Bangko Sentral ng Pilipinas

MANILA

OFFICE OF THE GOVERNOR

12 October 2006

Mr. APOLINAR G. SUAREZ, JR.
President
Philexport Cebu
Cebu City

Dear Mr. Suarez, Jr.:

Thank you for providing us with a copy of the position paper of the Confederation of Philippine Exporters Foundation (Cebu) Inc., entitled "To Address the Downside Effects of the Strengthening Philippine Peso on Philippine Exports" dated 12 September 2006.

Please find below some comments on the paper.

First, we reiterate our previous pronouncements that the BSP recognizes the significant contribution of the export sector to the performance of the economy, particularly in terms of providing employment and generating foreign exchange. Furthermore, we do recognize the challenges that a rapidly appreciating peso may pose on exporters. In fact, we have been engaging exporters in dialogues and regularly conducting an Exporters' Forum to discuss the various concerns of the sector.

Second, the BSP has been undertaking various initiatives to broaden access of businesses, including the export sector, to credit. One such initiative is the peso rediscount facility which has a rediscount rate based on Treasury bill rates. The BSP likewise established the Exporters Dollar and Yen Rediscount Facility (EDYRF). The BSP sets aside a budget of US$500 million for this facility. The peso rediscount facility as well as the EDYRF allow banks to rediscount their existing loans to exporters, thus freeing-up funds which the banks can use for further lending operations. Based on preliminary data, outstanding availments under the two rediscount facilities amounted to about ₱10.4 billion as of June 2006.

In support of the Government's assistance to small and medium enterprises (SMEs), the BSP reduced to 75 percent from 100 percent the risk weight assigned to SME loans under the risk-based capital adequacy formula. Last week, the BSP approved a two-year exemption of micro and small enterprises from the submission of income tax returns and/or audited financial statements as proof of financial capacity when they apply for bank loans. These measures are intended to remove the negative bias of banks towards lending to SMEs by freeing more funds that would otherwise be set aside for loan loss provisioning, as well as facilitate loan availments by SMEs by easing stringent documentary requirements. As of March 2006, banks have set aside ₱247 billion in loans to SMEs, more than the ₱93 billion required by law.[1]

Third, the BSP's Monetary Board (MB) has also appropriated ₱10.5 million to fund the BSP assistance to the Export Development Council (EDC) in support of EDC's priority projects/activities relating to export promotion and development. As of 25 August 2006, the EDC reported that it has utilized ₱9.32 million (89 percent) of the ₱10.5 million BSP grant. The proposed activities/projects of the EDC will focus on market information, training, research and development, and capacity building. The BSP is open to considering the establishment of another export promotion fund upon full utilization of the existing fund.

Fourth, the members of the MB met with representatives from the EDC on 11 September 2006. During the meeting, it was agreed that various government agencies concerned will conduct continuous study and discussions on capacity building programs to SMEs through industry associations and government financial institutions and implement financial literacy programs to encourage prudent financial management by entrepreneurs. The National Government will also push for the passage of legislative measures aimed at supporting the export sector. For its part, the BSP will continue to endorse to the banking sector the viability of the SME export sector as a source of profitable business ventures.

Finally, the BSP does not have a strong peso policy. Instead the BSP supports a market–determined exchange rate, with some scope for occasional BSP action to smoothen sharp fluctuations in the exchange rate. On such occasions, the BSP takes the opportunity to provide indicative guidance to maintain order and stability in the foreign exchange market and to mitigate possible adverse effects of significant exchange rate fluctuations on inflation and inflation expectations.

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[1] Banks are required by the Magna Carta for Small Enterprises to set aside 6 percent and 2 percent of their loan portfolios to small and medium enterprises, respectively.

The BSP has been undertaking a host of measures within its legal mandate to address the concerns of various sectors of our economy. Rest assured that the BSP will continue to support the export sector through its main mandate of keeping prices stable to help enhance the price competitiveness of our exports, and through its promotion of a sound and efficient financial system.

Very truly yours,

AMANDO M. TETANGCO, JR.
Governor