

Amando M Tetangco, Jr: New year message 2006 with an overview of 2005

Speech by Mr Amando M Tetangco, Jr, Governor of the Central Bank of the Philippines, at the annual reception for the banking community, BSP Complex, Manila, 17 January 2006.

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Introduction

Members of the banking community, special guests from the legislative branch and the judiciary, members of the Cabinet, fellow workers in government, guests from the media, friends, ladies and gentlemen, good evening. It has been a tradition for the Monetary Board to host an annual reception for the banking community.

As Chairman of the Monetary Board and Governor of the Bangko Sentral ng Pilipinas, I am only one of your seven hosts tonight. Let me therefore introduce your six other hosts --- My fellow members at the Monetary Board, by order of seniority of their appointment:

1. **Dr. Vicente B. Valdepenas, Jr...** He is an economist, educator, former NEDA Director General and holds the distinction of being a member of the Monetary Board for three terms now;
2. **Mr. Raul Boncan...** A lawyer and former trade & industry Undersecretary, banker, professional manager, and businessman;
3. **Mrs. Juanita Amatong...**An economist, educator, and former Finance Secretary, the first woman to hold this important post;
4. **Mrs. Nellie Favis-Villafuerte...**A lawyer, prolific writer, and former Undersecretary of Trade and Industry;
5. **Budget Secretary Romulo Neri...**educator and former Director General of the National Economic and Development Authority and of the House of Representatives' Congressional Planning and Budget Office; and last but not the least;
6. **Mr. Alfredo Antonio...**a professional manager and banker, former CEO of the Development Bank of the Philippines and the Subic Bay Metropolitan Authority.

Ladies and gentlemen, we are the members of the Monetary Board....and we welcome all of you to our traditional annual reception

As you may have noticed, we also have non-banker guests this is our way of saying thank you to the other sectors of our society who work with the Bangko Sentral ng Pilipinas in the pursuit of its mandate to ensure stable prices and a sound banking system .

An Overview of 2005

All of you present here tonight are our stakeholders and we are happy to report to you that.... Even in the face of a challenging year marked by record high oil prices, rising global interest rates, political tremors and credit rating downgrades, we ended 2005 on a clearly upbeat note among others:

- Our economy continued to grow;
- We contained inflation at single-digit levels even with runaway oil prices;
- the cost of doing business remained benign with a steady downtrend in interest rates, based on 90-day t-bill rates;
- The peso emerged as best performing currency in asia;
- Capital adequacy ratio of banks remained well above the international benchmark;
- The asset base of the banking sector sustained its growth;

- Asset quality of banks continued to improve with single-digit non-performing loan ratio;
- Our poverty alleviation program through microfinance was recognized as excellent by the united nations, making us one of only three asian nations given that distinction;
- OFW remittances hit their highest level;
- Foreign investment inflows continued to rise;
- A higher-than-expected bop surplus was registered;
- International reserves hit record-high levels; and
- The revised value added tax and sin taxes, accompanied by stronger tax administration efforts are showing positive results. If both fiscal discipline and higher revenues can be sustained, there is good reason to expect a balanced budget by 2008

In other words, ladies and gentlemen, we are off to a good start in 2006

For this, we must also acknowledge the significant contributions of my predecessor.... Former Bangko Sentral Governor Rafael Buenaventura.... As well as the other members of the Monetary Board during his term friends, Governor Paeng could not be with us tonight but let us applaud him and his MB members as a way of saying thank you for their unwavering commitment to initiate necessary reforms in our financial sector.

What's in store in 2006

The new year gives us a fresh opportunity to do things better, not only for our respective institutions but also for our country

Of course, you and I know we have a long way to go before we can truly say everything is... a-ok more than anyone, you know. Our economic fundamentals: our strong points.... As well as other areas requiring more attention

In our case, it is critical for the Bangko Sentral ng Pilipinas to keep an eye on the risks to inflation and to make such risks clear to the markets and the general public our main focus is to ensure that we achieve our inflation target, keep the public's inflation expectations anchored and manage the growth in domestic liquidity

The Development Budget Coordinating committee is looking at a real GDP growth rate of 5.7 percent for 2006, with growth driven by services, industry, and agriculture which stands to benefit from better weather conditions.

The main risk we see for domestic demand is high oil prices, which have already taken some of the buoyancy out of consumer spending last year rising oil prices also continue to be the key source of risk to inflation, although the strong peso and the easing of food prices should help balance inflationary risks .

While inflation may range from 7.5 to 8.2 percent, we see a downward trajectory given expectations of an easing of oil prices from peak levels in 2005 and a short-lived impact of the revised vat on prices of goods and services .

Market interest rates are also expected to benefit from ample liquidity, improving fiscal performance, and better prospects for our sovereign credit rating at the same time, our external position is likely to continue to benefit from dollar inflows from remittances and investments with healthy inflows, the peso is likely to remain generally stable in the course of the year .

Challenges and strategies

In the months ahead, the task for economic managers will be to strengthen the economy in the short term....and to preserve the momentum for economic reforms that will sustain growth in the long term. At the BSP, our job will be to be more steadfast in fighting inflation and reforming the financial sector .

In the area of banking supervision, our focus will be on reducing the stock of non-performing loans with the help of congress in extending the SPV Law; enhancing the prudential regulatory

environment of the banking system to align it with international standards and best practices; strengthening corporate governance standards and market discipline mechanisms; developing the domestic capital market further; enhancing the payments system; and improving the BSP's supervision technology and capacity .

In the pipeline are the issuances of the guidelines on the implementation of Basel II Accord, and the new financial reporting package in line with the adoption of international accounting standards. While there will be initial friction costs related to the transition, these will strengthen the banking system for the long haul .

To speed up the development and deepening of the domestic capital market, the BSP will continue to work with other government agencies and the private sector for the completion of critical market infrastructure to further enhance system integrity and overall market confidence

And in response to the need to further enhance financial information critical to investor decisions, BSP will also continue to work on the establishment of rating agencies, highlighting their role particularly in the conduct of banks' risk management in addition, we continue to work with Congress on the creation of a centralized credit information bureau system to help private enterprises get better access to credit, reduce borrowing costs, and minimize the risk exposures of financial intermediaries.

Similarly, we will continue to work with market players to widen the investor base for domestic financial instruments.

All these reforms require the support and cooperation of the banking sector the BSP therefore takes heart in having in the banking community a responsive partner and support force in shaping the future of our financial system .

A special advocacy for the Bangko Sentral ng Pilipinas is our National Coin Recirculation Program. In this regard, we are particularly pleased that tonight, the entire banking sector is expressing its support for this crucial advocacy that stands to benefit consumers, retailers, banks, and the BSP

In particular, we are happy that the Bankers Association of the Philippines, the Chamber of Thrift Banks, the Rural Bankers Association of the Philippines, the Bank Marketing Association of the Philippines, and the Philippine Retailers Association have declared their full commitment to support our Coin Recirculation Program under a Memorandum of Agreement for this purpose .

We are also pleased that Archbishop Gaudencio Rosales of the hugely successful Pundok Pinoy, our inspiration for our coin program, is here with us to sign a Memorandum of Agreement for the servicing of its coin deposits. Under the adopt-a-parish program of the Bankers Association of the Philippines, there are initially three participating banks: Bank of Philippine Islands, Metrobank, and Equitable-PCIBank

Ladies and gentlemen, this is definitely a fine way to start the new year: committing to work together for the greater good.

Indeed, the translation of the final outcome of our reform programs should be sustainable growth and development to the man on the streets, it is jobs and income to the nation, peace and prosperity these are goals we should all work for the cooperation of everyone is of utmost importance.

With your continuing support, we are confident of achieving greater gains in reforming and energizing the economic and financial system, as well as in keeping the transmission mechanism of monetary policy in high gear .

Finally, on behalf of the Monetary Board and our co-workers at the Bangko Sentral ng Pilipinas, I wish all of you a fruitful, meaningful and a hugely successful new year!

Marami pong salamat thank you all.