



The BSP's three Challenges

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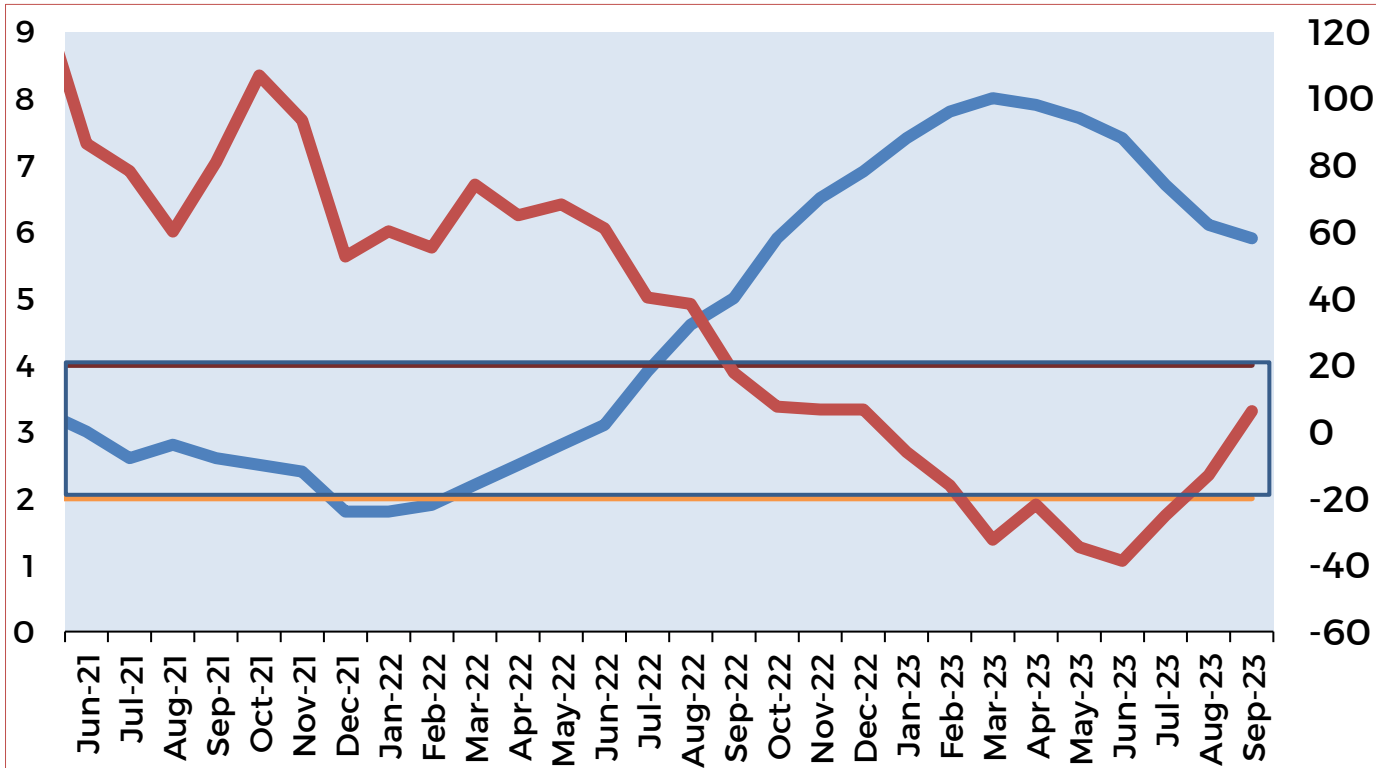
Three challenges

- 1. Conducting monetary policy in a supply-shock economy**
- 2. Helping the banking system to digitalize**
- 3. Devising a payments system that works for financial inclusion**



Monetary policy wouldn't work if it just looked through supply shocks

Core Inflation and Percent Change in WTI Spot Price
June 2021 – September 2023, in percent

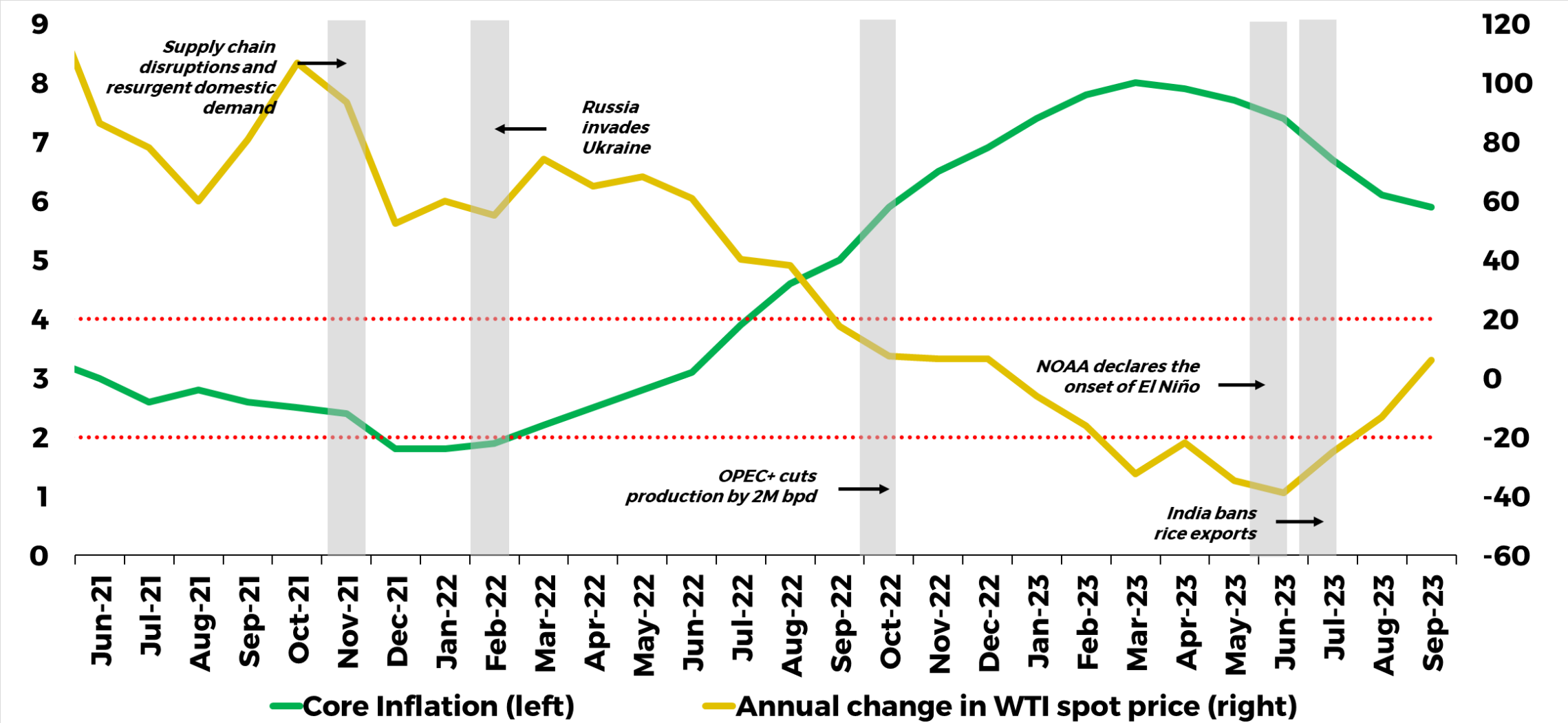


Source of basic data: PSA, Bloomberg, BSP Staff Estimates

- **Yes, supply price shocks eventually dissipate**
- **But they can change inflation expectations and cause second-round effects**
- **An inflation-targeting framework helps to anchor those expectations**
- **Monetary policy is about making that framework credible**

Successive supply shocks have kept inflation elevated

PH Core Inflation and Annual Change in WTI Spot Price, June 2021 – September 2023
in percent



Source of basic data: PSA, Bloomberg, BSP Staff Estimates



Supply-side pressures have led to second-round effects...

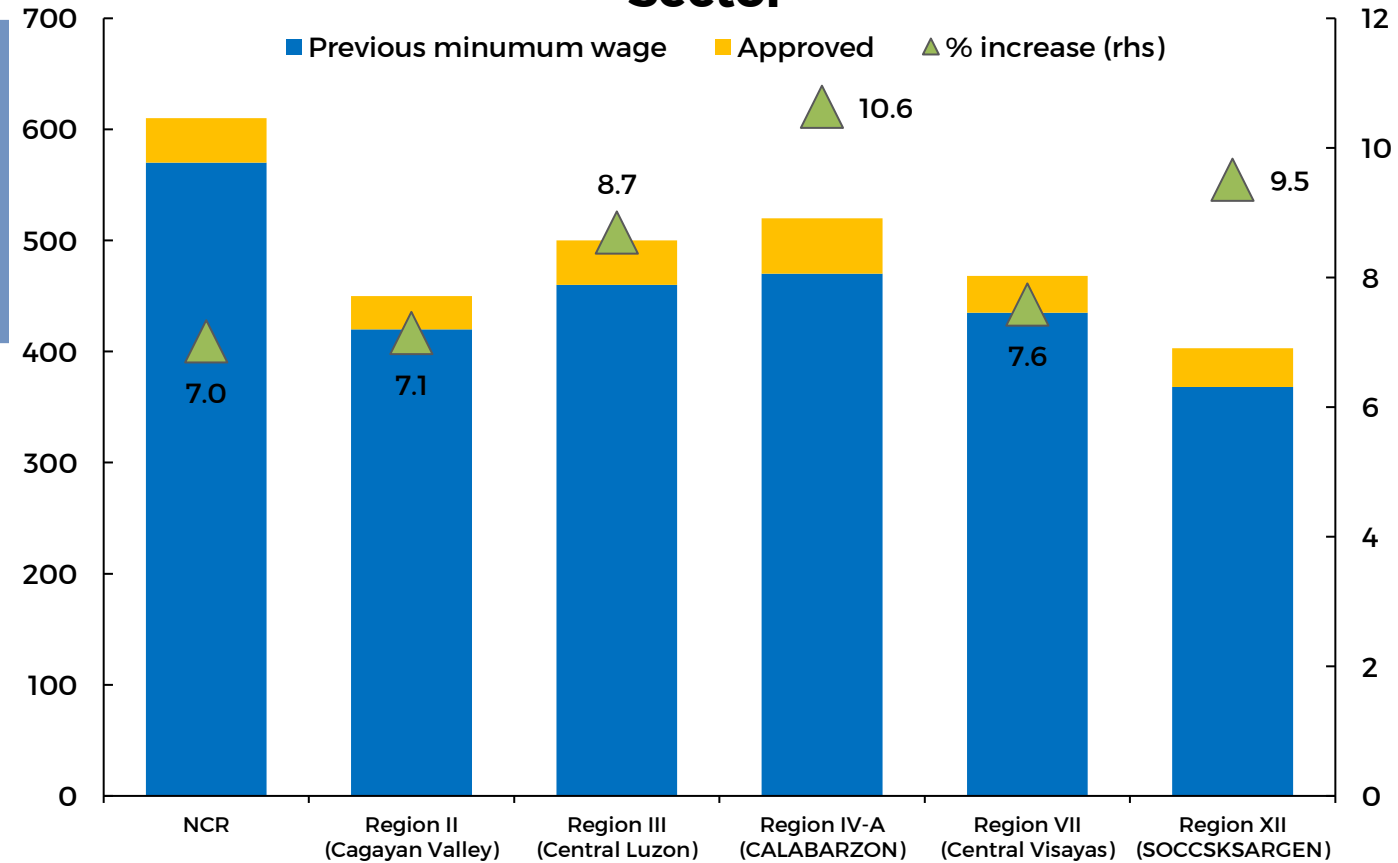
Transport Fare Increases

Higher LRT fares in August 2023

₱1 jeepney fare increase in October 2023

Pending fare increase petitions for Taxis, PUV Modernization

Wage Adjustments in Non-Agriculture Sector

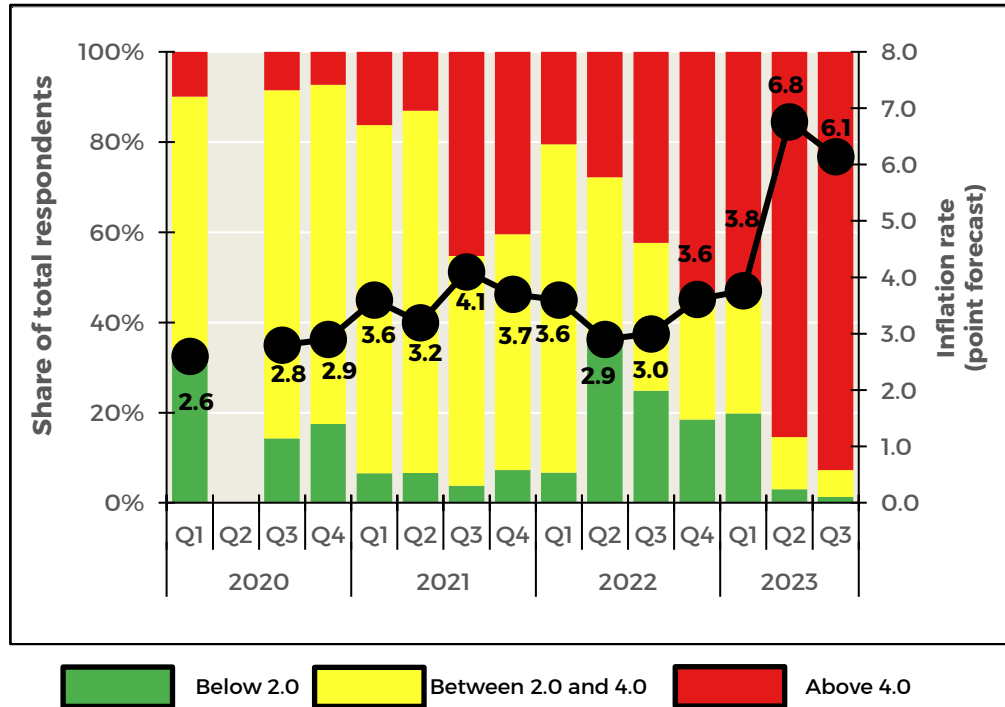


...resulting in sticky and elevated inflation



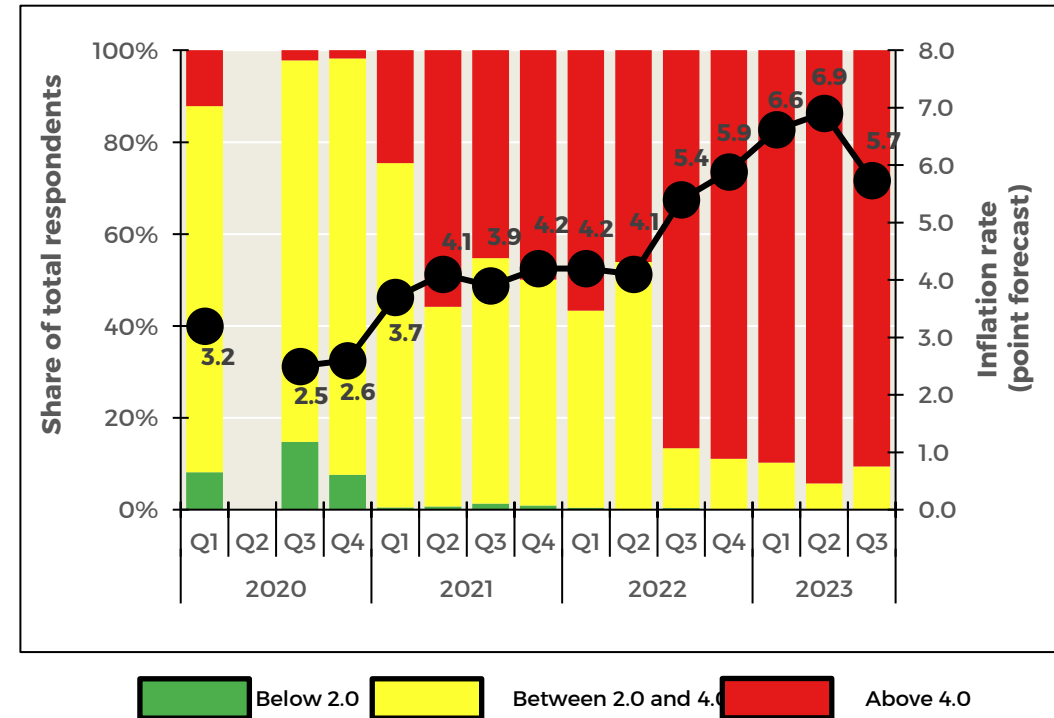
Inflation expectations are also being de-anchored by continued supply-side pressures

Households' inflation forecasts and share of total respondents



Source: BSP Consumer Expectations Survey (CES)

Firms' inflation forecasts and share of total respondents

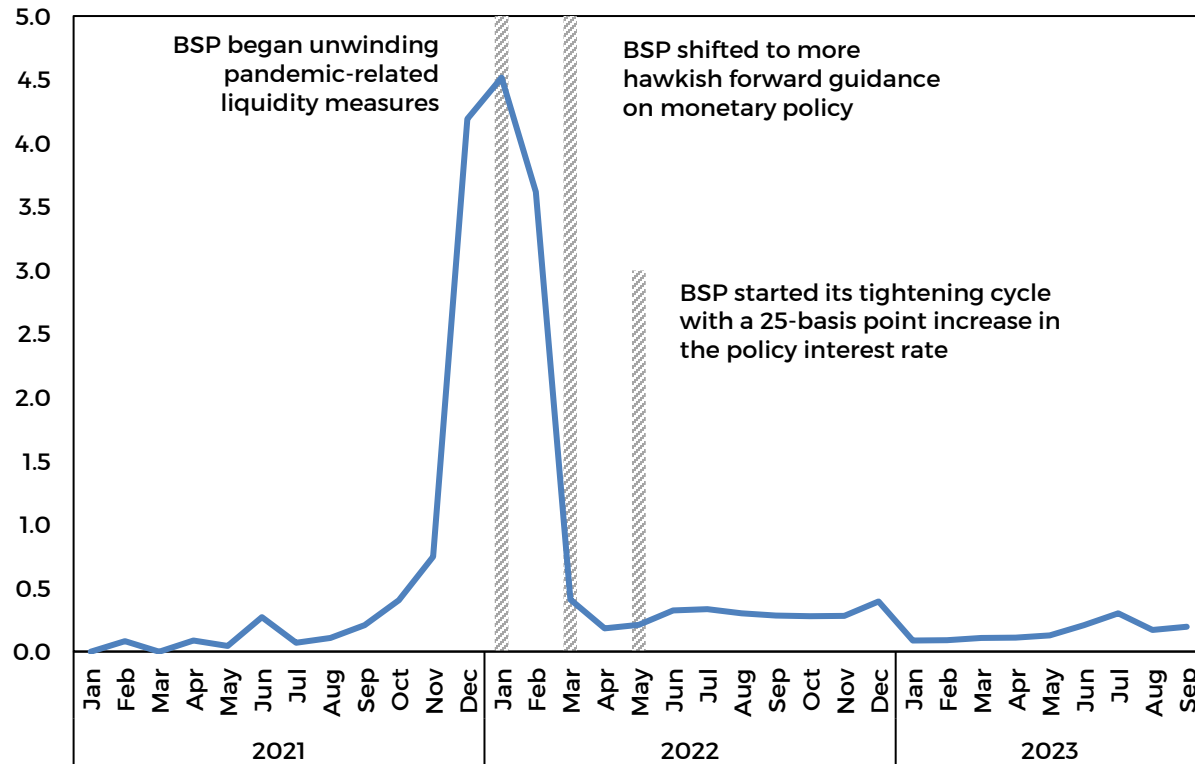


Source: BSP Business Expectations Survey (BES)

- Households' inflation point forecasts for the next 12 months decline but over 90 percent of respondents expect above 4.0 percent inflation;
- Firms' inflation expectations for the next 12 months ease but continue to exceed target

Hawkish forward guidance amid supply shocks has helped temper inflation expectations

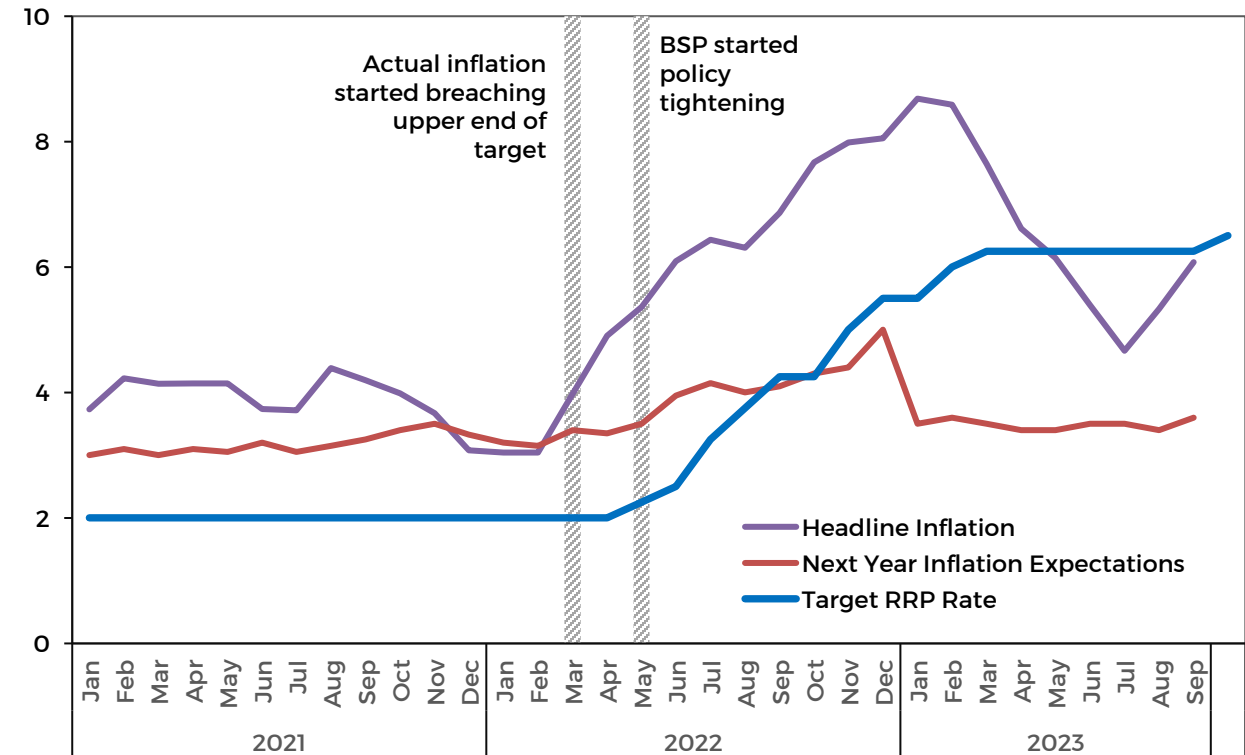
“Pass-through rate” from Headline Inflation to Analysts’ One-year Ahead Inflation Expectations



Sources: PSA, BSP, and BSP staff calculations.

Note: Calculated using the midpoint of the target at 3.0 percent.

Analysts’ One-year Ahead Inflation Expectations¹ vs Actual Inflation & Policy Rate




Sources: PSA and BSP

^{1/} From the BSP's Survey of External Forecasters

BSP stands ready to adjust all policy levers as necessary in line with the primacy of its price stability mandate

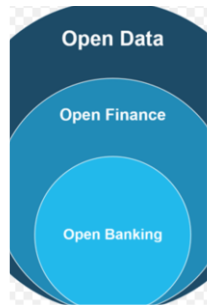
Interest Rates
<ul style="list-style-type: none">• The BSP signals its monetary policy stance through the Target RRP Rate.

Open Market Operations
<ul style="list-style-type: none">• Conduct OMO to implement the BSP's monetary policy stance and influence market interest rates

Forward Guidance
 MONETARY POLICY REPORT
<ul style="list-style-type: none">• The MPR, press statements, and pronouncements provide the public a view of the BSP's guidance on the direction of monetary policy over the near term.



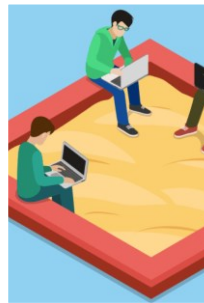
To help the banking system digitalize, we offer three approaches



Open finance framework



Digital banking

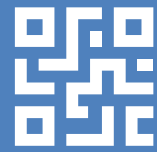


Regulatory sandbox

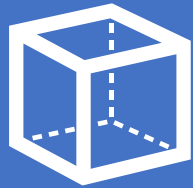


Promoting healthy competition and responsible innovation to foster financial inclusion

Cybersecurity Roadmap



Digitalization

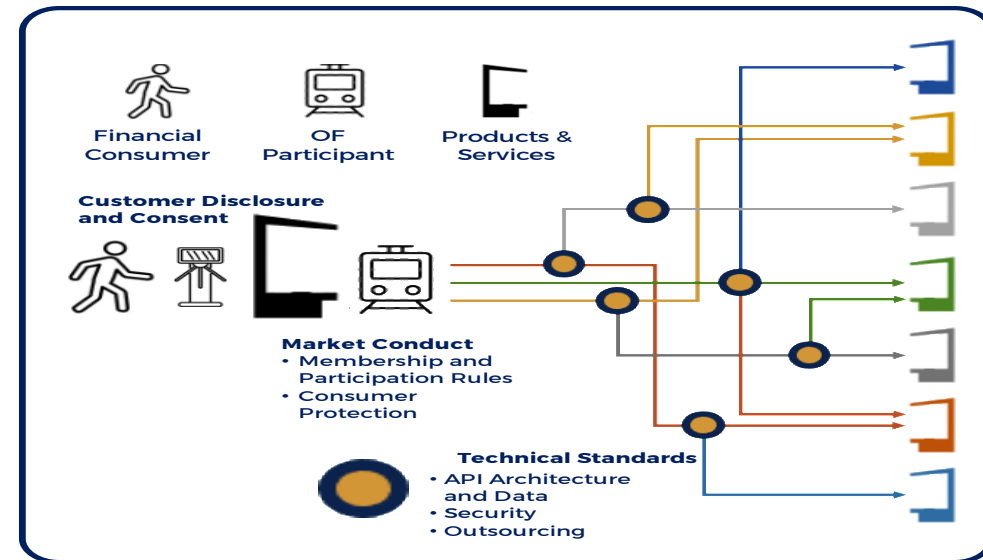


Regulatory
Sandbox
Framework

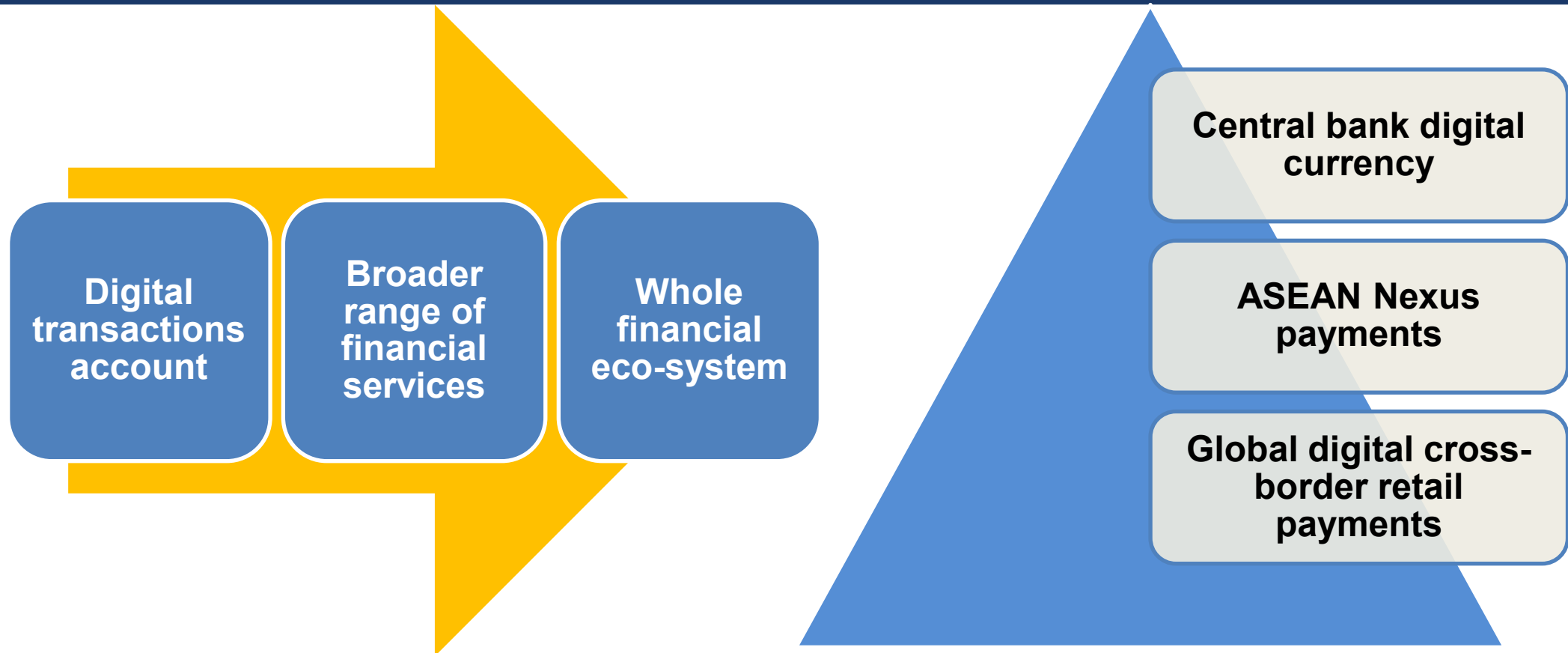


Open
Finance
Framework

Robust Fraud Management System



A digital payments system holds great promise for financial inclusion



Digital payments have accelerated financial inclusion...

Role of digitalization in financial inclusion:



Greater affordability



Customer-centric approach to product design and marketing

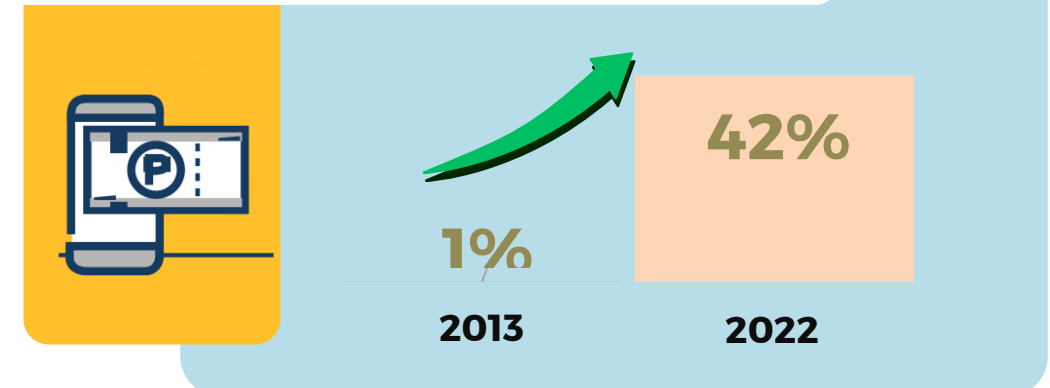


New and innovative business models

Results so far:

Digital payments

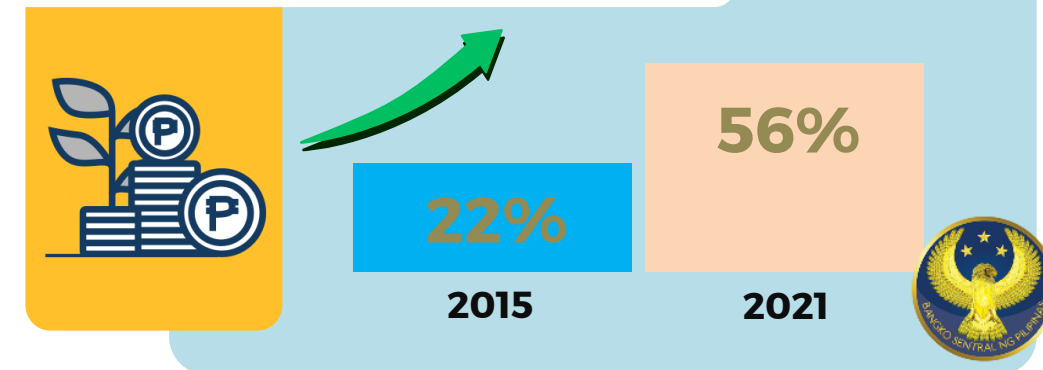
(as percent of total retail payment transaction volume)



Source: BSP - 2022 Status of Digital Payments

Financial inclusion

(percent of Filipino adults with transaction account)

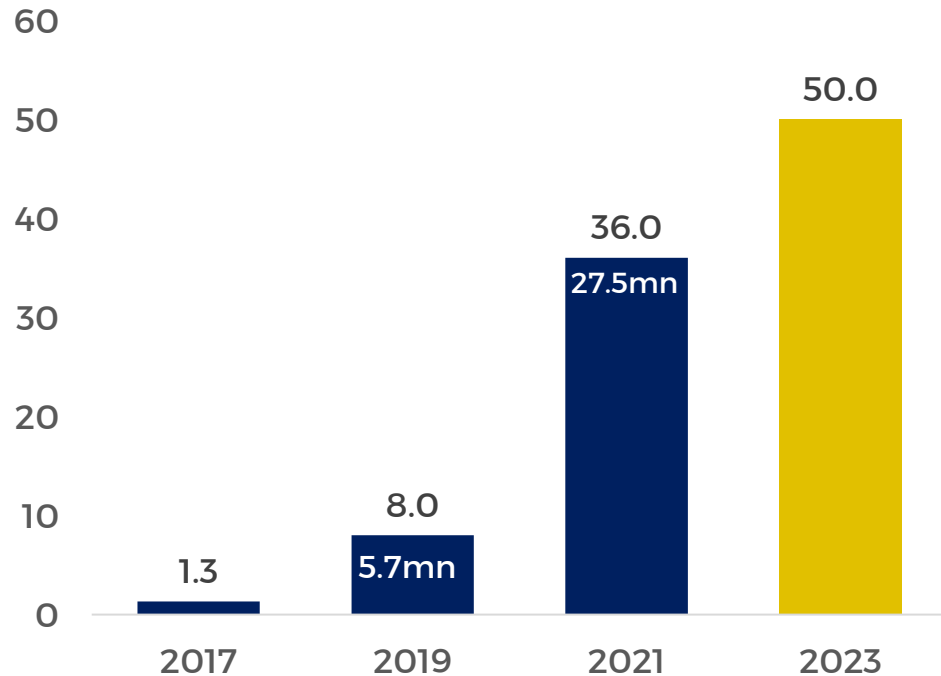


Source: BSP - 2021 Financial Inclusion Survey

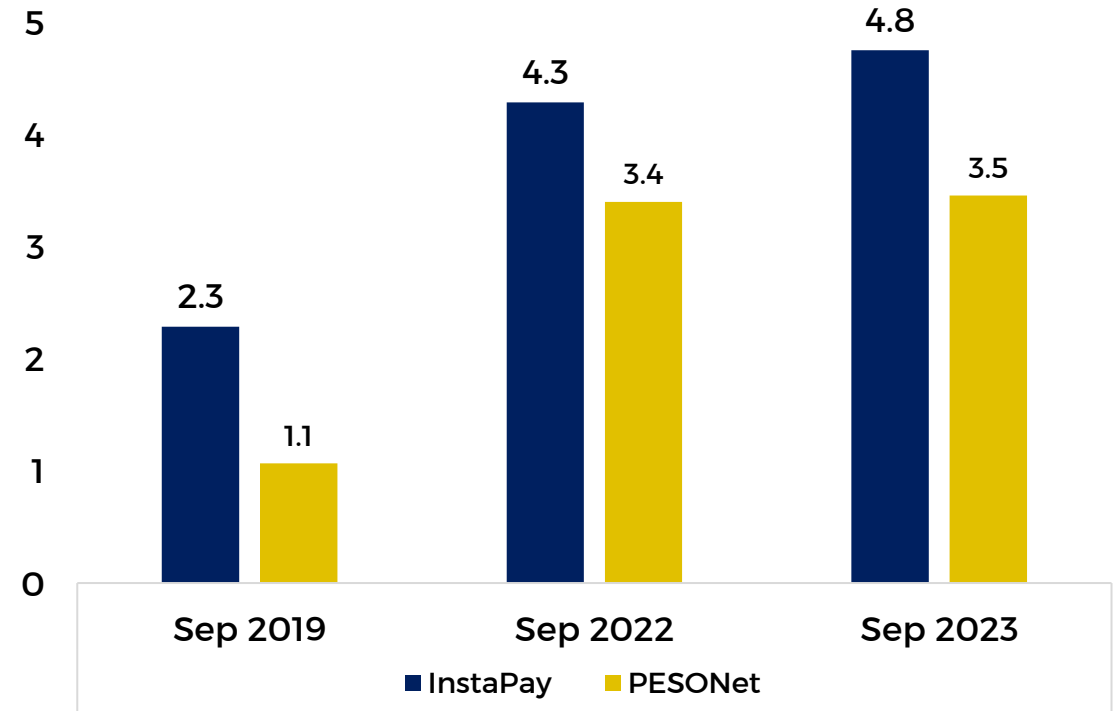


... as payment transactions are increasingly digital

**Percentage of Filipino adults
with E-Money Accounts**
(In %)



**InstaPay and PESONet
Volume of transactions**
(In thousands)



Source: BSP
As of 30 September 2023



The BSP's actions will continue to focus on its three pillars



Price Stability



**Financial
Stability**



**Efficient and
Safe Payments
and Settlements
Systems**





The BSP: Facing Up to Challenges

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15 November 2023

