

## Nestor A Espenilla, Jr: Continuity plus-plus, staying ahead of the curves

Speech by Mr Nestor A Espenilla, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the Annual Reception for the Banking Community, Manila, 19 January 2018.

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Good evening. It is my honor and pleasure to welcome you to the BSP's Annual Reception for the Banking Community. This is the first reception I am hosting as Governor of the Bangko Sentral ng Pilipinas. On behalf of my co-hosts, Monetary Board members, Finance Secretary Sonny Dominguez, Phillip Medalla, Jun de Zuniga, Val Araneta, Peter Favila and Tony Abacan, I thank you sincerely for accepting our invitation, and your presence tonight at our historic Fort San Antonio Abad.

In the last six (6) months, I have spoken at various venues. Perhaps most of you have already heard or read about a phrase I coined when I became BSP Governor in July 2017. I am referring to "Continuity Plus Plus," a catchphrase for our strategic direction.

"Continuity Plus Plus" first appreciates that there is an already strong foundation to support a fast-growing economy and the opportunities it presents. Buffers are in place to better prepare us for external risks. In this regard, stability demands continued dedication to the maintenance and strengthening of this foundation and buffers. "Continuity Plus Plus" then also recognizes the need for **additional** strategic financial sector reforms to strengthen these economic buffers and pursue broad-based growth.

**Review of 2017.** 2017 was another year in the country's positive economic narrative. The country's strong fundamentals, founded on the pursuit of broad-based reforms, provided ample support for sustained expansion.

In the third quarter of 2017, the economy grew by 6.9 percent, representing 75 quarters -- the platinum equivalent -- of uninterrupted growth! Inflation averaged 3.2 percent, well-within the target range of 2-4 percent. Our external position is strong. The peso's movements remained broadly in line with those in the region. International reserves stood at US\$81.5 billion, covering more than 8 months' worth of imports of goods and payment of services.

The Philippine banking system is safe and sound, with robust expansion in credit and demonstrating capital adequacy, asset quality, liquidity, and profitability.

**Outlook and Assurance of Continuity.** 2017 ended on a solid footing for the Philippine economy and we kicked-off 2018 in high gear. As we move forward, the BSP remains optimistic and vigilant.

Our primary challenge concerns risks to the inflation outlook given external headwinds. The unwinding of accommodative policies in advanced economies could have knock-on effects, contributing to potential capital outflows from emerging economies like the Philippines. Nevertheless, despite some uncertainty in oil market prices, production outages and geopolitical concerns, we expect commodity prices to remain broadly stable in the coming months.

Our inflation forecasts are being updated to consider the recent increase in crude oil prices, implementation of the tax reform program and peso movement. We remain vigilant and ready to timely respond to second-round effects and possible shifts in inflationary expectations.

The BSP also endeavors to maintain a sound and stable financial system, monitoring for signs of excessive credit and leverage. We are building on existing frameworks for market surveillance to take appropriate action.

We will continue to pursue proactive prudential reforms. Earlier this month, the Monetary Board approved the adoption of minimum leverage ratio requirements. These will take effect on July 1, 2018.

We will complete roll-out of the liquidity management framework, including amendments to the Basel III liquidity coverage ratio (LCR) standard; issuance of complementary minimum liquidity ratio and net stable funding ratio standards; and intraday liquidity reporting guidelines.

***Financial Market Efficiency in a Growing Economy.*** One theme that you should expect to see from our reform agenda is market efficiency. It is important that markets discover prices on their own and for self-correcting mechanisms to be encouraged. We are confident that this will increase financial markets' abilities to absorb shocks... so that the BSP can focus on its core mandates.

Notably, banks have provided resilience and support for economic growth throughout the years. But we also believe in developing a deeper domestic debt market to support long-term funding needs of the economy and diversify risks within the financial system.

This year, in coordination with other government agencies, industry associations, and market participants, we are rolling out remaining initiatives under the Philippine local currency debt market development roadmap.

Relatedly, we are closely tying-in the reform of reserve requirements with broader debt market reform to allow efficient absorption of liquidity and their mobilization to support long-term investments.

We would also want to see a deeper and more liquid foreign exchange (FX) market that supports a flexible and market-determined exchange rate. This will further fortify our defenses against external shocks. Ambitious FX reforms towards a better organized FX market are being undertaken.

***Leveraging on the Technological Exponential Curve.*** Alongside these reforms, we will continue to leverage on digital innovations to expand reach. The challenge to us all is how we can innovate and leverage on this rapid transformation and use it in the efficient delivery of financial services and products.

In the BSP, efforts in this area are exemplified in the National Retail Payment System (NRPS) initiative. Two years since its launch, the project has reached critical milestones. An industry-driven self-governing body was established to drive the responsible development and operations of the retail payment system. Recently, the BSP adopted the NRPS framework through Circular No. 980 to achieve a truly interoperable payments system. These milestones are the result of tremendous efforts among market participants and the BSP, a demonstration of cooperation in order to achieve a truly interoperable payments system.

Last January 12, 2018, a memorandum of agreement with the Philippine Payments Management, Inc. (PPMI) was signed. Another automated clearing house (ACH) – aside from PESONet – will also be launched this year. "InstaPay" will enable 24/7, real-time low-value electronic fund transfers that will support e-commerce.

***Pursuing Exponential Financial Inclusion.*** The wonderful thing about financial inclusion is that once one person is enabled and encouraged by the transformative value of such empowerment, he or she is most likely to share ideas and the experience with others.. Certainly the exponential

curve of financial inclusion is one we pursue and celebrate.

We see technology as a tool to achieve this goal of accelerated financial inclusion. The BSP will continue to promote digital innovation and an enabling regulatory environment to reach the financially unserved and underserved. We support the inter-agency initiative to establish a biometric National Identification system to improve accessibility to, and delivery of, financial services.

We introduced the framework for basic deposit accounts featuring liberalized onboarding, minimal opening amounts, zero percent reserve requirements, and the waiver of maintaining balance and dormancy charges. We have adopted the “branch-lite” concept to enable banks to further expand their networks.

### **Closing Thoughts**

While our mandates in the BSP remain the same, our operating environment is constantly changing. There is a need to adapt and to stay ahead of developments... The BSP will continue to provide an enabling environment for sustainable and broad-based economic growth, deploy timely measures to ward off any potential threat to financial stability, strengthen domestic sources of resilience, and leverage on technology and digitization to pursue more inclusive growth.

Let us now offer a toast (May I request the members of the Monetary Board to please join me on stage)... Dear friends from the banking and financial industries, industry associations, colleagues from government, the private sector, media and the academe, let us raise a glass to our continued partnership... May we multiply our efforts through greater collaboration and cooperation so we could stay ahead of all curves and bring about exponential returns for our beloved Philippines and our fellow Filipinos. Cheers!