

THE ECONOMY □ Gov. Gregorio S. Licaros

Financing for equitable growth

THE problems that have faced the Philippine economy have been many and difficult. The setting of inflation and recession that has gripped the world economy is a matter of record. The economy still feels the lingering effects of these international developments. Over the past three years, we have experienced high costs, particularly of oil and petroleum-based products, lower economic activity, depressed commodity markets, employment and balance of trade difficulties. We also face today the problems of rehabilitation occasioned by the recent devastation of Typhoon "Didang."

It is characteristic of the Filipino that in every problem he identifies a challenge, and with every challenge an opportunity. The record of the Philippines is known as being among the most outstanding in the Third World, in terms of overall economic performance and adjustment to world adversities of the past three years.

Under the leadership of President Marcos, we have consolidated our relationships in Southeast Asia. We have made new friends overseas among fellow developing nations, and among the Socialist countries. Trade contacts with the Middle East have been aggressively pursued.



Credit flows to countryside.

CB Responsibilities. The role of the Central Bank is primarily in the determination and implementation of monetary and banking policy. Its primary objectives and the maintenance of internal and external monetary stability, the preservation of the international value of the peso, and in general to contribute towards a balanced and sustained growth of the economy.

Keeping these broad responsibilities in mind, it is clear that the mix of credit availability and national financing must be finely regulated to ensure a balance, on the one hand, between the desire of private industry to have full financing for its projects, and, on the other, to ensure that the volume of domestic credit is not translated into excessive import demand and inflationary pressure.

Credit ease is oftentimes inconsistent with economic progress. Finance has no easy solutions. Unfortunately, it is susceptible to simple generalizations. Suggestions are legion on reducing or increasing interest rates, increasing the supply of credit, restructuring loans for certain areas, opening rediscount windows, changing the peso rate.

The basic problem of monetary authorities is not the evaluation of the various prescriptions. It is to strike a balance among the conflicting objectives and, more importantly, ensuring that the final credit decisions contribute towards increased productivity.

Rural Credit. The Central Bank has gone out of its way to give total support to the food production program, to agrarian reform, to rural credit in general. The issuance of Central Bank Certificates

of Indebtedness has been so designed as to channel funds from urban savers to investors in the countryside, specifically the small rice and corn farmers.

This is in due recognition of the importance of the countryside as the main venue of development. This is in recognition of the small farmer as a major foundation of Philippine society. This is in support of the national program of land reform.

The same thinking has constituted the basis for expanded effort in the financing of small- and medium-scale industries, particularly those located in the rural areas.

Export financing has also received high priority, cognizant of the need to meet Balance of Trade objectives. To illustrate the magnitude of the financing for this purpose, a total of P1.8 billion in loans has been directed to various export activities during the first quarter of 1976. The major beneficiaries of this financing have been the commercial crops sector, including sugar, coconut, tobacco, abaca, copper and chrome.

Major amounts of credit has flowed to government, to finance the national infrastructure and capital program. Projects in irrigation power, housing, health, education, roads, have been developed as direct contributions to the well being of our countrymen and as contributions to the strengthening of economic foundations.

We have defended the international value of the peso, which has actually shown an improvement during the past year vis-a-vis the dollar. This is certainly a far better record than many of the currencies of the Third World and even of many developed countries.

Dollar Ledger. Our balance of payments, after registering overall surpluses of US\$665 million in 1973 and \$110 million in 1974, abruptly reverted into a deficit of \$521 million in 1975. This development was the offshoot principally of adverse external conditions, most notably those relating to trade. Weak commodity markets due chiefly to the slowdown in world economic activity gave rise to substantially lower exports—a circumstance which was aggravated by necessary growth in imports. In 1975, the country's foreign trade balance was negative at \$1,197 million. This could not be fully offset by favorable balances in capital and other invisible accounts.

To finance the resulting overall payments deficit without resorting to a considerable drawdown in the international reserve, compensatory borrowings were availed of from a number of sources abroad. These compensatory operations, far from being unnecessary means of enhancing the international reserve, have on the contrary embodied a form of responsive external financing under unpropitious balance of payments developments, proving once again that the credit standing of the Philippines remains vigorous in the face of adverse conditions.

The existing international reserve level of over a billion U.S. dollars has been maintained consistent with national policy objectives. These objectives are in turn grounded on the capacity to support economic activity domestically. As we cannot follow national policies that dampen growth, we can neither move ahead in pursuit of economic advancement in disregard of payments imbalances.

As of May 31, 1976, the international reserve amounted to \$1,197 million, the equivalent of about three months' import requirements, the acceptable international benchmark. However, its most direct benefit to us, as a margin of safety, has been the assurance of available resources to finance our essential import needs during this difficult and uncertain era. Incidentally, more than 20 percent of our import bill

'The economy is recovering'



CB Gov. G.S. Licaros

Filipino businessmen are complaining that credit is too tight. What is the reason for this tight-money situation? Will the Central Bank loosen its strings on the money supply this year?

On the overall, a liberal credit policy is being pursued as reflected in the relatively high annual percentage growth rates of domestic credits as well as in the easing of money market rates during the first four months of 1976. This general stance is, however, qualified by a selective policy which redirects credits to priority and productive areas. In this sense, some nonpriority sectors may experience relative credit tightness.

A major program of the Central Bank is shifting capital resources from Manila and other cities to the countryside. The initiative here comes from public financial institutions. Are the private banks in Metropolitan Manila being encouraged to take a more active role in developing the financial system in the rural areas? How?

To supplement countryside financing by the private banks in the short-run, the Central Bank, in addition to preferential rediscount rates for country-based food and export production, requires banking institutions (predominantly based in metropolitan areas) to set aside 25 percent of their loanable funds for agricultural credits. Furthermore, the Central Bank policy on investment-deposit ratio of commercial bank branches in the provinces requires that 75 percent of the deposits accumulated in a particular region be invested therein as a means to develop such region. In the medium-term, however, it would basically be the increased activity in, and incomes of, the rural sector (as evidenced by the increasing volume of industrial sales in the rural areas especially since 1973) that would provide the main incentive for large urban-based banks to expand their countryside operations.

In your first quarter report on the economy to the President, you indicate the continuation of a deficit trend in the Philippine balance of payments due mainly to the decline in price (and sometimes volume) of major exports, partic-

ularly sugar. How do you think the export sector will fare for the rest of the year?

The performance of the export sector for the rest of 1976 basically hinges on the actual price and volume developments in the market for the country's major exports. Specifically, it depends primarily on the pace of the recovery of the prices of copper, sugar, coconut and wood products as well as on the ability to expand by a significant amount the volume of sugar export shipments. It is expected that export earnings for the rest of the year will be higher than in the first quarter.

One of the heartening figures in your report is that there has been only a 4.6 percent rise in the consumer price index. How did the government so quickly dampen the inflation rate? What is the price outlook for the rest of the year, considering that the typhoon season has arrived?

Please note that the annual inflation rate (as measured by the Consumer Price Index for Manila) was a little more than 30 percent in 1974 (i.e., 1974 over 1973). This rate decelerated to 8 percent in 1975 (1975 over 1974) and further declined to 4 percent during the first quarter of 1976.

The gradual easing of inflation in 1975 and early 1976 was the result of a host of interacting factors. The main determinants were, however, cautious monetary management, an adequate supply of key foodstuffs (especially cereals) on the domestic front and the decline in export prices concomitant with a deceleration in the rate of increase of import prices on the external front.

The price outlook for the rest of the year would depend on a number of factors, most importantly, on the continued adequacy of rice stocks, the more effective enforcement of price ceilings, the movement of prices of our exports, the freeze in oil prices and the deceleration in the rate of imported inflation as well as the severity of adverse weather conditions in the coming rainy season. Calamities like "Didang" play havoc to productive and distributive facilities and consequently, on prices of commodities. Still, we expect prices to increase by less than 7 percent.

Do you think the Philippine economy has recovered from the recession that started two years ago? How do you see it in 1976 and beyond?

The Philippines, like other nations, is still in the process of recovering from externally-induced recessionary impulses. There is, however, growing consensus on a steady recovery which would result in a better economic performance during the medium-term. This is premised, firstly, on the recovery of industrial economies and the commercial viability of the recent oil find which would greatly improve prospects for the balance of trade and payments position of the country; and secondly, on domestic policies aimed at further developing the rural market, consolidating and expanding the gains achieved in the agricultural and export sectors and containing internally-caused price rises.

is attributable to oil and petroleum-based products, and current oil findings, while holding much promise, remain at this point still only a future potential which will take time to fully develop.

Since the purpose of Central Bank foreign exchange borrowings is basically compensatory in character, they are necessarily intended to be temporary in nature and will be availed of while the country's balance of payment remains in unfavorable position. Consequently, there will be constant review of these operations which, in turn will be modified from time to time as more propitious external conditions prevail. These

are expected to begin this year until a balance-of-payment surplus starting in 1978, or earlier, is attained.

These are achievements that we can be proud of, representing a record of performance in the light of international adversities, representing responses to challenges and opportunities.

The flow of financing cannot be viewed from the standpoint of only one particular economic endeavor. We have to look at financing from the standpoint of a national strategy. We have to understand that more financing for all needs will not necessarily result in more benefits to everyone. □