

Amando M Tetangco, Jr: Forging ahead toward higher ground

Speech by Mr Amando M Tetangco, Jr, Governor of the Central Bank of the Philippines (Bangko Sentral ng Pilipinas), at the Bangko Sentral ng Pilipinas' 2010 reception for the banking community, Manila, 14 January 2010.

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Leaders of the Philippine banking community, fellow workers in government, special guests from the private sector, the diplomatic corps, the multilateral agencies, the academe and the media, good evening. The members of the Monetary Board thank all of you for accepting our invitation tonight.

This Annual Reception hosted by the Bangko Sentral is tradition we look forward to, as it is an opportunity to gather thought leaders and the movers of the economy within this historic Fort San Antonio Abad. In other words, it is a fascinating fusion of history and those who make history. It is also an opportune time to reflect on the year just past, and to train our eyes on what lies ahead.

Standing firm in the midst of a global downturn

First, let us have a brief overview of 2009: the year of the worst global recession in 80 years and one of the most difficult years for central banks around the world. As a country, the Philippines came out of this difficult period with a positive growth. Sure, our economy expanded by a modest 0.7 percent for the first three quarters of 2009; nevertheless, this is remarkable given that only a handful of economies escaped recession in 2009.

And while Bangko Sentral ng Pilipinas implemented liquidity enhancing measures at the height of the global credit crunch, these were non-inflationary. Domestic liquidity growth as of October last year was 12.5%. On the other hand, full-year inflation at 3.2 percent was well within our target range of 2.5 to 4.5 percent. This indicates that we made appropriate decisions taken 18–24 months ago, the estimated time lag for monetary policy to have full impact.

Our external position remained strong, with a confidence-building balance of payments surplus of \$4.1 billion for the first 11 months and record high gross international reserves at a preliminary \$45 billion by year-end.

Equally important, our banking system remained sound and stable. We also avoided a credit freeze as banks continued to lend to the productive sectors of the economy. In addition, Bangko Sentral received last year international recognition for having the best regulatory environment conducive for microfinance and for our pioneering regulations for mobile money transfers that promote inclusive banking.

This is not to say that 2009 was perfect for us. But we are proud that the reforms we have implemented together with the banking community and other stakeholders served us in good stead and empowered us to stand firm in the midst of a global economic storm that crippled many economies. This is the broad picture of 2009 that make us hopeful moving forward into 2010.

Diffusing the odds in 2010

Indeed, we have reasons for optimism. While rain clouds linger, the worst of the global storm is over. The consensus is that the global economy has seen the worst and is on a recovery phase. At the same time, the global financial markets reflect growing stability that whets the risk appetite of investors.

Still, questions remain. First, no one knows for certain the final shape and speed of the global recovery. Second, as the pace of recovery across countries varies, national authorities have to carefully calibrate the timing for unwinding the support and stimulus mechanisms they had put in place. Premature unwinding could put recovery at risk; on the other hand, delayed response could stir up inflation and create destabilizing asset bubbles.

What I can tell you is that the exit strategy of the Bangko Sentral will be done gradually and in stages as we have monetary policy space. As we execute our exit, we will always be mindful of our underlying domestic conditions, with particular focus on the outlook for inflation.

For the broader financial system, proper focus should be on how to avoid the financial crisis that triggered the global economic shocks. In forum after forum, we hear of the need to modify operating standards and guidelines. Only last month, the Bank for International Settlements released new guidelines on international standards for liquidity while focus on large exposure risks and amendments to accounting standards continues.

Ladies and gentlemen. We did not build our banking system by chasing one change after another. Instead, we made a collective decision to effect meaningful and appropriate structural reforms that were far from easy. This includes risk-based supervision that is central to our reform agenda. Together, we must continue to move forward along this path that will allow us to identify and manage risks to the banking system.

Developing strong pillars for 2010 and beyond

Ladies and gentlemen. 2010 is not only about challenges and changes; it is also about the chances and opportunities that lie ahead. Sure, our conditions are far from ideal, but our economic fundamentals remain firm. Inflation is expected to be manageable and is forecast to fall within the target range of 3.5 to 5.5 percent. In other words, we do not see drastic changes in our policy rate settings.

At the same time, our external position will remain in surplus, with the BOP surplus expected to range between \$3–4 billion by yearend. This means that the peso will have fundamental support. Consequently, there will be occasion for the BSP to build up its international reserves to temper exchange rate volatilities.

I foresee that the banking system will remain sound and will continue to intermediate credit to the productive sectors of the economy. This will create more opportunities for lending, particularly to micro, small and medium enterprises of MSMEs. And as the economic recovery goes into full swing, there will be greater prospects for fee-based activities in the capital markets in support of infrastructure and expansion projects.

Final thoughts

Ladies and gentlemen, we avoided the worst global recession in decades because together we forged the political will to implement challenging reforms long before the crisis struck.

Moving forward, let us commit once again to move forward together to ensure an even stronger and more responsive banking system.

Finally, I have one more good news to share. This year, we are launching the Bangko Sentral ng Pilipinas Art Competition which we call “Tanaw.” This is the first time we are launching a national painting competition. Our objective is to support the development of Philippine art by providing incentives for excellence to Filipino artists. Bangko Sentral has one of the most extensive collection of Philippine paintings and pre-historic gold in our country today. This is due principally to the vision of Dr. Jaime Laya, former governor of the Central Bank of the Philippines. Ladies and gentlemen, let us thank Dr. Laya for this legacy with a round of applause. For your information, Dr. Laya has agreed to chair the BSP Cultural Properties Acquisition Advisory Committee which counts as members National

Museum Director Corazon Alvina, Art Educator Deanna Ongpin-Recto, Art Critic Cid Reyes, BSP Deputy Governor Diwa Guinigundo, BSP Director Fe de la Cruz and Monetary Board Members Raul Boncan and Juanita Amatong as advisers. With this art competition, we broaden Bangko Sentral's involvement in the preservation and promotion of Philippine arts and culture. In the process, we create more reasons to be proud as a Filipino.

To all our guests, we thank you once again for your support to the Bangko Sentral ng Pilipinas as we continue to serve our people and our country through better policies and programs that keep our banking system sound and stable, in a fast-changing world. Let us therefore offer a toast: to our continuing partnership in sustaining economic growth and improving the quality of life for all Filipinos.

Mabuhay! Thank you and do enjoy the rest of the evening.