

Amando M Tetangco, Jr: Moving the economy forward to a higher growth path

Speech by Mr Amando M Tetangco, Jr, Governor of the Central Bank of the Philippines (Bangko Sentral ng Pilipinas), at the Annual Reception for the Banking Community, Central Bank of the Philippines, Manila, 15 January 2008.

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Honorable Justices of the Supreme Court, Honorable Members of the Philippine Congress, Members of the Cabinet, leaders of the Philippine banking sector, representatives of our partner organizations, fellow workers in government, special guests good evening.

On behalf of the Members of the Monetary Board, I welcome all of you to our traditional Annual Reception for the Banking Community.

Ladies and gentlemen. As you have noticed, while we hold this event for the banking community, we do invite representatives from other sectors. This is in recognition of the important role the banking industry and these sectors play in moving our economy forward. While we decide and act independently of each other, at the end of the day, our policies, programs, and activities are bound to affect the others.

In other words, no one acts in a vacuum; we are interrelated. It is in this spirit that we bring you together within the storied and historic walls of our Fort San Antonio Abad.

And now, let me give you a brief overview of how our economy performed in 2007, our common report card in other words and how our future is shaping up, 2008 in particular.

I am pleased to report that 2007 was indeed a remarkable year for the Philippine economy, as it showed its resilience and ability to sustain its growth momentum, in the face of severe volatilities in global financial markets and record world oil prices.

Our economy, as measured by GDP, turned in its best performance in 30 years by expanding at a faster-than-expected rate of 7.1 percent in the first three quarters last year.

There are indications that this strong performance was carried through the fourth quarter last year, based on preliminary reports on agricultural output as well as the services sector which includes telecommunications and tourism.

Noteworthy is the fact that we achieved in 2007...the ideal convergence of high economic growth with low inflation, which at 2.8% is our lowest in 20 years.

In turn, low inflation kept interest rates on a downtrend, led by the bellwether 91-day T-Bill rate which averaged 3.4% in 2007, the lowest level ever. For our business sector, including banks, this generally meant lower cost of doing business.

As an industry, our banks continued to gain strength, achieving faster growth in terms of resources, capitalization, and profitability in 2007.

At the same time, our external position continued to be strong, with our gross international reserves at end December registering an all-time high of \$33.7 billion, while our Balance of Payments for the first eleven months of 2007 a surplus of \$7.8 billion, also a record high level.

As such, the peso ended stronger versus the weakened US dollar in 2007, claiming once again the distinction as one of Asia's best performing currency. This effectively minimized the impact of record-high oil prices on our economy and generated billions of pesos in savings for the government in terms of debt service.

We know that the 18.8% appreciation of the peso against the dollar in 2007 adversely affected many exporters and overseas Filipinos. What I can say is that the Bangko Sentral

and other agencies of government are addressing this concern, as we do recognize the vital contributions to the economy of these two important sectors.

In the financial sector, our reform efforts in 2007 remained directed towards building a resilient banking system and promoting a vibrant domestic capital market.

On other key fronts, the BSP continued to adopt measures to further broaden access of SMEs and the microfinance sector.

And in support of the full development of the domestic capital market, we have taken an active role in creating a sound market infrastructure that will enhance system integrity and promote overall market confidence.

In retrospect, our much-improved economic conditions are the result of significant structural and policy reforms implemented in recent years by the institutions represented here tonight.

Now, after hearing our good macroeconomic and banking performance, you may be thinking, what does 2008 hold in store for the banking system, for the economy, for each of us?

What is the forecast? Clear? Sunny? Partly sunny? Partly cloudy? What do you think?

I think, "sunny with patches of thunderstorms". Why do I say this?

Well, with the reform agenda – which we crafted over the last three, four years – in full swing and our macroeconomic fundamentals at their strongest in 2 decades, I believe that we are now better equipped to handle disturbances than we were, say, ten, even five years ago.

And as we continue on the reform path, I am confident we can look to sunny skies but that is not to say that it will always be sunny for I see patches of clouds nearby.

I see potential financial disturbances from the yet unfolding subprime mortgage problem in the US, the now-growing consensus for a deeper-than-first-expected slowdown in the US, as well as the elevated and more volatile oil and commodity prices. These risks, although essentially out of our control, are real and could threaten our outlook.

We therefore need to build on what we have so far achieved. We will continue to sharpen our tools for implementing sound monetary policy. We will also continue to reinforce sound structural reforms in the banking system to ensure its overall safety and efficiency as well as its adaptability and inclusiveness, as evidenced by our substantial strides in propagating sustainable microfinance in increasingly innovative forms.

Moreover, with the infrastructure and instruments of the domestic capital market now mostly in place, our challenge is to make the capital market a truly potent alternative source of funding and investments for domestic industry. We are already seeing growing evidence of this.

And in support of the financial reform agenda, we will continue to cooperate with institutions concerned on the passage of key legislations such as the amendment of the BSP Charter, the PERA Bill, and the CISA. I believe we all agree that the creation of a comprehensive and reliable credit information system is key to unlocking credit flows at more affordable rates that will benefit the micro, small and medium enterprises that dominate our economy and employ most of our people.

One crucial challenge that we face, and for which I earnestly request your support, is to help ensure that we improve the economy's absorptive capacity – either through improving access to credit, by providing better risk management products and tools that would allow for project financing to flourish and, ladies and gentlemen by actually extending credit!

This is the way, I believe, that the PROBLEM of PLENTY, which you have time and again heard me say, would no longer be a problem of plenty, but be a POT of PLENTY for the MANY.

Indeed, our responsibility to the community extends beyond ensuring that the macroeconomy is stable, and that the banking community is sound.

In this context, we believe that part of our role is to enhance financial literacy and education as well. Hence, we have partners and collaborators beyond the circle of banks and financial institutions.

Our financial education program targets our key stakeholders, including overseas Filipinos and their dependents as well as students, starting with our Grade I pupils.

In this regard, we are inviting our banks and other institutions to join our financial education program by reproducing the materials we have developed to ensure its widespread dissemination.

For your information, the groundbreaking joint program of the Bangko Sentral and the Department of Education calls for the incorporation of lessons in saving and money management for all elementary students – from Grade I to Grade VI – starting this June, for schoolyear 2008-2009. I call on all of you, therefore, to help make this a success.

We believe that through this program, we shall be on the right path to nurturing a new generation of Filipinos who are adept in managing their personal as well as their county's finances.

Ladies and gentlemen, these reforms and initiatives will continuously propel our economy forward to ever higher growth paths. With your strong support and cooperation, we can continue to fortify the economy, making it more resilient to ride out unpredictable winds of change and able to deliver another productive year. Together, let us continue to lay a solid and strong foundation for our country's future.

Thank you all.

And now, let us offer a toast to a better and strong year for our economy and the Philippines as a whole. Mabuhay!