

## **Amando M Tetangco, Jr: Infrastructure, inclusiveness, institutions – raising the Philippines to the next level**

Speech by Mr Amando M Tetangco, Jr, Governor of Bangko Sentral ng Pilipinas (the central bank of the Philippines), at the Philippine Economic Briefing, Manila, 30 September 2014.

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Honorable members of the Economic Team, Cabinet members, members of the Diplomatic Corps, our partners from the private sector and multilateral institutions, colleagues from government, friends from media and civil society, ladies and gentlemen, good morning and welcome to the 2014 Mid-year Philippine Economic Briefing.

The theme for today's economic briefing is "Shaping our Future". We have chosen this theme to help bring to mind that we can proactively define our direction and goal as a country. It is also a call for us not to merely look back to the past or to leave the future to chance. Our Investor Relations Office has designed today's briefing so we would all come to appreciate a future that we can all aspire for – that is, a more open, robust, dynamic and inclusive economy.

### **Solid macroeconomic environment**

Let me first note that aggregate demand conditions continue to be solid. In the first half of this year, the Philippines grew at 6 percent. This growth has been fueled by a broader set of growth drivers and continues the streak of consecutive quarters of positive growth since 1998. Inflation (actual and forecast) remains within target. Although inflation has been elevated and risks to future inflation have remained tilted to the upside, the outlook continues to be manageable.

Meanwhile, we have seen strong structural flows, including remittances and receipts from BPO and tourism. These have allowed us to build up ample international reserves and support our external sector dynamics. Our banking system remains a vital lynchpin for growth. It continues to be characterized by sound metrics such as growing deposits and assets, strong capitalization, ample liquidity, favorable funding profile and solid lending growth.

### **Risks that can challenge the ongoing narrative**

Even as our fundamentals show strength and we have built buffers against external shocks, we remain cognizant that there are risks that could challenge this positive narrative. For instance, there is the uncertainty over the timing and magnitude of the US Fed policy shift into more normal mode. This headwind could take many forms, among others: financial stability pressures from repricing of credit; sharp downward adjustments in prices of real and financial assets; and, capital flow volatility that could re-emerge as global investors react to news. If these risks are not managed well and result in unwarranted tight financial conditions, fragilities in EME financial markets could be exposed. In turn, these could negatively feedback to the real economies of EMEs. On the part of the BSP, although our series of monetary tightening actions in the past few months have been principally aimed at managing inflation expectations, these have also been put in place to help guide the domestic financial market to a smooth transition as monetary policy begins to normalize in the US.

In the case of the domestic economy, the key challenges over the medium term are likely to relate mainly to addressing potential supply-side bottlenecks, bridging identified gaps in existing infrastructure, minimizing the impact of natural calamities, and promoting greater economic inclusion by, among other things, generating more employment.

## What can bring PHL to the next level?

Our economy's resilience has been supported by sound macroeconomic policy. Even so, the reform agenda remains very much a work-in-progress. The challenge now lies in sustaining our good performance and consolidating our gains, even through difficult times. As I indicated at the top of my remarks, our main priority is to achieve sustained, stronger, durable, and more inclusive growth.

This priority could be promoted by three I's – Infrastructure, Inclusiveness and Institutions. These three will be tackled in greater depth during the panel sessions throughout this morning. But allow me now to just quickly run through each one.

The need for the first "I" – infrastructure – is straightforward. The Philippines has serious need for more infrastructures. First, to deliver important services and facilities to the people. These include well-ordered affordable mobility within the urban areas, efficient transport/delivery of goods and services between our islands, and the provision of low-cost and reliable (electric) power to the whole archipelago. Second, to enhance the attractiveness of the country as an investment destination by improving the local business climate and reducing the cost of doing business in the country. The Philippines boasts of a highly skilled workforce. To be able to deploy more of this workforce into well-paying value-added jobs, we need to bring in more foreign direct investments that will build industry. With the performance of the fiscal authorities, the National Government has been able to broaden its fiscal space. This gives it room to elevate public spending on infrastructure and foster public and private partnership.

It is also imperative that we focus our efforts on Inclusiveness, the second I. We must create an environment that not only enables more of our countrymen to enjoy prosperity as the economy grows... but also one where they can actively participate in making the economy grow. Indeed, durable economic growth is one that is inclusive. It must cast a wider employment net in a broader set of industries, while remaining entrepreneur-friendly. On the BSP's part, we continue to strengthen our initiatives to promote greater financial inclusion through regulations that broaden access to financial services and programs that deepen financial learning.

Finally, we must foster responsible and responsive political and economic institutions, the third "I" – Institutions that are anchored on ethical and transparent governance systems. Institutions that would engender a sound and upright policy framework... that would enforce the nation's laws and regulations faithfully and consistently that would ensure the smoother functioning of the economy. The ongoing efforts to establish such institutions should help promote a stable and dependable business environment where entrepreneurial activity – particularly of the SME variety – can flourish.

On the part of the BSP, we continue to support the country's macroeconomic fundamentals by firmly adhering to our mandate of safeguarding price stability and ensuring that the financial system remains resilient. The BSP will continue to draw upon its policy toolkit to ensure that liquidity remains adequate to fuel the economy's requirements in an environment of low and stable prices. We will also continue to maintain a flexible exchange rate policy that allows the market to essentially determine the exchange rate, but with scope for official action to ensure against any excessive volatility. The BSP will likewise continue to pursue banking reforms, in line with the global financial reform agenda, that would help further strengthen banks, individually, and the system as a whole.

Let me conclude on this note – The positive transformation of the economy that we now enjoy is the result of critical structural reforms, along with careful macroeconomic management. While we have amply demonstrated that we are capable of instituting critical reforms, we at the same time, continue to be mindful that the operating environment is evolving, and therefore we need to carefully move in step. And this is what we are doing. Reforms will continue to play a significant role in further propelling economic activity going forward. As we are well aware, government cannot craft and implement reforms alone. We

need your partnership. We need your support. For it is only if we work together that any structural reform agenda would be truly transformative towards durable and inclusive economic growth.

Thank you and a pleasant day to all.