

Amando M Tetangco, Jr: The BSP and the banking industry – weaving a story of growth and development

Speech by Mr Amando M Tetangco, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the Annual Reception for the Banking Community, Malate, 23 January 2015.

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On behalf of the members of the Monetary Board, your other hosts for tonight: Finance Secretary Cesar Purisima (who is currently on official mission abroad), Freddie Antonio, Phillip Medalla, Andy Suratos, Juan de Zuniga and Val Araneta, I thank all of you for accepting our invitation.

This marks the 10th year that I am welcoming you to the Fort San Antonio Abad for the BSP's Annual Reception for the Banking Community. This is the only time in a year that the BSP hosts in one event, the leadership of the Philippine banking industry – from the universal and commercial banks to the thrift banks and the rural banks – in a multi-sectoral gathering. After all, the banking industry serves the cross section of our society. In other words, all of us here have a stake in the banking sector, a very important pillar of our economy.

As in the past, I will briefly review how we fared last year, discuss how we see the operating environment for this year, and share how we can move forward together to achieve even better results.

Review of 2014

Well, 2014 certainly turned out to be a good year for the Philippine economy in general and for the banking sector in particular, although it did not start this way.

About this time last year, we were faced with significant capital outflows and as a result, the peso came under strong depreciation pressures. In May to August, inflation spiked to levels that threatened the attainment of the government's inflation target. In addition, losses from a series of natural disasters slowed our economy. GDP grew 5.8% in the first three quarters last year, slower than in the comparable period in 2013. Even so, the Philippines still emerged as one of the fastest growing economies in the region.

Indeed, our country's underlying story of resilience remained intact through the challenges of 2014 with continuing economic and governance reforms keeping us on the growth track.

On our part, the Bangko Sentral implemented preemptive and sequential monetary and macroprudential policies that helped keep inflation expectations in check and financial market exuberance at bay.

As a result, average inflation settled at 4.1 percent – this is the sixth year in a row that we kept inflation within the government's target range.

The peso remained relatively stable. And while our Balance of Payments showed a deficit due to capital outflows influenced by the Fed's decision to end quantitative easing, our current account remained in surplus from strong remittances and receipts from exports and BPOs. This brought our foreign exchange reserves to nearly \$80 billion, sufficient to cover over 10 months' worth of imports of goods and payment for services. This provides a critical buffer against potential external shocks.

Underpinning the sustained growth of the Philippine economy is the strong performance of our banking system. Double-digit growth rates in lending continued to support economic activities, as public confidence in banks sustained the rise in deposits to record high levels.

The confidence is well deserved. For instance, even as lending continued to grow, commercial and universal banks maintained the quality of their loans, with NPLs as of September at 2.04% – the lowest since December 2009. Certainly, we are seeing better governance, better management and more investments in technology and capacity building from Philippine banks.

Equally important, our stress tests indicate that our banks have enough capital to withstand extreme shocks in credit and market risks. Indeed, the accelerated adoption of Basel 3 capital requirements beginning January last year is a measure not only of the strength of our banks – it is a measure of the commitment and the readiness of our banks to help foster overall financial stability.

Philippine banks are also becoming more financially inclusive. We are witness to their increasing involvement in financial education, the growing number of new deposit accounts starting with children, the greater use of electronic money, the expanding size of the country's microfinance portfolio and the wider coverage of our automatic teller machines or ATMs.¹

I am happy to share the good news that next week, the Bankers Association of the Philippines, Bancnet and Megalink will formalize the consolidation of the two ATM networks. This is a milestone we have been looking forward to on the way to the greater goal of establishing a National Retail Payment System (NRPS) that will achieve inter-operability, efficiency, security and inclusiveness in the way we settle financial transactions.

Indeed, the Bangko Sentral ng Pilipinas is pleased that the banking community is fully engaged with us in the implementation of prudent and systematic banking reforms.

I can say that today, our banking system is sound, profitable and stable; it is responsive to the needs of the economy; it is responsible in managing the funds entrusted to them by their customers; and it is increasingly inclusive. Ladies and gentlemen of the Philippine banking sector, well done! Congratulations!

Our banks are also highly rated by independent analysts. In 2014 for instance, Philippine banks received awards and recognition for various categories that are just too many to mention here. In the interest of fairness therefore, I will desist from naming any such awards. Suffice it to say, that people take note of these awards which should help define your bank as we prepare for the opportunities and challenges that come with ASEAN Integration.

In addition, it is a source of pride for us that when Moody's assessed 69 jurisdictions in 2014, it concluded that only the Philippine banking system deserved a positive outlook – only one out of 69.

Outlook

Given all these, what is in store for us in 2015?

As policymakers of the National Government see it, our economy will grow by 7–8 percent in 2015 while the inflation target is at 2 to 4 percent.² Other institutions and analysts project lower numbers for growth. But there is one thing they have in common – the view that the Philippines will continue to be comparatively buoyant.

However, there are risks that cloud the future.

The continuing uncertainty in the global financial markets is a concern as geopolitical tensions go on and economic performance among major economies remains divergent.

¹ June 2014 Data for Financial Inclusion.

² DBCC Macroeconomic Assumptions (2013–2017), as of 20 June 2014.

For instance, US economic growth continues to gain traction. With this, the market anticipates the Fed will raise the Fed Funds target rate this year. As a result, the US dollar has been strengthening against other currencies.

Apart from the US, however, other major economies are slowing down weighed by debt, unemployment, weak demand and/or geopolitical concerns. These economies are moving toward stimulus programs or quantitative easing. This divergence in monetary policy between strong and weak economies could unsettle markets.

While all of this was happening, the balance of supply and demand in the oil market has triggered a precipitous decline in oil prices.

I have been asked how a stronger dollar and cheaper oil will affect us. Well, a stronger dollar would make our foreign exchange obligations more expensive but, this will be countered by a smaller oil (import) bill from lower oil prices. The drop in oil prices will also ease inflation and benefit consumers. Nevertheless, we need to be mindful of the risk of a sudden reversal in the trend. If low oil prices persist, the economies of oil-producing countries may eventually weaken and adversely affect the global economy.

For certain, there will be pluses and minuses. We could see sporadic market volatility in the interim. Nevertheless, from our experience and track record, it can be said that we are equipped to deal and handle these issues.

Let us also remember that we start 2015 with a credit rating that is two notches into investment grade territory. Higher state spending on infrastructure and the implementation of projects under the public-private partnership program should also provide stimulus for growth moving forward.

I believe, therefore, that even as episodes of stormy weather develop, the Philippine banking community can face 2015 with confidence given its strong balance sheet, solid capital base that exceeds global standards, product innovations, and adherence to international standards for governance and risk management.

Of course, we still need to continue working together on our reform agenda to achieve a more inclusive financial system that promotes inclusive growth, strengthen consumer protection, forestall emerging risks, and ensure financial stability at all times. This is the philosophy that underpins our reform program.

Together, let us craft the way forward to an even better, stronger and more inclusive banking system. Only by doing so can we preserve the gains we have achieved so far. And we do have a long way to go, given that 25% of Filipinos still live in poverty. Of course, there is so much more that our banks have empowered and continue to support – from the cities to the countryside.

Ladies and gentlemen. I have learned in my almost 10 years as governor of the Bangko Sentral that each year is different. While our mandate remains the same, our operating environment is constantly shifting and changing. Sometimes, it turns on its head.

So, how do we navigate in uncharted waters? Well, with extreme care: we have to make sure that we are in shipshape condition, that we are properly equipped for the journey ahead, and that we remain watchful of possible risks. Ladies and gentlemen, I believe we are ready to take on the challenges and opportunities that lie ahead.

Let us now offer a toast: May I request the members of the Monetary Board to please join me on stage... To our continuing partnership in making our banking industry a dynamic story of growth and development that benefits our people and our country. Cheers!... Mabuhay ang Pilipinas! Mabuhay po tayong lahat!