

Amando M Tetangco Jr: Outlook on the country's economic condition and the role of information technology to uplift economic growth

Speech by Mr Amando M Tetangco, Jr, Governor of the Central Bank of the Philippines, at the Induction of Officers of the Philippines Electronics and Telecommunications Federation, Inc. (PETEF) and the Information Technology Association of the Philippines (ITAP), Makati, 13 March 2006.

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Good evening, ladies and gentlemen.

I am honored and pleased to be a part of tonight's event - the joint membership meeting and induction of the officers of the Philippine Electronics and Telecommunications Federation, Inc. (PETEF) and the Information Technology Association of the Philippines (ITAP). Congratulations to all of you. Special thanks should go to Miss Cynthia Mammon, ITAP's indefatigable Director and Chair for Events, whose persistence in finding a suitable schedule for us has caused my being here tonight possible.

Your two organizations, under the leadership of your presidents, Mr. Renato Garcia for PETEF and Ms. Dittas Formosa for ITAP, together, play a pivotal role in the fulfillment of the government's thrust to harness the benefits of the phenomenal improvements in Information and Communications Technology or ICT.

Information has always played a vital role in our history. Society has used information to gain a more accurate picture of any situation it is in, make better decisions for the future, and improve the quality of life in general. But never before has information been more accessible than it is now.

To illustrate, let me quote Bill Clinton, the 42nd President of the United States speaking at the announcement of their Next Generation Initiative in 1996. Mr. Clinton said, "When I took office, only high energy physicists had ever heard of what is called the world wide web... Now even my cat has its own page!". That, was only a little over 10 years ago. Since then computers have progressively become smaller, more powerful, and more affordable. We are now linked by cell phones, fiber optic cables, the internet, and and satellites. One can access information about almost anything (even about Bill Clinton's cat) with just the flick of a button.

Increased accessibility of information as we are now experiencing, however, is not the end. Information and the manner in which it is disseminated must be employed for useful, productive purposes and attuned to economic development.

Objective

For tonight, I would like to begin by situating us in terms of the monetary, external and banking sectors of the economy. Then I would like to make a few suggestions for areas where I believe ICT can be most useful in the context of these sectors of the economy.

Business outlook

Based on the most recent business and consumer surveys of the BSP, both the business sector and the households continue to be positive on the economy and anticipate better times ahead for us. The sustained appreciation of the peso, lower interest rates and the improved fiscal position as well as the favorable employment conditions here and abroad are reasons cited by the business sector for its confidence and Filipino household for their heightened willingness to consume more.

On the inflation front - the February inflation rate of 7.6 percent, although higher than the January figure, is within the BSP's forecast range for the month. Thus, the rate is still consistent with our projected path for inflation, which shows a decelerating trend beginning the second half of 2006. This and the prevailing conditions in the economy have provided a room for the BSP to keep its policy rates steady during last week's policy rate setting meeting.

Now moving on to an area, which I know everyone has a keen interest in – the peso. Our outlook for that continues to also be positive, given that the underlying sentiment prevailing in the market remains constructive, arising from the sustained healthy economic fundamentals and the successful implementation of key economic reforms. These improvements in the external sector have allowed us

to build up the country's gross international reserves to over USD 20 billion for the first two months of the year, which is sufficient to cover 4.3 months of imports of goods and payments of services.

On the banking sector – we continue to push towards the clean up of banks' balance sheets. The latest NPL ratio of banks remains at single digit level, 8.4 percent. In addition, we continue to pursue the extension of the SPV Law that will enable banks to further off-load non-performing assets to the market.

Role of Information Technology to uplift economic growth. Given this upbeat scenario, what role do I see for ICT in fostering economic growth?

E-reportorial requirements

Let me begin with the banking sector. Since the enactment of the e-commerce law in 1999, the BSP has taken to task the promotion of electronic transactions. We began by simplifying bank reporting and providing guidelines for the electronic transmission of the same to the BSP. We have systems in place for the electronic transmission of reports to us not only by the big commercial banks but the thrift and rural banks as well. In order to better appreciate the reports and data gathered from the banks and utilize these to supervise them in a more proactive way, the BSP embarked on a data warehousing project. To fully automate the project, the BSP is procuring an integrated financial reporting portal system that will allow BSP-supervised banks to send/upload reports to BSP and retrieve/download processed reports from BSP using mutually acceptable secured channels of communication.

Reaching out to the rural areas

An area that your association may be of help to us in this regard is encouraging through your education campaigns and drives the smaller thrift and rural banks to be more e-savvy. There are over 700 rural banks scattered all over the country but only about half have email facilities and about the same number have in-house developed systems. You may want to consider e-enabling the regional areas as there is already a heavy concentration of applications in the mega-metro manila area and other major cities.

For the BSP's part we developed the "Integrated Regional Information System" (IRIS) which allows the branches of banks in the countryside to conduct electronic transactions with BSP such as cash deposit, withdrawal, FX purchase, peso exchange, and rediscounting of loans and payments. IRIS has been implemented in three BSP regional offices and 5 regional units, and is expected to be fully deployed in the remaining BSP branches by the 3rd quarter of 2006.

IT risk management

With the increasing applications of technology to banking services comes increased exposure of banks to technology-related risks, including operational, reputational, and strategic risks. To help mitigate these, the BSP recently put out guidelines for technology risk management. The BSP established these guidelines to ensure that the knowledge and skills necessary to understand and effectively measure, monitor and control these risks are in place.

Anti-money laundering efforts

In addition to risk management, you may also partner with financial institutions in the anti-money laundering efforts of the government. Under the Anti Money Laundering Act, as amended (AMLA), covered institutions, i.e., financial institutions that are supervised by the BSP, the SEC and the Insurance Commission, are required to electronically report to the AMLC all "covered and suspicious transactions". While the AMLC has established its own Monitoring and Analysis Systems (TMAS) to receive, analyze and store all prescribed e-reports to the AMLC, banks still hold all the other necessary information on their clients beyond the reporting requirements of AMLC. Covered financial institutions may be looking for partners to assist them in developing systems that will create an environment which would institutionalize red flag indicators for suspicious transactions, and thus facilitate not only their reporting to AMLC, but also their own internal surveillance requirements.

These are just some of the recent undertakings in the banking and financial sector where you may find that your collective expertise as associations could be employed.

Business opportunities: e-marketing

I mentioned at the beginning of my talk that the BSP's recent surveys show optimism from both the consumer and business sides of the economy. Your associations should be able to build on that. I sincerely believe that the optimism in these sectors, and in the marketplace in general, is getting more deeply entrenched. And you should harness that.

A particular advocacy of the BSP is micro-finance. Recently, because of the good repayment experience of banks from micro-finance lending, banks have increased exposure to this segment of borrowers. The extension of loans for micro-finance has ceased to be the monopoly of thrift and rural banks, as the big commercial banks are now finding out that lending to micro-finance and SME's is very profitable.

You have a great role to play here. You can connect the artisans and cottage industries to the market place. An example of this successful use of the ICT as cited by the United Nations is a Filipino website, Global Echo, which sells not only quilts and blankets woven by women in the rural areas, but also teaches other developing countries to use the internet to become more self-sufficient and eliminate middlemen in reaching their markets. There are many other similar applications where you could partner with financial institutions.

Conclusion

As I have painted a positive picture of the economy to you, I challenge you here tonight to maximize the benefits of Information and Communication Technology, by e-enabling a greater part of our nation, reaching out not only to the obvious and traditional markets but enlarging your scope.

Your associations, more than any other, know that the government cannot do everything. We need partners that can assist us not only directly through the areas that I have outlined before, but also indirectly through the crafting of enabling laws that would foster an environment that would encourage ICT to flourish positively.

Let me end with a quote from noted author, Sir Arthur Clarke, "Any sufficiently advanced technology is indistinguishable from magic." Ladies and gentlemen, I am excited to see that time when we would have fully seized the benefits of information technology, for then it would be truly "magical".

Once again, my warm congratulations to the officers of PETEF and ITAP. Magandang gabi po sa inyo at mabuhay tayong lahat.