2019 Annual Report

Bringing BSP closer to the Filipino people

1949 - 2019

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Governor's Foreword

A Central Bank that is Closer to the People

BENJAMIN E. DIOKNO
Governor

This year marks the 70th anniversary of central banking in the Philippines. Looking back, the Bangko Sentral ng Pilipinas (BSP) has come a long way since it was established as the Central Bank of the Philippines on 3 January 1949 and evolved into a renewed BSP on 3 July 1993.

For the past 26 years, the BSP has been proactive in delivering policies in the areas of money, banking and credit that help foster macroeconomic stability in the Philippine economy. Over the years, the BSP has firmly demonstrated its focus on safeguarding price stability and promoting a safe and sound financial system that includes an efficient payments and settlements system.

The year 2019 was no different as the domestic economy continued to deliver on all fronts amid the challenging global environment. For the full-year 2019, gross domestic product (GDP) grew by 6.0 percent. While this was lower than the previous year's growth of 6.3 percent, the country remains one of the fastest growing economies in the Asian region.

There is also a sustained positive alignment between growth and inflation. Year-on-year headline inflation eased to an average of 2.5 percent in 2019 relative to the 5.9 percent average in 2018. This was well within the Government's inflation target range of 3.0 percent ± 1 percentage point for the year.

Likewise, the domestic banking system remains sound and robust, characterized by sustained growth in assets, loans, deposits, and capital.

Moreover, ample domestic liquidity and credit, manageable external payments position, sound and safe banking system, sustained commitment to structural reforms, and positive investor sentiment are all expected to sustain favorable growth prospects for the Philippine economy.

Nonetheless, 2019 has also been a year of increasing complexity as the global economy was going through a substantial and rapid transformation. Looking forward, it can be expected that complexity will become an increasing feature of the global economy as far-reaching forces--increasing interconnectedness, disruptive technologies, inequality, climate change, and rising populist sentiment, among others–exert their impact on markets and economies.

In response, the BSP has implemented measures to make the institution future-proof and more responsive to emerging challenges without losing focus on its primary mandates of price and financial stability.

The approval of Republic Act No. 11211 or "An Act Amending Republic Act No. 7653 otherwise known as the 'New Central Bank Act' and for Other Purposes" puts the BSP in a strategic position to address new potential risks arising from the fast-evolving financial landscape. The charter restores the BSP's ability to issue debt securities as part of its monetary operations, giving the BSP greater flexibility in the conduct of its monetary policy. These reforms will also promote capital market development through improved price discovery for money markets and increased supply of safe and liquid assets. Moreover, the amended charter strengthens the scope of BSP's supervision over money service businesses, credit-granting businesses, and payment system operators.

The recently-enacted Republic Act 11127 which is known as the National Payment Systems Act (NPSA) gives BSP the authority to oversee payment systems. The NPSA provides the BSP with a suite of powers that enables it to effectively carry out oversight functions over of the country's payment systems.

In March 2019, Republic Act 11256 or "An Act to Strengthen the Country's Gross International Reserves" was signed into law which exempts the sale to the BSP of gold sourced from small-scale mining activities from excise and income taxes. The new law will allow the BSP to build up its gross international reserves (GIR) and enhance the domestic economy's buffers against external shocks.

There is also the continual updating of the foreign exchange (FX) regulatory framework to ensure that it remains responsive to the needs of a dynamic and expanding economy. To date, there have been a total of 11 waves of FX reforms, the most recent of which was implemented through the issuance of BSP Circular No. 1030 dated 5 February 2019, which became effective on 8 March 2019. The latest wave further liberalized rules on inward and outward investment by broadening the coverage of these transactions, among others.

On top of these measures, the BSP has gone beyond the ambit of traditional central banking by pursuing measures to bring the bank closer to the people. At the core of this thrust is financial inclusion. Building on the gains of its policy initiatives over the years, the BSP is setting its sights on digital innovations. Digital solutions not only present opportunities for cost savings and efficiency gains that make the economics of serving the bottom of the pyramid viable, but also help fill the financial services needs of unserved and underserved markets on a broader scale.

Rest assured, the BSP continues to work towards making its policies more responsive and more attuned to the rapidly evolving economic and financial landscape. Necessary reforms and infrastructures are being put into place to future-proof the Philippine economy against the emerging challenges the country might face in the next 70 years such as technological disruptions and climate change, among others.

By remaining steadfast in safeguarding the BSP's mandate, making monetary and financial policies more responsive, and advancing financial inclusion, the BSP will be able to bring the benefits of price and financial stability closer to the public, and thereby transform itself as a central bank closer to the people.

Who We Are

Our Vision

The BSP aims to be recognized globally as the monetary authority and primary financial system supervisor that supports a strong economy and promotes a high quality of life for all Filipinos.

Our Mission

To promote and maintain price stability, a strong financial system, and a safe and efficient payments and settlements system conducive to a sustainable and inclusive growth of the economy.

Our Core Values

Excellence
Patriotism
Integrity
Solidarity
Accountability

About the Bangko Sentral ng Pilipinas

The Congress shall establish an independent central monetary authority… (which) 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

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 1, Chapter 1
Republic Act No. 7653 (The New Central Bank Act)
As amended by Republic Act No. 11211

The BSP's Legal Mandate

The BSP is the central bank of the Republic of the Philippines. It was established on 3 July 1993 as the country's independent central monetary authority, pursuant to the Constitution and Republic Act No. 7653 or the New Central Bank Act (later amended by Republic Act No. 11211). The BSP replaced the old Central Bank of the Philippines, which was established on 3 January 1949.

As the Philippines' central monetary authority, the BSP is responsible, among other things, for:

- Maintaining price stability conducive to a balanced and sustainable growth of the economy and employment;
- Promoting and maintaining monetary stability and the convertibility of the peso;
- Maintaining financial stability by ensuring that the banking system is sound and stable; and
- Overseeing the payment and settlement systems, including critical financial market infrastructures, to promote sound and prudent practices.

Powers and Functions

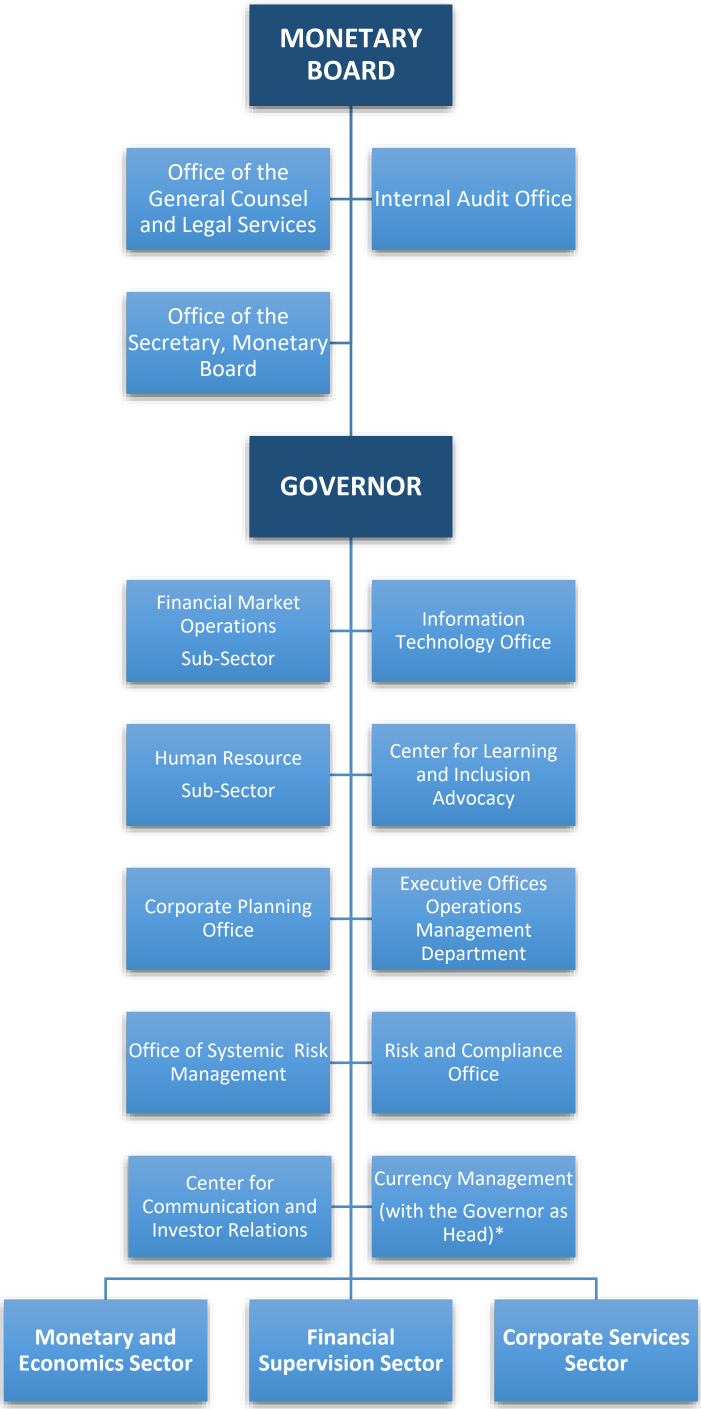
The BSP charter also designates the BSP to perform the following functions:

- *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 and examination powers over non-bank institutions performing quasi-banking functions, money service businesses, credit granting businesses, and payment systems operators.
- *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.
- *Bond issue*. To facilitate financial and monetary stability through open market operations, the BSP may issue, place, buy, and sell freely negotiable evidences of indebtedness issued by BSP.
- *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, as amended, imposes limitations and conditions on the exercise of such powers by the BSP. Among others, the charter prohibits it from engaging in development banking or financing.

Organizational Structure

As of 1 January 2020



The **Monetary Board** issues rules and regulations necessary for the effective discharge of the responsibilities and exercise of the powers vested upon the BSP. 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.

The BSP is organized into the following functional groupings:

- **Offices under the Monetary Board and the Governor**, which render various administrative and technical support to the Monetary Board or the Governor in the areas of legal services, internal audit, enterprise risk management, financial stability, financial market operations, information technology, human resources, corporate strategy and communications, and learning and financial inclusion.
- **Monetary and Economics Sector**, which is mainly responsible for the operations/activities related to monetary policy formulation, implementation, and assessment.
- **Financial Supervision Sector**, which is mainly responsible for the regulation of banks and other BSP-supervised financial institutions, as well as the oversight and supervision of financial technology and payment systems.
- **Corporate Services Sector**, which is mainly responsible for the effective management of payments and settlements operations, information security, provision of security and transport services, procurement, construction and maintenance of BSP facilities, asset management and disposal, organizational learning and wellness, and the BSP's financial and physical resources to support the BSP's core functions.
- **Currency Management units**, which are mainly responsible for the forecasting, production, distribution, and retirement of Philippine currency, and the production of security documents, commemorative medals, and medallions.

Governance

As of 1 January 2020

The Monetary Board

Chairman & Governor
Benjamin E. Diokno

Members
Antonio S. Abacan, Jr.
Carlos G. Dominguez III
Peter B. Favila
Felipe M. Medalla
V. Bruce J. Tolentino
Juan D. De Zuñiga, Jr.

Offices under the Monetary Board and Governor

Maria Ramona Gertrudes T. Santiago
Senior Assistant Governor

Johnny Noe E. Ravalo
Assistant Governor

Lilia C. Guillermo
Managing Director

Pia Bernadette R. Tayag
Managing Director

Rosabel B. Guerrero
Acting Managing Director

Elmore O. Capule
Senior Assistant Governor and General Counsel

Mary Jane T. Chiong
Managing Director

Amenah F. Pangandaman
Managing Director

Antonio C. Pio de Roda
Technical Advisor III

Jayzle D. Ravelo
Managing Director

Monetary and Economics Sector

Francisco G. Dakila, Jr.
Deputy Governor

Iluminada T. Sicat
Assistant Governor

Edna C. Villa
Assistant Governor

Financial Supervision Sector

Chuchi G. Fonacier
Deputy Governor

Restituto C. Cruz
Assistant Governor

Arifa A. Ala
Managing Director

Vicente T. De Villa III
Managing Director

Lyn I. Javier
Managing Director

Currency Management Units

Dahlia D. Luna
Senior Assistant Governor

Josefa Elvira E. Ditching-Lorico
Managing Director

Prudence Angelita A. Kasala
Managing Director

Mary Anne P. Lim
Managing Director

Catherine Pinky B. Regala
Acting Managing Director

Corporate Services Sector

Maria Almasara Cyd N. Tuaño-Amador
Deputy Governor

Eduardo G. Bobier
Managing Director

Vincent Z. Bolivar
Managing Director

Silvina Q. Mamaril-Roxas
Managing Director

Carlos L. Panes
Managing Director

Bella S. Santos
Managing Director

Enrique C. Domingo
Executive Director II

The BSP Strategy

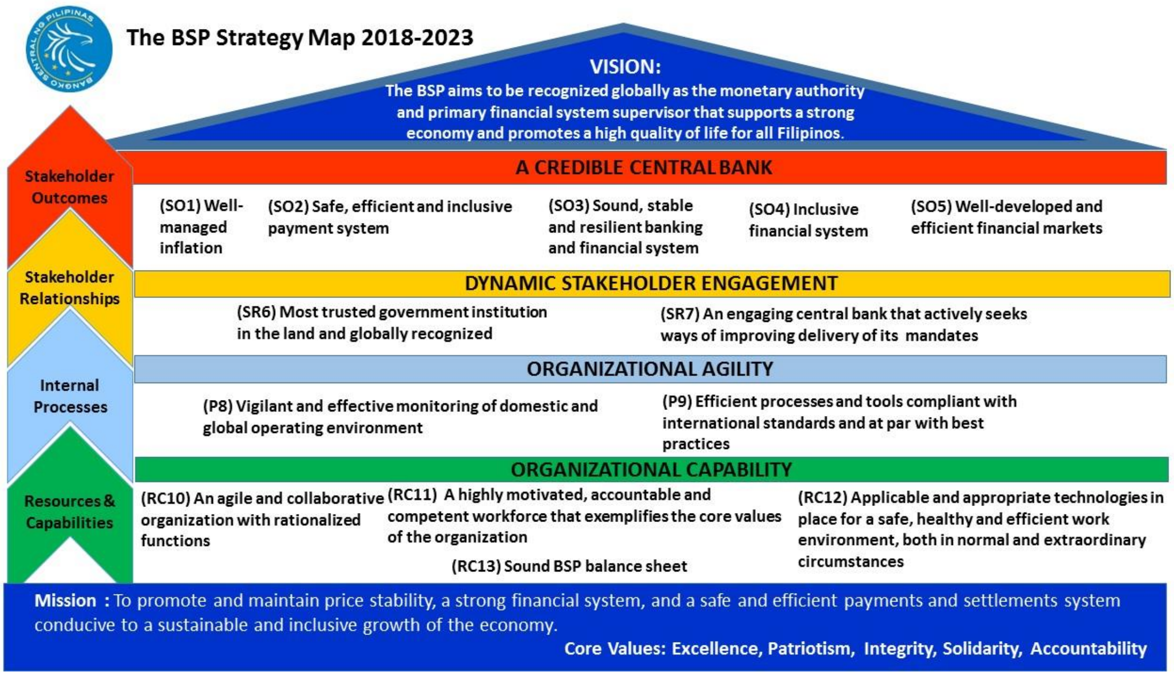
In the first year of the term of Governor Benjamin E. Diokno, the BSP continued to implement the strategy encapsulated under the *"Continuity++"* which delineates the Bank's strategic directions under the term of Governor Nestor A. Espenilla, Jr. The Bank's priority agenda within the six-year period revolves around the four strategic themes, namely, A Credible Central Bank, Dynamic Stakeholder Engagement, Organizational Agility and Organizational Capability. The BSP Core Values of Excellence, Patriotism, Integrity, Solidarity and Accountability, on the other hand, serve as the anchor with which the organization conducts its business.

The strategic theme of A Credible Central Bank refers to the Bank's commitment to maintain the trust and confidence of its stakeholders through the consistent delivery of its mandates. The objectives under this theme are therefore tied to the delivery of mandated functions as expected by the Bank's stakeholders, namely, (SO1) Well-managed Inflation, (SO2) Safe, efficient and inclusive payment system, (SO3) Sound, stable and resilient banking and financial system, (SO4) Inclusive financial system, and (SO5) Well-developed and efficient financial markets. Through the BSP's sustained efforts, the Bank was able to consistently accomplish its mandates and maintain its reputation as a credible central bank as evidenced by the global recognitions it has received.

Dynamic Stakeholder Engagement refers to the aspiration of the Bank to continually improve its relationship with its stakeholders. This recognizes the importance of the involvement and support of its stakeholders towards the successful execution of its mandate. The Bank undertakes this strategic direction by aiming to be the "(SR6 Objective) Most trusted government institution in the land and globally recognized" and "(SR7) An engaging central bank that actively seeks ways of improving delivery of its mandates."

Against a backdrop of an increasingly complex and rapidly evolving operating environment, the Bank likewise undertakes Organizational Agility as a strategic focus. The Bank defines Organizational Agility as being "(P8) Vigilant and effective monitoring of domestic and global operating environment" which it pursues by "(P9) Efficient processes and tools compliant with international standards and at par with best practices."

Lastly, strategic initiatives under the Organizational Capability Theme ensure that the BSP has the right capabilities as well as adequate and well-managed resources to sustain its excellent performance and maintain its relevance. New ways of leading and managing organizations are called for amid the profound changes in the global environment. These challenges are addressed in objective RC10 (An agile and collaborative organization with rationalized functions) and objective RC11 (A highly motivated and accountable workforce that exemplifies the BSP core values).

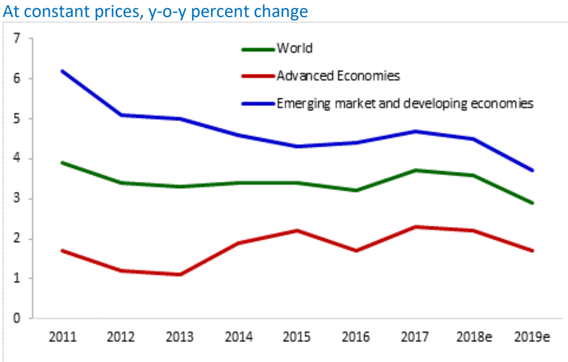

The BSP Strategy Map 2018-2023
VISION:
The BSP aims to be recognized globally as the monetary authority and primary financial system supervisor that supports a strong economy and promotes a high quality of life for all Filipinos.
Stakeholder Outcomes
A CREDIBLE CENTRAL BANK
(SO1) Well-managed inflation
(SO2) Safe, efficient and inclusive payment system
(SO3) Sound, stable and resilient banking and financial system
(SO4) Inclusive financial system
(SO5) Well-developed and efficient financial markets
Stakeholder Relationships
DYNAMIC STAKEHOLDER ENGAGEMENT
(SR6) Most trusted government institution in the land and globally recognized
(SR7) An engaging central bank that actively seeks ways of improving delivery of its mandates
Internal Processes
ORGANIZATIONAL AGILITY
(P8) Vigilant and effective monitoring of domestic and global operating environment
(P9) Efficient processes and tools compliant with international standards and at par with best practices
Resources & Capabilities
ORGANIZATIONAL CAPABILITY
(RC10) An agile and collaborative organization with rationalized functions
(RC11) A highly motivated, accountable and competent workforce that exemplifies the core values of the organization
(RC12) Applicable and appropriate technologies in place for a safe, healthy and efficient work environment, both in normal and extraordinary circumstances
(RC13) Sound BSP balance sheet
Mission : To promote and maintain price stability, a strong financial system, and a safe and efficient payments and settlements system conducive to a sustainable and inclusive growth of the economy.
Core Values: Excellence, Patriotism, Integrity, Solidarity, Accountability

How We Were in 2019: Global and Domestic Macroeconomic Landscape

Global Economic Activity Slows Down in 2019

Global economic activity slowed due largely to persistent and widespread weaknesses in trade and investment.

Chart 1.1. World GDP Growth
At constant prices, y-o-y percent change



Source: IMF World Economic Outlook Update, January 2020

For most of 2019, global trade in goods was in contraction, manufacturing activity was sluggish, while growth in the services sector eased. During the second half of 2019, trade policy uncertainty, geopolitical issues, and idiosyncratic stresses in key emerging market economies impeded manufacturing and trade. Moreover, social unrest in several countries and weather-related disturbances contributed to the slowdown in global economic activity. Global trade growth slowed sharply in 2019 to its weakest pace since the global financial crisis.

Global economic growth decelerates in 2019 amid weak trade and investment

In the US, growth eased in 2019 amid declining investment and exports. Rising tariffs led to higher trade costs, while policy uncertainty adversely affected investment and confidence. Similarly, economic activity in the Euro Area deteriorated in 2019, with some economies nearly falling into recession amid declining demand and lingering uncertainty over Brexit. In Japan, the pace of economic activity also slowed during the year due to the impact of Typhoon *Hagibis* and the increase in the value-added tax implemented by the Japanese government during the last quarter of 2019.

EMDE growth momentum remains generally subdued due to weak external conditions

Similarly, the continued weakness in global trade, investment, and industrial production weighed on the growth of emerging markets and developing economies (EMDEs) in 2019. Growth in EMDEs that are deeply integrated into global and regional production and trade networks eased significantly due to global trade tensions and decelerating trade flows. Meanwhile, economic activity also remained weak in EMDEs that have experienced the persistent impact of varying degrees of financial sector stresses or other idiosyncratic factors in the past couple of years.[1]

[1] According to the World Bank Global Economic Prospects (January 2020), these EMDEs include (1) countries that have had an increase in their J.P. Morgan EMBI credit spread of at least one standard deviation above the 2010-19 average at any time since April 2018 (Argentina, Brazil, Egypt, Gabon, Jordan, Lebanon, Mexico, Nigeria, South Africa, Sri Lanka, Tunisia, Turkey); or (2) countries that have been subject to sanctions (Iran, Russia).

For commodity export-oriented EMDEs, growth slowed in 2019 amid softer-than-projected commodity prices, oil production cuts, decelerating investment in extractive sectors, and weak demand. Growth in commodity-importing countries, excluding China, likewise eased, reflecting slower exports and investment, although this was partly tempered by relatively more accommodative monetary policy settings and fiscal support measures in some economies.

Weak global economic landscape dampens growth prospects across EMDEs

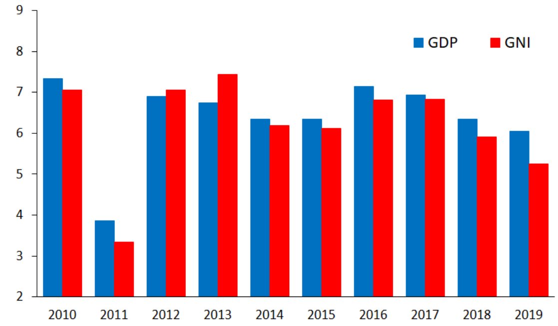
In the near term, the possibility of a pick-up in EMDE growth remains uncertain due to global headwinds such as slower growth across advanced economies, sluggish trade flows, and easing commodity prices. The potential re-emergence of global trade issues and persistent policy uncertainty in major economies could lead to a deeper slump in economic activity. Other risks include financial stress, geopolitical tensions, and possibility of weather-related shocks. However, recovery for EMDEs may accelerate should policy actions, particularly those that could resolve trade issues, result in lower policy uncertainty, thus bolstering trade, confidence, and investment. Similarly, growth prospects for advanced economies remain subdued due to the waning impact of tax cuts and increases in government spending, as well as weaker-than-expected trade and manufacturing activity.

The Philippine economy sustains growth momentum

The Philippine economy continued to perform strongly amid subdued global growth and economic uncertainties. For the full year 2019, gross domestic product (GDP) grew by 6.0 percent, albeit lower than the 6.3-percent growth recorded in 2018.[2] The GDP outturn in 2019 continued to be broad-based with major sectors contributing positively to growth. On the supply side, growth was driven by the notable contributions of both the services and industry sectors, particularly public administration and defense, compulsory social security; financial and insurance activities; wholesale and retail trade and repair of motor vehicles and motorcycles; and construction. On the demand side, growth was underpinned by the double-digit performance of government consumption in addition to the robust expansion of household spending.

Chart 1.2. Real GDP and GNI

Annual growth rate in percent; at constant 2018 prices



Source: Philippine Statistics Authority (PSA)

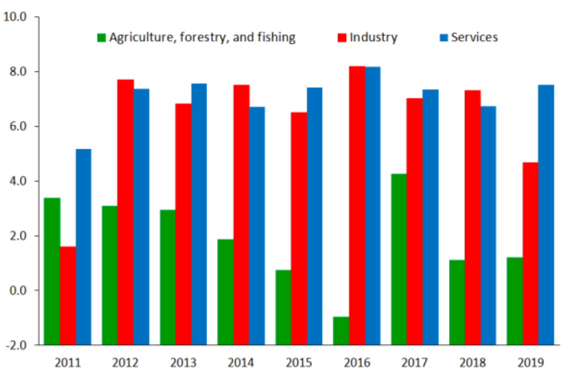
The 6.0 percent GDP growth rate in 2019 was broadly in line with the National Government (NG) growth target of 6.0 percent to 6.5 percent for the year. The delayed approval of the 2019 budget, along with the election spending ban and the prolonged *El Niño* phenomenon, cost the economy an estimated full percentage point (ppt) in growth. While the 2019 GDP growth was the lowest in eight years, the country continued to be one of the fastest-growing economies in Asia and the world, and even amid a challenging global economic backdrop.

[2] GDP figures are based on the revised and rebased Philippine System of National Accounts from 2000 to 2018 released on 20 April 2020 by the PSA.

Aggregate Output and Demand

Supply side. The services sector continued to be the primary growth engine of the Philippine economy on the production side. The sector expanded by 7.5 percent in 2019, faster than its 6.7-percent growth in the previous year. Accounting for 60.6 percent of total GDP, the services sector contributed 4.5 ppts to the 6.0-percent GDP growth in 2019. The robust performance of the services sector in 2019 reflected the broad-based expansion posted by its major subsectors, particularly public administration and defense and compulsory social security (13.4 percent), financial and insurance activities (11.9 percent) and wholesale and retail trade and repair of motor vehicles and motorcycles (8.1 percent). The services sector also gained support from the solid growth in the wholesale and retail trade and other services, which benefited from the steady expansion of household consumption, growth of e-commerce, and aggressive tourism promotion. In particular, the country's hosting of Routes Asia 2019 in Cebu on 10-12 March 2019 as well as the 30th Southeast Asian (SEA) Games on 30 November-11 December 2019 boosted the performance of the country's hotel, retail, and tourism sectors.

Chart 1.3. Gross Domestic Product, by Industrial Origin
Annual growth rate in percent; at constant 2018 prices



Source: PSA

The industry sector also remained a key growth driver. The industry sector expanded by 4.7 percent in 2019, although down from the 7.3 percent rate a year ago. Driven mainly by manufacturing and construction, the sector contributed 1.4 ppts to the GDP growth. Manufacturing posted a 3.2-percent expansion in 2019, albeit slower than the 5.1-percent expansion in 2018 and the lowest growth posted by the subsector since 2009. The slowdown in manufacturing can be attributed to the weak performance of a number of the subsector's major products: furniture (-17.9 percent in 2019 from 6.2 percent growth in 2018); coke and refined petroleum products (-15.7 percent from 17.5 percent); and computer, electronic and optical products (-4.3 percent from 8.1 percent). Nonetheless, these contractions were offset by the improvements of reproduction of recorded media (15.2 percent growth from -5.3 percent), tobacco products (14.8 percent from -12.7 percent) and basic metals (13.6 percent from -4.7 percent). Meanwhile, the construction subsector grew by 7.8 percent, attributable to the double-digit growth in construction by financial and non-financial institutions of 19.8 percent during the reference year from 6.2 percent in 2018. However, the 7.8-percent expansion of the construction subsector in 2019 was only half of the growth registered in 2018 at 14.3 percent due to the contraction in public construction by 3.6 percent, a turnaround from the 20.9-percent growth in 2018 and the slowest since 2011. The drag in public construction was brought about by the delayed passage of the 2019 budget and the ban on public works during the mid-term elections held in May 2019, which resulted in sizeable government underspending. Nonetheless, the government remains committed to accelerate its spending to pursue its "Build, Build, Build" program. The private sector also continued to be seen as an active participant in the government's overall infrastructure agenda.

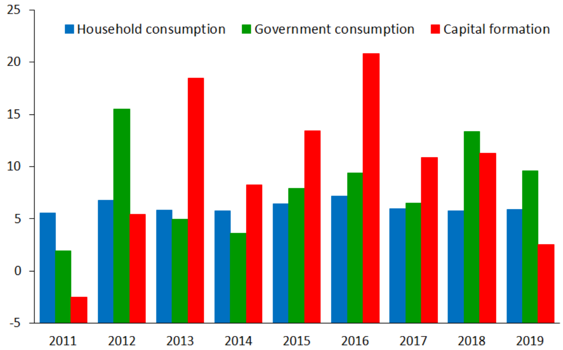
The agriculture, forestry, and fishing (AFF) sector grew by 1.2 percent in 2019, an improvement from the 1.1-percent growth in 2018. Lending support to the growth in AFF were the improvements in the output yields of key agriculture products such as corn (which expanded by 3.3 percent in 2019 from

-1.5 percent in 2018) and mango (4.3 percent from -2.9 percent). The poultry and egg production subsector also contributed to the growth of the AFF as it registered a 5.8-percent increase, similar to 2018. On the contrary, *palay*, which accounted for 20.1 percent of the total AFF output in 2019, continued to contract for the second consecutive year (by 5.9 percent) due to the prolonged dry spell during the first half of the year that adversely affected water-sensitive crops. Sugarcane production (1.9 percent share) also continued to decline by 8.9 percent from a 16.6-percent contraction in the previous year, while banana (which accounted for 7.6 percent of total AFF) declined by 2.1 percent from a 1.8-percent expansion in 2018. The livestock subsector also contracted by 0.8 percent from a 3.7-percent growth in 2018 due to the spread of African swine fever (ASF) in certain areas in the country in the fourth quarter of 2019.[3] Given these latest developments in the agriculture sector, the government continues to recognize the need to re-design its agriculture programs and projects in favor of crops resilient to weather shocks and adaptive to climate change. Farmers have been assisted to shift to high-value, short-maturing, and high-yielding crops to increase production. In light of the ASF outbreak, disease-control measures are sustained to control its spread to other provinces in the country.[4]

Demand side. On the demand side, the robust GDP performance in 2019 can be attributed mainly to the growth in government spending despite certain fiscal setbacks in the first half of 2019. In addition, robust household consumption continued to be one of the main drivers of domestic demand. On the contrary, investments in 2019 slowed down, brought about by the decline in durable equipment, particularly transport equipment and machinery specialized for particular industries, due to the delay in the implementation of major public infrastructure projects.

Chart 1.4. Gross Domestic Product, by Expenditure Shares

Annual growth rate in percent; at constant 2018 prices



Source: PSA

Household spending grew by 5.9 percent, higher than its year-ago expansion of 5.8 percent and accounted for more than half or 4.3 ppts of the 6.0-percent GDP growth in 2019. The solid performance of household spending in 2019 was supported by the improved inflation environment (which averaged 2.5 percent in 2019 from 5.2 percent in 2018) as well as the ample supply of basic commodities. Food and non-alcoholic beverages, which accounted for more than 33.9 percent of the total household spending in 2019, sustained its growth rate of 5.1 percent. Meanwhile, housing, water, electricity, gas, and other fuels, which is also a key household expenditure item accounting for 11.6 percent of total household spending, rose by 6.3 percent. This was slower than the 8.2-percent growth it posted in 2018. The slower growth is attributable to the water supply shortages, particularly in Metro Manila, during the summer season.

Government spending posted a 9.6-percent growth in 2019, albeit lower than the 13.4-percent growth in the previous year. The government's catch-up plan to fast track the implementation of infrastructure programs delivered positive results toward the second half of the year despite the

[3] ASF is a fatal animal disease affecting pigs and wild boars with up to 100 percent case fatality rate. Source: Food and Agriculture Organization of the United Nations.

[4] Statement of Socioeconomic Planning Secretary Ernesto M. Pernia at the Press Conference on The Philippine Economic Performance for the Fourth Quarter and Full-Year of 2019 dated 23 January 2020.

budget impasse and election spending ban in the first half of 2019. Sustained government spending reflects its commitment to address both lacking and ageing infrastructure and ensure the sustainability of the country's growth momentum.

Meanwhile, gross capital formation grew by 2.5 percent, a moderation from the 13.4-percent expansion in 2018. The slowdown in investments was largely due to the combined 7.0-percent drop in the expansion of durable equipment and slower growth of 8.9 percent in construction, as these two subsectors accounted for 90.9 percent of total investments in 2019. The contraction in durable equipment, particularly transport equipment and machinery specialized for particular industries, may be attributed to the spillover effect of the delay in the implementation of infrastructure projects in the first half of 2019.

While the country's domestic demand remained firm in 2019, the export sector continued to face a challenging environment. Exports grew by 2.4 percent, slower than the 11.8-percent expansion in 2018. This mainly stemmed from the slowdown in exports of goods, particularly in components/devices (semiconductors) which expanded by a mere 1.3 percent from 17.0 percent a year ago, but accounted for 39.6 percent of total goods exports during the reference year. Mounting external challenges such as the weak global growth outlook, lingering US-China trade tension, and emerging political uncertainty (e.g., Brexit), among others, contributed to the sluggish external sector performance during the review quarter. Meanwhile, imports registered a 1.8-percent growth in 2019 from a 14.6-percent expansion in 2018, resulting in a narrowing of the country's trade deficit in 2019.

Overall, the Philippine economy remains in a position of strength amid a challenging global economic backdrop. The 2019 GDP growth marked the eighth consecutive year of at least 6.0-percent growth for the domestic economy, despite the spending bottlenecks during the first half of the year. Moving forward, the timely passage of the national budget for 2020, the extended validity of the 2019 national budget, and the ongoing tax reform measures are all seen to spur sustainable and inclusive growth for the Philippine economy.

Employment. The country's employment rate in 2019 was registered at 94.9 percent, 0.2 ppt higher than the previous year's 94.7 percent, based on the Philippine Statistics Authority's (PSA) preliminary results of the Annual Labor and Employment Estimates for 2019.[5]

Labor market conditions improve

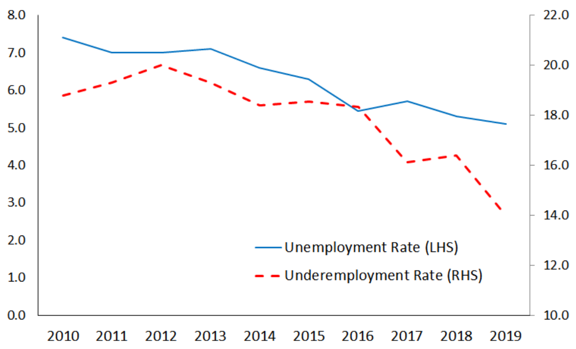
In 2019, the total number of employed persons increased by 3.1 percent to reach 42.4 million from 41.2 million a year ago. In the services sector, almost all subsectors posted employment gains with high growth rates in real estate activities (13.1 percent); accommodation and food services activities (11.0 percent); as well as professional, scientific, and technical activities (10.7 percent). Employment in the industry sector also grew driven by the construction subsector at 7.4 percent. Meanwhile, employment in the agriculture sector declined by 3.0 percent. Of the three (3) major employment sectors, the services sector accounted for more than half of the total employed persons with a share of 58.0 percent. The agriculture sector comprised 22.9 percent of total employment while the industry sector took a 19.1 percent share of total workers.

Correspondingly, the number of jobless Filipinos numbered to about 2.26 million, lower by 1.7 percent than the level in 2018 of 2.30 million, which brought down the unemployment rate to 5.1 percent in 2019 from 5.3 percent in 2018. Most of the unemployed persons were males

[5] Data is based on the average of four (4) Labor Force Survey (LFS) rounds: January, April, July, and October 2019.

(62.3 percent), between 15-24 years of age (44.8 percent), and have completed junior high school education (26.5 percent).

Chart 1.5. Unemployment/Underemployment Rate
In percent



Source: PSA

The labor force participation rate in 2019 was at 61.3 percent, 0.4 ppt higher than the 60.9 percent in 2018.

In terms of class of workers, the number of wage and salary workers rose by 3.7 percent in 2019, due mainly to the increased number of workers who worked for government or government corporations (8.3 percent). Likewise, the number of unpaid family workers and self-employed workers increased by 6.7 percent and 3.5 percent, respectively. Meanwhile, those who are employers in own family-operated farm or business decreased by 16.1 percent. Among the classes of workers, the wage and salary workers took the largest share of the total workers at 64.2 percent, followed by self-employed without any paid employee at 27.1 percent, unpaid family workers at 5.8 percent, and employer in own family-operated farm or business at 2.9 percent.

The underemployment rate[6] in 2019 decreased by 2.4 ppts to 14.0 percent from 16.4 percent in the previous year. This suggests that more Filipinos were becoming satisfied with their present jobs.[7] Of the total underemployed, 46.8 percent were engaged in the services sector, 34.5 percent in the agriculture sector, and 18.7 percent in the industry sector.

Based on the latest results of the Labor Turnover Survey (LTS), which monitors labor turnover cases for establishments in the National Capital Region (NCR) that employ 20 or more workers, the labor turnover rate (LTR)[8] in Q2 2019 was 0.7 percent, higher by 0.2 ppt than the 0.5 percent registered in Q1 2019. Accession rate was 9.5 percent, which means that for every 1,000 employed, an additional 95 workers are hired due to business expansion or replacement of separated workers. Meanwhile, the separation rate was at 8.8 percent, which means that for every 1,000 employed, around 88 workers were either laid off or voluntarily left their jobs. Of the three employment sectors in the NCR, only the services sector posted a positive LTR at 1.0 percent. Meanwhile, the agriculture and industry sectors' separation rates outpaced the accession rates resulting in negative LTRs of 0.2 percent and 0.9 percent, respectively.

Prices. Year-on-year (y-o-y) headline inflation eased significantly, averaging at 2.5 percent in 2019—lower than the 5.2 percent inflation in the previous year. This was also well within the Government's inflation target range of 3.0 percent ± 1.0 ppt for the year *(Table 3)*. The slowdown was largely driven by slower price increases of selected food and energy items.

Inflation settles within the Government's target range

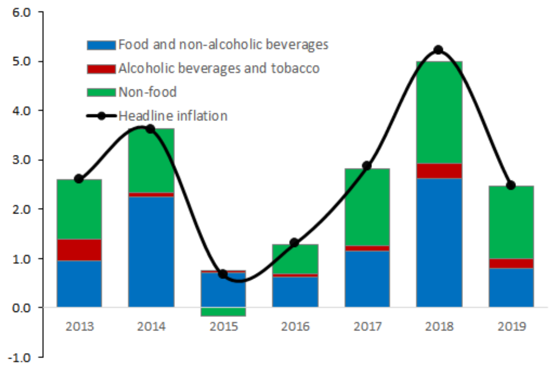
[6] Underemployment covers employed persons who express the desire to have additional hours of work in their present job or an additional job, or to have a new job with longer working hours.

[7] According to the Institute of Labor Studies, a decrease in underemployment rate indicates that there is improvement in the quality of work, hence, workers are satisfied with their present jobs.

[8] The PSA's Labor Turnover Survey (LTS) for Q2 2019 was released on 14 November 2019. The labor turnover rate is the percent difference between the rates of accession (additions) and separation (losses).

Food inflation dropped to 1.8 percent y-o-y in 2019 from 6.6 percent in 2018 due to improving supply conditions. Rice prices declined in 2019 with the continued arrival of rice imports. At the same time, inflation rates for meat, fish, oils and fats, vegetables, as well as sweeteners posted slower price increases during the year.

Chart 1.6. Headline Inflation (2012=100)
In percent



Source: PSA, BSP

Likewise, non-food inflation also fell in 2019 due largely to easing energy prices. Lower charges for electricity rates along with the downward price adjustments for liquefied petroleum gas (LPG), gasoline, kerosene, and diesel pushed down non-food inflation. At the same time, inflation for domestic airfare also declined in 2019 relative to the previous year's level.

On a geographical basis, headline inflation in both the NCR and in areas outside the NCR (AONCR) eased to 2.6 percent and 2.5 percent, respectively. These were significantly lower than the average inflation of 5.5 percent in NCR and 5.1 percent in AONCR recorded in the previous year.

Likewise, core inflation—which excludes certain volatile food and energy items to measure underlying price pressures—also slowed down to 3.2 percent in 2019 from 4.2 percent a year ago. Likewise, alternative measures of core inflation estimated by the BSP also decelerated relative to the rates registered in the preceding year.

Table 1.1. Measures of Core Inflation (2012=100)
In percent

	2018	2019
Core Inflation	4.2	3.2
Trimmed Mean[1]	4.2	2.6
Weighted Median[2]	4.1	2.9
Net of Volatile Items[3]	4.5	3.3

[1] The trimmed mean represents the average inflation rate of the (weighted) middle 70 percent in a lowest-to-highest ranking of y-o-y inflation rates for all CPI components.
[2] The weighted median represents the middle inflation rate (corresponding to a cumulative CPI weight of 50 percent) in a lowest-to-highest ranking of y-o-y inflation rates.
[3] The net of volatile items method excludes the following items: bread and cereals, vegetables, sugar, jam, honey, chocolate, and confectionery, electricity, gas, fuels and lubricants for personal transport equipment, and passenger transport by road, which represent 29.5 percent of all items.
Sources of basic data: PSA, BSP

Monetary Aggregates. Domestic liquidity or M3 increased by 11.5 percent y-o-y as of end-December 2019 following a 9.5-percent expansion recorded at end-2018. The faster growth in the money supply was consistent with robust domestic demand.

Faster growth in domestic liquidity is in line with robust domestic demand

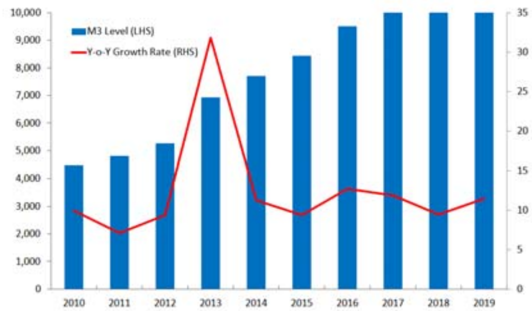
The growth in domestic liquidity was due mainly to the continued expansion in domestic claims[9] or credits to the domestic economy. Domestic claims grew by 10.7 percent y-o-y due to the sustained increase in claims on the private sector (7.8 percent), reflecting mainly the steady growth in bank lending. Meanwhile, net claims on the central government rose by 23.7 percent.

Net foreign assets (NFA) in peso terms rose by 8.9 percent y-o-y in December 2019. The BSP's NFA position continued to increase on the back of robust foreign exchange (FX) inflows composed mainly of remittances from overseas Filipinos (OFs) and business process outsourcing (BPO) receipts. Meanwhile, the NFA of banks increased due to the sustained expansion in banks' foreign assets

[9] Domestic claims consist of net claims on central government and claims on other sectors.

resulting from the growth in loans and investments in marketable debt securities.

Chart 1.7. Domestic Liquidity (M3)
Levels in billion pesos; y-o-y growth in percent



Source: BSP

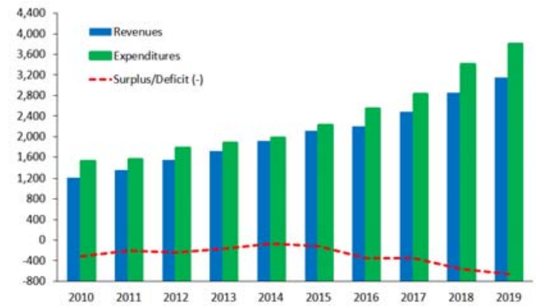
Operations of the NG. The NG recorded a higher budget deficit for 2019 by 18.3 percent to ₱660.2 billion from ₱558.3 billion in 2018. This level of fiscal deficit was above the ₱624.4 billion programmed deficit for full year 2019 and equivalent to 3.2 percent of GDP.

For 2019, revenues generated by the NG increased by 10.1 percent y-o-y to reach ₱3,137.5 billion, supported by higher collections by the Bureau of Internal Revenue (BIR) and Bureau of Customs (BOC) by 11.5 percent and 6.3 percent, respectively. Moreover, non-tax revenues increased by 8.9 percent, supported by higher collections by the Bureau of the Treasury (BTr) by 28.3 percent. Relative to the size of the economy, total NG revenue was recorded at 16.1 percent of GDP in 2019, an increase from the previous year's ratio of 15.6 percent.

NG registers wider deficit

Disbursements for the review period expanded as it reached ₱3,797.7 billion, 11.4 percent higher than in 2018. The total NG disbursements was recorded at 19.5 percent of GDP in 2019, an increase from the previous year's ratio of 18.7 percent. The upbeat spending performance was driven mainly by large double-digit growth rates in personal services, subsidies to government-owned and -controlled corporations (GOCCs) and allotment to local government units (LGUs) during the review period.

Chart 1.8. Cash Operations of the National Government
In billion pesos



Source: BTr

The 2019 fiscal deficit was financed mainly from domestic sources, which covered about 78.9 percent of the gross financing requirement of the NG, reflecting the government's bias toward domestic borrowings to minimize the impact of fluctuations in foreign exchange.

The country's favorable fiscal position and sustained economic growth, coupled with proactive liability management, resulted in the narrowing of the debt-to-GDP ratios over the last nine years. The NG's outstanding debt-to-GDP ratio declined from 48.8 percent in 2011 to 39.6 percent in 2019, with the share of domestic debt at around two-thirds of the total outstanding debt. This provides sufficient room for fiscal authorities to further boost public spending, especially on infrastructure, education, health, and targeted social protection programs that are not only there to provide additional growth impetus, but to likewise improve human capital and enhance the country's competitiveness.

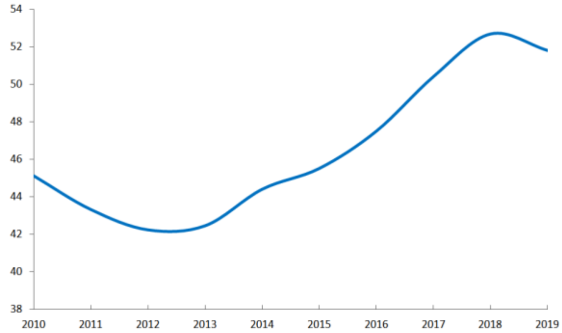
Financial Market Conditions Remain Firm amid Risks

Foreign Exchange (FX) Market. The peso averaged ₱51.80/US$1 for the period 2 January to 27 December 2019, appreciating by 1.70 percent from the ₱52.68/US$1 average in 2018.[10] The appreciation of the peso against the US dollar during the year was due partly to the series of interest rate cuts by the US Federal Reserve (Fed) and developments in the trade negotiations between the US and its major trading partners, including China. On the domestic side, the continued easing of local inflation, sustained rise in the country's international reserves, and strong remittance inflow toward the end of the year have likewise provided support to the peso.

Peso appreciates on easing inflation and sustained rise in reserves

As of end-December 2019, the peso closed at ₱50.64/US$1, appreciating by 3.84 percent from its closing rate of ₱52.58/US$1 on end-December 2018.[11] The peso appreciated along with some regional currencies except the South Korean won, Indian rupee, and Chinese yuan which depreciated against the US dollar.

Chart 1.9. Philippine Peso – US Dollar Exchange Rate
₱/US$1



Nonetheless, the sustained inflows of foreign exchange from OF remittances, foreign direct investments (FDIs), BPO receipts, the ample level of the country's gross international reserves (GIR), and the country's sustained economic growth continued to provide support to the peso.

Meanwhile, the volatility of the peso (as measured by the coefficient of variation) stood at 1.24 percent (year-to-date) on 27 December 2019. This was relatively lower than the volatility of other currencies in the region.[12]

Table 1.2. 2019 Coefficient of variation of selected currencies
In percent

Korean won	2.51
Chinese yuan	2.14
Thai baht	2.05
Japanese yen	1.45
Philippine peso	**1.24**
Malaysian ringgit	0.98
Indonesian rupiah	0.89
Singapore dollar	0.82

Source of basic data: Bloomberg

On a real trade-weighted basis, the peso lost external price competitiveness against the basket of currencies of all trading partners (TPI) and trading partners in advanced (TPI-A) and developing countries (TPI-D) in 2019. The real effective exchange rate (REER) index of the peso increased y-o-y against the TPI, TPI-A, and TPI-D by 4.57 percent, 4.36 percent, and 4.69 percent,

[10] Dollar rates or the reciprocal of the peso-dollar rates (based on reference rates data) were used to compute for the percentage change.
[11] Last trading day for the Philippines for 2019 and 2018 was 27 and 28 December, respectively.

[12] The coefficient of variation is computed as the standard deviation of the daily exchange rates divided by the average exchange rate for the period.

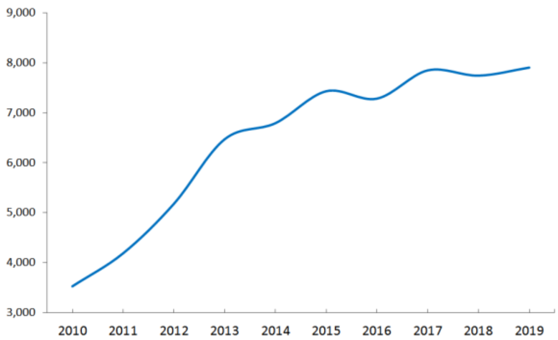
respectively, due mainly to the peso's nominal appreciation.[13]

Equities market. The Philippine stock market started on a positive tone in 2019 amid: easing inflation; monetary policy easing undertaken by the BSP; declining interest rates; sustained economic growth; stronger peso; and favorable valuations which encouraged investors to include fundamentally sound companies in their portfolio.

Philippine stock market rallies on positive developments

However, there were developments in the domestic market and abroad that partly affected foreign fund flows, which tempered the increase in the benchmark index during the year in review.

Chart 1.10. Annual Average of Philippine Stock Exchange index (PSEi)



Source: Philippine Stock Exchange (PSE)

Domestically, the late approval of the national budget that delayed the implementation of infrastructure projects and issues on the concession contracts of certain water utility companies raised investors' concern in the equities market.

[13] The TPI measures the nominal and real effective exchange rates of the peso across the currencies of 14 major trading partners of the Philippines which includes US, Euro Area, Japan, Australia, China, Singapore, South Korea, Hong Kong, Malaysia, Taiwan, Indonesia, Saudi Arabia, United Arab Emirates, and Thailand. The TPI-A measures the effective exchange rates of the peso across currencies of trading partners in advanced countries comprising of the US, Japan, Euro Area, and Australia. The TPI-D measures the effective exchange rates of the peso across 10 currencies of partner developing countries which includes China, Singapore, South Korea, Hong Kong, Malaysia, Taiwan, Indonesia, Saudi Arabia, United Arab Emirates, and Thailand.

Externally, the socio-political issues in Hong Kong, conflicting signals about the US-China trade deal, fears that China's economic slowdown will spillover to neighboring countries, and the impeachment case against the US President negatively affected investors' appetite for emerging market assets as the said issues were expected to hurt global economic growth.

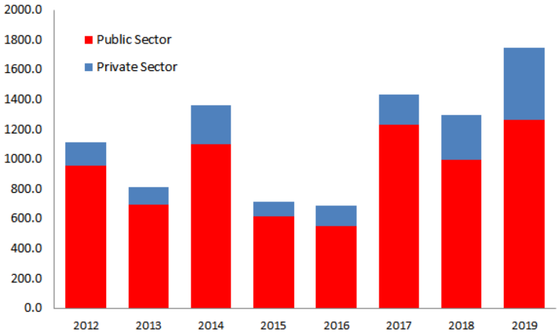
With these developments, the Philippine Stock Exchange index (PSEi) averaged 7,906.4 index points in 2019, 2.1 percent higher y-o-y *(Table 8)*. Similarly, total market capitalization rose by 3.5 percent from ₱16.15 trillion as of end-December 2018 to ₱16.71 trillion as of end-December 2019. Meanwhile, foreign investors posted lower net outflows (net foreign selling) in 2019 at ₱18.9 billion when compared to the ₱60.4 billion net outflows in 2018. The price-earnings ratio for listed firms declined from 17.89x at end-December 2018 to 16.06x at end-December 2019.

For 2020, investors expected a more favorable equities market as a result of improved domestic economic conditions, attractive stock valuations, the early approval of the national budget, and the signing of the phase one trade deal between the US and China. However, heightened uncertainty brought about by natural disasters and geopolitical tensions could result in volatilities that may prompt investors to shift to safe haven assets abroad and negatively affect the local financial markets.

Bond Market. The Philippine bond market continued to be dominated by government securities (GS). Although the size of the Philippine corporate bond market grew over the years, it is still relatively small compared to that of government bonds.

Chart 1.11. Local Currency Bond Issuances

In billion pesos



Source: Philippine Dealing System (PDS)

During the year, private issuances of local currency bonds registered 27.6 percent of the total market share and were mostly from the real estate, financial corporations, and holding firms. The expansion of corporate bond issuances was fueled by the revised rules for bank bond issuance implemented since 2018, improved liquidity conditions, and benign inflation environment.[14]

The government continued to favor domestic sources, which were estimated to account for about 70 percent of the borrowings, while the remaining 30 percent came from foreign sources. This limited the country's exposure to FX risks. Investor preference for shorter-dated debt paper instruments was greater than the preference for the longer end of the curve as it was easier to discount information and formulate strategies in the immediate term.

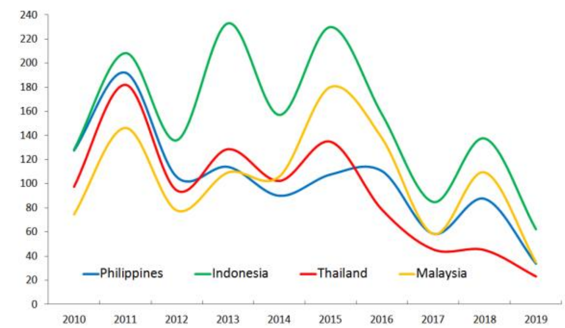
Philippine bond market remains dominated by government securities

In the secondary market, there was improved trading activity. This partly reflected the significant reforms in the development of the local currency debt market such as the opening of additional auction windows of the BTr, namely, the over the counter (OTC) and tap facilities. Moreover, the increased supply of liquid, long-dated papers, especially relatively high-yielding retail treasury bonds (RTBs) could have provided the incentive to more upbeat trading.

Meanwhile, the degree of trading activity was relatively dependent on external and domestic developments. In particular, the challenging external environment dampened investors' risk sentiment. Major external developments included mainly the geopolitical uncertainties and the lingering protectionist policies in major economies (i.e., US-China trade tension) that propelled negative investor appetite. Domestically, investor confidence was supported by low inflation and stable economic growth. Overall, the positive developments outweighed the negative sentiments in the market as manifested in the spillover of lower yields demanded for owning Philippine debt papers. The Philippine 5-year sovereign credit default swap (CDS) spread decreased and stood at 34 bps as of end-December 2019. This traded closely with Malaysia's 35 bps, was narrower than Indonesia's 62 bps, but was wider than Thailand's 23 bps and Korea's 22 bps spreads.

Chart 1.12. Five-Year CDS Spreads of Selected Asian Countries

In basis points



Source: Bloomberg

[14] BSP Circular No. 1010 issued in August 2018 simplified the process for universal and commercial banks as well as quasi-banks to raise funds in the bond market.

Credit Risk Assessment. The S&P Global Ratings upgraded the country's credit rating from "BBB" to "BBB+" with a stable outlook on 30 April 2019. The "BBB+ stable" is a notch away from 'A' territory rating.

The country receives a credit rating upgrade

S&P recognized the following in its latest rating: 1) the Philippines' above-average economic growth, a healthy external position, and sustainable public finance; 2) continued exercise of fiscal discipline as the government invests more in much needed infrastructure and human capital development; 3) the major reforms that included laws on tax reform, liberalization of the rice sector, and strengthening of the BSP's charter as well as initiatives to increase the ease of doing business in the country.
Meanwhile, on 26 April 2019, Japan Credit Rating Agency (JCRA), raised its outlook for the Philippines from BBB+ stable to BBB+ positive, citing the government's twin efforts to accelerate infrastructure development and boost revenue through tax reform.

On 31 May 2019, Fitch Ratings affirmed the Philippines' "BBB" rating with a 'stable' outlook. The rating is a notch above the minimum investment grade and the stable outlook indicates the absence of factors that can change the rating within the short term.

Among others, Fitch cited the following: 1) sustainability of the economy's robust growth; 2) decisive monetary and non-monetary measures that the government implemented to bring back inflation to within-target range; 3) stable banking sector, 4) adequate FX reserves supported by sustained inflows in the form of remittances and BPO revenues; and 5) manageable debt situation.

Box Article 1

70 Years of Central Banking in the Philippines[1]

The Philippine central bank started its operations on 3 January 1949. This was a critical period in the country's history. The Philippines was extensively rebuilding itself from the devastation of war and strengthening its democratic institutions after gaining its independence from the Americans in 1946. The establishment of the Central Bank of the Philippines (CBP) was seen as a decisive step toward "economic sovereignty."[2]

Since its establishment, central banking in the Philippines has undergone significant changes. The legal and institutional framework that defines central bank actions has evolved over time; shaped by developments in the country's macroeconomic environment.

1949 – 1950s

The CBP was established by virtue of Republic Act (RA) No. 265 in June 1948. Policymakers sought to establish a development-oriented central bank that will support the massive reconstruction being undertaken by the Philippines during that period. Thus, aside from maintaining monetary stability and preserving the international value of the peso into other freely convertible currencies, the central bank was also tasked with promoting rising levels of production, employment, and real income. During this period, the CBP adopted selective credit control to channel scarce resources to priority sectors and implemented comprehensive foreign exchange controls.

During this period, the CBP crafted a rural credit program and took over the supervision of banks. The country's financial system significantly grew in the 1950s bolstered by the enactment of key banking laws, including the Rural Banks Act (RA No. 720) in June 1952, Deposit Secrecy Act (RA No. 1405) in September 1955, and the Development Bank of the Philippines[3] (DBP) Charter (RA No. 2081) in June 1958. The conversion of the Rehabilitation Finance Corporation (RFC) into the DBP encouraged the establishment of private development banks in the provinces and cities.[4]

However, the pursuit of multiple objectives resulted in the CBP's incoherent policy actions during its early years. Moreover, the CBP was not an independent institution. This was evident in the composition of its Monetary Board, wherein representatives of key government offices constituted the membership. Moreover, with the exception of the Governor, all were only part-time members.

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[1] Based on the BSP anniversary book, "The Story of Philippine Central Banking: Stability and Strength at Seventy."

[2] The idea for a central bank for the Philippines came about as early as 1933. A basic bill for the establishment of a central bank for the country was drafted following careful considerations of the economic provisions of the Hare-Hawes-Cutting Act, the first law that set a specific date for Philippine independence from the United States. During the Commonwealth period (1935-1941), discussions about the establishment of a Philippine central bank that would promote price stability and economic growth continued. The country's monetary system was then administered by the Department of Finance and the National Treasury. The Philippines was on the exchange standard using the US dollar—which was backed by 100 percent gold reserve—as the standard currency. In 1939, as required by the Tydings-McDuffie Act, the Philippine legislature passed a law establishing a central bank. However, it was disapproved by President Franklin D. Roosevelt due to strong opposition from vested interests. A second law was passed in 1944 during the Japanese occupation but the arrival of the American liberalization forces aborted its implementation.

[3] Formerly Rehabilitation Finance Corporation.

[4] Beginning in 1954, a major factor in the growth of the domestic banking system was the issuance of government bonds by the Ramon Magsaysay administration which allowed banks to expand their asset base.

1960s – 1970s

In the early 1960s, the CBP launched a 4-stage foreign exchange decontrol program aimed at lifting quantitative restrictions on foreign transactions and restoring the economy to the workings of market forces and free enterprise (CBP Annual Report, 1960). Extensive amendments to the Central Bank and General Banking Acts were likewise undertaken.[5] In 29 November 1972, Presidential Decrees (PD) No. 71 and No. 72 were issued amending RA No. 265. The mandate of the CBP shifted from that of a development-oriented central bank to one that is focused on maintaining internal and external monetary stability in the Philippines. Moreover, the supervisory ambit of the CBP was broadened to include all financial intermediaries, in addition to the banking system. CBP authority over banks and non-banks (except insurance companies) was likewise consolidated and restrictions on the entry of new banks in the system were imposed, but with corresponding efforts to improve the efficiency of existing banks (Bautista, 1992).[6] In 1979, an International Monetary Fund-International Bank for Reconstruction and Development (IMF-IBRD) Financial Sector Survey proposed institutional and policy reforms that included the adoption of the modified universal banking concept and the liberalization of interest rates.

Nonetheless, despite the changes in its mandate, the CBP continued to use selective credit control as one of its key policy tools. Additionally, the CBP remained under the guidance of the national government.

1980s to 1990s

In 1981, the domestic financial system was hit with a crisis of confidence.[7] Eventually, the financial crisis gave way to a balance of payments (BOP) crisis in 1983 and a deep economic recession in 1984 – 1985. The country announced on 17 October 1983 that it was unable to meet debt-service obligation on its foreign currency debt amounting to US$24.4 billion. The peso was devalued three times which precipitated the shift from a fixed exchange rate regime to a "managed float" in October 1984 (Bautista, 2003). Following these developments, monetary policy in the Philippines moved toward monetary aggregate targeting. This framework was adopted in an attempt to reduce inflation, which rose to double-digit levels and peaked at 60 percent in 1984. Inflation was quickly brought down to single digits with the tightening of monetary policy.

On 10 June 1993, RA No. 7653, also known as the New Central Bank Act, was passed into law. Under this Act, the Philippine government restructured and recapitalized the central bank, paving way to the establishment of the Bangko Sentral ng Pilipinas (BSP) and replacing CBP as the country's central monetary authority. The new central bank act granted fiscal and administrative independence to the BSP. Moreover, it put price stability as an overriding objective of the BSP. Other important provisions in RA No. 7653 included the constitution of a new Monetary Board (MB) and the transfer of certain assets and liabilities from the old CBP to the BSP. This was completed on 20 December 1993. Measures were also put in place to enhance the efficiency and maintain stability in the financial system.[8,9]

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[5] A Joint IMF-CBP Banking Survey Commission was created in 1971 to review the overall financial system and make recommendations. Amendments to the General Banking Act and the Central Bank Act in 1972 – 1973 reflect the reform measures that were recommended by the Commission. The amendments covered 56 of the original 142 provisions of RA 265 resulting in a major overhaul of the CBP to keep it abreast with the structural changes that occurred in the economy (Lamberte, 2002).

[6] However, the CBP allowed the entry of foreign banks mainly through equity participation in domestic banks and the creation of offshore banking units (Intal and Llanto, 1998).

[7] The crisis of confidence was precipitated by the Dewey Dee episode. Dewey Dee was an industrial magnate who had borrowed heavily in the commercial paper market. In January 1981, Dee fled the country leaving behind an estimated P500 million to P800 million of debt (Nascimento, 1991).

[8] These measures included the relaxation of rules governing the establishment of automated tellering machines (ATMs); reduction in the reserve requirement on banks' deposit and deposit substitute liabilities by an aggregate of three percentage points; lowering of the liquidity floor requirement on government

In July 1997, the Thai baht collapsed, triggering a series of currency depreciations and stock market declines that quickly spread in East Asian countries. The BSP immediately tried to stabilize the peso to mitigate the potential adverse effect on the banking and corporate sectors (Tuaño-Amador, 2009). The BSP used its foreign exchange reserves to preserve the orderly functioning of the foreign exchange market.

In the aftermath of the Asian financial crisis, the BSP pursued banking reforms focused on upgrading risk-based supervision technology and capacity, including the development of hedging instruments, promoting corporate governance, and aligning the regulatory framework with international best standards and practices (Tuaño-Amador, 2009). In 1998, the BSP adopted consolidated examination and supervision of banks and allowed the entry of banks into electronic commerce via the Electronic Fund Instruction System.[10] Prudential measures were likewise adopted to improve bank asset quality and align the country's prudential regulations with international standards.[11]

2000s and onwards

The Philippines, like many other Asian economies, adopted inflation targeting (IT) as its framework for monetary policy in 2002. The BSP's adoption of the IT framework allowed the Philippines to achieve lower and more stable inflation.[12] Moreover, quantitative assessments have shown that inflation dynamics in the Philippines changed following the adoption of IT. Inflation persistence gradually declined as the inflation process shifted from a backward-looking to a more forward-looking approach. The adoption of a fixed medium-term inflation target by the BSP starting in 2010 helped promote a long-term view on inflation, which increased the predictability of monetary policy and, in the process, helped anchor inflation expectations.

In 2013, the BSP introduced the concept of the interest rate corridor (IRC) as a system for steering short-term market interest rates toward the policy rate and improve the transmission of monetary policy to both the system and the markets. The BSP began its transition to the implementation of a new regime of monetary policy implementation in June 2016.

To strengthen the domestic financial system, the BSP adopted a broad set of strategic reforms to enhance systemic stability, institutional safety and soundness, and protection of the public. One of the major initiatives along this area is the adoption of risk-based supervision. The BSP likewise subscribed to the Basel Core Principles for Effective Banking Supervision (BCBS) and kept pace with developments in international standards for capital regulation and accounting practices. The Basel reforms and risk management standards were issued in 2001 and 2006. The country also adopted the Philippine Financial Reporting Standards and Philippine Accounting Standards in 2005 for banks' reporting to the BSP.

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deposits/funds with government depository banks from 75 percent to 50 percent to provide banks with greater loanable funds for production and investment as well as to reduce intermediation costs of banks; and the continued relaxation of rules and regulations governing the establishment and relocation/voluntary closure of branches and other banking offices of commercial and thrift banks (CBP Annual Report, 1993).

9 On 18 May 1994, the Philippines passed Republic Act No. 7721, which liberalized the entry and scope of operation of foreign banks. Prior to this, no foreign bank has been allowed entry in the country under the 1948 General Banking Act, except the four foreign banks that were licensed during the Spanish and American colonial periods.

10 Electronic Fund Instruction System is the modern alternative to the old check-clearing process when sending and receiving funds between a payer and a payee.

11 These prudential measures were intended to: (1) enhance the capacity of banks to absorb shocks by building capital and liquidity buffers; (2) improve the bank resolution strategy; (3) shift to risk-based supervision; (4) reduce connected or DOSRI lending; and (5) enhance transparency in bank reporting through increased disclosure requirements.

12 During the monetary aggregate targeting period (1985 – Q2 1995), inflation averaged at 11.2 percent; declining to 7.0 percent when the BSP shifted to modified monetary aggregate targeting in the Q2 1995 to 2001 period. Inflation further declined to 3.8 percent during the IT period (2002 – Q4 2019). Moreover, inflation volatility considerably dropped between the monetary aggregate targeting and modified monetary aggregate targeting periods. During the first seven (7) years of the implementation of IT (i.e., 2002 – 2008), inflation volatility was at 2.3 percent, but this declined to 1.5 percent in the 2009 to 2019 period.

Several banking laws were enacted which further strengthened the legal and regulatory framework for financial supervision in the Philippines. These include the General Banking Law (GBL) of 2000 (RA No. 8791) in April 2000 on the regulation of banks, quasi-banks, and trust entities. Additionally, the GBL underscored microfinance in the Philippines to deepen the access to credit of micro entrepreneurs and promote countryside development. In 2001, the BSP adopted microfinance as a flagship program for poverty alleviation and financial inclusion. Other banking-related legislations passed into law were the Anti-Money Laundering Act of 2001 (RA No. 9160, as amended by RA No. 9194 in March 2003 on dirty money), An Act to Promote the Establishment of Barangay Micro Business Enterprises (RA No. 9178) in November 2002, and the Special Purpose Vehicle Act of 2002 (RA No. 9182) in December 2002 which sets the regulatory framework for the disposition of banks' non-performing assets.

The way forward

On 14 February 2019, RA No. 11211, which provides amendments to the New Central Bank Act (RA No. 7653), was signed into law. The amendments to the BSP Charter have put the BSP in a stronger position to pursue its price and financial stability mandates amid robust economic growth and rapid technological innovations in the financial system. Under RA No. 11211, financial stability became an explicit mandate for the BSP. However, the BSP shares the responsibility of promoting financial stability with other government agencies such as the Department of Finance (DOF), the Securities and Exchange Commission (SEC), the Insurance Commission (IC), and the Philippine Deposit Insurance Corporation (PDIC). Another important amendment is the restoration of the authority to obtain information from the non-bank private sector. This is crucial given that monetary policy is dependent on the relevance, reliability, timeliness, and comprehensiveness of the information used. Moreover, the reinstatement of the central bank's authority to issue its own securities allows the BSP to calibrate the size and timing of its monetary operations to bring market interest rates in line with policy settings and more directly influence the availability of loanable funds in the financial system. The Charter amendments strengthened the scope of BSP's supervision over money service businesses, credit granting businesses, and payment system operators. This puts the BSP in a strategic position to address potential risks that could arise from the linkages of banks and these financial entities. Together with RA No. 11127 or the "The National Payment Systems Act" which promotes efficiency in domestic financial transactions, the amendments to the BSP charter provides the central bank with an enhanced legal and regulatory framework to ascertain the stability of the financial system.

Over the last 70 years, the central bank experienced changes to its mandates and legal and institutional frameworks which have allowed it to help the economy navigate through crises and difficult periods. Through the years, the central bank has provided a steady hand to the domestic economy through its strong commitment to price stability and by ensuring a sound and stable financial system. Moving forward, the BSP remains committed to pursue its mandates and objectives conducive to sustained and inclusive economic growth.

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Philippine Banking System Maintains Growth Trajectory

The Philippine banking system maintained its growth momentum in 2019, with a similarly sustained growth in assets, loans, deposits, and capital. It also maintained adequate liquidity buffer and cost-efficient operations to sustain profitability.

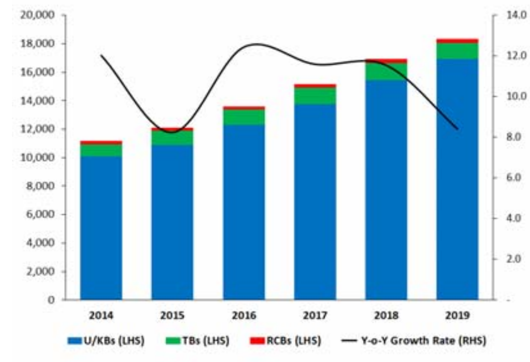
The BSP's proactive implementation of timely, appropriate, and calibrated prudential reforms raised the bar on corporate governance standards and risk management culture, fostered sound and safe BSP-supervised financial institutions (BSFIs), and provided greater access to financial services.

Banks constantly expand resources amid a growing economy

The Philippine economy and the banking sector sustained their growth story in 2019. While real GDP growth was recorded at 6.0 percent in 2019, banks likewise constantly expanded their resources. In particular, the Philippine banking system (PBS) expanded its assets to ₱18.3 trillion as of end-December 2019,which was 8.4 percent higher than the level posted in the same period in the previous year. Growth in bank resources continued to benefit from the financial intermediation necessary to support the growing economy.

Chart 1.13. Resources of the Banking System

In billion pesos, growth rate in percent

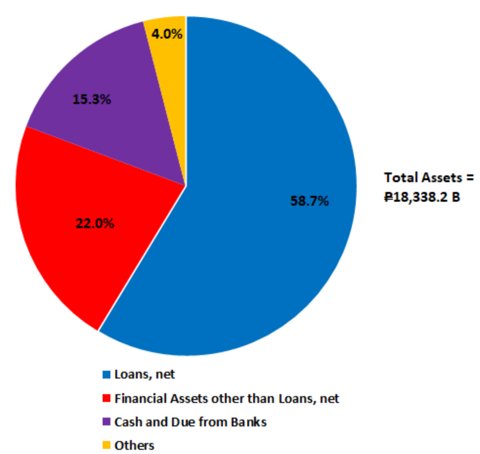


Source: BSP

Across banking groups, universal and commercial banks (U/KBs) continue to hold most of the banking system's assets. As of end-December 2019, the U/KB industry's total assets stood at ₱16.9 trillion, which corresponds to 92.3 percent of the banking system's assets.

Chart 1.14. Resources of the Banking System

In billion pesos, share in percent



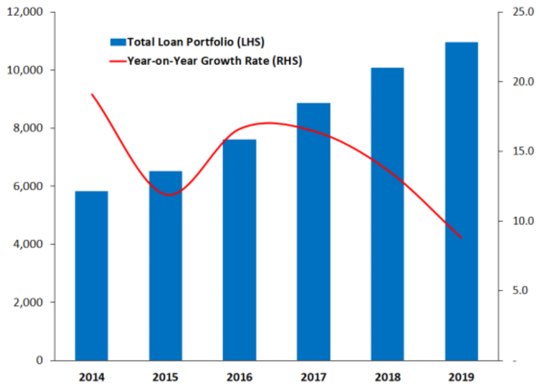
Source: BSP

Loans continue to hold a sizeable share of bank assets

As of end-December 2019, loans, net of allowance for credit losses, made up 58.7 percent of the banks with shares at 22.0 percent and 15.3 percent, respectively.

Chart 1.15. Total Loan Portfolio of the Banking System

In billion pesos, growth rate in percent

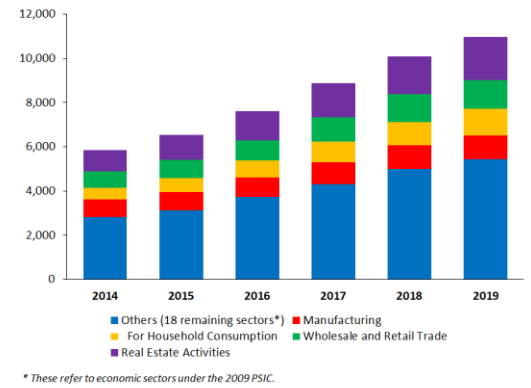


Source: BSP

Credit growth in the banking system continued in line with the country's strong macroeconomic fundamentals. The total loan portfolio (TLP) of the banking system grew, albeit on a decelerated pace, by 8.8 percent y-o-y to ₱11.0 trillion as of end-December 2019.

Chart 1.16. Gross TLP by Economic Activity

In billion pesos



* These refer to economic sectors under the 2009 PSIC.

Source: BSP

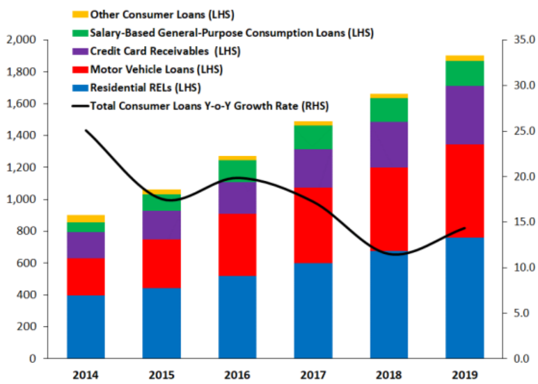
By economic activity, real estate activities had the largest share of TLP at 17.8 percent. This was followed by wholesale and retail trade, loans for household consumption, and manufacturing which had TLP shares of 11.9 percent, 10.9 percent, and 9.8 percent, respectively. Loans for real estate activities and household consumption posted double-digit growth rates due to sustained lending to the real estate industry and the consumer segment.

Residential housing mortgage and consumer finance segments post significant growth

Growth of consumer and real estate loans accelerated in 2019. Consumer loans of U/KBs and thrift banks (TBs), on solo basis, increased by 14.4 percent y-o-y to ₱1.9 trillion based on the latest data as of end-December 2019.

Chart 1.17. Components of Consumer Loans (Solo Basis) of U/KBs and TBs

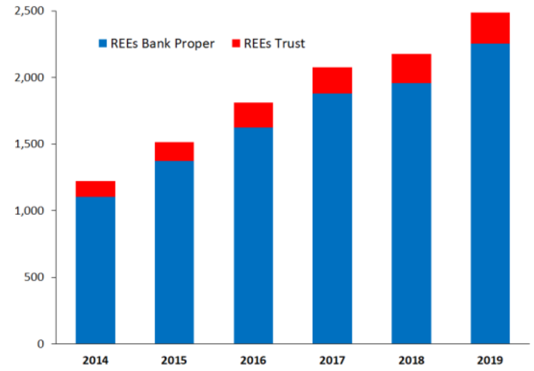
In billion pesos, growth rate in percent



Source: BSP

In the same manner, real estate exposures (REEs) of U/KBs and TBs, on consolidated basis, increased by 14.1 percent y-o-y to ₱2.5 trillion. These REEs consist of 87.1 percent real estate loans (RELs) and 12.9 percent real estate investments (REIs).

Chart 1.18. Real Estate Exposures (U/KBs and TBs, Bank Proper and Trust Departments)
In billion pesos

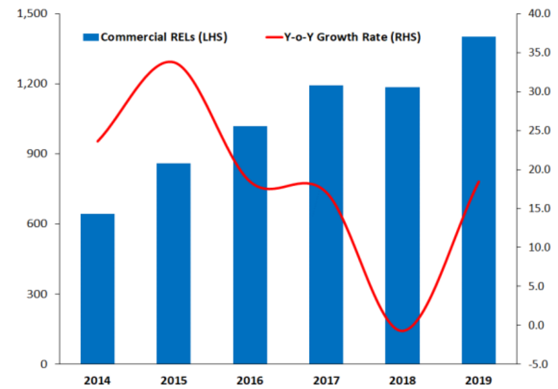


Source: BSP

Total RELs went up by 16.4 percent to ₱2.2 trillion as of end-December 2019 with corresponding acceleration in the growth rates of both commercial RELs and residential RELs.

On one hand, commercial RELs, which accounted for approximately two-thirds of total RELs and mainly drove the growth in REEs, grew by 18.4 percent y-o-y to ₱1.4 trillion. Growth of commercial RELs stalled in 2018 due to uncertainties in the Government's tax reform program but rebounded in 2019 as the concerns were cleared.

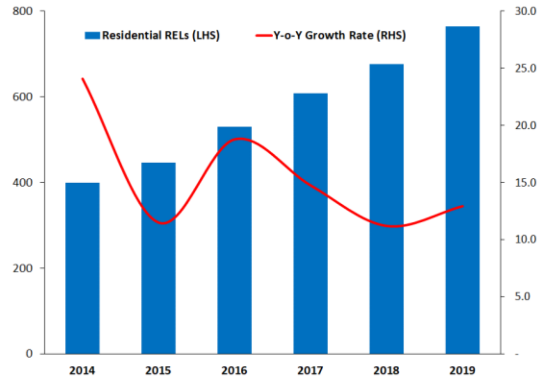
Chart 1.19. Commercial Real Estate Loans of U/KBs and TBs (Consolidated)
In billion pesos, growth rate in percent



Source: BSP

On the other hand, outstanding residential RELs grew by 13.0 percent y-o-y to ₱764.0 billion.

Chart 1.20. Residential Real Estate Loans of U/KBs and TBs (Consolidated)
In billion pesos, growth rate in percent



Source: BSP

Residential real estate prices for various types of housing units, as measured by the Residential Real Estate Price Index (RREPI), rose by 10.2 percent y-o-y as of end-December 2019. The robust increase in the RREPI may be attributed to the rising demand for residential properties from beneficiaries of OFs, expatriates, and halfway houses of urban commuters to avoid traffic.

To ensure that banks' exposure to REEs remains manageable, prudential measures have been maintained. These measures included: (1) the REL limit of 20 percent of TLP (with exclusions), net of interbank loans, for U/KBs;[27] (2) heightened surveillance of banks' real estate and project finance exposures; and (3) the real estate stress test (REST) thresholds for U/KBs and TBs.[28]

[27] For purposes of computing the 20 percent limit as detailed in Circular No. 600 dated 4 February 2008, RELs of U/KBs exclude the following: (1) loans to individual households for housing units and acquisition of land to be occupied by the borrower; (2) loans to developers/construction companies for socialized and low-cost residential properties for government housing programs; (3) loans guaranteed by the Home Guaranty Corporation; and (4) loans collateralized by non-risk assets.

[28] Under Circular No. 839 dated 27 June 2014, the REST limit combines a macroprudential overlay of a severe stress test scenario, the principle of loss absorbency through minimum capital ratio thresholds and heightened supervisory response.

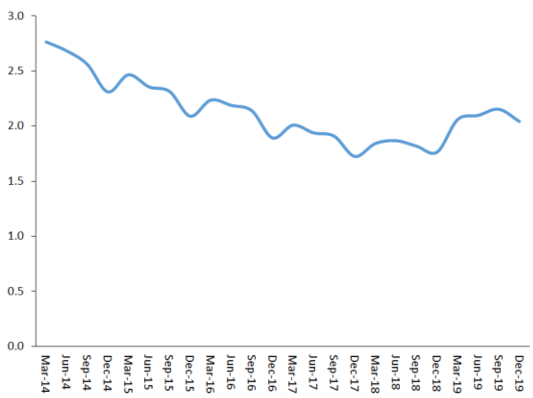
The REST results during the period indicated that the stressed capital adequacy ratio (CAR) and common equity tier 1 (CET1) ratio of the U/KB industry were still above the minimum requirements of the BSP both for solo and consolidated bases.

Banks' asset quality remains satisfactory with adequate provisioning for loan losses

Amid the banks' credit expansion, the quality of their assets remains satisfactory due to their sound credit risk management standards. Likewise, the non-performing loan (NPL) ratio has been kept satisfactory and manageable amid the continued growth of real estate exposures as it settled at 2.0 percent as of end-December 2019. The slight uptick in the banking system's NPL ratio, which started in end-December 2018, can be attributed to the rigorous amendments to the regulatory definition of NPLs under Circular No. 941 dated 20 January 2017.

Chart 1.21. Philippine Banking System NPL Ratio

In percent



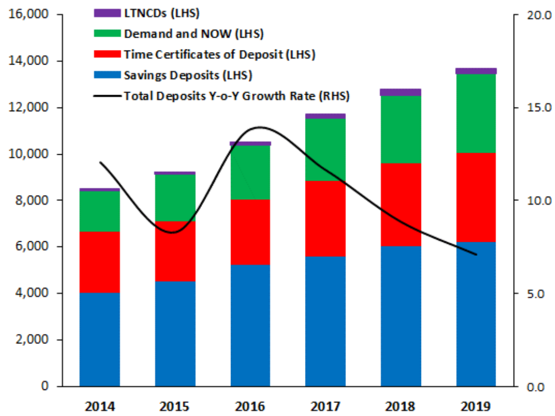
Source: BSP

Sustained deposit growth funds bank asset expansion

The sustained increase in bank assets was attributed mainly to the growth in deposits. Bank deposits registered a 7.1-percent growth in end-December 2019 to ₱13.7 trillion. Most of these deposits comprised of the more stable savings deposits at 45.3 percent.

Chart 1.22. Philippine Banking System Deposit Liabilities by Type

In billion pesos, growth rate in percent



Source: BSP

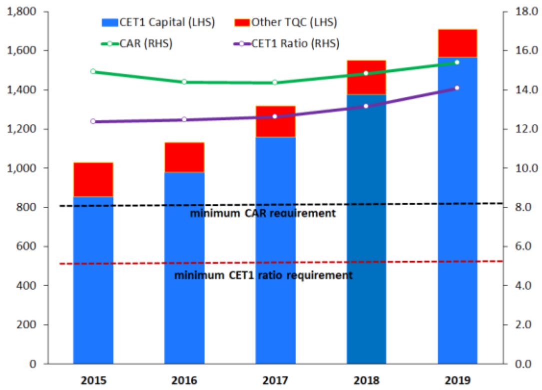
Banks maintain sufficient capital and buffers for risk-taking activities

Amid loan growth, banks remained well-capitalized as the CARs of the U/KB industry, on solo and consolidated bases, were well above the minimum thresholds set by the BSP (10 percent) and the Bank for International Settlements (BIS).

As of end-December 2019, the CAR of the U/KB industry further strengthened to 15.4 percent on solo basis. The industry's CET1 ratio likewise toughened to 14.1 percent. Banks' risk-taking activities are supported by adequate capital, which is mainly composed of common equity and retained earnings.

Chart 1.23. U/KBs Risk-Based Capital (Solo basis)

In billion pesos, ratio in percent



Source: BSP

Meanwhile, the total capital accounts-to-total assets ratio of the banking system stood at 12.6 percent as of end-December 2019.

Banks keep sufficient buffers to meet liquidity and funding requirements

As of end-December 2019, liquidity of U/KBs and subsidiary banks and quasi-banks (QBs) remained ample as their liquidity coverage ratio (LCR) continued to rise, in general. The LCR of U/KBs stood at 169.9 percent on a solo basis from 154.3 percent recorded last year.

Moreover, U/KBs posted high-quality liquid assets (HQLAs) on a solo basis of ₱5.0 trillion, wherein a total of ₱4.8 trillion or 96.1 percent were considered as Level 1 assets.[29] The relatively high LCRs of U/KBs indicated that banks held and managed HQLAs to further strengthen their liquidity position.

The minimum liquidity ratio (MLR) of stand-alone TBs and rural and cooperative banks (R/CBs) surpassed the 20 percent minimum requirement, with the MLR of the former sharply increasing starting January 2019. As of end-December 2019, the MLRs of stand-alone TBs, rural bank and cooperative banks were 32.6 percent, 54.8 percent and 37.1 percent, respectively.

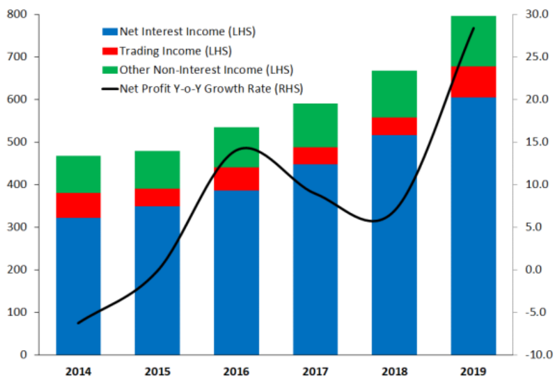
As of end-December 2019, U/KBs' net stable funding ratios (NSFRs) stood at 130.0 percent, on solo and consolidated bases, and were well above the BSP regulatory threshold of 100.0 percent. The NSFR, on a solo basis, of covered TBs, R/CBs, and non-bank financial institutions with quasi-banking functions (NBQBs) stood at 125.0 percent, 111.0 percent, and 89.0 percent, respectively.

Banks remain profitable supported by strong core earnings

For 2019, net profit grew by 28.4 percent y-o-y to ₱230.7 billion. The overall profitability was buoyed up by the 17.4 percent increase in net interest income to ₱605.2 billion, primarily from lending activities.

Chart 1.24. Philippine Banking System Sources of Revenue

In billion pesos, growth rate in percent



Source: BSP

The banking system's return on assets (ROA) ratio of 1.3 percent for 2019 was slightly higher than the previous year's 1.1 percent. Return on equity

[29] These HQLAs consist of cash on hand, BSP reserves, overnight and term deposits, government securities, corporate and equity securities, and other sovereign/central banks.

(ROE) improved to 10.5 percent from the previous year's 9.4 percent.

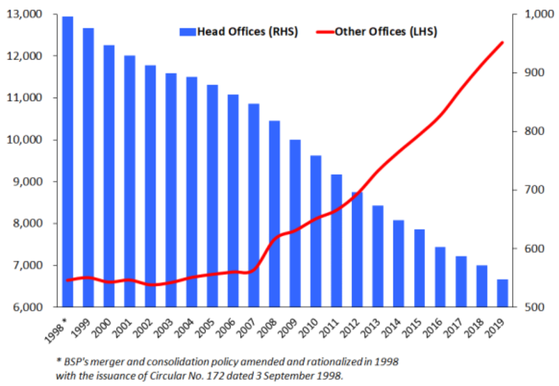
Meanwhile, net interest margin (NIM) went up to 3.7 percent from the previous year's 3.4 percent. These improvements in profitability indicators were achieved amid a prudent credit expansion. Moreover, cost-to-income (CTI) ratio stood at 60.3 percent.

Leaner and stronger banking landscape backs industry performance

The increase in bank assets was also accompanied by an expansion in the banks' physical network. As of end-December 2019, bank offices grew to 12,870 on account of new offices added to the overall network.

While the BSP promotes the streamlining and consolidation of the banking industry, banks are encouraged to widen their presence and broaden their geographical and digital footprints through the establishment of branch-lite units, other offices, and digital access points to bring more innovative and efficient financial services to the countryside, particularly the hard-to-reach financially unserved and underserved areas.

Chart 1.25. Philippine Banking System Total Banking Units



Source: BSP

The Non-Bank Sector[30] Posts Positive Performance in 2019

The non-bank sector continues to provide alternative financial services

The non-bank sector, particularly non-stock savings and loan associations, financing companies, pawnshops, and money service businesses, continues to play an important role in promoting financial inclusion through their wide network of branches and registered corollary business units located nationwide. These NBFIs collectively represented 52.6 percent of the total physical network and 17.6 percent of the total resources of the financial system as of end-December 2019.

Non-Bank Financial Institutions with Quasi-Banking Functions (NBQBs)[31]

NBQB network remains stable

There were eight operating NBQBs in the country consisting of two investment houses (IHs), five financing companies (FCs), and one other NBQB as of end-December 2019. The industry had a total physical network of 135 offices, composed of eight head offices and 127 other offices.

[30] Consists of BSP-supervised NBFIs such as quasi-banks, non-stock savings and loan associations, pawnshops and other NBFIs such as investment houses (without QB function), financing companies (without QB function), investment companies (w/o QB function), securities dealers/brokers, lending investors, venture capital corporations, credit card companies, government NBFIs, electronic money issuers (EMIs) - others, AAB forex corporations, remittance agents, credit granting entities (CGEs), and trust corporations.

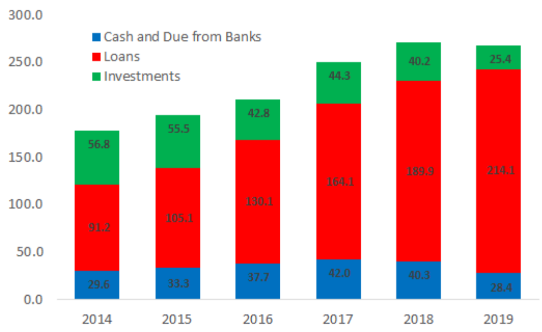
[31] The NBQBs are non-bank financial institutions (NBFIs) authorized by the BSP to borrow funds from 20 or more lenders for their own account through issuances, endorsement or assignment with recourse or acceptance of deposit substitutes for purposes of re-lending or purchasing receivables and other obligations. NBQBs are subject to BSP supervision.

NBQB assets decline

As of end-December 2019, the total resources of the NBQBs dipped by a modest 1.0 percent to ₽279.4 billion despite their increased lending activities. The decline in resources was attributable to the significant liquidation of investments.

Chart 1.26. Total Resources of NBQs

In billion pesos



Source: BSP

Total loans rose by 12.8 percent y-o-y to ₽214.1 billion. Meanwhile, net investments declined by 36.9 percent to ₽25.4 billion as of end-December 2019. This broadly reflected NBQBs' active management of their balance sheet structure to deal with potential fluctuations in domestic interest rates.

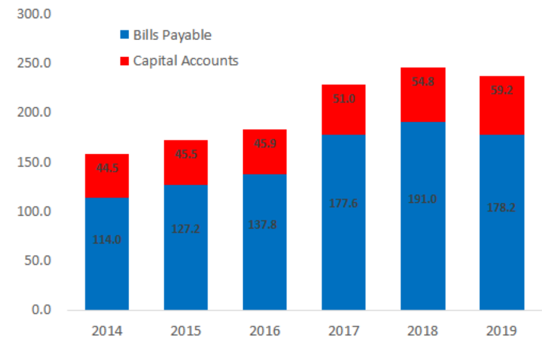
Despite sustained loan growth, the asset quality of NBQBs remained manageable as the NPL and non-performing assets (NPA) ratios were recorded at 4.7 percent and 4.0 percent, respectively. To adequately provide against potential credit losses, the industry raised the NPL and NPA coverage ratios to 70.8 percent and 65.5 percent, respectively.

Capital fuels asset build-up

Capital buildup funded loan expansion as total capital accounts went up by 8.0 percent y-o-y to ₽59.2 billion. The expansion in capital was due to the increases in capital stock, surplus, surplus reserves, and undivided profits. Meanwhile, 6.7 percent of borrowings were paid by proceeds from liquidation of investments, which ultimately led to the net contraction of the industry balance sheet.

Chart 1.27. Sources of Funds of NBQBs

In billion pesos



Source: BSP

The industry posted a net income of ₽7.8 billion, lower by 2.8 percent from last year's level, mainly due to the 36.7 percent increase in interest expenses. Earnings primarily came from net interest income, which contributed 78.4 percent of the total operating income of the NBQBs and grew by 2.9 percent y-o-y. Earnings from leasing activities boosted the industry's overall net interest income as it expanded by 13.3 percent y-o-y to ₽30.9 billion.

Other profitability metrics posted similar declines as the ROA and ROE softened to 2.8 percent and 13.7 percent, respectively, from 3.0 percent and 15.2 percent, respectively.

Non-Stock Savings and Loans Associations (NSSLAs)[32]

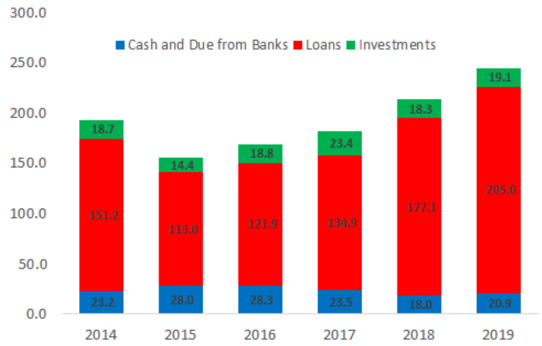
As of end-December 2019, there were 63 NSSLAs with 137 branches operating in the Philippines. These were higher than last year's overall physical network of 62 NSSLAs and 134 branches.

NSSLAs record asset expansion due to strong credit growth

The NSSLA industry posted a 14.5 percent increase in total resources to ₱259.2 billion as of end-December 2019, mainly due to the 15.8 percent y-o-y increase in net loans. Loans, which accounted for 79.1 percent of total resources, stood at ₱205.0 billion during the same period.

Chart 1.28. Total Resources of NSSLAs

In billion pesos



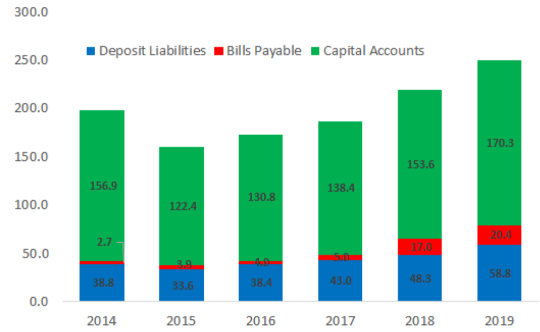
Source: BSP

Capital accounts remain a major funding source of NSSLAs

The total liabilities of NSSLAs grew mainly on account of the expansion in members' deposits which represented 66.1 percent of the industry's total liabilities. Deposit liabilities expanded by 21.6 percent y-o-y to ₱58.8 billion as of end-December 2019.

Chart 1.29. Sources of Funds of NSSLAs

In billion pesos



Source: BSP

Other sources of funds, which similarly posted robust growths, were bills payable at 19.5 percent y-o-y to ₱20.4 billion and total capital accounts at 10.9 percent y-o-y to ₱170.3 billion. In particular, the increase in total capital accounts was due to the sustained expansion in paid-in capital from members and retained earnings.

[32] The BSP defines NSSLAs as non-stock, non-profit corporations engaged in accumulating the savings of its members for lending as well as providing long-term financing for home development and personal finance. These NSSLAs are typically formed by employees and officers in one country, or employees of government agencies including member-retirees.

Box Article 2

2020-2023 BSP Strategy: Bringing BSP Closer to the People

As the country's central monetary authority and primary financial supervisor, the integrity and credibility of BSP as an institution are key to maintaining stakeholders' trust. In this light, it is imperative for the BSP to strengthen its stakeholder focus. It is important that stakeholders understand what BSP is mandated to do and deliver. It is also essential that its policies and services remain relevant and contribute to the enhancement of the welfare of the Filipinos.

In this context, the BSP Strategy for 2020-2023 adopts this stakeholder orientation, with the articulation of the over-arching theme "*Bringing BSP Closer to the People*." This strategic intent required that strategic success be defined in terms of stakeholder outcomes with the perspective of the Filipino people in mind. This strategy is captured in the 2020-2023 BSP Strategy Map (Figure 1), a result of the discussions among BSP senior leaders during the Strategic Planning Conference held in November 2019.

Anchored on the BSP mission and aligned with the BSP vision, the strategic objectives for the period 2020-2023 were defined in terms of a destination statement and operationalized by formulating measures and targets and developing initiatives. This process was guided by the intent of making BSP more relevant to the Filipinos and focused on enhancing their welfare.

Stakeholder Outcome 1 (SO1): Well-managed inflation – consistent achievement of the government's annual inflation target and corresponding anchoring of stakeholders' expectations throughout the planning horizon. The essential components of this strategy are three-fold:
(1) capacity to assess the direction of inflation; (2) well-managed inflation expectations; and (3) credibility in managing inflation.

Stakeholder Outcome 2 (SO2): Safe, efficient, and inclusive payment and settlement system – widespread adoption of electronic payments to boost economic growth and development. The BSP targets to grow the share of e-payments to total payments to 50 percent by year 2023. This goal will be achieved by intensifying initiatives to accelerate digital transformation of the Philippine payments ecosystem to broaden the reach of e-payment services and facilitate cross-border payment transactions. In particular, the BSP sees the importance of instituting free micro payments to accelerate the shift from cash-based payments to digital transactions. With respect to BSP's role as operator of the Philippine Payment and Settlement System (PhilPaSS), at least a doubling or a 100 percent increase in both volume and value of transactions that settle in PhilPaSS is targeted.

Stakeholder Outcome 3 (SO3): Sound, stable, and resilient financial system – a safe, sound, and resilient financial system that contributes to the sustained growth of the economy and promotes sustainable finance that continues to build and maintain the trust of the people. In this respect, the BSP shall endeavor to foster a regulatory environment that is responsive to the developments in the industry, protects the interest of the public, and adheres to sustainable principles. The strategic initiatives under SO3 will focus on the following four areas: (1) sustained safety, soundness, and resilience of the financial system; (2) high standard of conduct and culture for BSP-supervised financial institutions; (3) proactive and responsive consumer welfare supervision; and (4) integration of sustainable finance principles in supervisory tools.

Stakeholder Outcome 4 (SO4): Inclusive financial system – by 2023, at least 70 percent of Filipinos should have a formal account that they regularly use for day-to-day transactions. In an inclusive financial system, every Filipino should have effective and convenient access to a wide range of financial services that are appropriately designed and relevant to the individual's needs and capacity. This goal does not end in democratizing access to financial services but also involves ensuring that financial consumers trust the system and are in a position to fully benefit from access to such services. This objective is therefore underpinned by programs, projects, and initiatives on financial inclusion, financial education, and consumer protection.

In support of the achievement of the defined stakeholder outcomes in the BSP's mandates, strategic programs on the following areas will be developed and implemented:

Strategic Communication. A meaningful engagement with stakeholders is an important factor in the delivery of responsive and effective central bank services, and in the attainment of BSP policy objectives. In this regard, an integrated communication program on "Bringing BSP Closer to the People" will be adopted to foster a better understanding of BSP by its external and internal stakeholders toward the effective promotion of BSP mandates and advocacies.

Digital Transformation. With the increasing digitalization trend especially in the financial services sector, the BSP will embark on a digital transformation program that will involve not just the adoption of appropriate digital technologies but also the development of digital competencies and the practice of digital leadership that will enable employees to embrace a digital mindset.

Branch Rationalization. Moreover, a program to rationalize the BSP branch operations and network shall be pursued, taking into consideration BSP's goal of fostering inclusive growth, especially in the regions; its push for widespread use of digital payments; technological developments; and the envisioned new roles of BSP regional offices and branches.

Sustainable Central Banking. In the context of the growing recognition of sustainability issues and commitment to sustainability goals, the BSP shall be at the helm of enabling the financial industry to embrace sustainable development principles. As a manifestation of commitment, BSP shall foster environmentally-responsible and sustainable policies and work practices in its operations.

Governor Benjamin E. Diokno, at the start of his term, has committed to policy continuity and, at the same time, to carrying out reforms to better fulfill the BSP's mandates. With the strategic intent of bringing BSP closer to the Filipino, the implementation of the 2020-2023 BSP Strategy underscores the commitment of the BSP as an institution to contribute towards achieving a better quality of life for all Filipinos.

Strong External Position Provides Buffer Against External Shocks

Balance of Payments (BOP)

BOP position records a surplus for full-year 2019

The BOP position for full-year 2019 recorded a surplus of US$7.8 billion, a turnaround from the US$2.3 billion deficit registered in the same period a year ago.

Table 1.3. Balance of Payments
In million US$

	Jan-Dec 2018	Jan-Dec 2019
Current Account	-8773	-464
Capital Account	65	70
Financial Account*	-9332	-6265
Net Unclassified Items	-2930	1973
Overall BOP**	**-2306**	**7843**

*Positive balance in the financial account indicates net outflows while a negative balance indicates net inflows.
**The overall BOP position, therefore, is equal to the current account plus the capital account minus the financial account plus net unclassified items.

This development was the result of the significant decline in the current account deficit, which more than offset the reduction in net inflows (i.e., net borrowing by residents from the rest of the world) in the financial account. The current account recorded a markedly lower deficit as a result mainly of the decline in the trade in goods deficit together with the increases posted in net receipts of trade in services, and primary and secondary income. Meanwhile, the lower net inflows in the financial account was brought about largely by the declines in net inflows in the other investment and direct investment accounts despite the reversal of the portfolio investment account to net inflows during the period.

The current account deficit declines significantly

In 2019, the current account (CA) yielded a deficit of US$464 million (0.1 percent of GDP), about 95 percent lower than the US$8.8 billion deficit in 2018. This was largely due to lower trade in goods deficit combined with higher net receipts in the trade in services, and in the primary and secondary income accounts.

- The trade in goods deficit for the full-year 2019 dropped by 8.8 percent to US$46.5 billion as a result of the combined effect of the increase in exports of goods and the decrease in imports of goods.

- Exports of goods expanded by 2.7 percent to US$53.4 billion from US$52 billion in the previous year on account of increased shipments of manufactures (2.1 percent), mainly electronic products which posted an 8.9 percent increase to reach US$23.2 billion in 2019 from US$21.3 billion a year ago. The overall growth in total exports of goods was likewise driven by shipments of fruits and vegetables, and mineral products, which rose by 38.9 percent and 10.8 percent, respectively. Increased shipments of fruits and vegetables was on account of the 39.7 percent expansion in exports of bananas following continued demand from Japan, China, and South Korea while those of mineral products was boosted by higher shipments of gold due to increasing world market price. These gains more than offset the decreased shipments of petroleum, coconut, and other agro-based products.

- Imports of goods decreased to US$99.8 billion for full year 2019, 3 percent lower than the US$103 billion the same period a year ago. The decline was due mainly to lower importation of raw materials and intermediate goods (12.8 percent), particularly manufactured goods, inedible crude materials, and materials and accessories for the manufacture of electronics. Imports of mineral fuels and lubricant likewise dropped (8.7 percent) on account of reduced purchases of petroleum crude (33.5 percent) as a result of the decline in both its import volume and international market price.[33] Import volume of petroleum crude in 2019 dropped by 26.5 percent to 61 million barrels from 83 million barrels in 2018. However, the downturn posted in these commodity groups was partially tempered by increased imports of capital goods (6 percent), mainly telecommunication equipment and electrical machinery; and consumer goods (3.7 percent), mostly miscellaneous manufactures.

- Net receipts in the trade in services account totaled US$13 billion in 2019, higher than the US$11.6 billion net receipts posted in 2018. This 12.4 percent improvement stemmed largely from lower net payments of travel and transport services combined with higher net receipts in manufacturing services. These gains more than negated the i) reversal of the telecommunication services to net payments; ii) increased net payments in financial, and insurance and pension services; and iii) lower net receipts in technical, trade-related, and other business services.[34]

- The primary income account registered net receipts of US$5.3 billion in 2019, higher than the US$3.8 billion net receipts in 2018. The 41.4 percent rise was attributed to lower net payments of investment income, stemming from lower dividends paid to foreign direct investors (18.2 percent) along with higher interest receipts on intercompany borrowings (34.4 percent) and on reserve assets (25.6 percent). These gains more than negated the higher interest payments by the NG (34.5 percent) and non-bank corporates (53.8 percent) on other investments. Moreover, the 6.5 percent expansion in compensation inflows from resident OF workers amounting to US$8.8 billion also contributed to the improvement in the primary income account in 2019.

- Net receipts in the secondary income account improved by 3 percent in 2019 to reach US$27.6 billion on account primarily of the 3.5 percent expansion in remittances of non-resident OF workers amounting to US$25.6 billion.

Capital account registers higher net receipts

The capital account recorded higher net receipts of US$70 million in 2019 from US$65 million in 2018. This resulted from the reversal to gross disposal of non-produced non-financial asset of US$4 million from gross acquisition of US$10 million a year ago.

The financial account posts lower net inflows

The financial account recorded lower net inflows of US$6.3 billion from US$9.3 billion in 2018. This emanated from the huge drop in net inflows in other investment and direct investment accounts, which tempered the reversal to net inflows of the portfolio investment account.

- *Direct investment account*. The direct investment account registered lower net inflows of US$4.3 billion during the period from US$5.8 billion, due mainly to the decrease in FDIs to US$7.6 billion (from US$9.9 billion).

[33] Based on data from the Department of Energy, the average price of Dubai crude oil in January-December 2019 decreased to US$64.01/barrel from US$70.09/barrel in the same period in 2018.
[34] Estimated earnings from BPO services in January-December 2019 amounted to US$22.4 billion, 4.7 percent higher than the US$21.4 billion in 2018.

In particular, non-residents' net investments in debt instruments and equity capital dipped by 23.2 percent (to US$5.2 billion) and 38.2 percent (to US$1.4 billion), respectively. Net equity capital investments by non-residents decreased during the period as placements dropped by 26.8 percent to US$2.1 billion and withdrawals increased by 18.4 percent to US$698 million. Equity capital placements came mostly from Singapore, Japan, and the United States. Said capital infusions were directed mainly to 1) financial and insurance, 2) real estate, 3) electricity, gas, steam, and air-conditioning supply, and 4) manufacturing industries. Reinvestment of earnings amounted to US$1 billion in 2019.

Meanwhile, residents' investments abroad fell to US$3.3 billion from US$4.1 billion in 2018, as their net investments in debt instruments issued by their foreign affiliates declined by 22.9 percent to US$2.3 billion. In addition, residents' net investments in equity capital in their foreign affiliates also declined by 10 percent to US$926 million.

- *Portfolio investment account*. The portfolio investment account reversed to net inflows of US$1.7 billion from net outflows of US$1.4 billion in 2018. This developed on account of the 69.3 percent increase in foreign portfolio investments (FPI) to US$5.6 billion and the 18.8 percent reduction to US$3.8 billion in residents' portfolio investments abroad. The increase in FPI was due mainly to the 15.1 percent increase to US$15.5 billion in non-residents' investments in equity in investment fund shares of local non-bank corporates. Residents' portfolio investments abroad dipped by 18.8 percent to US$3.8 billion in 2019 due mainly to lower net placements in foreign debt securities by local banks and corporates.

- *Other investment account*. The other investment account registered a 99.4 percent reduction in net inflows to settle at US$28 million in 2019. This resulted mainly from the reversal to net outflows of residents' investments abroad and lower net inflows from non-residents' investments in the country.

  In particular, resident's net investments abroad reached US$2.2 billion due mainly to the 241.4 percent increase in short-term loans extended by local banks to non-residents amounting to US$1.2 billion. Non-residents' investments in the Philippines was lower by 47.1 percent at US$2.2 billion in 2019 on account of lower loan availments by local banks and other corporates as well as lower trade credit and advances extended to non-bank local corporates. These more than offset the 25.7-percent increase in loans availed by the NG from non-residents.

- *Financial derivatives*. Trading in financial derivatives posted a higher net gain of US$172 million in 2019 from US$53 million in 2018.

International Reserves. The country's gross international reserves (GIR) amounted to US$87.8 billion as of end-December 2019, higher compared to the recorded level of US$79.2 billion in the previous year. At this level, the GIR can cover 7.8 months' worth of imports of goods and payments of services and primary income. It was also equivalent to 5.1 times the country's short-term external debt based on original maturity and 3.9 times based on residual maturity.

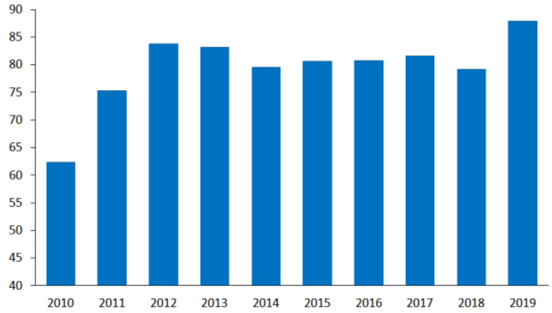
International reserves reach all-time high

The y-o-y increase in reserves reflected inflows arising from the BSP's income from its investments abroad and FX operations, higher reserve position in the International Monetary Fund (IMF), and the

NG's net foreign currency deposits. The increase in FX reserves was partly offset by payments made by the NG on its FX obligations, revaluation adjustments on the BSP's gold holdings, and lower BSP holdings of Special Drawing Rights (SDRs) in the IMF.

Chart 1.30. Gross International Reserves

In billion US dollar



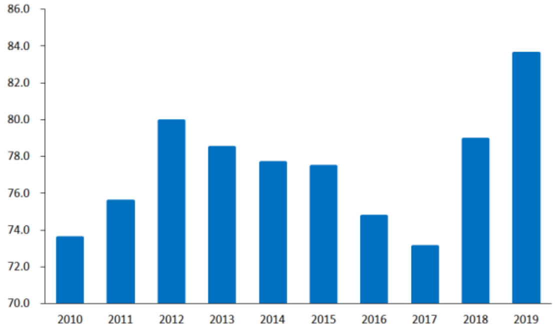
Source: BSP

The bulk of the country's reserves or 85.7 percent was held in foreign investments. Meanwhile, 9.1 percent were in gold and the remaining 5.2 percent were in holdings of SDRs, the BSP's reserve position in the IMF, as well as in foreign exchange. Net international reserves (NIR), which refer to the difference between the BSP's GIR and total short-term liabilities, amounted to US$87.8 billion as of end-2019, an increase of US$8.6 billion from its level a year ago.

External Debt. The Philippines' outstanding external debt stood at US$83.6 billion as of end-2019, up by US$4.7 billion (or 5.9 percent) from the US$79.0 billion level as of end-2018.

Chart 1.31. External Debt

in billion US dollar



Source: BSP

The rise in the debt stock in 2019 was due largely to net availments by both the public (US$2.9 billion) and private sectors (US$776 million). The upward movement in both sectors' borrowings was mainly driven by bond issuances, particularly by the NG and some universal banks. Prior periods' adjustments of US$954 million (bulk of which or U$623 million are trade-related accounts, while the rest are accounted for by late entry due to late reporting and audit adjustments, among others) and FX revaluation adjustments of US$170 million further increased the debt level. Meanwhile, the increase in resident holdings of Philippine debt papers issued offshore (US$197 million) partially tempered the increase in the debt stock during the year.

External debt increases but remains manageable

As of end-2019, the maturity profile of the country's external debt remained predominantly medium- to long-term (MLT) in nature [i.e., those with original maturities longer than one (1) year], with share to total at 79.4 percent (US$66.4 billion), lower than the 79.7 percent share (US$62.9 billion) a year ago. Nonetheless, FX requirements for debt payments are well spread out and, thus, more manageable. Short-term (ST) loans [or those with original maturities of up to one year] stood at US$17.2 billion by the close of

2019 and accounted for the 20.6 percent balance of the debt stock.

Public sector external debt substantially grew by US$3.1 billion to reach US$42.8 billion during the year, reflective of the sizeable increase in foreign borrowings of the NG to fund its infrastructure, education, and healthcare programs/projects. Likewise, private sector borrowings increased to US$40.8 billion during the year due to prior periods' adjustments of US$824 million (mainly attributed to trade-related accounts) and net availments of US$776 million, largely by local banks.

The creditor mix continues to be well diversified, reflecting the country's ability to tap varied sources of financing (both official and commercial sources). Obligations to foreign banks and other financial institutions had the largest share (31.7 percent) of total outstanding debt, followed by loans from official sources (multilateral and bilateral creditors - 30.4 percent), and foreign holders of bonds and notes (30.4 percent); the rest (7.5 percent) were owed to other creditor types, mainly suppliers/exporters.

In terms of currency mix, the country's debt stock remained largely denominated in US dollar (US$49.3 billion or 59.0 percent) and Japanese yen (US$11.6 billion or 13.9 percent). US dollar-denominated multi-currency loans from the World Bank (WB) and Asian Development Bank (ADB) represented 14.8 percent of total loans outstanding. The 12.3 percent balance pertained to 15 other currencies, including the Philippine peso, euro, and SDR.

The key external debt indicators remained at comfortable levels during the period in review. The debt service ratio (DSR), which relates principal and interest payments to exports of goods and receipts from services and primary income, improved to 6.5 percent in 2019 from 6.6 percent a year ago. The DSR has also consistently remained well below the international benchmark range of 20.0–25.0 percent, implying that the country's FX earnings are adequate in meeting its maturing obligations.

The external debt ratio (a solvency indicator), or total outstanding external debt expressed as a percentage of gross national income (GNI), improved to 19.4 percent from 19.9 percent as of end-2019. The same trend was observed using GDP, which declined to 23.3 percent as of end-2019 from 23.9 percent as of end-2018. This indicates the country's sustained capacity to service maturing foreign obligations.

Box Article 3

Highlights of New Laws Passed

The year 2019 saw the successful passage of BSP's priority bills, especially the amendment of its charter after more than 20 years of lobbying. Since the start of his term, Governor Benjamin Diokno proactively worked for the passage of laws that will improve the Philippine economy, ensure a sound and efficient banking framework, and advocate financial inclusion that will promote a high quality of life for all Filipinos. Among the key laws passed are:

Republic Act No. 11211
"An Act Amending Republic Act No. 7653, Otherwise Known as the 'New Central Bank Act', and for Other Purposes"

Republic Act (RA) No. 11211 was passed by the 17th Congress and signed by President Rodrigo R. Duterte on 14 February 2019 and took effect on 6 March 2019. The law amends RA No. 7653 or "the New Central Bank Act," the charter of the Bangko Sentral ng Pilipinas ("BSP").

To strengthen BSP's monetary stability function, RA No. 11211 restores the BSP's authority (i) to issue its own debt securities not only during times of hyperinflation, giving it flexibility to effect liquidity and promote capital market development, consistent with the practice of monetary authorities worldwide; and (ii) to obtain data and information from the non-bank private sector for statistical and policy development purposes necessary for monetary policy-setting.

The amended charter also formalizes the role of BSP to promote financial stability and work closely with the NG and other regulatory agencies to attain this objective. An explicit financial stability mandate ensures that the BSP can take direct action on vulnerabilities and mitigate systemic risks that may have system-wide impact, further strengthening prudential oversight over the country's overall financial stability.

The supervisory and regulatory powers of BSP are further enhanced by the following:

(i) Strengthened regulatory and supervisory authority over money services businesses ("MSBs"), credit granting businesses, and payment systems operators under BSP's jurisdiction. MSBs include remittance and transfer companies, money changers, foreign exchange dealers, electronic money business subsidiaries of telecommunication companies, and payment system operators. Credit granting businesses include the credit facilities of property developers, appliance stores, and vehicle dealers. Meanwhile, payment system operators refer to platforms or networks that enable fund transfers such as clearing or settlement services.

Furthermore, the BSP's resolution mechanism that will handle problematic financial institutions has been expressly expanded to cover non-stock savings and loan associations, which can be subject to BSP's liquidation and receivership; and

(ii) The grant of oversight authority over the country's payment and settlement systems, ensuring the safe and prudent circulation of money among critical financial market infrastructures. This oversight authority has been further enhanced through **RA No. 11127 or the "National Payment Systems Act,"** to include supervision and regulation of designated payment systems and imposing penalties for violations.

To support BSP's corporate and financial viability, its capitalization has been increased by ₱150 billion, to be funded solely from its declared dividends due to the NG. It shall establish a reserve fund to sustain its operations/functions for mitigating future risks, absorbing foreign exchange and price fluctuations, and addressing other contingencies. The BSP has also been exempted from all national, provincial, municipal and city taxes on income derived from its governmental functions.

Republic Act No. 11439
"An Act Providing for the Regulation and Organization of Islamic Banks"

RA No. 11439 was signed by President Rodrigo R. Duterte on 22 August 2019 and took effect on 15 September 2019. This law mandates BSP to exercise regulatory powers and supervision over the operations of Islamic banks and to issue implementing rules and regulations, complementing provisions on Islamic banking under RA No. 11054, or "The Organic Law for the Bangsamoro Autonomous Region in Muslim Mindanao."

Islamic banking business, as defined under RA No. 11439, refers to a banking business with objectives and operations that do not involve interest (*riba*) as prohibited in Islamic or *Shari'ah Law* and which conducts business in accordance with the principles of *Shari'ah.*

The law enables Islamic banks to operate alongside conventional banks under the same regulatory and supervisory regime, while taking into consideration the unique features of Islamic banking operations. Thus, in addition to the general powers granted to banking corporations, Islamic banks shall have the necessary powers to carry out business compliant with *Shari'ah* principles such as financing contracts and various investments. This will provide the public alternative Islamic banking products and consumer participation on Islamic finance without regulatory arbitrage.

Box Article 4

Developments in SPC Operations: Gold Law (Republic Act No. 11256) and the Release of the New 20-Piso Coin

Pursuant to Section 2 of RA No. 11211 or "An Act Amending Republic Act (RA) No. 7653, otherwise known as "The New Central Bank Act", and For Other Purposes", the primary objective of the BSP is to maintain price stability conducive to a balanced and sustainable growth of the economy and employment. The BSP shall also promote and maintain stability and convertibility of the peso (Jurado, Amurao, & Calubag, 2015). To achieve these, the BSP maintains international reserves sufficient to meet the demands on the BSP for foreign currencies. It is worth noting that the gross international reserves (GIR) of the Philippines are composed of the Reserve Position in the Fund[1], gold[2], SDR[3], foreign investments[4], and foreign exchange[5].

Table 1. BSP Gold Purchases from 2005 to 2018

Year	BSP Gold Purchases, kg	Gold Production, kg	% Share of BSP	Year	BSP Gold Purchases, kg	Gold Production, kg	% Share of BSP
2005	32377	37488	86.37%	2012	1090	14596	7.47%
2006	29787	36141	82.42%	2013	589	17248	3.41%
2007	31600	38792	81.46%	2014	633	18423	3.44%
2008	28707	35726	80.35%	2015	487	21314	2.28%
2009	28102	37047	75.85%	2016	446	23053	1.93%
2010	28556	40487	70.53%	2017	452	22699	1.99%
2011	17639	31120	56.68%	2018	342	36800	0.93%

Source: NTRC Tax Research Journal Vol. XXVII.6)

Under Section 17 of the People's Small-Scale Mining Act of 1991 or RA No. 7076, all gold sourced from small-scale mining in the Philippines shall be sold to the central bank, with 2 percent excise tax, at a globally competitive price. Then, the BSP, through its Mint and Refinery Operations Department (MROD), shall refine and convert all gold sales into good delivery bars, which will form part of the country's GIR.

According to the article published by the National Tax Research Center, the BSP was averaging 29,854.33 kilograms (kg) of gold purchases from 2005 to 2010 (Jurado, Amurao, & Calubag, 2015), which saw a drop of 38.23 percent in 2011 and about 99 percent in gold receipts in 2018. This decrease in shares of gold purchased by the BSP is primarily attributed to the levying of 5 percent withholding tax and 2 percent excise tax by the Bureau of Internal Revenue (BIR) based on BIR Revenue Regulations No. 6-2012.

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[1] Reserve Position in the Fund (RPF) refers to the country's claim on the IMF's General Resources Account (http://www.bsp.gov.ph/statistics/spei/glossary.pdf)

[2] The Philippines valued its gold holdings at the official rate of $35 per fine troy ounce up to April 1972 and $38 per fine troy ounce up to January 1973. Starting February 1973, gold holdings were valued at $42 per fine troy ounce. With the second amendment of the IMF Articles of Agreement taking into effect in April 1978, CB gold transactions were valued at free market rates. (http://www.bsp.gov.ph/statistics/spei/glossary.pdf)

[3] The SDR is an interest-bearing reserve asset created by the IMF in 1969 to supplement its member countries' existing official reserves. It serves as the unit of account of the IMF and some other international organizations. (http://www.bsp.gov.ph/statistics/spei/glossary.pdf)

[4] Foreign investments of the BSP are foreign assets in the form of interest-earning deposits with foreign correspondent banks and foreign securities with maturities not exceeding five years denominated in the acceptable international reserve currencies of the country. (http://www.bsp.gov.ph/statistics/spei/glossary.pdf)

[5] Foreign exchange is a foreign asset which consists of demand deposit and foreign currencies on hand and accrued interest receivable. (http://www.bsp.gov.ph/statistics/spei/glossary.pdf)

To remedy the 99-percent drop in gold purchases, RA No. 11256, otherwise known as “An Act to Strengthen the Country’s Gross International Reserves” was signed into law by President Rodrigo R. Duterte last 29 March 2019. Upon approval of the Implementing Rules and Regulations (IRR), this new law exempts from excise and income tax the sale to the BSP of gold sourced from small-scale mining activities. The measure also covers the sale of gold by small-scale miners to accredited traders for the eventual disposal to the central bank (BSP, 2019).

In preparation for the implementation of RA No. 11256, the BSP conducted several focus group discussions with small-scale miners and traders in Baguio, Daet, and Davao regarding the salient features of the new law, during the last quarter of 2019. The response was highly positive from both parties given that there will be zero taxes when they sell to the BSP.

The BSP expects an increase in gold purchases in 2020 from its gold buying stations in Baguio, Naga, Zamboanga, and Davao. Furthermore, as part of the BSP’s Responsible Gold Sourcing Policy, RA No. 11256 will allow the BSP to further strengthen its commitment to responsible sourcing by establishing traceable links in the gold supply chain of the Philippines.

20-Piso New Generation Currency (NGC) Coins

The 20-piso NGC coins were launched on 17 December 2019 and have been in circulation starting January 2020.

Rationale

Based on the study conducted by the University of the Philippines, the 20-piso banknote is the most used denomination causing it to be easily unfit and returned to BSP for replacement. The 20-piso banknotes had the most number of retired unfit banknotes compared with the other denominations, supporting the view that 20-piso is the most used denomination to facilitate payment and settlement of cash transactions. One way to address this is to convert 20-piso banknotes to coins, given that coins are more durable and have longer lifespan than banknotes.

Design

The 20-piso NGC coin adopts the major elements in the 20-piso NGC banknote. The portrait of former Philippine President Manuel L. Quezon, who advocated the adoption of the national language and worked tirelessly to gain back Philippine independence, is prominently featured on the obverse of the coin.

The reverse side, on the other hand, features the BSP logo and the Malacañan Palace-the official residence of the President of the Philippines. Consistent with the theme of the NGC Coin Series, a native flora is featured in the 20-piso coin--the Nilad--which is believed to be the origin of the name of the country’s capital city, *Maynila*. The star-shaped flowers of the Nilad plant were said to be once clustered in abundance along the banks of the Pasig River, where the Malacañan Palace is situated.

Moreover, the bi-colored feature of the 20-piso is said to be more distinguishable, durable, and highly secure.

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What We Did in 2019: Three Pillars of Philippine Central Banking

Monetary Policy Stance Remains Supportive of Economic Growth

Monetary Policy. During its policy meetings on 9 May, 8 August, and 26 September, the BSP decided to reduce its key policy rate by 25 bps each, bringing the rate for the overnight reverse repurchase or RRP facility to 4.0 percent. The interest rates on the overnight lending and deposit facilities were likewise decreased accordingly. This brought the cumulative policy rate cut to 75 bps during the year.

The BSP reduces policy rates thrice in 2019, bringing the cumulative policy rate reduction to 75 basis points

In deciding to reduce the key policy interest rate in 2019, the BSP noted that price pressures have continued to ease as the bank's baseline inflation forecasts continued to indicate that inflation was likely to settle within the lower half of the target band of 3.0 ± 1 percentage point for 2019 up to 2021. Inflation expectations also remained well anchored to the inflation target range based on the BSP's survey of private sector economists. The BSP noted that the balance of risks to the inflation outlook was slightly tilted toward the upside for 2020 and toward the downside for 2021. Upside risks to inflation over the near term emanated mainly from the volatility in oil prices due to geopolitical tensions in the Middle East and from the potential impact of the African swine fever outbreak on food prices. Meanwhile, the subdued pace of global economic activity continued to temper the inflation outlook.

The BSP is of the view that prospects for global economic growth were likely to remain weak owing mainly to uncertainty over trade policies. Nevertheless, firm domestic spending and progress on policy reforms could serve as a buffer against global headwinds.

Meanwhile, during its monetary policy meetings on 14 November and 12 December 2019, the BSP decided to maintain its monetary policy settings. The BSP's decision was based on its assessment of a benign inflation environment. Baseline forecasts indicated that the future inflation path remained within the target range in 2020-2021, with well-anchored inflation expectations.

The BSP maintains its monetary policy stance in Q4 2019

Notwithstanding the weak global growth outlook, prospects for the Philippine economy continued to be robust on the back of firm domestic demand. Sustained policy support from increased fiscal spending, and improved domestic liquidity conditions owing to recent monetary adjustments as well as the operational adjustments in reserve requirement, were expected to support growth in the coming months.

Given these considerations, the BSP was of the view that the within-target inflation outlook and solid prospects for domestic growth supported keeping monetary policy settings steady. The BSP reiterated that it will continue to monitor developments affecting the inflation outlook and demand conditions to ensure that the monetary policy stance remains consistent with its price and financial stability objectives.

Loans and Credit. The BSP ensured the effective delivery of discounts, loans, and advances to banks under the authorized types of credit operations in the BSP Charter, as amended, consistent with its price and financial stability objectives and in line with its lender of last resort (LOLR) function. In 2019, the BSP strengthened its credit operations by ensuring that policies remain relevant to the present and future demands of the monetary system, reinforcing capabilities to recover claims against defaulting institutions, and maximizing the use of technology in operations to enhance delivery of credit.

Total loan availments in 2019 reached ₱122,506.0 million. Majority of loan releases pertain to availments under the peso rediscounting facility amounting to ₱122,167.0 million, which accounted for 99.7 percent of the total loans extended by the BSP. With rediscounting, banks were able to increase their asset and expand their loan portfolio by submitting the credit instruments of their borrowers from transactions related to working capital and other service activities, and support importation and trading activities. As such, about 65.0 percent of the loans released went to Other Credits mainly composed of Capital Expenditure, Other Services, Permanent Working Capital, and Housing. The remaining 35.0 percent of the loans released went to Commercial Credits composed of Imports, Trading and Exports. Meanwhile, loans granted to Philippine Deposit Insurance Corporation (PDIC) amounted to ₱339.0 million during the year.

Targets related to the provision of loans and credit were surpassed in 2019. Total gross income from lending operations reached ₱4,596.0 million, significantly exceeding the projected level of ₱1,886.0 million due to the growth in peso rediscounting and efficient collection. Loan collections increased to ₱172,931 million in 2019 from ₱18,091.0 million in the previous year, which can be attributed to the capability of the Electronic Rediscounting System (eRS) to automatically debit the demand deposit account of borrower banks on maturity date and the intensified collection/recovery efforts on delinquent loans. Moreover, all current loans were collected as they became due, thus no new past due loan was incurred in 2019. Past due loans decreased to ₱5,977.0 million in 2019 from ₱5,999.0 million in 2018 through recovery measures such as foreclosure and cash settlement schemes. A new settlement scheme under MB Resolution No. 890 dated 13 June 2019 was also approved as part of the BSP's continuing effort to find new ways to collect past due loans. This allows end-user borrowers (EUBs) to fully pay their past due loans at an amount that is acceptable to the BSP and within their means. The new scheme eases the financial burden of EUBs or their heirs, as the case may be, and allows for the release of the related properties they used as collateral from encumbrance. Meanwhile, the over-all composite past due ratio (PDR) of loans increased to 4.3 percent in 2019 from3.2 percent in the previous year due to the significant decline in total outstanding loans resulting from the collection of current Peso Rediscounting Loans.

The BSP continued to improve the delivery of credit. Projects and policies to enhance the delivery of credit to all productive sectors of the economy were implemented. Among the accomplishments in 2019 were:

- ***Process improvement through Loans and Credit Management Information System (LCMIS) and eRS.*** The Department of Loans and Credit (DLC) and Information Technology Office (ITO) of the BSP worked on the development and user acceptance testing of various modules of the LCMIS. As of 31 December 2019, the development of LCMIS was estimated at 73.0 percent completion and expected to be completed by 31 March 2020. Meanwhile, DLC continuously provided technical assistance to the users of eRediscounting facility and implemented changes to the system to cater to the changing needs in credit operations.

- ***Policies.*** The passage of RA No. 11211, which amended the BSP Charter, expanded the scope of BSP's credit operations to include the maintenance of financial stability in its objectives. The new law provided legal basis for the BSP to extend financial facilities to Islamic banks as well as the PDIC and reinforced the BSP's efforts to recover past due obligations and strengthen its lien on collaterals. The BSP also implemented amendments to Section 282 on Rediscount/Lending Rates and Liquidated Damages of the Manual of Regulations for Banks (MORB), which provide new pricing structure for rediscounting loans through flexible term premium to arrive at the appropriate rediscount rates. Thus, the BSP now has flexibility to recalibrate the rates in response to changes in monetary and economic conditions. Furthermore, the BSP also issued Circular No. 1053 on 7 October 2019 which aligned BSP's rediscounting facilities available to banks providing financing for socialized and low-cost housing with RA No. 11201, which created the Department of Human Settlements and Urban Development.

Asset Management. The BSP continued to properly administer and dispose of its acquired real assets. The BSP is continually taking measures to expedite the disposal of BSP-acquired properties and management of receivables. Among the initiatives done by the BSP in 2019 to hasten the disposal of properties is the revision of guidelines and procedures particularly on marketing strategies, through lowering of interest rates and grant of discounts. Likewise, the guidelines on the redemption of BSP-acquired properties were amended pursuant to Section 33 of RA No. 11211. Under the revised guidelines, Section 88-C provides a uniform and simpler computation of redemption value and an opportunity for previous owners to redeem the property, upon request, at reduced interest and penalty rates.

The total book value of acquired assets stood at ₱12.6 billion as of 31 December 2019, lower by about ₱2.0 billion or 13.7 percent than the previous year's level of ₱14.7 billion.

Through the various asset disposal schemes, the BSP Committee on Disposal of Real Properties auctioned off 2,701 properties with a total net book value of ₱1.8 billion for an aggregate selling price of ₱3.2 billion. This generated an estimated net income of ₱1.1 billion, inclusive of an interest income of ₱56.0 million that is estimated to be generated over the term of the contracts for installment sales.

The total collections of ₱1.4 billion of sales contract receivables, which represented 98.7 percent of the total installments due, were higher than the target collection rate of 88.0 percent for the year. Interest income earned from the total collections amounted to ₱361.0 million. In addition, the BSP earned a total miscellaneous income of ₱477.1 million, a significant portion of which pertains to realized profit from assets sold on installment basis in the amount of ₱470.9 million.

Notes and Securities Printing. The BSP has printed and delivered a total of 3.098 billion pieces of banknotes in 2019, of which 65.7 percent were in-house produced banknotes while the remaining 34.3 percent were outsourced finished banknotes. At the same time, the BSP produced a total of 3.508 million pieces of judicial title forms for the Land Registration Authority (LRA) and 205 thousand pieces of various BSP security documents such as expense checks and official receipts.

The year 2019 also saw the signing of the Memorandum of Agreement (MOA) between the BSP and the Philippine Statistics Authority (PSA) for the production of the Philippine National Identification Cards (PhilID) which will start in 2020.

As part of the initiatives aimed at increasing production efficiencies through the automation of processes, the BSP installed and commissioned the upgraded Wiping Solution and Treatment Plant (WSTP), completed the final acceptance of the Banknote Sheet Inspection Machine (BSIM), and acquired a Physical Vapor Deposition (PVD) Plate Coating Machine for the chroming of intaglio printing plates. The acquisition of the PVD Plate Coating Machine is meant to address occupational safety and environmental concerns, replacing the conventional, hazardous, and environmentally unsafe galvanic chroming process.

Mint and Refinery. A total of 3.775 billion pieces of coins, 44 pieces of presidential medals, 56 pieces of state decorations, 21,482 pieces of commemorative coins, and 1,001 pieces of commemorative medals were produced and delivered by the BSP in 2019. Meanwhile, 10,207.645 troy ounces of panned gold deliveries (with 9,890.542 fine troy ounces of gold) were received from the gold buying stations of the BSP Quezon City and Regional Operations Sub-sector (ROSS).

Currency Issuance. The BSP remained committed to provide adequate and timely supply of good quality currency to meet the requirements of the economy. In 2019, the aggregate issuance of banknotes by the BSP's Currency Issue and Integrity Office (CIIO) to the BSP's Metro Manila Currency Operations Sub-Sector (MCOSS) and ROSS amounted to ₱1,161.669 billion (equivalent to about 3.247 billion pieces of banknotes). Meanwhile, coins issued to MCOSS and ROSS reached ₱7.685 billion (equivalent to about 3.584 billion pieces of coins).

Currency Integrity. To preserve and maintain the integrity of Philippine currency, the BSP continued to reinforce partnerships with the public, law enforcement units, banks, business establishments, transport operators, and other stakeholders. The BSP continued its services to the public on the determination of genuineness and/or redemption value of currencies submitted for examination.

The volume of counterfeit banknotes and coins in circulation in 2019, at 11.8 parts per million (PPM) and 0.06 PPM, respectively, was deemed safe and secure based on the counterfeiting threshold of 50 PPM set by the G20 countries. Nonetheless, the BSP continued to pursue anti-counterfeiting initiatives and successfully conducted seven operations during the year. BSP officers also testified in 145 judicial court hearings nationwide in their capacities as apprehension officers and/or experts on currency counterfeiting and allied cases.

International Operations. The BSP, through the International Operations Department (IOD), continually reviews the FX regulatory framework to ensure that it remains responsive to the needs of a dynamic and expanding economy. The current policy thrust of the BSP remains geared toward the liberalization of the FX regulatory framework, facilitating access to the banking system's FX resources for legitimate transactions, and further streamlining of procedures and documentary requirements for FX transactions. The recent reforms to the FX regulatory framework of the country are intended to promote vibrant domestic business activities, broaden financing options, promote portfolio and risk diversification by investors, and support greater integration with regional and global markets. To date, there have been a total of 11 waves of FX reforms, the most recent of which was implemented through the issuance of BSP Circular No. 1030 dated 5 February 2019, which became effective on 8 March 2019.

Meanwhile, the BSP's role in external debt management is to keep external debt service requirements at manageable levels to ensure external debt sustainability. Prior approval of the BSP, through its MB, is required for all foreign loans to be contracted or guaranteed by the Republic of the Philippines (RP). As of end-December 2019, the BSP approved a total of US$9.7 billion public sector medium- and long-term foreign borrowings. These included four (4) bond issuances amounting to US$3.5 billion intended for RP's general financing requirements; three (3) program loans of the RP totaling US$1.1 billion intended to fund education and fiscal policy development initiatives of the government; a US$1.1-billion loan for refinancing of maturing liabilities from a syndicate of local and foreign banks; and eight (8) project loans of RP aggregating to US$4 billion, mainly for projects on transport connectivity (road network development, railways, and a bus rapid system), agriculture development, and flood management and water security in Metro Manila which are included in the list of infrastructure flagship projects under the "Build, Build, Build" program, which, in turn, seeks to accelerate infrastructure spending and generate robust economic growth and employment. The BSP continues to leverage on the latest technologies to upgrade its external debt management and financial analysis capabilities to enhance analytical and reportorial requirements that are aligned with international standards.

The BSP regulates foreign currency loans and borrowings (including those in the form of bonds, notes, and other debt instruments) so that these can be serviced in an orderly manner and with due regard to the economy's overall debt-servicing capacity. In 2019, the BSP registered 204 foreign loan accounts aggregating US$2.3 billion. These foreign loans were for working capital, purchase of equipment and services, expansion activities, payment of existing loan obligations, and bid securities related to a project, among others.

The BSP also supports the country's policy to encourage foreign investments.
In January to September 2019, the BSP facilitated the registration of FDIs of non-residents amounting to US$1.5 billion, an increase from US$899 million for the same period in 2018. Meanwhile, BSP-registered foreign portfolio investments (FPIs) for 2019 aggregated US$16.6 billion, higher compared to US$16.0 billion in 2018.

In support of government initiatives on the FX regulatory framework, the BSP Governor signed on 3 September 2019 the MOA covering the Investment Promotion Units Network (IPU Net) spearheaded by the Board of Investments (BOI). The IPU Net MOA aims to strengthen collaboration and commitment among investments-facilitating government agencies to promote the ease of doing business in the country as well as increase the competitiveness of the Philippine economy.

To increase stakeholder engagement, the BSP intensified its information campaign to increase awareness of FX regulations thru public advisories (in the form of infographics) posted at the BSP website and official social media accounts; creation of an FX regulations sub-section in the BSP website in July 2019 to provide stakeholders with an easily accessible and user-friendly webpage on FX rules and related guidelines; conduct of 13 briefing sessions on FX liberalization reforms introduced under BSP Circular Nos. 984 and 1030; and a study visit with the hosting of Bank Indonesia of their benchmarking exercise in May 2019.

Box Article 5

11th Wave of FX Reforms: Major Reforms of FX Rules on Foreign Investments

The BSP continued to adopt reforms in line with the its current policy thrust to promote a policy environment that is market-oriented and supportive of the Philippine economy's sustained expansion. The recent liberalization of FX rules was intended to further enhance the country's business climate and improve ease of doing business by: a) facilitating access to the banking system's FX resources for legitimate transactions, and further streamlining and simplifying procedures and documentary requirements for FX transactions; b) further deepening and developing a robust capital market through a more liberal policy environment, taking into consideration adherence to international practices and standards; and c) giving the investors greater flexibility to manage their investments and cash flows.

The 11th wave of FX reforms through Circular No. 1030 introduced, among others, the following major reforms on foreign investments:

- Further liberalized rules on inward investment and associated derivatives transactions by:
  i. Broadening the coverage of inward investment transactions (e.g., allowing the registration of instruments used as collateral under Securities Borrowings and Lending (SBL) arrangement or similar cases, and other forms of investments not contrary to applicable laws, rules, and regulations);
  ii. Allowing registration of investments filed beyond the prescriptive period;
  iii. Expanding the definition of eligible banks that can register investments on behalf of BSP (e.g., lifting the requirement for banks to perform custodianship services for the underlying shares/instruments);
  iv. Streamlining processes and simplifying documentary requirements; and
  v. Facilitating sale of FX relating to investments (e.g., allowing the crediting of FX purchased for investments registerable with the BSP to the foreign currency deposit unit (FCDU) account of the non-resident investor's resident agent/authorized representative with the FX selling authorized agent banks (AAB) (or another AAB) for future reinvestment onshore or eventual remittance to the intended beneficiary);
- Further relaxed rules on outward investments and associated derivatives transactions by expanding the coverage of outward investment transactions (e.g., replaced the positive list of allowable instruments for outward foreign investments with a general policy statement that residents may invest in any form of instruments issued offshore by non-residents (except foreign currency deposit account offshore)) and lifting the prior BSP approval requirement for purchase of FX beyond the threshold amount, subject only to prior notification to the BSP;
- Allowed the submission of supporting documents through electronic means for: a) registration of private sector foreign loans/borrowings without public sector guarantee; (b) registration of inward investments; and (c) sale of FX by banks covering various FX transactions; and
- Provided a grace period of one (1) year from the effectivity of the implementing circular to file applications for registration of investments regardless of the date of funding.

Amid the continuing liberalization of FX rules, banks are expected to continuously implement safe and sound practices. Notwithstanding the further liberalization of FX rules, the BSP maintains its ability to gather current, comparable, and comprehensive data on FX transactions and adopts necessary prudential measures to address any perceived emerging concerns. Further, the BSP will remain vigilant and ready to act, as necessary, in pursuit of its mandate to maintain price stability, a sound financial system, and a convertible Philippine peso to support a sustained and inclusive growth.

Economic Research and Information Dissemination Activities

Regular reports. The BSP published regular reports to provide the public information on the macroeconomic developments and analysis behind its monetary policy actions, help guide expectations on the future path of BSP monetary policy, as well as provide a comprehensive assessment of the state of the Philippine financial system. The published regular reports in 2019 included the quarterly Inflation Report, the quarterly Report on Economic and Financial Developments, the Report on Regional Economic Developments, Report on the Philippine Financial System, and the Financial Stability Report. The BSP likewise published relevant statistical reports on the BOP, International Investment Position (IIP), Philippine Flow of Funds (FOF), Selected Economic and Financial Indicators (SEFI), Selected Philippine Economic Indicators (SPEI), and Statistical Bulletin.

Press releases, livestreams, and social media. Various media communications, in addition to the regular reports, allowed the BSP to share its messages and other information to a wider audience and, in doing so, promoted greater transparency and accountability to the public. Apart from the publication on monetary policy decisions, the BSP published press releases on money supply, bank lending, and inflation. Press releases on the GIR, BOP position, FDIs, OF remittances, as well as the results of the quarterly RREPI were also published by the BSP. In 2019, the BSP has also started publishing information on MB opinion issuances to LGUs on their domestic borrowings.

In 2019, the BSP continued to live-stream its monetary policy press conferences and briefings on the Inflation Report as well as BOP position via social media (Facebook Live). The BSP enhanced its presence in social media to expand Filipinos' understanding of monetary policy as well as to engage in direct communication with its stakeholders.

Surveys. Results from BSP's various regular surveys in 2019 continued to augment the information content of hard data releases to assist in monetary policy formulation. Among these surveys are the monthly Private Sector Economists' Survey[35] and the quarterly Senior Loan Officers' Survey (SLOS), which assess the private sector's views on the emerging inflation environment and current bank lending conditions; the semi-annual Coordinated Portfolio Investment Survey (CPIS), which monitors residents' holdings of foreign-issued equities and long- and short-term debt securities; the annual and quarterly Coordinated Direct Investment Survey (CDIS), which accounts for the financial transactions and stock of equity and debt between resident companies and their immediate foreign counterparts; and the quarterly Business Expectations Survey (BES) and Consumer Expectations Survey (CES), which capture the business sentiment and general consumer outlook on future economic conditions. The BSP also conducted the monthly Cross-Border Transactions Survey (CBTS), which covers intercompany transactions settled through accounts abroad; the quarterly survey on International Mobile Money Transfer Services (IMMTS), which monitors information on resident companies' transactions with non-residents involving cross-border remittances and trade-in-goods and services through mobile money platforms; the Consolidated Foreign Exchange Assets and Liabilities (FX Form 1/1A), which records the FX transactions between residents and non-residents; and the third round of the triennial Consumer Finance Survey (CFS), a survey on the financial conditions of Filipino households.[36] In 2019, the BSP also released the first Other Financial Corporations Survey (OFCS) which, together with the Depository Corporations Survey (DCS),

[35] The results of the Private Sector Economists' Survey are published in the BSP's Inflation Report.

[36] Starting 2018, per Monetary Board Resolution No. 1802 dated 26 October 2017; Prior to 2018, the CFS was conducted quadrennially.

provides a comprehensive measure of the claims and liabilities of the entire financial system.[37]

Research initiatives. The BSP continued to improve its research, economic modeling, and forecasting capability in 2019. These initiatives included the development of new models, review/refinement of existing in-house models, as well as participation in international network meetings on model development and forecasting. Research efforts also focused largely on economic developments, both local and international, that could have a significant impact on the inflation output and economic prospects of the country, in aid of policy formulation within the BSP. Other topics include studies on the determinants of inflation expectations; contagion risk analysis of cross-border exposures of banks; enhancement of the interest rate corridor (IRC); drivers of Philippine foreign exchange market liquidity; impact of relative price changes and asymmetric adjustments on aggregate inflation; implications of federalism to central banking; distributional impact of monetary policy; event studies of contagion and financial inclusion; bank lending channel, evolving strategies and policies of the rural banking system; potential output and output gap estimation models; and financial and labor market conditions indices.

The BSP started efforts to develop the Policy Analysis Model for the Philippines (PAMPh) which is a New Keynesian semi-structural gap model that maps the monetary policy transmission mechanism to and from key macroeconomic variables. The PAMPh now forms part of the suite of models used by the BSP for forecasting and policy simulations. To enhance its nowcasting capabilities, the BSP also conducted nowcasting exercises on GDP, inflation, monetary aggregates, exchange rate and current account balance using Bayesian vector autoregression (BVAR), mixed-frequency data sampling (MIDAS), state-space, support vector regression, and other techniques. The BSP enhanced the operational framework of its IRC system to ensure the effectiveness of monetary policy implementation. The BSP explored the application of machine learning techniques to improve the models used in the liquidity forecasting (LF) framework, specifically the day-to-day movements in currency and reserve requirement. The Analytics Dashboard for the LF was also developed in 2019 with the aim to enhance surveillance, assessment, and response to emerging liquidity conditions.

Information dissemination activities. To enhance public awareness and broaden the discourse on timely issues affecting its operating environment, the BSP organized events such as the annual Exporters' Forum held in April 2019; three rounds of "Conference on Gearing Up for External Competitiveness"(CGUEC) for users of foreign exchange; three (3) rounds of information sessions on the guidelines in securing MB opinion on government domestic borrowings; and two Environmental Scanning Exercises (ESE). Seven (7) brownbag seminars were also held in an effort to deliver timely, relevant, and high-quality information to the BSP community covering the following topics: Philippines' growth performance, bank lending channel of monetary transmission, risk and contagion among the Globally Significant International Banks (GSIBs), forecasting with structural models, preliminary assessment of drivers of Philippine FX market liquidity, regulatory measures affecting services trade and investment, and intelligent algorithms for detecting potential atypicality in prudential reports. In 2019, the BSP also spearheaded media campaigns, developed information materials, and conducted public information campaigns on Philippine banknotes and the BSP Clean Note and Coin Policy (CNCP).

The BSP co-hosted the Annual Research Conference of the Bank for International

[37] The OFCS is a comprehensive measure of the claims and liabilities of the other financial corporations (OFCs). OFCs refer to institutional units providing financial services other than the central bank, banks, nonbanks with quasi-banking functions, and nonstock savings and loan associations.

Settlements (BIS) with the theme "Inflation Dynamics in Asia and the Pacific" in August 2019. With the aim to stimulate discussions on contemporary issues involving Philippine-Japan relations, the BSP also hosted the Academic Conference and Alumni Homecoming of the Graduate Institute for Policy Studies (GRIPS) in June 2019, which was participated in by 150 GRIPS graduates. To reinforce its close working ties with the academe, the BSP continued to organize the annual BSP-University of the Philippines (UP) Professorial Chair Lectures. Research studies and lectures covered in the said conference include nowcasting GDP growth, market risk estimation, e-government trust and regulatory issues on tender offers, and the rate of return in the privatized water sector.

Economic information learning programs. The BSP, through the Economic and Financial Learning Center (EFLC), continued to provide: 1) economic information learning programs and 2) learning materials for various platforms (website, social media, print, face-to-face interactions during in-house and outreach learning sessions) in line with its mandate to provide information services, programs, and materials to introduce the work of the BSP and its role in the Philippine economy and to promote greater understanding of essential economic concepts and issues.

Starting in 2019, learning programs/activities were redesigned to target high-multiplier audiences to effectively widen the reach of key BSP messages, including its primary mandate of promoting price stability. Three sessions were scheduled for the said target participants such as: (1) Special Economic Information Learning Session for Members of the Media; (2) Public Information Campaign for Members of the Academe; and (3) Capacity-building Session on Central Banking Topics for BSP Officers/Staff. The learning events were strategically conducted in key cities (San Fernando City in La Union, Cebu City, and Davao City) in the country.

- *Public Information Campaign (PIC) on the Role of the BSP in the Economy*. The PIC aims to promote public awareness of the BSP's core functions and responsibilities, particularly its role in the economy. With the expected support from high influencers, a wider set of audiences may have better understanding of essential economic issues and, in turn, provide support to BSP policies, particularly those that promote the economic well-being of Filipinos. Eight (8) PICs were conducted in different parts of the country attended by a total of 682 participants, composed of student leaders, educators, members of the media, information officers, bloggers/influencers, and other opinion-makers.

- *PIC on BSP-Produced Statistics***.** This activity 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. It covers topics on monetary, banking, financial, and external sector statistics, and expectation surveys. As part of the BSP's celebration of the National Statistics Month (NSM), two sessions were conducted—one in Davao City (18 October) and another in BSP Manila (24 October), attended by a total of 180 participants, mostly from government agencies and LGUs.

Inter-agency and multilateral committees. The BSP continued to work toward enhanced relationships with the public and private sectors as it actively participated in local and international committees and working groups. As a resource institution of the Development Budget Coordination Committee (DBCC), the BSP engaged in discussions regarding economic policy and macroeconomic assumptions, serving as basis for the preparation of the NG's annual budget and fiscal program. The BSP likewise acted as resource institution in hearings conducted in the House of Representatives and Senate on the following: Corporate Income Tax and Incentives Rationalization Act (CITIRA); Real Property Valuation Reform Act (RPVRA); Passive Income and Financial Intermediary Taxation Act (PIFITA); Amendments to the BSP Charter; National Payment Systems Act; Islamic Banking Law; and Gold Bill. The BSP participated actively in other inter-agency committees, including the National Food Authority Council, Food Security Committee on Rice, Committee on Tariff and Other Related Matters, Financial Stability Coordination Council, Bureau of the Treasury Auction Committee, Capital Market Development Council, National Price Coordinating Council, National Wages Productivity Commission, and Cash Programming and Monitoring Committee.

The BSP is also an active member of the Financial Stability Board's Regional Consultative Group for Asia (FSB-RCGA), Green Bond Bank of International Settlement Investment Pool (BISIP) Advisory Committee, Central Banking Publications' Global Steering Committee, ASEAN Working Committee on Payment and Settlement System, Working Group on Payments and Market Infrastructure, EMEAP Monetary and Financial Stability Committee (MFSC), ASEAN Working Committee on Capital Account Liberalization where the BSP serves as co-chair, ASEAN Working Committee on Financial Services Liberalization, ASEAN Banking Integration Framework, BIS Research Conference, South East Asian Central Banks (SEACEN) Directors of Monetary Policy/Research, and SEACEN Research Week as well as a number of statistical committees and working groups involved in the compilation of various macroeconomic, monetary and financial statistics and in the enhancement of statistical standards. The BSP also led and co-hosted the 2019 BSP-IMF Regional Dialogue on Financial Stability for ASEAN Central Banks and the 37th BIS Forum on Financial Markets.

To give recognition to its public and private stakeholders, the BSP hosted the 16th Awards Ceremony and Appreciation Lunch for Stakeholders in the second half of 2019 with the theme "One Team, One Goal: Resilient Partnership Towards Inclusive Economic Growth." By category, the ceremony consisted of 106 awards for Advocacy Programs, 51 awards for Information Support, 14 Hall of Fame awards, 14 Special Citations for Prudential Reporting Innovation, and three awards for special categories. In October 2019, the BSP also hosted the 2019 BSP-DepEd Annual Oratorical Contest with the theme "Data Innovation: Key to a Better Nation." In fulfilling its role as the government's financial advisor on official credit operations, the BSP evaluated a total of 408 requests for MB opinion on proposed borrowings by the NG, LGUs, GOCCs, local water districts (LWDs), and state university/colleges (SUCs).

Trainings, workshops, and technical assistance projects. With the aim of enhancing the capacity of BSP staff on modeling, forecasting, and monetary policy analysis, the BSP conducted a number of workshops and technical consultations in 2019. The BSP co-hosted five learning events in Manila in partnership with the SEACEN Research and Training Center on topics covering financial stability and supervision, human capital, macroeconomic and monetary policy management, and payment and settlement systems. Two workshops on Nowcasting Methodologies were hosted by the BSP and the World Bank in March and June 2019, coordinated by Dr. Suleyman Ozmucur, Professor at the University of Pennsylvania. The BSP also received technical assistance in July and December 2019 from the Global Projections Model (GPM) Network led by Mr. Tomas Motl in developing the PAMPh. The BSP, in cooperation with the ADB, hosted parallel workshops on "Introduction to Modelling" and "GPM++" in June 2019. Likewise, the BSP received a technical assistance on refining the BSP's monetary policy implementation framework to enhance the IRC system in May 2019. The issuance of BSP securities, reform of the reserve requirement policy, and enhancement of the BSP's fine-tuning capacity were covered in the said technical assistance project.

The BSP also held the first of the two series of workshops on Dynamic Stochastic General Equilibrium (DSGE) on December 16-20, 2019 which was attended by BSP officers and staff. The DSGE workshop, which mainly focused on understanding, using, and interpreting DSGE models, as well as introduced participants to the techniques commonly used by policymakers for analyzing monetary and other macroeconomic issues, was facilitated by Dr. Lawrence Christiano, Professor of Economics at Northwestern University.

Program and Process Initiatives. To harness big data to narrow the information gap, enhance policy decisions, and advance innovative research, the BSP entered into MOA with UP for the conduct and implementation of the BSP Big Data Project. The project is expected to yield a comprehensive assessment of information and infrastructure gaps of the BSP in terms of capacity for big data, a big data roadmap, as well as test cases on the use of big data in central banking. To further strengthen the BSP's research capability, the Research Experts' Panel (REP) was also created to promote the capacity of researchers to produce more publication-ready research papers as well as to increase the presence of the BSP in the international research community. The REP, which held visits in the second semester of 2019, was composed of members[38] from the academe and research institutions who are recognized and highly acclaimed in their field of expertise.

In 2019, the BSP continued to develop new data sets and indicators to better assess and monitor potential risks and vulnerabilities in the economic environment. The BSP began estimation of the 2017 Philippine Financial Social Accounting Matrix (PFSAM) which connects the multi-industrial relationships in production to multi-sectoral distribution of income, consumption, investment in fixed assets, non-produced assets, and financial instruments in the economy as well as its interaction with the rest of the world. The Financial Corporations Survey (FCS), a tool used to account for the claims and liabilities of the entire financial corporations sector;[39] and the Commercial Property Price Index (CPPI), which will complement the RREPI were also developed. The BSP also continued to improve its BSP E-Survey Portal, which features an online questionnaire, a database, and an application for data maintenance and consolidation system. In 2019, the portal's registered users increased by 15.5 percent to 3,599 individual and institutional respondents.

The BSP also enhanced its various information technology systems in 2019. It continued to develop the Loans and Credit Management Information System (LCMIS), which is envisioned to facilitate the efficient delivery of credit, streamline operations, and centralize and integrate databases of loan and credit transactions. The bank also continued to enhance its Treasury Portfolio Management System (PMS) and Monetary Operations System (MOS) used in the management and conduct of various financial and monetary operations. The BSP also began the development of a next-generation real-time gross settlement system (RTGS) system to be named PhilPaSS^{plus}.

[38] In 2019, the REP was composed of Dr. Roberto S. Mariano, Professor Emeritus of Economics at the University of Pennsylvania; Dr. Ramon Moreno, former Head of Economics for Latin America and the Caribbean, Monetary Economic Department, Bank for International Settlements; and Dr. John Vincent C. Nye, Professor at George Mason University.

[39] The Financial Corporations Survey (FCS) is a consolidation of the Depository Corporations and Other Financial Corporations Survey.

Box Article 6

Digital currencies: Impact on monetary policy and financial stability

Technology continually shapes monetary and financial structures through its influence on the nature of money and the workings of banking and payment systems. This process of evolution through innovation has challenged the prevailing notions of money—from the trading of coins, to the use of paper currency, to the electronic debiting and crediting of funds on accounts of banks. Recent game-changing developments (including the emergence of Bitcoin, the entry of big tech firms into financial services, and the rise of stablecoins) have propelled money and the payment system to the top of regulators' policy agenda and debate given their impact on the financial system and the way central banks operate.

Types of Digital Currencies

The Financial Stability Board (FSB) defines crypto-asset as "a type of private asset that depends primarily on cryptography and distributed ledger or similar technology as part of their perceived or inherent value."[1]

There are three types of digital currency: payment tokens; stablecoins; and central bank digital currencies (CBDC) *(Table 1, last column)*. This current classification is based on the following criteria: (i) nature of the issuer (privately or publicly issued digital currencies);[2] (ii) underlying assets (fiat- or crypto-backed digital currencies), commodities,[3] real estate or securities; and (iii) underlying economic functions.[4]

Table 1. Types of Money

Currency	Issuer	Type		
		Cash	**Account balances at the central bank**	**Digital token money**
National/Official currency	State/Government/Public sector	Banknotes and coins	Settlement or reserve balances held by banks at the CB	Central bank digital currency (CBDC) for banks
			Demand deposit accounts at the CB for households and corporates	CBDC for households and corporates
	Private		Bank deposits	Stablecoins (value stable against official currency, e.g., Tether)
Private	Private			Stablecoins (minimal fluctuations in value against official currencies, e.g., Libra)
				Payment tokens (e.g., Bitcoin)

Source: Currencies, money, and digital tokens | Thomas J. Jordan | © Swiss National Bank 05.09.2019

Legend: **Existing types of money** (green) **Potential types of money** (orange)

[1] Financial Stability Board (2019b): "Crypto-assets: work underway, regulatory approaches and potential gaps", 31 May.
[2] Tether Limited and central banks are examples of private and public entities that issue digital currencies, respectively.
[3] Precious metals as example.
[4] From a consumer and investor standpoint, digital currencies may be used as: (i) payment tokens (mode of payment or exchange); (ii) security tokens (source of investment); and (iii) utility tokens (access to current or future service).

Rise of stablecoins/global stablecoins

- While digital/crypto assets are also referred to as "digital/crypto currencies", such assets do not reliably perform the standard functions of money and are generally perceived unsafe to rely on as a medium of exchange or store of value. Digital/crypto assets are not legal tender, nor are they backed by any government or public authority.

- There have been more recent initiatives to reduce the price volatility associated with first-generation digital tokens (e.g., Bitcoin), making them potentially easier and more sustainable to use as payment tokens.[5] These stablecoins aim to maintain stable value by anchoring the digital/crypto currency to a reference asset or basket of assets (such as commercial bank deposits or government-issued bonds).

- Recently, a number of stablecoin projects have emerged from BigTech[6] firms, such as Facebook's Libra project. With their existing large customer base, which additionally may be cross-border, these new stablecoins have the potential to scale rapidly to achieve a global or other substantial footprint. These are referred to as "global stablecoins" (GSCs).

- Due to their potentially large size and reach, GSCs could give rise to a number of challenges related to public policy priorities including, in particular, anti-money laundering and countering the financing of terrorism (AML/CFT), as well as consumer and data protection, cyber resilience, fair competition, and tax compliance.[7] They could also pose issues related to monetary policy transmission, financial stability, and the safety and efficiency of the global payment system. These concerns stem, in part, from the fact that GSCs may transform from a cross-border payment solution to assets with money-like features.

Monetary policy and financial stability implications of global stablecoins

- While the scale of private cryptocurrencies is, at the moment, not at a level that would detrimentally affect macro-financial stability and the conduct of monetary policy, there still remain questions as to how digital currencies would affect traditional bank operations (particularly in times of financial crisis).

- The widespread use of privately backed GSCs may compromise central banks' ability to conduct independent and credible monetary policy aimed at internal balance. If a large share of domestic households and businesses come to rely on a GSC not only as a means of payment but also as a store of value, this could shrink demand for physical cash and affect the size of the central bank's balance sheet. In the absence of bank reserves, the central bank may lose its influence on short-term interest rate, a key variable in the transmission of monetary policy. Consequently, it would lessen the influence of the central bank on aggregate demand as part of the monetary transmission mechanism. As such, it could constrain the ability of monetary policy to manage the business cycle and respond to demand shocks.

- There are also questions related to the implications of a widely used GSC for financial stability. Large-scale use of GSCs amid greater financial interconnectedness could give rise to more volatile cross-border financial flows. A loss of confidence in a GSC could trigger a run on underlying fiat-based assets. Similarly, the

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[5] Currently, the largest stablecoin currency is Tether (USDT) with a market capitalization of $4.14 billion as of October 2019. This stablecoin in anchored on the US dollar, the euro, and the Chinese yuan. Other stablecoins include, among others, Binance, Paxos Standard, Digix, Dai, and Terra.

[6] BigTechs are large technology firms such as Alibaba, Amazon, Apple, Facebook, Google, and Tencent.

[7] Coeuré, B. (2019c): "Digital challenges to the international monetary and financial system", speech at the Central Bank of Luxembourg–Toulouse School of Economics conference on *The future of the international monetary system*, September

potential widespread use of this financial technology could also have consequences for a wide range of markets and financial market infrastructure, including stock exchanges, central securities depositories, securities settlement systems, or trade repositories. In the absence of policy responses (i.e., regulatory oversight, backstop liquidity, cross border collaboration), GSC ecosystems could be less stable than fiat systems especially in times of stress.

- It would also be important to assess the implications for banks and supervisors of a sudden increase in the role and use of GSCs. For example, in a world where private sector stablecoin initiatives, such as the proposal by the Libra Association, prevail, banks could play different and non-mutually exclusive roles. Such roles could include: (i) direct participation in the stablecoin ecosystem (for example, acting as custodians of assets that back the stablecoin, or managing those assets); (ii) facilitation of the functioning of the ecosystem (for instance, by reselling the stablecoin); and/or; (iii) offering broader services to final users (for example, acting as digital wallet providers). Depending on their role, banks could be subject to a wide range of both financial risks (liquidity, market, and credit risks) and non-financial risks (such as cybersecurity and data integrity or legal risks, among others). Separately, bank supervisors should consider whether supervisory frameworks and resources would enable them or other supervisory authorities to conduct the necessary supervisory oversight.

Central bank digital currencies (CBDC)

- The prospect of and concerns regarding GSC payment systems have intensified the interest in CBDCs. The principal threat of the emergence of private, decentralized digital/crypto currencies stems from their potential to fulfil the role of money. This has led to discussions by central banks globally on whether they should issue their own digital currency.[8]

- CBDC represents the digital form of a fiat currency of a particular country (or region) and is issued and regulated by a monetary authority of the country. CBDCs can be classified into *wholesale CBDC*, where the network participants are financial institutions that already have access to the central bank balance sheet; and *retail CBDC*, which are also available to general users such as households and corporates (Tables 1 and 2).

Table 2. Central Bank Digital Currency

Retail CBDC	Wholesale CBDC
Issued for the general public	Issued for financial institutions that hold reserve deposits with a central bank
Direct access to central bank liability in electronic form for retail or end-user consumers	Direct linkage to securities or FX platforms for real-time monitoring, better track-and-trace options, and improved settlement processing
Improves financial inclusion by accelerating shift to a cash-free society, and reduces cash printing and handling costs	Similar to value that is being transacted in today's inter-bank payment systems such as real-time gross settlement systems in addition to being faster, safer, and less expensive
Implications on monetary and financial stability could be significant, but may be mitigated by design	Less implications on monetary and financial stability since financial institutions' reserves with central banks are already effectively held in digital form today
e.g., People's Bank of China and National Bank of Cambodia	e.g., Monetary Authority of Singapore, Bank of England, Bank of Canada

Source: Monetary Authority of Singapore

[8] Bank for International Settlements. 2018. Central Bank Digital Currencies. BIS Committee on Payments and Market Infrastructure, March.

- Central banks differ substantially in the extent to which they are actively exploring CBDCs, although several have already taken concrete steps or announced their intentions to launch a CBDC in the future. In particular, the Bank of Thailand (BOT) has made good progress on Project Inthanon (a proof-of-concept for wholesale CBDC for interbank and cross-border settlements)[9] while the National Bank of Cambodia has already piloted a quasi-form of CBDC for its national payments system as part of Project Bakong (which started as a pilot test with a live and confined environment on 18 July 2019 and plans to go live in early 2020).[10] The Bank of Canada (Project Jasper), the ECB, the Bank of Japan (Project Stella), and the Monetary Authority of Singapore (Project Ubin) have already run experiments operating DLT-based CBDC wholesale RTGS systems. The Central Bank of Uruguay, the People's Bank of China, and the Eastern Caribbean Central Bank are also early movers.

- A BIS survey shows that more central banks are undertaking extensive work on CBDCs.[11,12] The results reveal the following:

  - *Engagement in CBDC work*: Around 80 percent of central banks (up from 70 percent in 2018)
  - *Focus of work:* 50 percent (of those engaged in CBDC work) are focusing work at both wholesale and general purpose or retail CBDCs
  - *Type of work in addition to research:* 40 percent are into experiments/proof-of-concept; and 10 percent are into development/pilot arrangement (all EME central banks).
  - *Motivations:* Motivations for CBDC research continue to be diverse; however, EMEs have generally stronger motivations than advanced economies. Also, motivations for researching general purpose CBDCs are generally stronger than those for wholesale CBDCs. In general, cash use is the key driving many central banks' initiatives on CBDCs, with EME central banks aiming to reduce reliance on cash, and advanced economies working to pre-empt any issues that might be faced by the general public in accessing central bank money.

Should central banks issue digital currencies, including CBDCs?

- Central banks' stance toward modern forms of money or digital currencies is expected to evolve over time. At present, monetary authorities have been embracing technological developments in the field of money and will continue to explore helpful innovations.

- The BSP, specifically, is following recent developments in digital currencies closely, and is undertaking studies on their policy implications. It is carefully assessing the risks and opportunities of such developments for banks and supervisors and will take appropriate policy and/or supervisory measures to mitigate such risks, with a view to preserving monetary and financial stability.

- The BSP recognizes that the adoption of a CBDC could be valuable if it improves the three core functions of money, namely, a unit of account, a medium of exchange, and a store of value. However, there are tradeoffs

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[9] Project Inthanon is divided into three phases, with each phase building upon the findings and learning of the previous phase. Project Inthanon Phase III, which is a collaboration between the BOT and the Hong Kong Monetary Authority, was expected to have started in August 2019 and to have been completed by the fourth quarter of 2019. *(Source: https://www.bot.or.th/English/PressandSpeeches/Press/2019/Pages/n3962.aspx)*

[10] https://www.weforum.org/projects/central-banks-age-of-blockchain

[11] Codruta Boar, Holden, H. and Wadsworth, A., Impending arrival–a sequel to the survey on central bank digital currency, BIS Papers No 107, January 2020

[12] Some 66 central banks replied to the survey, with the vast majority taking part for the second time (63 central banks replied to the 2018 survey). Respondents represent 21 advanced economies and 45 EMEs, covering 75 percent of the world's population and 90 percent of its economic output.

and risks that can, for instance, undermine financial stability and banking intermediation. It would thus be important for the BSP to craft far-sighted regulatory regimes that will meet these challenges.

Policy responses to global stablecoins

In view of the ongoing and fast-changing developments in the areas of digital currency and stablecoins, authorities and policymakers are taking the following courses of actions:

- *Adopting a balanced approach to regulations.* Central banks should properly calibrate responses to risks without stifling innovation while promoting healthy competition. The BSP, in particular, is prepared to appropriately tailor regulatory or supervisory expectations within its legal mandate as well as to facilitate fintech innovations that produce benefits for consumers, businesses, and the financial system.
- *Pacing with technological innovations and capacity building.* Central banks should continue to monitor and better understand these technologies and their underlying risks. There is a need to arm bank personnel with right trainings supported by the use of advanced technologies.
- *Network building through coordination and cooperation.* International networks provide fora for discussion. As experience is gained, international standards and best practices could be considered to promote greater harmonization in approaches and facilitate international cooperation and information sharing/mutual legal assistance.
- *Conduct in-depth research on emerging digital currency.* Central banks should explore potential benefits and costs of digital currencies, particularly on CBDC, while enhancing their monitoring and surveillance tools.
- *Constantly upgrading consumer education.* Consumer protection regulations should be complemented with consumer education. Potential users of GSC schemes should be educated and forewarned about the risks involved in making payments using digital currency.

Conclusion

The rise of digital currencies, including stablecoins and CBDCs, presents potential benefits in terms of cost efficiency and financial inclusion, but they could also pose challenges in areas such as the integrity of payments systems, privacy, consumer protection, and AML/CFT. They could also bring to the fore a number of policy issues related to financial stability and the conduct of monetary policy. Continuing efforts from authorities will thus be needed to better understand these technologies and their underlying risks, to build the skills and capacity to adequately assess potential implications for monetary policy and financial stability, and to adjust/adopt new regulatory tools and supervisory strategy. Central banks are at the frontier of research and policy development regarding CBDCs. At the moment, central banks, including the BSP, are closely monitoring developments and evaluating the pros and cons of issuing a CBDC while taking a cautious approach to adoption/implementation.

References:

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The BSP's Strategic Reforms in the Financial Sector [56]

I. Strategic Policy Reforms

The BSP sets its strategic policy objectives aimed at (1) strengthening risk governance; (2) leveraging on technology in finance and the use of artificial intelligence; (3) achieving greater and broader access to financial services; (4) upholding the integrity of financial system and safeguarding the interest of the public; and (5) accelerating capital markets reforms, including FX initiatives.

For the year 2019, there were a total of 149 completed policy issuances from the Financial Supervision Sector (FSS), 134 of which emanated from various FSS units and 15 policy issuances from various working groups. These are geared towards ensuring the soundness, stability, resilience, and inclusivity of the banking system. These include:

1. ***Strengthening risk governance***. In strengthening risk governance, the BSP is guided by the concept of proportionality towards achieving an enhanced risk management systems and sound capital position of BSP-supervised financial institutions (BSFIs). This objective is complemented by the deployment of prompt and calibrated enforcement actions as well as dynamic and forward-looking assessment framework.

- *Liquidity Risk Management.* To further enhance banks' management of their liquidity position, BSP introduced intraday liquidity reporting guidelines which aims to enable banking supervisors to better monitor bank's management of intraday liquidity risk and its ability to meet payment and settlement obligations on a timely basis under both normal and stressed conditions.[57]

- *Credit Risk Management*. The BSP enhanced Non-Stock Savings and Loan Associations' (NSSLAs') credit risk management practices by requiring the establishment of an appropriate credit environment and operation under a sound credit-granting process.[58]

- *Rationalization of Prudential Reporting Requirement*. The initiative ensures prudential reports are relevant to the surveillance and supervisory functions of the BSP. It aims to contribute to continuing adherence to internationally recognized standards and practices on data aggregation and governance as well as promote ease of doing business among BSFIs. [59]

- *Market Risk Management.* The guidelines on the management of Interest Rate Risk in the Banking Book (IRRBB) and Amendment of the Guidelines on Market Risk Management provided the supervisory expectations for banks' identification, measurement, monitoring, control as well as supervision of banks' market risk exposures in view of evolving global market environment.[60]

- *Bank Investment Activities.* The BSP's Guidelines on Investment Activities outlines expectations on the prudent conduct of investment activities and minimum practices that a BSFI should establish for the management and control of risks associated with investments.[61]

- *Bank Licensing*. The BSP streamlined the requirements for approval of special authorities requested by BSFIs. This is in line with the thrust of the BSP to apply the risk-based approach to the licensing process and to promote ease of doing business.[62]

- *Guidelines on Voluntary Surrender of Banking License*. The BSP provided criteria and

[56] For the period 1 January – 31 December 2019.
[57] Circular No. 1064 dated 3 December 2019.
[58] Circular No. 1046 dated 29 August 2019.
[59] Circular No. 1057 dated 28 October 2019.
[60] Circular No. 1044 dated 6 August 2019.
[61] Circular No. 1042 dated 25 July 2019.
[62] Circular No. 1031 dated 7 February 2019.

procedures for its acceptance of the voluntary surrender of banking license, as well as the amendments to affected regulations on voluntary dissolution and liquidation.[63]

- _Enhanced Framework for Dealing with Domestically Systemically Important Banks (D-SIBs) under Basel III_.[64]The enhancements capture a bank's systemic importance in the Philippines following the latest developments in the banking sector and methodologies in the identification of D-SIBs. Hence, a bank's systemic importance is assessed based on pre-defined indicators for size, interconnectedness, substitutability, and complexity, among which size and interconnectedness bear greater weights.

- _Shari'ah Governance Framework (SGF) for Islamic banks (IBs) and Islamic Banking Units (IBUs)_. The SGF sets appropriate institutional measures, arrangements, requirements, structure and policies of an IB or an IBU to ensure that there is effective and independent oversight of Shari'ah compliance of the Islamic banking business. The SGF complements the existing regulatory corporate governance framework.[65]

- _Regulation and Organization of Islamic Banks._ R.A. No. 11439 entitled, "An Act Providing for the Regulation and Organization of Islamic Banks" mandates the BSP to exercise regulatory powers and supervision over the operations of IBs and to issue the implementing rules and regulations on Islamic banking. This will unlock the full potential of Islamic financing in fostering inclusive economic growth. With a well-defined regulatory framework now in place, the BSP looks forward to seeing greater participation in Islamic financing by both domestic and foreign banks. This is expected to widen opportunities for Muslim Filipinos, including those from the Bangsamoro Region, in accessing banking products and services.

  Cognizant of the importance of Islamic banking as an alternative business model to promote its financial inclusion agenda, the BSP issued the guidelines for establishment of IBs. It aims to promote an Islamic banking system that can operate alongside the conventional banking system, and an open approach where conventional banks operate IBUs.[66]

- _Supervisory Assessment Framework (SAFr) Review._ This project ensures that the supervisory assessment framework of FSS is able to promote a seamless, dynamic and a more forward-looking supervisory approach, which embeds business model and impact analyses. In line with the FSS' commitment to further improve the supervisory environment in the country, several key strategies were identified and prioritized to introduce sustainable reforms aimed at strengthening risk governance in the financial system.

- _Internal Policies and Procedures (IPP) on Bank for Resolution (BRes) Framework_. The initiative aims to provide guidelines and procedures on resolution options (Negative or Positive Resolution) and facilitate the effective supervision and timely resolution of problem banks by enhancing Supervisor's knowledge, skills and use of good judgment in promptly deploying appropriate enforcement actions, among others.

2. ***Leveraging on technology in finance and the use of artificial intelligence.*** The BSP remains proactive in its approach to the rapid expansion and reach of FinTech innovation considering its potential to promote financial inclusion and improve efficiency in banking operations.

[63] Circular No. 1050 dated 18 September 2019.
[64] Circular No. 1051 dated 27 September 2019, a microprudential policy with macroprudential overlay.
[65] Circular No. 1070 dated 27 December 2019.
[66] Circular No. 1069 dated 27 December 2019.

- *Electronic Banking Services and Electronic Operations.* The BSP amended the regulations on BSFIs' services and other electronic operations. The amendments mainly take into account the developments in electronic payment and financial services (EPFS) and BSP's effective supervision of these services.[67]

- *Operators of Payment Systems (OPS).* In accordance with R.A. No. 11127 or the National Payment Systems Act (NPSA), the BSP provided the rules and regulations on the registration of OPS or those that maintain platforms enabling payments or fund transfers and issues payment instruments.[68]

- The BSP held the "Digital Payments Leaders' Summit" in December 2019 to renew the industry leaders' commitment to accelerate the adoption of electronic payments (e-payments) in the country. The summit was marked by the release of the study of the United Nations-based Better Than Cash Alliance (BTCA) which reported that the volume of e-payments usage in the Philippines grew from one percent in 2013 to ten percent in 2018, while the value of e-payments rose from eight percent to 20 percent during the same period. The study also revealed that women in the Philippines are ahead of the men in adopting digital payment solutions.

- Under the guidance of the BSP, the payment industry participants led by the Philippine Payments Management, Inc. (PPMI), launched on 20 November 2019 another set of milestone initiatives under the National Retail Payment System (NRPS) — the Government e-Payments ("EGov Pay") Facility and the pilot of the first use case aligned with the National QR Code Standard ("QR Ph").

- The QR is primarily intended to enable micro-merchants to accept e-payments. The adoption of QR Ph was implemented to ensure interoperability of QR-enabled payment and financial services in line with the BSP's thrust of ensuring the efficiency of payment systems in support of inclusive economic development. In addition, the BSP is keen on supporting the establishment of a "large value payment" automated clearing house in order to address the inefficiencies in the payment of financial market transactions particularly the securities and FX trades, from the viewpoint of large companies participating in the securities and FX markets.[69]

- *Cyber threat intelligence and collaboration*. The BSP enjoined all BSFIs to participate in the Bankers Association of the Philippines Cybersecurity Incident Database (BAPCID) where they can raise the level of industry cooperation in fighting cyber threats.[70]

3. ***Achieving greater and broader access to financial services.*** Over the years, positive developments in the financial inclusion agenda became evident as reinforced by recent initiatives:

- *More financial access points.* Banks' network of branch and other offices continued to expand as supported by the rationalization of branching guidelines.

- *The NRPS framework*. This is the BSP's flagship program to transform the country's national payment system. The current participation and compliance of BSFIs to the requirements of the NRPS have been encouraging. As of March 2020, there are 56 participants in the PESONet[71] and 45 participants of Instapay[72]. The BSP is expecting more BSFIs to participate in the NRPS, particularly the stand-alone TBs

[67] Circular No. 1033 dated 22 February 2019.
[68] Circular No. 1049 dated 9 September 2019.
[69] Circular No. 1055 dated 17 October 2019
[70] Memorandum No. M-2019-016 dated 11 June 2019.
[71] PesoNet is a batch electronic fund transfer (EFT) credit payment scheme which supports bulk payment transactions of various users. For instance, it will enable companies, including the government, to conveniently pay salaries and invoices to the bank account of choice of their employees and suppliers.
[72] Instapay is a real-time low-value EFT credit push payment scheme designed to facilitate small value payments that are especially useful for the purchase of retail goods, paying toll fees and tickets, as well as for e-commerce.

and R/CBs. This is validated by the recent results of the Banking Sector Outlook Survey (BSOS) for the second semester of 2019 showing the banks' strong interest in participating in the digital finance ecosystem.

- The BSP is also working on ensuring that "*bills and government payment service*" forms part of the e-payment and financial services offered by banks and non-bank electronic money issuers (EMIs). With this e-service, consumers will be able to save much time and effort in settling their recurring and periodic bills, as well as payment to government, which includes fees for licenses and permits.

  a. On 15 August 2019, the Bureau of Internal Revenue (BIR) launched the pilot run of the electronic collection of taxes through the Land Bank of the Philippines' (LBP's) Link.Biz portal together with the Rizal Commercial Banking Corporation (RCBC) as the issuer and the Philippine Clearing House Corporation (PCHC) as the gateway provider. Said tax collections will be coursed through the PESONet EFT facility.

  b. The BSP is also part of an inter-agency technical working group (TWG) formed under the Public Financial Management Committee. The TWG is mainly tasked to review the government's policies to determine appropriate revisions and new policies to be adopted to fully enable the government's digitalization of its collections and disbursements.

- *Peso loans to non-residents*. The guidelines revised the existing guidelines and allow peso financing to non-resident Filipinos and non-immigrant visa holders.[73]

- *The National ID*. The BSP signed a MOA with PSA on 7 October 2019 for the BSP to produce blank cards for the National ID under the Philippine Identification System (PhilSys). The National ID system will help address the lack of formal identification which constrains the informal sector from transacting with banks.

4. ***Upholding the integrity of financial system and safeguarding the interest of the public.*** Integral to the BSP's objective of promoting financial stability is to uphold the integrity of the financial system considering the areas of prudential reporting, disclosure requirements and compliance to the Anti-Money Laundering (AML) Act of 2001.

- *Revised Framework on the Selection of External Auditor.* The BSP issued the guidelines governing the revised framework on the selection of external auditors for BSFIs in accordance with the cooperative arrangement among the Financial Sector Supervisors under the auspices of the Financial Sector Forum.[74]

- *Financial Consumer Protection.* In light of the increased complexity of financial products and rapid technological innovations in financial products and services, the BSP enhanced the regulations on Financial Consumer Protection Framework. The amendment strengthens market conduct practices of BSFIs by establishing guidelines that institutionalize consumer protection as an integral component of corporate governance and culture, as well as risk management.[75]

- *Anti-Money Laundering (AML)*. The BSP regularly conducts trainings on AML for BSFIs. Likewise, advisories to protect the public and preserve the integrity of the financial system are regularly published. For instance, the public was warned against being used as money mules by criminal elements.[76]

5. ***Accelerating capital markets reforms, including FX initiatives***. The package of reforms was intended to deepen the local

[73] Circular No. 1058 dated 15 November 2019.
[74] Circular No. 1040 dated 20 May 2019.
[75] Circular No. 1048 dated 6 September 2019.
[76] Advisory on Money Mule, 29 October 2019. www.bsp.gov.ph

capital markets by promoting price discovery and transparency, developing market infrastructure, improving market liquidity, and enhancing the ease of doing business in the country. Meanwhile, the FX market reforms intend to facilitate access to the banking system's FX resources for legitimate transactions, and further streamline and simplify relevant procedures and documentary requirements. The reforms allow investors and the public greater flexibility to manage their investments and cash flows as well as ease the conduct of business in the country.

- *Amendments to FX Regulations.* The latest reforms allow investors greater flexibility to manage their investments and cash flows.[77]

- *Reduction in Reserve Requirements for Bonds.* The BSP lowered the reserve requirement ratio (RRR) for bonds issued by banks/quasi-banks (QBs) to three percent as part of its commitment to contribute to deepening of the local debt market. The new RRR took effect on the reserve week beginning 01 November 2019.[78]

- *Requirements on the issuance of long-term deposit (LTNCTDs), bonds and commercial papers.* The BSP imposed a moratorium on the banks' issuance of long-term negotiable certificates of time deposit (LTNCTDs) while allowing related companies of the banks/QBs issuing bonds to underwrite or arrange the said financial instruments subject to certain conditions.[79]

II. Proportionate and Proactive Supervision and Examination of BSFIs

The BSP has supervision over the operations of banks and exercises such regulatory powers as provided under the New Central Bank Act, as amended, and other pertinent laws, over the operations entities such as finance companies, non-bank financial institutions performing quasi-banking functions, credit granting businesses, pawnshops, money service businesses and payment system operators,

The BSP-FSS adopts a holistic approach to supervision and examination with the objective of guiding BSFIs to mitigate risk and achieve the desired changes. Its risk-based supervision, of which enforcement action is a key part, focuses on the safety and soundness of operations of the BSFIs and the banking system as a whole. This policy sets forth the expectations of the BSP when it deploys enforcement action and the consequences when expected actions are not performed within prescribed timelines.

Regular or periodic examinations of BSFIs were conducted by the FSS as mandated by the New Central Bank Act, as amended. Special examinations were also conducted as authorized by the Monetary Board.

Consistent with a risk-based approach to supervision, the scope of examination included, but need not be limited to, the following:

1) Appraisal of the overall quality of corporate governance;

2) Assessment of the risk management system, which shall include the evaluation of the effectiveness of management oversight and self-assessment functions (e.g., internal audit, risk management and compliance); adequacy of policies, procedures, and limits; effectiveness of risk measurement, monitoring and management information system; and robustness of internal controls;

3) Review of the institution's operations and overall risk profile;

[77] Circular No. 1030 dated 05 February 2019.
[78] Circular No. 1054 dated 11 October 2019.
[79] Circular No. 1062 dated 26 November 2019.

4) Evaluation of financial performance, capital adequacy, asset quality, and liquidity; and

5) Any other activity relevant to the above.

In the full exercise of its supervisory powers, the BSP's examination powers are complemented by overseeing thereof. This refers to any investigation of a BSFI that is limited in scope, conducted to inquire into a particular area/aspect of an institution's operations, for the purpose of overseeing that laws and regulations are complied with, inquiring into the solvency and liquidity of the institution, enforcing prompt corrective action, or such other matters requiring immediate investigation.

III. Strategic Surveillance and Research

Aside from enabling regulations and proportionate bank supervision, the BSP has been strengthening its surveillance and analytical capabilities to effectively carry out its mandate to promote financial stability.

Enhanced Reporting of Banking Sector Developments and Risks

The FSS consistently provided timely and insightful reports to keep management and relevant stakeholders well-informed. In 2019, the FSS continued to enhance the following reports:

- *Report on the Philippine Financial System.* It is a semestral report required to be submitted by the BSP to the President of the Philippines and to both Houses of Congress. It contains a comprehensive assessment of major developments in the Philippine financial system during the semester. The report was enhanced to reflect featured articles on analytical researches conducted by FSS staff as well as the inclusion of a new section on pawnshop and money service business (MSB) industries.

- *Banking Stability Risk Analysis (BSRA).* This quarterly internal report is prepared to apprise the BSP Management of the holistic assessment of the condition and performance of the banking system. The comprehensive report also highlights key emerging vulnerabilities and risks confronting the banking sector and their potential impact on the system's overall safety and soundness. The BSRA also contains the supervisory actions taken by the Sector and mitigating measures undertaken by banks concerned to address specific risk exposure. The BSRA also recommends policy measures that will address emerging risks and vulnerabilities.

- *Bank Deposit Interest Rates Report.* It is a quarterly report on bank deposit interest rates for purposes of determining market median rates on deposits and monitoring banks that rely excessively on wholesale, high-cost or volatile deposits/borrowings.

- *Banking Sector Outlook Survey (BSOS).* The BSOS gathers the sentiments of the leaders of the domestic banking industry related to their growth outlook and risk assessments, business performance strategies, and insights on regulation and supervision within a two-year horizon. It is also part of the BSP's surveillance toolkit to promote the sustained resilience of the banking system. Moreover, it aims to provide supervisory information and industry perspectives on emerging issues and trends for timely and relevant prudential reporting and related analysis.

Heightened Surveillance and Research

The FSS remains committed to enhancing the quality of policy decisions and strengthening the BSP's analytical capacity through the conduct of empirical research, publications and proactive surveillance of the domestic, regional and global economies as well as updates in international standards to foster a comprehensive policy response to risks. Towards strengthening its research function to support supervisory policy initiatives, the FSS has endeavored in preparing empirical research such as the following:

- *The Impact of Extreme Weather Episodes on the Philippine Banking Sector – Evidence from Regional Branch-Level Data.* Using data from the BSP's Branch Regional Information System (BRIS) from 2014 to 2018, this study confirms the effects of severe weather conditions on the banking sector.

- *The Impact of Prudential Regulations on Bank Lending Rates: An Accounting-Based Approach.* This study finds that, on average, the cost of doing business by the BSFIs has marginally risen following the adoption of bank regulations and prudential reforms. This indicates that the BSP's actions entail some necessary costs albeit modest, to ensure the safety, soundness, and resilience of the banking system.

- *Application of Proportionality in Financial Regulation and Supervision in the Philippines.* This article examines the application of the "principle of proportionality" in the BSP's regulatory and supervisory frameworks. In current practice, the BSP calibrates its regulations in such a way that these remain sensitive to the peculiarities and conditions of different types of financial institutions operating in the country without compromising regulatory objectives.

- *Have Domestic Prudential Policies Been Effective: Insights from Bank-Level Property Loan Data.*[80] This study examines the effectiveness of domestic prudential policies in restraining growth of real bank loan commitments and in preserving the quality of bank loans in the Philippines using panel bank data regression from the first quarter of 2014 to the fourth quarter of 2017.
- *Do Capital Regulations Influence Banks' Holding of "Excess" Capital?*[81] This study examines the moral hazard and capital buffer theories as motivations of Philippine banks in managing their capital and risks following the adoption of Pillar 1 of the Basel III framework on minimum capital requirement.

- *The Need to be Green*. This study discusses the crucial role of financial institutions in fighting climate change, including the initiatives of Philippine banks. It also tackles the role of the BSP together with other government agencies in making the financial sphere greener.

- *Common Lender Channel and Financial Strength in Executives' Meeting of Asia-Pacific Central Banks (EMEAP) Economies*. This paper examines the presence of common lender channel in EMEAP Economies using panel country data. The study intends to analyze the economies' vulnerabilities to risks from cross-border spillovers, particularly in cross-border borrowing, and to construct a composite index for each of the EMEAP economies.

- *What is the Cost of Compliance with the BSP Regulations?* The study highlights that while banks incur incremental costs to address the BSP regulations, these are generally not monitored and are at a modest level. The two main drivers of compliance costs – manpower and information technology (IT), are reflective of the initiatives of respondent banks to address new regulations, which are the training of personnel and upgrading of IT system and/or infrastructures.

- *Preliminary Impact of Basel Standards Implementation on Financial Inclusion in the Philippines*. The study shows that the adoption of Basel standards in the Philippines did not lead to adverse impact on financial inclusion. This result can be attributed to the BSP's consideration of the existing domestic financial condition prior to the implementation as well as the application of the principle of proportionality. Moreover,

[80] BSP Working Paper Series No. 2019-02, March 2019.

[81] BSP Working Paper Series No. 2019-01, March 2019.

domestic banks recognize the benefits of the Basel reforms and that banks have also become more risk-sensitive and prudent in managing their risk-taking activities. In particular, banks have improved their governance and risk management systems in response to these regulatory reforms.

IV. Thought Leadership and Stakeholder Partnerships

Regional Thought Leaders

The BSP serves as the Chair and the Secretariat of the Executives' Meeting of East Asia-Pacific Central Banks Working Group on Banking Supervision (EMEAP WGBS) for the years 2018 to 2020. The BSP rendered technical support to the EMEAP WGBS Chairmanship as well as the different sub-groups within the EMEAP WGBS allowing the EMEAP WGBS to complete a number of major initiatives. These include the:

- *Reports on the East Asia-Pacific Region.* In 2019, the BSP EMEAP WGBS Secretariat Team spearheaded the preparation of two reports on the East Asia-Pacific region. These are the (1) Report on Regional Banking System Stability which is an assessment of the stability of EMEAP jurisdictions' banking systems as well as the status of adoption of financial regulatory reforms, and (2) The Report on Cybersecurity Risk Management which presents the measures that have been put into place to strengthen cybersecurity risk management in the East Asia-Pacific.

- As Champion of the Study Group on OTC Derivatives Reform, the BSP led the technical work related to the preparation of the report on the legal challenges and impediments on the implementation of cross-border margin requirements by EMEAP jurisdictions during the 45th EMEAP WGBS Meeting. This report includes a range of practices adopted by jurisdictions to address such impediments; and

- The BSP was also instrumental in steering the work program of the EMEAP WGBS towards areas that are beneficial for the BSP as well as bank supervisors in the region. The members of the WGBS supported the proposals of the BSP to conduct an impact study as to how the adoption of the Basel Liquidity Coverage Ratio and the Net Stable Funding Ratio have affected asset and funding composition and business strategies of banks' in the region as well as a scoping study on sustainable finance given its social and environmental relevance. Information from these initiatives shall feed into the BSP's policy-making and market surveillance process.

- The BSP also introduced a number of process improvements in the WGBS by instituting new protocols related to the conduct of meetings. These include the formalization of standards of care on the use of personal data, and the conduct of paperless meetings.

- The BSP likewise actively promoted information sharing sessions in the WGBs by inviting subject matter experts to share their insights on a number of supervisory areas relevant to the region such as recovery planning, cybersecurity risk management as well as supervisory assessment of culture and conduct. As Champion of the Interest Group on IFRS 9 Expected Loan Loss Provisioning (ELLP), the BSP shared its phased-approach on the local adoption of the IFRS 9 standard. Meanwhile, the BSP represent in the Alliance for Financial Inclusion's new Working Group on Inclusive Green Finance.

As part of regional collaboration with counterpart central banks and other financial regulators, the Deputy Governor, FSS, presented on regional banking stability during the 16th Meeting of the FSB Regional Consultative Group for Asia (FSB RCGA) in June 2019.

Other FSS officers were also appointed as members of the Islamic Financial Services Board (IFSB) Working Groups on (i) Revised Capital Adequacy Standard for the Islamic Banking Sector, and (ii) Revised Standard on Disclosures to Promote Transparency and Market Discipline. The BSP, as an associate member of the IFSB, has been participating in this kind of technical working group to keep abreast of supervisory issues and concerns over Islamic banking operations. This is also aligned with the BSP's ongoing initiatives to improve the Islamic banking system in the Philippines.

The FSS continued to provide technical support and perform secretariat function to the Financial Sector Forum (FSF), an inter-agency body comprised of the BSP, Securities and Exchange Commission (SEC), Insurance Commission (IC), and the Philippine Deposit Insurance Corporation (PDIC). The FSS is a member of the technical working group (TWG) that conducted the BCP self-assessment exercise that was completed in the first quarter of 2019. This was in preparation for the Financial Sector Assessment Program (FSAP) Mission requested by the FSF, as concurred by the Department of Finance (DOF), to assess the country's compliance with internationally-recognized standards. The IMF FSAP Scoping Mission was held last 19 – 22 November 2019, mostly at the BSP Head Office in Manila.

The FSS serves as the Chair and Secretariat of the Manual of Regulations (MOR) Committee. The MOR Committee is tasked to update the MOR for Banks and Non-Banks Financial Institutions (Manuals) on a continuing basis; to issue clearance to proposed Circulars; to effect minor corrections/revisions without revising the contents and substance of the policy issuance; and to oversee the posting of the Manuals in the BSP Website and the public sale of the Manuals in coordination with the Corporate Affairs Office (CORAO), among others.

These Manuals are the primary source of regulations for BSP-supervised entities that are ultimately aimed at strengthening banking stability.

The MOR Committee has reviewed at least 33 proposed circulars for the Monetary Board's approval in 2019. Such circulars cover new guidelines as well as amendments to the Manuals.

Meanwhile, the MOR Committee, with the dedicated support of a TWG completed the project leveraging on technology to make the Manuals more timely and user-friendly with the launch of the e-MORB.

Proactive Collaboration with Stakeholders to Pursue Financial Sector Reform Initiatives and Advocacies

The FSS had various initiatives and advocacies in collaboration with stakeholders to promote a sound and stable banking system, good corporate governance, financial literacy and consumer protection (in coordination with the Center for Leaning and Inclusion Advocacy) in 2019:

- The BSP, in partnership with the British Embassy Manila and other government agencies like the DOF, the Department of Budget and Management (DBM); the National Economic and Development Authority (NEDA), and the Climate Change Commission (CCC), convened a Green Finance Forum and Roundtable on 17 and 18 January 2019 at the BSP.

- *Customer Centricity*. The BSP hosted a briefing on customer centricity on 14

March 2019, the first in a series of activities aimed to generate greater awareness and encourage financial institutions to put consumer welfare at the core of their business practices.

- The BSP, in partnership with the National Council on Disability Affairs (NCDA) and Maybank Foundation, hosted a financial literacy orientation for persons with disabilities (PWDs) last 02 August 2019 at the BSP Assembly Hall. It is among the activities lined-up to celebrate the 41st National Disability Prevention and Rehabilitation (NDPR) Week.

- The BSP held the digital payments leaders' summit last 02 December 2019 as the country moves closer to a cash-lite economy where leaders from the government and the private sectors renewed their commitment to accelerate the adoption of electronic payments in the country during the "Digital Payments Leaders' Summit".

- *Secretariat Functions to the Bank Supervision Policy Committee (BSPC).* The FSS continued to serve as the Secretariat to the BSPC, facilitating the regular conduct of BSPC meetings. The BSPC is an avenue for the BSP and stakeholders to efficiently and effectively discuss regulatory and other concerns.

- *Press releases*. The BSP regularly issues media releases on landmark regulations and launches of initiatives with stakeholders on various regulatory and financial inclusion initiatives for better appreciation of stakeholders and wider dissemination of regulatory and inclusion activities initiatives. Likewise, public advisories to inform/update the public on developments concerning banks, financial crimes, cyber and money laundering threats and other issues are published on the BSP website and its social medial accounts.

V. Continuing Competency Development

The FSS ensures the competence of its professionals by regularly conducting trainings such as the Professional Enhancement Program for Bank Supervisors (PEPS), among others.

The PEPS courses are handled by FSS' home-grown subject matter experts polished by years of experience as bank supervisors/ technical personnel and who themselves are alumni of the PEPS and beneficiaries of relevant trainings both local and abroad.

Other physical and online trainings are offered to FSS personnel under the auspices of the BSP and other local and international providers.

Box Article 7

The Impact of Extreme Weather Episodes on the Philippine Banking Sector– Evidence Using Branch-Level Supervisory Data

1. The context

The Philippines is one of the most vulnerable countries in the world to natural catastrophes and climate change based on several global disaster risk reports. Several catastrophe and climate vulnerability rankings affirm the vulnerability of the Philippines where the country is consistently at the top. In particular, the *WorldRiskReport* ranks the Philippines as third in disaster risk and the Global Climate Risk Index Report ranks the archipelago as the fifth most affected country for weather-related losses – with 307 events between 1998 and 2018.[1,2] The country lies in the middle of the Pacific Typhoon Belt which includes the countries most exposed to tropical storms and other natural disasters, such as floods, droughts, landslides, earthquakes, tsunamis, and volcanic eruptions. On average, 20 tropical cyclones enter or develop within the Philippine Area of Responsibility (PAR), the highest in the world, with 8-9 cyclones making landfall.[3]

During the past decade, extreme weather events, particularly super typhoons and intense monsoon rains, had hit the country with such regularity. In particular, Typhoon Yolanda (Haiyan), which caused an estimated ₱571.1 billion[4] of damages and losses, along with thousands of casualties, easily comes to mind. Apart from the cost in terms of forgone output, productivity losses as well as fiscal and external sustainability, extreme weather events also pose risks to the soundness of financial institutions and stability of the overall financial system. Moreover, the ability of financial institutions to mobilize finance in mitigating disaster impact and preventing further macroeconomic spillovers is crucially relevant (Brei et al., 2019). From a policy perspective, understanding the role of access to finance after a natural calamity is equally important.

This study adds to the empirical literature on natural disasters and the banking sector by examining the impact of extreme weather conditions on banking sector performance using the BSP's Branch Regional Information System (BRIS). Following the model of Brei et al. (2019), the study first constructs a quarterly rainfall damage index (RDI) [5] based on available rainfall statistics from the Philippine Atmospheric, Geophysical, and Astronomical Services Administration (PAGASA). The estimated RDI is then used to determine the impact of extreme rainfall events on selected bank-specific variables from a panel dataset of over 92,000 banking units across the Philippines using Dynamic Panel Generalized Method of Moments (GMM) and Panel Vector Autoregression (VAR) from the first quarter of 2014 to the fourth quarter of 2018.

This article is structured in five parts. After this discussion, a brief description of the data is provided in Section 2. This is followed by a discussion of the estimation approach, results and analysis in Sections 3 and 4, while Section 5 offers some insights for policy and concludes.

[1] Heintze et al. (2018).
[2] Eckstein, D., Künzel, V., & Schäfer, L. (2018). Global Climate Risk Index 2018.
[3] PAGASA (Undated). "Tropical Cyclone Information." Department of Science and Technology – PAGASA.
[4] World Bank. 2017. "Philippines: Lessons from Yolanda," *World Bank Policy Note*.
[5] As cited in Brei, M., Mohan, P., and E. Strobl (2019).

2. Baseline Database

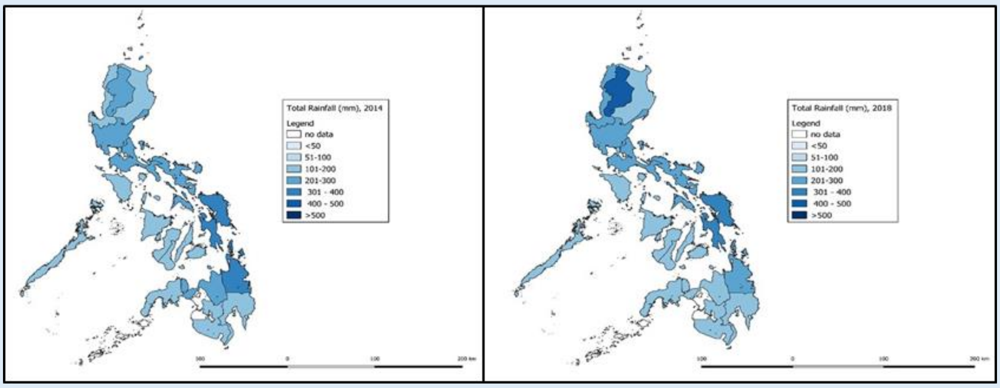
This study compiles and constructs four unique sets of databases for the Philippines on branch-level and regional banking sectors based on government weather data and supervisory reports.

Branch Regional Information System (BRIS). To undertake the analysis, data from BRIS were compiled to build a panel dataset of over 92,000 banking units (branches, head offices, and units) across the country from the third quarter of 2014 to the fourth quarter of 2018. The BRIS is a regular monitoring tool of the BSP, requiring bank branches to submit quarterly reports on bank deposit interest rates to be included in the report of selected branch accounts. This supervisory report generates branch-level data on selected income and balance sheet accounts, as well as published interest rates for peso deposit products including regular peso savings, kiddie savings, and time deposit accounts of different tenor terms and maturities.

Following Brei et al. (2019), we analyzed the impact of rainfall on banks' lending capacity, funding sources, and financial soundness. To this end, we use the conventional indicators, namely, total loans and deposit liabilities, non-performing loans (NPLs), net profit, and return on assets (ROA). Other income and expense variables (i.e., net interest income, operating income, and non-interest expense) were likewise added in the fixed effects model for additional robustness checks.

Rainfall Data. Rainfall statistics from the 53 synoptic stations[6] of PAGASA were utilized as proxies for weather disturbances. These stations are spread out across the country—33 in Luzon, 12 in Visayas, and 8 in Mindanao, which means that some provinces or regions are hosting multiple weather stations. However, it is possible for areas with no station to assign a weather station on the basis of the relative distance between the province and the nearest station as each of these stations have allowable reach and coverage of 30-kilometer to 50-kilometer radius.[7] For regions or areas with multiple data points for each quarter, only the station with the highest or the most rainfall is selected and included in the analysis.

Figure 1. Distribution of Rainfall in the Philippines, 2014 and 2018



Data show that rain distribution varies across regions (Figure 1). The average monthly rainfall data from 2014 to 2018 are negatively skewed, indicating heavy rainfalls during the latter half of each year, except for 2018 where there was a slight dip in October and November. Nevertheless, between 2014 and 2018, the mean annual rainfall in the Philippines ranged from 169.4 mm to 242.7 mm annually. Several provinces in the southeastern part of the country such as Eastern and Northern Samar, Leyte, some parts of the Bicol region, as well as Baguio and Benguet in the North appear to receive the greatest amount of rainfall. It must be noted that Samar and Leyte are also the same areas that were hardest hit by Typhoon

[6] A station where observation of almost all meteorological elements are made at fixed observation times and are transmitted to the Central Office. These stations are maintained and operated by PAGASA. It is responsible for the dissemination of public weather forecasts, tropical cyclone bulletins, warnings and advisories and other related information to protect the lives and property of the general populace. *Source: PAGASA website*

[7] See Dacuycuy (2016).

Yolanda (Haiyan). Meanwhile, Mindanao provinces, particularly South Cotabato and Zamboanga, have the least amount of rain showers. These rainfall data were also aggregated by region and transformed into a rainfall damage index. Figure 1 provides the observed amount of monthly rainfall from 2014 to 2018.

It can be gleaned from the map that the regions at the upper north-western and the south-eastern parts of the country have the most or the heaviest rainfall relative to the other regions; hence, more prone to rainfall damages. The maps also show some slight changes in the geographical or regional pattern and distribution of rainfall between 2014 and 2018. In particular, the map for 2018 has the most regions with dark blue shades; hence, it would appear that 2018 had the greater number of extreme rainfall episodes than 2014, indicating the possibility of increasing heavy rainfall episodes in the years ahead. Moreover, while storms most frequently make landfall on Eastern Visayas and the Bicol Region, they move from east to west across the country before heading north and exiting the PAR.[8]

Rainfall Damage Index (RDI). To measure the impact of intense rainfall episodes, an RDI was constructed. The RDI follows the hurricane destruction index proposed by the paper of Emanuel (2011). The hurricane destruction index considers a damage function that produces positive values only for wind speeds in excess of a specified threshold. On physical grounds, the hurricane destruction index expects that damage should vary with the cube of the wind speed over a threshold value. To construct the said index in this study, wind speed in the original index was replaced with the amount of rainfall. Hence, the rainfall index used in this article is seen in equation 1 as,

$$f = \frac{v_n^3}{1+v_n^3} \quad , \qquad \textit{(eq. 1)}$$

where f is the fraction of the property value lost and,

$$v_n \equiv \frac{MAX[(V-V_{thresh})}{V_{half}-V_{thresh}}, \qquad \textit{(eq. 2)}$$

where V is the actual rainfall amount, V_{thresh} is the rainfall at and below which no damage occurs, and V_{half} is the rainfall amount at which half the property value is lost. V_{thresh} is obtained from the climatological normal amount of rainfall in a month for each region as prescribed by PAGASA. V_{half} is computed as two standard deviations above the climatological normal for each region, derived from historical amounts that were recorded in events that produced massive and damaging floods, such as Typhoon *Ondoy* in 2009 and the southwest monsoon floods in 2012.

3. Empirical Methodology

Regressions have been carried out using a Dynamic Panel Data (DPD) model based on Generalized Method of Moments (GMM) following Arellano and Bond. Descriptive diagnostic tests are used to check the stability of data used in the study. To check the robustness of the results, the paper uses dynamic panel specification tests, namely, Hansen's over identification test and Arellano-Bond serial auto-correlation test. The significance of estimates used are 1 percent, 5 percent, and 10 percent levels of significance. The different cost of funding variables is likewise checked for robustness of results. A fixed effect model was used to further check the

[8] The BSP provided temporary regulatory reliefs in the past to borrowers, banks, and non-banks with quasi-banking functions which are located in areas affected by calamities. These included those affected by Super Typhoon "Yolanda" (November 2013), "Agaton" (February 2014), "Glenda" (August 2014), "Luis" (October 2014), "Mario" (October 2014), "Lando" (July 2015), "Ineng" (October 2015), "Seniang" (January 2015), "Ruby" (December 2016), "Nina" (January 2017), "Maring" (October 2017), and "Josie" (August 2018). This set of regulatory reliefs aims to assist affected banks in their recovery and allow them to resume normal operations. This has been institutionalized in the form of a Circular in October 2018. BSP Circular 1017, in particular, outlines a "uniform and systematic approach" before the central bank can announce regulatory reliefs for banks and quasi-banks (QBs) operating in towns or provinces which have been ruined by calamities. Supervisory data show that almost all regions have received and were granted regulatory relief packages from the third quarter of 2014 to the fourth quarter of 2018, except SOCCSKSARGEN (Region XII) and the Autonomous Region of Muslim Mindanao (ARMM). CALABARZON (Region IV-A), NCR, and Central Luzon topped the regions with the most number of relief packages received during the period.

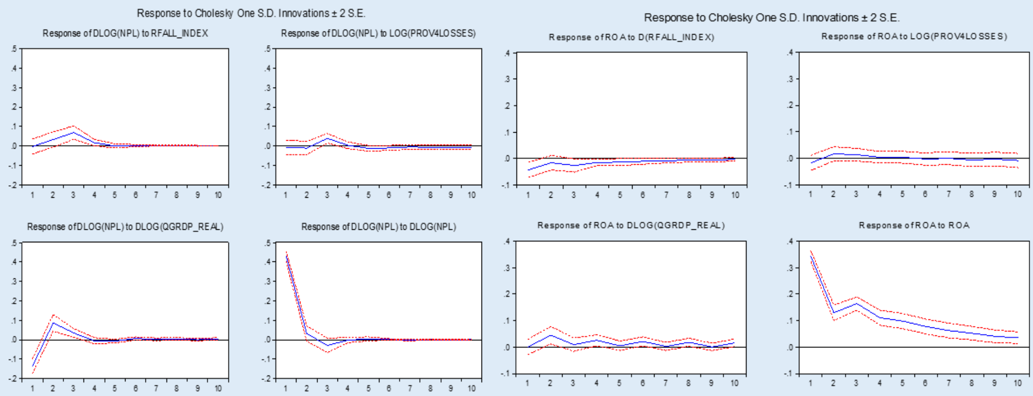
robustness of the results. Fixed effects estimator is deemed appropriate and useful in this case since it can control for time-variant shocks and time-invariant regional heterogeneity, greatly restricting potential endogeneity issues especially when robust standard errors are applied.

Panel GMM estimation. In estimating the impact of extreme rainfall events on the banking sector, a contemporaneous and lagged rainfall index (up to four quarters), as well as interacted variables of rainfall index with past values were regressed against bank variables[9] per branch. This model below is a slightly modified version of the model employed by Brei et al. (2019), with the inclusion of interacted variables.

$$BankIndicators_{b,t} = \alpha_{b,t} + \sum_{n}^{4} \beta_n RainIndex_{b,t-n} + \sum_{n}^{4} \beta_n RainIndex_b X\ RainIndex_{b,t-n} + \varepsilon_{b,t} \quad \text{, (eq. 3)}$$

where $BankIndicators_{b,t}$ is a vector of bank variables of branch b at time t ; $RainIndex_{b,t}$ is the constructed rainfall damage index per region which is applied to branch b, and $Rainfall\ X\ Rainfall_{t-n}$, is the interacted variable of contemporaneous rainfall index with its lagged values.

Figure 2: Impulse Response of Bank Variables from Rainfall Shocks



Source of PANEL Var runs: Authors.

Panel VAR (Figure 2). To check the robustness of the GMM estimation results and to trace the persistence of the shock from intense to extreme rainfall events on banking variables, a panel Vector Autoregression (VAR) is used. In particular, a structural VAR is used to trace the impact on bank variables. A Cholesky ordering of *Rainfall index*, quarterly regional real GDP, and bank variables is implemented. The shock from the rainfall event is expected to affect the production of agriculture, which in turn affects regional GDP. Regional GDP then acts as a proxy for income and economic activity, which in turn can affect bank performance.

[9] Total loans, total deposit liabilities, non-performing loans (NPL), net profit, and return on assets (ROA).

4. Empirical Results

The results of the GMM estimation in Table 1 show that intense to extreme rainfall has an adverse impact even on a branch level from 2014 to 2018. Growth in deposit liabilities are also significantly affected by extreme rainfall event on a contemporaneous manner. This result is intuitive as individuals would likely keep or withdraw their cash in times of disaster as a precautionary measure. In terms of asset quality, as can be expected, growth of NPLs will be positively affected by extreme rainfall events, with the impact coming in as early as one- to two-quarter lag. This implies that those affected would likely use their liquidity for more urgent needs rather than to pay loans. In terms of profitability, extreme rainfall events have a negative impact on the net profit of a branch of a bank. Return on assets are likewise adversely affected by extreme rainfall events.

Table 1. Panel GMM Estimation Result

	Dependent Variable				
	DLOG (TLOANS)	**DLOG (TDEPLIAB)**	**DLOG (NPL)**	**DLOG (NETPROF)**	**ROA**
Explanatory Variables					
Dependent Variable(-1)	-0.003	-0.305	-0.197***	-0.506	-0.240***
RFALL_INDEX	0.330	-0.013**	0.033**	-0.080	-0.011*
RFALL_INDEX(-1)	0.240	-0.007	0.031**	-0.027	-0.017
RFALL_INDEX(-2)	0.510*	-0.008	0.068***	-0.10**	-0.016**
RFALL_INDEX(-3)	-0.346	0.019	-0.001	0.023	0.036
RFALL_INDEX(-4)	-0.551**	0.008	0.015	-0.125	0.039
RFALL x RFALL(-1)	0.011	0.000	-0.0004	-0.001***	0.001
RFALL x RFALL(-2)	-0.024***	0.001*	-0.002*	0.001	0.002
RFALL x RFALL(-3)	0.002	0.000	0.0001	-0.001	-0.001
RFALL x RFALL(-3)	0.020***	0.000	0.0003	0.002*	-0.002*
Observations	61,704	92,499	37,256	17,744	92,282
Period	2015Q4-2018Q4	2015Q4-2018Q4	2015Q4-2018Q4	2015Q4-2018Q4	2015Q4-2018Q4
Arellano-Bond serial correlation test	0.012	0.029	0.388	0.493	0.050
Hansen test	0.516	0.185	0.444	0.384	0.896

*Legend: * p<.05; ** p<.01; *** p<.001. Source of estimates: Authors*

Moreover, loan growth appears to be negatively affected by the four-quarter-lag of the rainfall index. This lag effect on loan portfolio may be regarded side-by-side with the positive increase in NPL. Considering the high incidence of loan default after an extreme rainfall episode, it is expected for banks to be cautious and risk-averse that they are inclined to suspend and restrict new loan applications.

Meanwhile, the impact of an extreme rainfall event was transmitted to lower quarterly regional gross domestic product (RGDP) as a proxy for regional economic activity and income. The impact on the regional economy is then traced to bank-specific variables. The results show that extreme rainfall events have a positive significant impact on NPLs after three and four quarters before the shock dies down. In terms of profitability, ROA is adversely affected after one and three quarters before the shock dies down.

Results of Fixed Effects Estimation. As mentioned in the previous section, a fixed effect model was used to further check the robustness of the results. The results confirm the negative impact of heavy rainfall on bank resources and operations. The effect of severe rainfall is seen almost instantaneously on bank deposit liabilities and non-interest expense—negative for deposit liabilities, positive impact in the case of non-interest expense. Extreme weather conditions may have a negative bearing on banks' deposit liabilities, as individuals tend to hold on to their cash and/or withdraw more in anticipation of losses and possible emergency needs. Meanwhile, the effect on non-interest expense is positive probably in view of the direct or indirect damages to bank facilities and possible operational downtime or disruptions in business activities during extreme rainfall episodes. Non-interest expense would generally include operational expenses and expenses related to the day-to-day operation of a bank, such as salaries and bonuses to staff, marketing, and equipment expenses.

The severity of rainfall also affects banks' overall bottom line, as demonstrated by the results for income and profit metrics, most notably net interest income, operating income, and net profit. The signs for all three coefficients matched and are significant for all lagged terms of the rainfall index variable, with alternating positive and negative signs in between quarters. This is not surprising considering that these are all income-related accounts. Nevertheless, the deceleration in deposit growth and the subsequent rise in NPLs which feed into the banks' net earnings may have also contributed to the observed deterioration in bank profitability.

Meanwhile, the impact of a dummy variable for regulatory relief indicates mixed results as it is shown to significantly improve bank profit and income even as non-interest expense, deposit liabilities, and return on assets deteriorate. Similar tests for NPL and loan growth returned with the appropriate or expected signs (i.e., negative for NPL and positive for TLP) but were found to be insignificant. Regulatory relief packages, which in effect defer the recognition of NPLs, ease rediscounting rules as well, as penalties for probable delays in the submission of supervisory reports are expected to cascade to indebted households through debt moratoria. These relief packages may help banks recover, resume normal operations, and earn profit. Some losses and damages still need to be resolved and absorbed by the banks, which could adversely affect long-term asset returns.

Moreover, a separate regression exercise was also performed on regular peso savings and peso-time deposit accounts. The results show strong negative impact of intense rainfall on both accounts. The impact is more direct and stronger on the levels of regular peso savings deposits, which is intuitive since savings account can easily be withdrawn as banks in the regions are the main repository for household savings and also hold a large amount of government savings (largely from local government units and government agencies) compared to other financial institutions (Worrell et al., 2001). A similar effect was noted on peso-time deposit accounts which have fixed maturities, but the impact is gradual as shocks were seen to have an effect only after two- or three-quarter lag especially for higher or bigger-bucket account holdings with longer maturities. Banks, in turn, may likely change their investment decisions moving forward. However, no significant impact was detected when the same accounts were regressed against extreme rainfall events under the GMM model. This could indicate that the affected accounts are not that big or that account holders may have transferred their deposit balances to other banks which were not that affected by intense rainfall (Cortes et al., 2017). We take this as an area for future research.

5. Conclusion

This study examined the impact of extreme weather conditions on bank-specific variables using the BSP's BRIS. Using the model of Brei et al. (2019), the study first constructed an RDI based on rainfall statistics from 53 synoptic stations of PAGASA from 2014 to 2018. The study then used the estimated RDI to determine the impact of extreme rainfall on selected bank-specific variables from a panel dataset of over 92,000 banking units across the Philippines using Dynamic Panel GMM and Panel VAR from 2014 to 2018. The results of the Dynamic Panel GMM estimation show that episodes of extreme weather conditions adversely impact financial intermediation. However, the Panel VAR results show the resiliency of banks as the adverse impact of extreme weather episodes tends to eventually taper off.

The findings provide compelling evidence that the financial system is not impervious to the effects of natural disasters and climate change. The significant results on banking indicators suggest that there are indeed direct costs to the banks, and when the indirect costs from clients and transaction partners are integrated, these can seriously affect the operations and health of the financial institutions.

Cognizant of the impact of extreme weather conditions in the Philippines, the BSP has institutionalized its crisis management response by formalizing a disaster relief policy in the wake of Typhoon Yolanda. In particular, Circular No. 1017 allows for excluding existing loans of borrowers in affected areas from the computation of past due ratios, provided these are restructured or given relief; staggered bookings of losses incurred in the aftermath of disasters for up to five years; and a set of easing measures on penalties regarding payments and reporting to the BSP.

Given the materiality of risks and its impact on credit risks, the BSP could look into integrating climate and environmental risks in its off-site monitoring, on-site supervision, and supervisory rating system. In particular, the BSP could introduce on-site supervision on implementation of Environmental and Social Risk Management (ESRM) guidelines. This could be done in the form of a thematic inspection or integrated into the existing on-site cycle. If implemented, a manual for supervisors on how to assess ESRM is essential as well as proper training. Results of on-site inspections and stress tests could also be further integrated into the supervisory assessment framework. Moreover, for more in-depth assessments, data availability and quality can be improved. In particular, better quality of regional data that reflect the source of loan origination and further breakdowns in industry level datasets per region can be explored. More efforts may be extended toward the proper accounting and recording of past due loans—pre- and post-regulatory relief--for greater transparency and better validation of disaster relief policy.

As a matter of policy, the BSP has taken a broader policy perspective on sustainable finance, as it encompasses governance – a key element in the supervisory framework for financial institutions; and socio-economics – one of the factors that underpin the BSP's advocacy for financial inclusion. To this end, the BSP has taken a two-pronged approach to sustainable finance: undertaking capacity-building and awareness campaigns, and mainstreaming environmental and social governance framework through the issuance of enabling regulations. In promoting awareness and building institutional capacity, the BSP highlights that sustainable finance is ultimately a public good that, when done effectively, translates into profitable returns and, at the same time, attains environmental and social objectives. The BSP advocates that there is a business case for banks to revisit the way they operate by embedding sustainable finance principles and tools in their operations.

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Box Article 8

Proactive Financial Surveillance and Reporting Toward a Dynamic Banking System

1. Introduction

The conglomerated structure of the Philippine economy poses certain challenges in ensuring that emerging risks in the financial system are captured. Skipper (2000) outlined three possible structures for financial conglomerates. First is the universal banking model, which has a universal bank (UB) owning subsidiaries offering insurance and other financial services. The UB undertakes both commercial banking and securities activities. The second model is where a bank or an insurance company serves as a parent firm and owns separately capitalized subsidiaries engaged in different financial services. The third model is a holding company structure in which a holding company's business limits the ownership of stock in, and the supervision of management of other corporations. All of these models exist in one form or the other in the Philippine financial sector. More importantly, some of the top tier Philippine banks are parts of conglomerates themselves.

Conglomerates pose a supervisory challenge since not all of the activities in the group are within the supervisory ambit of the Bangko Sentral ng Pilipinas (BSP) given that there are different supervisors for other financial sector entities: the BSP for the banking sector, the Insurance Commission (IC) for the insurance sector, the Philippine Deposit Insurance Corporation (PDIC) for the deposit insurance system, and the Securities and Exchange Commission (SEC) for the capital market and the corporate sector.

Amid the continuing globalization of markets, financial innovation, rapid technological advancements and evolving international standards and best practices, the increasing conglomerated structure of Philippine corporates calls for an enhanced financial surveillance and reporting.

This article examines the BSP's various financial surveillance initiatives and reports to capture the emerging landscape and risk exposures of the financial system given these developments.

2. Supervision of Conglomerates

Financial integration is characterized by the production or distribution of a financial service that is traditionally associated with one of the three major financial sectors-banking, securities and insurance–by an entity from another sector. The delivery of varied services by financial conglomerates is a type of firm-level integration that can be deemed as the middle ground between having all three services offered by one entity (largely a theoretical construct) and forming alliances or joint ventures with entities from different sectors (Skipper 2000).

Supervision of financial conglomerates is an ongoing initiative considering that there are different regulators for three major financial sectors. The BSP supervises banks, quasi-banks, their financial allied subsidiaries and affiliates (except insurance companies); non-stock savings and loan associations; and pawnshops including other entities provided under pertinent laws. The amended BSP Charter (Republic Act No. 11211) likewise boosted the BSP's supervisory powers over money services businesses and credit-granting institutions while enhancing the BSP's capability to manage systemic risks. The SEC oversees, among others, investment houses, financing companies, securities dealers/brokers, and investment companies. Finally, the IC regulates the insurance, pre-need and health maintenance organization (HMO) industries. Parallel to this, the PDIC monitors banks in accordance with its role as the deposit insurer.

Conflicting regulations can be a challenge to a financial system with multiple financial regulators like the Philippines. For instance, policies framed by one regulator may not be fully aligned or in conformity with the regulations of other regulators, which can pose difficulties for some financial institutions like UBs that operate in more than one area of the financial system. Another pertains to data capture and supervisory information that may be outside the regulatory ambit of just one financial regulator.

According to Patil (2001), multiple regulators may consider a designated forum, which meets regularly to exchange views, discuss important developments and resolve conflicting issues that may arise among financial regulators.

In order to efficiently harmonize regulations, adopt common standards and freely discuss cross-cutting issues among financial regulators, the Financial Sector Forum (FSF) was established on 05 July 2004 following the signing of the Memorandum of Agreement (MOA) among the BSP, SEC, IC, and the PDIC.

The FSF serves as a voluntary cooperative endeavor of member agencies to provide an institutionalized framework for coordinating the supervision and regulation of the financial system while preserving each agency's mandate. It provides a venue for the agencies to update each other on the latest developments in their respective industries and any concerns that may have systemic repercussions. The FSF also promotes information sharing and consumer protection on supervised entities under the jurisdiction of FSF financial supervisors.

To identify financial conglomerates in the domestic setting, the FSF adopted the Joint Forum's definition of financial conglomerate as any group of companies whose exclusive or predominant activities consist of providing significant services in at least two different financial sectors, i.e., banking, securities, insurance.

Cognizant of the increasing interconnectedness of transactions of entities within a conglomerate to the financial industry, the FSF strengthened the supervision of financial conglomerates by improving information sharing arrangements and the conduct of coordinated and cross-sectoral assessment of risk exposures. The member agencies, likewise, agreed to harmonize their regulations such as the development of common governance standards and adoption of measures to ensure their consistent implementation. The FSF will also conduct domestic supervisory colleges to discuss cross-cutting supervisory issues on a regular basis.

Apart from the FSF, the BSP also participates in supervisory colleges with other counterpart central banks. It fortifies home-host cooperative relationships strengthening financial conglomerate supervision particularly with respect to overseeing their offices/units abroad. A supervisory college aims to discuss relevant matters and supervisory concerns over financial institutions among regulators.

The BSP and the Bank of Thailand (BOT) signed a MOA on information exchange and banking cooperation with regard to licensing, on-site examinations, supervisory colleges, and crisis management. The BSP also established similar agreements with the China Banking Regulation Commission (CBRC), the Bank of England (BOE), the Financial Supervisory Commission (FSC) of Taiwan, the Hong Kong Monetary Authority (HKMA), and the Bundesanstalt Für Finanzdienstleistungsaufsicht (BaFin) of Germany. It is also part of a multilateral MOU among members of the Australia and New Zealand Banking Group (ANZ) Supervisory Colleges.

These cooperative arrangements led to strengthened surveillance function for the BSP and other financial sector supervisors. A significant development from such endeavor is enhanced monitoring of the growth of the non-bank sector and growth of financial technology (FinTech) players in the Philippines. As of end-November 2019, the total assets of the non-bank sector[10] posted a compounded annual growth rate (CAGR) of 4.7 percent between 2016 to 2019 to reach more than ₱4 trillion.

The BSP regularly engages industry associations under the auspices of the Bank Supervision Policy Committee (BSPC) which provides a platform to solicit industry insights and inputs on key supervisory concerns and financial sector issues. This serves as a regular industry forum on policy, regulatory and supervisory issues.

Parallel to this, the BSP conducts the Banking Sector Outlook Survey (BSOS) every semester to provide greater scope for the BSP on its supervisory oversight of the non-bank sector. The BSOS serves as a complementary tool in validating the assessments of banking supervisors. The BSOS aims to gather the sentiments of the Presidents/Chief Executive Officers/Country Managers of banks in the country within a two-year horizon. The results of the BSOS for the second semester of 2019 showed that banks are aware of the internal and external concerns affecting their business including financial integration and cross-border activities.

Moving forward, the BSP intends to further strengthen its monitoring of activities of financial conglomerates and the non-bank sector through the pursuit of various financial surveillance initiatives, tools and reports. For financial conglomerates, we are pursuing amendments to the reports on the banking system's credit and equities exposures (CREDEX), related party transactions (RPT), and stress testing for conglomerates. For the monitoring of the non-bank sector, the BSP is collaborating with local government units (LGUs), other stakeholders and peer regulators for information exchange and cooperative arrangements for the supervision of the financial sector. Further, the BSOS will be enhanced to cover large non-bank financial institutions (NBFIs) for a more holistic outlook of the evolving financial landscape.

3. Reforms on Existing Surveillance Tools and Prudential Reports

The BSP is actively pursuing reforms to enhance its existing surveillance tools and prudential reports. These include enhancements to prudential reports published and shared to the public, regular market monitoring tools, and focused surveys on supervised entities.

At present, there is an existing macro-financial surveillance dashboard which contains a set of macro-financial variables for early warning indicators analysis, stress testing and prudential reporting. There are also internal prudential reports regularly elevated to senior management such as the enhanced Banking Stability Risk Analysis (BSRA) and Bank Deposit Interest Rate (BDIR) reports.

The BSRA is an internal quarterly report prepared to apprise the senior management of the holistic assessment of the condition and performance of the banking system. It highlights key emerging vulnerabilities and risks confronting individual banks and the banking sector, their potential impact on the system's overall safety and soundness, and implications for microprudential policy.

The BDIR is a quarterly report that examines bank deposit interest rates for purposes of determining market median rates on deposits and monitoring of banks that rely excessively on large, high cost or volatile deposits/borrowings.

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[10] Refers to investment houses, finance companies, investment companies, securities dealers/brokers, pawnshops, lending investors, non-stock savings and loan associations, venture capital corporations, and credit card companies which are under BSP supervision. It also includes private and government insurance companies i.e., SSS and GSIS.

For the supervision departments of the BSP, these surveillance tools and prudential reforms provide critical inputs to the supervisory plan and more defined supervisory actions during examination cycles.

Another area for proactive financial surveillance and reporting pertains to technology and cyber-risk related concerns. In step with ongoing digital transformation and financial innovations in the banking system, major cyber-attacks and threats continue to confront the financial services industry which can have systemic repercussions affecting financial stability. In response to the growing cyber threat landscape, the BSP continues to strengthen its cybersecurity roadmap to ensure that BSP supervised financial institutions (BSFIs) have sound cybersecurity governance and robust cyber controls and defenses.

Toward this end, the BSP issued Circular. No. 1019 dated 31 October 2018 on Technology and Cyber-Risk Reporting and Notification Requirements where BSFIs should notify the BSP on major cyber incidents and financial disruptions within two hours from discovery of said incidents. The report follows a Traffic Light Protocol (TLP) framework and an incident triage process whereby incidents with the highest severity will be accorded immediate supervisory action and response by the BSP. This is considered a best practice on incident handling under Circular No. 982 dated 09 November 2017.

The BSP also enhanced existing prudential reports that are shared to the public to keep relevant stakeholders well-informed of ongoing developments and trends in the Philippine banking system. The published reports serve as timely market monitoring tools for financial supervisors. Table 1 provides a summary of reports that were enhanced and provided to external and internal stakeholders:

Table 1. Summary of BSP Reports for External and Internal Stakeholders

Name of Report	Description	Frequency	Internal/ External
Enhanced Report on the Philippine Financial System	The report is submitted by the Governor to the President of the Philippines and both Houses of Congress and contains a comprehensive assessment of major developments in the Philippine financial system during the semester. The enhanced report reflects in the box articles the quantitative researches conducted by SPRD staff as well as the inclusion of a section on analysis of the Financial Soundness of the Banking System.	Every semester (April and October)	External
Banking Sector Outlook Survey (BSOS)	The BSOS gathers the sentiments of the Presidents/Chief Executive Officers/Country Managers of banks in the country related to their growth outlook and risk assessments, business performance strategies, and insights on regulation and supervision within a two-year horizon. It is also part of the BSP's surveillance toolkit to promote the sustained resilience of the banking system. The BSOS was initially rolled-out in June 2018.	Every semester	External

Parallel to this, the BSP further strengthened its market monitoring capability through the conduct of focused survey on key specific areas of interest such as the cost of compliance[11]. The BSP's survey of banks' cost

[11] The assessment on the cost of compliance covered costs incurred since the issuance of landmark regulations on capital, credit risk management, liquidity risk management, operational risk management, information technology (IT) risk management, Philippine Financial Reporting Standards (PFRS) 9, governance and anti-money laundering. For the banks' assessment of compliance costs, the BSP looks into various regulatory requirements such as manpower, capacity building, external service, and information technology costs.

of compliance conducted in 2019 covers the BSP's issued regulations as well as discussions on its ongoing policy initiatives in adopting other Basel reforms like the disclosure requirements and large exposure framework.

Results of the BSP compliance cost survey indicated that only 24.7 percent of respondents have a compliance cost framework in place. Said respondents utilized simple tools such as variance analysis, specific cost allocation, and cost center analysis for compliance cost monitoring. Meanwhile, respondents that do not have compliance cost frameworks cited that this is mainly due to insufficiency of personnel, data, and knowledge to conduct the activity.

In line with the increasing sophistication of the financial services industry, the BSP has to manage the high level of reporting standards. The BSP also sought ways to partner with banks and international organizations in capitalizing on leading information technology to streamline the reporting submission process. These initiatives aim to utilize advancements in information technology in order to make the reporting process more secure, transparent, and efficient.

The two ongoing projects dedicated to improving the BSP's data collection capabilities are the Financial Institution Portal (FI Portal) and Regtech for Regulator-Application Programming Interface (API) Submission. The FI Portal is an online, secured, web-based facility for the submission of prudential reports by BSFIs. As the repository of all reports and platform of official communications submitted to the BSP, it is designed to automate the process of monitoring the report submissions and to post, in real-time, the results of validation of these reports.

Moreover, the API project involves the development of a program that will allow machine-to-machine reporting by banks to the BSP, thereby fully eliminating manual intervention in the reporting process. It utilizes the more current and advanced Extensible Markup Language (XML) reporting format in lieu of the existing reporting formats (Excel and Comma Separated Values or CSV) which aligns the BSP with international practices in reporting standards. The use of the XML format also makes possible the streamlining of several reports into a single rationalized structure. Report validation is also kept to a minimum as inclusion of unnecessary data wherein generated totals or duplicate entries are minimized. This in turn allows for a much faster generation of statistics that are used in various financial surveillance tools.

Furthermore, the BSP embarked on a Chatbot project to obtain fresh sentiments from financial consumers and to improve efficiencies in consumer complaints resolution. The Chatbot provides accessible, automated, and more convenient channels for the consumers to file complaints with the BSP. This project uses social media messenger apps and text messages alongside the existing Consumer Assistance Mechanism (CAM) currently being facilitated through emails, phone calls, and face-to-face interactions. The Chatbot, through the use of natural language processing, can accept, classify, and send complaints to BSP consumer specialists who in return feed possible responses or send the complaints to dedicated email addresses of the concerned BSFIs.

Together, these initiatives are expected to improve the overall surveillance capability of the BSP in terms of data analytics by partnering with banks and by keeping a close ear to the needs of financial consumers.

4. Integration of Markets

Global and regional interconnectedness of financial markets and activities raise concerns on the risk of contagion across financial conglomerates that may impact the financial system and the real economy. This supervisory challenge came to fore amid the ongoing digital transformation and integration of the banking system to globalized finance. Further, increased regional integration is expected following the formal adoption of the ASEAN Banking Integration Framework (ABIF). The ABIF was formally implemented after the signing of the Protocol to Implement the 6th Package of Commitments on Financial Services under the ASEAN Framework Agreement on Services (AFAS) by the ASEAN Finance Ministers in March 2015.

The ABIF allows banks meeting certain criteria ("Qualified ASEAN Banks" or QABs) to have greater access to other ASEAN markets and more flexibility in operating there. It recognizes that some countries are more prepared than others to further open up their banking sector and that gaps in market access across jurisdictions still persist. Hence, the current focus is on pursuing bilateral reciprocal arrangements. There are notable upsides from these developments, but a downside risk points to increasing challenges in conglomerate supervision.

Given the regional and global flow of funds, cross-border transactions of Philippine banks have generally trended higher. In fact, the banking system's cross-border position of USD 61.1 billion as of end-December 2019 was 13.2 percent higher from last year's level. Philippine banks remained net cross-border lenders with a net financial asset position of USD 8.3 billion from cross-border claims of USD 34.7 billion against cross-border liabilities of USD 26.4 billion. Relative to annualized gross domestic product (GDP), cross-border claims and liabilities are estimated at 9.0 percent and 6.9 percent, respectively.

Philippine banks' major counterparties were non-financial and non-bank entities from the US, Indonesia and Cayman Islands with percentage share to total non-bank and non-financial claims at 31.1 percent, 16.0 percent and 11.1 percent, respectively. Meanwhile, non-bank and non-financial cross-border liabilities represented 13.6 percent of total cross-border liabilities, with Hong Kong SAR, United States and United Kingdom taking up 22.3 percent, 19.1 percent and 17.2 percent of total non-bank exposures, respectively. The biggest shares of Philippine banks' cross-border claims and liabilities were with counterparties from the Asia-Pacific Region because of their proximity.

Cross-border lending exposes the entire banking system to global distress, uncertainties and even burden-sharing during crisis[12]. This ensues when banks respond to a deterioration in their balance sheets through large reductions in cross-border loans, which could trigger some form of financial contagion in the international banking system.

A supervisory initiative[13] relative to this area is the construction of a common lender index (CLI) for cross-border risk with the Philippine banking system. Building on the works of Koch and Remolona (2018), the BSP initiative measures the presence of common lender channel in the Executives' Meeting of Asia-Pacific Central Banks (EMEAP) economies including the Philippines, using panel country data following the global financial crisis. Common lender channel refers to the mechanism that facilitates the spread of financial shocks around the globe. It occurs when creditor banks withdraw from previously unaffected countries that are highly exposed to the epicenter of a crisis. Such withdrawals may induce liquidity crunch to these unaffected countries.

This CLI can be used to analyze EMEAP economies' vulnerability to risks from cross-border spillovers, particularly in cross-border borrowing. It should be noted that the composite index serves as a comprehensive measure of the common lender risk among EMEAP economies, not a tool for estimation of the likelihood of a crisis. The index may, in turn, help these EMEAP economies in determining any incipient risks to the financial system due to possible excessive risk-taking activities in channeling domestic funds.

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[12] Source: Dizon, J.T., Hutalla, J.P., and Rariza, J.M. (2019). Philippines: Contagion Risk Analysis of Cross-border Exposure of Banks. Kuala Lumpur, Malaysia: The SEACEN Centre

[13] Cf: Bayangos, V., Sadornas, P., Cachuela, R., Hutalla, J. and Domantay-Mailig, V. (Forthcoming paper). *Common lender channel and financial strength in EMEAP countries.* Manila: Bangko Sentral ng Pilipinas

In the case of the BSP, the CLI can be used alongside the Cross-Border Vulnerability Index[14] to determine cross-border risks for the banking institutions. The BSP uses the Herfindahl-Hirschman Index (HHI) to assess the exposures and to identify counterparty concentration. The HHI, as a metric, serves as an indicator of reliance of funding from common lenders which may expose an economy to increased funding risk during a financial stress. The CLI includes common lenders such as the United States, Japan, United Kingdom, Euro Area (France, the Netherlands, Germany, Spain and Italy), China and Hong Kong.

On average, the year-on-year (Y-o-Y) trend of reliance for cross-border financing from common leaders declined, albeit moderately. This means that EMEAP countries, including the Philippines, have diversified their sources of funding away from common lenders. In particular, the YoY growth of HHI declined from 0.86 percent between March 2006 and December 2007 to 0.42 percent between March 2008 to December 2015 and further down to 0.29 percent between March 2016 to June 2018. The steady decline in concentration to common lenders was driven by diversification shown by Australia, Singapore and New Zealand. By contrast, higher growth path was noted, on average, in the case of China, Hong Kong SAR, Indonesia, Japan, Malaysia, the Philippines and Thailand during the same period.

5. Conclusion

Recent developments and trends in the banking system as well as new emerging regulatory standards around the world require sustained vigilance and timely action from domestic financial supervisors. The continuing globalization of markets, financial innovation, liberalization of financial products and services, and technological advancements likewise provide various challenges and supervisory requirements which call for the enhancement of existing tools to keep up with the rapid market changes. Thus, the BSP's adoption of proactive financial surveillance and reporting effectively complement and provide the necessary tools and insights to support the continuing soundness and stability of the banking system.

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[14] Various risks such as country or sovereign risk, interest rate risk, funding risk, transfer risk, foreign exchange or currency risk, and contagion risk are used to construct bank level and overall vulnerability index for bank's cross-border exposure. Source: Hutalla, J.P. and Briones, R.L.M. (2018). *A vulnerability index for cross-border risk.* Manila: 2018 BSP Annual Report, pp. 58-62

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Advancing the Robustness and Interoperability of the Philippine Payment and Settlement System

In 2019, the Payments and Settlements Office[82] (PSO) focused on major initiatives to advance the robustness and interoperability of the *PhilPaSS*[83], the country's systemically important payment and settlement system. These major areas, among others, included: 1) detailed assessments on compliance with international standards on payment and settlement systems (PSS) and the establishment of a roadmap to achieve full compliance; 2) terms of reference for the design of the next-generation system that is compliant with the ISO 20022 international messaging and communication standard; and 3) intensive information campaigns to make BSP-supervised and regulated financial institutions more aware of how they can contribute to making financial transactions safer and more efficient by participating in *PhilPaSS*.

Results of Operations

About 1.2 million transactions were processed and settled in *PhilPaSS* in 2019, or about 5,000 transactions per day. While this was lower by about 500,000 compared to 2018, the decline was due to the decommissioning of the REMIT system and remittances were instead sent via third party payment service providers (TPPSPs) albeit on a net basis. In total, payments settled in the country's real-time gross settlement system (RTGS) during the year amounted to about ₱301 trillion, an average of ₱1.2 trillion per day, higher by ₱38 trillion than the settlement in 2018.

Transactions of direct participants grew in 2019 by more than 13,000 transactions with this increment amounting to ₱28 trillion, coming mainly from increases in interbank transactions, monetary operations, and fixed-term deposit placement/ maturities. Payments made through TPPSPs likewise grew during the period, particularly the volume from the automated clearing houses (PESONet and InstaPay), Philippine peso/US dollar trades, and government securities.

During the year, the PSO ensured that the following were accurate, prompt, and compliant with agreed procedures and standards using various monitoring tools:

1. Processing of payment instructions–by certifying daily transaction registers, proof sheets, matching of transactions made via SWIFT and the *PhilPaSS* Participant Browser;
2. Debiting and crediting of demand deposit accounts (DDAs) and issuance of statements of accounts–by certifying end-of day reports;
3. Reconciling remittances of taxes and duties processed through *PhilPaSS*–by submitting reports to the BTr, BOC, and BIR;
4. Billing of fees/charges to *PhilPaSS* participants–through daily and monthly statements; and
5. Value-dating status of banks–through monthly reports to the Philippine Clearing House Corporation.

Compliance with International Standards on Payment and Settlement Systems

1. *Principles for Financial Market Infrastructures (PFMI)[84] issued by the BIS*

[82] The operator of the *PhilPaSS*.

[83] *PhilPaSS* is a fully automated facility for the payment of high-value and retail transactions and settlement in Philippine pesos through banks' demand deposit accounts (DDAs). It is an RTGS designed to address related risks and achieve safe, uninterruptible, final, and irrevocable settlement of financial transactions.

[84] Issued by the Committee on Payments and Market Infrastructures and the International Organization of Securities Commission in April 2012 which cover standards for systemically important payment systems essential in strengthening and preserving financial stability. The standards detail 24 principles on General Organization, Credit and Liquidity Risk Management, Settlement, Exchange-of-Value Settlement Systems, Default Management, General Business and Operational Risk Management, Efficiency, and Transparency. Also included are the responsibilities of the financial regulators.

In August 2019, the PSO went through a third-party assessment performed by the WB under the Financial Sector Assessment Program (FSAP). The overall objective was to comprehensively assess the compliance of *PhilPaSS* against the PFMIs and identify and address gaps in its compliance. Based on this detailed assessment, the PSO laid out and began to pursue major initiatives to reinforce legal requirements for participation of BSFIs in *PhilPaSS* and correspondingly update implementing guidelines, formalize payments committees to strengthen stakeholder representation and consultation processes including other financial regulators involved in the payment and settlement processes, and establish a comprehensive risk management framework and business continuity program.

2. *SWIFT*[85] *Customer Security Controls Framework*

The PSO complied with the requirements for BSP to re-attest its full compliance with the above-mentioned framework which include a set of mandatory and advisory security controls for SWIFT customers. A tabletop exercise with a cybersecurity scenario involving SWIFT terminals was conducted in coordination with the Risk and Compliance Office (RCO), Financial Accounting Department, and Information Technology Security Group. The attestation also included a verification of SWIFT users as well as the suitability of PSO personnel as system users/ administrators.

3. *ISO 9001:2015*[86] *of the International Organization for Standardization*

The PSO ensured as well active participation in audit procedures to comply with BSP standards, particularly those in coordination with the Internal Audit Office, RCO (includes business continuity plans), and the Systems and Methods Office. In September 2019, the TUV SUD PSB Philippines, the certifying body for the Quality Management Standards (QMS), conducted its surveillance audit of PSO's QMS covering the operations of *PhilPaSS* and its critical components. The body reported that there were no significant audit findings that can affect the PSO and that the Office is consistent in performing the system in accordance with the requirements of the ISO 9001:2015. Additionally, the commitment of PSO's top management to guarantee the continuing compliance with the said standard as well as the sustenance of the operation was seen with "high confidence".

Upgrading of *PhilPaSS* to a Next-Generation System

The BSP shall replace the 17-year old *PhilPaSS* with a next-generation system to be named *PhilPaSS^{plus}*. The new RTGS system shall enhance features such as those for a) system availability and efficiency, b) Liquidity Savings Mechanism for participants, c) tracking of payment instructions, d) multiple currency settlement, e) validation procedures, and f) compliance with ISO 20022 international messaging and communication standards to facilitate interoperability and interconnectivity. In 2019, the PSO went through the procurement process and successfully identified the fitting vendor that shall develop the system. Under Office Order No. 3111 dated 25 November 2019, the Project Management Team[87] (PMT), was established to manage the design and implementation of *PhilPaSS^{plus}* by year 2021. The project kick-off was held last December 2019 and discussions on the details of each feature of the new RTGS has begun.

Also, the PSO sought and obtained MB approval of the mandatory adoption of the ISO 20022 standard in transmitting payment instructions to

[85] Society for Worldwide Interbank Financial Telecommunications

[86] https://www.iso.org/standard/62085.html: "The standard specifies requirements for a QMS when an organization: a) needs to demonstrate its ability to consistently provide products and services that meet customer and applicable statutory and regulatory requirements, and b) aims to enhance customer satisfaction through the effective application of the system, including processes for improvement of the system and the assurance of conformity to customer and applicable statutory and regulatory requirements."

[87] The Project Sponsors of the PMT are the Deputy Governor (DG), Corporate Services Sector (CSS) and the Managing Director (MD), Information Technology Office (ITO), co-led by the PSO and ITO, with members also coming from the Payment System Oversight Department and the Communications Office. The PSO leads the Technical and Administrative Secretariat of the PMT.

PhilPaSS^{plus}. Through the PSO, the BSP issued an early advice under Circular Letter 2019-053 dated 5 August 2019 for the Philippine industry to already take the necessary steps in implementing the standard in synch with the launching of the *PhilPaSS*^{plus}. On track with the roadmap set, the Task Force on the Adoption of the ISO 20022 on Philippine Payments[88] (TF – ISO 20022) performed an environmental scanning in 2019 through a series of bi-monthly meetings (22 meetings[89] held in 2019). As a result of detailed discussions, decisions on business processes, message models, and formats of messages were made and a draft Rule Book for the Philippine financial industry was already submitted for the review of stakeholders. To orient participants on the standard, six briefings were organized by the TF during the year with an average of 70 participants per briefing.

[88] Created under Memorandum No. M-2018-033 dated 7 November 2018, co-chaired by the Director, PSO and a senior officer of the Bankers Association of the Philippines with members coming from both the BSP and participants of *PhilPaSS*. The PSO is Technical and Administrative Secretariat of the TF.

[89] All logistical and coordination requirements were performed by the PSO Administrative Team, including careful documentation of Minutes of Meetings.

Box Article 9

Facilitating Interoperability of the Payment and Settlement Systems Domestically and Internationally through the Adoption of International Messaging and Communication Standards: ISO 20022 and the National Retail Payment System Roadmap

Innovation is a must but so is the integration of the innovations.

The financial services industry is characterized as a dynamic sector with market players and regulators constantly seeking safer and more efficient means to facilitate transactions. With the technological revolution, this dynamism has spiraled even at a faster rate, with financial services supported by various protocols and standards.

An example of this is the network of payment instructions for several types of transactions using different messaging standards sent through the Philippine Payment and Settlement System (*PhilPaSS)*[1]. These instructions are sent by a) direct participants averaging about ₱1 trillion per day for interbank transactions, or for their transactions with and/or by the BSP; b) third-party payment service providers (TPPSPs) averaging about ₱220 billion per day for retail, foreign exchange, and government securities transactions; and c) through the general ledger system of the BSP which amounts to about ₱6.5 billion per day. As the number and types of financial transactions settling in *PhilPaSS* continue to grow over the years, the required unifying solutions become more complicated in order to ensure safe and efficient settlement on real-time basis.

In 2018, the BSP has embarked on replacing the *PhilPaSS* with a next-generation system that shall integrate all these systems, to be named as *PhilPaSS^{plus}*. Almost equally important, the BSP decided to adopt the ISO 20022 international messaging and communication standard in the *PhilPaSS^{plus}*. In 2019, BSP's Monetary Board approved to mandate the adoption of the ISO 20022 as the required messaging and communication standard to be implemented by all banks, non-bank financial institutions, and TPPSPs that transmit to *PhilPaSS* electronic instructions in their systems and/ or infrastructures used to transmit such payment instructions. To ensure the smooth migration to *PhilPaSS^{plus}* using ISO 20022, any payment instruction that does not use the standard on the first day of the full implementation date of the *PhilPaSS^{plus}* in year 2021 shall not be processed by the system.

The ISO 20022 Standard[2]

As early as 2013, the International Organization for Standardization (ISO) Technical Committee TC 68 – Financial Services prepared the ISO 20022 standard with the view to provide an approach in developing financial messages based on internationally agreed standards. The ISO 20022 standardizes financial messages[3] for all initiatives with different counterparties (such as financial institutions, market infrastructures, customers), business domains (such as payments, securities, trade services) and networks (public or proprietary, domestic

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[1] "***PhilPaSS***" is a fully automated facility for the payment of high value and retail transactions and settlement in Philippine Pesos through banks' demand deposit accounts. It is a real-time gross settlement system (RTGS) designed to address related risks and achieve safe, uninterruptible, final and irrevocable settlement of financial transactions.

[2] Source: ISO 20022 for Dummies, 2nd Edition

[3] A few examples include the ISO 8583, commonly used for credit and debit card transactions and the SWIFT proprietary or MT messages, commonly used for correspondent banking and foreign exchange transactions. SWIFT MT messages shall eventually be decommissioned.

or international), thereby facilitating the interoperability[4] of payment and settlement systems and other financial initiatives, and allowing for straight-through-processing of payments. These standards, containing both the content and definition of financial messages, are centralized in a "Repository and Data Dictionary". These include the a) business models (i.e., definition of business processes and who performs it), b) message models (i.e., definition of the information needed to perform a specific business process), and syntax (i.e., format of the message). Various jurisdictions define their respective rulebooks based on these standardized content and definition of financial messages, eliminating the need for any type of intervention to interpret the instruction and reconcile data.

The Society for Worldwide Interbank Financial Telecommunication (SWIFT) ISO 20022 Migration Consultation Study (23 April 2018) provides the following trends:

1. ISO 20022 is the principal standard in the instant payment market implemented in, among other jurisdictions, Europe, Australia, US, Canada, Sweden, Denmark, and Singapore;
2. ISO 20022 is currently being used by 10 RTGS systems and will be used by 12 others in the next 5 years that will support 79 percent of the volume and 87 percent of the value of high-value transactions worldwide; and
3. ISO 20022 is currently being used by 32 retail payment systems (RPS) and will be used by 5 others before year 2025 that will support 65 percent of the volume and 53 percent of the total value of low-value payments cleared worldwide.

Moreover, SWIFT, in its Information Report ("*IR 807: ISO 20022 for Cross-Border Traffic*") issued last 11 December 2018, announced that migration to ISO 20022 will be mandatory for all users of SWIFT payment messages beginning 2021 at the earliest, or 2022 at the latest.

BSP's Migration to ISO 20022

Under Memorandum No. M-2018-033 dated 07 November 2018, the BSP established a Task Force on the Adoption of the ISO 20022 on Philippine Payments (TF – ISO 20022) that shall be the driving force of the BSP and of the Philippine financial industry in ensuring the adoption of the ISO 20022 standard, in synch with the upgrading of the *PhilPaSS*. The TF is comprised of representatives both from the BSP and participants of *PhilPaSS*.

As agreed upon by the TF, the adoption of the ISO 20022 shall support the following strategic goals:

1. To allow rich and well-defined structures for important and more detailed data that will facilitate and promote the safe and efficient use of electronic payment systems;
2. To allow messaging to be expanded or changed in the future, enabling systems to support current as well as forthcoming technological developments;
3. To provide for the same messaging standards used for domestic and cross-border financial transactions, thereby facilitating interconnectivity, interoperability and financial integration; and
4. To adhere to BSP regulations, including, among others, the National Retail Payment System (NRPS) Framework, that require BSP-supervised financial institutions and retail payment systems to demonstrate sound risk management, and effective and efficient interoperability.

[4] The Bank for International Settlements defines "interoperability" as "the technical or legal compatibility that enables a system or mechanism to be used in conjunction with other systems or mechanism. Interoperability allows participants in different systems to conduct clear and settle payments or financial transactions across systems without participating in multiple systems.

The memorandum served as an early advisory from the BSP for participants to take early steps, including, among others, necessary system enhancements, establishment and implementation of their respective ISO 20022 migration roadmaps, and preparation for the enterprise-wide testing of the next-generation *PhilPaSS*. In addition, the BSP held several briefings for the industry to orient stakeholders on the standard.

The TF performed the environmental scanning in 2019, which included a discussion and decisions on the business processes, message models, and format of messages, and has already submitted a draft Rule Book for review of stakeholders.

NRPS Milestones

Aside from allowing transmission of useful transaction details along with payments, the adoption of ISO 20022 as a messaging standard will deepen the interoperability of the country's RTGS with the payment systems both onshore and offshore. Interoperability is key to achieving payment system efficiency which is vital in keeping pace with the growing demand for faster payment services not only in the interbank market but also in the retail space.

In pursuit of greater efficiency of payment services for the benefit of individuals, businesses, and the government, the Bangko Sentral continuously pushes the NRPS agenda forward. The year 2019 was a resounding success, as the Bangko Sentral, in partnership with the industry, realized much-awaited milestones with the launch of the following pioneering e-payment facilities:

- ***The EGov Pay Facility***

At the forefront of digitalizing payments to government (P2G) is the EGov Pay, an electronic payment facility that allows individuals and businesses to pay taxes, permits, fees, and other obligations to the government. This facility makes use of the PESONet as the payment rail [5]. To use the EGov Pay, the payers have to access "Linkbiz", a payment portal which is hosted by the Land Bank of the Philippines (LBP).

By participating in the EGov Pay as billers, the government institutions can efficiently collect revenues which are crucial in their delivery of public and social services. Moreover, the government in general can curb revenue leaks through efficient collection means, better audit trail, and enhanced transparency.

From only two government institutions enrolled in the facility when launched last November 2019, the list has substantially expanded to 60 with the BIR, DTI, PNP, OWWA, Environment Management Bureau, and various local government units (LGUs) leading the roster. A substantial number of government institutions are expected to be onboard the EGovPay in the near to medium term.

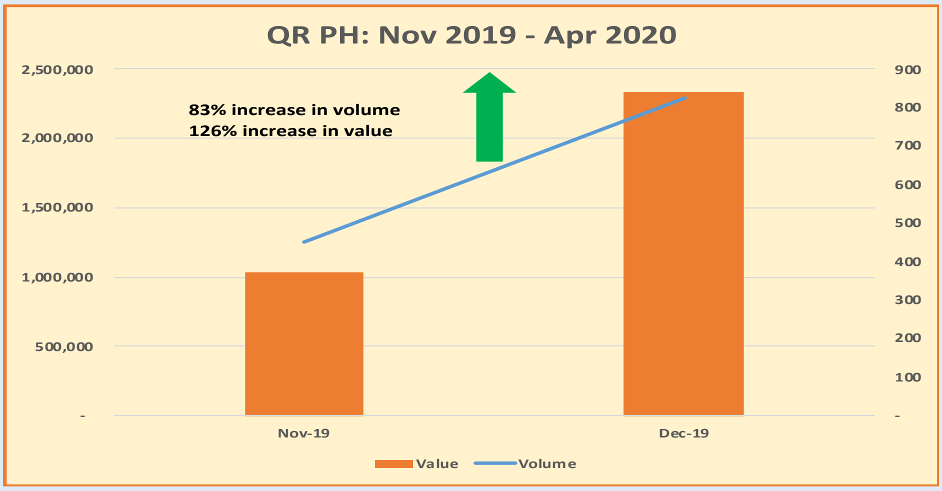
[5] The PESONet or the Philippine EFT System and Operations Network is the first automated clearing house (ACH) created under the NRPS. It is a batched electronic funds transfer (EFT) credit payment stream, which can be considered as an electronic alternative to the paper-based check system. Under the PESONet ACH, the payment instructions are processed in bulk and cleared in batches. Each payee receives the full value that is transferred to his account within the same banking day, provided the payment instruction was sent within the cut-off time of the payor's bank or e-money issuer.

- ***The National QR Code Standard***

The Bangko Sentral's issuance of a policy requiring adoption of a National QR Code Standard was a turning point in the country's digital transformation journey. Leveraging on the efficiency, safety, and affordability of the QR technology, this regulation bears far-reaching benefits by enabling micro and small merchants to accept digital payments which were meant for well-established businesses for the longest time.

The National QR Code Standard dubbed "QR Ph[6]" was launched in November 2019, with the Person-to-Person (P2P) use case made available first, to be followed by the Person-to-Merchant (P2M) use case which is scheduled to go live in the year 2020. The QR Ph-enabled P2P transactions almost double in just over a month from its inception. While the volume and value of the P2P transactions are still building up, both demand and supply of QR-enabled payment services show promising trends.

Figure 1. QR Ph P2P Volume and Value



On the demand side, the efficiency of just scanning a standard QR code instead of inconveniently encoding a payee's account details encourages usage of the QR Ph. The QR Ph will further penetrate the market with the forthcoming availability of the standard P2M QR codes. While all merchants adopting the P2M QR Ph will benefit from it, the micro and small merchants stand to enjoy remarkable advantages they never had before. Gone were the days when the acceptance of digital payments was exclusive to large businesses that can afford to invest in costly equipment. With the P2M QR Ph, a merchant can simply use its transaction account with a bank or non-bank electronic money issuer, print out the QR code obtained from the bank or electronic money issuer, and display the printed code for the merchant's customers to scan.

This breakthrough development in the payment space brings about transformative changes in the way market vendors, street hawkers, variety store owners, and other small entrepreneurs do business. They practically need not worry about the risk of robbery and pilferage since they will have to keep just minimal cash on hand. In addition, they will be freed from the burden of maintaining bills and coins as "change" funds.

[6] The QR Ph operates through InstaPay, which is a real-time EFT credit payment stream for retail transactions up to fifty thousand pesos (Php50,000). Under the InstaPay ACH, the payment instructions are processed in real-time, thereby allowing a payee to immediately receive the full amount transferred to his account. With this pioneering feature, the InstaPay EFT facility is designed to facilitate small value and urgent payment needs.

Seen from a broad perspective, the P2M QR Ph will empower our small economic actors to take part in the digital payments ecosystem, and more importantly, in the formal financial system. They can build financial profiles with their recurring digital payment transactions, enabling their banks and electronic money issuers to design further financial services such as savings, loan products, and investments that suit their specific needs.

Truly, the ***EGov Pay*** and the ***QR Ph*** are instrumental in ensuring that no Filipino is left behind in the Bangko Sentral's pursuit of inclusive economic growth.

Financial Stability

Charting the BSP's path to pursuing financial stability

The passage of RA No. 11211 institutionalized financial stability as a BSP mandate. It solidified the BSP's commitment in identifying, monitoring, analyzing, and mitigating the build-up of systemic risks within the Philippine financial system.

To operationalize financial stability within the BSP, a framework on financial stability was approved by the MB through MB Resolution No. 1214.[96] The framework directly and explicitly focuses on managing systemic risks, which would not normally be evident in the financial statements of institutions nor would lend themselves to the usual macroeconomic quantitative approaches. The said MB Resolution likewise defines financial stability as "…the state when prospective systemic risks are mitigated so as to allow financial consumers, both individuals and corporate entities, to pursue viable economic goals while avoiding disruptions to the smooth functioning of the financial system that can negatively affect the rest of the economy."[97] This definition highlights systemic risks as the principal agenda of financial stability because of its potential to spill over to the rest of the economy.

Communicating Financial Stability to the Filipino people

While transparency remains the overarching best practice, there is a need to convey to the public an evidence-based narrative of possible risks without causing undue panic. Thus, a collective understanding of what financial stability is should be set in place to effectively communicate its significance.

In particular, the analysis from the Systemic Risk Review (SRR) is provided to the principals of the Financial Stability Coordinating Council (FSCC)[98], which includes a discussion on the brewing risks in the country's financial market. The FSCC publishes the salient points of the SRR via a press release and subsequently uploads it to the websites of member agencies. While the technical details of the SRRs have, thus far, been shared only to the FSCC, a comprehensive and laymanized Financial Stability Report (FSR)[99] is publicly released so that a broader audience may become more conscious of financial stability issues.

In the most recent edition of the FSR (covering 2018 and the first half of 2019), the synchronized global growth slowdown was identified as the principal risk to financial stability. Weaker global demand, along with trade tensions and other geopolitical risks, weighed down growth in small open economies including the Philippines. Concerns on capital flow reversals likewise weakened the domestic currency. Such concerns heightened worries on the potential impact on the debt-servicing capacity of economic agents specially that of the corporate sector with foreign currency exposures. Even so, the Philippines has proven its relative strength and has become an attractive destination of portfolio investments on the back of its favorable demographic dividend, credit rating upgrades, and low and stable inflation environment. The FSR also highlighted the notable easing of credit pressures and contagion risks as these issues were addressed with appropriate macroprudential interventions that proved to mitigate potential credit and market risks.

To supplement these reports, the BSP created a series of audio-visual presentations (AVPs)[100] to introduce the concept of financial stability to a wider audience. The FSCC approved the release of

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[96] Dated 9 August 2019.

[97] The definition was initially taken from the financial stability framework under MB Resolution No. 1214. The definition was further revised in the paper elevated by the Office of Systemic Risk Management (OSRM) to the Monetary Board entitled "Systemic Risks and the New Financial Stability Agenda: Defining its Perimeter."

[98] The FSCC is a voluntary inter-agency committee composed of five member-agencies namely, the BSP, the Department of Finance (DOF), the IC, the PDIC, and the SEC.

[99] The FSR is an annual publication that provides a thematic approach and an in-depth analysis of recent developments and potential risks that may have financial stability implications to the Philippine financial system.

[100] The OSRM spearheaded the creation of the first series of AVPs.

the AVPs through avenues such as the FSCC's social media page (e.g., Facebook, etc.), one of the Council's vehicles for effectively reaching out to stakeholders.

Thought Leadership in Financial Stability

The BSP's ten-year journey in pursuing financial stability includes lessons from its own experiences and those of its peers. While the formalization of its financial stability mandate only came into fruition in 2019, the BSP has been at the forefront in sharing and learning from other jurisdictions. The work from previous years has resulted in the establishment of a regional dialog, the creation of a network for regional peers, and interactions with neighboring jurisdictions on capacity building and emerging areas involving financial stability.

- ***The BSP continues to take a lead role in capacity building in the ASEAN.*** The BSP organized many local and foreign capacity-building initiatives in the area of financial stability, most notable of which was the training held in the State Bank of Vietnam in November 2019. The training workshop entitled "Managing Systemic Risk in the Pursuit of Financial Stability" was the fourth in the 4-layer ABIF Learning Roadmap series. The BSP was able to garner interest among central bankers in Vietnam who wanted insights about how the BSP pursues financial stability.[101]

- ***Representations in various international conferences and fora.*** The BSP served as one of the panelists in the OECD-BNM[102] Conference with the theme "Empowering Financial Consumers in the Digital Age". The BSP held speaker roles for two sessions: *Financial Consumers' Experiences with Digital Financial Assets and Associated Policy Responses to Address Risks and Benefits* and *Looking Over the Horizon: What Next for Policy Makers in Asia and Beyond?* Among the key points from the presentations was the importance of financial literacy in achieving financial stability. That, along with consumer protection, remains crucial in light of evolving financial markets and will enable more market players to enter the sector and make informed decisions. Attended by BSP Governor Benjamin E. Diokno as one of the panel speakers, the BSP participated in the BOT-IMF Conference on Systemic Risk Issues of FinTech. The BSP emphasized the important implications of central banking services, cross-border payments, and remittance transfer systems in the assessment of systemic risks that may arise from financial market infrastructures.

- ***Capacity building efforts include reaching out to the younger generation***. A brownbag session was organized for students from the De La Salle University's School of Economics (SOE) in November 2019. The students were given a view of how the BSP pursues financial stability in the Philippines. The presentation noted the challenges present, highlighting the fact that pursuing financial stability and managing systemic risks may not necessarily be found in the traditional teachings of a school nor in the textbooks.

- ***Collaboration at the Local and Regional Level***. The key initiative from the quarterly meetings of the FSCC, under the chairmanship of Governor Diokno, included the creation of a Policy Intervention Roadmap (PIR). The PIR contains strategies and initiatives in response to the potential risks that could arise within the Philippine financial system. The PIR contains short-, medium-, and long-term policy directions to address these risks.

[101] The head of the OSRM, Dr. Ravalo, also presented his BIS Working Paper No.724 "Do small bank deposits run more than large ones? Three event studies of contagion and financial inclusion" in the International Conference on Business and Finance 2019 held at the University of Banking in Ho Chi Minh City, Vietnam. He was also asked to be on the panel of a dissertation defense in the said university.

[102] Organization for Economic Cooperation and Development – Bank Negara Malaysia

At the regional level, the BSP's thought leadership in financial stability was evident with the selection of Governor Diokno as co-chair of the Financial Stability Board's (FSB) Regional Consultative Group for Asia (FSB-RCGA). The FSB is an international institution that recommends risk and prudential standards for the financial markets and provides a cross-country venue for regulators to discuss issues relating to financial stability.

Ongoing Engagements in the Pursuit of Financial Stability

- ***Collaboration with the IMF-World Bank via Article 4 and Financial Sector Assessment Program (FSAP).*** Active collaboration with the IMF for both the Article IV and initial FSAP exercises were conducted in 2019. OSRM presented its models and initial findings as well as its monitoring tools in line with the IMF-initiated OMAPe Framework[103] and the CL2 Framework (Contagion, Concentration, Leverage, and Liquidity) created by the OSRM. The OMAPe framework provides a broader operational perspective on financial stability that integrates some elements of the IMF Macroprudential Survey with more granular information on institutional arrangements, a comprehensive grid of indicators to be monitored, several types of analyses to be performed, and operational and analytical aspects of systems to report the effectiveness of outcomes.[104] Moving forward, the FSAP team expressed its intent to build on OSRM's existing study on corporate leverage, financial credit, and business cycles.
- ***Systemic Risk Perspective in the Crafting of Capital Market Reforms in the Capital Market Development Council (CMDC).*** The BSP, as represented by OSRM, participated in the discussions for the Capital Market Development Plan Blueprint and presented a paper on the implications of developing the Philippine capital market.

[103] OMAPe stands for Organizational Framework (O), Monitoring of Financial Stability Risks (M), Analysis of Financial Stability Risks (A), Policies and Tools for mitigating financial instability (P), and evaluating the effectiveness of Financial Stability policies and tools (e).

[104] International Monetary Fund, 2019, "BSP-IMF Regional Dialogue on Financial Stability for ASEAN Central Banks," January 2019.

Box Article 10

Financial Stability at a Glance

Understanding Financial Stability

Financial stability has been a concern of financial regulators for a long time but the notion of financial stability after 2007 is substantially different today because of the Global Financial Crisis (GFC).[1] Our appreciation of financial stability today focuses on systemic risks in financial markets.

Financial stability is about the health of the financial system and the need to manage systemic risks that result from the unique nature of financial markets as networks. This is separate and distinct from the intention to ensure the health of each financial institution as an individual enterprise.

POLICY OBJECTIVE OF FINANCIAL STABILITY

Stripped to its core, the policy objective of today's financial stability is to enhance the resilience of the financial system from disruptions that can prevent the orderly conduct of the market and its financial market infrastructures. A defining element of these specific class of disruptions is that they have the capacity to negatively affect the rest of the economy.[2] These risks are called systemic risks and they arise from cause-and-effect relationships which economics refers to as externalities.[3]

Revisiting the role of the Bangko Sentral ng Pilipinas (BSP) in Republic Act (R.A.) No. 11211

In February 2019, R.A. No. 11211 amended the Charter of the BSP and one of the key amendments is the formal inclusion of financial stability as a mandate of the BSP. The passage of R.A. No. 11211 provides an excellent opportunity to institutionalize the BSP's earlier efforts on financial stability as part of its new mandate. The Law also puts the BSP as the only financial authority in the country with financial stability in its Charter.

> "The Bangko Sentral shall promote financial stability and closely work with the National Government, including, but not limited to, the Department of Finance, Securities and Exchange Commission, the Insurance Commission, and the Philippine Deposit Insurance Corporation."

The Financial Stability Coordination Council (FSCC)

As mandated under R.A. No. 11211, the BSP spearheads in safeguarding overall financial stability with active engagement from other financial regulators and the National Government through the FSCC. As a multi-sector undertaking, initiatives in addressing the identified financial stability issues cannot be achieved without the cooperation and appreciation of the BSP's co-regulators and other stakeholders.

The FSCC was first convened on 4 October 2011 and formalized on 29 January 2014 through the signing of a Memorandum of Agreement among member agencies. The FSCC is an inter-agency council where the BSP Governor, the Secretary of Finance, the Chairman of the Securities and Exchange Commission, the Insurance Commissioner, the President of the Philippine Deposit Insurance Corporation as well as permanent senior

[1] Tiniolo and White (2015) suggest that the financial stability mandate can be traced to the "Lender of Last Resort" function espoused by Bagehot (1873).
[2] Schinasi (2004) notes that unless a disruption can affect the real economy, it should not be within the purview of financial stability. This is the norm. See also FSB-IMF-BIS (2009), Smaga (2014) and De Nicolo, Favera and Ratnovski (2012).
[3] These externalities reflect the way the financial market is structured as a "complex network" and how its agents handle and transfer risks. It is useful to think of these externalities in the context of what Scott (2011, 2014) describes and distinguishes as the "three C's of systemic risk: connectedness, contagion and correlation".

representatives of these agencies convene quarterly to assess possible systemic risks and decide on appropriate policy interventions. The National Treasurer of the Bureau of the Treasury is likewise an active participant in the discussions of the FSCC and is a Special Member of the Executive Committee. Under the approved governance framework, the BSP Governor chairs the FSCC.

SCOPING STATEMENT

Risks are a natural element of the financial markets and financial consumers reap the benefits of finance only when these risks are effectively managed. Complementary to but nonetheless distinct from ensuring that financial institutions operate in a safe and sound manner, financial authorities now recognize the specific need to manage and mitigate the build-up of systemic risks. This oversight of systemic risks defines the policy agenda of Financial Stability and for this purpose, we set out below the scope of and expectations from this agenda.

Financial Stability

Financial stability is achieved when the financial system responds to the evolving market conditions and effectively addresses the varied needs of financial consumers while avoiding potential disruptions that can negatively impact the rest of the economy. The Financial Stability agenda is necessarily pre-emptive and considers cross-cutting risks that may reasonably escalate in the future. As such, the state of stability is not absolute, evolving with the changing market parameters as well as with the different choices made by financial consumers. For this purpose, financial stability is defined as:

> *"Financial stability is the state when prospective systemic risks are mitigated so as to allow financial consumers, both individuals and corporate entities, to pursue viable economic goals while avoiding disruptions to the smooth functioning of the financial system that can negatively affect the rest of the economy."*

Macroprudential Policy and Analysis

Macroprudential policy executes the Financial Stability agenda by limiting system-level risks over time and across market components. It is distinct from micro oversight, which assesses risks that financial institutions face on their own without regard to the financial system or to the macroeconomy. Macroprudential policy takes a holistic view by focusing on the risks created through the interaction of markets, institutions and the choices of agents while fully cognizant of the "fallacy of composition".[4] The objective of macroprudential analysis requires consideration of all possible outcomes and taking pre-emptive policy measures where warranted. This presents its own challenges since a wide range of outcomes are considered and a pre-emptive move will most likely be seen as contrarian in nature i.e., intervening to tighten the macroprudential policy stance when the market continues to be expanding or to induce activity when market sentiments remain negative. Furthermore, the policy framework also recognizes that there may be a trade-off between present and future growth as a result of the interventions.

Macroprudential policy operates alongside the other, more traditional, policy objectives of the central bank. There is, nonetheless, clear space for each of these objectives to operate within the context of their defined objectives. The ideal situation, certainly, is to maximize their areas of complementarities while having some

[4] "Fallacy of composition: A fallacy in which what is true of a part is, on that account alone, alleged to be also true on the whole." Paul A. Samuelson in Economics: An Introductory Analysis (1955)

framework in place for decisionmakers to address situations where the recommendations conflict with each other.

Systemic Risk Management (SysRM)

The financial system is more than the sum of its parts and as such, systemic risks are distinct from the risks faced individually by agents in the system. Containing the build-up of systemic risks within prudent levels is the underlying objective of the Financial Stability agenda as managed through macroprudential policy interventions. The BSP recognizes that systemic risks are inherent to financial markets and can arise from shocks ***to*** the financial system as well as shocks ***by*** the financial system. Systemic risk management is meant to:

1. increase the resilience of the financial system from external shocks;
2. contain the build-up of vulnerabilities over time;
3. control vulnerabilities arising from interlinkages within the financial system; and
4. manage contagion risk from intermediaries that may be "too interconnected to fail."

These will allow policymakers to specifically focus on:

1. excessive credit growth and leverage;
2. excessive maturity mismatches and market illiquidity;
3. direct and indirect exposure concentrations; and
4. misaligned incentives with a view to reducing moral hazard i.e., on systemically important financial institutions (SIFIs).

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How We Performed in 2019: Operations, Advocacies, Initiatives, and Financial Results

Monetary Operations

In line with the 400-bp cumulative reduction in reserve requirements in 2019,[105] total placements in the BSP's monetary facilities increased to ₱853.91 billion in 2019 from ₱428.59 billion in 2018. Banks' placements in the reverse repurchase (RRP) facility, overnight deposit facility (ODF), and term deposit facility (TDF) accounted for 35.7 percent, 31.2 percent, and 33.1 percent, respectively, of the total amount of liquidity absorbed by the BSP.

Consistent with the BSP's assessment of prevailing liquidity conditions and taking into account the monetary policy rate cuts of the BSP by a cumulative 75 bps and 400-bp reduction in reserve requirements in 2019, the average weekly total offer volumes for the TDF auctions was higher at about ₱94.0 billion in 2019 relative to the ₱58.1 billion average weekly volume offered in the previous year. The average bid-to-cover ratios for the 7-day, 14-day, and 28-day tenors were recorded at 1.4, 1.3, and 1.2 compared to 1.4, 1.2, and 1.1, respectively, in the previous year. Meanwhile, the average bid-to-cover ratio for the daily RRP offerings remained at around 1.1 in 2019.

Maintenance of peso stability

In 2019, the BSP registered net US dollar purchases as it took advantage of buying opportunities amid easing US-China trade tensions, rate cuts by the Federal Reserve, narrower Philippine trade deficit, easing inflation concerns, and BSP's monetary policy decisions which are viewed to support growth.

For the year, the Philippine peso appreciated by 3.84 percent to 50.635 on 27 December 2019 from 52.580 on 28 December 2018. Despite the risk events in the market, the BSP was able to contain the peso volatility at 1.24 percent during the year, enabling the peso to rank as the fourth least volatile among regional currencies. In addition, the peso ranked as the third most appreciated currency in the region amid the BSP's monetary policy easing and following Standard & Poor's credit rating upgrade on the Philippines to "BBB+" from "BBB." In terms of daily absolute percentage change, the peso moved at an average rate of 0.20 percent in 2019, lower than that of other Asian currencies at 0.26 percent.

To cushion the impact of sharp peso movements, the BSP's Currency Rate Risk Protection Program (CRPP) facility remains in place. However, no availment was made in 2019.

[105] 100 bps on 31 May, 50 bps on 28 June, 50 bps on 26 July, 100 bps on 1 November, and 100 bps on 1 December

Currency Operations

To support economic development and preserve public confidence in the Philippine currency, the BSP continued to provide adequate and timely supply of good quality currency with the BSP's Metro Manila Currency Operations Sub-Sector (MCOSS) and Regional Operations Sub-sector (ROSS) servicing the currency requirements of stakeholders in the NCR and areas outside NCR, respectively.

In 2019, MCOSS adopted improvements in its core processes. These include full implementation of the Integrated Currency Management System (ICMS) and acquisition of three (3) Automated Banknote Processing Machines (ABPMs), which enabled MCOSS to shorten its currency verification turnaround time to expediently comply with the Ease of Doing Business Act of 2018. In addition to servicing currency requirements of banks in the NCR, MCOSS led the media campaigns, developed information materials, and conducted public information campaigns (PICs) on topics such as Philippine banknotes and the BSP's Clean Note and Coin Policy (CNCP). MCOSS also spearheaded the media launch of the new 20-piso and enhanced 5-piso New Generation Currency (NGC) coins and initiated the BSP's nominations to the Excellence in Currency 2019 Coin Awards of the International Association of Currency Affairs, wherein the BSP's NGC Coin Series and the Coin-Ed Campaign were among the top three finalists awarded in the Best New Circulating Coins and Best Public Education Program categories, respectively.

Meanwhile, in keeping with its objective to service the currency requirements outside NCR, ROSS conducted the following in 2019: (1) strategic scheduling and adoption of more efficient modes of currency shipments; (2) provision of ample buffer stock for unexpected spikes in currency demand or potential delay in currency delivery to the regions; (3) acceleration in the verification process to maximize vault space utilization while allowing quicker turnaround of banks' access to their deposits; (4) servicing of bank withdrawals with new and fit banknotes and coins in accordance with banks' denominational requests; (5) retirement of unfit bank notes for immediate replacement with new/fit currency to promote CNCP; (6) review and updating of currency operations processes/procedures/practices with the view to improve operational efficiency and internal controls; and (7) ensuring access to and availability of BSP services across the country by evaluating the need for additional BSP presence in areas needed, including expansion through relocation of existing BSP branches to respond to the growing needs of the region where they operate.

Through its regional offices and branches (ROBs), ROSS also helped promote BSP advocacies, intensified and widened the reach of its public information campaign, particularly in far and remote rural areas, as well as enhanced the conduct of economic and financial surveillance. Topics covered include economic and financial literacy, currency security features, counterfeit currency detection, coin recirculation, clean note and coin policy, and consumer protection, among others. In line with the objective to serve as springboard of BSP policies and programs, and as thought-leader on economic and financial issues in the countryside, the ROBs also participated actively in regular regional development council meetings during the year.

International Reserves Management

In 2019, the BSP implemented investment strategies to strengthen the function of the GIR as liquidity support in times of volatility in the exchange rate and balance of payments. The strategies focused on capital preservation and enhancement of returns. During the year, the BSP was able to generate investment income amid a low-yield and volatile market environment.

For internally-managed portfolio (IMP), under the stewardship of the Investment Management Committee (IMC), the BSP continued to implement measures aimed at ensuring the safety and diversification of the IMP, which comprises the working capital tranche, liquidity tranche, investment tranche, a portion of the long-term tranche, and the gold portfolio. The working capital was a new tranche implemented at the start of 2019 which mainly acts as a buffer for BSP's participation in the FX market. The BSP executed portfolio strategies to generate returns from international assets within the parameters and limits set in the operational guidelines approved by the IMC. In response to the developments and challenges in the global financial markets in 2019, the BSP rebalanced its portfolios to support domestic operations. During the year, the BSP likewise started investing in bills and short-term notes for the liquidity tranche.

For externally-managed portfolio (EMP), the BSP invested in green bonds through a fund managed by the Bank for International Settlements (BIS) in 2019. The EMP was augmented toward the latter part of the year amid BSP's efforts to diversify the international reserves in line with BSP's long-term objectives of capital preservation and enhancement of return. In addition, the EMP recorded significant mark-to-market gains on an absolute basis as global government bond yields declined during the year. On a relative basis, most external fund managers outperformed their investment benchmarks during the year.

The BSP continued to manage its gold reserves in compliance with existing management guidelines. In particular, the BSP mainly transacted gold deposits with accredited counterparties to cover holding costs during the year.

In line with the BSP Financial Market Operations Subsector's (FMOSS') thrust to enact and implement measures aimed at ensuring the safety and diversification of the GIR amid the developments and challenges in the global environment, FMOSS obtained the MB's approval for the new Strategic Asset Allocation (SAA) for the long-term tranche with focus on return enhancement and increased portfolio diversification. The approval covers investments in green bonds and other asset classes. FMOSS likewise obtained the MB's approval on the additional strategic allocation to the long-term tranche, in line with the approved SAA.[106]

International Economic Cooperation

The importance of fostering international cooperation was highlighted in 2019, which had been characterized by synchronized global economic slowdown. Asia was seen likely to face more acute headwinds than other parts of the world as many economies in the region were reliant on export trade and thus were caught in the crossfire of trade disputes. The advent of the "fourth industrial revolution" – the rise of the digital economy (called "tech-tonic shifts") – presented opportunities and risks, and called for a rethinking of how to approach reforms and conduct monetary and fiscal policies.

Amid these challenges, central banks remained resilient as they continually instigated policies and initiatives that supported economic and financial sector developments. The IMF, in its World Economic Outlook Update January 2020, called for "stronger multilateral cooperation and a more balanced policy mix at the national level" as these were essential in averting economic tailwinds.[107]

Regional economic and financial conditions validated that a concerted effort to strengthen

[106] Furthermore, FMOSS continued to implement BSP's operational and regulatory risk management framework. In 2019, FMOSS facilitated BSP's adherence to the International Swaps and Derivatives Association, Inc. (ISDA) 2018 U.S. Resolution Stay Protocol ("U.S. Stay Protocol") as published by the ISDA. The U.S. Stay Protocol was created to allow market participants to comply with regulations issued in the U.S. by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency.

[107] Source:
https://www.imf.org/en/Publications/WEO/Issues/2020/01/20/weo-update-january2020
Last accessed: 14 February 2020

cooperation among central banks is a key element of the central bank policy tool kit. The BSP's proactive engagement in various regional and international fora significantly contributed to domestic policy formulation; assured partners through established crisis prevention safety nets; broadened opportunities offered by financial integration and cooperation agreements; and raised skills and knowledge through capacity-building initiatives.

Formulation of policy recommendations from participation in global and regional economic surveillance and policy dialogues

The BSP conducts global and regional surveillance and regularly participates in policy dialogues with other central banks and international financial institutions (IFIs). These are venues where information exchange and broader awareness of the international environment and the possible implications for the Philippine economy are obtained.

Economic Surveillance. The BSP facilitated the conduct of regular surveillance activities with the IMF Article IV Mission and ASEAN+3 Macroeconomic Research Office (AMRO) Staff Consultation Visit, held in November 2019 and in October 2019, respectively. The IMF team noted that the Philippines' macroeconomic policies have reacted appropriately to the slowing growth and decreasing inflationary pressures. Also noted were increase in downside risks to the outlook which reflected higher external risks from global trade tensions, shifts in global financial conditions and natural disasters. Meanwhile, the AMRO Mission Team during their assessment at the time, that growth had been projected to continue to recover as the government ramps up fiscal spending and domestic demand is boosted by easier monetary conditions.

Policy Dialogue. The BSP demonstrated thought leadership in various international forums, such as the Asia-Pacific Economic Cooperation (APEC), ASEAN, ASEAN+3, BIS, EMEAP, IMF, and the Southeast Asian Central Banks (SEACEN) Research and Training Centre through consultations, discussions, and exchange of views on relevant monetary, economic, and financial cooperation issues. The uncertainty in trade policies, digitalization, and financial technology (FinTech), and sustainable finance were among the pressing issues underscored in the technical- and high-level policy dialogues participated in by the BSP in 2019.

ASEAN. In the Joint Statement of the 5th ASEAN Finance Ministers and Central Bank Governors Meeting held in April 2019 in Chiang Rai, Thailand, the finance ministers and governors envisaged that sustainable finance plays an important role in improving economic efficiency, prosperity, and competitiveness, while protecting and promoting ecological systems, and enhancing cultural diversity and social well-being. The ASEAN strived to drive the agenda on sustainable finance through the accomplishments of the working committees.

BIS. The BSP participated in the regular bi-monthly meetings of the BIS held in May, June, September, and November 2019, where the discussion centered on preserving financial stability and enacting regulatory reforms in the financial and banking sectors. Among the topics discussed during these meetings were the implications of technological change for the financial system, big data, and the real effects of financial innovation. The BIS Governors recognized the importance of establishing a digital infrastructure for financial development and inclusion, as well as the potential trade-offs in determining the degree of contestability and interoperability of digital platforms in a certain jurisdiction.

EMEAP. During the 24th EMEAP Governors' Meeting held in August 2019, the Governors discussed the challenges and policy responses of EMEAP central banks and monetary authorities under trade protectionism and concurred that trade tensions are detrimental to the global economy.

SEACEN. At the 55th SEACEN Research and Training Centre Governors' Conference/High-Level Seminar and the 39th Meeting of the SEACEN Board of Governors held in November 2019 in Singapore, the Governors exchanged ideas on how digital transformation had been a fundamental driver of the ongoing move toward a digital economy. Governors provided views on how best to promote innovation while ensuring appropriate regulatory oversight and stressed the need for a harmonized framework on data governance across countries, including the interoperability of the emerging technologies.

Other high-level meetings participated in by the BSP in 2019 included: the APEC Finance and Central Bank Deputies' Meeting and APEC Finance Ministers' Meeting on 7-8 March 2019 in Santiago, Chile; 5th ASEAN Finance Ministers and Central Bank Governors' Joint Meeting and Related Meetings on 2 - 5 April 2019 in Chiang Mai, Thailand; 52nd Asian Development Bank (ADB) Annual Meeting on 2-5 May 2019 in Nadi, Fiji; 22nd ASEAN+3 Finance Ministers and Central Bank Governors' Meeting on 2 May 2019 in Nadi, Fiji; and 2019 Spring Meetings of the IMF and the World Bank (WB) Group and Related Meetings on 8-14 April 2019 in Washington D.C., USA.

In addition, Governor Diokno participated as panelist at the International Finance Corporation (IFC)-WB Event on FinTech Innovators: Drivers of Inclusive Economies held in October 2019 in Washington, D.C., USA. He made a presentation on the role of regulators, investors, and the industry in creating enabling environments that encourage innovation, competition, and inclusive growth, while protecting consumers and safeguarding stability.

Renewal of global and regional financial arrangements to ensure commitment of partners in times of need and establish safety nets for crisis prevention

In 2019, the BSP maintained and renewed financial arrangements as part of its policy toolkit against risks to tightening of global financial conditions.

Global Arrangements. The Philippines, through the BSP, continues to support the strengthening of the global financial safety net through its sustained support in the IMF's financial firepower to mitigate risks and ensure global financial stability, including the following: (a) Bilateral Borrowing Agreement (BBA), where the BSP committed to provide the IMF with up to US$1 billion in resources to finance arrangements for countries with balance of payments difficulties until 31 December 2020; (b) New Arrangements to Borrow (NAB) facility, a credit arrangement where the BSP provides resources to the IMF, up to a maximum amount of SDR340 million (about US$500 million) and where the IMF has made drawdowns to finance arrangements for Greece, Portugal, Tunisia, Cyprus, Ukraine, and Jamaica (the BSP receives interest income from its participation in the NAB based on the SDR interest rate.); (c) Financial Transactions Plan (FTP), a currency exchange arrangement between the IMF and selected members to facilitate IMF financing operations.[108]

Regional Arrangements. The BSP reaffirmed its commitment to further strengthen Regional Financing Arrangements (RFAs), including, among others, the following:

The BSP actively participated in activities to reinforce the Chiang Mai Initiative Multilateralization (CMIM) facility to ensure its readiness through the conduct of a test run that simulated an actual drawdown scenario; revision of the Operational Guidelines to reflect the recent amendments to the CMIM Articles of Agreement; and endorsement of the Economic Review and Policy Dialogue matrix scorecard to be utilized as quantitative qualification reference for the CMIM Precautionary Line.

[108] The Philippines has been an FTP participant since August 2010.

The BSP and the Bank of Japan (BOJ) signed on 18 January 2019 the terms and conditions for the creation of a yen account that will be used in the operation of the existing Bilateral Swap Arrangement (BSA) between the BSP and the BOJ.

The BSP signed the 7th Supplemental Memorandum of Understanding (MOU) renewing the ASEAN Swap Arrangement (ASA) for a period of another two years (from 7 November 2019 to 16 November 2021). This reaffirmed the provision of US$2 billion short-term foreign exchange liquidity support for ASEAN member countries that experience balance of payments difficulties. The Philippines' commitment under the ASA is US$300 million which allows the country to draw up to US$600 million as the need arises.

The BSP has on-going negotiations for a Bilateral Currency Swap Agreement (BCSA) with the People's Bank of China (PBC), which as currently drafted, aims to facilitate bilateral trade and investment and provide support for the maintenance of balance of payments and short-term liquidity.

Facilitation and negotiation of regional financial cooperation agreements

Together with partners in the region, the BSP reaffirmed its commitment to enhance regional integration efforts, including facilitating intra-regional trade and investment activities in the financial and banking sector and domestic capital markets. The BSP engages in these integration efforts noting that financial integration will generally enhance the overall health of the Philippine financial sector and contribute to further growth and resiliency of the economy. With these objectives in mind, the following financial cooperation/integration agreements were facilitated and negotiated in 2019:

Local Currency Settlement Framework (LCSF). The BSP signed three (3) Letters of Intent (LOIs) on LCSF with Bank Indonesia (BI), Bank Negara Malaysia (BNM) and Bank of Thailand (BOT) in April 2019 to explore the potential establishment of LCSF between the Philippines and the respective countries of the other three central banks. The LCSF is a bilateral arrangement between ASEAN central banks on the use of local/ASEAN currencies for the settlement of trade in goods and services. The greater use of local currencies in settlement of trade and other areas is aimed at reducing the transaction costs and foreign exchange risks particularly amid the current volatility faced by currencies in advanced economies.

Moreover, as Co-Chair of the ASEAN Working Committee on Capital Account Liberalization (WC-CAL) together with the State Bank of Vietnam (SBV), the BSP facilitated the completion of the Guidelines on ASEAN LCSF. The ASEAN Finance Ministers and Central Bank Governors noted this as a priority initiative under the WC-CAL Work Plan to guide the ASEAN member states in establishing bilateral local currency settlement arrangements and promote the use of local currencies for trade and investment in the region.

ASEAN Economic Community 2025. The BSP led the financial integration initiatives of the ASEAN working committees on Financial Inclusion, Payment and Settlement Systems, and CAL, where the BSP continued to serve as co-chair for the term 2018-2020. The BSP also signed, on 9 May 2019, a Letter of Understanding with BNM which provides clarifications on the implementation of the BSP-BNM Bilateral Arrangement under the ASEAN Banking Integration Framework (ABIF).

FinTech Related Agreement. The BSP joined the Monetary Authority of Singapore (MAS) and RBI in November 2019 as founding members of the Business sans Borders (BSB) initiative, which is a hybrid global meta-hub for business and digital services. This will enhance domestic and international trade opportunities for micro-, small and medium enterprises (MSMEs); manage the interoperability between MSME ecosystems; provide a quick and intuitive access in digital services with seamless integration; and provide a sandbox environment to accelerate testing and delivery of new services for MSMEs.

Financial Information Agreement. The BSP initiated discussions with the MAS on the possible signing of a Data Connectivity Agreement. This is envisaged to be a legally binding arrangement that would include provisions to safeguard the cross-border flow of financial data and allow the adoption of measures to protect personal data and personal privacy, and ensure the integrity and stability of the financial system.

Financial Services Liberalization under Free Trade Agreements (FTAs). The BSP participated in the finalization of the Regional Comprehensive Economic Partnership (RCEP) Agreement Annex on Financial Services under the Trade in Services Chapter, which is expected to achieve a higher level of commitment with significant improvements over the existing ASEAN FTAs while recognizing the individual and diverse circumstances of the participating countries. It likewise submitted commitments under the 8th Round of Negotiations on Financial Services Liberalization under the ASEAN Framework Agreement on Services (AFAS) to ensure that key disciplines and commitments affecting banking services are consistent with existing banking laws and regulations.

The BSP also issued concurrence for the ratification of the First Protocol to Amend the Agreement on Comprehensive Economic Partnership among Member States of ASEAN and Japan (AJCEPA) and the ASEAN Agreement on Electronic Commerce.

Financial Cooperation Agreements. The BSP responded to indications of interests for memoranda of understanding on cooperation with BI, Otoritas Jasa Keuangan (OJK), Bank of Mauritius, Autoriti Monetari Brunei Darussalam, Central Bank of Bahrain, and the Deutsche Bundesbank; and provided a list of potential areas of cooperation and possible capacity-building initiatives under bilateral relations with Thailand, the Maldives, Kazakhstan, Chile, Nepal, India, Laos, Bangladesh, Bhutan, and the United Kingdom.

Capacity-Building Initiatives. A key component to the BSP's commitment to international relations and its role in promoting regional financial integration and economic stability is participation in capacity-building initiatives. Moreover, the BSP values capacity-building support offered by partner central banks and institutions in the region, particularly in developing technical competencies of BSP personnel involved in the economic surveillance, policy dialogue, and financial integration processes. This two-way approach in terms of providing and acquiring capacity-building support has been a welcome undertaking in the region.

In 2019, the BSP continued its support in the implementation of the capacity-building programs of the ASEAN Steering Committee on Capacity Building (SCCB) which included 31 capacity-building courses under three (3) pillars that benefited 453 participants from the CLMV member states. In addition, the BSP provided a resource person for the SCCB Course on Bank Corporate Governance Information Disclosure and Loan-Loss Provisioning on 5 June 2019 in Vientiane, Lao PDR.

Furthermore, the Philippines continues to benefit from considerable assistance of the IMF's capacity development resources such as technical assistance in the areas of fiscal management, financial market development, and government finance statistics. The BSP, with technical support from the Daiwa Institute of Research, continued the implementation of Phase VI of the Technical Assistance Coordination Team's (TACT) Bond Market Development Program aimed at developing safety measures in capturing data on the Philippine repo market, and identifying other safety measures or additional reporting requirements that will complement the data monitoring system that are currently in place, as well as necessary enhancements within the system.

Hosting of International Cooperation Events. The BSP hosted a number of conferences, workshops, and meetings in line with these objectives: (a) to continue the discussion on issues relevant to emerging market economies; (b) to provide perspectives on critical issues affecting the region in general and the country in particular; and (c) to bolster ties with other central banks and financial authorities aligned with the BSP's thought leadership thrust.

Conference/Workshop/ Meeting	Date and Venue	Extent of BSP Participation
Study Visit of Bank Indonesia	17 May 2019, Manila	Host
Discussion on Non-Deliverable Forwards (NDF)	19 June 2019, Manila	Co-Host
Roadshow on the ASEAN+3 Regional Economic Outlook (AREO): Building Capacity and Connectivity for the New Economy	8 August 2019	Host
BSP-BI Bilateral Meeting on the Proposed Local Currency Settlement Framework	10 September 2019, Cebu	Co-Chair
38th Meeting of the ASEAN WC-CAL	29 November – 1 December, Manila	Chair

Box Article 11

Negotiations of Free Trade Agreements: BSP Perspective

What are free trade agreements?

A free trade agreement (FTA) is defined by the World Trade Organization (WTO) as an agreement/treaty between countries that removes tariffs and other restrictions on substantially all goods traded between them and liberalizes trade-in-service towards an open and competitive international market.

FTAs can be bilateral or plurilateral. Bilateral FTAs involve two countries that mutually agree on easing trade restrictions and expanding business opportunities between them. Plurilateral FTAs, on the other hand, involve three or more countries and cover a larger geographical area. Examples of the latter are the ASEAN Plus One FTAs and the European Free Trade Association (EFTA) FTA.

Role of the BSP

Active participation in negotiations. The BSP has long supported the Philippines' participation in FTA-related initiatives. The BSP actively participates in the negotiations of: (a) financial services-related provisions (e.g., payments and transfers, prudential measures, new financial services, and transfer of information) and (b) market access commitments on banking services such as through foreign equity participation and membership of foreign nationals in the bank's board of directors.

Inter-agency membership. The participation of the BSP in FTA negotiations is through the Inter-Agency Committee on Financial Services (IAC-FS) alongside the DOF, the SEC and the IC; Inter-Agency Committee on Trade in Services, led by the National Economic and Development Authority (NEDA); and the Philippine Working Group on Services (PH-WGS) for the ASEAN Plus (ASEAN+) Dialogue Partners Trade in Services, led by the Department of Trade and Industry's Bureau of International Trade Relations (DTI-BITR). These committees provide the venue for deliberations of collective Philippine positions on services issues that cut across sectors.

Updates on Free Trade Agreements

Below are developments in regional FTAs where the Philippines has actively participated in:

Plurilateral FTAs

(a) *ASEAN Framework Agreement on Services (AFAS)*. The AFAS, which was signed on 15 December 1995 in Bangkok, Thailand, provided the legal platform for the ASEAN member states (AMS) to enhance cooperation in services, substantially eliminate restrictions to trade in services and expand the depth and scope of liberalization beyond those undertaken by AMS under the WTO General Agreement on Trade in Services (WTO GATS). Negotiations are done on a two-year cycle through a request-offer approach [109] among AMS, resulting in packages of commitments on financial services (i.e., banking,

[109] Member States exchange information among them on each other's commitments and services trade regime, and then request each other for further liberalization on identified sectors/sub-sectors.
(Source: https://www.asean.org/storage/2015/12/ASEAN-Integration-in-Services-(Dec%202015).pdf)

insurance, and capital markets). The packages of commitments are listed in each of the AMS' Schedule of Commitments (SOC)[110] and formalized via Protocols[111] signed by the ASEAN Finance Ministers. As of date, eight AFAS packages of commitments have been completed. These include commitments for removal of restrictions on ASEAN banks, insurance companies, and investment companies in providing financial services in other AMS. Riding on the AFAS is banking integration, done through negotiations under the ASEAN Banking Integration Framework (ABIF)[112]. The ABIF facilitated the entry of ASEAN banks in other AMS. As of date, three bilateral ABIF arrangements have been concluded[113] and two Qualified ASEAN Banks (QABs)[114] have been established.

(b) *ASEAN Trade in Services Agreement (ATISA).* AFAS will transform into ATISA with the latter to serve as the legal instrument to further deepen the commitments and integration of the services sectors in the ASEAN region. The ATISA strengthens the framework for liberalizing services (with specific annexes on financial, telecommunication, and air transport services) including the mechanism for eventual transition from a positive[115] to a negative list[116] architecture. The ATISA negotiations were concluded in November 2018 and the signing of the agreement is expected to be completed by the AMS in 2020.

(c) *ASEAN FTAs with Dialogue Partners*. ASEAN has concluded agreements under the various ASEAN Plus One FTAs. These include the ASEAN-Australia-New Zealand FTA (AANZFTA), the ASEAN-China FTA (ACFTA), the ASEAN-India FTA (AIFTA), the ASEAN-Korea FTA (AKFTA), and the ASEAN-Japan Comprehensive Economic Partnership (AJCEP). These FTAs encourage and promote businesses of all sizes in ASEAN to trade regionally as well as internationally without tariff barriers.

(d) *Regional Comprehensive Economic Partnership (RCEP)*. RCEP is a regional initiative which aims to achieve a modern, comprehensive, high-quality, and mutually beneficial economic partnership agreement among the AMS and ASEAN's FTA partners (Australia, China, India, Japan, Korea, and New Zealand). RCEP is targeted to be signed at the sidelines of the ASEAN Summit in November 2020 in Vietnam.

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110 A specific commitment in a services schedule is an undertaking to provide market access and national treatment for the service activity in question on the terms and conditions specified in the schedule. When making a commitment, a government therefore binds the specified level of market access and national treatment and undertakes not to impose any new measures that would restrict entry into the market or the operation of the service. (Source: https://www.wto.org/english/tratop_e/serv_e/guide1_e.htm)

111 A protocol is an international agreement that supplements a previous treaty or international agreement. The Protocol to Implement the Packages of Commitments under AFAS enters into force ninety (90) days after the date of signature. Member States undertake to complete their internal procedures for the entry into force of this Protocol and its Annexes.

112 The ASEAN Banking Integration Framework seeks to guide and facilitate the entry and operation of Qualified ASEAN Banks (QABs) in ASEAN member states (AMS) to promote equal access and treatment among ASEAN banks.

113 Bank Negara Malaysia (BNM)-Bangko Sentral ng Pilipinas; BNM-BOT; and BNM- Otoritas Jasa Keuangan (OJK) bilateral ABIF arrangements

114 Maybank and CIMB under the BNM-OJK bilateral ABIF arrangement

115 A Positive List Approach involves the voluntary inclusion of a designated number of sectors in a national schedule indicating what type of access and what type of treatment for each sector and for each mode of supply a country is prepared to contractually offer service suppliers from other countries. (http://www.sice.oas.org/dictionary/SV_e.asp#SV)

116 A Negative List Approach involves the comprehensive inclusion of all service sectors, unless otherwise specified in the list of reservations, under the specific disciplines of the services chapter and the general disciplines of the trade agreement. A negative list approach requires that discriminatory measures affecting all included sectors be liberalized unless specific measures are set out in the list of reservations. (http://www.sice.oas.org/dictionary/SV_e.asp#SV)

Bilateral FTAs

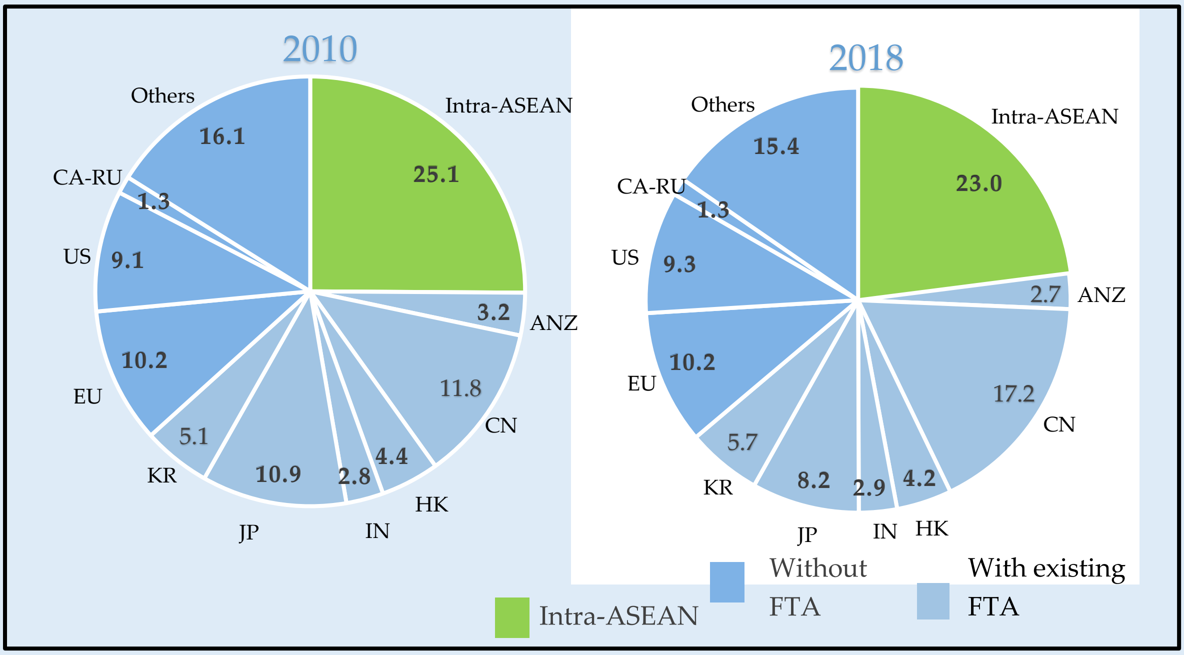
(e) *Philippines-Japan Economic Partnership Agreement (PJEPA).* PJEPA is a comprehensive bilateral trade and investment agreement between Japan and the Philippines. It is the first bilateral FTA for the Philippines after 50 years. The PJEPA covers trade in goods (TIG), trade in services (TIS), investments, movement of natural persons (MNP), intellectual property (IP), customs procedures, improvement of the business environment (IBE), and government procurement (GP). It was ratified by the Philippine Senate and was implemented starting 11 December 2008. A review on possible enhancements to the commitments of the Philippines and Japan is ongoing.

(f) *Philippines-European Free Trade Association Free Trade Agreement (PH-EFTA FTA).* PH-EFTA was signed on 28 April 2016 in Bern, Switzerland and ratified on 23 March 2018. The PH-EFTA FTA covers TIG, TIS, investments, IP, GP, competition, and trade and sustainable development. The Philippines' engagement with EFTA is part of the overall government strategy to increase the country's presence in the European region.

Benefits of FTAs

1. ***Facilitate the flow of goods and services.*** The region's trade in goods has markedly increased from US$2 trillion in 2010 to US$2.8 trillion in 2018, or 7.2 percent of global trade, placing ASEAN – collectively – as the fourth largest trading economy in the world.

Graph 1. Dialogue Partners' Shares in ASEAN's Total Trade



Source: ASEAN Secretariat (as of September 2019)

In their study using a counterfactual method, Barral and Quimba (2019) revealed the following impacts of the PJEPA:

"xxx the agreement benefited the aggregate exports to Japan. The results verified that the realized growth in the Philippine exports to Japan during the duration of the agreement was in fact due to the strengthened trading partnership between the Philippines and Japan."[117]

Cororaton (2015) computed for the potential effects of RCEP using mathematical modeling and concluded that:

"The reduction in trade barriers within the RCEP will increase the total exports within the region—from 1.1 percent relative to the baseline in 2014 to 3.3 percent in 2023. It can bring a positive impact on the Philippine economy, through trade-creation effects that will increase Philippine exports within the region and improve foreign investment."[118]

Table 1. Regional Effects, percent change from the baseline

	2014	2018	2023
RCEP			
Total exports	0.60	2.28	3.31
To RCEP	1.87	6.97	9.89
To outside RCEP	-0.20	-0.74	-1.14
ASEAN			
Total exports	0.44	1.64	2.21
To RCEP	1.03	3.87	5.44
To outside RCEP	-0.20	-0.86	-1.73
"+6"			
Total exports	0.65	2.49	3.68
To RCEP	2.26	8.51	12.27
To outside RCEP	-0.20	-0.71	-1.00
Non-RCEP			
Total exports	-0.02	-0.09	-0.14
To RCEP	-0.26	-1.03	-1.53
To outside RCEP	0.02	0.10	0.18

Note: Reprinted from *Will the Philippines benefit from the Regional Comprehensive Economic Partnership?,* by Caesar B. Cororaton, PIDS Policy Notes No. 2015-23, p. 3, Retrieved from https://pidswebs.pids.gov.ph/CDN/PUBLICATIONS/pidspn1523_fnl.pdf Copyright 2015 Philippine Institute for Development Studies.

[117] Barral, M. and Quimba, F. (2019), *JPEPA, a Decade After: Evaluating the Effects in Philippine Exports using the Synthetic Control Method*. PIDS Discussion Paper Series No. 2019-33. Available at: https://pidswebs.pids.gov.ph/CDN/PUBLICATIONS/pidsdps1933.pdf

[118] Cororaton, C. (2015) *Will the Philippines benefit from the Regional Comprehensive Economic Partnership?* PIDS Policy Notes No. 2015-23. Available at: https://pidswebs.pids.gov.ph/CDN/PUBLICATIONS/pidspn1523_fnl.pdf

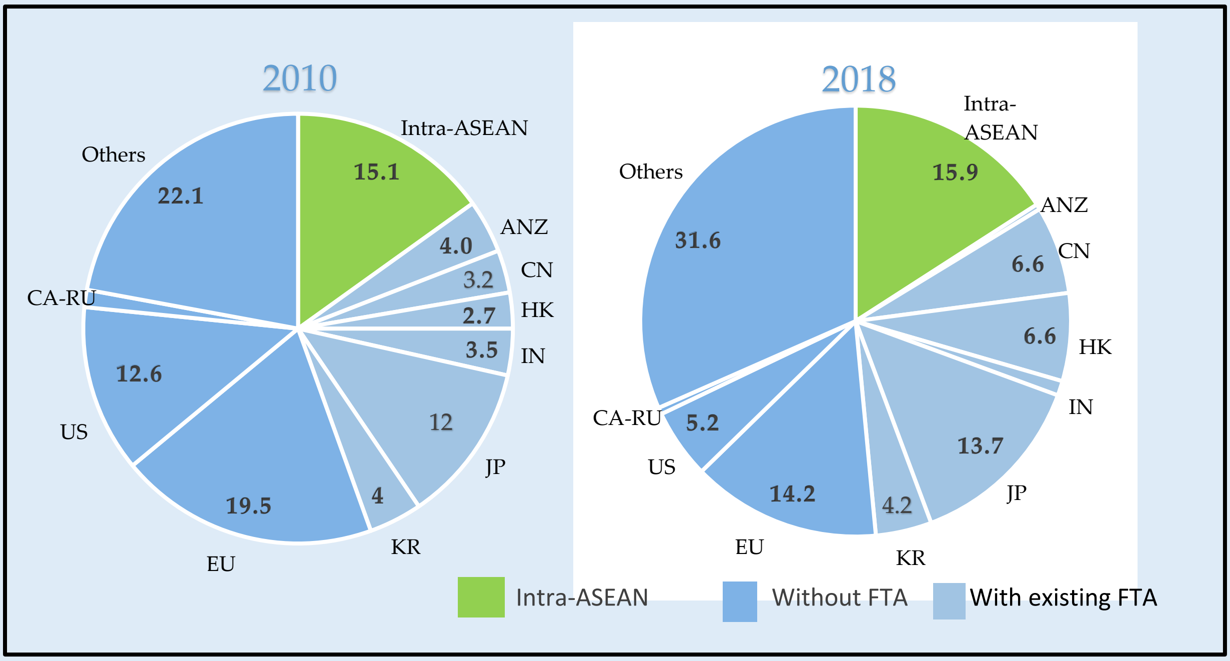
Table 2. Philippine macro effects

	2014	2018	2023
Total exports	-0.16	1.20	2.65
To RCEP	0.11	2.07	3.76
To outside RCEP	-0.58	-0.19	0.66
Real GDP, % change from baseline	0.00	1.25	2.95
Real GDP, USD million	285.77	351.23	450.08
Equivalent variation, USD million	0.06	0.67	2.04

Note: Reprinted from Will the Philippines benefit from the Regional Comprehensive Economic Partnership?, by Caesar B. Cororaton, PIDS Policy Notes No. 2015-23, p. 4, Retrieved from https://pidswebs.pids.gov.ph/CDN/PUBLICATIONS/pidspn1523_fnl.pdf Copyright 2015 Philippine Institute for Development Studies.

2. ***Attracting foreign investments and serving as channels for the flow of funds and investments into the economy to promote industrialization.*** Collectively, ASEAN has again taken over third place from China as the largest investment destination, next to the EU and the US. As in the case with its trade pattern, intra-ASEAN – which stood at US$2.5 billion, or 15.9 percent of ASEAN's total – was also the largest source of investment in the region in 2018.[119]

Graph 2. Shares of Dialogue Partners in Total ASEAN FDI Inflows



Source: ASEAN Secretariat (as of September 2019)

[119] https://asean.org/storage/2019/11/ASEAN-integration-report-2019.pdf

3. ***Creating a competitive environment that leads to better and more efficient services delivery***. Under the AFAS, the Philippines stands to gain market access from AMS in a number of subsectors, such as Professional Services, Construction Services, Health and Related Services, Distribution Services, and Transport Services. The RCEP is expected to open markets for 92 percent of products produced by the Philippines. This will benefit business process outsourcing industry and service workers such as seafarers, teachers, information technology (IT) programmers and engineers.[120] RCEP will improve trade and result in improving Philippine GDP growth by 3.0 percent in 2023 relative to the baseline (Table 2).[121]

4. ***Catalyzing the implementation of reforms that support the development of banking and the capital markets.*** Based on the latest 2018 Survey on the Effects of Foreign Bank Entry into the Philippine Banking System (survey period was conducted from January to March 2019), foreign banks remained committed in their efforts to support the growth of the Philippine economy as they continued to facilitate trade transactions between the Philippines and other countries. These banks continued to invest substantially in human capital in the country through the conduct of web-based trainings and seminars on the latest developments/trends in banking and finance.[122]

5. **Facilitating the entry of cheaper products and services, thereby, benefiting both consumers and industries**. The reduction in trade barriers (e.g., tariff and non-tariff barriers) leads to the entry of cheaper imported goods/commodities and other raw materials (e.g., rice, textile) which greatly benefit lower income households and manufacturers. Other industrial sectors (e.g., construction, transportation) also benefit from increased foreign direct investment inflows.[123]

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[120] https://www.aseanbriefing.com/news/2019/12/27/rcep-impacting-aseans-supply-chains-business-environment.html

[121] Cororaton, C. (2016), *Potential Effects of the Regional Comprehensive Economic Partnership (RCEP) on the Philippine Economy*, Philippine Institute for Development Studies, p. 2.

[122] http://www.bsp.gov.ph/downloads/Publications/2018/StatRep_2Sem2018.pdf

[123] Cororaton, C. (2016), *Potential Effects of the Regional Comprehensive Economic Partnership (RCEP) on the Philippine Economy*, Philippine Institute for Development Studies, p. 2, 25 and 29.

Advocacy Programs

Promotion of Financial Inclusion

With the goal of providing every Filipino with an effective and convenient access to a wide range of financial services, the BSP has continuously promoted financial inclusion as a strategic objective. This is in pursuit of its vision to provide a high quality of life for all Filipinos. To this end, the BSP strives to establish an enabling regulatory environment that allows a variety of players to viably and responsibly serve the diverse needs of the unserved and vulnerable sectors of the economy (i.e., informal workers, micro-entrepreneurs, and farmers).

Key initiatives/Achievements

- **Increased take-up of Basic Deposit Account (BDA).** The BSP crafted enabling regulations for critical financial inclusion infrastructure. Ownership of a transaction account, considered a corner stone of financial inclusion, was simplified with the introduction of Circular 992, which provides the framework for BDA. The BSP issued the circular in 2018 and its continued promotion resulted in significant gains in 2019. As of Q2 2019, there are now 113 banks offering the BDA with a total of 2.2 million account holders.

- **Further expanded low-cost touchpoints through Cash Agents.** To address the issue of cashing-in and cashing-out in an account at a time and place of the individual's convenience, the BSP issued Circular 940 which provides the framework for cash agents, third party entities that can conduct a number of financial activities on behalf of banks. Cash agents are low-cost financial touchpoints which are easily scalable and less costly to deploy than automated teller machines (ATMs) and actual bank branches. Through cash agents, people can cash-in and cash-out and perform basic banking transactions through their local convenience store, pharmacy, or gas station. Circular No. 940 was issued in 2017 and its active promotion has resulted in 7,186 cash agents nationwide as of Q2 2019.

- **Coordinated with the Department of Labor and Employment (DOLE) to promote the payment of workers' salaries and other disbursements through transaction accounts.** The Philippines' labor force total 43.7 million as of January 2019. However, the Global Findex states that only 6.6 percent of private sector workers in the Philippines receive their salaries through bank accounts. To promote financial inclusion in the labor sector, particularly the payment of workers' salaries through transaction accounts, the BSP is actively engaging the DOLE with regard to the payment of wages. The engagement secured the commitment of DOLE to release an advisory encouraging the use of transaction accounts for the workers' salaries and to collaborate with the BSP in the roll-out of information sessions on this particular payment method at the regional level.

- **Coordinated with the Department of Social Welfare and Development (DSWD) to promote the use of transaction accounts for the disbursement of government cash transfers.** With the same objective of promoting the use of transaction accounts as a first step toward financial inclusion, the BSP is actively engaging the DSWD to use transaction accounts in the disbursement of government cash transfers. The engagement has resulted in DSWD moving for the adoption of transaction accounts for government cash transfers in addition to exploring other use cases for transaction accounts.

- **Supported agriculture and MSMEs through the Credit Surety Fund (CSF).** The CSF is a credit enhancement mechanism that helps small businesses and farmers to tap formal credit. To date, there are already 54 CSFs established all over the country helping cooperatives and their members access credit facilities they would normally not have access to. In addition, the BSP provides Capacity Enhancement Programs (CEP) for the CSFs and their members. These include modules on strategic planning, entrepreneurship and business management, financial management, business forum, and credit appraisal and monitoring.

- **Supported the agricultural sector and MSMEs through Agriculture Value Chain Financing (AVCF).** One of the innovations that the BSP is promoting is AVCF. Strong value chains enable farmers and agri microentrepreneurs to adopt modern agritech and access high value markets – thereby increasing productivity and income potential. Through the conduct of initial groundwork, the BSP was able to secure the support of the Asian Development Bank for a pilot AVCF project with the goal of strengthening the interest and capacity of banks to undertake value chain financing. The project also aims to forge stronger collaboration by banks and government agencies that have capacity-building programs for farmers and agri-enterprises. It also aims to mainstream AVCF and show to the banks that it is a viable business activity.

- **Provided MSMEs with another avenue to secure financing through the Credit Risk Database (CRD).** As of Q4 2018, the percentage of MSME loans to total loans in the banking system amounted to 6.2 percent. One of the main reasons why MSMEs have difficulty in accessing bank financing is due to the inability of MSMEs to prepare sufficient information for loan appraisals, making it difficult for financial institutions (FIs) to capture the credit risks of such MSMEs. The CRD aims to address this problem and bring financing closer to MSMEs. To this end, BSP was able to secure the support of Japan International Cooperation Agency (JICA) in developing CRD in the Philippines.

- **Supported legislative measures that complement financial inclusion.** The BSP also actively supported legislative efforts that promote or complement financial inclusion. The BSP provided support and technical inputs in the development of: 1) RA No. 11055 (National ID System or Philsys Act) which can facilitate onboarding into the formal financial system; 2) RA No. 11057 (Personal Property Security Act) which can provide small businesses and farmers an avenue to access financing through the use of movable assets as collateral; and 3) the upcoming Financial Consumer Protection Act. The BSP also backed the passage of BSP Charter amendments, making financial inclusion and its complementary objectives of financial literacy and consumer protection an explicit mandate of the BSP.

Financial Education Initiatives

Achieving financial inclusion not only necessitates providing access to financial products but also forging trust in those products through the promotion of financial literacy and education with various stakeholders. To promote financial literacy in the country, the BSP has adopted a financial education approach built on strategic institutional partnerships with both government agencies and private sector to effectively reach a wider percentage of our countrymen, including: 29 million Department of Education (DepEd) learners and 800,00 teaching and non-teaching personnel; 2.3 million overseas workers and 600 Overseas Workers Welfare Administration (OWWA) trainers; 140,000 personnel of the AFP; and 1.7 million civil servants.

Key initiatives/Achievements

- **Financial education (fin-ed) Integration and Policy Roadmap.** Under Monetary Board (MB) Resolution No. 456 dated 15 March 2018, the BSP signed a Memorandum of Agreement (MOA) with DepEd and the BDO Foundation to institutionalize financial education in the students' curriculum and skills training for the teachers.

    - The BSP supported DepEd in integrating financial education in the Kinder to Grade 12 (K-12) curriculum to address learners' needs and incorporate personal finance management (PFM) sessions within regular training programs for teachers.

    - Under this partnership, the BSP has also co-developed 10 videos and 24 lesson exemplars[124] as classroom learning tools. These multimedia learning tools discuss topics such as financial planning, saving, budgeting, debt management, investment, insurance, entrepreneurship, and preventing financial scams. A total of 574 lesson exemplars were also edited by DepEd to integrate financial literacy concepts, covering 11 learning areas[125] from K-12. These learning tools will be used for classroom instruction, and training of teachers and non-teaching personnel, as required under DepEd Memorandum No. 032 dated 14 March 2019 and DepEd Memorandum No. 107 dated 30 August 2019.

    - The BSP further developed a PFM module for teachers, capacitated around 300 trainers to cascade the module to their peers and colleagues nationwide, supported DepEd in finalizing the policy and roadmap for financial education integration and conducted one national and nine regional launches within May 2018 to March 2019 to generate greater awareness among DepEd personnel about the program.

    - Other activities for discussion include the conduct of fin-ed teaching demos at DepEd division levels, fin-ed video making contest during the DepEd National Festival of Talents (in partnership with BDO Foundation), and the institutionalization of a fin-ed measurement framework within the school system (with support from the ADB and the BDO Foundation).

- **Financial education for OFWs and their families.** Under MB Resolution No. 124 dated 17 January 2019, the BSP signed a MOA with OWWA and the BDO Foundation to implement *PiTaKa* (Pinansiyal na Talino at Kaalaman), a financial literacy campaign for OFs and their families.

    - Under this campaign, the BSP is developing standard financial education modules fit for OFs. The modules will be embedded in mandatory orientations that OFs and their families are required to undertake. To date, the BSP has completed a financial education module for use in Pre-Departure Orientation Seminars (PDOS) and presented it to more than 600 trainers from OWWA-accredited PDOS providers.

    - Standard modules are also being developed for Post-Arrival Orientation

[124] Lesson plans or detailed guides used by teachers for the delivery of classroom instruction

[125] Learning areas are subjects integrated in the basic education curriculum, including Araling Panlipunan, Mathematics, English, Filipino, Science, Music, Arts and Physical Education, and Technology and Livelihood Education.

Seminars (PAOS) and General Orientations for OF Families. Full roll-out of the PiTaKa campaign would mean an outreach to around 10 million Filipinos living and working abroad. This figure does not yet account for their families in the Philippines.

- **Financial education for uniformed personnel and their beneficiaries.** The BSP supported the Armed Forces of the Philippines (AFP) in promoting financial literacy as a key component in the personal scorecard or performance evaluation of uniformed personnel in the Philippine Army (PA), the Philippine Navy (PN) and the Philippine Air Force (PAF).

    - Under MB Res. No. 124 dated 17 January 2019, for BSP approved the partnership of the BSP with PA and the BDO Foundation to implement the Financial Literacy Program for Soldiers and their Families. The BSP has started working with the PA in designing a Training of Trainers (TOT) to build internal capacity to deliver financial education sessions in key stages of a soldier's training.

    - The BSP is also part of the broader, inter-agency Comprehensive and Social Benefits Program (CSBP). In tandem with the DTI and Technical Education and Skills Development Authority (TESDA), the BSP conducts basic financial literacy, entrepreneurship, and skills development sessions for beneficiaries of soldiers killed or wounded in action (KIA/WIA beneficiaries). The financial literacy session is among the requirements for KIA/WIA beneficiaries to receive their monetary benefits.[126]

- **Financial education for civil servants.** The BSP also aims to embed financial education sessions in training programs required for completion by civil servants and AFP personnel. This objective is in line with Civil Service Commission's (CSC's) thrust to enhance financial literacy skills of the public sector workforce, and with the AFP Transformation Roadmap which considers financial wellness as integral pillar of personnel's holistic development.

- **Financial education for MSMEs.** Under MB Resolution. No. 1314 dated 10 August 2018, the BSP signed a MOA with DTI and two networks of microfinance non-government organizations to facilitate information sharing and greater access to finance for MSMEs served by DTI Negosyo Centers. One of the BSP's tasks under this partnership is to capacitate Negosyo Center personnel to deliver financial learning sessions as part of the broader capacity building program for MSMEs. Technical discussions on content and module development are slated for 2020.

- **Upcoming financial education partnerships.** Aside from these ongoing partnerships, the BSP will soon engage the police force and firefighters, by signing financial education agreements with the Philippine National Police and Bureau of Fire Protection in 2020.

The BSP is also targeting financially underserved sectors like beneficiaries of the government's cash transfer programs, persons with disabilities, and young professionals from the BPO industry. For

[126] A KIA/WIA beneficiary receives a total of ₱500,000, the first half of which is given upon death/incapacity of a soldier, the other half is released upon completion of the BSP-DTI-TESDA trainings. This is in addition to the housing, health, educational, and other benefits provided by the CSBP.

this purpose, discussions with the DSWD, the National Council for Disability Affairs (NCDA), and the IT and Business Process Association of the Philippines (IBPAP) have already been initiated.

- **BSP Financial Education Stakeholders Expo.** The expo is an annual flagship event, convening fin-ed stakeholders and providing a venue for all to share their work, explore partnerships, and leverage on existing initiatives. The first expo was organized by BSP on 27 to 28 November 2018. In 2019, the expo was attended by over 1,000 stakeholders from the public, private, non-government, and academic sectors.

- **PisoLit.** PisoLit is a financial literacy campaign on Facebook (FB) managed by the BSP. It is a page distinct and separate from the BSP official FB account. PisoLit provides daily posts on financial management tips, scam prevention reminders, and consumer protection advisories targeted to young Filipinos and netizens on the FB platform. Launched in September 2017, PisoLit currently has over 42,000 followers, averaging a daily reach of about 10,000 and an engagement of 1,000. The BSP continues to manage PisoLit and is conceptualizing additional methods to increase followers, reach, and engagement.

- **Financial Learning Seminars (FLS).** Formerly known as Financial Empowerment Seminars (FES), the FLS are personal finance management sessions delivered by BSP based on requests from other institutions, subject to certain criteria.[127] The FLS topics and delivery methods may be customized based on expressed needs of requesting institutions. The BSP continues to conduct FLS and improve content and delivery.

- **Content Development on Fin-Ed and Consumer Protection.** The BSP also develops various information and learning materials focused on fin-ed and consumer protection. In 2018, the BSP issued advisories on phishing/spoofing, text scams, virtual currencies, fake documents, and *"sangla"* ATM schemes. It also issued new primers on the BSP Consumer Assistance Mechanism, PisoLit, online banking, and financial planning. The BSP will continue to innovate content and explore digital delivery mechanisms.

Financial Consumer Protection

Adequate consumer protection mechanisms are necessary to foster public trust in, and continued use of, welfare-enhancing formal financial services. Toward this end, the BSP instituted the following measures:

- **Improved the Consumer Assistance Mechanism (CAM).** CAM has been put in place to ensure that consumer protection forms a substantial part of the BSP's regulatory and supervisory activities over BSP-supervised financial institutions (BSFIs). Through CAM, consumers are provided an avenue for redress should they be dissatisfied with the BSFIs' handling of their concerns. This service may be accessed by the public through phone, postal mail, e-mail, or by personal visit to the Consumer Empowerment Group (CEG) of the Center for Learning and Inclusion Advocacy (CLIA) of the BSP where the complainant will be attended to by a consumer specialist.

- **Revised Consumer Protection Framework.** The BSP recently issued on 6 September 2019 BSP Circular No. 1048, which amends existing

[127] These include absence of potential conflicts of interest and security concerns; presence of priority target audiences such as college students, wage earners, low-income sectors; and availability of logistical/administrative resources from requesting institutions.

regulation on financial consumer protection. This is in line with the BSP's mandate to promote broad and convenient access to high-quality financial services and consider the interest of the general public, as provided by Section 3 of RA No. 11211. Among others, the circular:

- Revises the Financial Consumer Protection Framework under Circular No. 857, Series of 2014, to adapt to the increased complexity of financial products and the rapid technological innovations in financial products and services;

- Underscores the BSP's commitment to promote broad and convenient access to high-quality financial services and consider the interest of the general public by ensuring that financial service providers conduct ethical business practices and do not engage in practices that may cause harm to the consumer in the conduct of their business; and

- Emphasizes that BSFIs should not employ practices that discriminate or take advantage of vulnerable groups such as low-income earners or persons with disability.

- **Introduced chatbot for consumer assistance.** To further strengthen our redress mechanism as well as our complaints data gathering and analytics, CLIA-CEG will be procuring a chatbot, which will make the BSP the first central bank to make use of such technology in automating its consumer assistance management system.

    - The chatbot will be a new, customer-centric system that would provide two new channels (SMS and Facebook Messenger) for the public to lodge complaints against BSFIs. This will automate the responses to complainants, the processing of cases, and the storage and analytics of complaints data; thus, there is a vast potential to address pain points encountered by the CEG in the current mechanism.

    - Ultimately, the BSP's complaints resolution database will benefit from complete, consistent, and accurate information and improve the quality and timelines of financial consumer complaints handling.

- **Proposed Consumer Protection Act.** The proposed Consumer Protection Act will further strengthen the consumer protection framework of the BSP by authorizing financial regulators to exercise rulemaking, surveillance and inspection, market monitoring, and enforcement powers over financial persons/entities. The proposed bill also considers and provides protection for the risks arising from the increasing digital financial services offered to the public.

Clean Note and Coin Policy (CNCP) and Coin Recirculation Program

The BSP has stepped up its campaign to disseminate its CNCP to all Filipinos to discourage misdeeds that deface, mutilate, and destroy the country's currency, both banknotes and coins. The BSP is currently looking for strategic partnerships with prominent organizations to improve its information campaign with regard to currency-related matters. It is hoped that said CNCP partnership with the BSP will protect the integrity of the Philippine currency, inform the public of the features of genuine notes and coins, and help develop the habit of using only clean notes and coins. Moreover, the BSP is also asking all banks to support the CNCP by encouraging people to turn over their dirty, torn, and heavily crumpled notes to banks as well as deter unacceptable practices such as stapling and excessive folding of banknotes.

The BSP has adopted rules for a stronger compliance to the CNCP and also charges banks with service fees in dealing with their cash department such as transactions involving new/fit banknote deposits, unfit banknote deposits, and mixed banknote deposits. Charging the banks a service fee improves circulation of new or fit banknotes as well as retires unfit notes, or “dirty money” — these are banknotes that are mutilated and hardly recognizable as legal tender.

The BSP also rationalized the standard banknote fitness level to strengthen the implementation of the CNCP. All 28 client-banks have signed an undertaking of compliance with the new banknote fitness level. In addition, all BSP branches as well as their client-banks were briefed on the new fitness standards and how to recalibrate banknote-processing machines to comply with standards.

Meanwhile, to preserve public confidence in the Philippine currency, the BSP continued to provide adequate and timely supply of good quality currency to banks in NCR totaling 2.28 billion pieces (bpcs) of banknotes and 2.23 bpcs of coins, which extended to the north and south Luzon banks in the second semester of the year. The BSP also improved core processes, fully implemented the ICMS and acquired three (3) automated banknote-processing machines (ABPMs) which shortened banknote verification turnaround timed from 30 days to less than 20 days to expediently comply with RA No. 11032 or the Ease of Doing Business Act of 2018. The BSP also verified a total of 2.24 bpcs of banknotes and 11.37 million pieces (mpcs) of coins, amounting to ₱836.63 billion and ₱17.74 million, respectively, in 2019, slightly higher by 7.89 percent in value compared to the previous year.

The BSP also spearheaded the media launch of the new 20-piso and enhanced 5-piso NGC coins, conducted three succesful anti-counterfeiting operations, and developed information materials for production and distribution to BSP branches. Infographics, infomercial videos, and press statements on currency were also posted online which reached 14 million social media users.

Regional Operations

In 2019, the BSP continued to provide adequate supply and timely circulation of good-quality Philippine currency notes and coins to preserve and maintain their integrity in the areas under its jurisdiction. Specifically, the three regional offices and 19 branches located in different parts of the country continued to service the currency requirements of stakeholders outside NCR by:

- strategic scheduling and adopting more efficient modes of currency shipments;
- providing ample buffer stock for unexpected spikes in currency demand or potential delay in currency delivery to the regions;
- accelerating the verification process to maximize vault space utilization while allowing quicker turn-around of banks’ access of their deposits;
- servicing the withdrawals of banks with new and fit banknotes and coins, in accordance with the banks’ denominational requests;
- retiring unfit banknotes for immediate replacement with new/fit currency thereby promoting the CNCP;
- reviewing and updating of currency operations processes/procedures/practices to improve operational efficiency and internal controls; and
- ensuring access to and availability of BSP services across the country by evaluating the need for additional BSP presence in new areas, including expansion through relocation of existing BSP branches to respond to the growing needs of the region where they operate.

The ROBs upheld operational excellence by surpassing all the standard scorecard metrics for regional currency operations. In 2019, BSP ROBs performed timely processing and verification of bank deposits, showing 99.3 percent compliance rate with the set commitment by the sub-sector as defined in the ROSS Citizen's Charter.[128] The ROBs also serviced cash withdrawals to client-banks effectively and efficiently amid increasing volume of transactions brought about by increased economic activity (e.g., national election and government's "Build, Build, Build" program). The ROBs serviced currency requirements of client banks as evidenced by high currency service ratio[129] of 99.6 percent and 95.7 percent for banknotes and coins, respectively. Unfit currencies such as cancelled and mutilated banknotes were likewise retired using the stand-alone shredding machine and ABPM.

ROSS, through its ROBs, also helped promote BSP advocacies, intensified and widened the reach of its public information campaign, particularly in far and remote rural areas, as well as enhanced the conduct of economic and financial surveillance. Topics covered include economic and financial literacy, currency security features, counterfeit currency detection, coin recirculation, clean note and coin policy, consumer protection, among others. In line with the objective to serve as springboard on BSP policies and programs, and as thought-leader on economic and financial issues in the countryside, the ROBs participated actively in regular regional development council (RDC) meetings and other fora.

In addition, the ROBs also provided other services, such as operation and maintenance of BSP's four gold-buying stations located in Davao, Baguio, Naga, and Zamboanga, as well as logistical assistance to other BSP departments and offices undertaking advocacy programs and other related activities.

[128] One (1)-hour processing time for acceptance of cash deposits and verification of cash deposits within (3) hours from arrival of the authorized bank representative.

[129] Defined as ratio of currency requested by banks to actual currency withdrawn, by denomination.

Box Article 12
BSP's Strategic Thrusts for Digital Financial Inclusion

Digital technology is becoming an inevitable part of the day-to-day lives of every Filipino. In 2019, around 67 percent of Filipinos had social media accounts and access to the internet, while those with mobile broadbands and smartphones stood at around 86 percent and 65 percent, respectively.[130] Mobile phones have enabled a wide array of services on demand whenever, wherever – whether for streaming movies, buying goods, ordering food, and connecting with friends and families. Such flexibility of mobile phones as a medium for services on demand is also envisioned for financial services. However, the transition toward having a highly digital economy starts with having a formal bank account. The fact that more than 2/3 of Filipinos do not have a formal account leaves them unable to fully benefit from the gains and opportunities in an increasingly growing economy.[131]

The promise of digital technology needs to be deliberately harnessed to pave the way for greater financial inclusion. Toward this end, the BSP is pursuing three strategic thrusts:

1. *Build an inclusive digital finance ecosystem*. An inclusive digital finance ecosystem is one that enables market players to viably serve the varying needs of the population, particularly the low-income sector. This necessitates: (i) democratizing the transaction account as a gateway to broader digital financial services through the affordable and easy-to-open basic deposit account (BDA); (ii) enabling expansion of low-cost access points through cash agents (i.e., third party retail outlets tapped by banks where clients can open an account and conduct simple banking transactions); and (iii) developing an efficient retail payments - the backbone of digital finance innovations - to facilitate affordable, safe, fast, and convenient electronic fund transfers through the Instapay and PESONet facilities under the National Retail Payment System (NRPS). With the enabling policies in place, there are now 119 banks offering the BDA to more than three million depositors. Cash agents are fast becoming ubiquitous reaching a total number of at least 17,000. Clients of the participating institutions of PESONet (55) and Instapay (45) can now easily receive and send funds digitally through their accounts and mobile wallets.

2. *Create compelling use cases for financial inclusion.* To drive account ownership among all Filipinos, we need to ensure that an account is not only accessible for the low-income sector but also compelling and relevant to their needs and context. Accordingly, the BSP is working with various government agencies to shift from cash-based to account-based digital payments of social benefit transfers, wages, bills, purchases, and transport fares. For instance, BSP is coordinating with the DSWD to use transaction accounts in the distribution of cash grants under the *Pantawid Pamilyang Pilipino* Program (4Ps). To encourage private sector employers to pay wages through formal accounts, the DOLE and the BSP have launched a formal campaign through a financial inclusion forum last November 2019.[132] Meanwhile, under the guidance of the BSP, the payments industry has launched the national quick response (QR) code standard which aims to promote adoption of digital payments among microentrepreneurs, including market vendors and tricycle drivers.

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[130] Sources: GSMA, We are Social
[131] 2017 BSP Financial Inclusion Survey
[132] The crafting of a DOLE advisory to be issued in 2020

3. *Foster financial literacy and trust in the financial system through consumer protection.* Fostering trust and financial literacy aim not only to ensure that usage of financial services leads to improvement of welfare, but also to sustain demand for well-designed financial services, which could further drive financial inclusion. The BSP's approach is to forge strategic institutional partnerships within and outside the government to ensure sustained and effective delivery of financial education programs to targeted groups. In fostering trust in the financial system, the BSP is at the forefront of promoting good market conduct. The BSP has issued Circular No. 1048 which establishes guidelines that institutionalize consumer protection as an integral component of corporate governance and culture, as well as risk management. A chatbot is also being developed, which will enable the public to engage the BSP through social messaging platforms for faster assistance and allow BSP to gain better insights from customer experience and business practices.

As it pursues these strategic thrusts, the BSP will continue to leverage on the National Strategy for Financial Inclusion as a vital platform for its financial inclusion advocacy.

Investor Relations

In 2019, the economic communications initiatives of the Investors Relations Office (IRO) included economic briefings in key financial markets abroad and key regional centers in the Philippines, interviews with international media (sit down, written, or phone), face-to-face meetings with investors here and abroad, conference calls with analysts, meetings between policymakers and credit rating analysts and officials here and abroad, and intensified social media campaign. The main objective of economic communications and investor outreach is to improve perception of investors on the Philippines and, consequently, lower borrowing costs. These initiatives were undertaken in collaboration with economic agencies such as DOF, NEDA, Department of Budget and Management (DBM), BTr, and the infrastructure agencies, namely Department of Public Works and Highways (DPWH), Department of Transportation (DOTr), and Bases Conversion and Development Authority (BCDA), among others.

The IRO also engaged bank and think tank/third party analysts, who publish analytical reports on the Philippine economy for their clients and who contribute to the World Banks' Worldwide Governance Indicators. These reports are used by credit rating agencies as reference for their assessment of a sovereign's institutional setting. Some of these reports are also carried by the media. Besides organizing meetings of bank analysts/economists with officials of economic agencies and private sector executives/associations as part of their due diligence, the IRO: 1) engaged third party analysts, specifically, Heritage Foundation, World Bank analyst in charge of the Worldwide Governance Indicators, Freedom House, and Political Risk Services at the sideline of the IMF/WB Annual Meetings in October 2019; and 2) helped organize conference calls with then newly appointed BSP Governor to help directly communicate with these analysts the BSP's policies and outlook, particularly on inflation, and the BSP reform agenda.
The IRO also launched the 'Roadmap to A Rating' initiative. It organized briefings for key economic agencies and other relevant government agencies that contribute to sovereign review visits of the credit rating agencies. The briefings focused on providing background on the ratings of the Philippines, the rating methodology of the three global credit rating agencies (CRAs), and the factors and data points that could positively influence the ratings. By mid-year, the Interagency Committee and BSP Technical Working Group on Road to a Single A credit rating were formally organized.

The Philippines received two positive rating actions in 2019. Standard and Poor's (S&P) upgraded its rating on the Philippines to BBB+ in April 2019 from BBB. It is so far the highest among the three major global CRAs and is a notch away from single A credit rating territory. According to S&P, the upgrade reflects the Philippines' strong economic growth trajectory, which is expected to continue to drive development and underpin broader credit metrics over the medium term. The rating is also supported by solid government fiscal accounts, low public indebtedness, and the economy's sound external position.

In addition to sovereign credit ratings, S&P also raised the Philippines' Banking Industry Country Risk Assessment (BICRA) to group '5' from group '6' citing improvement in the institutional framework of the country's banking system due to RA No. 11211.

Meantime, Moody's and Fitch Ratings are both aligned at a notch above the minimum investment grade or at BBB. Meanwhile, Japan Credit Rating's (JCR's) outlook on its BBB+ rating on the Philippines was raised to positive also in April.

Credit Rating Agency (CRA) and Third Party Meetings. The IRO regularly engages eight CRAs, namely: 1) Fitch Ratings; 2) Standard and Poor's;

3) Moody's Investors Service; 4) Japan Credit Rating Agency (JCRA) (Japanese); 5) Ratings and Investment (R&I) Information, Inc. (Japanese); 6) National Information and Credit Evaluation (NICE) Ratings, Inc. (Korean), 7) RAM Ratings (Malaysian), and 8) Lianhe Credit Ratings (Chinese). Arrangement of CRA meetings is in line with the IRO's key mandate of helping the country maintain investment-grade credit ratings and favorable perception from the international financial community. To prepare for any credit rating engagement, IRO personnel also conduct environmental scanning to identify credit positive information that can be provided to CRAs. Of the eight CRAs, the IRO hosted six review visits and one review via conference call. Meanwhile, RAM Ratings conducted its review offsite in 2019.
In 2019, a total of 150 face-to-face meetings were arranged for the six CRAs that came to the Philippines for their review visits. Among the government officials who met with CRA analysts in 2019 were those from the BSP, DOF, DBM, NEDA, DTI, DOTr, DPWH, BTr, BCDA, Public-Private Partnership Center (PPP Center), Office of the Presidential Adviser on the Peace Process, and Mindanao Development Authority. Meetings with senior representatives from select business associations or corporations, multilateral and donor agencies, diplomatic corps, political analysts, among others, were also organized.

Philippine Economic Briefings (PEBs) in Manila and in Regional Centers. The IRO organized the Economic and Infrastructure Forum in July 2019 in Manila along with the DOF, Presidential Communications Operations Office, and Office of the Cabinet Secretary. The forum aimed to update the business community and other key stakeholders on the performance of the economy, outlook and policy agenda. and the infrastructure development agenda of government. The forum was attended by at least 1,600 members of the business community, diplomatic corps, donor and multilateral agencies, academe, and media. The IRO co-organized Sulong Pilipinas Agribusiness Summit held in Davao City on 17 December 2019 with DOF's Strategy, Economics and Research Group (SERG) and the Department of Agriculture. It was attended by more than 800 participants from the agriculture sector from different parts of Mindanao. The summit provided an opportunity to update agriculture stakeholders on the programs and policy agenda of the government to improve efficiency and productivity of the sector and consult them on how government may facilitate their access to financing services, production markets, and technology to modernize production. In addition, two tax reform policy briefings, on the Comprehensive Tax Reform Program and proposed Passive Income and Financial Intermediaries Tax Act (PIFITA), were conducted at the BSP in August 2019. The briefings provided a platform for discussion with analysts, investors, business groups, and other key stakeholders to present, explain, and champion the tax reform policy.

Non-Deal Roadshows and International Economic Briefings. The international economic briefings and non-deal roadshows are part of the investor handholding exercises to convey and assure the international investment community of the country's robust growth and prospects, and attractiveness as an investment destination. The activities also provided a venue to gather feedback from investors on issues such as growth performance and prospects, inflation, fiscal reforms, infrastructure agenda, and even political developments. Attendees of the economic briefings were analysts, portfolio, fund and investment managers, institutional investors, senior officials and executives of corporates, and representatives from multilateral/bilateral organizations, among others. In 2019, international economic briefings were organized in Osaka (February) and Beijing (March). Non-deal roadshows were also held in Osaka (February), China (March), New York (April), UK-Europe (April-May), and Tokyo (June).

Investor meetings. In 2019, a total of 86 investor meetings were arranged in Manila and at the sidelines of international events (e.g. IMF/WB Meetings). These are on top of the investor meetings during non-deal roadshows. S&P Global, Goldman Sachs Investor Trip, Pimco, Bank of America Merrill Lynch, SMBC Nikko Investments, Citi, Mitsubishi, Barclays, Bank of Indonesia/Credit Agricole), Mastercard, Amundi, Deutsche Bank, Eastpring Investments, Blackrock, Wellington Management, HSBC, Nomura, Standard Chartered, DBP Daiwa, Hawaii Trade Mission, and Dubai Investment Bank were some of the institutions that IRO hosted for their review visit. In addition, the IRO coordinated the participation of BSP and other economic officials in investor forums at the sidelines of the IMF Annual Meetings in Washington D.C. in October 2019. The IRO provided visiting investors with the macroeconomic presentation. The IRO also provided technical support during meeting proper and acted as resource persons on select topics, particularly on credit ratings and the "Build, Build, Build" program.

Social Media. The IRO continued to maintain the IRO's website (www.iro.ph) and social media accounts (#EconomyPH on Facebook and Twitter), which are vital in promoting awareness of the strengths of the Philippine economy. Through posts of various economic updates, including statistics and press releases issued by economic agencies, as well as of infographics and news about the Philippine economy, the IRO was able to increase its social media reach. The IRO now has 1,492 followers on Twitter, up from 1,471 followers the previous year. In addition, the IRO now has 7,360 followers on Facebook, up by about 47 percent from 5,010 the previous year.

Press Releases and Newsletter. The IRO wrote and distributed 14 press releases mostly regarding its organized economic briefings abroad and positive rating actions. It also produced three quarterly newsletters which covered a wide range of news and articles on the Philippine economy. The newsletter was distributed to stakeholders during economic briefings, as well as through the various satellite offices of the Philippine Embassy, and through social media, website, and email.

Other Media Engagements. Besides media activities during or on the sidelines of events, the IRO likewise facilitates standalone and other media requests.[133] In 2019, it worked on 15 stand-alone media requests, including those from Bloomberg to do live phone interview of the BSP Governor on the latest policy decision of the Monetary Board, as well as from Oxford Business Group, Nikkei, Caixin, Central Banking Hong Kong, Central Banking London, risk.net, and Reuters.

Strengthening Good Governance

Strengthening good governance is a continuing program that aims to integrate good governance principles of integrity, accountability and transparency, ownership and voice, responsiveness, and strategic direction into the operations of the BSP. A flagship initiative under the program was the development and administration of a System-Wide Governance Assessment (SGA) tool to determine the level of integration of said governance principles. There are four assessment levels, namely, personality-driven, practiced, sustainable, and high integration. The results of the assessment served as the basis in the subsequent development of a Good Governance Roadmap for the BSP.

[133] Stand-alone interview requests are requests for interviews that are not tied to an IRO event. "Other media requests" refer to requests for stats or other information from media/journalists, which do not necessarily need an interview.

The BSP has undergone three cycles of SGA, namely, Phases I (2010), II (2014), and III (2017). It succeeded in moving from sustainable level in the five principles in Phase I into high integration for two (strategic direction, and accountability and transparency) of the five principles in Phase III. Among the noted institutional transformations since Phase I are the adoption of a standard Project Management (PM) Methodology, installation of a PM portal of project monitoring and control, enhancement of the BSP Code of Ethics which included a bank-wide No Gift Policy, finalization of the BSP Employee's Charter and Integrated Customer Satisfaction Measurement tools, adoption of policy on disclosure of wrong-doing, policy on signature reduction, and implementation of a BSP Enterprise-Wide Communication (BSP-EWC) Plan.

The Good Governance Roadmap resulting from the Phase III (2017) cycle of the SGA was incorporated into the SR6 Strategic Objective - *Most trusted government institution in the land and globally recognized* under the BSP Strategy for 2018 - 2023. Said roadmap spanned a period of three years, from 2017 to 2019. Major programs identified under the roadmap were: a) strengthen the awareness of employees on the policy on disclosure of wrong-doings; b) integrate ethics initiatives and measures into one holistic approach; c) pursue implementation of the Integrated Financial Management Information System (IFMIS); d) review and amend, as necessary, the grievance policy which was adopted in 2002; e) review STRAMA Framework and work for the continuity of effective practices in strategic direction; f) maximize the use of online platform to engage external stakeholders in providing inputs to policy formulation; g) increase awareness on Employees' Charter; and h) continually update the Citizen's Charter. By end of 2019, the initiatives to increase awareness on the Employees' Charter and to continually update the Citizen's Charter have been institutionalized and thus deemed completed in the roadmap. Apart from the Good Governance Roadmap, there were also strategic initiatives under the SR6 Objective that were supportive of the good governance principles, namely, the enhancement of the Public Perception Survey instrument and monitoring of media coverage about the BSP. These initiatives particularly support the accountability and transparency principles of good governance by improving institutional mechanisms to gather stakeholder perceptions on the BSP.

Institutional Capacity Building

The BSP faced significant and unforeseen changes in leadership in 2019. Nonetheless, it carried on with its commitment to ensure that the organization remains supported by enabling internal structure and processes, as well as highly capable and engaged workforce. The Human Resource Sub-sector (HRSs) remained in the forefront of pursuing initiatives to further improve on the BSP's organizational agility, talent development, and employee engagement.

Organizational Agility

In 2019, the BSP revived the Committee on Succession Management (CSM) to reestablish the BSP's leadership pipeline as one of the priorities for high-level management discussion. The BSP also filled 26 of the 52 vacant key and critical positions (KCPs) in 2019, a significant improvement from the previous year when only 17 KCPs were filled.

The BSP also provided organizational support to its sub-units to ensure that critical functions are effectively carried out. Among these changes were the creation of the Risk and Compliance Office (RCO) to serve as the second tier in the BSP's three-tier risk management structure and the establishment of the Center for Communication and Investor Relations (CCIR) to strengthen the BSP's strategic communication program as well as consolidate initiatives and activities to more effectively deliver key messages to various stakeholders.

The FSS was also further reorganized in light of the additional functions assigned to the sector under Republic Act No. 11211. The Supervisory Data Center (SDC) was also reorganized into the Department of Supervisory Analytics (DSA) to reaffirm its new role of maximizing the power of data and analytics to unlock insights, inform policy making, enhance supervision and surveillance. Recognizing the importance of human resource, information technology (IT), and corporate planning in driving institutional strategy, the BSP also relocated the HRSs, particularly the Human Resource Management Department (HRMD), the Human Resource Development Department (HRDD), and the Data Management and Analytics Group, the Information Technology Sub-Sector (ITSS) (which was renamed as the Information Technology Office), and the Corporate Planning Office under the direct supervision of the Office of the Governor (OG).

An IT Strategy and Governance Department was also created under the Information Technology Office (ITO) to further strengthen the BSP's IT governance, project management, enterprise architecture, and IT resource management framework and practices.

The Procurement Office and the Bids and Awards Committee (BAC) Secretariat were also provided additional manpower support, in line with the rising volume of procurement-related activities, as well as the need to adequately support the BAC Head Office and the newly constituted BAC for IT, Infrastructure, and Other Related Components (BAC-ITIO).

The HRSs also assisted the MB and ensured that the BSP is provided an efficient and effectively functioning organizational design in light of the new functions that need to be undertaken under its amended charter. Toward this end, the BSP worked to secure the services of an organizational transformation consultant which shall conduct an assessment of the BSP's current structure.

Meanwhile, the BSP also pushed for the creation of a special career track for research economists, in line with its efforts to further strengthen the BSP's research capability in aid of monetary and financial policymaking. A new center will be created for the purpose of advancing the BSP's broader research agenda.

The BSP also held two research conferences (in July and December 2019) through the BSP Research Experts Panel which focused on laying the groundwork for strengthening the BSP's capability to conduct scholarly research in the fields of finance, economics, and other areas that have significant impact on the BSP's mandates and strategic plans.

Understanding the importance of adapting to modern and more efficient ways of working, and their impact on bringing forward the use of HR analytics, the BSP took significant strides toward the full implementation of an Integrated HR Information System (iHRIS). This commenced with the use of the iHRIS for payroll administration beginning April 2019. At present, the iHRIS now serves as the one-stop tool for most HR transactions and employee information.

Talent Development

The BSP's Talent Optimization Program (TOP), an initiative to rotate executives to different functions as a strategy to train them into more well-rounded officers with broader understanding of central banking and appreciation of the linkages of one function to another, was reassessed in 2019 through comments and narratives on the experiences of participants, their supervisors, peers, and team members. These will be used to enhance the program in preparation for its next run.

The BSP, through its training arm, the Bangko Sentral ng Pilipinas Institute (BSPI), continued to provide capacity-building programs and related initiatives in 2019 to support the BSP's strategic priorities. The capacity building activities focused on the following areas: (1) building a sound, stable, and resilient banking and financial system; (2) understanding econometrics, data analytics and statistics, and data compilation and disaggregation; (3) pursuing macroprudential policy modelling, forecasting, and analysis; (4) capacity-building for Islamic banking; (5) capital market, trade, and financial technology; (6) ensuring safe, efficient and inclusive payment systems; and (7) enhancing skills on counterfeit detection and currency management, among others.

In line with the said priorities, the BSPI conducted a total of 129 in-house courses, and assessed and facilitated the nominations of employees to 789 external trainings as follows:

Training Delivery	Training Topic[134]	No. of Events	No. of Participations[135]
In-House	Bankwide	129	3,658
	Technical	172	3,971
	Leadership and Management	25	413
Local	Bankwide	9	36
	Technical	381	1,287
	Leadership and Management	34	76
Foreign	Bankwide	1	3
	Technical	331	422
	Leadership and Management	33	43
Total		**1,115**	**9,909**

As an alternative to foreign trainings, which aim for more employees to participate in international courses, the BSPI also conducted a total of 17 in-house courses led by foreign subject matter experts from external counterparts, i.e., Federal Deposit Insurance Corporation (FDIC), Deutsche Bundesbank, International Swaps and Derivatives Association (ISDA), Global Projection Model Network (GPMN), and Office of the Comptroller of the Currency (OCC).

With the BSP's direction towards digitalization, the BSP also reinforced its digital learning assets through the acquisition of online courseware. In 2019, a total of 938 employees availed of online training, ranging from topics on leadership and management, information technology, big data, financial supervision, statistics, and personal mastery and effectiveness.

Training Delivery	Training Topic	No. of Events	No. of Participations
Online	Bankwide	26	755
	Technical	551	10,539
	Leadership and Management	38	6,738
Total		**615**	**18,032**

The BSP co-hosted five learning events in Manila in partnership with the SEACEN Research and Training Center on topics covering financial stability and supervision, human capital, macroeconomic and monetary policy management, and payment and settlement systems. It also hosted the Academic Conference and Alumni Homecoming of the Graduate Institute for Policy Studies (GRIPS) in June 2019, which was participated in by 150 graduates. The GRIPS is a long-time partner institution of the BSP in its scholarship program. The GRIPS event served as a forum where contemporary issues involving Philippine-Japan relations were discussed.

[134] The training topics are broadly categorized as: (1) bankwide courses which address the BSP's core competencies of *analytical thinking*, *service orientation*, *adaptability*, *collaboration and cooperation*, and *written and verbal communication*; (2) technical courses which address the technical and functional competencies of the departments/offices of the Bank, e.g., economics, statistics, human resource, information technology, etc., and (3) leadership and management courses which address the managerial competencies of incumbent and identified possible successors to managerial and executive positions in the Bank.

[135] Participation counts the number of times an employee attended training.

The BSP Scholarship and Continuing Professional Education (SCoPE) Program also continued to offer local and foreign scholarships to employees for masters and doctorate degree programs on the BSP's priority disciplines, e.g., economics, math and statistics, and data science, among others. In 2019, the BSPI provided continuing support to existing scholars and facilitated new intakes for the year as follows:

Scholarship	No. of Personnel
Graduated in 2019	27
Ongoing Studies	28
New Grantees	23
Total	**78**

In 2019, the BSPI also evaluated and processed applications of 19 employees for global certification programs as follows:

Global Professional Certification Programs	No. of Grantees
Certified Anti-Money Laundering Specialist	6
Certified in Risk and Information System Control (CRISC)	3
Certified Internal Auditor	2
Certified Information Security Manager (CISM)	1
Certified Financial Risk Manager	1
Chartered Financial Analyst	4
Certified Fraud Examiner	1
Certified Information Systems Auditor	1
Total	**19**

Aside from formal classroom and online trainings, the BSPI also facilitated the study visit of five 5 BSP personnel to the Office of the Superintendent of Financial Institutions in Toronto Canada under the WDI-external program. The BSP's WDI programs are alternative learning solutions that allow BSP personnel to do study visits, benchmarking, immersion, and exchange programs with other counterpart central banks and organizations.

Employee Engagement

The procurement of the services of global advisory firm, Willis Towers Watson, jumpstarted the Total Rewards Project (TRP) in 2019. The TRP, which aims to enhance the BSP's compensation and benefits structure with the right blend of monetary and non-monetary rewards offered to employees, is expected to help improve talent acquisition, job satisfaction, talent retention, and employee morale in the BSP.

While this is still ongoing, the BSP continued to find ways to address the need for policies that support employee well-being and holistic development. In 2019, the BSP began the implementation of the four-day workweek, and will continue to implement the same work arrangement for those who might wish to avail of it every March to May of each year.

In September 2019, the first Hackathon – an initiative to crowdsource ideas and solutions, drive innovation, and promote camaraderie among employees by bringing them together to come up with original and inventive ideas, address issues, and capitalize on opportunities in the Bank – was held in the BSP. The goal of the Hackathon was to prototype ideas, functionalities, products, or services that would deliver the most value to employee experience, specifically, to create a mobile application for BSP employees, and to redesign of BSP cafeteria to enhance employee experience with the new technology.

Box Article 13

BSP Bags First and Only Civil Service Gold Award for HR Management

The BSP received from the CSC the first ever "Gold Award" for Human Resource (HR) Management and Seal of HR Excellence on 28 November 2019 in Puerto Princesa City, Palawan. The said recognition was conferred under the CSC's Program to Institutionalize Meritocracy and Excellence in HR Management (PRIME-HRM)

Established in 2012, PRIME-HRM is a program of the CSC to promote and recognize best practices in HR management, particularly in the four core areas, i.e., recruitment, selection and placement, performance management, learning and development, and rewards and recognition. It aims to transform government HR management from being administrative and transactional to being strategic and developmental.

The following initiatives were instrumental in the recognition of the BSP as an exemplar of strategic HR management:

1. E-recruitment, manpower forecasting, close partnership with BSP departments and offices on the annual manpower plans, viable succession management plan for key and critical positions, and improved efficiency fill rate;

2. Competency-based and organizational strategy-based individual performance contracting, coaching, and assessment;

3. Facilitation of foundational programs, i.e., onboarding, central banking, and values formation, enforcement of targeted capacity-building programs for every occupational grouping addressing the core, common, technical-functional, and managerial and leadership competencies, implementation of blended learning, local and foreign workplace development interventions, global certification and scholarship programs, and in-house world-class training facilities;

4. Performance-based incentives, continued evaluation of jobs vis-à-vis principles of internal equity and external competitiveness, adoption of a total rewards approach to compensation, comprehensive health-related privileges and variety of wellness facilities and programs, and regular formal and informal recognition rites and avenues; and

5. Continual assessment of the BSP organizational structure, systems, capabilities, and culture, promotion of a culture of knowledge management through BSP iKnow portal, and integration of all HR systems through the iHRIS.

The BSP's journey in the PRIME-HRM also involved periodic audit of its policies and programs, gathering of feedback from the employees and consultations with the BSP, and research on best practices in the private and public sector organizations, and from other central banks. The BSP also worked to harmonize its corporate brand with its employer brand, capitalized on social media platforms to optimize talent acquisition, partnered with academic institutions for scholarship grants to strengthen capacity building, streamlined internal HR processes to further improve efficiency fill rates, and worked for the development of institutionalized Human Capital dashboards and analytics-based reports to support executive decision-making and provide inputs to local and international researchers.

In his acceptance speech, Governor Diokno said, "With this award, we accept the CSC's challenge that we at the BSP should not rest on our laurels, but instead, continue to be bold and relentless in finding ways to improve our services, both internal and external."

The central bank bagged the award under CSC Resolution No. 1900822 dated 16 July 2019, after qualifying for the highest maturity level of 4 under the CSC's PRIME-HRM in government agencies.

Under CSC rules, receipt of level 4 under PRIME-HR means a government agency's processes are focused on continually improving performance through both incremental and innovative improvements; quantitative process improvement objectives are regularly updated to reflect changes in agency objectives and are used to manage process improvements; HR is helping drive the agency's business decisions on people, data, and insight; and HR strategy is part of the agency strategy.

BSP Financial Results

The BSP's Balance Sheet. The BSP's total assets as of end-December 2019 was ₱5,082.9 billion, higher by 4.8 percent than the audited level of ₱ 4,851.3 billion in the previous year (*Table 13*). The BSP's assets were composed mainly of international reserves amounting to ₱4,434.1 billion. Moreover, the international reserves were comprised largely of foreign investments, deposits and securities at about 89.1 percent, while gold holdings constituted 9.2 percent of the total reserves.

Table 3.1. Balance Sheet of the BSP

In billion pesos

	2019 Dec [p]	2018 Dec [a]
Assets	5,082.88	4,851.29
Liabilities	4,938.64	4,734.86
Net Worth	144.24	116.43

Note: Details may not add up to total due to rounding.
[p] Based on the preliminary and unaudited BSP balance sheet as of end-December 2019 prepared by the Financial Accounting Department (FAD) of the BSP.
[a] Audited but subject to restatement.

The BSP's liabilities have reached a total of ₱4,938.6 billion as of end-December 2019, higher by 4.3 percent than the previous year's level of ₱4,734.9 billion. The increase was driven by the combined expansion in currency issues and placements in overnight deposit and term deposit facilities. Meanwhile, the total share of deposits and currency issued of 82.8 percent made up the majority of the BSP's liabilities.

Operating Profit. Based on preliminary and unaudited data for the year 2019, the BSP registered a net income of ₱47.1 billion. The net profit for the review period increased by 18.2 percent as compared to the previous year's level of ₱39.8 billion, primarily on account of higher interest income and miscellaneous income.[136]

Table 3.2. Income Statement of the BSP

in billion pesos

	2019 Dec [p]	2018 Dec [a]
Revenues	121.725	67.995
Less: Expenses	86.622	65.904
Net Income/(Loss) Before Gain/(Loss) on FXR Fluctuations and Income Tax Expense/(Benefit)	35.103	2.091
Gain/(Loss) on Foreign Exchange Rate Fluctuations	14.725	53.108
Income Tax Expense/(Benefit)	2.729	15.354
Net Income/(Loss) After Tax	47.099	39.845

Note: Details may not add up to total due to rounding.
[p] Based on the preliminary and unaudited BSP income statement as of end-December 2019 prepared by the Financial Accounting Department (FAD) of the BSP.
[a] Audited but subject to restatement.

Total revenues for 2019 amounted to ₱121.7 billion, significantly higher than the ₱68.0 billion posted in the previous year. The upswing in total revenues was due to the uptick in interest income on international reserves and the reversal in miscellaneous income account. Total expenditures amounted to ₱86.6 billion, slightly above the ₱65.9 billion posted the previous year. The y-o-y increase in expenditures was due primarily to increased interest expenses on overnight deposit facility and reverse repurchase facility as well as on NG deposits.

[136] Including, among others, trading gains or losses, fees, penalties and other operating income of the BSP.

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1 GROSS DOMESTIC PRODUCT (GDP) BY INDUSTRIAL ORIGIN
for periods indicated
at constant 2018 prices

Item	Level (in Million Pesos)			Percent Change		
	2017	2018	2019	2017	2018	2019
Agriculture, Forestry and Fishing	1,743,134	1,762,616	1,783,855	4.2	1.1	1.2
Industry Sector	5,202,582	5,582,525	5,843,934	7.0	7.3	4.7
Mining and Quarrying	160,065	163,322	169,221	2.1	2.0	3.6
Manufacturing	3,317,641	3,488,331	3,600,183	8.0	5.1	3.2
Electricity, Steam, Water and Waste Management	523,161	557,030	593,917	4.5	6.5	6.6
Construction	1,201,714	1,373,841	1,480,612	6.1	14.3	7.8
Services Sector	10,230,262	10,920,048	11,740,724	7.4	6.7	7.5
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	3,057,552	3,237,304	3,500,918	6.9	5.9	8.1
Transportation and Storage	648,153	697,839	742,105	7.3	7.7	6.3
Accommodation and Food Service Activities	371,234	403,289	428,425	11.6	8.6	6.2
Information and Communication	483,683	515,925	549,423	4.5	6.7	6.5
Financial and Insurance Activities	1,382,521	1,498,147	1,676,292	8.4	8.4	11.9
Real estate and Ownership of Dwellings	1,129,083	1,189,673	1,251,294	5.7	5.4	5.2
Professional and Business Services	1,117,257	1,159,265	1,186,078	10.4	3.8	2.3
Public Administration and Defense; Compulsory Social Activities	666,393	767,706	870,878	9.1	15.2	13.4
Education	671,837	731,607	776,443	7.1	8.9	6.1
Human Health and Social Work Activities	309,316	308,268	320,936	6.6	-0.3	4.1
Other Services	393,233	411,025	437,932	2.2	4.5	6.5
Gross Domestic Product	**17,175,978**	**18,265,190**	**19,368,513**	**6.9**	**6.3**	**6.0**

Notes:

(1) The PSA released the Revised and Rebased to 2018 National Accounts of the Philippines (NAP) on 20 April 2020. The salient features of the revision and rebasing are as follows: adoption of the 2008 System of National Accounts (SNA) recommendations and latest classification systems (i.e., 2009 Philippine Standard Industrial Classification, 2015 Philippine Standard Commodity Classification, 2009 Philippine Classification of Individual Consumption According to Purpose, 2018 Philippine Standard Geographic Code); inclusion of new industries and expenditure commodities (i.e., information and communication, accommodation and food service activities, education, human health and social work activities, valuables, newly-highlighted export and import commodities); and updating of the base year to 2018.

(2) Numbers may not add up to total due to rounding.

Source: Philippine Statistics Authority (PSA)

1a GROSS DOMESTIC PRODUCT (GDP) BY EXPENDITURE SHARE

for periods indicated
at constant 2018 prices

Item	Level (in Million Pesos)			Percent Change		
	2017	2018	2019	2017	2018	2019
Household Final Consumption Expenditure	12,527,828	13,250,084	14,027,192	6.0	5.8	5.9
Government Final Consumption Expenditure	1,939,880	2,199,637	2,410,971	6.5	13.4	9.6
Gross Capital Formation	4,456,328	4,959,105	5,083,657	10.9	11.3	2.5
Gross Fixed Capital Formation	4,412,035	4,983,346	5,177,068	10.6	12.9	3.9
Construction	2,558,243	2,939,786	3,202,226	8.7	14.9	8.9
Durable Equipment	1,388,079	1,527,020	1,420,727	13.8	10.0	-7.0
Breeding Stocks and Orchard Development	368,250	397,760	403,627	6.9	8.0	1.5
Intellectual Property Products	97,463	118,780	150,487	33.2	21.9	26.7
Changes in Inventories	42,766	-26,944	-94,840	61.1	-163.0	252.0
Valuables	1,526	2,703	1,429	42.7	77.1	-47.1
Exports	4,935,390	5,518,573	5,650,169	17.4	11.8	2.4
Less: Imports	6,683,447	7,662,209	7,803,476	15.1	14.6	1.8
Statistical Discrepancy	-	-	-			
Gross Domestic Product	**17,175,978**	**18,265,190**	**19,368,513**	**6.9**	**6.3**	**6.0**

Notes:

(1) The PSA released the Revised and Rebased to 2018 National Accounts of the Philippines (NAP) on 20 April 2020. The salient features of the revision and rebasing are as follows: adoption of the 2008 System of National Accounts (SNA) recommendations and latest classification systems (i.e., 2009 Philippine Standard Industrial Classification, 2015 Philippine Standard Commodity Classification, 2009 Philippine Classification of Individual Consumption According to Purpose, 2018 Philippine Standard Geographic Code); inclusion of new industries and expenditure commodities (i.e., information and communication, accommodation and food service activities, education, human health and social work activities, valuables, newly-highlighted export and import commodities); and updating of the base year to 2018.

(2) Numbers may not add up to total due to rounding.

Source: Philippine Statistics Authority (PSA)

2 SELECTED LABOR, EMPLOYMENT AND WAGE INDICATORS

for periods indicated

	LEVELS			PERCENT CHANGE (in percent)	
	2017	2018	2019p	2018	2019
Employment Status [1]					
Labor Force (In Thousands)	42,775	43,460	44,693	1.6	2.8
Employed	40,334	41,157	42,429	2.0	3.1
Unemployed	2,441	2,303	2,263	-5.6	-1.7
Underemployed	6,506	6,734	5,933	3.5	-11.9
Labor Force Participation Rate (%)	61.2	60.9	61.3	-0.5	0.6
Employment Rate (%)	94.3	94.7	94.9	0.4	0.2
Unemployment Rate (%)	5.7	5.3	5.1	-7.1	-4.5
Underemployment Rate (%)	16.1	16.4	14.0	1.4	-14.5
Overseas Employment (Deployed, in thousand)	1,993				
Land-Based	1,615				
Sea-Based	378				
Strikes					
Number of New Strikes Declared	9	14	18	55.6	28.6
Number of Workers Involved	1,479	8,102	3,545	447.8	-56.2
Legislated Wage Rates					
In Nominal Terms [2]					
Non-Agricultural					
National Capital Region (NCR)	512.00	537.00	537.00	4.9	0.0
Regions Outside NCR (ONCR)	380.00	400.00	400.00	5.3	0.0
Agricultural					
NCR					
Plantation	475.00	500.00	500.00	5.3	0.0
Non-Plantation	475.00	500.00	500.00	5.3	0.0
ONCR					
Plantation	353.50	370.00	391.00	4.7	5.7
Non-Plantation	348.00	368.00	391.00	5.7	6.3
In Real Terms [3]					
Non-Agricultural					
National Capital Region (NCR)	460.43	460.94	448.25	0.1	-2.8
Regions Outside NCR (ONCR)	336.88	342.47	332.23	1.7	-3.0
Agricultural					
NCR					
Plantation	427.16	429.18	417.36	0.5	-2.8
Non-Plantation	427.16	429.18	417.36	0.5	-2.8
Regions Outside NCR (ONCR)					
Plantation	317.32	316.78	319.71	-0.2	0.9
Non-Plantation	299.23	300.41	319.71	0.4	6.4

Notes:

[1] Starting April 2016 round, the Labor Force Survey (LFS) adopted the 2013 Master Sample Design, with a sample size of approximately 44,000 households as well as the population projections based on the 2010 Census of Population and Housing (2010 CPH). Meanwhile, previous survey rounds were derived using 2000 CPH population projection. Starting January 2017 round, Computer Aided Personal Interviewing (CAPI) using Tablet was utilized in the LFS enumeration.

[2] Source of data for both nominal and real wage rates is the National Wages and Productivity Commission. It includes basic minimum wage and cost of living allowance (COLA). Annual figures reflects December data. Figures outside NCR represent the highest nominal regional rates in a given category and its corresponding value in real terms.

[3] Starting 10 November 1990, adjustments in the minimum legislated wage rates are being determined by the Regional Tripartite Wages Productiviity Board. Real terms are computed using 2012 as base year.

p Preliminary

Details may not add up to totals due to rounding.

Sources: Philippine Overseas Employment Administration (POEA), National Wages and Productivity Commission (NWPC), National Conciliation and Mediation Board (NCMB), and Philippine Statistics Authority (PSA)

3 CONSUMER PRICE INDEX (CPI) IN THE PHILIPPINES, NATIONAL CAPITAL REGION AND AREAS OUTSIDE NATIONAL CAPITAL REGION

for periods indicated

2012=100

Commodity Group	Philippines						National Capital Region						Areas Outside National Capital Region					
	CPI			Percent Change			CPI			Percent Change			CPI			Percent Change		
	2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019
All Items	**111.5**	**117.3**	**120.2**	**2.9**	**5.2**	**2.5**	**109.0**	**115.0**	**118.0**	**3.7**	**5.5**	**2.6**	**112.2**	**117.9**	**120.8**	**2.7**	**5.1**	**2.5**
Food and Non-Alcoholic Beverages	115.7	123.6	126.2	3.0	6.8	2.1	119.5	127.7	131.4	5.5	6.9	2.9	114.9	122.8	125.1	2.5	6.9	1.9
Food	116.4	124.1	126.3	3.2	6.6	1.8	120.9	128.7	132.2	6.0	6.5	2.7	115.5	123.2	125.2	2.7	6.7	1.6
Alcoholic Beverages, Tobacco and Narcotics	156.6	187.9	211.9	6.9	20.0	12.8	147.4	179.0	190.8	8.7	21.4	6.6	158.5	189.7	216.2	6.5	19.7	14.0
Non-Food	107.6	111.3	114.0	2.6	3.4	2.4	104.1	108.8	111.3	2.9	4.5	2.3	108.8	112.2	114.9	2.4	3.1	2.4
Clothing and Footware	114.5	117.2	120.2	2.4	2.4	2.6	115.8	118.5	120.6	2.5	2.3	1.8	114.2	116.8	120.1	2.4	2.3	2.8
Housing, Water, Electricity, Gas and Other Fuels	106.4	110.6	113.3	2.7	3.9	2.4	100.4	105.7	107.7	2.6	5.3	1.9	108.9	112.6	115.6	2.8	3.4	2.7
Furnishing, Household Equipment and Routing Maintenance of the House	112.7	116.2	119.9	2.3	3.1	3.2	112.2	115.5	117.5	2.2	2.9	1.7	112.8	116.5	120.7	2.2	3.3	3.6
Health	112.4	116.1	120.2	2.6	3.3	3.5	113.6	117.8	121.7	2.8	3.7	3.3	112.1	115.8	119.8	2.6	3.3	3.5
Transport	98.5	105.0	106.1	5.0	6.6	1.0	97.0	105.1	106.9	7.8	8.4	1.7	98.9	104.9	105.9	4.1	6.1	1.0
Communication	100.8	101.1	101.5	0.3	0.3	0.4	100.7	101.2	101.5	0.2	0.5	0.3	100.8	101.1	101.4	0.3	0.3	0.3
Recreation and Culture	110.4	112.6	115.4	1.2	2.0	2.5	109.8	111.7	113.6	1.4	1.7	1.7	110.5	112.9	115.9	1.1	2.2	2.7
Education	119.1	118.1	118.3	2.5	-0.8	0.2	120.3	122.6	126.7	2.2	1.9	3.3	118.7	116.6	115.6	2.6	-1.8	-0.9
Restaurants and Miscellaneous Goods and Services	109.3	113.2	117.0	1.7	3.6	3.4	105.5	110.1	113.9	2.1	4.4	3.5	110.8	114.5	118.2	1.6	3.3	3.2

Source: Philippine Statistics Authority (PSA)

4 CASH OPERATIONS OF THE NATIONAL GOVERNMENT

for periods indicated

	Levels (in million pesos)			Annual Change (in percent)		
	2017	2018	2019	2017	2018	2019
Revenues	**2,473,132**	**2,850,184**	**3,137,498**	**12.6**	**15.2**	**10.1**
Tax Revenues	2,250,678	2,565,872	2,827,841	13.6	14.0	10.2
Bureau of Internal Revenue	1,772,321	1,951,850	2,175,506	13.1	10.1	11.5
Bureau of Customs	458,184	593,111	630,310	15.6	29.4	6.3
Other Offices	20,173	20,911	22,025	20.0	3.7	5.3
Non-tax Revenues	222,454	284,312	309,657	3.2	27.8	8.9
of w/c: Bureau of the Treasury	99,905	114,199	146,522	-1.8	14.3	28.3
Expenditures	**2,823,769**	**3,408,443**	**3,797,734**	**10.8**	**20.7**	**11.4**
of which:						
Allotments to Local Government Units	530,150	575,650	617,996	17.9	8.6	7.4
Interest Payments	310,541	349,215	360,874	2.0	12.5	3.3
Equity and Net Lending	1,121	8,860	20,386	-95.8	690.4	130.1
Surplus/Deficit (-)	**-350,637**	**-558,259**	**-660,236**	**0.8**	**-59.2**	**-18.3**
Financing [1]	**758,929**	**783,277**	**876,296**	**129.3**	**3.2**	**11.9**
Foreign Borrowings (Net)	27,569	191,752	184,847	214.3	595.5	-3.6
Domestic Borrowings (Net)	731,360	591,525	691,449	106.0	-19.1	16.9
Total Change in Cash: Deposit/Withdrawal (-)	**255,403**	**-52,651**	**-224,569**	**199.1**	**-120.6**	**-326.5**

[1] Starting 2018, the National Government Cash Operations Report follows the Government Finance Statistics Manual (GFSM) 2014 concept wherein reporting of debt amortization reflect the actual principal repayments to creditor including those serviced by the Bond Sinking Fund (BSF); while financing includes gross proceeds of liability management transactions such as bond exchanges.

Source: Bureau of the Treasury (BTr)

5 DEPOSITORY CORPORATIONS SURVEY (SRF-based *)

as of end-periods indicated

	LEVELS (in million pesos)			GROWTH RATES (in percent)		
	2017	2018	2019	2017	2018	2019
1. NET FOREIGN ASSETS	**4,403,236**	**4,460,945**	**4,857,904**	**2.2**	**1.3**	**8.9**
A. Monetary Authorities	4,003,601	4,088,881	4,399,096	1.4	2.1	7.6
Claims on Non-Residents	4,084,708	4,172,381	4,479,427	1.5	2.1	7.4
less: Liabilities to Non-Residents	81,107	83,500	80,331	5.1	3.0	-3.8
B. Other Depository Corporation	399,635	372,064	458,808	10.3	-6.9	23.3
Claims on Non-Residents	1,295,967	1,501,741	1,654,598	7.0	15.9	10.2
less: Liabilities to Non-Residents	896,332	1,129,677	1,195,790	5.5	26.0	5.9
2. DOMESTIC CLAIMS	**10,476,875**	**12,034,990**	**13,318,198**	**13.9**	**14.9**	**10.7**
A. Net Claims on Central Government	1,635,469	1,911,110	2,363,703	2.0	16.9	23.7
Claims on Central Government	2,400,240	2,690,414	2,953,182	14.5	12.1	9.8
less: Liabilities to Central Government	764,770	779,304	589,479	54.8	1.9	-24.4
B. Claims on Other Sectors	8,841,406	10,123,880	10,954,495	16.4	14.5	8.2
Claims on Other Financial Corporations	925,040	1,088,312	1,232,427	20.0	17.7	13.2
Claims on State and Local Government	81,064	87,470	99,080	-2.1	7.9	13.3
Claims on Public Nonfinancial Corporations	284,609	260,664	259,553	10.8	-8.4	-0.4
Claims on Private Sector	7,550,694	8,687,435	9,363,435	16.4	15.1	7.8
3. LIQUIDITY AGGREGATES						
M4 (M3 + 3.e)	**12,486,649**	**13,610,341**	**14,950,132**	**11.3**	**9.0**	**9.8**
M3 (M2 + 3.d) **	10,636,069	11,642,999	12,976,306	11.9	9.5	11.5
M2 (M1 + 3.c)	10,202,303	11,080,195	12,293,189	11.6	8.6	10.9
M1 (3.a + 3.b)	3,550,830	3,889,046	4,500,310	15.7	9.5	15.7
3.a Currency Outside Depository Corporations	1,047,576	1,231,841	1,395,801	**13.7**	**17.6**	**13.3**
3.b Transferable Deposits Included in Broad Money	2,503,254	2,657,204	3,104,509	16.5	6.1	16.8
3.c Other Deposits Included in Broad Money	6,651,473	7,191,149	7,792,878	9.6	8.1	8.4
Savings Deposits	4,409,286	4,672,532	4,969,361	7.5	6.0	6.4
Time Deposits	2,242,187	2,518,617	2,823,518	13.8	12.3	12.1
3.d Securities Other Than Shares Included in Broad Money (Deposit Substitutes)	433,766	562,804	683,117	18.7	29.7	21.4
3.e Transferable and Other Deposits in Foreign Currency (FCDs-Residents)	1,850,580	1,967,342	1,973,826	8.3	6.3	0.3
4. LIABILITIES EXCLUDED FROM BROAD MONEY	**2,393,462**	**2,885,595**	**3,225,970**	**4.3**	**20.6**	**11.8**

* Based on the Standardized Report Forms (SRFs), a unified framework for reporting monetary and financial statistics to the International Monetary Fund (IMF).

** May also be derived as Net Foreign Assets + Domestic Claims, net of Liabilities excluded from broad money and transferable and other deposits in foreign currency (FCDs-Residents).

Source: Department of Economic Statistics

6 SELECTED DOMESTIC INTEREST RATES[1]

for periods indicated

In percent per annum

	Nominal Interest Rates			Real Interest Rates[7]		
	2017	**2018**	**2019**	**2017**	**2018**	**2019**
Borrowing Rates of Banks						
Interbank Call Loans	2.730	3.734	4.665	-0.170	-1.466	2.165
Savings Deposits[2]	0.685	0.899	1.231	-2.215	-4.301	-1.269
Time Deposits[2]						
(All Maturities)	1.807	3.163	4.070	-1.093	-2.037	1.570
Lending Rates						
All Maturities[3]	5.630	6.139	7.087	2.730	0.939	4.587
High[4]	6.492	7.109	8.018	3.592	1.909	5.518
Low[5]	4.137	4.573	5.497	1.237	-0.628	2.997
Bangko Sentral Rates[6]						
Overnight Lending Facility (OLF)	3.500	4.581	4.996	0.600	-0.619	2.496
RR/P (Overnight)	3.000	3.625	4.408	0.100	-1.575	1.908
Overnight Deposit Facility (ODF)	2.500	2.921	3.798	-0.400	-2.279	1.298
Term Deposit Auction Facility (TDF)						
7-Day	3.234	3.840	4.528	0.334	-1.360	2.028
14 -Day	...	3.921	4.572	...	-1.279	2.072
28-Day	3.446	3.938	4.521	0.546	-1.262	2.021
Rediscounting	3.547	4.318	5.140	0.647	-0.883	2.640
Rate on Government Securities						
Treasury Bills (All Maturities)	2.449	4.389	5.022	-0.451	-0.811	2.522
91-Day	2.147	3.539	4.674	-0.753	-1.661	2.174
182-Day	2.502	4.489	5.065	-0.398	-0.711	2.565
364-Day	2.879	5.144	5.232	-0.021	-0.056	2.732
Government Securities in the Secondary Market[8]						
3-Month	2.432	5.776	3.204	-0.468	0.676	0.704
6-Month	3.308	6.514	3.373	0.408	1.414	0.873
1-Year	3.032	6.783	3.415	0.132	1.683	0.915
2-Year	3.986	6.885	3.738	1.086	1.785	1.238
3-Year	4.298	6.976	3.830	1.398	1.876	1.330
4-Year	4.921	7.016	3.940	2.021	1.916	1.440
5-Year	4.744	7.037	4.061	1.844	1.937	1.561
7-Year	5.328	7.061	4.279	2.428	1.961	1.779
10-Year	5.699	7.065	4.461	2.799	1.965	1.961
20-Year	5.704	7.491	5.159	2.804	2.391	2.659
25-Year	..	7.528	5.218	..	2.428	2.718

[1] All figures are weighted average rates, unless stated otherwise

[2] Covers all commercial banks

[3] Ratio of all commercial banks' total interest incomes to their total outstanding peso-denominated loans

[4] Refers to the average of all highs quoted by reporting commercial banks

[5] Refers to the average of all lows quoted by reporting commercial banks

[6] Beginning 3 June 2016, the BSP shifted its monetary operations to an interest rate corridor (IRC) system. The repurchase (RP) and Special Deposit Account (SDA) windows were replaced by standing overnight lending and overnight deposit facilities, respectively. The reverse repurchase (RRP) facility was modified to a purely overnight RRP. In addition, the term deposit facility (TDF) will serve as the main tool for absorbing liquidity. The Overnight Lending Facility (OLF) and Overnight Deposit Facility (ODF) will serve as upper and lower bound, respectively, of the IRC system.

[7] Nominal interest rate less inflation rate (2012=100)

[8] End-of-Period; beginning 29 October 2018, data refer to the Philippine Peso Bloomberg Valuation Service (PHP BVAL) Reference Rates while those for earlier periods refer to the Philippine Dealing System Treasury Reference Rates 2 (PDST-R2).

- Not Available

.. No Transaction/No Quotation/No Issue

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Source: Bangko Sentral ng Pilipinas (BSP)

7 CROSS RATES OF THE PESO

period averages

pesos per unit of foreign currency

		US Dollar	Japanese Yen	Pound Sterling	Hongkong Dollar	Swiss Franc	Canadian Dollar	Singapore Dollar	Australian Dollar	Bahrain Dinar	Saudi Rial	Brunei Dollar	Indo Rupiah	Thai Baht	UAE Dirham	EURO
2017	**Ave**	**50.4037**	**0.4495**	**64.9706**	**6.4686**	**51.2195**	**38.8850**	**36.5254**	**38.6418**	**133.7434**	**13.4412**	**36.3935**	**0.0038**	**1.4866**	**13.7244**	**56.9491**
	Jan	49.7363	0.4328	61.3425	6.4125	49.3186	37.6357	34.8096	37.0610	131.9653	13.2644	34.6882	0.0037	1.4021	13.5425	52.8348
	Feb	49.9614	0.4422	62.4591	6.4388	49.9397	38.1566	35.3290	38.2766	132.5403	13.3243	35.2045	0.0037	1.4269	13.6044	53.2346
	Mar	50.2752	0.4454	62.0548	6.4745	50.1804	37.5815	35.7930	38.3291	133.4299	13.4083	35.6661	0.0038	1.4412	13.6901	53.7365
	Apr	49.8626	0.4527	62.9429	6.4150	49.8251	37.1648	35.6614	37.6260	132.3719	13.2969	35.5343	0.0037	1.4486	13.5768	53.4359
	May	49.8603	0.4441	64.4409	6.4036	50.5254	36.6670	35.7474	37.0608	132.3388	13.2961	35.6197	0.0037	1.4464	13.5763	55.0972
	Jun	49.8501	0.4496	63.8775	6.3929	51.5070	37.4536	36.0349	37.6132	132.3225	13.2932	35.9051	0.0037	1.4662	13.5737	56.0089
	Jul	50.6382	0.4504	65.7851	6.4850	52.7764	39.8179	36.9210	39.4279	134.4022	13.5038	36.7869	0.0038	1.4999	13.7876	58.3076
	Aug	50.8747	0.4630	66.0288	6.5053	52.6703	40.3404	37.3927	40.2627	135.0246	13.5665	37.2558	0.0038	1.5297	13.8522	60.1073
	Sep	51.0094	0.4605	67.9427	6.5280	53.0141	41.4972	37.7881	40.6448	135.3334	13.6023	37.6486	0.0038	1.5394	13.8886	60.7373
	Oct	51.3433	0.4546	67.7973	6.5774	52.3768	40.8459	37.7631	40.0215	136.2200	13.6911	37.6247	0.0038	1.5445	13.9800	60.4006
	Nov	51.0384	0.4523	67.4082	6.5395	51.4574	40.0288	37.6411	38.9300	135.2612	13.6096	37.5028	0.0038	1.5497	13.8972	59.8798
	Dec	50.3947	0.4464	67.5675	6.4511	51.0422	39.4311	37.4232	38.4483	133.7113	13.4382	37.2848	0.0037	1.5442	13.7234	59.6090
2018	**Ave**	**52.6614**	**0.4769**	**70.3179**	**6.7197**	**53.8692**	**40.6612**	**39.0471**	**39.3810**	**139.6538**	**14.0414**	**38.9028**	**0.0037**	**1.6302**	**14.3387**	**62.1943**
	Jan	50.5087	0.4554	69.7775	6.4597	52.5408	40.6329	38.2266	40.1687	134.0407	13.4684	38.0825	0.0038	1.5826	13.7533	61.6042
	Feb	51.7856	0.4793	72.3817	6.6208	55.4033	41.2191	39.2487	40.7824	137.4125	13.8093	39.1006	0.0038	1.6455	14.1008	63.9431
	Mar	52.0676	0.4911	72.6846	6.6418	55.0105	40.2891	39.5816	40.4661	138.1474	13.8843	39.4318	0.0038	1.6651	14.1775	64.2312
	Apr	52.0986	0.4847	73.3727	6.6385	53.8784	40.9351	39.6189	40.0608	138.2423	13.8928	39.4689	0.0038	1.6652	14.1857	64.0093
	May	52.1948	0.4755	70.2903	6.6502	52.3312	40.5726	38.9705	39.2764	138.4189	13.9179	38.8255	0.0037	1.6337	14.2113	61.6634
	Jun	53.0476	0.4823	70.4818	6.7604	53.6080	40.4078	39.3527	39.7350	140.3745	14.1454	39.2073	0.0038	1.6349	14.4437	61.9226
	Jul	53.4329	0.4797	70.4068	6.8090	53.7366	40.6812	39.2070	39.5527	141.2871	14.2479	39.0636	0.0037	1.6061	14.5484	62.4512
	Aug	53.2735	0.4796	68.6848	6.7871	53.8854	40.8721	38.9335	39.0671	141.2639	14.2051	38.7918	0.0037	1.6119	14.5050	61.5363
	Sep	53.9419	0.4821	70.4221	6.8817	55.7503	41.3693	39.3457	38.8373	143.1371	14.3829	39.2027	0.0036	1.6541	14.6873	62.9028
	Oct	54.0086	0.4787	70.3199	6.8920	54.4068	41.5496	39.1714	38.3872	143.3327	14.3990	39.0299	0.0036	1.6494	14.7057	62.0820
	Nov	52.8083	0.4659	68.1667	6.7454	52.7637	40.0078	38.4100	38.2395	140.1401	14.0774	38.2709	0.0036	1.6022	14.3782	60.0061
	Dec	52.7691	0.4680	66.8260	6.7503	53.1150	39.3983	38.4985	37.9983	140.0480	14.0668	38.3586	0.0036	1.6123	14.3680	59.9800
2019	**Ave**	**51.7958**	**0.4752**	**66.1447**	**6.6105**	**52.1251**	**39.0333**	**37.9748**	**36.0008**	**137.4385**	**13.8112**	**37.8361**	**0.0037**	**1.6686**	**14.1026**	**57.9894**
	Jan	52.4679	0.4815	67.6504	6.6918	53.0647	39.4093	38.6803	37.4912	139.2321	13.9891	38.5383	0.0037	1.6468	14.2856	59.9146
	Feb	52.1901	0.4731	67.8673	6.6504	52.1082	39.5021	38.5605	37.2839	138.4955	13.9170	38.4185	0.0037	1.6686	14.2101	59.2381
	Mar	52.4134	0.4716	69.1201	6.6776	52.4057	39.2427	38.7175	37.1236	139.1076	13.9770	38.5751	0.0037	1.6532	14.2709	59.2729
	Apr	52.1122	0.4669	67.9253	6.6432	51.7732	38.9462	38.4343	37.0335	138.2823	13.8964	38.2931	0.0037	1.6375	14.1889	58.5161
	May	52.2620	0.4750	67.1325	6.6592	51.7027	38.8316	38.1145	36.2680	138.6957	13.9369	37.9760	0.0036	1.6429	14.2296	58.4439
	Jun	51.8029	0.4794	65.6357	6.6190	52.3953	38.9620	38.0164	35.9451	137.4845	13.8137	37.8774	0.0036	1.6622	14.1046	58.4650
	Jul	51.1429	0.4726	63.8713	6.5470	51.8040	39.0561	37.5996	35.7269	135.7350	13.6374	37.4619	0.0036	1.6610	13.9247	57.4162
	Aug	52.0547	0.4892	63.2622	6.6386	53.1330	39.2439	37.6084	35.2430	138.1003	13.8791	37.4731	0.0037	1.6927	14.1730	57.9103
	Sep	52.1052	0.4853	64.3459	6.6499	52.6293	39.3482	37.7580	35.4566	138.2428	13.8918	37.6217	0.0037	1.7051	14.1869	57.3875
	Oct	51.5042	0.4763	65.0427	6.5677	51.8435	39.0380	37.5625	34.9636	136.6512	13.7321	37.4260	0.0036	1.6960	14.0233	56.8950
	Nov	50.7268	0.4660	65.3614	6.4806	51.0995	38.3324	37.2640	34.6386	134.5673	13.5272	37.1276	0.0036	1.6777	13.8115	56.0539
	Dec	50.7671	0.4652	66.5217	6.5008	51.5416	38.4873	37.3811	34.8357	134.6671	13.5367	37.2440	0.0036	1.6790	13.8223	56.3589

Source: Bangko Sentral ng Pilipinas (BSP)

7a EFFECTIVE EXCHANGE RATE INDICES OF THE PESO

period average

1980 = 100

	NOMINAL			REAL		
		Trading Partners			Trading Partners	
	Overall [1]	Advanced [2]	Developing [3]	Overall [1]	Advanced [2]	Developing [3]
2017	**14.13**	**11.51**	**22.54**	**83.04**	**79.07**	**108.35**
Jan	14.70	11.99	23.43	88.03	85.16	113.72
Feb	14.48	11.83	23.08	85.70	82.74	110.85
Mar	14.37	11.75	22.87	84.54	81.32	109.62
Apr	14.41	11.73	23.01	85.30	81.20	111.30
May	14.39	11.73	22.96	84.90	80.57	111.00
Jun	14.29	11.61	22.83	84.34	79.81	110.46
Jul	14.04	11.41	22.44	81.93	77.91	106.97
Aug	13.82	11.17	22.17	80.28	75.61	105.43
Sep	13.73	11.15	21.96	79.81	75.22	104.77
Oct	13.75	11.20	21.94	80.30	75.96	105.19
Nov	13.78	11.28	21.92	80.71	76.72	105.41
Dec	13.89	11.41	22.07	81.09	77.16	105.84
2018 [r]	**13.29**	**10.83**	**21.21**	**80.80**	**76.96**	**105.39**
Jan	13.61	11.19	21.62	83.06	80.89	107.01
Feb	13.17	10.77	20.97	79.35	76.98	102.44
Mar	13.06	10.65	20.84	78.86	75.67	102.44
Apr	13.07	10.71	20.80	79.63	76.42	103.43
May	13.25	10.90	21.03	80.41	77.00	104.57
Jun	13.13	10.77	20.88	80.19	76.51	104.50
Jul	13.25	10.74	21.20	80.28	76.15	104.97
Aug	13.36	10.80	21.42	81.06	76.36	106.40
Sep	13.21	10.68	21.19	80.45	75.56	105.75
Oct	13.29	10.74	21.30	81.26	76.23	106.88
Nov	13.60	11.04	21.75	83.10	78.34	109.03
Dec	13.56	11.02	21.66	82.13	77.53	107.68
2019	**13.76**	**11.16**	**22.02**	**84.49**	**80.31**	**110.34**
Jan	13.49	10.94	21.57	85.04	81.78	110.33
Feb	13.53	11.07	21.54	83.78	81.27	108.19
Mar	13.52	11.06	21.51	83.21	80.23	107.81
Apr	13.63	11.17	21.68	84.21	80.84	109.38
May	13.71	11.10	21.95	84.58	79.92	110.81
Jun	13.76	11.09	22.08	84.97	80.00	111.56
Jul	13.90	11.26	22.27	85.02	80.82	111.03
Aug	13.78	11.03	22.22	83.87	78.53	110.45
Sep	13.79	11.09	22.18	83.62	78.47	109.99
Oct	13.92	11.24	22.34	84.57	79.66	111.00
Nov	14.08	11.43	22.51	85.68	81.26	112.02
Dec	14.06	11.42	22.49	85.67	81.13	112.11

[1] Australia, Euro Area, U.S., Japan, Hong Kong, Taiwan, Thailand, Indonesia, Malaysia, Singapore, South Korea, China, Saudi Arabia, and U.A.E.

[2] U.S., Japan, Euro Area, and Australia

[3] Hong Kong, Taiwan, Thailand, Indonesia, Malaysia, Singapore, South Korea, China, Saudi Arabia, and U.A.E

[r] Revised

Source: Bangko Sentral ng Pilipinas

8 STOCK MARKET TRANSACTIONS
for periods indicated
volume in million shares, value in million pesos

	2017		2018		2019		Percent Change 2018		Percent Change 2019	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value
T o t a l	**440,547.4**	**1,958,364.1**	**403,847.2**	**1,736,822.4**	**332,304.2**	**1,772,578.9**	**-8.3**	**-11.3**	**-17.7**	**2.1**
Financial	5,486.9	293,846.1	4,355.7	271,071.4	3,494.5	270,434.0	-20.6	-7.8	-19.8	-0.2
Industrial	40,960.8	487,105.4	28,560.4	355,193.8	33,504.4	317,104.4	-30.3	-27.1	17.3	-10.7
Holding Firms	54,916.7	427,941.0	37,510.4	400,471.5	40,705.8	463,812.1	-31.7	-6.4	8.5	15.8
Property	85,696.1	318,017.9	68,913.0	319,095.2	40,843.7	363,263.6	-19.6	0.3	-40.7	13.8
Services	79,183.7	349,965.2	64,474.4	332,909.9	51,235.5	312,442.8	-18.6	-4.9	-20.5	-6.1
Mining & Oil	173,117.1	72,031.8	198,294.5	50,848.5	159,579.9	36,597.4	14.5	-29.4	-19.5	-28.0
SME	1,182.0	8,953.4	1,733.2	6,559.1	2,938.1	8,640.4	46.6	-26.7	69.5	31.7
ETF	4.1	503.3	5.5	673.1	2.4	284.2	35.5	33.7	-56.6	-57.8
Composite Index (PSEi)										
Average	**7,850.5**		**7,745.0**		**7,906.4**		**-1.3**		**2.1**	
End of Period	**8,558.4**		**7,466.0**		**7,815.3**		**-12.8**		**4.7**	

Source: Philippine Stock Exchange (PSE)

9 PHILIPPINES: BALANCE OF PAYMENTS
in million U.S. dollars

	2018 r	2019 p	Growth (%) 2019 p
Current Account	-8773	-464	94.7
Export	130055	136123	4.7
Import	138828	136587	-1.6
Goods, Services, and Primary Income	-35591	-28084	21.1
Export	102448	107716	5.1
Import	138039	135800	-1.6
Goods and Services	-39365	-33420	15.1
Export	90382	94356	4.4
Import	129747	127776	-1.5
Goods	-50972	-46466	8.8
Credit: Exports	51985	53382	2.7
Debit: Imports	102958	99848	-3.0
Services	11608	13045	12.4
Credit: Exports	38397	40974	6.7
Debit: Imports	26789	27928	4.3
Primary Income	3774	5336	41.4
Credit: Receipts	12066	13360	10.7
Debit: Payments	8293	8024	-3.2
Secondary Income	26818	27620	3.0
Credit: Receipts	27607	28407	2.9
Debit: Payments	788	787	-0.2
Capital Account	65	70	7.5
Credit: Receipts	103	89	-13.0
Debit: Payments	38	20	-48.2
Financial Account	-9332	-6265	32.9
Net Acquisition of Financial Assets	7522	8477	12.7
Net Incurrence of Liabilities	16855	14742	-12.5
Direct Investment	-5833	-4338	25.6
Net Acquisition of Financial Assets	4116	3309	-19.6
Net Incurrence of Liabilities	9949	7647	-23.1
Portfolio Investment	1448	-1727	-219.3
Net Acquisition of Financial Assets	4740	3848	-18.8
Net Incurrence of Liabilities	3292	5575	69.3
Financial Derivatives	-53	-172	-221.2
Net Acquisition of Financial Assets	-679	-896	-31.9
Net Incurrence of Liabilities	-626	-724	-15.8
Other Investment	-4894	-28	99.4
Net Acquisition of Financial Assets	-654	2216	438.7
Net Incurrence of Liabilities	4240	2244	-47.1
NET UNCLASSIFIED ITEMS	-2930	1973	167.3
OVERALL BOP POSITION	-2306	7843	440.2
Debit: Change in Reserve Assets	-2305	7843	440.2
Credit: Change in Reserve Liabilities	1	-1	-188.5

Details may not add up to total due to rounding.
r Revised to reflect data updates from official data sources and post-audit adjustments
p Preliminary
. Rounds off to zero

Technical Notes:
1. Balance of Payments Statistics from 2005 onwards are based on the IMF's Balance of Payments and International Investment Position Manual, 6th Edition.
2. Financial Account, including Reserve Assets, is calculated as the sum of net acquisitions of financial assets less net incurrence of liabilities.
3. Balances in the current and capital accounts are derived by deducting debit entries from credit entries.
4. Balances in the financial account are derived by deducting net incurrence of liabilities from net acquisition of financial assets.
5. Negative values of Net Acquisition of Financial Assets indicate withdrawal/disposal of financial assets; negative values of Net Incurrence of Liabilities indicate repayment of liabilities.
6. Overall BOP position is calculated as the change in the country's net international reserves (NIR), less non-economic transactions (revaluation and gold monetization/demonetization). Alternatively, it can be derived by adding the current and capital account balances less financial account plus net unclassified items.
7. Net unclassified items is an offsetting account to the overstatement or understatement in either receipts or payments of the recorded BOP components vis-à-vis the overall BOP position.
8. Data on Deposit-taking corporations, except the central bank, consist of transactions of commercial and thrift banks and offshore banking units (OBUs).

10 GROSS INTERNATIONAL RESERVES (GIR)

as of periods indicated, in million US dollars

	2017	2018	2019
Gross International Reserves	**81,570**	**79,193**	**87,840**
Reserve Position in the Fund	424	474	590
Gold	8,337	8,153	8,016
SDRs	1,211	1,184	1,182
Foreign Investments	65,815	66,733	75,304
Foreign Exchange	5,783	2,649	2,747
Import Cover[1]	7.8	6.9	7.8
Short-Term External Debt Cover (in percent)[2]			
Original Maturity[3]	571.4	492.9	510.5
Residual Maturity[4]	419.3	369.0	387.0
Net International Reserves	**81,567**	**79,189**	**87,836**

1 Number of months of average imports of goods and payment of services and primary income that can be financed by reserves. Starting 2005, figures were revised to reflect data based on BPM6 concept

2 Starting December 2005, outstanding annual external debt reflects the new reporting framework in line with international standards under the latest External Debt Statistics Guide and BPM6.

3 Based on latest available outstanding short-term external debt

4 This refers to adequacy of reserves to cover outstanding short-term debt based on original maturity plus principal payments on medium-and long-term loans of the public and private sectors falling due in the next 12 months. Figures reflect data based on outstanding external short-term debt as of 31 January 2020 and debt service schedule on outstanding external debt as of 31 December 2019.

Details may not add up to total due to rounding

Source: Bangko Sentral ng Pilipinas

11 TOTAL EXTERNAL DEBT [1]
as of periods indicated
in million US dollars

	31 December 2018				31 December 2019			
	Short-term		Medium &	Total	Short-term		Medium &	Total
	Trade	Non-Trade	Long- Term		Trade	Non-Trade	Long- Term	
Grand Total	2,623	13,445	62,892	78,960 [a]	3,417	13,792	66,410	83,618 [a]
Public Sector		431	39,272 [b]	39,703		633	42,162 [b]	42,794
Banks		431	3,371	3,802		633	3,174	3,807
Bangko Sentral ng Pilipinas			1,319 [c]	1,319			1,306 [c]	1,306
Others		431	2,051	2,483		633	1,868	2,501
Non-Banks			35,901	35,901			38,987	38,987
CB-BOL								
NG and Others			35,901	35,901			38,987	38,987
Private Sector	2,623	13,014	23,620	39,256	3,417	13,159	24,248	40,824
Banks		12,605	6,265	18,870		12,557	7,580	20,136
Foreign Bank Branches		5,151	193	5,344 [d]		5,078	151	5,228 [d]
Domestic Banks		7,454	6,072	13,527		7,479	7,429	14,908
Non-Banks	2,623	408	17,355 [e]	20,386	3,417	602	16,669 [e]	20,687

1 Covers debt owed to non-residents, with classification by borrower based on primary obligor per covering loan/rescheduling agreement/document.

Exclusions	31 December 2018	31 December 2019
a Residents' holdings of Philippine debt papers issued offshore;	17,185	17,382
Non-residents' holdings of peso-denominated debt securities	6,757	5,165
Inclusions		
b Cumulative foreign exchange revaluation on US$-denominated multi-currency loans from Asian Development Bank and World Bank	-22	-16
c Accumulated SDR allocations from the IMF	1,162	1,154
d "Due to Head Office/Branches Abroad" (DTHOBA) accounts of branches and offshore banking units of foreign banks operating in the Philippines	4,215	3,802
e Loans without BSP approval/registration which cannot be serviced using foreign exchange from the banking system;	6,497	6,395
Obligations under capital lease arrangements	1,195	869

Source: Bangko Sentral ng Pilipinas

12 SELECTED FOREIGN DEBT SERVICE INDICATORS
for periods indicated
in million US dollars

	2018 [r]	2019 [p]
Debt Service Burden (DSB) [1]	8116	8443
Principal	5180	5393
Interest	2936	3050
Export Shipments (XS) [2]	51985	53382
Exports of Goods and Receipts from Services and Income (XGSI) [2, 3]	123104	129022
Current Account Receipts (CAR) [2]	130055	136123
External Debt	78960	83618
Gross Domestic Product (GDP)	346842	376796
Gross National Income (GNI)	383817	414269
Ratios (%) :		
DSB to XS	15.61	15.82
DSB to XGSI	6.59	6.54
DSB to CAR	6.24	6.20
DSB to GNI	2.11	2.04
External Debt to GDP	22.77	22.19
External Debt to GNI	20.57	20.18

[1] Debt service burden represents principal and interest payments after rescheduling. In accordance with the internationally-accepted concept, debt service burden consists of (a) Principal and interest payments on fixed MLT credits including IMF credits, loans covered by the Paris Club and Commercial Banks rescheduling, and New Money Facilities; and (b) Interest payments on fixed and revolving short-term liabilities of banks and non-banks but excludes (i) Prepayments of future years' maturities of foreign loans and (ii) Principal payments on fixed and revolving ST liabilities of banks and non-banks.

[2] Based on the accounting principle under the Balance of Payments and International Investment Position Manual, Sixth edition (BPM6).

[3] Includes cash remittances of overseas Filipino workers that were coursed through and reported by commercial banks which are reflected under Compensation of Employees in the Primary Income account and workers' remittances in the Secondary Income account.

[p] Preliminary

[r] Revised to reflect latest data adjustments

Source: BSP

13 BALANCE SHEET OF THE BANGKO SENTRAL NG PILIPINAS

as of end-periods indicated
in million pesos

	2018 [a] Dec	2019 [p] Dec	Growth Rates (in percent)
Assets	**4,851,291.4**	**5,082,880.5**	**4.8**
International Reserves [1]	4,140,162.7	4,434,082.6	7.1
Domestic Securities	223,298.8	226,137.0	1.3
Loans and Advances	277,505.7	200,166.5	-27.9
Bank Premises and Other Fixed Assets	23,725.0	24,401.2	2.9
Derivative Instruments in a Gain Position	52.6	17.8	-66.2
Other Assets	186,546.7	198,075.3	6.2
Liabilities	**4,734,857.0**	**4,938,639.9**	**4.3**
Currency Issue	1,490,240.3	1,679,054.0	12.7
Deposits	2,304,081.9	2,411,188.7	4.6
Reserve Deposits of Other Depository Corporations (ODCs) [2]	1,843,831.7	1,550,531.9	-15.9
Reserve Deposits of Other Financial Corporations (OFCs) [3]	1,283.1	383.9	-70.1
Secured Settlement Account	2,681.6	8,088.6	201.6
Overnight Deposit Facility [4]	58,643.8	266,151.0	353.8
Term Deposit Facility [4]	69,195.7	283,224.1	309.3
Treasurer of the Philippines [5]	170,158.6	159,899.7	-6.0
Foreign Financial Institutions	122,832.9	107,717.6	-12.3
Other Foreign Currency Deposits	1,053.1	1,119.4	6.3
Other Deposits [6]	34,401.4	34,072.5	-1.0
Foreign Loans Payable	30.4	0.0	-100.0
Net Bonds Payable	26,290.2	25,410.3	-3.3
Allocation of SDRs	61,368.5	58,944.0	-4.0
Revaluation of Foreign Currency Accounts [7]	534,976.4	425,935.4	-20.4
Reverse Repurchase Facility [4]	300,986.1	305,127.1	1.4
Other Liabilities	16,883.1	32,980.4	95.3
Net Worth	**116,434.4**	**144,240.6**	**23.9**
Capital	50,000.0	50,000.0	0.0
Surplus/Reserves	66,434.4	94,240.6	41.9

Note: Details may not add up to total due to rounding.

[1] Excludes the reserve tranche position with the IMF

[2] ODCs are deposit generating institutions other than the BSP such as universal and commercial banks (UB/KBs), specialized government banks (SGBs), thrift banks (TBs), rural banks (RBs) and non-banks with quasi-banking functions (NBQBs).

[3] OFCs are trust units of banks.

[4] Starting 3 June 2016, the Reverse Repurchase Agreement and Special Deposit Account have been replaced by the Reverse Repurchase Facility and Overnight Deposit Facility, respectively, and a Term Deposit Facility was introduced in line with the implementation of the Interest Rate Corridor (IRC) system. Includes accrued interest payables.

[5] Includes foreign currency deposits

[6] Mostly GOCC deposits

[7] Previously named Revaluation of International Reserves

[a] Audited but subject to restatement

[p] Based on the preliminary and unaudited BSP balance sheet as of end-December 2019 prepared by the Financial Accounting Department (FAD) of the BSP

14 INCOME POSITION OF THE BANGKO SENTRAL NG PILIPINAS

for periods indicated
in billion pesos

	2018 [a] Dec	2019 [p] Dec	Growth Rates (in percent)
Revenues	**67.995**	**121.725**	**79.0**
Interest Income	78.151	100.425	28.5
International Reserves	64.155	78.703	22.7
Domestic Securities	7.516	11.396	51.6
Loans and Advances	2.673	6.220	132.7
Others	3.807	4.106	7.9
Miscellaneous Income[1]	-10.320	20.995	303.4
Net income from Branches	0.164	0.305	86.0
Expenses	**65.904**	**86.622**	**31.4**
Interest Expenses	29.927	44.696	49.4
Overnight Deposit Facility[2]	1.341	2.548	90.0
Term Deposit Facility[2]	5.818	6.372	9.5
National Government Deposits	9.412	19.983	112.3
Reverse Repurchase Facility[2]	10.113	12.258	21.2
Loans Payable	3.099	3.355	8.3
Other Liabilities	0.144	0.180	25.0
Cost of Minting	11.260	12.473	10.8
Other Expenses	24.717	29.453	19.2
Net Income/(Loss) Before Net Gain/(Loss) on FX Rate Fluctuations and Income Tax Expense/(Benefit)	**2.091**	**35.103**	**1,578.8**
Net Gain/(Loss) on Foreign Exchange Rate Fluctuations[3]	53.108	14.725	-72.3
Income Tax Expense/(Benefit)	15.354	2.729	-82.2
Net Income/(Loss) After Tax	**39.845**	**47.099**	**18.2**

Note: Details may not add up to total due to rounding.

[1] This account includes, among others, trading gains or losses, fees, penalties and other operating income of the BSP.

[2] Starting 3 June 2016, the Reverse Repurchase Agreement and Special Deposit Account have been replaced by the Reverse Repurchase Facility and Overnight Deposit Facility, respectively, and a Term Deposit Facility was introduced in line with the implementation of the Interest Rate Corridor (IRC) system.

[3] This represents realized gains or losses from fluctuations in FX rates arising from foreign currency-denominated transactions of the BSP, including: 1) rollover/re-investments of matured FX investments with foreign financial institutions and FX-denominated government securities; 2) servicing of matured FX obligations of the BSP; and 3) maturity of derivatives instruments.

[a] Audited but subject to restatement

[p] Based on the preliminary and unaudited BSP income statement as of end-December 2019 prepared by the Financial Accounting Department (FAD) of the BSP

15 BSP: CONDENSED STATEMENT OF CONDITION

in thousand pesos

ASSETS	31 Dec 2019*	31 Dec 2018**
Foreign Currency Financial Assets		
Deposits with Foreign Banks	458,569,942	1,123,248,163
Other Cash Balances	1,518,333	1,131,823
Investment Securities	2,865,653,548	2,134,396,095
Foreign Securities Purchased under Agreements to Resell	639,591,917	388,368,175
Loan to International Monetary Fund (IMF)	1,403,534	2,111,093
Gold	407,222,442	428,575,279
IMF Special Drawing Rights	60,122,875	62,332,053
Gross International Reserves	**4,434,082,591**	**4,140,162,681**
Other Foreign Currency Receivables	104,788,346	93,407,616
Non-IR Foreign Currency On Hand	32,055	33,256
Derivative Instruments in a Net Gain Position	17,843	52,563
Total Foreign Currency Financial Assets	**4,538,920,835**	**4,233,656,116**
Local Currency Financial Assets		
Investment in Government Securities	226,137,002	223,298,757
Loans and Advances	159,046,282	208,403,422
Overnight Lending Facility	41,120,215	69,102,233
Due from Administrator of Funds	30,700,682	30,583,503
Other Receivables	24,031,329	33,092,816
Total Local Currency Financial Assets	**481,035,510**	**564,480,731**
Total Financial Assets	**5,019,956,345**	**4,798,136,847**
Acquired Assets Held for Sale	154,000	152,912
Investment Property	11,907,839	13,874,715
Bank Premises, Furniture, Fixtures and Equipment	24,401,246	23,725,039
Intangible Assets	260,227	234,255
Inventories	12,324,338	10,689,228
Property Dividend to NG	285,214	285,214
Deferred Tax Assets	12,108,680	2,655,843
Miscellaneous Assets	1,482,624	1,537,314
Total Other Assets	**62,924,168**	**53,154,520**
TOTAL ASSETS	**5,082,880,513**	**4,851,291,367**

* Preliminary and unaudited

** Audited but subject to restatement

Source: Financial Accounting Department (FAD), Bangko Sentral ng Pilipinas

16 BSP: CONDENSED STATEMENT OF INCOME AND EXPENSES WITH BUDGET INFORMATION

in thousand pesos

	31 Dec 19 BUDGET*	31 Dec 19 ACTUAL**	31-Dec-18 ACTUAL***
Operating Income:			
Income from Foreign Currency Financial Assets			
Interest Income	72,728,527	82,425,813	67,568,924
Fees, Miscellaneous Foreign Currency Income & Trading Gains/(Loss)-Foreign	40,749	11,451,335	-18,455,438
Total Income from Foreign Currency Financial Assets	**72,769,276**	**93,877,148**	**49,113,486**
Expenses on Foreign Currency Financial Liabilities			
Interest Expense	5,615,450	6,405,359	4,313,573
Other Foreign Currency Expenses	1,283,389	935,667	927,167
Total Expenses on Foreign Currency Liabilities	**6,898,839**	**7,341,025**	**5,240,740**
Net Income from Foreign Currency Financial Assets and Liabilities	**65,870,437**	**86,536,122**	**43,872,747**
Income from Local Currency Financial Assets			
Interest Income & Trading Gains Local	13,065,723	17,999,340	10,582,643
Total Income from Local Currency Financial Assets	**13,065,723**	**17,999,340**	**10,582,643**
Expenses on Local Currency Financial Liabilities			
Interest Expense	46,470,756	38,290,197	25,613,670
Provision for Probable Losses	0	24,350	38,748
Final Tax on Interest Income/Discounts	2,181,379	2,626,910	1,569,968
Total Expenses on Local Currency Financial Liabilities	**48,652,135**	**40,941,457**	**27,222,386**
Net Loss from Local Currency Financial Assets and Liabilities	**-35,586,412**	**-22,942,117**	**-16,639,743**
Net Income from Financial Accounts	**30,284,025**	**63,594,005**	**27,233,004**
Other Operating Income	**7,249,717**	**9,847,805**	**8,299,650**
Currency Printing and Minting Cost	**28,058,274**	**12,472,751**	**11,259,711**
Operating Expenses:			
Personnel Services, Development and Training	13,842,712	15,129,223	13,992,070
Traveling	541,037	452,854	403,380
Taxes and Licenses	169,237	6,168,666	3,826,923
Currency and Gold Operations	446,568	273,367	381,775
Acquired Assets	529,403	375,589	237,566
Other Services	3,776,532	2,499,342	2,610,574
Probable losses on uncollectible rent/receivables	42,646	22,927	19,631
Fidelity Insurance	121,595	78,410	77,418
Light, Fuel & Water	395,031	345,151	339,565
Repairs & Maintenance	1,215,705	548,131	574,082
Communication Services	400,741	307,033	307,547
Supplies	179,919	57,186	49,231
Others	1,420,895	1,140,504	1,243,101
Depreciation	890,299	982,876	857,139
Market Decline of Acquired Assets	37,983	-15,398	-127,949
Total Operating Expenses	**20,233,771**	**25,866,520**	**22,181,478**
Net Income/(Loss) Before FX Rates Fluctuation	**-10,758,302**	**35,102,539**	**2,091,466**
Net Realized Gain on FX Rates Fluctuation	**0**	**14,725,317**	**53,107,590**
Net Income/(Loss) Before Income Tax	**-10,758,302**	**49,827,856**	**55,199,056**
Income Tax Expense	**0**	2,728,675	15,353,831
Net Income/(Loss) for the Year	**-10,758,302**	**47,099,181**	**39,845,224**

* *Excluding PICCI budget*

** *Preliminary and unaudited*

*** *Audited but subject to restatement*

Note: Breakdown may not add up to total due to rounding.

Celebrating 70 years of Central Banking in the Philippines