

# The BSP in 2015

A Report to the Filipino People





# Table of Contents

<b>About the Bangko Sentral ng Pilipinas</b>	<b>6</b>
<hr/>	
Legal Bases • Vision • Mission • Core Values • Powers and Functions • Governance • Organizational Structure	
<b>BSP's Operating Environment</b>	
<hr/>	
State of the Global Economy	<b>11</b>
Performance of the Philippine Economy	<b>12</b>
<b>First Pillar: Price Stability</b>	<b>14</b>
<hr/>	
Rationale for Keeping Inflation Low and Stable • Inflation Targeting • Tools of Monetary Policy • Inflation and the Monetary Policy Stance in 2015 • Communication of Monetary Policy • Foreign Exchange Rate • Interest Rate Corridor	
<b>Second Pillar: Banking and Financial Stability</b>	<b>23</b>
<hr/>	
Role of Banks • Banking Reforms • Performance of Banking System in 2015 • Regulatory Framework • Risk-Based Supervision • Financial Surveillance and Analytics in 2015	
<b>Third Pillar: Efficient Payments and Settlements System</b>	<b>35</b>
<hr/>	
PhilPaSS • National Retail Payments System	
<b>BSP as Sole Issuer of Currency</b>	<b>39</b>
<hr/>	
<b>BSP Policy Objective: Financial Inclusion</b>	<b>42</b>
<hr/>	
<b>BSP's International Relations</b>	<b>52</b>
<hr/>	
<b>Awards Received</b>	<b>56</b>
<hr/>	

General information and explanations are set against a white background.

Definitions of basic terms are on the post-its.

The BSP's accomplishments and data for 2015 are set against a beige background.





**ABOUT**

**the Bangko Sentral ng Pilipinas**



The Congress shall establish an independent central monetary authority. The authority shall provide policy direction in the areas of money, banking and credit. It shall have supervision over the operations of banks and exercise such regulatory powers as may be provided by law over the operations of finance companies and other institutions performing similar functions.

**- Section 20, Article XII  
1987 Philippine Constitution**

## Our Legal Bases

The State shall maintain a central monetary authority that shall function and operate as an independent and accountable body corporate in the discharge of its mandated responsibilities concerning money, banking and credit. In line with this policy, and considering its unique functions and responsibilities, the central monetary authority established under this Act, while being a government-owned corporation, shall enjoy fiscal and administrative autonomy.

**- Section 1, Article I, Chapter 1  
Republic Act No. 7653  
(The New Central Bank Act)**

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## Our Vision

The BSP aims to be a world-class monetary authority and a catalyst for a globally competitive economy and financial system that delivers a high quality of life for all Filipinos.

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## Our Mission

The BSP is committed to promote and maintain price stability and provide proactive leadership in bringing about a strong financial system conducive to a balanced and sustainable growth of the economy. Towards this end, it shall conduct sound monetary policy and effective supervision over financial institutions under its jurisdiction.

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## Our Core Values

Integrity, Excellence, Patriotism, Solidarity, Dynamism



## Legal Mandate



The Bangko Sentral ng Pilipinas, the central bank of the Republic of the Philippines, was established on 3 July 1993 as the country's independent central monetary authority, pursuant to the Constitution and Republic Act No. 7653. It replaced the old Central Bank of the Philippines established on 3 January 1949.

## The Three Pillars of Central Banking

The BSP is responsible for:

- Maintaining price stability conducive to a balanced and sustainable growth of the economy
- Maintaining financial stability by ensuring that the banking system is sound and stable
- Ensuring the safe, timely, and accurate payment and settlement of financial transactions



## Powers and Functions

Under the BSP's Charter, the BSP also performs the following functions:

- **Liquidity management.** The BSP formulates and implements monetary policy aimed at influencing money supply consistent with its primary objective of maintaining price stability.
- **Currency issue.** The BSP has the exclusive power to issue the national currency. All notes and coins issued by the BSP are fully guaranteed by the government and are considered legal tender for all private and public debts.
- **Lender of last resort.** The BSP extends discounts, loans, and advances to banking institutions for liquidity purposes.
- **Financial supervision.** The BSP supervises banks and exercises regulatory powers over non-bank institutions performing quasi-banking functions.
- **Management of foreign currency reserves.** The BSP seeks to maintain sufficient international reserves to meet

any foreseeable net demands for foreign currencies to preserve the international stability and convertibility of the Philippine peso.

- **Determination of exchange rate policy.** The BSP determines the exchange rate policy of the Philippines. Currently, it adheres to a market-oriented foreign exchange rate policy such that its role is principally to ensure orderly conditions in the market.
- **Other activities.** The BSP functions as the banker, financial advisor, and official depository of the government, its political subdivisions and instrumentalities, and government-owned and -controlled corporations.

The New Central Bank Act imposes limitations and other conditions on the exercise of such powers by the BSP. Among others, the Charter limits the circumstances under which the BSP may extend credit to the government and prohibits it from engaging in development banking or financing.

# Governance

The Monetary Board exercises the powers and functions of the BSP such as the conduct of monetary policy and supervision of the financial system. Its chairman is the BSP Governor, with five full-time members from the private sector and one member from the Cabinet.

The Governor, as the chief executive officer of the BSP, directs and supervises the operations and internal administration of the BSP.

## Monetary Board

### MEMBERS



AMANDO M. TETANGCO, JR.  
Chairman & Governor



CESAR V. PURISIMA



ALFREDO C. ANTONIO



FELIPE M. MEDALLA



ARMANDO L. SURATOS



JUAN D. DE ZUÑIGA, JR.



VALENTIN A. ARANETA

The BSP is organized into the following functional groupings:

- **Executive Management Services**, which renders various administrative support to the Monetary Board or to the Governor and provides support in the formulation and application of the BSP's strategic plans, practices, and procedures
- **Monetary Stability Sector**, which takes charge of the formulation and implementation of the BSP's monetary policy
- **Supervision and Examination Sector**, which enforces and monitors compliance with banking laws and regulations to promote a sound and healthy financial system
- **Resource Management Sector**, which serves the human, financial, and physical resource needs of the BSP
- **Security Plant Complex**, which produces Philippine currency, security documents, and commemorative medals and medallions

### DEPUTY GOVERNORS



NESTOR A. ESPENILLA, JR.  
Deputy Governor  
Supervision and Examination Sector



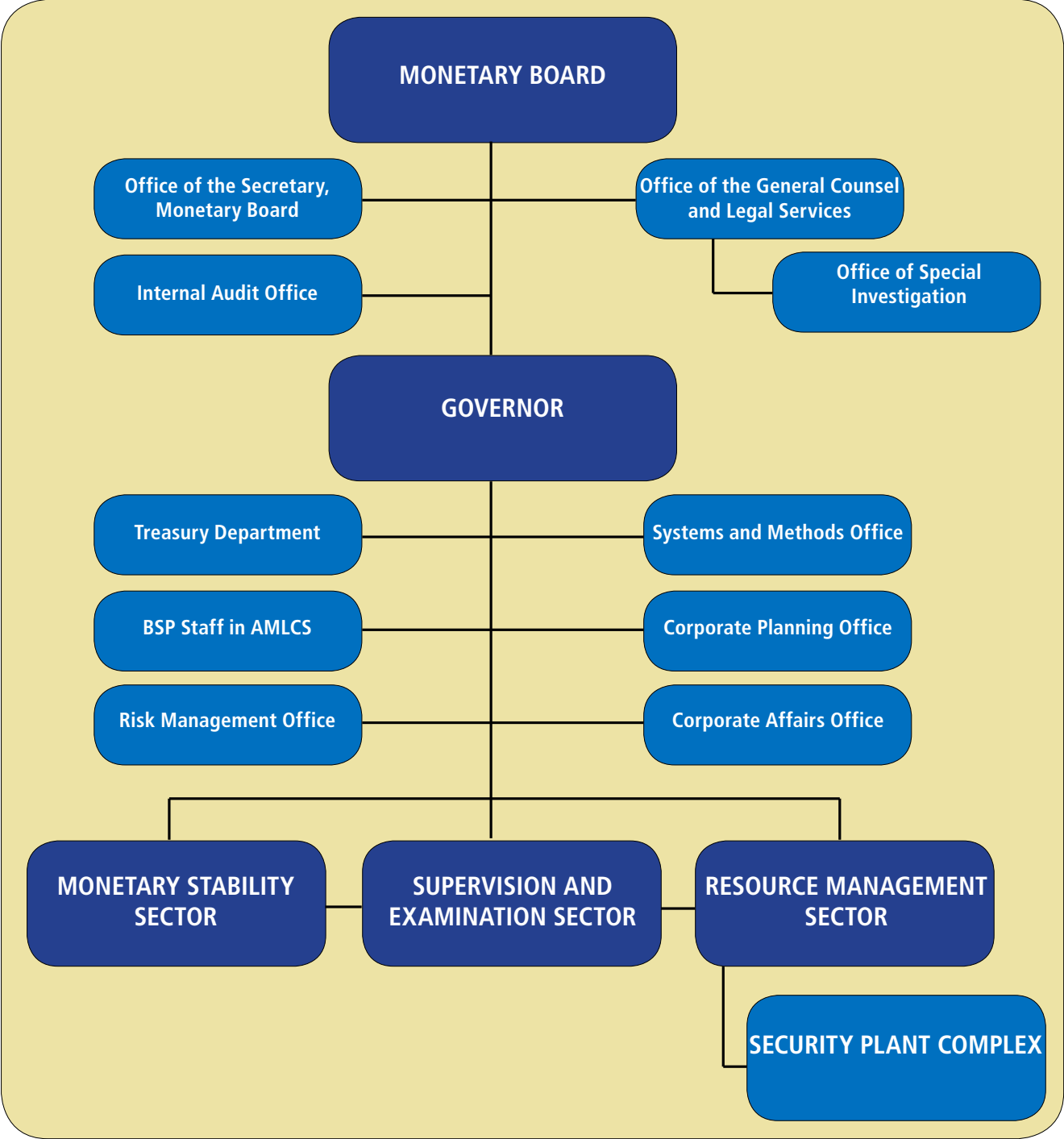
DIWA C. GUINIGUNDO  
Deputy Governor  
Monetary Stability Sector



VICENTE S. AQUINO  
Deputy Governor  
Resource Management Sector  
and Security Plant Complex

# Organizational Structure

As of 31 December 2015



LET'S PUT THINGS IN CONTEXT...



## BSP's Operating Environment: What was the state of the global economy in 2015?

As in previous years, global economic activity continued to be subdued. Economic growth among major advanced and emerging economies was uneven, and the world economic environment was generally weak. This can be attributed to three key factors:

**1** Some advanced economies (i.e., in the euro area and the United States) started to recover, while emerging market economies (China in particular) — which economies comprise the bulk of world gross domestic product (GDP) — experienced moderate economic growth.

**2** Given the different levels and varying speeds of economic growth in the global environment, developed countries adopted divergent monetary policies.

For example, in 2015: The U.S. raised its interest rates amid improved economic conditions. The European Central Bank and Bank of Japan cut their interest rates and/or expanded their bond purchase program. China reduced its policy rates and reserve requirement ratios.

**3** International oil prices drastically fell, raising deflation concerns — meaning, fear of rapidly dropping prices — which negatively affected production and economic development.

**Gross Domestic Product (GDP)** measures the total output within a country's boundaries, without considering the nationality of the entities or individuals producing the output. Its components are:  
**GDP = Consumption by Households + Investment in Productive Assets + Government Spending on Goods and Services + (Exports – Imports)**



## How did the Philippine economy perform in 2015?

The global economic environment was challenging and uncertain. Domestically, this brought about bouts of volatility in flows of capital, value of the Philippine peso, and stock market trading. The Philippine economy nonetheless sustained a position of relative strength in 2015.

Aside from inflation being low and steady at 1.4 percent, indicators of economic strength in 2015 include the following:

- **Growth in real GDP by 5.8 percent**

While this is lower than the 7.0 to 8.0 percent real GDP growth target set by the national government (NG) for the year, it is still comparatively strong considering the 5.0 percent average growth rate of the past six years. The Philippines ranked among Asia's top performers (one of the strongest in the region — next to India, China, and Vietnam).

- **Surplus in balance of payments (BOP), ample level of gross International reserves (GIR)**

There was sustained surplus in the country's current account and improvements in "the external payments dynamic." Meaning, there was an improvement in the country's position with respect to the total debt that it owes (i.e., debtors include the government, its corporations, and citizens) to foreign creditors.

The overall BOP position yielded a surplus of US\$2.6 billion. This resulted in GIR of US\$80.7 billion. This level of reserves can cover 10.3 months' worth of imports and payments for goods and services.

- **Manageable external debt**

Outstanding Philippine external debt — or the portion of the country's debt, including interest, owed to foreign lenders, such as commercial banks, governments, or international financial institutions — was at US\$77.5 billion as of the end of 2015. This amount was down by US\$200 million from the 2014 level of US\$77.7 billion.

- **Strong and stable banking system**

Steady growth rates were evident in bank lending and deposit activities. The non-performing loans ratio also improved and fell below the pre-Asian crisis level. The system's capital adequacy ratio of over 15.0 percent was above BSP and international standards.

- **Improved labor conditions**

The number of unemployed persons declined to 2.6 million, while the unemployment rate was recorded at 6.3

percent. This has been the lowest level since 2006. Wage and salaried workers increased by 549,000, offsetting the decline in the number of self-employed and unpaid family workers.

- **National government (NG) budget deficit lower than program**

The NG recorded a higher budget deficit of P121.7 billion in 2015 from P73.1 billion in 2014. This was notably lower, however, by P162.0 billion or 57.1 percent than the P283.7 billion programmed deficit for the full year of 2015. As a percent of GDP, the NG deficit accounted for 0.9 percent, markedly below the target deficit level for 2015 of 2.0 percent of GDP. Government spending improved significantly, registering a growth of 9.4 percent compared to the 5 percent and 1.7 percent growth in 2013 and 2014 respectively.

**Unemployment Rate** is the proportion (in percent) of the total number of unemployed persons to the total number of persons in the labor force.

**Balance of Payments (BOP)** is a statistical statement that summarizes transactions between residents and non-residents during a given period. A BOP has total receipts from selling goods and services abroad and from the return on investments abroad (inflows) on the one side of the equation, and the combined expenditure on imports of goods and services and investment income going abroad (outflows) on the other side.

**Gross International Reserves (GIR)** are foreign assets readily available to and controlled by the BSP to directly finance payments imbalances and to manage the magnitude of imbalances. GIR consists of holdings of gold, special drawing rights, foreign investments, and foreign exchange, including Reserve Position in the Fund. These assets are valued based on their current prices.

A country's "overall BOP position" can be in surplus, deficit, or in balance. A surplus arises when inflows are greater than outflows. A deficit is incurred when outflows exceed inflows. When inflows and outflows are equally matched, the BOP position is in balance.

# First Pillar of Central Banking

# PRICE STABILITY

The BSP's primary objective is to maintain price stability conducive to a balanced and sustainable growth of the Philippine economy.

There is "price stability" when changes in the general price level of goods and services (also called "the inflation rate") are minimal.

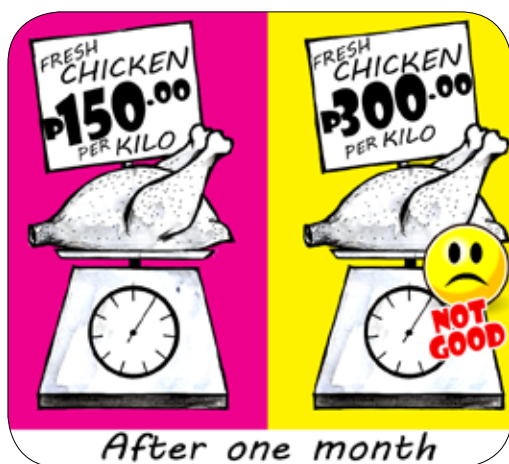
It is the BSP's main responsibility to keep inflation low and stable.



## WHY IS IT IMPORTANT TO KEEP INFLATION LOW AND STABLE?

Preventing erratic changes in the inflation rate has several benefits.

It enables households and firms to make better and informed decisions on consumption, investment, saving and production.



For example, when prices are low and stable, manufacturers are protected against risks related to the fluctuating cost of raw materials and finished goods. Uncertainty is lessened and firms can price their products competitively, since risks like a sudden rise in the cost of raw materials are reduced.

With managed inflation, a higher level of savings and investments is encouraged, greater productive activities are promoted, and job opportunities are increased. This improves the well-being of Filipinos.

In particular, price stability also preserves the purchasing power of the poor who lack adequate assets to protect themselves against the effects of high and unstable inflation.

[Sustained low inflation benefits Filipino lives and supports economic growth!](#)

## HOW DOES BSP KEEP INFLATION LOW AND STABLE?

The BSP maintains stable prices by influencing **the cost or the volume** of money circulating in the economy. The money circulating in the economy is also called "the money supply."

In general, money supply consists of: currency in circulation, peso savings and time deposits in banks, and peso deposit substitutes, such as commercial papers and promissory notes.

It is the BSP's task to ensure that money supply (money circulating in the economy) is neither too much nor too little.



Too much money	Too little money
Higher inflation	Deflation
Increased demand for goods and services	Reduced demand for goods and services
Prices are pushed upward	Productive and economic activities are reduced.

Money has a price or cost as expressed in the interest rate.

## WHAT IS THE INFLATION TARGETING (IT) FRAMEWORK?

The BSP adopted the IT Framework in February 2002 as an approach to keep inflation low and stable.

Under the framework, the BSP announces an explicit inflation target to the public, which the BSP aims to achieve over a given policy time frame.

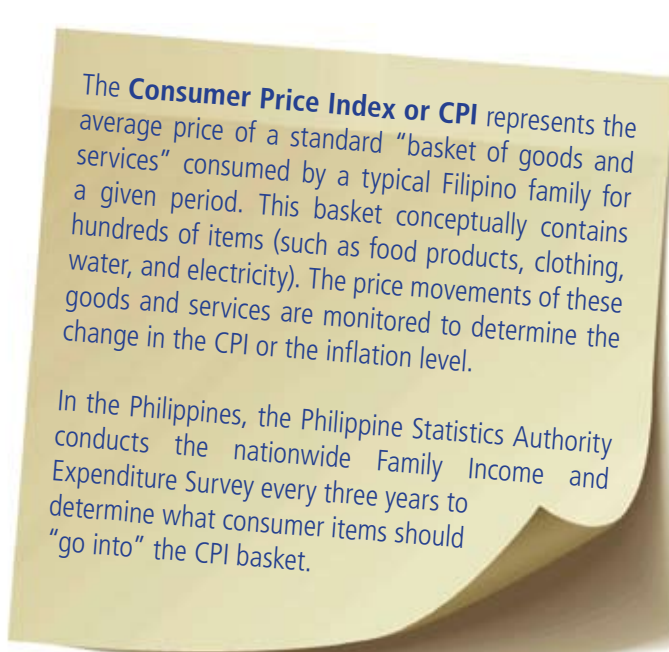
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## HOW IS THE INFLATION TARGET SET?

The inflation target is set two years ahead by the national government through consultations with the BSP.

The inflation target is the government's desired average year-on-year change in the consumer price index (CPI) over the two-year period.

For 2015-2016, the inflation targets were set at 3.0 percent  $\pm$  1 percentage point.



The **Consumer Price Index or CPI** represents the average price of a standard "basket of goods and services" consumed by a typical Filipino family for a given period. This basket conceptually contains hundreds of items (such as food products, clothing, water, and electricity). The price movements of these goods and services are monitored to determine the change in the CPI or the inflation level.

In the Philippines, the Philippine Statistics Authority conducts the nationwide Family Income and Expenditure Survey every three years to determine what consumer items should "go into" the CPI basket.

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## WHAT ARE THE FEATURES OF THE IT FRAMEWORK?

While the inflation targeting framework is kept as simple as possible so that it can be more easily understood by the public, it is comprehensive since it considers the widest set of available information about the economy. It must also be forward-looking since the tools used by the BSP to influence inflation take time to affect inflation.

The IT Framework promotes transparency and manages the public's expectations through the announcement of targets, the reporting of measures to attain these targets, and the outcomes of policy decisions.

## HOW DOES THE BSP KEEP INFLATION WITHIN THE TARGET RANGE?

The BSP manages inflation by influencing interest rates that apply to loans and other financial transactions. This influences market liquidity.

The BSP uses monetary measures to affect the lending rates of banks and the amount of money circulating in the economy (by influencing the money supply).

Monetary policy measures influence the cost and availability of money and credit, as well as other financial factors.

By influencing money supply, the BSP is able to affect the general price level of goods and services.

By setting its policy interest rate, the BSP is able to affect the overall demand by households and firms for goods and services. This, together with the aggregate supply of goods and services, determines the level of prices.

**An important note:** The BSP does not have absolute influence over inflation. Important factors other than interest rates may affect consumer prices. Some examples are weather disturbances that affect agricultural production and movements in world oil prices.

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## WHAT ARE THE INSTRUMENTS OF MONETARY POLICY AND HOW DO THEY WORK?

The primary monetary policy instrument of the BSP is the **overnight reverse repurchase (RRP) rate**. This is the rate at which BSP borrows money from commercial banks within the country.

The BSP raises or reduces its overnight RRP rate depending on its assessment of the inflation outlook.

If the BSP sees that the inflation forecast will be higher than the target, it contracts (or reduces) money supply by raising policy interest rates.

But, should the forecast be below target, or if liquidity is tight and more money is needed to circulate in the economy, the BSP expands money supply by reducing policy interest rates.

To contract or expand liquidity in the financial system, the BSP can also:

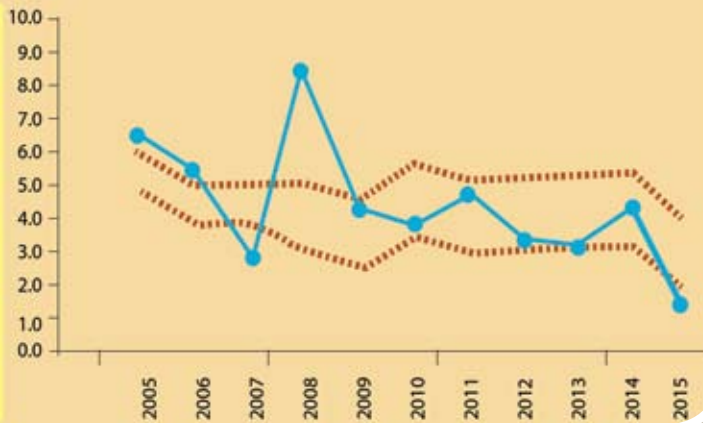
- increase/decrease the reserve requirement;
- encourage/discourage deposits in the special deposit account (SDA) facility by banks and trust entities of BSP-supervised financial institutions;
- increase/decrease the policy interest rates which are reflected in the rediscount rates on loans it extends to banking institutions on a short-term basis against eligible collaterals of banks' borrowers (through the BSP's credit and rediscounting facilities); and
- allow the outright sale or purchase of BSP's holdings of government securities.

## 2005-2015: A 10-YEAR JOURNEY

**ACTUAL VS TARGET INFLATION\***  
(YEAR-ON-YEAR IN PERCENT)

Actual Inflation  
Target Range

\*Actual inflation figures used for 2002-2004, 2005-2006 and 2007 onwards were the 1994-, 2000-, and 2005-based CPI series, respectively



This was mainly driven by slower increases in food prices owing to the adequate supply of food commodities, including rice, and downward adjustments in electricity rates and in domestic oil prices.

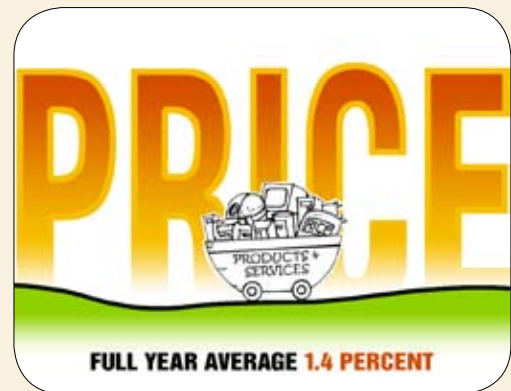
### HOW WAS INFLATION IN 2015?

Inflation settled at 1.4 percent. This inflation rate is lower than the 4.1 percent average in 2014 and is below the NG's target range of 3.0 percent  $\pm$  1.0 percentage point.

In 2015, price movements were more subdued than initially expected when the inflation target was set in 2012.

Headline inflation (which captures the changes in the cost of living based on the movements of the prices of items in the basket of commodities and services consumed by a typical Filipino household) eased considerably during the year.

These rates also reflected the sustained decline in international crude oil prices. Taken together, these factors contributed to slower price increases in 2015.



### WHAT WAS THE MONETARY POLICY STANCE IN 2015?

In 2015, the Monetary Board maintained the BSP's key policy interest rates at 4.0 percent for the overnight borrowing or RRP facility and at 6.0 percent for the overnight lending or repurchase (RP) facility.

The interest rates on term RRPs, RPs, and SDAs were also kept steady. The reserve requirement ratios were also left unchanged.



The Monetary Board meets eight times in a year to decide on the appropriate monetary policy stance of the BSP to keep inflation within the target.

## WHY DID THE BSP MAINTAIN MONETARY POLICY SETTINGS THROUGHOUT 2015?

The BSP decided to maintain its monetary policy settings in 2015 despite inflation falling below the NG inflation target. This was because domestic price movements were being driven largely by temporary supply-side factors outside the influence of monetary policy (such as the drop in oil prices).

At the same time, the BSP noted that domestic spending was strong during the year. There was favorable business and consumer sentiment as well as ample domestic liquidity and credit.

Expectations of the public on future inflation also remained aligned with the inflation target.

Finally, there were no firm indications of “second-round effects” (core inflation reactions to changes in oil and food prices in international markets) that should warrant monetary action from the BSP. All of these supported the BSP’s decision to keep its monetary policy settings steady in 2015.

## WHY IS BSP COMMUNICATION OF MONETARY POLICY DECISIONS AND ITS OUTLOOK FOR FUTURE INFLATION IMPORTANT?

For an inflation targeting central bank such as the BSP, communication and credibility are crucial to anchor the public’s inflation expectations.

If the BSP is credible as a central bank, its monetary policy decisions will influence expectations in a way that boosts confidence that inflation will be kept within target or will be brought in line with the target.

If the public has firm expectations that inflation will be within target, lenders will settle for lower long-term interest rates. Producers of goods and services, as well as people who lease out property, are also less likely to demand large increases in prices or rent.

**Inflation expectations** refer to people’s forecasts of rates of future increase in the prices of goods and services.

## WHAT DID THE BSP DO IN 2015 TO INFORM THE PUBLIC (SET INFLATION EXPECTATIONS) AND HELP IT GAUGE THE BSP’S COMMITMENT TO PRICE STABILITY?



**Governor Tetangco at the Manila Times Business Forum**

In 2015, the BSP:

- published regular reports
- conducted surveys
- disseminated information
- conducted lectures and other learning activities
- actively participated in inter-agency and multilateral committees
- hosted international meetings
- organized trainings and workshops
- engaged in research and process initiatives

The BSP has a number of disclosure and reporting mechanisms to help the public gauge the BSP’s commitment to achieve the inflation target.

## OTHER MONETARY POLICY TOOLS: WHAT WERE THE BSP'S SHORT-TERM LENDING OPERATIONS IN 2015?

The BSP conducts its short-term lending operations mainly through its rediscounting facility. The purpose is to ensure that liquidity in the financial system remains consistent with the price stability objective.



Total loans granted by the BSP to banks amounted to P469.8 million. Meanwhile, loan collections applied to principal reached P1.2 billion, the bulk of which pertained to peso rediscounting loans amounting to P852.6 million.

Total gross income from lending operations reached P2.0 billion in 2015, higher by P14.5 million than the 2014 income. The 2015 gross income exceeded the projected level of P1.4 billion.

Moreover, targeted collection levels in 2015 were exceeded. The credit risks on current rediscounting loans were also proactively managed through on-site credit verification.

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## WHAT WERE THE MONETARY CONDITIONS IN THE PHILIPPINES IN 2015?

Domestic liquidity increased by 9.4 percent in 2015 following an 11.2-percent expansion recorded at end-2014. The increase in money supply remained consistent with the robust expansion in domestic demand.

Net foreign assets in peso terms rose by 6.6 percent in December 2015 owing to robust foreign exchange inflows comprised mainly of overseas Filipinos' (OF) remittances and business process outsourcing (BPO) receipts.

**The FX rate** is the price of a unit of foreign currency in terms of the domestic currency. In the Philippines, this is conventionally expressed as the value of one US dollar to its peso equivalent. For example, in 2015, US\$1 = P45.50.

Under the policy of market-oriented exchange rates, the continuing policy of the BSP is that the value of the dollar in terms of the peso is determined like any other commodity or service being sold in the market, that is, by the forces of supply and demand.

## WHAT IS THE FOREIGN EXCHANGE (FX) RATE AND WHAT IS BSP'S ROLE IN IT?

### The BSP does not set the FX rate.

The BSP participates in the FX market by buying and selling FX to ensure order and to temper destabilizing swings in the exchange rate (ultimately for the purpose of promoting price stability). With its market-oriented policy, the BSP neither sets nor targets any FX rate level.

## WHAT WAS THE FX RATE IN 2015?

In 2015, the peso averaged P45.50/US\$1, depreciating by 2.4 percent from the average rate of P44.40/US\$1 in 2014 and moving in tandem with most Asian currencies.

The peso weakened due mainly to uncertainty over the timing and potential impact of the normalization of interest rates in the US that is in an uptrend from a prolonged period of real zero interest rate as well as to concerns over the slowdown in the Chinese economy.

Despite depreciation pressures on the peso in 2015, the country's robust inflows of foreign exchange from OF remittances, BPO and tourism receipts, foreign direct investments, and the ample level of international reserves provided support to the peso.



## WHAT WERE THE FX MEASURES TAKEN BY THE BSP IN 2015?

As of December 2015, the BSP implemented eight waves of FX reform measures to facilitate stakeholders' access to FX resources of the banking system for legitimate FX transactions and support business activities.

On 8 April 2015, the BSP issued Circular No. 874 further liberalizing provisions of the *Manual of Regulations on Foreign Exchange Transactions* (FX Manual) which allowed, among others, the sale of FX to residents to settle trade obligations

under intercompany netting arrangement and international credit card transactions and inclusion of the minimum long-term debt-to-equity ratio for private sector non-bank borrowers to avoid an over-leveraged position.

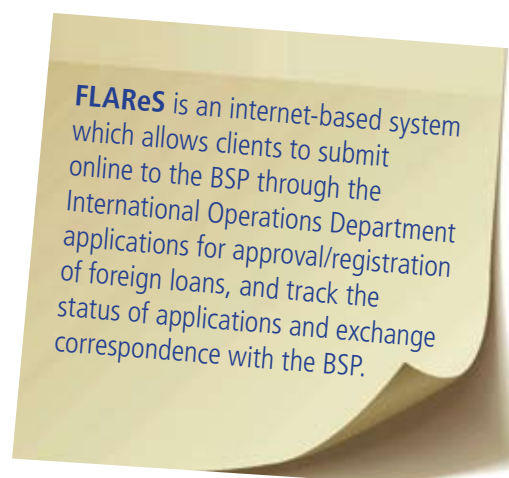
The BSP also established the Currency Exchange Facility (CEF) program to provide immediate liquidity assistance to displaced or affected overseas Filipino workers (OFWs) returning from countries experiencing

emergencies/ unforeseen problems. The CEF allows returning OFWs to convert their holdings of third currencies (i.e., non-US dollar) to Philippine pesos.

As of December 2015, seven CEFs were opened, the latest pertaining to the program for the Libyan dinar which was reopened for another six month-period from 30 January to 29 July 2015 after the program ended in December 2014, to cater to the demands of OFWs who were returning from Libya.

In 2015, 39 new companies enrolled with the Foreign Loan Approval and Registration System (FLAReS), bringing the total number of FLAReS-enrolled companies to 146. FLAReS facilitates the transmission of applications

pertaining to loan approval and registration, the exchange of communications with clients, and the payment of processing fees through accredited banks.



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## WHAT IS THE BASIS FOR THE BSP'S LIST OF CONVERTIBLE CURRENCIES?

As a matter of policy, there is no specific provision in the BSP's *Manual of Regulations on Foreign Exchange Transactions* prohibiting entities to transact in foreign currencies other than those in the list of acceptable currencies in the Reference Exchange Rate Bulletin (RERB) posted on the BSP webpage ([www.bsp.gov.ph](http://www.bsp.gov.ph)).

In practice though, the BSP (through its Treasury Department) takes into consideration the following criteria in assessing foreign currencies for inclusion in the RERB:

1. The economic and financial transactions of the Philippines with its economic counterparts in the areas of trade (exports and imports), investments, external debt, OF remittances, and tourism based on data for the past five years; and
2. Relevant controls imposed by these countries and the ability of the BSP's counterparties to accept the notes for shipment out of the BSP Cash Department and BSP regional offices and branches.

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## MOVING FORWARD TO 2016, WHAT IS THE INTEREST RATE CORRIDOR SYSTEM?

In September 2015, the BSP announced the implementation of an interest rate corridor (IRC) system in 2016.

The IRC system will introduce key changes in the framework for monetary operations to enhance transmission of policy rate adjustments to key macroeconomic variables.

While the shift will not represent a change in the monetary policy stance, the interest rate corridor will be appropriately configured to guard against any undue tightness in domestic liquidity conditions during the transition and provide effective guidance for market interest rates, consistent with the BSP's prevailing monetary policy stance.

## Second Pillar of Central Banking

# FINANCIAL STABILITY

The BSP in 2015 pursued its mandate to promote banking system soundness and maintain financial stability by focusing on these key objectives.

A sound and stable banking system ensures that the public has continued and reliable access to financial products and services that are suitable to their specific needs thereby promoting inclusive, sustainable and equitable economic growth.



## WHAT IS THE ROLE OF BANKS IN THE ECONOMY?

Banks play a central role in the economy as they channel funds from individuals or entities who “save” funds to individuals or entities who need to “borrow” funds for their productive activities. It is this smooth and efficient transfer of funds which drives the economy and creates money supply. Banks also participate in financial markets and utilize payments and settlements systems when engaging in banking transactions. Given their overall importance in economic development and the trust their clients place in them, banks are expected to perform their functions with prudence and integrity. Their safety and soundness are key elements in earning the confidence of the general public.

The BSP exercises supervision over the operations of banks. Its regulatory powers are provided in Republic Act No. 7653 (New Central Bank Act) and Republic Act No. 8791 (General Banking Law). Supervisory powers include:

1. Issuance of rules of conduct or standards of operation for uniform application of regulated institutions;
2. Examination of banks once every twelve months, and
3. Enforcement of prompt corrective action.

### Banks are classified as follows

- (1) Universal banks
- (2) Commercial banks
- (3) Thrift banks
- (4) Rural banks
- (5) Cooperative banks

Regulatory powers of BSP over the operations of finance companies and non-bank financial institutions performing quasi-banking functions are provided in other pertinent laws.

**Quasi-Banks** are entities other than banks that are engaged in the borrowing of funds from the public through the issuance, endorsement or assignment with recourse or acceptance of debt securities of any kind for purposes of relending or purchasing of receivables and other obligations.

The BSP maintains financial stability by ensuring the soundness of the banking system through continued pursuit of reforms in the areas of:

- **Supervisory Policy:** enhancing banks’ regulatory framework by adopting global standards and best practices such as Basel capital reforms, as well as risk governance principles that are aligned with the Basel Core Principles for Effective Banking Supervision;

- **Banking Supervision:** implementing a risk-based supervision framework which features a balanced complementation of on-site examination and off-site supervision;
- **Financial Surveillance:** strengthening financial surveillance systems and analytics by introducing tools to better monitor the risk exposures of the industry such as stress test of banks' balance sheets and financial network analysis;
- **Financial Market Reforms:** promoting integrity of and confidence in financial markets through collaborative engagements with counterpart regulators such as the Securities and Exchange Commission (SEC), Insurance Commission (IC), the banking industry and other relevant stakeholders; and
- **Active Stakeholder Engagement:** strengthening strategic engagements with relevant stakeholders through a timely and clear communication strategy on the BSP's policy direction, supervisory approach and expectations.

## WHY DOES THE BSP PURSUE BANKING REFORMS?

A well-functioning banking system supports productive business activities and consumption spending. Hence, it is crucial in promoting economic growth.

Reforms are aimed at strengthening the banking system and transforming this into a competitive and economically viable player.



**BancNet**



**Signing of TOR**



**Mizuho Bank's 20th Anniversary**



**CTB National Convention**

## WHAT ARE THE CHARACTERISTICS OF THESE BANKING REFORMS?

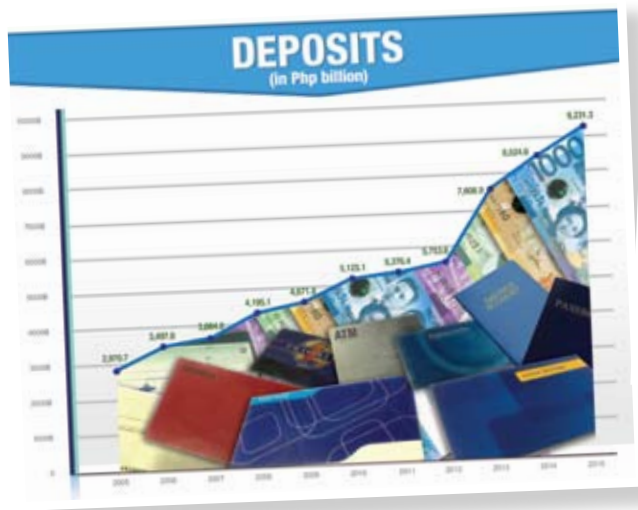
**Progressive.** They are aligned with international standards and best practices, and they bring about the most significant impact on the banking system.

**Prudent.** They are well thought-out, relevant, and effective. Reforms are calibrated based on unique domestic conditions and the risks that go with the global and domestic landscape.

**Principles-based.** They are not prescriptive or rules-based which have a tendency

to focus on a one-size-fits-all approach. Principles-based supervisory policies are more flexible in that they do not prescribe specific supervisory approaches but focus on the achievement of the underlying objective.

**Proportionate.** The policies recognize the distinctiveness of bank clients such that less stringent regulatory requirements can be applied on banking activities that cater to entities/individuals that pose limited risk to the system.



## HOW DID THE PHILIPPINE BANKING SYSTEM PERFORM IN 2015?

Amid uncertainties in the global financial environment (with the Fed increasing interest rates in December 2015, deflation in the Eurozone and Japan, economic restructuring in China, and the sharp drop in oil prices), it was relatively a good year for the Philippine banking system.

The system was a source of strength and stability and continued to be an efficient intermediary of funds in the economy (a major source of credit for productive sectors).

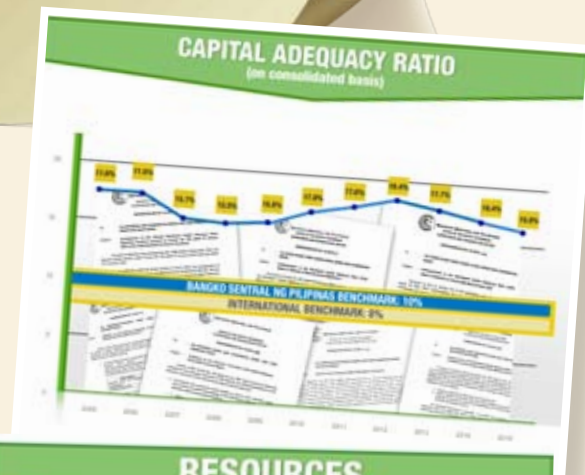
There was healthy and steady growth in lending and deposit activities, while asset quality and capital adequacy ratios continued to surpass domestic and international standards. Semestral stress tests in 2015 confirmed that bank capitalization is enough to absorb losses in case of an unexpected economic downturn.

## WHAT ARE THE KEY INDICATORS OF THE PHILIPPINE BANKING SYSTEM'S SOLID PERFORMANCE IN 2015?

- Increase in total deposits by 8.3 percent year-on-year (y-o-y) to P9.2 trillion from P8.5 trillion in end-2014
- Continued bank lending double-digit growth since 2011, as outstanding loans (net of reverse repurchase placements with BSP) posted a 12.4 percent y-o-y growth
- Decrease in non-performing loans ratio from 2.3 percent as of end-2014 to 2.1 percent
- Banking system posted capital adequacy ratios (CARs) of 15.2 percent and 15.9 percent on solo and consolidated bases at end-2015, lower than the 15.6 percent and 16.4 percent CAR recorded a year ago, but still above the regulatory standards of the BSP and the Bank for International Settlements.
- Bank consolidations were accompanied by wider bank network signifying expansion in banks' consumer access points. The decline in the number of head offices from 648 in 2014 to 632 in 2015 was complemented by increase in branch/other banking offices from 9,713 in 2014 to 10,124 in 2015.

Low NPLs signify strong asset quality for the banking system. This means that bank borrowers generally are able to pay their loan obligations on a timely basis.

The **Capital adequacy ratio** is an indicator of a bank's ability to absorb a reasonable amount of unexpected losses. The BSP requires banks to maintain capital that is at least 10 percent of the risk-weighted value of their risk assets, composed mainly of loan receivables. The international benchmark is 8 percent.



## HOW DID THE BSP FOSTER AND PROMOTE FINANCIAL STABILITY?

In 2015, the BSP issued 45 Memoranda, 31 Circulars, and 78 Circular Letters on four key areas, namely, capital, corporate governance, risk management, and supervisory oversight enforcement.

The policies build on a regulatory foundation that forms part of a broader financial restructuring agenda.

### 1. Capital strengthening

The BSP further strengthened local standards on risk based capital to allow them to withstand both internal and external shocks thereby promoting a greater stability in the financial system.

- Staggered increase in minimum capitalization in addition to a net worth-to-risk assets ratio of at least 10 percent.

**Net worth-to risk assets ratio** is the ratio of Net worth (total assets minus total outside liabilities of an individual or a company) to risk assets (assets that have a tendency to lose value either due to default or price movement).

- Adoption of a risk based capital framework
  - Basel I (2001)
  - Basel II (2009)
  - Basel III (2014)

**Basel Accord** is a set of international banking regulations put forth by the Basel Committee on Bank Supervision (BCBS) that aims to strengthen supervision and risk management within the banking system.

Basel I focused on credit risk capital change with the introduction of a risk asset classification system.

Basel II expanded the capital framework into three pillars:

Pillar I - Capital charge for credit, market and operational risk

Pillar II – Supervisory review

Pillar III - Disclosure requirements

- Basel III reforms
  - Leverage Minimum Capital Ratio
  - Liquidity Coverage Ratio (LCR)
  - Domestic Systemically Important Banks (DSIBs)

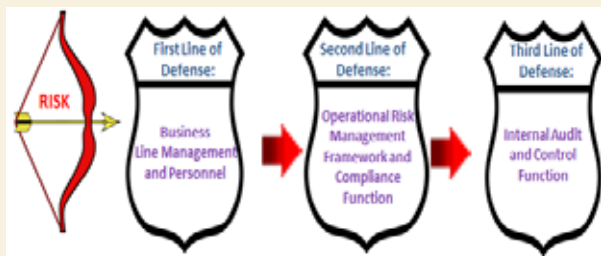
### 2. Promoting good governance and risk management

The BSP recognizes that good corporate governance is the basic foundation of a safe and sound financial system and continues to raise the bar on corporate governance standards. Other key enhancements on banks' risk management were also updated across functional supervisory areas to align with international standards and changing business norms throughout the years.

Circular No. 900 highlights the importance of establishing three lines of defense in managing operational risk:

- **First Line of Defense:** Business line management and personnel ensure that policies and processes in their respective areas of responsibilities are consistent with the organization's overall operational risk management (ORM) framework.
- **Second Line of Defense:** The ORM framework recommends to the board of directors appropriate policies and procedures relating to operational risk management and controls, as well as design and implement the operational risk assessment methodology, tools, and risk reporting systems. The compliance function determines inappropriate conduct/behavior of personnel, officers, and the board, that may lead to fraud or any form of business disruption.

- **Third Line of Defense:** The internal audit function conducts an independent assessment of the ORM framework including the implementation of the operational risk management policies and procedures.



**Information Technology (IT) risk -** management is the application of risk management methods to information technology in order to manage IT risk, such as business risk associated with the use, ownership, operation, involvement, influence and adoption of IT within an enterprise or organization. (Circular No. 808)

### 3. Instituting proactive macroprudential measures and macro-financial surveillance mechanisms

Given the increasing complexity and sophistication of the global financial services industry, proactive macroprudential measures and financial surveillance are continually being instituted to timely identify and mitigate the buildup of systemic risks.

Reform initiatives in 2015 include new reporting requirements on:

**New Reporting Requirements**

-  Decompositions of consumer finance portfolio to monitor motor vehicle and salary loans
-  Movement in and ageing on Non-Performing Loans (NPLs)
-  Quantitative information on credit card operations and complaints
-  Bank deposit interest rates
-  Cross border financial positions of banks

including the submission of necessary information to support the generation of the Residential Real Estate Price Index (RREPI) to capture comprehensive data and identify potential vulnerabilities to the financial system arising from the property market

**Residential Real Estate Price Index (RREPI)** is an indicator of change in the prices of residential properties in the Philippines over a period of time.

- Limits and higher risk weights on banks non-deliverable forward (NDF) transactions.

**Peso Non-Deliverable Forwards** refer to a forward foreign exchange (FX) contract involving the value of the Philippine Peso against a foreign currency at a specified maturity date on an agreed amount.

- Expanded real estate monitoring framework and real estate stress test (REST) limits to temper banks' risk appetite.

**REST Limits** combine a macroprudential overlay of a severe stress scenario, the principle of loss absorbency through minimum capital ratio thresholds of 10 percent stressed CAR and 6 percent stressed CET1, and heightened supervisory response.

- Placement of investment management accounts (IMA) and other trust accounts.

## ON BASEL III REFORMS

The Basel III reform is a comprehensive set of reforms encompassing capital and liquidity. The capital reforms aim to strengthen the quality of a bank's capital base and providing for additional buffers that can be drawn upon by banks during bad times.

The Basel III **leverage ratio** is designed to act as a supplementary measure to the risk-based capital requirements. The leverage ratio intends to restrict the buildup of leverage in the banking sector.

The leverage ratio shall not be less than 5.0 percent computed on both solo (head office plus branches) and consolidated bases (parent bank plus subsidiary financial allied undertakings but excluding insurance companies).

The Basel liquidity coverage ratio requires banks to hold a certain level of high quality liquid assets to withstand a 30-day liquidity stress event.



To address systemic risk and interconnectedness under the Basel III reform agenda, the BSP adopted the framework for dealing with **Domestic Systemically Important Banks (D-SIBs)** under Circular No. 856 dated 29 October 2014.

The Circular provides the guidelines for identifying banks which are systemically important within the domestic banking industry. D-SIBs are banks whose distress or disorderly failure would cause significant disruptions to the wider financial system and economy because of their size, interconnectedness, complexity and distinct expertise in certain financial services. The list of D-SIBs is updated every year and each bank is notified of its classification.

The broad aim of the policy is to reduce the probability of failure of D-SIBs by increasing their going-concern loss absorbency and to reduce the extent or impact of failure of D-SIBs on the domestic economy.

## ON RISK MANAGEMENT

**Credit risk management** encompasses the entire credit process from governance, underwriting, administration to control. It aims to minimize risk of loss arising from default. (Circular No. 855)

**Market risk management and treasury operations** emphasize the need for financial institutions to act ethically and with utmost integrity when

participating in financial markets. (Circular Nos. 889 and 891)

**Operational risk management** is a holistic approach to enterprise-wide risk management to minimize risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. (Circular No. 900)

## HOW DID THE BSP IMPLEMENT A RISK-BASED SUPERVISION SYSTEM IN 2015?

The BSP conducts comprehensive supervision through on-site examinations, off-site surveillance, problem bank resolutions, and non-bank financial institution (NBFI) surveillance.

### On-site examinations in 2015:

544 banks and 36 non-banks

- an average of 50 financial institutions per month;
- 99.5 percent of approved number of banks scheduled to be examined for the year.

### Off-site surveillance in 2015:

The BSP also strengthened its off-site surveillance through risk assessment exercises and institutional overviews.

### Problem bank resolution in 2015:

The BSP collaborated with the Landbank of the Philippines and the Philippine Deposit Insurance Corporation (PDIC) in drafting incentive programs aimed at encouraging mergers and consolidation to bring about

During examination, the BSP determines whether the supervised institution is operating on a safe and sound basis. BSP inquires into its solvency and liquidity as well as assesses the effectiveness of its governance, risk management and control function.

a less fragmented banking industry. These include the Strengthening Program for Rural Banks (SPRB), SPRB Plus, Strengthening Program for Cooperative Banks (SPCB), SPCB Plus, and the recently approved Consolidated Program for Rural Banks.

### Non-bank financial institutions (NBFI) surveillance in 2015:

The BSP periodically inspected pawnshops, foreign exchange dealers, money changers, and remittance agents.

### Licenses, applications, registrations, and revocations processed by the BSP in 2015:

With the issuance in 2014 of the implementing rules and regulations of Republic Act No. 10641, which allows full entry of foreign



banks in the Philippines. BSP facilitated the entry in 2015 of six new foreign banks:

- Sumitomo Mitsui Banking Corporation;
- Cathay United Bank Co., Ltd.;
- Shinhan Bank Co. Ltd.;
- Industrial Bank of Korea;
- Yuanta Commercial Bank Co. Ltd.; and
- United Overseas Bank Limited.

Other bank applications, licenses and registrations which were processed in 2015 include the following:

- 440 bank applications/licenses;
- 227 registrations of FX dealers (FXDs), money changers (MCs), and Remittance Agents (RAs);

- 425 registrations of FXD/MC/RA branches;
- 653 registrations of pawnshops;
- 464 registrations of pawnshops' corollary activities, i.e., FXDs/MCs/RAs; and
- 363 revocations/closures of pawnshops including their branches.



**Handover of Sumitomo Mitsui Banking Corporation's authority to operate**



**United Overseas Banking Corporation**



**Cathay United Bank Co., Ltd.**

## HOW DID THE BSP STRENGTHEN FINANCIAL SURVEILLANCE SYSTEM AND ANALYTICS IN 2015?

### Inter-agency Collaboration for Financial Stability

The BSP maintains leadership in promoting financial stability through the Financial Stability Committee (FSCComm) and the Financial Stability Coordinating Council (FSCC). In 2015, the FSCComm and FSCC had 6 and 4 Executive Committee meetings, respectively. The collaborations aim to assess domestic and global developments that can affect financial stability. The BSP also had 33 collaborative meetings with financial industry associations under the Bank Supervision Policy Committee (BSPC), a component of the BSP's policy-making process, for purposes of informing the industry of its policy direction. The BSPC was accorded the highest rating

of "10" for collaborative and constructive stakeholder engagement.

### Pursuit of Financial Market Reform

The BSP also pushed for the development and implementation of financial market reforms to stay attuned and respond to the continuous evolution of the financial market landscape.

In the area of capital markets, initiatives and policies focused on providing investors with a wider array of financial products and services, as well as increasing transparency and strengthening surveillance over financial markets which may be a potential source of contagion, particularly in periods of market stress.

Key 2015 milestones in the area of capital and financial markets include the following:

- Issuance of guidelines on the operationalization of Personal Equity Retirement Act (PERA)

**PERA** refers to a voluntary retirement account established by and for the exclusive use and benefit of a contributor for the purpose of being invested solely in PERA investment products in the Philippines. It aims to promote capital market development and savings mobilization by establishing a legal and regulatory framework of retirement plans for persons.

**Contributor** is any person with the capacity to contract and possesses a tax identification number. The contributor establishes and makes contributions to a PERA.

- Guidelines on the establishment of trust corporations (Circular No. 884)

All qualified trust corporations which meet the requirements provided in the Circular are encouraged to engage in trust, other fiduciary business and investment management activities to promulgate rules and regulations necessary for the proper conduct and development of such activities.

**A trust corporation** is a stock corporation created, and duly authorized by the Monetary Board, to engage primarily in trust, other fiduciary business and investment management activities.

Investment management activity refers to any activity resulting from a contract or agreement primarily for financial return whereby the institution (the investment manager) binds itself to handle or manage investible funds or any investment portfolio in a representative capacity.

**Trust** is a relationship or an arrangement whereby a trustee is appointed by a person called a trustor to administer, hold and manage funds and/or property of the trustor for the benefit of a beneficiary.

- Name on Registry or on Central Depository (Circular No. 873)
- Expands options for investors on the delivery of securities through the use of a "Name on Registry" or "Name on Central Depository" in the name of individual investors.

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## HOW DID THE BSP MAINSTREAM FINANCIAL INCLUSION AND CONSUMER PROTECTION AS A STRATEGIC OBJECTIVE TOWARDS FINANCIAL STABILITY? (A more detailed discussion can be found in the BSP Key Advocacy: Financial Inclusion)

Financial Inclusion cuts across multiple developmental goals as it effectively contributes to broad-based economic growth and development by improving the well-being of the unserved or underserved market segments of the country.

A National Strategy for Financial Inclusion (NSFI) was implemented in 2015 to institutionalize cohesive strategies, policies, and programs as well as promote multi-sectoral synergies to systemically accelerate the level of financial inclusion.

**National Strategy for Financial Inclusion (NSFI).** The NSFI is a comprehensive public document developed through a broad-based consultative process with private and public sector stakeholders involved in financial sector development. It lays down key objectives necessary for promoting inclusive financial system, namely: (1) financial products that are diverse, appropriately designed, priced and tailor-fitted to market needs; (2) presence of strong, sound, and duly authorized financial institutions utilizing innovative delivery channels; and (3) financially-literate and adequately protected citizenry, among others.

*Source: Philippine NSFI Booklet*



## Third Pillar of Central Banking

# EFFICIENT PAYMENTS AND SETTLEMENTS SYSTEM

The third pillar of Philippine central banking is an efficient payments and settlements system. This helps ensure the safe, timely, and accurate payment and settlement of financial transactions.

The BSP is the operator of the Philippine Payments and Settlements System (*PhilPaSS*). It provides safe, sound, and efficient payments and settlements of financial transactions in real time.

## WHAT IS A PAYMENTS AND SETTLEMENTS SYSTEM? WHY IS IT VITAL TO THE ECONOMY?

A payment system consists of a set of instruments, banking procedures, and, typically, interbank funds transfer systems that ensure the circulation of money.

Payment systems are a vital part of the economic and financial infrastructure. Their efficient functioning—allowing transactions to be completed safely and on time—contributes to the fulfillment of the BSP’s mandate to promote financial and monetary stability to achieve economic growth.

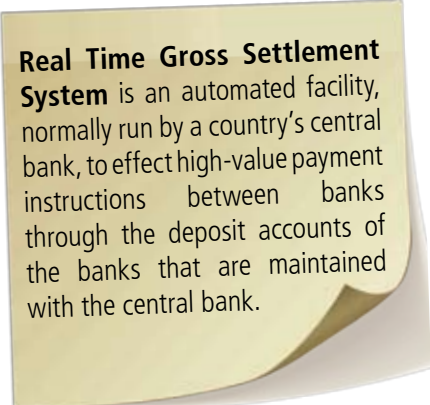
Payments systems facilitate safe and timely completion of transactions. Various payment

systems are used by companies to buy or sell goods and services, individuals rely on them to receive salaries and for retail purchases, and the government depends on them to receive taxes and pay benefits.

Over the years, technology has paved the evolution of the country’s payments system to its current state, ensuring that payments are made in an efficient manner, thereby minimizing the impact of payments-related risks.

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### WHAT IS *PhilPaSS*?



**Real Time Gross Settlement System** is an automated facility, normally run by a country’s central bank, to effect high-value payment instructions between banks through the deposit accounts of the banks that are maintained with the central bank.

The country’s Real Time Gross Settlement (RTGS) System, the Philippine Payments and Settlements System also known as *PhilPaSS*, was implemented in December 2002 in cognizance of the need for a system that

would enable online real-time settlement of interbank transactions as well as eliminate payments-related risks.

*PhilPaSS* is the system name where both processing and final settlement of fund transfer instructions can take place continuously (i.e. in real time). As a gross settlement system, it enables individual settlement of payment

instructions, that is, without netting debits against credit. As a real-time settlement system, the system effects final settlement continuously rather than periodically at pre-specified times provided that a sending bank has sufficient balances or credit. The settlement process is based on a real-time transfer of central bank money.

In continuous collaboration with banks, through the Bankers Association of the Philippines (BAP), Chamber of Thrift Banks (CTB), the Rural Bankers Association of the Philippines (RBAP), Investment House Association of the Philippines (IHAP) and the Philippine Finance Association (PFA), *PhilPaSS* became the preferred automated facility for the settlement of high-value interbank financial transactions.

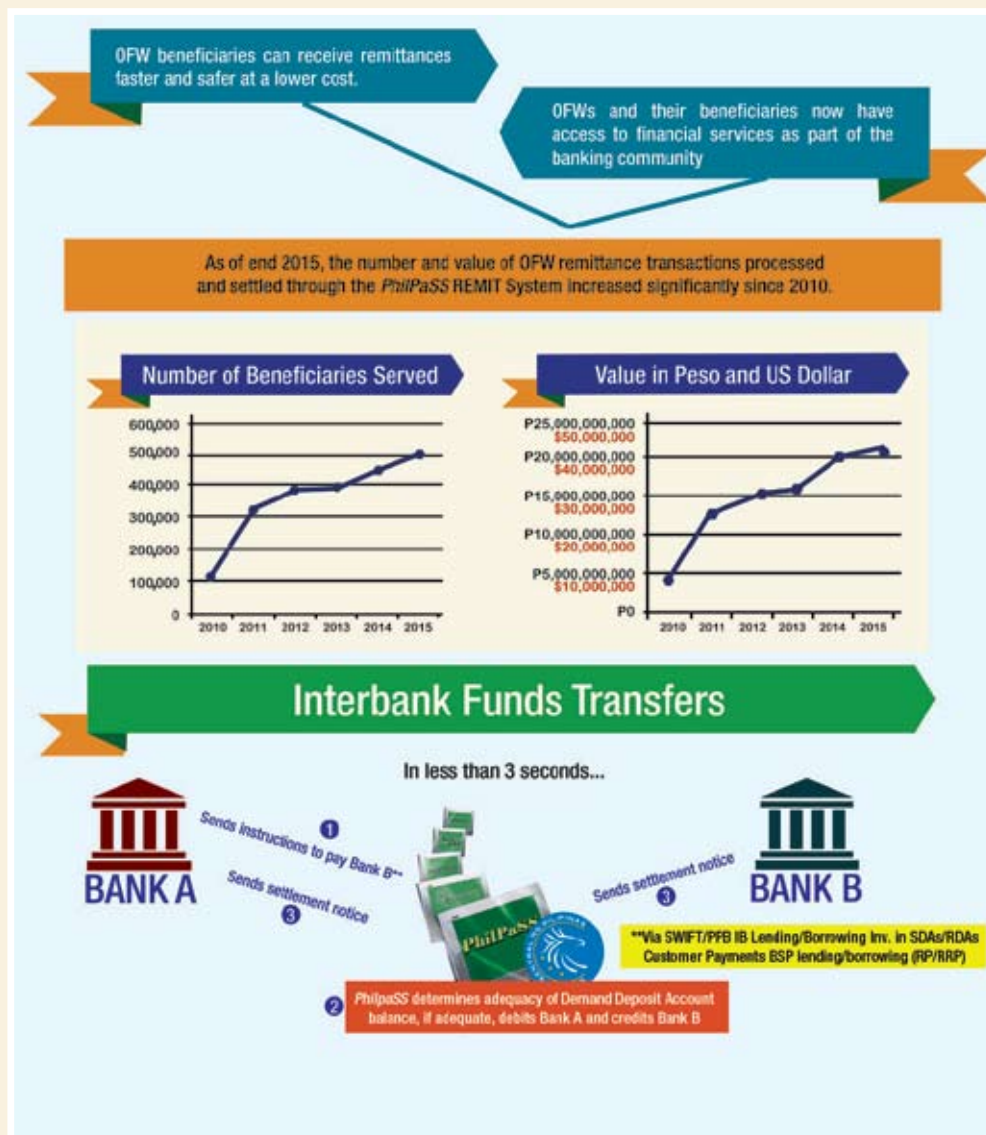
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### HOW DID *PhilPaSS* PERFORM IN 2015?

In 2015, the number of transactions processed and settled in *PhilPaSS* increased by 6.4 percent to 1.4 million. The value of transactions fell by 17.3 percent to P279.6

trillion. As a result of the decline in the value of transactions, total transaction revenue reached P134.0 million, 7.7 percent lower than the year-ago level.

*PhilPaSS* also serves as a settlement arm for overseas Filipinos to ensure the safe and immediate transfer and settlement of their remittances from banks and remittance agencies abroad to their beneficiaries' accounts maintained in Philippine banks.



## WHAT ELSE DID THE BSP DO IN 2015 TO ENHANCE THE EFFICIENCY OF THE EXISTING PAYMENTS SYSTEM?

- Conducted *PhilPass* Client Satisfaction Survey
- Hosted the 32nd Executives Meeting of the East Asia-Pacific (EMEAP) Central Banks Working Group on Payments and Settlements System
- Completed the Payments and Settlements Office Text Connect Facility Project, *PhilPaSS* Helpdesk System Project, and third party assessment of *PhilPaSS* in compliance with the Principles for Financial Market Infrastructure
- Conducted the following information dissemination activities:
  - *PhilPaSS* Awareness Campaigns for bank branches in Zamboanga, Dagupan, Iloilo City, and Legaspi City
  - Annual *PhilPaSS* Forum to update the participants on the developments in *PhilPaSS* settlement operations as well as trends in payments and settlements



National Retail Payment System launch

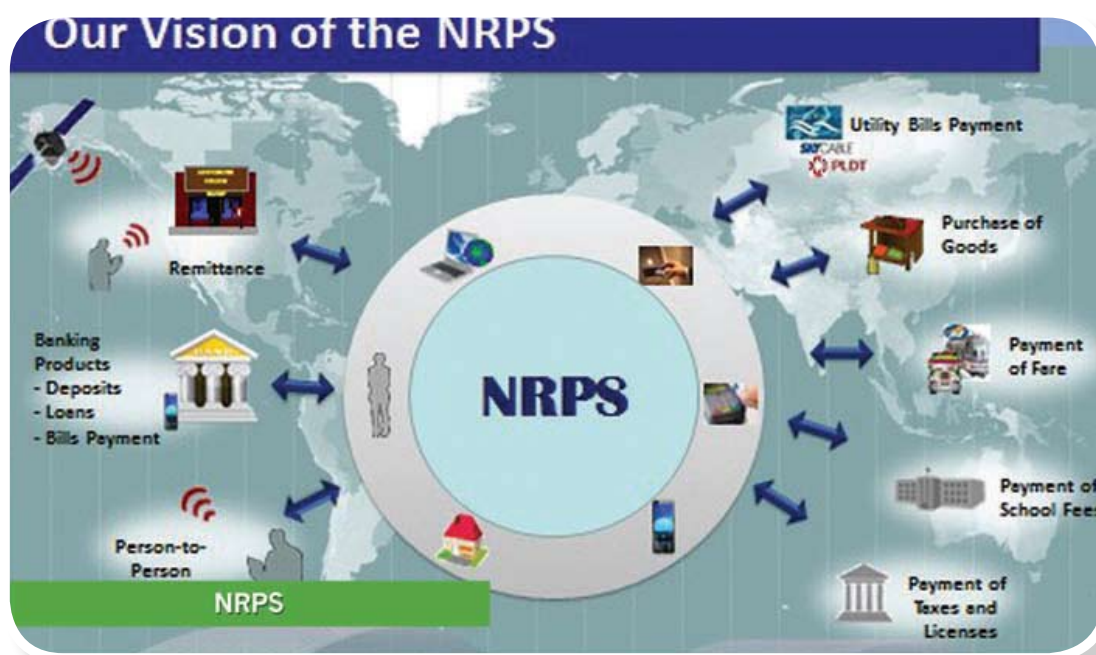
## WHAT IS THE NATIONAL RETAIL PAYMENT SYSTEM?

In December 2015, the BSP, together with the banking industry and other stakeholders, launched the National Retail Payment System (NRPS). A framework was launched to define policies, standards, and governance principles covering retail payment operations and infrastructures.

The vision of the NRPS is to create a safe, efficient, and reliable electronic retail payment system that is interconnected and interoperable to generate benefits in terms of speed and efficiency of transactions, reduced costs, improved transparency,

enhanced security, and expanded access to financial services.

The NRPS is also a key element of the BSP's commitment to the National Strategy for Financial Inclusion. Aside from the benefits for the government, business, individuals and the broader economy, this milestone is particularly significant for financial inclusion as it paves the way for integrating the use of many innovative digital technologies that promise scale in the delivery of financial services.





Personnel at the Security Plant Complex check the quality of banknotes

## SOLE ISSUER OF CURRENCY

The BSP has the exclusive power and authority to issue the national currency.

The BSP's notes and coins are issued against, and in amounts that do not exceed, assets of the BSP. All issued notes and coins are fully guaranteed by the government and are considered legal tender.

The term "issue" means to put into circulation. The BSP issues notes and coins. It also issues legal tender commemorative coins.

## WHAT DOES “LEGAL TENDER” MEAN?

This means that should the currency be offered for payment, it must be accepted. This applies to all private and public debts.

Philippine currency notes have no limit to their legal tender power. In the case of coins with denominations of 1-, 5-, and 10-

peso, however, they are legal tender only in amounts not exceeding P1,000.00, while coins in denominations of 1-, 5-, 10-, and 25- sentimo are legal tender in amounts not exceeding P100.00.

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## HOW IS CURRENCY ISSUED BY THE BSP TO THE PUBLIC?

The Security Plant Complex (SPC) in Quezon City produces Philippine banknotes and coins, as well as refines gold.

The Currency Issue and Integrity Office (CIIO), in coordination with the Department of Economic Research (DER) and the Regional Monetary Affairs Sub-sector (RMASs), forecasts how much money should be produced based on the currency requirement



of the economy. The forecast requirement is forwarded to SPC, which oversees the production of banknotes and coins, and then delivers them to CIIO for issuance to the Cash Department (CD) and RMASs.

The CD services bank withdrawals of notes and coins in Metro Manila and RMASs takes charge of banks' cash requirements in the regions through the BSP's Regional Offices/Branches.

Currency notes and coins are eventually issued to the public when the public—as depositors and clients—withdraw their deposits (or receive their loan proceeds) from banks.

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## HOW DOES THE BSP DETERMINE THE VOLUME/VALUE OF NOTES AND COINS TO BE ISSUED ANNUALLY?

The annual volume/value of currency to be issued are projected based on currency demand that is estimated from a set of economic indicators. These indicators generally measure the country's economic activity.

Other variables considered in estimating currency order are:

- required currency reserves
- unfit notes for replacement
- beginning inventory balance

The denominational breakdown is determined using the historical percent share of the demand for each denomination.

## WHAT WERE THE VOLUME AND VALUE OF CURRENCY NOTES AND COINS IN CIRCULATION AS OF THE END OF 2015?

There were about 3.6 billion pieces of notes valued at P977.4 billion and 24.2 billion pieces of coins valued at P27.8 billion in circulation as of 31 December 2015.



### HOW MANY NOTES AND SECURITIES WERE PRINTED IN 2015?

The BSP's banknotes and securities printing exceeded production and delivery targets across the board.

At about 1.7 billion pieces, the production of in-house finished banknotes surpassed the year's target of 1.2 billion pieces by 40 percent.

At a little over 2.3 billion pieces, delivery of outsourced finished banknotes also surpassed the target of 2.3 billion pieces.

### HOW MANY CIRCULATION COINS WERE PRODUCED AND DELIVERED IN 2015?

A total of 1.6 billion pieces of circulation coins of various denominations were delivered to the CIIO. The total outstanding coins in circulation as of end-2015 amounted to P27.5 billion, which is equivalent to 24.2 billion pieces. Thus, every Filipino is estimated to hold P273 or 240 pieces of coins. Minting

of new coins ensures that the requirement for coins of our growing economy is met. In addition, the BSP's coin recirculation initiatives prevent coin shortages and ensure that the use of coins is maximized relative to the cost of minting.

# BSP Policy Objective

# FINANCIAL INCLUSION

Financial inclusion provides different market segments, particularly those traditionally unserved or underserved by formal financial institutions, with access to basic financial services such as savings, credit, payments, and insurance.



## WHY IS THE BSP PURSUING FINANCIAL INCLUSION AS A STRATEGIC POLICY OBJECTIVE?

The BSP pursues financial inclusion as a strategic policy objective in support of the government's inclusive and sustainable growth agenda.

When done right, financial inclusion contributes to economic growth and helps reduce income inequality and poverty. It

improves the well-being of the poor and the growth of micro, small, and medium enterprises.

This policy objective is consistent with the BSP's vision to be a catalyst for a globally competitive economy and financial system that delivers a high quality of life for all Filipinos.



**BSP-BIS Research on Financial Inclusion and Central Banks**



**Financial Inclusion Summit**

## HOW IS THE BSP EXECUTING ITS FINANCIAL INCLUSION STRATEGY?

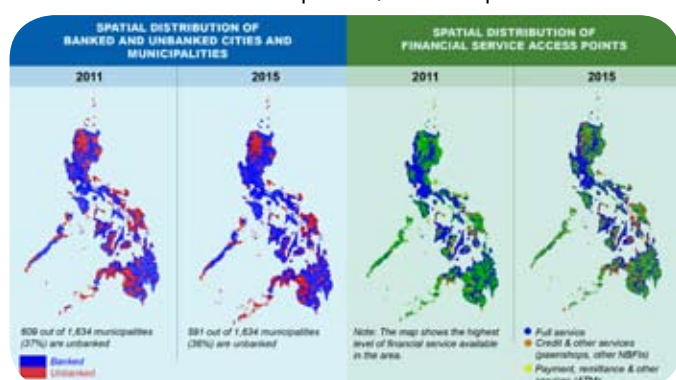
The BSP implements its financial inclusion strategy under the direction and oversight of the Inclusive Finance Steering Committee chaired by the Governor.

The BSP financial inclusion initiatives revolve around four areas – policy, regulation, and supervision; financial education and consumer protection; data and measurement; and advocacy programs.

## HOW IS THE BSP IMPROVING FINANCIAL ACCESS AND USAGE?

The BSP adopts policy reforms to ensure that the banking/financial regulatory framework enables financial service providers to serve traditionally marginalized segments of the population, thereby increasing their financial access and usage. Through the application of proportionate regulations, the BSP calibrated requirements on the establishment of financial service access points, and expansion in the

range of financial products, maximizing the use of technology to increase efficiency, lower cost, and fast track the provision of suitable financial services to the target markets of financial inclusion.



**Financial access** refers to the supply and availability of financial products and services to individuals or enterprises.

**Financial usage** refers to the utilization of various products and services available to satisfy the needs of different entities.

Proportionate regulation balances risks and benefits, and allows measured requirements for different providers of services or products

For example, regulations allowed the creation of micro-banking offices (MBOs), which are small banking units specifically designed to serve target markets of financial inclusion that are unreached by regular bank branches. Majority of MBOs are located in areas outside Metro Manila particularly in the regions of CALABARZON, Bicol, Western Visayas, and MIMAROPA. Most municipalities that were previously unbanked are now enjoying access to banking services because of MBOs. As of 2015, there are 540 MBOs operating in 338 cities and municipalities, of which 66 are being served by MBOs alone.

An expanded range of products and services were also introduced that were

tailor-fitted to market needs and capacities: microfinance loans, housing microfinance loans, micro-agriculture loans, microdeposits and microinsurance. Worth highlighting are microdeposits which grow at a faster rate than regular deposit accounts. There are 2.6 million microdeposit accounts amounting to PhP5.2 billion pesos as of 2015.



**Housing microfinance loans** are loans that are granted for the purpose of home improvement and house construction, house and/or lot acquisition.

**Micro-deposits** are savings account that caters to the needs of the basic sectors and low-income earners.

**Micro-agriculture loans** are granted for the purpose of farm activities, agribusiness and other farm related fixed assets.

**Microinsurance** are insurance, insurance-like and other similar products and services for risk protection and relief against distress, misfortune and other contingent events of the low income sector.

**The National Strategy for Financial Inclusion (NSFI).** In 2015, the BSP's leadership in crafting the NSFI was highlighted with the Program's high-profile launch in the presence of Her Majesty Queen Maxima of the Netherlands, the United Nations Secretary General's Special Advocate for Inclusive Finance for Development. The BSP, together with 12 other government agencies, signed a memorandum of understanding to implement various policies and programs aimed at expanding financial inclusion in the Philippines. The inter-agency Financial Inclusion Steering Committee chaired by the BSP is tasked to oversee implementation and monitoring of progress moving forward.

**The Credit Surety Fund (CSF).** The CSF is a multi-sector agreement involving the micro, small and medium enterprises (MSMEs), local government units (LGUs), banks, and cooperatives that aims to absorb a significant amount of credit risk from borrowers with the provision of surety cover. To sustain economic growth through increased credit flows in the countryside, the BSP initiated the establishment of CSFs all over the country to help credit-challenged MSMEs gain access to formal sources of credit. Through the BSP's initiative, leadership and guidance, the creation of the CSF received broad and active support from cooperatives and LGUs and thus developed into a national program, as evidenced by the number of CSFs established in different parts of the country.

The CSF provides a maximum of 80 percent surety cover for loans granted by banks to financially challenged entrepreneurs, who would otherwise find it difficult to access such credit facilities due to insufficient collateral, limited credit history, or inadequate financial records.

## HOW DID THE CREDIT SURETY FUND (CSF) PROGRAM FARE IN 2015?

2015 was a landmark year for the CSF program. The CSF Cooperative Act of 2015 was approved by the Senate and House of Representatives on 26 November 2015 and 2 December 2015, respectively.

With the creation of the law, the CSF Program initiated by the BSP in 2008 is now institutionalized to help unbankable micro, small, and medium enterprises (MSMEs) gain access to formal sources of credit. MSMEs which are members of cooperatives can borrow from banks using the CSF surety

cover as security for the loan in lieu of conventional collateral, easing difficulties in obtaining loans from banks due to lack of acceptable collaterals, credit knowledge and credit track records.

Eight CSFs were launched during the year in five cities (Santiago, Malaybalay, Valencia, Parañaque, and Cabanatuan) and three provinces (Zambales, Cagayan, and Nueva Ecija), bringing the total number of CSFs nationwide to 45 from 37 in the previous year.

## WHY IS GREATER FINANCIAL LITERACY IMPORTANT?

It is BSP's goal to empower as many Filipinos as possible by providing them with the knowledge, attitude and behavior to improve their lives through sound financial decisions. The underlying rationale is that a citizenry that is well informed in economics and finance is a more effective partner of the BSP in maintaining the effectiveness of monetary policy, as well as ensuring a stronger and

safer banking and payments system. At the same time, a knowledgeable citizenry is able to contribute more meaningfully to economic development and benefit better from opportunities it brings.

The BSP pursues financial literacy primarily through its Economic and Financial Learning Program (EFLP).

## WHAT ARE SOME OF THE LEARNING PROGRAMS CONDUCTED BY THE BSP IN 2015?

### Financial Education Expo (Fin-Ed Expo).

The Fin-Ed Expo aims to: 1) continuously foster greater awareness about the availability and accessibility of financial education programs for Filipinos; 2) increase personal finance consciousness and orient the public of available financial tools in promoting

one's financial well-being; and 3) familiarize them with the rights and responsibilities of financially-empowered consumers. During the year, Fin-Ed Expos were conducted in six venues attended by 3,710 participants from both the academe and the workforce.





**Money Matters for Kids (MMK).** MMK is a mobile interactive exhibit which features hands-on tools that encourage children as young as three years old to play and study while exploring money-related themes. MMK gives the kids a chance to play the roles of bank managers and tellers and to know the concept of deposits and withdrawals thru a make-believe bank and a mock-up Automated Teller Machine. It also educates them how to budget and differentiate between needs and wants in addition to distinguishing between genuine and fake banknotes.

In 2015, the MMK Exhibit was held in Davao City from 7 to 15 July and in Bacolod City from 15 to 25 September reaching a total of 8,159 exhibit viewers.



**AlertoAko Exhibit.** *AlertoAko* aims to provide financial consumers greater awareness through advisories on various financial products and services, thus empowering them to make informed financial decisions. It also serves as the BSP's proactive stance to protect the public against financial frauds and scams.

In 2015, *AlertoAko* was successfully held in Iloilo City and Cagayan de Oro City from 17 to 19 August and from 21 to 23 October respectively. It covered a total of 3,986 participants. The exhibits were deliberately held in popular malls in the city to benefit from the mall's foot traffic.



**Project BRO (BSP Reaches Out)- A Savings Campaign Program for Kids and Teens.** This is a new initiative introduced in 2015 that aims to develop the habit of saving among kids and teens as well as improve the number of savers in the formal financial system. A Project BRO "alkansya" is distributed as the main instrument to be used by the program recipients to save and then save in banks. After the learning session, the team will track the students' saving habits by closely coordinating with teachers and school officials for the purpose of encouraging them to open and grow savings in a "Kiddie Savings" account. In line with the thrust of the EFLP to broaden reach and impact through strategic partnership, Project BRO is implemented in partnership with the Bank Marketing Association of the Philippines (BMAP) and the Department of Education.

The program covered 40 selected public and private elementary and high schools in nine different cities and reaching out to a total of 66,320 pupils and students.



### **On the Spot Essay Writing Contest.**

Through this contest, BSP raised awareness among high school students in the National Capital Region (NCR) and instill in their young minds the importance of financial literacy in helping improve the quality of lives of every Filipino.

A total of 187 schools from the 16 schools divisions of NCR participated in the contest. The 16 winners from each Schools Divisions competed in the final round on 26 August 2015. The awarding ceremony of the top three winners was held on 7 September 2015 at the BSP Assembly Hall. Aside from cash prizes, the top three winners (student and school) were also awarded medals and plaques of recognition.



**Financial Education Congress for the Youth (FECY).** The FECY is a one-day financial literacy culminating event that aimed to promote awareness among the Filipino

youth the importance of financial literacy. A key component of the program was the "U Can Make a Difference" video making contest which highlighted the capability of the youth to deliver financial literacy messages. Social media was used as the primary media to publicize the event. Other key component of the event are 1) exhibits on the financial learning initiatives of the BSP and its partner government agencies as well as financial institutions and telecommunication firms; 2) plenary and panel discussion and 3) announcement of the video contest top 3 winners. The ultimate objective of the FECY is to enable the youth to make savvy and effective financial decisions in their daily life until adulthood.

Held on 7 December 2015 at the BSP Assembly Hall, the FECY was attended by a total of 1,107 students from various colleges and universities not just from Metro Manila but also from the Northern and Southern Luzon provinces.

### **Financial Empowerment Seminars (FES).**

FES is a plenary session covering specific topics such as credit cards, personal finance, financial products, credit consciousness, and consumer protection, for smaller target audiences. Fifteen FES were conducted in 2015 in various areas reaching a total of 1,622 which is 130 percent of our target.

### **"Be up to Speed on BSP" Public Information Campaign (PIC) on the Role of the BSP in the Philippine Economy.**

The PIC intends to enhance public awareness on the BSP as an institution, including its core functions and responsibilities and its role in the economy. It also aims to generate public understanding of policies and programs implemented by the BSP.

In 2015, PICs were conducted in ten venues in different parts of the country attended by a total of 1,659 participants, largely composed

of members of the academe. The campaigns were also attended by representatives from private and public offices.

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***"Paghahanda sa Kinabukasan"* Financial Learning Campaign (FLC) for Overseas Filipinos (OFs) and their Beneficiaries.** The BSP's FLCs, organized in coordination with the Overseas Workers Welfare Administration (OWWA), aim to educate participants on the importance of using remittances to build up savings and directing these into investments in financial products and business ventures.

In 2015, FLCs were conducted in seven venues attended by 866 participants, mainly family members and other beneficiaries of OFs.

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**Users' Forum (UF) on BSP-Produced Statistics.** The forum aims to inform the public and enhance their appreciation of the various BSP-produced statistics and the relevance of these statistics in their individual undertakings. The UF was conducted as part of the BSP's celebration of the National Statistics Month (NSM) in October 2015 in BSP Manila and Cebu City. This was attended by a total of 165 participants, with more than half represented by members of the academe.

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**BSP-Department of Social Welfare and Development (DSWD) Master Training of Trainers (TOT) on Financial Literacy (FinLit) for the Field Implementers of the Sustainable Livelihood Program (SLP) and the Pantawid Pamilyang Pilipino Program (Pantawid).** The Master TOT targeted DSWD staff in a position to train their peers who interact directly with

about 4.4 million Pantawid participants. The training aims to enhance their teaching capacity, ensure consistency of messages, and effectiveness of delivery of the BSP-designed financial literacy module, which was simplified to fit the profile of Pantawid participants. The TOT was attended by SLP training officers covering all 17 DSWD regional offices, and focal persons in charge of developing and implementing Family Development Sessions (FDS) for Pantawid participants across the country.

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**Conference on Gearing Up for External Competitiveness (CGUEC).** The CGUEC aims to raise awareness of exporters, importers, OFs, BPOs, and entities with foreign exchange exposures, among others, on the various ways to manage their foreign exchange risks; and to highlight the factors that determine the country's external competitiveness. The conference was conducted in Bacolod City and General Santos City attended by 218 representatives from banks, exporters, BPOs, schools, government offices, and the media.

In 2015, most programs had participation rates above 100 percent as the number of participants exceeded the target. Meanwhile, based on the results of the program evaluation, both the learning gained by the participants and the overall conduct of these programs had an average rating of 4.5 (with 5 being the highest).



## HOW DOES THE BSP ENHANCE CONSUMER PROTECTION?

The BSP has adopted the Financial Consumer Protection Framework and institutionalized consumer protection as an integral component of banking supervision.

### **Financial Consumer Protection (FCP) Framework**

The framework aims to develop among banks a culture of fair and responsible dealings with financial consumers to promote greater confidence in the financial system. It covers the following consumer protection standards: (1) disclosure and transparency; (2) fair treatment; (3) respect of client's privacy; (4) financial education and awareness; and (5) effective recourse.

Full adoption of the FCP framework by the BSP-supervised financial institutions commenced in 2015, after the one-year transitory period since the framework became effective on 11 December 2014.



In July 2015, BSP also launched the ground-breaking Wealth Watch Book which aims to provide insights and practical tips for the typical Filipino on the topic of wealth management. Sold out after the warm reception of its nearly 400 copies printed, a re-publication of the book has since been initiated.

# THE BSP'S INTERNATIONAL RELATIONS IN 2015



## ARE THE BSP'S ACTIVITIES LIMITED TO THE DOMESTIC FRONT?

No. The BSP plays a prominent role in strengthening international, regional and bilateral monetary and financial cooperation and integration.

## WHY DOES THE BSP PRO-ACTIVELY ENGAGE WITH FOREIGN ENTITIES AND COUNTERPARTIES?

The BSP engages the global community (i.e., other Central Banks and Monetary Authorities, International Organizations, etc.) on its own or on behalf of the Philippines, to fulfill the commitments toward:

- international cooperation;
- regional financial stability; and
- regional integration.

In 2015, the BSP actively participated in various initiatives covering several critical global and regional issues related to:

- economic and financial developments;
- crisis management;
- financial safety nets;
- financial stability;
- global regulatory reforms;
- regional integration; and
- capacity-building.

It does so to strengthen Philippine representation in economic, monetary and financial issues.

## HOW DOES THE BSP STRENGTHEN INTERNATIONAL, REGIONAL AND BILATERAL MONETARY AND FINANCIAL COOPERATION AND INTEGRATION?



This is done at various levels of engagement (i.e. technical and high-level) with other central banks, monetary authorities, international organizations, and international financial institutions.

The BSP's approach to strengthening international relations is five-pronged:

First, it participates in global and regional economic policy dialogue and processes.

Second, it conducts regular global and regional economic surveillance or monitoring.

Third, it promotes regional finance integration activities.

Fourth, it participates in international financial arrangements and contributions or financial safety nets.

Fifth, it facilitates technical assistance and capacity building in global, regional and bilateral fronts.

## HOW DOES THE BSP CARRY OUT THESE FIVE SPECIFIC FUNCTIONS, WHY DOES IT DO SO, AND WHAT SPECIFIC ACTIVITIES DID IT CARRY OUT IN 2015?

### Participation in global and regional economic policy dialogue and processes

The BSP actively participates in various international fora [i.e., the International Monetary Fund (IMF), Bank for International Settlements (BIS), Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), Asia Pacific Economic Cooperation (APEC), ASEAN, ASEAN+3, and the South East Asian Central Banks (SEACEN) Research and Training Center].

This is done to discuss relevant monetary, economic, and financial cooperation issues.

Specifically, the BSP participates in technical and high-level meetings/conferences to:

- sustain discussion on common issues related to ongoing recovery in emerging economies;
- lend perspectives on critical issues affecting the region, in general, and the country, in particular; and
- strengthen ties with other central banks and financial authorities by performing a leadership role in various bodies.

It is important for central banks to exchange information and experiences on monetary policy, banking supervision, and other central banking issues.

## SOME OF THE HIGH-LEVEL AND TECHNICAL MEETINGS/ CONFERENCES HOSTED BY THE BSP IN 2015 WERE:



- Asian Consultative Council (ACC) meeting back-to-back with the BIS Special Governors' Meeting (SGM), 6-7 February 2015, Shangri-La Hotel, Makati City
- Main Meeting of the Washington-based Official Monetary and Financial Institutions Forum (OMFIF), 6-7 July 2015, Manila
- 9th Meeting of the ASEAN Steering Committee on Capacity-Building (SCCB)
- 10th Meeting of the Senior Level Committee (SLC) on ASEAN Financial Integration, 14-15 September 2015, Diamond Hotel Manila
- 35th Meeting of the SEACEN Board of Governors (BOG), 27 November 2015, Makati City

### Conduct of regular global and regional economic surveillance or monitoring

The BSP monitors and analyzes regional and global economic, financial and trade development issues, to assess their impact (and even their possible impact) on the Philippine economy.

The BSP is the Philippine representative to the IMF and is a member of the governing body of the ASEAN+3 Macroeconomic Research Office (AMRO).

Other examples of regular international surveillance and monitoring activities by the BSP include participation in:

- IMF regular meetings;
- Development of the Economic Review and Policy Dialogue (ERPD) Matrix;
- Initiatives of the EMEAP; and
- Preparation of regional economic monitoring reports, such as the ASEAN

Integration Report (AIR), ASEAN Financial Integration Monitoring Report (AFIMR), Organization for Economic Cooperation and Development (OECD) Investment Policy Review, ASEAN+3 Self-Assessment Report on Local Currency Bond Market Development, ASEAN+3 Regional Economic Monitoring (AREM) monthly and quarterly reports, and IMF Staff Reports, among others.

BSP facilitated the conduct of regular surveillance activities in the country through the IMF Article IV Consultation Mission and the AMRO Consultation Visit held on 14-26 May 2015 and 17-21 August 2015.

The surveillance missions assessed the country's macroeconomic conditions as well as the emerging risks and outlook of the economy.

In 2015, the BSP also contributed to the surveillance initiatives of the EMEAP through monthly financial market monitoring, which tracked quick-moving financial indicators and identified trends and potential risks to regional stability.

### **Promotion of regional finance integration activities**

The objective is for the ten ASEAN member states not only to become economically integrated, but also to be sustainably and gainfully integrated in the global economy, thus contributing to the goal of shared prosperity.

Upon the declaration of the establishment of the AEC on 31 December 2015, the ASEAN Leaders also approved the AEC 2025 Blueprint, which provides broad directions through strategic measures for the AEC from 2016 to 2025.

### **Participation in international financial arrangements and contributions or financial safety nets**

The BSP strengthens and initiates relations with foreign entities by complying with the

commitments arising from membership, and participating in international and regional associations or groupings.

The BSP's strong external and reserve position also enables it to contribute to various fund pooling arrangements to support the stability of the international and regional financial systems. The BSP facilitates contributions to various IMF facilities in line with the establishment of "global financial safety nets."

The BSP is also part of the Chiang Mai Initiative Multilateralization (CMIM), the US\$240 billion regional liquidity facility for the 10 ASEAN member states, China, Japan, Korea and Hong Kong Monetary Authority.

### **Facilitation of technical assistance and capacity building in global, regional and bilateral fronts**

The BSP participates in various international and regional learning activities by sending resource persons and trainers. The BSP also hosts and co-hosts major international cooperation events.

## **HOW DID THE BSP ACT AS A THOUGHT LEADER IN GLOBAL AND REGIONAL ECONOMIC POLICY DIALOGUE AND PROCESSES IN 2015?**

In the **Bank for International Settlements (BIS)** -- The BSP chaired the meeting of central bank Governors from small open economies. As Chair, the BSP takes the lead in identifying issues for discussion during meetings.

In meeting of the **Asian Consultative Council (ACC)** -- The BSP remained as Chair in 2015. The ACC provides a vehicle for communication between the Asia and

Pacific members of the BIS and its Board and Management on matters of interest to the central bank community in the region.

In the **ASEAN Working Committee on Capital Account Liberalization (WC-CAL)** -- The BSP as Co-Chair continued to facilitate policy dialogues on financial integration particularly on capital account liberalization, with the conduct of two policy dialogue sessions in 2015.

# Awards received in 2015

- BSP was honored as partner institution of the Polytechnic University of the Philippines in the field of banking and finance during its appreciation day.
- BSP won the 2015 Global Forum on Remittances and Development (GFRD) Public Sector Award from the International Fund for Agricultural Development of the United Nations, the World Bank, and the European Commission. The BSP was recognized for its economic and financial learning program that educates overseas Filipino workers and their beneficiaries on the importance of, and methods for using remittances to build savings and invest productively.
- Gov. Amando Tetangco, Jr. was named one of the world's best central bank governors by Global Finance magazine for the seventh time (2006, 2007, 2011, 2012, 2013, 2014, 2015)
- Gov. Amando Tetangco, Jr. received the Management Man of the Year award for 2015 from the Management Association of the Philippines.



- BSP received the Islands of Good Governance Award from the Institute for Solidarity in Asia, the Institute of Corporate Directors (ICD) and the National Competitiveness Council. BSP was cited for its contribution to strengthening Filipino institutions, communities and individuals by ushering in greater financial inclusivity through policies and regulations that have reaped global recognition as it practices transformative and sustainable governance and addresses outside pressures with integrity, courage and perseverance.



Gov. Amando Tetangco, Jr. (fourth from left) received the Islands of Good Governance Award from the Institute for Solidarity in Asia, the Institute of Corporate Directors (ICD), and the National Competitiveness Council. In photo are (from left) BSP Corporate Planning Office Dir. Helen Montalbo, Dep. Gov. Nestor Espenilla, Jr., ICD Chairman Francis Estrada, global good governance and anti-corruption champion Dr. Robert Klitgaard, and Foreign Affairs Undersecretary Laura del Rosario.



Gov. Amando Tetangco, Jr. (third from left) was named Management Man of the Year 2015 by the Management Association of the Philippines (MAP). Also in photo are (from left) MAP Search Committee Chair Greg Navarro of Deloitte Philippines, MAP Pres. Francisco del Rosario, Jr., and MAP Judging Committee Chair Edgar Chua of Shell Philippines.





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