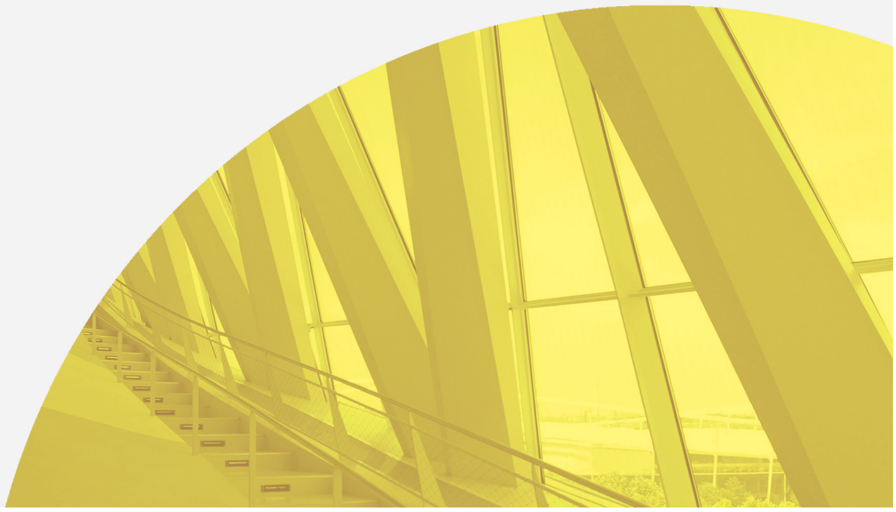
BANGKO SENTRAL NG PILIPINAS

2020 ANNUAL REPORT

Central Banking Amid the Pandemic for a Resilient New Economy



How We Performed in 2020: Operations, Advocacies, and Financial Results

Statistical Annexes

Governor's Message

by Benjamin E. Diokno

Navigating the Future with the Wisdom of the Past

BENJAMIN E. DIOKNO
Governor

The year 2020 was a challenging year for Philippine central banking. At the onset of the COVID-19 pandemic, governments and central banks sought to provide policy support to stem the fall in domestic demand as health authorities implemented containment measures to halt the spread of the virus. Philippine gross domestic product (GDP) saw a contraction of 9.5 percent while unemployment rose sharply to 17.7 percent at the height of the enhanced community quarantine (ECQ) in April 2020 before easing to 8.7 percent as the economy gradually reopened toward the end of the year. With Filipino households and businesses struggling amid the pandemic, authorities took a whole-of-government approach in limiting the economic losses from the pandemic through various public health protocols and social protection programs.

For its part, the BSP complemented the National Government's holistic approach through monetary policy adjustments and regulatory relief measures. In particular, adjustments in monetary policy took the form of a reduction in the overnight reverse repurchase (RRP) rate by a cumulative 200 basis points, which brought the BSP's policy interest rate to a historic low of 2.0 percent. Furthermore, the BSP reduced reserve requirements and allowed alternative compliance by banks through loans to qualified micro, small, and medium enterprises (MSMEs) and large enterprises. These monetary adjustments were intended to shore up market confidence and cushion domestic economic activity and employment by ensuring the continued health of the financial system and encouraging banks to support the financing needs of firms and households.

Furthermore, the BSP also provided the National Government emergency bridge financing by means of a ₱300-billion repurchase agreement in March and provisional advances amounting to ₱540 billion in October. The temporary financial assistance has provided fiscal authorities added flexibility in the government's pandemic response programs.

Altogether, the BSP's liquidity enhancing measures injected approximately ₱2.0 trillion into the economy as of end-2020, equivalent to about 10 percent of the country's nominal GDP.

The monetary adjustments conducted by the BSP were afforded by a benign inflation environment and well-anchored inflation expectations. Despite adverse weather conditions and supply distribution bottlenecks pushing food prices higher during the fourth quarter of the year, average headline inflation for 2020 settled at 2.6 percent, which was on the lower end of the government's target of 3.0 percent ± 1.0 percentage point. In the ensuing quarters, the BSP has aimed to prudently maintain its accommodative monetary policy stance to facilitate and hasten the domestic economy's recovery.

Aside from the liquidity-enhancing measures carried out by the BSP, regulatory relief packages were introduced to help ease the financial burden of households and businesses amid weaker economic activity during the pandemic. Such measures included forbearance on loan payments without incurring further interest on interest, fees, penalties, and other related charges. At the same time, the BSP also imposed a ceiling on interest or finance charges for credit card receivables to induce consumption and promote responsible credit card lending in the country.

The pandemic also saw a marked shift in financial transactions and consumer spending toward the digital realm. Taking advantage of this trend, the BSP put in place further measures to accelerate the adoption of digital payments to promote financial inclusion and enable a progressive shift to a cash-lite economy. As part of its mandate of providing an efficient, safe, and inclusive payments system to the Filipino people, the BSP proactively worked on initiatives such as Open Banking, Cloud Outsourcing, and Regulatory Sandboxing, while also studying the possibility of introducing a Central Bank Digital Currency (CBDC) to support the shift toward secure and more efficient digital transactions. The innovations in the payments system would reduce transaction costs as well as improve the flow of goods and services in the economy through the rapidly growing e-commerce industry. Amid the accelerated transition of businesses and households into the digital economy, the BSP sought to ensure that financial institutions were well-equipped to process the country's growing volume of digital banking transactions safely and swiftly.

Amid a manageable inflation outlook, monetary policy will seek to provide continued support to domestic demand until the recovery gets fully underway. We expect a gradual recovery in 2021 as construction activity picks up, which could contribute to expansion in the industry sector, while improved weather conditions are seen to support the growth of the agriculture sector. Financial conditions likewise remain favorable and continue to provide an environment of affordable financing which are expected to lend support to investments and consumption during the recovery period. When the recovery becomes fully self-sustaining, the BSP will implement a pre-planned strategy for the unwinding of policy stimulus to ensure the sustainability of recovery while also guarding against any emerging threats to the BSP's price and financial stability objectives.

Nevertheless, the BSP remains committed to a disciplined and data-driven approach to monetary policymaking in pursuit of its mandate to promote price stability conducive to sustainable growth. The uncertainties from the pandemic serve as major headwinds on the country's performance but the BSP stands ready to deploy its full range of monetary policy instruments to avert the deepening of scars and further support the economy's recovery.

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. Consistently doing our best to master our craft, continually improving our competencies and learning new things in pursuit of the organizational goals, comparable to the best practices of other central banks.

Patriotism. Selfless commitment to the service of the Filipino people and the country.

Integrity. Performing mandate with sincerity, honesty and uprightness, worthy of respect and emulation from others.

Solidarity. Performing with team spirit; acting and thinking as one in the pursuit of common goals and objectives.

Accountability. Taking full responsibility for one's or group's actions.

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

Legal Basis of Establishment and Legal Mandate

The BSP is the central bank of the Republic of the Philippines. Section 20, Article XII of the 1987 Constitution mandated Congress to establish an independent central monetary authority tasked to provide policy direction in the areas of money, banking, and credit. Pursuant to this constitutionally mandated responsibility, Congress established the BSP through the enactment of Republic Act No. 7653 in 1993.

Powers and Functions

As the Philippines central monetary authority, the BSP is responsible, among others, for:

- Maintaining price stability conducive to a balanced and sustainable growth of the economy and employment;
- Promoting and maintaining monetary stability and convertibility of the peso;
- Promoting financial stability by closely working with the National Government, Department of Finance, Securities and Exchange Commission, Insurance Commission and Philippine Deposit Insurance Corporation;
- Overseeing the payment and settlement systems, including critical financial market infrastructures, to promote sound and prudent practices; and
- Promoting broad and convenient access to high quality financial services for the interest of the general public.

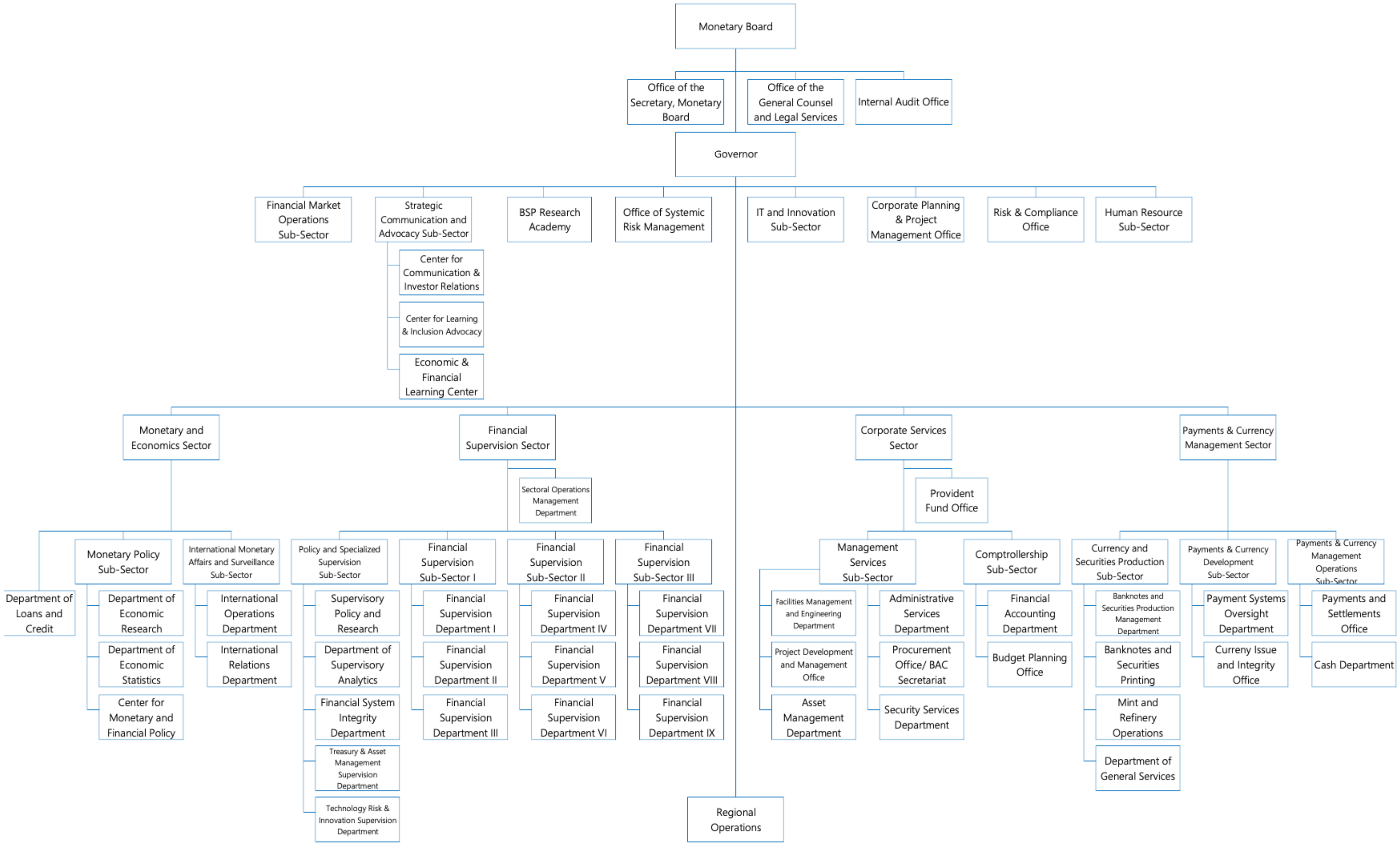
The BSP is also tasked to perform the following functions:

- *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 system 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.* As part of monetary policy, the BSP may issue, place, buy, and sell freely negotiable evidences of indebtedness issued by the BSP.
- *Banker of the government.* 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.

In 2019, after more than 25 years from the establishment of the BSP, President Rodrigo Duterte signed Republic Act No. 11211, the law amending the BSP Charter. Republic Act No. 11211 embodied a package of reforms that further aligned BSP's operations with international standards and global best practices, improved BSP's corporate viability and enhanced the BSP's capacity for crafting proactive policies amid rising interlinkages in the financial markets and the broader economy. The supervisory and regulatory powers of the BSP were further enhanced by expanding the coverage of institutions under the BSP supervision to include money service businesses, credit granting businesses, and payment system operators.

Organizational Structure

As of 29 October 2020



Overview of the Functions

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** render various administrative and technical support to the Monetary Board or the Governor in the areas of legal services, internal audit, financial market operations, corporate strategy and communication, learning and financial inclusion, financial stability, technology and digital innovation, human resources, research, and enterprise risk management. The Office of the Governor also oversees the operations of the BSP regional offices and branches.

- **Monetary and Economics Sector** is mainly responsible for the operations/activities related to monetary policy formulation, implementation, and assessment.

- **Financial Supervision Sector** is mainly responsible for the regulation of banks and other BSP-supervised financial institutions.

- **Payments and Currency Management Sector** is mainly responsible for maintaining the safety and integrity of the Philippine currency and ensuring a well-functioning payments and cash ecosystem that facilitates the economic activity and supports long-run economic growth.

- **Corporate Services Sector** is mainly responsible for the effective management of the BSP's financial and physical resources to support the BSP's core functions.

BSP Key Officers

As of 31 December 2020

The Monetary Board

Chairman & Governor
Benjamin E. Diokno

Members
Carlos G. Dominguez III
Felipe M. Medalla
Peter B. Favila
Antonio S. Abacan, Jr.
V. Bruce J. Tolentino
Anita Linda R. Aquino

Offices under the Monetary Board and Governor

Maria Ramona Gertrudes T. Santiago
Senior Assistant Governor

Johnny Noe E. Ravalo
Assistant Governor

Mel Georgie B. Racela
Executive Director II

Lilia C. Guillermo
Managing Director

Rosabel B. Guerrero
Managing Director

Elmore O. Capule
Senior Assistant Governor and General Counsel

Mary Jane T. Chiong
Managing Director

Amenah F. Pangandaman
Managing Director

Jayzle D. Ravelo
Managing Director

Antonio Joselito G. Lambino II
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
Lyn I. Javier
Managing Director

Vicente T. De Villa III
Managing Director

Ma. Belinda G. Caraan
Managing Director

Payments and Currency Management Sector

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

Corporate Services Sector

Maria Almasara Cyd N. Tuaño-Amador
Deputy Governor

Eduardo G. Bobier
Managing Director

Vincent Z. Bolivar
Managing Director

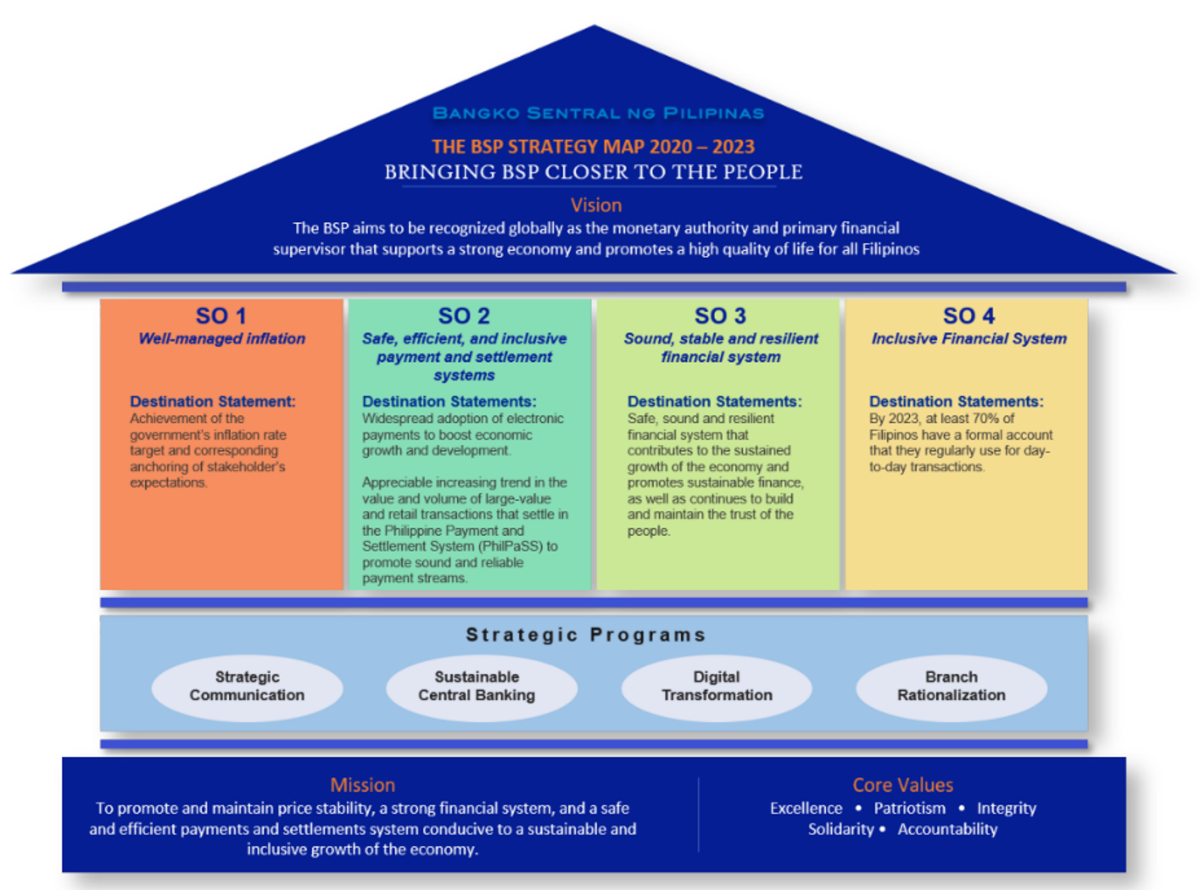
Silvina Q. Mamaril-Roxas
Managing Director

Bella S. Santos
Managing Director

Enrique C. Domingo
Executive Director II

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

Service to the Filipino people has always been the overarching goal of the BSP. As a premier public institution, the BSP regularly examines how its work impacts its primary stakeholders, i.e., the Filipino people. This is emphasized in the strategic focus of the BSP for the period 2020-2023, which carries the theme *"Bringing BSP Closer to the People"*. The strategic intent is to define success in terms of four stakeholder outcomes that focus on making the BSP more relevant to the Filipino people as it pursues its mandates in support of a sustainable and inclusive growth of the economy. These stakeholder outcomes (SO) are as follows:



SO 1: Well-managed inflation. Through the BSP's price stability mandate, it ensures that the general price level of goods and services in the country moves at a low and predictable rate. When there is price stability, households and firms are able to make informed decisions on consumption, investment, savings, and production that are fundamental to achieving high levels of economic activity and employment.

SO2: Safe, efficient, and inclusive payment and settlement system. The BSP shall exercise its regulatory and supervisory authority in pursuit of a safe, efficient, reliable, and inclusive payment and settlement system for the further progress of the Philippine economy. Keys to achieving this objective are the: (a) widespread adoption of digital payment services by various agents of the economy to facilitate the financial transactions; and (b) BSP's operation of a next-generation ISO 20022-compliant real-time gross settlement (RTGS) system to provide a safer and more efficient facility to settle large-value and time critical financial transactions. Realizing such a critical role of digital payment services in the economy, the BSP continues to provide an enabling yet prudent regulatory environment where innovation is allowed to thrive while risks are mitigated.

SO3: Sound, stable, and resilient financial system. Recognizing that a safe, sound, and resilient financial system is key in fostering inclusive and sustainable growth of the country, the BSP ensures that it effectively carries out its supervision mandate. This is done by closely monitoring individual financial institutions and the financial system as a whole, promoting adherence to high standards of doing business and serving the public, and providing an enabling environment for the adoption of environmentally responsible and sustainable policies and practices in the financial industry.

SO4: Inclusive financial system. 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 financial system is seen as a fundamental driver of broad-based and inclusive growth.

To support the achievement of the defined stakeholder outcomes, strategic programs on the following areas were developed and are being implemented: (a) Strategic Communication toward a meaningful engagement with stakeholders; (b) Sustainable Central Banking that fosters environmentally responsible and sustainable policies and work practices in BSP operations; (c) Digital Transformation with the adoption of appropriate digital technologies, development of digital competencies, and practice of digital leadership in promoting a digital mind-set; and (d) Branch Rationalization to ensure that BSP will continue to provide its services across the Philippines with a lean, efficient and cost-effective regional presence through strategically selected sites.

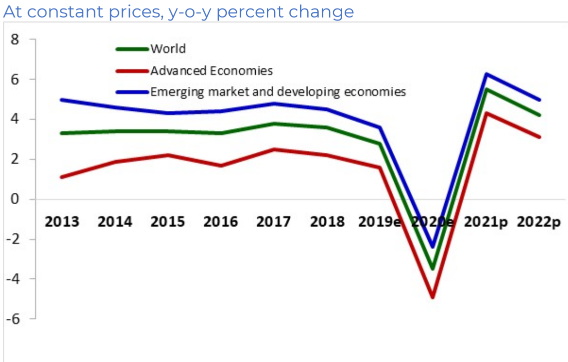
Governor Benjamin E. Diokno, at the start of his term, has committed to policy continuity and, at the same time, to carrying out reforms to better fulfill the BSP's mandates. The 2020-2023 BSP Strategy, Bringing BSP Closer to the People, underscores the commitment of the BSP as an institution to contribute toward achieving a better quality of life for all Filipinos.

How We Were in 2020: Global and Domestic Macroeconomic Landscape

Global economic activity contracts in 2020

Global economy contracted in 2020 due to the disruptions brought about by the novel coronavirus or the COVID-19 pandemic. As the pandemic began to take hold at the start of the year, deliberate and aggressive efforts by policymakers to contain the spread of the virus effectively curtailed global economic activity. International trade collapsed due to border closures and supply-chain constraints, while barriers to travel and tourism impaired mobility and service sector activity. On a positive note, decisive policy actions by central banks provided much-needed support to the global financial system and to financial market sentiment.

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



Source: IMF World Economic Outlook Update, January 2021
e – estimated; p - projections

Global growth momentum gained pace during the second half of 2020 as the rate of infections slowed. Economies were adjusting to new operating conditions with the gradual relaxation of containment measures. However, the threat of further infections lingered. Some economies experienced steady increases in confirmed COVID-19 cases while others saw a resurgence in outbreaks, prompting governments to maintain or reintroduce stringent lockdown measures. Previous experience on COVID-19 management earlier in the year also provided valuable lessons for policy, with pandemic-related measures becoming better targeted and less disruptive to economic activity as the months went on.

Across advanced economies (AEs), social distancing measures and the re-imposition of lockdowns due to the resurgence in COVID-19 led to the collapse in the demand for and supply of services in mid-2020. In Q3 2020, the resurgence of cases dampened the economic rebound in locations such as the US, euro area, and Japan. In the US, the decline in economic activity during the first half of 2020 was nearly three times as large as the peak contraction during the Global Financial Crisis.

Nevertheless, the strong fiscal support to household incomes contributed partly to the initial recovery during the period. Similarly, in Japan, fiscal support as well as the early effective management of the pandemic fueled a rebound in Q3 2020. Meanwhile, in the euro area, the health crisis continued to dampen service sector activity, which is vital to the region's economic recovery.

COVID-19 dampens EMDEs' service sector activities and industrial exports

Similarly, across emerging market and developing economies (EMDEs), service sector activity, particularly in tourism-related industries, declined as consumers shifted away from face-to-face interactions due to the pandemic. Indeed, EMDEs that were heavily dependent on services and tourism, such as the Philippines, and those with strong reliance on industrial-commodity exports experienced the worst contractions due to weak domestic and global demand. Nevertheless, macroeconomic support helped soften the economic downturn across the group. EMDEs that used their available fiscal policy space to expand social safety nets and provide employment experienced less severe declines in private consumption. Meanwhile, the expected fall in investments was tempered partly by policy rate cuts and regulatory relief measures, while substantial fiscal packages led to higher social spending and capital expenditure on health and information technology.

Global economic recovery relies on vaccine deployment and continued policy support

Looking ahead, rapid and widespread vaccine deployment is expected to strengthen contact-intensive activities. At the same time, continued monetary and fiscal policy support, enhanced testing and contact tracing, and improved therapies could effectively reduce COVID-19 cases and support the global economy's transition toward recovery phase.

With the completion of some Phase 3 vaccine trials, vaccination has begun in several AEs. A general rollout of vaccines is expected to proceed in early 2021 in some AEs and major EMDEs, targeted toward the most vulnerable segments of the population. However, the vaccine rollout in some EMDEs and low-income countries (LICs) may be relatively slower owing to procurement and distribution challenges.

Recovery paths of EMDEs are expected to diverge, with considerable differentiation between China's recovery and that of other economies, reflecting the former's effective COVID-19 containment measures, favorable public investment response, and central bank liquidity support. Meanwhile, growth prospects remain muted for tourism-based EMDEs due to the slow return to normalization of cross-border travel. EMDEs that are heavily reliant on contact-intensive industries and commodity exports, as well as those where school closures adversely affected human capital accumulation, are also more exposed to potential downside risks.

The Philippine economy slows down amid the COVID-19 Pandemic

The Philippine economy contracted by 9.6 percent in 2020, a reversal from the robust growth of 6.0 percent recorded in 2019. This was the lowest GDP outturn in the 1946 annual GDP series due largely to the unforeseen events that hit the country, particularly the COVID-19 outbreak that has led to the imposition of travel bans as well as the implementation of stringent community quarantines. All production sectors contracted during the year. The agriculture, fishery and forestry (AFF) sector declined by 0.2 percent due largely to the adverse effects of strong typhoons and the continued incidence of the African Swine Fever (ASF). Meanwhile, the services and industry sectors dropped by 9.2 percent and 13.2 percent, respectively, attributable to the decline in accommodation and food services activities (-45.4 percent), other services (-41.1 percent), transport and storage (-30.9 percent), as well as construction (-25.7 percent). On the expenditure side, while government spending rose by 10.4 percent, this was fully offset by the fall in household consumption and investments (gross capital formation) by 7.9 percent and 35.8 percent, respectively.

The 2020 GDP outturn was broadly within the National Government (NG) growth target of -9.5 to -8.5 percent for the year. It may be noted that the real GDP growth projections for 2020 was revised three times from the initial 6.5 to 7.5 percent forecast on 11 December 2019 during the 177th Development Budget Coordination Committee (DBCC) meeting to -3.4 to -2.0 percent on 12 May 2020, -6.6 to -4.5 percent on 28 July 2020, and -9.5 to -8.5 percent on 3 December 2020 due to elevated uncertainties and prolonged impact of the COVID-19 pandemic.

Nonetheless, it is important to note that the domestic economy came from a position of strength when the global health crisis started. As approved by the DBCC on 18 May 2021, the economy is projected to recover and grow by 6.0 to 7.0 percent in 2021 and 7.0 to 9.0 percent in 2022 on the back of the continuation of the government's efforts to further relax mobility restrictions, accelerate infrastructure spending program, revive the industry and services sectors, and rollout COVID-19 vaccination.

Aggregate Output and Demand

Supply side. The services sector declined by 9.2 percent from the year-ago growth rate of 7.2 percent due largely to the closure (including temporary shutdown) of businesses during the imposition of quarantines to contain the spread of COVID-19. Accounting for 60.7 percent, the services sector shaved 5.6 percentage points (ppts) off the overall 2020 national output. The prolonged community quarantines, particularly the enforcement of "stay-at-home" measures and limited operations of non-essential activities, greatly affected the accommodation and services activities and other services resulting in their steep declines of 45.4 percent and 41.1 percent, respectively. Moreover, the transportation and storage subsector contracted by 30.9 percent as land, sea, and air transport services were restricted, particularly during the enhanced community quarantine (ECQ). Public transportation as well as passenger capacity remained limited even when the travel restrictions were relaxed to minimize the risk of spreading the virus.

There were three services subsectors that posted growth however, namely, the financial and insurance activities (5.5 percent), information and communication (5.0 percent), and public administration and defense, compulsory social activities (4.6 percent). These services continued to operate even amid the strict ECQ period due to the essential activities they perform.

Services subsectors performing essential activities expanded

The industry sector exhibited the steepest decline among the country's major production sectors at 13.2 percent in 2020, a reversal from the 5.5 percent expansion in 2019. The contraction in the sector pulled down the overall GDP growth rate by 4.0 ppts mainly on account of the declines in manufacturing and construction. The manufacturing subsector contracted by 9.8 percent from 3.4 percent growth in 2019, due to restricted business operations, particularly on non-essential goods, and low domestic demand. Meanwhile, the construction subsector posted a double-digit contraction of 25.7 percent from a robust growth recorded in 2019 of 9.7 percent as both projects of public and private sectors were delayed and/or suspended due to travel restrictions. While the decline in the industry sector was huge, there were some signs of recovery. The preliminary composite Purchasing Managers' Index (PMI) rose to 49.9 in December 2020 from 46.8 in the previous month. This was also the highest index since March 2020, when the country's PMI dropped to 27.1 brought about by the ECQ implementation.

The AFF sector contracted by 0.2 percent in 2020, down from the 1.2 percent growth in 2019. Contributing factors to the decline were the eruption of Taal Volcano in January, series of typhoons and floodings and the continued presence of ASF. The livestock subsector further contracted by 6.9 percent from 0.8

percent decline in 2019 as hogs were culled to prevent further spread of ASF. Poultry and egg production and other animal production also went down by 2.4 percent and 3.2 percent, respectively, due mainly to the low demand brought about by the limited operation of fast-food chains and restaurants. These downward trends were partially offset by the increase in *palay* production by 3.1 percent, after two consecutive years of contractions (-1.4 percent in 2018 and -5.9 percent in 2019), mainly attributed to the implementation of the Rice Competitiveness Enhancement Fund (RCEF) under the Rice Tariffication Law. Despite the challenges faced by the sector, the Department of Agriculture (DA) expects its rebound in 2021 as the agency embarks on its banner programs to increase production of rice and corn, mitigate the spread of ASF, and initiate hog re-population, among others. These will be supported by strengthened partnerships with local government units (LGUs), the private sector, farmers and fisherfolk, and agri-fishery industry stakeholders.[1]

Demand side. On the demand side, the 2020 GDP output was pulled down by the double-digit contraction in gross capital formation triggered mainly by the delay in the implementation of major infrastructure projects due to quarantine measures. Moreover, household consumption, which was a consistent growth driver in the past, performed weakly due to the loss of income, weak consumer sentiment, and compliance to "stay-at-home" measure to contain the spread of COVID-19. These downward pressures on the economy were partially offset by the increase in government spending to address the ongoing health crisis.

Household spending dropped by 7.9 percent, a reversal from the expansion recorded in 2019 of 5.9 percent as consumers reduced their spending on non-essential commodities due mainly to job losses and lay-offs. Recreation and culture and restaurant and hotels contracted the most by 44.1 percent and 43.1 percent, respectively.

Transportation spending, which is one of the key household expenditure items, contracted by 33.5 percent due largely to the suspension of public transportation during the stringent quarantine period as well as the continued implementation of alternative working arrangements by firms. Meanwhile, housing, water, electricity, gas and other fuels as well as food and non-alcoholic beverages posted expansions of 5.8 percent and 5.0 percent, respectively, mainly attributed to the low and stable inflation environment.[2]

Government spending posted a double-digit growth of 10.5 percent, faster than the 9.1 percent expansion in 2019. This is in accordance with the government's COVID-19 response strategy through providing income support to low-income households and wage subsidy to small business workers.

Meanwhile, gross capital formation declined by 34.4 percent, a steep decline from the 3.5 percent increase in 2019. This sizeable dip was on account mainly of the 30.3 percent drop in construction and 29.7 percent contraction in durable equipment amid subdued business sentiment as well as the delay in the roll-out of key infrastructure projects by both the public and private sectors.

Both exports and imports posted double-digit contractions of 16.3 percent and 21.6 percent, respectively, in 2020 due to limited international trade following the imposition of travel bans and limited transportation activities. Mounting external challenges such as the weak global growth outlook, supply chain disruptions, trade tensions, and

[1] DA News Release, "Agri sector remained resilient, despite contraction in 2020; eyes 2.5 percent growth in 2021", 21 January 2021.

[2] Average inflation for 2020 stood at 2.6 percent, within the government's inflation target of 3.0 percent ± 1.0 percentage point (ppt).

emerging political uncertainty, among others, contributed to the sluggish external sector performance during the year.

Further easing of restrictions and safe re-opening of the economy will enable an early and strong recovery

The Philippines entered the pandemic from a position of strength, with GDP growth averaging at above 6 percent over the past 10 years (6.4 percent average from 2010-2019). After 84 consecutive quarters of growth, the Philippines entered a recession in 2020, owing mainly to the impact of the COVID-19 pandemic. Nevertheless, the country is already showing signs of recovery. The further easing of restrictions and safe opening of the economy as well as the approval of the ₱4.5 trillion 2021 national budget and the extension of Bayanihan 2 until 30 June 2021 will enable the country to achieve an early and strong recovery from the pandemic. Furthermore, the "Build, Build, Build" program of the government is expected to accelerate the implementation of infrastructure modernization program to generate jobs and revive businesses. Structural reforms, such as the Corporate Recovery and Tax Incentives for Enterprises (CREATE) bill will also accelerate economic recovery by reducing the corporate income tax (CIT) rate and restructuring the country's fiscal incentives system. More importantly, the availability of vaccines for COVID-19 and their subsequent roll-out this year are expected to address the root cause of the pandemic allowing for further easing of the containment measures currently implemented and raising the economy's operating capacity.

Employment. Labor market conditions weakened in 2020 as the total number of employed persons decreased by 6.1 percent to 39.4 million from 41.9 million a year ago. Based on the Philippine Statistics Authority's (PSA) preliminary Annual Labor and Employment Estimates for 2020,[3] the employment rate was at 89.7 percent, 5.2 ppts lower than the 94.9 percent rate in 2019.

Almost all major employment sectors posted employment losses in 2020. Employment in the services sector fell by 8.5 percent due to negative growth rates in the following sub-sectors: arts, entertainment, and recreation (-42.6 percent); accommodation and food services activities (-24.0 percent); information and communication (-19.3 percent); real estate activities (-19.0 percent); professional, scientific and technical activities (-16.1 percent); transportation and storage (-14.4 percent); other service activities (-9.4 percent); public administration and defense, compulsory social security (-5.9 percent); financial and insurance activities (-5.1 percent); administrative and support service activities (-4.9 percent) as well as wholesale and retail trade, repair of motor vehicles and motorcycles (-3.4 percent). Nonetheless, some services sub-sectors registered employment gains, including education (1.5 percent) and human health and social activities (0.1 percent).

Employment in the industry sector likewise declined by 11.1 percent, largely driven by employment losses in manufacturing (-12.8 percent); electricity, gas, steam, and air conditioning supply (-10.6 percent); construction (-10.3 percent); and water supply, sewerage, waste management and remediation activities (-10.1 percent).

Conversely, the mining and quarrying sub-sector grew by 4.2 percent during the year in review. Bucking the trend exhibited by the other production sectors, employment in the agriculture sector rose by 4.6 percent in 2020.

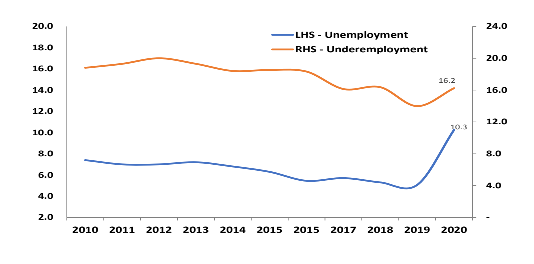
Of the three major employment sectors, the services sector accounted for more than half of the total employed persons with a share of 56.9 percent. The agriculture sector comprised 24.8

[3] Released 8 March 2021.

percent of total employment while the industry sector took the remaining 18.3 percent share of total workers.

The unemployment rate in 2020 was recorded at 10.3 percent numbering to about 4.5 million jobless Filipinos. This is almost twice as high as the 2.3 million level reported in 2019. Most of the unemployed persons were males (63.8 percent), between 15-24 years of age (34percent), and have completed junior high school education (28.6 percent).

Chart 1.2. Unemployment/Underemployment Rate
In percent



Source: Labor Force Survey - Philippine Statistics Authority

The labor force participation rate (LFPR) in 2020 was at 59.5 percent, 1.8 ppt lower than 61.3 percent in 2019. The 2020 LFPR reflected the impact of the community quarantine restrictions, closure of businesses, and physical distancing measures implemented amid the pandemic.

In terms of class of workers, the number of wage and salary workers declined by 8.7 percent in 2020 following the reduction in the number of workers who worked with pay in own family-operated farm or business (-22.6 percent); worked for private establishment (-9.9 percent); worked for private household (-8.9 percent); and government or government corporations (-1.4 percent). Likewise, contractions were posted in the number of self-employed without any paid employee by 0.7 percent and employer in own family-operated farm or business by 18.4 percent. Only the number of unpaid family workers increased by 4.4 percent.

Among the classes of workers, the wage and salary workers took the largest share of the total at 62.9 percent, followed by self-employed without any paid employee at 28.3 percent, unpaid family workers at 6.3 percent, and employer in own family-operated farm or business at 2.5 percent.

The underemployment rate in 2020 increased by 2.4 ppts to 16.2 percent from 13.8 percent in the previous year. This suggests that more Filipinos expressed the desire to either have additional hours of work in their present job, get an additional job, or have a new job with longer working hours. Of the total underemployed, 48.2 percent were engaged in the services sector, 33.4 percent in the agriculture sector, and 18.4 percent in the industry sector. Underemployed persons are also categorized into visibly underemployed persons (those who worked for less than 40 hours in a week) and invisibly underemployed persons (those who worked for 40 hours or more in a week).

Employed persons are also classified as either full-time workers or part-time workers. Full-time workers or those who work for 40 hours or more in a week comprised 55.9 percent of the total employed persons in 2020, while part-time workers or those who work for less than 40 hours accounted for 34.5 percent. Meanwhile, currently employed persons but not at work comprised 9.6 percent. Being not at work in 2020 is attributed to the varied working time arrangements, temporary illness/injury, vacation or other leaves of absence, bad weather, and/or strike/labor dispute.

Prices. Average headline inflation increased slightly to 2.6 percent in 2020 from 2.5 percent in the previous year but remained within the Government's annual inflation target range of 3.0 percent ± 1.0 ppt for the year.

Annual food inflation rose to 2.8 percent in 2020 from 1.8 percent in 2019 due to some tightness in domestic supply brought about by a confluence of factors. These include the: (1) supply bottlenecks experienced in early 2020 amid the imposition of quarantine measures which prompted non-monetary interventions from the government; and (2) weather-related disturbances in the second half of the year that also led to increased price pressures from selected agricultural products. Moreover, the African Swine Fever (ASF) outbreak also continued to affect domestic supply of pork and resulted in higher meat inflation for the year.

By contrast, non-food inflation slowed down further to 1.8 percent in 2020 as inflation for most major components decelerated relative to the previous year. Some of the major items that registered lower inflation rates include: housing, water, electricity, gas, and other fuels, given reductions in electricity rates and still negative inflation for liquid fuels; recreation and culture, as lotto ticket prices were reverted to ₱20.00 from ₱24.00; and restaurants and miscellaneous goods and services.

The slower rates of inflation for most of the non-food items were enough to offset the marked increase in transport inflation brought about by fare hikes particularly for tricycle.

By area, headline inflation in the National Capital Region (NCR) eased to 2.2 percent in 2020 from 2.6 percent in the previous year. On the other hand, inflation in areas outside the NCR (AONCR) increased to 2.7 percent in 2020 from 2.5 percent in 2019.

Meanwhile, average core inflation, which excludes selected volatile food and energy items to depict underlying demand-side price pressures, was unchanged at 3.2 percent in 2020 compared to the previous year's rate. Alternative measures of core inflation estimated by the BSP likewise showed a slowdown in 2020, except for the net of volatile items measure, which rose slightly to 3.4 percent in 2020 from 3.3 percent in the previous year.

Table 1.3. Measures of Core Inflation (2012=100)
In percent

	2019	2020
Core Inflation	3.2	3.2
Trimmed Mean[1]	2.6	2.1
Weighted Median[2]	2.9	2.3
Net of Volatile Items[3]	3.3	3.4

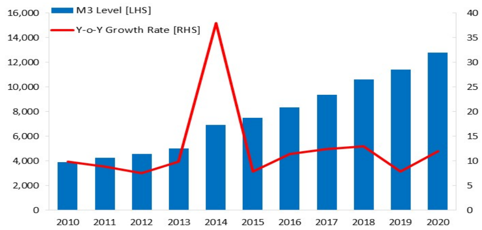
[1] The trimmed mean represents the average inflation rate of the (weighted) middle 70 percent in a lowest-to-highest ranking of year-on-year inflation rates for all CPI components.
[2] The weighted median represents the middle inflation rate (corresponding to a cumulative CPI weight of 50 percent) in a lowest-to-highest ranking of year-on-year 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, fuel and lubricants for personal transport equipment, and passenger transport by road, which represents 29.5 percent of all items.
Sources: PSA, BSP estimates

Monetary Aggregates. Domestic liquidity or M3 increased by 9.5 percent year-on-year (y-o-y) as of end-December 2020 following an 11.5-percent expansion recorded at end-2019.

Domestic liquidity expands at a slower pace but remains adequate

The slower growth in domestic liquidity was due mainly to weak credit activity amid the disruptions brought about by the COVID-19 pandemic. Growth in Domestic Claims[4] slowed down to 4.5 percent y-o-y from 11.5 percent in 2019 due to the contraction in claims on other sectors (-1.2 percent), reflecting the marked decline in bank lending. Meanwhile, net claims on the central government rose by 31.1 percent due in part to the sustained borrowings by the National Government to help finance its COVID-19 response measures.

Chart 1.4. Domestic Liquidity (M3)
Levels in billion pesos; y-o-y Growth in percent



Source: BSP

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

Net foreign assets (NFA) in peso terms rose by 25.5 percent y-o-y in December 2020. The expansion in the BSP's NFA position reflected the increase in the country's gross international reserves (GIR). Meanwhile, the NFA of banks increased due to the sustained expansion in banks' foreign assets resulting from the growth in loans and investments in marketable securities.

Amid the COVID-19 health crisis, the BSP's liquidity-enhancing measures and accommodative monetary policy settings have been critical in ensuring ample liquidity in the financial system. These measures have also complemented fiscal and health initiatives to stimulate economic activity and lift market confidence. In this regard, the BSP has ensured the public of its commitment to deploy appropriate monetary measures as necessary in support of economic recovery, in line with its price and financial stability mandate.

Operations of the NG. The NG recorded a budget deficit of ₱1,371.4 billion in 2020, about twice the fiscal gap of ₱660.2 billion in 2019.

Fiscal deficit widens

This latest level of fiscal deficit was equivalent to 7.6 percent of GDP, consistent with the 7.6 percent deficit outlook for 2020 and was below the revised programmed deficit for 2020 by 9.6 percent.[5] The broader budget shortfall was a result of the decline in revenue collections combined with the sizable expansion in government spending in view of the immediate and unprecedented response to the socio-economic impacts of the COVID-19 pandemic. The NG's revenues decreased by 9.0 percent y-o-y to ₱2,856.0 billion from ₱3,137.5 billion in 2019, mainly attributed to lower collections by the Bureau of Customs (BOC) and Bureau of Internal Revenue (BIR) by 14.7 percent and 10.3 percent, respectively. However, the decline was partly offset by higher non-tax revenues, supported by increased collections by the Bureau of the Treasury (BTr), which expanded by 49.9 percent, primarily on account of higher dividends, other government service income, and interest on advances from government-owned and -controlled corporations (GOCCs). Relative to the size of the economy, total NG revenue in 2020 accounted for 15.9 percent of GDP, a slight decrease from the 2019 ratio of 16.1 percent.

Meanwhile, NG disbursements amounted to ₱4,227.4 billion in 2020, equivalent to 23.5 percent of GDP, and higher by 11.3 percent from the ₱3,797.7 billion level in 2019. The increase in spending for the year was brought about by the implementation of various COVID-19 mitigation and recovery measures. However, the disbursement level was lower than the spending outlook for 2020 by ₱6.3 billion or 0.1 percent.[6]

The 2020 fiscal deficit was financed mainly from domestic sources, which covered about 73.0 percent of the gross financing requirement of the NG.[7] The country's favorable fiscal position and sustained economic growth was disrupted by the pandemic and has brought the debt- to-GDP ratio from 39.6 percent in 2019 to 54.5 percent in 2020. However, fiscal discipline has generated sufficient fiscal space which can be allocated mainly into funding health and social protection programs as well as economic stimulus measures against the widespread and profound impact of the COVID-19 pandemic.

[5] The outlook is based on the Medium-Term Fiscal Program FY 2020-2022 as approved by the DBCC on 3 December 2020. (Source: 178th DBCC Meeting)

[6] https://www.dbm.gov.ph/index.php/dbcc-matters/macroeconomic-assumptions-and-fiscal-targets/178th-dbcc-meeting

[7] Based on Bureau of Treasury (BTr) definition, domestic and external financing are measured gross except for treasury bills, which is net of redemption.

Box Article 1:

Monetary Policy and Fiscal Coordination during the Pandemic

The COVID-19 pandemic posed an unprecedented shock on the Philippine economy. Necessary measures to contain the spread of infections in the country inadvertently drove the economy into recession, with real GDP for 2020 contracting by 9.5 percent y-o-y. This is the sharpest recorded drop since authorities started collecting annual growth data in 1946.

The reaction from policymakers has nevertheless been extraordinary. An interagency body comprising various government agencies was quickly convened to deploy medical interventions and calibrate quarantine measures to prevent a full-blown public health crisis. Meanwhile, fiscal and monetary authorities responded boldly to arrest potential stops in economic activity and financial market functioning. Without these coordinated responses, the adverse impact of the pandemic on public welfare and market sentiment would have compounded the decline in real economic activity.

This multisectoral approach underscores how monetary and fiscal policy played distinct but complementary roles in mitigating the adverse economic impact of the pandemic. While monetary authorities ensured the proper functioning of credit and financial markets, fiscal policy addressed supply bottlenecks resulting from quarantine measures and provided income support to vulnerable enterprises and households.

1. Institutional Arrangements for Policy Coordination

Even before the pandemic, coordination between the Bangko Sentral ng Pilipinas (BSP) and fiscal authorities in the Philippines has been facilitated mainly through the Development Budget Coordination Committee (DBCC), an inter-agency body that reviews and approves the country's macroeconomic targets along with the corresponding fiscal and financing programs used in the preparation of the annual National Government (NG) budget.

The DBCC has four member-agencies: the Department of Budget and Management (DBM), Department of Finance (DOF), National Economic and Development Authority (NEDA), and the Office of the President (OP). Pursuant to the invitation issued by the DBCC under DBCC Resolution no. 98-1 dated 22 June 1998, the BSP participates in the DBCC meetings only as a resource institution and thus has no voting powers during deliberations. The BSP provides recommendations on medium-term macroeconomic assumptions used for estimating domestic growth projections and preparing the NG's fiscal targets.[8] The BSP also apprises the DBCC of its recent monetary policy actions and the overall thinking and analyses underlying these policy decisions. As a resource institution of the DBCC, the BSP also lends its expertise on matters falling under its purview during congressional deliberations on the national budget.

The DBCC is also responsible for setting and periodically reviewing the NG's medium-term inflation target in consultation with the BSP. Nevertheless, the primary responsibility for steering inflation towards the inflation target range rests with the BSP, in line with its mandate to promote price stability conducive to balanced and sustainable economic growth and employment. While the BSP exercises independence in the

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[8] The BSP submits macroeconomic assumptions for the following variables: inflation, peso-dollar exchange rate, Dubai crude oil price, 364-day Treasury bill rate, 180-day London inter-bank offered rate (LIBOR), as well as merchandise and service exports and imports.

conduct of monetary policy, it considers the possible implications of the NG's spending and tax programs on the outlook for inflation and growth when assessing and calibrating its monetary policy stance.

Moreover, the BSP recognizes that the NG's borrowing and spending plans may have direct implications on domestic liquidity conditions. Thus, the BSP takes information on the NG's fiscal plans as crucial inputs for its liquidity forecasts, which in turn guide the BSP's monetary operations and liquidity management strategies. In line with other central banks' best practices of liquidity management operations, the BSP affords the funding requirements of the NG and the economy due consideration in calibrating its monetary operations.

On the whole, the institutional arrangements under the DBCC ensure consistency in the assumptions, forecasts, and targets in the fiscal, real, monetary, and external sectors of the economy by serving as an important venue for exchange of information between monetary and fiscal authorities.

2. Policy Coordination Amid the Pandemic

The pandemic has not led to material changes in the institutional framework for policy coordination in the Philippines. The DBCC has served as one of the venues for policymakers to discuss mitigating measures against the economic impact of the pandemic. Frequent interagency coordination meetings have also signified a whole-of-government approach to managing the crisis. In compliance with health protocols, communication and submission of inputs among principals have been accomplished mainly through digital channels. Press briefings by economic managers to discuss macroeconomic targets and policies have also been conducted online.

Coordination also meant that fiscal and monetary authorities took similarly expansionary stances and deployed extraordinary measures within their respective purviews to limit any potential social and economic scarring.

2.1 Fiscal initiatives

The NG ramped up its spending to mitigate the economic impact of the pandemic. Among others, the NG funded (1) cash transfers to low-income households; (2) social protection programs for displaced workers and repatriated overseas Filipino (OF) workers; and (3) various medical interventions, including the purchase of COVID-19 test kits and personal protective equipment, the provision of special risk allowances for medical frontliners, and financial assistance for micro-, small-, and medium-scale enterprises (MSMEs).

Consequently, the country's budget deficit widened to ₱1.37 trillion in 2020 from only ₱660.2 billion in 2019, according to data from the Bureau of the Treasury (BTr). This was equivalent to about 7.6 percent of GDP, substantially higher than the ratio of 3.4 percent in 2019. Still, the deficit fell below the full-year program of ₱1.82 trillion, indicating potent space for fiscal authorities to continue funding social protection programs and other measures to spur domestic economic activity. Meanwhile, as restrictions to mobility and economic activity dampened tax and revenue collections, the NG also increased its borrowings to finance programmed expenditures and COVID-19 initiatives. The NG's outstanding debt rose to about ₱9.8 trillion as of end-2020 from ₱7.7 trillion in 2019, with domestic borrowings amounting to about ₱6.7 trillion and external debt reaching ₱3.1 trillion. The country's debt-to-GDP ratio, thus, rose to 54.5 percent in 2020 from 39.6 percent in 2019.

2.2 Monetary interventions

The BSP recognized that strict quarantine protocols impeded the NG's revenue streams. The BSP, therefore, deemed it important to adopt extraordinary monetary measures in support of the NG's efforts to soften the impact of the pandemic on the economy.

Among these interventions was the shift to an accommodative monetary policy stance. With inflation forecasts hovering firmly within the inflation target range of 2-4 percent for 2020 up to 2022, the BSP saw enough scope to help cushion economic activity, support domestic financial conditions, and shore up market sentiment. By the end of the year, the BSP had reduced the interest rate on the overnight reverse repurchase (RRP) facility by a total of 200 basis points (bps) from 4.0 percent to a historic low of 2.0 percent.[9]

Moreover, the BSP implemented extraordinary liquidity measures to provide the NG added fiscal flexibility to carry out its COVID-19 response programs. These measures are not a long-term source of funding for government spending. Hence, they are not expected to result in a permanent increase in the monetary base or the BSP's balance sheet, and as such are not seen to impede the BSP's conduct of monetary policy. Moreover, legal and binding limits to the direct monetary support the BSP can extend to the NG help instill discipline and prudence, thereby mitigating the risks of excessive monetary financing and fiscal dominance.

- Remittance of dividends. The BSP's amended Charter stipulates that any and all dividends declared by the BSP in favor of the NG shall be released and disbursed for the payment of the increase in the BSP's capitalization. While the BSP is no longer mandated to remit its dividends to the NG, the crisis prompted the MB to defer the application of the BSP's dividends for 2019 to the BSP's capital. On 26 March 2020, the BSP remitted ₱20 billion in advance/partial dividends to support the NG's COVID-19 response programs.

- Provisional advances. Section 89 of its Charter allows the BSP to directly extend funds to the NG, with or without interest, to finance public expenditures authorized in the NG's annual appropriation—akin to a cash advance. The BSP can lend no more than 20 percent of the average annual income of the NG for the preceding three years. The direct provisional advance must also be repaid within three months, or within a maximum term of six months if deemed necessary by the MB.

On 27 March 2020, the BSP extended provisional advances to the NG through a repurchase (repo) transaction with the BTr—the first time since the BSP's inception in 1993 that a provisional advance was requested by the NG and subsequently granted by the BSP. Under the repo agreement, the BSP purchased government securities from the BTr amounting to ₱300 billion. The NG, in turn, committed to buy back the GS and repay the BSP within three months after the disbursement of the funds. Prior to maturing on 29 June 2020, the repo was extended by another three months to 29 September 2020. The repo was fully settled in end-September. The BSP subsequently granted the NG another tranche of advances worth ₱540 billion on 6 October 2020, which in turn was fully repaid on 18 December 2020.[10]

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[9] The Monetary Board (MB) decided to reduce the policy rate by 25 bps on 6 February; by 50 bps each on 19 March, 16 April, and 25 June; and by 25 bps on 19 November 2020.

[10] On 12 January 2021, the BSP granted the NG a third tranche of ₱540 billion, which was initally set to mature in March 2021. In April 2021, the MB approved extending the term of the loan by another three months to July 2021, consistent with the provisions of the BSP Charter.

Meanwhile, the Bayanihan to Recover As One II Act allows the BSP to extend additional advances equivalent to no more than 10 percent of the average annual income of the NG from 2017-2019, provided that these funds are explicitly earmarked for the government's COVID-19 response programs. The NG must avail of the additional amount within two years upon effectivity of the Act (or up to 2022), and it must be repaid within one year upon availment. While the NG has not yet tapped the standby facility to date, the BSP stands ready to extend assistance as needed, to the extent allowed by the prevailing outlook for inflation and growth and by the provisions of its Charter.

- GS purchases in the secondary market. The BSP has also purchased GS in the secondary market to help restore market confidence, ensure the proper functioning of the GS market, and hence maintain financial stability. The measure was aimed at reassuring market participants of demand for GS should they need to liquidate their holdings, thus encouraging participation in the primary GS auctions.

3. Looking Ahead

Maintaining macroeconomic stability amid the COVID-19 pandemic has relied on an effective mix of monetary and fiscal policy. The manageable inflation environment has afforded monetary authorities the scope they needed to maintain an accommodative stance. At the same time, fiscal stimuli have become easier to finance in the current low interest rate environment following central banks' reductions in policy rates and purchases of government bonds. Moreover, increased government debt would not necessarily trigger higher inflation in the near term if decisive fiscal and structural policies would be more actively undertaken, as they would ultimately "boost potential growth, reverse the decline in the real equilibrium interest rate, and thereby increase monetary policy space in the future" (Schnabel, 2020).

However, while the nexus between monetary and fiscal policies has expanded during the pandemic, there remains a need to recognize and preserve their natural boundaries. Carstens (2020) notes that "central banks cannot intervene in government debt markets on a large scale for any great length of time" and that "the natural boundaries between fiscal and monetary policy will need to be fully restored to preserve central bank credibility." In particular, while the whole-of-government responses are necessary in the present case, central banks also need to prevent moral hazard in the sense that governments may use the COVID-19 as a precedent for monetary financing, especially should similar crises arise in the future.

Borio (2020) echoes the sentiment that "extraordinary measures are only for extraordinary times" and that the demarcation line must be made clearer as the situation normalizes. For the BSP, the pandemic has brought to the forefront the importance of staying committed to its primary mandates. While direct provisions to the NG provide fiscal authorities some added flexibility, these interventions are simply stop-gap measures and are not sustainable over the medium term. Therefore, as the Philippine economy recovers, the BSP will need to scale back or entirely reverse most of its monetary interventions in order to ensure price and financial stability.

In the meantime, fiscal policy, together with structural reforms, is expected to continue to share in the heavy lifting to quicken the economic recovery by supporting incomes and employment, thus rousing sentiment and demand. The COVID-19 pandemic is still mainly a public health crisis and targeted medical and fiscal interventions must remain at the forefront of government efforts to protect public welfare.

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Box Article 2:
Monetary Policy Challenges amid COVID-19

1. Overview

In 2020, the world has witnessed the unravelling of an unparalleled event – a pandemic that spared no economic territory and grounded the economy to a virtual standstill. Governments worldwide, especially fiscal and monetary authorities, are likewise racing against time to mitigate the adverse economic fallout from the pandemic. For central banks, the level of monetary space that they possess at the onset of the crisis determined, in part, their ability in providing unprecedented policy responses to complement the government's broad-based health and fiscal relief measures.

Prior to the pandemic, the policy rate was at 4.0 percent, providing the BSP ample space for monetary policy maneuver[11]. In addition, the Philippines came from a position of strength, reflecting gains from solid macroeconomic fundamentals, prudent banking regulations and resilient external position. The BSP cut its policy rate by a total of 200 basis points (bps) in 2020 to help bring down the cost of borrowing, shore up market confidence, and address liquidity concerns in the financial system. The BSP also lowered the reserve requirement (RR) ratio of universal and commercial banks (U/KBs) and non-bank financial institutions with quasi-banking functions by a cumulative 200 bps.

Given the severity and extent of the pandemic, the BSP deemed it critical and necessary to provide extraordinary support to the National Government's (NG's) broad-based fiscal programs. This pertains to the BSP's provisional advances and bridge financing support in the form of government securities (GS) purchases through a repurchase agreement with the NG. The BSP's accommodative monetary policy and liquidity-enhancing measures have injected the financial system with around ₱2.0 trillion, equivalent to about 11.1 percent of the country's 2020 nominal GDP.[12]

2. Key challenges in monetary policy

The unique attributes of the COVID-19 health crisis posed challenges on the BSP's conventional monetary policy measures and emphasized the limits of central bank stimulus. Monetary policy challenges faced by the BSP include: (i) communication to the public of its policy responses; (ii) weak credit demand as well as banks' risk-averse stance and concerns regarding asset quality; and (iii) the need for high frequency data for better assessment of economic conditions and inflation forecasts.

The BSP's strategic monetary policy communication approach played a critical role in calming public concerns over its extraordinary policy support to the NG. Through clear and repeated messaging, the BSP emphasized that the repo agreement with the NG and government securities purchases in the secondary market were essentially "bridge financing" and complementary measures to support the NG's pandemic-response programs in light of the delay in tax collection following the government's implementation of enhanced quarantine measures. Said bridge financing is capped, time-bound and authorized under the BSP's Charter. Nevertheless, the BSP reiterates that these measures are not intended to provide a long-term source of funding for government expenditures.

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[11] The BSP's policy rate refers to the overnight reverse repurchase (RRP) rate. The RRP rate or borrowing rate is the BSP's primary monetary policy instrument in absorbing excess liquidity from the banking system temporarily.
[12] The full year nominal GDP for 2020 is recorded at ₱18 trillion (using 2018-based series). The GS purchases in secondary market pertains to data as of 28 December 2020.

Notwithstanding the substantial monetary-easing and liquidity-enhancing measures provided by the BSP, weak market confidence continues to dampen the transmission from accommodative financing conditions to private spending and investing. Bank lending to private sector indicates that credit activity has remained tepid.[13] The weak demand for credit by firms and households despite low interest rates reflects their heightened apprehensions over the likelihood of long-term economic scarring effects and uncertainty on the duration of the pandemic. Moreover, the slower-than-expected pick-up in bank lending can also be attributed to banks' risk aversion and concerns regarding asset quality.[14]

Finally, the pandemic underscored the need for high frequency indicators and data in crafting appropriate and timely policy responses. The BSP's assessment of prevailing economic conditions and inflation forecasts are subject to considerable amount of uncertainty due to the evolving nature of the pandemic. The health crisis itself and its effects undermine the reliability of important economic indicators, which serve as foundation of robust macroeconomic model. Delays in economic data releases as well as difficulties related to intergovernmental data coordination due to the imposition of lockdowns and social distancing measures also contributed to forecasting challenges related to the monetary policymaking process.

3. Conclusion

The unprecedented nature of the shock called for a bold and coordinated policy response from the government, with both fiscal and monetary authorities playing distinct yet complementary roles in mitigating the pandemic's economic fallout. For the part of the BSP, the level of monetary space prior to the health crisis played a crucial role in determining the scope and extent of its policy measures. In the run-up to the pandemic crisis, the BSP had ample monetary policy space, partly as a result of a tightening cycle in 2018 in response to both demand- and supply-side pressures. Moreover, the country came from a position of strength, reflecting gains from sound macroeconomic fundamentals amid manageable inflation outlook and insights gained from previous crisis experiences. These favorable developments enabled the BSP to deploy timely and appropriate monetary policy measures to complement the country's whole-of-government approach in combating the effects of the pandemic.

However, just like other central banks, the BSP faced monetary policy challenges amid heightened uncertainty and synchronized deep global economic downturn. Even as the BSP experienced forecasting difficulties during the pandemic, its decisions on the monetary policy stance continued to be data-dependent, guided by the evolving outlook on inflation and economic growth. Amid an uncertain and fragile economic environment, the BSP took into consideration the continuing need for sustained policy support to facilitate the recovery of the economy.

Meanwhile, the BSP also recognized the limits of what monetary policy can do amid the pandemic. Thus, even as the BSP is ready to implement additional policy measures, the heavy lifting should come primarily from fiscal authorities as policy interventions such as pro-poor spending programs, public health measures and social protection schemes are more targeted and directed.

[13] Bank lending to private sector contracted by 0.6 percent during the same period, even as domestic liquidity grew by 9.5 percent year-on-year in December 2020.
[14] While the exposure of the Philippine banking system to bad debts has remained low vis-à-vis its historical trend, we note an uptick in the NPL ratio in December 2020 at 3.6 percent from 2.1 percent in December 2019.

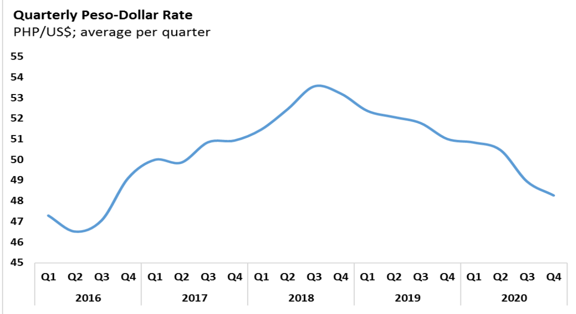
Foreign Exchange Market

The peso shows resiliency amid the COVID-19 outbreak.

The peso averaged ₱49.62/US$1 for the period 2 January to 29 December 2020, appreciating by 4.38 percent from the ₱51.80/US$1 average in 2019.[15] The peso and the foreign exchange (FX) market showed resiliency in 2020 amid the Coronavirus Disease 2019 (COVID-19) reflecting in general, investors' continued focus on the Philippines' macroeconomic fundamentals—manageable inflation environment, a strong and resilient banking system, prudent fiscal position, and a high level of international reserve buffer.

At the same time, the narrowing of the trade deficit, a current account surplus and positive overall balance of payments during the year translated to a relatively stable foreign exchange rate.[16] Meanwhile, the continued build-up in the country's international reserves also helped sustain market confidence to the local currency.[17] Moreover, adding positive market views to the peso included the government's timely and decisive efforts to mitigate the adverse impact of the pandemic and its attendant consequence on the financial market, as well as the reaffirmation of the country's credit ratings during the year.

Chart 1.5. Quarterly Peso-Dollar Rate
In PHP/US$; average per quarter



Source of basic data: BSP

The continued build-up in international reserves helped sustain market confidence in the local currency

As of end-December 2020, the peso closed at ₱48.02/US$1, appreciating by 5.44 percent from its closing rate of ₱50.64/US$1 on end-December 2019.[18] The peso appreciated along with most of regional currencies except the Thai baht, Indonesian rupiah and Indian rupee which depreciated against the US dollar.

Meanwhile, the volatility of the peso (as measured by the coefficient of variation) stood at 2.22 percent (year-to-date) as of 29 December 2020. This was relatively lower than the volatility of most currencies in the region.[19]

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[15] Dollar rates or the reciprocal of the peso-dollar rates (based on reference rates data) were used to compute for the percentage change.

[16] Foreign direct investments (FDI) and Overseas Filipino (OF) remittances continue to show signs of recovery. In addition, higher foreign investments in government and private debt issuances, which grew y-o-y by 11.3 percent as of end-September 2020, to fund the government's response to COVID-19 pandemic have also lent support to the currency. Meanwhile, the y-o-y contraction in the country's import requirements and resident's direct investments abroad by 21.9 percent (FY 2020) and 22.2 percent (as of end-September 2020), respectively, has also reduced the demand for US dollar.

[17] As of end-December 2020, the country's gross international reserves (GIR) stood at US$110.1 billion. This can cover 12.6 months' worth of imports of goods and payments of services and primary income. It is also equivalent to 7.8 times the country's short-term external debt based on original maturity and 4.9 times based on residual maturity.

[18] Last trading day for the Philippines for 2020 and 2019 is 29 and 27 December, respectively.

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

Chart 1.6. Volatility of Selected Currencies in 2020
Coefficient of Variation (CoVar)
In percent

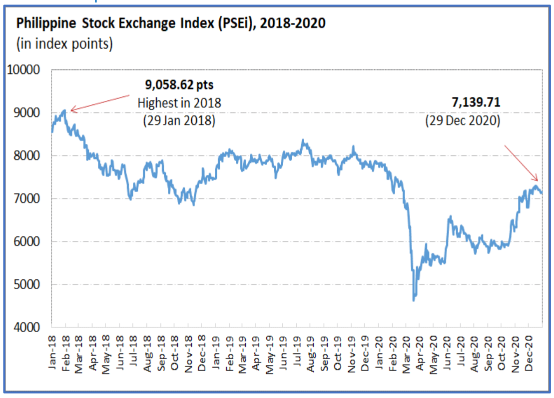
Currency	CoVar
HKD	0.13
CHF	1.89
SGD	2.21
PHP	**2.22**
MYR	2.44
THB	2.44
CNY	2.69
JPY	3.16
GBP	3.21
KRW	3.65
EUR	3.90
IDR	4.46
NZD	5.07
AUD	5.95

Source: DER Staff Estimates

On a real trade-weighted basis, the peso gained 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 2020. This was indicated by the y-o-y increase in the real effective exchange rate (REER) index of the peso against the TPI, TPI-A, and TPI-D by 5.92 percent, 5.27 percent, and 6.29 percent, respectively due mainly to the peso's nominal appreciation.[20]

Stock Market. In 2020, the Philippine stock market declined to its worst annual performance since 2017. The equities market was weighed down by the impact of the COVID-19 pandemic on the Philippine economy. The benchmark index trended lower in the first three months of 2020, before exhibiting volatile trading in the second and third quarters, and then rising steadily in the last three months of the year.

Chart 1.7. Philippine Stock Exchange Index (PSEi), 2018-2020
In index points



Source: Bloomberg

The index declined the most in March due largely to the outbreak of the COVID-19 pandemic and the implementation of lockdown measures, which limited trades of both local and foreign investors. Concerns over the International Monetary Fund's (IMF) negative outlook for the Philippine economy, decline in the country's GDP growth in 2020, persistent trade tensions between the US and China and the periodic rise in COVID-19 infections locally, all contributed to the fall in the benchmark index during the year.

The drop in the local equities market was mitigated by the BSP's monetary policy adjustments and liquidity- enhancing measures as well as the implementation of timely regulatory relief measures to ease monetary conditions and enhance financial system liquidity. The approval of the NG's fiscal stimulus programs, the gradual easing of quarantine restrictions in some parts of the country, and slower inflation in May and April likewise helped in the recovery of the local bourse. The index steadily rose in Q4 on continued monetary and fiscal measures,[21] pick-up in consumer spending throughout the Christmas season, gradual reopening of

[20] The Trading Partners Index (TPI) measures the nominal and real effective exchange rates of the peso across the currencies of 14 major trading partners of the Philippines which include US, Euro Area, Japan, Australia, China, Singapore, South Korea, Hong Kong, Malaysia, Taiwan, Indonesia, Saudi Arabia, United Arab Emirates, and Thailand. The TPI-Advanced 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-Developing measures the effective exchange rates of the peso across 10 currencies of partner developing countries which include China, Singapore, South Korea, Hong Kong, Malaysia, Taiwan, Indonesia, Saudi Arabia, United Arab Emirates, and Thailand.

[21] On 11 September 2020, the President signed Bayanihan II, the second piece of legislation that aims to mitigate the impact of the coronavirus pandemic on the economy. The program consists of a ₱140-billion stimulus package and a ₱25.5-billion standby fund to total ₱165.5 billion.

businesses and mass transportation, availability of potential COVID-19 vaccines and positive macroeconomic developments in the country.

These developments resulted in a decline in the PSEi by 8.6 percent year-to-date to close at 7,139.71 index points. Similarly, total market capitalization dropped to ₱15.9 billion by end-December, 4.9 percent lower year-to-date. Foreign investors also posted net sales of ₱128.6 billion in 2020, significantly higher than the ₱14.3-billion net sales posted in 2019. Meanwhile, the price-earnings (P/E) ratio ended the year higher at 24.9x from 16.1x in 2019.

For the coming year, the PSEi is expected to continue to rise amid the widespread use of e-commerce and delivery services that can help offset the decline in consumer spending. The low interest rate environment and progress in priority bills aimed at rebooting the economy and cushioning the impact of COVID-19 on vulnerable sectors will also play an important role in supporting domestic financial markets. However, uncertainty over the vaccine rollout combined with the emergence of new virus variants could further strain economic recovery and result in the continued volatility in financial markets.

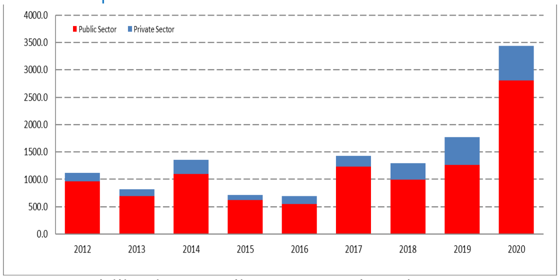
Bond Market. The Philippine bond market had a challenging year, as experienced by all other markets. In March, financial trading platforms and bourses closed for a few days following the implementation of strict lockdowns due to the COVID-19 pandemic. At the start of the outbreak, bond yields and volatility increased along with elevated premiums demanded for holding Philippine government bonds. This prompted the BSP to implement monetary- and liquidity-enhancing measures including the buying of government securities (GS) in the secondary market to reassure market participants of demand for GS should they need to liquidate their holdings. The BSP's GS purchases in the secondary market helped encourage participation in the primary GS auctions, which in turn ensured that the NG meets its domestic borrowing requirements. Since then, market sentiment improved as indicated by the observed decline in yields and the gradual increase in the subsequent volume of transaction in the bond market.

Market sentiment improved driven by the BSP's monetary and liquidity enhancing measures

In 2020, government issuances of local currency bonds increased by 121.7 percent from its level in 2019. The increase in government issuances reflected the need for the NG to (1) finance expenditures authorized in its annual appropriation and (2) help counter the impact of the COVID-19 outbreak in the country. Similarly, private issuances increased by 24.8 percent y-o-y, fueled by the relatively low interest rate environment due to the policy rate cuts and enhanced liquidity measures implemented by the BSP. However, there were noticeable periods of less market activity as business disruptions and prospects of a decline in corporate revenues brought about by the pandemic started to affect firms' borrowing capacities. In the latter quarters, local firms started to tap the bond market as an alternative funding source amid the stringent lending requirements of banks as they manage their capital and "non-performing" ratios.

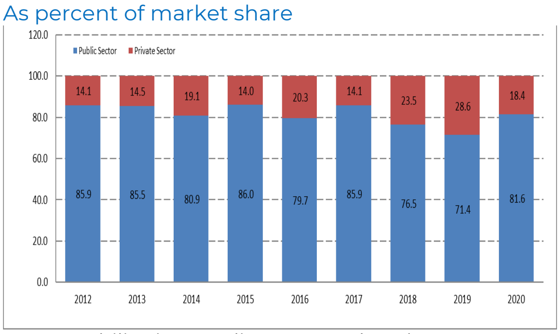
In terms of market share, issuances from the public sector comprised 81.6 percent of the total bond issuances while the private sector took the remaining 18.4 percent. Bonds issued by the BTr accounted for the entire public sector issuance while issuers from the private sector came from banks, real estate firms and holding companies.

Chart 1.9. Local Currency Bond Issuances
In billion pesos



Source: Philippine Dealing System (PDS)

Chart 2.0. Local Currency Bond Issuances
As percent of market share



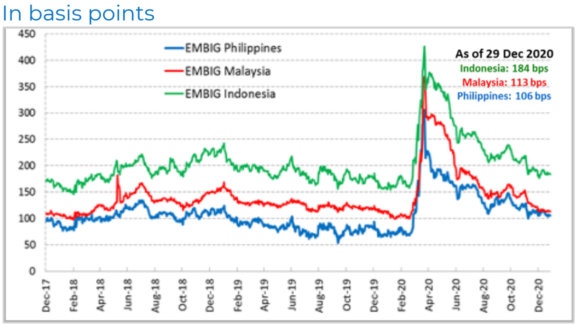
Source: Philippine Dealing System (PDS)

Investor preference for shorter-dated debt paper instruments was greater than the preference for the longer end of the curve, as it is easier to discount information and formulate strategies in the immediate term. The relatively higher demand for short-term debt indicates investors' risk-averse attitude amid the uncertain and challenging market environment.

In the secondary market, there were mixed signals. In the first half of the year, there was a slight increase in activity reflecting some build-up of cautious optimism among investors. The increased activity may be partly due to the GS purchases of the BSP from banks and other liquidity-enhancing relief measures. The increased supply of relatively high-yielding retail treasury bond (RTBs) may have also contributed to the more upbeat trading during the period. However, in the second half, there was a marginal decrease in activity which partly reflected the disruption of the extended community lockdowns affecting the operations of many businesses.

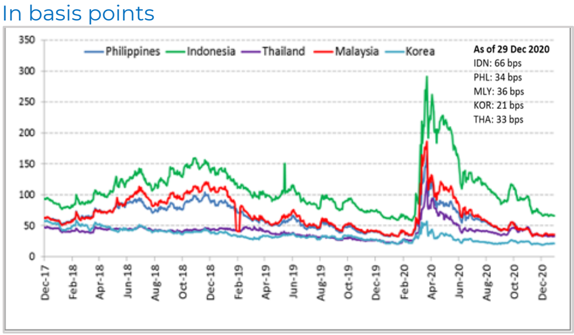
Meanwhile, the degree of trading activity was still highly sensitive to the global and domestic response to mitigate the negative impact of COVID-19. The challenging and volatile operating environment affected investors' risk sentiment that resulted in elevated risk premiums especially during the onset of the pandemic. Over the year, debt spreads continued to exhibit a narrowing trend reflecting the recovery of some business activities and improved investor sentiment over positive developments on the availability of coronavirus vaccines.

Chart 2.1. EMBIG Spreads of Selected ASEAN Countries
In basis points



Source: Bloomberg

Chart 2.2. 5-Year CDS Spreads of Selected Asian Countries
In basis points



Source: Bloomberg

The extra yield investors demanded to own Philippine sovereign debt over U.S. Treasuries or the Emerging Market Bond Index Global (EMBIG) Philippines spread stood at 106 basis points (bps) as of end-December 2020. Similarly, the country's 5-year sovereign credit default swap (CDS) decreased to 34 bps from a high of more than 100 basis points (bps) around March. Against other neighboring economies, the Philippine CDS traded narrower than Malaysia's 36 bps and Indonesia's 66 bps but wider than Thailand's 33 bps and Korea's 21 bps.

Credit Rating Assessment. In February 2020, Fitch Ratings adjusted upward its "BBB" investment grade credit rating outlook for the Philippines from "stable" to "positive". This was right after Japan-based Rating and Investments Information Inc. (R&I) upgraded the country's rating to "BBB+" from "BBB," boosting the country's momentum towards goal of securing a single "A" rating by 2022. With this, R&I joins Standard & Poor's (S&P) Global and Japan Credit Rating Agency (JCR) in assigning to the Philippines a rating that is just a notch away from the sterling "A" scale.

Fitch Ratings' upgrade was a result of continued adherence to a sound macroeconomic policy framework that supports high growth rates with moderate inflation; progress on fiscal reforms and continued resilience in its external finances which could help ensure that public debt will remain manageable over the long haul.

R&I's upgrade, on the other hand, was based on the country's positive growth performance and prospects on the back of the government's infrastructure program; the government's ability to keep its fiscal condition manageable; and improving socioeconomic climate in the Philippines.

Meanwhile, Korea-based NICE Investors Service assigned to the Philippines a rating of "BBB", while Moody's Investors Service assigned a rating of Baa2 (which is equivalent to "BBB"). Both ratings are one notch lower than BBB+ and one notch higher than the minimum investment grade.

It is worth noting that the Philippines was still able to receive favorable credit ratings despite the negative impact of the COVID-19 pandemic on the domestic economy. On May 2020, Fitch Ratings affirmed the Philippines' rating at 'BBB' and changed the outlook to "stable" from "positive". A "stable" outlook indicates that the Philippines' rating will likely be maintained over the next 18-24 months. S&P also affirmed Philippines' 'BBB+' rating, and "stable" outlook, noting the country's perceived ability to bounce back from the crisis.

Both Fitch Ratings and S&P outlook recognized the Philippines's sound macroeconomic fundamentals going into the COVID-19 pandemic. Fitch stressed that the county has built buffers that helped mitigate the impact of the economy while S&P recognized that the country was able to implement massive relief response without fear of a debt blowout. The affirmation of the 'BBB+' rating (with a stable outlook) by S&P is a vote of confidence which comes amid a wave of credit rating downgrades and negative outlook revisions worldwide as the pandemic wreaks havoc on productivity of economies. Further, S&P said that this affirmation reflects its "expectations that the economy will continue to achieve above-average growth over the medium term, which will drive constructive development outcomes and underpin broader credit metrics."

In June 2020, Japan Credit Rating Agency (JCRA) upgraded the Philippines' credit rating by a notch from BBB+ rating to "A-." The JCRA outlook upgrade was a result of its assessment that the impact of the COVID-19 crisis on the domestic economy and the government's fiscal standing will be temporary, given the strong fundamentals going into the crisis, the massive relief measures, as well as the pursuit of important legislation, such as the Corporate Recovery and Tax Incentives for Enterprises Act (CREATE) under the Comprehensive Tax Reform Program (CTRP).

In July 2020, Moody's affirmed Philippines' 'Baa2' rating with a "stable" outlook, recognizing the ability of the economy to cushion the effects of COVID-19 and post a solid recovery over the near term. The affirmation of the "Baa2" rating with a "stable" outlook comes amid a series of credit rating downgrades and negative outlook revisions by Moody's worldwide. Moody's recognized the fortification of the government's fiscal position in recent years which provided a buffer against a rise in public indebtedness to shocks such as the ongoing global coronavirus outbreak.

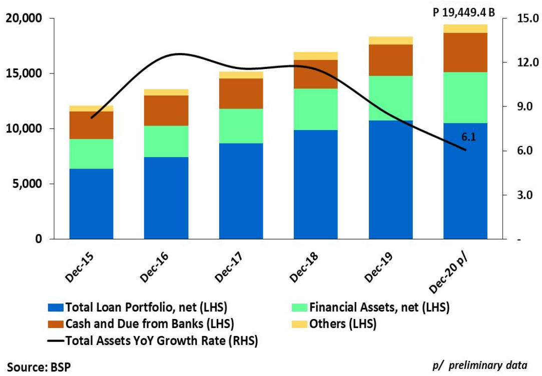
Philippine Banking System Sustains Growth Momentum Amid Pandemic

The Philippine banking system (PBS) remains on solid footing as indicated by sustained growth in assets, deposits and capital. It also maintained positive returns, stable capital and liquidity buffers, and ample loan loss reserves, enabling it to continuously support the country's economic and financial activities during the pandemic.

Asset expansion continues, driven by loans and investments

The PBS expanded its assets to ₱19.5 trillion as of end-December 2020, higher by 6.1 percent than the level posted in the same period last year (Chart 2.3). This asset growth was mainly funded by deposit generation, bond issuances and additional capital infusion. Growth in bank resources continues to benefit from the financial intermediation necessary to support the economy especially during extraordinary times.

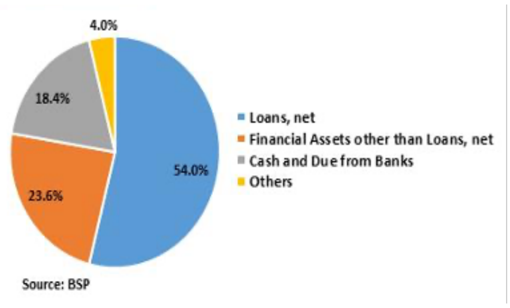
Chart 2.3. Philippine Banking System (Total Assets)
in billion pesos, growth rate in percent



Loans continue to dominate bank assets

Across banking groups, universal and commercial banks (U/KBs) continue to hold the lion's share of the banking system's assets. As of end-December 2020, the U/KB industry's total assets rose to ₱18.0 trillion, which corresponds to 92.7 percent of the banking system's assets. The remaining 7.3 percent was held by thrift banks (TBs) and rural and cooperative banks (RCBs).
As of end-December 2020, loans, net of allowance for credit losses, made up 54.0 percent of the banking system's resources, followed by financial assets other than loans, and cash and due from banks with shares at 23.6 percent and 18.4 percent, respectively (Chart 2.4).

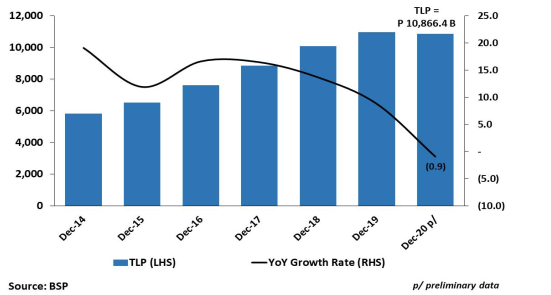
Chart 2.4. Philippine Banking System (Composition of Assets)
in billion pesos, growth rate in percent



The banking system's credit growth however decelerated alongside the drop in growth rate of the gross domestic product (GDP) in the fourth quarter of 2020 due to the pandemic.[22] Gross total loan portfolio (TLP) slightly declined y-o-y by 0.9 percent to P10,873 billion as of end-December 2020, as compared to the 8.8 percent growth rate in December 2019 (Chart 2.5).

[22] GDP declined by 8.3 percent in Q4 of 2020 bringing the full year 2020 growth to -9.5 percent. (Source: www.psa.gov.ph)

Chart 2.5. Philippine Banking System (Gross Total Loan Portfolio, TLP)
in billion pesos, growth rate in percent



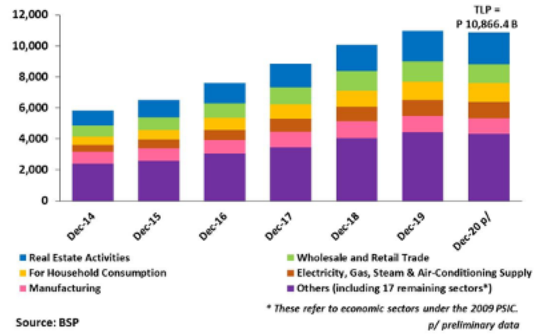
Nonetheless, while there was slower loan growth, the ratio of TLP to annualized nominal GDP went up to 60.6 percent as of end-December 2020 from 56.2 percent as of end-December 2019, indicating sustained deployment of funds for lending to the production sectors amid the health crisis.

Banks' loan portfolio remains broad-based across various industry types

By economic activity, real estate activities had the largest share of TLP at 18.8 percent (Chart 2.6). This was followed by wholesale and retail trade and loans for household consumption, both of which had TLP shares of 11.2 percent each. The energy supply[23] and manufacturing sectors held TLP shares of 9.7 percent and 9.3 percent, respectively.

[23] Refers to the electricity, gas, steam, and air-conditioning supply sector.

Chart 2.6. Philippine Banking System (Gross TLP by Economic Activity)
in billion pesos



Loans for real estate activities and household consumption went up by 4.4 percent and 2.2 percent, respectively, due to sustained lending to the real estate industry and the consumer segment. Increased lending to the real estate sector has been supported by the BSP's raising of the limit to real estate loans of U/KBs from 20 percent to 25 percent of TLP net of interbank loans.

Loans to the energy supply sector also increased by 3.7 percent y-o-y. However, loans to the wholesale and retail trade and manufacturing sectors declined by 6.6 percent and 5.5 percent y-o-y, respectively. These shifts in asset composition showed the banking system's responsiveness to the demands of these sectors, which assumed greater importance and ensured continuing economic operations amid the ongoing crisis.

Moreover, banks remain domestically oriented as cross-border financial position of banks remains modest and diversified. As of end-June 2020, cross-border loans of U/KBs and their subsidiary TBs stood at USD 7.7 billion (₱382.6 billion). These loans accounted for 3.5 percent of the banking system's TLP for the period. Overall, U/KBs and their subsidiary TBs are a net cross-border lender with a net cross-border financial asset position[24] of USD 15.7 billion (₱783.0 billion) as

[24] Cross-border financial claims less cross-border financial liabilities.

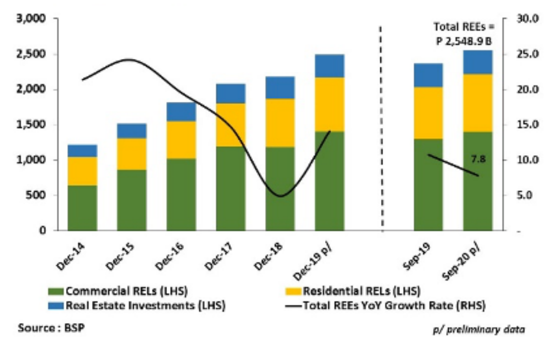
of end-June 2020, higher than USD 8.1 billion (₱416.1 billion) as of end-June 2019.[25]

Real estate and consumer finance segments post significant growth

The banking system's real estate exposures (REEs) and consumer loans (CLs) continued to expand. The REEs of U/KBs and TBs, on consolidated basis, increased by 5.5 percent y-o-y to ₱2.6 trillion as of end-December 2020 (Chart 2.7). These REEs were composed mainly of real estate loans (RELs) with 88.0 percent share while the rest were real estate investments. Total RELs went up by 5.8 percent YoY to P2.3 trillion as of end-December 2020.

Chart 2.7. Universal, Commercial, and Thrift Banks: Real Estate Exposures (Consolidated Basis)

in billion pesos, growth rate in percent



Commercial RELs, which account for almost two-thirds of total RELs and are the main driver of growth in REEs, grew by 3.9 percent y-o-y to ₱1.5 trillion (Chart 2.9). Meanwhile, residential RELs went up by 9.1 percent y-o-y to ₱0.8 trillion (Chart 3.0).

Chart 2.9. Universal, Commercial, and Thrift Banks: Commercial Real Estate Loans (Consolidated Basis)

in billion pesos, growth rate in percent

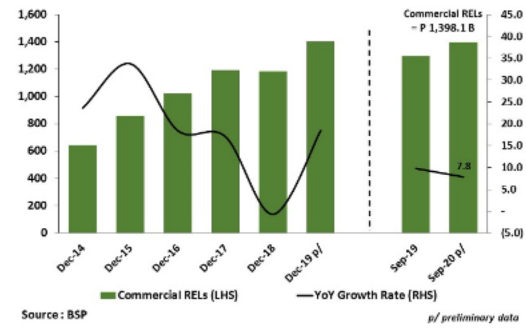
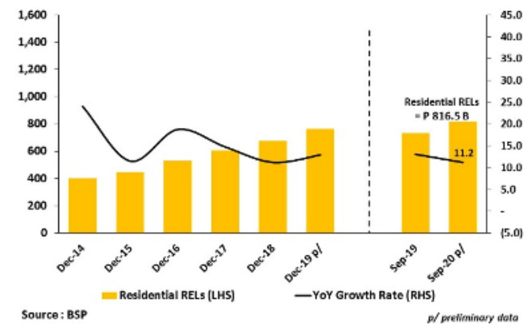


Chart 3.0. Universal, Commercial, and Thrift Banks: Residential Real Estate Loans (Consolidated Basis)

in billion pesos, growth rate in percent

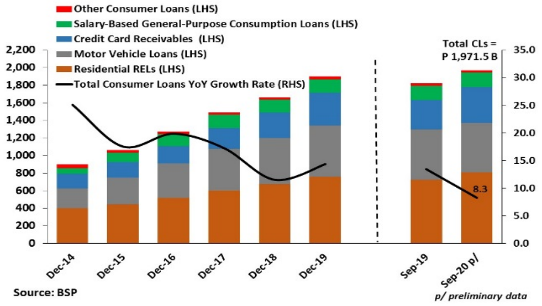


Aside from REEs, there was also growth in CLs extended by the banking system. The level of CLs of U/KBs and TBs, on solo basis, went up by 8.3 percent to ₱1,971.5 billion as of end-September 2020 (Chart 3.1). Residential RELs made up the largest share of total CLs at 41.0 percent (₱ 808.6 billion), followed by motor vehicle loans (MVLs) at 28.5 percent (₱562.7 billion), credit card receivables (CCRs) at 20.6 percent (₱405.7 billion), salary-based general-purpose consumption loans (SBGPCLs) at 8.5 percent (₱166.6 billion), and other consumer loans at 1.4 percent (₱27.9 billion).

[25] Peso equivalents are computed using end-of-period Philippine peso per US dollar rate from the BSP website.

Chart 3.1. Universal, Commercial, and Thrift Banks: Residential Real Estate Loans (Consolidated Basis)

in billion pesos, growth rate in percent



To ensure that banks' exposure to REEs remains manageable, prudential measures were maintained. These measures included the REL limit of 25 percent of TLP (with exclusions), net of interbank loans, for U/KBs,[26] heightened surveillance of banks' real estate and project finance exposures, and the real estate stress test (REST) thresholds for U/KBs and TBs.[27]

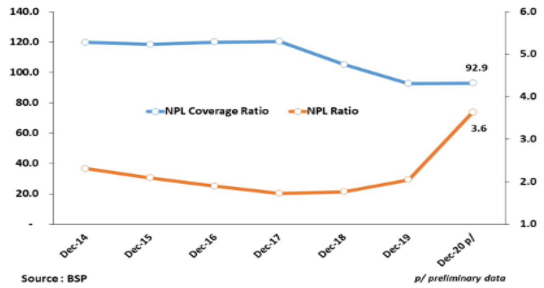
The latest real estate stress test (REST) results indicated that the stressed capital adequacy ratio (CAR) and common equity tier 1 (CET1) ratio of the U/KB industry remained above the minimum requirements of the BSP both for solo and consolidated bases. The U/KB industry's REST results for end-March 2020 showed average post-stress test CARs, gross of allowance, of 11.3 percent and 11.7 percent for solo and consolidated bases, respectively. Meanwhile, the average post-stress test CET1 ratios, gross of allowance, were at 10.1 percent and 10.5 percent for solo and consolidated bases, respectively.

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

The banking system's asset quality remained satisfactory amid the pandemic. As of end-December 2020, the non-performing loan (NPL) ratio stood at 3.6 percent, higher than the 2.0 percent ratio recorded in the previous year (Chart 3.2). By industry, the NPL ratios of U/KBs, TBs and RCBs were posted at 3.1 percent, 7.9 percent and 14.7 percent as of end-December 2020, higher than the 1.6 percent, 6.0 percent and 10.5 percent ratios, respectively, as of end-December 2019.

Chart 3.2. Philippine Banking System (Non-Performing Loan (NPL) Ratio and NPL Coverage Ratio

In percent



Nonetheless, the loan loss reserves had been increasing since the start of the year resulting in a high NPL coverage ratio of 93.0 percent for the review period. Banks began recognizing loan loss provisions since the start of the year in anticipation of the adverse impact of the pandemic on their loan portfolio.

Deposit growth mainly fuels bank lending activities

The banking system's lending activities were mostly funded by deposits which grew by 8.9 percent y-o-y to ₱14,895.0 billion as of end-December 2020 (Chart 3.3). These deposits were mostly peso-denominated. Savings

[26] For purposes of computing the REL limit, 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.

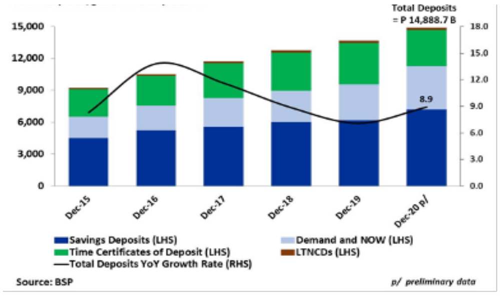
[27] Under Circular No. 1093 dated 20 August 2020, a prudential limit is set for real estate exposures of U/KBs and TBs. For this purpose, a stress test will be undertaken on a U/KB's/TB's REEs under an assumed write-off rate of 25 percent.

deposits had the biggest share of total deposits at 40.5 percent, which were in turn, deployed to lending to production activities. As to counterparty, deposits were mostly sourced from resident individuals and private corporations, with 46.9 percent and 33.3 percent shares, respectively. Deposits from resident private corporations went up by 10.4 percent y-o-y while those from individuals had a lower y-o-y growth rate of 7.3 percent.

The growth in total deposits is consistent with the global trend towards precautionary savings and decrease in consumption in view of a highly uncertain economic environment due to the pandemic.

Chart 3.3. Philippine Banking System (Total Deposits)

In billion pesos, growth rate in percent



Source: BSP

In 2020, the total value of InstaPay and PESONet transactions rose by 378.1 percent and 121.7 percent, respectively, as compared to the year 2019. Meanwhile, the total volume of InstaPay and PESONet transactions in the same year rose by 582.9 percent and 203.9 percent, respectively, as compared to 2019. This trend is indicative of the shift by individuals and businesses to digital payment services.

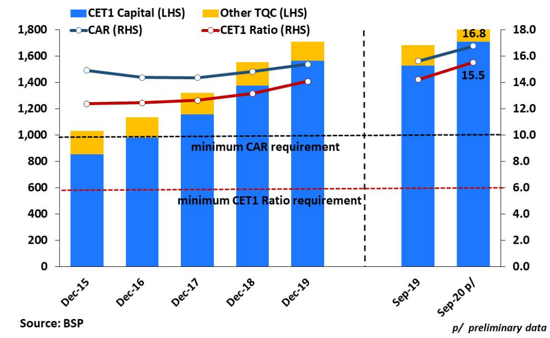
Banks maintain sufficient capital and buffers for risk-taking activities

Banks remained well-capitalized as the CARs of the U/KB industry on solo and consolidated bases are well-above the minimum thresholds set by the BSP at 10.0 percent and the Bank for International Settlements (BIS) at 8.0 percent.

As of end-December 2020, the CARs of the U/KB industry improved to 16.59 percent and 17.07 percent on solo and consolidated bases, respectively, from the previous year's 15.6 percent and 15.9 percent. Banks' risk-taking activities were supported by adequate capital which was mainly composed of common equity and retained earnings. The CET1 ratio of the U/KB industry improved to 15.4 percent and 15.9 percent on solo and consolidated bases, respectively, from the previous year's 14.2 percent and 14.7 percent (Chart 3.4). Banks' strong capital position resulted from reforms implemented by the BSP which support capital buildup.

Chart 3.4. Universal and Commercial Banks

In billion pesos, ratio in percent



The CAR of the TB industry as of end-December 2020, meanwhile, improved to 17.71 percent from 17.0 percent in end-September 2019, while the CAR of RCBs declined to 19.03 percent from the 19.9 percent end-September 2019.[28]

Furthermore, results of stress tests reinforce banks' broad resilience to withstand assumed credit impairment of top 30 borrowers. As of end-December 2019, results showed that post-shock CAR of combined U/KBs and TBs, and banking groups will remain comfortably above the 10 percent threshold under an

[28] Based on solo basis capital computation. Ratios are combination of Basel III and Basel 1.5 frameworks.

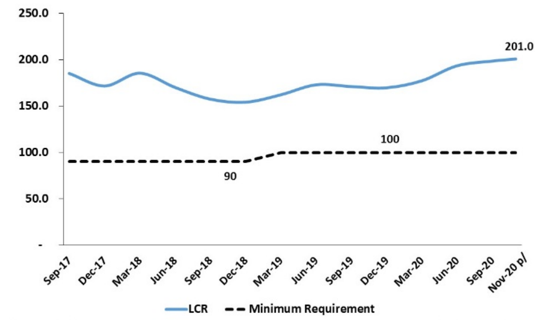
assumed 20 percent write-off of their total loans to non-financial corporations (NFCs) and top 30 borrowers.

Banks maintain sufficient buffers to meet liquidity and funding requirements

Liquidity of U/KBs and their subsidiary banks and quasi-banks was ample as the liquidity coverage ratio (LCR) remained relatively stable in 2020. The U/KB industry's solo LCR of 197.0 percent as of end-December 2020 was above the minimum regulatory requirement of 100 percent (Chart 3.5). The relatively high LCR of U/KBs indicate banks' ability to fund requirements during short-term liquidity shocks.

Chart 3.5. Universal and Commercial Banks (Liquidity Coverage Ratio (LCR)

In percent



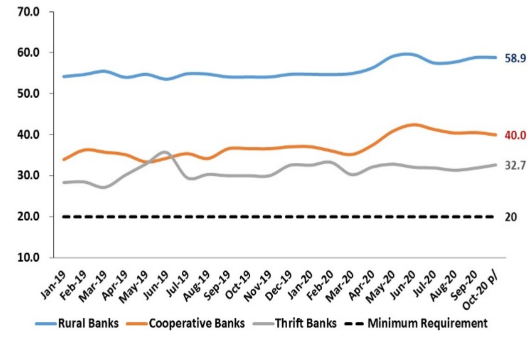
Source : BSP

p/ preliminary data

Meanwhile, the minimum liquidity ratios (MLRs) of stand-alone TBs, rural banks (RBs) and cooperative banks (CBs) surpassed the 20 percent minimum. As of end-December 2020, the MLRs of stand-alone TBs, RBs and CBs stood at 35.3 percent, 57.5 percent and 41.3 percent, respectively (Chart 3.6).

Chart 3.6. Stand-Alone Thrift, Rural, and Cooperative Banks: Minimum Liquidity Ratio (MLR)

In percent



Source : BSP

p/ preliminary data

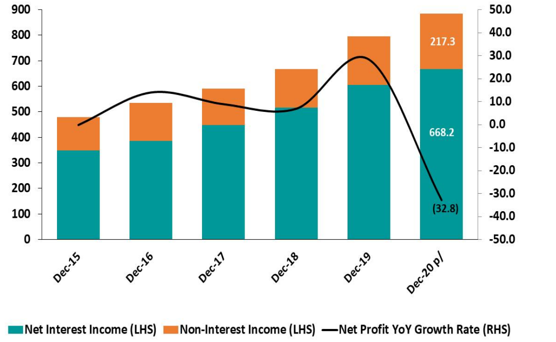
As of end-December 2020, U/KBs' net stable funding ratio (NSFR) stood at 142.7 percent and 143.1 percent on solo and consolidated bases, respectively, better than the previous year's 130.7 percent and 131.0 percent, and well above the BSP regulatory threshold of 100 percent. These figures indicated the availability of more stable funding to serve bank customers in the medium term.

Banks remain profitable but income declines

Banking operations were affected by the COVID-19 pandemic as the net profit of the banking system shrank by 32.7 percent y-o-y to ₱155.2 billion for the year-ended December 2020 (Chart 3.7). The lower net profit for the year 2020 was due to the increase in the banks' provision for credit losses on loans and other financial assets. Nonetheless, the positive bottom line was mainly from net interest income (NII) earned from lending activities.

Chart 3.7. Philippine Banking System: Sources of Revenue

In billion pesos, growth rate in percent



Source: BSP

p/ preliminary data

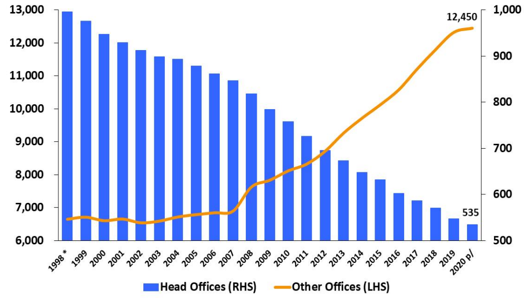
The banking system's return on assets (ROA) ratio for the year-ended 31 December 2020 registered at 0.8 percent, lower than the 1.3 percent ratio for December 2019. Return on equity (ROE) also declined to 6.5 percent from the previous year's 10.5 percent.

Meanwhile, net interest margin (NIM) slightly improved to 3.8 percent for the year-ended December 2020 from the previous year's 3.7 percent. The cost-to-income ratio stood at 54.9 percent and has been maintained below 65 percent the past six years.

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 2020, bank offices grew to 13,044[29] on account of new other offices added to the overall network (Chart 3.8).

Chart 3.8. Philippine Banking System: Total Banking Units



* BSP's merger and consolidation policy amended and rationalized in 1998 with the issuance of Circular No. 172 dated 3 September 1998.

Source: BSP

p/ preliminary data

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.

Moreover, banks continued to embrace technological innovations to thrive in the evolving financial landscape that increasingly leans towards digitized transactions.

[29] Composed of 535 head offices and 12,450 other offices.

Box Article 3:

Stress Testing the Banks During the Pandemic: The Philippine Experience

1. Introduction

Stress testing exercises have become a key component of the prudential toolkit of central banks. By simulating hypothetical stress scenarios and their potential impact on the financial system, supervisors are able to gauge the vulnerability of financial institutions to such scenarios and take necessary action ahead of time.

In response to the COVID-19 pandemic, a number of supervisory authorities that regularly conduct stress tests on individual banks adjusted their approach (Baudino 2020). They performed ad hoc exercises to assess the vulnerability of the banking sector. These exercises are different from regular ones. These tests can support the assessment of the pandemic's impact at a macroeconomic level.

In particular, Baudino (2020) examined how three authorities in the United Kingdom, the European Union and the United States (Bank of England, European Central Bank, Banking Supervision and the Federal Reserve System, respectively) have adjusted the regular stress testing exercises to provide an initial assessment of the impact of the pandemic on the banking sector. These exercises were different from the regular stress tests in terms of key features such as objectives, design, methodologies, and communication. However, some of the features of the regular stress tests did not change. The exercises comprised only the top-down component and banks were not involved. Also, the COVID-19-related policy response was incorporated into the three ad hoc stress tests in different ways. All in all, Baudino (2020) underscored the importance of conducting stress tests during the pandemic.

Stress tests are often used to determine appropriate bank capital levels during normal, non-recessionary times (Cihak et al 2019). As the economy is currently in a pandemic-induced recession, the way stress tests are being used now is very similar to the way they were used in 2009 at the height of the Great Recession (Augustine 2020). Some economists raised the use of a “reverse stress test” to help users understand “what configuration would lead to capital levels below a specified threshold. Others pointed out that the banking industry is more than the sum of its parts hence, it would be interesting to explore the linkages within the banking system.

During the onset of the pandemic, the results of the stress tests exercises served as monitoring as well as inputs in the development of the BSP relief measures and the legislation of pertinent laws that should be in place to support the banking system. These supervisory stress test exercises likewise, enabled BSP in assessing the level of non-performing loans (NPLs) and allowance for credit losses that would significantly affect the capital level of the Philippine banking system, including the potential impact of default in conglomerate exposures on domestic systemically important banks (D-SIBs) and credit exposures of banks to vulnerable sectors.

On top of the regular stress test exercises, the BSP performed various simulations using severe stress scenarios, such as prolonged periods of non-collection of loan payments, loan defaults, increased loan provisions and deposit withdrawals, among others. The results of these exercises were considered in determining the type and effectivity period of the BSP relief measures and in assessing the impact of the relief measures implemented under the Bayanihan to Heal as One (or Bayanihan Act 1) and the Bayanihan to Recover as One Act (or Bayanihan Act 2).[30] Under the Bayanihan Act 1, qualified loan clients needing loan relief are afforded a 30-day grace period as long as the country is under enhanced community quarantine (ECQ)

[30] The Bayanihan to Heal as One Act, also known as the Bayanihan Act, and officially designated as Republic Act No. 11469, is a law in the Philippines that was enacted in March 2020 granting the President additional authority to combat the COVID-19 pandemic in the Philippines.

or modified enhanced community quarantine (MECQ). Whereas, Bayanihan Act 2 provided a separate one-time 60-day grace period to qualified loan clients covering loan due dates between 15 September 2020 and 31 December 2020. As stated under both Bayanihan Acts, lenders shall not charge or apply interest on interest, fees and charges during the aforementioned periods. The accrued interest accrued for the grace periods may also be paid by the borrower on a staggered basis over the remaining life of the loan.

The BSP also conducted liquidity stress test exercises to ascertain a bank's survival horizon, or the timeframe within which the bank's liquid assets are expected to be able to address outflows in the short run. This served as an early warning signal and alerted the BSP as to which banks require closer monitoring and/or activation of bank recovery measures.

2. The BSP's Stress Testing Exercise in Normal Times

In 2011, the BSP instituted the conduct of the Uniform Stress Testing exercise as part of its pro-active financial surveillance toolkit. Under the BSP's Uniform Stress Testing framework, the exercise is conducted on a semi-annual basis and covers all universal and commercial banks (UBs/KBs) as well as thrift banks (TBs). The impact of hypothetical stress scenarios is assessed against banks' capital adequacy ratio (CAR) and common equity tier 1 (CET1) ratio.

For the credit risk stress testing, the stress scenarios consist of write-off on the net carrying amount of loans and investments. Three separate credit risk stress tests are conducted as loans and investments are classified according to the following:

- By economic activity – Loans are classified according to the 21 economic activities identified under the 2009 Philippine Standard Industrial Classification (PSIC).

- By consumer loan – Consumer loans consists of Motor Vehicle Loans, Credit Card Receivables, Salary-based General Purposes Consumption Loans, Residential Real Estate Loans, and Other Consumer Loans; and

- By conglomerates – This refers to loans and investments to the Top 20 identified conglomerates, including their subsidiaries and affiliates.

Meanwhile, the market risk stress testing covers the two main sources of market risk, namely, interest rates and foreign exchange (FX) rates. Stress scenarios aim to capture the inherent risk emanating from adverse movements of these factors on the trading book, the banking book, and the banks' net open FX position. Specifically, these scenarios impose different magnitudes of increases in interest rates as well as movements of the Philippine Pesos vis-à-vis the US Dollar, including combinations of these factors.

Apart from the Uniform Stress Test exercise, the BSP also introduced a prudential real estate (REST) limit for UBs/KBs and TBs as a pre-emptive policy measure to ensure the banking system's continuous healthy exposure to the real estate sector. After applying an assumed 25 percent write-off on their real estate exposures and other real estate property, covered banks must still comply with the following REST limits:

- 10 percent CAR for all UBs/KBs and TBs;
- 6 percent CET1 ratio for UBs/KBs and their subsidiary TBs; and
- 6 percent Tier 1 ratio for stand-alone TBs.

Unlike the Uniform Stress Testing exercise, banks are notified when they breach the REST limit. However, it should be noted that the REST limit is a "soft limit", which means banks are not immediately penalized for breaching the limit. Instead, they are allowed to formally explain to the BSP why its exposures do not warrant immediate remedial action. If the BSP deems the explanation as insufficient, the bank shall then be instructed to submit an action plan to meet the REST limits within a reasonable time frame. In this regard, the prudential REST limit serves as a trigger for both supervisors and banks to closely monitor and pro-actively assess the vulnerability of banks' real estate exposures well before downturns in the real estate sector.

Importantly, the results of these stress test exercises are then used to assess whether such risks are being considered in the banks' internal capital adequacy assessment program (ICAAP), which is an integral part of a banks' risk governance and business decisions. These exercises also feed into the BSP's surveillance and risk assessment which is essential in the development of policies and supervisory plans, and employment of appropriate intervention tools (enforcement actions), whenever warranted.

Philippine banks are likewise expected to conduct their own stress testing exercises to pro-actively prepare for events which may have severe financial impact. Through the guidelines under BSP Circular No. 989 dated 4 January 2018, the BSP emphasized that stress testing is not just a mechanical exercise but rather a vital part of the risk management systems and capital planning process that would enable banks to effectively manage risk exposures and ultimately promote strong risk governance. In this regard, the board of directors must consider the results of stress testing exercises in capital and liquidity planning, in setting risk appetite, and in planning for business continuity management, and, in the case of D-SIBS, in developing recovery plans.

3. <u>What Have Been the Adjustments on the BSP Stress Testing Following the Pandemic</u>

Due to the magnitude of its impact, the COVID-19 pandemic has highlighted yet again the importance of expanding the scope of stress tests beyond the individual risks to banks to system-wide risks. Moreover, many of the emerging market economies have some rules and guidance for banks on liquidity risk management. The BSP's efforts to develop new risk-modeling techniques and stress test methodologies to better identify the risks that trigger widespread economic and financial instability have all been useful. There is a need to understand and assess the interplay between the financial sector and economic stability.

As business closures, job losses, and other economic disruptions due to the pandemic severely weakened borrowers' capacity-to-pay, a build-up in bad loans was anticipated. Such an expectation proved consistent with the results of the BSP baseline survey[31] wherein respondent banks projected a significant jump in the NPL ratio relative to pre-pandemic figures.[32] Together with available data on loan write-offs, the projected rise in NPLs and allowance for credit losses formed one of the scenarios in the BSP's ad hoc stress testing exercises during the pandemic. To consider the potential impact of the Financial Institutions Strategic Transfer (FIST) bill, the scenario also included an assumed disposal rate of NPLs.

The BSP also conducted liquidity stress testing exercises to gauge if banks have ample liquidity to withstand various liquidity shocks that may arise from the pandemic. For example, banks may face massive deposit withdrawals as clients turn to their bank savings to offset impaired sources of income. Reduced depositor confidence during an economic downturn may likewise put pressure on bank liquidity. These hypothetical scenarios are manifested in the BSP's liquidity stress tests through an increase in run-off rates for retail deposits and/or reductions in banks' high-quality liquid assets (HQLAs). It is important to note that

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31 The Baseline Survey on the Impact of the COVID-19 Pandemic on the Philippine banking system was deployed in the first half of 2020. Survey results accounted for the responses of the top 20 UBs/KBs and their subsidiary banks, the top 20 stand-alone TBs, and the top 20 stand-alone rural and cooperative banks (RBs/CBs).

32 This would later be confirmed by preliminary data as of end-December 2020 which shows the Gross NPL ratio of the Philippine banking system at 3.6 percent. For comparison, the Gross NPL ratio was only 2.3 percent as of end-March 2020.

the Liquidity Coverage Ratio (LCR) framework for banks already incorporates liquidity stress assumptions.[33] In this regard, the ad hoc liquidity stress testing exercises conducted by the BSP during the pandemic recalibrates LCR parameters to account for more severe liquidity stress scenarios.

4. <u>Insights from BSP Stress Testing Results</u>

The BSP's stress testing exercises have been an essential part of its overall supervisory process and regulatory toolkit. By simulating the impact of hypothetical shocks on banks' financial conditions, these exercises can help detect emerging vulnerabilities even before they materialize, thereby allowing the BSP to analyze its policy options and supervisory actions ahead of time. On an individual bank level, it must be emphasized that the value of stress tests goes way beyond the identification of banks failing to meet prudential requirements. Rather, stress testing exercises promote the start of a dialogue between bank supervisors and the supervised institutions. By seeking clarifications from banks regarding their vulnerable exposures, supervisors are able to assess whether banks can effectively mitigate the identified risks and be pro-active on emerging risk identified. From a bank's perspective, these exercises encourage a deeper assessment of their risk management systems and capital planning.

The stress test results also enhance the BSP's capability to better assess and manage potential and current risk exposures of supervised entities particularly large banks and identified D-SIBs; thus, ensuring that timely and appropriate supervisory measures, including necessary policy stance, are undertaken to mitigate any particular vulnerabilities that have the potential to affect the stability of the banking system, where appropriate. For smaller banks, observations on the industry-wide stress test results are discussed with the industry associations.

In conducting stress test exercises, the BSP recognizes limitations particularly on the quality and extent of granularity of data. For instance, the information that we initially worked on are not the latest exposures, but we had to use the same just to get an indication of the potential impact of the scenarios that we are running. There are also challenges in mapping the extent of exposures of the industry to the conglomerates. The elements being captured were identified years back and do not necessarily address the data requirements sufficient to conduct stress testing exercises. Similarly, the application of the mandatory grace period also gives rise to timing issues on the baseline data that will be collected.

Notwithstanding, the BSP addresses these challenges with qualitative factors and supervisory judgment. This also explains why the BSP's regulatory relief measures are time-bound and subject to periodic assessment. As new data become available, the BSP continually monitors the impact of the regulatory relief measures and calibrates the same, if necessary.

Amid the COVID-19 pandemic, the Philippine banking system (PBS) remains well-capitalized with a risk-based capital adequacy ratio (CAR) of 16.8 percent on solo basis and 17.2 percent on consolidated basis as of end-September 2020. The PBS's capital is made up of CET1 capital, the highest quality among instruments eligible as capital. It is also resilient to credit risk shocks, based on the BSP's stress test exercise. All UBs/KBs complied with the required 10 percent minimum CAR on solo basis. As shown in Figure 1, CARs across banking groups as of reference period were well above the 10 percent BSP and the 8 percent BIS thresholds.

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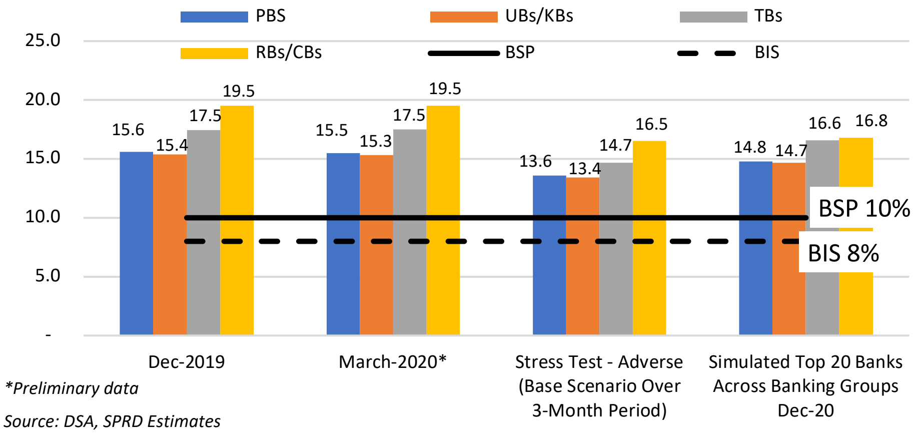
[33] For instance, non-operational deposits by banks and financial corporates are already assigned 100 percent run-off rate, recognizing heightened risk of contagion during liquidity stress.

Figure 1. Capital Adequacy Ratio (CAR)
Across Banking Groups (in Percent)



**Preliminary data*

Source: DSA, SPRD Estimates

Stress testing exercises have also reinforced the importance of maintaining adequate capital and liquidity. This prudential approach proved valuable, especially at the onset of pandemic wherein banks entered from a position of strength as they showed ample buffers to withstand uncertainties and negative financial shocks. Moreover, it is quite reassuring to note that capital and liquidity ratios of the banking system remain adequate under stress scenarios simulated in the BSP's stress test exercises. Likewise, individual bank ratios generally remain above minimum prudential requirements.

5. <u>Conclusion: Ways Moving Forward</u>

The stress tests, being forward-looking assessments of bank resilience, represent a useful instrument in the toolkit of authorities to assess condition of banks even under unusual circumstances such as the ones caused by the COVID-19 pandemic. The experience of the BSP showed, however, some adjustments on a complex exercise to a very different set of conditions. In response to the COVID-19 pandemic, stress tests can, in the first instance, help gauge the system-wide impact of the pandemic on the banking sector. This can help authorities in comparing the economic impact of the pandemic against the capacity of the banking sector to continue supporting the real economy by providing credit to it. However, over time, it may be important to have a more granular view of the impact of the pandemic on individual banks. This in turn will help guide any possible supervisory or resolution action. For this to happen, the initial adjustments in the stress testing frameworks that were introduced in first response to the pandemic would benefit from further refinement. Importantly, stress tests under COVID-19 can be most effective when authorities explain the objectives of these exercises and ensure that they are wellaligned with the way the results will be employed and shared with the banks and the public.

Moreover, some countries are exploring climate change stress testing exercises for banks, an acknowledgment that financial institutions are exposed to significant impact from climate change. In particular, climate change could affect banks' financial conditions through physical risk and transition risk.[34] In this regard, members of the Network of Greening the Financial System (NGFS) are encouraging central banks and supervisors to lead by example and integrate climate change risks into financial stability monitoring and supervision. The Philippines would stand to benefit from the conduct of climate change stress tests given that it is highly prone to extreme natural disasters such as floods, typhoons, droughts and landslides.[35]

34 Physical risk refers to risks related to the physical impacts of climate change while transition risks are those related to the adjustment to a net-zero emission economy.

35 Rough estimates of direct damages caused by disasters amount to ₱20 billion every year, or roughly 0.5 percent of GDP, based on the National Disaster Risk Reduction and Management Plan 2011-2028.

Finally, stress test exercises can be most useful if complemented with other prudential technique and practices. For its part, the BSP is constantly enhancing its financial surveillance tools and analysis techniques for timely and proactive policy measures and supervisory actions relevant to the status or health of the financial system. The prudential efforts by the BSP for the robust corporate governance and adequate risk management system adopted and strengthened by the supervised entities even prior to the COVID-19 pandemic, alongside sound enforcement framework played critical role in sustaining a healthy and resilient financial system.

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Philippine Non-Bank Sector as Alternative Service Providers[36]

Non-Bank Sector Weathers Pandemic.

The overall condition and performance of the non-bank sector remained relatively satisfactory amid the ongoing health crisis. Positive bottom line was maintained by non-stock savings and loans associations (NSSLAs) which also recorded asset expansion. Non-banks with quasi-banking functions (NBQBs) on the other hand posted a decline in assets but remained profitable albeit in a lower level than in 2019.

The wide network of pawnshop and money service businesses (MSBs) continued to provide major financial service access points to financial consumers even when social mobility was restricted.

Non-Bank Financial Institutions with Quasi-Banking Functions.[37] As of end-December 2020, the total number of NBQBs decreased by 1 from last year's 8. The total number of NBQBs is comprised of two (2) investment houses (IH), four (4) Financing Companies (FC), and one (1) other NBQB. In terms of network, NBQBs have a total of 7 head offices and 127 other offices.

NBQB'S physical network drops slightly

The NBQBs' total assets, representing about 0.8 percent of the financial system's total assets, are composed of loans, cash and due from banks, net investments, and other assets with percentage share of 70.2 percent, 14.1 percent, 10.8 percent, and 4.4 percent, respectively. This stood at ₱193.0 billion as of end-December 2020, lower than the ₱279.4 billion posted as of end-December 2019.

NBQB's assets decline due to merge

The decrease in the total assets of the industry is attributable to the merger with or acquisition of large banks of their NBQB subsidiaries to improve synergy and capital efficiency, as well as increase profitability and competitiveness.

The overall asset quality of NBQBs deteriorated as their NPL and non-performing assets (NPA) ratios were recorded at 9.6 percent and 7.6 percent, respectively, as of end-December 2020. Meanwhile, the industry's NPL and NPA coverage ratios increased to 32.8 percent and 30.9 percent, respectively, as of end-December 2020.

The industry posted a net income of ₱0.7 billion for the period-ended December 2020, down from the ₱7.8 billion recorded at the end of December 2019. This was mainly due to a significant decline in leasing and fee-based income.

Profits decline due to softer non-interest income

[36] Consists of BSP-supervised non-bank financial institutions (NBFIs) such as quasi-banks, non-stock savings and loan associations, pawnshops and other NBFIs such as investment Houses (w/o quasi-banking (QB) function), financing companies (w/o QB function), investment company (w/o QB function), securities dealer/broker, lending investor, venture capital corporation, credit card company, government NBFIs, Electronic Money Issuer (EMI) - Others, AAB Forex Corporations, remittance agent, credit granting entities (CGEs) and trust corporations.

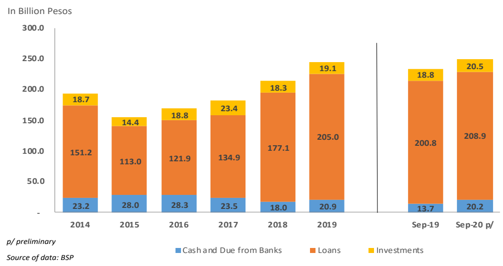
[37] NBQBs are non-bank financial institutions (NBFIs) authorized by the BSP to borrow funds from 20 or more lenders for their own account through issuances, endorsement or assignment with recourse or acceptance of deposit substitutes for purpose of re-lending or purchasing receivables and other obligations.

Non-Stock Savings and Loans Associations (NSSLAs).[38] NSSLAs are non-stock, non-profit corporations engaged in the business of accumulating the savings of its members for lending as well as providing long-term financing for home development and personal finance. They are typically formed by employees and officers in a particular industry, or employees of government agencies including member-retirees.

NSSLAs records asset expansion on the back of credit growth

The NSSLA industry posted a 6.5 percent increase in total resources to ₱260.8 billion as of end- September 2020, mainly due to the 3.6 percent year-on-year (YoY) increase in loans. Loans, which accounted for 80.1 percent of total resources, stood at ₱208.9 billion during the same period.

Chart 3.9. Non-Stock Savings and Loans Association: Asset Distribution for end-periods indicated
In Billion Pesos

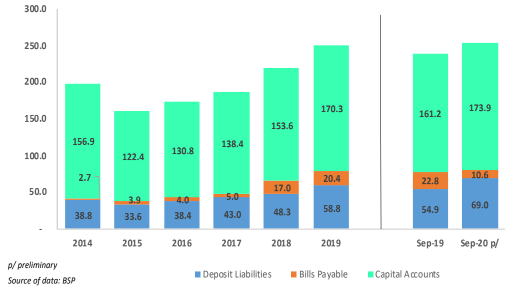


Capital accounts remain a major funding source

The increase in NSSLA's funding source was mainly driven by the growth in members' capital contribution. Capital accounts, which comprised 66.7 percent of the industry's total funding source, rose by 7.9 percent y-o-y to ₱173.9 billion as of end-September 2020.

The total liabilities of NSSLAs grew mainly on account of the expansion in members' deposits which represented 79.4 percent of the industry's total liabilities. In particular, deposit liabilities expanded by 25.7 percent y-o-y to ₱69.0 billion as of end-September 2020. Other liabilities, as another source of funds, grew by 21.7 percent y-o-y to ₱7.3 billion.

Chart 4.0. Non-Stock Savings and Loans Association: Sources of Funds for end-periods indicated
In Billion Pesos



The NSSLA industry posted a net profit of ₱16.6 billion, higher by 2.6 percent than in the same period in 2019. The industry's core earnings were primarily sourced from interest in lending activities at ₱20.1 billion, which was up by 0.8 percent from ₱19.9 billion in 2019.

Pawnshops and Money Service Businesses. The Philippines has faced challenges in pushing financial inclusion, particularly in less-urbanized regions. This is due to a variety of factors, such as the country's archipelagic nature, cost of serving a large volume of retail clients, and lack of documentary requirements in the informal sector.

Pawnshops and MSBs have become important partners in driving financial inclusion by being major financial service access points in reaching the financially unserved and underserved. The introduction of digital platforms to these sectors brings new opportunities and risks. To address challenges and risks in customer onboarding and cyber resilience, the BSP adopted a risk-based and proportionate regulation and

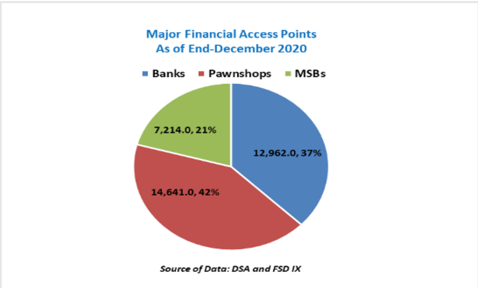
[38] There are 63 NSSLAs with 137 branches operating in the Philippines as of end-December 2020.

supervision that aim to promote the safety and soundness of individual institutions and the financial system while advancing financial inclusion and consumer protection.

Pawnshops and MSBs remain as major financial service access points

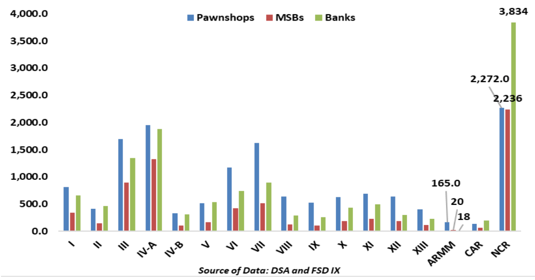
BSP-registered pawnshops and MSBs successfully hurdled operational challenges brought about by the COVID-19 pandemic and posted network expansion, with both posting a y-o-y growth of 6.1 percent.

Chart 4.1. Major Financial Access Points (as of end-December 2020)
In percent



When combined, the physical networks of pawnshops and MSBs outnumber banks in every region except the Cordillera Administrative Region (CAR). The highly urbanized regions, particularly the National Capital Region (NCR), host the greatest number of financial access points with the Autonomous Region for Muslim Mindanao (ARMM) having the least.

Chart 4.2. Regional Distribution of Major Financial Access Points (as of end-December 2020)



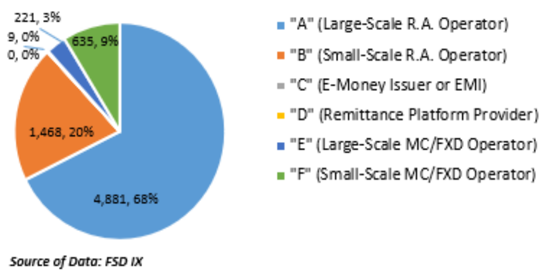
Most pawnshops offer corollary remittance activity while most MSBs are large-scale operators

Under existing regulations, pawnshops and MSBs are required to register under four and six license categories, respectively.

The prevalence of pawnshop head offices (HOs) and branches with type "C" license indicates an industry strategy to offer speedy processing of personal loans with the ability to remit the loan proceeds to distant recipients or convert other currencies to peso. During the year, 194 pawnshop entities also functioned as remittance transfer company/foreign exchange dealer/money changer (RTC/FXD/MC). Technological innovation is starting to take root in the industry in view of the registration of e-pawnshop operators that conduct business through electronic channels.

MSBs are dominated by large-scale RTC HOs and branches that may also offer MC/FXD business with average monthly network volume of transactions of at least ₱75 million. A large number of small scale RTCs and MCs/FXDs (the latter being mostly single office entities) are also registered. Under existing regulations, MSBs are required to register under six license categories. They are also required to maintain capital of at least ₱50 million.

Chart 4.3. Type of MSB Licenses (as of end-December 2020)
In percent



MSB Types A, B, E and F include 194 pawnshop HOs and 11,845 branches multifunctioning as pawnshop/RTC/FXD/MC. MSBs include RTCs/MCs/FXDs which have large and sophisticated chains with nationwide and international facilities.

The MSBs' vast network provides Filipinos, especially the "unbanked" and the "underbanked," access to basic financial products and services (such as payment and remittance services). Access to these products and services has the potential to improve the well-being of the poor and encourage the growth of micro, small and medium enterprises. In addition, greater financial inclusion can contribute to financial stability and spur economic development.

Box Article 4:
Strengthening Islamic Banking in the Philippines

The Philippine Muslim community comprises around ten percent (10%) of the country's population. This presents a good opportunity to promote Islamic banking as a sustainable alternative in delivering relevant financial products and services in line with the BSP's financial inclusion agenda. The BSP believes that "Islamic banking is for everyone"; hence, it has adopted strategic initiatives aimed at promoting an enabling environment for Islamic banks and addressing the constraints that impede its growth.

Enhancements to the Legal Framework

The enactment of Republic Act (R.A.) No. 11439 on 22 August 2019 or the *Act Providing for the Regulation and Organization of Islamic Banks* marked a key milestone in the history of Islamic banking in the Philippines. This Act paves the way for the fine-tuning of the country's legal and regulatory framework and the introduction of supportive infrastructures such as tax parity provisions needed for an expanded Islamic financial market. Other legislations likewise recognize Islamic banking as an important financing channel. In particular, the R.A. No. 11211, which amended the *New Central Bank Act* empowers the BSP to promulgate broader rules and regulations for Islamic banks, including the extension of financial facilities that consider the peculiarity of Islamic banking operations. Meanwhile, the Islamic finance provisions under R.A. No. 11054 or the *Bangsamoro Organic Law* (BOL) seeks to stimulate and strengthen Islamic finance in the *Bangsamoro* Region.

Issuance of Fundamental Regulations

The BSP continues to lay the groundwork by creating a level-playing field that will allow Islamic Financial Institutions to thrive and operate alongside the conventional banks. The BSP adopted a pragmatic and open approach in developing a supportive regulatory framework for the Islamic banks (IBs) and conventional banks with Islamic banking units (IBUs), mindful of the need to stimulate and encourage more players for an expanded Islamic banking system. To jumpstart the implementation of the R.A. No. 11439, the BSP released the licensing framework for Islamic banks (IBs) and conventional banks with Islamic banking units (IBUs) and the *Shari'ah* Governance Framework (SGF), with the latter representing a comprehensive system of institutional measures, structure, and policies that help ensure effective and independent oversight of an Islamic bank or IBU's compliance with *Shari'ah* principles. The SGF complements the corporate governance framework for the conventional banks that applies equally to the IB/IBU.

The BSP likewise issued its Frequently Asked Questions on Islamic banking to augment investor and consumer appreciation of the salient features of Islamic banking and the prerequisites in establishing Islamic banks or IBUs. Also, the BSP recently exposed the draft Guidelines on the Management of Liquidity Risk by Islamic banks and IBUs which will provide for, among others, the applicability of Basel III Liquidity Standards to Islamic banking operations, the factors in assessing instruments to be used in meeting liquidity requirements, and the expectation for IBUs to segregate its *Shari'ah*-compliant instruments from those of conventional banking. Accordingly, the BSP is formulating the prudential standards and regulations that will specifically cover the reportorial, capital adequacy and leverage frameworks for Islamic banks, including the rules on restricted profit-sharing accounts, among others.

Multi-Stakeholder Engagements

In introducing the needed reforms, a multi-stakeholder partnership was formed through the Interagency Technical Working Group on Islamic Banking. This facilitates extensive collaboration among government agencies such as the BSP, the Securities and Exchange Commission, Bureau of Internal Revenue (BIR), Philippine Deposit Insurance Corporation, Insurance Commission, Philippine Financial Reporting Standards Council, the Department of Finance (DOF), the Bureau of Treasury (BTr), and the National Commission on Muslim Filipinos (NCMF).

Capacity Building Programs Alongside Regulatory Developments

A comprehensive capacity-building program that will enhance awareness and stimulate demand for the ethical business model of Islamic banking was launched in parallel with the development of the regulatory framework for Islamic banking. In this respect, the BSP rolled out a number of technical trainings[39] suitable for both the regulatory sector and the banking industry. For instance, the Islamic Finance Capacity Building Program encompassing fundamental to advanced modules on Islamic finance under the Technical Assistance (TA) of the Asian Development Bank (ADB) was hosted by the BSP from September 2019 to July 2020. Approximately 1,320 representatives from various regulatory agencies and banking players, including senior management of the BSP, participated in the said modular trainings conducted by the Islamic Finance Advisory and Assurance Services (IFAAS), an international advisory firm based in the United Kingdom that specializes in Islamic finance.

More recently, the BSP collaborated with the Bank Negara Malaysia (BNM) for a virtual study visit encompassing the evolution of Islamic banking and finance in Malaysia, which is considered as one of the most advanced Islamic financial centers in the world. The exercise aims to harness insights that are indispensable during the infancy of Islamic banking. The BSP is also closely working with the Islamic Financial Services Board (IFSB)[40] and designates representatives to working groups and various fora that likewise serve as avenues to communicate the headways in Philippine Islamic banking.

Other Government Initiatives

The refinements in the tax regime are indispensable to the sustainability and creation of a level-playing field for Islamic banks. The BIR implemented neutrality in tax treatment between Islamic financial transactions and equivalent conventional banking transactions under R.A. No. 11439. This is considered a breakthrough in the country's Islamic finance development and inclusive growth narrative. The BIR, in consultation with the BSP, is drafting the detailed implementing guidelines for the tax neutrality.

To deepen the country's Islamic financial market, the Philippine government, through the BTr, is exploring the possibility of the country's maiden *Sukuk* bond issuance, an Islamic financial instrument whose attributes are within the bounds of *Shari'ah* law. Islamic banks can likewise tap the capital markets to manage their liquidity requirements through *Shari'ah*-compliant means. The emergence of these Islamic financial instruments will also allow investors, both local and foreign, to diversify their portfolio and at the same time support the country's Islamic finance expansion and other infrastructure developments. On *Shari'ah* compliance, the BSP is coordinating with the *Bangsamoro* Government, the DoF, and the NCMF for the establishment of a Shari'ah Supervisory Board that will take charge in monitoring the compliance of Islamic financial products and transactions in the Bangsamoro region.

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39 Capacity building programs conveyed in Arabic language were likewise held in February 2020 to hone the country's potential *Shari'ah* advisers.

40 The Islamic Financial Services Board is an international standard-setting organization that promotes and enhances the soundness and stability of the Islamic financial services industry by issuing global prudential standards and guiding principles for the industry, broadly defined to include banking, capital markets and insurance sectors. The IFSB also conducts research and coordinates initiatives on industry related issues, as well as organizes roundtables, seminars and conferences for regulators and industry stakeholders.

Islamic finance promotes financial inclusion by making Islamic financial products available to Muslims and non-Muslims alike and grants access to novel asset classes and financial instruments. Islamic banking likewise establishes a direct link between the financial sector and the real economy, as Islamic financial contracts that underpin *Shari'ah* principles are inherently backed by underlying assets or investment activities. Ultimately, Islamic finance helps build financial resilience and contributes to the stability of a financial system with its inherent characteristics of increased transparency, risk-sharing and pervasive ultimate goal towards public good and welfare as required by the *Shari'ah* principles.

Balance of Payments (BOP)

The BOP position for full year 2020 registered a surplus of US$16 billion, more than twice the US$7.8 billion surplus recorded in 2019.

Balance of Payments (in million US$)

	Jan-Dec 2019	Jan-Dec 2020
Current Account	-3047	12979
Capital Account	127	63
Financial Account*	-8034	-4608
Net Unclassified Items	2729	-1629
Overall BOP**	**7843**	**16022**

*Positive balance in the financial account indicates net outflows, while a negative balance indicates net inflows.
**The overall BOP position is equal to the current account plus the capital account minus the financial account plus net unclassified items. Details may not add up to total due to rounding.

BOP surplus for full year 2020 more than doubles

This outcome was underpinned mainly by the turnaround of the current account to a surplus, attributed to the narrowing of the trade in goods deficit. Subdued demand conditions in both global and domestic fronts prevailed due to disruptions to economic activity amid the ongoing COVID-19 pandemic.

The financial account registered lower net inflows, stemming from the reversal of the portfolio investment account to net outflows and decreased net inflows of direct investments. These, however, were partly offset by the increase in the recorded net inflows in the other investment account. The investment climate remained adversely affected by uncertainties and downside risks posed by the pandemic as global investor confidence continued to weaken amid the onslaught of the global health crisis.

Current account reverses to a surplus.

The current account posted a surplus of almost US$13 billion in 2020, a reversal of the US$3 billion deficit posted in 2019. This resulted primarily from the hefty reduction in the trade in goods deficit, which more than offset the decline in net receipts of primary and secondary income.

- The trade in goods deficit for January to December 2020 narrowed by 35.4 percent to US$31.8 billion, attributed to the higher contraction in imports than in exports of goods. Total imports of goods declined by 22.9 percent to US$79.3 billion from US$102.8 billion in the previous year as a result of reduced importation across all major commodity groups. In particular, imports of capital goods dipped by 29.1 percent to US$22.2 billion. Imports of mineral fuels and lubricant also fell by 44.3 percent to US$7.4 billion on account of the decline in the procurement of petroleum crude and other related products and lower average global price of crude oil. Imports of raw materials and intermediate goods dropped by 14.3 percent to US$31.1 billion largely on account of lower purchases of manufactured goods (23.3 percent) and chemicals (15.2 percent). Similarly, imports of consumer goods fell by 23.4 percent to US$14.7 billion due to lower purchases of durables, notably passenger cars and motorized cycle and miscellaneous durable manufactures, and non-durables such as food and live animals chiefly for food (particularly rice, and fish and fish preparation) and articles of apparel and accessories.

- Exports of goods declined by 11.3 percent to US$47.4 billion in 2020 from US$53.5 billion in the previous year. This downturn stemmed mainly from the shortfall in shipments of manufactures (12.2 percent), mostly electronic products as well as travel goods and handbags, brought about by weak demand from major export markets. Similarly, exports of fruits and vegetables, coconut, other agro-based, forest, and petroleum products dipped during the period. However, exports of mineral products managed to register a positive growth of 6.6 percent following higher shipments of copper metal, iron ore agglomerates and other mineral products.

- Net receipts in the trade in services account amounted to US$13.1 billion in 2020, registering a marginal increase of 0.3 percent from the US$13 billion posted in 2019. Higher net receipts of technical, trade-related and other business services along with lower net payments of insurance and pension services, charges for the use of intellectual property, and financial services were recorded during the period. However, these were tempered by higher net payments posted in travel and telecommunication services, combined with lower net receipts in computer and manufacturing services.[41]

- The primary income account recorded net receipts of US$4.4 billion in 2020, 17.4 percent lower than the US$5.3 billion net receipts in 2019. Net receipts of compensation of employees declined by 2.8 percent to US$8.4 billion from US$8.7 billion in 2019. This is mainly on account of lower compensation receipts from resident OF workers at US$8.6 billion from US$8.8 billion.

- Net receipts in the secondary income account decreased by 2 percent in 2020 to US$27.4 billion from US$27.9 billion a year ago. This development was due mainly to the decrease in net receipts of other current transfers by 42 percent to US$491 million from US$846 million last year.[42] In addition, the 25.4 percent decline in net receipts of current transfers to the NG also contributed to the decline in net receipts in the secondary income account. Meanwhile, net receipts from non-resident OF workers' remittances were steady at US$25.6 billion, despite the massive layoffs that ensued globally as a result of companies closing down or downsizing during the period.

Net receipts in the capital account decrease

The capital account posted a 50.2-percent reduction in net receipts to US$63 million in 2020 from US$127 million in the previous year. This resulted from the decrease in net receipts of other capital transfers to the NG, amounting to US$82 million, and net payments for the acquisition of non-produced nonfinancial assets of US$19 million.

The financial account posts lower net inflows

The financial account recorded net inflows of US$4.6 billion in 2020, 42.6 percent lower than the US$8 billion registered in 2019. This resulted primarily from the reversal of portfolio investments to net outflows from net inflows, coupled with the decline in net inflows of direct investments. These were partly mitigated by the sharp increase in net inflows of other investments.

Direct investment account. The net inflows of direct investments account declined by

[41] Earnings from business process outsourcing (BPO) services in 2020 amounted to US$22.4 billion or a decline of 1.3 percent from US$22.7 billion in 2019.

[42] These consist of all transfers that are not capital and personal transfers but directly affect the level of disposable income and influence the consumption of goods or services which include the following: (a) current taxes on income, wealth, etc.; (b) social contributions; (c) social benefits; (d) net nonlife insurance premiums; (e) nonlife insurance claims; (f) current international cooperation, and (g) miscellaneous current transfers.

43.3 percent to US$3 billion in 2020 from US$5.3 billion in 2019. This developed on account of the 24.6 percent drop in foreign direct investments (FDI) to US$6.5 billion from US$8.7 billion a year ago, along with the marginal increase in residents' direct investments abroad to US$3.5 billion from US$3.4 billion. The decline in FDI net inflows reflected the subdued investment climate following the pandemic as the global economic outlook remained muted. In particular, the drop in FDI net inflows was due mainly to the 22 percent contraction in non-residents' net investments in debt instruments to US$4.1 billion (from US$5.2 billion), combined with the 35.7 percent drop in non-residents' net equity capital investments to US$1.5 billion (from US$2.3 billion). The bulk of equity capital placements during the year emanated from Japan, the Netherlands, and the United States. Capital infusions were directed mainly to the manufacturing, real estate, and financial and insurance industries.

Portfolio investment account. The portfolio investment account registered net outflows of US$502 million in 2020, a reversal of the US$2.5 billion net inflows recorded in 2019. This turnaround was due to marked increase in residents' investments in foreign portfolio assets, which more than outweighed the increase in foreign portfolio investments (FPI). Residents' portfolio investments abroad rose by 140.9 percent to US$5.8 billion from US$2.4 billion in 2019. This stemmed largely from the 216.9 percent increase in residents' net investments in foreign debt securities to US$5.4 billion, particularly by the Bangko Sentral ng Pilipinas (BSP) (non-reserves investments amounted to US$1.4 billion) and other sectors (US$2 billion). Meanwhile, the 8.4 percent expansion in FPI was due mainly to the 151.5 percent increase in non-residents' investments in debt securities (mostly issued by the NG and other sectors) to US$7.8 billion. This was tempered partly by non-residents' net withdrawals of their investments in equity and investment fund shares amounting to US$2.5 billion (from net placements of US$1.8 billion).

Other investment account. The other investment account posted a significant expansion in net inflows to US$1.9 billion in 2020 (from net inflows of US$67 million) on account of the substantial increase in residents' net incurrence of liabilities. Specifically, loans availed by the NG and local corporates from non-residents increased by 390.1 percent and 564.3 percent, amounting to US$7.2 billion and US$2.5 billion, respectively. However, these were tempered by net repayments made by resident banks on their foreign loan obligations amounting to US$3.3 billion, residents' net settlement of their trade credit obligations of US$789 million, and non-residents' withdrawals of their currency and deposits in local banks of US$333 million. Moreover, net inflows of other investments also decreased due to the increase in residents' currency and deposits in banks abroad to US$2.6 billion from US$1 billion during the year.

Financial derivatives. Trading in financial derivatives resulted in a net gain of US$239 million, 38 percent higher than the US$173 million net gain recorded in 2019.

International Reserves

The country's gross international reserves (GIR) amounted to US$110.1 billion as of end-December 2020, higher compared to the recorded level of US$87.8 billion in the previous year. At this level, the GIR can cover 12.6months' worth of imports of goods and payments of services and primary income. It is also equivalent to 7.8 times the country's short-term external debt based on original maturity and 4.9 times based on residual maturity.

International reserves remain at an adequate level to help cushion domestic economy against external shocks

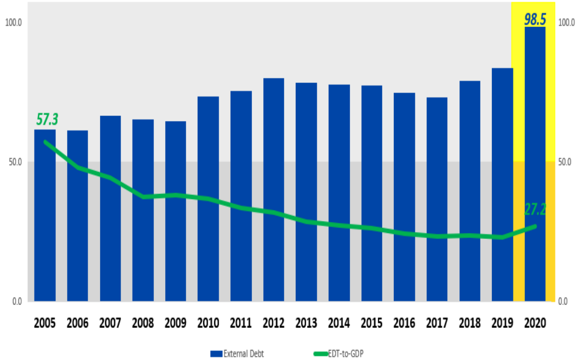
The year-on-year increase in reserves reflected inflows arising largely from BSP's foreign exchange operations and income from its investments abroad and the National Government's (NG) foreign currency deposits with the BSP. Positive revaluation adjustments on the BSP's foreign currency-denominated reserves and gold holdings, considering the increase in the price of gold in the international market, also contributed to the higher reserves level.

Bulk of the country's reserves or 85.0 percent of the total reserves was held in foreign investments. Meanwhile, 10.5 percent were in gold, and the remaining 4.5 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$110.1 billion as of end-2020, an increase of US$22.3 billion from its level a year ago.

External Sector

As of end-December 2020, outstanding Philippine external debt stood at US$98.5 billion, up by US$14.9 billion from end-2019. The rise in debt stock was brought about by: (a) net availments of US$12.6 billion, mainly by the NG to fund its COVID-19 pandemic response programs, general financing requirements as well as various healthcare and infrastructure development programs/projects; (b) increase in non-resident holdings of Philippine debt papers issued offshore of US$1.8 billion; and (c) positive FX revaluation of US$1.5 billion as the US dollar weakened against other currencies (i.e., Japanese yen, euro, and the Philippine peso). The increase in debt stock was partially tempered by prior periods' adjustments of US$1.1 billion.

Chart 4.4. External Debt (US$ billion) and External Debt/Gross Domestic Product
In percent of GDP



The country's level of external debt exhibited a general rising trend in recent years from US$73.1 billion as of end-2017 to US$98.5 billion as of end-December 2020.

The maturity profile of the country's external debt remained predominantly medium- and long-term (MLT) in nature [i.e., those with original maturities longer than one (1) year], with share to total external debt at 85.6 percent. On the other hand, short-term (ST) accounts [or those with original maturities of up to one (1) year] comprised the 14.4 percent balance of the debt stock and consisted of bank liabilities, trade credits, and other liabilities. This means that FX requirements for debt payments continued to be well spread-out and manageable.

Public sector external debt substantially grew to US$58.1 billion or by US$15.3 billion from US$42.8 billion recorded in 2019 as the NG required emergency financing to fund its COVID-19 response projects/programs. On the other hand, private sector borrowings declined to US$40.4 billion or by US$455 million from US$40.8 billion as of end-2019 due to prior periods' adjustments of negative

US$1.5 billion, whose impact was partially offset by net availments of US$1.3 billion (largely by private non-banks).

Borrowings in the form of bonds/notes had the largest share (35.6 percent) of total outstanding debt, followed by loans from official sources [multilateral and bilateral creditors (comprised of Japan - US$9.0 billion; China - US$1.3 billion; and France - US$753 million, among others) – 34.7 percent], and obligations to foreign banks and other financial institutions (24.4 percent); the rest (5.4 percent) were owed to other creditor types (mainly suppliers/exporters). Major creditor countries were: Japan (US$15.9 billion), United States (US$3.4 billion), United Kingdom (US$3.3 billion), and The Netherlands (US$3.0 billion). Creditor mix continues to be welldiversified.

The bulk of MLT borrowings continued to have fixed interest rates, with share to total slightly decreasing from 60.1 percent to 60.0 percent during the year. Thus, risks from a possible increase in interest rates are minimized.

Despite the increase in external debt, the country's major external debt indicators remained at prudent and manageable levels. While the GIR to ST debt ratio under the original maturity concept increased to 7.8 times as of end-December 2020 from 5.1 times as of end-December 2019, the debt service ratio, which relates principal and interest payments to exports of goods and receipts from services and primary income, improved to 6.3 percent in 2020 from 6.7 percent in 2019. The external debt ratio (a solvency indicator), or total outstanding external debt expressed as a percentage of GDP, increased to 27.2 percent from 22.2 a year ago, as GDP contracted by 9.5 percent for the full year 2020, while external debt rose. Despite the growth in foreign borrowings, the country continues to have the capacity to service its maturing obligations.

What We Did in 2020: The Four Mandates of the BSP

Price Stability

During its policy meetings on 6 February, 19 March, 16 April,[42] 25 June, and 19 November, the BSP decided to reduce its key policy rate by 25 bps, 50 bps, 50 bps, 50 bps, and 25 bps, respectively, bringing the rate for the overnight reverse repurchase or RRP facility to 2.0 percent. The interest rates on the overnight lending and deposit facilities were likewise decreased accordingly. This brought the cumulative policy rate reductions to 200 bps during the year.

The BSP reduces policy rates five times in 2020, bringing the cumulative policy rate reduction to 200 basis points

In deciding to reduce the key policy interest rate in 2020, the BSP noted that baseline forecasts continued to indicate a benign inflation environment over the policy horizon, with inflation expectations remaining firmly anchored within the target range of 2-4 percent. Average inflation was seen to settle within the lower half of the target band for 2020 up to 2022, reflecting slower domestic economic activity, lower global crude oil prices, and the recent appreciation of the peso. At the same time, the BSP noted that the balance of risks to the inflation outlook also remained tilted toward the downside owing largely to potential disruptions to domestic and global economic activity amid the ongoing pandemic.

In the first half of (H1) 2020, the BSP observed that domestic economic activity has slowed with the enforcement of necessary protocols to slow the spread of the virus in the country. Equally important, the outlook for global growth has deteriorated further as considerable uncertainty surrounded the extent of the health crisis. The BSP noted that even as economies began to reopen, the global recovery would likely be protracted and uneven. Hence, there remained a critical need for continuing measures to bolster economic activity and support financial conditions, especially the effective implementation of interventions to protect human health, boost agricultural productivity and build infrastructure.

At the latter part of the year, uncertainty remained elevated amid the resurgence of COVID-19 cases globally. However, the BSP also observed that global economic prospects have moderated. At the same time, the BSP noted that while domestic output contracted at a slower pace in the third quarter of (Q3) 2020, muted business and household sentiment and the impact of recent natural calamities could pose strong headwinds to the recovery of the economy in the coming months.

Given these considerations, the BSP was of the view that there remained a critical need for continuing policy support measures to bolster economic activity and boost market confidence. With a benign inflation environment and stable inflation expectations, the BSP saw enough policy space for a reduction in the policy rate to uplift market sentiment and nurture the country's economic recovery amid increased downside risks to growth.

[42] The off-cycle policy meeting in April substituted for the scheduled monetary policy meeting on 21 May 2020.

Box Article 5
Maiden Issuance of BSP Securities

Background

When the Central Bank of the Philippines was reorganized into the Bangko Sentral ng Pilipinas (BSP) in 1993 under the Republic Act No. 7653 or the New Central bank Act, its fiscal functions were transferred to the National Government. As a consequence, the new monetary authority was limited in its ability to issue its own securities. Section 92 of the New Central Bank Act of 1993 specified that the BSP could issue its own evidence of indebtedness “only in cases of extraordinary movement in price levels.”

In the early days of the new central bank when the money supply was small, the financial markets underdeveloped, and the BSP’s monetary tools sufficient, the inability to issue securities had little or no adverse impact on the BSP’s monetary operations. The surplus liquidity in the system could be siphoned efficiently through the BSP’s Reverse Repurchase (RRP) facility and the Special Deposit Account.

The shift to an inflation targeting framework in 2002 from managing monetary aggregates signaled a change in the way the BSP needed to manage domestic liquidity. The BSP recognized the importance of calibrating its monetary instruments in terms of tenors and timing to cope with the changes in monetary trends. Moreover, the need for a more dynamic management of domestic liquidity using market-based instruments became apparent following the Great Financial Crisis of 2008 amid the rapid rise in the money supply due to capital inflows.

As such, the adoption of the Interest Rate Corridor in June 2016 gave the BSP the opportunity to actively manage system liquidity in a period of increasing excess money in the system. The corridor has for a floor and ceiling the BSP’s Overnight Deposit rate and Overnight Lending rate, respectively. The bulk of system liquidity is siphoned through the newly created auction-style Term Deposit Facility while the Overnight RRP facility transmits the BSP’s policy rate.

Issuance of the BSP Bill

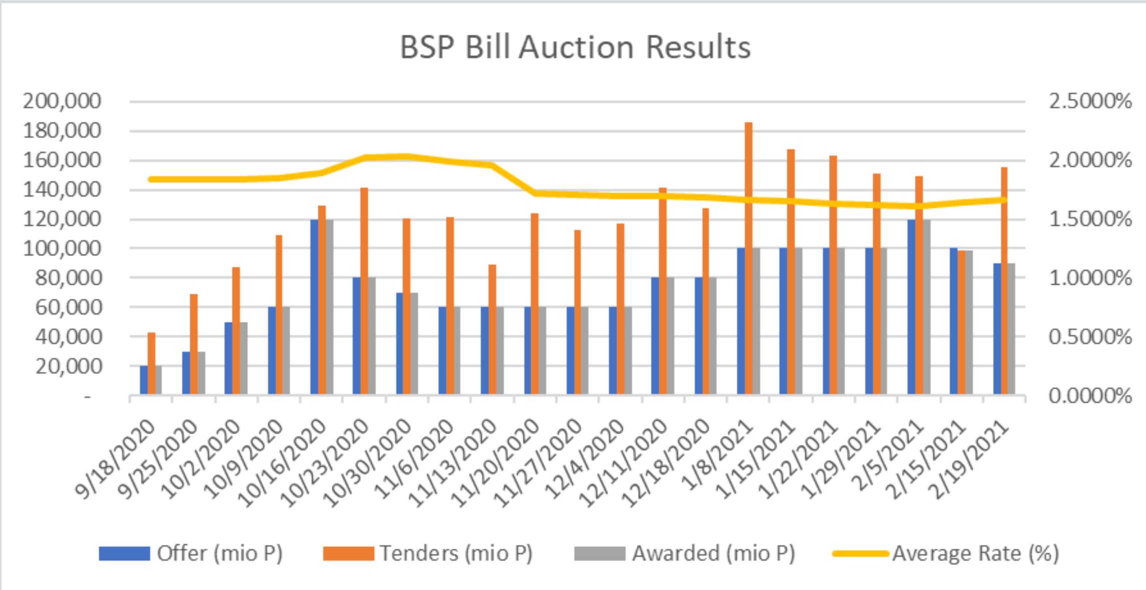
With the amendment of the BSP’s Charter effective 06 March 2019 under Republic Act No 11211, the BSP welcomed the restoration of its power to issue securities. The new instrument gives the BSP even more flexibility in managing domestic liquidity and has the potential to deepen the debt paper market moving forward. Accordingly, the BSP created an electronic platform on the Monetary Operations System (MOS) to ensure secure and easy access for eligible counterparts to the primary auction for BSP Securities.

While the peso leg of the transaction is settled through the BSP’s real-time gross settlement system, Philippine Payment and Settlement System (PhilPaSS), the platform has been linked to the Bureau of the Treasury’s National Registry of Scripless Securities (BTR NRoSS) for the straight-through settlement of the security leg of the transaction. Further, BSP Securities may be traded on the secondary market with deals being recorded on Bloomberg. Finally, the BSP was ready for its maiden issuance, offering ₱20 billion of a discounted 28-day BSP Bill on 18 September 2020. The auction was oversubscribed with total tenders reaching more than ₱43 billion or more than two times the offering. The average rate for the first BSP Bill settled at 1.8355 percent, comparable to the BSP’s 28-day Term Deposit rate of 1.8409 percent.

Since the first issuance, the BSP has held 21 auctions,[43] initially increasing the offering to a high of ₱120 billion and then fine-tuning the offering volume to take into account movements in domestic liquidity.

[43] As of 19 February 2021

The auctions have been mostly oversubscribed with the bid to cover ratio averaging 1.71 amid the high level of liquidity in the system.



The average rate for the BSP Bills has generally declined in the meantime, from 1.8355 percent on 18 September 2020 to 1.6683 percent on 19 February 2021. This trend is consistent with the BSP's prevailing accommodative monetary stance and the high level of liquidity in the system.

Loans and Credit

The BSP instituted reforms aimed to ensure that credit facilities remain appropriate in line with the lender-of-last resort (LOLR) principle[44] and its monetary policy stance. The BSP issued Circular No. 1071 on 08 January 2020[45] providing the new pricing structure of the BSP rediscounting loans, which allows flexibility in recalibrating the rediscount rates in response to changes in monetary management and/or economic conditions. Particularly, the new rediscount rates have a flexible term premium to complement changes in the BSP's monetary policy goals and to reflect movements in the market interest rates.

To adhere to international standards on credit risk management, the BSP pursued the establishment of appropriate credit risk environment with the clear delineation of responsibilities of BSP officers involved in the governance of BSP's credit operations and reconstitution of the Credit Committee (CreCom).[46] Following the implementation of quarantine measures , the BSP adopted temporary measures in response to the disruptions in the economic chain caused by the restrictions imposed by the NG to arrest the further spread of the disease. These temporary measures include the reduction of the term spread on rediscounting loans, regardless of maturity, under the Peso Rediscount Facility[47] and Exporters' Dollar and Yen Rediscount Facility (EDYRF);[48] the acceptance for rediscounting with the BSP, under its EDYRF, of United States dollar (USD)- and Japanese yen (JPY)-denominated credit instruments related to the activities considered critical during the implementation of enhanced community quarantine;[49] and acceptance for rediscounting of credit instruments, which were granted grace period pursuant to then Republic Act (RA) No. 11469[50] and RA No. 11494.[51] The BSP also adjusted its procedures in processing applications for rediscounting line and rediscounting availments to ease the exchange of communications with banks and to simplify the application and availment procedures.

Total loan availments in BSP's rediscounting facilities were relatively low due to high liquidity

In 2020, extended loans by the BSP reached the aggregate amount of ₱566,898.0 million, higher by 362.8 percent than the loans extended in the previous year of ₱122,506.0 million. The increase is due to the short-term loan extended to the NG amounting to ₱540,000.0 million,[52] in support of its efforts to provide fiscal stimulus to the economy to address the adverse impact of COVID-19.

On the other hand, total availments of rediscounting loans by banks amounted to ₱26,898.0 million, lower by 78.0 percent than reported availments in 2019 at ₱122,167.0 million. The primary reason for such relatively low availments in the BSP's rediscounting facilities is banks' high liquidity position amidst the COVID-19 pandemic. The continued deceleration of banks' lending growth, as the COVID-19 pandemic dampened consumer spending and business

[44] This key principle states that depository institutions should exhaust other possible sources of funding first before going to central banks and the higher interest rate applied to credit facility provides the necessary condition for this.
[45] Approved by the Monetary Board (MB) in its Resolution No. 1917 dated 13 December 2019.
[46] Office Order No. 0455 dated 26 February 2020 formally designated the membership composition of the CreCom and its Terms of Reference.
[47] The MB approved the reduction of the term spread on peso rediscounting loans to zero relative to the Overnight Lending Rate effective 20 March 2020.
[48] Implemented by the BSP since 16 July 2020 through Memorandum No. M-2020-056 dated 16 July 2020.
[49] Implemented by the BSP since 08 April 2020 through Memorandum No. M-2020-024 dated 08 April 2020.
[50] Otherwise known as "Bayanihan to Heal as One Act".
[51] Otherwise known as "Bayanihan to Recover as One Act".
[52] The BSP heeded the urgent request of the NG for provisional advances in the amount of ₱540,000 million to finance expenditures authorized in the 2020 General Appropriations Act. The loan, which was implemented through the Department of Loans and Credit (DLC), is evidenced by a non-negotiable and non-interest-bearing promissory note dated 06 October 2020 with maturity date of 29 December 2020.

activity,[53] has contributed to the excess liquidity of banks and relatively low availments from the BSP's rediscounting facilities.

Meanwhile, the total principal collections amounted to ₱592,044.0 million, higher by 242.4 percent than the ₱172,932.0 million collections in 2019. A large portion of said collections pertains to the short-term loan to NG of ₱540,000.0 million which was collected in advance on 18 December 2020.

No new past due loan (PDL) was recorded in 2020 since all current loans were collected as they fall due. On the other hand, existing PDLs were recovered through various remedial measures, such as foreclosure and cash settlement schemes. However, past due ratio (PDR) increased to 5.1 percent on 31 December 2020 from the 4.3 percent rate in 2019. The increase in PDR is a result of the collection of a significant portion of the current loans, wherein the percentage decrease in past due loans was outpaced by the percentage decrease in total outstanding loans.

To further ease the delivery of credit amid the pandemic, the BSP implemented various initiatives during the year. Among the accomplishments in 2020 were:

- ***Acceptance for rediscounting of loans secured by Original Certificate of Title issued by virtue of Free Patent thereby amending Section 282 of the Manual of Regulations for Banks (MORB).*** RA No. 11231, otherwise known as the Agricultural Free Patent Act, removed the restrictions with regard to acquisitions, encumbrances, conveyances, transfers or dispositions of agricultural free patents. Likewise, the restriction on acceptance of Agricultural Free Patent as underlying collateral for rediscounting loan was removed pursuant to MB Resolution No. 30 dated 08 January 2020.

- ***Establishment of roles and responsibilities in the governance of the BSP's credit operations, reconstitution of CreCom, and creation of its Terms of Reference.*** The approved matrix on the "Governance in the Credit Operations of the BSP: Roles and Responsibilities" defines and institutionalizes the relevant roles and responsibilities of the MB, the Governor, the Deputy Governor, Monetary and Economics Sector, the CreCom and DLC in the management of the loans and credit operations of the BSP. Meanwhile, the CreCom was reconstituted to bring in diverse expertise and experience to collectively reach independent and sound decisions in performing its functions which were delineated in the Terms of Reference approved by the MB in its Resolution No. 192 dated 7 February 2020.

- ***Enhancement of the guidelines in writing off problem accounts.*** This establishes the overarching guidelines that capture the criteria, process and required approval related to the write-off of problem accounts, harmonizing all existing guidelines on write-off of past due loans. The enhanced guidelines were approved by the MB, in its Resolution No. 66 dated 16 January 2020, and issued for implementation under Department Order (DO) No. 003 dated 23 January 2020.

- ***Simplification of procedures in the submission of reports/documents and communications to the DLC and relaxation of regulations governing submission of applications for rediscounting line and availments of rediscounting loans.*** The MB, in its Resolution No. 440.b dated 26 March 2020, approved the guidelines intended to ease the exchange of communications between the banks and the BSP to simplify the application and availment

[53] As cited in the BSP's media release, entitled "Bank Lending Growth Eases Anew in November", dated 13 January 2021.

procedures in obtaining a rediscounting line from the BSP in order to allow banks to immediately and continually deliver their financial services during this extraordinary situation.

- **Acceptance of additional eligible credit instruments for rediscounting with the BSP as part of BSP's responses to COVID-19.** The MB, in its Resolution No. 500 dated 07 April 2020, approved the acceptance for rediscounting with the BSP of credit instruments compliant with the requirements on eligible papers and collaterals under Section 282 of the MORB, which were granted mandatory 30-day grace period pursuant to Section 4(aa) of RA No. 11469. Also, the MB allowed the rediscounting under the EDYRF of United States Dollar (USD)- and JPY denominated credit instruments related to enterprises allowed to operate during the enhanced community quarantine of Luzon, as provided in the Department of Trade and Industry Memorandum Circular No. 20-08, except for loans to banks and capital markets, subject to certain conditions as stated in the subject issuance. This was promulgated through BSP Memorandum No. M-2020-024 dated 08 April 2020.

- **Revision of rediscounting loan documents and availment procedures.** The rediscounting loan documentation has been revised to comply with existing laws and jurisprudence. Rediscounting banks are now required to submit Supplemental Rediscounting Line Agreement and use a revised Promissory Note when availing from the BSP's rediscounting facilities following the procedures set forth in BSP Memorandum No. M-2020-024 dated 08 April 2020. This was approved by the MB in its Resolution No. 500 dated 07 April 2020.

- **Reduction of the spread on rediscounting loans under the EDYRF.** This temporary measure in response to COVID-19 was approved by the MB in its Resolution No. 854 dated 09 July 2020. It reduced the applicable USD and JPY rediscount rates to the 90-day London Interbank Offered Rates, or in their absence, an applicable benchmark rate, such as the Secured Overnight Financing Rate, plus 200 basis points, regardless of maturity (i.e., 1 to 360 days).

- **Simplification of documentary requirements and procedures on the use of bank asset as underlying collateral for rediscounting.** In view of the limitations in the operations of Registries of Deeds and difficulty in procuring the services of independent appraisers due to quarantine restrictions, the BSP simplified the documentary requirements and procedures on the use of bank assets, i.e., real properties in the name of the bank, as underlying collateral for unsecured loans to be rediscounted with the BSP.

- **Acceptance for rediscounting with the BSP of credit instruments which were granted mandatory 60-day grace period or longer pursuant to RA No. 11494.** The BSP allowed the rediscounting of credit instruments compliant with the requirement on eligible papers and collaterals under Section 282 of the MORB, which were granted one-time 60-day grace period or longer as may be agreed by the relevant parties, pursuant to Section 4(uu) of RA No. 11494. This was approved by the MB, in its Resolution No. 1215 dated 24 September 2020, and promulgated through Memorandum No. M-2020-076 dated 29 September 2020.

- **Conduct of "Off-site Credit Verification" relative to availments from the BSP's rediscounting facilities.** In view of the restrictions brought about by the COVID-19 pandemic, the BSP, in Memorandum No. M-2020-81 dated 22 October 2020, sets forth the procedures for remote credit verification as an alternative to on-site credit verification.

Asset Management

The BSP continued to properly administer and dispose of its acquired real properties despite the challenges posed by the COVID-19 pandemic. The BSP is continually taking measures to expedite the disposal of BSP-acquired properties and manage its receivables arising from disposal.

Among the initiatives done in 2020 to hasten the disposal of properties and manage its receivables are: (1) the acceptance of payments through the BSP depository banks via (a) over-the-counter; (b) online banking; and (c) payment gateway/channels (e.g., VISA/Mastercard debit or credit card), and; (2) the generation of the Order of Payment and Statement of Account through the link at the BSP website in May and September 2020, respectively.

The implementation of the New Order of Payment System allowed remote or online payment transactions, in line with the BSP's advocacy to promote digital payments and to provide clients with accessible payment facilities.

Although not statutorily mandated by the *"Bayanihan to Heal as One Act"* (R.A. No. 11469) and *"Bayanihan to Recover as One Act"* (R.A. No. 11494), the BSP implemented the suspension of acceptance of installment payments from 16 March to 30 June 2020. This pro-active and unilateral measure was made in response to the ongoing COVID-19 pandemic and rapidly evolving situations such as the imposition of nationwide enhanced community quarantine, travel restrictions which limited the movement of people, and restriction on entry of visitors within the BSP premises.

The BSP likewise revised the guidelines and procedures particularly on the disposal of BSP-acquired assets and other real properties through negotiated sale, which effectively limits the terms of sale to cash basis.

The total book value of acquired properties stood at ₱12.340 billion as of 31 December 2020, lower by ₱0.309 billion or 2.44 percent than the previous year's level of ₱12.649 billion.

Through various disposal schemes, the BSP Committee on Disposal of Real Properties approved the sale of 1,824 properties with a total net book value of ₱385.817 million for an aggregate purchase price of ₱1,051.271 million. This will generate for the BSP an estimated net income of ₱659.737 million[54], inclusive of estimated interest income of ₱36.922 million over the term of the contracts for installment sales.

The total collections of ₱537.615 million on sales contract receivables represent 95.96 percent of the total installments due. Interest income earned for the period amounted to ₱230.114 million. In addition, the BSP earned a total miscellaneous income of ₱251.903 million, a significant portion of which pertains to realized profit from properties sold on installment basis in the amount of ₱238.218 million.

Bank Notes and Securities Printing; Mint and Refinery

The BSP has printed and delivered a total of 3,685.02 million pieces (mpcs) of banknotes[55] in 2020 of which: 34.7 percent were in-house produced banknotes; 62.2 percent were outsourced finished banknotes; and 3.8 percent were 20-Piso New Generation Currency (NGC) Coins. The total volume of banknotes delivered also included 655.15 mpcs enhanced NGC (eNGC) banknotes launched in July 2020, which features the following key enhancements: (1) new windowed security threads for 100-piso up to 1,000-piso denominations; (2) new optically variable ink for 1,000-piso and 500-piso;

[54] Net of administration cost, capital gains tax and broker's commission aggregating ₱42.639 million.
[55] Inclusive of the 20-Piso NGC Coins allocation delivered by the Mint and Refinery Operations Department which forms part of the Banknotes Order, in view of the ongoing transition from 20-Piso banknotes to coins.

(3) new value panel design with rolling bar effect for 1,000-piso and 500-piso; and
(4) tactile marks on 50-piso up to 1,000-piso banknotes for the visually impaired.

The BSP also produced and delivered 3.013 mpcs judicial title forms for the Land Registration Authority (LRA) as well as 79,500 pieces of pre-printed official receipts and 5,250 sets of expense checks. Meanwhile, for the Philippine Identification (PhilID) project which started in November 2020, the BSP produced a total 790,000 pre-personalized ID cards for the period 5-29 December 2020.

Furthermore, in compliance with occupational safety and environmental standards, the BSP has acquired a Physical Vapor Deposition (PVD) Plate Coating Machine for chroming intaglio printing plates to replace the conventional, hazardous and environmentally unsafe galvanic chroming process. In addition, demineralized water was acquired for use in preserving quality of water for production of nickel alto and intaglio printing plates as well as Version 2.0 of the New One Portrait and One Security Plus Computer-To-Intaglio-Plate (CTiP) Software for use in the engraving of portrait image for complete design and origination of banknote.

Mint and Refinery. The BSP was able to deliver a total of 1,329.46 mpcs[56] of coins in 2020 of which, 73.8 percent were in-house minted coins and 26.2 percent were outsourced finished coins. In the same year, the BSP also produced and delivered 74 pieces of presidential medals, 30 pieces of state decorations, 9,400 pieces of commemorative coins, and 1,002 pieces of commemorative medals[57].

Meanwhile, the BSP received a total of 1,457 lots of panned gold (weighing 115,800.995 troy ounces (tr. oz.)) from the gold buying stations of the BSP Quezon City and Regional Operations Sub-sector in 2020. Said amount was 1,034 percent higher than the previous year's total of 10,207.645 tr. oz.. The upward trend in panned gold purchases starting in April 2020 may be attributed to the implementation of the amended Republic Act No. 11256, which exempts from taxation the income derived from sale of gold to the BSP by registered small scale miners[58] and accredited traders, as well as the sale of gold of registered small-scale miners to accredited traders for eventual sale to the BSP.

The BSP has also resumed its production of Good Delivery Bars (GDB) in August 2020 and was able to produce a total of 238 GDBs, with a total weight of 96,593.200 tr. oz. and a total gold content of 96,224.167 fine tr. oz.

Currency and Securities Production Sub-sector Special Projects. Pursuant to Monetary Board (MB) Resolution No. 1510 dated 19 November 2020, the MB approved the production and issuance of 1,000 pieces 5,000-piso Lapulapu commemorative non-circulation legal tender banknote and 1,000 pieces of commemorative medal in celebration of the 2021 Quincentennial Commemorations in the Philippines and Victory of Lapulapu in the Battle of Mactan. On 18 January 2021, the 5000-Piso Lapulapu commemorative banknote and medal were launched to kick-off the 99-day countdown to the 500th anniversary of the "Victory at Mactan." Both were made available to the public for purchase on 19 February 2021.

International Operations

The BSP, through the International Operations Department (IOD), continued to review the FX regulatory framework to ensure that it remains appropriate to the needs of the country. In response to the declaration of "community quarantine (CQ)" by the Office of the President (OP) to curb the spread of COVID-19 pandemic, the BSP issued Circular No. 1080 dated 27 March 2020 and related Circular Letters to ensure that the general

[56] Exclusive of delivered 20-Piso NGC Coins

[57] 1,000 of which were the high-grade silver (99.9% silver minimum) 500 Years Battle of Mactan commemorative medals

[58] As defined under Republic Act No. 7076

public has continued access to FX from the banking system for resident-to-resident, trade and non-trade current account, borrowing, and investment transactions.

The current policy thrust of the BSP remains geared toward the liberalization of FX regulations, giving due consideration to prevailing market conditions, while ensuring that prudential regulations and safeguard measures remain in place. In line with this, the BSP completed the public exposure of the draft Circular on FX reforms governing trade and non-trade current account transactions and various FX liberalization measures to streamline procedures and documentary requirements and facilitate access to FX from the banking system. The BSP also continued to adopt a consultative approach in providing FX policy advisory services and regularly updated the Frequently Asked Questions on FX regulations to further clarify existing FX rules and include latest amendments to FX policies for better understanding of the general public.

Meanwhile, the BSP's role in external debt management is to keep external debt service profile 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 2020, the BSP approved a total of US$17.7 billion public sector medium to long-term foreign borrowings. These included three (3) bond issuances amounting to US$6.6 billion intended for RP's general financing requirements; 16 program loans totaling US$7.5 billion for policy/program reforms/ initiatives on social protection, education, fiscal and agriculture development, resilience to natural disasters and financial inclusion; and 15 project loans of RP amounting to US$3.7 billion for projects on transport connectivity, implementation of the competition policy, facilitation of infrastructure projects, customs modernization, water transmission improvement, agrarian reform and agricultural development and local governance reforms. The public sector foreign borrowings for 2020 were aimed at providing funds for, among others, the NG's COVID-19 pandemic response as well as to support economic recovery.

The BSP regulates foreign currency loans and borrowings (including those in the form of bonds/notes/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 2020, the BSP registered 254 private sector foreign loan accounts amounting to US$4.9 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. For the period January to December 2020, the BSP facilitated the registration of US$1.954 billion FDIs and US$0.1 billion in foreign portfolio investments (FPIs). On the other hand, foreign investments registered with authorized agent banks (AABs) on behalf of the BSP from January to December 2020 amounted to US$11.7 billion, reflecting a 29.7 percent decline compared to the US$16.6 billion level for 2019. Overall transactions for registered investments with AABs for 2020 resulted in net outflows of US$4.2 billion brought about by uncertainties due, among others, to the ongoing impact of the COVID-19 pandemic to the global economy and financial system coupled with international and domestic developments such as geopolitical tensions, certain corporate governance issues and extended quarantine measures in select regions in the country.

The BSP has been actively working with various agencies on the FX regulatory framework and on government initiatives facilitating trade and investments. The BSP has actively participated in the Export Development Council (EDC), and in various export-related organizations such as the Center for International Trade Expositions and Missions (CITEM) and the Philippine

Exporters Confederation, Inc. (PHILEXPORT). Involvement in these organizations provided the BSP with the opportunity to discuss its role and initiatives to support MSME development, and export development and promotion, especially amid the challenges brought about by the pandemic.

The International Operations Department (IOD), in coordination with the Mint and Refinery Operations Department (MROD) and Currency Issue and Integrity Office (CIIO), spearheads the activities related to BSP's onboarding in the TradeNet, an internet-based application that allows parties involved in trade to lodge information and documents with a single-entry point to fulfill all import, export and transit-related regulatory requirements.

Further, the BSP actively participated in the Interagency Committee for Review of Foreign Loan Documents for the review and/or negotiation of various financing agreements of the NG; contributed in attaining the objectives of the Investment Promotion Units Network (IPU Net) spearheaded by the Board of Investments (BOI); and took part in the deliberations of the House of Representatives Technical Working Group and Committee hearings on the drafting of the Anti-Bulk Cash Smuggling Bill, which is related to the ongoing review of the currency declaration form and the memorandum of agreement between the BSP and other government agencies.

To increase stakeholder engagement, the BSP also intensified its information campaign to increase public awareness of the BSP's FX regulations through the following: public advisories (in the form of infographics) posted at the BSP website and the BSP's official social media accounts; periodic updating of the FX Regulations Sub-section in the BSP website; and the conduct of the 1st Virtual Enablers' Exhibit, as part of the activities during the 2020 National Exporters' Week organized by the Department of Trade and Industry (DTI) - Export Marketing Bureau (EMB). The said exhibit provides the BSP with an opportunity to promote greater awareness on BSP's initiatives that promote financial inclusion and support export development.

Economic Research and Information Dissemination Activities

In 2020, the BSP continued its efforts to conduct economic research and information dissemination activities despite the challenges brought about by the COVID-19 pandemic. Moreover, the organization boosted its research and communication initiatives, with special reports focused on the economic and social impact of the health crisis to provide support and enact timely and evidence-based policy responses. With the limited face-to-face interactions, the BSP expanded its online reach and tapped new ways of communicating with its stakeholders through the use of online platforms. This, in turn, allowed the BSP to continue to produce and publish its regular reports as well as conduct programmed activities, on top of the additional projects and responsibilities targeted towards addressing the issues brought about by the pandemic.

Regular reports. The BSP published regular reports to provide the public information on the macroeconomic developments and analysis behind its policy responses to the COVID-19 pandemic and to help guide expectations on the future path of monetary and financial sector policies. The published regular reports in 2020 included the annual Report on Regional Economic Developments, the quarterly Inflation Report, the quarterly Report on Economic and Financial Developments, the quarterly Balance of Payments (BOP) Report and the quarterly International Investment Position (IIP). The projections for the Balance of Payments (BOP) was transformed from a twice-a-year exercise to a quarterly activity given the significant economic developments during the year. The BSP likewise published relevant statistical reports on daily Key Statistical Indicators, weekly Selected Economic and Financial Indicators (SEFI), monthly Selected Philippine Economic Indicators (SPEI), and monthly Statistical Bulletins (Statbul) on the Reference Exchange Rate and Residential Real Estate Price Index (RREPI).

Press releases, livestreams and social media. In lieu of face-to-face activities, various media communications transitioned fully to online platforms. This allowed the BSP to continue to share its message to a wider audience and helped promote greater transparency and accountability to the public. Apart from the publication on monetary policy decisions, the BSP published press releases on inflation, month-ahead inflation forecast, BOP position, gross international reserves, external debt, foreign portfolio and direct investments, remittances, domestic liquidity, BSP rediscount rates and loan availments, and requests for MB opinions on proposed domestic borrowings. Press statements on the results of the quarterly RREPI, bank lending standards, and consumer and business confidence were also regularly published.

In 2020, 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 likewise enhanced its presence in social media through the GBED Talks, which are regular press chats with the Governor covering selected BSP undertakings and initiatives. Public advisories in the form of infographics were also released to provide information regarding advisories, policies, and statistics.

To cater to today's millennial audience and Filipino netizens, the BSP continued to manage PisoLit, a financial education (fin-ed) page on Facebook which provides relatable and practical financial tips and resources, scam prevention reminders, and consumer protection advisories. In 2020, the BSP expanded its presence to Instagram and Twitter to further reach out to the younger segments of the population.

Surveys. Despite difficulties in data collection brought about by the pandemic, results from BSP's various regular surveys continued to enhance the information content of hard data releases with the goal of providing a more comprehensive view of economic conditions in aid of monetary policy analysis and formulation. Among these surveys were the monthly Private Sector Economists' Survey,[59] which monitored the inflation expectations of the private sector; and the quarterly Senior Loan Officers' Survey (SLOS), which provided an assessment of current bank lending conditions; the monthly Cross Border Transactions Survey (CBTS), which reported the resident-to-nonresident transactions that by-pass the domestic banking system; the annual and quarterly Coordinated Direct Investment Survey (CDIS), which covered the financial transactions and stock of equity and debt between resident companies and their immediate foreign counterparts; the quarterly survey on International Mobile Money Transfer Services (IMMTS), which monitored the information on resident Electronic Money Issuers' transactions with non-residents; the semi-annual Coordinated Portfolio Investment Survey (CPIS), which reported the residents' holdings of foreign-issued equities and long- and short-term debt securities; the quarterly Business Expectations Survey (BES) and Consumer Expectations Survey (CES), which captured the business sentiment and general consumer outlook on future economic conditions; the conduct of the survey dry run for the generation of the Commercial Property Price Index (CPPI), which is expected to complement the RREPI in providing information regarding real property prices; and, the Corporate Financial Trends Survey (CFTS), which provided an assessment of the performance and conditions of the corporate sector; and the Other Financial Corporations Survey (OFCS), which provides a comprehensive measure of the claims and liabilities of other financial corporations.

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

Box Article 6

Central Bank Digital Currency for the BSP: Fundamentals and Strategies[60]

Design features of central bank digital currency (CBDC)

A CBDC is a digital form of money issued by a central bank that is denominated in the national unit of account (BIS, 2020)[61] and functions both as a medium of exchange and a store of value. There are two commonly discussed variants of CBDC – *general purpose/retail CBDC* and *wholesale CBDC*. The former is a widely accessible digital currency that could be used for retail transactions and other purposes, while the latter has restricted access (i.e., mainly for banks and other financial institutions) and is used as digital settlement for wholesale transactions. Moreover, the process of verification for the exchange can either be *token-based* or *account-based*. *Token-based CBDC* relies on the ability of the payee to verify the validity of the payment transaction, while *account-based CDBC* depends on the ability to verify the identity of the account holder. The specific characteristics and design features determine to a large extent, the potential economic effects and implications on monetary policy and financial stability.

While a CBDC is a digital currency, it fundamentally differs from cryptocurrencies. Cryptocurrencies are mostly privately-issued and they do not have any central entity to support them (BOE, 2020).[62] Moreover, cryptocurrencies (e.g. Bitcoin) are not recognized as money. Given the volatility of their prices, cryptocurrencies cannot function as either medium of exchange or unit of account and only the least risk-averse investors would consider them a store of value (Carney, 2018).[63]

Motivations behind the interest on CBDC

There are various factors that drive the interest in CBDC among central banks. These include: (1) rapid technological innovations in the financial sector; (2) emergence of new entrants into payment services and intermediation; (3) decline in the use of cash in some countries; and (4) increasing interest on privately-issued digital tokens (BIS, 2018).[64]

Central banks have varying motivations for considering CBDC. Some are of the view that *wholesale CBDC (i.e., CBDC variant with restricted access)* can improve domestic payments efficiency, increase safety of payments, promote financial stability, and raise the efficiency of cross-border payments (Boar et al., 2020). Meanwhile, those central banks that are considering *general purpose/retail CBDC (i.e., CBDC variant that is widely accessible)* think that it can enhance domestic payment efficiency and safety as well as boost financial inclusion (Boar et al., 2020).

Based on a BIS survey (Boar, et al., 2020),[65] some 80 percent of central banks are currently engaged in some form of CBDC-related work. Many are undertaking conceptual research while some have

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[60] Office Order 0782, Series of 2020, created a Technical Working Group (TWG) on CBDC. The TWG consists of staff and Bank Officers from the Monetary and Economics Sector, Financial Supervision Sector, Corporate Services Sector and the Office of the Governor, particularly, the Monetary Policy Sub-Sector with the Department of Economic Research and the Center for Monetary and Financial Policy, Fintech Sub-Sector that included the Technology Risk and Innovation Supervision Department and the Payment System Oversight Department, the Payments and Settlements Office, the Information and Technology Office, Center for Learning and Inclusion Advocacy, Currency Issue and Integrity Office, Supervision and Policy Research Department and the Office of the General Counsel and Legal Services. The primary mandate of the TWG is "to conduct an in-depth study of the feasibility and policy implications of issuing a Bangko Sentral ng Pilipinas (BSP) Digital Currency." The report "Central Bank Digital Currency for the BSP: Fundamentals and Strategies" is the output of the TWG.

[61] BIS (2020), "Central bank digital currencies: foundational principles and core features," Report No. 1.

[62] Bank of England (2020), "Central bank digital currency: opportunities, challenges and design," BOE Discussion Paper, March 2020.

[63] Carney, M. (2018), "The future of money," Speech given to the inaugural Scottish Economics Conference, 2 March.

[64] Bank for International Settlements (2018), "Central bank digital currencies," Committee on Payments and Market Infrastructures and Markets Committee Report, March.

[65] Boar, C., H. Henry and A. Wadsworth (2020). "Impending arrival – a sequel to the survey on Central Bank Digital

progressed to proof-of-concept experiments. A smaller number of central banks have already developed and undertaken pilot tests of their CBDC (e.g. Sveriges Riksbank, Central Bank of Uruguay). While many central banks have undertaken significant CBDC work (i.e., research, proof-of concept, pilot testing), very few central banks have indicated that they will issue CBDC over the medium term (i.e., 1-6 years). Many central banks engage in CBDC research as a contingency measure should the need to issue CBDC in their jurisdictions arise depending on developments in the financial sector.

Potential benefits and possible risks of CBDC

Dyson and Hodgson (2016) identified some of the potential benefits and attendant risks of issuing CBDC.

Potential benefits	Possible risks
• *It can widen the range of options for monetary policy*. The issuance of a CBDC could allow new monetary policy tools to be used.[66] Also, a CBDC can be used as a tool to increase aggregate demand by making 'helicopter drops' of newly created digital cash to all citizens, making it easier to meet the central bank's monetary policy target of price stability. • *It can make the financial system safer.* Allowing individuals, private sector companies, and non-bank financial institutions to settle directly in CBDC (rather than bank deposits) significantly reduces the concentration of liquidity and credit risk in payment systems. This, in turn, reduces the systemic importance of large banks. • *It can encourage competition and innovation in the payment systems.* It will be significantly easier for new entrants to the payments sector to offer payment accounts and provide competition to existing banks. • *It can improve financial inclusion*. Access to digital accounts will be easier and thus, will facilitate the inclusion of households and individuals that have been excluded from the traditional banking services.	• *CBDC could hurt financial stability.* A shift from bank deposits to CBDC could have an impact on bank funding and credit provision. This could consequently hurt financial stability. Moreover, during times of economic uncertainty, citizens would most likely convert their fiat into the sovereign digital currency. The ease of conversion could make bank runs occur more frequently, which could negatively affect the solvency of banks. • *Introducing a CBDC could result in a wider presence of central banks in financial systems.* Central banks would have a greater role in allocating economic resources. This could result in overall economic losses should central banks be less efficient than the private sector in allocating resources (BIS, 2018). Also, this could move central banks into unfamiliar territory and may lead to greater political interference. • *The extra competition between a CBDC and bank deposits would drive up costs for commercial banks.* A retail CBDC could compete with guaranteed bank deposits, with implications for the pricing and composition of banks' funding. This could be particularly problematic in a recession or financial crisis. • *A successful cyber-attack on a central bank implementing a centralized distributed ledger would be catastrophic.*

Key considerations of the BSP on CBDC issuance

Foremost consideration is on the potential impact of CBDC on BSP mandates and traditional functions, i.e., ensuring the efficient transmission of monetary policy, safeguarding financial stability and providing for a secure, and efficient payment and settlement system.

Moreover, the BSP is assessing the legal implications of CBDC. The expanded authority provided by the National Payment Systems Act (NPSA) for the BSP to own and operate a payment system may be used as the legal framework to introduce the use of CBDC in wholesale form. However, the issuance of a widely accessible retail CBDC cannot be accommodated under existing legal framework of the BSP.

Currency," BIS Papers No 107.

[66] If a CBDC will completely replace physical cash, this could allow interest rates to be lowered below the zero lower bound, if warranted.

The BSP is also taking into consideration the implications of CBDC on anti-money laundering and counter-terrorism financing (AML/CFT) requirements. Additionally, the BSP is looking into concerns about cybersecurity, data privacy and electronic counterfeiting.

BSP initiatives on CBDC moving forward

1. *On further research.* The BSP shall continue in-depth research, particularly on the payments system and privately-issued digital currencies across countries. An assessment of the payments system could help identify the areas of improvement for the current RTGS with the increasing use of digital retail payments. A deeper understanding of privately-issued digital currencies—their business models and how regulations are crafted on the basis of the industry sandboxes – could provide the BSP more information, guidance and basis on whether it should issue its own CBDC.

2. *On capacity development.* Capacity development programs may include learning sessions such as seminars, workshops, roundtable discussions to be conducted by other authorities and subject matter experts, or actual immersions with CBDC projects. The BSP may also benefit from a technical assistance from multilateral agencies like the World Bank (WB) and the International Monetary Fund (IMF) or Bank for International Settlements (BIS).

3. *On network building.* The BSP could consider collaborative experimentation with other central banks, financial institutions or selected international organizations that are also conducting CBDC-related research and other related initiatives. Potential partners include the World Bank and the International Monetary Fund (particularly, the Monetary and Capital Markets Department), South East Asian Central Banks (SEACEN), among others.

Research initiatives. To provide the public a compilation of the different policy responses and challenges faced by the BSP during the COVID-19 pandemic, the BSP released the book entitled "BSP UNBOUND: Central Banking and the COVID-19 Pandemic in the Philippines." It covered the innovative policy and operational aspects of the central bank's crisis responses and highlighted the lessons learned in addressing the issues faced during this period. The BSP likewise published research papers that provided an in-depth discussion of the central bank's crisis response measures as well as strategies moving forward.

In addition, the BSP continued to improve its research, modeling, and forecasting capability in 2020. These initiatives included the development of new economic and financial models, indicators, and frameworks as well as refinement of existing in-house models. Research efforts focused on measures of uncertainty and risks and the role of monetary policy and tools given the impact of the COVID-19 pandemic. The topics covered include the distributional impact of monetary policy; the impact of monetary response measures in easing financial conditions and safeguarding macroeconomic stability; the role of strategic policy coordination and communication amid the ongoing crisis; economic policy and financial market indices; growth at risk and alternative financial conditions index; and macrofinancial surveillance and scorecard matrix.

The BSP also published papers on new models that form part of the suite of models used for forecasting and policy simulations, such as the Policy Analysis Model for the Philippines (PAMPh) and regional inflation nowcasting models using machine learning techniques. To enhance its forecasting capabilities, the BSP re-estimated its multi equation model (MEM) and single equation model (SEM) to reflect the rebasing of the National Accounts of the Philippines from 2000 prices to 2018 prices. In addition, the BSP continued to conduct scenario-building exercises to cover potential upside and downside risks to specific macro variables, such as growth and inflation. The BSP further developed its existing nowcasting models using Bayesian vector autoregression (BVAR), state-space, support vector regression (SVR), and other techniques.

Moreover, research initiative on the BSP Digital Currency was conceptualized and undertaken as central bank digital currency (CBDC) has elicited immense interest among central banks in recent years. In June 2020, the Governor gave a directive for the creation of a Technical Working Group (TWG) "to conduct an in-depth study of the feasibility and policy implications of issuing" a BSP digital currency. A CBDC report was completed in October 2020 and was uploaded in the BSP website in March 2021. The report discusses the basic concepts and fundamental issues surrounding the CBDC and the possible implications and potential risks from the perspectives of monetary policy, financial supervision, payments and settlement, and financial inclusion, legislation and regulations.

Many parts of the report put emphasis on the need to determine the motivation for the CBDC – the motivation will, in turn, determine the type and design of the CBDC. To help identify its motivations, the report proposes the undertaking of further research on 1) the existing payments and settlement system to assess possible gaps or weaknesses which the new technology could address;
2) developments on private digital currencies operating in both the domestic and global markets to identify and assess potential risks; and 3) CBDC developments in various countries to be aware of current innovations and initiatives being undertaken by other central banks. The report likewise proposes to build capacity by doing consultations with international institutions (IMF, WB, BIS), other central banks and service providers and being involved with CBDC activities of these institutions, if possible.

Among the BSP publications that provide timely studies relevant to central banks is the BSP Working Paper Series. For 2020, a total of twelve papers have been written on policy analysis models and monetary policy transmission; BSP's pandemic responses and its limits, COVID-19 exit strategies as well as an index that measures investors' risk attitude towards the pandemic; deregulation and rice tariffication; impact of banking reforms to bank lending; and on extreme weather disturbances' impact to financial stability. These studies conducted by BSP researchers, and occasionally, in collaboration with external contributors are readily available at the BSP website.

Information dissemination activities. Despite communication difficulties brought on by the lockdown, information dissemination was intensified to promote public awareness and broaden the discourse on timely issues, including the impact of the COVID-19 pandemic, government's policy responses and the 'new normal.' The BSP participated in the first Virtual Export Enablers' Exhibit organized by the Department of Trade and Industry (DTI), with the theme "Digitalization Boost: Invigorating Exports in the New Normal" in December 2020. The event provided the BSP with an opportunity to promote greater awareness on the BSP's support towards export development and initiatives on financial inclusion. Other events that the BSP participated in included the webinar for the Council of Economics Educators, Inc. (CECON) on Content Knowledge and Innovative Strategies in Teaching Balance of Payments held on 14 December 2020 and the 2020 Users Forum on BSP-Produced Statistics held on 6 November 2020. The BSP also organized a webinar discussing the results of the CFTS, which was held on 18 December 2020, and virtually conducted its third Financial Education Stakeholders Expo on 26-27 November 2020, with sessions focusing on cybersecurity, digital literacy and financial resilience.

The BSP likewise delivered learning programs on the role of the BSP in the economy, including its role on promoting price stability, to reach a wider audience. The Public Information Campaigns (PICs) were conducted through webinars and in partnership with different organizations, such as CECON, Phinma Education, Council of Program Heads and Educators of Economics (COPHEE) Region V, and San Pedro College. A webcast on the "Role of the BSP in the Economy" was also produced and made available on the BSP's website and other media platforms.

As part of the BSP's fin-ed partnership framework, the BSP continued to work with strategic partners in implementing financial education programs. In 2020, the BSP pivoted to digital delivery of fin-ed Training-of-Trainers (TOTs) due to the challenges posed by the COVID-19 pandemic. These sessions were organized for the personnel of the Armed Forces of the Philippines (AFP) and Civil Service Commission (CSC). For CSC, a writeshop with the objective of developing fin-ed training plans that can be deployed for CSC personnel over the medium term and for all civil servants over the long term was also conducted. Fin-ed webinars were also held for the Comprehensive Social Benefits Program (CSBP) beneficiaries, DTI personnel, DTI Negosyo Center Councilors, and selected micro, small and medium enterprises (MSMEs).

The BSP, together with the BPI foundation, updated the contents of the Personal Financial Management (PFM) modules for DepEd personnel and fin-ed webinars were conducted and livestreamed via the DepEd's official Facebook page. Meanwhile, the BSP's partnership with the BDO Foundation (BDOF) was able to produce six new fin-ed learning videos for civil servants and overseas Filipino workers (OFWs). As of end 2020, a total of 24 learning videos have been produced and deployed under the BSP-BDOF partnership. The said partnership likewise supported DepEd's Sineliksik Video Making Contest 2020, a national competition for junior/senior high school students, which focused on the theme "Ang marunong sa pera, marunong sa buhay".

The BSP also forged new fin-ed partnerships with other government agencies as well as private organizations. In 2020, the BSP hosted a four-day virtual fin-ed TOT to kickstart the newly formed partnership with the Bureau of Fire Protection (BFP) and the Philippine National Police (PNP). Meanwhile, the BSP teamed up with the Bureau of Fisheries and Aquatic Resources (BFAR) and the United States Agency for International Development (USAID) to develop a fin-ed game for fisherfolk that embeds key messages on personal financial management and sustainable fishing. The BSP likewise entered into an agreement with the Department of Social Welfare and Development (DSWD) for the development of learning modules on financial consumer protection for the beneficiaries of the government's Pantawid Pamilyang Pilipino Program (4Ps) and formalized its partnership with Maybank Foundation in July 2020 for the continued implementation of CashVille Kidz, Maybank Foundation's financial literacy program for children in six (6) Association of Southeast Asian Nations (ASEAN)[67] countries.

Inter-agency and multilateral committees. The BSP continued to work closely with economic managers and private sector partners as it actively participated in local and international committee discussions and provided expert views on a host of economic issues amid the ongoing health crisis. In 2020, the BSP actively participated in the monthly meetings of the Export Development Council (EDC) which discussed and addressed the challenges facing the export sector especially amidst the COVID-19 pandemic. In addition, the BSP was involved in the various activities of the National Single Window Steering Committee and other export-related organizations, particularly in the Center for International Trade Expositions and Missions (CITEM) and the Philippine Exporters Confederation, Inc. (PHILEXPORT), which provided the BSP the opportunity to discuss its role and initiatives to support the development and promotion of MSMEs and Philippine exports.

As a resource institution of the Development Budget Coordination Committee (DBCC), the BSP engaged actively in discussions regarding economic policy and macroeconomic assumptions, serving as basis for the preparation of the NG's annual budget and fiscal program. Moreover, the BSP provided representation on key fiscal bills, such as the Corporate Recovery and Tax Incentives for Enterprises (CREATE), Financial Institutions Strategic Transfer (FIST) Law, Government Financial Institutions Unified Initiatives to Distressed Enterprises for Economic Recovery (GUIDE) Act, Bayanihan to Rebuild as One Act, and Anti-Bulk Cash Smuggling Bill. The BSP also collaborated with the Philippine Institute for Development Studies (PIDS) to estimate an annual macroeconometric model for the Philippines.

Participation in other inter-agency committees included the National Food Authority (NFA) Council, Committee on Tariff and Other Related Matters, Food Security Committee on Rice, NFA Imports Committee, Bureau of Treasury (BTr) Auction Committee, National Wages Productivity Commission, Regional Tripartite Wages and Productivity Board – National Capital Region, Philippine Development Plan Planning Committee, Committee for Review of Foreign Loan Documents, Investment Promotion Units Network, Investment Coordination Committee (ICC), Halal Export Development and Promotion Board, Philippine Statistical Association, Inc. Board and Committees, and Philippine Statistical Authority Board. The BSP also actively participated in international working groups such as the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) Monetary and Financial Stability Committee, Bank for International Settlements (BIS) Expert Group, BIS-Irving Fisher Committee on Central Bank Statistics (BIS-IFC), ASEAN Working Group on International Investment Statistics (WGIIS), ASEAN Working Group on Statistics on International Trade in Services (WGSITS), and Asia-Pacific Economic Conference technical

[67] Cambodia, Indonesia, Malaysia, Myanmar, Singapore, and Philippines.

group on the Measurement of Trade-in-Value added.

In carrying out its commitment to continually enhance the compilation of relevant statistics based on international standards, the BSP also actively participated in the following local inter-agency committees (IACs) and technical working groups (TWGs) in the discussion of various statistical work programs: 1) IAC on Investment Statistics; 2) IAC on Trade and Industry Statistics; 3) IAC on Tourism Statistics; 4) TWG on Trade in Services Statistics; 5) TWG on Industry Statistics; 6) TWG on Investment Statistics; 7) TWG on Trade in Goods Statistics; and 8) TWG on Commodity Classification.

Trainings, workshops and technical assistance projects. Although constrained by COVID-19 protocol, the BSP continued to engage in capacity-building exercises within the BSP and with external counterparties. The BSP, together with the Deutsche Bundesbank (DBE), conducted a series of webinars on monetary policy communication in October and November 2020. The webinars, which were attended by BSP officers and staff, provided inputs to the BSP's current approach to policy communication as well as insights on the challenges faced by central banks and use of social media. The ASEAN Secretariat through the Japan-ASEAN Technical Assistance Fund also provided assistance in developing safety measures to mitigate financial risks and address potential policy and regulatory gaps in the bond and repo markets.

In 2020, the DBE agreed to host a webinar series on domestic capital market development which will cover financial market analysis and instruments, macroeconomic and microeconomic surveillance, yield curve construction and securities valuation, benchmark reference rates for government securities, and secondary market development. Further topics to be explored included the enhancement of monetary policy communication as well as the improvement of forecasting capacity and process.

The BSP also held its own virtual mini brown bag session on selected BSP-produced statistics. The session was conducted on 20 October 2020 and was attended by BSP staff. The activity was in accordance with the celebration of the 31st National Statistics Month that had the theme of "Bridging Digital Gaps: Making Information Available to All" and with the celebration of the 3rd World Statistics Day.

Program and Process Initiatives. The BSP adopted various improvements and innovations in its systems and processes to enhance its capacity to deliver on its policy mandates and advocacies in an accurate and timely manner. The BSP released in September 2020 its inaugural Philippine Balance Sheet Approach (BSA) Report which presented the country's sectoral accounts on a from whom-to-whom basis using aggregate balance sheet data of each sector of the economy. The BSP also improved its Analytics Dashboard used for surveillance of liquidity conditions through the automation of the extract-transform-load (ETL) process and the standardization of the reported charts and tables.

The BSP enhanced its e-survey portal for a more efficient submission and processing of the different surveys. The electronic system further improved efficiency in data collection and processing of survey responses, as well as reduced respondents' burden in their participation to BSP surveys. The system likewise encouraged participation to the surveys given a user-friendly/easy-to-answer questionnaire and lessened the processing time to generate survey results.

The BSP Big Data Project, in partnership with the University of the Philippines, was completed in 2020. Through this initiative, it developed the BSP's Big Data Roadmap and Big Data Governance Framework. The project also established the operational environment for the use of big data in the BSP through the development of four big data prototypes as test cases, with the goal of narrowing information gaps, supplementing official statistics, enhancing policies and decisions, and advancing innovative research.

The BSP continued to leverage on established Knowledge Resource Network (KRN) sites to enhance public awareness and greater understanding of monetary policy, strategy, and decisions. All 285 KRN partner libraries were updated with the latest BSP publications through the monthly KRN Update Newsletter. Moreover, the BSP continued to provide best practices and guidelines for KRN partner libraries to help build their capacity in providing information services.

In 2020, the BSP launched its Digital Literacy Program (DLP) to enhance consumer trust and confidence in the digital finance ecosystem and increase the usage of digital financial services (DFS). The first phase of the program is the "#SafeatHome sa E-payments" campaign which encourages consumers to use e-payment services. This is then followed by the "#E-safety is Everyone's Responsibility" campaign that emphasizes the role of each and every one when it comes to cybersecurity. With support from USAID, the BSP produced campaign videos on how to use e-payment services such as PESONet and InstaPay, and how to protect oneself for cyber scams, disseminated to the general public through the BSP's official social media accounts.

Box Article 7
The BSP Unbound: Central Banking and COVID-19 Pandemic in the Philippines

The Bangko Sentral ng Pilipinas (BSP) officially unveiled the book entitled BSP Unbound: Central Banking and the COVID-19 Pandemic in the Philippines during the "Ulat ng BSP sa Bayan" on 19 February 2021. The book articulates how the BSP has responded to the unprecedented pandemic. It covers both policy and operational aspects of the BSP's crisis responses, the challenges, and lessons learned by the BSP in addressing the COVID-19 pandemic. It was written by the officers and staff of the BSP, with foreword from the Governor.[68]

The book covers fourteen chapters, each one highlighting the different aspects of how a central bank, in general, and the BSP, in particular, acts as an agent of macroeconomic and financial stability during periods of crisis. It likewise discusses the importance of communication, collaboration, and coordination; and how the BSP has innovated and looked beyond the conventional policy lens, without losing focus on its primary mandates of price and financial stability and preserving its hard-earned credibility and independence.

The economic fallout from the multifaceted[69] nature of the COVID-19 shock has been undeniably large. The economic disruption has stress-tested the stability and efficacy of reforms instituted in the aftermath of the Asian Financial Crisis and the Global Financial Crisis. The crisis has brought to the fore the need for monetary authorities and financial regulators to continually review and update their crisis management frameworks in view of the amplification mechanism of uncertainty shocks. The policy responses to the COVID-19 shock can be categorized into three phases, namely survival, stabilization, and transformation. Across these phases, the interwoven roles of transparency and strategic communication in crisis mitigation and resolution are integral.

In the Philippines, the pre-pandemic reforms and favorable economic conditions – strong growth, robust external payments picture, stable banking system and improved fiscal balances – enabled the BSP to undertake prompt crisis response to avert the damaging feedback loop of liquidity strains at the onset of the crisis. It did so with its quick deployment of monetary policy measures such as policy rate cuts, reduction in reserve requirement, and provisional lending to the NG. The BSP fully recognizes that these time-tested monetary policy instruments have remained potent in so far as the monetary authority is seen as credible and independent in fulfilling its mandates.

The strong cushion provided by the stable standing of the Philippine banking system even prior to the onset of the Covid-19 pandemic helped to minimize the damage to the credit intermediation process which was further sustained by swift, strong and time-bound prudential and regulatory relief measures. The impact of uncertainty shocks on bank lending has been raised even as the banking system has manageably held up amid the pandemic. In this respect, regulators play a difficult role in balancing risk in that they encourage banks to take risks by continuing to lend yet have to remain vigilant on the impact to the financial performance of banks.

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[68] Edited by Mr. Roel R. Landingin, veteran economic journalist with business article contributions for the Philippine Daily Globe, Manila Times, Bloomberg News and Financial Times.
[69] The fallout has manifested in the form of overlapping demand, supply and productivity shocks, magnified by information frictions.

While the crisis did not have roots in financial imbalances, it has had a systemic impact just the same, thereby validating the need for systemic risk analysis in crisis management frameworks. Key milestones in the legislative response have included the Bayanihan to Heal as One Act (Bayanihan I), Bayanihan to Recover as One Act (Bayanihan II), the Financial Institutions Strategic Transfer (FIST) Act and the pending Government Financial Institutions Unified Initiatives to Distressed Enterprises for Economic Recovery (GUIDE) Act.

Digital payments found new ground during the crisis, accelerating the schedule for meeting the goal of digital payments. The viability and ease of use of digital payment platforms have been widely accepted and have, in fact, accounted for increasing number of transactions in the country. The crisis, ironically, served as an unanticipated boon for the take-up of digital financial services. As such the focus of the regulatory framework would be on greater cybersecurity resources, dynamic consumer response mechanisms, and building the foundations for inclusion in a globalized digital economy. Digital literacy and credible consumer protection programs are paramount in building trust for financial services.

Aside from broader macro support measures, the BSP implemented its own organizational support measures. Leveraging on technology supported the implementation of flexible work arrangements such as telecommuting and rotational shiftwork. These organizational support measures mitigated the health risk to BSP personnel and at the same time, helped ensure continued delivery of services and strategic policy communication during crisis episodes. At the core of the communication strategy is the ability to sustain credibility and anchor expectations of stakeholders consistent with the goals of policymakers.

The pace and strength of near-term recovery as well as the likely medium-term repercussions will weigh heavily on the implementation of exit strategies. Given that sentiment has taken a massive hit, the equally massive stimulus measures do not guarantee speedy reversion to pre-pandemic conditions. The quality of reforms as well as the timing of the exit are paramount, given changing incentives and long-term growth path in the post-pandemic world. Thus, the unwinding process should neither cause premature withdrawal of support nor give rise to delays in necessary restructuring. Swift, focused, and coordinated action in the early phase of any crisis is critical in changing its course and severity. Moreover, the ability to sustain disciplined policy coordination is imperative in crisis mitigation and resolution.

As Governor Diokno conveyed in his foreword, “Optimism, caution and disciplined action define our character as an institution. We will endeavor to ensure that our monetary policy framework and policy agenda remain relevant and agile as we steer through the pandemic. We remain steadfast in pursuing continuity, preserving our credibility, and undertaking well-considered reforms as we carry out our mandates of price stability, financial stability and efficient payments and settlements system.”

Box Article 8

Operational Relief Measures for Foreign Exchange (FX) Transactions

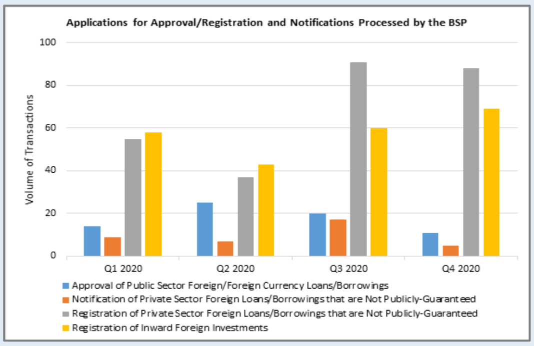
Under BSP Circular No. 1080 dated 27 March 2020, the operational relief measures for FX transactions mainly involve the: (a) electronic submission of documents; (b) use of e-signatures/digital signatures for documents originally required to be submitted in hardcopy and/or requiring signature; (c) submission of documents without the e-signatures/digital signatures/required notarizations; (d) non-imposition of monetary penalties for delayed submission of reports; (e) relaxation of deadline/prescriptive period for the submission of certain documents/ information/applications; (f) waiver of applicable processing fees for applications covering private sector foreign/ foreign currency loans/borrowings; and (g) issuance of BSP documents [e.g., Bangko Sentral Registration Document (BSRD) implementing letter] in electronic form.

Further, the BSP issued the following Circular Letters to provide additional operational relief measures:

- Circular Letter Nos. CL-2020-017 dated 27 March 2020 and CL-2020-021 dated 7 April 2020 provided guidance and contact points for the submission of inquiries/requests/reports to IOD in lieu of the designated official contact points indicated in the Manual of Regulations on FX Transactions (FX Manual);
- Circular Letter No. CL-2020-020 dated 7 April 2020 provided guidelines regarding applications submitted to the BSP prior to the work suspension due to the CQ declaration;
- Circular Letter No. CL-2020-041 dated 28 August 2020 clarified the lifting of the prescriptive periods for the submission of applications for registration of foreign borrowings and foreign investments and waived certain processing fees under Appendix 20 of the FX Manual; and
- Circular Letter No. CL-2020-051 dated 27 October 2020 waived the applicable fee to be paid by importers for Documents Against Acceptance (D/A) or Open Account (O/A) importations reported beyond the prescribed period.

Notwithstanding these relief measures on FX rules, banks are expected to continue to adopt safe and sound practices in their operations.

Despite mobility restrictions, the volume of FX transactions processed by the BSP in 2020 involving foreign borrowings and foreign investments only exhibited a modest decline from 136 transactions during the first quarter (pre-pandemic period) to 112 transactions during the second quarter (peak of CQ) due to significant reduction in applications for registration of private sector foreign borrowings. However, this was partly offset by the surge in submission through electronic means of applications for Monetary Board approval of public sector foreign borrowings to fund the National Government's COVID-19 response.



For the third quarter, the total number of transactions escalated to 188 (higher by 68 percent from the previous quarter) as the economy started showing early signs of recovery and restrictions were gradually lifted. The applications for registration of private sector borrowings and foreign investments surged by 146 percent and 40 percent, respectively. However, the total number of applications for approval/registration and notifications eased to 173 transactions in the fourth quarter (8 percent decline quarter-on-quarter), which may be partially due to the economic slowdown with the resurgence of COVID-19 cases in the US, Japan and some European countries.

The BSP's Relief Measures and Strategic Priorities for the Financial Sector During the Pandemic[70]

Effective supervision of BSP- supervised financial institutions (BSFIs) and adoption of international standards suited to the domestic economy contributed to the sustained safety and soundness of the financial system and prepared the industry to withstand the impact of the COVID-19 pandemic. The banking industry is in a position of strength going into the crisis supported by strong capital and liquidity positions, sound governance structures and effective risk management practices. This enabled the banks and other BSFIs to continue providing financial services to support households and businesses amid the pandemic.

The BSP enhanced its existing supervisory and surveillance tools as well as actively engaged the BSFIs to closely monitor their safety and soundness; ascertain their continuing capability to provide financial services; and ensure that they are likewise observing health and safety protocols to protect their employees. In this regard, supervisory dashboard with inputs coming from the prudential reports submitted by banks, event-driven reports and cross-cutting concerns gathered from consumer complaints; liquidity monitoring and baseline surveys; and stakeholder engagements were largely used. On-site and off-site reviews utilized technology-based platforms to the extent feasible to limit physical presence of BSP officers at the premises of the BSFIs. The BSP also conducted thematic reviews to assess processes or risk areas that promote the BSFIs' safety or soundness, enabling the BSP to implement early intervention measures or issue guidance for supervised financial institutions.

[70] For the period 01 January 2020 – 31 December 2020

A. Adopted Regulatory Relief Measures

The BSP issued various regulatory and operational relief measures intended to assist BSFIs in weathering the economic crisis and to support households and business enterprises adversely affected by the pandemic. These time-bound measures provide incentives for BSFIs to extend financial relief to their borrowers, incentivize bank lending, promote continued access to credit/financial services, and support continued delivery of financial services to enable consumers to complete financial transactions during the Enhanced Community Quarantine (ECQ) period. The BSP's COVID-19 response toolkit include the following measures:

1. ***Extension of financial relief to borrowers.*** BSFIs were given regulatory relief to enable them to grant equivalent financial relief to their borrowers in the form of more flexible and favorable lending terms, or to restructure loan accounts.

- The BSP set out the requirements and expectations on the Implementation of Relevant Provisions of RA No. 11494 or the "Bayanihan to Recover as One Act":
    - The BSP enjoined all BSFIs to immediately implement Section 4 (uu) of RA No. 11494.[71]
    - The BSP likewise issued the Implementing Rules and Regulations (IRR) and the corresponding Frequently Asked Questions (FAQs) on Section 4 (uu) of RA No. 11494.[72] The IRR provided the key elements of the implementation of the one-time mandatory grace period for loans, while the FAQs aimed to clarify and provide guidance on how to operationalize Section 4(uu) of the RA No. 11494.

[71] Memorandum No. M-2020-068 dated 18 September 2020
[72] Memorandum No. M-2020-074 dated 28 September 2020

- Loans of affected borrowers were excluded from the past due and non-performing classification from 08 March 2020 until 31 December 2021, subject to reporting to the BSP.[73]

- Banks are allowed to stagger booking of allowance for credit losses for loans extended to affected borrowers for a maximum period of five (5) years, subject to BSP approval.[74]

- Banks with outstanding rediscounting obligations with the BSP were entitled to (a) a 60-day grace period on the settlement of outstanding obligations from 08 March 2020, without penalty charges or (b) the restructuring of rediscounted loans of end-user borrowers affected by the COVID-19 pandemic, subject to BSP approval on a case-to-case basis. Banks renewing rediscounting lines or availing of rediscounting loans with the BSP would be assessed against relaxed eligibility criteria up to six months from 8 March 2020.[75]

- The MB approved the setting of an annual interest rate ceiling of 24 percent on credit card transactions effective 03 November 2020. The interest rate cap on credit card receivables aims to ease the financial burden of consumers and MSMEs amid a difficult economic environment caused by the COVID-19 pandemic.[76]

- The BSP allowed Non-Stock Savings and Loan Associations (NSSLAs) to recognize as income the accrued interest earned during the mandatory one-time 60-day grace period provided on their members' unclassified loans outstanding from 15 September 2020 until 31 December 2020, net of general allowance for credit losses (ACL) of one percent of outstanding accrued interest receivable subject to certain conditions. This is for the purpose of net income distribution to members for the year 2020.[77]

2. ***Incentivized lending.*** The BSP's prudential measures are aimed to assist MSMEs and large enterprises critically impacted by the pandemic to carry on with their business, and to hasten recovery and sustainability of their operations during the post-crisis period.

- The BSP reduced the credit risk weights of loans granted to MSMEs that are current in status to 50 percent from 75 percent for qualified MSME portfolio (i.e., diversified with at least 500 borrowers over a number of industries), and from 100 percent for non-qualified MSME portfolio. The reduced credit risk weight would be subject to review by end-December 2021.[78]

- The BSP approved the temporary inclusion of housing loans as an alternative mode of compliance with the mandatory credit allocation for agriculture and agrarian reform.[79]

- The BSP also approved the assignment of a zero-percent risk weight to loans that are guaranteed by the Agricultural Guarantee Fund Pool (AGFP) and the Agricultural Credit Policy Council (ACPC) to encourage banks to lend to small farmers and fisherfolk.[80]

- Peso-denominated loans to MSMEs and large enterprises that were critically impacted by the pandemic were allowed to be recognized as a mode of alternative compliance with banks'/quasi banks' (QBs') reserve requirements against deposit liabilities and deposit substitutes.

[73] Memorandum No. M-2020-008 dated 14 March 2020 as amended by Memorandum No. M-2020-032 dated 27 April 2020, and further amended by Memorandum No. M-2020-087 dated 02 December 2020
[74] Memorandum No. M-2020-008 dated 14 March 2020.
[75] Memorandum No. M-2020-008 dated 14 March 2020.
[76] Circular No. 1098 dated 24 September 2020.
[77] Memorandum No. M-2020-088 dated 09 December 2020.
[78] Memorandum No. M-2020-034 dated 28 April 2020.
[79] Memorandum No. M-2020-086 dated 03 December 2020.
[80] Circular No. 1084 dated 28 April 2020.

This policy became effective on 24 April 2020 for MSME loans and 29 May 2020 for loans to large enterprises and lapses on 29 December 2022 subject to early closure if the aggregate limits of ₱300 billion and ₱425 billion for MSME loans and loans to large enterprises, respectively, are met prior to said date. To qualify: (a) these loans should be granted, renewed, or restructured after 15 March 2020; (b) the loans that were granted on or before 15 March 2020 but have been renewed or restructured after 15 March 2020 may be allowed provided that the bank/QB could demonstrate growth in the loan portfolio during the month preceding the reserve day; and (c) the loans are not encumbered, rediscounted with the BSP, or earmarked for any other purpose.[81]

- The Single Borrower's Limit (SBL) was temporarily raised to 30.0 percent from 25.0 percent until 31 March 2021. This measure is intended to promote the flow of liquidity at the wholesale level and to ensure sustained credit for programs and projects that will support economic recovery. The relaxation of the limit also covers the increase in the 25.0 percent SBL for project finance loans of initiatives that are in line with the priority programs of the Government.[82]

- The BSP approved the amendments to the risk-based capital adequacy framework for stand-alone thrift banks (TBs), rural banks and cooperative banks (RCBs) aimed at improving the quality of regulatory capital of covered banks.[83] However, with the advent of the pandemic, the BSP deferred its implementation to enable these banks to continue supporting their rural community-based clients. For covered banks, the revised capital adequacy framework would take effect on 1 January 2023 instead of 1 January 2022.[84]

- The minimum liquidity ratio (MLR) of stand-alone TBs and RCBs was reduced from 20.0 percent to 16.0 percent until end-December 2021, unless otherwise revoked by the BSP.[85]

- Banks/QBs were allowed to use Capital Conservation and Liquidity Coverage Ratio (LCR) buffers during the crisis. They would also be given a reasonable time to restore these buffers after the crisis.[86]

3. ***Promotion of continued access to financial services.*** Policies were put in place to ensure access of deeply affected retail clients to formal financing channels. The use of information technology in carrying out financial transactions was highly encouraged during the ECQ period.

- The BSP relaxed the Know-Your-Customer (KYC) requirements, particularly the presentation of valid IDs by retail clients, including micro-business owners, to facilitate their access to formal financing channels. The period of applicability was extended to 31 March 2021, subject to further extension depending on the developments of the COVID-19 pandemic.[87]

- BSFIs were strongly encouraged to temporarily suspend all fees and charges imposed on the use of online banking platforms or electronic money, including those levied on the use of InstaPay or PESONet electronic fund transfer to facilitate banking transactions during the pandemic.[88]

- The BSP likewise advised BSFIs to augment existing capabilities and implement appropriate strategies in

[81] Circular No. 1083 dated 22 April 2020 and Circular No. 1087 dated 27 May 2020 for MSMEs and large enterprises, respectively, as amended.
[82] Memorandum No. M-2020-057 dated 21 July 2020
[83] Circular No. 1079 dated 09 March 2020
[84] Circular No. 1084 dated 28 April 2020
[85] Memorandum No. M-2020-020 dated 7 April 2020 and Memorandum No. M-2020-085 dated 01 December 2020
[86] Memorandum No. M-2020-039 dated 4 May 2020
[87] Memorandum No. M-2020-015 dated 30 March 2020 and Memorandum No. M-2020-057 dated 21 July 2020
[88] Memorandum No. M-2020-008 dated 14 March 2020

order to address customers' growing requirements for digital channels.[89]

- Fees related to the grant of license or authority to provide Types A[90] and B[91] Advanced Electronic Payments and Financial Services (EPFS) were temporarily waived until 31 March 2021 to encourage BSFIs to provide safe, efficient and reliable digital channels that support critical payment use cases such as social benefit transfers, payments to merchants or billers including the Government, payments to suppliers, and remittances.[92]

- PhilPaSS transaction fees for fund transfer instructions were temporarily waived until the last business day of year 2021.[93]

- The BSP granted operational relief measures to FX transactions in order to facilitate the public's access to FX resources of the banking system for financing of legitimate transactions.[94]

- Financial assistance, in the form of loans, advances or other credit accommodations, may be granted by BSFIs to their officers who are adversely affected by COVID-19, subject to subsequent regularization with the BSP, if necessary. The oeriod of eligibility of BSFIs to avail of the relief measures runs for one year from 8 March 2020, the date of declaration of the president of the state of public health emergency under Presidential Proclamation No. 922.[95]

- Memorandum No. M-2020-030 dated 24 April 2020 was issued to encourage increased use of digital channels on the delivery of financial products and services of BSFIs. It enjoins all BSFIs and operators of payment systems to augment their existing capabilities and implement appropriate strategies in order to address customers' growing requirements for digital channels to fulfill basic financial and payment transactions.[96]

4. ***Support for continued financial services delivery.*** The BSP granted operational relief measures to assist BSFIs in focusing their limited resources on the delivery of financial services and support their subsequent recovery efforts.

- The BSP reporting requirements were substantially eased. The submission of reports that fell due within the months of March to June 2020 was suspended, except for the submission of four reports necessary for surveillance and policymaking. Moreover, reports or documents sent through an official e-mail address of the BSFI to the Financial Supervision Sector were recognized as an authorized submission without the need for a physical signature.[97]

- Monetary penalties were not imposed by the BSP for delay in the submission of reports.[98]

- Banks/QBs using their legal reserves to support liquidity requirements were allowed to request BSP approval on the non-imposition of penalties on legal reserve deficiencies for a period of six months from 08 March 2020.[99]

- The BSP also provided accounting relief measures to reduce the impact of mark-

[89] Memorandum No. M-2020-030 dated 24 April 2020
[90] This applies to BSFIs that can be assessed against the prudential criteria provided under the Policy and Regulations on Licensing. These applicants must have been examined by the BSP.
[91] This applies to proponents that cannot be assessed against the prudential criteria provided under the Policy and Regulations on Licensing. These include newly established BSFIs and new applicants for an authority to operate as "Electronic Money Issuer-Others".
[92] Memorandum No. M-2020-033 dated 27 April 2020 as amended by Memorandum No. M-2020-079 dated 01 October 2020
[93] Memorandum No. M-2020-027 dated 21 April 2020, as amended by Memorandum No. M-2020-095 dated 16 December 2020
[94] Circular No. 1080 dated 27 March 2020
[95] Memorandum No. M-2020-008 dated 14 March 2020.
[96] Availability of Digital Financial Services During the Enhanced Community Quarantine (ECQ) Period.
[97] Memorandum No. M-2020-007 dated 13 March 2020, Memorandum No. M-2020-011 dated 19 March 2020, Memorandum No. M-2020-049 dated 09 June 2020 and Memorandum No. M-2020-057 dated 21 July 2020.
[98] Memorandum No. M-2020-008 dated 14 March 2020.
[99] Memorandum No. M-2020-008 dated 14 March 2020.

to-market (MTM) losses on the financial condition of BSFIs. Banks' debt securities lodged at fair value category were allowed to be reclassified to the amortized cost category.[100] Moreover, banks were given the option to add back net unrealized losses from MTM of financial assets/liabilities in the Foreign Currency Deposit Unit/Expanded Foreign Currency Deposit Unit (FCDU/EFCDU) to the FCDU/EFCDU assets for purposes of determining compliance with the FCDU/EFCDU asset cover until 30 September 2020.[101]

- The exposure limit of 15 percent of the market value of a Unit Investment Trust Fund (UITF) was temporarily eased. However, any breach was required to be corrected within 30 calendar days from the time that the ECQ was lifted, i.e., on 01 June 2020.)[102]

- The penalty on reserve deficiencies was relaxed and subjected to a lower maximum limit until 31 March 2021.[103]

- The notification requirements related to changes in banking days and hours and temporary closure of bank/branch/branch-lite units and BSFI offices/service units were further relaxed. BSFIs shall submit a consolidated report on the banking units that were temporarily closed from March 2020 to March 2021 to the BSP on or before 31 March 2021.[104]

- The BSP extended the transitory period allowing foreign bank branches to use twice the level of net worth as basis for determining the SBL until 31 December 2020. This would allow foreign bank branches existing prior to RA No. 10641 to continue supporting the public sector's initiatives under the Build, Build, Build program. The extended transitory period would also provide foreign bank branches with ample time to re-assess their credit exposures and implement measures to ensure compliance with the SBL regulations even with the reduced base amount starting 01 January 2021.[105]

B. Strategic Policy Reforms

The BSP set its strategic policy objectives aimed at (1) strengthening risk governance in the financial industry; (2) leveraging advancements in technology and further improving processes; (3) fostering an enabling regulatory environment; (4) upholding the integrity of the financial system and promoting market discipline; (5) strengthening collaboration with stakeholders; and, (6) engaging in capacity building initiatives. Recent policy issuances and initiatives undertaken by the BSP aimed at achieving these objectives include the following:

1. ***Strengthening risk governance in the financial industry.*** The BSP issued relevant circulars in 2020 aimed at strengthening risk governance in the financial industry by: (a) setting out standards that promote continued enhancement of BSFIs' risk management systems, with due regard for proportionality, (b) adopting a supervisory framework that enhances forward-looking assessment of the business models of BSFIs and the quality of their governance, and (c) implementing prompt and calibrated supervisory interventions to promote prudent risk-taking behavior:

- Amendments to Regulations on Financial Audit of Banks/Non-Bank Financial Institutions (NBFIs). The BSP recognizes that external auditors play a vital role in contributing to the conduct of effective supervision and sustaining the confidence of the public in the financial system. Amendments to regulations on

[100] Memorandum No. M-2020-022 dated 08 April 2020.
[101] Memorandum No. M-2020-023 dated 08 April 2020.
[102] Memorandum No. M-2020-038 dated 1 May 2020.
[103] Memorandum No. M-2020-057 dated 21 July 2020.
[104] Memorandum No. M-2020-011 dated 19 March 2020 and Memorandum No. M-2020-057 dated 21 July 2020.
[105] Circular No. 1073 dated 10 February 2020.

financial audit of banks and non-banks were aimed to enhance the quality of information channeled to the supervisory process and ultimately promote fairness, transparency and accuracy in financial reporting.[106]

- Revised Personal Equity and Retirement Account (PERA) Rules. To streamline the PERA investment process and improve operational efficiency, the Revised PERA Rules introduced the PERA cash self-custody arrangement. Under this arrangement, the contributor will have the option to be the custodian of his own PERA funds and income. The amendment also granted the concerned regulatory authority the flexibility to issue rules and regulations with respect to the accreditation requirements for custodians and administrators and to prescribe the basic security deposit for the faithful performance of administrator's duties.[107]

- Amendments to the Regulations on the Foreign Currency Deposit System. The revised regulation aims to align the Manual of Regulations on FX Transactions (FX Manual) with the licensing and enforcement frameworks under the MORB and to provide flexibility in managing liquidity risk with simplified compliance with the FX asset cover requirements of banks.[108]

- Amendments to the Regulations on Treasury Activities of BSFIs. In accordance with the board's duty to articulate acceptable, and unacceptable activities, transactions and behaviors, it must adopt a code of conduct and standards of practice that are binding on the treasury unit, especially personnel involved in risk-taking. The code and standards should highlight and provide specific guidance on upholding market integrity and professionalism.[109]

- Exclusion of Debt Securities Held by Market Makers from the SBL. The Monetary Board approved the amendments to relevant provisions of the MORB and the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI) to exclude debt securities held by market makers from the SBL for the identified relief period.[110]

- Amendments to the Real Estate Limits of Banks. The BSP Monetary Board approved the following amendments to the MORB on the real estate limits of universal and commercial banks (U/KBs) and thrift banks (TBs):[111]

  - Real Estate Loan Limit. The real estate loan limit of U/KBs was increased to 25 percent of the total loan portfolio, net of interbank loans.

  - Real Estate Stress Test (REST) Limits. The BSP amended guidelines on the REST limits to support activities of the real estate sector. In determining compliance with the REST limits, residential real estate loans to individual households for occupancy and foreclosed property were excluded from a bank's real estate exposures.

    Moreover, the assessment of risks from real estate exposures were required to be incorporated in the Internal Capital Adequacy Assessment Process (ICAAP) for U/KBs and their subsidiary TBs and capital planning process for stand-alone TBs. This allows for a holistic approach in identifying risks that are material to the adequacy of the covered bank's risk-based capital position.

- Sustainable Finance Framework. The MB approved the Sustainable Finance Policy framework that sets out the expectations of the BSP on the integration of sustainability principles, including those

[106] Circular Nos. 1074 and 1075 for banks and NBFIs, respectively, dated 07 February 2020.
[107] Circular No. 1081 dated 04 March 2020.
[108] Circular No. 1086 dated 06 May 2020.
[109] Circular No. 1088 dated 06 May 2020.
[110] Circular No. 1091 dated 22 July 2020.
[111] Circular No. 1093 dated 20 August 2020.

covering environmental and social risk areas in the corporate governance and risk management frameworks, as well as in the strategic objectives and operations of banks. The BSP recognizes that environmental (including climate-related) and social risks pose risks to the stability of the financial system and therefore should be managed accordingly. The framework also laid down the minimum expectations on the Environmental and Social Risk Management System that is commensurate to the nature, size and complexity of operations of banks. Pursuing the sustainability agenda protects and promotes the interest of the public and future generations by contributing to the mitigation of climate related risks and the attainment of the United Nations Sustainable Development Goals (SDGs).[112]

- Designated Clearing and Settlement Banks. The BSP Monetary Board approved the prudential requirements for designated clearing and settlement banks for purposes of compliance with directors, officers, stockholders, and their related interests (DOSRI) regulations as well as foreign currency deposit unit (FCDU) asset cover and minimum capital requirements.[113]

2. ***Leveraging advancements in technology and further improving processes.*** By doing so, the BSP enhances supervisory tools and activities, including the surveillance of risks and the identification of emerging risk trends.

- Financial Institution (FI) Portal. Envisioned to be the single point of reference for all official submission to the BSP, the FI Portal is an online, secure, web-based facility designed to replace the report submission process previously being sent through email submissions. It went live on 25 September 2020.

- Supervisory Assessment Framework (SAFr). The BSP approved the adoption of the SAFr. This framework aims to further strengthen the assessment of BSFIs. The SAFr explicitly links the systemic importance and risk profile of a BSFI to the crafting of supervisory plans for each supervised institution. Its key feature of the SAFr is the use of business model analysis. The SAFr will replace the various rating systems currently employed by the BSP, including the CAMELS Rating and Risk Assessment System.

- Policy Clearing House. The BSP established the Policy Clearing House framework which ensures consistency in the policies developed and the processes adopted across the different policy-making units within the Financial Supervision Sector (FSS).

3. ***Fostering an enabling regulatory environment.*** By and large, the BSP aims to foster an enabling regulatory environment that promotes adoption of beneficial and responsible technology, deepening of the domestic capital market and savings mobilization, and development of a safe, efficient and reliable payment system.

- Payment System Oversight Framework. A safe and efficient national payment system is crucial to the smooth functioning of financial markets and the stability of monetary and financial systems. It is also instrumental in achieving and sustaining inclusive economic growth. Thus, the BSP adopted the Payment System Oversight Framework for the effective and efficient governance of the national payment system.[114]

- Digital Payments Transformation Roadmap. It would be noted that the COVID-19 pandemic has accelerated the use of digital payments under the "New

[112] Circular No. 1085 dated on 29 April 2020.
[113] Circular No. 1107 dated on 23 December 2020.
[114] Circular No. 1089 dated 07 July 2020.

Economy" environment. Parallel to this, the BSP has designed a three-year Digital Payments Transformation Roadmap with a twin goal by 2023. First, driving the share of digital payments to 50 percent of total retail transactions by offering faster and more affordable payment options that provide greater convenience. Second, expanding the financially included to 70 percent of Filipino adults by onboarding them to the formal financial system through the use of payment or transaction accounts. The BSP's priority policy initiatives aim to broaden the use of digital payment platforms as well as ensure that these are supported by robust infrastructure and governed by sound data standards.

Related to the second goal of the Digital Payments Transformation Roadmap, the BSP has approved the inclusion of "digital banks" as a distinct classification of banks and the corresponding guidelines for their establishment. A digital bank is defined as a bank that offers financial products and services that are processed end-to-end through a digital platform and/or electronic channels with no physical branches.[115]

- Islamic Banking. With the passage of RA No. 11439,[116] the BSP is clothed with clear authority to issue broader set of rules and regulations on Islamic banking with the supervisory and regulatory powers of BSP over Islamic banks. The BSP has a Task Force on Islamic Banking which serves as its arm in drafting rules and regulations on Islamic banking and coordinating efforts on Islamic Banking matters. Preliminary implementing regulations were issued covering the licensing of Islamic banks and Islamic banking units of conventional banks (IB/IBU) and the BSP's prudential expectation on the Shari'ah governance framework required for the IB/IBU.

4. ***Upholding the integrity of the financial system and promoting market discipline.*** The BSP has raised the bar for financial reporting and transparency, intensifying the assessment of the effectiveness of Anti-Money Laundering and COmbating of Terrorism (AML/CFT) risk management systems and consumer protection mechanisms.

- Money Laundering (ML)/Terrorist Financing (TF) Risk Assessment System (MRAS). The MRAS is a tool to assess the ML/TF and proliferation financing (PF) risk profile of BSFIs, taking into account their risk and context, business models and operations, among others. The MRAS provides the platform for assessing the level of inherent ML/TF/PF risks and the quality of risk management and self-assessment systems of BSFIs, to arrive at their net ML/TF/PF risk profile. The net results will serve as a basis for determining the frequency and scope of examinations as well as the type, intensity, and intrusiveness of supervisory activities.[117]

- Amendments to the Regulations on the Disqualifications and Watchlisting of Directors/Officers. The BSP recognizes that the fitness and propriety of the board of directors and management significantly influences and shapes the quality of corporate governance in a financial institution. Following the standards set forth on the qualifications and responsibilities of the board and management, the issuance provides the rules governing the watchlisting and disqualification of persons from becoming directors/officers of banks. The policy aims to further promote the integrity of the financial system and better protect the interest of the public.[118]

- Guidelines on Correspondent Banking Relationships. These guidelines articulate the specific regulatory expectations with

[115] Circular No. 1105 dated 02 December 2020.
[116] An Act Providing for the Regulation and Organization of Islamic Banks.
[117] Memorandum No. M-2020-084 dated 23 November 2020.
[118] Circular No. 1076 dated 18 February 2020.

respect to different types of correspondent banking relationships to enable banks to have improved understanding and management of ML and TF risks associated with correspondent banking relationships.[119]

- The revised implementing guidelines on Section 30 (c) of the New Central Bank Act, as amended, are intended to avoid undue regulatory forbearance and prolonged resolution of problem banks, thereby promoting a safe and stable financial/banking system and protecting the interest of the depositing public.

5. ***Strengthening collaboration with counterpart supervisors and partner institutions as well as jurisdictions.*** This strategy aimed at promoting the adoption of common standards to build resilience against risks (e.g., cyber threats, money laundering), improve information sharing and surveillance of risk within and outside the banking industry so that appropriate pre-emptive measures can be undertaken, and promote financial inclusion.

- Socialized Credit to Qualified Agrarian Reform Beneficiaries, Small Farmers and Fisherfolk. The M B approved the adoption of the implementing rules and regulations (IRR) of RA No. 10878[120] and the corresponding amendments to the relevant provisions of the MORB. RA No. 10878 was issued to strengthen and institutionalize direct credit support of the Land Bank of the Philippines (LBP) to qualified agrarian reform beneficiaries, small farmers and fisherfolk. The BSP, in consultation with LBP, formulated and promulgated the IRR to guide LBP and all other departments, agencies and sectors concerned in the implementation of the provisions of RA No. 10878.[121]

6. ***Engaging in capacity building initiatives.*** This strategy aimed at enabling bank supervisors to effectively respond to changes in the business environment and business models of BSFIs, and to be continually well-informed of the evolving regulatory and supervision standards.

III. Strategic Surveillance and Research

The BSP remains committed to enhancing the quality of policy decisions and strengthening its 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.

Enhanced Surveillance, Monitoring and Reporting of Banking Sector Developments and Risks

The BSP, through the FSS, consistently provided timely and insightful reports to keep management and relevant stakeholders wellinformed. In 2020, the BSP continued to enhance the following reports:

- *Banking System Risk Analysis (BSRA).* This quarterly internal report is prepared to apprise 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 FSS and mitigating measures undertaken by banks concerned to address specific risk exposure. The BSRA also recommends policy measures that

[119] Circular No. 1078 dated 09 March 2020.
[120] An Act Strengthening and Institutionalizing Direct Credit Support of the Land Bank of the Philippines to Agrarian Reform Beneficiaries, Small Farmers and Fisherfolk, Further Amending R.A. No. 3844, Otherwise Known as the "Agricultural Land Reform Code, as Amended".
[121] Circular No. 1090 dated 20 July 2020.

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.

- *A New Report on the Recent Trends in the Philippine Financial System.* The initial report contains a snapshot of the recent performance of the banking and non-banking sectors of the Philippine financial system using movements in total assets, loans, asset quality, deposit liabilities, liquidity and profitability, among others. The report also identifies significant movements in the non-performing loans (NPL) ratios of the top five banks including domestic systemically important banks (DSIBS), and latest information on pawnshops and money service businesses (MSBs). The report, which is prepared and submitted to the Monetary Board on a monthly basis, aims to provide more recent data ahead of the more comprehensive quarterly BSRA, the semestral Report on the Philippine Financial System, and the semestral Banking Sector Outlook Survey (BSOS).

- *Analysis on BSP's Supervised Institutions to Top Borrowers based on Credit and Equity Exposures (CREDEX) Report.* The BSP used the financial statements of top 500 borrowers based on CREDEX to estimate their debt-paying capacity. This is part of the BSP's surveillance toolkit to promote the sustained resilience of the banking system.

- *AML/CFT Surveillance Report.* The AML/CFT surveillance report is one of the key outputs of the BSP Financial System Integrity Department's (FSID's) offsite supervisory strategies to proactively identify and respond to money laundering/ terrorism financing/ proliferation financing (ML/TF/PF) threats and typologies. The surveillance report aims to capture the intricacies of the evolving nature of ML/TF/PF activities and financial crimes. It will inform the supervisory activities that will be pursued to mitigate and prevent, if not to avoid, risks and financial disruptions caused by these proscribed activities. The report analyses statistics involving BSFIs, advisories and issuances of relevant agencies, and other data/information gathered from environmental scanning and interagency cooperation, among others. The maiden AML/CFT Surveillance Report was issued to the FSS management on 03 August 2020 while the 2nd issue was issued on 06 November 2020, with target release of succeeding reports every end of the month following the close of each quarter.

- *Report on the Philippine Financial System.* This 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 research conducted by BSP staff as well as the inclusion of a new section on pawnshop and money service business (MSB) industries.

- 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. Towards strengthening its research function to support supervisory policy initiatives, the BSP has endeavored in preparing empirical research such as the following:

- **"Philippines: Contagion Risk Analysis of Cross-Border Exposures of Banks."** This SEACEN[122] project team paper mapped cross-border exposures of banks in the Philippines with key cross cross-border counterparties from neighboring countries and assessed the impact of a credit and liquidity shock to domestic bank and foreign banks' capital.

- **"Impact of Extreme Weather Episodes on the Philippine Banking Sector - Evidence Using Regional Branch-data."** This was published as a BSP Working Paper and is forthcoming in the International Central Banking Journal published by the B I S. 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 paper develops a rainfall damage index (RDI) to determine the impact of severe rainfall episodes on selected bank indicators. This study confirms the effects of severe weather conditions on banking sector performance.

- **"Do Prudential Regulations Affect Bank Lending Rates? Insights from Philippine Banks Using an Accounting-Based Approach."** This study analyzed the impact of such reforms on the Philippine bank lending rates by calibrating general accounting equations framing the banks' balance sheet and income statement structures. Under the simplifying assumptions, the impact on lending rates of adjustments in banks' capital and liquidity standards were found to be marginal. This finding indicates that banks are rebalancing the structure of their portfolio following the adoption of prudential regulations.

- **"Common Lender Channel and Financial Strength in EMEAP[123] Economies."** This paper analyzed the common lender channel among EMEAP economies to assess implications for cross-border financial strength. The paper was part of the EMEAP Joint Research on Capital Flows Credit and Real Sector Activities.

- **"Digital Payments and Cybercrimes during the Lockdown."** This box article, which appeared in the Report on the Philippine Financial System for the First Semester of 2020, discussed the observed shift in digital payments as well as cybercrimes and cyberthreats during ECQ in Luzon and associated islands, including the supervisory approaches used in reversing such heightened incidence of cybercrimes and cyberthreats. The article ended with a discussion on the policy implications of these observations.

- **"Revisiting Minimum Capitalization for Rural and Cooperative Banks."** This study examined the short-run impact of raising RBs' required capital across regions and municipalities. The result indicated a comparative advantage of rural banking in building a closer relationship in the lending segment of the market, particularly agriculture and agrarian sectors. However, disparities in performance of RCBs have been observed across municipalities and regions. A policy proposal, covering the implementation and transition of the revised minimum capital, will be exposed for comments by relevant stakeholders.

- **"How Banks are Holding Up Following the Covid-19 Outbreak.[124]"** This study examined the impact of the monetary policy adjustments, as well as prudential

[122] The South East Asian Central Banks (SEACEN)
[123] Executives' Meeting of Asia-Pacific Central Banks (EMEAP)
[124] This was published as a Chapter in the BSP book "BSP Unbound: Central Banking and the Covid-19 Pandemic in the Philippines."

and regulatory relief measures on the financial and operational performance of the Philippine banking system following the COVID-19 pandemic. The unique character of pandemic posed unchartered challenges for banking institutions. On the demand side, lockdowns and social distancing made consumer spending muted. On the supply side, containment measures affected both local and global supply chains. These disruptions could induce permanent effects on the economy, particularly if these lead to considerable layoffs and bankruptcies. The COVID-19 pandemic also shook financial markets in the early stage leading to some tightening in financial conditions. As a regulator and supervisor of financial institutions, the BSP had to deal with these challenges that banks faced amid the pandemic.

- **"Impact of Corona Virus 2019 Disease (COVID-19) Pandemic on the Philippine Remittance Industry."** The report highlighted the results of the survey conducted on 06 May 2020 on the impact of the COVID-19 pandemic on Philippine remittance operations. The survey assessed the extent of the impact of COVID-19 on the Philippine remittance industry and drew insights on possible policy directions of the BSP to help the industry cope not only with the current health crisis but also with any unforeseen challenges or circumstances to contribute to the continued stability of the financial system.

IV. Stakeholder Collaboration and Thought Leadership

The BSP closely collaborated with various BSP stakeholders with different demographics, from individuals, communities and groups, to knowledgeable experts, and implementers, internal and external to the BSP. It continually identifies creative ways to reach out to stakeholders and tailor engagement strategies and communication programs to strengthen working relations with them. The FSS serves as the lead and/or member of different committees, working groups and/or task force in a department, sector, bank-wide, inter-agency, national and international levels for leadership and technical functions as well as secretariat functions and strategic collaborations in the field of risk management, financial reforms, digitalization and other initiatives that support developments in financial regulations and the supervision process.

- **Implementation of the National AML/CFT Strategies (NACS) 2018-2022.** The BSP, through the FSS, is actively involved in the implementation of the NACS 2018-2022, through participation in the National AML/CFT Coordinating Committee (NACC) sub-committees. The BSP chairs the Supervision of Financial Institutions Sub-Committee (SFISC) and is a member of the Supervision of Designated Non-Financial Businesses and Professions Sub-Committee (SDSC) and AML/CFT Awareness Sub-Committee (ACASC). These committees ensure that the action plans in the NACS are being carried out by the responsible agencies. As Co-Chair and Secretariat of the SFISC, the FSS, in turn, organizes the sub-committee's quarterly meetings and leads other SAs in coordinating and monitoring timely execution and effective implementation of action plans applicable to financial institutions under the NACS.

- **Chairship of the Executives' Meeting of East Asia-Pacific Central Banks Working Group on Banking Supervision (EMEAP WGBS).** The BSP, through the Deputy Governor, FSS, assumed the Chairship of the EMEAP WGBS for the years 2020 to 2022. This leadership position provides the BSP with greater opportunity to be at the forefront of international discussions and to benefit from information derived from such engagement. It also gives the BSP a wider platform to convey relevant issues and concerns affecting the banking system and contribute to the shaping of regional views on the same.

- **Financial Sector Forum (FSF).** The FSF is an inter-agency body comprised of the BSP, Securities and Exchange Commission (SEC), Insurance Commission (IC), and the Philippine Deposit Insurance Corporation (PDIC).

  The FSF completed a major initiative in 2020, which is the joint International Monetary Fund-World Bank (IMF-WB) assessment of the BSP's observance of the Basel Core Principles for Effective Banking Supervision (BCPs). The IMF and the WB have commended the BSP's rating as "good among the emerging markets". In particular, the mission team recognized that the BSP has modernized its oversight framework since the previous Financial Sector Assessment Program (FSAP) and shows reasonably good compliance with the BCPs as an emerging market (2020 BCP Assessment). As a result, the BSP was rated as either "Compliant" or "Largely Compliant" in 27 core principles (CPs) and Materially Non-Compliant (MNC) in two (2) CPs. The two remaining MNCs were mainly due to identified legislative gaps. This is a significant improvement in terms of enhancing the regulatory framework and supervisory approach of the BSP as compared to the 2002 full FSAP assessment where 11 MNCs and one (1) non-compliant ratings were noted. The Detailed Assessment Report (DAR) on the BSP's Compliance with the BCPs were published in the websites of the IMF and the WB, respectively, on 10 November 2020. The same report was likewise posted in the BSP website on 05 December 2020.

  Another initiative under the FSF is the signing of the memorandum of agreement (MOA) on the electronic information system (EIS). The MOA established an overall framework for the exchange of relevant reports, information, and data (RID) among FSF-member agencies through the EIS.

- **Bank Supervision Policy Committee (BSPC).** The BSPC enhances the BSP's strategic partnership with the financial community to address emerging risks and to ensure the relevance and responsiveness of the policies with financial industry developments. Despite the COVID-19 pandemic, the BSPC resumed the periodic engagements in 2020 through virtual meetings with positive and active participation from industry associations.

- **Financial Institutions Strategic Transfer (FIST) Corporations Act.** The BSP worked vigorously for the passage of the FIST Act. This was approved by the Bicameral Conference Committee on 07 December 2020 and signed by the President of the Philippines on 16 February 2021.

  The FIST Act aims to assist the financial system to perform its role of efficiently mobilizing savings and investments for the country's economic recovery from the losses brought about by the COVID-19 pandemic. The law allows the establishment of FIST companies (FISTCs), which will be authorized to invest in or acquire non-performing assets (NPAs) of financial institutions performing quasi-banking functions and involved in credit-granting activities. The enactment of the Bill will ensure that distressed financial institutions have a mechanism to strengthen their balance sheet and help ease financial system stress by allowing them to off-load their NPAs to FISTCs.

- **Other Legislative Initiatives.** The BSP acts as resource agency and provides inputs and responses to legislative priorities such as the proposed GUIDE Bill and the pre-coordination and technical work related to the enactment of amendments to the Agri-Agra Act of

2009. The amendments to the Agri-Agra Act aims to expand and deepen sources, options, and access to financing for rural, agricultural, and MSME projects.

V. Strategic Direction Moving Forward

For 2021, the BSP will continue to push for the following major reform agenda:

Risk Management System (RMS). The BSP is calling for sustained effective RMS among its supervised financial institutions. Banks are expected to continue to manage risks prudently amid challenges to improve margins. They also need to comprehensively assess and monitor the quality of the loan to ensure that escalating asset quality issues are promptly addressed and allowance for credit losses are adequately recognized.

Likewise, in line with the thrust of the BSP to continually align its existing regulations with globally recognized standards and best practices, it will be issuing regulations promoting adherence to "Know Your Employee" principles, which is as important as the "Know Your Customers" policy. In this respect, banks shall be expected to understand their respective employees' personal background and character, identify their potential conflict of interest, and assess their susceptibility to collusion, fraud or illegal activities, particularly those who occupy sensitive positions in the bank. The proposed issuance is in response to cases of fraud or conspiracy that involved officers and staff of supervised entities reflecting weak operational risk management.

Further, the BSP is set to issue the Guidelines on Reputational Risk Management for BSFIs which provide the supervisory expectations and the minimum prudential requirements on the identification, assessment and management of reputational risk issues and concerns. Reputational risk is connected with other risk exposures such that it may be a byproduct of other risk types (e.g., credit, market, liquidity, and operational risks), and may at the same time have a ripple effect on other risk areas. In this regard, BSFIs are expected to adopt a framework to holistically and actively manage reputational risk, commensurate to their size, nature, and complexity of operations, overall risk profile, and systemic importance.

Sustainable Central Banking. The BSP will be issuing sustainability- or Environmental, Social and Governance (ESG)-related guidelines in phases. The first phase was issued as Sustainable Finance Framework as embodied under Circular No. 1085. The second phase will provide more granular expectations in managing climate change and other environment-related risks in relation to key financial risks such as credit, market, liquidity, and operational risks. Moreover, detailed guidelines will be provided in the areas of climate stress testing, prudential reporting, and disclosure requirements. The third phase may cover potential regulatory incentives to be granted to banks for adhering to sustainability principles.

Digitization. In line with the objective of the BSP's Digital Payments Transformation Roadmap, the BSP will continue to work toward the widespread adoption of electronic payments in order to boost economic growth and development. This is in keeping with the strategy to promote a safe, efficient, and inclusive payment and settlement systems.

As part of this Roadmap, the BSP seeks to establish an open finance ecosystem which allows the sharing and leveraging of customer-permissioned data among banks, other financial institutions and third-parties to build innovative financial solutions, such as those that provide real-time payments, greater financial transparency options for account holders, and marketing and cross-selling opportunities. The open finance framework will involve engagement of industry players in an industry-led self-governing body or authority, called the Open Finance Oversight Committee (OFOC), which is expected to promulgate membership and participation rules and formulate standards and procedures for the industry.

Digital transformation, however, should not be without safeguards. Effective management of cyber risk is a priority in view of increased risks of data breach, inappropriate use of data, and cyber-attack brought about by digital transformation initiatives.

In the digital realm, consumer data are a valuable and, oftentimes, monetizable asset. Hence the term "data as currency." Broadening the use of digital payment platforms should be supported by robust infrastructure and governed by sound data standards.

Thus, the BSP is crafting the policy on Data Governance and Ethical Use of Data for BSFIs, which is one of its important policy initiatives under the Digital Payments Transformation Roadmap. The proposed policy aims to provide high level principles and supervisory expectations on BSFIs' data governance and ethical use of data. This will be in addition to the current governance standards pertaining to the protection and privacy of consumer data provided under the BSP's Enhanced Guidelines on Information Security Management[125] and the Consumer Protection Framework.[126]

[125] Circular No. 982 dated 09 November 2017.

[126] Circular No. 1048 dated 06 September 2019.

Box Article 9

BSP Digital Payments Transformation Roadmap 2020-2023

The BSP launched a three-year Digital Payments Transformation Roadmap (2020-2023) charting its current initiatives and strategy toward an efficient, inclusive, safe, and secure digital payments ecosystem.

Digital payments as catalyst to financial inclusion

The digitalization of payments offers a pathway for the Philippines to leapfrog in financial inclusion and to spur broad economic growth and recovery from the COVID-19 crisis. Digital payment platforms help overcome the barriers to financial access, such as low and unpredictable income, physical distance, high transaction costs, and lack of formal bank records. To enable Filipinos to harness the benefits of more affordable, tailored and accessible financial services, the BSP endeavors to strike a critical balance between fostering digital innovations on one hand and ensuring financial stability and consumer protection on the other hand.

While there is still much work ahead, the Philippines has made significant strides toward building an inclusive digital payments ecosystem. In fact, the Better Than Cash Alliance Philippine Country Diagnostic (December 2019) conducted in partnership with the BSP has shown significant improvement since the last diagnostic with the rise in appetite for digital payments from a volume of only 1 percent as of 2013 to 10 percent by the end of 2018. This represents a 20 percent share of the total value of payments in the country and translates to nearly 470-490 million of digital payment transactions monthly. The study also highlighted that the government has continued to lead the country's digitalization were about 80 percent of its payments amount equivalent to 64 percent of its payment transactions were made digitally. Indeed, government-led initiatives which promote and bring to scale enhanced access to and greater use of digital payments, along with private sector innovations, will underpin further digitalization of payments into the future.

Roadmap to accelerating digital payments transformation

The BSP's Digital Payments Transformation Roadmap sets out two key strategic objectives to be achieved by 2023. First is the strengthened customer preference for digital payments with the goal of converting at least 50 percent of the share of retail payment transactions into digital form. Parallel to this, the BSP aims to onboard at least 70 percent of Filipino adults to the financial system through the ownership of a transaction account. The increased usage of transaction accounts will enable Filipinos to gradually create individual financial profiles with banks, non-bank e-money issuers, and other financial service providers. Financial service providers can then draw from customers' digital profiles to create customized financial products and offer solutions that meet the needs or preferences of consumers. The Roadmap is envisioned to help promote public welfare and propel the country's transition to a cash-lite economy.

The second objective is the availability of more innovative digital financial products and services reinforced by the following: (1) the innovation-driven use of consumer data enabling service providers to design and roll-out financial products and services that are tailored to the needs of consumers, including those from the lower income sectors; (2) a Know-Your-Customer (KYC) process enabled by the Philippine Identification System (PhilSys). The use of a digital National ID will help ease KYC rules and ensure unique, verifiable identities in opening a transaction account, thereby allowing more individuals to gain access to financial services; and, (3) the availability of a next-generation payment and settlement system that will facilitate real-time processing of financial transactions. To this end, the BSP shall replace its existing real-time gross settlement system with a next generation system with comprehensive functionalities otherwise known as *PhilPaSS^{plus}*.

Three key pillars of the BSP's digital transformation strategy

The realization of the said objectives is hinged on three critical areas that are seen as the backbone of successful digital payments transformation, namely: (1) the development of **digital payment streams** or use cases which will pave the way for greater acceptance and use among individuals, businesses and the government; (2) the establishment of the necessary **digital finance infrastructure** to facilitate interoperability in the digital payments ecosystem, thus allowing providers to offer a wider selection of affordable products and services; and (3) the implementation of sound **digital governance and standards** to safeguard the integrity and privacy of consumer data, and ensure appropriate governance and regulation of digital products and services.

Underpinning the initiatives in support of these pillars is the simultaneous pursuit of: (1) an **enabling policy and regulatory environment** that promotes digital innovation while ensuring that attendant risks are properly managed; (2) **inter-agency/multi-stakeholder collaboration** consistent with a whole-of-society approach to achieving our shared vision; (3) the **digital transformation of the BSP** into a digital native enterprise wherein processes, transactions and interactions are largely technology-abled; and (4) an **integrated communication plan** strategically employed to promote awareness of digital payments and the platforms available and to improve digital financial literacy among target stakeholders.

Priority initiatives to sustain digital momentum

As the adoption of digital payment services gains traction under the "New Economy" environment, the BSP, in the near term, is pursuing the following key policy initiatives to maintain the momentum in digital transformation:

Digital Banking. The Philippines is a pioneer among the countries in the Asia Pacific region in developing a digital banking framework. As of 4 March 2020, a total of 34 digital bank licenses have been issued in Australia, China, Hong Kong, India, Korea and Taiwan based on the Asian Banker Rise of Digital Banking Licenses Special Report. In December 2020, the Bank Negara Malaysia finalized its digital banking framework, while the Monetary Authority of Singapore has announced four successful digital bank applicants which are expected to commence operations by 2022.

The BSP laid down its regulatory framework and introduced digital banks as a distinct bank classification in December 2020. Digital banks shall conduct end-to-end processing of financial products and services through digital platforms and electronic channels. In this respect, digital bank players are expected to have robust, secure, and resilient technology infrastructure, effective data management strategy and practices, and sound digital governance. Digital banks are seen to promote greater efficiency in the delivery of financial products and services and expand reach to the unbanked and underserved individuals and businesses. Digital banks may likewise offer financial products and services through cash agents and other qualified service providers which are located closer to customers to facilitate cash-in/deposit and cash-out/withdrawal services, fund transfers, bills payment, as well as other ancillary services. Cognizant of the exposure to the same set of risks being faced by other bank categories, digital banks are subject to the same prudential requirements on governance and risk management systems, information technology, cybersecurity, outsourcing, anti-money laundering and consumer protection, among others, tailored to their business model and risk profile.

Open Finance. The BSP is also developing a framework for the adoption of an open finance ecosystem which espouses consent-driven data portability, interoperability and collaborative partnerships among incumbent financial institutions and third-party players. Through open banking, incumbents and third parties will be allowed access to financial information needed to develop innovative products and services that are suited to the changing consumer needs.

Data Governance and Ethical Use of Data. A digital finance ecosystem relies heavily on the use and transfer of data passing through various electronic channels. In this light, the BSP is crafting a policy on data governance and the ethical use of data for BSFIs.

Open Architecture/Cross-Selling. The BSP is developing an open architecture framework geared towards helping consumers gain access to a vast array of digital financial products and services and broadening the range of institutions that could serve as touchpoints for offerings of different providers.

The BSP Digital Payments Transformation Roadmap 2020-2023 is a testament to our determination to pursue responsible digital transformation of the Philippine financial sector in bringing about a more resilient, sustainable, and inclusive new economy.

Efficient and Reliable Payments and Settlements System

Currency Management

More Inclusive and Security Enhanced New Generation Currency Banknotes. On 27 July 2020, the BSP launched enhanced Philippine banknotes that are more responsive to the needs of the elderly and the visually impaired and feature the latest anti-counterfeiting technology. The country's New Generation Currency (NGC) Banknote Series in circulation was first issued in December 2010. Currency experts worldwide recommend improvements in security features and other enhancements every ten years.

To further refine on the current series' design, the BSP added short horizontal lines that may be touched and felt at the right side of the banknotes. One pair of these lines are on the 50-piso, two pairs on the 100-piso, three on the 200-piso, four on the 500-piso, and five on the 1,000-piso. This is seen to assist the elderly and the visually impaired in identifying banknotes and distinguishing one denomination from another.

The security features of the 500-piso and 1,000-piso were strengthened by adding a roller bar effect on the value panels and color-shifting in the optically variable Ink. These features will make the higher denominations more difficult to counterfeit.

Moreover, the improvements highlight the country's rich culture by featuring indigenous Filipino weaves on the windowed security thread of the 100-piso, 200-piso, 500-piso and 1000-piso banknotes.

Given the limitations brought about by the pandemic, the communication campaign on the enhanced NGC banknotes was customized utilizing various technological tools. The press launch, media interviews and Know Your Money briefings were conducted through video conferencing. Information dissemination was mainly through strengthened partnerships with stakeholders comprised of banks, retailers, corporations, media, and government agencies.

The NGC banknotes without the enhanced features remain as legal tender and shall co-exist with the enhanced banknotes.

Inclusion of the 20-piso Coin in the New Generation Currency Coin Series. In 2020, the BSP released in circulated 29 million pieces of the new 20-piso coin which is now the highest denomination Philippine coin. This is the latest addition to the BSP's NGC Coin Series launched in 2018 which was awarded as New Circulation Coin Series Runner Up by the International Association of Currency Affairs in the 2019 Excellence in Currency Coin Awards.

The 20-piso coin is more cost-efficient to produce as it will have a longer circulation life than a 20-piso banknote. According to a study by the University of the Philippines, the 20-piso banknote is the most-used denomination for payments across the country. As a result, it is easily rendered unfit for circulation and returned to the BSP for replacement.

The new 20-piso NGC coin shall co-exist as legal tender with the currently-circulating 20-piso NGC banknote, which will be removed from circulation through natural attrition.

The new coin retains major elements of the 20-piso banknote. The coin's front side features Manuel L. Quezon, the first president of the Philippine Commonwealth who advocated the adoption of the national language, created the National Economic Council, and worked ardently for Philippine independence. Its reverse side shows the BSP logo and the Malacañan Palace, the official residence of the Philippine president. Manuel L. Quezon was the first Philippine president to occupy it in his term.

Consistent with the NGC Coin Series which highlights native flora, the 20-Piso coin showcases the Nilad, the plant from which the name of the country's capital, Manila, is believed to have originated. Likewise, the Nilad's star-shaped flowers were said to be once clustered in abundance along the banks of the Pasig River where the Malacañan Palace is situated. The bi-color 20-piso NGC coin is easily distinguishable from other coins in the series. It is also highly secure, as it has microprints and an identifiable edge to deter counterfeiting.

The new 20-piso coin gathered wide interest and positive response from the public with the infographics and videos reaching more than four million social media users within a month from its launch.

The Philippine Payment and Settlement System (PhilPaSS)

The PhilPasSS is the country's RTGS system to facilitate large-value transactions and final settlement of retail payment clearing results. As the owner and operator of the *PhilPaSS*, the BSP, through the Payments and Settlements Office (PSO), is responsible for maintaining the safe and efficient operation of this critical payment system. By minimizing payment and settlement risks through the *PhilPaSS*, the BSP is instrumental to the smooth functioning of the national payment system and the stability of the broader financial system.

Contributions of the *PhilPaSS* to the Progress of the Philippine Economy

The total volume of financial transactions that were settled in *PhilPaSS* in 2020 reached 1.3 million transactions, valued at ₱ 544.20 trillion. On average, there were about 5,221 transactions per day, with total amount of ₱ 2.24 trillion. The total volume increased by only 3 percent when compared to that of 2019 mainly because of the economic contraction resulting from the pandemic. The decline in financial market and interbank transactions reflected the slowing down of the economy. Meanwhile, the total value grew by as high as 81 percent based on 2019 data. Notably, such a huge growth rate was mainly driven by the BSP's monetary operation in support of price and foreign exchange stability.

To ensure the safe and efficient settlement of financial transactions, the PSO performed the following specific tasks within agreed timelines:

1. Conducted daily real time gross settlement operations and ensured compliance with rules and operating guidelines;
2. Processed system-related requests (e.g., user accounts/ roles management, establishing connectivity with *PhilPaSS*)
3. Configured and issued Smart Card kits that contain token-signing certificates;
4. Issued advisories to all stakeholders on updates on procedures/ guidelines, occurrence of technical issues/ downtime, and other matters;
5. Processed the documentary and system-related requirements of new applicants for *PhilPaSS* participation;
6. Performed Society for Worldwide Interbank Financial Telecommunication (SWIFT) administration-related tasks;
7. Certified the accuracy of daily reports;
8. Prepared management reports;
9. Recommended and tested system enhancements;
10. Assessed compliance with the SWIFT Customer Security Controls Framework;
11. Completed the surveillance audit of the TUV SUD PSB Philippines, the certifying body for the quality management standards; and
12. Provided technical (system-related) and customer services to stakeholders.

The PSO maintained *PhilPaSS* operation even on business days when work in government offices were either suspended or declared as a holiday. The office upheld its commitment of sustaining the safe and efficient flow of funds in the economy. At the height of the community quarantine, the PSO continued operation while strictly complying with health protocols to minimize the risks to its officers and employees and generally contribute to overcoming the threats posed by the COVID-19. The office adopted the following measures:

1. Organization of a skeletal force which operated in two separate sites;
2. Implementation of work-from-home arrangements for PSO personnel;
3. Application of shortened *PhilPaSS* business hours; and
4. Electronic submission of requests even beyond the quarantine periods.

Relief measure extended to *PhilPaSS* Participants. As the country's recovery from the severe effects of the COVID-19 pandemic was underway, the BSP extended a temporary waiver of fees for fund transfer transactions made through *PhilPaSS* beginning 01 April 2020 until the end of 2020.

Pre-implementation of the next-generation ISO 20022-Compliant PhilPass*plus*. After the kick-off of the *PhilPaSSplus* project in December 2019, the PSO led the following activities in close coordination with the external solution providers and all relevant stakeholders of the office:

1. *Issuance of the ISO 20022 Rulebook for the Philippine financial industry.* The BSP spearheaded the creation of a Task Force on the Adoption of the ISO 20022 for Philippine Payments[127] (TF – ISO 20022). This TF produced the ISO 20022 Rulebook, which serves as the central reference on the content, definition, and flow of financial messages across financial institutions, financial market infrastructures, and clearing switch operators that will be linked to *PhilPaSSplus*.

2. *Designing the PhilPaSSplus*. Extensive engagements with the *PhilPaSSplus* provider as well as internal and external stakeholders were held to ensure that the *PhilPaSSplus* design is responsive to the evolving needs of the participants.

3. *Onboarding of stakeholders through technical user briefings/meetings/workshops/ advisories.* The Office introduced various onboarding activities to facilitate the resolution of the participants' concerns and questions in preparation for the *PhilPaSSplus* live operation in June 2021.

4. *Establishing the connectivity of participants to PhilPaSSplus*. In the 3rd quarter of 2020, the office directed the participants to form their respective Project Teams that will take the lead in transitioning their institutions to the new system. The participants were required to apply for their Virtual Private Network (VPN) connection with the BSP. The office coordinated with the Information Technology Office (ITO)[128] on the configuration, installation, and testing of the participants' connections and on the issuance of their user passwords. With respect to the participants that are also subscribers of SWIFT services, they were likewise requested to enroll in the SWIFT Readiness Portal, which the BSP subscribed for them to explore and navigate in order to familiarize themselves with the ISO 20022 messaging and communication standard for payments.

Enhancements to the PhilPaSS Risk Management Framework and Operational Guideline for the PESO RTGS System

The PSO enhanced the *PhilPaSS* operational guidelines and risk management framework to take into account changes in payment practices and trends, and to comply with the recommendations of the third-party assessors which evaluated the operation of

[127] Created under Memorandum No. M-2018-033 dated 07 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 the lead Technical and Administrative Secretariat of the TF.

[128] Now named Technology Development and Digital Innovation Office (TDIO)

the *PhilPaSS* against international standards:[129]

1. Strengthened the risk management framework of the payment versus payment (PvP) mechanism for the USD[130]/PHP trades by providing, among others, the point of finality of settlement and improving the PvP business continuity plan. This accomplishment addresses operational, legal, settlement, and other payment-related risks;
2. Led the development of the memorandum of agreement and the implementing rules and operating procedures for Renminbi[131]/Php trades under a PvP settlement mechanism;
3. Enhanced the *PhilPaSS* participation agreement and the implementing rules and operating procedures to meet international standards;
4. Improved operational-level agreements with BSP units to better define responsibilities and areas of collaboration between the PSO and other BSP units which are involved in ensuring the smooth and continuous operations of PhilPaSS.. The specific improvements include the inclusion of more useful quantitative metrics for assessing system performance, strengthening collaboration to ensure business continuity, and alignment of processes for addressing system downtime following international standards;
5. Enriched the PSO's risk management reports with more relevant information;
6. Provided input to the proposed Integrated Business Continuity Exercise Guidelines for Mission Critical Departments;
7. Reviewed industry practices as regards indirect participation in *PhilPaSS;*
8. Updated the PSO's User Account Management Policy;
9. Studied the proposed policy of requiring all BSFIs- to become direct participants in *PhilPaSS;*
10. Participated in the development of daily multiple settlements of PESONet clearing results;
11. Reviewed the implementation of a Checkless Payment System in the BSP Regional Offices and Branches;
12. Recommended a formal monitoring procedure on the renewal of Smart Cards;
13. Pursued the purchase of a Voice Logger System for queries (via phone call) from *PhilPaSS* participants; and
14. Reengineered the PSO operational procedures and improved the PSO-controlled forms/ templates.

Participation in Committees. The PSO participated in domestic and international committees to make sure that it was able to contribute to collegial work with the end of keeping payment systems at pace with local and cross-border developments

Moreover, the PSO acted as a subject matter expert in the monthly run of the BSP Fundamentals of Central Banking Course (FCBC). To keep abreast of what was going on in other jurisdictions and share the Philippine experience on operating a real time gross settlement system, the PSO participated in the following meetings:

- Meetings of the EMEAP Working Group on Payments and Market Infrastructures (WGPI)
- 20th Cross-Border Settlement Infrastructure Forum (CSIF)
- Joint 34th ASEAN Bond Market Initiative and 21st CSIF.

[129] Including the Principles for Financial Market Infrastructures (PFMI) issued by the Bank for International Settlements

[130] Coursed through the Philippine Domestic Dollar Transfer System operated by the Philippine Clearing House Corporation

[131] Coursed through the PDS Highway and operated by the Philippine Securities Settlement Corporation

Management of the PERA System

The PSO also supported the BSP's indispensable role of ensuring the sound administration of the Personal Equity Retirement Account (PERA) system. In connection with this function, the Office performed the following important tasks:

1. Conducted the daily operations of the PERA System (PERASys) and maintained a technical helpdesk support for PERASys;
2. Prepared monthly PERA reports;
3. Facilitated meetings of the PERA Technical Working Group;
4. Operationalized the BIR electronic Tax Credit Certificate (eTCC) issuance module of the PERASys;
5. Proposed enhancements to the PERA Implementing Rules and Regulations; and
6. Rendered technical and logistical assistance during the launch of the Digital PERA by the BSP in partnership with the Trust Officers Association of the Philippines.

Major Objectives Beyond 2020. The PSO continues to support the BSP's strategic objectives of maintaining a safe, efficient, interoperable, and inclusive payment and settlement system for all Filipinos. Further, the PSO targets to encourage more BSFIs to directly participate in the *PhilPaSS,* enabling them to offer digital payment services and settle their corresponding clearing obligations via *PhilPaSS*.

The office is poised to achieve a system performance efficiency rate of 99.995% in the near to medium term, with the forthcoming live implementation of the next-generation ISO 20022-compliant *PhilPaSS^{plus}* in June 2021. The office also aspires to bring the settlement of all major financial markets into the *PhilPaSS* ecosystem. The PSO shall allot more resources to initiatives which are geared toward meeting international standards, particularly the Principles for Financial Market Infrastructures. In addition, the Office shall adopt measures to ensure compliance with the BSP's regulatory requirements which are anchored on the National Payment Systems Act.

Box Article 10

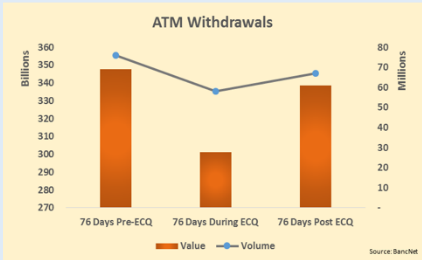
Digital Payments and the Pandemic

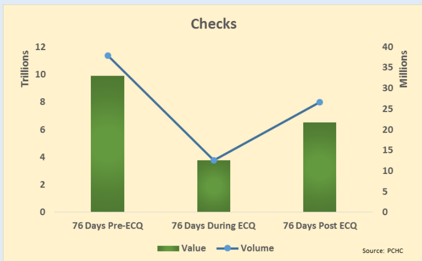
Reforms under the National Retail Payment System (NRPS), the flagship program of the BSP to modernize the country's retail payment system, introduced two interoperable Automated Clearing Houses (ACHs) namely, PESONet, launched in November 2017, and InstaPay, launched in April 2018.

The PESONet is a batched electronic fund transfer (EFT) service intended to be a better alternative to the paper-based check system. Unlike a check, the PESONet enables receipt of funds on the same banking day the sender initiates the payment within a certain cut-off time. InstaPay is a real-time EFT facility that facilitates the almost instantaneous transfer of funds any time of the day, all year round. Being real time, InstaPay addresses low-value and urgent payment requirements.

The widespread use of the internet and the emergence of technological innovations have made digital payments ubiquitous, more accessible, and affordable. Moreover, the uncertainties surrounding the COVID-19 global pandemic made the shift toward digital payments a necessity as physical distancing rules have become the norm. By using digital payments with due care and vigilance, Filipinos reduce the need for mobility and prevent health risks from face-to-face and over-the-counter payment transactions. These conditions have continued to propel the country's progressive shift toward a cash-lite economy

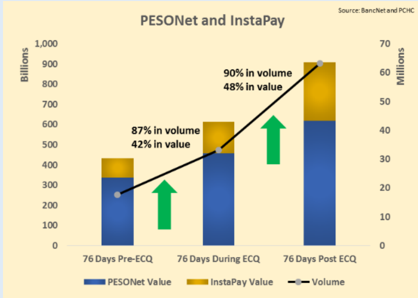
The performance of digital payments versus cash or paper-based instruments for pre-Enhanced Community Quarantine (pre-ECQ) and during ECQ scenarios was analyzed. Results of the analysis showed the notable decline observed in the volume and value of automated teller machine (ATM) withdrawals and check transactions analyzed 76 days before the implementation of the ECQ and during the ECQ. ATM withdrawals decreased by 24 percent in volume and 13 percent in value. Likewise, the volume and value of check transactions dropped by 67 percent and 62 percent, respectively. Meanwhile, EFTs surged by 87 percent in volume and 42 percent in value. This trend is indicative of the shift by individuals and businesses to digital payment services, given the limited mobility, shortened operating hours of business establishments and the necessity of avoiding face-to-face transactions.





Indeed, the COVID-19 pandemic has become an accelerator in the country's digital payments transformation journey.

Further analysis from the "76 Days Pre-ECQ" period and "76 Days During ECQ" period showed that PESONet and InstaPay transactions substantially grew by 87 percent in volume, from 17.7 million to 33.2 million, and 42 percent in value, from ₱432.6 Billion to ₱614.1 Billion. Similarly, PESONet and InstaPay transactions continued their upward trajectory in the "76 days Post ECQ" period (1 Jun – 15 Aug 2020) by 90 percent in volume to 63.1 million and 48 percent in value to ₱908.7 Billion.



The number of PESONET participants as of end December 2020 was 67, up by 22 percent from the previous year. While participants for InstaPay stood at 52 (43 – sending/receiving, 9 – receiving only), an increase of 16 percent from the same period in the previous year. It is noteworthy to highlight the good mix of BSFIs participating in the ACHs PESONet and Instapay – 51 percent are universal banks, 23 percent are thrift banks, 18 percent are rural banks and the remaining 8 percent are e-money issuers – which provide payment services based on their respective clients' profile and payment needs. Through the NRPS, even smaller BSFIs like stand-alone thrift and rural banks are empowered to provide convenient and effective payment services to clients even in remote areas by strategically utilizing PESONet and InstaPay. This expansion of the payment service providers participating in ACHs was made possible by the institutionalization of the non-discriminatory participation embodied as one of the key principles in the NRPS governance structure.

These recent developments indicate the huge potential of digital payments as the primary mode of payment given its convenience. When these headways are considered alongside the decline in paper-based payment transactions in the form of ATM withdrawals and check payments, it demonstrates the shift in the preference of Filipinos toward safer, more convenient, and faster digital payment services.

The BSP shall sustain the momentum to further drive digital payment adoption towards the vision of a coinless and cash-lite society through the following initiatives:

1) **QR Ph for payments from persons to merchants or "P2M",** which will be launched in 2021. QR Ph P2M will benefit not only large business organizations but also the small unbanked vendors such as tricycle drivers, market vendors, and sari-sari store owners. The QR Ph can be used as a viable alternative to coins as it caters to low-value, high-volume transactions such as payments to merchants and person-to-person payments. These payments digitalization initiatives are instrumental in empowering every Filipino as we pursue inclusive economic growth.

   Merchant payments form a large majority of payments made in the country – in both digital and cash payments. As of 2018, only about 180,000 merchants (15 percent total) accepted or paid digitally, this represents only 15% of all merchants. Further, acceptance is close to negligible among (MSMEs, which form the vast majority of all merchants (BTCA, 2019). By 2019, MSMEs already comprised 99.5 percent of business enterprises operating in the country as shown in the data from the Philippine Statistics Authority (PSA). The same data revealed that, among the MSMEs, 89 percent are micro-enterprises. Given the large base and low penetration of digital payments for this crucial sector, the potential for digital transformation is huge.

2) **Bills Payment facility**, which will allow customers to pay their electricity, water, internet and telephone bills even if the transaction accounts of the customer and the biller are maintained in different payment service providers.

   Filipinos make an estimated 65-75 million utility payments every month. However, less than 5 percent of these are made digitally (BTCA, 2019). One pressing challenge is the disproportionate cost involved where the average bill payment amount is so small that the cost to process it is often higher than the bill itself. The Bills Pay facility, which will ride the InstaPay rail, seeks to provide interoperability in the system where clients of banks and e-money issuers participating in the Bills Pay ACH will be able to pay billers acquired by other participating banks and e-money issuers. This facility will thus pave the way for the expansive reach and the offering of more convenient payment options for the consumers to pay digitally.

3) **Request to Pay facility (RTP),** which will entitle payees to initiate collections by simply sending a "request to pay" to the payor. The payor need not type the payee's account details or even the payment amount, as the payor only has to authorize the collection instruction from the payee. For example, a project-based employee needs to only send a request to pay for the contract amount payable to him, while his employer just needs to approve or authorize his request for the payment to proceed. The RTP provides businesses and consumers who want more control over their outgoing payments and enhanced control and visibility over their cash flow.

4) **Multiple Batch Settlement of PESONet transactions**, which would increase the frequency by which payments can be received by beneficiaries within a banking day. This improved facility would better position the PESONet as a more practical substitute to issuing checks, especially for the bulk recurring payments made by businesses. The need for alternative means of making payment by businesses was underscored with the limitations imposed on mobility primarily due to the pandemic.

Financial Stability

There is no doubt that 2020 will be remembered in history because of the global recession as well as the unconventional responses that financial authorities have had to initiate as counter measures. It was not, however, just the sheer extent of the dislocations. Rather, we saw plainly how initial shocks create other layers of shocks, affecting the cross-section of society, in ways that the authorities did not always have a ready policy playbook on hand.

Understanding COVID-19 from the Lens of Systemic Risk

For the policy objective of financial stability, COVID-19 posed a foundational challenge, and arguably, an unfortunate opportunity to better make its case. For the former, we recall that the notion of financial stability that arose from the 2007 Global Financial Crisis (GFC) was one of a shock from the financial market that eventually spilled over into the real economy. This is the very point of the convention now used where the object of financial stability is to mitigate systemic risks, with the latter defined as disruption in the financial market, in whole or in part, that can eventually adversely affect the rest of the economy [Financial Stability Board (FSB)/IMF/BIS, 2009].

In the case of COVID-19, this was a public health issue that escalated into a pandemic but with no immediate clear damage to the financial sector. Would COVID-19 then meet the bar of being a systemic risk within the contemplation of the post-GFC financial stability agenda?

The answer is "yes" and this is where it is an unfortunate instance of validating why – and how – the policy objective Financial Stability is relevant. The "systemic-ness" of the risks is not merely defined by the direction of the transmission of risk (i.e., from financial market to the real economy) but one that adversely affects the overall economy. The financial market though is not a passive bystander in this because of the notion of "financial accelerator" (Bernanke/Gertler/Gilchrist, 1996; Bernanke and Gertler, 1989) where real sector disruptions spills into the financial market, and a "spillback" (IMF, 2014) occurs that aggravates the initial real economy shock.

Major Initiatives

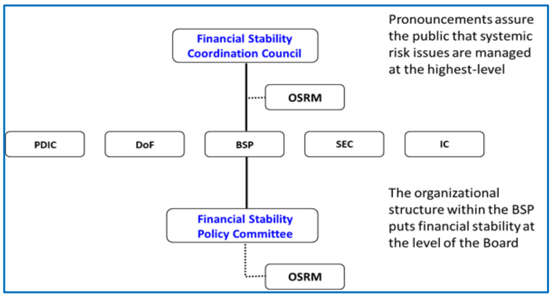
Taken from this perspective, the financial stability agenda in 2020 was largely driven by organizing the infrastructure for handling systemic risks and managing the possibility of spillbacks.

Organization for Financial Stability. Even before the pandemic set in, the MB created the Financial Stability Policy Committee (FSPC) under Resolution No. 50 dated 8 January 2020.[132] This is the whole Board convening en banc to discuss and act upon systemic risk issues at the highest level in the BSP. Strategically, this provides the infrastructure for the BSP to fulfill its mandate under its amended charter (Republic Act No. 11211) where financial stability is clearly specified as one of the four mandates of the organization. The candid discussions at the FSPC offer a natural link with the inter-agency Financial Stability Coordination Council (FSCC)[133], as the Governor is the Chairperson of both critical financial stability venues.

[132] The FSPC is composed of the Governor as Chairman and all incumbent Monetary Board members. The Deputy Governor of the Monetary and Economics Sector and Deputy Governor of the Financial Supervision Sector shall attend the meetings as resource persons. Other resource persons from non-government agencies could also be invited subject to the Governor's approval.

[133] The FSCC is an inter-agency council where the Heads of Agencies and other Senior Officials from the BSP, the Department of Finance (DOF), the Securities and Exchange Commission (SEC), the Insurance Commission (IC), and the Philippine Deposit Insurance Corporation (PDIC) convene quarterly to assess possible systemic risks and to decide appropriate macroprudential policy interventions. The FSCC was convened on 4 October 2011 and then formalized on 29 January 2014 through the signing of a Memorandum of Agreement.

Chart 4.4. Organization of Financial Stability



As provided under MB Resolution 50, all the technical and administrative work required by the FSPC shall be managed by the Office of Systemic Risk Management (OSRM). This adds to the existing responsibilities of OSRM as the Secretariat for the FSCC as well. Organizationally, the structure is presented in Chart 4.4.

Despite the community quarantine introduced starting March, there were 10 meetings held between the FSPC and the FSCC, including two special meetings for the latter. As the pandemic unfolded, the discussions and the agreed interventions focused on the loss of incomes among households and firms, as well as the ensuing elevated risk aversion in financial markets.

Introduction of Network Analysis in the Periodic Systemic Risk Reviews (SRR). Although COVID-19 is different in many respects, it nonetheless qualifies as a systemic risk as this concept is conventionally defined. Specifically, we look at the market as an interconnected network where the risk actions and preferences of the stakeholders lead to societal outcomes that differ from the sum of the actions of individual agents.

The technical foundations of this approach are captured in complex theory and specifically in network analysis. This has been institutionalized in periodic SRRs presented to, and discussed at, the FSPC and the FSCC. This provides a vastly different analytical tool because it is able to trace spillovers and spillbacks once shocks are introduced into the network.

Schematically, this can be represented in Chart 4.5 where business connections between firms and across economic activities can be mapped in a path-sensitive manner. Such models generate so-called centrality measures, and we use these to identify specific entities that are highly important in the system, and to trace the channels for potential amplification effects.

Chart 4.5. Network of Economic Activities

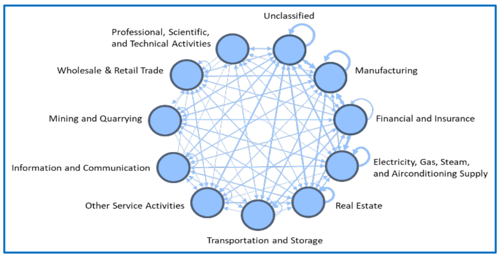
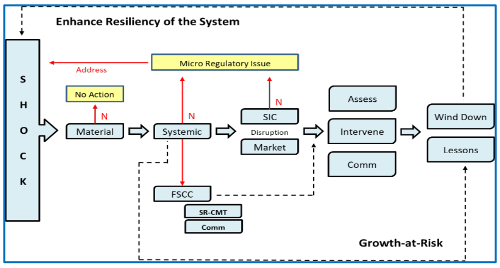


Chart 4.6. Systemic Risk Crisis Management Framework

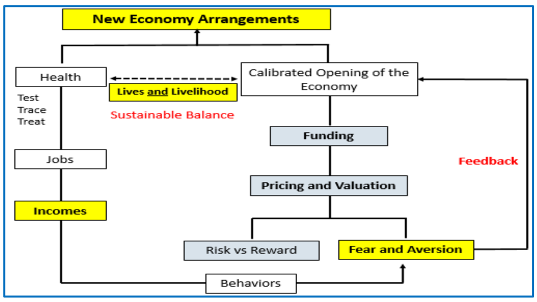


Crafting and Publishing the Macroprudential Policy Strategy Framework. The thinking underpinning financial stability as it is currently used emerged only after the GFC, is rather nuanced, and can be a source of confusion. With this in mind, the Macroprudential Policy Strategy Framework for the country was formally drafted by OSRM, endorsed by the FSPC, and subsequently approved and published under the banner of the FSCC. This framework reflects the thinking of financial authorities, the institutional arrangements, as well as the tools that will be used to sustain and enhance the health of the financial system. Its release also puts the Philippines as among the jurisdictions which subscribe to the best practice of publishing their macroprudential policy frameworks *(See Box Article 10).*

Approval of the Systemic Risk Crisis Management Framework (SRCM). As a pre-emptive move, the FSPC and the FSCC have taken steps to prepare for the next occurrence of a systemic shock affecting the financial market. This is embodied in the SRCM which defines the collaboration of financial authorities from the formal declaration of a systemic risk crisis to the arrangements among the authorities, the organization of policy interventions, communication with the various stakeholders, updating our knowledge of risk behaviors, and sharpening our policy toolkit (Chart 4.6). The framework also provides for the transition post-crisis, whether this means a return to the status quo or as a new normal.

Shifting the Financial Stability Report (FSR) into a Semestral Release. As the pandemic unfolded, it was decided to issue the FSR every semester, instead of annually. This decision was taken in the context of providing stakeholders more frequent and more timely analysis of the emerging systemic risks. In addition to the increased frequency, there was a deliberate effort to broaden its reach, presenting the assessments in a less technical manner. Schematics and visual aids are more openly used to convey key messages. For example, the COVID-19 crisis and its systemic risks were described in the schematic in Chart 4.7.

Chart 4.7. COVID-19, Systemic Risks, and the New Economy



The April 2020 FSR looked into the social and economic costs brought by the pandemic, how it added to existing vulnerabilities, as well as how it created a new set of challenges. The second semester release, on the other hand, highlighted how a "slow-burn contagion" may be triggered. Recognizing the adverse effect of prolonged uncertainties, the FSR noted what needed to be addressed on the path towards the new economy.

Policy Notes and Other Specific Studies. These confidential risk analyses were provided to the FSPC and FSCC members. Two policy notes were released in 2020, together with three industry studies as requested by the FSPC.

- *Systemic Risk Analysis of the Coronavirus Disease (COVID-19).* This policy note looked at the likely supply-chain complications arising from COVID-19. Released within days of the introduction of the community quarantine, a highlight of this policy note was the recommendation to arrange for "corridors" through which the distribution of key commodities may be provided to households and communities.

- *Managing Systemic Risk Through the Capital Market.* While the "development" of the capital market is the typical perspective of prior studies, this policy note makes the case that mitigating systemic risks is its critical contribution. Term funding has been provided by the banking sector, but this comes at a cost. We looked at market depth, price discovery, and market turnover in this report in relation to our ASEAN-5 peers. Suggested targets over a three-year planning horizon were recommended so that the onshore term funds market is situated better within the ASEAN asset class and to ease the maturity and liquidity mismatches currently borne by banks.

- The FSPC instructed the Secretariat to conduct studies on selected industries. Different policy issues were analyzed, one on the impact of new accounting standards on pre-COVID-19 vulnerabilities, another on the implications of debt servicing constraints at the industry level, while the third one looked at the contribution of the Philippines to the global value chain (GVC) in that industry.

- ***Information, Education and Communication (IEC) Initiatives.*** The ultimate deliverable of the financial stability agenda is to be able to put stakeholders in a position to make informed choices related to emerging risks. For this purpose, we continued to engage our stakeholders through a number of our information and education initiatives:
  - Financial Stability Videos. Completed in 2020, this three-part series of AVPs are designed to convey awareness, understanding, and appreciation of financial stability across various stakeholders.
  - Webinars on Systemic Risk Management. OSRM officials delivered presentations in a number of webinars. These include the Financial Stability module of the BSP FCBC, the BSP Institute (BSPI) and IMF Singapore Training Institute-led webinar, "Managing Systemic Risks in the Time of Pandemic", as well as the Annual Conference of AsiaRisk.
  - Press Events. In addition to the press releases, press events were held to signify the importance of the release of the Macroprudential Policy Strategy Framework and the semestral FSRs. Through these events, the public is transparently made aware about systemic risks and the corresponding actions by the authorities.
  - Social media and online presence. Engaging the public through digital platforms enabled the BSP to reach and engage a broader audience, which contributed to the ongoing efforts to bring central banking closer to the Filipino.
- ***Global and Regional Initiatives and Collaboration.*** The pursuit of financial stability was not confined to the work undertaken for the FSPC and FSCC, but also included collaboration with offshore partners and multilateral institutions.
  - FSB's Regional Consultative Group for Asia (FSB-RCGA). The BSP Governor served his second year as co-chair for the FSB-RCGA, a platform for 17 jurisdictions in Asia to periodically discuss global risk issues and the initiatives on emerging best practices. This required coordination with the FSB – the venue created following the GFC in line with the global reform initiative to strengthen the resilience of financial systems from systemic risks – on drafts and updates as well as in arranging the meetings. The FSB-RCGA meetings held in 2020 discussed vulnerabilities and financial stability issues affecting Asia, COVID-19 policy responses in emerging market and developing economies, roadmap for enhancing cross-border payments, and climate change-related initiatives.
  - FS Network. The OSRM continues to manage the FS Network, a loose online aggrupation of financial stability practitioners in the Asian region. Through the FSNetwork, members are able to share materials, questions, and experiences, all to better execute financial stability.
  - Collaboration with international institutions. The OSRM collaborated with the IMF and the WB on the Financial Sector Assessment Program (FSAP), in addition to the periodic country analyses of the ASEAN+3 Macroeconomic Research Office (AMRO) and Fitch.

2020 was certainly a challenge. Risks – which are non-linear, non-normally distributed, non-stationary and non-additive – were evolving as conditions of uncertainties were themselves changing. Despite the challenging environment, however, much was also achieved. As the BSP works towards recovery and the new economy, much more needs to be done moving forward.

Box Article 11

Macroprudential Policy Strategy Framework: The Case of the Philippines

The need for a national macroprudential policy strategy

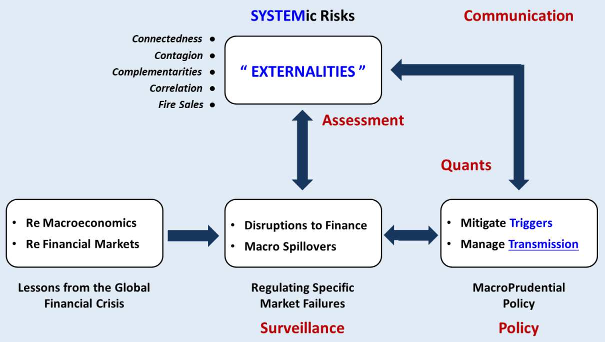
The Global Financial Crisis (GFC) took jurisdictions and policymakers by surprise, but the lessons learned have been the basis for the restructuring of the global financial architecture. This reform agenda is defined by the pursuit of "Financial Stability." It is uniquely a post-GFC concern and is distinctly focused on mitigating systemic risks.[134] The objective is to make the whole financial system more resilient to shocks – both from external sources as well as those generated by the financial system itself – that can adversely affect the rest of the economy.

While explicit consideration of systemic risks is now universally established, formulating and executing the interventions to mitigate such risks – macroprudential policy – are fraught with challenges. The state of stability cannot be defined by either fixed thresholds or absolute values of indicators. This is partly due to data limitations but the core reason is that "stability" changes with evolving market conditions and changing behaviors toward risks. And even if we knew the risks faced by each individual, arriving at an outcome for society is not a simple matter because this often differs from the casual sum of the situations across individuals. In fact, risks cannot be summed across stakeholders i.e., the system is not more stable simply because risky behaviors are "offset" by less risky behaviors.

For these reasons, the practice of macroprudential policy can evoke confusion. However, by its very nature, systemic risks affect everyone and macroprudential policy would have to consider what is best for the whole rather than the parts. Having a macroprudential policy strategy formally laid out is essentially a contract between the authorities and those affected by the policy interventions. This is as much about transparency as it is about accountability.

The Philippine Context. Our approach is summarized succinctly in Figure 1. The focus is how market failures may be triggered and how these effects are likely transmitted throughout the system. It is necessarily pre-emptive in nature because one ideally should intervene before the systemic risks take hold. While there may be several reasons for market failure, we consider what economics refers to as "externalities." This highlights the point that the health of the system is more than just the sum of the health of individual market participants.

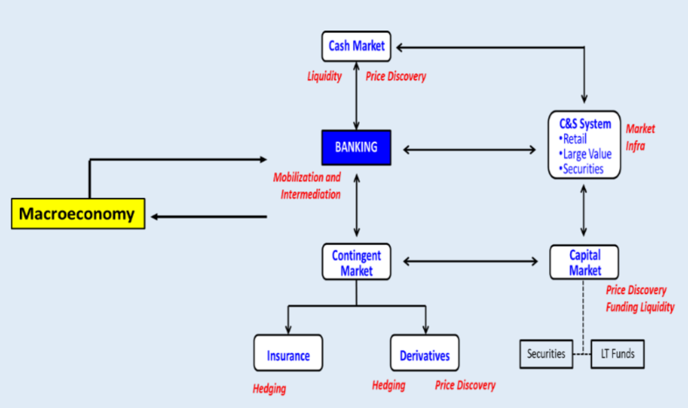
Figure 1. The Financial Stability Framework of the BSP



Source: OSRM

[134] Systemic risk is defined as disruption to financial services arising from interlinkages in the financial system and has the potential to have serious negative consequences to the real economy.

Figure 2. The 4Cs Model



Source: OSRM

It is also important to highlight that the policy objective of financial stability is not limited to the financial market. This is because systemic risks are defined as disruptions that can ultimately affect the rest of the economy. There is then a natural interplay between the real economy and financial markets, making sure that the public's interests continue to be well-served. This point is reflected in Figure X2 where we relate banking, the cash, capital and contingent markets, as well as the clearing and settlements system in relation to the macroeconomy.

Figure 2 makes an important point that bears repeating. The ultimate objective of financial stability and the use of macroprudential policy does not end with stronger financial systems. This is an interim objective since the goal is to ensure that the needs of the public – individuals, households, and corporations – are addressed by a financial system that provides a repository for savers, allows access to borrowers, and is in a strong position to prudently manage ensuing financial risks for all stakeholders.

A natural challenge, however, is that the remit of financial stability can be too broad and thus untenable. To manage the objective, the Philippine framework specifically recognizes that there are many concerns but the most immediate are those arising from:

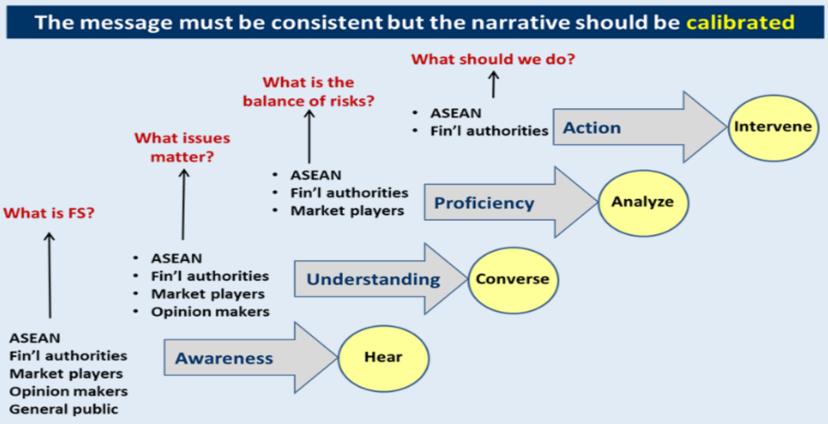
1. excessive credit growth and leverage;
2. excessive maturity mismatches and market illiquidity;
3. direct and indirect exposure concentrations; and
4. misaligned incentives with a view to reducing moral hazard, i.e., on systemically important financial institutions (SIFIs).

Data, surveillance, market analytics, and communication are the core functions of our framework. As recognized by all jurisdictions, data for systemic risk analysis is admittedly incomplete and imperfect. While data is a constraint, it is not a decisive limitation. There are ways to build the risk narrative, just like an archeologist finds shards in a dig to describe what is no longer physically evident. Surveillance, after all, will not limit itself to published metrics and instead assess changing incentives that induce changes in risk behaviors among stakeholders. That is, we look at markets and there is an effort to evaluate the distribution of good and not-so-good outcomes as they affect the haves and have-nots.

A major initiative will be the use of technical models which shed light on those changing behaviors. At any point in time, we are able to look into the business connections between firms and across industries (i.e., network analysis). We augment this by assessing liquidity and leverage pressure points, using the information provided publicly by firms. Over periods of time, we have developed models that assess contagion and correlations. Because of the cyclical nature of markets, models on credit over our financial cycle have also been developed. And since risk behaviors and the distribution of risk effects are central to systemic risk analysis, the amplification or dampening of risks have likewise been explored.

All these may seem rather technical, but the "last mile" of macroprudential policy is communication. The message of financial stability (what), the manner of its conveyance (how), the identified target audience (whom), and the timing of the delivery (when) are essential elements of systemic risk policy. This goes beyond raising awareness but rather positions various publics to make well-informed choices. At the FSCC, there is a deliberate effort to reach out for this purpose (Figure 3). The release of the Macroprudential Policy Strategy framework was a public event as well as the issuance of the FSR every semester.

Figure 3. Communication Hierarchy For Financial Stability



Source: OSRM

Figure 4. Communication as an Anchor of Policy

COLLABORATIVE EFFORT. *Led by BSP Governor Diokno, FSCC principals release the macroprudential policy strategy framework in July 2020 in a virtual event.*

How We Performed in 2020: BSP Operations, Advocacies, Initiatives, and Financial Results

Monetary Operations

In line with the liquidity-enhancing measures implemented by the BSP in 2020 to support market confidence and shore up domestic liquidity conditions amid the COVID-19 pandemic and the implementation of quarantine protocols,[126] total outstanding placements in the BSP's monetary facilities significantly increased to ₱1.964.0 trillion as of end-2020 from ₱853.9 billion as of end-2019. Banks' outstanding placements in the reverse repurchase (RRP) facility, overnight deposit facility (ODF), term deposit facility (TDF), and BSP Securities accounted for 15.5 percent, 57.0 percent, 16.3 percent, and 11.2 percent, respectively, of the total amount of liquidity absorbed by the BSP.

Moreover, to ensure adequate short-term peso liquidity in the financial system and support the smooth flow of funding to businesses and households amid the implementation of quarantine protocols, the BSP reduced the scale of its active monetary operations in the first half of 2020. This included the cancellation of TDF auctions on 18 March and zero offerings from 25 March until 8 April 2020, as well as lowering of the daily overnight RRP volume offering to ₱100 billion (from ₱305 billion) for the period 8 April – 9 June 2020. As market liquidity conditions stabilized following the liquidity-supporting measures of the BSP and consistent with the BSP's practice of assessing current financial system liquidity and market conditions in the conduct of its monetary operations, the BSP gradually reopened the 7-, 14- and 28-day TDFs on 15 April, 10 June, and 1 July, respectively. At the same time, the BSP increased the daily RRP offer volume at a measured pace from ₱100 billion to ₱200 billion for the period 10 June – 7 July 2020 and back to its pre-enhanced community quarantine (ECQ) level at ₱305 billion starting on 8 July 2020.

The average weekly total offer volume for the TDF auctions was higher at about ₱274.0 billion in 2020 relative to the ₱69.0 billion in the previous year. The average bid-to-cover ratios for the 7-day, 14-day, and 28-day tenors were higher at 1.6, 1.6, and 1.8 compared to 1.4, 1.3, and 1.2, respectively, in the previous year.[127] Similarly, the average bid-to-cover ratio for the daily RRP offerings increased to around 3.8 in 2020 relative to 1.1 in 2019.

On 18 September 2020, the BSP successfully launched the BSP Securities as a new instrument for its monetary implementation. This marked the first time for the BSP to issue its own debt securities since its establishment in July 1993. The reinstatement of the BSP's authority to issue its own bills and bonds provides an additional instrument to enhance further the implementation of monetary policy. It is a purely operational refinement under the Interest Rate Corridor (IRC) system and does not represent any change in the BSP's current monetary policy stance.

Since the maiden auction of BSP Securities on 18 September 2020 wherein the BSP offered 28-day BSP Bills (BSPB), market

[126] The BSP's liquidity-enhancing measures include the provisional advances to the National Government (NG), reduction of the reserve requirement, and the cumulative 200-basis point (bp) reduction in policy rate, among others.

[127] The BSP has not issued the 28-day TDF starting 14-October 2020 auction as the BSP started migrating funds from the 28-day TDF to 28-day BSP Securities.

reception has remained positive. Thus far, the results of the weekly auctions of BSP Securities reflected sustained strong demand amid ample liquidity in the financial system. In 2020, total subscription amounted to around ₱1.532 trillion or about 1.7 times the ₱890.0-billion aggregated offer amount.

Currency Operations

Undisrupted Cash Services. In 2020, the country was placed under various community quarantines which were characterized by stringent health and safety restrictions, suspension of public transport and closure of non-essential businesses. With the concerted efforts of cash operating units, the BSP continued to be at the forefront of public service through the timely and uninterrupted provision of banknotes and coins to support critical economic transactions.

In line with the sole power and authority to issue Philippine currency, the BSP provided undisrupted currency withdrawal services to banks amidst the heightened lockdowns in key regions. In Metro Manila in particular, the BSP Cash Department (CD) was able to serve 99.6 percent (in terms of amount) and 97 percent (in terms of volume) of the currency requested by banks. Client banks in the busiest region of the country have withdrawn 1,982.59 million pieces (mpcs) of banknotes (amounting to ₱863,421.61 million) and 914.10 million pieces of coins (amounting to ₱2,029.42 million).

Despite prioritizing the mission-critical cash withdrawal function and limited manpower, the CD still achieved a 93 percent and an 86 percent rate of verification for banknote and coin deposits, respectively, of banks in Metro Manila through the timely acquisition of new machines and equipment, and adoption of various policy and process improvements and initiatives. By end of year, the CD's inventory of banknotes subject to verification were composed of banknotes aged 19 days or below, which was within the 20-day commitment under the Ease of Doing Business Act.

The BSP also proved to be prompt and responsive to peculiar concerns during this pandemic.

While banknotes pose no greater threat than any frequently touched objects, the BSP released advisories enjoining all banks to sanitize banknotes as additional precautionary measure for the protection of all cash handlers. Banknotes were sanitized through the use of shrink-wrapping machines with heat level set to the highest degree Celsius temperature. Cash deposits were also quarantined in bank vaults prior to processing. Infographics were also released on proper handling of banknotes and coins.

From the onset of the pandemic, the BSP closely coordinated with big banks and partnered with the Bankers Association of the Philippines (BAP) to ensure adequate supply of good quality currency and to address currency distribution concerns. As sectors of the population still use banknotes and coins in their economic transactions, despite the rise in digital payments, the BSP ensures that cash management services are undisrupted, responsive and strategic.

Box Article 12

Financial Market Operations adopted by the BSP to Cope with the Pandemic

At the onset of the ECQ imposed on Luzon, the Financial Markets Operations Sub-Sector (FMOSS) made adjustments to its operations so that it could continue to provide vital support to financial markets and simultaneously ensure the safety of its personnel.

Domestic Operations

Given the restrictions on movement that were implemented during the ECQ, the Governor issued a directive to shorten the BSP's banking hours. As a consequence, FMOSS adjusted its trading hours in the local markets from 9am-5:30pm to 9am-3pm. That is, the PHP/USD trading window was shortened to 9am to 2pm in coordination with the Bankers Association of the Philippines, while monetary operations, which include Overnight Reverse Repurchase Agreements as well as the Overnight Deposit and Lending Facilities, were conducted from 9am to 3pm.

It may be recalled that when ECQ started on 17 March 2020, market sentiment was weighed heavily by uncertainty over the severity of the COVID-19 outbreak. Jittery market participants preferred to hold on to cash and aggressively sold their government securities (GS). However, with no interested buyers, GS yields rose sharply, with the 5-year GS rate rising by around 90 basis points in March 2020. Further, daily trading volumes fell to as low as ₱4 billion on 24 March 2020 vis-à-vis the ₱34 billion average from the beginning of the year to 16 March 2020.

This lack of buying interest in the debt market was also reflected in the poor market participation in the Bureau of the Treasury's (BTr) regular auctions during the first two weeks following the effectivity of the ECQ in Luzon. In particular, the auctions held from 23 to 30 March 2020 were mostly undersubscribed and submitted bid rates were 60 bps to 163 bps above market rates, prompting the BTr to reject all bids during the said auctions. Said premium above market rates was substantially higher than the two-basis point average premium from 06 January to 16 March 2020.

In response to the COVID-related uncertainty plaguing the financial markets, the BSP sought to calm market sentiment by actively injecting liquidity into the system in two ways. First, the Term Deposit Facility (TDF) auction was cancelled for four weeks and placements in the TDF that were due to mature were credited automatically to banks' respective account balances. The cancellation of the scheduled TDF auction was intended to ensure adequate short-term peso liquidity conditions in the financial system and support the smooth flow of funding to businesses and households as enhanced quarantine measures were implemented in Luzon.

Secondly, FMOSS opened a one-hour GS purchase window starting on 24 March 2020 to provide support to the local debt market. The BSP's purchase of government securities falls under Section 91 of the BSP Charter which allowed the BSP to buy and sell such securities for its own account to "achieve the objectives of the national monetary policy."

The opening of the said window was challenging given the reduced number of front office and back office personnel working during the quarantine and the lack of automated trading and settlement systems for straight-through-processing.

Given the limited resources, FMOSS chose to purchase the three of the most traded securities to ensure liquidity and the availability of a price. On 8 April 2020, under the Monetary Board's (MB) instruction, this list was expanded to include all Treasury Bills, Treasury Bonds and Retail Treasury Bonds. By then, FMOSS had already established procedures that enabled it to cope with the additional securities it could purchase. These procedures included setting up Bloomberg price pages for easy reference on market levels and requesting counterparties to send Bloomberg confirmations as a basis for the details of done trades. The transactions are encoded on the Domestic Operations System, an electronic platform that captures trade data which are sent to the back office for settlement.

Likewise, during the ECQ, the BSP ensured order and stability in the exchange rate. With more than $90 billion [128] in international reserves, we continued to perform our mandate of maintaining the international stability and convertibility of the Philippine peso, (as stated in Sec. 65 of the BSP charter). Smoothing out the exchange rate volatility is critical in performing our primary mandate of price stability since fluctuations in the exchange rate tend to feed directly into domestic prices, which need stability in this time of uncertainty.

<u>International Operations</u>
On FMOSS' international operations, the Reserves Management Department I (RMD I) continued to manage the working capital tranche, liquidity tranche, investment tranche, selected portfolios in the long-term tranche and the gold portfolio despite the challenges posed by the pandemic. Active positions were maintained and managed in some of these portfolios, where applicable. Meanwhile, RMD II continued its oversight of externally-managed portfolios by regularly engaging fund managers and custodians with regard to markets and the impact on the BSP's investments.

Moreover, the pandemic did not prevent the Investment Risk and Analytics Office (IRAO) from performing its functions of formulating investment and risk policies; providing regular market updates; monitoring and managing of the liquidity, market, and credit risks of the BSP's portfolios; as well as monitoring and reporting the performance of the portfolios and the compliance to investment guidelines. During the ECQ and MECQ, IRAO staff equipped themselves with proper tools that would enable them to efficiently perform their functions and deliver the expected outputs. Some activities, however, proved challenging, that some staff chose to report for work to ensure the accuracy of their reports and efficiency of their operations. With these, the safety of the BSP's portfolios were preserved.

<u>Work-from-Home Arrangements</u>
To protect the health and safety of its personnel, FMOSS enabled its workforce to work from home while keeping a minimum number of staff onsite to operate the most critical processes especially those that required physical security. In particular, departments were split into teams that observed rotating schedules to ensure that there were enough people to take over should someone be compromised by COVID-19.

Those who worked from home were equipped with the necessary technological support including the following:

1. BSP-issued laptops which were subjected to hardening procedures to enhance security of BSP data and IT resources, including but not limited to two-factor authentication, internet restrictions,

[128] As of April 2020.

disabling of USB ports, limited privileges and access time restrictions. Pocket WIFI were also distributed to staff to strengthen internet connectivity for their work;

2. Access to the BSP's systems and authorized databases via a Virtual Private Network (VPN) and Remote Desktop Protocol (RDP);

3. The rolling out of Microsoft Office 365 that allowed personnel to access their email offsite and utilize the program's office tools, messaging and virtual meeting functions; and

4. Access to third-party applications such as Bloomberg Anywhere, Refinitive and portals of service providers that supported the conduct of market and financial analysis, research, and other operational functions.

FMOSS also worked closely with the IT Office in ensuring the security of systems and data as well as managing cybersecurity and operational risks. Amid this enabling but secure technological infrastructure, FMOSS personnel were able to operate efficiently within a reliable work environment that allowed the seamless transfer of data between those operating onsite and those working from home.

It may be noted that FMOSS counterparties also experienced the same difficulties that beset the BSP. Banks reported that the sudden directive of the government to shelter in place necessitated finding ways to access trading and settlement platforms from home to ensure business continuity. They were able to resolve these issues using similar technological solutions and manpower rotations that the BSP put in place.

Proper coordination within different FMOSS groups as well as other departments proved to be crucial in managing the information needed for conducting market analysis and making portfolio decisions, ensuring that trades are executed and settled correctly, and carrying out the FMOSS mandate to serve both its internal and external clients.

Integral to the success of FMOSS in undertaking its duties during the community quarantine was the hardworking and dedicated group of people who did not back down in the face of the challenges posed by COVID-19.

International Reserves Management

The outbreak of the COVID-19 pandemic beginning in the early 2020 fueled great uncertainty and resulted in immense volatility in the market. Cognizant to this, the BSP viewed that capital preservation and pursuing a more strategic management of the country's international reserves were the utmost priority at that time. In response, the BSP undertook measures to limit investments to counterparties and transfer of funds to central bank accounts. Meanwhile, the BSP continued to execute portfolio management strategies that were within the parameters and limits set in the operational guidelines approved by the Investment Management Committee (IMC) to generate positive returns.

For the internally-managed portfolios (IMP), under the stewardship of the IMC, the BSP implemented measures aimed at ensuring the safety and diversification of the IMP, which comprised of the working capital tranche, liquidity tranche, investment tranche, a portion of the long-term tranche, and the gold portfolio.

For the externally-managed portfolios (EMP), which are mandates that form bulk of the long-term tranche and are predominantly composed of government bonds from developed and emerging Asian markets, the BSP generated significant mark-to-market gains on an absolute basis as global government bond yields declined during the year due to the global health crisis.

Along with the operationalization of the new Strategic Asset Allocation (SAA)[129] for the long-term tranche, which focused on return enhancement and increased portfolio diversification, the BSP engaged the services of new fund managers, which are expected to improve the portfolio's overall return and risk profile. Further, the investment guidelines and parameters for the EMP were also revised to provide opportunities for greater diversification and tactical returns. Meanwhile, through the recommendation of the IMC, the MB approved the proposal to increase allocation to the EMP later in the year.

Overall, both the IMP and EMP generated stable returns and diversification benefits to the BSP's gross international reserves (GIR) during the year amidst the challenging investment environment in the face of the lingering pandemic.

For the gold portfolio, the BSP obtained the MB approval under MB Resolution No. 941 dated 30 July 2020 to revert from passive to active management strategy of the country's gold reserves. This is in line with the BSP's recognition of the rise in gold prices since 2019 and heightened market volatility in 2020, which provided an attractive opportunity for the BSP to generate additional income without compromising the primary objectives for holding gold, which are insurance and safety. The reversal to the active management strategy of gold reserves involved maintaining a Gold-to-GIR ratio of 10 percent as basis for the SAA to gold, and allowed the inclusion of derivatives as permissible transactions for the gold portfolio. In addition, it also prompted a change in the accounting treatment of gold reserves from "Amortized Cost" to "Fair Value Through Revaluation Reserves," enabling the BSP to benefit from the diversification effects of gold holdings.

In 2020, the BSP likewise increased its investment in green bonds as part of its diversification strategy. This move is not only seen to generate higher returns for the BSP, but also as means of promoting green finance and enhancing the environmental

[129] The new SAA for the long-term tranche was approved by the MB in December 2019.

sustainability objective of the BSP, which recently became a member of the Network for Greening the Financial System (NGFS). As the BSP is currently in the early stages of incorporating sustainable finance principles into its reserve management framework, it has begun incorporating environmental, social, and governance (ESG) scores as an additional screen for some of its tactical allocations specific to the portfolio mandates under the long-term tranche as well as the BSP's membership in the Green Bond Bank for International Settlements Investment Pool (BISIP) Advisory Committee. The BSP is committed to ensure the pursuit and implementation of appropriate strategy in managing the country's foreign exchange reserves consistent with evolving domestic and global economic conditions.

International Economic Cooperation

International cooperation amid the pandemic

The year 2020 was extraordinary due to COVID-19 that affected the global economy. What started as a health crisis immediately posed wide-ranging economic and financial repercussions as containment measures were imposed to stop the further transmission of the virus. This led to diminished economic activity, massive unemployment, and income losses around the world.

The timely and decisive policy actions of governments, including central banks, across the globe were critical in ensuring that financial markets continued to function smoothly, particularly for the most affected sectors of the economy during the crisis. As the adverse effects of the pandemic became widespread and multi-faceted, international cooperation has even become more crucial and led to frequent and active engagements. International engagement became COVID-centric and discussions focused on issues such as, but not limited to, measures to address the economic and financial impact of the crisis, provision of liquidity in the financial system, assessing the distributional and sectoral impact of the lockdown, and the roles of monetary and fiscal policies, among others.

Engagement in policy dialogue with international counterparts

The BSP participated and remained proactive in several meetings, briefings, and policy dialogues to exchange views and gather insights on areas of critical importance. These undertakings supported the policy responses of many central banks, including the BSP, by providing analyses and offering meaningful discussions, which, in turn, aided the decision-making process of authorities. Many of these discussions focused on the implementation of unprecedented policy actions and regulatory measures, acceleration of digital transformation, and potential utilization or operational readiness of regional financial safety nets. These topics were among the critical concerns highlighted in both the technical- and high-level policy dialogues and briefings participated in by the BSP.

- The BSP participated in two face-to-face meetings organized by the ***Bank for International Settlements*** (BIS) held in January and February 2020 at Basel, Switzerland, as well as in 15 virtual meetings from March to December 2020.[130] Discussions focused on the use of personal data in finance, economic policy

[130] These include: two Asian Consultative Council (ACC) Meetings (9 March and 24 September) and Pre-ACC in 24 August, six Global Economy Meetings (GEM) (9 March, 24 April, 22 May, 21 July, 8 September, 6 November) three Small and Open Economies (SOE) Meetings (8 May, 6 September, 10 November), one Annual Governors' Meeting (AGM) (30 June), one Central Bank Governance Group (CBGG) Meeting (1 July), one Emerging Market Economies (EME) Meeting (9 September), and one All Governors' Meeting (8 November).

responses to the COVID-19 pandemic, cybersecurity in the financial system, governance challenges arising from recent central bank actions in response to the COVID-19 pandemic, dealing with insolvencies and unemployment, and policy issues on household consumption and savings during the pandemic.

- The BSP was also a participant in the high-level virtual discussions of the members of the ***Executives' Meeting of East Asia-Pacific*** (EMEAP) central banks. During the 25th EMEAP Governors' Meeting held on 19 August 2020 and 16 November 2020, the governors exchanged views on recent developments in the regional economy and financial systems amid the COVID-19 pandemic and noted that the various policy responses by central banks in the region (and globally) have helped alleviate the economic fallout and financial market stresses stemming from the pandemic. The timely communication between central banks and the various stakeholders, including public and industry players, have also helped to ensure smooth implementation of these policy responses.

- Under the ***ASEAN*** forum, the BSP together with the ASEAN Finance Ministers and Central Bank Governors committed to pursue a more cohesive and coordinated sustainable finance agenda that cuts across banking, capital markets and insurance areas. The ASEAN also affirmed its support for digitalization in the financial sector, including digital banking, financial inclusion, and cyber resilience.

  The BSP, as co-chair of the ASEAN Working Committee on Capital Account Liberalization (WC-CAL) for the period 2018-2020, successfully led the WC-CAL to undertake important initiatives that facilitated the orderly liberalization of trade and foreign investments in ASEAN countries. The WC-CAL's key monitoring tools, i.e., the CAL Heat Map and CAL Plan, were enhanced to better reflect the ASEAN members' capital account regime and plans, making it more useful for the WC-CAL and its members to guide them in their future initiatives and planned reforms. The policy dialogue and information exchange mechanism on capital flow trends and safeguard measures were likewise enhanced to ensure the preservation of financial stability in the region while members are in the process of liberalization. The WC-CAL also continued the discussions on the use of local currencies in the settlement of trade and investment transactions, which resulted in the completion of the Guidelines on ASEAN Local Currency Settlement Framework (LCSF) and the conclusion of a number of bilateral local currency settlement arrangements among ASEAN members.

- During the 40th Meeting of the ***South East Asian Central Banks*** (SEACEN) Board of Governors (BOG) held virtually on 1 December 2020, the BOGs, where the BSP Governor is a member of the Board, reaffirmed their commitment to support the fight against COVID-19 through leveraging the SEACEN community to enhance their respective policy responses on the monetary, fiscal, financial and structural reform fronts.

Facilitation and/or participation in the international financial safety nets, technical assistance (TA), and capacity-building programs

The global and regional financial safety nets in place provided some support to anchor financial stability as enhancements were made to ensure responsiveness to the current needs of members. In the event of balance of payments problem or liquidity difficulties, members can tap these financing arrangements which serve as an extra layer next to an individual country's first line of defense – its GIR – to safeguard financial stability. The BSP actively participated in maintaining and/or initiating financial arrangements/contributions with international counterparts to strengthen the financial safety net and/or ensure liquidity in financial markets.

On the global front, the Philippines, through the BSP, facilitated its continuing participation on the IMF's financing facilities to ensure that the Fund has sufficient firepower to address looming threats to global financial stability:

- extension of the term of the Bilateral Borrowing Agreement (BBA), where the BSP, pursuant to MB approval on 13 August 2020, committed to provide the Fund with up to US$1 billion in resources to finance arrangements for countries with balance of payments difficulties until 31 December 2021;

- doubling of the amount of commitment to the New Arrangements to Borrow (NAB) facility, a credit arrangement where the BSP provides resources to the IMF, from SDR340 million to SDR680 million (about US$1 billion) and extension of the term until end-December 2025, approved by the MB on 19 March 2020 [SDR stands for special drawing rights]; and

- continued participation in the Financial Transactions Plan (FTP), a currency exchange arrangement between the IMF and selected members, to facilitate IMF financing operations.

The BSP earns interest at the SDR rate from its participation in these IMF facilities.[131] Enhanced participation in these facilities is a testament to the strength of the country's external position (sufficient international reserves, sound external debt management framework) despite the pandemic.

In the Asian region, the BSP actively supported the enhancement of the regional financing facilities to ensure its responsiveness and smooth operationalization if and when the need arises. These facilities include: (a) the Chiang Mai Initiative Multilateralization (CMIM) launched in 2010, which serves as the regional financial safety net that ASEAN member states and the plus three countries of China, Japan, and Korea, can draw upon in times of potential or actual economic shocks. The CMIM has never been tapped which is indicative of the resilience of the countries in the region and continues to undergo further enhancements, particularly on the increase in the portion of the CMIM arrangement that may be utilized by a borrowing member without tie ups with the IMF, emphasizing the self-help nature of the regional financial arrangement; (b) the ASEAN Swap Arrangement (ASA)[132] that can provide a US$2 billion short-term foreign exchange liquidity support for member economies that experience balance of payment 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; and (c) on a country-by-country basis, the BSP renewed its Bilateral Swap Arrangement with Bank of Japan extending its effectivity until 31 December 2021 to provide short-term liquidity support to the Philippines and Japan.

[131] SDR interest rate is 0.05 percent as of 15 January 2021 (IMF website)

[132] Effective until 16 November 2021.

Meanwhile, in order to support financial integration in the region in terms of facilitation of capacity-building programs, TA, and hosting events, the BSP supported the implementation of capacity-building programs of the ASEAN Steering Committee on Capacity Building (SCCB) which were held virtually and attended mainly by participants from Cambodia, Lao People's Democratic Republic, Myanmar, and Viet Nam (CLMV) member states. In addition, the BSP provided resource persons for the SCCB Webinar on Counterparty Credit Risk and Market Risk Measurement on 9 September 2020. The BSP also continued to benefit from various TA initiatives in the areas of monetary policy communication, cash management, and development of bond and repo markets.

Negotiation and facilitation of cooperation initiatives

As the economy experienced the blowback of the pandemic, authorities also recognized the need to keep their economies ready for the expected recovery by continually enhancing regional integration efforts, including facilitating intra-regional trade and investment activities as well as strengthening cooperation initiatives in the financial and banking sector and domestic capital markets. The BSP engaged in these initiatives noting that financial integration is expected to boost trade facilitation and overall health of the Philippine financial sector and further contribute to the growth and resiliency of the economy. Some of the financial cooperation/integration agreements that were facilitated and negotiated by the BSP include Financial Information Agreement, Financial Services Liberalization under Free Trade Agreements (FTAs), and Financial Cooperation Agreements.

- *ASEAN Economic Community 2025*. Successfully completed the co-chairmanship of the ASEAN working committees on Financial Inclusion[133], Payment and Settlement Systems[134], and CAL[135] for the term 2018-2020. A key accomplishment in CAL is the completion of the Guideline on ASEAN Local Currency Settlement Framework (LCSF) which serves as guide for ASEAN member states in establishing bilateral local currency settlement arrangements and promote the use of local currencies for trade and investment in the ASEAN region.

- *Financial Information Agreement*. The BSP and the Monetary Authority of Singapore (MAS) jointly issued a Statement of Intent (SOI) on Data Connectivity for Financial Services on 16 November 2020 which aims for both institutions to work together and promote an environment in financial services that fosters the development of the global economy through data connectivity and cross-border flow of financial data.

- *Financial Services Liberalization under Free Trade Agreements (FTAs)*. The BSP actively participated in the negotiation and finalization of the Regional Comprehensive Economic Partnership (RCEP) Agreement Annex on Financial Services under the Trade in Services Chapter. The RCEP agreement was signed on 15 November 2020 by the RCEP participating countries' economic ministers and 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.

[133] Managing Director Pia Bernadette R. Tayag
[134] Managing Director Vicente T. de Villa III
[135] Assistant Governor Edna C. Villa

The BSP also submitted commitments and continued its participation in the Eighth 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.

- *Financial Cooperation Agreements.* The BSP engaged partner central banks through the negotiation and signing of Memorandum of Understanding (MOU) or cooperation agreements that facilitate information exchange and collaboration in the areas of supervision, payment and settlement, digital innovation, sustainable finance, and other central banking areas. The BSP concluded and/or signed the following agreements:

  - MOU with Bank Indonesia, signed on 1 February 2020, to achieve a more secure, efficient, and reliable payment system, and to promote digital financial innovation;

  - MOU with the Autoriti Monetari Brunei Darussalam (AMBD), signed on 5 February 2020, to establish a formal basis for dialogues and cooperation between the two authorities to discuss and promote monetary and financial developments in the Philippines and Brunei; and

  - MOU with the Otoritas Jasa Keuangan (OJK, also known as "Financial Services Authority"), signed on 1 September 2020, that provides a framework for dialogue and cooperation between the BSP and OJK to discuss initiatives and promote the development of sound financial regulatory mechanisms in both jurisdictions. Areas of cooperation include bank licensing and supervisory framework, consumer protection, financial inclusion and literacy, Islamic finance and financial technologies, among others.

The BSP also responded to indications of interest for bilateral cooperation with the British Embassy of Manila, Ministry of Finance Japan, Central Bank of Bahrain, National Bank of the Kyrgyz Republic, and the Bank of Russia. In addition, the BSP provided a list of potential areas of cooperation and possible capacity-building initiatives under bilateral relations with Russia, India, Norway, Turkey, France, and Italy.

Conduct of surveillance on international cooperation initiatives

The BSP played a key role in facilitating the conduct of the IMF briefings with the Philippine authorities[136] in lieu of its Annual IMF Article IV Consultation Mission due to travel restrictions. The briefings highlighted the latest growth projections of the Fund, as well as policy measures to address the impact of the pandemic. These briefings which were held on 23 June 2020 and 6 October 2020, provided an innovative venue for the IMF Mission Team and the Philippine authorities to engage on emerging and critical policy issues that emerged due to the pandemic.

[136] The agencies include the Bureau of the Treasury, Department of Budget and Management, Department of Finance, and National Economic and Development Authority.

Likewise, the ASEAN+3 Macroeconomic Research Office (AMRO) conducted its virtual Interim Visit to the Philippines on 17-28 August 2020 which involved meetings at the technical level with select BSP departments, national government agencies, and private institutions. This annual undertaking allows the AMRO Mission Team to layout the preparatory groundwork needed for the Annual Consultation Visit and deepen its understanding of the country's macroeconomic condition, risks and vulnerabilities, as well as policy challenges and responses. Further, the AMRO Mission Team also held a Post-Interim Visit briefing with the BSP primarily to share its findings and preliminary assessment of the Philippine economy and policies.

Further, the BSP closely coordinated with other Philippine government agencies and actively participated in various inter-agency committees to discuss recent international initiatives and developments as they impact on the Philippines, such as the Committee for ASEAN Economic Community (CAEC); ASEAN Matters Technical Board (AMTB); Technical Board on Asia Pacific Economic Cooperation (APEC) Matters (TBAM); TBAM-Regional Economic Integration, Trade and Investment (REITI); Philippine Working Group on Trade in Services (PH-WGS); Technical Committee on WTO Matters (TCWM); and Inter-Agency Committee on Financial Services (IAC-FS), to provide views and inputs in formulating the Philippine position on issues relating to ASEAN integration, APEC initiatives, free trade agreements, and other areas of international cooperation.

Strategic direction on international cooperation under the next normal

The magnitude of challenges posed by the global health crisis, particularly on how to mitigate the scarring effects on the economy while sustaining development, has resulted in new policy implications and demonstrates the increasing importance of international cooperation.

As the next normal unfolds, the BSP's continuing engagement with international counterparts, through the International Relations Department's (IRD) coordination efforts and integrative work, is shaping the direction of cooperation in the coming years. The crisis has not only revealed areas for potential closer cooperation but has also accelerated pressing agenda that was already underway. Knowledge and experience sharing with international counterparts expanded the realm for further innovative policies and game-changing programs. Areas such as central bank digital currency, FinTech, and digitization in the financial sector including financial inclusion are taking more attention in the discussion area and are paving the way for potential cooperative work – either bilateral or multilateral in form.

Given these evolving developments, the BSP, through the IRD, will remain at the forefront of international monetary and financial cooperation issues. Moreover, the BSP will remain steadfast in its engagements at the bilateral, regional, and multilateral levels while closely on the lookout for further developments to explore future initiatives that will redound to the benefit of the organization, in particular, and the country, in general.

Advocacy Programs

Cash Service Alliance (CSA) – Promoting circulation of fit Philippine currency

Due mainly to the challenges in currency distribution brought about by the COVID-19 pandemic, the CSA was pursued by the BSP in partnership with the Bankers Association of the Philippines to promote and facilitate the efficient circulation of fit Philippine currency needed for economic transactions. The CSA is a cash circulation mechanism that aims to enable banks to enter into a mutually beneficial agreement to service requirements for fit currency of other banks from their available cash holdings. BSP Circular No. 1099 was issued on 6 October 2020 to formalize this direct exchange of fit currency among banks and to serve as a general reference guide in drafting their bilateral agreements. For the period October to December 2020, out of the 31 banks being served by the BSP in Metro Manila, 27 banks have actively participated in the CSA to meet their respective currency requirements. As a result, 16.6 mpcs of fit banknotes amounting to ₱15.4 billion were sourced from the CSA. These represent 20 percent in value and 18 percent in volume of total fit currency requirement of banks served for said period. These also represent 62 percent in value and 54 percent in volume of fit banknotes that could have been deposited to the BSP if the CSA was not implemented.

With its successful implementation for banks servicing Metro Manila, the CSA shall be implemented in the regions starting in June 2021. With the CSA in place, banks are gradually experiencing the benefits of forming cash alliances among peers resulting in lower operating cost and support for the BSP's thrust of efficient circulation of fit currency.

Electronic Money and Basic Deposit Account (BDA)

In support of the BSP's campaign for the use of digital payments, information videos and infographics on the promotion of the use of electronic money and the BDA were developed and released by the BSP at the onset of the pandemic. These information materials, translated in Filipino, English, and Ilocano, were posted in various social media platforms such as Facebook, Twitter, Instagram and Youtube.

Consistent with the BSP's thrust to advance universal access to formal financial products and services, the information campaign highlights the wide range of use and benefits of e-money and BDA, e.g., paying bills/merchants online, sending and receiving electronic fund transfers, receiving salary from employers or payments from client, and receiving cash assistance directly from the government and donor organizations. This public information campaign mainly encourages the public to apply for a BDA or e-money, as these make banking transactions easier and faster considering the limited movements during the community quarantines.

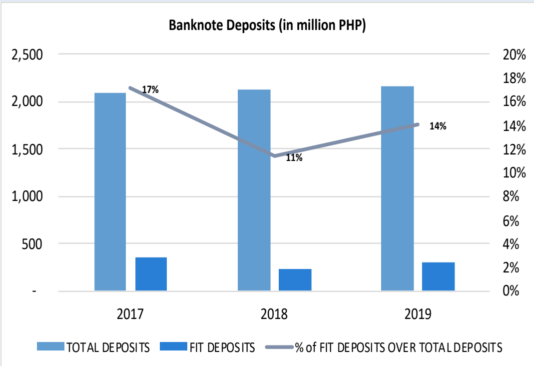
Box Article 13

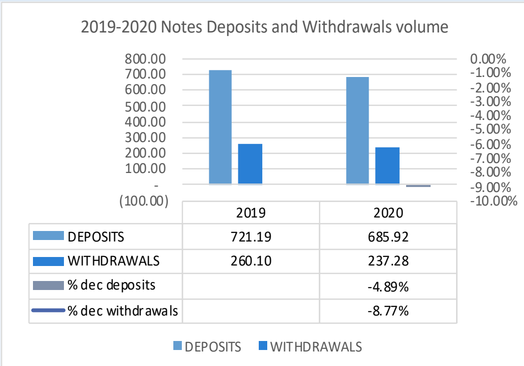
Cash Service Alliance (CSA) for the Direct Exchange of Banks' Fit Currency

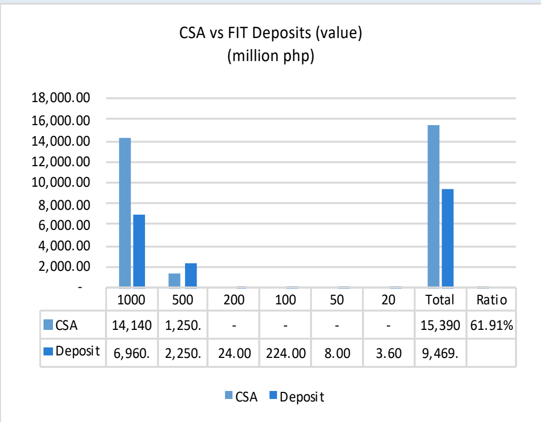
The volume of banknote deposits by banks to the BSP-CD increased by 1.59 percent in 2018 and 1.76 percent in 2019. From 2017 to 2019, fit deposits comprised 14.2 percent of total deposits on average.

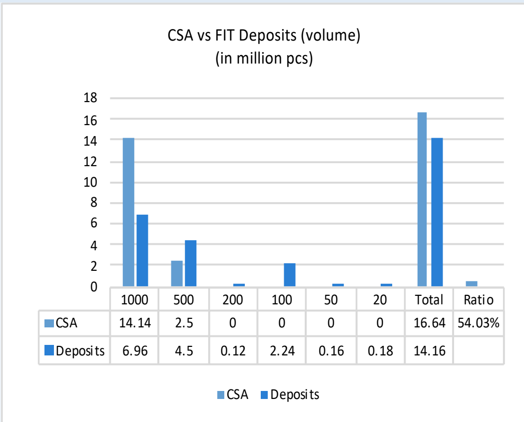
Due to the bulk of fit banknote deposits over the years, the CSA was pursued in partnership with the BAP. The CSA is a cash circulation mechanism that aims to enable banks to enter into a mutually beneficial agreement to service requirements for fit Philippine currency of other banks from their available cash holdings. BSP Circular No. 1099 was issued on 6 October 2020 to formalize the direct exchange of fit currency among banks and to serve as a general reference guide that participating banks shall adopt in drafting their bilateral agreements. The CSA aims to promote and facilitate the efficient circulation of fit currency to support economic transactions.

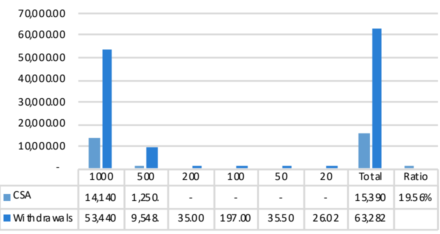
For the period October to December 2020, out of the 31 banks being served by the BSP-CD, 27 banks have actively participated in the CSA to meet their respective currency requirements. As a result, 16.6 mpcs of fit banknotes amounting to ₱ 15.4 billion were sourced from the CSA. These represent 20 percent in value and 18 percent in volume of total fit currency requirement of banks served for said period. These also represent 62 percent in value and 54 percent in volume of fit banknotes that could have been deposited to the BSP if the CSA was not implemented.



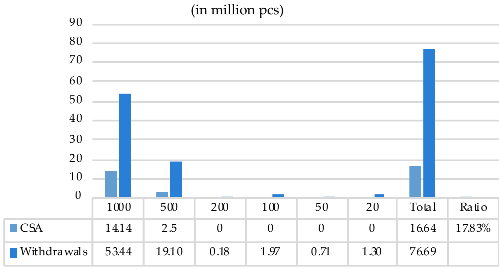








	1000	500	200	100	50	20	Total	Ratio
CSA	14,140	1,250.	-	-	-	-	15,390	19.56%
Withdrawals	53,440	9,548.	35.00	197.00	35.50	26.02	63,282	



	1000	500	200	100	50	20	Total	Ratio
CSA	14.14	2.5	0	0	0	0	16.64	17.83%
Withdrawals	53.44	19.10	0.18	1.97	0.71	1.30	76.69	

Comparing the 2019 and 2020 data on the same period of CSA implementation (October - December), the volume of deposits decreased by 4.89 percent while the volume of withdrawals decreased by 8.77 percent. Considering that the last quarter of the year is peak season for withdrawals, the decrease in the volume of deposit and withdrawal transactions may be attributed to the successful implementation of CSA as an alternative source of banks currency needs.

Outlook for CSA

The overall growth rate of banks' usage of the CSA system could be attributed to the moral suasion made for banks to participate in the CSA. The restructured service fees of CD also serves as support mechanism to the CSA, mainly due to the realization of banks that higher fees and charges are expected to be incurred if they opt to transact directly with the BSP.

With its successful implementation for banks servicing the Greater Manila Area, the CSA shall be implemented in the regions starting in June 2021. The BSP is continuing to improve banks participation in the CSA and improve the CSA process through quarterly meetings with stakeholders, feedback mechanism and consultations, and stronger partnership with industry associations.

With the CSA in place, banks are slowly experiencing the benefits of forming cash alliances among peers that results in lower operating cost and support for the BSP's thrust on the efficient circulation of fit currency.

Strategic Objective: An Inclusive Financial System

Financial Inclusion

The COVID-19 pandemic highlighted the strategic importance and practical value of financial inclusion as a national development agenda. No-frill and easy-to-open transaction accounts enabled the government to send much needed financial aid to millions of individuals and MSMEs in a safe and efficient manner. Even with the mobility restrictions, people were able to conveniently send money, pay bills and purchases with a few clicks on their mobile devices. These demonstrated the fruits of BSP's deliberate efforts in developing an inclusive digital finance ecosystem over the past few years. However, much work remains ahead to ensure a much broader swath of Filipinos and their enterprises benefit from welfare-enhancing financial services. Digital infrastructure needs to be improved to address digital divide and persistent barriers to inclusion. Adequate mechanisms to promote financial consumer protection and improve consumer outcomes need to be put in place. The pandemic strengthened the impetus and galvanized broad-based support for financial inclusion. The BSP recognized this opportunity and harnessed collective efforts to accelerate financial inclusion in 2020 and beyond.

Increasing uptake of transaction account

As of Q3 2020, the number of BDA holders in 130 banks reached 6.2 million, with aggregate amount of ₱4.5 billion. This is a significant increase from the 119 banks offering BDAs to 3.1 million depositors with ₱2.7 billion deposits in Q3 2019. Meanwhile, e-money experienced a 27.6-percent growth in the number of active e-wallets and pre-paid cards linked to e-money at 37.5 million as of Q3 2020 versus the 29.4 million level posted in 2019. This uptrend is expected to be sustained with increased preference of consumers to transact online, given the pandemic-induced physical restrictions.

Under the Financial Inclusion Steering Committee (FISC) which it chairs, the BSP continues to collaborate with various government agencies to shift from cash-based to account-based payments of wages, loans, and social benefit transfers. The BSP worked with the Department of Labor and Employment (DOLE) to encourage private sector employers to pay wages through transaction accounts, resulting in the issuance of Labor Advisory 26-20 on 3 August 2020. The BSP also provided technical assistance to the Department of Social Welfare and Development (DSWD) in the implementation of account-based distribution of the second tranche of the Social Amelioration Program (SAP). This has enabled the distribution of cash assistance to newly opened accounts of more than 9.9 million SAP beneficiaries based on figures provided by the DSWD.

Enhancing the digital finance infrastructure

Together with key stakeholders, the BSP continues to provide strong support for the development of digital finance infrastructure crucial for financial inclusion. The BSP is actively involved in the implementation of the Philippine Identification System (PhilSys) not only as the partner of Philippine Statistics Authority (PSA) in the production of the PhilSys ID cards but also as Chair of the Inter-Agency Committee (IAC) on Use Case, with financial inclusion as one of the priority use cases. The PhilSys, as a digital ID, is a key inclusion enabler as it addresses the often cited challenge of proper identification and catalyzes innovation in digital finance. As Chair of the IAC on Use Case, the BSP is supporting the creation of necessary policies, guidelines, and standards to promote PhilSys use cases, particularly toward its broad adoption in the financial sector to promote inclusion.

Recognizing the critical importance of internet connectivity in broad-based adoption of digital financial services, the BSP moved for and facilitated the FISC's endorsement of a proposed Executive Order (EO) which aims to liberalize access to satellite technology by allowing the non-enfranchised but duly registered internet service providers (ISPs) to build and operate satellite-based broadband network. This is envisioned to fast-track the development of digital connectivity infrastructure in rural areas and other areas in the country that are unserved by incumbents. In December 2020, the FISC officially endorsed to the Office of the President the issuance of the proposed EO.

Promoting access to finance for the MSME and agriculture sectors

Beyond the COVID-19 regulatory relief measures undertaken to support MSMEs and the agriculture sector, the BSP is undertaking a range of initiatives to create a more sustainable MSME financing ecosystem.

To improve the country's credit information infrastructure for small and medium enterprises (SME), the BSP and the Japan International Cooperation Agency (JICA) officially launched the Credit Risk Database (CRD) project in December 2020. The CRD is a large database of financial and non-financial information of SME borrowers on which statistical model will be developed to assess the capacity to pay and estimate the probability of default of SME borrowers. By providing banks a robust statistical credit scoring model, the project aims to promote risk-based lending, lessen the dependence of banks on collateral during credit evaluation, and improve access to finance among SMEs.

To further promote financing to the MSME and agriculture sectors, the BSP in partnership with the Asian Development Bank (ADB), has been implementing the Agriculture Value Chain Financing (AVCF) pilot project to capacitate banks to undertake value chain financing as a sustainable lending approach benefitting smallholders. Six (6) pilot banks are being assisted by ADB in conducting value chain analysis for 11 target commodities, developing and structuring the financing package for identified actors in a defined commodity-based value chain, and identifying possible support for banks and potential AVCF clients from other government value chain programs. One (1) bank has already released its first loan approval under the project.

In line with R.A. No. 10744 series 2015, the BSP continues to provide capacity building for Credit Surety Funds (CSF). Five (5) webinars on managing liquidity, governance and management, legal concepts on sureties, credit appraisal and monitoring, and loan collection and debt management were conducted by the BSP in Q4 2020 for the CSFs and attended by around 500 participants. Fifty-five CSFs have been established nationwide since the launch of the program in 2008, 13 of which have already been registered as CSF Cooperatives with the Cooperative Development Authority.

The BSP also continues to monitor microfinance which remains an important source of credit for the entrepreneurial poor. Microfinance in the banking sector has grown significantly over the years – from 119 banks offering microfinance to over 360,000 borrowers with total microfinance loans amounting to ₱ 2.6 billion in 2002 (the baseline), there are now 149 banks serving 2.1 million borrowers with total microfinance loan portfolio of ₱ 26.5 billion as of Q1 2020.

Financial Education

Financial education, the systematic process of acquiring financial literacy, enables people to better manage their financial lives and optimize the benefits of accessing financial services. It becomes more important as we onboard people who are less informed and less able to make sound financial decisions. Financial education thus forms part of the BSP's broader objective of building an inclusive financial system. Through financial education, the BSP hopes to raise generations of financially literate Filipinos confident to use a range of financial services; and capable of making prudent financial plans, building reserves, accumulating assets, managing debt, and exercising their rights and responsibilities as financial consumers. Our aim is to establish a financially healthy and economically empowered Filipino citizenry contributing productively to the Philippine economy.

Financial education partnership framework

The BSP approach to promote financial education is characterized by strategic partnerships. Its partnership framework is anchored on the principles of objective compatibility, shared responsibility, and maximized resources. Together with selected institutional partners from the public and private sectors, BSP implements scalable and sustainable programs with multiplier effects that have potential to exponentially expand outreach. The BSP targets specific audiences, establishes clear terms of engagement, and agrees on key performance indicators. The BSP collaborates in developing audience-specific modules, training trainers, and co-developing programmatic monitoring and evaluation mechanisms.

The BSP aims to contribute competencies and resources in initiatives where it can add value, leverage on existing financial education programs and infrastructures, as well as innovate learning tools and delivery methods. The BSP hopes to contribute its strengths in terms of: (a) capacity as content developers and sharers of knowledge on the economic and regulatory environment; (b) ability to convene and establish linkages with key market players and stakeholders; and (c) branding and legitimacy as an advocate of an inclusive financial system. The BSP ensures that its partnerships are devoid of potential conflicts of interest and commercialization as it clearly delineates its financial education advocacy from its function as regulator and supervisor of financial institutions.

BSP partners are government institutions, industry associations, foundations of financial institutions, and other non-profits whose advocacies on financial education, financial inclusion, or consumer protection are aligned with their corporate social responsibility objectives.

Updates on financial education partnerships forged in 2018 - 2019

The BSP continues to work with strategic partners in implementing financial education programs for personnel of the Armed Forces of the Philippines (AFP), Civil Service Commission (CSC), Department of Education (DepEd) and Department of Trade and Industry (DTI); for overseas Filipino workers (OFWs) covered by the Overseas Workers Welfare Administration (OWWA); and for beneficiaries of soldiers/police killed/wounded in action (KIA/WIA) covered by the NG's Comprehensive Social Benefits Program (CSBP). These partnerships were forged in 2018 to 2019.

Due to challenges posed by the COVID-19 pandemic, the BSP pivoted to digital delivery of fin-ed Training-of-Trainers (TOTs) in 2020. These sessions were organized for AFP (33 trainers) and CSC (37 trainers). The CSC TOT was followed by a writeshop with the objective of developing fin-ed training plans that can be deployed for CSC personnel over the medium term and for all civil servants over the long term. Meanwhile, fin-ed webinars were conducted for 45 CSBP beneficiaries and close to 600 personnel of the DTI, DTI Negosyo Center Councilors, and selected MSMEs.

The BSP, together with BPI Foundation, updated the contents of the Personal Financial Management (PFM) Modules for DepEd personnel originally crafted in 2018. While TOTs on the PFM Modules were held in abeyance, three fin-ed webinars were conducted and livestreamed via the DepEd's official Facebook page, reaching more than 300,000 total views as of end-December 2020.

The BSP, in collaboration with BDO Foundation (BDOF), produced six new fin-ed learning videos for civil servants and OFWs in 2020. Concepts for three new learning videos for AFP were also completed. As of end 2020, a total of 24 learning videos have been produced and deployed under the BSP-BDOF partnership with selected government agencies. The BSP and BDOF likewise supported DepEd's Sineliksik Video Making Contest 2020, a national competition for junior/senior high school students, which focused on the theme "Ang marunong sa pera, marunong sa buhay". The 53 winning videos generated under SINELIKSIK regional and national competitions will form part of the DepEd's portfolio of fin-ed resources.

Once fully institutionalized, the BSP's fin-ed partnerships are envisioned to reach 140,000 personnel in the armed forces, 1.8 million civil servants including more than 800,000 teachers, 29 million learners who will go through the K-12 curriculum, 1.4 million MSMEs, and 14 million Filipinos living and working abroad.

New financial education partnerships forged in 2020

The BSP forged partnerships with the Bureau of Fire Protection (BFP) and the Philippine National Police (PNP) in 2020 to include financial education in the training programs for their personnel. The engagement kicked off with a four-day virtual fin-ed TOT in September 2020 for approximately 80 trainers representing the two agencies. TOT topics included financial planning, debt management, basics of investing, prevention of financial fraud and scam, and financial consumer protection. One TOT session was devoted to the importance of having a Measurement and Evaluation (M&E) Framework to assess the progress and effectiveness of fin-ed programs, delivered with support from the ADB.

The BSP likewise entered into an MOU with the DSWD, paving the way for the development of learning modules on financial consumer protection, targeting the 10 million beneficiaries of the government's Pantawid Pamilyang Pilipino Program (4P).

To strategically reach 1.9 million fisherfolk nationwide, the BSP partnered with the Bureau of Fisheries and Aquatic Resources (BFAR) and the United States Agency for International Development (USAID) to create a fin-ed game for fisherfolk that embeds key messages on personal financial management and sustainable fishing. The fin-ed game was piloted in December 2020 and will be further refined in preparation for the TOTs and national rollout in 2021.

Together with the National Economic Development Authority (NEDA), Insurance Commission (IC), Philippine Deposit Insurance Corporation (PDIC), Securities and Exchange Commission (SEC), and Philam Foundation, the BSP is working with the Commission on Higher Education (CHED) in crafting a Personal Finance 101 course module that will be proposed for inclusion in the curriculum for secondary education.

The BSP also formalized its partnership with Maybank Foundation in July 2020 for the continued implementation of CashVille Kidz, Maybank Foundation's financial literacy program for children in six ASEAN countries[137] including the Philippines. The BSP participated as member of the judging panel for the Annual CVK Financial Education Excellence Awards held in November 2020. The Awards recognize schools, educators, and students from CVK participating schools who have displayed dedication and extraordinary effort in practicing and championing financial literacy.

Digital Literacy Program (DLP)

The BSP launched DLP in 2020 to enhance consumer trust and confidence in the digital finance ecosystem and increase the usage of digital financial services (DFS). The first phase was the *#SafeatHome sa E-Payments* campaign, encouraging consumers to use e-payment services such as PESONet and InstaPay. This was followed by the *#E-safety is Eveyone's Responsibility* campaign, which

[137] Cambodia, Indonesia, Malaysia, Myanmar, Singapore, and Philippines

emphasized that cybersecurity is the lookout of all—from financial regulators like the BSP to the BSP-Supervised Financial Institutions (BSFIs) and other financial service providers, businesses, and individuals. With support from USAID, the BSP produced campaign videos on how to use e-payment services such as PESONet and InstaPay, and how to protect oneself from cyber scams, which were disseminated to the general public through the BSP's official social media accounts, reaching more than 38,000 total views. Campaign assets also included social media posts and press releases, and a webinar on cybersecurity which garnered more than 14,000 views.

Financial Education Stakeholders Expo

The BSP virtually conducted its third Financial Education Stakeholders Expo on 26-27 November 2020. The expo sessions focused on cybersecurity and digital literacy and financial resilience—two timely topics as the pandemic tested the Filipinos' ability to cope and thrive amid an increasingly digital environment. This was the first time that the expo sessions were conducted virtually and livestreamed on the BSP Facebook page, reaching an online audience of more than 15,000 and with over 300 shares as of end-December 2020.

Pisolit on Facebook, Instagram, and Twitter

To cater to today's millennial audience and Filipino netizens, the BSP continues to manage *PisoLit*, a fin-ed page on Facebook which provides relatable and practical financial tips and resources, scam prevention reminders, and consumer protection advisories. Since its launch in 2017, *PisoLit* has grown its online community to almost 56,000 followers as of end-December 2020. *PisoLit* has likewise expanded its presence to Instagram and Twitter in 2020 to further reach out to the younger segments of the population.

Knowledge Level Survey (KLS) for Financial Sector Forum (FSF) member agencies

The FSF—which consists of the BSP, IC, PDIC, and SEC—through its Consumer Protection and Education Committee (CPEC), conducted a KLS among its member agencies in October 2020 to assess the financial literacy level and financial behaviors of its employees. Topline results indicated that employees from all four agencies are highly financially literate with an average score of 87 percent.

The KLS results will be used as basis in institutionalizing and/or enhancing fin-ed sessions for the employees as part of each agency's human resource (HR) development program. Particular focus will be given on improving employees' investing habits as well as knowledge on compounding interest, inflation, interest rate, risk diversification, and risk-return trade-off.

Consumer Protection

Recognizing that consumer trust and confidence in the financial system and fair treatment of financial consumers can lead to financial inclusion, sustainable economic growth and financial stability, the BSP is developing a market conduct framework that seeks to create an enabling environment in which financial consumers can benefit from the collective action of stakeholders on market conduct practices such as transparency and disclosure, fair and responsible treatment of financial consumers, suitability of products, protection of client information and effective recourse. The Market Conduct Framework targets to get insights on consumer voice and behavior as well as prioritize proactive actions which are evidenced based to prevent, among others, consumer protection risk from escalating. Information and insights culled from market conduct activities using various market monitoring tools will also feed into policy development and serve as inputs to the broader supervisory framework of BSFIs. Groundwork for partnerships with global experts are also being undertaken to develop a market conduct framework and build capacity of personnel to gather and optimize use of complaints data.

To ensure timely consumer assistance, even during the pandemic-induced lockdowns, the BSP enhanced its Consumer Assistance Mechanism (CAM) with the launch of BSP Online Buddy (BOB), a chatbot with 24/7 availability, accessibility via webchat, Facebook messenger, and text messages, and capability to process complaints received in English, Filipino, and Taglish. Through the regular CAM and BOB, the BSP processed more than 23,275 concerns from the public as of Q4 2020. Approximately 12 percent of these concerns pertain to the implementation and availment of the mandatory grace period for loans under the Bayanihan to Heal and Recover Acts (Bayanihan 1 and 2).

To provide a clear market conduct mandate for financial regulators and further institutionalize financial consumer protection standards, the BSP continued to advocate for the passage of the Financial Consumer Protection Bill by providing technical support and actively participating in the committee hearings conducted by the House of Representatives (HOR), Committee on Banks and Financial Intermediaries. The bill already passed in third reading in the HOR and is currently pending in the Senate Committee on Banks, Financial Institutions and Currencies.

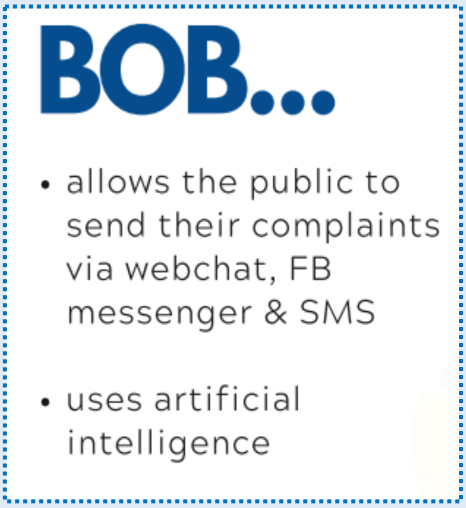
Box Article 14

Systems Innovations for the Public for Better Credit Access for SMEs

Digitalization is a key enabler for financial inclusion, as well as improved efficiencies and integrity in the financial system. As it advocates for digitalization of financial services, the BSP is also undertaking initiatives that aim to harness digital innovations to achieve its strategic objectives for financial inclusion and consumer protection. Thus, in 2020, it launched two data and technology-driven initiatives: the BSP Online Buddy (BOB) and the Credit Risk Database (CRD) project.

The BSP Online Buddy (BOB)

With the BSP's initiative in using Artificial Intelligence (AI) and Natural Language Processing (NLP), the chatbot promotes financial innovation and consumer protection with speed, efficiency, and convenience to the public. This innovation in complaints handling is consistent with our commitment of bringing BSP closer to the people.



BOB, or the BSP Online Buddy, was developed to significantly enhance the BSP's Consumer Assistance Mechanism (CAM) and effectively address the inefficiencies of the CAM, which previously heavily relied on manual process. By enabling the public to instantly send their concerns through a webchat in the BSP Website, SMS, and social media (Facebook messenger) through their smart or mobile phones, BOB gives the BSP's CAM a wider reach. It also reduces the need to file complaints in person, a challenge which has become more pronounced during the COVID-19 pandemic. BOB has the ability to understand complaints and provide adequate responses in English or Tagalog, making it easier for consumers to voice their concerns in the language that they may prefer.

With its enhanced complaints management system and the ability to gather supporting documents of the complaint, BOB automatically escalates the consumer's concern to the BSP-Supervised Financial Institution (BSFI) involved for appropriate action, providing a faster turnaround time and effectively reducing the manual process of consumer assistance. BOB also has a feature that can track the status of complaints which allows consumers to monitor their complaints filed with BSP and for BSP's consumer specialists to make the necessary follow-up to the unresponsive BSFI. To also educate financial consumers about financial products, frauds and scams as well as BSP's mandates and services, BOB can also answer queries through its Frequently Asked Questions (FAQs) feature.

In addition, the chatbot's analytics facility provides statistical and analytical functionalities that provides the BSP management valuable insight into customer experience, banking practices, and market conduct. This will prove beneficial in identifying trends of financial consumer threats and be able to proactively issue the appropriate countermeasures to address them.

BOB's goal, in line with the BSP's consumer protection mandate, will fundamentally strengthen the BSP's consumer protection and market conduct activities and provide support for the BSP's financial inclusion initiatives. Ultimately, BOB will help build trust in the Philippine financial system, while also promoting financial education and awareness, financial hygiene, and responsible personal financial management. From its launch until 31 December 2020, BOB has had 25,120 chats/conversations with the public. BOB has likewise referred to BSFIs 2,980 complaints which is about 13% of the total complaints received by the BSP's CAM in 2020.

The Credit Risk Database (CRD) Project

In December 2020, the BSP and the Japan International Cooperation Agency (JICA) officially launched the CRD project to support SMEs. Representatives from JICA, Industry associations, and officers of the 17 pioneer participating banks participated in the virtual launch.

The project is part of BSP's efforts to promote access to finance of target priority sectors through and beyond the pandemic. The key deliverables of the project are the large-scale database of anonymized financial, non-financial, and default-related data of SMEs submitted by the pioneer participating banks, and the statistical scoring model to determine the probability of default of an average SME borrower in a particular group of similar attributes. By providing banks with a robust underwriting tool, the CRD is envisioned to be a critical credit information infrastructure that will help address banks' limited understanding of the risk profile of SME borrowers which contributes to high dependence on collateral, high loan pricing, and outright rejection of loan application.

The implementation of the CRD is expected to improve access to finance of SMEs in the country as it has in Japan, where it was pioneered. The Philippines is the first country outside Japan to adopt the CRD. In Japan where the CRD has been successfully introduced in 2001 and extensively used in 2006, the average annual percentage increase in SME loans from 2006 to 2019 grew to 2.63 percent compared to a 0.30 percent from 2001 to 2005. Furthermore, the percentage of guaranteed loans in Japan without collateral has significantly increased from 62.44 percent in 2001 to 91.90 percent in 2014. The CRD also improved the guarantee policy for SMEs in Japan such that instead of a fixed rate, the guarantee charging rates are based on the credit risk of the SME making the charging system equitable (CRD Association and CRD Business Support Ltd., 2020).

The CRD Project Implementation Team (PIT), comprised of BSP's CRD Project Implementation Unit and a team of experts from CRD Japan, has started the data collection from two pioneer participating banks in December 2020. Data collection is expected to be completed in July 2021, which will then immediately prompt the start of credit scoring model development. The CRD credit scoring services is targeted to be launched by the first quarter of 2023.

A Joint Coordinating Committee (JCC) has been established to facilitate inter-organizational coordination toward the accomplishment of the project's key deliverables and targets. The JCC is composed of representatives from relevant government agencies, industry associations, and JICA. Its first meeting is scheduled in March 2021.

Investor Relations

Amid the challenges in 2020—e.g., the Taal Volcano eruption and the COVID-19 pandemic—it was important to assuage concerns on the ability of the Philippines to weather the storm. The Investor Relations Office (IRO) intensified its communication program to deepen awareness of key stakeholders—comprised of credit rating agencies (CRAs), institutional and other investors, analysts, and international media—of the economy's fundamental strengths and the crisis-response measures of the BSP and the national government. Doing so helped maintain confidence on the country's recovery prospects.

Aided by the IRO's communication campaign, the Philippines was able to maintain its investment grade credit ratings with all international debt watchers (Fitch Ratings, Moody's Investors Service, and S&P Global). The Philippines also earned credit rating upgrades from regional CRAs (Rating and Investment Information Inc. and Japan Credit Rating Agency). Amid a wave of credit rating downgrades and negative outlook revisions worldwide, the Philippines' ability to keep its investment grade credit ratings intact helped the country access financing from domestic and international financial market at favorable costs. This was helpful in the government's efforts to fund COVID-response measures.

List of Activities and Accomplishments in 2020:

(a) Credit rating agency engagements. With ample information obtained from materials and engagements provided and arranged by the IRO, CRAs were one in saying that the Philippine economy has sufficient buffers that will allow it to recover over the near term. There was also consensus among CRAs that the economy's medium-term growth prospects remain strong, along with its ability to return to fiscal consolidation path post-pandemic. As such, CRAs agreed that the sovereign's ability and willingness to service its financial obligations on time were intact.

The Philippines was able to maintain its investment grade credit ratings with international CRAs (Fitch Ratings, Moody's Investors Service, and S&P Global). The Philippines also bagged upgrades from regional CRAs Rating and Investment Information Inc. (R and I) and Japan Credit Rating Agency (JCRA). All the ratings were assigned a "stable" outlook, which indicated absence of factors that could change the ratings over the near term.

Philippines' Sovereign Credit Ratings as of December 2020:

Fitch	BBB/stable
Moody's	Baa2/stable
S&P	BBB+/stable
R&I	BBB+/stable *(Note: Up by a notch from BBB/stable in 2019)*
JCRA	A-/stable *(Note: Up by a notch from BBB/stable in 2019)*

The IRO arranged a total of 71 meetings for the above CRAs in 2020. The sovereign rating analysts met with officials from the Bangko Sentral ng Pilipinas (BSP), Department of Finance (DOF), Department of Budget and Management (DBM), National Economic and Development Authority (NEDA), Department of Trade and Industry (DTI), Bureau of the Treasury (BTr), Bases Conversion and Development Authority (BCDA), and House of Representatives (HOR).

The IRO prepared briefing materials for government officials who attended the meetings, and facilitated the conduct of preparatory briefings for them. These helped ensure consistent messaging on the strengths and prospects of the Philippine economy in their meetings with the CRA analysts.

Discussion topics during the meetings included the government's Four Pillar Socioeconomic

Strategy against the COVID-19 pandemic, monetary policy actions and financial relief measures implemented by the BSP to buoy up market confidence and to ensure efficient functioning of the financial system amid a critical time, and latest economic and inflation outlook for the short and medium term.

(b) Technical assistance to offshore bond issuances of the Bureau of the Treasury (BTr). The IRO provided technical assistance to the national government's fund-raising activities, particularly the offshore bond issuances by the BTr. The IRO also prepared PowerPoint presentations on the Philippine economy that were distributed to portfolio investors, drafted/edited the opening statement of the BSP representative and the national treasurer for the conference calls with investors, and drafted proposed responses to investor questions.

Aided in part by the IRO's assistance, the BTr was able to raise funds and, in some cases, even at historic low interest rates, via issuances of dollar- and euro-denominated bonds offshore. This helped government to raise funds for its COVID-response measures at affordable cost.

(c) Investor briefings. The IRO arranged virtual briefings wherein various portfolio investor groups from Asia, North America, and Europe were provided with latest updates on the Philippine economy and policy measures to address the pandemic. A total of 43 investor briefings were arranged by the IRO, ranging from small groups of 20-30 participants to big groups of 250-350 participants. Small group briefings were attended by C-suite executives and investment decision makers, while large group briefings were attended by fund managers, portfolio investors, economists, strategists, researchers, and analysts. These briefings were arranged in coordination with institutions such as Citibank, The Hongkong and Shanghai Banking Corporation Limited (HSBC), Union Bank of Switzerland (UBS), Credit Suisse, Sumitomo Mitsui Banking Corporation (SMBC) Nikko Securities, Nomura Holdings, Inc., and Bank of Tokyo-Mitsubishi, Ltd. (MUFG), among others.

Besides logistical preparations, the IRO also handled substantives requirements of these briefings, especially for engagements of the BSP Governor. It also prepared the Governor's speeches and PowerPoint slides. The materials carried the BSP's messages, such as on the policy response measures to address the impact of COVID-19 on livelihoods and the economy at large, as well as the strengths of the Philippine economy going into the global COVID crisis and the economy's favorable prospects post-pandemic. The IRO drafted a total of 13 speeches for the BSP Governor's engagements. In addition, it also prepared a presentation on the Philippine economy that was distributed to attendees of the investor briefings.

The IRO also collaborated with the DOF for the conduct of the Pre-State of the Nation Address Economic and Infrastructure Forum. With the theme, "Regaining Momentum, Accelerating Recovery in a Post-COVID World," the first virtual economic and infrastructure forum was held on 08 July 2020. The event was graced by Finance Secretary and Economic Cabinet Cluster Head Carlos G. Dominguez III, Public Works and Highways Secretary and Infrastructure Cabinet Cluster Head Mark Villar, and BSP Governor Benjamin Diokno, among a long list of government economic and infrastructure officials.

(d) Engagements with international media. Media engagements in 2020 included facilitation of interviews requested by top-tier media outfits as well as pitching of interviews, mostly for the BSP Governor. It also included submission of opinion-editorial pieces carrying the BSP Governor's byline to select media outfits (Nikkei and South China Morning Post), as well as responding to data requests by journalists.

Media engagements arranged by the IRO totaled 31, including interviews with the BSP Governor and other BSP officials by top-tier outfits such as Bloomberg, Reuters, Financial Times, and Nikkei, among others. Worth noting are the podcast interviews of the BSP Governor with The Banker and Macro Musings, which allowed the BSP to reach its target audience through a medium besides the traditional media platforms. The IRO also prepared seven press releases, mostly on the affirmation of the Philippines' investment-grade credit ratings by the various CRAs.

Media engagement activities helped send out the messages about the strengths of the Philippine economy to target audience, including CRAs and portfolio investors.

(e) Social media activities. The IRO's Facebook followers more than doubled to 10,100 as of end-2020 from 5,010 as of end-2019. Over the same period, its Twitter followers rose to 1,641 from 1,492. Its social media accounts, which carry the name "EconomyPH" and which carry posts about various updates on the Philippine economy, helped in communicating strengths of the economy to domestic and international stakeholders.

(f) Gold Standard Award (GSA). **The** IRO bagged the Gold Standard Award 2020 (GSA) – one of the most prestigious awards in the communications industry in Asia – for the *Country and Trade Promotion category.* Its bid outcompeted the Consumer, Health and Food Executive Agency of the European Union and 'Future of Asia' campaign by McKinsey.

In addition, the IRO was also shortlisted for two other categories: (i) Financial Communications and (ii) Media Engagement.

The accolade recognized the effectiveness of IRO's communication campaign in meeting the objective of promoting the Philippine economy to stakeholders, more so during a critical time amid the global COVID-19 crisis.

Strengthening Good Governance

The BSP as an institution is staunchly committed to good governance. Adherence to governance principles and standards has been articulated as one of BSP's corporate initiatives since 2009. Owing to the commitment that it is a shared responsibility of every BSPer, the BSP embarked on the development of a principle-based governance framework, and in 2010, conducted a system-wide governance assessment leading to the development and implementation of a three-year governance roadmap.

The practice of good governance was pushed further and became part as one of the four strategic themes of the 2012-2017 BSP Strategy Map. This is in keeping with the very core of the BSP's governance paradigm, which is "a shared responsibility among all, to ensure that integrity; fairness; independence; accountability and transparency; ownership and voice; strategic direction' and responsiveness are woven into our work ethic, allowing for the best possible service to our nation and to our countrymen."

The BSP has further completed two more governance assessments in 2014 and 2018, and consequently implemented the succeeding governance roadmaps. Among the major accomplishments following the implementation of the three-year governance roadmap include the awareness of the employee's charter and the institutionalization of the citizen's charter. Other major programs identified in the governance roadmap for 2017-2019 were continued with the leadership of Governor Benjamin E. Diokno in February 2018.

Proceeding from well-grounded governance mechanisms, Governor Diokno reaffirmed his commitment to the policy agenda defined for the BSP's core mandates, which entails remaining resolute on achieving our vision of a BSP that is globally recognized, supports a strong economy and promotes a high quality of life for all Filipinos. The journey continued as the BSP translated its strong commitment toward good governance principles to operative initiatives and programs of the amended 2020-2023 BSP Strategy Map,[138]

[138] Approved under Monetary Board (MB) Resolution No. 178 dated 30 January 2020.

which carries the overarching theme of *Bringing BSP Closer to the Filipino People.*

The key success factors of the refreshed strategy map are defined through four strategic objectives (SOs), outcomes of which are ultimately directed to the BSP's stakeholders. Institutional and individual commitments were reinforced guided by the amended strategy to sustain maturity in governance mechanisms across the five governance principles. The revised strategy map also requires putting in place enhanced targets and measures towards strategic objectives of: (1) well-managed inflation (SO1); (2) safe, efficient and inclusive payment and settlement systems (SO2); (3) sound, stable and resilient financial system (SO3); and (4) an inclusive financial system (SO4), and executing strategic programs which include: (1) strategic communication; (2) sustainable central banking; (3) digital transformation; and (4) branch rationalization to support the achievement of the defined stakeholder outcomes.

A number of notable action plans relevant to the execution of the strategic objectives and strategic programs of the 2020-2023 BSP Strategy Map remain supportive of the governance principles:

For a central bank, credibility is necessary to anchor appropriate public sentiments to monetary and financial policy to make these effective. SO1 (well-managed inflation) recognizes the need to build further the BSP's credibility so that the Filipino people will take its monetary policy stance seriously. Well-managed inflation, coupled with the trust and confidence of the public with the BSP, will help stabilize risks and threats in the economic system. Included in the SO1 execution team's action plans is the full automation of economic surveys and data submissions for the continuing conduct of information campaigns. This includes the utilization of innovative communication platforms for key stakeholders/data sources to emphasize the value of shared information/data in the formulation of monetary and financial policies.

As a financial supervisor and regulator, the BSP requires good governance from supervised entities. Banks and financial institutions must comply with the highest corporate governance standards for these are the very foundation of a sound, stable, and resilient financial system (SO3). RA No. 11211 (An Act Amending RA No. 7653, otherwise known as the New Central Bank Act), widens the coverage of the BSP-Supervised Financial Institutions (BSFIs) to include money service businesses and credit granting businesses, policies, instruments, and programs to bring financial technology innovations to more Filipinos under a robust framework. Strategic initiatives are already being considered in formulating robust policies and guidelines to steer supervised institutions toward greater transparency and accountability. The measures and targets of SO3 remain committed to strengthen risk governance, leverage on technology, achieve greater and broader access to financial services, uphold the integrity of the financial system, safeguard the interest of the public and accelerate capital markets reforms.

Strategic communication as one of the strategic programs formed part of the 2020-2023 BSP Strategy Map to manage a meaningful engagement with stakeholders. The BSP Enterprise-Wide Communication Plan (EWCP) was launched in 2013, which classified information that may be publicly disclosed and ensured the free flow of information on matters of public concern within the BSP. The BSP-EWCP is being reviewed and enhanced under the strategic program to further strengthen communication protocols for media engagement and crisis management.

The BSP has also recognized risks arising from climate change, which could result in significant societal, economic, and financial risks and stability concerns. In response, on 19 March 2020, the MB approved under Resolution No. 415, the Sustainable Finance Policy Framework that sets out the expectations of the BSP from regulated banks to safeguard the financial system by integrating sustainability principles in the governance and risk management framework of banks. This initiative forms part of the Sustainable Central Banking Strategic Program.

Other Action Plans

Pursuant to MB Resolution Nos. 974 and 998 dated 30 July 2020 and 06 August 2020, respectively, the amended terms of reference of MB-Level Advisory Committees was issued under Officer Order No. 1038, series of 2020. Part of the MB-Level Advisory Committees is the Governance and Ethics Advisory Committee (GEAC). The GEAC's main responsibility is to provide policy advice on areas of BSP corporate governance and ethical standards.[139] Among the significant recommendations of the GEAC that are being considered are the enhancement of the BSP Performance Management System, and the presentation of the communication plan for the BSP Culture Enhancement Program.

Strengthening the adherence of the BSP employees to the constitutionally enshrined principle that public office is a public trust, certain chapters of the BSP Code of Ethics are being enhanced to ensure that BSP personnel are "accountable at all times and that the BSP looks upon the work attitude and performance of its personnel and inculcates in them the values and norms of conduct that would ensure their oneness with and dedication to the BSP's vision and mission."[140] The Human Resource and Organization Development champions the activities related to the awareness and practice of the principles of the code.The issuance of the Implementing Rules and Regulations of the BSP on Disclosures of Wrongdoing is also in pursuit of the policy to promote good governance, transparency and accountability; foster an organizational culture that emphasizes courage, integrity and honesty in the workplace; deter misconduct within the institution; and facilitate the detection and prosecution of actions that are prejudicial to public interest.[141] Having no existing case of wrongdoing falling under the rules is a strong indication of a legal mechanism in place and employee's adherence to the principles of said rules.

The review of the 2020-2023 BSP Strategy Map also recognized that strategies are best driven by organization capabilities. Needless to say, strategic issues explicitly stated in the BSP Strategy Map are more difficult to manage without the vital resource requirements. One of the initiatives being pursued for the judicious and responsible management of financial resources is the review and implementation of the Integrated Financial Management Information System (IFMIS).

[139] The GEAC aims to provide advice to the Governor and/or MB in fulfilling their corporate governance responsibilities and maintaining the highest ethical standards at the BSP. It shall assist in ensuring the observance of the BSP's sound corporate governance principles and the compliance with the Revised Code of Ethics for BSP personnel which is consistent with RA No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees dated 20 February 1989) and relevant Civil Service rules and regulations.

[140] Preamble, The Revised Code of Ethics for Personnel of the BS P, Office Order No. 0486, Series of 2014.

[141] Section 1, of the Implementing Rules and Regulations of the Bangko Sentral ng Pilipinas on Wrongdoings, Office Order No. 0484, Series of 2014.

Box Article 15

The BSP's Sustainability Journey

"Climate change is happening now!"[142] This is a warning coming from the Philippine Atmospheric, Geophysical and Astronomical Services Administration (PAGASA). The same message resonates globally calling for radical and immediate action from both private and public sectors, households, enterprises, authorities, and governments. Global leaders have recognized the urgency to address climate change, adopt the United Nation's Sustainable Development Goals (SDGs), and adhere to the commitments under the Paris Climate Agreement. Central banks and supervisors recognize that climate- and environment-related risks are a source of financial risk and therefore fall within their regulatory remit to ensure stability and resiliency of the financial system.

1. The Philippines' Case

Owing primarily to its geographic location, the Philippines has been identified as one of the most vulnerable countries to climate change and natural hazards. Climate projections indicate that Filipinos will be experiencing more frequent dry days and heavy daily rainfall.[1] These scenarios trigger varied issues that could endanger different sectors, infrastructures, health, and human settlements, among others. Based on a study conducted by the Asian Development Bank (ADB), climate inaction costs an average of 5.7 percent[143] of gross domestic product (GDP) considering the impact related to health and ecosystem. This, along with other studies and developments related to climate change, all point to the urgency to make decisive and well-coordinated actions now to promote sustainable development and economic growth.

2. The Financial System's Response

Section 3 of The New Central Bank Act provides that "the primary objective of the BSP is to maintain price stability conducive to a balanced and **sustainable growth of the economy and employment**". This underscores the pivotal role of the BSP in promoting sustainable growth. In this respect, the BSP has adopted a holistic approach involving key enablers in pursuing this agenda, the supervised financial institutions, relevant government agencies, and other regulators in the financial sector.

Two-pronged approach

The BSP implemented a two-pronged approach to promote sustainable finance in the banking system. The first approach is on *"strengthening capacity building and awareness initiatives"* while the second is on *"mainstreaming sustainable finance through the issuance of enabling regulations."*

To deepen its understanding on sustainable finance as well as environmental and social (E&S) risks, the BSP continued to participate in global and regional initiatives to mainstream sustainable finance. At the same time, the BSP is a member of the following networks: Sustainable Banking Network (SBN); the Central Banks and Supervisors Network for Greening the Financial System (NGFS); Executives' Meeting of East Asia-Pacific Central Banks Working Group on Banking Supervision (EMEAP-WGBS); Alliance for Financial

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[142] Retrieved from: PAGASA (dost.gov.ph)
[143] Mean cost for the four assessed countries, Indonesia, Philippines, Thailand, Viet Nam. Southeast Asia and the Economics of Global Climate Stabilization (adb.org)

Inclusion (AFI); and the ASEAN Task Force on the Roles of ASEAN Central Banks in Managing Climate and Environment-related Risks (ASEAN Task Force).[144,145]

In 2016, the BSP in collaboration with the International Finance Corporation (IFC), conducted a scoping research to better understand how to best embed environmental and social risk management (ESRM) and sustainability principles in the business decisions of financial institutions. The study revealed that there is moderate awareness and very limited experience on the management of E&S risks. It is in this reason that the BSP has forged partnerships with several stakeholders and interest groups such as the British Embassy Manila[1], WWF Philippines, Allotrope Partners,[146] to increase awareness and strengthen capacity of both supervisors and supervised financial institutions.

Meanwhile, the BSP subscribes to the principle that meaningful reforms should be shaped by regulations that provide ample flexibility, promote growth, and encourage responsible innovation, and at the same time address attendant risks in a manner proportionate with the size, risk profile, and complexity of operations of the financial institution. Governed by said principle, the BSP is issuing sustainability-related guidelines in phases.

By April 2020, Circular No. 1085 or the Sustainable Finance Framework[1] (Framework) was issued to adopt the full spectrum of sustainable finance following the United Nations Environment Programme's (UNEP) schematic diagram. The Framework sets out the broad expectations on the integration of sustainability principles, including Environmental, Social, and Governance (ESG) aspects in the corporate and risk governance frameworks as well as in the business strategies and operations of banks. The issued Framework leverages on existing corporate and risk governance standards earlier set out by the BSP. Subsequent policy issuances will provide detailed guidelines in the following areas: (i) management of climate change and other environmental risks in relation to other key risk areas such as credit,[147] market, liquidity, and operational risks; (ii) climate stress testing or scenario analysis; (iii) prudential reporting; (iv) disclosure requirements; and (v) potential regulatory incentives for banks.

In relation to climate stress testing, the BSP conducted a preliminary study on the "Impact of Extreme Weather Episodes on the Philippine Banking Sector: Evidence Using Branch-Level Supervisory Data".[148] This study confirms the effects of severe weather conditions on the performance of the banking sector such as deterioration in branch-level loan growth and loan quality, contraction in savings and time deposit liabilities, and increase in non-performing loans following extreme rainfall events. The BSP intends to expand said study as it further builds technical skills of supervisors on climate stress testing and scenario analysis. Parallel to this, the industry associations in collaboration with the WWF Philippines are developing a climate risk assessment framework focusing on the impact of physical risk being the main climate change risk faced by the country.

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[144] The creation of such Task Force is in response to the proposal of the ASEAN Senior Level Committee (SLC) on Financial Integration to undertake a study on how ASEAN Central Banks can help advance the sustainability agenda, as deliberated and endorsed by the ASEAN Central Banks Deputies and Governors.
[145] https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=5624
[146] Through the Greening the Bank initiative
[147] The IFC is providing technical support on the development of the granular expectations on managing Environmental and Social (E&S) risk in relation to credit risk.
[148] The published study is available at: http://www.bsp.gov.ph/downloads/Publications/2020/WPS202003.pdf

First mover banks

Before the issuance of Circular No. 1085 on the Sustainable Finance Framework,[149] first mover Philippine banks have already taken significant strides in integrating sustainability principles in their business operations. These efforts started with lending to renewable energy and energy efficiency solutions/projects accompanied by offering technical advice to borrowers. The lending programs were then expanded to cover green financing to small and medium enterprises (SMEs) and climate resilience and sustainable agriculture projects, among others. As these banks developed the expertise and gained maturity on the adoption of sustainability principles, they have likewise adhered to sustainability and impact reporting requirements, and issued green, social or sustainability bonds.

BSP Sustainable Central Banking Program

In inspiring the financial system to embrace sustainability principles, the BSP sets an example by "walking the talk". In particular, the BSP has adopted the Sustainable Central Banking (SCB) Program as part of its Strategy Map for 2020-2023. Through this strategic step, the BSP will endeavor to foster environmentally responsible and sustainable policies and work practices.

Meanwhile, the BSP has pursued several green initiatives prior to the adoption of the overarching SCB Program. In the area of banking supervision, regulations have been issued that focus on corporate and risk governance, including stress testing, as well as regulatory reliefs provided to banks affected by natural calamities. The BSP likewise participated in the green bond fund launched by the Bank for International Settlements (BIS) as part of sustainable investing in reserve management. On building and facilities management, energy efficient mechanisms such as solar panels, light-emitting diode (LED) lamps, inverter technology and non-depleting ozone refrigerants in air-conditioning systems have been installed. The MB Paperlite Facility was also implemented to reduce paper usage and bulk submission of reports to the board.

The initiatives under the SCB Program are being implemented in phases considering the program entails a comprehensive assessment of operations and practices. The *first phase* will cover the building of awareness and understanding on sustainability principles across the organization. The BSP has established partnerships with multilateral development agencies and other interest groups for the conduct of targeted and ladderized capacity-building workshops for BSP officers and staff.

The *second phase* will cover the conduct of: (i) vulnerability assessment on the potential impacts of climate change and other environmental risks in the BSP branches and offices; and (ii) self-assessment exercise to determine the effect of climate change and other environment related factors to the BSP operations and vice-versa. This will also include stock-taking of existing mitigating measures and identification of specific goals and priority plans for the transition of BSP units. At the same time, BSP-wide technical working groups were created to conduct the two assessment exercises.

The results of the assessment exercises and the existing green initiatives will serve as the building blocks for the *third phase* of the program which pertains to the development of the BSP's Roadmap for Sustainable Central Banking. The Roadmap will provide the strategies and key milestones in mainstreaming "green" and sustainable principles and practices within the BSP organization.

[149] This was embodied under Circular No. 1085 https://www.bsp.gov.ph/Regulations/Issuances/2020/c1085.pdf

Inter-agency collaboration

The blueprint of championing sustainability in the financial system was expanded when the financial sector regulators and authorities agreed to incorporate sustainable finance as one of the strategic priority areas in the Financial Sector Strategy Roadmap being developed under the auspices of the Financial Sector Forum (FSF). [150]

Moreover, the Department of Finance and the BSP along with key agencies in the government have collaborated and created an inter-agency collaboration that will institutionalize and facilitate the implementation of a roadmap for sustainable finance. The inter-agency group referred to as the "Green Force" is looking forward to adopting enabling policies that will promote sustainable finance. It also aims to facilitate investments in public infrastructure and mobilize funds to finance green or sustainable projects through the development of a principles-based taxonomy.

Pursuing sustainability goals is a long journey and more initiatives are underway. This complex task will surely be achieved with the coordinated efforts of the financial sector authorities as well as the participation of both public and private sectors.

[150] This is an inter-agency voluntary body comprised of the BSP, Securities and Exchange Commission, Insurance Commission and Philippine Deposit Insurance Corporation.

Institutional Capacity Building

The year 2020, which has been characterized by the global pandemic, posed unknown and unexpected challenges to organizational arrangements such as in human resource (HR) management, information technology (IT), and communication strategies. Suddenly, the future of work is here. In navigating the new and changing terrain, the Human Resource Sub-Sector (HRSS) remained in the forefront of a number of initiatives to help the BSP achieve its mandate, uphold ethical standards and values, and sustain an organization driven by highly engaged employees.

Succession Management. In support of the BSP's succession management strategy, the guidelines on the Management Rotation Program (MRP) were issued in 2020. The BSP-MRP is a more structured and collaborative version of the 2017 Talent Optimization Program. It aims to provide BSP officers with a broad-based management perspective through exposure to a wider array of functional areas focused on leadership development.

Talent Development. The BSP, through its training arm, the BSP Institute (BSPI), continued to facilitate various capacity-building programs and initiatives during ECQ and in the New Economy Arrangement, in support of strategic priorities of the BSP. In 2020, the focus areas for capacity-building were in: (1) econometrics, data analytics and statistics, data compilation and disaggregation; (2) macroprudential policy modelling, forecasting and analysis; (3) big data and data analytics; (4) digital literacy; and (5) counterfeit detection and currency management, among others.

In line with the said priorities, the BSPI conducted a total of 39 in-house courses and assessed and facilitated the nominations of employees to 44 external trainings prior to the enforcement of the ECQ. Towards the end of Q1, and for the rest of 2020, training delivery was fully conducted online. BSPI recorded a total of 34,019 online training participations from Virtual Instructor-Led Training (VILTs), external online training, and e-learning subscriptions on topics ranging from leadership and management, information technology, big data, financial supervision, statistics, and personal mastery and effectiveness.

Training Delivery	Training Topic[1]	No. of Events	No. of Participations[2]
In-House	Bankwide	11	281
	Technical	11	235
	Leadership and Management	17	361
Local	Bankwide	-	-
	Technical	4	4
	Leadership and Management	37	66
Foreign	Bankwide	-	-
	Technical	3	4
	Leadership and Management	-	-
Virtual Instructor- Led Training (VILTs)	Bankwide	-	-
	Technical	3	4
	Leadership and Management	-	-
External Online	Bankwide	6	19
	Technical	14	127
	Leadership and Management	159	976
Online Subscriptions	Bankwide	6,919	12,825
	Technical	9,145	10,595
Total		**16,329**	**25,497**

[1] The training topics are broadly categorized as: (1) bank wide courses which addresses the BSP's core competencies of *analytical thinking*, *service orientation*, *adaptability*, *collaboration and cooperation*, and *written and verbal communication*; (2) technical courses which addresses 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 addresses the managerial competencies of incumbent and identified possible successors to managerial and executive positions in the Bank.

[2] Participation counts the number of times an employee attended training.

Furthermore, of the above VILTs, seven (7) were conducted by foreign subject matter experts from external counterparts, i.e., Carnegie Mellon University-Australia, Northwestern University, Deutsche Bundesbank, South East Asian Central Banks, and Deutsche Bundesbank.

The BSP co-hosted eight (8) online learning events in partnership with counterpart institutions on topics covering financial stability and supervision, human capital, macroeconomic and monetary policy management, and payment and settlement systems; the Southeast Asian Central Banks Research and Training Center on topics covering financial stability and supervision, human capital, macroeconomic and monetary policy management, and payment and settlement systems.

The BSP Scholarship and Continuing Professional Education (SCoPE) Program also continued to offer local and foreign scholarship 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 2020, the BSPI provided continuing support to existing scholars and facilitated new intakes for the year as follows:

Scholarship	No. of Personnel
Graduated in 2020	19
Ongoing Studies	16
New Grantees	12
Total	**47**

In 2020, the BSPI also evaluated and processed applications of 61 employees for global certification programs as follows:

Global Professional Certification Programs	Passed Certification Exam	Ongoing Certification
Certified Anti-Money Laundering Specialist	10	31
Certified Fraud Examiner	1	4
Certified Information Security Manager		1
Certified Information Systems Auditor	1	
Certified Internal Auditor	1	2
Certified ISO 31000 Risk Manager		3
Chartered Financial Analyst	1	3
COSO Enterprise Risk Management (ERM) Certificate Program Online	1	2
Total	**15**	**46**

As part of the ongoing efforts to build the BSP's research capability, in 2020, the BSPI facilitated the conduct of three lecture series for the BSP's pool of researchers. The BSPI also spearheaded the launch of the BSP Mentoring and Inspiring Learning Experiences and coaching sessions for participants of the Young Professional Program.

Talent Retention. Key to managing talent retention, most especially in times of crisis, is the timely provision of monetary and non-monetary rewards. This is what the Human Resource Management Department ensured even during ECQ and MECQ.. Employees who reported on-site during these periods were granted compensatory time-off and risk duty pay, food, and shuttle services. To allay concerns of employees on how the pandemic would impact their incomes and ability to meet emergency expenses, salaries and benefits were paid consistently and institutionalized allowances and bonuses were released earlier than schedule.

On the non-monetary aspect, the BSP continued to find ways to address the need for policies that support employee well-being and holistic development. The BSP adopted alternative work arrangements and various precautions to avoid virus transmission in the workplace, hence securing employee safety and ensuring continued and uninterrupted operations and services. In addition to seminars conducted on well-being, the Health and Wellness Department formed the BSP Peer Supporters, which is a group of trained volunteer employees with a wide array of backgrounds and experiences in helping profession/services (e.g., human resource, psychology, nursing, social work and spiritual/community leaders) who are willing to provide psychosocial and emotional support to employees with whom they share similar experiences.

Leadership and Recognition. As part of the BSP's desire to be a thought leader in central banking, the HRSS conducted benchmarking sessions with other government agencies for them to learn more about how the BSP conducts its functions and support services, as well as its initiatives in adapting to the new normal.

Recognition and affirmation of employees for their exemplary performance and significant contributions for the reference year is not only part of performance management and talent retention strategy but is ingrained in the BSP culture. Hence, despite the limitations of social gathering, the Human Resource Management Department (HRMD) held the first virtual BSP Program on Awards and Incentives for Service Excellence (PRAISE). A total of 448 employees and two departments were honored in year 2020 for their performance in 2019.

BSP Awards in 2020

Best Systemic and Prudential Regulator in Asia Pacific Award from Asian Banker. In October 2020, the Asian Banker cited the BSP's aggressive actions to cushion the impact of the COVID-19 pandemic on the economy.

According to the Asian Banker, its 2020 awards are aimed at assessing the performance of central banks and financial regulators during the pandemic. The BSP was among the central banks in the world which swiftly responded to the crisis through the deployment of a comprehensive set of measures. These include ensuring ample liquidity in the financial system, providing regulatory relief to banks, and implementing policies to assist Filipino businesses and households weather and recover from the crisis.

Regional Presidential *Lingkod Bayan* Award from the Civil Service Commission. The BSP's National Retail Payment System (NRPS) Core Team won the CSC's Regional Presidential *Lingkod Bayan* Award in November 2020. The recognition is conferred to an individual or group of individuals "for exceptional or extraordinary contributions resulting from an idea or performance that had nationwide impact on public interest, security and patrimony." The BSP team received the award only three years after the establishment of the NRPS, which provides the framework that enabled the modernization of retail payment systems for the benefit of the consumers, the industry, and the economy as a whole.

Global leader in financial inclusion according to the research arm of The Economist Group. The Philippines remains among the global leaders in financial inclusion, according to the Global Microscope 2020 of the Economist Intelligence Unit (EIU), the research arm of The Economist Group.

The country ranks second in Asia, next to India, and 8th worldwide, tied with Brazil, in the EIU study. The study, which was released in the last quarter of 2020, assessed the financial inclusion environment in 55 countries across five dimensions: government and policy, stability and integrity, products and outlets, consumer protection, and infrastructure.

Focusing on the role of financial inclusion in the COVID-19 response, the EIU also recognized the initiatives of the Philippines to mitigate the adverse economic impact of the pandemic.

2020 Gold Standard Award for Country and Trade Promotion. The award, given by industry body Public Affairs Asia on 8 December 2020, recognizes the BSP's efforts in ensuring that the international investment community sees a truthful and transparent picture of the Philippine economy and is aware of the ample investment opportunities in the country.

Website of the Year. The BSP's enhanced website won the "Website of the Year" award from Central Banking Publications, which provides news and intelligence on central banking policy, regulation, markets, and institutions.

The financial publisher's awards committee noted that the BSP has significantly improved its website and has put the public at the front and center of the website redesign. It cited the website's responsiveness to the growing number of mobile visitors, its greater emphasis on explaining the central bank's core functions, and its eagerness to deploy new types of technology—notably artificial intelligence—to make the user journey easier.

Box Article 16

New BSP Organization Structure

The BSP crafted its medium-term strategy for 2018-2023, committing, among others, to pursue an agile and collaborative organization with rationalized functions. In 2019, the strategy was reviewed and recalibrated. Under this 2019-2023 strategy, the BSP renewed its thrust to digitalize processes and committed to pursue the rationalization of the BSP organization.

In March 2020, the BSP, through its Human Resource Sub-Sector, engaged the services of Willis Towers Watson, Inc. for a third-party Assessment of the BSP organizational structure. Among the design considerations for this engagement are the desire to have a more agile, leaner, and more efficient organization, the new functions of the BSP pursuant to RA No. 11055 (Philippine Identification System Act), RA No. 11127 (National Payment Systems Act), RA No. 11211 (amendments to the BSP Charter), and the need realize the vision to bring the BSP closer to the Filipino people.

The assessment covered the diagnosis of organizational effectiveness, strategic and operational alignment and context analysis, team configuration with clear roles and accountability, recommendations on implementation roadmap, communication plan, and change management.

SUMMARY OF CHANGES IN BSP HIGH-LEVEL ORGANIZATIONAL STRUCTURE

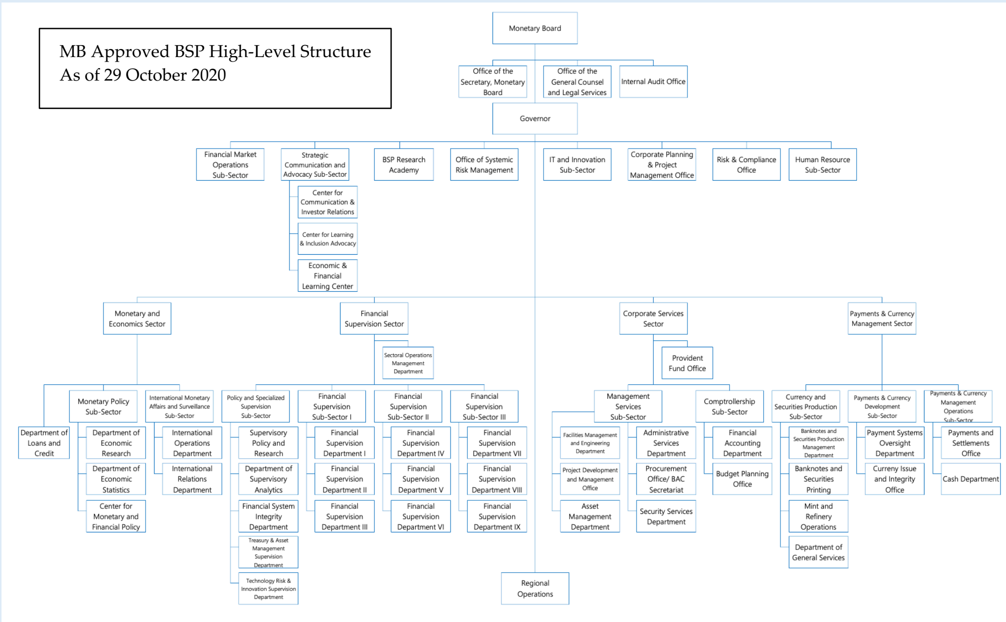
The approved high-level structure is shown below and was approved by the MB per its Resolution No. 1412 dated 29 October 2020.

Said structure highlights the creation of a new sector Payments and Currency Management Sector (PCMS); the BSP Research Academy (RA); and the Strategic Communication and Advocacy (SCA). The PCMS shall oversee currency production, issue, and distribution, to ensure adequate and timely supply of currency, while maintaining its integrity. The PCMS shall also operate the country's Peso Real-Time Gross Settlement. The PCMS shall furthermore exercise oversight and supervisory functions over all payment systems in the country in implementation of the enhanced mandate of the BSP under Republic Act No. 11127 or the National Payment Systems Act (NPSA) to promote the safe, secured, efficient and reliable operations of payment systems in order to control systemic risk and provide an environment conducive to the sustainable growth of the economy.

On the other hand, the BSP RA will be the BSP's main research hub and shall be tasked to carry out the BSP's long- term research agenda on various central banking concerns. Its functions will include conduct of long-term academic research, networking and collaboration with research communities for the promotion of research interest and deeper understanding of the various areas of central banking, and research communication, including the pursuit of publication of its research in scholarly journals and presentation in conventions and fora.

Under the SCA, all activities that involve the BSP's interface with the public and other stakeholders shall be consolidated to ensure uniformity and consistency of messaging, timeliness of release, and effectiveness of communication relative to their target audiences.

Also included in the approved high-level structure is the integration of departments to align with the objective of streamlining functions and processes to reinforce their value-adding proposition in the BSP. Such alignment would be the integration of the Systems and Methods Office to the Information Technology (IT) Office for more technology-driven business process improvements; the reintegration of the BSP Institute and the Health and Wellness Department to the Human Resource Sub-Sector for a more holistic stance towards organization development, people engagement, enablement and holistic wellbeing; the integration of a Project Management Unit in the Corporate Planning Office to unify efforts for the completion and implementation of projects being undertaken or to be undertaken.



To ensure focus and reinforce its expertise, the Budget Department was proposed to be a standalone department; the Information Security Office was merged with the Risk Management Office to advance its agenda as a second line of defense; and the Procurement Office and the Bids Awards Committee Secretariat were merged for a more collaborative approach in their processes. The Regional Operations is also undergoing an assessment geared towards refocusing of its mandate to strengthen localized macroeconomic surveillance.

The BSP had to rethink its way of doing things to be able to cope with balancing delivery of major central banking functions and that of health and wellness of its employees. The New Economy Arrangement opened opportunities to become creative in collaborating and communicating, productive using leaner resources, and quick in decision-making. Individual reorganization studies will be carried out next to align with the BSP high-level structure. With the completion of the reorganization, the BSP is expected to be leaner, more agile and smarter as an organization.

Box Article 17

BSP Launches its First Young Professionals Program

The BSP, amid the COVID-19 pandemic and community quarantine, launched its First Young Professionals Program (YPP) in May 2020. The YPP is a talent acquisition and 18-month professional development program open to high-potential individuals who are holders of a master's degree in priority fields such as economics, finance, statistics, mathematics, data science, information technology, communications, and industrial engineering. The program, aligned with the goal of bringing the BSP closer to the Filipino people, aims to train participants to become future central bankers and public servants. Through immersion in central banking operations, training, coaching, and mentoring, the program participants who were hired as Central Bank Associates (CBAs), are expected to learn the relevance and impact of the BSP's mandate within the context of the Philippine society and in the process imbibe the values necessary to become public servants at heart.

In his welcome address to the YPP pilot batch, the Governor exhorted them that true public service must be felt by the people and that, as citizens of this country, they must make it not only not less, but greater, better and more beautiful than it was transmitted to them. This was inspired from the Athenian Oath, which the Governor shared to be his guiding principle in his more than 40 years of public service.

To wit,

> *"We will ever strive for the ideals and sacred things of the city, both alone and with many; we will unceasingly seek to quicken the sense of public duty; we will revere and obey the city's laws; we will transmit this city not only not less, but greater, better and more beautiful than it was transmitted to us."*

The YPP gives the CBAs this challenge and opportunity to make a difference through a research or project proposal relevant to their department's mandate, operations, or any central banking issue. As of this writing, most CBAs are already working on their first research/project. Some of these outputs involve updating of sections of the Manual of Regulations for Banks, automation of supervisory and regulatory internal processes and systems, and researches that can serve as valuable inputs to supervisory or regulatory policies. With 32 CBAs for this pilot run, each to be deployed in two different central banking operations, the BSP is expecting more or less 64 value-added researches/projects at the end of this 18-month Program.

BSP Financial Results

The BSP's Balance Sheet. The BSP's total assets as of end-December 2020 was ₱7,071.7 billion, higher by 39.1 percent than the audited level of ₱5,084.2 billion in the previous year (Table 1). The BSP's assets were composed mainly of international reserves amounting to ₱5,249.9 billion.

Table 1. Balance Sheet of the BSP
in billion pesos

	2020 [p] Dec	2019 [a] Dec
Assets	7,071.7	5,084.2
Liabilities	6,900.8	4,938.6
Net Worth	**170.9**	**145.6**

Note: Details may not add up to total due to rounding.
[a] Audited but subject to restatement.
[p] Based on the preliminary and unaudited BSP balance sheet as of end-December 2020.

The BSP's liabilities have reached a total of ₱6,900.8 billion as of end-December 2020, higher by 39.7 percent than the previous year's level of ₱4,938.6 billion. The increase was driven by the combined expansion in the currency issue and deposits from overnight deposit facility, Treasurer of the Philippines accounts, and other foreign currency deposits. The total share of deposits and currency issued of 83.6 percent made up the majority of the BSP's liabilities.

Operating Profit. Based on preliminary and unaudited data for the year 2020, the BSP registered a net income of ₱34.5 billion. The net profit for the review period decreased by 25.3 percent compared to the previous year's level of ₱46.2 billion, primarily on account of lower interest income along with the reversal in foreign exchange rate fluctuations account (Table 2).

Table 2. Income Position of the BSP
in billion pesos

	2020 [p] Dec	2019 [a] Dec
Revenues	118.222	121.676
Less: Expenses	77.789	87.334
Net Income/(Loss) Before Net Gain/(Loss) on FX Rate Fluctuations and Income Tax Expense/(Benefit)	**40.434**	**34.342**
Net Gain/(Loss) on Foreign Exchange Rate Fluctuations	(5.779)	14.725
Income Tax Expense/(Benefit)	0.121	2.828
Net Income/(Loss) After Tax	**34.533**	**46.239**

Note: Details may not add up to total due to rounding.
[a] Audited but subject to restatement.
[p] Based on the preliminary and unaudited BSP income statement for the year ended December 2020.

Total revenues for 2020 amounted to ₱ 118.2 billion, lower than the ₱ 121.7 billion posted in the previous year. The downswing in revenues was mainly due to the decline in interest income from international reserves and loans and advances.

Total expenditures amounted to ₱ 77.8 billion, lower than the ₱ 87.3 billion posted last year. The y-o-y decrease in expenditures was due primarily to reduced interest expenses on NG deposits and reverse repurchase facility as well as lower cost of minting/printing of currency and other expenses.

List of Annexes

1 GROSS NATIONAL INCOME (GNI) AND GROSS DOMESTIC PRODUCT (GDP) BY INDUSTRIAL ORIGIN

for periods indicated
in million pesos; at constant 2018 prices

				Percent Change		
	2018	**2019**	**2020**	**2018**	**2019**	**2020**
Agriculture, Forestry, and Fishing	1,762,616	1,783,855	1,780,544	1.1	1.2	-0.2
Industry	5,582,525	5,887,869	5,112,115	7.3	5.5	-13.2
Mining and Quarrying	163,322	168,857	136,940	2.0	3.4	-18.9
Manufacturing	3,488,331	3,620,456	3,266,648	5.1	3.8	-9.8
Electricity, Steam, Water and Waste Management	557,030	591,312	589,089	6.5	6.2	-0.4
Construction	1,373,841	1,507,244	1,119,438	14.3	9.7	-25.7
Services	10,920,048	11,711,027	10,634,575	6.7	7.2	-9.2
Wholesale and retail trade; repair of motor vehicles and motorcycles	3,237,304	3,489,299	3,279,285	5.9	7.8	-6.0
Transportation and storage	697,839	742,347	512,769	7.7	6.4	-30.9
Accommodation and food service activities	403,289	425,692	232,389	8.6	5.6	-45.4
Information and communication	515,925	557,007	584,981	6.7	8.0	5.0
Financial and insurance activities	1,498,147	1,676,448	1,768,604	8.4	11.9	5.5
Real estate and ownership of dwellings	1,189,673	1,238,469	1,027,860	5.4	4.1	-17.0
Professional and business services	1,159,265	1,182,159	1,064,318	3.8	2.0	-10.0
Public administration and defense; compulsory social activities	767,706	871,564	911,354	15.2	13.5	4.6
Education	731,607	766,089	683,563	8.9	4.7	-10.8
Human health and social work activities	308,268	323,261	310,930	-0.3	4.9	-3.8
Other services	411,025	438,691	258,523	4.5	6.7	-41.1
Gross Domestic Product	**18,265,190**	**19,382,751**	**17,527,234**	**6.3**	**6.1**	**-9.6**
Net Primary Income	1,947,159	1,916,282	1,340,176	2.0	-1.6	-30.1
Gross National Income	**20,212,349**	**21,299,032**	**18,867,410**	**5.9**	**5.4**	**-11.4**

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; inclusion of new industries and expenditure commodities; and updating of the base year to 2018.
2/ Totals may not add up due to rounding.
Source: Philippine Statistics Authority (PSA)

2 GROSS NATIONAL INCOME (GNI) AND GROSS DOMESTIC PRODUCT (GDP) BY EXPENDITURE SHARE

for periods indicated

in million pesos; at constant 2018 prices

				Percent Change		
	2018	**2019**	**2020**	**2018**	**2019**	**2020**
Household Final Consumption Expenditure	13,250,084	14,027,456	12,913,709	5.8	5.9	-7.9
Government Final Consumption Expenditure	2,199,637	2,399,867	2,652,952	13.4	9.1	10.5
Gross Capital Formation	4,959,105	5,132,349	3,366,707	11.3	3.5	-34.4
Gross Fixed Capital Formation	4,983,346	5,175,520	3,754,623	12.9	3.9	-27.5
Changes in Inventories	-26,944	-44,600	-388,620	-163.0	65.5	771.3
Valuables	2,703	1,429	705	77.1	-47.1	-50.7
Exports	5,518,573	5,664,043	4,743,508	11.8	2.6	-16.3
Less: Imports	7,662,209	7,840,965	6,149,641	14.6	2.3	-21.6
Statistical Discrepancy	0	0	0			
Gross Domestic Product	**18,265,190**	**19,382,751**	**17,527,234**	**6.3**	**6.1**	**-9.6**
Net Primary Income	1,947,159	1,916,282	1,340,176	2.0	-1.6	-30.1
Gross National Income	**20,212,349**	**21,299,032**	**18,867,410**	**5.9**	**5.4**	**-11.4**

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2/ Totals may not add up due to rounding.

Source: Philippine Statistics Authority (PSA)

3 SELECTED LABOR, EMPLOYMENT AND WAGE INDICATORS

for periods indicated

	LEVELS				PERCENT CHANGE (in percent)	
	2018	2019		2020[p]	2019	2020
Employment Status [1]						
Labor Force (In Thousands)	43,460	44,692 [a]	44,197 [b]	43,880	2.8	-0.7
Employed	41,157	42,428 [a]	41,938 [b]	39,379	3.1	-6.1
Unemployed	2,303	2,264 [a]	2,259 [b]	4,501	-1.7	99.2
Underemployed	6,734	5,934 [a]	5,778 [b]	6,395	-11.9	10.7
Labor Force Participation Rate (%)	60.9	61.3 [a]	61.3 [b]	59.5	0.6	-2.9
Employment Rate (%)	94.7	94.9 [a]	94.9 [b]	89.7	0.2	-5.4
Unemployment Rate (%)	5.3	5.1 [a]	5.1 [b]	10.3	-4.5	100.7
Underemployment Rate (%)	16.4	14.0 [a]	13.8 [b]	16.2	-14.5	17.9
Overseas Employment (Deployed, in thousand)						
Land-Based						
Sea-Based						
Strikes						
Number of New Strikes Declared	14	18			28.6	
Number of Workers Involved	8,102	3,545			-56.2	
Legislated Wage Rates						
In Nominal Terms [2]						
Non-Agricultural						
National Capital Region (NCR)	537.00	537.00		537.00	0.0	0.0
Regions Outside NCR (ONCR)	400.00	400.00		420.00	0.0	5.0
Agricultural						
NCR						
Plantation	500.00	500.00		500.00	0.0	0.0
Non-Plantation	500.00	500.00		500.00	0.0	0.0
ONCR						
Plantation	370.00	391.00		394.00	5.7	0.8
Non-Plantation	368.00	391.00		394.00	6.3	0.8
In Real Terms [3]						
Non-Agricultural						
National Capital Region (NCR)	460.94	448.25		434.47	-2.8	-3.1
Regions Outside NCR (ONCR)	342.47	332.23		333.07	-3.0	0.3
Agricultural						
NCR						
Plantation	429.18	417.36		404.53	-2.8	-3.1
Non-Plantation	429.18	417.36		404.53	-2.8	-3.1
Regions Outside NCR (ONCR)						
Plantation	316.78	319.71		311.96	0.9	-2.4
Non-Plantation	300.41	319.71		311.96	6.4	-2.4

Notes:

[1] Starting January 2020 round, the Labor Force Survey (LFS) adopted the population projections based on the 2015 Population Census (POPCEN). For the previous survey rounds (April 2016 onwards), population projections based on the 2010 Census of Population and Housing (CPH) and 2013 Master Sample Design were adopted, with a sample size of approximately 44,000 households. Starting January 2017 round, Computer-Assisted Personal Interviewing (CAPI) 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). Starting 2006, annual figures refer to December data. Figures for regions outside NCR represent the highest nominal regional rates in a given category and their corresponding values 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. Starting 2018, real terms are computed using 2012 as base year while previous data were computed using 2006 as base year.

[a] Based on 2010 CPH.

[b] Based on 2015 POPCEN.

[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)

4 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	
	2018	2019	2020	2019	2020	2018	2019	2020	2019	2020	2018	2019	2020	2019	2020
All Items	**117.3**	**120.2**	**123.3**	**2.5**	**2.6**	**115.0**	**118.0**	**120.6**	**2.6**	**2.2**	**117.9**	**120.8**	**124.1**	**2.5**	**2.7**
Food and Non-Alcoholic Beverages	123.6	126.2	129.6	2.1	2.7	127.7	131.4	135.6	2.9	3.2	122.8	125.1	128.4	1.9	2.6
Food	124.1	126.3	129.8	1.8	2.8	128.7	132.2	136.7	2.7	3.4	123.2	125.2	128.5	1.6	2.6
Alcoholic Beverages, Tobacco and Narcotics	187.9	211.9	246.1	12.8	16.1	179.0	190.8	214.0	6.6	12.2	189.7	216.2	252.7	14.0	16.9
Non-Food	111.3	114.0	116.1	2.4	1.8	108.8	111.3	112.9	2.3	1.4	112.2	114.9	117.3	2.4	2.1
Clothing and Footware	117.2	120.2	122.8	2.6	2.2	118.5	120.6	121.9	1.8	1.1	116.8	120.1	123.0	2.8	2.4
Housing, Water, Electricity, Gas and Other Fuels	110.6	113.3	114.3	2.4	0.9	105.7	107.7	107.3	1.9	-0.4	112.6	115.6	117.2	2.7	1.4
Furnishing, Household Equipment and Routing Maintenance of the House	116.2	119.9	124.4	3.2	3.8	115.5	117.5	123.5	1.7	5.1	116.5	120.7	124.7	3.6	3.3
Health	116.1	120.2	123.5	3.5	2.7	117.8	121.7	124.9	3.3	2.6	115.8	119.8	123.2	3.5	2.8
Transport	105.0	106.1	109.5	1.0	3.2	105.1	106.9	112.8	1.7	5.5	104.9	105.9	108.5	1.0	2.5
Communication	101.1	101.5	101.8	0.4	0.3	101.2	101.5	101.7	0.3	0.2	101.1	101.4	101.8	0.3	0.4
Recreation and Culture	112.6	115.4	116.1	2.5	0.6	111.7	113.6	114.1	1.7	0.4	112.9	115.9	116.6	2.7	0.6
Education	118.1	118.3	121.2	0.2	2.5	122.6	126.7	130.0	3.3	2.6	116.6	115.6	118.3	-0.9	2.3
Restaurants and Miscellaneous Goods and Services	113.2	117.0	119.8	3.4	2.4	110.1	113.9	116.0	3.5	1.8	114.5	118.2	121.3	3.2	2.6

Source: Philippine Statistics Authority (PSA)

5 CASH OPERATIONS OF THE NATIONAL GOVERNMENT

for periods indicated

	Levels (in million pesos)			Annual Change (in percent)		
	2018	2019	2020	2018	2019	2020
Revenues	**2,850,184**	**3,137,498**	**2,855,959**	**15.2**	**10.1**	**-9.0**
Tax Revenues	2,565,872	2,827,651 r	2,504,421	14.0	10.2	-11.4
Bureau of Internal Revenue	1,951,850	2,175,506	1,951,023	10.1	11.5	-10.3
Bureau of Customs	593,111	630,310	537,687	29.4	6.3	-14.7
Other Offices	20,911	21,835 r	15,711	3.7	4.4 r	-28.0
Non-tax Revenues [1]	284,312	309,847 r	351,538	27.8	9.0 r	13.5
of w/c: Bureau of the Treasury	114,199	146,522	219,677	14.3	28.3	49.9
Expenditures	**3,408,443**	**3,797,734**	**4,227,406**	**20.7**	**11.4**	**11.3**
of which:						
Allotments to Local Government Units	575,650	617,996	804,546	8.6	7.4	30.2
Interest Payments	349,215	360,874	380,412	12.5	3.3	5.4
Equity and Net Lending	8,860	20,386	34,924	690.4	130.1	71.3
Surplus/Deficit (-)	**-558,259**	**-660,236**	**-1,371,447**	**-59.2**	**-18.3**	**-107.7**
Financing [2]	**783,277**	**876,296**	**2,499,184**	**3.2**	**11.9**	**185.2**
Foreign Borrowings (Net)	191,752	184,847	600,759	595.5	-3.6	225.0
Domestic Borrowings (Net)	591,525	691,449	1,898,425	-19.1	16.9	174.6
Total Change in Cash: Deposit/Withdrawal (-)	**-52,651**	**-224,569**	**701,702**	**-120.6**	**-326.5**	**412.5**

[1] Including Grants

[2] 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.

r Revised

Source: Bureau of the Treasury (BTr)

14-Apr-21

6 DEPOSITORY CORPORATIONS SURVEY (SRF-based *)

as of end-periods indicated

	LEVELS (in million pesos)			GROWTH RATES (in percent)		
	2018 r	2019	2020 p	2018	2019	2020
1. NET FOREIGN ASSETS	**4,460,959**	**4,857,904**	**6,095,793**	**1.3**	**8.9**	**25.5**
A. Monetary Authorities	4,088,895	4,399,096	5,303,043	2.1	7.6	20.5
Claims on Non-Residents	4,172,389	4,479,427	5,379,285	2.1	7.4	20.1
less: Liabilities to Non-Residents	83,494	80,331	76,242	2.9	-3.8	-5.1
B. Other Depository Corporation	372,064	458,808	792,750	-6.9	23.3	72.8
Claims on Non-Residents	1,501,741	1,654,598	1,773,077	15.9	10.2	7.2
less: Liabilities to Non-Residents	1,129,677	1,195,790	980,328	26.0	5.9	-18.0
2. DOMESTIC CLAIMS	**12,034,839**	**13,318,198**	**13,934,339**	**14.9**	**10.7**	**4.6**
A. Net Claims on Central Government	1,911,104	2,363,703	3,087,105	16.9	23.7	30.6
Claims on Central Government	2,690,414	2,953,182	4,431,607	12.1	9.8	50.1
less: Liabilities to Central Government	779,310	589,479	1,344,502	1.9	-24.4	128.1
B. Claims on Other Sectors	10,123,735	10,954,495	10,847,234	14.5	8.2	-1.0
Claims on Other Financial Corporations	1,088,312	1,232,427	1,145,795	17.7	13.2	-7.0
Claims on State and Local Government	87,470	99,080	103,799	7.9	13.3	4.8
Claims on Public Nonfinancial Corporations	260,519	259,553	265,684	-8.5	-0.4	2.4
Claims on Private Sector	8,687,435	9,363,435	9,331,956	15.1	7.8	-0.3
3. LIQUIDITY AGGREGATES						
M4 (M3 + 3.e)	**13,610,326**	**14,950,132**	**16,239,846**	**9.0**	**9.8**	**8.6**
M3 (M2 + 3.d) **	11,642,984	12,976,306	14,217,341	9.5	11.5	9.6
M2 (M1 + 3.c)	11,080,180	12,293,189	13,562,556	8.6	10.9	10.3
M1 (3.a + 3.b)	3,889,031	4,500,310	5,455,920	9.5	15.7	21.2
3.a Currency Outside Depository Corporations	1,231,830	1,395,801	1,731,783	**17.6**	**13.3**	**24.1**
3.b Transferable Deposits Included in Broad Money	2,657,200	3,104,509	3,724,138	6.1	16.8	20.0
3.c Other Deposits Included in Broad Money	7,191,149	7,792,878	8,106,635	8.1	8.4	4.0
Savings Deposits	4,672,532	4,969,361	5,719,208	6.0	6.4	15.1
Time Deposits	2,518,617	2,823,518	2,387,427	12.3	12.1	-15.4
3.d Securities Other Than Shares Included in Broad Money (Deposit Substitutes)	562,804	683,117	654,785	29.7	21.4	-4.1
3.e Transferable and Other Deposits in Foreign Currency (FCDs-Residents)	1,967,342	1,973,826	2,022,505	6.3	0.3	2.5
4. LIABILITIES EXCLUDED FROM BROAD MONEY	**2,885,473**	**3,225,970**	**3,790,286**	**20.6**	**11.8**	**17.5**

* 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

26-May-20

7 SELECTED DOMESTIC INTEREST RATES[1]

for periods indicated

In percent per annum

	Nominal Interest Rates			Real Interest Rates[7]		
	2018	2019	2020	2018	2019	2020
Borrowing Rates of Banks						
Interbank Call Loans	3.734	4.665	3.537	-1.466	2.165	0.937
Savings Deposits[2]	0.899	1.231	-	-4.301	-1.269	-
Time Deposits[2]						
(All Maturities)	3.163	4.070	-	-2.037	1.570	-
Lending Rates						
All Maturities [2 3]	6.139	7.087	-	0.939	4.587	-
High[2 4]	7.109	8.018	-	1.909	5.518	-
Low[2 5]	4.573	5.497	-	-0.628	2.997	-
Bangko Sentral Rates[6]						
Overnight Lending Facility (OLF)	4.581	4.996	4.063	-0.619	2.496	1.463
RR/P (Overnight)	3.625	4.408	2.733	-1.575	1.908	0.133
Overnight Deposit Facility (ODF)	2.921	3.798	2.054	-2.279	1.298	-0.547
BSP Securities	-	-	1.844	-	-	-0.756
28 - Day						
Term Deposit Auction Facility (TDF)	3.894	4.541	2.241	-1.306	2.041	-0.360
7-Day	3.840	4.528	2.123	-1.360	2.028	-0.477
14 -Day	3.921	4.572	2.042	-1.279	2.072	-0.558
28-Day	3.938	4.521	2.705	-1.262	2.021	0.105
Rediscounting	4.318	5.140	3.250	-0.883	2.640	0.650
Rate on Government Securities						
Treasury Bills (All Maturities)	4.389	5.022	2.223	-0.811	2.522	-0.377
35-Day	...	...	1.869	...	...	-0.731
91-Day	3.539	4.674	2.018	-1.661	2.174	-0.582
182-Day	4.489	5.065	2.261	-0.711	2.565	-0.339
364-Day	5.144	5.232	2.422	-0.056	2.732	-0.178

[1] All figures are weighted average rates, unless stated otherwise.

[2] Starting 1 January 2020, universal and commercial banks are required to submit the amended reporting templates on banks' lending and deposit rates or "Interest rates on Loans and Deposits (IRLD)" in accordance with Circular Nos. 1029 and 1037, series of 2019. In view of the gradual lifting of the suspension of submission of bank reports amid the New Economy Arrangement (NEA), banks' submission of IRLD reports is not yet complete.

[3] Ratio of all universal/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. Beginning 18 September 2020, the BSP offers BSP Securities as part of its initiative to shift to more market-based monetary operations.The inclusionof BSP Securities issuance in the standardmonetary operations of the BSP provides an additional instrument for managing liquidity in the financial system and support the implementation of monetary policy under the Interest Rate Corridor (IRC) framework. For its initial offering, the BSP auctions 28-day BSP Bills with an indicative offer volume of about P20 billion subject to confirmation two days before the actual auction date.

[7] Nominal interest rate less inflation rate (2012=100)

- Not Available

.. No Transaction/No Quotation/No Issue

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Source: Bangko Sentral ng Pilipinas (BSP)

8 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
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
2020	**Ave**	**49.6241**	**0.4647**	**63.6620**	**6.3982**	**52.8550**	**37.0167**	**35.9761**	**34.1983**	**131.6427**	**13.2260**	**35.8461**	**0.0034**	**1.5866**	**13.5112**	**56.5701**
	Jan	50.8386	0.4653	66.5015	6.5398	52.4481	38.8870	37.6429	34.8971	134.9239	13.5523	37.5041	0.0037	1.6724	13.8419	56.4634
	Feb	50.7448	0.4613	65.8410	6.5288	51.9907	38.2230	36.5658	33.8681	134.6769	13.5282	36.4345	0.0037	1.6227	13.8164	55.3763
	Mar	50.9036	0.4731	63.0322	6.5552	53.1308	36.5935	35.9879	31.7371	135.0054	13.5604	35.8611	0.0034	1.5889	13.8596	56.3194
	Apr	50.7349	0.4711	62.9859	6.5457	52.3117	36.0912	35.6437	31.9448	134.3589	13.4983	35.5189	0.0032	1.5553	13.8136	55.1779
	May	50.5556	0.4718	62.1880	6.5217	52.1279	36.1627	35.6546	32.8803	133.9398	13.4632	35.5293	0.0034	1.5754	13.7649	55.0855
	Jun	50.0972	0.4656	62.7386	6.4639	52.5962	36.9635	35.9268	34.4961	132.9077	13.3547	35.7984	0.0036	1.6049	13.6400	56.3682
	Jul	49.4675	0.4628	62.5225	6.3821	52.8468	36.6096	35.6271	34.6953	131.2804	13.1907	35.4992	0.0034	1.5747	13.4686	56.5534
	Aug	48.8433	0.4605	64.0380	6.3022	53.6207	36.8457	35.6372	35.0618	129.6328	13.0255	35.5077	0.0033	1.5659	13.2988	57.7228
	Sep	48.5057	0.4593	62.9571	6.2589	53.0631	36.7294	35.5207	35.0891	128.7106	12.9332	35.3911	0.0033	1.5478	13.2068	57.2244
	Oct	48.4822	0.4607	62.9141	6.2558	53.1290	36.7057	35.6554	34.5538	128.6138	12.9265	35.5248	0.0033	1.5507	13.2003	57.0678
	Nov	48.2521	0.4623	63.7304	6.2240	52.9723	36.9009	35.8133	35.0838	128.0962	12.8664	35.6809	0.0034	1.5832	13.1377	57.0890
	Dec	48.0637	0.4628	64.4945	6.2002	54.0223	37.4887	36.0385	36.0720	127.5652	12.8129	35.9039	0.0034	1.5978	13.0864	58.3934

Source: Bangko Sentral ng Pilipinas (BSP)

8a 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]
2018	**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	80.40	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	104.96
Aug	13.36	10.80	21.42	81.06	76.36	106.39
Sep	13.21	10.68	21.19	80.45	75.56	105.75
Oct	13.29	10.74	21.30	81.26	76.23	106.89 [r]
Nov	13.60	11.04	21.75	83.10	78.34	109.03
Dec	13.56	11.02	21.66	82.14	77.53	107.69 [r]
2019 [r]	**13.77**	**11.15**	**22.04**	**84.45**	**80.26**	**110.30**
Jan	13.49	10.94	21.59	85.04	81.75	110.36
Feb	13.53	11.06	21.55	83.74	81.23	108.11
Mar	13.51	11.06	21.51	83.15	80.18	107.70
Apr	13.63	11.16	21.68	84.16	80.79	109.29
May	13.70	11.09	21.95	84.56	79.87	110.83
Jun	13.76	11.09	22.09	84.96	79.95	111.58
Jul	13.91	11.25	22.28	84.94	80.78	110.90
Aug	13.79	11.03	22.23	83.80	78.48	110.35
Sep	13.80	11.08	22.21	83.60	78.42	110.00
Oct	13.94	11.23	22.38	84.53	79.60	110.97
Nov	14.09	11.43	22.55	85.63	81.21	111.96
Dec	14.08	11.41	22.53	85.63	81.09	112.07
2020	14.32	11.50	23.04	89.45	84.49	117.24
Jan	13.97	11.40	22.27	88.55	86.34	114.00
Feb	14.15	11.51	22.60	88.03	85.62	113.49
Mar	14.21	11.37	22.91	88.18	83.72	115.23
Apr	14.37	11.46	23.20	90.08	84.59	118.43
May	14.35	11.46	23.16	90.15	84.19	118.90
Jun	14.32	11.46	23.09	90.15	84.43	118.71
Jul	14.44	11.52	23.31	90.06	84.46	118.51
Aug	14.49	11.52	23.45	89.60	83.58	118.26
Sep	14.52	11.59	23.45	89.65	83.54	118.38
Oct	14.44	11.59	23.25	89.65	84.04	118.00
Nov	14.33	11.59	22.98	90.03	85.05	117.99
Dec	14.25	11.52	22.85	89.69	84.72	117.55

[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

9 STOCK MARKET TRANSACTIONS
for periods indicated
volume in million shares, value in million pesos

	2018		2019		2020		Percent Change			
							2019		2020	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value
T o t a l	**403,847.2**	**1,736,822.4**	**332,304.2**	**1,772,578.9**	**1,462,521.4**	**1,770,899.0**	**-17.7**	**2.1**	**340.1**	**-0.1**
Financial	4,355.7	271,071.4	3,494.5	270,434.0	5,270.1	272,983.8	-19.8	-0.2	50.8	0.9
Industrial	28,560.4	355,193.8	33,504.4	317,104.4	42,093.2	316,159.7	17.3	-10.7	25.6	-0.3
Holding Firms	37,510.4	400,471.5	40,705.8	463,812.1	26,169.6	403,484.7	8.5	15.8	-35.7	-13.0
Property	68,913.0	319,095.2	40,843.7	363,263.6	47,360.5	324,915.2	-40.7	13.8	16.0	-10.6
Services	64,474.4	332,909.9	51,235.5	312,442.8	93,093.0	381,584.6	-20.5	-6.1	81.7	22.1
Mining & Oil	198,294.5	50,848.5	159,579.9	36,597.4	1,239,928.9	39,177.1	-19.5	-28.0	677.0	7.0
SME	1,733.2	6,559.1	2,938.1	8,640.4	8,598.4	31,878.9	69.5	31.7	192.7	268.9
ETF	5.5	673.1	2.4	284.2	7.7	714.9	35.5		219.6	151.6
Composite Index (PSEi)										
Average	**7,745.0**		**7,906.4**		**6,249.1**		**2.1**		**-21.0**	
End of Period	**7,466.0**		**7,815.3**		**7,139.7**		**4.7**		**-8.6**	

Source: Philippine Stock Exchange (PSE)

10 PHILIPPINES: BALANCE OF PAYMENTS
for periods indicated
in million US dollars

	2019 r	2020 p	Growth (%) 2020 p
Current Account	-3,047	12,979	526.0
(Totals as percent of GNI)	-0.7	3.3	
(Totals as percent of GDP)	-0.8	3.6	
Export	136,889	118,656	-13.3
Import	139,936	105,678	-24.5
Goods, Services, and Primary Income	-30,996	-14,403	53.5
Export	108,143	90,416	-16.4
Import	139,139	104,819	-24.7
Goods and Services	-36,272	-18,759	48.3
(Totals as percent of GNI)	-8.8	-4.8	
(Totals as percent of GDP)	-9.6	-5.2	
Export	94,741	78,822	-16.8
Import	131,013	97,581	-25.5
Goods	-49,312	-31,839	35.4
(Totals as percent of GNI)	-11.9	-8.1	
(Totals as percent of GDP)	-13.1	-8.8	
Credit: Exports	53,477	47,411	-11.3
Debit: Imports	102,788	79,250	-22.9
Services	13,039	13,080	0.3
Credit: Exports	41,264	31,410	-23.9
Debit: Imports	28,225	18,331	-35.1
Primary Income	5,276	4,356	-17.4
Credit: Receipts	13,402	11,594	-13.5
Debit: Payments	8,125	7,238	-10.9
Secondary Income	27,949	27,381	-2.0
Credit: Receipts	28,746	28,240	-1.8
Debit: Payments	797	859	7.7
Capital Account	127	63	-50.2
Credit: Receipts	147	88	-39.9
Debit: Payments	20	25	26.3
Financial Account	-8,034	-4,608	42.6
Net Acquisition of Financial Assets	7,297	12,319	68.8
Net Incurrence of Liabilities	15,331	16,928	10.4
Direct Investment	-5,320	-3,017	43.3
Net Acquisition of Financial Assets	3,351	3,525	5.2
Net Incurrence of Liabilities	8,671	6,542	-24.6
Portfolio Investment	-2,474	502	120.3
Net Acquisition of Financial Assets	2,402	5,787	140.9
Net Incurrence of Liabilities	4,876	5,285	8.4
Financial Derivatives	-173	-239	-38.0
Net Acquisition of Financial Assets	-874	-840	3.9
Net Incurrence of Liabilities	-701	-602	14.2
Other Investment	-67	-1,855	-2,670.2
Net Acquisition of Financial Assets	2,417	3,847	59.2
Net Incurrence of Liabilities	2,484	5,702	129.5
NET UNCLASSIFIED ITEMS	2,729	-1,629	-159.7
OVERALL BOP POSITION	7,843	16,022	104.3
(Totals as percent of GNI)	1.9	4.1	
(Totals as percent of GDP)	2.1	4.4	
Debit: Change in Reserve Assets	7,843	16,020	104.3
Credit: Change in Reserve Liabilities	-1	-1	-142.5

Details may not add up to total due to rounding.
p Preliminary
r Revised to reflect data updates from official data sources and post-audit adjustments

Technical Notes:
1. Balance of Payments Statistics 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 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).

Source: Bangko Sentral ng Pilipinas

11 GROSS INTERNATIONAL RESERVES (GIR)

as of periods indicated, in million US dollars

	2018	2019	2020
Gross International Reserves	**79,193**	**87,840**	**110,117**
Reserve Position in the Fund	474	590	813
Gold	8,153	8,016	11,605
SDRs	1,184	1,182	1,233
Foreign Investments	66,733	75,304	93,645
Foreign Exchange	2,649	2,747	2,822
Import Cover [1]	6.9	7.6	12.6
Short-Term External Debt Cover (in percent) [2]			
Original Maturity [3]	492.9	510.5	775.0
Residual Maturity [4]	364.9	398.3	492.6
Net International Reserves	**79,189**	**87,836**	**110,115**

1 Number of months of average imports of goods and payment of services and primary income that can be financed by reserves. Starting 2005, data are based on International Monetary Fund's Balance of Payments and International Investment Position Manual, 6th Edition (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 external 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 short-term debt as of 31 December 2020 and debt service schedule on outstanding external debt as of 31 March 2021.

Details may not add up to total due to rounding

Source: Bangko Sentral ng Pilipinas

12 TOTAL EXTERNAL DEBT [1/]
as of periods indicated
in million US dollars

	31 December 2019					31 December 2020				
	Short-term		Medium & Long- Term		Total	Short-term		Medium & Long- Term		Total
	Trade	Non-Trade				Trade	Non-Trade			
Grand Total	3,417	13,792	66,410		83,618 [a]	2,219	11,989	84,279		98,488 [a]
Public Sector		633	42,162	[b]	42,794		414	57,706	[b]	58,119
Banks		633	3,174		3,807		414	3,199		3,613
Bangko Sentral ng Pilipinas			1,306	[c]	1,306			1,336	[c]	1,336
Others		633	1,868		2,501		414	1,864		2,277
Non-Banks			38,987		38,987			54,506		54,506
NG and Others			38,987		38,987			54,506		54,506
Private Sector	3,417	13,159	24,248		40,824	2,219	11,576	26,574		40,369
Banks		12,557	7,580		20,136		10,584	7,363		17,947
Foreign Bank Branches		5,078	151		5,228 [d]		5,140	71		5,211 [d]
Domestic Banks		7,479	7,429		14,908		5,444	7,291		12,736
Non-Banks	3,417	602	16,669	[e]	20,687	2,219	992	19,211	[e]	22,422

[1] Covers debt owed to non-residents, with classification by borrower based on primary obligor per covering loan/rescheduling agreement/document.

Exclusions	31 December 2019	31 December 2020
[a] Residents' holdings of Philippine debt papers issued offshore;	17,382	15,548
Non-residents' holdings of peso-denominated debt securities	5,165	4,450
Inclusions		
[b] Cumulative foreign exchange revaluation on US$-denominated multi-currency loans from Asian Development Bank and World Bank	-16	80
[c] Accumulated SDR allocations from the IMF	1,154	1,208
[d] "Due to Head Office/Branches Abroad" (DTHOBA) accounts of branches and offshore banking units of foreign banks operating in the Philippines	3,802	3,597
[e] Loans without BSP approval/registration which cannot be serviced using foreign exchange from the banking system;	6,395	5,794
Obligations under capital lease arrangements	869	736

Source: Bangko Sentral ng Pilipinas

13 SELECTED FOREIGN DEBT SERVICE INDICATORS

for periods indicated
in million US dollars

	2019 [r]	2020 [p]
Debt Service Burden (DSB) [1]	8702	7071
Principal	5632	4848
Interest	3069	2223
Export Shipments (XS) [2]	53477	47411
Exports of Goods and Receipts from Services and Income (XGSI) [2,3]	129449	111740
Current Account Receipts (CAR) [2]	136889	118656
External Debt	83618	98488
Gross Domestic Product (GDP)	376823	361489
Gross National Income (GNI)	414552	389324
Ratios (%) :		
DSB to XS	16.27	14.91
DSB to XGSI	6.72	6.33
DSB to CAR	6.36	5.96
DSB to GNI	2.10	1.82
External Debt to GDP [4]	22.19	27.25
External Debt to GNI [4]	20.17	25.30

[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.

[4] GNI and GDP figures were annualized by taking the sum over the past 4 quarters of the GNI and GDP, respectively.

[r] Revised

[p] Preliminary

Source: BSP

14 BALANCE SHEET OF THE BANGKO SENTRAL NG PILIPINAS

as of end-periods indicated
in billion pesos

	2019 [a] Dec	2020 [p] Dec	Growth Rates [*] (in percent)
Assets	**5,084.2**	**7,071.7**	**39.1**
International Reserves [1]	4,434.1	5,249.9	18.4
Domestic Securities	226.1	1,380.9	510.7
Loans and Advances	200.2	130.9	-34.6
Bank Premises and Other Fixed Assets	24.4	23.1	-5.3
Derivative Instruments in a Gain/(Loss) Position	.	.	--
Other Assets	199.4	286.8	43.8
Liabilities	**4,938.6**	**6,900.8**	**39.7**
Currency Issue	1,679.1	2,038.9	21.4
Deposits	2,411.2	3,732.2	54.8
Reserve Deposits of Other Depository Corporations (ODCs) [2]	1,550.5	1,331.0	-14.2
Reserve Deposits of Other Financial Corporations (OFCs) [3]	0.4	0.4	0.0
Secured Settlement Account	8.1	31.5	288.9
Overnight Deposit Facility [4]	266.2	1,119.3	320.5
Term Deposit Facility [4]	283.2	320.1	13.0
Treasurer of the Philippines [5]	159.9	798.6	399.4
Foreign Financial Institutions	107.7	97.0	-9.9
Other Foreign Currency Deposits	1.1	4.6	318.2
Other Deposits [6]	34.1	29.7	-12.9
Net Bonds Payable	25.4	24.0	-5.5
Allocation of SDRs	58.9	58.0	-1.5
Revaluation of Foreign Currency Accounts [7]	425.9	478.4	12.3
Reverse Repurchase Facility [4]	305.1	305.0	.
Net Bills Payable - Domestic	-	219.9	....
Other Liabilities	33.0	44.5	34.8
Net Worth	**145.6**	**170.9**	**17.4**
Capital	50.0	50.0	0.0
Surplus/Reserves	95.6	120.9	26.5

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 2020

[*] Growth rates are calculated using 1 decimal place in billions.

[.] Rounds off to zero

[....] Not computed

[-] Not applicable

[--] Indeterminate

Source: Bangko Sentral ng Pilipinas

15 INCOME POSITION OF THE BANGKO SENTRAL NG PILIPINAS

for periods indicated
in billion pesos

	2019 [a] Dec	2020 [p] Dec	Growth Rates [*] (in percent)
Revenues	**121.676**	**118.222**	**-2.8**
Interest Income	100.415	85.433	-14.9
International Reserves	78.695	55.004	-30.1
Domestic Securities	11.396	23.277	104.3
Loans and Advances	6.220	2.103	-66.2
Others	4.104	5.048	23.0
Miscellaneous Income[1]	20.956	32.644	55.8
Net income from Branches	0.305	0.145	-52.5
Expenses	**87.334**	**77.789**	**-10.9**
Interest Expenses	44.688	46.435	3.9
National Government Deposits	19.983	13.040	-34.7
Reverse Repurchase Facility[2]	12.258	7.212	-41.2
Bills Payable - Domestic	-	1.145	....
Overnight Deposit Facility[2]	2.548	12.298	382.7
Term Deposit Facility[2]	6.372	9.872	54.9
Loans Payable and Other Foreign Currency Deposits	3.347	2.773	-17.1
Other Liabilities	0.180	0.096	-46.7
Cost of Minting/Printing of Currency	12.473	11.609	-6.9
Other Expenses	30.173	19.744	-34.6
Net Income/(Loss) Before Net Gain/(Loss) on FX Rate Fluctuations and Income Tax Expense/(Benefit)	**34.342**	**40.434**	**17.7**
Net Gain/(Loss) on Foreign Exchange Rate Fluctuations[3]	14.725	-5.779	-139.2
Income Tax Expense/(Benefit)	2.828	0.121	-95.7
Net Income/(Loss) After Tax	**46.239**	**34.533**	**-25.3**

Note: Details may not add up to total due to rounding.

[1] This account includes, trading gains or losses, fees, penalties and other operating income, among others.

[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 foreign exchange rates arising from foreign currency-denominated transactions of the BSP.

[a] Audited but subject to restatement

[p] Based on the preliminary and unaudited BSP income statement for the year ended December 2020

[*] Growth rates are calculated using 3 decimal places in billions.

.... Not computed

\- Not applicable

Source: Bangko Sentral ng Pilipinas

16 BSP: CONDENSED STATEMENT OF CONDITION
in thousand pesos

ASSETS	31 Dec 2020*	31 Dec 2019**
Foreign Currency Financial Assets		
Deposits with Foreign Banks	784,319,426	458,569,942
Other Cash Balances	106,327	1,518,333
Investment Securities	3,354,507,494	2,865,653,548
Foreign Securities Purchased under Agreements to Resell	493,434,862	639,591,917
Loan to International Monetary Fund (IMF)	1,004,614	1,403,534
Gold	557,305,283	407,222,442
IMF Special Drawing Rights	59,213,856	60,122,875
Gross International Reserves	**5,249,891,862**	**4,434,082,591**
Other Foreign Currency Receivables	185,630,159	104,788,346
Non-IR Foreign Currency On Hand	31,706	32,055
Derivative Instruments in a Net Gain Position	3	17,843
Total Foreign Currency Financial Assets	**5,435,553,730**	**4,538,920,835**
Local Currency Financial Assets		
Investment in Government Securities	1,380,925,071	226,137,002
Loans and Advances	130,888,267	159,046,282
Overnight Lending Facility	0	41,120,215
Due from Administrator of Funds	32,735,609	32,818,796
Other Receivables	22,169,468	23,226,187
Total Local Currency Financial Assets	**1,566,718,415**	**482,348,482**
Total Financial Assets	**7,002,272,145**	**5,021,269,317**
Acquired Assets Held for Sale	1,401,449	154,000
Investment Property	10,360,343	11,907,839
Bank Premises, Furniture, Fixtures and Equipment	23,135,118	24,401,246
Intangible Assets	261,286	260,227
Inventories	20,330,031	12,324,338
Property Dividend to NG	285,214	285,214
Deferred Tax Assets	12,046,723	12,109,489
Miscellaneous Assets	1,586,668	1,483,838
Total Other Assets	**69,406,832**	**62,926,191**
TOTAL ASSETS	**7,071,678,977**	**5,084,195,508**

* Preliminary and unaudited

** Audited but subject to restatement

Source: Financial Accounting Department (FAD), Bangko Sentral ng Pilipinas

16 BSP: CONDENSED STATEMENT OF CONDITION (continuation)

in thousand pesos

LIABILITIES AND CAPITAL	31 Dec 2020*	31 Dec 2019**
Foreign Currency Financial Liabilities		
Short-Term Deposits	283,707,863	130,932,992
Bonds Payable	24,014,484	25,410,318
Allocation of IMF Special Drawing Rights	57,966,369	58,943,995
Other Liabilities	9,386,305	5,470,038
Total Foreign Currency Financial Liabilities	**375,075,021**	**220,757,343**
Local Currency Financial Liabilities		
Government Deposits	521,857,172	32,486,196
Deposits of Banks and Other Institutions	1,390,264,013	1,590,676,855
Deposits of the IMF and Other Fis	96,979,310	107,717,610
Securities Sold Under Agreements to Repurchase	305,027,111	305,127,083
Term Deposit Account	320,096,729	283,224,096
Overnight Deposit Account	1,119,267,613	266,150,999
Bills Payable	219,869,764	0
Total Local Currency Financial Liabilities	**3,973,361,712**	**2,585,382,839**
Total Financial Liabilities	**4,348,436,733**	**2,806,140,182**
Other Liabilities		
Currency in Circulation	2,038,851,052	1,679,054,015
Retirement Benefit Obligations	3,132,816	2,906,150
Miscellaneous Liabilities	31,489,481	6,663,592
Dividends Payable	449,345	17,931,438
Deferred Tax Liability	8,330	9,083
Revaluation of Foreign Currency Accounts	478,424,237	425,935,372
Total Other Liabilities	**2,552,355,261**	**2,132,499,650**
TOTAL LIABILITIES	**6,900,791,994**	**4,938,639,832**
Capital Accounts		
Capital	50,000,000	50,000,000
Surplus	27,051,251	15,602,756
Unrealized Gains on Investments	14,270,575	378,668
Capital Reserves	79,565,157	79,574,252
TOTAL CAPITAL ACCOUNTS	**170,886,983**	**145,555,676**
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	**7,071,678,977**	**5,084,195,508**

* Preliminary and unaudited
** Audited but subject to restatement
Source: Financial Accounting Department (FAD), Bangko Sentral ng Pilipinas

17 BSP: CONDENSED STATEMENT OF INCOME AND EXPENSES WITH BUDGET INFORMATION
in thousand pesos

	31-Dec-20		31-Dec-19
	BUDGET*	ACTUAL**	ACTUAL***
Operating Income:			
Income from Foreign Currency Financial Assets			
Interest Income	70,493,105	59,805,836	82,418,360
Fees, Miscellaneous Foreign Currency Income & Trading Gains-Foreign	65,866	25,044,429	11,451,330
Total Income from Foreign Currency Financial Assets	**70,558,971**	**84,850,265**	**93,869,690**
Expenses on Foreign Currency Financial Liabilities			
Interest Expense	6,525,275	3,057,945	6,397,985
Other Foreign Currency Expenses	1,391,427	1,141,581	917,189
Impairment on foreign currency financial accounts	0	2,556	24,043
Total Expenses on Foreign Currency Liabilities	**7,916,702**	**4,202,082**	**7,339,217**
Net Income from Foreign Currency Financial Assets and Liabilities	**62,642,269**	**80,648,183**	**86,530,473**
Income from Local Currency Financial Assets			
Interest Income & Trading Gains Local	12,646,432	25,627,668	17,997,126
Total Income from Local Currency Financial Assets	**12,646,432**	**25,627,668**	**17,997,126**
Expenses on Local Currency Financial Liabilities			
Interest Expense	46,109,206	43,377,460	38,290,197
Final Tax on Interest Income/Discounts	1,909,477	(1,049,584)	2,626,910
Impairment on local currency financial accounts	51,115	40,884	852,096
Total Expenses on Local Currency Financial Liabilities	**48,069,799**	**42,368,759**	**41,769,204**
Net Loss from Local Currency Financial Assets and Liabilities	**(35,423,366)**	**(16,741,091)**	**(23,772,078)**
Net Income from Financial Accounts	**27,218,902**	**63,907,092**	**62,758,395**
Other Operating Income	**8,721,983**	**7,744,547**	**9,809,383**
Currency Printing and Minting Cost	**19,609,687**	**11,609,436**	**12,472,751**
Operating Expenses:			
Personnel Services, Development and Training	15,028,819	15,381,745	15,086,339
Traveling	496,714	90,100	446,186
Taxes and Licenses	168,587	84,717	6,168,666
Currency and Gold Operations	1,051,152	519,613	273,367
Acquired Assets	383,729	115,397	375,589
Other Services	4,634,628	2,395,974	2,435,583
Fidelity Insurance	124,078	73,398	78,410
Light, Fuel & Water	669,527	243,319	345,123
Repairs & Maintenance	1,741,936	693,405	548,131
Communication Services	373,819	310,000	307,097
Supplies	90,523	45,582	57,186
Others	1,634,745	1,030,270	1,099,637
Depreciation	1,028,277	1,026,450	982,876
Market Decline of Acquired Assets	8,549	(5,317)	(15,398)
Total Operating Expenses	**22,800,453**	**19,608,679**	**25,753,210**
Net Income/(Loss) Before FX Rates Fluctuation	**(6,469,255)**	**40,433,524**	**34,341,817**
Net Realized Gain/(Loss) on FX Rates Fluctuation	**0**	**(5,778,931)**	**14,725,317**
Net Income/(Loss) Before Income Tax	**(6,469,255)**	**34,654,593**	**49,067,134**
Income Tax Expense	0	121,117	2,828,194
Net Income/(Loss) for the Year	**(6,469,255)**	**34,533,476**	**46,238,939**

* *Excluding PICCI budget*
** *Preliminary and unaudited*
*** *Audited but subject to restatement*

Note: Breakdown may not add up to total due to rounding.

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