

BSP Economic and Financial Learning Program for the Academe

Central Bank Digital Currency (CBDC)

JAN MARLON A. EVANGELISTA

Bank Officer, Payments Policy and Development Department
Payments and Currency Management Sector
Bangko Sentral ng Pilipinas

25 April 2024



AGENDA

- 1 CBDC Conceptual Definitions and Policy Objectives
- 2 Potential CBDC Use Cases for the Philippines
- 3 Project Agila
- 4 BSP Strategic Actions on CBDC



CBDC

Central Bank Digital Currency



“A form of digital money, denominated in the national unit of account which is a direct liability of the central bank.”

CBDCs can be designed for use either among financial intermediaries only (i.e., **wholesale CBDCs**), or by the wider economy (i.e., **retail CBDCs**).

Source: BIS Annual Economic Report 2021

Reasons for Exploring CBDC

Cost Savings and Payments Efficiency

Enhance Payment System Safety and Resilience

Promote financial inclusion

Reduce the adoption of privately issued currencies

Enhance monetary policy transmission

Central Bank Digital Currency for the BSP

Fundamentals and Strategies

In 2020, the BSP conducted an exploratory study to determine and evaluate the issues that surround CBDC issuance:



Pillars of
central
banking



Legal aspects



Financial
inclusion



Wholesale Payments



Through CBDC, the wholesale payments in the country may significantly improve in at least the following areas*:

- Cross-border payments
- Settlement of financial securities
- Liquidity Management

Retail Payments

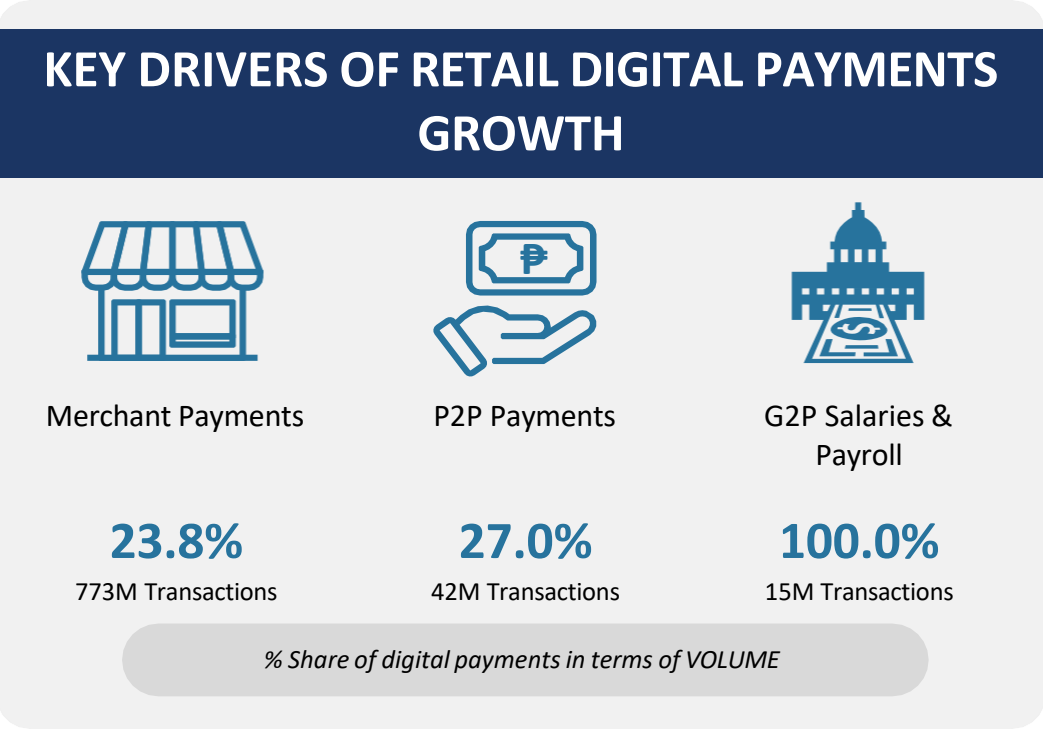


- Account-based CBDCs may not yield much value compared to current retail payment instruments in the Philippines.
- Broader payments digitalization and financial inclusion are being achieved by the National Retail Payment System, similar to the expected benefits of a retail CBDC.
- Other potential rCBDC applications include: offline payments, 24/7 payments
- Potential legal concern on retail CBDC issuance

* These areas include settlement, liquidity and default management, and effectiveness

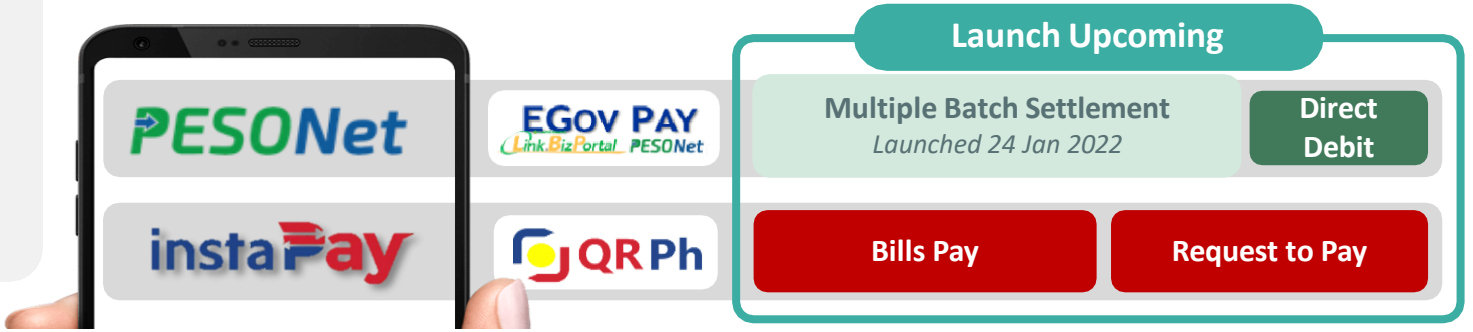
Assessing the value of CBDC

There is **minimal perceived added value** for the use of retail CBDC in the Philippines given the progress in the implementation of retail payment and financial inclusion reforms



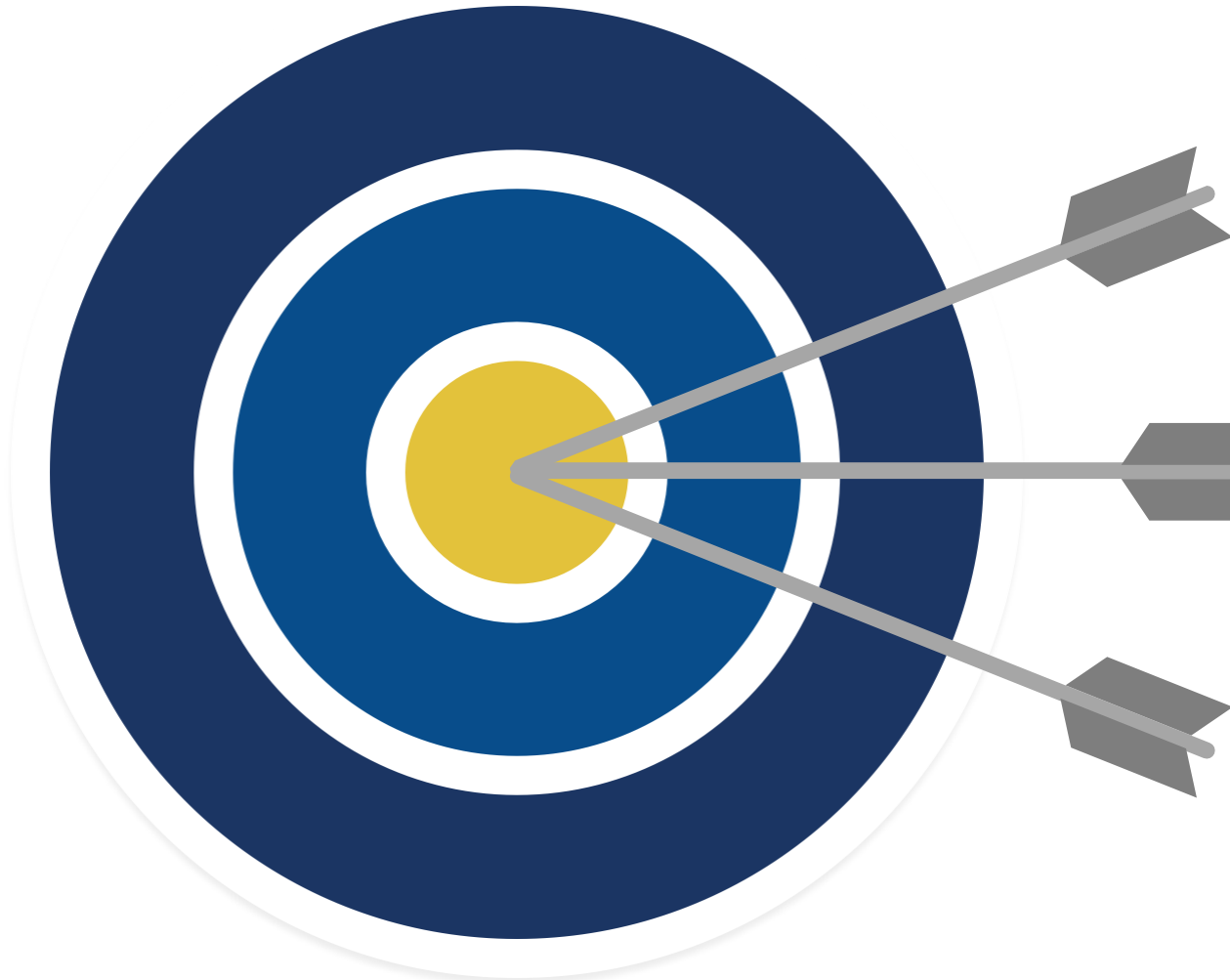
As of end-2022, about 42 **percent of monthly retail payments volume are in digital form**, from 10 percent in 2018 and 1 percent in 2013.

Around **20.3 million new transaction accounts** were opened in 2020-2021 based on the increase in e-money and basic deposit accounts.



Potential CBDC Use Cases

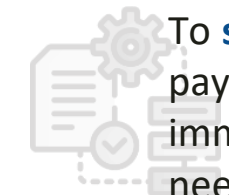
Policy Objectives



To **alleviate frictions in cross-border payments** in support of the growth of PH's open digital economy;



To **enhance the efficiency of securities settlement systems** in order to reinforce financial market development, promote investors' confidence in Philippine financial markets and sustain trust in the national payment system; and



To **strengthen liquidity management** in the national payment system by providing a facility that enables immediate contingent support to participants needing intraday liquidity.

Project Agila



TARGET USE CASE

24/7 wholesale fund transfers across a limited number of financial institutions

Planning for Operational Requirements

The project started its two-phase run in Dec 2022:

PHASE ONE **1** System Selection*
(activities completed in July 2023)



PHASE TWO **2** PROOF-OF-CONCEPT

KEY TAKE-AWAYS

Needs-based assessment

Verification of innovation's responsiveness

Early industry engagement

Institutionalizing Agility



Project Agila



CBDC Pilot Project



The eagle's **outstretched wings** and tail feathers symbolize the BSP's balanced, inclusive approach to growth and development, while also conveying the central monetary authority's mastery over its field.

CBDC development **balances public and private sector broad stakeholder collaboration**

The eagle's **head and eyes** expressing the BSP's vigilance and readiness to seize challenges and opportunities that rise over the horizon.

CBDC shall be designed **taking into account the risks**, challenges and opportunities for payments innovation in a manner that **serves the evolving needs of the national payment system**

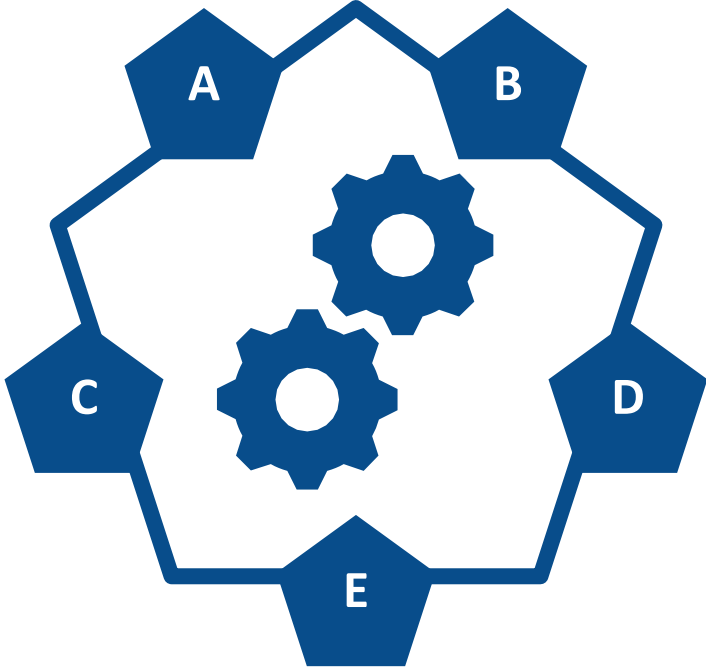
The **talons** represent the strong will, resolve, and the monetary and financial tools that the central bank uses in discharging its mandates.

CBDC journey shall ensure that the BSP has **strong institutional prerogative and maintain credibility** in order to deliver a safe, efficient and inclusive national payment system.

Key Criteria

For the Choice of CBDC Technology

The BSP's evaluation of the technologies and providers were performed against the **5 key CBDC design principles** to select the DLT platform which shall be employed for building the CBDC system prototype



- A** Access
- B** Security
- C** Efficiency & Availability
- D** Interoperability
- E** Flexibility & Programmability

The BSP's Overall Strategic Plan of Actions on CBDC

The BSP shall continue to expand its activities on testing CBDC technology and evaluating emerging use cases that may help address payment system pain points or improve the safety and efficiency of the national payment system

Obtain comments from stakeholders on the beneficial impact and feasibility of the identified end-users.

Identify implication of identified CBDC use cases on monetary policy, financial stability, payments digitalization, AML/CFT agendas and review legal frameworks.

Coordinate with relevant technology service providers to build CBDC use cases for the identified payment streams.

Acquire technical assistance from competent organizations (i.e., IMF) in determining capacity building strategies.

Enter into collaborative arrangements with other central banks that have progressive research and pilot testing of similar CBDC use cases.



The success of our CBDC initiatives relies on forging stronger alliances and leveraging on the innovative spirit of both public and private stakeholders in the national payment system.

We seek the support of our educators and partners in the academe, as we embark on the Philippines' transformative journey on CBDC and jointly shape the future of our country's digital finance landscape that, in turn, can help propel to create a stronger, more resilient and digitally empowered economy.

