

BANGKO SENTRAL NG PILIPINAS

2021 ANNUAL REPORT

Rebuilding from the Pandemic:
Getting Back on Track



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Governor's Foreword

Rebuilding from the Pandemic: Getting Back on Track

BENJAMIN E. DIOKNO
Governor



The year 2021 saw a pickup in global economic activity after the contraction in the previous year, despite remaining uncertainties. Like most economies, the Philippines bounced back last year as faster pace of inoculations, better health protocols, continued reforms, appropriate monetary and fiscal policies, as well as financial sector regulations worked together to help stabilize the economy and stimulate growth. The BSP remained steadfast in its efforts in helping ease the adverse economic impact of the pandemic.

As the country enters the third year of the pandemic, the BSP strives toward an environment conducive to an inclusive and resilient recovery by keeping prices and the financial system stable, and the payment system safe. The BSP is fully aware of a global macrofinancial landscape filled with uncertainties arising not only from new COVID variants but also from policy tightening in the US and other economies. On top of all these are fresh risks from geopolitical tensions.

Governor's Foreword (continued)

The BSP's pandemic response

The Bangko Sentral has acted swiftly and decisively since 2020 to contain the economic fallout from the pandemic. The monetary policy rate was reduced to support economic activity. Efforts to keep the market liquid and boost lending in the system have been accompanied by various measures to offer regulatory and operational relief for financial institutions.

To support affected small businesses, we incentivized bank lending to micro, small and medium enterprises by treating new loans in this segment as compliance with the reserve requirement. Furthermore, we excluded some loans from being tagged as past due or non-performing and allowed a grace period for loan settlement and restructuring of rediscounted loans.

Monetary policy



The BSP kept a patient hand on its monetary policy levers in 2021 in the face of rising inflation to allow the economic recovery to gain a stronger foothold. The well-anchored inflation expectations and the direct measures to address supply-side pressures on consumer prices have allowed maintaining an accommodative stance in monetary policy.

As the US marches toward tightening, the risk of sudden stops and reversals in capital flows arise. Having said that, the fluctuations in the peso remained in line with the movements of other currencies in the region. This may be attributed in part to the country's healthy gross international reserves, which have reached levels that serve as a solid external liquidity buffer. At the same time, structural flows from remittances, revenues from information technology and business process management services, and foreign direct investments are expected to continue to further bolster the country's external payments position.

Banking sector and financial system stability



Despite the challenges brought about by the pandemic, the country's banking system has remained sound and stable with a more than ample supply of liquidity, strong capitalization, and satisfactory loan and asset quality. These were results of good corporate governance and appropriate risk management practices encouraged by sound banking sector regulations and a robust supervisory framework. Meanwhile, non-financial corporations generally entered the pandemic with stronger balance sheets, providing firms with adequate capacity to service debt. Nonetheless, the BSP will continue to utilize its macroprudential policy framework in managing potential systemic risks.

Efficient payments and settlements system



Digital payments have continued to rise, with the BSP achieving its original target of shifting 20 percent of all payments toward online channels in 2020. The COVID-19 pandemic has also created exceptional opportunities to boost digital payments and financial inclusion in the country. Going forward, the BSP continues to implement the Digital Payments Transformation Roadmap, which is driven by a couple of measurable targets by 2023. First, transform 50 percent of the volume of retail payments into digital form. Second, onboard 70 percent of adult Filipinos in the formal financial system through the opening of transaction accounts that may be used for payments. The BSP will back initiatives to achieve the following goals: (1) wider acceptance and use of digital payments services; (2) increase digital payments adoption through better security, efficiency and interoperability within the payments ecosystem; and (3) foster financial stability and consumer protection through the issuance of regulatory standards that safeguard cybersecurity, customer information confidentiality and data integrity, among others.

Pandemic exit strategy



As the economy moves forward into full recovery from the pandemic, the BSP is planning for the eventual normalization of its extraordinary liquidity measures when conditions warrant, in keeping with its price and financial stability mandates. It should however be emphasized that the timing of the exit remains uncertain at this juncture. While recent indicators point to a recovering economy, threats from global developments and further COVID-19 infections due to new variants may continue to pose economic risks and challenges in the coming months.

Looking ahead, the central bank's actions and policy thrusts will continue to be anchored on its core mandates of promoting price and financial stability, and a safe, efficient, and inclusive payments system. The BSP affirms its support for as long as necessary to ensure the country's strong and sustainable economic recovery.

In the succeeding pages, we share stories of how the BSP pursued its mandates and helped fuel economic recovery for the Filipino people in 2021. We hope that this report will impress upon you, our stakeholders, that your central bank continues to be vigilant in monitoring the economic outlook and pursuing appropriate policy actions responsive to the call of the times.

Para sa bawat Pilipino, Bangko Sentral ng Pilipinas.



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 Philippine 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.

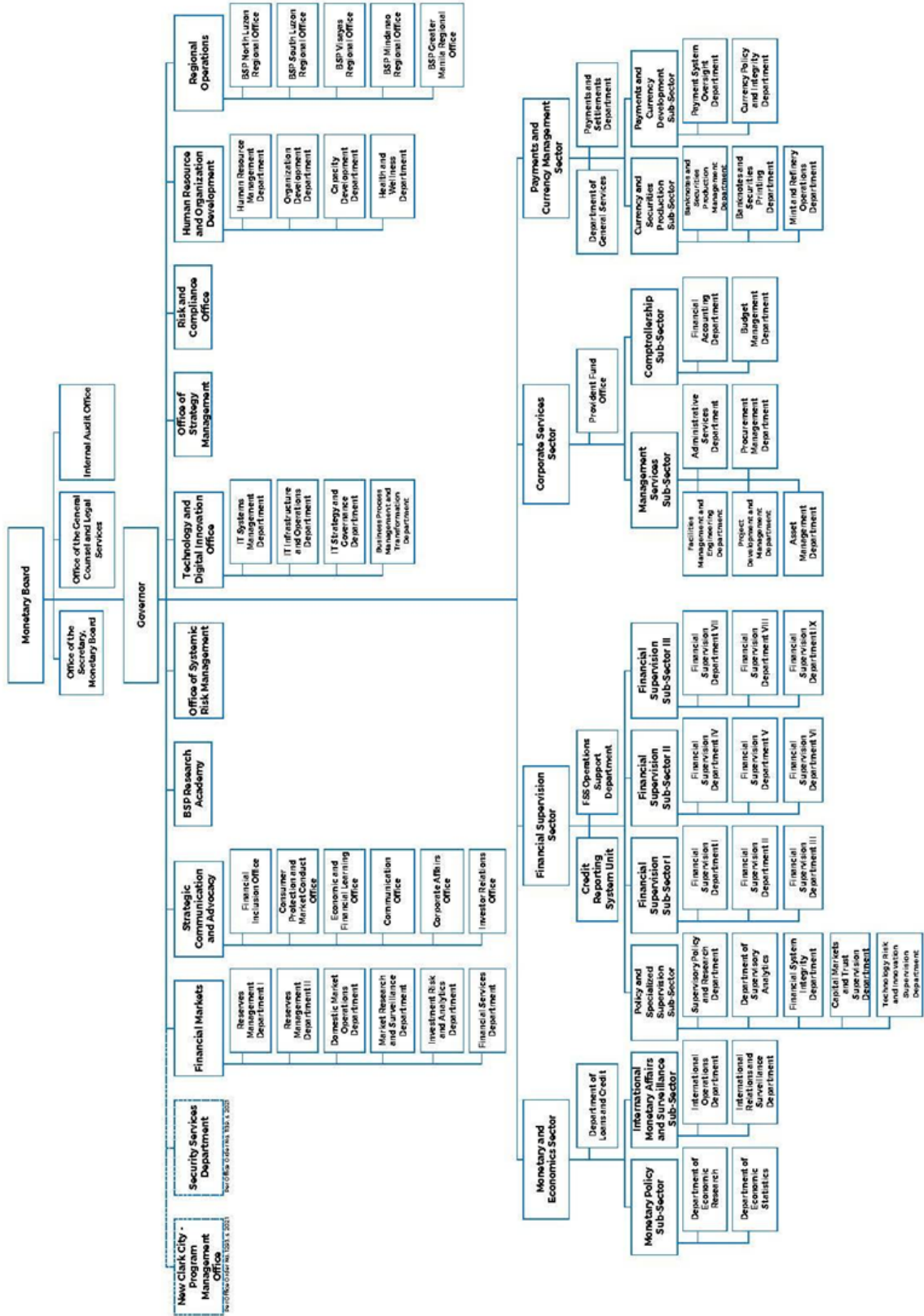
The BSP is also tasked to perform the following functions:

- *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 embodies 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 31 December 2021



Overview of 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 2021

The Monetary Board

Chairman and 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 the Governor

Maria Ramona Gertrudes T. Santiago
Senior Assistant Governor

Johnny Noe E. Ravalo
Senior Assistant Governor

Lilia C. Guillermo
Assistant Governor

Rosabel B. Guerrero
Managing Director

Prudence Angelita A. Kasala
Managing Director

Mel Georgie B. Racela
Executive Director II

Elmore O. Capule
Senior Assistant Governor
and General Counsel

Amenah F. Pangandaman
Assistant Governor

Mary Jane T. Chiong
Managing Director

Jayzle D. Ravelo
Managing Director

Antonio Joselito G. Lambino II
Managing Director

Monetary and Economics Sector

Francisco G. Dakila, Jr.
Deputy Governor

Illuminada T. Sicat
Senior Assistant Governor

Zeno Ronald R. Abenoja
Managing Director

Thomas Benjamin B. Marcelo
Managing Director

Financial Supervision Sector

Chuchi G. Fonacier
Deputy Governor

Restituto C. Cruz
Assistant Governor

Arifa A. Ala
Assistant Governor

Lyn I. Javier
Assistant Governor

Vicente T. De Villa III
Managing Director

Ma. Belinda G. Caraan
Managing Director

Payments and Currency Management Sector

Mamerto E. Tangonan
Deputy Governor

Edna C. Villa
Assistant Governor

Mary Anne P. Lim
Managing Director

Bella S. Santos
Managing Director

Corporate Services Sector

Maria Almasara Cyd N. Tuaño-Amador
Deputy Governor

Eduardo G. Bobier
Assistant Governor

Vincent Z. Bolivar
Managing Director

Dennis S. Santiago
Managing Director

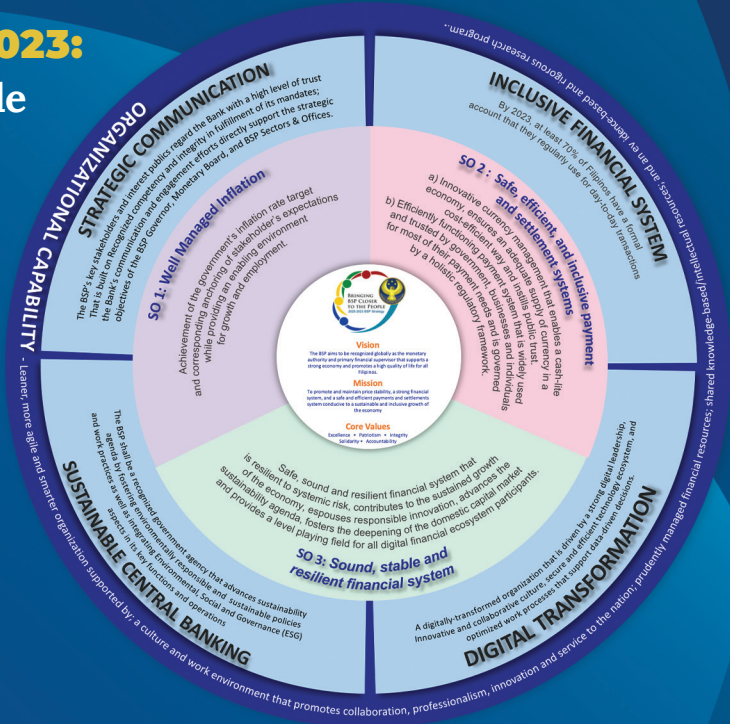
Silvina Q. Mamaril-Roxas
Managing Director

Enrique C. Domingo
Executive Director II

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

BSP's Strategy Map

As the Philippines' central monetary authority and primary financial system regulator, the BSP often re-examines its impact on its main stakeholders—the Filipino people. Being proactive, the Bank updates strategies in response to changes in the operating environment. The strategy map highlights the BSP's overall focus on stakeholder outcome. It also marks the unity and highly collaborative nature of the organization. The BSP's strategic objectives and programs reflect what matters deeply to its stakeholders. At the center are the vision, mission, and core values—the elements that define BSP—together with the overall aim of bringing the BSP closer to the people.



BSP's key drivers of success or strategic objectives are based on the three pillars of central banking: (1) price stability through well-managed inflation; (2) sound, stable and resilient financial system; and (3) a safe, efficient, and inclusive payment and settlement systems. These are bolstered by the strategic programs of Digital Transformation, Sustainable Central Banking, Strategic Communication, and Inclusive Financial System. To ensure the BSP continues to be a lean, agile, and responsive organization, Organizational Capability undergirds all the strategic objectives and programs.

The BSP's Strategic Objectives and Strategic Programs

Strategic Objective 1: Well-managed inflation

For the BSP, well-managed inflation means the consistent achievement of the government's annual inflation rate target set by the Development Budget Coordination Committee (DBCC) while anchoring stakeholders' expectations and providing an enabling environment for growth and employment.

Achieving price stability through well-managed inflation is essential to promote a more sustainable and balanced economic growth as well as steady improvements in the Filipinos' quality of life. When there is price stability, households and firms can make informed decisions on consumption, investment, saving, and production towards achieving high levels of economic activity and employment.

Strategic Objective 2: Safe, efficient, and inclusive payment and settlement systems

Payments are vital in facilitating productive activity that will drive broad-based economic growth and financial inclusion. Digital payments serve as a gateway to using savings, credit, insurance and investment for deeper financial inclusion that helps people improve their lives.

The BSP envisions the national payment system to possess three key features. First, it enables a cash-lite economy while ensuring an adequate supply of currency in a cost-efficient way, thereby instilling public trust. Second, it is widely used and trusted by vast numbers of the public for most of their payment needs. Third, it is governed by a holistic regulatory framework.

Strategic Objective 3: Sound, stable and resilient financial system

The BSP envisions a safe, sound, and stable financial system that is resilient to systemic risk, contributes to the sustained growth of the economy, espouses responsible innovation, advances the sustainability agenda, fosters the deepening of the domestic capital market, and provides a level playing field for all digital financial ecosystem participants. To promote financial stability, the BSP supervises banks and other financial institutions and conducts surveillance activities to ensure their safety and soundness as well as the resilience of the entire financial system. Attuned to developments in the regulatory space and business environment, the BSP is committed to espouse enabling policies that support responsible innovation and contribute to the sustainable growth of the economy.

Strategic Program 1: Inclusive Financial System

The pursuit of an inclusive financial system has never been more urgent, with the pandemic ushering in a new way of living. To thrive in the post-COVID-19 economy, people must be able to transact digitally, access affordable financing to revive businesses or pursue new income opportunities, and protect their cash flow through insurance and investment. These are the practical needs of the broader population that an inclusive financial system is designed to deliver—leaving no one behind. The country's transition to a more inclusive and resilient post-pandemic world requires an inclusive financial system.

Strategic Program 2: Strategic Communication

The strategic communication program envisions that key stakeholders and relevant publics regard the BSP with a high level of trust built on recognized competency, credibility, and integrity in the fulfillment of its mandates. This aims to strengthen public trust by enhancing the level of stakeholder awareness of the BSP, their understanding of its policies and initiatives, and the impact of such policies on their households and on the broader economy. Dialogue and feedback enable the BSP to understand relevant issues, guide its actions, and remain responsive to stakeholder interests.

Strategic Program 3: Sustainable Central Banking

The sustainable central banking program envisions the BSP as a recognized government agency that advances the sustainability agenda by fostering environmentally responsible and sustainable policies and work practices. In addition, it also seeks to integrate Environmental, Social, and Governance (ESG) aspects in its key functions and operations. This will enable the BSP to respond appropriately to the significant risks to price and financial stability posed by climate, environmental and social issues.

Strategic Program 4: Digital Transformation

The BSP's digital transformation program envisions a digitally transformed organization that is driven by strong digital leadership, innovative and collaborative culture, secure and efficient technology ecosystem, and optimized work processes that support data-driven decisions. This transformation is not only about technology but also considers the areas of people and processes, covering both internal and external stakeholders.

Strategic Program 5: Organizational Capability

Organizational capability supplies the strong foundations for the successful execution of the BSP's strategic initiatives. This strategic program leverages the linkages among the physical, human, financial and intellectual resources of the BSP and provides solid ground upon which to sustain the achievements of the other core objectives, enabling the BSP to efficiently and effectively serve the Filipino people.



HOW

WE WERE IN 2021:

**Global and Domestic
Macroeconomic Landscape**

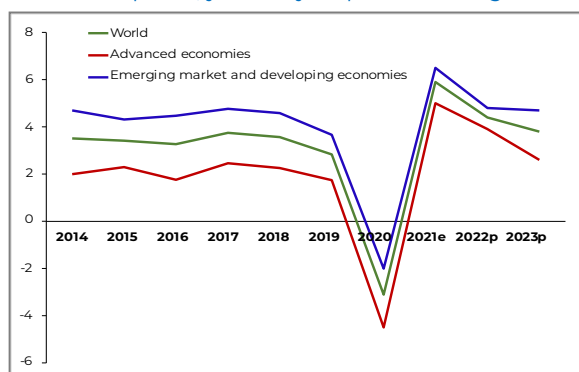
How We Were in 2021: Global and Domestic Macroeconomic Landscape

Global Economic Developments

Global economic activity expands in 2021

The global economy expanded in 2021 as accommodative monetary policy settings, sizable fiscal support, and continued vaccine rollouts underpinned the progressive recovery of demand in advanced economies (AEs) as well as in emerging markets and developing economies (EMDEs). The extraordinary interventions implemented by fiscal and monetary policymakers helped tide over households and businesses that were financially strained as recurrent lockdown measures were implemented due to multiple waves of COVID-19 infections.

Chart 1.1 World GDP Growth
At constant prices, year-on-year percent change



Source: IMF World Economic Outlook Updated, January 2022
e - estimated; p - projections

Disparate vaccine distribution and divergent policy measures aggravated the global economy's asynchronous recovery

The gradual rollout of COVID-19 vaccines at the start of the year enabled governments to sequentially ease pandemic-related restrictions and allow economic recovery to proceed. However, the issues in the distribution of vaccines caused COVID-19 to further spread and mutate in regions with limited access to health care services and effective medical interventions. In low-income developing countries and EMDEs, limited vaccine access caused widespread economic dislocation as repeated quarantine restrictions were imposed amid the emergence of more virulent COVID-19 variants.

Factories and export-oriented manufacturing firms located in these country groups had limited operational capacity as COVID-19 outbreaks led to staff shortages and mandatory shutdowns. Accordingly, retailers and businesses in AEs that are highly dependent on international production networks faced acute supply shortages and were unable to meet the pent-up demand as outbreaks in locations that are considered critical links of global supply chains prevented the seamless functioning of cross-border merchandise trade. The resulting supply constraints and elevated input prices reverberated throughout the global economy as supply chain integration created strong links in the transmission of price and output shocks.

In AEs, growth estimates were repeatedly revised downward by the International Monetary Fund (IMF) during the year as protracted supply

chain disruptions, tight labor markets, and rapid demand recovery pushed inflation rates higher. Price pressures continued to broaden throughout the latter half of 2021 as persistent shortages, along with improving incomes and pent-up demand, contributed significantly to elevated inflation in the US and the Euro Area. Consequently, economic confidence in these regions moderated as soaring prices stymied consumption growth although strong fiscal support, continuous expansive monetary settings, and increased precautionary savings sustained overall economic recovery during the period.

In addition, the early rollout of vaccines and effective pandemic management strategies allowed AEs to normalize economic activity ahead of other country groups. The latest estimates from multilateral institutions suggest that most AEs are expected to revert to, if not exceed, pre-pandemic levels of economic output by end-2021.

Meanwhile, growth prospects for EMDEs were likewise lowered during the year due to the considerable slowdown in China's debt-ridden property sector as well as delayed output recovery in India and the ASEAN amid multiple waves of COVID-19 infections. At the same time, recurring quarantine restrictions amid rising COVID-19 cases, limited fiscal policy support, and lower public investments weighed on the EMDEs' recovery momentum. The slower overall recovery of the country group was partially offset by better growth prospects in commodity-exporting economies amid the continued rise in raw material prices.

Nevertheless, uncertainties emanating from the emergence of new COVID-19 variants, abrupt tightening of global financial conditions, limited policy space to support activity if needed, and elevated debt levels pose downside risks to the recovery and growth outlook of EMDEs for 2022 and 2023.

Risks to 2022 global growth are tilted to the downside amid protracted supply chain disruptions, elevated inflation, and abrupt tightening of monetary conditions

Looking ahead, global economic growth in 2022 is projected to slow down more than initially expected as recovery prospects have weakened.

Risks to the global growth outlook are tilted downward in view of tight labor markets in AEs, protracted global supply chain disruptions, uncertainty on inflation and monetary policy, and possible emergence of vaccine-resistant COVID-19 variants. Downside risks may also emanate from geopolitical tensions, social unrest, worsening climate disasters, rising energy commodity prices, continued tariff increases, and cross-border technology frictions.

Conversely, upside risk factors include higher vaccination rates, earlier-than-expected easing of supply chain pressures, and lower inflation. Nonetheless, recovery prospects and growth trajectories of AEs and EMDEs are still expected to remain asynchronous due to varying vaccination rates, surging prices, and divergent size of monetary and fiscal support.

Philippine Economic Developments

The Philippine economy rebounds strongly in 2021

The Philippine economy recovered strongly in the second year of the pandemic. Real gross domestic product (GDP) grew by 5.6 percent in 2021, a rebound from the 9.6 percent contraction recorded in 2020. It even exceeded the national government's (NG) revised growth target for 2021 of 5.0-5.5 percent.¹ This may be attributed to the successful management of the pandemic through targeting the areas with the highest risk of COVID-19 infections while allowing the rest of the economy to open.

On the supply side, growth was driven by the notable contributions of both the services (5.3 percent) and industry (8.2 percent) sectors, particularly human health and social work activities (15.0 percent), construction (9.8 percent), information and communication (9.1 percent), and manufacturing (8.6 percent). Unlike the stringent restrictions on business operations and mobility in the previous year, industries and services could operate and public transportation remained available at certain capacities for most of 2021. Meanwhile, agriculture, forestry, and fishing (AFF) contracted by 0.3 percent due to the lingering effects of the African Swine Fever (ASF) on hog production as well as damages caused by typhoons.

On the demand side, growth in 2021 was underpinned by the double-digit rise in gross capital formation (19.0 percent),

supported by the expansion in durable equipment (11.9 percent) and construction (10.6 percent). Household consumption also grew by 4.2 percent, which indicates the return of consumer confidence as a result of more relaxed quarantine restrictions and the accelerated vaccination program. Government consumption likewise continued to expand by 7.0 percent in 2021.

Aggregate Output and Demand

Supply side. The services sector grew by 5.3 percent in 2021, a turnaround from the 9.2 percent decline in 2020, on account of eased quarantine restrictions that supported improved mobility during the year. Accounting for 60.5 percent of the domestic economy, the sector propped up the GDP growth outturn for the year by 3.2 percentage points (ppts). The rebound in services was buoyed by the marked improvements in its major subsectors, particularly the wholesale and retail trade, repair of motor vehicles and motorcycles subsector. The latter contributed by itself 0.8 ppts to GDP growth as it grew by 4.3 percent (from minus 6.0 percent in 2020). Public transportation and essential industries were also allowed to operate despite restrictions during extended periods of the COVID-19 surge, thus, supporting the 6.3 percent growth (from minus 30.9 percent) in the transport and storage subsector. There were two of these infection surges: in April 2021 due to the Alpha and Beta variants of the coronavirus, and in August to September 2021 due to the Delta strain. Furthermore, accommodation and food services activities posted a strong recovery during the year, expanding by 7.8 percent from

¹ Approved during the 180th Development Budget Coordination Committee meeting on 14 December 2021.

double-digit contraction of 45.4 percent in the previous year. The containment efforts of the government resulted in lower COVID-19 cases toward the end of the year; hence, restrictions were gradually eased, and establishments could increase their operational capacities. Under the government's pandemic Alert Level 2, restaurants could increase their indoor dine-in services to 50.0 percent capacity for fully vaccinated individuals and outdoor dine-in services to 70.0 percent capacity. Meanwhile, hotels and other accommodations could operate subject to guidelines issued by the Department of Tourism and the Inter-Agency Task Force for the Management of Emerging Infectious Diseases.

Meanwhile, among the major production sectors, industry recorded the fastest growth in 2021 at 8.2 percent (from a 13.2-percent decline in 2020). This was driven primarily by the strong rebound in construction and manufacturing activities during the year. Construction in 2021 recovered, posting a growth of 9.8 percent from the 25.7 percent drop in 2020 due mainly to higher public construction activities (37.4 percent from minus 10.4 percent) in line with the government's strategy to accelerate the completion and implementation of major infrastructure projects to revive the economy. Likewise, the manufacturing subsector, which comprised 64.1 percent of the total industry sector, rose by 8.6 percent in 2021 from a 9.8-percent decrease in 2020. Less stringent restrictions helped manufacturers resume operations and increase production amid supply chain challenges such as freight delays, port


congestion and global shortages. The country's manufacturing Purchasing Managers' Index treaded above the 50.0 neutral threshold from September 2021 and hit a nine-month high in December 2021 at 51.8. This shift to expansion signals a solid uptick in business conditions and a move toward recovery in manufacturing activities as larger demand brought in new orders and higher output, combined with strong growth in exports.

On the other hand, the AFF sector further contracted by 0.3 percent in 2021 from 0.2 percent the year before. The negative performance of the sector was due largely to the double-digit decline in livestock production of 17.3 percent. This is the third consecutive year that livestock production contracted due to the continued presence of ASF. Nonetheless, the Department of Agriculture's (DA) partnership with hog farmers, local government units and the private sector has already resulted in significant drop in localities reporting ASF cases. From a high of 3,500 during the outbreak two years ago, the number of ASF-affected barangays has fallen to only 43 as of end-2021.² Palay production, on the other hand, continued to expand by 3.3 percent (from 3.1 percent in 2020) with support from the Rice Enhancement Competitiveness Fund.³ In line with its goal of attaining national food security, the DA will continue to implement various programs on sustainable food production and provide policy and financial support to farmers and fisherfolk.⁴

² Statement by DA Assistant Secretary Noel Reyes in a virtual briefing.

³ DA News. "Rice industry rises amidst challenges", dated 7 February 2022.

⁴ DA News. "DA, NEDA, DTI, other gov't agencies join forces towards national recovery", dated 25 January 2022.



Demand side. On the demand side, growth was propelled by the double-digit rise in gross capital formation and robust expansion in household and government expenditures. This reflects a boost in both consumer and business confidence as labor market conditions improved, attributable to the easing of restriction and reopening of more sectors of the economy.

Household final consumption expenditure expanded by 4.2 percent in 2021 from the 7.9 percent decrease in 2020. Having a share of about 72.7 percent to GDP, the upturn in the sector boosted overall output by 3.1 ppts. Almost all subcomponents of household spending increased, particularly food and non-alcoholic beverages (up by 3.4 percent), miscellaneous goods and services (4.5 percent), health (14.4 percent), and education (8.6 percent). The positive performance of household spending was supported by eased mobility restrictions, allowing more people to go back to work, and higher consumer confidence following the increasing vaccination rate in the country.

Government expenditures grew by 7.0 percent, albeit a moderation from 10.5 percent increase in 2020. The sustained growth in government spending was in line with its implementation of various COVID-19 response and recovery measures.

Gross capital formation rose by 19.0 percent, coming strongly from a steep contraction of 34.4 percent in the previous year. Lending support to this were the double-digit growth in durable equipment and construction. Durable equipment rose by 11.9 percent, a turnaround from a 29.7-percent

contraction in 2020, due mainly to improved business sentiment following the safe reopening of the economy and continued operations of the manufacturing and transport sectors. Meanwhile, construction grew by 10.6 percent (from minus 30.3 percent in 2020) as all essential public and private construction projects were allowed at full operational capacity regardless of the area's quarantine status, subject to strict compliance with safety guidelines. While corporations' building activities posted a 22.7 percent decline, this was fully offset by the increase in construction activities of households (38.4 percent) and of the general government (37.4 percent). Infrastructure development remains at the core of the government's strategy to revive the economy.

Both exports and imports posted positive performances in 2021. Exports during the year increased by 7.8 percent, a rebound from the 16.3 percent contraction in 2020, indicating global economic recovery and eased restrictions on travel and export-oriented industries. Meanwhile, the expansion in the domestic economy, particularly in investments and household spending, was reflected in the broad-based recovery in goods imports. Total imports of goods and services increased by 12.9 percent in 2021, reversing the decline in 2020 of 21.6 percent. The resulting net exports led to a 6.6 ppts deduction from the 2021 GDP outturn.

Overall, the calibrated reopening of the economy, along with improving global economic landscape, government policy support and structural reforms, helped the Philippine economy to recover strongly in 2021. The government's accelerated vaccination drive has enabled the safe and targeted

resumption of many economic activities. This led to additional employment, above-target revenue collections, and a strong and early recovery. Moving forward, the ₱5.0 trillion national budget in 2022 will enable the government to continue to implement its COVID-19 response and economic recovery efforts. The “Build, Build, Build” program of the government is also expected to generate more jobs and further revive businesses.

Furthermore, proposed legislation further liberalizing key economic activities (e.g., retail trade, foreign investments and public services), which are expected to be completed prior to the national election in May 2022, will lend support to greater competitiveness and increased investment appetite as well as boost the country’s long-term growth potential.

Labor and Employment Conditions

Labor market indicators improve from pre-pandemic levels

Gainful employment among Filipinos increased by 3.8 million as of the end of 2021 compared with the level before the onset of the COVID-19 pandemic. Based on the results of the December 2021 Labor Force Survey of the Philippine Statistics Authority, the number of Filipinos employed rose to 46.3 million from 42.5 million in January 2020.⁵ Most of the employed as of December 2021 were in the services sector (26.2 million or 56.6 percent) while the others worked in the agriculture

(11.8 million or 25.6 percent) and industry (8.2 million or 17.8 percent) sectors. However, the employment rate slightly declined to 93.4 percent in December 2021 from 94.7 percent in January 2020.

The unemployment rate also continued to ease as it fell to 6.6 percent in December 2021, which was closer to the 5.3-percent pre-pandemic level in January 2020. This was due to the continued relaxation in mobility and economic activity restrictions as the country moved to granular lockdowns in order to open up localities showing declines in COVID-19 cases. From 8.7 percent in January 2021, the unemployment rate declined to 6.5 percent in November 2021, the lowest since the pandemic started, as authorities lowered the alert level in many parts of the country.

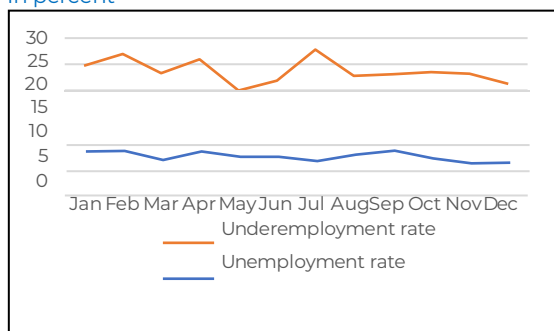
Other labor market indicators likewise showed improvement. The Labor Force Participation Rate, or the percentage of the population 15 years and older that is in the labor force, increased to 65.1 percent in December 2021 from 61.7 percent in January 2020. Moreover, the underemployment rate of 14.7 percent in December 2021 was even slightly lower than the 14.8 percent registered in January 2020.

As the country further relaxes its restrictions amid continued vaccine rollout, labor market indicators are expected to further improve moving forward.

⁵ In December 2020, the PSA Board approved the release of monthly LFS starting in 2021, with the monthly LFS conducted in between the regular (quarterly) LFS, in order to provide high frequency

data on the labor market during the pandemic. All monthly estimates for 2021 are preliminary and the annual data will be released in June 2022.

Chart 1.2 Unemployment/Underemployment Rate
In percent



Prices

Using the 2012-based consumer price index (CPI) series, average headline inflation nationwide rose to 4.5 percent in 2021 from 2.6 percent the previous year⁶ (Chart 1.4) because of rising energy prices and supply constraints of key food items. This is also above the government’s annual inflation target range of 2–4 percent for 2021.

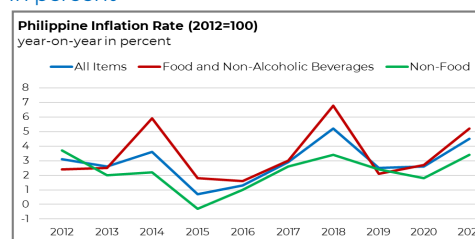
It should be noted that the PSA released the rebased CPI series using the 2018 base year on 4 February 2022. The new series updates the market basket, which better reflects the spending patterns of consumers. Using the 2018-based series, the annual headline inflation settled at 3.9 percent in 2021.

Food inflation remained elevated for most of the year, driven by just a couple of commodities, namely, meat and fish. Meat inflation climbed to double-digit rates in 2021 as the ASF outbreak reduced local hog production. At the same time, adverse weather conditions also hampered fishing, which pushed fish inflation higher during the year. Meanwhile, vegetable inflation eased slightly but remained elevated in 2021

⁶ The PSA released the rebased CPI series using the 2018 base year on 4 February 2022. Under the new series, annual inflation settled at 3.9 percent.

due to supply disruptions from damage caused by weather disturbances in parts of the country.

Chart 1.3 Philippine Inflation Rate (2012=100)
In percent



Source: PSA

Similarly, non-food inflation increased, driven by rising energy prices. Transport inflation went up to 9.7 percent in 2021 from 3.2 percent in the previous year as domestic fuel prices rose reflecting the uptrend in global crude oil prices. At the same time, inflation for housing, water, electricity, gas, and other fuels also went up as electricity rates were adjusted upwards due to higher generation costs.

Inflationary pressures were tempered slightly by negative base effects from the significant increase in prices of meat and vegetable commodities in the latter part of 2020. Negative base effects can also be traced to the substantial uptick in transport fares in 2020 with the enforcement of health protocols.

Inflation in other areas outside NCR (AONCR) also showed an uptrend in 2021 due to faster increases in prices of food and non-food items, albeit price gains in AONCR were notably higher compared with those in the NCR. While NCR inflation accelerated to 3.5 percent in 2021 (from 2.2 percent in 2020), headline inflation in the rest of the country rose to 4.7 percent during the year from 2.7 percent the year before.

Demand-side pressures appear to be limited as depicted by core inflation, which excludes selected volatile food and energy items. Average core inflation remained firmly within the target band at 3.3 percent in 2021, broadly unchanged from 3.2 percent in 2020. Meanwhile, most of the alternative measures of core inflation estimated by the BSP increased in 2021. The only exception was the weighted median measure that fell to 1.7 percent in 2021 from 2.3 percent in the previous year.

Chart 1.4 Measures of Core Inflation (2012=100)
In percent

| Table A. Alternative Measures of Core Inflation (2012-based CPI) | | | | |
|--|----------------|---------------------------|------------------------------|------------------------------------|
| Year | Core Inflation | Trimmed Mean ¹ | Weighted Median ² | Net of Volatile Items ³ |
| 2019 | 3.2 | 2.6 | 2.9 | 3.3 |
| 2020 | 3.2 | 2.1 | 2.3 | 3.4 |
| 2021 | 3.3 | 2.7 | 1.7 | 4.1 |

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. These represent 29.5 percent of all items.
 Sources: PSA and BSP estimates

Monetary Aggregates

Domestic liquidity remains ample

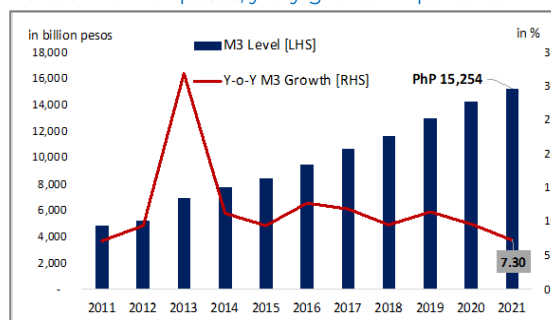
Domestic liquidity or M3 increased by 7.3 percent year-on-year (y-o-y) as of end-December 2021 following a 9.6-percent expansion recorded at end-2020. The slower growth in domestic liquidity may be attributed to slower credit activity, particularly among resident households amid the resurgence of COVID-19 infections in the early part of the year. Nevertheless, the BSP's prior

⁷ Domestic claims consist of net claims on central government and claims on other sectors.

liquidity-enhancing measures and accommodative monetary policy stance have ensured ample liquidity in the financial system to support economic activity and strengthen market confidence. With adequate liquidity in the domestic financial system, and as the country's COVID-19 caseload improved, credit activity picked up during the latter part of the year.

Domestic claims⁷ or credits to the domestic economy grew by 7.7 percent y-o-y due to the expansion in claims on the private sector (2.8 percent), reflecting the gradual improvement in bank lending in the last few months of the year. Meanwhile, net claims on the central government rose by 22.1 percent due in part to the sustained borrowings by the NG to help support the recovery of the domestic economy from the pandemic.

Chart 1.5 Domestic Liquidity (M3)
Levels in billion pesos; y-o-y growth in percent



Net foreign assets (NFA) in peso terms rose by 6.5 percent y-o-y in December 2021. The slower expansion in the BSP's NFA position reflected the decline in the country's gross international reserves relative to the previous year. Meanwhile, the NFA of banks expanded at a slower clip due to the increase in banks' foreign liabilities.

Operations of the National Government

The NG recorded a budget deficit of ₱1.7 trillion in 2021, 21.8 percent higher than the fiscal gap of ₱1.4 trillion recorded in 2020. This latest level of fiscal deficit was equivalent to minus 8.6 percent of GDP and was below the revised programmed deficit for 2021 by 10.0 percent.⁸ The broader budget shortfall was a result of the sizable expansion in government spending in view of the immediate response to the socio-economic impacts of the prolonged COVID-19 pandemic. The NG's revenues increased by 5.2 percent y-on-y to ₱3.0 trillion from ₱2.9 trillion in 2020, mainly attributed to higher collections by the Bureau of Customs and Bureau of Internal Revenue by 19.7 percent and 6.5 percent, respectively. Relative to the size of the economy, total NG revenue in 2021 accounted for 15.5 percent of GDP, a slight decrease from the 2020 ratio of 15.9 percent.

Meanwhile, NG disbursements amounted to ₱4.7 trillion in 2021, equivalent to 24.1 percent of GDP, and higher by 10.6 percent from the ₱4.2 trillion level in 2020. 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 revised programmed spending for 2021 by ₱61.5 billion or minus 1.3 percent.

The 2021 fiscal deficit was financed mainly through domestic sources, which covered about 85.3 percent of the gross

financing requirement of the NG. The country's favorable fiscal position and sustained economic growth was disrupted by the pandemic, raising the debt-to-GDP ratio from 54.6 percent in 2020 to 60.5 percent in 2021. 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.

Financial Market Conditions

Exchange Rate

The peso shows resiliency despite concerns over the emergence of new COVID-19 variants and prospects of a faster pace of US Fed tightening

The peso averaged ₱49.3/US\$1 for the period 4 January to 31 December 2021, appreciating by 0.8 percent from the ₱49.6/US\$1 average in 2020.⁹ The peso and the foreign exchange market remained resilient in 2021 despite worries over the emergence of new and aggressive COVID-19 variants, as well as prospects of a faster pace of tightening by the US Federal Reserve. This reflects, in general, investors' continued focus on the country's macroeconomic fundamentals, which include a manageable inflation environment, a strong and resilient banking system, a prudent fiscal position, and an ample level of international reserves buffer.

⁸ Bureau of the Treasury Press Release "Full-Year National Government Budget Deficit Rises to ₱1.7 trillion in 2021" 1 March 2022".

⁹ Dollar rates or the reciprocal of the peso-dollar rates (based on reference rates data) were used to compute for the percentage change.

At the same time, positive market sentiment over the NG's efforts to accelerate the vaccination program, the consequent decline in local COVID-19 cases, and the easing of lockdown restrictions¹⁰ translated to a relatively stable foreign exchange rate. Meanwhile, the continued buildup in the country's international reserves, as well as the reaffirmation of the country's credit ratings also helped sustain market confidence in the local currency.^{11,12}

Chart 1.6. Quarterly Peso-Dollar Rate
PHP/US\$ average per quarter

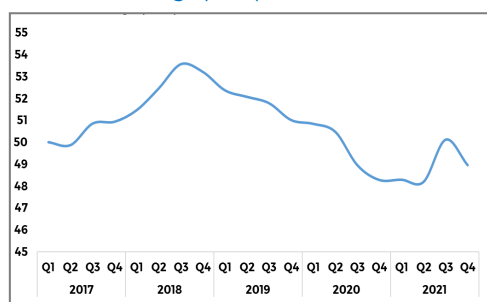
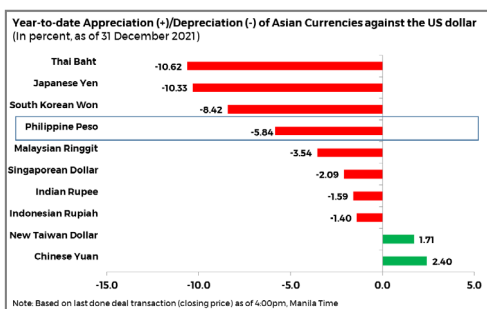


Chart 1.7 Year-to-date Appreciation (+) / Depreciation (-) of Asian Currencies against US\$ in percent as of 31 December 2021



Source: Bloomberg, Reuters, and PDEX
Note: Based on last done deal Transaction (closing price) as of 4:00 p.m., Manila time Closing rates used for THB, NTD and KRW are as of 29 December 2021

¹⁰ The new quarantine framework focuses on the imposition of granular lockdown measures over a city or municipality (under Alert Levels 1 to 5) and allows more economic activity and has relatively fewer restrictions.

¹¹ As of end-December 2021, the country's gross international reserves stood at US\$110.1 billion (revised). This can cover 11.8 months' worth of imports of goods and payments of services and primary income. It is also equivalent to 9.5 times the country's short-term external debt based on original maturity and 5.4 times based on residual maturity.

As of end-December 2021, the peso closed at ₱51.0/US\$1, depreciating by 5.8 percent from its closing rate of ₱48.0/US\$1 on end-December 2020.¹³ The peso depreciated along with most regional currencies except the Chinese yuan, which appreciated against the US dollar.¹⁴ The depreciating trend of the peso and other currencies in the region toward the end of the year was due to market concerns over the prospects of a faster pace of tightening by the US Fed.

Meanwhile, the volatility of the peso (as measured by the coefficient of variation) stood at 2.2 percent (year-to-date) as of 31 December 2021, which was in line with the volatility of most currencies in the region.¹⁵

Chart 1.8 Volatility of Selected Currencies in 2021
Coefficient of Variation (CoVar)
In percent

| Currency | CoVar |
|------------|-------------|
| HKD | 0.19 |
| CNY | 0.77 |
| SGD | 1.02 |
| IDR | 1.13 |
| MYR | 1.44 |
| CHF | 1.50 |
| GBP | 1.69 |
| NZD | 2.04 |
| PHP | 2.20 |
| EUR | 2.39 |
| KRW | 2.69 |
| JPY | 2.75 |
| AUD | 2.97 |
| THB | 4.02 |

¹² In Q3 2021, Fitch kept its "BBB" rating with a negative outlook while China Lianhe Credit Rating Co. Ltd. and JCRA affirmed its "AAA" and "A" ratings, respectively, both with a stable outlook.

¹³ Last trading day for the Philippines for 2021 and 2020 is 31 and 29 December, respectively.

¹⁴ The Chinese yuan appreciated against the US Dollar on the back of strong trade surpluses and robust portfolio inflows amid market enthusiasm for Chinese government bonds.

¹⁵ The coefficient of variation is computed as the standard deviation of the daily exchange rates divided by the average exchange rate for the period.

On a real trade-weighted basis, the peso lost external price competitiveness against the basket of currencies of all trading partners (TPI) and trading partners in advanced (TPI-A) countries in 2021. This was indicated by the y-o-y increase in the real effective exchange rate (REER) index of the peso against the TPI and TPI-A by 0.7 percent and 2.3 percent, respectively. Meanwhile, against the basket of currencies of trading partners in developing (TPI-D) countries, the REER index of the peso decreased by 0.2 percent.¹⁶

Stock Market

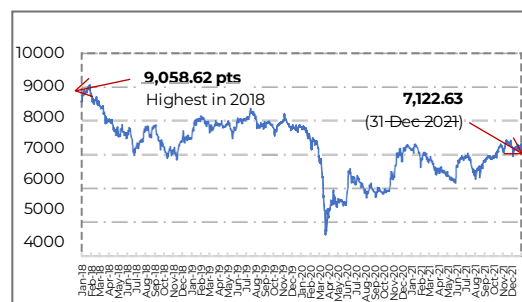
In 2021, the Philippine Stock Exchange index (PSEi) averaged 6,852.0 index points, higher by 7.8 percent than the preceding year's average of 6,355.3 index points. By year-end, the Philippine stock market managed to close at 7,122.6 index points near its end-2020 level of 7,139.7 index points. Over the year, investor sentiment improved amid market optimism on positive developments related to COVID-19, continued accommodative monetary policy of the BSP, and the passage of key structural reforms.

Reckoned on a monthly basis, however, trends were mixed. The equity index suffered temporary losses in the first half of the year due largely to investor concerns over the periodic spikes in daily coronavirus cases nationwide as well as the detection of new COVID-19 variants. Also dampening market sentiment were

¹⁶The TPI measures the nominal and real effective exchange rates of the peso across the currencies of 14 major trading partners of the Philippines, which includes the US, Euro Area, Japan, Australia, China, Singapore, South Korea, Hong Kong, Malaysia, Taiwan, Indonesia, Saudi Arabia, United Arab Emirates, and Thailand. The TPI-A measures the effective exchange rates of the peso across

the slow pace of vaccine rollouts, and the subsequent implementation of stricter quarantine restrictions that resulted in weak economic figures and a negative growth outlook on the part of multilateral agencies.

Chart 1.9 Philippine Stock Exchange Index (PSEi)
In index points



Nevertheless, the risk-off sentiments in the early part of the year were subdued by positive developments such as (1) favorable economic data releases; (2) decreasing number of daily COVID-19 infections that further boosted consumer spending; (3) the government's shift to a granular quarantine scheme that partly eased restrictions in Metro Manila and improved business confidence; and (4) the BSP's pronouncements on maintaining the current monetary policy stance and extraordinary liquidity measures that are supportive of Philippine economic recovery. Toward the end of the year, the passing of key legislative measures such as the Retail Trade Liberalization Act and the amendments to the Public Service Act and to the Foreign Investments Act, which will open up key economic sectors and attract foreign technical expertise

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

into the country, also contributed to the recovery of the local bourse.

Other stock market indicators mirrored the general uptrend in the average PSEi in 2021. In particular, foreign transactions net selling substantially declined from ₱128.6 billion in 2020 to ₱2.8 billion in 2021 and total market capitalization rose by 13.8 percent to ₱18.1 trillion. Meanwhile, the P/E ratio of listed firms ended the year lower from 28.5 times in end-2020 to settle at 21.3 times in end-2021 amid dampened investor sentiment due largely to the negative impact of typhoon Odette and the sudden surge in local COVID-19 cases toward the end of the year.

For the coming year, the PSEi is expected to continue its growth momentum against the backdrop of the improving local COVID-19 situation and gradual reopening of the economy, positive macroeconomic prospects backed by sustained government infrastructure spending and complemented by the BSP's monetary policy support, and the implementation of the key structural reforms that were recently passed. However, stock market volatility is expected to continue in 2022 due to a number of risk factors, including: (1) rising global interest rates, particularly the faster-than-expected US Fed rate normalization; (2) potential surges in COVID-19 infections brought about by the emergence of new variants; (3) domestic election-related uncertainty; and (4) heightened geopolitical tensions.

Bond Market

The Philippine bond market continued to grow in 2021 amid the challenges brought about by the pandemic. Liquidity remained ample with sustained demand as evidenced by the high oversubscription consistently seen in the weekly Bureau of the Treasury (BTr) auctions in the primary market as the BSP continued to ensure the proper functioning of financial markets.¹⁷ While there were episodes of short-term volatility, risk premiums remained generally steady.

In 2021, government issuances of local currency bonds increased by 13.3 percent from its level in 2020. The increase in government issuances reflected the NG's continued funding needs for pandemic and recovery response while ensuring prudent fiscal management. In contrast, private issuances decreased by 50.5 percent y-o-y, indicating that local firms may have limited need for additional funding amid the subdued business environment.

In terms of market share, issuances from the public sector comprised 91.0 percent of the total bond issuances while the private sector accounted for the remaining 9.0 percent. Bonds issued by the BTr accounted for the entire public sector issuances while issuers from the private sector consisted of holding companies, banks, oil industry players, telecommunication services providers, and real estate firms.

¹⁷The BSP's GS purchases in the secondary market helped encourage participation in the primary GS auctions, which in turn ensured that the National

Government (NG) meets its domestic borrowing requirements.

Chart 1.10 Local Currency Bond Issuances
In billion pesos

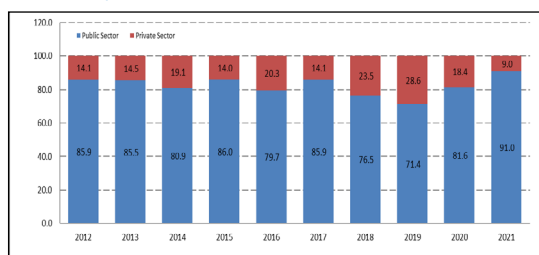
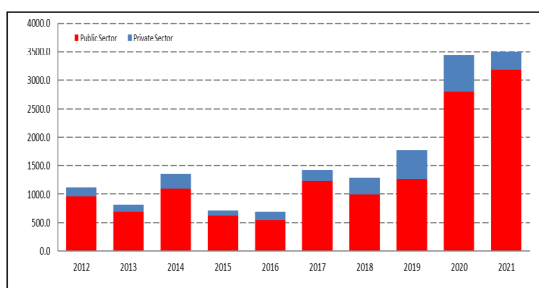


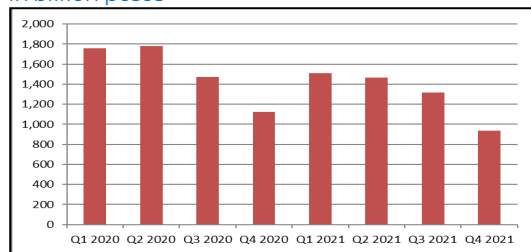
Chart 1.11 Local Currency Bond Issuances
As percent of market share



Source: BTr, Bloomberg

Investor preference for shorter-dated debt securities was greater than the preference for the longer end of the curve, indicating investors' risk-averse attitude amid the uncertain and challenging market environment. In the secondary market, trading activity has slowed down despite the increased supply of relatively high-yielding retail treasury bonds in both peso and dollar denominations. The overall decreasing trend may be partly due to the wait and hold stance by market participants amid the uncertainty, brought about by the reimposition of strict lockdowns due to the emergence of new COVID-19 variants.

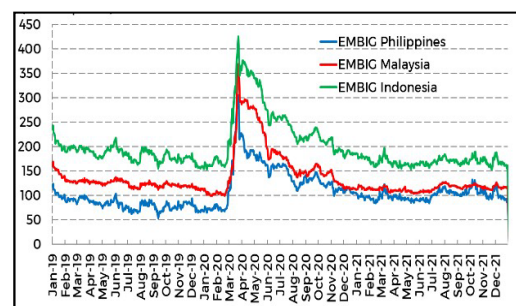
Chart 1.12 Secondary Market Volume
In billion pesos



Source: Philippine Dealing System

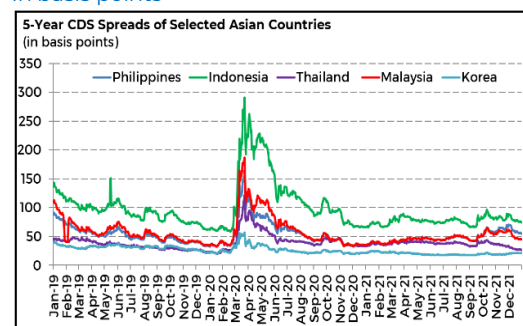
While the challenging and volatile operating environment affected investors' risk sentiment, risk premiums on the country's debt instruments have remained low, with occasional spikes observed during periods of uncertainties over COVID-19-related developments. Over the year, debt spreads continued to exhibit a narrowing trend, reflecting the recovery of some business activities and improved investor sentiment amid reports on the decline in the country's average daily new cases of COVID-19, which dropped to below one thousand by year-end 2021.

Chart 1.13 EMBIG Spreads of Selected ASEAN Countries
In basis points



Source: Bloomberg

Chart 1.14 5-Year CDS Spreads of Selected Asian Countries
In basis points



Source: Bloomberg

The extra yield investors demanded to own Philippine sovereign debt over US Treasuries or the Emerging Market Bond Index Global (EMBIG) Philippines spread stood at 93 basis points (bps) as of end-December 2021 compared with 106 bps

recorded in the previous year. Meanwhile, the country's five-year sovereign credit default swap (CDS) year-end level was stable at 55 bps. Against other neighboring economies, the Philippine CDS was narrower than Indonesia's 75 bps but wider than Malaysia's 45 bps, Thailand's 27 bps, and Korea's 21 bps spreads.

Credit Rating Assessment

In 2021, the Philippines was able to keep its investment grade ratings amid the waves of negative credit rating actions and outlook revisions across the globe as the pandemic weighed down the performance and credit profiles of many economies.

In January, Fitch Rating kept the Philippines' investment-grade credit rating of "BBB" with a "stable" outlook.¹⁸ The ratings agency cited the country's manageable fiscal situation and favorable growth prospects despite the COVID-19 crisis. Fitch noted the country's "modest government debt levels relative to peers, robust external buffers, and strong medium-term growth prospects."

In April, Japanese debt watcher Rating and Investment Information Inc. (R&I) affirmed the Philippines's "BBB+" rating with a "stable" outlook. The R&I noted the following factors that supported the favorable outlook for the Philippines: (1) role of fiscal and monetary measures in supporting growth; (2) aggressive public investments as a key driver of the recovery; and (3) strength of the country's external accounts which serve as buffers against external shocks.

Similarly, in May, S&P Global Rating maintained its "BBB+" rating on the Philippines and assigned a "stable" outlook. The S&P recognized that prospects for the Philippine economy remain favorable once the COVID-19 pandemic is contained, and expected that fiscal performance will strengthen accordingly.

In July, Fitch affirmed the Philippines' "BBB" investment grade rating, reflecting the country's robust external buffers and projected that government debt levels—while rising—should remain just below 'BBB' peer medians. However, it also revised the outlook on the rating from "stable" to "negative", noting the downside risks to the Philippines' medium-term growth prospects and possible challenges associated with unwinding the policy responses to mitigate the impact of the health crisis and to restore sound public finances in a post-pandemic period.

In September, Japan Credit Rating Agency affirmed the Philippines' credit rating of "A-" with a stable outlook, citing the soundness of the country's external payments position, fiscal situation, and banking sector, as well as efforts toward strong economic recovery from the COVID-19 crisis.

¹⁸ "BBB" is one step above the minimum investment grade, while a "stable" outlook indicates

absence of factors that could trigger an adjustment in the rating in the near term.

Box Article 1

A Snapshot of Philippine Household Finances: Results of the 2018 Consumer Finance Survey

The Consumer Finance Survey (CFS) is a nationwide triennial survey of the BSP on the financial condition of Filipino households, considering their assets, liabilities, incomes, and expenditures.¹⁹ Data from the 2018 CFS were gathered from 14,860 respondent households (82.6 percent of the targeted 18,000 sample households) nationwide from 11 October 2018 to 2 June 2019.

Household Profile

The results of the survey showed that the Philippines has a young population. Majority (63.6 percent) of the household members belonged to the working-age group, of which the largest sub-group was the young adults (aged 25-44 years old) at 26.5 percent. This was followed by the middle-aged (aged 45-64 years old) at 18.6 percent and the youth (aged 15-24 years old) at 18.5 percent. The age dependency ratio²⁰ was estimated at around 57 dependents for every 100 working-age persons. (See Chart 1.)

Asset Accumulation of Households

From an asset perspective, the portfolio of households comprised mostly of non-financial assets (NFAs). The three most common NFAs held by households were home appliances, which are owned by 91.7 percent of total households, followed by their own residence at 71.6 percent, and motor vehicles at 30.5 percent. (See Chart 2.)

Chart 1. Distribution of Household Members, by Age
In Percent



Chart 2. Distribution of Households with Non-Financial Assets, by Type of Asset In Percent

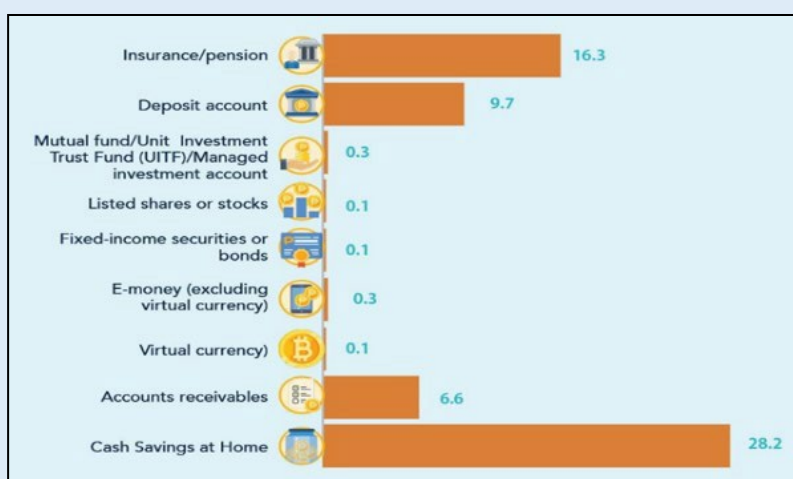


¹⁹ Following the 2009 and 2014 CFS round and pursuant to Monetary Board Resolution No. 1802 dated 26 October 2017, the succeeding rounds shall be conducted triennially, starting with the 2018 CFS.

²⁰ Age dependency ratio is defined as the number of all age-dependent household members (0-14 years old and 65 years old and above) divided by the number of all working-age household members (aged 15-64 years old) in the country.

In terms of financial assets, 22.6 percent of Filipino households had access to financial products and services. The top financial assets owned by households were insurance or pension policies (held by 16.3 percent of households) and deposit accounts (9.7 percent). Less than 1 percent of households had financial investment and electronic money (e-money) accounts. Notably, more households kept their cash at home for emergencies (28.2 percent) than in deposit accounts (9.7 percent). (See Chart 3.)

Chart 3. Distribution of Household Members, by Age
In Percent



Outstanding Liabilities of Households

Nearly two in every five households (40.4 percent) owed some form of debt, most of which were outstanding loans (28.2 percent). This was followed by household bills (17.1 percent) and unpaid credit card bills (1.6 percent).²¹

The top sources of households' loans were the Home Development Mutual Fund (or Pag-IBIG) and National Housing Authority for housing loans, in-house financing for vehicle loans, and financing companies and institutions for business and other consumer loans.

Households were able to manage their loans well as most were paid on time (86.3 percent of business loans, 77 percent of other loans, 69.6 percent of credit card debts, 64.6 percent of vehicle loans, and 43.3 percent of housing loans).

Households' Sources of Income

Majority of Filipino households (73.7 percent) earned their income from employment in either the public or private sector. Only a few Filipino households (5.1 percent) were engaged in business.

²¹ Outstanding loans refer to the remainder of the principal that has not yet been paid in full.

Nearly half of the households (47.6 percent) derived their income from other sources, commonly in the form of cash assistance from abroad; domestic support from family and relatives in the form of cash, goods or both; and government assistance through the Pantawid Pamilyang Pilipino Program and the Social Pension Program of the Department of Social Welfare and Development.

Households' Spending Patterns

Food accounted for the largest share (at least 72.1 percent) of total household expenditure. Spending on housing and utilities (23.9 percent), transportation (10.5 percent), and health (4.8 percent) comprised the biggest share among the non-food items.

Key Takeaways

In summary, households in 2018 prioritized the accumulation of non-financial assets over savings and investment, and they preferred to keep cash savings at home rather than maintain at least a basic deposit account. Nonetheless, the debt situation remained favorable as the bulk of households' debts were paid on time. Meanwhile, households derived most of their income from employment and other sources such as remittances from abroad. Filipinos allocated most of their budget to food.

The Philippine Banking System

The Philippine banking system (PBS) sustained its solid footing as shown by the continued growth in assets, deposits, as well as healthy profits, stable capital and liquidity buffers, and ample loan loss reserves

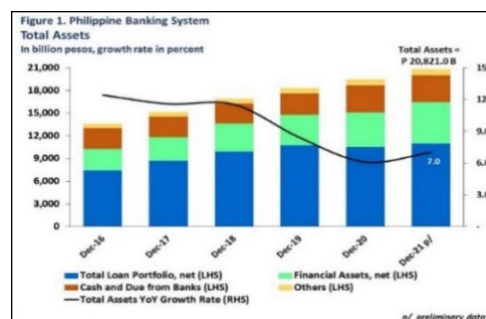
The banking system's total resources and loans further expanded and remained supportive of the country's financing needs. This asset growth continued to be mainly funded by deposit generation and capital infusion.

Assets sustain positive growth

The 7.0 percent y-o-y growth in the PBS' total assets to ₱20.8 trillion as of end-December 2021 was primarily due to expansion of funds channeled to lending and investment activities and sourced mainly from deposits. Total loan portfolio²² (TLP), net of allowance for credit losses, comprised the largest share of the banking system's total assets at 52.8 percent (₱11.0 trillion), followed by net financial assets other than loans,²³ and cash and due from banks with 26.3 percent share (₱5.5 trillion) and 17.1 percent share (₱3.6 trillion), respectively (Chart 1.15). Meanwhile, other assets²⁴ had a 3.8 percent share (₱788.0 billion).

Chart 1.15 Philippine Banking System Total Assets

In billion pesos, growth rate in percent

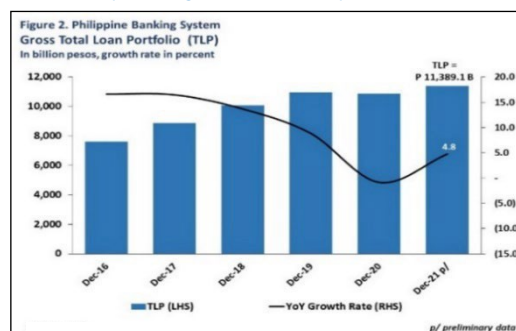


The banking system's loan portfolio further expands

Gross TLP went up by 4.8 percent y-o-y to ₱11.4 trillion as of end-December 2021. This rate was a turnaround from the 0.9 percent contraction in December 2020 (Chart 1.16). This was also the fifth consecutive month of positive annual growth rate in TLP.

Chart 1.16 Philippine Banking System Gross Total Loan Portfolio (TLP)

In billion pesos, growth rate in percent



²² Includes Interbank Loans Receivable and Reverse Repurchase.

²³ Composed of investments in debt and equity securities, as well as equity investments in

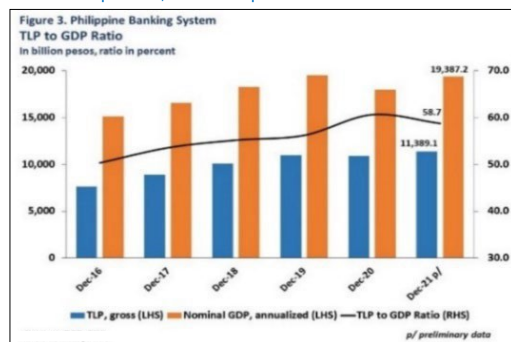
subsidiaries, associates and joint ventures, net of allowance for credit losses.

²⁴ Includes real and other properties acquired.

Meanwhile, the ratio of gross TLP to annualized nominal gross domestic product (GDP) stood at 58.8 percent as of end-December 2021 (Chart 1.17).

Chart 1.17 Philippine Banking System TLP to GDP Ratio

In billion pesos, ratio in percent

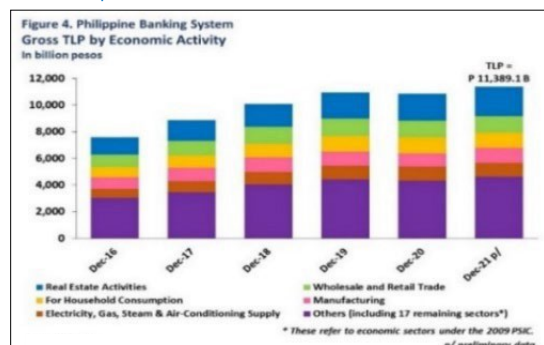


Loans remains broad-based across various industries

By economic activity, real estate had the largest share of TLP at 19.4 percent as of end-December 2021 (Chart 1.18). This was followed by wholesale and retail trade; manufacturing; and electricity, gas, steam, and air-conditioning supply with TLP shares of 10.9 percent, 9.8 percent, and 9.3 percent, respectively. Meanwhile, loans for household consumption had a TLP share of 10.0 percent. Real estate activities posted a growth rate of 8.3 percent y-o-y, indicating sustained lending to the real estate industry amid the crisis. However, loans for household consumption declined by 5.9 percent. By contrast, loans to the manufacturing; wholesale and retail trade; and electricity, gas, steam, and air-conditioning supply sectors went up by 9.5 percent, 1.3 percent, and 0.2 percent, respectively.

Chart 1.18 Philippine Banking System Gross TLP by Economic Activity

In billion pesos

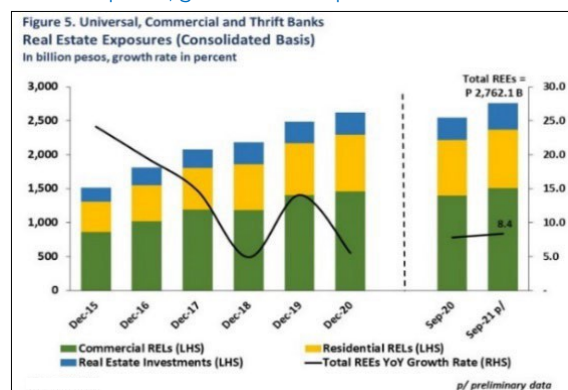


Real estate exposures expand but consumer loans went down

The real estate exposures (REEs) of universal and commercial banks (U/CBs) and thrift banks (TBs) expanded from the previous year by 8.4 percent to ₱2.8 trillion on consolidated basis as of end-September 2021, higher than the 7.8 percent growth recorded a year before (Chart 1.19).

Chart 1.19 Universal, Commercial and Thrift Banks Real Estate Exposures (Consolidated Basis)

In billion pesos, growth rate in percent



These REEs were made up mainly of real estate loans (REs) which had an 85.7 percent share while the rest were real estate investments. Total REs continued to expand at an annual pace of 6.9 percent to ₱2.4 trillion as of end-September 2021. Commercial REs, which accounted for almost two-thirds of total REs, increased by 7.8 percent to ₱1.5 trillion. (Chart 1.20). Residential REs went up by 5.3 percent to ₱859.9 billion. (Chart 1.21).

Chart 1.20 Universal, Commercial and Thrift Banks Commercial Real Estate Loans (Consolidated Basis) In billion pesos, growth rate in percent

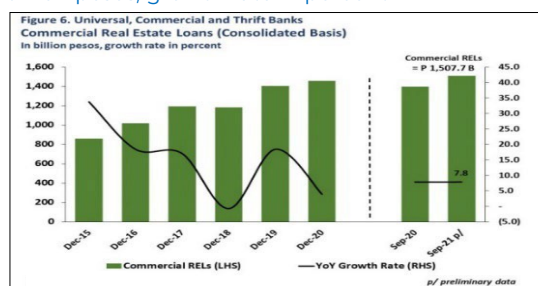
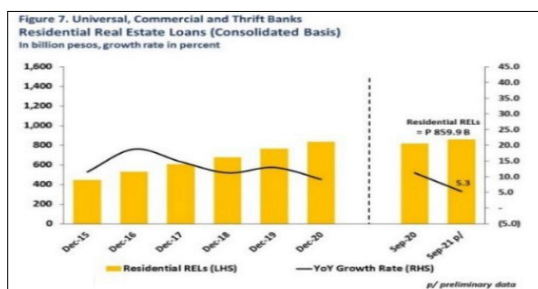


Chart 1.21 Universal, Commercial and Thrift Banks Residential Real Estate Loans (Consolidated Basis) In billion pesos, growth rate in percent



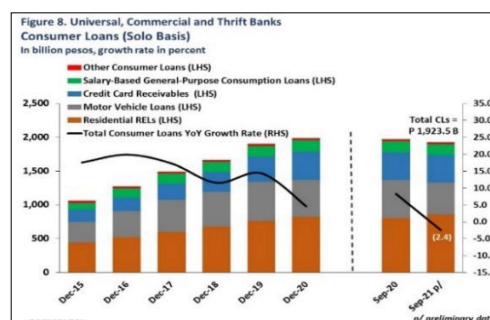
Meanwhile, residential real estate prices of various types of new housing units in the Philippines recovered in Q3 2021 based on the y-o-y growth of the Residential Real Estate Price Index. Nationwide house prices increased by 6.3 percent partly due to the stronger consumer demand for residential property, particularly townhouses and

²⁵ Comprised mainly auto loans which stood at ₱444.3 billion (93.3 percent share) while the rest are

condominium units. By area, residential property prices in the National Capital Region (NCR) and Areas Outside NCR expanded. By type of housing units, growth is mainly attributed to the rise in prices of townhouses and condominium units.

The level of consumer loans (CLs) of U/KBs and TBs went down by 2.4 percent to ₱1.9 trillion on solo basis as of end-September 2021 from the previous year. (Chart 1.22). Residential REs made up the largest share of total CLs at 44.4 percent (₱853.7 billion), followed by motor vehicle loans²⁵ at 24.8 percent (₱476.2 billion), credit card receivables at 21.0 percent (₱404.5 billion), salary-based general-purpose consumption loans at 8.6 percent (₱164.7 billion), and other consumer loans at 1.3 percent (₱24.4 billion).

Chart 1.22 Universal, Commercial and Thrift Banks Consumer Loans (Solo Basis) In billion pesos, growth rate in percent



Loan quality remains manageable and within the BSP expectations

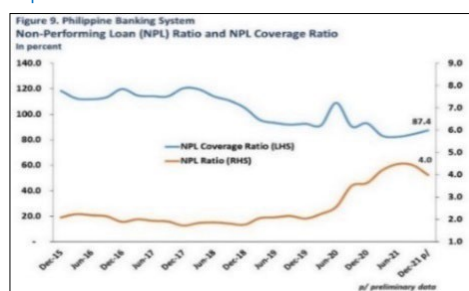
The quality of the PBS' loan portfolio was manageable. The non-performing loan (NPL) ratio²⁶ stood at 4.0 percent as of end-December 2021, higher than 3.6 percent as of end-December 2020 but

motorcycle loans at ₱32.0 billion (6.7 percent share).

²⁶ Ratio of gross NPLs to gross TLP.

lower than 4.3 percent as of end-November 2021. Early recognition of provision for credit losses in 2020 resulted in the high NPL coverage ratio²⁷ of the PBS, which stood at 87.7 percent as of end-December 2021 (Chart 1.22). Meanwhile, the non-performing REL ratio stood at 5.2 percent as of end-September 2021 compared with 4.2 percent as of end-September 2020. The non-performing CL ratio was 9.9 percent as of end-September 2021, up from 8.5 percent as of end-September 2020.

Chart 1.22 Philippine Banking System Non-Performing Loan (NPL) Ratio and NPL Coverage Ratio
In percent



Banks' investment portfolio increases

Gross financial assets²⁸ increased by 21.2 percent y-o-y to ₱5.2 trillion as of end-December 2021. Gross financial assets were composed mostly of debt securities measured at amortized cost²⁹ at ₱2.6 trillion (50.3 percent share) and financial assets measured at fair value through other comprehensive income³⁰ at ₱2.3 trillion (44.8 percent share). Financial assets measured at fair value through profit or loss³¹ had a minimal share at ₱255.3 billion (4.9 percent share).

²⁷ Ratio of allowance for credit losses – TLP to gross NPLs.

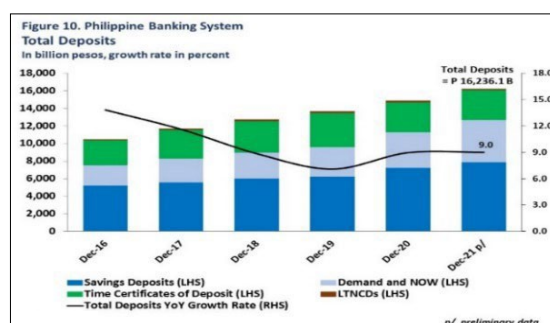
²⁸ Other than loans and equity investments in subsidiaries, associates and joint ventures.

²⁹ Debt securities measured at amortized cost are classified as held-to-maturity (HTM) financial assets in the existing Financial Reporting Package (FRP)

Deposits fuel banks' lending and investment activities

The PBS' lending and investment activities were mostly funded by the 9.0 percent yearly growth in deposits to ₱16.2 trillion as of end-December 2021 (Chart 1.23). These deposits were mostly peso-denominated and sourced from resident individuals and private corporations. Savings deposits had the biggest share of total deposits at 48.5 percent, followed by demand and negotiable order of withdrawal accounts at 29.6 percent share and time certificates of deposit at 20.7 percent share. Long-term negotiable certificates of deposit had a minimal share at 1.2 percent. Other sources of funding such as bonds payable (₱613.8 billion) and bills payable (₱496.9 billion) remained relatively small compared with total bank's funding as of end-December 2021. Meanwhile, banks posted a stronger capital position as total capital expanded by 5.9 percent to ₱2.6 trillion in the same reference period.

Chart 1.23 Philippine Banking System Total Deposits
In billion pesos, growth rate in percent



submitted by banks to the BSP.

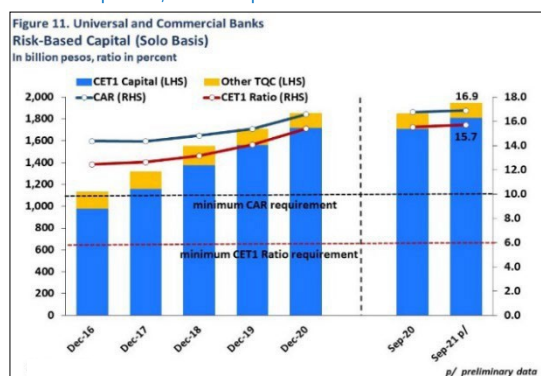
³⁰ Classified as available-for-sale (AFS) financial assets in the FRP.

³¹ Classified as financial assets held-for-trading (HFT) and designated at fair value through profit or loss (DFVPL) in the FRP.

Banks remain well capitalized; capital adequacy ratios (CARs) compliant with Basel requirements

The CARs of the U/KB industry on solo and consolidated bases were well above the minimum thresholds of 10 percent set by the BSP and 8.0 percent set by the Bank for International Settlements (BIS). As of end-September 2021, the CARs of the U/KB industry improved to 16.9 percent and 17.4 percent on solo and consolidated bases, respectively, from the previous year's 16.8 percent and 17.2 percent (Chart 1.24). Banks' risk-taking activities were supported by adequate capital, which was composed mainly of common equity and retained earnings. As of end-September 2021, the common equity tier 1 ratio of the U/KB industry improved to 15.7 percent and 16.3 percent on solo and consolidated bases, respectively, from the previous year's 15.5 percent and 16.0 percent.

Chart 1.24 Universal and Commercial Banks Risk-Based Capital (Solo Basis)
In billion pesos, ratio in percent



The U/KB industry's Basel III Leverage Ratio as of end-September 2021 stood at 9.6 percent and 10.1 percent on solo and consolidated bases, respectively. These

³² Based on solo basis capital computation. Ratios are combination of Basel III and Basel 1.5 frameworks

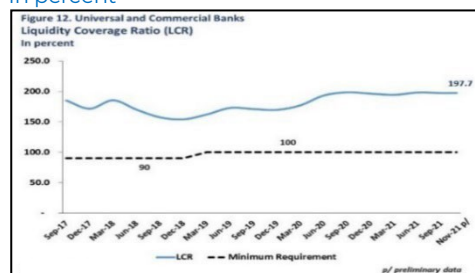
ratios were well above the BSP and international thresholds of 5.0 percent and 3.0 percent, respectively. The ratio relates the level of a bank's tier 1 capital against its total on-book and off-book exposure.

The CAR of the TB industry as of end-September 2021 improved to 19.3 percent from the previous year's 17.5 percent, while the CAR of rural and cooperative banks slightly declined to 19.1 percent from the previous year's 19.2 percent³². These capital ratios were well above the minimum thresholds set by the BSP and the BIS.

The banking system maintains sufficient buffers to meet liquidity and funding requirements

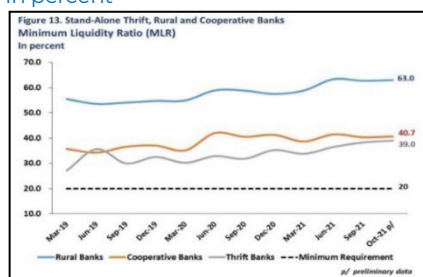
Liquidity of banks was ample. The U/KB industry's solo and consolidated liquidity coverage ratios (LCR) of 197.6 percent and 194.9 percent, respectively, as of end-September 2021 remained well above the 100 percent minimum threshold. Preliminary data as of end-December 2021 showed that the U/KB industry's solo LCR stood at 200.9 percent (Chart 1.25). The high LCR of U/KBs indicated banks' ability to fund requirements during short-term liquidity shocks.

Chart 1.25 Universal and Commercial Banks Liquidity Coverage Ratio (LCR)
In percent



Meanwhile, the liquidity ratios of stand-alone TBs, rural banks (RBs), and cooperative banks (CBs) surpassed the 20 percent minimum liquidity ratio³³. Based on preliminary data as of end-December 2021, the liquidity ratios of standalone TBs, RBs, and CBs stood at 37.0 percent, 62.1 percent, and 41.5 percent, respectively (Chart 1.26).

Chart 1.26 Stand-Alone Thrift, Rural and Cooperative Banks Minimum Liquidity Ratio (MLR) In percent



As of end-December 2021, the U/KB industry's net stable funding ratio stood at 143.4 percent on solo basis and 145.1 percent on consolidated basis, well above the BSP regulatory threshold of 100.0 percent. These ratios indicated availability of more stable funding to serve bank customers in the medium term.

The banking system's net profit grows

The net profit of the banking system went up by 44.8 percent y-o-y to ₱224.8 billion for the year ending December 2021. Meanwhile, the return on assets³⁴ for the same period was 1.1

³³ As a relief measure, the BSP reduced the ratio from 20 percent to 16 percent until end December 2022.

³⁴ Ratio of annualized net profit or loss to average assets

³⁵ Ratio of annualized net profit or loss to average capital

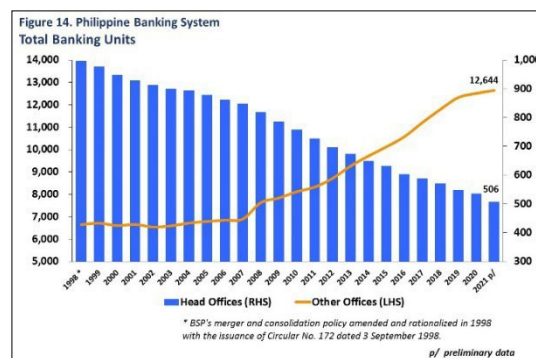
³⁶ Ratio of annualized net interest income to

percent, higher than 0.8 percent posted a year before. Return on equity³⁵ inched up to 9.0 percent from the previous year's 6.5 percent. Meanwhile, net interest margin³⁶ went down to 3.5 percent for the said period from the previous year's 3.8 percent. The cost-to-income ratio³⁷ stood at 58.7 percent, remaining below 65.0 percent as in the past seven years.

Leaner and stronger banking landscape backs industry performance

The increase in bank assets was accompanied by an expansion in the banks' physical network. As of end-December 2021, the number of bank offices grew to 13,150³⁸ on account of new other offices added to the overall network (Chart 1.27).

Chart 1.27 Philippine Banking System Total Banking Units



average earning assets

³⁷ Ratio of annualized non-interest expenses to annualized total operating income

³⁸ Composed of 506 head offices and 12,644 other offices

The Non-Bank Sector

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

The NBQB industry remains stable amid noted streamlining in its operations to improve overall performance

As of end-December 2021, the total number of sector participants stood at six, composed of one investment house, four financing companies, and one other NBQB. In terms of network, the four financing companies had a total of 121 branches.

Based on preliminary data as of end-December 2021, NBQBs' total assets contracted by 12.8 percent YoY to ₱168.3 billion. The industry, however, remained profitable as it recorded a net income of ₱1.3 billion for the period-ended December 2021.

Non-Stock Savings and Loans Associations (NSSLAs)

Overall performance of the NSSLA industry remains stable with sustained expansion in total resources

As of end-December 2021, there were 60 players with 138 branches. The industry posted a 6.1 percent annual increase in total assets to ₱283.3 billion as of end-December 2021, mainly due to the 5.1 percent rise in gross loans.

Capital accounts, which remained the main source of funds for NSSLAs, rose 3.2 percent to ₱180.2 billion as of end-December 2021. Deposit liabilities

expanded by 14.0 percent to ₱80.6 billion in the same period. Meanwhile, the industry's net profit after tax went up by 25.8 percent y-o-y to ₱22.1 billion for the period-ended December 2021.

Pawnshops and Money Service Businesses (MSBs)

Pawnshops and MSBs remain as major financial service access points in the country particularly in providing immediate liquidity to borrowers, remittance services, and other financial services in the countryside

As of end-December 2021, there were a total of 15,388 pawnshop offices (1,152 head offices and 14,236 branches). Meanwhile, there were 7,449 MSB offices as of the same period. (748 head offices and 6,701 branches).

Most pawnshops offered corollary remittance activities while most MSBs were large-scale operators. By end-December 2021, there were 11,815 pawnshop offices under the type "C" license, which meant they had corollary remittance activities requiring BSP registration. Meanwhile, MSBs were dominated by large-scale operators with average monthly network volume of transactions of at least ₱75.0 million. These type "A" operators had a total of 5,078 offices as of the same period.

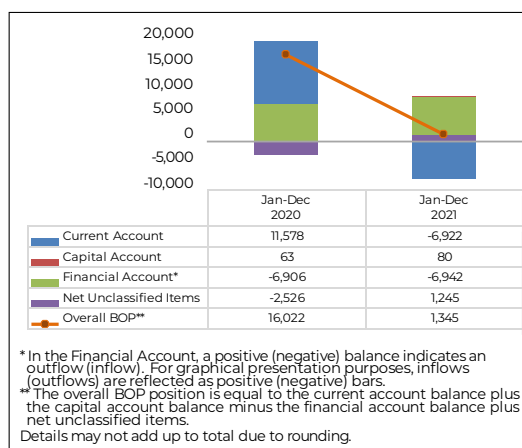
External Sector

Balance of Payments

Overall BOP position yields lower surplus

The BOP position yielded a lower surplus of US\$1.3 billion in 2021 from the US\$16 billion surplus recorded in the previous year. This outcome was primarily attributed to the recorded reversal of the current account surplus to a deficit, which, in turn, resulted from the continued widening of the trade in goods deficit.

Chart 1.28 Main Balance of Payments Accounts
In million US\$
January-December 2021



Meanwhile, the financial account recorded higher net inflows on the back of the upturn in net inflows of direct investments, other investments, and trading in financial derivatives. These inflows were partly muted by the turnaround in the portfolio investment account to net outflows.

Current account reverses to a deficit

The current account recorded a deficit of US\$6.9 billion (equivalent to -1.8 percent of GDP) in 2021, a reversal of the US\$11.6

billion surplus (equivalent to 3.2 percent of GDP) recorded in 2020. The reversal of the current account surplus to a deficit emanated from the widening of the merchandise trade gap, coupled with the reduction in net receipts in the primary income account. This was partly mitigated by the expansion in net receipts of the secondary income and trade in services accounts.

- The trade gap widened by 59.2 percent from US\$33.8 billion in 2020 to US\$53.8 billion in 2021 as the recovery in imports of goods continued to outpace that of exports due to increased trade and commerce as COVID-19 restrictions continued to ease globally.
 - Total exports reached US\$54.2 billion in 2021, up by 12.4 percent from US\$48.2 in 2020. Electronic products continued to drive the growth, posting an increase of 8.9 percent from US\$24.1 billion the previous year to US\$26.3 billion in 2021. Furthermore, exports of mineral products and coconut products increased by 15.8 percent and 58.7 percent, respectively. On a by-country basis, exports growth was mainly driven by demand from the top export markets, particularly the US and China.
 - Meanwhile, total imports continued to accelerate, registering a 31.7-percent growth in 2021 to US\$108.0 billion from US\$82.0 billion the previous year as imports of almost all major commodity groups recovered. This uptrend was mainly driven by the 30.4-percent rise in importation of raw materials and intermediate goods in 2021 to

US\$43.0 billion. Specifically, higher local demand for chemicals and manufactured goods increased by 43.0 percent (to US\$14.0 billion) and 31.9 percent (to US\$14.8 billion), respectively. In addition, imports of mineral fuels and lubricants, and capital goods also registered notable increases at 91.3 percent (to US\$14.6 billion) and 24.3 percent (to US\$29.1 billion), respectively. On a by- country basis, the continued acceleration of imports growth was mostly on account of larger imports from China, Indonesia, Japan, and South Korea.

- Net receipts of trade in services increased by 2.2 percent y-o-y to reach US\$14.2 billion in 2021 from US \$13.9 billion in 2020. The major contributor to this growth was the 9.9-percent uptick in net receipts from technical, trade-related, and other business services to US\$14.3 billion during the year. Furthermore, net receipts from exports of manufacturing services on physical inputs owned by others also grew by 21.1 percent to US\$5.0 billion in 2021.³⁹
- Primary income net receipts dropped by 21.4 percent to US\$3.2 billion in 2021 from US\$4.1 billion in 2020, mainly due to the 31.7 percent increase to US\$5.1 billion in income payments on foreign affiliates' equity and investment fund shares in local companies.
- Secondary income net receipts registered a 7.6-percent expansion from US\$27.4 billion in 2020 to

US\$29.5 billion in 2021 on the back of sustained remittance inflows from non-resident overseas Filipino workers, which grew by 5.6 percent to US\$27.0 billion during the year. Moreover, net receipts from other current transfers (mostly in the form of gifts and donations received by institutions and individuals) also improved by 104.5 percent to US\$1.0 billion.

Capital account registers higher net receipts

The capital account posted a 26.3-percent growth in net receipts to reach US\$80.0 million in 2021 from US\$63.0 million in 2020. This resulted from the lower gross acquisition of non-produced non-financial assets, which fell by 77.2 percent to US\$4.0 million.

Financial account posts moderate gains

The net inflows in the financial account rose moderately by 0.5 percent in 2021, with the level broadly unchanged at US\$6.9 billion. An increase in net inflows was noted in the direct and other investment accounts as well as in the financial derivatives account. However, these inflows were offset in part by the reversal of the portfolio investment account to net outflows.

- Net inflows of direct investments grew by 149.0 percent from US\$3.3 billion in 2021 to US\$8.1 billion. This was due mainly to the 54.2-percent expansion of foreign direct investments to a record high of US\$10.5 billion, underpinned by the 80.4-percent rise in intercompany

³⁹ Manufacturing services on physical inputs owned by others cover processing, assembly,

labeling, packing, and so forth undertaken by enterprises that do not own the goods concerned.

borrowings to reach US\$7.5 billion during the year. Net equity capital placements also climbed by 0.7 percent, buoyed by investments from Singapore, Japan and the US. These placements were channeled primarily into: (1) manufacturing; (2) electricity, gas, steam and air conditioning supply; (3) financial and insurance; and (4) real estate activities. Moreover, residents' direct investments abroad declined by 32.6 percent to US\$2.4 billion due to lower intercompany lending by residents to their non-resident affiliates.

- Portfolio investment net outflows reached US\$8.0 billion in 2021, a turnaround from the US\$1.7 billion net inflows posted a year ago. This developed on the back of the reversal of foreign portfolio investments to US \$1.4 billion net outflows in 2021 from US\$8.2 billion net inflows in 2020, as foreign investors sold their holdings of Philippine debt securities to residents in the secondary market. Moreover, items classified as "other sectors" posted net repayments amounting to US\$1.4 billion on debt securities held by non-residents, a reversal of the US\$4.3 billion net availments recorded in the past year.
- Net inflows from other investments expanded by more than three times to US\$6.3 billion in 2021 from US\$1.8 billion in the previous year. This developed as net outflows from net acquisition of assets declined by 90.5 percent from US\$4.0 billion in 2020 to US\$376.0 million in 2021, while net inflows from net incurrence of liabilities registered a 16.2 percent uptick from US\$5.7 billion to US\$6.6 billion over the same period.

- Trading in financial derivatives yielded an increase of net gains amounting to US\$603.0 million in 2021, more than three times from the US\$199.0 million net gains recorded in 2020.

Gross International Reserves

The country's gross international reserves (GIR) amounted to US\$108.8 billion as of end-December 2021, lower compared with the recorded level of US\$110.1 billion the previous year. At this level, the GIR can cover 9.6 months' worth of imports of goods and payments of services and primary income. It is also equivalent to 7.2 times the country's short-term external debt based on original maturity and 5.1 times based on residual maturity.

The y-o-y decrease in reserves reflects lower inflows arising from the BSP's income from its investments abroad, the downward revaluation adjustments on the BSP's gold holdings due to the decrease in the price of gold in the international market as well as the lower reserve position in the IMF. These were partially offset, however, by the NG's net foreign currency deposits as well as the additional allocation of Special Drawing Rights (SDR) to the Philippines on 23 August 2021 given the IMF's efforts to increase global liquidity amid the pandemic.

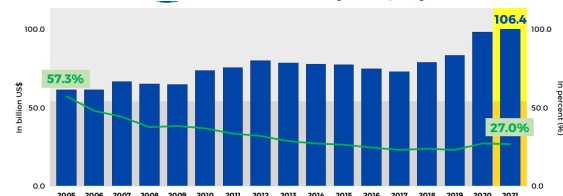
Bulk of the country's reserves, or 84.2 percent of the total, were held in foreign investments. Meanwhile, 8.8 percent were in gold and the remaining 7.2 percent were in holdings of SDRs, the BSP's reserve position in the IMF, as well as in foreign exchange.

Net international reserves, which refer to the difference between the BSP's GIR and total short-term liabilities, amounted to US\$108.8 billion as of end-2021, an increase of US\$1.3 billion from its level the year before.

External Debt

As of end-2021, outstanding Philippine external debt stood at US\$106.4 billion, up by US\$7.9 billion (or 8.1 percent) from the US\$98.5 billion level as of end-2020. This was brought about by net availments of US\$9.8 billion, mainly by the NG, and prior periods' adjustments of US\$3.8 billion. These were partially offset by the US\$3.7 billion increase in residents' investments in debt papers issued offshore and the US\$2.0 billion negative FX revaluation as the US Dollar strengthened against other currencies such as the Japanese Yen and the Euro.

Chart 1.28 External Debt (US\$ billion) and External Debt/Gross Domestic Product (GDP, %)




The maturity profile of the country's external debt remained predominantly medium-and long-term (MLT), accounting for 85.8 percent of the total. On the other hand, short-term accounts comprised the 14.2 percent balance of the debt stock, consisting mainly of bank liabilities, trade credits and others.⁴⁰ FX requirements for debt payments remain spread out and, thus, manageable.

⁴⁰ Others refer to short-term loans and revolving credit, among others.

Public sector external debt grew by US\$5.8 billion to US\$63.9 billion during the year as the NG required financing to support its COVID-19 response and recovery projects and programs, among others. About US\$55.4 billion of public sector obligations were NG borrowings while the remaining US\$8.5 billion consisted of loans of government-owned or controlled corporations, government financial institutions and the BSP. Similarly, private sector borrowings rose by US\$2.1 billion to US\$42.5 billion in 2021 due to prior periods' adjustments of US\$3.7 billion, whose impact was partially offset by the increase in residents' investments in debt papers issued offshore of US\$2.1 billion and net availments of US\$749.0 million (largely by private non-banks).

The creditor mix continues to be well-diversified. Loans from official sources (multilateral and bilateral creditors such as Japan, with loans of US\$8.7 billion; China, US\$1.5 billion; and France, US\$677.0 million) accounted for the largest share of total outstanding debt at 37.2 percent. On the other hand, borrowings in the form of bonds and notes made up 34.7 percent of the total, while obligations to foreign banks and other financial institutions accounted for 22.3 percent. The remainder of 5.8 percent were owed to suppliers, exporters and others.

The bulk of MLT borrowings continued to carry fixed interest rates, accounting for 58.6 percent (US\$53.4 billion) of the total as of end-2021 compared with the 60.0 percent (US\$50.6 billion) the year before. Risks from possible increase in interest rates are minimized.



Despite the increase in external debt, its impact on key external debt indicators is within prudent levels. The GIR covers 7.2 times the value of short-term debt based on original maturity. The debt service ratio, which relates principal and interest payments to exports of goods and receipts from services and primary income, increased to 7.2 percent in 2021 from 6.7 percent the year before due to higher payments. An important solvency indicator, namely, the external debt ratio or total outstanding external debt (EDT) expressed as a percentage of GDP, decreased to 27.0 percent in 2021 from 27.2 percent in 2020. Meanwhile, EDT to Gross National Income ratio was recorded at 26.1 percent last year, higher than the 25.3 percent the year before. The generally low ratios indicate the country's strong position to service foreign obligations in the medium to long term.

WHAT WE DID IN 2021:

Three Pillars of Central Banking



What We Did in 2021: Three Pillars of Central Banking

MANAGING INFLATION AMID SUPPLY SHOCKS (PRICE STABILITY)

Monetary Stability

The Monetary Board (MB) maintains monetary policy settings in 2021

In 2021, the MB held eight monetary policy meetings and decided to maintain the BSP key policy interest rate on its overnight reverse repurchase facility at 2.0 percent. The corresponding interest rates on the overnight lending and deposit facilities were also kept steady at 2.5 percent and 1.5 percent, respectively. The reserve requirement ratios were likewise left unchanged.

The policy decisions of the MB were based on the Bank's assessment of the dynamics and risks in the inflation environment over the policy horizon. The baseline inflation forecasts for 2021 were higher than the target range since the policy meeting on 12 August 2021. The above-target inflation outlook was mainly due to higher global crude and non-oil prices, the slower-than-expected arrival of imported pork, and higher-than-expected inflation outturns during the review period. However, the projected inflation path remains within the inflation target band of 2 to 4 percent over the policy horizon. The return to the target outlook for 2022 to 2023 reflects the continued impact of the direct measures to address domestic supply shocks in meat and fish products, the

anticipated shift to favorable supply-demand conditions in the international oil market, and the predominant negative base effects by the second half of 2022.

Moreover, inflation expectations continue to be well-anchored to the target level over the same period. However, the BSP observed that the risks to the inflation outlook continue to lean toward the upside for 2022 while remaining broadly balanced for 2023. Upside risks are linked mainly to the potential impact of continuing constraints on the supply of key food items and petitions for transport fare hikes. Strong global demand amid lingering supply-chain bottlenecks could also exert further upward pressures on international commodity prices. The effective implementation of non-monetary interventions to ensure adequate domestic food supply must be sustained in order to mitigate potential supply-side pressures on inflation.

Meanwhile, the emergence of new COVID-19 variants continue to pose downside risks to the outlook for growth and inflation. Nonetheless, the BSP observed that economic growth now appears to be on firmer ground, supported by the government's accelerated vaccination program and calibrated relaxation of quarantine protocols. In particular, credit activity has gradually recovered in recent months, reflecting improved business activity and market sentiment.

On balance, the BSP sees enough scope to keep a patient hand on the BSP's policy levers owing to a manageable inflation environment. At the same time, downside risks to the economic recovery emanate from the emergence of new COVID-19 variants as well as the potential tightening of global financial conditions. Hence, preserving ongoing monetary policy support at this juncture shall help sustain the economy's momentum over the next few quarters.

Looking ahead, the BSP affirms its support for the economy while keeping an eye on the potential risks to future inflation. The BSP stands ready to respond to potential second-round effects arising from supply-side pressures, in line with its price and financial stability objectives.

Monetary Operations

In 2021, total placements in the BSP's monetary facilities stood at ₱1.9 trillion compared with ₱2.0 billion in 2020. Banks' placements in the reverse repurchase (RRP) facility, overnight deposit facility, term deposit facility (TDF), and BSP Securities accounted for 15.9 percent, 37.5 percent, 32.9 percent, and 13.6 percent, respectively, of the total amount of liquidity absorbed by the BSP.

Consistent with the normalization of market conditions following the liquidity-provision measures of the BSP and in line with the practice of assessing current financial system liquidity in the conduct of its monetary operations, the average weekly total offer volume for the TDF auctions was higher at about ₱520.6 billion in 2021 relative to the ₱247.9 billion in the previous year. The average bid-to-cover ratios for the seven-day and 14-day tenors were lower at 1.3 and 1.2 compared

with 1.6 and 1.6, respectively, in the previous year. The BSP has not issued the 28-day TDF since 14 October 2020 as the BSP started migrating funds from the said instrument to 28-day BSP Securities. Meanwhile, the average bid-to-cover ratio for the daily RRP offerings increased to around 3.9 in 2021 relative to 3.7 in 2020.

Since the maiden auction of BSP Securities on 18 September 2020 when it began offering 28-day BSP Bills, market reception has remained positive. The results of the weekly auctions of BSP Securities reflected sustained strong demand amid ample liquidity in the financial system. In 2021, total subscription amounted to around ₱6.8 trillion or about 1.4 times the ₱4.9 trillion aggregated offer amount.

Moreover, effective 10 December 2021, the BSP has allowed trust entities to participate in the secondary market for BSP Securities. The move is in line with the BSP's efforts to strengthen the effectiveness of its market-based instruments for monetary operations.

In addition, the BSP has included digital banks as eligible participants in its monetary operations effective the same date. A part of its digital banking framework, the measure aims to further improve the transmission of monetary policy.

Loans and Credit

The BSP implemented a reorganization of its Department of Loans and Credit (DLC) toward strengthening its risk governance in credit and lending operations as well as enhancing process efficiency. The move sought to ensure its effective performance as the Lender of

Last Resort (LOLR)⁴¹ in line with the principles for the management of credit risk of the Bank for International Settlements' Basel Committee on Banking Supervision.

Following the reorganization, the BSP instituted reforms to streamline credit operations, reinforce its credit risk management, and ensure that the Bank's credit facilities remain consistent with its monetary policy stance while upholding the LOLR principle. These reforms included:

- Revision of DLC's guidelines implementing Section 282 of the Manual of Regulations for Banks on Rediscount/Lending Rates to consider the developments in the BSP's monetary operations and ensure that the rediscount rates are aligned with the LOLR principle;
- Streamlining of the operations of the BSP's rediscounting line (RL) and rediscounting availments by permanently adopting the provisions of BSP Memorandum No. M-2020-016 dated 31 March 2020, which simplified the submission by the banks of applications and other documentary requirements;
- Alignment of Overdraft Credit Line (OCL) and RL requirements with the Supervisory Assessment Framework by removing the composite rating under the CAMELS⁴² Rating System

⁴¹ This key principle states that depository institutions should exhaust other possible sources of funding first before going to central banks.

⁴² Capital, asset quality, management, earnings, liquidity and sensitivity to market risk.

⁴³ These are provisional advances to the NG pursuant to Section 89 of Republic Act (RA) No. 7653, as amended by RA 11211, otherwise known as the New Central Bank Act. The second tranche, in

from the value-dating criteria for OCL and the eligibility criteria for RL, and by removing the non-performing loans ratio from the eligibility criteria to allow a holistic assessment of creditworthiness of banks applying for RL;

- Adoption of principles-based Credit Information System in the evaluation of RL applications to allow flexibility considering the changes in the BSP's supervisory assessment system and other factors that are reflective of the applicant banks' creditworthiness;
- Revision of the Off-site Credit Analysis Report to consider the rediscounting banks' credit experience with BSP and the supervisory assessment by the Financial Supervision Sector; and
- Cessation of the Clean OCL Facility to improve the BSP's credit risk management consistent with the recommendation in the Financial Sector Assessment Program dated 18 October 2019, which was prepared by the International Monetary Fund and the World Bank.

In 2021, the BSP extended loans in the aggregate amount of ₱1.1 trillion, higher by 90.5 percent than the loans extended in the previous year of ₱566.9 billion. The increase is due to provisional advances to the National Government (NG) in the aggregate amount of ₱1.1 trillion⁴³ in

the amount of ₱540.0 billion, was approved per MB Resolution (MBR) No. 1702 dated 28 December 2020 (fully paid in July 2021), while the third tranche of provisional advances to the NG for the same amount was approved per MBR No. 832 dated 1 July 2021 (fully paid in December 2021). The loan, which was implemented through the DLC, is evidenced by a non-negotiable and non-interest-bearing promissory note.

support of its efforts to provide fiscal stimulus to address the adverse impact of COVID-19.

On the other hand, total availments of rediscounting loans by banks amounted to ₱6.0 million, significantly lower than ₱26.9 billion the previous year. The primary reason cited by banks for the sharp decline is their high liquidity position amid the pandemic. Furthermore, the banks' OCL loans amounted to ₱25.0 million.

Meanwhile, the total principal collections amounted to ₱1.1 trillion in 2021, higher by 83.5 percent than ₱592.0 billion in the year prior. A large portion of the amount pertains to the NG's full payment of the ₱1.1 trillion provisional advances and previously assumed loans amounting to ₱792.0 million.⁴⁴ Principal collections from rediscounting and OCL loans, among others, amounted to ₱5.8 billion and ₱25.0 million, respectively.

With these collections, the BSP's total outstanding loan portfolio stood at ₱106.2 billion by end-2021, lower by 5.9 percent than the outstanding loans of ₱112.9 billion by end-2020. The loan portfolio as of end-2021 is primarily composed of loans and advances to NG amounting to ₱68.3 billion (64.4 percent of the total outstanding loans), loans to the Philippine Deposit Insurance Corporation amounting to ₱36.0 billion (33.9 percent), and emergency loans amounting to ₱1.8 billion (1.7 percent).⁴⁵

⁴⁴ Loans originally extended by the Central Bank of the Philippines and later assumed by the NG.

⁴⁵ The loan portfolio also includes Special Program Loans of ₱35.0 million, rediscounting loans of ₱19.0 million, OCL loans of ₱15.0 million, and restructured end-user borrower loans of ₱4.0 million, which comprise less than 0.1 percent of the

No new past due loan (PDL) was recorded in 2021 since all current loans were collected as they fell due. Existing PDLs were also recovered through various remedial measures such as foreclosure and cash settlement schemes. In addition, recoveries amounting to ₱21.0 million were noted on PDLs that had been previously written off, as the BSP continued to exert collection and recovery efforts on delinquent loans. During the year, PDLs amounting to ₱155.0 million were also written off pursuant to Monetary Board Resolution (MBR) No. 518 dated 29 April 2021. These efforts resulted in a decrease in the total amount of PDLs from ₱5.8 billion in 2020 to ₱4.8 billion in 2021. Past due ratio also decreased to 4.5 percent in 2021 from 5.1 percent in 2020.

The BSP also closely watched the liquidity needs of the Philippine banking system as the country faced the emergence of new and more virulent variants of COVID-19, among others. In line with this, the BSP extended the implementation of a couple of temporary measures in the BSP's rediscounting facility. The first reduced the term spread on rediscounting loans, regardless of maturity, under the Peso Rediscount Facility⁴⁶ and Exporters' Dollar and Yen Rediscount Facility (EDYRF).⁴⁷ The second allowed the acceptance for rediscounting with the BSP, under its EDYRF, of United States Dollar- and Japanese Yen-denominated credit instruments related to the activities considered critical during the

total outstanding loans.

⁴⁶ The Monetary Board approved the reduction of the term spread on peso rediscounting loans to zero relative to the Overnight Lending Rate effective 20 March 2020.

⁴⁷ Implemented since 16 July 2020 through Memorandum No. M-2020-056 dated 16 July 2020.

implementation of enhanced community quarantine.⁴⁸

Asset Management

The BSP continued to properly administer and dispose its acquired real properties despite the challenges posed by the COVID-19 pandemic. It adopted various measures to expedite disposals and manage its receivables arising from such transactions.

Aside from the alternative payment channels introduced in the previous year, the BSP started accepting payments via Electronic Commerce Payments or ECPay (e.g., GCash, 7-Eleven, RD Pawnshop) in 2021. It likewise regularly conducted public auctions, which is the initial mode of disposal of BSP-acquired properties, through the implementation of supplemental guidelines and procedures incorporating health and safety protocols.

The total book value of acquired properties stood at ₱11.9 billion as of 31 December 2021, lower by ₱0.5 billion or 3.7 percent than ₱12.3 billion the previous year.

Through various schemes, the BSP approved the sale of 5,315 properties with a total net book value of ₱418.0 million for an aggregate purchase price of ₱862.5 million. This generated for the BSP an estimated net income of ₱418.3 million.⁴⁹

The total collections of ₱781.3 million on sales contract receivables represent 97.2 percent of the total installments due. Interest income earned for the period amounted to ₱272.2 million. In addition,

⁴⁸ Implemented since 08 April 2020 through Memorandum No. M-2020-024 dated 08 April 2020.

the BSP earned a total miscellaneous income of ₱392.6 million, a significant portion of which was realized profit from properties sold on installment basis in the amount of ₱301.6 million.

International Operations

The BSP continued to ensure that the country's foreign exchange (FX) regulatory framework remains responsive to the needs of a dynamic and expanding economy.

In the third quarter, the BSP issued Circular No. 1124 dated 10 August 2021 implementing the "12th wave of liberalization of FX regulations." The major reforms aim to promote greater ease in the use of FX resources of the banking system, support digital payments and electronic transactions, and further simplify the procedures and documentary requirements for various FX transactions.

The BSP also issued Memorandum to All Authorized Agent Banks No. M-2021-050 dated 4 September 2021 reminding banks to implement the "Know Your Customer" policy and conduct due diligence to ensure that FX transactions are compliant with all applicable laws, rules, and regulations. It also reminded banks that the list of regulated or prohibited imports and exports under the FX Manual, as amended, have been limited only to those under the BSP's purview.

Meanwhile, the BSP continued to perform its role in external debt management to keep external debt service requirements at manageable

⁴⁹ Net of administration cost and broker's commission amounting to ₱26.2 million.

levels and ensure external debt sustainability. Prior approval of the BSP, through the Monetary Board (MB), is required for all foreign loans to be contracted or guaranteed by the Republic of the Philippines (RP), its instrumentalities and agencies, government-owned and controlled corporations, and local government units. As of end-December 2021, the BSP approved a total of US\$13.1 billion public sector medium- to long-term foreign borrowings. These included four bond issuances amounting to US\$6.2 billion, of which US\$5.9 billion was for the National Government's (NG) general financing requirements for 2021, while the balance was for the refinancing of an existing loan of a government financial institution (GFI); nine program loans totaling US\$3.9 billion which were mostly to support COVID-19 pandemic response; and 12 project loans of the RP amounting to US\$3.1 billion to fund COVID-19 pandemic response, which included vaccine procurement, social protection and support for economic recovery; other infrastructure projects; emergency response; and maritime safety enhancement.

In view of the cessation of the London Interbank Offered Rate (LIBOR) and similar phaseout of other foreign currency-denominated LIBOR-based rates in 2022, the BSP facilitated the approval of the reference rate replacement⁵⁰ for various LIBOR-based loans⁵¹ of the RP and a GFI.

To enhance its debt management capability, the BSP soft launched the Debt Management and Financial Analysis System 6 which offers new

analytical features and enhanced reporting capabilities for the management and analysis of external debt. The BSP also implemented refinements to its external debt statistics by recognizing perpetual capital securities, a hybrid instrument that is normally treated as an equity instrument, as part of the computation of the country's total external debt. This was done in consultation with the International Monetary Fund in accordance with the BSP's commitment to continuously align the country's statistics with international standards.

| From | To |
|------------|---------------------------------------|
| JPY LIBOR | Tokyo Overnight Average Rate |
| US\$ LIBOR | Secured Overnight Financing Rate |
| GBP LIBOR | Sterling Overnight Index Average Rate |

The BSP regulates foreign loans and foreign currency borrowings (including those in the form of bonds, notes and other debt instruments) so that these can be serviced in an orderly manner and with due regard to the economy's overall debt-servicing capacity. For 2021,⁵² the BSP registered 353 private sector foreign loan accounts amounting to US\$5.1 billion, excluding the issuance of 121 registration documents covering amendments to the loans' financial terms. These were used for general corporate purposes, relending, capital expenditures and working capital requirements, among others. The BSP also registered guarantees amounting to US\$30.0 million.

⁵⁰ Alternative Benchmark rates

⁵¹ From the Japan International Cooperation Agency, World Bank-International Bank for Reconstruction and Development, Asian

Development Bank and Asian Infrastructure Investment Bank

⁵² Preliminary data

The BSP also supports the country's policy to encourage foreign investments. In 2021, the BSP facilitated the registration of US\$1.8 billion foreign direct investments of non-residents, which is lower by 7.0 percent (or by US\$143.0 million) than US\$2.0 billion in the same period last year. Out of the US\$1.8 billion registered investments, US\$1.1 billion was funded mainly by cash through inward or constructive remittances while the US\$754.0 million balance pertained to other transactions such as FX payments or offsetting of FX payments made offshore by the foreign investor to another offshore entity to settle the investee firm's payables to offshore entity and investments made prior to 15 March 1973 (US\$628.0 million); stock dividends (US\$117.0 million); and debt-to-equity conversion (US\$9.0 million).

The funds came mainly from Singapore (US\$918.0 million); the British Virgin Islands (US\$202.0 million); the Netherlands (US\$194.0 million) and Japan (US\$158.0 million). Major beneficiaries of the investments were firms engaged in financial and insurance activities (US\$1.2 billion); manufacturing (US\$316.0 million); transportation and storage (US\$112.0 million); and wholesale and retail trade; repair of motor vehicles and motorcycles (US\$111.0 million).

On the other hand, foreign investments registered with authorized agent banks⁵³ on behalf of the BSP from January to December 2021 amounted to US\$13.6 billion, reflecting a 16.6 percent increase (or by US\$1.9 billion) compared to the US\$11.7 billion level for the same period in 2020. Overall foreign portfolio investment transactions in 2021 yielded

⁵³ It should be noted that when the investments were initially made by the non-resident investors,

net outflows of US\$574.0 million, lower by 86.5 percent (or by US\$3.7 billion) than the US\$4.2 billion net outflows in 2020.

The BSP has been actively working with various agencies in providing support to various government initiatives. The BSP has actively participated in the Export Development Council and in various export-related organizations such as the Center for International Trade Expositions and Missions, Philippine Exporters Confederation, Inc., and the Halal Export Development and Promotion Board. Engagement with these organizations provided the BSP with the opportunity to discuss and address the challenges affecting the export sector especially amid the COVID-19 pandemic.

The BSP also worked with trade regulatory agencies involved in the National Single Window Steering Committee and Technical Working Group for the planning and ongoing establishment of 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. The BSP also worked with the Philippine Trade Facilitation Committee, which coordinates the Philippine government's actions on matters pertaining to the implementation of the World Trade Organization's Trade Facilitation Agreement and other related commitments.

Further, the BSP actively participated in the Interagency Committee for Review of Foreign Loan Documents which conducts reviews or negotiations of

these were all categorized as foreign portfolio investments.

various financing agreements of the NG. It also took part in meetings of the National Economic and Development Authority-Investment Coordination Committee for the evaluation and approval of major capital development projects of various agencies, including public-private partnership projects. The BSP also took part in discussions of the Investment Promotion Units Network spearheaded by the Board of Investments to address the concerns and issues of investors through a system of coordination.

Moreover, to support the effective implementation of rules on physical cross-border transfer of currencies, the BSP donated 13 units of multi-currency bill counters with printers to the Bureau of Customs (BOC) in 2021.

To enhance stakeholder engagement, the BSP also intensified its information campaign to increase public awareness of the Bank's FX regulations and statistics through the following: public advisories (in the form of infographics) posted at the BSP website and its official social media accounts; periodic updating of the FX Regulations Sub-Section in the BSP website; conduct of briefings and information sessions on foreign investments; and press engagements to give updates on external debt, including MB-approved public sector COVID-19 related foreign borrowings, and amendments to FX rules. The BSP also participated in BOC online seminars and spoke on "Cross-Border Transfer of Philippine and Foreign Currencies," as well as on "Anti-Money Laundering and Cash Handling."

Economic Research and Information Dissemination Activities

In the wake of the pandemic, the BSP has unrelentingly strived to adapt to the new economy in the pursuit of price and financial stability as well as economic recovery. Despite the uncertainty in the global and domestic environment, the BSP continued to provide relevant, accurate, and timely information to its stakeholders. These also served as critical inputs to the formulation and implementation of policies on price and financial stability. In addition, new initiatives were pursued in 2021 to improve the Bank's research and institutional outputs and processes.

Regular reports. In line with the thrust of bringing the BSP closer to the Filipino people, the organization continued to publish its regular reports in 2021 to inform its stakeholders of the developments in the macroeconomy and financial system. Among the published reports were the BSP Annual Report, the yearly Report on Regional Economic Developments in the Philippines, Year-end Report on BSP Financial Inclusion Initiatives, the semestral Report on the Philippine Financial System, and the semestral Financial Stability Report. The Inflation Report elaborated the key considerations behind the monetary policy decisions during the year. A number of reports were also published on a quarterly or monthly basis to provide the public a timelier update on macroeconomic developments. These include the Inflation Report, Report on Economic and Financial Developments, Balance of Payments (BOP) Report, International Investment Position, Philippine Balance Sheet Approach Report, and Recent

Trends in the Philippine Financial System. The BSP likewise published relevant statistical reports, including the daily Key Statistical Indicators, weekly Selected Economic and Financial Indicators, monthly Selected Philippine Economic Indicators, annual Factbook on the Philippine Banking System, as well as statistical bulletins on the Reference Exchange Rate, the Residential Real Estate Price Index (RREPI), and the Financial Inclusion Dashboard.

Press releases, livestreams and social media. To complement the publication on monetary policy decisions, the BSP published press releases on inflation, month-ahead inflation forecasts, BOP position, gross international reserves, external debt, foreign portfolio and direct investments, remittances, domestic liquidity, BSP rediscount rates and loan availments, financial inclusion and digital finance, and requests for MB opinions on proposed domestic borrowings. Press statements on the results of the quarterly surveys on residential real estate prices, bank lending standards, and consumer and business confidence were also regularly published.

Aside from published media, the BSP continued the social media streaming of its monetary policy press conferences and briefings on the Inflation Report, developments on the Balance of Payments, and results of the Business Expectations Survey (BES), and Consumer Expectations Survey (CES) via Facebook Live. The GBED Talks, which are streamed press chats with the Governor covering selected BSP undertakings and initiatives, were regularly held.

Through the BSP website and social media accounts (i.e., Facebook, Instagram, Twitter), public advisories and learning materials in the form of infographics, short videos, and digital exhibits were also released to provide information regarding the BSP's functions, policies, initiatives and key statistics. For instance, 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. As an added feature in 2021, Ekolit was introduced to share simplified description of economic concepts.

Surveys. In order to enhance the information content of the hard data releases of the BSP, various surveys were conducted with the goal of providing a more comprehensive view of economic conditions in aid of monetary policy analysis and formulation. Among these were the quarterly Senior Loan Officers' Survey, which provided an assessment of current bank lending conditions; the Philippine Banking Sector Outlook Survey, which served as a complementary tool that gathered the sentiments and outlook of banking industry leaders; the monthly Cross Border Transactions Survey, which reported the resident-to-nonresident transactions that bypass the domestic banking system; the annual and quarterly Coordinated Direct Investment Survey, 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, which monitored the information on resident Electronic Money Issuers' transactions

with non-residents; the semi-annual Coordinated Portfolio Investment Survey, which reported the residents' holdings of foreign-issued equities and long and short-term debt securities; and the quarterly BES and CES, which captured the business sentiment and general consumer outlook on future economic conditions.

In 2021, the BSP released the results of the 2018 Consumer Finance Survey, which is a nationwide survey on the financial condition of Filipino households conducted by the BSP every three years. In addition, the BSP launched the enhanced Corporate Financial Trends Survey (CFTS) via the Reports Receiving System. The CFTS is a statistical initiative designed to improve the BSP's surveillance of the Philippine corporate sector's financing trends. It is an annual survey that gathers granular financial data from non-financial corporations across various industries. Finally, an ongoing initiative is the creation of the Commercial Property Price Index, which is expected to complement the RREPI in providing information regarding real property prices. Together, these two indices are designed to provide more comprehensive information on the developments in the real estate sector of the economy.

Research publication initiatives. In 2021, a major initiative for strengthening the BSP's research capacity was the creation of the BSP Research Academy (BRAC). The establishment of BRAC aims to foster a positive research culture aimed at producing research that is collaborative, of high quality, and sustainable. Through this initiative, the BSP is expected to continue its practice of providing sound and evidence-based policies.

The BSP produced various research papers and articles on the macroeconomy and on the financial sector. BSP officers and staff published studies on financial market behaviors and financial risks through the *BSP Working Paper Series*, as well as concise and reader-friendly articles on the early warning system for *Currency Crisis* and review of the inflation target for 2021-2024 through the *BSP Economic Newsletter*. The BSP likewise contributed an article to the *Philippine Review of Economics* tackling the evolution of the monetary policy framework in the Philippines.

Moreover, the BSP initiated research collaboration through the signing of a Memorandum of Understanding (MOU) with four institutions: namely: (1) the Philippine Institute for Development Studies (PIDS); (2) the Philippine Center for Economic Development; (3) the Agricultural Credit Policy Council; and (4) the Philippine-American Educational Foundation. Meanwhile, two more collaborations were already included in the pipeline, specifically, with the Ateneo Center for Economic Research and Development and the University of the Philippines Los Baños. Also, several activities were geared towards the attainment of the BSP's goal of creating a positive research culture. These include the BSP International Research Fair held on 13 to 14 July 2021 with the theme "Central Banking in the Time of the Pandemic"; the Joint BSP-PIDS Research Forum held on 27 October 2021, entitled "Resilient Legs for Economic Recovery in the Post-Pandemic Era"; the three BSP-UP Professorial Chair Lectures; and the inaugural BSP-wide Research Café and Research Community in Action.



With the growing interest in central bank digital currency (CBDC), the BSP released a comprehensive report entitled “Central Bank Digital Currency for the BSP: Fundamentals and Strategies.” The exploratory study scanned the issues and implications of CBDCs and offered recommendations on the possible next steps for the BSP. Other exploratory studies pursued by the BSP include the use of big data (e.g., news articles) as an alternative data source for constructing indices that will be useful in monitoring and assessing the financial and economic environment, and in predicting crises and mitigating risks. The indices under study include (i) a real-time, high-frequency confidence and sentiment index; (ii) a Philippine Economic Policy Uncertainty (PEPU) index; (iii) a Monetary Policy Uncertainty index; and (iv) a COVID-related PEPU index.

Information dissemination activities.

As the BSP adapts to the new normal, the delivery of its information campaigns has shifted to virtual and online modes, which, in turn, has expanded the reach of said campaigns in terms of numbers of audiences and geographical areas covered. The information dissemination activities are anchored on the principle that Filipinos who are well-informed and well-versed in basic economic and financial concepts could make informed decisions leading to better economic and financial well-being. In 2021, 32 learning programs, which comprised of 26 online learning sessions, four virtual events on “Economic and Financial Learning Program on the Role of the BSP and other relevant Central Banking Topics,” and two learning sessions with PHINMA Education, were conducted to provide the general public a better understanding of the role of the BSP in

the economy. Learning materials in various formats were also released through different communication channels.

To improve the financial literacy and capabilities of Filipinos, the BSP continued its partnership with key agencies—such as, the Department of Education (DepEd), Commission on Higher Education (CHED), Overseas Workers Welfare Administration (OWWA), and Department of Social Welfare and Development (DSWD)—in implementing fin-ed programs for personnel and stakeholders of the said agencies. On 3 June 2021, the DepEd issued the Financial Education Policy that will intensify the integration of financial literacy lessons in select subjects in the K to 12 basic education curriculum. Meanwhile, the BSP worked with the CHED in crafting a Personal Finance 101 course module for inclusion in the curriculum for secondary education. Customized fin-ed webinars were also designed to empower Overseas Filipino Workers and beneficiaries of the government’s Pantawid Pamilyang Pilipino Program. Other collaborative capacity-building initiatives pursued in 2021 were the launch of the fin-ed game called “Fish N’ Learn” which embeds key messages on personal financial management and sustainable fishing for fisherfolks, and the development of new learning videos for civil servants as well as uniformed and civilian personnel.

The BSP also intensified its Customer Centricity Campaign in 2021 by securing high-level buy-in and support of regulators and regulated entities from the banking, insurance, capital markets, and securities sectors during BSP’s Financial Education Stakeholders Expo

held on 22 to 26 November 2021. The expo had the theme, “Financial Literacy as Critical Enabler for Personal and National Economic Resiliency,” which showcased milestones of BSP’s multi-sectoral partnership programs and various learning sessions. It also featured plenary and breakout sessions on cryptocurrencies, stock market investing, Personal Equity and Retirement Accounts, and credit cards 101. The event also included panel discussions about behavioral insights on how Filipinos make personal financial decisions and about financial literacy and entrepreneurship as tools for economic resiliency and recovery.

At a more technical level, the BSP organized an international research conference on 27 to 29 September 2021 in partnership with the Reinventing Bretton Woods Committee. Carrying the theme “Shifting Gears, Changing Lanes: Central Banking in a Post-COVID Economic World,” the conference engaged central bankers and leading experts from academia in the discussion of emerging and pressing policy issues that central banks are confronted with in light of the evolving COVID-19 pandemic. Topics that were discussed include: (1) central banking and dealing with the enduring impact of COVID-19; (2) new monetary policy era for emerging markets; (3) forecasting future crises; (4) payments innovation, financial inclusion and financial stability risks; (5) monetary sovereignty and the path towards the digitalization of money; (6) climate change risks as a redefining issue for financial stability; and (7) the post-COVID-19 global economy.

The BSP likewise hosted the closing ceremonies of the 32nd National Statistics Month on 29 October 2021. During the event, the BSP conducted a virtual public

information campaign on economic and financial statistics produced by the BSP as well as featured audio-visual presentations on the central bank’s surveys.

Lastly, the BSP conducted the first Regional Macroeconomic Conference Series, which tackled topics on recent economic developments with a focus on regional developments and the state of micro, small and medium enterprises, and BSP policy responses; and the 34th Environmental Scanning Exercise on the topic, “Sustainable Finance in the Philippines: Challenges and Implications.”

Inter-agency and multilateral committees. The BSP actively participated in local and international committee discussions and provided expert views on various economic policies and issues. It took part in the meetings of the Committee on Tariff and Related Matters, and attended as technical support in the public hearings on the rice and pork tariff modification petitions. As a member of the Export Development Council, the BSP provided technical views on trade projections and statistics used by the Council in crafting policies and outlook for the sector.

The BSP also continued its active participation in the Economic Development Cluster (EDC) and the Development Budget Coordination Committee (DBCC) as a resource institution. In the EDC, the BSP provided technical views and reports on key economic policies and development issues under its purview. Meanwhile, in the DBCC, the BSP engaged actively in discussions regarding economic policy and macroeconomic assumptions, serving as the basis for the preparation of the NG’s annual budget and fiscal

program. Moreover, the BSP also participated in committees and technical working groups involved in drafting the Philippine Development Plan 2017-2022 Update, and in consolidating the National Competitiveness Agenda. On the international front, the BSP is part of the working group that conceptualized the first version of the Association of Southeast Asian Nations (ASEAN) Taxonomy for Sustainable Finance, a multi-tiered framework that promotes the orderly transition and adoption of sustainable finance practices in the region.

Other inter-agency committees that the BSP joined included the National Food Authority Council and its specialized committees, Philippine Trade Facilitation Committee, National Single Window Steering Committee and Technical Working Group, Center for International Trade Expositions and Missions Board, National Economic and Development Authority-Investment Coordination Committee, Halal Export Development and Promotion Board, Interagency Committee for Review of Foreign Loan Documents, National Wages Productivity Commission, Regional Tripartite Wages and Productivity Board, Philippine Development Plan Planning Committee, and Philippine Statistics Authority. It also took part in international working groups such as the Executives' Meeting of East Asia-Pacific Central Banks Monetary and Financial Stability Committee, Bank for International Settlements Expert Group, South-East Asian Central Banks Experts Groups on

Capital Flows, ASEAN Community Statistical System Committee, and ASEAN Working Group on International Investment Statistics.

Trainings, workshops and technical assistance projects. The BSP continued to engage in capacity-building exercises within the organization and with external counterparties. One of the research support activities of the BSP, through the BRAC, was the in-house lecture and workshop series on relevant research topics, and presentations of research works by BSP staff to the members of the BRAC's Research Experts Panel.⁵⁴ These activities aimed to strengthen the research capability of the BSP staff through research guidance and mentoring.

Capacity building through technical assistance partnerships with multilateral agencies continued as well in 2021. The BSP conducted a consultation-workshop with the Global Projection Model Network (GPMN)⁵⁵ to review and improve the structure of the Policy Analysis Model for the Philippines, which is one of the macroeconomic forecasting models used by the BSP for monetary policy analysis and policy simulations. Moreover, the BSP has started the scoping activities with the Japan International Cooperation Agency for a technical assistance program aimed at enhancing the BSP's macroeconomic and forecasting models, and conduct of market intelligence activities.

⁵⁴ Members of the Research Experts Panel include Dr. John Nye, Professor, Economic History, New Institutional Economics, George Mason University; Dr. Roberto Mariano, Professor Emeritus of Economics, University of Pennsylvania; and Dr. Ramon Moreno, former Head of Economics for Latin America and the Caribbean, Bank for International Settlements.

⁵⁵ The GPMN is a non-profit research institute that provides global macroeconomic forecasts and risk scenarios. The institute organizes workshops, provides training and technical assistance related to the suite of models used by the team, and develops macroeconomic models and software solutions that support the forecasting environment.



The BSP also actively collaborated with other central banks and foreign financial authorities to exchange information and best practices on central banking issues and other areas of mutual interest. For instance, the BSP established formal collaborations, via an MOU, with the Monetary Authority of Singapore and Central Bank of Mauritius for information exchange and capacity building in areas such as financial technology, financial market, digital currencies, and Islamic banking.

Program and process initiatives. The BSP implemented innovation measures and collaborative activities to continuously improve the conduct of its functions in fulfillment of its mission and advocacies. Through its Knowledge Research Network (KRN), the BSP continued to bring public awareness and greater understanding of monetary policy, strategy, and decisions. Activities included the conduct of e-learning sessions, release of the *KRN Update Newsletter*, and distribution of updated editions of 28 titles of BSP publications for physical display in selected KRN partner institutions.

Innovations within the BSP include various automation initiatives, such as a data validation tool and automated dashboard, to ensure that the data and information released to the public are accurate, timely, and relevant. These innovative tools also enable the BSP staff to manage and analyze the various data generated and monitored within the bank more efficiently, in support of the BSP management's decision-making and formulation of policies and programs in line with the BSP mandate. In keeping with the developments on the use of big data in central banking, the BSP established the Data

Management and Analytics Unit (DMAU). The unit will look into studies related to data analytics and the use of structured and unstructured data from traditional and non-traditional sources to create indicators as inputs to monetary and financial policies. The DMAU will also serve as the BSP's center for data analytics and data dissemination activities, including various automation initiatives. The BSP also began the development of its Market Intelligence and Data Analytics Staff (MIDAS) unit which will focus on conducting research studies on subjects and issues related to digitalization and fintech. The MIDAS unit will also explore the use of big data and other new forms or types of data as inputs to the conduct of monetary and financial policy formulation and implementation.

The BSP developed the Big Data Project in 2020 in partnership with the University of the Philippines. The project included the crafting of the BSP's Big Data Governance Framework and Big Data Roadmap, which began to be implemented in 2021. The roadmap outlines the BSP's big data resource development activities that aim to harness the benefits of using big data to serve the public better through (1) real-time market surveillance, (2) filling information gaps to better monitor and assess economic and financial conditions, (3) better analysis and assessment of BSP's policy actions, regulations and communications, and (4) early detection of systemic risks, among others. Strategic activities under the Big Data Project include the conduct of Big Data Training Series aimed at improving the data science and analytics skills of the BSP personnel; firming up data sharing agreements with various sources to expand data coverage, and

procurement of big data and analytics tools to support the various analytics initiatives in the BSP.

International Reserves Management and Domestic Operations

In what has been an unprecedented 2021 challenged by the COVID-19 outbreak, the BSP implemented prudent management of the gross international reserves (GIR). Amid the low-yield yet volatile market environment, the BSP executed strategies to enhance returns and diversify risks, while at the same time maintaining liquidity and capital preservation as key objectives. Despite the difficulties, it was able to generate significant income during the year.

The year was also marked by ample liquidity in the domestic market due to the funds released from various COVID-19 response programs, the BSP's purchases of government securities in the secondary market, and foreign exchange (FX) operations.

Management of domestic liquidity.

System liquidity continued to be ample with outstanding placements in the BSP's monetary tools amounting to ₱1.9 trillion as of end-2021. The BSP injected around ₱370.0 billion through the BSP's government securities (GS) and FX purchases as well as ₱540.0 billion through the provisional advances to the National Government. The BSP bought a total of ₱212.0 billion worth of GS from the secondary market in 2021, around 4.1 percent of total GS market trades and lower than the ₱980.0 billion from the previous year. The decline in total GS purchases may be attributed to ample system liquidity and the normalization of market conditions.

The BSP also kept its Term Deposit Facility and Securities Facility offerings relatively low to support banks' liquidity requirements. Total availments in the Overnight Lending Facility, most of which were for BSP testing, amounted to ₱1.9 billion in 2021, higher than the ₱740.0 million the year before.


Maintenance of peso stability.

In line with the BSP's aim of preserving the stability and convertibility of the national currency, it continued to monitor the USD/PHP market and maintained its presence to manage the volatility of the exchange rate. The BSP registered net US dollar purchases for the year as it took advantage of dollar buying opportunities amid accommodative monetary policy stance by the Fed (in the first half of the year) and the BSP, easing of mobility restrictions in the National Capital Region later in the year, and optimism on the vaccine rollout.

Nonetheless, the peso depreciated by 5.8 percent to ₱51.0/\$1 on 31 December 2021 from ₱48.0/\$1 on 31 December 2020. Its value ranged from ₱47.6/\$1 to ₱51.0/\$1 throughout the year. The peso was weighed by a stronger US dollar, pessimistic local business confidence, reimposition of quarantine measures due to the surge in COVID-19 cases, and downgrades of the country's growth and credit outlook by various analysts.

Management of international reserves.

The BSP implemented investment strategies to enhance returns from international assets while observing the objectives and risk limits set and approved by the Monetary Board.



These included additional investment in a green bond fund managed by the Bank for International Settlements and an increase in existing mandates with external fund managers.

The BSP also modified its strategic exposure to gold assets in the GIR, following the shift to active management of the Gold Reserves Portfolio in 2020.

Box Article 2

Incorporating Sustainability Principles in Reserve Management

A central bank's framework for managing foreign reserves has traditionally focused on meeting a triad of objectives: liquidity, safety, and return. But recently, central banks have been incorporating sustainability objectives into their policy frameworks as well as reserve management guidelines.

While sustainability is a noble idea, adding a new objective for central banks requires considerable analysis of the cost, not just the benefits. The exercise is fraught with challenges. These include determining the sustainable principles to adopt and ensuring that there is an adequate and stable supply of sustainability products in the market. After all, central banks can only invest in securities issued by sovereigns, sub-sovereigns, and supranational entities. In addition, reserve managers should consider the possible trade-offs between traditional reserve management objectives and sustainability objectives.

Researches and surveys by official institutions have examined this trend and determined how sustainability considerations might fit within central banks' reserve management frameworks.

For instance, the Bank for International Settlements (BIS) published a series of working papers that discuss the relationship between reserve management and sustainability objectives. The BIS papers revealed that "while central banks are playing an increasingly active role in promoting green finance, comparatively little attention is paid to how they might integrate sustainability into their policy frameworks.

Sustainability might be integrated into the reserve management process either explicitly by articulating sustainability as a defined purpose for holding reserves, or implicitly as a supporting aspect of existing policy purposes."⁵⁶ Moreover, the BIS finds that sustainable investments can be included in reserve portfolios without foregoing safety and return, although their accessibility and liquidity currently pose some constraints.⁵⁷

In addition, a Central Banking Publications survey⁵⁸ showed that central banks are increasingly incorporating Socially Responsible Investing (SRI) into reserve management in 2021. For those considering implementing SRI, the major obstacle is the concern over the impact on returns. For those not actively considering SRI, they face challenges on how to integrate such principles within the central bank's mandate. They are also concerned over its effect on liquidity and returns, and the lack of a clear definition of SRI.

⁵⁶ Fender, I., McMorrow, M., Sahakyan, V., & Zulaica, O. (2019). Green bonds: the reserve management perspective. BIS Quarterly Review. Retrieved from: https://www.bis.org/publ/qtrpdf/r_qt1909f.htm

⁵⁷ Fender, I., McMorrow, M., Sahakyan, V., & Zulaica, O. (2020). Reserve management and sustainability: the case for green bonds? (BIS Working Paper No. 849). Retrieved from: <https://www.bis.org/publ/work849.htm>

⁵⁸ The Central Banking Publications conducts its Reserve Management Trends survey annually. The respondents for this survey are reserve managers from central banks across different regions. In the 2021 survey, 78 central banks participated.

⁵⁹ World Bank (2021). Central Bank Reserve Management Practices: Insights into Public Asset Management. Retrieved from: <https://openknowledge.worldbank.org/handle/10986/36442>

Other approaches for incorporating sustainability principles by central banks include negative screening, and the incorporation of a criteria on environmental, social and governance factors. Central banks have operationalized the focus on impact investing by investing in green bonds.

Green bonds are fixed-income securities whose proceeds are exclusively applied to projects that promote climate or other environmental sustainability purposes.⁶⁰ Green bonds offer institutional investors access to sustainable investments in the fixed-income market.

BSP's Journey in Investing in Green Bonds

The BSP has worked toward incorporating sustainability principles into its reserve management framework.

The BSP was one of the early investors in the BIS' green bond fund (BISIP G1), placing an initial US\$150.0 million in the said fund in October 2019. Since then, the BSP's investments in the fund have grown, reaching US\$550.0 million as of end-2021. The BSP believes that green bonds provide higher returns and diversification benefits to its FX reserves as well as advances its sustainability initiative.

In February 2022, the BSP is set to invest in a similar fund, Asian Green Bond Fund (BISIP G3), that the BIS will be launching in early 2022 following an announcement on 21 October 2021.

Apart from the BIS initiatives, the BSP, through its membership in the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), has also taken part in discussions on promoting green bonds in the region. On 14 July 2021, the EMEAP agreed to support investments in green bonds through the Asian Bond Fund (ABF). Such an initiative is aimed at helping catalyze a further deepening of local currency-denominated green bond markets in the region. The inclusion of green bonds in the index of the ABF will take effect on 31 March 2022.

International Economic Cooperation

The BSP actively participated in collaboration activities organized by various regional and international forums.⁶¹ The discussions in 2021 focused on economic developments amid the pandemic, monetary and fiscal policy responses, and the way forward for the new economy. The BSP also organized or took part in several critical bilateral dialogues with foreign authorities,⁶² facilitating the sharing of information and best practices. In addition, it also discussed possible collaboration with bilateral partners in areas such as digital financial services and innovations, retail payments, central bank digital currencies, cross-border data, Islamic banking, and bilateral trade and investment.

Contribution in advancing regional initiatives. The BSP is part of the working group that conceptualized the framework and principles of the first version of the ASEAN Taxonomy for Sustainable Finance which was launched in November 2021 at the sidelines of the 26th United Nations Climate Change Conference. The ASEAN Taxonomy aims to support businesses in the region that promote sustainable agenda and/or adopt sustainable practices. The BSP also made significant contributions in the completion of two initiatives under the

ASEAN finance process, namely: (1) the Policy Note on ASEAN's recent experiences in Capital Account Safeguard Measures which provides insights on the pre-emptive policy measures implemented by ASEAN Central Banks in 2019 and 2020 especially during the height of the COVID-19 pandemic; and (2) the ASEAN Sustainable Banking Principles, which aim to guide future policies and commitments among ASEAN central banks to promote sustainable banking in the region. Under the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) forum, the BSP led the facilitation and completion of several studies on banking regulations and sustainable finance,⁶³ and contributed to the landscape review of cross-border retail payments in EMEAP member jurisdictions. Information obtained from these research projects provided a basis for EMEAP in developing more concrete measures for the region.

Participation in global and regional financial safety nets. The BSP continued to be active in various financial arrangements toward safeguarding the stability of the international monetary system. The BSP supported the initiative of the International Monetary Fund to boost global liquidity via the general allocation of Special Drawing Rights (SDR)⁶⁴ equivalent to US\$650.0 billion.

⁶⁰ MSCI (2021, September 7). Bloomberg MSCI Green Bond Indices. Retrieved from: <https://www.msci.com/documents/1296102/26180598/BBG+MSCI+Green+Bond+Indices+Primer.pdf>

⁶¹ These include Bank for International Settlements, Executives' Meeting of East Asia-Pacific Central Banks, ASEAN, ASEAN+3, Asia-Pacific Economic Cooperation, and Official Monetary and Financial Institutions Forum.

⁶² These include dialogues with the US Treasury, US ASEAN Business Council, Monetary Authority of Singapore, Bank of Thailand, and Otoritas Jasa Keuangan.

⁶³ These include a study on (a) the Emergency Liquidity Assistance Frameworks across EMEAP members; (b) the impact of the International Financial Reporting Standards 9 on Financing to Small and Medium Enterprises; and (c) the adoption of Basel III Liquidity Standards.

⁶⁴ The SDR is an international reserve asset created by the IMF in 1969 to supplement its member countries' official reserves. The value of the SDR is based on a basket of five currencies—the US dollar, the euro, the Chinese renminbi, the Japanese yen, and the British pound sterling.

The Philippines' share in the SDR allocation is approximately SDR2.0 billion (US\$2.8 billion), which increased the country's gross international reserves (GIR) and strengthened the country's resilience against external shocks. In addition, the BSP enhanced its relationship with the IMF with the doubling of the amount of commitment for lending under the New Arrangements to Borrow from SDR340.0 million (US\$477.0 million)⁶⁵ to SDR680.0 million (US\$954.0 million) effective 1 January 2021 until the end of 2025. The Bank also maintained its bilateral borrowing arrangement with the Fund by committed resources for lending of up to US\$431.0 million.

Closer to the region, the BSP took part in the enhancements of the Chiang Mai Initiative Multilateralization (CMIM), the reserve-pooling arrangement under the ASEAN+3 Finance and Central Bank Process. Notable enhancements include the increase of the IMF de-linked portion⁶⁶ from 30.0 percent to 40.0 percent of each member's maximum arrangement amount, making the quick disbursing CMIM facility's access larger to members in need without ties to an IMF-Supported Program, and the use of local currencies in the members' contribution to CMIM arrangements. The BSP also facilitated the swift renewal of the Bilateral Swap Arrangement with Japan which took effect on 1 January 2022.

Aside from providing standby resources for financing arrangements, the BSP also supported initiatives that aided the poorest and most vulnerable countries

affected by natural and health disasters. Through the IMF, and on behalf of the Republic of the Philippines, the BSP contributed US\$4.0 million to the Fund's Catastrophe Containment and Relief Trust⁶⁷ to be disbursed in four equal annual installments, which began in 2021. The BSP's active participation in sustaining these financial safety nets is a testament of the country's strong external position while at the same time expanding the BSP's policy toolkit in the event of external shocks or balance of payments problems.

Negotiation and conclusion of international agreements. The BSP signed memorandums of understanding (MOUs) with the Monetary Authority of Singapore and Central Bank of Mauritius involving information exchange and capacity building in the areas of financial technology (FinTech), financial market, digital currencies, Islamic banking, and other areas under the parties' jurisdiction.

The BSP also joined the Department of Finance, as lead agency, and the Securities and Exchange Commission and Insurance Commission, as co-conforming agencies, in the negotiation and signing of the MOU with the British Embassy Manila. The MOU formalizes the United Kingdom's support for the country's initiatives in FinTech development, sustainable finance, capital market development, and accounting standards.

In April 2021, the BSP signed and issued the Certificates of Concurrence (COCs)

⁶⁵ Based on the exchange rate of SDR0.7/US\$1.0 as of 18 February 2022, according to the IMF website

⁶⁶ IMF De-linked Portion is the amount each member may request from the CMIM when there is no matching IMF-supported program.

⁶⁷ The trust allows the IMF to provide grants for debt relief for the poorest and most vulnerable countries hit by catastrophic natural disasters or public health disasters.



for the ratification of the Regional Comprehensive Economic Partnership (RCEP)⁶⁸ and ASEAN Trade in Services Agreement (ATISA)⁶⁹. The BSP is also actively involved in the negotiation of enhancing the ASEAN-Australia-New Zealand Free Trade Area (AANZFTA), particularly on areas relating to banking and other financial services. The implementation of RCEP, ATISA, and an enhanced AANZFTA is expected to further expand the markets of Philippine banks and other financial institutions. The agreements also aim to increase access to financial services while reducing costs, promoting innovation, and creating a more stable and predictable environment in the sector.

In October 2021, the BSP signed and issued a COC on the Ratification of the United Nations Convention on the Use of Electronic Communications in International Contracts. The convention provides a uniform set of rules that will be observed multilaterally to promote e-commerce through cross-border mutual recognition of digital signatures, electronic communication, and contracts.

⁶⁸ The RCEP is an ASEAN-led free trade agreement (FTA) between the 10 ASEAN member states (i.e., Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and

Vietnam) and its five FTA partners (i.e., Australia, China, Japan, New Zealand, and South Korea).

⁶⁹ The ATISA affirms ASEAN's commitment to free and open trade and regional economic integration.

Box Article 3

BSP Implements New Reforms to Ease Foreign Exchange Usage and Electronic Transactions


The BSP issued Circular No. 1124 dated 10 August 2021 as part of its commitment to maintain a foreign exchange (FX) regulatory framework that is responsive to the needs of a dynamic and expanding Philippine economy. The issuance marks the 12th wave of FX reforms, following measures implemented in 2017 and 2019 that primarily eased rules on foreign borrowings and foreign investments, respectively.

The following are the major reform areas under Circular No. 1124:

- a. Electronic submission of documents and use of electronic or digital signatures. As the COVID-19 pandemic highlighted the need for regulations to be more flexible, the BSP decided to permanently⁷⁰ adopt the electronic submission of documents and use of electronic or digital signatures to facilitate clients' submission of documentary requirements and the BSP's processing of applications, as well as to support e-commerce transactions.
- b. Digital payments and electronic transactions. The BSP allowed the FX sale by banks without prior BSP approval for various FX transactions involving e-commerce market participants to support electronic transactions and digital payments. This ensures that FX rules are attuned with market developments and responsive to the needs of the economy as e-commerce transactions rise.
- c. Trade and non-trade current account transactions. The reforms will further facilitate trade and non-trade current account transactions as stakeholders are provided with greater flexibility in submitting alternative documents to support FX sale by banks for settlement of FX obligations. These FX reforms are also supportive of both public and private sector development projects as prior BSP approval is no longer required for FX sales by banks to cover FX obligations under Engineering, Procurement and Construction contracts or similar contracts and agreements, and those under certain netting arrangements. Furthermore, cognizant of the possible need for monetary support of dependents of Philippine residents, the BSP also allowed the FX sales by banks for living allowance and medical expenses of dependents living abroad.
- d. Peso deposit accounts of non-residents. The BSP further expanded the list of eligible sources of funding for peso deposit accounts of non-residents to include, among others, peso receipts relating to trade transactions and private sector foreign borrowings that are duly approved by, registered with, or reported to the BSP. The expansion in eligible fund sources will further encourage peso transactions of residents with non-residents. For instance, allowing deposits of onshore peso receipts of non-residents from trade transactions will facilitate electronic transactions under local currency settlement frameworks.

⁷⁰ In response to the declaration of community quarantine by the Office of the President, the BSP temporarily allowed electronic submission of documents to the

BSP and banks as well as use of electronic or digital signatures as part of the BSP's operational relief measures under Circular No. 1080 dated 27 March 2020.



e. Foreign borrowings, foreign investments, and FX derivatives transactions. To facilitate access to FX of the banking system and enhance data capture on external debt, the BSP allowed registration of certain private sector foreign borrowings such as those obtained without the requisite BSP approval and intended to refinance unregistered or unreported foreign loans or foreign currency borrowings. The BSP also allowed the FX sale by banks for refund of taxes and erroneously withheld taxes related to BSP-registered foreign investments. In addition, the BSP lifted the prior Monetary Board approval requirement for all FX derivatives transactions to be entered into by non-bank government entities to provide them with flexibility in managing their funds.

Overall, these reforms are expected to facilitate FX transactions which, along with other key market reforms, will help support the country's continued economic recovery.

With the continuing liberalization of FX rules, the BSP expects banks to maintain the implementation of safe and sound practices in their operations. The BSP shall continue to review and enhance the country's regulatory framework to facilitate FX transactions by improving access to foreign currencies of the banking system and further streamlining the procedures and documentary requirements.

PROMOTING A SOUND, STABLE AND RESILIENT FINANCIAL SYSTEM (FINANCIAL STABILITY)

The BSP continued to promote the safety, soundness, and resilience of the financial system in 2021 through reform initiatives, policy disciplines, and adherence to prudential regulations and international standards. The BSP leveraged advances in technology to strengthen surveillance activities and sharpen supervisory tools. Similarly, it facilitated the increased participation of more BSP-supervised financial institutions (BSFIs) in the financial system, promoted responsible innovation and the sustainability agenda, and supported deepening of the domestic capital market.

Financial Supervision

Promoting the sustained safety, soundness and resilience of the financial system

Continued reforms and policy initiatives that strengthened banks' corporate governance and risk management since the 1997 Asian Financial Crisis—including enhancements of the BSP supervisory framework—shielded the Philippine financial system from the ill effects of the COVID-19 pandemic. Thanks to past reforms, banks faced the unprecedented crisis from a position of strength.

The BSP ensured that BSFIs were operating in a safe and sound manner through supervision, multi-stakeholder collaboration, consumer protection, and regulations.

This included the implementation of the Supervisory Assessment Framework, which facilitates a more robust and forward-looking evaluation of the risk profile and quality of governance of the BSFIs. The BSP has been pro-active in engaging with BSFIs and employed the use of digital platforms in the conduct of examinations. Moreover, thematic reviews were conducted for emerging risk areas or areas of significant concern across the industry such as mobile or internet banking and money laundering/terrorist financing. This blended approach was complemented by enhanced surveillance activities, including ad hoc stress testing exercises.

Multi-stakeholder collaboration

This included provision of technical support and inputs to legislative measures relevant to the financial system, with special focus on creating a more sustainable micro, small and medium enterprises and agricultural financing ecosystem, as well as providing assistance to critically affected sectors of the crisis. This also included continued stakeholder engagement with foreign counterpart regulators through the Executives' Meeting of East Asia-Pacific Central Banks Working Group on Banking Supervision (EMEAP WGBS), as chairman until 2022; and with supervised financial institutions through the Bank Supervision Policy Committee.

Moreover, the BSP strengthened collaboration of financial sector regulators under the Financial Sector Forum with the signing of the Memorandum of Agreement (MOA) on Cooperative Oversight Framework and the MOA on the Implementation of a

Centralized System for Accreditation/Selection of External Auditors in the Financial Sector, as well as the creation of technical working group on sustainable finance to harmonize cross-sectoral regulations and standards on sustainable finance encompassing governance, risk management, disclosures and taxonomy.

The BSP also promoted research initiatives and publications such as the papers on stress testing and microfinance as well as the Industry Cybersecurity Playbook.

Consumer protection

The BSP continued outreach activities and capacity-building programs through virtual platforms amid the pandemic restrictions to ensure that consumers are properly informed particularly on the optimal use of digital financial channels and protection against cyber fraud and scams. It also intensified surveillance focusing on COVID-19-themed cyberthreats and issued various advisories to address emerging cyberthreats.

Regulation

The BSP issued responsive regulations, including time-bound relief measures to support BSFIs and their borrowers (households and businesses) amid the COVID-19 crisis.

The BSP issued 21 circulars, 93 circular letters and 56 memoranda to all banks and non-bank supervised entities. Below are some of the key circulars and memoranda issued in 2021.

- Amendments to corporate governance guidelines for BSP-supervised financial institutions. The amendments comprise the second phase of the enhancements to BSP's enhanced corporate governance guidelines. The amendments governing interlocking directorships or officerships, or both, follow a principles-based approach in assessing the soundness of interlocking positions, ensuring that the concerned individuals effectively carry out their responsibilities in the BSFI and are not in conflicting positions.
- Guidelines on reputational risk management. The issuance sets out the supervisory expectations on banks to effectively manage reputation risk. Banks should take a holistic approach in managing reputation risk in relation to other risk areas. Moreover, banks should properly identify and assess sources of potential threats that could damage their reputation.
- Environmental and Social Risk Management Framework. This governs the integration of environmental and social (E&S) risks in the enterprise-wide risk management frameworks of banks. This second phase of environment, social and governance related issuance provides granular expectations on the management of E&S risks in relation to credit and operational risks.
- Amendments to the regulations on investment management activities. The regulation reduces the minimum amount for opening an investment management account from ₱1.0 million to any lower amount, subject to a floor of ₱100,000. This provides expanded

investment opportunities to retail investors who may have found the previous high entry requirement prohibitive.

- Amendments to operational risk management and internal control measures. The guidelines aim to strengthen Know-Your-Employee (KYE) policies and practices and tighten controls related to confirmation of deposit accounts, as part of the overall operational risk management system of BSFIs. The issuance highlights the importance of continuing assessment of employees' fitness and propriety to perform the responsibilities required of the position. BSFIs are expected to leverage on existing controls, available reports, and other relevant information to facilitate the assessment. The revised policy also identified certain behaviors that serve as red flags warranting further scrutiny as part of personnel's performance evaluation.
- Amendments to the relevant regulations on Foreign Currency Deposit System - Phase 2. This is part of the BSP's phased reform agenda for foreign currency deposit units (FCDUs). The amendments provide banks the opportunity to perform efficient and flexible liquidity cash management of foreign currency-denominated funds by streamlining the rules on lending to the regular banking unit by FCDUs. The issuance also expands the coverage of entities allowed to engage in FCDUs to include Islamic and digital banks and streamlines the licensing requirements for banks applying for such authority.
- Amendments to derivatives regulations of banks, quasi-banks and trust corporations. The revised regulations removed tenor limits on instruments classified as generally authorized derivatives activities (GADA) and add non-deliverable foreign exchange (FX) forwards and FX swaps to the list of GADA under dealer capacity for universal and commercial banks. This issuance supports the growth of and expedite the availability of new products in the domestic derivatives market.
- Amendments to regulations on the open foreign exchange position of banks. The issuance revised the net open FX position limit (FX NOP) of a bank to the lower of 25.0 percent of qualifying capital or US\$150.0 million, from the previous limit of 20.0 percent of unimpaired capital or US\$50.0 million, whichever is lower. The increase in both the absolute and capital-dependent NOP limits recognizes the growing demand for FX arising from the growth in the volume of underlying trade transactions and investments.
- Guidelines on the management of liquidity risk by Islamic banks and Islamic banking units. The policy aims to support the implementation of Republic Act No. 11439 or An Act Providing for the Regulation and Organization of Islamic Banks. It is primarily aligned with the BSP's existing liquidity risk management framework for conventional banks, with additional provision to cover the specificities of Islamic banking operations. It aims to create an enabling environment that will allow Islamic banks to operate alongside the conventional banks under the

- same regulatory approach, taking into consideration the unique features of Islamic financial activities and transactions.
- Guidelines for Virtual Asset Service Providers (VASPs). The amended framework effectively categorizes existing virtual currency exchanges as VASPs. It has expanded the activities of VASPs subject to the licensing regime of the BSP from initially covering those involved in facilitating the exchange of fiat and virtual assets (VAs). In particular, the following activities shall likewise be subject to the BSP's licensing requirements, regulatory expectations for money service businesses (MSBs), as well as anti-money laundering, countering the financing of terrorism, and proliferation financing obligations: (1) exchange between one or more forms of VAs; (2) transfer of VAs; and (3) safekeeping and/or administration of VAs or instruments enabling control over VAs.
 - Open Finance Framework. The Open Finance Framework promotes consent-driven data portability, interoperability, and collaborative partnerships among entities who adhere to the same standards of data security and privacy. Filipinos will be able to make informed financial choices by having a consolidated view of their personal data and their financial transactions that they can use to access more affordable services that fit their needs. Consumers will have the power to grant access to their financial data that will shape a customer-centric product development objective.
 - Amendments to the rules and regulations on the mandatory credit allocation for agriculture and agrarian reform credit. The amendments facilitate the provision of available financing to the agri-agra sector by providing banks with expanded financing avenues, streamlining banks' process of investing in agri-agra eligible securities, and promoting innovative financing solutions that fall within the ambit of Republic Act No. 10000.
 - Report on the Risk Assessment of Cash, Cross-Border and Cross-Sector Transactions. The report represents the first phase of the SRA that focused on the assessment of risks attendant to cash, cross-border and cross-sector transactions. The assessment seeks to understand, analyze, and assess the money laundering, terrorist financing, and proliferation financing risks arising from cash transactions of banks and other BSFIs, the flow of suspected criminal proceeds through cross-border transactions, and the risks across certain sectors.
 - Guidance Papers on Managing Terrorist Financing (TF) and Proliferation Financing (PF) Risks and Implementation of Targeted Financial Sanctions (TFS). The guidance papers highlight the good practices, relevant typologies, and red-flag indicators related to terrorism, TF and PF, and implementation of TFS. They likewise identify areas for improvement to strengthen measures to detect, prevent, and mitigate risks arising from the aforementioned activities.

- Implementation of Republic Act No. 11523, otherwise known as the Financial Institutions Strategic Transfer (FIST) Act. The FIST Act aims to assist the financial system perform its role of efficiently mobilizing savings and investments for the country's economic recovery as well as its sustained growth and development from the losses brought about by the COVID-19 pandemic. The BSP issued the implementing guidelines of the FIST Act and its Implementing Rules and Regulations to the different types of BSFIs. It also provided for a reporting template.
- Regulatory relief on the non-imposition of sanctions for breach in single borrower's limit by foreign bank branches established prior to Republic Act No. 10641. The Monetary Board, in its Resolution No. 1708 dated 28 December 2020, approved the grant of regulatory relief to foreign bank branches established prior to Republic Act No. 10641 as part of the initiatives of the BSP to support the country's economic recovery, subject to certain conditions.
- Regulatory relief on the capital treatment of provisioning requirements under the Philippine Financial Reporting Standard (PFRS) 9. As approved by the Monetary Board, covered BSFIs will be allowed to add-back increase in Stage 1 and Stage 2 provisioning requirements booked under allowance for credit losses from end-December 2019 to CET1 capital over a period of two (2) years starting 1 January 2022 reporting period, subject to a declining add-back factor of 100.0 percent (from 1 January to 31 December 2022) and 50.0 percent (from 1 January to 31 December 2023).
- Regulatory treatment of restructured loans on the measurement of expected credit losses (ECL). As approved by the MB, BSFIs that have established that the borrowers' financial difficulty is temporary shall classify the restructured loan accounts under Stage 2 for purposes of determining ECL: *Provided*, That the restructured loan accounts are not more than 90 days past due on principal and or interest payments. Restructured loans that are classified under Stage 2 shall be considered as credit-impaired (Stage 3) if there is evidence that full repayment of the loan under the modified terms is unlikely without foreclosure of collateral.
- Enhancements to the BSP operational relief measures. The Monetary Board, in its Resolution No. 530 dated 29 April 2021, approved the following enhancements to the BSP operational relief measures, in light of the ongoing COVID-19 situation: (1) deferment in the submission of the 2020 annual audited financial statements (AFS) of BSFIs; (2) relaxation of the notification requirements on changes in banking days and hours as well as temporary closure of bank branches/branch-lite units (BLUs) and BSFI offices/service units; (3) relief measure on customer identification; (4) waiver of fees related to the grant of license or authority to provide Types A and B Advanced Electronic Payments and Financial Services; and (5) waiver of BSP approval on requests for extension of the deadline to open approved bank branches/BLUs.

- Use of Philippine Identification System (PhilSys) ID for customer identification and verification. This was issued in response to the call of the Philippine Statistics Authority (PSA) urging the public acceptance of the Philippine Identification (PhilID) cards as valid proof of identity in government and private transactions. The guidelines reminded all BSFIs that the PhilID card is considered an official document to establish and verify the identity of a customer and should be accepted as official and sufficient proof of identity without the need to present any other IDs.
- Acceptance and authentication of Philippine Identification Card under the Philippine Identification System. This was issued in line with the PSA press release and advisories. The BSP reminded BSFIs that the PhilID card, in physical or mobile format, issued under the PhilSys pursuant to Republic Act No. 11055 or the PhilSys Act, shall be accepted, subject to proper authentication, as a sufficient proof of identity. The memorandum further clarified that while the online authentication and the cryptographic verification methods are still being developed and not yet available, relying parties, such as BSFIs, can administer or implement the physical/visual verification of the physical or security features of the PhilID, which are superior to a handwritten signature, and the same qualifies as an "offline authentication" and is already in compliance with the procedures of Republic Act No. 11055.
- Reminder to BSFIs to refrain from discriminatory practices toward persons with disability (PWD). The issuance is to remind BSFIs against discriminatory practices toward PWDs.
- Advisory on modus operandi (MO) of organized crime groups (OCG) through auto loans. The advisory warns BSFIs against emerging MOs of OCGs or "carnapping syndicates." The warnings emphasized that carnapping syndicates acquire high-end motor vehicles (MV) through auto loans under fictitious identities. The mortgaged MVs are subsequently sold to the public using fake conduction stickers and plate numbers.
- Advisory on banking and Other related functions considered as essential services and its employees among authorized persons outside of residences. The issuance aims to ensure the continuous availability of financial services to the public. All BSFIs are enjoined to adopt appropriate work arrangements consistent with the community quarantine imposed by the national government. The BSFIs and its employees are also reminded to continuously observe minimum public health standards and protocols issued by the Department of Health and Inter-Agency Task Force.

Leveraging advances in technology to strengthen surveillance activities, sharpen supervisory tools, and promote efficiency

Advances in supervisory technology provide the BSP, as a supervisor, with an opportunity to improve the quality and

timeliness of risk identification and monitoring.

The BSP is also an institutional partner of the RegTech for Regulators Accelerator (R2A), which develops cutting-edge digital tools or regulatory technology (RegTech) solutions to improve the speed, quality, and comprehensiveness of information for risk-based supervision and evidence-based policymaking. Among its activities along these lines are the following:

- Process improvements geared toward enhancement of receipt and generation of data from BSFIs, dashboard for risk profiling of BSFIs, and data pull of information for ease of reporting;
- Online customer satisfaction survey, an online feedback mechanism using Microsoft Forms and Microsoft Power Automate applications;
- Launch of Fit-and-Proper System access, a web-based search engine tool that provides information on individuals, which are necessary inputs to supervisory processes, such as confirmation of directors and officers of BSFIs;
- Launch of Visualization Tool for Analytics, a Microsoft Power BI-based platform. The goal is to promote "augmented supervision" through the development and use applications and analytic tools to improve the collection, management, and delivery of data for supervisory purposes and achieve a faster turnaround time from data to insight;
- Completion of the Integrated Pawnshop and Money Services

Business Registration System, which automates the registration process of Pawnshops and MSBs; and

- Introduction of electronic submission of reports, together with rationalization of submission of prudential reporting requirements.

Increased participation in the financial ecosystem of more BSP-supervised financial institutions and promotion of responsible innovation

The BSP's Three-Year Digital Payments Transformation Roadmap sets out initiatives and strategies for achieving an efficient, safe, and inclusive payments ecosystem. The roadmap has a couple of objectives. First, it aims to strengthen customers' preference for digital payments by converting 50.0 percent of the total volume of retail payments into digital form. Second, it seeks to expand the proportion of financially included adult Filipinos to 70.0 percent.

The issuance of the digital banking and open finance frameworks is geared toward the achievement of such objectives. Following the release of the Digital Banking Framework in December 2020, the BSP chartered six digital banks (comprised of two converting banks and four new players) in 2021.

Other initiatives were the following:

- Issuance of Guidelines for VASPs;
- Issuance of clarificatory guidelines on Philippine Identification System (PhilSys) ID acceptance and authentication, including the relaxation of Know-Your-Customer requirements, particularly the presentation of valid IDs by retail

clients in opening Basic Deposit Accounts and by identified recipients of social amelioration programs supporting the pillars on digital finance;

- Issuance of inter-agency reference guidelines on Customer Identification and Verification as well as Consumer Protection under the auspices of the Financial Sector Forum; and
- Promotion of Islamic banking and finance in collaboration with the Philippine Economic Zone Authority and Accounting and Auditing Organization for Islamic Financial Institutions.

Advancement of the sustainability agenda


Consistent with the Sustainable Central Banking Program (2019), the BSP issued sustainability-related regulations for banks. Following the release in April 2020 of the overarching principles on the integration of sustainability policies and practices in the banks' corporate governance, risk management system, strategic direction, and operations, related activities were conducted in 2021, including:

- Communication of the BSP's commitment for the achievement of global climate goals and contribution to the 26th United Nations Climate Change Conference of Parties;
- Launch of the Philippine Sustainable Finance Roadmap and Guiding Principles in October 2021;
- Issuance of the Environmental and Social Risk Management Framework;

- Active participation in global and regional conversations on sustainable finance, such as memberships in the Sustainable Banking and Finance Network, Network for Greening the Financial System, East Asia-Pacific Central Banks (EMEAP-WGBS and MFSC), ASEAN SLC Task Force on Sustainable Finance, Working Group 1 of the ASEAN Taxonomy Board, and Inter-agency Technical Working Group on Sustainable Finance or the Green Force;
- Conduct of vulnerability assessment on the potential impacts of climate change and other environmental risks on BSP offices and branches, and gap analysis on the integration of sustainability principles in the key operations and functions of the BSP; and
- Collaboration with multilateral development partners and industry associations on the conduct of various capacity-building activities on sustainable finance.

Deepening of the domestic capital market

The BSP amended regulations relevant to domestic capital markets, including amendments to investment management account, derivatives, securities custodian and registry operations, and open foreign exchange positions of banks. These enhancements are expected to pave the way for new entrants and retail investors, product expansion, price discovery, robust risk management and governance systems, consumer protection, ample liquidity, and transfer of appropriate technology, among others.



Amid enabling regulations, digital Personal Equity and Retirement Account contributions, which serve as a source of long-term savings for capital market deepening, grew last year.

Box Article 4

Innovating Bank Examination During the Pandemic

As mandated under Republic Act (RA) No. 7653, otherwise known as the New Central Bank Act, as amended by RA 11211, examinations are performed to determine whether BSP-Supervised Financial Institutions (BSFI) are conducting their businesses in a safe and sound manner. For the longest time, examinations were done on-site or at the BSFIs' premises. However, travel limitations, and health and safety concerns in the wake of the COVID-19 pandemic posed considerable challenges in conducting on-site examinations.

As the pandemic lingers on, many organizations have changed and adopted new approaches to carrying out their mandates. Thus, the Bangko Sentral ng Pilipinas (BSP) leveraged the use of information technology (IT) platforms to exchange information and documents, and communicate with BSFIs instead of face-to-face engagements.


Alternative modes of examination have been adopted in other jurisdictions even prior to the pandemic. As early as 2007, the Federal Deposit Insurance Corporation, an independent agency supervising and examining financial institutions in the US, introduced the electronic examination (Jones & Meyer, 2007) or e-Exam, in which electronic data are exchanged through a secured delivery method. Industry response to e-Exams has been positive. Examination conducted on-site requires adequate work spaces for the examination team which is not the case for virtual examination. Moreover, providing documents to the examiners electronically, rather than through the traditional hard copy, saves considerable time and effort from banks, especially those already maintaining digital copies of bank documents.

The BSP adopted an alternative mode of examination called "blended examination" which generally mimics on-site examination procedures using online platforms. Discussions with bank management, document reviews, and walk-throughs of processes and systems are being done virtually, with scope to conduct on-site visits of banks, when necessary.

Blended examinations provided huge benefits. The BSP was able to continue fulfilling its mandate without compromising the health and wellness of BSP examiners. This examination approach complemented the introduction of the Supervisory Assessment Framework, a robust, dynamic and forward-looking assessment framework, which enabled the BSP to effectively carry out its supervisory functions both off-site and on-site.

However, a blended examination is not without its challenges and limitations. Three key issues were identified namely: insufficient BSFI manpower, deficient IT infrastructure, and lack of on-site observation inputs.

In view of the government-imposed restrictions during the pandemic, BSFIs adopted alternative work arrangement, limiting personnel who are reporting physically to their offices and delaying the submission of some examination requirements. The shift has affected the availability, accessibility, and ease of viewing of documents, which may be attributed to insufficient resources to adopt blended examination. Moreover, financial institutions that largely rely on manual operations tend to suffer from poor internet connection or inadequate equipment.



Finally, the BSP cannot conduct the usual observations on the practices, controls, and dynamics within the bank, which should feed into the assessment of the quality of corporate governance.

The BSP responded to these challenges by strengthening its surveillance tools, enabling it to analyze financial institutions depending on their profile, i.e., type of institution, business model, and market. These tools include the supervisory dashboards with inputs coming from the prudential reports and event-driven reports submitted by financial institutions, information from aggregated consumer complaints, baseline surveys, and stakeholder engagements.

The BSP also conducts trend analysis and stress tests. The latter provides information on the extent to which the financial institution's capital can absorb potential losses. The BSP supervision teams schedule more frequent meetings with the board of directors and officers of financial institutions that are exposed to higher-than-normal risk. These financial institutions are required to submit more detailed reports and documents to show their monitoring systems and governance processes. Meanwhile, trends or risks noted across banks with a similar profile are discussed with industry associations.

Moving forward, the BSP will continue to leverage advances in technologies and combine traditional and new approaches to further improve its supervision processes in line with its mandate to promote the sustained safety, soundness, and resilience of the financial system.

Box Article 5

Promoting Islamic Banking in the Philippines and the Road Ahead

Amid the COVID-19 pandemic, 2021 was a remarkable year with the Bangko Sentral ng Pilipinas' (BSP) unceasing initiatives to promote Islamic banking in the country while intensifying collaboration with other regulatory agencies to jointly build the foundation for the domestic Islamic finance industry.

The BSP recognizes that a whole-of-government approach is critical to advance the initiatives on Islamic banking and finance. Linkages with key stakeholders need to be created to establish an expanded Islamic banking ecosystem. This is the strategy in implementing the key provisions of the Islamic Banking Law (Republic Act No. 11439) and the Organic Law for the Bangsamoro Autonomous Region in Muslim Mindanao (Republic Act No. 11054).

To institutionalize the Bank's commitment to spearhead relevant initiatives of the Islamic banking law, the BSP created the Islamic Banking Supervision Group (IBSG) on 18 June 2021. IBSG is the focal group for the BSP's strategic initiatives and prudential policy reforms to implement the Islamic Banking Law and other pertinent provisions of laws that aim to strengthen Islamic banking.

Geared toward expanding the multiple linkages of stakeholders in the promotion of Islamic banking and finance in the country, the BSP reconstituted the Interagency Working Group (WG) on Islamic Banking and Finance on 25 August 2021 under Office Order No. 1064. This rekindled the whole-of-government approach in the establishment of a strong and sustainable Islamic finance ecosystem that can thrive alongside the conventional system.

The WG is primarily tasked to develop the comprehensive regulatory framework for the sector, including the necessary instruments and infrastructures for its expansion and long-term sustainability by linking the initiatives of the relevant agencies in the areas of Islamic capital market, government sovereign *Sukuk* issuance, *Takaful* or Islamic Insurance, tax neutrality, accounting and auditing standards, *Shari'ah*-compliant deposit insurance mechanism, and the nationwide capacity-building programs.

Also, the group is now comprised of high-level and senior officers from the BSP, Securities and Exchange Commission, Bureau of Treasury (BTr), Insurance Commission (IC), Philippine Deposit Insurance Commission (PDIC), Bureau of Internal Revenue (BIR), Department of Trade and Industry, Financial Reporting Standards Council, and the National Commission on Muslim Filipinos (NCMF). This high-level membership in the WG on Islamic Banking and Finance will ensure firm commitment to move forward the various initiatives and implementation plans of the working group.

In 2021, the BSP issued Circular Nos. 1069, or Guidelines on the Establishment of IBs and IBUs, and 1070 to implement the provisions of RA 11439; Circular No. 1116 on the Guidelines on the Management of Liquidity Risk by Islamic Banks (IBs) and Islamic Banking Units (IBUs) on 25 May 2021 to emphasize, among others, that *Shari'ah* compliance is critical even in liquidity risk management of IB/IBUs. The issuance reiterates the approach of the BSP to maintain an open and flexible approach in shaping the regulatory framework for Islamic banking.

The BSP is currently working on the guidelines on the reporting framework of Islamic banking transactions and arrangements. This prudential reform is closely coordinated with

the BIR, which is drafting the detailed guidelines for implementing tax neutrality. The BSP will issue more regulations aimed at providing an enabling regulatory environment where Islamic banks can operate alongside the conventional banking system.

The WG's collaboration recently succeeded in pushing for another milestone prudential reforms on *Takaful*. The dialogues conducted between BSP and the IC's focal group on Islamic insurance facilitated the issuance by the commission of its Baseline Regulatory Framework for *Takaful* Undertakings on 27 January 2022.

The WG is also actively engaging with the BTr and the Department of Justice for the potential first sovereign *Sukuk* issuance of the Philippines.

Recognizing the importance of collaboration in promoting Islamic banking and finance, the BSP entered into a Memorandum of Understanding (MOU) with the Philippine Economic Zone Authority on 19 October 2021. The parties agreed to jointly cooperate and collaborate in the promotion of Islamic banking and finance through, among others, the establishment of Green Ecozones, Halal Hubs, and provision of relevant capacity building programs and access to *Shari'ah*-compliant products and services in halal ecozones. This partnership is expected to bring far-reaching benefits, including the search for potential new Islamic banking players.

Following the MOU signing, a roadshow was held in December 2021 in Dubai in coordination with the Board of Investments. The Philippine delegates met representatives from the Dubai Islamic Bank Group and other organizations to discuss the licensing framework for Islamic banks in the Philippines.

The BSP ended 2021 with the successful signing of another MOU with the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) on 1 December 2021, providing for cooperation in the areas of capacity building and technical assistance as well as possible adoption of relevant AAOIFI-issued standards by the domestic Islamic banking and finance industry, among others. This complements the BSP's membership in another key standard-setting body on Islamic finance: the Islamic Financial Services Board.

In 2022, the BSP aims to reach another milestone by establishing an important element of Islamic banking. In cooperation with the Bangsamoro Government, the Department of Finance and the NCMF, the BSP is leading initiatives to establish a *Shari'ah* Supervisory Board in the Bangsamoro Autonomous Region of Muslim Mindanao. The move signals to the market the key role of *Shari'ah* compliance in Islamic banking. It is also noteworthy that the forthcoming passage of an amendatory law will empower the PDIC to set up insurance coverage for depositors of Islamic banks and formulate rules and regulations for the extension of financial assistance, taking into consideration the peculiar characteristics of Islamic banking. The WG will take a crucial role in advancing initiatives in this area. To ensure that Islamic banks will have supportive monetary policy and infrastructure in the BSP, there will be calibrated policy reforms for the integration of *Shari'ah*-compliant instruments in the BSP's monetary operations framework and the development of financial facilities for Islamic banks.

The BSP is carefully shaping the building blocks of an expanded Islamic banking system by collaborating with all the stakeholders and agencies tasked to develop the complementary components of an Islamic finance industry in the country. There are still bigger plans needing firm commitment and bold measures, and more work for all the stakeholders, making the promotion of Islamic banking and finance even more exciting and promising.

Box Article 6

Mergers, Consolidations and Acquisitions Project Enhances Ease of Doing Business

The BSP and other concerned government agencies have embarked on a project that will enhance transactions related to mergers, consolidations and acquisitions in the banking sector.


Under the Mergers, Consolidations and Acquisitions (MCA) Project, the BSP, Philippine Deposit Insurance Corporation, Philippine Competition Commission, Securities and Exchange Commission, and Cooperative Development Authority adopt simplified and coordinated requirements and procedures related to MCAs, consistent with the goal of enhancing the ease of doing business in the country.

In a virtual ceremony held on 5 November 2021, the five agencies signed a memorandum of agreement (MOA) on the procedures for applications for MCAs of banks. The MOA contains provisions on the following areas:

1. Issuance of guidelines that will streamline the procedure, reduce aggregate processing time, and facilitate prompt action or resolution on MCA application of banks;
2. Establishment of a working arrangement among the agencies in the processing of banks' applications for MCAs; and
3. Enhancement of complementary roles of each agency in promoting and maintaining the stability of the Philippine banking system.

An MCA application used to be separately and sequentially processed by the agencies involved—each with different requirements and timelines. The same process is considered “interconnected” as the deliverable of one agency is an input to the other. As a result, a delay in one agency creates a domino effect on the entire process. In response, the MCA Project strives to harmonize the requirements of the different agencies and adopts simultaneous processing of applications.

The entire MCA application process takes 55 business days. For its part, the BSP reviews the viability of the business plan relative to the MCA transaction and compliance with banking laws, BSP rules, and regulations. The BSP processes MCA applications in 40 business days. Part of the objective of the MCA Project is to promote reliance on the expertise of the agencies in the implementation of their respective mandates and governing laws. Hence, the BSP will be working closely with other agencies during the evaluation of an MCA application. Alongside the reduction in processing time, the BSP will also implement operational enhancements to meet the required processing timeline.



The said interagency MOA supports the BSP's efforts to encourage banks to pursue MCAs to build up size and strength. Furthermore, the execution of the MOA is aligned with the BSP's advocacy for bank mergers and consolidations. It promotes stronger banking institutions founded on good governance and effective risk management systems. It is also expected to strengthen and reduce fragmentation in the banking system. The streamlined procedure, reduced processing time, and prompt action or resolution of applications will encourage banks to pursue MCAs. With higher capital and resources as well as better economies of scale, banks will widen their reach and gain more access to investments and clients.

The agencies will issue implementing guidelines through a joint circular to provide details of the processes described in the agreement. The MOA also states that the agencies may later adopt other additional guidelines and procedures, consistent with the terms of the MOA. These include the establishment of a data portal for the electronic submission of documents that may be accessed by authorized personnel of each agency.

Box Article 7

Managing the Effects of the Philippines' Inclusion in the Financial Action Task Force List of Jurisdictions Under Increased Monitoring or Grey List

The Philippines made a high-level political commitment to work with the Financial Action Task Force (FATF) and Asia Pacific Group (APG) on Money Laundering to strengthen the effectiveness of the country's anti-money laundering/counter-terrorist financing (AML/CFT) regime. Anchored on a "whole-of-country" approach, the Philippines has taken proactive steps to address by January 2023 the identified strategic deficiencies in its regime to counter money laundering, terrorist financing (TF), and proliferation financing (PF).

Critical components of the "whole-of-country" approach include ensuring that strategic steps are being taken to address the identified areas and to manage and mitigate the effects of the inclusion of the Philippines in the FATF list of jurisdictions under increased monitoring or grey list. These are coordinated and overseen by the National AML/CFT Coordinating Committee (NACC) headed by the Executive Secretary. Created under Executive Order No. 68, series of 2018, the NACC is tasked to harmonize AML/CFT efforts of relevant government agencies to ensure that they are consistent with the National AML/CFT Strategy 2018-2022. The BSP chairs the Supervision of Financial Institutions Sub-Committee, one of the five subcommittees of the NACC.

The NACC, in its Resolution No. 3 dated 26 November 2021, issued the advisory on the application of the risk-based approach on Filipinos after the inclusion of the Philippines in the FATF Grey List. It emphasized, among others, that Filipinos should not be considered as high-risk based solely on the said FATF statement and therefore should not be subjected to enhanced due diligence or any form of countermeasures by reason only of jurisdictional or country risks arising from the grey list. The BSP also formed a dedicated team that tracks and collates the actions and countermeasures taken by other jurisdictions as well as catalogs incidents related to de-risking and correspondent banking, among others. The information gathered will be used in implementing appropriate policy responses and other necessary interventions.

The BSP is implementing measures to address the three action-plan items relating to implementing the new registration requirements for money or value transfer services, applying sanctions on unregistered and illegal money remittance operators, and enhancing the effectiveness of the targeted financial sanctions framework (TFS) for both TF and PF.

The BSP remains committed to implement strategies to closely identify and monitor the impact of the FATF's grey-listing of the Philippines to inform policy actions and engagement activities with key stakeholders. It will ensure that the remaining action plan items for BSP and BSFIs will be adequately addressed, in line with the country's strong commitment to address all identified strategic deficiencies to exit from the grey list.

Systemic Risk Management

The BSP delivered on milestones critical to the financial stability agenda. These included technical initiatives such as the Systemic Risk Crisis Management (SRCM) Framework, and the enhancement of various firm-level network models that are at the core of the initial phase of the first-ever Macroprudential Stress Tests in the country.

Collaborations within and between agencies were likewise strengthened. Rephrasing the context of systemic risk to a broader audience was prioritized, and capacity-building activities were pursued.

Executive Order No. 144. A key highlight for the country's financial stability agenda, EO 144, institutionalized the Financial Stability Coordination Council (FSCC) as the interagency body responsible for enhancing financial stability by mitigating systemic risks through timely macroprudential policy interventions. The issuance of EO 144 reflected the government's resolve to strengthen the ability to collectively address systemic risks, and to improve current and future societal welfare.

Regional Consultative Group for Asia (RCGA) of the Financial Stability Board. Governor Diokno is on an unprecedented second term as RCGA co-chair. In this capacity, he continues to provide thought leadership with his contributions to the discussions on the impact of global and regional macroeconomic developments in Asia.

Approval of the SRCM. This defines the arrangements among the FSCC agencies on how to coordinate in good times so that they become well organized when under conditions of stress. The framework identifies key actions required to classify, assess, manage, and communicate systemic risks that escalate into a crisis. This is an important preemptive initiative to ensure crisis preparedness at the system level and reflects both the BSP's and the council's commitment to managing systemic risks.

Macroprudential Stress Test. Another milestone is the conduct of the country's first-ever Macroprudential Stress Test. The completed initial phase assessed the resilience of non-financial corporations (NFCs) to severe yet plausible income shocks using a whole-of-market approach. Central to the analysis is the risk amplification mechanism through business relationships across firms, which estimated the potential second-round effects of decreased supply and demand arising from stressed revenues. The focus on the corporate sector reflected the FSCC's continued vigilance over NFC solvency vulnerabilities and their potential impact on the financial system.

Network centrality measures added to Strategic Objective 3 in the BSP Strategy Map. Systemic-risk thinking within the BSP was enhanced by the inclusion of network centrality measures as part of the third strategic objective in the BSP Strategy Map. Specifically, periodic updates on the movements in

the eigenvector centrality scores of the bank-conglomerate network provided empirically-grounded assessments of network connectivity and density.

Advisory Committee Deliberations.

Discussions were conducted at the Advisory Committee (AC) technical staff level highlighting current economic and market conditions. Subsequently, the AC technical staff provided recommendations on monetary stance at the AC level with due consideration to financial stability concerns.


Inclusion of new studies and surveillance tools in the periodic Systemic Risk Review.

The Systemic Risk Review provided to the Financial Stability Policy Committee (FSPC), the BSP's oversight body for financial stability matters, and the interagency FSCC included new studies, enhanced methods, and analytics that improve systemic risk analysis and the identification of its channels of contagion.

- The Credit Risk Dashboard extended the BSP's analysis beyond the banking sector. The estimated vulnerability index incorporates debt-servicing, liquidity, and profitability factors covering local private and publicly listed companies to assess financial distress.
- Intertemporal NFC liquidity and credit conditions were also analyzed using the Vercelli (2009) model, an extension of the Minsky financial instability hypothesis. The examination of the existence and persistence of local zombie firms—companies artificially sustained by

credit—provided complementary information on the state of the non-financial corporate sector.

- Various network analyses were conducted to identify domestic and global contagion and concentration risks. The visualizations traced transmission channels while the estimated centrality measures identified systemically important firms and sectors. The enhancement of intra- and inter-conglomerate maps supplied a “real-world” view of channels through which financial fragilities of “large” institutions may be transmitted.
- Systemic risk analysis was carried out using Power BI, an analytical tool that helped in the visualization of solvency issues among NFCs. This likewise exemplified the BSP's commitment to digital transformation.
- Climate change and its implications for the energy sector were among the new risk areas monitored. Going beyond the physical risks, the potential impact of transition risks on financial markets and the real economy was highlighted in FSPC and FSCC discussions. The analysis of the energy industry included the relationship between gross domestic product (GDP) and energy, the Philippine power supply outlook, and the changing dynamics of the oil industry.
- Analysis of the risks to macroeconomic conditions was widened to include the Philippines' GDP growth recovery trajectories. Simulations were conducted to identify the timeline by which the country returns to pre-



pandemic levels and when it will recover nominal economic losses due to the pandemic. Beyond the aggregate, monitoring also included a more granular analysis of the drop in household incomes across demographics and the uneven nature of the recovery.

Issuance of the first semester Financial Stability Report (FSR) and Statement on the State of Financial Stability.

In the FSR, the BSP reviewed the broad effects of COVID-19 and focused on three industries that are central to the new economy. The BSP also recommended specific action items. Separately, the BSP used the Flesch-Kinkaid readability index and found that the country's FSR compares well with other such reports. Meanwhile, the Statement on the State of Financial Stability, a first-ever public release, provided a comprehensive yet succinct assessment of 11 risk areas.

Capacity building. Capacity building opportunities were provided to both the BSP and the Interagency FSCC personnel. This covered workshops and the crafting of appropriate macroprudential policy interventions. These included The Asia School of Business Training Program on Bond Valuation and Yield Curve Construction, the International Monetary Fund Singapore Regional Training Institute's Financial Market Analysis training and conduct of various internal capacity building initiatives.

Box Article 8

Executive Order 144: Strengthening Domestic Financial Stability Initiatives

The global financial system was brought to the proverbial cliff by the Global Financial Crisis (GFC) of 2008. It was not just the magnitude of the dislocations that was the centerpiece of policy discussion but the sheer surprise that such a crisis could unfold to end the period of the Great Moderation. Thus, the authorities invested a lot of effort in understanding why the buildup and emergence of such a crisis was not evident, while doing much of the firefighting to stabilize the global economy.

Much of the learning insights were summarized under the policy pursuit of financial stability and its focus on managing systemic risks. This defined the post-GFC reform agenda. The issuance of global standards or best practices thereafter was meant to “achieve financial stability” as defined by the experience from the GFC. In fact, as the COVID-19 pandemic induced a global recession in 2020, authorities have been keen to evaluate whether the post-GFC reforms have withstood the test of the “next crisis.”

For the BSP, there was much to learn from the GFC. The country did not experience any direct fallout from the collapse of Lehman Brothers and the necessity to bail out the American International Group. But understanding why the crisis happened and preemptively preventing (rather than responding *ex post facto*) a similar disruption in the local context were important policy considerations. Thus, in the 2009 strategic planning exercise of the BSP, this specific notion of financial stability¹ was discussed, and a high-level internal committee was soon put in place to monitor and act upon any emerging systemic risk within the purview of the BSP as the monetary authority.

Creating the Financial Stability Coordination Council and the Executive Order

There was a realization that system-level disruptions could come from other elements of the financial system. This led to the convening of the interagency Financial Stability Coordination Council (FSCC) in 2011. As a voluntary aggrupation, the council's work has always been collaborative. However, in one of its regular meetings in late 2020, executive committee members themselves suggested that the council be “formalized”.

Thus, the BSP Governor, as FSCC chairman, wrote the President in December 2020 requesting consideration of an executive order that would “institutionalize” the FSCC. The President favorably responded and signed Executive Order (EO) No. 144 on 3 July 2021.

The Key Elements of the Executive Order

The EO recognizes “the importance of financial stability to the overall health of the country's financial system and strengthen[s] the ability of the Government to collectively address systemic risks, which may arise in different segments of the financial market.” This is the key premise for the order, highlighting the crosscutting nature of systemic risks.

Recognizing that systemic risk, by its nature, is crosscutting, the EO allows the FSCC to collaborate with foreign authorities who work on financial stability issues. Domestic collaboration is likewise called upon when it comes to data and research.

The organizational structure of the FSCC is retained by the EO. The BSP Governor shall be the chairperson of the council and the BSP shall serve as the technical secretariat.

The EO and the BSP Charter

The issuance of the EO fully supports the amended charter of the BSP. Under Republic Act (RA) No. 11211, financial stability is one of the four mandates assigned to the BSP. There is, in fact, full complementarity between RA 11211 and EO 144. The former calls for working with identified government institutions, which, at the minimum, are the member agencies of the FSCC. The latter, on the other hand, provides a vehicle for handling the crosscutting nature of the risks.

While the BSP charter speaks of “administrative autonomy,” this should not be interpreted to mean that the BSP will be isolated from other government agencies in performing financial stability functions. The EO simply established the legal framework for what will still be a collaborative effort under the leadership of the BSP Governor.

Operationally, the EO does not, in any form or shape, set aside the fact that banks remain the dominant players in our financial system. Nonetheless, it recognizes that systemic risks can arise from any component of the system. Given all these, the order provides a solid basis for acting collaboratively toward enhancing the welfare of the Filipino people.

Box Article 9

Safeguarding Financial Stability: The Systemic Risk Crisis Management Framework

The Global Financial Crisis of 2008 as well as the recent recession caused by the COVID-19 pandemic both show the disruptive nature of crises. While authorities may not have had a ready playbook for each crisis, working in an organized manner helps diffuse the panic and confusion of both market players and the public. With crises happening every so often, authorities have the responsibility to be organized when one occurs. In this context, the BSP and the Interagency Financial Stability Coordination Council (FSCC) have taken a preemptive step to prepare for the next occurrence of a systemic shock by making the system more resilient even when there is no crisis. This is embodied in the Systemic Risk Crisis Management (SRCM) Framework.

The SRCM Framework defines the FSCC's organized approach to handling systemic risk crises but it is different in two respects. First, it looks specifically at systemic crises, as this is about system impairment that affects the economy and not just the rehabilitation and recovery of specific institutions. The definition of "systemic risks" is taken from the joint work of the IMF-BIS-FSB (2009): "[T]he disruption to the flow of financial services that (1) is caused by an impairment of all or parts of the financial system; and (2) has the potential to have serious negative consequences for the real economy." Second, the SRCM Framework, despite its name, is not only about responding to a crisis. Instead, it is an overarching framework for market oversight that is implemented in normal times so that authorities would be better prepared during periods of stress.

Coverage and Key Protocols

Given the crosscutting nature of systemic risks, the SRCM Framework is a collaborative undertaking among financial authorities. It defines the arrangements among them, which includes formalizing the declaration of systemic risk crisis, initiating crisis protocol arrangements among the authorities, implementing policy interventions, communicating with the various stakeholders, and learning lessons after systemic risk crisis. The framework provides for updating the authorities' knowledge of risk behaviors and sharpening their policy toolkit thereafter.

The SRCM Framework provides guidance on three parts of crisis management: pre-crisis, crisis mode, and post-crisis arrangements. The framework starts with the importance of defining a systemic risk crisis—this is an important organizational tool that triggers immediate action from relevant financial regulators. The crisis management team is immediately designated among the principals of the FSCC member-agencies, and the framework provides quick order to the crisis response. A defined escalation process within the first 48 hours of a systemic risk crisis is emphasized in the SRCM Framework, while still recognizing that some details may change on a case-to-case basis, depending on the nature of the crisis at hand.

Despite the clear aim of crisis preparedness, the SRCM Framework also provides guidance on market arrangements during normal time. Preemptive surveillance and monitoring tools, such as regular implementation of macroprudential stress tests and crisis simulation exercises, are emphasized as crucial undertakings not only in preparing for crises, but more importantly in

mitigating them. Both macroprudential stress test and crisis simulation exercises are whole-of-market simulations that are meant to detect vulnerabilities and focus on the interlinkages within the market network that ultimately define the health of the system. It is important that these normal-time arrangements are in place in preparation for a quick transition to crisis mode, once needed.

On the other hand, the framework also provides guidance on transitions to post-crisis protocols. It discusses the importance of a steady winding down and of taking stock of lessons learned to inform future policymaking.

Two Specific Systemic Risk Issues

Emerging risks in cybersecurity and climate change transition, which are now seen to have systemic impact, are also covered by the SRCM. For instance, the growing number of cyberattacks do not only directly affect financial customers, but also have a broader systemic impact on the credibility, reliability, and integrity of financial service providers, such as the banking system. On the other hand, while the physical impact of climate change is clear from the vast scientific literature, climate conditions affect the value (if not existence) of physical assets and thus, credit and revaluation risks. Even climate change mitigation measures, such as the transition from fossil fuels to renewable energy sources, would create dislocations and disruptions in capital markets that can have systemic effects. There needs to be closer monitoring of these emerging systemic risk issues by financial stability regulators. While the issues originate outside the financial system, they will ultimately spill over to it and to the broader real economy.

Putting a Premium on Communication

Effective communication for systemic risk management is a challenge in normal times, even more so in times of crisis. Silence will feed into uncertainty, while imprudent pronouncements can induce more panic or damage the credibility of authorities. And given the highly nuanced nature of systemic risk management and macroprudential policy, it is imperative that they are effectively discussed among stakeholders in normal times. Then, the matter is not something new that is only discussed when crises arrive. With this, the SRCM Framework offers a strategy for streamlined and effective communication across sectors—regulators, market players, and the public. This is an important factor that is evident across the phases of SRCM. This communication model described in the framework is not just communication under conditions of stress, but communication as a normal recourse of authorities. There is value in increasing the risk sensitivity of stakeholders without inducing panic.

Communication then becomes a "last mile" that supports all internal coordination and policy action, stabilizing against fear. Indeed, well-informed people make well-informed decisions. The aim is to raise enough sensitivity to risk so that people are better equipped to parse through the noise and make better-informed choices.

Reference:

Financial Stability Board, International Monetary Fund and the Bank for International Settlements. (2009). Guidance to Assess the Systemic Importance of Financial Institutions, Markets and Instruments: Initial Considerations: Report to the G-20 Finance Ministers and Central Bank Governors. October.

FOSTERING SAFE, EFFICIENT, AND INCLUSIVE PAYMENT AND SETTLEMENT SYSTEM

The emergence of innovative contactless payment technology is revolutionizing the retail payments market and is expected to temper cash usage over time. The promotion of payments digitalization while maintaining the safety and efficiency of the national payment system has been at the forefront of the BSP's policy agenda as the country transitions towards a cash-lite society. These reforms support the digital transformation of the national payment system, which proved to be crucial in broadening financial inclusion. At the same time, they also enabled households, businesses, and the government to conduct financial transactions amid the social mobility restrictions and health protocols against the COVID-19 pandemic.

The journey towards a cash-lite society will be governed by the BSP's enabling policy environment that supports broadening the payment choices available to Filipinos. A healthy mix of safe and dependable digital payment options, alongside adequate availability of good quality physical currency, will be maintained. Despite the sustained progress in payments digitalization, the BSP shall ensure the smooth functioning of the cash cycle in the economy in order for cash to continue to be a reliable payment option, albeit at a reduced scale.

⁷¹ The PESONet is a batch electronic fund transfer system launched in November 2017. Meanwhile, InstaPay is an instant payment system launched in

Strengthening the Payment System through Purposive Reforms

As the economy gradually reopens, the BSP seeks to further promote broader payments digitalization and onboard more Filipinos into the formal financial system. It will also uphold the protection of consumers' rights and interests in the New Economy arrangements.

COVID-19 pandemic emerged as an essential catalyst for greater digital payments adoption. The BSP's pre-pandemic initiatives to lay the groundwork for interoperable payment systems proved critical in expanding digital payments adoption during the COVID-19 health crisis. The National Retail Payment System (NRPS), launched in 2015, provides the policy and regulatory framework for the establishment of a safe, efficient, and reliable payment system for the Philippines. The NRPS laid down the regulatory foundations crucial in accelerating the transition to a cash-lite economy by capitalizing on the benefits of digital payments to support the country's economic competitiveness and inclusive growth. The NRPS paved the way for the creation of two automated clearing houses, the Philippine Electronic Fund Transfer System and Operations Network (PESONet) and InstaPay,⁷¹ which allow interoperable fund transfers among accounts from different participating bank and non-bank financial institutions.

April 2018 that facilitates immediate fund transfers on a 24/7 basis.

There has been a sustained rise in the adoption of digital payments in the Philippines since the start of the pandemic. The latest e-payments measurement report disclosed that as of end-2020, the share of monthly digital payments volume reached 20.1 percent, which is equivalent to 910 million monthly digital payments,⁷² slightly exceeding the BSP's target of "20 percent in 2020" that was set when the NRPS Framework was launched in 2015. It also represents a remarkable progress from 2018 and 2013 when digital payments made up only 10.0 percent and one percent of the total retail payments volume, respectively.

The combined PESONet and InstaPay transactions rose by 44 percent in volume and 46 percent in value as of end-December 2021 compared with 2020.⁷³ InstaPay volume and value of transactions already surpassed ATM withdrawals⁷⁴ for the period January-December 2021, while PESONet may approach check volume over time if it will maintain its steady increase. In the same period, the number of PESONet participants increased to 94 while InstaPay reached 62 payment service providers. The growth and diverse participation of banks, including thrift banks and rural banks, as well as non-bank e-money issuers indicate the widening reach of interoperable digital payment services across different regions and income classes in the country.

⁷² This volume of monthly digital payments has increased by 38 percent from 660 million monthly digital payments in 2019.

⁷³ It rose from 36.2 million transactions to 52.1 million transactions, and by 46 percent in value from ₱543.1 billion to ₱792.9 billion from 2020 to 2021.

Familiarization with and wider use of digital payments made through PESONet and InstaPay gave impetus to other digital payment streams such as the EGov Pay and QR Ph facilities.

Using the PESONet rail, EGov Pay is an electronic payment facility that allows individuals and businesses to digitally pay taxes, licenses, permits, and other obligations to the government. By end-December 2021, 445 government agencies have already been onboarded in the EGov Pay facility, compared with only two when it was launched in 2019. Usage is also on the rise, with average monthly growth rates of nine percent in volume and 12.0 percent in value of transactions in 2021.

Meanwhile, the InstaPay rail facilitates quick response (QR) code-aided payments using the National QR Code Standard (QR Ph). The BSP required the adoption of QR Ph by payment service providers, pursuant to Circular No. 1055. QR Ph was first launched in November 2019 for person-to-person (P2P) payments that can be used as a viable alternative to coins as it facilitates low-value, high-volume transactions. Riding on the momentum of QR Ph P2P, the BSP and Philippine Payments Management, Inc. rolled out the QR Ph Person-to-Merchant (P2M) facility in October 2021. The system broadens the use case of the QR Ph to enable interoperable digital payments between merchants and their customers even if they maintain accounts with different payment service providers. This innovation fosters greater payments

⁷⁴ ATM withdrawals only cover "off-us" transactions, where customers use their card or account on an ATM that is owned or operated by a BSP-supervised financial institution other than where the account is maintained.

digitalization of merchant transactions, which account for over 70.0 percent of total retail payments volume in the country.

The BSP amplified its efforts to build awareness and confidence in the use of digital payment services through active participation in various stakeholder events.

These served as potent venues for communicating payment system policy directions, introducing new digital payment streams, acquainting the general public with the benefits of digital payments as well as encouraging the practice of sound cybersecurity measures. During the BSP's 28th anniversary, a live webinar was conducted to cascade among all BSP employees throughout the country the vital progress the central bank has been making along these lines. The event underscored the organization's gains in implementing the National Payment Systems Act and enhancing payment system oversight while pursuing the digital transformation of the country through innovative payment services such as the use of QR Ph. These numerous engagements, adding up to almost 170 for 2021, include interviews, lectures, and presentations in various events organized by media outlets, industry associations, central banks, embassies, youth organizations, academe, research institutes, private companies, national and foreign government agencies, as well as international organizations. The topics discussed include payments-related policy issuances, the BSP's payment system oversight approach, cross-border payments, central bank digital currencies (CBDCs) and developments regarding

the initiatives enrolled in the BSP's Digital Payments Transformation Roadmap. These engagements helped promote public confidence in using digital payment channels and cultivate trust in the national payment system, thereby contributing to the BSP's other important policy agenda of reinforcing financial inclusion and sustaining financial stability.

The BSP's progress in the digitalization of the national retail payment system provided the impetus for turning policy efforts towards improving the cross-border payment system.

The BSP supports the ASEAN financial integration that aims to foster greater interconnectivity of the national payment system with the fast payment systems of other member economies, particularly those that have significant remittance, tourism, and trade transactions with the Philippines.⁷⁵

The BSP shall prioritize establishing bilateral linkages with these countries in a scalable manner that can facilitate transitioning to multilateral arrangements.

In November 2021, the Monetary Board noted the potential Central Bank Digital Currency (CBDC) use cases in the Philippines.

The BSP's initial assessment of the state of the national payment system and the recent progress towards broader payments digitalization showed that a wholesale CBDC may help address frictions that affect the efficiency and safety of wholesale payments involving cross-border fund transfers, equity securities transactions settlement and intraday liquidity facilities. The BSP shall proceed with the planning and conduct of pilot tests to explore the

⁷⁵ See box article on Enhancing the Philippines' Cross-Border Payments in the ASEAN.

operational feasibility of these CBDC use cases in the country from 2022 onwards.

Amid the progress in payments digitalization and the rollout of more digital payments initiatives, the BSP continues to be a proactive payment system overseer that balances innovation while upholding payment system safety and efficiency.

The BSP issued policies that aim to fortify the national payment system against systemic threats by adopting a risk-based oversight approach, requiring the implementation of internationally recognized standards for designated payment systems, and laying down a robust governance framework that promotes sound stewardship among payment system participants.

- a. **Designation of PhilPass^{Plus} as a Systemically Important Payment System (SIPS) (Circular Letter No. CL-2021-065, 13 August 2021).** A SIPS is a payment system that poses or has the potential to pose systemic risk that could threaten the stability of the national payment system. The issuance announced the designation of the Philippine Peso Real-Time Gross Settlement (PhP-RTGS) Payment System as a SIPS. As such, PhP-RTGS participants shall ensure the safety, efficiency, and reliability of the payment system by adhering to the relevant regulations prescribed by the BSP for SIPS such as the adoption of Principles for Financial Market Infrastructures (PFMI). The BSP shall continue to evaluate and identify payment systems that shall be designated as SIPS and Prominently Important Payment Systems (PIPS) for proportionate oversight strategies that are

commensurate to their business activities, systemic importance, and risk profiles. Designated payment systems (DPS) such as SIPS and PIPS shall be subject to closer BSP oversight and to relatively more comprehensive risk management standards and governance arrangements, compared with their non-designated counterparts.

- b. **Adoption of the PFMI (Circular No. 1126, 14 September 2021).** The PFMI is a set of globally-recognized standards on governance and risk management that are applicable to financial market infrastructures including critical payment systems. The BSP requires the adoption of PFMI as well as other internationally-accepted standards and practices for DPS in order for its participants to facilitate comprehensive risk management. Such initiatives will strengthen resilience against potential financial crises and participant defaults.
- c. **Governance Policy for Operators of Payment System (OPS) (Circular No. 1127, 17 September 2021).** Given their critical role in the smooth circulation of funds in the economy in a safe and efficient manner, the guidelines lay down regulatory expectations on the governance arrangements and standards for all OPS. Likewise, it also sets the criteria for qualification as well as the grounds for disqualifications of individuals elected or appointed as directors or officers of an OPS. These guidelines are intended to ensure that the public policy objectives of maintaining payment system safety, efficiency, inclusivity, and

competitiveness are consistently being pursued by payment system participants amid broader payments digitalization and emergence of payment innovations. Specifically, the guidelines espouse the following principles:

- Adherence of OPS to more stringent requirements for those with concurrent authorities (e.g., OPS entities that have banking or electronic money issuer licenses);
- Application of stricter governance standards for Operators of DPS, whose size, complexity, and scope of operations pose or have the potential to pose systemic risk and hence, requires closer oversight to protect public interest; and
- Requirement for the board of an OPS to implement procedures for addressing potential conflicts of interest and prohibition of concurrent directorships, such as across a clearing switch operator (CSO), its critical service providers, and the payment system management body that governs the automated clearing house for which such CSO renders clearing services.

Ensuring Undisrupted Cash Operations

The BSP's currency management strategy is guided by the mandate of ensuring sufficient supply of safe and reliable currency in the most cost-effective and efficient way. In 2021, the

BSP ensured timely and uninterrupted provision of banknotes and coins to support critical economic transactions. It worked for strategic scheduling and adoption of more efficient modes of currency shipments, provided ample buffer stock for unanticipated surge in currency demand or potential delay in currency delivery to the regions, and serviced the withdrawals of banks with new and fit banknotes and coins.

After posting 21.4 percent growth at the height of the pandemic in 2020, currency in circulation (CIC)

decelerated in 2021 by 6.7 percent in value and 2.8 percent in volume, equivalent to ₱2,175.9 billion and 41.8 billion pieces. The moderation in CIC growth can be traced to renewed economic activity and availability of alternative digital payment modes, which both tempered the precautionary demand for cash.

Consistent with the deceleration in CIC growth, overall banknote withdrawals from the BSP declined in 2021.

On a y-o-y basis, banknote withdrawals decreased by 28.2 percent in value and 27.9 percent in volume. Coin withdrawals, however, rebounded in 2021, increasing by 117.2 percent and 9.5 percent in terms of value and volume, respectively. The confluence of recovering but still below pre-pandemic economic activity, increased digital transactions, broader utilization of the Cash Service Alliance (CSA) facility, and implementation of the restructured service fees affected the withdrawal patterns of banks from the BSP. With ample supply and tempered withdrawals, the BSP fully delivered the currency requirements of the economy in 2021.

The transactions facilitated through the Cash Service Alliance (CSA) gained ground.⁷⁶ The CSA initiative, launched in October 2020, enables the proactive role of banks in the recirculation of fit currency. The CSA maximizes the utilization of fit Philippine currency through better alliances among banks, resulting in lower operating cost.

The CSA in the Greater Manila Area went into full gear in 2021. As of end-December 2021, 28 out of the 29 Authorized Agent Banks participated in the CSA. On 1 June 2021, the CSA was launched in six other BSP Regional Offices and Branches (ROBs) with the highest volume of fit note deposits (i.e., Cebu, Davao, Tuguegarao, Tacloban, Cagayan de Oro, and General Santos). It was subsequently rolled out in the remaining ROBs on 1 July 2021.

As of end-December 2021, total CSA transactions amounted to ₱302,491.7 million or 376.7 million pieces. The CSA facility primarily serviced the demand for higher denominated banknotes with 1000-Piso and 500-Piso exchanges accounting for 99.2 percent of the value and 92.0 percent of the total volume of CSA transactions in 2021.

Cash-in-Transit (CIT) services were used in several regional offices and branches. Currencies in various denominations were delivered using CIT services to BSP branches in San Fernando, Cabanatuan, Dagupan, La

Union and Lucena. The value of CIT-serviced deliveries totaled ₱34.3 billion, equivalent to 41.1 percent of the total amount of currencies delivered to the said BSP branches.

The legwork on the transfer of the BSP's currency production and distribution facility to New Clark City⁷⁷ has begun. The transfer is intended to boost currency production capacity and strengthen business continuity plans in case of disruptions due to natural calamities. This is also in support of the government's initiative to decongest Metro Manila traffic

The BSP produced the requested land titles, commemorative currency, and other important documents in 2021. The BSP delivered 4.8 million pieces of judicial title forms or 106.6 percent of the total order from the Land Registration Authority. For the Philippine Identification (PhilID) card project, the BSP produced a total of 27.3 million pre-personalized cards and 8.8 million personalized PhilID cards for the Philippine Statistics Authority.⁷⁸

The BSP also studied the feasibility of using polymer substrate for Philippine banknotes. Based on research, the shift to polymer substrate is expected to make Philippine banknotes more durable, hygienic and more secure. It is also seen to rationalize long-term production costs and reduce environmental impact due to its

⁷⁶ Memorandum No. M-2021-048 required all banks to post in the CSA system all fit notes and coins intended to be deposited to or withdrawn from the GMRO or other ROBs on the next banking day.

⁷⁷ Pursuant to the Monetary Board Resolution No. 1215 dated 9 August 2019,

⁷⁸ The BSP also produced and delivered presidential medals, state decorations,

commemorative coins and medals, BSP lapel pins, and financial inclusion pins. These items include the 125-piso commemorative non-circulating legal tender coin in celebration of the 125th death anniversary of Dr. Jose P. Rizal and the commemorative medals for the 450th anniversary of the City of Manila. The BSP also diversified its line of products to include production of silver lapel pins.

recyclable property. The BSP will embark on a limited circulation test of a polymer version of the 1000-Piso note to assess whether the benefits claimed by other central banks hold true under Philippine conditions.⁷⁹

Reinforcing the preservation of currency integrity

Notwithstanding intermittent community quarantines, the conduct of forensic and material composition analysis of mutilated and doubtful currencies was completed, in full compliance with the required turnaround time under the Anti-Red Tape Act. For 2021, a total of 138,873 pieces of severely damaged Philippine banknotes and coins (₱17.9 million) were examined, 50.0 percent of which were found to be with redemption value. Meanwhile, 6,065 pieces of coins and 39,500 pieces of banknotes examined were assessed to be counterfeits.

To ensure that only fit legal tender coins will recirculate, the BSP facilitated, through GMRO, the destruction of counterfeit, unfit, mutilated, and demonetized (CUMD) coins through the high-capacity Coin Defacement Machine (CDM) leased to BSP. A total of 435.2 metric tons were defaced, 57.0 percent of which (249.5 metric tons) were successfully sold via public auction. For the succeeding defacement of CUMD coins, BSP GMRO procured a low-capacity CDM.

⁷⁹ See box article on Exploring the Viability of Polymer Banknotes in the Philippines.

⁸⁰ These include the National Capital Region (55.0 percent), Region IV-CALABARZON (14.3 percent), Region VII-Central Visayas (8.6 percent), and Region III-Central Luzon (5.6 percent). These four regions accounted for 83.5 percent of the volume of

With renewed economic activities following the vaccination program and more relaxed community quarantine guidelines, the number of documented counterfeit banknotes rose by 7.0 percent from a year-ago. Majority of the documented counterfeits were retrieved from centers of economic activity.⁸⁰ In


terms of parts per million (PPM),⁸¹ the volumes of counterfeit banknotes and coins in circulation in 2021 were at 7.9 PPM and 0.2 PPM, respectively. There has also been a notable improvement in the capacity of banks' cash handlers in counterfeit detection. The number of correctly classified counterfeit banknotes that were surrendered to the BSP for examination increased by 14.8 percent while the number of undetected counterfeit banknotes in banks' deposits with the BSP decreased by 21.3 percent.

The BSP sustained its information campaigns on Clean Note and Coin Policy and counterfeit detection through its "Know Your Money (KYM)" webinars. A total of 18 KYM webinars with 47,401 participants, media interviews, and prompt replies to currency-related queries from the public were facilitated.

The BSP also conducted 11 successful law enforcement operations. These resulted in the arrest of 19 individuals, the filing of 15 criminal charges, and the seizure and confiscation of 813 pieces of counterfeit New Generation Currency banknotes, 144 counterfeit US dollars, other foreign currencies, firearms and ammunitions, and other counterfeiting-

documented counterfeit banknotes in 2021.

⁸¹ Parts per million format is the number of counterfeit banknotes per one million genuine banknotes in circulation, computed as the ratio of total volume of counterfeit banknotes to total volume of banknotes in circulation and multiplying the result by 1,000,000.



related items. By the end of 2021, the BSP was able to secure a 100-percent conviction rate, with the conclusion of the three counterfeiting cases and conviction of the accused in criminal cases for counterfeiting or possession, or both, of counterfeit currencies.

To better support policies on currency management, a number of policy studies were undertaken. These included (1) balance sheet approach to forecasting currency in circulation; (2) benchmarking study on the incorporation of Braille functionality in Philippine banknotes; (3) preliminary analysis of the impact of digitalization on bank withdrawals; (4) study on the impact of the shift to polymer substrate on the abaca industry; (5) environmental considerations for the adoption of polymer notes; (6) rationalization of denominational structure; and (7) streamlining of BuS policy for operational efficiency and flexibility. It also actively coordinated with the Department of Trade and Industry on the promotion of voluntary price rounding.

As the country forges toward rebuilding the economy, the BSP shall continue its work of paving inclusive pathways to smoothly transition the national payment system from cash-heavy to cash-lite. The overarching aim, of course, is to bring digital financial services within reach of all Filipinos. In support of these goals, the BSP shall foster an enabling policy environment that promotes a healthy balance between currency production on one hand and payments digitalization on the other.

The BSP shall continue to implement essential governance and risk management standards and conduct vigilant oversight of the national

payment system to inculcate discipline among payment system participants. It will also carry out active collaborative stakeholder engagements to foster the public's trust and confidence in the national payment system.

Box Article 10

Enhancing the Philippines' Cross-Border Payments in ASEAN

The rise in the interdependence of the different economies in the world—marked by the larger and faster flow of goods, services, and information between countries—further highlighted the importance of cross-border payments. An efficient payment arrangement can positively impact not only international remittances but also the expansion of the digital economy and global trade. As the international transfer of funds continues to be beset by long-standing challenges, the private sector addressed the customers' demands for better services through business and technological innovations. With central banks and governments leading the development of domestic fast payment systems around the world, it seems that a logical next step is to add the capability to send money to another country in real time, preferably with just a few taps on mobile devices.

Thus, many countries have begun to turn their attention to enhancing cross-border payments. The G20, a multilateral platform connecting the world's major developed and emerging economies, made cross-border payments a priority during the Saudi Arabian Presidency in 2020. Similarly, the Association of Southeast Asian Nations (ASEAN) envisions efficient and effective interoperability among payment systems in the region pursuant to the vision under the ASEAN Payments Policy Framework. The framework supported the bilateral connectivity of many of the ASEAN member states' fast payment systems.

There are many reasons for the Philippines to pursue a similar endeavor as it is the fourth largest remittance receiving country in the world in 2021, after India, China and Mexico. With digital payments gaining traction in the Philippines, as shown by the achievement of the “20 percent by 2020” payments digitalization target, the time is ripe to extend the benefits of domestic payment reforms to Filipinos beyond our shores.

In 2021, the BSP started to tackle the challenges of cross-border payments. As identified in the G20 roadmap for cross-border payments, these include high costs, low speed, limited access and insufficient transparency. The target beneficiaries are overseas Filipino workers, businesses in the tourism, export, import, and e-commerce industries as well as firms receiving financial support from their global institutional investors and affiliates abroad.

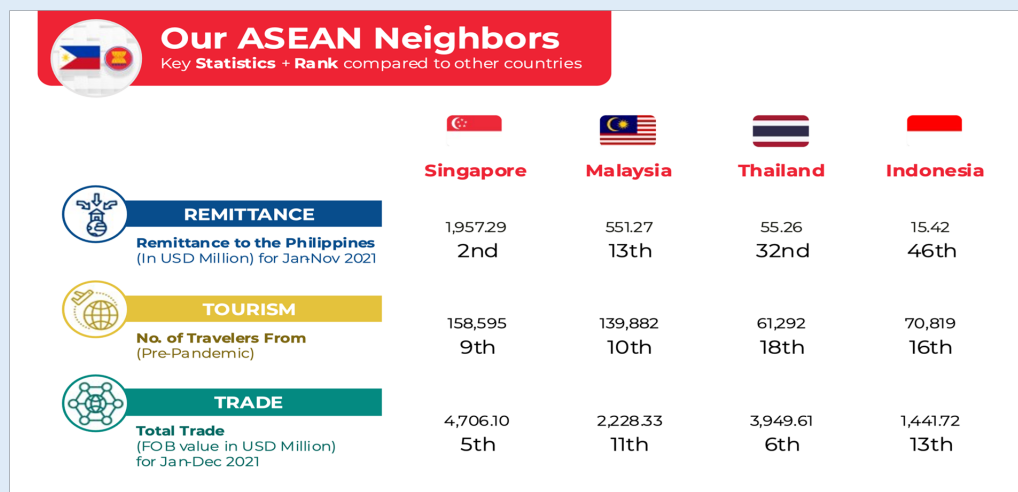
The BSP laid out three strategic undertakings to achieve its objective. The first is identifying potential payment use cases and the digital payment rails that can best serve them. It then decided to prioritize the creation of bilateral linkages between fast payment systems that allow electronic fund transfers by simply providing one's mobile phone number or email address through the use of common QR Code standards or proxy-based services in lieu of an account number. Fully aware of international efforts to create a multilateral platform, such as the Bank for International Settlement Innovation Hub's Project Nexus, the BSP is designing the envisioned two-party linkages to be flexible enough to transition to a multi-party arrangement.

This includes building a domestic and regional payments ecosystem to ensure a safer and more efficient environment for online consumers and merchants. Similarly, the BSP continues to work with the payments industry through the Philippine Payments Management, Inc. to steadily improve the payment systems in the country.

Lastly, the BSP engages with other countries to form spheres of cooperation in enhancing the safety and efficiency of cross-border payments. With the Philippines' strong economic ties with ASEAN member states (see Figure 1), the BSP focused its efforts within this region. In the second half of 2021, the BSP started to engage with various ASEAN central banks, namely, Bank Indonesia, Bank Negara Malaysia (BNM), Bank of Thailand, and Monetary Authority of Singapore (MAS), to explore opportunities for collaboration and information sharing on cross-border payment initiatives. The first fruit of these dialogues is the signing of the enhanced BSP-MAS FinTech Cooperation Agreement in November 2021, which kicks off the development of the linkage of Philippines' InstaPay with Singapore's PayNow. Another outcome is the expression of a clear intention by the BSP and BNM towards linking InstaPay with Malaysia's DuitNow.

With these initiatives, Filipinos are beginning to enjoy more opportunities to participate in economic globalization, starting with a seamless international payment experience wherever they are in the world.

Figure 1: Key ASEAN-5 Statistics



Sources:

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Box Article 11

Exploring the Viability of Polymer Substrate on Philippine Banknotes

The BSP, vested with the sole power and authority to issue Philippine currency, must ensure the availability of reliable and safe currency supply to meet the requirements of the economy in the most effective and cost-efficient manner.⁸²⁸³ To better respond to the evolving needs of Filipinos and keep pace with new technology, the BSP continuously improves the country's banknotes and coins.

The current banknotes, comprising the New Generation Currency Series, were issued more than a decade ago in 2010. In line with the BSP's mandate and global good practice, it explored the adoption of polymer banknotes.

The advantages of polymer substrate are widely documented. Polymer banknotes are significantly cleaner and less susceptible to viral and bacterial transmission due to their smooth and non-absorptive surfaces. Their resilience against extreme temperatures and resistance against water and dirt make them highly durable. They have been found to last 2.5 to four times longer than paper money, more than offsetting the initial increase in production cost. Thus, polymer notes are more cost-effective than paper notes, leading to lower note issue expenses. Based on the experience of other central banks, banknote issue expenses could be reduced by 40.0 percent to 60.0 percent. In addition, polymer banknotes have a smaller carbon footprint and lower water and energy usage. Its recyclability enables polymer banknotes to have more than one life cycle. Thus, the materials can be kept within the economy indefinitely and used productively, creating further value.

While the COVID-19 pandemic heightened the preference for and use of digital modes of payments and settlement, the demand for the highest denominated 1000-Piso banknotes rose, buoyed by precautionary motive for holding cash (Figure 1) even as demand for lower denominated currencies went down. The share of 1000-Piso to total volume of currency in circulation (CIC) reached 33.0 percent as of end-December 2021. The 1000-Piso banknote is also most susceptible to counterfeiting, accounting for almost half of the volume of the documented counterfeit banknotes in 2021 (Figure 2).

Figure 1. 2016-2021 Share of 1000-Piso in Total Volume of CIC (in percent)

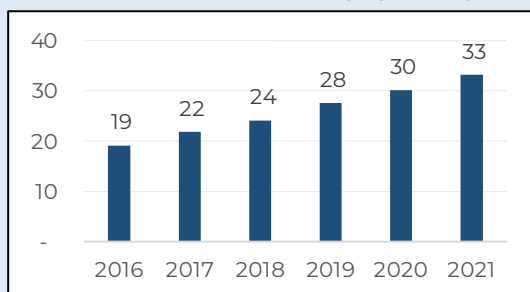
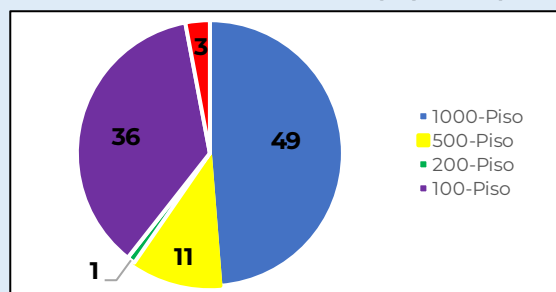


Figure 2. 2021 Denominational Share of Counterfeit Banknotes (in percent)



⁸² Section 50 of the said law states: "The *Bangko Sentral* shall have the sole power and authority to issue currency, within the territory of the Philippines. No other person or entity, public or private, may put into circulation notes, coins or any other object or document which, in the opinion of the Monetary Board, might circulate as currency, nor reproduce or imitate the facsimiles of

Bangko Sentral notes without prior authority from the *Bangko Sentral*."

⁸³ The BSP Security Plant Complex, which has been in continuous operation since 1978 by virtue of Presidential decree No. 484 is mandated to produce banknotes and coins to meet the annual currency requirements of the economy.

The design and specification of the 1000-Piso polymer banknotes are summarized in Table 1.

| Table 1. Design and specification of the 1000-Piso polymer banknotes | |
|---|---|
| Items | Details |
| Design | <ul style="list-style-type: none"> • Obverse: Philippine Eagle ("<i>Pithecophaga jefferyi</i>") and Sampaguita ("<i>Jasminum sambac</i>") • Reverse: Tubbataha Reefs Natural Park South Sea Pearl ("<i>Pinctada maxima</i>") and Sampaguita |
| Technical Specifications | <ul style="list-style-type: none"> • Vertically aligned denomination value panel at the front upper left corner of the note using optically variable magnetic ink with rolling bar pattern • Small clear window located at the front left portion of the note with embossed Sampaguita image • Five highly embossed dots as tactile feature for the visually challenged located at the front upper left portion of the note • Stripe shadow image as simulated thread • Optically variable device foil stripe on clear vertical window bearing the seal of the Republic of the Philippines and the logo of the Bangko Sentral ng Pilipinas • Philippine Eagle portrait • Fluorescent image of South Sea Pearl in visible ink at the back of the note • Fluorescent serial numbers at the lower left portion of the note • Fluorescent image in invisible ink at the front note |

The BSP has also considered the impact of polymer substrate on the abaca industry, given that the existing substrate has abaca content. The possible impact on the abaca industry, in terms of foregone revenues from export receipts and direct employment, was assessed to be minimal. Nonetheless, the BSP has taken a proactive stance in exploring other avenues for possible use of abaca products such as the procurement of abaca for BSP collaterals and the inclusion of abaca content in land titles and passports.

By 2022, the BSP will initially issue 10 million pieces of 1000-Piso polymer banknotes. A memorandum of agreement is being drafted to spell out the guidelines of the said issuance. The deal will cover matters such as polymer familiarization by client banks' personnel and calibration of existing cash processing machines, vending machines, automated teller machines, bills acceptors, and other similar devices for compatibility with polymer banknotes. The BSP is currently preparing for banknote's limited circulation test (to circulate in parallel with current notes) to assess whether the benefits claimed by other central banks hold true under Philippine conditions. The test will help us determine the effects of polymerization on hygiene and public health, environmental sustainability, as well as the lifespan, durability, and counterfeiting rates of our money. It will also allow us to collect stakeholder feedback and observe changes in currency handling behavior. The BSP will start the issuance of the 1000-Piso polymer banknotes to the public in 2023.

In view of the aforementioned reasons, the 1000-Piso denomination is the currency of choice for the initial release of polymer Philippine banknotes. The design adopted for the 1000-Piso polymer banknotes is consistent with the principles of currency integrity, social relevance, efficiency, unified theme and aesthetics, and enhanced security features. The obverse side features the portrait of the Philippine Eagle (*Pithecophaga jefferyi*) as its focal point. The Philippine Eagle is deemed a strong image to represent the country's highest banknote denomination (Figure 3). On the reverse side, the images of the Tubbataha Reefs National Park, declared as a UNESCO World Heritage Site, and the South Sea Pearl, have been retained (Figure 4).





WHAT WE DID IN 2021:

**Operations, Advocacies,
Initiatives, and Financial Results**

What We Did in 2021: Operations, Advocacies, Initiatives, and Financial Results

An Inclusive Finance System (Financial Inclusion)

The second year of the COVID-19 crisis continues to highlight the importance of financial inclusion as a national development agenda. From transaction accounts that enabled the government to send much-needed financial aid to those affected by the pandemic, to the surge in electronic transactions brought about by mobility and safety concerns, the BSP's efforts to develop an inclusive financial system in the last few years have indeed born fruit.

As the BSP looks forward to a stronger, more technologically advanced, and more inclusive post-COVID-19 economy, it will continue to utilize lessons from the pandemic in galvanizing broad-based support and harness collective efforts to accelerate financial inclusion in the years to come.

Increasing Uptake of Transaction Accounts

The number of Basic Deposit Account (BDA) holders has reached 7.6 million, with an aggregate amount of ₱4.8 billion deposits in 137 banks as of Q3 2021. This is an increase from 6.2 million depositors with ₱4.5 billion deposits in 130 banks offering BDAs the year before. The BDA

policy enhancement work was done in 2021, which led to the issuance of Memorandum No. M-2022-003 dated 12 January 2022. The policy issuance provides additional guidance and further clarifications on the implementation of the BDA Framework (Circular No. 992). The BSP provided support to the co-location strategy of the Philippine Statistics Authority and the Land Bank of the Philippines to onboard unbanked Philippine Identification System (PhilSys) registrants and maximize mobilization efforts for financial inclusion.⁸⁴

To boost transaction account ownership and usage among the unbanked, the BSP is promoting the digital distribution mode for the various cash assistance programs of the government. Under this approach, cash assistance is disbursed directly into the accounts of beneficiaries. To address the apprehension of certain agencies and local government units (LGUs) in adopting digital disbursements, the BSP sought guidance and clarification from pertinent agencies such as the Department of Budget and Management, the Commission on Audit (COA) and the Department of Interior and Local Government (DILG). It also sought the support of the DILG to facilitate stronger collaboration with LGUs on financial inclusion initiatives. On 18 November 2021, the BSP secured

⁸⁴ As of end-2021, 7.2 million previously unbanked Filipinos were onboarded to Landbank accounts during PhilSys registration.

COA's clarification that disbursement payments through electronic fund transfers is a form of Advice to Debit Account, making it an acceptable mode of disbursement by government entities. The COA also issued Circular No. 2021-014 on 22 December 2021 on the guidelines on electronic collections and payments for government transactions, which further established the acceptability of digital payments in the government.

Following these developments and in line with the PhilSys co-location strategy with the Land Bank of the Philippines, the DILG issued an advisory on 26 January 2022 enjoining LGUs to use digital disbursements for the local and national cash assistance programs, among others.

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 PhilSys, as partner of the PSA in the production of the Philippine Identification (PhilID) cards. As chair of the IAC on use case, the BSP is supporting the drafting of necessary policies, guidelines, and standards to promote PhilID card 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, together with Financial Inclusion Steering Committee members, actively supported Executive Order (EO) No. 127 titled "Expanding the Provision of

Internet Services through Inclusive Access to Satellite Services," which was signed on 10 March 2021 by President Rodrigo Duterte. EO 127 can bridge the massive internet infrastructure gaps in rural and remote communities within a short time as satellite technology represents an instant and readily deployable broadband infrastructure suitable for areas that remain largely unserved. To raise awareness on the order, the BSP co-organized a webinar with The Asia Foundation last 29 June 2021.

In September 2021, the BSP and the Agence Française de Développement signed a grant facility agreement aimed at strengthening regulatory capacity for digital finance. The grant facility is expected to be completed by 2026.

In November 2021, the BSP and the Alliance for Financial Inclusion signed an agreement to develop an agent registry in the Philippines. It is a web portal of agents that are retail outlets such as small shops, convenience stores, supermarkets, pharmacies, and pawnshops where clients can perform basic financial transactions such as cashing in and cashing out. This regulatory technology tool is targeted to be completed in 2022.

Promoting Access to Finance for the MSME and Agriculture Sectors

The BSP continues to promote innovative financing approaches to increase access to finance for the micro, small and medium enterprises (MSMEs) and agriculture sectors, which are effective pathways to drive inclusive economic growth.

The BSP, in partnership with the Japan International Cooperation Agency, continues to implement the Credit Risk Database (CRD) project with the assistance of the expert team from CRD Japan. Through the sustained engagement with newly invited banks, the number of pioneer participating banks increased from 17 in 2020 to 26 as of end-2021. Furthermore, the construction of the initial credit scoring model has commenced using data collected as of October 2021. The project is targeted to be completed—and the CRD scoring service launched—by Q1 2023.

In partnership with the Asian Development Bank (ADB), the BSP continued to engage with six participating pilot banks in implementing the Agriculture Value Chain Financing (AVCF) pilot project. This project aims to demonstrate the viability of the AVCF approach in meeting the financing requirements of the agriculture sector. The BSP also supported a Supply Chain Finance (SCF) Market Development Study to promote SCF as an innovative approach in MSME financing by leveraging the businesses' receivables, inventory flows and supply chain relationships. The study, currently in the finalization stage, will highlight the gaps and possible interventions to grow the SCF market in the country.

To gain better understanding on the needs and unique challenges of MSMEs, the BSP coordinated with ADB in conducting a national MSME demand-side survey, with particular focus on women entrepreneurs. This initiative will generate new insights and more granular data on MSME's access to finance, which could support evidence-based policymaking. To date, all project

activities have been completed, and the study is targeted to be finalized by Q1 2022.

The BSP established a technical working group (TWG) with industry associations and government institutions to develop a standard business loan application form to make the loan application process more streamlined and borrower-friendly for MSMEs. The TWG has already developed the standard form, which has been piloted by 11 banks for three months ending 15 January 2021. The next step is to formalize the adoption mechanism through a regulatory issuance by the BSP targeted for release in 2022.

In line with Republic Act No. 10744 series 2015, the BSP continues to provide capacity building for Credit Surety Funds (CSFs). Fifteen webinars were conducted by the BSP in 2021 for the surety funds, which were attended by 1,985 participants. A total of 55 CSFs have been established nationwide since the launch of the program in 2008, 26 of which have already been registered as CSF Cooperatives with the Cooperative Development Authority (CDA). To ensure successful collaboration and effective implementation of RA 10744, the BSP also signed a Memorandum of Agreement with CDA in March 2021 to formalize cooperation arrangements.

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, there are now 144 banks serving two million borrowers with

a total microfinance loan portfolio of ₱25.9 billion as of Q3 2021.

Consumer Protection

In support of its financial inclusion and financial stability objectives, the BSP implements consumer protection policies and assists financial consumers in the resolution of their complaints. In January 2021, the BSP reorganized its Consumer Empowerment Group into the Consumer Protection and Market Conduct Office to enhance its consumer protection and market conduct oversight functions.

BSP Online Buddy and Consumer Assistance Mechanism

The BSP Online Buddy (BOB) is an automated, AI-powered⁸⁵ channel that allows financial consumers to escalate complaints against BSP-supervised financial institutions (BSFIs). Amid the COVID-19 pandemic, BOB provides an accessible, fast and efficient channel for bringing the BSP closer to Filipino consumers through three different platforms: the BSP website, BSP Facebook Messenger and text messaging.⁸⁶ Capable of natural language processing, BOB can converse with complainants in English, Filipino, and Taglish. It is available 24/7, responds in real time, and immediately refers the complaints it receives to concerned BSFIs, consistent with the BSP Consumer Assistance Mechanism (CAM) parameters.

Alongside BOB, the BSP continues to maintain and manage the original CAM channels through its consumer affairs email and telephone hotlines. Through CAM, the BSP facilitates communication between consumers and the BSFIs, with the regulatory expectation that BSFIs are in the best position to address concerns about the products and services they offer. As a second level recourse, the BSP's CAM and BOB ensure that the complaints of consumers are heard and acted upon, as mandated under the BSP Financial Consumer Protection (FCP) Framework (Circular No. 1048).

In 2021, the BSP received a total of 19,181 complaints, 46 percent of which were processed via BOB. This is a significant increase in the utilization of the online channel; in 2020, only 12.8 percent of the 23,275 complaints went through BOB. In both 2020 and 2021, 60–65 percent of BOB users who responded to the customer survey said that they are satisfied with the system's responses.

Y-o-y data show a 152-percent increase in complaints received from 2019⁸⁷ to 2020, and an 18-percent decrease from 2020 to 2021. The high volume of complaints in 2020 can be attributed to increased concerns about the implementation of the financial assistance packages for vulnerable households under Bayanihan Acts I and II, which slightly tapered off in 2021. The BSP also introduced a streamlined complaints form in 2021, which ensured that only valid and complete complaints are lodged under CAM and BOB.

⁸⁵ Artificial Intelligence

⁸⁶ Currently available only for Globe subscribers.

⁸⁷ The BSP received 9,250 complaints in 2019.

As part of continuing efforts to improve the CAM and BOB processes, the BSP engaged the Innovations for Poverty Action (IPA) to undertake a comprehensive study of BOB data and complaints information gathered from social media. This study forms part of IPA's technical assistance (TA) grant to the BSP. The results of this study will inform the development of templates and a guidebook on complaints data analytics and related capacity-building activities for BSP personnel. Study results and other TA activities are targeted for completion in 2022.

Policy Making and Supervisory Support

The FCP Framework requires BSFIs to make consumer protection an integral element of their corporate governance, culture and risk management systems. It encourages BSFIs to implement the universal consumer protection tenet "do no harm," and to protect consumer rights by observing client-centric standards of business conduct. These include:

- **Transparency and disclosure.** BSFIs must be transparent and disclose all information relevant to the products and services offered to clients.
- **Protection of client information.** In line with data privacy laws, BSFIs must protect clients' account and personal information. They must employ robust systems and procedures to mitigate risks that affect clients across all phases of their relationship.
- **Fair treatment.** BSFIs must treat clients—including those belonging to vulnerable groups such as low-income earners or persons with disability—fairly, honestly and professionally at all stages of their relationship.

- **Effective recourse.** BSFIs are required to have an accessible, fair, and timely avenue for resolving clients' concerns or complaints.
- **Financial education and awareness.** BSFIs should provide consumer education apart from giving information on the features of their products and services.

Through the issuance of Memorandum No. 2021-069, the BSP reiterates the regulatory expectation that BSFIs must employ a high degree of diligence and utmost care to ensure that their practices duly mitigate risks arising from digitalization and emerging threats to their operations. The memo specifies that the terms and conditions of BSFI products and services must not result in significant imbalance in the rights and obligations of the contracting parties making them disadvantageous to clients. It emphasizes that any broad, all-encompassing disclaimer of legal liability by a BSFI for any loss incurred by its customers in the course of their contractual relationship is a violation of the FCP Framework and will be subject to appropriate enforcement sanctions.

The BSP secured a TA grant from the World Bank to support the development of the Market Conduct Framework (MCF) to complement and reinforce existing prudential regulations. The MCF is envisioned to define the BSP's overarching approach to regulating and supervising the manner by which BSFIs are designing and delivering their products and services and managing relationships with their clients. To date, the World Bank has facilitated workshops and discussions with concerned BSP departments on the conceptual and operational differentiations of prudential regulation versus market conduct oversight. The MCF and related issuances

are targeted for completion in the first half of 2022.

Support for the Passage of the Financial Consumer Protection Act

The BSP contributes to various legislative measures that are being deliberated in the Philippine Congress. It has provided support for the passage of the proposed Financial Consumer Protection Act (FCPA) in the House of Representatives and the Senate.

The FCPA is among the BSP's priority legislative agenda. In 2021, the BSP, the Securities and Exchange Commission (SEC), Insurance Commission (IC) and Cooperative Development Authority (CDA) lobbied for the FCPA as a comprehensive and clear legal mandate for financial consumer protection that fully safeguards consumer assets, rights, and welfare. Existing laws, such as the Consumer Act of the Philippines, Credit Card Law, and Truth in Lending Act, have not been enough to cover the increasing array of financial products offered by Financial Service Providers (FSPs) through digital and traditional means. The proposed FCPA has been approved⁸⁸ by both the Senate and the House of Representatives. It will then be transmitted to the President for his signature. The salient features of the proposed FCPA are the following:

- **Scope and coverage.** The FCPA applies to all financial products and services offered by any FSP under the jurisdiction of the BSP, SEC, IC and CDA, including those delivered or accessed through digital channels. These include savings, credit, insurance, pre-need and products of health

maintenance organizations, investments, payments and remittances, and securities. It also covers investment advisers and their activities to prevent investment scam and fraud.

- **FSP compliance with CP Standards of Conduct.** The FCP requires that all FSPs adhere to consumer protection standards of fair and respectful treatment of clients, disclosure and transparency, privacy and protection of client data, and access to a redress mechanism.
- **Stronger consumer rights on use of their data.** Under the FCP standard on privacy and protection of client data, consumers may refuse to share their information to a third party and request the removal of their data from the service provider's system if they no longer wish to use the provider's services.
- **Effective consumer redress.** The FCPA directs FSPs to establish an effective consumer assistance mechanism. A notable provision of the FCPA states that in cases of alleged unauthorized transactions, the FSP, pending the result of its investigation, shall suspend the imposition of interest, fees, or charges on the disputed amount, or provide similar reasonable accommodations to the financial consumer.
- **Liability of FSPs.** The FCPA makes FSPs liable and responsible for the acts or omissions of its directors, trustees, officers, employees or agents in marketing and transacting

⁸⁸ Approved on 2 February 2022.

with financial consumers for their products and services.

- **Responsible pricing and product suitability.** The FSPs shall be required to practice responsible pricing and must provide written procedures for evaluating the affordability and suitability of their products and services for their clients. The FSPs shall adopt a clear cooling-off policy, providing clients with enough time to consider costs and risks of the financial product that is being offered. The FCPA also allows borrowers to prepay a loan before its maturity date.
- **Rulemaking, market surveillance, and examination.** Financial regulators are given authority to exercise rule-making, market surveillance and examination, and market monitoring, including the power to determine reasonableness of interests, fees, and charges. They can take necessary actions against FSPs performing acts that may undermine consumer welfare.
- **Adjudication.** Financial regulators (namely, the BSP and the SEC) can conduct summary hearings on claims for payment or reimbursement of sums of money. Adjudication decisions shall be final and executory and may not be set aside by the courts except on petition for *certiorari* on grounds of grave abuse of discretion or lack or excess of jurisdiction by the financial regulator. These adjudication functions, which are purely civil in nature, provide vulnerable and aggrieved consumers with the opportunity to quickly recover justified losses from financial transactions.

- **Sanctions and penalties.** Financial regulators can restrict the imposition or collection of excessive or unreasonable interests, fees or charges. They can disqualify or suspend erring directors, officers or employees. They can also impose fines or penalties, issue cease and desist orders, or suspend operations in relation to a particular financial product or service, as may be warranted and subject to objective due process. The FCPA also provides administrative and criminal penalties for violations of the law, which are intended to instill discipline among all FSPs and market players.

Strategic Communication and Advocacy

As the Philippine economy started to recover in 2021, the BSP proactively communicated key messages on the green shoots and its continued support for the economy—particularly through accommodative monetary policy and regulatory relief measures for banks.

Consistent delivery of such messages helped maintain confidence of investors and other stakeholders in the Philippines.

At the same time, the BSP implemented economic and financial literacy programs to broaden Filipinos' awareness of basic economic concepts as well as crucial information on savings and investments.

Engagements with Investors and Credit Rating Agencies

The BSP conducted meetings and conferences with various foreign and local investors, analysts from credit rating agencies (CRAs), private-sector economists, and bank analysts, among other stakeholders, to impress upon them the prospects of full recovery of the Philippine economy in the near term. This helped build investor confidence, which is important in boosting economic activities.

The BSP co-organized with the Department of Finance virtual economic conferences in 2021. First was the Pre-State of the Nation Address on economic and infrastructure development in April, which gathered around 1,000 Zoom attendees and around one million livestream viewers. Second was the Philippine Economic Briefing for Foreign Chambers in November, which was attended by about 200 officers and members of foreign business chambers and other private-sector representatives.

The BSP also conducted 49 other investor engagement activities, ranging from small groups of 20-30 participants to big groups of 250-350 participants. Most of these meetings were online conferences and briefings co-organized with foreign banks for their investors in Asia, North America, and Europe. The co-organizing banks included Credit Suisse, J.P. Morgan, HSBC, UBS, SMBC Nikko Securities, Nomura, and MUFG, among others. In these activities, officials from the BSP and other government economic agencies updated investors with the latest developments in the Philippine economy to guide their investment plans.

The BSP also arranged meetings between CRA analysts and officials from the BSP and other government economic agencies. The meetings helped guide the analysts in their assessment of the strength of the country's macroeconomic fundamentals and creditworthiness.

On the back of proactive economic communication, all major international and regional CRAs affirmed the investment-grade credit ratings of the Philippines. This was despite the credit rating downgrades suffered by other economies due to the impact of the COVID-19 crisis on their macroeconomic fundamentals.

Fitch Ratings affirmed the Philippines' "BBB" rating with a "stable" outlook in January, S&P Global affirmed the country's BBB+ rating with a "stable" outlook in May, and Moody's Investors Service affirmed the country's Baa2 rating with a "stable" outlook in July. However, Fitch revised its outlook on the rating to "negative" to take into account uncertainties caused by the pandemic but affirmed the "BBB" rating.

Media Engagements

The BSP also continued to proactively engage traditional media even as the pandemic persisted. Given that the print and broadcast media run platforms that can quickly deliver the central bank's messages to the public, traditional media engagements were consistent with the BSP's goal of bringing itself closer to the Filipino people.

Based on third-party media monitoring analyst Media Meter, the BSP was able to generate an estimated ₱10.7 billion worth of public relations values for 2021 out of

the news reports published and aired by media organizations that carried press releases and messages of the BSP. Through open and clear messaging, which it executed by translating technical central banking jargon into easily understandable and relatable content, the BSP consistently conveyed confidence and trust in the BSP's actions through various communication materials produced by the BSP.

The BSP issued 443 press releases and conducted 81 press briefings during the year, some of which were held even during lockdowns. It also conducted press briefings on various topics such as the monetary policy stance, inflation and balance of payment updates via Facebook Live, and even institutionalized weekly press chats with the BSP Press Corps through the Governor's "GBED Talks."⁸⁹ It also organized media lectures for members of the media, academe, and students in Luzon and the Visayas.

Social Media

The BSP saw the number of followers of its social media accounts increase in 2021 by posting various materials carrying its messages.

With a total of 1,223 posts in 2021, the BSP Facebook page attracted 728,081 followers and had an average engagement rate of 4 percent during the year. The post with the highest engagement was the BSP's Youth Summit, which garnered a 46 percent engagement rate.

The BSP Twitter account attained 50,897 as total tweets reached 1,111 tweets while the average engagement rate was placed at 3 percent. The post with the highest engagement for the year of

42 percent was on the BSP public advisory on online sellers advertising brilliant uncirculated 20-piso coins for sale.

As of end-December 2021, the BSP attracted 6,990 subscribers and posted 243 videos on Youtube. The BSP's most viewed video on the platform featured the benefits of having a transaction account, with 5,544 views.

The BSP Instagram account accumulated 8,001 followers and had 320 total posts as of end-December 2021. The most engaging post during the year was the invitation to the BSP Youth Summit which had an engagement rate of 18 percent.

The "EconomyPH" Facebook page, designed to communicate messages on the Philippine economy, had 10,778 followers as of end-2021, up by 10.96 percent from the previous year. Also, the "EconomyPH" Twitter account had 1,771 followers as of end-2021, a y-o-y rise of 9.2 percent. Moreover, timely economic information was made available through the IRO website, www.iro.ph, which gained 43,357 unique visits in 2021.

By leveraging the latest technology and digital platforms, the BSP has brought its corporate affairs closer to more Filipinos. The BSP facilitated a total of 268 virtual corporate events, 217 hybrid events and 352 face-to-face events in 2021. The 837 events represent a 34-percent increase from the 623 events facilitated in 2020. Furthermore, with 314 livestreams, the BSP gained a historic mark in 2021 with a total virtual attendance of 140,668 in central bank events.

⁸⁹ "GBED" stands for Governor Benjamin E. Diokno

Corporate Affairs

The BSP successfully mounted marketing campaigns in 2021 for its coffee table book, *Yaman: History and Heritage in Philippine Money*, various commemorative banknotes and coins, and other corporate products primarily using electronic platforms. Total sales in 2021 amounted to ₱1.5 million.

The BSP's promotional collaterals have also been accessible online with design services for six web pages and four microsites. This includes the 2021 BSP anniversary virtual exhibit and microsite that complemented the 2022 BSP calendar set. A total of 122 multimedia production projects such as audio-visual presentations and promotional videos were also completed, which reflected a 35-percent increase from the 90 multimedia projects in 2020.

Key Highlights:

- Attained a score of 4.99, (with 5 being highest) in a customer satisfaction survey of 184 respondents regarding its event and venue services
- Mounted successful marketing campaigns for publication *Yaman: History and Heritage in Philippine Money*, Lapulapu commemorative banknote, and other commemorative coins
- Successfully spearheaded the 2021 Outstanding Stakeholders Appreciation Awards
- Successfully launched the BSP museum web pages
- Successfully spearheaded the first BSP Numismatic Event

Economic Education

The BSP continued to promote awareness of key economic and financial concepts and issues, as well as a better understanding of the role of the BSP in the economy. Anchored on the principle that a well-informed public—literate in basic economic and financial concepts—could make better savings and investments decisions, these initiatives help strengthen the public's trust in BSP's policies and promote long-term price stability through well-anchored inflation expectations.

The Bank's economic education is wide ranging and includes the following: BSP-initiated learning sessions for different audience types in different localities; on-demand requests for lectures from various schools, government agencies, private institutions, and other interested parties; and developing, producing and disseminating learning materials in various formats (e.g., primers, brochures, infographics, short videos, electronic learning tools) and released through different communication channels (e.g., print, website, social media).

The following events were conducted with 14,975 high-multiplier participants:

- 26 stand-alone online learning sessions (with 4,732 participants)
- Four virtual sessions on "Economic and Financial Learning Program on the Role of the BSP and other relevant Central Banking Topics" (with 9,699 participants)
- Two learning sessions with PHINMA Education on requested topics (with 544 participants)

The BSP also developed relevant and understandable learning materials focusing on its role in the economy. The learning materials produced covered various topics such as key policy rates, virtual assets, gross international reserves, inflation, foreign direct investments, foreign portfolio investments, domestic liquidity, external debt, and balance of payments.

Strategic Partnerships

On 3 June 2021, the BSP's partnership with the Department of Education (DepEd) reached a crucial milestone with the issuance of the Financial Education Policy (DepEd Order 22 s. 2021), which intensified the integration of financial literacy lessons in the K to 12 basic education curriculum in select subjects across all grade levels.

The BSP likewise continued to work with the Commission on Higher Education in crafting a Personal Finance 101 course module for inclusion in the curriculum for secondary education in collaboration with the National Economic and Development Authority, Insurance Commission, Philippine Deposit Insurance Corporation, Securities and Exchange Commission, and BPI Foundation.

To improve the financial literacy and capability of fisherfolk, the BSP collaborated with several agencies⁹⁰ in February 2021 to officially launch the partnership and financial education (fin-ed) game called "*Fish N' Learn*," which

embeds key messages on personal financial management and sustainable fishing. The BSP conducted the virtual Master Training of Trainers, which was participated by Bureau of Fisheries and Aquatic Resources and USAID-Fish Right Program trainers. A partnership with Department of Agriculture's Agricultural Credit Policy Council is also in the pipeline to further reach the small farmers and fisherfolk nationwide. Meanwhile, the delivery of online learning sessions continued throughout the year, expanding the reach of education webinars for various target audiences. Sixteen standalone sessions⁹¹ and 11 Personal Equity & Retirement Account (PERA) webinars were also conducted last year, attracting more than 18,000 participants from various public and private institutions, schools, and universities. Capacity-building sessions were also held in 16 provinces for 225 Comprehensive Social Benefits Program beneficiaries.

Personal financial management and PERA webinars were organized for Department of Trade and Industry employees and Negosyo Center business counselors in September 2021. A 10-part webinar series on financial literacy and entrepreneurship titled *#UsapangNegosyoatPinansyal* ran from August to September 2021, gathering close to 36,000 combined views as of end-December 2021⁹².


Financial wellness webinars tagged *#StrongerFromHome* were likewise delivered for DepEd personnel and

⁹⁰ DA-BFAR, BDO Foundation, United States Agency for International Development's (USAID) Fish Right Program, Silliman University, and Path Foundation Inc.

⁹¹ DA-BFAR, BDO Foundation, United States Agency for International Development's (USAID) Fish Right

Program, Silliman University, and Path Foundation Inc.

⁹² Organized and conducted together with Bayan Academy and Facebook Philippines.



stakeholders. The webinars included timely topics such as online payments, cybersecurity and cyberhygiene, digital thumbprint, and cryptocurrencies, reaching more than 73,000 views as of end-December 2021.

The customized fin-ed webinar designed for Overseas Filipino Workers (OFWs) and their families called PiTaKa or Pinansyal na Talino at Kaalaman was held in February 2021. The event was organized in partnership with the Overseas Workers Welfare Administration, and was viewed more than 123,000 times as of end-December 2021. Moreover, 70 accredited providers of the Pre-Departure Orientation Seminar have undergone the training of trainers in May 2021, which expanded the pool of trainers who can deliver PiTaKa sessions to OFWs.

To empower the beneficiaries of the government's Pantawid Pamilyang Pilipino Program (4Ps), the BSP actively supported the Department of Social Welfare and Development (DSWD) in the development and publication of its Financial Literacy Manual in February 2021 as well as a pilot launch of the Online Family Development Seminar in May 2021. The initial episode, which was livestreamed on the official 4Ps Facebook page, gathered 85,000 views as of end-December 2021. The BSP also continues to provide resource speakers in DSWD trainers' trainings which started in October 2021 as part of the preparation for the national rollout of the financial literacy program for all cash aid beneficiaries.

By the end of 2021, six new learning videos were added to the toolkit of fin-ed materials that can be used in the capacity-building activities for civil

servants as well as uniformed and civilian personnel of the Philippine Air Force, Army, and Navy. Training manuals were likewise co-developed in 2021 in partnership with the Armed Forces of the Philippines, the Bureau of Fire Protection, and the Civil Service Commission. These manuals are to be published in 2022.

Box Article 12

Communicating in the New Normal

In 2021, as the Philippine economy started to recover from the COVID-19 crisis, the BSP maintained a stakeholder-centric approach that places the Filipino people at the front and center of its operations. To bring itself closer to the Filipino people, the BSP adopted innovative means to communicate with stakeholders in the context of a growing digital economy.

The BSP employed a mix of digital and physical formats for its corporate events, 268 of which were virtual, 217 hybrid, and 352 face-to-face. Events were livestreamed to expand audience reach. Virtual attendance in various BSP events during the year reached a record high of 140,668.

The BSP's financial education advocacy turned largely digital as the central bank disseminated learning materials through the web and social media. Digitalization significantly expanded the reach of its learning materials in terms of audience size and geographic coverage. For instance, 4,732 participants took part in 26 stand-alone online learning sessions while a virtual audience reaching 9,699 viewed four virtual webinars on the BSP and related topics.

Technology was instrumental in facilitating dialogue between the BSP and its partners and key stakeholders in the international community. Economic briefings, non-deal roadshows, conferences, and meetings with credit rating agencies (CRAs) and investors were organized and conducted virtually. In 2021, the BSP arranged 94 CRA meetings and co-organized three economic briefings and 49 online investor engagements with foreign banks and participants from Asia, North America and Europe. These proactive engagements with CRAs and investors helped affirm the Philippines' investment grade credit ratings amid a wave of downgrades experienced globally.

The BSP also used digital channels for its media engagements, which reached an estimated ₱10.7 billion worth of public relations value for the year.

Indeed, digitalization of communication initiatives helped the BSP bring itself closer to the Filipino people and the rest of the world in 2021 and will continue to do so in years to come.

Digital Transformation

The BSP executed its Information Systems Strategic Plan (ISSP) 2020-2023 in line with the updated 2020-2023 BSP Strategy. Among its major accomplishments in 2021 are the following:

Governance

Issuance of Bank-wide Frameworks Policies, and Guidelines. The BSP formulated several issuances to improve IT governance and ensure that IT use is aligned with its strategy and objectives.

Approval of the Information Systems Strategic Plan 2020-2023 Version 2 (ISSP V.2). The second version of the ISSP was approved by the Governor on 17 December 2021. The ISSP V.2 serves as the master plan for IT projects and initiatives in the covered period, updated in light of the pandemic and the revised BSP Strategy.

Approval of the Data Governance Manual. The Monetary Board (MB) ratified the BSP Data Governance Manual (DGM) on 20 May 2021 under MB Resolution No. 614. The DGM provides guidance on the implementation of inclusive data governance in the BSP. It was developed in partnership with the different BSP sectors and its operating units, giving them the flexibility to establish local guidelines and policies as part of their adoption processes.

Strategic Objectives

Completion of key projects that directly support the BSP Strategy.

The following IT-related projects completed in 2021 significantly advanced the realization of selected BSP strategic objectives:

Strategic Objective 2 - Safe, efficient, and inclusive payments and settlements system

- **Philippine Payments and Settlements System (PhilPaSS) Plus** - PhilPaSS Plus was developed to address the various pain points and limitations of the old PhilPaSS while introducing new features that considerably enhanced the BSP's Real-Time Gross Settlement (RTGS) capabilities. This included the establishment of the Rulebook PH-ISO 20022 Standard on Payment Messages, a project of the ISO 20022 Task Force composed of representatives from the BSP, the banking sector, and third-party RTGS service providers.
- **Cash Service Alliance (CSA) System** - This system ensures that the CSA members' cash servicing operations are uninterrupted amid restrictions during the pandemic. It won international recognition as the "Best Currency Initiative Implemented in Response to the COVID-19 Pandemic (Central Banks Category)" by

the International Association of Currency Affairs.

Strategic Objective 3 - Sound, stable, and resilient financial system

- *Fit and Proper (FitPro) System*
- The FitPro facility offers an efficient and flexible search engine tool that helps users identify whether or not an individual is qualified to hold a position in the BSP or in BSP-supervised financial institutions.

Strategic Programs

[\(On Strategic Communication\)](#)

[New BSP Website.](#) The BSP website was updated, benchmarked against the best websites of other central banks. It was designed to have a more current, professional, and user-friendly look and feel that communicates the BSP's advocacies and programs to the Filipino people. The new BSP website won the Best Central Bank Website Award by Central Banking Awards 2021.

[\(On Strategic Communication\)](#)

[BSP Short Message Service.](#) The BSP's Short Message Service is a facility for public notification. The BSP coordinates with the National Telecommunications Commission to send out nationwide text blasts using telecommunication service messaging platforms to keep citizens informed of BSP services and other pertinent information.

[\(On Digital Transformation\) Adoption scale for cloud services and platforms.](#)

The extent of adoption of IT services or platforms shows how the BSP is becoming a digitally transformed workplace. This is exemplified in 2021 by the launch of BSP EDGE as the organization's online learning experience platform. The BSP uploaded e-learning and other interactive content on cybersecurity in BSP EDGE to make cybersecurity awareness more accessible to targeted users. It also promoted the adoption of additional Microsoft 365 applications and services in the day-to-day activities of BSP personnel.

[\(On Digital Transformation\) Expanded issuance of BSP digital certificates.](#)

In support of the ongoing adoption of electronic documents, the BSP has issued 392 digital certificates to BSP officers, enabling the greater use of digital signatures that are efficient, fast, and secure means of generating authenticated electronic documents

Cybersecurity and ICT Infrastructure

Full Compliance with the v2021 SWIFT Customer Security Controls Framework (CSCF). The BSP reported a 100- percent⁹³ compliance with the CSCF requirements. The requirements are a set of security controls for the operating environment of SWIFT users. Formal attestation of the BSP's compliance was approved under MB Resolution No. 1809 dated 23 December 2021.

Interagency collaboration and information sharing on cybersecurity. The BSP strengthened its collaborative engagements with various agencies such as the CyberCom (formerly National Cybersecurity Interagency Committee) NCIAC-Technical Working Group (TWG) Banking and Finance, TWG-PhilSys, Department of Information and Communications Technology–National Computer Emergency Response Team, and the Department of Trade and Industry– Bureau of Philippine Standards.

Cybersecurity infrastructure upgrades. In keeping the BSP's cybersecurity posture, which is maintained at acceptable levels, several key digital platforms were subject to upgrades and enhancements.

IT infrastructure upgrades. The BSP upgraded and enhanced several IT infrastructure systems and

platforms to improve the quality of user experience when accessing BSP online services. It aimed to sustain optimal levels of availability, capacity, resiliency and performance of the BSP IT infrastructure while addressing the operational requirements of new application systems.

Business Process Management

Process reviews and improvements. Twenty-three process improvement initiatives were completed in 2021 in line with the BSP's efforts to comply with the Ease of Doing Business Act and Efficient Government Service Delivery Act of 2018. These included the evaluation of two completed IT-related projects that assessed the effects of automation on the business processes and activities augmented by the new application systems.

Quality Management System (QMS). The BSP designed, developed or updated 23 QMS manuals of various business units, all of which conform to Business Process Model and Notation⁹⁴ 2.0. It also carried out five Independent Quality Assessment⁹⁵ activities and 35 internal customer satisfaction measurement surveys.

⁹³ All 31 controls (22 mandatory and 9 advisory)

⁹⁴ An internationally accepted standard process modeling notation that aims to facilitate understandability by all business users and to

bridge the gap between business process design and process implementation

⁹⁵ Subsequently transferred to the Risk and Compliance Office under the Bank-wide reorganization

Box Article 13

Cybersecurity Challenges, Actions, and Solutions

As the COVID-19 pandemic magnified people's reliance on technology and digital platforms, cybersecurity is no longer confined to an institution's technology infrastructure. Consequently, it now extends beyond homes and offices as more Filipinos take advantage of online payments, remittances, and other technology-enabled financial services.

At the height of the lockdown, cybersecurity threats continued to increase, predominantly in the form of phishing emails, smishing and malicious websites. To manage these risks, the BSP intensified its digital surveillance efforts through daily monitoring of major cybersecurity incidents and disruptions. Further, the BSP reinforced its collaboration and active engagement with key stakeholders, including law enforcement agencies. Anchored on a risk-based and targeted approach, the BSP has also maintained its multi-layered cybersecurity controls to ward off evolving threats, supplemented by awareness campaigns to alert and warn financial consumers on emerging online threats and scams.

The BSP commits to provide a secure and enabling information and communications technology environment to effectively support digital transformation. The BSP's financial services must be safeguarded against cyberattacks while searching for new opportunities in this rapidly evolving digital landscape.

Box Article 14

BSP's Journey to Cloud Adoption

The BSP's first major step toward cloud adoption commenced with the jump to Microsoft 365⁹⁶ (M365) in the second half of 2019 to replace IBM (Lotus) Notes as the organization's email and instant messaging platform. This also switched the sourcing of basic Microsoft Office applications from stand-alone licenses bundled with BSP-acquired computers to a subscription model.⁹⁷ The pandemic accelerated the BSP's initiative of reshaping its workplace with cloud adoption as a business continuity measure to ensure that office functions and tasks are performed amid nationwide lockdowns and mobility restrictions.

Amid these "new normal" working arrangements, the use of Microsoft (MS) Teams as a cloud-based virtual meeting platform has been an indispensable channel. There were 9,555 online meetings held on the platform with 3,795 active users attending these meetings. In addition, the following statistics⁹⁸ show the degree of the BSP's adoption of M365 as communication and collaboration platform in 2021:

Volume of files on the cloud:

- **11.9 million** in OneDrive (personal storage for users)
- **1.0 million** in SharePoint (shared storage for groups)

Cloud storage utilization:

- **75.8 Terabytes (TB)** for emails
- **31.4 TB** for OneDrive
- **3.1 TB** for SharePoint

BSP user mobility (in terms of active users):

- **4,984** users monitored on Outlook mobile app *or about 90 percent of BSP employees*
- **4,901** users monitored on Teams mobile app *or about 88.6 percent of BSP employees*

Overall activity on the following M365 apps or services (2021 monthly average):

- **6.4 million** emails sent, received, and read
- **3.4 million** chats, calls, and online meetings in MS Teams
- **1.4 million** files shared, synched, viewed or modified in OneDrive
- **101,000** files shared, synched, viewed or modified in SharePoint

⁹⁶ Based on the assessment that switching to subscription is more cost-effective for MS Office licensing; this also addressed the long-standing issue of inconsistent Office app versions on different computers.

⁹⁷ These statistics came from the **Microsoft 365 Usage Analytics** tool.

⁹⁸ This is an add-on paid license per user on the BSP's M365 subscription and is subject to controlled allocation to manage overall subscription costs.

Other areas that benefited from M365 are as follows:

- I. **Blended Examination** The Financial Supervision Sector adopted blended examinations of BSP-supervised financial institutions (BSFI) at the height of the pandemic. Previously, bank examiners conducted examinations on-site⁹⁹ at the financial institutions. MS Teams also proved to be a usable platform for collaborative engagements with external stakeholders. As a major milestone in support of the BSP's strategic objective of a sound, stable and resilient financial system, blended examinations for enhanced banking supervision support the organization's strategy of bringing the BSP closer to the people,
- II. **Business Intelligence and Data Analytics (BIDA)** The BSP undertook a BIDA learning program aimed at enhancing the skills and competencies of staff on business intelligence and data analytics. This produced the capstone projects from the program participants that made use of Power BI¹⁰⁰ as the cloud service platform to publish online reports for easy and secured access.
- III. **Empowered use of online forms and surveys** With M365, user requests for online forms and surveys got simpler and easier. MS Forms proved to be an empowering tool for non-IT personnel because of its user-friendly features. Its use was significantly expanded among various BSP personnel authorized to use MS Forms for their utilitarian data or response collection requirements. An example was the central bank-wide deployment of a Daily Health Declaration across BSP employees.

⁹⁹ Wilson, J., Little, B., & Bratskeir, K. (2021, July 13). **What is an innovation lab? examples and how to start one.** Ideas. Retrieved February 16, 2022, from <https://www.wework.com/ideas/professional-development/management-leadership/innovation-labs>

¹⁰⁰ Wiles, J. (2019, May 6). **Act now to fund innovation and Growth.** Gartner. Retrieved February 16, 2022, from <https://www.gartner.com/smarterwithgartner/act-now-to-fund-innovation-and-growth>

Box Article 15 BSP Digital Transformation

By 2023, the BSP envisions itself as “a digitally transformed organization that is driven by a strong digital leadership, innovative and collaborative culture, secured and efficient technology ecosystem, and optimized work processes that support data-driven decisions.” To reach this vision, the BSP has crafted a framework that will serve as a guide for its digital transformation journey. The said framework is based on the Digital Maturity Model formulated by Deloitte (2018). The framework has five core dimensions shown in Figure 1.

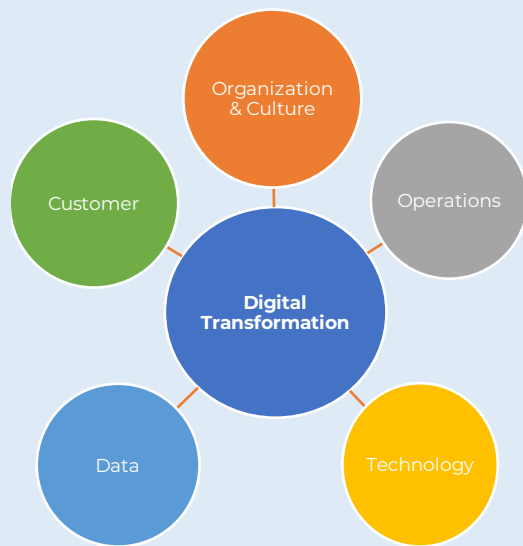


Figure 1. Dimensions of BSP's Digital Transformation

The dimensions include the key focus areas of competence that lay down the foundation for the future characterization of the BSP's digital maturity level. The framework's dimensions are defined in Table 1.

| Dimension | Definition |
|-----------------------------------|---|
| Organization & Culture | Defining and developing an organizational culture with governance and talent processes to support progress in the digital transformation program, as well as the flexibility to achieve growth and innovation objectives. |
| Operations | Executing and evolving processes and tasks by utilizing digital technologies to drive strategic management and enhance business efficiency and effectiveness. |
| Data | Evaluating the organization's ability both strategically and operationally to ethically and effectively use data and information assets to maximize business value. |
| Technology | Providing technologies and infrastructure that are scalable, reliable, and resilient amidst a changing business landscape. |
| Customer | Delivering an experience where internal and external stakeholders view the BSP as their digital partner when using the available channels for interaction. |

Table 1. Dimension Definition

The BSP has also identified key performance indicators (KPIs) to track the institution's progress in its journey to carry out each dimension. The computation results of the KPIs will then be used to gauge the BSP's Digital Maturity Level for a specified period. The BSP has defined five levels of Digital Maturity (Table 2).

| Digital Maturity Level | Definition |
|------------------------|---|
| Early | Few and scattered indications of digitalization, with uncoordinated and disorganized experimentations driving digital literacy. |
| Defined | Experimentation is intentional while executing at more promising and capable levels, though still poorly organized. The digital transformation strategy is still immature and requires more effort to produce material results. |
| Formalized | Individual groups recognize the strength in collaboration as their shared insights contribute to strategic roadmaps that plan for digital transformation ownership, efforts and investments, supported by the appropriate documentation. However, digital leadership is not a priority. |
| Managed | A dedicated digital transformation team guides strategy and operations based on business- and customer-centric goals. Roles, expertise, models, processes and systems to support the transformation are solidified, with digital leadership at the forefront. |
| Maturing | Digital transformation becomes a way of business as executives and strategists recognize that change is constant. A new ecosystem is established to identify and act upon technology and market trends in pilot, and eventually, at scale. |

The BSP has started the baseline KPI computations in the third quarter of 2021. According to the calculations, the BSP had an overall Digital Maturity Level of 3 or "Formalized". Majority of the dimensions scored a 3 as well, as seen in Figure 2. The BSP is targeting a Digital Maturity Level of 4 or "Managed" in 2022.

Reference: Deloitte Digital (2018, August). Digital Maturity Model. Retrieved from the TM Forum website: <https://www.tmforum.org/wp-content/uploads/2018/08/Deloitte-DMM.pdf>



Figure 2. BSP Digital Maturity Level, Third Quarter 2021

Box Article 16

Creating the BSP Digital Innovation Laboratory

Innovation labs—also called as hubs, incubators, or accelerators—are business units that use the methods of agile startups to develop novel ideas that can either disrupt or complement the overall organization or industry.¹⁰¹ They are gaining traction as enterprises that have set up one report higher revenue growth and customer satisfaction.¹⁰² The leading global companies in the industry and technology sectors have developed their innovation labs as part of their company's research and development.¹⁰³

It has also become a practice among central banks to rely on innovation labs to develop technologies and practices to harness their potential to ensure financial stability, while at the same time taking note of the risks that come with digital transformation. Leading laboratories among central banks include the *Le Lab* of Banque de France, *Laboratório de Inovações Financeiras e Tecnológicas* lab of Banco Central do Brasil, and *Innowerk* of Deutsche Bundesbank.

Boosting its digitalization efforts, the BSP created the Digital Innovation Laboratory. This groundbreaking initiative, part of the central bank's Governance System for Information Technology,¹⁰¹ aims to:¹⁰¹

- **ENGAGE** BSP employees to use existing and new technologies in generating new ideas and solutions to business needs such as the automation of business processes that shall promote operational efficiency and reduce operating cost;
- **EQUIP** BSP employees with tools to turn ideas into operational solutions, and carry out cost-effective market research on available technology that may be used to improve systems and methods in pursuing the central bank's goals; and
- **ESTABLISH** a community of innovators and industry partners that fosters a pioneering and collaborative culture.

The BSP Digital Innovation Laboratory is headed by an executive director supported by a core team. The guidance and approval of innovation activities rely on the lab steering committee chaired by the BSP's chief information officer. Innovation teams composed of BSP employees and external participants are formed on an *ad hoc* basis depending on the approved innovation activities. A pool of subject matter experts may be commissioned to help guide the innovation teams. This organizational structure is shown in Figure 1.

¹⁰¹ Katuwal, A. (2019, November 19). *The innovators toolkits: World best innovation labs from A to Z*. Medium. Retrieved February 16, 2022, from <https://www.wework.com/ideas/professional-development/management-leadership/innovation-labs>

¹⁰²

<https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=6174>

¹⁰³ <https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=6019>

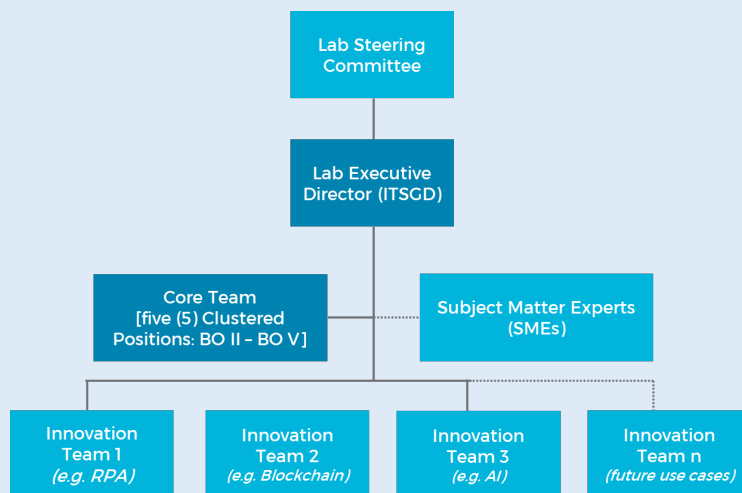


Figure 3. The Digital Innovation Lab Organizational Structure

To cultivate an innovative and collaborative culture, BSP employees shall be encouraged to submit proposals for use cases that will improve the operations in their departments and will help achieve the Bank's strategic objectives. These will be evaluated and go through approval by the Lab steering committee. The laboratory will equip the teams with the tools to help them execute their ideas. At the end of an innovation cycle, the teams will pitch a minimum viable product to the steering committee, which will decide whether or not to turn the proposed product into a production-grade application system.

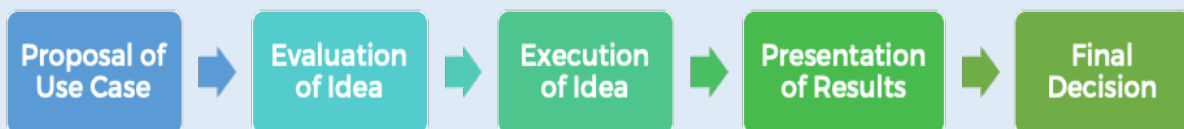


Figure 2. The Innovation Process

Likewise, exploration of and research on emerging technologies, particularly robotic process automation, blockchain as well as artificial intelligence and machine learning, have already started. Small-scale but big-impact initiatives are being evaluated as possible use cases to apply these emerging technologies. Furthermore, dialogues with other central banks, other government institutions, BSP-supervised financial institutions, and startups are ongoing to learn from their experiences and to explore possible partnerships. These meetings aim to build a community of innovators working with the BSP to develop solutions to challenges.

The BSP Digital Innovation Lab has taken small steps so far but is poised to make big leaps in the next few months. It is envisioned to serve as a catalyst of a more effective digital transformation in the BSP as it helps build the central bank's capacity to identify and try out emerging technologies and practices to improve its services. In the future, the BSP shall become an incubator of a large pool of innovators who will help bring the organization and its services even closer to the Filipino people.

Box Article 17

BSP Sustainable Central Banking Program

The New Central Bank Act or Republic Act No. 11211 mandates the BSP to maintain price stability conducive to a balanced and sustainable growth of the economy and employment, promote financial stability, and oversee the payments and settlements system in the Philippines, including critical market infrastructures. Cognizant of the potential significant impact of climate and environment-related risks on financial stability and the economy, the BSP committed to champion the sustainability agenda in the financial system through the roll out of various initiatives under the Sustainable Central Banking (SCB) Program.

BSP as an Enabler, Mobilizer, and Doer

Guided by its mandate, the BSP has launched the SCB Program in 2019 as part of its strategic programs for 2020–2023. The program aims to foster environmentally responsible and sustainable policies and work practices as well as integrate environmental, social and governance (ESG) aspects in its key functions and operations.

The SCB Program embodies the BSP’s role as an enabler, mobilizer and doer with respect to advocating sustainability in the financial system.

As an enabler, the BSP aims to foster a conducive policy and regulatory environment that allows BSP-supervised financial institutions to take a balanced and proportionate approach on the adoption of the sustainability agenda.

In this respect, the BSP has released two sets of regulations, namely, the Sustainable Finance Framework in April 2020 and the Environmental and Social Risk Management Framework in October 2021. The first provides broad supervisory expectations on the integration of sustainability principles, including ESG considerations in the corporate and risk governance frameworks as well as in the business strategies and operations of banks. The second sets out granular expectations on the management of environmental and social risks in relation to credit and operational risk exposures of banks.

These issuances will be followed by the third set of regulations covering the management of and social risks in relation to investment activities and expectations on the conduct of climate stress testing.



As a mobilizer, the BSP aims to lead by example and shape financial institutions' behavior and response toward making sustainable investment decisions. The BSP has invested in the BIS Green Bond Fund and the Asian Green Bond Fund. The latter is a US dollar-denominated and open-ended fund that supports environmentally responsible projects in the Asia-Pacific region and provides a platform for central banks to invest their reserves in high-quality green bonds that meet internationally accepted standards.¹⁰⁴

As a doer, the BSP will adhere to the same standards for environmental preservation and protection and adopt sustainability principles or ESG criteria in the BSP's key functions and operations. It has adopted green initiatives across the organization that display its commitment to pursue the sustainability agenda. In 2021, the BSP announced the use of polymer banknotes for a sustainable, economical and cost-effective currency production. Moreover, the BSP will move its currency printing and minting production to New Clark City in Tarlac province, which is envisioned to become a global benchmark for a smart, green and modern facility that promotes environmental sustainability and efficiency.

BSP as a Partner of Local and Global Regulators and Supervisors

The BSP recognizes the importance of collaboration and cooperation with other government agencies and counterpart regulators in the local, regional and global arena. Wearing its hat as monetary authority and supervisor, the BSP actively participates in regional and global conversations on sustainable finance. The BSP has been a member of the Sustainable Banking and Finance Network since 2013 and Network for Greening the Financial System (NGFS) since July 2020.


As a member of the NGFS, the BSP has expressed support for achieving the global climate goals under the Paris Climate Agreement during the 26th United Nations Climate Change Conference of Parties summit in Glasgow, Scotland in November 2021.¹⁰⁵ The BSP likewise actively participates in the ongoing efforts of the Association of Southeast Asian Nations in promoting sustainable finance.

On the local stage, the BSP, together with the Department of Finance, co-chairs the Interagency Technical Working Group on Sustainable Finance or the Green Force. The interagency group aims to harmonize all government policies concerning green and sustainable projects, establish a cohesive action plan to institutionalize and accelerate the growth of sustainable finance, and develop a pipeline of sustainable investments. On 20 October 2021, the Green Force completed and launched two important documents: the Philippine Sustainable Finance Roadmap and the Sustainable Finance Guiding Principles.¹⁰⁶

¹⁰⁴ <https://www.bsp.gov.ph/Regulations/Issuances/2022/CL-2022-011.pdf>

¹⁰⁵ <https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=6019>

¹⁰⁶ <https://www.bsp.gov.ph/Regulations/Issuances/2022/CL-2022-011.pdf>



The roadmap has three pillars focusing on policy, financing and investments. The BSP, together with the other financial sector regulators, play an important role in operationalizing the policy pillar and implementing the principles-based taxonomy. Under the auspices of the Financial Sector Forum (FSF), the principals agreed in November 2021 on the creation of a technical working group within the FSF to handle the policy review and development of common regulations or standards on sustainable finance covering the areas of corporate governance, risk management, disclosure requirement, products, and taxonomy. This output will serve as reference guidelines for the financial sector.

Indeed, facing the impact of climate change is everybody's business led by the government. The BSP will continue to provide support by ensuring that existing policies are aligned with the sustainability agenda and by embedding sustainability principles in carrying out its mandates.

Enhancing the BSP's Organizational Capability

The BSP continued to boost its organizational capability in 2021 as it pursued its mandates of price and financial stability as well as a safe and efficient payments and settlements system.

It leveraged collective physical, human, financial and intellectual resources, and managed these resources across various initiatives to provide unhampered public service efficiently and effectively to the Filipino people.

Human Resources and Organizational Development Management

As part of its strategic recruitment efforts, the BSP continued its Young Professionals Program (YPP), which aims to attract highly qualified young professionals with master's degrees in priority fields to train with the central bank for 18 months and apply their knowledge in various facets of the Bank's operations. The BSP expedited the processing for permanent appointments of the first batch of the YPP consisting of 30 Central Bank Associates. The second batch of the YPP was also launched in 2021 while initial coordination for the third batch of the program has begun.

In response to the needs of stakeholders and employees during the period of enhanced community quarantine (ECQ) and modified ECQ, the BSP also implemented the following initiatives: (1) BSP COVID-19-free workplace policy; (2) alternative work arrangements, including the release of advisories as

necessary; (3) vaccination program for BSP employees and dependents; and (4) weekly submission of reports on COVID-19 testing and vaccination status of outsourced personnel to the BSP COVID-19 Task Force.

On data management and analytics, the BSP carried out projects such as an enterprise document management system, which aims to digitalize paper-based human resource (HR) records; and an enhanced HR system, which aims to implement a new automated solution that is more responsive to the needs of employees. The BSP Data Governance Manual on Personnel Information was also developed in 2021 along with dashboards for monthly BSP personnel statistics and demographics and various HR metrics. These databases are for the use of the Human Resource and Organizational Development team and the BSP management in facilitating the generation of *ad hoc* reports for HR top management and other BSP departments on personnel statistics, diversity profile, and intergenerational data, among others. The data aim to aid stakeholders in their respective operations and decision-making.

To safeguard its employees' health and wellness amid the pandemic, the BSP facilitated 1,006 shots of flu vaccines as well as anti-COVID-19 vaccinations that consisted of 1,926 shots for the first dose, 1,867 shots for the second dose, and 112 booster shots in coordination with the Manila and Quezon City governments. The Bank also conducted various health education programs and physical fitness activities.

Project Development and Management

The BSP's project initiatives in 2021 included the following new and existing projects with the following corresponding percentages of completion:*

| | |
|---|-------|
| BSP Baguio Branch Building, Additional Access Road, and Slope Protection | 96.0% |
| BSP Puerto Princesa Palawan Branch Building | 87.1% |
| BSP Cotabato Branch Building | 50.7% |
| SSD Offices and Command Operations Center for Contingency and Oversight | 75.5% |
| Renovation and Conversion of the Metropolitan Museum of Manila to a One-Stop Shop Building to be known as the BSP Hub | 0.8% |
| Proposed Phase 3 Project of the BSP Wellness and Training Center in Silang, Cavite | 19.4% |

*as of 29 December 2021

In addition, the BSP is undertaking procurement processes for the proposed new office and commercial building with parking at the Philippine International Convention Center complex. It is also in the process of designing and developing contracts to construct or upgrade buildings for its branches in Iloilo, Bacolod, Cebu and Davao, as well as its two convention centers in Manila and Davao. It is also planning to renovate and

modernize the BSP Main Complex, which was built back in the 1970s.

Risk Management and Compliance

In the area of risk and compliance management, some achievements included the reporting of the results of the COVID-19 Early Warning Indicator Dashboard to manage risks arising from the pandemic. The BSP also developed and implemented the methodology for assessment of the vulnerability of its sites to various environmental and climate-related hazards. It conducted surveys and a hazard assessment on the proposed establishment of an alternate site for the BSP in New Clark City in Tarlac province, which served as input to the Project Development and Management Department's project study.

A joint process review of the quality assurance and control procedures for outsourced and in-house produced banknotes in collaboration with the Banknotes and Securities Production Management Department and Banknotes and Securities Printing Department was also conducted in 2021. It aimed to minimize, if not prevent, the recurrence of incidents involving the release of defective banknotes to the public and defects in the packaging of banknotes released for issuance, whether these banknotes are produced in-house or outsourced.

Independent assessments, technical consultations, and second-line management were carried out to enhance the effectiveness of information security and data privacy controls supporting the objectives of several BSP departments and offices. This resulted in

the issuance of advisories and facilitated approval of agreements, projects, and internal policies on privacy within the BSP.

Legal Services

The BSP prepared the draft executive order (EO) integrating the Philippine Identification System (PhilSys), also known as the national ID system, into all government systems and databases. Under the draft EO, all government agencies, instrumentalities, departments, bureaus, offices, local government units, government-owned or -controlled corporations, government financial institutions, state universities and colleges, and other chartered institutions are directed to incorporate in their identification systems and databases the PhilSys Number (PSN), or PSN derivative, of covered individuals.

The BSP was also involved in drafting opinions and related documentary requirements on the abolition of the Credit Information Corporation and the transfer of its functions to the central bank. Upon assumption of the company's functions through an executive issuance, the BSP will be authorized to receive and consolidate basic credit data, to act as a central registry of credit information, and to provide access to reliable, standardized information on credit history, and the financial condition of borrowers, among others.

Likewise, the BSP continued to actively participate in the drafting and review of legislation, such as the Agri-Agra Bill, Financial Products and Services Consumer Protection Bill, Philippine Deposit Insurance Corporation Charter Amendments, Bank Deposits Secrecy

Bill, Digital Payments Bill, Bill on the Proposed Reorganization of the Insurance Commission, Bank Account, E-Wallet, and Other Financial Accounts Regulation Bill, and One Filipino, One Bank Account Bill, among others. Many of these bills are geared toward building an efficient, inclusive, safe, and secure digital finance ecosystem.


Monetary Board Operations Management

The Monetary Board (MB), the policy-making body of the BSP, held a total of 52 regular and policy stance meetings, including the off-site meeting held in Malay, Aklan in November 2021. It released 52 Minutes of MB meetings, 52 transcripts of deliberations of the board, and 1,902 MB Resolutions. The minutes of board's meetings, excerpts of resolutions, and supporting documents, including delegated authorities, were converted into electronic files and stored in the MB e-Library system.

Also, during ECQ, modified ECQ and Alert Level 4 quarantine restrictions, the MB embraced the challenge of the pandemic and allowed the sending of urgent board resolutions through the MB Secretariat group mail. This extraordinary measure was approved by the board in 2021 to address limitations on the staff of other departments who were working from home.

Comptrollership Management

Under its initiative to digitalize collections and disbursements, the BSP onboarded additional payment channels in the New Order of Payment System (NOPS), a secure web-based system easily accessible for the public through



the internet. With NOPS, the BSP's clients can pay their obligations to the BSP through various payment channels. Payments can be made to the BSP's depository banks through over-the-counter, mobile or online banking, and other payment gateways (e.g., debit or credit cards issued by Visa or Mastercard). The BSP onboarded additional payment channels, namely, GCash and 7-Eleven convenience stores nationwide, and converted all collecting departments to NOPS users.

Box Article 18

BSP New Clark City

A new BSP Complex will rise on a 31.3-hectare development in New Clark City (NCC). Through the project, the BSP will help enhance the operational resilience of the national government while contributing to the decongestion of the country's main metropolis.

NCC is intended to be the new site of the BSP currency production and distribution facility. It will be a bigger and better-designed currency production plant at par with the standards followed by the most modern central banks in the world. It will also house other BSP units and will serve as an alternate site for the operation of its mission-critical departments. The project is in line with Executive Order No. 119 Series of 2020, the BSP's Business Continuity Program, and Monetary Board Resolution No. 619 dated 20 May 2021.

On 13 September 2019, the BSP and the Bases Conversion and Development Authority signed a Memorandum of Understanding signifying their commitment to work together to facilitate the relocation of the BSP Security Plant Complex (SPC). SPC, the BSP's currency production facility, not only produces banknotes and coins but also refines gold, prints land titles for the Land Registration Authority, the National ID cards for the Philippine Statistics Authority, and crafts presidential medals and commemorative coins.

The new BSP complex will be a global benchmark for a smart, green, and modern facility, promoting environmental sustainability and efficiency. It will be built with extensive and robust security features to safeguard the BSP's currency production, data center, and information technology systems. It will also house a cutting-edge research academy, a museum for the preservation and promotion of culture and heritage, and facilities for sports and employee wellness. It is seen to support sustainable banking and spread economic growth in one of the fastest-growing regions of the country.

The entire complex is divided into three zones based on security level: restricted, semi-restricted, and non-restricted zones.

The restricted zone, having the highest security level, will be the new home of the BSP's currency production and distribution facilities.

The semi-restricted zone will host the command and data centers, as well as auxiliary maintenance buildings such as the power substation, pump room, waste material recycling, sewage treatment plant, rainwater processing and office building.

The non-restricted zone, accessible to the public, will include the museum, academic building, health and wellness center and commercial establishments. The main gateway to the complex is the museum, which will house the BSP's extensive art collections, consisting of paintings, sculpture, gold, the numismatic collection, and antique furniture. This zone will feature open green spaces, a lagoon, and sustainable features to promote health and well-being.


Box Article 19

The BSP Young Professionals Program Thrives Amid the Pandemic



The first batch of the BSP Young Professionals Program (YPP), an 18-month training program launched in May 2020 with the aim of developing future central bankers, is nearing its culmination. Though rolled out at the height of the pandemic, it attracted 30 bright and eager participants from a diverse range of disciplines including communications, economics, finance, statistics and mathematics, data science, information technology, and industrial engineering. The program aims to hone 30 central bank associates into future public servants and central bank leaders through immersion in different central banking operations, online training, performance coaching, and mentoring. They took part in the operations of departments, performing functions in economic research and statistics, supervisory policy, financial market operations, financial stability, financial technology, financial inclusion, corporate communication, and information technology.

Despite the challenges of the alternative work arrangements, asynchronous coaching, and the health and safety risks due to the pandemic, the central bank associates (CBAs) were able to complete their assigned research and other projects. Some of their contributions involved improvements of manual processes through technology, assessment of supervisory initiatives and frameworks, proposals on building up capacities on strategic communication, digital transformation and cybersecurity awareness, and various research that served as valuable inputs to supervisory or regulatory policies.



A number of factors ensured the successful launch of the BSP YPP during the pandemic: the dedicated coaches and mentors assigned to the CBAs, the regular one-on-one check-in with their HR partners, the support of the BSP's top management, and the enabling culture and work environment at the BSP. These ingrained in the CBAs the value of collaboration, professionalism, innovation, and drive to serve the nation. Not surprisingly, 30 of the CBAs decided to join the BSP.

In a testament to the success of the program, participants recounted how the YPP turned them into passionate public servants imbued with a commitment to serve the nation. Speaking during a get-together with BSP Governor Benjamin E. Diokno in November 2021, Angela Luz Pereras, said: "I can say that this has been the biggest twist in my life. I have always been sure that I will not leave the private sector. Looking back, I was just an aspiring public servant and now, I am one. I am and will forever be grateful to the BSP for opening its doors to me, even—and especially—in these trying times."

Another participant, John Jerry Jaspio, remarked: "During the short time that we have been working here, I have come to realize that we are privileged in two ways because of our jobs in the BSP. First, we are privileged to enjoy a good life: we have stable jobs and we're working for an organization that values our health, safety, and welfare. Second—which I believe is more important—is that we are privileged to be in a position to empower others to have a good life too. We are in a unique position to be agents of change so that eventually, our marginalized fellow Filipinos will become included as well."

The BSP continues to seek out high-potential individuals, especially Filipino graduates abroad, with the heart for public service to join the country's central monetary authority through the YPP and other recruitment programs.

Box Article 20

Build, Build, Build, BSP

Rather than be disheartened as the rest of the world grappled with the pandemic and hurled into alternative work-from-home arrangements, the BSP rose above the difficulties. Serving as an example of strength and dedication to serve the Filipino people despite the health emergency, the BSP turned the challenge into an opportunity to build new structures and fortify its existing facilities.

The BSP's Project Development and Management Department (PDMD) currently runs 13 infrastructure projects in various sites. Of these, eight have reached the implementation and construction stage, and include the following:

Proposed Security Services Department (SSD) Offices and Command Operations Center for Contingency and Oversight

The project will convert the former Money Museum Building at the BSP Head Office to office spaces for the SSD and its operations center. Upon completion, part of the existing SSD office areas at the ground floor of the five-storey building shall relocate to this new facility. The project, which cost ₱37.2 million, is expected to be completed by March 2022.

Proposed conversion of the Metropolitan Museum of Manila to the BSP Hub

The project will convert the existing Metropolitan Museum of Manila (MMM) building to a one-stop-shop facility that will house all of the BSP's transactions with external parties following the museum's transfer to a new site in 2021. As part of the health and safety measures of the BSP in the wake of the pandemic and the New Normal Economy, the MMM Building will now be occupied by the following units: the Money Museum at the basement; One-Stop-Shop at the ground floor; the Economic and Financial Learning Office at the second floor; and canteen and dining areas at the roof deck. The contract cost is ₱269.8 million for general construction works, which started on 8 October 2021 and is scheduled for completion in December 2022.

Proposed office and commercial building with parking at the PICC

The project involves the construction of an office and commercial building with parking instead of the discontinued BSP Museum at the Philippine International Convention Center (PICC). The original project was discontinued in 2008 after the central bank terminated the contract with the builder due to delays. In 2021, the BSP decided to turn the unfinished structure into an office and commercial building instead since a new museum is being planned at the BSP New Clark City. Besides some of the BSP collections to be housed in the proposed BSP Museum are already displayed at the PICC buildings. The general contractor for the repurposed project mobilized on 4 March 2022 and the target date for completion is 30 October 2022. The contract amount for construction is ₱197.32 million.

Proposed BSP Wellness and Training Center

The BSP property in scenic Silang, Cavite will soon house the proposed BSP Wellness and Training Center that will include camping grounds, bonfire place, playground and activity area, trail course, fishpond area and cottages. Costing ₱12.4 million, the project was started in November 2021 and is to be completed by March 2022. Occupying a land area of 123,401 square meters, BSP's Silang property is already the site of a training facility for the BSP security force that is also being used by other central bank units.

Construction of the BSP Baguio Regional Office and additional access road

This project involves the construction of the main office building, support structures (e.g., security, maintenance, etc.), and a staff house. The staff house is a two-storey structure with 25 staff rooms, with two beds each, that can accommodate a total of 50 guests. Common or shared areas include a pantry, kitchen area, dining area, conference room, common toilets, and an open parking area at the front of the building. The contract cost for the construction works is ₱398.7 million. The project started on 22 September 2016 and is substantially completed. While the North Luzon Regional Office had partially occupied the main office building since December 2021, full completion is expected by June 2022 because of ongoing slope protection works undertaken by the Department of Public Works and Highways within the BSP Baguio complex.

BSP Baguio slope protection

Due to existing site conditions found during the building of the BSP Baguio Regional Office, the construction of additional slope protection works is currently being undertaken by the DPWH through an agency-to-agency agreement with the BSP. The latter is funding the project at a cost of ₱14.9 million and the contract is being administered by the PDMD. The construction, which started last 9 September 2021, is being implemented by DPWH's general contractor. These are projected to be completed by April 2022.

BSP Palawan Branch Building

A new building for the BSP Puerto Princesa branch is on the rise in Palawan province's capital city. Costing ₱273.0 million, the structure is being built in accordance with the "new generation" design concept introduced in 2016 that includes provisions for adequate security and ample spaces. The project started in 2017 and encountered delays but is now 91 percent complete. It is expected to be finished by April 2022.

BSP Cotabato Branch Building

Housed in a four-storey structure acquired in the 1980s, the BSP's Cotabato branch office will soon move to a new and modern office building with support facilities. Located close to the Bangsamoro Government Center and People's Center, the new building, constructed at the cost of ₱176.3 million, complies with current security and operational standards for BSP branches. It is scheduled for completion by April 2022 after more than two years of construction that began in November 2019.

Proposed construction of the BSP Bacolod Branch Building

The proposed BSP Bacolod Branch Building intends to provide a new building complex complete with support facilities and perimeter fence where the BSP Bacolod branch shall relocate from its existing three-storey building. The new site for the branch shall be around 500 meters away from the Port of Bacolod and shall be closer to the more recently developed commercial district in the area. It is estimated to cost ₱200.0 million.

In addition, the BSP plans to build five other infrastructure projects that are currently in the planning and design phase. These include:

Proposed Workplace Modernization Project (WMP) at the BSP Main Complex (Phase 1)

The proposed WMP aims to upgrade and rehabilitate the existing facilities and utilities of the BSP Main Complex to comply with current engineering standards since the buildings were originally constructed in the 1970s and no major rehabilitation works have been undertaken to date. The initial cost estimate amounts to ₱2.1 billion.

Proposed construction of the BSP Iloilo Branch Building

The proposed BSP Iloilo branch building shall serve as the relocation site for the central bank's unit in the city which currently uses an old three-storey building located along the crowded Solis St. at the Iloilo City Proper. Costing around ₱220.0 million, the new office building will be located at the Megaworld Iloilo Business Park.

Proposed rehabilitation of the BSP Davao Convention Center and related works The project involves the rehabilitation of the existing Davao Convention Center to revive the use of the main auditorium, which had not been in use since the early 2000s. It also aims to upgrade the rest of the leasable spaces at the convention center such as the smaller event and function rooms. The project is estimated to cost ₱700.0 million and is scheduled to start in June 2022 for completion by May 2023.

Structural audit and retrofitting design for the BSP Cebu and BSP Davao Regional Offices

The project involves the engineering audit of the existing buildings of the BSP Cebu and BSP Davao Regional Offices to check compliance with the latest provisions of the National Structural Code of the Philippines. The buildings are more than 30 years old, during which there had been several updates in the building code, particularly provisions that aim to reduce damage risks from earthquakes. The project is estimated to cost ₱4.0 million. Implementation is expected to start in June 2022 and completed by May 2022.

Box Article 21

Strengthening the BSP's Governance with the Stakeholder Centric Corporate Strategy

In 2021, the BSP carried out a number of organizational activities and initiatives toward strengthening institutional governance and its capacity to serve stakeholders. Among these are the following:

Leading a sound institutional strategy and project management

The Revised 2020-2023 BSP Strategy Map was approved by the Monetary Board on 17 June 2021 (Resolution No. 779) while the Revised BSP Strategy Scorecard (i.e., measures, targets and initiatives) was approved by the Governor on 30 July 2021 (Office Order No. 0957).

The strategy map is the BSP's blueprint toward achieving its vision of being a globally recognized institution that serves as a bastion of a strong economy and promoter of a high quality of life for all Filipinos. Accordingly, the strategy map design is anchored on three strategic objectives and five strategic programs that all contribute toward bringing BSP closer to the Filipino people.

Last year, the BSP attained a milestone in project management (PM) in the central bank with the establishment of the Enterprise Project Management Group under the Office of Strategy Management (OSM) to oversee organizational PM governance. Interim guidelines on monitoring and reporting on status of projects were issued to strengthen project governance as well as to support quality and timely decision-making. As part of the quarterly Project Status Report, the OSM provides insights and recommendations to improve project delivery and strengthen PM capabilities of the BSP. Preparations were made for a PM maturity assessment and roadmap development project to determine the current organizational maturity level of the BSP and to identify areas for improvement. These aim to contribute to the development of the BSP's enterprise PM framework.

Promoting operational efficiency and process improvement

The BSP began assessing its operations and processes as part of a continuing effort toward service excellence and efficiency. This includes the review of the current strategy management framework to ensure that the bank's operations remain relevant and appropriate. In addition, the BSP has conducted a benchmarking dialogue with the Government Service Insurance System toward the sharing of best practices on strategy management. It also intends to reach out to other government agencies and institutions in the Philippines and other countries to learn from their experiences in governance.

Advocating sustainable central banking

The BSP also advocates sustainable central banking (SCB) as it embeds green and sustainable principles and practices in the BSP's key functions and operations. It is fully aware that sustainability issues such as climate change and other environmental and social risks pose significant challenges to price and financial stability.

BSP Financial Results

The BSP's Balance Sheet. The BSP's total assets as of end-December 2021 was ₱7,576.4 billion, higher by 7.1 percent than the ₱7,075.1 billion posted in the previous year (Table 14). This was attributed to higher international reserves, domestic securities and other assets which increased y-o-y by 4.9 percent, 6.5 percent and 57.2 percent, respectively. In terms of composition, the BSP's assets were composed mainly of international reserves amounting to ₱5,505.4 billion, and domestic securities amounting to ₱1,470.6 billion.

Table 1. Balance Sheet of the BSP
in billion pesos

| | 2021 ^P Dec | 2020 ^a Dec |
|--------------------|--------------------------|--------------------------|
| Assets | 7,576.4 | 7,075.1 |
| Liabilities | 7,440.3 | 6,904.0 |
| Net Worth | 136.1 | 171.1 |

Note: ^a Details may not add up to total due to rounding.
^b Audited but subject to restatement.
^P Based on the preliminary and unaudited BSP balance sheet as of end-December 2021.

The expansion in the BSP's assets was accompanied by an increase in liabilities which reached a total of ₱7,440.3 billion as of end-December 2021, higher by 7.8 percent than the previous year's level of ₱6,904.0 billion. The increase was driven by the combined growth in allocation of special drawing rights (SDRs), revaluation of foreign currency accounts, currency issues, and deposit liabilities. Meanwhile, the total share of deposits and currency issued stood at 80.5 percent, accounting for the bulk of the BSP's liabilities.

Meanwhile, the BSP's net worth in 2021 declined by 20.5 percent to ₱136.1 billion from the previous year's balance of ₱171.1 billion amid lower surplus/reserves.

¹⁰⁷ This represents realized gains or losses from fluctuations in foreign exchange rates arising from foreign currency-denominated transactions of the BSP.

Operating Profit. Based on preliminary and unaudited data for the year 2021, the BSP registered a net income of ₱42.1 billion, up by 32.8 percent as compared to the previous year's level of ₱31.7 billion. The improvement in net income was largely due to higher revenues combined with the resulting net gain on foreign exchange rate fluctuations¹⁰⁷ (Table 15).

Table 2. Income Statement of the BSP
in billion pesos

| | 2021 ^P Dec | 2020 ^a Dec |
|--|--------------------------|--------------------------|
| Revenues | 166.980 | 118.149 |
| Less: Expenses | 136.007 | 80.582 |
| Net Income/(Loss) Before Net Gain/(Loss) on FX Rate Fluctuations and Income Tax Expense/(Benefit) | 30.973 | 37.567 |
| Net Gain/(Loss) on Foreign Exchange Rate Fluctuations | 10.861 | (5.779) |
| Income Tax Expense/(Benefit) | (0.280) | 0.076 |
| Net Income/(Loss) After Tax | 42.114 | 31.712 |

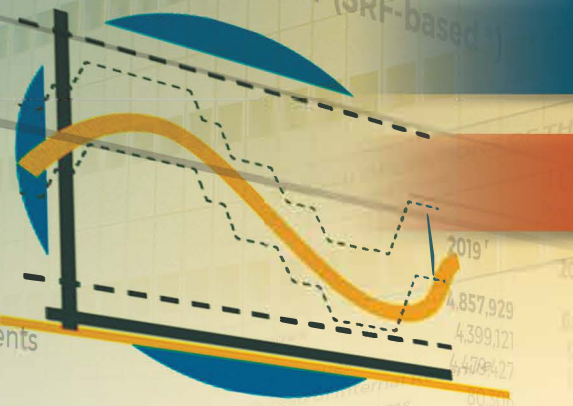
Note: ^a Details may not add up to total due to rounding.
^b Audited but subject to restatement.
^P Based on the preliminary and unaudited BSP income statement for the year ended December 2021.

Total revenues for 2021 amounted to ₱167.0 billion, rising by 41.3 percent from the ₱118.1 billion posted in the previous year. The upswing in total revenues was mainly due to the increase in interest income on domestic securities, and miscellaneous income¹⁰⁸. Meanwhile, total expenditures amounted to ₱136.0 billion, higher by 68.8 percent than the ₱80.6 billion posted last year. The y-o-y increase in expenditures was due primarily to the rise in interest expenses on NG deposits and domestic bills payable, and other expenses.

¹⁰⁸ This includes trading gains/losses, fees, penalties, and other operating income, among others.

DEPOSITORY CORPORATIONS SURVEY (SRF-based)

FOREIGN ASSETS
 Monetary Authorities
 Claims on Non-Residents
 less: Liabilities to Non-Residents
 Other Depository Corporation
 Claims on Non-Residents
 less: Liabilities to Non-Residents



CONSUMER PRICE INDEX (CPI) IN THE PHILIPPINES, NATIONAL CAPITAL REGION AND AREAS OUTSIDE THE NATIONAL CAPITAL REGION

| Commodity Group | CPI | |
|--|-------|-------|
| | 2019 | 2020 |
| Food and Non-Alcoholic Beverages | 120.2 | 123.3 |
| Food | 126.2 | 129.6 |
| Alcoholic Beverages, Tobacco and Narcotics | 126.3 | 129.8 |
| Non-Food | 211.9 | 246.1 |
| Clothing and Footwear | 114.0 | 116.1 |
| Housing, Water, Electricity, Gas and Other Fuels | 120.7 | 122.8 |
| Furnishing, Household Equipment and Appliances | | 124.4 |
| Routing Maintenance of the House | | |
| Health | | 123.5 |
| Transport | | 109.5 |
| Communication | | 101.8 |
| Recreation and Culture | | 115.0 |
| Education | | 115.0 |



| | Levels (in million pesos) | | |
|--------------|---------------------------|------------|------------|
| | 2019 | 2020 | 2021 |
| GOVERNMENT | 3,137,498 | 2,855,959 | 3,005,539 |
| THE NATIONAL | 2,827,651 | 2,504,421 | 2,742,684 |
| | 2,175,506 | 1,951,023 | 2,078,108 |
| | 630,310 | 537,687 | 643,563 |
| | 21,835 | 15,711 | 21,013 |
| | 309,847 | 351,538 | 262,855 |
| | 16,522 | 219,677 | 125,332 |
| | 3,097,734 | 4,227,406 | 4,675,639 |
| | 17,996 | 804,546 | 892,698 |
| | 360,874 | 380,412 | 429,432 |
| | 10,386 | 34,924 | 65,397 |
| | -650,236 | -1,371,447 | -1,670,100 |
| | 826,296 | 2,495,080 | 2,252,093 |
| | 14,847 | 600,759 | 331,481 |
| | 1,449 | 1,894,321 | 1,920,612 |

STATISTICAL ANNEXES

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1 GROSS NATIONAL INCOME (GNI) AND GROSS DOMESTIC PRODUCT (GDP) BY INDUSTRIAL ORIGIN

for periods indicated
in million pesos; at constant 2018 prices

| | 2019 ^f | 2020 ^f | 2021 | Percent Change | | |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|------------|
| | | | | 2019 ^f | 2020 ^f | 2021 |
| Agriculture, Forestry and Fishing | 1,783,855 | 1,780,544 | 1,775,566 | 1.2 | -0.2 | -0.3 |
| Industry | 5,887,869 | 5,112,115 | 5,531,829 | 5.5 | -13.2 | 8.2 |
| Mining and Quarrying | 168,857 | 136,940 | 140,506 | 3.4 | -18.9 | 2.6 |
| Manufacturing | 3,620,456 | 3,266,648 | 3,546,627 | 3.8 | -9.8 | 8.6 |
| Electricity, Steam, Water and Waste Management | 591,312 | 589,089 | 615,475 | 6.2 | -0.4 | 4.5 |
| Construction | 1,507,244 | 1,119,438 | 1,229,220 | 9.7 | -25.7 | 9.8 |
| Services | 11,711,027 | 10,634,575 | 11,201,018 | 7.2 | -9.2 | 5.3 |
| Wholesale and retail trade; repair of motor vehicles and motorcycles | 3,489,299 | 3,279,285 | 3,420,956 | 7.8 | -6.0 | 4.3 |
| Transportation and storage | 742,347 | 512,769 | 544,995 | 6.4 | -30.9 | 6.3 |
| Accommodation and food service activities | 425,692 | 232,389 | 250,452 | 5.6 | -45.4 | 7.8 |
| Information and communication | 557,007 | 584,981 | 637,941 | 8.0 | 5.0 | 9.1 |
| Financial and insurance activities | 1,676,448 | 1,768,604 | 1,848,604 | 11.9 | 5.5 | 4.5 |
| Real estate and ownership of dwellings | 1,238,469 | 1,027,860 | 1,050,031 | 4.1 | -17.0 | 2.2 |
| Professional and business services | 1,182,159 | 1,064,318 | 1,129,810 | 2.0 | -10.0 | 6.2 |
| Public administration and defense; compulsory social activities | 871,564 | 911,354 | 958,708 | 13.5 | 4.6 | 5.2 |
| Education | 766,089 | 683,563 | 738,027 | 4.7 | -10.8 | 8.0 |
| Human health and social work activities | 323,261 | 310,930 | 357,598 | 4.9 | -3.8 | 15.0 |
| Other services | 438,691 | 258,523 | 263,896 | 6.7 | -41.1 | 2.1 |
| Gross Domestic Product | 19,382,751 | 17,527,234 | 18,508,413 | 6.1 | -9.6 | 5.6 |
| Net Primary Income | 1,916,282 | 1,340,176 | 667,057 | -1.6 | -30.1 | -50.2 |
| Gross National Income | 21,299,032 | 18,867,410 | 19,175,470 | 5.4 | -11.4 | 1.6 |

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.

^f Revised

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

| | 2019 ^f | 2020 ^f | 2021 | Percent Change | | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|------------|
| | | | | 2019 ^f | 2020 ^f | 2021 |
| Household Final Consumption Expenditure | 14,027,456 | 12,913,709 | 13,456,458 | 5.9 | -7.9 | 4.2 |
| Government Final Consumption Expenditure | 2,399,867 | 2,652,952 | 2,838,333 | 9.1 | 10.5 | 7.0 |
| Gross Capital Formation | 5,132,349 | 3,366,707 | 4,005,983 | 3.5 | -34.4 | 19.0 |
| Gross Fixed Capital Formation | 5,175,520 | 3,754,623 | 4,114,271 | 3.9 | -27.5 | 9.6 |
| Changes in Inventories | -44,600 | -388,620 | -109,050 | ... | ... | ... |
| Valuables | 1,429 | 705 | 762 | -47.1 | -50.7 | 8.1 |
| Exports | 5,664,043 | 4,743,508 | 5,115,044 | 2.6 | -16.3 | 7.8 |
| Less: Imports | 7,840,965 | 6,149,641 | 6,943,662 | 2.3 | -21.6 | 12.9 |
| Statistical Discrepancy | 0 | 0 | 36,258 | ... | ... | ... |
| Gross Domestic Product | 19,382,751 | 17,527,234 | 18,508,413 | 6.1 | -9.6 | 5.6 |
| Net Primary Income | 1,916,282 | 1,340,176 | 667,057 | -1.6 | -30.1 | -50.2 |
| Gross National Income | 21,299,032 | 18,867,410 | 19,175,470 | 5.4 | -11.4 | 1.6 |

Notes:

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2/ Totals may not add up due to rounding.

^f Revised

... Blank

Source: Philippine Statistics Authority (PSA)

3 SELECTED LABOR, EMPLOYMENT AND WAGE INDICATORS (Cont'd) for periods indicated

| | Level | | | Percent Change | |
|---|--------|--------|--------|----------------|--------|
| | 2019 | 2020 | 2021 | 2020 | 2021 |
| Overseas Employment (Deployed, in thousands) | 2,157 | 550 P | 743 P | -74.5 P | 35.1 P |
| Land-Based | 1,649 | 333 P | 397 P | -79.8 P | 19.4 P |
| Sea-Based | 508 | 217 P | 346 P | -57.2 P | 59.1 P |
| Strikes | | | | | |
| Number of New Strikes Declared | 18 | 5 | 3 | -72.2 | -40.0 |
| Number of Workers Involved | 3,545 | 3,154 | 166 | -11.0 | -94.7 |
| Legislated Wage Rates (in Philippine Peso) | | | | | |
| In Nominal Terms² | | | | | |
| Non-Agricultural | | | | | |
| National Capital Region (NCR) | 537.00 | 537.00 | 537.00 | 0.0 | 0.0 |
| Areas Outside the NCR (AONCR) | 400.00 | 420.00 | 420.00 | 5.0 | 0.0 |
| 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 |
| AONCR | | | | | |
| Plantation | 391.00 | 394.00 | 394.00 | 0.8 | 0.0 |
| Non-Plantation | 391.00 | 394.00 | 394.00 | 0.8 | 0.0 |
| In Real Terms³ | | | | | |
| Non-Agricultural | | | | | |
| NCR | 448.25 | 434.47 | 422.83 | -3.1 | -2.7 |
| AONCR | 332.23 | 333.07 | 322.33 | 0.3 | -3.2 |
| Agricultural | | | | | |
| NCR | | | | | |
| Plantation | 417.36 | 404.53 | 393.70 | -3.1 | -2.7 |
| Non-Plantation | 417.36 | 404.53 | 393.70 | -3.1 | -2.7 |
| AONCR | | | | | |
| Plantation | 319.71 | 311.96 | 298.26 | -2.4 | -4.4 |
| Non-Plantation | 319.71 | 311.96 | 298.26 | -2.4 | -4.4 |

Notes:
² Data on nominal and real wage rates were sourced from the National Wages and Productivity Commission (NWPC). This includes the basic minimum wage and cost of living allowance (COLA). Wage rates in the AONCR reflect the highest nominal regional rates in a given category and their corresponding values in real terms.

³ Real wage rates were computed using 2012 as the base year. Adjustments in the minimum legislated wage rates are being determined by the Regional Tripartite Wages Productivity Board since 10 November 1990.

P Preliminary

Details may not add up to totals due to rounding

Sources: National Wages and Productivity Commission (NWPC), National Conciliation and Mediation Board (NCMB), and Philippine Overseas Employment Administration (POEA)

3 SELECTED LABOR, EMPLOYMENT AND WAGE INDICATORS

for periods indicated

| | 2020 ^P | | | | 2021 | | | | | | | | | | | |
|---------------------------------------|-------------------|--------|--------|--------|--------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | JAN | APR | JUL | OCT | JAN | FEB ^P | MAR ^P | APR ^P | MAY ^P | JUN ^P | JUL ^P | AUG ^P | SEP ^P | OCT ^P | NOV ^P | DEC ^P |
| Employment Status¹ | | | | | | | | | | | | | | | | |
| Labor Force (in thousands) | 44,934 | 41,058 | 45,871 | 43,649 | 45,212 | 47,341 | 48,772 | 47,407 | 48,446 | 48,840 | 44,740 | 48,116 | 47,847 | 47,330 | 48,637 | 49,546 |
| Employed | 42,543 | 33,830 | 41,302 | 39,837 | 41,248 | 43,153 | 45,332 | 43,269 | 44,716 | 45,075 | 41,667 | 44,234 | 43,592 | 43,826 | 45,477 | 46,274 |
| Unemployed | 2,391 | 7,228 | 4,569 | 3,813 | 3,964 | 4,187 | 3,441 | 4,138 | 3,730 | 3,764 | 3,073 | 3,882 | 4,255 | 3,504 | 3,159 | 3,272 |
| Underemployed | 6,299 | 6,398 | 7,136 | 5,747 | 6,589 | 7,850 | 7,335 | 7,453 | 5,492 | 6,409 | 8,692 | 6,482 | 6,183 | 7,044 | 7,617 | 6,811 |
| Labor Force Participation Rate (in %) | 61.7 | 55.7 | 61.9 | 58.7 | 60.5 | 63.5 | 65.0 | 63.2 | 64.6 | 65.0 | 59.8 | 63.6 | 63.3 | 62.6 | 64.2 | 65.1 |
| Employment Rate (in %) | 94.7 | 82.4 | 90.0 | 91.3 | 91.2 | 91.2 | 92.9 | 91.3 | 92.3 | 92.3 | 93.1 | 91.9 | 91.1 | 92.6 | 93.5 | 93.4 |
| Unemployment Rate (in %) | 5.3 | 17.6 | 10.0 | 8.7 | 8.8 | 8.8 | 7.1 | 8.7 | 7.7 | 7.7 | 6.9 | 8.1 | 8.9 | 7.4 | 6.5 | 6.6 |
| Underemployment Rate (in %) | 14.8 | 18.9 | 17.3 | 14.4 | 16.0 | 18.2 | 16.2 | 17.2 | 12.3 | 14.2 | 20.9 | 14.7 | 14.2 | 16.1 | 16.7 | 14.7 |
| Sample Size (in thousand households) | 44.0 | 44.0 | 44.0 | 44.3 | 44.6 | 11.2 | 11.0 | 44.3 | 11.1 | 11.2 | 123.2 | 11.0 | 11.0 | 44.2 | 11.1 | 10.7 |

Note:

¹ Beginning with the January 2020 survey round, the Labor Force Survey (LFS) adopted the population projections based on the 2015 Population Census (2015 POPCEN) and 2013 Master Sample Design, with a sample size of approximately 44,000 households. Starting February 2021, the monthly LFS has been conducted in between the regular quarterly LFS (i.e., January, April, July, and October). The monthly LFS generates national-level labor and employment statistics, without regional breakdown, and with a sample size of approximately 11,000 households. However, the July 2021 LFS had regions as domain and covered 123,244 households.

^P Preliminary

Details may not add up to totals due to rounding.

Source: Philippine Statistics Authority (PSA)

4 CONSUMER PRICE INDEX (CPI) IN THE PHILIPPINES, NATIONAL CAPITAL REGION AND AREAS OUTSIDE THE 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 | |
| | 2019 | 2020 | 2021 | 2020 | 2021 | 2019 | 2020 | 2021 | 2020 | 2021 | 2019 | 2020 | 2021 | 2020 | 2021 |
| All Items | 120.2 | 123.3 | 128.8 | 2.6 | 4.5 | 118.0 | 120.6 | 124.8 | 2.2 | 3.5 | 120.8 | 124.1 | 129.9 | 2.7 | 4.7 |
| Food and Non-Alcoholic Beverages | 126.2 | 129.6 | 136.4 | 2.7 | 5.2 | 131.4 | 135.6 | 142.4 | 3.2 | 5.0 | 125.1 | 128.4 | 135.1 | 2.6 | 5.2 |
| Food | 126.3 | 129.8 | 136.9 | 2.8 | 5.5 | 132.2 | 136.7 | 144.1 | 3.4 | 5.4 | 125.2 | 128.5 | 135.6 | 2.6 | 5.5 |
| Alcoholic Beverages, Tobacco and Narcotics | 211.9 | 246.1 | 271.8 | 16.1 | 10.4 | 190.8 | 214.0 | 235.3 | 12.2 | 10.0 | 216.2 | 252.7 | 279.3 | 16.9 | 10.5 |
| Non-Food | 114.0 | 116.1 | 120.1 | 1.8 | 3.4 | 111.3 | 112.9 | 115.8 | 1.4 | 2.6 | 114.9 | 117.3 | 121.7 | 2.1 | 3.8 |
| Clothing and Footwear | 120.2 | 122.8 | 124.9 | 2.2 | 1.7 | 120.6 | 121.9 | 122.9 | 1.1 | 0.8 | 120.1 | 123.0 | 125.4 | 2.4 | 2.0 |
| Housing, Water, Electricity, Gas and Other Fuels | 113.3 | 114.3 | 117.3 | 0.9 | 2.6 | 107.7 | 107.3 | 109.1 | -0.4 | 1.7 | 115.6 | 117.2 | 120.7 | 1.4 | 3.0 |
| Furnishing, Household Equipment and Routing Maintenance of the House | 119.9 | 124.4 | 127.4 | 3.8 | 2.4 | 117.5 | 123.5 | 125.4 | 5.1 | 1.5 | 120.7 | 124.7 | 128.0 | 3.3 | 2.6 |
| Health | 120.2 | 123.5 | 127.2 | 2.7 | 3.0 | 121.7 | 124.9 | 128.6 | 2.6 | 3.0 | 119.8 | 123.2 | 126.9 | 2.8 | 3.0 |
| Transport | 106.1 | 109.5 | 120.1 | 3.2 | 9.7 | 106.9 | 112.8 | 122.9 | 5.5 | 9.0 | 105.9 | 108.5 | 119.3 | 2.5 | 10.0 |
| Communication | 101.5 | 101.8 | 102.1 | 0.3 | 0.3 | 101.5 | 101.7 | 101.9 | 0.2 | 0.2 | 101.4 | 101.8 | 102.2 | 0.4 | 0.4 |
| Recreation and Culture | 115.4 | 116.1 | 116.0 | 0.6 | -0.1 | 113.6 | 114.1 | 113.8 | 0.4 | -0.3 | 115.9 | 116.6 | 116.7 | 0.6 | 0.1 |
| Education | 118.3 | 121.2 | 122.4 | 2.5 | 1.0 | 126.7 | 130.0 | 130.4 | 2.6 | 0.3 | 115.6 | 118.3 | 119.7 | 2.3 | 1.2 |
| Restaurants and Miscellaneous Goods and Services | 117.0 | 119.8 | 124.1 | 2.4 | 3.6 | 113.9 | 116.0 | 118.7 | 1.8 | 2.3 | 118.2 | 121.3 | 126.2 | 2.6 | 4.0 |

Source: Philippine Statistics Authority (PSA)

5 CASH OPERATIONS OF THE NATIONAL GOVERNMENT

for periods indicated

| | Levels (in million pesos) | | | Annual Change (in percent) | | |
|---|---------------------------|-------------------|-------------------|----------------------------|---------------|--------------|
| | 2019 | 2020 | 2021 | 2019 | 2020 | 2021 |
| Revenues | 3,137,498 | 2,855,959 | 3,005,539 | 10.1 | -9.0 | 5.2 |
| Tax Revenues | 2,827,651 | 2,504,421 | 2,742,684 | 10.2 | -11.4 | 9.5 |
| Bureau of Internal Revenue | 2,175,506 | 1,951,023 | 2,078,108 | 11.5 | -10.3 | 6.5 |
| Bureau of Customs | 630,310 | 537,687 | 643,563 | 6.3 | -14.7 | 19.7 |
| Other Offices | 21,835 | 15,711 | 21,013 | 4.4 | -28.0 | 33.7 |
| Non-tax Revenues ¹ | 309,847 | 351,538 | 262,855 | 9.0 | 13.5 | -25.2 |
| of w/c: Bureau of the Treasury | 146,522 | 219,677 | 125,332 | 28.3 | 49.9 | -42.9 |
| Expenditures | 3,797,734 | 4,227,406 | 4,675,639 | 11.4 | 11.3 | 10.6 |
| of which: | | | | | | |
| Allotments to Local Government Units | 617,996 | 804,546 | 892,698 | 7.4 | 30.2 | 11.0 |
| Interest Payments | 360,874 | 380,412 | 429,432 | 3.3 | 5.4 | 12.9 |
| Equity and Net Lending | 20,386 | 34,924 | 65,397 | 130.1 | 71.3 | 87.3 |
| Surplus/Deficit (-) | -660,236 | -1,371,447 | -1,670,100 | -18.3 | -107.7 | -21.8 |
| Financing² | 876,296 | 2,495,080 | 2,252,093 | 11.9 | 184.7 | -9.7 |
| External Borrowings (Net) | 184,847 | 600,759 | 331,481 | -3.6 | 225.0 | -44.8 |
| Domestic Borrowings (Net) | 691,449 | 1,894,321 | 1,920,612 | 16.9 | 174.0 | 1.4 |
| Total Change in Cash: Deposit/Withdrawal (-) | -224,569 | 701,702 | 66,080 | -326.5 | 412.5 | -90.6 |

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)

6 DEPOSITORY CORPORATIONS SURVEY (SRF-based *)

as of end-periods indicated

| | LEVELS | | | GROWTH RATES | | |
|--|--------------------|-------------------|-------------------|--------------|-------|-------|
| | (in million pesos) | | | (in percent) | | |
| | 2019 ^r | 2020 ^r | 2021 ^p | 2019 | 2020 | 2021 |
| 1. NET FOREIGN ASSETS | 4,857,929 | 6,095,792 | 6,493,472 | 8.9 | 25.5 | 6.5 |
| A. Monetary Authorities | 4,399,121 | 5,303,043 | 5,574,444 | 7.6 | 20.5 | 5.1 |
| Claims on Non-Residents | 4,479,427 | 5,379,285 | 5,793,723 | 7.4 | 20.1 | 7.7 |
| less: Liabilities to Non-Residents | 80,306 | 76,242 | 219,279 | -3.8 | -5.1 | 187.6 |
| B. Other Depository Corporation | 458,808 | 792,750 | 919,028 | 23.3 | 72.8 | 15.9 |
| Claims on Non-Residents | 1,654,598 | 1,773,077 | 1,883,420 | 10.2 | 7.2 | 6.2 |
| less: Liabilities to Non-Residents | 1,195,790 | 980,328 | 964,392 | 5.9 | -18.0 | -1.6 |
| 2. DOMESTIC CLAIMS | 13,318,198 | 13,942,931 | 15,010,525 | 10.7 | 4.7 | 7.7 |
| A. Net Claims on Central Government | 2,363,703 | 3,086,762 | 3,767,611 | 23.7 | 30.6 | 22.1 |
| Claims on Central Government | 2,953,181 | 4,431,278 | 5,332,667 | 9.8 | 50.1 | 20.3 |
| less: Liabilities to Central Government | 589,479 | 1,344,516 | 1,565,056 | -24.4 | 128.1 | 16.4 |
| B. Claims on Other Sectors | 10,954,495 | 10,856,169 | 11,242,914 | 8.2 | -0.9 | 3.6 |
| Claims on Other Financial Corporations | 1,232,427 | 1,145,481 | 1,245,241 | 13.2 | -7.1 | 8.7 |
| Claims on State and Local Government | 99,080 | 103,799 | 127,755 | 13.3 | 4.8 | 23.1 |
| Claims on Public Nonfinancial Corporations | 259,553 | 265,664 | 267,703 | -0.4 | 2.4 | 0.8 |
| Claims on Private Sector | 9,363,435 | 9,341,225 | 9,602,216 | 7.8 | -0.2 | 2.8 |
| 3. LIQUIDITY AGGREGATES | | | | | | |
| M4 (M3 + 3.e) | 14,950,127 | 16,244,474 | 17,451,430 | 9.8 | 8.7 | 7.4 |
| M3 (M2 + 3.d) ** | 12,976,301 | 14,221,969 | 15,254,018 | 11.5 | 9.6 | 7.3 |
| M2 (M1 + 3.c) | 12,293,184 | 13,564,236 | 14,763,320 | 10.9 | 10.3 | 8.8 |
| M1 (3.a + 3.b) | 4,500,305 | 5,455,949 | 6,200,805 | 15.7 | 21.2 | 13.7 |
| 3.a Currency Outside Depository Corporations | 1,395,796 | 1,731,812 | 1,877,693 | 13.3 | 24.1 | 8.4 |
| 3.b Transferable Deposits Included in Broad Money | 3,104,509 | 3,724,137 | 4,323,112 | 16.8 | 20.0 | 16.1 |
| 3.c Other Deposits Included in Broad Money | 7,792,879 | 8,108,286 | 8,562,515 | 8.4 | 4.0 | 5.6 |
| Savings Deposits | 4,969,361 | 5,718,130 | 6,245,605 | 6.4 | 15.1 | 9.2 |
| Time Deposits | 2,823,518 | 2,390,156 | 2,316,911 | 12.1 | -15.3 | -3.1 |
| 3.d Securities Other Than Shares Included in Broad Money (Deposit Substitutes) | 683,117 | 657,734 | 490,698 | 21.4 | -3.7 | -25.4 |
| 3.e Transferable and Other Deposits in Foreign Currency (FCDs-Residents) | 1,973,826 | 2,022,505 | 2,197,412 | 0.3 | 2.5 | 8.6 |
| 4. LIABILITIES EXCLUDED FROM BROAD MONEY | 3,226,000 | 3,794,250 | 4,052,567 | 11.8 | 17.6 | 6.8 |

* Based on the Standardized Report Forms (SRFs), a unified framework for reporting monetary and financial statistics to the International Monetary Fund (IMF).

^p Preliminary

^r Revised

** 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

7 SELECTED DOMESTIC INTEREST RATES¹

for periods indicated
In percent per annum

| | Nominal Interest Rates | | | Real Interest Rates ¹¹ | | |
|--|------------------------|-------|-------|-----------------------------------|--------|--------|
| | 2019 | 2020 | 2021 | 2019 | 2020 | 2021 |
| Borrowing Rates of Banks | | | | | | |
| Interbank Call Loans | 4.665 | 3.537 | 1.626 | 2.165 | 0.937 | -2.874 |
| Savings Deposits ^{2,3} | 1.231 | - | - | -1.269 | - | - |
| Time Deposits ^{2,4} (All Maturities) | 4.070 | - | - | 1.570 | - | - |
| Lending Rates | | | | | | |
| All Maturities ^{2,5} | 7.087 | - | - | 4.587 | - | - |
| High ^{2,6} | 8.018 | - | - | 5.518 | - | - |
| Low ^{2,7} | 5.497 | - | - | 2.997 | - | - |
| Bangko Sentral Rates | | | | | | |
| Overnight Lending Facility (OLF) ⁸ | 4.996 | 4.063 | 2.500 | 2.496 | 1.463 | -2.000 |
| RR/P (Overnight) ⁸ | 4.408 | 2.733 | 2.000 | 1.908 | 0.133 | -2.500 |
| Overnight Deposit Facility (ODF) ⁸ | 3.798 | 2.054 | 1.500 | 1.298 | -0.547 | -3.000 |
| BSP Securities 28 - Day ⁹ | ... | 1.844 | 1.770 | ... | -0.756 | -2.730 |
| Term Deposit Auction Facility (TDF) ⁸ | 4.541 | 2.241 | 1.753 | 2.041 | -0.360 | -2.747 |
| 7-Day | 4.528 | 2.123 | 1.715 | 2.028 | -0.477 | -2.785 |
| 14-Day | 4.572 | 2.042 | 1.762 | 2.072 | -0.558 | -2.738 |
| 28-Day | 4.521 | 2.705 | .. | 2.021 | 0.105 | .. |
| Rediscounting | 5.140 | 3.250 | 2.500 | 2.640 | 0.650 | -2.000 |
| Rate on Government Securities | | | | | | |
| Treasury Bills (All Maturities) | 5.022 | 2.223 | 1.450 | 2.522 | -0.377 | -3.050 |
| 35-Day | ... | 1.869 | ... | ... | -0.731 | ... |
| 91-Day | 4.674 | 2.018 | 1.113 | 2.174 | -0.582 | -3.387 |
| 182-Day | 5.065 | 2.261 | 1.431 | 2.565 | -0.339 | -3.069 |
| 364-Day | 5.232 | 2.422 | 1.694 | 2.732 | -0.178 | -2.806 |

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 Refers to the interest rate based on reporting universal and commercial banks' interest expense and outstanding peso-denominated deposits

⁴ Refers to the weighted average interest rate charged on interest-bearing deposits with fixed-maturity dates and evidenced by certificates issued by banks

⁵ Refers to the interest rate based on reporting universal and commercial banks' interest income and outstanding peso-denominated loans

⁶ Refers to the average of all highs quoted by reporting universal and commercial banks

⁷ Refers to the average of all lows quoted by reporting universal and commercial banks

⁸ 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 OLF and ODF will serve as upper and lower bound, respectively, of the IRC system.

⁹ Beginning 18 September 2020, the BSP offers BSP Securities as part of its initiative to shift to more market-based monetary operations. The inclusion of BSP Securities issuance in the standard monetary operations of the BSP provides an additional instrument for managing liquidity in the financial system and support the implementation of monetary policy under the 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.

¹⁰ Nominal interest rate less inflation rate (2012=100)

- Not Available
.. No Transaction/No Quotation/No Issue
... Blank

Sources: Bureau of the Treasury (BTr), Bangko Sentral ng Pilipinas (BSP)

8 CROSS RATES OF THE PHILIPPINE PESO

period averages

Philippine Peso 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 | |
|-------------|------------|----------------|----------------|-----------------|---------------|-----------------|------------------|-------------------|----------------|-----------------|----------------|----------------|---------------|---------------|----------------|----------------|
| 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 |
| 2021 | Ave | 49.2546 | 0.4490 | 67.7712 | 6.3371 | 53.9272 | 39.3064 | 36.6687 | 37.0012 | 130.7307 | 13.1325 | 36.5327 | 0.0034 | 1.5425 | 13.4108 | 58.2917 |
| | Jan | 48.0614 | 0.4637 | 65.5683 | 6.1991 | 54.2312 | 37.8002 | 36.2692 | 37.1313 | 127.6201 | 12.8128 | 36.1329 | 0.0034 | 1.6023 | 13.0857 | 58.5335 |
| | Feb | 48.2042 | 0.4580 | 66.7412 | 6.2178 | 53.7727 | 37.9434 | 36.3035 | 37.2988 | 127.9385 | 12.8526 | 36.1673 | 0.0034 | 1.6080 | 13.1245 | 58.2928 |
| | Mar | 48.5743 | 0.4476 | 67.3630 | 6.2563 | 52.3536 | 38.6210 | 36.2027 | 37.4417 | 128.9125 | 12.9517 | 36.0683 | 0.0034 | 1.5812 | 13.2254 | 57.8798 |
| | Apr | 48.4620 | 0.4450 | 67.1298 | 6.2384 | 52.6449 | 38.7776 | 36.3381 | 37.3421 | 128.6837 | 12.9232 | 36.2024 | 0.0033 | 1.5451 | 13.1948 | 58.0705 |
| | May | 47.9552 | 0.4396 | 67.4939 | 6.1755 | 53.1340 | 39.5326 | 36.0702 | 37.2128 | 127.3501 | 12.7880 | 35.9351 | 0.0034 | 1.5336 | 13.0570 | 58.2406 |
| | Jun | 48.1247 | 0.4372 | 67.5598 | 6.2004 | 53.0689 | 39.4167 | 36.1116 | 36.8033 | 127.8107 | 12.8332 | 35.9766 | 0.0033 | 1.5329 | 13.1033 | 58.0293 |
| | Jul | 49.9430 | 0.4527 | 69.0154 | 6.4277 | 54.4074 | 39.9458 | 36.8924 | 37.1198 | 132.5774 | 13.3164 | 36.7567 | 0.0035 | 1.5327 | 13.5982 | 59.0713 |
| | Aug | 50.2343 | 0.4575 | 69.3548 | 6.4543 | 54.9624 | 39.9059 | 37.0617 | 36.6800 | 133.3118 | 13.3953 | 36.9255 | 0.0035 | 1.5155 | 13.6777 | 59.1302 |
| | Sep | 50.1421 | 0.4554 | 68.9113 | 6.4448 | 54.3844 | 39.5823 | 37.2177 | 36.6911 | 133.0492 | 13.3698 | 37.0801 | 0.0035 | 1.5207 | 13.6524 | 59.0581 |
| | Oct | 50.7491 | 0.4490 | 69.4461 | 6.5233 | 54.9576 | 40.7600 | 37.5583 | 37.5116 | 134.6339 | 13.5313 | 37.4198 | 0.0036 | 1.5154 | 13.8179 | 58.8799 |
| | Nov | 50.3571 | 0.4412 | 67.8180 | 6.4649 | 54.6210 | 40.1448 | 37.1427 | 36.8413 | 133.5821 | 13.4258 | 37.0063 | 0.0035 | 1.5249 | 13.7113 | 57.5001 |
| | Dec | 50.2478 | 0.4416 | 66.8526 | 6.4431 | 54.5883 | 39.2460 | 36.8561 | 35.9406 | 133.2988 | 13.3899 | 36.7214 | 0.0035 | 1.4975 | 13.6816 | 56.8141 |

Source: Bangko Sentral ng Pilipinas (BSP)

Source: Reference Exchange Rate Bulletin, Treasury Department, Bangko Sentral ng Pilipinas

8a EFFECTIVE EXCHANGE RATE INDICES OF THE PESO

period average

1980 = 100

| | NOMINAL | | | REAL | | |
|--------------------------|----------------------|-----------------------|-------------------------|----------------------|-----------------------|-------------------------|
| | Overall ¹ | Trading Partners | | Overall ¹ | Trading Partners | |
| | | Advanced ² | Developing ³ | | Advanced ² | Developing ³ |
| 2019 | 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 ^r | 14.31 | 11.50 | 23.02 | 89.42 | 84.49 | 117.17 |
| Jan | 13.96 | 11.40 | 22.27 | 88.53 | 86.34 | 113.99 |
| Feb | 14.15 | 11.51 | 22.60 | 87.98 | 85.56 | 113.45 |
| Mar | 14.20 | 11.35 | 22.89 | 88.11 | 83.64 | 115.16 |
| Apr | 14.35 | 11.44 | 23.18 | 89.98 | 84.49 | 118.31 |
| May | 14.34 | 11.45 | 23.15 | 90.08 | 84.09 | 118.82 |
| Jun | 14.32 | 11.46 | 23.08 | 90.13 | 84.42 | 118.64 |
| Jul | 14.43 | 11.52 | 23.29 | 90.04 | 84.46 | 118.45 |
| Aug | 14.49 | 11.53 | 23.43 | 89.58 | 83.63 | 118.15 |
| Sep | 14.52 | 11.60 | 23.43 | 89.63 | 83.59 | 118.27 |
| Oct | 14.44 | 11.60 | 23.22 | 89.63 | 84.08 | 117.90 |
| Nov | 14.33 | 11.60 | 22.96 | 90.02 | 85.10 | 117.90 |
| Dec | 14.25 | 11.53 | 22.83 | 89.71 | 84.82 | 117.49 |
| 2021 | 14.11 | 11.57 | 22.44 | 90.49 | 86.91 | 117.50 |
| Jan | 14.19 | 11.51 | 22.69 | 93.29 | 90.41 | 120.54 |
| Feb | 14.19 | 11.56 | 22.64 | 91.96 | 89.44 | 118.58 |
| Mar | 14.26 | 11.65 | 22.73 | 91.63 | 88.72 | 118.45 |
| Apr | 14.31 | 11.68 | 22.82 | 92.20 | 88.77 | 119.56 |
| May | 14.38 | 11.77 | 22.90 | 92.60 | 88.56 | 120.51 |
| Jun | 14.36 | 11.79 | 22.82 | 92.43 | 88.46 | 120.26 |
| Jul | 13.97 | 11.44 | 22.25 | 88.88 | 85.14 | 115.58 |
| Aug | 13.93 | 11.37 | 22.20 | 88.68 | 84.36 | 115.77 |
| Sep | 13.93 | 11.40 | 22.17 | 88.31 | 83.70 | 115.51 |
| Oct | 13.84 | 11.42 | 21.93 | 87.61 | 83.80 | 114.02 |
| Nov | 13.97 | 11.60 | 22.07 | 88.70 | 85.36 | 115.05 |
| Dec | 14.02 | 11.64 | 22.14 | 88.88 | 85.51 | 115.30 |

¹ Australia, Euro Area, U.S., Japan, Hong Kong, Taiwan, Thailand, Indonesia, Malaysia, Singapore, South Korea, China, Saudi Arabia, and U.A

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

| | 2019 | | | 2020 | | | 2021 | | | 2020 | | | Percent Change | | |
|-------------------------------|------------------|--------------------|----------------|--------------------|--------------------|----------------|--------------------|--------------------|----------------|--------------|-------------|-------|----------------|-------------|-------------|
| | Volume | Value | Index | Volume | Value | Index | Volume | Value | Index | Volume | Value | Index | Volume | Value | Index |
| Total | 332,304.2 | 1,772,578.9 | | 1,462,521.4 | 1,770,899.0 | | 2,756,187.9 | 2,232,520.3 | | 340.1 | -0.1 | | 88.5 | 26.1 | |
| Financial | 3,494.5 | 270,434.0 | | 5,270.1 | 272,983.8 | | 3,945.0 | 211,621.3 | | 50.8 | 0.9 | | -25.1 | -22.5 | |
| Industrial | 33,504.4 | 317,104.4 | | 42,093.2 | 316,159.7 | | 83,458.2 | 620,529.8 | | 25.6 | -0.3 | | 98.3 | 96.3 | |
| Holding Firms | 40,705.8 | 463,812.1 | | 26,169.6 | 403,484.7 | | 31,668.9 | 363,908.6 | | -35.7 | -13.0 | | 21.0 | -9.8 | |
| Property | 40,843.7 | 363,263.6 | | 47,360.5 | 324,915.2 | | 85,589.7 | 368,211.4 | | 16.0 | -10.6 | | 80.7 | 13.3 | |
| Services | 51,235.5 | 312,442.8 | | 93,093.0 | 381,584.6 | | 335,476.9 | 585,055.8 | | 81.7 | 22.1 | | 260.4 | 53.3 | |
| Mining & Oil | 159,579.9 | 36,597.4 | | 1,239,928.9 | 39,177.1 | | 2,212,359.3 | 61,578.8 | | 677.0 | 7.0 | | 78.4 | 57.2 | |
| SME | 2,938.1 | 8,640.4 | | 8,598.4 | 31,878.9 | | 3,683.7 | 20,960.7 | | 192.7 | 268.9 | | -57.2 | -34.2 | |
| ETF | 2.4 | 284.2 | | 7.7 | 714.9 | | 6.3 | 653.8 | | 219.6 | 151.6 | | -17.4 | -8.6 | |
| Composite Index (PSEi) | | | | | | | | | | | | | | | |
| Average | | | 7,906.4 | | | 6,357.7 | | | 6,853.5 | | | | -19.6 | | 7.8 |
| End of Period | | | 7,815.3 | | | 7,139.7 | | | 7,122.6 | | | | -8.6 | | -0.2 |

r - revised

Source: Philippine Stock Exchange (PSE)

10 PHILIPPINES: BALANCE OF PAYMENTS

in million US dollars

| | 2020 ^r | 2021 ^p | Growth (%) 2021 ^p |
|---------------------------------------|-------------------|-------------------|---------------------------------|
| Current Account | 11,578 | -6,922 | -159.8 |
| (Totals as percent of GNI) | 3.0 | -1.7 | |
| (Totals as percent of GDP) | 3.2 | -1.8 | |
| Export | 119,867 | 130,189 | 8.6 |
| Import | 108,289 | 137,111 | 26.6 |
| Goods, Services, and Primary Income | -15,807 | -36,383 | -130.2 |
| Export | 91,627 | 99,778 | 8.9 |
| Import | 107,435 | 136,161 | 26.7 |
| Goods and Services | -19,909 | -39,608 | -98.9 |
| (Totals as percent of GNI) | -5.1 | -9.7 | |
| (Totals as percent of GDP) | -5.5 | -10.1 | |
| Export | 80,034 | 87,795 | 9.7 |
| Import | 99,943 | 127,403 | 27.5 |
| Goods | -33,775 | -53,781 | -59.2 |
| (Totals as percer) | -8.7 | -13.2 | |
| (Totals as percer) | -9.3 | -13.7 | |
| Credit: Exports | 48,212 | 54,169 | 12.4 |
| Debit: Imports | 81,987 | 107,950 | 31.7 |
| Services | 13,866 | 14,174 | 2.2 |
| Credit: Exports | 31,822 | 33,627 | 5.7 |
| Debit: Imports | 17,956 | 19,453 | 8.3 |
| Primary Income | 4,101 | 3,225 | -21.4 |
| Credit: Receipts | 11,594 | 11,983 | 3.4 |
| Debit: Payments | 7,492 | 8,758 | 16.9 |
| Secondary Income | 27,386 | 29,461 | 7.6 |
| Credit: Receipts | 28,240 | 30,411 | 7.7 |
| Debit: Payments | 854 | 950 | 11.3 |
| Capital Account | 63 | 80 | 26.3 |
| Credit: Receipts | 88 | 99 | 12.8 |
| Debit: Payments | 25 | 19 | -21.8 |
| Financial Account | -6,906 | -6,942 | -0.5 |
| Net Acquisition of Financial Assets | 13,286 | 8,271 | -37.7 |
| Net Incurrence of Liabilities | 20,192 | 15,213 | -24.7 |
| Direct Investment | -3,260 | -8,116 | -149.0 |
| Net Acquisition of Financi | 3,562 | 2,402 | -32.6 |
| Net Incurrence of Liabiliti | 6,822 | 10,518 | 54.2 |
| Portfolio Investment | -1,680 | 8,046 | 579.0 |
| Net Acquisition of Financi | 6,567 | 6,599 | 0.5 |
| Net Incurrence of Liabiliti | 8,246 | -1,448 | -117.6 |
| Financial Derivatives | -199 | -603 | -203.0 |
| Net Acquisition of Financi | -796 | -1,105 | -38.9 |
| Net Incurrence of Liabiliti | -596 | -502 | 15.8 |
| Other Investment | -1,767 | -6,268 | -254.8 |
| Net Acquisition of Financi | 3,953 | 376 | -90.5 |
| Net Incurrence of Liabiliti | 5,720 | 6,644 | 16.2 |
| NET UNCLASSIFIED ITEMS | -2,526 | 1,245 | 149.3 |
| OVERALL BOP POSITION | 16,022 | 1,345 | -91.6 |
| (Totals as percent of GNI) | 4.1 | 0.3 | |
| (Totals as percent of GDP) | 4.4 | 0.3 | |
| Debit: Change in Reserve Assets | 16,020 | 1,345 | -91.6 |
| Credit: Change in Reserve Liabilities | -1 | . | 110.5 |

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
. Rounds off to zero

Technical Notes:

- Balance of Payments Statistics from 2005 onwards are based on the IMF's Balance of Payments and International Investment Position Manual, 6th Edition.
- Financial Account, including Reserve Assets, is calculated as the sum of net acquisitions of financial assets less net incurrence of liabilities.
- Balances in the current and capital accounts are derived by deducting debit entries from credit entries.
- Balances in the financial account are derived by deducting net incurrence of liabilities from net acquisition of financial assets.
- 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.
- 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.
- 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.
- Data on Deposit-taking corporations, except the central bank, consist of transactions of commercial and thrift banks and offshore banking units (OBUs).

11 GROSS INTERNATIONAL RESERVES (GIR)

as of periods indicated, in million US dollars

| | 2019 | 2020 | 2021 |
|---|---------------|----------------|----------------|
| Gross International Reserves | 87,840 | 110,117 | 108,794 |
| Reserve Position in the Fund | 590 | 813 | 802 |
| Gold | 8,016 | 11,605 | 9,333 |
| SDRs | 1,182 | 1,233 | 3,939 |
| Foreign Investments | 75,304 | 93,645 | 91,625 |
| Foreign Exchange | 2,747 | 2,822 | 3,097 |
| Net International Reserves¹ | 87,836 | 110,115 | 108,792 |
| Reserve Adequacy Measures | | | |
| Import Cover ² | 7.6 | 12.3 | 9.6 |
| Short-Term External Debt Cover (in percent) | | | |
| Original Maturity ³ | 510.5 | 775.0 | 721.0 |
| Residual Maturity ⁴ | 396.5 | 529.0 | 512.3 |

¹ Inclusive of gold monetization and revaluation of reserve assets and reserve-related liabilities which are excluded in the calculation of the balance of payments (BOP). Net International Reserves (NIR) refer to the difference between Gross International Reserves (GIR) and the total of the Bangko Sentral's short-term liabilities and the Use of Fund Credits (UFC). UFC refers to the sum of outstanding drawings from the IMF under various policies and facilities, other than drawings under the reserve tranche.

² Number of months of average imports of goods and payment of services and primary income that can be financed by reserves.

³ Based on latest available outstanding short-term external debt

⁴ 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 debt service schedule on outstanding external debt and outstanding short-term external debt as of 31 December 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 | | | | 2020 ^r | | | | 2021 ^p | | | |
|---|--------|---------|---------|---------|-------------------|--------|--------|---------|-------------------|---------|---------|---------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Debt Service Burden (DSB)¹ | 1,734 | 3,104 | 1,357 | 2,506 | 3,008 | 1,579 | 1,508 | 1,441 | 4,143 | 1,338 | 1,904 | 1,401 |
| Principal | 846 | 2,350 | 530 | 1,907 | 2,220 | 966 | 881 | 880 | 3,451 | 928 | 1,221 | 1,005 |
| Interest | 888 | 754 | 827 | 599 | 788 | 613 | 627 | 560 | 691 | 411 | 682 | 396 |
| Export Shipments (XS)² | 12,375 | 13,634 | 14,123 | 13,345 | 12,183 | 9,902 | 12,856 | 13,270 | 12,981 | 13,102 | 14,286 | 13,799 |
| Exports of Goods and Receipts from Services and Income (XGS) | 30,350 | 31,937 | 33,578 | 33,584 | 29,793 | 23,402 | 29,501 | 30,285 | 28,978 | 29,189 | 32,140 | 32,064 |
| Current Account Receipts (CAR)² | 32,117 | 33,767 | 35,461 | 35,543 | 31,412 | 25,068 | 31,289 | 32,097 | 30,865 | 31,041 | 34,180 | 34,104 |
| External Debt | 80,431 | 81,259 | 82,674 | 83,618 | 81,421 | 87,453 | 91,979 | 98,488 | 97,047 | 101,186 | 105,929 | 106,428 |
| Gross Domestic Product (GDP) | 84,536 | 93,470 | 91,291 | 107,843 | 87,467 | 81,935 | 85,882 | 106,807 | 90,383 | 98,772 | 91,748 | 112,335 |
| Gross National Income (GNI) | 93,995 | 102,759 | 100,964 | 117,150 | 96,401 | 89,306 | 92,853 | 111,241 | 92,765 | 102,316 | 95,239 | 117,397 |
| Ratios (%): | | | | | | | | | | | | |
| DSB to XS | 14.01 | 22.77 | 9.61 | 18.78 | 24.69 | 15.95 | 11.73 | 10.86 | 31.91 | 10.22 | 13.33 | 10.15 |
| DSB to XGSI | 5.71 | 9.72 | 4.04 | 7.46 | 10.10 | 6.75 | 5.11 | 4.76 | 14.30 | 4.59 | 5.92 | 4.37 |
| DSB to CAR | 5.40 | 9.19 | 3.83 | 7.05 | 9.58 | 6.30 | 4.82 | 4.49 | 13.42 | 4.31 | 5.57 | 4.11 |
| DSB to GNI | 1.84 | 3.02 | 1.34 | 2.14 | 3.12 | 1.77 | 1.62 | 1.30 | 4.47 | 1.31 | 2.00 | 1.19 |
| External Debt to GDP⁴ | 22.88 | 22.71 | 22.58 | 22.19 | 21.43 | 23.72 | 25.31 | 27.25 | 26.62 | 26.51 | 27.34 | 27.04 |
| External Debt to GNI⁴ | 20.69 | 20.55 | 20.47 | 20.17 | 19.52 | 21.65 | 23.22 | 25.30 | 25.16 | 25.36 | 26.39 | 26.08 |

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.

^p Preliminary

^r Revised

Source: BSP

14 BALANCE SHEET OF THE BANGKO SENTRAL NG PILIPINAS

as of end-periods indicated
in billion pesos

| | 2020 Dec | ^a 2021 Dec | ^p rowth Rates * (in percent) |
|---|----------------|--------------------------|--|
| Assets | 7,075.1 | 7,576.4 | 7.1 |
| International Reserves ¹ | 5,249.9 | 5,505.4 | 4.9 |
| Domestic Securities | 1,380.9 | 1,470.6 | 6.5 |
| Loans and Advances | 130.9 | 121.7 | -7.0 |
| Bank Premises and Other Fixed Assets | 23.1 | 22.4 | -3.0 |
| Derivative Instruments in a Gain/(Loss) Position | . | 0.1 | -- |
| Other Assets | 290.2 | 456.3 | 57.2 |
| Liabilities | 6,904.0 | 7,440.3 | 7.8 |
| Currency Issue | 2,038.9 | 2,175.9 | 6.7 |
| Deposits | 3,735.4 | 3,816.5 | 2.2 |
| Reserve Deposits of Other Depository Corporations (ODCs) ² | 1,331.0 | 1,391.9 | 4.6 |
| Reserve Deposits of Other Financial Corporations (OFCs) ³ | 0.4 | 0.4 | 0.0 |
| Secured Settlement Account | 31.5 | 30.4 | -3.5 |
| Overnight Deposit Facility ⁴ | 1,119.3 | 717.8 | -35.9 |
| Term Deposit Facility ⁴ | 320.1 | 630.1 | 96.8 |
| Treasurer of the Philippines ⁵ | 798.6 | 907.6 | 13.6 |
| Foreign Financial Institutions | 97.0 | 97.1 | 0.1 |
| Other Foreign Currency Deposits | 4.6 | 8.1 | 76.1 |
| Other Deposits ⁶ | 32.9 | 33.0 | 0.3 |
| Net Bonds Payable | 24.0 | 25.5 | 6.3 |
| Allocation of SDRs | 58.0 | 199.5 | 244.0 |
| Revaluation of Foreign Currency Accounts ⁷ | 478.4 | 617.3 | 29.0 |
| Reverse Repurchase Facility ⁴ | 305.0 | 305.0 | 0.0 |
| Net Bills Payable - Domestic | 219.9 | 259.9 | 18.2 |
| Other Liabilities | 44.5 | 40.7 | -8.5 |
| Net Worth | 171.1 | 136.2 | -20.4 |
| Capital | 50.0 | 50.0 | 0.0 |
| Surplus/Reserves | 121.1 | 86.2 | -28.8 |

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 2021

* Growth rates are calculated using 1 decimal place in billions.

. Rounds off to zero

-- Indeterminate

Source: Bangko Sentral ng Pilipinas

15 INCOME POSITION OF THE BANGKO SENTRAL NG PILIPINAS

for periods indicated
in billion pesos

| | 2020 ^a | 2021 ^p | Growth Rates [*] (in percent) |
|---|-------------------|-------------------|---|
| Revenues | 118.149 | 166.980 | 41.3 |
| Interest Income | 85.430 | 115.431 | 35.1 |
| International Reserves | 55.004 | 64.357 | 17.0 |
| Domestic Securities | 23.277 | 41.165 | 76.8 |
| Loans and Advances | 2.103 | 1.205 | -42.7 |
| Others | 5.045 | 8.703 | 72.5 |
| Miscellaneous Income ¹ | 32.574 | 50.987 | 56.5 |
| Net income from Branches | 0.145 | 0.562 | 287.6 |
| Expenses | 80.582 | 110.726 | 37.4 |
| Interest Expenses | 46.435 | 60.339 | 29.9 |
| National Government Deposits | 13.040 | 21.540 | 65.2 |
| Reverse Repurchase Facility ² | 7.212 | 6.181 | -14.3 |
| Bills Payable - Domestic | 1.145 | 6.708 | 485.9 |
| Overnight Deposit Facility ² | 12.298 | 7.890 | -35.8 |
| Term Deposit Facility ² | 9.872 | 15.310 | 55.1 |
| Loans Payable and Other Foreign Currency Deposits | 2.773 | 2.702 | -2.6 |
| Other Liabilities | 0.096 | 0.009 | -90.6 |
| Cost of Minting/Printing of Currency | 11.609 | 11.510 | -0.9 |
| Other Expenses | 22.537 | 38.876 | 72.5 |
| Net Income/(Loss) Before Net Gain/(Loss) on FX Rate Fluctuation Income Tax Expense/(Benefit) | 37.567 | 56.254 | 49.7 |
| Net Gain/(Loss) on Foreign Exchange Rate Fluctuations ³ | -5.779 | 10.861 | 287.9 |
| Income Tax Expense/(Benefit) | 0.076 | -0.280 | -468.4 |
| Net Income/(Loss) After Tax | 31.712 | 67.395 | 112.5 |

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 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 2021

^{*} Growth rates are calculated using 3 decimal places in billions.

Source: Bangko Sentral ng Pilipinas

16 BSP: CONDENSED STATEMENT OF CONDITION

in thousand pesos

| ASSETS | 31 Dec 2021* | 31 Dec 2020** |
|---|----------------------|----------------------|
| Foreign Currency Financial Assets | | |
| Deposits with Foreign Banks | 412,991,515 | 784,319,426 |
| Other Cash Balances | 108,675 | 106,327 |
| Investment Securities | 3,835,834,468 | 3,354,507,494 |
| Foreign Securities Purchased under Agreements to Rese | 579,232,426 | 493,434,862 |
| Loan to International Monetary Fund (IMF) | 573,172 | 1,004,614 |
| Gold | 475,738,511 | 557,305,283 |
| IMF Special Drawing Rights | 200,802,013 | 59,213,856 |
| Due from/(to) Broker | 64,923 | 0 |
| Cash Collateral Paid | 30,587 | 0 |
| Gross International Reserves | 5,505,376,290 | 5,249,891,862 |
| Other Foreign Currency Receivable | 337,362,075 | 185,630,159 |
| Non-IR Foreign Currency On Hand | 9,784 | 31,706 |
| Derivative Instruments in a Net Gain Position | 95,277 | 3 |
| Total Foreign Currency Financial Assets | 5,842,843,426 | 5,435,553,730 |
| Local Currency Financial Assets | | |
| Investment in Government Securities | 1,470,561,840 | 1,380,925,071 |
| Loans and Advances | 121,722,925 | 130,888,267 |
| Due from Administrator of Funds | 36,519,497 | 36,176,570 |
| Other Receivables | 23,557,421 | 22,169,468 |
| Total Local Currency Financial Assets | 1,652,361,683 | 1,570,159,376 |
| Total Financial Assets | 7,495,205,109 | 7,005,713,106 |
| Acquired Assets Held for Sale | 1,422,288 | 1,401,449 |
| Investment Property | 10,132,896 | 10,360,343 |
| Bank Premises, Furniture, Fixtures and Equipment | 22,427,742 | 23,135,118 |
| Intangible Assets | 797,911 | 261,286 |
| Inventories | 29,607,138 | 20,330,031 |
| Property Dividend to NG | 285,214 | 285,214 |
| Deferred Tax Assets | 12,271,817 | 11,986,155 |
| Miscellaneous Assets | 4,269,547 | 1,587,326 |
| Total Other Assets | 81,214,553 | 69,346,922 |
| TOTAL ASSETS | 7,576,419,662 | 7,075,060,028 |

* 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-21 | | 31-Dec-20 |
|--|--------------------|--------------------|--------------------|
| | BUDGET* | ACTUAL** | ACTUAL*** |
| Operating Income: | | | |
| Income from Foreign Currency Financial Assets | | | |
| Interest Income | 68,600,840 | 72,791,353 | 59,805,836 |
| Fees, Miscellaneous Foreign Currency Income & Trading Gains-Fc | 24,462 | 34,977,421 | 25,044,429 |
| Total Income from Foreign Currency Financial Assets | 68,625,302 | 107,768,774 | 84,850,265 |
| Expenses on Foreign Currency Financial Liabilities | | | |
| Interest Expense | 3,055,777 | 2,779,950 | 3,057,945 |
| Other Foreign Currency Expenses | 1,390,052 | 1,728,753 | 1,166,468 |
| Impairment on foreign currency financial accounts | 0 | 5,719 | 2,556 |
| Total Expenses on Foreign Currency Liabilities | 4,445,828 | 4,514,422 | 4,226,969 |
| Net Income from Foreign Currency Financial Assets and Liabilities | 64,179,474 | 103,254,352 | 80,623,296 |
| Income from Local Currency Financial Assets | | | |
| Interest Income & Trading Gains Local | 35,756,576 | 42,640,704 | 25,624,264 |
| Total Income from Local Currency Financial Assets | 35,756,576 | 42,640,704 | 25,624,264 |
| Expenses on Local Currency Financial Liabilities | | | |
| Interest Expense | 56,889,621 | 57,559,280 | 43,377,460 |
| Final Tax on Interest Income/Discounts | 0 | 0 | -1,049,584 |
| Impairment on local currency financial accounts | 51,787 | 3,757,226 | 40,884 |
| Total Expenses on Local Currency Financial Liabilities | 56,941,409 | 61,316,506 | 42,368,760 |
| Net Loss from Local Currency Financial Assets and Liabilities | -21,184,833 | -18,675,802 | -16,744,496 |
| Net Income from Financial Accounts | 42,994,641 | 84,578,550 | 63,878,800 |
| Other Operating Income | 7,940,651 | 16,570,255 | 7,674,622 |
| Currency Printing and Minting Cost | 17,490,215 | 11,510,209 | 11,609,436 |
| Operating Expenses: | | | |
| Personnel Services, Development and Training | 18,136,160 | 23,311,855 | 15,252,587 |
| Traveling | 459,833 | 60,246 | 79,650 |
| Taxes and Licenses | 165,902 | 4,593,568 | 84,717 |
| Currency and Gold Operations | 1,008,816 | 246,264 | 3,719,042 |
| Acquired Assets | 304,541 | 80,242 | 115,453 |
| Other Services | 4,941,047 | 29,521,073 | 2,104,520 |
| Fidelity Insurance | 92,359 | 87,017 | 73,398 |
| Light, Fuel & Water | 429,959 | 254,461 | 243,320 |
| Repairs & Maintenance | 1,832,151 | 930,958 | 693,405 |
| Communication Services | 406,311 | 385,820 | 310,750 |
| Supplies | 114,263 | 59,967 | 45,582 |
| Others | 2,066,004 | 27,802,850 | 738,065 |
| Depreciation | 1,082,093 | 1,005,251 | 1,026,450 |
| Market Decline of Acquired Assets | 1,987 | -152,420 | -5,317 |
| Total Operating Expenses | 26,100,378 | 58,666,079 | 22,377,102 |
| Net Income/(Loss) Before FX Rates Fluctuation | 7,344,699 | 30,972,517 | 37,566,884 |
| Net Realized Gain/(Loss) on FX Rates Fluctuation | 0 | 10,860,676 | -5,778,931 |
| Net Income/(Loss) Before Income Tax | 7,344,699 | 41,833,193 | 31,787,953 |
| Income Tax (Expense)/Benefit | -103,977 | 280,339 | -76,045 |
| Net Income/(Loss) for the Year | 7,240,721 | 42,113,532 | 31,711,908 |

* Including PICCI budget

** Preliminary and unaudited

*** Audited but subject to restatement

Note: Breakdown may not add up to total due to rounding.

