

Amando M Tetangco, Jr: Sustaining partnerships in a year of challenges

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, Manila, 16 January 2009.

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Members of the judicial, legislative, and executive branches of government; leaders of the Philippine banking community; special guests from the diplomatic community, the private sector, the academe, and the media; fellow central bankers; ladies and gentlemen, a pleasant good evening to all of you.

On behalf of the Monetary Board, I thank you all for taking the time to join us tonight for our traditional Reception for the Banking Community.

That we are celebrating 60 years of Central Banking in the Philippines in 2009, makes this reception doubly meaningful. We are happy therefore that we have with us tonight former deputy governors and members of the Monetary Board; two former governors under the Central Bank of the Philippines – Governor Jaime Laya and Governor Jose Cuisia, Jr.; and one former governor of the Bangko Sentral ng Pilipinas – Governor Gabriel Singson. Ladies and gentlemen, let us acknowledge all central bankers – past and present – on this 60-year milestone with a round of applause.

We have 60 years of central banking behind us and we move forward to the future with confidence having learned many lessons along the way. We therefore look forward to more opportunities for us to shape a better future for ourselves, our families, our communities, and our country through sound and responsive monetary and banking policies.

Take the year just past, for instance. No doubt about it, 2008 was challenging given the difficulties we had to face. But it was also the same difficulties that allowed us to confirm.. that our collective reform efforts have put our financial system in better shape.

Indeed the irony of financial markets is that crises invariably occur despite the best intentions; yet, it is in facing the next challenge in relative strength that we can truly say we have learned from the past.

Ladies and gentlemen, we are fully cognizant of the difficulties that the current global financial crisis has created and the spillover effects that it would certainly generate. Our continuing efforts to clean up our domestic banking system and root out malpractices that particularly victimize the most vulnerable customers and our financial safety nets may also be creating short-term anxiety alongside global turmoil.

But I stand before you tonight to affirm that our banking system, in all its vital components – rural and cooperative banks, thrift banks, and commercial and universal banks, is in much better shape today than it was during the last crisis we faced. And I can tell you, the Monetary Board and the rest of the Bangko Sentral ng Pilipinas family remain confident that our banking system can work through these challenges.

I assure you, this is not meant to be a self-acclamation. Rather, it is our tribute to the collective efforts we have invested in our shared future. As a community of stakeholders, it is this common future that requires of us.. shared responsibilities to take on challenges together in order to grow and gain as one. I refer specifically to the Bankers Association of the Philippines, the Chamber of Thrift Banks and the Rural Bankers Association of the Philippines. The Bangko Sentral ng Pilipinas thanks you and salutes your efforts in sustaining economic activities not only in urban centers but also in the countryside through responsible and responsive banking. Ladies and gentlemen, let us give a round of applause to the Philippine banking sector.

There is a saying that it is okay to build sand castles in the sky for as long as our feet are well planted on the ground. What is the context, what do I mean by this? There are three points I wish to make.

First, the best strategy is always to move forward as one. This is not an inspirational punch line but the hard reality of market dynamics. We appreciate that banks are inherently business concerns, but protecting the institutional bottom line requires nurturing sustainable relationships in a thriving environment. What is not too obvious is that the financial system as a whole moves forward only when we work together. Ultimately, it is this stability from working together that gets us through the business cycles, even as this starts from a position of competing interests. As competitive elements within one system, we can always agree to disagree but we cannot fall into the trap of disagreeing to agree.

Second, it is critical that any lingering risk aversion from whatever source does not spill over into our ability to provide needed financial services for our real economy. Global conditions will be challenging. But in the same breath, let us not allow fears of off-shore conditions to pre-judge our on-shore actions, when and where such links are not warranted. If we are to consolidate our position of relative strength, we need to seize opportunities when they present themselves, while mindful of our basic fiduciary responsibilities and our mandate to act prudently.

This is a call for active participation at a time when the real economy needs us the most. We have seen how successful partnerships between the Bangko Sentral and the banking sector generated positive results for our people, our economy, and our country. I refer specifically to the banking sector as effective and responsive transmission channel for the Bangko Sentral's policies concerning money, banking and credit.

And now, to pro-actively move forward, I also ask for a re-affirmation of our partnership across a spectrum of initiatives – from expanding access to and improving the quality and cost of our services especially to the poor, to small enterprises, and to our overseas Filipinos; to building and deepening financial awareness and literacy; to promoting better consumer protection; to structuring organized and transparent financial markets. The times are challenging but they are as much a test of our own resolve; this will prove to be the first hurdle in building sustainable relationships in a thriving environment.

Third, the global financial architecture is broken because less attention was given to the details as markets moved faster, forward, and further. There was over reliance on market pressures to instill market discipline and global institutions – from multilaterals to regulators to market players – took comfort from the on-going work on best international practices. As we are now reminded, market failures happen at a painful cost to the displaced and that best international practices will mitigate domestic risks only if the supervisory framework evolves with market dynamics.

Moving forward, I believe that the need is not necessarily for more complex and rigorous new regulations but for greater accountability. Much more would therefore be required of the Board of Directors of banks and of the technical expertise of the line functions that relate to prudential management of risks. This is the form of market-driven accountability that I believe will be needed in restructuring the financial landscape – and it is quite different from just simply having more regulations. Let us therefore work more closely together in crafting regulations that would make markets more efficient and dynamic.

Will 2009 be a difficult year? Given the downward trajectory of the global economy, volatile commodity prices, and the continuing financial turmoil, conventional wisdom says that it will be.

Nevertheless, I believe that together we have the capacity to ride out the challenges before us. The key is to manage the factors that are within our control, to maintain a positive mindset, and to capitalize on our time-tested resiliency and ability to innovate amidst challenging times.

And don't forget, our economic fundamentals continue to be a source for optimism. This includes sustained economic growth, slowing inflation, declining interest rates, record high international reserves, balance of payments surplus, a competitive peso and a stable banking system.

In the end, the challenge in 2009 for the banking sector is to quickly act on the painful lessons of the global financial crisis. It is simply far too convenient to point at the complexities of structured products, the over-leveraging, or the fundamental dilemma with market greed. All these were necessary inputs but together they are not sufficient to explain where the world is today. More importantly, debating the whys and wherefores will have its place, but at this juncture we need to act decisively with conviction, in unison, and move forward.

Ladies and gentlemen, while the global prognosis for 2009 is daunting, the Bangko Sentral continues to believe that the Philippines remains in a position of relative strength as we navigate through these difficult times. What we do to consolidate our gains rests squarely on us. In the case of the Philippine banking community, I am confident it will prevail and remain sound and stable.

On behalf of the Members of the Monetary Board, I thank all the sectors represented here tonight for their continuing support: the banking community; the legislative, executive and judicial branches of government; the private sector, the diplomatic corps, the academe, the media, our special guests, and our partners in bilateral and multilateral agencies.

Together, let us offer a toast to our continuing partnership in sustaining economic growth in our country and improving the quality of life of Filipinos. Cheers!

Finally, before it becomes totally unfashionable, let me take this opportunity to wish all of you blessings of good health, success, and prosperity this New Year.

Mabuhay!

Thank you all and enjoy the rest of the evening.