



## On-Line News Monitoring (As of 25 Nov.)

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# BSP says no to capital controls

By Lawrence Agcaoili (The Philippine Star) Updated November 25, 2009  
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MANILA, Philippines - The Bangko Sentral ng Pilipinas (BSP) reiterated yesterday that there are no plans to impose capital controls as more emerging markets continued to consider constricting inflows to keep their currencies from appreciating.

BSP Governor Amando Tetangco Jr. told [reporters](#) that there is no need for monetary authorities to restrict capital inflows into the country in order to avoid sharp fluctuations in the foreign exchange market.

"We have the necessary monetary [tools](#) at our disposal and the appropriate prudential measures on [bank](#) foreign exchange positions in place that there may be no need for us to come up with new measures to regulate foreign exchange flows," he stressed.

A string of countries have edged towards imposing capital controls to douse cold [water](#) on "hot money." In fact, Brazil has imposed a two-percent tax on short-term capital.

Tetangco explained that excessive capital inflows could put pressure on stable inflation and domestic liquidity.

"Excessively volatile capital flows are obviously a risk to inflation to the extent that these create excess domestic liquidity and impinge on the fundamental value of the exchange rate," he added.

However, monetary authorities said inflation remains stable and well within the forecast set by the central bank for this year and next.

Inflation is seen averaging 3.38 percent, or well within the 2.5 percent to 4.5 percent target for this year and 4.2 percent or slightly below the [target](#) of 3.5 percent to 5.5 percent next year.

In fact, the BSP earlier said there is no pressure or urgency for the central bank's Monetary Board to implement an exit strategy.

Since December last year, the central bank slashed its key policy rates by 200 basis points until July this year. This brought the overnight borrowing

rate at a record low of four percent and the overnight lending rate at six percent.

Earlier, BSP Deputy Governor Diwa Guinigundo said the imposition of any form of capital controls would scare the market and drive foreign investors away.

“We did not do that (restrain inflows of foreign money) in the past, and we will still not do that. Doing so will only scare the market and drive away foreign investments,” Guinigundo stressed.

Latest data from the central bank showed that [portfolio](#) investments posted a net inflow of \$358.3 million in the first 10 months of the year from a net outflow of \$1.3 billion in the same period last year as foreign investors remained upbeat on the Philippine market.

The BSP said inflows amounted to \$5.442 billion or 28.2 percent lower than the last year’s \$7.58 billion while outflows fell 42.7 percent to \$5.083 billion from P8.88 billion. Major sources of portfolio investments during the period were the US, the United Kingdom, Singapore, Japan, and Luxemburg that cornered 81 percent of the total registered investments.

The BSP sees a net inflow of \$3 billion instead of only \$600 million this year from a net outflow of \$1.78 billion last year. Last year, investment outflows amounted to \$10.1 billion versus an inflow of \$8.32 billion in 2007.

<http://www.philstar.com/Article.aspx?articleId=526432&publicationSubCategoryId=66>

## Allied Bank net income rises five times from last year to P413.3M for third quarter

Banking & Finance

Written by Erik de la Cruz / Reporter

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TYCOON Lucio Tan’s Allied Banking Corp. posted a net income of P413.3 million for the third quarter, more than five times what it earned in the same period last year

as interest income improved.

Its financial statement filed with regulators showed net income of P888.5 million in the first nine months, up 81 percent over last year's P489.7 million.

Allied Bank, the country's ninth-largest bank in terms of deposits as of end-June, said net interest income in the third quarter swelled by 10.4 percent to P1.56 billion due to the increase in loans and receivables.

The bank's asset base expanded by 10.4 percent to P182 billion as of end-September from a year ago, reflecting the hike in loans and receivables by over P19 billion. Its nonperforming loans (NPL), however, increased by P507 million to P2.37 billion. Its NPL ratio thus inched up to 2.09 percent, from 1.9 percent a year earlier.

Total liabilities climbed by 8.6 percent to P157.9 billion, with deposit liabilities up 12.1 percent. The bank last month expanded its deposit base by issuing long-term negotiable certificates of time deposit (LTNCD) with a five-year maturity in the amount of P3.5 billion.

In March Philippine National Bank (PNB)—another Tan-owned bank—raised P3.25 billion by offering LTNCD with a five-year maturity. Proceeds were used for general corporate purposes and banking operations.

Allied Bank and PNB are scheduled to merge next year, with PNB as the surviving entity. Their union is expected to catapult PNB toward becoming the fourth-largest local bank in terms of assets and give strong competition to the three biggest—Banco de Oro Unibank, Metropolitan Bank & Trust Co., and Bank of the Philippine Islands.

<http://www.businessmirror.com.ph/home/banking-a-finance/18913-allied-bank-net-income-rises-five-times-from-last-year-to-p4133m-for-third-quarter.html>

## **MSMEs are our lifeblood, rural banks**

**say**

**BY JIMMY CALAPATI**

While most big financial institutions usually perceive micro, small and medium enterprises (MSMEs) as a high-risk proposition when it comes to lending, rural banks actually see these enterprises as their lifeblood and the very "essence of their existence."

The Rural Bankers Association of the Philippines (RBAP), a group of more than 630 rural banks operating in different parts of the country, said that MSMEs and the other typical underserved market segments like farmers and fisher folks comprise most of their client base. "Essentially, MSMEs and the other segments belonging to the base of the economic pyramid are the reason why rural banks exist," said RBAP president Joseph Omar Andaya.

Andaya added that Republic Act 7353, also known as the Rural Bank Act of 1992, was enacted primarily to provide access to credit to the largely neglected countryside and the segments belonging to the base of the economic pyramid.

"A rural bank exists because of its specific mandate under this Act where rural banks are expected to concentrate on making credit available and readily accessible in the countryside, and raise the quality of life for all especially the underprivileged," Andaya stressed.

MSMEs play a major role in the country's economic development.

In the Philippines, micro, small and medium enterprises or MSMEs make up 99.7 percent of the country's total registered enterprises, generate 70 percent of total jobs, and contribute about 30 percent of the manufacturing output.

They also contribute significantly to exports, both as adaptive and flexible providers of specialized inputs or directly as niche suppliers of products, services and technologies, and as an important catalyst for the development of budding entrepreneurial sector.

Ironically, for such an important component of the economy, MSMEs oftentimes are shunned by bigger banks.

Commercial banks usually veer away from these sectors reportedly due to high risk of loan default, low yield and the high operating costs involved.

"These enterprises are usually required to put up collateral when they borrow. The problem is, most of them don't have the 'right' collateral. That represents a big impediment for MSMEs to gain access to credit," Andaya added.

He said that for almost three decades now, this has been the main obstacle to MSMEs' gaining access to capital and rural banks have adjusted to this by creating loan products that are collateral free.

Fortunately, rural banks see beyond the limitations of small businesses.

To date, over 900,000 micro entrepreneurs have been assisted by rural banks in starting and sustaining their small businesses.

In addition, micro entrepreneurs have been a great beneficiary of rural banks with P2.7 billion in loans being released monthly as additional working capital.

Andaya also pointed out that rural banks do not see serving MSMEs as unprofitable.

"Despite the high operating costs, rural banks in fact have been

effective in serving these markets in a financially sustainable way. Not only are loans provided by the rural banks, but they also serve as frontline financial advisors that educate poor customers on the virtues of saving and benefits of accessing credit. The bonds between the rural bank and client are further strengthened with this interaction," Andaya said.

He said that rural banking fills in the gap that government or the commercial banks cannot provide in serving the poor and financially marginalized in rural areas. "We in the rural banking industry are always ready to provide the financial foundations for MSME's being fully aware that this will lead to national growth," Andaya said.

<http://www.malaya.com.ph/11232009/busi3.html>

## **Small loans sans collateral**

By **AMADO P. MACASAET**

With a loan adequacy ratio of slightly more than 20 per cent against the Bangko Sentral's minimum requirement of 10 per cent, the Development Bank of the Philippines thought it would risk lending to small businessmen in the provinces reasonably substantial credit without security or collaterals. The experience in the past three years has been impressive.

Reynaldo M. David, president and chief executive officer of the DBP was sure that credit extension to small businessmen in the provinces was the way to go. The job is better accomplished if the small borrowers are not required to put up collaterals which many of them do not have in the first place.

For as long as the two key factors exist – viability of the small project and the willingness of its owner to lift himself by his own bootstrap --

there is very little doubt that the program would fly, said David in an interview with Malaya Business Insight.

The DBP does it slow and easy, according to David. In the past three years, the government-owned development finance institution has disbursed more than P1.5 billion to the provinces.

The effort is jointly undertaken with the Department of Trade and Industry which fans out to the provinces, having an office in nearly every town, looking for small business to make grow or helping the rural folks think of one.

The program is proof of what has always been said before. Small borrowers pay better than some large-scale businesses. David said so far the overdue loans from the P1.5 billion so far lent to hundreds of thousands of small borrowers have been close to ideal. Past due or non-performing loans have averaged 2.67 per cent, way down the NPLs of the commercial banking system.

The DBP saw the potentials of small lending from the DTI's one-town-one-project program and from its experience in building the nautical highways that now connect small but potentially productive rural areas which are stymied by transportation problems from one small or big towns to another. They are separated by the ocean or the seas.

The market has always been there but incomes are low. Thus production is effectively discouraged. With the nautical highways came small businesses from fruits to food, to ready-to-wear clothing.

According to David, the small borrowers appear to be more diligent in making sure the projects they get funding for do not fail.

He explained that the overdue or non-performing loans to small entrepreneurs in nearly all of the of the 70 provinces in the country is acceptably low at 2.67 per cent.

He explained that the DBP has only 47 branches while the DTI has offices in nearly every town.

"The DBP provides the money," David said, and with the DTI "we make sure that the money lent to small business or rural projects do not go to waste," he said. He added "in fact the borrowers themselves help us ensure that."

The clean loans can be as low as P100,000 per project per borrower but the amount can go up to as high as P1 million. David said the DBP is trying to empower the rural people not with politics but with small business ventures.

The clean loan is covered by the one-town-one project program of the DTI which later solicited the DBP's help for financing. David pointed out that hundreds of thousands of new jobs have been created by self-employment.

"We like the idea for many reasons," David said. First, he said, the DBP-DTI project may tend to slow down the migration of jobless people to urban centers where jobs are hardly available.

Complementing the clean loan development finance approach is

another program where small businessmen are allowed to borrow from commercial, rural and development banks guaranteed to as much as 80 per cent by the credit security project formulated by the Bangko Sentral.

He said the loan security facilitates easier processing because the lenders are assured that even if the borrower defaults, the lender can lose only 20 per cent of the loan. The balance of 80 per cent is practically guaranteed by the DBP loan security program.

David said the default rate in this program is even lower at less than two per cent.

Lately, the DBP launched its venture capital project where the state-owned development finance institution initially set aside P500 million for just about anything that produces something and employs people in the rural areas.

Explaining the philosophy of development finance, David said the DBP and its board is guided by what is clear to the naked eye. He said the country has a bloated population of higher than 90 million people.

This is a huge potential market, David said. But, he said, the problem is we have not been able to empower them economically. He said the state has to give them the chance to lift themselves by their own bootstraps with some financial help from the DBP and some guidance from the DTI.

It could be easier said than done, David said. But he added, "we

should not stop trying." The simple fact, he said, is that some people go hungry because they have been denied help. "They have the will but they do not have the way," David said. That, he said, is where the DTI and the DBP came in.

He said the two government agencies have learned a lot from Schumakers book "Small is Beautiful." To begin with, he said, the concept of development finance is taking the risks that commercial banks find dangerous and administratively expensive, bureaucratic and in many cases need some connections.

Now, we have a system where the small borrower fills out a one-page application bed bug form. He gets the loan pronto after the DTI has certified to the viability of the projects. "We help the DTI where our people in our 47 branches are available," David said. But the DBP's major role is providing the money.

The basic concept of development finance, according to David, is not exactly to make huge profits. Rather, he said, it is to help the economy move even in smaller ways such as credit extension to the rural areas. "Give this population some income and it will push the products of industry," David said.

The surprise, he said, is the discovery that small businessmen are aware of their financial obligations. They hardly default on their loans, he said. He added these small rural folks know that "our credit extension project is the one chance in their lives they never even expect."

DBP profits come in small doses but they come from everywhere,

David said. He added that periodic inspections jointly made by representatives of the DBP and the DTI also tell them that the countryside is slowly getting economically empowered.

The effects are not as yet that palpable as indicated by the continued migration of farm people to the urban centers. But he said the fact of borrowers keeping their word on their loans is a clear indication that we will eventually succeed on a larger scale.

The economic empowerment of the rural areas is basically a function of the rural banks which are also basically development finance institutions. David said there have been problems that halted the fulfillment of their objectives.

David said "we are not taking over, we are just helping." Expressing his excitement over credit extension to small-scale industries, David said "we are not taking over the rural banks, we are just doing what we could."

<http://www.malaya.com.ph/11232009/bus1.html>

## **BSP reviews microlending charges**

**THE BANGKO Sentral ng Pilipinas (BSP) is reviewing its rules and regulations on the disclosure of interest rates and fees and charges on microfinance loans to enhance the protection of clients.**

"We are... looking at enhancing consumer protection against incomplete information on financial products or services being provided, non-transparency of fees and charges, and inappropriate sales techniques... to make sure microfinance clients are informed of the actual price of financial products or services," BSP Governor Amando M. Tetangco, Jr. said last week at the Citi Microentrepreneur of the Year award. In a telephone interview yesterday, Pia M. Roman, head of the central bank's inclusive finance advocacy staff, said the BSP

is consulting banks if it is possible to adopt a uniform way of computing the interest rates on all loans. "What we are doing specifically is we are in the consultation phase with the banking community. We want to explore a uniform computation of interest rates for all loans using the declining balance method," she said. Ms. Roman explained that with the declining balance method, interest charges are computed based on the balance of a loan and not the original size of the loan. "Halos ganyan na lahat pero may mga products na hindi (*This is being followed but there are several products that use a different method*). It's really for consumer protection and greater transparency... The idea was also presented to the bank associations already, we are just waiting for their reply," she said. Tomas S. Gomez IV, spokesman of the Rural Bankers Association of the Philippines (RBAP), said rural banks are supportive of the central bank's initiative. He said his group wants to ensure clients' protection, adding the RBAP had agreed to be part a global initiative to institute best practices among microfinance institutions. Areas covered are consumer protection, over-indebtedness, transparency, collection practices, ethical behavior, complaints and fair pricing. Mr. Gomez said that while there are local best practices in place, it would be better if these were benchmarked to international standards. "Right now there are already good practices in many of these areas, but what we are working out with global MFIs are specific guidelines and action plans that would allow us to compare and share and develop best practices across the globe... These are broad principles that are flexible enough local conditions" he said. Mr. Gomez said it was important for rural banks to adopt such practices as its 900,000 clients account for 35% of total microfinance customers, while its P8 billion in total microloans accounts for half of the microfinance market. Mr. Tetangco also said the BSP welcomed the entry of international credit raters for microfinance institutions, as this would spur the improvement of their services and further professionalize the industry. "This should ultimately result in better designed and appropriately priced products for more of our country's entrepreneurial poor," he said. -- **Don Gil K. Carreon**

<http://www.bworldonline.com/main/content.php?type=2>

## BSP sees hot money slowing next year

Foreign portfolio investments are forecast to yield a net inflow of

\$932 million next year, down from an expected \$3 billion this year, partly due to lower private bond issues, a senior official from the central bank told reporters.

Several Philippine companies borrowed heavily this year to finance their expansion and refinance maturing obligations, attracting huge foreign portfolio investors. San Miguel Corp. early this year issued P38 billion worth of bonds, the country's largest corporate issue so far.

Philippine companies are not expected to borrow much next year because several of them have already completed their financing requirements this year, taking advantage of the low interest rate environment.

Foreign portfolio investments yielded a net inflow of \$129.16 million in October alone, about thrice the \$46.95 million registered in August. Foreign portfolio investment inflows in August hit \$732.21 million against outflows of \$603.05 million.

The central bank said "foreign investors remained upbeat on the Philippine market on account of the sustained growth in overseas Filipino remittances and gross international reserves, as well as stable prices and interest rates, which overshadowed the impact of the deterioration in the country's fiscal position and drop in export receipts."

The central bank said 67 percent, or \$493 million, of the inflows reported in October were invested in the stock market while the balance went into peso-denominated securities. The outflows, meanwhile, were mainly withdrawals from interim peso deposits with the United States, accounting for 95 percent.

The United Kingdom, Singapore and the United States were the top investors for the month. The top five investor countries for the 10-month period, meanwhile, are the United States, the United Kingdom, Singapore, Japan and Luxembourg, which accounted for a combined 81 percent.

The Philippines posted a hefty balance of payments surplus of \$4.17 billion in the first 10 months of the year on higher foreign investments and sustained remittances from migrant Filipino workers.

The central bank said the BoP registered a surplus of \$896 million in October, up from \$502 million in September and the biggest since January when the surplus amounted to \$1.735 billion. The 10-month BoP surplus in 2008 stood at \$345 million.

A \$1.5-billion global bond issue by the government boosted the surplus in October and offset the payment of \$1.42 billion in maturing obligations and a \$600-million short term loan by the central bank. **Eileen A. Mencias**

<http://www.manilastandardtoday.com/insideBusiness.htm?f=//2009/november/24/business4.isx&d=/2009/november/24>

## **Bad loans lowest in 8 years**

The asset quality of the country's universal and commercial banks continued to improve in the second quarter as the non-performing loans (NPL) ratio eased further, the lowest in eight years, Bangko Sentral ng Pilipinas (BSP) on Friday said.

As of end-September 2009, the bad loans ratio of universal and commercial banks eased by 0.25 percentage point to 3.25 percent from last month's 3.50 percent.

Year-on-year, NPL eased by 0.78 percentage point from year ago's 4.03 percent ratio.

"This month's NPL ratio is the lowest recorded figure since the ratio peaked at 18.81 percent at end-October 2001," BSP said.

The central bank said that the improvement from last month occurred as the 2.90 percent decline in NPLs was complemented by the 4.51 percent expansion in total loan portfolio (TLP).

NPLs fell to P81.42 billion from last month's P83.84 billion while TLP grew to P2, 505.86 billion from P2, 397.77 billion. Net of interbank loans (IBL), the NPL ratio also improved to 3.74 percent from last month's 3.99 percent and year ago's 4.55 percent ratio.

The month-on-month development transpired as the drop in NPLs came with the 3.66 percent expansion in regular loans to P2,177.67 billion.

Meantime, the real and other properties acquired (ROPA) to gross assets (GA) ratio favorably dropped to 2.59 percent from last month's 2.66 percent and year ago's 2.96 percent ratio.

The ratio improved from last month as the 0.06 percent growth in ROPA to P138.39 billion was outmatched by the expansion in GAs.

The non-performing assets (NPA) to GA ratio improved to 4.14 percent from last month's 4.29 percent and year ago's 4.91 percent ratio.

The ratio got better from last month as the 1.05 percent reduction in NPAs was accompanied by the 2.53 percent growth in GAs.

The NPA level settled at P219.80 billion, down from last month's P222.14 billion and year ago's P237.50 billion.

The restructured loans (RLs) to TLP ratio fell to 1.84 percent from last month's 1.93 percent and year ago's 2.47 percent ratio.

The month-on-month decline in the ratio took place as the 0.66 percent reduction in gross RLs to P46.49 billion came with the growth in loans.

The industry provided adequate provisioning against potential credit losses.

The NPL coverage ratio strengthened to 111.27 percent from last month's 105.31 percent.

Similarly, the NPA coverage ratio widened to 53.48 percent from last month's 52.01 percent.

Year-on-year, this month's NPL and NPA coverage ratios also fared better than their reference ratios of 94.90 percent and 48.89 percent, respectively. *-Jimmy Calapati*

<http://www.malaya.com.ph/11232009/busi8.html>