

## The Economist in Government: Reply to Central Bank Comment

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The Bangko Sentral is to be congratulated for making a huge effort in enabling the general public to finally penetrate the central bank's curtain of inaccessibility. This is a tribute to the policy of openness and involvement of the present central bank administration.

In connection with the web-site, it is a great advance. And for this reason, I will use this occasion to provide a review of its contents as it is likely to be useful to many in the Philippine economics profession. I have a few suggestions to make it more effective. As it stands today, the web-site is a good contribution to the economic research milieu that the BSP serves.

With respect to the second point of her answer, the developments she cites are encouraging. I find it useful, however, to elaborate on some points that I had made in my paper on economists in the government. The central bank has an unfulfilled leadership role in macroeconomic, monetary and financial research that can improve Philippine economic discussion on these issues. A case can be made for the BSP to do more and intensively within the next ten years – to bring its in-house capability to the level of the research profession as it has grown in the country. It will improve not only its internal operations in support of its mandate but also enhance the development of the economics profession in the country.

### **1. The BSP web-site ([www.bsp.gov.ph](http://www.bsp.gov.ph))**

The Bangko Sentral web-site is much improved compared to the one that I had occasion to visit a few times before, less than two years ago, which was somewhat rudimentary. The present web-site contains a large set of useful information – about the central bank, its staff directory could be accessed through queries, its organization chart and pertinent legal framework is available. Recent circulars and recent circular letters can be accessed. Even the whole new central bank act is downloadable. It is also presented in stages for topical reference. The web-site has an archive section that contains relatively recent material, policy speeches of the current and last governor. It branches back into circular letters and policy statements of about two-year vintage. Also, recent news releases from the central bank are available.

All these make the BSP web-site more valuable than accessing the newspaper accounts in the business section insofar as trying to get updated on central bank news. It has the merit of less editorial filtering from a business media desk that is more often interested in developing a news angle for the current central bank moves. It has ready retrieval capacity for news and information of recent coverage, more than one could get from the newspaper web-sites, for instance.

In reviewing its archival content, further improvement could be done through the indexing of regulations, news, circular letters and past circulars. Some users want information from the web-site with a subject in mind, and an indexed content would make it easier to refer to relevant subjects more efficiently. A query box would immediately enable access to the relevant content being searched if it is there. For instance, I looked in vain for the relevant regulatory issues pertaining to FCDUs. Through ocular review of the table of contents of the news items that were archived, I picked one item relevant to the topic. Surely, that problem could be answered easily through a dialogue box that leads to the indexed information.

Another public service part that could be very useful is to include a section on answers to frequently asked questions (FAQS) about the central bank and its activities. This will reach the clientele who are curious about the central bank as an institution and it will be further useful in helping foster economic education in the country.

## 2. Statistics branch of web-site

I was most interested in the statistical branch of the web-site. The statistics that are now available are more detailed in content and coverage compared to the one that I had seen before. The regular updates of the tables are as good as those made available for printed circulation, for instance, *Selected Philippine Economic Indicators*, a monthly publication, where the same series are involved. Because the electronic updates are the same inputs for the web-site and these reports, statistics from the web-sites are even more useful. They have the advantage of being instantly downloadable and printable from one's computer.

The web-site is a useful source of information on more *current* data. It provides a veritable platform from which to understand recent developments. The data on balance of payments transactions according to the new format of the balance of payments is available for the last two years and in relative detail. The balance of payments is presented in summary framework for the yearly data from 1995 to the present using the "old" format. Data on monetary statistics, on foreign exchange rates and on interest rates are detailed for the recent two years, available even on a monthly basis for some series. Other data on national statistics, which are lifts from data of other agencies, are also available as they pertain to topics of interest. The links to other databases of the Philippine government are handily available, too.

The site contains aggregated information on summary indicators for financial institutions under the central bank's supervision. Further, the Department of Economic Research has prepared very useful statistical information comparing these individual commercial bank data. All the banks could be ranked according to assets,

deposits (private and governmental), profits, and so on. More important, it is possible to access the individual balance sheets of all the 44 banks submitting their reports to the central bank. This is very useful disclosure information that is made readily available.

I took a look at the IMF data provided according to SDDS (Special Data Dissemination Standards) and the report of the submission form provided for the issues of the IMF *International Financial Statistics*. These data conform to comparable standards and definitions, as compiled from member countries of the IMF. They provide links to existing information that are printed in IMF reports. In fact, the data on domestic interest rates, for instance, are available for more recent periods than those contained in the selected monthly indicators. Apparently, the web-site data entry occurs with the same time lags for the monthly reports produced for public dissemination. This attunes them simultaneously with the monthly indicators. There is no reason why the updates on the indicators need to follow that rhythm in availability, since the IFS submission form contains more update information.

Incidentally, it is in the context of long time series that I made a comment regarding the disadvantage that Filipino researchers experience relative to those who have access to IMF and World Bank databases. It is important that this barrier is reduced to zero insofar as access is concerned. This continues to be a problem, and it is not corrected by the present BSP web-site. An improvement is therefore needed at least for specialists to be able to access this information through the central bank and not through access to multilateral databases.

Let me explain this further. A researcher based in IMF and World Bank, or any one with privileged access to that database in the world, can get Philippine monetary and financial information more than any Filipino researcher, perhaps even a researcher within the BSP itself. For I am talking about all the data that the central bank had furnished to the IMF from the time that the latter submitted financial and monetary statistics for the monthly *International Financial Statistics (IFS)*, as part of membership obligation to the IMF. But because of the computerization of that series, detailed information on the economy at the required periodicity that was complied with in the past, is recorded in those data files. And these are data on Philippine interest rates, nominal exchange rates, money supply and its components, and so on dating as far back as the 1950s in some cases. In short, these were the detailed data that were published in the statistical bulletins of the Central Bank since it began writing those reports. This can be remedied by arranging to download that data back into the BSP database if only to complete the computerized information. In this way, Filipino researchers can access data involving Philippine time series of monetary data like other users.

How useful are the financial data presently available in the current BSP web-site to the researcher with a long-term outlook on the numbers? For comparability, I decided to check the Philippine financial statistics that are maintained in the web-site of PIDS ([www.pids.gov.ph](http://www.pids.gov.ph)). The PIDS data are, of course, copies of data from the central bank statistical reports and from more current information furnished by the central bank electronically. The PIDS data are a narrower set of data series. For

breadth and depth – the BSP web-site statistics are more comprehensive. But PIDS has longer time series of the monetary and exchange rate statistics that it has chosen to monitor. The periodicity is more compact (quarterly and some monthly), but they seem more useful for those engaged in research that use historical information. In short, any economic researcher who would require longer time series of some monetary and financial statistics would do better accessing the PIDS web-site than that of the BSP, at least today. (However, the BSP site is more friendly to the user. It is possible to get downloads of the series and to import the data for use in Excel for instant editing.)

But, ideally, if the PIDS were more confident of getting longer time series data on monetary and financial statistics with the required periodicity that might be useful for researchers, they would just link to the BSP statistical web-site. And that would be the best use of resources.

### **3. How to maximize the potential of the BSP in the realm of macroeconomics and monetary investigations**

I will now deal with the final point of my comment. It is to elaborate on the role where I believe the central bank has fallen short and where a remedy can be made in the future. Its role could be significant and beneficial not only in advancing an improvement of economic research but also in fostering a responsive professional milieu of economists working on macroeconomic, financial and monetary policies.

This is the point that I referred to in my article. Fostering a research community not only within the organization but helping the general community of research on monetary and financial issues had not been the strong point of the Central Bank in the past. Hopefully, that can be corrected, but at the moment it is still far from being achieved, despite all the improvements in openness to information as seen from the much-improved BSP web-site and the current efforts in technical recruitment.

In my view, this is one of the most difficult problems that the central bank faces. To begin with, it will require a change of internal culture within the BSP itself. The opportunity opened with the 1994 re-structuring of the central bank. And it is still open today. But direction towards it requires a conscious effort of building staff and appreciating what an internal think tank could do, that surpasses efforts of the staff to support the operational flavor of the month.

The question that could be asked by the internal skeptic is, Why bother? What is in it for the central bank in any case? The central bank is not a development research center. It is an agency making operational decisions on monetary and financial issues that require quick thinking and operational hands-on abilities. Even when we recognize that research in the central bank is different, there are many areas where the so-called difference is only perceived.

An example will help to clarify my point. Last year, PIDS held a seminar on the effects of banking liberalization, specifically the deregulation of foreign bank entry and its impact on competition. Three papers written by Philippine researchers examined issues related to the impact of bank liberalization on competition and efficiency of local banks. What struck me about the discussion was the stark absence

of the central bank in the exchange of views. A whole morning was spent with well-known figures in the banking industry and the academic sector commenting on the results of the studies. I can sense that the reason this had happened is that, traditionally, the central bank had stayed aloof from engagement in the work of the research community. The reason could be that its *limited* manpower is tied up in tasks that it considers more important, which is operational support of central bank work. Of course, there are high officials of the BSP and Monetary Board members who would grace occasions like this from time to time. But BSP technical presence, where it could matter in the evolution of the research effort or the assessment of the findings, will be absent if it did not have a think tank that is involved in the research affairs on monetary and banking issues as they happen.

The limited manpower that it has today is not due to the lack of means – for the central bank, of all Philippine economic institutions has the best means available – but due to inattention to an important detail for which it has greatest comparative advantage, if it used it correctly. In fact, the BSP has a lot of employed manpower.

Because of its institutional mandate, the BSP has always had comparative advantage in monetary and financial issues. But it has not fully appropriated this comparative advantage because research had been really put at a low priority, except what it always considered the immediate operational and policy problems of the day. After more than fifty years of history, the present dearth of personnel with a research bent is acute. The best potential researchers are absorbed deep in support of the direct tasks of the institution and they have little time for strategic research issues. It might be said that good operational people recognize the importance of research and good researchers could also become good operational people. While such synergy is not guaranteed, when it does occur, it is the institution that reaps the benefits.

#### **4. Concerted manpower development program**

Having said the above, my big fear is that BSP would say let's hire the best Ph.D.s around and build the staff today. I fear this, because having the resources at its command, the task might be perceived as simply one of hiring new people. This is not the case, for the BSP like other Philippine institutions is still operating in a very fragile environment. Weaken other institutions, and perhaps the total infrastructure could be set back if not collapse. Strengthen them and the symbiosis becomes more self-sustaining for all. It must also be recognized that the results of manpower training programs in institutions are never quick but measured in years.

What would be needed is to build along the lines that started this exchange, especially the last four sections of my paper (pp. 132-136). What I consider promising is to build upon existing institutions and help them perform their tasks with support from the central bank so that, in exchange, the BSP could rely upon them to train its staff. This is not only cost effective compared to foreign training while this does not preclude short-term training courses abroad specially designed for central bankers, like at IMF Institute and regional training courses. By relying on local graduate programs to generate the supply of technicians, the local institutions

will also be helped while they are also directly helpful to the human resources training program of BSP. This will produce new supply of manpower from the existing pool of young people with potentials for technical work in the field while unearthing potentials that exist from within the current, employed technical staff already in the central bank. The BSP needs to nurture the environment with the help of catalytic activities that involve a network of people from within its ranks and institutions outside that provide the training. But the training program will be intense, full-time, and will take several cycles of long years rather than quick periods. As the program produces results, well-laid out technical assistance partnerships could supplement it with internships and other technical exposure in foreign institutions. Within a period of one decade, the results of such an approach would be surprising.

The developments of the last thirty years have led to the creation of graduate schools in the country that have produced high level technical manpower in special fields. The best technicians in economics in the country nowadays took graduate programs within the country. As an example, the PIDS has a stable of Ph.D.s in economics that is mainly home grown. This group carries out a huge load of relevant development research in that research institute. The BSP could have a huge impact on further strengthening of domestic institutions while at the same time providing the right supply of manpower for its staffing needs.