

## **Amando M Tetangco, Jr: Managing external debt, a move to ensure economic growth**

Speech by Mr Amando M Tetangco, Jr, Governor of Bangko Sentral ng Pilipinas (the central bank of the Philippines), at the launch of the Foreign Loan Approval and Registration System (FLAReS), Manila, 20 March 2012.

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I wish to thank everyone for joining us today for the launch of FLAReS or the Foreign Loan Approval and Registration System. This is the newest BSP electronic innovation and is part of our continuing efforts to enhance the delivery of services to our stakeholders.

### **The vision**

Through the years, the BSP has consciously and progressively adopted measures to move towards a paperless system. Taking advantage of the prevalence of the internet and the robustness of the PhilPass, the FLAReS project certainly takes us another step closer to this vision.

As you saw from the presentation of the operational highlights, FLAReS will facilitate the submission of applications for approval and registration of loans via the internet... Payment of processing fees will likewise be more convenient, using the branch network of participating banks.... Finally, participants will be able to monitor the status of applications online... It is our expectation therefore that FLAReS... in addition to improving operational efficiency... will also move us towards greater transparency in our delivery of services to stakeholders.

Today, FLAReS is realized because of the active partnership of a select group of banks – Banco De Oro, Bank of the Philippine Islands, Land Bank of the Philippines and the Philippine National Bank. .... I would also like to express our appreciation to the public and private sector borrowers who provided useful feedback and cooperated in the pilot testing of FLAReS. ....Of course, this project would not be possible without the creative ideas and critical support of the officers and staff of the Bangko Sentral ng Pilipinas who collaborated to see the project to its completion, particularly the International Operations Department under the International Sub-Sector, the Information Technology Sub-Sector, the Payments and Settlements Office, and the Financial Accounting Department.

### **The reason**

The launch of FLAReS is indeed quite timely, in light of all the developments in external debt dynamics across the globe. While I don't believe the Philippines is about to enter any kind of external debt crisis... any time soon....I believe now is a good time to take stock... and be reminded (through the experiences in other jurisdictions) of the possible consequences – both intended and otherwise – of a country's cumulative decisions and actions with respect to debt...

It is also wise for a country to institutionalize governance practices that would precisely avoid such a crisis... during a time when such is the least of the country's concerns.

### **The season**

The Philippines is in a good spot today. As can be gleaned from major external debt indicators, the BSP has been successful in its debt management efforts. Key ratios such as Gross International Reserves to Short-term Debt, Outstanding Debt to Gross National Income and Debt Service to Foreign Exchange Receipts have consistently strengthened,

indicating the country's sustained and improving ability to meet maturing obligations. We have recently announced that our gross international reserves have reached an all-time high of US\$77.7 billion as of February 2012. Relative to short-term debt, our current GIR can cover nearly 11 times our short-term debt under the original maturity concept, and about 7 times using the residual maturity concept.

At 27.5pct, our external debt to GDP has been on a downtrend during the past decade. It is now less than half its high over the 10-year period of 68.6pct in 2003.

Likewise, the maturity of our external debt has been lengthened, with close to 90 percent of our external debt being long-term. .. The average maturity is now about 22 years.

The debt service ratio (or the amount of principal and interest payments due relative to exports of goods and receipts from services and income) has dropped from 15.7 percent in 2001 to only 8.4 percent by November 2011, or less than 10 cents per dollar of income.

By all indicators, therefore, the Philippines is well-positioned to adopt these changes.

### **The champion**

You may ask, why is the BSP taking on FLAReS? Well, quite simply, external debt management is part of our mandate as the central monetary authority.

The Bangko Sentral is mandated by the Philippine Constitution and other pertinent laws to manage the country's external debt. Our objective is to keep outstanding obligations at prudent levels so that these can be comfortably serviced by the economy in an orderly and timely manner.

In pursuit of this mandate, the Bangko Sentral coordinates with other government agencies, and employs various debt management tools. These tools include an approval and registration process which is being implemented by the International Operations Department, and is instrumental in directing externally-sourced funds to priority areas for development and influencing the impact of borrowings on the profile and structure of total external debt.

A continuing review of Bangko Sentral regulations governing external debt and other foreign exchange transactions is likewise undertaken to keep our rules attuned with current global and domestic conditions and to foster a regulatory environment that supports the objective to achieve inclusive growth for the country.

In all these undertakings, a good monitoring system is indispensable. FLAReS allows us to perform all these with relative ease and accuracy.

### **Conclusion**

I have, on a number of occasions in the past, said that the Philippines managed to "survive" today's crisis, because we purposed to invest in the reforms yesterday.... And today, ladies and gentlemen, we add FLAReS to the list of governance reforms we have instituted.

As we enlist public and private sector entities to enroll in FLAReS and encourage more banks to participate, it is my hope that FLAReS would indeed help us better manage our external debt. In turn, I hope this will ensure and protect our desired trajectory of sustained higher economic growth.

Maraming salamat sa inyong pagdalo at pakikinig.