PHILIPPINE STRUCTURAL ADJUSTMENT MEASURES

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WORKING PAPER SERIES NO. 92-10

October 1992

Philippine Institute for Development Studies

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PHILIPPINE STRUCTURAL ADJUSTMENT MEASURES*

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I. INTRODUCTION

When Corazon Aquino became President in February 1986, the Philippine economy was in disarray. Aside from the political uncertainty arising from the assassination of former Senator Benigno Aquino, Jr. and the resultant mass unrest and protests, the subversion of market-oriented 'rules of the game' by cronyism, artificial monopolies, excessive government regulation, mushrooming government corporations and widespread graft and corruption had led local and foreign businessmen to lose their confidence and interest in investing in the Philippines. The countercyclical public investment spending by the Marcos administration in 1982-1983 only served to worsen fiscal and trade imbalances.

To bring the economy into the path of recovery and sustainable growth, the Aquino government undertook not only political reforms to restore democratic institutions but also wide-ranging economic reforms that would reinvigorate private entrepreneurship and revitalize public infrastructure and services. These economic reforms were to have deep and lasting effects on the tax system, foreign trade and investments, government corporate sector, financial and foreign exchange markets, public investments, the agricultural and transportation sectors, environmental management and land use and ownership.

These reform programs were supported by loan or grant assistance from multilateral financial institutions such as the International Bank for Reconstruction and Development (IBRD), Asian Development Bank (ADB) and International Development Association (IDA) and foreign development agencies such as Japan's Overseas Economic Cooperation Fund (OECF) and Export-Import Bank (JEXIM) and the United States Agency for International Development (USAID). Such assistance enabled the government and the economy to mitigate any adverse effects which the structural reforms may produce in the short run. They also helped generate and maintain the momentum of reform programs.

Following is a list of the program loans and grants received by the Aquino administration since 1986 and the policy reforms which they supported. Except for the Financial Sector Adjustment Loan whose second tranche has been delayed by over a year, these reform programs have been implemented largely on schedule with tranche disbursements released prior to or within a few months of original target dates.

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*Part of the Food and Agriculture Organization and the Philippine Department of Agriculture (DA) Project on "The Impact of Structural Adjustment on the Agriculture and Rural Sector" administered by the Philippine Institute for Development Studies (PIDS).

**Undersecretary, Department of Finance

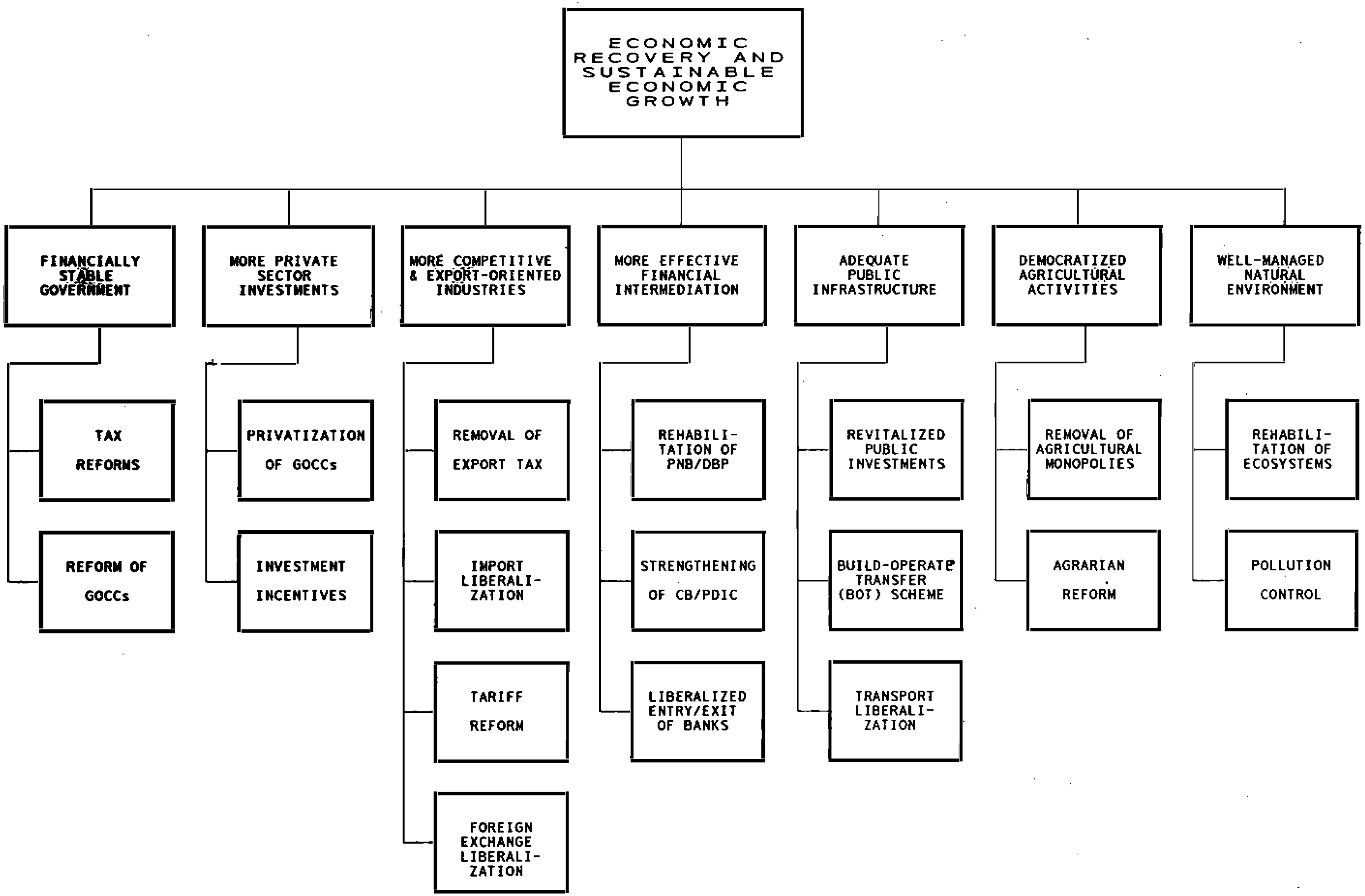
PROGRAM LOANS AND GRANTS SIGNED
1986 to 1991

Year Signed	Year Completed	Program Title	Funding Agencies	Total Amount (In US$M)	Major Reform Areas
1987	1989	Economic Recovery Program	IBRD J. EXIM*	300.0 300.0	Tax reforms, import liberalization, GFIs rehabilitation and public investments
1987	1987	Budget Support Program II	USAID	150.0	Foreign exchange liberalization, fiscal and monetary reforms, privatization and import liberalization
1988	1990	Forestry Sector Program	ADB OECF*	120.0 120.0	Environmental protection
1988	1991	Government Corporate Sector Reform Program	IBRD OECF*	200.0 200.0	Government corporate sector reforms including privatization
1989	Ongoing	Financial Sector Reform Program	IBRD OECF* J. EXIM*	300.0 300.0 300.0	Financial sector reforms including strengthening of CB and PDIC
1989	1991	Support for Development Program I	USAID	218.0	Privatization, transport deregulation, trade reforms, tax reforms, and public investments
1989	1992	Agrarian Reform Support	USAID	47.5	Agrarian reform program implementation
1989	1991	Fisheries Sector Program	ADB OECF	80.0 80.0	Environmental protection
1989	1992	Debt Management Program	IBRD	200.0	Improvement of public investment efficiency and enhancement of foreign investments
1990	1991	Natural Resources Management Program	USAID	35.0	Environmental protection
1990	Ongoing	Local Development Assistance Program	USAID	45.0	Decentralization
1990	Ongoing	Road and Road Transport Program	USAID OECF*	100.0 100.0	Deregulation and demonopolization of transport sector
1991	Ongoing	Environment and Natural Resources Sector Program	IBRD IDA* OECF*	100.0 66.0 100.0	Environmental protection
1991	Ongoing	Private Enterprise Policy Support Program	USAID	79.0	Tariff reform and investment liberalization
1991	Ongoing	Support for Development Program II	USAID	56.0	Foreign exchange liberalization, transport deregulation tax administration, and domestic resource mobilization
1991	Ongoing	Agribusiness System Assistance Program	USAID	15.0	Privatization, tariff reform and deregulation in the transport agribusiness sector, demonopolization in the transport sector

* Co-financing

Chart 1

PHILIPPINE STRUCTURAL ADJUSTMENT MEASURES, 1986-1992



II. TAX REFORMS

From 1986, the Aquino administration instituted reforms to make the tax structure more equitable and progressive, revenue-productive, and conducive to efficient resource allocation. Most of these reforms were part of the 1986 Tax Reform Package (TRP) as shown in Table 1, while those requiring Congressional action were mostly instituted in 1991-1992.

A. *Implementation*

Direct Taxes

Individual Income Taxes

Before the reforms, individual incomes were taxed at different rates depending on income type. Wage income was taxed at 0 to 35 percent, business and other non-wage income at 5 to 60 percent and passive income at a flat 15 percent. To ensure equal treatment between wage and non-wage incomes, a partial return to the global system was made, with both types of individual incomes taxed at 0 to 35 percent, but with a ceiling on deductions allowed on business incomes. Passive incomes continued to be taxed at a flat rate, which was increased from 15 to 20 percent.

These reforms were mandated by E.O. 37 of July 31, 1986. However, the ceiling on business deductions was not implemented due to strong opposition from affected sectors. It was only in May 1992 that President Aquino signed into law R.A. 7496 providing for a Simplified Net Income Tax System (SNITS) for the self-employed and those practicing their profession. Aside from introducing a simpler and reduced income tax schedule, the law allows only direct costs as deductions. Thus, advertising, transportation and entertainment expenses which were the most subject to abuse have been disallowed. However, the maximum deduction for those whose costs are difficult to determine or itemize has been increased from 10 to 40 percent.

Two other changes mandated by E.O. 37 were intended to make the burden of individual income taxes more equitable. For the first time, married couples were given the option of filing tax returns separately so that they need not be subject to higher tax rates applicable to their combined incomes. Personal exemptions were also raised to avoid taxing incomes below the poverty line. E.O. 37 provided for such an increase and further mandated that upward adjustments be made every three years. R.A. 7167 which became effective January 1992 increased exemption levels for incomes earned in 1992.

Corporate Income Taxes

Prior to the 1986 TRP, corporate income was subject to either a 25 or 35 percent tax, depending on its level. To remove the unintended bias against large enterprises and to widen the tax base, all corporate income was subjected to a uniform rate of 35 percent under E.O. 37. It also set limits to allowable deductions, but these were not implemented either due to staunch opposition from affected sectors. No limits on deductions from

TABLE 1
STATUS OF THE 1986 TAX REFORM PACKAGE

MEASURES	EXECUTIVE ORDER	SIGNING DATE	DATE OF EFFECTIVITY	REMARKS
A. INCOME TAXES				
Individual				
1. Change from schedular to global income tax	37	July 31, 1986	January 1, 1986	
2. Uniform rate structure of 0 - 35% on all income including business income	-do-	-do-	-do-	
3. Prescribe ceilings on allowable deductions	-do-	-do-	-do-	Not implemented
4. Raise personal exemptions to avoid taxing incomes below the poverty line	-do-	-do-	-do-	
5. Separate taxation of incomes of married couples	-do-	-do-	-do-	
Corporate				
6. Uniform tax rate of 35%	-do-	-do-	July 1, 1986	
7. Prescribe ceilings on allowable deductions	-do-	-do-	-do-	Not implemented
8. Exempt intercorporate dividends	-do-	-do-	August 1, 1986	
Individual/Corporate				
9. Uniform final tax of 20% on interest, dividends, royalties and other passive income	-do-	-do-	-do-	
B. MOTOR VEHICLE TAX				
10. Rationalize registration	43	August 22, 1986	January 1, 1987	

TABLE 1
(Continued)

MEASURES	EXECUTIVE ORDER	SIGNING DATE	DATE OF EFFECTIVITY	REMARKS
C. INDIRECT TAXES				
Sales Taxes				
11. Reduce rates to three levels	36	July 30, 1986	August 1, 1984	
12. Remove unnecessary tax exemptions	36	-do-	-do-	
13. Disallow tax credits on inputs if output is not taxed	36	-do-	-do-	
14. Phase out turnover tax and replace with value-added tax	273	July 25, 1987	January 1, 1988	
Excise Taxes				
15. Convert all taxes to ad valorem taxes and increase taxes on cigarettes and beer	22	June 25, 1986	July 1, 1986	
16. Levy 5-20% excise duty on motor vehicles as sales taxes are lowered	36	July 30, 1986	August 1, 1986	
D. REAL PROPERTY TAX				
17. Adjust 1978-based taxable values to 1984	73	November 25, 1986	November 25, 1986	Suspended by Memorandum Order No. 77 until June 30, 1987
E. TRAVEL TAX				
18. Exempt contract workers	25	July 1, 1986	July 1, 1986	
F. EXPORT DUTIES				
19. Abolish all export duties except on logs	26	-do-	-do-	
G. CUSTOMS DUTIES				
20. Impose minimum 10% duty on imports	70	November 25, 1986	November 25, 1986	

TABLE 1
(Continued)

MEASURES	EXECUTIVE ORDER	SIGNING DATE	DATE OF EFFECTIVITY	REMARKS
H. GENERAL AND ADMINISTRATIVE				
Special Funds				
21. Rationalize tax treatment of all gambling activities				Not legislated
22. Bring casino, travel and other funds into the General Fund				Not legislated
Exemptions and Incentives				
23. Withdraw all tax and duty incentives and replace with subsidies	93	December 17, 1986	March 10, 1987	
24. Impose uniform franchise tax and withdraw income tax exemptions	72	November 25, 1986	November 25, 1986	
Amnesties				
25. Amnesty on income and other internal revenue taxes	41	August 22, 1986	August 22, 1986	
Amending EO 41	54	November 4, 1986	November 4, 1986	
Further Amending EO 41	64	November 7, 1986	November 7, 1986	
Further Amending EO 41	95	December 17, 1986	December 17, 1986	
26. Amnesty on real property tax	42	August 22, 1986	August 22, 1986	
Amending EO 42	104	December 24, 1986	January 1, 1987	
27. Tax amnesty on registration of foreign assets				Not legislated
Administrative Measures				
28. Compromise agreement on disputed assessments and delinquent accounts				
BIR	44	September 4, 1986	September 4, 1986	
BOC	38	August 6, 1986	August 6, 1986	
29. Raise BIR Incentives	45	September 4, 1986	September 4, 1986	

corporate income have been set by law to date. The tax on passive incomes of corporations was also raised from 15 to 20 percent.

To eliminate the double taxation of corporate income and to encourage investments in domestic enterprises, the tax on intercorporate dividends was abolished and the tax on shareholders' dividend income phased out over a three-year period. With these taxes abolished, the rationale for a 25 percent surtax on improperly accumulated profits and a 40 percent surtax on personal holding company income was eliminated. These surtaxes were therefore scrapped by E.O. 37.

The income of franchise holders had previously been exempt from the payment of taxes. To put them on equal footing with other income-generating entities, their income tax exemption was withdrawn by the issuance of E.O. 72 on November 25, 1986.

Indirect Taxes

Sales Taxes .

Before the 1986 reforms, the sales tax structure was too complex and difficult to administer. There were nine types of indirect taxes, five rates on original sales, a 1.5 percent turnover tax on all subsequent sales, varied tax bases and too many exemptions. The most radical measure included in the 1986 TRP was the adoption of a single Value Added Tax (VAT) to replace the turnover tax, sales taxes, privilege and other percentage taxes. This was mandated by E.O. 273 issued on July 25, 1987 and made effective on January 1, 1988. Prior to this, intermediate steps to simplify the sales tax structure and its administration were made under E.O. 36 of July 30, 1986.

E.O. 36 reduced the number of rates on original sales from five to four: 0 percent on agricultural products, 10 percent on essential products, 30 percent on non-essentials and 20 percent on all other goods. It also removed unnecessary tax exemptions and disallowed the creditability of the tax on non-exempt products of enterprises registered with the Board of Investments (BOI) against the sales tax due on manufactured articles.

The value added tax, a uniform 10 percent tax on the gross sales of goods and services, was implemented on January 1, 1988. Having a single sales tax with a uniform rate was expected to greatly simplify tax administration and improve collection efficiency. The adoption of the tax credit method of calculating the tax by subtracting the taxes on inputs from the output or gross sales tax was also expected to help improve compliance and monitoring. However, lack of public information and personnel led to collections lower than expected in the first year of VAT implementation. More VAT collection agents and improved efficiency through training and computerization have yielded positive results as indicated by a growing VAT to GNP ratio.

To attain progressivity in the VAT system, essential consumer goods as well as agricultural products were exempted (Annex 1). However, certain services, intangible goods, and lease of property have also been exempted leading to unequal treatment of similarly situated individuals and entities. Removal of such exemptions has been proposed to Congress to promote equity as well as widen the tax base. These proposed refinements would help make the Philippine VAT system closer to the ideal, wherein all domestically traded goods and services are subject to a uniform rate with no exemptions.

Excise Taxes

Over 90 percent of the government's excise tax collections come from three commodity groups: petroleum, tobacco, and alcohol. The taxation of these products was converted from a compound system involving both specific and ad valorem taxes to a purely ad valorem basis in order to increase the responsiveness of tax revenues to economic activity and to simplify the tax structure for easier administration and compliance.

E.O. 22 effected this change for alcohol and tobacco products on July 1, 1986 and also increased their effective tax rates. However, these decreased with the downward adjustments in the ad valorem tax rates that accompanied the imposition of the VAT under E.O. 273 in 1988. To raise more revenues for the government, the ad valorem tax rates were once again increased by Congress in June 1990.

Excise taxes on petroleum products were also converted to purely ad valorem basis through E.O. 195 of June 17, 1987. Given the world price of crude oil at that time and the ad valorem rates chosen, the conversion resulted in a net reduction of excise tax collections from petroleum products. In September 1990, when Congress converted excise taxes on petroleum products into purely specific rates well below the revenue neutral levels, the effective tax rate based on oil company take was further reduced from 36.6 percent to only 13.7 percent.

Export and Import Duties

To remove distortions which had penalized the export sector, the tax on exports, except logs, was abolished through E.O. 26 of July 1, 1986. Although the direct revenue loss was quite substantial in the short run, this was expected to be more than offset by medium-term benefits arising from greater foreign exchange earnings, higher domestic incomes, more employment opportunities and enhanced tax revenues.

To mitigate the adverse effects of the import liberalization program, import duties on certain products were increased to a minimum of 10 percent by E.O. 49 of October 15, 1986 and E.O. 70 of November 25, 1986. These included meat, milk and fish, and iron and steel products.

Amnesties and Incentives

To offset the negative revenue impact of many of these measures, the 1986 tax reform package included several schemes that could raise additional revenues within a relatively short period of time. Tax amnesties on income and other internal revenue taxes, and on real property taxes were granted and extended several times. Compromise payments for delinquent and disputed accounts with the BIR and BOC were allowed. Incentives for BIR personnel were also increased and based on real increases in tax collections. To enhance local government revenues, the base for real property taxes was adjusted from 1978 to 1984 real property values.

B. *Assessment*

As described above, the 1986 tax reform package sought not only to increase tax revenues but also to correct inequities and remove distortions in the incentives system. While it is possible to quantify the revenue impact of most of the reforms, their contribution towards more efficient allocation of productive resources and more equitable distribution of the tax burden can only be estimated through economic logic. It should be enough to know that with these reforms, similarly situated individuals and entities are treated non-preferentially, and that no production activities are being aided or penalized unintentionally or unnecessarily.

With respect to the revenue impact of the whole package, Table 2 shows that the measures comprising the TRP have markedly different effects on tax revenues. Some of these measures - such as (1) the change from schedular to global income taxation; (2) increase in personal and additional exemptions; (3) separate taxation of incomes of married couples; and (4) abolition of export duties - have very large negative impacts, especially in the short term. The other measures are patently revenue-generating.

On the whole, the TRP was expected to increase revenue collections and their responsiveness to economic activity. As indicated in Table 3, the national government's tax collections increased annually by an average of 23.7 percent in 1987-1989 compared to an average of 18.9 percent from 1984-1986. Similarly, the tax-to-GNP ratio which averaged only 10.4 percent in 1984-1986 increased to 12.4 percent in 1987, temporarily fell to 11.1 percent in 1988, and increased again to 12.9 percent in 1989 for a three-year average of 12.1 percent. It increased further to 13.7 percent in 1990.

The share of direct taxes in total tax revenues increased slightly from 30.3 percent in 1984-1986 to 30.6 percent in 1987-1989, indicating a small improvement in the progressivity of the tax system. However, the bulk of tax revenues still comes from indirect taxes.

The buoyancy of the tax system averaged 3.6 percent in 1987-1989, up from 1.7 percent in 1984-1986. This reflected an improvement in the responsiveness of tax revenues as a result of discretionary changes in income, as well as improvements in tax administration. The buoyancy of direct taxes increased from an average of 2.2 percent in 1984-1986 to 3.2 percent in 1987-1989. This resulted from tax measures designed to improve the equitableness and revenue productivity of the tax system, such as imposing a uniform 35 percent tax rate on corporate income and withdrawing the income tax exemption of franchise holders. The buoyancy of indirect taxes also increased from 1.5 percent in 1984-1986 to 3.8 percent in 1987-1989, primarily due to the increase in taxes on consumer products like cigarettes and beer, the conversion of these taxes to ad valorem rates, and the introduction of the VAT.

The over-all elasticity of the tax system improved from 1.30 in 1984-1986 to 1.76 in 1987-1989, showing a marked improvement in tax compliance.

TABLE 2
REVENUE IMPACT OF 1986 TAX REFORM PACKAGE, 1986 - 1988
(In Million Pesos)

MEASURES	ORIGINAL ESTIMATES 1/	ACTUAL REVENUES		
		1986	1987	1988 2/
TOTAL	8393	2462	7292	11202
A. INCOME TAXES	230	125	-983	-1040
Individual	-1310	-382	-1795	-1976
1. Change from schedular to global income tax) 2. Uniform rate structure of 0 - 35% on all income including business income)	-540		-638	-703
3. Prescribe ceilings on allowable deductions	200	0	0	0
4. Raise personal exemptions to avoid taxing incomes below the poverty line	-410	-182	-491	-540
5. Separate taxation of incomes of married couples	-560	-200	-666	-733
Corporate	1140	111	576	636
6. Uniform tax rate of 35%	500	125	592	666
7. Prescribe ceilings on allowable deductions	670	0	0	0
8. Exempt intercorporate dividends	-30	-14	-16	-30
Individual/Corporate	400	396	236	300
9. Uniform 'final' tax of 28% on interest, dividends, royalties and other passive income	400	396	236	300
B. MOTOR VEHICLE TAX				
10. Rationalize registration fees	0	0	0	0

TABLE 2
(Continued)

MEASURES	ORIGINAL ESTIMATES 1/	ACTUAL REVENUES		
		1986	1987	1988 2/
C. INDIRECT TAXES	3290	1343	2789	3765
Sales Taxes	0	0	0	2500
11. Reduce rates to three levels	0	0	0	0
12. Remove unnecessary tax exemptions	0	0	0	0
13. Disallow tax credits on inputs if output is not taxed	0	0	0	0
14. Phase out turnover tax and replace with value-added tax	0	0	0	2500
Excise Taxes	3290	1343	2789	1265
15. Convert all taxes to ad) valorem taxes and increase) taxes on cigarettes & beer)	2540 750	943 400	1783 1006	542 723
16. Levy 5-20% excise duty on motor vehicles as sales taxes are lowered	0	0	0	0
D. REAL PROPERTY TAX				
17. Adjust 1978-based taxable values to 1984	71	0	71 3/	71 3/
E. TRAVEL TAX				
18. Exempt contract workers	-100	-51	-100	-100
F. EXPORT DUTIES				
19. Abolish all export duties except on logs	-1060	-319	0	0
G. CUSTOMS DUTIES				
20. Impose minimum 10% duty on imports	150	0	252	150

TABLE 2
(Continued)

MEASURES	ORIGINAL ESTIMATES 1/	ACTUAL REVENUES		
		1986	1987	1988 2/
H. GENERAL AND ADMINISTRATIVE	5812	1364	5263	8356
Special Funds	0	0	0	0
21. Rationalize tax treatment of all gambling activities	0	0	0	0
22. Bring casino, travel and other funds into the General Fund	0	0	0	0
Exemptions and Incentives	180	0	1029	4380
23. Withdraw all tax and duty incentives and replace with subsidies	no estimate	0	924	4200
24. Impose uniform franchise tax and withdraw income tax exemptions	180	0	105	180
Amnesties	1262	1297	552	104
25. Amnesty on income and other internal revenue taxes	1040	1010	356	0
26. Amnesty on real property tax	222	287	196	104
27. Tax amnesty on registration of foreign assets	no estimate	0	0	0
Administrative Measures	4370	67	3682	3872
28. Compromise agreement on disputed assessments and delinquent accounts	1070	67	242	0
29. Raise BIR Incentives	3300	0	3440	3872

1/ Estimates of full year revenue impact as of June 29, 1986.

2/ Revenues for 1988 as submitted to Congress.

3/ In the absence of actual data, program levels were assumed to approximate these.

Source: National Tax Research Center.

TABLE 3
NATIONAL GOVERNMENT REVENUES, 1980-1990
(In Million Pesos)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
TAX REVENUES	**30,836**	31,910	**34,910**	**40,227**	53,379	61,432	**66,911**	87,124	91,464	124,509	155,309
(% of GNP)	(11.66)	(10.53)	(9.82)	(10.62)	(10.12)	(10.28)	(10.89)	(12.39)	(11.12)	(12.94)	(13.71)
Direct Taxes	7,619	9,050	9,593	10,073	14,984	19,332	21,065	23,562	29,857	40,032	51,873
(% of GNP)	(2.88)	(2.98)	(2.70)	(2.66)	(2.84)	(3.23)	(3.43)	(3.35)	(3.63)	(4.16)	(4.58)
Income Taxes	7,172	8,023	8,515	8,869	13,714	17,656	19,361	21,840	27,650	37,464	49,471
Other Direct Taxes	447	1,027	1,078	1,204	1,270	1,676	1,704	1,722	2,207	2,568	2,402
Indirect Taxes	23,217	22,924	25,317	30,154	38,395	42,100	45,846	63,562	61,607	84,477	103,436
(% of GNP)	(8.78)	(7.55)	(7.12)	(7.96)	(7.28)	(7.04)	(7.46)	(9.04)	(7.49)	(8.78)	(9.13)
Excise Taxes	4,911	5,268	5,969	6,660	9,926	13,550	16,696	23,098	20,248	25,005	29,070
License and Business Taxes	7,672	7,586	7,967	8,308	9,247	9,936	12,376	18,681	17,829	24,612	31,847
Import Duties and Taxes	7,601	7,432	8,647	12,219	14,419	13,694	13,191	18,130	17,762	28,306	33,899
Other Indirect Taxes	3,033	2,638	2,734	2,967	4,803	4,920	3,583	3,653	5,768	6,554	8,620
NON-TAX REVENUES	**4,198**	**4,510**	**4,426**	**6,108**	**6,856**	7,771	**13,706**	**17,291**	**22,541**	**29,948**	**29,098**
(% of GNP)	(1.59)	(1.49)	(1.25)	(1.61)	(1.30)	(1.30)	(2.23)	(2.46)	(2.74)	(3.11)	(2.57)
TOTAL REVENUES	**35,034**	**36,484**	**39,336**	**46,335**	**60,235**	**69,203**	**80,617**	**104,415**	**114,005**	**154,457**	**184,407**
(% of GNP)	(13.24)	(12.02)	(11.07)	(12.23)	(11.42)	(11.58)	(13.11)	(14.85)	(13.85)	(16.06)	(16.28)
Memo Item: Nominal GNP	264,534	303,628	355,435	378,744	527,355	597,743	614,703	703,361	822,870	961,914	1,132,404

Source: National Tax Research Center.

Much has been accomplished, but a lot remains to be done to make the tax system more equitable, revenue-productive, and conducive to economic growth. For example, the revenue potential of the VAT and excise taxes can be more fully realized by extending their coverage to businesses, persons and goods presently exempt from them, or by increasing their rates to match those in comparable countries. Improved efficiency of the major tax collection agencies and the plugging of tax loopholes should also be pursued through administrative and legislative means.

On the implementation side, no effort should be spared in informing the public, especially the affected sectors, about new tax laws and regulations to win public support and compliance as quickly and fully as possible. Likewise, all administrative arrangements must be put in place before introducing any major tax reform.

III. TRADE REFORMS

A. *Import Liberalization*

The import liberalization program started in 1981 and resulted in the liberalization of about a thousand items between January 1981 and March 1986. However, the foreign exchange crisis that started in 1983 and lasted until 1985 worked against the lifting of import restrictions and even led to the reimposition of quantitative restrictions on a number of liberalized commodities.

Phase I

When it assumed office in 1986, the Aquino administration vigorously resumed efforts to strengthen the industrial foundation of the economy through import liberalization. A total of 929 items were liberalized between April 30 and September 30, 1986. Another 171 items were liberalized in 1987 and 129 items in April 1988 for a total of 1,229 items (Table 4). A total of 1,232 items had initially been committed under the Economic Recovery Loan but three sugar items were waived in line with domestic sugar policy.

Phase II

In February 1988, after an intensive review and consultation process, the remaining 673 items still subject to import restrictions were classified into three lists: List A, 104 items for liberalization by end of June 1989; List B, 455 items for review and gradual liberalization; and List C, 114 items for continued regulation for health, safety and national security reasons.

On December 22, 1988, Central Bank (CB) Circular No. 1192 liberalized 94 of the 104 items in List A. In the March 1989 Memorandum on Economic Policy to the IMF, the Philippine government committed to take the following steps with respect to List B items and the ten remaining items under List A:

(a) A minimum of 90 items were to be selected before June 30, 1989, for which restrictions would be removed and legislation submitted to Congress to introduce appropriate tariffs on these items by end of September 1989;

TABLE 4
IMPLEMENTATION OF PHASE I AND PHASE II
OF THE IMPORT LIBERALIZATION PROGRAM
As of December 31, 1991

	IMPLEMENTING CIRCULAR	EFFECTIVITY DATE	NUMBER OF ITEMS	
PHASE I	CB Circular 1100	Apr. 30, 1986	140 A/	
	CB Circular 1105	Jun. 06, 1986	437	
	CB Circular 1109	Jul. 18, 1986	272	
	CB Circular 1117	Sep. 20, 1986	80	
	CB Circular 1128	Jan. 09, 1987	7	
	CB Circular 1149	Jul. 01, 1987	12	
	CB Circular 1150	Jul. 22, 1987	21	
	CB Circular 1161	Nov. 01, 1987	73	
	CB Circular 1167	Dec. 24, 1987	58 B/	
	CB Circular 1174	Apr. 25, 1988	129	
	Total, Phase I			**1,229** C/
PHASE II				
A. List A Items	CB Circular 1192	Dec. 22, 1988	94 D/	
	CB Circular 1210	Sep. 14, 1989	1 E/	95
B. List B Items	CB Circular 1195	Mar. 15, 1989	3 F/	
	CB Circular 1205	Jul. 14, 1989	60	
	CB Circular 1210	Sep. 14, 1989	12	
	CB Circular 1212	Oct. 06, 1989	17 G/	
	CB Circular 1219	Dec. 31, 1989	39	
	CB Circular 1231	Feb. 27, 1990	8 H/	139
	CB Circular 1279	Mar. 19, 1991	20 I/	159
	Sub-Total			**254**
	To be Liberalized			**303**
C. List C Items Recommended for Continued Regulation				116
	Total, Phase II			**673**
	GRAND TOTAL (PHASE I AND PHASE II)			**1,902**

NOTES ON TABLE 4

A/ Excludes three (3) items under polyester fiber and tilament yarn (266.52.01, 651.44.01 and 651.45.01) which were deleted pursuant to CB Circular No. 1103 of 8 May 1986.

B/ Excludes paperboard (641.22.01) since it was already counted under the accelerated schedule of Circular 1150 of 23 July 1987.

C/ Excludes the three (3) items on sugar under high tariff items (061.11.00, 061.12.00 and 061.19.00) which will continue to be regulated per agreement with the IMF in July 1986.

D/ Out of a total of 104 items scheduled to be liberalized starting end of June 1988 and ending in June 1989, two (2) items from the end of June 1988 schedule -- equipment for indoor games (894.24.03 and electricity supply meters (873.10.04) -- and one (1) item from the end of December 1988 schedule -- game cocks (001.49.06) -- were not yet liberalized pending tariff rate adjustments. Out of twenty (20) commodities under brand new trucks and engines scheduled for liberalization by end of June 1989, thirteen (13) were liberalized ahead of schedule while seven (7) were retained since these commodities can be produced locally. These ten (10) remaining items were included in the four hundred sixty three (463) items under List B of the Memorandum of Economic Policy dated 6 March 1989.

E/ Refers to electricity supply meters (873.10.04) which were originally included in the list of one hundred four (104) items under List A.

F/ Reters to three (3) cement products which were liberalized in advance due to the prevailing abnormal supply situation.

G/ Includes the advanced liberalization of two (2) cement products which form part of the forty-five (45) items scheduled for end of December 1989.

H/ Under the Revised Code based on the harmonized system implemented in 1990, fifteen (15) commodity lines were liberalized corresponding to twelve (12) lines under the 1977 PSCC Code. However, only ten (10) of the twelve (12) lines are included in List B. Of these two (2) items parts and accessories for tractors (784.92.00) and jeep axles (784.97.00) had been liberalized under Circular 1219, thus the count was reduced to eight (8).

I/ Based on the harmonized system, thirty-three (33) items were liberalized corresponding to twenty-eight (28) items under the 1977 PSCC Code. Of the 28 however, eight (8) had already been liberalized under previous circulars.

(b) By December 31, 1989 and again by June 30, 1990, at least 45 additional items would be selected, for which quantitative restrictions would be replaced by tariffs by mid-1992; and

(c) For all items not covered by the above steps, quantitative restrictions would be replaced by tariffs not later than end of 1994. In certain industries, a longer implementation period may be allowed for rationalization, modernization, rehabilitation, and new investments. Such cases would be announced not later than June 30, 1990.

Implementation of Phase II of the liberalization program proceeded largely on schedule until 1990. Restrictions on 90 items selected before June 30, 1989 were removed through CB Circular No. 1195 of March 31, 1989 (3 items), CB Circular No. 1205 of July 14, 1989 (60 items), CB Circular No. 1210 of September 14, 1989 (12 items) and CB Circular No. 1212 of October 6, 1989 (15 items). The target date of end of September 1989 was thus met for 75 of the 90 items, with liberalization of the last 15 items delayed by one week due to intensive consultations with industries concerned. In addition, one item originally included in the list of 104 items under List A was also liberalized under CB Circular No. 1210. Appropriate tariff adjustments for items requiring such adjustments were made through the President's issuance of Executive Order No. 364 on July 21, 1989.

By December 31, 1989, an additional 45 items from List B were selected for liberalization by mid-1992. As of end-1989, restrictions on 41 of these 45 items had already been removed with the issuance of CB Circular No. 1212 (2 items) and CB Circular No. 1219 of December 29, 1989 (39 items). The four remaining items were to be liberalized as soon as appropriate tariff adjustments were in place.

CB Circular No. 1231 of February 27, 1990 liberalized 8 items which form part of the 45 items scheduled to be announced by end of June 1990. CB Circular No. 1279 of March 19, 1991 liberalized another 20 items. This brought the total number of List B items liberalized under Phase II to 159 by the end of 1991. Together with the 95 List A items also liberalized under Phase II, a total of 254 items had been liberalized under Phase II by the end of 1991. Together with the 1,229 items liberalized under Phase I, a total of 1,483 items were liberalized between April 1986 and December 1991.

Impact on Import Growth

Phase I (April 1986 to April 1988) resulted in the liberalization of a significant percentage of imports with the 1,229 liberalized items accounting for 13.6 percent of total imports in 1985. With the liberalized items growing faster at an annual average rate of 29.4 percent in 1986-1989 than total imports which grew at an average rate of 20.3 percent, the share of the 1,229 liberalized items in total imports grew to 18.4 percent in 1989 (Table 5). However, with their import value growing by only 0.4 percent in 1990, the liberalized items accounted for only 15.7 percent of total imports in 1990. Of the 1,229 items, 789 items were raw materials and intermediate goods, 436 items were consumer goods and only four were capital goods. Raw material imports accounted for

TABLE 5
IMPORT VALUES OF COMMODITIES LIBERALIZED UNDER PHASE I AND PHASE II OF THE IMPORT LIBERALIZATION PROGRAM, 1985 - 1990
(FOB Value In Million US$)

	NO. OF ITEMS	1985	1986	1987	1988	1989	1990
I. LIBERALIZED COMMODITIES							
A. Phase I (1986, 1987 & 1988)	**1229**	**696**	**776**	**1142**	**1417**	**1912**	**1919**
Capital Goods	4	--	--	--	--	--	--
Raw Materials	789	562	739	1,092	1,315	1,793	1,783
Consumer Goods	436	134	37	50	102	119	136
B. Phase II (1988, 1989 & 1990)	**254**	**143**	**159**	**227**	**339**	**486**	**632**
Capital Goods	201	141	154	212	323	459	572
Raw Materials	18	--	1	8	6	14	42
Mineral Fuels	2	--	--	0	0	0	0
Consumer Goods	31	2	4	7	10	13	18
Special Transactions	2	0	0	0	0	0	
C. TOTAL, Phase I & Phase II	**1483**	**839**	**935**	**1369**	**1756**	**2398**	**2551**
Capital Goods	205	141	154	212	323	459	572
Raw Materials	807	562	740	1100	1321	1807	1825
Mineral Fuels	2	--	--	0	0	0	0
Consumer Goods	467	136	41	57	112	132	154
Special Transactions	2	0	0	0	0	0	0
II. TOTAL IMPORTS		**5111**	**5044**	**6737**	**8159**	**10419**	**12206**
Capital Goods		769	839	1164	1637	2424	3122
Raw Materials		2338	2821	3628	4415	5388	5808
Mineral Fuels		1452	869	1249	1096	1397	1842
Consumer Goods		320	273	391	597	898	1061
Special Transactions		232	242	305	414	312	373
MEMO ITEMS: Percent of Total Imports							
Phase I		13.6	15.4	17.0	17.4	18.4	15.7
Phase II		2.8	3.2	3.4	4.2	4.7	5.2
TOTAL, Phase I & II		16.4	18.5	20.3	21.5	23.0	20.9

Note : -- with value less than $ 1 million
Source : Central Bank of the Philippines

TABLE 6
NUMBER OF IMPORT ITEMS SUBJECT TO QUANTITATIVE RESTRICTIONS

YEAR	NUMBER OF ITEMS AT YEAR END*	PERCENTAGE CHANGE PER ANNUM
1980	2901	
1981	2638	-9
1982	2051	-22
1983	2014	-2
1984	2041	+1
1985	1967	-4
1986	973	-51
1987	802	-18
1988	579	-28
1989	447	-23
1990	438	-2
1991	411	-6

* Reflects additions to and deletions from the list of restricted items.

an average of 94 percent of the import value of liberalized items in 1986-1990 with the balance accounted for by consumer goods.

Under Phase II which started in December 1988, the bulk of liberalized items were capital goods, accounting for 201 of the 254 items and 95 percent of the import value of liberalized items. From a mere 4.2 percent share of total imports in 1988, imports of liberalized items grew by 43.4 percent in 1989 and 30 percent in 1990 to account for 4.7 percent of total imports in 1989 and 5.2 percent in 1990.

From $839 million in 1985, the import value of the 1,483 items liberalized under Phase I and Phase II grew to $2,398 million in 1989 and $2,551 million in 1990. The contributed 7.9 percentage points to the 27.7 percent expansion of total imports in 1989, but only 1.5 percentage points to the 17.2 growth of imports in 1990. The share of liberalized items in total imports likewise dropped from 23 percent in 1989 to 20.9 percent in 1990.

Sectoral Impact

Of the 1,483 items liberalized under Phase I and Phase II, about three hundred are agricultural, fish and forest products in raw or semi-processed form. The bulk of these were fruits and vegetables, fish and fish preparations, live animals, cereal products, meat and meat preparations, tobacco products, cotton fibers, and other crude animal and vegetable materials (Table 7). Under Phase II, machinery and equipment used in the processing of coconut oil were also liberalized.

Almost half of the liberalized items were intermediate goods such as cement, iron and steel products, polyester fibers and textile yarns, synthetic resins and resin products and paper products needed by various industries. Capital goods such as power-generating machinery and equipment, specialized machinery used in the steel, cement, paper and textile industries, motor vehicles, shipping vessels, telecommunications equipment and radiation apparatus accounted for around 200 liberalized items.

Based on import values, raw materials accounted for about three-fourths of items liberalized under Phase I and Phase II while the share of capital goods ranged from 16 to 22 percent. In the case of liberalized consumer goods, imports accounted for less than 10 percent of liberalized import values and contributed less than one percent to overall import growth. It can therefore be said that the import liberalization program has contributed to the expansion of productive capacity and increased the competitiveness of Philippine exports by allowing the freer entry of producer goods essential for investment and export activities.

B. *Tariff Reform*

Complemented by the import liberalization program was tariff reform program carried out from 1981 to 1985. This was geared towards reducing or phasing out tariff protection which was deemed excessive or obsolete. It aimed to narrow the range of tariffs from 0 - 100 percent to 10 - 50 percent. As a result of the program, the average nominal protection rate was reduced from 43 percent in 1981 to 28 percent in 1985. The

TABLE 7
LIBERALIZED ITEMS BY COMMODITY GROUPING

COMMODITY GROUPING *	CODE	NUMBER OF ITEMS		
		PHASE I	PHASE II	TOTAL
FOOD AND LIVE ANIMALS CHIEFLY FOR FOOD	0	254	6	260
Live animals chiefly for food	00	16	6	22
Meat and meat preparations	01	11	0	11
Dairy products	02	4	0	4
Fish and fish preparations	03	36	0	36
Cereals and cereal preparations	04	17	0	17
Vegetables and fruits	05	125	0	125
Sugar, sugar preparations and honey	06	12	0	12
Coffee, tea, cocoa, spices, and manufactures thereof	07	1	0	1
Feeding stuff for animals	08	6	0	6
Miscellaneous edible products and preparations	09	26	0	26
BEVERAGES AND TOBACCO	1	26	0	26
Beverages	11	7	0	7
Tobacco and tobacco manufactures	12	19	0	19
CRUDE MATERIALS, INEDIBLE, EXCEPT FUELS	2	48	0	48
Hides, skins and furskins, raw	21	3	0	3
Oil seeds and oleaginous fruit	22	0	0	0
Crude rubber	23	0	0	0
Cork and wood	24	0	0	0
Pulp and waste paper	25	0	0	0
Acrylic, rayon and cotton staple fiber	26	14	0	14
Crude fertilizers and crude minerals	27	0	0	0
Metalliferous ores and metal scrap	28	1	0	1
Crude animal and vegetable materials, n.e.s.	29	29	0	29
MINERAL FUELS, LUBRICANTS AND RELATED MATERIALS	3	0	2	2
Coal, coke and briquettes	32	0	2	2
Petroleum, petroleum products and related materials	33	0	0	0
Gas, natural and manufactured	34	0	0	0
ANIMAL AND VEGETABLES OILS, FATS AND WAXES	4	2	0	2
Animal oils and fats	41	1	0	1
Fixed vegetable oils and fats	42	0	0	0
Animal and vegetable oils and fats, processed	43	1	0	1

TABLE 7
(Continued)

COMMODITY GROUPING *	CODE	NUMBER OF ITEMS		
		PHASE I	PHASE II	TOTAL
CHEMICALS AND RELATED PRODUCTS	**5**	**75**	**0**	**75**
Organic chemicals	51	5	0	5
Inorganic chemicals	52	6	0	6
Dyeing, tanning and coloring materials	53	1	0	1
Medicinal and pharmaceutical products	54	0	0	0
Essential oils and perfume materials	55	1	0	1
Fertilizers, manufactured	56	0	0	0
Explosives and pyrotechnic products	57	0	0	0
Synthetic resins and resin products	58	62	0	62
Chemical materials and products, n.e.s.	59	0	0	0
MANUFACTURED GOODS CLASSIFIED CHIEFLY BY MATERIALS	**6**	**654**	**17**	**671**
Leather and leather manufactures	61	15	0	15
Rubber manufactures	62	20	0	20
Cork and wood manufactures	63	15	0	15
Paper and paper products	64	108	2	110
Polyester fibers, textile yarns and threads	65	243	0	243
Non-metallic mineral manufactures, n.e.s.	66	52	9	61
Iron and steel	67	128	0	128
Non-ferrous metals	68	8	0	8
Manufactures of metal, n.e.s.	69	65	6	71
MACHINERY AND TRANSPORT EQUIPMENT	**7**	**2**	**181**	**183**
Power-generating machinery and equipment	71	0	29	29
Machinery specialized for particular industries	72	0	42	42
Metalworking machinery	73	0	13	13
General industrial machinery and equipment, n.e.s.	74	2	16	18
Office machines and automatic data processing equipment	75	0	0	0
Telecommunications and sound recording equipment	76	0	26	26
Electrical machinery, apparatus and appliances, n.e.s.	77	0	21	21
Road vehicles	78	0	20	20
Other transport equipment	79	0	14	14

TABLE 7
(Continued)

COMMODITY GROUPING *	CODE	NUMBER OF ITEMS		
		PHASE I	PHASE II	TOTAL
MISCELLANEOUS MANUFACTURED ARTICLES	**8**	**168**	**46**	**214**
Sanitary, plumbing, heating and lighting fixtures	81	9	0	9
Furniture and parts thereof	82	7	0	7
Travel goods, handbags and similar containers	83	0	0	0
Articles of apparel and clothing accessories	84	12	0	12
Footwear	85	2	0	2
Professional, scientific and controlling instruments	87	0	29	29
Photographic apparatus, equipment and supplies	88	1	4	5
Miscellaneous manufactured articles, n.e.s.	89	137	13	150
COMMODITIES AND TRANSACTIONS NOT ELSEWHERE CLASSIFIED	**9**	**0**	**2**	**2**
Postal packages not classified according to kind	91	0	0	0
Special transactions and commodities	93	0	0	0
Animals, live, n.e.s.	94	0	0	0
Armored fighting vehicles and armaments	95	0	2	2
Coin, not being legal tender	96	0	0	0
Gold, non-monetary	97	0	0	0
GRAND TOTAL		**1229**	**254**	**1483**

* According to the 1977 Philippine Standard Commodity Classification

range of effective protection rates for importable sectors was also reduced from 22 - 299 percent to a range of 18 -144 percent.

1986-1989

Through E.O. 49 of October 15, 1986 and E.O. 70 of November 25, 1986, remaining items subject to less than ten percent tariff were imposed a ten percent ad valorem tariff thereby making it the minimum tariff rate. Although no comprehensive tariff reform program was announced until July 1990, steps were taken to reduce the tariff rate on certain key items such as crude oil (E.O. 303 of August 25,1987 and E.O. 306 of October 20, 1987), cement (E.O. 353 of March 27, 1989 and E.O. 387 of December 6, 1989), and motor vehicle spare parts (E.O. 404 of June 8, 1990). Tariff adjustments for items covered under the import liberalization program were instituted through E.O. 364 of July 21, 1989 and R.A. 6647 signed on January 29, 1988. The maximum tariff rate of 50 percent was observed despite Congressional recommendation to impose a 75 percent tariff on some garment items. A few essential raw materials were covered by a five percent tariff, less than the minimum of ten percent mentioned earlier.

1990-1991

A major overhaul of the tariff structure was mandated by E.O. 413 of July 19, 1990. It aimed to simplify and rationalize the tariff structure by reducing the number of tariff levels from seven to four and narrowing the tariff range from 0 - 50 percent to 3 - 30 percent. This would have affected 65 percent of total tariff lines, including those in agriculture, chemicals, textiles, paper, wood and leather products, metals and non-metals, and machinery and equipment. However, serious misgivings raised by various sectors including Congress prompted the Aquino government to defer its implementation until further consultations and appropriate modifications were made.

A series of public hearings and consultations with concerned private sector groups and government agencies were conducted jointly by the Tariff Commission and the Ways and Means Committees of both houses of Congress. These consultations paved the way for the issuance of E.O. 470 on July 20, 1991. It amended E.O. 413 by introducing a more gradual phasing-in approach which would enable affected industries to make the necessary adjustments and innovations, and the government to look for alternative sources of revenues. It provides for a five-year transition period over which time nominal rates would decrease gradually from an average of 28 percent to 25.96 percent in the first year of implementation, 24.27 percent in the second year, 22.56 percent in the third year, 21.74 percent in the fourth year and 20.07 percent in the fifth year for a total reduction of 28 percent (Table 8). On a trade-weighted basis, the average tariff would decline from the current 20 percent to 17.84 percent in year one, 16.22 percent in year two, 15.17 percent in year three, 14.90 percent in year four and 14.40 percent in year five for a total reduction of 27 percent (Table 9). These declines in average nominal rates would result from the gradual but substantial reductions in the number of items accorded tariff rates of 40 or 50 percent. By year five, there would be no more items protected by tariff rates of 35, 40 or 45 percent as 553 items were before the first year of the tariff reform program. Items covered by a 50 percent tariff would be greatly reduced from 1,431 items to just 208 items. Thus, tariff rates would cluster around 10, 20 and 30 percent and to

TABLE 8
NOMINAL AVERAGE TARIFFS
(In Percent)

	Prior To	E.O.	E.O. 470				
			Year 1	Year 2	Year 3	Year 4	Year 5
Agriculture	35	25	35.94	33.89	31.83	29.92	28.02
Mining	14	11	10.99	11.30	10.72	10.72	10.72
Manufacturing	27	19	24.77	23.08	21.38	20.73	19.04
Overall	**28**	**19**	**25.96**	**24.27**	**22.56**	**21.74**	**20.07**

Source: Tariff Commission

TABLE 9
WEIGHTED AVERAGE TARIFFS
(In Percent)

	Prior To	E.O.	E.O. 470				
			Year 1	Year 2	Year 3	Year 4	Year 5
Agriculture	22	15	23.80	23.48	23.15	22.85	22.56
Mining	11	10	9.69	10.12	10.05	10.05	10.05
Manufacturing	21	15	19.35	16.83	15.32	14.98	14.27
Overall	**20**	**14**	**17.84**	**16.22**	**15.17**	**14.90**	**14.40**

Source: Tariff Commission

a lesser degree, three percent (Table 10 and Diagram 1). It should be noted that while E.O. 470 covers about 80 percent of the Tariff and Customs Code, the total number of harmonized tariff lines has been reduced by ten percent, from 6,193 to 5,561: lines that would eventually have the same rates of duty were combined into a single line. It can be observed from Tables 8 and 9 that while nominal tariff rates for mining and manufacturing would fall below their pre-E.O. 470 level in the first year of implementation, both on unweighted and weighted bases, nominal tariff protection to agriculture, fishing and forestry would increase initially in the first year and then decline gradually.

Together, these would increase the effective rate of protection (ERP) to agricultural production from 3.5 percent in 1989-90 to 8.5 percent in 1991, the first year of implementation of E.O. 470. This will decline gradually to 7.0 percent in 1992, 5.5 percent in 1993, 4.1 percent in 1994 and 2.6 percent in 1995 (Table 11). Netting out logging, other forestry activities which have a negative ERP, and fishing, agriculture alone would enjoy increased protection from 9.9 percent ERP in 1989-90 to 16 percent in 1991, and gradually decline back to 9.7 percent in 1995. With ERP to manufacturing declining steadily from 35.8 percent in 1989-1990 to 35.4 percent in 1991, 33.6 percent in 1992, 31.3 percent in 1993, 29.8 percent in 1994 and 28 percent in 1995, the difference in the ERPs of manufacturing and agriculture would narrow from 25.9 percentage points in 1989-90 to just 18.4 percentage points in 1995 (Diagram 2). This would be in line with more uniform protection across sectors, and with the rural-based development strategy in the government's medium-term development plan.

Manufacturing industries which had enjoyed a high level of protection were to be made more competitive by bringing their ERPs closer to other sectors. These included textiles and footwear, chemicals and chemical products, and basic metals and metal products. The mining sector which initially had a negative average ERP would reach a rate of 2.5 percent in 1985.

With E.O. 470, the average ERP for all sectors would decline from about 25 percent in 1989-1990 to 20 percent by 1995, while the ERP for all importables would decline from 48 percent to 38 percent for a total reduction of 20 percent. The standard deviation of the ERP for all sectors and all importables would also decline from about 40 to 26 percent indicating more uniform protection across sectors.

IV. GOVERNMENT CORPORATE REFORMS

Upon assuming office in 1986, the Aquino administration immediately recognized the government corporate sector as a major area of reform. Government-owned or controlled corporations (GOCCs) accounted for a large share of the consolidated public sector deficit, were heavily dependent on financial support from the national government, and were making a negligible contribution to national government coffers.

From 1980 to 1985, the national government provided the GOCCs with budgetary support equivalent to 3.1 percent of GNP annually through subsidies, equity contributions and interest-free advances for servicing of their government-guaranteed debts. Including tax exemptions, total support to GOCCs amounted to 5.3 percent of GNP while their contribution to GNP was only one-third of this amount. Their contributions to the

TABLE 10
FREQUENCY DISTRIBUTION OF TARIFF RATES
(Number of HS Lines)

Tariff Rate	Prior to E.O. 470	E.O. 413	E.O. 470				
			Year 1	Year 2	Year 3	Year 4	Year 5
0	33	23	45	43	43	43	43
3	0	159	277	277	304	304	285
5	42	1	11	11	16	16	16
10	1,635	2,057	1,589	1,971	1,948	1,957	1,957
15	0	0	3	3	6	32	26
20	1,273	1,085	970	743	885	912	1,036
25	0	0	30	30	102	132	19
30	1,226	2,102	978	850	1,042	1,013	1,971
35	7	0	0	102	47	622	0
40	544	0	485	376	667	32	0
45	2	0	0	624	0	0	0
50	1,431	0	1,173	531	501	498	208
Total	**6,193**	**5,427**	**5,561**	**5,561**	**5,561**	**5,561**	**5,561**

Source: Tariff Commission.

Diagram 1

DISTRIBUTION OF TARIFF RATES

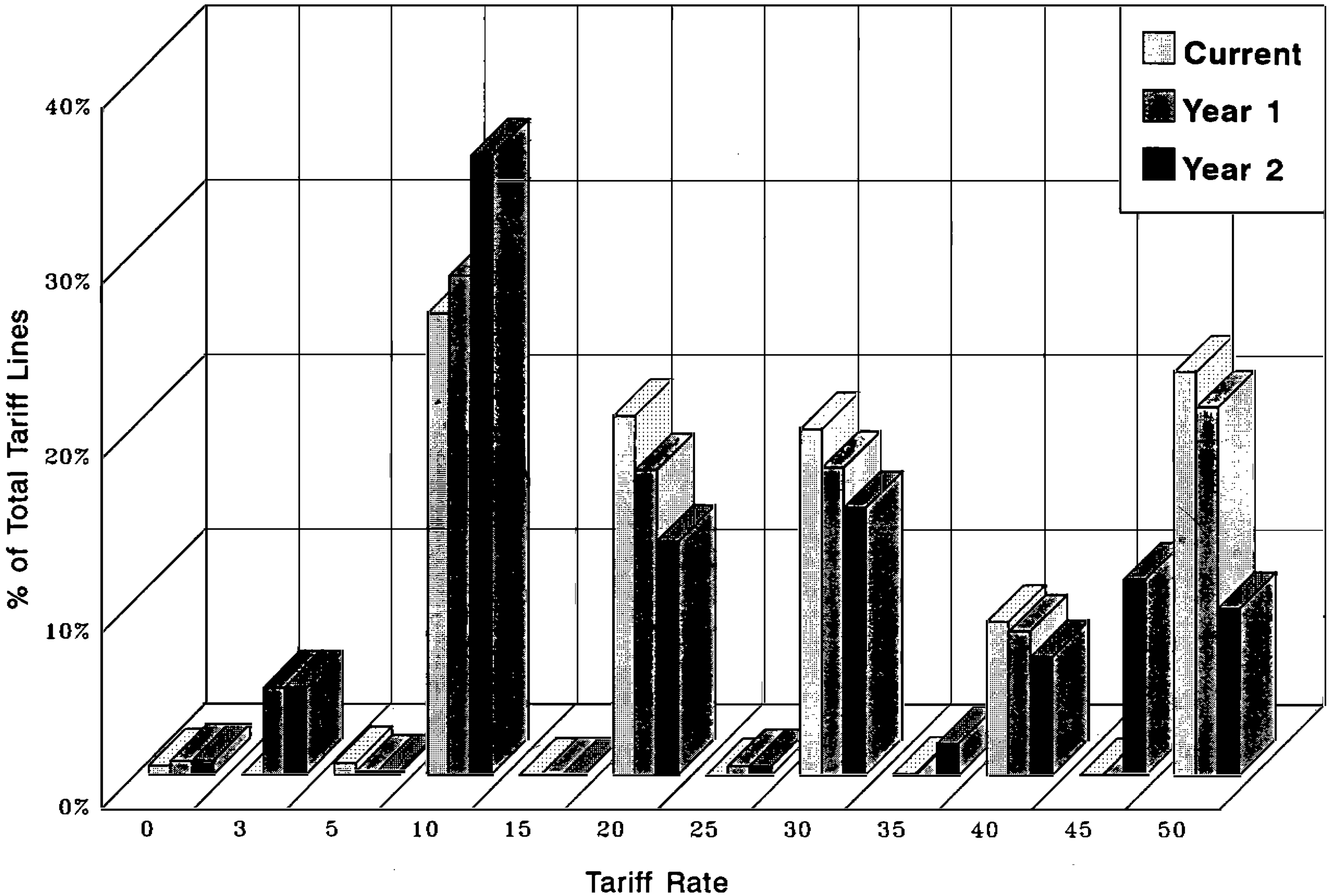


Diagram 1 (Continued)

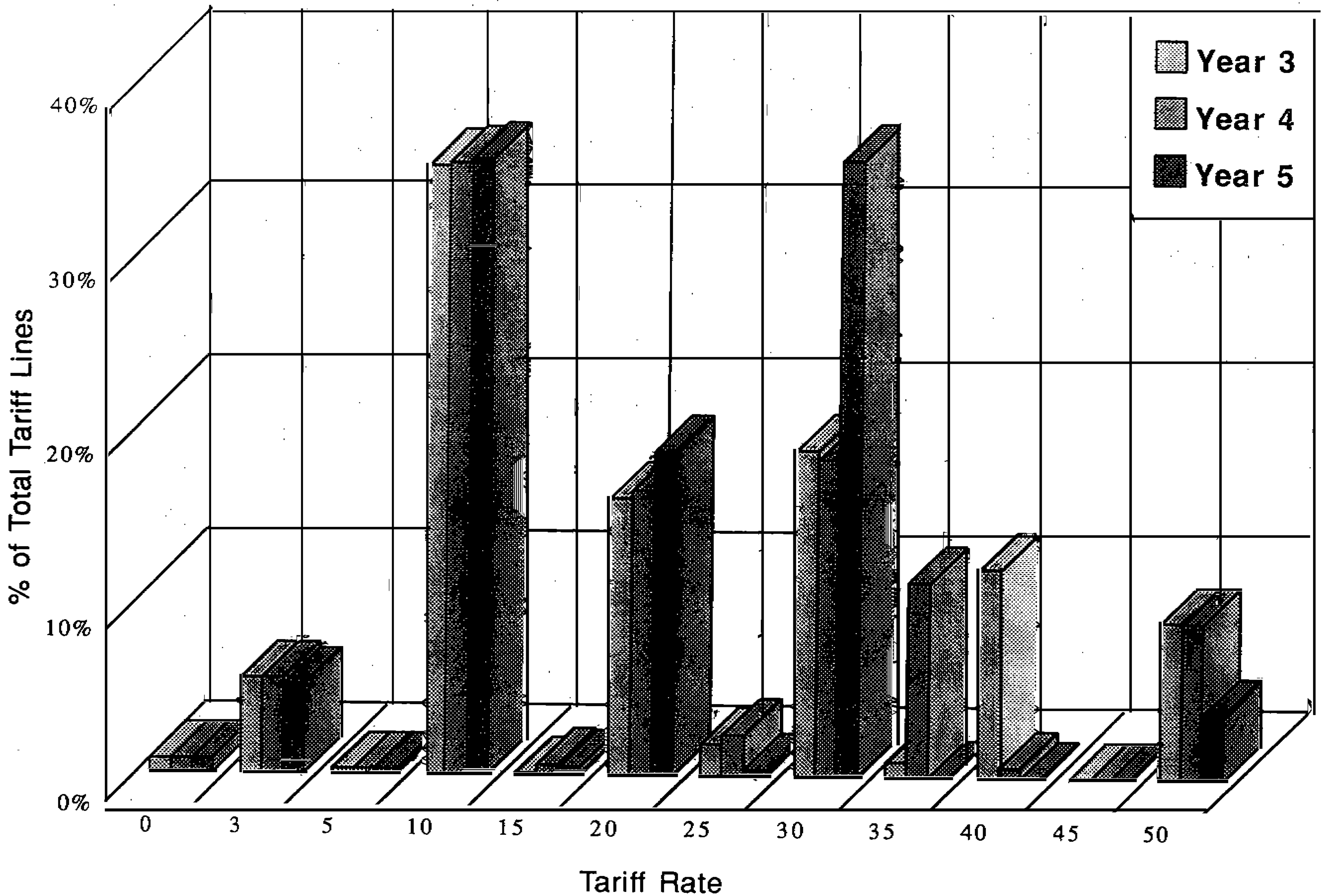


TABLE 11
AVERAGE EFFECTIVE RATE OF PROTECTION (ERP) AND STANDARD DEVIATION (SD)
UNDER E.O. 470, 1991 - 1995

INPUT/OUTPUT SECTOR		1989/90		1991		1992		1993		1994		1995	
		ERP	SD	ERP	SD	ERP	SD	ERP	SD	ERP	SD	ERP	SD
03-96	ALL SECTORS	0.2539	0.3840	0.2663	0.3743	0.2500	0.3459	0.2304	0.3080	0.2125	0.2868	0.2022	0.2642
	All Importables	0.4810	0.4014	0.4964	0.3929	0.4636	0.3577	0.4303	0.3149	0.4065	0.2887	0.3806	0.2620
03-22	AGRICULTURE, FISHING & FORESTRY	0.0353	0.2365	0.0847	0.2956	0.0701	0.2734	0.0553	0.2515	0.0409	0.2302	0.0265	0.2094
	Importables	0.3527	0.1152	0.5106	0.0948	0.4604	0.0820	0.4099	0.0702	0.3604	0.0557	0.3109	0.0414
03-13	Agriculture	0.0988	0.1607	0.1598	0.2400	0.1438	0.2162	0.1278	0.1925	0.1122	0.1690	0.0966	0.1456
	Importables	0.3158	0.0957	0.4969	0.0866	0.4481	0.0751	0.3990	0.0647	0.3512	0.0508	0.3034	0.0371
19-20	Fishing	0.4832	0.0912	0.5937	0.0533	0.5330	0.0473	0.4721	0.0412	0.4112	0.0352	0.3504	0.0292
	Importables	0.4832	0.0912	0.5937	0.0533	0.5330	0.0473	0.4721	0.0412	0.4112	0.0352	0.3504	0.0292
21-22	Logging and other forestry activities	-0.2362	0.1298	-0.2312	0.1107	-0.2320	0.1070	-0.2327	0.1032	-0.2335	0.0994	-0.2342	0.0956
	Importables	0.4171	0.0000	0.3262	0.0000	0.3064	0.0000	0.2866	0.0000	0.2667	0.0000	0.2468	0.0000
23-27	MINING	-0.0219	0.1724	0.0256	0.1999	0.0257	0.1999	0.0255	0.1999	0.0256	0.1999	0.0256	0.1999
	Importables	0.2555	0.1033	0.3177	0.2024	0.3178	0.2024	0.3173	0.2032	0.3174	0.2032	0.3174	0.2032
28-96	MANUFACTURING	0.3582	0.4925	0.3537	0.4752	0.3357	0.4423	0.3129	0.3965	0.2975	0.3712	0.2804	0.3446
	Importables	0.5055	0.4787	0.4909	0.4688	0.4671	0.4316	0.4355	0.3800	0.4154	0.3516	0.3927	0.3221
28-45	Food Processing	0.3288	0.4608	0.3228	0.4528	0.3039	0.4067	0.2849	0.3617	0.2672	0.3274	0.2496	0.2953
	Importables	0.4254	0.4731	0.4145	0.4681	0.3905	0.4162	0.3665	0.3655	0.3442	0.3275	0.3219	0.2920

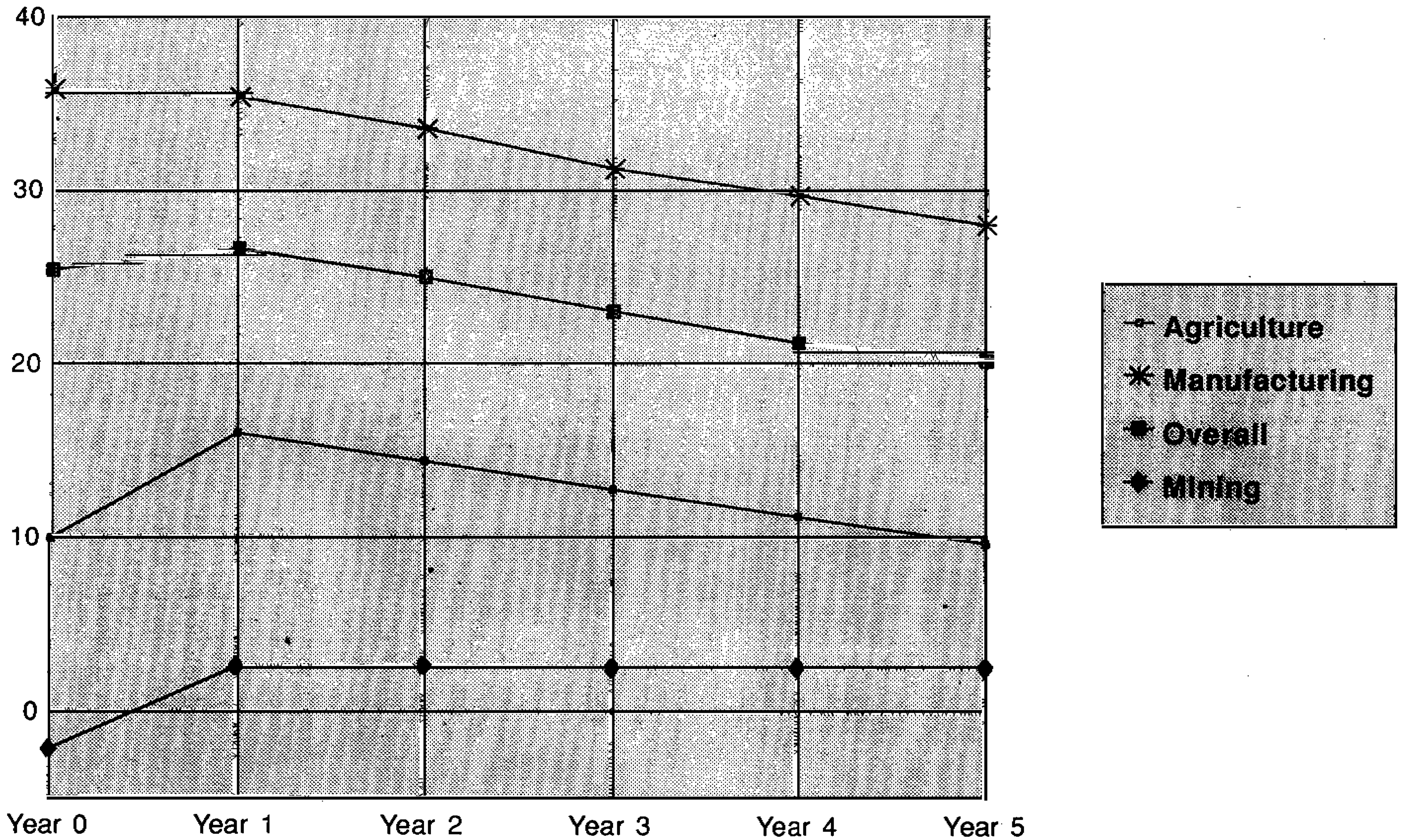
TABLE 11
(Continued)

INPUT OUTPUT SECTOR		1989/90		1991		1992		1993		1994		1995	
		ERP	SD	ERP	SD	ERP	SD	ERP	SD	ERP	SD	ERP	SD
46-50	Beverages & Tobacco	0.5862	0.5481	0.5661	0.5900	0.5613	0.5886	0.5564	0.5875	0.5516	0.5866	0.5468	0.5860
	Importables	0.9706	0.1286	0.9820	0.1181	0.9748	0.1324	0.9675	0.1468	0.9602	0.1611	0.9530	0.1754
51-55	Textiles & Footwear	0.1112	0.6326	0.0948	0.4573	0.0948	0.4573	0.0534	0.3601	0.0535	0.3601	0.0410	0.3366
	Importables	1.1637	0.2583	0.8703	0.0642	0.9870	0.0642	0.6622	0.0625	0.6622	0.0625	0.6111	0.0394
56-58	Wood & Wood Products	-0.1041	0.0765	-0.0599	0.0545	-0.0599	0.0545	-0.0598	0.0543	-0.0598	0.0543	-0.0595	0.0541
	Importables	-	-	-	-	-	-	-	-	-	-	-	-
59-66	Paper, Rubber, Leather and Plastic Products	1.3203	0.9270	1.4567	1.0464	1.3464	1.9805	1.2187	0.8665	1.1303	0.8202	1.0212	0.7294
	Importables	1.3203	0.9270	1.4567	1.0464	1.3464	1.9805	1.2187	0.8665	1.1303	0.8202	1.0212	0.7294
*67-75	Chemicals & Chemical Products	0.7098	-	0.5628	-	0.5186	-	0.5097	-	0.5076	-	0.5029	-
	Importables	0.7098	-	0.5628	-	0.5186	-	0.5097	-	0.5076	-	0.5029	-
76-79	Non-metallic Mineral Products	0.3990	0.2115	0.3990	0.1610	0.4188	0.1238	0.4132	0.1025	0.4075	0.0827	0.4022	0.0668
	Importables	0.3990	0.2115	0.3990	0.1610	0.4188	0.1238	0.4132	0.1025	0.4075	0.0827	0.4022	0.0668
80-82	Basic Metals and Metal Products	0.7366	0.0417	0.7964	0.0451	0.7872	0.0477	0.6752	0.0486	0.6110	0.0410	0.5560	0.0383
	Importables	0.7366	0.0417	0.7964	0.0451	0.7872	0.0477	0.6752	0.0486	0.6110	0.0410	0.5560	0.0383
83-91	Machinery Equipment	0.2662	0.4468	0.3599	0.4191	0.2866	0.4263	0.2611	0.3628	0.2535	0.3565	0.2360	0.3446
	Importables	0.4827	0.4474	0.4728	0.4155	0.3776	0.4472	0.3445	0.3751	0.3446	0.3694	0.3118	0.3594
92-96	Miscellaneous manufactures	0.3876	0.4859	0.3684	0.4583	0.3405	0.4245	0.3130	0.3909	0.2851	0.3575	0.2580	0.0326
	Importables	0.9076	0.1469	0.8519	0.1785	0.7906	0.1533	0.7297	0.1285	0.6684	0.1035	0.6081	0.0794

Source: Virata and Associates

Diagram 2

AVERAGE EFFECTIVE RATE OF PROTECTION



national treasury were almost nil except for the income from the Philippine Amusement and Gaming Corporation (PAGCOR).

Furthermore, the excessive proliferation of GOCCs without a clear basis for their creation and without adequate central supervision resulted in having GOCCs in every possible area of economic activity such as hotels, banking, manufacturing, construction, agricultural trade and development, utilities, infrastructure, transportation services and housing. By the end of 1985, there were 301 GOCCs of which 93 were parent corporations and 208 were subsidiaries.

Of these 301 GOCCs, the Aquino government decided to retain only 79. One hundred twenty-two were earmarked for privatization, 59 were to be abolished while the rest were to be merged, regularized under line departments or converted to private non-profit organizations.

A. *Monitoring of Retained Corporations*

While the Aquino government sought to ensure the operational autonomy of the GOCCs to be retained, greater public accountability and financial independence were also expected from them. Thus, the powers and functions of the Government Corporate Monitoring and Coordinating Committee (GCMCC) were broadened by E.O. 236 of July 22, 1987 to include not only monitoring, but also the establishment of financial, managerial and physical performance targets for major government corporations. From eight in 1984 when the GCMCC was first constituted, the number of GOCCs to be monitored and overseen by the GCMCC was increased to 14 in 1988, 18 in 1989, and 25 in 1990. Through Memorandum Order No. 419 of February 28, 1992, the President mandated the GCMCC to monitor all 79 of the retained GOCCs including the Central Bank and other government financial institutions (Annex 3).

A major thrust of the government corporate sector has been the improvement of cost recovery to increase internal cost generation and to remove economic distortions. For example, in the water sector, the Metropolitan Waterworks and Sewerage System (MWSS) has periodically implemented tariff adjustments to meet minimum rates of return on revalued assets after maximum efforts had been exerted to improve collection efficiency and to reduce non-revenue water. However, in the power sector, the National Power Corporation (NPC) has been unable to reach the target eight percent return on revalued assets partly as a result of a Supreme Court injunction against rate increases approved by the NPC Board of Directors.

Financial discipline has also been instilled with the issuance of various Department of Finance (DOF) orders. DOF Order No. 9-87 of January 9, 1987 imposed market-based interest rates on net advances to GOCCs for debt servicing. DOF Order No. 35-89 of September 1, 1989 prescribed that national government guarantees shall be considered only for financially viable projects within the context of prevailing policies on external and domestic debt management. This was followed up by the Bureau of the Treasury which issued Memorandum Circular No. 1-91 charging a guarantee fee of one percent per annum on the outstanding balance of the guaranteed loan. A Joint DOF-DBM

Circular was issued to implement Executive Order No. 518 mandating GOCCs to declare and pay cash dividends to the national government.

As a result of these reforms, budgetary assistance to GOCCs dropped from a high of 5.6 percent of GNP in 1986 to 2 percent in 1987 and about 1.1 percent in 1988-1990 (Table 12). From an average of 2.3 percent of GNP in 1980-1986, equity infusions into GOCCs decreased drastically to just 0.3 percent of GNP in 1987-1990. From a high of 2.6 percent of GNP in 1986 and 1.1 percent in 1987, net lending declined substantially in 1988 and 1989 and even resulted in net repayments in 1990. However, it jumped back up to 0.55 percent in 1991 primarily because of the severe difficulty NPC experienced in servicing its foreign loans.

B. *Privatization*

The Committee on Privatization (COP) was created by Proclamation No. 50 on December 8, 1986 to oversee the government's privatization program. It is chaired by the Secretary of Finance with the Secretary of Budget and Management, Secretary of Justice, Secretary of Trade and Industry, and the Director-General of the National Economic and Development Authority as members. While the COP formulates policy guidelines and gives final approval for sales, actual marketing is done by designated disposition entities such as the Asset Privatization Trust (APT). The APT was also established under Proclamation No. 50. It was tasked with the disposition of non-performing assets (NPAs) transferred from the Philippine National Bank (PNB) and Development Bank of the Philippines (DBP) as well as certain GOCCs earmarked for privatization. Other entities charged with GOCCs for disposition include the National Development Company (NDC), Government Service Insurance System (GSIS), Social Security System (SSS), PNB, DBP, Presidential Management Staff and certain government agencies and parent GOCCs.

The portfolio of assets transferred from PNB and DBP as well as NDC and the Philippine Export and Foreign Loan Guarantee Corporation consisted of 399 accounts in various sectors of the economy such as agriculture, manufacturing, mining, services and utilities. By the end of 1988, 104 of these assets had been fully sold and 48 were partially sold for gross sales of ₱7.71 billion. As of May 1992, 216 assets had been fully sold and 53 accounts partially sold. Gross revenues from sales, collections and other income amounted to ₱36.8 billion. Nonoc Mining and Industrial Corporation, APT's biggest account, was sold for $325 million on October 12, 1990.

Prior to the promulgation of the privatization program in December 1986, four GOCCs had already been privatized by the Aquino government. The President has since approved another 118 GOCCs for privatization or dissolution (Annex 4). Of the 118, 85 representing 62 percent of total asset values of GOCCs earmarked for privatization have been offered for sale, of which 27 were fully sold, 26 partially sold, 14 resulted in failed bids and 18 were dissolved. As of May 1992, gross revenues from the sale of GOCCs amounted to ₱21.9 billion. This includes ₱10.7 billion from the sale of 77 percent of Philippine Air Lines, one of the big-ticket items, sold to a local consortium in March 1992. Also included are ₱4.2 billion from the public offering of 30 percent of PNB's shares of stock in July 1989 and another 13 percent in March 1992, ₱1.8 billion from

TABLE 12
FLOWS OF FUNDS BETWEEN GOCCs AND THE NATIONAL GOVERNMENT
(Ratio to GNP)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
NG Flows to GOCCs	**0.0244**	**0.0349**	**0.0441**	**0.0259**	**0.0293**	**0.0310**	**0.0563**	**0.0202**	**0.0100**	**0.0122**	**0.0109**
Subsidy	0.0026	0.0019	0.0064	0.0031	0.0009	0.0018	0.0029	0.0028	0.0022	0.0058	0.0086
Equity	0.0316	0.0333	0.0305	0.0049	0.0197	0.0261	0.0207	0.0067	0.0021	0.0022	0.0039
Net Lending	0.0028	0.0034	0.0072	0.0067	0.0088	0.0031	0.0254	0.0107	0.0059	0.0042	0.0007
Capital Transfers to PNB/DBP	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0074	0.0000	0.0000	0.0000	0.0000
NG Flows from GOCCs	**0.0003**	**0.0011**	**0.0007**	**0.0007**	**0.0008**	**0.0017**	**0.0008**	**0.0056**	**0.0080**	**0.0103**	**0.0073**
Dividends	0.0003	0.0004	0.0000	0.0000	0.0000	0.0002	0.0002	0.0001	0.0006	0.0002	0.0015
Share in PAGCOR Income	0.0000	0.0008	0.0007	0.0007	0.0008	0.0013	0.0006	0.0015	0.0013	0.0017	0.0017
Interest on Advances to GOCCs	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0024	0.0003	0.0028	0.0010
Gain on Sale of PNB Stocks	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Sale of Assets thru APT	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0016	0.0058	0.0038	0.0031
Other NG Outflows on Assumed Liabilities	**0.0000**	**0.0000**	**0.0000**	**0.0000**	**0.0000**	**0.0000**	**0.0000**	**0.0343**	**0.0260**	**0.0249**	**0.0252**
Interest Payments (Domestic Debt)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0084	0.0070	0.0065	0.0058
Interest Payments (External Debt)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0100	0.0072	0.0074	0.0085
Principal Payments (Domestic Debt)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0138	0.0067	0.0052	0.0045
Principal Payments (External Debt)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0036	0.0051	0.0058	0.0085

Sources: Bureau of Treasury.
National Economic and Development Authority.

NDC's Marina Properties, ₱1.5 billion from Philippine Plaza Hotel and ₱1.0 billion from the sale of 70 percent of Union Bank of the Philippines.

The privatization program was originally expected to be completed by December 1991. However, due to legal problems and the need for financial restructuring of many of the assets and GOCCs to be disposed of, only about 65 percent of the total had been privatized by the end of 1991. COP and APT were thus extended to August 31, 1992 by R.A. 7181 of January 17, 1992. This can be further extended by the President of the Philippines for not more than sixteen months thereafter.

Although much has been accomplished to strengthen the retained GOCCs and to privatize those not calling for government ownership or intervention, a lot still remains to be done in the government corporate sector. The financial viability of corporations such as the NPC which render essential services has to be restored in order to avoid further disruption of such services and economic activity. The government's long-term policy on the role of three corporations mandated to assist in agricultural and rural development - National Irrigation Authority through expanded irrigation facilities, National Food Authority through stable rice and corn prices, and National Electrification Administration through rural electrification - has to be spelled out clearly, including the amount of subsidies that the government is willing and able to give to these programs. Among the GOCCs earmarked for privatization, a time-bound action plan should be agreed upon by all parties concerned so that whatever financial restructuring is needed can be undertaken in a timely fashion. One such corporation with a large impact on the agricultural sector is the Philippine Phosphate Fertilizer Corporation (Philphos) on whose account phosphatic fertilizers continue to be protected by a five percent tariff even when the importation of other fertilizers has already been completely liberalized.

V. FINANCIAL SECTOR REFORMS

A. *Government Financial Institutions*

By the end of 1985, the two major government financial institutions (GFIs), the Philippine National Bank (PNB) and Development Bank of the Philippines (DBP), accounted for around half of total assets held by the banking system. Moreover, about 70 percent of the combined loan portfolio of PNB and DBP were non-performing and causing huge losses equivalent to almost three percent of GNP. To restore the financial viability of these two GFIs and to reduce their presence in the banking sector, the government initiated general policy reforms in the sector and supported rehabilitation programs for both PNB and DBP.

The Monetary Board of the Central Bank, through Resolution No. 1077 of November 28, 1986, issued revised policies with respect to the role of GFIs in the banking sector and their relationship vis-a-vis the national government. Henceforth, GFIs would (1) have limited market share relative to the entire banking system; (2) be financially viable and independent of government assistance; (3) be accorded equal treatment with private banks in terms of regulatory requirements; (4) borrow without national government guarantee except as may be required by official foreign sources in connection with debt restructuring; (5) have limited access to public sector deposits and be required to maintain liquidity balances against these deposits; and (6) not have to administer subsidized government credit programs from their own resources.

To enhance performance monitoring and increase accountability of GFIs by means of external audits, CB Circular No. 1124 was issued on December 5, 1986. It requires GFIs to submit to an annual financial audit to be conducted by an independent external auditor. CB Circular No. 1123 of December 5, 1986 revised the determination of the single borrower's loan limit under Section 23, R.A. 337 to include outstanding foreign and domestic standby and deferred letters of credit less marginal deposits and outstanding guarantees except those fully secured by cash, hold-out in deposits or government securities. CB Circular No. 1121 of November 14, 1986 limited government deposits at government depository banks to working balances and required that a 75 percent liquidity ratio in cash and government securities be maintained against these deposits.

Rehabilitation of PNB

To restore the financial viability of PNB and its ability to contribute to economic recovery particularly in the countryside, the PNB underwent a two-year rehabilitation program that included policy redirection, transfer of non-performing assets to the national government and institutional strengthening.

The Charter of the PNB was revised and embodied in E.O. 80 of December 3, 1986 to lay the groundwork for a smaller but stronger and more financially viable bank. It tightened controls and safeguards to avoid a repetition of the past accumulation of mandated and non-performing accounts. More specifically, it prohibited from borrowing from PNB, either directly or indirectly as representative or agent of others, the following: directors, officers and employees of PNB or any corporation or partnership wherein any PNB director, officer or employee and/or their relatives within the second degree of consanguinity or affinity is an official or controlling shareholder. The prohibition also applies to officers and personnel of agencies directly exercising regulatory authority over the PNB such as the Central Bank and Commission on Audit.

The PNB also adopted a policy statement to provide clear guidelines for the operation of the bank in accordance with the new emphasis on commercial viability and financial independence from the national government. The policies included the following: (1) interest rate policies shall ensure positive spreads and consistency with interest rates prevailing in the market; (2) loans are to be made on the basis of viability assessment; (3) uncovered foreign exchange risks are to be avoided and a favorable foreign exchange position maintained; (4) lending in support of government programs for social purposes is to be undertaken only if funds are specifically provided by the government and treated off books; (5) private deposits are to be actively sought to reduce dependence on government deposits; and (6) public offering of shares is to be initiated by early 1989.

To attain and maintain commercial viability, and at the same time support the economic priorities and programs of the government, it was agreed that the PNB must be allowed to start anew with a healthy balance sheet. Thus, an essential component of the rehabilitation plan was the transfer to the national government of ₱47 billion of non-performing assets, ₱55 billion of liabilities including government deposits and foreign borrowings, and ₱16.7 billion of contingent liabilities. The transfers reduced PNB's total assets from ₱76.1 billion in 1985 to ₱26.9 billion in 1986 and its capital accounts to the desired level of ₱2.5 billion.

Another important component of the rehabilitation plan was cost reduction through leaner staffing and streamlining of the branch network. By the end of the rehabilitation program in 1988, 2,002 personnel or 3.1 percent of the workforce had been separated from the bank. The resulting PNB personnel complement compared favorably to those in the private sector in relation to total assets, loans and deposits. Rationalization of the bank's domestic and overseas branch network also led to the abolition of ten regional offices and nine overseas offices and divestment of lending functions from 25 branch offices.

To ensure the PNB's overall operating efficiency, long-term viability and leading position in the commercial banking industry, major aspects of operational management and control were reviewed and restructured. Credit control was strengthened by consolidation of head office lending functions into one department, establishment of credit committees at various levels and adoption of an early warning system for problem loans. Financial management was strengthened by regular monitoring of and adherence to financial performance standards, integration of the planning and budgeting systems and adoption of a performance recognition scheme based on unit profitability. Operations management was improved with the automation of data processing in all bank units including provincial branches and the reorganization and realignment of functions and units. Staff performance was improved with revision of the performance appraisal system and implementation of comprehensive training programs.

The success of the PNB rehabilitation plan is shown by the substantial improvement in the bank's financial performance. Total assets increased from ₱26.9 billion in 1986 to ₱38.8 billion in 1988 (Table 13), way above the ₱32 billion projected under the rehabilitation plan. Net profits of ₱1.01 billion in 1987 and ₱1.85 billion in 1988 also exceeded projected levels of ₱30 million and ₱185 million, respectively. As a result of this unprecedented profit performance, the bank's capital accounts reached ₱5.01 billion in 1988, way above the projected level of ₱2.74 billion. In addition, PNB showed dramatic improvements in certain financial indicators on capital adequacy, liquidity, funds sourcing, asset quality and earnings performance.

The renewed strength and financial viability of the PNB enabled it to contribute to the developmental efforts of the national government particularly in domestic resource mobilization and expansion of credit services. PNB's total deposits more than doubled from ₱18.93 billion by the end of 1987 to ₱45.4 billion by the end of 1990, representing an average annual growth rate of 34.6 percent. The bigger part of this growth was accounted for by private deposits which grew almost threefold from ₱11.3 billion in 1987 to ₱29.5 billion in 1990. PNB's share in the total deposits of the commercial banking system steadily grew from 12 percent in 1987 to 15 percent in 1990. More significantly, deposits generated by the bank's countryside network grew at an annual average rate of 32 percent during the period, accounting for more than 50 percent of total private deposits and one-sixth of the total deposits generated in the countryside.

TABLE 13
PNB: KEY FINANCIAL PERFORMANCE INDICATORS, 1980 - 1990
(In Million Pesos)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Total Assets	38,652.1	44,866.3	58,709.8	70,502.3	87,196.1	76,156.9	26,913.2	31,267.6	38,758.1	56,302.0	73,742.4
Loans and Discounts	24,419.7	27,410.3	32,894.4	44,502.3	47,893.5	35,319.1	8,668.2	12,406.4	15,124.7	17,944.1	27,786.5
Earnings	3,310.3	5,655.6	6,586.4	7,738.3	9,170.8	5,176.1	3,941.2	3,398.1	4,998.3	6,777.3	10,675.1
Expenses	3,099.3	5,425.4	6,427.8	7,503.6	10,272.2	12,393.4	7,511.3	2,387.6	3,151.0	4,693.7	7,353.6
Net Profit (Loss)	211.0	230.1	158.6	234.7	(1,102.4)	(7,217.3)	(3,570.2)	1,010.5	1,847.3	2,083.6	3,321.5

Source of Basic Data: PNB Annual Reports (various years).

PNB also contributed to economic recovery and growth by providing increased credit to productive sectors, especially those in the countryside. PNB's loan portfolio of ₱29.4 billion at the end of 1990 was almost three times ₱10.3 billion level at the end of 1987, representing an annual average growth rate of 42 percent. Its share in the total outstanding loans of the entire commercial banking system steadily increased from 9.5 percent in 1987 to 14.2 percent in 1990. The proportion of countryside loans in PNB's loan portfolio averaged 22 percent in 1987-1990, substantially higher than the 16 percent ratio in the rest of the commercial banking system. In addition, PNB has provided financing under liberal terms to small and medium-scale enterprises and has specialized credit programs for those using indigenous inputs, those affected by the July 16, 1990 earthquake, small exporters, and market vendors.

The financial rehabilitation of PNB also made possible the successful public offering of 30 percent of its outstanding shares of stocks in July 1989. From the original offer price of ₱170 per share, share prices climbed to about ₱230 per share on the first trading day. During the first trading week, it reached a high of ₱309 per share. It continued its climb to reach a peak of ₱642.50 in mid-October 1989.

This initial public offering brought substantial benefits to the investing public and the national government. It dispersed ownership to over 25,000 new stockholders, four-fifths of whom were tapped by PNB's internal selling program through its nationwide network of branches. Many of these were ordinary citizens who were buying stocks for the first time. Thus, equities were more widely recognized as an alternative form of investment, even in the rural areas. The public offering allowed the national government to realize a cash income of ₱1.8 billion. The value of its remaining stockholdings also appreciated.

In March 1992, another 13 percent of the government's shares of stocks in PNB were offered to the public at ₱265 per share for immediate payment and ₱275 per share on deferred payment basis. This brought in gross revenues of ₱2.4 billion to the national treasury. Together with the ₱1.6 billion cash dividends since 1990, periodic stock dividends, proceeds from the sale of NPAs transferred to the national government and taxes paid by PNB, the cash proceeds of the two public offerings and the higher value of the PNB stocks remaining with the government have made the rehabilitation of PNB well worth the effort.

Rehabilitation of DBP

The Revised Charter of the DBP embodied in E.O. 81 of December 3, 1986 laid the groundwork for the rehabilitation program for DBP. Like the PNB, the DBP was allowed to start operations under the Revised Charter on a viable basis through the transfer of non-performing assets and liabilities. To carry out its primary objective of providing medium and long-term financing to the private sector, the DBP was to evolve into primarily a wholesale bank, channeling funds to other financial institutions for onlending to private business enterprises. Emphasizing financial viability and independence, DBP's operations were to be guided by the following policy directions: (1) it shall submit to the test of financial viability to ensure sound capital structure, generation of sufficient earnings to cover costs and earn a profit margin, build-up of appropriate reserves, and protection of its equity base; (2) it shall compete in the market and operate on an equal footing with its private sector counterparts; (3) public sector lending shall be avoided; (4) interest rates shall be guided by full recovery of all costs, and must be consistent with those prevailing in the market; (5) exposure to a single client shall be limited to 15 percent of DBP's unimpaired capital and surplus, and total equity investment in any single company shall be limited to 15 percent of DBP's own total equity; and (6) DBP shall conduct lending activities in support of government programs only if funds are specifically provided, it is appropriately compensated, and such lending is treated off books.

As with PNB, non-performing assets amounting to ₱61.4 billion and liabilities amounting to ₱62.2 billion were transferred from DBP to the national government in 1986. Total assets of DBP were thus reduced from ₱72 billion in 1985 to ₱9.5 billion in 1986. Bank costs were substantially reduced through branch network reorganization and staff retrenchment. The role of directors was limited to policymaking, with the exception of the Chairman and the Vice-Chairman who are the Chief Executive Officer and Chief Operating Officer of the bank, respectively. The job of managing units, departments, and banking groups was entrusted to a corps of professional managers. The credit review process was also upgraded through the introduction of the Risk Asset Management Manual, a standard credit evaluation tool of private banks. An extensive staff training and value formation program was institutionalized to make DBP personnel not only competent bankers but also effective agents of change and development.

DBP's rehabilitation program succeeded in restoring its financial viability. Total assets increased from ₱9.5 billion in 1986 to ₱11.4 billion in 1988 (Table 14). Net income improved dramatically from a net loss of ₱5.64 billion in 1985 and 1986 to a net profit of ₱1.65 billion in 1988. In addition, substantial improvements in key financial performance indicators were achieved.

Both as a bank and a development institution, the DBP has promoted the savings habit and encouraged deposits especially in the countryside. Between 1986 and 1990, DBP's deposits increased tenfold from ₱0.5 billion to ₱5.1 billion. The bank has also participated in the development of the capital market by designing and marketing special bonds such as the Cebu Equity Bond Units (CEBUs) and the Tulong sa Bayan Bonds intended to fund reconstruction efforts following the July 16, 1990 earthquake.

While increasing its retail lending from ₱5.2 billion in 1986 to ₱7.8 billion by the end of 1990, the DBP also embarked on wholesale lending operations primarily through the onlending of long-term funds sourced from multilateral financial institutions. The $65 million Industrial Investment Credit Project funded by the bank was the DBP's first wholesale facility. The administration of the APEX credit facility and the Industrial Guarantee Loan Fund (IGLF) was transferred from the Central Bank to the DBP in 1990. As a result, DBP has become a valuable source of medium to long-term financing for agricultural and industrial enterprises. Through the bank's special development lending window, it also meets the special credit needs of farmers' cooperatives, irrigation service associations, jeepney drivers' cooperatives and exporters' associations.

TABLE 14
DBP: KEY FINANCIAL PERFORMANCE INDICATORS, 1980 - 1990
(In Million Pesos)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Total Assets	27,086.2	34,706.8	43,988.5	54,934.0	66,800.2	72,043.0	9,503.6	10,531.6	11,432.5	11,322.0	17,151.7
Loans and Advances	15,933.8	18,516.5	22,875.4	30,919.7	35,827.6	24,758.0	5,271.1	4,394.5	5,005.0	6,019.8	9,203.0
Earnings	2,673.7	3,419.7	4,369.6	5,369.8	2,648.0	3,140.2	2,138.5	1,777.2	2,568.3	1,950.5	2,727.7
Expenses	2,435.7	3,315.9	4,298.0	5,272.0	8,607.5	8,776.7	8,776.4	965.4	883.1	849.1	1,391.3
Net Profit (Loss)	223.1	108.7	117.3	110.2	(6,640.9)	(5,636.5)	(5,638.2)	782.6	1,647.7	1,070.1	1,051.5

Source of Basic Data: PNB Annual Reports (various years).

Disposition of Transferred Assets and Government-Controlled Banks

The non-performing accounts transferred from PNB and DBP to the national government were made part of the government's privatization program and were included in the 399 accounts entrusted to the APT for disposition.

Of the six banks that came under the control of the Central Bank, Commercial Bank of Manila, Pilipinas Bank and Republic Planters Bank have been fully sold while Union Bank and International Corporate Bank have been partially sold. Legal entanglements continue to stand in the way of the privatization of Associated Bank.

B. *Private Financial Institutions*

With the successful rehabilitation of the two major government financial institutions, PNB and DBP, and the reduction of their relative importance in the banking sector by 1988, the Aquino government focused its efforts towards the strengthening of the private commercial banking system and enhancing its financial intermediation services. These required that the regulatory and supervisory powers of the Central Bank be reinforced, arrangements for depositor protection strengthened and intermediation costs be reduced.

Amendments to the Central Bank Act were proposed to introduce cease and desist orders as an alternative enforcement instrument, to waive secrecy accorded to deposits of directors, officers, stockholders and related interests with banks, and to protect CB personnel against personal losses arising from suits brought against them for action taken in the performance of their official duties. While awaiting Congressional approval of an amended Central Bank Act, the Monetary Board of the Central Bank tightened the guidelines for the valuation of assets, setting of loan loss provisions and treatment of trust accounts. Reporting requirements for commercial banks were also streamlined and revised to make them more consistent with generally accepted accounting principles.

Amendments to the Philippine Deposit Insurance Corporation (PDIC) Act were also proposed to appoint PDIC as receiver for all failed banks and to empower PDIC to institute civil suits against directors and officials of these banks when necessary. R.A. 7400 which was signed into law on April 13, 1992 included these proposed provisions and increased PDIC's capitalization from ₱2 billion to ₱3 billion. To prepare PDIC for its enlarged role, an institutional strengthening program has also been implemented.

To reduce intermediation costs, competition in the banking sector was fostered through a two-pronged approach of allowing new banks and branches to open while at the same time limiting the assistance that the Central Bank could extend to distressed banks. The moratorium on the establishment of new banks since 1971 was lifted and the restrictions on the opening of new branches substantially eased. For example, purchase of special five-year government securities is no longer required for branch openings. On the other hand, Central Bank assistance to distressed banks was limited to 50 percent of their deposits and deposit substitutes, to be disbursed in two tranches so that the distressed bank's efforts to rehabilitate itself may be properly evaluated before the second tranche, and to be given only when the problem is one of liquidity and not solvency. By making it easier for weak banks with high operating costs to go out of business, it is expected that the remaining banks with healthy balance sheets would attempt to gain market share by lowering prices.

While this is a reasonable expectation, additional ways of making the existing banks compete more against each other should be found so that they may provide their services at a lower cost and to a wider range of clients. The liberalization of foreign exchange rules and regulations is a step in this direction. To further reduce intermediation costs, government-imposed taxes and reserves should also be reviewed and possibly reduced. The gradual phase-out of the gross receipts tax would certainly help in this respect. The reduction of reserve requirements, which at 25 percent is the highest in the region, would help even more. But this will require that the Central Bank's net income position be improved so that it may exercise its liquidity control functions through alternative means to a greater extent.

VI. FOREIGN EXCHANGE LIBERALIZATION

To help boost exports, attract foreign investments, and thereby improve the country's external payments position, the Monetary Board of the Central Bank instituted in January 1992 major changes in the policies governing the use and allocation of foreign exchange. The changes included: (1) increased allowable retention of export receipts by commodity exporters from 2 percent to 40 percent; (2) increased access of exporters to the foreign currency deposit system; and (3) liberalization of non-trade foreign exchange regulations.

Under CB Circular No. 1291 of July 2, 1991, commodity exporters were no longer required to surrender 100 percent of their foreign exchange earnings. They were allowed to retain two percent for their trade-related foreign exchange obligations. Although the move was welcomed by exporters as a step in the right direction, the allowable retention limit was deemed too small. The Monetary Board increased this limit to 40 percent under CB Circular No. 1319 of January 3, 1992. At the same time, service exporters listed in CB Circular No. 1318 were allowed to net out all operational expenses paid in foreign exchange, without limits on specific types of claims or prior clearance from the Central Bank, from their foreign exchange earnings before remitting these. To further enhance the competitiveness of commodity exporters, free use of their 40 percent retained foreign exchange earnings was allowed under CB Circular No. 1334 of April 1, 1992. Reporting requirements on individual transactions were also removed. Service exporters were given the choice to be treated under CB Circular No. 1334 or CB Circular No. 1318.

Allowing exporters to retain a substantial portion of their foreign exchange earnings for their own use - either for foreign-currency denominated trade-related expenses or other obligations, or for sale to the local banks - enables them to realize greater benefits from the fruits of their labor. For one thing, it can lower their transaction costs since buying and selling foreign exchange through the commercial banking system entails fees and charges both ways. It also allows them to mitigate the adverse effects of exchange rate movements to a certain extent. When the Philippine peso depreciates, they can hold on to their foreign-exchange earnings until such time that they need to make foreign-currency - denominated payments. When the peso appreciates, they can sell their foreign exchange to the banking system and buy when necessary.

To further assist exporters with their working capital requirements, their access to loans from Foreign Currency Deposit Units (FCDUs) has been enlarged under CB Circular No. 1317 of December 11, 1991 from 50 percent to a maximum of 70 percent of the irrevocable export letter of credit, purchase order or sales contract. Proceeds can be availed of in pesos for local costs or in foreign exchange for imported inputs. Payment for the loans can be directly deducted from export earnings. Interest rates for the loan shall be determined by those prevailing in the market.

A revised manual of rules and regulations to govern non-trade foreign exchange transactions was issued as CB Circular No. 1319 on January 3, 1992. The mandatory surrender of foreign exchange earnings was limited to certain resident firms such as those engaged in overseas placement of workers, insurance, telecommunications, tourism-related activities, international flight and shipping operations and construction overseas, or for foreign-assisted projects. Excluded were overseas contract workers who are now free to keep or dispose of their foreign exchange earnings as they please. Foreign exchange not covered by the mandatory surrender requirement may be freely sold in or brought out of the country. While foreign exchange can be brought in freely into the country, Philippine currency may not be brought out of the country in excess of ₱5,000 without prior authorization from the Central Bank.

The limits on the sale of foreign exchange for travel, study, medical treatment, or support for dependents abroad, were also increased to more realistic and appropriate levels. The rules and procedures for the sale of foreign exchange for other purposes such as foreign advertising costs, taxes due to foreign governments, technology transfer payments, royalties, retainer fees, reinsurance premiums and lease payments for aircraft were also rationalized and streamlined.

With respect to foreign investments in the Philippines, either in the form of equity, listed shares or government securities, capital as well as dividends or interest earnings can be repatriated without prior Central Bank approval, so long as investors have registered with the Central Bank. However, overseas investments by Philippine residents will still need Central Bank approval.

Although it may not be possible to fully assess the impact of these recent liberalization moves at the present time, it should at least be noted that the worst fears of Central Bank officials of a big and sudden devaluation of the peso have not materialized. In fact, the Philippine peso has even been appreciating vis-a-vis the U.S. dollar since the beginning of 1992. It could very well be that the liberalization moves were timed, coinciding with heavy foreign exchange inflows. However, it is equally plausible that the liberalization itself brought about at least some of these inflows. For example, the 40 percent retention limit may have given exporters an incentive to bring home their foreign exchange earnings rather than keep them in deposits abroad. Overseas contract workers may have become less apprehensive about sending their remittances through banking channels since the Central Bank will no longer have any say in their conversion or disposition. Investors may also have been greatly encouraged by the easing up of restrictions on repatriation of capital and earnings. In any case, these liberalization moves should help the peso attain its true value under varying circumstances.

VII. INVESTMENT INCENTIVES

With the restoration of democratic political institutions, dismantling of crony corporations and monopolies, and elimination of unnecessary distortions in the commodity and factor markets, business confidence in the resilience and potentials of the Philippine economy was revived during the early part of the Aquino administration. A favorable macroeconomic environment helped translate this cautious optimism into actual investments. Inflation was virtually non-existent at 0.8 percent in 1986 and hardly felt at 3.8 percent in 1987. Nominal interest rates on secured loans declined from a high of 24.5 percent in March 1986 to 13.9 percent in December and averaged 13.3 percent in 1987. With the growth in the level of gross international reserves from about $900 million by the end of February 1986 to $2.5 billion by the end of 1986, levelling off at around $2 billion in 1987 and 1988, and the Philippine peso substantially retaining its value vis-a-vis the U.S. dollar, the stage was set for the resurgence of both local and foreign investments.

Through the Omnibus Investments Code of 1987, the Philippine government offered prospective foreign investors a package of fiscal incentives equal to, if not better than, those offered by other countries in the Asia-Pacific region. These incentives included income tax holidays, tax and duty exemptions on capital equipment, tax credits for raw materials and additional deductions for labor expenses. It provided additional incentives for industries to set up in depressed or far-flung areas.

Measures were also undertaken to streamline the process for registering with the Board of Investments (BOI) and for availing of the investment incentives. A One-Stop Action Center housing all government agencies involved in the processing of such applications was set up under the BOI. Procedures for the release of shipments from the Bureau of Customs were also streamlined.

The debt to equity conversion program was introduced by the Central Bank in August 1986 to attract capital from abroad, including those repatriated by local businessmen. Under the program, conversion of certain classes of outstanding commercial debts into equity investments in priority areas of the economy was allowed to take advantage of the discounts prevailing in the secondary market. As of September 30, 1991, there were 631 applications involving $3.1 billion filed with the Central Bank. Of these, 566 applications amounting to $1.9 billion have been approved. A total of 315 approved transactions have been closed, generating $1 billion in new investments.

The strong response of investments to the hospitable macroeconomic environment and investment climate is indicated by the amount of equity investments for projects approved by the Board of Investments. This doubled annually from ₱3.14 billion in 1986 to ₱8.36 billion in 1987, ₱18.81 billion in 1988 and ₱39.68 billion in 1989 (Table 15). Of the total amount, a little less than 50 percent is accounted for by foreign investors, notably from Japan, Taiwan, Hongkong and the United States. Balance of payments data show that actual inflow of foreign investments has been increasing. From $186 million in 1986, it grew to $439 million in 1987, to a high of $1,077 million in 1988, decreasing slightly to $972 million in 1989.

TABLE 15
INVESTMENT PROJECTS APPROVED BY THE BOARD OF INVESTMENTS

	1986	1987	1988	1989	1990	1991
Total Project Cost (P Billion)	3.20	11.90	32.85	70.78	108.43	83.51
Total Equity Investment (P Billion)	3.14	8.36	18.81	39.68	48.03	43.70
Filipino	1.55	4.93	8.83	22.20	24.66	22.19
Foreign	1.59	3.43	9.98	17.48	23.37	21.51
Employment Generation (Thousand)	**26.20**	**82.10**	**128.05**	**153.49**	**113.29**	**63.51**

Compared with other countries in the ASEAN region, however, the Philippines has been attracting a very small portion of total foreign investments that have poured into the region. The need to generate more investments is made even more urgent by the need to provide employment opportunities for a growing population.

Philippine investment laws have had certain provisions which deterred prospective foreign investors. Foremost among these were the limitations on foreign equity participation in certain business activities and on foreign ownership of land. An inter-agency committee within the executive department reviewed the Constitutional provisions and nationalization laws that restrict foreign equity participation to 40 percent or less. It recommended that all limits be raised to 40 percent except for activities directly related to national security and those which are better reserved for Filipinos (e.g. mass media, advertising, retail trade, recruitment for local or overseas employment). The limit could not be set beyond 40 percent in view of the existing definition of a Philippine national which includes enterprises with at least 60 percent Filipino capital.

On June 13, 1991, R.A. 7042 or the Foreign Investment Act of 1991 was signed into law. It allows foreign investors to engage in both export and domestic-market-oriented activities with up to 100 percent equity participation except in areas specified in a negative list. This is a list of investment areas where foreign equity participation is limited to a maximum of 40 percent or prohibited completely. Furthermore, foreign-owned enterprises not seeking incentives under the 1987 Omnibus Investments Code are no longer required to seek prior approval from the BOI. Of even greater significance is the transitory provision which allows, during the first three years of its effectivity, up to 100 percent foreign equity ownership in all areas except where proscribed by the Constitution and existing nationalization laws. Although the Implementing Rules and Regulations and Foreign Investments Negative List were issued on October 24, 1991 and became effective on November 12, 1991, further clarifications and improvements remain to be made. For example, basic concepts such as "strategic industries", "advanced technology", "sufficient competition" and "ample industrial capacity" need to be more precisely and operationally defined. Clear guidelines and procedures that leave a minimum discretionary power on the part of government authorities still have to be worked out.

More legislation may also have to be passed to complement the steps taken under the Foreign Investment Act. Although the Act facilitated the entry of foreign investments into areas where they were allowed, the areas declared off-limits to them by various nationalization laws remain quite substantial. A further review and possible amendment of these laws would show the serious intent of the government to harness foreign investments in its development effort. Other areas for proposed legislation include: foreign ownership or longer leases of land used as production or factory sites; simplification and universalization of the fiscal incentive system; and the transformation of the Board of Investments into an investment and trade promotion agency. Such legislation will have to be seriously reconsidered and passed, if deemed appropriate, within a reasonable period so that they may help bring in the foreign investments that the 1991 Foreign Investments Act has made possible.

VIII. PUBLIC INVESTMENTS

Due to revenue constraints and limited access to external financing, public investments fell from a high of 7.7 percent of GNP in 1983 to 3.7 percent in 1985 and 3 percent in 1986. The energy, transportation and water supply crisis in the late 1980's had origins in these reductions. Economic recovery could not be sustained without substantial increases in public investments.

The Medium Term Public Investment Program (MTPIP) for 1987-1992 envisioned a public sector investment rate of 5 to 6 percent of GNP annually. However, financial constraints, institutional weaknesses and natural disasters combined to limit public investments to just 3.5 percent of GNP in 1987, 3.1 percent in 1988 and 4.1 percent in 1989. It was only in 1990 that the 5.5 percent share fell within the target range (Table 16).

The MTPIP is updated every year to reflect changes in sectoral priorities, developments in the macroeconomic environment and improvements in the absorptive capacity of the government to finance and implement projects. Shifts in emphasis from the industrial sector to agriculture and rural development, as well as to social sectors such as education and health, have been noted. However, about half of the proposed investments under the MTPIP have been accounted for by capital-intensive projects in three sectors: power (18 percent), transportation (18 percent) and water resources (14 percent) (Table 17).

To accelerate project development and implementation under the MTPIP, various administrative improvements and institutional support measures were put in place. These measures have been geared more towards the improvement of the managerial capabilities of implementing agencies and the coordination among oversight agencies rather than the unnecessary relaxation of project selection criteria and project implementation controls.

In order to ensure the provision of support facilities and increased maintenance expenditures to maximize benefits from existing infrastructure facilities, maintenance and other operating expenses (MOOE) in the economic and social sectors were also targetted to recover their 1982 real level of ₱12.4 billion. This level has not yet been achieved (Table 18). However, it can be observed that M & O did grow rapidly over the period to reach the 1983 level of ₱10.5 billion. From ₱7.7 billion in 1986, it increased to ₱9 billion in 1987, ₱9.3 billion in 1988 and ₱10.7 billion in 1989.

In late 1990, a program of fiscal prudence was adopted. With the exception of outlays alloted for the maintenance of hospitals, roads, bridges, schools, and flood control facilities, maintenance and operating expenditures for 1990 remained close to the 1989 real level, growing only by a marginal 17 percent from the 1989 nominal level.

Implementation of the MTPIP is monitored on a quarterly basis by the National Economic Development Authority. With the establishment of a computerized data base system in 1987, the scope of quantitative monitoring has been expanded to include non-infrastructure components of the program. Likewise, the timeliness of reports on the financial status and physical accomplishments of individual projects has been improved. The Project Facilitation Committee was also organized in 1987 to monitor the

TABLE 16
PUBLIC INVESTMENTS IN NOMINAL VALUES
1980 - 1990

YEAR	NATIONAL GOVERNMENT	14 MONITORED GOVERNMENT CORPORATIONS	LOCAL GOVERNMENT UNIT	TOTAL PUBLIC SECTOR	PERCENTAGE OF GNP
1980	8.4	11.1	0.5	20.0	7.6
1981	12.7	13.9	0.6	27.2	9.0
1982	9.3	13.3	0.7	23.3	6.6
1983	10.4	18.1	0.8	29.3	7.7
1984	9.7	12.9	0.9	23.5	4.5
1985	8.8	12.4	0.8	22.0	3.7
1986	11.7	5.9	0.6	18.2	3.0
1987	14.7	8.3	1.5	24.5	3.5
1988	15.3	9.0	1.4	25.7	3.1
1989	20.9	14.9	1.8	37.6	4.1
1990	29.1	27.3	2.6	59.0	5.5

Source of Basic Data: National Economic and Development Authority.
Department of Budget and Management.

TABLE 17

MEDIUM-TERM PUBLIC INVESTMENT PROGRAM

SECTOR	INVESTMENT REQUIREMENTS	
	In Billion Pesos	Percentage of Total
Agricultural and Agrarian Reform	43.26	7.30
Natural Resources	41.01	6.92
Industry and Tourism	44.91	7.58
Social Services	34.46	5.82
Transportation	104.67	17.67
Water Resources	80.64	13.62
Social Infrastructure	25.64	4.33
Energy, Power and Electrification	108.23	18.27
Communications	19.76	3.34
Other Projects	89.70	15.14
GRAND TOTAL	**592.28**	**100.00**

TABLE 18

REAL LEVELS OF EXPENDITURES OF THE NATIONAL GOVERNMENT, OBLIGATION BASIS, 1980 - 1990

(In Million Pesos)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
CURRENT OPERATING EXPENDITURES	**28,436**	**30,042**	**32,658**	**30,884**	**25,673**	**27,803**	**35,527**	**43,658**	**50,195**	**54,450**	**59,521**
Personal Services	11,653	14,293	13,583	12,789	10,954	11,145	14,284	14,603	18,419	19,874	23,440
Maintenance & Other Operating Expenses	10,843	10,499	12,381	10,490	6,221	6,966	7,733	9,019	9,332	10,696	10,068
Allotment to Local Government Units	1,715	1,890	2,291	2,326	1,670	1,780	1,693	1,776	1,843	1,275	1,646
Interest Payments	2,762	2,633	3,560	4,475	6,221	7,407	10,822	17,089	19,377	20,863	21,861
Petroleum Price Standby Fund	0	0	0	0	0	0	0	0	0	0	1,688
Subsidies	1,463	727	843	803	607	505	994	685	970	1,360	817
Tax Expenditures	0	0	0	40	0	0	0	468	253	382	0
CAPITAL OUTLAYS	**15,010**	**20,571**	**14,934**	**13,861**	**9,953**	**7,966**	**11,036**	**9,382**	**7,705**	**10,457**	**15,285**
Infrastructure	5,752	6,641	5,856	5,566	2,654	3,132	2,920	3,202	3,639	3,744	5,346
Corporate Equity	7,019	11,581	7,414	4,979	5,456	2,412	6,161	2,137	896	1,031	1,105
Other Capital Outlays	2,239	2,349	1,664	3,317	1,844	2,422	1,955	4,043	3,170	5,682	8,835
NET LENDING	**812**	**1,007**	**2,218**	**2,143**	**2,643**	**848**	**7,585**	**3,277**	**2,288**	**607**	**(159)**
DEBT AMORTIZATION	**1,548**	**1,592**	**1,332**	**3,090**	**2,742**	**2,072**	**3,229**	**15,183**	**10,755**	**10,624**	**10,091**
T O T A L	**45,807**	**53,212**	**51,142**	**49,979**	**41,012**	**38,690**	**57,377**	**71,500**	**70,943**	**76,137**	**84,738**

Source of Basic Data: Department of Budget and Management.

implementation of foreign-assisted projects and help resolve bottlenecks at both policy and procedural levels.

Due to continuing constraints on the financial resources of the national government and government-owned or controlled corporations, and the urgent need for public infrastructure especially in the energy and telecommunications sectors, private sector participation through the Build-Operate-Transfer (BOT) scheme is being allowed and encouraged. Other means of private sector involvement in the construction, operation and maintenance of public infrastructure facilities should also be explored.

IX. DEREGULATION AND DEMONOPOLIZATION

A. *Agricultural Sector*

From an average of 5.3 percent in 1975-1980, growth in the agricultural sector slowed down to an average of 2 percent in 1980-1985 and actually turned negative in 1983. Among the principal factors accounting for the poor performance of agriculture were adverse weather conditions and external markets as well as severe contraction of imports and credit facilities. Moreover, the disincentives to agricultural production resulting from pervasive government intervention in the pricing, domestic marketing and international trading of agricultural products as well as vital agricultural inputs also took their toll. Most of these interventions took either the form of product-specific taxes or levies or monopolies on milling, importation and/or exportation. These interventions were most strongly felt in the two major agricultural export products, sugar and coconut, and in two major agricultural inputs, fertilizers and animal feeds.

Thus, very early in the Aquino administration, institutional and policy reform measures were undertaken to raise farm incomes and to allow greater private sector participation in agricultural trade and development. In the sugar industry, these included: (1) abolition of the export and domestic trade monopoly then enjoyed by the Philippine Sugar Marketing Corporation (PHILSUMA) and previously by the National Sugar Trading Agency (NASUTRA); (2) dissolution of the Philippine Sugar Commission (PHILSUCOM) and its replacement with the Sugar Regulatory Administration (SRA); and (3) full reinstatement of the traditional warehouse receipt or quedan system to ensure the accurate monitoring of sugar stocks and sales.

In the coconut sector, the important changes included: (1) abolition of the export monopoly exercised by the mills owned by UNICOM; (2) lifting of the ban on copra exports; (3) lifting of the ban on new processing facilities. The regulatory body in the coconut industry, the Philippine Coconut Authority, as well as that in the sugar industry, previously the PHILSUCOM, were also put under the jurisdiction of the Department of Agriculture. They used to report directly to the Office of the President.

With regards to agricultural inputs, the importation and distribution of urea and potash were liberalized to allow private sector participation. This led to smaller margins between import and farmgate prices and increased use of fertilizers. The exclusive license of the National Food Authority to import wheat, corn and soybean meal was also withdrawn and private sector participation encouraged.

B. *Transportation Sector*

Within the bounds of existing laws, the Aquino government has implemented a number of liberalization measures so as to improve the quantity, quality and cost of transportation services. An important step has been increasing the number of carriers in air, land and sea transport through the reduction or elimination of price and other barriers to entry.

To encourage new participants and expansion activities among existing carriers, fares have been deregulated in some areas while a fare range scheme has been introduced in others. Rates that have been deregulated include those for interisland shipping of refrigerated boxes and livestock, and first and second class passengers in land and water transport. Instead of a single, mandatory fare, a range above and below a guiding rate has been allowed for third class passage in provincial buses nationwide and has been prescribed for interisland liner vessels for implementation in January 1993.

With regards to entry into the transportation sector, the Department of Transportation and Communication has stated through Department Order No. 92-587 that no franchise holder shall be permitted to maintain a monopoly on any route. A minimum of two franchise holders shall be permitted to operate on any route. In the airline industry, the one-airline policy for the domestic market has already been repealed.

Such a policy is already being implemented with respect to cargo handling facilities in ports with at least 300,000 metric tons handled per year. The Philippine Ports Authority has carried out its demonopolization program since 1988 and has succeeded in introducing a second contractor in four major ports: Cagayan de Oro, Zamboanga, Iloilo and Davao. With increased competition, the quality of services is expected to improve and the cost to go down.

The above liberalization moves have to be accelerated and made more effective so that the cost of transporting passengers, raw materials and finished products can be lowered. Consequently, goods for local consumption or export can be made more affordable and competitive.

X. ENVIRONMENTAL PROTECTION

A. *Rehabilitation of Ecosystems*

To counter the denudation of forests during the past twenty years and its ill effects on water supply, flood control, and the environment in general, the Aquino government launched the National Reforestation Program (NRP) as part of the Philippine Strategy for Sustainable Development (PSSD). The rehabilitation of degraded forest ecosystems and reforestation of critical watershed areas were the major priorities of the NRP. This was done by enlisting the government enlisted the support of families and communities living in the area, non-governmental organizations, leaseholders and local government units. About 150,000 hectares have been reforested on an annual basis while about 3,000 hectares of watershed areas have been rehabilitated annually.

Aquatic resources had to be similarly regenerated, conserved and utilized in a sustainable manner. A Fisheries Sector Development Program was adopted in 1989 to rehabilitate the coastal zone environment, intensify aquaculture production within the limits of ecological balance, and manage the exploitation of offshore, deep sea resources. As in reforestation, community-based initiatives and the active participation of local government units were encouraged to ensure the program's success.

B. *Environmental Management*

To avoid or minimize the environmental damage or dislocation caused by mining and other economic activities, of an Environmental Impact Assessment is required by the Environmental Management Bureau prior to the granting of permits to build and operate plants.

In the National Capital Region, a Rivers Revival Program was launched in 1987 to reduce pollution in rivers and make them alternative transportation routes. A drive against vehicles with excessive visual emissions was also implemented in the metropolis.

The protection of endangered flora and fauna is also being pursued through the development of the Integrated Protected Areas System (IPAS). Conservation and breeding programs for particular species such as the sea turtle, monkey-eating eagle and tamaraw are also being vigorously implemented.

With the continuing efforts to rehabilitate damaged ecosystems and prevent further damage through strict enforcement of environmental laws and procedures, the Aquino government has attempted to ensure that economic growth is achieved without sacrificing the country's rich biological and natural resources.

XI. AGRARIAN REFORM

The Comprehensive Agrarian Reform Program (CARP) was mandated by the 1986 Constitution and formally launched by the signing into law of the Comprehensive Agrarian Reform Law (CARL) or R.A. 6657 on June 15, 1988. The CARP seeks to enhance agricultural and rural development by promoting social stability and increasing productivity through the just and speedy redistribution of agricultural land and the provision of necessary support services. It aims to improve the standard of living of small farmers and their families who form the mass base of Philippine society, by allowing them to directly or collectively own the land that they till. CARP covers a total of 10.29 million hectares and aims to reach about 3.9 million beneficiaries.

They are not only awarded land titles but also provided the support services needed to increase productivity. Important support activities include provision of credit and marketing assistance, agricultural extension services, and rural infrastructure such as irrigation, feeder roads and post-harvest facilities. Training in community organization and enterprise development is also provided to support the transformation of CARP beneficiaries from being mere laborers or farm hands to farm managers.

CARP is being implemented in three phases from 1987 to 1997. Phase I covers 1.05 million hectares of rice and corn land, idle and abandoned land, voluntarily offered private land, and all government land suitable for agriculture. Phase II covers about 7.66 million hectares of public alienable and disposable land, public agricultural land already under cultivation, resettlement areas, and private agricultural land in excess of 50 hectares. Phase III covers about 1.58 million hectares of private agricultural land between 5 and 50 hectares.

During the period 1987 to 1990, about 1.1 million hectares of land were distributed to 653,000 farmer-beneficiaries. The bulk of the lands distributed were rice and corn lands, public alienable and disposable lands, resettlements and landed estates, and lands turned over by government financial institutions and government corporations. The number of private lands redistributed was smaller because of land valuation problems. Non-land transfer activities such as leasehold operations, production and profit sharing, and stock distribution were also undertaken during the period.

During the same period, production loans amounting to ₱4.3 billion were extended to farmer-beneficiaries through the Land Bank of the Philippines. A total of 82 common service facilities for agro-industrial activities such as food processing, soap production, coco-charcoal making and ceramic and brick manufacturing were established for the benefit of 4,072 farmer-beneficiaries. About 56 micro-projects on production, marketing and livelihood support were carried out and training in organization and capability-building was conducted for 102,443 beneficiaries.

Annex 1

TRANSACTIONS EXEMPTED FROM THE VALUE-ADDED TAX[1]

(1) Sale of nonfood agricultural, marine and forest products in their original state by the primary producer or the owner of the land where the same are produced.

(2) Sale or importation in their original state of agricultural and marine food products; livestock and poultry of a kind generally used as, or yielding or producing food for human consumption; and breeding stock and genetic materials therefor. Products classified under this paragraph and paragraph (a) shall be considered in their original state even if they have undergone the simple processes of preparation or preservation for the market, such as freezing, drying, salting, smoking or stripping. Polished and/or husked rice, corn grits and raw cane sugar shall be considered in their original state for purposes of this paragraph.

(3) Sale or importation of fertilizers, pesticides and herbicides; chemicals for the formulation of pesticides, seeds, seedlings and fingerlings; fish, animal and poultry feeds; and soya bean and fish meals;

(4) Sale or importation of petroleum products (except lubricating oil, processed gas, grease, wax and petroleum) subject to excise tax imposed under Title VI.

(5) Sale or importation of raw materials to be used by the buyer or importer himself in the manufacture of petroleum products (except lubricating oil and grease) subject to excise tax;

(6) Printing, publication, importation or sale of books and any newspaper, magazine, review, or bulletin which appears at regular intervals with fixed prices for subscription and sale and which is not devoted principally to the publication of advertisements;

(7) Importation of passenger and/or cargo vessels of more than ten thousand tons, whether coastwise or ocean-going, including engine and spare parts of said vessel, to be used by the importer himself as operator thereof;

(8) Importation of personal and household effects belonging to residents of the Philippines returning from abroad and non-resident citizens coming to resettle in the Philippines; Provided, that such goods are exempt from customs duty under the Tariff and Customs Code of the Philippines;

(9) Importation of professional instruments and implements, wearing apparel, domestic animals, and personal household effects (except any vehicle, vessel, aircraft, machinery, other goods for use in manufacture and merchandise of any kind in commercial quantity) belonging to persons coming to settle for the first time in the Philippines, for their own use and not for sale, barter or exchange, accompanying such persons, or arriving within ninety days before or after their arrival, upon the production of evidence satisfactory to the Commissioner of Internal Revenue, that such persons are actually coming to settle in the Philippines and that the change of residence is bona fide;

(10) Services rendered by persons subject to percentage tax under Title V;

(11) Services by agricultural contract growers and milling for others of palay into rice, corn into grits and sugar cane into raw sugar;

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[1] Per Executive Order No. 273 dated 25 July 1987.

(12) Medical, dental, hospital and veterinary services;

(13) Educational services rendered by private educational institutions, duly accredited by the Department of Education, Culture and Sports, and those rendered by government educational institutions;

(14) Sale by the artist himself of his works of art, literary works, musical compositions and similar creations, or his services performed for the production of such works;

(15) Services performed as actors or actresses, talents, singers and emcees; radio and television broadcasters, choreographers; musical, radio, movie, television and stage directors;

(16) Services performed as professional athletes;

(17) Leasing of real property;

(18) Services performed in the exercise of profession or calling (except customs brokers) subject to the occupation tax under the Local Tax Code, and professional services performed by registered general professional partnerships;

(19) Services rendered by individuals pursuant to an employer-employee relationship;

(20) Services rendered by regional or area headquarters established in the Philippines by multinational corporations which act as supervisory, communications and coordinating centers for their affiliates, subsidiaries or branches in the Asia-Pacific region and do not earn or derive income from the Philippines;

(21) Transactions which are exempt under special laws or international agreements to which the Philippines is a signatory;

(22) Export sales by persons who are not VAT-registered; and

(23) Sales and/or services performed by persons other than those mentioned in the preceding paragraphs whose annual gross sales and/or receipts do not exceed the amount prescribed in regulations promulgated by the Secretary of Finance which shall not be less than ₱100,000.00 or higher than ₱500,000.00.

Annex 2

WEIGHTED AVERAGE EFFECTIVE PROTECTION RATES BY MAJOR GROUPS

SECTOR GROUP	Effective Protection Rates (%)					
	Current	Year 1	Year 2	Year 3	Year 4	Year 5
ALL SECTORS	25	24	23	21	21	19
Exportables	-3	-3	-3	-3	-3	-3
Importables	47	46	44	41	40	37
AGRICULTURE, FISHERY AND FORESTRY	4	5	4	4	3	2
Exportables	-5	-5	-5	-5	-5	-5
Importables	42	48	43	39	35	30
MINING	4	5	5	5	5	5
Exportables	-2	-1	-1	-1	-1	-1
Importables	25	26	26	26	26	26
MANUFACTURING	35	33	32	30	29	28
Exportables	0	0	0	0	0	0
Importables	48	46	44	42	42	38

WEIGHTED AVERAGE EFFECTIVE PROTECTION RATES BY MANUFACTURING SUB-GROUPS

SECTOR GROUP	Effective Protection Rates (%)					
	Current	Year 1	Year 2	Year 3	Year 4	Year 5
FOOD PROCESSING	28	30	28	27	26	25
Exportables	-4	-3	-3	-3	-3	-3
Importables	40	42	40	38	37	35
BEVERAGES AND TOBACCO	41	40	40	40	40	40
Exportables	-9	-12	-12	-12	-12	-12
Importables	90	90	90	90	90	90
TEXTILES AND FOOTWEAR	22	22	22	17	17	14
Exportables	0	0	0	0	0	0
Importables	76	74	74	59	59	48
WOOD AND WOOD PRODUCTS	20	21	21	21	21	21
Exportables	20	21	21	21	21	21
Importables	-	-	-	-	-	-
PAPER, RUBBER, LEATHER AND PLASTIC PRODUCTS	76	76	72	68	65	62
Exportables	11	-12	-12	-12	-12	-12
Importables	85	85	81	78	73	70
CHEMICALS AND CHEMICAL PRODUCTS	48	40	38	37	36	34
Exportables		-	-	-	-	-
Importables	48	40	38	37	36	34
NON-METALLIC MINERAL PRODUCTS	41	29	29	29	29	28
Exportables	-5	-3	-4	-3	-3	-3
Importables	41	29	30	30	29	29
BASIC METALS AND METAL PRODUCTS	85	79	77	68	65	62
Exportables	-6	-3	-3	-3	-3	-3
Importables	86	80	78	69	67	63
MACHINERY INCL. ELECTRICAL AND TRANSPORT EQUIPMENT	40	40	37	32	29	25
Exportables	0	0	0	0	0	0
Importables	50	49	46	55	36	31
MISCELLANEOUS MANUFACTURING	37	37	37	36	35	34
Exportables	-2	-1	-1	-1	-1	-1
Importables	53	53	52	51	50	49

WEIGHTED AVERAGE EFFECTIVE PROTECTION RATES BY MANUFACTURING SUB-GROUPS

SECTOR GROUP	CURRENT	YEAR 5	
		EPR (%)	% CHG.
FOOD PROCESSING	28.38	24.70	-12.97
Exportables	-3.78	-2.95	21.96
Importables	40.44	35.07	-13.28
BEVERAGES AND TOBACCO	41.28	39.86	-3.44
Exportables	-8.69	-12.43	-42.92
Importables	89.59	90.39	0.89
TEXTILES AND FOOTWEAR	22.12	14.05	-36.48
Exportables	0.00	0.00	0.00
Importables	75.78	48.11	-36.51
WOOD AND WOOD PRODUCTS	19.83	21.26	7.21
Exportables	19.83	21.26	7.21
Importables	-	-	-
PAPER, RUBBER, LEATHER AND PLASTIC PRODUCTS	75.54	61.66	-18.37
Exportables	-11.44	-12.28	-7.34
Importables	85.02	69.72	-18.00
CHEMICALS & CHEMICAL PRODUCTS	48.42	33.67	-30.46
Exportables	-	-	-
Importables	48.42	33.67	-30.46
NON-METALLIC MINERAL PRODUCTS	40.60	28.34	-30.20
Exportables	-4.51	-2.66	41.02
Importables	41.42	28.91	-30.20
BASIC METALS & METAL PRODUCTS	84.78	61.50	-27.44
Exportables	-6.07	-2.81	53.71
Importables	86.37	62.64	-27.47
MACHINERY INCL. ELECTRICAL AND TRANSPORT EQUIPMENT	40.18	24.73	-38.45
Exportables	0.00	0.00	0.00
Importables	49.86	30.68	-38.47
MISCELLANEOUS MANUFACTURES	36.91	34.20	-7.34
Exportables	-1.67	-1.67	45.51
Importables	52.98	52.83	-7.83

EFFECTIVE PROTECTION RATES BY INPUT-OUTPUT SECTOR

Sector Number	DESCRIPTION	EFFECTIVE PROTECTION RATES (%)					
		Current	Year 1	Year 2	Year 3	Year 4	Year 5
3	Corn	21	49	44	40	35	31
4	Coconut, copra, made in farms	0	0	0	0	0	0
6	Banana	-1	-1	-1	-1	-1	-1
7	Other fruits and nuts	0	0	0	0	0	0
8	Vegetables	51	51	46	41	36	31
10	Tobacco	29	49	49	49	49	49
	Exportable	-3	-4	-4	-4	-4	-4
	Importable	32	55	55	55	55	55
11	Fiber crops	3	1	1	1	1	1
	Exportable	0	0	0	0	0	0
	Importable	14	6	6	4	4	4
12	Coffee and cacao	0	0	0	0	0	0
13	Other commercial crops, n.e.c.	30	26	26	24	22	22
19	Commercial fishing, offshore & coastal	5	7	6	6	5	4
	Exportable	-1	-1	-1	-1	-1	-1
	Importable	58	59	53	47	41	35
20	Inland fishing and other fishery activities	6	6	5	5	5	4
	Exportable	0	0	0	0	0	0
	Importable	53	48	44	40	41	32
21	Logging	-23	-22	-22	-22	-22	-22
22	Other forestry activities	41	42	37	33	30	26
23	Gold and other precious metals	-2	-1	-1	-1	-1	-1
24	Copper ore	-2	-1	-1	-1	-1	-1
25	Other metallic mining	-2	-1	-1	-1	-1	-1
26	Sand, stone and clay quarrying	32	36	36	36	36	36
27	Other non-metallic mining and quarrying	10	1	1	1	1	1
28	Rice and corn milling	23	23	23	23	23	23
29	Sugar milling and refining	0	0	0	0	0	0
30	milk processing	23	21	21	21	21	21
31	Other dairy products	62	61	54	47	43	38
32	Crude coconut, vegetable and animal oils and fats	-2	-1	-1	-1	-1	-1
33	Refined (cooking) oil and margarine	137	144	144	145	145	145
34	Slaughtering and meat packing plants	38	42	39	36	33	30
35	Meat processing	65	62	54	47	39	32
36	Flour and other grain mill	78	89	96	93	80	75
37	Animal feeds	44	38	34	30	29	28
	Exportable	-11	-10	-10	-10	-10	-10
	Importable	60	55	50	46	45	44
38	Fruit and vegetable preserves	6	5	5	5	5	5
	Exportable	-7	-8	-8	-8	-8	-8
	Importable	101	102	102	102	102	102
39	Fish preparations	15	15	13	12	10	9
	Exportable	-9	-9	-8	-7	-7	-6
	Importable	411	422	381	339	298	257

Sector Number	DESCRIPTION	EFFECTIVE PROTECTION RATES (%)					
		Current	Year 1	Year 2	Year 3	Year 4	Year 5
40	Bakery products including noodles	81	84	74	64	53	43
	Exportable	-13	-11	-11	-10	-10	-10
	Importable	71	73	54	56	48	40
41	Cocoa products and confectionery	77	76	75	76	77	77
	Exportable	-15	-15	-15	-14	-14	-14
	Importable	114	114	113	114	115	115
42	Coffee, ground or instant	136	137	131	122	114	108
	Exportable	-5	-4	-4	-4	-4	-4
	Importable	125	126	120	113	105	100
43	Desiccated coconut	-2	-1	-1	-1	-1	-1
45	Miscellaneous food manufacturers, n.e.c.	51	51	49	47	45	43
	Exportable	-6	-5	-5	-5	-5	-5
	Importable	58	58	55	53	51	48
46	Wine and liquor	64	66	57	57	68	58
47	Brewery and malt products	1	1	1	1	1	1
	Exportable	-3	-3	-3	-3	-3	-3
	Importable	91	92	92	92	92	92
49	Cigars and cigarettes	97	97	97	97	97	97
50	Tobacco leaf processing	-14	-22	-22	-22	-22	-22
51	Textile mill products	88	82	82	54	54	50
52	Knitting mill products	54	53	53	40	40	40
	Exportable	0	0	0	0	0	0
	Importable	54	51	51	39	39	39
53	Other made-up textile goods	20	24	24	24	24	24
	Exportable	0	0	0	0	0	0
	Importable	49	49	49	49	49	49
54	Wearing apparel	0	0	0	0	0	0
55	Footwear except rubber, plastic or wooden	0	0	0	0	0	0
56	Lumber, rough or worked	28	29	29	29	29	29
57	Veneer and plywood	16	18	18	19	18	18
58	Other wood, cork and cane products	0	0	0	0	0	0
59	Pulp, paper and paperboard	56	43	38	34	30	24
60	Converted paper and paperboard products	124	110	96	81	81	81
61	Publishing and printing	92	100	89	79	69	59
62	Leather and leather products	18	-17	-17	-17	-17	-17
	Exportable	-14	-20	-20	-20	-20	-20
	Importable	22	7	7	7	7	7
63	Rubber tires and tubes	58	78	78	78	78	78
64	Rubber footwear	140	152	152	152	152	152
65	Other rubber products	51	55	58	51	45	38
66	Fabricated plastic products	102	107	105	102	100	97
	Exportable	-9	-7	-7	-7	-7	-7
	Importable	90	93	91	89	87	85
67	Drugs and medicine	35	30	30	30	30	30
68	Basic Industrial chemicals	37	34	32	28	26	24
69	Fertilizer	3	4	4	4	4	4
70	Plastic materials	41	29	29	28	28	28
71	Pesticides, insectides, etc.	53	41	41	41	36	30

Sector Number	DESCRIPTION	EFFECTIVE PROTECTION RATES (%)					
		Current	Year 1	Year 2	Year 3	Year 4	Year 5
72	Paints, varnish and related compounds	51	54	47	46	46	45
73	Soap and synthetic detergents	125	95	95	95	85	75
74	Cosmetics and toilet preparations	72	71	71	71	71	71
75	Other chemical products	51	26	26	26	26	26
76	Products of petroleum, coke and coal	38	26	26	26	26	26
77	Cement	61	23	38	40	40	40
	Exportable	-5	-3	-3	-2	-2	-2
	Importable	52	30	32	33	33	33
78	Glass and products	81	85	76	68	59	51
79	Other non-metallic mineral products	56	57	55	57	57	57
	Exportable	-4	-3	-4	-3	-3	-3
	Importable	65	66	54	65	65	65
80	Primary iron and steel products	79	69	69	61	61	61
81	Non-ferrous basic metal products	31	28	28	18	18	18
	Exportable	-6	-3	-3	-3	-3	-3
	Importable	32	27	27	18	18	18
82	Fabricated metal products	99	98	92	93	77	67
83	Machinery and equipment except electrical	43	44	39	34	29	25
84	Electrical industrial machinery and equipment	22	16	15	14	13	13
85	Electrical appliances and housewares	88	80	81	72	64	55
86	Batteries	104	83	84	60	60	60
87	Wires and wiring devices	34	46	43	43	43	43
88	Semi-conductor devices	0	0	0	0	0	0
89	Misc. electrical equipment, supplies and accessories	47	47	42	38	33	38
90	Motor vehicles	70	70	70	56	56	42
91	Other transportation equipment, supplies & accessories, including major repair	21	23	31	18	18	14
92	Furnitures and fixtures, primarily of wood	-2	-1	-1	-1	-1	-1
93	Furnitures and fixtures, primarily of metal	156	156	140	123	107	91
94	Musical instruments	35	56	54	54	52	50
95	Artists' and office supplies	101	107	98	90	72	67
96	Miscellaneous manufactures, n.e.c. and scrap	44	46	46	46	46	46

Annex 3

GOVERNMENT-OWNED OR CONTROLLED CORPORATIONS RETAINED AS OF 28 FEBRUARY 1992

1	Asean Copper Products, Inc.
2	Asian Exchange Center, Inc.
3	Central Bank of the Philippines
4	a. Philippine International Convention Center, Inc.
5	b. Private Debt Restructuring & Repayment Corporation
6	Cottage Industries Technology Center (Formerly NACIDA)
7	Cultural Center of the Philippines
8	Development Academy of the Philippines
9	Development Bank of the Philippines
10	Employees Compensation Commission
11	Export Processing Zone Authority
12	Fertilizer and Pesticide Authority
13	Government Service Insurance System
14	Home Development Mutual Fund
15	Home Insurance and Guarantee Corporation
16	Land Bank of the Philippines
17	a. LBP Insurance Brokerage, Inc.
18	b. LBP Leasing Corporation
19	c. Lumang Bayan Realty Development Corporation
20	d. Masaganang Sakahan, Inc.
21	Light Rail Transit Authority
22	Livelihood Corporation
23	Local Water Utilities Administration
24	Lung Center of the Philippines
25	Manila International Airport Authority
26	Metropolitan Waterworks and Sewerage System
27	National Agri-Business Corporation
28	National Development Company
29	a. Manila Gas Corporation
30	Inter-Island Gas Service, Inc.
31	Pagkakaisa Gas Storage Corporation
32	b. Philippine International Trading Corporation
33	National Electrification Administration
34	National Food Authority
35	National Home Mortgage Finance Corporation
36	National Housing Authority
37	National Irrigation Administration
38	National Kidney Institute
39	National Power Corporation
40	National Research Council of the Philippines

GOVERNMENT-OWNED OR CONTROLLED CORPORATIONS RETAINED AS OF 28 FEBRUARY 1992

41	National Tobacco Administration
42	Natural Resource Development Corporation
43	PAGCOR Services, Inc.
44	Philippine Center for Economic Development
45	Philippine Children's Medical Center
46	Philippine Convention & Visitors Corporation
47	Philippine Crop Insurance Corporation
48	Philippine Deposit Insurance Corporation
49	Philippine Export & Foreign Loan Guarantee Corporation
50	Philippine Fisheries Development Authority
51	Philippine Heart Center
52	Philippine Institute for Development Studies
53	Philippine National Oil Company
54	a. Petron Corporation
55	b. Petron Tankers Corporation
56	c. Petrophil Tankers Corporation
57	d. PNOC Energy Development Corporation
58	e. PNOC Exploration Corporation
59	f. PNOC Shipping & Transport Corporation
60	g. PNOC Tankers Corporation
61	Philippine National Railways
62	Philippine National Red Cross
63	Philippine Ports Authority
64	Philippine Retirement Authority
65	Philippine Rice Research Institute
66	Philippine Tourism Authority
67	Philippine Trade Exhibition Center
68	Philippine Veterans Assistance Commission
69	Philippine Veterans Bank
70	Philippine Veterans Investment Development Corporation
71	Phividec Industrial Authority
72	Public Estates Authority
73	Quedan Guarantee Fund Board
74	Social Security System
75	Southern Philippines Development Authority
76	Strategic Investment Development Corporation
77	Sugar Regulatory Administration
78	Technology & Livelihood Resource Center
79	Veterans Federation of the Philippines

Annex 4

GOVERNMENT-OWNED OR CONTROLLED CORPORATIONS APPROVED FOR PRIVATIZATION

CORPORATION	AREA OF ACTIVITY
ASSET PRIVATIZATION TRUST	
1 Agro-Livestock Commercial Development Corp.	Swine and goat breeding/dairy products
2 APO Production Unit Inc.	Printing services
3 Asia Goodwill Fishing Corporation	Deep sea fishing
4 Associated Bank (FGC)	Commercial banking
5 Basin Dredging and Development Corporation	Dredging and reclamation
6 Bicolandia Sugar Development Corporation	Sugar milling
7 Builder's Brick, Inc.	Brick production, construction
8 Carmona Woodworking Industries Inc.	Sawmilling
9 Davao Agri-Business Development Co., Inc.	Tree farming
10 East Visayas Agricultural Projects, Inc.	Swine, poultry, farming
11 Furniture Manufacturing Corp. of the Philippines	Wood furnishing, interior decoration
12 Inca Coffee Estates Corp.	Coffee plantation
13 Kaunlaran Food Corp.	Dehydrated food processing and marketing
14 Leyte Park Hotels, Inc.	Hotel operations
15 Manila Hotel Corporation	Hotel operation and management
16 People's Technology Terminal Corp.	Establishment of industrial complexes
17 Philippine Amanah Bank (FGC)	Commercial banking
18 Philippine Cotton Corp.	Cotton farming
19 Philippine Fruit & Vegetable Industries Inc.	Tomato paste production
20 Philippine Genetics, Inc.	Cattle breed upgrading and dispersal
21 Philippine Shipyard Engineering Corp.	Ship repair and fabrication of steel products
22 Philippine Sugar Corporation	Finance acquisition, rehab/expansion of sugar mills
23 Phividec Panay Agro-Industrial Corp.	Plantation farming/fertilizer production & trading
24 Republic Planters Bank	Commercial banking
25 Ridge Resort & Convention Center, Inc.	Resort and convention facility management
26 San Carlos Fruit Corp.	Fruit puree production
27 Wood Waste Utilization & Development Corp.	Construction material production from logging waste
28 ZNAC Rubber Estate Corp.	Rubber tree plantation
DEVELOPMENT BANK OF THE PHILIPPINES	
1 DBP Data Center Inc.	Development and management of DBP computer systems and personnel
DEPARTMENT OF AGRICULTURE	
1 Food Terminal, Inc.	Food trading, processing, storage, real estate mgt.
2 Gasifier & Equipment Manufacturing Corp.	Gasifier equipment and machinery fabrication
3 Grains Insurance Agency Corp.	Provision of insurance policies
4 National Sugar Refineries Corp.	Sugar refinery management
5 Philippine Dairy Corp.	Development of dairy industry/production of milk & dairy products
6 Republic Transport and Shipyard Corp.	Sugar terminal and shipyard operation
DEPARTMENT OF TRANSPORTATION AND COMMUNICATIONS	
1 Metro Manila Transit Corp.	Passenger bus operation and leasing
2 Philippine Aerospace Development Corp.	Aircraft management, maintenance engineering, selling
3 Philippine Helicopter Services Inc.	Maintenance and overhaul of helicopters

CORPORATION	AREA OF ACTIVITY
GOVERNMENT SERVICE INSURANCE SYSTEM	
1 Commercial Bank of Manila	Commercial banking
2 Hotel Enterprises of the Philippines	Hotel ownership/management
3 Meat Packing Corporation of the Philippines	Meat processing/canning
4 Philippine Airlines, Inc.	Commercial air transport
5 Philippine Plaza Holdings, Inc.	
HOME INSURANCE AND GUARANTEE CORPORATION	
1 Maunlad Savings and Loan Association, Inc.	Savings and loan association
NATIONAL DEVELOPMENT COMPANY	
1 Asia Industries Inc.	Machinery/equipment distribution
2 Batangas Land Company Inc.	Land ownership
3 Beta Electric Corp.	Electrical products and equipment manufacturing
4 Construction Manpower Development Foundation I	Manpower training and development
5 First Chicago Leasing & Equipment Credit Corp.	Lease financing
6 GY Real Estate Inc.	Land ownership
7 International Corporate Bank	Commercial banking
8 Kamayan Realty Corp.	Land ownership
9 Luzon Integrated Services, Inc.	Security services
10 Marina Properties Corp.	Land development
11 Mindanao Textile Corp.	Garment manufacturing
12 Nadeco Realty Corp.	Land ownership
13 National Chemical Carriers, Inc.	Shipping agent, manning & crewing services
14 National Marine Corp.	Overseas cargo shipping
15 National Precision Cutting Tools, Inc.	Production of high quality industrial tool
16 National Shipping Corporation of the Philippine	Cargo shipping
17 National Slipways Corp.	Ship repairs and maintenance
18 National Steel Corp.	Steel production
19 National Stevedoring and Lighterage Co.	Stevedoring, lighterage and port management
20 National Trucking and Forwarding Corp.	Trucking, freight forwarding
21 NDC-Guthrie Estates, Inc.	Palm oil production
22 NDC-Guthrie Plantations, Inc.	Palm oil plantation
23 NDC-Nacida Raw Materials Corp.	Procurement of raw materials
24 NDC-Plantations, Inc.	Agro-forestry plantation
25 Negros Occidental Copperfield Mines, Inc.	Copper mining
26 Philippine Associated Smelting & Refining Corp	Copper smelting and refining
27 Philippine National Lines	Shipping
28 Philippine Phosphate Fertilizer Corp.	Fertilizer production
29 Philippine Plate Mills Company, Inc.	Manufacturing of steel plates
30 Philippine Pyrite Corp.	Production of pyrite concentrates
31 Pinagkaisa Realty Corp.	Land ownership
32 Refractories Corporation of the Philippines	Production of basic refractories
33 Semirara Coal Corp.	Coal mining
34 Tacoma Bay Shipping Co.	Ship-owning and leasing
35 The Energy Corp.	Management of stock investments
36 Usiphil Inc.	Machinery/equipment distribution & servicing
NATIONAL IRRIGATION AUTHORITY	
1 NIA-Consult, Inc.	Consultancy, management & special services or projects

CORPORATION	AREA OF ACTIVITY
PRESIDENTIAL MANAGEMENT STAFF	
1 Davao Equipment Manufacturing Corp.	Metal casting, foundry and fabrication
2 Integrated Feed Mills Corp.	Feed production
3 Marawi Resort Hotel Inc.	Hotel operation
4 Mindeva Coco-Coir Industries, Inc.	Production of coco-coir fiber product
5 Mindeva Refrigeration Industries, Inc.	Ice production/cold storage
6 Monte Maria Poultry Farms, Inc.	Poultry farm operation
7 Mountain Springs Development Corp.	Swine raising
8 Northern Foods Corp.	Tomato paste production
9 Panaon Prawn Development Corp.	Prawn fry and larvae raising
10 Primary Foods Inc.	Manufacture and sale of food products
11 Prime Center Trade International System Inc.	Trading activities
12 Shoe Technology Corp.	Footwear manufacturing
13 Wood Koal, Inc.	Fuel briquette production
PHILIPPINE NATIONAL BANK	
1 Century Bank	Commercial banking
2 Century Holding Corp.	Bank holding company
3 Coco-Chemical Philippines, Inc.	Coconut oil milling
4 National Realty Development Corp.	Real estate management
5 National Service Corp.	Manpower services
6 National Warehousing Corp.	Warehousing
7 NIDC Oil Mills, Inc.	Coconut oil milling
8 Philippine Exchange Company, Inc.	Insurance agency
9 Philippine National Bank	Commercial banking
10 Pilipinas Bank	Commercial banking
11 PNB International Finance Ltd.	Deposit taking company
12 PNB Venture Capital Corp.	Venture capital company
PHILIPPINE NATIONAL OIL COMPANY	
1 Bislig Coal Corp.	Coal mining
2 Filoil Industrial Estates, Inc.	Land ownership
3 Filoil Refinery Corp.	Oil refining
4 Malangas Coal Corp.	Coal mining
5 PNOC Coal Corp.	Coal mining
6 PNOC Energy Supply Base Inc.	Supply base operation
7 PNOC Marine Corp.	Shipbuilding and repair
8 PNOC Oil Carriers, Inc.	International oil tanker operation
SOCIAL SECURITY SYSTEM	
1 Bancom Insurance Brokers, Inc.	Insurance brokerage
2 Barcelon, Roxas Securities, Inc.	Stock brokerage
3 Union Bank of the Philippines (FGC)	Commercial banking
TECHNOLOGY AND LIVELIHOOD RESOURCE CENTER	
1 People's Livelihood Enterprises, Inc.	Livelihood-oriented activities

Note : The list excludes four (4) GOCCs sold prior to COP
Source : COP/3-02-92