Journal of Philippine Development
Number 48, Volume XXVI, No. 2, Second Semester 1999

Contagion Effects of the Asian Crisis, Policy Responses and their Social Implications*

MA. MELANIE R.S. MILO**

INTRODUCTION

The outlook for the Philippines for 1997 was quite bullish, and with good reason. Following a recession towards the late 1990, the economy began to recover in 1993 and further strengthened in 1994-96 when it posted real GDP growth rates of 4.4, 4.8, and 5.8 percent, respectively. More than that, the Philippines was deemed as finally being on the path towards more stable and sustainable growth, after decades of lackluster economic performance characterized by boom-bust cycles and unsustained growth momentum. This was attributed to prudent macroeconomic management, continued structural reforms, and political stability, which resulted in a more liberalized investment setting and a more conducive business environment. The Philippine economy's strong performance was thus expected to continue.

In July 1997, the Thai financial crisis broke out, which had strong contagion effects on the neighboring economies, including the Philippines. In fact, the Philippine peso was among the initial currencies subjected to heavy speculative attacks. However, the country was not as severely affected in that the currency crisis did not develop into a full blown financial and economic crisis. This

* Revised version of the paper presented at the Research Workshop on the Social Impact of the Asian Crisis, Institute of Southeast Asian Studies (ISEAS), 30 June 1999, Singapore; and the World Bank Global Development Network (GDN) Forum, 5-8 December 1999, Bonn.
** Research Fellow, Philippine Institute for Development Studies (PIDS). The usual caveat applies.

was attributed to the structural reforms that had already been implemented, including financial sector reforms. The consensus was that the Philippines would be among the first to recover from the regional crisis.

The Philippines posted a respectable, albeit decelerated real GDP growth rate of 5.2 percent by the end of 1997. While the domestic economy slightly contracted in 1998, it fared better relative to the substantial economic contractions in Indonesia, Thailand, and Malaysia. The worst of the regional crisis would seem to be over and the crisis economies are deemed as being on the road to recovery, although full recovery is not expected any time soon (ADB 1999). The Philippine economy is thus expected to grow by around 2-3 percent in 1999, on the back of government pump-priming, the recovery of the agricultural sector from adverse weather effects, and the overall recovery of the region. Any modest recovery, however, will be taking place in the context of a significantly weakened macroeconomy, as the country's fiscal position, investment rate, inflation rate, unemployment rate, and overall sectoral performance took a turn for the worse as a result of the regional financial crisis. The full economic effects of the crisis on the Philippines are still unraveling. But more serious are the social implications of the crisis, which could persist even after the crisis and its direct effects have been resolved.

This paper looks at the contagion effects of the Asian crisis on the Philippine economy, the policy responses, and their social implications. In particular, the paper discusses the role of the financial sector in the evolution of the crisis. In the following section, the recent performance of the Philippine economy, the financial sector and the social sector is reviewed in order to better situate the Asian crisis and its contagion effects on the Philippines. The third then looks at the economic and social impacts of the Asian crisis on the Philippines, as well as the government's policy responses. The government's social safety net programs are then discussed in the fourth section. Finally, the fifth section presents some conclusions and the continuing policy issues.

RECENT PHILIPPINE ECONOMIC PERFORMANCE

Macroeconomic developments

The challenge faced by policymakers in the 1990s was to turn the illusion of the 1980s – the transformation of the Philippines into an outward-oriented, export-led economy – into a reality. Only by painful structural adjustment could the Philippine economy hope to achieve sustained growth. This had to be accomplished while the macroeconomic environment still needed stabilizing, in order to break the pattern of growth, overheating, BOP crisis, restrictive policies and economic slowdown, which had consistently characterized the post-war Philippine economy (World Bank 1992, Fabella 1994).

In May 1992, President Ramos was elected into office. His vision was to transform the Philippines into a newly industrialized economy (NIE). The tasks involved in this transformation included: (1) the restoration of political stability; (2) the implementation of economic reforms to level the playing field and democratize the economy to make it more competitive; (3) infrastructure and energy development; (4) environmental protection and preservation; and (5) bureaucratic reforms (Ramos 1994). In line with the second objective, the government implemented policy reforms in critical areas of the economy, which served to reinforce the reforms of the 1980s. In particular, further tariff reforms were implemented to achieve a more neutral tariff policy. In the fiscal sector, various tax reforms were initiated, such as the expanded coverage of the value added tax in 1995. Also, the government's privatization program was accelerated, and private sector participation was encouraged especially in various energy and infrastructure projects through the Build-Operate-Transfer (BOT) scheme.

The Foreign Investments Act of 1991 expanded the number of sectors open to full foreign ownership, streamlined approval procedures, and made the remaining restrictions and prohibitions more transparent. The government further liberalized foreign investments in October 1994. Foreign exchange transactions were

also significantly liberalized and upgraded. Beginning in January 1992, there was full deregulation of remaining restrictions on current account transactions. The full lifting of mandatory surrender requirements on foreign exchange receipts, foreign exchange transactions outside the banking system, deposits in foreign currency deposit units (FCDUs), and full and immediate remittance privileges for investment purposes were some of the measures put in place to support the policy thrust of open trading and investments. Rules covering foreign investments in Central Bank-approved securities were also relaxed. Finally, entry barriers in key industries such as telecommunications, transport (land, air and sea), banking, and other key commodities such as cement were dismantled or relaxed.

Following near zero growths in 1991-92, the economy again began to post modest growth rates in 1993 (Table 1). This was attributed to improvements in infrastructure, particularly in power generation which eased supply side constraints; continued liberalization measures which increased the competitiveness of several sectors and encouraged the inflow of foreign investment; a stable macroeconomic and political environment which buoyed investor confidence; and the economic recovery of the country's major trading partners. All these helped to create a more conducive business environment. Furthermore, the Philippines was deemed as finally being on the path towards more stable and sustainable growth after decades of boom-bust cycles, and a decade of structural reforms that considerably reduced macroeconomic distortions and liberalized a once extremely protected economy.

On the supply side, the industrial sector, which accounted for around 35 percent of GDP, was a major contributor to the country's growth performance. Construction, in particular, performed strongly. Manufacturing, which accounted for around 25 percent of GDP, also performed fairly well. There was also strong growth in the services sector, which constituted more than 40 percent of GDP, particularly transportation and communication, and financial services. The latter was due to efforts to liberalize these subsectors.

Table 1. Growth of real GDP by industry, 1990-97 (in %)

	1990	1991	1992	1993	1994	1995	1996	1997
GNP	5.0	0.3	1.7	2.1	5.3	5.0	7.2	5.3
GDP	3.2	-0.6	0.4	2.1	4.4	4.8	5.8	5.2
Agriculture	0.5	1.0	0.1	2.0	3.4	0.8	4.3	2.8
Industry	3.0	-2.7	-0.3	1.6	5.8	7.0	6.2	6.2
Manufacturing	2.7	-0.5	-1.7	0.7	5.0	6.8	5.6	4.2
Construction	12.1	-15.9	6.1	5.7	9.4	6.6	10.9	16.4
Utilities	-0.3	4.7	0.7	2.8	13.9	13.0	7.6	4.8
Service	4.9	0.2	1.0	2.5	4.3	5.0	6.4	5.5
Transportation, communication	2.2	0.5	1.4	2.5	4.2	5.8	7.4	8.2
Financial, real estate	10.1	-2.7	0.4	2.4	5.5	7.3	13.7	13.0

Source of basic data: National Statistical Coordination Board.

Philippine economic growth in the 1990s was also qualitatively different in that it was truly propelled by exports and investments. Manufactured goods constituted the bulk of exports, thus reducing the country's traditional reliance on volatile commodity earnings. External debt and debt service payments were also significantly lower in real terms relative to the late 1980s. As a result of restructuring and the rapid growth of exports, the country's debt servicing burden in 1997 was at a more comfortable level of 10.4 percent of exports, compared to around 35 percent in the mid-1980s. Moreover, international investors' confidence in the economy was stronger than ever, as evidenced by the substantial inflow of foreign investments.

The country's growth performance was also mirrored in the employment trends, although not as strongly. The October unemployment rate, which is deemed as least affected by seasonal factors, fell from 8.6 percent in 1992 to 7.4 percent in 1996. The underemployment rate, on the other hand, fell from 21.4 percent in

1993 to 19.4 percent in 1996. In actual numbers, there was a decline in the number of unemployed persons from 2.267 million in 1992 to 2.195 million in 1996. However, the number of underemployed persons rose from 5.077 million to 5.326 million over the same time period. Also, in terms of sectoral growth of employment, most of the increase was recorded in the services sector and construction, which saw their percentage shares in total employment increase in the 1990s (Table 2). In contrast, the share of manufacturing in total employment fell slightly from 1992 to 1997.

Table 2. Distribution of total employment by major industry group, 1990-97 (in %)

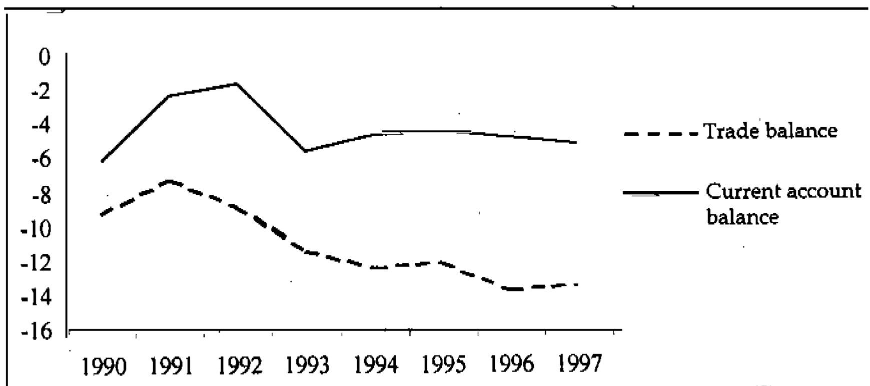
Industry	1990	1991	1992	1993	1994	1995	1996	1997
Total (in thousands)	22,532	22,979	23,917	24,443	25,166	25,696	27,442	27,888
Agriculture, fishery and forestry	45.2	45.3	45.4	45.8	44.7	44.1	41.7	40.4
Industry	15.0	16.0	16.0	15.5	15.8	15.6	16.6	16.7
Mining and quarrying	0.6	0.7	0.6	0.5	0.4	0.4	0.4	0.4
Manufacturing	9.7	10.4	10.6	10.0	10.3	10.0	10.0	9.9
Electricity, gas and water	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5
Construction	4.3	4.6	4.3	4.5	4.7	4.8	5.7	5.9
Services	39.7	38.7	38.5	38.6	39.5	40.3	41.6	42.9
Wholesale and Retail	14.0	13.8	13.7	14.0	14.2	14.6	14.8	15.1
Transportation, communication and storage	5.0	5.0	5.1	5.6	5.6	5.8	6.0	6.3
Financial, real estate and business	2.0	2.0	1.9	2.0	2.0	2.1	2.5	2.4
Community, social and personal	18.7	17.9	17.8	17.1	17.8	17.7	18.3	19.0

Source of basic data: October Rounds of the Labor Force Survey, National Statistics Office.

In terms of the productivity of labor, however, the trend was reversed in the 1990s relative to the previous periods. In particular, gross value added per worker in all sectors, except mining and quarrying, increased between 1991 and 1997. Medalla (1998) attributed the seeming inconsistency between improvements in efficiency measures in the manufacturing sector and continuing

structural problems to a period of adjustment to a more open trade regime, an overvalued currency, and a shift in protection from manufacturing to agriculture.

Concerns over the sustainability of the country's economic growth had been expressed. Of particular concern was the widening gap in the trade balance (Figure 1). Although export growth overtook import growth in 1995, most Philippine manufactures exports had very high import contents so that their growth contributes much less to foreign exchange earnings than the numbers suggest (Krugman et al. 1991). In particular, electronics accounted for over half of total exports in 1997. On the other hand, the increase in merchandise imports was accounted for by capital formation goods necessary for production expansion. Also, unlike in the previous periods, fiscal expansionism was not to blame for the large deficit and it was mostly financed by nondebt capital inflows. Furthermore, some improvements in the efficiency and competitiveness of the manufacturing sector following the various reforms had been reported (Medalla et al. 1995; Tecson et al. 1996). The country's merchandise trade deficit was significantly offset by the surplus in

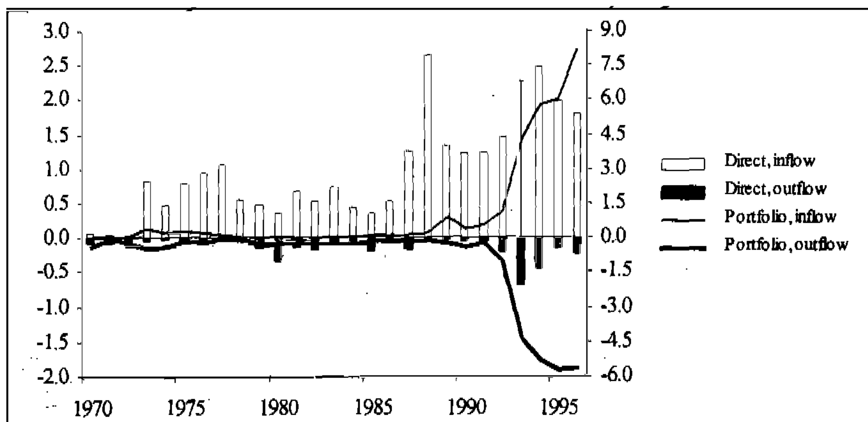


Source: ADB 1998.

Figure 1. Trade balance and current account balance, 1990-97 (in % of GDP)

nonmerchandise trade, which was largely due to the remittances of overseas Filipino workers (OFWs). Thus, the current account deficit remained fairly stable at around 5 percent of GDP.

On the other hand, the country registered balance of payments surpluses from 1994 to 1996 as a result of strong foreign investment inflows. The net inflow of foreign investment to the Philippines from 1970 to 1987 was negligible, averaging just 0.3 percent of GDP. Fairly significant inflows were recorded beginning only in 1988 due to the government's debt for equity program, and the foreign investment and foreign exchange market reforms in the 1990s. Thus, net foreign investments reached around 4.2 percent of GDP in 1996. In terms of composition, the surge in portfolio investment inflows began in 1993 and significantly outpaced foreign direct investment inflows. For instance, in 1996, total inflow of portfolio investments amounted to almost US$6.9 billion, while total foreign direct investment inflows amounted to around US$1.5 billion. In net terms, however, foreign direct investments were still dominant because portfolio investment outflows were also substantial (Figure 2). This indicated the short-term and speculative nature of foreign portfolio investments. A more significant recent source of foreign exchange inflows were changes



Note: Inflow and outflow of foreign direct investment are plotted on the left scale, while inflow and outflow of portfolio investment are plotted on the right scale.
Sources of basic data: Bangko Sentral ng Pilipinas; National Statistical Coordination Board.

Figure 2. Main components of foreign investment, 1970-96 (in % of GDP)

in the net foreign assets of commercial banks, which rose from around US$40 million in 1991 to more than US$4.2 billion in 1996, or around 5 percent of GDP.

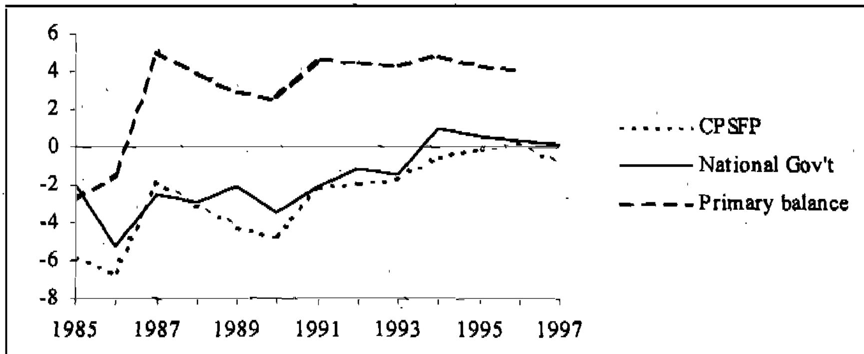
Another area of concern was the management of government finances. For the first time in the postwar period, the National Government posted a budgetary surplus of less than 1 percent of GNP from 1994 to 1997 (Figure 3). The consolidated public sector fiscal position (CPSFP) also improved, falling to a deficit of around to 0.5 percent of GNP in 1994 and registering a surplus in 1996.[1] This was due partly to an extensive restructuring of the tax system over the past decade, which led to the rise in tax effort from an average of 11.3 percent in 1975-85 to 16.2 percent in 1996.[2] However, the improvement in fiscal positions was also highly dependent on privatization proceeds, which are nonrecurring income. For instance, privatization proceeds in 1994 and 1995 amounted to more than ₱34 billion and ₱ 24.9 billion, respectively, which meant that the underlying CPSFP still registered deficits of around 2.5 percent and 1.5 percent of GNP, respectively. Also, there was a deterioration in the buoyancy of the tax system with respect to GNP. The tax buoyancy coefficient fell from 1.41 in 1987-92, to 1.15 in 1993-97, which implied a deterioration in tax administration (Manasan 1994, 1998).[3]

Thus, while significant gains had been achieved in tax mobilization especially in the last six years, the fiscal position remained tenuous and more remained to be done. Efforts to broaden the tax base and improve collection efficiency had so far been insufficient to ensure the stability of public sector finances in the long run (Manasan 1994, 1998). Compared to the fiscal excesses of the past, however, fiscal policy in the 1990s was considerably more

[1] The consolidated public sector fiscal position (CPSFP) include the combined balance sheets of the national government, monitored government-owned or controlled corporations, local government units and government financial institutions.

[2] I.e., the ratio of total tax revenue to GNP (Manasan 1998).

[3] The tax buoyancy coefficient measures the percentage change in tax yield given a percentage change in the tax base (Manasan 1998).



Sources of basic data: Department of Budget Management; National Statistical Coordination Board.

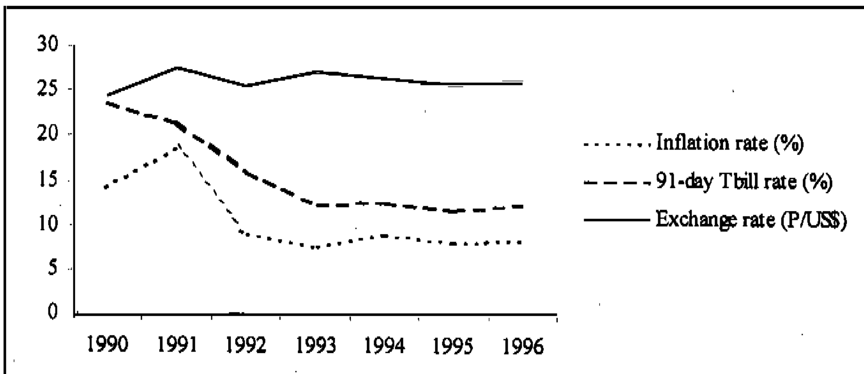
Figure 3. Consolidated Public Sector (CPSFP) and the National Government's Fiscal Positions, 1985-97 (in% of GNP)

prudent. Furthermore, the CPSFP had been posting surpluses in its primary balance since 1987, which averaged around 4.5 percent from 1991 to 1996.[4] Thus, total national government expenditure net of debt service was fairly stable. However, the rapid growth in debt service was at the expense of capital outlays and maintenance and other operating expenditures, which suffered major cutbacks. The cutbacks were not restored even with the improvement in fiscal position in the 1990s. Hence, capital expenditures of the national government consistently fell from 4.6 percent of GNP in 1975-85, to 2.9 percent in 1986-91, and 2.7 percent in 1992-96 (Manasan 1998). The low level of public investment in infrastructure would necessarily impair the economy's growth prospects.

Monetary policy in the 1990s was also tighter compared to the previous periods. Thus, while high inflation in the past was attributed primarily to the growth of money supply, this was not the case in the 1990s. Although inflation had been brought under control from the mid-1980s, it re-emerged as an immediate concern towards the end of the 1980s and early into the 1990s. This was due

[4] The primary balance is equal to the overall balance less interest payments, and is deemed to present a more accurate picture of the government's fiscal stance (Manasan 1998).

to the growth of the fiscal deficit and its monetization; cost push effects from the nominal depreciation of the exchange rate; sharp oil price increase due to the Gulf war; and supply bottlenecks that resulted from adverse weather conditions. The monetary authorities' contractionary stance reduced the growth of money supply from 28 percent in 1989 to just 11 percent in 1992. Inflation consequently went down to single-digit levels, averaging around 8.5 percent from 1992 to 1996 (Figure 4), and even falling to 4.6 percent in the first half of 1997.



Source: Bangko Sentral ng Pilipinas.

Figure 4. Inflation rate, 91-day Treasury bill rate, and the exchange rate, 1990-96

The conduct of monetary policy was complicated by the liberalization of the capital account in 1993. The surge in foreign exchange inflows put strong pressure on the Philippine peso to appreciate. Because of its potential adverse effect on the export sector, monetary authorities sought to minimize such appreciation by intervening in the foreign exchange market, among other measures. The rapid increase in the Philippine central bank's net foreign assets accelerated the growth of money supply to an average of 25 percent from 1993 to 1995. Higher liquidity contributed to the decline in interest rates, although it also fueled inflation. To meet monetary and inflation targets set under the country's IMF stabilization

program, the BSP sterilized the monetary effects of its foreign exchange purchases. However, the appreciation of the peso was not arrested as the substantial differential between domestic and foreign interest rates induced further capital inflows. The fiscal surplus eased the pressure on domestic interest rates, but tight monetary policy prevented domestic interest rates from going down further to reduce the differential (Lamberte 1994). Although sterilized intervention enabled the BSP to build up its gross international reserves, it also proved to be very costly because the BSP incurred huge quasi-fiscal losses on the interest-bearing securities it issued to sterilize excess monetary growth (Cororaton 1995). Thus, the combination of still relatively high inflation rates, stable interest rates, and a strong peso prevailed in 1993-96. The appreciation of the peso, which experienced the largest real currency appreciation during the 1990s relative to the other Southeast Asian currencies, exacerbated the country's trade deficit. Also, the peso appreciation coupled with high interest rates led to the growth of the nontradeable sector, with investments going into real estate and the stock market, as well as encouraged foreign borrowing.

Overall, the Philippines' macroeconomy was marked by significant improvements in the 1990s. There were some cause for concern, particularly with respect to the widening trade deficit and the fiscal position. However, these were not deemed as "critical", and were expected to improve as the economy continued to grow and restructure. More importantly, with the exchange rate becoming more responsive to financial flows relative to real flows, and the dominance of short-term capital flows, the economy was becoming more vulnerable to shocks in the international capital markets. Hence, the importance of fine-tuning monetary, fiscal and exchange rate policies in order to maintain a stable macroeconomy was emphasized (Yap and Reyes 1994).

Financial sector developments

The period from 1980 to 1997 was marked by substantial financial reforms. There was a snowballing effect, in that the reform process

set in place the motion for further reforms. The Philippines formally embarked on a financial liberalization program in 1980 as part of an overall structural adjustment program. It included the gradual liberalization of interest rates from 1981 to 1983; the easing of restrictions on the range of operations financial institutions were allowed to conduct in the domestic markets, such as the introduction of universal banking in 1980; and rationalization of financial market regulations, including higher capital requirements for banks and nonbank quasi-banks (NBQBs) (Remolona and Lamberte 1986). However, soon after the start of financial liberalization, the financial system underwent a crisis of confidence. This was triggered by the defaults of a prominent businessman who fled the country in 1981 and compounded by a series of investment frauds and stockbroker failures (Laya 1982). The financial crisis deepened as a result of the political and economic crises in 1983-85, which led to significant financial shallowing (World Bank 1986).

Financial reforms were resumed in 1986, which specifically addressed problems endemic to the system since the 1960s, and further highlighted by the reform effort and financial crisis during the early 1980s. These included the inter-linked problems of fraud or insider abuse by bank owners or officers and inadequate/ ineffective prudential supervision and regulation of banks. Policies effecting prudential bank management were instituted. These included increased minimum capitalization requirements; compliance with the minimum risk asset ratio; the single borrower's limit; limit on loans to directors, officers, stockholders and related interests (DOSRI); allowable interlocking directorships and officerships; provisions for loan loss or doubtful accounts; audit and reporting requirements; and stricter bailout policy of problematic banks (Bautista 1992).

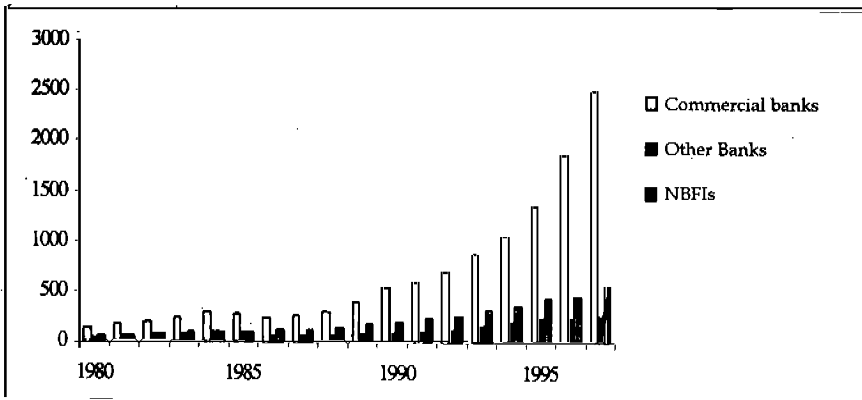
The government also rehabilitated ailing financial institutions, notably the government-owned banks and the rural banks. However, the problem was not just the lack of prudential rules, but a weakened Central Bank of the Philippines (CBP) – both financially and politically. A strong central bank, which effectively carries out

its role of supervising financial institutions, is a prerequisite for a stable financial system (World Bank 1988). Thus, the CBP was likewise rehabilitated in 1993, with the creation of a new, independent Central Monetary Authority called the Bangko Sentral ng Pilipinas (BSP).

Other reforms implemented in the 1990s included the deregulation of the entry of new domestic banks and bank branching in 1993 and further rationalized in 1995, and the easing of restrictions on the entry of foreign banks in 1994. Ten foreign banks were initially allowed to open up to six branches, while others could buy up to 60 percent of an existing local bank or subsidiary. Reforms in the other sectors of the financial system included the liberalization of the private insurance industry in 1995, and efforts to develop the equity markets such as the unification of the Manila and Makati Stock Exchanges to form the Philippine Stock Exchange in 1994. In particular, the liberalization of foreign investments and foreign exchange transactions had a significant impact on the growth of the capital market.

The Philippine financial system consists of banks and nonbank financial institutions (NBFIs). Banks are classified as commercial banks (including expanded commercial or universal banks), thrift banks (savings and private development banks, and stock savings and loan associations), rural banks, and specialized government banks. The specialized government banks have all been upgraded to commercial bank status by 1996. NBFIs include insurance companies, investment houses, financing companies, securities dealers and brokers, fund managers, lending investors, pension funds, pawnshops and nonstock savings and loan associations.

Figure 5 shows the total assets of the Philippine financial system from 1980 to 1997. The system has been consistently dominated by banks in general, and commercial banks in particular. The growth of commercial bank assets was significantly higher in the 1990s as a result of the entry of new domestic and foreign banks, as well as further increases in minimum capital requirements. On the other hand, the share of NBFIs in total assets fell from 24 percent in 1980



Source: Bangko Sentral ng Pilipinas.

Figure 5. Assets of the Philippine financial system, by type of institution, 1980-97 (in billion pesos)

to just 15 percent in 1997. The government-owned social security institutions, in particular, accounted for over half of the total assets of this subsector.

Despite the rapid growth of the banking sector in terms of assets and number of offices, financial deepening from 1980 to 1997 was fairly modest. After stagnating for decades around the 20 percent level prior to financial liberalization, the ratio of M2 to GDP rose to around 26 percent in 1983. There was considerable financial shallowing during the crisis period from 1984 to 1985, and a substitution away from deposits into secure, higher yielding government securities. Significant financial deepening occurred beginning only in 1993, with the M2 to GDP ratio reaching 43 percent in 1997. However, this should be interpreted with caution. In a comparative study of financial liberalization in Asian and Southern Cone countries, Cho and Khatkhate (1989) found that to the extent that short-term inflow of foreign savings is incorporated into this ratio, an increase in this ratio cannot automatically be interpreted to mean enhanced efficiency in mobilizing resources by drawing them away from less productive uses.

Also, the Philippines' M2 to GDP ratio was still fairly low compared to other countries in the region, and considering the robust

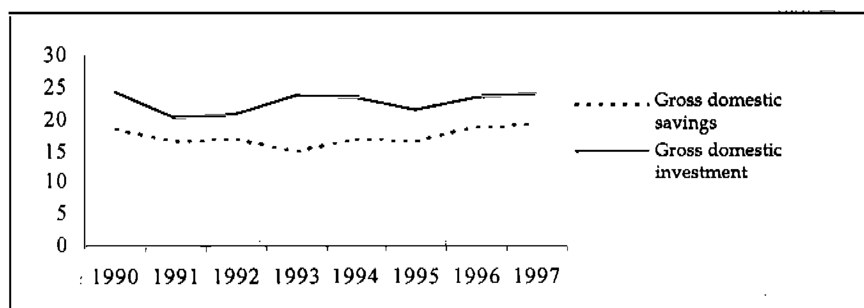
state of the financial sector and the economy as a whole. This was partly due to the tight liquidity management pursued by the BSP to meet inflation targets set with the IMF. Also, high reserve requirements and the 20 percent withholding tax on interest income resulted in low rates of return to deposits. Thus, there was a sharp increase in off-balance sheet activities of commercial banks, which was facilitated by the easing of banking regulations. These included the use of foreign currency deposits (FCDUs) to extend foreign currency loans, and trust accounts for securities investment, especially in the 1990s (Table 3). For instance, the trust fund operations of banks increased significantly from ₱13.5 billion in 1980 to almost ₱320 billion in 1996, or an almost 200 percent growth in real terms. Since trust accounts were not subject to the various intermediation taxes until 1993, they were able to offer higher yields relative to traditional bank deposits. Thus, if the trust operations of banks were included in measuring financial deepening, since banks were effectively using them in the same way and for the same purpose as deposits and deposit substitutes, the ratio would reach 55 percent. While the development of trust accounts enabled banks to tap additional sources of funds, they also drew a significant portion of funds from deposit substitutes, and catered particularly to large depositors (Lamberte 1993). Foreign currency deposits, on the other hand, amounted to around 28 percent of traditional deposits in 1996.

One of the criticisms leveled against the Philippine banking system is its poor performance in savings mobilization. This was partly attributed to the fixity of interest rates especially on savings deposits. Tan (1989) cited the existence of market segmentation: small savers who receive low (even negative) real deposit rates, and big savers who have access to the money market and whose deposits banks compete for. Thus, the large pool of low cost savings deposits contributed to commercial banks' high profit margins. The danger with persistently large negative real deposit rates is that they misdirect savings (Dornbusch 1991). The problem of low domestic savings needs to be addressed since the sustainability of economic

Table 3. Selected liabilities of domestic commercial banks, 1980-96

	Traditional deposits				Deposit substitutes	Trust accounts	FCDU deposits
	Total	Distribution by type (%)			(% of total deposits)		(bil US$)
	(billion ₱)	Demand	Savings	Time			
1980	72.63	19	32	50	17	19	
1985	143.02	10	39	50	6	18	1.86
1990	310.74	10	58	31	1	25	2.56
1991	365.61	11	58	31	1	37	3.16
1992	426.58	10	62	27	1	42	4.37
1993	556.80	10	65	25	0	33	5.61
1994	693.08	9	68	23	1	34	7.72
1995	873.83	9	67	24	1	30	9.12
1996	1,119.56	9	61	29	1	29	14.52

Source of basic data: Bangko Sentral ng Pilipinas.



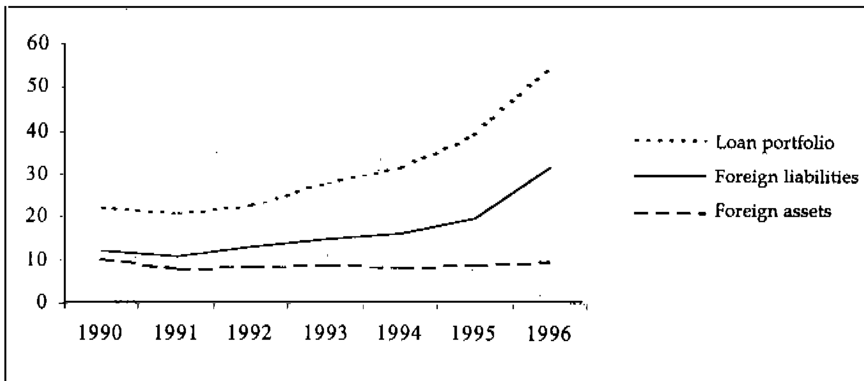
Source: ADB (1998).

Figure 6. Gross domestic saving and investment rates, 1990-96 (in % of GDP)

growth is closely linked to this. The major determinant of savings is income, and income growth is dependent on the growth of investments. On the other hand, low savings mobilization would hinder investment growth, particularly in the private sector. Thus, a policy gridlock could ensue (Yap and Reyes 1994). The savings-investment gap (Figure 6) that resulted from low domestic savings

and high investment requirements was filled by private capital inflows in the 1990s, as opposed to official flows in the previous periods.

Another trend that arose in the 1990s was the significant increase in the foreign liabilities of commercial banks, as the reforms resulted in easier access to foreign funds. The total foreign exchange liabilities of private commercial banks increased from around US$0.52 billion in 1993, prior to the deregulation of foreign exchange transactions, to more than US$7 billion by the third quarter of 1997. When expressed as a percentage of the total foreign exchange liabilities of the country, it rose from around 1.5 percent to around 15.2 percent for the same periods. Figure 7 shows the foreign assets and foreign liabilities of commercial banks expressed as a percentage of GDP. The gap between the two steadily increased from 1992 onwards, but what is striking is the substantial increase in foreign liabilities of private commercial banks in 1996 to almost 32 percent of GDP.



Sources of basic data: Bangko Sentral ng Pilipinas; National Statistical Coordination Board.

Figure 7. Foreign assets, foreign liabilities, and total loan portfolio of commercial banks, 1990-96 (in % of GDP)

This rapid increase in commercial banks' foreign liabilities facilitated the lending boom in recent years. For instance, the contribution of foreign currency loans to domestic lending of eight commercial banks that resorted to the international capital markets

was estimated at 12 percent in 1993, rising to 40 percent in the first quarter of 1997. The increase in foreign liabilities is not necessarily a problem. What ultimately matters is how the funds were used, and this was the source of the concern in the case of the Philippines. The distribution of FCDU loans, for instance, showed that while at least 50 percent went to exporters, the share of nonexporters increased from 4 percent at the start of 1994 to 30 percent by the third quarter of 1997.

Table 4. Distribution of loans outstanding of commercial banks by industry, 1986-97 (in %)

	Total (billion P)	Distribution by industry (%)									
		1	2	3	4	5	6	7	8	9	10
1986	88.3	15.9	8.4	25.0	2.1	4.2	15.7	3.5	17.7	2.5	5.0
1987	101.1	12.3	7.0	39.9	1.1	3.1	14.2	3.5	10.7	2.6	5.5
1988	126.6	10.7	5.4	42.2	0.8	1.7	17.7	3.8	8.9	2.8	5.8
1989	165.9	8.4	7.5	42.7	0.7	1.4	16.0	4.9	8.7	3.3	6.3
1990	199.6	8.2	8.4	42.8	0.5	2.2	17.7	3.8	7.9	4.0	4.5
1991	144.3	9.5	1.8	40.3	0.6	3.8	17.6	3.2	11.1	4.3	7.7
1992	256.3	9.6	5.6	37.3	0.9	2.4	20.3	3.8	10.6	3.7	5.8
1993	235.3	5.4	3.3	38.0	1.1	2.3	14.4	4.2	17.9	5.5	7.7
1996	1,203.7	4.1	0.9	26.5	2.2	3.8	16.3	5.2	23.8	8.0	9.1
1997	1,542.3	3.9	0.8	27.2	2.1	3.6	16.8	7.1	17.2	10.4	10.7

Note: 1=Agriculture, fishery and forestry; 2=Mining and quarrying; 3=Manufacturing; 4=Electricity, gas and water; 5=Construction; 6=Wholesale and retail trade; 7=Transport, storage and communication; 8=Financing, insurance, business services; 9=Real estate; and 10=Community, social and personal activities. No data were available for 1994-95.
Source of basic data: Bangko Sentral ng Pilipinas.

If one looks at the distribution of loans outstanding by commercial banks according to industry (Table 4), the results show that there was a significant drop in the share of agriculture (sector 1). The share of manufacturing (sector 3), on the other hand, increased during the recovery years of the 1980s, but its share has since consistently fallen as well. In fact, the share of manufacturing

to total loans outstanding of commercial banks in 1996 reverted to its pre-reform level. In contrast, the sectors that increased their share were those in the services sector (sectors 6-10). The increase in the share of transportation, storage and communication was due to the liberalization of these sectors. What is noteworthy is the increase in the share of consumer loans such as housing loans (sector 9), and car loans and credit cards (sector 10).

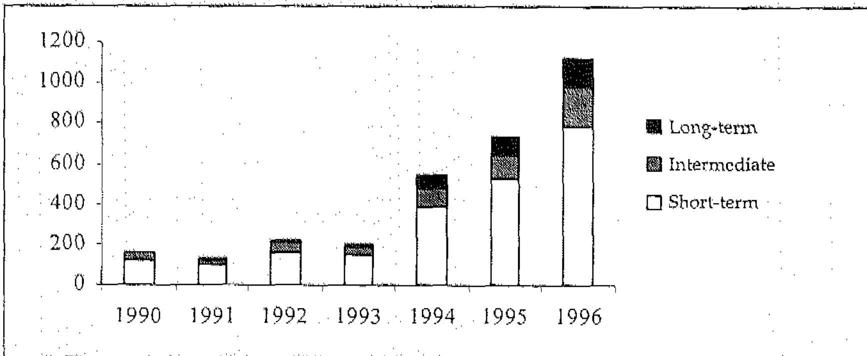
More dramatic trends are revealed if one looks at the distribution of loans granted by commercial banks according to industry from 1981 to 1997 (Table 5). The downward trend in the shares of manufacturing and mining was also evident. On the other hand, the downward trend in the share of agriculture from 1984 to 1993 was reversed in 1996. What is striking was the substantial increase in the share of construction, in addition to the services sector. The growth in the amount of loanable funds that went to construction and real estate between 1993 and 1996 led to the imposition of a 30 percent cap on commercial banks' total exposure to the property sector in June 1997 by the BSP. The dominant share of financing, insurance, and business services, on the other hand, was largely accounted for by interbank loans. If this sector were excluded, the same trends would still be evident. The overall trend in the loan portfolio of commercial banks was thus worrisome because it had serious repercussions on the viability and stability of the financial sector, and the sustainability of the country's growth performance. Finally, although there had been some lengthening of loan maturities, loans outstanding of commercial banks were still predominantly short-term (Figure 8).

On the other hand, the Philippine stock market became a more important source of funds in recent years. Albeit starting from a very small base, the Philippine stock market grew very rapidly in recent years and even outperformed all other markets in the region in 1994. Figure 9 shows the volume of trading in the stock market from 1975 to 1997. The private securities market was composed mostly of gold and copper mining stocks prior to the 1970s. In the 1970s, there was a speculative boom in oil stocks (World Bank 1992).

Table 5. Distribution of loans granted by commercial banks by industry, 1986-97 (in %)

Year	Total (billion P)	Distribution by industry (%) 1	2	3	4	5	6	7	8	9	10
1986	325.9	6.5	2.0	25.7	2.3	1.2	14.7	1.6	42.4	0.6	3.0
1987	368.8	5.9	1.5	26.2	1.0	1.1	15.0	1.3	41.7	1.0	5.3
1988	421.9	6.2	1.9	30.2	0.7	1.3	14.2	1.6	36.1	1.5	6.3
1989	385.9	6.0	2.1	36.8	0.9	1.5	18.3	1.9	20.7	2.6	9.1
1990	512.4	6.2	1.4	32.3	0.7	1.8	17.0	2.1	28.0	2.6	7.9
1991	844.0	4.5	1.3	26.8	0.7	1.3	12.0	1.7	41.9	1.8	8.1
1992	1,094.1	3.7	2.2	23.4	0.7	1.1	10.4	1.6	48.1	1.4	7.4
1993	3,459.6	1.1	0.7	8.1	0.4	0.8	4.9	0.7	74.8	0.6	7.9
1996	10,253.7	5.7	0.4	6.3	0.5	6.0	13.2	7.8	43.5	6.0	10.6
1997	9,653.2	3.9	0.6	6.7	0.8	2.5	13.3	3.9	51.0	6.6	11.0

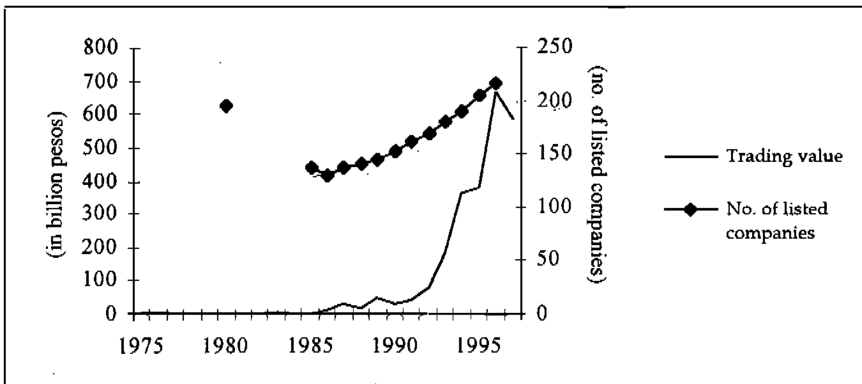
Note: 1=Agriculture, fishery and forestry; 2=Mining and quarrying; 3=Manufacturing; 4=Electricity, gas and water; 5=Construction; 6=Wholesale and retail trade; 7=Transport, storage and communication; 8=Financing, insurance, business services; 9=Real estate; and 10=Community, social and personal activities. No data were available for 1994-95.
Source of basic data: Bangko Sentral ng Pilipinas.



Source: Bangko Sentral ng Pilipinas.

Figure 8. Distribution of loans outstanding of commercial banks by maturity, 1990-96 (in billion pesos)

As a result of the political and economic turmoil in the early 1980s, the market significantly contracted. Trading volume gradually increased beginning in 1986 as confidence in the economy returned following the change of the government. An increase was recorded in 1989 due to the debt-equity swaps and the launching of four closed end Philippine country funds. Thus, market capitalization grew from more than 41 billion pesos in 1986 to more than 261 billion pesos in 1989, or a four-fold increase in real terms. As a ratio of GDP, it increased from less than 7 percent in 1986 to more than 28 percent in 1989. However, market capitalization was almost halved in 1990 as a result of various crises. Dramatic increases in trading volumes were recorded beginning in 1993 with the liberalization of the capital account, and the recovery of the economy. The privatization program of the government also continued apace. Thus, total market capitalization rose to 97 percent of GDP in 1996.



Note: Trading value is plotted on the left axis, while number of listed companies is plotted on the right axis.
Source: Philippine Stock Exchange.

Figure 9. Philippine stock market, 1975-97

There were 216 companies listed in the Philippine Stock Exchange at the end of 1996, compared to 138 a decade ago. However, only about 75 of that are actively traded, and the market is concentrated in a number of shares. For instance, of the total market

capitalization of P1,355 billion in 1994, around 40 percent was accounted for by six companies. The largest component is the property sector, with residential and property developers accounting for 23.1 percent of market capitalization at the end of 1995. The consumer sector accounted for around 17.4 percent, although this sector was largely dominated by the beverage corporation giant San Miguel, the single largest stock on the equity market (with capitalization at P122 billion at the end of 1995), which alone made up 8.5 percent of the entire stock market's value. Conglomerates accounted for 15.4 percent of the market, banking for 14 percent, and utilities for 12.8 percent (BMI 1996).

As in the real sector, the Philippine financial sector was a lot stronger in the 1990s compared to the 1980s. However, a number of worrying trends were also beginning to emerge. In particular, the years of significant net capital inflows were associated with rapid expansion in the banking sector's foreign currency liabilities, deposits, and domestic lending. As a result of the rising proportion of external debt intermediated through commercial banks, a significant portion of which went into the nontradeable sector, commercial banks became vulnerable to sudden movements in the exchange rate.

Social development

Ultimately, the goal of economic policy is to maximize some social welfare function. Thus, in assessing the growth episode of the 1990s, its social impact needs to be considered as well.

Along with the various economic reforms that were deemed necessary in transforming the Philippine economy to make it more competitive and efficient, goals for human development and poverty alleviation were also integrated in the Ramos administration's development plan. Proposed policies to achieve the latter included: (i) the promotion of sustained income and employment growth among the poor; (ii) the provision of safety nets for displacements due to structural adjustments; (iii) effective response to natural and man-made calamities and disasters; and (iv) public resources and

efforts directed toward basic social services, disadvantaged regions and specific groups of the poor. Employment generation was seen as the key to increasing incomes and alleviating poverty. The Social Reform Agenda (SRA) was launched in 1994 as the government's poverty alleviation and safety net program for specific geographical areas and sectors. [5]

The SRA represented the government's attempt to streamline all direct anti-poverty programs under one package. It operationalized the human development goals that were embodied in the government's development plan. Its macro poverty reduction target was to bring absolute poverty down from 39.9 percent in 1991 to 30 percent in 1998, when a new president would be elected. The SRA centered on three major strategic interventions: (i) access to basic social services as imperative for survival; (ii) asset reform and access to economic opportunities as the means for employment and income generation; and (iii) people's effective participation in governance toward self-reliance and empowerment.

The SRA was initially formulated to address the minimum basic needs of the priority provinces, which were identified in a series of consultations between representatives from the different government offices and members of the community in 1993-94. The priority provinces were chosen based on poverty incidence, existence of armed conflict, isolation, and special development needs. Specific target beneficiaries included farmers and landless agricultural workers in agrarian reform communities; fisher folk in coastal communities in priority bays and lakes; urban poor; workers in the informal sector; and other disadvantaged groups such as women, children, youth, persons with disabilities, senior citizens, and victims of disasters and natural calamities.

A key factor in the drawing up of the SRA was the participation of the disadvantaged groups and nongovernmental organizations

[5] The discussion on poverty alleviation and the SRA draws heavily on Reyes and del Valle (1998).

(NGOs) in the formulation of specific goals and projects. Components of the SRA began to be installed in the priority provinces in 1995, and its implementation began in 1996.

Acknowledging the different needs of the marginalized sectors, the SRA constituted nine flagship programs that were to serve as its core commitment to these sectors. It included flagship programs on agricultural development; fisheries and aquatic management; ancestral domains; socialized housing; comprehensive and integrated delivery of social services (CIDSS); workers' welfare and protection; livelihood; credit; and institution-building and effective participation in governance.

Thus, poverty alleviation was not the sole concern of the SRA. Convergence—the focusing and synchronization of the delivery of programs and resources to priority areas and target groups—was the major strategy for localizing the SRA. The institutional structure designed to operationalize the SRA thus cut across the national, regional, provincial, municipal and *barangay* levels, with basic sector counterpart structures at each level. It also involved the establishment of inter-organizational interfaces to facilitate convergence. The overall governing body for the SRA is the Social Reform Council (SRC).

To fund the SRA, the 1996 national budget was subjected to a disaggregation process to identify public sector investments for the SRA. That is, agency budgets were tested for their sensitivity to anti-poverty and other social reform efforts. Of the total budget of 394.9 billion pesos, 86.7 billion pesos or 22 percent was found to be "SRA-enrolled", that is, focused on specific commitments made to the basic sectors under the SRA. Whether these investments actually benefited the poor is another issue. The amount allocated for SRA-directed activities in the 1997 national budget was lower both in absolute and relative terms—85.6 billion pesos, or 19.7 percent of the total budget. Thus, it was ironic that the 1997 budget was hailed as an anti-poverty budget. In general, there were minimal increases in the budget allocation for social services, which accounted for around 25 percent of total allocation from 1993 to 1997.

In addition to the national budget allocation, SRA programs were funded by a special purpose fund called the Poverty Alleviation Fund (PAF). The PAF for 1996 amounted to 4 billion pesos. It was intended to address the needs of priority areas where standard government programs were inadequate, particularly in agricultural development, CIDSS, and workers' welfare. Specific projects funded by the PAF in 1996 included communal irrigation, scholarship programs, hiring of teachers and purchase of school desks, and reintegration assistance for returning overseas Filipino workers (OFWs). The PAF appropriated for 1997 was specifically intended for poverty alleviation programs in the two lowest municipal classes in the priority provinces, and amounted to 2 billion pesos.

Overall, economic growth was accompanied by improvements in some social indicators. The Philippines' Human Development Index improved from 0.621 in 1992 to 0.677 in 1995 (UNDP 1998).[6] More specifically, gains were made in health, nutrition and education as evidenced by increasing life expectancy and literacy rates, and declining mortality and malnutrition rates. Overall, there was wider access to health, nutrition and family planning services. Thus, the general health condition of the population improved, with life expectancy at birth increasing from 66.6 years in 1993 to 68 years in 1997. The infant mortality rate declined from 52 per 1,000 live births in 1993 to 45.8 in 1997, while the crude death rate decreased from 6.9 per 1,000 population in 1993 to 6.1 in 1997. The total fertility rate likewise declined from 4.2 percent in 1990 to 3.6 percent in 1997. The nutrition status also improved, with the prevalence of underweight preschool and school children declining from 10 percent and 9.4 percent in 1992, to 8.4 percent and 7.4 percent in 1996, respectively. The basic literacy rate likewise improved from 89.9 percent in 1989 to 93.9 in 1994, while the functional literacy rate

---

[6] The Human Development Index measures a country's overall achievements in three basic dimensions of human development – longevity, knowledge and a decent standard of living. It is based on life expectancy at birth, educational attainment and real GDP per capita.

rose from 75.2 to 83.8 during the same time period.[7] The participation rate for both elementary and secondary levels also improved from 1993 to 1997. There was also some improvement in the bottom 30 percent of families' access to safe water, sanitary toilet facilities, and electricity. The proportion of households with safe water supply increased from 80.1 percent in 1992 to 86 percent in 1996, while those with sanitary toilet facilities rose from 69.5 percent to 74.4 percent for the same period.

With respect to poverty alleviation, there was a decline in poverty incidence from 39.9 percent of families in 1991 to 32.1 percent in 1997. In terms of percentage of the population, the poverty incidence went down from 45.3 to 37.5 percent during the same period. However, the decline primarily took place in Metro Manila, while the situation in rural areas in particular only marginally improved (Table 6). The subsistence incidence likewise went down from 20.4 to 16.5 percent of families, or from 24.3 to 20.4 percent of the total population from 1991 to 1997. Again, subsistence levels were significantly higher outside of Metro Manila, or in rural areas in general. The latter measure refers to the proportion of families or individuals who were unable to meet their basic food requirements, or the core poor. In terms of magnitude, however, the downward trend in the number of poor families from 1991 to 1994 was reversed in 1997, when it went up from more than 4.531 million in 1994 to more than 4.553 million in 1997 (Table 7). The number of subsistence families also increased from almost 2.304 million families in 1994 to almost 2.337 million in 1997.

There was also a downward trend in the poverty gap ratio, which measures the inadequacy of family income relative to the poverty threshold, from 13 percent in 1991 and 11.2 percent in 1994, to 10 percent in 1997. That is, on average, poor families were better off in

[7] Basic literacy refers to the ability to write a simple message in any language or dialect, while functional literacy also includes numeracy and problem-solving skills.

Table 6. Poverty incidence and subsistence incidence, 1985-97 (in %)

	1985	1988	1991	1994	1997	1985	1988	1991	1994	1997
	Poverty incidence of families					Poverty incidence of population				
Philippines	44.2	40.2	39.9	35.5	32.1	49.3	45.5	45.3	40.6	37.5
NCR	23.0	21.6	13.2	8.0	7.1	27.2	25.2	16.7	10.5	9.6
Outside of NCR	47.5	43.1	44.2	39.9	36.2	52.8	48.7	49.9	45.5	42.1
Urban	33.6	30.1	31.1	24.0	18.5	37.9	34.3	35.6	28.0	22.5
Rural	50.7	46.3	48.6	47.0	44.4	56.4	52.3	55.1	53.1	51.2
	Subsistence incidence of families					Subsistence incidence of population				
Philippines	24.4	20.3	20.4	18.1	16.5	28.5	24.3	24.3	21.8	20.4
NCR	6.0	5.0	2.1	0.7	0.8	7.1	6.3	2.8	1.0	1.0
Outside of NCR	27.2	22.7	23.3	20.8	19.0	31.9	27.2	27.8	25.1	23.5
Urban	15.2	12.1	14.3	10.4	7.2	17.8	14.4	17.0	12.8	9.3
Rural	30.0	25.3	26.4	25.6	24.8	35.2	30.4	31.7	30.8	30.4

Note: NCR stands for National Capital Region, or Metro Manila.
Source: National Statistical Coordination Board.

Table 7. Magnitude of poor families, 1985-97

	1985	1988	1991	1994	1997
Philippines	4,355,052	4,230,484	4,780,865	4,531,170	4,553,387
NCR	301,973	310,284	217,602	141,671	140,793
Outside of NCR	4,053,079	3,920,200	4,563,263	4,389,499	4,412,594
Urban	1,250,398	1,198,555	1,847,579	1,521,882	1,246,173
Rural	3,104,655	3,031,929	2,933,286	3,009,288	3,307,215

Source: National Statistical Coordination Board.

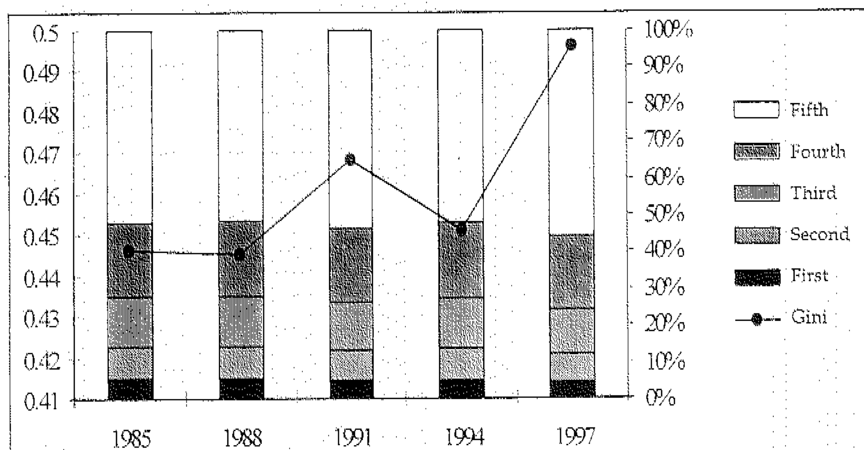
1997 compared to the previous years. But again, the decline was more pronounced in the NCR (from 2.9 to 1.2 percent) and urban areas (from 10 to 5 percent), compared to the rural areas (from 16 to

Table 8. Distribution of total family income and average family income by income decile, 1991-97

Decile	Income share of families (in %)			Average annual family income (in constant 1988 prices)			Ave. annual growth rate, 1991-97
	1991	1994	1997	1991	1994	1997	(in %)
Philippines	100.0	100.0	100.0	42,886	42,800	51,790	3.2
First	1.8	1.9	1.7	7,853	8,040	8,621	1.6
Second	2.9	3.0	2.7	12,618	13,002	13,801	1.5
Third	3.8	3.9	3.4	16,251	16,839	17,783	1.5
Fourth	4.7	4.9	4.3	20,033	20,911	22,187	1.7
Fifth	5.7	6.0	5.3	24,481	25,630	27,676	2.1
Sixth	7.0	7.4	6.7	30,108	31,478	34,751	2.4
Seventh	8.8	9.1	8.6	37,555	39,062	44,715	3.0
Eighth	11.4	11.8	11.4	48,832	50,558	59,149	3.2
Ninth	16.1	16.4	16.1	69,041	70,363	83,648	3.3
Tenth	37.8	35.5	39.7	162,081	152,106	205,543	4.0

Source: Family Income and Expenditure Survey, National Statistics Office.

15.2 percent). Furthermore, income distribution worsened from 1991 to 1997, although it improved from 1991 to 1994 as the average annual family income of the wealthiest decile declined while the rest increased (Table 8). The widening gap between the poorest and richest deciles is stark. If one looks at the distribution of income over a longer time frame, the lack of improvement in income distribution becomes even more evident (Figure 10). The richest 20 percent of families consistently accounted for over half of total income from 1985 to 1997, with the Gini coefficient at its worst in 1997.



Note: The bar chart is plotted on the right axis, while the Gini coefficient is plotted on the left axis.
Source: Family Income and Expenditure Survey, National Statistics Office.

Figure 10. Distribution of total family income by income quintile and the Gini coefficient, 1985-97

Clearly, the Ramos administration's adoption of a comprehensive and consolidated anti-poverty program midway into its term was both timely and necessary. Some improvements in key social indicators were observed. However, such improvements were evidently not happening fast enough or deep enough, and there remained large discrepancies within and between geographical areas. That the magnitude of the poor continued to increase suggested that the program has not had a positive impact yet. Reyes and del Valle (1998) attributed this to the following factors, among others:

- The SRA's implementation was still in its infancy. Since it largely took an institutional approach to address identified social problems, it would therefore take some time for its intended effects to be fully realized;
- Although the SRA appeared to correctly identify the problems of the poor, funding for specific projects remained inadequate and was inefficiently used in some cases. Furthermore, claims of an anti-poverty budget notwithstanding,

there had been no visible increase in the share of social services expenditures in the national budget from 1993 to 1997; and

- Poverty is also a function of factors other than the direct intervention programs. Economy-wide and sectoral policies have a greater impact on the situation of the poor. Thus, it was difficult to say to what degree poverty reduction could be accounted for by direct interventions vis-à-vis the indirect programs.

The government's profession of good intentions, notwithstanding, the amount allocated for poverty alleviation would seem to belie its true importance. In fact, PAF allocations were consistently halved from P4 billion in 1996 to P2 billion in 1997. The original allocation for 1998 was P1 billion, although this was later increased to P2.5 billion. It was estimated that, for the government to have achieved its poverty incidence reduction target of 30 percent of families by 1998, it needed to have additionally spent an average of P9.6 billion annually from 1994 to 1998. As it is, the P6 billion total allocation for 1996-97 was estimated to be capable of reducing poverty incidence by only 1.1 percent in each year (cited in Reyes and del Valle 1998). Hence, the need for government to ensure that future PAFs would be substantial enough to have a strong impact, especially given the magnitude of the problem.

One estimate of the amount needed to eradicate poverty completely was P86.2 billion annually, which represented the estimated value of insufficiency of poor families. The enormity of this amount indicated that direct provision of income transfers was not a feasible option for the government. Instead, the government still needed to focus on programs that would enable the poor to earn income on a sustained basis. In particular, the focus should still be on broad based economic growth to generate gainful employment and livelihood opportunities. There should also be the continued and much improved provision of basic social services, which had proven effective in alleviating poverty in the past. Programs that improve the poor's access to quality education and primary health care, in particular, were effective towards equalizing

human capital. Finally, there was still the need for social safety nets to assist the poor during the transition period. However, these should be targeted programs appropriately designed to minimize leakages (Reyes and del Valle 1998).

In a comprehensive study of poverty in the Philippines up to the early 1990, de Dios (1993) cited the following reasons for poverty: (i) failure of growth and the lack of employment opportunities; (i) declining productivity; (ii) high population growth; (iii) inequality of incomes; and (iv) inadequate provision of social services. Clearly, these reasons continued to hold in the 1990s.

Simply put, poverty remained high in the Philippines because of the economy's failure to grow rapidly enough, sustain that growth, and generate employment. Growth was also lopsided, which consequently resulted in significantly higher poverty reduction in the urban/capital cities vis-à-vis the rural areas. The failure of past growth was attributed to the failure, in the long run, to restructure the economy to make it externally more competitive and allow broader participation by the people. That is, the character or quality of growth is just as important as its magnitude (de Dios 1993). The reforms instituted in the 1990s were precisely directed toward those objectives. Adjustments in the right direction were being made, such as the reported improvements in the efficiency and competitiveness of the manufacturing sector as a result of the trade reforms. But overall, change in the structure of the trade sector was slow in coming. Medalla (1998) noted that relatively more investments were going into nontradeable sectors rather than exportable sectors, which could have serious repercussions in the medium term, especially in the context of a growing trade deficit. Overall, production and investment patterns were still not optimal for growth, and one source of distortion was the overvalued currency prior to the currency crisis in 1997 (Medalla 1998).

There was also the continuous decline of productivity, particularly in the agricultural sector, which remains the primary source of income for most of the poor. Another reason for poverty that continued to hold in the 1990s was the inequality of incomes.

Rapid and sustained economic growth would significantly contribute to poverty alleviation. The speed at which it does, however, would depend on whether the benefits from growth are equally distributed (de Dios 1993). However, as was seen earlier, this was not the case in the Philippines even in the 1990s. Thus, poverty remained high, not only because growth was not sustained, but also because of the uneven distribution of the benefits that were generated.

Finally, there was the inadequate provision of social services, which directly contributes to the poor's low productivity and is an important tool for income redistribution (de Dios 1993). The fiscal crises in the past put severe pressure on budgets for social services. But with the government's surplus positions in the 1990s, this should have been less of a problem. In fact, there was no appreciable increase in budgetary allocations for social services. This was compounded by low levels of capital expenditures, which constrained the economy's overall growth capacity.

In principle, the government's poverty alleviation strategy involved raising both the poor's private income (i.e., income from productive assets they own, including from employment) and public income (i.e., income derived from the state via social production of free or subsidized goods and services and income transfers). In practice, it relied heavily on the former. However, the quality of growth overall was not socially optimizing, in terms of providing sustained employment and improving income distribution across regions and income groups. Simply put, the means chosen to alleviate poverty had proven inadequate. Also, despite the comprehensive approach to poverty alleviation, the social impact of macroeconomic and sectoral policies were still not fully understood and accounted for. Although various social safety nets were in place to help mitigate any adverse impact of policy on specific sectors of the population, overall, they were poorly designed and implemented.

IMPACT OF AND POLICY RESPONSES TO THE ASIAN CRISIS

Immediate impact and policy responses

Thailand's property and financial crises broke out in April 1997, which led to the pullout of foreign investments from their stock market. This, coupled with its widening current account deficit, put tremendous pressure on the baht. The Bank of Thailand finally devalued the baht in July, its first devaluation in 14 years. Speculators then began to prey on the other currencies in the region—initially, the Malaysian ringgit, the Philippine peso, the Indonesian rupiah and the Singaporean dollar, and later the Hong Kong dollar and the Korean won. In general, the combination of contagion effects from Thailand, overvalued currencies, vulnerable capital inflows, and increased uncertainty fomented the regional currency crisis (Magdaluyo 1998).

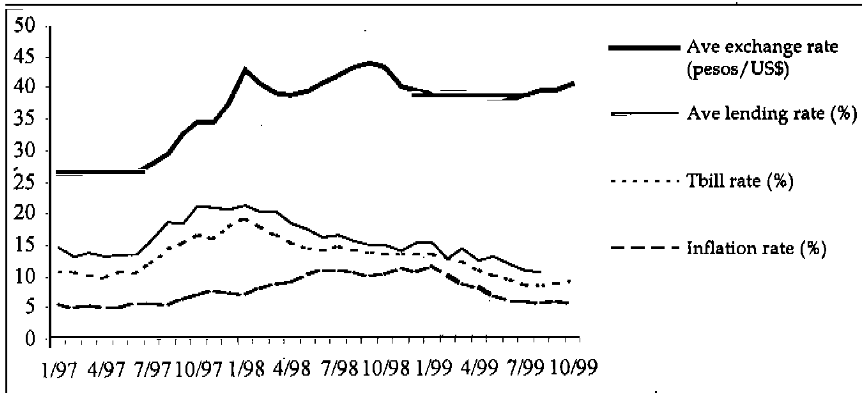
The BSP's initial response to the speculative attack on the peso was to raise its key overnight borrowing rate from 11.25 percent in May to 20 percent in June and 32 percent in mid-July, in order to penalize speculators and discourage the conversion of peso holdings into US dollars. The BSP then began to heavily intervene in the foreign exchange market in early July to keep the exchange rate stable around the P26/US$1 mark. Finally, the BSP allowed the peso to depreciate in mid-July, after spending around US$1.5 billion in its defense. The exchange rate subsequently breached the P30/US$1 mark in August, reaching more than P45/US$1 in early 1998. The BSP then successively lowered its overnight borrowing rate to 20 percent at the end of July to 14 percent in August, and 12 percent in October.

In addition to widening the trading band of the peso, the BSP also tightened some foreign exchange controls. It placed a cap of US$100,000 on over-the-counter sales of foreign exchange for non-trade purposes, which was further lowered to US$25,000 at the end of July. This ceiling was partially lifted for residents in September. It also imposed a limit on commercial banks' oversold position of

10 percent of unimpaired capital, while their overbought position was set at 20 percent, with penalties and sanctions imposed on banks that exceed the allowable positions. The limits were later reversed, and the overbought position of banks was even lowered to 5 percent, but not to exceed US$10 million, to force commercial banks to offload their foreign exchange holdings. To further stabilize the foreign exchange market, the BSP and the Bankers Association of the Philippines (BAP) entered into an agreement in December to set daily quotas for the supply of dollars to be sold at an agreed rate, and for the BSP to provide forward cover to banks that had nondeliverable forward contracts with unhedged dollar borrowers.

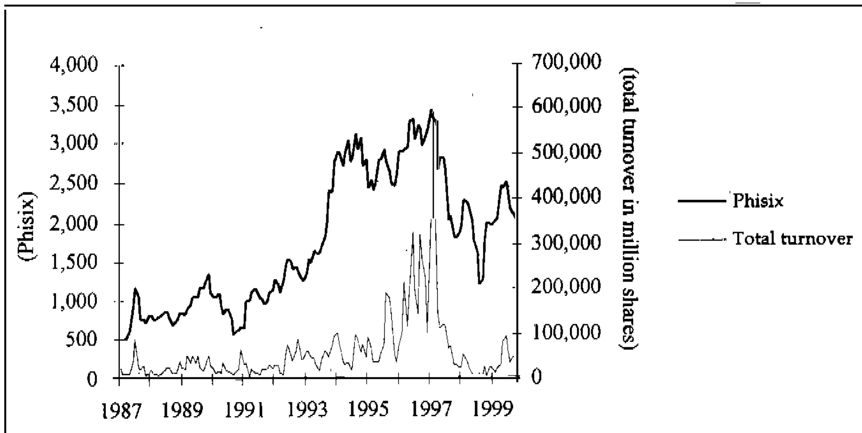
Finally, the BSP increased reserve requirements on deposits, deposit substitutes, common trust funds, and other trust and fiduciary accounts of banks. In addition to a 13 percent statutory reserve, the BSP imposed an additional 3 percent liquidity reserve, that is, funds required to be placed in short-term market yielding instruments. This was raised consecutively until it reached 8 percent in August, to siphon off excess peso liquidity in the system and limit banks' dollar purchases.

The BSP's tight monetary policy to defend the exchange rate led to a sharp increase in domestic interest rates (Figure 11). From a low of 10 percent in April 1997, the bellwether 91-day Treasury bill rate rose to 19.1 percent in January 1998, while the average lending rate went up to more than 20 percent in the last quarter of 1997 from less than 13 percent in April 1997. Overall, however, tight monetary policy failed to arrest the depreciation of the peso. But in contrast to previous episodes of peso devaluations, the inflation rate was fairly steady during the first six months of the crisis. This was due to the relative stability of food prices. Also, domestic manufacturers chose to run down their inventories and deferred price increases to be able to compete with cheap imports, whose entry was facilitated by the more liberalized trade environment.



Source: Bangko Sentral ng Pilipinas.

Figure 11. Trends in the exchange rate, interest rates and inflation rate, Jan. 1997-Oct. 1999



Source: Philippine Stock Exchange.

Figure 12. Philippine stock market composite price index (Phisix) and total volume turnover, Jan. 1987-Oct. 1999

Impact on the financial sector

Figure 12 shows the monthly movement of the Philippine stock exchange's composite price index (Phisix) and total value turnover from 1987 to 1999. It indicates increased volatility in the stock market from 1993 as a result of the opening up of the capital account. As in

the other bourses in the region, stock market prices plunged as the domestic currency reached record lows against the US dollar and foreign investors divested of their holdings. From a high of 3,171 points at the end of 1996, the Phisix fell to 1,772 points by November 1997, which was just slightly higher than its pre-boom level. Banking and property stocks were the worst hit. The thinness of the stock market and the surge in portfolio capital inflows made it highly vulnerable to shifts in international capital, as well as the domestic and international environments.

In contrast to Thailand, Indonesia and Korea, there was no systemic failure of financial institutions in the Philippines. Only one fairly small, newly upgraded commercial bank—Orient Bank—failed in the immediate aftermath of the currency crisis. As in previous cases of bank failures, insider abuse was the ultimate cause of the bank's failure. Of its reported P6.1 billion worth of non-performing loans, around P5.7 billion directly or indirectly benefited its owner. In particular, there was excessive lending to the real estate sector, primarily to companies associated with the owner of the bank, who also tapped other commercial banks and the stock market to finance his property acquisitions. He was reported to have amassed more than P22 billion in loans from a total of 30 creditor banks. The currency depreciation, the stock market crash, soaring domestic interest rates, and the property sector bust led to the collapse of his real estate ventures. In addition to Orient Bank, six thrift banks and 15 rural banks closed in 1998.

The adverse effect of the crisis on banks became evident in the volume of nonperforming loans, or loans that missed debt payments for three consecutive months, relative to total loans of commercial banks. Prior to the crisis, commercial banks' nonperforming loans accounted for just less than 3.4 percent of total loans. The sudden depreciation of the peso plus the up tick in interest rates, and the weakening of the economy with the characteristic drop in the levels of production and consumer demand, rising unemployment, and low business confidence, impaired the ability of both corporate and individual borrowers to service their debts. As a result,

nonperforming loans rose to 4.7 percent of total loans at the end of 1997, to 10.4 percent at the end of 1998, and climbed even further to 14.4 percent in the third quarter of 1999. The ratio appears to have peaked or be nearing its peak. Companies that borrowed in dollars were hard hit when their debts nearly doubled as the peso fell steeply against the dollar. On the other hand, businesses with peso denominated loans suffered as interest rates shot up to as high as 30 percent.

Commercial banks' total loans, and consequently total assets, fell following the write-offs and provisioning for bad loans (see Table 9). The alarming growth of past due loans and loan loss provisions

Table 9. Selected data on commercial banks, 1997-99

Year	Total assets (billion pesos)	Total loans (billion pesos)	Nonperforming loans (% of total loans)	Loan loss provision (% of total loans)
1997				
Mar	2,005.00	1,284.59	3.29	1.32
Jun	2,085.60	1,418.95	3.37	1.30
Sept	2,310.70	1,499.25	3.96	1.44
Dec	2,513.00	1,573.15	4.68	2.21
1998				
Mar	2,417.00	1,517.63	7.42	2.59
Jun	2,535.90	1,595.37	8.95	2.74
Sept	2,529.00	1,586.25	11.04	3.10
Dec	2,528.00	1,542.49	10.37	3.98
1999				
Mar	2,508.30	1,484.46	13.18	4.56
Jun	2,583.10	1,505.60	13.10	4.75
Aug	2,546.90[1]	1,504.44	14.36	5.10

Note: [1]As of July 1999.
Source: Bangko Sentral ng Pilipinas.

caused banks to be overly cautious in their lending in 1998-99. The contraction in outstanding loans of commercial banks until the first quarter of 1999 was a dramatic reversal of the 41 percent loan growth seen in 1996. Loan growth significantly slowed down to 4.9 percent in 1997, and contracted by 2.2 percent in 1998.

While the increase in nonperforming loans has moderated in recent months, other components of commercial banks' nonperforming assets continued to grow. In particular, commercial banks' exposure to the property sector was reflected in the increase in their real and other properties owned or acquired (ROPOA). ROPOA assets increased from around 14.56 billion pesos prior to the crisis to more than 82.9 billion pesos at the end of the third quarter of 1999.

The decline in lending, in turn, inevitably became a drag on commercial banks' profitability, which went down although it remained positive. Return on equity fell from 16.3 percent in 1996 to 12.4 percent in 1997, and 6.6 percent in 1998. With lending activities down, banks were forced to concentrate on their other sources of income such as fees and charges, foreign exchange trading, and other investments. The 1998 data show that investments of banks grew by 47.6 percent to 1.2 trillion pesos from the 1997 figures, as banks shifted to holding government securities such as Treasury bills instead. Thus, much of the money that fueled the 1999 first quarter's 2 percent growth in real GNP came from pump priming and remittances.

To mitigate the impact of the sharp depreciation of the peso and the deterioration in banks' assets, the BSP mandated increases in the minimum capital requirements for banks over the period 1998-2000. For instance, the required minimum capital for universal banks was raised from 3.5 billion pesos prior to the crisis, to 4.5 billion pesos in 1998, 4.95 billion pesos in 1999 and 5.4 billion pesos in 2000. For commercial banks, the increase in minimum capital requirement was from 1.625 billion pesos to 2.8 billion pesos in 2000, while there was a doubling of minimum capital requirement for thrift banks located in Metro Manila from 200 million pesos to 400 million pesos.

The BSP likewise instituted stiff penalties for failure to comply with the new minimum capital requirements. As a result, there has been a rise in merger and acquisition activities especially in 1999, which could lead to a restructuring of the banking system (Lamberte and Yap 1999).

Despite the crisis' negative impact, the Philippine banking sector still fared relatively well compared to the crisis economies, particularly of Thailand and Indonesia. This was attributed to the reforms that had been implemented, as well as the period of adjustment that occurred in the 1980s that saw the weeding out of weak banks and the institution of stronger prudential regulation. The implication is that the supposed benefits of the financial sector reforms were actualized. This was true to a certain extent. In particular, banks were better capitalized, with the capital adequacy ratio ranging between 17 and 20 percent from 1992 to June 1997. However, the emergence of similar trends in the lending behavior and foreign liabilities of commercial banks raise the question of whether the efficiency gains from financial liberalization in particular were realized. Overall, the answer would seem to be no, and this could be attributed both to commercial bank behavior and the monetary authorities' policy stance (Milo 1998).

Doubtless the banks' imprudence contributed to their problems, as they became very lenient in their lending activities. The rapid buildup in resources and the increasing number of players fostered a more competitive lending environment. Thus, banks tended to relax credit evaluation procedures. There was also the emphasis on collateral as the basis for granting a loan, instead of cash flows for instance. Hence, the penchant for real estate, which was traditionally seen as sound investment and collateral. On the other hand, there was the policy stance of the BSP, which reinforced the banks' false sense of security. In particular, prior to the crisis, monetary authorities in the Philippines gave a strong signal that the level of the exchange rate was not only appropriate, but would be maintained for an extended period of time. This stance led to the underpricing of foreign exchange risk, which encouraged foreign

borrowing and dollar denominated lending, and discouraged the development of a forward market. The underpricing of risk, plus the BSP's implicit policy of ensuring that no commercial banks would fail, would necessarily be allocationally inefficient since it would lead the financial system towards excessive exposure to high-risk activities, such as the property sector and the stock market. Fortunately, such worrying trends were fairly recent and had not yet the reached the same proportions as those in the crisis economies. Hence, the muted effect of the regional crisis on the Philippine financial sector.

Income and employment effects

The growth momentum from 1994 to 1996 was sustained during the first six months of the Asian crisis, although there was a deceleration in the growth of GDP (Table 10). Growth of gross capital formation even accelerated, as ongoing and planned investment activities were completed. Exports also continued to perform well. On the other hand, the slowdown in construction became evident in the last quarter of 1997. The impact of the crisis on the economy became more evident in 1998, particularly in the construction and manufacturing sectors. This was compounded by the poor performance of agriculture as a result of adverse weather conditions. The latter also resulted in higher inflation rates, which again reached double-digit levels by the end of 1998.

On the demand side, gross capital formation declined as high interest rates, tight financing, and the uncertain economic environment discouraged investment spending. Merchandise exports continued to grow, albeit at a substantially decelerated rate in 1998, while merchandise imports significantly declined. Total exports, however, declined as exports of nonfactor services such as tourism fell. The nominal peso depreciation led to a significant adjustment in the real effective exchange rate, which depreciated by 30 percent from June 1997 to February 1998. The real depreciation effectively wiped out the real appreciation of the peso during the

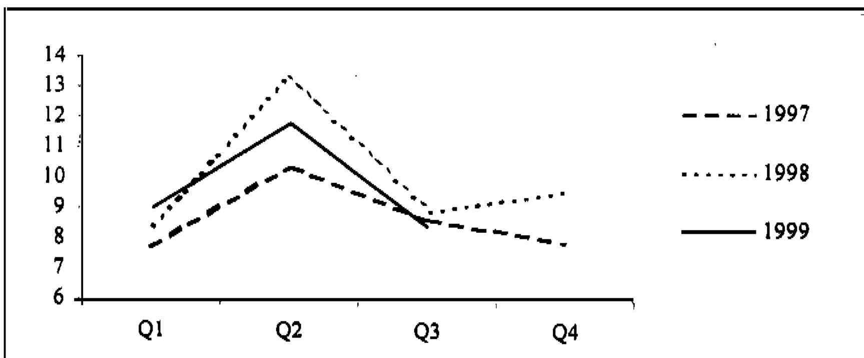
Table 10. Growth of real GDP by expenditure share and industrial origin, and other macroeconomic indicators, 1994-99 (in %)

	1994	1995	1996	1997				1998				1999		
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Growth of real GNP	4.6	4.9	7.3	5.4	5.3	5.1	5.1	1.5	-0.5	0.7	-1.2	2.1	3.8	3.3
Growth of real GDP	4.4	4.7	5.9	5.5	5.6	4.9	4.7	1.1	-1.0	-0.1	-2.0	1.2	3.6	3.1
Growth by expenditure share														
Personal consumption	3.7	3.8	4.6	5.0	5.1	5.0	4.9	4.5	3.9	2.9	2.6	2.5	2.6	2.6
Government consumption	6.1	5.6	4.1	4.5	7.3	6.2	0.4	-5.4	-2.4	-1.3	0.6	7.6	6.2	3.7
Gross capital formation	9.0	3.7	13.3	14.9	7.1	9.3	15.0	-6.0	-18.2	-19.1	-22.3	-9.7	6.2	-5.3
Merchandise exports	15.2	16.2	9.6	8.6	15.2	15.0	14.8	10.6	-1.4	3.9	-14.4	0.7	3.0	8.0
Merchandise imports	15.6	16.0	16.9	3.0	2.7	10.2	15.0	-2.3	-12.1	-13.1	-33.9	-16.7	2.4	1.9
Growth by industrial origin														
Agriculture, fishery & Forestry	3.4	1.2	3.9	4.9	1.8	0.4	4.1	-3.8	-11.5	-3.1	-7.8	2.9	11.1	5.6
Industry	5.8	6.8	6.4	5.1	7.6	6.4	5.6	0.2	-0.7	-2.0	-4.7	-2.2	-0.7	0.2
Manufacturing	5.0	6.8	5.6	2.3	5.3	4.3	4.7	2.0	-0.9	-1.5	-3.5	-1.0	0.9	2.2
Construction	9.4	6.6	10.9	21.3	18.5	18.1	7.6	-12.8	-5.1	-7.5	-8.5	-6.0	-5.3	-5.9
Services	4.3	5.0	6.4	6.2	5.8	5.5	4.4	4.5	3.6	2.8	3.2	3.0	4.0	4.4
Inflation rate	8.3	8.0	9.1	5.3	5.3	5.9	7.3	7.9	9.9	10.4	10.6	10.0	6.8	5.6
Trade balance (% of GDP)	-12.2	-12.1	-13.7	-13.7	-12.6	-15.5	-12.2	-7.2	-1.6	3.3	4.3	3.1	0.8	...
Nat'l gov't deficit (% of GDP)	1.0	0.6	0.3	-0.1	0.8	0.1	-0.4	-1.9	-1.9	-0.3	-3.2	-4.9	-2.6	-4.8

Source of basic data: National Statistical Coordination Board.

1990s, and thereby helped improve the international competitiveness of Philippine exports especially of labor intensive manufactures (Intal et al. 1998). However, the credit crunch prevented exporters from taking full advantage of the more favorable exchange rate. The contraction in domestic output was tempered by the inflow of overseas workers' remittances, although the latter also declined from US$5.7 billion in 1997 to US$4.1 billion in 1998.

The slowdown in the economy was strongly reflected in the unemployment rate, which rose to 9.6 percent in the third quarter of 1998, from 7.4 percent two years earlier (Figure 13). This translated to more than 3 million unemployed persons out of a labor force of almost 31.3 million in 1998, compared to almost 2.2 million unemployed in 1996. The number of firms and workers directly affected by the worsening economic conditions more than doubled from 1997 to 1998 (Table 11). Again, worst hit were those in the construction, manufacturing and services sectors (Table 12), which spearheaded growth in the 1990s. In addition to the jobs that were lost as a result of the crisis, the slowdown in economic activity prevented the creation of new jobs to absorb the new entrants to the labor force.



Source: National Statistics Office.

Figure 13. Unemployment rate, first quarter 1997-third quarter 1999 (in %)

Table 11. Number of firms that closed or retrenched due to economic reasons and the number of workers affected, 1996-99

Year	No. of firms reporting:				No. of workers affected			
	Total	Closure	Retrenchment	Rotation, etc.	Total	Permanent layoff	Temporary layoff	Rotation, etc.
1996	1,079	347	724	39	80,701	47,008	29,487	4,206
1st sem	614	146	455	20	40,323	22,631	15,915	1,777
2nd sem	599	211	372	23	40,378	24,377	13,572	2,429
1997	1,155	338	804	48	62,724	39,176	19,843	3,705
1st sem	580	180	381	26	33,115	21,463	9,773	1,879
2nd sem	683	163	508	25	29,609	17,713	10,070	1,826
1998	3,072	642	2,310	293	155,198	76,726	50,744	27,728
1st sem	1,936	403	1,420	172	83,852	39,923	29,442	14,487
2nd sem	1,725	254	1,378	169	71,346	36,803	21,302	13,241
Aug 1999	2,107	257	1,341	521[1]	108,238	45,238	34,167	28,833

Note: Permanent layoff means complete and total separation from employment; temporary layoff means separation of workers for not more than six months; rotation, etc. means rotation of work, reduced working time. Numbers may not add up due to multiple reporting.

[1]Includes firms that reported temporary layoffs.

Source: Bureau of Labor and Employment Statistics, Department of Labor.

Table 12. Number of firms that closed or retrenched due to economic reasons by industry, 1996-99

Industry	1996	1997	1998	Aug 1999
All industries	1,077	1,155	3,072	1,586[1]
Agriculture, fishery and forestry	97	70	95	44
Industry	545	568	1,254	565
Mining and quarrying	14	23	48	7
Manufacturing	508	505	1,025	479
Construction	21	31	173	72
Electricity, gas and water	2	9	8	7
Services	435	517	1,723	977
Transporation, communication and storage	68	91	257	142
Wholesale and retail trade	134	167	600	339
Financing, insurance, and business services	93	130	491	306
Community, social and personal services	140	129	375	95
Firms located in National Capital Region (NCR)	610	575	1,708	1,284
Firms located outside of NCR	467	580	1,364	823

Note: [1]Excludes 521 firms that reported temporary layoffs, rotation, etc.
Source: Bureau of Labor and Employment Statistics, Department of Labor.

With the economic slowdown and rise in unemployment, average family incomes, except those belonging to the richest decile, expectedly declined (Table 13). The poor performance of the agricultural sector due to adverse weather conditions further worsened the poor's situation, who lived predominantly in the rural areas. The rate of decline in average family income was regressive, with families belonging to the poorest decile suffering the highest

decline of more than 29 percent. Income distribution consequently worsened in 1998.

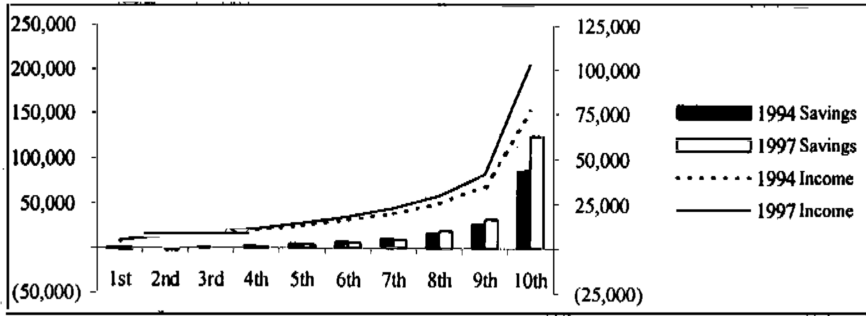
The increase in average family income of the richest decile could be due to windfalls from the crisis. Only the top 3 deciles increased their savings from 1994 to 1997 in real terms, with the richest decile registering the highest growth and share (Figure 14). This decile also had access to a wider range of saving instruments, such as peso and dollar deposits, trust accounts, and treasury bills. Thus, families belonging to the top decile were well-placed to benefit from increases in interest rates and the depreciation of the peso as a result of the financial crisis. In contrast, savings deposit, which carried low and static interest rates, was practically the only financial asset available to small savers.

Table 13. Change in average family income by income decile, 1997-98 (in current prices)

Income decile	1997 FIES	1998 APIS	% change	% Distribution of total family income	
				1997 FIES	1998 APIS
Philippines	123,000	121,438	-1.3	100.0	100.0
First	20,659	14,644	-29.1	1.7	1.2
Second	33,064	26,852	-18.8	2.7	2.2
Third	42,611	36,689	-13.9	3.5	3.0
Fourth	53,101	47,211	-11.1	4.3	3.9
Fifth	66,291	60,176	-9.2	5.4	5.0
Sixth	83,224	76,641	-7.9	6.8	6.3
Seventh	106,919	100,170	-6.3	8.7	8.2
Eighth	141,394	135,051	-4.5	11.5	11.1
Ninth	199,891	196,018	-1.9	16.3	16.1
Tenth	482,927	520,928	7.9	39.3	42.9

Note: FIES stands for Family Income and Expenditure Survey; APIS stands for Annual Poverty Indicator Survey. These two surveys are comparable since they had the same household samples, although the former is a lot more extensive. The APIS was started only in 1998.

Source: National Statistics Office.



Source: Family Income and Expenditure Survey, National Statistics Office.

Figure 14. Average family income and savings by income decile, 1994 and 1997 (in constant 1988 prices)

Impact on the poor

In considering the social impact of the contagion effects of the Asian crisis on the poor, one has to consider that they took place simultaneously with the weakening of the agriculture sector due to adverse weather patterns. This sector accounts for more than 40 percent of total employment. Thus, the decline in this sector would have served to reinforce the adverse impact of the Asian crisis on production, employment and income, and contributed significantly to the increase in inflation rates.

In October 1998, the National Statistics Office conducted an Annual Poverty Indicator Survey to supplement its triennial Family Income and Expenditure Survey. The results on the impact of the financial crisis on Filipino families showed that, of the projected 13.5 million families, 96.6 percent were affected by higher prices of food and other basic commodities as a result of the financial crisis. This was also due to adverse weather conditions. More than 20 percent reported loss of job within the country, while around 17 percent reported a reduction in wages. Less than 5 percent of total families reported job loss of a migrant worker. In addition to the financial crisis, more than 76 percent of families belonging to the poorest 40 percent cited the drought or the *El Niño* effect as their second most serious problem (Table 14).

Table 14. Impact of the financial crisis on Filipino families

Income strata	Projected no. of families	Percentage of families affected by:				
		Higher prices	Job loss		Reduced wages	Drought
			Local	Migrant		
Philippines	13,487,569	96.6	20.3	4.9	17.0	62.9
Lowest 40%	5,495,298	95.7	17.9	3.7	15.2	76.0
Highest 60%	7,992,270	97.0	22.0	5.9	18.4	54.0

Source: Annual Poverty Indicator Survey 1999, National Statistics Office.

Table 15. Filipino families' responses to problems due to the financial crisis

Income strata	Percentage of families reporting:						
	Change in eating pattern	Took children out of school	Member migrated t the city/ another country	Received assistance from family/ friends	Received assistance from gov't	Increased working hours	Other steps taken
Philippines	47.9	6.9	5.2	16.2	6.9	28.8	9.9
Lowest 40%	51.4	7.5	6.1	18.5	9.7	31.5	10.0
Highest 60%	45.5	6.4	4.6	14.7	5.0	27.0	9.9

Source: Annual Poverty Indicator Survey 1999, National Statistics Office.

Table 15 shows the various responses of Filipino families to cope with the problems brought about by the financial crisis. Almost 50 percent of the total families surveyed reported a change in their eating pattern; around 29 percent increased their working hours; almost 7 percent took their children out of school; more than 5 percent reported a family member migrating to the city or another country; more than 16 percent received assistance from relatives or friends, while only less than 7 percent received assistance from the government. Figures for the lowest 40 percent income brackets were a few percentage points higher. Considering that those belonging to the poorest income brackets already have lower nutrition status and school attendance rates, further declines would have grave consequences.

Minimum daily wage earners were among the hardest hit, since the minimum daily wage rate only rose slightly. In Metro Manila, it increased from 185 pesos prior to the crisis to 198 pesos in February 1999, which is less than half of the estimated daily cost of living of 441 pesos for a family of six. Thus, it is almost certain that the small gains made on poverty alleviation in the 1990s are in the process of being nullified as a result of the Asian crisis. The ADB, for instance, foresees that poverty incidence in the Philippines will grow by 5 percentage points from 32.3 in 1997. The various human development indicators are thus expected to take a turn for the worse (Reyes 1998).

The surge in interest rates had an adverse effect on the government's fiscal position as it significantly raised the government's interest payments. Furthermore, the decline in imports and the slowdown in economic activity led to shortfalls in revenue collection. Thus, from a minimal surplus in the first half of 1997, the government posted a deficit of 2.3 billion pesos in the second half of 1997. This further grew to 50 billion pesos in 1998. To contain the deficit, the government imposed a mandatory 25 percent reserve requirement on all expenditures other than personnel and debt service and a 10 percent deferment in the internal revenue allotment for local government units. In addition, all tax subsidies of all government agencies and corporations were suspended. The social services sectors were eventually exempted from the mandatory reserves in July 1998. Expenditures on social services fell by around 10 percent relative to the programmed levels in 1998 in contrast to economic services, for instance, which fell by 30 percent. Although this reduction was less than the reduction in other sectors, it has serious repercussions on the poor, especially given the government's historical underinvestment in the health and education sectors. Decreases in capital outlays, and maintenance and other operating expenditures will also have a direct negative impact on growth and the quality of capital stock (Pineda 1999).

Policies towards economic recovery

To date, the worst of the crisis seems to be over, and even the crisis economies are deemed to be on the (long) road to recovery. True to earlier prediction, the Philippines was among the first to recover, posting a positive growth rate in the first quarter of 1999 along with Singapore and South Korea. However, first quarter growth was attributed primarily to the recovery of agriculture, which in turn was due to improved weather conditions, and government pump-priming. The question is, how far can the economy's recovery go with the continued weak performance of the industrial sector. The latter, in turn, was attributed to continued weak consumer demand, tight credit conditions, and the uncertain economic and political environment.

To avert the economic slowdown, the government shifted to pump priming in 1999 to take up the slack in private sector spending. The government resorted to foreign borrowings to finance this pump-priming strategy and the resulting deficit, which was programmed at 68.4 billion pesos. It secured US$3 billion worth of external financing to cover its programmed 1999 budget deficit. The amount consisted of borrowings from ODA facilities, as well as bond flotations in the international capital market. It began the year with a US$1 billion two-part global fund, which was further increased by US$200 million. This was followed in March 1999 by a 350-million Euro bond, which was Asia's first overseas bond venture in the single European currency. By shifting the government's source of financing from local to foreign creditors, the government sought to lower domestic interest rates and avoid crowding out the private sector. Thus, the benchmark 91-day Treasury bill rate followed a declining trend from a peak of more than 19 percent at the start of 1998 to reach a 5-year low of less than 9 percent in October 1999, which was even lower than its pre-crisis level of 10.5 percent.

The government's foreign borrowings also beefed up the country's gross international reserves, which rose from a low of US$8.5 billion dollars at the start of 1998 (equivalent to less than two months worth of imports) to almost US$14.5 billion as of end-

September1999 (more than four months' worth of imports). Thus, the exchange rate has appreciated and stabilized around the 38-39 pesos per US dollar mark. The resumption of foreign investment inflows also contributed to the strengthening of the peso, as well as the stock market. While foreign borrowings helped stabilize the peso and lower domestic interest rates, the government was also criticized for allowing the country's foreign debt to surge.

Monetary policy was likewise eased, with the successive lowering of the BSP's overnight borrowing and lending rates to 8.75 percent and 11 percent, respectively, as of November 1999, compared to 13.375 percent and 15.375 percent at the start of the year. The sustained reduction in interest rates was made possible by the downward trend in inflation rates, which began to decelerate from 11.5 percent in January to 5.4 percent in October 1999. The BSP also cited its overperformance relative to monetary ceilings set with the IMF. In addition to interest rate cuts, the BSP reduced total reserve requirements on banks from 17 to 15 percent. However, the reduction was on liquid reserves, i.e., funds that can be placed in government securities and carry market rates, rather than the statutory reserve requirement that stood at 10 percent. The BSP pays only 4.5 percent on 40 percent of the funds placed in its vault.

Banks' lending rates likewise followed a declining trend. However, as noted in the previous section, commercial bank lending continued to contract in the first quarter of 1999. This was due to weak private sector demand, and the banks' cautious stance. The easing of monetary policy, particularly the reduction in liquid reserve requirement, had little impact on banks' lending behavior since they opted to increase their holdings of government securities instead. This explains why recent bids during weekly auctions of treasury bills have reached as high as 12 to 18 billion pesos, compared with offerings of about 5-5.5 billion pesos. Thus, it has been argued that, since private sector demand for funds was still down and interest rates had already gone down to pre-crisis levels, it would have been cheaper for the government to fund its 1999 pump-priming activities from the domestic credit market (Lamberte et al. 1999). Strong

demand for government securities works to the government's advantage because it can incur lower financing costs for the securities it issues. The economy, however, may not gain anything or may not gain as much when banks invest in government securities instead of releasing fresh funds that can be used more productively by the private sector. Also, further declines in the treasury bill rate may not be followed by equivalent drops in lending rates as banks struggle to maintain their profits.

While the government is doing its best to bring down the cost of funds, cutting key rates and bringing down liquidity reserve requirements do little to address the credit environment bankers currently find themselves in. The issue of risk then becomes an issue of confidence, both in the emerging positive economic trends and the sustainability of the government's policy stance, in the context of possible shifts in the international environment. Political issues also added to the uncertainty, such as the proposed constitutional amendment. If the banking sector is to play a more significant role in the economy's recovery, stronger positive trends in the real sector need to emerge. Thus, the role of fiscal policy in stimulating aggregate demand is crucial. Banks are set to become more liquid as bad debt portfolios are removed from their balance sheets. Any premature tightening of policy, however, could derail the economy's still nascent recovery.

Macroeconomics and poverty

Stabilization policy in the Philippines typically relied on tight fiscal and monetary policies. The social impact of this policy stance was unmistakable. The reduction in social sector expenditures, which was already deemed inadequate to begin with, came at a time when demand for basic social services was expected to increase as economic conditions deteriorated. The crisis also exposed the underlying weakness of the government's fiscal position, which relied primarily on privatization proceeds and expenditure cuts to post a surplus. A budget deficit ceiling of P68.4 billion was originally set with the IMF for 1999. This was raised to P85 billion when it

became apparent that the original ceiling would be breached due to poor revenue collection. However, the actual amount was a much higher P113.6 billion, or around 3.6 percent of GNP. The real concern is not the deficit per se, but the weak revenue performance and its implications on the government's intertemporal budget constraint. Although the government attributed the revenue shortfall to the economic downturn, ultimately it was due to weak tax administration.

The government's fiscal framework envisages a steady improvement in its fiscal position beginning with a lower deficit of P62.5 billion in the year 2000, toward a small surplus over the medium term. But this improvement must be derived from an enhanced revenue effort. Otherwise, expenditures on priority areas, such as infrastructure, the social sector and anti-poverty programs, may again be sacrificed. The latter's adverse effect on economic growth and social development is well established. Furthermore, without a sustainable revenue base, the government will not be able to manage its foreign debt burden, which again grew significantly as the government shifted to foreign financing. In which case, the brunt of the adjustment will again fall on monetary policy, and monetary authorities may again be constrained to manage the exchange rate very conservatively via a high interest rate policy. This was one of the factors that made the Philippines vulnerable to the contagion effects of the Thai crisis. In fact, the BSP Governor had broached the idea of increasing its key overnight rates if the recent weakening of the peso, which was in turn due to the government's higher fiscal deficit and some political concerns, continues.

The linkage between the conduct of monetary policy and the poor has to do with the former's influence on economic prices that affect the latter, both directly and indirectly. In particular, monetary policy influences the inflation rate, interest rates, and the exchange rate (Gochoco 1993). Monetary policy in the Philippines has typically been used to defend the exchange rate. In the past, this was due to the Philippine central bank's limited foreign exchange reserves,

which constrained its ability to directly intervene in the foreign exchange market. The exchange rate, in turn, was linked to the foreign debt service of the government (Lim 1992). In particular, high interest rates were used to prompt a switch to peso denominated assets, when an excess demand for foreign exchange was evident. Domestic interest rates had to carry a premium to compensate for the perceived risk of devaluation, which reflected the concern that the peso was overvalued. This accounted for the large differentials between domestic and foreign interest rates (Krugman et al. 1991). Monetary authorities' penchant for a strong peso was also because of its positive impact on inflation, given the economy's dependence on imports. But the linking of the exchange rate to financial flows was detrimental in that it brought about a dichotomy between exchange rate policy and trade and industrial policies (Lim 1992).

In contrast to the 1980s, the BSP became a net buyer of foreign exchange in the 1990s because of the surge in capital inflows and the consequent appreciation of the peso. However, monetary ceilings set with the IMF resulted in the BSP sterilizing its foreign exchange purchases. Thus, domestic interest rates remained high, which in turn encouraged more capital inflows. Ultimately, monetary authorities' continued conservative management of the exchange rate gave rise to some perverse results. In particular, the very stable and strong peso, which was deemed as overvalued, itself became a source of instability. Since the target of policy was exchange rate stability at the cost of a currency misalignment, the peso was subjected to a number of speculative attacks, which culminated in the mid-1997 currency crisis. Although the BSP was fairly successful in defending the peso from speculative attacks prior to the 1997 currency crisis, there were economic costs. Allowing interest rates to increase fended off speculators, but only temporarily. Furthermore, it had adverse, longer-term effects on the banking system, the pattern of investment, production, employment, growth, and ultimately the poor. That is why the BSP's use of high interest rate policy to defend the peso at the outbreak of the crisis was highly

criticized for its failure to stem the fall of the peso and its adverse effect on the economy. The BSP was urged to loosen up on its defense of the local currency and to focus instead on bringing down interest rates, which was deemed to have a greater impact on the economy than the peso depreciation. The adjustment lag, especially in the response of banks, underscores the importance of maintaining the current low interest rate policy stance.

One major outcome of financial liberalization in a regime of floating exchange rates was to increase the influence of financial markets in exchange rate determination, with financial flows vastly exceeding the value of international trade in goods and services. Financial markets clear or adjust faster than real markets, hence the overshooting of nominal (and real) exchange rates in the short run (Dornbusch 1976), in response to surges in capital inflows. Over time, as the impact of trade and industrial reforms become more fully realized, underlying structural changes should exert greater influence on the real exchange rate, moving it to a more realistic level. However, in the interim, macroeconomic policies—fiscal and monetary policies, external borrowing and exchange rate management—also play an important role because of their impact on aggregate demand and price levels, including the nominal exchange rate. Thus, they can either reinforce, neutralize, or even temporarily reverse the effects of structural changes on the real exchange rate (World Bank 1987).

The choice of exchange rate regime depends on a number of economic and political factors, including the nature of disturbances, the structure of the economy, the information available to agents, and policymakers' preferences. Central bank intervention in the foreign exchange market will have different objectives at different times. Given the changing environment, the alternative is no longer between fixed versus floating exchange rates. On the one hand, there is the difficulty and cost of maintaining a fixed exchange rate in a deregulated, globalized environment. On the other hand, leaving exchange rates to be determined exclusively in a market that does not always behave as an "efficient financial market", is also not

tenable since the costs of ignoring speculative swings could be very high (Macfarlane and Tease 1989; Cutler et. al. 1990; Miller and Weller 1991).[8] Thus, there is a body of theoretical literature that suggests that a purely fixed or flexible exchange rate would not generally be optimal, given the diverse nature of shocks facing an economy (Dornbusch 1993; Turnovsky 1994). Rather, some intermediate degree of flexibility is seen as generally best able to stabilize the economy in response to economic disturbances. As Krugman (1989) pointed out, exchange rate volatility, that is, high frequency fluctuation around the "true" fundamental value, is not necessarily an acceptable or even inevitable cost of allowing the foreign exchange market to operate freely. However, efforts to stabilize the exchange rate must also guard against inducing a currency misalignment, or a persistent deviation from fundamentals.

Compared to the impact of persistent deviations of the exchange rate from its long-run equilibrium value, the welfare costs of exchange rate volatility seem to be rather small. For instance, firms' investment decisions may be distorted, even if they are perfectly aware that a particular value for the exchange rate may be unsustainable (Dixit 1989a,b). Also, international portfolio investment that takes place when exchange rates are misaligned can lead to large welfare losses resulting from resource misallocation. These suggest that the welfare costs of exchange rate misalignments are likely to be substantial (Miller and Weller 1991). Although excessive fluctuations in the exchange rate would also need to be avoided in a still shallow and inefficient foreign exchange market, greater exchange rate flexibility would also encourage the development of forward markets, which would lead to improved management of exchange rate risks. Then currency speculators would bear the exchange rate risks, while hedgers (usually traders and arbitrageurs) would be able to cover their foreign exchange

[8] A market is said to be efficient if all available information is fully reflected in current market prices. Miller and Weller (1991) discuss some arguments that have been forwarded to explain the divergence from market efficiency.

exposures in the forward market. Simply put, a poor exchange rate policy risks misrepresenting true opportunities, and thus misallocating resources. Ultimately, the goal should be a competitive, stable real exchange rate (Dornbusch 1993). Only then will the Philippines undergo a structural experience in export development.

What the events of the past two years show is that the Philippines has yet to escape the grip of a boom-bust cycle that had characterized its economy for decades. That being said, the Philippine economy is also one of the more open, transparent, deregulated and democratic economies in the region. Thus, it is well poised to adapt to the changing external environment, as well as take advantage of the opportunities it affords. The importance of maintaining sound and consistent policies cannot be overemphasized. Furthermore, care has to be taken that the reforms are not reversed but deepened further, both in the financial and the real sectors. The financial sector is crucial because it serves as the mechanism through which monetary policy is transmitted to the rest of the economy. The financial system also plays a very important role in facilitating economic growth and prosperity by channeling funds from savers to investors. The more competitive and efficient is this intermediation process, the more likely it is that funds will be made available and allocated according to their most productive uses. However, the financial system does not operate in a vacuum, and inefficiencies and distortions in the real sector will be reflected in the financial sector as well.

The fundamental restructuring of the Philippine economy toward greater efficiency and competitiveness will necessarily hurt certain sectors of the economy during the adjustment period, especially in the short- to medium-run. Thus, policies need to be designed such that they will hurt the poor the least, or distribute the burden of the adjustment in the fairest manner possible (de Dios 1993). Clearly, properly designed and targeted social safety nets still have an important role to play in alleviating the effects of stabilization and structural adjustment measures. In particular, the globalization of financial markets has resulted in labor bearing the

brunt of adjustments to external shocks, as increased capital mobility narrows the range of variation of returns to capital within a country to match "world" rates (Rodrik 1997). The UNDP's Human Development Report (1998) even went as far as saying that globalization has been bad for the poor. Clearly, the importance of an adequate system of social protection cannot be overly emphasized.

SOCIAL SAFETY NET PROGRAMS IN THE PHILIPPINES

Safety net is a broad term that encompasses all informal, family-based arrangements (or private safety nets), and all social security programs and poverty targeted interventions (or social safety nets). That is, it includes all cash and in-kind transfers. Social safety nets, in turn, can be defined as those instruments that are specifically aimed at mitigating potential adverse effects of reform measures on the poor (Chu and Gupta 1998). In the Philippines, measures to ease transitional problems during stabilization and structural reform, and to protect the well-being of the poor focused primarily on three types of safety net programs: food subsidies, public employment programs, and credit-based livelihood programs (Subbarao et al. 1996). The following sections discuss some of the specific measures that the Philippine government implemented under these programs to alleviate the social impact of the contagion effects of the East Asian crisis on the poor.

Food subsidy programs

The National Food Authority (NFA) launched the Enhanced Retail Access for the Poor (ERAP) *Sari-Sari* Store[9] (ERAP-SSS), *Palengke ng Bayan*[10] (ERAP-PB) and Rolling Store (ERAP-RS) program to ensure the availability, accessibility and affordability of basic food commodities such as rice, coffee, sugar, cooking oil, milk, sardines

[9] I.e., small community store.
[10] I.e., community wet market.

Table 16. Number and distribution of ERAP stores as of July 1999

Region	ERAP-SSS	ERAP-PB	ERAP-RS	1997 Poverty incidence (%)	Unemployment rate (Oct 1998)
Total	3,219	683	410	37.5	9.6
By region	Percent distribution				
NCR	10.8	12.9	19.3	9.6	15.1
CAR	5.3	2.3	2.4	49.4	8.9
I	7.1	14.6	4.9	44.7	8.2
II	6.2	7.5	3.4	38.0	4.1
III	15.0	9.1	10.5	20.1	11.9
IV	10.5	10.7	12.4	30.0	9.4
V	8.8	7.2	5.4	57.5	9.4
VI	2.7	0.7	3.9	48.2	8.0
VII	6.4	11.9	7.6	39.5	11.2
VIII	6.6	5.7	6.1	49.0	7.8
IX	4.1	4.4	3.7	45.5	7.1
X	7.4	2.3	5.4	53.2	6.8
XI	4.6	5.1	6.3	44.6	8.7
XII	2.9	5.3	5.9	55.4	6.6
ARMM	1.6	0.3	2.9	63.8	4.8

Sources of basic data: National Food Authority; National Statistics Office; National Statistical Coordination Board.

and noodles in the depressed and/or remote areas of the country. Under the ERAP-SSS, the NFA accredited community stores owned and operated either by private individuals, cooperatives, or organizations to sell basic food commodities at subsidized prices. The ERAP-PB is similar to the ERAP-SSS, only the former cover stores located in the wet markets. The ERAP-RS are stores owned and operated by the NFA itself using vans. Table 16 gives the number of ERAP stores all over the country as of July 1999. The 1997 poverty

incidence and 1995 population are also shown to give an idea of the stores' outreach. Once again, the bias in favor of the National Capital Region (NCR) or Metro Manila was evident. In fact, of the estimated 4.659 million total customers served by the ERAP-RS as of July 1999, around 70 percent were from Metro Manila.

The government also implemented a rice subsidy program beginning in January 1998, both in response to the financial crisis, as well as the adverse weather patterns. The program's primary objective was to provide affordable and quality rice to the subsistence poor, i.e., those families living below the food threshold. The program specifically targeted the identified CIDSS areas that were also highly vulnerable to the adverse weather patterns.[11] The beneficiaries were given rice discount cards, which they used to purchase rice at stores identified as rice retailers for the program. The cards were nontransferable to other families and could only be used by immediate members of the family. The amount of the subsidy was 2.50 pesos per kilo regardless of the variation in the prevailing price of rice.

Furthermore, a special action program for displaced sugar workers was instituted in the form of an emergency loan package of P100 million. They were also given rice subsidies and other benefits. For instance, more than 15,000 sacks of rice worth around P10 million were distributed to almost 77,000 sugar workers and their families from August to November 1998 (Reyes et al. 1999).

While it is still too early to assess the impact of the food subsidy programs discussed above, the NFA's past performance may prove instructive. In particular, the NFA's past food subsidy programs were found to have had little impact on the poor's consumption and nutrition, and the low impact was achieved at a high cost. Furthermore, the poorest income groups and regions did not receive their share of benefits from the NFA's past food subsidy programs. This was due to substantial leakages on account of poor targeting.

[11] That is, the barangays in the two lowest classes municipalities that were the targeted beneficiaries of the Flagship Program on Comprehensive and Integrated Delivery of Social Services (CIDSS).

Thus, it had been recommended that the NFA could eliminate consumer subsidy without adversely affecting the poor's nutritional status. The resources saved by doing so could then be used for a better-targeted in-kind transfer program such as a food stamp program or a nutrition program (Subbarao et al. 1996).

Public employment programs

The Rural Works Program under the Department of Labor and Employment (DOLE) was established to fund various small infrastructure projects in order to generate employment in selected depressed, rural communities, particularly those affected by company closures and retrenchments, and the adverse weather conditions. Regions in Mindanao (Region IX-Caraga) were initially targeted because of the severe drought in those areas, although the program was eventually expanded to cover the Luzon (CAR, Regions I-IV) and the Visayas regions (Regions V-VIII) as well. As of the first quarter of 1999, more than 20 million pesos of project funds had been released, which benefited more than 4,800 displaced workers (see Table 17).

The Rural Works Program was part of the DOLE's Comprehensive Program for Displaced Workers. Under this program, the DOLE was also tasked to monitor trends in firm closures and lay-offs, assist in job loss prevention, and provide trainings and placement assistance for displaced workers. Thus, the DOLE, through its regional offices and the National Conciliation and Mediation Board, conducted dialogues with distressed companies in order to avert or minimize job losses. In cases where firm closure was inevitable, assistance was given to facilitate the release of separation pays and to help displaced workers avail of loans that were made available especially for them. The DOLE also established a registry of displaced workers for employment assistance. Finally, the Technical Education and Skills Development Authority (TESDA) provided various training courses. Table 18 gives a summary of the number of workers that benefited under these various schemes across regions.

Table 17. DOLE's Rural Works Program as of 1st quarter 1999

Region	Project Cost (million pesos)	No. of workers benefited	vs.	No. of workers permanently laid off in 1998
1. Project Fund Released	20.361			
CAR	4.006	322		483
Region I	1.400	351		543
Region III	1.000	223		8,390
Region IX	1.000	782		277
Region X	0.619	263		1,647
Region XI	0.800	682		3,439
Region XII	5.600	665		399
Caraga	5.936	1,549		1,032
2. Project for evaluation/ approval/implementation				
Region II	0.570	111		356
Region IV	2.674	289		7,816
Region V	1.500	na		849
Region VI	7.221	562		3,242
Region VII	1.801	239		7,062
Region VIII	1.000	na		290

Note: Na means data not available.
Source: Bureau of Labor and Employment Statistics.

Table 18. Workers benefited by the DOLE's Comprehensive Program for Displaced Workers, 1998[a]

Type of Assistance	All	NCR	CAR	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	Caraga
1. Job loss prevention	8,984	4,580				1,267	1,830	5		923		86	35	26		232
Job Saved	4,285	1,871				441	1,249			684		40				
Facilitation of separation pay	4,699	2,709				826	581	5	0	239	0	46	35	26	0	232
2. Employment assistance																
Registration	18,981	4,053	373	1,038	410	5,841			585	189	12	552	380	1,071	2,770	1,707
Job Placement	3,569	183	68	449		306			52	97			87	15	739	1,573
3. Rural works program (as of 1st Qtr.)	4,837		322	351		223						782	263	682	665	1,549
4. TESDA training[1]	1,549															
5. Others																
Special action program for sugar workers	2,308			1,000		250					1,058					
Issuance of verification certification for emergency loans	34,177	28,589		90		5,108		285			94	11				
Total direct assistance [2]	21,247	4,763	390	1,800		2,046	1,830	5	52	1,020	1,058	868	385	723	1,404	3,354
Total no. of permanent layoffs	79,308	43,480	483	543	356	8,390	7,816	849	3,242	7,062	290	277	1,647	3,439	399	1,032

Note: [a]Except for Rural Works Program; [1]No regional breakdown; [2]Computed as the sum of (1)-(4), plus Special action program for sugar workers.

Source: Bureau of Labor and Employment Statistics.

In April 1999, a clean-up drive, the *Linis Bayan* program, was launched to provide immediate casual employment, and at the same time address environmental concerns. Although the clean-up drive was a government initiative, private businesses were encouraged to participate by hiring casual workers at the minimum wage rate to be assigned to the program.

Public works programs can provide insurance to the poor as an employer of last resort, address the problem of seasonal unemployment, create assets for the poor (such as schools), or provide disaster relief. In particular, public works programs can play a major role in shifting the demand for labor and developing the infrastructure base in the rural areas where most of the poor live. The Rural Works Program, in that sense, was a step in the right direction. But, as in the food subsidy programs, the concept of targeting is crucial. If programs are targeted to the poor, employment should be restricted with poverty targeting indicators, means-tests, or self-targeting measures such as low wages (Subbarao et al. 1996). Thus, the government's current use of geographical targeting in allocating funds may not be enough to achieve the objective of generating employment for the poor.

Credit-based livelihood programs

Of the government's three main forms of social safety nets, probably the most developed and extensive were its credit-based livelihood programs.

One of the flagship programs of the Social Reform Agenda was on the expansion of credit to the poor. The implementing agency was the People's Credit and Finance Corporation (PCFC), a government nonbank financial institution. The PCFC was established in February 1995. It was mandated to be the lead institution in the wholesale delivery of microcredit funds to nongovernmental organizations (NGOs), people's organizations (POs), and rural banks for relending to the poor or marginalized sectors. It is wholly capitalized by the National Livelihood Support Fund (NLSF), which was another entity established earlier to finance

credit-based livelihood programs under the supervision of the LBP and the Department of Finance. Accredited conduits or partners of the PCFC may obtain funds through the PCFC's two credit programs—the Helping Individuals Reach their Aspirations through Microcredit (HIRAM) Lending Program, and the Asian Development Bank-International Fund for Agricultural Development Rural Microenterprise Finance Project (ADB-IFAD/ RMFP).

The HIRAM program was initially funded at P100 million in 1996 by the NLSF. The NLSF also turned over to the PCFC a loan portfolio of 63 active program partners worth around P103 million in 1995. For NGOs and POs to become eligible conduits, they needed to have a minimum track record of three years; working capital of at least P250,000; at least 500 clients; past due rate of not more than 20 percent on its lending operations; and no loan arrears with other lending institutions. Eligible financial institutions, on the other hand, should have capital to risk assets ratio of 10 percent; past due rate of not more than 20 percent on loans; no legal reserve deficiencies for the year preceding its application; and at least 500 clients.

The RMFP, on the other hand, is funded by a US$34.7 million loan from the ADB and the IFAD, which was contracted by the government through the LBP. The loan was specifically intended for the replication of the Grameen Bank Approach (GBA) in the Philippines. It has a maturity of 40 years, although PCFC was given 20 years to repay the LBP following a grace period of 6 years from 1997. The loan from the LBP consisted of P1.2 billion for investment credit and P22.56 million for institutional credit, at lending rates of 5.25 percent and 1 percent, respectively. Eligible partners under this program must be experienced in the implementation of the GBA or other social lending schemes; in operation for at least two years; and with financial resources of at least P500,000 and a minimum net worth of P250,000.

Both programs offer investment and institutional credits. The former is used for relending to the target borrowers, while the latter can be used by conduits to finance start-up costs, training of staff,

and preparation/training of the target borrowers. Lending rates are currently at 12 percent and 3 percent, respectively. Pass-on rates to end users, on the other hand, range from 14 to 30 percent, depending on the conduit's spread. There is no ceiling on the amount that conduits can borrow under HIRAM, but there is a ceiling of P3.5 million per annum per branch under the RMFP. For end-borrowers, on the other hand, maximum loanable amounts are P25,000 and P14,000 under HIRAM and RMFP, respectively.

Table 19 shows PCFC's total number of active conduits and end-clients served as of April 1999, while Table 20 presents its cumulative lending under its two credit lines over the period 1997-April 1999. The PFCF has disbursed a considerable amount for lending to the poor since it began to operate - over P1.18 billion pesos, which benefited a total of almost 120,000 borrowers. There has also been a rapid increase in the number of active conduits of PCFC. Most of the conduits, however, were located in Luzon but outside of Metro Manila. The latter was due to PCFC's being based in Metro Manila, and having no regional offices.

In terms of performance, the PCFC's HIRAM program was found to be effective in reaching its target borrowers, while its RMFP program had a low outreach capability. In terms of cost recovery, however, both programs, failed to fully recoup their full costs of implementation (Lamberte et al. 1998). On the other hand, PCFC's reported collection rate was at a high 98.5 percent.

PCFC is not the only government agency involved in lending to the poor, or directed credit programs in general. When the Asian crisis broke out, there were 86 directed credit programs in operation in the Philippines, which were being administered by different departments/line agencies, government financial institutions (GFIs), government owned and controlled corporations (GOCCs), and nonbank financial institutions (NBFIs).[12] These programs are directed toward specific sectors, such as agriculture and rural sector,

[12]Lamberte et al. (1997, 1998) present a comprehensive review and assessment of these directed credit programs.

Table 19. PCFC's cumulative number of active conduits and end-clients served, 1997-99

	1997	1998	April 1999
Active conduits			
HIRAM			
NGOs	21	20	18
Rural banks	16	28	37
Cooperatives	10	20	30
Cooperative banks	10	18	20
Thrift banks	1	1	2
Total	58	87	107
RMFP			
NGOs		5	9
Rural banks		3	9
Cooperatives		7	9
Cooperative banks		0	14
Total		15	41
No. of clients served			
HIRAM	39,962	70,175	99,921
RMFP	0	1,550	19,649

Source: People's Credit and Finance Corporation.

low income and poor communities, disadvantaged groups, and small and medium enterprises. They are primarily funded by government budgetary allocations, special funds, and official development assistance from bilateral and multilateral donor organizations in the form of grants or loans.

The basic rationale for these programs is that the target sectors have inadequate access to formal sources of credit, which in turn

Table 20. PCFC's cumulative approved credit lines and loan releases, 1997-99 (in '000 pesos)

	Cumulative amount approved		Cumulative amount released	
	HIRAM	RMFP	HIRAM	RMFP
Investment credit				
1997	388,600[a]	0	345,299[a]	0
1998	527,450	117,500	732,026	8,500
April 1999	681,650	327,800	1,039,491	108,147
Institutional credit				
1997	32,782	0	19,197	0
1998	35,902	18,595	22,816	0
April 1999	49,587	40,252	25,155	8,624

Note: [a]Amounts included loans that PCFC absorbed from the NLSF in 1996.
Source: People's Credit and Finance Corporation.

impairs their capacity to generate employment and income. Many of these programs, however, do not just provide credit but also include technical assistance in the form of institution and skill building and support services, especially those that are being administered by the various government departments such as the Departments of Agriculture, Trade and Industry, Labor and Employment, and Social Welfare and Development. Credit-based livelihood programs, for instance, were introduced to expand self-employment opportunities for the poor. The provision of subsidized credit, training, and other services to promote self-employment was thought to be the answer to the Philippines' slow economic growth and labor absorption. In fact, livelihood programs became the cornerstone of the Aquino and Ramos governments' poverty alleviation schemes, which accounts for the fact that many of these programs were conceived after 1986. Of the existing programs, at least 13 directly target the poor and disadvantaged sectors, while around 24 directly target the agriculture and rural sector.

In general, the results of Lamberte et al. (1997, 1998) showed that credit programs administered by government financial institutions, which consist of the Land Bank of the Philippines (LBP) and the Development Bank of the Philippines (DBP), were more effective in terms of reaching the target borrowers, and efficient in terms of cost recovery, relative to the GOCCs, NBFIs, and the nonfinancial government agencies. While the latter agencies in general performed fairly in terms of outreach, they did so very inefficiently. However, sustained inefficiency will ultimately affect a credit program's effectiveness because it will hinder the expansion and sustainability of the credit program. The credit programs run by the different government departments/line agencies were found to be even more inefficient. This was attributed to the supplementary nature of such programs, which made the setting of performance standards and independent assessment difficult. Hence, their emphasis was only on effectiveness. Government departments were also more prone to politicians' interventions.

Cost inefficiency of most of the government's directed credit programs had to do with the programs' social preparation component (which involved prelending activities such as institution and capacity building, and various forms of training), which represented unrecoverable costs for the government. Moreover, since the loans were either interest-free or carried subsidized rates, the programs did not recover operations, administrative and other costs, making them insufficient and unsustainable, and/or dependent on budget donations and allocations. However, it must be made clear that credit is not welfare and loans from the government are not dole-outs. Thus, Lamberte et al. (1998) recommended that the management of all directed credit programs of the government be transferred to the GFIs, which have clear guidelines and accountability, and are directly supervised by the BSP. This would allow the other government agencies to focus on their primary functions, as well as save scarce government resources. The PCFC's abolition, notwithstanding its fairly good performance, was also recommended since it only added another administrative layer. A

consolidation of the government's directed credit programs is clearly warranted because of the many overlaps. The fungibility of credit also requires strictly targeted interventions. Finally, a reorientation of directed credit programs towards cost recovery, which in turn would help make them viable and sustainable, may be justifiable since it is often claimed that the poor's problem is not cost but access to credit.

The indirect mode of credit delivery was also found to be more effective, that is, the use of conduits especially those that are closely connected to the end-borrowers, such as community-based and group-lending methods. An earlier study of microfinance institutions (MFIs) in the Philippines (Llanto et al. 1996) also affirmed the effectiveness of the targeting mechanism used by the MFIs in identifying poor clients. However, most MFIs' weak institutional capacity, lack of a viable and extensive delivery system, small financial base, and huge investments in training clients hamper their attempts to reach a greater number of their target clientele. In the short run, MFIs may be able to expand their present reach, but because they are not viable or sustainable financial institutions, the effort cannot be sustained. Hence, their reliance on financial assistance from the government and donor funds for continued operation.

The experiences of other countries with respect to MFIs, particularly in Latin America, show that they need to be financially viable in order for them to provide credit to an increasing proportion of significantly large numbers of poor people on a sustained basis (Christen et al. 1995). Viability can be achieved through an appropriate interest rate policy, administrative efficiency and volume. Microfinance should not be treated as charity because if it is, then it will lead to a lot of problems, as attested to by earlier directed credit programs of the government. In addition to demonstrating the credit worthiness of its own borrowers, an MFI must likewise demonstrate its own viability.

The principal objectives of livelihood programs are to open up lines of credit to the poor, which in turn would help them to create

sustainable livelihoods. Sustainability is critical. The subsidy can be rationalized if a family is permanently lifted out of poverty. On the other hand, the subsidy would amount to a transfer if the benefits are short-lived or if the borrower defaults. Such programs, then, need to be evaluated based on targeting, costs and benefits, and sustainability. However, studies have shown that the income and employment effects of livelihood programs were only short-term. That is, they provided temporary financial relief rather than livelihood creation (Subbarao et al. 1996). Thus, while such programs may prove useful as short-term tools, for instance to alleviate the adverse effects of stabilization and structural adjustment measures on employment, they cannot be relied upon to permanently address poverty and, therefore, should not be the cornerstone of any poverty alleviation scheme. Furthermore, there may be more efficient ways of effecting the transfer rather than through subsidized credit.

Overall, given the issues in the management of the various social safety net programs in the Philippines, and the necessity of rendering such programs fiscally sustainable, the focus of public policy should be on redirecting resources and effecting design changes rather than on the provision of additional resources per se. Furthermore, the transfer programs must not be seen as substitutes to basic social services. Even if cash and in-kind transfers are maintained at generous levels, but access to health care and education is eroded, then the poor will not benefit in the long run (Subbarao et al. 1996). Addressing the problem of poverty requires that government be pragmatic in its use of scarce resources. In essence, this should entail greater allocation of the national budget for basic social services such as health and nutrition, education and training, and housing and social welfare, all of which should be efficiently designed to reach the poor. But again, ultimately, the focus should still be on broad-based economic growth to generate and sustain gainful employment and livelihood opportunities for the poor.

Other safety nets

Safety nets can also be coursed through formal social security arrangements, although the coverage of the latter is often limited to a portion of the formal sector that is less likely to fall into poverty as a result of periods of unemployment, sickness or accidents. As such, they cannot protect broad groups of the population from the effects of economic shocks. Nevertheless, existing social security arrangements can be a useful component for future social safety net programs. Also, as a country becomes more developed, social security programs can have a substantial impact in preventing or lessening poverty among particular groups, e.g. the elderly. As per capital GDP increases, attempts should be made to broaden the coverage of social security programs, such as workers employed by small firms and the self-employed, such as farmers and fishermen. Over time, retirement, survivors and disability protection also needs to be extended to lower income workers. And if phased in slowly and with financial caution, health insurance could also help to protect the poor, who are least able to self-insure against illness (World Bank 1996).

There are two primary social security programs operating in the Philippines, the Government Service Insurance System (GSIS) and the Social Security System (SSS), which provide payments for old age, disability, death, workmen's injury, sickness, medical care, and maternity for public and private employees, respectively. About 60 percent of workers in the formal sector of the economy and all government workers are members. However, there is a wide discrepancy between membership figures and the number of actual contributors, particularly for the SSS. In 1997, the SSS had almost 19.08 million members, of which only around 6.26 million were paying members.

As a response to the employment and income effects of the Asian crisis, the SSS implemented an emergency loan program for displaced workers in March 1998. The maximum loan amount per displaced worker was P12,500. The interest rate charged on the emergency loan was 6 percent, deductible in advance. The loan had

a 12-month grace period and was payable in two years. At the end of 1998, the SSS granted a total of 17,379 emergency loans, which amounted to around P188.709 million. This amount, however, represented only around 3.5 percent of the total loans granted by SSS for 1998, which reached almost P5.4 billion. The assistance of the DOLE in certifying that a worker had been terminated or suffered income losses due to job rotation or reduced working hours was crucial in facilitating the release of the emergency loans. Most of the recipients, however, came from Metro Manila.

Despite the existence of various social safety nets, they are still deemed highly inadequate. Thus, private safety nets have historically been the most important in helping Philippine households cope with financial difficulties, particularly family-based arrangements. This was again evident during the 1997 crisis. For instance, in the 1998 APIS, more than 18 percent of families belonging to the lowest 40 percent income brackets reported that they received assistance from relatives or friends to help them cope with the crisis. In contrast, only around half of that number received assistance from the government. In particular, remittances from abroad and domestic private transfers have been crucial in augmenting household incomes in the Philippines. Furthermore, most overseas remittances went to upper income households, while domestic private transfers were more important for the poorer households (Subbarao et al. 1996). Reyes et al. (1999) found that households with migrant workers especially benefited from their relatives' remittances, which remained stable in dollar terms but increased significantly in peso terms because of the depreciation. Credit was also another source of funds for households, which was used primarily for consumption rather than for production. Informal lenders continued to be the predominant source of credit for households, particularly relatives and friends and moneylenders. On the other hand, the SSS and the GSIS, pawnshops, and cooperatives were among the most common sources of formal credit for households in the Philippines (Reyes et al. 1999).

SOME CONCLUSIONS AND THE CONTINUING POLICY ISSUES

In discussing the impact, in particular the contagion effects of the Asian crisis on the Philippines, three key points need to be made. First, the impact of the Asian crisis on the Philippine economy and financial sector has been quite moderate, especially when compared to the crisis economies of Thailand, Indonesia and South Korea. The Philippine economy contracted from the 2nd to the 4th quarter of 1998. But true to earlier predictions, it was among the first to post positive growth rates, from 1.2 percent in the 1st quarter of 1999 to around 3.1 percent in the third quarter. While there has been a significant weakening of the commercial banking sector in particular, again, it was still very moderate.

Second, the social impact has also been deemed as less severe. This was borne out by a microeconomic study, which conducted focus group discussions and household surveys to determine the social impact of the crisis on the more vulnerable members and sectors of Philippine society (Reyes et al. 1999).

Finally and most importantly, as it has been frequently noted in the literature, the Philippines was a laggard in the region both in terms of economic growth performance and human development. Thus, even a slight deterioration in economic and social conditions will have severe implications, especially on the poor. It is almost certain that the crisis has served to nullify the gains that have been made on poverty alleviation and other human development indicators. Furthermore, while the impact of the Asian crisis may have been fairly moderate, the disruption that it caused in the Philippines' growth and adjustment process could prove to be more significant and costly. This is due to the fact that Philippines was still in the process of mending its economy and further strengthening its economic fundamentals prior to the Asian crisis. The positive reports that have been coming out on the Philippines clearly need to be kept in perspective.

There were various social safety nets in place when the crisis broke out, which helped to alleviate its adverse social impact. However, they were generally inadequate both quantitatively and qualitatively. Overall, the main issues in the management of the government's various social safety net programs were targeting and efficiency. Thus, the focus of public policy should be on redirecting resources and effecting design changes rather than on the provision of additional resources per se. However, the issue of efficiency in the use of resources is a pervading one in all of the government's programs, and not just with respect to its social safety net programs. The issue becomes even more critical as the government's fiscal position took a turn for the worse as a result of the crisis. In fact, a recent study noted that in addition to the fiscal crunch, some long identified structural weaknesses in resource allocation have persisted and even worsened (Pineda 1999). The World Bank even estimated the cost of corruption in the Philippines, and placed it at around US$48 billion over the past 20 years.

In that sense, the World Bank and the IMF's recent focus on the government's fiscal position was warranted. However, the lynchpin should not be the level of the fiscal deficit per se, but improved revenue performance and greater efficiency. Ideally, fiscal adjustments toward greater efficiency in the use of public resources should cut across the different departments and types of expenditures. Nevertheless, if they cannot be done simultaneously, then inefficiencies elsewhere should first be dealt with before the inefficiencies in the social safety net and social expenditure programs. Otherwise, the more vulnerable members and sectors of society may be hit from both sides, with the private sector still undergoing a period of adjustment as a result of the crisis. Also, there is a growing body of literature that seeks to characterize and measure the adverse impact of globalization, particularly of financial markets, on labor and on the poor (e.g., Rodrik 1997, 1998; Diwan 1999). In particular, the globalization of financial markets is deemed to have resulted in labor bearing the brunt of adjustments to external shocks, as increased capital mobility narrows the range of variation

of returns to capital within a country to match "world" rates (Rodrik 1997). The UNDP's Human Development Report (1998) even went as far as saying that globalization has been bad for the poor. Thus, the importance of an adequate system of social protection cannot be overly emphasized.

Two years after the crisis broke out, President Estrada launched his own anti-poverty program, which had an allocation of 2.5 billion pesos. Doubtless some of his pronouncements were overambitious, even unrealistic and impossible to achieve. For instance, there was his declaration to liberate 10 million Filipinos from poverty, which is around a third of the Filipino poor, over the next five years. His program would initially target the 100 poorest families in each of the 1,600 cities and towns, who would then receive integrated and comprehensive services from the government. Around 160,000 households or about 1 million Filipinos were expected to be reached. It was a start, albeit a small one, considering that there were already over 4.5 million poor families prior to the crisis. But the strategy was criticized for being narrowly focused and simplistic. It was also pointed out that its design and implementation were full of leakages.

Furthermore, the program did not address the key issues involving poverty in the Philippines. It has been noted that poverty in the Philippines was a "structural" problem. Thus, longer term solutions must go beyond dole-outs and address the key issues. For instance, there has been no significant shift of resources to the social sector in the national budget. In fact, compared with their 1998 levels, the 1999 appropriations for the DSWD, DOH, and DECS were lower in real terms by 22, 20, and 4.5 percent, respectively (Pineda 1999). Investment in human capital is one such policy that will have a lasting positive impact on the poor and poverty alleviation. One of the things that were made evident by the country's economic performance prior to the crisis was the responsiveness and capacity of the private sector, given the proper incentives and business environment. One of the challenges for the government, then, is to continue to nurture such an environment, and to deal with such

basic functions as maintaining peace and order, and the administration of justice.

A more progressive approach to poverty alleviation, and the provision of social services and social safety nets is necessary to cushion the impact of required structural adjustments on the more vulnerable sectors of society. Simply put, the government needs to do more and to do so more efficiently, in order to make a truly sizable impact on poverty. Growth per se may not lead to socially optimizing outcomes. What matters is not just the level of economic growth, but its overall quality in terms of providing sustained employment and improving income distribution across income groups and regions. Ultimately, "Poverty is an unacceptable human condition. It is not immutable; public policy and action can, and must, eliminate poverty. This is what development is all about" (ADB 1999).

REFERENCES

Asian Development Bank. 1998. *Asian Development Outlook 1998*. New York: Oxford University Press.

_________ . 1999. Fighting Poverty in Asia and the Pacific: The Poverty Reduction Strategy of the Asian Development Bank Draft.

Bautista, E.D. 1992. A Study of Philippine Monetary and Banking Policies. Working Paper Series No. 9211. Makati City: Philippine Institute for Development Studies.

Business Monitor International Ltd. 1996. *Philippines 1996-98*. London: BMI Ltd.

Cho, Y.J. and D. Khatkhate. 1989. Lessons of Financial Liberalization in Asia: A Comparative Study. World Bank Discussion Papers Number 50. Washington, D.C.: The World Bank.

Christen, R.P., E. Rhyne, and R.C. Vogel. 1995. Maximizing the Outreach of Microenterprise Finance. USAID Program and Operations Assessment Report No. 10. Washington, D.C.

Chu, K.Y. and S. Gupta. 1998. *Social Safety Nets: Issues and Recent Experiences*. Washington, D.C.: International Monetary Fund.

Cororaton, C.B. 1995. Surge in Capital Inflows, Response of the Government and Effects on the Economy: The Philippine Case. Discussion Paper Series No. 95-24. Makati City: Philippine Institute for Development Studies.

Cutler, D.M., J.A. Poterba, J.A. and L.H. Summers. 1990. Speculative Dynamics and the Role of Feedback Traders. NBER Working Paper No. 3243. New York: National Bureau of Economic Research.

de Dios, E.S. 1993. Poverty, Growth, and the Fiscal Crisis. In *Poverty, Growth, and the Fiscal Crisis*, edited by E.S. de Dios and Associates. Makati City: Philippine Institute for Development Studies.

Diwan, I., 1999. Labor Shares and Financial Crisis. Paper presented at the Global Development Network Forum, 5-8 December 1999, Bonn.

Dixit, A. 1989a. Entry and Exit Decisions Under Uncertainty. *Journal of Political Economy* 97:620-39.

Dixit, A. 1989b. Hysteresis, Import Penetration and Exchange Rate Pass-Through. *Quarterly Journal of Economics.*

Dornbusch, R. 1976. Expectations and Exchange Rate Dynamics. *Journal of Political Economy* 84:1161-76.

Dornbusch, R. 1991. Policies to Move from Stabilization to Growth. Proceedings of the World Bank Annual Conference on Development Economics 1990, p.19-48. Washington, D.C.: The World Bank.

Dornbusch, R. 1993. *Policymaking in the Open Economy.* New York: Oxford University Press.

Fabella, R.V. 1994. Investment and the Allocation of Resources under Macroeconomic Instability. In *Resource Mobilization and Resource Use in the Philippines*, edited by R.V. Fabella and H. Sakai. Tokyo: IDE.

Gochoco, M.S. 1993. Policy Options for Banking and Financial Reforms. In *Poverty, Growth, and the Fiscal Crisis,* edited by E.S. de Dios and Associates. Makati City: Philippine Institute for Development Studies.

Intal, P.S., M.M.R.S. Milo, C.M. Reyes and L. Basilio. 1998. Case Study: The Philippines. In *East Asia in Crisis: From Being a Miracle to Needing One?,* edited by R.H. McCleod and R. Garnaut. Routledge, London.

Krugman, P.R. 1989. The Case for Stabilising Exchange Rates. *Oxford Review of Economic Policy* 5(3): 61-72.

Krugman, P.R, J. Alm, S. Collins and E. Remolana. 1991. *Transforming the Philippine Economy.* Quezon City, Philippines: National Economic and Develoment Authority and APO Production Unit.

Lamberte, M.B. 1993. Assessment of the Financial Market Reforms in the Philippines, 1980-1992. *Journal of Philippine Development* 20(2):231-59.

________. 1994. Managing Surges in Capital Inflows: The Philippine Case. PIDS Discussion Paper Series No. 94-20. Makati City: Philippine Institute for Development Studies.

________. 1998. Assessment of the Performance of GFIs and GOCCs/NBFIs in Implementing Directed Credit Programs. Draft.

Lamberte, M.B and J.T. Yap, 1999. Scenarios for Economic Recovery: The Philippines. PIDS Discussion Paper Series No. 99-05. Makati City: Philippine Institute for Development Studies.

Lamberte, M.B, M.S. Casuga and D.C. Erfe. 1997. Assessment of the Role and Performance of Government Nonfinancial Agencies in Implementing Directed Credit Programs. Draft.

Lamberte, M.B, C.B. Cororaton, M.F. Guerrero, and A.C. Orbeta. 1999. Impact of the Southeast Asian Financial Crisis on the Philippine Manufacturing Sector. Discussion Paper Series No. 99-09. Makati City: Philippine Institute for Development Studies.

Laya, J.C.. 1982. *A Crisis of Confidence and Other Papers*. Manila: Central Bank of the Philippines.

Lim, J.M. 1992. A Study on Philippine Exchange Rate Policies. Working Paper Series No. 9209. Makati City: Philippine Institute for Development Studies.

Llanto, G.M., E. Garcia and R. Callanta. 1996. An Assessment of the Capacity and Financial Performance of Microfinance Institutions: The Philippine Case. Discussion Paper Series No. 99-30. Makati City: Philippine Institute for Development Studies.

Macfarlane, I.J. and W.J. Tease. 1989. Capital Flows and Exchange Rate Determination. Research Discussion Paper No. 8908. Sydney: Economic Research Department, Reserve Bank of Australia.

Magdaluyo, R.E. 1998. Southeast Asian Currency Flu: A Look at the Fundamentals. *A.I.M. Policy Forum Briefing Papers* 2:2-14.

Manasan, R.G. 1994. *Breaking Away From The Fiscal Bind: Reforming the Fiscal System*. Makati City: Philippine Institute for Development Studies.

Manasan, R.G. 1998. Fiscal Adjustment in the Context of Growth and Equity, 1986-1996. Discussion Paper Series No. 98-11. Makati City: Philippine Institute for Development Studies.

Medalla, E.M. 1998. Trade and Industrial Policy. Discussion Paper Series No. 98-05. Makati City, Philippines: Philippine Institute for Development Studies.

Medalla, E.M., G.R. Tecson, R.M. Bautista and J.H. Power. 1995. *Catching Up with Asia's Tigers, Volume I*. Makati City: Philippine Institute for Development Studies.

Miller, M. and P. Weller. 1991. Financial Liberalisation, Asset Prices and Exchange Rates. Working Paper No. 95. Paris, France: Department of Economics and Statistics, Organization for Economic Cooperation and Development.

Milo, M.M.R.S. 1998. Financial Liberalization in the Philippines: Retrospect and Prospect. Canberra: Australian National University. Ph.D. Dissertation

Pineda, V.S. 1999. Impact of the Financial Crisis on Social Services Financing and Delivery. Discussion Paper Series No. 99-30. Makati City: Philippine Institute for Development Studies.

Ramos, F.V. 1994. *Towards Philippines 2000: A Resurgence of Optimism and Growth.* Manila: Office of the Press Secretary.

Remolona, E.M. and M.B. Lamberte. 1986. Financial Reforms and Balance-of-Payment Crisis: The Case of the Philipines. *Philippine Review of Economics and Business* 23(1&2):101-41.

Reyes, C.M. 1998. *The Social Impact of the Regional Financial Crisis in the Philippines.* Research Paper, Micro Impacts of Macroeconomic Adjustment Policies (MIMAP) Project. Makati City: Policy and Development Foundation Inc.

Reyes, C.M and E.A. del Valle. 1998. Poverty Alleviation and Equity Promotion. Discussion Paper Series No. 98-06. Makati City: Philippine Institute for Development Studies.

Reyes, C.M, R.G. Manasan, A.C. Orbeta, and G.G. de Guzman. 1999. Social Impact of the Regional Financial Crisis in the Philippines. Discussion Paper Series No. 99-14. Makati City: Philippine Institute for Development Studies.

Rodrik, D. 1997. *Has Liberalization Gone Too Far?*. Washington, D.C.: Institute for International Economics.

Rodrik, D. 1998. Capital Mobility and Labor. Draft.

Subbarao, K., A.U. Ahmed, and T. Teklu. 1996. Selected Social Safety Net Programs in the Philippines. Discussion Paper No. 317. Washington, D.C.: World Bank.

Tan, E.A. 1989. Bank Concentration and the Structure of Interest. UPSE Discussion Paper No. 89-15. Quezon City: School of Economics, University of the Philippines.

Tecson, G.R., Austria, M.S., V.S. Pineda, L.C. de Dios, D.D. Lapid, M.C.S Medilo, C.P. Banzon, F.M.C.Trabajo and E.G.Q. Mendoza. 1996. *Philippine Trade and Industrial Policies: Catching Up with Asia's Tigers, Volume II*. Makati City: Philippine Institute for Development Studies.

Turnovsky, S.J. 1994. Exchange Rate Management: A Partial Review. In *Exchange Rate Policy and Interdependence: Perspectives from the Pacific Basin*, edited by R. Glick and M.M. Hutchison, 1994. Cambridge: Cambridge University Press.

United Nations Development Programme. 1998. *Human Development Report 1998*. New York: Oxford University Press.

World Bank. 1986. *The Philippines: A Framework for Economic Recovery*. Washington, D.C.: The World Bank.

________. 1987. *The Philippines Issues and Policies in the Industrial Sector*. Washington, D.C.: The World Bank.

________. 1988 *Philippines Financial Sector Study* (In three volumes). Washington, D.C.: The World Bank.

________. 1992. *Philippines Capital Market Study* (In two volumes, Vol. 1: Main Report; Vol. 2: Contractual Savings Sector.) Washington, D.C.: The World Bank.

________. 1996. *A Strategy to Fight Poverty, Philippines*. Washington, D.C.: The World Bank.

Yap, J.T. and C.M. Reyes. 1994. Country Report on the Philippines. Paper presented at the 7th Workshop on Asian Economic Outlook, Asian Development Bank, Manila, 26-28 October.