

Felipe M Medalla: Painting the central bank of the Philippines green

Speech by Mr Felipe M Medalla, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the launch of the Sustainable Central Banking Strategy, Manila, 21 December 2022.

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Doctor Ulrich Volz of School of Oriental and African Studies University of London; Department of Environment and Natural Resources Licenses, Patents, and Deeds Division Chief Alvin Joseph Constantino; Asian Development Bank Southeast Asia Department Officer-In-Charge Winfried Wicklein; of course, our friends from the banking sector-I see Bankers' Association of the Philippines (BAP) President Tony Moncupa there; my dear colleagues in the Monetary Board and our Deputy Governors and Assistant Governors - my partners in doing what Bangko Sentral ng Pilipinas (BSP) has to do for the country - and of course, all of the guests, allies in sustainable finance, good afternoon.

Why climate change matters to the Philippines – and the BSP

I will start by answering some of the challenging questions that people ask me on climate change: "Why are we even concerned about climate change?"

We [the Philippines] are a victim. We are very small in terms of [global greenhouse gas] emissions, and we are late in contributing to emissions. Sabi nga eh, "Small na, late pa, pero kasama [sa apektado]."

Now, of course, my answer always has been that: we will be affected. Indeed, all those estimates of vulnerability and damage, we are usually in the orange to the red color in the heat maps. For instance, climate change could very obviously affect food supply.

As we know from our own history of inflation, this could lead to large supply shocks, supply-driven inflation. SoV we have to know how to prevent what economists call, "second-order effects"; how supply-shock inflation can become more permanent inflation depending on what the central bank does.

The other point is that, clearly, it [climate change] will affect how we regulate banks because, obviously and as [BAP's] Tony [Moncupa] would attest to, capitalization requirements should be commensurate to the risks. The more risky you[r activities] are, the more capital you have to put up. And, clearly, climate change will add to the risks.

So, in other words, even just from the point of view of our standard regulatory approach, we have to make some modifications on how we define credit risk, default risk, and all the financial risks that regulated entities face. So, clearly, the regulatory side has to make more adjustments.

Climate change – change for the better?

Now, the other one, of course, is-in many ways-things that reduce our contribution to greenhouse gases could also improve our lives. For instance, the shift to electric tricycles, it is good for us. My sister lives in UP village, and she complains that the tricycles wake her up. I am glad that we are already out of the noisier, two-stroke [engine] motorcycles, which also pollute more. So, clearly, many of our responses to climate change are also good for us.

Of course, they would say, "Well, it is going to be more expensive." But, maybe, that is a short-run point of view. The more we do these things, the greater the scale of the innovations that will happen, and, maybe, the greater the efficiencies.

Indeed, I remember the times when, the financial incentives needed for wind and solar [energy] were just extremely high. Now, the technologies have improved to the point where it is getting quite competitive [with non-renewable energy sources].

However, [using] renewable energy is not without problems. For instance, there are issues meeting peak demand for power. With renewables, power may be available when you do not need it and unavailable when the need arises. Obviously, if our ability to store power improves-which it will over time-the sustainable ways of doing these things may actually, in the long run, become the better ways of doing things.

In the morning, I try to run as much as I can. What if it is just easier to do more walking to get to where you work? So, you would actually save a lot of time, right? In other words, if you will take a longer and wider view, the things that are consistent with a better planet are also good for everyday life.

Navigating the ensuing policy issues

Of course, [addressing] the policy questions are harder. We already know that one of the policy questions is [how we refine our] regulatory frameworks for assessing riskiness of banks and, therefore, the capitalization requirements will be affected.

But harder is the question of how will we restructure finance so that finance will be a greater enabler of the more sustainable ways of doing things? Of course, determining which activity really is green or not is already a hard one. Ensuring that countries use a common taxonomy for what qualifies as a "green activity" is a challenge in its own right.

Add to that, some small firms do not necessarily have the manpower and the ability to absorb the overhead costs. Of course, I think, those problems can always be solved. Like, maybe, there are direct ways of estimating for medium and small-scale industries without resorting to very, very complex methods.

I am quite confident that, over time, all of those things will improve.

I think-both from a symbolic standpoint and from a basic standpoint-we are doing what we have to do.

Rallying behind a joint cause for our shared future

And that is why it is very important to work together. This is why it is good to have a forum such as this. We are in this together, we will be working together, and we must take a long-term view: the long-term view is that the sustainable way is also, in the long run, the more efficient way. There will be an audio-visual presentation that will discuss the points I did not discuss in this speech.

To champion sustainable finance: we are an enabler. We are a mobilizer. We are a doer. And we are proud to be so.

In closing, climate action is a whole-of-society undertaking. The central bank-the BSP- could only do so much, but it will do what it can do. But because we can only do so much, that is why we call on everyone's support to help implement the Sustainable Central Banking program and, of course, the rest of society outside central banking must contribute as well. Clearly, what the national government does will dwarf anything that the central bank can do.

So, in this regard, I am so glad that you are all here. Maraming salamat at magandang hapon sa inyong lahat!