

**UNDER CLOSE CB SUPERVISION**

# Year may end profitably for financial sector

Monetary measures geared to dampen inflation without curtailing the momentum of the economy may still assure a profitable year for financial institutions on the whole.

The banks are projected to register considerable growth this year as a result of the capital build-up program designed to increase aggregate resources of the commercial banking system.

Likewise, monetary reforms placing the financial system under the direct supervision of the Central Bank may contribute significantly to the redirection of credit to priority areas.

Monetary policies during the first six months of 1975 were aimed at providing the required financial support to food production and export oriented industries and other

commercial banks amounted to more than \$50 million. The foreign equity component was 64 per cent American, 16 per cent Canadian, 14 per cent Japanese and six per cent British.

There are four local branches of foreign banks in the country, two of which are American and the two others British.

Among investment houses, which are permitted by law to accept foreign equity participation up to 49 per cent of the voting stock, a number of foreign institutions have made equity placements. These aggregate investments are worth about \$20 million, and are divided into 50 per cent American, 23 per cent Japanese, 7.5 per cent British, 2.5 per cent German and 16.5 per cent other nationalities.

government banks, with about P8,411 million, specialized government non-bank entities contributing P6,748 million.

For the whole year, the entire financial system is estimated to expand its resources to about P80 billion.

According to Secretary of Finance Cesar Virata, the program for increased bank capitalization will be completed by the end of September. This is intended to raise the capitalization of the commercial banking system to more than P3 billion, an amount adequate enough to support levels of credit needed for targeted business growth.

Moreover, an increase in new equity investment outlets for commercial, savings and development banks is expected before the end of

the year. The guidelines allow investments of commercial banks, savings banks and development banks in the capitalization of allied business undertakings like warehousing, storage, leasing, safety deposit boxes and companies engaged in the management of mutual funds.

**Optimism**

Most bankers predict that 1975 might be more profitable than last year. Money market rates were at relatively lower levels during the first half of 1975 allowing bigger spreads and increased lendings during the period.

The government's issuance of Central Bank Certificates of Indebtedness is intended to siphon funds from urban centers and into the rural areas. Although CBCIs are

used to boost food production and small industries, some time is required before they ultimately enter the credit stream. This time lag results in a temporary credit tightness.

As of August 1975, the Central Bank reported that CBCI Series A-3, worth P200 million, had already been sold out. The sale brings the total gross sales of CBCIs to P5.5 billion.

In the early part of the year, some tightness in credit was also felt as most banks adjusted their lending portfolios to comply with the 25 per cent agricultural loan requirement.

This was, however, relieved by Presidential Decree No. 717 which liberalized the definition of allowable agricultural lending.

Also, the Central Bank allowed the rediscounting of

agricultural loans under the supervised credit up to 100 per cent at an interest rate of only one per cent per year. Rediscounted loans not under supervised credit are entitled to a loan value of not more than 80 per cent at an interest rate of five per cent per year.

More credit is expected to flow into the economic mainstream this year. Domestic credits of the monetary system are projected to expand at a moderate growth rate of 17 per cent. From a level of P30,919.8 million in December, 1974, domestic credits of the Central Bank and the commercial banking system are projected to reach P36,198 million by the end of the year. In 1974 the growth rate was 36 per cent.

(Continued on page 13)

**DOMESTIC CREDITS OF CENTRAL BANK AND THE COMMERCIAL BANKING SYSTEM**

	1974	1975
January	22,291.1	31,065.1
February	22,576.9	32,206.7
March	23,663.4	32,425.2
April	24,401.9	32,459.3
May	25,120.2	32,566.8
June	26,226.1	33,471.6
July	28,087.7	33,858.7*
August	28,820.8	34,438.6*
September	29,287.5	34,678.5*
October	29,687.1	35,318.4*
November	30,037.4	35,758.3*
December	30,919.8	36,198.2*

Source: CB  
\* projections 1975

economic activities so that they could fit into the country's over-all development goals.

Thrift banks were given access to the credit facilities of the Central Bank and rediscounting facilities for rural banks were liberalized. In the first semester of 1975, the Central Bank also restated the policy of roping off the Greater Manila area from quasi-banking activities by branches, extension offices and/or agencies of non-bank financial intermediaries. It also issued additional guidelines governing inter-bank call loan activities of commercial banks.

Amendments to the Central Bank charter and the General Banking Act were promulgated to put the financial system in order. Consolidation and mergers of banks were encouraged.

Banks were induced to diffuse their ownership by requiring a minimum P100 million capitalization for commercial banks. By end of September this year, which is the deadline for this CB requirement, it is expected that all commercial banks would have complied. As of June 30, already 15 commercial banks had raised their capitalization; and three more banks were working at it, either through consolidation or by accepting foreign equity.

Financing companies have likewise realized the need for inviting foreign partners to expand their equity base and permit themselves to be competitive in terms of service offered and technical know-how. The Philippine Financing Company Act allows financing firms 40 per cent foreign equity. At present six financing companies have foreign equity purely from US sources.

Insurance companies were also required to increase their capitalization to at least P2 million. No new insurance firms have been issued licenses since the requirement to increase the capital base of existing companies was enforced.

Domestic reinsurance is being encouraged especially for domestic risk to save on foreign exchange. As of March 1975, total resources of the insurance system amounted to P3,446 million, an increase of three per cent from the December 1974 level of P3,346 million. For 1975, total resources of the insurance system are expected to reach a level of P3,500 million. An increase in the total premiums earned by insurance companies is also anticipated because of the compulsory motor vehicle liability insurance which has been introduced as a social legislation under the new insurance code.

**Total resources**

As of March 1975 total resources of the financial system amounted to P78,041 million with the bulk of P49,298, or 63 per cent accounted for by the banking system. The non-bank sector accounted for P13,584 million, or 17 per cent. The rest was accounted for by the

**Foreign equity**

To attract foreign capital, commercial banks were allowed to bring in a maximum of 40 per cent of their equity from foreign sources. As of the first semester of the year, aggregate equity investments of nine reporting

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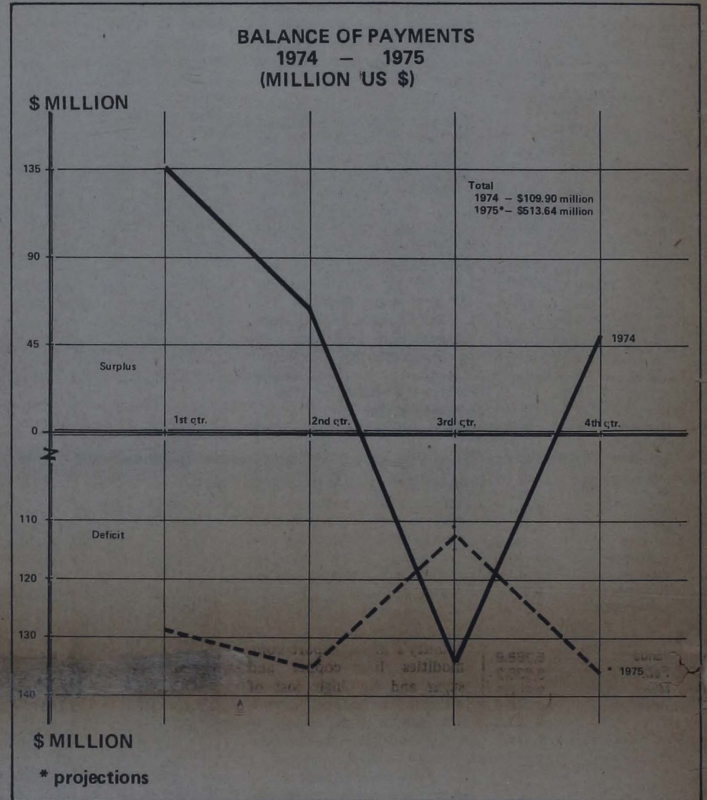
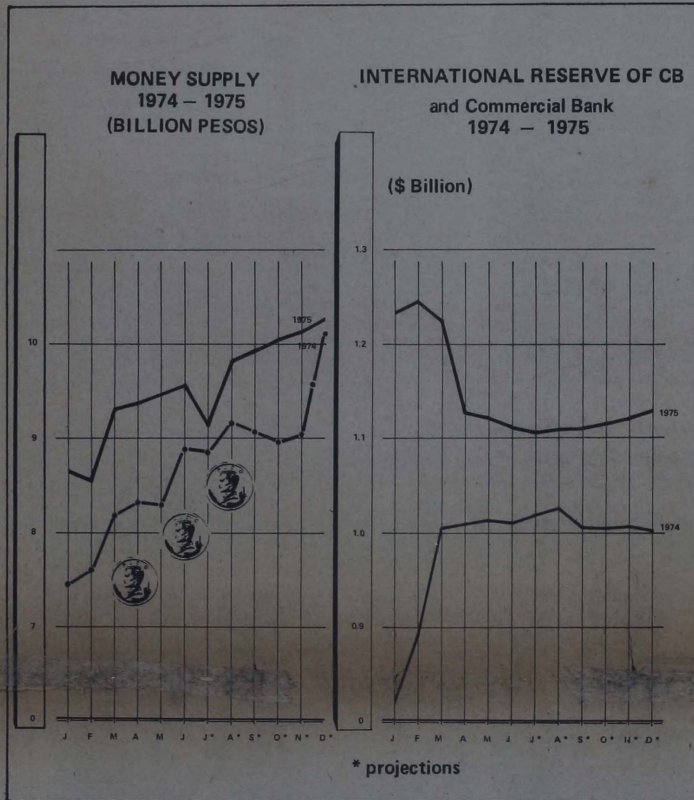
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**The major growth area will be the commercial banking system as a result of the capital build-up rule aimed at increasing the sector's resources.**



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**BALANCE OF PAYMENTS**  
1974 - 1975  
(Million US \$)

1974	
1st quarter	135.04
2nd quarter	63.26
3rd quarter	134.58
4th quarter	46.15
Total	109.90
1975	
1st quarter	128.69
2nd quarter	135.25
3rd quarter *	113.85
4th quarter *	135.85
Total	513.64

\* Projections  
Source: CB

**MONEY SUPPLY**  
1973 - 1975  
(million pesos)

1973	
January	6,488.1
February	6,633.0
March	7,115.5
April	7,115.3
May	6,918.3
June	7,100.7
July	7,121.5
August	7,111.2
September	7,406.1
October	7,203.0
November	7,258.0
December	8,152.5
1974	
January	7,524.8
February	7,766.9
March	8,297.6
April	8,471.8
May	8,447.8
June	8,958.7
July	8,923.2
August	9,244.8
September	9,149.0
October	8,994.5
November	9,107.4
December	10,220.1
1975	
January	8,788.9
February	8,636.2
March	9,348.1
April	9,499.6
May	9,527.6
June	8,606.9
July	9,238.2
August *	8,886.5
September *	9,974.6
October *	10,062.7
November *	10,150.8
December *	10,238.9

\* Projections  
Source: CB

**INTERNATIONAL RESERVE**  
(Million US Dollars)

1973	
January	327.31
February	400.49
March	462.37
April	517.27
May	600.25
June	648.66
July	680.36
August	748.77
September	752.46
October	749.97
November	787.52
December	875.96
1974	
January	921.30
February	999.13
March	1,013.74
April	1,100.48
May	1,192.72
June	1,188.95
July	1,194.59
August	1,205.58
September	1,147.88
October	1,121.01
November	1,179.45
December	1,165.48
1975	
January	1,250.79
February	1,294.03
March	1,223.99
April	1,178.76
May	1,161.12
June	1,128.52
July *	1,192.57
August *	1,193.27
September *	1,193.97
October *	1,194.67
November *	1,195.37
December *	1,196.07

Source: CB  
\* Projections

(Continued from page 11)  
A major factor that could expand domestic credits is a projected 19 per cent rise in the credits of the commercial banking system — P31,033.9 million by December 1975 as compared to the actual December 1974 level of P26,178 million. This will comprise 87 per cent of domestic credits extended by the monetary system while the rest will be comprised of credits of the Central Bank. Domestic credits of the Central Bank are similarly expected to amount to P5,164.3 million by the end of the year, nine per cent higher than the December 1974 total of P4,741.8 million.

The growth in the domestic credits of the monetary system is somewhat below the increasing demands of business which needs more funds to operate at the same level as last year. The substantial increase in credits will be partly deflated by projected inflation rate of 7.3 per cent for 1975.

**Money supply**  
By the end of 1975, money supply is expected to increase to P10,238.9 million, .19 per cent higher than the end-1974 level of P10,220 and 16 per cent more than the June 1975 level of P8,788.9 million.

Mainly responsible for the moderate expansion of the money supply is the net surplus in external transactions and increased transactions of the Central Bank and the commercial banking system during the year.

The downtrend in the world prices of some of the country's major export commodities like copper and sugar and the high cost of oil and raw material imports are expected to result in lower foreign exchange revenues in 1975.

International reserves of the Central Bank and the foreign exchange holdings of commercial banks are estimated to reach \$1,196 million by the end of 1975. This is a 2.7 per cent increment from the 1974 yearend level of \$1,165 million and will exceed the June 1975 level by about 5.9 per cent.

The movement of international reserves during the first quarter of 1975 was generally uphill with the peak level posted at \$1,294.03 million in February. By April, however, the international reserves executed a turnaround and reversed the trend. It was only in June that the reserves started to inch back to \$1,192 million. The reserves are estimated to climb up on a moderate scale until the end of the year.

**Money market**  
Short-term money market rates are expected to move further upwards towards the end of the year as demand for money usually shoots upwards in December.

As of the first week of September, a tight money situation triggered off by the Central Bank's issuance of P200 million worth of CBCIs and the speculation that oil remittances may carry on for three weeks sent rates spiraling to abnormal heights.

These are expected to even go higher as the CB's rediscounting windows face demands of the Christmas import season.

**The stock market**  
The stock market is expected to react negatively to the new government policy imposing — from January 1, 1976 — a graduated tax on

capital gains in addition to the one-fourth of one per cent tax on stock transactions.

The new policy, which was announced during the last week of August, stunned the stock market which had enjoyed tax-less capital gains in the last five years. This sent prices falling sharply. Some shares recorded their lowest levels yet in two years.

There is still some confusion on the interpretation of the presidential decree.

Falling prices were further aggravated by gloomy prospects for copper and gold on the world market and the possibility of another oil increase by next month.

To a certain extent, the new capital gains tax is hoped to be acceptable to investors. This tax will be treated as a separate form of

taxation and will not be lumped with either corporate or individual income tax returns.

**Balance of payments**  
The external sector in 1975 is projected to encounter a total deficit of about \$514.7 million.

The estimated deficit, in the balance of payments position of the Philippines in 1975 is a reversal of the \$109.9 million surplus achieved by the country in 1974.

The main drawback in external transactions for 1975 will be the dramatic decline in the balance of trade as a result of the shortfalls in world demand for and prices of leading Philippine export products notably, logs and lumber, copper ore and concentrates, coconut oil and other coconut products. A trade deficit of \$876 million is projected for the year with total exports declining by 14.9 per cent and total imports growing by 2.6 per

cent compared to last year's performance.

Central Bank figures show that in the first six months of 1975, current transactions recorded an outflow of \$119.1 million. This was a result of the inability of the non-merchandise trade inflow of P309.7 million to offset the merchandise trade deficit of \$428.8 million.

Although there was a long-term capital inflow of \$21 million during the first

(Continued on page 14)

**TOTAL LOANS GRANTED TO THE AGRICULTURAL SECTOR — BANKING SYSTEM**  
(in million pesos)

	Commercial Banks	Rural Banks	Development Banks	Savings Banks	Total
1970	2,194.5	496.6	64.8	1.4	2,757.3
1971	2,513.5	609.6	61.4	.4	3,184.9
1972	2,551.2	708.5	100.0	1.8	3,361.5
1973	2,827.9	976.8	100.1	.5	3,965.3
1974	3,261.2	1,669.5	255.6	3.0	5,189.3
1975*	3,404.0	1,706.1	301.6	3.7	5,415.4

\* Projected

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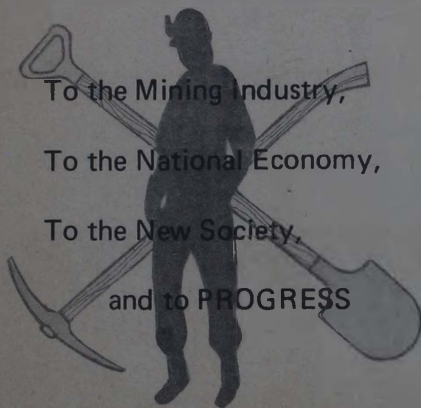
(Continued from page 13) six months of 1975, the short-term capital outflow of \$173 million further pulled down the overall deficit in the external sector during the same period to \$264.5 million.

In expectation of the projected decline in trade, the Central Bank's net compensatory borrowings for the period from January to June

1975 reached \$228.3 million, representing an increase of 99 per cent from the \$114.5 net borrowings of the Central Bank for the same period.

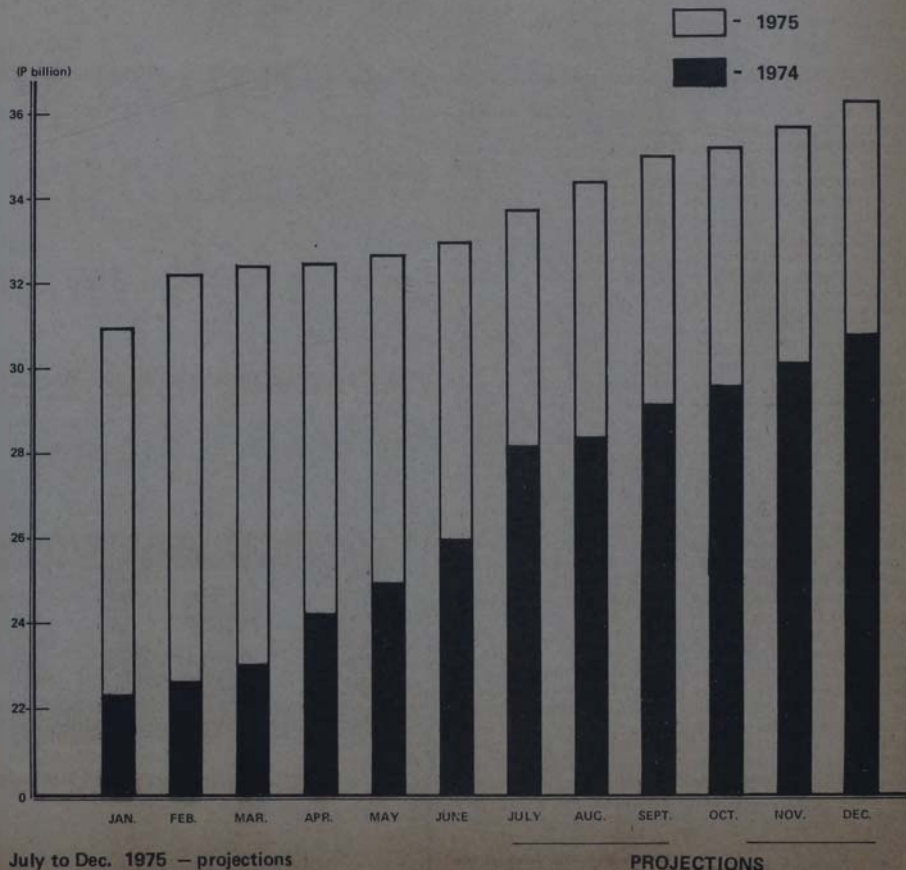
The foreign exchange rate during the first semester of 1975 averaged at P7.033 per US dollar. However, the foreign exchange rate started to climb in July levelling at P7.50 in August.

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**DOMESTIC CREDITS OF THE CENTRAL BANK AND THE COMMERCIAL BANKING SYSTEM 1974 - 1975**



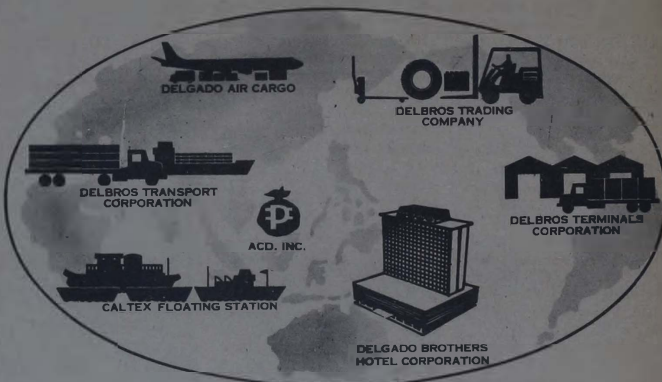
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