

May 4, 1982 - 82/65

The Chairman's Summing Up at the Conclusion of the  
1982 Article IV Consultation with the Philippines  
Executive Board Meeting 82/62 - April 30, 1982

Executive Directors acknowledged the difficulties experienced by the Philippine economy since the previous Article IV consultation. Largely as a result of oil price increases, depressed export markets, and a financial crisis, the rate of real economic growth declined in 1981 to less than 4 per cent--its lowest level in a decade--but it should be added that this performance was relatively high by international standards. Notwithstanding the difficulties, the authorities had a reasonable measure of success in attaining the objectives of the last program. Directors welcomed the progressive reduction in inflation and were appreciative of the progress made in the multifaceted structural reform program, despite the constraints imposed by the difficult economic situation. They noted, in particular, the measures taken to liberalize interest rates, reform tariffs, relax payments restrictions on imports, and diversify energy sources.

Directors commended the authorities for the prompt steps taken to contain the financial crisis. They noted that although the net domestic assets ceiling for 1981 had been slightly exceeded, the authorities had pursued a fairly restrained credit policy. They welcomed the return to positive real interest rates, which had contributed to the growth of real financial savings with the banking system. Several Directors encouraged the authorities to complete the interest rate liberalization by removing the remaining ceiling on lending rates. A number of Directors referred to the need to raise output by improving the productivity and efficiency of investment. In this connection, the unusually high capital/output ratio in the Philippines was noted, and the debt carrying capacity of some major investments was questioned.

It was noted that prudent budgetary policies had been followed until 1980, but that a marked deterioration in the fiscal position had taken place in 1981. Some Directors observed that the weak revenue performance reflected sluggish economic conditions, and they felt that the countercyclical stance of a widened budget deficit was appropriate in the circumstances. A number of Directors, however, expressed concern about this development and, in particular, about the declining ratio of tax revenue to GNP, which indicated a need for additional revenue measures as well as improvements in tax administration. All Directors welcomed the intention of the authorities to reduce the budget deficit in 1982 to 2.8 per cent of GNP. Several Directors believed that this reduction should be achieved primarily by increasing revenues and postponing some investment outlays, rather than by cutting certain current expenditures as the authorities proposed to do since, in their view, maintenance and other important operating expenditures have already been drastically reduced. Directors welcomed the planned reduction in central bank financing of the public sector and the

intention to rely more on domestic nonbank financing. The fiscal projections appeared fragile to several Directors. They stressed that developments should be monitored very closely in order to ensure the achievement of the needed improvement. It may well be that additional measures will be needed to achieve the targeted reduction in the government budget deficit.

Directors noted the rising external debt burden of the Philippines. They observed that the sharp rise in the debt service ratio in 1981 and the further rise expected in 1982 were partly the result of adverse external developments, i.e., recessionary conditions and protectionism in the major industrial countries which limited export growth, as well as high international rates of interest. Directors considered that the debt service burden was still manageable, but a number of them argued for the adoption of policies to reduce the current account deficit and thereby to reduce the need for large-scale external borrowing. In this connection, they noted that the current account deficit had continued to widen over a number of years. They welcomed the decline in the deficit projected for 1982 and stressed the need for further substantial reductions in future years. The hope was expressed by a number of Directors that exchange rate policies should continue to be used flexibly to improve the competitiveness of the Philippine economy, while fiscal and monetary policies are used to contain inflation, although others preferred to concentrate on bringing down the inflation rate as the means of promoting competitiveness, with exchange rate policy in a subsidiary role. Some Directors wondered if the flexibility in exchange rate policy shown thus far had been sufficient. Several Directors commended the authorities for continuing with the program of liberalizing exchange restrictions on imports despite the regrettable trends abroad toward increased protectionism.

With regard to use of Fund resources, it was noted that over the years the Philippines had made use of Fund assistance while strengthening its development potential and achieving a steady growth rate and, hence, fostering the resilience of its external sector. However, it was stressed by several Directors that since 1977 there had been a continued deterioration in the current account over the course of successive financial programs with the Fund. Those Directors were concerned that Fund resources might have been used to too great an extent, in their view, to finance deficits rather than to promote adjustments, and they were not convinced that conditionality had been properly tailored in the circumstances.

Finally, I would like to say that I heard no dissent from the view that the Philippines has to be cautious, especially in the present difficult circumstances in the world, in handling its demand management policies. The legitimate desire for continued sustained growth must also be subject to the need for domestic financial soundness and for a viable balance of payments and debt position over the medium term. Directors hoped that a fruitful collaboration between the Fund and the Philippines would continue.