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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

RECENT ECONOMIC AND FINANCIAL DEVELOPMENTS IN THE PHILIPPINES

July 6, 1949

Economic Department

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SUMMARY.

Discussions with the Philippine Economic Mission in the summer 1948 led to three main conclusions:

(i) The Philippines should use the next three years 1949-1952 "to increase the productive capacity of the economy to the point where it can currently earn the higher standard of living which the payments from America will temporarily support". This meant that development of both "dollar savers (rice) and dollar earners (copra, sugar, abaca)" should be considered to be urgent and should receive priority over imports of consumers goods. Investment imports of $119 million in 1949 should replace an equivalent amount of non-investment imports.

(ii) "It is important that every encouragement should be given to the adoption and implementation of all devices aiming at a reduction of imports". The IBRD staff thought that a 20% reduction in imports by 1951 or 1952 should be aimed at. In view of the psychological and administrative difficulties emphasized by the Philippine Mission, it was considered reasonable to expect import reductions of 10% in 1949 and 15% in 1950, 1951 and 1952.

(iii) A careful monetary policy preventing inflationary tendencies should be pursued, limiting the use of some dollar reserves only for financing of soundly justified development projects, but excluding their use for current consumption purposes.

Recent developments in the Philippine economy show a failure to realize

any one of the three objectives. Development imports for 1949 are to be $17.5 million in the present Philippine's estimate instead of $119 million. This means that 85% of the development program has not been fulfilled and that the adjustments necessary to enable the Philippine economy to stand on its own feet within three or four years have not been forthcoming. Although investment goods have not been imported, other imports continued in a practically undiminished flow which means that devices to limit imports have not been adopted even at the reduced scale envisaged in the common discussions in the summer 1948. The monetary policy has also failed to implement the objectives agreed upon last summer and dollar reserves have been used for financing of consumption imports.

A further important change must be recorded. The Philippine Central Bank has changed its statement of monetary reserves. A "revised estimate" claims that these reserves were previously overstated by $60 million. Therefore, at the end of 1947, they amounted to $427.9 million instead of $488 million as stated by the Philippine Delegation in the summer 1948.

The Balance of Payments shows clearly the above-mentioned developments.

During 1948, export income covered only half the expenditure on current imports. The result was a balance of payments deficit and a reduction in international reserves of about $18 million in spite of continued abnormal receipts from the U. S. Government of more than $300 million. Earlier forecasts were for a balance of payments surplus in 1948 of over $40 million.

The outlook for 1949 appears even more serious. The Central Bank of the Philippines, in a recent tentative balance of payments estimate, has forecast a decline in 1949 exports compared with 1948 by about $25 million (instead of a modest increase in exports of $3.4 million forecast in the summer of 1948).

This is due primarily to an estimated 40% drop in the price of copra which with other coconut products has been the source of about 75% of export income during the past two years. A severe price fall of copra was anticipated in the discussions in the summer of 1948, but the Philippine Mission envisaged no fall in the supply of exports. Meanwhile, copra prices have already fallen by 55% from the 1948 average so that the drop in export income may be even greater.

III.

The Central Bank also estimates a $25 million decline in imports in 1949, leaving the expected trade deficit at about the same figure as in 1948. The total balance of payments deficit is estimated at $73 million. While this is somewhat smaller than the 1949 deficit estimated at $86.8 million during the discussions of the IBRD with the Philippine Mission last year, it should be borne in mind that development imports have been reduced to $17.5 million in the present Philippine estimates. The deficit would amount to $178.5 million if the foreseen development imports of $119 million had been realised.

Taking into account "the revised estimate" of monetary reserves, the 1949 balance of payments deficit, as now forecast, would reduce Philippine foreign exchange reserves to $336.6 million at the end of 1949. To hold the foreign balances at $300 million during 1950-1952, in the absence of a substantial rise in exports above the predicted 1949 level, would require a drastic curtailment in imports. Exports of some items, such as sugar, minerals, and lumber, may increase but there is a definite possibility that this may be offset by lagging incentives for copra production due to the fall in price. Assuming, therefore, that 1950-1952 exports remain at about this year's level, imports during 1950-1952 would have to fall by an annual average of about 25% below the 1949 estimate to protect the currency reserve position.[1/] After 1952, when U. S. Government receipts will continue only at the low level necessary for payment of pensions, the balance of payments problem will be even more serious.

The situation calls for a most vigorous and effective import control

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1/ This also assumes that invisible items during 1950-1952 will remain as forecast in the balance of payments estimates of last year.

policy of which there is, as yet, little evidence. Non-essentials have continued to weigh heavily in the import totals. The import control regulations instituted at the beginning of 1949 may be of some effectiveness although it is doubtful if they will prove adequate to the magnitude of the task in view of the serious resistance which can be expected to a drastic curtailment of commercial imports. Import saving development projects, especially in rice, offer some possibilities but as yet the progress of such programs has not been encouraging. There is a danger that development imports will be among the first to be sacrificed and that abnormal receipts from the U. S. will be spent without lasting benefits to the economy of the country.

Prospects for internal financial stability and for non-inflationary financing of substantial peso requirements for development are also a matter of some concern. Budgetary operations in fiscal 1947-1948 showed only a slight deficit. More recently, however, there appears to have been a trend toward increasing budgetary imbalance despite a substantial rise in Government revenues and despite the lack of the foreseen developmental investment. This may well continue into fiscal 1949-1950 under the pressure of existing election-year political tensions. Opportunities for open market borrowing by the Government continue to be extremely limited and there is a definite prospect that at least part of proposed loans from the Central Bank will be used to cover current budgetary deficits. Additions to individual and business saving have been small; probably even less than in 1947.

Since mid-1948 there has been a substantial rise in net currency in circulation. At the same time, however, deposit money has fallen and the trend of the price level has been slightly downward. It would appear that, as yet, any inflationary pressures which may have been generated have been held in

abeyance, partly through some improvement in domestic production, but expecially as a result of the heavy import surplus which has been maintained at the expense of a rapid reduction in Philippine foreign assets.

It must be said in concluding that the Philippines ~~have~~ has, so far, not made the best use of the abnormal income from the U. S. to carry out the adjustments which would enable them to protect ~~their~~ the standard of living of the people when this assistance comes to an end.

I. EXTERNAL ECONOMIC AND FINANCIAL SITUATION.

A. Balance of Payments in 1948.

Contrary to the earlier expectations of the Philippine Government, the Central Bank of the Philippines has reported a net decrease in the international reserves, from January 1 to December 31, 1948, of ₱36.6 million (from $427.9 million to $409.6 million) instead of an expected increase of ₱83.5 million. The balance of payments estimate for 1948, also prepared by the Central Bank, shows a deficit of ₱37.9 million instead of the surplus of ₱83.5 million which was shown in the estimates submitted to the IBRD by the Philippine Delegation on September 20, 1948. Both estimates are summarized in the following table:

Table 1. Estimates of Philippine Balance of Payments for 1948.
(in millions of pesos)

	RECEIPTS	
	Philippine Estimates	
	Delegation Sept. 20/48	Central Bank Mar. 8/49
Exports, including gold	695	650
Invisible Receipts	56	70
U. S. Payments	675	639
TOTAL RECEIPTS	1426	1359

	PAYMENTS	
	Philippine Estimates	
	Delegation Sept. 20/48	Central Bank Mar. 8/49
Imports (landed cost)	1224	1284
Invisible Payments	119	113
TOTAL PAYMENTS	1343	1397
Surplus (Deficit)	83	(38)

Exports covered only one half of the total import costs. The balance of import costs were covered mainly, as in 1947, by ₱639 million in abnormal receipts from the United States Government for war damage payments, hospital-

ization and pensions of war veterans, military expenditures and a few minor items.

Philippine exports continued to consist to a large extent of copra and coconut products which accounted for almost 75% of export values in both 1947 and 1948. The volume of copra exports fell by over 40% in 1948 but this was offset by rising prices until the latter part of the year and by a shift to processing of coconut products, the export value of which was ₱23 million larger than in 1947. The value of principal Philippine exports (excluding reexports) in 1947 and 1948 was as follows:

Table 2. Principal Philippine Exports, 1947 and 1948.

	Value in Millions of Pesos.			
	1947		1948	
Coconut products				
Copra	354		309	
Dessicated coconut	19		58	
Coconut oil	14		41	
Copra meal and cake	4		7	
TOTAL		391		415
Abaca	63		60	
Rope	3		4	
Sugar	4		42	
Others	69		129	
TOTAL	531		650	

Source: Bureau of Census and Statistics, Manila.

Philippine imports in 1948 were above the 1947 level by ₱136 million and showed substantial increases in most categories, including non-essentials. Imports of automobiles and accessories rose from ₱51.4 million in 1947 to ₱63.9 million in 1948; tobacco imports were up from ₱44 million in 1947 to ₱49.4 million in 1948; and petroleum products jumped from ₱36.8 million to ₱68.5 million. Import expenditure on soap and toilet preparations amounted to ₱14.1 million; on beverages, wines and liquors, ₱13.5 million; on coffee, cocoa

and tea, ₱17.9 million and on fruits and preparations, ₱26.3 million. Imports of capital goods were relatively small. Imports of iron and steel, metals and manufactures, and machinery and parts amounted to ₱187.3 million. Imports of iron and steel and manufactures, and machinery other than agricultural and electrical, increased only from ₱83 million in 1947 to ₱99 million in 1948. This would indicate that the progress made on various development and rehabilitation projects in 1948 was small.

B. Balance of Payments Estimates for 1949.

Recent Philippine estimates for 1949, submitted informally by the Department of Economic Research of the Central Bank, show a decline of about 14% in exports and only about 9% in imports.

Table 3. Summary of Philippine Estimates of Balance of Payments for 1949
(in millions of pesos)

	RECEIPTS	
	Philippine Delegation Sept. 1948	Central Bank March 1949
Exports (including gold)	698	599
Invisibles	57	60
U. S. Payments	585	585
	1340	1244

	PAYMENTS	
	Philippine Delegation Sept. 1948	Central Bank March 1949
Imports (landed cost)	1354	1230
Invisibles	160	160
	1514	1390
(Deficit)	(174)	(146)

The substantial reduction in estimated exports in 1949 is mainly the result of an anticipated heavy drop in receipts from copra. The volume of copra exports is forecast at only slightly above the 1948 level (which was 40%

below 1947), while the average 1949 copra price is estimated at about 40% below the 1948 average (a drop from $263 per ton to $155). This involves a reduction of ₱123.4 million in the estimated value of copra exports in 1949 compared with 1948. However, even this forecast may be too high unless the volume surpasses the estimate since copra prices have now fallen to $118.70 per ton (as of June 18) and, therefore, the average price for the year will probably be well below the estimate.

Of the other major exports, abaca is expected to remain at about the 1948 level. Substantial increases are expected in sugar (by about ₱45 million) and in gold (by about ₱30 million). These gains, however, are far short of the expected losses on copra income and it is probable that the estimated increase in gold exports is somewhat high.

Actual Philippine exports during the first four months of 1949 amounted to ₱189 million which was ₱64 million below the same period a year ago and represented an annual export rate of ₱567 million, which is lower than the March 1949 Central Bank forecast by ₱32 million.

The total 1949 import estimate of ₱1127.4 million (or ₱1230.0 million including freight and insurance) was arrived at in the Central Bank's calculations by adding to the 1948 total (exclusive of rice) 2% for increase in population; rice imports of ₱67 million (compared to ₱45.8 million for 1948); and ₱34.9 million for capital requirements of the rehabilitation program and public works (compared to the ₱230 million included in the earlier Philippine estimate); and deducting 5% for price reductions and 6% (after price reductions) for savings through import control (₱65 million).

It would be logical to expect a reduction in imports as a result of declining money income, due especially to the rapid drop in the export values of

coconut products. Therefore a total reduction of imports by 10% - the target used by the Bank last year - may well be reached this year, although not necessarily as a direct result of the new import controls. It is known that large orders were prepared in some lines during the summer and fall of 1948 in anticipation of the import control deadline at the end of the year. Imports for the last months of 1948 may have been somewhat larger than they would have been without the prospect of the controls, and, for the same reason, imports during the remainder of 1949 may be somewhat less.

A partial check on these estimates may be found in the reported import figures for the first four months of 1949 which amounted to ₱350 million compared to ₱414 million in the same period of 1948. Projecting these figures on a yearly basis, the estimate of imports for 1949 would amount to ₱1050 million compared to ₱1171.7 in 1948 and the recent Philippine estimate of ₱1127.4 million. This would represent a saving of about 6% of the 1948 imports.

The rapid deterioration in Philippine external finance may be shown in the following summary table:

Table 4. Summary of Philippine Balance of Payments, 1940, 1947, 1948, and 1949.
(in millions of pesos)

	1940 Actual	1947 Actual Trade Statistics	1948 Actual Trade Statistics	1949 Estimates
Imports (landed cost)	303*	1148	1284	1230
Exports (incl.gold)	328	531	650	599
TRADE SURPLUS (DEFICIT)	25	(617)	(634)	(631)
U.S.Payments (for war damage, military, etc.)	-	658	639	585
U.S.Loan (due 1953)	-	120	-	-
SURPLUS (DEFICIT) after abnormal U.S.payments		161	5	(46)
Deficit on invisibles	-	(55)	(42)	100
SURPLUS (DEFICIT)		106	(37)	(146)
		$ 53	($18.5)	($73)

* Average 1938-1940.

The present estimate of the deficit in 1949 is $14 million (₱28 million) smaller than that in the previous estimates but any inference this might give of a more optimistic outlook is misleading. The fact that the prospective deficit is less, despite a downward revision in export estimates by ₱100 million, is due to a reduction in the estimated value of development imports by more than ₱200 million. If development imports are subtracted from both forecasts the value of expected non-development imports in 1949 is even greater in the present estimate than in the previous estimate by about ₱80 million. In other words, since last year's discussion with the Philippine Delegation, there appears to have been a deterioration in the balance of payments outlook for 1949 to the extent that present estimates now arrive at a deficit of almost the same order only through a reduction in prospective imports for development purposes from ₱238 million ($119 million) to ₱35 million ($17.5 million).

Monetary Reserves.

As seen from the following table, the foreign exchange assets of the Philippines at the end of 1948 were reported by the Central Bank at $409.6 million, or $120 million less than was forecast for that date during last year's discussions with the Bank.

	Previous Statement ($000,000)	Present Statement ($000,000)
Reserve Position as of Dec. 31, 1947.		
Government Balances	424	389.5
Banking System Balances	64 1/	38.4
Total	488	427.9
Balance of Payments Surplus (Deficit)	42 2/	(18.3)
Reserve Position as of Dec. 31, 1948.	530	409.6

1/ Including private balances.
2/ Forecast.

Of the total difference in the two statements, only part (about $60 million) is accounted for by the development of a balance of payments deficit in 1948 rather than the surplus which was previously forecast. The remaining $60 million difference was explained by Central Bank officials as due to an over-statement of reserves in the earlier estimates. They state that Philippine coins and various securities held in the U. S. and certain other items were included in the Government balances which should not properly have been classified as monetary reserves. Non-Government balances have also been revised downward apparently due, at least in part, to the exclusion in the most recent statement of private non-bank balances.

The revised foreign reserve statement of the Philippines is an important event since the previous statements were made not only to the IBRD but also to the IMF and thereby to all governments. It therefore calls for further examination by the Bank to determine what items were included in the former statement which have now been excluded and to decide if these should or should not be considered as available foreign assets.

If the Central Bank's latest statement of reserves is accepted it would mean that, as a result of the estimated balance of payments deficit in 1949, foreign exchange balances would be reduced by the end of this year to $336.6 million rather than to the last year forecast of $443 million. During the first four months of 1949 reported Government and Bank reserves had already fallen from $410 million to $370 million.

C. Prospects for 1950-1952.

The unfavourable developments in the export picture confront the Philippines with an extremely serious balance of payments problem if the heavy drain on international reserves is to be checked. If the expected value of exports

in 1949 is assumed to continue through 1952 and if this level is substituted for the export item in the balance of payments estimates submitted in last year's discussions, with other items remaining the same, the annual deficit during 1950-1952 would be increased from $ 58.4 million to $116 million in 1950, from $82 million to $138 million in 1951, and from $103 million to $140 million in 1952. This would completely exhaust the exchange reserves of the Philippines before the end of 1952. In order to maintain the reserves at, say, a level of $300 million, assuming invisible payments at the previously estimated figures, imports would have to be less than in the former estimates for 1950-1952 by an annual average of $120 million. This would mean a reduction from the estimated 1949 import level during the years 1950-1952 by an annual average of over 25%.

This would require a very strict import control. As has been noted, non-essentials continued to make up a substantial part of imports in 1948 and while a small reduction is forecast in imports in 1949 as compared with 1948, it has been seen that the 1949 import estimate is substantially below the forecasts of last year only because imports for development purposes have been cut to a fraction of previously stated requirements. While it is recognized that import control regulations have been in effect only since the beginning of 1949 and that it is still too early to assess their effectiveness, the fact remains that serious resistance can be expected to the drastic import curtailment which now appears necessary to protect the Philippine foreign exchange position. Some import reduction may be realised through import saving development projects. Increased rice production offers perhaps the most important possibility for such saving within the next few years. However, little has been accomplished in this respect and rice imports are forecast at ₱67 million in 1949 as compared

with ₱45 million in 1948.

The above discussion of the Philippine balance of payments outlook was premised on a maintenance of export values at about the level foreseen for 1949. Actually, the course of exports is highly uncertain. Some increases are foreseen in the value of sugar, minerals, and lumber by possibly $40 to $50 million in 1950-1952 as compared with 1949 estimates. Abaca exports may decline somewhat, the extent of which will depend on the development of competition from Borneo and other producing areas. The big question mark is in coconut products, especially copra.

Members of the Philippine Mission estimated an increase in the volume of copra exports over the period 1949-1952 by about 35% which was expected to partially compensate for a price drop during the period by about 60%. Copra prices have already fallen during the latter part of 1948 and the first half of 1949 by about 55% from the average 1948 level and therefore the assumption of a 60% drop may be too conservative.

The course of copra volume exports is much more difficult to foresee. The big drop in volume during 1948 was due mainly to typhoon damage from which the trees should now have substantially recovered. It is unlikely, however, that exports will return to the 1947 level since that was a record production year stimulated by high prices. The abrupt price decline in recent months can be expected to reduce the incentives for the harvesting of coconuts and therefore tend to offset recovery from the typhoon damage. The extent to which harvests in interior regions and other marginal areas will be curtailed as a result of the price decline is problematical. Some of the larger producers in Manila have stated that they would restrict operations if the price fell below $125 a ton. Output from the smaller farmers may also be reduced

for the same reason although the possibilities for this may be limited by the absence of alternative means of livelihood.

Until there is more tangible evidence of the effects of the decline in copra prices upon export volume it may be reasonable to assume that future losses in copra export value will be at least as great as gains in income from other export items. This would leave the value of total exports in 1949-1952 at or below the level which the Central Bank has estimated for 1949.

The conclusion remains, therefore, that the balance of payments outlook is extremely serious and that if international reserves are to be maintained at a minimum which may be considered necessary as a currency reserve, imports will have to be curbed even more drastically than was foreseen in the earlier discussions of the Bank with the Philippine Delegation and certainly much more than appears to be contemplated at present in Philippine import control policy. Provision of the foreign exchange necessary for development purposes will add to the difficulties of the problem; it will necessitate a cut in non-development imports by an even greater proportion than has been indicated as necessary for imports as a whole. Under the existing situation there is a danger that the requirements of the development program may be sacrificed in the face of resistance to severe restrictions on commercial imports.

II. RECENT TRENDS IN THE INTERNAL ECONOMIC AND FINANCIAL SITUATION.

A. Public Finance.

Budgetary operations of the Philippine Government during the fiscal year ended June 30, 1948, showed only a small deficit. Total expenditures of the General Fund amounted to ₱307.4 million of which ₱263.2 million was met from receipts[1/] and the remaining deficit of ₱44.2 million was covered by a reduction in the cash balances of the Government which stood at ₱64.5 million on June 30, 1947, and were reduced to ₱20.3 million by June 30, 1948. There was, however, a surplus of ₱32 million in the operations of the special funds,[2/] which are excluded from General Fund accounts.

In the budget estimate for 1948-49, as presented by the President in February 1949, total expenditures were forecast at ₱434.8 million and revenue at ₱392.3 million leaving a deficit of ₱42.5 million. It would appear, however, that on a cash basis the budget estimate would involve an even larger deficit because of substantial revenue items which seem to be only bookkeeping receipts, and also because of deficits forecast in the operation of the special funds. Furthermore, an additional deficiency appropriation was recently authorised for education which, apparently, has been met through a bank overdraft during 1948-49 and will not be covered from revenues until fiscal 1949-50.

Therefore, if actual expenditures in 1948-49 were to correspond to the budget estimates plus subsequent deficiency appropriations, the resulting cash

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1/ Revenue from taxation amounted to ₱223.8 million which was 85% of total receipts and ₱72 million greater than tax receipts in fiscal 1947.

2/ The most important of these are the Fund for the Motor Vehicle Office and the Highway Special Fund, income of which includes motor vehicle fees and specific gasolene and oil taxes and expenses of which are largely for road construction and maintenance.

deficit would appear to be more than ₱100 million. However, in view of the limitation of funds it is probable that additional executive suspension of authorised expenditures has been necessary and that the final 1948-49 deficit will be well below ₱100 million but still substantially in excess of that for fiscal 1948. A definite appraisal of the budgetary operations during the current fiscal year will not be possible until a final accounting of Government receipts and expenditures is available, probably in late 1949 or early 1950.

The fiscal prospects for 1949-50 have been confused by the recent adjournment of the Philippine Congress before taking action on the budget. This action was the outgrowth of dissension within the majority party and is a reflection of the stormy political atmosphere prevailing in the Philippines. It appears now that the President, under his emergency powers, will assume full authority over fiscal operations, pending the next regular session of Congress in January.

In view of the political situation and the pressures against economy and increased taxation in an election year[1/] it seems probable that 1949-50 will again show a substantial budget deficit. The budget bill, as approved by the lower house of Congress, involved a deficit of ₱51 million before inclusion of various anticipated outlays such as expenditures on public works, education, and the Philippine Constabulary.

Furthermore, it is the intention of the Government to borrow up to ₱115 million from the Central Bank during fiscal 1950. Of this amount they are considering the allocation of ₱35 million to the Philippine Rehabilitation Finance Corporation and ₱30 million for various development programs. While Central Bank officials have proposed that the remainder be used for partial repayment of

1/ General elections are scheduled for November 1949.

the outstanding obligation to the U. S. Reconstruction Finance Corporation it is known that considerable support exists within the Government for allocation of the ~~entire~~ ₱115 million to current expenditure.

In summary, while the 1947-48 budget showed only a small deficit, there appears to have been a trend toward increasing imbalance in fiscal operations during 1948-49 which, on the basis of recent budgetary proposals and the unsettled political situation, are likely to continue during the 1949-50 budget year.

B. Money Volume, Prices and Capital Markets.

During the first seven months of 1948 the total money supply rose by more than ₱150 million. This was due entirely to an increase in demand deposits since the net currency in circulation fell by about ₱70 million between January and July. Since July 1948 the total money supply has remained fairly stable. However, the trends of net currency in circulation and deposit money have been reversed as compared with the first part of 1948. The former increased by ₱133 million (from ₱471 million to ₱604 million) between July 1948 and April 1949 while the latter fell by ₱145 million (from ₱640 million to ₱495 million) during the same period.

The course of prices has been somewhat erratic since the end of 1947 although the general trend, judging by the cost of living index for Manila, has been downward. The index fell during the first half of 1948, then rose to a peak of 420 in October (1937 = 100), dropped again to 385 in February, 1949, and rose slightly thereafter through April.

There appears to have been little change over the past year in the generally unfavourable capital market situation in the Philippines. According to officials of the Central Bank plans are in preparation to establish an org-

anisation and launch a campaign to mobilize and channel savings into productive investment.[1/] They believe, however, that, because of the serious problems and obstacles involved in such a program, it will be at least a decade before substantial results will be forthcoming. Meanwhile, limited data indicate that the annual increase in savings remains at a low level. Savings and time deposits of all Philippine banks rose by only ₱14 million in 1948, which was far below the net increase in the two preceding years. Figures on additions to Postal Savings deposits are not available although the budget message of February 1949 forecast an increase by about 25% in interest payments on Postal Savings during fiscal 1949 as compared with fiscal 1948. However, since the volume of such savings is small this forecast, if correctly indicating the increase in postal deposits, would mean an addition of only ₱3 to ₱4 million.

Limited data also suggest a reduction in the rate of private capital formation during 1948 as compared with 1947. Newly paid in capital of prewar corporations was about ₱5 million less in 1948 than in the previous year (₱68.2 million in 1947 and ₱63.5 million in 1948) while the decline in comparable figures for corporations licensed since the war was almost ₱6 million (₱25.4 million, 1947; ₱19.6 million, 1948).

Some test of the availability of capital was provided during 1948 by a flotation of ₱11 million in bonds of the Rehabilitation Finance Corporation which found very little private investor interest and were taken up for the most part by the Philippine National Bank.

In general, it is the consensus of Government officials and other ob-

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1/ Chiefly through nationwide propaganda for savings deposits and the purchase of small denomination securities, and the establishment of deposit facilities throughout local administrative levels.

servers in the Philippines that the opportunities for market financing by the Government or private borrowers is extremely limited and they report little improvement in the capital market situation in recent months. Some improvement in the market for Government securities may result from the establishment of the Central Bank which is authorised to accept such securities as a portion of private bank reserves and as security for advances to banks. There is as yet, however, no experience to indicate the extent to which this will influence the establishment of an active capital market.