The peso embattled no more

Floating, shrinking, sinking. These were among the adjectives used to describe the embattled Philippine peso three years ago. The economy was then in the grip of a crisis, the foreign exchange deficit amounted to $69 million and the International Monetary Fund categorized it as a third credit tranche, meaning a bad debtor.

Today, three years after the Central Bank adopted the floating rate of exchange, the crisis has somewhat eased up, enough to make CB officials declare that "due to substantial strengthening in the country's external financial position, the Philippines must repay certain IMF obligations in a repurchase obligation with the Fund, which will upgrade the country from the third to the second credit tranche position. This will enhance the country's standing with the Fund as well as other international creditors."

However, shortly after the CB submitted its report to President Marcos, the United States again devalued the dollar by 10 percent, causing losses to the Philippines and other countries whose currencies are pegged to the US dollar.

The Central Bank says the Philippines will incur losses through service of external debts to the tune of $11 million this year, $2.7 million in 1974, $5.4 million in 1975 and negligible losses thereafter. The difference is the result of the staggered system of payment for loans abroad.

But they are optimistic that these and other losses from the dollar devaluation will be offset by some $10 million in foreign currency assets and gold holdings in the US totalling $70.76 million. Government officials are also expecting an increase in tourism and export volumes to Japan and European countries.

In its report to the President, CB Governor Gregorio Licaros predicted an overall surplus in foreign exchange transactions this year. He reports that "January 1973 resulted in overall surplus of $34 million compared with the $29 million deficit in January 1972. Exports were up by 29 percent; invisibles, including tourism, by 28 percent. Imports and other disbursements, in contrast, were down.

"For the whole year 1973, exports are expected to surpass 1972 levels by at least 5 percent barring extraordinary adverse developments locally and internationally. Imports are expected to increase by 10 percent .... On the overall, despite the price situation, a foreign exchange surplus is foreseen for 1973."

In the case of the country's international reserves, Mr. Licaros notes that this stood at $137 million when the floating rate system was adopted on Feb. 20, 1970. By Feb. 7, 1973, it had risen to $359 million, registering an increase of $222 million.

This improvement in the international reserves was reflected in the marked increase in CB reserves from $121 million to $624 million. But the rise in CB reserves was partly offset by the reversal in the net foreign exchange position of commercial banks from a positive $16 million to a negative $265 million as $264 million worth of foreign currency deposits was transferred to the CB. The foreign currency deposit system, started in Sept. 1970, amounted to $386 million as of Feb. 7, 1973.

These developments, the CB says, upped the CB working fund from a measly $1 million in 1970 to $409 million last month. "Moreover, about $150 million in standby credits from foreign commercial banks will be available, which are in addition to the $10 million SDR's not yet utilized due to our ability to operate within our current foreign exchange earnings since November of last year."

When the floating rate was implemented, the interbank peso-dollar rate stood at P5,628 to $1 from the pre-floating rate of P3.919. It dipped slightly in May 1970 after passage by the defunct Congress of the export tax, rose to P6.435 per US dollar by the end of September 1970 and remained on that level until July 1971. When the foreign exchange trading center was reactivated in August 1971, in which the CB intervened on the supply side on a limited scale, the exchange rate improved slightly to P6.424 and P6.412 in August and September. It fluctuated narrowly around P6.433 from October to December 1971, stabilizing at P6.435 until March 1972.

When the Smithsonian Agreement was forged in December, 1971, after the first devaluation of the dollar, greater flexibility was introduced in the exchange rate. In April 1972, the interbank rate depreciated from P6.435 to P6.582, but rose to P6.7814 by October, 1972. This rate remained virtually unchanged at P6.7806 from November, 1972 to January 1973, but moved down slightly to P6.7775 by Feb. 7, 1973.

The new Central Bank building: symbol of monetary stability.

The new devaluation of the dollar, in the view of some private fiscal experts, may or may not seriously affect the interbank exchange rates as regards the peso. If it remains at present levels, the Philippines will not experience any losses in the service of loans from the United States. However, losses will be felt in the payment of loans from Japan ($436 million) and Germany ($145.4 million). Because of the revaluation of the Japanese yen and the German mark upwards, the country will have to shell out more dollars to repay these loans.

Government trade experts see a shift in export volume to Japan and Europe where the price of Philippine products, often quoted in dollars, will be cheaper. On the other hand, the country may have to import more from the United States, where prices remain the same than Japan and European countries.

Everybody is agreed that the biggest positive effect of the dollar devaluation on the Philippines will be in the field of tourism. American tourists, for instance, are expected to shy away from Japan and Europe, where they will be getting less for their dollars. The Japanese and European tourists will also find it less expensive to visit the Philippines. The Japanese traveler, for instance, now needs only 270 instead of 330 yen to buy a dollar, while the German traveler will need 2.80 marks for one dollar instead of 3.10 marks previously.

In the view of monetary officials, the effects of the dollar devaluation on domestically produced goods will be minimal during the next few months. A slight increase, though, may be registered in the prices of goods processed from imported raw materials such as flour, steel, textile and some food items.

The dollar devaluation also has revived a question that has been asked more than once in some circles in the Philippines. While the peso has been allowed to float, its fate remains pegged to that of the dollar because dollars make up most of the country's international reserves. The question is whether the Philippines should continue to peg its currency to the dollar or adopt a multiple reserve to include such other currencies as the yen and the mark.

PHILIPPINE EXPORTS

The upward swing

Philippine exports, which started registering marked increases in the last quarter of 1972, are continuing their upward swing this year.

For the month of February, exports totalled $120,791,088.75 — higher by $12,330,383.70 than the $108,460,705.05 of the previous month.

According to Customs Commissioner Rolando Geotina, the export value receipts for February also registered a 22.4 percent increase over the receipts for the same period last year.

Only last month, the Department of Trade and Tourism reported that the country's principal exports in 1972 made remarkable increases, some of them by as much as 177.42 percent.

Exports suffered a setback during the early part of that year, but this was offset by the gains made in the last months of 1972. The gains were attributed to the favorable conditions brought about by the sweeping reforms that came with Proclamation 1081.

The top 10 export products mainly accounted for the increase in the country's total export receipts for 1972 from P5.7 billion to P6.2 billion.

Of the exports for February this year, provincial exports topped the loadings with $103,485,063.48; followed by Manila with $12,546,800.75 and by the BOI-certified export with $4,759,224.70.

Compared to February 1972 export values, provincial exports for February 1973 increased by 21 percent, Manila exports by .7 percent and BOI-certified exports by a whooping 530 percent.

Sugar, because of the country's quota in the United States, was the No. 1 export in February with an export value of $24,160,230.37. Following were logs with $16,865,573.06; minerals, $13,716,220.66; copra, $13,364,635; bananas, $7,029,398.08; coconut oil, $6,125,209.22; pineapples, $5,491,106.30; molasses, $2,439,847.17; native crafts, $1,509,657.77; and abaca, $1,107,273.90.

The export picture continues to brighten in March. The country shipped last week to the USSR 18,000 long tons of copra valued at $4.5 million. This comprised the biggest export to Soviet Russia since the Philippines started commercial and industrial relations with communist and socialist countries. The first shipment of copra to the Soviet Union consisted of only 5,000 metric tons valued at $732,500.

Valued at $24,403,397, the Philippine exports so far to communist and socialist countries have surpassed total imports of $20,116,105.26.

Several government agencies assisted in the speedy shipment of the commodities. Among these were the Department of Trade and Tourism, which had the final say in the exportation, the Department of Foreign Affairs, the Central Bank, and the Bureau of Customs.

A local import-export firm, Granexport Corp., handled the exportation through Tradax Internacional S.A. Panama, of Tradax Geneve, SA, 8 Avenue Calas, Geneva, Switzerland.

Aside from copra, other Philippine exports to communist and socialist countries consist of Portland cement, plywood and veneer, crude coconut oil in bulk, desiccated coconut, copra and woodenware.