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Statement by the Hon. **AMANDO M. TETANGCO, JR.,**
Governor of the Fund for **PHILIPPINES**

Statement by the Hon. Amando M. Tetangco, Jr.[1]
Governor of the Fund for the Philippines

It has been nine years since the onset of the global financial crisis and yet we still find ourselves in an environment where the global economy remains weak and fragile. The IMF has been downgrading its projections for global economic growth. The Federal Reserve has stalled in the normalization of its policy rates and the European Central Bank and the Bank of Japan remain in quantitative easing mode including through negative interest rates. Furthermore, new tail risks have emerged in the form of Brexit and geo-political risks.

Emerging markets in the meantime have shifted their focus towards broadening and deepening domestic sources of growth in order to better shield themselves from weak external trade prospects.

As financial markets move from anticipation to disappointment to anticipation again, with respect to policy actions by the advanced economy central banks, volatility in financial markets continues to be high and driven by market sentiment.

Market sentiment is a powerful driver of market trends and developments. Confidence, or the lack of it, could easily feed into decisions to invest and consume, which in turn, could drive or hamper economic growth. Thus, it is imperative that policymakers strive to restore economic confidence, and in the process boost aggregate demand and spur economic growth.

It is easier said than done, but I believe the best tool to manage market sentiment is to anchor confidence on sound macroeconomic fundamentals. Market sentiment is susceptible to irrational shifts and noises in the short run. But consistent and sustained sound macroeconomic fundamentals—coupled with clear and timely communication—will enable market players to eventually filter out noises and rationally align their expectations and sentiments.

In the case of the Philippines, this is precisely what we have endeavored to do. Because we are a small open economy, and subject to shifts in global market sentiment, we have fortified our domestic sources of economic growth and built the necessary domestic institutions to help ensure that our good growth performance is self-sustaining. We have also remained committed to economic reform. In other words, we have kept our "own house in order." We believe these initiatives have helped to anchor positive sentiment among both domestic and foreign investors. And, the numbers speak for themselves.

Our gross domestic product grew by 7.0 percent in the second quarter of this year. This is the 70th consecutive quarter of positive economic growth. Such growth dynamics are supported by solid domestic demand, underpinned by strong private consumption and investment,

[1] Statement of Governor Amando M. Tetangco, Jr. of the Bangko Sentral ng Pilipinas for the 2016 Annual Meetings of the International Monetary Fund (IMF) and the World Bank (WB), 3-9 October 2016, Washington, D.C., USA.

continued productivity growth and favorable demographics. Consequently, the IMF and the ADB, in recent separate reports, have both raised their GDP growth outlook on the Philippines.[2]

Our latest assessment shows that inflation will continue to be manageable. In 2016, inflation is seen to average just below the lower end of the government's target range, but it is forecast to move to within the target range of 2-4 percent in 2017-2018. Our external liquidity position also remains robust and our banking system sound.

Of course, we are cognizant of the fact that the challenging global environment also entails fresh approaches in moving forward. Toward this end, the BSP has worked hard to enhance its existing policy toolkit. For instance, the BSP has shifted to an interest rate corridor (IRC) system this year to further strengthen the transmission channels of monetary policy. We have also further liberalized our foreign exchange regulatory environment to enable the banks to better address the growing foreign exchange needs of the private sector. And we have adopted regulations to enhance the governance and risk management processes of our supervised institutions to help ensure that these are benchmarked against international standards.

The government for its part, under the new administration, has committed to a 10-point Economic Agenda that aims to continue the factors that have led economic growth in the Philippines. These factors include maintaining an orderly fiscal house, investing in human resources and capital development, among others.

Our economic strategy has been marked by adopting monetary, structural and fiscal policies appropriate to our own idiosyncratic conditions. We trust that in the medium and long-run, these policies will prove to be "mutually reinforcing."

As we reach almost a decade post the GFC, we look forward to new initiatives from the Fund, including new modes of technical assistance and capacity building, to deliver tailored but cohesive policy advice that can bring about sustainable global economic growth. We also look forward to updates on the Fund's work on further enhancements to its lending toolkit in order to address gaps in the global financial safety net and help countries adjust to a more interconnected global economy. Finally, we support the IMF in its initiatives to develop a more resilient international monetary system.

Thank you all and Mabuhay!

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[2] IMF raised GDP outlook to 6.4 pct. from 6 pct. for 2016 and to 6.7 pct. from 6.2 pct. in 2017. The ADB also raised outlook to 6.4 pct. from 6 pct. for 2016.