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NATIONAL COUNCIL FOR FINANCIAL STABILITY DEFINES THE “NEW ECONOMY”

The Financial Stability Coordination Council (FSCC) has identified the various systemic risks that the country is facing because of the pandemic. Recognizing the uncertainties ahead, the Council said that it wants to provide an anchor by defining the future market landscape. This it said will allow stakeholders to begin their transition towards that vision.

In his remarks at the release of the latest Financial Stability Report (FSR), BSP Governor Benjamin E. Diokno, Chairman of the FSCC, said that “while facets of our daily lives have changed since the outbreak of the pandemic, we should look ahead and prepare for tomorrow. This should be our mindset today. Doing so gives us direction and purpose.”

The Governor recognized though that COVID-19 is unprecedented and that several multilateral agencies expect that it will leave “scars” in the economy. Among the challenges brought about by COVID-19 is how stakeholders can move forward when changes in the economy are still unfolding.

“We traditionally forecast into the future by using economic models which are empirically estimated based on behaviors displayed during normal times,” Governor Diokno pointed out. The challenge, according to the Governor, is that COVID-19 is changing the preferences of consumers and the risk behaviors in financial markets.

“Together with the premium on physical space and an irreversible trend towards digitization, the changing behaviors give the FSCC reason to re-assess,” the FSCC Chairman said. He added that the “New Economy” will not just be a “post-COVID world” but will be fundamentally different from the pre-COVID market arrangements.

The FSCC, according to the Governor, expects the New Economy to operate under a different set of market arrangements, and companies would have to adopt new business models. The market itself will be distinguished by new behaviors while the authorities must account for systemic risks when overseeing market functions.

“As simple as this sounds, this has significant effects on how products and services are inherently produced and eventually consumed,” according to Governor Diokno.

“Rather than trying to anticipate several moving targets, the FSCC is offering a vision of what economic activity will be in the New Economy, premised on our newfound premium on physical space and a much heavier reliance on technology to get things done from production to consumption,” the FSCC Chairman said. “This vision addresses today’s uncertainties and elevated risk aversion by providing the anchor towards which the market can design its own path,” Governor Diokno added.

The full details of the FSCC analysis and its recommendations are in the FSR which the Council just released.

The FSCC is an inter-agency council composed of the BSP, the Department of Finance, the Insurance Commission, the Philippine Deposit Insurance Corporation, and the Securities and Exchange Commission as member institutions. The BSP Governor chairs this high-level council whose objective is to mitigate systemic risks which will adversely affect both the economy and the financial market.

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