Amando Tetangco: The Philippine banking system - the past, the present and the future

Speech by Mr Amando M Tetangco, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the 2017 Annual Reception for the Banking Community, Manila, 10 January 2017.

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It is a tradition that we host this reception at the beginning of the year, when we commemorate the anniversary of central banking in the Philippines. For the information of those among us who are too young to remember, the Central Bank of the Philippines or the CBP opened for business for the first time on January 3, 1949; that's 68 years ago.

And while the country's central monetary authority is now the Bangko Sentral ng Pilipinas — whose 24th anniversary we will celebrate on July 3, 2017 – we maintain the tradition of holding this annual event at the beginning of the year.

To us, this is the perfect time to reflect on the past, the present, the future and how we can make things work even better, moving forward as one community.

2016 has been described as a year like no other – it started off with a bang, with China's stock market on a seeming free fall that shook global markets; we saw for the most part of the year global anxiety over the timing, pace and magnitude of the US Fed policy rate decision; by mid-year, the unexpected Brexit results shocked us; then came the surprise victory of US President-elect Donald Trump. 2016 ended with the world uncertain over global politics and policies and how these would impact on economies and people.

Indeed, 2016 brought volatility, uncertainty and other threats to growth and stability.

In the Philippines, strong fundamentals borne out of the continuing pursuit of a reform agenda, kept our economy going… and growing. And once again, we achieved convergence of low inflation (below 2%) and healthy growth. The Philippine economy grew by a 7.0 % in the first three quarters of 2016, giving us the distinction of being among the fastest growing economies in Asia. And it is broad-based growth we can be proud of: it was supported by a strong services sector, a resurging industry and manufacturing sector, a rebounding agriculture sector, and robust consumption and capital formation.

Our external position also provided additional support to the economy. The peso remained in line with regional movements, while our current account continued to register a surplus. Our international reserves as of end 2016 stood at US$81 billion, adequate to cover over 9 months' of imports of goods and payment of services, as well as to cushion us from unexpected external shocks.

The Philippine banking industry played a significant role in helping sustain the pace of growth of our economy. Bank lending continued to expand by double-digit rates and went mostly to productive sectors.

As of November 2016, consolidated bank loans reached P7.4 trillion, almost 19% (18.5%) higher than the year-ago level. Indeed, the banking sector kept pace with the growth of our economy.

Total assets of the banking industry reached P13.2 trillion, over 12% (12.4%) growth from the November 2015 level, while deposits increased by more than 13% (13.5%) to P10.1 trillion, an all-time high.

Significantly, asset quality improved further with non-performing loans at 2.0% while capitalization remained comfortably above the minimum required under national and international standards. And the banks continued to report profits.

In other words, ladies and gentlemen, the Philippine banking sector not only survived 2016, it continued to thrive.

And more than these, our stress tests indicated that our banks can withstand extreme shocks in both credit and market risks.

Third party analysts also have positive reviews concerning our banking industry. For instance, the Philippines is the only banking industry within Asia Pacific that was given positive outlook by Fitch Ratings in 2016. Meanwhile, Moody's recognized our banking industry as the only one within ASEAN that has a stable outlook on all rating factors — operating environment, asset quality and capital, profitability, funding and liquidity.

Indeed, our banking sector is sound, stable, and continues to be a source of strength for our economy. The Philippine economy has recorded 71 quarters of uninterrupted growth. Our banks helped nurture this virtuous cycle for our economy.

Let us therefore congratulate the leaders of our banking industry for making this happen. Let us also thank other institutions that support our banking system.

Of course you and I know that it was not easy getting here. Together, the Bangko Sentral ng Pilipinas and the banking sector worked together to continue to strengthen our banking system, raise risk management standards, and align governance standards with international best practices.

The process of collaboration has been challenging but our performance does speak for itself.

Today, we find ourselves in a strong position to ride out the waves of change. Nevertheless, we are fully aware that past success does not guarantee immunity from future challenges.

Ladies and gentlemen, there is irrational exuberance, just as there is radical uncertainty, with periods of calm in between. This is our present reality and we must constantly work for balance and re-balance, managing the pace and the content of foreseeable change in our own spheres of responsibility. As market stakeholders, we must see change in the factors that reshape the markets and their participants. The core agenda of the BSP and the past 12 years provide a rich canvass from which we can draw some highlights.

We shifted to a risk-based supervisory framework so that we can assess the behavior of bank management against standards of safety and soundness; obviously, mere paper compliance is not acceptable. This behavioral focus was enriched by other complementary reform strands such as the governance standards of the Board of Directors and bank Senior Management, the amendment to the compliance framework, as well as several other reforms on risks related to credit, market, operations, and IT management.

We introduced higher bank capital thresholds so that banks can navigate a more interconnected and sophisticated financial market system.

The BSP likewise enhanced its cooperation and coordination efforts. The Financial Stability Committee (FSC) was set up with a mandate to conduct effective macro-prudential surveillance of the financial system, detect signs of instability, and coordinate policy responses with other regulatory agencies.

With the sovereign elevated to investment grade, the Philippines needed to re-position to better manage cross-border commerce. In this connection, we thank Congress for its full support of initiatives liberalizing foreign entry into the banking system. This eventually became law, specifically RA10574 and RA10641. On the latter, we are happy to report that nine banks have entered the Philippine banking industry thus far, with six more banks expressing interest.

Moreover, to guarantee that our monetary policy actions are better transmitted into market pricing, we introduced the Interest Rate Corridor last year. Having market rates better aligned with the BSP policy rate ensures a better transmission of monetary policy into the real economy. This has also set the stage for the progressive roll-back of high reserve requirements as we develop the sophistication of our policy instruments.

Meanwhile, the emergence of fintech in a market, driven by the needs of millennials is also expediting a shift in products and the delivery channels for services. The BSP facilitated this thru innovative and responsive regulatory changes of its own.

While all these changes were happening in the banking system, our continuing focus on developing a more inclusive financial system resulted in more concrete gains – in terms of providing access to financial services, consumer finance education and stronger consumer protection. The intentional parallel thrust ensures that the growth of the banking system would be truly responsible and responsive. And we have received awards and international commendations for these efforts and initiatives.

Indeed, we have seen a sea change, a significant transformation in the banking sector. As governor of the Bangko Sentral ng Pilipinas for 11 1/2 years now, I have had the privilege of managing, with you as partners, the content and the pace of change for the banking industry, seeing it evolve to where it is today, and moving it forward to help secure a better future for our economy, for our people.

As we prepare to handle the challenges of this new year, allow me to call on stage my colleagues in the Monetary Board. Their collective wisdom enables us to craft policies that have secured for us the stability of the past and the present, and the promise of an exceptional future. It is an honor working with them.

May I call :

MBM Alfredo Antonio

MBM Felipe Medalla

MBM Armando Suratos

MBM Juan D. De Zuñiga and

MBM Val Araneta.

Indeed, time flies. I end my second term as Governor of the Bangko Sentral ng Pilipinas on July 2, 2017. I take this opportunity therefore to thank the leaders of our banking industry and the BSP's partner institutions for working with us through the worst of times, the best of times, and all the time in between.

Together, we have nurtured a vibrant and dynamic banking sector that is sound, stable and globally competitive. Indeed, it is a banking industry we can all be proud of.

Ladies and gentlemen, let us offer a toast. To blessings of peace and prosperity for everyone, for our people and our country. Mabuhay ang Pilipinas, Mabuhay po tayong lahat! Cheers!