Governor's Statement No. 6

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Statement by the Hon. **FELIPE M. MEDALLA,**
Governor of the Fund for the **PHILIPPINES**

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The pace of global economic recovery has been gradual and uneven as the outbreak of new COVID-19 variants resulted in recovery pauses in many countries. Policymakers supported their domestic economies through a variety of measures which includes accommodative monetary policy, regulatory relief and forbearance, and fiscal policy stimulus. As economies begin to rebound, new challenges have emerged such as rising inflationary pressures, continuing geopolitical tensions and widening supply chain disruptions – all of which threaten the road to economic recovery.

The Philippine economy has fared relatively well, having posted five consecutive quarters of growth since Q2 2021. GDP grew by 7.4 percent in Q2 2022, backed by strong domestic consumption and gross capital formation. Domestic liquidity and credit growth, which grew by at least 6.8 percent and 8.5 percent for the first eight months of this year, respectively, helped fuel economic activity. The Philippine banking system remained sound and stable evidenced by continued growth in assets, loans, and deposits coupled with adequate buffers on capital, liquidity and loan loss reserves.

This growth story would not be possible if not for the whole-of-government approach adopted by the authorities. The BSP, for its part, has responded swiftly to the COVID-19 crisis by providing ample monetary policy stimulus to mitigate tightening liquidity conditions and implementing regulatory relief measures to help banks withstand the crisis.

In the near term, the country's economic recovery is seen to gain traction as mobility restrictions continue to ease and labor market conditions improve. We expect the economy to grow between 6.5 percent to 7.5 percent in 2022, anchored on strong household consumption and private investments, along with robust manufacturing and service sectors.

However, we also remain cautious of the downside risk to growth which includes inflation breaching the upper end of our 2-4 percent target range for this year. Since May 2022, the BSP has raised policy rates by 225 bps to anchor inflation expectations and prevent price pressures from becoming entrenched.

We will be monitoring the pace and magnitude of policy adjustments by the US Fed which may result in portfolio reallocation among investors that could lead to capital flow reversals and increased volatility in the equities, bond and foreign exchange markets. These will have significant spillovers in emerging markets and the Philippines is not immune from the recalibration of interest rates. The off-cycle policy rate decision of the BSP took into consideration the further tightening of monetary policies in advanced economies and possible de-anchoring of inflation expectations. Moreover, the BSP has ready complementary tools such as macroprudential measures, US dollar repo facility, and exporters' dollar and yen rediscounting facilities, among others, to manage exchange rate volatility.

To further strengthen the financial system, we will continue to pursue regulatory and legislative reforms that are responsive to the increasing sophistication of the banking system and demands of the changing global economy. In the immediate term, we will focus on: (1) advancing the digital transformation of the financial system; (2) mainstreaming sustainable finance; (3) deepening the domestic capital market, including the development of Islamic banking market; and (4) strengthening operational resilience of BSP-supervised financial institutions.

Against the backdrop of uncertain and dynamic global and domestic developments, we recognize the important role of the IMF in safeguarding global financial stability through focused surveillance, enhanced global financial safety nets and provision of capacity development.

We commend the efforts of the Fund in coming up with tailored macroeconomic surveillance which highlight the global and regional stability risks that confront its members. We recognize the value of its Article IV missions and Financial Sector Assessment Program (FSAP) in providing a wholistic picture of financial stability assessments and key risks and challenges. We urge the Fund to take a deeper dive on the impact of climate change and crypto assets and encourage cooperation with various international and regional forums like the Executives' Meeting of East Asia Pacific (EMEAP) central banks and the G20 where such issues are at the core of the discussions.

We welcome the Fund's initiatives to enhance global financial safety nets by establishing the Resilience and Sustainability Trust and increasing temporary access limits. Further cooperation with regional financial arrangements such as the ASEAN+3 Chiang Mai Initiative Multilateralization may be warranted in view of tightening global financial conditions. The BSP stands ready to provide resources to the IMF through the New Arrangements to Borrow, Bilateral Borrowing Arrangements, and the Poverty Reduction and Growth Trust.

We also appreciate the Fund's continued provision of technical assistance to the Philippine authorities.

Thank you and Mabuhay!