

Amando M Tetangco, Jr: The Bangko Sentral ng Pilipinas and the banking community – forging a strong partnership that benefits the country

Speech by Mr Amando M Tetangco, Jr, Governor of Bangko Sentral ng Pilipinas (the central bank of the Philippines), at a dinner with bankers, Bangko Sentral ng Pilipinas, Manila, 19 July 2013.

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Sec Cesar Purisima, ADB President Takehiko Nakao, SEC Chair Teresita Herbosa, the leaders of the Philippine banking community, former Members of the Monetary Board, Heads of international agencies in the Philippines, fellow public servants, members of the media, distinguished guests, friends, ladies and gentlemen.

On behalf of the Members of the Monetary Board, we thank you for accepting our invitation to recognize the banking community one of the most important channels for the transmission of the BSP's monetary policy and one of the reasons why our country finally earned investment grade this year.

While our partnership is not perfect, our partnership is a success as it generates incalculable benefits for our people and our country.

If this were a wedding anniversary, porcelain would be our theme. The story of porcelain as works of art started over 2,000 years ago. What is amazing is that some of these ancient pieces still exist; they have endured.

Like the porcelain of old, the Bangko Sentral is rich in history. While we are distinct from the Central Bank of the Philippines, we value its legacy and traditions that connect us to the history of central banking in the Philippines.

And in tandem with its partners in government and the private sector including the banking community, the Bangko Sentral continues to make history, enduring the heat of national and global challenges and coming out better and stronger from it.

Two decades of moving forward

Indeed, we have the metrics to show the progress we have made in pursuing our mandate of providing stability to prices and the banking sector through our monetary and banking policies and programs.

Republic Act 7653, the law that created the Bangko Sentral ng Pilipinas in 1993 was passed by Congress during the term of then Governor Jose Cuisia of the Central Bank of the Philippines and signed into law by President Fidel Ramos.

That was 20 years ago. Since then, price movements as measured by inflation have been limited to single-digit levels: it hit a high of 9.3% in 1998 during the Asian financial crisis and has dipped to 2.8% in June this year.

And together, the Bangko Sentral ng Pilipinas and the banking sector have successfully evolved to meet the growing and changing needs of our country and our people.

Total resources of the banking system for instance increased from more than P1 trillion in 1993 to over P8 trillion in 2012, deposits from P649 billion to P5.8 trillion, and loans from P553 billion to P4.1 trillion.

Over the same period, our gross international reserves soared from \$5.3 billion to \$81.6 billion as of June this year, giving us the ability to provide the foreign exchange needs of our growing economy and to minimize the possible impact of external shocks. Our healthy

GIR levels also allowed us to prepay our debts to the IMF and end more than forty years of our country's dependence on IMF loans in 2006.

Thus, when the 2008 global economic crisis came around, we were able to ride it out. In fact, while credit freeze became the norm in developed countries, Philippine banks remained liquid and able to sustain double-digit growth in lending.

And non-performing loans of commercial and universal banks dropped from double-digit levels to 1.87% in May 2013, even better than the pre-Asian financial crisis figures. Looking back, I think it is because we have a good balance of prudential regulations from the Bangko Sentral on one hand and on the other adherence to sound banking practices by our banks.

In other words, the sound and stable Philippine banking system that we see today is the dividend from our continuing reform agenda to clean up bank balance sheets, strengthen bank capitalization, improve governance structures, enhance risk management systems, and align with international standards.

Many take comfort that we have been in a position of strength as we traversed recent and ongoing global turbulence in financial markets. That may be so but we cannot be complacent: new challenges are before us and we need to address these now.

Indeed, there will be no shortage of issues to confront. Financial markets are never static and we must be able to respond accordingly. From our perspective as industry regulator, two challenges deserve particular mention.

Financial stability as the prudential cornerstone

With the global economic turmoil in the last five years far from over, the first challenge must be to maintain financial stability, which ladies and gentlemen, goes beyond the Basel 3 agenda. New standards will be introduced for leverage, liquidity, the handling of market risks that lead to credit risks, the treatment of securitization and inter-financial exposures, and mitigating counterparty risks, among others.

Beyond the Basel Accord, the distinction between OTC and exchange-traded derivatives is effectively being removed to ensure price transparency and improved governance. Payment systems are now governed by new principles set for providers of so-called Financial Market Infrastructures (FMIs) while the use or non-use of these FMIs by market players will have consequences.

There are many other reform initiatives that could be cited. At the end of the day though, all of these are geared to the common purpose of achieving financial stability. We will have every opportunity to discuss how high to set the prudential bar but the principles behind the change in the global standards are difficult to ignore.

Capital market development: moving beyond the usual rhetoric

Apart from the global initiatives, we do have our own set of concerns. Capital market development has been in and out of vogue through the years. However, many unresolved issues remain and this is our second major challenge.

The Capital Market Blueprint prepared under the auspices of the Securities and Exchange Commission headed by Chairperson Herbosa is the take-off point. I urge the stakeholders to look carefully at the Blueprint and commit to the deliverables within their purview.

From the perspective of the BSP, a few specific issues are most critical.

Who will disagree with the proposition that benchmarks are central to our market and its operations? Whether it is to price a new issue or value/re-value an existing exposure, the role of benchmark rates simply cannot be over-stated. Despite many initiatives and formulations, we remain well-short of a viable yield curve that properly reflects credit and

liquidity risks. We have all heard of OIS, implied zero rates and single price as the latest round of initiatives towards an acceptable yield curve. We look forward to having these initiatives come to fruition, hopefully by end-year.

The role of clearing entities and similar dis-interested 3rd parties will also be critical. A part of this goes back to the issue of valuation. At this juncture, we do need to think about the broader policy framework for our market infrastructure.

To execute our capital market agenda, these are the areas that need to move beyond rhetoric.

Taking the challenges forward

Ladies and gentlemen, the past 20 years has been all about transformation. As we mold ourselves and the financial markets through the last two decades, we have always had the banking community as a partner.

From the term of Gov. Gabriel Singson to Gov. Rafael Buenaventura, and up to now, we have always nurtured a consultative process. I assure you that while we may not always agree on every policy detail, we will continue to find ways to address these issues together.

Moving forward, we expect to continue relying on the consultative process. We cannot afford a unilateral approach. We ask the banking community therefore to take an active role in addressing the issues that lie before us.

Ladies and gentlemen. With your support and cooperation, the Bangko Sentral has had a good track record in its first 20 years. And while our record of accomplishments is far from perfect, we are reassured by the recognition the Bangko Sentral continues to receive here and overseas.

We are also heartened by our progress in developing a more inclusive financial system, the implementation of our nationwide economic and financial learning program, and enhancing protection for finance consumers.

We need to think out of the box in mobilizing savings in the region, providing extended financial access through both mainstream and non-mainstream channels and creating alternative sources of financing for borrowers and entrepreneurs.

Toward this end, the Bangko Sentral looks forward to more partnerships with the banking community in ensuring sustained and inclusive growth for all.

Once again, we at the Bangko Sentral ng Pilipinas thank the banking community and other sectors represented here tonight for your continuing support and cooperation.

Mabuhay po tayong lahat! Mabuhay ang ating mahal na bansang Pilipinas!

Maraming salamat. And let's enjoy the rest of the evening.