



**6<sup>th</sup> BSP International Research Conference on  
"Revisiting macro-financial linkages: Looking back and looking ahead"  
Manila, Philippines • 20-21 September 2016**

**CLOSING REMARKS<sup>1</sup>**

Deputy Governor Diwa C. Guinigundo  
Bangko Sentral ng Pilipinas

Monetary Board Member Val Araneta, our dear chairs, speakers, discussants, participants and my fellow central bankers, Good afternoon.

On behalf of the Bangko Sentral ng Pilipinas, let me bring this year's 6<sup>th</sup> BSP International Research Conference to a close. We would like to thank all of you for your excellent contributions during the Conference.

Many times during the Conference, we stressed the choice of the theme "*revisiting macro-financial linkages: looking back and looking ahead*". To explore this theme, we brought together academic scholars and central bank experts in monetary and financial supervisory research. We also took pains to select papers that would not only show care and rigor in research, but also be relevant to empirical literature and promote an active sharing of ideas and experiences.

In the first day of the Conference, the first session chaired by Roberto Mariano of the University of Pennsylvania focused on the implications of cross-border shocks to the domestic economy. The first two papers by Georgios Giorgiadis of the ECB and Eli Remolona of the Bank for International Settlements attempted to identify cross-border policy spillovers and on the differentiation of asset classes in the context of sovereign risk exposures, respectively. I particularly like Eli's tyranny of benchmarks. Later in the afternoon, Maria Teresa Punzi of the Vienna University of Economics and Business shared the findings of her paper relating to the implications of information frictions in the context of financial market integration while Iman Badrudin of Bank Negara Malaysia further supported Professor Punzi's paper by showing that effective buffers (e.g., reserve accumulation) can be established to mitigate contagion shocks and offering insights for a nuanced approach to managing an open capital account. These are precious insights that we can bring with us when we leave for our respective homes.

Later in the day, the second session chaired by Johnny Noe Ravalo of the Bangko Sentral ng Pilipinas dealt with macro-financial linkages within the domestic economy. The papers covered liquidity provision for sovereign, Housing and interbank credit markets. The first by Francesco Molteni discussed the dynamics of the sovereign bond liquidity in the

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<sup>1</sup> Remarks delivered on 21 September 2016 at the closing ceremonies of the BSP 6<sup>th</sup> International Research Conference at The Peninsula Manila Hotel, Makati City.

context of the European financial crisis. After him, the presentation of David Williams demonstrated the dynamic interplay of the outlook on house prices and debt in examining the behavior of movements in incomes, housing supply, mortgage interest rates and credit conditions. Lastly, Marcel Bluhm rounded out the day by elucidating on interbank funding as insurance against persistent liquidity shocks. We cannot overemphasize the role of liquidity and credit in establishing the link between the financial markets and the real economy, that which could define the trajectory of stability and growth.

Earlier this morning, the papers during the session chaired by Francisco G. Dakila, Jr. of the Bangko Sentral ng Pilipinas encompassed the role of macro-financial linkages in the transmission mechanism of monetary policy. Pierre Siklos articulated the role played by cross-border credit flows in the effectiveness of conventional and unconventional monetary policy. The research result that cross-border influences on domestic credit conditions are confounded in the survey data on lending standards benefit our own survey of senior loan officers. Subsequently, Thorvardur Tjorvi Olafsson elaborated on the history of financial cycles in Iceland and presented the findings of his research detailing a set of variables that could be robust predictors of financial instability. Lastly for this morning, two papers by Fang Yao of the Reserve Bank of New Zealand and Paul McNelis of Fordham University detailed how policy measures impact on the real economy by changing the constraints and incentives of financial institutions.

Finally, the dynamics of the monetary policy transmission mechanism was examined and debated upon by a panel chaired by Eli Remolona of the Bank for International Settlements. The constraints faced by traditional channels have generated a search for other transmission channels that will allow central banks to continue to deliver on their mandates.

Ladies and gentlemen, I would like to thank the session chairs, presentors, panelists and participants who shared their insights and policy advice on the monetary policy and financial stability issues characterizing the current policy environment. Based on central bank experience and relative to the points raised during the Conference, we have noted the systemic nature of the feedback loop between the real sector and financial markets as well as the growing role of the risk-taking channel of policy transmission. In light of these observations, the open questions pertain to what else can central bankers do and what can we expect going forward?

Here in the BSP, we have been cognizant of how policy spillovers can influence domestic inflation and growth. We have shifted our monetary operations to an interest rate corridor system to more ably guide short-term market rates towards the policy interest rate. We have paid greater attention to the roles of the exchange rate, the risk-taking sentiment in global financial markets and the formation of inflation expectations as significant channels of monetary policy transmission. We have also heavily utilized central bank communication as a tool of monetary policy.

On the financial stability side, we have championed the recognition of financial stability as a shared responsibility. In so doing, we have instituted a high-level Financial Stability Committee in the BSP and collaborated with fellow regulators through the establishment of the Financial Stability Coordination Council. We have set up a national

strategy for financial inclusion and instituted a formal framework for financial consumer protection. We have introduced economic and financial learning to the farthest reaches of the Philippine Archipelago. We have also reached out through regional fora in pursuit of the promotion of best practices of financial stability.

Going forward, to strengthen and enhance our capacity to ensure price and financial stability, we have approached the Congress of the Philippines for *inter alia* higher capitalization, the restoration of the central bank's authority to issue its own securities as well as its authority to obtain information from the non-bank private sector and the establishment of loss allowances and reserve buffers to mitigate the risks and contingencies it faces in performing its mandated functions.

That said, there remains a lot to be done and we will be digesting the takeaways from the Conference for more and enhanced initiatives in managing macro-financial linkages. To ease this endeavor, we shall compile all the papers and the documentation of the discussions after each session and publish them by early next year.

In closing, I would like to extend my sincere appreciation to the organizing committee composed of staff from the BSP for helping ensure the success of this Conference.

Since the rest of the afternoon is free, please take time to walk around this central business district of Makati to feel the pulse of the nation. We hope you can come back and spend more time to visit the more interesting parts of the Philippines.

Thank you and Mabuhay!