THE PHILIPPINES: RECENT PERFORMANCE, PROSPECTS FOR 1990-'91, AND POLICY AND DEVELOPMENT ISSUES

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I. INTRODUCTION

Three years and nine months after it was catapulted into power, the Aquino government finds itself at a critical juncture. The gains which were made as a result of social and economic reforms initiated in the early 1980s by the Marcos regime, and pursued more vigorously during the years 1986-1988, have not been nurtured and bolstered with further reforms and appropriate policies. As a result, the outlook for the medium-term is uncertain with the likely outcomes lying in polar directions, depending on 1) whether or not the administration will alter its present course; and 2) certain external factors. Thus, the Aquino government can suddenly provide enlightened leadership and bequeath to the Filipinos an economy that has the basic structure to become an NIC at the turn of the century, or it can continue to be mired in corruption, indecisiveness, divisiveness, and lack of a long-term perspective, which will eventually plunge the country into stagnation and chaos. On the other hand, the increased flow of foreign investment during the past two years has mitigated the necessity for immediate structural adjustments. However, a severe worldwide recession could alter the whole picture and instead exacerbate domestic problems.

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Developments in the economic front since 1983 include the dismantling of monopolistic marketing arrangements for agricultural outputs and inputs, the elimination of a large number of import restrictions, the abolition of export taxes on agricultural commodities, the removal of interest rate ceilings and subsidized credit programs, the streamlining of the public investment program, and the simplification of the tax system making it more efficient and equitable. In addition, the Medium-Term Philippine Development Plan has advocated for the pursuit of a rural-based, employment-oriented strategy which indicates the thrust for a more decentralized approach to development with the view that it would be the most effective way of simultaneously addressing the objectives of poverty alleviation, employment generation, and income and wealth redistribution.

As a result of these reforms and partly because of the general restoration of confidence, the economy has staged a remarkable recovery from the economic decline in 1984-85, posting a small but positive GNP growth rate in 1986, which reached 5.7 percent in 1987, and a hefty 6.7 percent in 1988. However, the preliminary data for the first half of 1989 indicate that the economy has begun to slow down with first semester GNP growth declining to 5.3 percent from the previous year's figure of 7 percent. It is expected that the growth rate for the whole of 1989 would reach 5.6 percent which is lower than both the original target of 6.5 percent and the revised target of 6.0 percent.

While several factors contributed to this deceleration, it is evident that further developments in the area of structural adjustment are lacking in 1989. Philippine economic policy-makers chose to adhere to an IMF-sponsored package of stabilization measures which were spelled out in the 1989 Memorandum of Economic Policy (MEP) while effectively avoiding much needed structural reforms.1/ This is not surprising since the latter entail the reform of basic institutions and structures and the formulation of solutions to fundamental problems, some of which have plagued the development process for decades or even centuries. These reforms, which also aim at the widening of domestic markets, require a great deal of resolve and political will on the part of any administration.

1/ We use the terms structural adjustment and structural reform although technically these two are different. Structural adjustment is taken to mean the reform of a country's macro-economic structural parameters so that these are supportive of medium term development efforts. On the other hand, structural reform refers to the broader set of changes including social, political, and cultural. Both, however, should follow from a well defined development policy.

Thus in order for the goal of sustained growth and economic development to materialize in the future, necessary reforms must be implemented. One criterion for judging the success of these reforms would be the increased ability of the economy to absorb official development assistance (ODA) while another would be the extent to which the disparity in income distribution would be reduced. It must be emphasized, however, that these changes must be reinforced with a more meaningful solution to the external debt problem.

The task of describing the nature of these structural adjustments will be accomplished in the subsequent sections. This will accompany an analysis of the performance of the Philippine economy in 1989 and the prognosis for the next two years. Major developments in selected areas will also be examined.

II. DEVELOPMENTS IN 1989

A. Economic Growth, Sectoral Performance and Employment

The first semester of 1989 showed a 5.3 percent growth in Gross National Product (GNP), 1.7 percentage points lower than the 7 percent growth during the same period in 1988. Gross Domestic Product (GDP), on the other hand, grew by 5.7 percent, lower than last year's 6.2 percent growth. The gap between the two indicators reflects the deterioration of the country's net factor income from abroad arising mainly from the country's debt service burden. It is projected that growth of GNP and GDP would reach 5.6 and 5.9 percent, respectively, by the end of this year. The main reasons for this slowdown are the tight fiscal and monetary targets embodied in the Memorandum of Economic Policy (MEP) submitted by the government to the IMF, and the surge in the inflation rate especially in the second half of the year.

Though the expansion of GNP and GDP are still much lower than the full year targets, which are 6.5 and 6.8 percent, respectively, total investment is expected to approximate its year-end target of 19 percent. This reflects prevailing confidence in the economy as productive capacities continue to expand. Joint personal and government consumption, however, performed only at a 5.3 percent growth. This is a strong indication that demand has shifted to the investment side. Therefore, the slowdown in economic expansion can be partly attributed to the transition from consumer-led to an investment-led growth.

The export sector will narrowly miss its full year target of 12.9 percent, posting a 12.5 percent growth in 1989. This is a significant decrease, however, compared with last year's full-year growth of 18.6 percent in real terms. Imports will also decline but at a comparable rate, from 36.7 percent to 25 percent.

Except for the service sector, sectoral performance in the first semester this year showed higher growth rates compared with last year's figures. The industry sector which accounted for 33.4 percent of GDP rendered a 7.5 percent growth, 1.7 percent short of the full-year target. The continued construction boom in the country contributed significantly to the pace of industrial growth. This year, private construction, particularly the housing subsector exhibited an outstanding increase. This could be due to the increase in the demand for commercial and residential centers and the greater availability of housing loans. Moreover, this can be substantiated by the increase in the demand for cement.

There was a slack in manufacturing during the first semester which is attributable, in general, to the slowdown of consumption expenditure which is short of its full year target. Growth for this subsector in the first semester was at 6.8 percent, lower than last year's 7.6 percent growth. Another factor contributing to the slowdown was the inching up of interest rates resulting in increased production costs enough to dampen output growth. The full year target for 1989 was set at 9.1 percent but is expected to settle only at 7.9 percent. The second half's performance in manufacturing will continue to be sluggish as interest rates continue to rise, inflation nears its peak, and foreign exchange reserves begin to diminish.

The projected full year target for the industry sector is 7.8 percent, significantly lower than last year's figure of 8.5 percent and short of the government's target of 9.2 percent.

The sole reason for the deceleration in the service sector is the decline of 3.0 percent in the real value of government services. This is simply a "mathematical phenomenon" as wages and salaries of government employees increased tremendously (almost 20 percent) during the first semester of the previous year giving rise to a large base with which to compute the present year's growth rate.

Agricultural crops and livestock and poultry led the agricultural sector as it bounced back to post a 4.3 percent growth in the first six months of 1989 -- a 1.9 percentage point improvement from last year's first semester performance. These two subsectors were able to compensate for the 11.2 percent decline suffered by the forestry sector. This contraction was mainly because of the ban in the production of logs early this year. All others posted a better 1989 performance. The notable increase in corn was due to the increase in area yield, sugarcane production due to high domestic demand and price in addition to good weather (sugar areas) and increased U.S. import quota by 20 percent. Only coconut production decelerated for it was hardest hit by the typhoons during the first semester. However, due to the continued inclement weather in the second half of the year, growth is expected to decelerate and is projected to be at 3.5 percent, lower than the 4.3 percent target.

An improvement in the employment situation was experienced during the first quarter of the year, the seasonal peak of unemployment. Unemployment rate was registered at 11.4 percent compared to 11.9 percent in 1988, while underemployment rate went down to 32 percent from last year's 33.3 percent. By July, the ratio of the total number of unemployed to the labor force progressed to 8.8 percent, an improvement from the 8.9 percent registered during the first seven months of last year. This is supported by a better, albeit marginal, estimate of full-time unemployment rate -- to 20 percent from 20.5 percent in 1988.

Because of the government's efforts to promote rural development and of the influx of investments in the regions, there was a noted increase in Metro Manila's unemployment rate complemented by a decrease in the provinces. Overall rates posted improvements relative to last year. This could be partly because of reforms promoting better worker protection, speedier resolution of disputes, and candidness in collective bargaining introduced in the bill amending the labor code. Strikes marked last year's industrial situation.

The agricultural sector captured a major part of the number of unemployed at 45.5 percent as of April though it showed a decline from last year's 47.6 percent. This demonstrates a marked increase in the employment of other sectors, especially the construction subsector (at 18.5 percent growth as of April) as manifested by the continued construction boom in 1989. Notwithstanding this, the services sector still managed to rank second in the absorption of workers at 38 percent.

Though there was a decrease in the number of overseas workers (by 6.69 percent), remittances grew by 5.1 percent. This could be because of the demand shift from skilled to highly skilled professionals abroad.

B. Saving and Investment

Investments played a major role in the country's economic expansion as shown by the rise in its share in the Gross Domestic Product (GDP). Gross Domestic Capital formation grew at 17.25 percent in 1988 and is expected to grow at 19.2 percent in 1989 (in real terms). Consequently, its share in total GDP has jumped from 15.4 percent in 1988 to 17.6 percent in 1989. This indicates the country's continued transition toward investment-led growth. A more detailed scrutiny would reveal that investments in durable equipment posted the biggest increase at 36.9 percent as of June 1989. It is estimated to grow at 25 percent for the whole of 1989. Last year's phenomenon could be attributed to the tendency of local manufacturing industries to invest in plant expansion as their production capacity was fully utilized due to strong consumer demand. This year, much of the investment in durable equipment was poured into transport equipment. This is highly evidenced by the notable increase in the number of cars which grew by 148.4 percent and air transport, which increased by 6554.1 percent in nominal terms. The latter is accounted for by PAL's leasing of planes during the second quarter of 1989. This meant that investments were mostly placed into manufacturing endeavors wherein transport equipment is a subsector. The latter registered the fastest increase among all subsectors at 49.4 percent as of June 1989.

A total reversal in the behavior of public construction was experienced during the first semester of 1989. From a contraction of 5 percent in 1988, growth in government construction accelerated to 10.4 percent in 1989 much of which can be attributed to the government's efforts to facilitate project preparation and implementation. This resulted in the adoption of such programs as the Common Fund Scheme and the creation of the Cabinet Action Committee on Implementation Assistance (CACIA). A seasonal deceleration is foreseen in the second semester, hence, the reason for a full-year estimate of 10 percent, .5 percentage points lower than the year's target.

The flow of investments to the Philippines by foreign investors was for various reasons; from Thailand's "investment indigestion" to the political turmoil in China. Investment missions from eight countries were slated to visit the country this year planning to invest in the field of semiconductor and electronic components, chemical, textiles, garments, automotive components, minerals and food processing and aquaculture. BOI-approved equity for the first semester of 1989 increased by a substantial 187.5 percent, most of which can be attributed to local rather than foreign investments. The growth reached 272 percent by July 1989. This is unlike in 1988 wherein only 45 percent of total investment could be credited to local investors. But not unlike last year, the Taiwanese topped the list of foreign investors in the country with 27 percent share of the total ₱2.643 B investments. Though there was a decrease in the share of foreign investment in total BOI-approved equity, confidence by foreign businessmen in the Philippine economy was nevertheless proven by the 90.1 percent growth in foreign investment during the first semester of 1989.

Foreign investors have also made their presence felt in the local stock market which experienced bullish activity recently. The more than threefold increase in the price of PNB stocks is testimony to this.

C. Inflation

The year 1989 witnessed another surge in inflation. The inflation rate which is based on the annual rate of increase of the Consumer Price Index (CPI), soared to two-digit levels during the third quarter of the year. This was a notable reversal from the first quarter's promising performance. The improvement in the inflation rate from 9.1 percent in December 1988 to 7.7 percent in March 1989 can be attributed to the slower annual changes in the food, beverage and tobacco index, particularly fruits and vegetables which were available at lower prices in almost all regions of the country. Contractions in fuel, light and water indices were mainly due to the effects of the three successive reductions in domestic prices of petroleum products in 1988.

This improvement proved to be short-lived as the inflation rate rose constantly to reach 9.7 percent in the second quarter of 1989. Price increases of rice, corn, meat, fish, dairy products and fruits and vegetables in most regions were due partly to bad weather conditions. As of October 1989 there had been a total 17 typhoons that had hit the country, the last two of which hit the country's central region. Inflation rate was fueled further by the increase in the minimum wage. Salaries of rank and file employees of both private and government firms were increased as the Wage Regionalization Act and Salary Standardization bill were signed in the second semester. This increase in wages had both a cost push and demand pull effect on inflation. The 20 percent rise in prices of selected petroleum products last August and the upward movement of National Power Corporation power rates in September pushed production costs further upward that resulted in higher prices of commodities. As a result, inflation has reached 12.6 percent in September of 1989 and 13.4 percent in October. Outlook for inflation during the early part of 1990 is bleak as energy costs are still expected to rise and the full effects of the wage increase have not yet been felt.

Inflation rate is projected to reach 10.1 percent on the average for the whole of 1989. Under the Memorandum of Economic Policy (MEP) the inflation target was set at 8 percent. This low target (lower than last year's actual inflation of 8.7 percent) resulted in very strict monetary and fiscal targets. Such could lead to lower growth and more serious unemployment than had been targeted in the Medium Term Plan and this is what has actually transpired.

D. Money and Budget Developments

The ability of the economy to reach growth targets partly depends upon the government's capacity to finance investment levels. The government must seek to finance these targets through fiscal and monetary policies. But since the MEP provided unrealistic fiscal and stringent monetary targets, the Philippines will not be able to finance the investments required to achieve these goals.

One of the problems faced by the government in 1989 was the ₱15.1 B expected budget deficit. The problem of reaching this target was worsened by the lowering of the Bureau of Internal Revenue (BIR) collection target to ₱79 B from the previous goal of ₱83 B. Hence, the reliance on domestic financing, particularly the flotation of government securities (T-bills) as new money inflows from official and commercial creditors have not been programmed for the 1989 budget. This action substantially affected interest rates and money supply.

In an attempt to slowdown inflation and firm up the depreciating peso, the Central Bank has jacked up interest rates sharply. As of October, T-bill rates had gone up to 23 percent compared with 17.4 percent in June, hoping to stunt monetary growth in order to catch up with and try to meet IMF targets last September. To meet the liquidity targets, the Central Bank also opted to increase the reserve requirement ratio of long-term deposits from 9 to 20 percent. This resulted in the surge of the interbank call loan rate reaching a peak of 90 percent sometime in September.

The growth of 24 percent and 19.7 percent of total liquidity and M1 during the first semester exerted upward pressure on the price level. To counteract this, the rise in interest rates was inevitable. During the remaining months of 1989 interest rates are expected to continue to climb steadily as the fiscal deficit continues to be funded from domestic borrowings and as the CB intensifies its mopping up operations to meet the year-end monetary target. It is estimated that money supply growth will close at 20 percent at the year's end.

E. Exports, Imports and Current Account Balance

The country's balance of payments (BOP) position, inclusive of rescheduling, for the first seven months of 1989 deteriorated to a deficit of $648 M from an already wide gap of $384 M incurred in the first half of the year. This was an evident turnabout from the $90 M BOP surplus during the same period last year. The present gap resulted from the worsening of the current account and the delay in the inflow of new money from international creditor banks. These offset whatever improvements were made as a result of the increase inflow of foreign investment.

Merchandise trade not only worsened to a shortfall of ₱1.39 B or more than double the $639 M gap during the same period last year, but also surpassed the $1.08 B trade gap incurred for the whole year of 1988. Trade data from the National Statistics

Office (NSO) show that export earnings expanded by 14.6 percent to $4.444 B but import payments jumped higher by 29.2 percent to a record $5.84 B due to the 5.3 percent real GDP growth and the 6.8 percent output hike in manufacturing. The surge in economic activity positively affected imports as shown by its composition. Capital ____ were up by 57.9 percent while intermediate goods by 21.4 percent.

It is estimated that merchandise exports will reach $7.95 B in 1989, $188 M short of the $8.138 B target. One reason for this is the difficulty to push our exports in a highly import-substituting regime since it is very costly for exporters to import raw materials for their products. Second, our kind of export financing is on a collateral basis and does not promote exports on project or developmental basis. Finally, the exchange rate is not pegged at a realistic level and as a result it prevents exports from competing satisfactorily in the world market. This stems from the fact that there exists a very large inflation differential between our economy and those abroad. The only way to offset the ill effects of high export costs is to allow the peso to depreciate. Merchandise imports are expected to grow at 25 percent in 1989 due to our exports' very high import content, the effects of the government's import liberalization program and the increase in economic activity.

Non-merchandise trade was reduced by almost half during the first semester primarily because of great improvements in service receipts. The uptrend in service inflows was mainly due to withdrawals in pesos of dollar accounts ($111 M) and marked increases in inward remittances to fund operating expenses of multinationals in the country ($110 M). By August 1989, non-merchandise trade suffered a deficit wider than the comparable period last year by 2.3 percent. Non-merchandise outflows during the period exceeded inflows through the heavy load of interest payments at $186 M; profits, earnings and merchandise insurance, $93 M and freight and merchandise insurance, $93 M.

Overall, the current account balance is estimated to post a deficit of $1,370 M for 1989 with the Balance-of-Payments posting a surplus of $718 M.

F. Financial Flows and External Debt

Having incurred an external debt amounting to $28.5 B in 1988, the Philippines ranks among the highly indebted countries in the world which is comprised mostly of those in the Latin American region. Debt service payments in 1989 are estimated at $2.98 B of which more than 68 percent will go to interest payments. Its ratio to exports of goods and services is estimated to be at 26.4 percent. As of May 1989 the outstanding debt stood at $27.3 B.

The debt strategy adopted by the government is aimed to reduce net resource transfers by reducing outflows. In spite of the government's efforts to pursue this growth-oriented debt strategy, the economy still experienced net resource outflows reaching a high of $1.9 B in 1988. This year, it is expected to be reduced to $1.5 B because of new loan commitments.

As mentioned earlier direct foreign investments continued to be a significant source of foreign exchange with the former posting a net gain of $853 M in 1989.

G. Development Issues

Events in 1989 have revolved around the MEP (or the Letter of Intent [LOI] of the government to the IMF), the recurrence of inflationary pressure, the continued flow of foreign investment, and the recent agreement on a new debt package. These issues find a common denominator in the subject of structural adjustment.

Five years after the Philippine economy experienced its worst BOP crisis in the post-war era, the controversy over IMF-imposed conditionalities still rages. Critics point to the approach utilized by the IMF wherein the GNP growth rate is derived as a residual after targets on new money and debt servicing are set. Moreover, the negotiations with multilateral institutions, commercial banks, and the Paris Club are characterized by cross-conditionalities such that any agreement with one particular group will not be honored unless the country can come to terms with the remaining groups. This approach in dealing with these foreign institutions effectively creates a creditor cartel which greatly diminishes the leverage a debtor country has mustered through strong economic performance.

Thus it is not surprising that Philippine policymakers are quick to agree to the terms set by their creditors and recent experience has shown that this has resulted in growth rates lower than have been originally targeted and debt packages that leave much to be desired. This discussion underscores the need to review policy based lending and to revamp the present configuration of the negotiating process in order to provide a climate for structural adjustment to succeed.

To avoid the adverse effects of policy based lending, it has been suggested that conditionalities should relate to only a few variables since our understanding of how economies actually work will create inconsistencies in objectives when too many of them are targeted. Furthermore, conditionalities should relate to variables or policies over which the implementing agency has actual control. For example, a budget deficit to GNP ratio target is not totally under the control of government since the outcome is difficult to predict. In many IMF programs, the full employment assumption typically utilized becomes problematical when actual GNP falls short of forecast and the government is compelled to cut back on expenditures more drastically than originally intended. 2/ In fact this is what transpired in 1989.

The resurgence of inflation, on the other hand, focuses on the required thrust of structural reform. It can be recalled that towards the end of last year businessmen promised that the rise in the prices of their commodities would only be temporary, that it was a purely seasonal phenomenon. They even went to the extent of assuring President Aquino that prices would be reduced as soon as the Christmas holidays were over. Unfortunately, this promise was not kept and the relatively high level of inflation was maintained in the first half of the year. At present the Philippine economy is experiencing double digit inflation largely due to wage increases which businessmen have automatically passed on to the consumers. This process underscores the monopolistic/oligopolistic structure of the Philippine economy.

It should be the aim of future structural adjustment programs to dismantle these monopolistic/oligopolistic arrangements or otherwise regulate the pricing activities of these entities. This objective is part of the larger policy that is geared towards a more equitable distribution of wealth and income. The Comprehensive Agrarian Reform Law (CARL) was a step in this direction but unfortunately what started out as a bang ended in a whimper. The Department of Agrarian Reform was even reported to be involved in a recent multi-million peso scam.

Another source of inflation is a deteriorating government budget deficit. The administration is generally caught in a balancing act, trying to satisfy the requirements of international creditors while at the same time meeting expenditure levels that will assure the targeted growth rate. Since an effective method to contain inflation would be to reduce government spending but at the same time avoid fuelling socio-political unrest by maintaining the level of expenditures on basic services, it would be more prudent on the part of the government to negotiate an external debt package which reverses net resource flows and substantially reduces the level of outstanding debt. This point is directly related to the first issue discussed above.

As mentioned earlier the entry of foreign investment serves as a disincentive for the government to embark on a program of necessary structural reforms, both in the economic and social spheres. Government policymakers should avoid such procrastination, otherwise the sudden eventuality of a worldwide economic recession, especially at a time when foreign funding is scarce, would cause widespread convulsions in our society.

2/ Quoted heavily from Montes (1988).

These issues have a direct bearing on the process of regional development. A more equitable distribution of income and wealth would greatly diminish the threat from the communist and Muslim insurgencies and make regional investments more attractive. A program of structural reform that is undertaken in a milieu of a more liberal debt policy and less stringent conditionalities would assure that government spending on basic services and infrastructure (which serves as a vehicle for social justice and countryside development) will not be sacrificed.

III. PROSPECTS FOR 1990 AND 1991

In deriving the forecasts for the next two years, we assume that there will be no fundamental change in the policy framework of the present government. Thus GNP growth rates will remain well below the double digit level.

A. Economic Growth, Sectoral Performance and Employment

Growth in 1990 will continue to be sluggish, with GNP expected to rise by 5.5 percent. This, however, is equal to the projected average growth for the Asia-Pacific region. Investment expenditure is still expected to lead the way with the programmed 48 percent increase in government capital outlays. Consumption will continue to reel from the increase in prices and post a 5 percent growth, 20 basis points lower than the 1989 figure.

High interest rates, inflation, and the recent hike in the minimum wage will continue to stymie expansion in the manufacturing subsector. This will permeate to the industry sector as a whole resulting in a 7 percent growth, down from the previous year's 7.8 percent. The service industry will benefit immediately from investments in the past two years and will experience a growth of around 6.2 percent. Agriculture will continue to be bogged down because of the confusion surrounding the implementation of the Comprehensive Agrarian Reform Law. This will be partially offset by the higher support price the government will extend to the palay farmers. Growth in this sector will continue to lumber along at 2.4 percent.

The full time equivalent employment rate will improve in 1990 but only at a marginal rate given the relatively high population growth rate of 2.4 percent which leads to an almost equivalent expansion in the labor force.

Economic activity will rebound in 1991 as the investments in expanded plant capacity and related projects will have completed their gestation period. Total consumption will be the main beneficiary expanding to 5.5 percent. Total investment will continue its steady growth. Correspondingly, growth in the three sectors will rise with industry leading the way at 7.6 percent. Since government infrastructure projects will be concentrated in the rural areas, agriculture should experience a higher growth of 3.5 percent in 1991.

It must be stressed that these projections have not incorporated the possibility of a severe worldwide recession. In the event this crisis materializes the GNP growth rates in 1990 and 1991 will drop to 4 percent and 5 percent respectively.

B. Saving and Investment

If the present trend continues the economy is expected to exceed the 20 percent threshold level for the investment-GDP ratio which is necessary for a fundamental transition. However, future prospects still depend on the quality of investment. Nevertheless, this is a good sign that the economy is preparing for a take-off sometime towards the middle of the decade.

Domestic saving will also follow a similar path after declining during the period 1986-88 (reflecting the consumption-led growth). The increase in the savings rate can be attributed to the relatively high real interest rates, although this has not been supported by empirical evidence.

C. Inflation

As a newspaper report put it, inflation will be the watchword of 1990. Because of its detrimental effects on the various categories of expenditure and on the exchange rate, the Monetary Authorities will focus its effort during the first part of 1990 in harnessing inflationary forces. The Central Bank will persevere with its mopping up operations and it will likely meet with success but at the expense of sacrificing growth in the manufacturing sector. Inflation will taper off to a relatively mild 9.0 percent in 1990 and 8.2 percent in 1991.

As a result of the slowdown in inflation the exchange rate will depreciate by 5 percent instead of the 8 percent expected by some economists.

D. Money and Budget Developments

Monetary policy will continue to be tight in 1990 giving rise to fears that 1984-85 will occur all over again. While there is no reason for such apprehension, interest rates will continue to climb during the early part of the year with the annual average settling to about 19 percent. The growth rate in money supply (broad money) will drop to about 19 percent down from the 1989 figure of about 20 percent. There will be more breathing room in 1991 with money supply reverting back to a 20 percent growth that will accompany the greater economic expansion.

A ₱233.5 B budget is programmed for 1990 with priority on capital outlays. This reflects the need for the public sector to augment the productive capacity which reached full utilization in the past two years. To meet the financing requirements of the sizeable increase in capital outlays (which is about 48 percent) the government aims to enhance the enforcement of existing measures to increase tax compliance and, in addition, it will implement new legislations. The latter include an increase in excise tax rates imposed on cigarettes and alcoholic products and the restructuring of forest charges from the present fixed rates to ad valorem rates of 20 percent of actual market price per cubic meter. The targeted budget deficit is ₱7.9 B but it is projected to balloon to ₱13.1 B by the end of the year, which is still a manageable one percent of nominal GNP. One reason the government will not meet its target is the increase in interest rates which implies a rise in debt obligations. Of course, there is always the nagging problem of tax evasion which inevitably results in lower revenues than anticipated.

In 1991, because of the increase in economic activity the government would be able to raise sufficient revenues to trim down the deficit to ₱7.5 B.

E. Exports, Import, and Current Account Balance

High wages and interest rates will also hamper the growth of exports. The expected inflow of new money in the early part of 1990 will allow the Central Bank to defend the peso exchange rate thus providing another disincentive to exporters. Hence, the growth of exports of goods and services in 1990 thus will remain virtually the same at around 12.6 percent. Imports will continue to grow at a faster rate at 16.7 percent leading to a further deterioration in the trade balance, which is estimated to reach a $2.8 B deficit. The current account deficit will follow suit, increasing to $1.8 B from the 1989 value of $1.4 B. With the inflow of new money coupled with the debt reduction package the overall Balance-of-Payments will register a surplus of $1.1 B.

More stable conditions in 1991 which include greater productive capacity will spur exports to break the $10 B mark. Greater domestic production will also limit the expansion of imports. Hence, the trade balance will remain roughly constant.

F. Financial Flows and External Debt

It is projected that the current account deficit will continue to increase up to 1991, averaging at 3.3 percent of GNP at absolute values. Because of the growing cautiousness of international banks to lend to highly indebted countries, inflows of medium- and long-term loans will contract; however, this will be offset by declining outflows due to debt rescheduling and debt reduction agreements. Debt service ratio to exports of goods and services is projected to reach 28.2 percent in 1990 but decrease to 24.52 percent in 1991. Foreign investment will continue to play a significant role with Japan expected to take the lead in the near future. Net inflows of long- and medium-term funds will reach $781 M in 1989 and this will gradually rise to $899 M in 1990 and $1,024 M in 1991. On the other hand, the figures for net foreign direct investment will be $853 M, $981 M, and $1,110 M, respectively. These will not be enough to cover the interest payments on the external debt and it is expected that the economy will continue to experience net resource outflows although at a declining level.

G. Development Issues

In Section I we stressed the need for fundamental economic and social changes. In Section II-G we outlined the necessary conditions for the success of structural reforms which basically translated into more meaningful debt reduction and more realistic and less stringent conditionalities. Also, the achievement of greater equity in terms of income and wealth distribution should be of paramount importance. The task then of this section is to delineate the nature of these structural reforms.

Government policymakers must first recognize that the need for fundamental change is not only a national phenomenon. In the past year we have witnessed profound political changes in the socialist world which signal a need on their part to restructure their economies. However, this is only one side of the coin. The need for overhauling the international financial system has also been acknowledged and this task is the major responsibility of the OECD countries. And once the restructuring of the international financial system is undertaken it is inevitable that the OECD countries would have to adjust their economies, too.

This global metamorphosis then should influence whatever development policy the government planners should formulate and, consequently, all structural reforms.

At present, the economy has not mobilized its full potential as the system remains segmented, unable to shed its dualistic character, thus inhibiting the efficacy of structural adjustments. One way to consolidate these different sectors of society is to develop integrated domestic industries that use indigenous resources and employ intermediate technologies. As one economist put it, the government must come up with a "program of industrialization which shall serve as a basis for trade reform, instead of the other way around, and that identifies a few key industries for development." 3/ The industrialization scheme must be supported by a detailed policy on the development of science and technology which in turn should reflect our comparative advantage. This strategy would effectively avoid the folly of the previous regime which chose to indulge in immoderate ambition by attempting to build heavy industry using the latest but inappropriate technology and facilities obtained from developed countries. And as mentioned earlier, the external environment must be a major factor in the design of the policy. For example, a drift towards regionalization of trade should discourage an export-oriented economy.

An industrialization policy should readily lead to an increase in the level and productivity of private investment, both domestic and foreign. Moreover, it should provide a more definite role for public investment making the latter more manageable and effective. And being the cornerstone of structural adjustment, other reforms could readily be specified along the lines of this industrialization program.

A significantly reduced external debt burden, which is a necessary condition for structural adjustment to succeed, would release much needed resources to improve physical infrastructure and to import much needed capital equipment to improve productivity and expand the productive capacity of the economy. The Philippine Aid Plan, despite its shortcomings, should still provide additional funds for these purposes. As for the issue of the inability of the economy to absorb development assistance, the presence of a well defined industrialization policy should hasten the approval and disbursement of funds.

The efficiency of the public sector mainly in generating tax revenues should be increased. Much of the shortfall in tax collection can be attributed to evasion and thus more attention needs to be devoted to increasing compliance and enforcement. This should reduce considerably any privileges monopolists enjoy at present and make taxation more progressive.

The securities markets have long been neglected by the government. Up until now, there is no clear policy nor program to develop the securities markets. The proposed industrialization policy should consider explicitly the promotion of securities markets so as to foster wider control of enterprises.

The present policy environment is not attractive enough for companies to issue securities. For example, interest payments on debts are tax deductible while dividends on shares are not. Hence, companies prefer to borrow than to issue securities. The

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3/ Montes (1988).

growth of financial intermediaries engaged in the development of the securities markets should be encouraged. As of this moment, only investment companies and universal banks can engage in underwriting. Unfortunately, both are relatively inactive. In fact, investment companies have increasingly emphasized lending in the recent past rather than underwriting. The latter could be deregulated to allow other financial intermediaries, like brokers/dealers to engage in it.

The industrialization program should be crafted in such a way as to directly address the deep-seated problem of poverty. For example, processing industries that utilize agricultural inputs could be dispersed in the rural areas. An emphasized that an industrialization program need n imply the neglect of the agricultural sector.

A major area of concern not directly related to the issue of an industrialization program is the relatively high growth rate in population which currently runs at 2.4 percent. In this regard, existing programs in family planning need to be expanded, the level of expenditures increased, and the delivery of services made more effective.

Finally, it is important that both the Legislative and Executive branches of government coordinate closely in the endeavor to develop an industrialization program with intensive consultations with the private sector. This would not only assure its speedy ratification but also its acceptance by the majority of the people.

IV. MAJOR ECONOMIC POLICIES 4/

Since the beginning of this decade, the Philippines has introduced a number of reforms which were mainly aimed at eliminating major distortions in the economy and reducing fundamental macroeconomic imbalances. Some of these were started by the previous regime and pursued more vigorously by the Aquino government. This section briefly reviews and evaluates some major economic policies in recent years. It must be recalled that no major reforms were introduced in 1989.

4/ This section is largely based on individual studies prepared for a forthcoming PIDS publication entitled "An Assessment of Government Performance in Selected Policy Areas, 1986-1989." The author would like to express his gratitude to the various persons involved for allowing highlights of their studies to be presented. Any deviation from the original papers is the sole responsibility of the author.

A. Monetary and Banking Policies

The monetary authorities/executive branch of the government has already introduced substantial policy reforms in the financial sector. Most policy statements contained in the Plan have already been translated into concrete policy actions, the most significant of which is the shift in the focus of Central Bank functions from credit allocation to stabilization. Deposit and lending rates are now market-determined. Rediscount rates and yields on government securities are likewise aligned with market rates.

As stated in the Plan, a positive real deposit rate will be maintained to mobilize savings. This was met for all investment instruments in 1986 and 1987. However, savings deposit had negative real rates starting in 1987. Interestingly, the nominal interest rate on these deposits of 4.1 percent p.a. in 1988 was much lower than the nominal rate of 6 percent p.a. enjoyed by depositors when it was still administratively fixed by CB.

With regard to reforms in the banking system, three structural policies are being pursued: (1) the privatization of the six commercial banks which the government took over in 1981; (2) the rehabilitation scheme for the rural banking system; and (3) reduction in the size and scope of the government banks. Aside from the transfer of their non-performing assets to the Asset Privatization Trust, the government banks are now forced to be competitive by lessening the special privileges given to them, e.g., their monopoly of government deposits. A third of the government's equity share in the Philippine National Bank was sold to the private sector during the first quarter of 1989, consistent with the government's privatization thrust.

In addition, policies to improve the stability and soundness of the banking system were recently adopted. In a circular dated 16 May 1989, CB shall henceforth refrain from sustaining weak banks except in times of general financial emergency or when specific banks face problems of liquidity rather than of solvency. Most of the amendments in the Central Banks Act and the General Banking Act that are now proposed in Congress have focused on curbing insider abuse. Notwithstanding these, it is noted that the level of Central Bank assistance to financial institutions still appears to be very high, leaving it very little elbow room to avert a major crisis without going back to the period of high interest rate.

Monetary policy since 1986 has been generally tight. In particular, the growth rate in base money has been held in check and reserve requirement has remained high at 21 percent. But it is less tight than the crisis period. The same monetary policy is expected to prevail in the next two years in view of the precarious balance-of-payments position, low level of gross international reserves and of the below double-digit inflation target.

B. External Debt Management

One of the most debilitating problems the Aquino government inherited from the Marcos regime was the external debt accumulated by the latter. To lessen any adverse effects of the debt overhang the government embarked on a growth-oriented debt strategy which seeks to prioritize economic growth over debt repayment.

To this end the present government was able to restructure its agreements with both the Paris Club and foreign commercial bank creditors. This somewhat eased up the debt burden of the country and provided it with the opportunity to divert resources for financing growth. Simultaneous with the restructuring agreements was the introduction of the debt-to-equity conversion program in 1986 to help reduce the debt burden.

In spite of these efforts, the country continued to experience net resource outflows much higher than other heavily indebted countries on a per capita basis. The disadvantages associated with the debt-equity conversion program began to materialize. The high liquidity effects exerted inflationary pressure which the Central Bank counteracted by issuing high-yielding financial instruments. In effect domestic debt was exchanged for foreign debt which had detrimental effects since the former carried higher interest rates. Moreover, circumstantial evidence indicates that foreign investment which entered via the debt-equity program was not additional.

Compared to other countries, the Philippines seems to be lagging behind in terms of obtaining the best possible debt package. This has not helped reduce the flak the country's debt panel has been receiving lately. However, to be fair with the debt negotiators it must be pointed out that the cross-conditionalities that characterize the bargaining process have decreased considerably any leverage they have.

In the end it may be wiser to push the argument that there is no automatic growing out of the debt problem and none of the clever/worthy proposals will work. In other words, what is needed is substantial debt forgiveness. This has been the contention of economists like Lawrence Klein and Jeffrey Sachs and hopefully it would gain worldwide acceptance.

C. Exchange Rate Policy

The Central Bank has been managing the movements of the exchange in spite of its avowed policy of supporting a freely floating exchange rate system. With the intention of staving off speculative attacks on the peso, the Central Bank has been directly purchasing foreign exchange from banks and/or offering higher interest rates for its borrowing from banks through the reverse repurchase window. This has actually resulted in the deterioration of the gross international reserves and higher domestic interest rates in the past three years.

A sharp depreciation in the real effective exchange rate (about 26 percent) occurred in 1986. Thereafter, depreciation was kept below 10 percent per year. However, the nominal depreciation of the peso vis-à-vis the dollar was very minimal since 1986. Thus, the large depreciation in the real effective exchange rate was mainly due to the substantial depreciation of the peso vis-à-vis major currencies other than the dollar.

D. Fiscal Policy

The management of the fiscal deficit so as to minimize its negative impact on the economy is one of the primary objectives for the sector as stated in the Medium-Term Development Plan. The present government pursued this policy via the reduction of its dependence on money creation and on foreign borrowing in financing the deficit of the national government. Consequently, domestic debt instruments were heavily resorted to, even to the extent of being used in mopping up excess liquidity in the system. Unfortunately, such practice tended to exert undue pressures on the interest rate and consequently, on the level of private investment and growth thus undermining the stated government objective.

With respect to the revenue system, the 1986 Tax Reform Program (TRP) was initiated by the government "to improve the efficiency, equity and elasticity of the revenue system." The major components of the TRP are: (1) shift from a schedular to a global approach to the taxation of individual income; (2) the unification of the earlier dual tax rate on corporate income at 35 percent; and (3) the introduction of the value added tax in place of the sales/turnover tax and a host of other taxes. Estimates indicate, however, that the elasticity of the tax revenue with respect to GNP in 1986-1988 is not significantly different from that in 1975-1985 despite the increased tax collections in the later period. Government assessment blamed this on the inadequate administrative preparations (e.g., information drive and few manpower) for the program and the non-implementation of the proposal to impose ceilings on certain types of business deductions. These problems were addressed in the recently signed Memorandum of Economic Policy with the IMF by increasing the number of BIR field officers, among others. The imposition of business ceilings is also being discussed. With respect to equity, it is noted that tax system still remains regressive in the whole as 70 percent of total taxes continue to be generated from indirect taxes rather than on income taxes.

With regard to expenditure policies, the present government is greatly constrained by the debt burden at the expense of the much needed services to the people. Thus, real per capita government expenditures adjusted for debt service and net lending stood at ₱217 in 1988, well below the pre-crisis peak level of ₱282 in 1981. It can be said that like the tax system, the expenditure policy was and shall continue to be regressive unless the debt problem is pragmatically confronted.

On the government corporate sector, 121 of the government-owned and controlled corporations were approved for privatization by the President on 28 July 1989. The rest were recommended for retention (33), abolition (58) and regularization/merger with others (88). As to the mode of privatization, public offering of shares has not been utilized at all as a divestment instrument prior to the offering of PNB shares in early 1989. This has serious distributional implications; unfortunately, from the government's point of view, such consideration is secondary to privatization *per se*.

In the area of local government finance, a lot of discussions on fiscal autonomy are now on-going. The government's reluctance to tie itself up with a definitive policy statement thereon stems from the lack of political will with regard to the issue of political decentralization, except for the Mindanao and Cordillera regions.

E. Trade Policy

The tariff reform which was initiated in 1980 and completed in 1985 had the effect of reducing the average nominal tariff level from 41 percent to 28 percent. In addition, the proportion of regulated items to total number of PSSC lines has been reduced from 36 percent in 1980 to 12 percent in 1988. At present, it is difficult to evaluate the impact of the program on the competitiveness of the domestic industries. It may be mentioned that at the outset, government did not attempt to study the potential domestic private sector response to the changes in effective protection rates, although there were attempts to identify the financial resources required by such a response. Another weakness of the policy design in this area is the lack of definitive, long-term industrial policies on which the relevance and timing of the import liberalization policies should have been made contiguous.

Other significant trade policy reforms recently introduced include the elimination of the coconut and sugar trading monopolies, the abolition of the meat importation cartel, the turnover of wheat, flour and soybean trading to the private sector, the breaking up of the fertilizer cartel and removal of export taxes on all agricultural products. Privatization of the trading activities should not, however, be interpreted as a move towards a free enterprise system in view of the cartel-like behavior of the private sector in most areas, e.g., flour milling and wheat importation.

F. Natural Resource and Environmental Management

In the early eighties the thrust of natural resource and environmental management was on long-term sustainability of resources and equity in their use. In addition to these, the 1987-1992 Medium-Term Development highlights the importance of community-based management of resources, poverty alleviation particularly of small farmers and landless workers, and ecological stability.

Budgetary support for the sector which has been increasing since 1985 (except in 1988, when a 17 percent reduction was posted) has recently shown a marked thrust on forest renewal accompanied by decentralized operations. However, addressing the issue of appropriate funding support for ecological stability has been hampered by the lack of mechanism for monitoring environmental quality, apart, perhaps from the usual monitoring required in foreign assisted projects and the remote sensing information by the National Mapping and Resources Information Authority. Relatedly, land use planning is similarly constrained as the last reported land use data was done in 1980.

With respect to equity in resource use, government's present priority is to provide basic information on the potential beneficiaries of the resources targeted for distribution, e.g., cadastral surveys, the on-going census of forest occupants and the activities related to CARP. Equity considerations are also indicated by the number of timber licence agreements (TLA) granted for large holders vs. certificate of stewardship contract (CSC) for small holders: the latter almost doubled from 47,950 in 1985 to 93,070 in 1988 while TLAs declined from 148 to 90. Nevertheless, the share of CSCs in the use of upland resources leave much to be desired considering that only 6.5 percent of the target group was reached.

The problem of inequitable distribution of income from forest resources is the subject of currently pending bills in Congress which aim to impose a 20 percent ad valorem taxes on log values, or the equivalent of 40 percent of logging rent. A supplementary measure being considered, however, is the granting of power for DENR to charge management fees which shall be used for forestry development. To address appropriately the inequity problem, it is important that the latter measure be directed towards capturing the remaining rent from logging.

Strong community organizations have often been stated to be necessary for upland development, especially under the initial conditions of poor infrastructure and social services. It is clear that this calls for the government machinery itself to be oriented towards community organizations. This, however, is not apparent from the DENR Revised Mandate. Instead, the DENR has recently endouraged more participation from the non-governmental organizations (NGOs). This is an important step not only in terms of encouraging equitable access to and net benefits from the NRE sector but also because this minimizes transaction costs and the need for a large bureaucracy.

V. CONCLUSION

Time is slowly running out on the Aquino government. In view of the discussion above, the manner in which the issue of the U. S. bases is resolved has very important implications on the future of the Philippine economy. If the Aquino government can hammer out a deal on the U. S. bases that is popular with the citizenry then it would be able to regain some of the momentum it lost over the past three years and nine months. On the other hand, if the government squanders this opportunity and the Filipinos perceive that they are at the short end of the bases deal, this may well provide the divisive spark that will render the Aquino administration helpless and ineffective in fostering change.

However, even if the administration can recoup the old "Cory magic," there is still the moral hazard problem, and the government might continue to postpone implementing much needed reforms. In this event, everyone will lose out in the long run.

The Aquino administration must realize that the profound transformations occurring the world over provide an opportunity for similar changes to be made in the Philippines. If we continue to procrastinate and attempt to simply muddle through, we will surely be overtaken by reality.

TABLES

Table 1: ECONOMIC GROWTH AND EMPLOYMENT

	1986	1987	1988	1989	1990	1991
Economic Growth (annual growth rate in constant prices, %)						
Agriculture	3.27	(1.02)	3.49	3.45	2.40	3.50
Industry 1/	(2.00)	7.79	8.48	7.80	7.00	7.60
(Manufacturing)	0.82	6.76	8.91	7.94	6.80	7.20
Services	2.95	6.63	6.77	6.14	6.20	6.20
(Public administration and defense)	-	-	-	-	-	-
GDP	1.42	4.72	6.40	5.90	5.30	6.20
GDP and GNP in value terms (In millions of domestic currency)						
In current market prices						
GDP	627,129	708,368	827,409	964,877	1,102,256	1,266,821
GNP	614,703	703,361	824,427	958,433	1,097,302	1,256,388
In constant market prices						
GDP	91,100	95,481	101,592	107,586	113,288	120,312
GNP	89,504	94,815	101,244	106,903	112,804	119,370
Employment						
Unemployment rates (%) 2/	22.70	21.40	20.50	20.00	19.05	20.00
Wages (Index, unskilled labor)	312.65	319.17	379.75	527.99	590.77	657.45

1/
Industry includes manufacturing, mining and quarrying, construction, electricity, gas and water.

2/
Full-time equivalent

Table 2: EXPENDITURE ON GDP

	1986	1987	1988	1989	1990	1991
(In millions of domestic currency in current market prices)						
Total Consumption	523,432	584,553	679,763	788,013	897,889	1,024,815
Gross Capital Formation	81,106	113,600	143,269	187,910	239,752	297,595
Gross Fixed Capital Formation	80,817	101,781	126,413	162,601	204,461	254,015
Increase in Stocks	289	11,819	16,856	25,309	35,291	43,580
Exports of Goods and Services	155,104	163,472	202,936	243,209	290,758	343,268
(-) Imports of Goods and Services	116,108	157,397	198,137	270,434	337,716	408,061
Statistical Discrepancy	(16,325)	4,140	(422)	16,179	11,573	9,204
Gross Domesic Product	627,129	708,368	827,409	964,877	1,102,256	1,266,821
Net Factor Income from the rest of the World	(12,426)	(5,007)	(2,982)	(6,444)	(4,954)	(10,433)
Gross National Product	614,703	703,361	824,427	958,433	1,097,302	1,256,388
(As percent of GDP)						
Domestic Saving 1/	17.98	17.05	16.90	17.40	17.70	18.20
National Saving 1/	16.14	16.36	16.60	16.75	17.31	17.51
Gross Capital Formation	11.09	13.00	15.40	17.60	19.67	21.24

1/ Domestic Saving is defined as GDP minus total consumption while national saving is defined as GNP minus total consumption.

Table 2A: EXPENDITURE ON GDP

	1986		1987		1988		1989		1990		1991	
	1/ Levels	Growth Rate	Levels	Growth Rate	Levels	Growth Rate	Levels	Growth Rate	Levels	Growth Rate	Levels	Growth Rate
Total Consumption	74,784	(0.79)	79,183	(5.88)	84,415	(6.61)	88,883	(5.29)	93,336	(5.01)	98,451	(5.48)
Gross Capital Formation	10,111	(-9.11)	13,171	(30.26)	15,705	(19.24)	18,953	(20.68)	22,273	(17.52)	25,553	(14.73)
Gross Fixed Capital Formation	10,057	(-14.96)	11,631	(15.65)	13,653	(17.38)	16,256	(19.07)	18,823	(15.79)	21,611	(14.81)
Increase in Stocks	54	(-7.69)	1,540	********	2,052	(33.25)	2,697	(31.43)	3,450	(27.92)	3,942	(14.26)
Exports of Goods and Services	23,560	(21.75)	23,245	(1.34)	26,957	(15.97)	30,360	(12.62)	33,453	(10.19)	36,524	(9.18
(-) Imports of Goods and Services	15,802	(12.91)	19,987	(26.48)	26,934	(34.76)	33,461	(24.23)	38,530	(15.15)	43,090	(11.83
Statistical Discrepancy	(1,473)	(-6.05)	(149)	(-89.88)	1,449	********	2,851	(96.76)	2,756	(-3.33)	2,874	(4.28
Gross Domesic Product	91,180	(1.42)	95,463	(4.70)	101,592	(6.42)	107,586	(5.90)	113,288	(5.30)	120,312	(6.20
Net Factor Income from the rest of the World	(1,676)	(-17.72)	(666)	(-60.26)	(348)	(-47.75)	(683)	(96.26)	(484)	(-29.14)	(942)	(94.63
Gross National Product	89,504	(1.86)	94,797	(5.91)	101,244	(6.80)	106,903	(5.59)	112,804	(5.52)	119,370	(5.82

1/ In millions of domestic currency at constant market prices.

Table 3: INFLATION, MONEY SUPPLY AND GOVERNMENT BUDGET

	1986	1987	1988	1989	1990	1991
1. Inflation	0.75	3.79	8.76	10.10	9.00	8.20
Consumer Prices (1972 = 100)						
Annual Average Index	749.61	778.05	846.21	931.68	1015.53	1098.80
End Month Index (Specify)	-	-	-	-	-	-
Wholesale Prices (1972 = 100)						
Annual Average Index	992.09	1082.21	1227.49	1386.40	1518.40	1683.20
End Month Index (Specify)	-	-	-	-	-	-
2. Money Supply (In millions of domestic currency)						
M1 (narrowly defined money)	42,656.8	52,090.3	59,548.4	69,704.0	77,793.2	87,614.6
M2 (broadly defined money)	141,140.0	159,232.0	194,940.0	233,711.7	270,116.9	333,740.3
3. Government Budget						
Revenue	79,245	103,214	112,903	153,143	181,096	210,265
Tax	65,491	85,923	90,359	119,048	141,298	167,706
Non-Tax	13,754	17,291	22,544	34,095	39,798	42,559
Expenditure	113,673	119,471	133,175	171,559	194,231	217,789
Current	67,903	95,068	111,219	153,900	162,800	176,600
Development	14,022	17,326	16,269	22,800	34,100	41,100
Overall Surplus/Deficit	(34,428)	(16,257)	(20,272)	(18,416)	(13,135)	(7,524)

Table 4: TRADE AND BALANCE OF PAYMENTS
(In Millions of US Dollars)

	1986	1987	1988	1989	1990	1991
Merchandise: Exports fob	4,842	5,720	7,074	7,959	8,963	10,418
Merchandise: Imports fob	5,044	6,737	8,159	10,112	11,000	13,266
Trade Balance	(202)	(1,017)	(1,085)	(2,153)	(2,037)	(2,848)
Other goods, services and income, credit	3,791	3,454	3,606	4,237	4,629	4,720
Other goods, services and income, debit	3,076	3,454	3,683	4,269	4,471	4,906
Private unrequited transfers	235	-	-	-	-	-
(Workers' remittances)	696	809	874	930	960	985
Official unrequited transfers	206	-	-	-	-	-
Current Account	954	(444)	(373)	(1,370)	(1,707)	(2,099)
Memorandum Items						
Exchange Rate (per US dollar: annual average)	20.3857	20.5677	21.0970	21.7200	22.0000	23.6000
Terms of Trade (1985 = 100)	108	118	125	-	-	-
Unit Value Index (Exports)	88.8	97.7	106.3	-	-	-
Unit Value Index (Imports)	82.3	82.7	84.9	-	-	-
Merchandise Imports cif	5,394	7,188	8,731	-	-	-

Table 5: EXTERNAL DEBT
(In Millions of US Dollars)

	1986	1987	1988	1989	1990	1991
External Debt Outstanding	28,256	28,649	27,915	28,726	30,11	31,041
Long-term	22,878	3,792	-	-	-	-
Short-term	5,378	24,018	-	-	-	-
Use of IMF Credit	-	1,342	-	-	-	
Others						
Debt-service Payments 1/	2,937	3,005	2,805	3,208	3,824	3,732
Principal repayment	999	1,092	764	939	1,599	1,330
Long-term	-	-	-	-	-	-
Short-term	-	-	-	-	-	-
Interest payment on Long-term Debt	1,938	1,913	2,041	2,269	2,225	2,407
Debt-service Ratio (%) 2/	34.00	32.80	26.30	26.45	28.16	24.52

1/
After Rescheduling
2/
The ratio of debt-service payments to exports of goods and services.

Table 6: FINANCIAL FLOWS
(Net Receipt Basis)

	1986	1987	1988	1989	1990	1991
Official Flows	1,131.9	970.0	-	-	-	-
Official Development Assistance (ODA) 1/	955.8	774.8		-	-	-
Grant	516.0			-	-	-
Loans	439.9			-		-
Other Official Flows	176.1	195.2		-		-
Private Flows	(40.5)	(284.9)		-		-
Direct Investment	127	326	986	853	981	1110
Portfolio Investment	13			-		-
Export Credit	(99.5)			-	-	-
Total Receipts (Net)	1,091.4	686.0		-		-
Memorandum Items						
ODA Commitments	1,103.1	1,069.5	-	-	-	-

1/ Official development assistance is defined as those flows provided by official agencies, which is concessional in character and contains grant element at least 25 percent (see OECD, Geographical Distribution of Flows to Developing Countries).

Table 7: CB-APPROVED DIRECT FOREIGN EQUITY INVESTMENTS BY INVESTOR COUNTRY OF ORIGIN
(In Million US Dollars)

COUNTRY	1980	1985	1986	1987	1988
U.S.A.	120.47	154.90	91.06	60.17	29.16
Japan	29.11	31.00	9.98	5.72	10.63
Hongkong	15.38	28.13	3.01	13.82	13.69
Netherlands	5.15	10.29	6.60	4.51	1.06
U.K.	5.09	5.61	12.22	1.03	1.05
Switzerland	7.19	4.63	2.86	0.03	0.41
Canada	0.17	0.65	0.50	0.59	0.00
Australia	7.16	0.13	0.76	0.50	0.11
France	10.08	0.30	0.00	0.01	0.09
Republic of Nauru	0.00	0.00	0.00	0.00	0.00
W. Germany	3.81	0.90	1.19	0.38	1.00
Panama	0.73	0.90	0.10	0.14	0.00
Sweden	0.50	1.13	0.34	0.00	0.08
New Hebrides	13.06	0.00	0.00	0.00	0.00
Singapore	0.31	2.01	0.02	0.10	0.02
Denmark	1.76	0.02	0.99	0.00	1.53
Luxembourg	0.20	0.29	0.60	0.16	0.06
Austria	3.01	0.84	0.00	0.00	0.00
Bermuda	2.10	0.06	0.01	0.02	1.65
South Korea	-0.06	0.22	0.00	0.01	0.22
Malaysia	0.00	9.39	0.11	0.02	1.00
Bahamas	0.00	8.36	0.00	0.00	0.00
Total	225.34	259.76	130.51	95.21	70.72
Other Countries	4.13	-12.86	0.56	2.71	1.31
Grand Total	229.47	246.90	131.07	97.92	72.03

Table 8: TOTAL INFLOW OF DIRECT INVESTMENT CLASSIFIED BY SECTOR
(In Million US Dollars)

SECTOR	1980	1985	1986	1987	1988
Agriculture	5.76	16.01	0.06	0.53	1.12
Industry (Mfg.)	84.51	138.80	47.50	49.24	27.25
Mining & Quarrying	112.98	60.41	48.29	34.55	11.69
Construction	8.47	0.27	0.02	0.06	0.00
Others	17.75	31.41	35.42	13.54	31.47
Total	229.47	246.90	131.07	97.92	72.03

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