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PHILIPPINES

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Introduction

Total GDP in 1993 amounted to PHP 1,475 bn. (ECU[1] 46.4 bn). Real GDP growth rate was at 2%. With a population of 66.9 mn, GDP per capita was of PHP 22,048 (698 ECU).

CREDIT INSTITUTIONS

The banking industry is highly regulated partly as a response to bank failures in the 1980s. It is characterized by small banks, high intermediation cost and high profits. The central bank, the Bangko Sentral ng Pilipinas (BSP), is liable for the regulation of the banking system.

The financial system is dominated by commercial banks with 65.4 % of the total resources, followed by non-bank financial institutions, thrift banks, specialized government banks and rural banks. At the end of 1993, the number of financial institutions was of 9809 institutions (head office and branches).

Total assets of banking system grew at an annual rate of 18.6 % between 1990 and 1993. Commercial banks accumulated total assets of 864.4 bn of Pesos (65.4 % of total).

There are 33 commercial banks (with a network of 2571 branches), of which 27 are private institutions, two are wholly or majority owned and operated by the government and 4 wholly owned foreign banks. At the end of 1993, these banks had combined resources of around 667 bn pesos (about 24.6 bn dollars), which is less than the resources of Bangkok Bank, South-east Asia's largest. The Philippines' top bank in terms of assets is the state-controlled Philippine National Bank, with total assets of 119.1 bn pesos (about 4.39 bn dollars) at the end of 1993.

The five largest commercial banks hold by far the main market share of assets (45%) and deposits (52%). Fifteen of the largest commercial banks operate as "universal banks", that means that in addition to their classical commercial banking activities, they can perform investment banking activities, such as securities underwriting.

Most individual private domestic banks are controlled by a group of a few families virtually free from outside competition. While an individual cannot own more than 20% of a given bank, this is often sufficient to control the bank. These same families also tend to have major interests in non-financial sectors. For instance, the country's second largest local bank is at the core of an empire that includes 63 companies in 23 industries.

This relatively closed system has often meant good profits for the banks but high borrowing costs for small and medium sized businesses. The spread between deposit and lending rates has steadily increased, making the Philippine banking industry one of the

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1 Exchange rates:
At 1993 year end 1 ECU = 31.564 PHP
Annual average 1 ECU = 31.757 PHP

most profitable in the region. Despite high intermediation costs due mainly to high reserve requirements (20% recently reduced to 17%) and other regulations (mandatory lending to specific sectors of the economy, investment in low-yield government securities), the commercial banking sector managed to post a yearly average return on equity of 22% between 1989 and 1993.

As part of major reforms aimed at boosting the economy's competitiveness, the Philippines have recently (May 1994) adopted new legislative measures with a view to further liberalise the banking sector, intending to end the current moratorium on new foreign banks. It is hoped that the entry of more foreign banks will enhance competition in an industry that has long operated like a cartel, and thereby improve the supply of capital to finance growing credit requirements and also draw in foreign direct investment. In February 1995 ten foreign banks received government approval to open a branch in Manila.

Total resources of the financial system (excluding the Central Bank) registered aggregate resources of 1332.4 bn of Pesos in 1993, compared to 801.5 bn in 1990, which represents over the period an average yearly growth of 18.8%. The growth was bolstered mainly by the expansion in resources of commercial banks. The financial system also made available substantial credit through operations of trust and other fiduciary activities which are considered off-balance sheet accounts.

In 1993, there were 13 foreign bank representative offices, of which 1 came from EU countries.

Table 1 - Banking sector indicators - Year 1993

	Number	Assets (bn PHP)	Liabilities (bn PHP)
Commercial banks	33	548.8	366.3
Saving and Mortgage banks	7	44.8	40.1
Private Development banks	40	22.1	18.7
Stock savings and Loan associations	56	7.6	6.5
Specialized Government banks	3	57.4	46.5
Rural banks	804	22.6	18.2
Foreign owned banks :	4	78.0	30.3
• Non-EU foreign banks	2	57.0	22.4
• EU foreign banks	2	21.0	7.8
Domestic banks with foreign participation	10	237.6	160.2

Source : a) Central Bank of the Philippines
b) 1993 SGV Study of Commercial Banks

Presence of foreign Banks

There are very few foreign banks operating in the Philippines' market, compared to other countries in the region. In 1994, there were 4 fully owned foreign commercial banks, of which 2 were from EU countries. EU commercial bank assets reached 21 bn Pesos (2.1% of all commercial banks) and their deposits were about 7.8 bn Pesos (1.4% of the commercial banks) in 1993. The 4 fully owned foreign commercial banks are those "grandfathered" banks established before 1946 and which have full banking licences (though with severe restrictions on branches). Two are Americans and two are British.

On the other hand, there are ten foreign banks (mainly Americans and Japanese) who have important participation in commercial domestic banks. Their share was estimated at 23.3% of total assets and 25% of total deposits of the banking system in 1993. Recently, the Philippine National Bank (PNB), one of the largest public banks, was partly privatized. However, no information is available on foreign bank participation in this respect.

Moreover, there were 17 offshore banking units (compared to 21 in 1990), which include 7 EU banks. Their total assets were estimated at US$ 1.6 bn in 1993, compared to US$ 2.38 in 1990. That represented an annual rate of decrease of 3.3% over the period.

MARKET ACCESS PROBLEMS FACED BY EU CREDIT INSTITUTIONS

Establishment and acquisition

For nearly 50 years, with the exception of the four "grand-fathered" foreign banks, entry of majority foreign-owned banks in the domestic market has been restricted by the General Banking Act of 1948. Foreign participation in the banking industry was limited to a maximum of 30% of a bank's voting equity (with an increase to 40% possible with specific presidential approval).

However, the conditions of entry as well as the scope of operations of foreign banks have been substantially improved, following adoption of a new law on foreign banks on 18 May 1994 (and subsequent circular of 14 October 1994)/ It allows three possible modes of entry, if authorized by the Monetary Board : 1) by acquiring, purchasing or owning up to sixty percent (60%) of the voting stock of existing banks ; 2) by investing in up to sixty percent (60%) of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines ; or 3) by establishing branches with full banking authority. However, a foreign bank may avail itself of only one mode of entry and that a foreign bank or a Philippine corporation may own up to sixty percent (60%) of the voting stock of only one (1) domestic bank or new banking subsidiary. With respect to the latter mode of entry, 10 licenses have been awarded by the Central Bank, two of which were granted to European banks. Criteria used for the granting of licenses were geographic representation and complementation, strategic trade and investment relationships between the Philippines and the country of incorporation of the foreign bank, demonstrated capacity, global reputation for financial innovations and stability in a competitive environment of the applicant among others.

New banks are allowed up to six branches each, with a permanent assigned capital of not less than the US dollar equivalent of 210 mn Pesos for the first three and the US dollar equivalent of 35 mn Pesos for the next three. Foreign banks seeking the right to operate an expanded bank will need total capital of at least 2.5 bn pesos, the same as domestic banks.

A limitation to this opening of the domestic banking market is the fact that at least 70% of the total resources or assets of the entire banking system is held by domestic banks which are at least majority-owned by the Filipinos.

Activity

Four foreign banks, established prior to 1946, continue to operate deposit-taking commercial banks as branches. In April 1991, the Central bank offered them the opportunity of bidding for the opening of two new branches outside Manila on very strict terms, including a restriction to the ability of those new branches to take deposits. The 1994 reform goes further by allowing existing foreign banks to add up to six new sub-branches.

Branches of foreign banks which perform full commercial banking functions appear to be generally granted national treatment; in some cases, they enjoy certain advantages concerning the application of capital requirements; for instance, they are allowed to consider the so-called "Net Due to Head Office" accounts as capital for purposes of determining compliance with various capital requirements as against fixed paid-in capital required for domestic banks.

The May 1994 banking law guarantees an equal treatment between domestic banks and the foreign banks newly entered on the domestic market. This will give the latter a full deposit-taking capacity.

Regulations permitting offshore banking units (OBUs) were adopted in 1976. Regulations have been gradually liberalized, and, since January 1992, OBUs are authorized, subject to certain conditions, to negotiate export letters of credit, extend foreign currency loans and advances, and refinance trust receipts, among other powers. Although OBUS finance themselves offshore, most of their lending (US$ 898m) has been onshore.

INSURANCE

By the standards of developed economies, the Philippines insurance industry is very weak. There is a relatively large number of small and medium-size insurance companies, with the result that the sector has not experienced the same kind of cartelisation as is seen in banking. At the end of 1993, a total of 127 insurance companies carried out insurance business in the Philippines. The 5 largest companies accounted for 48.4% of total premium income.

In 1993, the total premium income reached 16.1 bn of Pesos which represented an increase of 19% versus the previous year. Mesuring the market in terms of premiums as percentage of GDP, total premiums represented 1.1%. In terms of total premiums per capita were about 245.6 Pesos, being the life the most important sector.

Table 2 - Indicators of Insurance Business - Year 1992

	Life	Non-Life	Total
Total premiums (bn PHP)	8.96	7.16	16.12
• Premiums underwritten by non-EU foreign insurance companies	2.15	.42	2.57
• Premiums underwritten by EU insurance companies	-	.10	.10
• Premiums as % of GDP	0.61	0.49	1.10
• Premiums per capita (in PHP)	136.45	109.14	245.59
Number of insurance companies of which			
• EU insurance companies	-	4	4
• Non-EU foreign insurance companies	2	6	8
Total assets of insurance companies (bn PHP)	50.49	25.32	75.81
• Assets of EU insurance companies (bn PHP)	-	0.41	0.41

Source : Insurance Commission

Presence of foreign insurance companies

In 1993, there were 13 foreign insurance companies, among them 4 from EU countries. Their total share in the domestic premiums market were of 16.6%, 2.5 bn Pesos (81 mn Ecus). EU owned insurance companies participation reached 0.6% of the total premiums market with a value of 100 mn Pesos (3.1 mn Ecus).

MARKET ACCESS PROBLEMS FACED BY EU INSURANCE COMPANIES

Establishment and acquisition

Since 1974, foreign shareholding in domestic insurance companies was limited to 40% and the new Foreign Investment Act of June 1991 had confirmed this limitations. The 13 foreign companies established prior to 1974 had been grandfathered.

However, as a result of the recent insurance reform of 24 October 1994, foreign insurers are now deleted from the negative list in the Foreign Investment Act of 1991. Consequently, foreign insurance companies can take over 100% ownership of existing local companies and can establish wholly-owned subsidiaries and branches. However, only 5 licences will be granted over the next 2 years for each of the latter categories (that number may be increased to 10 each with the approval of the President of the Philippines upon recommendation of the Secretary of Finance). The criteria applied in this respect are similar to those applied to bank licenses. Foreign insurance companies may opt for one mode of entry only.

Activity

Foreign insurance companies established in the Philippines appear to be generally granted national treatment with certain exceptions. For instance, foreign companies are not permitted to insure government property and to provide contract bonds for public sector contracts. In the reinsurance market, there is a priority cession requirement to local companies.

Similarly, special deposit requirements are imposed; for instance, foreign insurance companies are required that their corresponding deposits to be made with the Insurance Commission should have an actual market value not less than the minimum paid-up capital required of domestic insurance companies. While it is required that such deposit should be in the form of securities acceptable to the Commissioner, it is specifically required that at least 50% thereof should represent evidences of Government debt.

Capital requirements are differentiated for foreign joint ventures or foreign companies, according to their share of foreign equity. For an insurance company, a minimum paid-up capital of 250 mn pesos and a contributed surplus fund of 50 mn pesos are required where foreign equity is 60% or more. Where foreign equity is less than 40%, capital requirements fall to 50 mn pesos and 25 mn pesos contribution to surplus fund. There exists an intermediary category for foreign equity ownership comprised between 40 and 60%. The same differentiated treatment prevails for reinsurance companies, though with much higher amounts of capital (500 mn pesos in the top bracket).

SECURITIES

The country's two stock exchanges: the Manila Stock Exchange (MSE), established in 1927, and the Makati Stock Exchange (MKSE), created in 1963, were merged into the single Philippine Stock Exchange (PSE) in 1992 under the aegis of the Philippine Securities and Exchange Commision. The PSE has maintained two trading floors (one in Makati, the country's traditional financial centre, and the other in Ortigas, an emerging business centre).

The expected establishment of a centralized clearing system would improve the PSE's efficiency, by suppressing duplication of capital spending needed to maintain the present double clearing systems.

Most foreign securities firms operating in the Philippines were affiliated with MKSE. However, the exchanges were not so different and big institutional investors used to trade on both. In March 1994, computers of both trading places were linked to allow single quotation.

The PSE was rather buoyant in 1993, when the index rose by 150%. Interest of foreign investors certainly helped in this respect. It has been calculated that around US$ 2 bn of international fund management money may have poured into the Philippines between 1 January 1993 and 30 June 1994.

Market capitalization amounted to US$ 39 bn at the end of 1993. However, four companies represented almost 50% of that market capitalization.

The pursuit of the government's privatization plans should help to broaden the market. The government aims to complete the existing privatisation programme by 1996, with estimated sales of some 78 billion pesos (equivalent to around 4.5% of GNP) concerning attractive firms. For 1995, the programme covers smaller holdings in Philippine National Bank (whose privatisation originally started in 1989, but is still majority-controlled by the government), Meralco (sale of the remaining shares of the country's largest electricity distribution company that was listed in 1988), and Philippine Airlines (PAL). These are expected to raise around 12 bn pesos.

The domestic bond market consists primarily of government securities, of which central bank bonds and Treasury bills are still the most popular forms. The private bond market remains relatively underdeveloped. Overseas bond issues tend to be difficult and costly for local companies.

Table 3 Securities Market Indicators

	1992	1993
Turnover in equity shares (bn PHP)	77.0	182.3
Turnover as % of GDP	5.7	12.4
Capitalisation equity shares (bn PHP)	391.2	1088.8
Number of listed companies	169	179

<u>Source</u> : Philippines Stock Ecchange

MARKET ACCESS PROBLEMS FACED BY EU SECURITIES COMPANIES

Establishment

Securities dealers cannot set up as a branch in the Philippines. However, they are free to establish either a representative office or a wholly-owned subsidiary. Underwriting activities can be led through total or joint ownership of local investment houses or commercial banks.

Activity

Foreign companies established in the Philippines appear to be generally granted national treatment with certain exception, for instance, foreign-owned companies are not allowed to trade in Government securities for the account of their customers, but they are allowed to trade on their own account.

Foreign investors can only own "B" shares of local corporations. As the Philippines Constitution requires that at least 60% of certain companies, especially in the natural resources area, be held by Philippinos, companies satisfied this restriction by dividing their ordinary share capital into "A" shares reserved exclusively to Filipinos and "B" shares open to both Philippinos and foreigners.