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EBS/89/59
Supplement 1
Correction 1

CONFIDENTIAL

May 18, 1989

To: Members of the Executive Board

From: The Secretary

Subject: Philippines - Staff Report on Request for an Extended Arrangement and Possible Access to Contingency Financing Under the CCFF

The following corrections have been made in EBS/89/59, Supplement 1 (5/1/89):

Page 40, Footnote 3, line 6: for "be lowered (raised) by"
read "be raised (lowered) by"

Page 95, Attachement I, last line: for "December 15, 1990"
read "December 15, 1989"

Corrected pages are attached.

Att: (2)

Table 13. Philippines: Indicative Structural Targets, 1989-90

I. Strengthening of tax administration

a. Hire and train additional VAT agents and raise the number of paying VAT registrants as follows:

	End-September 1989	End-March 1990
Number of new VAT agents	850	1,700
Number of paying VAT registrants	65,000	75,000

b. Increase the share of imports covered by published "fair market values" as a basis for the C.I.F. valuation of imports for duty and tax purposes as follows:

	1988 Actual	September 1989	December 1989	March 1990
Share of imports covered (in percent)	30	40	50	60

c. Complete the cross checking of income tax withholding agents by June 1989 and register all identified withholding agents with the Bureau of Internal Revenue (BIR) by December 1989.

II. Privatization of public enterprises

a. Offer for sale corporations representing the following share of the 1985 book value of assets to be privatized (₱ 78 billion 1/):

By December 1989: 20 percent
By December 1990: 50 percent

1/ Excluding Philippine National Bank.

VI. External Contingency Financing 1/

The Philippines has requested that the Fund decide that it will provide, in association with the extended arrangement, contingency financing under the compensatory and contingency financing facility (CCFF), should adverse external contingencies occur during the period of the arrangement. 2/

The proposed contingency mechanism will cover unanticipated deviations from program projections for the following variables: export prices for coconut oil, 3/ copper metal and copper concentrate; partner countries' volume of non-oil imports as it affects Philippine exports of nontraditional manufactures (net of imported inputs); import prices for petroleum and petroleum products; partner countries' non-oil export prices as they affect Philippine non-oil imports (excluding commodity aid and foreign-financed projects); and interest payments on net external debt with variable interest rates. The variables covered represent 56 percent of merchandise exports, and 74 percent of merchandise imports, and 53 percent of total current account transactions. 4/

1/ For a more detailed presentation of the technical parameters and procedures of the contingency mechanism of the CCFF, see Annex XII.

2/ While the letter of March 20, 1989 requests that the Fund "provide external contingency financing" under the CCFF, it is understood that the authorities' request is that the Fund "decide that it will provide external contingency financing" as contemplated in paragraph 17 of the CCFF decision.

3/ As the Philippines is one of the major suppliers of coconut oil to the world market, export prices can be influenced by variations in Philippine export volume. Therefore, if the actual volume of coconut exports in the semester in which a price deviation occurs deviates by more than 10 percent from the projected volume, the applicable actual price used for calculating the deviation will be raised (lowered) by one third of the percentage change by which the volume was higher (lower) than projected in the baseline scenario. The price elasticity of one third reflects the long-term relationship between the Philippine coconut oil export volume and export prices. A threshold of a 10 percent deviation in actual export volume from the projected export volume was chosen to avoid activating this provision for relatively small movements.

4/ Current account transactions that are not subject to external shocks and therefore not covered by the contingency mechanism (i.e., re-exports, imported inputs for the production of manufactured exports, commodity aid, and foreign-financed imports) account for about 10 percent of all current account transactions. Nonfactor service transactions and transfers, which are not covered by the contingency mechanism account for another 19 percent.

EXTENDED ARRANGEMENT

A letter, with annexed memorandum, dated March 20, 1989 from the Governor of the Central Bank of the Philippines and the Secretary of Finance (EBS/89/59) requests

(a) an extended arrangement and sets forth:

(i) the objectives and policies that the authorities of the Philippines intend to pursue for the period of this extended arrangement;

(ii) the policies and measures that the authorities of the Philippines intend to pursue for the first year of this extended arrangement; and

(iii) understandings of the Philippines with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of the Philippines will pursue for the second and third years of this extended arrangement; and

(b) a decision that, should adverse external contingencies occur during the period of this extended arrangement, the Fund will provide in association with this extended arrangement, external contingency financing up to a maximum amount equivalent to SDR 286.3 million under the Compensatory and Contingency Financing Facility (Decision No. 8955-(88/126), adopted August 23, 1988) and in accordance with the factors set out in the Annex to the above-mentioned decision, with the understanding that, under that facility, should favorable external contingencies occur during the period of the requested arrangement, adjustments of up to SDR 286.3 million will be made by the Fund (under paragraph 27 of that decision) at that time in accordance with the factors set out in the Annex to the above-mentioned decision.

To support these objectives and policies, the International Monetary Fund grants this extended arrangement, subject to any decision adopted pursuant to paragraph 27 of Decision No. 8955-(88/126), in accordance with the following provisions:

1. For a period of three years from ___, 1989, the Philippines will have the right to make purchases from the Fund in an amount equivalent to SDR 660.6 million, subject to paragraphs 2, 3, 4, 5, and 6 below, without further review by the Fund.

2. Purchases under this arrangement shall not exceed, without the consent of the Fund, the equivalent of SDR 94.37 million until December 15, 1989, the equivalent of SDR 188.74 million until June 15,

1990, the equivalent of SDR 283.11 million until December 15, 1990, the equivalent of SDR 377.48 million until June 15, 1991, the equivalent of SDR 471.85 million until December 15, 1991, and the equivalent of SDR 566.22 million until April 30, 1992.

3. Purchases under this extended arrangement shall be made from ordinary resources until the outstanding use of ordinary resources in the upper credit tranches and under the Extended Facility equals 140 percent of the Philippines' quota in the Fund of SDR 440.4 million. Thereafter, purchases shall be made from borrowed resources, provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. The Philippines will not make purchases under this extended arrangement

(a) during any period in which the data at the end of the preceding period indicate that

(i) the ceiling on the borrowing requirement of the monitored public sector referred to in paragraph 40 and Table 2 of the Memorandum annexed to the authorities' letter;

(ii) the ceiling on base money referred to in paragraph 41 and Table 2 of the same Memorandum;

(iii) the floor on net international reserves of the monetary authority referred to in paragraph 45 and Table 2 of the same Memorandum;

(iv) the limits on the approval of nonconcessional external loans with 1-12 year maturities, including the sublimit on the approval of nonconcessional loans with 1-5 year maturities, referred to in paragraph 44 and Table 2 or the same Memorandum; or

(v) the limit on outstanding short-term external debt referred to in paragraph 44 and Table 2 of the same Memorandum.,

is not observed; or

(b) after September 30, 1989 until the intentions referred to in paragraphs 29(a) and 45(1) and (2), and the intention referred to in paragraph 45(3) of the same Memorandum have been carried out; or

(c) after December 14, 1989, June 14, 1990, December 14, 1990, June 14, 1991 and December 14, 1991 respectively, until the reviews contemplated in paragraph 47 of the same Memorandum have been completed and suitable performance criteria have been established or, after such