

## **Amando M Tetangco, Jr: The BSP @ 14 – moving with the power of one in the service of the Filipino people**

Speech by Mr Amando M Tetangco, Jr, Governor of the Central Bank of the Philippines (Bangko Sentral ng Pilipinas), at the BSP 14th Anniversary, Bangko Sentral ng Pilipinas, Manila, 3 July 2007.

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Members of the Monetary Board, fellow central bankers, special guests. Magandang umaga po at maligayang anibersaryo sa inyong lahat!

We are celebrating the 14th birthday of our institution. Kaya naman, dapat bati-in muna natin ang Bangko Sentral ng Pilipinas ng malakas at masayang, Happy Birthday!!!

Ladies and gentlemen of the Bangko Sentral, there are, indeed, many reasons why we should be happy.

Ang pinaka-mahalaga po dito ay ang matagumpay nating pagtupad sa ating tungkulin bilang central bankers ng ating bansang Pilipinas!

To be objective about it, let us evaluate how we performed on the basis of each of the three pillars of central banking.

First, on monetary policy. Did we have a responsive and effective monetary policy? In the last two years, we sharpened our inflation targeting framework and stayed true to our mandate to maintain price stability. We enhanced our capacity to analyze information, increased transparency in our communication with markets, and aligned our policy framework with international norms.

By any standard, we did quite well insofar as our monetary policy is concerned. In fact, even as oil prices breached record high levels, we managed to tame inflation at low and stable rates: In June 2005, our inflation rate was 7.6%; last May, it had dropped to 2.4%, a level comparable to those in developed countries.

Second, on banking supervision. As the central monetary authority of the country, our responsibility is to provide pro-active leadership to bring about a “strong financial system conducive to a balanced and sustainable growth of the economy.” Effective banking supervision as well as responsive policies and programs are key to this task.

Overall, we continue to perform well in this regard. The banking system has been projecting overall soundness: better capitalization; lower non-performing loans; steady expansion in deposits; and better profitability resulting from more efficient bank operations. For instance, return on equity of banks moved up to 10.6% in 2006, compared to 8.8% in 2005. In addition, bank lending is now expanding at double-digit rates.

Beyond banking reforms, the BSP has also actively promoted the development of the domestic capital market to provide alternative and more diversified funding sources for the economy’s growth requirements.

Our efforts to promote microfinance also continues to bear fruit. Latest available data indicate that outstanding loans of banks engaged in microfinance have reached P4 billion spread out to around 650,000 microentrepreneurs. Even more uplifting is the fact that industrious microentrepreneurs have become bankable, transforming into savers that have accumulated more than P1.4 billion in bank savings!

Third, on our payments and settlements system. The Bangko Sentral has been operating a real-time gross settlements system – which we call PhilPass – that continues to efficiently serve the country’s growing financial system. The value of transactions handled by PhilPaSS was P54 trillion in 2005, doubled to P122 trillion in 2006, and is set to reach a new record this

year, if the first quarter figure of P48 trillion is annualized. Our PhilPass therefore is a vital infrastructure for ensuring the credibility and continuous development of our financial sector.

In other words, fellow central bankers, in spite of some lapses and omissions, we did quite well overall, in terms of our principal mandates.

In addition, continuing profits allowed us to remit, as of May 31 this year, P2.5 billion in cash dividends to the National Government.

Of course, all these did not happen by chance. We were successful because we maintained our focus, we were committed to do our best, and we were united in serving our key stakeholder – the Filipino people. Such is the Power of One.

Fellow central bankers, let us therefore give a big round of applause to the members of our Monetary Board! the Executive Management Sector! the Monetary Stability Sector! the Resource Management Sector & the Security Plant Complex! and, finally, the Supervision and Examination Sector!

Ladies and gentlemen of the Bangko Sentral. Our economy continued to grow in 2006 and expanded by 6.9% in the first quarter of this year, the highest in 17 years! This record growth was accompanied by a strong peso as well as historic low inflation and interest rates. We can rightfully claim, therefore, part of the credit for our sustained economic growth.

In fact, the positive performance of the Bangko Sentral ng Pilipinas has been rightly recognized and commended by third parties. Among others, the Bangko Sentral continues to top the Makati Business Club survey of top performing government agencies; the GSIS gave us an award to recognize Bangko Sentral's pioneering advocacy of good governance; the International Association of Business Communicators gave us an award for communications management for our advocacy program "Tulong Barya Para sa Eskwela"; and in the annual assessment of central bank governors by Global Finance of New York, we received a rating of A minus, one of only six given an A rating.

These are clear milestones. Nevertheless, this should not give us cause for complacency; rather, this should inspire us to work on our goal to become a world-class monetary authority so that we can provide even better service to our country and our people.

But how do we get there? The answer to this question was forged at the Strategic Planning Conference held two weeks ago. We agreed to set strategic objectives and key targets on how we can best respond to the needs of our stakeholders – the Government, banks and other financial institutions, business firms, foreign investors and creditors, as well as households.

In the process of setting these objectives, we matched our central banking pillars with what is relevant to our stakeholders. Addressing the first pillar, we shall continue to implement a forward-looking monetary policy anchored on credible forecasts and risk assessments. With inflation targeting as our framework, we shall keep sharpening our forecasting capability through further enhancements of our inflation forecasting models and understanding better the transmission mechanism for monetary policy in a world marked by globalization and financial innovation .

For the second pillar, our thrust is proactive regulation and effective supervision of banks as well as other supervised and regulated industries. We will continue with risk-based and consolidated supervision, while maintaining a flexible and responsive regulatory framework.

We will also promote healthy competition in the delivery of banking and other financial services to have a wide array of financial products and services accessible to the public. We will also foster competition among banks to reduce remittance charges as well as transparency to encourage overseas Filipinos to use the banking system.

We will continue to push for the development of the capital market, the expansion of microfinance, and the promotion of financial literacy. In this regard, we will continue to work

on legislation that are important to the Bangko Sentral – including amendments to our charter and the Credit Information System Act.

For the third pillar, we will continue to ensure that our PhilPass remains a safe, sound, reliable, and efficient payments system.

We have also set strategic objectives to address BSP's operational efficiency and maintain the public's trust and confidence.

We are of course aware of the challenges facing us on our way to achieving our objectives. For instance, inflation risks remain, in part due to relatively high liquidity growth, as remittances remain strong and growing confidence in the economy brings with it a steady inflow of foreign investments. This is the same "problem of plenty" that faces other countries in Asia.

To address this, we need to be creative and use non-traditional instruments. Last May, for instance, we adopted preemptive measures to absorb liquidity. While it is too early to assess the effect of these measures, initial results are encouraging, and the inflation outlook remains benign even as the economy continues to power ahead.

There is also no let-up in our campaign to encourage banks to strengthen their balance sheets through asset cleanup, capital buildup, and consolidation. This month, in parallel with other countries, the Bangko Sentral starts implementing Basel II, which requires that regulatory capital reflect the risks the banks are exposed to.

We will also continue to innovate and adapt to the changing environment. For instance, electronic rediscounting has reduced processing time for credit applications of banks, including fund releases, from 3 to 5 days to just 5 minutes.

We will also continue to implement our economic and financial literacy program to educate and empower more Filipinos to benefit from the opportunities economic development brings. Our program aims to cover millions of our entrepreneurial poor through our microfinance advocacy; millions of students through the integration of saving and money management in our elementary curriculum in cooperation with the Department of Education; millions of OFWs and their families on growing their money through investments or entrepreneurship; and the general public through a network of economic and financial literacy centers that the Bangko Sentral shall set up. Later today, we will have the symbolic launch of our first economic and financial center at the lobby of our Five-Storey building.

Indeed, we at the Bangko Sentral ng Pilipinas have a long list of things we need to do in the service of our people.

But beyond central banking, I am particularly proud of the men and women of the Bangko Sentral who have always been generous with their time and resources to help others who are in need.

One central banker who exemplified this generosity of spirit and genuine concern for others was Governor Rafael Buenaventura. To honor him and the qualities that make a good BSPer, the Monetary Board has approved a donation of P5 million to the Rafael B. Buenaventura Foundation which will support early detection and treatment of indigent cancer patients.

The generosity of the men and women of the Bangko Sentral is also the reason why, this morning, we are able to turn over to the Gawad Kalinga more than P3 million in donations from the hearts and pockets of BSPers.

And because you have been a blessing to the Bangko Sentral ng Pilipinas, to our country, and to our people, I will now give you the good news you have been waiting for! First, we now have new facilities for BSPers and a new exhibit at our Money Museum. Please take time to enjoy all these.

Second, I am pleased to announce that yesterday, the Monetary Board approved the institutionalization of an annual Performance and Salary Review in lieu of the Merit Increase Award starting 2007, with two components:

Component 1 – annual one step adjustment in the salaries of all employees and officials with performance rating of at least “Satisfactory” in previous year effective January 1 of the year.

Component 2 – Performance bonus in the form of a one-time cash award for those with at least “Commendable” rating in the previous year.

In addition, the Monetary Board also approved the grant of two steps adjustment in salary effective 1 January 2007, in addition to Component 1 of the Performance and Salary Review, limited to the year 2007 grant.

I suggest you call your friendly HR personnel to help in your computation.

Ladies and gentlemen of the Bangko Sentral ng Pilipinas. One thing I can say is this: the Monetary Board and senior management will always be fair in terms of granting the compensation and benefits you deserve as central bankers imbued with the values of patriotism, integrity and excellence.

Keep the faith in your management.