

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

SM/82/55
Supplement 1
Correction 1

CONTAINS CONFIDENTIAL
INFORMATION

July 14, 1982

To: Members of the Executive Board
From: The Acting Secretary
Subject: Philippines - Staff Report for the 1982 Article IV
Consultation - Supplementary Information

The following corrections have been made in SM/82/55, Supplement 1,
(4/28/82):

Page 2, last column, line 16: for "-2,330" read "-2,230"

Pages 2b and 2c: Charts 2 and 3 corrected

Page 5, 1st full para., line 8: for "10.2 per cent"
read "10.3 per cent"

Page 6, footnote 4: delete second line "provided in April 1982."

Page 7, last line: for "is virtually unchanged at 23 per cent,"
read "is about 22 per cent,"

Page 9, 2nd full para., line 2: for "(5.5 per cent of GNP)"
read "(5.4 per cent of GNP)"

Corrected pages are attached.

Att: (7)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

PHILIPPINES

1982 Article IV Consultation--Supplementary Information

Approved by P.R. Narvekar and Manuel Guitian

April 28, 1982

This paper presents information that has become available since the Staff Report for the 1982 Article IV Consultation with the Philippines (SM/82/55, 3/23/82) and the report on Recent Economic Developments (SM/82/66, 4/9/82) were issued. The information was obtained by a staff mission that recently visited Manila for preliminary discussions on possible future use of Fund resources by the Philippines.^{1/} Table 1 presents the latest data and estimates and indicates the revisions to the estimates for 1981 and the projections for 1982 (see Charts 1, 2 and 3). The staff believes that the appraisal contained in the Staff Report remains broadly appropriate in light of the new information.

1. Economic growth

The Staff Report (SM/82/55, 3/23/82) and the report on Recent Economic Developments (SM/82/66, 4/9/82) reported that in January 1982 the preliminary official estimate of real GNP growth in 1981 was set at 4.9 per cent. The extremely limited primary data on domestic production and expenditure available for the preparation of this estimate attested to its highly tentative nature. The staff found it difficult to reconcile the preliminary estimate with other official data available which suggested a lower growth rate. The January growth estimate has now been superseded with the release in April 1982 of a revised set of national accounts data for 1979-81. According to the new estimates, the growth of real GNP in 1980 and 1981 was 4.4 per cent and 3.8 per cent, respectively, the latter still being a preliminary figure.^{2/} The main differences between the January and April GNP estimates for 1980 and 1981 are summarized in Table 2 and Appendix Table 1.^{3/}

^{1/} The staff team, consisting of Messrs. Salgado, Healy, Kincaid (all ASD), Lipsky (ETR), and Pettersen (FAD), and Miss Allen (ASD, secretary), visited Manila during April 11-22.

^{2/} In this report, all ratios to GNP are calculated in terms of the revised official estimates of GNP for 1979-81, and the revised official projection of GNP for 1982, unless otherwise indicated.

^{3/} The revised data on government construction indicate a sharp decline in 1980, whereas the earlier estimate had shown a moderate growth; estimates of growth in private and government construction in 1981 were substantially revised upward. Estimates of growth in manufacturing were revised downward by similar margins in 1980 and 1981. The growth of

Table 1. Philippines: Selected Economic Indicators, 1979-82

	1979	1980	1981		1982	
			Actuals or estimates		Official projections	
			Original	1/ Revised 2/	Original	1/ Revised 2/
(Changes in per cent)						
Real GNP	6.8	4.4	2.5	3/ 3.8	5.1	4.1
Consumer prices 4/ (annual average)	18.8	17.8	11.8	11.8	10.0	11.0
Exports, f.o.b.	34.3	25.8	2.1	-1.1	10.8	11.0
Imports, c.i.f.	29.8	25.8	8.7	2.9	7.1	8.1
Total liquidity	10.7	18.2	15.8	15.8	18.0	15.5
Net domestic assets 5/	20.4	24.1	22.2	22.2	23.2	22.6
Net credit to the public sector 5/	8.3	3.4	8.2	8.2	7.0	6.7
Velocity	7.5	4.7	-0.9	-1.4	0.9	-0.1
(In per cent of GNP)						
National Government revenue	13.5	13.1	11.7	11.7	11.5	10.9
National Government expenditure	13.6	14.4	15.6	15.7	14.5	13.7
Current budget surplus	4.1	3.8	3.0	3.1	2.9	2.7
Overall budget deficit (-)	-0.1	-1.3	-3.9	-4.0	-3.0	-2.8
Foreign financing	1.4	0.8	1.9	2.0	1.5	1.4
Domestic financing	-1.3	0.5	2.0	2.0	1.5	1.4
Of which: Banking system	-0.1	0.5	1.8	1.8	1.3	1.3
(In millions of U.S. dollars)						
Current account	-1,576	-2,051	-2,412	-2,303	-2,660	-2,230
(As per cent of GNP)	(-5.3)	(-5.8)	(-6.2)	(-6.0)	(-6.5)	6/ (-5.4) 6/
Overall balance of payments	-579	-352	-486	-486	-500	-550
Gross official reserves	2,423	3,155	2,697	2,707	...	...
Debt service, including IMF	1,120	1,259	1,652	1,664	2,313	2,040
(As per cent of exports of goods and nonfactor services)	(20.4)	(18.2)	(22.6)	(22.7)	(28.4)	(25.3)
Disbursed medium- and long-term external debt outstanding	7,137	8,554	10,054	10,028	...	...
(As per cent of GNP)	(24.0)	(24.1)	(26.0)	(25.9)	...	...

Sources: Data provided by the Philippines authorities; and staff estimates.

1/ Actuals or latest estimates for 1981 and projections for 1982 as provided by the authorities in January 1982; ratios to GNP are calculated on the basis of tentative staff estimate of real GNP growth rate for 1981.

2/ As provided by the authorities in April 1982; ratios to GNP are calculated on the basis of April 1982 estimates of GNP.

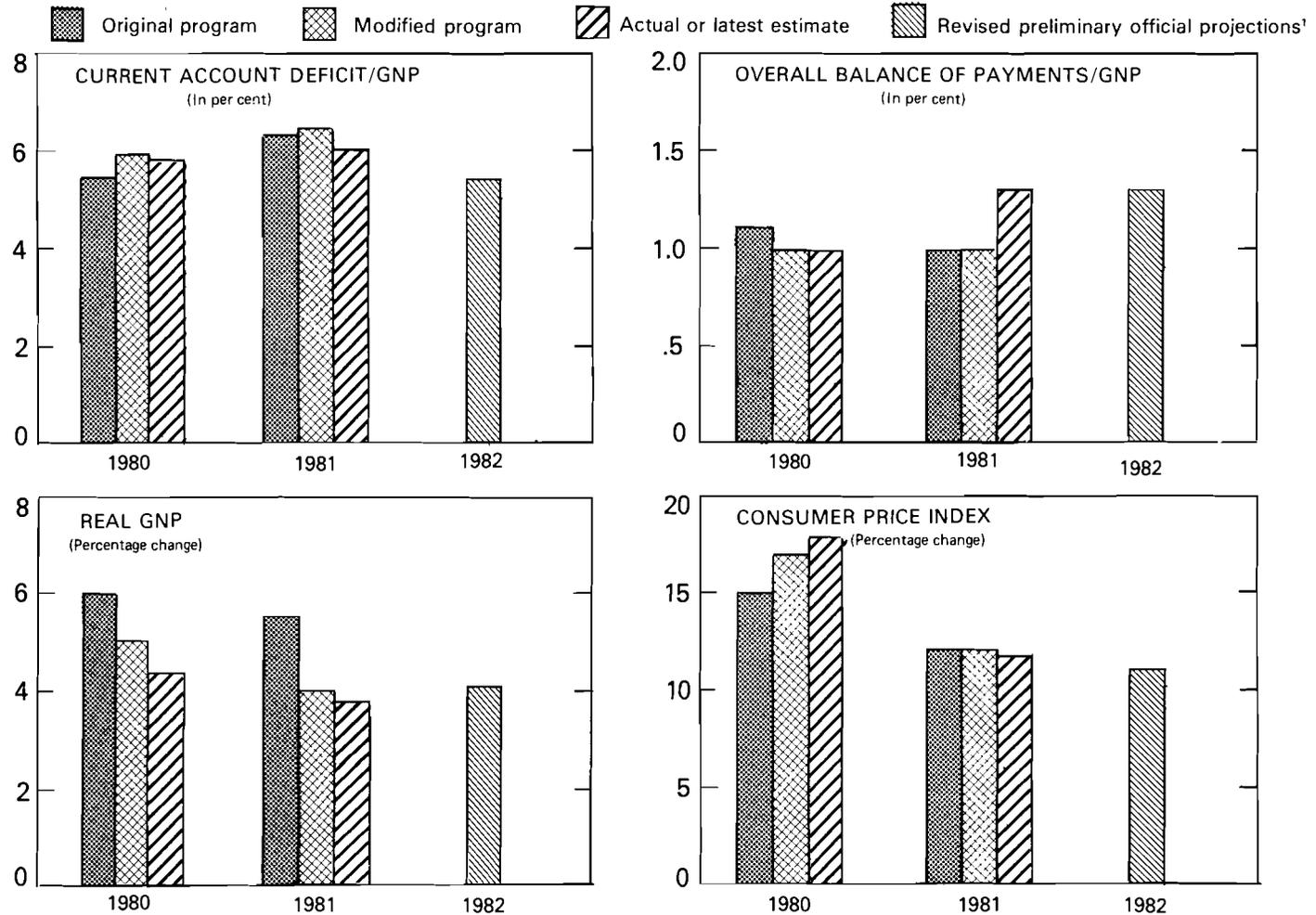
3/ Tentative staff estimate as of January 1982.

4/ Metropolitan Manila.

5/ As per cent of the stock of liquidity at beginning of period.

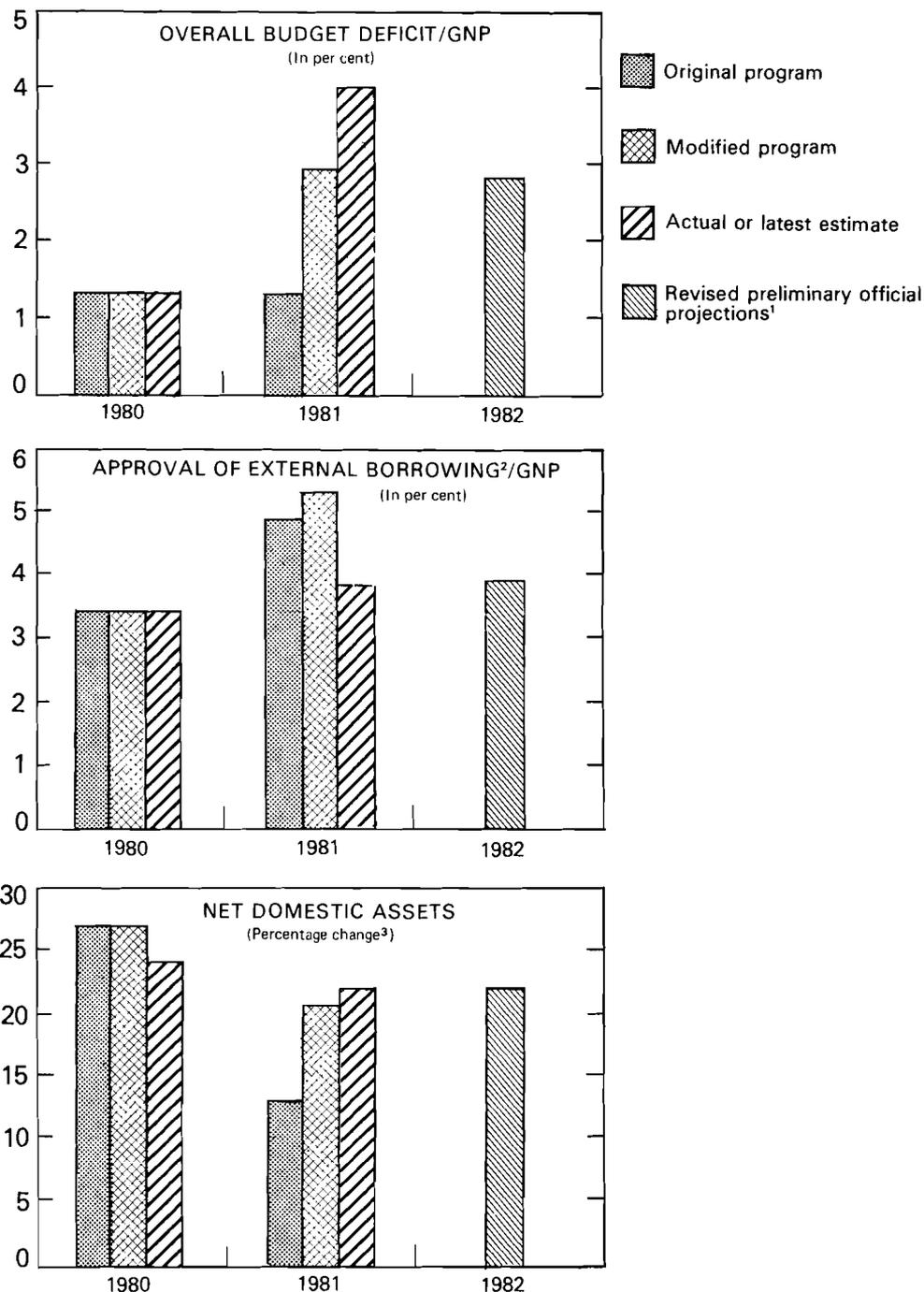
6/ Based on an appropriate exchange rate assumption.

CHART 2
 PHILIPPINES
 PROGRAM TARGETS AND ESTIMATED OUTTURN, 1980-82



Source: Data supplied by the Philippine authorities and Fund staff estimates.
 Note on GNP data used: (a) in pesos; 1980 is official data, 1981 is revised preliminary official estimate;
 (b) in dollars; 1980-81 is peso data converted at an actual average exchange rate; 1982 is peso data converted at
 exchange rate assumed by Fund staff.
¹Projections as of April 1982.

CHART 3
PHILIPPINES
SELECTED POLICY INDICATORS--TARGETS
AND OUTTURN, 1980-82



Source: Data supplied by the Philippine authorities and Fund staff estimates.
 Note on GNP data used: (a) in pesos; 1980 is official data, 1981 is revised preliminary official estimate;
 (b) in dollars: 1980-81 is peso data converted at an actual average exchange rate;
 1982 is peso data converted at exchange rate assumed by Fund staff.
¹Projections as of April 1982.
²More than one year up to and including twelve years.
³As per cent of liquidity at beginning of period

January 1982 (Table 3). Both revenue and expenditure conformed quite closely to the January estimates. Total revenue exceeded the estimate by P 0.2 billion, with higher receipts from nontax sources offsetting a small shortfall in tax revenue, while total expenditure exceeded the estimate by P 0.4 billion on account of higher capital expenditure.

Substantial revisions have been made to the budgetary estimates for 1982. The revised budget provides for an overall deficit of P 10.0 billion (2.8 per cent of GNP) down from P 10.5 billion (3.0 per cent of GNP). The projected growth in revenue has been lowered from 14.0 per cent to 7.5 per cent, with the scaling down affecting all major revenue categories (Appendix Tables III and IV). Tax revenue is projected to increase by 8.6 per cent which would result in a further decline in the tax ratio to GNP from 10.3 per cent in 1981 to 9.6 per cent in 1982. The implementation in early April of tax increases on liquors is estimated to contribute P 180 million to revenue, but no additional tax measures are expected to be introduced in 1982.^{1/} The authorities plan to raise various administrative fees and charges in the near future, but the estimated revenue gain of P 100 million is expected to be offset by lower investment income, with no increase in nontax revenue in 1982.

To contain the deficit in 1982 at the targeted level, the budgeted increase in total expenditure has been reduced from 7.6 per cent to 1.1 per cent. Expenditure estimates have been lowered for all major components, except for interest payments and infrastructural investment (Appendix Table V). Current expenditure will increase by 9.9 per cent over the previous year's level with more than three fourths of this increase accounted for by higher interest payments and allotments to local governments. Expenditure on personal services will increase by only 5.0 per cent, while there is no increase in maintenance and other operating expenditures, in part reflecting further cutbacks in fertilizer subsidies. Capital expenditure declines by 9.6 per cent from the high 1981 level, with equity contribution and infrastructural investment declining by 22.2 per cent and 10.0 per cent, respectively. Other capital outlays will increase by 7.4 per cent, while onlending from the first IBRD structural adjustment loan accounts for a sharp increase in net lending of 66.6 per cent.

Preliminary data for the first two months of 1982 indicate continued weakness in revenue and a high rate of expenditure, reflecting, in part, a substantial carryover of expenditure from 1981. While the net use of credit from the banking system was P 2.1 billion during the first two months, the budget estimate of P 4.5 billion for the whole of 1982 has not been revised upward. The authorities have recently imposed ceilings on the build-up of deposits with the Development Bank of the Philippines and

^{1/} An export tax on copra was reinstated in January 1982 with the objective of promoting export of processed products with higher value-added, such as coconut oil, dessicated coconut, copra cake, etc., but the revenue effect of this measure was small.

Table 3. Philippines: National Government Cash Budget, 1979-82

(In billions of Philippine pesos)

	1979	1980	1981		1982	
			Original <u>1/</u>	Revised <u>2/</u>	Official projections	
			Original <u>1/</u>	Revised <u>2/</u>	Original <u>1/</u>	Revised <u>2/</u>
Revenue	29.5	34.7	35.7	35.9	40.7	38.6
Tax revenue	25.9	30.5	31.7	31.4	36.0	34.1
Nontax revenue <u>3/</u>	3.6	4.2	4.0	4.5	4.7	4.5
Expenditure	29.8	38.1	47.6	48.0	51.2	48.6
Current expenditure	20.6	24.5	26.5	26.4	30.4	29.0
Capital expenditure <u>4/</u>	9.2	13.6	21.1	21.6	20.8	19.6
Overall surplus/deficit (-)	-0.3	-3.4	-11.9	-12.1	-10.5	-10.0
Financing	0.3	3.4	11.9	12.1	10.5	10.0
Foreign borrowing (net)	3.2	2.0	5.9	6.0	5.3	4.8
Gross borrowing	(3.7)	(2.9)	(7.0)	(6.7)	(6.3)	(5.8)
Amortization	(-0.5)	(-0.9)	(-1.1)	(-0.7)	(-1.0)	(-1.0)
Domestic borrowing (net)	-2.9	1.4	6.0	6.1	5.2	5.2
Banking system	(-0.2)	(1.2)	(5.5)	(5.5)	(4.5)	(4.5)
DBP and LBP <u>5/</u>	(-1.0)	(-1.4)	(-2.0)	(-2.0)	(...)	(...)
Other <u>6/</u>	(-1.7)	(1.6)	(2.5)	(2.6)	(...)	(...)
<u>Memorandum item:</u>						
Overall surplus/deficit (-) as a percentage of GNP	-0.1	-1.3	-3.9	-4.0	-3.0	-2.8

Source: Data provided by the Ministry of Finance and the Central Bank of the Philippines.

1/ Originals refer to latest estimates for 1981 and projections for 1982 as provided in January 1982; calculation of overall surplus/deficit as a percentage of GNP is based on tentative staff estimate of real GNP growth rate for 1981.

2/ Revised figures refer to preliminary actuals for 1981 and revised projections for 1982 as provided in April 1982.

3/ Includes minor amounts of grants.

4/ Includes government equity contribution and net lending.

5/ The DBP and LBP are not part of the consolidated banking system, as presented in the monetary survey.

6/ Includes trust funds.

the Land Bank of the Philippines and plan to contain bank financing at the budgeted level by issuing Treasury notes at competitive interest rates.

3. Monetary developments in 1982

During the first two months of 1982, the principal monetary aggregates exhibited the same broad trends as at the end of 1981 (Table 4). The 12-month growth of total liquidity was 15.1 per cent in February 1982 compared with 15.8 per cent in December 1981. With higher interest rates for time and savings deposits, the shift from demand deposits into time and savings deposits that began in 1981 has continued into 1982, with demand deposits declining by 3.3 per cent and time and savings deposits rising by 24.6 per cent. The movement into deposit substitutes has slowed markedly from 28.7 per cent in December 1981 to 10.9 per cent in February 1982, reflecting a return to the trend existing prior to the confidence crisis.

In relation to the stock of total liquidity at the beginning of the period, net domestic assets expanded by 23.3 per cent in the 12 months to February 1982 compared with 22.2 per cent in the 12 months to December 1981. Over the same period, net credit to the public sector rose by 65.3 per cent by February 1982, compared with 52.8 per cent by December 1981, under the impetus of a continued rapid increase in net credit to the National Government. In contrast, credit to the private sector rose by 15.5 per cent in February 1982, compared with 12.6 per cent in December 1981, but still below the 1980 rate of increase.

From December 1981 to February 1982, deposit money banks (DMBs) have concentrated their asset accumulation in foreign currency. DMBs improved their net foreign asset position by P 1,081 million even when the balance of payments deficit caused overall net foreign assets to decline by P 3,128 million. Thus, the Central Bank financed both the external deficits and the DMBs' preference for foreign assets. The behavior of the DMBs has been attributed, in part, to the relatively higher rate of return, taking into account depreciation of the peso, available on foreign placements in U.S. dollars. In an effort to counter the foreign asset accumulation of DMBs, the Central Bank in March 1982 closed its rediscount windows to banks with "excess" foreign exchange holdings.

Developments during the first two months of 1982 led the authorities to revise their projections for the monetary accounts made at the time of the Article IV consultation discussions. The growth rate for total liquidity has been lowered from 18.0 per cent to 15.5 per cent, a rate of increase similar to that in 1981 and only slightly above the 12-month growth rate experienced in February 1982. The revised expansion in net domestic assets, in relation to the stock of liquidity at the beginning of the period, is about 22 per cent, despite the lower

Table 4. Philippines: Monetary Survey, 1979-82

(In millions of Philippine pesos)

	Dec. 1979	Dec. 1980	Dec. 1981 <u>1/</u>	Dec. 1981 <u>2/</u>	Feb. 1982 <u>2/</u>	December 1982 <u>2/</u>	
						Official Projections Original <u>3/</u>	Revised <u>4/</u>
(In millions of Philippine pesos)							
Net foreign assets	-7,164	-10,536	-14,876	-14,876	-18,004	-18,980	-20,366
Central Bank	5,646	3,389	-2,330	-2,330	-6,539	...	...
Deposit money banks	-12,810	-13,925	-12,546	-12,546	-11,465	...	...
Net domestic assets	64,524	78,339	93,415	96,967	100,299	115,876 <u>5/</u>	115,181
Total domestic credit	79,551	95,269	111,148	115,805	120,145	...	...
Net credit to public sector <u>6/</u>	8,637	10,573	16,152	16,399	18,877	21,899	21,899
Of which: National							
Government, net	(3,098)	(4,336)	(9,613)	(9,793)	(11,922)	(14,293)	(14,293)
Credit to private sector	70,914	84,696	94,996	99,406	101,268	} 93,977	} 93,282
Other items, net	-15,027	-16,930	-17,733	-18,838	-19,846		
Total liquidity	57,360	67,803	78,539	82,091	82,295	96,896 <u>5/</u>	94,815
Narrow money	18,844	22,537	23,332	23,524	21,721	...	...
Time and savings deposits	26,565	32,894	39,284	42,115	43,119	...	...
Deposit substitutes	11,951	12,372	15,923	16,452	17,455	...	...
(Annual percentage changes) <u>7/</u> <u>8/</u>							
Net domestic assets	20.4	24.1	22.2	...	23.3	23.0	22.2
Total liquidity	10.7	18.2	15.8	...	15.1	18.0	15.5
(Annual percentage changes) <u>8/</u>							
Net credit to public sector <u>6/</u>	5.3	22.4	52.8	...	65.3	33.5	33.5
Net credit to National Government	-5.3	40.0	121.7	...	121.9	46.0	46.0
Credit to private sector	29.2	19.4	12.6	...	15.5	...	...

Source: Data provided by the Central Bank of the Philippines.

1/ Excludes mergers of nonbank financial institutions into banking system.

2/ Includes mergers of nonbank financial institutions into banking system.

3/ As provided by the authorities in January 1982.

4/ As provided by the authorities in April 1982.

5/ Levels differ from those given in SM/82/55, because data in supplement includes mergers whereas data in SM/82/55 excluded effects of mergers.

6/ Defined as net credit to National Government plus gross credit extended to selected public sector entities.

7/ In relation to liquidity stock at beginning of the period.

8/ Because of mergers into the banking system, annual percentage changes for December 1981 are not comparable to other periods.

liquidity growth, because of the larger balance of payments deficit envisaged. The projected increases in net credit to the public sector and to the National Government of P 5.5 billion and P 4.5 billion, respectively, have not been modified.

4. Balance of payments

Revised balance of payments data (Table 5) show the current account deficit in 1981 was \$2.3 billion (6.0 per cent of GNP), compared to the earlier estimate of \$2.4 billion (6.2 per cent of GNP). Exports totaled \$5.7 billion, declining by 1.1 per cent from the 1980 level, as primary-product exports declined by 12.7 per cent (Appendix Table VII). The revised export total is \$0.2 billion below the earlier figure, and reflects reductions in all export categories except nontraditional exports. Total export volume declined by 0.5 per cent. Imports totaled \$8.0 billion, increasing by 2.9 per cent; import volume declined by 5.5 per cent. The earlier import estimate of \$8.4 billion had included substantial over-estimates of imports of petroleum and capital goods (Appendix Table VIII). The revised deficit in investment income has corrected an earlier underestimate of interest payments on short-term debt. The estimate of net long-term capital inflow has been revised to \$1.7 billion from the earlier figure of \$1.6 billion. The revisions in the current account and in long-term capital inflow have resulted in a substantially higher outflow under "short-term capital and errors and omissions."

Projections for 1982 have been substantially modified, a current account deficit of \$2.2 billion (5.4 per cent of GNP) is now expected, compared to the earlier estimate of \$2.7 billion (6.5 per cent of GNP). Much of the reduction in the projected current deficit is due to a decline in the trade deficit, as exports are now projected to grow by 11.0 per cent and imports by 8.1 per cent. As the projected overall 1982 balance of payments deficit has increased to \$550 million, the projected lower current deficit has been offset by a lower short- and long-term capital inflow.

Tentative balance of payments estimates now available for the first quarter of 1982 indicate that export performance has continued at the relatively low level of the last quarter of 1981 and that the current account deficit was virtually unchanged. However, because of a much lower net capital inflow, the current deficit has been mainly financed by a \$525 million drawdown of net international reserves.

As a result of the data revisions, the 1981 debt service ratio (including payments to the Fund, and using exports of goods and nonfactor services as the denominator), has increased slightly to 22.7 per cent

Table 5. Philippines: Summary Balance of Payments, 1978-82

(In millions of U.S. dollars)

	1979	1980	1981		1982	
			Original <u>1/</u>	Revised <u>2/</u>	Official projections Original <u>1/</u>	Revised <u>2/</u>
Goods, services, and transfers	-1,576	-2,051	-2,412	-2,303	-2,660	-2,230
Trade balance	-1,541	-1,939	-2,490	-2,230	-2,450	-2,250
Exports, f.o.b.	4,601	5,788	5,910	5,722	6,550	6,350
Imports, f.o.b.	-6,142	-7,727	-8,400	-7,952	-9,000	-8,600
Of which: Petroleum	(-1,371)	(-2,226)	(-2,713)	(-2,439)	(-2,440)	(-2,432)
Services and transfers	-35	-112	78	-73	-210	20
Investment income (net)	-527	-732	-958	-1,130	-1,332	-1,353
Other services (net)	137	186	566	585	596	840
Transfers (net)	355	434	470	472	526	533
Capital movements	997	1,699	1,926	1,817	2,160	1,680
Long-term capital (net)	1,121	1,096	1,592	1,739	1,910	1,623
Direct investment (net)	99	45	392	407	542	451
Borrowing (net)	1,022	1,051	1,200	1,332	1,368	1,172
Short-term capital and errors and omissions	-165	475	-66	-322	118	-75
Monetization of gold	41	128	400	400	132	132
Changes in net international reserves of the banking system	-579	-352	-486	-486	-500	-550

(In millions of U.S. dollars; end of period)

Memorandum items:

Gross official reserves	2,423	3,155	2,707	2,707	...	...
Total external debt	7,137	8,554	10,054	10,028	...	...
Public external debt	5,066	6,099	7,073	7,168	...	...

(In per cent of GNP)

Current account deficit	5.3	5.8	6.2	6.0	6.5	5.4
Merchandise exports	15.5	16.3	15.3	14.8	16.0	15.5
Petroleum imports	4.6	6.3	7.0	6.3	5.9	5.9
Nonpetroleum imports	16.1	15.5	14.7	14.3	16.0	15.0
Debt service	3.5	3.0	4.0	4.3	5.7	5.0
Interest	(1.6)	(1.7)	(2.2)	(2.3)	(3.2)	(2.7)
Amortization	(1.8)	(1.3)	(1.8)	(2.0)	(2.5)	(2.3)

Source: Data provided by the Central Bank of the Philippines.

1/ Originals refer to estimates for 1981 and preliminary projections for 1982 as provided in January 1982.

2/ Revised figures refer to preliminary actuals for 1981 and revised projections for 1982 as provided in April 1982.