

The Global Financial Crisis and Its Impact on the Financial Regulatory Framework: The Philippine Case

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Crisis is useful...

“Never allow a crisis to go to waste...they are opportunities to do big things.”

Rham Emmanuel



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What we learned from the Asian financial crisis of 1997

- Shifted from transactional, balance sheet approach to risk-based, consolidated approach
- Implemented risk-based capital adequacy framework of Basle 1
- Promoted greater transparency and market discipline by requiring better disclosure of key information
- Adopted Prompt Corrective Action as an approach to mitigate risks of bank closure due to weak capital or poor management

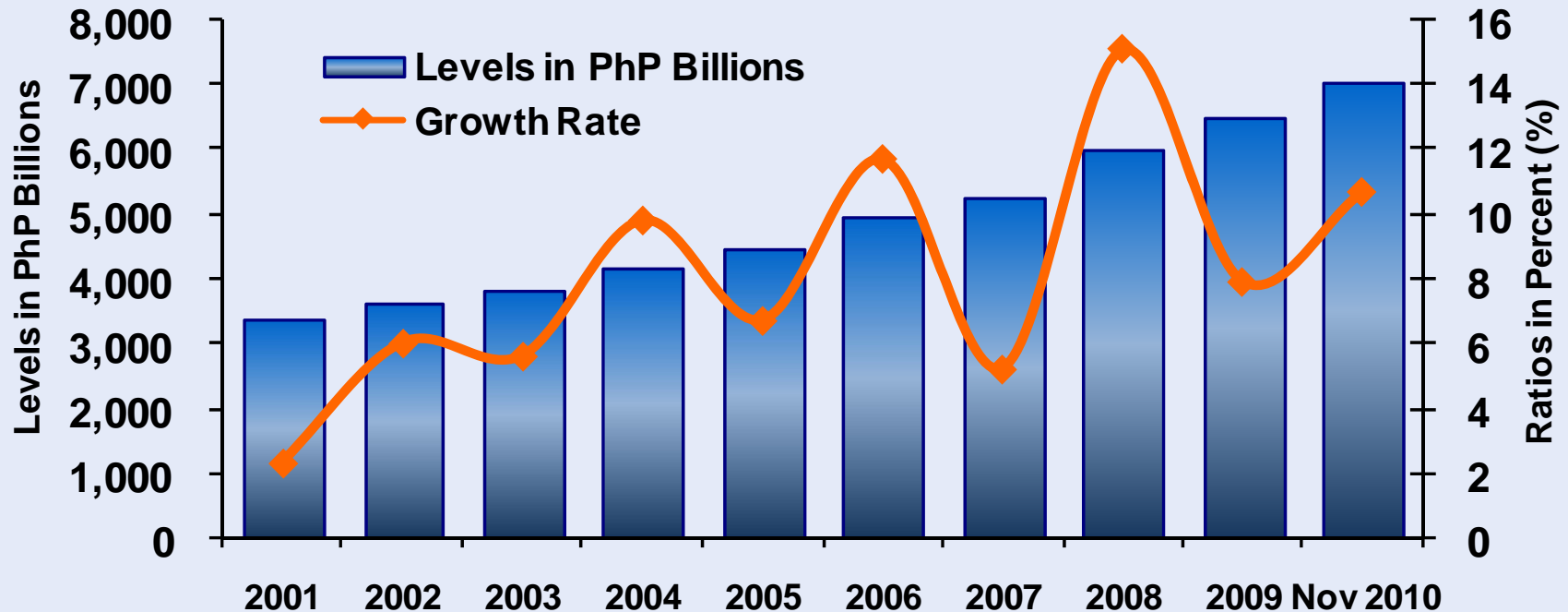


Initial fruits of the reform initiatives

- Bank resources continued to increase

Asset Growth

2001 – November 2010

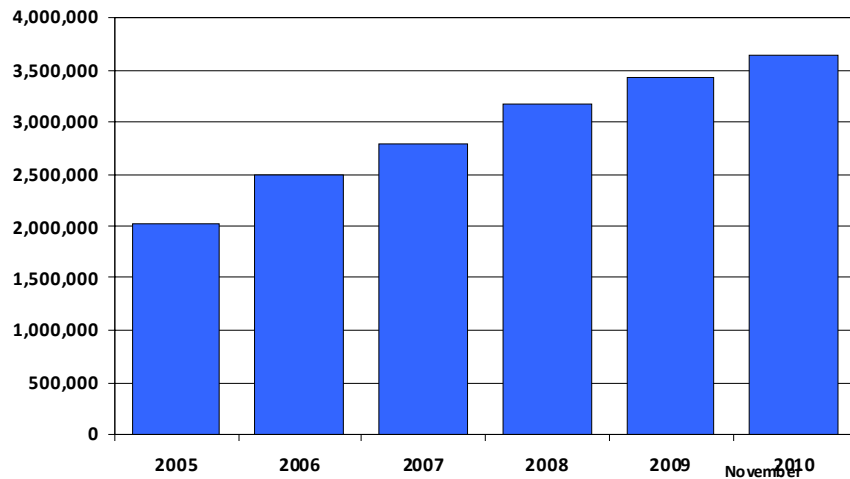


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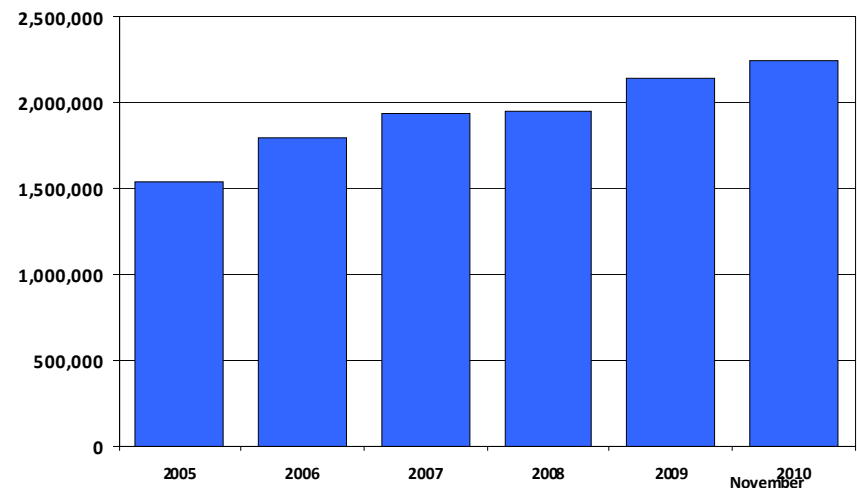
Initial fruits of the reform initiatives

- Deposits and loans continued to grow

**Total Deposits of Banks
In million pesos**



**Loans Outstanding of Commercial Banks
In million pesos**

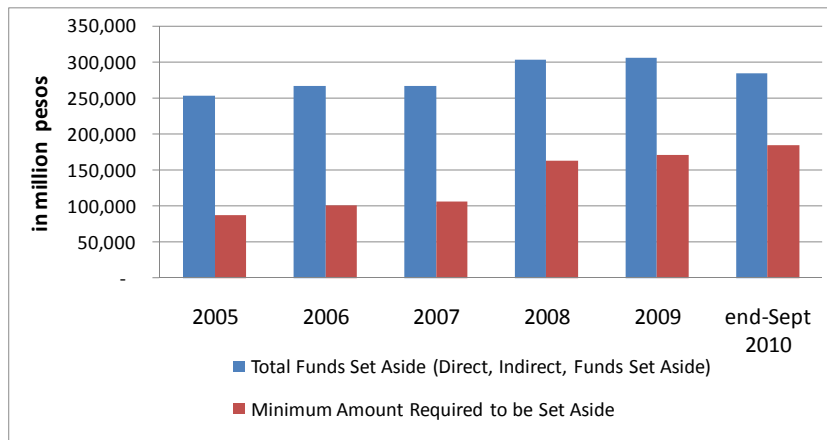


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Initial fruits of the reform initiatives

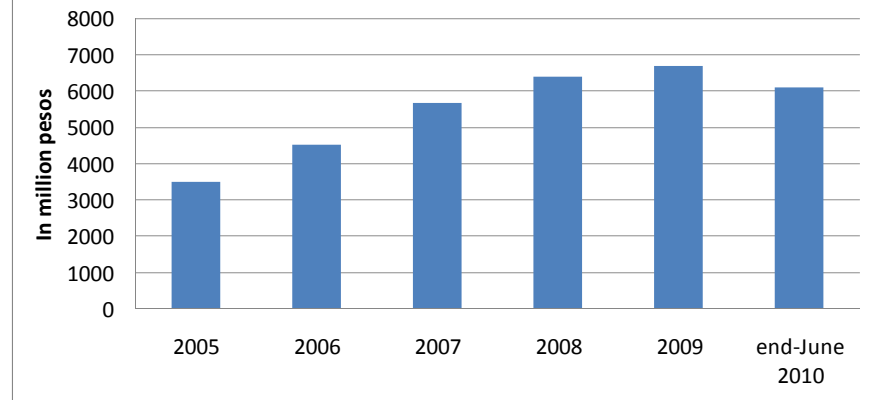
- Loans to MSME's on uptrend

Comparison of Actual and Minimum Required SME Compliance of the Banking System ^{1/}



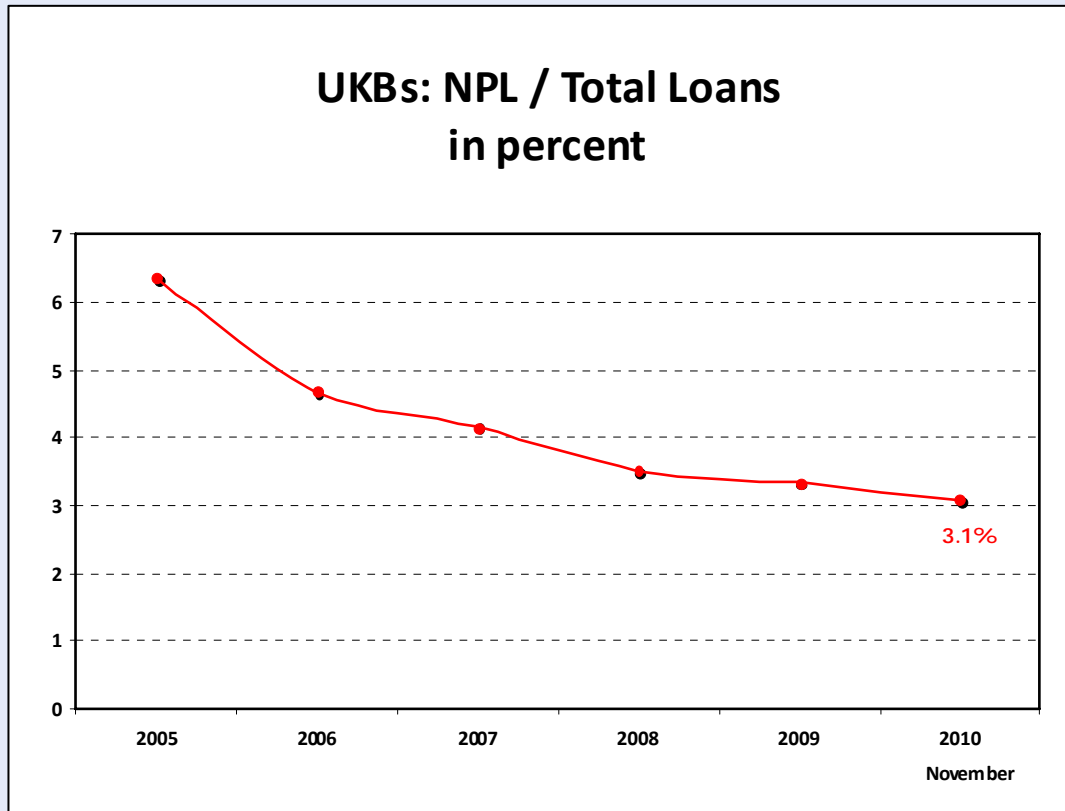
^{1/}In 2008, under the amended Magna Carta Law for Small Enterprises, the mandatory credit allocation to micro and small enterprises has been increased from 6 percent to 8 percent while the requirement for medium enterprises has been maintained at two percent

Microfinance Loan Portfolio of Banks



Initial fruits of the reform initiatives

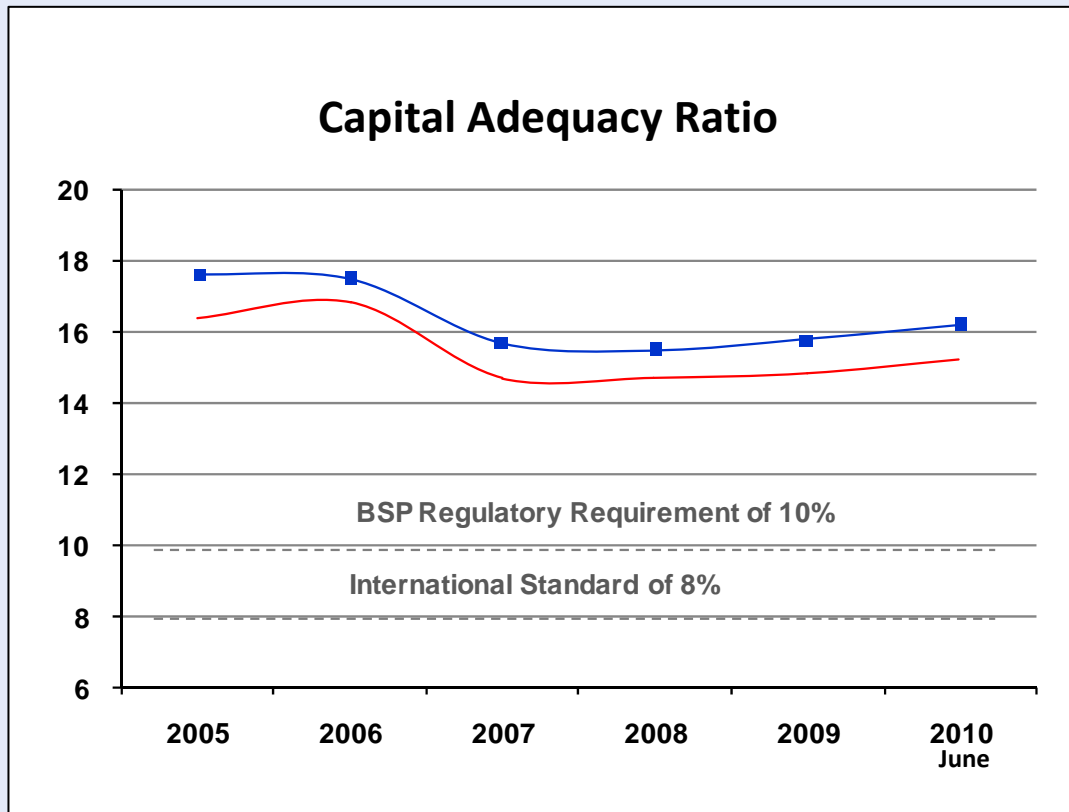
- Asset quality continued to improve



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Initial fruits of the reform initiatives

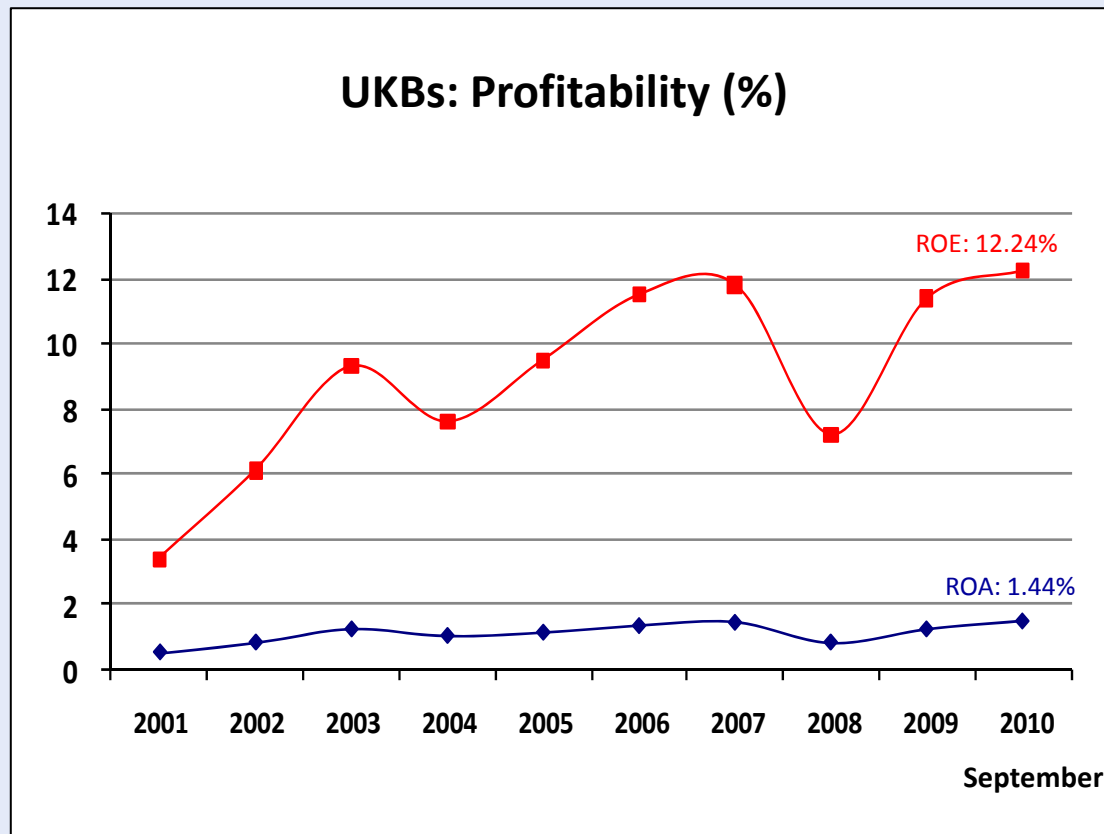
- Bank capital remained higher than norms



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Initial fruits of the reform initiatives

- Profitability ratios sustained resiliency



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Riding Out the Global Financial Crisis: Policy Challenges

- Established liquidity-augmenting measures in both peso and dollar markets
- Implemented package of regulatory and supervisory measures to strengthen financial sector



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Learning from the recent global financial crisis: proving value of crisis

- Liquidity in the system should be managed judiciously
- Policies and systems should be in place to detect and mitigate, avoid if possible, systemic risks
- Scope of prudential regulations should be broadened



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Some potential risks made apparent by the crisis

- Asset quality in smaller financial institutions may be affected if crisis becomes more intense, provisioning vital
- Non-bank financial institutions may need to be brought into greater attention, stronger supervision required
- Housing finance shows some distortions in the face of overlapping mandates of public agencies



Things to do: the laundry list

- Further enhance capital and liquidity standards: Basel III
- Improve macro-prudential supervision
- Further deepen domestic capital market
- Move towards greater financial inclusion



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Ultimate challenge

Ensure regulatory and supervisory framework and conduct relevant and effective in the face of increasing globalization, financial innovation and new technology, changing tastes and expectations, and therefore new and sometimes unfamiliar risks



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