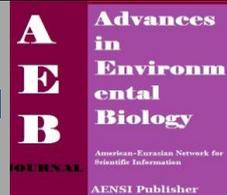




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Philippines Monetary Policies for Two Periods, 1980-1985 and 1986-1991 A Comparative Analysis

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ABSTRACT

Since 1949 when the central Bank Started Operation, Philippine monetary policy has been geared toward meeting the country's perennial problems of slow economic growth, deterioration in the balance of payments position, imminent inflation and a rapid depreciation of peso. This study attempted to describe the changes in monetary policy in two periods and rendered a comparative analysis of its effect in the financial operations of commercial banks. This study used the descriptive, non – experimental method of research through documentary analysis and survey questionnaire. Data were gathered from primary and secondary sources. Primary sources consisted of the commercial bank selected in the study from which the correspondents were taken. Secondary sources included documents, published and unpublished reports, records and other relevant materials. The test of the null hypotheses used the t-test of the differences of means and Friedman two way analysis with ranks.

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INTRODUCTION

The application of monetary policy in the context of domestic and international economic development reflected different trusts: in the fifties, with financial system still in the early stages of development, monetary policy was secondary only to foreign exchange restrictions, whereas in the sixties it shifted to a more active role in economic management when the reserve requirement began to be actively used as a monetary control tool. In the seventies a cautious monetary policy was adopted in view of the need to stabilize the severe balance of payments difficulties from 1967 to 1969 [15].

During those decades the ability of commercial banks to balance the diverse interests of depositors and borrowers to optimum level was affected by several problems, fore most of which were the floating deposits and interest rates, the reserves, and other requirements [16].

To strengthen the banking systems, measures were adopted to strengthen the financial system not only to facilitate the flow of credit to vital sectors of the economy but also to enhance the systems viability. Among the envisioned reforms were changes in monetary policy which aimed to provide positive rates to savers in order to mobilize domestic savings and assured the flow of credit resources to the various sectors of the economy while maintaining a flexible policy with respect to the achievement of monetary targets [20].

Accordingly, the country's banking system has increasingly expanded in terms of total number resources and deposits, and banking services. Central bank's policy thrust for the banking system is aimed at strengthening the system on the overall which could include relaxation of monetary policies that would depend largely on how market – oriented measures are fully implemented and also on a healthy political climate.

Literature review:

Several materials dealing with monetary policy and banking operations were gathered and reviewed by the researcher.

A review of the records of the Philippines central bank [14] showed that the Philippine banking system started with the Orbas Pias or religious foundations in 1594 whose financial resources came mostly from wealthy individuals who willed their states to the church.

A new era in the history of Philippine banking ushered during the American occupation of the Philippines. In 1906, the first government bank known as the Philippine postal saving bank was created to tap public savings and to bring banking to rural areas. Two years later, the first agricultural bank of the Philippines was also created

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but was dissolved in 1919 with the creation of the Philippine National Bank (PNB). The establishment of the central Bank in 1949 revolutionized the monetary and banking system. From 1949-1977, the commercial banking system increased to 33 head offices over 30 years period, while commercial bank branches increased from 75 in 1949 to 1,176 in 1977. Therefore, commercial banking has continuously expanded to this day.

Problems of the banking systems:

As reported the country's banking system is fraught with problems attributed mainly to the tight fiscal and monetary policies pursued under the government's stabilization program. Commercial banks have gone under tight government regulations while bank intermediation costs are magnified because of high reserve requirement.

Another problem of the banking system is with respect to the structure of the financial system. It consists of many banks with overlapping roles and functions. Hence, the CB's role is to clarify the functions of the various types of financial institutions with the end in view of optimizing the efficient use of the system's resources and applying financial technology to meet clients needs.

Related local studies:

Kokurang disclosed that monetary policy may be used by authorities as one of several different ways of trying to achieve certain macro – economic goals: 1) a low rate of inflations, 2) balance of payments equilibrium, 3) satisfactory rate of economic growth, and 4) a high level of employment. The monetary authorities do not have direct control over these goals, but can act instead on certain instruments including open mark operations, reserve requirements ratio and the discount rate of the central Bank.

Ahmed [23] investigated the marketing activities in promoting the services of commercial banks.

Quiazon [29] investigated the velocity behavior of the monetary agree gates and monetary policy in the Philippines from 1967-1988.

A- kett [21] attempted to compare the performance of the commercial banking industry in the Philippines and in Thailand and realized that regulatory and control measures governing banking operations contributed to the stability of commercial banks, the financial performance indicators showed that Thailand performed comparatively better than the Philippines. It was concluded that the banking policies and practices adopted by the banks in the former country were more effective and more efficient than those in the latter.

The role of the Asian development Bank (ADB) in the economic development of the Philippines was investigated by Nino [27] where it was found out the impact of ADB lending to the Philippines is noteworthy. In the early 1980, lending resulted in increase in national gross income and per capita income, while borrowing also contributed Significantly to the country's economic growth and has been the catalyzes for economic activities in Asia.

Related Foreign Studies:

The investigation of Hayes [4] on the credit collection practice of bank in determining maximum of loan is monthly payments on the borrower's fixed debt not exceeding 40% of his total monthly income.

On the other hand, various researchers on banking activities compiled by Thomas jr [31] showed that the growth of financial intermediation in the US during the Post world war two era average about 7% per year this growth reflected both the growth of debt and equity outstanding and the increase in the proportion of funds transferred from ultimate savers to deficit spenders which were channeled through financial intermediaries.

On one hand, Nwanko [8] disclosed that most bank in Nigeria adhere to the cardinal banking principle of ensuring effective lending.

Samuelson [9] synthesized various cases of monetary and income analysis and that monetary policy of the central Bank is an important way shifting the saving and investment schedules on the total schedule of consumption plus – investment – plus government spending. He also stressed that higher money supply induces a lower interest rate – lower enough to persuade people to hold all the new money. Lower interest rates and more a viable credit make it profitable for new investment project to get done. Thus the induced increases in investment leads to higher production and income. The cases also showed that modern mixed economies have the fiscal and monetary tools to end chronic slumps and galloping inflations.

Relationship between the Reviewed Literature and Studies with present study

The reviewed literature dealt with historical growth of Philippines banking and the current problems besetting the operation of commercial banks. In this sense, they are relevant to the present study since they would be useful in analysis and interpretation of its findings.

Among the studies reviewed, local and foreign, closer semblance with present study was noted in the studies of kokwang [26], Quiazon [29], Nino [37], Itayes and samuelson [9].

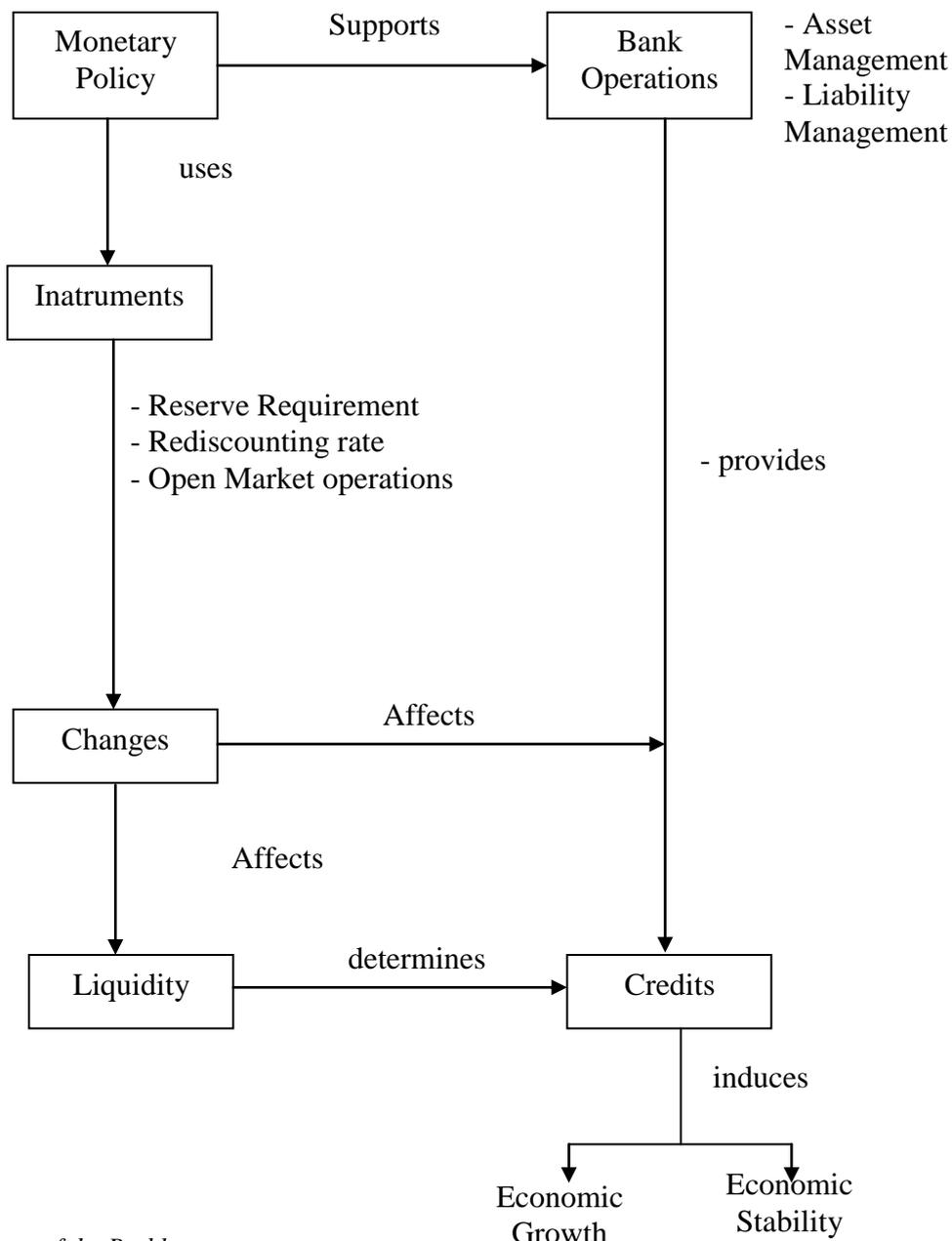
Kokwang [26] tackled the goals of monetary policy which is also the thrust of present study. However, the present study would approach the issue in deeper perspective through analysis of the changes in monetary policy and its impact on the banking system. Quiazon's study [29] is also similar to the present inquiry in the context of

changes in monetary policy but differed principally in time frame. While the present study would attempt to investigate monetary changes in 1980s. Quiazons study tackled the Issue since the mid – sixties.

Finally Samuelson's [9] synthesis of various cases of monetary and income analysis is very much close to the present study. The cases would provide insights for the analysis and inter predations of the results of the present inquiry. On one hand, since the cases were in the macro level and composed the financial sector, they are not necessarily identical with the present study.

Research Model:

The research model shows the effect of changes in Monetary policy on the financial operations of commercial banks.



Statement of the Problem:

This study attempted to describe the changes in monetary policy in two periods, 1980-1985 and 1986-1991 and rendered a comparative analysis of its effect in the financial operations of commercial banks. Specifically, the following questions were answered:

1. What were the economic conditions and monetary policies of the Philippines during the periods, 1980-1985 and 1986-1991?
2. what were the changes in monetary policies during the period, 1980-1985 and 1986-1991 as regards:
 - 2.1 reserve requirement,

2.2 rediscounting rate, and
2.3 open market operations?

How do they compared?

3. As perceived by respondents to what extent have the changes in monetary policy affected favorably the following:

3.1 management of the bank asset structure

3.2 ability of the bank to satisfy the requirements of primary reserves,

3.3 ability of the bank to meet the conditions of secondary reserve

3.4 ability of the bank to achieve its aims in asset management,

3.5 ability of the bank to manage investment in securities,

3.6 banks objectives in liability management, and

3.7 effective use of additional funds for various aims.

4. Are there significant differences in perceptions of the respondents when grouped;

4.1 between periods, and

4.2 among the selected commercial banks?

5. What are the general implications of monetary policy changes from 1980-1991 as to;

5.1 economic stability, and

5.2 economic growth?

6. How do the respondents from the selected commercial banks view the central Banks' supervision of the commercial banking system?

Hypotheses:

Corollary to the afforested problems and to test the conclusiveness of the findings of this study, the following hypotheses are formulated.

1. There are no significant differences between perceptions on the effect of changes monetary policy during the two periods, 1980-1985 and 1986-1991 in terms of:

a. asset management, and

b. liability management.

2. There are no significant differences in perceptions on the effect of changes in monetary policy in both periods when respondents are grouped according to the commercial banks included in the study.

Methodology:

This study used the descriptive non- experimental method of research through documentary analysis and survey questionnaire. Data were gathered from primary and secondary sources. Primary sources consisted of commercial banks selected in the study from which the correspondents were taken. Secondary sources included documents, Published and unpublished reports, records and relevant materials.

Subjects and Respondents:

From a total of 32 commercial bank comprising the country's banking system, nine were chosen as subjects of the study. On the other hand purposive selections of respondents is employed since the required information regarding the impact of changes of monetary policy on banking operation could be provided only by bank's personnel whose positions and job responsibilities as well as length of service would make them knowledgeable on these matters. Hence, the respondents of the study consisted of banks personnel occupying positions in top, middle and lower management level with at least 10 years service with the respective banks.

Distribution of the Respondents According to Position Levels

POSITION LEVELS					
Banks Code	Top Management	Middle Management	Lower Management	Total	Percent
A	1	4	7	12	11.1
B	1	4	7	12	11.1
C	1	4	7	12	11.1
D	1	4	7	12	11.1
E	1	4	7	12	11.1
F	1	4	7	12	11.1
G	1	4	7	12	11.1
H	1	4	7	12	11.1
I	1	4	7	12	11.1
Total Percentage	9	36	62	108	
	8.3	33.3	58.4		100.0

Note: Discrepancies in percentage are due to rounding off.

N= 108

Validity and Reliability of the Questionnaire

The questionnaire was content – validated by a senior Economist of the CB. To facilitate analysis of data, the research referred the questionnaire to the dissertation adviser for comments. Croobach's alpha was used to determine the reliability of questionnaire. Which was equal to 0.9, so we can say that the Questionnaire has a high reliability.

Statistical Treatment of Data

The following measures of descriptive statistics were used in the analysis of data: percentage, weighted mean and scale.

The test of the null hypothesis used the t-test of the differences of means and Friedman two way analysis with ranks.

Summary of Findings:

Perceptions of the effect of changes in monetary policy on the asset and liability management of the banks were compared between two periods, 1980- 1985 and 1986-1991, and among the selected banks.

Comparison of perceptions between two periods

T-test was used in comparison of perceptions between two periods, 1980-1985 and 1986-1991.

a. Asset Management:

1. Perceptions differed significantly as regards the effect of changes in monetary policy between 1980-1985 and 1986-1991 in the following components of asset structure: primary reserve ($t=6.94$), secondary reserves ($t=4.44$) and investments in securities ($t=4.60$). Thus, the null hypotheses attached to asset management on these components of asset structure was rejected. The policy changes on primary reserves was perceived moderate in 1980-1985 and large in 1986-1991. Perceptions on the requirements of primary reserves differed significantly as regards reserve ratio ($t=2.64$). Thus, the null hypotheses attached to asset management as regards this requirement of primary reserve was rejected. It was seen that though policy changes exerted large effect on this requirement of primary reserve, the effect was greater in the latter period. As regard the other requirements such as normal day – to – day currency needs of customers ($t=.68$) and clearance of checks ($t=0.105$).

Perceptions on the effect of changes of policy in both periods were not significantly different. Thus, the null hypotheses attached to asset management on these requirement of primary reserves was accepted.

2. Perceptions of the respondents on the effect of changes in monetary policy between 1980-1985 and 1986-1991 on the banks meeting the condition of secondary reserves indicated significant differences on the following: fluctuations in loan demand ($t=3.45$) and fluctuation in deposit ($t=2.51$). The null hypotheses attached to asset management regarding these conditions was rejected. The effect of policy changes on loan demand while perceived moderate in both periods appeared more in 1986-1991, whereas, the effect on fluctuations in deposits was perceived moderate in 1980-1985 and large in the latter period. On one hand, perceptions between the two periods showed no significant difference as regards fluctuations in currency demand by the public ($t=1.71$), absorbing random currency withdrawals ($t=.93$), absorbing large adverse check clearings ($t=1.2$), absorbing legitimate loan request ($t=.91$) and absorbing unanticipated increase associated with asset management on these conditions of secondary reserves was accepted.

3. Perceptions between the two periods as regards the bank's aims of achieving profitability on higher interest rates than yields on securities ($t=2.66$) was significantly different. While the effect of policy changes was perceived large in one periods, it was felt less in 1980-1985. Thus, the null hypotheses attached to asset management as regards this aim of the bank was rejected. On the other hand, perceptions on the effect of policy changes were not significantly different as regards establishment and retention of business deposit customers ($t=1.17$) and minimal default rates on loans ($t=0.82$), and conversion of loan to cash ($t=0.34$). The null hypotheses attached to asset management on these aims of the bank was accepted.

4. no significant differences existed in perceptions between the two periods on the effect of policy changes on the management of investment in the following securities, long – term bonds ($t=.95$), short term securities ($t=1.31$), long – term securities ($t=1.33$) and other securities ($t=1.71$). Thus, the null hypotheses attached to asset management on these securities was accepted. In the case of short term bonds ($t=4.00$), there was significance differences, therefore, the null hypothesis attached on this kind of securities was accepted.

b. Liability Management:

1. the perceptions on the effect of policy changes on the banks objectives in liability management were not significantly different as regards the following: to meet reserve losses ($t=0.061$) and to accommodate new loan demand ($t=.96$). The null hypotheses attached to liability management on these objectives was accepted. It was concluded that the respondents agreed that the effect of policy changes on the banks objectives in liability management was moderate in both periods.

2. Perceptions between the two periods on the effect of policy changes as regards the effective used of additional funds were significantly different in the following aims: using funds for profitable loans ($t=4.28$) and primary borrowing to compensate decline in interest rate ($t=2.53$). Though the effect was perceived moderate in both

periods, it was felt more in 1980-1985. Thus, the null hypotheses attached to liability management as regards these aims was rejected. On the other hand, no significant difference existed in perceptions between the two periods as regards the use of funds for security purchases ($t=1.09$). Thus, the null hypothesis associated with liability management in this aim of the banks was accepted.

Recommendations:

In the light of findings of the study, the following measures are recommended:

1. Fiscal policy and external sector policies should be coordinated as the market – base system continues to develop, interest rates and exchange rates become increasingly important channels through which monetary policy is transmitted to affect the real economy.
2. Government financial institutions should terminate all government accounts they hold in trust to ease the pressure of open market operations as the primary tool for liquidity control.
3. The Monetary Board should put less reliance on monetary policy to correct economic imbalances but should develop economic packages that would encourage productive undertakings.
4. Monetary authorities should place more emphasis on the reserve requirement in formulating policy changes since this plays a significant role in the movement of interest rates and, eventually, prices.
5. Monetary authorities should review the past changes in monetary policy and draw there from insights as to what policy measures would be effective in stabilizing the monetary system.
6. Public and private sectors, specially the commercial banking system, should coordinate in developing various economic and financial inventory as well as the capacity to interpret and monitor them so that a better judgment can be exercised in formulating and implementing monetary policy.
7. A follow – up study should be conducted on the changes in Philippine Monetary policy from 1992 onwards.

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