Amando M Tetangco, Jr: The Bangko Sentral ng Pilipinas and the banking community – partners in sustainable development

Speech by Mr Amando M Tetangco, Jr, Governor of Bangko Sentral ng Pilipinas (the central bank of the Philippines), at the Bankers' Reception hosted by the BSP, Manila, 20 January 2012.

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Distinguished guests from the banking community, the government, the private sector, the diplomatic community, the multilateral agencies, the media, dear friends, ladies and gentlemen.

On behalf of the other Members of the Monetary Board, I bid you all good evening…. and welcome… to the traditional reception of the Bangko Sentral ng Pilipinas for the banking community.

We thank all of you for accepting our invitation to recognize one important pillar of our economy – the banking sector, a key channel for the transmission of Bangko Sentral's monetary policy.

Sound, …stable,… and liquid,… the Philippine banking sector provides valuable support to our economy… helping sustain its growth trajectory, through varied challenges. This was particularly true in 2011… a year considered as one of the most challenging for central banks across the globe.

We had to deal with the consequences of a slowing global economy affected by global developments. In the US, the underlying drift is still for below-trend growth even as employment has somewhat improved. In Europe, the deleveraging among banks has deepened, which has led to a contraction in bank credit, thereby heightening recession risks. Some analysts have called this the "deleveraging doom loop". In the Middle East, the threat of supply chain disruptions has become amplified. Here at home, we had to grapple with destructive typhoons, floods, and other calamities.

Notwithstanding a fluid environment in 2011, we successfully kept inflation within our target range; this gave us room to lower our key policy rates yesterday, our first rate cut in 2 ½ years. At the same time, steady inflow of funds kept our external position strong, with our international reserves hitting record levels; this provides us buffers for potential external shocks.

2011 was also characterized by robust bank credit that continued to underpin economic activities. For instance, lending as of November 2011 was up 22%, with the productive sector claiming four-fifths of total loan portfolio.

And while we closed banks in violation of banking laws, continued public confidence in our banking system kept bank deposits at all-time high levels.

Along the way, our gains in the monetary sector contributed to the upgrades that both the country and the banking sector received in 2011.

Indeed, global and domestic challenges notwithstanding, 2011 emerged as another good year for the banking industry: balance sheets kept growing, asset quality continued to improve, and bank profitability continued to strengthen.

This is because we made significant headway in improving our risk management systems, strengthening the supervisory process, instituting good financial governance, enhancing coordination among financial regulators, and aligning our accounting rules with international standards.

Our challenge is to sustain our momentum in pursuing our reform agenda. Wisdom has it that the best time to pursue and invest in reforms is during good times. Given that 2011 was an even better year for banks than 2010, we are committed to continue our reform process.

In this connection, you can say we hit the ground running in 2012.

Starting this month, stand-alone thrift banks, rural banks and cooperative banks are covered by the Basel 1.5 framework that upgrades them to higher capital adequacy standards.

This month also marks the start of higher capital charge on nondeliverable forwards or NDFs for “net open positions” – from 10% it is now 15%. We now require banks to set aside more funds to cover NDFs to reduce potential systemic risk and curb speculation.

For universal and commercial banks, we declared early this month that we are adopting the more stringent standards of Basel 3 in 2014, four years ahead of the timeline set by the Basel Committee on Banking Supervision.

Essentially, Basel 3 introduces reforms that will improve the ability of bank capital to absorb losses, extend the coverage of financial risks, and have stronger firewalls against periods of stress. Similar Basel 3 implementation plans have been announced by China, Australia, Hong Kong SAR and Singapore.

Ladies and gentlemen, we are able to accelerate our timetable because of the present strong capital position of the banking industry. Our confidence also springs from the track record of our banks that have… through the years… shown the maturity and the capacity to undertake far-reaching reforms that ultimately redound to the benefit of our economy and our people.

This afternoon, the Monetary Board approved a new set of enhanced standards on corporate governance in banks, as well as rules to strengthen banks’ compliance systems.

Indeed, we continue to reap benefits from years of collaboration between the Bangko Sentral and the banking community in pursuing reforms to strengthen our banks and make the system more responsive to the demands of a constantly changing environment.

Moving forward, we shall continue to stamp out unsafe and unsound practices, encourage mergers to bolster the strength of our banks, and build an infrastructure for a vibrant and inclusive financial system.

While bank lending has been on a steady rise, credit delivery to the underbanked and the unbanked also deserves a serious closer look. Bear in mind that, the Bangko Sentral’s regulatory framework for the development of microfinance has been rated as the world’s best, for three years in a row.

In other words, we are acknowledged as a pioneer in advocating use of responsible microfinance while ensuring adherence to safe and sound banking practices. In fact, 28 central banks visited us last year to learn from our experience in microfinance.

Outstanding microfinance loans now average P7 billion. Considering that the average term of microfinance loans is two months, we can assume that microentrepreneurs can access as much as P40 billion a year in short-term credit.

Ladies and gentlemen. Our success in developing an inclusive financial system is a crucial empowering element in liberating millions of Filipinos from poverty.

We have witnessed so many inspiring success stories in microfinance across our country. We have seen how households and communities have been transformed by successful microfinance ventures. But we need to do more; we need to further broaden and deepen its reach.

At the same time, we also need to ensure access to credit of viable small and medium enterprises who do not have sufficient collateral. One solution is through the Credit Surety Fund organized by the BSP and financed by the LGUs, the Industrial Guarantee and Loan

Fund, DBP and Land Bank. As designed, SMEs that receive credit surety guarantee from the Fund can present this to banks as collateral for their loans.

This is a relatively new program and so far, we have created 20 Credit Surety Funds: in four cities and in 16 provinces.

Ladies and gentlemen. The Micro, Small and Medium Enterprises are important to our economy and our people: combined they represent more than 90% of registered businesses and employ about 70% of our labor force.

In the banking industry, financial inclusion, consumer protection and financial education are the three-in-one policy agenda. We need to think out of the box in mobilizing savings in the region, providing extended financial access through non-mainstream channels and creating alternative sources of financing for borrowers and entrepreneurs. We need to make our financial system more inclusive.

If we move forward together on these fronts, we can truly make a positive difference in the lives of many more Filipinos. The link between the real economy and our banking market must stay firm so that liquidity in the latter can translate into new productive capacity in the former.

As it is, we see sustained growth for our economy in 2012 even as global growth continues to weaken. While the debt crisis in the Eurozone persists there are, on the other hand, welcome signs … such as the strengthening of the US economy.

Here at home, we derive comfort from the fact that the Philippine economy has stronger foundations to see us through the global headwinds, thanks to home-grown sources of resilience and reforms we continue to pursue.

We also see benefits from the simultaneous running of both monetary and fiscal engines. As early as this month, the Department of Budget and Management has practically released the 2012 budget to implementing agencies.

Other sources of optimism are the BSP’s expectations surveys showing that both business and consumer sentiment remains generally upbeat.

Ladies and gentlemen. It is providential that the Philippines is hosting this year’s 45th annual meeting of the Asian Development Bank at a time when our economy is primed for growth. Finance Secretary and Monetary Board Member Cesar Purisima is the head of the Philippine delegation. The meeting will take place from May 2 to May 5 and we expect about 4,000 delegates to participate. The preparations are in full-swing and we call on your full support to make the event a success.

And so, ladies and gentlemen, on this optimistic note, let us wish our banking community, our economy and our country a happier, healthier and more prosperous 2012 where good governance prevails and growth is truly inclusive.

Mabuhay ang Pilipinas! Cheers!

Thank you everyone and let’s enjoy the rest of the evening.