

Yale University

EliScholar – A Digital Platform for Scholarly Publishing at Yale

Discussion Papers

Economic Growth Center

12-1-1982

Philippine Private Domestic Commercial Banking, 1946- 1980, in Light of Japanese Historical Experience

Hugh T. Patrick

Honorata Moreno

Follow this and additional works at: <https://elischolar.library.yale.edu/egcenter-discussion-paper-series>

Recommended Citation

Patrick, Hugh T. and Moreno, Honorata, "Philippine Private Domestic Commercial Banking, 1946- 1980, in Light of Japanese Historical Experience" (1982). *Discussion Papers*. 435.
<https://elischolar.library.yale.edu/egcenter-discussion-paper-series/435>

This Discussion Paper is brought to you for free and open access by the Economic Growth Center at EliScholar – A Digital Platform for Scholarly Publishing at Yale. It has been accepted for inclusion in Discussion Papers by an authorized administrator of EliScholar – A Digital Platform for Scholarly Publishing at Yale. For more information, please contact elischolar@yale.edu.

ECONOMIC GROWTH CENTER

YALE UNIVERSITY

Box 1987, Yale Station
New Haven, Connecticut

CENTER DISCUSSION PAPER NO. 427

PHILIPPINE PRIVATE DOMESTIC COMMERCIAL BANKING, 1946-1980,
IN LIGHT OF JAPANESE HISTORICAL EXPERIENCE

Hugh Patrick and Honorata A. Moreno

December 1982

Note: Center Discussion Papers are preliminary materials circulated to stimulate discussion and critical comment. References in publications to Discussion Papers should be cleared with the author to protect the tentative character of these papers.

Revised draft
September 1982

Philippine Private Domestic Commercial Banking, 1946-1980,
In Light of Japanese Historical Experience

Hugh Patrick and Honorata A. Moreno*

I. Introduction

The Philippines represents a fascinating case of the complex, evolving interactions between the financial system and the economic development process. However, the causal relationships between the two are obscure; financial and other data are not available; and differences between appearance and reality abound. We focus on the development of the private domestic commercial banking system from independence in 1946 to 1980, in light of Japan's historical experience.

While a few banks had been established in the colonial period, independence inaugurated a new era in financial development. The major policy-induced changes in financial structure and liberalization of interest rates in 1980, and the structural effects of the unexpected and generally unrelated financial crisis of 1981, may herald the beginning of a new era in Philippine financial development.

As in other nations, commercial banks play a key role in Philippine financial development. Our main emphasis is the evolving structure of the banking system in the context of its dynamic, but rather unstable and uneven growth. We are concerned both with issues of industrial organization--

the nature of competition, the structure of ownership, degree of specialization of function, relations with borrowers--and with bank performance. Of particular interest is the role of banks as part of family-owned groups of companies, analogous to prewar Japan's zaibatsu. Government policy has been of paramount importance in shaping the structure and growth of the banking system, and indeed of specific banks. The government regulates entry requirements, types of financial services allowed, minimum capital requirements, and the like, and maintained nominal interest rate ceilings on deposits and loans. Inflationary pressures in this restrictive policy environment substantially affected bank behavior and performance. Beyond this, government emphasis on import-substituting economic development has determined the overall economic environment.

This study is based on a variety of Philippine sources, published and unpublished. We have benefitted from some access to materials of the Central Bank, Securities Exchange Commission, and other government agencies. We have learned much about the actual nature and behavior of the private commercial banking system through extensive interviews with experts in the financial community. The Philippines is a country where much is known by a relatively small elite but little is published, even more so during the institution of Martial Law between September 1972 and January 1981.

Comparison With Japanese Financial Development

The development and growth of banking face common issues and problems in all market-oriented economies. As a former colony, the Philippine financial system has been based on the American model of specialized types of financial institutions engaged in a variety of specialized financial activities. Comparative analysis of the Philippine financial system and the commercial banking system has thus been mainly in terms of United States practice and experience. However, there are also substantial differences between the respective processes and patterns of economic and financial development. And, there are certain striking Philippine similarities with the financial development of Japan.¹

Between 1868 and 1905 Japan experienced the initial creation and integration of a financial system under government sponsorship (termed supply-leading). From 1905 to 1937, development, growth and increasing diversification of the financial system was in a relatively free market environment (demand-following).² Throughout the prewar period the family-owned industrial, financial and commercial conglomerates (the zaibatsu) and their relations with large banks were increasingly significant.

In many respects postwar Philippine financial and economic development is similar, with some time compression, to Japan's two prewar phases. The 1946-1980 period may be divided into two sub-eras. The first two decades remind one of Meiji Japan in the ease of creating new banks and other financial institutions and consequent expansion in their numbers, the opting for specialized rather than general-purpose institutions, and government and central bank stimulus including

government deposits and other official credit. And since the mid-1960s Philippine development is similar to Japan's second phase: the growing role of industrial activity; the rise in family-owned groups of companies; the growth and diversification of the financial system even as financial dualism persisted but decreased; bank runs, panics, and failures; efforts to strengthen the banking system by increasing minimum capital requirements, making new entry difficult, and encouraging bank merger; and the development of fairly widespread branch banking on a national basis.

Still other features appear more like Japan's post-World War II phase--notably the significant amount of central bank credit directly to the banks; and the maintenance of low interest rate ceilings which resulted, among other things, in a high concentration of Japanese major bank loans to large enterprises, some degree of erosion of national interest rates by compensating balances and other means, and retarded growth of the bond market. In contrast to the Philippines, financial intermediation has been quite successful in postwar Japan despite the system of interest rate controls because the Japanese financial system was highly developed and its structure very stable, personal saving rates became extremely high, low-risk assets alternative to saving deposits were not readily available to the predominantly urban population, and business investment demand was far stronger than could be financed from internal or private sources.

The level of financial development in the Philippines, as measured by the ratios of financial assets to GNP and M_2 to GNP, in the late 1970s was below that of Japan at the turn of the century--while the levels

of income per capita may have been roughly comparable. A major contrast is between Japan's prewar policy of free interest rates and market-clearing financial markets and the Philippine policy of regulated interest rates and credit rationing to clear markets. We hypothesize this policy difference has been a major cause of lagging Philippine financial development relative to Japan's historical experience.

Comparison between earlier Japanese experience and the contemporary Philippine commercial banking system must be done flexibly. The Philippine era considered here combines both supply-leading and demand-following elements, and in some respects combines the experience of Japan's first two phases. In this spirit, Japan's successes and failures in financial policy and in development of the financial system can provide insights for Philippine policy makers. Further, as discussed below, the similarities between Philippine financial-commercial-industrial family groups and Japanese prewar zaibatsu are notable; their implications for financial and economic development are less clear, though certainly they have served to concentrate economic and political power.

II. The Financial Environment

The development of the financial system has been concomitant with that of the Philippine economy. Indicators of the performance of the Philippine economy are provided in Table 1.³

Balance of payments problems and excessive rates of inflation, especially in the oil crises of 1974-75 and 1979-80, have on occasion forced the Central Bank to take restrictive credit policies which

have resulted in very tight domestic financial markets (Bautista, 1980). While production, finance, and financial institutions occur throughout the Philippines' many islands and their major regional subcomponents, the predominance of Metro Manila is striking. This highly congested metropolitan area contains 13 percent of the nation's population yet produces one-third of the gross national product, and contains more than half the nation's industrial activity. The bulk of commercial bank activities, including virtually all head offices, is in Metro Manila.

Over most of the postwar period the government has pursued an economic development strategy based mainly on import-substituting industrialization and the continued development of traditional exports crops (sugar, copra, timber) and mining. In the early 1980s the government began moving toward a more export-oriented industrialization policy. The degree of government intervention in the economy is substantial; instruments include direct controls (over imports, prices of key domestic consumption goods, interest rates) as well as subsidies and other preferences (such as credit allocation at low interest rates) to priority sectors and activities. These policies, together with fundamental features of the economy, such as surplus labor and capital market dualism, mean relative prices for many goods and factors of production differ substantially from world prices or shadow prices in equilibrium.

The Group Form of Industrial Organization

One of the most important, and fascinating, aspects of Philippine economic structure is the group form of organization of large-scale business. The turbulent rise and spread of successive waves of Philippine groups over the past three decades is reminiscent of Japanese zaibatsu between the early 1900s and World War II. This "Japanese phenomenon" seems to be an important, if poorly studied, characteristic of the industrialization process in many developing countries.⁴

Typically a group is owned by one family, often including various branches with different names; however in the Philippines some groups are owned and controlled by several closely associated individuals or families. Unfortunately even imprecise data about groups are scanty. One of the few quite open about its membership is the First Holdings Group; it listed its member companies in newspaper advertisements in February 1980 giving information on telephone numbers and office location. This group was established in the early 1970s by taking over the operations and various subsidiaries of Meralco (Manila Electric Company) from the Lopez family.

There are alternative forms of group-centralization organization: holding company; operating conglomerate; management company; or in-house management groups. In the Philippines the predominant forms are management companies and in-house management groups. (For a brief description, including a listing of the top 13 management companies, see SEC-Business Day, 1978, pp. 173-81.) Whether personally managed by the owning family members or by hired professional managers, close personal relationships based in part on ethnicity or region of birth are a central feature of Philippine groups.

SEC-Business Day (1978) has identified some 47 private business groups as of 1977. Doherty (1979) and (1980) has identified some 89 major individuals and families who form the basis of the main groups. By listing the interlocking directorates of banks and companies, he concludes alliances that comprise "ten groups connected with the commercial banks dominate the Philippine business world" (Doherty 1980, chapter 5). Some 23 of the 28 domestic commercial banks (including the two government commercial banks) are members of these ten groups. One problem with using interlocking directorships to define and classify groups, as Doherty recognises, is that control cannot be inferred. However it is reasonable to assume patterns and channels of cooperation, at the least.

The families and their economic groups are involved in a dynamic process. There have been several waves entering the oligarchy, and a few washed out. The oldest and most established--such as the Zobel-Ayala and the Soriano--date back to the Spanish era. Others became important during the early American period. Still others emerged following independence, as the government encouraged import-substituting industrialization. And a new wave emerged under martial law in the 1970s. Before World War II, families were based mainly in agriculture, mining, and associated commerce, while more recently industry and finance have become important. Beginning with the Spanish, there has been a close, two-way relationship between economic and political power; government and big business (that is, major families) have been closely intertwined.

Doherty (1980, Chapter 5) classifies the major families into three groups.

"...Among the 89 families, some exercise much greater control than others. Among these are the new elite who have risen to prominence since the declaration of martial law. They are Disini-Velayo, Benedicto, Conjuangco-Enrile, Silverio, Cuenca, Abello, Oreta, Tantoco, Ozaeta and Floirendo...Others, though considered among the premartial law traditional elite, have also grown significantly under martial law due to connections...Among them would be Sycip, Yuchengco, Yulo, Elizalde, Aboitiz, Alcantara, J. B. Fernandez, Nubla, Sigüion-Reyna, S. Valdez, Palanca and Jose Concepcion.

There is a third group. They are also part of the old traditional elite...Though they are still a significant group and in general have managed to hold their own under martial law, they have done so despite periodic harassment. This group would include such names as Soriano, Zobel-Ayala, J.A. Araneta, Cabarrus, J.P. Fernandez, Madrigal-Olondriz, C. Ledesma, Laurel and Ortigas. Though they may not be happy with developments at present, they know that if they express this unhappiness too freely, they can go the way of the Lopezes and find their investments expropriated."

The groups are important for our analysis because of their close, complex, rather heterogeneous sets of relationships with the commercial banks. These involvements can be viewed from the perspective of either the banking system or the group system. Some groups grew out of family-owned banks; others started banks; some have no direct ownership-control relationship. The 21 largest groups were affiliated with 10 banks; 5 were identified as having no close bank affiliation. Several banks are identified with two or more groups, in particular Far East Bank and Trust Company (FEBTC). Almost all banks were started by one or two families; almost all those families appear on the list of 47 groups.

Then Central Bank Governor, Gregario Licaros, may have been only mildly exaggerating when he said "the average Filipino banker is in the banking business not for banking profits; he uses his bank for allied business" (FEER, April 7, 1978, p. 80).

The Financial System

Table 2 provides a summary description of the organized financial system before the 1980-81 reforms had substantial effect.⁵ As in the U.S., the system was founded on specialization: different types of financial institutions, under different laws and regulations, to meet specific financial functions. In practice in both countries commercial banks, directly and through subsidiaries or affiliates, provide a wide range of services. Thrift banks collect savings and time deposits, and make commercial and mortgage loans; they have had no demand deposits. Rural banks collect time and saving deposits and make loans predominantly for agriculture. Mainly unit banks, they are widely dispersed throughout the country, are heavily subsidized by the Central Bank, and are little more than conduits for central bank and government credit. Their development resembles that of Japanese local banks initially (see Teranishi, this volume).

Government financial institutions are important; they hold about two-fifths of the total assets of the financial system. Their lending activities are widespread; they are heavily involved in lending to priority sectors, however defined. Most of their funds, including deposits, come from governmental sources. The main government institutions are the Philippine National Bank (PNB), the Development Bank of the Philippines (DBP), the Land Bank, the Government Service

Insurance System (GSIS) and the Social Security System (SSS).

The Development Bank of the Philippines has a significant role, not just because of its size but also because it has few substitutes. It provides 47 percent of the long-term loans and 15 percent of medium-term loans in the Philippines; 71 percent of its loans are to industry (IMF-World Bank Mission Report, pp. 43-45). DBP is essentially a conduit for government domestic funds, and for loans from such international agencies as the World Bank and the Asian Development Bank.

The Philippine National Bank is by far the largest commercial bank; in 1980 it held 31 percent of the commercial banking system's, and 16 percent of the entire financial system's assets. Established in 1916, it earlier had some central bank functions including acting as the currency issue and fiscal agent for the government. In part because of overdue loans to government corporations, PNB was in serious trouble in the early 1970s. A special governmental study (Joint IMF-CBP Report, 1972) concluded PNB should be assisted in order to "perform its role as a tool of government policy" (p. 106). PNB plays "a special role not performed by private commercial banks, that of an instrument of national monetary policy. It is also called upon to finance highly risky ventures, to provide loans for food production, agricultural production, and industry, and to make loans to the government, its political subdivisions and instrumentalities" (pp. 105-6). While the structure of costs and net returns on loans and investments evidently do not differ significantly from private commercial banks (Saito and Villanueva, 1978, #49), PNB apparently lends particularly to those industrial groups which have risen in power over the past decade. It, together with the DBP, lent actively

to them in 1981, and took substantial equity and operating control of a number of their companies, in the 1981 financial crisis.

Commercial banks hold almost three-fifths of the assets of the financial system, a ratio comparable to Japan in the 1920s. The system has three elements: two government commercial banks; branches of four foreign banks (Citibank, Bank of America, Hong Kong and Shanghai Bank, and Chartered Bank); and 26 private domestic banks. The main focus of this study is the private domestic banks, which together comprise one-third of the entire financial system.

Citibank, with a long history in the Philippines, was second in size only to PNB until 1978; but by 1980 three private domestic commercial banks had more assets. While foreign banks are not allowed to open new branches, they have been innovative in developing finance companies, leasing companies, and other financial subsidiaries. They have superior access to foreign funds within the policy constraints of swap limits set by the Central Bank. Generally subject to the same domestic regulatory environment as the private domestic banks, they are also subject to the U.S. Foreign Corrupt Practices Act. They have tended to finance foreign trade, multinational companies, and the 300 largest industrial corporations.

Financial intermediation has grown over time, absolutely and, more importantly, relatively. Assets of the entire financial system were 48 percent of GNP in 1960, 72 percent in 1970, 86 percent in 1977, and 90 percent in 1980.⁶ Similarly, relative to GNP, the total assets of commercial banks were 16 percent in 1950, 17 percent in 1960, 34 percent in 1975, and 52 percent in 1980; their time and

saving deposits relative to GNP rose similarly but less sharply-- from 4 percent in 1950, 7 percent in 1960, 13 percent in 1970, 12 percent in 1975, to 23 percent in 1980. Demand deposits moved erratically downward, from 8 percent in 1950, 6 percent in 1960 and 1970, to 5 percent in 1980. The substantial difference between asset and deposit ratios reflects the use of deposit substitutes, central bank credit, and foreign currency swap arrangements, as well as net worth. The ratios of commercial bank assets to GNP for Japan were substantially higher, 24.6 percent in 1885, 34.6 percent in 1900, 53.1 percent in 1913, 63.7 percent in 1920, and 107.3 percent in 1930.

The Philippines now has a sophisticated system of commercial banks and other financial institutions, with highly sophisticated and responsive short-term money markets. The system is innovative and on the whole well-developed. Yet this is too sanguine. The financial system itself has been subject off and on to serious difficulties. Emery noted of the late 1960s, "the Philippines has probably had more financial scandals or financial institutions in distress than any other Southeast Asian country" (Emery, 1970, p. 482). Problems were particularly severe in the 1960s and early 1970s and again in early 1981. Open-end mutual funds were started, and then collapsed. A number of savings and loan associations, finance companies, insurance companies, and investment houses have been in trouble at one time or another. The commercial banking system has been particularly vulnerable and unstable, with several bank runs, and a few bank failures.

Perhaps more serious, the financial system has not developed fully or evenly, either in the provision of medium-to-long-term

credit for investors or credit to small borrowers in agriculture, commerce, and industry. Financial dualism persists. The clearest indicators of this are in access to funds by category of borrower (such as size or nature of enterprise), and differentials in interest rates on borrowed funds substantially in excess of administrative costs and default risks. Teranishi (1981) notes government-subsidized credit programs have substantially reduced the role of traditional finance in agriculture. However most small-scale producers, especially outside agriculture, continue to rely on family, friends, money-lenders, and other traditional forms of credit. In Japan, financial dualism persisted, even as it diminished, until after World War II (Teranishi and Patrick, 1977; Patrick, 1982). The speed with which dualistic differentials decrease depends on interest rate policies and on modern financial system development.

The Role of the Monetary Authorities

The financial environment is very much determined by the policies and regulations of the monetary authorities, notably the Central Bank of the Philippines. Like central banks in many developing countries, it has three main goals. One is macro stabilization of the economy, using control of high-powered money, the money supply, credit availability, and interest rates. A second objective is long-run economic development. To this end the Central Bank allocates credit to priority sectors through preferential terms (availability and low interest rates) for the rediscount of certain types of paper, restrictions on commercial bank portfolios, and provision of credit to government financial institutions, rural

banks and the like. Third is healthy growth of the financial system and its constituent individual institutions through regulation, control, and inspection. Under the financial reforms proposed to the Legislature in 1972 and subsequently implemented under Martial Law, a great deal of discretionary power devolved on the Central Bank.

One persistent feature of the past two decades has been the substantial amount of credit provided by the Central Bank to commercial banks through loans and rediscounts. This has its analogy in postwar Japan, where city banks engaged in substantial "overloan" from the Bank of Japan. Loans and rediscounts are part of a complex pattern of credit flows with the commercial banks, involving also reserve requirements, commercial bank purchase of Central Bank Certificates of Indebtedness (CBCIs, analogous to Treasury bills), and required holdings of government bonds in asset portfolios.

One key issue has been the allocation of central bank credit, in its various forms, among the commercial banks. One important, and at times highly profitable, source of borrowed funds has been through swap arrangements. A commercial bank obtains a foreign currency loan or deposit, converts the currency (typically dollars) into pesos, and purchases forward dollars at a favorable rate from the Central Bank. These transactions must be approved by the Central Bank. Control over large amounts of rediscounts and even modest amounts of swaps has been centralized at the highest levels; apparently Gregario Licaros, who headed the Central Bank until his resignation in early 1981, personally approved every

swap transaction over \$1 million. While stated criteria exist, the actual rules and procedures for allocation of credit have not been clear. The amounts obtained by individual banks have varied widely. Favoritism, rather than equal opportunity of access to Central Bank credit by objective criteria, seems important.

The type of interest rate system--market-determined or controlled--has profound implications for implementation of stabilization policy, promotion of saving and channelling it to the most productive investment uses, and for the development of a healthy and effective financial system. The theoretical case for market-determined interest rates is strong. Nonetheless, one of most important policies pursued by the Central Bank until 1981 was to set maximum interest rates on time and savings deposits, loans, discounts, and money market instruments (deposit substitutes). A government study in 1972 made a sensible, sophisticated analysis of the problems caused by a system of rigid, low interest rates and the misallocations of credit that result, and made a strong argument for a flexible interest rate policy (Inter-Agency Committee on the Study of Interest Rates, 1972, p. 17). Finally, in July 1981 such a policy was partially adopted. Until then, and exacerbated during periods of rapid inflation, the interest rate ceilings had strongly negative effects on regular financial markets.

Market rates for loans and discounts were below ceiling rates until about 1960. Since then, however, it appears that most of the time the equilibrium rate has been higher than the ceiling for loans, at times substantially. While data on profits and profitability of investment are poor, a ' real return of 15 to 20

percent seems likely (see Ranis et al., 1974, and Tan, 1979). However, with inflation accelerating in the 1970s, especially in the 1970-74 and 1979-80 periods, actual real returns on deposits and some loans were lower, at times even negative (Table 3).

The capital market has remained undeveloped despite the early creation and active role of investment houses designed to make medium and long-term placements and to underwrite new securities issues. Although some 5,000 new companies register with the S.E.C. each year, virtually none are public. Only 58 of the top 1,000 industrial corporations are listed on stock exchanges, and a dozen of those listed issues are not traded. New issues do not average more than 30 per year. The stock market is small, natural resource (oil and mining company) oriented, and speculative. Bond issues have been virtually non-existent in the erratically inflationary environment, and there is no secondary market.

Short-term financial markets for large transactions have been much more active. (The only comprehensive empirical study of the Philippine money market is Tan, 1981, chapter 7.) Philippine bankers, financiers, and big businessmen are very sophisticated. The gap between ceiling and market-equilibrium rates has been sufficiently large that considerable, at times unconventional, financial innovation has taken place in efforts to avoid or evade the official ceilings (Khatkhate and Villanueva, 1979). It is impossible to obtain accurate, comprehensive data on effective interest rates. A probably reasonable generalization is that, particularly in periods of monetary tightness, virtually all private financial institution loans, except those eligible for preferential rediscount or to related business interests, have been at effective interest rates above

the ceiling. And large holders of financial assets have received yields substantially in excess of the maximums on deposits (See Tan, 1979, p. 49).

Evolution of the money market has been in large part in response to interest rate ceilings and Central Bank regulations. A liquidity tightness in the mid-1960s led to the emergence of a commercial paper market (though not called that) with higher interest rates than on deposits. To compete, banks began issuing bankers acceptances, trust certificates, repurchase agreements, and other deposit substitute instruments. Deposit substitutes flourished; with effective interest rates up to 30 percent depending on market tightness, they amounted to some four-fifths of time and savings deposits by 1974-75 (IMF-World Bank Mission Report, 1979, p. 26 and Table 32, p. 61). It should be noted that commercial bank reliance on money market instruments as a source of funds vitiates the significance of M_2 (as traditionally defined) as a measure of financial development.

III. Dynamic, Unstable Growth of the Private Domestic Banking System

Despite a long history, the commercial banking system has grown rapidly, albeit turbulently, only since the mid 1950s. Postwar development to 1980 can be divided at 1965, when new entry was discouraged. The number of banks quadrupled between 1950 and 1965.

Over the period there were several bank runs, which were relatively well contained by the Central Bank. Between 1968 and 1977 three banks failed, but all later reopened under new names and management; various others have been in trouble from time to

time, two or three almost perennially. In response to the increase in capital requirements to P.100 million in 1973, in 1974-76 some thirteen banks merged (into six) and eight took in foreign partners. In 1975-78 three other banks changed ownership and their names were altered. In 1980 there were several further changes in ownership, and in 1981 additional mergers as the new era dawned--in part in response to new opportunities for large-scale (universal) banking, in part in response to the banking crisis of spring 1981. This history is briefly summarized in Table 4, which lists all the banks of the postwar period and ranks them by size of assets as of 1980.

The 1946-65 period can be characterized as follows. Entry into commercial banking was easy and encouraged. Minimum capital requirements were low; the monetary authorities in effect subsidized the banks through government deposits, later withdrawn, and cheap central bank credit. The economy was going through import-substituting industrialization. Wealthy families began to move into industrial activities, and they recognised the benefits of controlling a bank. In other instances, a banking family moved into industry. Almost all bank owners are involved in one of the industrial groups. This is not surprising. It took some capital to start a bank; perhaps equally important were built-in depositor and lending relationships. As a consequence in 1950-55 five new banks were established, in 1955-60, four, and in 1961-65, some eighteen.

By the mid-1960s the monetary authorities were concerned about the small size of banks, mismanagement, and the possibility (and actuality) of banks runs and financial crisis--concerns continuing to this day. They essentially prohibited new bank entry, raised minimum capital requirements from P.8 million to P.20 million in 1965 and then to P.100 million in the 1973 reforms, and from 1973 have encouraged bank mergers and the inflow of foreign equity capital.

Despite the scandals and difficulties, Philippine banking history

between 1965 and 1980 is less turbulent than that of Japan in the 1920s. Japan faced essentially the same problems, and also restricted entry, raised capital requirements, and forced mergers. The Philippines has not had a banking crisis as severe as Japan's in 1927. It is unclear in the 1965-80 period whether the net flow of central bank credit was to or from the private commercial banks. It is clear central bank credit was increasingly distributed differentially--not just to weak banks in periodical or perennial trouble, but also to favored stronger banks.

The 1970s was a period of shake-out and consolidation, much like Japan in the late 1920s and early 1930s. This process continues in the early 1980s. Of the 33 private commercial banks operating in 1973, 13 merged between 1974 and 1976, mainly in response to the five-fold increase in minimum capital requirements. Two involved large banks, BPI and PCIB, absorbing small banks. In two instances, Filmanbank (now Pilipinas) and Associated Citizens, merger did not bring substantially improved performance.

While a number of banks have been in sufficient difficulty to require emergency loans from the Central Bank, only three have been closed by the Central Bank: the Overseas Bank of Manila in August 1968, the Continental Bank in June 1974, and the General Bank and Trust Company (Genbank) in March 1977. All three subsequently reopened, albeit under new names and owners. These cases provide insights into the instability of the system. While not among the top banks in size, none was among the smallest. Lack of capital per se did not cause failure. The common pattern was one of bank owners making short-term loans to finance fixed (long-term) investments in affiliated companies, as well as unsecured loans to themselves. In some cases there were other financial irregularities but it is not clear they were the main cause of failure. In each instance there was a heavy run on

the bank when it became known some of the affiliated companies were in difficulty.

The failure of Continental in 1974 was particularly dangerous because it precipitated a run on the entire system. Continental Bank was borrowing deposit substitutes heavily in the money market, and lending long-term through its affiliate Continental Finance to other business affiliates and to finance real estate projects. When the President was arrested and charged with alleged misappropriation of deposits and other financial irregularities, an immediate run on Continental Bank ensued and the Central Bank closed it. Concerns about the Continental failure spread to other banks; deposits started moving to the four foreign bank branches. The Central Bank averted a crisis by making emergency loans and assuring the financial community it would cover all problems of liquidity drain.

Bank Typologies

The banks can be classified by distinctive economic, sociological, political, institutional features. Table 5 groups them by management style and type of ownership. The foreign bank branches are generally regarded as the most professionally, and best, managed. They, especially Citibank, have been a training ground for young Filipinos who have subsequently moved into domestic bank management. Some family-managed banks are well managed, so inclusion in any particular category is not direct evidence on bank management.

Classification by ownership type is common in the Philippines. The main distinction is between banks controlled by indigenous Filipinos and by Filipino-Chinese. Almost all the joint-venture banks are in fact controlled domestically; foreign ownership is limited to 40 percent. Although Chinese

ownership is involved in two of the joint-venture banks (RCBC and Security) neither is classified as typically Chinese.

Since there are considerable differences in the degree to which Chinese individuals and families have been integrated into the mainstream of Philippine life and culture, classification as Chinese is somewhat arbitrary. The stereotype is a bank started and owned by Chinese, receiving most of its deposits from Chinese, lending mainly to Chinese individuals and their companies, conservative in both assets and liability management and unwilling to use much Central Bank credit. Within the Chinese business community a good word-of-mouth reputation for creditworthiness is essential. It is not possible to provide quantitative evidence regarding the stereotype; it certainly does not apply equally to all the banks under Chinese-Filipino ownership.

The 1973 reforms made it possible for foreign banks to invest in domestic banks for the first time since 1947. Foreign investment was limited to a maximum of 40 percent, of which only 30 percent could be held in voting shares by one foreign owner. The liberalization was designed to attract foreign equity and loans while retaining domestic control. Eight banks took foreign partners (Table 4), for varied motives (Lava, 1976, pp. 35-9). The record of these alliances is mixed. In six cases the major foreign bank subsequently pulled out, usually by selling to the domestic owners. Foreign involvement appears to be extensive only in Citytrust, infused by Citibank with able staff and good banking practices. While small, Citytrust is regarded as one of the best managed banks.

Another classification is in terms of closeness to the present government. The phrases "political banks" or "quasi-governmental banks" are used but their meaning is not entirely clear, and it is not possible to determine the precise operational significance of this classification. Those in control

of these banks are typically members of the "new elite" of groups. Data on relationships and degree of closeness are not readily available; certainly it varies by bank. The main criterion is that each is under the effective control of persons close to the present government. In most instances control passed to members of the "new elite" during the 1970s. Republic Planters and UCPB are special cases of private ownership with special monopoly powers. Each is involved heavily in the finance of a traditional export crop--sugar and coconut respectively--and each, rather than the Treasury, receives as deposits the export levies on these crops (Tan et al, 1981, pp. 40-41).

The Structure of the Commercial Banking Industry

One striking feature of the Philippine banking system is the widely differential performances of banks--in growth, in profitability, in changes in relative position. Data are presented in Table 6.

The concentration ratio in terms of the asset share of the top five private domestic commercial banks has been remarkably constant, around 35 percent since the mid-1960s. However, this is not a good measure of market power because it excludes PNB, which is larger than the five private banks combined, and the four foreign banks. PNB, the five largest private domestic banks, and the two largest foreign bank branches (Citibank and Bank of America) together had 56 percent of total commercial bank assets in 1980.

More important, market shares and relative rankings have changed dramatically over time. Only one (BPI) of the top five banks in assets in 1965 was in the top five in 1980, and only four of the top ten. China Bank declined significantly, from first to tenth. Four increased their

relative position sharply, from the bottom third to top positions including Allied (the successor of Genbank) from twenty-fourth to first and Metrobank from twenty-first to third. Republic Planters declined sharply over most of the period, but rebounded under its new "quasi-governmental" status in the late 1970s.

The coefficient of rank correlation between bank size and profitability (as of 1979) is 0.67, not particularly high. Of the six banks in the top quartile in profitability, two are also in the top quartile in both asset and deposit growth--UCPB and Metrobank. UCPB is a special case since it receives low-cost deposits from the copra levies.

Metrobank has expanded its branches aggressively, evidently with considerable success. Neither relied particularly heavily on Central Bank rediscount or swap facilities. Interestingly, the four top-rankers in profitability had below average growth both of assets and deposits. Their performance may well be explained by a combination of careful management policy and limited growth possibilities in their traditional market areas.

In several instances the Central Bank has successfully restored troubled banks to reasonably good operations without closing them by changing management and providing bridging credit. However, a few banks remained chronically weak. The Central Bank has preferred to keep them afloat rather than forcing closure and thereby possibly causing a bank panic. Filmanbank, one of the weaker, was finally taken over by PNB, which provided it with an infusion of capital, management, and a Central Bank emergency loan. Associated Citizens has also been regarded as weak, due to poor profit performance and ongoing managerial problems between its two ownership groups.

Four banks grew particularly rapidly from 1965 to 1980: Allied, Metrobank, UCPB, and RCBC. Four banks grew particularly rapidly between

1974 and 1980: again Allied and UCPB, and also Republic Planters (RPB) and Traders Royal. Neither merger nor foreign capital partners were of lasting importance. Beyond that few generalizations are possible. Metrobank, Chinese-Filipino owned, has quietly but steadily grown over the years, has expanded branches rapidly, has been very profitable, and has not been closely involved with the government. RCBC, owned by the Yuchengco family, had its main growth spurt from 1965 to 1973, when an innovative management worked closely with the investment house Bancom. Conflict in 1973 between the bank owners and the Bancom group ended the connection, but RCBC has continued to do well under professional management.

The other four banks that have grown rapidly are all in the political bank category. As already noted, UCPB and Republic Planters benefit from special privileges. Traders Royal has combined exceptionally rapid deposit and asset growth, moving from among the smallest to eighth rank. Its profit record, poor overall, improved significantly between 1978 and 1980. Little is known about its sources of deposits or its clients, but it is not highly regarded by the financial community.

The most remarkable success story in the late 1970s was Allied Bank. Allied has risen like the legendary phoenix from the ashes of Genbank, which was closed in March 1977. The Central Bank found in Lucio Tan (chairman) and Willy Co (vice-chairman) new owners able and willing to infuse large amounts of capital, and to assemble a vigorous management team headed by an experienced banker, Romeo Co. Apparently Tan, of Fortune Tobacco, is the dominant owner. Not earlier identified as one of the 48 major groups, Tan has risen to considerable prominence since 1977. The Central Bank, with P 310 million in advances to Genbank, continued

a strong package of support. Allied has grown remarkably rapidly. In just two and a half years it became the largest private domestic commercial bank.

Allied has been aggressive in opening branches and seeking new business clients for loans, in part by highly competitive lending terms. It concentrates particularly on medium-size businesses--not the SEC-Business Day top 300, but the next 700. It has been highly responsive to the incentives built into governmental programs to provide funds for priority uses. But this is not the full story. Considerable interest has focussed on how Allied has been able to raise substantial funds so quickly. One answer is that it has had great access to Central Bank (See Table 7 later.) credit. / At the end of 1978 Allied had outstanding P.889 million in loans and advances from the Central Bank, nearly twice that of the second largest borrower. This was equivalent to 24 percent of Allied's total assets, and 321 percent of its net worth. Moreover, it had P.665 million in foreign currency swaps, equivalent to 18 percent of its total assets, 36 percent of its total deposits, and 240 percent of its net worth. Central Bank support was undoubtedly essential in 1977 to ensure Allied's solid beginning. The support received in 1978 and 1979 went far beyond those requirements, and was also substantially above average rediscount privileges relative to paid-in capital and priority program loans.

How do the profitability and growth indicators of differential bank performance compare with the managerial, ownership, and political criteria discussed earlier? Three of the six banks identified as professionally managed are in the top six in profitability, but two are below average. Of the three banks in the top quartile in profitability, growth of assets, and deposits--UCPB, Metrobank, and FEBTC--one is in each management category. At the other extreme four of the six least profitable banks were in the owner-managed category. No clear association between management style and performance emerges.

For the eight political banks, the record is mixed but on average favorable. Half are in the top half ranked by profitability. But five are in the top six in assets growth, and four in the top six (and six in the top eight) in deposits growth. UCPB and Allied have done extremely well by all criteria. Only PCIB ranks in the bottom quartile in profitability and growth.

Thus, there are no single, or simple, explanations for the large differences in growth rates and profit rates among banks. Size is no answer; some small banks do very well, some large banks do poorly. Good aggressive, innovative management--whether professional or family--obviously has been important; but it is difficult to obtain independent measures of management capabilities. Membership in the "new elite" has benefitted some banks. Success has been achieved by several routes.

IV. Commercial Bank Assets and Liabilities

As discussed above, commercial banking has grown rapidly but there have been wide differences in the performances of individual banks. In this section we look more closely at bank management of their liabilities and assets. The focus is the decade of the 1970s, and the way banks have responded to external opportunities (such as Central Bank credit or swaps) and constraints (such as interest rate ceilings). Detailed portfolio data by bank are not available.

Bank Liabilities Management

The essence of commercial banking is the acquisition of deposits and deposit-substitutes from private sources, and the lending or investing of those funds. Financial intermediation occurs most effectively through leverage.

In 1980, the average net worth of banks was 8.5 percent of total assets. On average about 94 percent of total liabilities (excluding net worth) have been either deposits or borrowed funds. Borrowings include

Central Bank rediscounts and advances as well as private funds. With occasional specific exceptions, deposits by the government in the private commercial banks have been negligible in the 1970s. Foreign currency swaps also enter the deposit base.

Reflecting the growth and relative decline of deposit substitutes, the share of deposits in total liabilities has ranged widely over time for the system and for some banks. The average ratio for all banks in 1980 was 63 percent, indicating considerable reliance on borrowed funds. Some banks have developed strong deposit bases--BPI especially, but also Solidbank, Prudential, Metrobank, and (based on the copra levy) UCPB. The average varies substantially by bank, with no clearly discernible explanation except that banks regarded as weak have a higher proportion of demand deposits.

A basic liabilities management choice is the extent a bank relies on borrowed funds, which are a quick, easy way to growth. However, borrowed funds have been substantially more costly than deposits because their market is competitive, while the ceiling on deposit interest rates constituted a subsidy by depositors to bank stockholders. Only when the marginal effective lending rate (adjusted for risk) is higher than the deposit substitute rate is it profitable for banks to borrow. Moreover, deposit substitutes may be more volatile, with shorter effective maturity, which makes them a riskier source of funds. The most profitable banks are divided almost equally between those relying substantially more or substantially less than average on borrowed funds; one strategy has not clearly dominated the other.

The Central Bank's stated rule has been to allow discount of eligible paper up to 50 percent of paid-in capital, plus paper eligible under Central Bank priority allocations (exports, small business, agriculture, etc.). Because the spread between the rediscount rate and the bank effective lending rate has been substantial, one would expect, in the absence of informal rules, all banks would continuously borrow almost to their limit. In practice

that has not been the case; Table 7 provides the available data for year-end 1978, 1979, and 1980.

First, central bank credit. During 1978-80 provision of Central Bank credit was somewhat greater than the net worth of the banking system (Table 7). This lending has been more than double the regular ceiling; special rediscounting for priority or other purposes was of greater importance than general rediscounting. What is startling is that seven banks in at least one of these three years had borrowings more than double their net worth, and three for all three years. Republic Planters is a special case because it could rediscount its sugar bills, its main business.

A similar pattern of great variance appears in swap arrangements. For the 1978-80 period swaps were slightly more important than Central Bank loans and advances; they financed about 12 percent of bank total assets. Seven banks had access to swap facilities in excess of their net worth in 1978, and fourteen in 1980. Not all banks with large Central Bank borrowings had large swap arrangements. Adding swaps and loans, reliance on central Bank-related credit ranged from 46 percent of assets to 2 percent in 1978, and from 90 percent to 8 percent in 1980.

Part of the explanation for the disparities lies in the policy decisions and behavior of individual banks. Some banks prefer not to be involved with the Central Bank any more than necessary. And some banks may not meet Central Bank standards. Nonetheless, the extraordinarily large amounts of Central Bank credit going to a few banks are difficult to justify by economic criteria. Interviews indicate a widespread perception that banks have not had equal access to Central Bank support; however as a group the political banks have not benefitted disproportionately. Nonetheless, case-by-case approval of even relatively small swap contracts

has lent itself to misuse, and opportunities for personal gain by administrators. One member of the financial community commented on the personal influences on Central Bank credit allocation decisions: "Each bank tries to have a friend in court to help out with specific projects or needs; having the right connection makes a lot of difference."

Nonetheless, it is difficult to generalize; each bank's situation must be considered separately; the quantitative data are merely guideposts to what is actually going on. For example, in 1978 RCBC was the largest user of swap facilities; presumably this is the continuation of a strategy and pattern initiated in the late 1960s. While RCBC's large Central Bank loans were because of a lending policy which generated preferential paper for rediscount, it was unusually well trained. By 1980 PCIB was being particularly well treated, while Allied had become less of an outlier. There is no general pattern whereby banks with foreign partners are larger than average users of swap facilities. The two weakest banks did not receive a great deal of Central Bank support between 1978-80.

Bank Asset Portfolio Management

Interest rate ceilings have distorted incentives and biased lending: toward the most creditworthy--large firms, those with excellent collateral--and away from the more risky; toward large transactions and against small where administrative costs are relatively higher; toward known, established borrowers and against those where costs of evaluation are greater; and toward the short-term. The group ownership pattern provides another set of distortions, more difficult to determine.

Because so few data are available on bank asset portfolios and credit allocation, much less the explicit or implicit rules governing

bank behavior, it is possible to evaluate the efficiency of the allocation process, only in general terms. (For a more detailed discussion, see IMF--World Bank, 1979.) Separate data are not available for the private domestic banks, but probably the general patterns would not differ greatly from that shown in Table 8 for all commercial banks. The Table's interest rate data are difficult to interpret: effective interest rates are higher; some lower-rate loans may be under Central Bank priority lending programs, others may be at preferential terms to owners and related interests.

The top tier of borrowers are the largest 300 industrial corporations. Almost all are affiliated with a family group, or are foreign-owned or government corporations. The second and third tiers comprise mainly the next 700. Below these are the small units which in fact produce nine-tenths of Philippine GNP. For most banks the main choice is the degree to which they concentrate lending on the first tier, relatively to the second and third tiers. The first tier market is highly competitive, with net spreads as low as 0.5 percentage points. First tier firms obtain a substantial share of commercial banks loans, and probably most of the long-term credit. Major foreign banks lend primarily in this market.

The second and third tiers are much more lenders markets. Borrowers are more concerned about access to and availability of funds than marginal cost. Collateral is important. So too are long, well-established ties. Net spreads to banks are up to 3 percentage points. The delineation between second and third tiers is somewhat arbitrary as firms are spread over a multi-dimensional continuum. One criterion is that the second tier includes firms able and willing to borrow in the P.5-20 million range, while third-tier firms typically need loans under P.5 million.

Philippine bankers respond to interest rate ceilings in the same

way they have in postwar Japan or other countries where ceilings prevail. (For an analysis of some adjustment techniques in Japan see Patrick, 1966.) Much of the adjustment is through assets portfolio management. They seek both to minimize costs and to increase effective yields. Cost minimization is achieved by lending in large amounts (reducing transactions costs), to well-known companies (reducing information costs), and under the least risky conditions (top-tier companies or excellent collateral). Effective interest rates are raised in various ways. Service fees and commissions are charged; these, together with interest, are deducted in advance. Such fees are supposedly limited to 2 percentage points; in fact they can be considerably higher. Other business, such as letters of credit and foreign exchange transactions, is important. Import and export financing are particularly attractive, in part because exchange between pesos and foreign currency can be at bank-determined spreads. Requiring compensating balances is illegal, but as one financial specialist put it, "it is not illegal for the companies to offer to hold deposit balances and for the banks to accept". Banks also increase effective yields by establishing finance companies, lending companies, and similar non-bank financial institution subsidiaries. The banks lend to them at rates within the ceiling; they in turn finance activities, or engage in direct investment, at higher yields.

Thus, data are not available on effective lending rates. Katigbak (October 29, 1979) suggests a cost of borrowing by clients as 18-24 percent, depending on the degree of compensating business provided by the client. Money market rates would be a reasonable proxy, but evidence on actual rates (substantially above formal ceiling rates) is fragmentary. Regulation has made the money market less visible, less efficient, but nonetheless

quite competitive. The best study of the money market appears in Tan et al. (1981). They obtained detailed data on money market transactions, but note their interest rate data are probably below actual rates. (Other studies are Tan, 1979, and Roxas, 1976.)

The family (group) ownership of banks is certainly an additional factor in determining the portfolio composition of banks. It has been an accepted practice to lend to one's own group, just as zaibatsu banks did in prewar Japan and keiretsu banks have done in postwar Japan. Economic theory does not provide an unambiguous answer as to whether the financing of groups by their affiliated banks results in more or less efficient credit allocation than a system based on more arms-length transactions; it is an empirical issue. While lending to one's own businesses may well lead to greater de facto term transformation and risk-taking, it probably also impairs bank safety, as all the bank failures demonstrate. Efficiency is not the only criterion; such a system tends to maintain and enhance the concentration of wealth in a small number of families.

How extensive is lending to directors, officers, stockholders, and related interests (DOSRI), which is the main channel to affiliated (group) activities? Only the owner-managers of the banks really know. The Central Bank has set ceilings on DOSRI loans to an amount not exceeding their respective outstanding deposits and book value of their share of paid-in capital of the bank. Central Bank data indicate that as of December 31, 1978 DOSRI loans comprised 8.1 percent of commercial bank loan portfolios, 4.6 percent for savings banks, 10.4 percent for investment houses, and 1.7 percent for financing companies. The monetary authorities and private bankers agree Central Bank data on DOSRI greatly understate the actual credit relationships. One rule of thumb has been that all unsecured loans,

about one-third of the total, are DOSRI.

One issue is whether there have been political pressure on banks to make loans for particular projects or to particular companies or individuals. The general concensus of those interviewed is that such political pressures on most banks have been relatively modest, certainly far less than during the politically decentralized, convoluted period of the late 1960s and early 1970s when many politicians were able to force banks into loans that at times were little more than payments to the politicians. During Martial Law there were fewer politicians, political power was more centralized, and the economic environment less politicized. Equally important, politically-generated needs have been met through the various Government financial institutions and to some degree the political banks. Those interviewed pointed out that, unlike the earlier period, during the 1970s real investment was financed--hotels, roads, sugar mills, cement factories, housing--and that demand does eventually catch up with capacity. Perhaps the main issue is the degree to which politically-motivated loans are accepted or at least tolerated as an inherent fixed cost of the socio-political-economic system, and to what degree they are variables subject to policy change.

Financing Development

There is widespread agreement that the pattern of credit allocation has not been optimal for Philippine economic development. Part is due to the development strategy itself, which pushed import-substitution too far at the expense of exports and which did not create as vigorously competitive an industrial structure in domestic markets as has occurred in Japan,

Part lies in government policies which have distorted incentives in finance—the inability to control inflationary surges, the interest rate ceilings. And part lies in the structure of the financial system itself, though probably less than criticisms would suggest. The commercial banks, given their structure and the environment in which they operate, have not surprisingly provided financial services mainly to urban areas, and lent short-term to large, usually safe and often affiliated, industrial and commercial enterprises. In general, the financial system gives preference to the financing of commerce, especially imports and exports, and to large firms.

In contrast, it is generally agreed the financial system as a whole, and certainly its private component, has provided inadequate credit, to small-scale farmers (especially for non-export crops) and to small businesses. Moreover, it is seen as not carrying out sufficient term transformation (providing sufficient medium and long-term credit). The monetary authorities have sought to redress these imbalances. Priority sectors have been identified and low cost credit has been provided. The Central Bank provides commercial banks preferential rediscounts for selected priority purposes—exports, certain types of agricultural loans, and the like—and also attempts to redirect their loan portfolios through various regulations. The government financial institutions provide two-fifths of total credit (Table 2). They obtain resources from social security revenues and other governmental sources; from international lending institutions such as the World Bank and the Asian Development Bank and foreign capital markets; and from the Central Bank.

The financing of agriculture is important, but detailed consideration (see Teranishi, this volume) is beyond the scope of this study / Economic and financial dualism are

pronounced; large landowners, corporate or family, produce commercial export crops, often on plantations, and raise funds through the modern financial system. Small farmers, typically rice-growers, rely much more on traditional sources of agrarian credit (moneylenders, friends and relatives) or government-subsidized credit programs (which barely reach the very small, especially landless, producers).

A recent study of rural finance by the Presidential Committee on Agriculture Credit (1981) reports the average interest rate in the informal (traditional) market was 55.5 percent, and on loans from all sources (i.e. including formal institutions) was 45.0 percent.

Commercial banks are required to lend one-quarter of their incremental loanable funds over their May 1975 base for agricultural purposes. However, Central Bank certificates of indebtedness can be held to meet this requirement in part; they are preferred since they are riskless, have low transactions costs, their yield is determined by market auction, and they simultaneously can be used to meet deposit reserve requirements. Central Bank programs have not been particularly successful in significantly increasing private domestic commercial bank lending to small farmers. As Table 8 indicates, agricultural loans have remained substantially below target.

The situation for small business is similar, though much less well studied. In periods of credit stringency as in 1979, even though total credit increased, the amounts to the smallest enterprises declined absolutely, while that to the large firms increased substantially (Table 9).

The basic cause of commercial bank aversion to lending to agriculture and to small business is that it has not been profitable. Lending has been squeezed between high transactions costs and the interest rate ceilings. Studies by Saito and Villanueva (1978, nos. 49 and 53) for various types

of financial institutions suggest transactions costs (administrative plus default loss risk) for loans to small-scale agriculture on the order of 5.5-7.3 percent, to small-scale enterprises 5.5-6.7 percent, and to large enterprises 1.8-2.5 percent (2.1 percent for commercial banks).

A major policy concern has been the shortage of medium and long-term credit to finance fixed investment. The data understate actual maturities as most short-term loans are renewed (rolled over). Rollover is advantageous to banks since they can regularly add service fees to raise effective yields. Data on credit granted by term are weak. Loans outstanding by financial institution as of 1977 are presented in Table 10.

The share of intermediate and long-term loans is quite large, substantially higher than for either prewar or postwar Japan. However demand is not satisfied for any term. Government financial institutions, particularly DBP, made 72 percent of the long-term and 24 percent of the medium-term loans. Commercial banks, which includes PNB, provided just one-fifth of the term credit. A large and increasing proportion of new long-term credit--rising from 42 percent in 1975 to 72 percent in 1978--came from foreign sources.

Medium-long term financing has not been economically attractive to lenders, and perhaps not to potential borrowers either. There have been three main causes: the high and erratic rates of inflation during the 1970s, especially in 1979-80; the interest rate ceiling system; and low interest rates on many foreign loans.

In our view the basic culprit has been the interest rate ceiling system. It has prevented the emergence of a normal term structure of interest rates; the available evidence suggests the persistence of an inverse term structure of interest rates, implausible for other than relatively short periods of time in free financial markets. An informal private market in term loans has developed parallel to the money market, presumably at interest rates appropriately higher than effective short-term rates; however, no data are available on amounts or effective interest rates.

The official data on longer-term interest rates reflect the fact that the cost of foreign borrowing, longer-term as well as short, has been significantly cheaper than domestic borrowing (IMF-World Bank Mission, 1979, p. 34). The low rates (relative to domestic Philippine rates) on World Bank and similar official loans in many instances are passed on as a form of indirect subsidy. Only after all such possible opportunities are exploited does it make sense for the enterprise, almost always large-scale, to turn to the domestic market. For efficiency in credit and capital allocation and for encouragement of the domestic market for term credit it would be preferable for the monetary authorities to charge domestic interest rates on foreign loans. It is more efficient to subsidize directly projects with high social benefit but low market profitability.

Unfortunately, at times the government has established as priority

projects a number that have performed badly, through poor project selection (such as cellophane and hotels), major cost overruns where the causes are not completely clear (the Westinghouse nuclear electric power project, the Manila convention center, airplane purchases), or the creation of overcapacity (sugar mills, cement). It would be useful to have an analysis of the criteria the government uses to determine projects, the entrepreneurs to carry them out, the funding arrangements, the actual costs and expenditures involved, and the resultant social benefit. Data are not available. Perhaps it should be expected priorities are shaped by political as well as economic considerations.

V. Dawn of a New Era?

Only time will tell whether our delineation of 1980-81 as a major turning point in Philippine financial development is correct. The government has instituted major reforms in both the institutional framework of the financial system and its interest rate ceiling policy. The main purposes are to increase competition among all kinds of financial institutions and to increase the availability of long-term funds for investment. In addition, the financial system was subjected to a major crisis in spring 1981, triggered by the flight of a highly respected business leader who left large debts behind.

In April 1980 the government passed a series of laws that enabled various financial institutions to engage in a wider range of functions, thereby reducing market segmentation. (A good general description is "Unibanking" in Business Day, August 28, 1980, Section III, pp. 17-32.) Functional differences among various types of thrift institutions were eliminated, and they were allowed to compete directly with commercial banks for domestic demand deposits; in effect they have become deposit-creating (i.e., commercial) banks. Other financial institutions are also allowed to convert to commercial

the
bank status on meeting / P.100 million net worth requirement. Mergers among various types of financial institutions are encouraged. At the same time minimum capital requirements have been increased, reducing entry opportunities by small institutions.

The most visible, and most controversial, change has been the authorization of expanded banking activities by very large commercial banks (with net worth of P.500 million). This is termed unibanking in the Philippines, based on the German model of universal banking. The most important new function is that unibanks may engage in investment banking, both underwriting of new security issues and direct equity participation in industrial enterprises. In addition they receive favorable tax treatment and other incentives, possibly including preferred access to Central Bank credit. Unibanking is discussed in the IMF Mission Report (1979) and Patrick and Moreno (1980), and in a broader context in Khatkhate and Riechel (1980).

Potentially the most profound reform was to shift from a ceiling interest rate system to a market-determined system, effective July 1, 1981, for time and savings deposits and term loans. At the same time the monetary authorities made clear they would not tolerate "excessive competition" for deposits that hurt smaller banks and thrift institutions. It seems possible that price leadership or other forms of oligopolistic behavior will occur. It is premature to judge whether a market-determined financial system with flexible interest rates will prevail. Interest rate ceilings on loans with a maturity less than two years were not removed, on the grounds this would provide an upper limit to interest-rate competition for deposits. The monetary authorities have indicated they plan to move gradually to a completely market-determined system. That would presumably result in a more efficient allocation of credit and greater rewards to savers.

VI. Conclusions

In the 1955-80 period the Philippines has undergone financial development similar in kind though not degree to that in Japan from the 1870s to the 1930s. Like Japan it created a dynamic system of commercial banks and a variety of specialized institutions for the collection of savings, financing of agriculture, and provision of long-term credit. The facilitating role of the government has been important, both in the first phase when entry was easy and banks received government deposits, and subsequently when entry was restricted, merger encouraged, and minimum capital size raised. A further important, and in some respects disturbing, similarity was the recurrent instability of the two banking systems.

By standard criteria Philippine commercial bank lending appears reasonable; the average term is short, liquid asset ratios are relatively high, there is considerable diversification among sectors. But actual risks are probably substantially higher. Sectoral diversification masks what is substantially less diversification by group or DOSRI borrowers; moreover such borrowers tend to engage in risky, at times speculative, investment activities. Nor is fraud unknown. And the still-underdeveloped state of the economy means increased risk as well as opportunity.

Riskiness on the loan (asset) side is matched by the insecurity of depositors. While the core of deposits for the commercial banking system as a whole may be relatively stable (as the IMF-World Bank, 1979, alleges), that has certainly been far less true for individual banks, especially the weaker banks. Moreover, it does not take into account the important share of deposit substitutes in the liability structure of many banks; they are quite volatile, and too large to be covered by the relative modest

amounts of deposit insurance. As in the first sixty years of Japanese banking history, in the Philippines the monetary authorities have had to step in time and again to stop bank runs or contain their spread.

Perhaps the most important lesson to be learned from the Japanese experience of financial development has to do with interest rate policy. The lesson is twofold. First, from the 1870s to the eve of World War II, a flexible, free, market-determined interest rate system contributed significantly to the rapid growth and relatively high level of financial intermediation, the increasing role of the modern financial sector and the decline in financial dualism, the allocation of credit among various types of users (while also biased toward large firms, apparently less so than in the Philippines), and the healthy growth of a strong capital market, including bonds and term loans. Second, the imposition of a controlled interest system with credit rationing, instituted during World War II and maintained in the postwar period, has probably had few advantages and has not had major deleterious effects only because the rate of private saving became so high, alternative saving (investment) opportunities were limited for the increasingly urban population, business investment demand was high, and economic growth was so rapid.

The adverse impacts of the controlled interest rate system included redistributing income from the average Japanese (who saved in deposit form at low real interest rates) to the already wealthier stockholders and employees of the large firms receiving credit at low interest rates; and that the capital market, especially the bond market, did not develop and contribute significantly to the financing of long-term investment. It is noteworthy that relative to GNP per capita, financial development in Japan's

repressed postwar financial system was substantially below that of Japan's market-oriented prewar system (Patrick, 1982).

The Philippine monetary authorities have known this lesson of the benefits of a market-oriented interest rate system since the early 1970s, but began implementing it only in 1981.

One of the most striking similarities between contemporary Philippines and prewar Japan is the emergence of family-owned financial-industrial-commercial groups of affiliated companies under central control (family-based groups, or zaibatsu). Because there are far fewer banks in the Philippines, the concentration of bank ownership to major wealth units seems substantially greater than in prewar Japan.

The relative economic effectiveness in the economic development process of the (family) group form of industrialization cannot be determined a priori. As Japan's experience as well as other cases suggest, there are both economic benefits and costs. (For general discussions see Leff 1976 and 1979.) On the benefit side, the group may be able and willing to innovate, to search out foreign technology (frequently through joint ventures), to pool and otherwise take risk; to reduce risk and increase profits by internalizing to the group economies external to the individual firm; to economize on scarce entrepreneurial, managerial, marketing, and technical skills; and to offset imperfections in financial markets. On the cost side the group may exploit market power not only of individual firms in oligopolistic markets but of its entire operations; divert scarce capital and other resources to its own, less efficient, activities; reduce the general competitive environment; and so forth.

The major criticisms of the group form are not simply in terms of standard economic criteria. The group perpetuates and enhances the concentration

of income, wealth, and economic power. That economic power spills over into political power. They do not have to take as given the rules of the economic game as determined by government.

The "lessons" from the prewar Japanese experience of the zaibatsu form of industrial and financial organization are complex, mixed, and not yet fully evaluated by economic, political, or social criteria. It is our guess that on pure economic efficiency grounds the zaibatsu (and the new zaibatsu of the 1930s, in some respects analagous to the Philippine new elite of the 1970s) were a net contributor to Japan's economic development prior to World War II. Despite some static misallocation of resources through exploitation of oligopoly market power, as entrepreneurs they may have imported technology and allocated resources reasonably well in a dynamic context. However, the political and social costs of the zaibatsu probably outweighed their efficiency benefits. There are few apologists for the zaibatsu.

This group form of industrial organization seem a significant characteristic in many late comer developing countries with a capitalist system of private ownership of property. This phenomenon suggests a number of important theoretical and empirical issues: to what extent is the group form of industrial organization inevitable? To what extent will family-controlled groups evolve into management-controlled organizations? To what extent can the nature, growth, and function of groups be controlled by government policy? What are the interrelationships between economic and political power?

We cannot pretend to answer these questions in the Philippine context.

No economic analysis has been done of the role of family groups; indeed the data are not available. However, the highly respected economist technocrat and current Prime Minister Cesar Virata has said: "Each of these family groups has its own conglomerate...these types of development have not produced an efficient industrial system. We cannot allow small cement plants to proliferate, for example, just because each family would like to have one" (Business Week, May 17, 1982). Inefficiently small-sized plants have been more likely under the Philippines' import-protection policies; in prewar Japan's more open trade context the zaibatsu behaved differently. Interestingly, several of the "new elite" groups that flourished the most in the 1970s were in the greatest trouble in the 1981 crisis; indeed, government financial institutions had to assume at least temporary control of the Herdes Group's Interbank and Commercial Bank (the 1981 re-opened successor to the Overseas Bank), and the Silverio Group's Philipinas Bank.

Inevitably the study of the commercial banking system becomes, implicitly at least, in part a discourse upon economic power in the Philippines. Ongoing economic and political changes have created opportunities for entry into the elite despite the great importance of inheritance. Nonetheless, economic wealth and power remain highly concentrated. For general discussion see Mangahas and Barros, 1979. The relationships between and among the groups are variegated, situational, and certainly complex; they involve elements of friendship, hatred, alliance, competition, and ad hoc arrangements. The Philippine rules of the game at the top are different from Japan or the United States, and certainly the game is played as toughly in the Philippines. There are major differences in "revealed" cultural norms

shown in the behavior of those in power. Practices regarded as unacceptable in the United States or Japan are apparently tolerated in the contemporary Philippines. The relationships among financial, commercial, and industrial power, and their implications for development in the broadest sense, have yet to be understood fully--in the Philippines, in Japan, and indeed in any nation in the world.

*The authors are respectively Professor of Economics, Yale University and Assistant Professor of Economics, University of the Philippines. We are indebted to various leading members of the public and private financial community for their insights provided in interviews, and to Lerma Moreno and Ellen Rose Payongayong for research assistance. We have benefitted from discussions with Professor Edita Tan and her research on Philippine finance (see especially Tan 1979, and Tan et al, 1981). Patrick is mainly responsible for the interview data and the drafting of this essay, and Moreno for the tabular data. Financial support for this study was provided by the International Development Center of Japan through its Comparative Analysis Project.

¹Recently the IMF and World Bank staff have prepared a series of studies including the Philippines in comparative analysis of financial markets and institutions in developing countries; see, for example, Khatkhate and Villanueva (1979) and Saito and Villanueva (1978, #49).

²The specific dating is somewhat arbitrary. For a more detailed discussion of the Japanese financial system from the 1880s to the 1970s see Teranishi and Patrick (1977 and 1978), and Patrick (1967, 1972, 1980, and 1982).

³For good studies of Philippine economic performance see Ranis et al. (1974); Bautista (1980); and Bautista and Power (1980); and the periodic publications ("Executive Briefing Pamphlets" and others) of the Center for Research and Communications, Manila.

⁴Relatively few empirical studies are available; the Nicaragua case has been analyzed by Strachan (1976), Pakistan by White (1974), and Korea by Jones and Sakong (1980). Our study focuses on Philippine commercial

banks and hence the operations of domestic groups. Many groups, especially the largest, have substantial tie-ups with foreign firms, mainly based in the United States or Japan. For a description of Japanese involvement, as well as brief descriptions of most of the Filipino groups, see Tsuda (1978).

⁵Emery (1970), IMF/World Bank Mission (1979), and Tan et al. (1981) provide good general descriptions of the financial system. For more detailed quantitative data see Hooley and Moreno (forthcoming), and the annual reports and other publications of the Central Bank of the Philippines. An important analytical review of the literature is provided by Tan (1979).

⁶See IMF-World Bank Mission Report (1979 , p. 1), Table 2, and for 1970, Ranis et al (1974, p. 229, adjusted to exclude Central Bank assets). The comparable ratios for prewar Japan were 37 percent in 1885, 64 percent in 1900, 110 percent in 1913, 133 percent in 1920, and 240 percent in 1930.

Table 1

Economic Overview

Basic Indicators

Population (millions, mid-1980)	49.0
Area (1,000 square kilometers)	300
GNP per capita (US dollars, 1980)	690
Growth rate per capita (real, average annual, percent, 1960-80)	2.8
Inflation rate (average annual, percent)	
1960-70	5.8
1970-80	13.2

Growth Rates (real, average annual, percent)

	<u>1960-70</u>	<u>1970-80</u>
Gross domestic product	5.1	6.3
Agricultural production	4.3	4.9
Manufacturing	6.7	7.2
Gross domestic investment	8.2	10.5
Merchandise trade		
Exports	2.2	7.0
Imports	7.1	3.4
Population	3.0	2.7

Structure of Production and Demand (share of GDP, percent)

	<u>1960</u>	<u>1980</u>
Agriculture	26	23
Manufacturing	20	26
Consumption	84	75
Gross domestic investment	16	30
Gross domestic savings	16	25
Exports of goods and non-factor services	11	20

Source: World Bank, World Development Report 1982, Annex.

Table 2. The Philippine Financial System: Institutions and Total Assets

	Number: 1980		Total Assets		Percent of Total Assets		Percent Ratio to GNP	
	Head Offices	Total Offices	1974	1980	1974	1980	1974	1980
Banking Institutions	1209	3419	54,142.8	193,599.2	72.3	79.9	54.2	71.8
Commercial Banks	32	1501	42,424.8	144,428.0	56.7	59.6	42.5	53.5
*Government	2		13,154.3	41,395.0	17.6	17.1	13.2	15.3
Private domestic	26		23,133.0	84,275.1	30.9	34.8	23.1	31.2
Private foreign branches	4		5,605.4	18,730.9	7.5	7.7	5.6	6.9
Thrift Banks	144	671	1,666.9	10,547.1	2.2	4.4	1.6	3.9
Private development banks	43	154	296.3	1,618.3	0.4	0.7	0.3	0.6
Savings and mortgage banks	10	266	1,159.9	7,352.6	1.6	3.0	1.2	2.7
Stock savings and loan associations	91	251	210.7	1,576.2	0.3	0.7	0.2	0.6
Rural Banks	1030	1155	2,110.7	5,524.2	2.8	2.3	2.1	2.0
*Specialized Banks	3	92	7,940.4	33,099.9	10.6	13.7	7.9	12.3
*Development Bond of the Philippines			6,758.0	27,088.0	9.0	11.2	6.7	10.0
*Land Bank			1,182.4	6,056.0	1.6	2.5	1.2	2.2
*Philippine Amanah Bank			-	-	-	-	-	-
Nonbank Financial Institutions	1178	1475	20,714.2	48,604.5	27.7	20.1	20.7	18.0
Investment houses	12	62	3,839.9	8,607.3	5.1	3.6	3.8	3.2
Finance companies	342	531	2,306.7	11,902.1	3.1	4.9	2.3	4.4
Investment companies	62	62	689.0	4,979.7	0.9	2.1	0.7	1.8
Securities dealers/brokers	141	141	882.1	1,035.5	1.2	0.4	0.9	0.4
Pawnshops	544	598	100.8	290.5	0.1	0.1	0.1	0.1
Fund managers	12	12	1,951.5	1,658.1	2.6	0.7	1.9	0.6
Lending investors	57	61	24.9	50.2	-	-	-	-
Nonstock savings and loan associations	72	72	71.2	299.4	0.1	0.1	0.1	0.1
Mutual building and loan associations	7	7	24.7	18.7	-	-	-	-
Private insurance companies			3,468.0		4.6		3.4	
*Specialized Nonbank	4	4	7,355.4	19,763.0	9.8	8.2	7.3	7.3
*GSIS (Gov't Service Insurance System)			4,144.5	9,245.5	5.5	3.8	4.1	3.4
*SSS (Social Security System)			2,388.9	8,220.7	3.2	3.4	2.4	3.0
*ACA (Agricultural Credit Administration)			451.5		0.6		0.5	
*NIDC (Nat'l Industrial Dev. Corp.)			370.5		0.5		0.4	
Total			74,857.0	242,203.7	100	100	74.9	89.8

Sources: IMF-World Bank Mission (1979), Tables 1 and 2, Commercial bank by category, Appendix Tables; Central Bank Fact Book (1980), Philippine Statistical Yearbook (1981).

Notes: * indicate government financial institutions. Commercial bank data by category are slightly different from the total since the data are from a different source; accordingly ratios are slightly different as well.

Table 3 Inflation, Interest Rates and Real Interest Rates

Year	Rate of Inflation ^a	Savings Deposits		Time Deposits		Money Market Rates ^d		Ceiling Lending Rate ^e	
		Interest Rate ^b	Real Interest Rate ^c	Interest Rate ^b (360 days)	Real Interest Rate ^c	Nominal	Real Interest Rate ^c	Nominal	Real
1959	-0.9	3.0	3.9	3.5	4.4			14	14.9
1960	4.2	3.0	-1.2	3.5	-0.7			14	9.8
1961	1.6	3.0	1.4	3.5	1.9			14	12.4
1962	5.8	3.0	-2.8	3.5	-2.3			14	8.2
1963	5.6	3.5	-2.1	4.5	-1.1			14	8.4
1964	8.2	3.5	-4.7	4.5	-3.7			14	5.8
1965	2.6	4.0	1.4	5.0	2.4			14	11.4
1966	5.4	5.75	0.35	6.5	1.1			14	8.6
1967	6.3	5.75	-0.55	6.5	0.2	11.6	5.3	14	7.7
1968	2.4	5.75	3.35	6.5	4.1	12.1	9.7	14	11.6
1969	2.0	6.0	4.0	7.0	5.0	13.7	11.7	14	12.0
1970	14.3	6.0	-8.3	7.0	-7.3	13.6	-0.7	14	-0.3
1971	14.7	6.0	-8.7	7.0	-7.7	12.7	-2.0	14	-0.7
1972	10.3	6.0	-4.3	7.0	-3.3	14.3	4.0	14	3.7
1973	11.0	6.0	-5.0	7.0	-4.0	9.2	-1.8	14	3.0
1974	34.5	6.0	-28.5	9.5	-25.0	17.6	-16.9	14	-20.5
1975	8.2	6.0	-2.2	9.5	1.3	15.0	6.8	14	5.8
1976	6.1	7.0	0.9	10.0	3.9	12.9	6.8	14	7.9
1977	7.9	7.0	-0.9	10.0	2.1	12.6	4.7	14	6.1
1978	7.6	7.0	-0.6	10.0	2.4	10.7	3.1	14	6.4
1979	18.8	7.0	-11.8	10.0	-8.8	12.9	-5.9	16	-2.8
1980	17.8	9.0	-8.8	14.0	-3.8	13.3	-4.5	16	-1.8

Sources: IMF-World Bank Mission Report (1979), Tables 13, 31; Tan (1979), Tables 6, 7; Central Bank Statistical Bulletin and Philippine Financial Statistics.

- Notes:
- Measured by changes in the consumer price index.
 - Rates offered by commercial banks, rates by other financial institutions were generally 0.5% higher since July 29, 1974.
 - The real interest rate is defined as the nominal interest rate minus the rate of inflation.
 - These are the published rates; actual rates are considerably higher. In relatively thin markets, interest rates fluctuate widely; for this reason monthly averages, much less the annual averages given in this table, are somewhat misleading.
 - The maximum rate for unsecured loans under the Usury Law until repeal, then Central Bank ceiling.

Table 4. The Private Domestic Banks: Establishment, Assets, Branches, Group Affiliation

	NAME OF BANK (by size of Total Assets) 1980	COMMON ABBREVIATION	BANK HISTORY	CONTROLLING GROUP (latest avail- able data)	FOREIGN EQUITY		
					NAME OF FOREIGN INVESTOR	EQUITY	NATIONALITY
1	ALLIED BANKING CORPORATION	Allied	Takeover of Assets and Liabilities of General Bank & Trust Co.; opened June 1, 1977 after Genbank was declared insolvent and ordered closed by the Central Bank on March 25, 1977	Lucio Tan Willy Co.			
	GENERAL BANK & TRUST COMPANY	Genbank	Established September 7, 1963	Clarencio Yujitcb	Grindlays (Subsequently sold)	40.0%	U.K.
2	BANK OF THE PHILIPPINE ISLANDS	BPI	Established August 1, 1851; merged with People's Bank May 20, 1974	Ayala-Zobel	Morgan Guarantee Trust Co. (New York)	20.6%	American
	PEOPLE'S BANK & TRUST COMPANY	People's	Established November 1, 1926.	J. Antonio Araneta			
3	METROPOLITAN BANK & TRUST COMPANY	Metrobank	Established September 7, 1962	George S. K. Ty			
4	REPUBLIC PLANTERS BANK	RPB	Formerly Republic Bank; Name changed after equity acquired by sugar bloc May 16, 1978	(Elizalde) Benedicto			
	REPUBLIC BANK	Republic	Established January 5, 1961	Pablo Roman, Chairman			
5	PHILIPPINE COMMERCIAL & INDUSTRIAL BANK	PCIB	Merger of PCIB, Merchants Banking Corporation and Philippine Bank of Commerce, March 23, 1976; PCIB established February 8, 1960	First Holdings			
	MERCHANTS BANKING CORP.	Merchants	Established September 3, 1963	Ruffino			
	PHIL. BANK OF COMMERCE	Commerce	Established July 8, 1938	Juan Cojuangco			
6	UNITED COCONUT PLANTERS BANK	UCPB	Formerly FIRST UNITED BANK; Name changed to UCPB August 12, 1975 after the Phil. Coconut Producers Federation acquired equity in the bank pursuant to Presidential Decree No. 755	Ramon Cojuango			
7	FIRST UNITED BANK FAR EAST BANK & TRUST COMPANY	FUB FEBTC	Established May 16, 1963 Established April 4, 1960	Jose Cojuangco Jose B. Fernandez, Jr. Barcelon Gokongwei Yule Palanca Quimson Bancom Soriano Trinidad Sixto Roxas	Chemical Bank of New York Mitsui Bank of Japan	12.6% 12.6%	American Japanese

Table 4 (continued)

	NAME OF BANK (by size of Total Assets) 1980	COMMON ABBREVIATION	BANK HISTORY	CONTROLLING GROUP (latest avail- able data)	FOREIGN EQUITY		
					NAME OF FOREIGN INVESTOR	EQUITY	NATIONALITY
8	TRADERS ROYAL BANK	Traders	Formerly Traders Commercial Bank Name changed to Traders Royal Bank, April 1, 1974 after Royal Bank of Canada acquired equity in the bank	Benedicto Africa	Royal Bank of Canada (subsequently sold)	30.0%	Canadian
	TRADERS COMMERCIAL BANK	Traders Commercial	Established June 18, 1963	Jose Africa, Chair- man Montelibano			
9	RIZAL COMMERCIAL BANKING CORPORATION	RCBC	Established January 20, 1963	Yuchengco Valdez Sigulon-Reyna SyCip Tantoco	Continental International Finance Corp. Ltd.	30.0%	American
					Sanwa Bank of Japan	10.0%	Japanese
10	CHINA BANKING CORPORATION	China	Established August 16, 1920 Reopened July 23, 1945	Deck-Chiong SyCip	Sanwa Bank of Japan	33.0%	Japanese
11	PACIFIC BANKING CORPORATION	Pacific	Established June 23, 1955 Merged with Progressive Commercial Bank, December 24, 1975	Babst Chua			
	PROGRESSIVE COMMERCIAL BANK	Progressive	Established May 3, 1962	Pastor Endencia Jorge Araneta			
12	THE MANILA BANKING CORP.	Manilabank	Established January 20, 1961	Cabarrus Jose P. Fernandez Puyat			
13	CONSOLIDATED BANKING CORP.	Solidbank	Established July 19, 1963	Madrigal			
14	EQUITABLE BANK- ING CORPORATION	Equitable	Established September 20, 1950	Trinidad Tomulo	Citibank	40%	American
15	PHILIPPINE BANK OF COMMUNICATIONS	PBCom	Established September 4, 1939	Nubla- Ang Beng Uh			
16	INSULAR BANK OF ASIA AND AMERICA	IBAA	Merger of Bank of Asia and First Insular Bank of Cebu, January 1, 1974	Kalaw	Bank of America (subsequently sold)	21.6%	American
	BANK OF ASIA	Asia	Established October 15, 1963	Kalaw	Dai-ichi Kangyo Bank	10.0%	Japanese
	FIRST INSULAR BANK OF CEBU	First Insular	Established January 23, 1961	Avoitiz			
17	SECURITY BANK & TRUST CO.	Security	Established June 18, 1951	Cy, Ang	The Bank of Nova Scotia	29.5%	Canadian
18	COMMERCIAL BANK & TRUST CO.	Comtrust	Established September 20, 1954	Ayala (purchased from Marquez)	The Chase Manhattan Bank, N.A. (subsequently sold)	30.0%	

Table 4 (continued)

	NAME OF BANK (by size of Total Assets) 1980	COMMON ABBREVIATION	BANK HISTORY	CONTROLLING GROUP (latest avail- able data)	NAME OF FOREIGN INVESTOR	EQUITY	NATIONALITY
19	PHILIPPINE BANKING CORP.	Philbanking	Established September 2, 1957	Laurel Ortigas-Villanueva			
20	PRUDENTIAL BANK	Prudential	Established July 2, 1952	Santos			
21	INTERNATIONAL COR- PORATE BANK	Interbank	Formerly Continental Bank Reopened September 19, 1977	Herdias Group			
	CONTINENTAL BANK	Continental	Established April 17, 1963, its closure was authorized by the President of the Phils. upon Central Bank recommendation on June 24, 1974 w/ takeover of its assets by the Central Bank	Munoz, Chairman			
22	ASSOCIATED CITIZENS	Associated Citizens	Merger of Associated Banking Corp. and Citizens Bank, October 14, 1975	Leonardo K. Ty			
	ASSOCIATED BANKING CORP.	Associated	Established February 8, 1965	Ty. Recto			
	CITIZENS BANK & TRUST COMPANY	Citizens	Established October 4, 1962	Arambulo, President			
23	CITY TRUST	City Trust	Formerly Feati Bank & Trust Co.	Madrigal Brimo	First National City Bank	32.3%	American
	FEATI BANK & TRUST COMPANY	Feati	Established November 7, 1961	Araneta			
24	PRODUCERS' BANK OF THE PHIL.	Producers	Established July 6, 1971	Co Bun Chun Henry L. Co.			
25	FILIPINAS	Filipinas	Merger of Filipinas Bank and Manufacturers Bank December 29, 1975; name changed May 7, 1980 from Filipinas-Manufacturers	Silverio; PNB majority shareholder from 1980			
	FILIPINAS BANK & TRUST CO.	Filipinas	Established October 5, 19	Echus, Chairman			
	MANUFACTURERS BANK & TRUST CO.	Manufac- turers	Established August 30, 1957	De las Alas, Chairman			
26	PHILIPPINE TRUST COMPANY	Phil. Trust	Established June 1, 1964	Emilio Yap Ramos			
27	OVERSEAS BANK OF MANILA	Overseas	Established January 6, 1964 under Central Bank supervision starting November 1967 until operations suspended by CB Monetary Board August 1, 1968				

Table 5. Private Commercial Banks Classified by Management Style and Type of Ownership, 1978.

Management Style ^a	Ownership Type
<u>Owner-Managed</u>	<u>Anakbayan</u> ^b
Associated Citizens	Comtrust ^g
China Bank	Filmanbank ^g
Equitable	Interbank ^f
Filmanbank	Manilabank
Philbanking ^f	Philbanking
Phil. Trust	PCIB ^f
Producers	Prudential
Prudential	Traders Royal ^{e,f,g}
Republic Planters ^e	Solidbank
Traders Royal ^e	
UCPB ^e	<u>Filipino-Chinese</u>
	Allied ^f
<u>Intermediate</u>	Associated Citizens
Allied	China Bank
Comtrust	Equitable
IBAA	Metrobank
Interbank	Pacific
Manilabank	PBCom ^f
Metrobank	Producers
Pacific	
PBCom	<u>Joint Ventures</u> ^c
Security	BPI
	Citytrust
<u>Professional Management</u>	FEBTC
BPI	IBAA ^g
Citytrust	RCBC
FEBTC	Security ^g
PCIB	
RCBC	<u>Quasi-Governmental</u> ^d
Solidbank	Republic Planters ^{e,f}
	UCPB ^{e,f}

Sources: The "management style" classification is based on interviews in 1979 and 1980. Some informed observers would place certain banks in a different category.

Ownership type: Katigbak, ("3 Classes of Banks," April 2, 1979).

- Notes:
- a: This is a loose classification indicating roughly the degree to which the bank is managed in a traditional, often family style by owners, by professional managers hired by the owners, or in some intermediate position.
 - b: "The Anakbayan banks...are where the Filipino families can trace their heritage and families way back" in the Philippines.
 - c: Banks which have a minority foreign ownership; China Bank and Equitable also have foreign participation (see Table 6).
 - d: "This column considers Republic Planters Bank and the United Coconut Planters Bank as quasi-government banks, apparently due to their sources of funds.
 - e: Apparently controlled by a single individual.
 - f: "Political banks," considered close to the government
 - g: Remaining foreign interest subsequently sold.

Table 6. Bank Assets, Liabilities, Deposits and Net Worth: Amounts and Rank, Selected Years

NAME OF BANK	TOTAL ASSETS										TOTAL LIABILITIES								
	RANK					AMOUNT (in million pesos)					RANK				AMOUNT (in million pesos)				
	1980	1978	1973	1968	1965	1980	1978	1973	1968	1965	1980	1978	1973	1968	1980	1978	1973	1968	
PRIVATE DOMESTIC																			
1 Allied	1	3				7,256.9	3,709.3				1	3			6,801.9	3,423.4			
Genbank			14	26	24			670.5	93.8	55.9			14	25			625.6	80.1	
2 BPI	2	1	2	4	4	6,441.7	4,442.0	1,262.2	398.9	221.5	2	1	9	4	5,924.3	4,041.3	695.5	345.6	
People's				14	10				190.6	141.4			17	14			417.1	167.4	
3 Metrobank	3	2	8	16	21	5,506.4	4,072.8	883.0	173.1	64.4	3	2	7	16	5,152.5	3,837.8	826.4	157.5	
4 RPB	4	23				4,880.5	745.4				4	13			4,628.4	653.0			
Republic			19	13	5			270.9	224.8	219.8			21	12			241.3	209.9	
5 PCIB	5	5	1	3	2	4,781.2	3,236.4	1,307.8	448.3	298.8	5	5	1	3	4,398.8	2,997.7	1,213.0	381.3	
Merchants			20	25	29			269.5	95.0	35.4			22	26			240.2	78.4	
Commerce			18	11	9			440.4	236.2	159.0			19	11			403.7	210.9	
6 UCPB	6	4				4,644.9	3,436.9				6	4			4,136.0	3,109.9			
FUB			21	21	20			228.6	103.3	77.8			24	23			203.2	84.7	
7 FEBTC	7	6	9	10	14	4,344.7	3,202.3	861.1	238.4	108.8	7	6	8	10	4,016.1	2,944.9	759.5	214.2	
8 Traders Royal	8	16	29			3,757.9	1,801.8	136.5			8	15			3,552.1	1,663.8			
Traders (Commercial)				28	23					81.3			32	28				113.8	68.6
9 RCBC	9	7	3	20	25*	3,720.1	3,092.3	1,153.3	113.4	51.9	9	7	2	20	3,472.3	2,891.3	1,093.2	97.8	
10 China	10	8	4	1	3	3,541.8	2,814.8	1,122.1	505.3	287.4	10	8	3	1	3,159.4	2,526.2	990.7	433.2	
11 Pacific	11	9	10	9	12	3,344.7	2,544.4	801.9	263.8	129.6	11	9	10	8	3,125.3	2,372.8	733.9	236.4	
Progressive			30	31	31			75.3	66.1	32.1			33	31				51.3	54.6
12 Manilabank	12	12	7	15	17	3,204.4	2,207.0	969.1	183.5	101.1	12	12	6	15	2,945.9	2,009.3	904.5	162.2	
13 Solidbank	13	10	6	7	19	2,978.7	2,524.2	1,005.9	269.5	78.7	13	10	4	6	2,716.5	2,298.1	929.2	244.6	
14 Equitable	14	11	5	2	1	2,889.7	2,443.6	1,022.4	467.3	310.4	14	11	5	2	2,544.3	2,175.8	918.9	419.2	
15 PBCom	15	18	16	8	7	2,744.6	1,410.3	501.8	265.6	179.9	15	18	15	9	2,482.7	1,224.2	452.6	235.4	
16 IBAA	16	15	15			2,720.3	1,114.4	638.1			16	16			2,455.8	1,611.6			
Asia				22	25*				102.5	51.9			20	22				340.1	86.4
First Insular				23	26				101.6	47.0			23	21				234.9	90.0
17 Security	17	19	17	12	11	2,587.2	1,369.4	500.7	228.0	140.3	17	19	16	13	2,405.2	1,210.4	447.7	199.4	
18 Contrust	18	13	11	6	8	2,412.7	1,984.9	703.4	274.1	163.8	18	13	12	7	2,217.7	1,800.8	639.3	243.7	
19 Philbanking	19	14	13	17	13	2,203.8	1,952.6	690.8	146.5	116.5	19	14	13	18	2,029.1	1,794.8	627.5	125.0	
20 Prudential	20	17	12	5	6	2,177.5	1,603.8	700.2	324.7	210.7	20	17	11	5	1,977.3	1,426.7	639.7	287.3	
21 Interbank	21	21				1,641.4	976.3				21	21			1,492.1	864.2			
Continental				29	28				78.0	45.4			18	29				413.1	61.6
22 Assoc. Citizens	22	20				1,624.4	1,110.3				22	20			1,472.8	974.9			
Associated			25	24	30			188.1	100.4	32.2			28	24				157.5	83.1
Citizens			24	27	22			195.0	89.5	61.4			27	27				167.2	74.1
23 Citytrust	23	22				1,481.7	824.2				23	22			1,307.3	696.4			
Festi			22	30	27			228.4	68.3	46.5			25	30				197.5	55.0
24 Producers	24	25	23			1,416.7	682.0	211.9			24	25	26		1,241.4	546.7		172.8	
25 Filabank	25	24				1,053.8	709.7				26	24			732.1	617.4			
Filipinas			28	32	32			158.2	52.6	17.3			31	32				136.2	42.0
Manufacturers			27	18	18			164.7	146.1	85.3			29	17				146.6	129.9
26 Philtrust	26	26	26	19	15	917.4	561.0	173.4	140.9	103.7	25	26	30	19	742.4	424.8	142.2	118.3	
OVERSEAS				16						103.2									
TOTAL PRIVATE DOMESTIC						84,275.1	55,272.2	17,535.2	6,271.9	3,837.0					77,281.3	50,146.6	16,274.9	5,477.8	

Sources: Data for 1980 -- CB Factbook, Philippine Financial System, 4Q, 1980.
 Data for 1978 -- CB Factbook, Philippine Financial System, 4Q, 1978.
 Data for 1973 -- Banks: Table G, SCV 1974 Assets: Table E, SCV 1974
 Data for 1968 -- Banks: Table E, SCV 1969 Assets: Table F, SCV 1969
 Data for 1965 -- Banks: Derived Assets: Table F, SCV 1966 (computed)

Liabilities: Tables 0₁-0₃, SCV 1973
 Liabilities: Tables 0₁-0₃, SCV 1968

Note: * -- Amount of Total Assets of RCBC and Asia are equal.

Table 6 (continued)

-57-

NAME OF BANK	TOTAL DEPOSITS										TOTAL NET WORTH									
	BANK					AMOUNT (in million pesos)					BANK					AMOUNT (in million pesos)				
	1980	1978	1973	1968	1965	1980	1978	1973	1968	1965	1980	1978	1973	1968	1965	1980	1978	1973	1968	1965
PRIVATE DOMESTIC																				
1	Allied	3	7			4,647.8	2,733.6				3	4				635.0	276.9			
	Combank		17	22	28			143.2	31.8	33.4			17	27	20			44.9	13.7	12.0
2	BPI	2	1	1	3	3,948.0	3,001.4	913.9	303.9	174.7	1	1	1	3	3	517.4	400.7	149.6	53.3	33.8
	People's			13	11				123.5	77.3				13	8 ^a				23.2	23.5
3	Natrobank	3	3	9	15	3,559.9	2,616.0	473.2	104.5	39.1	6	8	14	23	28	353.9	234.9	45.5	15.6	8.0
4	RPS	15	23			1,518.5	313.6				14	25				252.1	92.4			
	Republic			19	14			160.0	110.0	104.9				23	26			29.6	14.9	26.9
5	PCIB	6	4	5	5	2,758.5	2,147.3	586.7	223.6	153.0	4	7	5	2	2	382.4		94.8	67.0	45.8
	Merchants			18	23			157.3	48.9	12.2				24	19		238.7	29.3	16.6	11.1
	Commerce			13	10			249.7	154.1	92.4				19	10			36.7	25.3	22.4
6	UCPB	4	2			3,188.1	2,733.6				2	2				508.9	327.0			
	FUB			21	21			143.2	31.8	33.4				26	17			25.4	18.6	16.4
7	FESTC	5	5	8	12	2,922.7	1,889.7	475.0	130.0	38.1	8	6	4	12	13	328.6	257.4	101.6	24.2	17.1
8	Traders Royal	7	12			2,654.0	1,293.8				17	19				205.8	138.0			
	Traders (Commercial)			28	31				39.2	18.8				29	29			22.7	12.7	8.4
9	ECDC	8	8	4	24	2,390.7	1,317.2	611.5	48.4	17.1	15	11	12	24	23	247.8	201.0	60.1	15.6	10.5
10	China	14	11	6	1	1,689.2	1,317.9	491.0	324.8	194.8	5	3	2	1	1	382.4	288.6	131.4	72.1	48.7
11	Pacific	9	10	10	9	2,363.8	1,351.7	472.1	157.2	64.8	16	16	7	9	12	219.2	171.7	68.0	27.4	18.2
	Progressive			29	32			35.2	18.6	14.9								24.0	11.5	6.9
12	Mamibank	10	13	11	17	2,173.8	1,261.6	434.8	94.8	50.4	12	12	8	16	16	258.5	197.6	64.6	21.3	15.5
13	Solidbank	11	6	2	6	2,086.9	1,778.1	646.8	170.7	30.1	13	9	6	11	19	252.2	226.1	76.7	24.9	12.9
14	Equitable	12	9	3	2	1,818.4	1,440.5	636.4	309.4	229.1	6	5	3	4	4	345.4	267.8	103.5	48.1	32.7
15	PBCom	18	19	18	7	1,334.5	575.7	162.5	166.2	103.0	11	13	16	7	7	261.9	186.1	49.2	30.2	23.9
16	IBAA	19	17	13		1,332.6	878.4	319.3			10	10	13			264.5	202.8	59.1		
	Asia				28				37.2	19.0				22	21				16.1	11.2
	First Insular				19				78.5	28.2				30	29				11.6	7.9
17	Security	15	18	16	11	1,646.9	710.2	244.0	139.6	80.7	20	17	15	8	10	182.0	158.9	53.0	28.6	21.5
18	Construct	13	14	12	8	1,769.7	1,257.1	330.5	163.5	86.1	19	14	9	6	8 ^a	195.0	184.1	64.1	30.4	23.5
19	Philbanking	20	16	14	18	1,215.6	910.0	275.6	82.7	36.9	23	18	10	15	14	174.7	158.3	63.3	21.5	14.8
20	Prudential	17	15	7	4	1,370.9	1,089.7	478.8	227.9	135.8	18	15	11	6	5	200.2	177.1	60.5	37.4	28.7
21	Interbank	23	26			581.5	231.6				26	24				149.3	112.1			
	Continental				27				37.6	22.1				20	25				16.4	9.9
22	Assoc. Citizens	21	20			842.6	504.4				25	21				151.6	135.4			
	Associated			26	25				73.1	42.1				22	18			30.6	17.3	10.3
	Citizens			25	29				77.9	33.5				25	25			27.8	15.4	13.2
23	Citytrust	24	22			531.5	369.6				24	23				174.4	127.8			
	First			22	26			105.1	38.1	30.8				21	28			30.9	13.3	8.8
24	Producers	22	25	30		599.4	264.5	27.8			21	22	18			173.3	135.3	39.1		
25	Filinvestbank	26	21			387.6	383.3				9	26				321.7	92.3			
	Philippines			27	30			63.8	27.0	6.7				30	32			22.0	10.6	6.5
	Manufacturers			24	20			89.9	62.1	36.7				28	21			23.1	16.2	14.1
26	Philtrust	25	24	23	16	519.6	311.2	91.1	101.4	73.5	22	20	20	14	11 ^a	175.0	136.2	31.2	22.6	18.7
	OVERSEAS				18					38.6										18.7
TOTAL PRIVATE DOMESTIC						49,031.2	31,888.4	9,143.3	3,681.6	2,159.2						8,993.8	5,123.2	1,673.4	794.1	604.5

Sources: Data for 1980 — CB Factbook, Philippine Financial System
 Data for 1978 — Banks: Table C, SCV 1974. Deposits and Net Worth: Table H, SCV 1974 (computed)
 Data for 1968 — Banks: Table E, SCV 1974. Deposits and Net Worth: Table F, SCV 1969 (computed)
 Data for 1965 — Banks: Derived. Deposits computed from Table E, SCV 19-6; Net Worth computed from Table F, SCV 1964.

Note: * — same amount.

Table 7. COMMERCIAL BANK RELIANCE ON CENTRAL BANK CREDIT AND SWAP ARRANGEMENTS (OUTSTANDING BALANCES, DECEMBER 31, 1978, 1979, 1980)

	NAME OF BANK	CENTRAL BANK CREDIT (in million pesos)			FOREIGN EXCHANGE FUTURES BOUGHT (in million pesos)			CENTRAL BANK CREDIT Total Assets (percent)			CENTRAL BANK CREDIT Total Capital Accounts (percent)			FOREIGN EXCHANGE BOUGHT Total Assets (percent)			FOREIGN EXCHANGE BOUGHT Total Capital Accounts (percent)		
		1978	1979	1980	1978	1979	1980	1978	1979	1980	1978	1979	1980	1978	1979	1980	1978	1979	1980
	PRIVATE DOMESTIC	5,142.1	8,283.7	11,299.0	3,849.4	8,100.5	14,672.7	9.3X	12.02X	13.41X	100.32X	140.23X	158.06X	6.96X	11.76X	17.41X	75.10X	137.20X	205.29X
1	Allied Bank	888.7	850.6	542.7	664.6	1,412.2	1,461.6	23.95	14.23	7.47	320.94	212.35	118.42	17.91	23.62	20.14	240.03	352.55	348.94
2	BPI	207.6	306.6	904.8	62.9	345.5	756.0	4.67	9.68	14.05	51.80	111.57	174.88	1.41	6.60	11.74	15.68	76.09	146.12
3	Metrobank	271.9	461.8	464.9	257.1	607.1	1,138.0	6.67	8.80	8.44	115.69	159.22	131.56	6.31	11.57	20.67	109.43	209.32	322.04
4	RPB	213.7	1,494.8	2,545.1	-	-	71.7	8.67	52.41	52.15	231.34	977.24	1046.61	-	-	1.47	-	-	29.48
5	PCIB	249.7	165.3	682.0	403.0	1,102.4	3,640.8	7.71	4.49	14.26	104.58	58.52	193.64	12.45	29.93	76.15	166.81	309.27	1,033.75
6	UCPB	137.2	305.7	366.0	-	187.8	829.8	4.40	7.76	7.80	48.06	78.71	71.59	-	4.77	17.86	-	48.35	162.30
7	FEBTC	146.4	337.5	308.6	356.1	399.2	953.1	4.47	9.67	7.10	56.87	118.18	93.93	11.1X	9.67	21.94	138.31	139.78	290.10
8	Traders Royal	30.9	185.8	287.5	32.0	29.2	29.9	1.71	7.63	7.65	22.38	112.37	139.91	1.78	1.20	0.80	23.19	17.60	14.55
9	RCBC	448.2	439.9	374.3	689.6	1,696.7	1,095.6	14.49	11.75	10.06	223.01	195.82	148.07	22.30	45.30	29.45	343.17	755.72	433.42
10	China	327.5	471.5	724.1	272.8	439.9	769.2	11.63	14.49	20.44	113.49	138.03	189.36	9.69	13.52	21.72	94.54	128.77	201.16
11	Pacific	359.1	289.9	279.8	71.4	105.9	229.5	14.11	9.01	8.37	209.14	159.55	133.01	2.80	3.29	6.82	41.57	58.28	109.10
12	Manilabank	194.1	401.2	299.9	235.0	489.3	924.6	8.79	14.18	9.36	98.22	185.31	116.08	10.64	17.29	28.85	118.92	226.00	357.89
13	Solidbank	62.0	223.9	241.1	46.1	46.9	124.8	2.45	8.14	8.09	27.41	89.85	91.96	1.82	1.71	4.19	20.38	18.82	47.60
14	Equitable	40.4	142.6	283.4	131.4	75.7	201.3	1.65	5.80	9.81	15.07	46.00	81.22	5.37	3.08	6.97	49.04	24.42	57.69
15	PBCom	30.5	75.3	108.2	103.7	305.5	515.1	2.16	3.66	3.94	16.37	33.91	41.47	7.35	14.85	18.77	55.71	137.56	197.43
16	IBAA	110.7	109.5	515.9	117.8	199.9	66.2	6.10	5.44	18.96	54.58	45.73	194.13	10.57	10.11	2.43	58.09	83.48	24.91
17	Security	62.8	104.4	288.7	13.4	33.5	1,160.9	4.58	7.21	11.16	39.52	62.37	158.13	0.97	2.31	44.87	8.41	20.01	635.86
18	Comtrust	139.1	231.3	57.7	17.7	-	-	7.00	10.46	2.39	75.55	121.73	27.32	0.89	-	-	9.62	-	-
19	Philbanking	376.4	384.4	403.4	61.8	135.8	63.8	19.27	19.68	18.30	237.79	231.99	230.66	3.16	6.95	2.89	39.04	81.96	36.48
20	Prudential	25.4	100.5	220.5	-	1.5	46.1	1.58	4.96	10.13	14.34	54.67	101.23	-	0.07	2.12	-	0.82	21.16
21	Interbank	381.6	354.3	375.3	67.1	183.3	249.9	39.08	30.65	22.86	340.41	291.58	251.93	6.88	15.85	15.22	59.92	150.85	167.75
22	Associated Citizen	104.8	141.8	237.1	65.9	46.4	36.7	9.44	11.49	14.60	77.41	107.50	156.42	5.93	3.76	2.26	48.67	35.18	24.21
23	City Trust	119.0	159.5	275.6	148.3	109.8	177.2	14.43	13.68	18.60	93.05	105.62	157.97	17.99	9.42	11.96	115.99	72.71	101.57
24	Producers	133.1	163.7	266.4	70.1	93.7	135.5	22.45	18.22	18.80	113.16	110.24	153.54	10.27	10.43	9.56	51.77	63.10	78.10
25	Filmanbank	34.0	175.8	165.4	51.9	50.5	53.2	4.79	17.56	15.70	36.87	204.94	95.33	7.27	5.05	5.05	56.24	58.87	10.85
26	Phil. Trust	7.4	6.1	79.7	9.6	3.0	2.4	1.31	0.91	8.69	5.41	3.96	45.11	1.70	0.45	0.26	7.03	1.95	1.36
	GOVERNMENT	7,850.5	9,162.4	12,342.3	1,310.5	1,412.7	2,329.2	31.21X	27.41X	29.81X	396.61X	415.53X	493.15X	5.21X	4.23X	5.63X	66.20X	64.07X	93.07X
	PNB	7,725.4	9,025.0	12,293.3	1,278.7	1,384.4	2,320.5	33.11	29.29	31.80	426.61	450.00	537.05	5.48	4.49	6.00	70.61	69.03	101.38
	Veterans	125.1	135.8	49.0	31.8	28.3	8.7	6.84	5.18	1.79	74.24	68.09	22.93	1.73	1.08	0.32	18.85	14.17	4.08
	FOREIGN	483.1	902.0	2,018.6	2,214.8	3,964.0	3,900.4	4.35X	5.72X	10.78X	129.42X	240.80X	529.22X	19.93	25.12X	20.82X	593.33X	1058.22X	1022.58X
	Citibank, N.A.	242.4	503.6	973.0	1,814.8	3,074.6	3,483.6	3.42	3.98	7.70	242.40	503.60	973.00	25.63	30.47	27.57	1814.80	3074.60	3483.60
	Bank of America, NT & SA	165.9	278.5	749.1	165.3	585.5	102.7	7.30	7.42	20.80	-	-	-	7.27	15.61	2.85	-	-	-
	HSCB	36.8	107.5	108.9	3.7	45.1	127.8	3.59	8.87	6.70	27.91	81.07	81.26	0.36	3.72	7.86	2.81	34.01	95.37
	Chartered	38.0	12.4	187.6	231.0	258.8	186.3	5.16	1.43	21.68	26.87	8.73	127.26	26.70	35.40	21.53	163.34	182.26	126.30
	ALL BANKS	13475.7	18348.1	25659.9	7374.6	13477.2	20902.3	14.72X	15.53X	17.77X	180.20X	215.10X	255.79X	8.05X	11.41X	14.47X	98.61X	158.86X	208.36X

Table 8. Commercial Bank Credit Outstanding, Selected Features
(September 1978, 1979, and 1980) (in percent)

	Sept. 1978	Sept. 1979	Sept. 1980
A. <u>Distribution by Sector</u>			
All industries	100.0	100.0	100.0
Agriculture, Fishery and Forestry	10.7	11.9	15.1
Mining and Quarrying	6.7	8.1	8.7
Manufacturing	32.3	32.4	35.2
Electricity, Gas and Water	0.6	1.1	1.0
Construction	2.9	3.0	3.2
Trade	26.2	20.6	15.6
Transport, Storage and Communication	2.0	2.6	2.9
Financing, Insurance and Business Services	6.1	9.0	10.3
Real Estate	3.8	3.8	3.1
Community, Social and Personal Services	8.8	7.6	5.0
B. <u>Distribution by Maturity</u>			
Short-term	82.2	70.8	76.3
Intermediate-term	10.2	13.7	10.6
Long-term	7.6	15.5	12.9
C. <u>Distribution by Stated Interest Rate</u>¹			
More than 14%	5.5	6.5	37.9
14%	31.9	27.7	18.0
12-13%	33.9	40.6	17.0
Less than 10%	12.2	14.1	16.6
D. <u>Other Features</u>			
Unsecured	31.8	36.2	39.7
Private corporations	66.1	73.7	67.6
Individuals	23.0	16.1	19.8
Single Proprietors	5.5	2.8	3.1
Public Sector	2.8	4.9	7.6

Source: Central Bank of the Philippines, Statistical Bulletin, and Philippine Financial Statistics, 1978, 1979, and 1980.

Note: Data include government and foreign as well as private domestic commercial banks.

¹The interest rate ceiling was 12% on secured loans, 14% on unsecured.

Table 9. Total Credits Outstanding of Private Commercial Banks
Classified by Size of Firm

Size of Firm ^a	(million pesos)			
	Amount As of Oct. 31		Distribution (percent)	
	1979	1978	1979	1978
Total	43,227.2	34,268.0	100.0	100.0
Cottage industry (less than 100)	1,267.2	2,099.7	3.0	6.1
Small-scale enterprises (100 - 1,000)	3,019.0	4,256.1	7.0	12.4
Medium-scale enterprises (1,000 - 4,000)	4,205.0	4,066.5	9.7	11.9
Large-scale enterprises (more than 4,000)	27,464.9	15,353.7	63.5	44.8
Others-unknown	7,271.1	8,492.0	16.8	24.8

Source: Central Bank

Note: Excluding PNB, past due items, items in litigation, domestic and foreign bills-clean.
a: amount of assets, in 1,000 pesos.

Table 10. Credits Outstandings by Financial Institutions by Maturity
As of December 31, 1977

(Million pesos)

	Short Term		Intermediate Term		Long Term	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Commercial banks	34,256.7	87.1	4,233.6	35.1	1,682.6	10.8
Savings bank	485.7	1.2	650.3	5.4	586.7	3.8
Stock S&L associations	389.6	1.0	48.7	0.4	33.0	0.2
*LBP and PAB ^a	482.6	1.2	88.5	0.7	501.4	3.2
*DBP	563.9	1.4	1,794.9	14.9	7,356.0	47.0
PDBs	76.6	0.2	234.8	1.9	122.8	0.8
Investment houses	414.6	1.1	378.9	3.1	733.1	4.7
Financing companies	1,553.8	4.0	2,660.7	22.1	16.6	0.1
Investment companies	280.0	0.7	256.5	2.1	313.1	2.0
Securities dealers	450.0	1.1	9.1	0.1	20.7	0.1
*GSIS	-	-	917.2	7.6	2,477.7	15.8
*SSS	369.9	0.9	66.9	0.6	972.4	6.2
Private insurance companies	-	-	707.5	5.9	823.5	5.3
<u>Total</u>	<u>39,323.4</u>	<u>100.0</u>	<u>12,047.6</u>	<u>100.0</u>	<u>15,639.6</u>	<u>100.0</u>
Percentage of Total:	Short term				58.7	
	Intermediate term				18.0	
	Long term				23.3	

Source: IMF-World Bank Mission Report (1979, Table 22, p.43).

Note: While data are not fully consistent the following definitions are used: short-term, up to one year; intermediate-term, from one to five years; long-term, five years or more.

a: Land Bank of Philippines and Philippine Amanah Bank.

*: Government financial institutions, but not including the two government-owned commercial banks.

References Cited

- Bautista, Romeo M., "Structural Change in the Philippines" in Krause, Lawrence B. and Suelo Sekiguchi, Economic Interaction in the Pacific Basin (Washington: Brookings Institution 1980), Chapter 6.
- Bautista, Romeo M., John H. Power, and Associates, Industrial Promotion Policies in the Philippines (Manila: Philippine Institute for Development Studies, 1979).
- Business Day (daily newspaper).
- Business Week, "Manila Moves in on the Family Conglomerates," May 17, 1982, pp. 51-52.
- Center for Research and Communications (CRC), Executive Briefing Pamphlet, series. See especially:
- a) "Regional Dimensions of Philippine Economic Growth," No. 11 (1979).
 - b) "Economic Aspects of Metro Manila and the Other Tagalog Areas," No. 12 (1979).
- Central Bank of the Philippines, Annual Report, various years.
- _____, Central Bank Factbook, annual, various years.
- _____, Statistical Bulletin, annual, Statistical Appendix to the Annual Report, various years.
- Doherty, John, F., A Preliminary Study of Interlocking Directorates Among Financial, Commercial, Manufacturing and Service Enterprises in the Philippines (Manila: publisher not given, 1979), pp. 107.
- _____, A Study of Interlocking Directorates Among Financial, Commercial, Manufacturing and Service Enterprises in the Philippines, Manila, 1980, manuscript.

Emery, Robert F., Financial Institutions in Southeast Asia (New York: Praeger, 1970). See especially Chapter 7, "The Philippines," pp. 359-493.

FEER (Far Eastern Economic Review), Hong Kong, weekly. Contains occasional articles on Philippine banking and finance.

Hooley, Richard W. and Honorata A. Moreno, A Study of Financial Flows in the Philippines, School of Economics, University of the Philippines (forthcoming).

IMF/World Bank Mission, The Philippines-Aspects of the Financial Sector, Report No. 2546-PH, October 1, 1979.

Joint IMF-CBP Banking Survey Commission, Report, August 1972.

Jones, Leroy P. and Il Sakong, Government, Business and Entrepreneurship in Economic Development: The Korean Case (Cambridge: Harvard University Press, 1980).

Katigbak, Norberto, "Financial Markets," Times-Journal Column, various dates, various titles.

Khatkhate, Deena R. and Klaus-Walter Riechel, "Multipurpose Banking: Its Nature, Scope, and Relevance for Less Developed Countries," IMF Staff Papers Vol. 27, No. 3 (September 1980).

Khatkhate, Deena R. and Delano P. Villanueva, "Reposit Substitutes and Their Monetary Policy Significance in Developing Countries," Oxford Bulletin of Economics and Statistics Vol. 41, #1 (February 1979).

Lava, Horacio C., "Transnational Banking Corporations in the Philippine Commercial Banking System," mimeographed. University of the Philippines, College of Business Administration, 1976.

Leff, Nathaniel H., "Capital Markets in the Less Developed Countries: The Group Principle" in Ronald I. McKinnon, ed. Money and Finance in Economic Growth and Development (New York: Dekker, 1976), pp. 97-122.

_____, "Monopoly Capitalism and Public Policy in Developing Countries," Kyklos, 1979.

Mangahas, Mahar and Bruno Barros, The Distribution of Income and Wealth: A Survey of Philippine Research, Manila: Philippine Institute for Development Studies, July 1979, Working Paper 7091.

Patrick, Hugh T., "Interest Rates and the Grey Financial Market in Japan," Pacific Affairs, winter 1965-66.

_____, "Japan," in Rondo Cameron et. al., Banking in the Early Stages of Industrialization (New York, Oxford University Press, 1967), pp. 239-289.

_____, "The Evolution of Japan's Financial System in the Interwar Period," Yale Economic Growth Center Discussion Paper #345, March 1980.

_____, "Japanese Financial Development in Historical Perspective, 1868-1980," Yale Economic Growth Center Discussion Paper #398, March 1982.

Patrick, Hugh and Honorata A. Moreno, "The Evolving Structure of the Philippine Private Domestic Commercial Banking System: An Overview" (mimeographed, 1980, pp. 148 and 13 appendix tables).

Ranis, Gustav et. al., Sharing in Development: A Programme of Employment, Equity and Growth for the Philippines (Geneva: International Labor Organization, 1974); see especially chapter 7, "Reform of Credit and Interest Rates."

Tan, Edita A., Philippine Monetary Policy and Aspects of the Financial Market: A Review of the Literature, Philippine Institute of Development Studies, May 1979, Working Paper 7904. Prepared with the collaboration of Clodualdo R. Francisco.

Tan, Edita A., et. al., "The Structure and Growth of the Philippine Financial Market and the Behavior of its Major Components" (mimeographed, n.d. [1981]).

Teranishi, Juro, "A Very Rough Note on the Development of Rural Banks in the Philippines" (mimeograph; July, 1981).

Teranishi, Juro and Hugh Patrick, "Financas, Dualismo e Estrutura Industrial Diferencial do Japao" (Financial Dualism and Differential Industrial Structure of Japan), in Adolpho Ferriera de Oliviera et al., Mercado de Capitais e Desenvolvimento Economico. Rio de Janeiro: Instituto Brasileiro de Mercado de Capitais, 1977.

_____, "The Early Establishment and Development of Banking in Japan: Phases and Policies 1872-1913," Yale Economic Growth Center Discussion Paper No. 294, August 1978.

Tsuda, Mamoru, "Major Filipino Partners of the Japanese Investors and Their Business Connections," mimeographed, University of the Philippines, Department of Sociology, January, 1977.

_____, A Preliminary Study of Japanese-Filipino Joint Ventures, Quezon City: Foundation for Nationalist Studies, 1978, pp. 174.

White, Lawrence J., Industrial Concentration and Economic Power in Pakistan. Princeton: Princeton University Press, 1974.

World Bank, World Bank Report 1982, Washington: August 1982.

- Tan, Edita A., Philippine Monetary Policy and Aspects of the Financial Market: A Review of the Literature, Philippine Institute of Development Studies, May 1979, Working Paper 7904. Prepared with the collaboration of Clodualdo R. Francisco.
- Tan, Edita A., et. al., "The Structure and Growth of the Philippine Financial Market and the Behavior of its Major Components" (mimeographed, n.d. [1981]).
- Teranishi, Juro, "A Very Rough Note on the Development of Rural Banks in the Philippines" (mimeograph; July, 1981).
- Teranishi, Juro and Hugh Patrick, "Financas, Dualismo e Estrutura Industrial Diferencial do Japao" (Financial Dualism and Differential Industrial Structure of Japan), in Adolpho Ferriera de Oliviera et al., Mercado de Capitais e Desenvolvimento Economico. Rio de Janeiro: Instituto Brasileiro de Mercado de Capitais, 1977.
- _____, "The Early Establishment and Development of Banking in Japan: Phases and Policies 1872-1913," Yale Economic Growth Center Discussion Paper No. 294, August 1978.
- Tsuda, Mamoru, "Major Filipino Partners of the Japanese Investors and Their Business Connections," mimeographed, University of the Philippines, Department of Sociology, January, 1977.
- _____, A Preliminary Study of Japanese-Filipino Joint Ventures, Quezon City: Foundation for Nationalist Studies, 1978, pp. 174.
- White, Lawrence J., Industrial Concentration and Economic Power in Pakistan. Princeton: Princeton University Press, 1974.
- World Bank, World Bank Report 1982, Washington: August 1982.