

Amando M Tetangco, Jr: Harnessing credit for a better life for all

Speech by Mr Amando M Tetangco, Jr, Governor of the Central Bank of the Philippines (Bangko Sentral ng Pilipinas), at the 75th anniversary of Credit Management Association of the Philippines, Manila, 19 April 2007.

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Senator/Governor/Sec. Joey Lina, President Marlo Cruz, ladies and gentlemen of the Credit Management Association of the Philippines, special guests. Good morning.

On behalf of the Bangko Sentral ng Pilipinas, I congratulate the Credit Management Association of the Philippines on its diamond anniversary. There are few organizations that can claim such longevity. This is, indeed, admirable! And while your organization may be old, your members definitely are not.

I believe that your longevity is due to a clear vision of what your organization can and should do.

As President Marlo earlier mentioned, your organization was officially incorporated as the Association of Credit Men (Phils.) Inc. in 1932, exactly seventy-five years ago today, when our country was still under American rule, and our population was roughly about 15 million.

Since then, the Philippines has won its independence; your association has changed its name to the Credit Management Association of the Philippines – a recognition of the equally important role women play in credit management; while our population has multiplied 5 ½ times to 84 million!

Through all these changes, CMAP'S reason for being has remained constant: credit information exchange. It is a tribute to your founding fathers' vision that they identified this vital cooperative undertaking very early in our economic history.

With the significant growth of our economy since then, and the associated demand to finance it, effective credit management has become today's imperative to sustain our country's development.

For this, we need a comprehensive and unified approach to credit information. This is the reason why the Bangko Sentral ng Pilipinas is a strong supporter of the proposed legislation that would create a centralized credit information bureau that will provide comprehensive information on credit histories.

As envisioned, this centralized credit information bureau will improve the quality of financial information available to creditors; enhance credit access of institutions and individuals; lower interest rates and facilitate loan processing particularly for borrowers with good credit record; minimize exposure to risks of financial intermediaries; and lower intermediation costs that will benefit both the creditors and the borrowers.

A recent World Bank study covering 51 countries showed that having a credit bureau resulted in the following:

First, a marked increase in the volume of lending, particularly to previously excluded sectors like the micro, small and medium enterprises. It said that with a credit bureau, the probability of a small firm obtaining a bank loan increased from 28% to 40%; and

Second, lower default rates from stronger credit discipline. In Brazil, for instance, complete reporting of credit information lowered default rates from 3.37 percent to 1.84 percent. In the Philippines, a centralized credit bureau could further reduce non-performing loans, which as of last February stood at 5.6 percent for universal and commercial banks.

Clearly, a credit information system that will generate such benefits will boost our country's economy and our global competitiveness. I find it fitting therefore that the theme for your 27th National Credit Congress is "Credit Management: Key to Philippine Global Competitiveness."

Ladies and gentleman. As of February this year, total outstanding loans of commercial banks, thrift banks and rural banks have reached P1.97 trillion. Compared to a year ago, this is higher by 7.7 percent.

Considering that our country's economy, as measured by Gross Domestic Product, is targeted by the government to increase by 6.1%-6.7% this year, it is likely that demand for loans will continue to rise as well. Economic growth drivers are expected to be exports, agriculture and the services sectors. Relatively low borrowing rates should also spur demand for loans, housing included.

Access to credit is an important element of economic development. The Bangko Sentral therefore is committed to the “democratization” of credit to ensure fair access to credit by all sectors of our economy – from blue-chip companies, to the man on the street, to start-up micro-enterprises.

Ladies and gentlemen. One of the challenges before us is to ensure that our microenterprises gain more access to credit. Already, we have made big strides in encouraging banks to do microfinance. Today, more than 200 banks are providing microfinance services to over 650,000 micro borrowers, with a total loan portfolio of over P4 billion.

If we factor in the microfinance activities of cooperatives and NGOs, nearly two million Filipino households now enjoy access to microfinance services. Nevertheless, with millions of Filipinos still living in poverty, we have to work harder and faster in terms of empowering our entrepreneurial poor.

There is one important lesson we have learned from microfinance: our borrowers may be poor, but they have good paying habits! Repayment rates for microfinance loans in the Philippines are hitting as much as 98%!

Nobel Peace Prize awardee Muhammad Yunus of Bangladesh is another case in point. If you recall, Mr. Yunus parlayed his microfinance model into the successful Grameen Bank, with a total loan portfolio of \$6 billion for 7 million borrowers. In other words, he has proven repeatedly... that the entrepreneurial poor are bankable. He said: “Conventional banks look for the rich; we look for the absolutely poor. All people are entrepreneurs, but many don't have the opportunity to find that out.”

Providing credit access to SMEs is another challenge. According to the UPS survey of SME competitiveness in Asia, Philippine SMEs consider access to funding and working capital as obstacles to their competitiveness. I hope therefore that CMAP will find ways to help address these concerns.

On our part, we at the Bangko Sentral ng Pilipinas have launched electronic rediscounting to spur lending activities down to the countryside and also to lower transaction costs of banks. With eRediscounting, banks may conduct their rediscounting transactions with the BSP in an online, real-time basis from their own bank premises. At the same time, the system allows BSP to process rediscounting applications within 10 minutes, release loan proceeds on line, and accept online payments for banks' rediscounting obligations.

In addition, the BSP is advocating the passage of the Corporate Recovery Act to update the Insolvency Law by putting in place procedures for liquidation, and thereby strengthen the framework for quick resolution of financially-distressed enterprises. This should balance the rights of creditors vis-à-vis debtors. I hope CMAP will support this as well.

Another area for cooperation with CMAP is financial education. In this regard, I am pleased to inform you that the Bangko Sentral and the Department of Education are principal partners in the incorporation of money management in elementary curriculum. The earlier children can learn about money management, the better. The Bangko Sentral is also conducting money management seminars for OFWs and their dependents.

We believe that learning the basics of money and credit management can help Filipinos make smart decisions that will transform them into net savers and investors, fostering in the process, a more self-reliant and more efficient economy. I hope therefore that consumer education will be an important agenda item in CMAP's program as well.

Ladies and gentlemen. CMAP's celebration of its diamond anniversary, brings to mind how diamonds have evolved into symbols of wealth, strength and staying power. It is my hope that CMAP will take on these characteristics of diamonds so that it will continue to play a pivotal role in helping bring about a better life for our people, in our country.

Again, our congratulations! Mabuhay ang CMAP! Mabuhay ang Pilipino!