

## **Amando M Tetangco, Jr: Sustaining growth through better access to credit**

Speech by Mr Amando M Tetangco, Jr, Governor of the Central Bank of the Philippines (Bangko Sentral ng Pilipinas), at the Forum of the Central Bank of the Philippines on “Sustaining Growth Through Better Access to Credit”, Manila, 2 March 2009.

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Magandang umaga po sa inyong lahat!

On behalf of the Members of the Monetary Board and my fellow central bankers, I welcome all our special guests and viewers to the Forum of the Bangko Sentral ng Pilipinas on “Sustaining Growth Through Better Access to Credit”.

We have with us today representatives from the different sectors of our economy including the Philippine Chamber of Commerce & Industry and other industry associations; companies of various sizes; entrepreneurs from the micro, small, and medium enterprises or what we call MSMEs; other government institutions; the academe which helps shape policies through rigorous research and studies; NGOs; the media which serves as our link to the general public; and, finally, the banks which remain the principal conduit or source of funds for those who do business in our country.

In other words, ladies and gentlemen, we can look forward to a productive exchange concerning our economy; where and how credit can be accessed; addressing barriers to credit; why achieving and maintaining good credit standing is good for your business; and the role of the Bangko Sentral ng Pilipinas insofar as money, credit, and banking are concerned.

Of course, we have no illusion that this Forum will be able to address all the issues and concerns that will be raised today. In fact, we expect that there will be differences of opinions, of strategies. After all, the shifts in the economic landscape affect industries differently; but if we keep an open mind, and agree to work on these issues, we can move forward together.

But, there is cause for optimism. Ladies and gentlemen, your participation in this Forum is already a clear indication that while we may come from different segments of our society, we share the same goal – to keep economic activities going and growing through better access to credit.

To celebrate this coming together of those who have taken the time to participate in our Forum today, including those who are watching NBN Channel 4’s live coverage at Bangko Sentral’s regional offices and branches and the general public, let us give ourselves a round of applause!

Indeed, given the global economic slowdown resulting from the continuing financial crisis, it is important that we remain united in our efforts to minimize its adverse impact on our country and our people.

Ensuring the availability of market liquidity is a critical element in a comprehensive approach to avoiding a severe slowdown. In this connection, the Bangko Sentral ng Pilipinas has been implementing a series of moves in accordance with this overall thrust to provide better access to credit.

Among others, we have done the following:

- First, we have reduced policy interest rate twice since December 2008 by a total of 100 basis points. In effect, we have lowered the cost of money for banks. This paves the way for banks to charge lower interest rates for their loans and in effect reduce the overall cost of borrowing and doing business;

- Second, we have reduced the deposit reserve requirements for banks by 2 percentage points. This should infuse roughly P60 billion in additional liquidity. Latest information reveal that demand for money remain strong: in December 2008 domestic liquidity grew by 15.6 percent from the previous year. This double-digit growth in domestic liquidity indicates that there are funds available in the system which could be tapped for investment and other productive activities;
- Third, we have opened a US dollar repurchase facility. This is a preemptive move on our part to provide liquidity to the market, not only in pesos but also in dollars. Relevant to this, I wish to report that our country's gross international reserves is at an all-time high of \$39.2 billion as of end-January 2009;
- Fourth, through the "Credit Surety Fund (CSF)" program which it conceptualized, the Bangko Sentral ng Pilipinas has provided leadership in addressing the problem of our MSMEs or our micro, small, and medium entrepreneurs in getting loans for lack of collateral. The Credit Surety Program brings together well-managed and well-capitalized cooperatives with local government units and other donors to provide surety cover, in place of collateral, to guarantee MSMEs' bank loans. The Credit Surety Fund operates at the provincial level and has been launched in Cavite, Aurora, and Bohol. I am happy to report that more provinces have expressed interest in joining this CSF program.
- Fifth, to provide banks better access to additional funds which they can relend to the public, we have increased the budget for our Peso Rediscounting Facility from P20 billion to P60 billion liberalized. Equally important, we have liberalized our rediscounting guidelines. Among others, we have raised the loan value of eligible papers for rediscounting from 80% to 90%. Later on, Deputy Governor Diwa Guinigundo will have a power point presentation that will explain our liberalized guidelines.

Please note that our rediscounting facility also covers microfinance loans, in accordance with our inclusive banking policy. In particular, I am pleased to report that as of September 2008, outstanding microfinance loans of over 220 banks to about 886,000 households have reached nearly P7 billion. Indeed, our policy to provide better access to credit covers the entire spectrum of our economy.

Ladies and gentlemen, the Bangko Sentral ng Pilipinas has implemented these measures to ensure continued normal operation of the Philippine credit markets. What we have done is to act pre-emptively to avoid the credit crunch in the US and Europe that has cut-off companies – big and small – from their traditional fund sources.

In our case, you will be pleased to know that Philippine banks remain liquid and continue to increase their lending in healthy double-digit growth rates. For instance, outstanding loans of commercial and universal banks as of December 2008 were up 17.5 from the previous year. In particular, loans for production activities drove the expansion in bank lending, growing by 18.3 percent in December while consumption loans grew by 13.4 percent.

In other words, the Philippine banking system, which remains the primary source of funds for our business sector, is functioning normally and remains stable in the midst of the ongoing global financial turmoil.

And so, we have the liquidity and enhanced access to credit. What we need to do now is to work together to sustain growth by stimulating economic activity and thereby avoid the negative feedback loop from the global crisis.

We want to see firms continue to sell, households continue to spend, banks get their loans paid, and Government sustains its fiscal efforts to support investments on infrastructure and social safety nets.

While our economic fundamentals here in the Philippines remain sound, there is great urgency in addressing the possible fall-out from the global economic and financial turmoil. In the US, President Obama's government promptly put together the first tranche of their economic stimulus package amounting to \$787 billion. Ladies and gentlemen, losing to time was one of the greatest lessons in public finance of the Great Depression in the United States: when public expenditures were finally in high gear, the four-year Great Depression was about to end. In hindsight, the deep and painful dislocations of the Great Depression could have been mitigated if the government had responded more quickly.

Thus, other countries familiar with this lesson from the Great Depression are moving alongside the US Government to shore up their respective economies, because delayed responses could prove very costly. This includes the Philippines.

In particular, our government has defined a P330 billion economic stimulus program to sustain market confidence and get the economy moving more robustly.

But government alone cannot achieve this. Let us therefore work together to support government's initiatives to keep our economy growing, to continue to grow your business, to protect jobs and to create new employment opportunities for our people. Let us be mindful of the possible effects of a downturn to millions of Filipinos, especially to those who continue to live in poverty.

And even as we come to terms with the reality of a global economic crisis, let us not forget the positive Chinese point of view that sees opportunities in every crisis. Sure, the challenges are big, but there are equally big opportunities in riding them out. At the end of the day, if we remain united, we shall be able to reap the dividends from our concerted, cooperative efforts together.

And so, ladies and gentlemen, today let us renew our commitment to sustain the growth of our economy through better access to credit.

Once again, on behalf of the Members of the Monetary Board – Monetary Board Juanita Amatong, Monetary Board Member Raul Boncan, Monetary Board Member Nellie Favis-Villafuerte, Monetary Board Member Alfredo Antonio, Monetary Board Member Ignacio Bunye and Monetary Board Member Peter Favila, we thank all of you for accepting our invitation to this Forum.

Mabuhay ang Pilipinas! Mabuhay tayong lahat!

Maraming salamat po!