

Armando M Tetangco, Jr: Central banking and symphonies

Speech by Mr Armando M Tetangco, Jr, Former Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the 24th Anniversary Program of the Bangko Sentral ng Pilipinas, Manila, 3 July 2017.

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Happy anniversary Bangko Sentral ng Pilipinas!

Ladies and gentlemen, we celebrate the 24th year of the BSP on a high note.

Just last month, the Singapore-based publication *The Asian Banker* named the Bangko Sentral ng Pilipinas as the Best Macroeconomic Regulator in Asia-Pacific. The *Asian Banker* also presented the BSP Governor with a “Lifetime Leadership Achievement Award”, citing the central bank’s contributions to the Philippine financial system and the economy under his watch.

Last May, a report published by the international credit rating agency S&P said our “central bank has a record of supporting sustainable economic growth and responding appropriately to changing economic circumstances.” S&P added that our “ability to maintain macroeconomic and price stability through an economic cycle has been tested, including a period of exogenous shocks.”

And last February, the Hong Kong-based publication *FinanceAsia* named the BSP Governor “Outstanding Achievement Awardee” for excellent stewardship of the BSP, managing the difficult task of keeping inflation under control at the same time as giving the country room to grow and fulfill its potential. *FinanceAsia* cited our contributions to Philippine economic development and to the improvement of central banking standards in the region.

Indeed fellow BSPers, our monetary and banking policies have continued to provide the stability needed by our economy to overcome the humps and bumps, and the twists and turns in the global landscape, including the Global Financial Crisis and its lingering effects on economies and central banks. Here in the Philippines, we did not only survive the GFC, we continue to thrive.

Ladies and gentlemen of the BSP, we accomplished this together. BSPers, past and present, lahat may kontribusyon! As I keep saying, the BSP is not a one-man band. The individual and the institutional awards we receive belong to ALL BSPers across the country – mula Luzon, Visayas at Mindanao! Thank you and congratulations BSPers!

The way I see it, the role of a central bank governor has a lot in common with that of a musical conductor, who leads people from different disciplines to create beautiful harmonies that add up to masterful symphonies.

Of course, there were times we heard some discordant notes. But by and large, we played harmonious and beautiful music together, so to speak, that resulted in benefits for our people!

Let me cite some highlights of our performance:

- ♦ We achieved low and stable inflation conducive to sustained economic growth by adopting data-driven and forward looking policies;
- ♦ We have a sound, stable and liquid banking system that is well-capitalized and supports the financing needs of our economy particularly the productive sectors;
- ♦ We operate a safe and reliable payments system that minimizes possible systemic risks and inspires confidence in our financial system;
- ♦ We have nurtured a strong external position that provides buffers to potential shocks to the

economy and the financial system; and

- ♦ We are implementing a comprehensive agenda for financial inclusion to ensure inclusive growth that improves the quality of life of Filipinos.

Given these positive outcomes, how do these play out and benefit our economy and our people?

The first and most notable positive change is the transformation of the Philippine economy — from being described as the sick man of Asia, we have moved up as a rising tiger economy whose growth is among the fastest in the region.

In cooperation with other institutions, we have achieved the ideal convergence of low inflation amid high economic growth. Definitely, the size of the economy has been expanding — from an average GDP growth of 4.9 percent from 2005 to 2010, growth went up to an average of 6.1 per cent in 2011 to 2016 and reached 6.4 percent in the first quarter of 2017. On the other hand, inflation averaged 5.2% in my first six years as Governor (from 2005 to 2010) and dropped to 3.0% in my second term (2011 to 2016). From January to May this year, inflation has remained stable and averaged 3.1%.

The second positive outcome of our policies is the strengthening of our domestic banks, particularly in terms of size, capitalization and reach. The banking system has tripled in size over the past decade, with year-on-year growth of 12.6 percent. As of end-April 2017, the total resources of the banking system reached P14 trillion, the highest on record. Parallel to this, banks' overall capitalization is at levels above both the national requirement and the international BIS standard. As the main provider of domestic credit, the Philippine banking system is seen by international debt watchers as a source of sovereign strength.

The third benefit is the continued increase in the volume and value of PhilPASS transactions — from its modest start in 2002 with 5,685 transactions, first quarter 2017 transactions alone already hit 419,455 while value of transactions shot up from P2.4 trillion in 2002 to P78.7 trillion in the first quarter 2017. Indeed, confidence in the BSP's PhilPass supports the continued growth and development of our financial system.

The fourth improvement is the sustained build-up of the country's foreign exchange reserves— from a GIR level of \$18.5 billion enough to cover about 4.6 months' worth of imports of goods and services in 2005, our import cover had moved up to about 9 months on a GIR of \$82.2 billion as of end May 2017. At the same time, the country's debt management program saw external debt-to-GDP improve by more than half — from 59.7 percent of GDP in 2005 to 24.0 percent as of end-March 2017.

The fifth benefit is the country's elevation to investment grade beginning 2013. Major international credit rating agencies (i.e., Moody's, Fitch, and S&P) uniformly acknowledge the BSP as one of the institutional pillars that generates positive marks for the country.

Ladies and gentlemen, the BSP has been able to accomplish all these because, as an institution, the BSP is ready. It is nimble enough to be able to adapt to the changes in its operating environment. We have built capacity among our people, streamlined processes, leveraged off technology as appropriate, and inculcated an overall sense of good governance and accountability in all that we do.

In recent years, we have also institutionalized the new norm of financial stability in our organization as well as in policy coordination and cooperation with other financial regulators. This new mindset has allowed us to put on a more holistic lens in the conduct of surveillance and the crafting of policy.

So far, so good. Looking ahead, I see the BSP successfully pursuing its mandate to help provide

stability and promote sustained growth of our economy through monetary and banking policies.

Ladies and gentlemen. We thank President Rodrigo Roa Duterte for having chosen the path of stability and continuity by appointing veteran central banker Nestor Espenilla, Jr. as our new BSP Governor. With Gov Nesting's deep knowledge of the BSP — its history, mandate, organization, and corporate culture – he can certainly hit the ground running. I have worked closely with him and I can tell you that Gov Nesting is a top-notch central banker and a man of integrity, who has what it takes to excel as the BSP's new leader.

Let us also welcome the three appointees of the President who will join the Monetary Board for a term of six-years each — former trade secretary and veteran banker Peter Favila who returns to the MB; former economic planning secretary and eminent economist Dr. Phillip Medalla who was reinstated for another term at the Board; and veteran banker and corporate CEO Antonio Abacan. They complete the seven-man MB with Finance Secretary Sonny Dominguez; former general counsel and deputy governor of the BSP Juan de Zuniga, Jr.; veteran banker and former PDIC Head Val Araneta; and Monetary Board Chairman and BSP Governor Nestor Espenilla, Jr.

I am very pleased to see therefore that we have with us distinguished guests who can provide crucial support and cooperation to move the BSP's agenda forward under Gov Nesting's watch. With us this morning are former Central Bank governors and colleagues, fellow workers in government, representatives from the banking sector, the business community, multilateral agencies, our friends from the media and the members of our families. Indeed, it is fitting that we have multi-sectoral representations today as BSP's policies ultimately affect all Filipinos, our economy and our country.

I hope therefore that Gov Nesting and all the Members of the Monetary Board will receive all the support they need to craft, formulate, innovate and implement effective policies and programs to serve the best interest of our people, our economy and our country.

Finally, I want to thank all of you for the unstinting support you have given me during my 43-years of service as a central banker, the last 12-years of which was as Chairman of the Monetary Board and Governor of the Bangko Sentral ng Pilipinas. In particular, I am privileged and honored to have worked shoulder to shoulder with members of TEAM BSP—members of the Monetary Board, Management, officers and staff across the country. Your dedication to the pursuit of the BSP's mandate runs deep and strong, knowing that what is at stake could affect the quality of life of our people and our future as a nation. You are true public servants. Salamat sa inyo!

On behalf of my family – my wife Elma, my daughters Eula and Mia, my son Patrick and his wife Miko together with my unica apo Zara, my brothers and sisters— I thank you all. We are grateful that in sickness and in health, you were always there for me giving support, even singing and dancing to cheer us on.

Maraming, maraming salamat sa inyo!

Today, as I leave the BSP as citizen Say, I will not say goodbye. Instead, I will say ... until we meet again.

Mabuhay si Governor Nesting at ang Monetary Board! Mabuhay ang Bangko Sentral ng Pilipinas! Mabuhay ang ating Inang Bayan! Mabuhay po tayong lahat!