

CLARIFICATION ON THE PROVISIONS OF CIRCULAR NO. 73 ISSUED ON MAY 15, 1995 AND EFFECTIVE MAY 31, 1995, ON RESERVE REQUIREMENTS AGAINST PESO DEPOSITS AND DEPOSIT SUBSTITUTE LIABIL...

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Pursuant to Monetary Board Resolution No. 1162 dated October 11, 1995 in relation to Monetary Board Resolution No. 427 dated April 26, 1995, the provisions of Circular No. 73 issued on May 15, 1995 and effective May 31, 1995 on reserve requirements against peso deposits and deposit substitute liabilities of financial intermediaries are hereby clarified as follows:

I. Reduction in Reserve Requirements and Form of Reserves - The required reserves against peso deposit and/or deposit substitute liabilities of the following financial intermediaries shall be reduced to levels enumerated below:

Legal Reserve Ratio (%)

From

To

A. Banks with Expanded Commercial Banking Authority, Commercial Banks (including Land bank of the Philippines, Philippine Amanah Bank and Development Bank of the Philippines

Peso demand and savings deposits, NOW accounts, time deposits and deposit substitute liabilities regardless of maturity

17

15

B. Thrift Banks

1. demand deposits/NOW/accounts/deposit substitutes regardless of maturity

17

15

2. time deposits/negotiable certificates of time deposits (NCTDs)/savings deposits

14

13

C. Rural Banks

1. demand deposits/NOW accounts

17

15

2. savings and time deposits

9

7

D. Non-Bank Financial Intermediaries with Quasi-Banking Functions

Deposit substitutes regardless of maturity

17

15

In addition to the legal reserve ratios, a two percent (2%) liquidity reserve is also imposed against the combined deposit and/or deposit substitute liabilities (of each type of financial intermediary) which may be held in the form of short-term market-yielding government securities purchased directly from the Bangko Sentral ng Pilipinas (BSP). This is pursuant to Circular No. 10, dated December 29, 1993 and the supporting memorandum to all banks and non-banks with quasi-banking functions issued January 10, 1994.

II. Interest Income on Allowed Reserve Deposits with BSP - The allowed reserve deposits with BSP which will earn 4% per annum (based on the average daily balance of said deposits to be credited quarterly) shall be limited to 40% of the reserve requirement (net of short-term market-yielding government securities purchased directly from the BSP) or actual reserve deposits with BSP, whichever is lower.

The following examples may serve as guide in the interpretation of Sections 12 and 13 of Circular No. 73 on the computation of interest income on reserve deposits:

A. Banks with Expanded Commercial Banking Authority/Commercial Banks

Ex. P200,000 total deposit and deposit substitute liabilities distributed as follows:

P50,000 each for demand/NOW, time, savings and deposit substitute liabilities

1. Total required reserves

P34,000

P200,000 x 15%

P30,000

plus a maximum 2% of P200,000 which may be in the form of short-term market-yielding government securities purchased directly from BSP

P 4,000

2. Actual reserve deposits with BSP

(Note: A minimum proportion of 25% of required reserve for each type of deposit is allowed in the form of balances with BSP).

25% of P34,000

P 8,500

3. Reserve Deposits with BSP which can earn 4% per annum based on the average daily balance of said deposits to be credited quarterly

Total reserve requirements

P34,000

Less: Holdings of short-term market-yielding government securities purchased directly from the BSP

P 4,000

(Assumed at maximum 2% of P200,000)

(Note: Actual securities held may be less than the maximum 2% of the combined deposit and deposit substitute liabilities).

Equals: Reserve requirement net of short-term government securities purchased from BSP

P30,000

Computation of the allowed reserve deposits with BSP to earn 4% interest

40% of P30,000

P12,000

(Note: Maximum proportion of reserve deposits with BSP that can earn 4%)

Actual reserve deposits with BSP

P 8,500

Reserve deposits allowed to earn 4%

P 8,500

Interest income from BSP

$(P8,500 \times 4\%) =$

P 340

B. Thrift Banks

Ex. Deposit/Deposit Substitute Liabilities

P100,000

Demand Deposits/NOW Accounts

P 25,000

Demand Substitutes

P 25,000

Time/NCTDs

P 25,000

Savings Deposits

P 25,000

1. Total required reserves

P 16,000

Demand: $P25,000 \times 15\%$

P 3,750

Deposit Substitutes: $P25,000 \times 15\%$

P 3,750

Time/NCTDs: P25,000 x 13%

P 3,250

Savings: P25,000 x 13%

P 3,250

plus a maximum 2% of P100,000 which may be in the form of short-term market-yielding government securities purchased directly from the BSP

P 2,000

2. Actual (minimum) reserve deposits with BSP (Note: A minimum proportion of 25% of required reserve for each type of deposit is allowed in the form of balances with BSP)

25% of each corresponding reserve against above liabilities

P 4,000

3. Reserve deposits with BSP which can earn 4% per annum based on the average daily balance of said deposits to be credited quarterly

Total reserve requirements

P 16,000

Less: Holdings of short-term market-yielding government securities purchased directly from the BSP

P 2,000

(Assumed at maximum 2% of P100,000)

(Note: Actual securities held may be less than the maximum 2% of the combined deposit and deposit substitute liabilities).

Equals: Reserve requirement net of short-term government securities purchased from BSP

P 14,000

Computation of the allowed reserve deposits with BSP to earn 4% interest

40% of P14,000

P 5,600

(Note: Maximum proportion of reserve deposits with BSP that can earn 4%)

Actual reserve deposits with BSP

P 4,000

Reserve deposits allowed to earn 4%

P 4,000

Interest income from BSP ($P4,000 \times 4\%$)

P 160

C. Rural Banks

Ex. Deposit Liabilities

P 75,000

Demand Deposits/NOW Accounts

P 25,000

Time Deposits

P 25,000

Savings Deposits

P 25,000

1. Total required reserves

P 8,750

Demand: $P25,000 \times 15\%$

P 3,750

Time: $P25,000 \times 7\%$

P 1,750

Savings: $P25,000 \times 7\%$

P 1,750

plus a maximum 2% of P75,000 which may be in the form of short-term market-yielding government securities purchased directly from the BSP

P 1,500

2. Actual (minimum reserve deposit with BSP

(Note: A minimum proportion of 25% of required reserve for each type of deposit is allowed in the form of balances with BSP)

25% of each corresponding reserve against above liabilities

P2,187.50

3. Reserve deposits with BSP which can earn 4% per annum based on the average daily balance of said deposits to be credited quarterly

Total reserve requirements

P 8,750

Less: Holdings of short-term market-yielding government securities purchased directly from the BSP

P 1,500

(Assumed at maximum 2% of P75,000)

(Note: Actual securities held may be less than the maximum 2% of the combined deposit and deposit substitute liabilities)

Equals: Reserve requirement net of short-term government securities purchased from BSP

P 7,250

Computation of the allowed reserve deposits with BSP to earn 4% interest

40% of P7,250

P 2,900

(Note: Maximum proportion of reserve deposits with BSP that can earn 4%)

Actual reserve deposits with BSP

P2,187.50

Reserve deposits allowed to earn 4%

P2,187.50

Interest Income from BSP

(P2,187.50 x 4%)

P 87.50

D. Non-Bank Financial Intermediaries with Quasi-Banking Functions

Ex. Deposit Substitutes

P200,000

1. Total required reserves

P 34,000

$P200,000 \times 15\%$

P 30,000

plus a maximum 2% of P200,000 which may be in the form of short-term market-yielding government securities purchased directly from BSP

P 4,000

2. Actual reserve deposits with BSP at least 10% of actual required reserves

P 3,400

3. Reserve deposits with BSP which can earn 4% per annum based on the average daily balance of said deposits to be credited quarterly

Total reserve requirements

P 34,000

Less: Holdings of short-term market-yielding government securities purchased directly from the BSP

P 4,000

(Assumed at maximum 2% of P200,000)

(Note: Actual securities held may be less than the maximum 2% of the combined deposit and deposit substitute liabilities)

Equals: Reserve requirement net of short-term government securities purchased from BSP

P 30,000

Computation of the allowed reserve deposits with BSP to earn 4% interest

40% of P30,000

P 12,000

(Note: Maximum proportion of reserve deposits with BSP that can earn 4%)

Actual minimum reserve deposits with BSP

P 3,400

Reserve deposits allowed to earn 4%

P 3,400

Interest income from BSP

(P3,400 x 4%)

P 136

Please be guided accordingly.

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(SGD.) ALBERTO V. REYES

Deputy Governor

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