DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

EBS/84/215

CONFIDENTIAL

October 16, 1984

To: Members of the Executive Board

From: The Acting Secretary

Subject: Philippines - Exchange Arrangements and Exchange System

The attached paper on recent changes in the Philippine exchange arrangements and exchange and trade system is circulated for the information of the Executive Directors. No action by the Executive Board is recommended at this time.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Philippines: Exchange Arrangements and Exchange System

Prepared by the Asian Department and the Exchange
and Trade Relations Department

(In consultation with the Legal Department)

Approved by Hubert Neiss and Manuel Guitian

October 16, 1984

In the attached communication, dated October 15, 1984, the Executive Director for the Philippines, on behalf of his authorities, has notified the Fund of changes in the Philippine exchange arrangements and exchange and trade system. Effective October 15, 1984, the exchange rate for the Philippine peso will be determined freely by market forces. On October 15, 1984, the rate was determined at ₱ 19.95 = US$1 representing a depreciation of about 8.1 percent from the rate of ₱ 18.33 = US$1 on October 12, 1984. Previous to this announcement, the exchange rate for the Philippine peso was determined, in part, on the basis of demand and supply in the exchange market. The authorities, however, intervened when necessary to maintain orderly conditions in the exchange market and for other policy objectives and established, from time to time, guiding exchange rates. Between June 6, 1984 and October 2, 1984 the guiding rate remained at ₱ 18.002 = US$1. Between October 2, 1984 and today's change, there were two adjustments in the guiding rate. The U.S. dollar was the intervention currency.

With the float of the peso, the foreign exchange surrender requirement to the Central Bank imposed on the authorized export banks, which already had been reduced on June 6, 1984 from 100 percent to 80 percent, was eliminated and the allocation scheme for foreign exchange on the basis of officially set priorities was abolished. Among other measures taken at the same time, the Fund has also been informed that the 10 percent excise tax on foreign exchange sold by the Central Bank of the Philippines and authorized agent banks for purposes other than payments for merchandise imports has been eliminated, thus abolishing the multiple exchange rate yielded by the tax. On September 24, 1984, the stabilization tax on exports had also been eliminated.

The staff welcomes these measures which are consistent with a letter submitted to Management last week specifying the economic and financial policy of the Government of the Philippines. It is expected that a paper will be issued to the Executive Board, in due course, on a request for a stand-by arrangement for the Philippines. This paper will contain a detailed description and analysis of the measures taken. In the meantime, no action by the Executive Board is recommended.

ATTACHMENT

Office Memorandum

TO : The Secretary DATE October 15, 1984

FROM : A. R. G. Prowse

SUBJECT : Philippines: Exchange System Measures

I have been informed by my authorities in Manila of the following actions, effective October 15, 1984, regarding the exchange and trade system. These measures basically are intended to ensure that banks can fully trade foreign exchange under a floating rate system and that the exchange rate for the Peso will be determined by market forces. Appropriate changes have been introduced to streamline the Central Bank's relevant rules and operations.

1. The surrender requirement, under which banks were required to sell to the Central Bank 80 percent of their foreign exchange receipts, has been terminated.

2. With the termination of the surrender requirement, the Central Bank will no longer allocate foreign exchange to be used for servicing interest payments on foreign debt. Also, the priority system of allocating foreign exchange for imports under Circular No. 970 (and its operating guidelines) has been abolished. Entities with foreign obligations may secure from commercial banks the foreign exchange they need to service their interest, import and other eligible payments.

3. The Central Bank will no longer provide new forward exchange cover.

4. Merchandise imports will generally be allowed, although certain commodities will be regulated or restricted for reasons of either public health, safety, international commitments, or development and rationalisation of local industry. In the case of regulated items, the package of measures provide that their importation need no longer be coursed through the Central Bank for prior approval. Importations of regulated items may now be given due course by commercial banks upon receipt of the permit or authority to import issued by the government agency involved, except in the case of importations of banned items and importations under a no-dollar basis, where importers will still have to secure a release certificate from the Central Bank. Banks will be authorised to issue release certificates to importers.

5. The Central Bank has reinstituted the formula used in determining the maximum amount of foreign exchange assets which commercial banks may hold. Under the formula, the maximum amount of foreign exchange commercial banks may hold should not exceed 10 percent of outstanding letters of credit, plus 10 percent of foreign exchange receipts of a two-month moving average of the immediately preceding 12-month period, and 100 percent of export bills purchased. Any foreign exchange in excess of this formula should be sold by commercial banks at the foreign exchange trading floor.