

# Media and Research - Speeches

## Accelerating the Country's Post-Pandemic Recovery

**Date:** May 11, 2022

**Occasion:** Money Market Association of the Philippines (MART) First General Membership Meeting

**Speaker:** BSP Governor Benjamin E. Diokno

To the Money Market Association of the Philippines, guests, ladies and gentlemen, a good day to all. It is a pleasure to speak to you again as you set the agenda for the year ahead.

The last time I spoke with MART was when I inducted a new set of officers for 2022. During that time, I asked you to keep in mind that the actions you take today will inevitably shape the future yet to come.

In the few months that have passed, much has changed. Fortunately, the economy is in much better shape than it was since we last spoke. I remain optimistic that full recovery is well underway. Please allow me to share the reasons behind my optimism.

After a pandemic-driven recession in 2020, the economy staged a strong turnaround and grew 5.7 percent in 2021. This year, the economy is expected to grow 7-9 percent and 6-7 percent in 2023 on the back of easing mobility restrictions and structural reforms.

Several indicators – from unemployment levels to manufacturing activity to business and consumer sentiment – suggest broad improvements.

Our gross international reserves, or GIR, which serve as buffer against external headwinds, remain hefty at 106.76 billion US dollars as of end-March this year.

The GIR is considered adequate if it can cover at least three monthsworth of imports. Ours provides 9.4 months of import cover.

On the monetary front, inflation rose to 4.9 percent in April 2022. Year-to-date, inflation averaged 3.7 percent, within the target range 2.0-4.0 percent.

As a result of higher oil and gas prices owing to Russia's invasion of Ukraine, inflation is seen to settle above the target range in the second half of 2022 but will decelerate to within the target range by the first quarter of 2023. Inflation is expected to steadily decelerate in the remainin of 2023 as oil and non-oil prices stabilize.

Moving on to the banking sector....

Banks remain the pillar of strength of our economy. As of February this year, the total resources of the banking system expanded by 7.0 percent year-on-year to 20.7 trillion pesos.

Credit activity registered an increasing trend for seven straight months, up by 5.4 percent year-on-year.

We expect improving economic condition and market sentiment to further spur domestic credit expansion.

Non-performing loans remain manageable with NPL ratio at 4.2 percent.

The NPL coverage ratio, which shows the banks' allowance for potential losses from bad loans, is high at 86.1 percent.

Meanwhile, the capital adequacy ratio of universal and commercial banks reached 17.4 percent on a consolidated basis.

This is well above the minimum thresholds of 10.0 percent set by the BSP and 8.0 percent by the Bank for International Settlements.

Finally, the net profit of the banking system is up by a remarkable 44.8 percent year-on-year as of December 2021.

Against this backdrop, the Philippines has kept its investment-grade ratings all throughout the pandemic.

This is despite a wave of downgrades globally, which validates the resilience demonstrated by our economy amid the pandemic.

When the pandemic struck, the BSP stepped in to provide additional emergency support to the government's broad-based health and fiscal programs.

On top of this, we implemented a wide range of regulatory relief measures aimed at:

First, extending financial relief;

Second, boosting bank lending; and

Third, promoting continued access to financial delivery and services.

The BSP extended some of these measures until yearend to sustain the credit growth momentum and ensure continued access to financial services.

At the height of the pandemic, we strengthened our earlier digitalization efforts through the [ Payments Transformation Roadmap.

We have twin goals by 2023.

First, that at least half of financial transactions in the country are done digitally and second, that at least 70 percent of Filipino adults have transaction accounts.

I am optimistic about hitting these two objectives as the economy shifts from a cash-heavy to a cash-lite economy.

Now, let me cite some of our initiatives.

Together with the Philippine Payments Management Inc. or PPMI, we launched the QR Ph Person-to-Merchant facility in October 2021.

We are also collaborating with PPMI to broaden the use cases for three digital payment streams this year.

First is the interoperable Bills Pay Facility, which will address the existing fragmented bills payment mechanism.

Second is the Request to Pay Facility, which will empower payees to initiate collections of non-recurring receivables.

Third is the Direct Debit, which will allow customers to better manage recurring payments.

We have also issued the open finance and digital banking frameworks to accelerate digital transformation and financial inclusion.

The Open Finance Framework promotes consent-driven data portability, interoperability, and collaborative partnerships among entities that adhere to the same standards of data security and privacy.

In line with our digital transformation roadmap, the BSP has issued licenses to six purely digital banks.

The BSP has also commenced initiatives in the digitalization of offshore payments. We are prioritizing the establishment of interoperable cross-border real-time retail payment systems among ASEAN member states.

Moving on to sustainable finance...

For us at the BSP, sustainability will serve as our guidepost in rebuilding the post-COVID 19 economy.

It is crucial that sustainability principles are part of how institutions are governed.

As such, the BSP is actively collaborating with government agencies and regulators through the Interagency Technical Working Group on Sustainable Finance or what we call the “Green Force” to form a cohesive action plan to institutionalize and accelerate the growth of sustainable finance.

Data shows that 24 percent or 119 out of 499 banks have adopted their respective sustainable transition plans.

Banks have issued around 1.15 billion US dollars and 152.9 billion pesos worth of green, social and sustainability bonds since 2017.

In leading by example, the BSP has invested 550 million US dollars in the Green Bond Funds of the Bank for International Settlements to promote investments in sustainable or green finance assets.

We also acknowledge the critical legislation complementing our regulatory reforms and initiatives.

These bills include Financial Consumer Protection Act, which will afford the financial sector regulators the authority to enforce prudent and customer-centric standards of conduct, including the power to adjudicate customer complaints. The FCPA is in the Office of the President for signature.

The Agri Agra Bill is seen to enhance access by rural communities to private sector financing. This bill is pending for bicameral conference.

Meanwhile, the Digital Payments Bill seeks to promote digital payment systems, particularly in all government agencies. This is currently approved in the House of Representatives on third reading and pending in the Senate committee on banks.

The Government Financial Institutions Unified Initiatives to Distressed Enterprises for Economic Recovery Act or the GUIDE Bill seeks to strengthen the capacity of the Landbank and Development Bank of the Philippines to provide access to credit to distressed enterprises as a result of the pandemic. This bill is approved in the House of Representatives on third reading and pending in the Senate committee on banks.

While there are risks such as the Russia-Ukraine conflict clouding our outlook, we remain cautiously optimistic that recovery is gaining traction.

We expect the conflict's impact on the country's trade, investments, and remittances to remain negligible given our minimal economic ties with Russia and Ukraine.

Before I end, I hope that you joined the rest of the nation in casting your ballots during the 2022 national and local elections.

As we enter another chapter in Philippine history, each of us has a role to play in the unfolding Filipino story.

Beyond our shared task of developing the financial system and mobilizing capital toward productive activities, we need to play our part as citizens first and foremost, to be the change we wish to see in the world.

Thank you for your attention and I wish MART all the best in its initiatives this year. Mabuhay! #