

late 1980's, which were designed to accommodate investment requirements and several rounds of wage increases, contributed to an inflationary spiral. The annual rate of inflation which had remained below 9 percent until 1989, rose to close to 13 percent in 1990 and 18 percent in 1991. GDP growth which was 6.2 percent in 1988, and 6 percent in 1989, declined in 1991 to minus 0.1 percent. Imports which had increased at twice the pace of export growth in this same period, contributed to an unmanageable increase in the current account deficit. The Central Bank was constrained in supporting the peso, which steadily moved downwards against other major currencies.

Growth prospects for 1990 and 1991 were hindered by uncertainty about long term political stability, an increase in the government's budget deficit, higher interest rates (25 percent), rising inflation, and the increasing trade deficit. In addition to these factors, setbacks occurred as a result of the July 1990 earthquake, war in the Middle East, the eruption of Mt. Pinatubo, and the withdrawal of U.S. forces from two large military bases.

However, in 1991, the Government put in place a stabilization program to tackle budgetary and balance of payments deficits. While this undoubtedly contributed to the slightly negative growth rate in 1991, it brought inflation rates below 9 percent by March 1992, stabilized the peso, reduced interest rates to 21.1 percent and set the basis for more sustained growth through the 1990's. This is an important legacy for the next administration. Further improvements to the macro-economic policy environment and increased political stability represent important challenges for the new government, in place since July 1992, as it attempts to meet the broad objectives and strategies for economic and social development.

Even though agricultural output has been adversely affected by drought, typhoon damage and severe volcanic eruption, agriculture, forestry and fishing continue to be the largest contributors to GDP in the Philippines and account for 50 percent of total employment in the country. The industrial sector has however continued to steadily expand. In 1991 the manufacturing sector accounted for about one quarter of the GDP.