

## **Amando M Tetangco, Jr: BSP and SSS – moving towards a common vision**

Speech by Mr Amando M Tetangco, Jr, Governor of the Central Bank of the Philippines (Bangko Sentral ng Pilipinas), at the SSS anniversary celebration, Quezon City, 1 September 2009.

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Social Security Commission Chairman Thelmo Cunanan, SSS President and CEO Sec. Romulo Neri, Former SSS President and CEO Corazon de la Paz-Bernardo, Distinguished Members of the Social Security Commission, past and present, COA Chairman Rey Villar, other officers and staff of SSS, fellow workers in government, special guests, members of the press, ladies and gentlemen, good morning.

It is a pleasure to be part of the 52nd anniversary celebration of the SSS, the Philippine institution that has 28 million members or nearly one-third of our country's population!

Indeed, the SSS is one of the most important institutions in our country: it is the institution that has been providing support and protection to millions of its members who face financial challenges from sickness, disability, death, maternity, and other contingencies for 52 years now.

This tells us that SSS has been faithful in fulfilling its responsibilities to its members and that, in turn, its members continue to trust SSS with their hard-earned money. For this, the men and women of the SSS, past and present, deserve our appreciation and a long-round of applause! Let us also give a big hand to all the Balikatan ng Bayan awardees who are the exceptional bank partners and top employers that help the SSS achieve its objectives and provide good service to its members. Palakpakan din po natin sila!

Ladies and gentlemen, the continuing stability and strength of the SSS is important not only for its members and employees but also for the economy as a whole.

Among others, each time it extends benefits to its members, the SSS, in effect, reminds them of the value of regularly setting aside part of one's income for the rainy days.

This is important as it is the accumulated savings of our people that enable our banks to sustain lending for economic activities that generate and keep jobs. In turn, the new additions to the labor force keep on expanding the membership base of the SSS.

Banks are also important conduits for the collection of SSS premiums as well as for the distribution of benefits to its members. Clearly, there is synergy between the SSS and our banking system.

Synergy also exists between the SSS and the capital market. From the accumulated contributions of its members as well as earnings derived from its funds management, SSS has become a major market player. I understand that the investment portfolio of SSS as of the first quarter of this year had reached P220 billion. In addition, it has outstanding housing and salary loans of about P3 billion to its members as of March 2009. These are investments that have multiplier effects on the economy.

The SSS is also responsible for the entry of many new individual investors in the stock market when it extended loans to its members for investments in listed stocks.

Moving forward, the state of the economy, employment, the capital markets and the banking system are important factors for the SSS in planning for its future.

I will therefore give a brief overview of how these are developing.

## **Recent global developments**

Let me start with the global economy that is still grappling with the financial turmoil that has triggered the most serious economic downturn since the 1930's. In the US and in Europe, in particular, this has been a period of significant external shocks, financial stress, and, for some, massive loss of wealth and investments.

Fortunately, coordinated response among governments and central banks to address the global financial crisis and the economic recession has been producing positive results. In its latest assessment, the International Monetary Fund noted that the world economy is stabilizing and that there are clear signs that global growth prospects are reviving.

However, the improvements are far from uniform across markets and countries. Furthermore, the recovery is likely to be sluggish, in part because while global financial markets are improving, it is still not back to normal. Thus, global economic recovery will likely remain subdued or muted for some time.

For Asia, there is a growing consensus that growth is likely to solidify going forward. Against this global backdrop, how is the Philippine economy doing?

## **Philippine experience: sustained resiliency**

In the case of the Philippines, the picture is of sustained resiliency. Compared to other Asian countries, the economic slowdown in the Philippines has been relatively moderate. In fact, while neighboring countries slipped into recession, our economy continued to grow, although at a markedly slower pace: 0.6 percent in the first quarter this year to 1.5 percent in the second quarter.

At the same time, inflation continued to ease. From an average of 9.3% in 2008, inflation slowed to 7.1% in January 2009 and declined further to 0.2 percent in July 2009, as prices started to normalize from the spikes experienced in the previous year. Demand remains steady and is expected to pick up. Inflation is seen to stay within its target range of 2.5 to 4.5 percent in 2009 and in 2010 generally in line with the 3.5 to 5.5 percent target.

The continuing benign inflation outlook has allowed the BSP to cut its policy rates by a total of 200 basis points since December 2008. These rate reductions are aimed at bringing down the cost of borrowing and reducing the financial burdens on firms and households. Further, lower policy rates enhance business and consumer confidence that should sustain the momentum for economic expansion.

The BSP is happy to know therefore that the SSS has been lowering its interest rates as well. For instance, I have been informed that interest rates for your business and social loan programs were reduced last July by 0.5% to 1%.

In addition to the cuts in its policy rates, the BSP also moved to ensure sufficient liquidity in the banking system. These liquidity enhancing measures include the reduction in bank reserve requirements by two percentage points and an increase in our peso rediscounting budget from P20 billion to P60 billion. This helped sustain bank lending at double-digit growth rates.

At the same time, continued reforms implemented as lessons learned from the past have kept the Philippine banking sector stable through the ongoing financial turmoil. These include capitalization build-up to levels above international standards, asset clean-up that saw non-performing loans improve to low single-digit figures, and better risk-management practices particularly credit and liquidity risks.

Overall, the consolidated asset base of Philippine banks continues to expand, supported by sustained growth in deposits. Our banking system will therefore remain as a safe and stable partner of the SSS in reaching out to its members across the Philippines.

The country's external payments position also remains a fundamental source of strength to the economy. One important lesson learned from the 1997 Asian financial crisis is the value of building up our international reserves for self insurance. As of end-July 2009, reserves have risen to a record high level of US\$40.0 billion, enough to pay for seven months of imports; this is more than double the global standard of 3 months. This strong external position – supported by robust remittances of overseas Filipinos as well as higher receipts from business process outsourcing -- makes the Philippine economy less vulnerable to the moods and swings of the international financial markets.

The financial markets have also stabilized. Credit spreads have narrowed compared to levels at the height of the financial turmoil; the peso continues to be broadly stable; and foreign buying has boosted the stock market.

Investor confidence has been enhanced further by Moody's upgrade of the country's outlook from "stable" to "positive".

### **BSP's policy actions**

Going forward, the BSP's monetary policy stance will remain appropriately calibrated to support domestic economic activity, but will always be mindful of emerging risks to inflation.

The BSP will also pursue the banking reform agenda to ensure that the banking system remains sound and globally competitive. Key financial and banking sector reforms that would lead to greater efficiency, more effective risk management, stronger capitalization, and enhanced corporate governance standards in the banking system will be sustained.

We are also working for the passage of amendments to the BSP Charter to strengthen BSP's ability to ensure stable prices and a sound banking system and financial stability in the country.

Ladies and gentlemen, the credibility of institutions is anchored on their commitment and ability to pursue their mandate and objectives.

For the SSS and the BSP, the convergence of some of our objectives provides room for collaboration. Financial education is one such area.

The BSP is actively involved in promoting lessons in saving, money management, and investments to help more Filipinos benefit from opportunities development brings and to protect them from getting victimized by scams. Equally important, having more financially-educated Filipinos make for a stronger and more stable banking system, an objective shared by both the BSP and the SSS.

The ability of the SSS to reach out to millions of its members makes it a vital partner for financial education. I hope therefore that we can explore areas for cooperation in expanding the reach of our financial education program. This will provide added support for the efforts of the SSS to improve the quality of life of its members.

And since banks remain the principal channel of the SSS for its premium collections, pension disbursements and other financial transactions, the BSP's efforts to continuously strengthen our banking system will benefit the SSS and its members as well.

In addition, the BSP's initiatives to help develop and deepen the domestic capital market will help provide SSS with wider opportunities for investment diversification.

Finally, the BSP's commitment to price stability will be key in preserving the purchasing power of pensioners and other SSS stakeholders.

We look forward therefore to closer collaboration between the SSS and the BSP.

I also wish the SSS and its other stakeholders a successful partnership that will continue to bring timely and meaningful benefits to its members.

Once again, congratulations to the men and women of the SSS on its 52nd anniversary and its continued success in providing social security for 28 million Filipinos. Mabuhay ang SSS! Mabuhay ang Pilipinas! Maraming salamat sa inyong lahat!