

Amando M Tetangco, Jr: What lies ahead?

Speech by Mr Amando M Tetangco, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at Security Bank's Annual Economic Forum, Makati, 28 February 2014.

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Members of the Board and management of Security Bank, distinguished guests, ladies and gentlemen.

What lies ahead?

This is a question that unfortunately not too many people ask themselves enough before embarking on an endeavour. Some barrel on to action, full speed and then do not ever look back.

And yet there are some, like those of you here today, who ask listen and weigh.

Then those who ask, fall under two categories those who stop and after listening turn back and never move ahead.

And then there are those who, having appreciated the consequences of possible actions, move forward nevertheless, while being ready to make adjustments as needed. I hope that those present today, would fall in this second category because it is only from among those in the ranks of "forward movers" that the economy can leap ahead.

In the case of the BSP, we do ask this question of "what lies ahead" many, many times, at every turn and even when we have already acted, we ask again. What lies ahead?

The BSP surveys the global environment, I am glad that you have a speaker on this topic. We survey domestic conditions, and we consider the general public and those factors that affect overall welfare.

What do we see so far? And I will be brief here.

- We see inflation inching up, but still remaining manageable over the policy horizon.
- We see credit continuing to go to the productive sectors of the economy, particularly to sectors with strong forward linkages to other sectors
- We see improvement in the country's potential output with increased production efficiency.
- We see our external payments dynamics continuing to be favorable, with ample international reserves, and current account surpluses driven by structural flows including OF remittances, BPO revenues, and tourism receipts.
- We see the banking system remaining well-capitalized and able to withstand significant external shocks that could result from global interest rate normalization.
- We see ample fiscal headroom for social/economic infrastructure.
- There is policy space on the monetary side, albeit slightly narrower than last year, but the bottom line is. There is room to maneuver for us to address the risks that lie ahead.

While we see the sound macroeconomic fundamentals continuing, we see some risks, particularly on the global front that could raise market volatility in the near-term:

1. We see that the Fed will continue to drive global market sentiment which may, depending on how market interprets the Fed's forward guidance, translate to market volatility and

2. We see growth becoming uneven across Asia which could impact on intra-Asian trade capital outflows and then market volatility.

However, while these could lead to near-term heightened financial market volatility, these could also translate to an increase in global growth as economic powers rebalance. These, in the medium term, would be positive for Philippine growth prospects.

Because we have constantly asked ourselves “What lies ahead” and have acted accordingly, we now find the Philippine economy with buffers to meet these challenges.

I will be remiss if I conclude my brief remarks today without speaking about our host, Security Bank. It is obvious that Security Bank has also been asking the question – What lies ahead? And their response to this question is a focus on retail banking. Indeed, going back full circle to the retail customer is commendable. It is my hope and expectation, however, that as you execute your retail banking strategy, you will, in parallel, strengthen your consumer protection and education efforts. Growing a retail base that is well-informed will help us move closer to our goal of economic growth that is truly inclusive. Good morning and thank you for your attention.