Amando M Tetangco, Jr: Vigilance amid stability and growth

Speech by Mr Amando M Tetangco, Jr, Governor of Bangko Sentral ng Pilipinas (the central bank of the Philippines), at the annual reception for the banking community, Manila, 18 January 2013.

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Distinguished guests from the banking community, the government, Philippine business, the diplomatic corps, multilateral institutions, NGOs, the media, special guests, good evening and a happy new year.

The Bangko Sentral ng Pilipinas and its Monetary Board welcome all of you to this traditional annual reception for the banking community. This annual ritual provides us the opportunity to come together to review the past and to share our roadmap moving forward.

But first, allow me to call on my co-hosts tonight, the other members of the Monetary Board: Finance Secretary Cesar Purisima, MBM Alfredo Antonio, Ignacio Bunye, Peter Favila, Felipe Medalla, and Armando Suratos.

As you may have noticed, the high-rise BSP building behind us greets everyone “masaganang bagong taon.” In English, this means wishes for “A prosperous new year.” Our collective wish, here at the BSP, is for balanced, sustainable and inclusive growth that brings prosperity to Filipinos. We at the BSP believe that if we unite and work together, this is not impossible.

Ladies and gentlemen. While global headwinds continued to challenge economies around the world home-grown sources of resilience enabled the Philippine economy to grow with a 6.5% increase in GDP in the first nine months in 2012. This surpassed growth projections and earned for the country the distinction of posting one of the fastest growth rates in Asia.

This strong economic growth was achieved with inflation remaining low and stable. At 3.2% in 2012, inflation was well within the target range set by the National Government. This tells us that our monetary policy settings remain supportive of non-inflationary growth.

At the same time, the Philippines continued to have a strong external position with, based on the latest figures, a balance of payments surplus of $9.2 billion for full-year 2012 and Gross International Reserves at $83.8 billion as of year-end. This continues to enhance confidence in our ability to meet potential shocks.

Another source of resilience for our economy is our strong and responsive banking sector. As of November 2012, aggregate gross lending of universal and commercial banks was around P3.4 trillion, 13% higher than the year before. In fact, lending of universal and commercial banks has been growing at double-digit rates since January 2011. Indeed, the Philippine banking sector continues to underpin our country’s economy, as adherence to good governance becomes the norm and risk management standards align with global benchmarks.

For instance, it is noteworthy that even as bank lending sustained double-digit growth, the quality of loans continues to improve, with non-performing loans dropping further to 2% in October last year, compared with over 18% in the aftermath of the 1997 Asian financial crisis. At the same time, banks have always kept their capitalization above the regulatory threshold, largely through the retention of earnings and a conscious build-up of capital.

Also assets of the banking sector as of last October were about P7.6 trillion, our highest on record. The same can be said of deposit levels, profits and bank capitalization.

Now, our challenge is dealing with the consequences of this “apparent” success. In particular, surges in capital flows. As Fed Reserve Chairman Ben Bernanke stated, emerging markets have been attracting capital because we have remained resilient even at the height of the recent crisis. Essentially he was saying we are the victims of our own success. Of course, the near-zero interest rate regimes in the advanced economies have also been a factor behind the strong capital flows going to emerging markets.

The ideal scenario is to convert these surges in capital flows into real economic assets, such as factories in the manufacturing sector or storage facilities in the agricultural sector. In doing so, we would have leveraged the financial resources into added productive capacity.

However, if these resources remain financial in nature and in search of better returns for risks they deem acceptable, then the onus shifts once again to the Bangko Sentral ng Pilipinas. More than ever, monetary policymaking requires great care and balance – Balance to contain speculative actions but not to discourage investments and balance to maintain financial and macroeconomic stability but not to stifle competition and growth.

As the central monetary authority, we need to find this delicate point of policy equilibrium when the potential impact of policy on key market parameters such as on exchange and interest rates won't outweigh the economic virtues of an open market. The issue here is not individual risks of products and transactions. Instead, it is about the risks to the system from the possible build-up of risks. Risks that could eventually spill over across stakeholders, products, transactions and sub-markets.

We need therefore to be attentive to the possibility of downstream risks even when the picture upstream looks overtly robust and rosy. This is the challenge of prudently asking ourselves constantly "What can go wrong?" and to prepare accordingly for such possibilities.

To us at the Bangko Sentral ng Pilipinas, this is at the heart the very essence of ensuring financial stability. And, as complex a challenge as it may be, it represents our central policy framework moving forward.

The environment we operate in is not static. And we envision that our reform agenda will remain dynamic as policy developments emerge and market needs arise. But, even as the components of this agenda can change, the ultimate and driving goal remains the same.

Our agenda will cover the Basel Accord on capitalization and other financial standards, as well as policy reforms on OTC Derivatives and financial market infrastructures. We also encourage banks to become more proactive in doing their part to broaden the reach of financial education. On its own, the BSP implements finance education programs across different age groups to empower Filipinos to save, invest and manage their resources with prudence, to avoid scams and to protect their rights as bank customers. To us, financial education is valuable not only for empowering our people but also in enhancing the stability of our financial system. This should also lead to improvements in the savings rate in our country which lag behind that of our neighbours.

Certainly, our agenda moving forward calls for a collective effort as the ramifications and accountabilities cut across different financial institutions and regulatory agencies.

In this period of change, it is important that we agree on the direction we want to take the system. And having agreed, the stakeholders must collaborate on working on such changes in ways and forms as may be required by circumstances, for the greater good.

Ladies and gentlemen. We have seen how successful cooperation between the BSP and the banking sector generated long-term benefits for our country and our people.

For this, the BSP and the Members of the Monetary Board thank the leaders, the management and the staff of the Philippine banking community. Maraming salamat sa inyong lahat!

We also thank our guests from other sectors of our country for taking time to join us tonight. We are heartened by your show of support.

As the economist Adam Smith once said, and I quote: "civilized society stands at all times in need of the cooperation and assistance of great multitudes."

It is our hope therefore that the same spirit of cooperation and collaboration will characterize our pursuit of continuing reforms in 2013 and the years ahead.

And now, let us offer a toast to all of us coming together for an even stronger, more responsive, more inclusive, and more successful Philippine banking system that will underpin a strong and vibrant Philippine economy that will bring prosperity and a better quality of life to our country and our people. Cheers!