

Nestor A Espenilla, Jr: Continuing the voyage of excellence to a bright tomorrow

Speech by Mr Nestor A Espenilla, Jr, 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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Outgoing Governor Amando M. Tetangco, Jr.; distinguished members of the Monetary Board – Finance Secretary and MBM Carlos Dominguez III, MBM Felipe Medalla, MBM Juan De Zuñiga, Jr., MBM Valentin Araneta, MBM Antonio Abacan, and MBM Peter Favila; outgoing MBM members Alfredo Antonio and Armando Suratos; esteemed former Central Bank Governors Jaime Laya, and Jose Cuisia, Jr.; former MB Members – Raul Boncan, Ignacio Bunye, Melito Salazar, and Vicente Valdepeñas; distinguished guests from the banking community, the business sector, and the academe; my co-workers in the BSP in Manila, Quezon City, the regions, and the branches; family and friends, including my wife Tess and my children Jackie, Nikko and Nesty; ladies and gentlemen, good morning!

First of all, I wish us all a happy 24th anniversary!

Celebrating BSP's brand of excellence

Our chosen theme for this anniversary is “excellence”, highlighting one of the BSP’s core values. Together with patriotism, dynamism, integrity, and solidarity, excellence is the defining imprint in every BSPer’s DNA. These values should describe who we are and what we always aspire to be in our everyday life in BSP.

The Japanese equate excellence to the principle of “kaizen” which, in English, means “continuous improvement”. It is an evolutionary process – a daily conscious effort to do better than the day before. In his book “The Story of Philosophy”, American philosopher Will Durant summed up Aristotle’s thoughts on excellence – “We are what we repeatedly do, excellence then is not an act, but a habit.” Similarly, in his book “Outliers”, best-selling author Malcolm Gladwell advocated the 10,000-hour rule. This rule holds that at least ten thousand hours of deliberate practice are required to achieve the level of mastery associated with being a world-class expert.

Ladies and gentlemen, BSP’s journey to excellence started 24 years ago. Hard work and dedication have led us to achieve important milestones.

First, our effective conduct of monetary policy through flexible inflation targeting has led to a low and stable inflation environment that sustains economic growth. Today, the Philippines is one of the fastest growing economies¹ in the region.

Second, the domestic banking system continues to be fundamentally sound and stable. Banks are well capitalized and benefit from good asset quality, ample liquidity and healthy profitability. By reliably providing credit to the economy and mobilizing savings, the banking system is a pillar of sovereign strength.

Third, the BSP, as a progressive and vigilant issuer and overseer of the currency and operator of the Philippine Payments and Settlements System (PhilPaSS), has consistently provided a safe and efficient payments system that enables our economy to function smoothly.

We honor and thank my predecessor, Governor Say Tetangco, and the rest of our dedicated Monetary Board members, and other stewards of our institution before them, for their collective wisdom and for leaving us a legacy of excellence in the BSP. With you at the helm to provide guidance, we were able to sail the rough seas and kept the economy and the financial system on

an even keel for the past 12 years. Please join me in giving them a warm round of applause for a job well done!

Governor Say, I am truly grateful for your mentoring all these years. Yours are truly big shoes to fill and I am thankful that I am inheriting such an exemplary and world-class institution.

My fellow workers, we have achieved these significant milestones by working together and staying focused on pursuing our collective goals to the highest standards. This is the brand of excellence that is truly the BSP way!

Continuity ++

I dedicate my term as BSP Governor to building and leveraging on this legacy of excellence. We shall endeavor to fulfill our core mandates with greater vigour and integrity to ensure that both the economy and the financial system remain strong, stable, and resilient so that they facilitate transformational opportunities for all.

The BSP will continue to fine-tune our execution of monetary policy to make it even more market-oriented. We have already started with the deployment of the interest rate corridor (IRC) system. Over time, the IRC is expected to aid in advancing the development of the domestic money and capital markets based on greater reliance on the use of market-friendly instruments. In the same vein, we will work closely with other government agencies and private sector stakeholders to accelerate capital market reforms, including the development of the necessary financial market infrastructures that provide orderly trading, clearing, and settlement of the full range of financial transactions.

Leveraging on the much-improved and continuously improving governance and risk management practices of banks and other supervised financial institutions, we intend to further open up competitive opportunities to lower the cost of doing business, provide more customer choices, promote efficiency, and encourage innovation.

There are also vital pieces of legislation that we strongly support. We will advocate for their timely enactment. These include the amendment of the BSP Charter, the passage of the Payment System Act (PSA) and the Islamic Banking Act, and the easing of the deposit secrecy laws. We also join the initiative for the further strengthening of the Anti-Money Laundering Act (AMLA) to win the fight against money laundering and terrorist financing and thus secure the integrity of our financial system.

We must likewise do our part and remain focused in pursuing comprehensive reforms to enable our economy to position well in the rapidly integrating ASEAN regional economic system.

Bringing central banking to the people: towards a truly inclusive growth

Yes, the Philippines continues to experience strong economic performance amidst a stable macroeconomic and financial environment. But such growth, to be truly meaningful, needs to be inclusive, to create jobs, and to improve welfare.

The BSP has been promoting reforms in the macroeconomic and financial sectors, but we know that these are not enough. We have to push the envelope further. This is why the BSP has been passionate in its pursuit of its financial inclusion advocacy.

We need to work on bringing central banking operations closer to the people. This would entail strengthening our commitment to advance our financial inclusion, financial education, and consumer protection agenda to ensure that no one is left behind.

As you may know, in 2015, the BSP, together with industry participants and other stakeholders, embarked on an ambitious journey towards modernizing the retail payment system in the

country. The National Retail Payment System (NRPS) project defines the principles and critical elements to bring about a safe and efficient digital payment system. This can potentially transform our economy by enabling greater access to financial services. A well-designed payment system serves as a key pillar of an inclusive and expansive digital finance ecosystem – one that is able to meet the diverse needs of all users in a manner that is convenient, sustainable, affordable, and reliable.

Our policy agenda is therefore geared towards a truly inclusive, strong and dynamic financial system that is fully responsive to the needs of the domestic economy in line with the Government's medium-term development plan and the AmBisyon Natin 2040.

The new frontier: voyage to a new season of excellence

As we continue our voyage to a new season of excellence, let us examine what is ahead of us...

Our sound macroeconomic fundamentals and gains from earlier reforms will continue to support our growth prospects. However, we need to be mindful of potential sources of vulnerabilities.

The year 2016 saw the unfolding of unexpected global events that have escalated the level of policy uncertainty and market volatility. We have to be prepared as well for the seemingly imminent wind-down of ultra-easy monetary policies in advanced economies. We need to be mindful of such events and their potentially far-reaching consequences since these could undermine our economic performance and disrupt our carefully-laid plans.

Moreover, rapid technological innovations in the delivery of financial products and services are changing business models. Digital innovation is rapidly re-shaping financial services as we know it to serve a new breed of financial consumers who are young, upwardly mobile, technology-savvy, and have exacting demands for the convenient delivery of financial products and services.

The role of social media, particularly as an information channel, has likewise accelerated, highlighting the speed at which information, both good and bad news, and perhaps even fake news, can spread at an unprecedented speed. We cannot also be blind to the dark spectre of cyber-crime that can quickly undermine trust in our financial system. There is no substitute for eternal vigilance, timely action, and public education. We are all in this together and have a shared responsibility.

As policymakers and financial supervisors, we have to be in tune with these emerging market trends and evolving client needs, including the 'millennial' upside of our young population. Indeed, the new frontier presents central banking with challenges that have not been there before. The changing landscape calls for us to be more vigilant, proactive, and dynamic in responding to the needs of our diverse stakeholders.

The way forward

For a relatively small but fast-growing and open economy such as the Philippines, fulfilling our mandate and advocacies require an open-mindedness and a deliberate reconsideration of the conventional models we use for macroeconomic management, banking supervision, and financial system surveillance. Improving analytical frameworks and processes are critical. Key to this is the broadening of the skills and competencies of staff across the various disciplines within our institution.

In order to achieve operational excellence, the BSP has to be appropriately structured and equipped to deliver on our strategic mandates. We need to build on our inherent strengths and earlier gains in terms of instituting enhanced corporate governance, adopting best practices, and instilling greater professionalism and accountability. We need to constantly work together to maintain BSP's brand of excellence.

We are fortunate that we have a mature organization that nurtures talents and provides an enabling environment for excellence. We are able to offer a competitive compensation and benefits package to attract, motivate, and retain good talents. There is a competency and merit-based system for career development and advancement. We have an established wellness program that fosters “work-life balance” for BSPers.

Under my leadership, I will continue to support the aspirations of all BSPers in terms of better facilities, competitive pay and benefits, and capacity building opportunities through training, scholarships and work development interventions. This also includes supporting institutionalized benefits and incentives that reward excellent performance. To me, motivated BSPers will always give their best to the institution. Tama ba?...

Concluding remarks: a message of solidarity

Circling back, this year’s anniversary theme, “2gether moving 4ward: A New Season of Excellence” is a vivid reminder of the task ahead of us in the next six years.

In closing, I share with you a nugget of wisdom from an anonymous sportscaster. He said, “You don’t win with the best talent – you win with the five players who are able to play well together.”

Ladies and gentlemen, central banking requires similar exemplary and coordinated ability to navigate the currents of the global financial markets. We need to build on the trust, loyalty, integrity, and dedication to excellence of each member of Team BSP to achieve our given mandates, advocacies and collective vision. This is crucial in order for us to thrive given the evolving demands of modern central banking.

My fellow BSPers, I have been given the immense honor and privilege of being your new team captain. Believe me when I say that this is a role that I do not take for granted. However, I need your prayers and support, too. They say that it can be lonely at the top. From that vantage point, national issues and high-level problems may overshadow the needs and concerns of the BSP community. Even when the going gets tough, my fervent wish is that I never lose sight of where I came from. Ako ay laking BSP. Ang aking husay at lakas ay galing sa BSP. I therefore owe it to all of you to stay connected and to continue serving the BSP community even as we all serve our country with skill, honor, integrity, and accountability.

Our beloved Philippines has a lot of promise before it, and in your good hands, it will continue to thrive and flourish. It is because of this promise that we must relentlessly seek excellence, not for glory or acclaim, but for the sake of delivering the best possible service to the Filipino people.

I thank President Rodrigo Roa Duterte for this opportunity to serve.

Mabuhay ang BSP! Mabuhay ang ating mahal na bansang Pilipinas!

¹ In 2016, the country’s gross domestic product (GDP) grew by 6.8 percent. It is higher than Malaysia’s 4.5 percent, Indonesia’s 4.9 percent, Thailand’s 3.0 percent, and Singapore’s 2.9 percent (Source: BSP website available at www.bsp.gov.ph/statistics/efs_asian.asp)