Amando M Tetangco, Jr: Enhancing resilience to sustain inclusive growth

Speech by Mr Amando M Tetangco, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the Year-end Philippine Economic Briefing, Manila, 18 March 2014.

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Reflection of resilience

Quite often the picture that we associate with the word "resilience" is that of the bamboo tree that sways to the violent winds and yet is not broken. It rustles. But doesn't snap In medicine, we think of resilience as the body's ability to recover quickly from illness In psychology, we conjure a state of being able to "bounce back".

Such pictures do characterize the Philippine economy, especially when we consider the events of last year. We were buffeted from both the global and domestic fronts. But the economy remained resilient.

Globally, the Fed's pronouncements and actions with respect to its withdrawal of accommodative monetary policy (or the Fed tapering) brought heightened volatility to our financial markets. The resulting market uncertainty and portfolio rebalancing got reflected in a reversal of the strong capital inflows of previous periods. This led to depreciation pressures on the exchange rate decline in our stock market and widening of spreads on our debt papers.

While all of these were happening in the financial markets, the country was hit by natural disasters, which threatened to weaken our growth prospects and unsettle inflation expectations.

Against this backdrop, the resilience of the economy was evident. The economy continued to grow by 7.2 percent in 2013. This performance beat market expectations and the Government's target of 6–7 percent for the year. Inflation was at the low end of the Government's target range of 3–5 percent. Meanwhile, our banks remained a source of strength as the system's balance sheets stayed solid. Our external accounts continued to be robust, buoyed by strong structural flows such as remittances and receipts from BPO and tourism. Our GIR remained more than adequate by most yardsticks. And, prudent fiscal management provided the policy space for re-building and stepped-up government spending on infrastructure that is expected to form the base for sustained economic growth.

Risks to the resilience story

Can we expect this strong performance to continue? What are the risks to this resilience story? Let me quickly run through some threats to resilience.

On the global front. First, we see continued uneasiness among global investors from uncertainty in the next steps of the Fed. This may cause capital outflows and with that, greater financial market volatility. Second, many analysts also predict the slower growth in Asia to continue. This could have an impact on intra-Asian trade, which had compensated for weakness in trade with advanced economies in the recent periods. Third, the risk that recent political turmoil, including in Ukraine, may escalate. This could affect international commodity prices, global financial markets, and undermine global growth prospects.

Closer to home. we need to be watchful, among others, of our own disaster risk management efforts that could affect sustainability of our growth performance; and potential upward adjustments in domestic utility rates that could affect inflation expectations; as well as any risks to financial stability.

Responses to sustain resilience

Given these risks, how can we sustain resilience? On the part of the BSP, we will continue policies that strengthen our macrofundamentals.

First, we will closely track monetary conditions to ensure that our stance of monetary policy is appropriate. Based on our assessments, inflation remains manageable. Our forecast runs show that, over our policy horizon, average annual inflation will settle within the government's target range. Therefore, there continues to be room to keep rates steady. although the room for keeping stance of policy has narrowed, given the aforementioned global and domestic risks.

Second, the BSP will continue to closely monitor movements in the exchange rate. Our assessment shows that the peso will remain fundamentally supported by robust economic growth and the BOP surplus. Given the moods and swings of the financial markets, we will continue our flexible exchange rate policy, but at the same time, keep a strategic presence in the foreign exchange market to limit excessive exchange rate volatilities.

Third, we will remain watchful of potential sources of vulnerability to our banks. Risks that can directly affect individual banks, and those that co-mingle and can affect the system as a whole will be given attention. In other words, we will sharpen the financial stability perspective of our bank surveillance. We will also align our regulations with the international reform agenda. Banks will be supervised so they stay sound and therefore able to sustain effective and efficient intermediation of funds to the productive sectors of the economy.

In other words, ladies and gentlemen, the BSP will continue to build resilience that would lead to stable prices, a relatively competitive exchange rate, and a sound banking system.

The ASEAN Banking Integration Framework could also help us achieve improved resilience. We believe the Philippines stands to benefit from this regional integration effort. Apart from seeing a much larger investor base, greater integration could also open up opportunities to mobilize resources toward a diverse array of productive investments. Greater competition also promises to help us capitalize on technology and innovation, while pushing our financial institutions to enhance their efficiency.

But resilience is not enough

But resilience of itself is not enough. What would be ideal is that, while our economy is able to withstand harsh conditions, we should also be able to move forward and achieve our objectives of sustained broad-based economic growth in a stable macro environment. This is the second part of today's theme. Enhancing Resilience to Sustain Inclusive Growth.

"Inclusive Growth" has become such a buzz word – everyone (even the IMF) now talks about it. I am afraid, if we just keep on speaking about it, without much action, there is a risk that the buzz will simply drone. We need to make sure that our exhibited resilience, which has given us this strong macroeconomic base from which to leap, translates to a palpable improvement in the welfare of more, if not all, Filipinos.

A larger economic pie for more

Resilience helps to enlarge the economic pie. But, it would be more desirable if the larger pie is shared by more. Ladies and gentlemen, we all need to do more if we would like economic growth to cast a wider net and cascade through the broader society.

On the part of the BSP, we believe our efforts to intensify financial inclusion would help ensure that more of the stakeholders are able to enjoy the now larger pie. These initiatives are in the form of crafting regulations to improve access to financial services, expanding our economic financial and learning programs, and strengthening our financial consumer protection efforts.

We are fully aware, however, that BSP and the government cannot do this alone. We need the strong partnership of the private sector.

We hope that this briefing will provide a venue for meaningful information sharing and dialogue between the public and the private sectors on the competitive challenges and opportunities posed by our current operating environment.

But more than this, we hope that this briefing would be a venue for us to confirm our readiness to meet these challenges and move forward, with the good of the greater majority in mind. We trust that today's proceedings will encourage all to work together towards the shared goal of inclusive growth – the only growth that truly matters and the only growth that transforms.

Thank you and a pleasant day to all.