

## **Amando M Tetangco, Jr: The Bangko Sentral ng Pilipinas and the Philippine banking sector – sustaining financial stability amid global volatility**

Speech by Mr Amando M Tetangco, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the annual reception for the banking community, Manila, 19 January 2016.

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On behalf of the Members of the Monetary Board, I thank all of you for joining us tonight for our annual reception for the banking community which brings together leaders and movers of our economy within this historic 400-year old Fort San Antonio Abad. This is a cherished tradition at the BSP – to recognize the value of our partnership in sustaining the growth of the Philippine economy.

This Fort, an enduring symbol of centuries past, provides us a most fitting venue to reflect on the year just past and what lies ahead as we continue to move forward together.

### **The year that was**

Ladies and gentlemen, the Philippine banking sector was again a source of strength and stability for our economy in 2015. Sound, stable and liquid, our banks continued to be a major source of funding for our productive sectors and thereby helped generate jobs that support inclusive growth across the country.

As of the third quarter in 2015, the asset base of the banking industry had reached over P11 trillion, growing over P1 trillion in 12 months, while continuously achieving higher prudential standards by keeping non-performing loans at low single digit-levels. (2.3% as of September 2015). The combined resources of the banking industry are sufficient to finance the requirements of the real economy.

And with a continuing build-up in capitalization, our banking sector more than meets national and international standards. In fact, our semestral stress tests confirm further that bank capitalization stands resilient, even against extreme tail events. Indeed, the numbers do speak for themselves.

Ladies and gentlemen. The sustained growth and stability of our banking sector in 2015 happened amid global financial turmoil. The much-anticipated Fed lift-off finally took place last December, with interest rates moving up on signs of a gradual revival of the US economy. Other concerns that made for a challenging 2015 were slowing inflation in the Eurozone and Japan, economic restructuring in China, and the sharp drop in oil prices.

But despite all that, it was, on balance, another good year for our economy in general, and the banking sector in particular. The Philippine economy continued to expand, with 2015 inflation settling at 1.4%, our lowest in 20 years. Our external position is robust and offers buffers against possible external shocks, with a Balance of Payments surplus, healthy level of Gross International Reserves that could pay for over 10 months worth of imports of goods and services, and remittances through banks from overseas Filipinos that continue to grow year after year.

Indeed, for our banks, 2015 was a year that tested their resilience but they came out of it stronger and more stable.

### **Continuity amid change**

Now, we start 2016 from a position of strength. This is a good place to start. We have done our homework.

We should be able to manage external risks that may arise from continuing volatility and possible contagion and closer to home avoid excessive leverage and imprudent practices.

In particular, we anticipate that 2016 will continue to test the resilience of our banking system, with market volatility that can heighten market liquidity and credit risks.

We therefore need to stay firmly committed to the pursuit of financial stability as the overarching prudential norm. It is a public good that benefits us all and gives us the space to pursue growth and profit opportunities.

Moving forward, there are game changers we have to contend with. Among others, regional integration will happen. This means that we have to be ready for the challenges that are sure to come with it and more important, to ensure that we reap the benefits we stand to gain from integration.

Certainly, the BSP will actively pursue bilateral arrangements to designate Qualified ASEAN Banks or QABs under the ASEAN Banking Integration Framework but much work must be done in parallel on payments and settlements, market infrastructure and capital market development.

To further enhance the effectiveness of monetary policy, we shall have the Interest Rate Corridor in the next few months. Aside from enabling smoother market rate adjustments relative to BSP policy rates, we see that the IRC will contribute to having more active and efficient financial markets.<sup>1</sup>

And in support of the national goal of inclusive growth, we will pursue with 12 other government agencies the implementation of our National Strategy for Financial Inclusion. Our objective is to make our financial system more inclusive, responsive and more accessible to the Micro, small and medium enterprises, as well as to the underbanked and the unbanked.

There is room for banks and other institutions to participate in this program. I hope therefore to see more banks and other institutions support this crucial undertaking not only as a matter of corporate social responsibility, but as a legitimate and sustainable business opportunity that should make our economy stronger. We also know that an inclusive financial system makes for greater stability.

Ladies and gentlemen of the banking community. I also call on you to make sure that your banks and all your branches serve the public by exchanging old banknotes identified for demonetization with new generation banknotes even if they are not your regular clients, even if they are sidewalk vendors exchanging just a handful of old banknotes. This is financial inclusion at its best.

The BSP also pins its hope on gaining mileage on its financial inclusion targets with the launch of our National Retail Payments System Project. The NRPS is envisioned to provide an accessible, inclusive and safe electronic payments system using inter-operable payments network that financially links the country – from Batanes to Sulu – 24/7.

Amid all these exciting developments, we have also introduced the Financial Consumer Protection framework to ensure that new participants to the financial system are provided sufficient guidance and protection. This calls for pro-active programs for consumer education, transparency and providing necessary information for redress mechanisms. I look forward to the active participation of banks in this activity.

Indeed, we have a full agenda that will help maintain the strength and stability of our banking sector.

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<sup>1</sup> “How central banks influence interest rates” Speech by Mr Øystein Olsen, Governor of Norges Bank (Central Bank of Norway), at the Centre for Monetary Economics (CME) / BI Norwegian Business School, Oslo, 1 October 2015. <http://www.bis.org/review/r151002b.htm>

In this connection, the entry of new foreign banks under our liberalized regime should further enhance the quality of competition among our banks and nurture innovations that will ultimately benefit the general public.

This reminds me that during our co-chairmanship of the Financial Stability Board Consultative Group for Asia, then Vice Minister Masamichi Kono of the Japan FSA, advised that we should enjoy a cup of matcha or green tea to get us going through the day and that we should take mugicha at night to relax. In the same spirit, we can all enjoy Ginseng tea or Maesil cha from South Korea, Oolong tea from Taiwan or Teh Tarik from Singapore. All of these are said to help our internal juices flow and rejuvenate our body.

You may ask, why am I mentioning tea from Japan, South Korea, Taiwan and Singapore? Well, it is because the Philippine banking community is going to be even more dynamic with the entry of six banks from these jurisdictions. Like the tea that is good for our body, the entry of these six banks to the Philippines could catalyse further innovations in our banking sector. We expect more to come in.

What else do we see in 2016? The consensus forecast for 2016 is for modest and uneven global economic growth.

Certainly, we are not immune to adverse external developments. We will have to deal with their ramifications, the bumps on the road, so to speak.

Nonetheless, we believe that our sources of resilience will sustain our growth momentum. Private consumption continues to be buoyant while the services and industry outputs remain firm. And Government spending is expected to further increase in line with continuing efforts to address issues on spending bottlenecks, especially for public infrastructure.

Thus, while 2016 will test the resilience of our banking system, we can rely on the quality of our preparations to manage evolving risks from volatility as market tide shifts.

This is also evident even to external analysts. Fitch Ratings has given the Philippine banking system a positive rating outlook for 2016<sup>2</sup>, the only one for Asia-Pacific. Among others, Fitch noted the “generally healthy profile of local lenders, sound operating environment and the Philippines’s strong economic fundamentals.”

Congratulations to our Philippine banks!

## **Final thoughts**

Ladies and gentlemen. We will continue to pursue our reform agenda to ensure stability for the long-term. We are unfazed by the challenges that will come our way because we are prepared, because we have been doing our homework. And we embrace continuing reforms because that is the key to stability and to more opportunities moving forward.

Finally, we at the Bangko Sentral ng Pilipinas thank the members of the banking community for your active support and cooperation, in implementing policies and programs in pursuit of our mandate to provide stability to prices and the banking sector – stability that sustains economic growth for the long-term; stability that promotes inclusive growth.

At this point, may I request the other Members of the Monetary Board to join me onstage. Secretary Cesar Purisima, Freddie Antonio, Phillip Medalla, Andy Suratos, Jun de Zuniga and Val Araneta.

Together, let us offer a toast to the Philippine banking industry– may you continue to be sound, stable, liquid, and responsive to the needs of our economy, our country and our people. And

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<sup>2</sup> Business World “Fitch upgrades outlook of Philippine banking industry to ‘positive’” 16 December 2015.

may all of us here at Fort San Antonio Abad be blessed with a happy, healthy and prosperous New Year. Cheers!

Mabuhay ang ating mahal na bansang Pilipinas! Mabuhay po tayong lahat! Maraming salamat sa inyo!