STATEMENT ON THE STATE OF FINANCIAL STABILITY
23 May 2022 Meeting of the Financial Stability Coordination Council[1]

The prospects of the global economy are once again at risk. At a time when COVID-19 is no longer dominating the daily headlines, renewed market pressure is being driven by high inflation, rising interest rates, and sharp increases in the prices of commodities. Financial stability risks are then elevated, with macrofinancial prospects subject to heightened volatilities and broader uncertainties.

The Philippine economy's position of strength. These concerns on the global stage contrast with the Philippines' macrofinancial conditions. The Q1 2022 year-on-year GDP growth of 8.3 percent reflects a path and level that is markedly different from the prognosis for 2022 global growth, as forecasted by multilateral agencies.

Our growth is driven by current purchasing power as well as by economic investments for the future. In the former, consumption expenditures per person in Q1 2022 are now higher than the comparative figure in March 2020 when the country began to face the challenges from COVID-19. This is supported by the recovery in employment, with a labor participation rate of 63.4 percent and an employment rate of 94.3 percent.

In the latter, we expect the productive capacity of the country to have been enhanced with growth in fixed capital formation. This mirrors the expansion in the industry sector, particularly in manufacturing and construction, which grew by 10.1 and 13.5, percent, respectively. Economic activity in utilities, which is a direct indicator of demand likewise grew by 5.8 percent in real terms.

External factors provide the main risks. Our path forward will invariably be challenged by these global disruptions. We expect spillovers from the Advanced Economies to Emerging Markets Economies through cost-push pressures and higher risk premiums. These are not independent shocks but are interconnected at many levels, creating complex, non-stationary and interlinked cause-and-effect relationships.

The supply bottlenecks nurtured by COVID-19 are still evident in many facets.This is further complicated by geo-political issues that are directly affecting commodity prices. Global prices of crude oil blends such as Brent, WTI, and Dubai, in particular, are well above their 2021 closing prices, while wheat, corn and nickel prices have all increased at least 30 percent as of end-May 2022.

Markets have seen interest rates rise in many economies. Ironically, part of this is from the intention to exit from the accommodative stance taken during the COVID-19 years. Arguably, however, there are also concerns about managing demand side pressures as many jurisdictions attempt to temper growth through a soft landing.

[1] The Financial Stability Coordination Council (FSCC) is an inter-agency council composed of the Bangko Sentral ng Pilipinas, the Department of Finance, the Insurance Commission, the Philippine Deposit Insurance Corporation, and the Securities and Exchange Commission. It convenes quarterly to assess possible systemic risks and decide on appropriate macroprudential policy interventions.

Financial stability risks in a VUCA[2] world. These global pressure points will impact our State of Financial Stability. The pass-through effect of oil prices is already evident at the local gasoline stations. This is raising domestic inflation but in a manner that is not typically addressed by monetary tools.

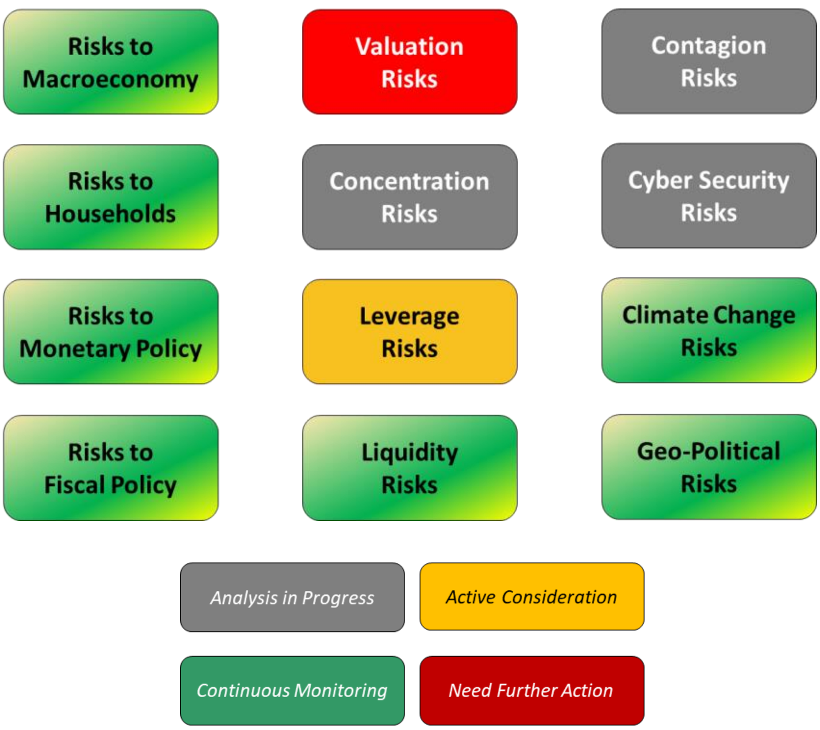
In this interconnected world, rising interest rates in Advanced Economies will invariably get transmitted to emerging markets. Risk premiums in the secondary markets will rise, affecting market valuations of financial assets and altering the prices of debt, both for the public sector as well as for the private entities.

All of these validate that we are continuously operating in a VUCA world. Our markets are always defined by volatility, uncertainty, and complexity, creating ambiguity in what lies ahead.

This makes it imperative that we identify, assess and pre-emptively manage emerging systemic risks. Our recent release of the Systemic Risk Crisis Management (SRCM) Framework is useful, not because an immediate crisis is upon us but rather because it gives our stakeholders a transparent view of how we continuously manage systemic risks, regardless of the state of stability.

Our view on the state of stability will evolve as market stakeholders adapt and adopt to changing market conditions. Just with the SRCM Framework, the Council is committed to engaging the public so that our stakeholders can make well-informed decisions.

STATE OF FINANCIAL STABILITY HEAT MAP



[2] VUCA stands for Volatility, Uncertainty, Complexity, Ambiguity