THE IMPACT OF THE GULF CRISIS ON THE PHILIPPINE ECONOMY

Mario B. Lamberte and Josef T. Yap

WORKING PAPER SERIES NO. 91-03

October 1991

Philippine Institute for Development Studies

Table of Contents

List of Tables i

List of Charts iii

I. Introduction 1

II. The Philippine Economy and Energy Policy 2

A. The Philippine Economy 2

B. Energy Policy 2

III. Policy Measures Adopted by the Government to Deal with the Impact of the Gulf Crisis 19

A. Repatriation of and Assistance to OCWs 19

B. Smoothing Price Adjustment 23

C. Foreign Exchange Arrangements 28

D. Energy Conservation Measures 30

E. Price and Wage Policies 31

F. Fiscal Measures and Monetary Policy 33

IV. Impact of the Gulf Crisis on the Budget, Balance-of-Payments, and Employment 34

A. Government Budget Deficit 34

B. Balance-of-Payments 38

C. Employment 49

V. Impact of the Gulf Crisis on the Philippine Economy: A Simulation Analysis 55

A. Application of the PIDS-NEDA Macroeconometric Model 55

B. Analysis of Results 57

VI. Policy Recommendations 59

References 62

Annexes 63

List of Tables

1. Price Structure of Retail Prices for Petroleum Products, 1 January 1991 (In pesos per liter) 7
2. Distribution of the Latest Price Increase (In pesos per liter) 8
3. Historical Energy Consumption by Source, 1980 - 1991 (In million barrels of fuel-oil equivalent, MBFOE) 10
4. Oil Dependency and Balance-of-Trade 12
5. Crude Oil Imports by Country of Origin (Quantity in 000 barrel) 13
6. Breakdown of Philippine Overseas Workers in the Middle East 20
7. Summary of Expenses/Losses Incurred Related to the Gulf Crisis as of August 31, 1991 22
8. Distribution of the Total Increase in the Prices of Petroleum Products, Metro Manila (In pesos per liter) 25
9. Historical Prices of Selected Petroleum Products (In pesos per liter) 26
10. Taxes and Duties on Petroleum Products 27
11. Price Ceilings on Seven Prime and Essential Commodities 32
12. Accrued Fund Balance of the Oil Price Stabilization Fund (March 31 1989 - February 28, 1991) 35
13. Consolidated Public Sector Deficit, 1988 - 1992 36
14. Revenue Loss Due to Shift From Ad Valorem to Specific Tax (In thousand pesos) 37
15. Balance of Payments Account, 1970 - 1991 (In million US dollars) 39
16. Philippine Exports to Iraq, Kuwait, Rest of Middle East and Rest of the World, 1988 - 1990 (FOB value in thousand US dollars) 41
17. Overseas Contract Workers Remittances by Country of Destination and by Type of Worker, January 1989 - December 1990 (In thousand US dollars) 43
18. Monthly Breakdown of Tourist Arrivals and Tourism Receipts, 1989-1991 50
19. Average Freight Rates, Weight, Volume and Value of Imports and Exports, by Country of Origin, 1990 51

20. Gulf War Emergency Surcharges 52
21. Distribution of Gulf Returnees by Skills and/or Position Held 53
22. Employment Situation 54
23. Assumptions on External Variables 56
24. Summary of Results 58

List of Charts

1. Energy Coordination Council Organizational Structure 4
2. Energy and Petroleum Industry 18
3. Nominal Exchange Rate, Crude Oil Price Per Barrel and Premium Gasoline Price Per Liter 24

THE IMPACT OF THE GULF CRISIS ON THE PHILIPPINE ECONOMY[*]

Mario B Lamberte and Josef T Yap[**]

I. INTRODUCTION

It seems that every ten years an oil shock comes with profound impact on the economies of oil importing developing countries The last oil shock was particularly disruptive to the Philippines since it came when the economy was struggling to overcome a serious budget deficit and the external debt problem It also occurred in time of natural calamities such as a prolonged drought, a devastating typhoon and earthquake, which visited the Philippines one after the other and crippled many of its productive assets

This study analyzes the impact of the recent Gulf crisis on the Philippine economy and reviews the measures adopted by the government in response to that crisis Its specific aims are

1 To describe the current state of the Philippine economy and the energy policy of the government,

2 To document and describe in detail the policy measures adopted by the government to deal with the impact of the Gulf crisis

3 To assess the impact of the Gulf crisis on the balance of payments employment, and the budget,

4 To perform simulations, using the PIDS NEDA Macroeconometric Model for both direct and indirect impact on important macroeconomic variables under different scenarios, and

5 To recommend steps/approaches for both the government and the international organizations for dealing with the adverse impact of the Gulf crisis or similar future situations on the Philippine economy

A section is devoted to the discussion of each of the above objectives

---

[*]This study was made possible through the financial support of the Asian Development Bank

[**]Vice President and Research Fellow respectively of the Philippine Institute for Development Studies

II. THE PHILIPPINE ECONOMY AND ENERGY POLICY

To appreciate the government's response to the Gulf crisis, it is important to provide a brief background of the state of the economy and of the energy policy at the time the crisis occurred.

A. *The Philippine Economy*

From the 1984-1985 crisis, the Philippine economy recovered remarkably during the second half of the 1980s. GNP growth rate during that period averaged 6.1 percent, while on the first half of the 1980s it averaged -0.9 percent.

However, the recovery started to lose steam in 1989 when GNP growth rate fell from the target 6.5 to 5.7 percent. That year, interest rates in the international and domestic markets went up, exacting an additional toll on the country's external debt burden and on the government budget deficit. Hopes for sustained recovery were shattered by a bloody *coup d'etat* in December. In addition, a major drought occurred toward the last quarter of 1989 and lasted up to the second quarter 1990, causing huge damage to crops and serious power shortages. Several hydroelectric power generators could not be operated due to low water level in dams, and the resulting inadequate power supply badly hurt the manufacturing sector.

Thus, the Philippine economy entered 1990 battered by these external and internal shocks. In July, a powerful earthquake shook the Philippines' northern part, causing severe damage to lives, properties, and infrastructure. A major export processing zone in Baguio City was crippled. Less than a month later, the Gulf crisis erupted. Then a major typhoon hit Region 7, an important export-oriented region. Cebu City, the country's second largest city, was without water and electricity for weeks. Finally, the economy managed to grow by only 3.7 percent that year.

When the Gulf crisis struck, the Philippines was in the middle of a three-year International Monetary Fund (IMF) extended program that started in 1989. It failed to meet almost all the performance criteria. For instance, the actual consolidated public sector deficit posted 5.2 percent of GNP in 1990, but the target level was 2.9 percent. The targeted inflation rate was 7 percent, but the actual figure was twice.

While external shocks certainly undermined the IMF program, inappropriate policy actions, such as policy slippages in the monetary and fiscal sectors, also contributed to the economy's failure to meet the performance criteria. The IMF suspended the program in October 1990 when it saw no sign of the economy going back to the original track. After long negotiations, the Philippines secured in February 1991 the IMF approval for a Stand-By Arrangement and Compensatory and Contingency Financing Facility.

B. *Energy Policy*

1. Institutional Arrangements

The energy objectives of the Philippines are as follows: (1) on the supply side, to ensure the availability of energy to the local markets at reasonable prices; (2) on the demand side, to promote the judicious and efficient use of energy resources; and (3) on the environmental side, to accomplish both objectives with minimal adverse effects on the environment[1].

1. See Office of Energy Affairs, The Philippine Medium- Term Energy Plan, 1988-1992.

To carry out the objectives, President Aquino created the Energy Coordinating Council (ECC) through Executive Order No. 338 dated 30 September 1988. The ECC is composed of the Executive Secretary to the President, the Executive Director of the Office of Energy Affairs (OEA), the President of the Philippine National Oil Company (PNOC), the President of the National Power Corporation (NPC), and the Administrator of the National Electrification Administration (NEA) (Chart 1).

Following are the Council's powers and functions:

1. Review and formally ratify the energy plan, including the power expansion program of government agencies and corporations;
2. Make appropriate representations to the Investment Coordinating Committee, or the government agency responsible for investment fund appropriations, to ensure that energy sector investments are consistent with the approved energy plan;
3. Analyze, coordinate, and, with the approval of the President, initiate major energy and power development projects that require the utilization of funds available to the government;
4. Coordinate the implementation of approved projects to assist in their timely completion;
5. As the need arises, such as during anticipated energy or power shortage, determine and recommend to the President the appropriate course of action; and
6. Exercise such other powers and functions as the President may direct.

Each of the offices mentioned above plays an important and distinct role in attaining ECC's objectives. The OEA formulates, plans, monitors, implements, and coordinates policies and programs in the field of energy[2]. As regards the last function, it coordinates all activities which the government may need to undertake in relation to the exploration, development, marketing, distribution, storage, and efficient utilization of energy resources from fossil fuels such as petroleum, coal, natural gas and gas liquids, nuclear-fuel resources, geothermal resources, hydroelectric resources, and existing and potential forms of non- conventional energy. The OEA Executive Director is the President's official adviser on energy affairs. He is, therefore, considered as the country's energy czar.

The PNOC was created in 1973 through Presidential Decree (PD) No. 334. Its objectives are: (1) to provide and maintain an adequate and stable supply of oil and petroleum products for the domestic requirement; (2) to promote the exploration, exploitation, and development of local oil and petroleum sources; and (3) to foster oil or petroleum operation conditions conducive to a balanced and sustainable growth of the company.

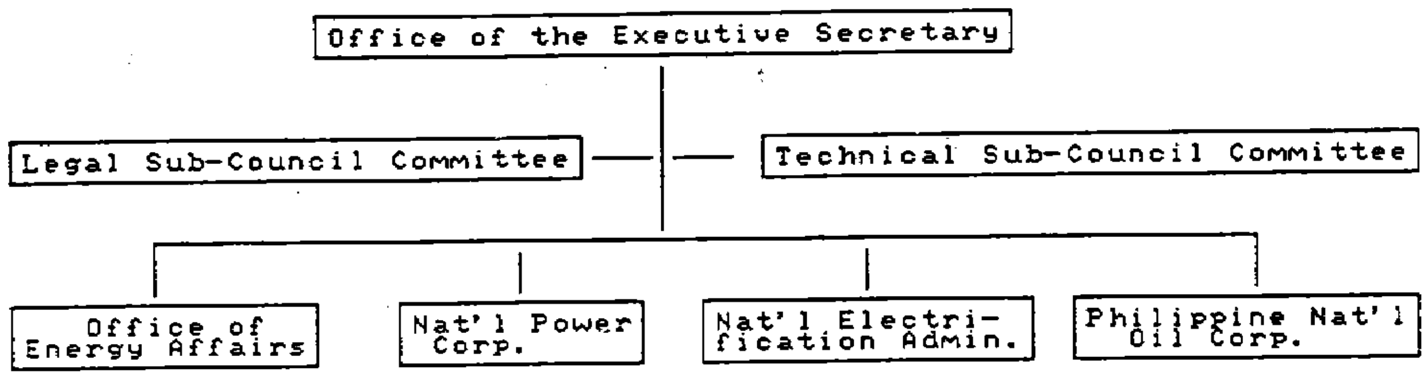
The PNOC has several subsidiaries, including PNOC Marine Corp., for ship building and repair; PNOC Coal Corp. and Bislig Coal Corp., for coal mining; PNOC Energy Supply Base, Inc., for oil equipment and supply shortage and maintenance; Filoil Refinery Corp., for oil refinery and processing; Petron Corp., for marketing; PNOC Energy Development Corp., for geothermal energy development; PNOC Exploration Corp., for oil exploration; PNOC Shipping

2. Executive Order No. 193, dated 10 June 1987.

Chart 1

OFFICE OF THE PRESIDENT

ENERGY COORDINATING COUNCIL



and Transport Corp., which operates the domestic oil transport; and four firms which operate and manage four PNOC international tankers.

In 1987, PNOC was given the control not only over its existing geothermal operations, but also over other geothermal reservations that it may discover, identify, and develop[3].

The NPC generates and supplies power to the distribution utilities. It also services some industrial customers directly while the local franchises are still unable to meet higher power demand by some industries. Under PD No. 40 dated 7 November 1972, NPC had the sole authority to build and operate power plants in the country. But in 1987, power generation was liberalized. The government started to allow the private sector to participate in power generation through such schemes as cogeneration, build-own-operate (BOO), and build-operate-transfer (BOT)[4]. Still, the strategic and rational development of the country's power grids remains NPC's responsibility.

The NEA implements a nationwide rural electrification program. It organizes small private utilities and cooperatives which supply electricity to households in the rural areas. Large private utility firms, like the Manila Electric Co. (MERALCO), supply electricity to residential, commercial, and industrial customers in urban areas.

Friction among the four agencies appears occasionally. Once, PNOC wanted to expand into geothermal power generation and operation of mine-mouth (coal-fired) power plants near its coal mines. This would have encroached on the functions of NPC.

An important player in the energy sector but not included in the ECC structure because of its quasi-judicial character is the Energy Regulatory Board (ERB). It is designed to be an independent government agency. It is authorized to regulate the importation, export, shipping, transport, processing, refining, marketing, and distribution of energy. Its specific functions are: (1) to fix and regulate the prices of petroleum products; (2) to fix and regulate the rate schedule or prices of piped gas to be charged by duly franchised gas companies; (3) to fix and regulate the rates of pipeline concessionaires; (4) to regulate the capacities of new refineries or the additional capacities of existing refineries, and to license refineries; and (5) to take steps it may consider necessary, including temporary adjustment of price levels of petroleum products and payment to the Oil Price Stabilization Fund (OPSF).

2. Pricing Policy

The government controls energy pricing in the country. A key feature of its pricing policy on petroleum products is the OPSF, the main function of which is to absorb the shocks brought about by fluctuations in the world prices of crude oil and in foreign exchange rates, thus, minimizing the frequency of adjustment in the domestic prices of petroleum products[5]. The Fund is used to reimburse the three oil companies in the country for their excess importation costs above the reference crude price and the peso-dollar exchange rate set by the ERB[6]. Conversely, the oil companies deposit into the OPSF the resulting peso cost differential if actual import costs are lower than the reference rates[7].

3. Executive Order No. 223, dated 16 July 1987.

4. Executive Order No. 215, dated 10 July 1987.

5. Executive Order No. 137, dated 27 February 1987.

6. The three oil companies are the government-owned Petron and the multinationals Shell and Caltex.

7. Taken from Office of Energy Affairs, The Philippine Medium-Term Energy Plan, 1988-1992.

Table 1

Price Structure of Retail Prices for Petroleum Products,
1 January 1991 (In pesos per liter)

	Direct Company Recovery	Specific Tax	OPSF	Wholesale Posted Price	Hauling Price	Dealers' Price	Pump Price
Premium Gasoline	7.2047	2.52	5.6549	15.3796	0.092	0.4748	15.95
Regular Gasoline	6.6953	2.28	5.4713	14.4466	0.092	0.4554	15
Avturbo	10.4837	2.38	2.5265	15.3902	0	0	0
Kerosene	11.0627	0.5	(4.34)	7.2226	0.092	0.4307	7.75
Diesel	8.4138	0.45	(1.66)	7.2066	0.092	0.4504	7.75
Fuel Oil/ Feedstock	4.7334	0	0.4246	5.158	0	0	0
LPG	7.0247	0	(1.41)	5.6111	0	0	0
Asphalts	5.0481	0.56	5.6367	11.2448	0	0	0
Solvents	7.04	0	5.9749	13.0149	0	0	0
Average	6.8421	0.598	0.288	7.728			

Source: Energy Regulatory Board.

Later, a forward foreign exchange cover was added to the feature of the Fund. This allowed the oil companies to recover from the Fund financing costs for crude oil importations, which represent the difference between the peso-dollar exchange rate at the time of availment of trade credit and the exchange rate at the time of settlement or repayment of such credit[8]. This was to encourage oil companies to obtain credits with longer maturities for their crude oil purchases. The OPSF used to provide forward foreign exchange cover of up to 360 days, but this was reduced to 180 days beginning September 1990. For this cover, the OPSF charges oil companies a risk fee equivalent to a flat rate of 2 percent for a maximum period of 180 days of cover.

The OPSF used to provide oil price subsidy to the NPC on a per liter basis. That is, oil companies sold fuel oil to NPC at subsidized rate, but the subsidy was to be recouped by charging higher prices for other petroleum products. This subsidy was removed in January 1991. The same cross-subsidization scheme is being followed in subsidizing certain petroleum products, like kerosene, diesel, and liquified petroleum gas (LPG).

Until the creation of the Petroleum Price Stabilization Fund, the OPSF was a self-liquidating buffer mechanism. In 1990, Congress appropriated P5 billion to partly pay the accrued OPSF arrears. This virtually converted the OPSF into a subsidy mechanism.

The present structure of the retail prices for petroleum products consists of direct company take, specific tax, contribution to OPSF, the hauling price, and the dealers' margin (Table 1). Table 2 shows how the last increase in the price of petroleum products was distributed among OPSF claims on product sales, peso cost differential, foreign exchange risk fee, and subsidy on sales to NPC.

The government plans to deregulate the oil industry, i.e., shift to market-based oil pricing system. Some aspects of the deregulation, such as removal of NPC subsidy, took effect on 1 January 1991. The deregulation involves the following measures[9]:

1. Discontinuance, effective 1 July 1990, of the foreign exchange forward cover provided to oil companies.
2. Elimination of the power rates subsidy through the OPSF. This means the NPC would have to adjust its tariff rates to achieve a certain positive rate of return.
3. Shifting from *ad valorem* tax on oil to specific tax.
4. Allowing more competition in some aspects of the oil industry, such as transport, importation of oil products, etc.
5. Allowing the PNOC to expand its distribution and refinery capacity and accelerating its development of geothermal energy sources.

On electricity pricing, three government agencies are involved in setting and regulating electricity tariffs. The ERB approves the rates charged by privately-owned electric utilities. The NPC determines its own bulk rates with the approval of the Cabinet. The NEA sets the tariff structure of electric cooperatives[10]. MERALCO, the biggest privately-owned distribution utility

8. Gomez, 1990.

9. Gomez, 1990.

10. Office of Energy Affairs, The Philippine Medium-Term Energy Plan, 1988-1992.

Table 2

Distribution of the Latest Price Increase
(In pesos per liter)

OPSF Claims on Product Sales (Per November - December 1990 price build-up)		0.9770
Add: Other Allowable Claims		
Peso Cost Differential (Forex cover)	1.8123	
Forex Risk Fee	(0.0896)	
Subsidy on Sales to NPC	0.1203	1.8430
NEEDED INCREASE		2.8200

Source: Energy Regulatory Board.

firm, follows a socialized pricing scheme wherein the residential and small commercial customers consuming not more than 50 KWH per month are subsidized by the industrial and other large consumers of electricity. This subsidy will soon be eliminated.

The overall impact of the Philippines' energy policy in the 1980s may be seen in Table 3. The percentage share of indigenous energy to total energy consumption has risen consistently until 1986, then continually declined thereafter. In 1990, imported energy constituted 65.1 percent of the total energy consumed compared to 55.7 percent in 1986 when the present administration took over the reins of government.

The present administration has not put much emphasis on expanding the domestic supply of energy to reduce the country's dependence on imported energy. One of the reasons is that the price of crude oil in the international market had been relatively low during the period 1986-1989 (Table 4). As will be pointed out below, the Philippines is now paying for reversing the energy policy established in the early 1980s.

In 1990, imported oil consisted of 63.2 percent of total energy consumption, up from 53.4 percent in 1986. Its implication on the Philippines trade balance is seen in Table 4. Oil import was about 16.6 percent of total import bill and 22 percent of total export bill in 1990, up from their 1989 levels. With the debt- service burden amounting to about 40 percent of the country's total exports, any increase in the world price of crude oil would have a profound effect on the domestic economy.

The Philippines has been dependent increasingly on the Middle East for its crude oil imports (Table 5). In 1988, 67.5 percent of its total crude oil imports came from that region. This increased to 75 percent in 1989, and to 83 percent in 1990. This indicates the vulnerability of the Philippines to any disruptive development in the Middle East.

3. Energy Conservation Measures

Even before the Gulf crisis, the government has been carrying out an energy conservation program. As part of the response to the first oil shock, the government launched in 1975 the Energy Conservation Movement. At present, this task has been assigned to the Conservation Division of the Office of Energy Affairs. The program includes the following activities[11]:

a. Energy Management Training Courses and Seminars - These training courses have three-fold objectives: (i) to provide the participants with a proper perspective of the government's efforts, thrust and goals; (ii) to impart to the participants tools and techniques to enable them to design, initiate and implement energy management and conservation programs in their respective establishments; and (iii) to equip the participants with various operational measures and practices in achieving fuel economy in high-energy consuming equipment/processes. The participants come from the industry, transport and commercial sectors which are large consumers of energy.

11. This is based on the Philippine Medium-Term Energy Plan, 1988-1992.

Table 3

Historical Energy Consumption by Source, 1980 - 1991
(In million barrels of fuel-oil equivalent, MBFOE)

	1980		1981		1982		1983		1984		1985	
	Volume	%	Volume	%	Volume	%	Volume	%	Volume	%	Volume	%
INDIGENEOUS ENERGY	27.42	28.31	26.31	28.15	30.21	31.64	34.02	34.55	39.11	41.70	40.58	44.08
I. Conventional	13.91	14.35	13.41	14.35	16.96	17.76	19.43	19.73	24.10	25.69	24.39	26.49
Oil	3.51	3.62	1.37	3.62	2.95	3.09	4.65	4.72	3.54	3.77	2.41	2.62
Coal	0.96	0.99	0.91	0.99	1.11	1.16	2.63	2.67	3.65	3.89	3.84	4.17
Hydro	5.94	6.13	6.38	6.13	6.65	6.97	5.12	5.20	9.10	9.70	9.61	10.43
Geothermal	3.50	3.61	4.75	3.61	6.25	6.54	7.03	7.14	7.81	8.33	8.53	9.27
II. Non-Conventional	13.51	13.96	12.90	13.80	13.25	13.88	14.60	14.83	15.01	16.01	16.19	17.59
Bagasse	5.90	6.09	6.22	6.66	7.35	7.70	5.48	5.56	6.57	7.01	4.36	4.74
Agriwaste	7.60	7.85	6.34	6.78	5.82	6.10	9.06	9.20	8.25	8.79	11.63	12.63
Others	0.01	0.02	0.34	0.36	0.08	0.08	0.06	0.07	0.19	0.21	0.20	0.22
IMPORTED ENERGY	69.45	71.69	67.16	71.85	65.25	68.35	66.45	65.45	54.67	58.30	51.49	55.92
Oil	69.45	71.69	67.16	71.85	65.25	68.35	63.54	64.53	52.64	56.14	47.28	51.35
Coal	0.00	0.00	0.00	0.00	0.00	0.00	0.91	0.92	2.03	2.16	4.21	4.57
TOTAL ENERGY	96.87	100.00	93.47	100.00	95.46	100.00	98.47	100.00	93.78	100.00	92.07	100.00
Growth Rate %				-3.5%		2.1%		3.2%		-4.76%		-1.8%

Source: Demand Management Division, Office of Energy Affairs.

Table 3 (continued)

	1986		1987		1988		1989		1990		1991	
	Volume	%	Volume	%	Volume	%	Volume	%	Volume	%	Volume	%
INDIGENEOUS ENERGY	41.35	44.33	38.16	38.07	40.28	37.20	41.78	35.63	41.33	34.30	40.59	34.30
I. Conventional	25.13	26.95	22.83	22.78	25.84	23.90	26.25	22.38	25.23	20.90	25.54	21.60
Oil	2.85	3.06	1.75	1.76	1.91	1.80	1.72	1.47	1.54	1.30	1.04	0.90
Coal	4.02	4.31	4.27	4.10	4.78	4.40	4.18	3.58	3.82	3.20	5.70	4.80
Hydro	10.37	11.12	9.00	9.06	10.80	10.00	11.18	9.54	10.45	8.70	8.87	7.50
Geothermal	7.89	8.46	7.81	7.86	8.35	7.70	9.17	7.82	9.42	7.80	9.93	8.40
II. Non-Convention	16.22	17.38	15.33	15.29	14.44	13.30	15.53	13.24	16.09	13.30	15.05	12.70
Bagasse	4.09	4.38	3.54	3.53	4.59	4.20	6.14	5.23	5.42	4.50	6.15	5.20
Agriwaste	11.65	12.48	11.23	11.20	9.33	8.60	9.12	7.78	10.35	8.50	8.54	7.20
Others	0.48	0.52	0.56	0.56	0.52	0.50	0.27	0.23	0.32	0.30	0.36	0.30
IMPORTED ENERGY	51.93	55.67	61.89	62.15	67.84	62.80	75.48	64.37	79.27	65.70	77.58	65.70
Oil	49.76	53.34	59.18	59.43	64.25	59.30	72.49	61.82	76.20	63.20	74.25	62.80
Coal	2.17	2.33	2.71	2.72	3.59	3.50	3.00	2.56	3.07	2.50	3.33	2.80
TOTAL ENERGY	93.29	100.00	100.05	100.00	109.98	100.00	117.26	100.00	120.59	100.00	118.17	100.00
Growth Rate %		1.3%		7.2%		9.9%		6.6%		2.8%		-2.0%

Note: Totals may not add due to rounding.

Source: Demand Management Division, Office of Energy Affairs.

Table 4

Oil Dependency and Balance-of-Trade

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Energy Consumption (MMBFOE)	93.47	95.46	98.47	93.78	92.07	93.29	100.05	109.98	117.26	120.59	118.17
Imported Oil (in MMBFOE)	67.16	65.25	63.54	52.64	47.28	49.76	59.18	64.25	72.49	76.20	74.25
Imported Oil Share to Total Imported Energy (%)	71.85	68.35	64.53	56.14	51.35	53.34	59.43	59.30	61.82	63.20	62.80
Peso-U.S. Dollar Rate (Ave.)	7.90	8.54	11.11	16.70	18.61	20.39	20.57	21.09	21.74	24.31	27.48
Crude Oil Prices, Total Industry											
CIF (Ave. $/bbl)	34.95	33.79	29.47	28.68	27.38	13.80	17.67	14.25	16.92	21.54	18.62
FOB (Ave. $/bbl)	33.86	32.80	28.63	27.89	26.67	13.06	16.97	13.53	16.15	20.63	17.60
Net Oil Import Bill (CIF;MM$)	2533	2110	2081	1472	1405	731	1209	1043	1318	1800	1528
Oil Fraction in Import Bill (%)	31.88	27.52	27.79	24.25	27.49	14.49	17.95	12.78	12.65	14.75	12.68
Oil Fraction of Export Proceeds (%)	44.27	42.02	41.58	27.30	30.35	15.10	21.14	14.74	16.85	21.99	17.29

Note: MMBFOE - In Million Barrels of Fuel Oil Equivalent

Sources: (a) Demand Management Division, Office of Energy Affairs.
(b) National Statistics Office.

Table 5

Crude Oil Imports by Country of Origin
(Quantity in 000 barrel)

	1988 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Total	4,111	7,326	2,021	3,547	6,610	6,585	5,474	5,793	4,240	8,438	6,619	6,807	67,571
Middle East	649	675	0	682	3,127	0	864	647	1,876	2,726	3,313	1,337	15,896
Iraq	0	0	0	0	0	0	0	0	0	0	0	0	0
Kuwait	649	675	0	0	3,127	0	0	0	0	1,539	3,313	705	10,008
Saudi Arabia	0	0	0	682	0	0	864	647	1,876	1,187	0	632	5,888
Rest of the Middle East	625	5,242	1,316	577	1,303	5,344	3,757	3,234	1,456	3,456	2,404	1,623	30,336
ASEAN Countries	1,346	1,029	705	1,500	900	488	239	1,521	308	1,506	254	2,836	12,633
Indonesia	0	0	0	0	0	0	0	0	0	0	0	0	0
Malaysia	1,346	772	355	1,226	649	240	239	1,270	308	1,254	254	935	8,848
Singapore	0	0	0	0	0	0	0	0	0	0	0	1,650	1,650
Thailand	0	0	0	0	0	0	0	0	0	0	0	0	0
Brunei	0	0	350	275	251	248	0	251	0	252	0	251	2,135
Rest of the World	1,491	380	0	787	1,280	753	614	391	600	750	648	1,011	8,706

Source of basic data: National Statistics Office

Table 5 (cont'd)

	1989 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Total	4,909	6,083	7,111	7,278	6,074	7,147	5,826	4,745	3,822	5,181	5,942	6,974	71,092
Middle East	1,766	1,272	649	1,422	2,113	2,637	1,848	689	2,527	828	2,258	2,663	20,672
Iraq	0	0	0	0	0	0	0	0	0	0	0	0	0
Kuwait	1,126	815	0	1,422	2,113	125	1,848	0	191	192	0	0	7,832
Saudi Arabia	640	457	649	0	0	2,512	0	689	2,336	636	2,258	2,663	12,840
Rest of the Middle East	2,067	3,056	5,868	3,707	1,924	3,192	2,653	2,627	652	3,226	2,270	1,420	32,662
ASEAN Countries	302	707	594	1,763	609	331	1,325	1,429	643	1,127	1,011	2,518	12,359
Indonesia	0	0	0	0	0	0	0	0	0	0	0	0	0
Malaysia	302	450	594	1,425	609	0	1,325	1,101	314	1,127	381	554	8,182
Singapore	0	0	0	0	0	0	0	0	0	0	0	1,650	1,650
Thailand	0	0	0	0	0	0	0	0	0	0	0	0	0
Brunei	0	257	0	338	0	331	0	328	329	0	630	314	2,527
Rest of the World	774	1,048	0	386	1,428	987	0	0	0	0	403	373	5,399

Source of basic data: National Statistics Office

Table 5 (cont'd)

	1990 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Total	4,679	6,500	8,353	8,586	6,275	5,028	9,618	4,714	6,194	6,929	5,441	5,857	78,174
Middle East	3,469	3,802	2,463	3,863	3,625	1,510	3,039	2,371	1,583	3,719	1,761	2,970	34,175
Iraq	0	0	0	1,267	653	634	639	0	0	0	0	0	3,193
Kuwait	2,214	699	895	2,596	1,696	876	0	881	0	0	0	0	9,857
Saudi Arabia	1,255	3,103	1,568	0	1,276	0	2,400	1,490	1,583	3,719	1,761	2,970	21,125
Rest of the Middle East	300	1,484	4,538	3,363	1,650	1,598	5,671	1,024	3,410	2,108	2,410	1,813	29,371
ASEAN Countries	910	783	1,352	1,360	618	1,528	908	789	1,201	944	1,270	1,074	12,737
Indonesia	0	0	0	0	0	0	0	0	350	0	365	0	715
Malaysia	571	468	702	732	302	882	597	475	536	629	257	732	6,903
Singapore	0	0	650	0	0	0	0	0	0	0	0	0	650
Thailand	0	0	0	0	0	0	0	0	0	0	0	0	0
Brunei	339	315	0	628	316	646	311	314	315	315	648	322	4,469
Rest of the World	0	431	0	0	381	1,392	0	530	0	158	0	0	1,891

Source of basic data: National Statistics Office.

Table 5 (cont'd)

	1991 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Total	6,997	7,876	5,764	6,363	4,068	6,787	6,723	6,336	6,900	6,462	6,936	4,999	76,211
Middle East	2,705	2,441	3,097	3,075	622	2,707	4,882	1,895	3,697	3,028	2,957	3,080	34,186
Iraq	0	0	0	0	0	0	0	0	0	0	0	0	0
Kuwait	0	0	0	0	0	0	0	0	0	0	0	0	0
Saudi Arabia	2,705	2,441	3,097	3,075	622	2,707	4,882	1,895	3,697	3,028	2,957	3,080	34,186
Rest of the Middle East	2,720	3,303	1,657	1,568	2,415	2,757	523	3,154	2,573	1,853	2,169	906	25,598
ASEAN Countries	1,572	1,574	1,009	1,356	1,031	919	1,318	930	630	1,312	1,406	629	13,686
Indonesia	233	0	362	0	0	290	247	300	0	0	0	0	1,432
Malaysia	1,339	938	321	710	563	299	1,071	0	315	730	1,090	314	7,690
Singapore	0	0	0	0	0	0	0	0	0	0	0	0	0
Thailand	0	0	0	0	0	0	0	0	0	0	0	0	0
Brunei	0	636	326	646	468	330	0	630	315	582	316	315	4,564
Rest of the World	0	558	1	364	0	404	0	357	0	269	404	384	2,741

Source of basic data: National Statistics Office.

b. Energy Audit Assistance - The Office of Energy Affairs provides energy audit assistance to industrial, transport and commercial establishments in order to identify ways and means of improving energy utilization efficiency.

c. Energy Briefings - The Office of Energy Affairs conducts energy briefings for universities, private entities, and government agencies.

d. Energy Conservation Publication - The Office of Energy Affairs features energy conservation success stories of selected plants or establishments through the Energy Conservation Journal.

e. Industry Energy Efficiency Program - Establishments consuming more than one million fuel oil equivalent liters of energy per annum are required to submit quarterly energy consumption reports to the Office of Energy Affairs. The idea is to establish an energy efficiency monitoring system with each establishment.

There is no way to accurately measure the effectiveness of these programs. Given that the energy/GDP ratio has been continuously rising since 1981, one cannot help but conclude that the energy conservation programs have been less effective in attaining their objectives (Chart 2).

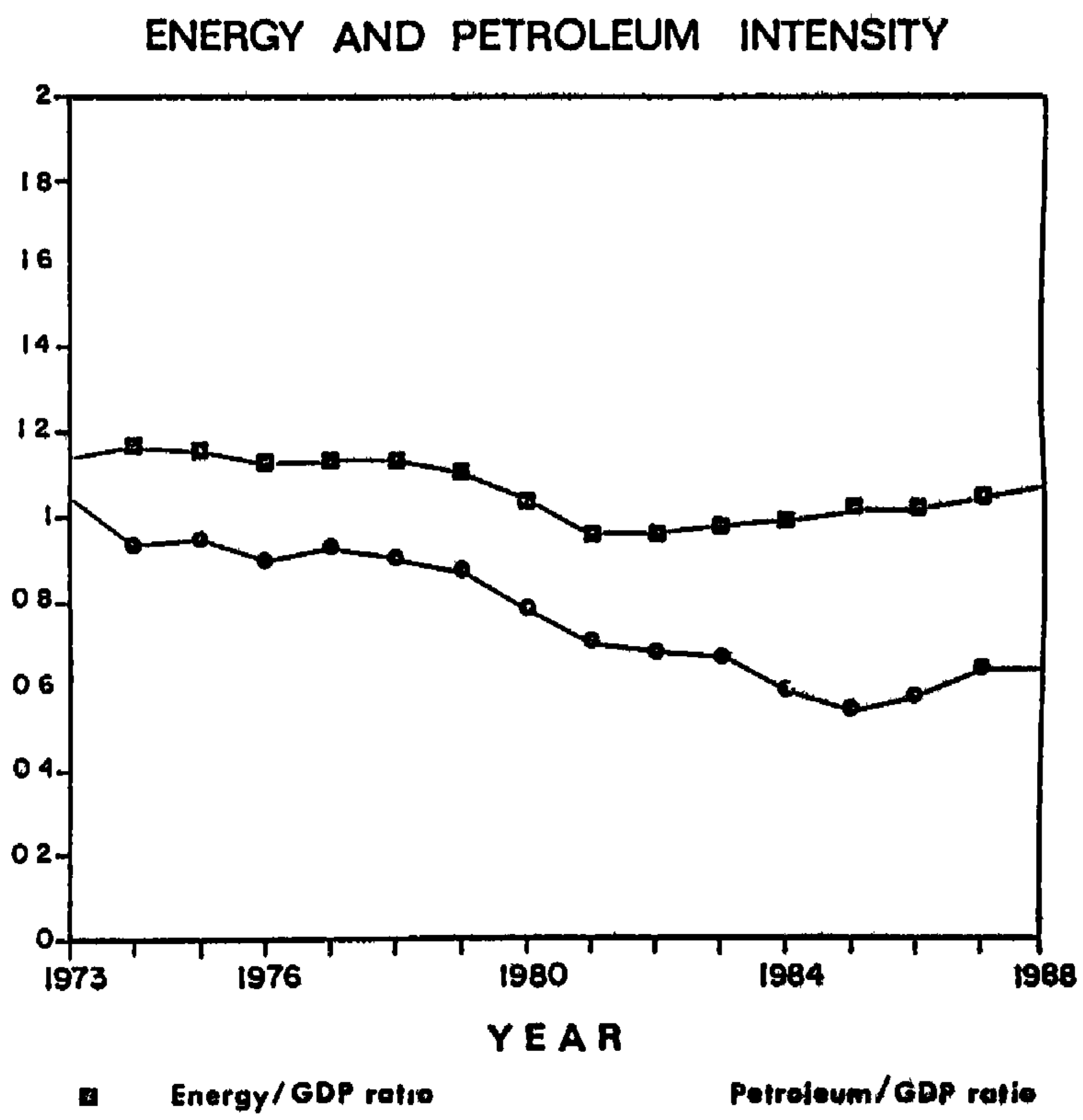
4. Energy Development Efforts

Major efforts to develop the supply of energy in the country started in the early 1970s. The Oil Exploration Act was promulgated in 1972. It changed the system for oil exploration from the antiquated concession system to the service contract system. The first oil discovery in offshore Palawan occurred in 1976. Also in this year the Coal Development Act which outlined a program to effectively explore and exploit coal reserves was promulgated. The following year, the first geothermal pilot power was commissioned. This was followed in subsequent years by the commissioning of other geothermal plants located in various places of the country. All these efforts led to the diversification of the sources of conventional indigenous energy in the country.

5. Constraints to Energy Policy Reforms

The creation of the Department of Energy to rationalize and integrate energy policies and programs implementation was perhaps an important milestone in the annals of energy policy-making in the country. Unfortunately, however, energy issues had become highly politicized. The Department became an important source of rent-seeking activities by the Marcos regime. The head of the Department was one of the "cronies" of Mr. Marcos. When the Aquino government took over, it abolished the Department but retained four agencies under the supervision of the Energy Coordinating Council chaired by the Executive Secretary. Being very busy with the affairs of the Malacanang Palace, the Executive Secretary could not attend to energy affairs as much as a full-time Energy Secretary would do. Coordination of energy policy and affairs has therefore become a problem with the four agencies exerting their own authority. On top of it, energy issues have become highly politicized. As always been the case with highly politicized commodity, energy policies tend to bend to populist pressure. The lack of leadership in the energy sector and the highly politicized nature of energy issues have become serious constraints to instituting energy policy reforms. The government needs political will to disentangle itself from these problems.

Chart 2


ENERGY AND PETROLEUM INTENSITY
2
1 8
1 6
1 4
1 2
1
0 8
0 6
0 4
0 2
0
1973
1976
1980
1984
1988
YEAR
Energy/GDP ratio
Petroleum/GDP ratio

III. POLICY MEASURES ADOPTED BY THE GOVERNMENT TO DEAL WITH THE IMPACT OF THE GULF CRISIS

This section discusses the measures adopted by the government to deal with the adverse impact of the Gulf crisis on the domestic economy.

A. *Repatriation of and Assistance to OCWs*

There is no precise figure on the number of Filipino overseas contract workers (OCWs) in the Middle East since many of them went to the area illegally. The official estimate is that there were about half a million Filipino OCWs in the Middle East as of January 1991. Seventy-nine percent of the total were in Saudi Arabia (Table 6). At the outbreak of the Iraq-Kuwait conflict, the Overseas Workers Welfare Administration (OWWA) estimated that there were about 63,000 legal and illegal Filipino OCWs in both Kuwait and Iraq.

The first measure taken by the government when the Iraq- Kuwait conflict broke out was to move those Filipino OCWs in the war zone to safer grounds and, eventually, repatriate those who wished to come home. This task fell on the Iraq-Kuwait Task Force organized by the Department of Labor and Employment (DOLE). Later, a presidential task force headed by the OWWA administrator and the general manager of Ninoy Aquino International Airport (NAIA) was formed and dispatched to the Middle East to deal with the problems of acute food shortage and break-out of diseases among Filipinos in evacuation centers.

The government made arrangements with some Middle East countries for the government-owned Philippine Air Lines (PAL) to have more flights to ferry Filipinos wanting to go home[12]. PAL made a total of 83 flights, both chartered and regular, supplemented by 78 chartered and regular commercial flights commissioned by the International Organization for Migration (IOM), to ferry Filipinos from Amman, Jordan and Basra, Iraq to Manila. OWWA reports showed that as of 1 March 1991, about 30,000 Filipinos had been repatriated.

OCWs who returned home immediately faced a big problem. The Central Bank temporarily stopped its Arab currency exchange operations, prompting financial institutions to refuse accepting Arab currencies. OWWA responded by opening a foreign currency booth at the NAIA to buy Arab currencies at 99 percent of Central Bank rates on the day of closure of its Arab currency exchange operations. OWWA purchased P6.8 million worth of Kuwait, Iraqi and Saudi currencies, benefitting 2,340 OCWs before the Central Bank resumed its Arab currency exchange operations.

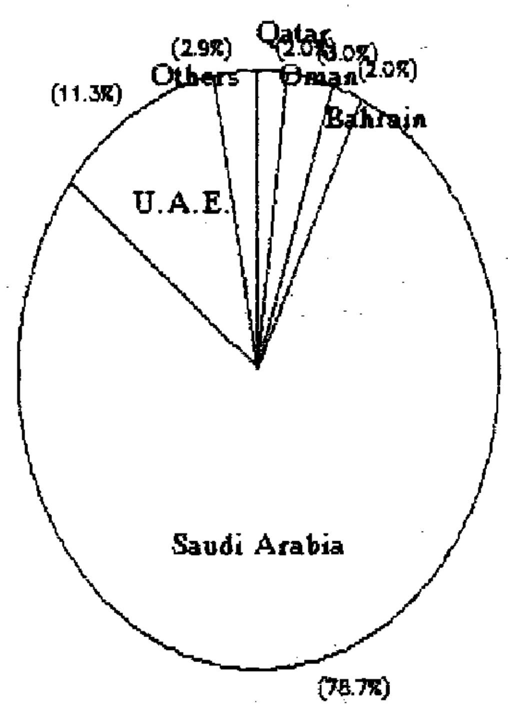
OWWA provided further financial assistanee to affected OCWs. On 20 August 1990, it opened a loan facility called Emergency Family Assistance Loan (EFAL). Evacuees may borrow up to P3,000 per family to meet their most pressing needs. Interest rate charged on the loan was 8 percent per annum, equivalent to one-third of the market rate, with a six-month moratorium on payments. As of 31 August 1991, about 8,000 beneficiaries have availed of this loan facility. The total drawdown reached P25.6 million.

12. The information here are based on an unpublished document entitled "OWWA's Response to the Iraq-Kuwait Conflict."

Table 6

Breakdown of Philippine Overseas Workers in the Middle East

Country	Number	Percent to Total
Bahrain	10,000	2.019
Egypt	700	0.141
Iran	150	0.030
Iraq	50	0.010
Israel	2,000	0.404
Jordan	3,300	0.666
Kuwait	2,000	0.404
Lebanon	2,500	0.505
Oman	15,000	3.028
Qatar	10,000	2.019
Saudi Arabia	390,000	78.740
Syria	600	0.121
U.A.E.	56,000	11.306
Yemen	3,000	0.606
TOTAL	495,300	100.000



Note: 1/ – as of January 1991.

Sources of Data: (1) Department of Labor and Employment (DOLE).
(2) Philippine Overseas Employment Agency (POEA).

On 6 September 1990, OWWA opened another loan facility called Special Family Assistance Loan (SFAL). It was intended to help families of Filipino OCWs still stranded in Kuwait or in evacuation centers in the Middle East. As of 31 August 1991, more than 200 families of OCWs availed of this facility. The total amount borrowed was P2.0 million.

The biggest problem faced by returning OCWs was finding a job in a tight domestic labor market. It was hard for them to accept low-paying jobs. As early as 1988, OWWA already implemented a self-employment program called Re-entry Program for Returning OCWs through Entrepreneurship Mediation (OWWA-REPROEM). It was expanded in September 1990 with the introduction of the Integrated Return Program for OCWs (IRPO). This new program included the following multi-level livelihood projects financing schemes for OWWA beneficiaries[13]:

Non-Collateral Loan Windows. This is available to projects which require an additional capital of P5,000 and below, and to group loans (of not more than 10 beneficiaries) with a maximum ceiling of P50,000.

Micro-Enterprise Financing. This is open to all individual projects which require an additional capital of over P500 up to P15,000, and where total project cost does not exceed P50,000.

Small Enterprise Financing. This is available to individual or group projects which require additional capital of over P5,000 up to P50,000, and whose total project cost does not exceed P1 million. Group loan has a maximum membership of 10 and ceiling of P500,000.

Impact Projects Financing. This is open to individual or group projects that meet any or both of the following criteria: a) the project has the potential to launch small ventures out of the original project; and/or b) the project potentially has a significant impact on the community in terms of employment generation and of fostering self-reliance among project participants.

The OWWA Board allocated P20.5 million to IRPO. There is no information yet on the extent of availment of this assistance. All these lending programs have been continued after the Gulf crisis.

During the height of the Gulf crisis, the government set up communication facilities, one at the Office of the President and another one at the OWWA office, to enable Filipinos to contact by telephone their relatives who were working in the Middle East. The costs were borne entirely by these offices. This was terminated when the Gulf crisis ended.

Table 7 shows a summary of the expenses/losses incurred by the government related to the Gulf Crisis. The total expenses/losses amounted to P183.3 million. However, P27.6 million could still be recouped by the government since these are in the form of loans. Mobilization and operational expenses indicated in item A include the expenses incurred by OWWA to defray the cost of telephone overseas calls by Filipinos to their relatives in the Middle East but do not include those incurred by the Office of the President[14]. The total figure does not include the cost contributed by international agencies in repatriating OCWs to the Philippines.

13. These were drawn from Paragua (1990).

14. This information could not be obtained from the Office of the President.

Table 7

Summary of Expenses/Losses Incurred Related to the Gulf Crisis
as of August 31, 1991

	ACTIVITIES		AMOUNT IN PESOS
A.	Mobilization and Operational Expenses		18,066,080.10
B.	Airfare of Filipino Evacuees		100,083,333.00
	1. Philippine Airlines	90,784,919.25	
	2. Other Airlines	9,298,413.75	
C.	Foreign Currencies Exchange 1/		518,940.16
D.	Emergency Family Assistance Loan 2/		25,597,440.00
E.	Special Family Assistance Loan 3/		2,000,000.00
F.	Equipment Outlay (Office)		
	1. Kuwait		631,848.00
	2. Iraq		310,540.44
G.	Personal Claims		
	1. Alejandro Santos		315,672.00
H.	Third quarter 1990 Allowance of Welfare Officer Abdulatip Maldisa which was transmitted in his bank account in Kuwait		139,167.84
I.	Opportunity lost of amount involved 4/ Re: Exposures to the Gulf Crisis		35,636,389.98
	TOTAL		183,299,411.52

Notes: 1/ Conversion of foreign currencies particularly Iraqi / Kuwaiti dinars and Saudi riyals brought home by evacuees.
2/ Loan to workers evacuating from Kuwait and Iraq.
3/ Loan to families of Filipino overseas workers who are still in Kuwait and Iraq.
4/ Interest income foregone due to withdrawal of funds to finance items A to H.

Source: Overseas Workers' Welfare Administration (OWWA), September 1991.

B. *Smoothing Price Adjustment*

As discussed in Section II, the government has a plan to deregulate the oil industry that would involve the removal of the OPSF and the discontinuance of the forward foreign exchange cover for the oil companies. In view of the sharp rise in the price of crude oil following the Iraq-Kuwait conflict and of the increasing volatility of the oil price issue, the government deferred the planned deregulation of the oil industry. Thus, the OPSF and the forward foreign exchange cover were continued.

Despite the rise in world prices of crude oil and the rapidly deteriorating value of the peso, the government tried to maintain the domestic prices of petroleum products for almost two months after the outbreak of the Iraq-Kuwait conflict (Chart 3). This was made possible by building up more deficits in the OPSF. As early as December 1989, unpaid claims of the three oil companies already amounted to P7.2 billion. This increased by another P3.5 billion during the first half of 1990. Congress appropriated in 1990 P5 billion to partly cover the unpaid claims in 1989, but it still left behind a big chunk of unpaid claims.

The ERB finally adjusted the prices of petroleum products on 21 September 1990 by an average of P1.42 per liter. None of this adjustment was apportioned as additional direct oil company recovery. Instead, all this was used to augment the OPSF as a means of ensuring the oil companies' capacity to continue bringing in the crude oil requirements of the country[15]. But this price adjustment was soon found to be insufficient since the price of crude oil continued to climb and the value of peso weakened further. In particular, crude import costs increased to an average of US$26.705 per barrel during the period September-October 1990 from the July-August 1990 level of US$16.22 per barrel. The exchange rate deteriorated to P25.55 from P24 per US$1. This means a landed cost of P882.36 per barrel for the period September-October 1990 compared to P483.38 per barrel for July-August 1990[16].

This new development caused further deterioration of the OPSF. Thus, another round of petroleum price adjustment was made on 5 December 1991. The adjustment this time was much sharper than the previous ones. Prices were increased by an average of P2.82 per liter, but the adjustment was made uneven among different types of petroleum products. For instance, the price of premium gasoline was increased by 80 percent to P15.95 per liter, while the price of LPG was increased by 57 percent to P6.89 per liter. Strong pressure from various sectors, including the executive and legislative branches, to give some relief to users of diesel oil, kerosene, and LPG compelled the ERB a few days later to revise downward the retail prices of these products. Likewise, the price of fuel oil, because of its wide application and linkages, was adjusted downward to reduce its potential impact on inflation. As shown in Table 8, almost all of the increase in the prices of petroleum products will go to the OPSF. The historical and present price structure of selected petroleum products is shown in Table 9. The prices of petroleum products were reduced by an average of P1.17 per liter in the first week of August 1991, approximately six months after the world prices of crude oil softened.

Another measure legislated in September 1990 was the conversion of the ad valorem tax on oil products into specific tax (Table 10). This was originally part of the 1990 Tax Reform

15. ERB Order dated 21 September 1990.

16. ERB Order dated 5 December 1990.

Chart 3

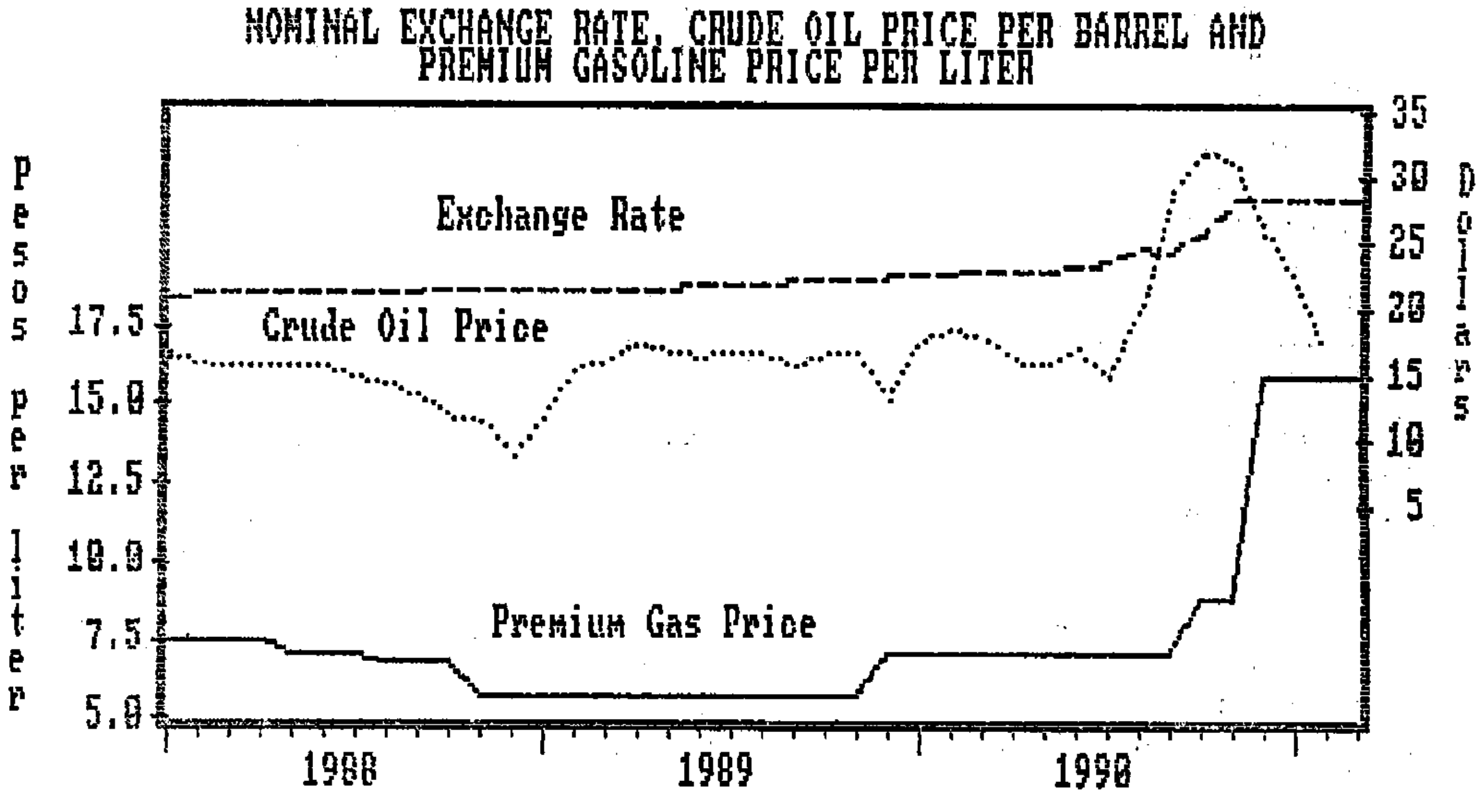

NOMINAL EXCHANGE RATE, CRUDE OIL PRICE PER BARREL AND
PREMIUM GASOLINE PRICE PER LITER
Pesos per liter
17.5
15.0
12.5
10.0
7.5
5.0
Exchange Rate
Crude Oil Price
Premium Gas Price
35
30
25
20
15
10
5
Dollars
1988
1989
1990

Table 8

Distribution of the Total Increase in the Prices of Petroleum Products, Metro Manila (In pesos per liter)

	OPSF	Transhipment	Dealer's Mark-up	Hauling Charge	Total
Premium	6.9600	0.005	0.10	0.015	7.0800
Regular	6.3900	0.005	0.09	0.015	6.5000
Avturbo	4.9900	0.005			5.0000
Kerosene	3.0100	0.005	0.08	0.015	3.1100
Diesel Oil	3.0100	0.005	0.08	0.015	3.1100
Fuel Oil	0.0625	0.005			0.0675
LPG	2.5000	0.005	0.10	0.015	2.6200
Asphalts	2.5000	0.005			2.5050
Thinners	2.5000	0.005			2.5050
Average	2.8143	0.005	0.058	0.010	2.8873

Note: Total price changes vary across regions because of different transport costs.

Source: Energy Regulatory Board.

Table 9

Historical Prices of Selected Petroleum Products (In pesos per liter)

Date Effective	RETAIL PRICES					WHOLESALE POSTED PRICE			
	Premium Gasoline	Regular Gasoline	Kero-sene	Diesel	LPG	Avturbo	Fuel Oils	Sol-vents	Asphalts
18 May 1984	6.8900	6.6900	4.8900	4.8900	4.6580	6.2940	3.6640	5.8160	4.1570
7 Jun 1984	8.2800	8.0300	6.2100	6.2000	5.8410	7.7240	4.6450	7.1860	5.1680
20 Oct 1984	9.2400	8.8100	7.1700	7.2600	6.4840	9.0490	5.2870	8.6646	5.5723
9 Jan 1985	9.0100	8.5800	6.9500	7.0400	6.2700	8.8240	5.0240	8.4400	5.3580
7 Mar 1985	8.4000	8.0300	6.3400	6.4200	5.8460	7.5770	4.6670	7.8300	5.1680
25 Jan 1986	7.4000	7.0300	5.7600	5.7200	5.2640	7.5770	4.1220	7.1920	4.5870
20 Mar 1986	7.1500	6.7800	5.3100	5.2600	4.6640	7.0840	3.4720	6.7000	4.1370
22 May 1986	6.9000	6.5300	4.8100	4.7600	4.1640	6.5840	2.8150	6.4500	3.6370
1 Aug 1986	6.9000	6.5300	4.8100	4.7600	4.1640	6.5840	2.5030	6.4500	3.6370
15 Oct 1986	6.9000	6.5300	4.8100	4.7600	4.1640	6.5900	2.5045	6.4598	3.6468
15 Aug 1987	8.2000	7.8500	5.6900	5.6400	4.5960	7.3400	2.8225	7.6178	4.8438
26 Aug 1987	7.5000	7.1500	5.3000	5.2500	4.3831	7.3400	2.8225	7.6178	4.8438
1 Sep 1987	7.5000	7.1500	5.3000	5.2500	4.3831	7.3438	2.8225	7.6178	4.8438
1 Jan 1988	7.5000	7.1500	5.3000	5.2500	4.3831	7.3400	2.8225	7.6178	4.8438
1 Mar 1988	7.5000	7.1500	5.3000	5.2500	4.2864	7.3400	2.8225	7.6178	4.8438
3 May 1988	7.0000	6.6500	5.0000	5.0000	4.2864	7.3400	2.8225	7.6178	4.8438
18 Aug 1988	6.8000	6.4300	4.7000	4.7000	3.5600	7.3438	2.8225	7.6178	4.8438
8 Nov 1988	5.8000	5.4300	3.7000	3.7000	3.6284	6.3438	2.3225	7.1178	4.3438
1 Jan 1989	5.8000	5.4300	3.7000	3.7000	2.8374	6.3438	2.3225	7.1178	4.3438
16 Aug 1989	5.8000	5.4300	3.7000	3.7000	2.8374	7.3438	2.8225	7.6178	4.8438
30 Nov 1989	7.0600	6.6900	4.9600	4.9600	3.5374	8.5238	3.4225	8.7978	6.0238
21 Sep 1990	8.8700	8.5000	6.2400	6.2400	4.3861	10.3900	4.9100	10.5099	8.7398
5 Dec 1990	15.9500	15.0000	9.3500	9.3500	6.8911	15.3902	4.9800	13.0149	11.2448
10 Dec 1990	15.9500	15.0000	7.7500	7.7500	5.6111	15.3902	5.1580	13.0149	11.2448
14 Aug 1991	12.7000	12.0000	7.3000	7.3000	5.2551	13.3902	3.8580	13.0149	9.2448
20 Dec 1991	12.0000	11.5000	7.3000	7.3000	5.2551	13.3902	3.4480	13.0149	9.2448

Source: Demand Management Division, Office of Energy Affairs.

Table 10

Taxes and Duties on Petroleum Products

Product	Existing Ad Valorem Peso/Liter Tax Rate	New Specific Peso/Liter Tax Rate	% Reduction in Tax
Premium	3.5963	2.5200	30
Regular	3.2622	2.2800	30
Jet	3.4037	2.3800	30
Diesel	1.1532	0.4500	60
Kerosene	1.1704	0.5000	57
LPG	1.0590	0.0000	-
Asphalt	0.7956	0.5600	21
Thinner	1.1780	0.0000	-
Fuel Oil	0.0000	0.0000	-
Total	1.1363	0.6195	-
Duty	0.4271	0.4271	-
Total	1.5634	1.0466	-

Source: Office of Energy Affairs.

package, but it was the only one passed by Congress to help moderate the rise in prices of petroleum products. This conversion accomplished two things: (1) it reduced the effective tax rate on petroleum products, and (2) it made the excise tax on petroleum products less buoyant. The first was a direct response to the public clamor for the government not to increase petroleum product prices despite the huge deficit buildup in the OPSF. Note that the shift from ad valorem to specific tax reduced the effective tax rate on gasoline and jet fuel from 92 percent of direct company take to 55 percent. The effective tax rate on kerosene and diesel dropped from 32 percent to 11 percent, while that on LPG declined from 32 percent to zero. On the other hand, the second accomplishment may be viewed as a way to help minimize upward adjustments in domestic petroleum prices in line with the expected rise in world crude oil prices following the Gulf crisis.

C. *Foreign Exchange Arrangements*

The Central Bank allows the exchange rate to be determined in the foreign exchange market. Purchase and sale of foreign exchange are conducted freely at the Foreign Exchange Trading Center of the Bankers Association of the Philippines (BAP). The Central Bank may buy or sell foreign exchange in the BAP trading floor. From August to December 1990, the Central Bank was a net seller of foreign currency. This reflects the Central Bank's effort to stem speculation and stabilize the exchange rate during the Gulf crisis. Despite this effort, pressure on the peso had mounted due to the country's rapidly deteriorating trade balance. The peso-dollar exchange rate as quoted in the BAP trading floor moved by 19 percent to P28 per US$1 between July and November 1990. This rate remained until 8 April 1991 when it started to improve.

Apart from being a net seller of foreign exchange during the Gulf crisis, the Central Bank modified exchange arrangements to relieve pressure on the domestic currency and improve the country's external position. In September 1990, the Central Bank issued Circular No. 1251 restricting commercial banks' margin on purchase or sale of foreign exchange on "spot transactions" to the following: minimum buying rate--not less than 1 percent below the BAP reference rate; maximum selling rate--not more than 2 percent above the BAP reference rate[17]. For deals other than spot, or those categorized as "forward transactions," the minimum buying rate should not be less than 1 percent below spot rates, and the maximum selling rate should not be more than 1 percent above spot rates[18]. All forward sales by banks should only be for debt service, trade related, or for other purposes authorized by the Central Bank. In the same circular, the Central Bank also ordered the banks not to collect any additional commissions or charges other than the actual telegraphic or cable costs. This circular was lifted on 25 January 1991. But another circular regulating the foreign exchange position of commercial banks was issued at about the time Circular No. 1251 was lifted.

Circular No. 1272, dated 28 January 1991, puts some restrictions on the allowable overbought position of commercial banks to prevent them from hoarding foreign exchange for speculation purposes. In particular, foreign exchange assets of banks may exceed their foreign exchange liabilities provided that the excess does not go beyond the average of their negotiated letters of credit for the immediate past three months (Annex A for details). Any positive balance

17. "Spot transactions" are those that are transacted on the BAP trading floor which should be settled within two business days from transaction date.

18. "Forward transactions" are those that do not pass through the BAP trading floor, or those that are done individually among banks.

must be sold daily. The BAP found this new regulation too tight and lobbied for its relaxation. Also, the definitions of specific asset and liability items to be included in the computation were not clear. Each bank, therefore, came up with their own definitions. Thus, on 22 February 1991, the Central Bank issued the revised Circular 1274 to relax a bit the measure and provide more specific definitions of foreign exchange assets and liabilities to be included in the computation. Under the revised circular, the banks' foreign exchange assets may exceed their foreign exchange liabilities but not their average monthly payments for merchandise imports and invisibles. Allowable retentions are computed based on the average monthly transactions for the preceding 12 months. This was further revised on 4 March 1991 (Circular No. 1276) to alter the definitions of foreign exchange assets and liabilities to be included in the computation. The last amendment to this circular was issued on 20 April 1991 specifying a bank's allowable overbought and oversold position (Circular 1283).

The BAP tried to help the government rationalize the allocation of limited foreign exchange by instituting the so- called "oil pit" and the "voluntary restraint program on importations." In August 1990, the BAP started to conduct a separate auction for the oil companies. Under this arrangement, the oil companies were required to inform the BAP in advance of their foreign exchange requirements. The BAP initially committed to allocate to the oil pit $150 million, or 15 percent of the banks' net foreign exchange receipts, whichever was higher. Because of the huge gap between the foreign exchange supply in the "oil pit" and the requirements of the oil companies, the BAP in November 1990 increased its allocation to $180 million, or 20 percent of the banks' net receipts. Any excess was still provided by the banks in the "oil pit" with the assurance that the Central Bank would sell to the banks the corresponding amount in the next trading session. Although the "oil pit" was a program of the BAP, the Central Bank helped the BAP monitor the compliance of member banks since it has been monitoring the foreign exchange receipts and sales of banks on a daily basis. The BAP meted penalty to any violators.

Regarding the voluntary restraint program on importations, the BAP urged its members to restrict the opening of letters of credit for non-oil imports to 80 percent of the average of foreign exchange receipts in the first seven months of 1990. This in effect limited the opening of trade credits by banks to about $455 million per month. The BAP drew up a system of priority, giving high priority to exporters and prime clients.

The "oil pit" stirred some controversy in the banking community. Small banks, which before could not compete with big banks in securing accounts with oil companies, were being forced to service the foreign exchange requirements of the oil firms at a much lower income margin than they would have realized if the same amount of foreign exchange were used to service non-oil imports. In fact, some small banks violated the regulations on the oil pit and were penalized by the BAP.

The "oil pit" and the voluntary restraint program on importations produced a multi-exchange rate system that was more costly to non-oil importers. The three oil companies obtained their foreign exchange requirements at the BAP reference rate, while non-oil importers acquired theirs at a rate even higher than the black market rate. For instance, an importer wanting to import $1 worth of goods had to buy US$1.25 at P32 to a dollar in the black market and turn it over to the bank to open a letter of credit worth US$1. He later withdrew the US$0.25 in pesos at P28 to a dollar, which was the prevailing BAP reference rate. Thus, his effective rate turned out to be P33 to a dollar. It was not surprising, therefore, to see prices of products with import contents increase more than the increase in the prices of petroleum products.

On 19 February 1991, the BAP suspended its voluntary restraint program on importations in view of the improvement in the availability of foreign exchange, although it still enjoined members to follow the system of priorities it had earlier drawn up on the utilization of foreign exchange. As of 12 April 1991, the "oil pit" has practically become inoperative because foreign exchange supply has eased up.

D. *Energy Conservation Measures*

Aside from the measures discussed above, the government also adopted energy conservation measures to deal with the impending energy crisis. First, the President, through Administrative Order No. 191 dated 13 August 1990, created the Contingency Planning Committee with the Secretary of Economic Planning as head. The Committee was primarily responsible for formulating contingency plans and guidelines for the sectoral responses to the oil supply situation. The first complete plan was presented to and adopted in a joint meeting of the Cabinet, CORDS, and Regional Development Council chairmen on 22 August 1990. Many of the measures included in the plan were implemented, as may be gathered from the executive and administrative orders issued by the President, as well as from memorandum circulars of concerned government agencies since August 1990.

On 13 August 1990, the President issued Executive Order No. 418 directing the immediate implementation of energy conservation measures. These include reducing the electricity and fuel consumption of all government units by 10 percent and 5 percent, respectively. This was later increased to 15 percent and 10 percent, respectively, under Executive Order No. 433 dated 2 November 1990. The same executive order mandated the OEA to continue to require industrial, commercial, and transport establishments with annual energy consumption equivalent to more than one million liters of fuel oil, including liquid fuels and electricity, to submit an energy conservation program that would reduce their fuel and electricity consumption by 10 percent and 15 percent, respectively.

The President issued on 11 September 1990 Executive Order No. 422 activating and reorganizing the Energy Operations Board as the administrative machinery for the efficient and equitable allocation and distribution of energy. The Board included two representatives from the private sector. It was given the responsibility to formulate policies, guidelines, and rules and regulations for the allocation and distribution of energy/petroleum products to consumers and for developing an overall plan of action to implement the allocation and distribution system, including such rationing schemes as may be necessary. The first memorandum circular issued by the Board directed a 10 percent reduction in the sales and deliveries of petroleum products to petroleum fuels resellers, distributors, or individuals who directly withdraw their petroleum product requirements from the oil companies' depots, bulk plants, and other storage and distribution facilities. The Board also issued another memorandum circular on 15 January 1991 adopting the odd-even scheme in the purchase of fuel in retail outlets. Private and public vehicles were allowed to buy petroleum fuels in gasoline stations only on certain days, depending on the last digit of their plates. This was in preparation for an orderly rationing scheme in case of acute shortage of supply of petroleum products.

Since it was felt that a shooting war in the Middle East was inevitable and could worsen the oil supply condition in the country, the Contingency Planning Committee modified its plan to include some worst-case scenario. Annex B shows the detailed plan assuming two scenarios, i.e., Scenario X for base or "now" scenario, and Scenario Y for a shooting war in the Middle East or oil supply cutoff which may vary in degrees of severity. The annex indicates the government agencies assigned to implement each measure.

The contingency and energy conservation measures appeared to be less effective. Implementation was half-heartedly done partly due to lack of or unclear guidelines and partly due to poor organization. The information drive about new energy conservation measures was not as massive as one would have expected given severity of the crisis at hand. For instance, there was confusion regarding the execution of the odd-even scheme for the purchase of gasoline. There was no system being set up to monitor the 10 percent reduction in the sales and deliveries of petroleum products to petroleum fuels resellers, distributors, or individuals directly withdrawing their petroleum product requirements from oil companies' depots, bulk plants and other storage and distribution facilities. Practically all the contingency measures have already been withdrawn by the government after the Gulf crisis.

E. *Price and Wage Policies*

To prevent unreasonable increases in prices of certain prime commodities as a result of adjustments in the domestic prices of petroleum and of the rise in the peso-to-dollar exchange rate, and to protect the people from hoarding, profiteering, injurious speculations, manipulation of prices and other such activities, the President issued on 4 October 1990 Executive Order No. 423 imposing price ceilings on seven prime and essential commodities, namely, rice, milk, sugar, pork, hard flour, chicken, and cooking oil (Table 11). The price monitoring unit of the Department of Trade and Industry (DTI) closely watched the price movements of these commodities and sent to jail those found violating the order. The price ceilings of milk, sugar, pork, chicken and cooking oil were revised upward on 10 January 1991 to allow suppliers to improve their margin. On 30 April 1991, price ceilings on all commodities mentioned above had been removed because supply and prices of those commodities have already normalized and stabilized[19]

Under Republic Act No. 6727 (1989), the wage board created for each of the twelve regions of the country is supposed to determine increases in the minimum wages. The National Capital Region (Metro Manila) had already issued four wage orders since the outbreak of the Iraq-Kuwait conflict. Wage Order No. 1 increased the statutory daily minimum wage from P89 to P106 effective 1 November 1990. Wage Order No. 1-A extended the P17 daily pay increase to those workers already receiving wages above the statutory minimum wage up to P125 per day effective 10 November 1990. Wage Order No. 2 provisionally increased the statutory daily minimum wage from P106 to P118. It also extended the P12 daily pay increase to those receiving above the statutory minimum wage up to P142 per day. These provisional increases were supposed to have become effective on 24 December 1990, but Wage Order No. 2-A moved this effectivity date to 6 January 1991.

19. Executive Order No. 456, dated 30 April 1991.

Table 11

Price Ceilings on Seven Prime and Essential Commodities

	COMMODITY	PRICE CEILING		
1.	RICE	Well Milled	Regular Milled	NFA
	Miller to Wholesaler	P465/bag or P9.30/kl	P445/bag or P8.90/kl	
	Wholesaler to Retailer	P475/bag or P9.50/kl	P455/bag or P9.10/kl	
	Retailer to Consumer	P500/bag or P10.00/kl	P475/bag or P9.50/kl	P7.50/kl
2.	MILK			
	Sweetened Filled (300 ml)	P14.60/can		
	Evap Filled (370 ml)	11.85/can		
	Powdered Filled (180 gm)	15.70/can		
	Powdered Filled (200 gm)	17.50/can		
3.	SUGAR			
	Refined (inclusive of 10% VAT)	P15.90/kl		
	Brown (VAT-exempt)	11.80/kl		
4.	PORK LIEMPO WITH SKIN	P56.00/kl		
5.	HARD FLOUR (25 kg. bag)	P270.00		
6.	CHICKEN (FULLY DRESSED)	P55.00/kl		
7.	COOKING OIL (SINGLE REFINED)			
	Lapad (354 grams)	P4.20		
	Long Neck (708 grams)	P8.40		

Note: The prices of kerosene and liquefied petroleum gas (LPG) shall be those set by the Energy Regulatory Board (ERB).

Source: Executive Order No.423, 4 October 1990.

F. *Fiscal Measures and Monetary Policy*

With the contraction of the economy during the second half of 1990, the government expected the budget deficit to deteriorate further. To reduce this deficit, the President mandated under Administrative Order No. 197 dated 8 October 1990 a 20 percent budgetary cut on the maintenance and other operating expenses of the national government for the fourth quarter of Fiscal Year 1990. This was followed by Administrative Order No. 205 dated 3 January 1991 directing the continued adoption of economy measures for Fiscal Year 1991. The measures included a 5 percent initial reduction of government employees by the end of June and another 5 percent by December through voluntary retirement and redeployment, and the sale of government vehicles to present users with the rank of Secretary, Undersecretary, Assistant Secretary, and Directors. These economy measures have been maintained even after the Gulf crisis in view of the revenue shortfall the government will experience for the rest of 1991. In particular, the directive to reduce government staff has been strictly enforced and continued even after the Gulf crisis. All government agencies had to submit to the Department of Budget and Management a report regarding their compliance of such. However, the directive to sell government vehicles to present users has not yet been implemented. With a severe cut in the take-home pay as a result of the salary standardization law and the ruling of the Supreme Court disallowing government officials with the rank of Secretary, Undersecretary, and Assistant Secretary to receive additional compensation for performing additional tasks, such as member of the Board of Directors of a government-owned corporation, this directive will unlikely be implemented in the future.

One government measure which met strong resistance from the private sector is the 9 percent import levy imposed in January 1991. It is a temporary revenue-raising measure which will be phased out as soon as Congress approves new tax revenue measures. At the moment, however, Congress is still reluctant to pass such measures since it believes that raising revenues is only a matter of improving tax collection. The government reduced the import levy to 5 percent in August 1991. The revenue raised through the levy had been lower than expected because of the sharp drop in imports.

During the second half of 1990, the Central Bank tried to contain the growth of monetary aggregates. The 12-month broad money growth accelerated to 27.2 percent in September 1990. To abate this growth, the Central Bank reintroduced its own short-term securities called the CB bills on 19 September to complement its use of reverse repurchase agreements in the conduct of open market operations. The Central Bank temporarily suspended the issuance of the CB bills on 8 October 1990, but resumed it on 28 January 1991. The open market operation of the Central Bank was accompanied by successive increases in the reserve requirement for the banks' deposit liabilities from 21 percent on 26 March 1990 to 22 percent on 15 November 1990, 23 percent on 30 November 1990, and 25 percent on 28 December 1990. All these measures helped in keeping the reserve money closer to their levels. The 25 percent reserve requirement has been maintained up to the present time.

IV. IMPACT OF THE GULF CRISIS ON THE BUDGET, BALANCE-OF-PAYMENTS AND EMPLOYMENT

This section discusses the impact of the Gulf crisis on the government budget, balance of payments, and employment. It is quite difficult to sort out such impact from those of other factors since the economy was already heading toward a crisis even before the outbreak of the Iraq-Kuwait conflict. The Gulf crisis only compounded the problems.

The subsequent discussions will focus only on those effects that can be traced directly to the Gulf crisis and/or to those that arise from the government's responses to such crisis.

A. *Government Budget Deficit*

To a large extent, the impact of the Gulf crisis on the budget deficit depended on the government's response measures to the crisis. As mentioned in the preceding chapter, the government delayed the price adjustments of domestic petroleum products, resulting in huge accumulation of OPSF deficit from P7.1 billion in January 1990 to P15.5 billion in December (Table 12). Between September and November alone, the OPSF deficit increased by over P2.5 billion per month. The deficit increase was arrested only in December when domestic prices of petroleum products were adjusted upward to reflect market conditions.

The impact of the OPSF deficit on the consolidated public sector deficit is shown in Table 13. This deficit increased from 3 percent of GNP in 1988 to 4.3 percent in 1989, and to 5.2 percent in 1990. This was largely due to the OPSF deficit, which was 0.9 percent of GNP in 1989 and 0.7 percent in 1990. Despite the decline in world prices of crude oil after the Gulf war, the ERB has decided to delay the roll back of the domestic prices of petroleum products until the OPSF deficit is completely wiped out and a comfortable surplus is achieved. This objective will be met by October 1991.

Another measure which had a direct bearing on the government deficit was the shift from ad valorem tax to specific tax on petroleum products. This was planned during the early part of 1990 but its implementation was hastened with the onset of the Gulf crisis. The original proposal submitted by the administration was supposed to be revenue-neutral. However, to minimize increases in prices of petroleum products, Congress passed a bill, subsequently approved by the President, that effectively cut the tax on petroleum products by close to 50 percent. The revenue implication of this move was clear, but the exact magnitude was not. The government conceded that it lost about P1.5 billion in revenues in 1990. For 1991, the expected loss is P8 billion. Our own estimate shows that the government will lose P43.5 billion in 1991 (Table 14)[20]. This estimate is based on the actual volume of consumption in 1990, direct company take as of 1 January 1991, ad valorem rates prior to the 5 October 1990 directive, and existing specific tax rates. This estimate differs markedly from the official government estimate of P8 billion; the latter was based on direct company take for October 1990, which was lower than the January 1991 data.

It is not clear whether the shift from ad valorem to specific tax has indeed kept the inflation rate lower than what it would have been otherwise, or whether it has made the tax system more equitable. The reason is that the revenue shortfall arising from this shift in policy is financed largely by inflation tax.

20. This was calculated by Dr. Rosario G. Manasan for the study.

Table 12

Accrued Fund Balance of the Oil Price Stabilization Fund
(March 31 1989 - February 28, 1991)

	January	February	March	April	May	June	July	August	September	October	November	December
1989	2,479.6	2,422.1	840.8	299.0	(818.0)	(1,803.5)	(3,102.8)	(4,204.0)	(5,043.0)	(5,806.0)	(7,132.6)	(7,067.8)
1990	(7,063.6)	(7,684.0)	(8,113.8)	(8,859.9)	(9,219.1)	(6,103.2)	(7,123.0)	(8,422.8)	(11,077.1)	(13,950.2)	(16,575.2)	(15,482.0)
1991	(15,104.0)	(14,998.0)	(12,877.2)	(10,579.0)	(7,240.0)	(4,327.0)	(1,980.0)	(49.0)	1,791.0	2,387.0	2,927.0	3,271.0
1992	3,531.0	4,229.0										

Note: The method of computation is as follows:

(Collections from Oil Companies, e.g. product impost, peso cost differential, forex risk free, one centavo per liter levy) + (Interest collected on matured investment & savings deposit) + (Contribution from PAGCOR) + (Proceeds from PPSF) - (Reimbursement to Oil Companies, e.g. product impost, peso cost differential) = Actual Cash Balance
Accrued Fund Balance = Actual Cash Balance + (Accrued Contributions from Oil Com.) - (Outstanding Reimbursement Claims)
- (Estimated Net Unified Claims)

Source: Office of Energy Affairs

Table 13

Consolidated Public Sector Deficit, 1988 - 1992

	1988	1989	1990	1991[7]	1992[7]
		(In billions of pesos)			
National Government deficit	-23.2	-19.6	-40.0	-26.4[p]	-9.0
Monitored corporations deficit	2.1	-4.4	-12.5	-16.1[a]	-15.4
OPSF deficit[1]	-	-	-7.4	12.3[b]	-2.5
Adjustments for intra-PSBR transfers[2]	3.9	2.8	12.6	15.8[a]	5.0
Monitored Public Sector Borrowing Requirement (PSBR)	-17.2	-21.2	-47.3	-14.4	-21.9
OPSF deficit[1]	-	-9.0	-	-	-
Surplus of Government Financial Institutions[3]	2.1	3.3	1.4	-1.1[a]	3.2
Net income of the Central Bank[4]	-16.9	-20.8	-22.2	-22.3	-28.6
Others[5]	5.6	4.2	8.8	7.7[a]	9.5
Adjustments for other transfers within the public sector[6]	1.4	2.5	0.8	-0.1[a]	0.0
Consolidated Public Sector Deficit (CPSD)	-25.0	-41.0	-58.5	-30.2	-37.7
Memorandum Items:					
Financing of the PSBR	17.2	21.2	47.3		
Net External	0.6	8.8	8.3		
Net Domestic	16.6	12.4	39.0		
		(In percent of GNP)			
National Government Deficit	-2.8	-2.0	-3.6	-2.1	-0.6
of which: Primary Balance	2.7	3.7	2.8		
Monitored corporations' deficit	0.3	-0.5	-1.1	-1.3	-1.1
PSBR	-2.1	-2.2	-4.2	-1.1	-1.6
Consolidated Public Sector Deficit	-3.0	-4.3	-5.2	-2.4	-2.7

[1] Consolidated with the PSBR beginning in 1990.

[2] Includes adjustments for net lending for debt buybacks, National Government (NG) net lending and equity to monitored corporations, NG transfers to the OPSF, OPSF settlement of arrears included in the Philippine National Oil Company (PNOC) cash generation, and PNOC's share of the OPSF deficit.

[3] Philippine National Bank (PNB), Development Bank of the Philippines (DBP), the Philippine Export and Foreign Loan Guarantee Corporation (Philguarantee), and the Land Bank.

[4] Net of the impact of debt reduction, estimated at ₱1.9 billion in 1990, ₱2.1 billion in 1991, and ₱2.3 billion in 1992.

[5] Includes the Local Government Units (LGUs) and the social security institutions.

[6] Includes NG net lending and equity to GFIs and adjustments of OPSF deficits covered by PNOC before 1990.

[7] Latest Assessment for CY 1991 and Proposed Program for CY 1992.

[p] Preliminary Actuals.

[a] Full Year Estimates with January - September actuals.

[b] Full Year Estimates with January - November actuals.

Sources: Data provided by the Philippine authorities; and staff estimates.

Table 14

Revenue Loss Due to Shift From Ad Valorem to Specific Tax
(In thousand pesos)

Petroleum Products	Tax Using Ad Valorem Rates	Tax Using Specific Tax Rates	Revenue Loss
PREMIUM GASOLINE	18,455,756.22	6,993,825.35	11,461,930.86
REGULAR GASOLINE	6,297,908.94	2,323,589.91	3,974,319.03
AVTURBO	6,573,212.08	1,616,733.05	4,956,479.03
KEROSENE	3,881,637.64	555,183.79	3,326,453.85
DIESEL	19,882,771.34	3,365,194.46	16,517,576.88
FUEL OIL/FEEDSTOCK	0.00	0.00	0.00
LPG	2,985,067.15	0.00	2,985,067.15
ASPHALTS	131,004.62	45,989.60	85,015.02
SOLVENTS	170,291.61	0.00	170,291.61
Total	58,377,649.59	14,900,516.15	43,477,133.44

Assumptions:

1. Volume of consumption is based on 1990 data.

2. Ad Valorem Rates based on September 1, 1990 rates.

3. Direct Company take as of January 1, 1991, Specific Tax Rates as of October 5, 1990, to present.

Source of Basic data: Demand Management Division, Office of Energy Affairs

Government measures to cut the budget deficit, such as the 20 percent cut on the maintenance and other operating expenses of the national government for the fourth quarter of 1990, were not enough to counter the impact of the large OPSF deficit and the revenue losses due to the reduction of tax rates on petroleum products.

B. *Balance-of-Payments*

The impact of the Gulf crisis on the balance of payments may be discerned in Table 15. Deficit in merchandise trade rose from US$2.6 billion in 1989 to US$4.0 billion in 1990. The squeeze came from both export and import.

The poor export performance in 1990 was due to a combination of the following: (1) weak demand for manufactured products (notably garments and electronic goods) and traditional exports (i.e., coconut, copper, and fish products), and (2) supply bottlenecks encountered by manufactured and traditional exports as a result of drought, power shortages, the July earthquake, and the devastating typhoon in November. The Gulf crisis seriously affected Philippine exports to Kuwait and the rest of the Middle East (Table 16). Exports to Kuwait between August and December were practically nil. This means that, based on exports to Kuwait for the comparable period in 1989, the Philippines lost about US$4 million in 1990. For the rest of the Middle East, exports did not decline but export growth rate came almost to a halt. Again, about US$4 million were lost here if the same export growth in 1989 was used as basis.

Imports in 1990 increased by US$1,787 million over that of 1989, and 25.1 percent of it can be accounted for by the increase in oil bill. The surge in oil import bill was due to the increase in the price of crude oil and in the volume of crude oil imports as the government tried to encourage oil companies to increase their oil inventory level from 60 days to 90 days during the second half of the year.

Although remittances of Filipino OCWs still managed to increase in 1990 by US$201 million, total remittances from the Middle East fell by US$24 million (Table 17 for a more detailed information). Remittances of OCWs in the Middle East actually started to fall in July 1990 by about 56 percent over the previous month. Aside from receiving virtually nothing from Kuwait and Iraq during the period August-December 1990, remittances from the rest of the Middle East also dropped in the same period. In particular, remittances in the last quarter of 1990 were only more than half their levels compared to the same period in 1989.

By comparing 1989 and 1990 remittances for the months of August to December, one can observe remittance losses due to the Gulf crisis amounting to at least US$31 million. Still, this is a conservative estimate since it is based on official Central Bank statistics. Many workers in the Middle East remit their earnings through informal channels, such as friends going home and informal courier system. NEDA estimates that loss in foreign exchange remittances from Iraq and Kuwait could go as high as US$82 million, and from Saudi Arabia to about US$100 million, based on an average monthly earnings per worker of US$316, US$360, and US$408 in Iraq, Kuwait, and Saudi Arabia, respectively.

The tourism industry was one of the sectors hardest hit by the Gulf crisis. The number of tourist arrivals already declined in the first half of 1990 due to the coup attempt that was staged in December 1989. Optimism rose in the early part of the second semester as the political

Table 15

Balance of Payments Account, 1970 - 1991
(In US$M)

ITEM	1980	1981	1982	1983 a/	1984	1985	1986 c/	1987	1988	1989	1990	1991 p/
I. CURRENT TRANSACTIONS	-1904	-2061	-3200	-2750	-1116	-103	954	-444	-389	-1465	-2682	-1186
Merchandise Trade	-1939	-2224	-2646	-2482	-679	-482	-202	-1017	-1085	-2598	-4020	-3086
Exports	5788	5722	5021	5005	5391	4629	4842	5720	7074	7821	8186	7938
Imports	7727	7946	7667	7487	6070	5111	5044	6737	8159	10419	12206	11024
of which: oil	2226	2439	2079	2107	1608	1402	827	1229	1056	1328	1929	1720
Non-Merchandise Trade	-399	-309	-1040	-740	-823	0	715	0	-93	303	624	1172
Inflow	2222	2896	2983	3127	2626	3288	3791	3454	3590	4586	4842	5138
of which: Remittances												
Total		546	810	944	659	694	695	809	874	1002	1203	1521
Middle East		32	47	117	154	338	281	342	133	129	105	102
Outflow	2621	3205	4023	3867	3449	3288 b/	3076 b/	3454	3683	4283	4218	3966
Transfers	434	472	486	472	386	379	441	573	789	830	714	728
Inflow	451	485	498	483	387	388	445	575	791	832	717	729
Outflow	17	13	12	11	1	9	4	2	2	2	3	1
Current Account, Total	-1904	-2061	-3200	-2750	-1116	-103 b/	954 b/	-444	-389	-1465	-2682	-1186
Receipts	8,461	9,103	8,502	8,615	8,404	8,305	9,078	9,749	11,455	13,239	13,745	13,805
Payments	10,365	11,164	11,702	11,365	9,520	8,408	8,124	10,193	11,844	14,704	16,427	14,991
Goods and Services	-2338	-2533	-3686	-3222	-1502	-482	513	-1017	-1178	-2295	-3396	-1914
Inflow	8,010	8,618	8,004	8,132	8,017	7,917	8,633	9,174	10,664	12,407	13,028	13,076
Outflow	10,348	11,151	11,690	11,354	9,519	8,399	8,120	10,191	11,842	14,702	16,424	14,990

Table 15 (continued)

ITEM	1980	1981	1982	1983 a/	1984	1985	1986 c/	1987	1988	1989	1990	1991 p/
II. NON-MONETARY CAPITAL												
Long-Term Loans	1032	1332	1548	1392	478	2787	732	159	-329	395	385	856
Inflow	1579	2072	2533	2336	1259	3962	2605	2598	2372	2824	4401	3159
Outflow	547	740	985	944	781	1175	1873	2439	2701	2429	4016	2303
Foreign Investments	-102	175	17	112	17	17	140	326	986	854	480	623
Inflow	119	248	194	255	137	124	186	439	1077	972	706	750
Outflow	221	73	177	143	120	107	46	113	91	118	226	127
Short-Term Capital	324	-28	108	-618	549	-1731	-824	80	-205	-91	19	119
Errors and Omissions	112	-405	-371	-387	161	638	33	-144	190	369	595	105
Non-Monetary Capital, Total	1366	1074	1302	499	1205	1711 b/	81 b/	421	642	1527	1479	1703
Monetization of Gold	128	400	277	183	169	221	279	365	314	288	218	222
Allocation of SDR	29	27	0	0	0	0	0	0	0	0	0	0
Revaluation Adjustments 1/	28	13	-50	-50	-15	-88	-72	-78	83	101	800	324
III. UNREMITTABLE ARREARS/ADJUSTMENTS	0	0	0	0	0	560	0	0	0	0	0	0
IV. OVERALL SURPLUS/DEFICIT (-) 2/	-353	-547	-1671	-2118	243	2301	1242	264	650	451	-185	1063

a/ Data for 1983-1985 are adjusted for arrears per official concept.
b/ Revised due to reclassification of cost recovery accounts from the 'Capital Withdrawn from the Philippines' to the 'Other Service Payments'.
c/ Before transfer of the non-performing assets of the Philippine National Bank to the National Government.
1/ Reflects changes in the exchange rate of US dollars against the SDR and other third currencies which form part of the reserve assets and monetary liabilities of the Central Bank.
2/ Beginning 1982, BOP position has been based on the new concept of: Net international reserves computation under the 1983 IMF Standby Arrangement.
p/ Preliminary estimate for 1991 (January-November actual figures).
f/ Full Year actual figures. CY 1991 actual figures for Exports and Imports are US$ 8.8 Billion and US$ 12.1 Billion, respectively. The merchandise trade balance is US$ 3.2 Billion.

Sources: Tables 2, 6, 12, 14, 15, and 16: Treasury, Foreign Exchange Operations, Investments, and Economic Research Departments, Central Bank of the Philippines.

Table 16

Philippine Exports to Iraq, Kuwait, Rest of Middle East and Rest of the World, 1988 - 1990 (FOB value in thousand US dollars)

	Value of Exports				
Year/Month	Total	Iraq	Kuwait	Rest of Middle East	Rest of the World
1988					
Total	7,074,191	1,309	6,703	93,863	6,972,316
Jan	492,016	0	414	7,227	484,375
Feb	526,609	0	373	7,606	518,630
Mar	531,866	114	643	9,502	521,607
Apr	534,475	107	717	6,686	526,965
May	559,946	168	800	7,542	551,436
Jun	618,598	202	603	8,469	609,324
Jul	618,210	71	303	5,638	612,198
Aug	639,988	118	750	5,905	633,215
Sep	628,138	192	440	6,979	620,527
Oct	592,570	311	314	8,529	583,416
Nov	609,633	26	976	9,648	598,983
Dec	722,142	0	370	10,132	711,640
1989					
Total	7,820,713	35	8,936	114,474	7,697,268
Jan	576,312	0	296	9,774	566,242
Feb	565,528	0	470	8,741	556,317
Mar	636,061	0	1,132	6,714	628,215
Apr	647,396	34	1,431	9,920	636,011
May	677,259	0	704	11,598	664,957
Jun	659,325	0	354	9,081	649,890
Jul	707,250	0	613	12,148	694,489
Aug	665,348	0	583	7,394	657,371
Sep	676,709	0	811	8,759	667,139
Oct	676,242	1	537	10,118	665,586
Nov	651,048	0	1,189	8,979	640,880
Dec	682,235	0	816	11,248	670,171

Table 16 (continued)

Year/Month	Total	Iraq	Kuwait	Rest of Middle East	Rest of the World
	Value of Exports				
1990					
Total	8,186,024	2	5,508	123,119	8,057,395
Jan	587,145	2	516	10,993	575,634
Feb	652,042	0	917	8,570	642,555
Mar	710,812	0	1,099	8,830	700,883
Apr	623,823	0	1,044	9,894	612,885
May	697,093	0	614	17,714	678,765
Jun	642,140	0	706	8,542	632,892
Jul	730,732	0	585	12,496	717,651
Aug	680,139	0	27	7,583	672,529
Sep	744,945	0	0	8,982	735,963
Oct	696,703	0	0	11,369	685,334
Nov	686,330	0	0	8,586	677,744
Dec	734,120	0	0	9,560	724,560
1991					
Total	8,839,000	0	3	148,997	8,690,000
Jan	626,018	0	0	4,554	621,464
Feb	661,072	0	0	4,395	656,677
Mar	740,086	0	0	9,971	730,115
Apr	698,178	0	0	10,820	687,358
May	681,756	0	0	12,143	669,613
Jun	761,597	0	0	14,735	746,862
Jul	787,625	0	0	13,866	773,759
Aug	740,017	0	0	11,041	728,976
Sep	760,000	0	0	13,000	747,000
Oct	747,000	0	0	19,000	728,000
Nov	735,000	0	1	13,000	721,000
Dec	900,651	0	2	22,472	879,176

Source: Central Bank of the Philippines
Source of basic data: National Statistics Office

Table 17

Overseas Contract Workers Remittances by Country of Destination
and by Type of Worker, January 1989 - December 1990
(In thousand US dollars)

Country/Worker	1989 Jan	%	Feb	%	Mar	%	Apr	%	May	%	June	%
TOTAL 1/	69,351	100.00	64,208	100.00	78,221	100.00	77,605	100.00	77,835	100.00	83,145	100.00
Seabased	17,799	100.00	15,137	100.00	18,677	100.00	17,424	100.00	18,860	100.00	18,179	100.00
Landbased	49,770	100.00	47,453	100.00	57,432	100.00	57,724	100.00	56,724	100.00	62,245	100.00
Earnings of Resident Aliens */	1,782	100.00	1,618	100.00	2,112	100.00	2,251	100.00	2,251	100.00	2,721	100.00
MIDDLE EAST	8,131	11.72	13,442	20.94	7,561	9.67	10,813	13.93	9,414	12.09	9,968	11.99
Seabased	136	0.76	4	0.03	130	0.70	40	0.23	703	3.73	8	0.04
Landbased	7,991	16.06	13,137	27.68	7,431	12.94	10,773	18.66	8,707	15.35	9,957	16.00
Earnings of Resident Aliens */	4	0.22	1	0.06	0	0.00	0	0.00	4	0.18	3	0.11
Iraq	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	2	0.00
Seabased	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Landbased	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	2	0.00
Earnings of Resident Aliens */	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Kuwait	2,453	3.54	2,551	3.97	2,720	3.48	2,358	3.04	2,198	2.82	2,537	3.05
Seabased	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Landbased	2,453	4.93	2,551	5.38	2,720	4.74	2,358	4.08	2,198	3.87	2,537	4.08
Earnings of Resident Aliens */	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Rest of the Middle East	5,678	8.19	1	0.00	0	0.00	7	0.01	4	0.01	5	0.01
Seabased	136	0.76	0	0.00	0	0.00	0	0.00	0	0.00	1	0.01
Landbased	5,538	11.13	1	0.00	0	0.00	7	0.01	4	0.01	4	0.01
Earnings of Resident Aliens */	4	0.22	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00

*/ Earnings from resident aliens refer to salaries/ allowances of foreigners employed in local banks and other entities inwardly remitted to the Philippines.

1/ Total amount of remittances of overseas contract workers from countries not elsewhere specified. Thus , total for the Regions may be understated as there may be countries covered which are lumped under others.

Source: Foreign Exchange Regulations Department, Central Bank of the Philippines.

Table 17 (continued)

Country/Worker	1989													
	July	%	Aug	%	Sept	%	Oct	%	Nov	%	Dec	%	Jan-Dec	
TOTAL 1/	93,250	100.00	80,257	100.00	84,382	100.00	106,867	100.00	91,606	100.00	95,184	100.00	1,001,911	100.00
Seabased	20,428	100.00	16,185	100.00	18,517	100.00	20,229	100.00	17,181	100.00	19,199	100.00	217,815	100.00
Landbased	69,994	100.00	62,129	100.00	64,281	100.00	82,314	100.00	70,843	100.00	74,189	100.00	755,098	100.00
Earnings of Resident Aliens */	2,828	100.00	1,943	100.00	1,584	100.00	4,324	100.00	3,582	100.00	1,796	100.00	28,792	100.00
MIDDLE EAST	11,319	12.14	11,161	13.91	9,007	10.67	14,730	13.78	13,932	15.21	9,906	10.41	129,384	12.91
Seabased	45	0.22	165	1.02	97	0.52	71	0.35	8	0.05	265	1.38	1,672	0.77
Landbased	11,274	16.11	10,986	17.68	8,910	13.86	14,659	17.81	13,924	19.65	9,641	13.00	127,390	16.87
Earnings of Resident Aliens */	0	0.00	10	0.51	0	0.00	0	0.00	0	0.00	0	0.00	22	0.08
Iraq	0	0.00	1	0.00	0	0.00	0	0.00	0	0.00	0	0.00	3	0.00
Seabased	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Landbased	0	0.00	1	0.00	0	0.00	0	0.00	0	0.00	0	0.00	3	0.00
Earnings of Resident Aliens */	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Kuwait	2,067	2.22	1,768	2.20	2,355	2.79	2,032	1.90	2,539	2.77	1,885	1.98	27,463	2.74
Seabased	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Landbased	2,067	2.95	1,758	2.83	2,355	3.66	2,032	2.47	2,539	3.58	1,885	2.54	27,453	3.64
Earnings of Resident Aliens */	0	0.00	10	0.51	0	0.00	0	0.00	0	0.00	0	0.00	10	0.03
Rest of the Middle East	2	0.00	4	0.00	2	0.00	3	0.00	0	0.00	3	0.00	33	0.00
Seabased	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	2	0.00
Landbased	2	0.00	4	0.01	2	0.00	3	0.00	0	0.00	3	0.00	31	0.00
Earnings of Resident Aliens */	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00

*/ Earnings from resident aliens refer to salaries/ allowances of foreigners employed in local banks and other entities inwardly remitted to the Philippines.
1/ Total amount of remittances of overseas contract workers from countries not elsewhere specified. Thus , total for the Regions may be understated as there may be countries covered which are lumped under others.

Source: Foreign Exchange Regulations Department, Central Bank of the Philippines.

Table 17 (continued)

Country/Worker	1990 Jan	%	Feb	%	Mar	%	Apr	%	May	%	June	%
TOTAL 1/	97,375	100.00	102,632	100.00	114,860	100.00	86,088	100.00	122,273	100.00	112,946	100.00
Seabased	19,609	100.00	20,704	100.00	23,271	100.00	22,332	100.00	23,992	100.00	25,937	100.00
Landbased	74,924	100.00	80,300	100.00	89,664	100.00	62,081	100.00	95,573	100.00	84,830	100.00
Earnings of Resident Aliens */	2,842	100.00	1,628	100.00	1,925	100.00	1,675	100.00	2,708	100.00	2,179	100.00
MIDDLE EAST	9,884	10.15	11,966	11.66	12,047	10.49	10,316	11.98	12,550	10.26	14,507	12.84
Seabased	60	0.31	45	0.22	74	0.32	205	0.92	72	0.30	133	0.51
Landbased	9,824	13.11	11,921	14.85	11,973	13.35	10,111	16.29	12,478	13.06	14,374	16.94
Earnings of Resident Aliens */	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Iraq	1	0.00	1	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Seabased	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Landbased	1	0.00	1	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Earnings of Resident Aliens */	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Kuwait	2,073	2.13	2,129	2.07	2,970	2.59	1,938	2.25	2,759	2.26	2,458	2.18
Seabased	0	0.00	1	0.00	0	0.00	12	0.05	0	0.00	1	0.00
Landbased	2,073	2.77	2,128	2.65	2,970	3.31	1,926	3.10	2,759	2.89	2,457	2.90
Earnings of Resident Aliens */	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Rest of the Middle East	0	0.00	1	0.00	16	0.01	1	0.00	1	0.00	0	0.00
Seabased	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Landbased	0	0.00	1	0.00	16	0.02	1	0.00	1	0.00	0	0.00
Earnings of Resident Aliens */	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00

*/ Earnings from resident aliens refer to salaries/ allowances of foreigners employed in local banks and other entities inwardly remitted to the Philippines.
1/ Total amount of remittances of overseas contract workers from countries not elsewhere specified. Thus , total for the Regions may be understated as there may be countries covered which are lumped under others

Source: Foreign Exchange Regulations Department, Central Bank of the Philippines.

Table 17 (continued)

Country/Worker	1990 July	%	Aug	%	Sept	%	Oct	%	Nov	%	Dec	%	Jan-Dec	%
TOTAL 1/	113,989	100.00	97,218	100.00	96,934	100.00	90,926	100.00	86,617	100.00	81,151	100.00	1,203,009	100.00
Seabased	25,211	100.00	26,706	100.00	24,056	100.00	28,787	100.00	22,259	100.00	24,809	100.00	287,673	100.00
Landbased	86,644	100.00	68,635	100.00	71,916	100.00	60,547	100.00	63,075	100.00	55,213	100.00	893,402	100.00
Earnings of Resident Aliens */	2,134	100.00	1,877	100.00	962	100.00	1,592	100.00	1,283	100.00	1,129	100.00	21,934	100.00
MIDDLE EAST	6,378	5.60	6,925	7.12	6,443	6.65	6,077	6.68	3,958	4.57	4,311	5.31	105,362	8.76
Seabased	79	0.31	51	0.19	136	0.57	72	0.25	62	0.28	8	0.03	997	0.35
Landbased	6,299	7.27	6,874	10.02	6,307	8.77	6,005	9.92	3,896	6.18	4,303	7.79	104,365	11.68
Earnings of Resident Aliens */	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Iraq	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	2	0.00
Seabased	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Landbased	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	2	0.00
Earnings of Resident Aliens */	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Kuwait	1,658	1.45	166	0.17	0	0.00	60	0.07	0	0.00	1	0.00	16,212	1.35
Seabased	2	0.01	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	16	0.01
Landbased	1,656	1.91	166	0.24	0	0.00	60	0.10	0	0.00	1	0.00	16,196	1.81
Earnings of Resident Aliens */	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Rest of the Middle East	1	0.00	1	0.00	2	0.00	1	0.00	0	0.00	1	0.00	25	0.00
Seabased	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Landbased	1	0.00	1	0.00	2	0.00	1	0.00	0	0.00	1	0.00	25	0.00
Earnings of Resident Aliens */	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00

*/ Earnings from resident aliens refer to salaries/ allowances of foreigners employed in local banks and other entities inwardly remitted to the Philippines.

1/ Total amount of remittances of overseas contract workers from countries not elsewhere specified. Thus , total for the Regions may be understated as there may be countries covered which are lumped under others.

Source: Foreign Exchange Regulations Department, Central Bank of the Philippines.

Table 17 (continued)

Country/Worker	1991 Jan	%	Feb	%	Mar	%	Apr	%	May	%	June	%
TOTAL 1/	90,046	100.00	77,760	100.00	106,269	100.00	146,392	100.00	145,748	100.00	114,085	100.00
Seabased	27,191	100.00	27,138	100.00	27,247	100.00	33,675	100.00	31,759	100.00	30,808	100.00
Landbased	61,584	100.00	49,490	100.00	77,668	100.00	110,781	100.00	111,750	100.00	81,051	100.00
Earnings of Resident Aliens */	1,271	100.00	1,132	100.00	1,354	100.00	1,936	100.00	2,239	100.00	1,626	100.00
MIDDLE EAST	5,493	6.10	4,325	5.56	5,944	5.59	8,736	5.97	10,628	7.29	8,746	7.67
Seabased	148	0.54	10	0.04	80	0.29	51	0.15	67	0.21	60	0.19
Landbased	5,345	8.68	4,315	8.72	5,864	7.55	8,685	7.84	9,961	8.91	8,686	10.72
Earnings of Resident Aliens */	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Iraq	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	1	0.00
Seabased	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Landbased	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	1	0.00
Earnings of Resident Aliens */	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Kuwait	0	0.00	0	0.00	0	0.00	2	0.00	0	0.00	0	0.00
Seabased	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Landbased	0	0.00	0	0.00	0	0.00	2	0.00	0	0.00	0	0.00
Earnings of Resident Aliens */	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Rest of the Middle East	5,493	6.10	4,325	5.56	5,944	5.59	8,734	5.97	10,628	7.29	8,745	7.67
Seabased	148	0.54	10	0.04	80	0.29	51	0.15	67	0.21	60	0.19
Landbased	5,345	8.68	4,315	8.72	5,864	7.55	8,683	7.84	9,961	8.91	8,685	10.72
Earnings of Resident Aliens */	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00

*/ Earnings from resident aliens refer to salaries/ allowances of foreigners employed in local banks and other entities inwardly remitted to the Philippines.

1/ Total amount of remittances of overseas contract workers from countries not elsewhere specified. Thus , total for the Regions may be understated as there may be countries covered which are lumped under others.

Source: Foreign Exchange Regulations Department, Central Bank of the Philippines.

Table 17 (continued)

Country/Worker	1991 July	%	Aug	%	Sept	%	Oct	%	Nov	%	Dec	%	Jan-Dec	%
TOTAL 1/	117,804	100.00	106,839	100.00	121,924	100.00	183,615	100.00	155,358	100.00	155,551	100.00	1,521,391	100.00
Seabased	33,139	100.00	32,524	100.00	30,819	100.00	36,684	100.00	29,924	100.00	34,318	100.00	375,226	100.00
Landbased	82,614	100.00	72,526	100.00	89,532	100.00	145,132	100.00	123,154	100.00	119,183	100.00	1,125,065	100.00
Earnings of Resident Aliens */	2,051	100.00	1,789	100.00	1,573	100.00	1,799	100.00	2,280	100.00	2,050	100.00	21,100	100.00
MIDDLE EAST	9,804	8.32	9,925	9.29	9,404	7.71	9,949	5.42	8,301	5.34	11,328	7.28	101,983	6.70
Seabased	55	0.17	16	0.05	106	0.34	63	0.17	52	0.17	31	0.09	739	0.20
Landbased	9,749	11.80	9,909	13.66	9,298	10.39	9,881	6.81	8,248	6.70	11,297	9.48	101,238	9.00
Earnings of Resident Aliens */	0	0.00	0	0.00	0	0.00	5	0.28	1	0.04	0	0.00	6	0.03
Iraq	0	0.00	0	0.00	0	0.00	1	0.00	0	0.00	0	0.00	3	0.00
Seabased	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Landbased	0	0.00	0	0.00	0	0.00	1	0.00	0	0.00	0	0.00	3	0.00
Earnings of Resident Aliens */	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Kuwait	2	0.00	2	0.00	20	0.02	210	0.11	128	0.08	46	0.03	409	0.03
Seabased	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Landbased	2	0.00	2	0.00	20	0.02	210	0.14	128	0.10	46	0.04	409	0.04
Earnings of Resident Aliens */	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Rest of the Middle East	9,802	8.32	9,923	9.29	9,384	7.70	9,738	5.30	8,173	5.26	11,282	7.25	101,571	6.68
Seabased	55	0.17	16	0.05	106	0.34	63	0.17	52	0.17	31	0.09	739	0.20
Landbased	9,747	11.80	9,907	13.66	9,278	10.36	9,670	6.66	8,120	6.59	11,251	9.44	100,826	8.96
Earnings of Resident Aliens */	0	0.00	0	0.00	0	0.00	5	0.28	1	0.04	0	0.00	6	0.03

*/ Earnings from resident aliens refer to salaries/ allowances of foreigners employed in local banks and other entities inwardly remitted to the Philippines.

1/ Total amount of remittances of overseas contract workers from countries not elsewhere specified. Thus , total for the Regions may be understated as there may be countries covered which are lumped under others.

Source: Foreign Exchange Regulations Department, Central Bank of the Philippines.

atmosphere started to stabilize. But this was frustrated by the Gulf crisis. The number of tourist arrivals during the period August-December 1990 fell by 98,397 compared to that of the same period in 1989 (Table 18). It continued to drop during the period January-April 1991 by 85,535 relative to the same period in 1990. Assuming that each tourist spends the same average amount of money in their stay in the Philippines as in 1990 (i.e., US$1,306,190,000/1,024,520 = US$1,274.93), then the Philippines could have lost a total of US$234.5 million from the reduced tourist arrivals during the period August 1990 to April 1991.

The structure of the freight rate for imports from and exports to the Middle East and East Mediterranean countries is shown in Table 19. The freight rate did not change at all during the Gulf crisis. However, Gulf war emergency surcharges were temporarily imposed beginning on 19 January 1991 (Table 20). All these surcharges were withdrawn on 7 March 1991.

Also, marine insurance rates during the Gulf crisis did not change at all. However, the war rate of those shipments coming from/going to affected countries during the war was increased from the usual 0.0275 percent to 1.6975 percent[21].

Some recent improvements in the balance of payments have been observed. Imports of capital equipment, raw materials, and consumer goods increased by only 0.40 percent in the first two months of 1991. This is attributed mainly to the 9 percent import levy. By end of April, Central Bank's gross international reserves had risen to US$2.9 billion, higher by 45 percent than the end-December 1990 level. They can finance about 2.2 months of imports of goods and services, using January to March 1991 data. The increase in reserves was largely due to fresh money from the IMF, deposit by the Philippine treasurer of the proceeds of Japan Eximbank's co-financing of the Financial Sector Adjustment Loan and of various project loans from the World Bank and ADB, net deposits under the Trade Facility, and purchase of US Treasury warrants and of primary and panned gold.

Since the issuance of Circular No. 1272 in January 1991, the Central Bank has become a net buyer of foreign exchange in the BAP trading floor. In March and April, it bought a total of US$606 million from the banking system. The peso reference rate vis-a-vis the US dollar strengthened to P27.849 as of 27 April from P28 at end-December 1990.

C. *Employment*

As of March 1991, 29,585 OCWs had been repatriated. They came home without a job waiting for them. About 56 percent of the Gulf returnees were service workers who received salaries at least three times higher than those received by their local counterparts (Table 21). It was hard for them to accept low- paying jobs in the country. Engineers and construction workers had a long waiting time because the construction industry in the country was in slump. There was no information on the number of worker returnees who were re-employed in the domestic or foreign labor markets.

The overall employment situation in the country is shown in Table 22. Employment situation data are available only on a quarterly basis. As shown, unemployment rate improved slightly in

21. This is based on the letter to the authors by Vlademir Dizon, Assistant manager of FGU Insurance Corporation, dated 19 September 1991.

Table 18

Monthly Breakdown of Tourist Arrivals and Tourism Receipts, 1989-1991

Month / Year	Tourist Arrivals			Tourism Receipts (In million US$)		
	1989	1990	1991	1989	1990	1991
JANUARY	98,130	89,907	97,585	119.24	104.87	106.98
FEBRUARY	106,867	91,484	63,628	147.83	105.25	79.26
MARCH	102,479	102,685	77,930	148.99	141.58	86.44
APRIL	91,022	97,989	77,387	116.89	136.99	88.31
MAY	94,060	86,160	81,306	107.37	117.52	106.57
JUNE	94,434	78,877	71,497	106.03	103.12	120.24
JULY	115,755	88,843	72,549	133.25	125.21	103.39
AUGUST	113,676	79,753	79,056	114.54	103.05	119.95
SEPTEMBER	87,434	66,019	68,411	104.28	87.82	84.84
OCTOBER	96,997	68,987	79,864	114.39	79.4	93.38
NOVEMBER	101,577	76,071	89,461	110.87	79.27	120.19
DECEMBER	87,288	97,745	112,691	141.79	122.11	171.75
TOTAL	1,189,719	1,024,520	951,365	1,465.47	1,306.19	1,281.30

Sources of Data: (1) "Visitor Sample Survey." Department of Tourism.
(2) "A/D CARDS." Tourism Research and Statistics Division; Office of Tourism Development and Department of Tourism.

Table 19

Average Freight Rates, Weight, Volume and Value of Imports and Exports, by Country of Origin, 1990

COUNTRY	IMPORTS Weight (metric tons)	IMPORTS Volume (cubic meter)	IMPORTS C I F (In Dollars)	IMPORTS Freight (In Dollars)	IMPORTS Average Freight Rate($/cm)	EXPORTS Weight (metric tons)	EXPORTS Volume (cubic meter)	EXPORTS C I F (In Dollars)	EXPORTS Freight (In Dollars)	EXPORTS Average Freight Rate($/cm)
Bahrain	116,074	26,207	11,715,994	2,089,911	79.75	470	1,797	436,851	75,292	41.90
Cyprus	24	167	29,522	1,322	7.92	12	61	108,191	6,569	107.69
Egypt	12,764	1,852	2,047,458	161,361	87.13	18	128	142,750	6,300	49.22
Iran	691,025	807,237	128,162,943	4,353,191	5.39	0	1	104	9	9.00
Iraq	447,708	538,028	55,789,806	4,689,530	8.72	...	...	...	...	...
Israel	19,829	17,356	7,926,574	546,094	31.46	136	359	184,103	13,951	38.86
Jordan	94,982	277,814	5,600,449	677,221	2.44	...	...	...	...	...
Kuwait	1,854,293	2,123,651	214,325,063	13,949,263	6.57	68	501	204,151	14,988	29.92
Lebanon	...	...	...	...	...	58	97	70,572	6,175	63.66
Saudi Arabia	3,286,976	4,047,906	578,380,792	31,059,435	7.67	13,340	34,957	5,723,646	1,561,809	44.68
Turkey	14,558	16,577	8,976,884	900,941	54.35	...	...	...	...	...
U.A.E.	3,056,172	3,645,758	426,627,651	21,765,129	5.97	8,883	39,077	3,541,283	858,901	21.98
Oman	137,618	160,766	16,302,673	1,136,942	7.07	423	2,519	258,142	23,187	9.20
Qatar	439,673	614,336	68,122,374	3,800,119	6.19	567	1,491	175,493	67,373	45.19
Yemen	...	...	...	...	...	3	27	10,724	1,974	73.11

Source: "Table 1M" and "Table 1X": National Statistics Office (NSO)

Table 20

Gulf War Emergency Surcharges

A. Middle East Emergency Surcharge (MEES)

1. 19 January 1991

Loose Cargo (LCL)	$ 12 / rt
20 footer ships	$ 300
40 footer ships	$ 600

2. 20 February 1991

Loose Cargo (LCL)	$ 8 / rt
20 footer ships	$ 200
40 footer ships	$ 400

3. 01 March 1991

Loose Cargo (LCL)	$ 7 / rt
20 footer ships	$ 170
40 footer ships	$ 340

4. 07 March 1991

surcharge was withdrawn

B. East Mediterranean and North Africa

20 February 1991

Loose Cargo (LCL) (Breakbulk Cargo)	$ 12 / rt
20 footer ships	$ 300
40 footer ships	$ 600

C. Portugal (Europe)

20 February 1991

Loose Cargo (LCL) (Breakbulk Cargo)	$ 12 / rt
20 footer ships	$ 300
40 footer ships	$ 600

Source: CISO/Philippine Shippers Council, Department of Trade and Industry (DTI).

Table 21

Distribution of Gulf Returnees by Skills and/or Position Held

	Skill/Position Held	No.	%
1.	Professional, technical and related workers	2,467	10.25
2.	Administrative, executive and managerial workers	92	0.38
3.	Clerical and related workers	1,060	4.40
4.	Sales workers	850	3.53
5.	Service workers	13,438	55.83
6.	Agricultural, animal husbandry and forestry workers, fishermen and hunters	63	0.26
7.	Production and related workers, transport equipment operators and laborers	1,861	7.73
8.	Footware and leather goods workers	1,786	7.42
9.	Rubber and plastic product makers	1,319	5.48
10.	Workers not classifiable by occupation	952	3.96
11.	Members of the armed forces	46	0.19
12.	Seamen	136	0.57
	TOTAL	24,070	100.00

Source: Overseas Workers Welfare Administration

Table 22

Employment Situation

EMPLOYMENT STATUS (In 000 except rates)	1980 Jan.	April	July	Oct.	1981 Jan.	April	July	Oct.	1982 Jan.	April	July	Oct.	1983 Jan.	April	July	Oct.
Labor Force Participation Rate (%)	-	-	59.6	-	62.3	-	61.1	-	62.0	-	60.1	-	63.5	63.3	63.6	-
Total Labor Force	-	-	17268	-	18165	-	18239	-	18634	-	18467	-	19673	19761	20130	-
Unemployment Rate (%)	-	-	7.9	-	9.0	-	8.7	-	9.4	-	9.4	-	10.0	13.3	7.9	-
Underemployment Rate (%)	-	-	20.9	22.4	-	-	23.9	24.1	-	-	25.5	29.3	31.0	-	29.8	31.9

EMPLOYMENT STATUS (In 000 except rates)	1984 Jan.	April	July	Oct.	1985 Jan.	April	July	Oct.	1986 Jan.	April	July	Oct.	1987 Jan.	April	July	Oct.
Labor Force Participation Rate (%)	63.8	62.5	63.5	-	63.0	63.0	63.0	63.3	64.1	63.9	63.5	63.8	63.8	65.2	67.2	65.7
Total Labor Force	20362	20130	20756	-	20727	20902	20532	30811	21220	21308	21347	21572	21735	22386	23252	22880
Unemployment Rate (%)	9.3	11.3	10.6	-	13.6	13.9	11.6	11.1	12.1	12.9	11.2	11.4	11.2	14.2	10.2	9.1
Underemployment Rate (%)	36.1	-	36.4	26.2	24.0	22.6	22.2	18.7	20.4	23.7	28.4	26.1	-	-	24.2	-

EMPLOYMENT STATUS (In 000 except rates)	1988 Jan.	April	July	Oct.	1989 Jan.	April	July	Oct.	1990 Jan.	April	July	Oct.	1991 Jan.	April	July	Oct.
Labor Force Participation Rate (%)	65.3	67.9	65.9	65.4	65.0	69.3	65.3	64.6	64.4	-	64.3	64.5	64.5	71.4	65.2	64.5
Total Labor Force	22907	23990	23447	23451	23469	25213	23939	23858	23954	-	24252	24525	24681	27524	25073	25246
Unemployment Rate (%)	9.1	11.9	8.9	8.3	8.2	11.4	8.6	8.4	8.6	-	8.4	8.1	8.7	14.4	9.9	9.0
Underemployment Rate (%)	23.8	23.5	23.3	23.3	23.3	23.6	22.7	23.3	23.2	-	21.8	22.1	22.3	23.6	22.1	22.1

Notes: (-) no data available.
1. Underemployment Rate is the ratio in percent of the number of employed persons wanting additional work /more hours of work over the total employed.
2. The underemployment rate series from 1980 to 1987 is based on past quarter reference period while those from 1988 to present is based on past week reference period.

Source of Basic Data: National Statistics Office

October 1990, but deteriorated in January 1991. Underemployment rate consistently increased in October 1990 and January 1991, indicating the labor sector's increasing hardship during the Gulf crisis period.

V. IMPACT OF THE GULF CRISIS ON THE PHILIPPINE ECONOMY: A SIMULATION ANALYSIS

Even before the Gulf crisis, fundamental problems have beset the structure of the global economic system. Historically, the Philippine economy has been vulnerable to external shocks. Not surprisingly, it is one of the economies most adversely affected by the Middle East conflict.

A recent conference (Pauly 1991) pointed out that the global economic uncertainties will not be resolved with the end of hostilities in the Middle East. Thus, the medium term economic outlook for the world, as for the Philippines, remains unclear.

This section attempts to assess quantitatively the impact on the Philippine economy of specific external shocks, such as movements in world oil prices and economic growth of industrialized countries. Admittedly, these events are only a microcosm of the entire spectrum of international economic activity. More important issues should also concern the Philippines, such as the external debt overhang and the potential global credit crunch arising from worldwide savings-investments imbalances. These issues could and should be addressed in other studies. In this particular exercise, the conditions related to external variables other than the world oil price and the growth of industrialized countries are held constant.

A. *Application of the PIDS-NEDA Macroeconometric Model*

To have a firm grasp of the analysis, it is useful to utilize a model that can capture the interrelationships of macroeconomic variables involved. A readily available macroeconometric model is the one developed at the Philippine Institute for Development Studies (PIDS). One version of it is currently being used at NEDA for planning purposes. The latest version of the model is summarized in Constantino, Yap, dela Paz, and Butiong (1989).

The model can easily accommodate the external shocks specified in the exercise. There is a variable for an index of imported fuel, which could be adjusted according to relevant specifications. There is no aggregate variable for industrialized country growth (from hereon referred to as IC growth), although the GNP of the United States and Japan figure prominently in the external sector. Growth of world trade is absent from the model, but since the US and Japan are the country's major trading partners the presence of growth variables for these countries would make the last variable redundant.

A baseline scenario was constructed for 1991 and 1992. Since 1990 had already transpired there was no need to include this year in the analysis. The baseline scenario is similar to the forecasts contained in Yap (1990) and Reyes and Yap (1991), with modifications to account for the assumptions on the baseline fuel prices and industrialized country growth data. The specific assumptions for this exercise are shown in Table 23. The results of the simulations are presented below.

Table 23

Assumptions on External Variables

	1990	1991 Middle	1991 High	1991 Low	1992
ADB VARIABLES					
Oil Price (per barrel)		$20	$25	$17	$21
IC Growth	2.50	1.4	1.0	2.0	2.8
World Trade Growth	5.70	5.3	4.0	5.8	6.0
PIDS-NEDA MODEL VARIABLES					
MPIF	889.17	950.14	1187.68	807.62	997.66
GNPJAP (growth rate)	4.50	3.50	2.0	4.0	3.70
GNPUS (growth rate)	2.0	1.0	0.70	1.5	2.0

Note:
MPIF - implicit dollar fuel price index
GNPJAP - GNP of Japan
GNPUS - GNP of US

B. *Analysis of Results*

A summary of results for key variables is presented in Table 23. A more detailed table is presented in Annexes C.1 to C.7.

The data shown in Table 24 reveal the definite pattern followed by the different macroeconomic variables. Almost all real variables[22] exhibit a declining growth rate for 1991 as one proceeds from low to high oil price scenario. This is true for the case where the oil price and the IC growth are adjusted simultaneously for consistency, and for the case where the IC growth is held constant. Thus, it can be concluded that an oil price increase has an unambiguous contractionary effect on output.

This dampening effect on real activity can be traced to various channels. On the supply side, a higher oil price means higher production cost, and unless producers can pass this on as higher prices the net effect on aggregate supply is negative. The higher oil import bill combined with a diminished ability to export leads to a crowding out of imports of raw materials and intermediate goods, which in turn would result in cutbacks in production levels. In the agriculture sector, where credit plays a crucial role in the production of certain crops, the increase in price level would mean a drop in the real value of loans.

On the expenditure side, higher inflationary expectations arising from the oil cost push factor would dampen consumption and investment spending. Higher inflation itself would reduce the real value of fixed government and private expenditures. One particular source of the decline in investment is the crowding out of importation of capital goods.

Data in Table 24 indicate the rise of inflation in 1991 and the decline in the balance of payments. The results also show that the Philippine economy is more sensitive to IC growth than to movements in the world oil price level. This may be due to the OPSF's ability to act as buffer against steep price increases in the world fuel market. On the other hand, it would be quite difficult for the export sector to shift its products out of the current market, and it will certainly feel the full effects of any short- or medium-term recession in the economies of its major trading partners. The long-term solution, of course, is greater market diversification.

The results for 1992 yield two distinct cases. In the first case, the real variable exhibits a declining growth rate pattern similar to 1991 as it proceeds from low to high oil price scenario[23]. This is true for two variables: Agriculture Value Added and Investment. In the second case, the rest of the real variables reported in Table 24 follow an opposite pattern, i.e., the growth rate increases as one proceeds from low to high oil price scenario.

One explanation for this trend is that a lower growth rate in 1991 would produce a lower base, thereby yielding a higher growth rate for 1992. However, this explanation could not account for the difference between industry and agriculture and between consumption and investment.

The varying responses to inflationary expectations and to IC growth can be the reason behind these differences. Traditionally, manufactured exports have higher income elasticities than primary commodity exports, and the implied recovery of industrialized countries in 1992 would

---

22. The only exception is Industry Value Added which experiences an increasing growth rate as one proceeds from the low price scenario to the high oil price scenario but only for the case when IC growth is held constant. This underlies the responsiveness of the economy to the performance of its trading partners as is explained above.

23. It must be recalled that there is only one scenario specified for 1992. The low, middle, and high scenarios still refer to the different cases for 1991, each of which, however, would have different implications for 1992.

Table 24

Summary of Results

	Baseline	Low	Medium	High	with constant IC growth Low	Medium	High
GNP (growth rate)							
1991	1.52	1.34	1.08	0.80	1.50	1.43	1.31
1992	3.52	3.36	3.58	3.97	3.45	3.69	4.10
CPI (growth rate)							
1991	13.39	13.33	14.11	15.49	13.54	14.56	16.16
1992	13.52	14.28	12.20	9.09	14.56	12.73	9.83
BOP ($ million)							
1991	2107	1972	1510	830	2057	1690	1089
1992	1668	1084	1090	1170	1196	1289	1442
Industry (growth rate)							
1991	0.97	0.86	0.73	0.68	1.00	1.03	1.13
1992	3.15	3.30	4.11	5.31	3.22	3.90	5.01
Agriculture (growth rate)							
1991	1.73	1.52	1.02	0.39	1.71	1.44	1.02
1992	3.57	3.05	2.73	2.33	3.26	3.12	2.88
Service (growth rate)							
1991	2.63	2.46	2.21	1.96	2.62	2.56	2.47
1992	4.15	3.98	4.11	4.35	4.07	4.25	4.54
Consumption (growth rate)							
1991	3.74	3.72	3.63	3.51	3.73	3.65	3.54
1992	5.21	5.12	5.17	5.25	5.13	5.19	5.28
Investment (growth rate)							
1991	5.75	5.52	4.77	3.75	5.69	5.14	4.30
1992	7.78	6.81	6.51	6.16	7.07	7.02	6.91
Exports (growth rate)							
1991	7.65	6.58	5.33	3.97	7.61	7.33	6.09
1992	5.92	5.47	6.05	7.13	5.63	6.22	7.11

naturally translate into higher growth for the industry sector. Firms associated with the latter would also have the ability to respond more rapidly to shifts in price signals compared to agents in the agriculture sector. Lower inflation in 1992 would thus benefit the industry sector more than it would the agriculture sector.

In the case of consumption and investment expenditure, the difference in their response to external factors maybe the dissimilarity of the dynamic lag structure of these two variables. Consumption behavior generally adjusts slowly over time. Investment spending responds more quickly to its past levels, indicating the flexibility of firms to adjust toward an optimum capital stock dictated by current economic conditions.

VI. POLICY RECOMMENDATIONS

The gains achieved in the early 1980s in reducing the country's dependence on imported energy seemed to have been wasted in the second half of the 1980s. In 1990, the degree of dependence on imported energy was higher than during the preceding four years, and approximated that of 1983. Moreover, the degree of dependence on the Middle East for crude oil imports has increased in the last few years. This will deteriorate further once the economy resumes its growth unless energy policy and programs are improved.

Energy pricing policy deserves a closer attention. The character of the OPSF, which played a key role in the pricing of petroleum products, had been altered to include subsidy elements. Congress has more than willing to do this to demonstrate at least one case to their constituents that they do have some interest in their economic plight. Of course, this is a costly way to accommodate popular demands, especially at a time when government budget deficit already reached crisis proportion. Delays in the adjustments of domestic prices of petroleum products to reflect market conditions only succeeded in turning the OPSF into a heavy burden for the government without giving real relief to the country in general. While other countries, like Thailand, which acted quickly when world prices of crude oil soared, have already rolled back the prices of their petroleum products in view of the currently favorable crude oil price, the Philippines still had to wait for six months before it could start considering oil price rollbacks because of the need to wipe out the huge OPSF deficit that was built up between August and December 1990. Oil pricing has indeed become a highly politicized process in the country, to the detriment of fiscal prudence, resulting in inefficient use of scarce oil resources and increased uncertainty in business pricing and oil-related investments. It is unfortunate that the government has allowed itself to fall into this trap. This is aggravated by the lack of an institutional leader such as a Department of Energy to advise the government on energy matters. It takes a strong will on the part of the government to institute energy policy reforms in order to bring itself out of the trap.

The gulf crisis merely serves as a blunt reminder that energy policy and programs in this country need to be improved. The following, therefore, are the recommendations of this study:

1. Institutional Arrangements

Energy is vital to the country's development. It, therefore, needs substantial attention by the government through an institution that effectively addresses energy-related issues. The present Energy Coordinating Council (ECC) is unable to meet the demands of the energy sector. The

Executive Secretary who chairs the ECC lacks the necessary expertise and the time to oversee all activities of the government related to the energy sector. The Executive Director of the Office of Energy Affairs (OEA), on the other hand, is supposed to be the energy czar, but he is not perceived as such by members of the ECC. Lack of coordination in energy policy is a natural consequence of this institutional arrangement. It is, therefore, proposed that a Department of Energy be created whose head will be a member of the Cabinet. The OEA shall serve as the backbone of this new Department with the PNOC, NPC, and NEA as attached agencies. A bill which was filed in Congress to this effect must be given full support by the administration.

The proposed energy department should work toward lessening the country's dependence on imported energy. This means that more resources should be invested toward developing indigenous sources of energy, particularly geothermal. In 1987, the total geothermal production has made possible the displacement of about 7.81 million barrels of fuel oil equivalent[24]. Given the financial constraint facing the country today, assistance from multilateral agencies and bilateral donors may be sought to accelerate the development of indigenous energy sources and the building of power plants in already developed sites. The recent policy reforms in the energy sector, such as the liberalization of small-scale coal mining and the encouragement of private sector participation in the financing of capital-intensive power projects through cogeneration, build-own-operate and build- operate-transfer schemes, are steps in the right direction.

Under the present energy development program, PNOC will explore, develop and maintain geothermal sites, and sell power- generating steam from these sites to the NPC, which will build the geothermal plants. With its financial problem, NPC has not been able to build power plants in already developed sites. Thus, the PNOC which has been doing well financially should be allowed to build own power plants in developed geothermal sites, and later turn these plants over to the NPC once the latter becomes financially capable.

2. Energy Pricing Policy

Some steps have already been taken toward reforming the energy pricing policy to eliminate distortion in the allocation of energy resources and encourage energy conservation. For example, fuel oil subsidy to the NPC through the OPSF has been removed. The over-all price of petroleum products has been set at a level reflecting market conditions, although cross subsidization among different petroleum products still exist to address some social concerns. Yet, additional reforms must be taken. The plan to restructure electricity tariffs based on long-run marginal cost pricing must be refined and its implementation accelerated. The NPC must be able to generate its own funds to cope with its backlog in building geothermal plants.

Oil price deregulation must be pursued seriously by the government once the OPSF deficit is eliminated. This will depoliticize oil pricing. Collusive arrangements among oil companies would not likely occur because of the presence of a government-owned corporation whose market share in the oil industry is quite substantial. The said corporation can also provide reliable cost data to check transfer pricing practices of the two multinational oil companies. The presence of a government-owned corporation in the oil industry may be necessary in the early years of oil price deregulation. However, once the authorities acquire the necessary expertise to monitor and

24. Office of Energy Affairs, The Philippine Medium-Term Energy Plan, 1988-1992.

regulate the oil industry, the government-owned corporation must be turned over to the private sector.

The OPSF should only come in under well-specified and understood rules and circumstances. Preferably, the OPSF should be managed by a private group of consumers, business and oil refiners. It also needs to be segregated from the budget. This means that oil taxation must always be through explicit taxes.

The oil price deregulation needs complementary reforms in other areas, particularly exchange rate and monetary policy. A competitive and stable exchange rate should be pursued through prudent monetary policy.

With the oil price deregulation and the restructuring of electricity tariffs, the Energy Regulatory Board may be abolished.

3. Energy Conservation Program

It is about time the government formulate and implement a systematic program on energy conservation even if there is no energy crisis. Many of the programs implemented during the gulf crisis could be permanently institutionalized. The program should include research and development of energy-saving technologies. A monitoring system should be developed to keep track of the implementation and results of energy conservation measures.

Annex A

Central Bank of the Philippines
Office of the Governor

CIRCULAR NO. 1272

Regulation of Foreign Exchange Position of Commercial Banks

The Monetary Board, in its Resolution No. 101 dated January 25, 1991 promulgated the following rules on the foreign exchange position of commercial banks

SEC. 1. Basic Policy. As a general rule, banks shall maintain a balanced foreign exchange position.

SEC. 2. Allowable Overbought Position. Banks' foreign exchange assets may only exceed foreign exchange liabilities, as both terms are defined in Sec. 3 hereof, provided the excess does not go beyond the average of their negotiated letters of credit for the immediately preceding 3 months.

Any resultant positive balance shall be sold on a daily basis.

SEC. 3. Definitions.

a. "Foreign exchange assets" shall include total monetary foreign assets under the Manual of Instructions of IOS Form I including the following:

1. Loans and Discounts - Resident: Circular 343/547 - item 14; and

2. Interbank Loan Receivables - Local: Item 15

3. Investment in Bonds and Other Debt Instruments - Item 16

Besides the Above, it shall also include as reported in SES I/6, Form 2A.1 CBP 7-16-05, the following:

1. Spot Exchange Bought Net of Spot Exchange Sold; and

2. Future Exchange Bought (including forward contracts).

b. "Foreign exchange liabilities" shall include total monetary foreign liabilities under the Manual of Instructions of IOS Form I, except:

1. Restructured foreign exchange obligations; and

2. Due to Head Office/Branches/Agencies Abroad - Regular - Item 28 (only the amount which form part of needed assigned capital).

It shall however include the following:

1. Deposit Liabilities - Local Banks: Circular 343/547 - Item 32.

2. Special FX Deposits under CB FX Incentive Circular - Regular - Item 33;

3. Bills Payable - Local Banks: Circular 343/547 - Item 34;

4. Bills payable - CB FX - Item 35;

5. Accrued Interest and Other Expenses Payable - Item 37

c. "Balanced foreign exchange position" shall refer to the situation of a bank whose total foreign exchange liabilities is matched by its total foreign exchange assets.

d. "Overbought foreign exchange position" shall refer to the situation of a bank whose total foreign exchange assets exceed its total foreign exchange liabilities.

e. "Oversold foreign exchange position" shall refer to the situation of a bank whose total foreign exchange liabilities exceed its total foreign exchange assets.

SEC. 4. Reports. Commercial banks shall submit daily reports in the attached format to the Foreign Exchange Regulations Department, copy furnished SES I.

SEC. 5. Sanctions. Noncompliance with the provisions of this Circular and any misrepresentation or submission of false reports shall subject the bank and the officers concerned to the following sanctions:

a. First Offense

Warning to/reprimand for the officers concerned and penalty on the bank at the rate of P5,000.00 per day until cancellation.

b. Second Offense

Suspension of officers concerned for 90 calendar days, suspension of foreign exchange operation of the bank for 30 calendar days and penalty on the bank at the rate of P5,000.00 per day until cancellation.

c. Subsequent Offenses

Suspension of officers concerned for 180 calendar days in addition to the 90 calendar days suspension for second offense, suspension of foreign exchange operation of the bank for 180 calendar days in addition to the 30 calendar days suspension for second offense and penalty on the bank at the rate of P5,000.00 per day for each violation.

The foregoing shall take effect on March 1, 1991.

(Sgd.) JOSE L. CUISIA, JR.
Governor

January 28, 1991

Central Bank of the Philippines
Office of the Governor

CIRCULAR NO. 1274

Amending Circular 1272 on the Regulation of Foreign Exchange Position of Commercial Banks

The Monetary Board in its Resolution No. 230 dated February 22, 1991 approved the amendment of Scetions 2 and 3 of Circular 1272, so as to read in full as follows:

"SEC. 2. Allowable Overbought Position.

Banks' foreign exchange assets may be allowed to exceed their foreign exchange liabilities to the extent of their average monthly payments for merchandise imports and invisibles. Allowable retentions shall be computed based on average monthly transactions for the preceding 12 months as reported under IOS Form I.

Banks shall be required to submit to the Foreign Exchange Regulations Department a daily report on their daily overboard/(oversold) foreign exchange position onthe third banking day from reference date and to settle their cumulative net overbought/(oversold) balance weekly.

SEC.3. Definitions.

a. "Foreign exchange assets" shall include total monetary foreign assets under the Manual of Instructions of IOS Form I including the following:

1. Loans and Discounts - Resident: Circular 343/547 Item 14; and

2. Interbank Loan Receivables - Local; Item 15

3. Investment in Bonds and Other Debt Instruments - Item 16

4. Forward Purchases from the Central Bank (Dollar - Peso Swap)

b. "Foreign exchange liabilities" shall include total monetary foreign liabilities under the Manual of Instructions of IOS Form I, except:

1. Due to Head Office/Branches/Agencies Abroad - regular - Item 28 (Unremitted Profits and Assigned Capital Portions only).

"It shall include the following:

1. Deposit Liabilities - Local Banks: Circular 343/547 - Regular - Item 32;

2. Special FX Deposits under CB FX Incentive Circular - Regular - Item 33;

3. Bills payable - Local Banks: Circular 343/547 - Item 34;

4. Bills payable - CB FX - Item 35"

c. "Balanced foreign exchange position" shall refer to the situation of a bank whose total foreign exchange liabilities is matched by its total foreign exchange assets

d "Overbought foreign exchange position" shall refer to the situation of a bank whose total foreign exchange assets exceed its total foreign liabilities

e "Oversold foreign exchange position" shall refer to the situation of a bank whose total foreign exchange liabilities exceed its total foreign exchange assets

All other provisions of Circular 1272 shall remain unchanged

(Sgd) JOSE L CUISIA JR

Governor

February 22 1991

Central Bank of the Philippines
Office of the Governor

CIRCULAR NO 1275

Further Amending Circular 1272 on the Regulation of Foreign Exchange Position of Commercial Banks

Pursuant to M B Resolution No 264 dated March 1 1991 the following further amendments to Section 3 (Definitions) of Circular 1272 as amended by Circular 1274 are hereby effected

1 The exclusion of forward purchases without any corresponding restructured obligation, from consideration as part of a bank s foreign exchange assets under item 4 of Section 3 of Circular 1272 as amended by Circular 1274 This exclusion applies to overbought banks

2 The addition as item no 5 of Section 3 (b) of Cash L/Cs collateralized with confirming bank" as part of foreign exchange liabilities

3 The addition as Section 3 (f) of the following definition of "Cash L/Cs collateralized with confirming bank

f Cash L/Cs collateralized with confirming bank shall mean those L/Cs where

i the importer has delivered to the bank the 100% equivalent peso value of the importation at L/C opening

ii the foreign exchange has been effectively sold tot he importer at L/C opening i.e exchange rate is based on the spot selling rate as of date of payment, thereby freeing the importer from any exchange risk,

iii the bank has advised the confirming bank that a portion of the issuing bank s foreign balance with the depository bank has been set aside and hypothecated for the L/C or remittance of foreign exchange has been made in advance to confirming bank to fund the L/C

All other provisions of Circular 1272 as amended by Circular 1274 shall remain unchanged

(Sgd) JOSE L CUISIA JR
Governor

March 4 1991

Annex B

NATIONAL CONTINGENCY PLAN

A ENERGY

Scenario X

1. To enact an Administration Bill institutionalizing energy conservation and enhancing efficient use of energy including reserve powers to the President during emergency situations (OP Congress)
2. To build up oil inventory level to the desired 90-days supply (OEA PNOC CB/BAP)
3. To firm up electricity load curtailment schedule (Multisectoral Task Force on Power Scheduling c/o NPC/ MERALCO DTI)
4. To review and adjust further if necessary the prices of oil products (ERB)
5. To firm up (including for Scenario Y) and implement further energy conservation measures (OEA)
6. To cease the export of petroleum products and derivatives as necessary (ERB as lead agency, DTI)
7. To accelerate the development and optimize the utilization of indigenous energy resources (OEA as lead agency DOST PNOC NPC NEA)
8. To firm up the identification and ranking of non strategic establishments which are energy inefficient (OEA as lead agency DTI)
9. To assess the long term need for oil refinery/storage capacity (ERB as lead agency OEA, PNOC)

Scenario Y

1. All measures in Scenario X
2. To activate the ASEAN Petroleum Security Agreement (DFA)
3. To implement the energy/oil rationing plan (EOB) and electricity load curtailment schedule as appropriate (NPC MERALCO/Other private electric utilities NEA/RECs)
4. To implement stringent energy conservation measures as appropriate (EOB OEA)
5. To close as necessary non strategic establishments which are energy inefficient (ERB as lead agency OEA DTI DND)

B PRODUCTION

Scenario X

1. To firm up plans to ensure adequate supply and delivery at reasonable prices of food staples, basic commodities and essential farm production inputs including higher inventories of such basic goods rationing schemes and further price controls as necessary (DA and DTI as lead agencies, NFA, DLG/LGUs)

2. To strengthen effectivity of Product Monitoring Program/ Bantay Bilihin Consumer Volunteer Network, including enforcement of measures against hording and profiteering (DTI as lead agency, DA).
3. To firm up the energy/oil rationing plan for industries/ establishments in coordination with all concerned (EOB as lead agency, DTI).

Scenario Y

1. All measures in Scenario X.
2. To implement the plans for supply and delivery of basic goods (DA and DTI as lead agencies, NFA, DLG/LGUs).
3. To implement the energy/oil rationing plan for industries/ establishments (EOB as lead agency, DTI).

C. BASIC UTILITIES AND SERVICES

Scenario X

To firm up crisis plans for the provision/delivery of essential public utility services such as water (MWSS for Metro Manila and environs, LWUA/Water Districts and DPWH for other areas), transportation and communications (DOTC), etc. (Implementing Agencies (IAs)).

Scenario Y

1. All measures in Scenario X.
2. To implement crisis plans for the provision/delivery of basic utility services (IAs).
3. To slow down/suspend as appropriate implementation of non- urgent and energy-intensive infrastructure projects (IAs).

D. SOCIAL CONCERNS

Scenario X

1. To firm up an evacuation plan including its funding for overseas workers (DFA as lead agency, DOLE).
2. To implement measures to ensure industrial peace, e.g., wages (DOLE).
3. To firm up plans to ensure provision and delivery of basic goods and services, especially to families below the poverty line (DSWD as lead agency/NGOs, DOH, DA/NNC).
4. To implement income-augmenting measures (GSIS, SSS).
5. To implement employment-generation schemes, including skills training and self-employment assistance (DOLE, DECS, DSWD, DTI, DA).
6. To accelerate the implementation of the Balik-Probinsiya Program (DSWD).
7. To firm up guidelines for the implementation of a compressed school/work week (DECS, DOLE, CSC for government employees, OP).
8. To promote household/backyard production of foodcrops (DSWD, DECS, DA).

9. To expand rescheduling of housing amortization payments to affected workers (HUDCC as lead agency, NHMFC, HDMF, SSS, GSIS).

Scenario Y

1. All measures in Scenario X.
2. To implement evacuation plan for overseas workers (DFA as lead agency, DOLE) and the plans for provision/delivery of basic goods/services (DSWD, as lead agency/NGOs, DOH, DA/NNC).
3. To implement compressed school/work week (DECS, DOLE, CSC, OP).
4. To effect strike/lockout moratorium (DOLE).

E. FINANCIAL RESOURCES

Scenario X

1. To ensure the availability of foreign exchange for the importation/payment of priority commodities/services (CB).
2. To adjust the government's budgetary program consistent with macroeconomic objectives (DBM, DOF, Congress).
3. To implement further anti-inflationary fiscal and monetary measures (Monetary Board).
4. To continue holding on reserve as necessary unallocated funds and lumpsum allocations (DBM).
5. To restructure the taxation system, including promulgation of new taxes where necessary (Congress, DOF).
6. To extend credit selectively with priority to food production, energy-saving activities and employment-generating investments (CB, BAP).
7. To continually negotiate for lower costs of externally-sourced capital (DOF).

Scenario Y

1. All measures in Scenario X.
2. To allocate available foreign exchange to essential import requirements (CB/BAP).

F. INFORMATION OF THE PUBLIC

Scenarios X and Y (OPS)

1. To continue keeping the public informed of developments.
2. To intensify information campaign on energy conservation and compliance with government directives.
3. To continue generating public understanding, support and cooperation.
4. To continue building up public confidence in assuring that the Government is doing everything possible.

5. To continually allay public apprehensions and deter speculations, hoarding, and profiteering.
6. To maintain an atmosphere of confidence, order and positive response through the identified role of each sector.

G. SECURITY

Scenario X

1. To firm up a security crisis management contingency plan in coordination with all concerned (NSC).
2. To strengthen security of all vital facilities and installations in the country (DND).
3. To maintain vigilance against various threat groups and intensify intelligence/counter-intelligence monitoring efforts (DND).

Scenario Y

1. All measures in Scenario X.
2. To implement the security crisis management contingency plan (NSC).
3. To quell/neutralize civil disturbances as necessary (DND).
4. To mobilize AFP reserves (DND).

OTHER ACTIONS REQUIRED

1. To designate the NSC or appropriate government body to oversee and monitor the implementation of the National Contingency Plan for Scenarios X and/or Y (CP, NSC).
2. To implement as necessary a program to finance the National Contingency Plan (DBM).
3. To continue undertaking consultations as necessary in the firming up/formulation and/or implementation of the various plans/measures under the national contingency plan (IAs).
4. To issue directives necessary to operationalize the National Contingency Plan (OP).

Annex C.1

BASELINE RESULTS

VARIABLES	LEVELS 1990	1991	1992	GROWTH 1991	1992
A. Expenditures on Gross Domestic Product (Mil.P at 1972 prices)					
Total Consumption	94156.00	97674.87	102765.83	3.74	5.21
Private Consumption	83789.00	88165.88	92978.36	5.22	5.46
Government Consumption	10367.00	9508.99	9787.47	-8.28	2.93
Gross Domestic Capital Formation	18201.00	19248.32	20745.19	5.75	7.78
Gross Fixed Capital Formation	18574.00	19248.32	20545.19	3.63	6.74
Exports of Goods and Services	29055.00	31278.90	33130.72	7.65	5.92
Imports of Goods and Services	37404.00	37868.43	39690.09	1.24	4.81
Statistical Discrepancy	5882.00	1577.03	-938.33		
Gross Domestic Product	109890.00	111910.69	116013.33	1.84	3.67
Net Factor Income from the Rest of the World	-253.00	88.80	259.76		
Gross National Product	110143.00	111821.89	115753.56	1.52	3.52
B. Gross Domestic Product by Industrial Origin					
Agriculture	29620.00	30132.80	31208.99	1.73	3.57
Industry	36220.00	36571.37	37723.26	0.97	3.15
Manufacturing	27259.00	27567.31	28496.04	1.13	3.37
Services	44050.00	45206.52	47081.08	2.63	4.15
Gross Domestic Product	109890.00	111910.69	116013.33	1.84	3.67
C. Employment and Wages					
Employment (full time equivalent)	19707.40	19444.49	19573.28	-1.33	0.66

Annex C.1 (p.2)

VARIABLES	LEVELS 1990	1991	1992	GROWTH 1991	1992
Unemployment Rate (full time equivalent)	0.20	0.24	0.26	16.40	7.78
Wages (index, unskilled labor, 1972=100)	492.70	534.35	583.88	8.45	9.27
D. Money and Prices					
Consumer Price Index (1972=100)	1054.53	1195.72	1357.39	13.39	13.52
M1 (narrowly defined money)	87173.69	98716.29	114232.64	13.24	15.72
M2 (broadly defined money)	290992.68	346093.52	381723.29	18.94	10.89
E. Government Budget					
Revenue	178000.00	206397.64	233779.62	15.95	13.27
Tax	151100.00	181797.50	209631.85	20.32	15.31
Non-tax	26900.00	24600.14	24147.77	-8.55	-1.84
Overall Surplus/Deficit (as % of GNP)	3.68	3.04	2.34		
F. Trade and Balance of Payments					
Merchandise Exports	8055.77	8804.20	9778.36	9.29	11.06
Merchandise Imports	12114.44	11903.86	12535.83	-1.74	5.31
Trade Balance	-4058.67	-3099.65	-2757.47		
Non-Merchandise Trade, Inflow	4726.73	5161.70	5544.34	9.20	7.41
Non-Merchandise Trade, Outflow	4417.50	4673.86	5077.72	5.80	8.64
Current Account Balance	-3057.44	-1834.81	-1582.84		
Balance of Payments	-873.44	2107.19	1668.16		

Annex C.2

RESULTS OF SIMULATIONS: LOW SCENARIO

VARIABLES	LEVELS 1991	LEVELS 1992	PERCENT GROWTH 1991	PERCENT GROWTH 1992	PERCENT DIFFERENCE OVER BASELINE 1991	PERCENT DIFFERENCE OVER BASELINE 1992
A. Expenditures on Gross Domestic Product (Mil.P at 1972 prices)						
Total Consumption	97657.05	102658.30	3.72	5.12	-0.0182	-0.1046
Private Consumption	88149.86	92924.30	5.20	5.42	-0.0182	-0.0581
Government Consumption	9507.20	9734.00	-8.29	2.39	-0.0189	-0.5464
Gross Domestic Capital Formation	19205.11	20513.05	5.52	6.81	-0.2245	-1.1190
Gross Fixed Capital Formation	19205.11	20313.65	3.40	5.77	-0.2245	-1.1299
Exports of Goods and Services	30966.80	32660.03	6.58	5.47	-0.9978	-1.4207
Imports of Goods and Services	37792.39	39190.27	1.04	3.70	-0.2008	-1.2593
Statistical Discrepancy	1665.71	-994.64			5.6236	6.0013
Gross Domestic Product	111732.29	115646.47	1.68	3.50	-0.1594	-0.3162
Net Factor Income from the Rest of the World	114.65	276.04			29.1167	6.2643
Gross National Product	111617.64	115370.43	1.34	3.36	-0.1827	-0.3310
B. Gross Domestic Product by Industrial Origin						
Agriculture	30069.15	30985.07	1.52	3.05	-0.2112	-0.7175
Industry	36530.33	37735.31	0.86	3.30	-0.1122	0.0319
Manufacturing	27521.86	28467.65	0.96	3.44	-0.1649	-0.0996
Services	45131.81	46926.09	2.46	3.98	-0.1653	-0.3292
Gross Domestic Product	111617.64	115370.43	1.57	3.36	-0.2619	-0.5542
C. Employment and Wages						
Employment (full time equivalent)	19418.18	19488.04	-1.47	0.36	-0.1353	-0.4355

Annex C.2 (p.2)

VARIABLES	LEVELS 1991	1992	PERCENT GROWTH 1991	1992	PERCENT DIFFERENCE OVER BASELINE 1991	1992
Unemployment Rate (full time equivalent)	0.24	0.26	16.89	8.67	0.4205	1.2485
Wages (index, unskilled labor, 1972=100)	534.17	585.67	8.42	9.64	-0.0324	0.3062
D. Money and Prices						
Consumer Price Index (1972=100)	1195.06	1365.72	13.33	14.28	-0.0557	0.6135
M1 (narrowly defined money)	98498.77	114488.26	12.99	16.23	-0.2203	0.2238
M2 (broadly defined money)	340205.07	354760.01	16.91	4.28	-1.7014	-7.0636
E. Government Budget						
Revenue	206352.37	236574.76	15.93	14.65	-0.0219	1.1956
Tax	181760.49	212404.01	20.29	16.86	-0.0204	1.3224
Non-tax	24591.88	24170.75	-8.58	-1.71	-0.0335	0.0952
Overall Surplus/Deficit (as % of GNP)	3.05	2.15			0.3517	-8.1325
F. Trade and Balance of Payments						
Merchandise Exports	8703.87	9605.82	8.05	10.36	-1.1396	-1.7645
Merchandise Imports	11934.97	12921.23	-1.48	8.26	0.2614	3.0744
Trade Balance	-3231.11	-3315.41			4.2408	20.2340
Non-Merchandise Trade, Inflow	5161.50	5541.75	9.20	7.37	-0.0040	-0.0466
Non-Merchandise Trade, Outflow	4675.70	5100.49	5.84	9.09	0.0393	0.4484
Current Account Balance	-1969.31	-2166.15			7.3302	36.8515
Balance of Payments	1972.69	1084.85			-6.3827	-34.9669

Annex C.3

RESULTS OF SIMULATIONS: LOW SCENARIO WITH CONSTANT IC GROWTH

VARIABLES	LEVELS 1991	LEVELS 1992	PERCENT GROWTH 1991	PERCENT GROWTH 1992	PERCENT DIFFERENCE OVER BASELINE 1991	PERCENT DIFFERENCE OVER BASELINE 1992
A. Expenditures on Gross Domestic Product (Mil.P at 1972 prices)						
Total Consumption	97666.49	102677.02	3.73	5.13	-0.0086	-0.0864
Private Consumption	88165.16	92961.31	5.22	5.44	-0.0008	-0.0183
Government Consumption	9501.33	9715.71	-8.35	2.26	-0.0806	-0.7332
Gross Domestic Capital Formation	19236.34	20596.61	5.69	7.07	-0.0622	-0.7162
Gross Fixed Capital Formation	19236.34	20396.61	3.57	6.03	-0.0622	-0.7232
Exports of Goods and Services	31267.35	33028.26	7.61	5.63	-0.0369	-0.3093
Imports of Goods and Services	37828.44	39263.24	1.13	3.79	-0.1056	-1.0754
Statistical Discrepancy	1569.07	-1125.93			-0.5049	19.9931
Gross Domestic Product	111910.82	115912.71	1.84	3.58	0.0001	-0.0867
Net Factor Income from the Rest of the World	115.03	255.12			29.5485	-1.7866
Gross National Product	111795.78	115657.58	1.50	3.45	-0.0233	-0.0829
B. Gross Domestic Product by Industrial Origin						
Agriculture	30126.89	31108.31	1.71	3.26	-0.0196	-0.3226
Industry	36580.59	37759.04	1.00	3.22	0.0252	0.0948
Manufacturing	27572.22	28508.93	1.15	3.40	0.0178	0.0453
Services	45203.34	47045.36	2.62	4.07	-0.0070	-0.0759
Gross Domestic Product	111910.82	115912.71	1.84	3.58	0.0001	-0.0867
C. Employment and Wages						
Employment (full time equivalent)	19439.49	19544.68	-1.36	0.54	-0.0257	-0.1461

Annex C.3 (p.2)

VARIABLES	LEVELS 1991	1992	PERCENT GROWTH 1991	1992	PERCENT DIFFERENCE OVER BASELINE 1991	1992
Unemployment Rate (full time equivalent)	0.24	0.26	16.50	8.15	0.0841	0.4292
Wages (index, unskilled labor, 1972=100)	534.70	587.22	8.52	9.82	0.0655	0.5717
D. Money and Prices						
Consumer Price Index (1972=100)	1197.27	1371.59	13.54	14.56	0.1293	1.0464
M1 (narrowly defined money)	98804.55	115185.88	13.34	16.58	0.0894	0.8345
M2 (broadly defined money)	343711.18	360081.83	18.12	4.76	-0.6883	-5.6694
E. Government Budget						
Revenue	206779.64	237560.92	16.17	14.89	0.1851	1.6175
Tax	182173.23	213348.28	20.56	17.11	0.2067	1.7728
Non-tax	24606.41	24212.64	-8.53	-1.60	0.0255	0.2686
Overall Surplus/Deficit (as % of GNP)	3.01	2.07			-1.0682	-11.4957
F. Trade and Balance of Payments						
Merchandise Exports	8800.56	9744.52	9.25	10.73	-0.0414	-0.3461
Merchandise Imports	11947.71	12948.49	-1.38	8.38	0.3684	3.2918
Trade Balance	-3147.16	-3203.97			1.5325	16.1926
Non-Merchandise Trade, Inflow	5162.66	5543.91	9.22	7.38	0.0185	-0.0077
Non-Merchandise Trade, Outflow	4676.45	5102.10	5.86	9.10	0.0554	0.4802
Current Account Balance	-1884.95	-2054.16			2.7325	29.7762
Balance of Payments	2057.05	1196.84			-2.3793	-28.2534

Annex C.4

RESULTS OF SIMULATIONS: MIDDLE SCENARIO

VARIABLES	LEVELS 1991	1992	PERCENT GROWTH 1991	1992	PERCENT DIFFERENCE OVER BASELINE 1991	1992
A. Expenditures on Gross Domestic Product (Mil.P at 1972 prices)						
Total Consumption	97576.04	102620.09	3.63	5.17	-0.1012	-0.1418
Private Consumption	88116.93	92882.67	5.17	5.41	-0.0555	-0.1029
Government Consumption	9459.12	9737.42	-8.76	2.94	-0.5245	-0.5114
Gross Domestic Capital Formation	19069.30	20310.94	4.77	6.51	-0.9301	-2.0932
Gross Fixed Capital Formation	19069.30	20110.94	2.67	5.46	-0.9301	-2.1136
Exports of Goods and Services	30603.76	32456.30	5.33	6.05	-2.1585	-2.0356
Imports of Goods and Services	37440.41	38925.58	0.10	3.97	-1.1303	-1.9262
Statistical Discrepancy	1620.09	-868.62			2.7304	-7.4290
Gross Domestic Product	111428.77	115593.13	1.40	3.74	-0.4306	-0.3622
Net Factor Income from the Rest of the World	100.60	278.64			13.2899	7.2648
Gross National Product	111328.18	115314.49	1.08	3.58	-0.4415	-0.3793
B. Gross Domestic Product by Industrial Origin						
Agriculture	29922.70	30740.59	1.02	2.73	-0.6972	-1.5008
Industry	36483.90	37982.20	0.73	4.11	-0.2392	0.6864
Manufacturing	27463.45	28585.41	0.75	4.09	-0.3768	0.3136
Services	45022.17	46870.33	2.21	4.11	-0.4078	-0.4476
Gross Domestic Product	111428.77	115593.13	1.40	3.74	-0.4306	-0.3622
C. Employment and Wages						
Employment (full time equivalent)	19373.89	19402.06	-1.69	0.15	-0.3631	-0.8748

Annex C.4 (p.2)

VARIABLES	LEVELS 1991	1992	PERCENT GROWTH 1991	1992	PERCENT DIFFERENCE OVER BASELINE 1991	1992
Unemployment Rate (full time equivalent)	0.24	0.26	17.77	9.23	1.1775	2.5361
Wages (index, unskilled labor, 1972=100)	536.03	582.61	8.79	8.69	0.3148	-0.2178
D. Money and Prices						
Consumer Price Index (1972=100)	1203.31	1350.13	14.11	12.20	0.6347	-0.5346
M1 (narrowly defined money)	98834.82	113327.21	13.38	14.66	0.1201	-0.7926
M2 (broadly defined money)	319214.18	350398.34	9.70	9.77	-7.7665	-8.2062
E. Government Budget						
Revenue	208700.53	234849.44	17.25	12.53	1.1158	0.4576
Tax	184078.99	210733.67	21.83	14.48	1.2550	0.5256
Non-tax	24621.54	24115.77	-8.47	-2.05	0.0870	-0.1325
Overall Surplus/Deficit (as % of GNP)	2.86	2.29			-5.9920	-2.1538
F. Trade and Balance of Payments						
Merchandise Exports	8567.11	9526.91	6.35	11.20	-2.6929	-2.5715
Merchandise Imports	12240.63	12840.09	1.04	4.90	2.8291	2.4272
Trade Balance	-3673.51	-3313.19			18.5137	20.1532
Non-Merchandise Trade, Inflow	5159.85	5540.11	9.16	7.37	-0.0358	-0.0763
Non-Merchandise Trade, Outflow	4693.75	5095.69	6.25	8.56	0.4257	0.3540
Current Account Balance	-2431.42	-2160.77			32.5160	36.5119
Balance of Payments	1510.58	1090.23			-28.3129	-34.6447

Annex C.5

RESULTS OF SIMULATIONS: MIDDLE SCENARIO WITH CONSTANT IC GROWTH

VARIABLES	LEVELS 1991	LEVELS 1992	PERCENT GROWTH 1991	PERCENT GROWTH 1992	PERCENT DIFFERENCE OVER BASELINE 1991	PERCENT DIFFERENCE OVER BASELINE 1992
A. Expenditures on Gross Domestic Product (Mil.P at 1972 prices)						
Total Consumption	97596.41	102656.95	3.65	5.19	-0.0803	-0.1060
Private Consumption	88150.01	92956.60	5.20	5.45	-0.0180	-0.0234
Government Consumption	9446.40	9700.35	-8.88	2.69	-0.6583	-0.8901
Gross Domestic Capital Formation	19136.31	20479.67	5.14	7.02	-0.5819	-1.2799
Gross Fixed Capital Formation	19136.31	20279.67	3.03	5.97	-0.5819	-1.2924
Exports of Goods and Services	31185.35	33126.52	7.33	6.22	-0.2991	-0.0127
Imports of Goods and Services	37517.83	39070.08	0.30	4.14	-0.9259	-1.5621
Statistical Discrepancy	1413.20	-1094.49			-10.3884	16.6423
Gross Domestic Product	111813.74	116098.56	1.75	3.83	-0.0866	0.0735
Net Factor Income from the Rest of the World	97.06	257.11			9.3056	-1.0212
Gross National Product	111716.68	115841.45	1.43	3.69	-0.0941	0.0759
B. Gross Domestic Product by Industrial Origin						
Agriculture	30045.80	30982.50	1.44	3.12	-0.2887	-0.7257
Industry	36592.33	38020.87	1.03	3.90	0.0573	0.7889
Manufacturing	27574.24	28658.00	1.16	3.93	0.0251	0.5684
Services	45175.60	47095.19	2.56	4.25	-0.0684	0.0300
Gross Domestic Product	111813.74	116098.56	1.75	3.83	-0.0866	0.0735
C. Employment and Wages						
Employment (full time equivalent)	19420.20	19512.31	-1.46	0.47	-0.1249	-0.3115

Annex C.5 (p.2)

VARIABLES	LEVELS 1991	LEVELS 1992	PERCENT GROWTH 1991	PERCENT GROWTH 1992	PERCENT DIFFERENCE OVER BASELINE 1991	PERCENT DIFFERENCE OVER BASELINE 1992
Unemployment Rate (full time equivalent)	0.24	0.26	16.84	8.34	0.3785	-0.8974
Wages (index, unskilled labor, 1972=100)	537.15	585.71	9.02	9.04	0.5240	0.3128
D. Money and Prices						
Consumer Price Index (1972=100)	1208.04	1361.78	14.56	12.73	1.0298	0.3238
M1 (narrowly defined money)	99496.55	114665.79	14.14	15.25	0.7904	0.3792
M2 (broadly defined money)	326646.33	360110.78	12.25	10.24	-5.6191	-5.6618
E. Government Budget						
Revenue	209626.73	236768.85	17.77	12.95	1.5649	1.2787
Tax	184973.95	212569.75	22.42	14.92	1.7472	1.4015
Non-tax	24652.78	24199.10	-8.35	-1.84	0.2140	0.2125
Overall Surplus/Deficit (as % of GNP)	2.77	2.13			-8.9995	-8.7991
F. Trade and Balance of Payments						
Merchandise Exports	8775.06	9779.58	8.93	11.45	-0.3310	0.0125
Merchandise Imports	12269.22	12894.02	1.28	5.09	3.0693	2.8574
Trade Balance	-3494.16	-3114.44			12.7275	12.9458
Non-Merchandise Trade, Inflow	5162.35	5544.21	9.22	7.40	0.0126	-0.0024
Non-Merchandise Trade, Outflow	4695.44	5098.88	6.29	8.59	0.4619	0.0168
Current Account Balance	-2251.26	-1961.12			22.6969	23.8982
Balance of Payments	1690.74	1289.88			-19.7631	-22.6761

Annex C.6

RESULTS OF SIMULATIONS: HIGH SCENARIO

VARIABLES	LEVELS 1991	LEVELS 1992	PERCENT GROWTH 1991	PERCENT GROWTH 1992	PERCENT DIFFERENCE OVER BASELINE 1991	PERCENT DIFFERENCE OVER BASELINE 1992
A. Expenditures on Gross Domestic Product (Mil.P at 1972 prices)						
Total Consumption	97461.33	102582.35	3.51	5.25	-0.2186	-0.1785
Private Consumption	88079.79	92848.90	5.12	5.41	-0.0976	-0.1392
Government Consumption	9381.54	9733.45	-9.51	3.75	-1.3403	-0.5519
Gross Domestic Capital Formation	18884.33	20048.41	3.75	6.16	-1.8910	-3.3587
Gross Fixed Capital Formation	18884.33	19848.41	1.67	5.11	-1.8910	-3.3914
Exports of Goods and Services	30209.33	32363.24	3.97	7.13	-3.4195	-2.3165
Imports of Goods and Services	36909.07	38547.19	-1.32	4.44	-2.5334	-2.8796
Statistical Discrepancy	1671.87	-742.47			-6.6682	-20.8729
Gross Domestic Product	111118.79	115704.34	1.12	4.13	-0.7076	-0.2663
Net Factor Income from the Rest of the World	90.85	270.81			2.3128	4.2507
Gross National Product	111027.94	115433.93	0.80	3.97	-0.7100	-0.2765
B. Gross Domestic Product by Industrial Origin						
Agriculture	29736.88	30429.32	0.39	2.33	-1.3139	-2.4982
Industry	36466.75	38404.56	0.68	5.31	-0.2861	1.8060
Manufacturing	27425.07	28812.40	0.61	5.06	-0.5127	1.1105
Services	44915.17	46870.45	1.96	4.35	-0.6445	-0.4474
Gross Domestic Product	111118.79	115704.34	1.12	4.13	-0.7076	-0.2663
C. Employment and Wages						
Employment (full time equivalent)	19320.20	19303.50	-1.96	-0.09	-0.6392	-1.3783

Annex C.6 (p.2)

VARIABLES	LEVELS 1991	LEVELS 1992	PERCENT GROWTH 1991	PERCENT GROWTH 1992	PERCENT DIFFERENCE OVER BASELINE 1991	PERCENT DIFFERENCE OVER BASELINE 1992
Unemployment Rate (full time equivalent)	0.24	0.27	18.80	9.81	2.0606	3.9797
Wages (index, unskilled labor, 1972=100)	539.33	578.63	9.46	7.29	0.9320	-0.9004
D. Money and Prices						
Consumer Price Index (1972=100)	1217.90	1328.59	15.49	9.09	1.8550	-2.1215
M1 (narrowly defined money)	99603.73	111909.21	14.26	12.35	0.8990	-2.0339
M2 (broadly defined money)	288166.32	346743.78	-0.97	20.33	-16.7374	-9.1636
E. Government Budget						
Revenue	212795.09	232715.90	19.55	9.36	3.0996	-0.4550
Tax	188115.69	208661.68	24.50	10.92	3.4754	-0.4628
Non-tax	24679.40	26054.22	-8.26	-2.53	0.3222	-0.3874
Overall Surplus/Deficit (as % of GNP)	2.52	2.47			-17.0983	5.4274
F. Trade and Balance of Payments						
Merchandise Exports	8431.85	9488.10	4.67	12.53	-4.2293	-2.9684
Merchandise Imports	12753.46	12727.17	5.27	-0.21	7.1372	1.5263
Trade Balance	-4321.61	-3239.07			39.4228	17.4654
Non-Merchandise Trade, Inflow	5158.23	5538.95	9.13	7.38	-0.0674	-0.0972
Non-Merchandise Trade, Outflow	4724.05	5089.02	6.94	7.73	1.0740	0.2226
Current Account Balance	-3111.44	-2081.14			69.5785	31.4811
Balance of Payments	830.56	1169.86			-60.5846	-29.8711

Annex C 7

RESULTS OF SIMULATIONS HIGH SCENARIO WITH CONSTANT IC GROWTH

VARIABLES	LEVELS 1991	1992	PERCENT GROWTH 1991	1992	PERCENT DIFFERENCE OVER BASELINE 1991	1992
A Expenditures on Gross Domestic Product (Mil P at 1972 prices)						
Total Consumption	97492 10	102637 09	3 54	5 28	0 1871	0 1253
Private Consumption	88129 53	92957 36	5 18	5 48	0 0412	0 0226
Government Consumption	9362 56	9679 73	9 69	3 39	1 5399	1 1009
Gross Domestic Capital Formation	18983 10	20294 77	4 30	6 91	1 3779	2 1712
Gross Fixed Capital Formation	18983 10	20094 77	2 20	5 86	1 3779	2 1923
Exports of Goods and Services	31058 12	33290 48	6 89	7 19	0 7058	0 4822
Imports of Goods and Services	37022 49	38758 08	1 02	4 69	2 2339	2 3482
Statistical Discrepancy	1181 12	1029 49			25 1048	9 7154
Gross Domestic Product	111691 95	116434 77	1 64	4 25	0 1955	0 3633
Net Factor Income from the Rest of the World	108 85	280 05			22 5855	7 8094
Gross National Product	111583 10	116154 72	1 31	4 10	0 2135	0 3466
B Gross Domestic Product by Industrial Origin						
Agriculture	29922 77	30783 84	1 02	2 88	0 6970	1 3622
Industry	36630 10	38464 47	1 13	5 01	0 1606	1 9649
Manufacturing	27589 19	28914 51	1 21	4 80	0 0793	1 4685
Services	45139 08	47186 46	2 47	4 54	0 1492	0 2238
Gross Domestic Product	111691 95	116434 77	1 64	4 25	0 1955	0 3633
C Employment and Wages						
Employment (full time equivalent)	19386 52	19458 05	1 63	0 37	0 2981	0 5887

Annex C 7 (p 2)

VARIABLES	LEVELS 1991	LEVELS 1992	PERCENT GROWTH 1991	PERCENT GROWTH 1992	PERCENT DIFFERENCE OVER BASELINE 1991	PERCENT DIFFERENCE OVER BASELINE 1992
Unemployment Rate (full time equivalent)	0 24	0 26	17 52	8 58	0 9672	1 7167
Wages (index unskilled labor 1972=100)	540 98	583 08	9 80	7 78	1 2421	0 1370
D Money and Prices						
Consumer Price Index (1972=100)	1224 91	1345 30	16 16	9 83	2 4411	0 8904
M1 (narrowly defined money)	100574 10	113790 86	15 37	13 14	1 8820	0 3867
M2 (broadly defined money)	298653 08	360018 43	2 63	20 55	13 7074	5 6860
E Government Budget						
Revenue	214160 32	235442 03	20 31	9 94	3 7610	0 7111
Tax	189435 11	211268 63	25 37	11 53	4 2012	0 7808
Non tax	24725 21	24173 40	8 08	2 23	0 5084	0 1061
Overall Surplus/Deficit (as % of GNP)	2 39	2 24			21 3549	4 2137
F Trade and Balance of Payments						
Merchandise Exports	8735 15	9837 81	8 43	12 62	0 7843	0 6080
Merchandise Imports	12798 77	12805 81	5 65	0 06	7 5178	2 1537
Trade Balance	4063 62	2968 00			31 0990	7 6350
Non Merchandise Trade Inflow	5161 87	5544 70	9 21	7 42	0 0033	0 0065
Non Merchandise Trade, Outflow	4726 73	5093 67	7 00	7 76	1 1313	0 3141
Current Account Balance	2852 48	1808 97			55 4644	14 2859
Balance of Payments	1089 52	1442 03			48 2950	13 5553

References

Constantino, Winifrida, Roberto S Mariano Josef T Yap Aleli S dela Paz, and Ronald Q Butiong "The PIDS NEDA Macroeconometric Model Version 1989 A Summary *PIDS Working Paper Series No 90 13* Makati Philippine Institute for Development Studies February 1990

Gomez, Christopher B Oil Price Stabilization Fund (OPSF) and Deregulation ' *CB Review* November 1990 Manila Central Bank of the Philippines

Office of Energy Affairs *The Philippine Medium Term Energy Plan 1988 1992*

Paragua, Clifford A Self Employment An Alternative for Gulf Returnees Paper presented at the Multi-Sector Meeting/Workshop on Assistance to Gulf Returnees Bureau of Local Employment, Holiday Inn Manila 6 7 November 1990

Pauly, P Global Economic Issues Outlook and Uncertainties Paper presented at the 1991 Outlook for Asian Economies Institute of Developing Economies, Tokyo, 6 7 February 1991

Reyes, Celia M and Josef T Yap "The Philippines Recent Performance and Prospects for 1991 92 ' Paper presented at the 1991 Outlook for Asian Economies, Institute for Developing Economies Tokyo 6 7 February 1991

Yap Josef T "The Philippines Recent Performance prospects for 1991 92, and Policy and Development Issues *PIDS Working Paper Series No 91 01* Makati Philippine Institute for Development Studies January 1991

WORKING PAPERS

W.P. No. 91-01 The Philippines: Recent Performance, Prospects for 1991-92, and Policy and Development Issues.
Josef T. Yap
January 1991; 37 pp.

W.P. No. 91-02 Micro Impacts of Macro economic Adjustment Policies (MIMAP): A Framework Paper and Review of Literature.
Mario B. Lamberte, Gilberto M. Llanto, Ma. Lucila Lapar and *Aniceto C. Orbeta Jr.*
February 1991; 57 pp.

W.P. No. 91-03 The Impact of the Gulf Crisis on the Philippine Economy.
Mario B. Lamberte and *Josef T. Yap*

W.P. No. 91-04 Role of Rural Non-Farm Employment in Philippine Development.
Edna A. Reyes
March 1991

W.P. No. 91-05 Structure and Prospects of the ASEAN Financial and Banking Systems: Perspectives from the Philippines.
Mario B. Lamberte
May 1991

W.P. No.91-06 An Overview of the Technical Resources Project-Dynamics of Rural Development Research Program.
Mario B. Lamberte and *Julius Relampagos*
August 1991

W.P. No. 91-07 Dynamics of Rural Development: Analytical Issues and Policy Perspec tives.
Romeo M. Bautista
August 1991

W.P. No. 91-08 Supporting Rural NonFarm Enterprises: What Can Be Learned From Donor Programs?
Richard L. Meyer
August 1991

W.P. No. 91-09 Agrarian Reform, the Cattle Industry and Rural Financing Markets.
Achilles C. Costales
August 1991

W.P. No. 91-10 Interlinked Credit andTenancy Arrangements: A State of the Art Review.
Robert R. Teh, Jr.
August 1991

W.P. No. 91-11 Credit Markets in the Fisheries Sector under the CARP: A Review of Literature and Conceptual Framework.
Gilberto M. Llanto and *Marife T. Magno*
August 1991

W.P. No. 91-12 Growth and Dynamics of Microenterprises: Does Finance Matter?
Lucila A. Lapar
August 1991

W.P. No. 91-13 A General Assessment of the Comprehensive Agrarian Reform Program.
Lourdes Saulo-Adriano
August 1991

W.P. No. 91-14 Impact of Agrarian Reform on Landowners: A Review of Literature and Conceptual Framework.
Gilberto M. Llanto and *Clarence G. Dingcong*
August 1991

W.P. No. 91-15 Linkages, Poverty and Income Distribution.
Arsenio M. Balisacan
August 1991

W.P. No. 91-16 Gender Issues in Agrarian Reform and Rural NonFarm Enterprise.
Ma. Piedad S. Geron
August 1991

W.P. No. 91-17 A Study on Rural Labor Markets, Rural NonFarm Enterprises and Agrarian Reform in the Philippines: A Review of Literature.
Ma. Teresa Sanchez
August 1991