

Governor's Foreword

Rebuilding from the Pandemic: Getting Back on Track

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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.