PHILIPPINE ECONOMY MAY OVERHEAT - CENTRAL BANKER.
By **Chaitanya Kalbag**
758 words
18 May 1988
Reuters News
English

MANILA, May 18, Reuter - The Philippine economy is growing strongly in real terms but is in danger of overheating, Central Bank Governor Jose Fernandez said.

"The growth is real," he told Reuters in an interview. "The reason I talk about overheating is when you have the manufacturing sector growing at between 30 and 40 pct, that is unsustainable. If real estate prices have gone up 500 pct, it certainly is a red flag."

The Philippines' real gross national product grew by 5.7 pct in 1987 after 1.9 pct growth in 1986.

"The most important thing is to manage internal liquidity. We are certainly not going to allow the boom to go to our head," Fernandez said.

The Central Bank said last Friday the nation's balance of payments swung into a 116 million dollar surplus in the January-March period from a 39 million deficit a year earlier. The current account was in surplus 31 million dollars against a 131 million deficit.

"If the boom results in stimulating demand beyond the capacity of the country ... it is our role to put out the (red) flag. Internally it will show up in interest rates, externally in international reserve levels," Fernandez said.

Fernandez said he was not worried about the level of gross international reserves, which totalled 1.81 billion dollars or about two months' worth of imports at end-February.

"I would always like more (reserves), but pragmatically we are in a period of growth, moving into real assets," he said. "Pipelines are filling up after a long drought. If things are moving very well maybe you can do with one month's supply of imports." If reserves were too low, he said, "Why is there no speculation? How come there's no black market?"

He said despite rising inflation, "We continue to have positive rates for savers."

Savings deposit rates averaged 4.101 pct in March and were outstripped by year-on-year inflation that month of 9.41 pct. But Fernandez said he considered treasury-bill yields and time deposit rates more relevant for savers.

The key 61-90 day time deposits averaged 10.095 pct and deposits for over two years averaged 12.539 pct in March, while treasury-bill yields ranged from 13.875 to 16.171 pct.

"There has been enormous stability in the Manila Reference Rate (rates on short-term promissory issues of banks) and in treasury bill rates. Treasury bill rates have been roughly within a two-pct band over the past year," Fernandez said.

"That's the way the market should behave," he said. "It should reflect short-term liquidity movements. It should also be a positive yield curve, which we've had for a long time."

But the volatility of interbank call loan rates, the cost of banks' overnight borrowings, was confusing, he said.

Interbank rates swung to a high of 20 pct and a low of 10 pct on Tuesday from six and 4.12 pct on Monday. On April 8 the rates ranged from 40 to 15 pct.

"This is nonsense. Who yesterday was willing to lend at six pct and today will not lend at less than 16 pct?" Fernandez said.

The Philippines' banking industry, hit by a severe crisis in 1983 that triggered several closures, is now in good health, he said. "I think their lending rates now reflect a little more closely the true credit risks in the market."

Fernandez said a study of the banking system he had commissioned found that "in reserve adequacy, capital adequacy, level of past dues in their loan portfolios, deposit growth, income growth, every measure one can look at, 1987 was one hell of a lot better than 1983. The number of violations on critical things like capital adequacy and reserve deficiency are very, very seldom now."

Fernandez reiterated the Central Bank's determination to slow down approvals of debt/equity swaps involving its own paper because of fears it would trigger runaway inflation.

Investors have complained that private-sector debt paper which the Central Bank encourages in swaps is difficult to find and shallower in discounts.

"As far as we are concerned, that is all right. There is no way Central Bank paper in those magnitudes could be converted. We've always said this is a limited resource. There is no way the Central Bank can convert all of its debt into pesos. I could not wade out of it. I'd drown in it," he said.

Document lba0000020011203dk5i01n4m