



NEWS RELEASE

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FSCC RELEASES FINANCIAL STABILITY REPORT, IDENTIFIES NEXT STEPS

The Financial Stability Coordination Council (FSCC) issued the country's latest Financial Stability Report (FSR). The report highlighted the Council's assessment of the systemic risks that the country is now facing because of the COVID-19 pandemic. More importantly, it has defined its initiatives to mitigate the adverse consequences and take the country to the "New Economy."

At the public event of the issuance of the 2nd Semester 2020 FSR, FSCC Chairman and BSP Governor Benjamin Diokno emphasized that the Council made the deliberate decision to shift from an annual to a semestral release of the FSR as a response to the fast-changing conditions in 2020.

"We all knew, specially our Technical Secretariat, how difficult it is to produce such a report but we were also fully confident that it was the right thing to do," Governor Diokno said.

For his part, Finance Secretary Carlos Dominguez pointed out that this FSR is "a picture of strength in the face of adversity. While it may not be as glowing as last year's report, it shows how years of work in fortifying our financial sector have prepared us well for this difficult time."

"This report highlights the importance of crafting responsive fiscal and monetary policies to support our recovery and help Filipinos return to their means of livelihood," he said. "More importantly, this FSR demonstrates that we are effectively mitigating the adverse effects of the pandemic on our domestic economy."

After the FSCC Technical Secretariat gave a brief presentation of the key issues discussed in the FSR, Philippine Deposit Insurance Corporation (PDIC) President Roberto B. Tan asserted that "the good news for the banking industry is that it remains strong despite COVID-19." Although deposit insurance as a critical safety net is in place, Mr. Tan also reminded everyone not to be complacent.

The PDIC President noted the effect of COVID-19 on household and corporate incomes. He pointed to the discussion in the FSR about the global concern over debt servicing as well as what the Council refers to as "slow burn contagion where vulnerabilities at the firm level could spread to other firms." His key takeaway was that these are reminders to PDIC that liquidity risk takes on a more immediate role.

This point about liquidity was echoed by Securities and Exchange Commission (SEC) Chairman Emilio B. Aquino. He succinctly summarized the condition of the market by stating that "liquidity is coveted, credit has slowed, and risk premiums have risen" which he further described as "rational risk-aversion for a market under uncertainty."

Seeing things from the lens of the capital market, Chairman Aquino believes that there is a notable upside but "issuers are facing discerning investors who are searching for yield, the same investors who are deciding between mobilizing or retaining liquidity."

On his part, Insurance Commission (IC) Commissioner Dennis B. Funa reiterated that the Council's policy intervention has always been geared towards the enhancement of the welfare of financial

consumers. He was quick to add though that the stakeholders of the contingent market are arguably unique because they are naturally longer-term investors.

Commissioner Funa then said that they “must rely on the stability of markets, the availability of their underlying instruments, and the reliability of risk valuations.” Pointing to the need to continuously adapt to changing market conditions, he highlighted that “we should not confuse stagnation for stability or look at having systemic risks as basis to stay by the sidelines.”

The FSCC principals were in unison with the need to move forward. Returning to the issue of liquidity, Governor Diokno has often stated that the authorities moved early and quickly to provide liquidity to the financial market. “The magnitudes and methods are unprecedented but met its purpose in calming the local market,” the Governor said.

SEC Chairman Aquino argued further that “to redeploy liquidity, this tells the FSCC that the work ahead includes strengthening risk valuations.” This is a familiar message of the Council since issuers and investors can come together only when prices fairly value risk and reward.

PDIC President Tan added that the FSR reinforces the “symbiosis between the real economy and financial markets ... weaknesses in the former would eventually impact on the latter and could create adverse “spillback” effects on the rest of the economy.”

The bigger picture that the FSR presents is that the changes imposed by the pandemic are more likely to impose fundamental changes.

Secretary Dominguez pointed out, "As the global pandemic continues, we must implement timely and effective monetary and fiscal policies. These policies are crucial to the management of evolving systemic risks during this period of general uncertainty. They are also the very tools we are using to build a new and more resilient economy."

"Every crisis presents both challenges and opportunities. We will continue to be vigilant against the risks posed by the pandemic while taking advantage of opportunities that will help restore our country's growth trajectory," he said.

Secretary Dominguez thanked both chambers of the Congress in helping the government accelerate economic recovery by passing the Financial Institutions Strategic Transfer (FIST) bill, which will allow banks to dispose their non-performing loans and assets so they can help more businesses. "We hope the bicameral conference committee in the Congress will finalize the bill within the year," he said.

FSCC Chairman Diokno made the point that everyone accepts that “facets of our daily lives have changed since the pandemic” but he added that we should not dwell on the past and instead look ahead. This, the BSP Governor said, should be “our mindset [because] doing so gives us direction and purpose.”

The FSCC is made up of the BSP, the DoF, the IC, the PDIC, and the SEC. The 2nd Semester 2020 FSR can be downloaded through the websites of the FSCC-member agencies.

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