

Eli M Remolona: Message during the release of the 2023 Financial Stability Report

Message by Mr Eli M Remolona, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the release of the 2023 Financial Stability Report, Manila, 13 February 2024.

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Magandang umaga sa inyong lahat!

I thank everyone for making time to join us here in the BSP [Bangko Sentral ng Pilipinas] on a Tuesday morning.

Tomorrow is Valentine's Day, and we will speak about love and roses!

But today, let me talk about the danger of rosy scenarios.

Today, we present to you our *2023 Financial Stability Report (FSR)*-an FSCC [Financial Stability Coordination Council] communication tool for managing systemic risk.

What is our *FSR*? It is a report published at least annually, pieced together from the collective wisdom of the FSCC, from suggestions by the BSP's Monetary Board and the FSCC agency-offices, and from inputs from other participants of our financial system.

The reason for the *FSR* is that we want to communicate to participants of the financial system to help them make better-informed decisions, and maybe tell us what we may have missed.

The challenge is that systemic risk is inherently difficult to comprehend. Markets are fluid, and things can change very quickly. Some risks arise from our own markets and some risks in foreign markets can spill over onto our shores.

The risks that are of the biggest concern are those that are brewing in out-of-sight vulnerabilities, risks that turn out to be contagious and to lead to broader dislocations.

You have heard of "black swans" indicating highly unlikely surprises or "the butterfly effect" to describe how small things can lead to far-reaching consequences.

These are the things we worry about.

Indeed, financial market participants often make risky investments based on rosy scenarios.

The more widely shared the scenario, the more dangerous it is. When something goes wrong in these scenarios, it sometimes leads to mass panic. There is a rush for the exits, causing massive investments to collapse.

This is no idle theory.

In 1993, the World Bank published a volume called *The East Asian Miracle*. It told a rosy scenario about our neighbors, including Indonesia, Malaysia, Thailand, and South Korea.

International investors bought the story. They bought it lock, stock and barrel.

The World Bank was nice enough not to include the Philippines in its *East Asian Miracle*. Yet, somehow, we did not escape the rosy scenario, *Nadamay pa rin tayo*.

In 1995, the Metro Pacific Group, along with a consortium of international investors, submitted the winning bid for Fort Bonifacio. The bid was US\$1.6 billion. It was called "the property deal of the decade."

We all know what happened next. In July 1997, we saw the sudden onset of the Asian crisis. All around the region, currencies and stock markets plunged. Massive loans went unpaid, property prices collapsed, and tall buildings languished unfinished. The whole region went into recession.

We remember the crisis, but we often forget the rosy scenario that led to it. This *FSR* is about reminding us about the dangers of the rosy scenario and identifying the possible channels of contagion.

We purposely wrote our *FSR* so that it is not a technical report crowded with fancy equations. Instead, we wrote it as a thematic narrative that tries to unearth the risks beneath the rosy scenarios. We provide a view of the macroeconomy and the financial markets from the perspective of systemic risk. We present the headline numbers and how they might interact with one another.

This particular *FSR* takes a very institutional-level focus and makes an assessment of how capital markets may play a greater role in the resilience of the Philippine economy.

So, I invite everyone to download a copy and parse through the pages of the *2023 Financial Stability Report*. Read about the risks we see and our planned courses of action.

Let us know what you think, and we are more than happy to engage.

Join us in navigating the financial stability journey together.

Marami pong salamat at mabuhay tayong lahat!