BOARDS OF GOVERNORS • 1997 ANNUAL MEETINGS • HONG KONG, CHINA

WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

INTERNATIONAL MONETARY FUND

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Statement by the Hon. **ROBERTO F. DE OCAMPO**,
Governor of the Bank and Alternate Governor of the Fund for the **PHILIPPINES**,
at the Joint Annual Discussion

Statement by the **Hon. ROBERTO F. DE OCAMPO,**
Governor of the Bank for the Philippines
at the Joint Annual Discussions

HONGKONG AND THE EMERGING TIGERS

SENSE AND CIRCUMSTANCE CHOSE HONGKONG WELL AS THE VENUE FOR THIS YEAR'S MEETINGS. APART FROM ITS HISTORIC SIGNIFICANCE TO CHINA ALREADY MUCH REMARKED UPON, HONGKONG HAS SPECIAL SIGNIFICANCE TO SOUTH EAST ASIA'S SO-CALLED EMERGING TIGERS, INCLUDING MY OWN COUNTRY. THESE COUNTRIES ARE CURRENTLY PUT TO THE TEST BY FINANCIAL MARKETS, THE VERY SAME MARKETS THAT HAVE FORGED HONGKONG FROM HARD ROCK AND HARDY MEN, INTO ONE OF THE MOST DYNAMIC ECONOMIES OF THE WORLD.

MANY PORTFOLIO INVESTORS HAVE JUDGED, AT LEAST FOR NOW, THAT SOME EMERGING COUNTRIES IN ASIA HAVE FAILED THE TEST. A FEW GO SO FAR AS SUGGESTING THAT THE SO-CALLED ASIAN MIRACLE IS A MIRAGE.

ON THE OTHER HAND, MANY OF OUR PEOPLES WHOSE LIVES HAVE BEEN PAINFULLY AFFECTED BY THE SEVERE SHIFTS IN MARKET SENTIMENTS HAVE JUDGED MARKETS AS UNDEPENDABLE, ARBITRARY, OR WORSE, MANIPULATED. CALLS FOR THE RETURN OF CAPITAL CONTROLS ARE INCREASINGLY BEING HEARD IN THE REGION.

THE WAY FORWARD

CLEARLY, NEITHER OF THESE VIEWS IS RIGHT NOR WILL THEY BRING US ANYWHERE FORWARD.

AS THE MARKETS BETTER DIFFERENTIATE AMONG THE EMERGING ASIAN COUNTRIES, THIS TURBULENCE AND ECONOMIC CONSOLIDATION OVER THE NEXT ONE TO TWO YEARS ARE UNLIKELY TO DETRACT FROM THE LONG-TERM POSITIVE OUTLOOK FOR MOST OF THE REGION. THEIR GOVERNMENTS ARE PRAGMATIC, AND DESPITE WHAT MAY SEEM LIKE HARSH ANTI-MARKET PRONOUNCEMENTS, GOVERNMENTS STILL ADHERE TO THE FUNDAMENTAL PRINCIPLES THAT HAVE SERVED THE REGION WELL IN THE PAST. SUCH ABIDING PRINCIPLES AS FISCAL DISCIPLINE, ENCOURAGING SAVINGS AND INVESTMENTS, OPENNESS TO TRADE, AND A CONTINUING EMPHASIS ON HUMAN CAPITAL DEVELOPMENT.

VOLATILE CAPITAL FLOWS WILL CONTINUE TO BE A CHALLENGE, BUT THE ANSWERS ARE NOT IN A RETURN TO CONTROLS BUT IN MANAGING THESE FLOWS BETTER. THE ANSWERS ARE NOT IN RESTRICTING MARKETS, BUT IN MAKING THEM WORK BETTER.

KEY TO THIS IS A HIGHER LEVEL OF DISCLOSURE AND TRANSPARENCY SO THAT PLAYERS ACT BASED ON TIMELY AND ACCURATE INFORMATION. IF THEY ACT IN PARTIAL DARKNESS OR SUBJECTED TO "INFORMATION AVALANCHE" THEY NATURALLY ACT LIKE HERDS IN PANIC.

ON THE OTHER HAND, MARKET PLAYERS THEMSELVES NEED TO BECOME MORE DILIGENT IN DIFFERENTIATING AMONG THE COUNTRIES IN A REGION. THERE ARE FEW WINNERS TO THE KIND OF CONTAGIOUS AND SELF-FULFILLING PROPHESIES OF DOOM THAT STARTS FROM ONE COUNTRY AND SPREADS LIKE A VIRUS. THERE MUST BE ROOM FOR THE MULTILATERAL INSTITUTIONS TO PLAY A MORE AGGRESSIVE ROLE IN PREVENTING SUCH CRISIS FROM DEVELOPING TO BEGIN WITH, OR HAVING STARTED TO BRING IN QUICK ASSISTANCE TO CONTAIN ITS SPREAD- A “QUARANTINE “ FUNCTION SO TO SPEAK.

MUCH HOMEWORK NEEDS TO BE DONE IN STRENGTHENING THE RESILIENCY OF THE RECIPIENT ECONOMY, ESPECIALLY IN THE FINANCIAL SECTOR. IT HAS BECOME ABUNDANTLY CLEAR THAT IT IS NOT ENOUGH TO JUST DO THE THREE D'S: DENATIONALIZE, DEREGULATE, AND DISPOSE IN ORDER TO ADDRESS THE INEFFICIENCIES OF PUBLIC SECTOR. WITHOUT AN APPROPRIATE REGULATORY FRAMEWORK AND KNOWLEDGEABLE AND COMPETENT SUPERVISORS, MARKET EXCESSES AND PRIVATE INEFFICIENCIES WILL RESULT. “STEERING” REQUIRES LESS MANPOWER THAN “ROWING” BUT IS AN EXPERTISE THAT NEED TO BE HONED WITH MUCH EFFORT AND CARE. NOWHERE IS THIS MORE CRITICAL THAN IN THE FINANCIAL SECTOR WHERE POOR QUALITY OF SUPERVISION AND PRUDENTIAL LAPSES CAN EXACT A HEAVY TOLL ON THE ENTIRE ECONOMY, ESPECIALLY THE MOST VULNERABLE MEMBERS OF SOCIETY. UPGRADING THE CAPABILITIES OF REGULATORS MUST KEEP APACE WITH THE SPEED OF LIBERALIZATION.

THE PHILIPPINE SITUATION

IN RESPONSE TO THE CURRENCY TURMOIL, WE SUPPORTED GREATER EXCHANGE RATE FLEXIBILITY AND ENHANCED MONETARY PRUDENCE. HOWEVER, WE REMAIN DEEPLY COMMITTED TO THE FOREIGN EXCHANGE LIBERALIZATION THAT WE HAVE UNDERTAKEN OVER THE PAST FEW YEARS.

WE BELIEVE THAT THIS STORM HITTING THE REGION IS ONLY A TEMPORARY SET-BACK FOR THE ECONOMY, AND CONFIDENCE IN THE ECONOMY WILL RETURN. OUR ECONOMIC HOUSE HAS BEEN FORTIFIED BY THE FUNDAMENTAL REFORMS IMPLEMENTED UNDER AN EXTENDED IMF ARRANGEMENT. WE ARE ON TRACK IN THIS ARRANGEMENT AND WE ARE SET TO EXIT BY YEAREND.

THE CURRENCY TURMOIL HAS NOT ALTERED THE SOLID PERFORMANCE OF OUR ECONOMY. FISCAL BALANCES ARE POSITIVE, INFLATION AT 4.5 PERCENT AS OF AUGUST REMAINS UNDER CONTROL. EXPORT GROWTH IS STILL AT AN UPWARD TRAJECTORY AT 22 PERCENT DURING THE FIRST SIX MONTHS OF THE YEAR, THE HIGHEST IN ASIA OUTSIDE CHINA, WHILE IMPORT GROWTH HAS DECLINED TO 10 PERCENT. OUR EXTERNAL DEBT SITUATION HAS NEVER BEEN BETTER WITH DEBT SERVICE PAYMENTS DOWN TO JUST 12 PERCENT OF EXPORTS OF GOODS AND SERVICES. RELIANCE ON PORTFOLIO INVESTMENT AS AGAINST DIRECT INVESTMENT HAS BEEN MODEST AT ONLY 13 PERCENT, COMPARED TO WAY OVER 50 PERCENT IN THE REST OF THE REGION. CORE GDP GROWTH IS BEING SUSTAINED AT 5.3 PERCENT.

WE HAVE ALSO MANAGED TO AVOID THE KIND OF OVERHEATING PRESSURES THAT HAVE BUILT UP IN OTHER ECONOMIES. OVERBUILDING IS FAR FROM BEING A GENERALIZED PROBLEM. FOR EXAMPLE A RECENT INDEPENDENT FOREIGN BASED ANALYST ESTIMATED OFFICE VACANCY IN MANILA AT ONLY 2 PERCENT (COMPARED TO DOUBLE DIGITS ELSEWHERE IN THE REGION).

RELATEDLY, OUR BANKING SECTOR IS IN GOOD HEALTH REFLECTING THE EFFECTS OF REFORMS IN THE WAKE OF THE DEBT CRISIS DURING THE 80s AS WELL AS RECENT POLICY ACTIONS. THE BANKING SYSTEM HAS BEEN RATED BY AN INDEPENDENT FOREIGN ANALYST (MORGAN STANLEY) AS "ABOVE AVERAGE.” (IN LEAGUE WITH HONGKONG AND SINGAPORE). THE RATIO OF BANKS’ NON-PERFORMING LOANS IS LOW AT 3 PERCENT AND CAPITAL ADEQUACY RATIO IS AMONG THE HIGHEST IN THE REGION AT 17.4 PERCENT.

NOW WHAT LIES AHEAD? AFTER THE PHILIPPINES EXITS IMF GUIDANCE LATER THIS YEAR, WHAT ASSURANCES ARE IN PLACE FOR THE CONTINUATION OF SOUND ECONOMIC PROGRAMS?

LET ME SUMMARIZE OUR POLICY: WHEN THE MARKETS TALK - WE WILL LISTEN. WE ARE COMMITTED TO ENSURING THAT THE FINANCIAL COMMUNITY, ON WHOM WE WILL CONTINUE TO COUNT FOR CAPITAL, WILL BE IN OUR MINDS AS WE CRAFT ECONOMIC POLICY. IN A VERY REAL WAY, THE FINANCIAL MARKETS PROVIDE A LOT OF THE SIGNALS FOR ACTION TRADITIONALLY PROVIDED BY THE IMF. THIS MAY SOUND RISKY AND

UNWISE, ESPECIALLY IN THESE TIMES, BUT IN REALITY IT IS ALREADY THE POLICY OF EVERY ROBUST ECONOMY IN THE WORLD.

IN THIS REGARD, LET ME DETAIL THE SPECIFIC ACTIONS WE HAVE TAKEN TO REASSURE FINANCIAL MARKETS. OVER THE SHORT-TERM WE HAVE TIGHTENED EXPENDITURES AND INCREASED BUDGETARY RESERVES. OUR BANKING REGULATORS, EARLY THIS YEAR HAVE ALREADY PUT A CAP ON LENDING TO THE PROPERTY SECTOR, AND HAVE RECENTLY REQUIRED HIGHER PROVISIONING. RENEWED IMPETUS HAS BEEN PROVIDED TO PRIORITY LEGISLATION PRESENTLY IN CONGRESS LIKE THE COMPREHENSIVE TAX REFORM, OMNIBUS ELECTRICITY BILL, AND AMENDMENTS TO THE GENERAL BANKING ACT AND THE REVISED SECURITIES ACT, WHICH ADDRESS REMAINING STRUCTURAL CONSTRAINTS.

THE ROLE OF THE IMF AND WORLD BANK

THE BRETTON WOODS INSTITUTIONS HAVE CRITICAL ROLES TO PLAY IN BOTH PREVENTING EXCESSES BY FILLING MARKET INFORMATION GAPS AND CONTAINING THEIR CONSEQUENCES THROUGH SPEEDY ASSISTANCE. IN THIS RESPECT THE IMF NEEDS TO REINVIGORATE ITS SURVEILLANCE FUNCTIONS, AND IMPROVE ITS DATA DISSEMINATION. THE WORLD BANK GROUP CAN BE MORE ACTIVE IN HELPING DEVELOP THE CAPABILITY OF SUPERVISORS TO HELP STRENGTHEN THE FINANCIAL SECTOR, THE LYNCHPIN TO FINANCIAL SUSTAINABILITY.

MARKETS AND DEMOCRACY

LOOKING AHEAD, ONE IMMEDIATE TASK IS TO COMPLETE THE REFORMS THAT UNDERPIN OUR EXIT FROM THE IMF. THE MORE DIFFICULT CHALLENGE, AND IN THE LONG RUN MORE IMPORTANT CHALLENGE, IS TO COMMUNICATE TO THE FINANCIAL MARKETS THE PHILIPPINES' SOUND ECONOMIC AND POLITICAL FOUNDATIONS.

IT IS EASY TO BE DISTRACTED BY THE “NOISE” ARISING FROM OUR POLITICAL SYSTEM. WE ARE COMMITTED TO DEMOCRACY, AND IN THIS COMMITMENT WE WOULD DRAW PARALLELS WITH OUR RESOLVE TO LISTEN TO THE MESSAGES FROM THE FINANCIAL MARKETS. LIKE THE FINANCIAL MARKETS, OUR YOUNG DEMOCRACY MAY BE SUBJECT TO SOME EXCESSES. BUT LISTENING TO THE MESSAGE -- AND INDEED HAVING THE MECHANISM TO HAVE THE MESSAGE REACH OUR LEADERSHIP -- ENSURES THAT WE UNDERSTAND THE EVOLVING POLITICAL CONSENSUS.

IT IS A LESSON NOT LOST UPON US THAT THE COUNTRIES THAT HAVE PROVEN COMPETITIVE IN THE LONG RUN TEND TO BE OPEN DEMOCRACIES WITH FLEXIBLE ECONOMIES.

CONCLUSION

LET ME CONCLUDE AS I'VE STARTED BY POINTING TO HONGKONG AS THE ANTIDOTE TO THOSE WHO WOULD GET "AGORAPHOBIA" FROM THE DEVELOPMENTS IN THE REGIONAL CURRENCY AND STOCK MARKETS RECENTLY. THERE IS NO SUBSTITUTE TO GLOBAL OPENING AND INTEGRATION AS THE WAY-PERHAPS THE ONLY WAY- TO JUMP START OUR ECONOMY OUT OF POVERTY. ONLY THIS GIVES US TECHNOLOGY, MARKETS AND CAPITAL. THE DAY IS LONG GONE WHEN WE CAN LOOK AT FINANCIAL MARKET LIBERALIZATION AS A DESIRABLE "ADD-ON" OPTION IN THIS EFFORT. IN A GLOBAL ECONOMY, RESTRICTIONS MERELY DEFLECT RESOURCES ELSEWHERE. THERE IS, AT THE SAME TIME, NO SUBSTITUTE FOR DEVELOPING WORLD-CLASS REGULATORY AND SUPERVISORY INSTITUTIONS IN AN EVER GLOBALLY COMPETITIVE WORLD.

NOTHING OF THE DEVELOPMENTS OF THE LAST MONTHS HAVE CHANGED OUR BASIC STRATEGY. WE INTEND TO WELCOME AND MANAGE THESE FLOWS BY KEEPING A SOUND MACRO-ECONOMY, OUR EXCHANGE RATES COMPETITIVE AND PROPER PACING OF OUR LIBERALIZATION EFFORTS. WE BELIEVE IN LETTING MARKET FORCES OPERATE FOR THE MOST EFFICIENT TO SURVIVE. WE ARE COMMITTED TO FULL DISCLOSURE AND TRANSPARENCY FOR CORRECTIVE ACTION TO BE TAKEN IN THE MARKET CONSTANTLY.

THE PHILIPPINES INTENDS TO COME OUT OF THE PRESENT CRISIS STRENGTHENED RATHER THAN WEAKENED. WE INTEND TO TURN THE PRESENT PROBLEMS TO OPPORTUNITIES.