

## **Amando M Tetangco, Jr: The crisis in perspective – is there really cause for alarm?**

Speech by Mr Amando M Tetangco, Jr, Governor of the Central Bank of the Philippines (Bangko Sentral ng Pilipinas), at the Bank Marketing Association of the Philippines (BMAP): Banking and Business Forum, Manila, 3 March 2009.

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The officers and members of the Bank Marketing Association of the Philippines (BMAP) led by President Ferdie LaChica, distinguished speakers, fellow bankers, our friends from the media, special guests, good morning!

I congratulate the leadership of the BMAP for taking the initiative to gather members of the financial community and the media to discuss the global financial crisis and its possible impact on the domestic front. Indeed, we should welcome activities such as these which promote open exchange that lead to better understanding of critical issues. After all, we cannot move forward together.. if we are not on the same page and able to engage the cooperation of our stakeholders at this crucial point in time.

In this year's forum, BMAP's theme asks this NON-TRIVIAL question: "Is there really cause for alarm?"

Well, let me share some information that will help you respond to this question.

Among others, key economic and banking metrics indicate the following:

- The domestic economy has remained resilient, posting a 4.6% growth last year. This year, the Philippine economy is still expected to grow at a respectable range of 3.7% to 4.4%. That we are able to sustain growth under stressed global conditions with major economies undergoing contraction makes these figures particularly encouraging.
- Inflation continues to decline and is expected to further decelerate with the easing in the price of oil and other non-oil commodities in the world market. As of January 2009, inflation stood at 7.1% from 8% in December 2008.
- Our currency remains competitive. Even as the peso lost much of the gains of 2007 due to heightened risk aversion towards emerging markets, the peso's fall was nevertheless in line with the movement of other currencies in the region which also lost ground against the US dollar.
- The country's external position remains favorable. As of end-January 2009, the balance of payments yielded a surplus of US\$1.7 billion while our gross international reserves stood at US\$39.2 billion. The current GIR level is sufficient to cover six months of imports of goods and payments of services and income, double the international standard of three months and three times the size of debt falling due within a year.
- The banking system sustained its asset expansion with total resources growing by 9.8% to reach P5.6 trillion as of end-November 2008. Among bank assets, loans (gross, and exclusive of interbank loans) posted a significant growth of 23.5%. This asset expansion was supported by a continued rise in deposit base which registered a 15.9% growth as of end November 2008.
- Worth noting is that this continued asset expansion has been accompanied by the steady improvement in asset quality as measured by both non-performing loans and non-performing assets. From a peak of 16.9% at end-2001, banks' NPL ratio has

since dropped to a low single-digit level of 4.2% while NPA ratio improved to 5.5% as of end November 2008.

- The banking system also maintained its strong solvency position. As of end-June 2008, banks' capital adequacy ratio (CAR) stood at 15.3% on a consolidated basis, comfortably above both the international standard and the BSP's minimum regulatory requirement. If there is one lasting lesson from past crises, it must be that capital sufficiency is a primordial concern. It is reassuring then that the present Capital Adequacy Ratio of our banks is at this level.

Moving forward, what then are the challenges that we face?

For our economy, the channels of vulnerabilities are exports and remittances. The impact on Philippine exports has already started to show with a 40.4% drop in December of last year. Remittances are holding up but there are concerns that it will eventually reflect the global slowdown. These two fronts ultimately affect consumption spending, which plays a big part in domestic economic growth.

In the financial market, the potential weakening of corporate (exporters) and household (OF beneficiaries) balance sheets could lead to some deterioration in the quality of banks' loan portfolios. Individually, local banks have taken logical defensive action by being more cautious in lending and boosting their liquidity levels. The risk is that this could result in less credit for productive purposes, which would add to the pressure on the real economy players. This could lead to a negative feedback loop between the real and financial sectors.

In other words, ladies and gentlemen, even as our economy remains on a growth track, the global crisis brings with it serious challenges. It would be cause for alarm, therefore, if we remain complacent. We need to plan; we need to act pre-emptively to create buffers that will protect us from the headwinds that will come our way.

Among others, our Government has prepared a P330 billion economic stimulus program that includes higher infrastructure spending and enhanced social safety nets to support the most vulnerable segments of our population. The stimulus package, designed to adhere to the so-called best principles of 4 T's: spending that is timely, targeted, transparent, and temporary — should be supportive of sustainable and robust growth.

In addition, the Bangko Sentral ng Pilipinas has implemented a series of measures to ensure continued normal operation of the Philippine credit markets. The objective is to avoid the crippling credit crunch in the US and Europe that has triggered widespread dislocations in both business and households.

Is there a specific role for BMAP? Yes, absolutely.

As the marketing and communications experts in your respective banks, BMAP members can spearhead a concerted effort to ensure that bank stakeholders are kept abreast of market situation so that they can discern factual realities from fictional representations. The objective is to inform the general public so that stakeholders — your depositors and borrowers as well as your employees and stockholders — can make informed choices. The challenge is to keep working on this patiently and faithfully because markets continue to evolve and transform. It is not enough that you do it once or twice; it should be a continuing commitment on your part. Among others, explain the fine print, provide clear directions on how they can maximize the benefits from the services you render, make your banks accessible literally and figuratively, and be guided at all times by the good governance tenets of fairness, accountability, and transparency.

It benefits no one if our depositors are unsure of their savings. Long-term savers, those who manage funds for their retirement or for future expenses such as our children's educational needs or medical funding, these are but some of our constituents who can always benefit from better financial information.

For your borrowers, continuing dialogues are always useful and productive in terms of avoiding unwarranted shocks.

Consumer rights must be protected. I therefore request the BMAP to take the lead in making sure that appropriate systems are in place to address complaints with utmost urgency. To me, one yardstick for BMAP's success in this area is a decline in the number of complaints against banks that we receive at the Bangko Sentral. I look forward to stronger cooperation between us in this regard.

I also count on BMAP to continue supporting Bangko Sentral's various initiatives on economic and financial education covering our 12 million schoolchildren, our youth, our Overseas Filipinos and their dependents, and the public in general. This includes "Tulong Barya Para sa Eskwela" and the integration of lessons in saving and money management in our public elementary school curriculum.

One of our objectives is to make saving a regular habit and expand our deposit base to include children, the youth and unbanked adults. While our savings rate (or gross savings as a percent of GNP) has been on a steady uptrend – from 22.7 in 2000 to 27.9 as of 2007, we are behind other countries in the region. I ask the BMAP members therefore to apply your marketing and communications skills to move this program forward.

Ladies and gentlemen. In good times and in bad, taking care of your clients and consciously growing your customer base are challenges BMAP members face. This being the case, I believe there should be no cause for alarm if you have properly anticipated and planned for crisis, long before the onset of the global financial turmoil. Remember Noah? It wasn't raining when he built his ark. He hoped for the best, but prepared for the worst.

As professionals in your field, I am confident BMAP members are prepared to tackle new concerns emerging from the global crisis, individually and collectively.

Once again, congratulations to BMAP for organizing this forum.

Mabuhay ang BMAP! Mabuhay ang Pilipinas!

Maraming salamat sa inyong lahat.