“What Do You Know About the BSP?”
The Role of the BSP in the Economy

Economic and Financial Learning Center
3 Pillars of Central Banking

- **Price stability** through the conduct of monetary policy
- **Financial stability** through banking supervision and regulation
- **Efficient payments and settlements system** through operation of real-time gross settlement system
Price stability = the BSP’s primary mandate
  = refers to low and stable inflation,
  = preserves purchasing power
How are prices measured?

Consumer Price Index –
- represents the average price of a standard basket of goods and services consumed by a typical Filipino family for a given period

Inflation Rate –
- annual percentage change in consumer price index

Inflation = 
sustained increase in the average prices of goods and services typically purchased by consumers
### Price level vs Inflation

<table>
<thead>
<tr>
<th>Year</th>
<th>Price level</th>
<th>Increase in prices</th>
<th>Inflation (rate of increase in prices)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td>P100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year 2</td>
<td>P110</td>
<td>P10</td>
<td>10.0%</td>
</tr>
<tr>
<td>Year 3</td>
<td>P120</td>
<td>P10</td>
<td>9.1%</td>
</tr>
</tbody>
</table>

- Prices increased but inflation slowed down...
- ...but consumers will usually fixate on the rise in prices rather than on the slowdown in inflation.
How does the BSP promote price stability?

Prices are determined by interaction of supply and demand.

BSP / square4 Policy rates – RRP/RP
Open market operations
Reserve requirement
Rediscounting
Special Deposit Account

Actions taken to manage the availability and cost of money and credit to attain stable prices
How does the BSP’s monetary policy work?

Case: Inflationary pressures due to excessive demand
Required action: BSP to slow down inflation by implementing contractionary monetary policy

The BSP increases policy interest rate

- Banks’ interest rates will follow the increase
- Higher cost of borrowing
- Investment growth will be slower
- Consumption growth will be slower

Aggregate demand growth will be slower

Lower inflation
What is the BSP’s monetary policy framework?

**Inflation targeting**

- Involves **publicly announcing an inflation target** which the BSP promises to achieve over a certain period

**Inflation targets:**

**2016-2018:** 3.0% ± 1.0 ppt (2.0% – 4.0%)
Why adopt inflation targeting?

- Simple framework
- Allows greater focus on price stability
- Forward-looking
- Enables comprehensive approach to monetary policy
- Increases accountability of BSP and helps build credibility
- Promotes transparency in monetary policy

Under inflation targeting, monetary policy decisions as well as outlook for inflation of the BSP are communicated to the public regularly through various means. If the BSP maintains its credibility, then inflation expectations will remain well anchored.
3 Pillars of Central Banking

Price stability through the conduct of monetary policy

Financial stability through banking supervision and regulation

Efficient payments and settlements system through operation of real-time gross settlement system
What is financial stability?

Financial stability – the financial system is able to effectively distribute and manage FUNDS between surplus (savers) and deficit units (spenders) and RISKS attendant to the movement of funds and provision of services.
Overview of the Philippine Financial System

**BSP**
- **Banking Institutions**
  - Universal Banks
  - Commercial Banks
  - Thrift Banks
  - Rural Banks
  - Cooperative Banks

**Other FIs**
- w/ Quasi Banking Functions
  - Forex Dealers, Money Changers
  - Bank-affiliated NBFIs
  - Pawnshops
  - NSSLAs

**SEC, IC, CDA**
- NBFIs w/o Quasi Banking Functions
  - Lending Companies
  - Investment Houses
  - Financing Companies
  - Capital Market Participants
  - Pre-need Companies
  - Insurance Companies
  - Cooperatives
How does the BSP supervise and regulate financial institutions?

- Surveillance
- Examination
- Policy Framework
- Issuance of prudential rules and upholding standards
- Redress and Literacy
  - Financial inclusion
  - Financial education
  - Consumer assistance mechanism
- Advocacy
- Licensing
  - Grant of licenses and special authorities
- Knowledge Network
  - Financial reporting requirements
- Safety and Soundness of Financial Institutions
- Compliance with Consumer Protection Laws

Conduct of on-and off-site supervision and examination
3 Pillars of Central Banking

**Price stability** through the conduct of monetary policy

**Financial stability** through banking supervision and regulation

**Efficient payments and settlements system** through operation of real-time gross settlement system
3rd Pillar: Efficient Payments and Settlement System

What is the national payments and settlement system?

- Includes the country’s entire matrix of institutional and infrastructure arrangements and processes through which money is transferred from one party to another.

- Makes the transfer of funds between two parties easier.
What is the role of the BSP?

BSP -

• is the owner and operator of the Philippine Payments and Settlements System (*PhilPaSS*), a real-time gross settlement system where settlement is done thru the member-bank’s demand deposit account maintained by the BSP
PhilPaSS Transactions

- Interbank lending/borrowing
- Remittance of BIR and BOC taxes/duties
- High-value customer payments
- Settlement of OF remittances
- Settlement of checks clearing operations
- Government Securities trading
- BSP’s open market operations
- Settlement of ATM transactions
- Foreign currency trading

PhilPaSS
Other functions of the BSP

- Issuer of money
- Bank of banks and lender of last resort
- Official depository and financial advisor of the govt.
- Custodian of official reserves

Financial inclusion programs of the BSP

**Microfinance:** Continued proactive stance in microfinance to support the development of a sustainable microfinance business environment

**Economic and Financial Learning Program (EFLP):** Sustained implementation of EFLP to promote greater public awareness of economic and financial issues to enable households and businesses to make well-informed economic and financial decisions

**National Strategy for Financial Inclusion (NSFI):** Spearheaded the formulation of NSFI as a roadmap in promoting further financial inclusion and inclusive growth
Promote Credit Delivery thru BMBEs

Republic Act No. 9178
Barangay Micro Business Enterprises (BMBE) Act of 2002

- To mainstream BMBEs in the economy
- To grant incentives and other benefits to BMBEs

BSP’s role

- Formulate implementing rules on credit delivery/guarantee to BMBEs as well as incentive programs, and monitor implementation of the law
- Consider loans granted to BMBEs under RA 9178 as alternative compliance with RA 9501 (Magna Carta for Micro, Small and Medium Enterprises)

2014 Implementation

- 1 U/KB, 1 TB, 8 RBs, 2 coop banks
- Retail lending - ₱40.6 million
- 3,465 borrowers
- Wholesale funds for on-lending - ₱332.2 million
Key points

- To preserve purchasing power, the BSP’s main objective is to maintain price stability. It uses inflation targeting as a framework for conducting monetary policy. Consumers directly benefit.

- To help promote financial stability, the BSP supervises and regulates banks and other financial institutions. Depositors and borrowers directly benefit.

- To ensure safe and efficient payments and settlements of financial transactions, the BSP owns and operates the PhilPaSS. Transacting parties directly benefit.

THE ECONOMY AS A WHOLE BENEFITS.
Thank you.

Website : http://www.bsp.gov.ph
Email : bspmail@bsp.gov.ph