

Column for Manila Bulletin
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Of Trees and Forest

Unwanted Spillover

MANILA, Philippines — At the Corona impeachment trial last Monday, February 13, I was prompted to take the floor when the proceedings touched on Republic Act 6426, the "Foreign Currency Deposit Act of the Philippines."

I'm not going to delve into the issues involved in the impeachment complaint, but when that law which affects the growth of the national economy was taken up, I was concerned by its potential spillover effect on the lives of millions of Filipinos, who continue to struggle to put food on the table, send their children to school, and prepare for their future.

Known as the Foreign Currency Deposit Unit (FCDU) law, Republic Act 6426 has been a successful instrument in attracting deposits of dollars and other foreign currencies in Philippine banks, which are in turn used to finance the importations and other foreign currency requirements of domestic industries.

I believe the confidentially provision of the law has been effective in encouraging holders of foreign currencies to keep these in the banks instead of in the black market, beyond the control of monetary authorities.

The Bangko Sentral ng Pilipinas reported last December that the total resources of the FCDU sector totaled \$31.1 billion as of end-June 2011, up 9.5 percent from \$28.4 billion a year ago.

Universal and commercial banks (U/KBs) accounted for 95.9 percent or \$29.8 billion of the total FCDU assets while thrift banks (TBs) held 4.1 percent or \$1.3 billion. Rural and cooperative banks (R/CBs) contributed less than half of 0.1 percent share or one million dollars.

Deposit liabilities remained the largest source of funds at 81.9 percent share of total resources and grew by 3.9 percent to \$25.5 billion from \$24.5 billion a year ago.

As of end-June 2011, banks with FCDU license (not all banks are authorized to accept foreign currency deposits) had total outstanding loans of \$6.5 billion, of which domestic borrowers accounted for 91.1 percent or \$6.0 billion.

By economic activity, the major recipients of credit were the manufacturing sector with a 35.5-percent share of total loans to residents, the financial intermediation sector with 15.6 percent share, and the electricity, gas and water supply sector with 13.8 percent share. These top 3 sectors constituted 64.9 percent of the total FCDU loans to residents.

In another report, the Bangko Sentral said FCDU loans further grew by 4 percent to reach \$6.6 billion as of end-September, 2011. Loans to resident borrowers, mainly those from the private sector, hit \$5.3 billion, representing 80.3% of the total portfolio. Major loan releases went to companies in the financial services and manufacturing and export sectors.

I cite these reports to emphasize the significance of RA 6426 in our economy. This law has generated billions of dollars that, in turn, has helped businesses grow and employment increase.

As a matter of fact, concerns were raised during the impeachment trial that violating the confidentiality provision of the law, which is one of its attractive features, could trigger a bank run, which would be definitely drive away depositors, to the detriment of our economy.

Thus, when I stood up last February 13, my mind was on the economy and the millions of Filipinos still living in poverty – prices continue to rise while many are unable to find jobs. The Bangko Sentral regulates and protects the FCDU to maintain stability in the economy; it is not something that we can just expose to risk such as a bank run.

The rich may not be adversely affected at all, but the poor will not be able to find shelter from its impact.

So I was glad that the Senate, sitting as an Impeachment Court, decided to respect the Temporary Restraining Order issued by the Supreme Court upholding the confidentiality provision of RA 6246.

I imagined the banking system, the depositors, and private companies depending on loans from FCDUs heaving a collective sigh of relief.

Regardless of the ultimate outcome of the ongoing impeachment trial, my wish is that it does not leave us with undesirable consequences, especially for the majority of Filipinos, whose priorities lie far from the Senate halls, and whose main concern is how to survive another day.

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LINK:

<http://www.mb.com.ph/articles/352086/unwanted-spillover>