

## **Amando M Tetangco, Jr: Two sides of the same coin – transforming challenges into opportunities**

Speech by Mr Amando M Tetangco, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the FINEX, MAP, MBC, PCCI, AMCHAM Phil, ECCP and CIBI Foundation, Makati, 24 May 2017.

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Thank you for taking the time to organize and host this event and thank you for the testimonials!

I share the recognition you are giving me today with my colleagues at the Bangko Sentral ng Pilipinas and the Monetary Board whose members include Finance Secretary Sonny Dominguez, former DBP Chairman and CEO Freddie Antonio, former Economic Planning Secretary and Economics Professor Phillip Medalla, former BSP Deputy Governor and General Counsel Andy Suratos, former BSP Deputy Governor and General Counsel Jun de Zuniga, and former PDIC President Val Araneta. This formidable group works together as members of Team BSP. A team that is driven to excel by the singular vision of creating a better life for Filipinos through sound monetary and banking policies.

I also wish to take this opportunity to express my deep appreciation for the support and cooperation the leaders and members of your organizations have been extending to the BSP and me. You actively engage us in dialogues, meetings, and conferences to share your insights in the formulation and the implementation of our policies and programs. This is a crucial element in our operation as a central bank. Thank you.

Indeed, the most significant achievement for any head of institution is to see the effective implementation of its mandate. In the case of the Bangko Sentral ng Pilipinas, it means providing a stable environment for our economy through inflation management, as well as a sound and stable banking system through effective regulation and policy formulation.

Given our mandate, how does BSP measure up? Well, you have been most kind and generous in expressing your opinions about me and the BSP. Now, it is my turn to share certain highlights in the BSP's performance, the challenges we faced and their ramifications, where we are today, and what we see going forward.

### *Two Sides of the Same Coin*

Ladies and gentlemen, we often hear economists use the phrase “two sides of the same coin.” The phrase is used to establish a linkage between two seemingly unrelated variables. Today, I use the phrase to illustrate that, in the context of policy making, challenges and achievements are more closely interrelated than we think.

As a central banker of over four decades, I have witnessed how significant economic and financial challenges/changes served to catalyze crucial and progressive reforms.

### *Stepping up to the Challenges – Banking Sector:*

A case in point is the 1997–98 Asian Financial Crisis (AFC) that revealed vulnerabilities in the Philippine financial system. The recognition of these weaknesses firmed up our resolve to formulate measures and implement reforms to address these concerns.

The AFC also highlighted the importance of reducing currency and maturity mismatches through the creation of a fully developed capital market. This triggered a whole slew of market reforms that included the development of “organized markets”, where transparency, price discovery, and more reliable benchmarks are essential elements.

Then in 2007, we witnessed the outbreak of what eventually evolved into the worst financial crisis the modern world has witnessed. International financial institutions weighed down by bad debts collapsed or had to be supported by their governments to keep credit flowing to credit-starved economies. Notwithstanding, the global recession that ensued was the worst since the Great Depression.

In contrast, the Philippine economy continued to grow through the Global Financial Crisis (GFC) with our banking sector remaining sound, stable and liquid. Indeed, this performance can be attributed to the crucial reforms that had been put in place earlier. In the aftermath of the GFC, the BSP is unrelenting in its pursuit of an even broader reform agenda aimed at further strengthening the Philippine banking industry in terms of capitalization, risk management, and corporate governance.

Clearly, the BSP has provided the regulatory framework. In response, the banking industry stepped up the plate and aligned their standards with international best practices. In other words, the synergy worked !

Thus, even in the face of lingering uncertainties overseas, the domestic banking system has maintained a remarkable growth momentum. As of December 2016, total resources and deposits of the banking system have reached historic high levels (P13.8 trillion in resources which increased further in Q1 this year and deposits of over P10 trillion). This allowed bank lending to continue to expand by double-digit rates, most of which financed productive sectors. In addition, asset quality continues to improve with NPL ratio of universal and commercial banks dropping to less than 2% in December 2016, even better than the pre-Asian Financial Crisis levels.

#### *Seizing Opportunities – Monetary & External Policies*

On monetary policy, we adopted inflation targeting in 2002, in response to findings that the traditional macroeconomic relationship between monetary aggregates and prices had weakened. While inflation targeting is a more challenging framework, it represents a better way of doing things – it is more effective, it promotes greater accountability and it engages the public in the process. This is a guiding philosophy at the BSP – continuously developing better ways in terms of process and operations to achieve institutional objectives.

Under this framework, BSP has had good success. Since 2009, inflation has been kept below the upper bound of the National Government's inflation target range. Moving forward, we see inflation remaining on a generally low and stable path and within the target range of 2-4 percent, under our inflation targeting framework.

In 2016, we further refined our policy framework by launching the Interest Rate Corridor (IRC) system to align our open market operations with the liquidity needs of the market. This will strengthen the transmission channels of monetary policy, boost domestic money market, foster real price discovery and further improve the intermediation of funds.

Low inflation has allowed the BSP to maintain policy rates at similar low and stable levels. This lowered the cost of doing business and the cost of consumer loans, factors that support and encourage economic activities. In the Philippines, household consumption remains a key growth driver of the economy.

The Philippine economy is strong. GDP grew 6.4 percent in the first quarter this year, one of the fastest in Asia. This brought our record of achieving uninterrupted GDP growth to 73 consecutive quarters.

Meanwhile, we have been able to build our war chest of FX reserves because of strong OF remittances, export proceeds and BPO receipts. In turn, the presence of such strong buffers has

allowed us to continue with a policy of a market determined exchange rate policy. Building FX reserves to a healthy level and allowing the exchange rate to absorb some of the external shocks are yet another set of responses to past crises.

Ladies and gentlemen. Our experiences in the past two decades prove that challenges or difficulties provide compelling reasons to change the status quo. Viewed in this context therefore, challenges and achievements are indeed two sides of the same coin.

Indeed, the country's low and stable inflation, strong banking system and robust external position have not gone unnoticed by credit rating agencies and other third party analysts. The Philippines' 24 positive credit rating actions since 2010 as well as the distinctions received by our banking system provide strong validation for our economy's solid performance.

As you very well know, the highlight of the Philippines' credit rating history came in 2013 when we finally achieved investment grade rating from the 3 major credit rating agencies (Fitch, Moody's and S&P). These were followed by subsequent upgrades from S&P and Moody's in 2014.

### *The Road Ahead*

In other words, "so far, so good". But, what's in store for us? What new challenges are we likely to face and learn from? Let me name a few.

In the near-term, we will continue to face market volatilities from asynchronous monetary policy responses to the uneven global recovery and the resulting reflationary pressures.

From a more strategic standpoint, our business models will continue to be challenged by speedy shifts in financial technology, heightened cybersecurity risks, and increased global competition.

Overall, however, there is the primordial challenge of remaining a relevant and viable going concern amidst these changes.

In the BSP, the development of an inclusive financial system that supports inclusive growth is an institutional imperative. Our objective is to reduce poverty by enhancing access to financial services, promoting financial education and strengthening financial consumer protection.

In this connection, the BSP is working with 14 government agencies and other organizations to facilitate the implementation of the National Strategy for Financial Inclusion in a cost-efficient manner.

Also clear and present in the pipeline for the BSP is the implementation of a National Retail Payment System that will speed up the mainstreaming of unbanked Filipinos into the financial system. The ultimate goal is to serve financial transactions across the country through a safer and more efficient system that will benefit consumers in particular and our economy in general.

These initiatives/thrusts represent the social dimension of our monetary and financial policies.

To remain relevant, the BSP has always pursued its primary mandate while being in tune with the social dimension of policy. Moreover, we believe that history must inform our country's journey; we must learn from the past so that we will be better and stronger for the future. For this reason, the BSP has a continuing program to share information, document its learnings and promote appreciation of our country's rich culture and history.

Tomorrow, the BSP will launch two books: the first is "Philippine Central Banking: A Strategic Journey to Stability" and the second the coffee table book "LIKHA: Enduring Legacies of Filipino Artistry" featuring the Decorative Arts Collection of the Bangko Sentral ng Pilipinas. The book on Philippine central banking should be a good reference for policy makers, those in business and those in school. On the other hand, LIKHA will make you proud of our ancestors who created

these works of art, the oldest of which was crafted 2,000 years ago.

### *Conclusion*

President Duterte has designated Deputy Governor Nestor Espenilla, Jr., a career central banker with 36 years of experience as the next Governor. We thank the President for this vote for continuity at the BSP. There is no question, Nesting will hit the ground running, having been exposed to many facets of BSP operations. He is highly qualified and a man of integrity and courage. He and the BSP deserve your continuing full support.

I also thank FINEX and its Board for launching the FINEX-Governor Tetangco Professorial Chair for Monetary Policies and Financial Sector Development. I see this is an expression of support not only to me but also to the BSP in the important area of financial education. FINEX, you walk your talk. Thank you.

Ladies and gentlemen. I stayed on as a career central banker for over 40 years because I have always felt that it is an honor and a privilege to serve our country as a civil servant. Will I miss the BSP? Of course! But I take with me important professional and personal life lessons, foremost of which is to value independence and integrity because these are the foundations for credibility, that in turn, engender effectiveness in purpose.

I also take with me the lesson of keeping your eye on the ball (or in our case, the BSP mandate), while making sure you are sensitive to the lay of the land (in other words, surveillance is key). Maintaining the proper “stance”, but retaining flexibility so you can be sure to “follow through” your actions (or be policy nimble). Counting your “balls” and being familiar with your “irons” (in other words, knowing what’s in our tool kit!), play the hand you are dealt (or always be ready!)

But wait. Those lessons sound like rules for a golf game. Friends, as it turns out, most of what really matters whether you are in the Board Room or on the golf course is basically the same. With this realization, I suppose I am ready for life after central banking. There are many activities I want to pursue (including possibly more golf with friends) and new adventures to look forward to, after July 2.

But today, my heart is full. For this, I thank all of you. Thank you for this testimonial, your kind words, your wishes for my good health and your friendship.

Maraming salamat! Mabuhay ang BSP! Mabuhay ang Pilipinas! Mabuhay po tayong lahat!