Keynote Address
by
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Greetings ….

I am glad to be again addressing the Rural Banks. I had the good fortune of first speaking at an annual RBAP event many, many years ago, at the 1988 National Convention of the RBAP at the Baguio Country Club.

That was 30 years ago, while I served as the first Executive Director of the Agricultural Credit Policy Council (ACPC). At that time, I was also the head of the Technical Secretariat of the Rural Bank Review and Rationalization Committee (RBRRC). The RBRRC was the high-level task force jointly created by the Central Bank of the Philippines (CBP) with then Governor Jose Fernandez, and the Department of Agriculture (DA) then headed by Secretary Ramon Mitra, to recommend measures to strengthen agricultural credit in the country, particularly by reviving the Rural Banks which at the time was deep in arrearages.

That period, 30 years ago, was a particularly difficult transition for the Rural Banks. Today, however, the RB system and the Philippine economy as a whole is in a much better shape, and is cause for optimism.

Thus, today I'd like to share with you some thoughts on the big picture on the Philippine economy, and some comments on our shared path, going forward. While the global arena is somewhat clouded with issues, I must say that our domestic scene is heartening and optimistic.

The International Context

First, let us take a broad look at the world economy.

In recent weeks, the international financial institutions IMF, WB, and ADB have all downgraded their growth forecasts for the world economy, and as part of that, also of the Philippine economy.

Such downgrading is not a surprise. These days, the global economy is experiencing some painful episodes of conflict and non-cooperation.

First, there is the US-China trade war, which was started by Donald Trump. When Mr. Trump came into office, he stated – on Twitter of course -- that *"… trade wars good, and so easy to win!"* Well, Trump is finding out now that winning the trade war is not that easy, and that the US has underestimated China. China is prepared to fight, and be patient. Trump is under time pressure, because of the US election in 2020.

Second, there is Brexit, and uncertainty across the entire European Union. There continues the drama on whether the UK will leave the European Union with or without a deal – soft exit, or hard exit. PM Boris Johnson has been frustrated several times by Parliament and the UK Supreme Court on his proposals for effectively a hard exit, and so the UK will have a snap election in December. Germany – used to be the largest and strongest economy in EU, is now dealing with a recession.

Moreover, the entire EU economy is fearing the developments in Turkey and Syria – again a product of Trump's foibles - which may become a huge migration problem for the rest of Europe. And finally, there is fear of a trade war between the US and EU, because of Donald Trump's unpredictable and bellicose tweets. All this has caused uncertainty that has constrained planning and investment.

Third, there is growing conflict in the Middle East. The recent escalation is again due to Trump, particularly those involving Turkey and Syria, Iran, Iraq, Saudi Arabia and America's longest war in Afghanistan. While recently the US killed Al-Bhagdahdi, the ISIS is resilient, and another leader will take his place. Some of the ISIS may even come to the Philippines!

Fourth – there is the continuing "police action" in North Korea, with the strange dance going on between Kim Jong Il and Trump. Earlier Trump boasted he can bring North in line, but again it has proved not easy, and so he has stopped making noise about it.

Finally, there is also tension between Japan and South Korea. Recently the two neighbours cut off the trade preferences between each other, for unclear reasons, related to events and hurt feelings originating far back in their shared history.

Why do we care about all this?

Well, first because these countries are the Philippines' most important trading partners. They absorb our exports; we import goods from them. Filipino workers also go to work in these countries, and send substantial amounts of remittances back. Our principal exports are electronics and electrical components, coconut oil, fruits and nuts, tourism-related services, and skilled labour. When these international economies get into trouble, their demand for the Philippines' exports fall – and as a result, we – the Philippine economy, gets into trouble.

Second, if there is conflict and warfare in the Middle East, it is likely that global oil supplies will be interrupted, and the price of oil and fuel will spike.

The Resilient Philippine Economy

These days, because the global economy is so uncertain, it is all the more important to have a strong and vibrant domestic economy. I can say, that with regard to the Philippine economy, there is good reason to be optimistic. Let me enumerate why:

The 2nd Quarter 2019 GDP growth was 5.5%. We still do not have the GDP number for the 3rd Quarter 2019, it is expected to be around above 5.6%

Is 5.5% high or low? Well, in relation to our targets in the NEDA MTDP, 5.5% is below our target growth rate of between 6-7%, and thus from such viewpoint, we can be unhappy. However, in comparison with our neighbouring economies across Asia, and with emerging economies across the globe, 5.5% is not bad at all! Yes, the Philippine economy is still one of the fastest growing in the world!

We do know that the principal reason why the economy did not reach its target growth rate in the first semester of 2019 is that for the first 4 months, from January-April 2019, we did not have a national budget!

The House and the Senate could not agree on the 2019 budget until April 2019! Moreover, the mid-term elections took place in

May, and so our Government could not do real spending for the first 5 months of 2019! The DOF has estimated that as a result, the government could not spend about P1B per DAY for the first half of 2019!

It is now November, and the National Government has been exerting its utmost to catch up on spending for the rest of 2019. We at BSP know this, because we are now seeing that the national government has been rapidly drawing on its deposits with the BSP, and spending on the BBB has been rapidly accelerated.

In September 2019, government spending grew by at least 54% month-on-month, and this rate will continue or even grow in the last quarter of 2019. Thankfully, the weather is also cooperating, and our country has not suffered a major typhoon so far. This is ideal construction weather, which we hope continues at least for the rest of 2019.

We should also take note that our country's international reserves are at an excellent level, and by some measures even in excess. We have over $86B of reserves, the highest in our history, and enough to cover at least 7.5 months of imports.

Because we have plentiful international reserves, the BSP is confident that we can keep our foreign exchange rates stable and competitive.

Finally, we have been able to bring inflation down from its spike up to 6.9% in September 2018. The October 2019 inflation rate was announced yesterday by the PSA at 0.8%, even lower than September of 0.9%! We are definite that the full year inflation rate for 2019 - 2021 will be within the BSP target rate of 3%, plus or minus 1%!

Liquidity in the financial system is also quite good, reflecting the impact of the MB's decision to bring down reserve requirements ratios several times in 2019. By the beginning of December 2019, the reserve requirements of KBs/UBs will be 14%, TBs 4%, and for RBs 3%!

Thus, the fundamentals of the Philippine economy look pretty good! We need these strong fundamentals to withstand the uncertainties now plaguing the global economy.

The international and domestic financial markets recognize and applaud the good standing of the Philippine economy. This recognition is reflected in the much-improved ratings awarded to the Philippines in 2019: the BBB+ rating, the highest in our history. The economics team is now working hard to achieve the even higher rating, and has mapped out *"The Road to "A"".* Indeed, our country is well on the way to upper middle-income status by 2020!

Agriculture and Rice Tariffication

While the economy is in a good place, there remains a lot of work still to do.

Earlier I mentioned that our GDP growth was 5.5% for the 2nd Q 2019. While this is respectable, the rate could be significantly higher if the Philippines agriculture sector is contributing as it should. But for Q2 2019 Agriculture, Hunting, Forestry, and Fishery contributed only 0.6%.

Overall in comparison to neighbouring countries, agriculture productivity is quite low, and the incomes of our farmers also low. Clearly the agriculture sector needs a big push, and a number of crucial, somewhat difficult reforms. Very recently, the government achieved one of the most important reforms of the agriculture sector and the economy at large – the passage of the Rice Tariffication Law or RA 11203.

The passage of RA11203 enabled the BSP and government to bring inflation under control. The volatile price of rice has been a significant supply factor in inflation, and RA11203 has dismantled monopoly control of the rice industry that was exercised by the National Food Authority.

The NFA's bureaucratic control of the rice industry has meant that for many decades, the price of rice in the Philippines has been 2-3 times the price of rice in Thailand or Vietnam. For example, the price of rice to consumers in Thailand is in pesos about P22/ kg, and the price here is about double.

Since we are a nation of rice eaters, this has made the cost of living of all Filipinos higher! Since food is more expensive, there has been more pressure to raise wages, making Philippine labour less competitive and constraining the growth of manufacturing and the economy as a whole.

Also, that the rice industry has operated for so long behind the monopoly wall of NFA has meant that the cost of rice production has become 2-3 times that of Thailand and Vietnam. Finally, NFA has been such an inefficient bureaucracy. On top of an annual appropriation of at least P7B, it has accumulated debt to commercial banks of at least P140B!

We did a study of the budget of the national rice program over the past 20 years. It turns out that spending on NFA has occupied 47% of the total rice program budget! Such tremendous funds would have been better spent on support to agriculture that truly improves productivity and competitiveness – science and technology, water management, and marketing infrastructure.

A Strong, United Economic Team and a Collaborative Congress

The reform of the rice sector has been on the agenda for over 35 years, since the early 1980s. Over the past years there have been many attempts to dismantle the NFA monopoly, but all failed due to divided economic team, an unsupportive Congress, and weak Presidential leadership.

In 2019, RA 11203 finally came to pass because the economic team was strong and united, led by Finance Secretary Sonny Dominguez, Central Bank Governor (and former Budget Secretary) Ben Diokno, NEDA Director-General Ernie Pernia, and Trade Secretary Ramon Lopez.

Completing the strong economic team is Dr. Willy Dar, recently appointed the Secretary of Agriculture. Dr. Dar is eminently qualified, and has both domestic as well as international experience in agriculture. He is the only Filipino who has served as DG of an international agricultural research center – the International Crops Research Institute for the Semi-Arid Tropics (ICRISAT).

Willy Dar has come into the DA with a running start, after a short time already making headway on the difficult challenges in the agriculture sector.

It is also encouraging that the economic team has the strong trust of the President. This trust is necessary in pushing the legislative agenda for rapid economic reform and growth.

It is also heartening that both houses of Congress are strongly supportive of the President's agenda. This is demonstrated in the passage in 2018 of RA 11231, or the Agricultural Free Patent Law, and of course RA 11203 the Rice Tariffication Law. The tax reform measures such as TRAIN1 was passed, and also soon CITIRA and PIFITA.

Happily, the House has quickly acted on the 2020 budget, and now the Senate is fast deliberating on the appropriations bill. It really looks like the Appropriations Bill will be done before Christmas, so 2020 will be a full year of very high investment levels, enabling much more rapid economic growth.

Finally, we are also now working on draft legislation to strengthen agricultural finance, including a significant amendment of the RA 10000, the Agri-Agra law. We have started consultations with the RBAP and BAP on the draft bill, and are encouraged by the collaboration. Moreover, there has been close coordination with both houses of Congress on the formulation of the draft – particularly with Congressman Junie Cua in the House, and Senator Grace Poe in the Senate.

The amendment will broaden attention to the rural and agricultural finance system as a whole, and emphasize recognition of the agricultural and farming household. The coverage of lending will be broadened from primary production to encompass the entire agricultural value chain, including rural-based SMEs and "green" projects.

Also, we are aware that the RBs have proposed a new Rural Bank Act to Congress. This is an opportunity for all of us to work together to ensure that the legislation will result in a stronger agriculture and rural financial system that will serve not only the banking and financial system, but enable rapid rural and agricultural growth as well.

Thus, I see a lot of hard work that we all need to so, and do together, in collaboration and sharing. I am optimistic that the hard work and sincere collaboration will pay off for the Rural Banks, the financial sector, and the economy as a whole – and our beloved Philippines, and all Filipinos.

Thank you very much!