Philippines (Republic) Congress
... An act establishing the Central Bank of the Philippines...

FIRST CONGRESS OF THE REPUBLIC
OF THE PHILIPPINES
*Third Session*

# HOUSE OF REPRESENTATIVES

[H. No. ]

INTRODUCED BY .....

## EXPLANATORY NOTE

One of the principal recommendations of the Joint Philippine-American Finance Commission was that the Philippine Government should establish a monetary system in which monetary authority and responsibility would rest in a central bank. The Commission declared our present monetary system to be "an unsuitable permanent system for an independent Philippines." Although the Commission based its recommendation primarily on long-run considerations, it also emphasized the importance of a central bank to the successful implementation of the Commission's more immediate financial program. In particular, the Commission had in mind the extraordinary opportunity for the rapid economic development of the Philippines which the heavy United States Government expenditures in the Islands during the early postwar years make possible. These expenditures assure a large volume of foreign exchange receipts and a high national income. The Central Bank can play a vital role both in the program to achieve the best utilization of foreign exchange receipts and in the program to channel a portion of the high national income out of consumption and into investment expenditures.

To implement the Commission's recommendations, the President created the Central Bank Council by Executive Order No. 81, series of 1947. The accompanying bill creating the Central Bank of the Philippines has been prepared under the auspices of the Council.

It will be the responsibility of the Central Bank to administer the monetary and banking system. The principal objectives of the Bank will be to maintain monetary stability within the Philippines, to preserve the international stability and convertibility of the peso, and to promote orderly growth in production, employment, and real income in the Philippines.

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draws the pesos from its unissued stock of treasury certificates and at the same time places the equivalent amount of dollars on deposit in the United States. On the other hand, whenever the country spends dollar exchange faster than it is acquiring it, i. e., when there is a deficit in the balance of payments, banks and others purchase dollars from the Treasury with pesos. The Treasury retires the pesos from circulation and transfers the dollars to the purchaser by means of a draft or a cable transfer. The first process increases the currency circulation and the second process decreases it.

This system is simple, and easy to operate. As long as economic pressures do not force an abandonment of the 100 per cent reserve requirement, it assures the international stability of the currency, though at heavy cost to the domestic economy. It is thus an appropriate system for a backward or a colonial economy.

For a developing economy, however, it has a number of serious disadvantages. The role of the Treasury is purely passive. It is powerless to influence the money supply in any way or to relieve the pressures to which a fluctuating supply of money may at times subject the economy. It is thus a "fair weather" system. Under normal balance of payments conditions it is not likely to break down, but its excessive rigidity may impose unnecessary hardship in times of economic crisis. Even in normal times, however, it can do nothing to increase the availability of credit to meet the larger needs of a growing economy, nor can it do anything to lower the cost of credit. Moreover, the banks are vulnerable under the system, for they have nowhere to turn for help in case of need. The system also freezes permanently a rather large portion of the dollar reserve by requiring dollars to be held against that part of the currency circulation which, even in the event of a serious balance of payments deficit, would still be required to carry on domestic trade. This has in the past forced the Philippines to be an international short-term creditor although the country has been largely undeveloped and could have made good use of a part of its international reserve to expand agriculture and industry.

When the monetary and banking system is administered by the Central Bank, it will operate quite differently.

After the introduction of the Central Bank balance of payments surpluses and deficits will increase and decrease the money supply very much as they do now under the Treasury. For example, just as now, in the event of a surplus, the Treasury acquires dollars and puts an equivalent amount of treasury certificates into circulation, so the Central Bank, in the event of a similar surplus, will add dollars to its reserve and put its notes into circulation. But here the similarity between the Treasury and the Central Bank ends.

First of all, as a bankers' bank, the Central Bank will accept dequire the commercial banks to maintain their reserves against their posits from the commercial banks. In fact, the law will actually re-

own deposit liabilities in the form of deposits with the Central Bank rather than in the form of currency, as they now do. The banks will only need to hold such amounts of currency as they may require to meet the daily needs of their customers. Therefore, in the case of the surplus mentioned above, the Central Bank will increase either its note liabilities or its deposit liabilities, or, as is more likely, a combination of both, whereas the Treasury now increases only its liability for treasury certificates.

Secondly, and this is the more significant difference, the Central Bank can engage in domestic lending and investment operations which can increase and decrease the money supply in the same manner as the Bank's foreign exchange operations can increase and decrease it. For example, if the Central Bank makes an advance to a commercial bank by buying its promissory note, or if it purchases a Government security in the open market, the note and deposit liabilities of the Central Bank increase just as they increase when the Bank buys foreign exchange. On the other hand, when the note is repaid, or the security is sold, an equivalent liability is extinguished just as a liability is extinguished when the Bank sells foreign exchange.

The credit operations of the Central Bank may take a great variety of forms, as an examination of the accompanying bill will reveal. It can discount, rediscount, buy or sell eligible paper or it can make advances against such paper. It can engage in open market operations in Government securities and can under certain circumstances make limited advances directly to the Government. The Bank will even have the authority to issue, sell, and repurchase its own evidences of indebtedness secured either by selected assets of the Bank, such as gold or foreign exchange, or by the Bank's general assets. It should be noted, however, that except for its operations in the open market in its own securities or in Government securities, the Bank will not deal with the public. In particular, the Bank will not have power to make loans directly to the public.

No matter what form a particular credit operation may take, its broad monetary effect will be the same. Any increase in the Bank's credit will tend to expand the money supply whereas any decrease will tend to contract it. Thus the Bank can use domestic credit operations to offset the effects on the economy of its foreign exchange operations.

The present bill requires the Central Bank to refrain from expanding its credit, either through its credit operations with banking institutions or through open market operations, whenever there is an inflation or whenever inflationary dangers exist. The purpose of this restriction on the Bank's domestic credit operations is to prevent the Bank from amplifying the expansionary effects of a balance of payments surplus which by itself had already created inflationary conditions. The bill even requires the Central Bank to endeavor to

prevent the surplus from increasing the money supply by the full amount of the surplus, i. e., to "sterilize" a portion of it. This it could do by reducing its supply of credit to the banking system and by selling either its own securities or Government securities in the open market.

As far as a deficit in the balance of payments is concerned, the principal limitation upon the Bank's power to moderate its effects will be the size of the Bank's international reserve in gold and foreign exchange. When a deficit resulting from a decline in exports contracts the money supply, exerts a depressing influence on prices, and lowers money incomes, the Bank can to some extent counteract these effects by engaging in domestic lending. Such lending, however, by somewhat relieving the downward pressure on prices and incomes, will retard any downward adjustment of imports and thus accentuate the drain on the international reserve. If the reserve is large, the drain on it can be borne for a considerable period of time, and the Bank may choose this course, particularly if the factors causing the decline in exports are temporary. If the reserve is small, or if the factors causing the decline in exports are not considered to be temporary, the Bank may have to refrain from increasing its domestic lending and, instead, may have to resort to other measures, either on its own or in combination with the Government, to restore international equilibrium. To illustrate the point in another way, a Central Bank is somewhat like a commercial bank with respect to its reserve. Just as the size of the cash reserve of a commercial bank places an effective limit on the extent to which the bank can expand its loans, so the size of the international reserve of the Central Bank will place an effective limit on the expansion of Central Bank loans.

The traditional type of central banking law fixes a statutory ratio of a bank's international reserve usually either to its note liabilities alone or to its note and deposit liabilities together. Experience has demonstrated repeatedly that such reserve requirements are of little or no value as a guide to central bank policy. Nor have they been an effective safeguard against overexpansion of central bank credit in times of crisis. During war or other national emergencies the overriding needs of the state have forced the lowering or the suspension of statutory reserve requirements. Even in principle a statutory reserve requirement is contradictory, for it states, in effect, that a reserve of a specific size must be kept, but "locks it up" and prevents it from being used in case of real need. The present bill recognizes frankly that no legal reserve requirement can be a substitute for sound judgment in the administration of the Central Bank and lays down, instead, guiding principles for the exercise of that judgment.

The international reserve is such an important factor in enabling the Central Bank both to maintain the stability and the converti-

bility of the peso and to maintain stable internal economic conditions, that the bill emphasizes the necessity of keeping it adequate and gives the Bank special powers concerning it. The bill does not set up a system of exchange control, but it does give the Bank power to protect the country's international reserve should an emergency ever require it. In normal times the Bank will merely keep itself fully informed of exchange operations of banks, maintain an orderly exchange market, and ensure that the banks do not speculate in foreign exchange.

The credit powers given to the Central Bank will enable it not only to regulate the volume of credit, but also to control credit selectively by controlling particular types of credit and their cost. This is in accord with the most recent central banking theory and practice. These powers will enable the Central Bank to discourage, or even eliminate, the extension of bank credit for speculative purposes, for the production or importation of non-essential goods, or for other purposes which may at times be contrary to the national welfare. On the other hand, the Central Bank will be able to encourage the use of the country's credit facilities for worthwhile purposes. This it can do in a number of ways, but particularly by influencing the lending policies of credit institutions and by increasing the capacity of the Government to borrow from both the public and the banks. The Central Bank could thus help to direct both public and private funds to such purposes as the production and importation of essential goods, the expansion of export industries, and the construction of such things as homes, schools, hospitals, roads, bridges, public markets, water and power systems, and other public works.

The fact that the Central Bank is given rather broad powers over the credit operations of the commercial banks and other credit institutions might be interpreted to mean that the operations of such institutions will have to be curtailed. Precisely the opposite is true. At present each commercial bank must in a very real sense act as its own central bank. That is to say, although the cash reserve requirement against demand deposits under existing law is 18 per cent very few banks ever permit their reserves to fall nearly so low because they know that in a crisis each bank would have to depend upon its own resources to meet a sudden loss of deposits. The great emphasis of Philippine banks on liquidity has provoked charges of "pawnshop banking" which have sometimes been unfair. The fault is not so much with the bankers as with the system under which they have been forced to operate. The introduction of the Central Bank should considerably improve the situation. The Central Bank as "lender of last resort" will stand ready at all times to purchase acceptable paper or lend against it, and in abnormal times it will have the authority to broaden still further the scope

of its lending power. This will be a tremendous gain for both the commercial banks and the public. It will strengthen the banking system and enable it to withstand almost any conceivable crisis. It will also influence the character of normal banking operations. The banks will gradually be able to increase their loans, to lend for longer terms, to lower interest rates, and in other ways to expand their services to the public. The introduction of the Central Bank will be particularly important to the growth of indigenous banking. It will tend to eliminate the advantage which the branches of foreign banks have possessed in their ability to rely on the combined resources of their home offices and other branches, and it will improve the credit standing of domestic banks with their foreign correspondents.

By strengthening the banking and credit system the Central Bank will contribute materially to the objective of channeling the savings of the public into worthwhile investments. The public will be encouraged to make greater use of the banks as depositaries for their savings and the banks in turn should be enabled to make loans to many whom they have never been able to accommodate before.

The Central Bank will also contribute to this objective by assisting in the development of the broadest possible market for both its own and Government securities, and a special fund, called the Securities Stabilization Fund, has been created for this purpose. The Report of the Joint Finance Commission emphasized the importance of developing such a market and outlined the benefits which it might be expected to bring. Experience elsewhere has shown that a central bank is essential to a stable and liquid securities market. The Bank should stand ready at all times to discount short-term securities at a rate not far removed from the one at which they were issued and should be prepared to purchase longer-term securities ordinarily at par or above. In this way the market is assured of the stability and liquidity which is necessary to attract investment funds.

The importance of money and credit in a modern economic system hardly needs to be argued. Perhaps no single factor can do more to influence the welfare and growth of a community than the flow of money. It is the means by which the resources of a country can be mobilized for production. Its flow plays a dominant role in the determination of prices and wages, of income and employment. Stable money is essential to performance under contracts and to the fair liquidation of debt. It is the lifeblood of foreign trade.

Most countries in the world have placed the administration of their monetary systems in the hands of their central banks. Moreover, increasing numbers of them are finding that monetary matters affect the public interest so vitally that they are making the administration of their central banks the responsibility of government. This is done in the accompanying bill. At the same time, it should be emphasized that the bill recognizes that the Central

Bank will be only one of many Government agencies and that the fiscal and credit operations of a number of agencies, as well as those of the Government itself, may profoundly affect monetary policy. For this reason the bill sets up mechanisms for achieving co-ordination in monetary matters between the Government and its various instrumentalities and contemplates that the Central Bank will have the primary responsibility for achieving such co-ordination.

The Central Bank of the Philippines in this bill is charged with the responsibility for preventing inflations and deflations, for maintaining a stable and freely convertible currency, and in general for creating monetary conditions conducive to the full use of the country's resources and a high level of production, employment, and real income. The broad powers which it is given are commensurate with the magnitude of its responsibility. The Bank will not be hampered by too many restrictive rules or rigid limitations on its powers. Many of these powers may go unused for long periods, for they are designed for use in particular situations, some of which may never arise. Others are intended for use only in a crisis or to forestall a crisis, but prudence dictates that they be included now so that they will be at hand in case of need. It would be foolhardy to assume, with the record of the war- and depression-induced economic crises of the last thirty years plainly before us, that the Philippine economy will somehow escape such crises in the future. The safer assumption is the one underlying the present bill: it is better in an uncertain economic world to be prepared for any eventuality.

Many parts of the accompanying bill are complicated and technical, and may not be easily understood by the layman, but its real significance must be readily apparent to all. It establishes the Charter of the Central Bank of the Philippines, a charter whose significance for the economic life of the nation may well be compared with the significance of the Constitution for its political life. It provides at last for a currency system which is truly independent and which can be administered for the purpose of improving the general welfare of the Filipino people. It establishes an institution whose primary objective will be to make possible, as never before, the fuller use of the nation's human and material resources and a rising standard of comfort for all.

Philippines (Republic) Congress

FIRST CONGRESS OF THE REPUBLIC
OF THE PHILIPPINES
*Third Session*

# HOUSE OF REPRESENTATIVES

[H. No. ]

INTRODUCED BY .....

## AN ACT ESTABLISHING THE CENTRAL BANK OF THE PHILIPPINES, DEFINING ITS POWERS IN THE ADMINISTRATION OF THE MONETARY AND BANKING SYSTEM, AMENDING THE PERTINENT PROVISIONS OF THE ADMINISTRATIVE CODE WITH RESPECT TO THE CURRENCY AND THE BUREAU OF BANKING, AND FOR OTHER PURPOSES.

*Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:*

### CHAPTER I.—ESTABLISHMENT AND ORGANIZATION OF THE CENTRAL BANK OF THE PHILIPPINES

#### ARTICLE I.—*Creation, Responsibilities and Corporate Powers of the Central Bank*

SECTION 1. *Creation of the Central Bank.*—There is hereby created a body corporate to be known as the Central Bank of the Philippines, which shall be governed by the provisions of this Act.

The capital of the Central Bank shall be TEN MILLION (₱10,000,000) PESOS, which are hereby appropriated from the assets of the Exchange Standard Fund, as provided in section 134 of this Act.

SEC. 2. *Responsibilities and objectives.*—It shall be the responsibility of the Central Bank of the Philippines to administer the monetary and banking system of the Republic.

It shall be the duty of the Central Bank to use the powers granted to it under this Act to achieve the following objectives:

(*a*) To maintain monetary stability in the Philippines;

(*b*) To preserve the international value of the peso and the convertibility of the peso into other freely convertible currencies; and

(*c*) To promote a rising level of production, employment and real income in the Philippines.

SEC. 3. *Place of business.*—The Central Bank shall have its principal place of business in the City of Manila, but may have such branches, agencies and correspondents in other places as are necessary for the proper conduct of its business.

SEC. 4. *Corporate powers.*—The Central Bank is hereby authorized to adopt, alter, and use a corporate seal which shall be judicially noticed; to make contracts; to lease or own real and personal property, and to sell or otherwise dispose of the same; to sue and be sued; and otherwise to do and perform any and all things that may be necessary or proper to carry out the purposes of this Act.

The Central Bank may acquire and hold such assets and incur such liabilities as result directly from operations authorized by the provisions of this Act, or as are essential to the proper conduct of such operations.

1 ARTICLE II.—*The Monetary Board*

2 SEC. 5. *Composition of the Monetary Board.*—The powers
3 and functions of the Central Bank shall be exercised
4 by a Monetary Board, which shall be composed of seven
5 members, as follows:

6 (*a*) The Secretary of Finance, who shall preside at
7 the meetings of the Monetary Board. Whenever the Sec-
8 retary of Finance is unable to attend a meeting of the
9 Board, the Undersecretary of Finance shall act as his
10 alternate, but shall not preside.

11 (*b*) The Governor of the Central Bank, who shall preside
12 at the meetings of the Board in the absence of the Sec-
13 retary of Finance. The Governor shall be appointed for
14 a term of six years by the President of the Philippines
15 with the consent of the Commission on Appointments.
16 Whenever the Governor is unable to attend a meeting
17 of the Board, the ranking deputy-governor shall act in
18 his stead.

19 (*c*) The President of the Philippine National Bank,
20 whose alternate shall be the senior vice-president of said
21 bank.

22 (*d*) The Chairman of the Board of Governors of the
23 Rehabilitation Finance Corporation, whose alternate shall
24 be the ranking governor of said corporation.

25 (*e*) Three other members, to be appointed for terms
26 of six years by the President with the consent of the
27 Commission on Appointments; *Provided, however,* That
28 the first members appointed under the provisions of this

1 subsection shall have terms of office of two, four and six
2 years, respectively.
3 SEC. 6. *Vacancies.*—Any vacancy in the Monetary Board
4 created by the death, resignation, or removal of an ap-
5 pointive member shall be filled by the appointment of a
6 new member to complete the unexpired part of the term
7 concerned.
8 SEC. 7. *Qualifications.*—No person shall be appointed as
9 a member of the Monetary Board or as a deputy-governor
10 of the Central Bank unless he be of good moral char-
11 acter and of unquestionable integrity and responsibility.
12 Moreover, no person shall be appointed to the Monetary
13 Board who is not of recognized competence in the economics
14 of banking, finance, commerce, agriculture or industry;
15 *Provided, however,* That the Governor and deputy-governors
16 of the Central Bank must be of recognized competence in
17 the field of banking.
18 SEC. 8. *Disqualifications.*—With the exception of the ex
19 officio members and their respective alternates, none of the
20 following may be a member of the Monetary Board or a
21 deputy-governor of the Central Bank:
22 (*a*) Persons holding any public position or office, either
23 by election or by appointment, except academic positions;
24 and
25 (*b*) Directors, officers or employees of other banking in-
26 stitutions.
27 SEC. 9. *Removal.*—The President may remove any mem-
28 ber of the Monetary Board for any of the following reasons:
29 (*a*) If the member is disqualified under the provisions
30 of section 8 of this Act; or

(*b*) If the member is guilty of acts or operations which are of a fraudulent or illegal character or which are manifestly opposed to the aims and interests of the Central Bank; or

(*c*) If the member no longer possesses the qualifications specified in section 7.

SEC. 10. *Meetings.*—The Monetary Board shall convene as frequently as is necessary to discharge its responsibilities properly, but shall meet at least once every two weeks. The Board may be convoked either by the Secretary of Finance, in his capacity as presiding officer of the Board, or by the Governor of the Central Bank.

The presence of four members shall constitute a quorum.

All decisions of the Monetary Board shall require the concurrence of at least four members, except in special cases where the provisions of other sections of this Act demand a greater majority.

SEC. 11. *Attendance of the ranking deputy-governor and the chief of the Department of Economic Research.*—The ranking deputy-governor of the Central Bank and the chief of the Department of Economic Research shall attend the meetings of the Monetary Board with the right to be heard but not to vote.

SEC. 12. *Remuneration of members for attending meetings of the Board.*—The members of the Monetary Board or their respective substitutes, except the Governor and the ranking deputy-governor, shall receive a per diem for every Board meeting attended. The amount of said per diem shall be set by the President but may not exceed FIFTY (₱50.00) PESOS.

1 SEC. 13. *Withdrawal of persons having a personal*
2 *interest.*—Whenever any person attending a meeting of
3 the Monetary Board has a personal interest of any sort
4 in the discussion or resolution of any given matter, or any
5 of his business associates or any of his relatives within the
6 fourth degree of consanguinity or second degree of affinity
7 has such an interest, said person may not participate in the
8 discussion or resolution of the matter and must retire from
9 the meeting during the deliberations thereon. The minutes
10 of the meeting shall note the withdrawal of the member con-
11 cerned.
12 SEC. 14. *Exercise of authority.*—In order to exercise the
13 authority granted to it under this Act, the Monetary Board
14 shall:
15 (*a*) Prepare and issue such rules and regulations as it
16 considers necessary for the effective discharge of the re-
17 sponsibilities and exercise of the powers assigned to the
18 Monetary Board and to the Central Bank under this Act;
19 (*b*) Direct the management, operations and administra-
20 tion of the Central Bank and prepare such rules and
21 regulations as it may deem necessary or convenient for
22 this purpose;
23 (*c*) On the recommendation of the Governor, appoint, fix
24 the remunerations, and remove all officers and employees
25 of the Central Bank, with the exception of the Governor;
26 and
27 (*d*) Authorize such expenditures by the Central Bank
28 as are in the interest of the effective administration and
29 operation of the Bank.

SEC. 15. *Responsibility.*—Any member of the Monetary Board or officer or employee of the Central Bank who wilfully violates this Act or who is guilty of gross negligence in the performance of his duties shall be held liable for any loss or injury suffered by the Bank as a result of such violation or negligence. Similar responsibility shall apply to the disclosure of any information of a confidential nature about the discussions or resolutions of the Monetary Board or about the operations of the Bank, and to the use of such information for personal gain or to the detriment of the Government, the Bank or third parties.

ARTICLE III.—*The Governor and Deputy-Governors of the Central Bank*

SEC. 16. *Powers and duties of the Governor.*—The Governor shall be the chief executive of the Central Bank. His powers and duties shall be:

(*a*) To prepare the agenda for the meetings of the Monetary Board and to submit for the consideration of the Board the policies and measures which he believes to be necessary to carry out the purposes and provisions of this Act;

(*b*) To execute and administer the policies and measures approved by the Monetary Board;

(*c*) To direct and supervise the operations and internal administration of the Central Bank. The Governor may delegate certain of his administrative responsibilities to other officers of the Bank, subject to the rules and regulations of the Monetary Board; and

(*d*) To exercise such other powers as may be vested in him by the Monetary Board.

1 SEC. 17. *Representation of the Monetary Board and the*
2 *Central Bank.*—The Governor of the Central Bank shall be
3 the principal representative of the Monetary Board and of
4 the Bank, and in this capacity and in accordance with the
5 instructions of the Monetary Board he shall be empowered:
6 (*a*) To represent the Monetary Board and the Central
7 Bank in all dealings with other departments and instru-
8 mentalities of the Government and with all other persons
9 or entities, public or private, whether domestic, foreign or
10 international;
11 (*b*) To authorize, with his signature, contracts concluded
12 by the Central Bank, notes and securities issued by the
13 Bank, and the annual reports, balance sheets, profit and
14 loss statements, correspondence and other documents of
15 the Bank. The signature of the Governor may be in fac-
16 simile wherever appropriate;
17 (*c*) To represent the Central Bank, either personally or
18 through counsel, in any legal proceedings or action; and
19 (*d*) To delegate his power to represent the Bank, as
20 provided in subsections (*a*), (*b*) and (*c*) of this section,
21 to other officers of the Bank.
22 SEC. 18. *Authority of the Governor in emergencies.*—In
23 an emergency which requires immediate action and in
24 which there is insufficient time to call a meeting of the
25 Monetary Board, the Governor of the Central Bank, with
26 the concurrence of the Secretary of Finance or, in his
27 absence, with the concurrence of any two other members
28 of the Monetary Board, may decide any matter or take

1 any action within the authority of the Board itself and
2 may suspend any resolution or decision of the Board.
3 In such cases, the Governor shall call a meeting of the
4 Monetary Board as soon as possible, in order to explain
5 his action and the reasons for departing from normal
6 procedures.
7 SEC. 19. *Outside interests of the Governor.*—The Gov-
8 ernor of the Central Bank shall be required to limit his
9 professional activities to those pertaining directly to his
10 position with the Central Bank; accordingly, the Governor
11 of the Bank may not accept any other employment, whether
12 public or private, remunerated or *ad honorem,* with the
13 exception of academic positions and of public commissions
14 related to the formation, direction or implementation of
15 monetary, banking or general economic policies which con-
16 cern the national interest of the Philippines.
17 SEC. 20. *Remuneration of the Governor.*—The salary of
18 the Governor of the Central Bank shall be fixed by the
19 Monetary Board with the approval of the President of the
20 Philippines.
21 SEC. 21. *Deputy-Governors.*—The Governor of the Cen-
22 tral Bank, with the approval of the Monetary Board, shall
23 appoint one or more deputy-governors who shall perform
24 such duties as may be assigned to them by the Governor
25 and the Board.
26 In the absence of the Governor of the Central Bank, the
27 ranking deputy-governor shall act as chief executive of
28 the Central Bank and shall exercise the powers and per-
29 form the duties of the Governor.

1 ARTICLE IV.—*Departments of the Central Bank*

2 A. DEPARTMENT OF ECONOMIC RESEARCH

3 SEC. 22. *Responsibilities of the Department.*—The Cen-
4 tral Bank shall establish and maintain a Department of
5 Economic Research which shall prepare data and conduct
6 economic research for the guidance of the Monetary Board
7 in the formulation and implementation of its policies.

8 Toward this end, the Department of Economic Research
9 shall prepare forecasts of the balance of payments of the
10 Philippines, statistics on the monthly movement of the
11 money supply and of prices, and other statistical series and
12 economic studies useful for the formulation and analysis
13 of monetary, banking and exchange policies.

14 The scope of the other functions and duties of the de-
15 partment shall be defined and prescribed by the Monetary
16 Board.

17 SEC. 23. *Authority to obtain information.*—The Depart-
18 ment of Economic Research shall have the authority to
19 request from any person or entity, including Government
20 offices and instrumentalities, any data which the Central
21 Bank may require for the proper discharge of its functions
22 and responsibilities. The Central Bank shall have the
23 power to issue a subpœna for the production of the books
24 and records of all such persons and entities for the afore-
25 said purpose. Those who refuse to supply the Bank with
26 the data requested, or required by the subpœna, shall be
27 subject to the penalties provided in section 32.

28 SEC. 24. *Training of technical personnel.*—The Central
29 Bank shall promote and sponsor the training of technical

1 personnel in the field of money and banking. Toward this
2 end, the Central Bank is hereby authorized to defray the
3 costs of study, at home or abroad, by outstanding employees
4 of the Bank, by promising university students, or by any
5 other qualified persons. The chief of the Department of
6 Economic Research shall prepare and supervise the train-
7 ing program of the Bank, subject to the rules and regula-
8 tions of the Monetary Board on the matter.

9 B. DEPARTMENT OF SUPERVISION AND EXAMINATION

10 SEC. 25. *Creation of the Department.*—In order to assure
11 the observance of this Act and of other pertinent laws,
12 and of the rules and regulations of the Monetary Board,
13 the Central Bank shall have a Department of Supervision
14 and Examination which shall be charged with the supervi-
15 sion and periodic examination of all banking institutions
16 operating in the Philippines, including all government cred-
17 it institutions. The Department of Supervision and Ex-
18 amination shall discharge its responsibilities in accordance
19 with the instructions of the Monetary Board. The chief of
20 the department shall be known as the Superintendent of
21 Banks.

22 The Superintendent of Banks and the examiners of the
23 Department of Supervision and Examination are hereby
24 authorized to administer oaths to any director, officer, or
25 employee of any institution under the supervision of the
26 department and to compel the presentation of all books,
27 documents, papers or records necessary in his or their judg-
28 ment to ascertain the facts relative to the true condition
29 of any such institution.

1 SEC. 26. *Qualifications.*—The Superintendent of Banks
2 must be a person of recognized probity and competence in
3 accounting, auditing and banking practice.
4 SEC. 27. *Prohibitions.*—The Superintendent and all em-
5 ployees of the Department of Supervision and Examination
6 are hereby prohibited from:
7 (*a*) Being an officer, director, employee, or stockholder,
8 directly or indirectly, of any institution subject to super-
9 vision or examination by the department;
10 (*b*) Receiving, except with the written approval of the
11 Monetary Board, any loan, advance, gift, or thing of value
12 from any such institution or from any officer, director, or
13 employee thereof;
14 (*c*) Revealing in any manner, except under orders of
15 the court, information relating to the condition or business
16 of any such institution. This prohibition shall not be held
17 to apply to the giving of information to the Monetary Board
18 or the Governor of the Central Bank, or to any person
19 authorized by either of them, in writing, to receive such
20 information.
21 SEC. 28. *Examination and fees.*—It shall be the duty of
22 the Superintendent, personally or by deputy, at least once
23 in every twelve months, and at such other times as either
24 he or the Monetary Board may deem expedient, to make
25 an examination of the books of every banking institution
26 within the purview of this Act and to make a report on
27 the same to the Monetary Board.
28 Every such institution shall afford to the Superintendent
29 and to his authorized deputies full opportunity to examine

1 its books, cash and available assets and general condition
2 at any time when requested so to do by the Superintendent;
3 *Provided, however,* That none of the reports and other
4 papers relative to such examinations shall be open to in-
5 spection by the public except in so far as such publicity
6 is incidental to the proceedings hereinafter authorized or
7 is necessary for the prosecution of violations in connection
8 with the business of such institutions.

9 The institutions which are subject to examination by the
10 Superintendent shall reimburse the Central Bank for the
11 cost of maintaining the Department of Supervision and
12 Examination and, for this purpose, shall pay to the Central
13 Bank, within the first thirty days of each year, an annual
14 fee in an amount to be determined by the Monetary Board
15 in the manner provided in the next paragraph of this
16 section.

17 The fee to be paid by each institution shall be an amount
18 equal to a prescribed percentage of its average total assets
19 during the preceding year, as shown on its end-of-month
20 balance sheets, after deducting its cash on hand and amounts
21 due from banks, including the Central Bank and banks
22 abroad; *Provided, however,* That said percentage may not
23 exceed one twentieth of one per cent ($\frac{1}{20}$ of 1%). If the
24 total of the maximum fees authorized under this paragraph
25 should be insufficient to defray the entire costs of the de-
26 partment, the difference shall be borne by the Central
27 Bank.

28 SEC 29. *Proceedings upon insolvency.*—Whenever, upon
29 examination by the Superintendent or his examiners or

1 agents into the condition of any banking institution, it shall
2 be disclosed that the condition of the same is one of insol-
3 vency, or that its continuance in business would involve prob-
4 able loss to its depositors or creditors, it shall be the duty
5 of the Superintendent forthwith, in writing, to inform the
6 Monetary Board of the facts, and the Board, upon finding
7 the statements of the Superintendent to be true, shall forth-
8 with forbid the institution to do business in the Philippines
9 and shall take charge of its assets and proceed according
10 to law.

11 The Monetary Board shall thereupon determine within
12 thirty days whether the institution may be reorganized or
13 otherwise placed in such a condition so that it may be per-
14 mitted to resume business with safety to its creditors and
15 shall prescribe the conditions under which such resumption
16 of business shall take place. In such case the expenses and
17 fees in the administration of the institution shall be deter-
18 mined by the Board and shall be paid to the Central Bank
19 out of the assets of such banking institution.

20 At any time within ten days after the Monetary Board
21 has taken charge of the assets of any banking institution,
22 such institution may apply to the Court of First Instance
23 for an order requiring the Monetary Board to show cause
24 why it should not be enjoined from continuing such charge
25 of its assets, and the court may direct the Board to refrain
26 from further proceedings and to surrender charge of its
27 assets.

28 If the Monetary Board shall determine that the banking
29 institution cannot resume business with safety to its cred-

1 itors, it shall, by the Solicitor General, file a petition in
2 the Court of First Instance reciting the proceedings which
3 have been taken and praying the assistance and supervision
4 of the court in the liquidation of the affairs of the same.
5 The Superintendent shall thereafter, upon order of the
6 Monetary Board and under the supervision of the court
7 and with all convenient speed, convert the assets of the
8 banking institution to money.

9 SEC. 30. *Distribution of assets.*—In case of liquidation
10 of a banking institution, after payment of the costs of
11 the proceedings, including reasonable expenses and fees
12 of the Central Bank to be allowed by the court, the Central
13 Bank shall pay the debts of such institution, under order
14 of the court, in accordance with their legal priority.

15 SEC. 31. *Disposition of fees and commissions.*—All costs
16 and fees earned by the Central Bank in winding up the
17 affairs and administering the assets of any banking insti-
18 tution within the purview of this Act shall be used to pay
19 the salaries of the clerks and other employees whose em-
20 ployment is rendered necessary in the discharge of the
21 trust, together with other additional expenses caused there-
22 by. The balance of fees and costs earned, after the pay-
23 ment of all expenses, shall be for the account of the
24 Central Bank.

25 SEC. 32. *Refusal to make reports or permit examina-*
26 *tion.*—Any owner, agent, manager, or other officer in
27 charge of any banking institution within the purview of
28 this Act who, being thereunto required in writing by the
29 Monetary Board or by the Superintendent, shall wilfully

1 refuse to file the required report or permit any lawful
2 examination into the affairs of such institution shall be
3 punished by a fine of not more than ten thousand pesos
4 or by imprisonment for not more than one year, or by both,
5 in the discretion of the court.

6 SEC. 33. *False statement.*—The wilful making of a false
7 statement under oath to the Monetary Board or to the
8 Superintendent of Banks or to his examiners shall be
9 punished by a fine not to exceed ten thousand pesos, or by
10 imprisonment for a term not to exceed two years, or by
11 both, in the discretion of the court.

12 SEC. 34. *Proceedings upon violation of laws and regula-*
13 *tions.*—Whenever any person or entity wilfully violates
14 this Act or any order, instruction, rule or regulation legally
15 issued by the Monetary Board, the person or persons
16 responsible for such violation shall be punished by a fine
17 of not more than ten thousand pesos or by imprisonment
18 for not more than five years, or by both, in the discretion of
19 the court.

20 Whenever a banking institution persists in violating its
21 charter or by-laws or any law, or orders, instructions, rules
22 or regulations legally issued by the Monetary Board, or
23 whenever a banking institution persists in carrying on
24 its business in an unlawful or unsafe manner, the Board
25 shall, by the Solicitor General, and without prejudice to
26 the penalties provided in the preceding paragraph of this
27 section, file a petition in the Court of First Instance praying
28 the assistance of the court to compel the banking institu-
29 tion to discontinue the violations or practices objected to

1 in the petition of the Board. The Monetary Board may,
2 with the approval of the court, take such action as the
3 court may deem necessary to compel the banking institution
4 complained against to discontinue the violations or prac-
5 tices set forth in the Board's petition, and, if necessary,
6 the Board may, under order of the court, direct the Super-
7 intendent of Banks to liquidate the business of the insti-
8 tution.

9 C. OTHER DEPARTMENTS OF THE CENTRAL BANK

10 SEC. 35. *Organization of other departments.*—The Mone-
11 tary Board shall organize a foreign exchange department,
12 a credit department, and such other departments as it
13 deems convenient for the proper and efficient conduct of
14 the business of the Central Bank. The powers and duties
15 of the departments shall be determined by the Monetary
16 Board, within the authority granted to the Board and the
17 Central Bank under this Act.

18 ARTICLE V.—*Reports and Publications*

19 SEC. 36. *Reports and publications.*—Within the first eight
20 days of each month the Central Bank shall publish a gen-
21 eral balance sheet showing the volume and composition of
22 its assets and liabilities as of the last working day of the
23 preceding month.

24 SEC. 37. *Annual report.*—Before the end of March of
25 each year the Central Bank shall submit to the President
26 and shall publish an annual report containing a review
27 of the policies and measures adopted by the Monetary
28 Board during the past year and an analysis of the eco-
29 nomic and financial circumstances which gave rise to said
30 policies and measures.

1 The annual report shall also include a statement of the
2 financial condition of the Central Bank and a statistical ap-
3 pendix which shall present, as a minimum, the following
4 data:
5 (*a*) The monthly movement of the money supply, dis-
6 tinguishing between currency and deposit money;
7 (*b*) The monthly movement of purchases and sales of
8 exchange and of the international reserve of the Bank;
9 (*c*) The balance of payments of the Philippines;
10 (*d*) Monthly indices of wages, of the cost of living and
11 of import and export prices;
12 (*e*) The monthly movement, in summary form, of ex-
13 ports and imports, by volume and value;
14 (*f*) The monthly movement of the accounts of the Central
15 Bank and of the other banks, by groupings and classifica-
16 tions to be determined by the chief of the Department of
17 Economic Research in agreement with the Superintendent
18 of Banks;
19 (*g*) The principal data on Government receipts and
20 expenditures and on the status of the public debt, both
21 domestic and foreign; and
22 (*h*) The texts of the major legal and administrative
23 measures adopted by the Government and the Monetary
24 Board during the year which relate to the functions or
25 operations of the Central Bank or of banking institutions
26 operating in the Philippines.
27 SEC. 38. *Signatures on statements.*—The balance sheets
28 and other financial statements of the Central Bank shall be

1 signed by the officers responsible for their preparation, by
2 the Governor, and by the auditor of the Bank.

3 ARTICLE VI.—*Profits, Losses, and Special Accounts*

4 SEC. 39. *Fiscal year.*—The fiscal year of the Bank shall
5 begin on January first and end on December thirty-first of
6 each year.

7 SEC. 40. *Computation of profits and losses.*—Within the
8 first thirty days following the end of each fiscal year, the
9 Central Bank shall determine its net profits or losses. In
10 the calculation of net profits, the Bank shall make adequate
11 allowance or establish adequate reserves for bad and doubt-
12 ful accounts.

13 SEC. 41. *Distribution of net profits.*—Within the first
14 sixty days following the end of each fiscal year, the Mone-
15 tary Board shall determine and carry out the distribution
16 of the net profits, in accordance with the following rules:

17 (*a*) Twenty-five per cent (25%) of the net profits shall
18 be carried to surplus until such time as the total capital
19 accounts of the Bank reach a sum equivalent to at least
20 ten per cent (10%) of the total assets of the Bank less
21 its assets in gold and foreign currencies;

22 (*b*) Any net profits remaining after fulfilling the con-
23 ditions established in subsection (*a*) of this section shall
24 be used to increase the resources of the Securities Stabili-
25 zation Fund, until the volume and liquidity of the Fund's
26 assets are considered ample for any open market opera-
27 tions in which the Fund is deemed likely to engage;

28 (*c*) Any net profits remaining after fulfilling the con-
29 ditions of subsections (*a*) and (*b*) of this section shall be

1 used to reduce the Account to Secure the Coinage or the
2 Monetary Adjustment Account, until said accounts shall
3 have been liquidated. The Monetary Board shall determine
4 the distribution between these two accounts;
5 (*d*) If any net profits remain after fulfilling the condi-
6 tions of subsections (*a*), (*b*) and (*c*) of this section, the
7 balance or any part thereof may be transferred to surplus,
8 or may be used to liquidate Government obligations to the
9 Central Bank, or may be paid into the General Fund of the
10 Government. The Monetary Board shall determine this
11 distribution.
12 SEC 42. *Distribution of net losses.*—Should the Central
13 Bank incur net losses during any fiscal year, such losses
14 shall be debited to surplus, and if surplus be inadequate
15 the balance shall be debited to the capital of the Bank.
16 SEC. 43. *Extraordinary expenses of currency issue and*
17 *monetary stabilization.*—The Monetary Board may, when-
18 ever it deems it advisable, exclude from the computation of
19 the annual profits and losses of any given fiscal year all or
20 part of the following extraordinary expenses incurred dur-
21 ing that year:
22 (*a*) Extraordinary costs of printing notes or of minting
23 coins;
24 (*b*) Extraordinary expenditures arising from the issue
25 and service of the evidences of indebtedness to which refer-
26 ence is made in section 98; and
27 (*c*) Interest paid on bank reserves which exceed fifty
28 per cent (50%) of bank deposits, in conformity with the
29 provisions of section 101, last paragraph, of this Act.

1 The amounts which are excluded from the computation
2 of profits and losses in accordance with the provisions of
3 the first paragraph of this section shall be entered in a
4 suspense account which shall be called the "Monetary Ad-
5 justment Account."
6 The Monetary Board shall in every case amortize such
7 expenses over a period which shall not exceed five years
8 and at a rate which shall be based on the adequacy of
9 the Bank's surplus and of the resources of the Securities
10 Stabilization Fund.
11 SEC. 44. *Revaluation profits and losses.*—The revaluation
12 profits or losses made or assumed by the Central Bank in
13 accordance with the provisions of sections 77 and 83 of this
14 Act shall not be included in the computation of the annual
15 profits and losses of the Central Bank.
16 Any profits or losses arising in this manner shall be
17 offset by any amounts which, as a consequence of such
18 revaluations, are owed by the Philippines to the Interna-
19 tional Monetary Fund and the International Bank for
20 Reconstruction and Development or are owed by these
21 institutions to the Philippines. Any remaining profit or
22 loss shall be carried in a special frozen account which shall
23 be named "Revaluation of International Reserve" and the
24 net balance of which shall appear either among the liabili-
25 ties or among the assets of the Central Bank, depending
26 on whether the revaluations have produced net profits or
27 net losses.
28 The Revaluation of International Reserve account
29 shall be neither credited nor debited for any purposes other

1 than those specifically authorized in the present section or
2 in section 45 of this Act.

3 SEC. 45. *Profits from recoinage or from reductions in*
4 *the Bank's currency liabilities.*—Any profits arising from
5 a reminting of coins or from a reduction in the currency
6 liabilities of the Central Bank as a consequence of the loss,
7 destruction or demonetization of notes and coins shall not
8 be included in the computation of the annual profits of the
9 Central Bank.

10 Any such profits shall be used to reduce the Monetary
11 Adjustment Account, the Account to Secure the Coinage,
12 or the asset account Revaluation of International Reserve.
13 The distribution of such profits among these accounts shall
14 be determined by the Monetary Board.

15 If none of said accounts exists, the profits to which this
16 section refers shall be used to increase the resources of
17 the Securities Stabilization Fund.

18 ARTICLE VII.—*The Auditor*

19 SEC. 46. *Appointment and personnel.*—The Auditor-Gen-
20 eral shall appoint a representative who shall be the auditor
21 of the Central Bank. The Auditor-General, in agreement
22 with the Monetary Board, shall appoint the necessary
23 personnel to assist said representative in the performance
24 of his duties. The salaries of the auditor and his staff
25 shall be determined by the Auditor-General in agreement
26 with the Monetary Board. Said salaries and all other
27 expenses of maintaining the auditor's office shall be paid
28 by the Central Bank.

The representative of the Auditor-General must be a person who has had training and experience in commercial or central banking.

## CHAPTER II.—THE CENTRAL BANK AND THE MEANS OF PAYMENT

### ARTICLE I.—*The Unit of Monetary Value*

SEC. 47. *The peso.*—The unit of monetary value in the Philippines is the "peso," which is represented by the sign "₱."

The peso is divided into one hundred equal parts called "centavos," which are represented by the sign "¢."

### ARTICLE II.—*The International Value of the Peso*

SEC. 48. *Par value.*—The gold value of the peso is seven and thirteen-twenty firsts (7–13/21) grains of gold, nine-tenths (0.900) fine, which is equivalent to the United States dollar parity of the peso as provided in section 6 of Commonwealth Act No. 699.

SEC. 49. *Changes in par value.*—The par value of the peso shall not be altered except when such action is made necessary by the following circumstances:

(*a*) When the existing par value would make impossible the achievement and maintenance of a high level of production, employment and real income without:

(1) The depletion of the international reserve of the Central Bank; or

(2) The chronic use of restrictions on the convertibility of the peso into foreign currencies or on the transferability abroad of funds from the Philippines; or

(3) Undue Government intervention in, or restriction of, the international flow of goods and services; or

(*b*) When uniform proportionate changes in par values are made by the countries which are members of the International Monetary Fund; or

(*c*) When the operation of any executive or international agreement to which the Republic of the Philippines is a party requires an alteration in the gold value of the peso.

Any modification in the gold or dollar value of the peso must be in conformity with the provisions of all executive and international agreements subscribed to and ratified by the Republic of the Philippines, and such modification shall be made only by the President of the Republic upon the proposal of the Monetary Board and with the approval of Congress. The proposal of the Monetary Board shall require the concurrence of at least five of the members of the Board.

Notwithstanding the provision of the preceding paragraph with respect to the approval of Congress, if there should be an emergency which, in the opinion of the President, is so grave and so urgent as to require immediate action, the President may modify the par value of the peso without the prior approval of Congress; *Provided, however,* That he shall report to the Congress on his action at the earliest opportunity.

SEC. 50. *Parities of foreign currencies with respect to the peso.*—The legal parities of foreign currencies with respect to the Philippine peso shall be determined as follows:

1 (*a*) Currencies of countries which are members of the
2 International Monetary Fund shall have their parities with
3 respect to the peso established on the basis of their par
4 values as announced by said Fund. If the par value of the
5 currency of a member country has not been announced,
6 the parity of such currency with respect to the peso shall
7 be calculated on the basis of the exchange rates for that
8 currency in foreign markets. If there is divergence among
9 the rates quoted in foreign markets, the Monetary Board
10 shall determine which rates shall be employed for the
11 calculation of parity.
12 (*b*) Currencies of countries which are not members of
13 the International Monetary Fund shall have their parities
14 with the peso established on the basis of their gold or United
15 States dollar equivalents, provided such currencies are freely
16 and effectively convertible into gold or dollars. Whenever
17 the currency of any such country is not so convertible,
18 its parity with the peso shall be calculated on the basis
19 of the exchange rates for that currency in foreign markets.
20 If there is divergence among the rates quoted in foreign
21 markets, the Monetary Board shall determine which rates
22 shall be employed for the calculation of parity.
23 The Central Bank shall determine, in conformity with
24 the provisions of this section, and shall publish regularly,
25 the legal parities of the foreign currencies of importance
26 in the international transactions of the Philippines. The
27 Central Bank may also specify the parity of any foreign
28 currency not included in the published list of parities.

1 The parities published or specified by the Central Bank
2 shall be recognized as the legal parities for all purposes.

3 ARTICLE III.—*Issue of Means of Payment*

4 A. CURRENCY

5 SEC. 51. *Definition of currency.*—The word "currency"
6 is hereby defined, for the purposes of this Act, as meaning
7 all Philippine notes and coins issued or circulating in ac-
8 cordance with the provisions of this Act.

9 SEC. 52. *Issue power.*—The Central Bank shall have the
10 sole right and authority to issue currency within the ter-
11 ritory of the Philippines. No other person or entity, public
12 or private, may put into circulation notes, coins or any
13 other object or document which, in the opinion of the
14 Monetary Board, might circulate as currency.

15 The Monetary Board may issue such regulations as it
16 may deem advisable in order to prevent the circulation of
17 foreign currency or of currency substitutes.

18 SEC. 53. *Liability for notes and coins.*—Notes and coins
19 issued by the Central Bank shall be liabilities of the Bank
20 and may be issued only against, and in amounts not ex-
21 ceeding, the assets of the Bank. Said notes and coins shall
22 be a first and paramount lien on all assets of the Central
23 Bank.

24 The Central Bank's holdings of its own notes and coins
25 shall not be considered as part of its currency issue and,
26 accordingly, shall not form part of the assets or liabilities
27 of the Bank.

1 Sec. 54. *Legal tender power.*—All notes and coins issued
2 by the Central Bank shall be fully guaranteed by the Gov-
3 ernment of the Republic of the Philippines and shall be
4 legal tender in the Philippines for all debts, both public
5 and private.

6 SEC. 55. *Characteristics of the currency.*—The Monetary
7 Board, with the approval of the President of the Philip-
8 pines, shall prescribe the denominations, dimensions, de-
9 signs, inscriptions and other characteristics of notes issued
10 by the Central Bank, *Provided, however,* That said notes
11 shall state that they are liabilities of the Central Bank
12 and are fully guaranteed by the Government of the Re-
13 public of the Philippines. Said notes shall bear the sig-
14 natures, in facsimile, of the President of the Philippines
15 and of the Governor of the Central Bank.

16 Similarly, the Monetary Board, with the approval of the
17 President of the Philippines, shall prescribe the weight,
18 fineness, designs, denominations and other characteristics
19 of the coins issued by the Central Bank. In the minting
20 of coins, the Monetary Board shall give full consideration
21 to the availability of suitable metals and to their relative
22 prices and cost of minting.

23 SEC. 56. *Printing of notes and minting of coins.*—The
24 Monetary Board shall prescribe the amounts of notes and
25 coins to be printed and minted, respectively, and the con-
26 ditions to which the printing of notes and the minting of
27 coins shall be subject. The Monetary Board shall have
28 the authority to contract institutions, mints or firms for
29 such operations.

1 All expenses incurred in the printing of notes and the
2 minting of coins shall be for the account of the Central
3 Bank.

4 SEC. 57. *Interconvertibility of currency.*—The Central
5 Bank shall exchange, on demand and without charge, Phil-
6 ippine currency of any denomination for Philippine notes
7 and coins of any other denomination requested. If, for
8 any reason, the Central Bank should temporarily be un-
9 able to provide notes or coins of the denominations re-
10 quested, it shall meet its obligation by delivering notes
11 and coins of the denominations which most nearly ap-
12 proximate those requested.

13 SEC. 58. *Replacement of currency unfit for circulation.*—
14 The Central Bank shall withdraw from circulation and
15 shall demonetize all notes and coins which for any reason
16 whatsoever are unfit for circulation and shall replace them
17 by adequate notes and coins; *Provided, however,* That the
18 Central Bank shall not replace notes and coins the iden-
19 tification of which is impossible, coins which show signs
20 of filing, clipping or perforation, and notes which have
21 lost more than two-fifths of their surface or all of the
22 signatures inscribed thereon. Notes and coins in such
23 mutilated condition shall be withdrawn from circulation
24 and demonetized without compensation to the bearer, unless
25 it is proved to the satisfaction of the Central Bank that
26 the currency became unfit for circulation as a result of
27 accidental causes or forces beyond control, in which case
28 replacement shall be made.

1 SEC. 59. *Retirement of old notes and coins.*—The Central
2 Bank may call in for replacement notes of any series or
3 denomination which are more than five years old and coins
4 which are more than ten years old.

5 Notes and coins called in for replacement in accordance
6 with this provision shall remain legal tender for a period
7 of one year from the date of call. After this period, they
8 shall cease to be legal tender but during the following
9 three years, or for such longer period as the Monetary
10 Board may determine, they may be exchanged at par and
11 without charge in the Central Bank and by agents duly
12 authorized by the Central Bank for this purpose. After
13 the expiration of this latter period, the notes and coins
14 which have not been exchanged shall cease to be a liability
15 of the Central Bank and shall be demonetized. The Cen-
16 tral Bank shall also demonetize all notes and coins which
17 have been called in and replaced.

18 SEC. 60. *Profits from recoinage or from reductions in the*
19 *Bank's currency liabilities.*—Any profits resulting from re-
20 coinage or from a reduction in the liabilities of the Central
21 Bank through loss, destruction or demonetization of cur-
22 rency shall be used for the purposes mentioned in section
23 45 of this Act.

24 B. DEPOSIT MONEY

25 SEC. 61. *Definition.*—For the purpose of this Act, the
26 term "deposit money" means all those liabilities of the
27 Central Bank and of other banks which are denominated in

1 Philippine currency and are subject to payment in legal
2 tender upon demand by the presentation of checks.
3 SEC. 62. *Issue of deposit money.*—Only banks duly au-
4 thorized so to do may accept funds or create liabilities
5 payable in pesos upon demand by the presentation of
6 checks, and such operations shall be subject to the control
7 of the Monetary Board in accordance with the powers
8 granted it with respect thereto under this Act.
9 SEC. 63. *Legal character.*—Checks representing deposit
10 money do not have legal tender power and their acceptance
11 in the payment of debts, both public and private, is at the
12 option of the creditor.

13 CHAPTER III.—GUIDING PRINCIPLES OF MONETARY
14 ADMINISTRATION BY THE CENTRAL BANK

15 ARTICLE I.—*Domestic Monetary Stabilization*

16 SEC. 64. *Guiding principle.*—The Monetary Board shall
17 endeavor to control any expansion or contraction in the
18 money supply, or any rise or fall in prices, which in the
19 opinion of the Board is prejudicial to the attainment or
20 maintenance of a high level of production, employment, and
21 real income. In adopting policies and measures in accord-
22 ance with this principle the Monetary Board shall have
23 due regard for their effects on the availability and cost
24 of money to particular sectors of the economy as well as
25 to the economy as a whole, and their effects on the relation-
26 ship of domestic prices and costs to world prices and costs.
27 SEC. 65. *Definition of the money supply.*—For the pur-
28 poses of this section, and of this Act, the money supply

is defined as consisting of all holdings of domestic currency and deposit money with the exception of such holdings by the Government and by banks having checking deposit liabilities in domestic currency. The statistics prepared by the Central Bank on the volume of the money supply shall be based on this definition to the extent that available data permit.

SEC. 66. *Action when abnormal movements occur in the money supply or price level.*—Whenever abnormal movements in the money supply or in prices endanger the stability of the Philippine economy or important sectors thereof, the Monetary Board shall:

(*a*) Take such remedial measures as are appropriate and within the powers granted to the Monetary Board and the Central Bank under the provisions of this Act; and

(*b*) Submit to the President of the Philippines, and make public, a detailed report which shall include, as a minimum, a description and analysis of:

(1) The causes of the rise or fall of the money supply or of prices;

(2) The extent to which the changes in the money supply or in prices have been reflected in changes in the level of domestic output, employment, wages and economic activity in general, and the nature and significance of any such changes; and

(3) The measures which the Monetary Board has taken and the other monetary, fiscal or admin-

1 istrative measures which it recommends be
2 adopted.

3 Whenever the money supply increases or decreases by
4 more than fifteen per cent (15%), or the cost of living
5 index increases by more than ten per cent (10%), in
6 relation to the level existing at the end of the corresponding
7 month of the preceding year, the Monetary Board shall
8 submit the report to which reference is made in subsection
9 (*b*) of this section, and shall state therein whether, in the
10 opinion of the Board, said changes in the money supply
11 or cost of living represent a threat to the stability of the
12 Philippine economy or of important sectors thereof.

13 The Monetary Board shall continue to submit periodic
14 reports to the President of the Philippines until it con-
15 siders that the monetary or price disturbances have dis-
16 appeared or have been adequately controlled.

17 ARTICLE II.—*International Monetary Stabilization*

18 SEC. 67. *Guiding principle.*—The Central Bank of the
19 Philippines shall exercise its powers under this Act to
20 maintain the par value of the peso and the convertibility
21 of the peso into other freely convertible currencies.

22 SEC. 68. *International reserve.*—In order to maintain
23 the international stability and convertibility of the Philip-
24 pine peso, the Central Bank shall maintain an international
25 reserve adequate to meet any foreseeable net demands on
26 the Bank for foreign currencies.

27 In judging the adequacy of the international reserve, the
28 Monetary Board shall be guided by the prospective receipts

1 and payments of foreign exchange by the Philippines. The
2 Board shall give special attention to the volume and matu-
3 rity of the Central Bank's own liabilities in foreign cur-
4 rencies, to the volume and maturity of the foreign exchange
5 assets and liabilities of other banks operating in the Phil-
6 ippines and, insofar as they are known or can be estimated,
7 the volume and maturity of the foreign exchange assets
8 and liabilities of all other persons and entities in the Phil-
9 ippines.

10 SEC. 69. *Composition of the international reserve.*—The
11 international reserve of the Central Bank of the Philip-
12 pines may include the following assets:

13 (*a*) Gold; and

14 (*b*) Assets in foreign currencies in the form of: docu-
15 ments and instruments of types customarily employed for
16 the international transfer of funds; demand and time de-
17 posits in central banks, treasuries and commercial banks
18 abroad; foreign government securities with maturities not
19 exceeding five years; and foreign notes and coins.

20 The Monetary Board shall endeavor to hold the foreign
21 exchange resources of the Central Bank in freely conver-
22 tible currencies; moreover, the Board shall give particular
23 consideration to the prospects of continued strength and
24 convertibility of the currencies in which the reserve is
25 maintained, as well as to the anticipated demands for such
26 currencies. The Monetary Board shall issue regulations
27 determining the other qualifications which foreign exchange
28 assets must meet in order to be included in the international
29 reserve of the Central Bank.

1 The Central Bank shall be free to convert any of the
2 assets in its international reserve into any other asset of
3 a type included under subsections (*a*) and (*b*) of this
4 section.

5 SEC. 70. *Action when the international stability of the*
6 *peso is threatened.*—Whenever the international reserve of
7 the Central Bank falls to an amount which the Monetary
8 Board considers inadequate to meet the prospective net
9 demands on the Central Bank for foreign currencies, or
10 whenever the international reserve appears to be in im-
11 minent danger of falling to such a level, or whenever the
12 international reserve is falling as a result of payments or
13 remittances abroad which, in the opinion of the Monetary
14 Board, are contrary to the national welfare, the Monetary
15 Board shall:

16 (*a*) Take such remedial measures as are appropriate
17 and within the powers granted to the Monetary Board and
18 the Central Bank under the provisions of this Act; and

19 (*b*) Submit to the President of the Philippines a de-
20 tailed report which shall include, as a minimum, a descrip-
21 tion and analysis of:

22 (1) The nature and causes of the existing or imminent
23 decline;

24 (2) The remedial measures already taken or to be
25 taken by the Monetary Board;

26 (3) The further monetary, fiscal or administrative
27 measures proposed; and

28 (4) The character and extent of the co-operation
29 required from other Government agencies for

the successful execution of the policies of the Monetary Board.

If the resultant actions fail to check the deterioration of the reserve position of the Central Bank, or if the deterioration cannot be checked except by chronic restrictions on exchange and trade transactions or by sacrifice of the domestic objectives of a high level of production, employment and real income, the Monetary Board shall propose to the President such additional action as it deems necessary to restore equilibrium in the international balance of payments of the Philippines.

The Monetary Board shall submit periodic reports to the President until the threat to the international monetary stability of the Philippines has disappeared.

## CHAPTER IV.—INSTRUMENTS OF CENTRAL BANK ACTION

### ARTICLE I.—*General Criteria*

SEC. 71. *Means of action.*—In order to achieve the international and domestic objectives of the national monetary policy, the Monetary Board shall rely on its moral influence, the powers granted to it under this Act for the regulation of money, credit and exchange, and the support and cooperation of the Government and all its agencies.

### ARTICLE II.—*Operations in Gold and Foreign Exchange*

SEC. 72. *Purchases and sales of gold.*—The Central Bank may buy and sell gold in any form, subject to such regulations as the Monetary Board may issue.

The Monetary Board may at any time require that any gold held by any person or entity under the jurisdiction of the Philippines be delivered to the Central Bank or to any banks or other agents contracted or engaged by the Central Bank for the purpose. The Monetary Board may also impose conditions under which gold in any shape or

1 form may be acquired and held, transported, melted or
2 treated, imported, exported, earmarked or held in custody
3 for foreign or domestic account.
4 The purchases and sales of gold authorized by this sec-
5 tion shall be made in national currency and at rates which
6 do not differ from the par value of the peso by more than
7 the margins established by the International Monetary
8 Fund.
9 SEC. 73. *Purchases and sales of foreign exchange.*—The
10 Central Bank may buy and sell foreign notes and coins, and
11 documents and instruments of types customarily employed
12 for the international transfer of funds. The Bank may
13 engage in future exchange operations.
14 The Central Bank may engage in foreign exchange trans-
15 actions with the following entities only:
16 (*a*) Banking institutions operating in the Philippines;
17 (*b*) The Government, its political subdivisions and in-
18 strumentalities;
19 (*c*) Foreign or international financial institutions; and
20 (*d*) Foreign governments and their instrumentalities.
21 In order to maintain the convertibility of the peso, the
25 Central Bank shall, at the request of any banking institu-
23 tion operating in the Philippines, buy any quantity of
24 foreign exchange offered, and sell any quantity of foreign
25 exchange demanded, by such institution, provided that the
26 foreign currencies so offered or demanded are freely con-
27 vertible into gold or United States dollars. This require-
28 ment shall not apply to demands for foreign notes and
29 coins.
30 The Central Bank shall effect its exchange transactions
31 between foreign currencies and the Philippine peso at the
32 rates determined in accordance with the provisions of
33 section 76.
34 SEC. 74. *Emergency restrictions on exchange opera-*
35 *tions.*—Notwithstanding the provisions of the third para-

1 graph of the preceding section, in order to protect the
2 international reserve of the Central Bank during an ex-
3 change crisis and to give the Monetary Board and the
4 Government time in which to take constructive measures
5 to combat such a crisis, the Monetary Board, with the
6 concurrence of at least five of its members, and with the
7 approval of the President of the Philippines, may tempo-
8 rarily suspend or restrict sales of exchange by the
9 Central Bank and may subject all transactions in gold and
10 foreign exchange to license by the Central Bank. The
11 adoption of the emergency measures authorized in this
12 section shall be subject to any executive and international
13 agreements to which the Republic of the Philippines is a
14 party.
15 SEC. 75. *Acquisition of inconvertible currencies.*—The
16 Central Bank shall avoid the acquisition and holding of
17 currencies which are not freely convertible, and may ac-
18 quire such currencies in an amount exceeding the minimum
19 balance necessary to cover current demands for said cur-
20 rencies only when, and to the extent that, such acquisi-
21 tion is considered by the Monetary Board to be in the na-
22 tional interest. The Monetary Board shall determine the
23 procedures which shall apply to the acquisition and dis-
24 position by the Central Bank of foreign exchange which
25 is not freely utilizable in the international market.
26 SEC. 76. *Exchange rates.*—The Monetary Board shall
27 determine the rates at which the Central Bank shall buy
28 and sell spot exchange, but said rates shall not differ by
29 more than one-half of one per cent from the legal parities
30 established in section 50, unless in any given case a greater
31 divergence from the legal parity exists in foreign markets.
32 The Central Bank shall not collect any additional commis-

1 sions or charges of any sort, other than actual telegraphic
2 or cable costs incurred by it.
3 The Monetary Board shall similarly determine the rates
4 for other types of foreign exchange transactions by the
5 Central Bank, including purchases and sales of foreign
6 notes and coins, but the margins between the legal parities
7 and the rates thus established may not exceed the corre-
8 sponding margins for spot exchange transactions by more
9 than the additional costs or expenses involved in each type
10 of transaction.
11 SEC. 77. *Revaluation profits and losses on Central Bank's*
12 *international assets.*—The profits or losses arising from any
13 revaluation of the Central Bank's net assets or liabilities in
14 gold or foreign currencies as a result of changes in the
15 gold value of the peso, or of changes in the parities or
16 exchange rates of foreign currencies with respect to the
17 Philippine peso, shall be distributed in the manner provided
18 in section 44 of this Act.
19 SEC. 78. *Operations with foreign entities.*—The Central
20 Bank of the Philippines may grant loans to and receive
21 loans from foreign banks and other foreign or international
22 entities, both public and private, and may engage in such
23 other operations with these entities as are in the national
24 interest and are appropriate to its character as a central
25 bank. The Central Bank may also act as agent or cor-
26 respondent for such entities.
27 The Central Bank may pledge any gold or other assets
28 which it possesses as security against loans which it receives
29 from foreign or international entities.

1 ARTICLE III.—*Regulation of Foreign Exchange*
2 *Operations of the Banks*

3 SEC. 79. *Rates applicable to purchases and sales of ex-*
4 *change by the banks.*—The Monetary Board shall deter-
5 mine the minimum and maximum rates at which the banks
6 may buy spot exchange, and the maximum and minimum
7 rates at which they may sell spot exchange, but the rates
8 thus established for each currency shall not differ from
9 the respective legal parity by more than one per cent, unless
10 in any given case a greater divergence from parity exists
11 in foreign markets. The banks shall not collect any addi-
12 tional commissions or charges other than actual telegraphic
13 or cable costs incurred by them.

14 The rates to be used by the banks for other types of
15 exchange transactions shall be based on their spot ex-
16 change rates and shall not differ from such rates by
17 margins greater than those considered reasonable by the
18 Monetary Board; *Provided, however,* That the Board may
19 at any time specifically fix such margins. The Monetary
20 Board shall issue such rules and regulations as may be
21 necessary to implement the provisions of this paragraph.

22 The rates established in accordance with the provisions
23 of this section shall not apply to exchange transactions
24 with the Central Bank. Such transactions shall be made
25 at the rates established in accordance with the provisions
26 of section 76 of this Act.

27 SEC. 80. *Foreign exchange holdings of the banks.*—In
28 order that the Central Bank may at all times have foreign
29 exchange resources sufficient to enable it to maintain the

1 international stability and convertibility of the peso, or in
2 order to promote the domestic investment of bank resources,
3 the Monetary Board may require the banks to sell to the
4 Central Bank all or part of their surplus holdings of
5 foreign exchange. Such transfers may be required for
6 all foreign currencies or for only certain of such currencies,
7 according to the decision of the Monetary Board. The
8 transfers shall be made at the rates established under the
9 provisions of section 76 of this Act.
10 For the purposes of this Act, surplus holdings of any
11 foreign currency shall be defined as the amount by which
12 a bank's assets in the currency exceed the sum of the
13 working balance required to accommodate normal short-run
14 fluctuations between the bank's sales and purchases of said
15 currency and the total liabilities of the bank in the cur-
16 rency; *Provided, however,* That in calculating surplus
17 holdings in any given currency, a bank may, at the discre-
18 tion of the Monetary Board, subtract from its net assets
19 in that currency an amount equal to any net liabilities of
20 the bank in other currencies into which said currency is
21 freely convertible.
22 The Monetary Board may stipulate that the working
23 balance to which reference is made in the preceding par-
24 agraph shall not exceed a specified proportion of the average
25 daily sales of the respective currency by the bank to entities
26 other than the Central Bank during the preceding month.
27 Any proportion thus established by the Monetary Board,

1 and any requirement to transfer foreign exchange to the
2 Central Bank, shall be applied to all banks alike and with-
3 out discrimination.

4 SEC. 81. *Requirement of balanced currency position.*—
5 The Monetary Board may require the banks to maintain
6 a balanced position between their assets and liabilities in
7 Philippine pesos or in any other currency or currencies in
8 which they operate. The banks shall be granted a reason-
9 able period of time in which to adjust their currency posi-
10 tions to any such requirement.

11 The powers granted under this section shall be exercised
12 only when special circumstances make such action neces-
13 sary, in the opinion of the Monetary Board, and shall be
14 applied to all banks alike and without discrimination.

15 SEC. 82. *Regulation of non-spot exchange transactions.*—
16 In order to restrain the banks from taking speculative
17 positions with respect to future fluctuations in foreign
18 exchange rates, the Monetary Board may issue such regu-
19 lations governing bank purchases and sales of non-spot
20 exchange as it may consider necessary for said purpose.

21 SEC. 83. *Revaluation profits and losses on banks' holdings*
22 *of gold and foreign exchange.*—Any revaluation profits
23 realized or losses suffered by the banks on their net assets
24 or liabilities in gold or freely convertible foreign currencies
25 as a result of changes in the par value of the peso, in the
26 legal parities between the Philippine peso and such foreign
27 currencies, or in the Central Bank's exchange rates for
28 such currencies, shall be for the account of the Central
29 Bank in their entirety.

1 The Monetary Board may at any time declare that reval-
2 uation profits or losses on banks' net holdings of any
3 foreign currency other than those included under the
4 provisions of the first paragraph of this section shall also
5 be for the account of the Central Bank until such time as
6 the Board gives notice to the contrary. Said notice shall
7 be communicated to the banks at least eight days before
8 the date on which the revaluation risks cease to be for the
9 account of the Central Bank, however, and shall apply only
10 to acquisitions of the specified foreign currency subsequent
11 to said date. The Board shall issue appropriate regulations
12 to restrain the banks from increasing their holdings of the
13 specified currency during the period from the date of the
14 notice to the date on which it becomes effective.
15 The Monetary Board shall issue such rules and regula-
16 tions as may be necessary to administer the provisions of
17 this section.
18 SEC. 84. *Other exchange losses.*—The banks shall bear
19 the risks of non-compliance with the terms of the foreign
20 exchange documents and instruments which they buy or
21 sell, and shall also bear any other typically commercial
22 or banking risks, including exchange risks not assumed by
23 the Central Bank under the provisions of the preceding
24 section.
25 SEC. 85. *Information on exchange operations.*—The
26 banks shall report to the Central Bank of the Philippines
27 the volume and composition of their purchases and sales
28 of gold and foreign exchange each day, and must furnish
29 such additional information as the Central Bank may re-
30 quest with reference to the movements in their accounts
31 in foreign currencies.
32 The Monetary Board may also require other persons and
33 entities to report to it currently all transactions or opera-

1 tions in gold, in any shape or form, and in foreign ex-
2 change. The Monetary Board shall prescribe the forms
3 on which such declarations must be made. The accuracy
4 of the declarations may be verified by the Central Bank
5 by whatever inspection it may deem necessary.

6 ARTICLE IV.—*Loans to Banking Institutions*

7 A. THE CREDIT POLICY OF THE CENTRAL BANK

8 SEC. 86. *Guiding principles.*—The rediscounts, discounts,
9 loans and advances which the Central Bank is authorized
10 to extend to banking institutions under the provisions of
11 the present article of this Act shall be used to regulate
12 the volume, cost, availability and character of bank credit
13 and to provide the banking system with liquid funds in
14 times of need.

15 In periods of inflation, or as long as inflationary dangers
16 exist, the Central Bank shall refrain from extending credit
17 to banks and at such times shall grant credit only in ex-
18 ceptional cases where special circumstances justify a de-
19 viation from the principle stated herein.

20 Conversely, whenever the national monetary policy re-
21 quires an expansion of the money supply, the Central Bank
22 shall make full use of the credit operations authorized
23 under the present article of this Act.

24 B. NORMAL CREDIT OPERATIONS

25 SEC 87. *Authorized types of operations.*—Subject to the
26 principles stated in the preceding section of this Act, the
27 Central Bank may normally and regularly carry on the

following credit operations with banking institutions operating in the Philippines:

(*a*) *Commercial credits.*—The Central Bank may rediscount, discount, buy and sell bills, acceptances, promissory notes and other credit instruments with maturities of not more than 180 days from the date of their rediscount, discount or acquisition by the Central Bank and resulting from transactions related to:

(1) The importation, exportation, purchase or sale of readily salable goods and products, or their transportation within the Philippines; or

(2) The storing of nonperishable goods and products which are duly insured and deposited, under conditions assuring their preservation, in authorized bonded warehouses or in other places approved by the Monetary Board.

(*b*) *Production credits.*—The Central Bank may rediscount, discount, buy and sell bills, acceptances, promissory notes and other credit instruments having maturities of not more than 270 days from the date of their rediscount, discount or acquisition by the Central Bank and resulting from transactions related to the production or processing of agricultural, animal, mineral or industrial products. Documents or instruments acquired in accordance with this subsection shall be secured by a pledge of the respective crops or products.

(*c*) *Advances.*—The Central Bank may grant advances against the following kinds of collateral for fixed periods which, with the exception of advances against the collateral

1 named in clause (4) of the present subsection, shall not
2 exceed 180 days:
3 (1) Gold coins or bullion;
4 (2) Securities representing obligations of the Cen-
5 tral Bank or of other domestic credit institutions of
6 recognized solvency;
7 (3) The credit instruments to which reference is
8 made in subsection (*a*) of this section;
9 (4) The credit instruments to which reference is
10 made in subsection (*b*) of this section, for periods
11 which shall not exceed 270 days;
12 (5) Utilized portions of advances in current account
13 covered by regular overdraft agreements related to
14 operations included under subsections (*a*) and (*b*) of
15 this section, and certified as to amount and liquidity
16 by the institution soliciting the advance;
17 (6) Negotiable treasury bills, certificates of in-
18 debtedness, notes and other negotiable obligations of
19 the Government maturing within three years from the
20 date of the advance; and
21 (7) Negotiable bonds issued by the Government of
22 the Philippines, by Philippine provincial, city or
23 municipal governments, or by any Philippine Govern-
24 ment instrumentality, and having maturities of not
25 more than ten years from the date of the advance.
26 The rediscounts, discounts, loans and advances made in
27 accordance with the provisions of this section may not be
28 renewed or extended unless extraordinary circumstances
29 fully justify such renewal or extension.

1 Advances made against the collateral named in clauses
2 (6) and (7) of subsection (*c*) of this section may not
3 exceed 80 per cent of the current market value of the
4 collateral.

5 C. EXTRAORDINARY CREDIT OPERATIONS

6 SEC. 88. *Loans to mortgage institutions.*—Under special
7 circumstances in which the Monetary Board considers it
8 advisable to promote or facilitate the lending operations,
9 or certain classes thereof, of savings banks, building and
10 loan associations, or of the Rehabilitation Finance Corpo-
11 ration, the Central Bank may grant loans or advances with
12 maturities of not more than one year to said institutions
13 against pledge or assignment of payments, installments
14 or amortizations of their borrowers coming due within the
15 twelve months from the date of the granting of such loans
16 or advances, and in an amount not exceeding forty per
17 cent of the payments, installments or amortizations pledged
18 or assigned; *Provided, however,* That the Central Bank
19 shall not make such loans or advances whenever such action
20 would aggravate or contribute to inflationary tendencies
21 existing in the economy.

22 In granting loans and advances under this section, the
23 Central Bank shall first ascertain that the payments, in-
24 stallments and amortizations to be pledged or assigned to
25 it are in no case currently in arrears and that said pay-
26 ments, installments and amortizations are related to credit
27 operations which in every case are adequately secured by
28 mortgages. Said mortgages shall be assigned to the Cen-
29 tral Bank.

1 SEC. 89. *Extension of maturities.*—Whenever, in the
2 opinion of the Monetary Board, a deflationary situation
3 exists which requires special expansionary credit measures,
4 the Central Bank may extend the maximum maturities of
5 new credit operations granted under the provisions of sub-
6 sections (*a*), (*b*) and (*c*) of section 87 to periods not
7 exceeding one year.

8 D. EMERGENCY CREDIT OPERATIONS

9 SEC. 90. *Emergency loans and advances.*—In periods of
10 emergency or of imminent financial panic which directly
11 threaten monetary and banking stability, the Central Bank
12 may grant banking institutions extraordinary advances
13 secured by any assets which are defined as acceptable
14 security by a concurrent vote of at least five members of
15 the Monetary Board. While such advances are outstand-
16 ing, the debtor institution may not expand the total volume
17 of its loans or investments without the prior authorization
18 of the Monetary Board.

19 E. CREDIT TERMS

20 SEC. 91. *Interest and rediscount rates.*—The Monetary
21 Board shall fix the interest and rediscount rates to be
22 charged by the Central Bank on its credit operations in
23 accordance with the character and term of the operation,
24 but after due consideration has been given to the credit
25 needs of the market, the composition of the Central Bank's
26 portfolio, and the general requirements of the national
27 monetary policy.

1 SEC. 92. *Endorsement.*—The documents rediscounted,
2 discounted, bought or accepted as collateral by the Central
3 Bank in the course of the credit operations authorized in
4 this article must bear the endorsement of the institution
5 from which they are received.

6 SEC. 93. *Repayment of credits.*—Documents rediscounted,
7 discounted or accepted as collateral by the Central Bank
8 must be withdrawn by the borrowing institution on the
9 dates of their maturities, or upon liquidation of the obliga-
10 tions which they represent or to which they relate when-
11 ever said obligations have been liquidated prior to their
12 dates of maturity.

13 Banks shall have the right at any time to withdraw any
14 documents which they have presented to the Central Bank
15 as collateral, upon payment in full of the corresponding
16 debt to the Bank, including interest charges.

17 SEC. 94. *Other requirements.*—The Monetary Board may
18 prescribe, within the general powers granted to it under
19 this Act, additional conditions which borrowing institutions
20 must satisfy in order to have access to the credit of the
21 Central Bank. These conditions may refer to the rates of
22 interest charged by the banks, to the purposes for which
23 their loans in general are destined, and to any other clearly
24 definable aspect of the credit policy of the banks.

25 ARTICLE V.—*Credit Operations with the Government*

26 SEC. 95. *Provisional advances to the Government.*—The
27 Central Bank may make direct provisional advances to the
28 Government or to any of its political subdivisions to finance

1 expenditures authorized in the annual appropriations of
2 the borrowing entity; *Provided,* That said advances must
3 be repaid before the end of the first quarter following
4 the end of the fiscal year of the Government or political
5 subdivision and shall not, in their aggregate, exceed fifteen
6 per cent of the estimated income of the borrower for the
7 year.

8 ARTICLE VI.—*Open Market Operations for the Account*
9 *of the Central Bank*

10 SEC. 96. *Principles of open market operations.*—The open
11 market purchases and sales of securities by the Central
12 Bank shall be made exclusively for the purpose of achieving
13 the objectives of the national monetary policy and shall
14 be limited to the operations authorized in sections 97 and
15 98 of this Act.

16 Accordingly, in periods of inflation, or as long as in-
17 flationary dangers exist, the Central Bank shall refrain
18 from open market purchases and at such times shall en-
19 deavor to reduce its security holdings and/or to sell the
20 evidences of indebtedness which it is permitted to issue
21 under the provisions of section 98 of this Act.

22 Conversely, whenever the national monetary policy re-
23 quires an expansion of the money supply, the Central Bank
24 may repurchase its own evidences of indebtedness prior
25 to their date of maturity, as authorized in section 98, and
26 may acquire the securities to which reference is made in
27 section 97. In purchasing said securities, the Central Bank
28 shall give preference to short-term obligations, in order

1 that the Bank may be in a better position to reduce the
2 money supply should conditions in the future so require.
3 Whenever securities meeting the conditions established
4 in section 97 of this Act represent obligations in foreign
5 currencies, the decisions of the Monetary Board to purchase
6 and sell such securities shall be governed by the adequacy
7 of the international reserve of the Central Bank and by
8 the effect which such operations would have on the balance
9 of payments and the volume of the money supply.
10 SEC. 97. *Purchases and sales of Government securities.*—
11 In order to achieve the objectives of the national monetary
12 policy, the Central Bank may, in accordance with the
13 principles stated in section 96 of this Act and with such
14 rules and regulations as may be prescribed by the Mone-
15 tary Board, buy and sell in the open market for its own
16 account:
17 (*a*) Evidences of indebtedness issued directly by the
18 Government of the Philippines or by its political subdivi-
19 sions, and
20 (*b*) Evidences of indebtedness issued by Government
21 instrumentalities and fully guaranteed by the Government.
22 The evidences of indebtedness acquired under the provi-
23 sions of this section must be freely negotiable and regularly
24 serviced.
25 SEC. 98. *Issue and negotiation of Central Bank obliga-*
26 *tions.*—In order to provide the Central Bank with effective
27 instruments for open market operations, the Bank may,
28 subject to such rules and regulations as the Monetary Board

1 may prescribe and in accordance with the principles stated
2 in section 96 of this Act, issue, place, buy and sell freely
3 negotiable evidences of indebtedness of the Bank. Said
4 evidences of indebtedness may be issued directly against
5 the international reserve of the Bank or against the secur-
6 ities which it has acquired under the provisions of section
7 97 of this Act, or may be issued without relation to specific
8 types of assets of the Bank.

9 The Monetary Board shall determine the interest rates,
10 maturities and other characteristics of said obligations of
11 the Bank, and may, if it deems it advisable, denominate
12 the obligations in gold or foreign currencies.

13 Subject to the principles stated in section 96 of this
14 Act, the evidences of indebtedness of the Central Bank to
15 which this section refers may be acquired by the Bank
16 before their maturity, either through purchases in the
17 open market or through redemptions at par and by lot if
18 the Bank has reserved the right to make such redemptions.
19 The evidences of indebtedness acquired or redeemed by the
20 Central Bank shall not be included among its assets, and
21 shall be immediately retired and canceled.

22 ARTICLE VII.—*Composition of Central Bank's Portfolio*

23 SEC. 99. *Review of the Central Bank's portfolio.*—At
24 least once every month the Monetary Board shall review
25 the portfolio of the Central Bank in relation to the Bank's
26 future credit policy.

27 In reviewing the Central Bank's portfolio, the Monetary
28 Board shall especially consider whether a sufficiently large
29 part of the portfolio consists of assets with early maturi-

ties, in order that a contraction in Central Bank credit may be effected promptly whenever the national monetary policy so requires.

ARTICLE VIII.—*Bank Reserves*

SEC. 100. *Reserve requirements.*—In order to control the volume of money created by the credit operations of the banking system, banks operating in the Philippines shall be required to maintain reserves against their deposit liabilities. The required reserves of each bank shall be proportional to the volume of its deposit liabilities and shall ordinarily take the form of a deposit in the Central Bank of the Philippines; nevertheless, the Monetary Board may, whenever circumstances warrant, permit the maintenance of part of the required reserves in the form of assets other than peso deposits with the Central Bank. Reserve requirements shall be applied to all banks uniformly and without discrimination.

SEC. 101. *Required reserves against peso deposits.*—The Monetary Board is authorized to prescribe and modify the minimum reserve ratios applicable to each class of peso deposits; *Provided, however,* That such ratios shall not be less than five per cent (5%) or more than twenty-five per cent (25%) for time and savings deposits, and shall not be less than ten per cent (10%) or more than fifty per cent (50%) for demand deposits.

Notwithstanding the provisions of the preceding paragraph of this section, the Monetary Board may, in periods of inflation, prescribe higher reserve ratios, but not exceeding 100 per cent, for any future increase in the deposits of each bank above the amounts outstanding on the date on which the bank is notified of the requirement.

1 Whenever the reserve requirements established by the
2 Monetary Board place any bank under obligation to main-
3 tain minimum reserves in excess of twenty-five per cent
4 (25%) of its total time or savings deposits, or in excess of
5 fifty per cent (50%) of its total demand deposits, the Cen-
6 tral Bank may pay interest on said excess at a rate which
7 shall not be higher than the Bank's lowest rediscount rate.
8 SEC. 102. *Required reserves against foreign currency*
9 *deposits.*—The Monetary Board is similarly authorized to
10 prescribe and modify the minimum reserve ratios applicable
11 to deposits denominated in foreign currencies; *Provided,*
12 *however,* That such ratios may not be set below ten per
13 cent (10%) or above one hundred per cent (100%), with
14 respect to deposit liabilities in each foreign currency.
15 The Monetary Board shall determine the form and the
16 currency, either national or foreign, in which such reserves
17 shall be maintained; *Provided, however,* That any such
18 requirements shall not preclude the banks from keeping
19 a balanced position between their assets and liabilities in
20 each of the foreign currencies in which they operate.
21 SEC. 103. *Reserves against unused balances of overdraft*
22 *lines.*—In order to facilitate Central Bank control over the
23 volume of bank credit, the Monetary Board may establish
24 minimum reserve requirements for unused balances of
25 overdraft lines.
26 The powers of the Monetary Board to prescribe and
27 modify reserve requirements against unused balances of
28 overdraft lines shall be the same as its powers with respect
29 to reserve requirements against demand deposits.

1 SEC. 104. *Increase in reserve requirements.*—Whenever
2 it becomes necessary, in the opinion of the Monetary Board,
3 to increase reserve requirements against existing liabilities,
4 the increase shall be made in a gradual manner and shall
5 not exceed four percentage points in any thirty-day period.
6 The banks shall be notified reasonably in advance of the
7 date on which such increase is to become effective.
8 SEC. 105. *Computation of reserves.*—The reserve position
9 of each bank shall be calculated daily on the basis of the
10 amount, at the close of business for the day, of the bank's
11 reserves and the amount of its liability accounts against
12 which reserves are required to be maintained.
13 For the purpose of computing the reserve position of
14 each bank, its principal office in the Philippines and all its
15 branches and agencies located therein shall be considered
16 as a single unit.
17 SEC. 106. *Reserve deficiencies.*—Whenever the reserve
18 position of any bank, computed in the manner specified
19 in the preceding section of this Act, is below the required
20 minimum, the bank shall pay the Central Bank one-tenth
21 of one per cent ($\frac{1}{10}$ of 1%) per day on the amount of the
22 deficiency; *Provided, however,* That banks shall ordinarily
23 be permitted to offset any reserve deficiency occurring on
24 one or more days of the week with any excess reserves
25 which they may hold on other days of the same week and
26 shall be required to pay the penalty only on the average
27 daily deficiency during the week. In cases of abuse, the
28 Monetary Board may deny any bank the privilege of off-
29 setting reserve deficiencies in the aforesaid manner.

1 If a bank chronically has a reserve deficiency, the Mone-
2 tary Board may limit or prohibit the making of new
3 loans or investments by the bank and may require that
4 part or all of the net profits of the bank be assigned to
5 surplus.

6 SEC. 107. *Interbank settlements.*—The Central Bank
7 shall provide facilities for interbank clearing.

8 The deposit reserves maintained by the banks in the
9 Central Bank, in accordance with the provisions of sec-
10 tion 100, shall serve as a basis for the clearing of checks
11 and the settlement of interbank balances, subject to such
12 rules and regulations as the Monetary Board may issue
13 with respect to such operations.

14 ARTICLE IX.—*Selective Regulation of Bank Operations*

15 SEC. 108. *Guiding principle.*—The Monetary Board shall
16 use the powers granted to it under the present article and
17 elsewhere in this Act to ensure that the supply, availability
18 and cost of money are in accord with the needs of the Phil-
19 ippine economy and that bank credit is not granted for
20 speculative purposes prejudicial to the national interest.

21 SEC. 109. *Interest rates, commissions and charges.*—The
22 Monetary Board may fix the maximum rates of interest
23 which banks may pay on deposits and on any other
24 obligations.

25 The Monetary Board may, within the limits prescribed
26 in the Usury Law (Act No. 2655, as amended), fix the
27 maximum rates of interest which banks may charge for
28 different types of loans and for any other credit operations,
29 or may fix the maximum difference which may exist be-

1 tween the interest or rediscount rates of the Central Bank
2 and the rates which the banks may charge their customers
3 if the respective credit documents are not to lose their
4 eligibility for rediscount or advances in the Central Bank.
5 Any modifications in the maximum interest rates per-
6 mitted for the borrowing or lending operations of the
7 banks shall apply only to future operations and not to
8 those made prior to the date on which the modification
9 becomes effective.
10 In order to avoid possible evasion of maximum interest
11 rates set by the Monetary Board, the Board may also fix
12 the maximum rates that banks may pay to or collect from
13 their customers in the form of commissions, discounts,
14 charges, fees or payments of any sort.
15 SEC. 110. *Margin requirements against letters of credit.*—
16 In order to restrict the granting of bank credit for pur-
17 poses which are contrary to the general welfare of the
18 Philippines, the Monetary Board may at any time pre-
19 scribe minimum cash margins for the opening of letters
20 of credit, and may relate the size of the required margin
21 to the nature of the transaction to be financed.
22 The Board may particularly use its powers under this
23 section to require high margins for the opening of letters
24 of credit to finance the importation of luxuries or other
25 non-essential goods, or to finance any goods the importa-
26 tion of which at the time is considered by the Monetary
27 Board to be unduly prompted by speculative motives
28 prejudicial to the interests of the Philippine economy.

1 SEC. 111. *Required security against bank loans.*—In order
2 to promote the liquidity and solvency of the banking sys-
3 tem, or to influence the availability of bank credit for
4 specific purposes, the Monetary Board may issue such
5 regulations as it may deem necessary from time to time
6 with respect to the maximum permissible maturities of the
7 loans and investments which the banks may make, and the
8 kind and amount of security to be required against the
9 various types of credit operations of the banks.
10 SEC. 112. *Portfolio ceilings.*—Whenever the Monetary
11 Board considers it advisable to prevent or check an expan-
12 sion of bank credit, the Board may place an upper limit
13 on the amount of loans and investments which the banks
14 may hold, or may place a limit on the rate of increase of
15 such assets within specified periods of time. The Monetary
16 Board may apply such limits to the total loans and invest-
17 ments of each bank or to specific categories thereof.
18 In no case shall the Monetary Board establish limits
19 which are below the value of the loans or investments of
20 the banks on the date on which they are notified of such
21 restrictions. The restrictions shall be applied to all banks
22 uniformly and without discrimination.
23 SEC. 113. *Minimum capital ratios.*—In order to regulate
24 the volume and distribution of bank credit, and to ensure
25 the maintenance of bank capital and surplus at levels ade-
26 quate to protect the depositors against risk of loss, the
27 Monetary Board may prescribe minimum ratios which the
28 capital and surplus of the banks must bear to the volume

of their assets, or to specific categories thereof, and may alter said ratios whenever it deems it convenient so to do.

ARTICLE X.—*Government Credit Institutions as Instruments of the National Monetary Policy*

SEC. 114. *Co-ordination of credit policies.*—Government-owned corporations which perform banking or credit functions are hereby declared to be instruments of the national monetary policy and, accordingly, shall co-ordinate their general credit policies with those of the Monetary Board.

Toward this end, the Monetary Board may, whenever it deems it expedient, make suggestions or recommendations to such corporations for the more effective co-ordination of their policies with those of the Central Bank.

CHAPTER V.—FUNCTIONS AS FISCAL AGENT, BANKER, AND FINANCIAL ADVISOR OF THE GOVERNMENT

ARTICLE I.—*Functions as Fiscal Agent and Banker of the Government*

SEC. 115. *Designation of Central Bank as fiscal agent and banker of the Government.*—The Central Bank of the Philippines shall act as the fiscal agent and banker of the Government, its political subdivisions and instrumentalities.

SEC. 116. *Representation with the International Monetary Fund.*—The Central Bank of the Philippines shall represent the Government of the Philippines in all dealings, negotiations and transactions with the International Monetary Fund and shall carry such accounts as may result from Philippine membership in, or operations with, said Fund.

1 SEC. 117. *Representation with other financial institu-*
2 *tions.*—The Central Bank may be authorized by the Govern-
3 ment to represent it in dealings, negotiations or transactions
4 with the International Bank for Reconstruction and Devel-
5 opment and with other foreign or international financial
6 institutions or agencies.

7 SEC. 118. *Official deposits.*—The Central Bank shall be
8 the official depository of the Government and its political
9 subdivisions and instrumentalities; *Provided, however,* That
10 the Monetary Board may designate Government-owned
11 banks and other banks incorporated in the Philippines to
12 accept deposits from said entities, subject to such rules
13 and regulations as the Board may prescribe.

14 SEC 119. *Fiscal operations.*—The Central Bank shall
15 open a general cash account for the Treasurer of the Phil-
16 ippines, in which the liquid funds of the Government shall
17 be deposited.

18 Transfers of funds from this account to other accounts
19 shall be made only upon order of the Treasurer of the
20 Philippines.

21 SEC. 120. *Other banks as agents of the Central Bank.*—
22 In the performance of its functions as fiscal agent, the
23 Central Bank may engage the services of the Philippine
24 National Bank and of other domestic banks for operations
25 in localities at home or abroad in which the Central Bank
26 does not have offices or agencies adequately equipped to
27 perform said operations; *Provided, however,* That for fiscal
28 operations in foreign countries, the Central Bank may

1 engage the services of foreign banking and financial insti-
2 tutions.

3 SEC. 121. *Remuneration for services.*—The Central Bank
4 may charge for services which it renders to the Government
5 and to its political subdivisions and instrumentalities such
6 rates and commissions as may be agreed upon with the
7 respective authorities.

8 The Bank shall not pay interest on deposits of the Gov-
9 ernment or of its political subdivisions and instrumen-
10 talities.

11 ARTICLE II.—*The Marketing and Stabilization of Securities*
12 *for the Account of the Government*

13 A. THE ISSUE AND PLACING OF GOVERNMENT SECURITIES

14 SEC. 122. *Issue of Government obligations.*—The issue
15 of securities representing obligations of the Government,
16 its political subdivisions or instrumentalities shall be made
17 through the Central Bank, which shall act as agent of,
18 and for the account of, the Government or its respective
19 subdivision or instrumentality, as the case may be; *Pro-*
20 *vided, however,* That the Bank shall not subscribe to
21 the issue of said securities and shall not guarantee their
22 placement.

23 SEC. 123. *Methods of placing Government securities.*—
24 The Central Bank may place the securities to which the
25 preceding section refers through direct sale to financial
26 institutions and the public, through outright sale to syn-
27 dicates, brokers or dealers for purposes of resale to the
28 public for their own account, or through brokers or banks
29 contracted to place the securities with the public for the
30 account of the Central Bank.

1 The Central Bank shall not be a member of any stock
2 exchange or syndicate, but may intervene therein for the
3 sole purpose of regulating their operations in the placing
4 of Government securities.
5 The Government, or its respective subdivisions or instru-
6 mentalities, shall reimburse the Central Bank for the
7 expenses incurred in the placing of the aforesaid securities.
8 SEC. 124. *Servicing and redemption of the public debt.*—
9 The servicing and redemption of the public debt shall also
10 be effected through the Central Bank.

11 B. CENTRAL BANK SUPPORT OF THE GOVERNMENT
12 SECURITIES MARKET

13 SEC. 125. *The Securities Stabilization Fund.*—There shall
14 be established a "Securities Stabilization Fund" which shall
15 be administered by the Central Bank for the account of
16 the Government.
17 The operations of the Securities Stabilization Fund shall
18 consist of purchases and sales, in the open market, of
19 bonds and other evidences of indebtedness issued or fully
20 guaranteed by the Government of the Philippines. The
21 purpose of these operations shall be to increase the liquidity
22 and stabilize the value of said securities in order thereby
23 to promote private investment in Government obligations.
24 The Monetary Board shall use the resources of the
25 Fund to prevent, or moderate, sharp fluctuations in the
26 quotations of said Government obligations, but shall not
27 endeavor to alter movements of the market resulting from
28 basic changes in the pattern or level of interest rates.

1 The Monetary Board shall issue such regulations as may
2 be necessary to implement the provisions of this section.
3 SEC. 126. *Resources of the Securities Stabilization*
4 *Fund.*—The resources of the Securities Stabilization Fund
5 shall come from the following sources:
6 (*a*) TWO MILLION (₱2,000,000) PESOS, which are hereby
7 appropriated from the assets of the Exchange Standard
8 Fund, as provided in section 134 of this Act, and such other
9 appropriations as the Government may make from time to
10 time.
11 (*b*) That part of the annual net profits of the Central
12 Bank allocated to the Fund in accordance with the provi-
13 sions of section 41;
14 (*c*) Profits arising from recoinage or from reductions
15 in the currency issue, under the conditions specified in
16 section 45.
17 SEC. 127. *Profits and losses of the Fund.*—The Securities
18 Stabilization Fund shall retain any net profits which it
19 may make on its operations, regardless of whether said
20 profits arise from capital gains or from interest earnings.
21 The Fund shall correspondingly bear any net losses which
22 it may incur.

23 ARTICLE III.—*Functions as Financial Advisor*
24 *of the Government*

25 SEC. 128. *Financial advice on official credit operations.*—
26 Before undertaking any credit operation abroad, the Govern-
27 ment, through the Secretary of Finance, shall request the
28 opinion, in writing, of the Monetary Board on the monetary

implications of the contemplated action. Such opinions must similarly be requested by all political subdivisions and instrumentalities of the Government before any credit operation abroad is undertaken by them.

The opinion of the Monetary Board shall be based on the gold and foreign exchange resources and obligations of the nation and on the effects of the proposed operation on the balance of payments and on the volume of the money supply.

Whenever the Government, or any of its political subdivisions or instrumentalities, contemplates borrowing within the Philippines, the prior opinion of the Monetary Board shall likewise be requested in order that the Board may render an opinion on the probable effects of the proposed operation on the money supply, the price level, and the balance of payments.

SEC. 129. *Representation on the National Economic Council.*—In order to assure effective co-ordination between the economic, financial and fiscal policies of the Government and the monetary, credit and exchange policies of the Central Bank, the Governor of the Central Bank shall be an ex officio member of the National Economic Council.

## CHAPTER VI.—PRIVILEGES AND PROHIBITIONS

### ARTICLE I.—*Privileges*

SEC. 130. *Tax exemptions.*—The Central Bank of the Philippines shall be exempt from all national, provincial, municipal and city taxes and assessments now in force or hereafter established.

1 The exemptions authorized in the preceding paragraph
2 of this section shall apply to all property of the Central
3 Bank, to the resources, receipts, expenditures, profits and
4 income of the Bank, as well as to all contracts, deeds, docu-
5 ments and transactions related to the conduct of the busi-
6 ness of the Bank; *Provided, however,* That said exemptions
7 shall apply only to such taxes and assessments for which
8 the Central Bank itself would otherwise be liable, and shall
9 not apply to taxes or assessments payable by persons or
10 other entities doing business with the Central Bank.

11 SEC. 131. *Exemption from customs duties.*—The impor-
12 tation and exportation by the Central Bank of notes and
13 coins, and of gold and other metals to be used for purposes
14 authorized under this Act, and the importation of all equip-
15 ment needed for furnishing, equipping and operating
16 the offices of the Bank, shall be fully exempt from all
17 customs duties and consular fees and from all other taxes,
18 assessments and charges related to such importation or
19 exportation.

20 SEC. 132. *Non-applicability of the Civil Service Law.*—
21 The members of the Monetary Board and the officers and
22 employees of the Central Bank of the Philippines shall not
23 be subject to the Civil Service Law.

24 ARTICLE II.—*Prohibitions*

25 SEC. 133. *Prohibitions.*—The Central Bank shall not
26 acquire shares of any kind or accept them as collateral,
27 and shall not participate in the ownership or management
28 of any enterprise, either directly or indirectly.

## CHAPTER VII.—TRANSITORY PROVISIONS

### ARTICLE I.—*The Exchange Standard Fund*

SEC. 134. *Liquidation of the Exchange Standard Fund.*—Prior to the date on which the Central Bank commences business, the Exchange Standard Fund shall be liquidated. The net assets of the Fund remaining after outstanding liabilities have been met shall be used for the following purposes and in the following priority:

(*a*) TEN MILLION (₱10,000,000) PESOS shall be used to subscribe to the capital stock of the Central Bank;

(*b*) TWO MILLION (₱2,000,000) PESOS shall be transferred to the Securities Stabilization Fund;

(*c*) The remainder shall be transferred to the Bank in accordance with the provisions of section 135.

### ARTICLE II.—*Retirement of Treasury Certificates and Coins*

SEC. 135. *Assumption by the Central Bank of the liability for treasury certificates.*—On the date on which the Central Bank commences business, it shall assume the liability of the Treasury Certificate Fund for all outstanding treasury certificates. The amount of the liability shall be determined by the Secretary of Finance and certified by the Auditor-General. In consideration for assuming this liability the Treasurer of the Philippines shall transfer to the Bank all of the available assets of the Treasury Certificate Fund and that portion of the assets of the Exchange Standard Fund which may remain after deducting the amounts required to provide the capital of the Bank and

1 the contribution to the Securities Stabilization Fund, as
2 provided in the preceding section.
3 If the total assets thus transferred exceed the liability
4 assumed, the difference shall be used to establish a reserve
5 on the books of the Central Bank against the contingency
6 that the actual amount of treasury certificates which the
7 Central Bank may be called upon to exchange for its own
8 notes may prove to be larger than the liability originally
9 assumed. If the total assets transferred should be less
10 than the liability assumed, the Secretary of Finance shall
11 deliver to the Bank a non-interest bearing, non-negotiable
12 note without fixed maturity in the amount of the difference.
13 The Central Bank shall, as soon as practicable, exchange
14 outstanding treasury certificates for its own notes in ac-
15 cordance with the procedure described in section 59 of this
16 Act. During the period of such exchange any treasury
17 certificates exchanged by the Bank in excess of the liability
18 originally assumed for such certificates shall be charged,
19 first, to the reserve mentioned in the preceding paragraph,
20 if there be such reserve, and, second, to the deposit of the
21 Government. At the expiration of the exchange period
22 any remaining balance of the liability account for outstand-
23 ing treasury certificates shall be applied, first, to reduce the
24 face value of the note delivered by the Secretary of Finance
25 in accordance with the preceding paragraph, if such a note
26 has been issued, and, second, to reduce the Account to
27 Secure the Coinage, the creation of which is provided for
28 in the following section. Any remaining balance of the

1 above-mentioned reserve shall be applied solely to reduce
2 the Account to Secure the Coinage.
3 SEC. 136. *Assumption by the Central Bank of the liability*
4 *for treasury coins.*—On the date on which the Central
5 Bank commences business, the total Philippine treasury
6 coin issue, including coins dumped in Manila Bay but not
7 yet salvaged, shall become a liability of the Bank. As a
8 contra item against the liability thereby assumed there
9 shall be set up on the books of the Central Bank an asset
10 account in an amount equal to the face value of the total
11 Philippine treasury coin issue. This account shall be
12 called the "Account to Secure the Coinage."
13 The Central Bank shall, as soon as practicable, exchange
14 treasury coins in circulation for Central Bank coins in ac-
15 cordance with the procedure described in section 59 of this
16 Act. When the Monetary Board has completed the ex-
17 change of treasury coins for its own coins and has thereby
18 determined the precise amount of the liability which it
19 originally assumed for the treasury coin issue, the outstand-
20 ing amount of the Account to Secure the Coinage shall be
21 reduced by the difference between the original amount of
22 the Account and the amount of the liability as finally de-
23 termined.
24 ARTICLE III.—*Extraordinary Advances to the Government*
25 SEC. 137. *Extraordinary advances to the Government.*—
26 Notwithstanding any provisions in the present Act to the
27 contrary, the Central Bank may, until June 30, 1951, make
28 direct advances to the Government when, in the opinion

of the Monetary Board, the international reserve is adequate to meet all foreseeable demands upon it and when such advances are consistent with the achievement of the Board's objective of domestic monetary stability. The total advances made under the authority of this section shall not exceed TWO HUNDRED MILLION (₱200,000,000) PESOS.

The Bank shall make the above advances only against an equivalent amount of negotiable government securities having maturities which, insofar as possible, are appropriate to the uses to which the advances will be put, but which in no case shall exceed 15 years. In order to permit their resale by the Central Bank, the securities shall be in denominations and bear interest rates which will make them attractive to the banks and to the public.

Advances shall be made only for certain purposes specifically authorized by law, and shall be made only for productive and income-producing projects, or for the repayment or servicing of external obligations of the Government.

ARTICLE IV.—*Miscellaneous Provisions*

SEC. 138. *Transfer of powers and functions of the Bureau of the Treasury to the Central Bank.*—All powers, duties and functions vested in the Bureau of the Treasury and the Treasurer of the Philippines which by the provisions of this Act shall be exercised by the Bank are hereby transferred to the Central Bank.

SEC. 139. *Transfer of authority, powers, and functions of the Bank Commissioner and the Bureau of Banking to the Central Bank.*—All authority now vested in the Bank

1 Commissioner and the Bureau of Banking with respect to
2 the establishment, operation or liquidation of banking and
3 credit institutions, and branches or agencies thereof, and
4 all other powers, duties and functions vested in the Bureau
5 of Banking and the Bank Commissioner which by the pro-
6 visions of this Act shall be exercised by the Bank, are
7 hereby transferred to the Central Bank.

8 SEC. 140. *Repeal of inconsistent laws.*—All laws, parts of
9 laws, and any special charters, or parts thereof, of banking
10 and financial institutions inconsistent herewith are hereby
11 repealed.

12 SEC. 141. *Exemption from restrictions on bank borrow-*
13 *ing.*—The restrictions on bank borrowing which are con-
14 tained in sections 6 and 7 of Act 3610 shall not apply to
15 bank borrowings from the Central Bank.

16 SEC. 142. *Effectivity of this Act.*—This Act shall take
17 effect upon approval. The Central Bank of the Philippines
18 shall commence business upon organization of the Monetary
19 Board and certification by the Secretary of Finance that
20 the authorized capital of the Bank has been fully paid-in
21 and that the Bank is ready for operation.

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