

## **Benjamin E Diokno: Central banking beyond numbers**

Speech by Mr Benjamin E Diokno, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the Bankers' Night and Book Launch, Manila, 26 July 2019.

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Our partners in the banking community and the private sector, members of the diplomatic corps, my colleagues in public service, good evening and welcome to the Bangko Sentral ng Pilipinas.

I am pleased to host tonight's reception for the banking community. This month of July, we celebrate BSP's 26th anniversary. At the same time, we commemorate an important milestone: the 70 years of central banking in the Philippines.

### **A distinguished heritage**

Few institutions in the country can claim such a long and distinguished heritage. The book that we will launch shortly—written by career central bankers themselves—stands as a testament to this as we get a glimpse of what the central bank has done through these seven decades: the evolution of ideas, the progression to policies until its fruition to execution of programs and projects that ultimately redound to the benefit of the Filipino people.

If we look back on our path from the post-war 1949 central bank headed by our first Governor Miguel Cuaderno, Sr. up to today, we realize that the journey has not been easy. There were twists and turns, bumps and even detours but we held on and stayed on track.

The passage of R.A. No. 11211 which amends the BSP charter is very timely as it enables us to cope with constantly evolving challenges. This new law bolsters our capability to safeguard the stability of prices and the financial system.

### **A mandate for all**

This brings me to my next point—that strong institutions are critical in nation-building and this is true for a central bank. So for us here in BSP, our ability to deal with the risks and challenges of the economy is largely dependent on how well-prepared and pro-active the central bank is.

We have our radars. We see the risks, the threats, and even gaps and opportunities. We address all these—and we have our toolkits that we would willingly use as needed.

In the process, the numbers change and show good results: inflation is tamed; Philippine banks remain robust, well-funded, and adequately capitalized; the credit-liquidity dynamics in the country are consistent with expanding economic activities; the external payments position is hefty; the exchange rate trends remain consistent with macro fundamentals; and I can continue on and on.

But more than the notable statistics, for us in the BSP, the bottom line always is the Filipino people. And for this reason, we are pro-growth. Remember the maxim: A rising tide lifts all boats. An improved economy should benefit all, and so government economic policy should focus on broad economic efforts.

Because of this, financial inclusion is on top of the BSP agenda because no one, really, must be left behind. We will go beyond convention and embark on goals outside the ambit of traditional central banking. At the same time, we will remain mindful not to go beyond what we are allowed to do under our charter. We will be decisive and forward-looking as we continue to be timely and data-dependent on our actions. We will continue to communicate our intentions as clearly as possible. We will be transparent.

As most of you know, the old norm is for central banks to be deliberately vague. But ultimately, this is bad for the market, the banks, and the public because it leads to speculative behavior, and we want to avoid that.

We will INTENTIONALLY bring the BSP closer to the people. A central bank cannot operate from an ivory tower. It is important that BSP stakeholders understand what we are mandated to do. It is crucial that our stakeholders trust our integrity and our capability to carry out our mandate.

Yesterday, we received news reports of the survey results conducted by the Makati Business Club (MBC). The survey results show that businessmen rank BSP first out of 69 government agencies covered in the poll. The respondents were asked if they were/are satisfied with the performance of these agencies.

I will not be modest about this—I am happy to say that this is the 25th time the central bank topped this survey since this was first conducted in 1987.

This year, 97% of respondents said they are satisfied with BSP's performance. This seal of confidence and expression of trust in BSP affirms the work that we do here. This recognition will only motivate us to work harder and better.

## **Prospects**

Having said this, let me share with you briefly what's on our radar: Global economic growth in 2019 is expected to be weaker than in 2018 with considerable uncertainties in the short term. There are other risks—the protracted US-China trade tensions, the possibility of a no-deal Brexit, and the US-Iran standoff on nuclear deal. On the domestic front, we see challenges arising from severe weather disturbances, and the delays in infrastructure projects.

Despite the risks, we remain optimistic that the Philippines provides a unique value proposition that is not short-lived. It is anchored on a dynamic track record of a durable, resilient, and sustainable economic growth.

This optimism is not ours alone. This is shared by third-party assessors with the series of favorable assessments released by the International Monetary Fund, the World Bank, the Asian Development Bank<sup>1</sup>, as well as by international credit rating agencies.

In addition, the reform momentum continues. We have seen a number of bills languishing in congress for 2 to 3 decades enacted into law in less than three years under the present leadership.

These laws are:

1. Republic Act (R.A.) No. 11211 which amended R.A. No. 7653, the Charter of the Bangko Sentral ng Pilipinas;
2. R.A. No. 11127 or the National Payment Systems Act;
3. R.A. No. 11055 or the Philippine Identification System (PhilSys) Act;
4. R.A. No. 11256 or the "Gold Law".
5. Personal Property Security Act (PPSA) (Republic Act No. 11057) which boosts access to credit especially of MSMEs by allowing the use of non-traditional collateral and providing clearer priority rules in case of foreclosure.

These also include the Islamic Banking Law which has been submitted to the Office of the President and Anti-Bank Hacking legislation which was passed by both houses of the 17th

Congress. Needless to say that the BSP will focus on the strict and prompt implementation of these recently enacted laws that will help the BSP to more effectively perform its mandates.

## Directions

Let me now elaborate further on what the banking community can expect from the BSP moving forward.

In terms of monetary policy, rest assured that future policy actions of the BSP will continue to be guided by the following principles: it will be focused on achieving inflation targets, it will be proactive and pre-emptive, and it will be data-dependent and evidence-based.

On the financial sector, the BSP is committed to: strengthen risk governance, leverage on technology, achieve greater and broader access to financial services, uphold the integrity of financial system and safeguard the interest of the public, and accelerate capital markets reforms.

In addition, BSP also remains committed to maintain a safe, efficient, and reliable retail payments system in the country through the implementation of the National Retail Payments System. With exponential growth of the electronic retail payments through PESONet and InstaPay and the initiatives being rolled out by the BSP and the private sector, the BSP is optimistic that we will achieve our goal of 20 percent of payments through electronic means by 2020.

[By the way, PESONet and InstaPay are payment options should you wish to buy the book that we are launching tonight. You may pay using PESONet and InstaPay.

The BSP is not only pursuing the delivery of its primary mandates. It recognizes the need to democratize the access of the public to various financial instruments, products and entities. This is the essence of financial inclusion. So alongside these commitments, the BSP will continue to pursue liberalization reforms in the foreign exchange market to foster a more enabling environment for economic activities.

Meanwhile, in order to preserve and maintain currency integrity, the BSP is continuously accepting, retiring and replacing unfit currency in circulation; conducting anti-counterfeiting operations; promoting clean note and coin policy; and enhancing economic and financial awareness.

I am also pleased to mention that by the first quarter of 2020, our banknotes will have the following security enhancements in our banknotes:

- ♦ upgraded windowed security thread with unique color and design per denomination;
- ♦ anti-copying and anti-scanning features;
- ♦ and incorporation of tactile marks which is meant for the elderly and visually-impaired.

Let me now highlight the priority legislative measures that the BSP will pursue under the 18th Congress. These bills seek to further enhance access to quality financial products and espouse the interests of the general public.

These include: Amendments to the Bank Deposit Secrecy laws which aims to align our existing law with international standards on transparency to combat both domestic and global tax evasion, money laundering, and other financial crimes.;

the Financial Consumer Protection bill which aims to provide a comprehensive financial consumer protection regime that consolidates financial inclusion, financial education, good governance, and effective supervision for the purpose of consumer protection.;

and reforms to Agricultural Financing which seeks to amend the Agri-Agra Law and allow banks

to merge their loan allocation to the farm sector as a measure to improve banks' compliance rate.

We will work closely with officials of both Houses of Congress, with you the banking community and other concerned stakeholders, as we pursue the enactment of these important legislative measures.

## **Conclusion**

And so - as BSP moves into the story of our future, let me reiterate that every thought, every word, every act of Bangko Sentral is an opportunity to make a difference for a better quality of life for every Filipino. We will be steadfast in this pursuit and we will continue to reinvent ourselves through fresh ideas, calculated risks, and game-changing reforms.

Supported by the magnanimity and professionalism that have been the hallmarks of the BSP's service to the nation, the BSP community will remain the vanguard of an independent and credible BSP. *Katapatan, talino, at husay para sa bayan, para sa Filipino.*

Before I end, on behalf of the Monetary Board and the entire Bangko Sentral ng Pilipinas, I would like to thank the leaders of the banking community for supporting the reforms we have pursued through the years and for helping maintain a banking system that is sound and responsive to the needs of the economy and the Filipino people.

My bottom line tonight is simple. We will count on your continued support,<sup>1</sup>..... And.... please continue following the rules. If you do this, we can all sleep soundly at night.

## **Toast**

To proceed with the next part of the program, let me now call on the members of the Monetary Board to join me on stage:

Finance Secretary Sonny Dominguez, Philip Medalla, Juan De Zuñiga, Peter Favila, Tony Abacan, and Bruce Tolentino.

Please join us and raise your glasses to the Central Bank for its 70 years of distinguished service...

To the banking community and the men and women of the Bangko Sentral ng Pilipinas, that we may all remain strong, stable, and resilient in the face of challenges and be vehicles of growth and development for our ultimate boss – the Filipino People.

Cheers!

Thank you and have a good evening!

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<sup>1</sup> IMF, WB, and ADB project the Philippines to grow between 6.2 to 6.6 percent in 2019–2020, broadly in line with the national government's revised growth targets of 6.0 to 7.0 percent in 2019 and 6.5 to 7.5 percent in 2020.