EBD/84/165

June 7, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Philippines - Foreign Exchange Arrangements

The Secretary has received the following memorandum dated June 6, 1984 from Mr. Prowse:

> Attached is a copy of a message I have received from the Philippine authorities regarding the new exchange arrangements adopted by the Philippines. The authorities have asked me to advise the Executive Board and management of these arrangements and I would be glad if you would now arrange for that to be done using the attached message as appropriate.

Attachment

Other Distribution:
Department Heads

ATTACHMENT

We would like to inform you of developments as of June 6, 1984. Please notify the Managing Director and the staff as necessary.

A. Foreign exchange trading has resumed today. The guiding rate moved to pesos 18.002 per USDLR 1. Buying and selling rates follow:

BUYING	
Minimum	Pesos 17.822
Maximum	Pesos 17.912
SELLING	
Minimum	Pesos 18.138
Maximum	Pesos 18.317

There is no change in the system of determining the foreign exchange rate.

B. Simultaneously, new taxes imposed include a special excise tax on foreign exchange sales by banks and an economic stabilization tax on exports. Meanwhile, the import surcharge has been raised from 8 percent to 10 percent. Related presidential decrees (P.D.) issued and executive orders follow:

1. PD No. 1928 which provides that "There shall be levied, assessed, collected and paid a special excise tax of ten percentum (10 percent) on the value in pesos of foreign exchange sold by the Central Bank of the Philippines or any of its agents, except for payment of merchandise imports to the Philippines."

2. PD No. 1929 which provides that "There shall be levied, assessed, collected and paid, an economic stabilization tax in an amount equivalent to the difference between the gross FOB value at the time of shipment based on the guiding rate at the date of shipment and said gross FOB value at the rate of fourteen (₱ 14.00) pesos to one (USD 1.00) United States dollar, in accordance with the following schedule:

Until September 30, 1984 - 30 percent, until December 31, 1984 - 25 percent, until March 31, 1985 - 20 percent, until June 30, 1985 - 15 percent, until September 30, 1985 - 10 percent, until December 31, 1985 - 5 percent."

3. Executive Order No. 955 providing for an imposition of additional import duty as follows: "Except as herein specifically provided, there shall be levied, collected and paid, in addition to any other duties, taxes and charges imposed by law, on all importations into the Philippines, an additional duty of ten percent (10 percent) ad valorem. Exempted from the ten percent additional duty are the following:

(a) those of government agencies, instrumentalities, or government-owned or controlled corporations with existing contracts, commitments, agreements or obligations (requiring such exemption) with foreign countries, international institutions, associations or organizations entitled to exemption pursuant to agreements or special laws;

(b) those of the diplomatic corps under the provisions of paragraph K, Section 105, Presidential Decree No. 1464, as amended;

(c) personal effects of returning Filipino diplomats under the provisions of the penultimate paragraph, Section 105, Presidential Decree No. 1464, as amended;

(d) those of bonded manufacturing warehouses under the provisions of Section 2002, Presidential Decree No. 1464, as amended; Republic Act 3137; Presidential Decree No. 1789, as amended by Batas Pambansa Blg. 391 and firms operating in export processing zones; and

(e) those of bonded smelting warehouses under the provisions of Section 2005, Presidential Decree No. 1464, as amended."

C. Under Circular 1010 agent banks are now allowed to retain 20 percent of their foreign exchange earnings from current account receipts. This amends Circular 970 which provides for a 100 percent foreign exchange surrender to CB. other provisions of Circular 970 and its guidelines (including the prioritization system relative to foreign exchange allocation) remain in force.

D. Executive Order No. 957 provides for additional fuel taxes, specifically amending Sections 153, 155, and 156 of Title IV (specific taxes) of the National Internal Revenue Code of 1977, as amended.

E. The President has likewise signed two budget measures which are intended to control public sector deficit within manageable limits.

1. PD 1930 which provides that "All direct borrowings from domestic and foreign sources by government-owned and/or controlled corporations, including their subsidiaries, as well as loan guarantees extended by them, shall have the prior approval of the President, upon recommendation of the Prime Minister, government-owned and/or controlled corporations, including their subsidiaries, shall submit their capital investment programs for prior approval of the President thru and upon recommendation of the Prime Minister. All such programs shall be based on attainable levels of resources from borrowings, internal cash generations, and feasible equity or

subsidy contributions from the general fund. The implementation of such programs shall be guided by pertinent existing laws and administrative issuances including Executive Order Nos. 518 and 936.

2. EO 956 which provides that "There shall be imposed, budgetary reserve equivalent to five percent of the 1984 budget program in addition to the earlier implemented reserves. The reserves shall be applied on the major expenditure accounts on the basis of the following percentage: capital outlay of MPWH and MTV 6.5 percent; corporate equity investments 15.5 percent; other capital outlays 26.5 percent; current operating expenditures 2.0 percent.