

Amando M Tetangco, Jr: Bangko Sentral ng Pilipinas at 20 – past progressive, future perfect

Speech by Mr Amando M Tetangco, Jr, Governor of Bangko Sentral ng Pilipinas (the central bank of the Philippines), at the 20th Anniversary of BSP, Manila, 3 July 2013.

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Magandang umaga sa inyong lahat!

And Happy Anniversary to everyone!

Fellow BSPers, today marks the 20th year since the creation of the Bangko Sentral ng Pilipinas. And the theme for our simple celebration is “Past Progressive, Future Perfect.” This echoes the familiar saying of our wise forefathers. Ang sabi nga ng ating matatanda: “Ang hindi marunong lumingon sapinang-galingan, hindi makara-rating sa paro-roonan.”¹

Today’s occasion therefore is not only a tribute to the history of central banking in the Philippines; it is also an invitation for us to reflect on what we have accomplished together and how to move team BSP forward.

A clean slate²

Central banking in the Philippines dates back to 1949 with the creation of the Central Bank of the Philippines or the CBP. It was given several mandates: to conduct monetary policy; to supervise financial institutions; to foster credit and exchange conditions conducive to economic growth; and to administer special development financing programs to help promote economic activity.

In the 1980s, the CBP bore the staggering cost of restoring market confidence from a severe balance of payments crisis; losses from the administration of special development financing programs for what were considered priority growth sectors; and the difficulties of high and rising inflation amid ballooning government budget deficits.

It was then that policy makers realized that macroeconomic stabilization will be better served if the central bank is not burdened with too many mandates.

Thus, in 1993, Republic Act No. 7653 created the Bangko Sentral ng Pilipinas and mandated it to pursue one primary objective: to maintain price stability, consistent with the promotion of balanced and sustainable economic growth. In addition, the BSP was given fiscal and administrative autonomy.

The country reaped early dividends from the change. Under its monetary aggregate targeting framework in the 1990s, the BSP ensured that liquidity and credit remained adequate to support economic activity. This was complemented with initiatives to further deregulate financial markets and liberalize bank branching.

Consequently, GDP growth accelerated steadily, while inflation eased gradually from the double-digit rates of the seventies and eighties. And the Philippines started to be recognized as one of the new tiger economies of Asia.

But the good times did not last. In 1997, the Asian Financial Crisis came. Fortunately, the Bangko Sentral had instituted structural and banking reforms by then. These reforms sustained Philippine banks through the crisis in spite of higher problem loans.

¹ “He who does not look back to where he came from will never see his destination.”

² Various CBP and BSP Annual Reports; Lamberte, M. (2002) “Central banking in the Philippines: Then, now and the future”. PIDS Discussion Paper 2002–10.

The 1997 crisis taught the BSP three important lessons: one, that a transactional approach to banking supervision that emphasizes individual bank compliance to regulations is not sufficient to mitigate system-wide risks; two, that interest rate deregulation and financial innovations eroded the traditional link among money, output and inflation; and three, that a strong financial system needs to be supported by an efficient payment system.

Thus, in the years that followed, the Bangko Sentral pursued with great vigor more banking and structural reforms. These have resulted in what we now know as risk-based supervision, inflation targeting and real-time gross settlement or the Philpass.

Fast forward to 2013, and we see just how far the Bangko Sentral and our economy have come. The economy has more than doubled in size from 20 years ago. In the first quarter this year, the economy expanded at a rate of 7.8 percent – the fastest in the region. At the same time, inflation has fallen to historic lows and within-target levels for four consecutive years now. The gross international reserves at more than \$82B can now cover almost one year of imports of goods and services. The banking system's NPL ratio is less than 2 percent and capital at 17 percent is more than double the international standard of 8 percent. The payment system is robust, processing an average of P1.5T worth of transactions daily, 11 times more than the daily value just 10 years earlier.

In addition, the Bangko Sentral's financial inclusion and financial education program continues to inform, protect and empower Filipinos. In fact, our regulatory framework and various initiatives for microfinance continue to earn recognition as among the best in the world.³ Meanwhile, our economic and financial learning programs reach out to the general public, including our OFWs and the youth, to encourage them to save, invest and become financially secure. And by the way, similar programs on personal finance are being offered to BSPers.

Given the stakes involved, your management continues to make investments in our people, infrastructure, processes and technology. As approved by the Monetary Board, support is given to BSPers for further studies here and overseas as well as international professional accreditation to develop required competencies and increase our corps of world-class experts.

The program to improve the work environment of BSPers across the country continues to show visible results. I also hear of many success stories concerning our health and wellness programs.

And we are proud that we continue to align our internal process with global best practices. For instance, we now have 25 BSP units whose management systems are certified under ISO standards.

Fellow central bankers, we have been able to achieve all these as a result of the collective work of each and every employee of the Bangko Sentral, past and present.

For this, let us thank the two Governors who came before me. Individually, they were recognized as among the world's best governors. Together, they strengthened the foundation that has allowed us to develop the Bangko Sentral ng Pilipinas into what it is today. Fellow BSPers, let us salute and honor Governor Gabriel Singson and Governor Rafael Buenaventura.

³ For four years in a row (2009–2012), the Economist Intelligence Unit's global survey has ranked the Philippines as number one in the world in terms of policy and regulatory framework for microfinance. The Philippines is also consistently ranked at the top ten for having a good microfinance business environment. The survey also noted the initiative of the microfinance industry to establish Microfinance Data Sharing System (MiDaS), which is a microfinance credit bureau that identifies delinquent borrowers with the ultimate objective of client rehabilitation.

Let us also thank the Members of our Monetary Board for their wisdom, patience and admirable sense of fairness: Finance Secretary Cesar Purisima; Alfredo Antonio; Ignacio Bunye; Peter Favila; Felipe Medalla; and Armando Suratos.

Let us also recognize our inspiring and brilliant Deputy Governors: Nestor Espenilla from the Supervision and Examination Sector; Diwa Guinigundo from the Monetary Stability Sector; and Vicente Aquino and his immediate predecessor Juan de Zuñiga, Jr. from the Resource Management Sector.

Finally, I thank all of you my fellow BSPers for doing your work with responsibility, integrity and tenacity. Whatever we have achieved, we achieved as members of team BSP.

Fellow BSPers. As we continue our journey amid constant shifts in the national and global landscape, the path before us seem challenging. Nevertheless, with the lessons learned and the expertise we have gained in our first 20 years, I am confident that we will continue to deliver on our mandate.

This is the reason why I accepted a second term as your Governor, two years ago. I have faith in the capability of BSPers. At that time, I laid out before you a 6-point agenda that would enhance the BSP's credibility and effectiveness as a monetary authority and with it help chart a smoother course for the economy to sustain balanced growth. How have we fared? Well, we have achieved some measure of success in each of these, as evidenced by our strong macrofundamentals.

Nevertheless, these tracks remain relevant; we should continue to work on them. Briefly, our 6-point agenda is as follows:

1. A well-informed and grounded monetary policy framework.
2. A responsive and adaptive banking regulatory and supervisory framework.
3. An efficient and effective payment and settlement infrastructure.
4. An empowering and sustainable financial inclusion program that includes relevant financial access, wide-reaching financial education and strong financial consumer protection.
5. Thought leadership in the regional and international fora; and
6. Operational efficiency and effectiveness.

Ladies and gentlemen. The environment we operate in is not static; it is dynamic.

Among others, we are faced with the unwinding of easy monetary policy in advanced economies, which if it becomes disorderly could have serious spillover effects on our economy. At the same time, the threat of unbridled market exuberance could create imbalances in asset markets that could adversely impact the banking system's ability to effectively intermediate funds. On the other hand, advances in information technology have encouraged the emergence of newer payment channels such as mobile banking, that if not regulated properly could undermine the credibility of our payments and settlements infrastructure.

Meanwhile, population growth continues to challenge our programs on financial inclusion, education and consumer protection. The challenge before us is to translate our gains at the macro level down to the grassroots.

Fellow BSPers, all these measures and courses of action are bound to weigh heavily on the resources of the Bangko Sentral. We need therefore to find more efficient ways to use our resources in the pursuit of our mandate.

More fundamentally, some of the provisions of our Charter could be revisited to make it more relevant and responsive to present conditions. The BSP will continue to work with Congress in this regard.

Looking ahead

Fellow BSPers. Our journey has not been without its challenges, but together we have managed to transform the BSP closer into a truly world-class central bank. The signs say we are on the right path: Just this April, the BSP was hailed at the Asian Banker Leadership Achievement Awards as the Best Macroeconomic Regulator in the Asia Pacific Region.

Of course, our pursuit of excellence is not motivated by public recognition or awards. We pursue excellence because it is THAT level of public service that will help improve the lives of Filipinos, our ultimate stakeholders.

Tama ba?! I am glad you agree.

And now, for my final question. BSPer ka ba?

Ako rin. I am a proud BSPer.

To me, BSPer stands for Bangkero Sa Pilipinas na Excellent and Resilient!

Ladies and gentlemen. You all make me proud to be a BSPer.

On behalf of my wife Elma, and the rest of our family I thank all of you for making my journey as a BSPer truly worthwhile and deeply fulfilling.

Mabuhay ang Bangko Sentral ng Pilipinas! Mabuhay ang ating mahal na bansang Pilipinas!

Maraming salamat sa inyong lahat!