

## **Nestor A Espenilla, Jr: Strength without agility is mere mass**

Speech by Mr Nestor A Espenilla, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the 11th ING-FINEX Chief Financial Officer (CFO) Award Ceremony, 20 November 2017.

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For the past eleven years, FINEX in partnership with the ING Bank has conducted a methodical nationwide pursuit for the country's top chief financial officer (CFO).

"The Agile CFO" – is a change enabler, one that goes beyond tradition, quickly adapts, thrives and succeeds in the ever evolving financial environment. The search has ended. We will have the distinct privilege of the great reveal in a while. It's quite exciting.

Nevertheless, as I look around this room, I can see many agile leaders of Philippine commerce, banking and finance whose swift and responsive initiatives have contributed to shaping the business environment into the robust and thriving one it is today.

FINEX President Benedicta Du-Baladad, ING-Manila Branch Managing Director and Country Manager Hans B. Sicat, Ms. Judith V. Lopez, overall chairperson of CFO of the Year Award Committee...former ING-Manila Branch Managing Director and Country Manager Consuelo D. Garcia, ladies and gentlemen, good afternoon.

In the printed format of this message, I placed the following title: "Strength Without Agility is Mere Mass." This is a direct quotation from Fernando Pessoa, Portuguese poet, writer, literary critic, translator, publisher and philosopher.

The quote stirred me as I thought of our economy's strength. We enjoy today a robust macroeconomy owing to strategic and comprehensive reforms boldly taken through the years. But while we have touted the economy's strength, and lauded its resilience, we have not said much about its pro-active agility.

Ladies and gentlemen, I am pleased to say that our economy is not only strong and buoyant. It is also infused with dynamism and responsiveness. It is not passive.

### **A strong and agile economy**

The Philippines sustained its strong macroeconomic fundamentals. It is one of the fastest growing economies in Asia, registering a 6.9 percent growth on gross domestic product (GDP) in the third quarter of 2017.

The inflation outlook remains manageable. Inflation has averaged 3.2 percent in the past ten months. This in line with the Government's target range for 2017, and should remain on target through 2019.

Our balance of payments and the exchange rate are firmly under control. We have a hefty buffer of gross international reserves (GIR) at USD 80.6 billion as of end-October 2017, covering the equivalent 8.4 months' worth of imports.

The banking system, likewise sustained its growth trajectory through the 3rd quarter of 2017. Total resources of the Philippine banking system expanded by 14.1 percent year-on-year. This was funded by the sustained inflows of deposits which grew by 15.3.

Domestic liquidity and credit dynamics are consistent with our expanding economy. The current pace of credit growth of 19.6 percent is sustainable as credit exposures remain diversified, with 89 percent of going into the production sectors. The country's credit-to-GDP ratio of 63.6 percent as of Q2 2017 is still one of the lowest by far in Asia.

Asset quality is satisfactory as the industry non-performing loans ratio further improved to 1.9 percent, coupled with banks' prudent provisioning for credit losses.

Meanwhile, banks maintained ample buffer of high-quality liquid assets and capital that collectively protect the system against shocks. System-wide capital adequacy ratio recorded at 16.0 percent, is well above the BSP and the international minimum.

Against this backdrop of strength, the financial system is also alert and responsive. We are ready to employ our monetary policy toolkit in light of policy normalization of the Federal Reserve which could affect capital flows, domestic interest rates and the foreign exchange rate. We are also watchful of geo-political risks, including protectionist policies in some advanced economies that could pose challenges to the country's trade, remittances, and foreign direct investments.

### **Need for agile management and leadership**

ING-FINEX's theme for this year's search for CFO of the year resounds. Why? Well, aside from the lingering uncertainties in the global economy, our financial and business landscape is continuously and radically being redefined by evolving international standards, new best practices, disruptive digital innovation, changing customer preferences and demographic changes.

For instance, our increasing population of tech-savvy millennials demand innovation and expect faster and more streamlined products and services. To compete and be successful, these changes in the operating environment demand agility. I am certain this year's awardee displays this required dynamism.

### **BSP's prudential reform agenda**

As CFOs and industries thrive in the changing business environment, the BSP faces the same challenges. Hence, we have implemented strategic policy reforms to protect the financial system and provide a conducive and more agile macroeconomic environment.

Much headway to ensure financial stability has been made with the adoption of Basel III reforms, particularly in the areas of capital, leverage, liquidity and regulation of systemically important banks.

Since the start of the year, the BSP continues to build on this theme. For example, we implemented a major upgrade of corporate governance and risk management standards in our supervised institutions in line with the thrust of global best practice.

We adopted reforms to strengthen banks' capabilities to nimbly manage risks related to information technology. Recently, the Monetary Board approved the cyber security risk management framework under Circular No. 982 to further guard against cyber security threats and attacks.

Even as we bolster our cyber-security stance, the BSP is determinedly pursuing the digitization of the financial system. Last November 8, 2017, the Philippine Electronic Fund Transfer (EFT) System and Operations network, or PESONet, was launched. This is the first Automated Clearing House (ACH) under the National Retail Payment System (NRPS). We envision PESONet to be an electronic alternative to the paper-based check system, significantly cutting down costs and allowing better liquidity management. It features same day crediting of the full

amount being transferred. Businesses and individuals will be able to conveniently move funds from their own account to any other account in the system. For me, this initiative which depends heavily on the collaboration of our banks and other non-bank financial institutions to achieve full payments inter-operability, is financial agility in action.

### **Forthcoming reforms for greater agility**

The BSP is also enhancing liquidity risk management guidelines under a four-phased program. The first phase covers enhancing the guidelines on liquidity risk management, including intraday liquidity. This was recently approved by the Monetary Board through the issuance of Circular No. 981. Also in the pipeline are the amendments to the Liquidity Coverage Ratio (LCR) standard and the issuance of the complementary Minimum Liquidity Ratio (MLR), which is a simplified version of the LCR requirement for less complex financial institutions. Third, is the issuance of guidelines implementing the Net Stable Funding Ratio (NSFR) standard. Lastly, the BSP will issue intraday liquidity reporting guidelines to complement the qualitative intraday risk management guidelines under Circular No. 981.

### **Development of financial markets**

Another major BSP strategic policy reform is to accelerate financial market development with special focus on the local currency debt market and foreign exchange (FX) market. We envision a more balanced financial ecosystem where a well-functioning banking system is complemented by a deep and liquid capital market.

There is much room for growth in the domestic debt market. The numbers show that the outstanding local currency (LCY) bonds represent a mere 34.2 percent of the country's GDP.

To hasten local currency debt market development, the BSP, in collaboration with the Department of Finance (DOF), the Bureau of the Treasury (BTr), and Securities and Exchange Commission (SEC), is working on a package of joint and coordinated initiatives. This reform agenda officially unfolds with the launching of the Government Securities Repo Program on 27 November 2017. The reforms are geared towards increasing transparency in the issuance and pricing of government bonds that would translate into increased efficiency, lower borrowing cost, and more dynamic participation. Strengthening the foundational elements would facilitate development of the broader financial market.

Foreign exchange (FX) regulations are being overhauled to achieve more efficiency and ease of doing business. The BSP will soon release an exposure draft on the liberalized rules on FX loans and offshore loans of the private sector. This will re-focus the registration process to primarily data-gathering and minimize documentary requirements. The liberalization of FX regulations is embedded in the broader thrust for a better organized FX market. The sequence of reforms aims to encourage innovation, improve transparency, and price discovery, and enhance market conduct.

### **Closing thoughts**

Thinking about agility made me reminisce about badminton. Badminton is very fast-paced. To play it well, one certainly needs strength. But one also needs to be agile. Because of the speed in which the game is played, a player must be able to change his position nimbly, quickly, efficiently. The movements required are seamless, interconnected with great need for balance and coordination.

I believe the same holds true for the industry, for the economy. Strength without agility is mere mass. Mass sits at inertia. We certainly cannot afford to sit at inertia.

I have always been grateful for our partnership with the banking industry and the private sector. It

is through our cooperation, our collaboration and constant touching base that we gain greater agility to weather through our fast-paced environment. We at the BSP are uplifted at embracing change and the future with you as our partners. We thank you for your support for the ambitious financial sector reform agenda that impart motion and dynamism to our economy. Like a well-trained athlete, disciplined conditioning is our defense against over-heating and burn out.

Congratulations to FINEX and ING. Congratulations to the men and women whose dedication and unwavering efforts have made the continuous holding of this prestigious event possible. Congratulations to this year's best CFO whose agility has elevated the finance profession to a higher level! Thank you and a pleasant afternoon to all of you!