THE PHILIPPINES: RECENT PERFORMANCE, PROSPECTS FOR 1993-94, AND POLICY AND DEVELOPMENT ISSUES

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TABLE OF CONTENTS

I. Introduction 1

II. Recent Economic Performance 3

III. Prospects for the Economy 9

IV. Major Economic Policies, Reforms and Development Issues 11

V. Conclusion 16

Appendix 18

Bibliography 21

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I. INTRODUCTION

Despite the gradual improvement in key economic indicators during the past 18 months, prospects over the next two years and especially in the medium term remain largely uncertain. This prediction stems from the conflicting signals being received by the business sector concerning the status of the economy. There has been renewed confidence in the Philippine economy resulting from the smooth transition of government that followed the peaceful and credible elections held last May 1992 and the efforts of the new administration to continue the program of enhancing the openness and competitiveness of the economy. The policy of completely liberalizing regulations governing foreign exchange transactions is a case in point. Exporters are now allowed to keep all the proceeds from their activities; previously, the retention limit was a mere two percent before it was raised to 40 percent.

The economy, however, continues to be hampered by chronic structural problems which have been compounded by the effects of natural disasters. A major concern of investors is the frequent power outages which inhibit growth. With interest payments on external and domestic debt absorbing a large chunk of the government's budget, investment spending as well as operating and maintenance expenditures have been cut back drastically during the last two years in order for the government to meet the fiscal targets dictated by the stabilization program. This has only exacerbated the dismal situation. The ceilings on financial aggregates have led to tight monetary policy and raising interest rates (both nominal and real) which in turn have led to higher debt service on domestic obligations and an appreciating currency. The stronger peso has elicited protests from the export sector and if this trend continues, it will only subsidize imports and discourage investments from flowing into export-oriented industries.

At present, the government must overcome the fiscal constraint to be able to jump start the economy and effectively address the existing infrastructure problems. Unfortunately, the budget for 1993 continues to neglect the need for adequate investment spending. Government construction is even predicted to decline in real terms. There have been proposals to finance additional expenditures in the short-term by increasing money supply. While this may be inflationary, simulations have shown that the economy would still expand. Inflation forecasts for next year

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range from 7-8 percent and by historical standards 10 percent would certainly be tolerable. The long-term solution, of course, is to increase revenues and the general consensus among economic analysts is that there is little need for new tax measures; instead efforts must concentrate on minimizing tax evasion.

A three-gap analysis (Bacha 1990, and Lim 1990) reveals that in many developing countries, the current fiscal constraints originate from a drop in external transfers to the economy. In other words, the economies originally confront a foreign exchange constraint which drains the foreign exchange reserves. When these reserves are exhausted, "government investment would be cut off and stiff foreign exchange controls introduced. The latter would crowd private investment out....The next stage would consist of a reaction of exports, making use of the accumulated slack in the domestic economy....At the end of the medium-term adjustment process further growth of the economy would be bound by the fiscal constraint." (Bacha 1990:291).

The Philippines experienced a foreign exchange constraint after the external debt crisis in 1983. Efforts to cope with the repercussions led to a severe recession in 1984-1985. Unlike countries with a strong export base (e.g. Brazil), the foreign exchange constraint was overcome not by an increase in exports but by relying on official credit, remittances of overseas workers, and rapid inflow of foreign investment in 1988-89 that followed the implementation of the debt-equity swap mechanisms. Moreover, quasi-fiscal functions of the Central Bank effectively substituted domestic debt for external obligations. As a result, total outstanding public sector internal debt rose from $6 billion in 1985 to $12 billion in 1991. Actually, it is this move combined with tight monetary policy that is the primary source of the fiscal woes of the current administration. In a sense, the economy has been prey to a double crowding out phenomenon: "On the one hand, tight monetary policies and domestic borrowing raise interest rates for the private sector and crowd out private investments. On the other hand, the strictures on the fiscal deficit, together with a rising bill for debt service, also crowds out the more productive and socially oriented parts of the national government's budget." (De Dios 1992:5)

A crucial issue then that must be resolved is whether the Philippines has effectively hurdled the foreign exchange constraint. For even if the government is able to pump prime the economy out of its present languor, unless there has been significant structural change, it will run anew into a brick wall completing another boom-bust cycle. Some economic analysts have declared that the structural reforms of the 1980s have completed the removal of the foreign exchange constraint that had seriously impeded economic growth in the past. Such a sanguine conclusion is absent, however, in other studies. It seems that the more pessimistic view is in this case, the more accurate it is.

In this respect, the theme of the next Medium Term Philippine Development Plan which aims for world competitiveness and human development is quite appropriate. Judging from these catch phrases, the thrust for the next five years would be a smaller but more focused role for the government and an emphasis on efficiency with the drive for export production in the cutting edge. Indeed the economy must be effectively restructured. Otherwise, the gap between the foreign exchange constraint and fiscal constraint will narrow without being substantially relaxed, leaving the Philippines to contend with low equilibrium growth in the future.

II. RECENT ECONOMIC PERFORMANCE (1992)

A. *Economic Growth and Sectoral Performance*

Based on the latest semestral indicator, the Philippine economy failed to break the "low-growth" scenario that has characterized its performance since the turn of the decade. Aggregate output (GNP) grew by 0.5 percent as compared to the 0.4 percent growth in the immediately preceding semester. While this was an improvement from the 0.6 percent decline of the economy during the first semester of 1991, this upturn should be regarded with great caution, noting that the economy was in a slump at the start of the year. Nonetheless, the mild recovery came from the slight increase in investments and exports as well as the more than 100 percent increase in the net factor income from abroad -- mainly consisting of workers' remittances. Year-end GNP growth is estimated at 0.9 percent.

Analogous with this slight achievement, domestic production (GDP) declined by 0.4 percent during the first semester of this year. However, this is still much better than the 1.2 percent contraction during the same period last year.

In general, this bleak picture was a result of supply side slippages arising from natural and man-made disasters. Prolonged drought aggravated by the continuous flows of volcanic debris reduced agricultural production. Recurring power outages which adversely affected industrial production during the first semester is expected to continue for the rest of the year, thus stagnating industrial growth estimate 0.1 percent. Year-end growth in the services sector is seen at 0.3 percent. With these factors, GDP is expected to grow by only 0.1 percent in 1992.

Looking at the expenditure components, investments and exports posted notable growth rates during the first semester at 8.6 percent and 9.4 percent, respectively. These figures offset the decline in private construction and breeding stock and orchard development which registered at 12.0 percent and 1.0 percent, respectively.

Capital formation grew by more than 20 percent during the second quarter because of investments in durable equipment and expenditures on public construction which grew by 11.4 percent and 26.5 percent, respectively. However, the increase in public construction emanated from the completion of stalled infrastructure projects and the rehabilitation efforts in Central Luzon. On the other hand, the rise in the purchase of durable equipment stemmed from importation of energy related machineries such as generators and gas turbines. As such, these factors are hardly sustainable. In the medium term, the real value of public construction will decline and the firms' reliance upon self- generation of power will lead to waste, inefficiency and increasing cost of production.

Moreover, as a result of the lifting of the import levy and the liberalization of regulations on foreign exchange holdings, exports accelerated growth at 9.4 percent for the first semester of 1992. This can be attributed to the rapid growth of merchandise exports at 9.2 percent. The top earners under this group were semiconductors and garments which have a combined share of over 40 percent of total exports. In dollar terms, merchandise exports grew at 8.2 percent for the first semester of 1992.

However, with the low "value-added" nature of Philippine merchandise exports and their dependency upon the weak markets in the industrialized world, this rosy export performance can hardly contribute to progress. Effects of the currency appreciation are expected to pull down exports during the second semester. For 1992, exports of goods and services are estimated to grow by 6.8 percent.

Total consumption during the first half of the year contributed substantially to GDP growth as it posted a 3.2 percent growth. This resulted from election-related expenditures, the rehabilitation of lahar-stricken provinces and the additional purchases induced by renewed confidence and the decelerated inflation.

However, due to the accelerated growth in imports, the above- mentioned developments did not result in a higher GDP growth. Growth of real imports surpassed that of real exports. The outflow of goods and services ensued from the strengthening of the peso and the phase-out of the import levy. These developments pushed up the imports of goods by 16.3 percent and the imports of non-factor services by 20.7 percent. By the end of the year, growth in imports of goods and services is estimated to taper off and settle at 15.8 percent.

Except for the services sector, there was a general slowdown in the production side of the economy during the first semester of 1992. Both the agricultural and the industrial sectors were greatly affected by natural and man-made disasters. First, there was the prolonged drought and the frequent breakdown of existing power plants which exacerbated the power crisis. Second, the extended dry season substantially damaged agriculture performance because of the delayed planting and harvesting of crops. Finally, the continuing wrath of Mt. Pinatubo reduced rice and corn production by 27 percent in the second quarter of this year.

Overall, agricultural production declined by 2.6 percent for the first semester of this year as compared to the 3.2 percent growth during the same period last year. Enforcement of the log ban and nature conservation measures have contributed to the accelerated decline in forestry output by 48 percent. Similarly, the red tide scare caused the fishery sector to contract by 0.4 percent. Hence, a contraction of 0.2 percent is expected for agricultural production which is a turnabout from last year's growth of 0.7 percent.

In the industrial sector, which comprises more than one-third of total output, production fell by 0.4 percent during the first semester of this year. This is an improvement over the 5.8 percent drop recorded for the same period last year. Industrial production during the semester was dampened by the power crisis which peaked during the second quarter of this year. The power shortage suppressed manufacturing activities causing big losses to almost three-fourths of the major manufacturing industry groups. Among the industrial subsectors, only mining and quarrying grew by three percent due to the remarkable crude oil produce in West Linapacan and the enhanced world prices of soft metals. It is expected that industrial output for the whole year will grow by only 0.1 percent, an improvement over last year when this sector contracted by 3.1 percent.

In the construction subsector, the immediate completion of stalled infrastructure projects has boosted public construction activities as it grew by 26.5 percent during this period. However, this was offset by the 12 percent deceleration in private construction coming from the high cost of

construction materials particularly cement. As a result, output for the whole construction sector shrank by 1.1 percent.

In the utilities subsector, the power crisis complemented by increases in utility rates has reduced the sale of electricity gas and water. In turn this contributed to the 2.8 percent decline in output. This is a reversal from the 1.5 percent expansion recorded last year.

Meanwhile, the services sector demonstrated flexibility amidst a climate of economic difficulties as it managed to accelerate growth to 0.7 percent from 0.4 percent last year. Major sources of growth were transport, communication and storage and trade subsectors. This sector is expected to perform well for the rest of the year as it is estimated to grow by 0.3 percent compared with last year's growth of 0.04 percent.

B. *Employment*

An encouraging employment scenario was manifested despite the shaky performance of the domestic economy in the first half of 1992.

Figures from the National Statistics Office (NSO) show that the labor sector is slowly recovering from the slump it experienced last year. First, the growth in employment (1.6 %) surpassed the growth in the labor force (-0.1 %). Consequently, the unemployment rate declined. Second, the underemployment rate declined implying a greater number of workers with full-time work. Underemployment rate was recorded at 21.45 percent for the first semester of 1992 compared to 23.6 percent last year. However, this favorable circumstance remains to be weak as unemployment and underemployment continued to log double-digit rates.

On a sectoral level, employment in construction posted the highest growth rate of 7.5 percent while employment in real estate and financing firms had the largest drop at 6.6 percent. As business confidence was renewed, construction activities propelled job creation and inched up employment statistics in this sector. Moreso, the surge in election-related spending countervailed the negative effect of power outages on employment. Agricultural employment also posted encouraging growth of 3.1 percent. The rest of the industrial sector also posted positive growth rates in the employment level, except for utilities (-5.0 %), wholesale and retail trade (-2.1 %) , and community services (-0.8 %).

On a regional basis, employment increased except for the Cordilleras, Southern Tagalog, and Western Visayas. However, the National Capital Region registered the highest unemployment rate as the slow pace of regional industrialization and employment generation continue to push workers to seek more jobs in the metropolis.

Noteworthy is the ongoing reconstruction effort in the Middle East which creates considerable demand for overseas workers and ease up the pressure on the labor market.

C. *Savings and Investment*

The private sector initiative towards self-generation boosted capital accumulation during the first six months of 1992. Gross domestic capital formation grew by 8.6 percent during the first semester of 1992 as against the 22.4 percent drop during a comparable period last year. This turnabout was made possible by the surge in the accumulation of durable equipments. Invest-

ment in fixed assets expanded by 11.4 percent during the first semester of 1992, up from the 22.4 percent drop last year. This capital build-up was basically energy-related as evident in the construction of Hopewell Power plant, Turbotech Philippines Incorporated, and an oil refinery of Shell Gas Philippines.

Construction activities have also improved albeit at a slower pace. They rose by 0.6 percent during the first semester of 1992 as compared to its 31.7 percent fall last year. Construction activities focused on the rehabilitation of areas devastated by earthquakes, volcanic eruption, and floods; the setting up of industrial estates and export processing centers; and the completion of stalled infrastructure projects.

In terms of domestic savings, the country saved a moderate amount of P46 billion, during the first six months of 1992. This is 18.5 percent lower than the 1991 savings. In general, the weak mobilization of resources arose from: (1) the increase in total consumption expenditure; (2) the low level of aggregate output; and (3) the low return on savings deposit. With this low level of savings, the country tapped foreign investments to finance its development expenditures.

Among the foreign investors, the Japanese had the highest number of projects and foreign paid-up capital. From December 1991 to April 1992, Japanese investments registered a total of 14 out of the 51 projects (27.5 % registered and this accounted for 49.7 percent share in the total foreign paid-up capital. Most of the Japanese investments went to the manufacturing of electrical parts, telecommunications, and automobiles.

The country's investment picture is expected to be enhanced with the revision of constitutional regulations on land ownership and the drawing-up of operational guidelines for the implementation of RA 6975 or the Build-Operate-Transfer (BOT) law. Hand in hand with the government's thrust to improve the state of physical as well as social infrastructures, these favorable developments will definitely encourage foreign investments.

D. *Budget, Money and Prices*

A sharp fall in consumer prices was evident in 1992. Inflation rate stood at only 9.1 percent during the first three quarters of 1992, down from the double digit level of 18.6 percent last year.

By commodity classification, the housing and repair index posted the highest inflation at 18.2 percent, while fuel, light and water index had the lowest incremental change. This occurred despite the power and water rate hikes implemented early this year and the phase-out of MERALCO subsidy for those consuming greater than 300 kilowatt hour (kwh), beginning last February. The price slowdown in the fuel, light and water component was partly due to the April 1992 oil price rollback which averaged 4.4 percent, and the continuous downtrend in the currency exchange rate adjustment (CERA) in electricity billings.

Monthly changes in the consumer price index reveal decreasing increments beginning February this year when inflation rate movements were kept below 10 percent. The conservative monetary policy combined with favorable economic expectations countered inflationary pressures arising from the power and water rate adjustments, supply bottlenecks due to drought and the Mt. Pinatubo calamity, as well as the increased election-related spending.

This year, acceleration in prices occurred only when inflation rose from 8.7 percent in April to 9.2 percent in May. This figure remained at that level until July. Inflation did not weaken during those three consecutive months because of the bigger amount of money in circulation. Money supply increased during that time because of the infusion of election money, which was estimated at P10 billion. Aiming to bring down inflation from the 9.2 percent level, the monetary authorities labored at mopping up excess liquidity and were successful in pulling down price changes to 8.9 percent in August and 8.5 percent in September. Full year average inflation is estimated at 9.1 percent as the full effect of the decreased fuel prices in October will be felt towards the end of the year.

In order to stabilize prices at single-digit levels, the country instituted a prudent monetary program. This was manifested through the increased issuance of treasury bills in the weekly auction, from P 8.5 billion in March to P 10 billion in June. At the same time, there was a significant accumulation in national government deposits with the Central Bank, increasing by as much as 98 percent from the end of December in 1991 to the end of June in 1992.

As of June 1992, the restraint on money resulted in little growth of base money at 13.9 percent. However, the growth of reserve money was much higher at 21.3 percent for the entire first semester of 1992, compared with 19 percent during a comparable period last year. Despite the contractionary measures adopted by the authorities to set monetary aggregates within target levels, both the reserve money and the monetary base exceeded their programmed levels starting March 1992. This can be ascribed to CB intervention aimed at maintaining the parity rate of the peso -- the dollar purchases of the CB inject additional liquidity into the system.

Apart from this deflationary objective, the augmented issuances of treasury bills and notes had been used to finance the national government budget deficit. The level of budget deficit fell by 63.8 percent from P11.41 billion as of September 1991 to only P4.133 billion during the same period this year. However, this is P935 million higher than the programmed shortfall for the first three quarters of this year.

Actual national government revenue collections reached P176.12 billion--3.1 percent short of the programmed P181.8 billion revenue collection for January to September 1992. Yet, this is 14.7 percent higher than the recorded P153.55 billion revenue last year. Almost half of the revenue shortfall ensued from the lower trade duties. In addition, the poor performance of the Bureau of Customs was due to the early lifting of the five percent import levy in May and the continued appreciation of the currency this year.

Among the revenue-generating agencies, only the Bureau of Treasury exceeded the programmed collections. Its net revenue of P13.7 billion surpassed both the P9.35 billion programmed collection for the first three quarters of the 1992 and the P12.61 billion target for the whole of 1992. This excellent performance of the Bureau of Treasury, however, was not enough to push total revenues to reach its targets. This revenue shortfall is the reason behind the deficit which was greater than the target for the first three quarters of the current year.

Spending-wise, the first nine months was characterized by fiscal deflation. Actual expenditure was P4.74 billion short of the programmed P185.0 billion expenditures for the period. Interest payments comprised a third or P59.94 billion of the recorded expenditure.

In financing the deficit, the government had planned to seek more external borrowings as domestic interest rates became high. However, the plan was revised and the government ended up borrowing huge amounts locally by auctioning more treasury bills and notes than what was programmed. For the period, net external financing was recorded at negative P2.159 million while net domestic financing was at P6.292 million.

E. *External Performance*

A deterioration of the country's external transactions was recorded for the first semester of 1992. The country netted a surplus of $136 million, a drop of 87.2 percent from the $1,065 million surplus recorded last year. This resulted mainly from the widening trade gap and the worsening medium- and long-term loans account. These two accounts countervailed the gains arising from increased foreign investment, revaluation adjustments and rescheduling of non-monetary debt. Without rescheduling, the overall balance of payments (BOP) position would have been a deficit of $1,452 million.

As of June 1992, the current account balance posted a deficit of $580 million which was an improvement from last year's deficit of $610 million. The remarkable performance of the non-merchandise trade account, which grew by 70.9 percent, accounted for the narrowing of the current account deficit. Noteworthy is the surge in inflows of personal income of overseas workers and other services which grew by 23.9 percent and 100.7 percent, respectively. The strong performance of the services sector more than offset the deterioration in the merchandise and the transfers accounts. The transfers account recorded a net outflow of $437 million, a fall of 5.8 percent from the figure last year.

During the first half of the year, the merchandise trade balance suffered a deficit of $2,143 million, 23.76 percent higher than last year's shortfall of $1,733 million. This can be associated with the remarkable growth of imports relative to exports. Imports grew by 12.7 percent while exports by only 8.2 percent. Almost half of the growth in imports can be traced to the increase in imports of raw materials and intermediate goods. Imports of capital goods posted an appreciable increase of 16.2 percent. Year-end growth of merchandise imports in dollar terms is estimated at 14.6 percent.

Despite a fall in exports of forest and petroleum products and other agro-based products (excluding sugar, coconut, fruits and vegetables), total exports managed to perform better this year than in 1991. The credit goes to the expanded exports of manufactured goods, specifically, electronics and garments, registering growth rates of 16.4 percent and 12.1 percent, respectively. For the whole of 1992, total merchandise exports in dollar terms is expected to rise by 9.1 percent, an acceleration from last year's growth of eight percent.

Accounting for this year's poor BOP position is the 97.71 percent decline in total non-monetary capital. This large fall can be attributed to the more than two-fold decrease in net flow of medium- and long-term loans. This account reflects a net outflow of $660 million this year compared with a net inflow of $493 million in 1991. The setback in the non-monetary capital account was due to the huge payments on medium and long-term loans which posted a huge growth rate of 83.99 percent relative to outflows posted during the same period last year. This was the effect of the implementation of the debt buyback operations last May involving $1.26 billion. This substantive outflow of foreign exchange which countered marked improvements in foreign

investments (20.23 % growth) and short-term capital (24.13 % growth), caused the abrupt fall in the capital account during the first six months of this year. Total foreign investments registered a remarkable level of $1.221 billion for the first three quarters of 1992 compared to $387.63 million last year.

It is expected that by the end of the year, BOP will reach $845 million or a decline of 39.8 percent from last year. The capital account balance is expected to decline by 43.9 percent, the current account deficit by 3.5 percent.

The country's total foreign exchange liabilities dropped to $28.883 billion at the end of May 1992, contracting by $1,073 million or 3.58 percent over the level at the end of December 1991. The decline was mainly due to the effect of debt reduction schemes of $1,192 million specifically of debt buyback amounting to $1,138 million and assignment of credits to Foreign Currency Deposit Units (FCDUs) of $39 million. However, these were partly offset by net availments of short-term ($84 M) and medium- and long-term ($92 M) loans during the period and by foreign exchange rate fluctuations of $263 million.

Based on Central Bank projections as of August 1992, total external debt liabilities is expected to reach $30.076 billion by the end of the year.

III. PROSPECTS FOR THE ECONOMY (1993-1994)

In 1993, the Ramos administration will continue to consolidate its economic program. Consequently, economic activity will grow only at a modest pace. It will only be towards the latter part of 1993 and 1994 that clear signals will be sent to investors as to the direction of the economy. This will follow the announcement and implementation of the next medium-term development plan. With a more stable macroeconomic and political environment combined with increased government spending, growth will be more robust in 1994. Following are brief descriptions of sectoral prospects. Detailed forecasts are presented in the Appendix.

A. *Economic Growth and Sectoral Performance*

If one draws a parallel between the current period and the years following the end of the Marcos regime, then the period 1992-1994 would be equivalent to the period 1986-1988. Since the recession was much less severe in 1991 as compared to 1984-1985, recovery will be more drawn out this time around (growth will be coming out from a larger base). Moreover, the government is working within a tighter fiscal constraint and thus there will be a lesser degree of pump priming. GDP at constant 1985 prices is expected to grow from 2.7-3.2 percent in 1993 and about five percent in 1994. Because of increased remittances from abroad and a reduction in interest payments on external debt, GNP will record a higher level but will expand at a similar pace.

Gross capital formation in 1993 is expected to dominate the expenditure sector since the immediate needs of the economy lie in the infrastructure area. Total investment will grow by 8-10 percent compared to the 4-4.5 percent of total consumption. A similar scenario will unfold in 1994 with total consumption growing at a faster clip of five percent while investment growth will surge to 12-15 percent. Spurred by lower inflation and lower interest rates, the private sector will lead the way in the early stages. The government will still be hobbled by a fiscal constraint and pump priming activities will not be conducted until the latter part of 1993.

The industry sector will be the primary beneficiary of investment-led growth and will expand by three percent in 1993 and by 7-9 percent in 1994. Unless another major drought occurs, agriculture shall benefit from a less distorted exchange rate and post growth rates of 1.5 percent and 2.8 percent over the next two years. The services sector shall improve following the trend towards greater liberalization and will grow by 3.4 percent in 1993 and by 4.5 percent in 1994.

One should not be lulled into complacency by the seeming upward trend in the growth rates of output. Preliminary estimates using the PIDS-NEDA Macroeconometric Model show that after another year of between 5.5 and six percent growth, the economy will experience balance-of-payments difficulties as the trade balance will rapidly deteriorate. Unless this gap can be covered, the domestic absorption has to be curtailed anew and growth will likely fall to an average of four percent over the period 1996- 1998. This brings to fore the importance of exports in the quest for sustainable growth. By developing the export sector, the economy can figuratively kill two birds with one stone: it will have overcome the foreign exchange constraint and at the same time increase output growth.

B. *Employment*

A slight deterioration in employment will accompany the economic recovery in 1993 wherein the absolute number of unemployed will increase while the unemployment rate will remain at eight percent. Since any significant structural change in the economy is not assumed, there will be no increase in the absorptive capacity of the industry sector which is expected to be the focal point of economic activity. The increase in employment opportunities will therefore lag behind the number of new entrants into the labor force. Moreover, some of the investments will have a long gestation period and it will take some time before these projects can reach their employment potential. The higher growth in 1994, however, will lead to a much lower unemployment rate at 7.6 percent.

C. *Savings and Investment*

There will be a significant deterioration in the savings-investment gap because of emphasis on investment especially in infrastructure projects. This is expected to be covered by the inflow of direct foreign investment. In this regard, the importance of political and macroeconomic stability should be underscored. Otherwise policymakers will have to exert greater effort in mobilizing domestic resources. One such move is the recent program to tap small savers by issuing instruments denominated at reasonable amounts. The yield on such instruments will be slightly above the prevailing inflation rate.

D. *Budget, Money and Prices*

No drastic shift in the conduct of monetary policy is expected in the short-term. Hence total domestic liquidity will grow at 18 percent in 1993 following a 27 percent expansion in 1992. This will keep inflation at about eight percent. Only a marginal reduction in the inflation rate will be achieved because of the expected depreciation of the peso and the forthcoming hike in power rates. In 1994 following the stronger performance of the economy, domestic liquidity will expand by 19 percent. Inflation, however, will continue to level off, registering seven percent in

that year. A higher rate of output growth and a more stable macroeconomy will account for the greater price stability.

Recently, attention has been focused on measures to reduce interest rates. Apart from the general thrust toward reducing the consolidated public sector deficit, reforms to lessen transaction costs of financial intermediaries have been put in the pipeline. Some of these have been long delayed, for example scrapping the gross receipts tax.

The fiscal constraint confronting the government is reflected in a cut next year in capital outlays measured on an obligations basis. Capital outlays on a cash basis (reported in the appendix), however, will increase contributing to a relatively sharp increase in the budget deficit. This can be attributed to the expected transfer of some of the Central Bank liabilities to the national government and the delayed release of funds to rehabilitate calamity-stricken areas.

Intensified revenue generation and the restructuring of the public debt will enable the government to contribute its proper share in infrastructure development in 1994. The deficit for this year is expected to decline following the aforementioned measures.

E. *External Performance*

A more realistic exchange rate will bolster merchandise exports which will grow at a rate close to 11 percent which is close to the average for the past two decades. Since there will be no significant change in the structure of the economy, implying that the import elasticity of domestic supply remains the same, imports will grow at a faster pace. As a result, the trade balance will deteriorate to about $4.8 billion in 1993 compared to the estimated $4.1 billion this year.

The expected inflow of foreign investment and higher remittances of overseas workers will help cover the gap in the trade balance and as a result there will be a BOP surplus of $1.6 billion in 1993. This figure already incorporates reduced interest and amortization payments following the accord reached with the country's creditors.

A similar trend will occur in 1994 with exports receiving a further boost from previous investment in the trade sector. Merchandise exports will grow by 11 percent with imports rising by 13 percent. The trade balance will be wider at $5.6 billion but again this gap will be adequately covered by overseas remittances and inflows of foreign direct investment. The BOP position is predicted to remain stationary at a $1.6 billion surplus.

IV. MAJOR ECONOMIC POLICIES, REFORMS AND DEVELOPMENT ISSUES

The prognosis for Philippine economy shows that indeed there is light at the end of the tunnel. But how to get there opens the door to skepticism, cynicism and anachronistic debates. One thing is for sure: for the Philippines to attain tiger-like performance, it must break the resistance threshold which is pulling growth below three percent. This will require a set of policy reforms that deals directly with structural issues rather than with the short-run dynamics of adjustment.

In the past, the government's preoccupation with palliative measures deferred the much needed structural reforms in favor of quick fixes. This has resulted to countervailing policy

proposals, distortions in both the system of incentives and regulatory regime, and the eventual compromise of social welfare in favor of parochial economic interests.

This section starts off from where last year's review ended. Emphasis is placed on the internal consistency of the set of policy reforms. More importantly, the timing and sequencing of these reforms are more appropriately discussed.

A. *Recent Developments for Macroeconomic Policies*

The current turn of events have baffled critics of the government. A cursory look at the economic indicators explains why. First, the country's financing gap is at a comfortable level. Second, the level of reserves continues to pile up and the value of the currency continues to appreciate. Third, the rate of inflation has already been checked at single digit level. Economic slowdown, however, persists despite efforts to energize the lethargic economy.

These indicators underscore the contradictory nature of the present set of macroeconomic policies. While targets are being attained, the economy remains weak. If this is to be corrected, policy directives that contribute to this dismal performance will have to be reversed.

The first thing that will have to be corrected is the monetarist approach to inflation. This view looks at inflation as a case of more money running after a limited supply of goods. Under condition of excess capacity however, a growth in monetary aggregate will provide business with credit which will eventually push investment and yield greater output. This will counteract the growth in money supply averting any price spiral. More importantly, the growth in money will increase the supply of funds and decrease the interest rate. This will cut the interest expense on public debt, reduce the need to borrow, and induce a further cut in the prime lending rate which will again encourage private investors to produce more output.

Moreover, inflation is closely associated with the domestic costs of imports and not with the growth of money. The domestic costs of imports are affected by fluctuations in the exchange rate, terms of trade and oil prices. In this regard, the government can control inflation through either one of the following: (1) an overvaluation of the currency; (2) an improvement in the terms of trade; or (3) a reduction in the duties levied on oil imports.

In the Philippines, the government used "tight money policy" coupled with a system of fixed exchange rate to control prices. This strategy artificially props up the return on peso-denominated investments as against dollar-denominated investments. In effect, it substituted high interest rates in exchange for a manageable level of prices. This contributed to the credit crunch which has depleted the production capacity of the economy.

In addition, the resulting inefficiency in resource allocation (imports have risen much faster than exports) has compounded the balance of payments problem and compelled the government to devalue the currency time and again. This resulted to a crawling-peg system of exchange rate. In the aggregate, the inflationary impact of this system was amplified by the multiplicative nature of expectations.

The liberalization of regulations governing the foreign exchange transactions is therefore a step towards strengthening the economy, in particular, the trade sector. This will give export industries a competitive advantage in the world market. Adjunct to this, as individuals switch their

expenditure pattern, the inefficiency in resource allocation as well as the balance of payments gap will be addressed. However, there will be a general ascent in prices owing to the increased domestic costs of imports and the rise in the prices of non-tradables. To ease up the pressure on prices, the duties on imports will have to be immediately removed. This will mitigate any inflationary effect of a depreciation in the currency.

In this regard, lifting the ceiling on base money is important since this will reduce the interest rate and the interest expense of public debt. On the average, a one percent decrease in the interest rate saves the government at least P2 billion in interest payments. This will offset any foregone revenue arising from the lowering of trade taxes.

Furthermore, the recent appreciation of the currency does not justify government intervention. This is a transient event that arose mainly from the inflow of either the so called "hot" or "fright" capital. Consequently, a substantial amount of these flows came in as deposits, treasury bill placements, or shares of stock. Hence, they are speculative in nature unlike investment in equities. With a more liberal growth in the money supply however, speculation will be diminished and this will temper the overvaluation of the currency.

In the meantime, the government can provide exporters with various instruments to hedge against currency risks. First, they can create forward and futures market. Second, they can work for the diversification of the country's export market. Third, they can support organizational integration to minimize currency risk.

The third issue pertains to the losses of the Central Bank arising from the foreign exchange swap and forward-cover arrangements. As of December 1991, accumulated losses stand at P324 billion and this accounts for an average of 41 percent of the consolidated public sector deficit during the past six years. Because of this huge shortfall, the government has been forced to issue greater amount of treasury bill to cover the gap. This has pushed up interest rates further and this is a major factor contributing to the under-investment of the Philippine economy. Treasury bill issuances surpass bank loans to industry by as much as 30 percent. Moreso, the Central Bank is compelled to intervene in the foreign exchange market for fear of increasing its foreign exchange liabilities.

In this regard, the various legislative remedies which propose to increase the bank's capital and transfer its liabilities to the government are good bookkeeping measures that can clean the bank's account. However, the issue of transparency and accountability of monetary policy has yet to be resolved. In the event that government appropriates a budget to cover the shortfall, there will have to be legislative guarantee that the CB cannot enter into a similar transaction in the future. More importantly, multilateral institutions will have to help in bridging the financial requirements of such a transfer.

Another important issue is the slow domestic resource mobilization in the country. In general, this arises from the high intermediation cost which directly stems from the tight monetary regime as well as the oligopolistic structure of the banking industry. To correct this situation, the reserve requirement will have to be lowered and government flotation of treasury bills and notes will have to be reduced. Furthermore, the dealership for government securities will have to be expanded and the denominations of bids reduced. This will allow small savers to benefit from the risk free and high return asset. It will also increase bid prices and lower interest

rate. Likewise, the move to join the two stock exchanges as well as the fiscal incentives granted for public listing can further strengthen the domestic capital market. Coupled with the simplified local branching requirements and the lifting of entry regulations for foreign banks, domestic and foreign savings will prosper.

B. *Structural Adjustment: Privatization, Investment and Trade Liberalization*

The recovery effort since 1986 illustrates the government's attempt to revive the economy based on the same industrial and trade structure. The only difference is that now, it acknowledges the need to open up the economy to foreign investments. However, this falls short of being a complete reform. If this effort is to bear fruit, certain constraints still have to be lifted and certain incentives have to be granted soon.

The principal requirements that will have to be immediately met is the provision of adequate infrastructure especially power, transport and communications, and water control. These factors feed directly into the cost structure of industry such that no amount of liberalization effort can attract sizeable investments without these support facilities. It can be noted that this lethargic state of infrastructure is an aftermath of government cutback in capital outlays. As a proportion of the total budget, infrastructure spending went down from 26 percent in 1986 to 18 percent in 1991.

To mitigate this difficulty, the government is banking on the build-operate-transfer (BOT) scheme to construct several power projects. However, the sources of financing as well as the complex array of negotiations still remain cloudy. Hence, the government will have to come out with a clear and concise guideline on pricing, capacity fees, and currency risks. Moreso, as in the case of the Navotas facility under Hopewell, the issue of multilateral financing of BOT projects will have to be thoroughly reviewed. This is so since multilateral agencies such as the ADB have limited exposure to each country and following the principle of additionality, these private endeavors may crowd out worthy government-led projects.

Equally important is the need to keep the economy open to foreign investments, goods and competition. In this light, the move to reduce the tariff rates will have to be fast-tracked and made more comprehensive -- E.O. 470 merely reduces the tariff rate from an average of 25 percent to 21 percent within a five year period. E.O. 8, which sought to replace quantitative restrictions with tariffs, can be viewed in a similar vein although it is less comprehensive in nature. In the aggregate, it will reduce tariff levels from 21 percent to 20 percent. On the other hand, the administration can use the promulgation of an ASEAN Free Trade Area (AFTA) and the establishment of the North American Free Trade Zone (NAFTA) and the forthcoming European Common Market as avenues to convince intransigent protectionist interests of the benefits of greater openness. In addition, the various complementary bills to the Foreign Investment Act of 1991 will have to be immediately passed. These measures will give foreigners access to land either in the form of a renewable long- term lease or direct ownership. However, the administration as well as the regulation of imports will have to be strengthened without prejudice to free trade.

More importantly, export promotion will have to be prioritized through aggressive marketing; provision of non-countervailable subsidies to exporters, i.e., tax credits, duty drawbacks, accelerated depreciation; opening up of rediscount window for export financing; and setting up support institution for technology, product standards, design and skills training.

In this regard, the services sector has a competitive advantage to qualify as the lead industry in the promotion of exports. First, the country has sufficient number of highly qualified professionals that can handle business-related services such as legal, finance, advertising or computer consultancy. For instance, the Philippines now compete internationally for software design and data encoding services. However, as pointed out by a business executive, infrastructure support such as telecommunications system will have to be expanded and modernized. Regulatory controls such as franchising will have to be liberalized and made more open to foreign investments. Second, the archipelagic nature of Philippine geography has bestowed the country with unlimited natural sites for recreation. Hand in hand with the boom of tourism in East Asia, the country can capture a sizeable chunk of this market. All that is needed is that tourist facilities be upgraded to world class standard. More importantly, peace and order will also have to be maintained as the industry is sensitive to perception.

Finally, the government will have to assume fiscal responsibility for development. It must not hesitate to provide investors with conducive and efficient business environment. This entails broadening the fiscal resource base through efficient collection and enforcement of tax laws. Similarly, efforts at privatization will have to be accelerated. In this regard, it is worth examining whether a simple sell off at a discount is better than a joint-venture arrangement. Under the latter plan, the government will submit the physical assets of state enterprises as equity and issues participation bonds to prospective investors. This is a better alternative since the government will share in the profit of rehabilitated corporations, aside from the investment inflows it can attract.

C. *Political Economy Issues*

This paper is being written nearly 120 days after the inauguration of President Ramos. There is a consensus that the new president is taking a more hands-on approach in governance and this has bred hope for quicker response to the needs of the economy. However, this is no easy task. Economic reforms entail adjustment costs and sacrifices. In this regard, the following development issues confront the current administration.

First, a consensus on the alternative set of social policy must be brokered among the different sectors of society. This will entail a "bottoms-up" approach to the decisionmaking process, where government undertakes consultation on major policy pronouncements. Underlying this consensus-building is the equal sharing of responsibility as well as the egalitarian distribution of costs of adjustments arising from this set of policies. The establishment of the National Unification Commission is a major step towards establishing a social consensus. A noted columnist, however, has criticized the administration for applying the politics of transaction instead of the needed politics of transformation. The implication is that the administration may have compromised its program of government by negotiating deals with existing power blocs.

Second, a strong representation for technical, trade, institutional, financial and other forms of assistance will have to be made by a panel of government and private sector representatives, to the international community. This will usher in unlimited amount of goodwill which can be used during the difficult period of transition. Emphasis can be given to trade markets and concession that can be obtained.

Third, to mitigate the difficulty brought about by economic change, the government has to grant safety nets to the displaced members of society. This will require large outlay for social

services, i.e., nutrition program for children, negative taxation for selected sectors, the provision of income additives, and the granting of food subsidy or discount coupons to the marginalized members of society.

Fourth, there must be a continuing effort to equalize access to human, capital and other resources. This can be achieved through the decentralization of business opportunities consistent with resource mapping, the provision of soft loans for backyard business, the recognition of the role of non-government organization, the promotion of education and relevant skills training, the provision of adequate health care facilities, and the redistribution of various resources such as land.

In this light, the principle of "resource as a public trust" will have to be upheld. Under this principle, a resource is a common good and its use should serve to promote both the individual and the social needs of society. To the extent that individual disposition of resources cease to conform to social welfare, the custody rights of an individual can be appropriated.

Fifth, priority will have to be given to people empowerment. This will enable people to have wider choices in all sphere of human activity. Foremost to empowerment is the development of human resources. This entails putting up social institutions and systems whereby the accumulation of specialized assets and skills will be enhanced. In this context, the government will have to concentrate on technical-vocational education, out-of-school apprenticeship, and on-the-job training. Specifically, the crafts where Filipinos have a natural edge are in furniture- making, jewelry-making, embroidery, fashion, footwear and leatherwear. In addition, the government must also aim to strengthen the advance skills in agricultural technology, electomechanics, metal fabrication, industrial chemistry, advertising and computer programming. To achieve this leapfrogging, the goverment must recommend a deregulated wage policy where wage differential across industry rations the available skills to its most productive use. Moreso, subsidy to cover the cost of training will have to be extended in view of the externality problem in human resource development.

Finally, social policy will have to emphasize the complementary roles of efficiency and equity. In the recently-issued PIDS report on the Crisis of Poverty Project, one major finding was that the principal factors that led to unsustainable growth are the same causes of poverty and the inequitable distribution of income. Thus, efforts to enhance productivity will have to be pursued. This can be attained through the streamlining of regulatory and administrative control, the promotion of competition, the strengthening of anti-trust laws, the encouragement of science and technology, and the support of industry with high linkages with other sectors of the economy.

V. CONCLUSION

Like its predecessor, the Ramos administration has inherited an economy that is in a state of recession. Despite this discouraging condition, policymakers must nevertheless take full advantage of the stabilized macroeconomic conditions. The best way to do this is to take more concrete steps towards liberalizing the economy and promoting a healthier business climate.

As mentioned in last year's outlook paper, the path towards sustainable growth has been made sharper over the years. The new administration though must muster enough political will

to implement the needed reforms; it must take courage from the examples set forth in other developing countries (e.g. the Salinas government in Mexico).

One critical aspect that has not been discussed in detail is the effect of the peace and order situation on investor confidence. Here the military background of the President will be put into good use. But again clear and credible policies must be instituted to minimize the spread of criminal activities otherwise people will dismiss government programs along this line as mere grandstanding and perceptions of cover-ups will abound.

The next five years offer a myriad of challenges and opportunities. It is obvious from their pronouncements that policymakers are cognizant of the requirements of sustainable growth. The main task of the government then is to provide the leadership that will see much needed reforms implemented and institutionalized. In the process, a social consensus will have been built and the Philippines will finally find the road to nationhood.

APPENDIX
(as of 27 January 1993)

ITEM	1989	1990	1991	1992	1993	1994
POPULATION (Mn; as of 1 July) a/	60.1	60.7	62.1	64.3	65.6	67.0
EMPLOYMENT (Thousand persons)						
Agriculture	9857	10192	10354	10559	10793	11074
Industry	3448	3388	3447	3550	3719	3925
Services	8544	8952	9379	9777	10103	10446
Total employed	21849	22532	23180	23886	24614	25445
Unemployed	2009	1993	2029	2080	2131	2101
Unemployment Rate	8.4	8.1	8.0	8.0	8.0	7.6
NATIONAL ACCOUNTS (Bn Pesos; cy)						
At Constant 1985 Prices						
GDP by Industrial Origin	698.4	717.3	712.5	713.3	733.1	769.3
Agriculture	160.0	160.7	162.2	161.9	164.2	168.8
Industry	251.6	258.1	250.2	250.4	257.6	275.3
Manufacturing	178.4	183.9	183.1	183.5	188.6	198.8
Non-manufacturing	73.2	74.2	67.1	66.9	69.0	76.5
Services	286.8	298.4	300.1	301.0	311.2	325.2
GDP at constant mp	698.4	717.3	712.5	713.3	733.1	769.3
Net factor income from abroad	-8.7	1.7	8.0	13.6	14.1	14.0
GNP at constant mp	689.7	718.9	720.5	726.8	747.3	783.3
GDP (constant mp) sectoral shares	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	22.9	22.4	22.8	22.7	22.4	21.9
Industry	36.0	36.0	35.1	35.1	35.1	35.8
Services	41.1	41.6	42.1	42.2	42.5	42.3
GDP growth rate (mp)	6.0	2.7	-0.9	0.1	2.8	4.9
GR Agriculture	3.0	0.5	0.7	-0.2	1.5	2.8
GR Industry	8.1	2.6	-3.1	0.1	2.9	6.9
GR Manufacturing	6.1	3.1	-0.4	0.2	2.8	5.4
GR Services	6.0	4.0	0.0	0.3	3.4	4.5
GDP at current market prices (Bn Pesos; cy)	925.2	1070.9	1243.9	1357.1	1516.9	1715.0
Net factor Income from abroad	-11.3	2.3	14.0	21.4	18.0	7.6
GNP at current mp	913.8	1073.2	1257.9	1378.5	1534.9	1722.7
GDP at current mp (Mn US$)	42561.6	44050.0	45266.2	52114.0	56180.9	62365.0
Exchange Rate (Pesos/US$; Average of period)	21.74	24.31	27.48	26.04	27.00	27.50
Implicit GDP deflator (1985=100) (derived)	132.47	149.31	174.58	190.27	206.91	222.95
GR GDP deflator	8.7	12.7	16.9	9.0	8.7	7.8
Consumer Price Index, Philippines	125.79	141.73	166.80	182.02	198.09	213.47
GR CPI, 1985=100	10.6	12.7	17.7	9.1	8.8	7.8
Consumer Price Index, Metro Manila (1985=100)	127.60	145.70	172.90			
GR CPI, 1985=100	12.2	14.2	17.7			
Expenditure on GDP (current mp)	925.2	1070.9	1243.9	1357.1	1516.9	1715.0
Total consumption	734.7	875.9	1043.3	1177.9	1334.2	1511.9
Private consumption	649.3	767.1	916.2	1031.1	1169.3	1316.7
Government consumption	85.4	108.8	127.1	146.8	164.9	195.2
Total investment	202.1	241.3	248.6	293.2	344.8	421.2
Gross fixed capital formation	193.2	234.2	246.4	290.7	341.8	417.6
Increase in stocks	8.9	7.1	2.2	2.5	2.9	3.6
Exports of goods & services	263.9	299.2	367.5	430.2	497.2	562.6
Less: Imports of goods & services	280.1	358.5	391.9	452.6	543.0	639.8
Statistical discrepancy	4.6	13.0	-23.6	-91.4	-116.2	-141.1
				713.3	733.1	769.3
Expenditure on GDP (constant mp)	698.4	717.3	712.5	713.3	733.1	769.3
Total consumption	557.4	588.8	601.1	620.6	645.5	677.1
Private consumption	504.6	531.8	543.7	560.6	584.2	610.5
Government consumption	52.8	57.0	57.4	59.9	61.3	66.6
Total investment	153.9	162.6	140.4	149.6	161.8	181.9
Gross fixed capital formation	146.2	157.0	139.3	148.4	160.5	180.4
Increase in stocks	7.7	5.6	1.1	1.2	1.3	1.4
Exports of goods & services	217.0	219.7	235.6	251.7	266.6	280.5
Less: Imports of goods & services	244.6	269.1	264.0	305.7	336.1	366.7
Statistical discrepancy	14.7	15.2	-0.7	-2.9	-4.7	-3.5

ITEM	1989	1990	1991	1992	1993	1994
Expenditure on GDP (real growth rates)	6.0	2.7	−0.7	0.1	2.8	4.9
Total consumption	5.1	5.6	2.1	3.2	4.0	4.9
Private consumption	5.0	5.4	2.2	3.1	4.2	4.5
Government consumption	5.6	8.1	0.7	4.3	2.3	8.6
Total investment	23.6	5.7	−13.7	6.5	8.2	12.4
Exports of goods & services	10.7	1.3	7.2	6.8	5.9	5.2
Less: Imports of goods & services	15.2	10.0	−1.9	15.8	9.9	9.1
Investment Financing (current prices)						
Gross domestic capital formation	202.1	241.3	248.6	293.2	344.8	421.2
Gross national saving	179.2	197.3	214.6	200.7	200.7	210.8
Gross domestic saving b/	190.5	195.0	200.6	179.2	182.7	203.1
GR GDI	37.0	19.4	3.0	18.0	17.6	22.2
GR TC	16.4	19.2	19.1	12.9	13.3	13.3
GDI as % of GDP	21.8	22.5	20.0	21.6	22.7	24.6
GDS as % of GDP	20.6	18.2	16.1	13.2	12.0	11.8
GNS as % of GDP	19.4	18.4	17.3	14.8	13.2	12.3
Resource Gap (GDS−GDI)	−1.3	−4.3	−3.9	−8.4	−10.7	−12.7
Per Capita GDP (Pesos)						
Current prices	15393.7	17642.5	20030.1	21099.1	23123.3	25597.6
Constant 1985 prices	11620	11816	11473	11089	11175	11481
GR per capita constant GDP	3.6	1.7	−2.9	−3.3	0.8	2.7
BALANCE OF PAYMENTS (US$ Mn; cy) c/						
Merchandise exports, fob	7821	8186	8840	9710	10831	12039
Merchandise imports, fob	−10419	−12206	−12051	−13807	−15641	−17669
Trade balance	−2598	−4020	−3211	−4098	−4810	−5631
Other goods, services and income	312	611	1351	2120	2503	2622
Credit	4586	4842	5624	6654	7489	8249
Debit	−4274	−4231	−4273	−4534	−4986	−5627
Unrequited transfer	830	714	827	908	966	1022
Private	473	357				
Official	357	357				
Current balance	−1456	−2695	−1033	−1070	−1342	−1987
Services & Transfers,net						
Growth rates						
Merchandise exports	10.6	4.7	8.0	9.8	11.6	11.1
Merchandise imports	27.7	17.2	−1.3	14.6	13.3	13.0
As % of GDP						
Merchandise exports	18.4	18.6	19.5	18.6	19.3	19.3
Merchandise imports	24.5	27.7	26.6	26.5	27.8	28.3
Current Account	−3.4	−6.1	−2.3	−2.1	−2.4	−3.2
Invisibles	1142	1325	2178	3028	3469	3644
GR Invisibles	64.3	16.0	64.4	39.0	14.5	5.1
Merch. exports at constant 1985 prices	138216	148515				
GR MX	13.0	7.5				
Merch. imports at constant 1985 prices	231100	241252				
GR MM	24.9	4.4				
Unit value index (1985=100; period averages) d/						
Exports	123.0	134.0				
GR UVIX	0.8					
Imports	98.0	123.0				
GR UVIM	5.4					
MONEY AND BANKING (Mn Pesos; eop) e/						
Money supply (M1)	78530	89012	101374	126799	151752	177462
Currency in circulation	52823	61921	69394			
Demand deposits	25707	27091	31980			
Quasi−money	172561	208295	242683			
Money supply (Total Liquidity)	263221	312574	357317	456838	538223	638844
GR M1	31.5	13.3	13.9	25.1	19.7	16.9
GR M2	25.9	18.7	14.3	27.9	17.8	18.7

ITEM	1989	1990	1991	1992	1993	1994
GOVERNMENT FINANCE (Mn Pesos; fy end 31 Dec)						
Central Government						
Current revenue	140246	174199	222489	267974	279745	317185.3
Taxes	121352	151700	198281	221674	252045	288785.3
Non–taxes	18894	22499	24208	46300	27700	28400
Current expenditure	127180	180152	205000	272800	305900	324300.0
Current surplus/deficit	13066	–5953	17489	–4826	–26155	–7115
Capital receipts	533	4322	4716			
Capital expenditure	27364	38236	53755	52900	59500	76100.0
Capital account surplus/deficit	–26831	–33914	–49039			
Net lending	1589	2156	833	1500	2200	2200.0
Non–budgetary surplus/deficit	–	–				
Overall surplus/deficit	–15354	–42023	–32383	–59226	–87855	–85415
Financing						
Domestic borrowing	3144	33068	16571			
Foreign borrowing & grants	12752	6507	13637			
Use of cash balances	–542	2448	2175			
As % of GDP						
Gov't expenditure (current + capital)	16.7	20.4	20.8	24.0	24.1	23.3
Total revenue (current + capital)	15.2	16.7	18.3	19.7	18.4	18.5
Overall surplus/deficit	–1.7	–3.9	–2.6	–4.4	–5.8	–5.0
Overall surplus/deficit (excl grants)						
EXTERNAL INDEBTEDNESS (US$ Mn; cy)						
Total outstanding and disbursed	28469	30457	30640	32500	33000.0	
Long–term	23340	25114				
Public and publicly guaranteed	22597	24108				
Private non–guaranteed	743	1006.0				
Short–term	3952	4431.0				
Use of IMF credit	1177	912.0				
Total Debt Service	3234	2822	3040.0	2740.0	2500.0	
Principal amortization (LT)	893	752	1170	960	900	
Interest payments (LT, ST)	2061	1626				
IMF repurchases & charges	280	444				
Exports of goods & services	12767	13290				
Debt–service ratio	25.3	21.2	21.6	18.9	15.7	

Note: Historical data taken from KI except BOP (IFS) and Debt (WDT).

a/ Intercensal estimates except for the 1980 figure which is actual census results.
b/ Estimated by ADB staff as GDP less private and government consumption expenditures.
c/ 1989 data are only from January to November.
d/ For 1976, base period is 1972. Unit value indexes of imports are based on CIF value while those of exports are based on FOB value.
e/ Data for 1983–89 were revised to incorporate the new expanded commercial banks' concept which includes the Land Bank of the Philippines.

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