



Monetary Policy and Central Banking Toward a New Economy

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Philippine Economic Briefing for the Joint Foreign Chambers
26 November 2021





BSP's policy interventions amid the pandemic

RRR reduction of 200 bps for UKBs and 100bps for TBs and RCBs *

Cumulative 200 bps policy rate cuts reduced the RRP from 4.0% to 2.0%

Reserve Requirement Against Deposit and Deposit Substitute Liabilities				
Financial Institution	Before		After	
	03-Apr-20	31-Jul-20	03-Apr-20	31-Jul-20
Universal/ Commercial Banks (UKBs)	14	-	12	-
Thrift Banks (TBs)	-	4	-	3
Rural/ Cooperative Banks (RCBs)	-	4	-	3
Non-Bank Financial Institutions with Quasi-Banking Functions (NBQBs)	14	-	12	-

Date (of MB Meeting)	Rate Cut (RRP)
06-Feb-20	25bps
19-Mar-20	50bps
16-Apr-20	50bps
25-Jun-20	50bps
19-Nov-20	25bps

*Effective Reserve Week:
03 April 2020 for UKBs and NBQBs
31 July 2020 for TBs and RCBs



BSP's policy interventions amid the pandemic

Policy rate and RRR cuts
and other extraordinary
liquidity measures

Injected liquidity
equivalent to
12.8% GDP



BSP's policy interventions amid the pandemic

Complement government programs through extraordinary liquidity measures





BSP's regulatory relief measures

Extend Financial Relief to Borrowers

- Excluded loans from past due
- Staggered booking of allowance for credit losses
- Provided grace period on settlement or restructure loans
- Issued temporary cap on interest rates of credit card receivables

Incentivize Lending

- Reduced credit risk weights on MSME loans
- Assigned 0% risk weight to guaranteed loans
- Allowed loans to MSMEs as alternative RR compliance
- Reduced minimum liquidity ratio
- Temporarily increased SBL
- Allowed use of capital and liquidity buffers
- Non-sanction of foreign banks' SBL breach

Support for Continued Financial Services Delivery

- Waived notarization requirement for bank certifications
- Relief measures on mark-to-market of investments
- Relaxed penalties on reserve requirement deficiencies
- Extended the transition period of interest rate risk implementation in the banking book

Promote Continued Access to Financial Services

- Relaxed KYC requirements
- Suspended fees and charges for online banking
- Temporarily waived fees i.e., application for Electronic Payments and Financial Services (EPFS), PhilPaSS fund transfer transactions

Appropriate timing for unwinding

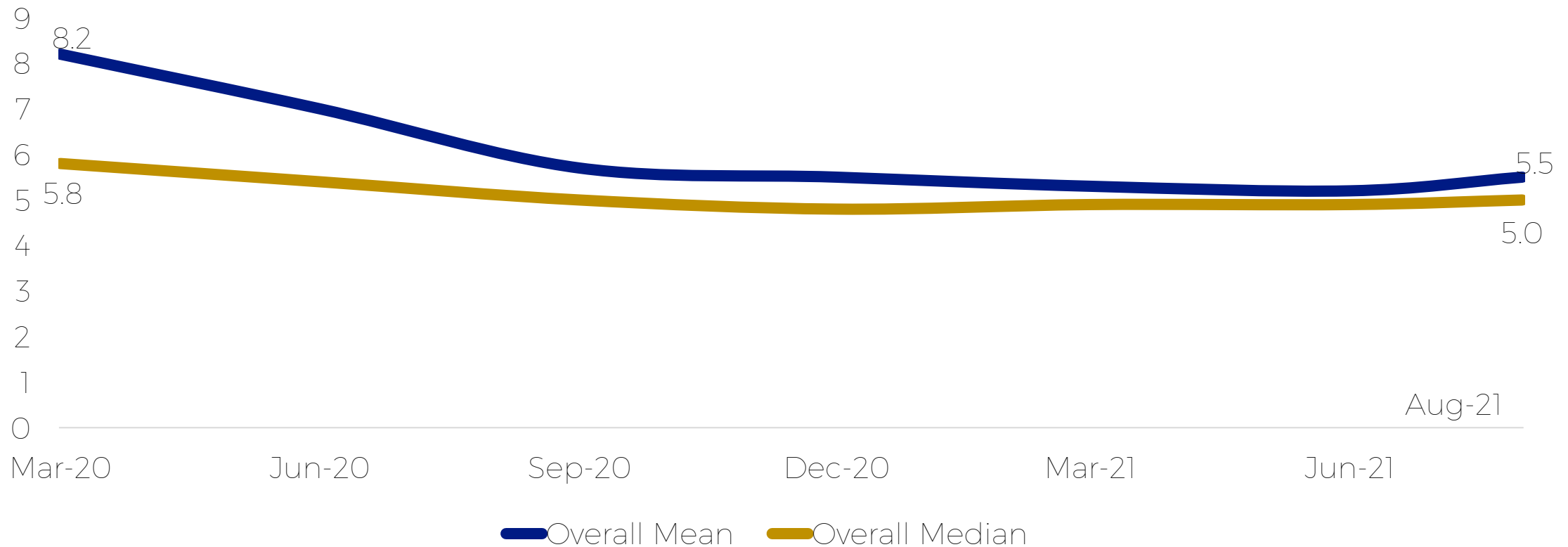


BSP's policy interventions has led to declining interest rates



Weighted average interest rates (WAIR) on loans of Universal and Commercial Banks

Overall mean and median in (%)

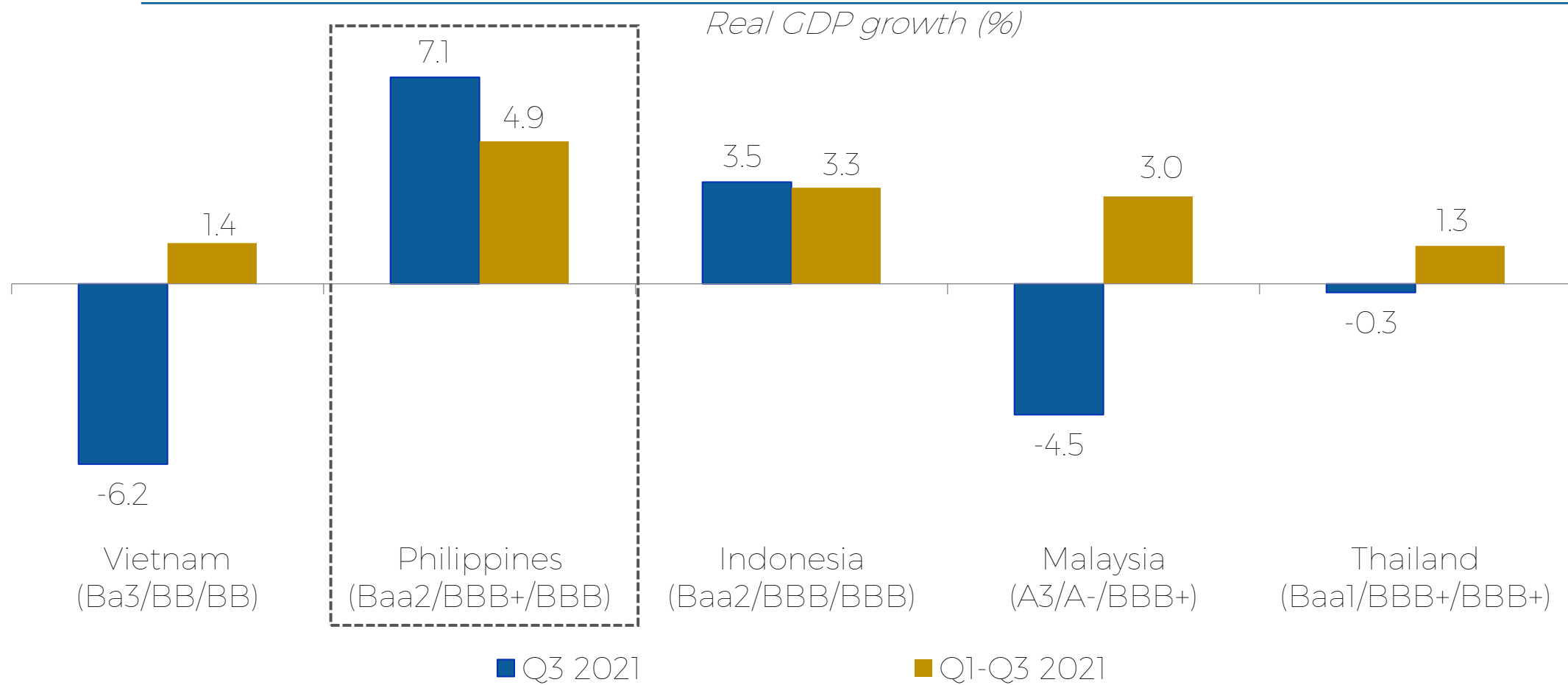


Source: Bangko Sentral ng Pilipinas



Getting back on track

GDP growth of select peer economies



Rating: Moody's/S&P/Fitch as of 20 November 2021

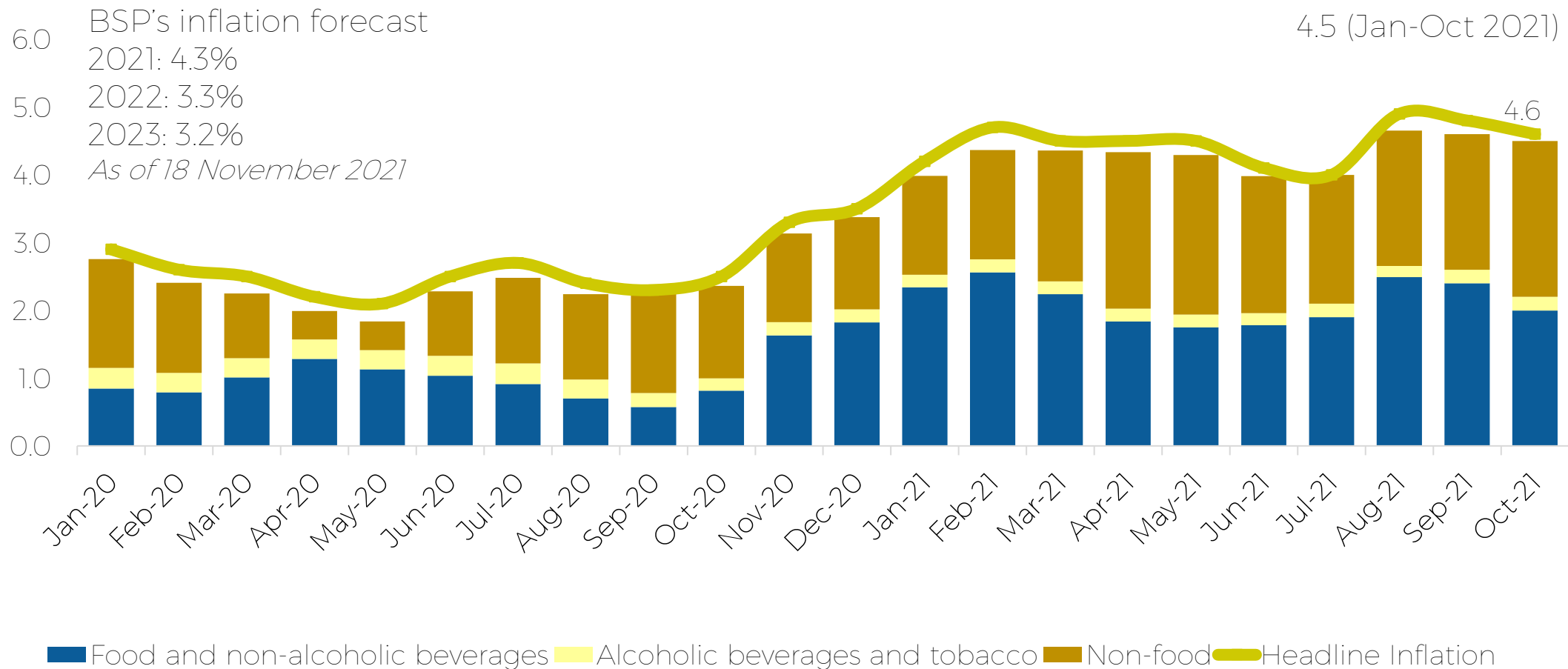
Source: Philippine Statistics Authority (PSA) National Accounts (note: rebased Philippines' GDP at 2018 prices), NEDA, and various government websites

Headline inflation reflects transitory supply side pressures



Inflation Contribution by Major Component

Headline CPI (yoy, %), 2012=100



Sources: PSA and BSP staff calculations.

Note: Contribution is computed by multiplying weights by year-on-year inflation rate of components.

Inflation expectations remain anchored to the target



Inflation Projections (in %)			
Agencies	2021	2022	2023
BSP Forecast (Nov 2021)	4.3	3.3	3.2
BSP Private Sector Economists Survey (Nov 2021)	4.4	3.5	3.2
IMF (Oct 2021)	4.3	3.0	3.0
ADB (Sep 2021)	4.1	3.5	-
Bloomberg Survey (Sep 2021)	4.3	3.1	3.0

UPSIDE RISKS:

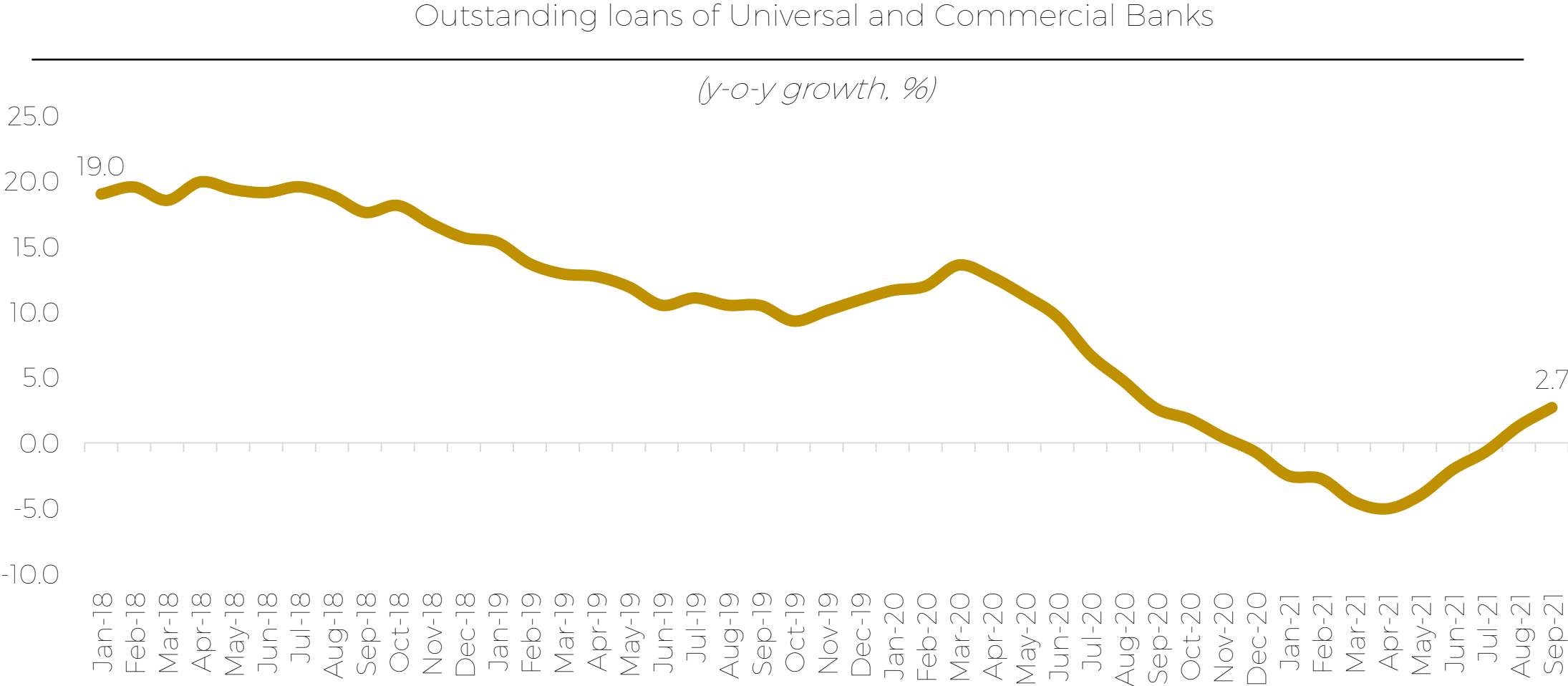
- Impact of weather disturbances on key food items
- Petitions for transport fare hikes
- Prolonged recovery of domestic pork prices
- Uptick in global oil prices and non-oil commodities due to strong demand amid supply chain bottlenecks

DOWNSIDE RISKS:

- Potential delays in the lifting of domestic containment measures
- New and more virulent COVID-19 variants could dampen global and domestic demand



Bank lending has been rising amid ample liquidity

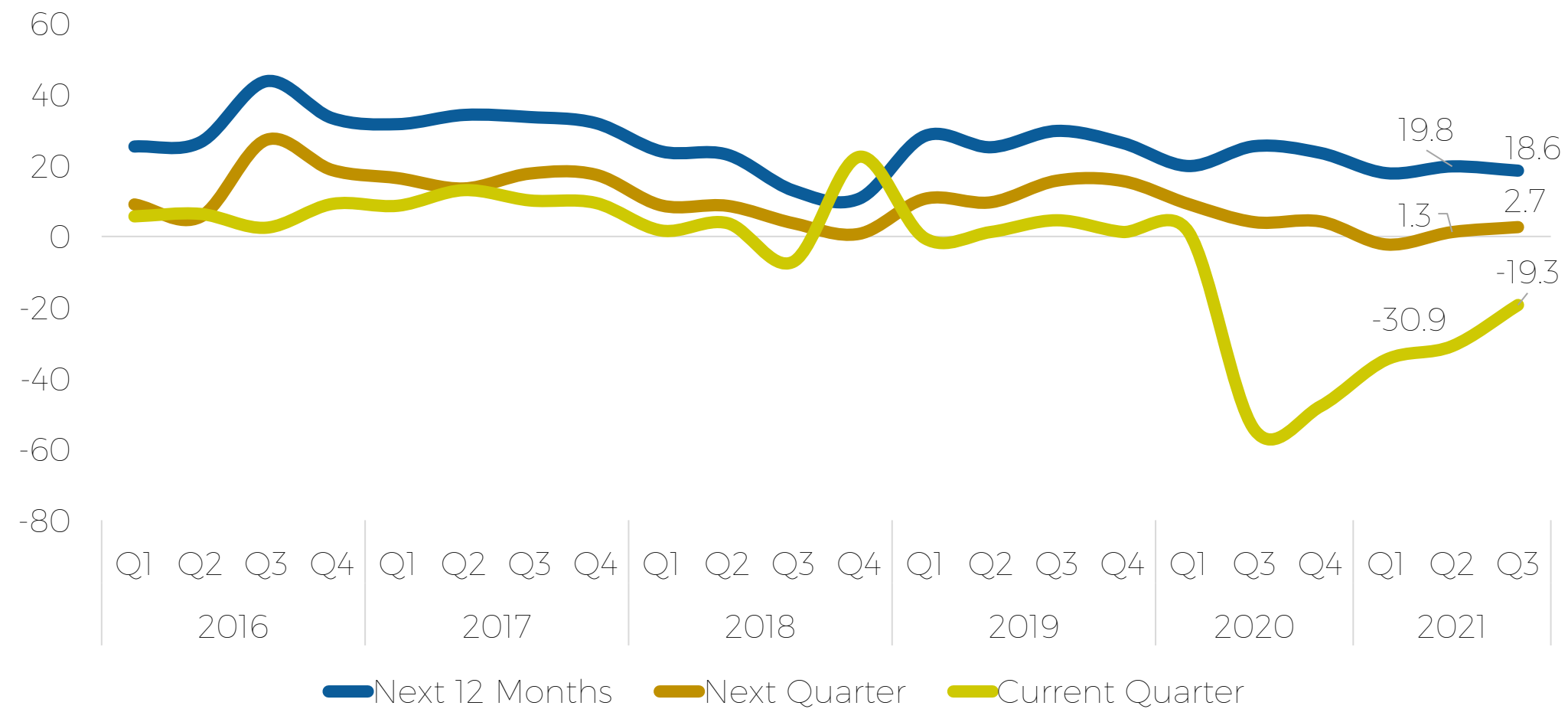


Source: Bangko Sentral ng Pilipinas



Improving consumer outlook

Consumer confidence improves in Q3 and for Q4 2021, but less optimistic for the next 12 months

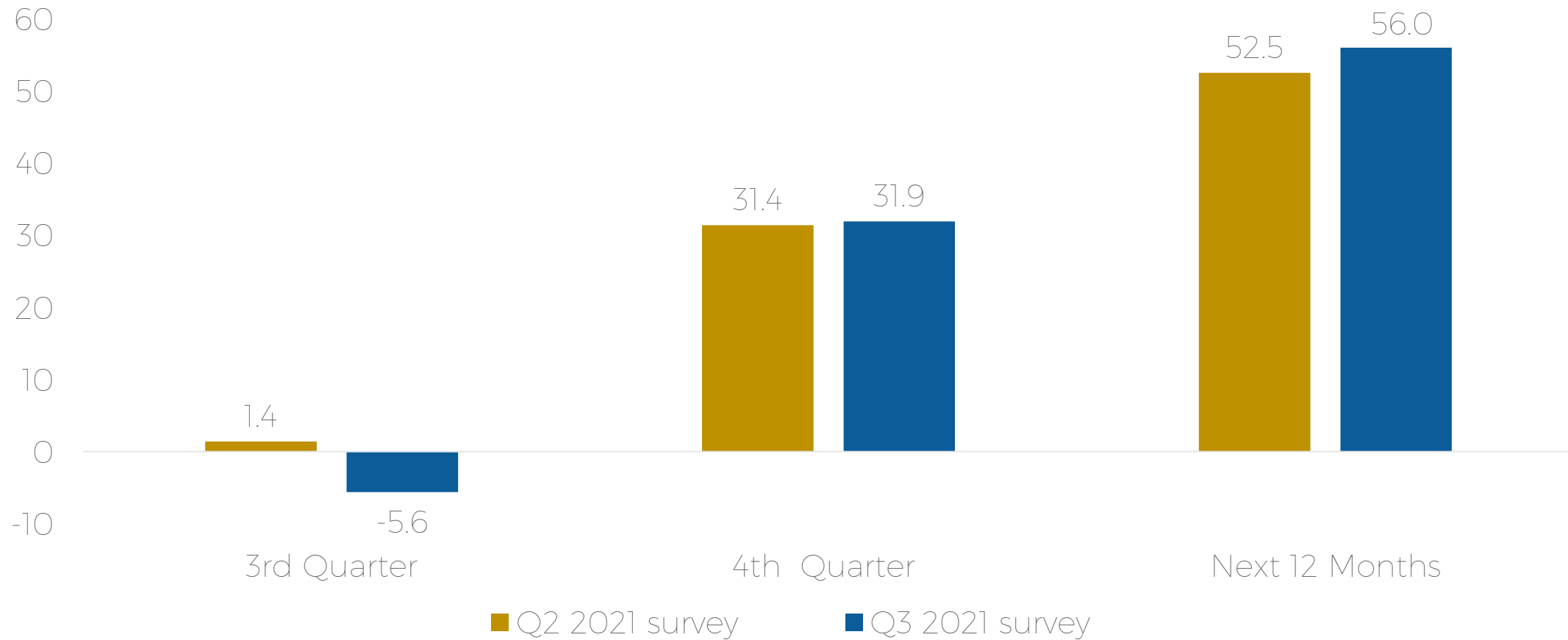


Note:
*Due to the implementation of the Community Quarantine nationwide from 16 March to 31 May 2020, the conduct of the Q2 2020 BES and CES was cancelled.



Improving business confidence

Business confidence turns pessimistic in Q3 2021, but more optimistic for Q4 2021 and the next 12 months

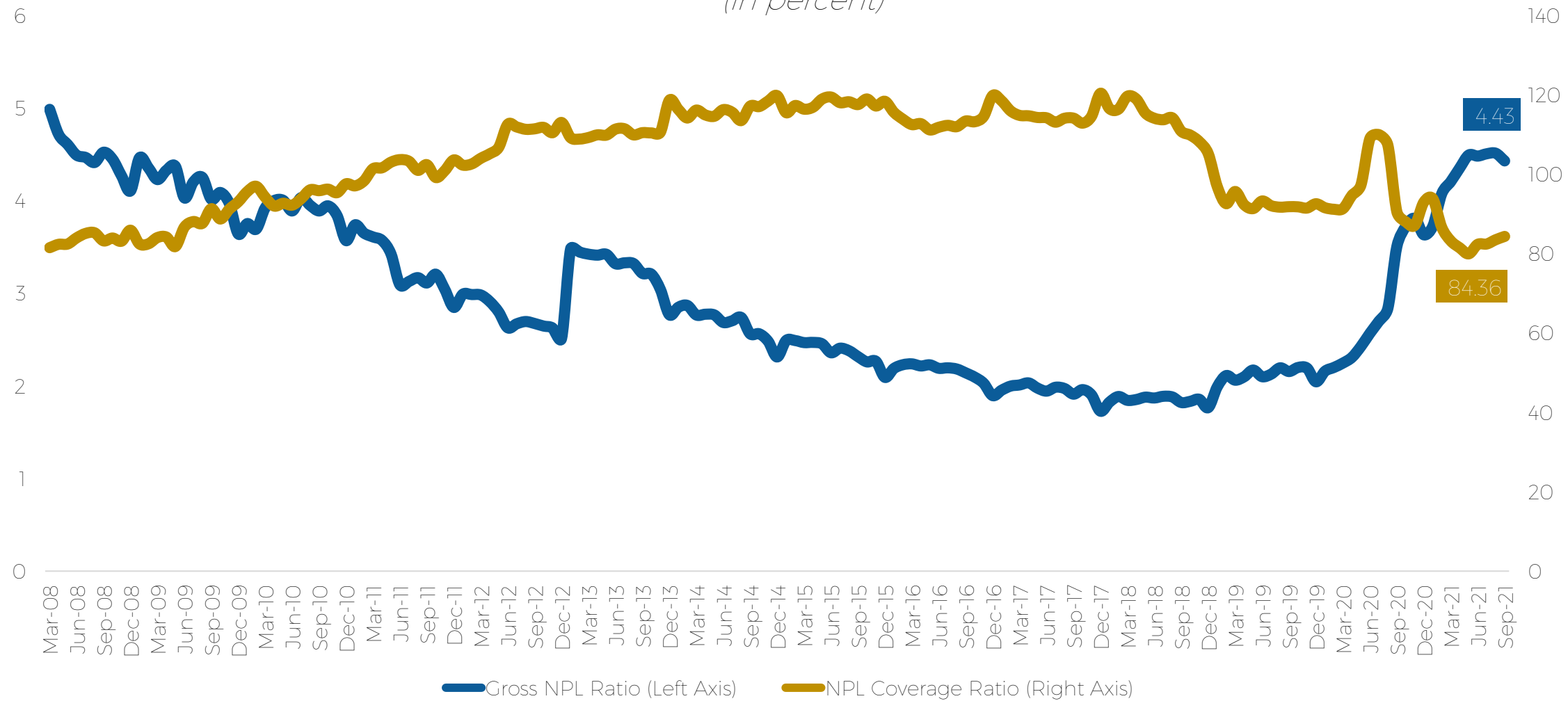


Source: Bangko Sentral ng Pilipinas



NPLs increase but remain manageable

Gross NPL Ratio and NPL Coverage Ratio,
(in percent)



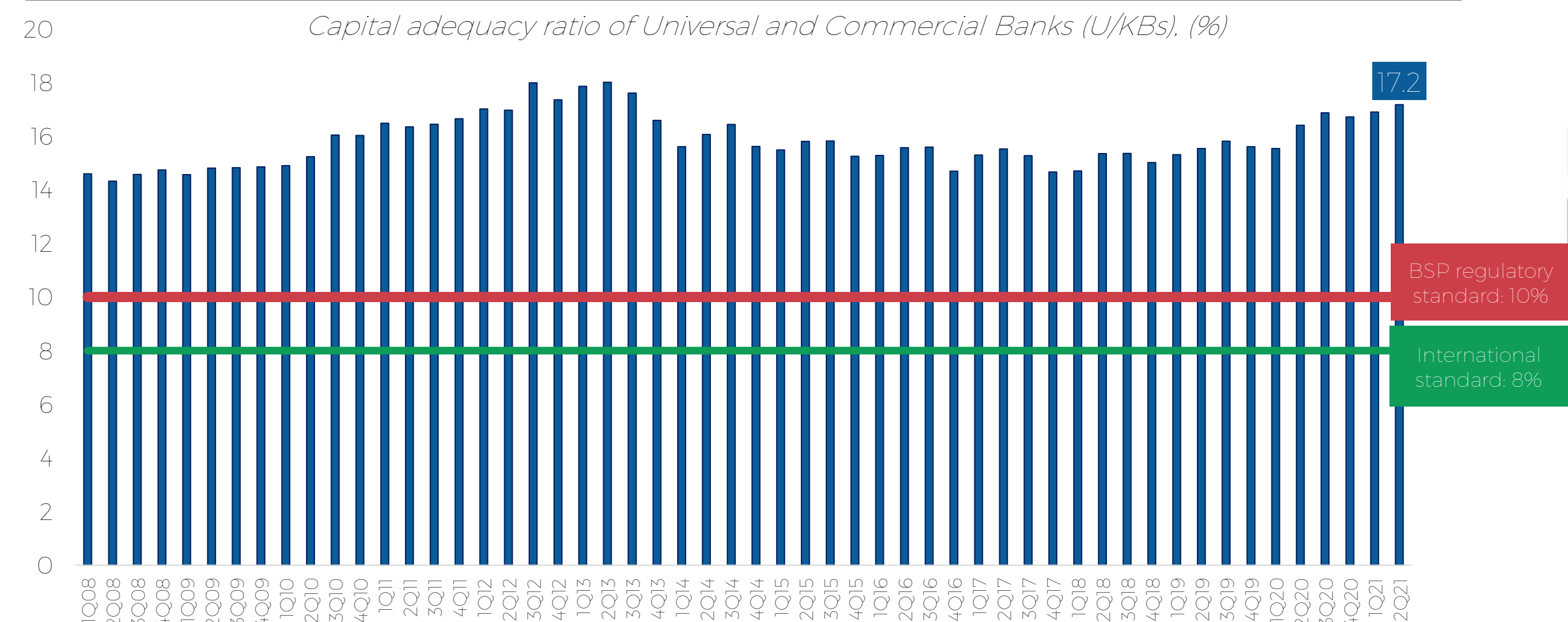
Source: Bangko Sentral ng Pilipinas



Philippine banks continue to be well-capitalized

Strong capitalization well-above international norms

Capital adequacy ratio of Universal and Commercial Banks (U/CBs), (%)



Source: Bangko Sentral ng Pilipinas



Adequate external liquidity buffers

Hefty level of reserves



Source: Bangko Sentral ng Pilipinas

Constant enhancement of FX rules supports conducive business operating environment



Further liberalization of foreign exchange regulations



Allow electronic submission of documents and use of electronic/digital signatures



Support digital payments/electronic transactions



Further facilitate FX sale for trade and non-trade current account transactions and support infrastructure development projects of the National Government



Liberalize FX rules involving peso deposit accounts of non-residents



Other reforms involving foreign loans/borrowings, foreign investments and FX derivatives transactions

Macroeconomic prospects continue to be favorable



	Actual		Assumptions/ Projections	Assumptions/ Projections
	2020	2021 (Latest YTD)	2021	2022
Real GDP Growth (%)	(9.6)	4.9 (Jan-Sep)	4.0 – 5.0	7.0 – 9.0
Inflation Rate (%)*	2.6	4.5 (Jan-Oct)	2.0 – 4.0	2.0 – 4.0
Growth of goods export (%)**	(9.8)	21.3 (Jan-June)	14.0	6.0
Growth of goods import (%)**	(20.2)	31.6 (Jan-June)	20.0	10.0
OF Cash Remittances, Growth Rate (%)**	(0.8)	5.6 (Jan-Sep)	6.0	4.0
Net Foreign Direct Investments (US\$ bn)**	6.6	6.4 (Jan-Aug)	7.0	7.5
Current Account Balance (% of GDP)**	3.1	-0.7 (Jan-June)	0.9	-0.3

Source: Real GDP growth projection was approved by the Development Budget Coordination Committee (DBCC) on 18 August 2021.

*Inflation rate targets were approved in the DBCC meeting on 19 July 2021.

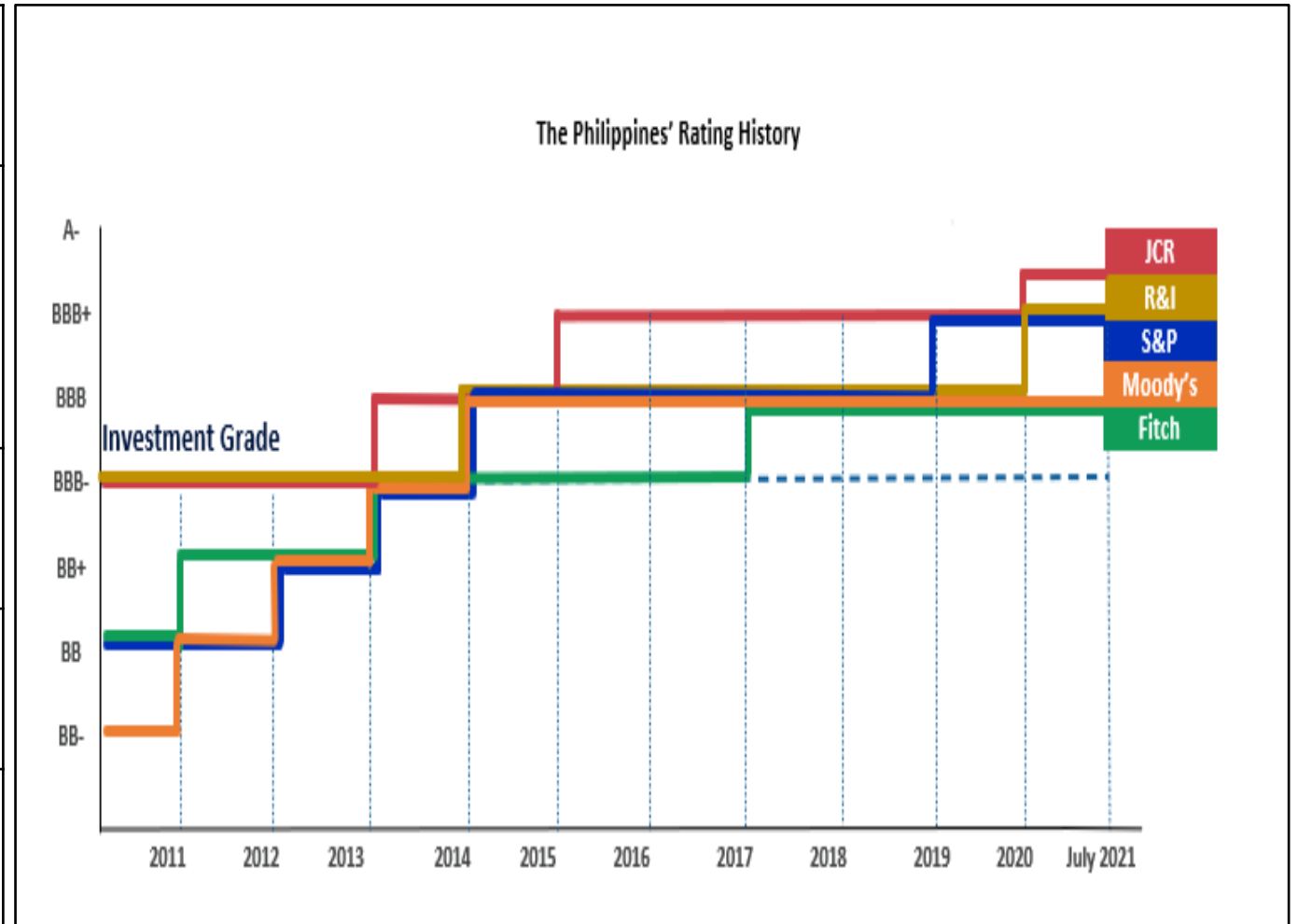
**Projections approved by Monetary Board on 16 September 2021.

Ratings affirmations: a seal of confidence in the Philippine economy



The potential impact of COVID 19 and the government's policy responses are key considerations of credit rating agencies

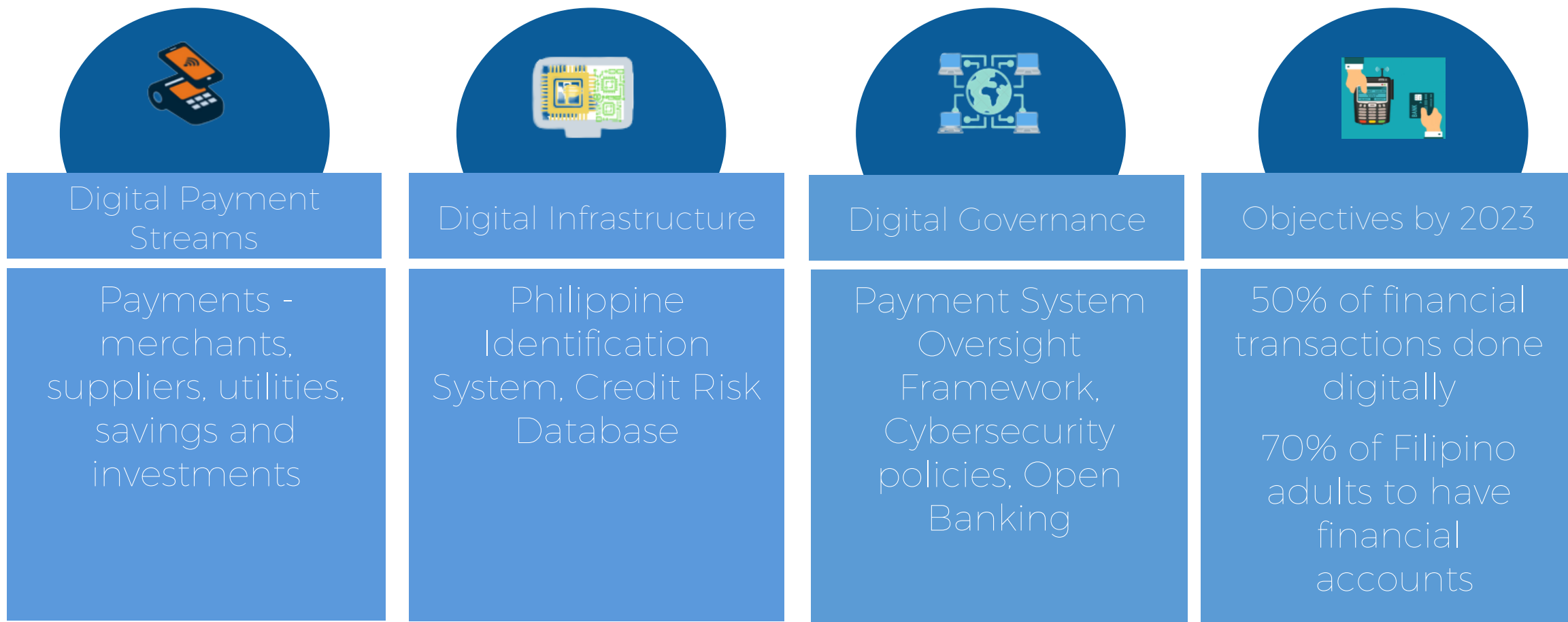
Japan Credit Rating (JCR)	Affirmed at A-/Stable Sep 2021
Rating and Investment Information Inc. (R&I)	Affirmed at BBB+/Stable Apr 2021
Standard and Poor's (S&P)	Affirmed at BBB+/Stable May 2021
Fitch	Affirmed at BBB/ revised outlook to Negative – Jul 2021
Moody's	Affirmed at Baa2/Stable Jul 2020



Accelerating digitalization in the financial sector



Digital Payments Transformation Roadmap



Digital banks to support delivery of financial products and services



Electronic Money
Accounts

2019
63.0mn
e-money
accounts
627mn
e-transactions



2020
138.8mn
e-money
accounts
1,708mn
e-transactions



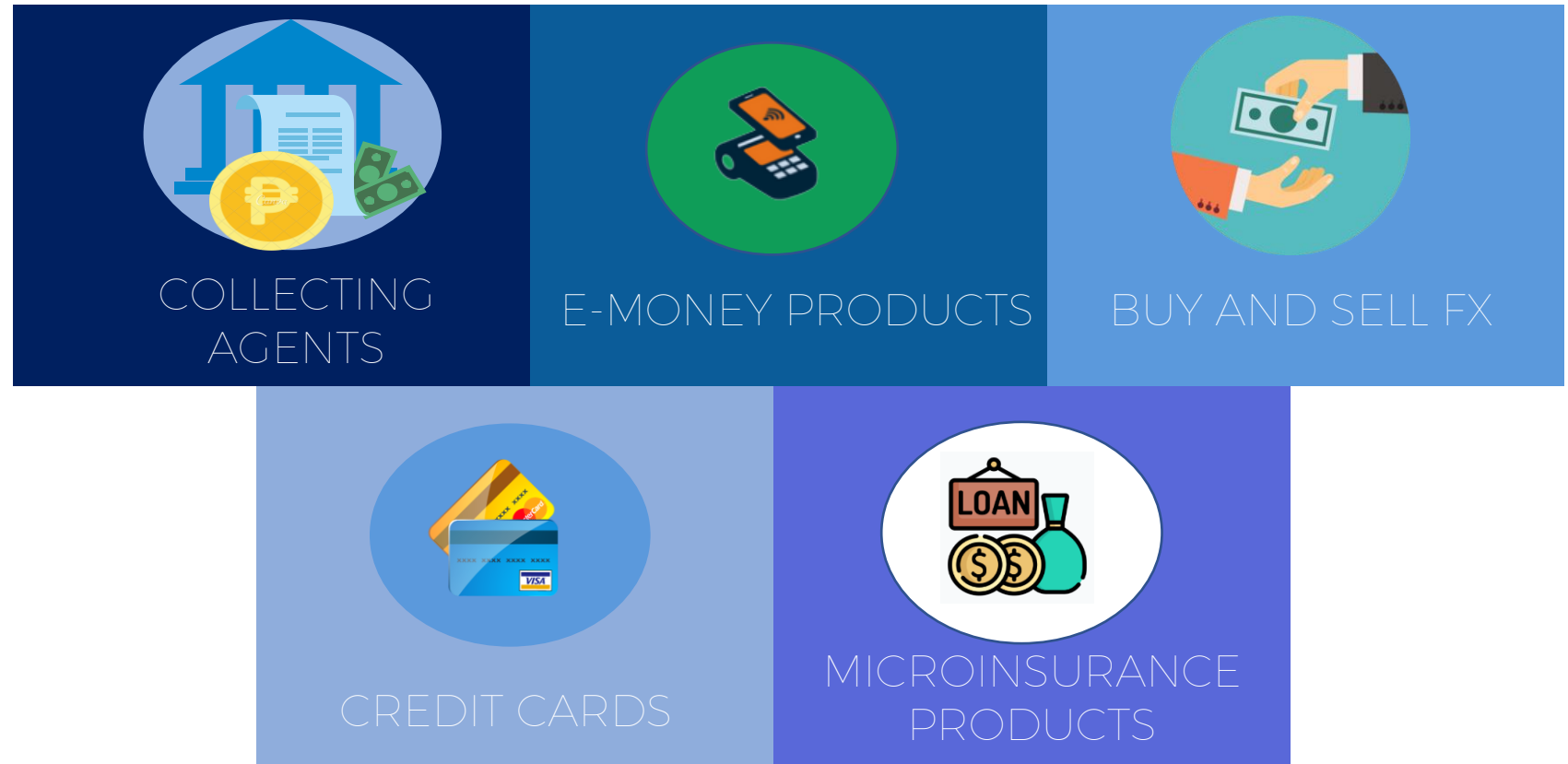
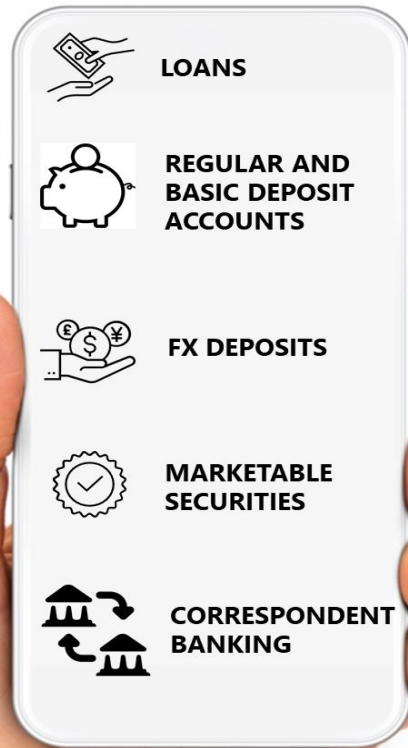
Gotyme



Digital banks to support delivery of financial products and services



BSP Circular No. 1105: Digital Bank Scope of Authorities

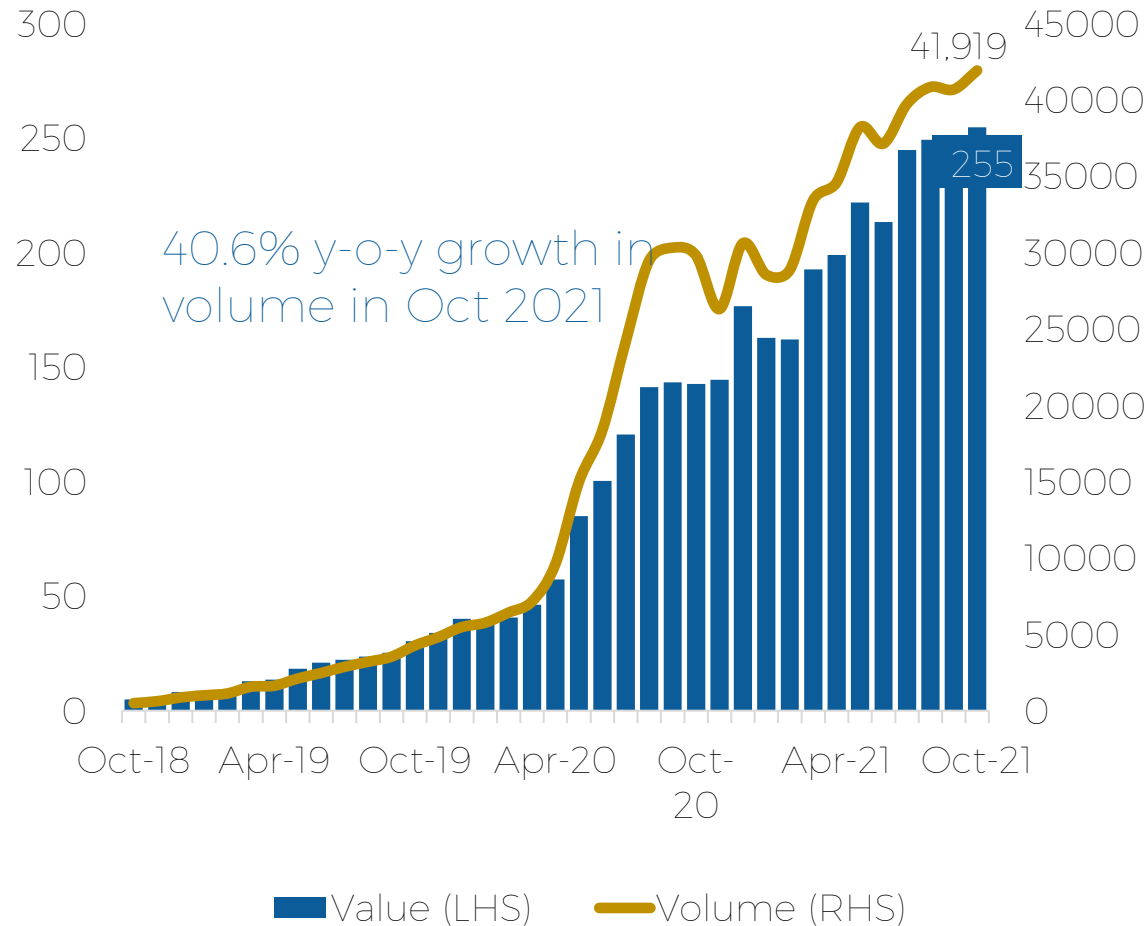




Exponential growth in digital payments

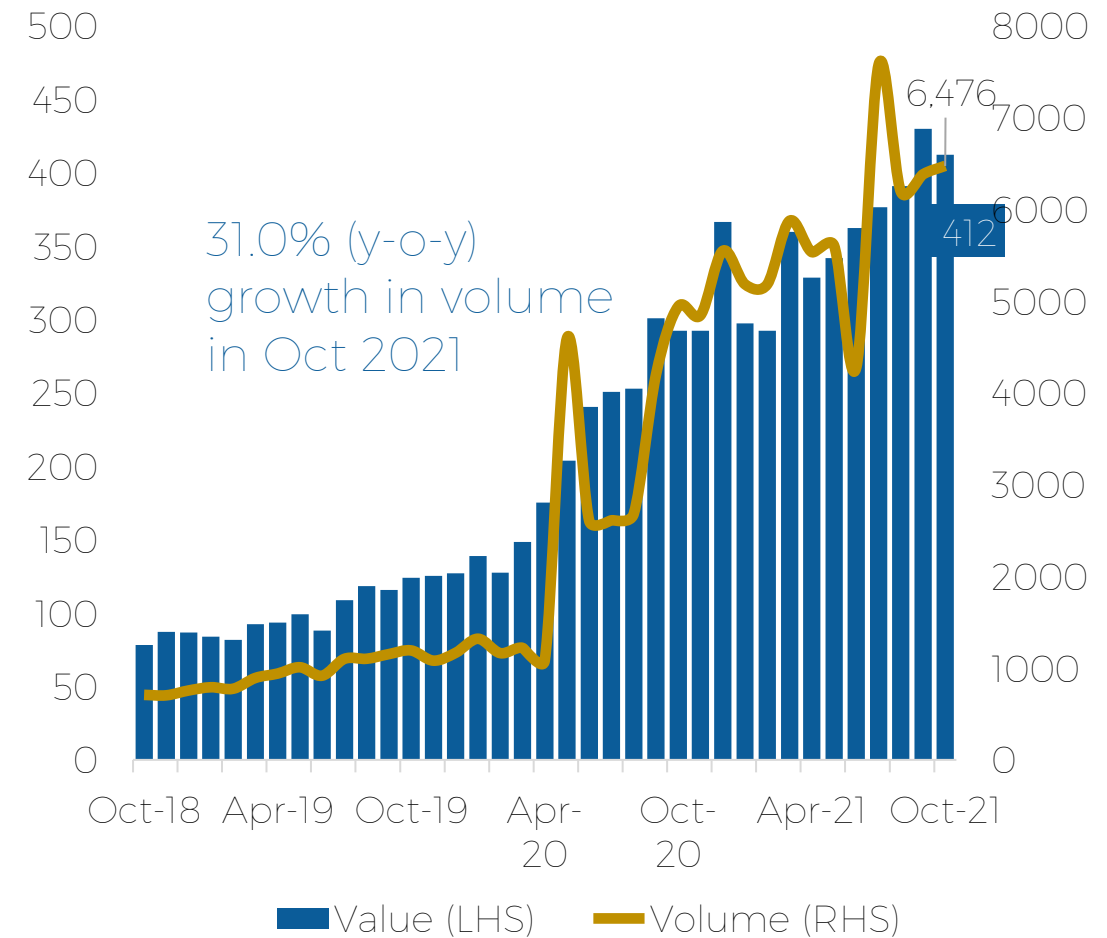
instaPay Transactions (Oct 2018-Oct 2021)

Value in PHP billion, Volume in PHP thousands



PESONet Transactions (Oct 2018-Oct 2021)

Value in PHP billion, Volume in PHP thousands



Source: Bangko Sentral ng Pilipinas

Cross border payment services to facilitate financial welfare of OFs and trading and tourism businesses



Enhanced fintech cooperation agreement



Monetary Authority of Singapore



**LINKAGE OF PH AND SG
REAL-TIME AND QR PAYMENT SYSTEMS**

To facilitate **instant, seamless, and low-cost**
cross-border payments



REMITTANCE

USD 2.15 Billion
in 2020

TOURISM

900,000
Travelers Yearly

Investment opportunities in digital transformation



71%

or 51.2mn Filipino adults
have no bank accounts



30.8%

cities and municipalities
with no banking
presence



FinTech service providers can tap into a wide client base, diversify revenue sources and secure new growth opportunities

Financial consumers will benefit on increased access, lower cost, better products, and improved experience.

FinTech helps improve efficiency in banking operations, the application of regulatory including risk management and compliance processes

Foreign investments to introduce advanced technologies and transfer of technical expertise, which would boost competitiveness of local banks and open up access to new markets through partnerships and tie-ups

Source: BSP's 2019 Financial Inclusion Survey

Key takeaways



First, the Philippines' economic fundamentals remain sound

Second, targeted fiscal support remains central to the COVID-19 response. Monetary policy will remain accommodative until domestic demand and overall macroeconomic activity recover, as the Bangko Sentral keeps in mind its price and financial stability objectives.

Third, the Bangko Sentral continues to support reforms aimed at raising the country's competitiveness and transforming the financial landscape so that it is future-ready through digitalization and adopting sustainability principles.



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