THE CENTRAL BANK OF THE PHILIPPINES: THE FIRST TWENTY YEARS

By

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In a personalistic society like the Philippines it is impossible to separate men's personalities, in this case that of the President of the Republic and of the Governor of the Central Bank, from the events they shape. Thus the relationships between the Presidents and their Governors – Presidents Quirino, Magsaysay and Garcia with Governor Cuaderno, President Macapagal and Governor Castillo, and now President Marcos and Governor Calalang have affected the workings of the Central Bank.

In 1960, when I wrote a paper on the Central Bank of the Philippines, Mr. Cuaderno was about to end his second term as Governor of the Bank. Mr. Cuaderno's retirement proved to be a watershed in the practice of central banking in the Philippines. It seemed appropriate, therefore, that the first part of this paper should be based on the 1960 paper. The second part of the present paper is concerned primarily with central bank operations in the Castillo era from 1961 to 1967.

THE ESTABLISHMENT OF THE CENTRAL BANK

The charter of the Central Bank of the Philippines was approved by President Quirino as Republic Act 265 on June 15, 1948 and the Bank opened for business on January 3, 1949.

In 1939, when the Philippines was a Commonwealth in transition to independence, the National Assembly passed and President Manuel Quezon approved a Central Reserve Bank Act. As the name indicates, the function of the proposed new institution was primarily to hold the reserves of the banks. Even though management of the currency itself was not contemplated, the bill was sent to President Roosevelt for approval under the Tydings-McDuffie Independence Act, which required all legislation affecting currency to be approved by the President of the United States. The National Assembly, foreseeing that the bill was to be vetoed, recalled it.

During the Japanese occupation the puppet Philippine Assembly passed a Central Bank Act on February 28, 1944 in an attempt to absolve the Japanese from legal accountability for the issue of currency. But the proposed Central Bank was not established.

After the war and early in the term of President Manuel Roxas, a Joint Philippine-American Finance Commission was appointed to survey the post-war rehabilitation needs of the Philippine economy. The Commission noted that the country could expect substantial foreign exchange receipts for some years on account of United States military expenditures, war damage payments, and favourable export prices, but it gave warning that these receipts were in danger of being dissipated in excessive imports of consumers goods. It recommended the imposition of import and exchange controls and the formation of a Central Bank.

The objectives of the Central Bank of the Philippines were laid down in R.A. 265 in the broadest terms. It was made responsible for: (a) maintaining monetary stability in the Philippines; (b) preserving the international value of the peso and the convertibility of the peso into other freely-convertible currencies and; (c) promoting a rising level of production, employment, and real income in the Philippines. In practice these objectives may sometimes conflict.

The new Central Bank was modelled in particular on the central banks of Paraguay and Guatemala; countries which, like the Philippines, have export economies. Its charter – which was largely drawn up by two experts loaned from the Federal Reserve System, one of whom went next to Ceylon – provided for the usual functions of a central bank; namely; to issue currency, supervise the banking system, serve as a clearing house, keep the reserves of the commercial banks, act as bank of rediscount and lender of last resort, manage the nation's reserves of international currency, be the fiscal agent and adviser of the government, and represent the country in international agencies and conferences.

The most notable immediate change was the abolition of the dollar exchange standard. Henceforth the currency was not legally tied 100 per cent to a reserve of metals or foreign exchange. Reserves of gold and assets in freely-convertible currencies had to be held only at a level adequate to meet any foreseeable net demands on the Bank for foreign currencies.

CENTRAL BANKING OPERATIONS 1949-1960

Late in 1949 the Central Bank faced its first severe test when it was called upon to halt capital flight from the country. On December 9, 1949, after hurried consultations with a team from the International Monetary Fund, and with the permission of the President of the United States (required under the Philippine Trade Act of 1946), exchange controls were imposed. Six months later the Korean War broke out. This brought on a boom in exports which, together with substantial U.S. Government local expenditures, resulted in a marked rise in foreign exchange reserves. The increased budget deficit and the reduction of imports through exchange controls also made for inflation. But the Central Bank did not attempt to reduce effective demand through sterilizing excess money supply. Instead, in May 1951, exchange controls were relaxed and imports encouraged partly because of an expected shortage of goods on world markets. Earlier, in March, 1951, a tax of 17 per cent had been imposed on the purchase of foreign exchange. The budget deficit was closed for the first and only time in the post-war period. This, coupled with the increased imports, relaxed inflationary pressure. However, with the end of the Korean War export boom economic activity levelled off in 1952 and 1953.

The picture was again changed with the election of President Magsaysay later in 1953. Almost immediately there was an improvement in economic conditions due to public confidence in his Administration. But in the years that followed, deficit financing was increased in order to achieve continued economic development. Inflationary pressures built up and international reserves were maintained only by severe exchange controls.

Mr. Magsaysay met an untimely death in 1957. This was a presidential election year and moves to relax exchange controls could not be resisted. Imports rose to an all-time high and net international reserves fell by $100 million in the seven months from March to December. Drastic controls on credit and exchange had to be imposed, as a result of which there was a slight improvement in international reserves.

This brief account shows that up to 1960 the Bank had been preoccupied with 'preserving the international value of the peso and the convertibility of the peso into other freely convertible currencies,' and also that the Bank had not been completely successful in this limited role. To some extent in 1951 and again in 1957 this might be imputed to faulty management. In general, however, the Central Bank was not in a position to counter external or internal monetary instability since the principal source of inflationary finance was the government itself. The measures of monetary control which it took tended to affect only the private sector of the economy.

CREDIT CONTROL TECHNIQUES 1949-1960

The instruments of monetary control available to the Central Bank are: moral suasion, open-market operations, bank rate policy, and changes in cash reserve requirements. They also include selective credit controls, margin requirements (cash cover or pre-deposits) on imports, and selective credit controls such as ceilings on loans, eligibility rules, and minimum capital requirements.

Moral Suasion can often exert a considerable influence, but it is likely to be less effective when exercised by a new institution. In the Philippines, the Central Bank lost some standing over the years to 1960 because of its responsibility for the administration of exchange controls, about which something will be said later.

Open Market Operations were hardly used because there was no bond market of any consequence.

Bank Rate Policy was seldom used. For a long time after 1949 the Central Bank rediscount rate was as low as 1 1/2 to 2 per cent. Keynesian theory seems to have been behind the move; it was felt that cheaper credit would encourage investment. But the expected demand for credit was not forthcoming. However, in 1955 the government-owned Philippine National Bank (which is almost half the banking system) under the leadership of a forceful president, began lending to the Government at 4 per cent against government bonds which it rediscounted at the Central Bank at 1 1/2 per cent – the proceeds being used for further lending at rates often a bit lower than the going market rates. At the same time it lent to the public other funds which it had received as the depository for funds borrowed by the government against bond issues. Thus government securities were used by the Philippine National Bank to multiply money supply. Although the National Bank's example was not followed by the other commercial banks, the practice forced a partial stoppage of government bond rediscounting in February, 1957. Two months later the rediscount rate itself was nominally raised to 2 per cent. Then in September the rediscount rate for the first time became a penalty rate which at 4 1/2 per cent was above the yield on government bonds. The Philippine National Bank unloaded massive amount of bonds. At the same time the rate of interest on savings deposits was permitted to go up from 2 to 3 per cent. As a result, interest rates on all bank loans went up, except those of the Government-owned Philippine National Bank. Finally it must be mentioned that in July, 1958, the Central Bank was able to persuade the government to pay 6 per cent as against 4 per cent, on issues absorbed by the Government Service Insurance System and the Social Security System; this rise was to match the rate of return on real estate loans made by these two institutions.

Cash Reserve Requirements. In 1949 the commercial banks' excess reserves were thought to be too great to be rapidly absorbed by any changes in cash reserve requirements, since by Republic Act 265, the latter may only rise by four points within any 30-day period.[1] By 1957, however, the banks were less liquid and most of them would have felt an increase in required reserves immediately. But at that time it was decided not to use this instrument because its effects would have been felt mainly by the smaller banks. After that all banks built up excess reserves apparently because of conservative lending. In February, 1959 cash reserve requirements were raised for the first time from 16 to 21 per cent of demand deposits in three stages of one percentage point every thirty days.

The Margin Requirement on the Opening of Letters of Credit is one of the most interesting and effective of all Central Bank instruments for curtailing credit and the one actually employed most often in the Philippines. The system operates in conjunction with import categories set up by the Central Bank. In 1957, the weapon was used in its extreme form when, by Circular 79 of December 9th,

[1] The reserve requirement on new deposits may be as high as 100 per cent.

cash deposits of up to 200 per cent were required against imports of non-essentials. Provided that the system is carefully applied it can do much to mop up surplus cash in the economy, since about half of the business of a typical Philippine bank has to do with foreign trade financing.

Selective Credit Control was not so much used, though in April, 1957 a list was prepared to govern bank lending. Priority I was for agricultural and industrial loans, Priority II for public utilities, Priority III for real estate, and Priority IV for consumption loans. In December of the same year a further memorandum was sent to the banks asking them to reduce real estate and consumption loans (Priorities III and IV) and to limit trust receipts to maturities not exceeding 60 days. Of themselves such measures would not have had much effect. Some of the classification by the banks is spurious, but coupled with other restrictions credit in general, did become tighter, while lending for economic development was spurred. Within one year the direction of bank financing changed so that industrial loans rose dramatically from 11.9 per cent of the total in 1956 to 19.9 per cent in 1957, although it is likely that part of the increase was due to a simple change in the classification of loans.

OUTSTANDING LOANS, DISCOUNTS AND OVERDRAFTS OF OTHER BANKS 1955-1957

Classification	1955	1956	1957
Commercial	31.7%	35.8%	31.1%
Industrial	11.0	11.9	19.9
Agricultural	37.0	31.5	29.7
Real Estate	8.3	8.8	7.9
Public Utility	1.1	1.4	1.5
Consumption	3.3	3.7	3.4
Others	7.6	6.9	6.5

Source: Central Bank of the Philippines, *Ninth Annual Report, 1957*, p. 123

Control over Consumer Credit is exercised only indirectly. Besides bank loans for consumption a new development in consumer lending is installment credit. Such financing depends to a large extent on bank advances. In the priority list for April, 1957, as well as on other past occasions, consumption lending was discouraged. The amounts involved in installment credit are not large in overall terms, but the problem of control may well arise in the future, as will the problem of how to improve the present cheque-clearing system as the banking system expands. In the decade of the fifties bank assets doubled, while the number of banks in operation grew from 12 commercial banks and one savings bank to 20 commercial banks and three savings banks. From 1952 to 1960 a network of 140 rural banks also came into existence.[2]

EXCHANGE CONTROL 1949-1960

Section 74 of Republic Act 265 authorizes the imposition by the Central Bank of 'emergency restrictions on exchange operations.' It was under such authority that exchange controls were operated from 1953 to early in 1962.

When originally imposed on December 9, 1949 they were used to halt a flight of capital and were followed in May, 1950 by tightened import control. But in 1953 the Import Control Commission Law lapsed. Exchange controls became a specific instrument of import control as well as a broad control over the allocation of foreign exchange resources. However until 1954 foreign exchange was not scarce in relation to demand,[3] but from that time on, rising national income, economic development needs, renewed inflation, and some consequent over-valuation of the peso all conspired to augment the pressure on the available foreign exchange and to make its control more difficult. Moreover, from 1954 onward, exchange controls were used consciously as instruments of national policy, not only for Filipinisation of economic activity but also to bring about import substitution as an aspect of economic development and industrialization. Certain categories of goods were banned – raw materials and machinery favoured against finished products and consumer goods, monopoly positions created or perpetuated, producers encouraged, and importers discriminated against. The effects of controls on the nature of imports and on the industrial structure of the economy can be seen from the following figures: in 1949 consumer goods constituted 64.4 per cent of imports; raw materials 26.2 per cent, and capital goods only 9.4 per cent. By 1957 a dramatic change had taken place: finished consumer goods were down to 21.9 per cent of imports, but raw materials jumped to 58.5 per cent and capital goods to 19.6 per cent. And in manufacturing, while the index of manufacturing production was 46.9 in 1949 (1955 = 100), in 1958 it was 134.6. The employment index in manufacturing was also up from 86.2 to 106.5 (1955 = 100). All in all manufacturing accounted for 16.3 per cent of GNP in 1958 as against 9.9 per cent in 1949.

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[2]When the Central Bank commenced operations the General Banking Act, Republic Act 337, also went into effect. This Act consolidated existing legislation governing banks and introduced some nationalistic provisions.

[3]In 1954 reserves were so good that, on the advice of Governor Cuaderno, the Philippine Government paid off British holders of $26 million in Manila Railroad bonds.

Thus in the main the imposition of exchange controls did much to contribute to economic development during a period when growth was being achieved partly at the expense of a decline in foreign exchange reserves. But, perhaps inevitably, exchange controls were used at times for purely political ends, and certainly the administration of exchange controls was a main source of the problems of the Central Bank. Blunders, ineptness, and discriminatory treatment in its formative years occasioned much public outcry, and because the regulations were administered by the Central Bank, these errors undermined public confidence in the Central Bank and in the banks.

A 'barter' law, Republic Act 1410, also fostered a black-market in exchange and complicated the problem of maintaining an exchange rate at P2 to US$1. This law transferred supervision over a substantial part of exchange away from the Central Bank to the Department of Commerce and Industry; and the Central Bank and the Department in the 1950's did not see eye to eye on its implementation.

The Exchange Control system is where the weakness of the Monetary Board of the Central Bank in the 1950's seemed to show up most clearly. The Board had a tendency to take on administrative functions in exchange allocation. Exchange control matters often clogged its agendas. But exchange control should not be the primary concern of a central bank; there is a danger of its becoming more an import-regulating body than a bank of banks. This danger was removed, for some time at least, when decontrol was decreed on January 21, 1962, as described below.

CENTRAL BANKING OPERATIONS 1961-1967

An era ended in December, 1960 when the first Governor of the Central Bank, Miguel Cuaderno, Sr., retired after two terms, twelve years at its helm. He had set up the Bank, presided over its growth, won for it acceptance and high prestige. His personality dominated the Bank and was the prime source of the Bank's effectiveness in its formative years. Mr. Cuaderno was succeeded by the then Deputy Governor, Andres V. Castillo, who served for one year in an acting capacity and then for one term from 1962-67. In 1968, Alfonso Calalang, who had been a long-time associate of Mr. Cuaderno and had been Deputy Governor at the establishment of the Bank, was appointed Governor.

In striving to preserve the international value of the peso Mr. Cuaderno had to contend with mounting pressure for accelerated economic development which proved inflationary. Nevertheless at the beginning he felt that with the help of controls he could hold the exchange rate so long as the fiscal situation in the country did not deteriorate beyond reasonable limits. But for political reasons this pressure was more difficult for him to counter toward the end of his period of office, so that he came to place increasing reliance on exchange controls to meet his objective of external balance. The policy of control became more dominant from 1958 on, consequent to the run down of exchange reserves in the latter part of

1957. The years 1959-61 were marked by a series of running battles in an ultimately losing campaign to maintain the international viability of the peso. In 1959, for example, a foreign exchange "margin" of 25 per cent was imposed on purchases of foreign exchange; it was collected by the Central Bank but was in other respects a foreign exchange tax. This measure succeeded for a while in damming the pressure on the peso. By 1960 Mr. Cuaderno was already willing to devalue and he answered the clamour to lift exchange controls with a "decontrol" program on April 25, 1960 which was in reality a *de facto* devaluation of the peso accomplished through a multiple exchange rate system; at one time there were eight different exchange rates for the peso on the buying and selling sides. The term "decontrol" was a misnomer for another reason: controls remained as tight as ever and the efforts required to police the system were actually greater than before.

The threats to the peso mounted until finally, coincident with the assumption into office of President Diosdado Macapagal and his appointment of Andres V. Castillo as Governor, true and full decontrol was decreed on January 21, 1962. All restrictions on purchases of foreign exchange were removed. The foreign exchange rate was left to seek its own level and the only vestige of control was that exporters were still required to sell their foreign exchange earnings to the Central Bank, which gave them P2.00 for every US$1.00 on 20 per cent of their export receipts and paid them the "free market" rate on the remaining 80 per cent. Importers could purchase foreign exchange at the "free market" rate without restriction. The "free market" rate slowly climbed till in May, 1962 it reached a temporary plateau of about P3.54 to US1.00. There was a subsequent flurry of speculation in June and the "free market" rate rose once again to about P3.90 to US1.00. At that point the Central Bank decided to intervene in the exchange market and succeeded in stabilizing the price; the rate stayed at P3.90 for the next three years and when the peso was formally devalued on November 6, 1965, the new official parity was set at P3.90 to US$1.00. This experience showed that the Central Bank could hold any reasonable rate of exchange once it made up its mind to do so.

With decontrol, the preoccupation of the Central Bank with control as a means to maintain the external value of the peso was reduced and the Central Bank was freed from its proper role of monetary management.

In reviewing the Central Bank's role in monetary management in the post Cuaderno period it needs to be said again that, as in most countries seeking rapid economic development, the Philippine fiscal scene since the end of World War II has been marked by an almost unbroken series of government budget deficits. (The only year when there was a budgetary surplus was in 1951-52.) Tax administration has steadily improved in efficiency but still lags. For personal reasons, the government is loathed if it authorizes heavier taxes; and yet the public continually demands more services and more accomplishment from their government. Fiscal imbalance shows up in an expanding money supply, creeping inflation, and unremitting pressure on the external reserves. In response the Central Bank tightens credit, thereby squeezing the private sector. This cycle of easing up and tightening money supply has been the story of the post-decontrol period. For instance, the tight hold which the Central Bank had on money supply relaxed six months after dcontrol, that is, from July, 1962 on; prices spurted upward in 1963, and in 1964 severe restrictions on credit had to be reimposed. The cycle was repeated in 1966-68.

On the credit side Philippine exports and foreign exchange earnings have been rising steadily at an average of about 5 per cent annually in the fifties and early sixties, though somewhat less (over 3 per cent) in the second half of the sixties. The Government too is more aware of its role in fiscal management. Serious attempts have been made to keep government budget deficits to the minimum that was politically feasible. Unfortunately the public has been less ready to accept the lesson that, in the face of the great demands made for public sector investment, higher taxes will actually obviate the necessity for the credit squeezes by the Central Bank which have hit the private sector and have slowed down growth.

Since decontrol, the Central Bank has made more use of indirect methods of influencing the economy and has employed monetary measures more flexibly than before to control money supply. The more direct monetary instruments described earlier have been utilized as well, such as selective credit controls and portfolio ceilings; in the decontrol of January, 1962, heavy margin requirements were prescribed for different categories of imports: 150 per cent on unclassified (i.e. banned) and non-essential consumer goods down to 25 per cent on essential consumer goods, essential producers goods, and decontrolled items. New ways of limiting the asset and credit portfolios of the banks have been devised, such as "liquidity floors," i.e., reserves on holdings of government securities, and rediscount quotas and ceilings.

The more traditional Central Bank weapons have been rediscovered. Changes in reserve requirements are now more readily brought to bear as weapons in the arsenal. So are interest rate changes, both on Central Bank rediscounts and therefore on bank lending rates and on savings deposits. The low interest rate policy in the early 1950's had been ineffective in calling forth investment, but the Bank has seen that in the 1950's, after the rapid economic development that took place in the second half of the 1950's, higher interest rates do have increasing effect in curtailing investment and more important, in attracting additional saving. It has been realized that in a country which is short of capital, the price paid for investment funds should be more realistic (i.e. higher). In 1949 the interest rate on savings deposits had been 2 per cent; in the devaluation of November, 1965, the allowable interest rate on savings deposits was increased from 4 1/2 per cent in savings bank and 4 per cent in commercial banks to 5 3/4 per cent.

On the debit side, however, there has been technical misjudgment in the Central Bank's administration of monetary policy, mainly in the timing of policy changes.

For example, the Bank stepped into the foreign exchange market too late when it allowed the "free market" rate to climb from P3.54 to P3.90 in June, 1962. In the second half of 1962, the Central Bank was concerned over the effect of the tight money situation brought by decontrol in holding back investment. The Bank staff was therefore pressing for an easier money policy and accelerated government expenditure. Yet by September, 1962 a resumption of private sector investment, after the initial shock and readjustment, was evident. (For instance, applications for long term loans from the Development Bank of the Philippines were back to normal.) In December, 1962 the stock market was already enjoying a recovery and even a mild boom (in the Philippines, the stock market is the first to feel a credit pinch and the last to benefit from easier credit.) The Central Bank chose just this time to announce more credit relaxation moves. The effect was to feed the fires of inflation all through 1963, leading to a monetary crisis at about the end of 1963 and tight money all through the next year. It was a failure on the part of the Central Bank to read the signals properly.

One significant administrative innovation was hit upon to deal with the situation, so-called "Operation Eagle" which was in effect through 1965. Under the leadership of the Program Implementation Agency of the Office of the President the leading government economic agencies (the Central Bank, the Budget Commission, the Department of Finance, the National Economic Council, as well as the Program Implementation Agency) were brought together regularly to coordinate fiscal and monetary policy. The defensive operation was successful in holding the value of the peso.

On balance a measure of the effectiveness of the Central Bank in keeping down inflation is that for the period from 1959 to 1967, prices rose by 52 per cent, which is 5.4 per cent per year (compounded) while money supply expanded by 105 per cent or 9.4 per cent per year. The big jumps in prices took place in 1963 after the decontrol and in 1964 after the easy money period of 1963. After that, price rises tapered off.

The difficulties in restraining price increases are compounded by the fact that there are very real bottlenecks in agricultural production. As a consequence of rapid industrialization as well as steady expansion in export agriculture (including forestry) in the 1950's and the accompanying rise in incomes, the demand for food has been outrunning the modest increases in domestic food production; this has meant that inflation has had its greatest impact on food prices. It is to the credit of the new Administration that in 1966 a concerted attack was launched on the food problem, involving new high-yielding rice varieties, more effective fertilizer distribution and agricultural extension, irrigation, rural credit, and land tenure reform. To this extent there is evidence that an emerging agricultural revolution will help to contain inflation in the future.

The one area where insufficient attention has been paid, in the government as a whole and not the Central Bank alone, is export promotion. In many cases, controls have been administered in such a manner as to make exportation more difficult. Preoccupation, in the case of tobacco exports, with an unrealistic price support level; or in other cases with damming capital flight; or curbing repatriation of profits; or preventing the underpricing of exports has multiplied red tape and slowed down the export process. Much of the red tape remains even after decontrol, although fortunately the devaluation and the unification of the exchange rate in November, 1965 cleared away many obstacles.

ADMINISTRATION

The structure of the Central Bank itself calls for attention. The Bank has its staff, with the Governor as chief executive officer. Over him is the Monetary Board.

The Monetary Board consists of seven members. The Secretary of Finance is presiding officer and the other ex-officio members include the Governor of the Central Bank, the President of the government-owned Philippine National Bank, and the Chairman of the Board of Governors of the former Rehabilitation Finance Corporation now the Development Bank of the Philippines. Three additional members are selected for six-year terms from the public at large, but to maintain continuity in membership one comes up for appointment every two years.

In the Philippines it seems that this system is only as effective as the men directing it. In the first years of the Central Bank's existence there was a relatively strong Monetary Board. Appointments made were of well-respected men, whose decisions were backed by the Government, and the independence of the Monetary Board was upheld.

Then in 1954 came a dynamic President, responsive to the needs of the country, but withal an impulsive, impatient leader who often felt that the Monetary Board was obstructing progress. Inevitably this undermined the independence and prestige of the Monetary Board. These have not been recovered.

Even more disturbing is the idea which seems to have gained currency from time to time that the Monetary Board members are appointed to represent special group interests. Nothing could have been farther from the minds of the original framers of the Central Bank charter.

And so, the composition of the Monetary Board does seem to be in need of examination in two aspects: firstly, there may be too many ex-officio members on the Board, especially since the Philippine National Bank and the Development Bank of the Philippines have been among the biggest users of created money and thus they impart an inflationary bias to policy decisions; secondly the appointments of public members of the Board have not all been happy and their function has been misconceived.

In the Board's relations with the government, there have been disappointments. Under the charter the Central Bank is to report on certain occasions, as when money supply increases by more than 15 per cent per year, or when the cost of living rises by more than 10 per cent. These reports have not always been heeded. Indeed the Government has sometimes been pulling in opposite directions from the Central Bank, especially with regard to inflationary bond financing.

Finally, in a democracy arises the problem of the economic power of the government and how it is used. Such power in the wrong hands can be a source of corruption and even of economic subversion. The Philippines has had its share of troubles with the use made of Central Bank powers.

CONCLUSION

After twenty years the Central Bank of the Philippines is no longer a new organization. Even so some of the institutional problems found in the earlier years remain. In a country where more expenditure is authorized than there is revenue to spend, the Budget Commission is still a key point for fiscal control. The Central Bank is not alone in determining the monetary situation because of fiscal demands and therefore its effectiveness is cut down correspondingly. The private sector, as everywhere in the world, clamors for easy money. Moreover, within the Central Bank itself, the inappropriateness in the composition of the Monetary Board, with a number of government ex-officio members, has not been rectified. The Central Bank has been handed many additional functions, such as overseeing savings and loan associations. It faces problems of supervising a fast-growing banking system, which at the end of 1967 included 41 commercial banks with 508 branches and agencies, and an independent rural banking system.

With so much experimenting and stumbling in its operations, how is one to assess the contribution of the Central Bank to the Philippine economy? For this it may be useful to refer back to the original motivations behind its establishment. In 1934 when the country was anticipating independence (the Philippine Independence Act was approved in the United States that same year), the Philippine Economic Association published a study of the economic problems of the Philippines. Their most serious concern was that in spite of impending political independence, economic dependence on the political suzerain remained. Therefore in the monetary sphere they recommended that a central bank be set up so as to ensure an independent currency.

In 1949 when the Central Bank commenced operations, the dollar exchange standard was replaced by a managed currency system. Over the years, for good or ill, Philippine monetary affairs – domestic money supply, prices, foreign exchange and so on – have increasingly become independent of the United States.

More than this, the Central Bank through monetary policy, exchange control, and the leadership of its Governor in economic affairs has played a pivotal role in transforming the economy, laying the base for a viable industrial sector.

Another way to appreciate the Bank's impact would be to ask where the country would be now had there been no Central Bank.

Finally, what is the future of monetary management in a country like the Philippines? First of all it should be said that central banking in the Philippines has been favored by an adequate reservoir of economic brain-power and able leadership in the Central Bank. If it has not been a complete triumph in its activities, this may be imputed in part to the process of growing up. The stresses of economic growth are great. An economy in transition is not perfect, as Filipinos have slowly come to realize.

Secondly the success of the Central Bank is contingent not only on its own competence in monetary management, but also on the development of more skillful and wise administration in the entire government apparatus and in fact the nation in general. With the continued improvement in public administration in the last twenty years, the Central Bank has become well accepted and better integrated institutionally (as against personally, under Cuaderno) in economic policy making.

Ultimately the success of the Central Bank depends on the relationship between the President and his Governor of the Central Bank. During his tenure Governor Castillo grew fond of describing the connection between the Central Bank and the Government in Lord Montagu Norman's words: "the Central Bank is like a nagging wife; she must constantly urge good behavior on her spouse in private, but in the end she must bow down and obey." In its years of existence, there seem to have been cycles in the respect with which Presidents regarded the Central Bank and the reliance they placed on it: some Presidents gave it more influence and importance than did others. Fortunately Presidents have learned that it is dangerous economically as well as politically to ignore the Central Bank's advice for too long. This lesson is perhaps the strongest guarantee of the Central Bank's continuing effectiveness.