

THE ECONOMY □ Gov. Gregorio S. Licasos

# A solid basis for optimism

FOR the Philippine economy, the first six months of 1976 was a period marked by both progress in many areas and continued difficulty in others. While the external sector showed a deficit, favorable developments were noted in the domestic sector, particularly in production. The latter indicated the impact of the government's self-reliant policy, reflected in the stimulation of local economic activity in the face of adverse world conditions. Heightened productive activity in turn triggered off favorable impulses in related sectors, notably employment. Although domestic resources were used in such undertakings, foreign assistance was also important.

## OVERVIEW

**S**IGNIFICANT developments during the first six months of 1976 were:

1. Foreign exchange transactions ended in an overall deficit of US\$173 million due to a heavier trade shortfall of \$543 million. The overall deficit was, however, \$91 million smaller than the deficit in the same period last year as some improvement was registered, notably in the capital account.

2. The foreign exchange rate exhibited generally strong behavior and averaged P7.451 per US dollar in the six months ending June, reflecting a slight appreciation from July-December 1975 but a depreciation from the first half of the same year. Notwithstanding the foreign exchange deficit, relative strength was observed in the value of the peso due to, among others, the country's good credit image abroad, adequacy of Central Bank standby credit lines for foreign payments financing and the recent oil find off Palawan island.

3. The external debt amounted to \$4,505 million as of June 30, 1976, showing an increase of 18.2 percent over the level in December 1975. The major portion of the transactions during the semester involved revolving credits but the outstanding amount in June was composed largely of fixed-term loans. Accounting for the largest share in total debt was the private sector.

4. The national government's cash operations ended in a deficit of P354 million in contrast to a surplus of P1,040 million in the first semester of 1975. As of June 30 this year, the government's cash position was P7,458 million, up by 5.0 percent from the level at the beginning of the year as a result of net borrowings of P707 million.

5. Money supply reached an estimated P10,740 million by the end of June, greater by 4.1 percent than the end-1975 level and 11.8 percent on an annual basis. The growth in money stock, together with the expansion in quasi money (savings and time deposits and deposit substitutes) led to 9.0 percent semestral and 23.0 percent annual increases in domestic liquidity to P31,480 million.

6. Outstanding domestic credits were estimated at P39,200 million, 42.6 percent higher than a year ago and 13.1 percent more than the end-1975 level. The greater portion of the credits was made to the public sector with commercial banks accounting for most of it. Despite the increase in credits, liquidity grew at a slower pace due to the compensating effect of the external deficit and the selective mop-up operations of the Central Bank.

7. Partly reflecting the impact of the new circulars on interest rates, money market transactions were at generally lower rates whose average fell below the averages registered in January-June and July-December 1975. Meanwhile, the stock market showed bullish behavior, with both volume and value of transactions rising phenomenally in the Manila Stock Exchange.

8. Expansion was registered in domestic production, with the manufactur-

ing sector recovering from negative growth last year to moderate advance in 1976 and agriculture increasing at a faster rate. Allied to this, the employment index showed improvement in contrast to a decline in 1975.

9. Inflation in Manila continued to be at single-digit rates although there was strong upward pressure in May and June due to the effects of the typhoons during these months, the increase in land transportation fares, the hike in the minimum wage and the upward adjustment in the controlled prices of rice and corn. The rate of price rises was 9.3 percent in June compared to 8.0 percent a year ago. Nevertheless, the average for the semester was still well below that in the first half of 1975.

## FOREIGN EXCHANGE

**M**ERCHANDISE trade transactions during the first six months of 1976 ended in a deficit of \$543 million, 19.9 percent higher than the shortfall in January-June 1975. Although imports declined by 7.0 percent to \$1,544 million—indicating the effectiveness of efforts to reduce them—exports went down at a faster rate. The 17.1-percent drop in the latter to \$1,001 million was the offshoot mainly of the sharp fall in sugar earnings and decreases in receipts from iron ore, logs and lumber.

Nonmerchandise trade and transfers registered net receipts of \$59 million and \$100 million, respectively. Behind the decline of 67.9 percent in the former were smaller earnings from services, interest income and tourism. Meanwhile, the decrease in the donations and contributions account led to lower transfer inflows.

Capital transactions revealed considerable improvement during the period. Net inflows of long-term capital amounted to \$169 million, more than four

times the comparable figure in 1975, brought about by greater loan availments by the private sector, particularly some major firms engaged in manufacturing, mining and services. In short-term capital, inflows netted \$37 million, compared to an outflow of \$168 million in 1975.

In sum, foreign exchange transactions in January-June 1976 reflected an overall deficit of \$173 million, down by 34.5 percent from the shortfall in the same period last year. To finance this deficit, the Central Bank had to avail itself of compensatory borrowings which netted \$227 million and simultaneously permitted a \$54 million rise in the international reserve. At \$1,143 million, the reserve was 5.0 percent and 1.2 percent higher than the December 1975 and June 1975 levels, respectively.

Meanwhile, the foreign exchange rate averaged P7.451 per US dollar, reflecting an appreciation from the second half of 1975 but a depreciation from the first half of the same year. The relative strength of the peso—the exchange rate continuously appreciating except in June—could be traced to a number of factors with the credit-worthy image of the Philippines abroad and the oil find off Palawan island.

## EXTERNAL DEBT

**T**HE country's total external debt amounted to \$4,505 million as of end-June 1976, higher by 18.2 percent than the outstanding amount in December last year. At \$1,591 million, availments during the semester were made up mostly of revolving credits (62.5 percent) with fixed term credits accounting for only 37.5 percent. Meanwhile, repayments totalled \$1,001 million and together with some adjustments, brought about an increase of \$695 million in foreign debt.

## MONETARY POLICY

**T**HE underlying thrust of monetary policy during the first semester of the year was the further strengthening of the foundation of the nation's financial system. During the first quarter, it would be recalled that circulars on interest rates were promulgated to encourage long-term deposits and investments as well as to narrow down the spread between regular bank deposits/credits and money market rates. Also issued were regulations pertaining to the issuance and negotiation of commercial paper by banks and non-banks and additional guidelines so designed as to improve the operations of the thrift and rural banking system as well as non-bank financial intermediaries.

Circulars and memoranda issued during the second quarter were drawn up along the lines of the policy adopted earlier. The reserve position of banks was strengthened through revised penalties for chronic reserve deficiencies as a way to protect depositors via a more stable banking system. Regulations were also effected regarding the minimum size and maturity of deposit substitutes with a view to permitting only big investors to deal in these instruments. To further boost food production in the countryside and to provide some measure of relief to those adversely affected by the May and June typhoons, rural banks were afforded a special restructuring scheme for their past due obligations with the Central Bank pertaining to their loans under Masagana 99, Masaganang Maisan, livestock, poultry.

Money supply reached an estimated P10,740 million on June 30, 1976, reflecting an increase of 4.1 percent over the end-1975 level and 11.8 percent on an annual basis. The increase originated exclusively from the rise in internally-generated money, as unpropitious foreign developments continued to siphon off money. As to component, the growth in the money stock from six months ago was accounted for by the rise in currency in circulation (6.8 percent) and in peso demand deposits (1.8 percent).

Peso demand deposits made up 52.8 percent of the money supply with the balance of 47.2 percent being attributed to currency in circulation. The comparative breakdown at end-1975 was 54.0 percent and 46.0 percent, respectively.

The expansion in money supply, together with the growth in quasi-money (savings and time deposits and deposit substitutes) pushed domestic liquidity up to an estimated P31,480 million as of June 30, 1976. This level was higher by 9.0 percent than that in December 1975 and 23.0 percent than that a year earlier. Of total liquidity, money supply made up 34.1 percent and quasi-money, which totalled P20,740 million, accounted for 65.9 percent. Savings and time deposits amounted to P10,336 million and deposit substitutes, P10,404 million.

Domestic credits outstanding of the monetary system were estimated at P39,200 million in June 1976, up by 42.6 percent from a year earlier and 13.1 percent from the end-1975 level. The increment from six months ago was brought about by greater availments of the public sector which pursued infrastructure development and other high priority activities, mainly of the Philippine Exchange Corporation, the National Grains Authority as well as the National Shipbuilding and Shipyard Corporation. Credits to this sector increased by P2,366 million to P8,538 million. In the case of private borrowers, credits attributable to them rose by a slightly lower amount (P2,160 million to P30,662 million). The growth in credits outpaced that in domestic liquidity due principally to the drain arising from the external deficit and the selective mop-up operations of the Central Bank.

As to source, the commercial banking system accounted for 87.8 percent or P34,410 million of aggregate outstanding credits and the Central Bank, P4,790 million or 12.2 percent.

## FOREIGN EXCHANGE RECEIPTS AND DISBURSEMENTS

January — June 1975 and 1976  
(Million US Dollars)

	1976 <sup>1</sup>	1975
<b>A. Current Transactions</b>		
Merchandise Trade—Net	543	453
Exports	1,001	1,207
Imports	1,544	1,660
Non-Merchandise Trade	184	184
Receipts	491	491
Disbursements	307	307
Transfers	118	118
	119	119
	1	1
	151	151
<b>B. Non-Current Transactions</b>		
Net Long-Term Capital	169	40
Net Short-Term Capital	216	216
Shareholdings	176	176
Shareholdings	168	168
Shareholdings	43	43
Shareholdings	211	211
Shareholdings	15	15
Shareholdings	113	113
<b>C. Overall</b>	264	264
<b>D. Monetary Control</b>		
Central Bank Operations	227	228
Availments	693	558
Payments	466	330
Increase (Decrease) in International Reserve	54	36

<sup>1</sup>Includes US Government expenditures.

<sup>2</sup>Excluding transactions pertaining to Central Bank foreign loans.

<sup>3</sup>Preliminary.

