

Amando M Tetangco, Jr: Tapping into our strengths - opportunities, threats and challenges for 2016 and beyond in the Philippines and Asia

Speech by Mr Amando M Tetangco, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the 2016 Presidential Conference on WASH in Schools hosted by Rotary International, Pasay City, 18 March 2016.

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It is always a pleasure to speak before Rotarians, a group very much involved in key and critical issues affecting communities, especially children and the youth.

You may wonder why a central bank governor, whose primary mandate is price and financial stability, would be speaking at a Conference on “water, sanitation and hygiene.” I wondered this at first, when your Conference Chair and Past Governor Sid invited me to speak today. But as I thought about it, I realized that your goal of providing water, sanitation and hygiene to schools is not that unrelated to our own goals as a central bank.

Let us consider a fundamental tenet in economics – Scarcity value determines the price of a resource. Often, scarcity is only perceived. This occurs when the source of supply is not sufficiently connected to demand. When supply meets demand, there is price equilibrium. This is the goal. On this premise, I realize we are looking at the same problem but with different lenses.

In the BSP, we look at the issue primarily from the price stability angle, in your case, the convergence of supply and demand is the end view. Ultimately, we are both looking at the scarcity problem with welfare enhancement – improving the quality of people’s lives – as our overarching goal.

Another similarity is that we – Rotarians and the BSP – both embrace the value of partnership and collaboration. Sid invited me to give an overview of opportunities in 2016. In my message, I will identify areas where collaboration is possible. I shall also mention how we can harness the potential of evolving consumer patterns and technology toward our shared goal of national development.

Eliminating the perception of scarcity

The Philippines has abundant water resources (421 principal rivers, 59 natural lakes, 4 major groundwater reservoirs, and numerous individual streams¹). One would think that making water readily available to its populace should not be a problem. Theoretically, per capita water availability is twice as much as the rest of Asia, and about six times above the global scarcity threshold². But, over 400 of our municipalities³ remain waterless. 7.5 million Filipinos do not have access to improved water supply facilities. Inequalities in access are starkest and most persistent for rural areas. 93% of the richest rural households have access to improved sanitation, as compared to only 27% among the poorest quintile. 69% of the richest quintile enjoys piped water house connections, while only 4% of the poorest quintile does⁴. There is a disconnect between availability and the quality of, and access to water services.

Moreover, an estimated 55 Filipinos die every day because of waterborne diseases⁵ – a tragedy entirely preventable by providing adequate sanitation facilities, education and

¹ Llanto (2013)

² World Resources Institute

³ 1,634 municipalities as of end 2015

⁴ Data source: USAID

⁵ USAID (2015)

promotion of good hygiene habits. I believe this is the essence of the WASH in schools program.

We face a parallel challenge as central bankers. How do we enable a greater trickle-down effect so that opportunities and benefits of a healthy and growing economy are cascaded to the grassroots?

Harnessing opportunities

The motivation to address this compelling need is behind the BSP's push on financial inclusion. Increasing financial services access is a challenge for an archipelagic country where nearly 600 municipalities⁶ remain unbanked.

The BSP has institutionalized financial inclusion following a three-pronged approach, namely: access and usage, financial literacy and education, and increased financial consumer protection. To push access and usage, a regulatory environment is being created to encourage innovation and maximize safe technology use. In particular, an ecosystem is being created where the unbanked are granted financial services through alternative providers, without need for brick and mortar bank branches or facilities.

Recognizing, however, that the task of financial inclusion is so great, last year, the BSP engaged twelve other government agencies to launch the National Strategy for Financial Inclusion (NSFI). The NSFI aims to unify various initiatives on financial inclusion into a coherent platform so we can exploit economies of scale and expertise across various government agencies. Many private sector agents have come to work with us under the NSFI – including telcos. We also hope to elicit interest from those here in the room. We are convinced financial inclusion is one of the ways to make economic growth more broad-based and inclusive.

That said, we also recognize that inclusive growth will only be realized if our countrymen are given sustainable access – not just to finance- but also to basic human necessities: including safe and clean water. Here, public-private partnerships are a feasible solution to the low level of investments in the water supply sector.

ASEAN integration is another area of opportunity. With the passage of Republic Act No. 10641, full entry of foreign banks into the Philippines is now allowed. Qualified ASEAN banks can enter the local market. We recently signed an agreement with Malaysia under the ASEAN Banking Integration Framework. The BSP Monetary Board has also approved the application of six foreign banks to set up Philippine branches. This liberalized regime should further enhance the quality of competition among our banks. This environment will result in promising opportunities to encourage innovations that will ultimately benefit the economy and the general public.

Another source of opportunity is the country's large, young and highly literate population. In the Philippines, the median age of the population is 24⁷. In Japan, it is 47. In the U.S., it is 38. We are entering a "demographic window" historically proven to be the most prosperous years of a country, where millennials comprise a significant consumer segment. As the largest portion of the workforce, they are identified to play a key role in driving growth and economic development. It is an exciting time and the future is bright with possibility!

This young generation will also make adoption of cutting-edge technology more likely. This can lead to opportunities for greater innovation including for the water supply chain industry in terms of safeguarding water sanitation, waste water management and protecting the environment.

⁶ 594 out of a total number of municipalities of 1,634, as of end 2015

⁷ CIA World Factbook (2015)

For the banking industry and suppliers of goods and services, this can be significant. Modern digital financial services and changes in how we make payments and money transfers will be provided. Related to this, the BSP is developing a National Retail Payment System (NRPS).

Through the NRPS, we aim to establish a safe, efficient and reliable means to transfer value built upon an effective and interoperable interface of various electronic payment channels. This is an integral reform given that of 2.5 billion payment transactions per month, only 1% is made through electronic means. The NRPS will expand the reach of financial services and will promote efficiency, transparency and development of business models improving economic competitiveness.

The backdrop of the economy

I hope I have encouraged you to consider some opportunities to help us achieve our shared goal of economic development. Let me round off my remarks with views on our operating macroeconomic environment moving forward. This may help guide you to take advantage of these prospects.

The Philippines entered 2016 in a position of relative strength. In 2015, average full year GDP growth was 5.8%. This is among the highest in Asia. The 4th quarter 2015 growth of 6.3% brought the number of consecutive quarters of positive economic growth to an astounding 68 quarters.

The Philippine banking system continued to expand. Over the past six years, total assets roughly doubled owing to a steady growth of deposit liabilities. Bank loans also doubled and nonperforming loans continued on a downward trend. Philippine banks are well-capitalized, with capital adequacy ratios above national and international standards. Our external liquidity position is strong. Our end- February GIR of US\$81.3B is sufficient to cover 10.4 months of imports and payments of goods and services.

That said, in 2016, there are still challenges to our positive position. These will come mostly from the external side. There is divergence in the monetary policies in the advanced economies. The US Fed is poised to raise rates (albeit now at a slower pace in 2016 than the Fed first indicated in December 2015), while ECB and BOJ are in negative interest rate territory.

This may raise near term financial market volatility. But we are hopeful that the policies adopted would result in a sustainable growth trajectory for these countries and would create positive ripples to our own trade and growth prospects.

Another cause of concern is the Middle East, where oil prices fell sharply. While oil importers like the Philippines benefit from the price drop, low oil prices are double-edged. Oil exporters may cut back on capital expenditures. This may have an adverse effect on the Philippines in general, and on overseas Filipinos, should oil producers cut costs and trim staff. There is need to manage the near-term impact on financial market volatilities and the government should consider more long-term solutions to possible disruptions. Domestic considerations include intensification of the El Niño phenomenon (a very clear concern we share) and the persistence of infrastructure gaps. Results of the upcoming national and local elections may also influence global perception of Philippine growth prospects.

These risks, notwithstanding, we expect to see the country continue on the path of low inflation, steady growth. Our confidence stems from the buffers we built: a strong commitment to price stability, a stable banking system, a robust external liquidity position and a safe, sound and efficient payments and settlements system.

Closing

I began with the issue of the perception of scarcity, owing to the disconnect between supply and demand of resources. I then shared some opportunities to scale up services and further improve the quality of people's lives; create and nurture innovative partnerships; recognize

and value our common and significant consumer segment; leverage on technological innovation and increase our efforts for development of our respective nations. These are consistent with the Rotary Club's mottoes of "Service Above Self" and "One Profits Most Who Serves Best."

It is incumbent on us to make the connections, technological, mechanical, and regulatory. As solutions to a problem: water scarcity and security, access to financial services and achieving overall inclusive growth are ultimately, solutions for all. May we commit to an even stronger engagement and partnership as we face challenges and opportunities the unfolding operating environment offers.

Thank you and good evening.