Title: Filipino Pipe and Foundry Corporation v. National Waterworks and Sewerage Authority

Facts:
The case originated from a contract entered on June 12, 1961, between Filipino Pipe and Foundry Corporation (FPFC) and the National Waterworks and Sewerage Authority (NAWASA) for FPFC to supply NAWASA with iron pipes worth P270,187.50. Despite partial payments totaling P134,680.00, NAWASA failed to pay the remaining balance. Consequently, FPFC filed a collection suit (Civil Case No. 66784) that, on November 23, 1967, resulted in a judgment ordering NAWASA to pay the unpaid balance plus interest. NAWASA, however, failed to comply with the judgment.

FPFC sought a motion in 1971 (Civil Case No. 82296) for an adjustment of the unpaid balance due to alleged extraordinary inflation, invoking Article 1250 of the New Civil Code. NAWASA's motion to dismiss, arguing that the case was barred by the 1967 decision, was denied by the trial court, citing the difference in causes of action between the two cases. FPFC presented evidence of inflation, arguing for an adjustment based on extraordinary inflation, which the trial court found insufficient to meet the threshold defined in Article 1250. The case was escalated to the Supreme Court after the Court of Appeals recognized it involved the interpretation of legal principles.

Issues:
The primary legal issue before the Supreme Court was whether the continuously spiraling price index presented by FPFC constituted extraordinary inflation, justifying an adjustment of NAWASA's unpaid judgment obligation based on Article 1250 of the New Civil Code.

Court's Decision:
The Supreme Court affirmed the trial court's decision entirely, finding that while FPFC demonstrated a decline in the purchasing power of the Philippine peso, this decline did not constitute "extraordinary inflation" as contemplated by Article 1250 of the Civil Code. The Court maintained that the situation illustrated by FPFC was part of a global trend rather than an extraordinary circumstance unforeseen by the parties at the time of contract.

Doctrine:
This case reiterates the doctrine that for inflation to be considered "extraordinary" within the meaning of Article 1250 of the New Civil Code, it must be unusual or beyond common fluctuations in currency value, to the extent that it could not have been reasonably foreseen

or was beyond contemplation at the time of obligation establishment. The Court relies on definitions and historical examples to underscore the severity required to constitute extraordinary inflation.

Class Notes:
– **Article 1250 of the New Civil Code** stipulates the adjustment of obligations based on the value of the currency at the time of the obligation's establishment in cases of extraordinary inflation or deflation, barring any contrary agreement.
– **Extraordinary Inflation** requires a severe, unpredictable deviation in currency value, beyond normal market fluctuations, impacting the obligation's value.
– **Doctrine Application**: This case demonstrates the court's reliance on economic history and trends to gauge the "extraordinary" nature of inflation, using rigorous standards to avoid setting precedents for frequent contractual adjustments based on economic fluctuations.
– **Evidence of Inflation**: Presenting evidence of inflation requires not just showing a decrease in purchasing power but linking such decrease to conditions unforeseeable and significantly beyond normal economic trends at the time of the contract.

Historical Background:
This case reflects the judicial approach to economic phenomena like inflation within the Philippine legal context, showcasing the courts' cautious application of legal provisions designed to address economic uncertainty. The decision aligns with the intention behind Article 1250 to provide relief in truly exceptional circumstances, avoiding the trivialization of "extraordinary inflation" in contractual adjustments.