

Media and Research - Speeches

Speech during the FSCC Release of the Systemic Risk Crisis Management Framework

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Occasion: FSCC Release of the Systemic Risk Crisis Management Framework

Speaker: BSP Governor Benjamin E. Diokno

Ladies and gentlemen, good morning.

The last three decades have seen significant developments in the financial market. Technology has practically eliminated physical divides, while financial engineering has allowed instruments to be specifically designed for certain stakeholders with certain needs at a certain point in time. As a result, financial markets today are complex and highly interlinked across national borders. This creates a value chain as much as it provides the channels for various spillovers.

We have seen, over the past three decades, the Asian Financial Crisis, the Global Financial Crisis and, more recently, the COVID-induced global recession. Although these have happened at nearly a decade's interval between them, regulators as well as the public do not take comfort when the unexpected happens. This is the nature of crises. They are unexpected but creates significant disruptions as they unfold. Someone will always bear the costs of the least disruptions, and invariably, it is the public.

As we move forward towards full recovery, now is the opportune time to look ahead, recognizing lessons from the past while anticipating the possibilities of the future. This is why the Financial Stability Coordination Council put together this Systemic Risk Crisis Management Framework which we are releasing today.

Financial Stability, after all, is about systemic risks and the continuous task is to enhance the resilience of the financial system. Stability is, therefore, simply about risks and resilience, preemptively assessing the former while ensuring the latter by both avoiding shocks to the system as well as strengthening the ability to recover once those shocks occur.

The SRCM is in keeping with the objective of managing systemic risks and strengthening the resilience of the system. It defines arrangements among the FSCC agencies that we will rely on in good times so that we are best organized under stressed conditions.

The SRCM is a strategic document that highlights how ongoing tasks contribute to crisis management and identifying initiatives which we believe are needed moving forward. As we develop the tactical plans that underpin this strategic document, the SRCM is thus a living document that evolves with the market and the needs of its stakeholders.

The Council fully understands the importance to the public of managing systemic risks and mitigating its disruptive effects. While financial stability is not about a forecast of the future, it is nonetheless all about considering all reasonable likely outcomes.

Some of you may know of the mantra of Hyman Minsky who once argued that it is in good times when instabilities are developed. This explains in part why crises are often a surprise. Sometimes, we see all the gains of better days, but we may be overlooking the underlying signs of vulnerabilities being built up. While it is virtually impossible to forecast the next crisis, its timing and its specific nature, this should not stop us from being prepared. This is the essence of the SRCM and it includes technical aspects, some of which the Secretariat may share in its presentation, as well as the critical element of communication.

We have always believed that highly-aware stakeholders can make well-informed choices. As regulators, however, we also do recognize that system-level outcomes may turn out to be different from the sum of the behaviors of individual stakeholders. All these challenges simply mean that systemic risk crisis management, and invariably financial stability at large, is a collective effort.

Ladies and gentlemen, the ultimate objective is to improve the welfare of current and future generations. We do that through a well-functioning financial market, interlinked within its various components and collaborating with the rest of the real economy. This SRCM that we launched today can be many things at many times to many people, but it will always be about accruing the gains of financial markets, products and services to the Filipino people. This SRCM is a start, not the terminal goal.

Thank you and good morning to everyone.