

Nestor A Espenilla, Jr: Navigating the future

Speech by Mr Nestor A Espenilla, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the BSP 25th Anniversary Celebration, Manila, 3 July 2018.

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Good afternoon fellow BSPers and a happy anniversary to everyone!

Today, we celebrate 25 years of the Bangko Sentral ng Pilipinas. It is an honor to share this milestone with everyone here at the PICC. On behalf of the Monetary Board, I warmly greet the entire BSP family, here in Manila, as well as at SPC, and across the regions via live-streaming.

For a quarter of a century, the BSP has ensured price stability, strengthened the financial system, and has provided a reliable payments system. Indeed, the institution we proudly serve has achieved remarkable feats over the past twenty-five years.

While our mandates have remained the same, our work has continued to evolve and adapt to an ever-shifting economic landscape.

The growing interconnectedness of financial markets, coupled with the rapid pace of digitalization and technological advancement, demands that we safeguard the financial system against threats, even as we search for opportunities, through game-changing reforms and appropriate regulations. Thus, it is only fitting that our anniversary's theme is "Navigating the Future." It is a meaningful theme, conveying not only a sense of purpose, but one of urgency.

How must we navigate the future? The word "navigate" originates from two Latin words, "navis" which means "ship", and "agere," which means "to drive." The art of navigation involves the skillful planning, directing or plotting of a path... it imagines a voyage to a specific destination. Literally, it refers to the "art of ship mastery" but is also used for "finding one's way".

For the BSP, our destination and mission is clear. It is encapsulated in our core mandates of securing price stability, maintaining financial stability and promoting an efficient and reliable payments system.

This is our path. But to continue successfully on it, we must draw inspiration from challenges successfully surmounted. To forge ahead, we must be equally conscious of our identity – who we are... and why we came to be.

Our very origins and establishment as a central monetary authority in 1993 were fraught with struggle and was a product of lessons learned the hard way.

Perhaps this audience may not remember why there was a need to establish and organize what is now known as the Bangko Sentral ng Pilipinas. BSP. Of our 5,322 work-force today, it is a fact that 84% have been here less than 25 years. Many of you are likely unfamiliar with the Central Bank of the Philippines (CBP), an entity separate and distinct from the BSP, and the events that led to its dissolution.

The dissolution of the CBP and the establishment of the BSP and a separate legal entity called the CB – Board of Liquidators (CB-BOL) were premised on the urgent need for an independent central monetary authority... financially strong, enjoying fiscal autonomy, and free from political influence. This independence is constitutionally enshrined.

For the last 25 years, we, the BSP, have proudly anchored ourselves on this independence. We protect and uphold its demand for responsibility and accountability.

Let me recall some key accomplishments...

In response to the Asian Financial Crisis of the late 1990s, the BSP pursued structural reforms that changed and improved the conduct of monetary policy and financial supervision.

In 2002, to better attain price stability objectives, the BSP formally adopted the inflation-targeting (IT) framework. Since then, we have established a solid track record for hitting our inflation targets and for being transparent on how we conduct monetary policy. In 2016, we established the interest rate corridor (IRC) system to enhance monetary policy transmission and reinforce the development of the domestic financial market. This year, we have commenced the gradual phase-down of ultra-high reserve requirements to promote the efficiency of monetary policy.

Amid changes in financial market conditions and increasing sophistication of financial services, we recognized a growing need for financial regulations to adapt, or else risk irrelevance. This is just one of the lessons from going through two episodes of financial crises over the past two decades—financial supervision must be proactive instead of reactive. We have thus shifted to a more comprehensive, risk-based approach to banking supervision. This has significantly improved the safety and soundness of individual banks and promoted early identification and effective mitigation of system-wide financial risks.

In December 2002, the BSP shifted to a real-time gross settlement (RTGS) system. This made payments and settlements more efficient. Today, we have PhilPaSS, a fully automated and secure payments system. In 2017, PhilPaSS processed nearly P270 trillion worth of transactions.

These are only some of BSP’s major milestones. They encourage us to continue the journey even in the face of challenges.

Our clear identity, our independence, the lessons we have learned and the expertise we have gained for the last 25 years, assure we are on the right path.

A year ago, I took my oath as Governor of the Bangko Sentral ng Pilipinas. At the BSP Assembly Hall, in my message, I said that, “central banking requires exemplary and coordinated ability to navigate the currents of the global financial markets.” On that day, last year, I first laid out my goals for the BSP under my term. Even then, the art of navigation was highlighted. And even then, I expressed that taking a “business-as-usual” stance just simply would not do. Then and now, I emphasize that there is a need to be more agile and proactive with our policies and programs.

This is the core of the “Continuity Plus Plus” agenda — our roadmap for navigating the future.

“Continuity Plus Plus” is a two-fold strategy. On the one hand, the call for continuity appreciates the frameworks, methods, and buffers we have already put in place. It entails leveraging on our legacy of excellence in fulfilling our core mandates.

At the same time, the need for “Pluses” recognizes that we must make our financial system stronger, more dynamic, and truly inclusive through bold and purposeful changes. We intend to accomplish this by implementing game-changing financial sector reforms, especially those that aim to further develop deeper money, debt, and foreign exchange markets and efficient payment systems that systematically build the country’s resilience and promote its competitiveness.

Finally, I emphasize that for our initiatives to have meaning, we must ensure that their benefits translate into opportunities for every Filipino to improve their quality of life. This puts financial inclusion squarely at the heart of the “plus plus” agenda.

The BSP is a pioneer in this regard. We were probably the first central bank in the world to establish a unit dedicated to promoting financial inclusion. We did this as early as 2007. Today,

we continue to create a supportive policy environment for broadening access to financial services.

In the past year, we provided more access points and a broader range of financial products. We introduced the “branch-lite” concept to reach underserved areas; the promotion of “basic deposit accounts” (BDAs) to encourage account ownership among the unbanked; as well as the issuance of guidelines on agricultural value chain financing to increase the flow of credit to the agricultural sector. All these complement our long-standing campaigns to promote financial literacy and consumer protection.

Recently, we have begun to harness the power and reach of the digital space to further push this agenda. The digital revolution underscores the importance of innovation and technology to ensure delivery of financial products and services to a wider segment of society. In this regard, digital payment channels have found their way into our payments and settlements infrastructure.

Under the National Retail Payments System (NRPS), we aim to leverage on financial technology—or FinTech—to bring about an inter-operable, safe, and efficient real-time digital payments system. Just this April, we launched InstaPay to enable 24/7 low-value electronic transfers. These initiatives should facilitate the shift from being a cash-heavy to a cash-lite economy, a trend we observe happening across the globe.

Even as we provide an enabling environment for these technological innovations in the payments ecosystem, the BSP “walks the talk” by exploring ways to digitalize our own payments processes. You may have noticed that all medical reimbursements, regardless of amount, are now being directly credited to the payroll account. Cashless payment options using QR codes are now available at our canteen and cooperative stores. Soon, BSP employees may have the option to open their payroll account with other domestic banks. Digitalization of travel allowances, as well as of our payment collections, are also underway.

My fellow BSPers, much has changed since the BSP was established 25 years ago. Today, the momentum for progress and reform has not diminished. I could not be prouder to say that we have done this well and this much because of everyone’s invaluable contributions to the cause.

For this, I, on behalf of the Monetary Board, also salute and honor the three Governors who came before me—the late Governor Gabriel Singson, the late Governor Rafael Buenaventura, and former Governor Amando Tetangco, Jr. who joins us today to celebrate with us.

Thomas Aquinas said, that “if the highest aim of a captain were to preserve his ship, he would keep it in port forever.” Under the capable leadership of our past Governors, we have travelled far and have reached new points of opportunity.

As captain now of our navigating team, I am confident in the course we have charted under “Continuity Plus Plus.” I put my trust in the BSP crew, which has proven itself time and time again to be capable and skilled.

We may be going through some strong headwinds today. But we stand undaunted. For BSP, it’s a matter of careful navigation and timely action. The economic ship itself is fundamentally solid and sturdy. We’ll get to better weather soon enough and sail on to destination.

As I close, I recall my mission as head of team BSP. It is not only to deliver on our mandates today. Rather, it is to build capabilities to address challenges and develop skills needed to conduct our mission given likely scenarios.... ready to respond where it matters... when it matters. This is the rationale for the bold organizational changes we have embraced thus far. These changes are meant to make the institution and its key officers more agile and resilient,

ready too – as individuals and as an organization – to navigate the future.

Let me recognize the crew:

- ♦ DG Diwa Guinigundo and the Monetary and Economics Sector (MES)
- ♦ DG Chuchi Fonacier and the Financial Supervision Sector (FSS)
- ♦ DG Cyd Amador and the Corporate Services Sector (CSS)
- ♦ AG Dahlia Luna and the Currency Management Sector (CMS)
- ♦ Not to forget the Offices directly working with me and of course the Monetary Board:
 - ♦ □ Carlos G. Dominguez III
 - ♦ □ Felipe M. Medalla
 - ♦ □ Juan De Zuniga, Jr.
 - ♦ □ Peter B. Favila
 - ♦ □ Antonio S. Abacan, Jr.
 - ♦ □ V. Bruce J. Tolentino

Today, as always, we ready ourselves for more challenges ahead, taking stock of two-and-a-half decades' worth of lessons and experiences.

Maraming salamat team BSP. Happy 25th Anniversary to us all! Mabuhay ang BSP! Mabuhay ang bansang Pilipinas!