricants and consumer goods dropped by US$1.05 billion and US$470 million, respectively. On a net basis, the merchandise trade deficit narrowed markedly to US$28 million in 1998 from US$11.13 billion in 1997.

The US$887 million surplus in the services account in 1998 was US$4.81 billion lower than the US$5.70 billion achieved a year earlier. Gross receipts from services slumped by more than 84 percent owing to a general downtrend in nearly all the major receipts (i.e., other services down by US$3.40 billion; peso conversions of FCDs, US$2.60 billion; travel, US$923 million; personal income, US$810 million; operating expense, US$675 million; and investment income, US$457 million). Likewise, outlays for services contracted by US$4.14 billion to reach US$12.99 billion during the year compared to the prior year's US$17.14 billion. Accounting for the decline in outflows were other services (down by US$2.91 billion), freight and merchandise insurance (US$716 million), and construction activity (US$293 million).

On the whole, trade in goods and services posted a surplus of US$859 million, a turnaround from the previous year's deficit of US$5.43 billion. The surplus in trade in goods and services was recorded at 1.3 percent of GNP in 1998 compared to the negative 6.3 percent in 1997.

In 1998, net inflows from transfers declined by nearly three fifths to US$435 million from the year ago's US$1.08 billion. Behind this development was the sharp fall in inflows of private transfers, notably personal remittances, which declined by US$906 million.

Capital and Financial Account. The surplus in the capital and financial account contracted by more than 85 percent to US$956 million in 1998. This was attributed mainly to the negative change in commercial banks' net foreign assets position, net repayment of short-term loans, lower net availment of medium- and long-term loans and higher net purchases by residents from the secondary market of debt instruments issued by domestic entities in the international capital market.

The net availment of MLT loans in 1998, at US$2.85 billion, was 40.9 percent lower than the previous year's US$4.82 billion. Gross availment of

MLT loans dropped substantially by US$1.93 billion to US$5.79 billion from the previous year's US$7.72 billion as there was no availment of financing of aircraft under financial lease arrangements and lower bond issuance. The general slowdown in economic activity and the perceived instability in the foreign exchange market following the regional financial turmoil discouraged residents from tapping the international and capital market for funds. On the other hand, outflows of MLT loans increased slightly to US$2.94 billion from the prior year's US$2.90 billion. MLT loan outflows increased due mainly to repayments of loans owed to banks and financial institutions and redemption of bonds.

During the same period, net purchases of bonds by residents amounted to US$1.08 billion, 60.1 percent higher than the previous year's net purchase of US$676 million. This level was the highest since 1996.[2]

Investments showed a sizable net inflow of US$1.67 billion in 1998, more than double the prior year's US$762 million. Driving this development was the increase in the net inflows of foreign direct investments in the Philippines by US$503 million to US$1.75 billion in 1998 from US$1.25 billion a year ago, due to notable rise in new foreign investments. Likewise, net portfolio investment inflows of US$264 million were achieved in 1998 as against a net outflow of US$406 million in 1997 even as gross placements of portfolio investments declined in 1998. This resulted from lower withdrawals of portfolio investments by non-residents, reflecting the growing investor confidence in the economy.

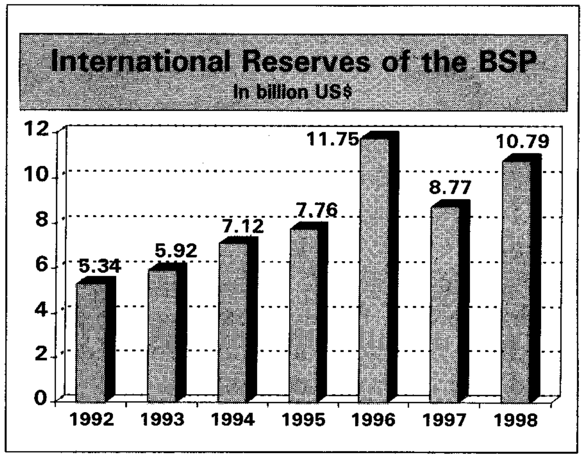
The short-term capital account recorded a net repayment of US$1.52 billion during the year, a turnaround from a net availment of US$495 million in 1997 due mainly to lower availment of short-term loans and to the decline in the utilization of D/As and O/As.

The commercial banks' net foreign assets (NFA) yielded a negative change of US$963 million in 1998 due to payments of the commercial banks' foreign obligations, particularly their floating rate certificates of deposits (FRCDs) as well as banks' reduced foreign borrowings.

[2] The trading of bonds in the secondary market abroad has been introduced in the computation of the BOP since 1996. This account pertains to the purchase and resale of Philippine-issued bonds and securities by residents in the secondary market abroad. A purchase reduces the country's debts while a resale increases the country's liabilities.

Gross International Reserves

The BSP's gross international reserves (GIR), including its reserve position in the Fund, rose to US$10.79 billion at end-December 1998, US$2.02 billion higher than the year-ago level of US$8.77 billion (Table 19). At the current level, reserves were equivalent to 3.0 months of imports of goods and services, an improvement from the previous year's 2.0 months.



The major accounts which contributed to the build-up in GIR were proceeds arising from: club loan from a consortium of banks (US$750 million); drawdown from IMF facilities (US$742 million); investment income (US$601 million); net foreign bank deposits (US$500 million); as well as deposits by NG of proceeds from its FCDU loan (US$608 million); and RP bond flotation (US$492 million). Net purchases from authorized agent banks (AABs) by the BSP amounting to US$210 million also contributed to the reserve build-up. Meanwhile, the debt service payments on NG and BSP accounts amounting to US$1.85 billion and US$532 million, respectively, offset some of the inflows.

The end-1998 GIR were mainly in the form of foreign investment (81.0 percent), gold (14.4 percent) and foreign exchange (3.5 percent). The increase in the GIR level at end-1998 resulted in a net international reserves of US$8.02 billion, 20.2 percent higher than the end-1997 level of US$6.67 billion.

Exchange Rate

In 1998, the peso continued to be affected by periodic external shocks, although at a much lesser degree compared to what was experienced in the previous year. Despite this, the peso showed some recovery during the year to average at P39.07/US$1 in December from P42.66/US$1 in January. On an annual basis, the peso depreciated by 38.8 percent from last year's level to average P40.89/US$1 in 1998 (Table 20). The peso also exhibited relative stability as indicated by the decline in the volatility indices.

Foreign Exchange Liabilities

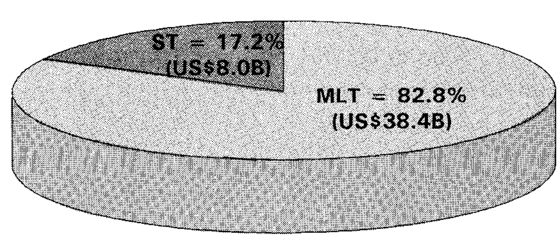
The country's foreign exchange liabilities stood at US$46.4 billion as of end-September 1998, up by US$975 million or 2.1 percent from the end-1997 level (Table 21). The expansion in outstanding debt was due mainly to the net availments of loans by both public and private sectors which were, however, partly tempered by the increase in residents' holdings of Philippine debt papers, net repayment of commercial banks' liabilities and foreign exchange revaluation gains.

The net loan availments by both the public and private sectors amounting to US$2.2 billion were used mainly to fund development projects in communications and transportation, manufacturing, power generation and energy development as well as for balance of payments financing and reserve build-up by the BSP.

The expansion in external obligations was partially offset by the decline in liabilities arising from the purchase of Philippine debt papers, aggregating US$618 million, by residents who took advantage of the falling prices of these debt instruments in the secondary market. Foreign exchange revaluation gains (US$284 million), which arose primarily from the depreciation of the Japanese yen against the US dollar and the decline in liabilities reported by commercial banks (US$465 million) arising from net repayment of their short-term trade and non-trade bills payable also reduced the debt stock.

More than four-fifths of the outstanding debt remained medium- and long-term in nature (82.8 percent). The share of short-term external debt decreased to 17.2 percent from 18.6 percent in end-December 1997.

Foreign Exchange Liabilities
By Maturity, end-September 1998



Total = US$46.4 billion

Official creditors (multilateral and bilateral) remained the largest source of funds with combined exposures aggregating US$22.7 billion or 48.8 percent of the total. A shift to alternative sources of funding such as bonds/notes issuances was noted in the last five years. As a result, the total share of debt owed to bondholders/noteholders almost doubled as of end-September 1998 to 24.1 percent from only 12.8 percent in 1993. In addition, only five new bond issues with different maturities totaling US$1.0 billion were issued during the first nine months of 1998 reflecting difficult market conditions brought about by the lingering effects of the regional currency crisis. Proceeds from these issues were partly used to fund the 1998 National Government expenditures including foreign exchange requirements for debt service, and the rehabilitation/upgrading of existing plants and other facilities of the National Power Corporation. In terms of currency mix, the country's debt stock continued to be largely denominated in U.S. dollar (57.8 percent) and Japanese yen (22.2 percent).

While the debt service burden (consisting of maturing principal and interest) decreased during the period relative to end-1997, its ratio to total exports of goods and services increased to 12.8 percent from 11.6 percent due mainly to the decline in receipts from services.

Outlook for 1999

Since the onset of the Asian financial crisis in mid-1997, the macroeconomic environment has undergone exceptional changes. The peso experienced a sharp depreciation and domestic interest rates rose significantly. This major reconfiguration of the economic landscape following the currency crisis, which took its toll on the corporate and financial sectors, and the weather-related decline in agriculture led to a slowdown in economic growth. Nonetheless, the Philippine economy has continued to show remarkable resilience. The peso has stabilized in recent months, the external account has moved into surplus, inflation has been contained, interest rates have gone down and the banking sector remains generally sound.

The priority for economic policymakers now is to foster an environment conducive to a resumption of economic activity. A recovery in overall output is expected as the economy had bottomed out in the latter part of 1998. This will help improve the performance of the country's corporate and financial sectors.

The authorities are fully aware of the risks that lie ahead given remaining uncertainties in the regional and global outlook. A slowdown in economic growth in advanced economies, particularly the US and Europe, and a delay in Japan's recovery may complicate the achievement of an early and clear recovery of domestic output in 1999. A possible yuan devaluation is also a concern as this could trigger another round of region-wide currency adjustment, which could induce a reallocation in investor portfolios away from emerging economies. However, the Philippine experience during the Brazilian tremor where the peso sustained its stability even as the Brazilian *real* was devalued, could indicate that investors are slowly becoming able to differentiate among economies. The challenge therefore is to sustain the country's macroeconomic fundamentals and continue sound economic policies to bolster further market confidence in the Philippines. On the domestic front, improved performance of the agricultural sector would be crucial in restoring the economy to a faster growth path in 1999.

Recognizing the potential effects these challenges may have on economic recovery in 1999, the task now is to undertake sensible policies that will boost demand under stable macroeconomic conditions. In particular, the government will continue to pursue an expansionary fiscal stance in 1999 to take up the slack in private demand. This policy stance will be supported by structural improvements in the tax system and reforms of financial sector taxation. The expected fiscal deficit will be covered mainly by external financing to ensure that it does not lead to a crowding out of the private sector and an increase in domestic interest rates. Meanwhile, monetary policy will maintain a balanced stance - promoting a moderation of inflation and stabilization of the peso while ensuring the availability of domestic liquidity to support growth. A scenario of low inflation and a stable exchange rate will permit further declines in nominal interest rates and provide a basis for sustained growth. Overall, the objectives for 1999 under the country's economic and financial program include the achievement of a real GNP growth of 1.5 - 3.5 percent; an inflation average of 8.0 - 9.0 percent; external account balance of 0.6 percent of GNP; and an end-1999 gross international reserve level of US$12.9 billion.

Efforts in the area of banking reform will continue to ensure that the system can better withstand potential shocks in the face of remaining uncertainties in the regional and global environment. Further improvements to the framework for failure resolution for the speedy settlement of potential problems in the banking system are being worked out. Additional measures to strengthen prudential standards and bank supervision will also be pursued. Legislative measures are in the pipeline to amend the General Banking Act and the New Central Bank Act to, among others, enhance the supervisory and enforcement powers of the BSP and to further enhance its independence.

The role of the private sector at this point of the economic downturn cannot be overemphasized. Elements of the current environment -- relatively stable exchange rate, single-digit inflation and declining interest rates -- are key to a resumption of growth, and the private sector is expected to positively respond to the improving conditions. The BSP, for its part, has helped engender the steady decline in interest rates without risking a pick-up in inflation. A two-step reduction in reserve requirement was implemented during the first quarter of 1999. BSP policy rates have also been reduced considerably since the beginning of the year. Within the current policy framework, the monetary authorities will continue to monitor overall market conditions and make appropriate adjustments when necessary in order to pave the way for the resumption of sufficient lending activity necessary to promote economic activity.

PART TWO: THE BANGKO SENTRAL NG PILIPINAS

Key Policies During the Year

Monetary and Credit Policies

Reserve Requirement. During the first half of 1998, the BSP implemented measures aimed at lowering bank intermediation cost to induce further declines in bank lending rates. In particular, a recomposition of the reserve ratio was implemented effective 20 March 1998, which reduced banks' statutory reserve by 3 percentage points to 10 percent and increased liquidity reserves by an equal amount to 7 percent. This effectively allowed banks to earn market rates on a larger portion of their reserves. The BSP reduced anew the required reserves by 2 percentage points effective 29 May 1998. At the same time, the interest earning portion of banks' reserve balances with the BSP was increased from 25 percent to 40 percent.

Effectivity date	Statutory	Liquidity
30-Jul-93	20	
31-Dec-93	17	2
15-Aug-94	15	2
31-May-95	14	2
03-Jan-97	13	2
04-Jul-97	13	2
31-Jul-97	13	4
15-Aug-97	13	5
29-Aug-97	13	8
05-Sep-97	13	7
19-Sep-97	13	6
15-Oct-97	13	5
15-Nov-97	13	4
20-Mar-98	10	7
29-May-98	8	7
02-Oct-98	10	7

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

During the latter part of the year, banks' liquidity resulting from reduced lending activity induced funds to flow to the Treasury-bill market. Meanwhile, the shift of fund sourcing by the NG in favor of the overseas financial market to finance the fiscal deficit afforded the Bureau of the Treasury to reject high bid rates, resulting in the downtrend in T-bill rates. Given this development in the T-bill market and coupled with renewed volatility in the regional markets in response to concerns about the continued slide of the Japanese yen and possible devaluation of the Chinese yuan, the excess funds of banks have shifted to the foreign exchange market, exerting pressure on the peso. In light of this, the BSP adopted measures aimed at stabilizing the foreign exchange market by ensuring an appropriate level of liquidity with minimal impact on banks' intermediation cost and interest rates. In particular, the BSP increased the statutory reserve requirement on banks' (except rural banks) peso deposit liabilities and deposit substitutes (effective 2 October) as well as on trust accounts (effective 9 October). This policy change raised by two percentage points the level of reserve requirements on deposit and deposit substitute liabilities of commercial banks, while a one percentage point increase in statutory reserve requirements for thrift banks was imposed. At the same time, the interest rate paid by the BSP on 40 percent of banks' balances with the BSP was raised from 4 percent to 4.5 percent (except rural banks).

Rediscount Window. To ensure adequate supply of funds to vital sectors of the economy, the rediscount budget was increased several times during the year. From P4.5 billion in January 1998, the rediscount budget was increased to P5.7 billion in April, to P7.0 billion in June and to P10.0 billion in August, to P15.0 billion in September and P20.0 billion in November 1998. The interest rate on rediscounting loans was adjusted monthly at one percent below the 91-day T-bill rate of the last auction date of the previous month. From 17.045 percent in January 1998, the rediscount rate moved up to 18.286 percent in February before declining to 16.568 percent in March 1998. The downtrend in the rediscount rate continued until the end of the year, settling at 12.401 percent in December 1998.

The dollar rediscount window of the BSP (otherwise known as the Exporters' Dollar Facility or EDF) which was established in 1995 as a support facility for the export sector with a budget of US$500 million continued to become available to exporters through domestic banks. The interest rate on EDF loans was adjusted every three (3) months, based on the prevailing 3-month LIBID rate. In February 1998, the BSP raised the allowable interest spread to be charged by domestic banks on funds availed under the EDF from one percent (1%) to two percent (2%) after applicable taxes on the foreign exchange loan. The increase in the interest spread was meant to encourage banks to maximize utilization of the EDF at a time when banks were reluctant to grant foreign exchange loans to exporters.

Open Market Operations. Open market operations (OMO) remained the major instrument of BSP's monetary management. Amid volatile market conditions in 1998, the BSP relied on OMO to maintain an appropriate level of domestic liquidity in line with the objectives of promoting price stability and containing wide fluctuations in the exchange rate.The main OMO instruments included repurchase agreements (R/Ps), reverse repurchase agreements (RR/Ps) and BSP's holdings of government securities.

During the year, the BSP aimed at monetary restraint in the conduct of its OMO as it sought to contain further inflationary pressures and speculation in the foreign exchange market. The BSP siphoned off a total of P67.3 billion through OMO, mainly through higher borrowings under the RRP facility (P28.1 billion); increased Treasury bills holdings (P25.7 billion); as well as reduction in lending under the RP window (P13.5 billion). This contraction was mitigated in part, by the expansionary impact of net withdrawals from the NG deposits with BSP; net inflows to the country's Net International Reserves (NIR); and increase in emergency advances to banks by the BSP which, taken together, injected P75.4 billion into the financial system. The OMO was complemented by a series of adjustments in the statutory and liquidity reserve requirements.

Interest Rate Policy

Interest rate policy during the year was guided by the overall objective of controlling inflation and stabilizing the peso. In this light, the BSP set its overnight and term policy interest rates consistent with the targets for monetary aggregates and international reserves, as well as the BSP's thrust to induce a decline in nominal interest rates to promote a resumption of stronger economic growth. Operationally, the BSP set its policy interest rates on a day-to-day basis given market signals, specifically T-bill rates and exchange rates.

During the year, the BSP policy rates were adjusted especially as the peso came under renewed pressures. In particular, BSP's borrowing and lending rates were raised to thwart speculative pressure brought in by the currency meltdown in Indonesia and the financial collapse of Peregrine Investment Holdings Ltd. in January and public protests over food prices in Indonesia in March. Similar adjustments were made on the rates to calm the market as speculative attacks on the peso resurfaced days before the national elections in May. Interest rates were subsequently lowered as market pressure eased. In August, mounting concerns over the health of the region's financial markets prompted the BSP to raise anew its key interest rates. Upward adjustments in the rates were sustained in September to siphon off excess liquidity in the system brought about by the banking system's restrained lending activities as well as to temper the market against brewing concerns over the financial health of PAL. Beginning October, however, BSP policy interest rates were gradually lowered as the foreign exchange market stabilized and as regional markets showed signs of improvement.

In response to calls for the BSP to bring down interest rates through regulation, the Monetary Board in March 1998 constituted a Committee on Interest Rates to conduct public hearings on the issue of whether the BSP should fix or otherwise regulate banks' lending rates. Based on the results of the public hearings, the Committee did not recommend adopting a policy of directly regulating interest rates, except during abnormal situations and unless appropriate rules and procedures could be effectively applied, mainly because of the inefficiencies resulting from such practice. In its report, the Committee stated that a reduction in interest rates could be achieved through other existing monetary policy tools and measures. Alternative proposals to lower interest rates identified by the Committee were as follows:

1. publications of banks' cost of funds for more transparency;
2. imposition of stiffer penalties on banks violating the overbought/ oversold foreign exchange positions and regulations on DOSRI loans;
3. establishment by the BSP and BAP of a mechanism to report and address abuses of irresponsible banks;
4. lowering of components of intermediation costs; and
5. linking rediscounting privileges provided by the BSP to the banks' performance in lowering their lending rates.

Meanwhile, to address the credit availability problem, the Committee endorsed the use of fiscal tools that would raise the funding to match the long-term needs of various sectors, such as the issuance of fixed-rate five-year bonds based on market rates.

Financial Structure Policy

The thrust of banking policy during the year was to sustain a sound and stable banking system in the face of slowing economic activity and rising cases of corporate distress.

On 19 March 1998, the BSP, through Circular No. 156, further raised the minimum capital requirements of banks by 20 to 60 percent for compliance until end-December 2000. In this regard, banks were required to submit a capital build-up program within three months from the date of the Circular.

The Circular was intended to strengthen and consolidate the financial system. To further encourage consolidations and mergers, the BSP granted additional incentives to banks that would enter into such arrangements (Circular No. 172 dated 3 September 1998).

To enforce strict compliance with the set minimum capital requirements, the BSP imposed monetary and non-monetary penalties for delayed or non-submission of capital build-up program from date of notification of capital deficiency (Circular No. 176 dated 7 September 1998). Furthermore, undercapitalized banks were required to enter into a Memorandum of Understanding with the BSP detailing the capital deficient bank's restoration plan to improve its capital position (Circular No. 181 dated 14 November 1998). The Circular also outlined a prompt corrective action program for the guidance of undercapitalized banks.

The BSP, likewise, implemented measures to improve transparency in the banking system and promote market discipline. Specifically, the BSP, among other things, required banks: 1) to disclose in their quarterly statement of condition (for publicly listed banks), the amount of non-performing loans and ratio to total loan portfolio, amount of classified loans and other risk assets, general loan-loss reserve and specific loan-loss reserve effective December 1998 (Circular N0. 157 dated 19 March 1998, effective December 1998); 2) to post within the premises of their head offices and branches relevant information related to interest on loans (Circular No. 160 dated 25 March 1998); and 3) to include in their Consolidated Statement of Condition information on the current level of restructured loans with and without uncollected capitalized interest and the total allowance for probable losses (Memorandum to All Banks dated 22 June 1998). Meanwhile, any director, officer, stockholder together with related interest (DOSRI) is required to waive the secrecy of his deposits should he avail himself of a loan in excess of 5 percent of the capital and surplus of his bank, or in the maximum amount permitted by law (Circular No. 170 dated 5 August 1998). The BSP also outlined the policy guidelines in resolving problem bank issues under Circular Letter dated 11 August 1998.

To manage settlement risks, the BSP, through Circular No. 163 dated 8 April 1998, issued guidelines for clearing checks of thrift banks authorized to accept demand deposits. Meanwhile, in line with efforts to maintain the integrity of the banking system, the BSP implemented stricter qualification and competency criteria in processing new bank licenses (Circular Letter dated

13 July 1998). The move would ensure that new bank organizations will have suitable shareholders, adequate financial strength, and a management with sufficient expertise and integrity to operate the bank in a sound and prudent manner. In a related development, stricter requirements were also issued for the setting up of new bank branches to allow only safe and sound banks to put up new branches (Circular Nos. 182-184 dated 4 December 1998).

To align the BSP definition of restructured loans with international standards, the BSP adopted the revised guidelines on restructured loans of banks and non-banks with quasi-banking function (Circular No. 169 dated 13 July 1998). Under this Circular, restructured loans (including capitalized interest on restructured loans) are treated as performing loans provided that these are in current status and are fully secured by real estate or first-class collaterals.

Moreover, proposed bills amending the General Banking Act and the new Central Bank Act are currently pending in Congress. Proposed amendments include, among other things, provisions that would make the banking system's legal and regulatory framework conform with internationally accepted standards, promote competition in the banking system and enhance the independence of the BSP and its ability to maintain stability in the banking system.

Foreign Exchange Policies

Exchange Rate Policy. The BSP continued the policy of keeping a market-determined exchange rate and limiting its intervention in the foreign exchange market to what is necessary to smoothen sharp fluctuations and to maintain orderly market conditions during periods of market turbulence. In line with this policy, the BSP's presence at the Philippine Dealing System (PDS) since the peso was allowed to move within a wider band in July 1997 was minimal and the volume of intervention remained consistent with the country's monetary program. In 1998, BSP's dollar sales were limited to only US$3.0 million (0.01 percent of total sales) at the PDS, while BSP's dollar purchases amounted to US$104.5 million or 0.31 percent of the total volume of transactions. From 1 May to end-December 1998, the BSP refrained from participating in the PDS.

Amid the crisis during the year, the BSP raised overnight policy interest rates to cool down the market and to shift preference from foreign currency-to domestic currency-denominated instruments. However, these rates were lowered gradually as market conditions stabilized. Specifically, when the peso came under renewed speculative pressure in August 1998 on account of the sharp drop in the Japanese yen and subsequent fears of the possible devaluation of the Chinese yuan, the BSP implemented successive hikes in its overnight borrowing and lending rates (by a total of five percentage points each) to 18.0 percent and 20.0 percent, respectively. As the peso recovered and the foreign exchange market regained relative stability, the BSP gradually brought down its overnight rates. By 3 December, the BSP's overnight borrowing and lending rates stood at 13.375 percent and 15.375 percent, respectively.

The BSP likewise introduced other measures to foster stability in the foreign exchange market. On 7 January 1998, the BSP opened the Currency Risk Protection Program (CRPP) to temper panic buying of dollars by unhedged foreign exchange borrowers. The CRPP provided eligible corporate borrowers with an instrument with which to hedge their unmatured foreign currency obligations to FCDUs as of 19 December 1997. It helped eliminate undue demand pressure in the spot market coming from this segment. When the peso came under renewed speculative pressure in August 1998, the BSP further expanded the maturities eligible under the CRPP to cover FCDU loans outstanding as of 15 July 1998 (Circular No. 174 dated 2 September 1998).

On 7 April 1998, the BSP issued Circular No. 162 reducing the amount of dollars that banks can sell over-the-counter (OTC) without need of supporting documents, from US$25,000 to US$10,000. The BSP also provided more stringent penalties/sanctions on banks found to be in violation of the net open foreign exchange position limits through Circular Letter dated 13 March 1998. This circular rationalized the penalty structure, taking into account the gravity, frequency and duration of a bank's violation. Thus, banks are penalized immediately on the first day of violation. The concept of "abusive" or "chronic" violations was also introduced, defined, and punished with more severe sanctions.

The BSP also issued guidelines (Circular Letters dated 20 April 1998 and 1 July 1998) to facilitate and simplify reports and other documents to be submitted to the BSP to strengthen the monitoring capability of the supervisory authorities. Under these Circular Letters, the BSP required the consolidation of banks' accounts with their subsidiaries and affiliates in the computation of banks' foreign exchange positions. This was to prevent banks from diverting their dollar transactions to subsidiaries and affiliates to circumvent the limits set by BSP on the allowable overbought/oversold foreign exchange positions. Meanwhile, Circular Letter dated 3 September 1998 amended guidelines for the issuance of custodian banks of a Bangko Sentral Registration Document (BSRD) for a portfolio foreign investment to implement the one-BSRD-per-investor per Custodian Bank rule. This change simplified the documentation procedures and improved the monitoring and audit mechanism of BSP.

To further ease the tight foreign exchange situation during the third quarter of the year, the Monetary Board decided to lift the oversold foreign exchange position limit through the issuance of Circular No. 171 dated 29 August 1998. The lifting was allowed, on a temporary basis, subject to review within six months from the issuance of the circular. However, the limit set on a bank's overbought position was retained at 5 percent of its unimpaired capital or US$10 million, whichever is smaller.

Meanwhile, to enhance the market orientation of exchange rates and given the stability achieved in the foreign exchange market, the BAP phased out the volatility band on 23 March 1998. The volatility band was earlier re-imposed by the BAP on 7 October 1997 to help stabilize the foreign exchange market .[3]

The implementation of these measures resulted in some stability in the foreign exchange market and improved investors' confidence. These translated into higher capital and financial net inflows. All these allowed the BSP to gradually build up its international reserves to US$10.8 billion as of end-December 1998 from US$8.8 billion at end-December 1997.

[3] While the BAP observed volatility bands in the past, the practice was temporarily suspended at the beginning of the peso float in July 1997 to allow the peso to freely seeks its level.

Meanwhile, the turnover of the BSP's regulatory responsibilities over several non-bank financial institutions to the Securities and Exchange Commission (SEC), as mandated under Section 130 of the New Central Bank Act, was completed in July 1998. Among the institutions transferred to SEC's responsibility include lending investors, financing companies not engaged in quasi-banking functions and other institutions performing similar functions.

Management of International Operations

Foreign Exchange. The BSP intensified the monitoring of foreign exchange operations of the financial system to ensure that transactions are in compliance with foreign exchange rules and regulations. During the year, a number of foreign exchange regulations were tightened to respond to the effects of the currency turmoil.

The BSP enforced strict adherence to the required net foreign exchange position of banks by providing more stringent penalties/sanctions on erring banks. The penalty structure was rationalized to take into account the gravity, frequency and duration of a bank's violation. Verification procedures were enhanced as the BSP's Foreign Exchange Department (FED) has gained access to data on banks' unimpaired capital.[4] Monetary penalties collected for violations of foreign exchange limits and submission of late/incomplete reports amounted to P1.9 million.

Reflective of banks' increased use of derivatives in their operations, a total of 41 applications for authority to engage in derivatives activities were acted upon by the BSP. To ensure fitness of banks to engage in derivatives trading, on-site examination of risk controls, presentation of mechanics for derivatives transactions and submission/revisions of Policy Manuals were required prior to the approval of applications. Meanwhile, monitoring of transactions of banks actively trading in derivatives for supervision and statistical purposes was further enhanced with the revision of guidelines for the accomplishment of reports on these transactions.

During the year, the BSP participated for the first time in the Bank for International Settlements (BIS) Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activities (1998). The survey collected information on turnover and outstanding transactions of commercial banks in the country by type of foreign exchange and derivatives instrument.

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[4] A bank's open foreign exchange position is computed as a percent of its unimpaired capital.

With the opening of the BSP's Currency Risk Protection Program in January 1998, applications of borrowers with outstanding foreign exchange obligations were evaluated to determine eligibility under the program. Availments under the program reached US$213 million (includes roll-overs of maturities of US$72 million).

During the year, the BSP recommended for approval applications of five (5) foreign banks to establish representative offices in the Philippines and the closure of operations of one offshore bank unit (Bank Dagang Nasional Indonesia) and two representative offices (Export-Import Bank of Korea and Korea Development Bank). The closure came in the aftermath of the regional crisis as a number of Asian banks consolidated their operations by closing overseas offices.

On fiscal operations/services, BSP purchased a total of US$165.93 million representing proceeds of NG loans from the Overseas Economic Cooperation Fund and the World Bank Group (IBRD and IDA), peso proceeds of which were paid to various contractors-beneficiaries.

International Trade. The BSP continued to support efforts of the government to promote foreign trade by monitoring closely the country's trade financing requirements. This is to ensure that adequate financing is made available to sustain the conduct of foreign trade. Likewise, the BSP provided linkages and assistance in international trade-related matters.

Availments of short-term export financing in 1998 amounted to $4.6 billion, 48.9 percent or US$4.4 billion lower than the US$9.0 billion posted in 1997. Short-term export financing in the form of FCDU loans amounted to US$2.4 billion, lower by 57.9 percent from the level of US$5.7 billion obtained in 1997. This reflected the reluctance of exporters to obtain dollar-denominated loans given the very volatile foreign exchange market. The bulk of FCDU loan availments in 1998 was channeled to the export production of electrical equipment and parts, electronics, and food and beverages. The BSP rediscount facility provided peso export financing through banks amounting to P5.4 billion, up by 17.4 percent or P778.9 million from the 1997 level of P4.6 billion. In contrast, the dollar rediscount of the BSP fell by 23.7 percent or US$75 million to US$242 million in 1998. Likewise, advances of exporters from their buyers abroad dropped to US$1.8 billion from US$2.89 billion in 1997. In 1998, imports through letters of credit (LCs) declined by nearly three fifths to US$6.1 billion from US$9.9 billion a year ago. Availments of DA/OA also fell by US$1.5 billion to reach US$3.9 billion as against US$5.4 billion a year ago.

The BSP's import operations included the processing and verification of 30,900 transactions involving DA/OA availment as reported by AABs. Moreover, the BSP responded to importers' queries on import procedures, rules and regulations and commodity classification under the Philippine Standard Commodity Classification (PSCC), among others.

Foreign Investments. The BSP registered about 1,672 applications for inward foreign direct equity investments and 50,741 foreign portfolio investments. Approved applications for both types of investments amounted to US$5.8 billion. Periodic reports were prepared to analyze growth, types, country and direction of these investments. Meanwhile, the BSP created a Task Force on Foreign Investment Inflows to develop and strengthen BSP's monitoring, data gathering and reporting of foreign direct investments and sources of foreign exchange inflows.

The BSP registered a total of US$4.9 billion of inward portfolio investments, a decrease of 52 percent from the previous year's US$10.2 billion. About 88 percent of these were funded by cash while the remaining 12 percent were from reinvestments and debt-to-equity conversions.

The leading country investor was the UK with US$1.7 billion (35 percent of total investments) followed by the USA and Singapore with US$1.1 and US$0.7 billion, respectively (comprising 23 percent and 14 percent of the total registered-investments, respectively). These investments benefited mainly the public utility sector, which accumulated US$1.2 billion, 60 percent of which went to the communications industry; the financial institutions sector with US$1.2 billion; and the real estate sector with US$1.0 billion. Increased investments in the communications sector was fueled by news of an impending acquisition by Hong Kong-based First Pacific Co. (FPC) of PLDT. The acquisition materialized on 24 November when FPC acquired PLDT shares worth US$749 million, equivalent to a 27.4 percent voting interest.

Foreign-direct equity investments registered with the BSP, reached US$885 million, 16 percent lower than the 1997 level of US$1,053 million. The US, Japan and the Netherlands led the list of registered investors, accounting for 27 percent, 17 percent and 10 percent respectively of the total. The leading industry recipients of the equity infusions were manufacturing, financial institutions and commerce and real estate group, absorbing 68 percent of total investments. Close to two-thirds of total registered equity investments came in cash, followed by intangible assets in the form of converted earnings, stock dividends and capitalized oil/geothermal expenditures (28 percent) and debt-to-equity conversions (6 percent).

BSP-registered outward investments by Philippine residents amounted to only US$1 million, a huge drop from the US$25.8 million recorded a year ago. Of the total amount, US$0.1 million went to Guam and US$0.9 million was invested in Italy.

External Debt. The thrust of the BSP's external debt management for the year focused on improving access to foreign financing to fund priority projects and ensuring that foreign liabilities are well within the country's debt servicing capacity.

In 1998, the difficult market conditions and slowdown in economic activity were reflected in lower amount of foreign loans submitted to the BSP for approval. Medium- and long-term (MLT) loans approved by the BSP during the year amounted to US$6.9 billion (excluding the US$1.4 billion standby facility under the IMF), or 16.1 percent lower than the US$8.2 billion approved in 1997. Of the amount, US$4.3 billion or 63 percent were loans of the public sector while the balance was accounted for by the private sector. While approvals for public sector loans posted an increase of 49.9 percent, loans for the private sector declined by 52.1 percent. The surge in public sector borrowing vis-à-vis the private sector reflected the government's stance to source its funding requirements abroad in order to avoid raising domestic interest rates and the private sector's reluctance to borrow from abroad due to the volatile foreign exchange market and slowdown in economic activity.

The public sector successfully tapped the international bond market for funds through the issuance of the US$500 million 10-year Global bonds by the National Government (NG) and the US$300 million 30-year Yankee bonds by the National Power Corporation (NPC). Proceeds from the sale of these bonds were earmarked to finance debt service expenditures of the government as well as the rehabilitation and improvement of NPC's existing plants and facilities. In addition, major loans approved to finance public sector infrastructure and development projects included US$1.4 billion loan from the OECF, US$300 million from the World Bank and $571 million from the ADB. By creditor type, bulk of new public sector loans in 1998 were obtained from multilateral creditors (48.8 percent) and banks and other financial institutions (20 percent).

Meanwhile, approved loans of the private sector included US$402 million in the form of bonds and notes and US$948.8 million under the Build-Operate-Transfer (BOT) scheme. Of the total loans approved, 45.5 percent or US$1,161 million were loans from banks and financial institutions and 28.3 percent or US$722 million from bilateral sources. Loans with maturity of over 5 years accounted for 69 percent of total loans approved for the private sector.

In compliance with Circular No. 1389, requiring prior BSP registration for private sector loans seeking access to banks' foreign exchange for future debt servicing, a total of 77 MLT loan applications were registered in 1998 aggregating US$2.2 billion. Total loans of foreign currency deposit units (FCDU) approved during the year amounted to US$907.5 million, an increase of 34.2 percent from the previous year's level of US$676 million.

BSP Operations as Fiscal Agent of the Government

In July 1998, the BSP completed the turnover of its fiscal agency functions to the Department of Finance/Bureau of the Treasury (DOF/BTr) as mandated by Section 129 of the New Central Bank Act.

By end-1998, all of BSP's remaining fiscal agency-related responsibilities, such as the servicing of outstanding matured but unredeemed government securities and the retirement/destruction by incineration of redeemed/paid securities/interest coupons, had been effectively transferred to the DOF/BTr. Winding-up activities, including inventory and disposal of records, were also completed during the year.

Other Activities

Notes and Security Printing. The 1998 production of 735.496 million notes was 344.25 million notes less than the 1,079.75 million ordered by the Cash Department. However, this level was 18.7 percent higher than the 619.77 million notes in 1997.

Production of regular checks at 97.5 million pieces and special checks at 16.9 million pieces reflected a slight 0.33 percent increase against last year's production. Order for special checks increased by 24.93 percent due mainly to the re-entry of GSIS accounts. The 1998 order for passports was 1,321.7 thousand booklets while production totaled 1,289.8 thousand.

The BSP produced a total of 13,100 of Seafarer's Identification Record Book (SIRB) in 1998. These covered the balance due to lag in production on the previous years' (1994-97) order of SIRB by MARINA.

Gold Refinery. In 1998, gold purchased from gold panners/traders totaled 670.1 thousand troy ounces, equivalent to P7.8 billion. The quantity purchased was 42 percent higher than the previous year's 471.9 thousand troy ounces of gold purchased.

Meanwhile, the year's refined gold production consisted of 1,446 "good delivery" gold bars with a minimum assay of 99.5 percent and containing 581.3 thousand troy ounces of fine gold. The production of refined gold exceeded the annual target of 450.0 thousand troy ounces by 29.2 percent.

Refined gold released through the BSP Treasury Department for delivery to Morgan Guarantee Trust Co. of NY (JP Morgan) totaled 1,120 "good delivery" gold bars with a weight of 451.2 thousand troy ounces. In addition, 41.8 thousand grams of gold grain/sheets were transferred to the Department of General Services for sale to local jewelers.

The Mint, operating on a single shift, instead of the originally planned two-shift operation, produced a total of 717.263 million circulation coins of the new series representing 62.2 percent of 1998 Cash Department coin order. These consisted of 1-Piso, 25-, 5- and 1-Sentimo denominations.

Coins delivered to the Cash Department including the foreign mints-supplied denominations totaled 1.4 billion pieces with a face value of P2.48 billion.

Currency Issuance. New currency banknotes amounting to P82.8 billion were issued in 1998, an increase of P10.5 billion, or 14.5 percent, from last year's P72.3 billion. Notes in the three highest denominations, that is, 1,000-piso, 500-piso, and 100-piso, comprised 86.7 percent of total amount of banknotes issued. Coins issued during the year amounted to P1.55 billion consisting of P1.53 billion worth of BSP coins and P19.8 million worth of commemorative coins. Coin issuances in 1998 were lower by P319.9 million, or 17.1 percent, from the P1.87 billion issued in 1997.

In view of the demonetization of old coins, 344.25 million pieces of the new BSP 5-piso coins had to be imported as finished coins to facilitate delivery in time for the expected peak demand as the demonetization period ended.

The new BSP coinage featured a reduced number of denominations: 1-sentimo, 5-sentimo, 10-sentimo, 25-sentimo, 1-piso and 5-piso in response to public clamor for a simplification of coin design and denomination to avoid confusion.

Clearing Operations. The BSP interbank clearing facilities cleared a total of 45.2 million checks with an aggregate amount of P1.7 trillion during the year compared to 52.2 million checks totaling P1.9 trillion in 1997, or a decrease of P200 billion. The decrease was due mainly to the transfer of the outward regional exchange functions of the Bangko Sentral's Manila Clearing Division to the Philippine Clearing House Corporation (PCHC) on 17 April 1998.

Under the Memorandum of Agreement (MOA) signed by the BSP, PCHC and the Bankers Association of the Philippines (BAP) on 31 March 1998, shipments of checks from Manila to the regions (outgoing) are for the account of PCHC, while shipments from the regions to Manila (incoming) are for the account of BSP.

In September 1998, a door-to-door courier service for outgoing and incoming pouches was introduced. This was implemented simultaneously with the launching of the nationwide inter-regional clearing for Luzon, Visayas and Mindanao. The clearing scheme allows banks in Luzon to clear checks drawn in the Visayas and Mindanao, and vice versa, on a faster mode.

Total clearing fees collected during the year amounted to P94.8 million, up by 3 per cent from the 1998 collection.

Loans and Credit Operations. In 1998, the BSP granted a total of P23.5 billion in loans and advances to financial institutions, a 54.6 percent increase from the previous year's level of P15.2 billion.

Of the total loans released, commercial banks continued to absorb the largest share at 43.4 percent or P10.2 billion. Majority of the availments by institutional borrowers were in the form of emergency loans (51.0 percent), export financing (23.0 percent), and agricultural loans (15.0 percent). There were no loans extended to the National Government.

The number of small- and medium-sized exporter-borrowers (SMEs) who benefited from the rediscounting facility totaled 151, compared to 51 large enterprise borrowers, indicative of the priority given the former in the grant of credits. However, large enterprises absorbed 65.3 percent of the total export rediscounts while SMEs accounted for only 34.7 percent.

Meanwhile, total loans availed of by borrowers under the Exporters' Dollar Facility (EDF) in 1998 amounted to US$241.5 million. This amount reflected a 24.1 percent decline from the 1997 level of US$318.1 million brought about mainly by the drop in the number of exporter-borrowers from 180 in 1997 to 145 in 1998. Twenty-four commercial banks and thrift banks participated in the program.

During 1998, the BSP's total collections on loan principal from borrowing institutions amounted to P25.0 billion, an 8.8 percent drop from the previous year's level of P27.4 billion. This was due primarily to reduced collections from EDF loans.

Total gross income generated from the BSP's lending operations aggregated P3.6 billion, P2.4 billion higher compared to the P1.2 billion registered in 1997. Of the total income earned, P2.4 billion was derived from regular lending operations while earnings from special facilities such as EDF, Agricultural Loan Fund (ALF), and APEX programs amounted to P1.1 billion.

Regional Operations. In 1998, 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 expanding financial transactions in the regions.

Cash and Banking Operations. Total cash receipts amounted to P136.6 billion, 25.4 percent higher than the 1997 level of P108.9 billion. Likewise, cash disbursements posted a growth of 16.7 percent from last year's total of P116.8 billion to P136.3 billion. Cash deposits of some 512 bank branches grew by 29.1 percent from P85.0 billion in 1997 to P109.7 billion. On the other hand, cash withdrawals by banks amounted to P73.4 billion, increasing by 20.7 percent from the previous year's level of P60.8 billion.

Currency Retirement. A total of 440,713 bundles of mutilated/perforated notes amounting to P41.53 billion were retired in the regions, a significant 29.5 percent increase from the previous year's 392,113 bundles worth P32.07 billion.

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 P1.06 billion in rediscount loans, a 6.2 percent drop from the 1997 level of P1.13 billion. Of the total loans granted in 1998, 79.1 percent was channeled to rural banks, 14.4 percent to commercial banks and 6.5 percent to thrift banks. Loan repayments aggregated P0.98 billion, a slight decline of 9.3 percent compared to the 1997 level of P1.08 billion.

Domestic Treasury Operations. Sales of Treasury bills in the three regional offices amounted to P101.8 million, up by 28.4 percent from the previous year's level of P79.3 million. Redemption of matured T-bills valued at P93.6 million increased by 15.3 percent from P81.2 million in 1997.

Gold Buying Operations. Total gold purchases in the three gold-buying stations in Davao, Baguio and Zamboanga increased to 382.3 thousand troy ounces valued at P4.35 billion from 335.5 thousand troy ounces valued at P3.08 billion purchased in 1997.

Bank Supervision and Examination. Of some 638 commercial and specialized bank branches assigned to the Department of Commercial Banks II Units in Cebu, Davao and La Union, 294 branches were examined. This number represented an increase of 14.0 percent from last year's 258 regular examinations.

Clearing Operations. A total of 43.8 million checks and other documents payable on demand valued at P1.58 billion were presented for clearing in the 27 regional clearing units in 1998. Of the total volume of checks cleared, 53.7 percent were local checks, 38.1 percent were "On-Manila" checks (checks drawn against banks in Metro Manila), and 8.2 percent were checks for inter-regional clearing.

Income. BSP branches contributed P103.26 million to the 1998 income of the Bank, consisting of interest income from loans granted, building rentals, handling fees on foreign exchange receipts, penalties/fines collected, and other miscellaneous income receipts. This amount did not include the clearing fees collected by the Accounting Department from participating banks in regional clearing units.

Training Programs/Technical Assistance. The BSP, through its Institute, continued to implement training programs in order to promote professionalism and development among its employees. Seminars and workshops were also conducted to promote employees' health, welfare and well-being. It also provided assistance in conducting seminars for non-BSP employees. These included a course on Basic Banking for Thrift Banks and Rural Banks and a Workshop on the Reporting System for Foreign Exchange Transactions. It also fielded BSP resource speakers to various fora including those on central banking, financial crisis, non-deliverable forward facility, programs and projects of BSP to address the economic crisis, and a workshop-symposium on the year 2000 issue.

The BSP participated in training programs and courses conducted by international organizations and institutions abroad. These included the following IMF courses: Financial Programming and Policy; Balance of Payments Statistics; Money and Banking Statistics; Techniques of Financial Analysis and Programming; and Monetary and Exchange Operations. BSP personnel likewise attended SEACEN seminars/workshops, including: Operations and Implications on Electronic Money; A Regulators' Plan on Bank Failures; Legal Aspects of Central Banking; 31st SEACEN Course on Banking Supervision; SEACEN Seminar on Financial Crisis in the ASEAN Region; SEACEN-BIS Seminar on Monetary Policy in a Liberalized Environment; and Real Time Gross Settlement. BSP personnel also attended seminars on applied monetary and financial economics for portfolio management and dealing room trade conducted by different financial institutions abroad. BSP officials likewise participated in the various Executive Meeting of East Asia and Pacific Central Banks (EMEAP) Working Group Meetings and the EMEAP course on Year 2000 Issue.

International Economic Cooperation. In line with the BSP's commitment to promote international economic and financial cooperation, the BSP participated actively in the various programs and projects organized during the year by international and regional bodies of which it is a member.

South East Asian Central Banks. The BSP participated in the Thirty-Third Conference of SEACEN Governors held at Denpasar, Bali, Indonesia on 13-15 February 1998. The meeting stressed the role of the SEACEN in facilitating active policy coordination and mutual surveillance to promote stability within the overall framework of liberalized capital markets. The participants discussed also the recent developments of SEACEN economies and the prospects in 1998 as well as activities of the SEACEN Research and Training Centre. On 27 February 1998, the BSP was represented at the ASEAN Currencies for Intra-ASEAN Trade Settlement Meeting in Kuala Lumpur, Malaysia. The meeting produced a concept paper aimed at enhancing the use of ASEAN currencies for intra-ASEAN trade settlement. On 1-2 October 1998, the BSP participated in the Annual SEACEN Meeting of Directors for Research and Training held at the SEACEN Centre, Kuala Lumpur, Malaysia. The meeting reviewed the Centre's proposed program of activities for the coming year and discussed the progress report on the activities of the Centre for the current year.

Executives' Meeting of East Asia and the Pacific Central Banks. The BSP participated in the 4th Executive Meeting of East Asia and the Pacific Central Banks (EMEAP) Working Group Meeting on Financial Market Development on 12-13 March 1998 in Sydney, Australia. As member of the Working Group, the BSP representative apprised the meeting on the outcome of the pilot studies on financial market development on the basis of a set of questions from the Reserve Bank of Australia (RBA) and Bank of Japan (BoJ). The BSP also participated in the 15th EMEAP Deputies Meeting held in Singapore last 19-20 March 1998. Aside from the regular progress reports of the working/study groups, the participants discussed the member-countries' recent economic, monetary and financial developments with emphasis on the effectiveness of economic programs and measures; balancing exchange rate and interest rate considerations in the monetary policy formulation; and options to regain confidence. Likewise, these senior officials of the central banks and monetary authorities of the member-countries reviewed the Manila Framework on regional cooperation to enhance prospects for financial stability. On 14 July 1998, the third EMEAP Governors' Meeting was held in Tokyo, Japan. In this meeting, the governors reviewed the economic and monetary developments in the Asia Pacific region. There was also an exchange of views on the relationship between international investments and financial stability from the various perspectives, including financing structure and economic growth, prerequisites for capital account liberalization, appropriate sequencing of liberalization, effectiveness of capital account regulations and implications for monetary policy. On 23 November 1998, the 16th EMEAP Deputies' Meeting was held in Auckland, New Zealand. The meeting focused on recent economic, monetary, and financial developments of member-countries, progress reports of the EMEAP working groups and key policy issues facing the region.

Meeting of Bank for International Settlements (BIS) Working Party on Domestic Monetary Policy in Asia. Following the 15th EMEAP, the BIS Working Party on domestic monetary policy in Asia met on 20 March 1998 also in Singapore. The participants discussed issues relating to developments in capital flows, domestic financial markets and asset prices as well as on how these affect the conduct of monetary policy.

Fifth Foreign Exchange (FOREX) South East Asia (SEA) Forum. The BSP sent participants to the 5th Forex SEA Forum at Shangri-La, Mactan on 18-20 September 1998. The Forum, which was attended by 120 delegates consisting of senior bank officials and central bankers from Indonesia, Thailand, Singapore, Malaysia and the Philippines, discussed the present state and prospects of the foreign exchange industry in the SEA region in the face of recent global developments.

Tenth International Conference of Banking Supervisors. The BSP participated in the 10th International Conference of Banking Supervisors held in Sydney, Australia on 20-23 October. The delegates in the Conference shared their country's experiences in bank supervision and discussed issues involved in implementing the Core Principles for effective banking supervision.

Twenty-Second South East Asia, New Zealand and Australia (SEANZA) Governors' Meeting. The BSP participated in the Annual SEANZA Governors' Meeting that was held back-to-back with the SEANZA Governors' Symposium in New Zealand on 20 November 1998. The discussion during the symposium focused on monetary policy and financial system stability issues.

Annual Meeting with Senior Officials of Selected Central Banks. This yearly meeting which was participated by the BSP was held in Basle, Switzerland on 3-4 December 1998. The meeting centered on policies on bank restructuring in light of the regional financial crisis.

In the area of international monetary cooperation, the BSP participated in meetings, seminars, and other activities organized by the IMF, the World Bank, and the Asian Development Bank by sending participants or delegates.

The BSP continued to support efforts of the Government to promote foreign investment by sending BSP representatives to the various Philippine delegations that were constituted by an inter-agency committee to negotiate bilateral investment and trade agreements with other countries. In 1998, bilateral investment agreements were signed with India, Turkey and the US Overseas Private Investment Corporation.

International Bond Flotations. To promote the country's global bond offering amounting to US$500 million, the BSP participated in the National Government's roadshow presentation together with representatives from other government agencies. The roadshow presentation was conducted in Hongkong, London and various cities in the USA from 24 March to 4 April 1998. The BSP likewise participated in a roadshow presentation for NPC's US$300 million Yankee Bond issue. The presentations were held in Hong Kong, Singapore, London and the USA on 22 April to May 1998.

New Committees. The BSP reconstituted eight (8) task forces/ committees and created 18 new ones in 1998. Among the new committees were:

1. ***Ad Hoc Project Management Team for the Outsourcing of the Integrated Human Resource Management System (HRMS) Computerization Project (Office Order No. 39, February 16, 1998).*** The team was organized to oversee the various activities under the Project Management Implementation Plan submitted by the contractor (Questronics Corporation) for the outsourcing of the HRMS computerization project. The project is an integrated approach to the computerization of various personnel functions/systems. It is intended to provide computer-ready data and information for the use of Management and the operating divisions of HRMD, BSPI, and Accounting Department. The team was also tasked to coordinate the various requirements of the project that will be sourced from the different departments of the BSP.

2. ***Committee on Personnel Matters (Office Order No. 55, March 23, 1998).*** This committee was created to review proposals concerning personnel matters such as appointments; reorganization in the Bank; compensation structure; issuances, revisions/amendments of personnel policies, rules and regulations of the Bank; and other proposals or requests concerning personnel that may be assigned to it by the Governor for study and review.

3. ***Scholarship Committee (Office Order No. 65, March 31, 1998).*** This Committee was tasked to draw up guidelines for the qualification and selection of personnel for scholarship grants in educational institutions here and abroad. The Committee was also tasked to determine the courses eligible for scholarship and the educational institutions where post-graduate studies may be pursued.

4. ***Transition Management Committee (Office Order No. 75, April 22, 1998).*** This Committee was created in line with Administrative Order No. 385 from the Office President, approving the framework for the 1998 Transition Management Plan. This Committee was tasked to help carry out and implement

the Plan from the BSP side, the main objective of which was to help ensure a proper and orderly transition of government into the next administration.

5. ***Ad Hoc Committee on Economy Measures (Office Order No. 84, April 29, 1998).*** This Committee was constituted to identify and recommend measures that may be adopted to reduce the expenditures of the BSP as required under Administrative Order No. 372 dated 27 December 1997 and made effective on 1 January 1998.

6. ***1998 Annual Corporate Planning Committee (Office Order No. 104, June 11, 1998).*** This Committee was created to oversee the holding of the first annual corporate planning conference on 17 and 24 July 1998, including the determination of the specific program of activities; preparation of the venue, equipment and materials; and administration of the approved budget.

7. ***Inter-Departmental Committee on External Statistics (Office Order No. 119, June 26, 1998).*** This Committee was tasked to work on the improvement of the BSP's external statistics in line with the recommendations of the IMF. It was assigned to resolve issues concerning statistics on the external sector and recommend reporting procedures that will conform with international accounting standards. The objective was to strengthen data monitoring, compilation and measurement systems of the BSP.

8. ***Committee on the Updating of the Manual of Regulations (MOR) for Banks and Other Financial Intermediaries (Office Order No. 162, August 11, 1998).*** This Committee was tasked to oversee the updating of the MOR to incorporate issuances up to December 31, 1996 and to update the MOR on a continuous basis. The Committee was also tasked to explore other medium, other than hard copy, through which the manual can be produced.

9. ***BSP Foreign Travel Committee (Office Order No. 166, August 21, 1998).*** This Committee was constituted to rationalize the grant of authority for official travel abroad. The Committee was authorized to review all proposals for official foreign travel of BSP officials and

employees; recommend policies for the effective implementation of foreign travel-related issuances; and ensure a consistent and judicious application of all travel rules and regulations.

10. ***Corporate Monitoring Committee (Office Order No. 169, August 25, 1998).*** This Committee was created to monitor the implementation, and to evaluate and submit a summary report on the quarterly sectoral progress of the plans and strategies agreed upon during the Corporate Planning Conference on 17 and 24 July 1998. It was also tasked to recommend possible issues for discussion and conference agenda as well as assist in the preparations for succeeding corporate planning conferences.

11. ***Technical Group for the Ad Hoc Committee for Emergency Advances (Office Order No. 237, November 24, 1998).*** This Committee was created to review the present standard operating procedures on collection of past due loans; conduct an inventory of collateral; determine the appraisal value of loans and the status of the liquidation process. The main objective of the Committee is to facilitate the collection of emergency advances through improved collection procedures.

12. ***Committee on Interest Rates (MB Resolution No. 325 dated March 4, 1998).*** This Committee was created to conduct a series of public hearings on the issue of whether or not the BSP should fix or otherwise regulate bank lending rates. The hearings were conducted to determine whether the clamor of some sectors for the BSP to regulate interest rates was justified. The financial crisis that hit the Asian region starting in mid-1997 caused interest rates to rise to nearly double their pre-crisis levels, and affected severely the cash flows of business firms.

PART THREE: FINANCIAL CONDITION OF THE BSP

BSP Balance Sheet

Based on preliminary figures, the BSP's financial condition strengthened further as its net worth increased by 76.9 percent (Table 22).

Total assets grew by 8.5 percent to P741.7 billion from a year ago. The increase in resources came from the P71.6 billion hike in international reserves and the P15.1 billion growth in other assets. The substantial build-up in international reserves reflected the BSP's drawdowns from IMF facilities (US$742 million), club loan proceeds (US$750 million), proceeds from NG's foreign bond flotation (US$492 million) deposited with the BSP, as well as net foreign exchange purchases from AABS (US$210 million) made early in the year. A large portion of the increase in other assets was in the form of accrued interest receivable from domestic assets. These increases in assets were offset partially by the P19.6 billion decline in domestic securities, as BSP sold a significant amount of Treasury bills for its open market operations; and the P11.7 billion reduction in loans and advances, partly as the BSP netted out from its gross loan portfolio additional allowance for losses on its delinquent accounts.

Total liabilities increased by 1.9 percent to P633.8 billion. Aside from the P25 billion increase in foreign loans payable corresponding to the IMF drawdowns and club loan, the BSP also incurred additional borrowings of P28 billion through its reverse repurchase (RR/Ps) facility. These increases in liabilities were offset partially by the P52.8 billion reduction in the revaluation of international reserves account, as substantial revaluation losses were booked following the appreciation of the peso during the year.

The P46.9 billion increase in net worth consisted mainly of actual gains on foreign exchange fluctuations during the early part of the year.

BSP Income Statement

Preliminary data indicated that the BSP's operations for 1998 yielded a net income of P12 billion, P0.2 billion higher than its income in 1997 (Table 23).

Total revenues, exclusive of net gains on foreign exchange fluctuations, amounted to P65 billion, P18 billion higher than the previous year's level. The increase in revenues came from interest income from higher international reserves (P7.7 billion) and substantial sale of domestic securities (P 9.4 billion).

Total expenses at P53.5 billion were higher by P13.5 billion compared to the year-ago level. The bigger outlays were brought about by higher interest expenses on loans payable and other foreign currency deposits (P9.7 billion) and higher other expenses (P7.5 billion). The increment in other expenses consisted of higher taxes and licenses (P5.5 billion) and additional bad debt expenses (P1.8 billion) on delinquent loans. These were offset by lower interest paid on NG deposits (P1.5 billion), as the NG made substantial withdrawals from its deposits with the BSP during the year; and lower interest paid on debt instruments (P2.8 billion), as the BSP limited its RR/P borrowings during the second half of the year to minimize documentary stamp tax (DST) payments following the expiration of its tax exempt privilege in July.

During the year, the BSP remitted P5.1 billion in cash dividend to NG.

PART FOUR : BOX ARTICLES

1 Business Cycles in the Philippines

Two broad, desired outcomes of a successful development policy are a high, sustainable rate of economic growth and stability of the economy along that growth trend. Sustainable economic expansion is a desideratum because a country's growth performance is closely correlated with improvements in the living standards of its citizens. Over the long run, an economy's growth trend is determined largely by how fast technological progress succeeds in improving the productivity of that economy's resources. Over long stretches of time, small changes in a country's rate of economic expansion result in large differences in, among other indicators, measures of life expectancy, literacy, infant and child mortality, and purchasing power of its citizens. In terms of implications on economic welfare in the long run, a country's trend rate of growth easily dominates short-run growth fluctuations in importance.

In the near term, however, the question of stability of economic activity around its long-term trend becomes very important. Thus the study of the determinants of short-run fluctuations of the economy and the appropriate policy responses is a major research effort in macroeconomics.

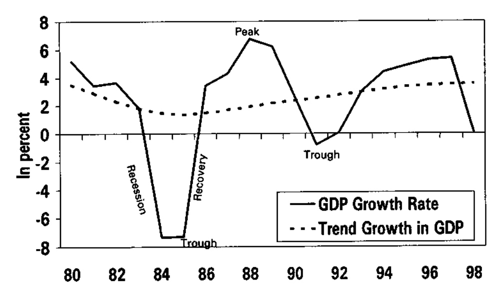

Figure 1

Short-run instability of the economy is costly for several reasons. Uncertainty in the future level of economic activity leads to planning mistakes by business and households. Such mistakes are especially costly for investment decisions, which often involve the setting up of fixed capital, which is usually of use only for the specific purpose for which the investment was made. The costliness of such mistakes often means that the impact on one sector of the economy gets transmitted through time to other sectors of the economy. For all economies, therefore, short-term instability takes the form, not of random fluctuations around the long-term trend, but rather of a cyclical path around the long-run path of the economy. Each portion of the cycle from peak to trough to the next peak constitutes a business cycle. Figure 1 shows a stylized business cycle. In developing economies with structural rigidities, business cycles bear especially hard on the poorer income classes.

Figure 2 shows the growth rate in gross domestic product (GDP) for the Philippines and compares this with the trend rate of growth for GDP.[5] The figure clearly shows a striking dimension of economic growth in the Philippines. The long-term growth trend underwent a secular decline from the 1950s to 1960s, recovered a bit during the 1970s, and then deteriorated quite rapidly after the oil price shock in 1974. This deterioration continued through the mid-1980s, while the trend began a recovery in 1986. Unlike in most developed economies where the business cycle can be traced to fluctuations in aggregate demand (for example, to cycles in inventory investment), the business cycle in the Philippines appears to be part and parcel of this secular decline in the growth trend. The secular decline, in turn, may be attributed to a combination of factors, including inappropriate structural policies, such as an import-substitution strategy, and an increased monopolization of the economy that came with the establishment of an authoritarian form of government in the 1970s through the 1980s.

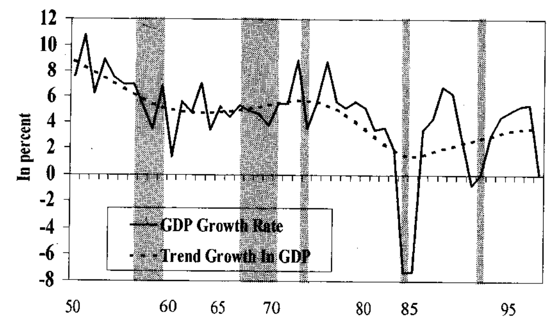

Figure 2

The Philippines in the 1950's adopted an import-substitution strategy of economic growth, which involved the promotion of industrial growth through high trade barriers and the concentration of exports in a few primary commodity areas. However, as the economy grew, the demand for imports tended to outstrip the economy's ability to expand exports, and balance of payments pressures built up. The release of these pressures took the form of balance of payments crises, with accompanying declines in the rate of economic growth. Such recessionary episodes are shown as shaded areas in Figure 2. Growth took the form of what came to be known popularly as boom-bust cycles. The term "boom-bust cycle" refers to a growth pattern that is characterized by substantial swings in economic activity, as the growth during the boom years generated pressures (e.g., in the balance of payments) that made the growth unsustainable.

[5] The trend rate of growth was obtained using the Hodrick-Prescott filter.

The Philippines embarked on a major structural reform effort beginning in the 1980s. By the early 1990s, the foreign exchange market had been liberalized; the trade sector had been substantially opened up with a significant reduction in effective rates of protection; important areas of the economy including the banking, telecommunications and energy sectors were being opened up to competition, and the Central Bank of the Philippines was restructured into the Bangko Sentral ng Pilipinas. This restructuring is important, as it has made possible the conduct of independent monetary policy. However, important weaknesses in the economy remained, many of which were legacies of past economic crises. The savings rate has remained low, thus increasing the dependence of the economy on foreign capital for its investment requirements. This dependence was highlighted by the economy's susceptibility to the Asian crisis which erupted in mid-1997. More than the traditional prescriptions for countercyclical monetary and fiscal policies, therefore, the avoidance of the boom-bust cycle of economic growth in the Philippines depends on the continued pursuit of sound macroeconomic policies and continued structural reforms in the economy, including prudential measures to ensure the health of the financial system.

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2 Towards a Revised General Banking Act

Republic Act No. 337, otherwise known as the "General Banking Act", was enacted by Congress more than fifty years ago on 24 July 1948. Although a number of amendments, the most recent one being passed in 1995, had been incorporated in this law, its form, language and structure have remained virtually unchanged. Meanwhile, the banking and financial system, which the law regulates, has immensely increased in size and scope, complexity and degree of specialization. Clearly, there is a need for a new general banking law that would meet the challenges created by the dynamics of financial deepening and globalization of the economy.

In 1995, the Monetary Board of the Bangko Sentral created a Commission on Bank Reforms composed of representatives from the Bankers Association of the Philippines, Chamber of Thrift Banks, Rural Bankers Association of the Philippines, Association of Bank Lawyers of the Philippines and the Bangko Sentral. The Commission initially drafted the amendments to R.A. No. 337. The draft amendments were further reviewed by the Monetary Board, which decided to propose a revised General Banking Act that will supersede R.A. No. 337, as amended. In September 1997, the proposed bill was submitted to Congress for consideration by the Senate Committee on Banks, Financial Institutions and Currencies and the House Committee on Banks and Financial Intermediaries. The proposed bill aims to: 1) enhance the supervisory and enforcement powers of the Bangko Sentral; 2) improve prudential standards for the banking system; and 3) further enhance the competitiveness of the banking sector. Moreover, the proposed bill embodies provisions which are totally aligned with the other banking laws recently passed by Congress namely, Republic Act Nos. 7906 (Thrift Banks Act of 1995), 7721 (Liberalized Entry of Foreign Banks) and 7353 (Rural Banks Act of 1992). Unfortunately, the proposed bill was not passed in the Tenth Congress.

In the Eleventh Congress, the draft bill on the Revised General Banking Act was re-filed in 1998 by Senator Franklin M. Drilon as Senate Bill No. 589 and by Senator Raul S. Roco as Senate Bill No. 885. A parallel effort was made in the House of Representatives by Congressman Julio Ledesma IV, who re-filed the proposed legislation as House Bill No. 1160.

Specifically, the Bangko Sentral is proposing the following:

To further enhance the competitiveness of the banking sector

1) Liberalize and rationalize the equity and citizenship structure of banks; and

2) Update bank classification to include universal, Islamic and cooperative banks.

To improve prudential standards

1) Strengthen the provisions against possible overexposure of a bank to its directors, officers, stockholders and their related interests (DOSRI);

2) Grant authority to the Monetary Board to adopt internationally accepted standards relating to risk-based capital requirements for banks such as the Basle framework for measuring banks' capital adequacy;

3) Define the functions, authority and minimum capitalization of trust entities;

4) Adopt measures against the concentration of bank credit to certain individuals or entities; and

5) Clarify the powers of universal and commercial banks to invest in allied and non-allied enterprises.

To further strengthen BSP supervision over banks

1) Prescribe the duties and responsibilities of bank directors and officers;

2) Give the Monetary Board authority to disqualify, remove or suspend directors and officers found unfit to continue holding office;

3) Provide clearer and more objective guidelines and additional penalties for unsafe and unsound practices;

4) Require periodic submission and publication of financial statements for greater transparency; and

5) Give the Monetary Board authority to regulate compensation and other benefits of directors and officers in exceptional cases and when circumstances warrant.

In light of continuing adverse developments arising from the regional financial turmoil, the Bangko Sentral recognizes the need to further strengthen the legal framework for supervision of banks and other financial institutions to lay the groundwork for faster recovery. Additional amendments are now being proposed in Congress to: 1) make more explicit the power of the Bangko Sentral to issue, revoke, suspend or annul banking and quasi-banking licenses; and 2) grant the Monetary Board authority to allow qualified foreign banks to own up to 100 percent of the total voting stock of a "distressed" Philippine bank with specific timetable for progressive adjustment to normal ceilings.

can also help stabilize the foreign exchange markets in these countries. Moreover, it can provide a basis for further consideration of the merits of a single Asian currency but only in the long run.

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4 Asset Securitization: The Philippine Experience

The Concept, Benefits, and Costs of Asset Securitization

Asset securitization refers to the conversion of loans and other assets of an entity, such as a bank, into marketable securities for sale to investors. In general, assets which generate a steady stream of income and which originated in the ordinary course of business of a corporation can be securitized. The most common forms of assets that are securitized include mortgage and other loans, trade receivables, credit card receivables and other forms of receivables. The securities issued are generally referred to as asset-backed securities (ABS) or mortgage-backed securities (MBS) if the underlying assets are mortgage receivables.

Securitization offers various benefits to the different parties involved. It could enhance corporate performance by: (a) providing additional liquidity financing; (b) diversifying the sources of capital and the associated credit risks; (c) reducing the cost of capital over the medium and long term; and (d) providing a lever of interest rate and asset maturity management. For the investor, spreads are expected to improve which could translate into lower mortgage or lending rates over the long run.

However, securitization is a complex procedure involving a series of documentation and steps which entail costs, such as those for various documentation, legal fees, other administrative costs, taxes as well as the standard overhead and transactions costs. The pricing structure of the ABS would also determine the net benefits from securitization. An efficient structuring arrangement would enable the parties to optimize the gains, taking into consideration the associated costs of a given securitization program.

Asset-backed securitization has been widely used in the more advanced economies of North America and Europe as an alternative source of liquidity financing by banks and other corporations.

The Development of Asset Securitization in the Philippines

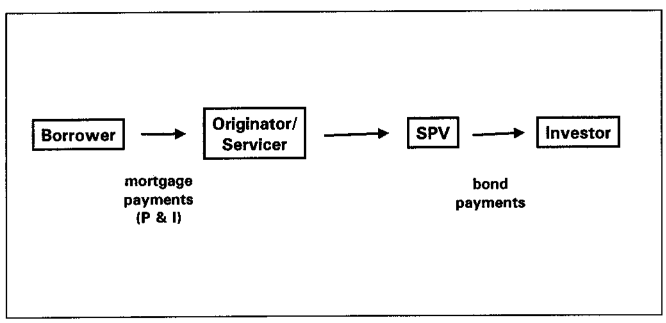
The market for asset securitization in the Philippines remains relatively narrow. Since the first issue of MBS in 1992 by the Citibank, N.A., the market for ABS and MBS has proceeded quite cautiously. For the period 1992-1998, the institutions which undertook asset securitization included a commercial bank, a thrift bank, a finance corporation, a property financing insurance company, a real estate development firm, a local airline firm and a telecommunications firm.

A. Regulatory Framework

The issuance of ABS and MBS in the Philippines is primarily governed by the Rules of the Securities and Exchange Commission (SEC) under Rule 3 of the Revised Securities Act. However, activities related to securitization of banks and non-banks with quasi-banking (NBQB) functions including its subsidiaries and affiliates, are governed by BSP Circular No. 185 (issued on 8 December 1998) apart from the registration requirements of the SEC. The recent issuance of the guidelines on asset securitization by the BSP provides for a comprehensive set of rules on the origination, issuance, sale, servicing and administration of asset-backed securities of any bank or non-bank with quasi-banking functions (NBQB) including its subsidiaries and affiliates engaged in allied activities in the Philippines. In line with the increasing needs of the financial system, the SEC has drafted the revised Rules on the Registration and Sale of Asset-Backed Securities for submission to Congress and subsequent enactment into law. To date, this draft set of revised rules is being presented in a series of public hearings prior to submission to Congress.

Chart 1

SECURITIZATION PROCESS:
A Simplified Transaction Flow Chart



B. The Securitization Process

Chart 1 illustrates the process of securitization involving several market participants and the necessary steps, as follows:

1. An entity called the originator identifies or originates the assets that can be used to raise funds.

2. *The originator sells and transfers a pool of assets to an entity called the Special Purpose Vehicle (SPV).* The SPV in turn, appoints an entity, the Servicer to perform the administrative functions associated with the assets sold or the receivables, which include the collection of payments due from the original borrowers; the management of funds before they are distributed to investors, and foreclosure or other similar proceedings. The servicer can also be the originator.

3. *The SPV sells/issues ABS or MBS based on receivables to investors in the capital market and pays the proceeds to the originator.*

4. *The originator uses proceeds for new lending or business activities.* For banks and other financial institutions involved in mortgage lending, the proceeds can be used for relending, i.e., to generate new mortgages. For non-banks, securitization proceeds provide additional liquidity for financing operating capital or investment expansion projects.

5. *The original borrowers will continue to make payments on receivables to the servicer.* The sale of receivables does not extinguish the obligation of the original borrowers to make payments required under the agreements contracted with the originator.

C. The Structure of the ABS/MBS Instrument

Securities to be issued by banks and non-banks must be registered with the SEC, except for those issued or guaranteed by agencies and instrumentalities of the Philippine government. The securities sold are usually in the form of floating rate certificates, which offer a variable rate of return to investors and have a fixed term depending on the rate of repayment of the underlying receivables. Securitized financial products are purchased mostly by institutional investors, such as insurance companies, pre-need funds, pension funds and mutual funds.

In practice, the interest rate on ABS, also called the Investor Certificate Rate, is determined as a specific investor margin over the benchmark 91-day Treasury bill rate at a given determination date.

Implications for Central Bank Policies

Under certain conditions, securitization allows a corporation to remove certain assets from its balance sheets. In turn, the sale and transformation of risk assets, defined as loans and other less liquid form of assets, into cash, marketable securities and other more liquid assets would improve the capital adequacy of banks. In particular, the reduction in risk assets would result in an increase in the bank's capital-adequacy ratio, measured as the ratio of net worth-to-risk assets. Under existing BSP rules and regulations, the combined capital accounts of a commercial bank must not be less than 10 percent of its risk assets.

In addition, securitization allows for a diversification of credit risks and eases concentration ratios of banks. However, even if credit and other risks are spread over a wider base, the risks would still remain within the financial system. <u>This underscores the need for an organized information system on the credit standing of firms/banking institutions.</u> A centralized monitoring agency on asset securitization should also be initiated.

In some cases, however, securitization may prejudice the quality of the remaining assets of a bank. For instance, the tendency to securitize performing loans relative to less- performing assets could weaken the bank's asset quality. As prescribed under BSP Circular No. 185 dated 8 December 1998, banks which plan to undertake securitization of its asset portfolio must formulate a program which would ensure a sound and adequate mix of the remaining assets in its portfolio. As regulator of the banking system, <u>the BSP should continue to intensify its efforts in monitoring, measuring and assessing the risks, particularly those related to the growth of contingent accounts and off-balance sheet transactions of banks, such as asset securitization.</u>

Banks which securitize better quality assets while keeping lower quality assets on the balance sheet may be required to hold more capital and loan loss reserves for assets that remain on its books. This, however, has implications on the integrity of loan loss reserve analyses that are based on historical performance and consequently, on the financial position of a bank. <u>With the growing complexity of financial markets, prudential regulation and supervision of the BSP must be constantly assessed to guard against potential systemic risks, protect investors and, in general, ensure a sound financial system.</u>

Conclusion

The potential for asset securitization is large given the substantial pool of mortgages and other receivables of banks and other corporations. Securitization offers opportunities as well as challenges to the various parties involved. In the case of regulators, banking supervision and examination of the BSP must be constantly cautious of the risks associated with the growing complexity of financial transactions and products in order to ensure that the asset quality of banks remains sound.

This underscores the need for BSP to sustain its efforts towards monitoring, measuring and assessing the risks associated with contingent accounts and off-balance sheet transactions including asset securitization. There is also a need to develop a centralized information, monitoring and reporting mechanism for asset securitization of banks and other corporations. These measures should form an integral part of the continuing thrust of the BSP to strengthen the supervision and regulation of the financial sector.

TERMS AND CONDITIONS IN THE ISSUANCE OF MORTGAGE-BACKED SECURITIES : AN ILLUSTRATION

Securities Offered	Investor Certificates
Total Volume of Issuance	Approximately P350 million
Minimum Denomination	P1 million each
Expected Term	20 months
Issuer of Certificates	The Trust Fund formed pursuant to the Agreement
Servicer	Originating Bank
Distributions on the Certificates	Distribution on investments to each Certificate-holder will be made, as follows: a. monthly on the returns b. monthly on the investments
The Certificate Rate	A certain premium over a Government Security, e.g., 1.5 -2.5 percent over 91-day Treasury Bill rate.
The Servicing Fee	1/4 of 1 percent over the loan rate applied to interest collections
Trustee Fee	1/32 of 1 percent of the average outstanding Certificate Investment Balances payable to the Trustee on each Investment Distribution Date
The Mortgage Loans	The Mortgage Loans are secured by first mortgage on real estate properties originated by the Bank in the ordinary course of its lending business. (A description of the mortgage properties is presented in terms of location, outstanding balance, term maturity, details on payment schedule and other relevant information.)

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5 The Credit Rating Process
(How'd They Do That?)

A recent phenomenon has emerged among investors who, dissatisfied with corporate disclosure of internal information or the lack of it, are relying more on credit ratings as an external source of information. This piece takes a brief look at the nature of credit rating agencies, the process by which they rate, what the ratings mean and who uses these ratings.

Rating Definition

A credit rating is an independent assessment of the creditworthiness of a bond, note or any security of indebtedness of a corporation or government entity. It measures the probability of risk that an issuer of the security will default - that is, if he is unable to make full and timely payments on principal and interest due investors.

Typically, credit ratings are issued on corporate long-term bonds and commercial paper. However, credit risk assessments are also undertaken for sovereign nations, sub-national governments, public utilities, banks, insurance companies and mutual funds, among others. The risk assessment credit agencies assign to obligations of government are called sovereign credit ratings. Agencies generally do not assign ratings to public or private sector issuers that are higher than their home country's sovereign rating.

Initially introduced as guides for unsophisticated investors, credit ratings have acquired several new uses. For *investors*, the availability of credit rating data means savings in research cost and access to the informed opinion of a neutral third party. For the *bond issuer*, the merits of credit ratings are expanded access to capital markets, and lower financing cost. In the US, *regulators of financial markets and institutions* have used credit ratings to simplify the task of prudential oversight since the early 1930s. For *exporters and banks* trying to evaluate the risk of doing business in an emerging market, the sovereign and corporate ratings produced by credit rating agency can provide an invaluable reference point.

Rating Procedure

Typically, it begins with an application to the rating agencies by the issuer or its agent either via a telephone call or in writing to rate its debt instrument. Some agencies, however, may issue unsolicited ratings based on an evaluation of publicly-available information such as financial balance sheets.

Corporate Credit Rating

In determining a corporate credit rating, the rating agency concentrates on several essential elements relevant to the issuer's long-term and short-term risk profile. Focus is given in varying degrees, to the following elements: (a) economic factors (e.g., historical and current economic factors, economic diversity, response to business cycles, and economic restructuring); (b) debt/issue structure (e.g., economic feasibility and need for project, length of bond's maturity, pledged security and other bondholder protections, futuristic outlook, and capital improvement plans); (c) financial factors (e.g., sufficient resources accumulated to meet unforeseen contingencies and liquidity requirements, whether ongoing operations are financed with recurring revenues; (d) management/ structural factors (e.g., organization and management, taxes and tax limits, clear delineation of financial and budgetary responsibilities); (e) investment policies and practices (e.g., portfolio composition, infrastructure needs); and, (f) willingness to pay - effective and timely budget response, willingness to bring budget into balance and still pay debt, and willingness to make payment. Sovereign risk is also a consideration in the assessment of the credit standing of banks and corporations.

After an initial analysis of all statistical data obtained from the issuer, a due diligence meeting between the issuer's senior management and the rating agency is set to discuss the background and history of the company, corporate strategy and philosophy, operating position, and financial management and accounting policies. Once the due diligence process is complete, all relevant qualitative factors deemed critical to the rating process is incorporated by the analysts in the original statistical review. The rating firm's credit analyst then prepares a credit report that is presented before a Rating Committee (comprised of senior analysts of the firm) which then votes on the analyst's rating recommendation. The rating assigned, often accompanied by explanatory analysis, is first communicated to the issuer and underwriter, and then to the public at large. The issuer frequently has the opportunity to appeal a rating if it is not satisfied but, in general, the rating process is structured to hear the best case the issuers have to present before the rating is assigned.

The process generally takes four to six weeks to complete.

Sovereign Credit Rating

Measuring sovereign credit risk is more difficult than measuring other types of credit risks. Rating agencies must consider factors that not only affect solvency or the government's ability to repay its obligations on time, but also those that may independently affect the government's willingness to pay, such as the stability of political institutions, social and economic cohesion and integration into the world economic system. Particular emphasis is given to the quality of economic management, the stability of policy and the depth and sophistication of local markets, all of which are fundamental to the operation of a national financial system.

Among the factors considered to affect a sovereign's ability or willingness for timely (future) debt payments include: (a) income structure (e.g., living standards, income and wealth distribution); (b) economic structure and growth (e.g., market or non-market economy, degree of diversification and integration with the world market, rate and pattern of economic growth); (c) price stability (e.g., inflation trends, rates of money and credit growth, exchange rate, degree of central bank autonomy); (d) fiscal balance (e.g., fiscal deficit, spending pressures, deficit financing, tax collection efficiency); (e) external balance - size of current account deficits, structure of current accounts, composition of capital flows; (f) external debt - magnitude, maturity profile and currency composition of public and private debt, foreign asset quality; and, (g) default history. Political factors like the form of government, internal and external security risks, stability of political institutions, among others, are also important considerations. The rating service looks at the interaction of these variables and rates each of them. The scores are then combined to come up with a sovereign rating.

Monitoring Outstanding Ratings

Rating changes occur whenever new information significantly alters the rating agencies' view of likely future developments. Analysts spend most of their time maintaining a continuous flow of information relevant to all countries, industries, issuers and issues of interest to investors to ensure the continued accuracy of outstanding rating opinions. If major changes occur in an issuer's near-term or long-term credit outlook, the agency may place the issuer's rating under review for possible change. Changes are conveyed to the company/issuer and announced to the financial markets by press release and other publications.

Rating Categories

The bond ratings assigned by all the rating agencies are meant to indicate the likelihood of default or delayed payment of the security. Some use either letters, numbers or both - for ranking the risk of default from extremely safe to highly speculative. To provide the finer rating gradations to help investors distinguish more carefully among issuers, major raters attached plus and minus symbols to their ratings.

Standard & Poor's (S&P) and Moody's are the best known and most influential credit rating agencies in the world. Both rate bonds in descending alphabetical order from A to C/D. Moody's has rating categories for long-term obligations ranging from Aaa to C, with numerical modifiers 1, 2 and 3. The modifier 1 indicates that the obligation ranks in the highest end of its rating category; 2 indicates mid-range ranking; and, 3 indicates ranking at the lower end of the rating category. S&P, on the other hand, while using the same alphabetical rating categories also uses the plus or minus sign as modifier to show relative standing within the rating categories. Both make distinctions between investment grade securities, or those rated BBB and above, and speculative securities, or those rated BB and below.

The following table shows a rough correspondence of the two agencies' ratings:

LONG-TERM DEBT RATING SYMBOLS

S&P	Moody's	Interpretation
Investment Grade:		
AAA	Aaa	highest quality (i.e., smallest degree of investment risk)
AA+, AA, AA-	Aa1, Aa2, Aa3	high quality
A+, A, A-	A1, A2, A3	strong payment capacity
BBB+, BBB, BBB-	Baa1, Baa2, Baa3	adequate payment capacity
Speculative Grade:		
BB+, BB, BB-	Ba1, Ba2, Ba3	likely to fulfill obligations, but with ongoing uncertainty
B+, B, B-	B1, B2, B3	high risk obligations
CCC+, CCC, CCC-	Caa1, Caa2, Caa3	current vulnerability to default
CC	Ca	highly vulnerable to nonpayment
C, D		in bankruptcy or default

Securities rated lower generally command higher yields to take into account the higher-expected credit loss associated with these securities. Rating changes also have strong effects on the secondary market price of securities.

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6 What are Hedge Funds?

Hedge Funds Described

Hedge funds are private collective investment pools commonly in the form of partnerships. They are usually based offshore for tax and regulatory purposes. These funds are managed on a fee-for-performance basis with management usually rewarded with a 1 percent management fee and 20 percent of profits. For shareholders who wish to withdraw their investments, most hedge funds require an advance notice that ranges from 30 days to 3 years.

Because of their legal status, there are few restrictions on the portfolios and transactions of hedge funds. Their managers are free to adopt a variety of strategies including short sales, derivative securities and leverage to increase returns and manage risk. The instruments in their portfolios may include: financial assets - bonds, equities and currencies; commodities; and even less liquid assets such as real estate. It must be noted that other institutional investors, such as banks, pension funds, and mutual funds, generally engage in the same activities as hedge funds.

Types of Hedge Funds

Hedge funds may be classified by the main type of investment strategy they employ. The Managed Account Reports, Inc. (Mar/Hedge) identifies eight categories of funds based on investment styles.

1. Macro hedge funds are engaged in taking positions in national markets based on their assessment of macroeconomic and financial conditions such as the current account, inflation rate or real exchange rates.

2. Global funds invest globally and utilize bottom-up analysis in that they pick individual stocks in different countries based on the performance of the company.

3. Long-only funds invest mainly in equities and extensively resort to leverage activities.

4. Market neutral funds take offsetting long and short positions to minimize market risk. They invest in a wide variety of instruments.

5. Sectoral hedge funds concentrate on specific industries such as health care, financial services, food and beverage, media and communications, natural resources, oil and gas, real estate and technology.

6. Short sales funds specialize in making profits from "overvalued" securities. They borrow "overvalued" securities from brokers and sell these to the market with the intent of buying them back at a lower price when repaying the broker.

7. Event-driven funds focus on special situations that create opportunity for profits. These include the reorganization or bankruptcy of companies (distressed-securities funds) and mergers or acquisitions (risk-arbitrage funds).

8. Funds of funds are hedge funds that invest its resources in a number of other hedge funds.

Size of the Hedge Fund Industry

Based on the data collected by Mar/Hedge there were about 1,115 hedge funds in 1997 compared to 127 in 1990 and 22 in 1985. The amount of assets managed by these funds reached almost US$110 billion in 1997. Of this amount, global funds and macro funds would each account for almost 30 percent. On the other hand, market-neutral funds would each corner more than 15 percent of the total assets.

While the total assets under management of hedge funds represent a large amount, it pales in comparison with the capital of other institutional investors estimated at around US$20 trillion in 1997.

Investment Strategies Pursued by Macro Hedge Funds

The most active hedge fund in currency markets tends to be the macro hedge funds. While there is a great variety in the investment strategies they pursue, there are common elements.

1. Macro hedge funds look for countries with unsustainable or inconsistent macroeconomic balances. The significant change in asset prices when the expected adjustment of the macroeconomy arrives may present an opportunity to earn considerable returns.

2. Macro hedge funds identify investment opportunities where the risk of large capital losses is effectively insignificant. An example is an exchange rate that has the possibility of being devalued and at the same time has little possibility of being revalued.

3. Macro hedge funds take advantage of low cost of funding positions. Relatively cheap funding allows them to establish and maintain a position even when they are uncertain about the timing of asset price adjustments.

4. Macro hedge funds prefer liquid markets. This allows them to undertake trading at low cost. Liquid markets also facilitate the establishment and unwinding of large positions.

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REGULATIONS ISSUED IN 1998

Financial System

Circular No. 156, 19 March 1998. Increases the minimum capitalization of new banks by 20 percent for universal banks, 40 percent for regular commercial banks and 60 percent for rural and thrift banks from the mandated banks' capitalization requirement for 1998. Existing banks are given two years (up to year 2000) within which to comply with the minimum capital build-up. The provision granting banks listed or in the process of being listed in the Philippine Stock Exchange an additional six months to comply with the capitalization requirement was cancelled through Circular No. 168 dated 3 July 1998.

MINIMUM CAPITAL REQUIREMENT
In million pesos

	Existing Requirement	Compliance Period 12/24/98	12/31/99	12/31/2000
Expanded Commercial banks	3,500	4,500	4,950	5,400
Commercial Banks	1,625	2,000	2,400	2,800
Thrift Banks				
within Metro Manila	200	250	325	400
Outside Metro Manila	40	40	52	64
Rural Banks				
Within Metro Manila 1/	20	20	26	32
Cities of Cebu and Davao 1/	10	10	13	16
1st/2nd/3rd class cities & 1st class municipalities	5	5	6.5	8
4th/5th/6th class cities & 2nd/3rd/4th class municipalities	3	3	3.9	4.8
5th/6th class municipalities	2	2	2.6	3.2

1/For existing banks only. No new banks are presently allowed

Circular No. 157, 19 March 1998. Requires all banks listed in the Philippine Stock Exchange (PSE) to disclose in their quarterly published statement of condition the amount of non-performing loans and ratio to total loan portfolio, amount of classified loans, general loan-loss reserve and specific loan-loss reserve effective December 1998.

Circular No. 159, 24 March 1998. Accelerates the timetable for full compliance to the general loan-loss provision to October 1999 instead of October 2000.

SCHEDULE OF COMPLIANCE
GENERAL LOAN-LOSS PROVISION
In percent of loan amount

1 October 1998	1.0
1 April	1.5
1 October	2.0

Circular No. 160, 25 March 1998. Requires banks to post information on interest rates on their loans including manner of interest payment and other fees and charges in order to increase transparency and promote market discipline.

Circular No. 161, 30 March 1998. Requires banks to mark-to-market their trading portfolios in line with existing market conventions effective September 1998.

Circular No. 164, 13 April 1998. Tightens the provisioning requirement to include "Loans Especially Mentioned", regardless of collateral (5 percent), and secured loans classified as "Substandard" (25 percent) among specified loans subject for loan-loss provision. Banks are given until April 1999 to comply fully with these new provisioning requirements. The authority of the Monetary Board to extend period of compliance for individual banks was voided by Circular No. 168 dated 3 July 1998.

SCHEDULE OF COMPLIANCE
ALLOWANCE FOR PROBABLE LOSSES
In percent of loan amount

Classification	Existing	12/31/98	4/15/99
Loans especially mentioned	0	2.5	5
Substandard			
Collateralized	0	12.5	25
Uncollateralized	25	25	25
Doubtful	50	50	50
Loss	100	100	100

Circular No. 167, 29 May 1998. Requires banks to put up two percent of their gross loan portfolio - less interbank loans, certain guaranteed loans which are not past due and those which are considered non-risk under existing laws/rules/regulations - as allowance for probable losses.

Memorandum to All Banks, 22 June 1998. Requires banks to include in their Consolidated Statement of Condition (CSOC) the following information: a) current level of restructured loans both with and without uncollected capitalized interest; and b) total allowance for probable losses which includes the 2 percent general provisioning and the provisioning for losses on loan accounts and other risk assets.

Circular No. 169, 13 July 1998. Revises the guidelines on the treatment of restructured loans (including capitalized interest on restructured loans) of banks and non-banks with quasi-banking functions. Under the revised guidelines, such loans shall be treated as performing loans or interest income thereon shall be accrued, provided that these are: a) in current status; and b) fully secured by real estate with loan value up to 60% of the appraised value of the real estate security and the insured improvements thereon, and such other first class collateral as may be deemed appropriate by the MB.

Circular Letter, 13 July 1998. Sets stricter qualification and competency criteria in processing new bank licenses. This is to ensure that new banking organizations will have suitable shareholders, adequate financial strength, a legal structure in line with its operational structure, and a management with sufficient expertise and integrity to operate the bank in a sound and prudent manner.

Circular No. 170, 5 August 1998. Clarifies Section 26 of R.A. No. 7653 which states that any director, officer, stockholder who together with his related interest (DOSRI) availing himself of a loan from his bank or subsidiary bank, in excess of 5 percent of the capital and surplus of his bank, or in the maximum amount permitted by law, whichever is lower, must execute a waiver on the secrecy of his deposits in all banks. Any information obtained from an examination of his deposits shall, however, be used only in connection with supervisory, examination and legal requirements. If the borrower is the related interest but not the director, officer or stockholder (DOS) himself, the DOS is not required to waive the secrecy of his bank deposit.

Circular Letter, 11 August 1998. Outlines the guidelines in resolving problem bank issues.

Circular No. 173, 2 September 1998. Requires banks and quasi-banks to submit an action plan or conversion program to address the year 2000 problems inherent in many computer software and hardware system.

Circular No. 172, 3 September 1998. Provides additional incentives to promote and encourage mergers and consolidations among banks and other financial intermediaries which will be made available for a period of three years from 31 August 1998.

Circular No. 176, 7 September 1998. Imposes stricter monetary and non-monetary sanctions for non-compliance with minimum capital requirements. Banks which delay or fail to submit a capital build-up program from date of notification of capital deficiency will be fined per banking day of delay. In addition, non-monetary penalties will be applied to banks with inadequate capitalization depending on the degree of deficiency. Non-monetary penalties can, among other things, take the form of suspension such as the authority to invest in allied undertaking, branching privileges and declaration of cash dividends.

Circular Letter, 8 September 1998. Imposes stiffer sanctions on banks which fail to comply with the 2 percent general loan loss provision and specific loan loss reserves for classified loans.

Circular No. 179, 25 September 1998. Requires external auditors of banks to report to the BSP any matters adversely affecting the condition or soundness of the bank they are auditing.

Circular No. 181, 14 November 1998. Requires undercapitalized banks to enter into a Memorandum of Understanding with the BSP detailing the capital deficient bank's capital restoration plan in order to protect the interest of the depositors, creditors, shareholders and the public in general. The same issuance also provides a detailed prompt corrective action program to be undertaken by the BSP to deal with undercapitalized banks for their guidance.

Circular Nos. 182-184, 4 December 1998. Sets stricter qualification criteria for new branches by lengthening the test period of bank compliance with certain prudential requirements. Moreover, the issuance likewise limits the number of approved but unopened branches that a bank may have at any given time.

Foreign Exchange Operations

Circular No. 162, 7 April 1998. Further adjusts the maximum amount of dollars that banks can sell OTC without need for documents, to US$10,000 from US$25,000 to moderate the demand for dollars.

Circular No. 171, 29 August 1998. Lifts the 20 percent limit (of unimpaired capital) on short or oversold foreign exchange position of commercial banks. The lifting of this limit is temporary and subject to review within six months from the date of the Circular.

Circular No. 174, 2 September 1998. Moves the cut off date for foreign exchange obligations eligible under the Currency Risk Protection Program (CRPP) or Non-Deliverable Forward (NDF) facility to those outstanding as of 15 July 1998 from 19 December 1997.

Management of Liquidity

Circular No. 158, 20 March 1998. Amends the composition of reserve requirement, i.e., reduces the banks' statutory reserves by 3 percentage points to 10 percent and raises liquidity reserves by an equal amount to 7 percent.

Circular No. 166, 28 May 1998. Reduces further the required ratio by two percentage points to 8 percent (effective 29 May 1998) to help bring down the cost of money and make more funds available for lending. At the same time, the circular raises the proportion of interest-earning reserves kept with the BSP from 25 percent to 40 percent.

Circular No. 180, 1 October 1998. Increases the statutory reserve requirements by two percentage points to 10 percent from 8 percent effective 2 October 1998 in an effort to siphon off excess liquidity in the banking system.

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

	1998	1997	1996	Percent Change 1997-98	Percent Change 1996-97
Personal Consumption Expenditures	708316	684316	651790	3.5	5.0
Government Consumption Expenditures	70166	69599	68527	0.8	1.6
Gross Domestic Capital Formation	194817	235125	210440	-17.1	11.7
Fixed Capital Formation	206048	230662	206854	-10.7	11.5
Construction	100424	104404	91115	-3.8	14.6
Durable Equipment	91401	112065	102654	-18.4	9.2
Breeding Stock & Orchard Development	14223	14193	13085	0.2	8.5
Increase in Stocks	-11231	4463	3586	-351.6	24.5
Exports	418190	466874	397201	-10.4	17.5
Less: Imports	507035	572126	500194	-11.4	14.4
Statistical Discrepancy	4274	9229	21357	-53.7	-56.8
Gross Domestic Product	**888728**	**893017**	**849121**	**-0.5**	**5.2**
Net Factor Income From Abroad	43035	38101	35105	12.9	8.5
Gross National Product	**931763**	**931118**	**884226**	**0.1**	**5.3**

Note: Exports and imports of goods and services in the National Income Accounts (NIA) differ from the same account in the Balance of Payments (BOP) in terms of coverage and valuation. Exports and imports of goods under the NIA concept exclude special transactions such as returned goods and temporary exports/imports. Such items are included in the BOP. Meanwhile, exports and imports of services under the NIA concept cover non-factor receipts/payments only. In contrast, the BOP includes both factor and non-factor receipts/payments. Moreover, analysis of performance in the NIA is based on constant prices while the BOP is based on current prices.

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

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

	1998	1997	1996	Percent Change 1997-98	Percent Change 1996-97
Agriculture, Fishery and Forestry	172445	184713	179451	-6.6	2.9
Industrial Sector	315108	320689	302126	-1.7	6.1
Mining and Quarrying	10529	10338	10166	1.8	1.7
Manufacturing	221273	223672	214613	-1.1	4.2
Construction	52656	57322	49339	-8.1	16.2
Electricity, Gas and Water	30650	29357	28008	4.4	4.8
Services (Tertiary Sector)	401175	387615	367544	3.5	5.5
Transportation, Communication & Storage	58611	55067	50878	6.4	8.2
Trade	138641	135326	130247	2.4	3.9
Finance & Housing	93526	90804	84089	3.0	8.0
Other Services	110397	106418	102330	3.7	4.0
Private	64042	61040	58231	4.9	4.8
Government	46355	45378	44099	2.2	2.9
Gross Domestic Product	**888728**	**893017**	**849121**	**-0.5**	**5.2**
Net Factor Income From Abroad	43035	38101	35105	12.9	8.5
Gross National Product	**931763**	**931118**	**884226**	**0.1**	**5.3**

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

2 SAVINGS AND INVESTMENTS
For the periods indicated
In billion pesos

	1998[a]	1997	1996	As Percent of GNP 1998	1997	1996
Gross Domestic Savings	**569.2**	**473.1**	**418.0**	**20.4**	**18.7**	**18.5**
Public Savings	30.4	109.1	100.8	1.1	4.3	4.5
Private Savings	538.8	364.0	317.2	19.3	14.4	14.0
Total Investment	**537.1**	**601.9**	**521.6**	**19.3**	**23.8**	**23.1**
Public Investments	122.6	126.3	99.8	4.4	5.0	4.4
Private Investment	414.5	475.6	421.8	14.9	18.8	18.7
Savings-Investment Gap	**32.1**	**(128.8)**	**(103.6)**	**1.2**	**(5.1)**	**(4.6)**
Public Surplus/Deficit [1]	(92.2)	(17.2)	0.9	(3.3)	(0.7)	0.0
Private Surplus/Deficit	124.3	(111.6)	(104.5)	4.5	(4.4)	(4.6)
MEMO ITEM:						
Nominal GNP	**2,789.3**	**2,526.9**	**2,261.3**			

[1]Includes the national government, 13 major non-financial corporations, government financial institutions, local government units, government security systems and the BSP.
[a]Forecast

Source: *National Economic and Development Authority (NEDA)*

3 SELECTED LABOR, EMPLOYMENT AND WAGE INDICATORS
For the periods indicated

	1998	1997	1996	Percent Change 1997-98	Percent Change 1996-97
Employment Status					
Labor Force (In Thousands)	**31,056**	**30,354**	**29,733**	2.3	2.1
Employed	27,911	27,714	27,187	0.7	1.9
Unemployed	3,145	2,640	2,546	19.1	3.7
Employment Rate (%)	89.9	91.3	91.4	-1.5	-0.1
Unemployment Rate (%)	10.1	8.7	8.6	16.1	1.2
Overseas Employment (Deployed)	**640,054**[p]	**746,724**	**660,122**	-14.3	13.1
Land-Based	478,761	558,255	484,653	-14.2	15.2
Sea-Based	161,293	188,469	175,469	-14.4	7.4
Strikes					
Number of new strikes declared	92[p]	93	89	-1.1	4.5
Number of workers involved (In Thousands)	34[p]	52	32	-34.6	62.5
Legislated Wage Rates[1]					
In Nominal Terms	*January-September*			*January-September*	
Non-Agricultural					
National Capital Region (NCR)	214.5	199.07	175.86	8.00	13.20
Regions Outside NCR (ONCR)	113.03-199.16	106.17-182.81	98.64-165.03	14.66	15.44
Agricultural					
Plantation	112.23-201.50	106.22-179.02	93.50-165.03	21.31	1.78
Non-Plantation	95.15-194.46	86.32-169.82	78.55-153.65	87.63	11.19
In Real Terms (at 1988 prices) [2]					
Non-Agricultural					
National Capital Region (NCR)	75.03	75.11	71.67	-0.50	4.80
Regions Outside NCR (ONCR)	39.80-82.64	41.39-89.41	42.09-76.08	-6.11	41.28
Agricultural					
Plantation	37.32-82.48	40.92-82.04	39.50-67.24	7.09	48.23
Non-Plantation	36.16-68.02	35.09-67.75	33.54-62.54	9.64	12.62

[1] Includes Basic Minimum Wage, Cost of Living Allowance (COLA) and daily equivalent of 13th month pay.
[2] April to September 1998 data was rebased from 1994=100 using BSP statistical series for purposes of comparison
[p] Preliminary

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

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

Commodity Group	Philippines 1998	Philippines 1997	Philippines Percent Change	National Capital Region 1998	National Capital Region 1997	National Capital Region Percent Change	All Areas Outside NCR 1998	All Areas Outside NCR 1997	All Areas Outside NCR Percent Change
All Items	**260.6**	**239.1**	**9.0**	**286.1**	**261.6**	**9.4**	**252.3**	**231.8**	**8.9**
Food,Beverages & Tobacco	238.8	221.6	7.7	228.2	212.3	7.5	241.5	224.0	7.8
Non-Food	291.5	263.7	10.5	341.2	308.0	10.8	269.9	244.5	10.4
Clothing	205.9	194.7	5.7	192.9	183.3	5.2	209.1	197.6	5.8
Housing & Repairs	351.4	317.6	10.6	426.8	391.0	9.2	299.8	267.4	12.1
Fuel,Light & Water	269.3	250.3	7.6	265.3	245.9	7.9	270.8	252.0	7.5
Services	325.2	284.5	14.3	337.7	289.2	16.8	319.7	282.5	13.2
Miscellaneous	201.8	188.4	7.1	197.5	184.9	6.8	202.8	189.2	7.2

Source: *National Statistics Office (NSO)*

5 CASH OPERATIONS OF THE NATIONAL GOVERNMENT
For the periods indicated
In million pesos

	1998 p/	1997	Percent Change (%)
Revenues	**462,515**	**471,843**	**(1.98)**
Tax Revenues	416,585	412,164	1.07
Non-tax Revenues	45,930	59,679	(23.04)
Expenditures	**512,496**	**470,279**	**8.98**
of which:			
Interest Payments	99,792	77,971	27.99
Equity and Net Lending	1,098	2,960 r/	(62.91)
Surplus/(Deficit)	**(49,981)**	**1,564**	**(3,295.72)**
Financing	**49,981**	**(1,564)**	**(3,295.72)**
External Financing	37,635	(6,818)	(651.99)
Domestic Financing	12,346	5,254	134.98

p/ Preliminary
r/ Revised

Source: *Bureau of the Treasury*

6 PUBLIC INTERNAL DEBT[1/]
As of end-periods indicated
In million pesos

	1998 p/	1997	Percent Change
T O T A L	807,174	725,675	11.2
National Government	796,998	716,533	11.2
Government Corporations	10,149	9,114	11.4
Guaranteed	6,836	5,799	17.9
Non-Guaranteed	3,313	3,315	-0.1
Monetary Institution	27	28	-3.6

[1/] As compiled by the BSP, outstanding debt of the National Government consists of its security issuances and its outstanding borrowings in the form of loans, excluding 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.
[p/] Preliminary

Source: Bangko Sentral ng Pilipinas

6a PUBLIC INTERNAL DEBT CLASSIFIED BY MATURITY

As of end-periods indicated
In million pesos

	1998[p/]	1997	Percent Change
TOTAL	**807,174**	**725,675**	**11.2**
Short-term	451,143	400,847	12.5
Medium-term	167,565	158,288	5.9
Long-term	188,466	166,540	13.2

[p/]Preliminary

Sources: BSP, BTr

7 MONETARY DEVELOPMENTS

For the periods indicated
Levels in billion pesos
Changes in percent

	1997	1998											
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Reserve Money (RM)													
10-day average													
Actual n.s.a..	255.4	241.8	238.8	216.3	226.0	214.3	200.4	194.2	191.1	199.3	214.0[p]	218.9[p]	241.9[p]
(12-month % change)	12.9	15.1	13.8	(1.6)	3.4	(3.4)	(8.4)	0.3	(11.3)	(7.6)	(5.7)	(6.1)	(5.3)
Base Money (BM)													
10-day average													
Actual n.s.a.	297.6	284.0	279.7	286.2	293.7	283.2	269.7	261.7	259.0	268.5	282.3[p]	290.6[p]	313.6[e]
(12-month % change)	20.1	23.7	21.9	19.8	23.5	16.6	12.8	8.5	(6.3)	(2.5)	2.6	6.2	5.4
M3 (current) end-period													
Actual n.s.a.	1,066.0	1,057.2	1,042.2	1,057.1	1,056.3	1,068.9	1,082.8	1,065.3[p]	1,063.6[p]	1,065.1[p]	1,073.2[p]	1,096.1[p]	1,144.6[p]
(12-month % change)	21.0	21.4	17.9	17.2	17.0	17.1	17.3	10.2	10.8	7.8	7.4	7.2	7.4

[p] preliminary
[e] estimate

Source: *Bangko Sentral ng Pilipinas*

8 SOURCES OF RESERVE MONEY MOVEMENTS
In billion pesos

	End-December Levels		Average Levels		Flows^p	
	1998^p	1997	1998^p	1997	End-December	Average
Reserve Money	239.8	266.5	220.3	224.1	-26.7	-3.8
Net Foreign Assets	232.7	211.9	243.1	225.2	20.8	17.9
Net International Reserves	313.1	266.7	320.1	266.0	46.4	54.1
Medium and Long-term Foreign Liabilities	-80.4	-54.8	-77.0	-40.8	-25.6	-36.2
Net Domestic Assets	7.1	54.6	-22.8	-1.1	-47.5	-21.7
Net Credits to the National Government (NG)	134.7	148.2	136.0	102.3	-13.5	33.7
of which: BSP Holdings of Treasury Bills	103.6	129.3	104.9	98.6	-25.7	6.3
NG Deposits	-59.5	-78.3	-64.9	-96.8	18.8	31.9
Regular Rediscounting	5.4	4.9	5.0	4.6	0.5	0.4
BSP Debt Instruments	-29.2	12.8	-37.5	-54.8	-42	17.3
BSP Bills	0.0	0.0	0.0	-0.1	0.0	0.1
Reverse Repurchase Agreements	-30.4	-2.4	-39.0	-57.5	-28.0	18.5
Repurchase Agreements	1.7	15.2	1.5	2.8	-13.5	-1.3
Special Deposit Account	-0.5	-	-	-	-	-
Fixed-term Deposits of GOCCs	-3.0	-7.8	-4.1	-7.5	4.8	3.4
Other Items	-100.7	-103.5	-122.2	-45.7	2.8	-76.5

^p preliminary

Source: *Bangko Sentral ng Pilipinas*

9 MONETARY SURVEY[1]

In million pesos

	Levels			Flows	
	DEC 98[p]	NOV 98[p]	DEC 97	DEC	DEC-DEC
1. NET FOREIGN ASSETS	**16,482**	**-21,015**	**-76,855**	**37,497**	**93,337**
A. Net International Reserves	124,683	79,145	15,191	45,538	109,492
Bangko Sentral ng Pilipinas	313,132	310,286	266,688	2,846	46,444
Foreign Assets	421,553	414,686	350,488	6,867	71,065
Foreign Liabilities	-108,421	-104,400	-83,800	-4,021	-24,621
Deposit Money Banks	-188,449	-231,141	-251,497	42,692	63,048
Foreign Assets	233,002	216,018	238,415	16,984	-5,413
Foreign Liabilities	-421,451	-447,159	-489,912	25,708	68,461
B. Med. and Long-Term-Foreign Liab.	-65,215	-66,700	-54,792	1,485	-10,423
C. Net Non-Monetary Foreign Liab	-42,986	-33,460	-37,254	-9,526	-5,732
Non-Monetary Foreign Assets	20,997	21,786	19,167	-789	1,830
Non-Monetary Foreign Liabilities	-63,983	-55,246	-56,421	-8,737	-7,562
2. NET DOMESTIC ASSETS	**1,680,762**	**1,642,065**	**1,684,692**	**38,697**	**-3,930**
A. Net Domestic Credits	1,868,958	1,843,743	1,922,861	25,215	-53,903
Public Sector	459,705	456,827	468,154	2,878	-8,449
National Government	360,825	360,504	379,580	321	-18,755
Credits	455,881	453,774	484,574	2,107	-28,693
Foreign Exchange Receivable	13,411	12,983	11,596	428	1,815
T-IMF Accounts	-27,498	-27,498	-16,208	0	-11,290
Deposits	-80,969	-78,755	-100,382	-2,214	19,413
Local Gov't & Others	48,509	44,262	37,654	4,247	10,855
Claims on CB-BOL	50,371	52,061	50,920	-1,690	-549
Private Sector	1,409,253	1,386,916	1,454,707	22,337	-45,454
Other Financial Institutions	145,891	131,600	113,882	14,291	32,009
Other	1,263,362	1,255,316	1,340,825	8,046	-77,463
B. Net Other Items	-188,196	-201,678	-238,169	13,482	49,973
Revaluation	-1,472	-14,730	-45,527	13,258	44,055
Capital and Reserves	-500,278	-475,468	-397,377	-24,810	-102,901
Other Assets/Liabilities	313,554	288,520	204,735	25,034	108,819
3. TOTAL LIQUIDITY	**1,697,244**	**1,621,050**	**1,607,837**	**76,194**	**89,407**
A. M4	**1,622,487**	**1,551,933**	**1,499,445**	**70,554**	**123,042**
M3	**1,144,552**	**1,096,095**	**1,066,017**	**48,457**	**78,535**
Narrow Money	281,514	253,719	258,318	27,795	23,196
Quasi-Money	856,924	834,466	795,631	22,458	61,293
Deposit Substitutes	6,114	7,910	12,068	-1,796	-5,954
FCDU Deposits Residents	477,935	455,838	433,428	22,097	44,507
B. Other Liabilities	74,757	69,117	108,392	5,640	-33,635
Bills Payable	67,711	65,658	105,116	2,053	-37,405
Marginal Deposits	7,046	3,459	3,276	3,587	3,770
Narrow Money	281,514	253,719	258,318	27,795	23,196
Currency in Circulation	146,065	129,362	143,643	16,703	2,422
Demand Deposits	135,449	124,357	114,675	11,092	20,774
Quasi-Money	856,924	834,465	795,631	22,459	61,293
Savings Deposits	801,564	785,565	751,270	15,999	50,294
Time Deposits	55,360	48,900	44,361	6,460	10,999

[1]Revised to reclassify resident accounts of foreign to domestic.
[p]preliminary

Source: Bangko Sentral ng Pilipinas

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

	Nominal Interest Rates		Real Interest Rates[6]	
	1998	1997	1998	1997
Borrowing Rates of Banks				
Interbank Call Loans	13.822	17.934	4.122	11.934
Savings Deposits [1]	10.967	9.111	1.267	3.111
Time Deposits [1]				
(All Maturities)	12.725	11.188	3.025	5.188
Manila Reference Rates [2]				
(All Maturities)	15.375	13.125	5.675	7.125
Lending Rates				
All Maturities[3]	18.392	16.222	8.692	10.222
Bangko Sentral Rates				
R/P (Overnight)[4]	15.474	17.025	5.774	11.025
R/P (Term) [4]	15.791	15.611	6.091	9.611
RR/P (Overnight) [4]	14.285	15.037	4.585	9.037
RR/P (Term) [4]	14.327	11.174	4.627	5.174
Overdrafts [5]	21.000	23.461	11.300	17.461
Rediscounting	14.191	11.524	4.491	5.524
CB/BSP Bills (All Maturities)	13.312	10.129	3.612	4.129
Rate on Government Securities				
Treasury Bills (All Maturities)	16.283	13.297	6.583	7.297
91-Days	15.266	13.116	5.566	7.116
182-Days	16.291	13.007	6.591	7.007
364-Days	17.397	13.632	7.697	7.632

[1] Of sample commercial banks
[2] Refers to the New MRR based on combined transactions on time and promissory notes of sample banks, all maturities
[3] Refers to the weighted average interest rate of sample commercial banks' interest incomes on their outstanding peso-denominated loans
[4] Weighted average of transacted rates
[5] As prescribed by the Bangko Sentral ng Pilipinas (BSP)
[6] Nominal interest rate less inflation rate

Source: *Bangko Sentral ng Pilipinas*

11 TOTAL RESOURCES OF THE PHILIPPINE FINANCIAL SYSTEM[1]
As of periods indicated
In million pesos

Institutions	1998	1997	Percent Change
TOTAL	**3,419,923.2 [p]**	**3,369,308.4**	**1.50**
Commercial Banks[2]	2,528,043.0	2,512,975.0	0.60
Thrift Banks	216,441.1	208,394.0	3.86
Savings Banks	132,809.1	105,805.6	25.52
Private Development Banks	64,002.9	81,173.7	-21.15
Stock Savings and Loan Associations	19,629.1	21,414.7	-8.34
Rural Banks	59,139.1[a]	57,635.4	2.61
Non-Bank Financial Institutions[3]	616,300.0[p]	590,304.0	4.40

[1]Excludes Bangko Sentral ng Pilipinas
[2]Includes DBP and AAIIBP
[3]Consists 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 such as 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 1998

Source: *Bangko Sentral ng Pilipinas*

11a NUMBER OF FINANCIAL INSTITUTIONS
As of periods indicated

Institutions	1998	1997	Percent Change
TOTAL	18,353 [p]	17,286	6.2
Commercial Banks[1]	4,233 [p]	4,078	3.8
Thrift Banks	1,474 [p]	1,389	6.1
Savings and Mortgage Banks	722	523	38.0
Private Development Banks	444	524	-15.3
Stock Savings and Loan Associations	308	342	-9.9
Rural Banks	1,940 [p]	1,715	13.1
Non-Bank Financial Institutions[2]	10,706 [a]	10,104	6.0

[1]Includes Land Bank of the Philippines (LBP), Development Bank of the Philippines (DBP) and Al-Amanah Islamic Investment Bank of the Philippines (AAIIBP)
[2]Consists of investment houses, finance companies, investment companies, securities dealers/brokers, pawnshops, lending investors, non-stock savings and loan associations, mutual building and loan associations private insurance companies, government non-banks and venture capital corporations
[p]preliminary
[a]As of September 1998

Source: Bangko Sentral ng Pilipinas

12 OUTSTANDING DEPOSITS OF THE BANKING SYSTEM

As of periods indicated
In million pesos

Institutions	1998				1997				Percent Change			
	TOTAL	Demand	Savings	Time	TOTAL	Demand	Savings	Time	TOTAL	Demand	Savings	Time
TOTAL	1,720,123.5[p]	152,039.5	1,055,877.2	512,206.8	1,630,876.6	128,350.3	1,008,198.4	494,327.9	5.47	18.46	4.73	3.62
Commercial Banks[1]	1,549,974.0	146,610.0	922,802.0	480,562.0	1,457,911.0	122,958.0	874,136.0	460,817.0	6.31	19.24	5.57	4.28
Thrift Banks	132,501.6	4,852.5	113,011.5	14,637.6	136,298.4	4,856.4	114,993.7	16,448.3	-2.79	-0.08	-1.72	-11.01
Savings Banks	88,453.2	3,924.0	77,655.1	6,874.1	66,595.1	2,560.2	57,485.2	6,549.7	32.82	53.27	35.09	4.95
Private Development Banks	30,626.0	732.6	25,042.0	4,851.4	54,096.0	2,049.8	45,469.4	6,576.8	-43.39	-64.26	-44.93	-26.23
Stock Savings & Loan Associations[1]	13,422.4	195.9	10,314.4	2,912.1	15,607.3	246.4	12,039.1	3,321.8	-14.00	-20.50	-14.33	-12.33
Rural Banks	37,647.9[a]	577.0	20,063.7	17,007.2	36,667.2	535.9	19,068.7	17,062.6	2.67	7.67	5.22	-0.32

[1]Includes DBP and AAIIBP
[p]preliminary
[a]As of June 1998

Source: Bangko Sentral ng Pilipinas

13 FOREIGN CURRENCY DEPOSIT SYSTEM
In million US dollars

	1998	1997	Percent Change
Assets			
Due From Central Bank	1485	547	171.5
Due From Other Banks	2905	3171	-8.4
Due From Head Off/Brs/Ags Abroad	831	2271	-63.4
Interbank Loans Receivable	3349	2486	34.7
Loans and Discounts	7802	10547	-26.0
Export Bills Purchased	40	73	-45.2
Trading Account Securities	0	-	
Investments	4092	2908	40.7
Real & Other Prop. Owned or Acquired	12	7	71.4
Other Assets	668	794	-15.9
Total Assets	**21184**	**22804**	**-7.1**
Liabilities and Capital Accounts			
Deposit Liabilities	15075	14537	3.7
Bills Payable	1539	2186	-29.6
Due To Head Off/BrsAgs Abroad	3500	4585	-23.7
Due To Local Banks	276	426	-35.2
Payment Order Payable	23	20	15.0
Accrued Taxes and Other Exp. Payable	137	113	21.2
Bonds Payable	165	153	7.8
Unearned Income & Other Credits	9	42	-78.6
Other Liabilities	251	523	-52.0
Total Liabilities	**20975**	**22585**	**-7.1**
Undivided Profits	209	219	-4.6
Surplus	-	-	
Total Liabilities & Capital Accounts	**21184**	**22804**	**-7.1**

Source: Bangko Sentral ng Pilipinas

14 PHILIPPINE OFFSHORE BANKING SYSTEM
In million U.S. dollars

	1998	1997	Percent Change
Assets			
Notes and Coins on Hand	0	1	-100.00
Due from Banks	1007	1484	-32.14
Loans and Discts. to Customers	877	1,148	-23.61
Bills Discounted/Purchased	0	2	-100.00
Investment in Bonds and Other Securities	86	130	-33.85
All Other Assets	37	71	-47.89
Total Assets	**2,007**	**2,836**	**-29.23**
Less: Allowance for Probable Losses	24	7	242.86
Total Assets After Allowance for Losses	**1,983**	**2,829**	**-29.90**
Liabilities			
Deposit of Non-Residents Other than Banks	33	43	-23.26
Due to Banks	1885	2733	-31.03
Other Liabilities	65	53	22.64
Total Liabilities	**1,983**	**2,829**	**-29.90**

Source: Bangko Sentral ng Pilipinas

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

	1998		1997		% Change
	Volume	WAIR	Volume	WAIR	Volume
T O T A L	**2,598,075**	**14.862**	**3,322,136**	**14.44**	**-21.8**
Interbank Call Loans	1,594,702	14.915	1,987,341	16.100	-19.8
Promissory Notes1/	49,529	14.711	79,453	13.556	-37.7
Repurchase Agreements (Government)1/	0	0	1,462	15.625	-100.0
Certificate of Participation (Government)	80	14.435	0	0	-
Commercial Paper (Non-Financial)	348,253	15.539	384,655	12.665	-9.5
Treasury Bills	414,210	14.797	733,866	11.389	-43.6
DBP Bonds	241	14.415	0	0	-
Other Government Securities	191,060	13.363	135,359	12.331	41.2

1/Including those with tax.

Source: Bangko Sentral ng Pilipinas

16 CAPITAL INVESTMENTS OF NEWLY REGISTERED BUSINESS ORGANIZATION BY INDUSTRY

In million pesos

	1998 p	1997	Percent Change
Total	**137,648**	**245,967**	**-44.0**
Agriculture, Fishery and Forestry	2,647	819	223.2
Mining and Quarrying	862	623	38.5
Manufacturing	29,347	18,938	55.0
Construction	3,999	6,259	-36.1
Electricity, Gas and Water	91	332	-72.6
Wholesale and Retail Trade	15,580	16,140	-3.5
Financing, Insurance, Real Estate & Business Services	20,416	40,305	-49.3
Transportation, Storage & Communication	6,353	157,140	-96.0
Community, Social & Personal Service	58,352	5,412	978.3

p Preliminary

Source: *Securities and Exchange Commission (SEC) , Department of Trade & Industry (DTI)*

17 STOCK MARKET TRANSACTIONS[1]

For the periods indicated
Volume in million shares
Value in million pesos

	1998		1997		Percent Change	
	Volume	Value	Volume	Value	Volume	Value
T o t a l	287,791	408,679	1,923,992	586,173	-85.0	-30.3
Banking & Financial Services[1]	12,220	50,764	5,623	96,795	117.3	-47.6
Commercial and Industrial	117,721	285,009	225,257	310,673	-47.7	-8.3
Mining	83,057	1,364	505,887	22,503	-83.6	-93.9
Oil	45,273	2,143	1,093,292	30,799	-95.9	-93.0
Property	29,520	69,400	93,933	125,403	-68.6	-44.7
Composite Index (Closing)	1,968.8		1,869.2		5.3	

[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
In million US dollars

	1998p/	1997
I. Current Account		
A. Trade	859	-5431
(As percent of GNP)	1.3	-6.3
Goods	-28	-11127
(As percent of GNP)	0.0	-13.0
Exports	29496	25228
Imports	29524a/	36355a/
Services	887	5696
Receipts	13881	22835
Payments	12994	17139
B. Transfers	435	1080
Inflow	758	1670
Outflow	323	590
Current Account	1294	-4351
(As percent of GNP)	1.9	-5.1
II. Capital and Financial Account		
A. Medium and Long-Term Loans	2850	4824
Availment	5791	7724
Repayment	2941	2900
B. Trading of Bonds in the Secondary Market	-1082	-676
Resale of Bonds	3308	3072
Purchase of Bonds	4390	3748
C. Investments	1672	762
Non-Resident Investments in the Phil.	2016	843
Resident Investments Abroad	344	81
D. Short-Term Capital	-1521	495
E. Change in Commercial Banks' NFA	-963	1188
Capital and Financial Account, Net	956	6593
III. Others	84	-360
A. Monetization of Gold	103	105
B. Revaluation Adjustments	-19	-465
IV. Net Unclassified Items	-988	-5245
(As percent of Total Trade in Goods)	-1.7	-8.5
V. Overall BOP Position	1346 r/	-3363

a/For 1998, NSO data were adjusted to exclude the $136 million worth of aircraft under operational lease arrangement. For 1997,NSO data were adjusted to exclude the $45 million worth of aircraft under operational lease arrangement; while of the $1110 million worth of aircraft imported under capital lease arrangement,only $644 million were accounted for in the NSO figure, thus, $466 million have to be added to imports.
p/Preliminary
r/Revised based on the amended end-December 1998 NIR report of the Treasury Department.

Source: *Bangko Sentral ng Pilipinas*

18a EXPORTS BY MAJOR COMMODITY GROUP
Volume in 000 metric tons
Unit price in U.S.$/m.t.
FOB value in million U.S. dollars

Commodity Group	1998 p/ Volume	1998 p/ Price	1998 p/ Value	1997 Volume	1997 Price	1997 Value	Percent Change (Value only)
Coconut Products			831			835	-0.5
Copra	4	250	1	7	367	3	-66.7
Coconut Oil	1,178	599	706	1,108	608	673	4.9
Desiccated Coconut	72	1,016	73	77	1,150	88	-17.0
Copra Meal/Cake	540	65	35	570	92	52	-32.7
Others			16			19	-15.8
Sugar and Products			100			99	1.0
Centrifugal & Refined	185	432	80	198	418	83	-3.6
Molasses	290	66	19	198	76	15	26.7
Others			1			1	0.0
Fruits and vegetables			446			458	-2.6
Canned Pineapple	169	468	79	185	463	86	-8.1
Pineapple Juice	44	184	8	44	203	9	-11.1
Pineapple Concentrates	41	772	32	36	756	28	14.3
Bananas	1,140	190	216	1,154	189	216	0.0
Mangoes	52	811	42	45	900	40	5.0
Others			69			79	-12.7
Other Agro-Based Products			465			508	-8.5
Fish, Fresh or Preserved	89	3,421	306	70	4,166	292	4.8
Of which: Shrimps & Prawns	12	11,879	142	10	12,306	126	12.7
Coffee, Raw, not Roasted	1	1,000	1	–	2,035	1	0.0
Abaca Fibers	24	703	17	20	1,130	23	-26.1
Tobacco,Unmanufactured	13	1,666	22	17	1,722	29	-24.1
Natural Rubber	29	477	14	32	787	25	-44.0
Ramie Fibers, Raw or Processed	0	0	0	0	0	0	0.0
Seaweeds, Dried	27	1,112	30	27	1,207	34	-11.8
Rice	0	0	0	0	0	0	0.0
Others			75			104	-27.9
Forest Products 1/			24			45	-46.7
Logs	0	0	0	5	59	0	0.0
Lumber	44	227	10	145	177	26	-61.5
Plywood	6	333	2	14	366	5	-60.0
Veneer Sheets/Corestocks	32	375	12	31	464	14	-14.3
Others			0			0	0.0

continuation......

18a EXPORTS BY MAJOR COMMODITY GROUP
Volume in 000 metric tons
Unit price in U.S.$/m.t.

Commodity Group	1998 p/ Volume	Price	Value	1997 Volume	Price	Value	Percent Change (Value only)
Mineral Products			591			762	-22.4
Copper Concentrates	101	248	25	121	365	44	-43.2
Copper Metal	102	1,737	178	98	2,362	231	-22.9
Gold 2/	114	298	34	149	330	49	-30.6
Iron Ore Agglomerates	3,381	18	60	4,723	19	90	-33.3
Chromium Ore	51	118	6	89	69	6	0.0
Nickel	0	0	0	0	0	0	0.0
Others		288				342	-15.8
Petroleum Products			129			258	-50.0
Manufactures			25,866			21,462	20.5
Elec & Elec Eqpt/Parts & Telecom			17,156			13,028	31.7
Garments			2,356			2,349	0.3
Textile Yarns/Fabrics			242			299	-19.1
Footwear			147			194	-24.2
Travel Goods and Handbags			182			174	4.6
Wood Manufactures			118			134	-11.9
Furnitures & Fixtures			324			322	0.6
Chemicals			339			383	-11.5
Non-Metallic Mineral Manufactures			106			105	1.0
Machinery & Transport Equipment			3,318			2,685	23.6
Processed Food and Beverages			306			346	-11.6
Iron & Steel			28			46	-39.1
Baby Carr., Toys, Games & Sporting Goods			170			203	-16.3
Basketwork, Wickerwork, & Other Articles of Plaiting Materials			85			93	-8.6
Misc. Manufactured Articles, n.e.s.			203			209	-2.9
Others			786			892	-11.9
Special Transactions			311			287	8.4
Re-exports			733			514	42.6
Total Exports			**29,496**			**25,228**	**16.9**

— Less than one thousand metric tons
1/ Volume in 000 cubic meters; unit price in US$/cu.m.
2/ Volume in 000 ounces; unit price in US$/oz.
p/ Preliminary

Source: *Bangko Sentral ng Pilipinas*

18b IMPORTS BY MAJOR COMMODITY GROUP

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

Commodities	1998p/ Volume	Price	Value	1997 Volume	Price	Value	Percent Change (Value Only)
I. Capital Goods			12051			14369	-16.1
Power Generating & Specialized Machines			2568			3804	-32.5
Office & EDP Machines			1581			1418	11.5
Telecommunication Eqpt. & Elect. Mach.			6869			6437	6.7
Land Transport Eqpt. excl. Passenger Cars			0				
& Motorized Cycle			445			803	-44.6
Aircraft, Ships & Boats			196			1439	-86.4
Prof. Sci. & Cont. Inst.; Photographic Eqpt.			0				
& Optical Goods			392			468	-16.2
II. Raw Materials & Intermediate Goods			**11586**			**14634**	**-20.8**
Unprocessed Raw Materials			1172			1645	-28.8
Wheat	1431	173	248	2459	172	423	-41.4
Corn	462	169	78	293	184	54	44.4
Unmilled cereals excl. rice & corn			1			2	-50.0
Crude materials, inedible			770			1045	-26.3
Pulp & waste paper			67			75	-10.7
Cotton	41	1472	61	67	1588	107	-43.0
Syn. fibers	69	1225	84	70	1563	110	-23.6
Metalliferous ores			230			349	-34.1
Others			328			404	-18.8
Tobacco, unmanufactured			75			121	-38.0
Semi-Processed Raw Materials			10414			12989	-19.8
Feeding stuffs for animals	1192	237	283	1072	290	311	-9.0
Animal & vegetable oils & fats			59			58	1.7
Chemical			2205			2792	-21.0
Chemical compounds			559			685	-18.4
Medicinal & pharmaceutical chem.			310			331	-6.3
Urea	594	114	68	614	145	89	-23.6
Fertilizer excl. urea	684	137	94	753	166	125	-24.8
Artificial resins			568			867	-34.5
Others			606			695	-12.8
Manufactured goods			2806			3983	-29.6
Paper & paper products	413	644	266	495	681	337	-21.1
Textile yarn, fabrics & made-up articles			789			919	-14.1
Non-metallic mineral manufactures			144			284	-49.3
Iron & steel	2383	320	763	3870	326	1260	-39.4

continuation....

18b IMPORTS BY MAJOR COMMODITY GROUP
Volume in 000 metric tons
Unit price in US$/mt
FOB value in million U.S. dollars

Commodities	1998p/ Volume	Price	Value	1997 Volume	Price	Value	Percent Change (Value Only)
Non-ferrous metals			283			374	-24.3
Metal products			372			511	-27.2
Others			189			298	-36.6
Embroideries			346			357	-3.1
Mat/Acc for the mftr. of elect. eqpt.			4634			5407	-14.3
Iron ore, not agglomerated	3101	26	81	4102	20	81	0.0
III. Mineral Fuels & Lubricant			**2021**			**3074**	**-34.3**
Coal, Coke	4392	25	111	4037	27	109	1.8
Petroleum Crude 1/	114.46	12.52	1433	126.70	19.40	2458	-41.7
Others 1/	28.82	16.55	477	18.38	27.58	507	-5.9
IV. Consumer Goods			**2621**			**3091**	**-15.2**
Durable			900			1516	-40.6
Passenger cars & motorized cycle			235			643	-63.5
Home appliances			90			142	-36.6
Misc. manufactures			575			731	-21.3
Non-Durable			1721			1575	9.3
Food & live animals chiefly for food			1603			1435	11.7
Dairy products	207	1451	300	244	1658	405	-25.9
Fish & fish preparation	118	482	57	165	425	70	-18.6
Rice	2167	270	586	717	294	211	177.7
Fruits & vegetables			108			137	-21.2
Others			552			612	-9.8
Beverages & tobacco mfture.			64			75	-14.7
Articles of apparel, access.			54			65	-16.9
V. Special Transactions			1245			1187	4.9
Articles temporarily imported & exported			878			869	1.0
Others			367			318	15.4
TOTAL IMPORTS			**29524*/**			**36355**/**	**-18.8**

1/Volume in million barrels; unit price in US$/barrel
a/Less than one million US dollars
*/Adjusted to exclude the value of aircraft amounting to US$136 million procured under operational lease arrangement
** /Adjusted to exclude the value of aircraft amounting to US$45 million procured under operational lease arrangement, while of the $1,110 million worth of aircraft imported under capital lease arrangement, only $644 million were accounted for in the NSO figures, thus, $466 million have to be added to imports.
p/Preliminary

Source: *Bangko Sentral ng Pilipinas*

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+5+6+7) (3)	Gold (4)	SDRs (5)	Foreign Investments (6)	Foreign Exchange (7)
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	10,059.12	121.00
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	8,767.69	118.06	8,649.63	1,472.03	31.19	6,967.45	178.96
1998 Jan	8,648.73	117.81	8,530.92	1,516.75	36.53	6,782.92	194.72
Feb	9,249.55	117.15	9,132.40	1,474.26	3.26	7,464.78	190.10
Mar	9,353.69	116.72	9,236.97	1,522.30	9.43	7,534.74	170.50
Apr	10,842.50	117.23	10,725.27	1,566.43	24.24	8,949.72	184.88
May	10,849.65	116.34	10,733.31	1,534.05	4.40	9,022.00	172.86
Jun	10,564.01	115.99	10,448.02	1,540.25	1.16	8,745.02	161.59
Jul	10,389.82	116.33	10,273.49	1,557.44	17.19	8,518.03	180.83
Aug	9,938.39	115.82	9,822.57	1,489.64	2.67	8,169.05	161.21
Sep	10,622.70	119.85	10,502.85	1,617.73	2.76	8,691.29	191.07
Oct	10,518.58	122.76	10,395.82	1,595.29	2.82	8,604.53	193.18
Nov	10,508.48	120.74	10,387.74	1,605.01	1.53	8,535.07	246.13
Dec	10,792.71	122.17	10,670.54	1,555.03	1.21	8,737.76	376.54

[r] Revised to reflect amended end-December 1998 report by Treasury Department

Source: 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
1997	**Ave**	**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
1998	**Ave**	**40.8931**	**0.3136**	**23.2832**	**67.7738**	**6.9445**	**28.2765**	**5.2790**	**1.2235**	**0.0294**	**24.4744**
	Jan	42.6610	0.3294	23.4893	69.7772	7.0027	28.9389	5.5104	1.2666	0.0251	24.4939
	Feb	40.4143	0.3215	22.3057	66.3051	6.6550	27.6510	5.2214	1.2320	0.0250	24.4248
	Mar	39.0040	0.3032	21.3736	64.7844	6.3757	26.2430	5.0363	1.2046	0.0261	24.1340
	Apr	38.4422	0.2916	21.1910	64.3201	6.3224	25.5454	4.9615	1.1669	0.0277	24.0142
	May	39.2971	0.2913	22.1489	64.3766	6.6052	26.5946	5.0719	1.1755	0.0282	24.0425
	Jun	40.3991	0.2878	22.5483	66.5661	6.7255	27.0622	5.2091	1.1722	0.0289	23.8904
	Jul	41.7805	0.2973	23.2404	68.7716	6.9328	27.6082	5.3927	1.2165	0.0322	24.5046
	Aug	43.0375	0.2975	24.0838	70.3337	7.1838	28.7943	5.5543	1.2423	0.0330	24.5490
	Sep	43.7759	0.3253	25.6911	73.6267	7.6655	31.2004	5.6507	1.2659	0.0320	25.3658
	Oct	42.8882	0.3538	26.1662	72.7276	7.8027	32.0727	5.5356	1.2976	0.0319	26.1658
	Nov	39.9435	0.3322	23.7526	66.3956	7.0833	28.8500	5.1592	1.2293	0.0309	24.4228
	Dec	39.0733	0.3320	23.4074	65.3003	6.9794	28.7575	5.0444	1.2120	0.0322	23.6854

Source: *Bangko Sentral ng Pilipinas*

21 TOTAL FOREIGN EXCHANGE LIABILITIES
As of dates indicated
In million US dollars

	September 30, 1998 a/ e/				December 31, 1997 a/ e/			
	Short-term		Medium & Long-		Short-term		Medium & Long-	
	Trade	Non-Trade	Term	Total	Trade	Non-Trade	Term	Total
Grand Total	2,998	4,974	38,436 b/	46,408	4,032	4,407	36,994 b/	45,433
Public Sector	68	2,353	25,886	28,308	59	1,711	25,188	26,958
Banks	57	2,323	3,490	5,870	42	1,708	2,936	4,686
Bangko Sentral ng Pilipinas		2,204	1,475	3,679		1,704	795	2,499
Others	57	119	2,015	2,191	42	4	2,141	2,187
Non-Banks	11	30	22,396	22,437	17	3	22,252	22,271
CB-BOL			671	671			878	878
NG and Others	11	30	21,725	21,766	17	3	21,373	21,393
Private Sector	2,929	2,622	12,550	18,101	3,973	2,697	11,806	18,475
Banks	1,084	2,568	1,860 d/	5,512	1,040	2,572	2,366 d/	5,978
Foreign Bank Branches	294	352	82	728 c/	0	389	220	609c/
Domestic Banks	790	2,215	1,778	4,784 f/	1,040	2,183	2,146	5,369f/
Non-Banks	1,845	54	10,689 g/	12,589	2,933	125	9,439 g/	12,497

a/Covers BSP-approved/registered debt owed to non-residents, with classification by borrower based on primary obligor per covering loan/rescheduling agreement/document.
b/Includes cumulative foreign exchange revaluation on US dollar-denominated multi-currency loans from World Bank and Asian Development Bank of $52 million as of September 1998 and $129 million as of December 1997.
c/Excludes "Due to Head Office/Branches Abroad" accounts amounting to $2,989 million as of September 1998 and $3074 million as of December 1997.
d/Includes accounts restructured under CB Circular 1179 amounting to $66 million as of September 1998 and $162 million as of December 1997.
e/Details may not add up to totals due to rounding.
f/Includes $2 million liability of a private development bank as of September 1998 and $3 million as of December 1997.
g/Excludes obligations under various capital lease agreements of $1,228 million as of September 1998 and $1,296 million as of December 1997. Also excludes $1,402 million as of September 1998 and $925 million as of December 1997 of loans without BSP approval/registration.

Source: Bangko Sentral ng Pilipinas

22 BALANCE SHEET OF THE BANGKO SENTRAL NG PILIPINAS
As of periods indicated
In million pesos

	1998 p/	1997	Percent Change (%)
Assets	**741,710.1**	**683,313.3**	**8.5**
International Reserves	417,367.0	345,742.0	20.7
Foreign Exchange Receivable	13,411.3	11,596.3	15.7
Domestic Securities	185,052.0	204,708.8	-9.6
Loans and Advances	46,274.6	57,957.7	-20.2
Bank Premises and Other Fixed Assets	11,719.9	10,157.7	15.4
FX Differential Account	5,973.3	6,346.1	-5.9
Other Assets	61,912.0	46,804.7	32.3
Liabilities	**633,858.7**	**622,341.8**	**1.9**
Currency Issue	185,592.1	181,637.9	2.2
Deposits	269,171.9	265,637.0	1.3
Reserve Deposits of Banks & Other FIs	60,030.8	95,586.9	-37.2
of which:			
DMBs	54,236.1	84,822.9	-36.1
Special Deposit Account	510.0	0.0	
Other Deposits of Banks & Other FIs	5,987.3	7,806.9	-23.3
Treasurer of the Philippines 1/	59,484.2	78,346.6	-24.1
Other Foreign Currency Deposits	54,464.0	36,606.7	48.8
Foreign Financial Institutions	82,804.2	36,707.1	125.6
Other Deposits 2/	5,891.4	10,582.8	-44.3
Foreign Loans Payable	107,465.0	82,422.1	30.4
Net Bonds Payable	19,456.5	19,911.7	-2.3
Allocation of SDRs	4,407.3	4,407.3	0.0
Revaluation of International Reserves	3,195.9	56,002.1	-94.3
BSP Debt Instruments	30,456.8	2,424.3	1,156.3
Other Liabilities	14,113.2	9,899.4	42.6
Net Worth	**107,851.4**	**60,971.5**	**76.9**
Capital	10,000.0	10,000.0	0.0
Surplus/Reserves	97,851.4	50,971.5	92.0

1/ Includes foreign currency deposits.
2/ Mostly GOCC deposits.
p/ Preliminary

Source: Bangko Sentral ng Pilipinas

23 INCOME POSITION OF THE BANGKO SENTRAL NG PILIPINAS

For the periods indicated
In billion pesos

	1998[1]	1997	Percent Change (%)
Revenues	**65.02**	**46.99**	**38.37**
Interest Income	59.19	40.25	47.06
International Reserves	23.10	15.39	50.10
Domestic Securities	31.34	21.93	42.91
Loans and Advances	4.75	2.93	62.12
Miscellaneous Income	5.77	6.72	-14.14
Net income from Branches	0.06	0.02	200.00
Expenses	**53.53**	**40.04**	**33.69**
Interest Expenses	34.81	29.14	19.46
Legal Reserve Deposits of Banks	1.46	1.39	5.04
National Government Deposits	9.97	11.44	-12.85
BSP Debt Instruments	5.89	8.66	-31.99
Loans Payables and Other Foreign Currency Deposits	16.56	6.83	142.46
Special Deposit Account	0.03		
Other Liabilities	0.90	0.83	8.43
Cost of Minting	1.99	1.70	17.06
Other Expenses	16.73	9.20	81.85
Net Income Before Gain/(Loss) on FXR Fluctuations	**11.49**	**6.95**	**65.32**
Gain/Loss(-) on FXR Fluctuations	41.73	31.61	32.02
Provision for Losses Due to FXR Fluctuations	41.20	26.73	54.13
Net Income Available for Distribution	**12.02**	**11.83**	**1.61**

[1]Unaudited

Source: *Bangko Sentral ng Pilipinas*