



The BSP's three Challenges

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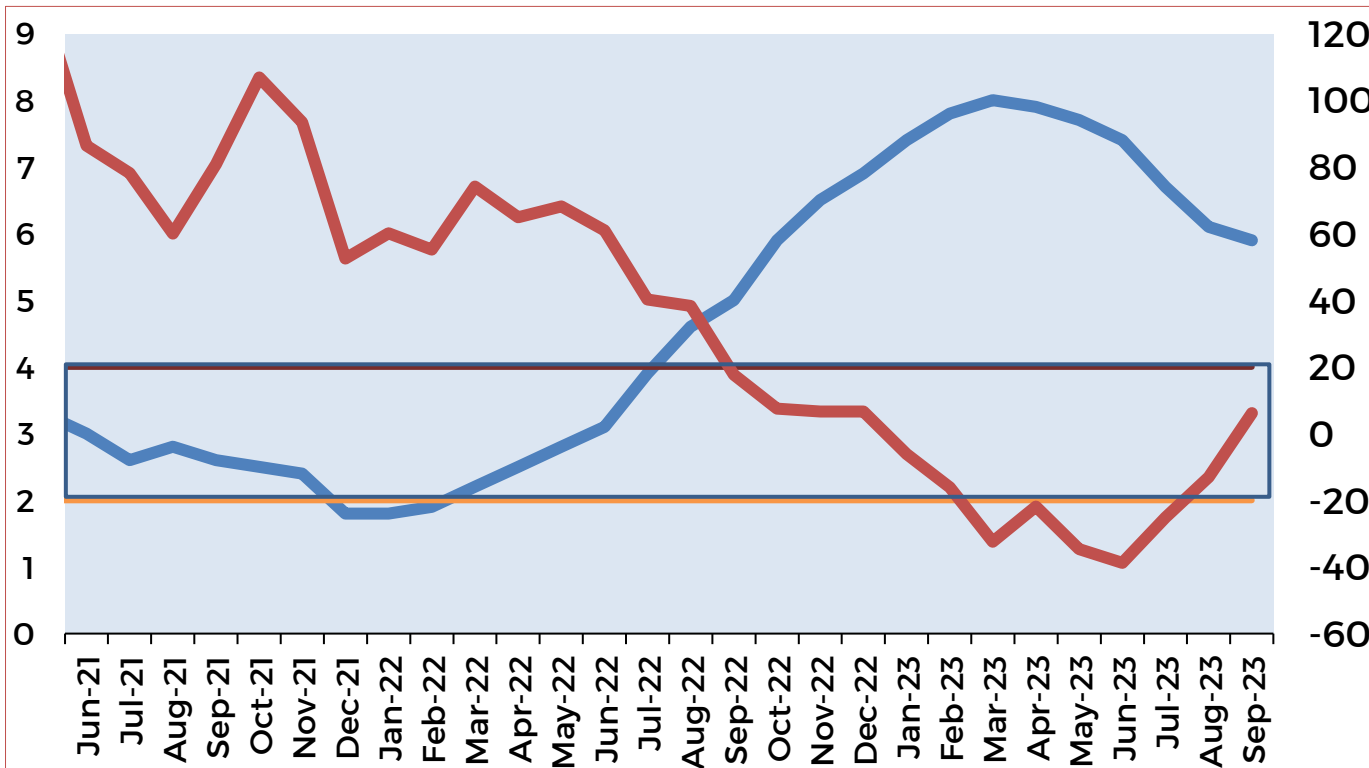
Three challenges

- 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

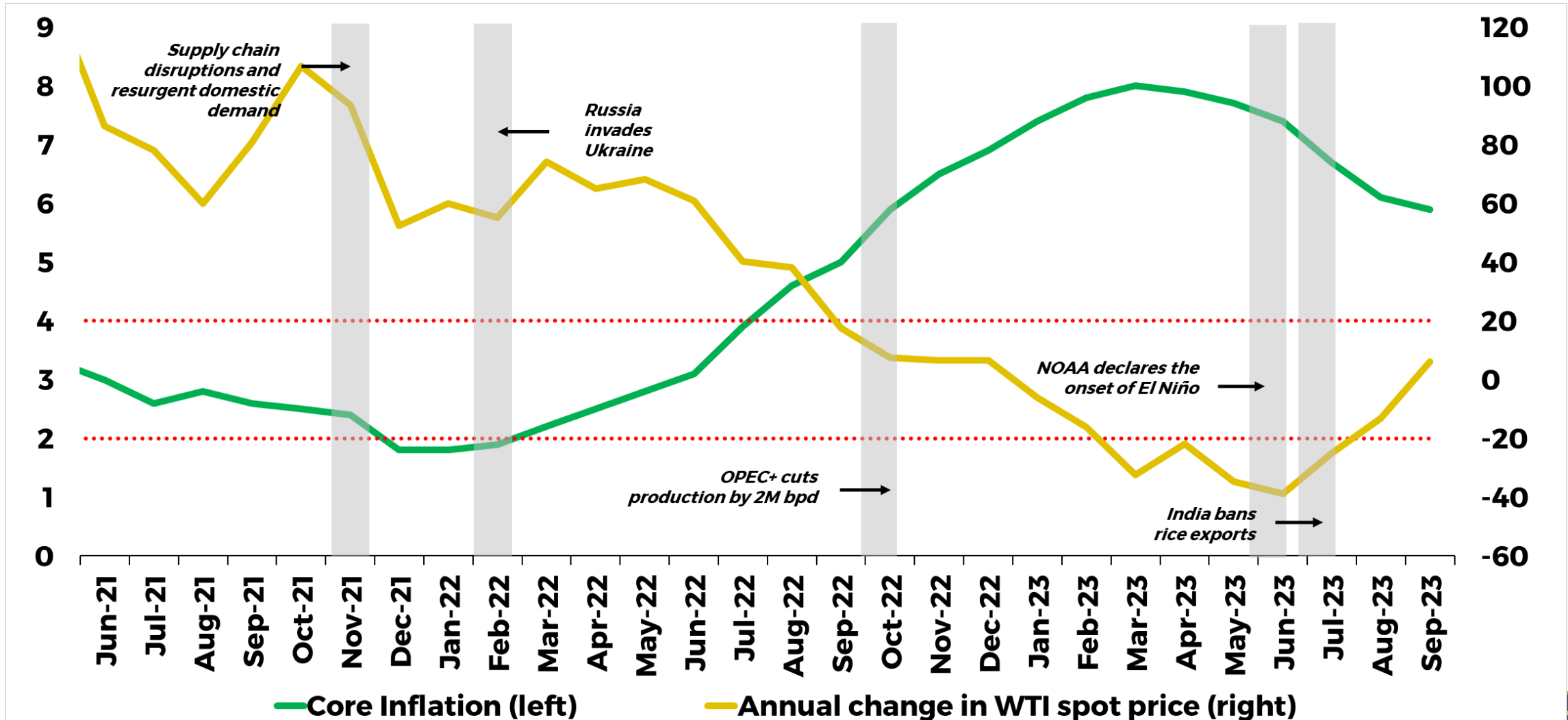


Source of basic data: PSA, Bloomberg, BSP Staff Estimates

- **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...

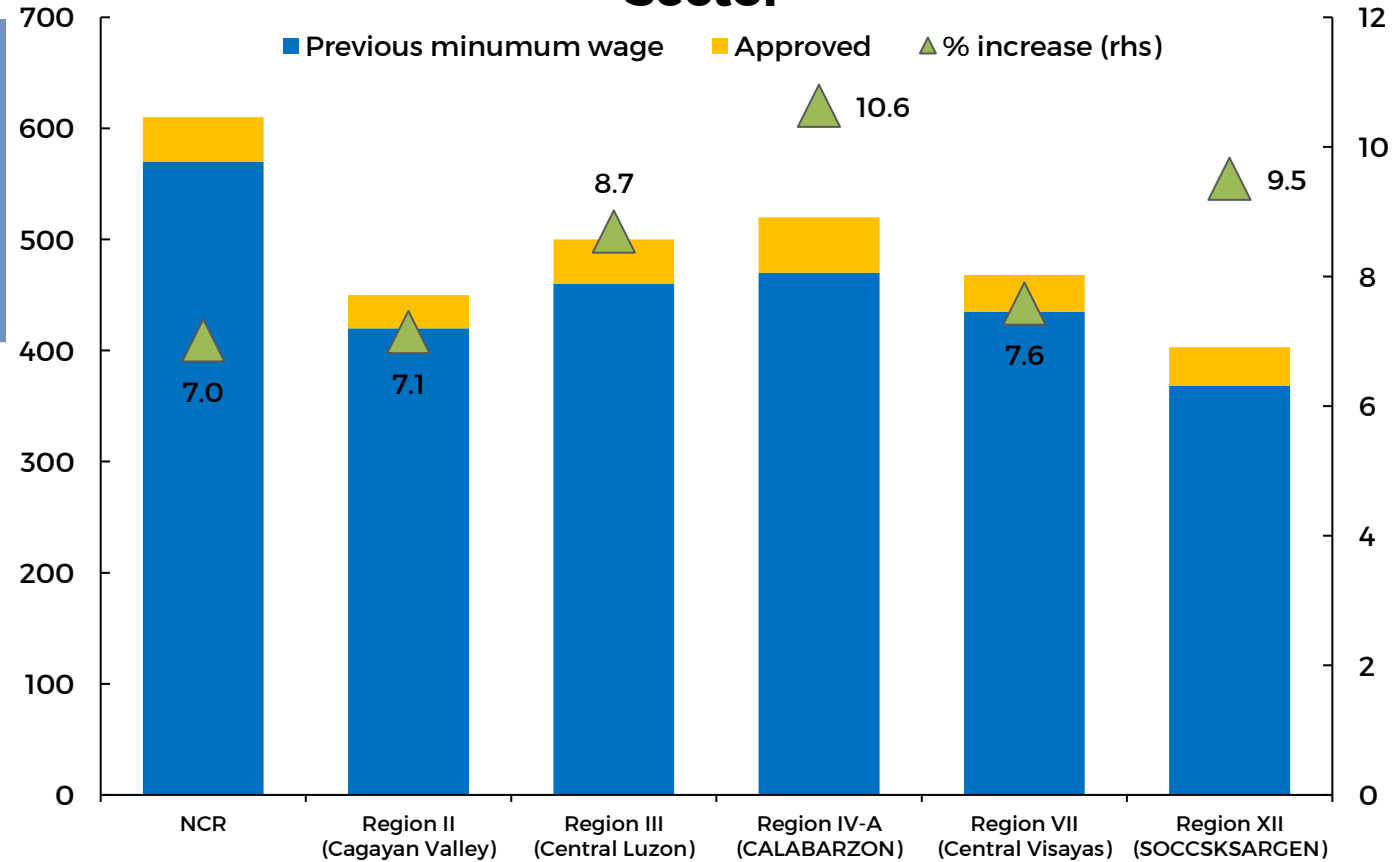
Transport Fare Increases

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

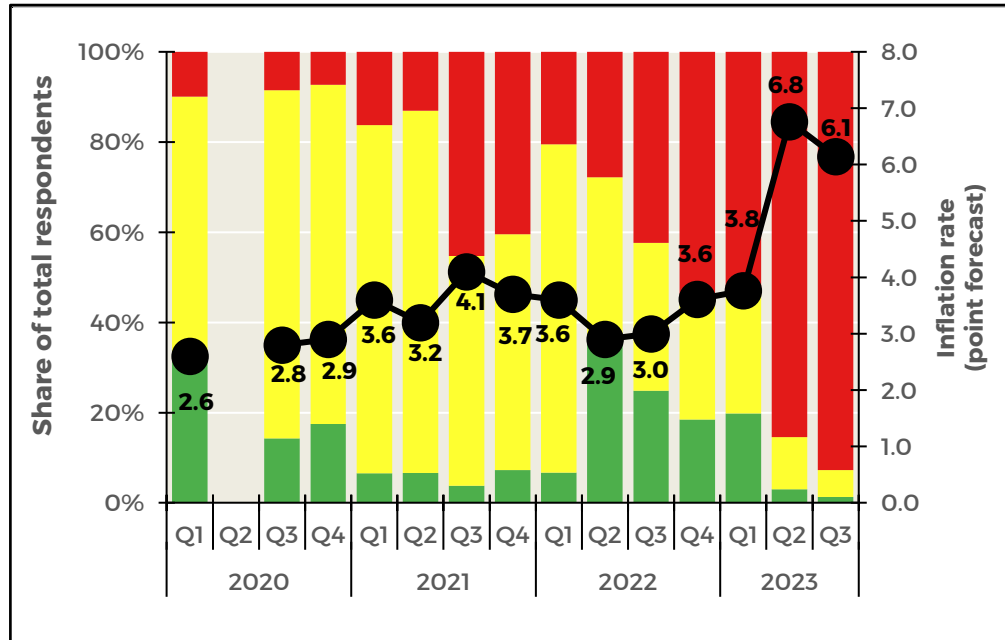


...resulting in sticky and elevated inflation



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

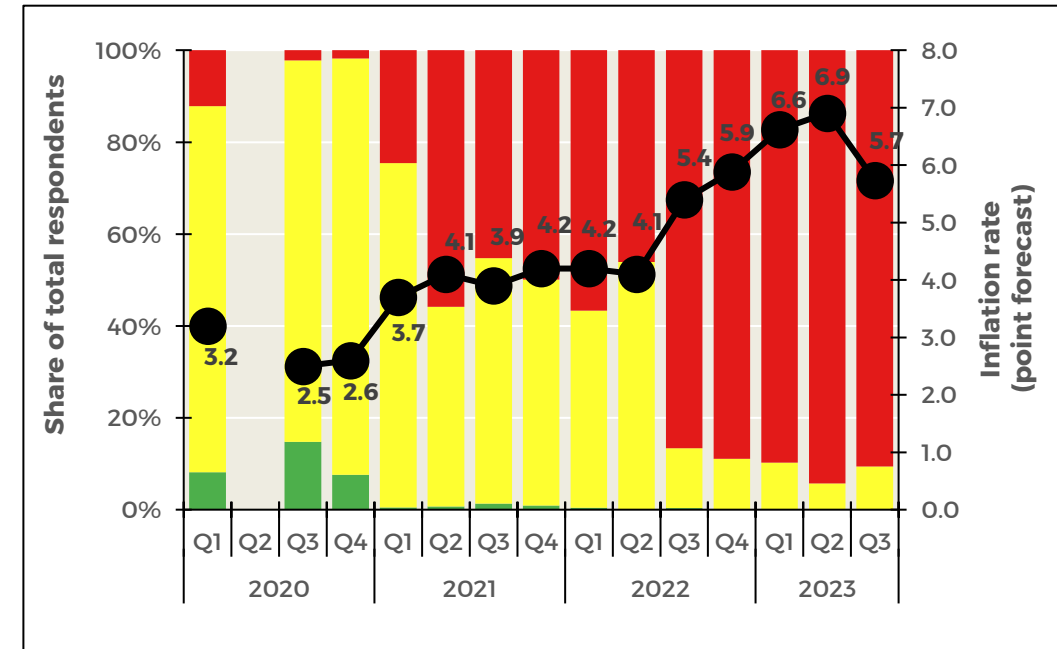
Households' inflation forecasts and share of total respondents



■ Below 2.0
 ■ Between 2.0 and 4.0
 ■ Above 4.0

Source: BSP Consumer Expectations Survey (CES)

Firms' inflation forecasts and share of total respondents



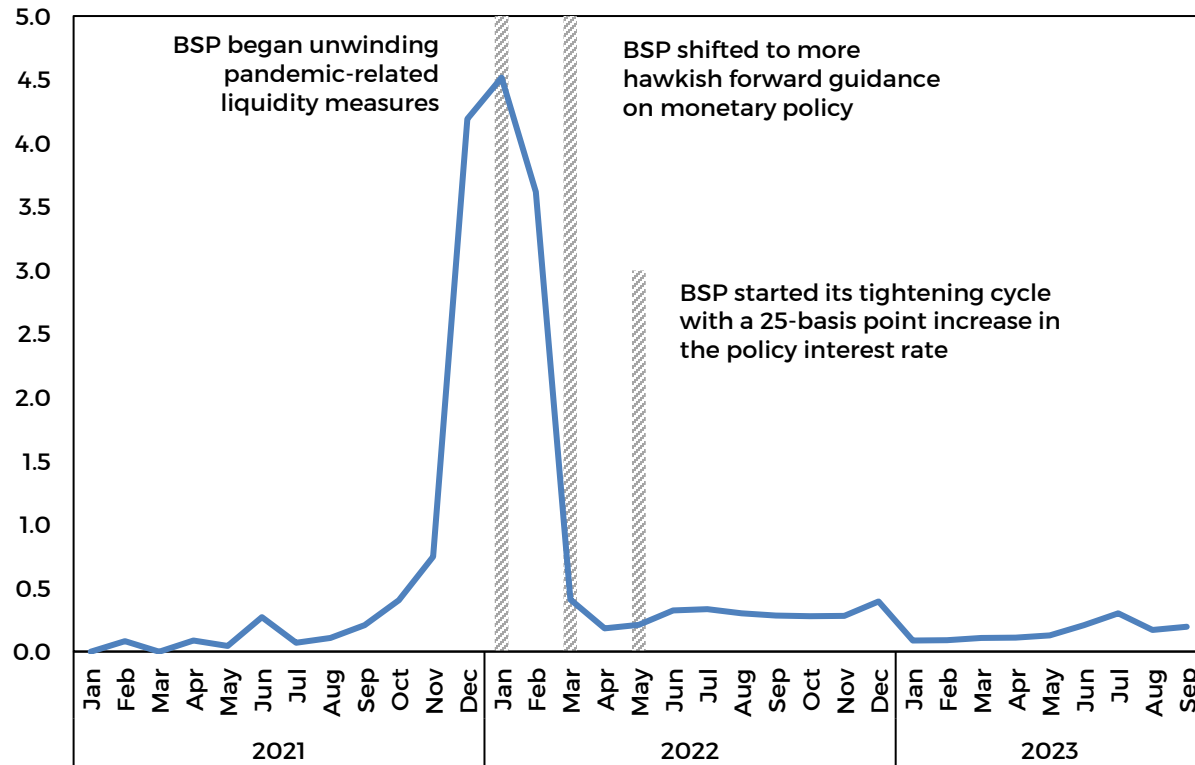
■ Below 2.0
 ■ Between 2.0 and 4.0
 ■ Above 4.0

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

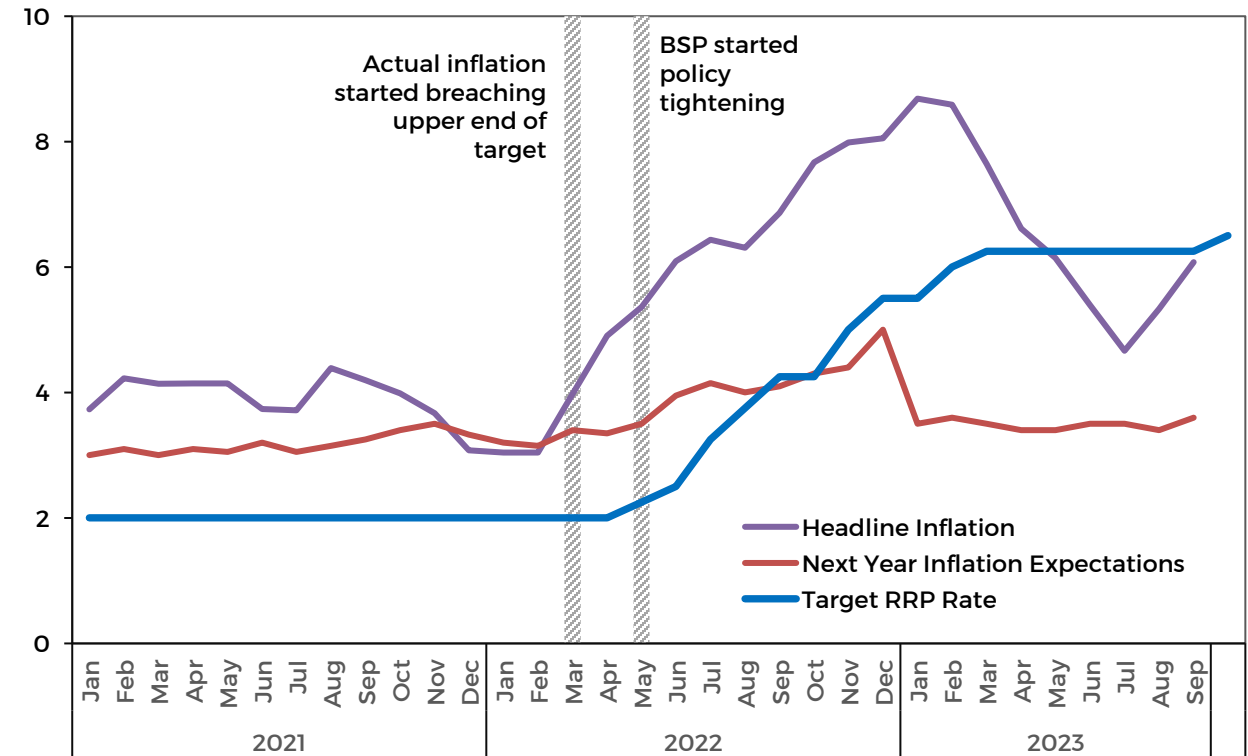
Hawkish forward guidance amid supply shocks has helped temper inflation expectations

“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

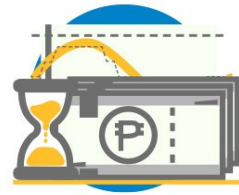
BSP stands ready to adjust all policy levers as necessary in line with the primacy of its price stability mandate

Interest Rates



- The BSP signals its monetary policy stance through the Target RRP Rate.

Open Market Operations



- Conduct OMO to implement the BSP's monetary policy stance and influence market interest rates

Forward Guidance

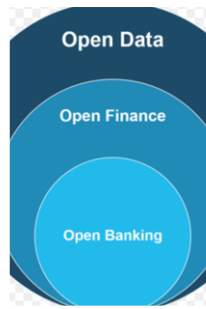


MONETARY POLICY REPORT

- 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.



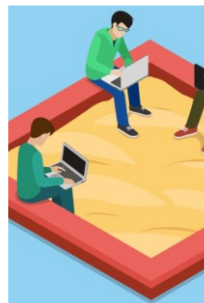
To help the banking system digitalize, we offer three approaches



**Open finance
framework**



Digital banking



**Regulatory
sandbox**



Promoting healthy competition and responsible innovation to foster financial inclusion

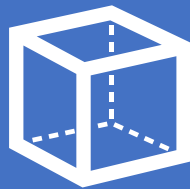
Cybersecurity Roadmap



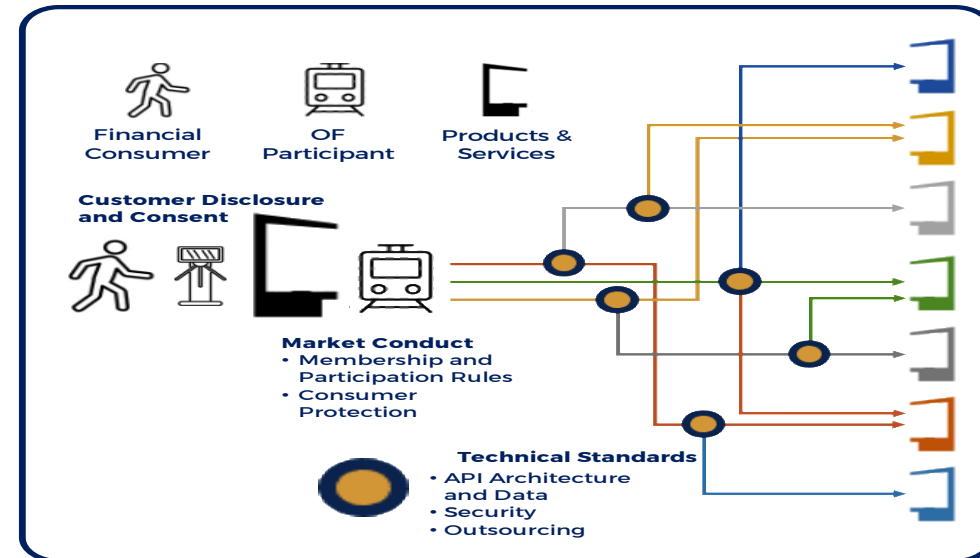
Robust Fraud Management System



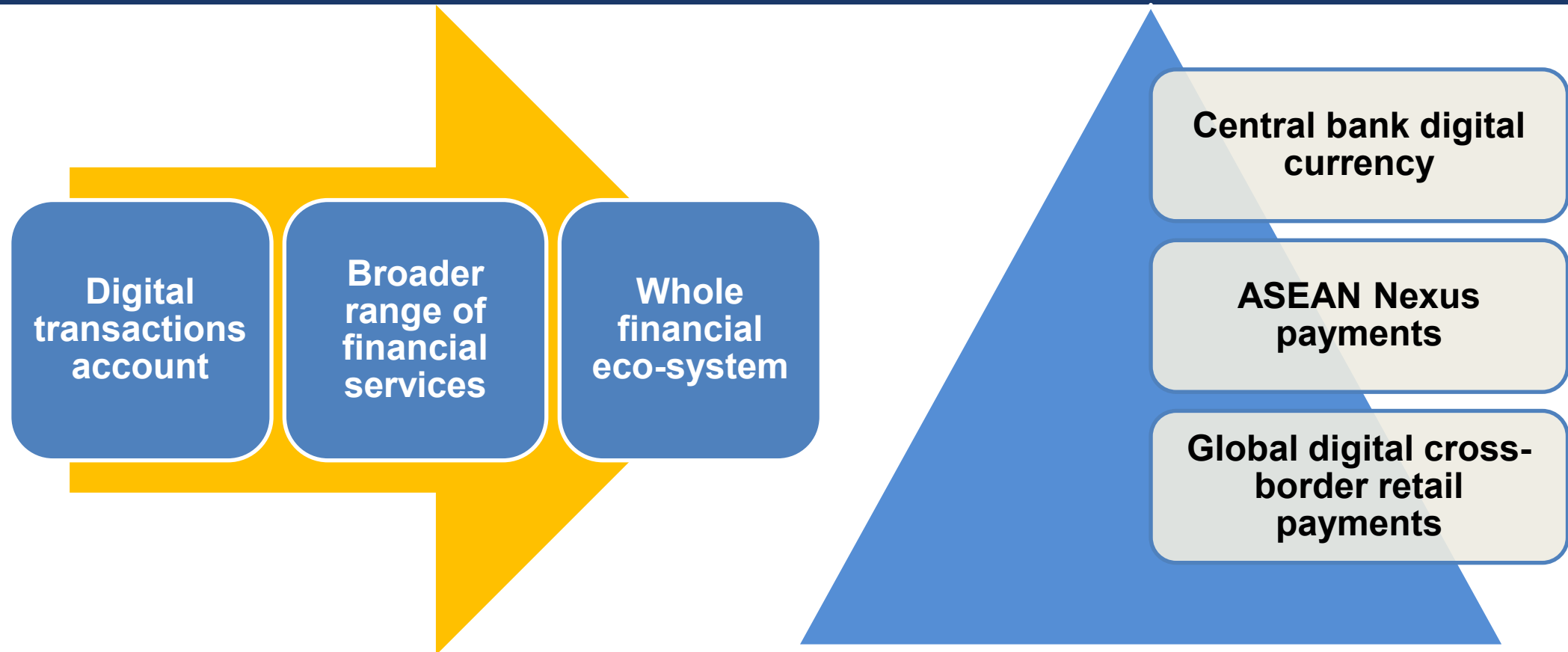
 Digitalization

 Regulatory Sandbox Framework

 Open Finance Framework



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

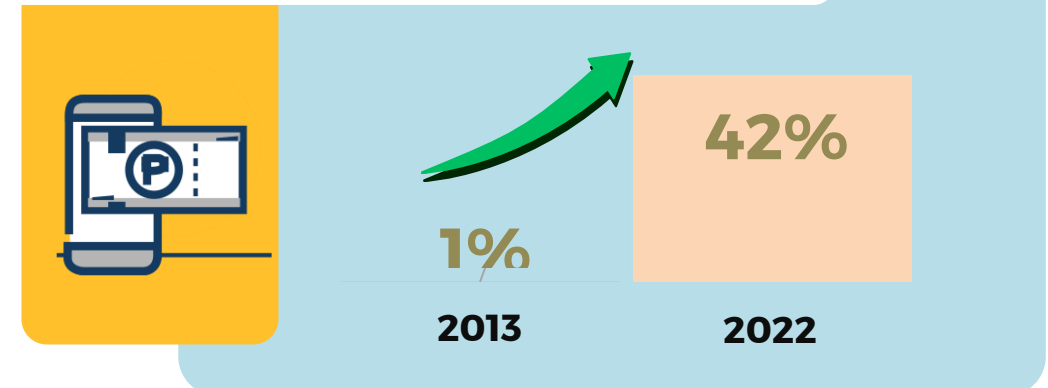


New and innovative business models

Results so far:

Digital payments

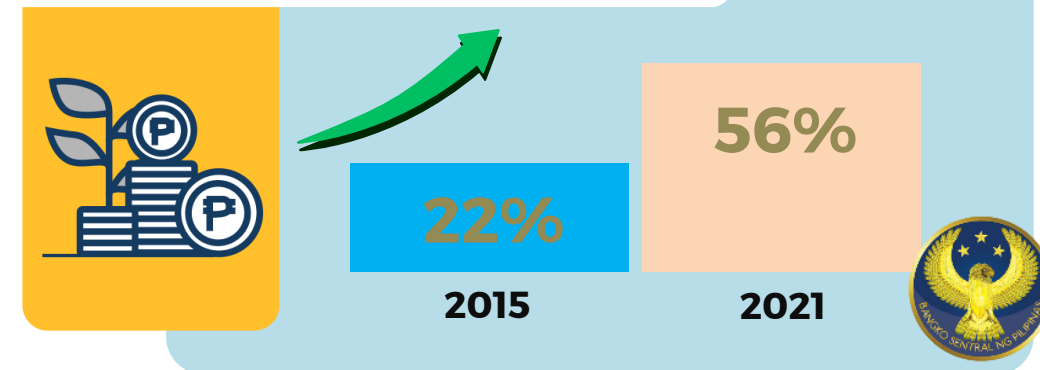
(as percent of total retail payment transaction volume)



Source: BSP - 2022 Status of Digital Payments

Financial inclusion

(percent of Filipino adults with transaction account)

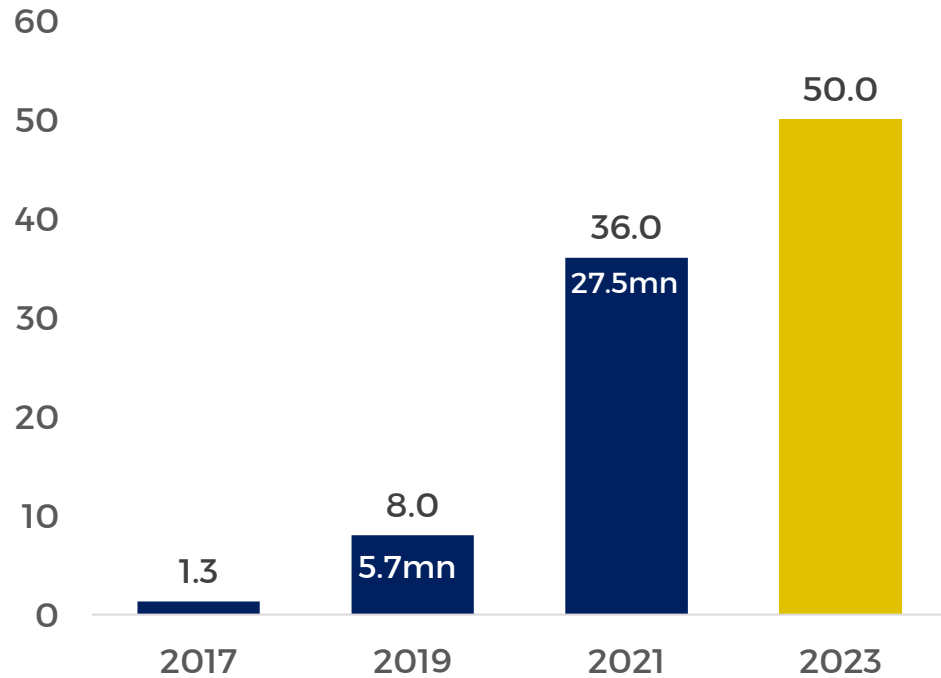


Source: BSP - 2021 Financial Inclusion Survey

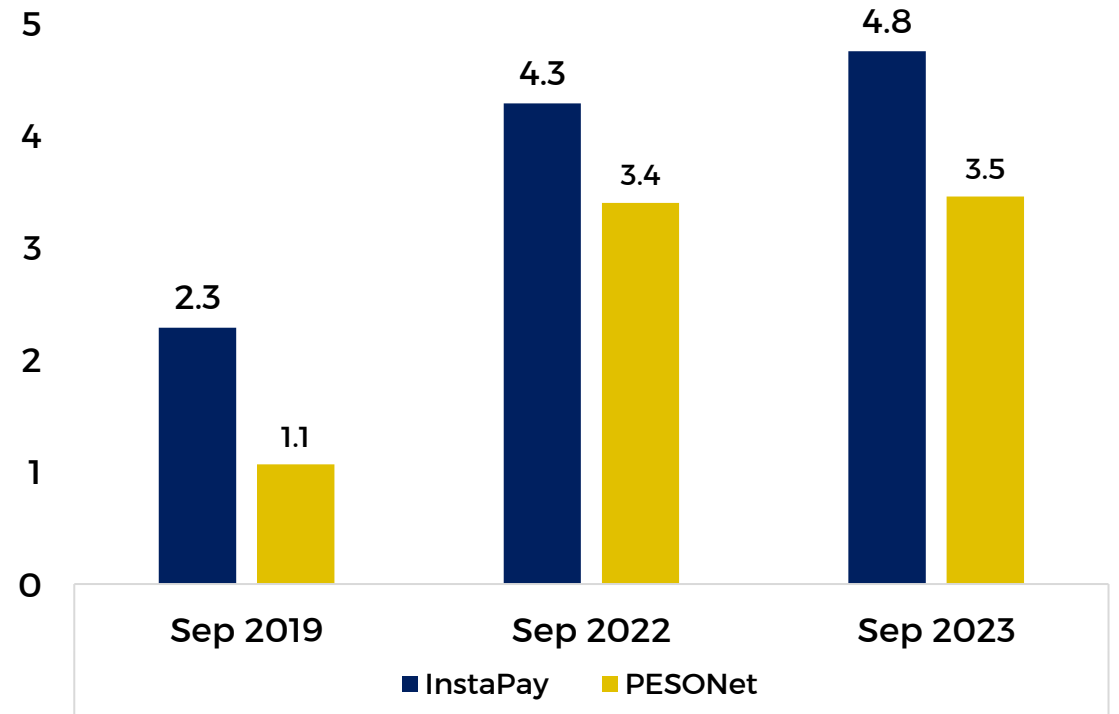


... as payment transactions are increasingly digital

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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