

THE FLOW-OF-FUNDS IN THE PHILIPPINES

By AIDA R. SALDUA* and
MANUEL A. SUPERTICIOSO, Jr.**

I. Introduction

To ascertain the adequacy of the financial system and the effectiveness of the monetary policies formulated by the Central Bank, analysis of the statistics on national accounts must be made together with financial statistics. In the Philippines, the Central Bank collects statistics on the financial system while the National Economic & Development Authority (NEDA) compiles statistics on the national accounts. With these two sets of data, it was deemed worthwhile to prepare an overall flow-of-funds statement for the national economy as a joint project of the Central Bank and the NEDA.

An earlier study to fulfill this need was undertaken by Dr. Richard W. Hooley and Mrs. Honorata A. Moreno of the U. P. School of Economics.¹ The results of their work were very encouraging. Aside from providing valuable insights to those who would be exposed to the construction of the accounts, their work also showed the feasibility of obtaining accurate estimates of complex financial variables. Moreover, they pointed out that the construction of the Flow-of-Funds Accounts (FOF) would pave the way to the setting up of a national balance sheet.

The project's initial task required extensive studies and work on the system of flow-of-funds accounts — its conceptual and analytical framework, methodology of the accounts, and the collection of a wide range of statistical material. Group discussions and lectures among the staff members of the joint

* Bank Statistician, Department of Economic Research, Central Bank of the Philippines

** Project Statistician, National Accounts Staff, National Economic & Development Authority

¹ R. W. Hooley and H. A. Moreno, "A Study of the Financial Flows in the Philippines," School of Economics Discussion Paper No. 74-16

project were conducted to explain the fundamental concepts and structure of the Flow-of-Funds accounts. Also, researches on the extent and limitations of the country's financial statistics were made. This was consequently followed by, without loss of international comparability, the modification of the flow-of-funds system of accounts in order to reflect the orientation adaptable to Philippine economic setting. In addition, it aims to incorporate the growth of the existing economic accounts, credit market instruments, types of financial intermediaries and significance of institutional sectoring of the Philippine economy.

II. System of Flow-of-Funds Accounts

Statistics of money and credit have long been compiled by member countries of the International Monetary Fund (IMF). However, interest in systematizing and integrating the nation's avalanche of economic data, in order to highlight on interdependence between the financial activities and those pertaining to the production of goods and services, is relatively new. Indeed, the consolidation of the nation's financial and non-financial data is an indispensable development in economic accounting. Effective analysis of numerous economic problems and speculations can result from the proper appreciation of the role of the financial transactions in relation to the income and product flows. The first major break-through towards this development was initiated by the pioneering spirit of Mr. Morris Copeland. His book, *A Study of the Moneyflows in the United States*, published in 1952, inspired the Board of Governors of the U.S. Federal Reserve System to set up in 1955, the first exposition of the so-called Flow-of-Funds Account. Four years later, the board revised and refined its presentation. Henceforth, it has been publishing the accounts on a quarterly basis in the Federal Reserve Bulletin.

General Framework and Basic Concepts

The flow-of-funds, in simple terms, is a system of economic accounting in which (a) the whole economy of the country is divided into a number of sectors (b) and for each of these sectors a "sources-and-uses-of-funds statement is constructed. When all these statements of the sectors are put side by side, we obtain (c) the flow-of-funds-matrix for the whole economy.

The above definition presupposes a knowledge of accounting. Fortunately, a good understanding of the nature and purpose of only the *balance sheet* and the *income statement* is

sufficient for one to be able to grasp the accounting principles underlying the FOF.

How is a sector defined relative to the FOF accounts? A sector is a subdivision of the national economy, comprising of units or institutions which are closely related in their social and economic dealings. The most common sectorings adopted by the National Income Accounts are (a) households or private consumers (b) business firms or productive private entities and (c) government sector. A precise definition of each other is imperative in order to minimize or eliminate overlapping of elements. In addition, it is necessary to subdivide the above general sectors into a more detailed level of subsectors to enhance a more analytical study of the flows. In the U.S. Flow-of-Funds accounting, it has been customary to separate the financial institutions like banks, insurance companies, mortgage and loan associations, etc., from the rest of the private productive units because of their central role in the money market. Also, a sector to cover all U.S. business transactions with the other countries is incorporated known as the "Rest of the World" sector.

The number of sectors is technically arbitrary. It all depends on the purpose and needs of the particular study as long as the sectoring promises some ease of handling; availability of raw data and, most important of all, an existence of a well-defined homogeneity of all the decision-making units comprising each sector.

We shall at this point begin to construct the basic framework of our "Sources-and-uses-of-funds statement". Without loss of generality, we can imagine to be setting up this statement for anyone of the sectors. The following illustration will now introduce us to the working concept of the balance sheet.

| <i>Assets</i> | <i>Liabilities and Net Worth</i> |
|------------------|--------------------------------------|
| Financial Assets | Liabilities |
| 1. Money | 1. Short-term |
| 2. Near-Monies | 2. Long-term |
| 3. Others | |
| Real Assets | Net Worth |

A balance sheet taken at some instance of time, usually end of the fiscal year, budget year or calendar year, would inform the owner of the productive unit as to how much assets he owns and how much liabilities or debts he owes. The difference of these two sums would serve as evidence to the owner of his residual share in the enterprise. We call this residual amount the Net Worth. The balance sheet, therefore, balances.

When this balance sheet is applied to all the sectors, there may be characteristic differences in the items specified. For example, under real assets, for the household sector, we would find items like clothings, cars, and houses. Whereas for the business sector, we would expect to find buildings, machines, equipment, inventory goods, among others.

It is worth noting that real assets would appear on only one balance sheet, that is, that of the owner. However, this is not the case for financial assets. For every financial asset recorded on the owner's balance sheet, there is presumably another balance sheet wherein this financial asset is listed as a liability, i.e., for every creditor there is a debtor.

While assets in general would comprise both financial and non-financial possessions; liabilities on the other hand, involve only financial holdings. This likewise suggests that for every liability exhibited on one balance sheet, there is a corresponding balance sheet where this recorded liability of the first is shown as a financial asset of the second. We may put it this way — for every debtor there is a creditor.

The preceding observation has an interesting implication. Previously, we defined net worth as the difference between total assets (real and financial) and the total liabilities. For a single entity or just a sector of an economy, the sum of the assets need not equal its liabilities for if it is then Net Worth is zero. However, for the whole economy we would eventually obtain net worth (or wealth) which is just equal to its real assets. This is conceptually due to the fact that the aggregate of the net financial assets of the domestic economy is offset by the aggregate of the net liabilities. Hence, they cancel leaving only the real assets to equal the net worth.

We are therefore led to conclude that, for a country with an absence of foreign transactions, even though how much it prints money, it never gets richer. Every bill that the government issues is a government liability and an asset to whoever

owns it. Our bills, for instance, are the liabilities of the Central Bank. For a country then to get richer, it should rather maximize its production of real assets. In similar reasoning, a nation doesn't get proper by increasing its national debt if such debt is just incurred through the sale of, say, government bonds and all the purchasers owe allegiance to the government.

Referring back to our balance sheet, we now construct the following modifications:

| Assets | Liabilities and Net Worth |
|------------------|------------------------------|
| Real Assets | Net Worth |
| Financial Assets | Liabilities |
| Money | |
| Σ | $= \Sigma$ |

The only difference noticeable is the segregation of money from the two types of assets. While money is practically a financial asset, economists through the years have always considered money as a unique financial possession.

A balance sheet, we recall, reflects the outstanding assets and liabilities at an instance of time as well as the unit's present net worth since it started operating. Supposing, however, we are only interested to know how much changes in assets and liabilities have taken place within a definite span of time, for instance, within one calendar year. We may be led to compare the balance sheet constructed at the end of the year, December 31, with the balance sheet set up at the end of the succeeding year. A closer observation of the changes reveals precisely how much bonds have been purchased, how much equipment and machineries have been acquired or perhaps how much money have been borrowed, all within the year. We can even figure out by how much is the entity getting richer or disintegrating by taking note of the changes between the two Net Worths.

If we ignore for the moment the real assets and net worth and concentrate for the moment only on the net financial changes that have taken place between two fixed dates, we set up another modification shown below:

| Financial Uses | Financial Sources |
|-----------------------------|-------------------------|
| \triangle Financial Asset | \triangle Liabilities |
| \triangle Money | |

Notice the symbol \triangle to signify a change, for at this point, our interest is only on the change. The heading in turn are modified from Assets and Liabilities to "Financial Uses" and "Financial Sources", respectively. The term "uses" and "sources" are self-explanatory but technically we define a "financial source" as an increase in liabilities, i.e., households, business firms, or the government sector can obtain funds by increasing their net *borrowings*. Correspondingly, a financial use is defined as an increase in its holdings of financial assets. In this case, sectors can use their funds by buying financial assets through *lending* or build up their stock of money (*hoarding*). We come up therefore with a more applicable modification of our general balance sheet:

| Financial Uses | Financial Sources |
|--------------------------|---------------------------|
| \triangle FA (lending) | \triangle L (borrowing) |
| \triangle M (hoarding) | |

Since the above illustration is only concerned with net financial changes, setting aside for the meantime the real assets, it therefore need not balance.

One may perhaps wonder if the above illustration would permit negative changes. It is therefore tempting to set up a more detailed description of the changes which would allow slots for negative individual results. Hence, we produce below the gross form of the above illustration:

| Financial Use | Financial Source |
|---------------------------------|--------------------------------------|
| $+\triangle$ FA (lending) | $+\triangle$ FA (selling securities) |
| $+\triangle$ M (hoarding) | $+\triangle$ M (dishoarding) |
| $+\triangle$ L (repaving debts) | $\pm\triangle$ L (borrowing) |

Lending as mentioned earlier is a "use" of funds. In the event that the sector sells financial assets like securities, bonds, purchased stocks, etc., this will in effect set up a source of funds. In the same manner, if hoarding is a way of "using"

one's fund, dishoarding or using up the stock of cash can practically and by definition be a source of fund. Contrary to the common understanding, the opposite of borrowing is not always lending.

Although the gross form of the financial "sources" and "uses" is more comprehensive and exhaustive than the net form, the difficulty of securing data on the gross basis may hinder the effort. Hence, we still give more attention to the net form. We just adopt the conventional method that should an item be negative as in the case when you pay more debt than you can borrow, then the net result is still maintained in the same column but preceded by a negative sign.

We do not discuss the changes that can result in the non-financial items of our modified balance sheet, namely, the real assets and net worth.

In addition to the purely financial sources and uses of funds, a unit or a sector for that matter, is likely to have non-financial "sources" and "uses" of funds through the sale and purchase of goods and services. However, it should be noted that these transactions may fall on either the *capital account* or the *current account*.

Non-financial use of funds on the current account is understood as the purchase of real assets with an expected usefulness of less than a year — example, consumption goods. But we leave this for the moment and deal first with the non-financial use of funds on the capital account.

The non-financial use of funds on the capital account is the acquisition of capital goods which are durable enough to last or to function for more than a year. We call this real investment² in contrast to financial investment which is the purchase of financial assets like bonds, stocks, securities.

The following illustration will now incorporate the financial and non-financial dealings on the capital account.

² In economics, however, the word investment alone without the modifier would refer more to real investment. Investment is regarded on either a net or gross basis depending on whether depreciation is excluded or included.

Sources and Uses of Funds Statements
on the Capital Account

| Uses | Sources |
|-------------------|-----------------|
| △ RA (investment) | △ MW(savings |
| △ FA (lending) | △ L (borrowing) |
| △ M (hoarding) | |

The change in the sectors' net worth can now be obtained as a residual. Conceptually, it shall be the total net changes of the assets minus the total net changes of the liabilities. We shall then call this change in net worth as savings. But this calls for some clarification because "savings" actually results from current account and not from capital account. But why do we refer to the change in net worth as also savings?

Savings is the residual between current receipts and current expenditures. This excess of fund, however, would not be taken as a source of fund to increase the entity's or the sector's assets on either the financial or non-financial headings, or perhaps be a source of fund to decrease liabilities. But as was noted earlier, the difference in the changes in assets and the changes in the liabilities is taken as the change in net worth. Hence, savings and change in net worth as in effect identical, provided they are positive not negative.

A simple example can perhaps make this idea clearer. Take for instance a company who sells goods worth ₱1,000, after having spent only a total cost of ₱800. Obviously, the company gains ₱200 as its savings on the current account. This savings will ultimately be a source of fund on the capital account. The company may perhaps use it to buy stocks or bonds, purchase durable goods or perhaps pay debts. The total of all the net changes of the assets minus the total net changes on the liabilities would now be the new change in net worth. But take not that the changes was a consequence of the additional ₱200 savings from the current account. Hence, savings and △ net worth are conceptually equal.

The preceding sector statement which shows (a) financial sources and uses of funds and (b) non-financial uses and sources of funds on capital account must balance because it represents changes in all items of the balance sheet. If the end balance sheets of two successive years' balance, then the changes that occurred between them must also balance.

This necessary balance between sources and uses of funds shows that a surplus sector which saves more than it invests must repay debts, lend or hoard an amount equal to its surplus. And a deficit sector which invests more than it saves, must finance that deficit by borrowing, selling off financial assets, or dishoarding in an amount equal to its deficit.

The above concept is the most widely used form of sector uses and sources of funds statement. Strictly speaking, however, it is incomplete because it does not account for current transactions, i.e., current receipts and expenditures, except savings is included as a source of funds on capital account. Current income and receipts from sales are undoubtedly the most important sources of funds for households and businesses while current consumption expenditures and payments for wages and raw materials are their major uses of funds.

Accordingly, current transactions should be included in a sector uses and sources of funds to be considered complete as illustrated by the following:

A Generalized Income Statement for a Single Sector

| Non-financial uses on current account | Non-financial sources on current account |
|--|---|
| Current Expenditures Saving (addition to NW) | Current Receipts |
| $\Sigma = \Sigma$ | |

This income statement is equivalent to a statement of non-financial sources and uses of funds on current account. Major current receipts will include income, sales receipts and tax receipts; current expenditures — non-durable goods, services, raw materials and salaries for households, businesses and government.

The excess of current receipts over current expenditures is termed savings and it is the balancing item in an income statement as is net worth in a balance sheet. As a "use" of funds on current account, savings takes the form of non-spending, retention or accumulation factor.

Combining the income statement with the financial and non-financial sources and uses of funds on capital account we get:

A Complete Sector Sources and Uses of Funds Statement

| Uses | Sources |
|--------------------------|------------------------|
| Current expenditures | Current receipts |
| Savings (Δ NW) | |
| Δ RA (Investment) | Δ NW (Savings) |
| Δ FA (lending) | Δ L (borrowing) |
| Δ M (hoarding) | |

Since savings in the income statement is the same as the Δ in net worth in the balance sheet, it can be deleted from both sides without disturbing the equality between total sources and total uses. If this is done, it means that the funds received by a sector from current receipts and borrowing must be disposed of in some way either by current expenditures, capital expenditures, lending or merely by hoarding or increasing its cash holdings. In gross form, funds may come from current receipts, borrowing, selling off financial assets, dishoarding and disposed of by means of current spending, lending, debt repayment, or hoarding. Whether presented in net or gross form, the table balances.

The statement provides alternative definitions of a surplus and a deficit sector. A surplus sector is one whose expenditures for consumption and investment are less than its current earnings while a deficit sector is one whose investment and consumption expenditures are greater than its current savings.

THE FLOW-OF-FUNDS MATRIX FOR THE WHOLE ECONOMY

Putting the sectoral sources and uses of funds side by side, the flow-of-funds matrix for the whole economy is obtained. Present Flow-of-Funds tables published by countries such as the U.S. contain only the portion below the dotted line. Thus, assuming there are three sectors in the economy, the Flow-of-Funds Matrix would look like this:

| | Sector A | | Sector B | | Sector C | | All Sectors | |
|---------------------------|-------------|---|-------------|---|-------------|---|----------------|---|
| | U | S | U | S | U | S | U | S |
| Savings (Δ NW) | | s | | s | | s | | S |
| Investment (Δ RA) | i | | i | | i | | I | |
| Borrowing (Δ L) | | b | | b | | b | | B |
| Lending (Δ FA) | l | | l | | l | | L+ | |
| Hoarding (Δ M) | h | | h | | h | | H | |

Note: U stands for uses, S is for sources; small letters in the Matrix represent sector data while the large letters represent the aggregate sum totals for the whole economy.

This Flow-of-Funds Matrix, as a device in social accounting, has the following characteristics:*

1. Sectors — The economy is divided into a number of institutional sectors whose financial behavior are fairly distinctive. Usual subdivisions of the economy for the purpose of the account are: households, non-financial business, financial business, government and rest of the world.

2. Sector uses and sources — A pair of columns is set up for each sector, one for out-payments (U for uses of funds) and another for receipts (S for sources of funds). All transactions of the sector are reflected in one or the other of these two columns.

3. Financial transaction categories — On the rows of the matrix are the standard transaction categories which represent all uses and sources of funds.

4. Financial sources and uses — In showing a sector's financial behavior, and the interdependence between its financial activities and activities related to production of goods and services, there is a need to distinguish between financial and non-financial spheres.

Entries on the S columns on financial transactions refer to the issue of claims to raise funds while entries on the U columns refer to the purchase of a claim; thus the acquisition of an asset. Entries represent net transactions, i.e., positive

* Flow-of-Funds Accounts, 1945-1968, Board of Governors of the Federal Reserve System, U.S. March, 1970.

less negative transactions. Thus the negative offset of an issue of a claim is the repayment of debt and the acquisition of a claim, the sale of an asset as a claim.

Every transaction in financial claims appears in the table as both a source of funds and a use of funds since all borrowing is someone else's lending. An example would be the money supply, composed of both currency and demand deposits which are assets to the public but take the form of liabilities — sources of funds to the monetary authorities and to commercial banks.

Gold is treated as a financial asset but not a claim. It is a metal used as a monetary reserve but is not owed by anyone to the holder.

5. Financial market summaries — Total borrowing equals total lending for the economy and the rest of the world so each set of rows for financial claims is a summary of funds coming into and going out of a particular financial market or set of markets.

6. Floats in financial transactions — Differences between total assets and total liabilities outstanding for the economy arising because of floats, or financial claims not recorded simultaneously in the books of buyer and seller, are recorded in a Discrepancy column in the Matrix.

7. Non-financial transactions — These consist of current receipts, current expenditures and real investment. However, only gross savings, the difference between current receipts and current expenditures is shown as the source of real investment.

8. Sector balances — savings and investment. The balance between total sources and uses of funds is presented as the equality between savings and investment — defined as the total of a sector's capital formation and net financial investment. Net financial investment measures the difference between a sector's lending and its borrowing at the national level. This is equal to net foreign investment.

9. Balance of the Matrix as a Whole — This is brought about by the balance between savings and investment and by the balance between payments and receipts.

10. Discrepancies — Unaccounted entries in transaction

rows and columns are absorbed by a Discrepancy column and a Discrepancy row. All discrepancy entries have the sign of net uses of funds (the net sum of all sources minus allocated ups). This is an arbitrary convention which is the same as that used in the Balance of Payments (BOP) and the opposite of that used in national income accounts where statistical discrepancy is on the savings or source side of the capital account.

11. Matrix as a capital account — Most important of all, the matrix can be considered a capital account because it shows the acquisition of assets — both physical and financial, and the sources of their finance. It is the expansion of the capital account in the national income and product statistics as it is the deconsolidation of the account into institutional sectors.

The Flow-of-Funds Accounts (FOF) and the National Income Accounts (NI)

The FOF are more comprehensive than the NI. While the latter is concerned only with transactions related to income and production, the former also covers financial transactions, i.e., the acquisition or sale of financial claims. For the household sector for instance, in addition to current receipts of income, sources of funds include the sale of assets such as houses, bonds and insurance benefits. Uses of funds include, aside from consumer expenditures, the purchase of houses, the increase in holding of currency, purchase of securities, etc. Data on the changes in financial assets and liabilities' lending, hoarding and borrowing of sectors are thus explicitly shown.

Both also differ in the sectoral breakdown employed. While NI focuses attention on transactors classified by the nature of their "real activities", the FOF's interest is on institutions which have similar behavior on financial matters.

There are also differences in the concepts used. In NI, real investment or capital formation is limited to the business and government sectors and does not cover households, except for the construction of dwellings. The FOF expands real investment to include purchases of households on durable goods. Thus savings in the FOF accounts, the excess of current receipts over current outlays, is greater than the NI savings by the amount of the investment of households on durable goods. Aside from this difference in classification of consumer durables, depreciation is also correspondingly estimated for FOF but no income is imputed for the services obtained from its use.

The two statements also vary in the treatment of life insurance and retirement contributions of the government. In NI, contributions of the government for employees' life and retirement insurance are considered part of personal income while in the FOF, these are treated as household assets, a form of household lending to government. Correspondingly, contributions which are outlays of the government in NI becomes liabilities in the FOF. Thus, there is a shift of savings from households to government in the FOF compared with the NI.

It has been said earlier that one difference between the two accounts is in physical investment, i.e., inclusion of consumer durables in the FOF. Another differences is in the measurement of net foreign investment. In the NI, net foreign investment is measured from the current accounts transactions of the BOP statement, i.e., exports less imports plus net transfers. In the FOF, net foreign investment is equivalent to the total net financial investment of all domestic sectors. It is the excess of a national lending abroad over its borrowing from abroad. It is thus a net figure from the capital account rather than from the current account of the BOP statement.

Uses of the Flow-of-Funds Accounts

The differences between the FOF and the NI mentioned in the preceding section makes the integration of the two rather difficult. But, this is inevitable since each has its particular purposes to serve. NI and product statistics provide data on production, consumption and income distribution. The FOF provide the data called for in many types of economic analyses especially those related to financial matters. Thus, the data inherent in the FOF accounts are useful in determining: the distribution of savings and investment into institutional sectors, the means of financing investment, the relationship of the supply of credit to physical investment, the effects of differing monetary policies on the forms of assets and liabilities held by sectors and on demand for investment, the relationship between the volume of funds supplied by commercial banks and the ups and downs of business activity. It can also be used to determine the role of capital markets in the development process of a country and the nature and scope of public agencies and as regulators of financial markets.

III. PHILIPPINE FLOW-OF-FUNDS ACCOUNTING SYSTEM: A PRELIMINARY OVERVIEW

Considering the Government's concerted efforts to accelerate economic growth amidst domestic repercussions of worldwide inflationary pressures, the construction of a Philippine Flow-of-Funds Accounts is a timely development in Philippine economic accounting. The FOF together with the other accounts being developed would serve as an answer to the call for totality in economic accounting. It is meant to complement and supplement the now existing economic accounts in order to present a comprehensive statistical picture of all the interlocking processes of the Philippine economy.

Sector Structure and Definitions

For the Philippine FOF, the economy was divided into two broad groups of sectors (See Table —): (1) Domestic Non-Financial Sectors mainly active in the real sphere and (2) Domestic Financial Sectors.

In addition to these two groups of domestic sectors, we show, in the accounts of the rest-of-the-world sector, the economy's relationships with external economic units.

Households include individual members of household and families not directly operating an establishment.

Non-corporate business consists of single proprietorships, partnerships and cooperatives in non-financial enterprises and private non-profit institutions serving households.

Private corporate non-financial business comprises all private business corporations engaged in the country but excludes all financial institutions, specifically covered in the domestic financial sector. However, it includes branches of foreign companies doing business in the Philippines.

Government non-financial corporations constitute all government corporations wholly owned and/or controlled including public utilities and developmental corporations except government financing institutions.

Government sector covers both the local and national sub-sectors. The local government includes the provincial, municipal and city governments as well as municipal emergency hospitals

while the national government includes its different branches and the various departments and agencies under them.

Rest of the World as defined in the balance of payments statement shows the economy's relationships with external economic units. Data on financial transactions in this sector are classified into flow-of-funds categories.

Monetary Authorities are the Central Bank and any special funds or institutions which exercise specialized central bank functions as for instance Stabilization Funds, Foreign Exchange Funds or specialized foreign exchange banks. The Treasury belongs to this group insofar as it exercises monetary like currency issue, gold holdings, bilateral trade agreements and transactions with the International Monetary Fund.

Commercial banks are corporations that accept or create demand deposits subject to withdrawal by check. In addition to these general powers, they can carry on the business of commercial banking by accepting drafts and issuing letters of credit, by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidence of debts; receiving deposits, buying and selling foreign exchange and gold or silver bullions, and by lending money against personal security, personal property, and real estate. As of the end of 1975, there were twenty-eight (28) domestic commercial banks with 783 branches operating all over the Philippines. In addition, there were four (4) branches of foreign banks with five (5) branches in operation in the Philippines.

Savings banks are corporations organized for the purpose of accumulating the savings of depositors and investing them, together with its capital, in bonds or in loans secured by bonds, real estate mortgages, and other forms of security for home building and home development. Here were ten (10) savings banks operating as of the end of 1975 with eighty-one (81) branches and agencies distributed all over the Philippines.

Private development banks are banking institutions organized to promote and expand the economy of the country pursuant to the socio-economic program of the government and to expand the industrial and agricultural growth by providing the people with medium and long-term credit facilities at reasonable cost. In addition, they are designed to supplement the short-term credits of the rural banks. They get financial assistance from the Development Bank of the Philippines (DBP)

in the form of preferred shares of stock. They can also avail of rediscounting facilities with the Central Bank and accept savings and time deposits.

Specialized banks are those created by law for a specified purpose or objectives, such as

The *Development Bank of the Philippines* was created by RA 2081, 3147, and further amended by RA 3571 to provide credit facilities for the rehabilitation and development and expansion of agriculture and industry.

The *Philippine Amanah Bank* was organized by PD 264 to provide credit, commercial development and savings bank facilities at reasonable terms to the people of the primarily Muslim provinces of Mindanao, principally the provinces of Cotabato, South Cotabato, Lanao del Sur, Lanao del Norte, Sulu, and Basilan, Zamboanga del Norte, Zamboanga del Sur and Palawan for the establishment, acquisition, development and expansion of agricultural, commercial, and industrial enterprises.

The *Land Bank of the Philippines* is a corporate body established to finance the acquisition by the Government of landed estates for division and resale to small landholders, as well as for the purchase of the landholding by the agricultural lessee from the landowner.

Rural banks are government sponsored/assisted banks which are privately owned and managed organized mainly to provide adequate credit facilities to small farmers and merchants in the rural communities in order to improve their productive activities and to encourage the establishment of cooperatives. Since the establishment of the first rural bank in 1952, the rural banking system numbering 768 in 1975 has played a major role in channeling of funds from the urban to rural areas for the socio-economic upliftment of small farmers. It has provided them with credit for food production, cottage and small-scale industries. It also encourages savings and thrift consciousness among the rural folk. To date, there are only 69 rural banks allowed to receive demand deposits before the law authorizing them was amended.

Stock Savings & Loan Associations include all associations engaged in the business of accumulating savings funds from its members and the general public for granting of loans and forms of investment. Loans granted have term of maturity of less than one year. Members can participate in the profits

of the association on the basis of their capital contributions.

Mutual building and loans associations are corporations whose capital stock is required or permitted to be paid by the stockholders in regular, equal periodical payments and whose purpose is to accumulate the savings of its stockholders, and to repay to said stockholders their accumulated savings and profits upon surrender of their shares, to encourage industry, frugality, and home building among its stockholders on the security of unencumbered real estate and the pledge of shares of the capital stock owned by such stock holders as collateral security. To date, there are seven (7) mutual building and loan associations operating.

Pawnshops are business establishments engaged in lending money against personal property delivered as security for loans under a contract of pledge. Under Presidential Decree No. 114, pawnshops should have a minimum paid-in capital of One Hundred Thousand Pesos (P100,000.00) by January 29, 1976.

Finance Companies are stock corporations or general partnerships which are primarily organized to extend credit facilities to consumers and to industrial, commercial or agricultural enterprises by discounting or factoring commercial papers or accounts receivable or by buying and selling contracts, leases, chattel mortgages and other evidences of indebtedness or by leasing of motor vehicles, heavy equipment and industrial machinery, business and office machines, appliances and other movable properties.

Lending Investors is defined as "persons who make a practice of lending money for themselves or others." They use their own capital for the purpose of extending all types of loans, generally short-term, oftentimes without collateral.

Investment Houses constitute the largest group, resource-wise, and the only entities which can engage in the underwriting of securities of other corporations on a guaranteed basis. They offer a wide array of services, e.g., financial consultancy, portfolio management, assistance in merger/consolidation, and stock-broking aside from a spectrum of financial products.

Securities Dealers are persons regularly engaged in the business of buying and selling securities of another or acquiring securities for the purpose of reselling or offering them for sale to the public. They buy and sell securities for their own account.

They do not receive commission but income or loss is derived from trading, i.e., difference in buying and selling price of securities.

Securities Brokers are engaged in the business of effecting transactions in securities for the account/risk of others. They do not act or take a position as principal. Such intermediary activities earn them commissions.

Fund Managers are the institutional and personal administrators of funds created or constituted for the benefit of others. The two main groups of funds are: Employee Welfare Funds or Pension Funds and Trust Funds.

Employee Welfare Funds are constituted by employers or partly by employers and partly by employees. The benefits are payable to employees upon retirement, death, cessation from work etc. Trust funds are created by trustors, testators or estates of absent persons, minors, the incompetent, etc., or by courts, thereby creating a trust relationship between the owner (trustor) of the fund or property and the manager (trustee) for the benefit of a third person called the beneficiary.

Investment companies are entities primarily engaged in investing, reinvesting or trading in securities. There are two types: open-end company and closed-end company.

The open-end company, otherwise known as mutual funds, generally sell their shares of stock, which are redeemable at any time, on a day-to-day basis. It is called open-end company because there is no fixed amount of paid-in capital since the shares outstanding vary from day to day depending on the flow of its sales and redemptions. On the other hand, the closed-end company has a relatively fixed amount of capital outstanding and there is no provision for issuance of redemption of shares on a day-to-day basis.

Non-Stock Savings & Loan Association is an association organized as a non-stock corporation shall confine its membership to a well-defined group of persons and shall not transact with general public. It shall accept deposits from and grant loans to its member-depositors only.

The Agricultural Credit Administration (ACA) and the National Investment Development Corporation (NIDC) comprise the Government Non-Bank Financial Institutions.

The ACA is a government entity created under the Agricultural Reform Code whose primary function is to promote and stimulate agricultural production by providing credits to small farmers, farmers cooperatives and to projects such as irrigation and transport system which are established to support production and marketing of agricultural products.

The NIDC is a subsidiary of the Philippine National Bank primarily formed for the purpose of encouraging the formation, creation and development of primary and basic industries, agricultural and commercial ventures, public utilities and other productive enterprises. It provides financial aid and assistance on a long-term basis and invests in stocks and bonds of new and expanding industries. Also, it acquires, owns and holds productive and agricultural ventures and enterprises.

Transaction Categories

Transactions in the Philippine FOF accounts are arranged in three (3) major transaction groups — current non-financial, capital non-financial, and financial. Non-financial transactions should be distinguished from financial transactions. The non-financial transactions were presented in an aggregate manner whereas the financial transactions were presented in more detailed manner.

Gold and Official Foreign Exchange — Gold consists of all the monetary gold holdings in any shape or form of the Central Bank earmarked or held in custody for foreign or domestic account.

Official Foreign Exchange are assets in foreign currencies in the form of documents of types customarily employed for the international transfer of funds. Statistically only the foreign currency holdings including those in transit are included here. The rest of the international reserves are lumped under Foreign Currency Deposits.

Foreign Currency Deposits — encompass part of the International reserves that are in the form of savings, time and demand deposits at foreign banks and credited in the accounts of the Monetary Authorities. Foreign currency deposited at CB by other banks as per Circular 343 are likewise accounted for in this category.

IMF Position of the Philippines — the difference between

the outstanding repurchase obligation and the gold portion of the country's capital subscription. Repurchase obligation consists of ordinary drawings, oil facility, and compensatory financing facility less the gold tranche position.

Currency — total cash held by banks consisting of both notes and coins in the Philippine currency including the inactive cash held in the vaults of the Philippine Treasury and the commercial banking system.

Demand Deposits — all deposits subject to withdrawal by checks and outstanding checks drawn by a cashier, manager or authorized officer of the banks. Cashiers and managers checks fall under this category.

Savings and Time deposits — all deposits ordinarily evidenced by savings passbook or evidenced by an instrument issued providing that such deposit will mature at a specific time.

Insurance Reserves — are those amounts needed to secure the payment of policy benefits. It includes the aggregate reserve for life policies and contracts, aggregate reserve for accident and health policies, supplementary contracts without life contingencies, and policyholders dividends accumulations.

Retirement Fund Reserves — these pertain to aggregate reserves for annuities of government social security agencies.

Investment Reserves — the amount is the residual from the total reserves of government social security agencies after deducting the retirement and policy reserves. It is in effect, an imputed claim of the premium paying sector.

Securities — total holdings and issuance of all stocks, bonds, treasury bills, notes and other marketable security instruments. Trust funds net of withdrawals by beneficiaries are accounted for in this category.

Loans — includes loans, advances and discounts extended to persons, firms, including banking institutions. Also includes overdrafts, bills purchased, customer's liabilities under L/C and TR.

Bank loans from the CB includes all borrowings of any type or form from the CB. It does not include contingent or secondary liability for rediscount with or sale to

the CB of eligible papers.

Loans from the insurance sectors would be comprised of policy, salary, and mortgage loans.

Government External Debt — refers to the non-bonded loans incurred from foreign agencies or institutions with the National Government as the principal signatory.

Inter-Government Obligations — net increase or decrease of receivables (use) and/or payables (source) of the national government from/to the local government or vice versa.

Trade Credit — comprises of accounts receivables and payables arising from sales and purchases of goods and services.

Taxes Payable — as a regular entry in the balance sheet based on commercial accounting system, this pertains to the excess of the accrued taxes over those paid during the period.

Miscellaneous Claims — all other claims between sectors that could not be classified into anyone of the above.