GENERAL AGREEMENT ON TARIFFS AND TRADE

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Committee on Balance-of-Payments Restrictions

REPORT ON THE 1993 FULL CONSULTATION WITH THE PHILIPPINES

1. The Committee consulted with the Philippines on 18 and 19 February 1993, in accordance with its terms of reference, pursuant to Article XVIII:12(b) of the General Agreement and the Declaration of the CONTRACTING PARTIES on Trade Measures Taken for Balance-of-Payments Purposes (BISD 26/205). The consultation was held under the chairmanship of Mr. P. Witt (Germany). The International Monetary Fund was invited to participate in the consultation in accordance with Article XV:2 of the General Agreement.

2. The Committee had the following documents before it:

Initial full report provided by the Government of the Phillipines for the TPRM (to be considered as the basic document)	C/RM/G/33
Basic Document supplied by the Philippines (complementary to that provided in C/RM/G/33)	BOP/312
Background paper by the Secretariat	BOP/W/148

International Monetary Fund, Recent Economic Developments, dated 23 September 1992.

Opening statement by the representative of the Philippines

3. The opening statement of the representative of the Philippines is attached as Annex I.

Statement by the representative of the International Monetary Fund

4. The statement made by the representative of the International Monetary Fund is attached as Annex II.

Balance-of-payments position and prospects: alternative measures to restore equilibrium

5. Members of the Committee expressed their strong support for the macroeconomic stabilization and structural adjustment measures taken by the Philippines in the last two years. As a result of these measures, the economy started to show signs of recovery; after a decline in 1991, real GDP growth resumed towards the end of 1992, inflationary pressures receded and the external position of the country strengthened. Improvements were registered in the overall balance of payments, the current account and the reserve position of the Philippines. The comment was made, that longstanding structural problems in the country's economy were at the root of balance-of-payments difficulties.

6. In 1993 and thereafter, higher economic growth was expected. In this context the need to maintain prudent monetary and fiscal policies was stressed to constrain inflationary pressures and prevent deterioration in the balance of payments.

7. Members referred specifically to a number of elements of the economic reform programme. Positive assessment was given to reforms introduced in fiscal and monetary policies, restructuring of commercial bank debt and measures of liberalization in the foreign exchange and trade regimes as well as in regulations regarding foreign direct investment. It was noted, however, that additional efforts were needed to open the economy to greater domestic and foreign competition, particularly through reducing tariffs and other trade restrictions and eliminating monopolies. Structural reforms needed to be accompanied by continued monetary restraint and implementation of revenue measures. Continued progress in macroeconomic stabilization, together with such reforms, should help facilitate investment and external competitiveness. Further steps were needed to encourage domestic and foreign investments and promote exports; increase infrastructure development; improve the efficiency and openness of the financial sector; and eliminate power shortages and rationalize energy pricing. The economic rationale behind maintaining an import levy on petroleum and petroleum products, especially in the light of energy shortages in the country, was questioned.

8. The Committee encouraged the Philippines to continue its macroeconomic stabilization and structural reforms vigorously and emphasized the importance of maintaining macroeconomic stability and strengthening structural reform, especially in the area of public finances.

Systems, methods and effects of import restrictions

9. The Committee welcomed the continuing liberalization of the Philippines' foreign exchange and import systems. The temporary import surcharge of 9 per cent, introduced in early 1991, had been reduced to 5 per cent in August 1991 and had been eliminated in May 1992 ahead of schedule. It was noted that collection of the surcharge on petroleum and petroleum products was suspended, pending the outcome of a legal debate on their status under domestic law. The structure of the tariff system had been simplified and tariff rates had been reduced further. The coverage of quantitative import restrictions had been decreased to 135 items and the decision had been taken to liberalize further 66 items, while 69 items would continue to be restricted for health, safety and national security reasons. Members stated that it was not clear what, if any, import restrictions were now maintained by the Philippines under Article XVIII:B. They therefore requested the notification of all remaining restrictions maintained for balance-of-payments purposes, by tariff line.

10. Serious concern was expressed by several members about the economic rationale and trade distorting effects of the Home Consumption Valuation System (HCV) used by the Philippines. The HCV made customs valuation unpredictable and, by raising the effective tariff on many goods, could impair the value of the Philippines' GATT bindings. Some members discouraged the Philippines from moving to the Brussels Definition of Value (BDV) system and urged it to adopt, directly, the valuation method used in the Customs Valuation Agreement.

11. One member noted that the Philippines continued to impose high duties on durable goods and on some other sectors, for example chemicals and machinery. This was likely to reduce the competitiveness of exports. The same member asked whether the Philippines had any precise tariff reduction programme and plans regarding how to replace the budgetary income lost through tariff reductions.

12. A number of members requested the Philippines to provide a time schedule for the removal of all existing restrictions maintained for balance-of-payments purposes and asked when it planned to disinvoke Article XVIII:B. One member stated that he did not press the issue of disinvocation at present, however, he asked the Philippines to introduce greater clarity in its measures maintained under Article XVIII:B. Another member took the view that the Philippines, in view of its delicate balance-of-payments position and its transition to a more liberal trading system, needed to maintain its status under Article XVIII:B. It was also stated by another member that the balance-of-payments situation of the Philippines remained volatile, therefore it was difficult to foresee when the balance-of-payments provisions of the GATT could be disinvoked. The same member drew attention to a range of protective measures which were applied to exports of the Philippines, with a negative impact on the developments of the country's balance of payments.

13. One member of the Committee asked the Philippines to provide answers to the following questions: Had the Philippines justified under GATT its quantitative restrictions and surcharges in excess of bindings which were not notified as exemptions under Article XVIII:B? What was the status of the veterinary quarantine certificate on high quality beef imports? Had import licensing restrictions been removed according to EO-8? What are the relationships and differences among goods that are "regulated", that require licenses for importation and that are under quota? Could the Philippine Government provide a list of goods which remained regulated and were subject to quota restrictions by tariff lines, together with the quota levels applicable to them? When would a review or elimination of prohibitions on importation of onions, potatoes, garlic, cabbages and coffee take place? Under which GATT provision were limitations on importation of motor vehicles, parts and components thereof justified? What were the products the importation of which was prohibited? What tariff adjustments were deemed necessary and when would this take place?

14. In reply, the representative of the Philippines stated that recently the Philippines had not taken any protective restrictive measures for balance-of-payments purposes. The unclear situation regarding measures maintained under Article XVIII:B could have resulted from the fact that, at the time of its GATT acession, the Philippines had not indicated the justifications for its import restrictions. The line which separated measures taken for balance-of-payments or revenue purposes was thin, and measures taken for revenue reasons had an impact on the balance-of-payments situation, which was still volatile. For the time being, the Philippines wished to maintain the possibility of using import restrictive measures under Article XVIII:B, and therefore had no plans for its disinvokation.

15. The Philippines did not apply surcharges in excess of its GATT bindings. The veterinary certificate requirement on high quality beef was maintained for health purposes. The import licensing obligation on this product had been abolished in September 1992. At the same time, temporary tariff adjustment was introduced which would be reduced by 1995. At present, among the 22 items which were under regulations and were subject to import licensing, only feeder cattle was subject to quota. The size of the yearly quota was 5,000 heads. Quantitative import restrictions covered 135 items. Those 66 items which would be liberalized were under consideration. A precise time-table on the liberalization process could not be given because it involved the modification of a number of laws. Restrictions on imports of motor vehicles had already been in force before the Philippines had joined the GATT. Beyond these measures there were no other import controls in place, however, a general authority to introduce such restrictions was retained.

16. In respect of the HCV system, two bills were pending at present in Parliament. Under the rules which were in force, in case of prejudicial customs decisions, an appeal could be introduced to the Appeals Committee. It was up to the Philippines to choose its customs valuation system. The

the Appeals Committee. It was up to the Philippines to choose its customs valuation system. The BDV system should not be regarded as objectionable; about 100 countries were using it. The present valuation system did not impair GATT bindings and it could not be regarded as incompatible with the GATT because it was already in existence at the time of the country's accession to the GATT.

17. The temporary import surcharge had been eliminated on all items except petroleum and petroleum products; the collection of the surcharge on these items was suspended, pending the settlement of a legal dispute. The country had an Energy Development Plan and Power Development Programme. For the utilization of the country's geothermal energy sources, additional financial means were needed. Imports of machinery and equipment were subject to 10 to 20 per cent tariff rates. However, in certain cases imports of these items were tax and duty free. According to new legislation, imports of equipment not produced locally would be duty free. The issue of revenue losses due to tariff reductions and the eventual introduction of the transaction value for customs valuation instead of the HCV system would have to be addressed by the Government.

18. In the light of the replies given by the Philippines, several members stressed that restrictions on imports for balance-of-payments provisions should not be used for revenue raising purposes.

19. The representative of the Philippines stated that they would examine the restrictions in force and would notify those which were maintained under Article XVIII:B. At this stage, however, the authorities wanted to maintain the right to impose restrictions for balance-of-payments purposes in a flexible way. The Philippines was aware that it had to address its long term structural problems to achieve a stable balance-of-payments situation. This was one of the main objectives of the country's Medium Term Philippine Development Plan (1993-1998). A favourable external environment could contribute to the achievement of this objective.

Concluding remarks

20. The Committee strongly welcomed the signs of recovery currently apparent in the Philippine economy. After a decline in 1991, real GDP growth resumed towards the end of 1992; inflationary pressures receded and the external position of the country became stronger. The current account deficit was reduced substantially; the overall balance-of-payments surplus grew, assisted by debt rescheduling and restructuring; and reserves increased. These improvements in economic performance resulted, to a considerable extent, from the macroeconomic stabilization and structural adjustment measures taken under the Economic Stabilization Programme of 1991.

21. To ensure continued economic growth from 1993 onwards with a sustainable balance-of-payments position, the Committee emphasized the importance of maintaining macroeconomic stability and strengthening structural reform, particularly in the area of public finances. This process would also be assisted by a favourable external trading environment.

22. The Committee also noted with satisfaction that the Philippines was continuing to liberalize its foreign exchange and import systems. The temporary import surcharge introduced in 1991 had been first reduced, then eliminated ahead of schedule; the suspension of collection of the import surcharge on petroleum and petroleum products was noted with satisfaction. The tariff system had been simplified and rates were to be reduced further; however, strong concern was expressed about the rationale and trade distorting effects of the Home Consumption Valuation system. The coverage of quantitative import restrictions had been narrowed to 135 items. The decision had been taken to

liberalize approximately half of these over time. The remaining 69 items would be restricted for health, safety and national security reasons.

23. The Committee questioned whether there remained any import restrictions justified under Article XVIII:B and requested the Philippines to notify, by tariff line, all remaining restrictions maintained for balance-of-payments purposes. Taking into account the progress already achieved in the Philippines' reform programme and the improvement in the balance-of-payments situation, the Committee looked forward to an announcement by the Philippines of a time schedule for the removal of such restrictions. The Philippines was also requested to consider the disinvocation of Article XVIII:B.

ANNEX I

Philippine Statement for GATT Consultations
Balance-of-Payments Full Consultation
18-19 February 1993

The last time the Philippine Government met with the GATT BOP under full consultation was in 1986.[1] Since then the political landscape has changed dramatically culminating in a new Government and a renewed commitment to the principles and ideals of democracy. The Government has been working hard to hurdle the many major challenges to put the economy back on track to sustainable growth. After the temporary setbacks experienced by the country in 199-1991, we have started to see beginning in 1992, some signs that the economy has started to recover. To support that recovery we have set in motion far reaching liberalization moves which change in a fundamental way the working of an economy.

Overview of economic development

Let us briefly review the major economy developments that have transpired since the last full GATT consultation.

Following two years of deep recession, real GNP growth recovered in 1986 reaching in 1988 a decade high of 7.1 per cent. Over the four-year period 1986-1989 real GNP growth averaged a very respectable 5.5 per cent annually, paced mainly by investments.

Unfortunately, a series of adverse developments interrupted the Philippines' economic momentum in 1990. The failed coup d'état of rightist extremists in December 1989, drought and related shortages, as well as the devastating earthquake of 16 July 1990 - these all exacted a heavy toll on the economy.

On the Policy side, the fiscal position weakened considerably with the deficit of the national Government alone increasing almost twofold as a result of delays in the enactment of revenue measures, shortfalls in the receipts from foreign grants and assets sales, and spending overruns in some areas.

The widening fiscal deficit inevitably exerted expansionary pressures on domestic liquidity. As a result, the inflation rate accelerated from 12.2 per cent in 1989 to 14.2 per cent in 1990. In countering monetary expansion, open market operations had to be intensified, resulting in sharp increases in domestic interest rates.

The weakening of financial policy was also reflected in strong import demand. Export growth was disappointing - it decelerated to 4.7 per cent in 1990 from 10.6 per cent in 1989, reflecting the combined effects of supply problems, rapid inflation, the economic slowdown in industrial countries as well as the continued protectionist policies by some of the country's major trading partners. The wider trade gap coupled with lower net inward transfers combined to increase the current account deficit from 3.5 per cent of GNP in 1989 to 6.1 per cent in 1990.

[1]Simplified consultations were conducted in 1988 and 1991.

In the non-monetary capital account, the higher net inflows of MLT loans and short-term capital was neutralized by the decline in net foreign investments. While there was an appreciable increase in new foreign investments into the country, this was offset by the decline in inflow of portfolio investment and higher withdrawal of investments from local bourses by non-residents. The overall balance-of-payments (inclusive of rescheduling) closed the period with a $1,005 million deficit as against the 1989 surplus of $451 million.

The imbalance in the external account led to a drop in the country's international reserve position equivalent to only about 1.5 months of imports of goods and services. The weaker BOP also exerted some pressure on the peso-dollar exchange rate which at end 1990 stood at P28 per US dollar, a depreciation of 24.8 per cent from the end 1989 exchange rate.

The growing economic imbalance, and the increasingly difficult international environment in 1990 underscored the need for policy efforts focused on stabilization.

Economic stabilization programme

The medium-term economic and financial programme supported by an IMF-extended arrangement formulated in 1989 had to be abandoned in late 1990 because of the evident impossibility of meeting its major goals due to increasing strains particularly in the fiscal and external sectors and a series of adverse shocks. To mitigate the impact of adverse shocks experienced by the country, the Government in early 1991 adopted a new stabilization programme to reduce inflation, and improve the balance of payments. This programme was supported by an 18-month IMF stand-by arrangement. This also served to catalyze the financial assistance of several industrialized countries in the interest of the multilateral assistance initiative (MAI) or the Philippine Assistance Programme (PAP).

One major thrust of the country's stabilization programme was a determined effort to bring down the overall fiscal deficit through measures that would improve revenue mobilization, rationalize expenditures and eliminate the deficit of the Oil Price Stabilization Fund (OPSF). Concomitantly, monetary policy was kept on a tight course to moderate inflationary pressures and to consolidate adjustment in the balance of payments.

The Government's adherence to the programme has yielded positive results in terms of a narrower Government deficit, a lower interest rate, a significant easing of inflationary pressures, and a stronger balance of payments position.

In particular, the fiscal scenario has become more manageable. Efforts to keep a tight reign on expenditures and to improve tax collection efficiency and non-tax revenue generation have been successful in trimming down the 1991 fiscal deficit to 2.1 per cent of GNP from 3.5 per cent in 1990. A highlight of this improved fiscal performance was the elimination of the OPSF deficit and its subsequent conversion to a surplus. The stronger fiscal performance also permitted the phasedown in 19912 and eventual elimination by May 1992 of the 9 per cent import levy which had been adopted as an emergency revenue measure. In 1992, although the deficit in the cash operations of the national Government was higher compared with the programmed deficit, it nevertheless represented an improvement over the deficit registered in the earlier year.

Under a much improved fiscal picture and a cautious management of monetary aggregates, interest rates rapidly declined. In particular, 91-day treasury bill rates fell from 23.4 per cent in 1990 to 21.4 per cent in 1991 and to 16.1 per cent in 1992. Bank lending rates likewise declined with

nominal rates on secured loans across all maturities averaging 22.7 per cent in 1991 and 18.3 per cent in 1992, respectively, as against 24.3 per cent in 1990.

Nevertheless, inflation continued to be a major area of concern. The uptrend in domestic prices at an annual rate of 18.7 per cent in 1991 from 14.2 per cent in the earlier year was mainly the result of spill-over effects of cost-push pressures brought about by upward adjustments in petroleum prices, power rates, and transport fares that were necessary to strengthen public finances in a fundamental way. In 1992 however, the average annual inflation rate dripped to 8.9 per cent.

It should be noted that the adverse effects of the Gulf war, and the eruption of MT. Pinatubo in June 1991 severely dampened economic activity and complicated the stabilization programme. Real GNP reflected a minimal growth rate of 0.23 per cent in 1991 as against 4.2 per cent in 1990 due mainly to the sharp drop in industrial output and agricultural production due to a continuing drought. In 1992, the economy grew only by a minimal 0.6 per cent. Indeed, the anaemic growth was mainly underpinned by an increase in net factor income due to the impact of debt relief and personal remittances.

The gains achieved in addressing the fiscal imbalance and in containing excess liquidity helped improve the external sector as manifested in the strengthening of the overall BOP position which reflected a surplus of $1.4 billion, inclusive of debt rescheduling in 1992.

And here, I would like to emphasize that without rescheduling, the overall BOP position would have resulted in a deficit of $208 million.

The BOP performance in 1991 was highlighted by the marked contraction of the current account deficit to 2.2 per cent of GNP on the strength of higher exports of goods and services and lower imports. The net inflow of non-monetary capital similarly surged due to positive developments in medium- and long-term loans, foreign investments, and short-term capital accounts. The surplus registered in the BOP enabled the central bank to build-up its international reserves to an all-time high of $4.5 billion as of end 1991. This level is equivalent to 3.3 months of imports of goods and services.

Positive developments in the external front continued to prevail in 1992 as reflected by a stable exchange rate and a lower current account deficit. The shortfall in the current account for the first eleven months of 1992 amounted to $883 million, dropping by 24.7 per cent relative to its level in the comparable period in 1991, despite renewed demand for imports. There was also a sizeable expansion in net foreign investments inflows, an indication of renewed investor confidence in the economy. The gross international reserves of the Central Bank stood at $5.2 billion as of end 1992, representing 3.3 months of imports of goods and services.

We have also made significant progress in the reduction of our debt and in lightening the onus of the debt service. In particular, the debt service burden has been reduced from a peak of 38.1 per cent of export of goods and services in 1982 to 20.7 per cent in 1991 through the conclusion of various rounds of rescheduling agreements with the Paris Club and commercial banks. Likewise, complementing the debt restructuring agreements was the implementation of several debt reduction strategies aimed at reducing the outstanding dent stock.

Liberalization of the economic regulatory environment

The emerging macroeconomic stability, and the overall positive performance of the external sector allowed the Government to pursue major policy reforms that will help lay the foundation for sustained growth over the medium term. The thrust of these reforms was to liberalize the country's economic regulatory environment and the continued implementation of other structural reforms.

Starting 1991, important liberalization moves were taken in the domestic financial system and the foreign exchange régime.

With respect to the former, the Central Bank liberalized bank branching regulations to increase competition and enhance the efficiency of the financial system. As a complementary measure to foster greater stability in the system, the Central Bank likewise hiked the capitalization requirements for commercial banks and rural banks. These reforms are expected to enhance confidence in the financial system, stimulate greater demand for financial services, improve the quality of services that banking institutions offer, and help pull idle money back into circulation, thus improving the domestic mobilization of capital resources.

There are moves in the legislature to liberalize the entry and scope of operations of foreign banks in the country. The passage of this legislation, which the central bank supports, is expected to lead to the increased presence of foreign banks that can contribute to a stronger and more efficient banking system. Their entry would also help provide for a financial system that would be supportive of the economy's thrust of liberalizing foreign investments and trade. Moreover, as we move closer to the new millennium, we anticipate a plethora of technological innovations; and foreign banks, with their access to updated technology, can help us prepare for these changes.

Liberalization moves have also been taken in the country's foreign exchange system with the view to transforming it into a more efficient mechanism for allocating the country's foreign exchange resources, and to establish more favourable conditions for exports and investments. Major changes pertain to the full retention by exporters of export receipts and their expanded access to foreign currency loans. These twin moves are expected to significantly reduce the transaction cost of exporters and provide for a more world competitive export industry. Liberalized rules and regulations governing non-trade foreign exchange transactions have also been put in place so that authorized agent banks may now sell, without prior Central Bank approval, foreign exchange to residents for invisible payments subject only to the requirement that these transactions must be supported by documents evidencing legitimacy of the obligations.

With these reforms, the remaining restrictions on foreign exchange transactions are those on foreign exchange payments sources from the banking system that are foreign-loan related and on outward investments amounting to $1 million or more. It should be emphasized however, that servicing of foreign debt and foreign investments if funded from non-banking sources is not subject to any restriction.

The restructuring of the foreign exchange market has been undertaken to complement the deregulation of the foreign exchange regulatory framework. Under the new exchange rate system, off-floor interbank trading was allowed starting on 17 April 1992. Trading is carried out through the use of a computer system known as the Philippine dealing system of PDS. The PDS allows authorized dealers of the subscriber banks to deal on the spot and forward foreign exchange markets and each transaction effected through the PDS is immediately communicated to all subscribers to the system. With the wider range of transactions under the PDS, and with most transactions occurring

among the participating commercial banks, the determination of the Peso's exchange rate against foreign currencies can be considered to be most market-based.

Together with the adoption of measures to liberalize the country's regulatory environment was the continued implementation of the much-needed structural reforms.

Structural adjustment measures

While the country has engaged in significant trade reform efforts over the past decade, steps were undertaken to make the signals on trade reform clearer and more consistent. The implementation of executive order (E.O.) No. 470 is an important element in the restructuring process to make our industrial sector more competitive internationally. Issued on 20 July 1991, E.O. 470 radically simplified and revised the Philippine tariff structure by reducing the number of tariff levels and by reducing tariff dispersion.

Under E.O. 470, the average nominal tariff will be reduced from the current level of 26 per cent to 20 per cent at the end of the tariff adjustment period. Weighted by imports, the average tariff rate will decline from 20 per cent to 14 per cent by 1995.

In the meantime, quantitative restrictions on a significant number of imports have been liberalized to enable our export industries to gain easier access to necessary inputs and our domestic consumers to benefit from higher quality products at cheaper prices.

To date, there are still 135 remaining regulated items, 69 of which will continue to be regulated for reasons or health, safety, and national security. While there has already been a decision to liberalize the remaining 66 items, the decision on the timing for liberalization is still being evaluated by the authorities.

Structural reforms in the area of investment were also put in place to build the foundations for sustained economic growth over the longer term while lending support to balance-of-payments adjustment efforts. The Foreign Investment Act of 1991 was enacted on 30 June 1991 and established a short negative list of sectors in which foreign investments will be subject to limitation and review consistent with existing constitutional and statutory requirements. Thus, this will significantly reduce barriers to investments and simplify regulatory procedures.

Future challenges

While sustainable progress has been achieved in implementing the economic stabilization programme and significant steps have been taken toward deregulation, a number of challenges remain.

We need to keep our fiscal house in order. The fiscal deficit must be trimmed further if we are to achieve stability in domestic prices, interest rates and the exchange rate. Entrepreneurs - large and small- rely on these indicators in making their business decisions. A correct reading of these indicators are important to that private initiative will spearhead the resurgence of the Philippine economy.

The control of inflationary pressures on a permanent basis is also an important item in the Philippine Government Agenda. Low inflation would minimize the deadweight costs of speculative activity and provide an environment conducive to increased productive activity. In this respect, the

conduct of monetary policy will be directed at keeping the growth of monetary aggregates on a moderate and steady path to avoid fuelling inflationary pressures while providing the liquidity requirement of a growing economy.

While the Government has made good progress in maintaining the viability of the country's external payments position, the fact remains that exceptional assistance will still be necessary from the international financial community. For instance, in 1993, the current account deficit is expected to widen to 2.9 per cent of the GNP from 1.7 per cent in 1992, primarily as the projected higher level of domestic economic activity is expected to exert pressure on imports. This may neutralize the positive impact of the expected improvement in earnings from exports and invisibles, thus underscoring the pressing need for continued support not only of creditor countries and multilateral institutions but of commercial banks as well, to cover the financing gap.

Again, I must emphasize that without the benefit of rescheduling and inflows of new money from various sources, a positive surplus in the overall balance-of-payments for 1993 will not be possible.

Over the medium term, robust export growth will enable the country to finance necessary imports, augment the requirements for industrial expansion and mitigate debt servicing difficulties. As such, an equally important task in the Philippine Government Agenda is that of further enhancing the world competitiveness of domestic producers. In view of this, the trust of the Central Bank's exchange rate policy will be to continue to allow market forces to determine the exchange rate of the Peso. Central Bank intervention in the foreign exchange market will be limited only to instances when there are abrupt, speculative attacks on the exchange rate and will be guided by the need to maintain the country's export competitiveness.

Concluding remarks

The liberalization moves that the Philippine Government has undertaken have efficiently closed an era marked with restrictions and opened the way toward greater reliance on market forces. Much remains to be done but the progress already achieved will, I am sure, positively change the economic environment.

With the support of the international community, including the GATT, on the economic gameplan that has been drafted by our economic planners, together with concerted efforts and improved co-ordination among all segments of the Filipino population, the Philippines will have its due share of economic prominence among its neighbours in the world's most dynamic region.

ANNEX II

Statement by the Fund Staff Representative to the GATT Balance-of-Payments Committee

20 November 1992
Delivered on 18 February 1993

The Philippine economy in the second half of the 1980s staged a strong recovery from the deep recession of the mid-1980s. This recovery was associated with the authority's efforts to lay the foundation for sustained rapid economic growth through programmes of stabilization and structural reform. Under the programmes, the authorities sought to eliminate structural impediments to growth, particularly by reducing distortions and government intervention in the economy.

However, the early gains of 1986-88 were interrupted toward the end of the decade with a return to expansionary fiscal and monetary policies, in the face of a more difficult external environment, that brought a resurgence of inflation and a weakening of the external position. To deal with these difficulties, the authorities in 1989 adopted a three-year macroeconomic and structural adjustment programme supported by the Fund's extended financing facility. However, in addition to continuing weaknesses in policy implementation, the economy was beset by political difficulties and natural disasters with significant negative effects on economic performance and business confidence leading to derailment of the programme. Consequently, in 1990 the earlier high growth rates slowed sharply, inflationary pressures continued to mount and the balance of payments weakened further. Accordingly, the authorities embarked on renewed efforts to restore financial stability within the framework of a stand-by arrangement approved by the Fund in February 1991. These efforts have met with some welcome success, with inflationary pressures receding, the external position strengthening, and economic activity beginning to recover. These achievements are the more notable as they were accompanied by further natural disasters, the adverse effects of the Middle East crisis, and the political uncertainties that accompanied the run-up to the Spring 1992 elections. The smooth transition of power that followed the election helped strengthen confidence and contributed to the generally favourable performance and prospects that have emerged since.

Central to the success of the Philippine programme has been the effort to bring the fiscal situation under control. Indeed, the authorities were able, under somewhat difficult circumstances, to outperform their fiscal targets throughout 1991. The new Administration that took office at the end of June 1992 has confirmed its commitment to continuing fiscal adjustment. However, while emphasis has been placed on revenue generation to finance the public expenditures needed in the medium term to support the growth and development objectives, performance in this respect has fallen short of the authorities' objectives. In these circumstances, generally favourable overall fiscal results have required strict control over expenditures, the burden of which has fallen heavily on development spending. It is therefore important that the continuing efforts in implementing outstanding revenue and tax reform measures are stepped up in order to strengthen revenue performance which would lead to a viable fiscal structure. This would in turn help assure a stable overall financial environment and hence bring forth the needed flow of business investment. Monetary policies have been generally restrained during 1991 and 1992 despite periodic lapses and have, overall, fostered a considerable reduction in inflation.

An integral part of the authorities' structural programme has been a liberalization of the exchange system of major proportions. Thus, the era of exchange controls, which had lasted for 40 years, was effectively brought to an end with the recent lifting of all restrictions on current transactions and most of those on capital transactions. With the extensive liberalization of the exchange régime, the Philippines' authorities are considering acceptance of Article VIII status in the Fund, which would bring them into the growing group of countries that maintain exchange systems free of restrictions. In tandem with exchange liberalization, the authorities have taken significant steps toward liberalizing trade, including a substantial tariff reform; the temporary import surcharge of 9 per cent imposed in early 1991 was reduced to 5 per cent in August 1991 and was eliminated in May 1992 ahead of schedule. The tariff structure was simplified and the average rate of protection is to be reduced gradually to around 20 per cent by 1995. Quantitative restrictions that applied to over 400 items in early 1991 had been reduced by one-third by July 1992 and remaining restrictions are estimated to account for 4 per cent of total imports. Further action has been initiated to bring such restrictions down by another one-third, the ultimate aim being to eliminate quantitative restrictions before 1995 on all but a few items, mainly for health and security reasons. The Government links the completion date for the lifting of th final portion of quantitative restrictions to progress on industrial rationalization programmes. The trade liberalization measures were accompanied also by major changes in the treatment of foreign investment that widen the possibilities for foreign ownership of domestic enterprises.

Bold action in liberalizing external sector activities and the debt restructuring agreements reached with commercial banks, including debt and debt service reduction elements, were further factors in restoring business confidence. Partly as a result, the balance of payments position has strengthened considerably since 1991, with the current account deficit being reduced from 6 per cent of GNP in 1990 to about 2.3 per cent in 1991 and a further small improvement foreseen for 1992. This performance significantly exceeded expectations, which had targeted deficits of around 3 per cent in both 1991 and 1992.

The overall payments balance was further influenced by large reflows of capital, which in part explains the increase in the Philippine gross reserve position to an all-time high of US$5.4 billion in March 1992. Reserves dropped back to US$4.1 billion due to the unwinding of outstanding swaps and the debt buyback in May, but have since increased to $5 billion in October 1992 and are, with adherence to sound financial policies, broadly satisfactory at around 3 months of imports. Although implementation of the comprehensive debt-reduction and financing package included with creditor banks will continue to bolster the balance of payments in the medium term, debt and debt service payments will nonetheless remain relatively high in the range of 18-23 per cent (after rescheduling) through 1995. This underscores the importance of maintaining macroeconomic stability and strengthening growth prospects through further structural reform. By building upon achievements to date, prospects are generally favourable for achieving longer-run balance-of-payments viability while progressively eliminating remaining trade restrictions within the next few years.