

The Filipino Version of the “Irrational Exuberance”? - MabuhayRadio

Written by Bobby Reyes

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Many Filipino consumers, including Overseas Filipinos, cannot really understand the exuberance of the top economists, financial experts and whiz kids of the Philippine government over the appreciation of the Philippine peso vis à vi the US dollar. Is this the Filipino version of Alan Greenspan’s “irrational exuberance”?

“Irrational exuberance” was a phrase used by former Federal Reserve Board Chairman Alan Greenspan in a speech given at the American Enterprise Institute at the height of the stock-market boom in the 1990s. The phrase was interpreted by financial pundits as a typically cryptic warning that the market might be overvalued.

Peso Revaluation: Speculation or Manipulation?

If the Philippine peso is that strong a currency, then it should be revalued because of its strength and not because the American currency is weak. However, everybody knows that the Philippine peso is weak if compared to the currencies of its neighboring countries. In fact, no money-exchange store in all parts of the world would accept the Philippine pesos for conversion into other currencies such as the American, Canadian, Hong Kong or Singapore dollar, etceteras, etc. If it remains a currency that is not convertible in the open market, then why is it abnormally strong?

The Filipino consumers do not really understand the exuberance because the prices (in pesos) of commodities continue to go up. Is the peso revaluation a product then of speculation or manipulation?

Is it a case of too many dollars (principally caused by the remittances of the Overseas-Filipino workers and residents abroad) chasing too few pesos? The Philippine government has been known to overprint the local currency. In fact, one of the best-kept secrets in the Philippines is nobody can really tell the truth about the money supply in the country.

In the United States, the most-common measure of the money supply is known as M2. The M2 money stock includes currency, coins and traveler’s checks held by the public; balances in commercial bank checking accounts; balances at credit unions; savings accounts and

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certificates of deposit accounts less than \$100,000; overnight repurchase agreements at commercial banks; and non-institutional money-market accounts.

A broader measure of the money supply, the MZM money stock includes all of the components of M2 mentioned before, plus institutional money-market accounts and greater-than-one-day repurchase agreements.

So, what is the relevance of the (Philippine) money supply? The monetary system in the Philippines is governed by fundamental economic factors as in the United States. Like when the money supply increases, short-term interest rates tend to decline. When the money supply decreases, short-term rates tend to rise. So, why are short-term and long-term interest rates continue to be high in the Philippines and they are not affected at all by the country’s prevailing money supply?

This writer wrote earlier this article, [The “Strong” Philippine Peso Is a Temporary, If Not a Manipulated, Mirage](#). I mentioned also in it that the real-estate market in the Philippines is grossly overvalued. Philippine property values may be like water that will seek the lower, if not the lowest, level. Moreover, God forbid if the Global-Warming scenario happens, then really property values in the low-lying areas of the Philippines like the Metropolitan Manila area would really be under water (pun intended). Then the whole market – be it real estate, stock or financial – will no longer exude exuberance at all.
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