



BSP ANNUAL REPORT 2022

A Future-Ready Philippines:

Digital Sustainable Inclusive



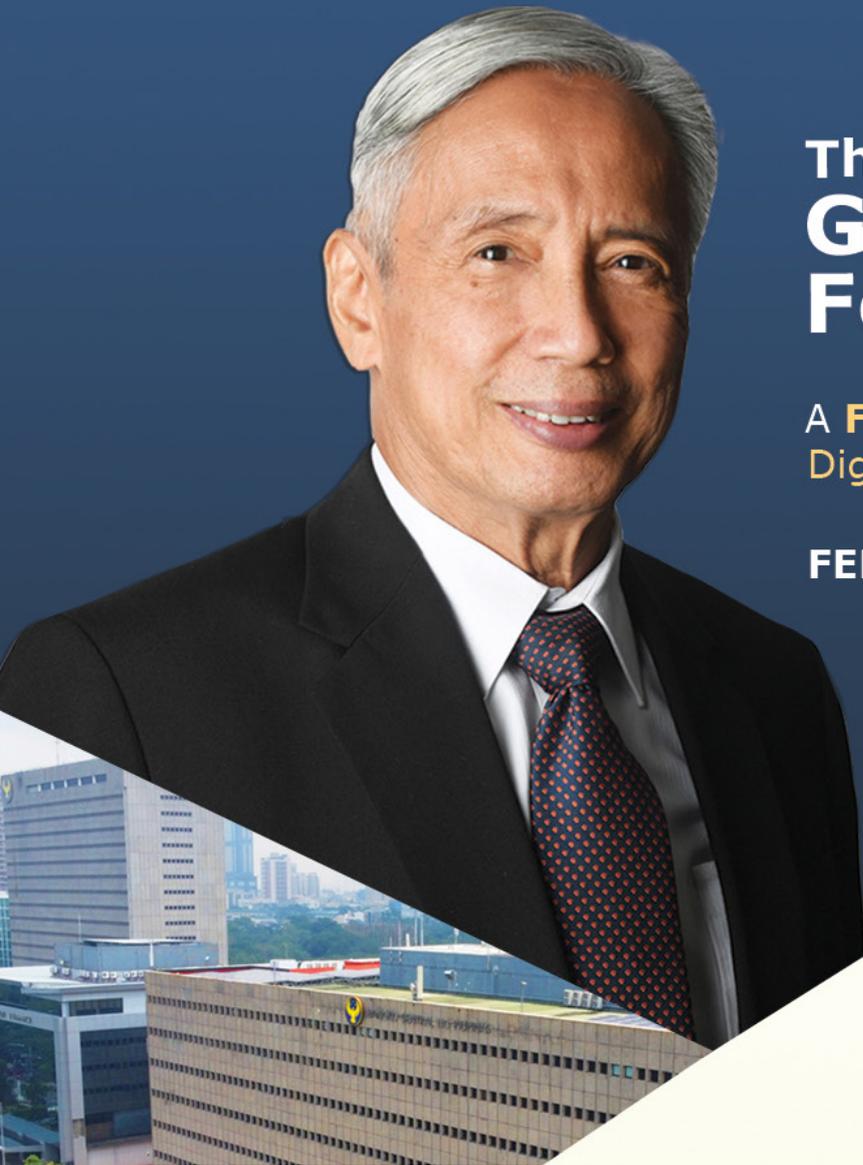


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The Governor's Foreword

A **Future-Ready** Philippines:
Digital, Sustainable, Inclusive

FELIPE M. MEDALLA

The year 2022 was a uniquely challenging year for the global economy. Across the world, supply chain disruptions caused by the lingering effects of the COVID-19 pandemic and the Ukraine-Russia conflict triggered price spirals that stoked inflation, rate hikes, unemployment, and record-high debts.

This unprecedented confluence of events led countries to adopt a host of mitigating measures to minimize the adverse impact on their economies and their people.

In particular, many central banks tightened monetary policy by raising rates successively to fight inflation and to protect the purchasing power of their own people.

In our case, the Monetary Board of the Bangko Sentral ng Pilipinas (BSP) increased the policy rate seven times during the year as supply shocks of international and domestic origins drove inflation beyond our 2.0–4.0 percent inflation target. Philippine inflation climbed from 2.4 percent in 2020 to 3.9 percent in 2021 to 5.8 percent in 2022. Our 2022 inflation rate was the highest in 14 years, while our policy rate stood at 5.5 percent, the highest in 14 years as well.

Ours was not an isolated case. Among others, Australia and the United Kingdom increased their rates eight times in 2022; India and Indonesia raised their respective interest rates five times; while, South Korea, Canada, and the United States (US) hiked their rates seven times each.

Although we raised the policy rate faster than expected, the country's domestic growth reached 7.6 percent, our highest in 46 years, as the economy bounced back from the lockdowns and restrictions of the past two years.

Our economy also benefitted from the gains made by the BSP on what we call the three pillars of central banking: price stability, financial stability, and a safe and efficient payments and settlements system.

Governor's Foreword (continued)

Price stability: taming the beast of inflation

What made 2022 even more challenging was the US Federal Reserve (US Fed)'s aggressive pivot to tighten monetary policy—its policy rate moved up from a range of 0.25–0.5 percent in 2021 to 4.25–4.5 percent in 2022.

As the interest rate differential between the US and the Philippines narrowed, the peso weakened, reaching a low of ₱59.00 per US\$1.00 in October 2022. By the end of the year, the peso had recovered to close at ₱55.76.

While an inflation-targeting central bank, such as the BSP, does not normally respond to exchange rate fluctuations, especially if driven by macroeconomic fundamentals, there is a risk that significant and one-way changes in the exchange rate could add to the buildup in inflationary pressures. Left unchecked, the depreciating peso could dislodge inflationary expectations. Thus, the central bank had to act, and it did act decisively.

To re-anchor inflation expectations, we decisively implemented a cumulative 350-basis point (bp) increase in the policy rate in 2022, followed by a cumulative 75-bp hike in 2023, bringing our combined rate adjustments to 425 bps as of March 2023. Compared with our peers in the region, we were among the most aggressive in raising the policy interest rate.

We also sold some of our foreign exchange (FX) reserves from end-2021 to end-2022, which tightened the financial system. In this sense, the Philippines was comparable to its peers like South Korea, India, and Thailand, which also used their FX reserves as part of their expanded toolkit to re-anchor inflationary expectations.

The Philippines is fortunate to have the full scope to use the interest rate tool for controlling inflation (in large part due to the strong balance sheet of banks). Moreover, in the case where what prevents the BSP from cutting the policy rate is the effect on the exchange rate of a narrowing of differential between the policy rate of the BSP and the Fed, our continuing initiatives to enhance our monetary operations allow us to ensure that liquidity conditions remain appropriate to support the momentum of economic recovery.

Under the Tinbergen principle, policymakers need several tools to address several objectives. Fortunately, the Philippine central bank has several weapons in its arsenal—outside the policy rate—to bring inflation to a target-consistent path; we refrain from overreliance on any single tool.

In addition, the national government implemented non-monetary interventions to address the scarcity of essential food commodities and improve agricultural productivity in the country.

The combined forces of monetary and non-monetary policies demonstrated the government's unwavering commitment to protecting the interest of Filipinos against high inflation. The impact of our rate hikes and the government's move to relax import restrictions of scarce food items are already kicking into effect. Inflation shows signs of easing, with headline inflation seen to settle below 4.0 percent by Q4 2023.

Financial stability: fortifying the nation's prosperity

The BSP's second pillar is financial stability. Sound, stable, and liquid, our banking system is a source of strength for our economy.

By end-2022, total assets registered double-digit growth to ₱23.05 trillion, and deposits increased by 9.4 percent to ₱17.77 trillion. Meanwhile, combined profits reached ₱310.10 billion in 2022, 38.0 percent higher than the past year.

Lending also continued to grow and support economic activities. Gross loans rose 10.8 percent to ₱12.63 trillion in 2022, faster than the 4.8-percent growth in 2021.

Amid the steady pace of lending, the quality of loans has not declined. The non-performing loan (NPL) ratio slowed to 3.2 percent in 2022, supported by a high NPL coverage ratio of 107.0 percent.

Banks remained highly capitalized, with the capital adequacy ratio of universal and commercial banks at 15.4 percent and 16.1 percent on solo and consolidated bases as of end-2022.

The BSP continued to work on its financial stability objectives by employing available tools, including progressive reform initiatives, stringent financial supervision, and robust enforcement. In addition, we collaborated with various stakeholders to strengthen consumer protection and promote responsible innovations within the financial system.

Recognizing the transformative power of digital technology, the BSP enhanced its surveillance tools and reporting systems for monitoring banking risks and developments.

The BSP also initiated the Sustainable Central Banking Program to address the threats of climate change and other environmental and social threats to the banking system. This bold initiative embeds sustainability principles into the core functions and operations of the BSP, safeguarding price and financial stability.

An efficient payments and settlements system: sustaining economic balance

What used to be the most “straightforward” of the three pillars is now equally exciting, thanks to financial and digital technologies. An efficient payments and settlements system serves as the lifeblood that sustains financial stability and facilitates the conduct of monetary policy.

One of the priorities of the BSP is the delivery of payment solutions aligned with evolving demands. In 2022, we witnessed significant progress on the digitalization front, enabling increased efficiency, stability, and confidence in electronic payments.

Transaction volumes through InstaPay, our fast payment system, have already overtaken automated teller machine (ATM) transactions in the few years since the system’s launch. From as little as 2.5 million transactions in 2018, InstaPay transactions rose to 548 million four years later in 2022—eclipsing the 388 million transactions done through ATMs that year.

While transaction volumes through our PESONet¹ at 84.8 million in 2022 have yet to approach check volumes of 131 million, we are confident that the trend with InstaPay and ATM transactions will replicate itself in our batch processing system sooner or later.

These efforts have ushered in a cash-lite society, transcending physical boundaries and embracing the speed of digital commerce.

Digital, sustainable, inclusive: leaving no one behind

The BSP is committed to digitalization, sustainability, and inclusivity.

It has been said that the true measure of policy efficacy lies not in its complexity but in the tangible benefits it brings to those on the fringes of society. By this measure, the BSP continues to craft and execute policies to boost incomes and create opportunities for Filipinos, including the underserved and the unserved.

Participation in our Paleng-QR Ph Plus by using electronic payments in public markets, public transport, and other merchants will further advance our financial inclusion advocacy. QR or quick response codes generate digital databases that track transaction habits. These can serve as bases for evaluating the creditworthiness of households and micro, small, and medium-sized enterprises without credit histories or sufficient collateral so they can access loans and other financial services.

The central bank’s institutional independence helps the BSP carry out its three pillars without political interference. With our independence enshrined in the Constitution and the BSP Charter, the central bank can freely use the tools at its disposal to bring inflation under control, ensure the soundness of the financial system, and digitalize the payments and settlements system.

An independent central bank laser-focused on its three pillars is beneficial for the economy. In 2022, this was tested, and I am pleased to report that the men and women of the Bangko Sentral ng Pilipinas rose to the occasion.

As the BSP marks its 30th year in 2023, we stay committed to delivering on its mandates and advocacies to continue paving the way to a better future for all Filipinos.

¹ Philippine Electronic Fund Transfer System and Operations Network



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

Patriotism. Demonstrating 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.

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

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

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



About the Bangko Sentral ng Pilipinas

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

- Section 20, Article XII, 1987 Philippine Constitution

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

- Section 1, Article 1, Chapter 1, Republic Act No. 7653 (The New Central Bank Act) as amended by Republic Act No. 11211

The BSP's Legal Mandate

Legal Basis of Establishment and Legal Mandate

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

Powers and Functions

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

- maintaining price stability conducive to a balanced and sustainable growth of the economy and employment;
- promoting and maintaining monetary stability and the convertibility of the peso;
- promoting financial stability by closely working with the national government, the Department of Finance, the Securities and Exchange Commission, the Insurance Commission, and the Philippine Deposit Insurance Corporation;
- overseeing the payments and settlements system, 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 mandate 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 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.
- *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 R. Duterte signed Republic Act No. 11211, the law amending the BSP Charter. This law embodies a package of reforms that further aligned the BSP's operations with international standards and global best practices, improved its corporate viability, and enhanced its capacity for crafting proactive policies amid rising interlinkages in the financial markets and the broader economy.

The supervisory and regulatory powers of the BSP are further enhanced by expanding the coverage of institutions under the Bank's supervision to include money service businesses, credit granting businesses, and payment system operators.

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, financial stability, technology and digital innovation, research, and enterprise risk management.

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 economic activity and supports long-run economic growth.

Regional Operations and Advocacy Sector is mainly responsible for the management of activities related to regional operations, consumer empowerment and advocacy, and communications.

Corporate Services Sector is mainly responsible for the effective management of BSP's human, financial, and physical resources to support the BSP's core functions, including oversight of the operations of the New Clark City–Program Management Office.



BSP Key Officers

As of 31 December 2022

THE MONETARY BOARD

Chairman and Governor

Felipe M. Medalla

Members

Benjamin E. Diokno - *Secretary, Department of Finance*

Peter B. Favila

Antonio S. Abacan, Jr.

V. Bruce J. Tolentino

Anita Linda R. Aquino

Eli M. Remolona

Executive Offices

Elmore O. Capule

Senior Assistant Governor
and General Counsel

Johnny Noe E. Ravallo

Senior Assistant Governor

Laura L. Ignacio

Assistant Governor

Matthew M. David

Executive Director II

Mel Georgie B. Racela

Technical Advisor III

Edna C. Villa

Senior Assistant Governor

Maria Ramona Gertrudes T. Santiago

Senior Assistant Governor

Mary Jane T. Chiong

Managing Director

Jayzle D. Ravelo

Managing Director

John L. Regala

Acting Managing Director

Monetary and Economics Sector

Francisco G. Dakila, Jr.
Deputy Governor

Iluminada 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

Arifa A. Ala
Assistant Governor

Lyn I. Javier
Assistant Governor

Vicente T. De Villa III
Managing Director

Ma. Belinda G. Caraan
Managing Director

Judith E. Sung sai
Managing Director

Payments and Currency Management Sector

Mamerto E. Tangonan
Deputy Governor

Mary Anne P. Lim
Managing Director

Bella S. Santos
Managing Director

Regional Operations and Advocacy Sector

Bernadette Romulo-Puyat
Deputy Governor

Rosabel B. Guerrero
Managing Director

Antonio Joselito G. Lambino II
Managing Director

Pia Bernadette R. Tayag
Managing Director

Corporate Services Sector

Eduardo G. Bobier
Deputy Governor

Vincent Z. Bolivar
Managing Director

Dennis S. Santiago
Managing Director

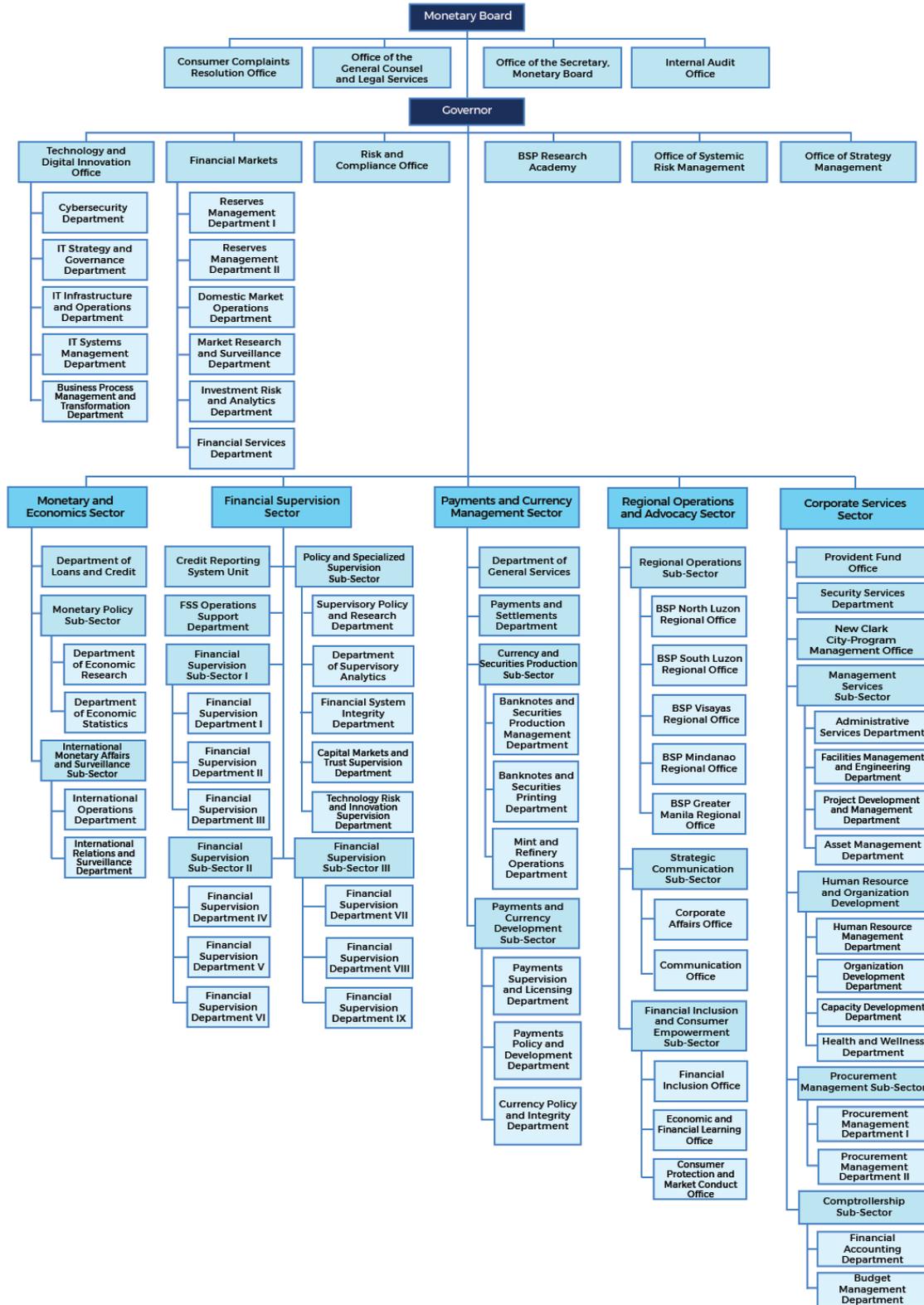
Leila Magda G. Rivera
Managing Director

Prudence Angelita A. Kasala
Managing Director

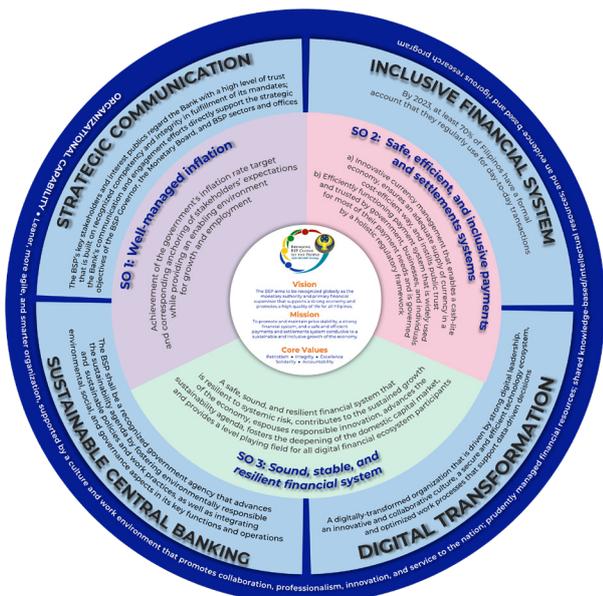
Jose R. Fajardo
Managing Director

Organizational Structure

As of 31 December 2022



The BSP's Organizational Structure only shows units headed by at least a Director.
 Issued by the Organization Development Department



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

The BSP's Strategy Map

As the Philippines' central monetary authority and primary financial system regulator, the BSP constantly 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 outcomes. 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 the BSP—together with the overall aim of bringing the BSP closer to the people.

The 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) a sound, stable, and resilient financial system; and (3) safe, efficient, and inclusive payments and settlements systems. These are bolstered by the strategic programs on digital transformation, sustainable central banking, strategic communication, and an 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

Strategic Objective 1: Well-Managed Inflation

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

Achieving price stability through well-managed inflation is essential to promote 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 toward achieving high levels of economic activity and employment.

Strategic Objective 2: Safe, Efficient, and Inclusive Payments and Settlements 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 payments system to possess three key features. First, it is a system that 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: A 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.

The BSP's Strategic Programs

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 program aims to strengthen public trust by enhancing stakeholder awareness of the BSP, their understanding of its policies and initiatives, and the impact of such policies on their households, communities, and on the broader economy. Dialogue and feedback enable the BSP to understand relevant issues, undertake guided actions, and remain responsive to stakeholder interests.

Strategic Program 3: Sustainable Central Banking

The sustainable central banking program envisions the BSP as a government institution recognized for advancing the sustainability agenda by fostering environmentally responsible and sustainable policies and work practices. In addition, the program seeks to integrate environmental, social, and governance aspects in the Bank's 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, an innovative and collaborative culture, a 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 to sustain the achievements of the other core objectives, enabling the Bank to efficiently and effectively serve the Filipino people.

List of Acronyms and Abbreviations

AAB	Authorized Agent Bank	BOC	Bureau of Customs
ACPC	Agricultural Credit Policy Council	BOP	Balance of Payments
ADB	Asian Development Bank	bp	Basis Point
AE	Advanced Economy	BPO	Business Process Outsourcing
AFF	Agriculture, Fishery, and Forestry	BPR	Bank-wide Process Review
AFP	Armed Forces of the Philippines	BRAc	BSP Research Academy
AI	Artificial Intelligence	BSA	Bilateral Swap Arrangement
AML	Anti-Money Laundering	BSF	Bond Sinking Fund
AMLC	Anti-Money Laundering Council	BSFI	Bangko Sentral-supervised Financial Institution
AMRO	ASEAN+3 Macroeconomic Research Office	BSI	Bangko Sentral-supervised Institution
APEC	Asia-Pacific Economic Cooperation	BSP	Bangko Sentral ng Pilipinas
app	Application	BSPC	Bank Supervision Policy Committee
ASA	ASEAN Swap Arrangement	BSP-SF	BSP Securities Facility
ASEAN	Association of Southeast Asian Nations	BTr	Bureau of the Treasury
ASTERisC*	Advanced Supervisory Technology Engine for Risk-based Compliance	CAC	Cybersecurity Awareness Channel
ASTI	Advanced Science and Technology Institute	CAM	Consumer Assistance Mechanism
ATM	Automated Teller Machine	CAR	Capital Adequacy Ratio
AVCF	Agriculture Value Chain Financing	CBDC	Central Bank Digital Currency
BBA	Bilateral Borrowing Arrangement	CBP	Central Bank of the Philippines
BCR	Bid-to-Cover Ratio	CCR	Credit Card Receivable
BCW	Burson Cohn & Wolfe	CCRO	Consumer Complaints Resolution Office
BDA	Basic Deposit Account	CCRT	Catastrophe Containment and Relief Trust
BES	Business Expectations Survey	CDM	Coin Defacement Machine
BFAR	Bureau of Fisheries and Aquatic Resources	CDS	Credit Default Swap
BIR	Bureau of Internal Revenue	CEF	Currency Exchange Facility
BIS	Bank for International Settlements	CES	Consumer Expectations Survey
BLR	Basel III Leverage Ratio	CET1	Common Equity Tier 1
BOB	BSP Online Buddy	CFT	Countering the Financing of Terrorism

CFTS	Corporate Financial Trends Survey	DILG	Department of the Interior and Local Government
CGRCS	Cybersecurity Governance, Risk, and Compliance Solution	DMFAS	Debt Management and Financial Analysis System
CIA	Community in Action	DOF	Department of Finance
CIR	Complaints, Inquiries, and Request	DOST	Department of Science and Technology
CL	Consumer Loan	DPTR	Digital Payments Transformation Roadmap
CMIM	Chiang Mai Initiative Multilateralization	DSWD	Department of Social Welfare and Development
CNCP	Clean Note and Coin Policy	DTI	Department of Trade and Industry
COCREE	Comprehensive Credit and Equity Exposure	ECB	European Central Bank
CoVar	Coefficient of Variation	EDC	Economic Development Cluster
CPRMS	Consumer Protection Risk Management System	EDT	External Debt
CPSC	Colombo Plan Staff College	eDTS	Enhanced Document Tracking System
CRA	Credit Rating Agency	EDYRF	Exporters' Dollar and Yen Rediscount Facility
CRD	Credit Risk Database	EFM	External Fund Manager
CSA	Cash Service Alliance	EMDE	Emerging Market and Developing Economy
CSC	Civil Service Commission	EMEAP	Executives' Meeting of East Asia-Pacific Central Banks
CSCF	Customer Security Controls Framework	e-money	Electronic Money
CSF	Credit Surety Fund	eNGC	Enhanced New Generation Currency
CsRP	Cybersecurity Resilience Program	EPFS	Electronic Payment and Financial Service
CTPF	Counter-Terrorism Proliferation Financing	EPM	Enterprise Project Management
CUMD	Counterfeit, Unfit, Mutilated, and Demonetized	ESE	Environmental Scanning Exercise
DA	Department of Agriculture	ESG	Environmental, Social, and Governance
DBCC	Development Budget Coordination Committee	ESRM	Environmental and Social Risk Management
DBM	Department of Budget and Management	FAQ	Frequently Asked Question
DDA	Demand Deposit Account	FATF	Financial Action Task Force
DepEd	Department of Education	FCA	Financial Conduct Authority
DFIA	Digital Financial Inclusion Awards	FCPA	Financial Products and Services Consumer Protection Act
DICT	Department of Information and Communications Technology		
DigILab	Digital Innovation Laboratory		

FCPAM	Financial Consumer Protection Assistance Mechanism
FDI	Foreign Direct Investment
FI	Financial Institution
FinEd	Financial Education
fintech	Financial Technology
FSCC	Financial Stability Coordination Council
FSF	Financial Sector Forum
FSS	Financial Supervision Sector
FTP	Financial Transactions Plan
FX	Foreign Exchange
GDP	Gross Domestic Product
GFSM	Government Finance Statistics Manual
GIR	Gross International Reserves
GMA	Greater Manila Area
GMRO	Greater Manila Regional Office
GOCC	Government-Owned or -Controlled Corporation
GRC	Governance, Risk, and Compliance
GS	Government Securities
IBA	Intercontinental Exchange, Inc. Benchmark Administration
IBCL	Interbank Call Loan
IC	Insurance Commission
ICM	Integrated Currency Management
ICT	Information and Communication Technology
IFCF	Islamic Finance Coordination Forum
IMF	International Monetary Fund
IPA	Innovations for Poverty Action
IPEF	Indo-Pacific Economic Framework
IRLD	Interest Rates on Loans and Deposit
IRR	Implementing Rules and Regulations

ISO	International Organization for Standardization
IT	Information Technology
JICA	Japan International Cooperation Agency
JMC	Joint Memorandum Circular
JSI-SDR	Joint Statement Initiative on Services Domestic Regulation
KRN	Knowledge Resource Network
LBMA	London Bullion Market Association
LBP	Land Bank of the Philippines
LC	Low Capacity
LCR	Liquidity Coverage Ratio
LFS	Labor Force Survey
LGU	Local Government Unit
LIBOR	London Interbank Offered Rate
LSM	Large-Scale Miner
LTNCD	Long-Term Negotiable Certificates of Deposit
MaPST	Macroprudential Stress Test
MB	Monetary Board
MBM	Monetary Board Member
MBR	Monetary Board Resolution
MBS	Multiple Batch Settlement
ML	Machine Learning
MLR	Minimum Liquidity Ratio
MLT	Medium- and Long-Term
MOU	Memorandum of Understanding
MPR	Monetary Policy Report
MSB	Money Service Business
MSME	Micro, Small, and Medium-sized Enterprise
mt	Metric Ton
MVL	Motor Vehicle Loan

NAB	New Arrangements to Borrow
NACC	National AML/CFT Coordinating Committee
NBFI	Non-Bank Financial Institution
NBQB	Non-Bank Financial Institution with Quasi-Banking Functions
NCC	New Clark City
NCIAC	National Cybersecurity Inter-Agency Committee
NCR	National Capital Region
NEDA	National Economic and Development Authority
NFA	Net Foreign Assets
NG	National Government
NGC	New Generation Currency
NLRO	North Luzon Regional Office
NOW	Negotiable Order of Withdrawal
NPL	Non-Performing Loan
NPS	National Payment System
NRPS	National Retail Payment System
NSFI	National Strategy for Financial Inclusion
NSSLA	Non-Stock Savings and Loans Association
NSW	National Single Window
NWPC	National Wages and Productivity Commission
ODF	Overnight Deposit Facility
OJK	Otoritas Jasa Keuangan
OLF	Overnight Lending Facility
PBS	Philippine Banking System
PDDTS	Philippine Domestic Dollar Transfer System
PDIC	Philippine Deposit Insurance Corporation
PDL	Past Due Loan
PDP	Philippine Development Plan
PEB	Philippine Economic Briefing

PESONet	Philippine Electronic Fund Transfer System and Operations Network
PhilPaSS	Philippine Payment and Settlement System
PhilSA	Philippine Space Agency
PhilSys	Philippine Identification System
PIDS	Philippine Institute for Development Studies
PIPS	Prominently Important Payment System
PNP	Philippine National Police
PoC	Proof of Concept
ppt	Percentage Point
PRGT	Poverty Reduction and Growth Trust
PSA	Philippine Statistics Authority
PSAC	Private Sector Advisory Council
PSE	Philippine Stock Exchange
PSEi	Philippine Stock Exchange Index
PSP	Payment Service Provider
PvP	Payment versus Payment
P2M	Person-to-Merchant
P2P	Person-to-Person
QB	Quasi-Bank
QMS	Quality Management System
QR	Quick Response
RB	Rural Bank
RBSP	Rural Bank Strengthening Program
RCB	Rural and Cooperative Bank
RCEP	Regional Comprehensive Economic Partnership
RDC	Regional Development Council
REE	Real Estate Exposure
REL	Real Estate Loan
Rep. Act	Republic Act

RGG	Responsible Gold Guidance	SRCM	Systemic Risk Crisis Management
RMCS	Regional Macroeconomic Conference Series	SSB	Shari'ah Supervisory Board
ROAM	Requests and Offsite Activities Monitoring	SSM	Small-Scale Miner
ROBs	Regional Offices and Branches	SUC	State University and College
RoP	Rules of Procedure	SWIFT	Society for Worldwide Interbank Financial Telecommunications
ROP	Republic of the Philippines	TB	Thrift Bank
RPA	Robotic Process Automation	T-bond	Treasury Bond
RREPI	Residential Real Estate Price Index	TDF	Term Deposit Facility
RRI	Rebates, Refunds, and Incentives	TFS	Targeted Financial Sanction
RRP	Reverse Repurchase	TLP	Total Loan Portfolio
RTGS	Real-Time Gross Settlement	TODA	Tricycle Operators and Drivers
SAFr	Supervisory Assessment Framework	TPMS	Treasury Portfolio Management System
SBGPCL	Salary-Based General-Purpose Consumption Loan	TSP	Technology Service Provider
SCB	Sustainable Central Banking	TWG	Technical Working Group
SCF	Supply Chain Finance	UAE	United Arab Emirates
SCV	Staff Consultation Visit	UK	United Kingdom
SDR	Special Drawing Rights	U/KB	Universal and Commercial Bank
SEACEN	South East Asian Central Banks	UP	University of the Philippines
SEC	Securities and Exchange Commission	US	United States
SFISC	Supervision of Financial Institutions Sub-Committee	US Fed	United States Federal Reserve
SIPS	Systemically Important Payment System	VASP	Virtual Asset Service Provider
SLC	Senior Level Committee	WB	World Bank
SLRO	South Luzon Regional Office	WR	Warehouse Receipt
SPC	Security Plant Complex	WTO	World Trade Organization
		y-o-y	Year-on-Year



HOW WE WERE IN 2022:

Global and Domestic
Macroeconomic Landscape

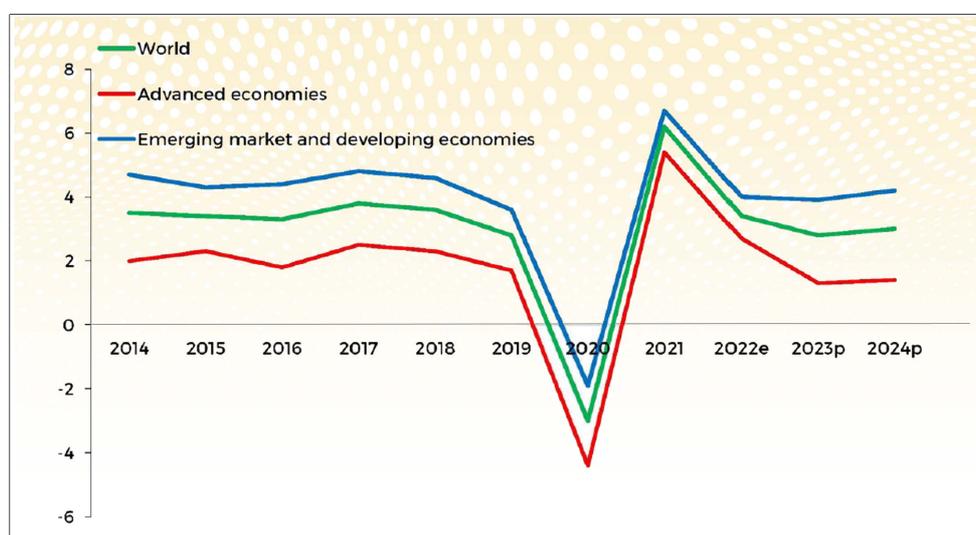
How We Were in 2022: Global and Domestic Macroeconomic Landscape

Global Economic Developments

Global economic activity eases in 2022.

The global economy slowed down in 2022, which was mainly driven by tightening financial conditions following the policy interest rate hikes of central banks in advanced economies (AEs) and in emerging market and developing economies (EMDEs). The slowdown was exacerbated by disruptions in the global supply chain and the extended Zero-COVID policy in China.¹

Figure 1
World Gross Domestic Product Growth
at constant prices; year-on-year percent change



Source: International Monetary Fund – World Economic Outlook (April 2023)

e – estimates

p – projections

In AEs, while consumer spending, exports, and fixed investments rose slightly, the effect of high energy and food prices dampened the overall impact on economic growth. Supply chain bottlenecks brought by the protracted conflict between Russia and Ukraine also continued to add pressure to the rising global inflation. Meanwhile, the slower expansion in some AEs was caused by weakening business sentiment amid the lifting of border controls and consequent recovery in private consumption.

¹ International Monetary Fund. (2023). *World Economic Outlook Update – January 2023*.

(Source: <https://www.imf.org/-/media/Files/Publications/WEO/2023/Update/January/English/text.ashx>)

Growth in EMDEs remained subdued in 2022. The recovery momentum was weighed down by dampened external trade, investment, and consumer expenditure. A weaker global demand also affected the exports of developing economies, especially those with trade linkages to AEs and China. Nevertheless, the recovery of the tourism sector and high energy prices supported the growth of some tourism-reliant and energy-exporting EMDEs.

Inflation in most economies remained above pre-pandemic levels in 2022. This was generally attributed to high energy prices brought about by the ongoing Russia-Ukraine conflict and rapid food price increases. Supply chain integration created strong links in the transmission of price and output shocks, resulting in supply constraints and elevated input prices.

In this environment, global economic growth is expected to slow down from 3.4 percent in 2022 to 2.8 percent in 2023, before rising to 3.0 percent in 2024, based on International Monetary Fund (IMF) forecasts.² This is on account of continued monetary tightening to address inflation, the extended Russia-Ukraine conflict, and the expected decline in world trade growth.

The World Bank (WB) likewise projects a low growth trajectory in 2023 in view of rising policy interest rates. AEs are expected to steer this decline, with the United States Federal Reserve (US Fed) and the European Central Bank (ECB) continuing their steep path of monetary policy rate adjustments in 2023. For EMDEs, uncertainties over the risks of a global recession, the tightening of global financial conditions, limited policy space to support activity, and debt distress pose downside risks to the 2023 growth outlook. A downward revision is also reported in 2024 forecasts for most EMDEs.³

Generally, risks to the growth outlook remain tilted on the downside due to elevated inflation, persistent supply disruptions, geopolitical tensions, and spillovers from the weaker-than-expected recovery of China. While pent-up consumer demand can support growth, it could also put pressure on inflation. Conversely, upside risk factors include the subsequent easing of monetary tightening and lower-than-expected inflation.

Philippine Economic Developments

The Philippine economy continues to perform strongly.

The Philippine economy sustained its recovery momentum in 2022. Real gross domestic product (GDP) increased by 7.6 percent, faster than the 5.7-percent growth recorded in 2021. It even exceeded the national government (NG)'s growth target of 6.5–7.5 percent for 2022. This may be attributed to the further easing of mobility restrictions, the resumption of face-to-face classes, and the loosening of travel protocols.

² International Monetary Fund. (2023). *World Economic Outlook – April 2023*. (Source: <https://www.imf.org/en/Publications/WEO/Issues/2023/04/11/world-economic-outlook-april-2023>)

³ World Bank (2023). *Global Economic Prospects – January 2023*. (Source: <https://openknowledge.worldbank.org/bitstream/handle/10986/38030/GEP-January-2023.pdf>)

GDP outturn continued to be broad-based. On the supply side, growth was driven by contributions from the services and industry sectors, particularly wholesale and retail trade, as well as repair of motor vehicles and motorcycles; manufacturing; construction; transportation and storage; and financial and insurance activities. The agriculture, fishery, and forestry (AFF) sector also managed to recover on the back of improvements in the livestock as well as the poultry and egg production subsectors.

On the demand side, growth was underpinned by household consumption and investments. Favorable consumer and business sentiments emerged as COVID-19 restrictions were largely lifted, allowing the economy to operate at almost full capacity.

Aggregate Output and Demand

Supply Side

The services sector remained to be the primary growth engine of the Philippine economy. It expanded by 9.2 percent in 2022, faster than the 5.4 percent recorded in 2021. Accounting for 61.4 percent of the domestic economy, the sector propped up the GDP growth outturn by 5.6 percentage points (ppts). This is the second year that all sub-industries under services posted positive performances amid the pandemic. The wholesale and retail trade, and repair of motor vehicles and motorcycles subsector steered the expansion. It contributed 1.6 ppts to the GDP growth as it rose by 8.7 percent. Meanwhile, accommodation and food services recorded the fastest increase among the services subsectors. It went up by 32.1 percent, following the resumption of corporate and leisure event bookings in hotels, as well as dine-in services in restaurants. The other services as well as the transportation and storage subsectors also posted double-digit growth rates of 28.4 percent and 23.9 percent, respectively.

Another key economic driver in 2022 was the industry sector, which grew by 6.5 percent. Although its expansion was lower than the 2021 rate of 8.5 percent, the sector contributed 2.0 ppts to overall GDP growth during the year. This was driven primarily by the strong rebound in the construction and manufacturing subsectors. The former rose by 12.1 percent—an acceleration from the 10.1-percent growth in 2021—on the back of increased private firm construction activities (from minus 21.4 percent in 2021 to 15.5 percent in 2022). Manufacturing expanded by 4.9 percent, albeit slower relative to its 8.9-percent growth in 2021. Based on the S&P Global Philippines Manufacturing Purchasing Managers' Index, the manufacturing performance of the country of 53.1 in December 2022 was the highest in six months. This signifies sustained growth across the nation's manufacturing subsectors, which can be attributed to the expanded production levels of firms, solid domestic demand, and an upsurge in hiring activities within the industry.

On the other hand, the AFF sector grew by 0.5 percent in 2022, a reversal from the 0.3-percent contraction in 2021. This turnaround was supported by the recovery of the livestock subsector (from minus 17.3 percent in 2021 to 2.3 percent in 2022) as cases of African Swine Fever started to decline. The poultry and egg production subsector also posted strong performance with a growth of 6.7 percent (from minus 0.3 percent) amid intensive prevention and control programs against the Avian Flu. However, these developments were moderated by the 1.0-percent contraction in *palay* production due to bad weather conditions, which resulted in crop damage.

Demand Side

Sustained domestic growth in 2022 was propelled by positive performances in household and government expenditures, as well as in investments. This can be attributed to the improved mobility of people, goods, and services amid the further easing of COVID-related quarantine measures.

Household spending expanded by 8.3 percent in 2022, an acceleration from its growth rate of 4.2 percent in the previous year. Food and non-alcoholic beverages, which accounted for 37.4 percent of total household expenditure, grew at a faster pace of 5.7 percent compared with its 3.4-percent increase in 2021. Higher spending was also recorded in the following subsectors from 2021 to 2022: restaurants and hotels (from 4.6 percent to 28.0 percent), recreation and culture (from 2.8 percent to 25.6 percent), and transport (from 0.1 percent to 16.6 percent). The upturn in these subsectors was backed by the resumption of face-to-face classes and the relaxation of travel protocols.

Government expenditures rose by 4.9 percent due chiefly to the disbursements for government social programs, as well as spending for the May 2022 national and local elections. However, this was lower than the 7.2-percent expansion in 2021, which was boosted by COVID-related expenditures, including the procurement of vaccines.

Gross capital formation sustained its growth momentum at 13.8 percent in 2022 from 20.0 percent in the previous year. Construction grew by 12.1 percent, owing to the pick-up in construction activities by corporations (from minus 21.4 percent in 2021 to 15.5 percent in 2022). Meanwhile, durable equipment continued to post strong growth at 8.3 percent, driven by higher spending on general industrial machinery and equipment, as well as transport equipment.

Despite the challenges in the global economy, both exports and imports posted double-digit growth rates of 10.9 percent and 13.9 percent, respectively. While merchandise exports only increased by 5.0 percent in 2022 due to weak global demand, exports of services managed to expand by 20.6 percent on the back of the turnaround in travel (from minus 53.4 percent in 2021 to 245.9 percent in 2022) and transport (from minus 2.3 percent to 70.6 percent). Total imports grew at a faster pace, which can be attributed to elevated prices of imported commodities and strong domestic demand. In particular, imports of services rose by 44.9 percent, accounted largely by the growth in travel at 69.8 percent.

Overall, the macroeconomic prospects of the country over the near term continue to be favorable, supported mainly by strong domestic demand. The BSP remains optimistic that the Philippine economy will be able to maintain a consistent growth trajectory, with the target set at 6.0–7.0 percent for 2023. The timely passage of the National Budget for Fiscal Year 2023 and the approval of the Philippine Development Plan (PDP) 2023–2028 shall help steer the economy back to its high-growth path, reinvigorating job creation and accelerating poverty reduction.

Labor and Employment Conditions

The employment situation improves further.

Gainful employment among Filipinos grew by 5.9 percent in December 2022. Based on the results of the December 2022 Labor Force Survey of the Philippine Statistics Authority (PSA), the total number of employed persons in the country increased from 46.3 million in 2021 to 49.0 million in 2022.⁴ The national employment rate reached 95.7 percent, which was higher by 2.3 ppts than the 93.4 percent recorded in end-2021. Of the Filipinos employed, most were in the services sector at 58.9 percent, followed by the agriculture sector at 24.0 percent and the industry sector at 17.1 percent.

Accordingly, the unemployment rate declined to 4.3 percent in December 2022, 2.3 ppts lower than the 6.6 percent in 2021. This is in view of the continuous decline of COVID-19 cases in the country, resulting in the further relaxation of mobility and economic activity restrictions.

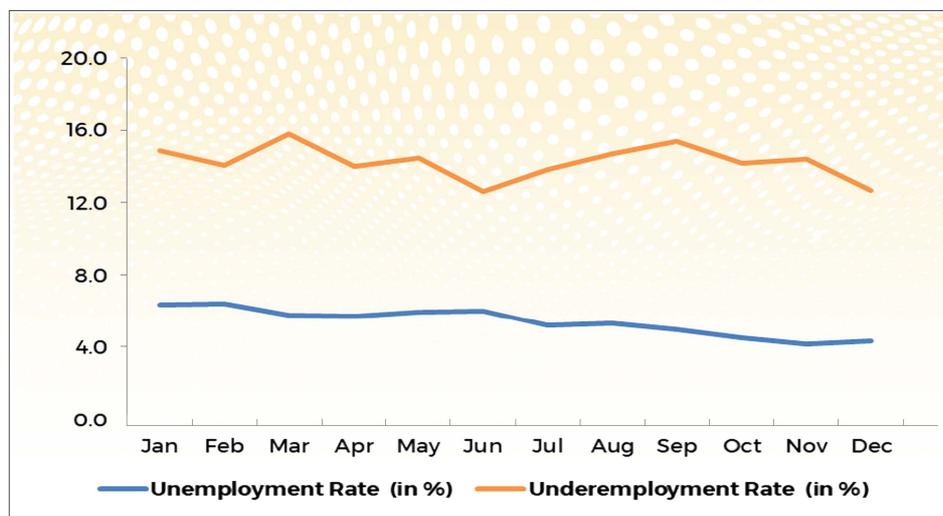
Other labor market indicators similarly showed improvements. The labor force participation rate—or the percentage of the population 15 years and older that is in the labor force—increased to 66.4 percent in December 2022 (from 65.1 percent a year ago). Consequently, the underemployment rate decreased by 2.1 ppts from 14.7 percent in end-2021 to 12.6 percent in end-2022. This suggests higher job satisfaction for more Filipinos. Among those underemployed, 50.5 percent belonged to the services sector, 30.5 percent to the agriculture sector, and 19.0 percent to the industry sector.

Underemployment is also categorized by the number of hours spent for work in a week. Visibly underemployed persons (or part-time workers who want additional hours of work in their present job, an additional job, or a new job with longer working hours) render service for less than 40 hours in a week. Invisibly underemployed persons (or full-time workers who also want additional hours of work in their present job, an additional job, or a new job with longer working hours) work for 40 hours or more in a week. The former comprised 64.1 percent of the total underemployed, while the latter comprised 35.9 percent.⁵

⁴ Preliminary results; Released on 8 February 2023

⁵ Figures may not add up to totals due to rounding.

Figure 2
Unemployment and Underemployment Rates in 2022
 in percent



Source: Philippine Statistics Authority

Prices

Average headline inflation climbed from 3.9 percent in 2021 to 5.8 percent in 2022. It exceeded the NG's annual inflation target range of 2.0–4.0 percent for the year, owing to faster price increases in food and energy-related items. The surge in global crude oil prices led to upward price adjustments in domestic power rates and petroleum products. Transport fares were also raised in response to the oil price spike, further contributing to inflation pressures.

Most food commodities posted higher inflation readings in 2022 compared to the rates in 2021. Food inflation went up as inflation of vegetables, fruits, and fish rose due to supply disruptions caused by weather disturbances. Low productivity likewise pushed sugar inflation upward. Meanwhile, heavily weighted rice inflation turned positive after successive years of negative inflation. Food supply augmentation has also been hampered by import restrictions, which further contributed to higher food inflation.

In the National Capital Region (NCR), headline inflation accelerated to 5.1 percent in 2022, driven mainly by faster price increases of key food items, such as vegetables, dairy products, and eggs. The uptrend was likewise supported by higher inflation for transport as well as housing, water, electricity, gas, and other fuels. Inflation in areas outside the NCR also posted an uptick of 6.0 percent (from 4.2 percent in 2021) due to rising food and energy prices.

Core inflation reached 3.9 percent in 2022 as elevated food and energy prices contributed to broadening price pressures. Other inflation core measures, including trimmed mean and weighted median of consumer prices, similarly went up during the year, as compared to the numbers in 2021.

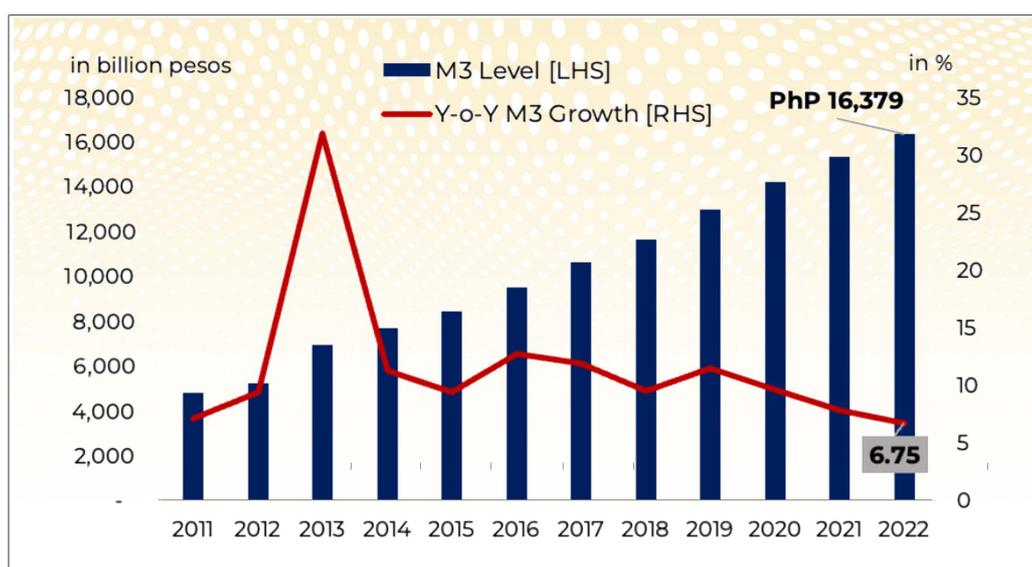
Monetary Aggregates

Domestic liquidity remains ample.

Domestic liquidity or M3 increased by 6.8 percent year-on-year (y-o-y) as of end-December 2022, following a 7.9-percent⁶ expansion recorded at end-2021. The slower growth in domestic liquidity may be attributed to the decline in net foreign assets (NFA). Nevertheless, liquidity in the domestic financial system remains ample to support economic activity. With adequate liquidity and the resumption of economic activities in the country amid the relaxation of COVID-19 measures, credit activity improved during the latter part of 2022.

Domestic claims⁷ grew by 12.8 percent y-o-y in December 2022 from 8.2 percent⁸ in December 2021 due to an expansion in claims in the private sector (11.0 percent), reflecting the sustained improvement in bank lending. Meanwhile, net claims on the central government rose by 20.8 percent due partly to the sustained borrowings of the NG.

Figure 3
Domestic Liquidity (M3)
 levels in billion pesos; year-on-year growth in percent



Source: BSP-Department of Economic Statistics

LHS – left-hand side

RHS – right-hand side

NFA in peso terms contracted by 3.5 percent y-o-y in December 2022. The decrease in the BSP's NFA position reflected the decline in the country's gross international reserves (GIR) relative to the previous year. Similarly, the NFA of banks fell due to the increase in banks' foreign liabilities on account of higher bills payables.

⁶ Revised as of 31 August 2022

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

⁸ Revised as of 31 August 2022

Operations of the National Government

The fiscal gap narrows in 2022.

In 2022, the NG recorded a budget deficit of ₱1.6 trillion, which was 3.4 percent lower than the ₱1.7 trillion recorded in the previous year. This was also equivalent to 7.3 percent of the country's GDP and was 2.2 percent below the revised programmed deficit of ₱1.7 trillion for 2022. The broader budget outturn was on account of revenue growth outpacing the expansion in government spending.⁹

The revenue of the NG increased by 18.0 percent y-o-y from ₱3.0 trillion in 2021 to ₱3.5 trillion in 2022. This was mainly due to higher collections by the Bureau of Customs (BOC) and the Bureau of Internal Revenue (BIR) by 34.0 percent and 12.4 percent, respectively. Relative to the size of the economy, the total revenue of the NG accounted for 16.1 percent of GDP in 2022, which was higher than the 15.5 percent recorded in the previous year.

Meanwhile, NG disbursements amounted to ₱5.2 trillion in 2022. This was equivalent to 23.4 percent of the GDP and higher by 10.4 percent than the ₱4.7 trillion recorded in 2021. The increase in spending was due to the larger National Tax Allotment shares of local government units (LGUs), in line with the first year of implementation of the Mandanas Ruling,¹⁰ higher capital expenditures and personal services/benefits, as well as interest payments.

The 2022 budget deficit was mainly financed through domestic sources, which covered around 82.1 percent of the gross financing requirement of the NG. While ensuring fiscal discipline, the debt-to-GDP ratio slightly increased from 60.4 percent in 2021 to 60.9 percent in 2022.

Moving forward, the NG is pursuing a fiscal consolidation plan to ensure debt sustainability over the medium term while remaining supportive of sustained economic recovery by prioritizing productive and high-impact expenditures.

⁹ Bureau of the Treasury. (2023, February 28). *Full-year national government budget deficit narrows to ₱1.6 trillion in 2022* [Press release].

¹⁰ The Mandanas Ruling, also called the Mandanas-Garcia Ruling, is a Supreme Court decision in 2018, which ruled that the just share of LGUs from the national taxes is not limited to the national internal revenue taxes collected by the BIR, but includes collections (customs duties) of the BOC and other tax collecting agencies. (Source: <https://mandanasruling.ph/FAQs>)

Financial Market Conditions

Local Markets

The peso depreciated by 8.5 percent against the US dollar from ₱51.0/US\$1.0 in end-2021 to ₱55.8/US\$1.0 in end-2022. The peso reached an all-time low of ₱59.0/US\$1.0, several times in the last four months of the year, on broad dollar gains amid aggressive monetary policy tightening by the US Fed.¹¹ This led to the narrowing of the interest rate differential between the Philippines and the US from 175–200 basis points (bps) in end-2021 to 100–125 bps in end-2022, reinforcing safe-haven trade toward the US dollar. The peso depreciation likewise came on the back of dampened market sentiment due to rising global inflation, as the conflict between Russia and Ukraine resulted in a surge in commodity prices.

The peso, along with other emerging market currencies, was also weighed down by the move of international financial institutions—including the WB, the IMF, the Organization for Economic Co-operation and Development, and the Institute of International Finance—to revise downward their global growth outlook for the year. However, market sentiment improved after China announced additional stimulus and eased its Zero-COVID policy. Market expectations of slower interest rate hikes by the US Fed in 2023 also helped the local currency partially recover toward the end of 2022.

On the domestic front, a less-than-favorable outlook on the Philippines' economic recovery put pressure on the peso.¹² This was amid concerns over the resurgence of COVID-19 cases and the reimposition of mobility restrictions, rising domestic prices, the country's widening current account deficit from minus US\$42.2 billion in full-year 2021 to minus US\$58.2 billion in full-year 2022, as well as the impact of the Russia-Ukraine conflict. Nonetheless, the BSP's cumulative 350-bp policy rate increase, the loosening of mobility restrictions, and favorable economic data helped partly arrest the depreciation of the peso.

¹¹ This level was recorded in intraday trading on 28 and 29 September. It was also the closing level on 3 October and was likewise revisited on several days of the same month (i.e., 10, 11, 13, 17, and 20).

¹² Source: Analysts report from Fitch Ratings, Development Bank of Singapore, Nomura, Asia-Pacific Sovereign Ratings, Moody's Investors Service, Internationale Nederlanden Groep, S&P Global Ratings, ASEAN+3 Macroeconomic Research Office (AMRO), Capital Economics, and WB

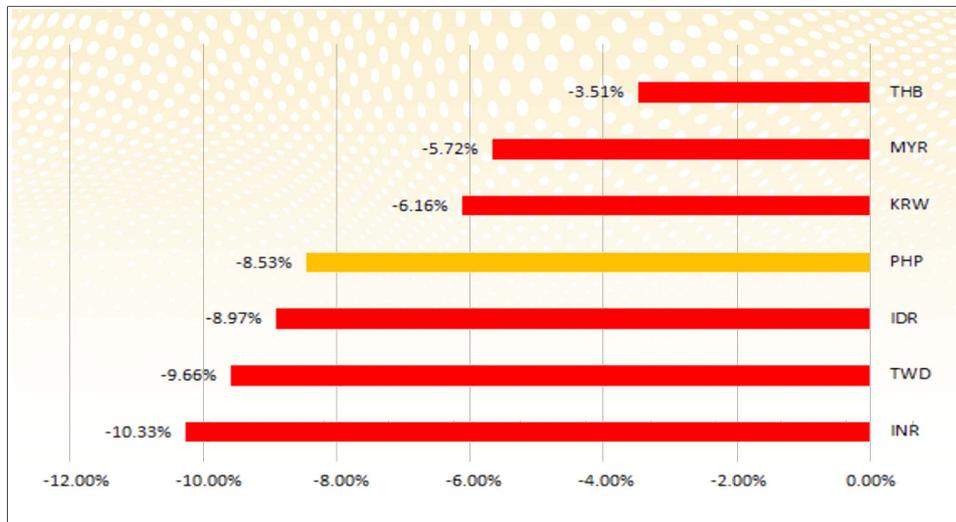
Table 1
Volatility of Selected Currencies in 2022
 coefficient of variation; in percent

Currency	Coefficient of Variation
Korean won (KRW)	5.6
Philippine peso (PHP)	4.8
Thai baht (THB)	4.7
Taiwanese dollar (TWD)	4.4
Malaysian ringgit (MYR)	3.7
Indian rupee (INR)	3.5
Indonesian rupiah (IDR)	3.3

Source: Reuters

Meanwhile, the volatility of the peso, as measured by the coefficient of variation (CoVar),¹³ stood at 4.8 percent for the full year of 2022. This was in line with the volatility of most currencies in the region.

Figure 4
Appreciation/Depreciation of Regional Currencies
Against the US dollar
 year-to-date; in percent



Source: Reuters¹⁴

¹³ CoVar is computed as the standard deviation of the daily exchange rates, divided by the average exchange rate for the period.

¹⁴ Year-to-date 2022; cut-off as of 4:00 p.m.

The Philippine Stock Exchange index (PSEi) declined by 7.8 percent from 7,122.6 index points as of end-2021 to 6,566.4 index points as of end-2022. Market sentiment was weighed down by concerns about global growth and inflation, as well as aggressive monetary policy tightening by the BSP and the US Fed. At the beginning of 2022, the reimposition of stricter mobility restrictions in the Greater Manila Area (GMA) also affected investors' risk sentiment.

The index was likewise influenced by risks associated with the Russia-Ukraine conflict and expectations of a war-induced economic slowdown and supply chain disruptions. Nonetheless, losses in the PSEi were tempered by the upbeat Philippine GDP growth and the eventual loosening of quarantine restrictions in the country. Positive developments following government measures, including the liberalization of foreign ownership¹⁵ and the signing of the 10-point policy agenda for economic recovery,¹⁶ provided further support to the main index. Additionally, market sentiment improved after China eased its Zero-COVID policy.

Yields of government securities (GS) higher in 2022 than in 2021. Domestic yields rose due to elevated inflation, which was caused by the impact of weather disturbances on domestic food supply, higher global oil prices, and transport fare adjustments. The monetary policy tightening of central banks across the globe, including the BSP, likewise contributed to the rise of domestic yields. Furthermore, market sentiment was weighed down by bond supply concerns following the Bureau of the Treasury (BTr)'s retail Treasury bond (T-bond) issuances in March and September 2022, as well as the weekly T-bond and Treasury bill auctions held until early December of the same year. Nonetheless, the local bond market was supported by the reinvestment of bond maturities and the servicing of client demand.

Republic of the Philippines (ROP) bond prices fell, while yields rose, in tandem with the movement of US Treasuries. ROP prices were weighed down by risk aversion following developments in the Russia-Ukraine conflict and concerns over the economic fallout caused by COVID-related restrictions in China, rising global inflation, as well as the monetary policy tightening of the US Fed that contributed to US recession risks. Regardless, ROP issuances for the year attracted relatively strong investor demand despite the increase in yields.

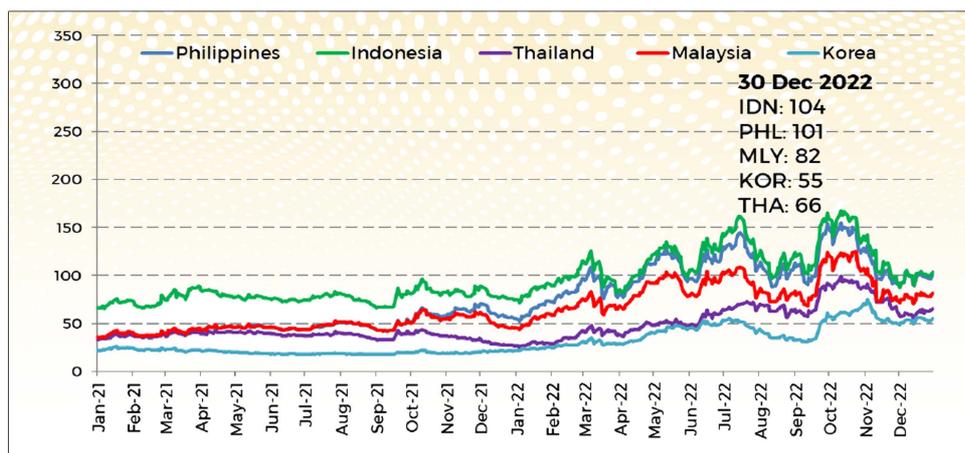
The Philippines' five-year sovereign credit default swap spread widened by 83.6 percent from 55 bps in end-2021 to 101 bps as of end-2022. Debt spreads widened as market participants demanded a higher risk premium in holding the country's sovereign debt amid the tightening of market conditions. Risk-off sentiment was compounded by rising global inflation, the emergence of highly transmissible COVID-19 variants, developments in the Russia-Ukraine conflict, and concerns over the pace and magnitude of US Fed policy rate increases.

¹⁵ Republic Act (Rep. Act) No. 11647 (Amended Foreign Investments Act)

¹⁶ Executive Order No. 166, series of 2022

Domestically, the strong resolve of the BSP to anchor inflation expectations with easing market conditions provided support to the narrowing of sovereign debt spreads toward the end of 2022. The loosening of mobility restrictions and favorable Philippine economic data in Q4 2022—along with the sustained moderation of US inflation in the same period, which points to a possible reduction in the pace of US Fed policy rate adjustments in 2023—contributed to improved market sentiment.

Figure 5
**Five-Year Credit Default Swap Spreads
of Selected Asian Countries**
in basis points



Source: Bloomberg

Credit Rating Assessment

The Philippines maintained its investment grade credit ratings with all major international debt watchers (Fitch Ratings, Moody’s Investors Service, and S&P Global) and a regional credit rating agency (Japan Credit Rating Agency). This helped the country access financing from domestic and international financial markets at favorable costs, boosting the government’s recovery efforts amid the global economic slowdown.

For over three years since 30 April 2019, the country has maintained its current rating from S&P Global at “BBB+” with a “stable” outlook. The current rating from Moody’s at “Baa2” with a “stable” outlook has also been maintained since December 2014. Fitch affirmed its “BBB” rating for the Philippines with a “negative” outlook in October 2022. The affirmation of the Philippines’ ratings amid the second COVID-19 wave is a testament to rating agencies’ constructive view of the country’s credit fundamentals.

S&P’s credit rating for the Philippines is so far the highest among the ratings assigned by the three global credit rating agencies and is a notch away from the single “A” credit rating territory. The country’s ratings from Moody’s and Fitch are at the same level, both at a notch above the minimum investment grade.

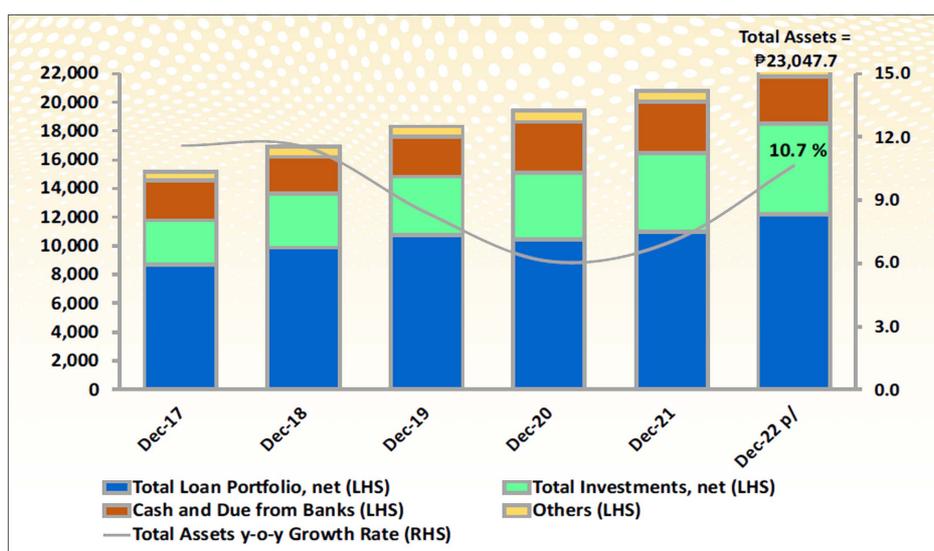
The Philippine Banking System

The Philippine banking system (PBS) sustained its solid footing as shown by its continued growth in assets, deposits, and profit; stable capital and liquidity buffers; and ample loan loss reserves. These enabled the banking system to remain supportive of the country’s financing needs. As the economy gears toward recovery, further improvements are expected in the operations of the PBS.

Assets sustain growth.¹⁷

The 10.7 percent y-o-y growth in the total assets of the PBS, amounting to ₱23,047.7 billion as of end-December 2022, mainly came from deposits and were channeled mostly to loans and investments. The total loan portfolio¹⁸ (TLP), net of allowance for credit losses, comprised the largest share at 52.9 percent (₱12,198.4 billion). This was followed by investment portfolio¹⁹ at 27.5 percent (₱6,329.4 billion) and cash and due from banks at 14.2 percent (₱3,271.7 billion). Meanwhile, other assets²⁰ had a 5.4 percent share (₱1,248.2 billion).

Figure 6
Philippine Banking System’s Total Assets
in billion pesos; growth rate in percent



Source: BSP

LHS – left-hand side
RHS – right-hand side
p/ preliminary data

¹⁷ Across banking groups, the total assets of the PBS were shared among universal and commercial banks (U/KBs) with 94.2 percent, thrift banks (TBs) with 4.2 percent, and rural and cooperative banks (RCBs) with 1.6 percent as of end-December 2022.

¹⁸ This includes interbank loan receivables and reverse repurchases.

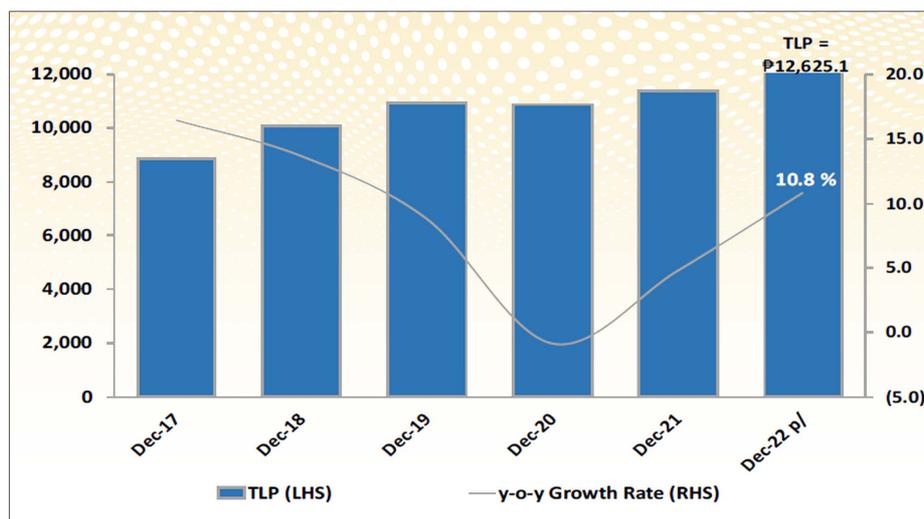
¹⁹ This is composed of investments in debt and equity securities, as well as equity investments in subsidiaries, associates, and joint ventures, net of amortization and allowance for credit losses.

²⁰ These include real and other properties acquired.

The banking system's loan portfolio expands further.²¹

The gross TLP went up by 10.8 percent y-o-y to ₱12,625.1 billion as of end-December 2022. This marks the 17th consecutive month of a positive annual growth²² rate in the TLP since August 2021.

Figure 7
Philippine Banking System's Gross Total Loan Portfolio
 in billion pesos; growth rate in percent



Source: BSP
 LHS – left-hand side
 RHS – right-hand side
 p/ preliminary data

Loan expansions y-o-y were recorded mostly in productive sectors, such as information and communication (21.8 percent); manufacturing (15.6 percent); electricity, gas, steam, and air-conditioning supply (14.3 percent); wholesale and retail trade (11.3 percent); as well as real estate (4.8 percent). Loans to households also registered double-digit growth y-o-y, with salary-based general-purpose consumption loans (SBGPCLs) rising by 62.2 percent and credit card receivables (CCRs) by 26.0 percent.

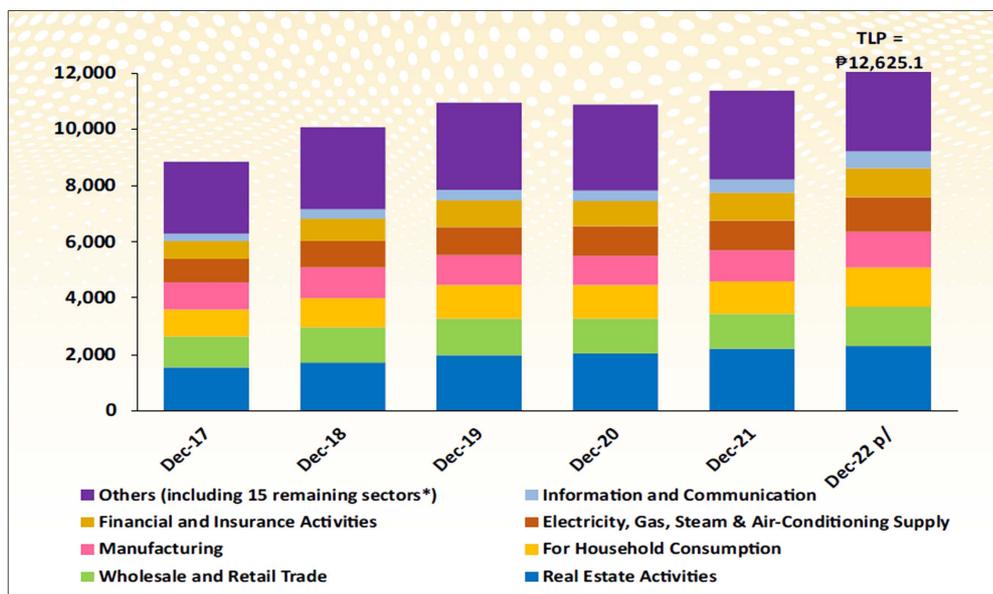
Loans remain broad-based across various industry types.

By economic activity, real estate had the largest share of TLP at 18.3 percent, growing by 4.8 percent to ₱2,314.0 billion as of end-December 2022. This was followed by wholesale and retail trade with a 10.9 percent share (₱1,378.6 billion); manufacturing with 10.2 percent (₱1,287.1 billion); and electricity, gas, steam, and air-conditioning supply with 9.6 percent (₱1,207.4 billion).

²¹ Across banking groups, the total loans of the PBS were accounted for by U/KBs with 93.5 percent, TBs with 4.7 percent, and RCBs with 1.5 percent as of end-December 2022.

²² The ratio of gross TLP to annualized nominal GDP stood at 57.3 percent as of end-December 2022.

Figure 8
**Philippine Banking System's Gross Total Loan Portfolio,
 by Economic Activity**
 in billion pesos



Source: BSP

* These refer to economic sectors under the 2009 Philippine Standard Industrial Classification.

p/ preliminary data

Meanwhile, loans for household consumption,²³ which accounted for 11.0 percent (₱1,388.0 billion) of the banking system's gross total loans, registered a 21.4-percent y-o-y growth as of end-December 2022. This is the ninth consecutive month of growth recorded since April 2022.

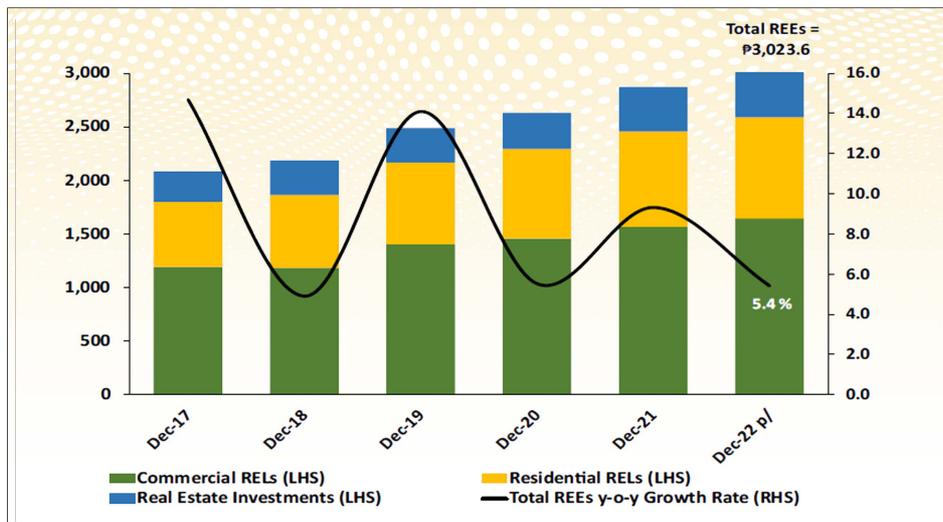
Real estate exposures (REEs) remain relatively modest.

The REEs of universal, commercial, and thrift banks, on a consolidated basis, expanded by 5.4 percent y-o-y to ₱3,023.6 billion as of end-December 2022. This was lower than the 9.3-percent growth recorded in 2021.

²³ This is composed of CCRs (40.0 percent), motor vehicle loans (MVLs, 32.0 percent), SBGPCLs (25.2 percent), and other consumer loans (CLs, 2.8 percent). Loans to individuals for housing purposes, or the so-called residential real estate loans (RELs), are excluded.

Figure 9
**Universal, Commercial, and Thrift Banks' Real Estate Exposures
 (Consolidated Basis)**

in billion pesos; growth rate in percent



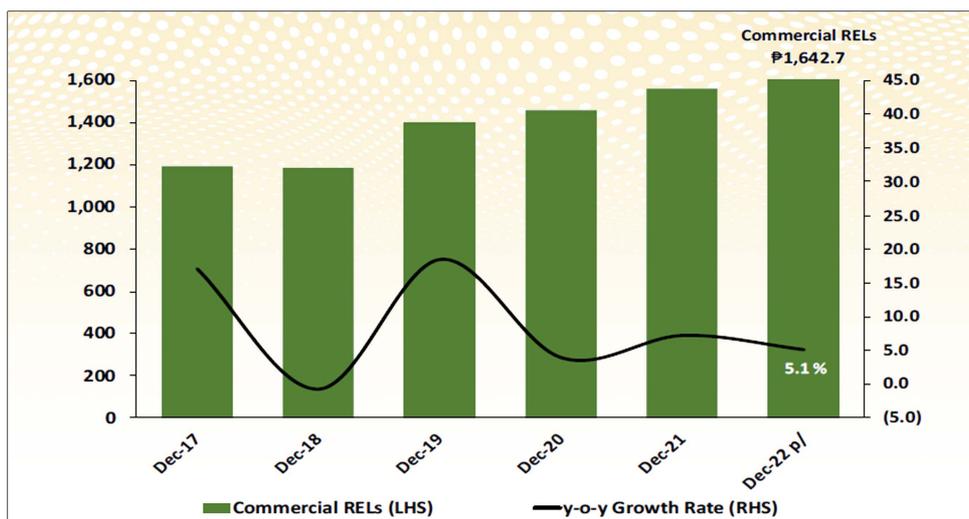
Source: BSP

LHS – left-hand side
 RHS – right-hand side
 p/ preliminary data

These REEs were made up mainly of REEs, which had an 85.6 percent share, while the rest were real estate investments. The total REEs continued to expand by an annual pace of 5.2 percent to ₱2,587.3 billion as of end-December 2022.

Figure 10
**Universal, Commercial, and Thrift Banks' Commercial Real Estate Loans
 (Consolidated Basis)**

in billion pesos; growth rate in percent

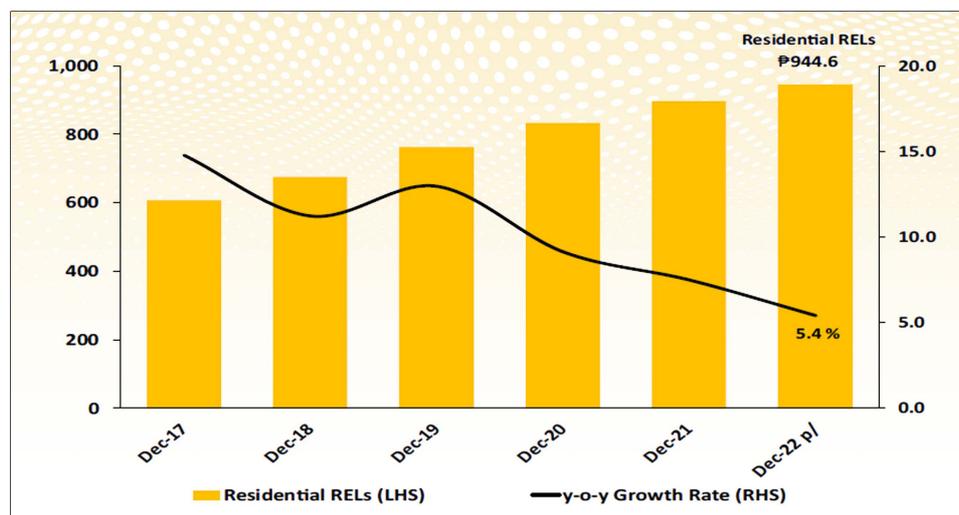


Source: BSP

LHS – left-hand side
 RHS – right-hand side
 p/ preliminary data

Commercial RELs increased by 5.1 percent y-o-y to ₱1,642.7 billion as of end-December 2022, accounting for almost two-thirds of total RELs (Figure 10). Likewise, residential RELs went up by 5.4 percent y-o-y to ₱944.6 billion as of the same reference period (Figure 11).

Figure 11
**Universal, Commercial, and Thrift Banks' Residential Real Estate Loans
 (Consolidated Basis)**
 in billion pesos; growth rate in percent



Source: BSP

LHS – left-hand side

RHS – right-hand side

p/ preliminary data

Residential real estate prices for several types of new housing units maintain their growth momentum in Q3 2022.

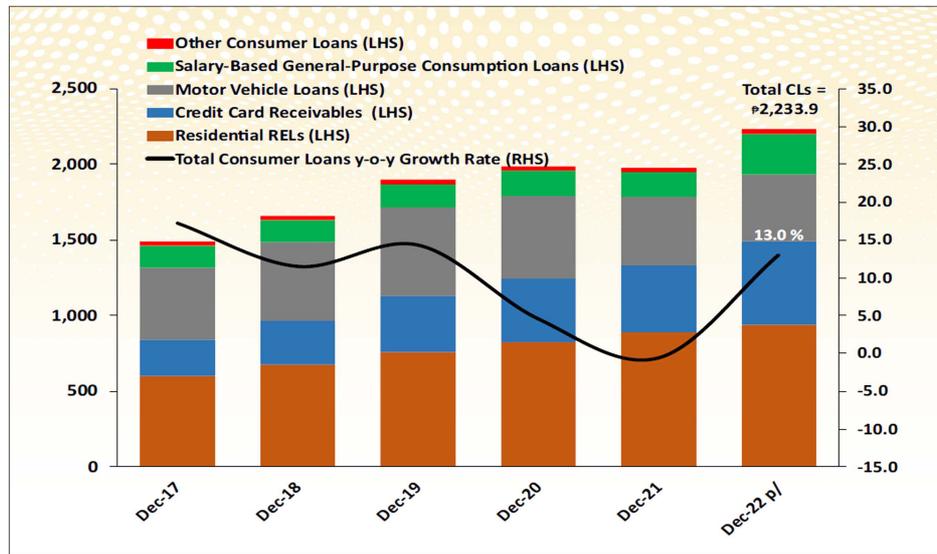
The Residential Real Estate Price Index (RREPI) rose by 6.5 percent y-o-y. By area, residential property prices in the NCR increased by 17.5 percent y-o-y. Similarly, a 2.3-percent y-o-y rise in property prices was recorded in areas outside the NCR.

By type of housing unit, annual growth in the RREPI was mainly driven by increases in the prices of duplex housings by 26.7 percent, condominiums by 19.2 percent, and single-detached/attached houses by 9.8 percent. In contrast, the prices of townhouses declined by 16.3 percent.

The level of CLs of U/KBs and TBs, on a solo basis, went up by 13.0 percent to ₱2,233.9 billion as of end-December 2022. This came largely from the growth in CCRs by 26.0 percent, SBGPCLs by 61.7 percent, and residential RELs by 5.3 percent, which outpaced the 2.9-percent decline in MVLs.²⁴

²⁴ Among the kinds of CLs, only residential RELs did not decline amid the COVID-19 pandemic.

Figure 12
**Universal, Commercial, and Thrift Banks' Consumer Loans
 (Consolidated Basis)**
 in billion pesos; growth rate in percent



Source: BSP

LHS – left-hand side
 RHS – right-hand side
 p/ preliminary data

By composition, residential RELs made up the largest share of total CLs at 42.0 percent (₱938.0 billion). This was followed by CCRs at 24.9 percent (₱555.4 billion), MVLS²⁵ at 19.7 percent (₱441.0 billion), SBGPCLs at 11.8 percent (₱264.4 billion), and other CLs at 1.6 percent (₱35.1 billion).

Loan quality remains manageable and within BSP expectations.

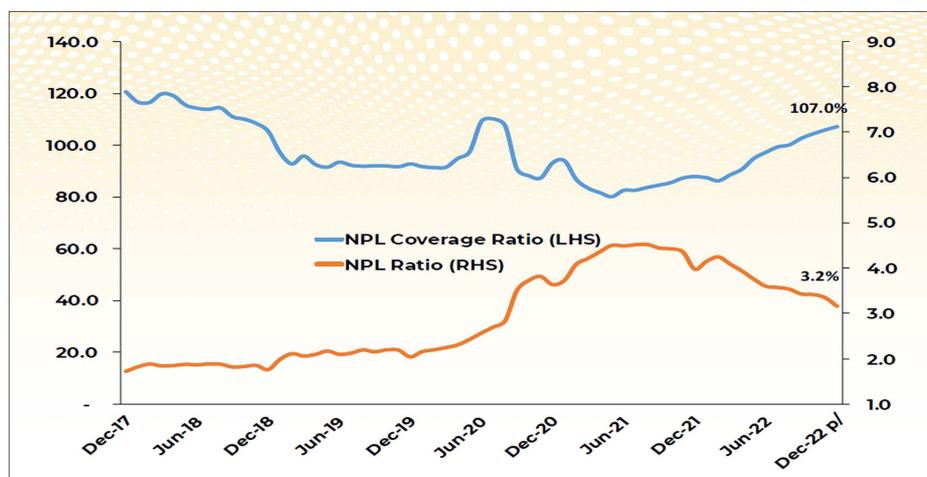
The non-performing loan (NPL) ratio²⁶ further eased to 3.2 percent as of end-December 2022, which was better than the 3.3 percent recorded in the previous month and the 4.0 percent from the prior year. This was matched by an ample NPL coverage ratio²⁷ of 107.0 percent, which was higher than the 105.7 percent seen in the previous month and the 87.7 percent from the prior year.

²⁵ These were mostly auto loans, which stood at ₱406.9 billion (92.3 percent share), while the rest were motorcycle loans at ₱34.1 billion (7.7 percent share).

²⁶ Ratio of gross NPLs to gross TLP

²⁷ Ratio of allowance for credit losses minus TLP to gross NPLs

Figure 13
**Philippine Banking System's Non-Performing Loan Ratio
 and Non-Performing Loan Coverage Ratio**
 in percent



Source: BSP

LHS – left-hand side
 RHS – right-hand side
 p/ preliminary data

The non-performing REL ratio likewise eased to 4.2 percent as of end-December 2022, which was lower than the 4.9 percent from the prior year. The non-performing CL ratio also improved from 9.3 percent in 2021 to 6.5 percent in 2022.

Banks' investment portfolio increases.

Investments in securities²⁸ grew by 18.9 percent y-o-y to ₱6,207.5 billion as of end-December 2022. These were composed mostly of debt securities measured at amortized cost that reached ₱3,804.9 billion (61.3 percent share) and securities measured at fair value through other comprehensive income at ₱2,194.8 billion (35.4 percent share). Financial assets measured at fair value through profit or loss had a minimal share at ₱207.8 billion (3.3 percent share).

Deposits continue to grow, marked by sustained confidence and the increased value for savings.²⁹

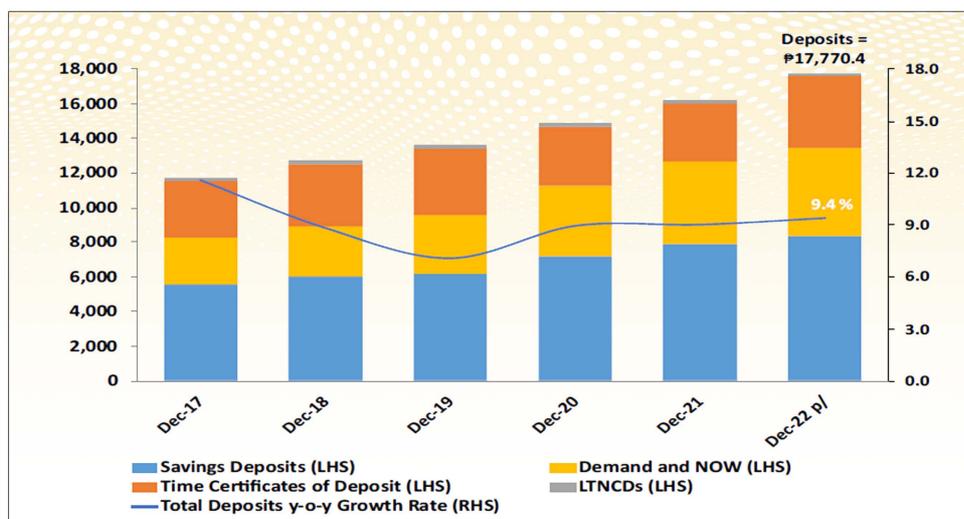
The lending and investment activities of the PBS were funded largely by deposits, which grew by 9.4 percent y-o-y to ₱17,770.4 billion as of end-December 2022. These deposits were mainly peso-denominated and sourced from resident individuals and private corporations.³⁰ Savings had the largest share of total deposits at 47.0 percent (₱8,356.8 billion), followed by demand and negotiable order of withdrawal (NOW) accounts at 28.6 percent (₱5,090.8 billion) and time certificate of deposits at 23.5 percent (₱4,172.0 billion). Long-term negotiable certificates of deposits (LTNCDs) had a minimal share of only 0.8 percent (₱150.8 billion).

²⁸ These exclude equity investments in subsidiaries, associates, and joint ventures.

²⁹ From the total deposits of the banking system, U/KBs, TBs, and RCBs accounted for 94.3 percent, 4.2 percent, and 1.5 percent, respectively, as of end-December 2022.

³⁰ Based on preliminary data as of end-December 2022, around 84.8 percent (₱15,065.4 billion) of the PBS' total deposit liabilities were denominated in peso. Furthermore, 99.0 percent (₱17,599.5 billion) were sourced from residents.

Figure 14
Philippine Banking System's Total Deposits
 in billion pesos; growth rate in percent



Source: BSP
 LHS – left-hand side
 RHS – right-hand side
 p/ preliminary data

Bonds payable at ₱578.2 billion (2.8 percent share) and bills payable at ₱660.0 billion (3.3 percent share) as of end-December 2022 were small in relation to the PBS' total liabilities. Meanwhile, banks posted a stronger capital position as total capital expanded by 5.1 percent y-o-y to ₱2,706.4 billion as of the same reference period.

Banks remain well-capitalized as capital adequacy ratios (CARs) were compliant with Basel requirements.

The CARs of the PBS were well above the minimum thresholds set by the BSP at 10.0 percent and the Bank for International Settlements (BIS) at 8.0 percent. As of end-December 2022, the banking system's CARs were at 15.7 percent and 16.3 percent on solo and consolidated bases, respectively.³¹ In particular, the CARs of the U/KB industry registered at 15.4 percent and 16.1 percent on solo and consolidated bases, respectively.³²

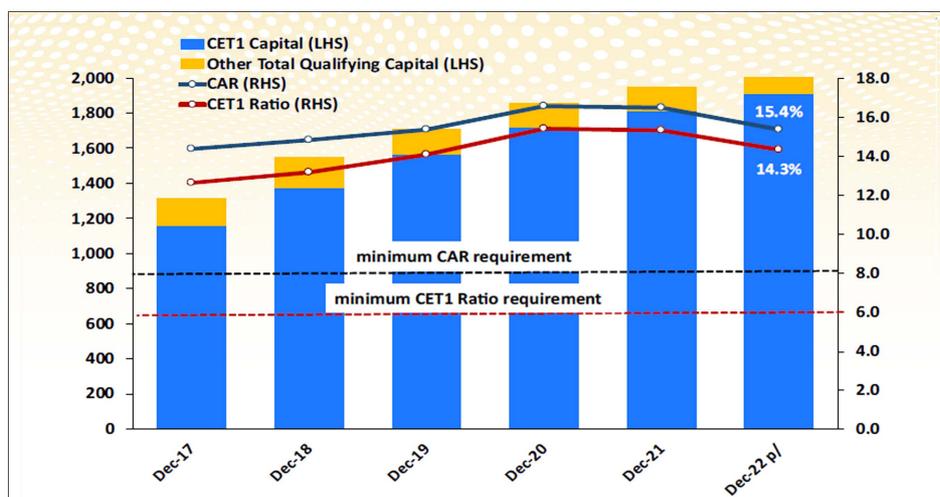
The risk-taking activities of banks were supported by adequate capital, which was composed mainly of paid-up capital and retained earnings. As of end-December 2022, the common equity tier 1 (CET1) ratios of the U/KB industry were recorded at 14.3 percent and 15.0 percent on solo and consolidated bases, respectively, compared with the previous year's 15.3 percent and 15.9 percent.

³¹ The CARs of the banking system in 2021 were at 16.7 percent and 17.6 percent on solo and consolidated bases, respectively.

³² The CARs of the U/KB industry in 2021 were at 16.5 percent and 17.1 percent on solo and consolidated bases, respectively.

Figure 15
**Universal and Commercial Banks' Risk-Based Capital
(Solo Basis)**

in billion pesos; ratio in percent



Source: BSP

LHS – left-hand side
RHS – right-hand side
p/ preliminary data

The U/KB industry's Basel III Leverage Ratio (BLR)³³ as of end-December 2022 stood at 8.8 percent and 9.3 percent on solo and consolidated bases, respectively. These ratios were likewise above the thresholds set by the BSP at 5.0 percent and the BIS at 3.0 percent.

Furthermore, the CAR of RCBs slightly improved from 19.1 percent in 2021 to 19.5 percent as of end-September 2022.³⁴ In contrast, the CAR of the TB industry as of the same reference period slightly declined from 19.3 percent to 19.2 percent. These capital ratios were still well above the minimum thresholds set by the BSP and the BIS.

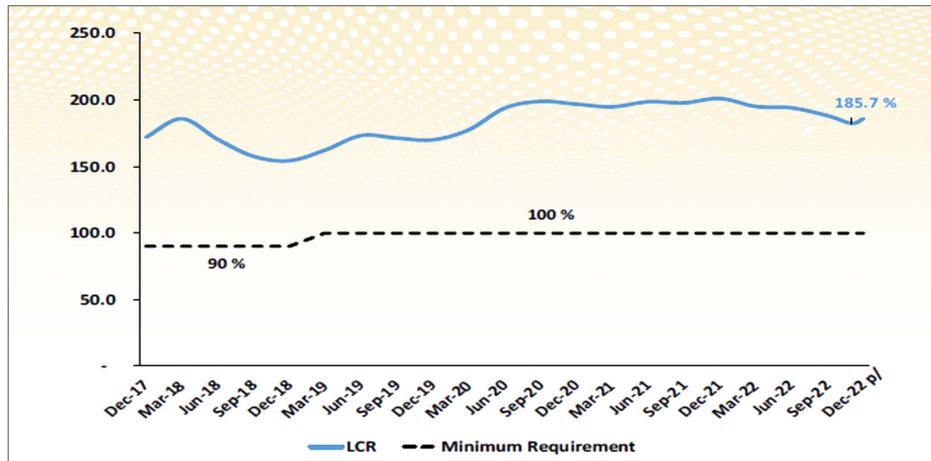
Banks maintain sufficient buffers to meet liquidity and funding requirements.

The liquidity buffer of U/KBs remained higher than the 100.0 percent minimum threshold. As of end-December 2022, the industry's solo and consolidated liquidity coverage ratios (LCRs) stood at 185.7 percent and 185.4 percent, respectively. The high LCRs of U/KBs indicated the banking system's strong liquidity position and ability to fund requirements during short-term liquidity shocks.

³³ The BLR relates the level of a bank's tier 1 capital against its total on-book and off-book exposure.

³⁴ These are based on solo basis capital computation. The ratios are a combination of Basel III and Basel 1.5 frameworks.

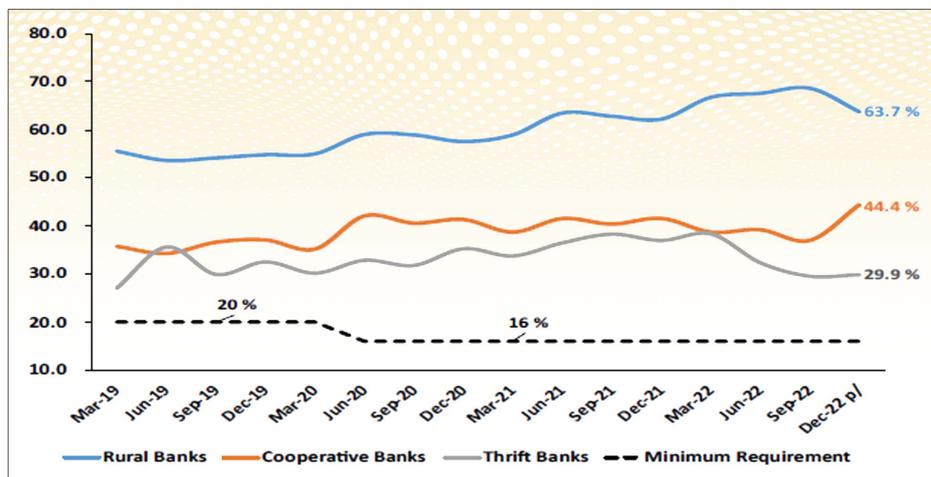
Figure 16
Universal and Commercial Banks' Liquidity Coverage Ratio (Solo Basis)
 in percent



Source: BSP
 p/ preliminary data

Preliminary data as of end-December 2022 showed that the minimum liquidity ratios (MLRs) of stand-alone thrift, rural, and cooperative banks stood at 29.9 percent, 63.7 percent, and 44.4 percent, respectively.³⁵ These ratios surpassed the 16.0 percent minimum requirement.³⁶

Figure 17
Stand-Alone Thrift, Rural, and Cooperative Banks' Minimum Liquidity Ratio
 in percent



Source: BSP
 p/ preliminary data

³⁵ The MLR of stand-alone TBs was lower than the previous year's 37.0 percent. On the other hand, the MLR of stand-alone rural banks (RBs) and cooperative banks were higher than the 62.1 percent and 41.5 percent, respectively, recorded in the prior year.

³⁶ As a relief measure, the minimum requirement was reduced temporarily from 20.0 percent to 16.0 percent, which was in effect until end-December 2022.

In terms of net stable funding ratio, the U/KB industry reached 135.0 percent, on a solo basis, as of end-November 2022. This was higher than the BSP regulatory threshold of 100.0 percent, which indicated the availability of more stable funding to finance customers in the medium term.

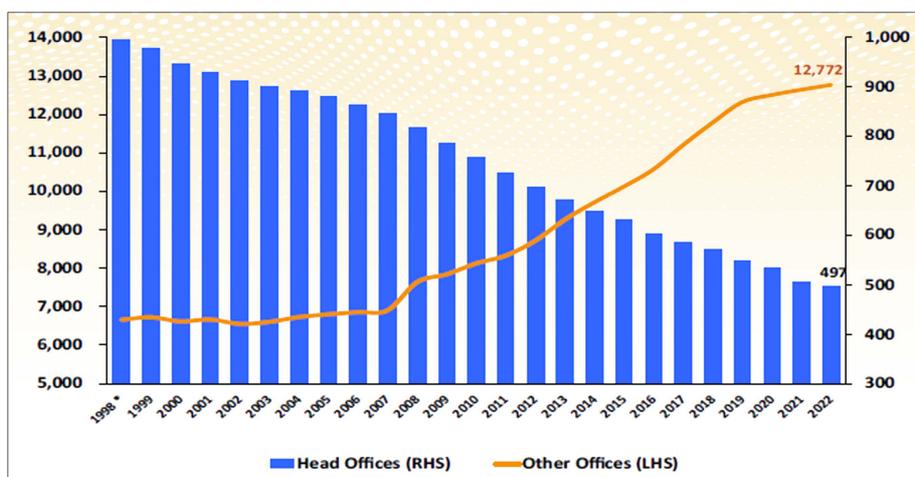
The banking system's net profit grows.

The net profit of the banking system went up by 38.0 percent y-o-y to ₱310.1 billion by the end of 2022. Other measures of profitability also rose y-o-y, particularly return on assets³⁷ (from 1.1 percent to 1.4 percent) and return on equity³⁸ (from 9.0 percent to 11.9 percent). Similarly, the net interest margin³⁹ increased to 3.7 percent in 2022, an improvement from 3.5 percent in 2021. The cost-to-income ratio⁴⁰ went down to 55.2 percent and had been maintained below 65.0 percent for the past eight years. These profitability metrics reflect greater efficiency in bank operations.

A leaner and stronger banking landscape back the industry's performance.

The increase in bank assets was accompanied by the continued expansion of the banking system's physical network. As of end-December 2022, the number of bank offices grew to 13,269, with 497 head offices (including six digital banks) and 12,772 other offices.

Figure 18
The Philippine Banking System
 total banking units



Source: BSP

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

LHS – left-hand side
 RHS – right-hand side
 p/ preliminary data

³⁷ Ratio of annualized net profit or loss to average assets
³⁸ Ratio of annualized net profit or loss to average capital
³⁹ Ratio of annualized net interest income to average earning assets
⁴⁰ Ratio of annualized non-interest expenses to annualized total operating income

The Non-Bank Financial Sector

Non-Bank Financial Institutions with Quasi-Banking Functions

Non-bank financial institutions with quasi-banking functions (NBQBs) maintain stability amid streamlining efforts to improve overall operations.

As of end-December 2022, the total number of industry participants stood at five: one investment house, three financing companies, and one other NBQB. In terms of network, the three financing companies had a total of 14 branches.

The total assets of the industry, which were largely in the form of loans,⁴¹ contracted by 10.1 percent y-o-y to ₱151.3 billion as of end-December 2022. Its total capital also dropped by 27.8 percent to ₱21.3 billion as of the same reference period.

NBQBs, however, remained profitable, recording a net income after tax of ₱1.8 billion in 2022. This was 40.1 percent higher than the ₱1.3 billion recorded in the previous year.

Non-Stock Savings and Loans Associations

The non-stock savings and loans association (NSSLA) industry sustains positive overall performance with continued expansion in total resources.

As of end-December 2022, there were 58 NSSLAs with 136 branches operating in the Philippines. The industry posted a 5.8-percent y-o-y increase in total assets to ₱285.9 billion as of end-June 2022. This was due mainly to the loans of its members, covering around 78.2 percent of total assets.

Capital accounts, the main source of funding for NSSLAs, rose by 6.2 percent y-o-y to ₱184.9 billion as of end-June 2022. Deposit liabilities also expanded by 13.2 percent y-o-y to ₱86.8 billion as of the same reference period. Moreover, the industry's net income after tax went up by 19.2 percent y-o-y to ₱13.2 billion for the first half of 2022.

Pawnshops and Money Service Businesses

Pawnshops and money service businesses (MSBs) remain as major financial service access points in the Philippines, particularly in providing immediate liquidity to borrowers and remittance services in the countryside.

As of end-December 2022, there were a total of 15,999 pawnshop offices (1,172 head offices and 14,827 branches). Meanwhile, there were 7,105 MSB offices as of end-June 2022 (730 head offices and 6,375 branches).

Most pawnshops (76.9 percent) offered corollary remittance activities, whereas most MSBs (67.4 percent) were large-scale operators with an average monthly network volume of transactions of at least ₱75.0 million.

⁴¹ Bills payables remained the main source of funding for NBQBs, which comprised around 70.2 percent share (₱106.2 billion) of the total liabilities and capital of the industry.

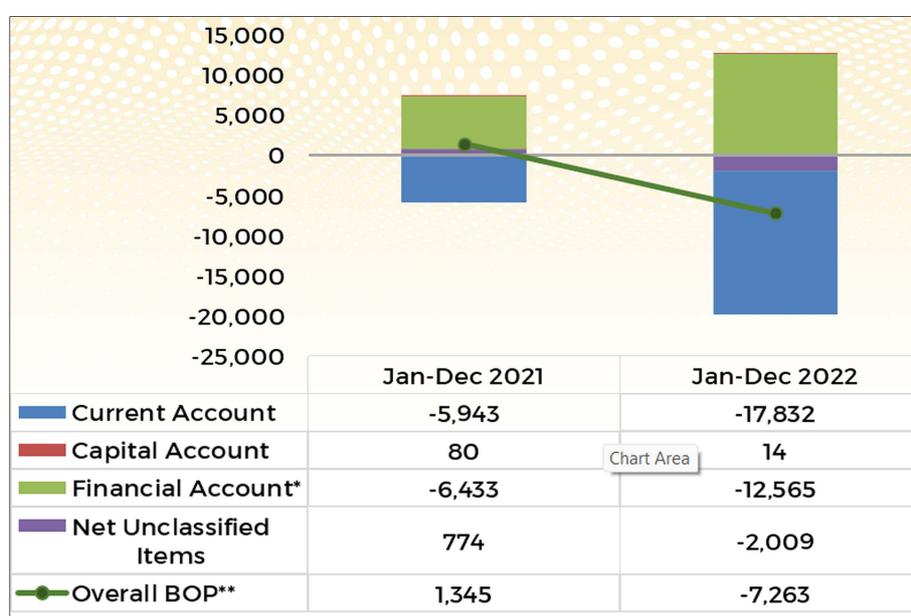
External Sector

Balance of Payments

Overall balance of payments (BOP) position reverses to a deficit.

The full-year BOP position recorded a deficit of US\$7.3 billion in 2022, a reversal from the US\$1.3 billion surplus in the previous year. This outcome was attributed primarily to a higher current account shortfall, which resulted from the continued widening of the merchandise trade-in goods deficit.

Figure 19
Main Balance of Payments Accounts
January – December 2022
 in million US\$



* In the Financial Account, a positive (negative) balance indicates an outflow (inflow). For graphical presentation purposes, inflows (outflows) are reflected as positive (negative) bars.

** The overall BOP position is equal to the current account balance, plus the capital account balance, minus the financial account balance, plus net unclassified items.

Details may not add up to the total due to rounding.

Meanwhile, the financial account posted higher net inflows due mainly to the reversal of the portfolio investment account to net inflows. The increase in inflows, however, was muted by a drop in net inflows of direct and other investments.

Current account records a higher deficit.

The current account recorded a deficit of US\$17.8 billion (equivalent to minus 4.4 percent of GDP) in 2022, which was higher than the US\$5.9 billion deficit (equivalent to minus 1.5 percent of GDP) recorded in 2021. This emanated from the widening merchandise trade gap, which was partly mitigated by the expansion in net receipts in trade-in services, as well as the primary and secondary income accounts.

The trade gap widened by 31.4 percent from US\$52.8 billion in 2021 to US\$69.4 billion in 2022 as the growth in imports of goods continued to outpace that of exports.

- Total goods exports reached US\$57.4 billion, up by 5.9 percent from US\$54.2 billion in 2021. Electronic products remained the primary growth driver during the year as it expanded by 8.5 percent from US\$22.9 billion in 2021 to US\$24.9 billion in 2022. Exports of coconut products and mineral products also rose by 32.1 percent to US\$2.6 billion and 8.2 percent to US\$7.3 billion, respectively. On a by-country basis, exports growth was mainly due to higher demand from top export markets, particularly Singapore, the Netherlands, and South Korea.
- Goods imports also continued to rise, registering an 18.5-percent growth from US\$107.0 billion in 2021 to US\$126.8 billion in 2022. The expansion was driven mainly by higher import prices and import volumes of several commodities.⁴² Mineral fuels and lubricants posted the highest increase of 74.6 percent to US\$23.8 billion during the year. Other goods imports that likewise grew were capital goods (by 13.4 percent to US\$33.0 billion); consumer goods, both durable and non-durable (by 18.6 percent to US\$22.4 billion); as well as raw materials and intermediate goods (by 4.8 percent to US\$45.1 billion). On a by-country basis, the sustained growth in goods imports was mostly on account of higher shipments from Indonesia, South Korea, and China.

Net receipts in the trade-in services account aggregated US\$15.6 billion in 2022, which was 11.3 percent higher than the US\$14.0 billion posted last year. This came on the back of expansions in travel services (by 595.4 percent to US\$4.2 billion); technical, trade-related, and other business services (by 9.9 percent to US\$21.2 billion); and passenger transport services (by 201.4 percent to US\$1.1 billion).⁴³ The growth in net receipts in the trade-in service account was partly offset by the 36.0-percent increase in payments of technical, trade-related, and other business services from US\$5.0 billion in 2021 to US\$6.8 billion in 2022.

⁴² By using price-volume analysis on the top 25 import commodity groups, about 75.7 percent of the expansion came from price increases, while the remaining 24.3 percent was due to volume increases.

⁴³ Exports of technical, trade-related, and other business services comprised largely of earnings from business process outsourcing (BPO)-related transactions. Total estimated BPO export revenues, consisting of computer and other business services, amounted to US\$27.4 billion in 2022, which is 9.1 percent higher than the US\$25.1 billion registered in 2021.

Primary income net receipts increased by 62.6 percent from US\$3.3 billion in 2021 to US\$5.4 billion in 2022 due to the combined effect of the 12.5-percent rise in income receipts to US\$13.3 billion and the 7.0-percent drop in income payments to US\$7.9 billion. The increase in the receipts came mainly from higher interest income receipts from direct investments (from US\$639.0 million to US\$1.2 billion), other investments (from US\$135.0 million to US\$705.0 million), and reserve assets (from US\$1.3 billion to US\$1.8 billion). On the payments side, the decline primarily came from the 55.7-percent drop in dividend payments on non-residents' direct investments in their local affiliates (from US\$3.8 billion to US\$1.7 billion).

Secondary income net receipts registered a 3.5-percent expansion from US\$29.5 billion in 2021 to US\$30.5 billion in 2022. This resulted from the sustained remittance inflows from non-resident overseas Filipino workers, which grew by 3.8 percent to US\$28.0 billion during the year.

Capital account registers lower net receipts.

The capital account posted an 83.0-percent decline in net receipts from US\$80.0 million in 2021 to US\$14.0 million in 2022. This was due to the increase in net payments on the gross acquisition of non-produced, non-financial assets by 1,733.5 percent from US\$4.0 million to US\$80.0 million.

Financial account posts higher gains.

The financial account registered net inflows of US\$12.6 billion in 2022, which was 95.3 percent higher than the US\$6.4 billion recorded in 2021. This primarily resulted from the reversal of the portfolio investment account from net outflows to net inflows during the previous year. Additionally, the direct investment and the other investment accounts continued to record net inflows, albeit lower compared to last year.

- Net inflows of direct investments declined by 45.5 percent from US\$9.7 billion in 2021 to US\$5.3 billion in 2022. This was on account of the 23.2-percent drop in foreign direct investments (FDIs) from US\$12.0 billion to US\$9.2 billion and the 73.2-percent increase in residents' direct investments abroad from US\$2.3 billion to US\$3.9 billion. In particular, the decline in FDI net inflows was due mainly to the contraction in non-residents' net investments in equity capital by 35.9 percent (from US\$4.5 billion to US\$2.9 billion) and debt instruments by 15.6 percent (from US\$7.5 billion to US\$6.3 billion), as investors remained cautious due to the continued global uncertainty. The bulk of equity placements in 2022 largely came from Japan, Singapore, and the US. These placements were directed mostly to the manufacturing, real estate, as well as financial and insurance industries. Moreover, the expansion in residents' overseas investments was due to higher intercompany lending, which grew by 68.4 percent to US\$3.3 billion during the year.

- Portfolio investments registered net inflows of US\$1.2 billion in 2022, a turnaround from the US\$10.2 billion net outflows posted a year ago. This resulted from the reversal of residents' portfolio investment abroad from net outflows of US\$7.8 billion to net inflows of US\$203.0 million, stemming from the decrease in residents' net investment in foreign debt securities, particularly by the BSP (from US\$3.4 billion to US\$97.0 million) and Other Sectors (from US\$4.0 billion to US\$962.0 million).⁴⁴ Foreign portfolio investments likewise reversed from US\$2.4 billion net outflows in 2021 to US\$975.0 million net inflows in 2022, following the increase in non-residents' net investment in NG-issued debt securities from US\$225.0 million to US\$2.9 billion.
- Other investments recorded net inflows of US\$6.0 billion in 2022, which was 13.6 percent lower than the US\$7.0 billion posted in 2021. This was due to the 31.4-percent drop in the net inflows of net incurrence of liabilities from US\$7.6 billion in 2021 to US\$5.2 billion in 2022, combined with the reversal of net acquisition of financial assets from US\$649.0 million net outflows to US\$803.0 million net inflows.
- Trading in financial derivatives resulted in net gains of US\$48.0 million in 2022, a turnaround from the US\$49.0 million net loss in the previous year.

International Reserves

The Philippines' GIR reached US\$96.1 billion as of end-December 2022, which was lower compared to the US\$108.8 billion recorded in the same period last year. At this level, the GIR could cover 7.2 months' worth of imports of goods and payments of services and primary income. The latest level was also equivalent to 5.8 times the country's short-term external debt (EDT) based on original maturity and 3.8 times based on residual maturity.

The decrease in reserves y-o-y reflected mainly the BSP's net foreign exchange (FX) operations, the downward valuation adjustments in the Bank's foreign currency-denominated reserves (or non-gold reserves), and the NG's payments of its foreign currency debt obligations.

By asset component, the bulk of international reserves was held in the form of foreign investments (84.6 percent). This was followed by gold (9.7 percent), aggregated holdings of Special Drawing Rights (SDR, 3.9 percent), FX (1.0 percent), and reserve position in the IMF (0.8 percent).

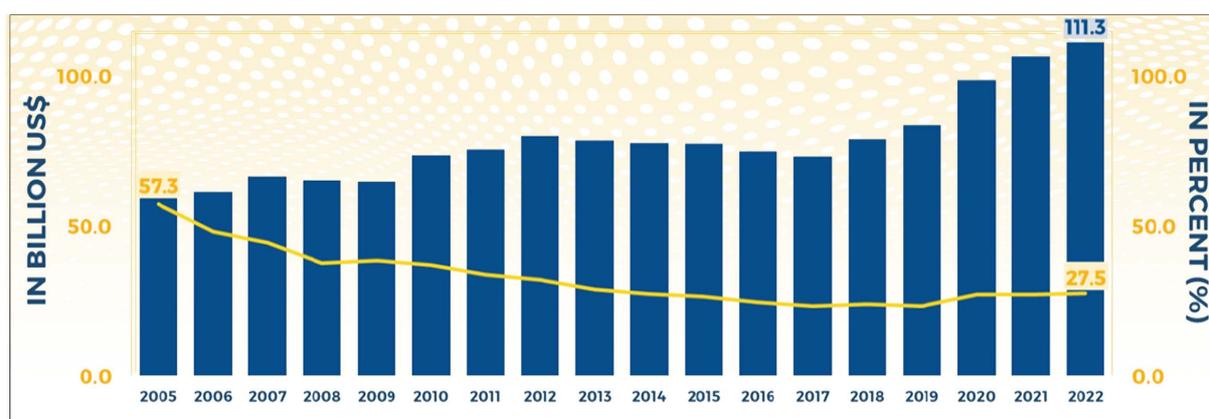
Net international reserves, which refer to the difference between the GIR and the total short-term liabilities of the BSP, amounted to US\$96.1 billion as of end-2022. This was a decrease of US\$12.7 billion from its level a year ago.

⁴⁴ Other Sectors cover the following economic sectors: (1) other financial corporations, which include private and public insurance corporations, holding companies, government financial institutions, investment companies, other financial intermediaries (except insurance), trust institutions/corporations, financing companies, securities dealers/brokers, lending investors, authorized agent bank (AAB) FX corporations, investment houses, pawnshops, credit card companies, and offshore banking units; (2) non-financial corporations, which refer to public and private corporations and quasi-corporations, whose principal activity is the production of market goods or non-financial services; and (3) households and non-profit institutions serving households.

External Debt

The debt stock of the country grew by US\$4.8 billion from US\$106.4 billion in 2021 to US\$111.3 billion as of end-2022. This was on account of the US\$8.4 billion net availments, mainly by the NG, and US\$1.6 billion worth of prior periods' adjustments during the year. These offset the negative FX revaluation of US\$2.6 billion and the increase in residents' investments in Philippine debt papers issued offshore of US\$2.6 billion.

Figure 20
**External Debt and
 External Debt/Gross Domestic Product**
 in billion US dollars; in percent



The maturity profile of the country's EDT remained predominantly medium- and long-term (MLT) in nature, with a share of 85.1 percent. From the MLT accounts, 56.5 percent (US\$53.5 billion) have fixed interest rates, 41.7 percent (US\$39.4 billion) carry variable rates, and 1.8 percent (US\$1.7 billion) are non-interest bearing. Short-term accounts comprised only 14.9 percent of the outstanding debt stock, which consisted of bank liabilities and trade credits, among others. Such maturity profile indicates that FX requirements for debt payments continued to be spread out and, thus, manageable.

On the other hand, the public sector EDT grew by US\$3.5 billion y-o-y to US\$67.4 billion as of end-2022, following the funds raised by the NG for its infrastructure and COVID-19 response projects/programs. Around US\$59.8 billion (88.7 percent) of public sector obligations were NG borrowings, while US\$7.6 billion were loans of government-owned or -controlled corporations (GOCCs), government financial institutions, and the BSP. Private-sector borrowings likewise rose by US\$1.4 billion y-o-y to US\$43.9 billion as of end-2022. This was on account of non-bank firms' net availments to support business and industrial operations during the year in anticipation of improved economic activity.

The creditor mix remains well-diversified. Loans from official sources, including multilateral and bilateral creditors, had the largest share (37.9 percent or US\$42.2 billion) of the total outstanding debt, followed by borrowings in the form of bonds/notes (33.1 percent or US\$36.8 billion) and obligations to foreign banks and other financial institutions (22.9 percent or US\$25.4 billion). The remaining 6.1 percent (US\$6.8 billion) was owed to other creditors, mainly suppliers/exporters.

In terms of currency mix, the debt stock of the country continued to be chiefly denominated in the US dollar (77.9 percent or US\$86.7 billion) and Japanese yen (8.8 percent or US\$9.8 billion). Meanwhile, the 13.3 percent (US\$14.8 billion) balance was divided among 15 other currencies, including the Philippine peso, euro, and SDR.

Despite the increase in EDT, key EDT indicators remained within prudent levels. The GIR was sufficient to cover 5.8 times worth 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, improved from 7.5 percent in 2021 to 6.3 percent in 2022. This came on the back of higher receipts and lower repayments during the 12-month period (i.e., January 2022 to December 2022). The EDT ratio, which pertains to the total outstanding EDT expressed as a percentage of the GDP, increased from 27.0 percent in 2021 to 27.5 percent in 2022. Additionally, the EDT to gross national income ratio was at 26.0 percent. This ratio was slightly lower compared with the 26.1 percent recorded in the previous year. In hindsight, the generally low ratios indicate the sustained capability of the country to service foreign obligations in the medium to long term.



WHAT WE DID IN 2022:

The Three Pillars of
Central Banking

What We Did in 2022: The Three Pillars of Central Banking

Managing Inflation to Preserve Price Stability

Monetary Stability

The BSP increases the monetary policy rate in 2022.

The BSP raised the interest rate on the overnight reverse repurchase (RRP) facility—the key policy interest rate—by a cumulative 350 bps to 5.5 percent in 2022. Correspondingly, the interest rates on the overnight deposit and lending facilities were increased to 5.0 percent and 6.0 percent, respectively. The reserve requirement ratios, on the other hand, remained unchanged.

The policy decisions of the BSP were guided by the assessment of the inflation outlook and the risks over the policy horizon. With sustained economic recovery and inflation dynamics during the review period, the Bank began to normalize its monetary policy stance. The baseline forecasts in December 2022 indicated that average inflation was still projected to breach the upper end of the 2.0–4.0 percent target range for 2022 and 2023. However, the forecast for 2024 showed inflation settling within the target range, owing mainly to the easing in oil prices, peso appreciation, and the slightly lower domestic growth outlook, partly due to the BSP's cumulative policy rate adjustments throughout the year.

The decision to increase anew the policy rate in the December 2022 meeting was attributed to the uptick in headline inflation and the sharp rise in core inflation in November amid pent-up demand. Upside risks continued to dominate the inflation outlook for 2023 but remained broadly balanced in 2024. Upside risks included elevated international food prices on account of supply chain constraints and fertilizer price increases. On the domestic front, trade restrictions, higher sugar costs, rising prices of fruits and vegetables due to weather disturbances, pending petitions for transport fare increases, and potential wage adjustments in 2023 could push inflation upward. Meanwhile, the impact of a weaker-than-expected global economic recovery persisted as the primary downside risk to the inflation outlook.

In view of broad-based inflation pressures, persistent upside risks, and elevated inflation expectations, the BSP deemed it necessary to take aggressive monetary action to bring headline inflation back to within target as soon as possible. An adjustment in the policy interest rate was seen to continue providing a cushion against external spillovers amid tighter global financial conditions.

The BSP remains steadfast in its commitment to sustaining price and financial stability, and it stands ready to take all necessary actions to bring inflation back to within the 2.0–4.0 percent target band of the government over the medium term.

Box Article 1

The Nexus Between Monetary Policy and Inflation Expectations

Why do inflation expectations matter to policymakers? Inflation expectations, or what economic agents think will happen to commodity prices in the future, are essential because these can influence actual inflation. Consequently, inflation expectations affect the way the Bangko Sentral ng Pilipinas (BSP) conducts monetary policy.

The BSP's role is to ensure that inflation remains predictable, low, and stable, enabling consumers and businesses to make decisions that benefit them and the economy. If consumers expect inflation to rise significantly next year, they will logically increase their purchases now, leading to higher demand and rising inflation. Similarly, business expectations about the future path of inflation shape how they set prices and wages now, thus impacting actual inflation. The inflation rate consistent with sustainable economic growth is currently estimated at 2.0–4.0 percent. Hence, the government set its inflation target at this range.

The BSP relies on three sources of inflation expectations: those from professional forecasters, businesses, and consumers. The monthly survey of private-sector economists, which started in January 2009, asks professional forecasters about their inflation expectations for the current year, the following year, and the two years ahead. The quarterly Business Expectations Survey (BES) asks firms how much they expect prices to change, on average, during the current quarter, the next quarter, and the next 12 months. BES started in Q2 2013, with questions on price expectations for the current and the next quarter. It then incorporated the question on expectations for the next 12 months starting Q3 2019.¹ On the other hand, the quarterly Consumer Expectations Survey (CES) asks households how much they expect prices to change during the current quarter, the next quarter, and the next 12 months. CES started in Q1 2007, with only the question on price expectations over the next 12 months. It eventually incorporated the questions on expectations for the current and next quarter starting Q1 2020.

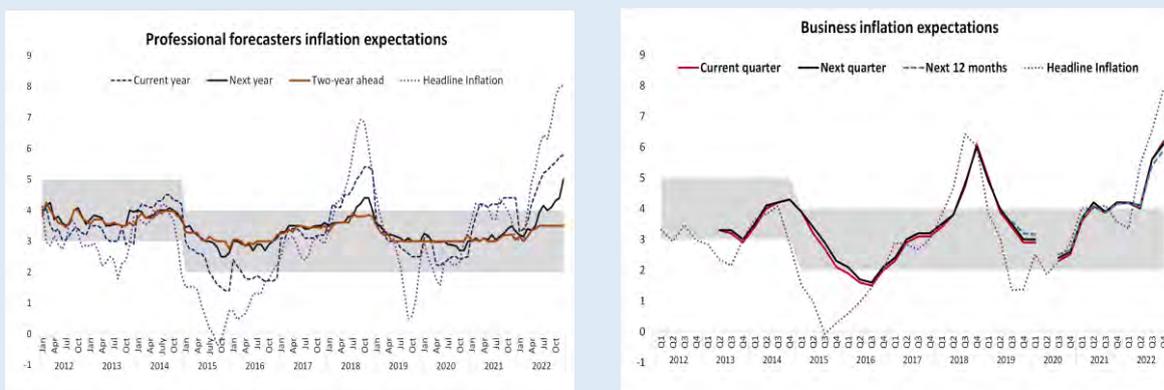
These measures of inflation expectations closely track the movement of actual inflation. Panel A (*Figure 1*) shows that current-year inflation expectations of professional forecasters have a high correlation, at 0.91, with actual year-on-year monthly inflation. Similarly, current-quarter inflation expectations of businesses and consumers correlate with actual quarterly inflation, at 0.82 and 0.59, respectively.

Figure 1

Inflation Expectations Versus Headline Inflation

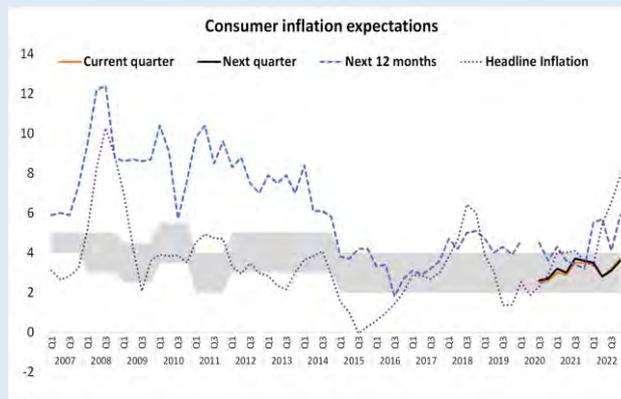
Panel A (Professional Forecasters)

Panel B (Businesses)



¹ The BES started reporting the inflation diffusion index much earlier in Q2 2001, which is computed as the percentage of firms that expect inflation to go up, less the percentage of firms that expect inflation to go down. However, instead of the diffusion index, inflation rate forecasts are used for the analysis in this article, as described above.

Panel C (Consumers)



N.B. The shaded areas in all three panels correspond to the inflation target ranges. Inflation expectations for businesses and consumers refer to the mean, while those for professional forecasters refer to the median. Nevertheless, even if the mean inflation expectations of professional forecasters were used, they would remain within target, although they are now elevated and show an increasing trend throughout 2022.

The periods during which inflation expectations breached the inflation target were associated with supply-side shocks. Take for example the breaches that occurred from Q4 2021 to Q4 2022 (current quarter and next quarter, as well as subsequent 12 months, BES), March 2021 to December 2022 (current year, professional forecasters), and July 2022 to December 2022 (next year, professional forecasters). During this time, successive supply shocks due to factors like the African swine fever and avian influenza, weather disturbances, and the war in Ukraine pushed food and oil prices higher. These initial price increases eventually resulted in second-round effects, which led the BSP to aggressively hike policy rates by 350 basis points from May to December 2022.

However, it is worth highlighting that two-year ahead inflation expectations, representing medium-term inflation expectations, remained within target throughout the sample even during high inflationary episodes.

Meanwhile, consumers' inflation expectations over the next 12 months were substantially higher than those of professional forecasters, businesses, and inflation targets (*Panel C, Figure 7*). This observed overestimation is consistent with the findings in the literature and could be attributed to several factors. First, consumers tend to be more sensitive to price increases than price decreases (de Bruin et al., 2011). Second, they are more likely to care about frequently bought items whose inflation has averaged higher than overall inflation (Georganas et al., 2014). Finally, unlike official inflation measures, consumers' inflation expectations may not fully account for quality improvements or consumer preference changes (Detmeister et al., 2016).

Commitment to Price Stability

The BSP remains firmly committed to its price stability mandate and stands ready to use all its available tools to bring inflation back to within the target range. Due to persistent supply-side factors in 2022, short-term inflation expectations (e.g., current year, next year, current quarter, and next quarter) rose significantly and remained above the inflation target. However, two-year ahead inflation expectations—the longest time horizon in all BSP survey measures and a proxy for long-term inflation expectations—remained relatively stable and within target. Such could be indicative of the credibility of the BSP's monetary policy. Nevertheless, the BSP will continue to pay close attention to inflation expectations and ensure they do not deviate significantly from the target.

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Feature Article

The BSP's 20-Year Journey in Inflation Targeting

The Bangko Sentral ng Pilipinas (BSP) adopted inflation targeting as its framework for monetary policy in January 2002. It replaced monetary aggregate targeting, which had been in place since the early 1980s. Under inflation targeting, the BSP manages the general increase in prices by utilizing various monetary policy tools to achieve the national government's inflation target.

Since adopting the inflation targeting framework, price stability has significantly improved, with inflation becoming less volatile and declining from the highs recorded in the 1980s and 1990s. This has greatly improved the predictability of monetary policy and the credibility of the BSP as a monetary authority. Although there have been periods of above-target inflation since the implementation of the inflation targeting framework, demand-pull inflation has been relatively benign due partly to the BSP's strong commitment to maintaining price stability. Previous breaches in the inflation target have been caused mainly by shocks emanating from supply disruptions and weather-related disturbances.

The successful implementation of the inflation targeting framework and the BSP's pragmatic use of its monetary policy instruments have been crucial in achieving price stability in the Philippines over the past 20 years. Inflation targeting has prevented runaway inflation and prolonged periods of elevated price pressures, even as the BSP recognizes that further refinements to the framework are necessary to enhance the transmission of monetary policy into the real economy. These refinements include a more transparent and effective communication strategy, improved institutional credibility, and strengthened forecasting capacity. Looking ahead, the BSP will continue to implement policies that are timely and relevant to its primary mandate of promoting low and stable inflation conducive to a balanced and sustainable economic growth.

The Challenges of Monetary Targeting

Monetary targeting in the Philippines began in 1984 when the then Central Bank of the Philippines (CBP) adopted a floating exchange rate system, following large devaluations of the Philippine peso in 1983 and 1984. This initiated a shift in monetary policy implementation away from direct liquidity controls and toward open-market operations and reserve requirements. The CBP used broad money as an intermediate target. It determined the appropriate level and growth of money supply to achieve the desired inflation rate, consistent with the government's growth objectives.

The monetary targeting framework assumed a stable and predictable relationship between money supply and goal variables, such as output and inflation. That is, changes in money supply, holding the velocity of money constant, could directly influence the level of production and changes in the price level.

The BSP adopted this framework upon its establishment in 1993. However, predicting the impact of money supply on inflation and economic output proved difficult. The deregulation of interest rates in the 1980s weakened the traditional relationship between money, inflation, and output. Increasing financial intermediation and innovations in the financial system also came with heightened volatility in demand for money. In the mid-1990s, capital inflows further complicated monetary policymaking by exerting pressure on monetary authorities to keep base money within programmed ceilings. At the same time, concerns over exchange rate fluctuations and potential implications for growth mounted.

These developments prompted the BSP to pursue reforms in its monetary policy framework to better adapt to evolving domestic and global conditions. The BSP subsequently modified its approach to monetary targeting in the mid-1990s by complementing its strategy with elements of inflation targeting. Under this approach, the BSP can exceed its monetary targets as long as actual inflation is kept within programmed monthly levels. If actual inflation exceeds targets for three consecutive months, the entire monetary program is reviewed. This modified approach thus placed greater and clearer emphasis on managing inflation in lieu of working to achieve intermediate monetary targets.

Even so, the link between money and inflation became less reliable due to a variety of factors, such as the continued deregulation and liberalization of financial markets; variations in the velocity of money; the emergence of new financial technologies, products, and services; and increased global economic and financial integration. Consequently, the BSP began examining alternative monetary policy frameworks that would enable it to achieve its primary mandate of promoting price stability.

The Shift to Inflation Targeting

In response to the changing financial landscape, the BSP approved in principle the shift to the inflation targeting framework on 24 January 2000, with its formal adoption commencing in January 2002. Under inflation targeting, the BSP abandoned its monetary targets and directly targeted a particular inflation rate using various monetary policy tools. These tools include (1) changes in the interest rate of the overnight reverse repurchase facility; (2) open market operations; (3) adjustments in reserve requirement ratios; and, in recent years, (4) market-based instruments, such as the term deposit facility, standing lending and deposit facilities, and the issuance of BSP Securities.

Unlike monetary targeting, inflation targeting does not rely crucially on the stability of the relationship between money and inflation. Instead, inflation targeting allows central banks to use all available economic information on a comprehensive set of variables—not just money supply—in assessing and determining the appropriate monetary policy stance to achieve the inflation target. In this way, inflation targeting can also account for various other channels through which monetary policy can affect inflation and the real economy, such as the volume of credit, the level of market interest rates, the prices of financial assets, the exchange rate, and even the public's inflation expectations. For this reason, inflation targeting is often considered a rigorous and information-intensive monetary policy framework.

Inflation targeting is also more transparent and easier to communicate to the public. One of the major challenges with monetary targeting was that monetary targets lost some of their usefulness in signaling the stance of monetary policy as the relationship between money and inflation became more unpredictable. Meanwhile, compared with monetary targets, explicit inflation targets tend to be more easily understood by the public.

In addition, inflation targeting places a premium on the central bank's credibility and accountability, with the announced inflation target serving as a tangible yardstick in evaluating its ability to promote price stability. Indeed, central banks that adhere to inflation targeting typically announce their monetary policy strategies and decisions regularly to the public. While other central banks that have not adopted inflation targeting also communicate their policy objectives frequently, inflation-targeting central banks tend to conduct more extensive public information campaigns and, in recent years, leverage emerging online platforms to reduce uncertainty in future price increases and anchor the public's inflation expectations.

However, there are several preconditions for the successful adoption of inflation targeting. The central bank must be independent and firm in its commitment to price stability as its primary objective. With its forward-looking orientation, inflation targeting also requires good forecasting capabilities to allow the central bank to better understand and predict inflation dynamics, as well as to guide stakeholders on the future path of monetary policy. Lastly, promoting transparency and accountability is critical as the BSP must communicate its policy actions and rationale to the public, especially during periods when actual inflation deviates from the target range.

For its part, the BSP has made significant institutional changes to facilitate the successful implementation of inflation targeting. As part of these reforms, the BSP initiated a nationwide public information campaign from 2000 to 2002 to introduce inflation targeting to the public. This two-year campaign aimed to increase public awareness and understanding of inflation targeting and its potential impact on the economy.

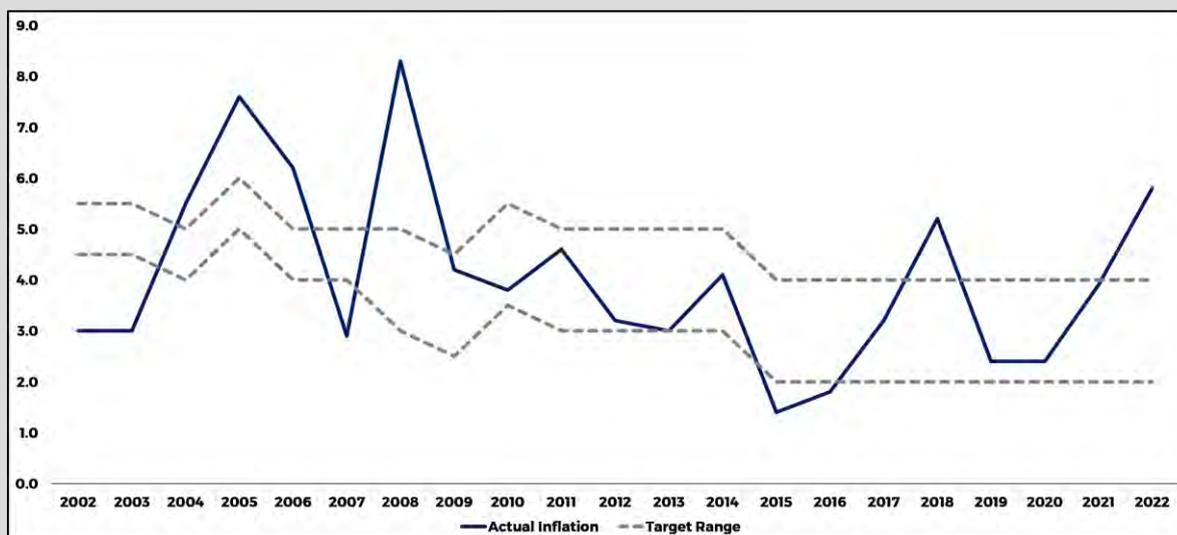
Additionally, the BSP improved its forecasting capabilities by refining its macroeconomic models and adopting more advanced statistical methods. These forecasts have been vital in helping the BSP make informed decisions on monetary policy, which are necessary to achieve the desired level of inflation and economic outcomes.

Equally important, the BSP has increased its transparency and disclosure mechanisms to establish trust and credibility with stakeholders, serving as the foundation for the success of the inflation targeting framework.

Over the past two decades, inflation targeting has helped bring down and stabilize inflation, with breaches to the target primarily attributable to supply-related constraints emanating from geopolitical events, weather-related disturbances, and production capacity shocks, among others (*Figure 1*).

Following six consecutive years (2009–2014) of falling within the target range, average headline inflation settled below the target band in 2015 and 2016, owing to slower increases in food prices, lower electricity rates, and a sharp decline in domestic oil prices amid a sustained decrease in international crude oil prices. After breaching the ceiling of the target range in 2018, inflation fell back to within the target band in 2019 and 2020. Price pressures owing to supply forces, particularly reduced supply of energy commodities resulting from geopolitical tensions in Eastern Europe, lower agricultural output caused by weather-related disruptions, and the spread of animal diseases, had pushed inflation past the upper end of the target range in 2021 and 2022. While monetary interventions are effective in addressing demand-side inflation, they may be less effective in combating supply-side inflation. Thus, the BSP continues to support timely non-monetary interventions that are better suited to mitigating the inflationary impact of supply-related issues.

Figure 1
Actual Versus Target Inflation, 2002–2022
 in percent



Source: Bangko Sentral ng Pilipinas

Path Forward

Over the past two decades, inflation targeting has been crucial in achieving price stability in the Philippines. The BSP's unwavering commitment to its primary mandate has created a stable monetary and financial environment, which has enabled individuals and businesses to make investment, spending, and saving decisions with greater certainty. This stability, in turn, has led to higher long-term investments and faster economic growth. Furthermore, a low and stable inflation environment has helped businesses and individuals attune their inflation expectations more closely to market dynamics. As a result, inefficiency costs related to nominal rigidities have been reduced, enabling the economy to grow and allocate resources more efficiently. Overall, price stability has helped propel the Philippines toward a higher and more sustainable growth trajectory.

However, while inflation targeting has proven to be an effective tool for managing inflation, there is a predefined set of circumstances under which the BSP may fail to achieve its inflation target. These exemptions, which primarily emanate from supply-related issues and fiscal policy changes, recognize that deviations from the inflation target may sometimes occur due to factors beyond the control of any central bank. These factors, or explanation clauses, include fluctuations in the prices of agricultural and oil products; natural disasters and events that impact a significant portion of the economy; and changes in governmental policies that directly influence prices, such as incentives, subsidies, and modifications in the tax structure.

Nonetheless, the BSP remains committed to improving its implementation of the inflation targeting framework. The BSP has been focused on enhancing its macroeconomic surveillance and forecasting capabilities to better assess changes in the economy and allow monetary authorities to adjust policies as necessary. In this regard, the BSP uses its Multi-Equation Model to forecast macroeconomic variables and conduct policy simulations. The econometric model provides a comprehensive view of the macroeconomic outlook over a given policy horizon by capturing the main aspects of monetary policy transmission in the country. Currently, the BSP is also working on improving complementary models that will provide a more detailed outlook for inflation, growth, and their various components, as well as a richer discussion of how monetary policy can affect the broader economy.

New models will be extensively tested before they are used as workhorse tools for forecasting and simulations. In due time, the BSP will familiarize the public with how these tools will be used for monetary policymaking.

Apart from its existing macro surveillance tools, the BSP also aims to leverage digital innovations in data processing and analysis to enhance its surveillance and forecasting capabilities, in support of sound monetary policymaking. The BSP research team is working on several big data projects that are intended to improve the real-time monitoring of economic outcomes through machine learning algorithms and improved statistical techniques.

Meanwhile, the BSP has been enhancing its communication with stakeholders by regularly publishing key reports, including the quarterly *Monetary Policy Report*, monthly inflation projections, and periodic reports on economic and financial developments. While these traditional reporting methods have effectively conveyed relevant information to the public, the BSP acknowledges the unrivaled capabilities of digital and social media platforms in the timely dissemination of information to a broader audience. As such, the BSP has taken steps to improve its public information campaigns by incorporating traditional and new media platforms to deepen its social media presence, promote a better understanding of its policies among the public through alternative yet effective communication channels, and, in the process, promote greater financial literacy and inclusion.

Finally, the BSP has been continually enhancing its monetary policy operations and instruments to effectively manage domestic liquidity conditions, which continue to be an essential driver of aggregate demand and, thus, of inflation. In 2016, the BSP adopted the Interest Rate Corridor Framework for monetary operations to guide the short-term market interest rates toward the policy rate. The close relationship between the policy rate and the market interest rates provides the fundamental basis for monetary policy transmission. By enhancing the transmission of monetary policy to the broader economy, these initiatives shall improve the BSP's ability to exert better influence over macroeconomic outcomes.

Through these efforts, the BSP aims to enhance its forecasting methods, adopt digital innovations for its surveillance and communications, and align its monetary operations with the best central banking practices. Moving forward, the BSP will continue to implement timely and relevant policies to aid the country's development in the decades to come—in the service of its primary mandate of promoting price stability conducive to sustainable and inclusive economic growth.

Monetary Operations

In 2022, total placements in the monetary facilities of the BSP stood at ₱1.8 trillion, which was lower than the ₱1.9 trillion recorded in 2021. Banks' placements in the overnight deposit facility (ODF), the BSP Securities facility (BSP-SF), the term deposit facility (TDF), and the RRP facility accounted for 31.5 percent, 26.2 percent, 25.5 percent, and 16.7 percent, respectively, of the total amount of liquidity absorbed by the BSP.

The average weekly total offer volume for the TDF auctions was lower at about ₱351.7 billion in 2022, relative to ₱520.6 billion in 2021. This was consistent with the normalization of market conditions following the imposition of liquidity provision measures of the BSP and its practice of assessing current financial system liquidity in the conduct of monetary operations. Similarly, the average bid-to-cover ratios (BCRs) for the seven-day and 14-day tenors decreased in 2022—both at 1.1 compared with 1.3 and 1.2, respectively, in the previous year. The average BCR for the daily RRP offerings also fell from 3.9 in 2021 to around 2.8 in 2022.

Since the maiden auction of BSP Securities on 18 September 2020, when the 28-day BSP Bills were offered, market reception has remained positive. The results from the weekly auctions continued to reflect strong demand amid ample liquidity in the financial system. In 2022, the total subscription to BSP Securities amounted to ₱8.2 trillion, or about 1.3 times the ₱6.3 trillion aggregated offer amount.

As economic recovery gained stronger traction, the BSP commenced its exit strategy from the accommodative policies effected in 2020⁴⁵ through the unwinding of its monetary stimulus. This was reflected in the Bank's accumulative 350-bp policy rate hike, the full settlement of the provisional advances to the NG, and the gradual decline of its purchases of GS from the secondary market, among other actions.

The BSP sought to strike a delicate balance between providing adequate support to the economy and preventing the buildup of inflationary pressures and risks to financial stability. Hence, the Bank's timing and conditions for the unwinding of monetary stimulus will continue to be guided by the inflation and growth outlooks over the medium term, as well as the risks surrounding such outlooks. In line with its data-dependent approach to policymaking, the BSP's exit strategy shall also remain dependent on the changes in various domestic factors, including liquidity and credit dynamics, financial sector risks, the state of public health, evolving global developments, and potential spillovers.

⁴⁵ In view of the COVID-19 pandemic, the BSP implemented liquidity-enhancing measures in 2020.

Program and Process Initiatives

The BSP was able to manage its processes and functions efficiently through the sustained utilization of technology and advanced systems.

The “Big Data” vision of the BSP is to harness and leverage advanced analytics, as well as structured and unstructured data, to narrow the information gap, refine policies and decisions, advance innovative research, and maintain efficient operations. Among the initiatives implemented toward this vision were the deployment of a news web scraping application to gauge economic sentiments on a close-to-real-time basis, the development of data and information storage solutions, and the continued enhancement of the visualization and analysis tools for data generated and monitored by the Bank.

Further, the innovation efforts of the BSP led to the in-house creation of automated document management, data management, and report generation systems. In 2022, the central bank launched the Monetary Board Opinion Request System that automates the processes involved in the request for Monetary Board (MB) opinion on domestic government borrowings by LGUs, GOCCs, state universities and colleges (SUCs), and water districts.

Under the Data Governance Framework, the BSP made progress in the development of data governance policies and manuals. The framework aims to promote data quality by ensuring that the treatment of data across BSP units is consistent and aligned with relevant laws, regulations, and international standards.

Loans and Credit

The BSP has been responsive to the changing needs of the economy. It instituted reforms to align its credit facilities and operational guidelines with international standards and best practices. These reforms included the following:

- the use of the three-month Japanese yen London interbank offered rate (LIBOR), determined and published by the Intercontinental Exchange, Inc. Benchmark Administration (IBA) LIBOR;^{46,47}
- the formulation of the “Guidelines on the Acceptable External Counsels for the BSP’s Foreclosure Cases” to ensure efficient, timely, and optimal recovery of past due loans (PDLs) granted to banking institutions;
- the revision of the “Guidelines on the Reasonable Out-of-Pocket Expenses of External Counsels” to correspond with the prevailing rates and practices; and
- the development of several initiatives to provide more agile “lender of last resort” facilities that can assist the BSP in executing crisis interventions.

⁴⁶ IBA was authorized to administer benchmarking activities under the United Kingdom (UK) Benchmark Regulations. It is regulated by the Financial Conduct Authority (FCA).

⁴⁷ On 5 March 2021, the FCA announced that the three-month Japanese yen LIBOR is among the benchmark settings that will lose their representativeness after 31 December 2021.

In 2022, the BSP extended loans amounting to ₱315.4 billion, which was lower by 70.8 percent than the ₱1.1 trillion in loans granted in the previous year. Provisional advances were given to the NG in support of its efforts to provide the economy with fiscal stimulus to address the impact of COVID-19. The Bank likewise extended rediscounting loans to finance temporary liquidity needs and overdraft credit line loans to cover shortfalls arising from clearing operations.

The total rediscounting availments of banks in 2022 stood at ₱15.3 billion, equivalent to 4.9 percent of the ₱315.6 billion total approved rediscounting lines during the year. Nonetheless, the financial system continued to hold ample liquidity buffers to serve client demand even in times of financial shocks.

Meanwhile, the total principal collections amounted to ₱317.5 billion in 2022, which was lower by 70.8 percent than the ₱1.1 trillion recorded in the prior year. From these collections, the BSP's total outstanding loan portfolio stood at ₱85.8 billion, which was lower by 19.2 percent compared with the outstanding loans of ₱106.2 billion in 2021.

No new PDL was recorded in 2022 since all the current loans were collected as they became due. Existing PDLs were recovered through various remedial measures, including foreclosure and cash settlement schemes. This resulted in a decline in existing PDLs from ₱4.8 billion in 2021 to ₱4.5 billion in 2022. The write-off of PDLs amounting to ₱4.9 million, pursuant to Monetary Board Resolution (MBR) No. 885 dated 23 June 2022, also contributed to the decrease in total outstanding PDLs.^{48,49} In addition, recoveries amounting to ₱37.1 million were noted on PDLs that had been previously written off as the BSP diligently collected delinquent loans.

The BSP also began the gradual phaseout of the temporary pandemic measures implemented in its rediscounting facilities in 2022, considering the implications of the Russia-Ukraine conflict. The Bank set the final extension of the reduction in the spread on rediscount rates, regardless of maturity, under the peso rediscount facility and the exporters' dollar and yen rediscount facility (EDYRF)⁵⁰ until 30 June 2022. Similarly, the temporary acceptance of additional credit instruments and collaterals for rediscounting under the EDYRF was allowed only until 31 March 2022.⁵¹

Asset Management

Despite the challenges brought about by the COVID-19 pandemic, the BSP continued to manage and dispose of its acquired real properties. It conducted public auctions as the initial mode of disposal of the said properties, with consideration to health and safety protocols. The Bank likewise adopted various measures to expedite disposals and manage its receivables arising from such transactions, including the acceptance of payments through various channels (e.g., over-the-counter, online banking, payment gateway [VISA/Mastercard debit or credit card], and ECPay [GCash, 7-Eleven, and RD Pawnshops]).

⁴⁸ MBR No. 885 dated 23 June 2022 approved the write-off of the PDLs and interest of 20 closed banks as of 31 December 2021.

⁴⁹ The ₱4.9 million written-off amount of PDLs covers four closed banks, charged against their loans and advances.

⁵⁰ Memorandum No. M-2020-056 dated 16 July 2020

⁵¹ Memorandum No. M-2020-024 dated 8 April 2020

As of 31 December 2022, the total book value of acquired properties stood at ₱11.5 billion, which was lower by ₱348.0 million or 2.9 percent than the ₱11.9 billion recorded in the previous year.

Through various schemes, the BSP approved the disposal of 3,455 properties with a total net book value of ₱416.6 million for an aggregate purchase price of ₱1.0 billion. This generated an estimated net income of ₱621.7 million for the central bank,⁵² inclusive of ₱27.1 million that was estimated to be generated over the term of the contract for the installment sale.

The total collections of ₱778.9 million on sales contract receivables represent 97.3 percent of the total installments due, while the interest income earned for the period amounted to ₱224.8 million. Furthermore, the BSP earned a total miscellaneous income of ₱582.6 million, a significant portion of which was realized profit from properties sold on an installment basis amounting to ₱353.0 million.

International Operations

The BSP recalibrated the country's FX regulatory framework in view of the growing economy and aligned with domestic and external developments.

At the onset of the Russia-Ukraine conflict, the BSP issued Circular No. 1145 dated 12 May 2022 to facilitate the Currency Exchange Facility (CEF) Program. The CEF provided liquidity assistance to repatriating Ukraine-based overseas Filipinos by allowing them to exchange Ukrainian hryvnia, a currency not freely convertible in the country, to Philippine peso.

The BSP likewise issued Circular No. 1146 dated 26 May 2022 to allow the online accomplishment of the currencies declaration form. This enabled a more efficient and timely capture of data on physical cross-border transfer of currencies, relevant to the BOC, the Anti-Money Laundering Council (AMLC), and the central bank.

By keeping EDT service requirements manageable, the BSP played an essential role in ensuring EDT sustainability. For 2022, the Bank approved a total of US\$10.3 billion⁵³ in public-sector medium- to long-term foreign borrowings. This consisted of (1) three bond issuances amounting to US\$4.8 billion to finance the NG's general budget and refinance assets in line with the Philippine Sustainable Finance Framework, (2) seven project loans amounting to US\$4.7 billion to fund infrastructure developments, and (3) three program loans amounting to US\$900.0 million to support COVID-19 pandemic response.

⁵² Net of the administration cost and broker's commission, aggregating ₱32.0 million

⁵³ Amount may not add up due to rounding.

The BSP also registered 277 private-sector foreign loan accounts amounting to US\$3.8 billion and issued 140 registration documents that covered amendments to the financial terms of loans in 2022.⁵⁴ The majority of these loans were used for general corporate purposes, relending, capital expenditures, and working capital requirements. The Bank likewise registered guarantees worth US\$70.6 million.

Moreover, the BSP continued to support the country's policy of encouraging foreign investments. In 2022, foreign investments registered with the central bank reached US\$651.0 million. The funds came mainly from Singapore (US\$278.0 million), Japan (US\$149.0 million), the Netherlands (US\$68.0 million), and Malaysia (US\$66.0 million). The major beneficiaries were firms engaged in financial and insurance activities (US\$332.0 million); information and communication (US\$64.0 million); wholesale and retail trade, repair of motor vehicles and motorcycles (US\$62.0 million); manufacturing (US\$50.0 million); and transportation and storage (US\$36.0 million).

Foreign investments registered with the BSP through AABs, on the other hand, amounted to US\$12.3 billion in 2022. These investments included (1) securities listed at the Philippine Stock Exchange (PSE, 78.2 percent), (2) peso GS (21.6 percent), and (3) other investments (less than 1.0 percent). The US, the UK, Singapore, Luxembourg, and Hong Kong were the top five investor countries for the reference period, with a combined share of 81.8 percent.

Overall transactions in 2022 yielded net inflows of US\$887.0 million, a reversal from the US\$574.0 million net outflows recorded in the previous year. PSE-listed shares resulted in net inflows of US\$179.0 million, a turnaround from US\$956.0 million net outflows in 2021. Peso GS recorded net inflows of US\$694.0 million in 2022, which was higher than the preceding year's US\$398.0 million.

Capital flows in 2022 were influenced by declining domestic COVID-19 cases; higher global prices of oil and other commodities amid the ongoing Russia-Ukraine conflict; rising US inflation, leading to interest rate hikes by the US Fed; elevated domestic inflation, averaging 5.8 percent for 2022; and the strengthening of the US dollar.

To boost trade and investments toward a more diversified economy, the BSP participated in the negotiations for investment promotion and protection agreements between the Philippines and Israel, as well as the United Arab Emirates (UAE). The negotiations were successfully concluded on 7 and 9 June 2022, respectively.

International Reserves Management and Domestic Operations

The Russia-Ukraine conflict, the ongoing COVID-19 pandemic, and the unprecedented monetary policy actions of major central banks due to rising inflation presented significant challenges in 2022. Despite the difficulties, the BSP maintained prudent management of the GIR, implementing strategies to enhance returns, diversify risks, and preserve liquidity and capital amid market volatility. As a result, the Bank was able to generate significant income during the year.

⁵⁴ Preliminary data

Management of Domestic Liquidity

The BSP continued to conduct market operations to implement its monetary policy. These operations included transactions in the overnight RRP facility, the TDF, the ODF, the BSP-SF, and the overnight lending facility (OLF).

The total availments in the OLF reached ₱49.2 billion, significantly higher than the ₱1.9 billion in the previous year. Most banks utilized the OLF for business continuity plan testing, while others accessed the facility to fund GS purchases and loan releases. In terms of BSP Securities, ₱1.9 trillion worth of 28-day BSP Bills were traded in the secondary market, with ₱1.8 trillion going to trust entities. As of 29 December 2022, outstanding holdings of trust entities amounted to ₱135.5 billion.

The BSP likewise monitored the transactions at the interbank call loan (IBCL) market, which were published daily by Bloomberg and Reuters. The average volume of IBCL transactions rose from ₱612.0 million in 2021 to ₱6.6 billion in 2022. By the end of the year, the IBCL rate rose to 5.5 percent from 1.8 percent in end-2021, reflecting the central bank's rate hikes during the review period.

As for the interbank repo market, only one trade amounting to ₱3.0 billion was recorded in 2022. This was significantly lower than the ₱10.0 billion in the previous year. Meanwhile, the BSP borrowed funds for 33 days at the rate of 7.0 percent for year-end withdrawals.

Management of International Reserves

The BSP implemented investment strategies to enhance returns from international assets while adhering to the objectives and risk limits set and approved by the MB. These strategies included maintaining adequate reserve tranches to support domestic operations amid global financial market developments and strengthening the framework for reserve portfolio management.

Regarding strategic asset allocation, the BSP continued to engage the services of external fund managers (EFMs) for its fixed-income portfolios. A portion of the outsourced funds was invested in the Asian green bond fund—managed by the BIS—which became operational in 2022.

The BSP also actively managed the gold reserves portfolio, ensuring it remained within the approved target ratio for strategic exposure to gold assets.

In terms of investment performance, fixed-income markets posted negative absolute returns during the year due to policy rate increases by major central banks, most notably the US Fed, to combat inflation. However, almost all the BSP's EFMs outperformed their respective benchmarks.

With the aim of integrating environmental, social, and governance (ESG) principles into its reserve management operations, the BSP drafted the first ESG questionnaire in 2022. The questionnaire sought to explore EFMs' beliefs, policies, and practices related to ESG, as well as how they are applied to their decision-making and operations as a firm.

Box Article 2

The BSP's Responsible Gold Sourcing Policy

The Bangko Sentral ng Pilipinas (BSP) has implemented its new Responsible Gold Sourcing Policy,^{1,2} pursuant to the updated Responsible Gold Guidance (RGG) of the London Bullion Market Association (LBMA). The RGG is meant to ensure that the sourcing of gold products and other related activities comply with the requirements and standards of the LBMA as well as other applicable laws, rules, and regulations. Complying with the updated guidance enables the BSP to remain on the LBMA's good delivery list of refiners and ensures the responsible sourcing of gold.

The updated RGG, which is the ninth version of the policy, was launched on 29 November 2021. Its implementation started on 1 January 2022, mandating all refiners to meet the new guidance in 12 months. Its requirements include more in-depth traceability, better risk identification, and enhanced risk management in gold supply chains.

Collaboration and coordination among various BSP units, particularly the Mint and Refinery Operations Department, the Regional Operations Sub-Sector, and the Risk and Compliance Office, were essential in the transition to being compliant with the latest RGG. Through this, the central bank has committed to incorporating risk management measures that address financial risks, environmental concerns, and adverse social and governance factors in its gold supply chain.

Moreover, the BSP also strengthened its conduct of due diligence practices, which include gold traceability of the source of origin, know-your-customer procedures, gold supply chain risk assessment, background investigation or gold-seller verification, and site inspection and monitoring. This ensures that all gold—whether they originate from miners, intermediate refiners, or traders—underwent responsible sourcing. The BSP's commitment to responsible gold sourcing demonstrates its dedication to sustainable and ethical practices.

¹ The updated BSP policy on gold sourcing was approved by Governor Felipe M. Medalla on 30 September 2022. It is available for viewing at the BSP website (<https://www.bsp.gov.ph/Pages/CoinsAndNotes/PoliciesAndPrograms/GoldAndSilverBuyingAndSelling.aspx>).

² The streamlined gold-buying procedures for standardized implementation across all gold-buying stations were updated in their respective quality/integrated management systems in December 2022.

Box Article 3
The BSP's Gold Buying Program



BSP holds focused group discussions with small-scale miners at the North Luzon Regional Office in Baguio City on 13 May 2022.

In its pursuit of bringing the central bank closer to the Filipino people, the Bangko Sentral ng Pilipinas (BSP) is implementing enhancements to its Gold Buying Program. The BSP, through its regional offices and branches (ROBs), takes the lead in strengthening engagement with stakeholders at the grassroots level. The Bank also pursues multi-sectoral efforts to make policy enhancements toward improving the mining sector's contributions to the economy and uplifting the welfare of gold mining stakeholders.

Republic Act (Rep. Act) No. 7653, as amended, or the New Central Bank Act, stipulates that the Philippines' international reserves may include gold. In support of this, Rep. Act No. 7076, or the Small-Scale Mining Act of 1991, requires all gold produced by small-scale miners (SSMs) in any mineral area to be sold to the BSP. Through its Gold Buying Program, the central bank purchases gold from SSMs, thus increasing the country's international reserves.



BSP initiates dialogue with small-scale miners in Daet, Camarines Norte on 17 November 2022.

To set forth the Bank's strategies relative to the said program, the BSP Gold Buying Roadmap was launched in 2021. The roadmap articulates the central bank's vision to become the "gold buyer of choice" in the country. It was formulated against a backdrop of a predominantly informal small-scale mining sector¹ and a black market that thrives despite laws penalizing illegal mining.² As such, the BSP proactively engages with key stakeholders of the small-scale mining industry through its ROBs. This facilitates the requisite multi-sectoral and whole-of-government approach to addressing bottlenecks and strengthening the oversight processes that govern the mining sector.

In 2022, Inter-Agency Committees on Gold Trading under the Regional Development Council (RDC) were established in all regions where gold-buying stations are located, specifically in the Cordillera Administrative Region, Davao Region, Zamboanga Peninsula Region, and Bicol Region. The BSP leads the committees, either as the chair or the co-chair. These committees serve as the multi-sectoral platform where issues are addressed and efforts are synchronized. In particular, sub-committees undertake various initiatives that aim to promote the BSP Gold Buying Program, formalize the small-scale mining industry, bolster the enforcement of small-scale mining laws, streamline existing oversight processes, and provide technical assistance to SSMs in terms of the filing of applications for licenses and contracts.

¹ In 2015, the Philippine Extractive Industries Transparency Initiative (PH-EITI) published the report, "Philippines EITI Scoping Study on Small-Scale Metallic Mining," which notes that 60.0 percent of small-scale mining operators in the country are illegal.

² In 2019, the Philippine Institute for Development Studies published the discussion paper, "Answering Critical Questions on Mining in the Philippines: Phase 2," which estimates that from 2012 to 2018, only 1.2 percent of gold produced from small-scale mining in the country was sold to the BSP.

Further, BSP ROBs also fortified bilateral relations with their gold-selling counterparties through regular consultations and dialogues. Outcomes from these activities aid in the BSP's continuing efforts to enhance its Gold Buying Program processes and systems.

Apart from assisting the formalization of the small-scale mining sector, the BSP Gold Buying Roadmap also incorporates initiatives to encourage large-scale miners (LSMs)—the other legitimate source of gold—to sell a portion of their production to the central bank. In 2021, the BSP began engaging with the Chamber of Mines of the Philippines to discuss its offer to buy gold from large-scale mining companies and to solicit issues and concerns that hinder such companies from transacting with the central bank. In line with this, the BSP coordinated with the Bureau of Internal Revenue and the Board of Investments until the first quarter of 2022 to request clarification on issues raised by LSMs.

In March 2022, the BSP initiated discussions with the Department of Environment and Natural Resources on ways to increase purchases from the large-scale mining sector through the facilitation of the Mineral Production Sharing Agreement and the Financial or Technical Assistance Agreement with LSMs, as well as with SSMs through their contracts.

The BSP seeks to continually tap existing institutional channels to amplify the enforcement of small-scale mining laws in the years to come and to explore other sources of gold that were not particularly considered in the past. Toward this end, BSP ROBs shall consistently collaborate with relevant government agencies to explore opportunities in which the lawful requirement and other viable opportunities on the sale of gold to the central bank can be incorporated.

International Economic Cooperation

The BSP advanced regional and global cooperation, as well as international surveillance, by participating in various fora, engaging with foreign counterparts, and developing new analytical methods in 2022. Several financial and trade agreements were likewise initiated or renewed throughout the year.

Collaborative initiatives were conducted with the BIS, the IMF, the WB, the Group of Twenty-Four, the South East Asian Central Banks (SEACEN) Research and Training Centre, the Association of Southeast Asian Nations (ASEAN), the AMRO, the Asia-Pacific Economic Cooperation (APEC), the Asian Development Bank (ADB), the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), and other bilateral partners.

Advancing Regional Initiatives

The BSP engaged in policy dialogues to address current issues and advance economic and financial developments throughout the region. In 2022, the discussions covered core advocacies of the central bank, particularly sustainable finance, financial digitalization, financial inclusion, and interoperable payment systems innovation. Other matters were also tackled, including climate change, capital flows and capital flow management measures, macroprudential measures, as well as the establishment of global and regional financial safety nets and integrated policy frameworks.

Participation in Regional and Global Financial Safety Nets

The BSP provided support in safeguarding the international monetary system and fostering regional financial stability in 2022. It actively contributed to the enhancement of the Chiang Mai Initiative Multilateralization (CMIM) to ensure its smooth operationalization and responsiveness to recent developments. Among the changes to the CMIM were the updating of its operational guidelines and swap manual, following the amendments to the CMIM agreement;^{55,56} the expansion of options for CMIM parties through local currency contribution; and the conduct of annual test runs.

Moreover, the BSP was involved in re-establishing the ASEAN Swap Arrangement (ASA), which expired on 17 November 2021.⁵⁷ The ASA aims to provide short-term FX liquidity support for ASEAN member states with BOP difficulties.

⁵⁵ The CMIM agreement, which took effect on 24 March 2010, is a multilateral arrangement among the finance ministries and central banks of the ASEAN+3 countries and the Hong Kong Monetary Authority. It involves a reserve pool of US\$240.0 billion.

⁵⁶ The CMIM shall provide financial support through currency swap transactions in times of liquidity need. In accordance with the procedures and conditions set out in the agreement, each CMIM participant is entitled to swap its local currency with US dollars for an amount up to its contribution, multiplied by its purchasing multiplier.

⁵⁷ During the 24th Meeting of the ASEAN Senior Level Committee (SLC) on Financial Integration on 18 October 2022, the BSP, on behalf of ASA members, reported updates on the ASA and secured approval from the SLC on the creation of an ad-hoc task force to facilitate the re-establishment of the ASA.

The BSP also renewed its Bank of Japan Bilateral Swap Arrangement (BSA)⁵⁸ for another three years, effective from 1 January 2022 to 31 December 2024. The renewed BSA incorporated amendments to align its provisions with the changes in the CMIM agreement.

To strengthen global financial safety nets, the BSP continued to participate in the IMF's Financial Transactions Plan (FTP),^{59,60} New Arrangements to Borrow (NAB),^{61,62} and Bilateral Borrowing Arrangements (BBA).⁶³ The Bank likewise contributed to the Fund's Poverty Reduction and Growth Trust (PRGT)⁶⁴ and the Catastrophe Containment and Relief Trust (CCRT).⁶⁵

The active engagement of the BSP sends a strong signal to the international community that the Philippines, despite its own challenges, stands ready to support neighboring countries that need assistance. This is also indicative of the nation's sound macroeconomic fundamentals and strong external position.

Negotiation and Conclusion of International Agreements

The BSP took part in negotiating international accords with other central banks. In August 2022, the Bank entered into a memorandum of understanding (MOU) with the National Bank of Kyrgyz Republic. The MOU affirms the commitment of both central banks to strengthen cooperation and to establish an avenue for information exchange, capacity building, and research.

Similarly, the BSP participated in multilateral and bilateral trade negotiations, including the ASEAN-Canada Free Trade Agreement and the ASEAN-Australia-New Zealand Free Trade Agreement. The Bank also ventured into investment promotion and protection agreements with Israel and the UAE.

⁵⁸ The BSA is a two-way arrangement where both authorities can swap their local currencies in exchange for the US dollar. It also enables the Philippines to swap the Philippine peso against the Japanese yen. The size of the BSA remains unchanged (i.e., up to US\$12.0 billion, or its equivalent in Japanese yen, for the Philippines and up to US\$500.0 million for Japan).

⁵⁹ The FTP is a currency exchange arrangement to facilitate lending operations between the IMF and its members. The use of a member's currency entails a change in the composition of its international reserves, while the overall level of its reserves remains unchanged.

⁶⁰ The Philippines, through the BSP, joined the FTP in August 2010. Since then, the Bank has facilitated currency exchange amounting to SDR540 million (US\$784.9 million) for Portugal, Ireland, Greece, Moldova, and Ukraine. For August 2022 to January 2023, the MB has approved FTP participation for a maximum amount of SDR388 million (US\$517.0 million).

⁶¹ The NAB is a credit arrangement used when the IMF needs to supplement its resources for lending purposes. It serves as the second line of defense after quota resources.

⁶² The BSP has been a NAB participant since 2011, with a maximum commitment amount of SDR340 million. Due to the amendments to the NAB decision in January 2020, the Bank's commitment was doubled to SDR680 million (US\$907.0 million) based on the exchange rate of SDR 0.7/US\$1.0 as of 20 December 2022. Meanwhile, the BSP's participation earns interest at the SDR interest rate of 2.9 percent as of the same reference period. (Source: IMF website)

⁶³ The BBA is a bilateral-level credit arrangement that serves as the IMF's third line of defense. The 2020 round of BBAs is effective until end-2023, with a possible one-year renewal. Currently, the BSP has a maximum commitment amount of SDR431 million (US\$575.0 million).

⁶⁴ The PRGT enables the IMF to provide concessional financial support to low-income countries to help them achieve a stable macroeconomic position, strong poverty reduction, and sustainable growth. The Philippines, through the BSP, will contribute US\$5.0 million to the PRGT, which shall be disbursed in 2023.

⁶⁵ The CCRT allows the IMF to provide debt relief for the poorest and most vulnerable countries hit by natural disasters or public health issues. The Philippines, through the BSP, will contribute US\$4.0 million to the CCRT, which shall be disbursed in four equal annual installments from 2021 to 2024. This is in accordance with the special authority from the Office of the President and the approval of the MB.

To boost trade, investment, and economic recovery further in the ASEAN region, the Regional Comprehensive Economic Partnership (RCEP)⁶⁶ was likewise instituted in 2022.

Meanwhile, the BSP joined in the discussions for the Indo-Pacific Economic Framework (IPEF)⁶⁷ and supported the Philippines' adoption of commitments under the World Trade Organization (WTO)'s Joint Statement Initiative on Services Domestic Regulation (JSI-SDR).⁶⁸

Facilitation and Enhancement of International Surveillance

The BSP, in coordination with the IMF Resident Representative Office to the Philippines, facilitated the IMF Article IV consultation mission to the country from 12 to 16 September 2022. The IMF mission team held bilateral discussions with representatives from various NG agencies;⁶⁹ international financial institutions, including the WB and the ADB; and industry associations to discuss economic developments and policies. Upon completion of the technical meetings, the IMF mission team reported its preliminary assessment of the risks and challenges that impede growth in the country.

Additionally, the BSP administered the conduct of the virtual AMRO interim visit to the Philippines from 13 to 18 July 2022 to lay down the groundwork for the annual staff consultation visit (SCV). The SCV, which was likewise held virtually from 18 February to 8 March 2022, involved meetings with select BSP departments, government agencies, and private institutions. This undertaking allows AMRO to deepen its understanding of key issues, recent macroeconomic developments, and policy initiatives in the country. The topics covered were the macro-financial economy; monetary policy and external developments; banking sector and micro, small, and medium-sized enterprise (MSME) financing; financial stability and labor market issues; fiscal policy; and the real sector.

In January 2022, the first annual thematic digest—an analysis of forum-based meetings' policy focus and initiatives—was published. The country fact sheet, which shows recent financial conditions in a particular economy and its bilateral relations with the Philippines, was also partially automated to increase efficiency and accuracy. This is used by BSP senior management as reference material for multilateral and bilateral meetings, conferences, and other engagements.

⁶⁶ The RCEP is a free trade agreement among Australia, Brunei, Cambodia, China, Indonesia, Japan, South Korea, Lao PDR, Malaysia, Myanmar, New Zealand, Singapore, Thailand, Vietnam, and the Philippines. It was ratified in the country on 21 February 2023.

⁶⁷ The IPEF is the economic component of the US Indo-Pacific Strategy, which was launched on 23 May 2022. It aims to serve as an avenue to discuss trade, supply-chain resilience, infrastructure, clean energy, decarbonization, tax, and anti-corruption.

⁶⁸ The primary objective of the JSI-SDR is to ensure that the qualification and licensing requirements and procedures, as well as the technical standards implemented by its members do not constitute unnecessary barriers to trade in services.

⁶⁹ These included the National Economic and Development Authority (NEDA), the Department of Finance (DOF), the Department of Budget and Management (DBM), the BTr, the Board of Investment, the Department of Energy, and the Department of Social Welfare and Development (DSWD).

Promoting a Sound, Stable, and Resilient Financial System

In 2022, the BSP promoted the safety, soundness, and resilience of the financial system through progressive reform initiatives, effective financial supervision and enforcement, multi-stakeholder collaboration, and consumer protection.

Leveraging technology, the BSP facilitated responsible innovation and increased participation in the financial system. The Bank notably enhanced its surveillance tools and reporting system for banking risks and developments. It also advanced the wider adoption of the sustainability agenda among BSP-supervised financial institutions (BSFIs).

Promoting the Sustained Safety, Soundness, and Resilience of the Philippine Financial System

Regulation

The BSP issued regulations to support the country's post-pandemic economic recovery. The Bank strengthened the resiliency of the financial system through the adoption of risk management standards on information technology (IT), outsourcing, and recovery strategies. It also extended the availability of certain temporary relief measures for BSFIs and their borrowers, particularly households and MSMEs.

Throughout 2022, the BSP issued four supervisory guidelines, 20 circulars, 53 circular letters, and 35 memoranda to its supervised entities. The Bank also provided guidance papers for its anti-money laundering (AML) and counter-terrorism and proliferation financing (CTPF) regulations. Furthermore, the BSP provided legislative support to several bills and public hearings conducted by the Congress.⁷⁰

Below are some of the key policy issuances and reforms of the BSP:

- **Prudential Framework for Large Exposures Monitoring Threshold.**⁷¹ The framework provides guidance for U/KBs and their subsidiary banks/quasi-banks (QBs) in complying with the large exposures monitoring threshold of 25.0 percent of tier 1 capital on solo and consolidated bases. This threshold intends to protect covered banks/QBs' solvency from maximum possible losses in case of sudden failure of a counterparty to facilitate BSP monitoring of concentration risks in the financial system.

⁷⁰ For more information, see the section on the BSP's Legal Services under What We Did in 2022: Advocacies, Initiatives, and Financial Results.

⁷¹ Circular No. 1150 dated 23 August 2022 (Prudential Framework for Large Exposures Monitoring Threshold)

- **Guidelines on the Recovery Plan of Banks.**⁷² The issuance expands recovery planning requirements to cover not only domestic systemically important banks but all other banks, subject to proportionality. Banks are expected to develop a concrete and reasonable recovery plan that is linked to their risk management frameworks, internal capital adequacy assessment processes or capital planning, liquidity plans, and business contingency plans.
- **Rural Bank Strengthening Program (RBSP) and Amendments to the Minimum Capitalization of RBs.**^{73,74} In May 2022, the BSP launched the RBSP to enhance the operations, capacity, and competitiveness of RBs amid evolving socioeconomic conditions. In August of the same year, the central bank amended the minimum capitalization requirements for RBs. This shall allow RBs to enhance their risk management systems, manage operational costs, meet prudential standards, and accelerate digital transformation.
- **Regulatory Sandbox Framework.**⁷⁵ The framework institutionalizes the BSP's test-and-learn approach for financial innovations. It allows financial technology (fintech) companies and supervised entities to develop new products and services and test them in a controlled environment. This enables fintech companies to explore the potential of innovative technologies without posing significant risks to financial stability.
- **Regulatory Framework for Digital Banks.**⁷⁶ The regulatory framework includes prudential requirements for digital banks in the areas of corporate governance, capital, leverage, and liquidity, among others. The policy proposal also includes amendments to the documentary and licensing requirements for the establishment of banks. Generally, the issuance aims to strengthen the use of digital platforms in the banking system. This is in recognition of digitalization's role in driving efficiency and in expanding reach for unserved and underserved sectors.

To boost digital transformation, the BSP adopted a modified approach to licensing virtual asset service providers (VASPs). The said approach focuses on assessing existing BSP-registered VASPs and the extent of their contributions in attaining the objectives of the Digital Payments Transformation Roadmap (DPTR) 2020–2023. Relatedly, the Bank implemented a three-year moratorium on the grant of VASP licenses starting on 1 September 2022, subject to reassessment based on market developments.

⁷² Circular No. 1158 dated 18 October 2022 (Guidelines on the Recovery Plan of Banks)

⁷³ Memorandum No. M-2022-024 dated 3 March 2022

⁷⁴ Circular No. 1151 dated 24 August 2022 (Amendments to the Minimum Capitalization of Rural Banks)

⁷⁵ Circular no. 1153 dated 5 September 2022 (Regulatory Sandbox Framework)

⁷⁶ Circular No. 1154 dated 14 September 2022 (Prudential Requirements Applicable to Digital Banks and Amendments to Relevant Provisions of the Manual of Regulations for Banks and Non-Bank Financial Institutions and Manual of Regulations on Foreign Exchange Transactions)

Supervision

The BSP led the conduct of a supervisory college for financial conglomerates in 2022. This was in accordance with the MOU on consolidated supervision among the Securities and Exchange Commission (SEC), the Insurance Commission (IC), and the Philippine Deposit Insurance Corporation (PDIC).

Toward a more risk-focused and integrated assessment of BSFIs, the BSP conducted thematic reviews and off-site surveillance beyond its regular examination procedures. This was consistent with the strategies laid out in the Supervisory Assessment Framework (SAFr).⁷⁷ Meanwhile, the Bank administered regular stress testing exercises to monitor the buildup of risks in the financial system.

In terms of its enforcement function, the BSP bolstered the oversight of unregistered entities. It also engaged BSFIs in the resolution of 104 complaints.

⁷⁷ The SAFr, which replaced the existing rating systems employed by the BSP, is a single, integrated risk-based assessment framework that covers all BSFIs. It links the systemic importance and risk profile of a BSFI to the formulation of supervisory plans for each institution.

Box Article 4

Progress on Money Service Business Registration and Implementation of the Targeted Financial Sanctions Framework

In June 2021, the Financial Action Task Force (FATF) placed the Philippines on the FATF list of “jurisdictions under increased monitoring.” This inclusion in the grey list called for a whole-of-nation approach to enhancing the country’s anti-money laundering regime. In line with this, the country made a high-level political commitment to work with the FATF and the Asia-Pacific Joint Group on Money Laundering to strengthen the country’s measures on anti-money laundering (AML) and countering the financing of terrorism (CFT). With a view to exit the grey list, the government and relevant agencies are taking concrete and targeted steps to ensure the timely and effective execution of action plans.

The National AML/CFT Coordinating Committee (NACC)^{1,2} coordinates and oversees all strategies and initiatives geared toward the Philippines’ exit from the grey list. For its part, the Bangko Sentral ng Pilipinas (BSP) has steered the collective efforts of member-agencies under the NACC’s Supervision of Financial Institutions Sub-Committee (SFISC).³ The SFISC has implemented and sufficiently addressed all of the three action plans related to the BSP and financial institutions, specifically:

1. implementation of new registration requirements for money- or value-transfer services
2. application of sanctions to unregistered and illegal money remittance operators
3. enhancement of the Targeted Financial Sanctions (TFS) Framework for terrorist financing and proliferation financing

In the past years, the BSP took deliberate measures to implement registration requirements for money service businesses. It also pushed for the imposition of proportionate and dissuasive sanctions on unregistered and illegal remittance operators. As a result, these matters were removed from the country’s strategic deficiencies in the FATF statement released in June 2022.

¹The committee was created through the National AML/CFT Strategy, which was approved by President Rodrigo Duterte under Executive Order No. 68 dated 12 November 2018.

² The NACC has five sub-committees, namely: (1) Financial Intelligence, Law Enforcement, and Prosecution Sub-Committee; (2) Supervision of Designated Non-Financial Businesses and Professions Sub-Committee; (3) Terrorism Financing and Proliferation Financing Sub-Committee; (4) AML/CFT Awareness Sub-Committee; and (5) SFISC.

³ The BSP chairs the SFISC, with members from the Securities and Exchange Commission, the Insurance Commission, the Anti-Money Laundering Council, the Philippine Deposit Insurance Corporation, and the Department of Finance.

The BSP further strengthened its risk-based TFS supervision through the continued conduct of risk assessments and thematic reviews, as well as sustained monitoring of financial institutions' (FI) compliance with committed TFS actions. In addition, the BSP developed and conducted capacity-building programs focusing on TFS to sharpen organizational capabilities within the Bank and among its supervised institutions.

Philippine FI supervisors, including the BSP, were also able to provide FATF with sufficient data that proved the effectiveness of risk-based TFS regulations in the country and FIs' sustained understanding of their TFS obligations. As a result, FIs were no longer cited in the remaining action plan on TFS in the FATF statement released in October 2022.

It is imperative that the BSP's supervisory strategies that promote integrity in the Philippine financial system are sustained. The BSP, therefore, remains committed to boosting its risk-based AML/CFT supervision. Among the Bank's key initiatives moving forward are the crafting of specific strategies and sustainable action plans, harmonization of supervisory activities across FI supervisors, expansion of information-sharing mechanisms, as well as reinforcement of organizational capability and capacity-building programs for BSP and key stakeholders.

Responsible Innovation and Increased Participation in the Financial System

Business Improvement

The BSP adopted several business improvements for its regulatory and supervisory technologies, including:

- the Advanced Supervisory Technology Engine for Risk-based Compliance (Project ASTERisC*), a cybersecurity monitoring tool;
- the Online Registration and Licensing System, an automated licensing platform for all chartering and registration requirements of new bank entrants;
- the Agent Registry System, a regulatory technology tool for agent monitoring of consumer protection and financial inclusion;
- the Visualization Tool for Analytics–Financial Industry Surveillance, an advanced dynamic data visualization tool;
- the SAFr Quarterly Indicators and Trends Dashboard, a tool for bank peering and identification of significant activities, inherent risks, institutional-level support, and trust indicators; and
- the Application Programming Interface–Extensible Markup Language-based Submission Platform, a digital report submission system for BSFIs.

As part of its collaborative efforts, the BSP developed reports and information data templates that outline the reportorial requirements of entities supervised by the Financial Sector Forum (FSF).⁷⁸ The Bank also generated a data dictionary that provides definitions for FSF data standards.

To achieve a more efficient workflow, the BSP similarly adopted the Targeted Financial Sanctions Matrix and implemented data laboratory repurposing and optimization projects.

Broadening Participation in the Financial System

The BSP led the whole-of-government approach in developing the country's Islamic finance ecosystem in 2022. The central bank issued regulatory frameworks that covered Islamic banking, tax neutrality, and Takaful.⁷⁹

Likewise, the BSP constituted the Islamic Finance Coordination Forum (IFCF). The IFCF steers collaborative undertakings among key stakeholders, including the BIR and the IC, in advancing progressive initiatives in Islamic finance.

⁷⁸ The BSP serves as the secretariat of the FSF, a voluntary cooperative arrangement among local financial regulators, including the SEC, the IC, and the PDIC.

⁷⁹ Circular No. 1139 dated 23 March 2022 (Guidelines for Reporting Islamic Banking and Finance Transactions/Arrangements)

With respect to Shari'ah governance, the Shari'ah Supervisory Board (SSB) in the Bangsamoro Autonomous Region in Muslim Mindanao was established through a joint circular among the BSP, the Bangsamoro government, the DOF, and the National Commission on Muslim Filipinos on 26 April 2022. The SSB is primarily tasked to issue Shari'ah opinions on Islamic banking transactions and products.

Meanwhile, the BSP facilitated the processing of 34 applications for various licenses and the chartering of six digital banks in 2022. These efforts were aimed at fostering healthy competition in the financial system.

Box Article 5

The BSP's Leap Toward a Future-Ready Financial System

The Bangko Sentral ng Pilipinas (BSP) leverages technology to support economic recovery, promote sustainability, and foster resilience in the financial sector. In 2022, the BSP continually implemented programs toward sustained service delivery, as well as agile and balanced supervision. The Bank also enhanced its future-proofing strategies and expanded its collaborative engagements.

Sustained Service Delivery

The shift to digital financial services and flexible work arrangements increased the risk of cyberattacks. In this light, the BSP issued several advisories and memoranda reinforcing technology risk management practices over electronic payments and financial services (EPFS), electronic mail, and application programming interfaces. Virtual asset service providers were also reminded to undertake effective risk management relative to virtual asset safekeeping, liquidity requirements, and third-party engagements.

The BSP provided proactive oversight and conducted risk-based supervision on BSP-supervised financial institutions (BSFIs). It undertook thematic reviews to identify emerging risks and potential vulnerabilities that cut across BSFIs. With the rise of online banking, these reviews focused on assessing critical technology service providers (TSPs),¹ particularly their conformance with international standards and compliance with operational and security regulatory requirements. The Bank also evaluated selected financial institutions' (FIs) terms and conditions on online banking facilities, as well as the extent of their consumer protection measures. Key insights from these reviews helped enhance the BSP's policy and supervisory framework.

Agile and Balanced Regulatory Environment

Developments in the last few years prompted the need for innovative, accessible, and secure financial products and services. As such, the BSP endeavors to implement reforms that strike a balance between the promotion of financial innovations and a safe and sound financial system.

Among the BSP's landmark policies in 2022 was Circular No. 1153 on the Regulatory Sandbox Framework, which institutionalizes the test and learn approach. Adopted as early as 2004, this approach enables FIs and financial technology (fintech) players to introduce innovative business models in a controlled setting, allowing the BSP to study their peculiarities and evaluate attendant risks. The said circular provides that sandbox applications shall be evaluated against a set of eligibility standards, the viability of proposed solutions, and the successful implementation of approved test plans.

The BSP also enhanced the outsourcing and information technology (IT) risk management framework for BSFIs through the issuance of Circular No. 1137. Key policy amendments include (1) the adoption of a risk-based supervisory approach, (2) the expansion of its scope from cloud service providers to TSPs, and (3) the relaxation of regulatory requirements for cloud outsourcing of core systems.

¹ The deployment of surveillance questionnaires to BSFIs started on 30 August 2022 and was completed on 15 November 2022.

Meanwhile, the central bank recognized that the increased demand for digital financial services exposed consumers to attack vectors that lure them to share sensitive information. With this, the BSP issued Circular No. 1140, which mandates BSFIs to adopt robust fraud management systems. The circular also reinforces cybersecurity awareness and consumer education on the safe and secure use of EPFS. All these are crucial in preventing fraudulent activities and upholding the integrity of the financial system.



Future-Proofing Strategies

The BSP's forward-looking stance paved the way for the adoption of progressive regulatory frameworks and supervisory practices, as well as the development of innovative tools that lay the groundwork for a future-ready economy. Proof of this pursuit is the implementation of the Advanced Supervisory Technology Engine for Risk-based Compliance (ASTERisC*), which is an interactive, unified, and secure regulatory and supervisory technology solution.

ASTERisC* facilitates FIs' compliance with cybersecurity requirements and automates the BSP's end-to-end cyber risk surveillance processes. It generates real-time dashboards on cyber profiles, compliance gaps, and threat intelligence. These dashboards aid the Bank's deployment of timely interventions, such as the issuance of cyber threat advisories and the flagging of concerns to relevant industry stakeholders.

Project ASTERisC* gained support from BSFIs as the platform enhanced their ability to comply with BSP's cybersecurity standards and meet customer expectations. The central bank continues to implement the program toward a swift, coordinated, and intelligence-led supervision that further elevates resilience in the financial system.

Collaborative Engagements

Throughout 2022, the BSP was actively involved in various collaborative engagements. The Bank served as a subject matter expert for various stakeholder fora on cybersecurity management, digital banking, IT risk management, and fintech and innovation. BSP representatives also participated in knowledge-sharing events with other central banks, including the Bank of Thailand and the Central Bank of Bangladesh.

Following the issuance of the Open Finance Framework on 17 June 2021, the BSP participated in an Open Finance Korea study visit in 2022. Under this activity, the Bank's Open Finance team engaged in consultations with various Korean government agencies and stakeholders on regulatory and practical approaches to open banking.

Leveraging Technology to Strengthen Surveillance Tools and Reporting Systems

The BSP implemented the Comprehensive Credit and Equity Exposures (COCREE) Report in 2022. It was designed to capture granular borrower/counterparty information for all credit and equity exposures of BSFIs. The Bank then launched the Credit Exposures Dashboard to present consolidated data gathered from the COCREE Report and generate supervisory analytics.

Similarly, the BSP developed the Requests and Offsite Activities Monitoring tool. This is an online mechanism that monitors quality management system (QMS) and non-QMS tasks of the Financial Supervision Sector.⁸⁰

⁸⁰ For more information, see the box article “The BSP’s Requests and Offsite Activities Monitoring Tool.”

Box Article 6

The BSP's Requests and Offsite Activities Monitoring Tool

The Bangko Sentral ng Pilipinas (BSP) has developed the Requests and Offsite Activities Monitoring (ROAM) tool, an online mechanism that enables the efficient handling of requests from BSP-supervised financial institutions and timely deployment of supervisory actions. This is consistent with the Bank's pursuit of improved supervisory operations under its quality management system (QMS), which is certified according to ISO 9001:2015.¹

The ROAM tool was initially operationalized in the BSP's Financial Supervision Sector (FSS) in 2019 as an internal tracker for monitoring pending tasks and summarizing accomplishments. The tool, which maximizes the features of Microsoft Excel for prompt data consolidation, was redesigned in 2022 to accommodate operational improvements. Among its new features are the following:

- a centralized and accessible database for the latest QMS manuals and forms, which promotes process and storage efficiency
- automatic generation of the summary of tasks and their corresponding processing times, which eliminates the manual encoding and preparation of the summary of work items and enables easy monitoring of compliance with standard processing times, as stated under the QMS
- automated classification of work items,² which facilitates uniformity of data and eases the process of encoding, counting, and consolidating unit accomplishments for the *Annual Results of Operations Report*
- a compliance tracker that enables close monitoring of financial institutions' compliance with BSP requirements
- a compliance report generated through a statistics sheet, which reduces the need to manually cull separate reports for the evaluation of compliance with prescribed timelines and procedures of FSS technical working groups (TWGs)
- automatically generated pro-forma file reference numbers,³ which lessen the time consumed by account officers in producing the same
- autonomous updating of parameters⁴ by FSS TWGs, which promotes the prompt deployment of updates⁵
- a chronology sheet that serves as a readily available reference on the chronological order of activities between the supervisor and the supervised institution for close monitoring, as required under the Prompt Corrective Action Framework
- a link to the enhanced Document Tracking System, another critical monitoring tool of the BSP that facilitates the tracking of specific records

Moving forward, the BSP seeks to enhance the ROAM tool to optimize operational efficiency, meet user needs, abide by relevant legislation and regulatory requirements, and keep abreast with innovations and developments in the banking industry.

¹ This was certified by the TUV SUD Asia Pacific, TUV SUD Group on 10 May 2022. The certification is valid until 17 February 2025.

² The ROAM tool shows the number of completed and pending tasks as of a given date.

³ Users may edit the automatically-generated numbers in accordance with FSS Sector Order No. 17, series of 2022 on the file reference number format.

⁴ Parameters refer to the matrix of timelines and template codes that may occasionally change, depending on the assessment of FSS TWGs. From these parameters, deadlines are calculated and BSP compliance is reckoned against.

⁵ Prior to this feature, FSS TWGs would submit updates using different templates, and the ROAM technical team still had to intervene to consolidate data parameters and reflect the updates on the tool.

Advancing the Sustainability Agenda

In line with the Sustainable Central Banking (SCB) Strategic Program, the BSP issued various sustainability-related regulations for financial institutions in 2022. Among these were the following:

- **Guidelines on the Integration of Sustainability Principles in Investment Activities of Banks.**⁸¹ The issuance lays out supervisory expectations on the integration of sustainability principles in the investment activities of banks, which covers investments in debt and equity securities lodged in the banking book. Under the guidelines, banks shall ensure that their investments do not contribute to sectors that harm the environment.
- **Guidance on the Implementation of the Environmental and Social Risk Management (ESRM) System.**⁸² The memorandum informs banks of the initial steps to consider in instituting an ESRM system. It describes the BSP's minimum expectations and provides references to publications of the Network for Greening the Financial System and the Basel Committee on Banking Supervision to support the development of such system.

Apart from the issuance of corollary regulations, the BSP conducted regular monitoring and evaluation of banks' compliance with sustainable finance regulations. It also pursued capacity-building activities on sustainable banking with various development partners.

Enhancing Systemic Risk Management

The BSP continually addressed systemic risk issues to maintain financial stability in 2022. It delivered critical milestones, enabling stakeholders to avoid expected shocks and build resilience against unexpected disturbances in the financial system. These initiatives included the following:

- **Systemic Risk Crisis Management Framework.** Released to the public on 6 June 2022, the framework defines the arrangements among the agencies involved in the Financial Stability Coordination Council (FSCC) to ensure organized risk management operations, especially in states of distress. The framework identifies the actions required to classify, assess, manage, and communicate systemic risks that might escalate into a crisis—a preemptive measure by the BSP and the FSCC to sustain system-wide preparedness.

⁸¹ Circular No. 1149 dated 23 August 2022 (Guidelines on the Integration of Sustainability Principles in Investment Activities of Banks)

⁸² Memorandum No. M-2022-042 dated 29 September 2022

- **Systemic Risk Surveillance and Analysis.** The BSP conducted an in-depth analysis of market conditions in 2022. It periodically released the *Systemic Risk Review* to the FSCC and the Financial Stability Policy Committee. The review served as a reference in crafting recommended courses of action, whenever necessary. Enhanced methods and new analytics⁸³ were also introduced to improve systemic risk analysis and the identification of the channels of contagion.
- **Firm-Level Network Models.** The BSP developed firm-level networks that reflect business connections to and from individual institutions in 2022. This gave the Bank the ability to monitor and map firm-level financial risks that could escalate into system-level risks. The new model addresses the aggregation problems experienced with financial statements.
- **Macroprudential Stress Test (MaPST).** The BSP commenced with the second phase of the MaPST, which was first implemented in 2021. Under phase II, the BSP assesses the potential impact of risks in the financial system through the synthesis of the results of analytic models, including those of the Vercelli model, the interest coverage ratio model, as well as cross-default and network analyses.

Indeed, the BSP fortified its systemic risk management by calibrating its tools and exploring new venues, methods, and analytics. Recognizing that the stability of the financial system necessitates system outcomes, the Bank similarly strengthened its collaborative engagements within and outside the institution.

- **Advisory Committee Deliberations.** The BSP consistently conducted discussions at the Advisory Committee technical staff level in 2022, highlighting current economic and market conditions. Subsequently, the technical staff provided recommendations on monetary stance with due consideration to financial stability.
- **Regional Collaboration.** The BSP served a second term as the co-chair of the Regional Consultative Group for Asia of the Financial Stability Board in 2022. In this capacity, BSP Governor Felipe M. Medalla provided thought leadership on the impact of global and regional macroeconomic developments in Asia. This gave the Bank an opportunity to lead the region and bring our financial stability discourse to a more strategic plane.

⁸³ These included the implementation of yield curve analyses, marked-to-market losses analyses, cross-default analyses, and industry-level type of network analyses.

Fostering a Safe, Efficient, and Inclusive Payments and Settlements System

The BSP oversees the Philippines' payments and settlements system—which is essential for the effective implementation of monetary policy and the smooth functioning of money and capital markets.

At the forefront of the Bank's policy agenda is the provision of payment solutions attuned to the evolving needs of Filipinos. As such, the year 2022 saw notable progress in the continued rise and wider adoption of digital technology in the payments landscape.

The BSP issued key policies that promote increased efficiency and stability to strengthen confidence in the use of digital payments. In embracing a cash-lite society, both domestic and cross-border, internationally accepted standards for payment systems and market infrastructures were also adopted.

Strengthening the Payment System Through Purposive Reforms

In 2022, the BSP made significant strides in modernizing and improving the national retail payment system of the country.

The National Retail Payment System (NRPS) Framework, which was launched in 2015, laid down the regulatory foundations that are crucial in the transition to a cash-lite economy. It paved the way for the creation of two automated clearing houses: the Philippine Electronic Fund Transfer System and Operations Network (PESONet) and InstaPay.⁸⁴

Results from the BSP's 2021 electronic payments measurement showed growth in digital payments. The share of monthly digital payments to total retail payments volume has significantly increased from 20.1 percent in 2020 to 30.3 percent in 2021.⁸⁵ In addition, the value of monthly digital retail payments in the country rose from 26.8 percent in 2020 to 44.1 percent in 2021. The y-o-y increase of 57.0 percent in the volume of monthly digital payments proved to be the fastest growth recorded since 2018.

High-frequency, low-value retail payments—such as merchant payments and person-to-person (P2P) electronic fund transfers—continued to be the main contributors to the widespread adoption of digital payments. This is a strong indication that the economy is closer to achieving the DPTR's goal of transforming at least 50.0 percent of retail payment transactions into digital form by the end of 2023.

⁸⁴ PESONet enables high-value transactions and serves as an electronic alternative to the paper-based check system; while InstaPay carries out real-time, low-value electronic fund transfers, useful for remittances and electronic payments.

⁸⁵ This is equivalent to 1.4 billion monthly digital payments in 2021, an increase from the 910 million recorded in 2020.

Combined PESONet and InstaPay transactions went up by 21.0 percent in volume and 37.0 percent in value as of end-2022 compared with 2021.⁸⁶ The volume and value of InstaPay transactions already surpassed automated teller machine (ATM) withdrawals for 2022.⁸⁷ In terms of the number of participating payment service providers (PSPs), PESONet participants rose to 104, while InstaPay participants increased to 77. The diverse participation of banks—including TBs, RBs, and digital banks—as well as non-bank electronic money (e-money) issuers indicate the widening reach of interoperable digital payment services across regions and income classes in the country.

The widespread adoption of digital payments made through PESONet and InstaPay gave impetus to other digital payment streams—EGov Pay and QR Ph.

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. As of end-September 2022, 557 government agencies have already been onboarded to the EGov Pay facility, compared with 445 in end-2021 and with only two in 2019, which was the year it was launched.

Meanwhile, the InstaPay rail facilitates quick response (QR) code-aided payments using the National QR Code Standard, called QR Ph. This improves the accessibility, convenience, and safety of QR-enabled payment and financial services. QR Ph was first launched by the BSP in November 2019 for P2P payments, primarily catering to remittances and transactions within the informal sector. The volume of QR Ph P2P payments surged by 100.0 percent, doubling from 1.1 million transactions in 2021 to 2.2 million transactions in 2022. Over the same period, its value grew by 104.0 percent, from ₱11.1 billion to ₱22.6 billion. As of end-2022, there were 38 QR Ph P2P participating PSPs, up by 41.0 percent from the previous year.

In October 2021, the BSP rolled out the QR Ph person-to-merchant (P2M) facility. It enables interoperable digital payments between merchants and their customers, even if they maintain accounts from different PSPs. The average monthly growth rates in terms of volume and value of QR Ph P2M from January to December 2022 stood at 79.0 percent and 68.0 percent, respectively. As of end-2022, 27 PSPs already offer QR Ph P2M, and more of them will be onboarded in the coming months.

The BSP continued collaborating with the payments industry to bring about greater convenience and efficiency in the retail payments landscape.

These efforts led to the successful launch of two important digital payments initiatives: the PESONet multiple batch settlement (MBS) and Bills Pay Ph. Both developments enhanced the retail payments landscape, further empowering the public to access and reap the benefits of going cash-lite.

⁸⁶ It rose by 21.0 percent in volume, from 523.6 million transactions to 633.5 million transactions, and by 37.0 percent in value, from ₱7240.0 billion to ₱9941.5 billion, from end-December 2021 to end-December 2022.

⁸⁷ ATM withdrawals only cover “off-us” transactions in which a customer uses his/her card or account on an ATM that is owned/operated by a BSFI, other than where the customer’s account is maintained.

The BSP launched the PESONet MBS on 24 January 2022. The service enhancement increased the daily batch settlement of fund transfers to two cycles—one settlement cycle in the morning and another at the end of the banking day. PESONet MBS increases the convenience of making digital payments and enables users to settle large-value payments faster, thereby increasing its viability as an alternative to the paper-based check system. It also addresses the demand of businesses for shorter clearing intervals, allowing them to better manage their cash flows.

On 29 November 2022, the BSP also launched Bills Pay Ph. The system transforms the country’s fragmented online bill payment facilities into a wide interoperable network. Bills Pay Ph enables digital payments between billers and payers even if they maintain accounts with different PSPs. Relatedly, businesses seeking to collect payments digitally are no longer limited to bilateral arrangements with various PSPs. With its interoperability, Bills Pay Ph provides Filipinos with greater convenience in paying utilities, rent, subscriptions, credit cards, loan amortizations, and other financial obligations—free of charge.

Aside from enhancing digital payment streams, the BSP formulated and issued strategic policies that support the NRPS Framework. The Bank issued Circular No. 1135, or the “Guidelines on the Settlement of Electronic Payments Under the NRPS,” on 24 January 2022. The circular strengthens risk management by providing measures that seek to mitigate the occurrence of settlement failure in digital payment transactions. This includes requiring clearing participants to have a dedicated demand deposit account (DDA) for PESONet transactions and to ensure the adequacy of their DDA balances for every settlement cycle.

The BSP also issued Memorandum No. 2022-029, or the “Guidelines on Handling of Consumer Concerns on PESONet and InstaPay Transactions,” on 6 June 2022. The issuance reminded BSFIs to adhere to the NRPS Framework, which requires continued compliance with BSP rules and regulations, including those on the aspect of financial consumer protection. Accordingly, the BSP instructed BSFIs to inform the public of the appropriate redress mechanisms available to them, as well as the turnaround time for the resolution of issues. BSFIs are further expected to provide access to a wide range of communication channels for consumer concerns.

The BSP constantly fosters public confidence in the country’s digital payment infrastructures by appropriately designating payment systems. A safe, efficient, and reliable payment system allows Filipinos to realize the benefits of the digital transformation efforts of the central bank. The Payment System Oversight Framework (Circular No. 1089 dated 7 July 2020) enables the BSP to adopt a risk-based approach in designating a payment system as either a systemically important payment system (SIPS) or a prominently important payment system (PIPS).^{88,89}

⁸⁸ SIPS is a payment system that poses, or has the potential to pose, systemic risks that could threaten the stability of the national payment system (NPS).

⁸⁹ PIPS is a payment system that may not trigger or transmit systemic risk but could have a major economic impact, or undermine the confidence of the public, in the NPS or in the circulation of money.

In 2022, the BSP designated four payment systems as SIPS or PIPS. The Philippine Domestic Dollar Transfer System (PDDTS) and the Philippine peso-US dollar Payment versus Payment (PvP)⁹⁰ System were designated as SIPS, while InstaPay and PESONet were designated as PIPS. These designations entail closer BSP supervision and monitoring to foster safety and resiliency while ensuring that the public's interest is protected.

Consequently, as designated payment systems, PDDTS, PvP, InstaPay, and PESONet shall be required to observe the Principles for Financial Market Infrastructures, pursuant to Circular No. 1126 dated 14 September 2021. The adoption of this internationally accepted standard supports the BSP's goal to digitalize half of the retail payments by 2023 and facilitate the launch of other use cases, such as interoperable bills payments, direct debits, and cross-border retail payments.

To broaden the reach of payments digitalization, the BSP intensified its efforts toward achieving regional payments connectivity. Cross-border payments connectivity supports and facilitates cross-border trade, investment, financial deepening, remittance, tourism, and a more inclusive financial ecosystem in the region. Through its cross-border payments initiatives, the Bank contributes to the financial welfare of overseas Filipinos and businesses engaged in international trade.

On 14 November 2022, the BSP signed an MOU with the central banks of Indonesia, Malaysia, Singapore, and Thailand. The MOU aimed to seal cooperation in the regional payments connectivity efforts that will bolster cross-border payments in the ASEAN-5. Toward this end, various initiatives are being considered, including the Nexus—a multilateral solution that links countries' real-time payment systems—which is being studied by the BIS' Innovation Hub.⁹¹

Beyond the NRPS, the BSP also provided the necessary infrastructure for an efficient payments landscape through the operations of the Philippine Payment and Settlement System (PhilPaSS). The Bank launched the country's new generation, large-value real-time gross settlement (RTGS) system, PhilPaSS^{plus}, in 2021. After a year of its implementation, the BSP onboarded 11 new payment system participants, which include one TB, four digital banks, and six RBs. This brings the total number of direct participants to 204 by the end of 2022.

Recognizing the importance of non-bank financial institutions (NBFIs) in the digital financial ecosystem, the BSP developed the peso RTGS rules, issued through Memorandum No. M-2022-0049 dated 22 November 2022. The issuance provides greater flexibility in the acceptance of participants in the RTGS payment system. It also allows non-bank e-money issuers and other non-traditional PSPs to directly settle their obligations through PhilPaSS^{plus} instead of being sponsored by large financial institutions.

⁹⁰ PvP is the only exchange-of-value settlement system for PHP/USD transactions that links two payment systems: (1) the PDDTS for the USD leg and (2) the peso RTGS system for the PHP leg.

⁹¹ For more information, see the box article "Building Bridges Through Cross-Border Retail Payment Linkages."

Close to 1.4 million transactions, with a value of ₱512.1 trillion, were settled through PhilPaSS^{plus} in 2022.⁹² While the value dipped by 11.0 percent compared with that in 2021, it indicates a larger flow of funds from the financial system to the real economy. Meantime, the volume of PhilPass^{plus} transactions increased by 6.0 percent in 2022. This growth is on account of the following transactions: (1) direct fund transfers between participants; (2) FX trades; and (3) customer payments, including retail payment clearing results.

Amid the rollout of innovative technologies to develop the country's payments landscape, the BSP started exploring Central Bank Digital Currencies (CBDCs).

A CBDC is a digital representation of the national currency that can support the digital economy. It can be designed for use among payment system participants—either through financial intermediaries (i.e., wholesale CBDCs) or by the wider economy (i.e., retail CBDCs). With a target use case of enabling safer and more efficient fund transfers across financial institutions, the BSP announced the commencement of Project CBDCPh in March 2022. The project is one of the major capacity-building initiatives aimed at ensuring that the central bank is abreast of fast-evolving technologies for alternative payment instruments. Pilot experiments shall commence upon establishing the feasibility of a wholesale CBDC for inter-institutional fund transfers.⁹³

⁹² This is equivalent to 25 times the country's annualized GDP in 2022.

⁹³ For more information, see the box article "The Central Bank Digital Currency Pilot Project."

Box Article 7

Building Bridges Through Cross-Border Retail Payment Linkages

The Bangko Sentral ng Pilipinas (BSP)'s pursuit of enhancing cross-border payments aims to contribute to the financial welfare of Filipinos, especially overseas workers and businesses with international transactions. The overarching goal is the improvement in cost, speed, transparency, and access to cross-border digital fund transfers.

For cross-border retail payments, the BSP prioritizes the development of fast payment system interlinkages among the member states of the Association of Southeast Asian Nations (ASEAN). These linkages aim to facilitate transactions within the ASEAN region, which is experiencing increases in trade and investment globalization, tourism, and workforce mobility.

The BSP is employing both bilateral and multilateral approaches to ensure efficiency and flexibility in international payments. These approaches are pursued in parallel, given that each has its advantages.

Table 1. Pros (+) and Cons (-) of Bilateral and Multilateral Approaches

Attribute	Bilateral	Multilateral
Coordination	(+) Only 1 partner country	(-) Multiple countries
Speed of completion	(+) Relatively faster	(-) Takes longer
Scalability	(-) Adjustments needed for every country	(+) One solution for a bigger number of participants
Cost	(-) Resources to adapt to partner country	(-) Large initial cost (+) Cost levels over time

The bilateral approach involves one-on-one engagements with select central banks to develop a linkage between the Philippines' fast payment system, InstaPay, and its counterpart from a partner country. Currently, coordination for bilateral payment linkages is ongoing between the Philippines and Singapore as well as Malaysia.

On the other hand, the multilateral approach focuses on collaboration with ASEAN member states, ensuring that the bilateral linkages to be developed may be scaled to a model involving more than two countries.

The cross-border payment initiative gained momentum when the central banks of Indonesia, Malaysia, Singapore, Thailand, and the Philippines—collectively the ASEAN-5—committed to jointly explore regional payments connectivity.

The vision is an ASEAN-inclusive payment system that can be eventually connected with the rest of the world. This commitment was concretized with the signing of the memorandum of understanding (MOU) on “Cooperation in Regional Payment Connectivity” on 14 November 2022 in Bali, Indonesia. The MOU broadly covers both bilateral and multilateral initiatives and outlines areas of cooperation among the five central banks, including modalities, such as quick response or QR codes and fast payments.

Various initiatives and potential solutions are likewise being explored. For instance, the Bank for International Settlements’ Innovation Hub, called Nexus—a multilateral solution that links countries’ real-time payment systems—is being considered.

The BSP will continue building bridges through cross-border payment linkages in the years to come.

Discussions among central banks and industry players, led by the Philippine Payments Management Inc., are still ongoing. Even at its nascent stages, the BSP firmly believes that the efforts to improve cross-border payments will build bridges—benefitting vast economies and citizens of the world.

Box Article 8

The Central Bank Digital Currency Pilot Project

Introduction

Digitalization continues to reshape economic and payment activities across the world. From the global financial crisis in the early 2000s until the outbreak of the COVID-19 pandemic in 2020, major developments have transformed the nature of money. Given the evolving landscape of digital payments, central banks are exploring the development of their own digital currencies. This move aims to enhance the transparency, security, reliability, and safety of payment systems while also maintaining the stability of monetary systems.

In response, private firms started developing solutions to increase operational efficiencies, including innovations in cross-border transfers, retail payments, and payment instruments. These significantly affect how individuals, firms, and the government pay, save, and transfer money.

Aligned with their role of ensuring safe, efficient, and inclusive payment systems, central banks review payment architectures—both national and international—and contemplate ways to address weaknesses in payment systems. One of the instruments that monetary authorities have been looking into is the adoption of a Central Bank Digital Currency (CBDC).¹

Relevance of CBDC

A CBDC can support the digital economy as a digital representation of the national currency. It can be designed for use among payment system participants—either through financial intermediaries (i.e., wholesale CBDCs) or the wider economy (i.e., retail CBDCs). A CBDC can improve the national payment system through the following:

- **Cost savings and improvement in payment efficiency.** The use of physical cash poses costs and operational burdens for both the public and private sectors. Central banks bear the expenses of maintaining cash infrastructure, particularly those related to printing, designing, delivering, and replacing notes and coins. CBDCs can reduce these costs and further improve efficiency by supporting financial digitalization and providing 24/7 access to payments with instant final settlement.
- **Address frictions in cross-border payments.** CBDCs may be used to address frictions in cross-border foreign currency transfers by reducing transaction costs, shortening the processing time of domestic and international payments, and enhancing transparency in terms of fees, rates, and statuses. Compatible CBDC systems among economies could provide an additional means to settle transactions across borders. Supported by open, competitive, and compatible domestic payment systems, CBDCs can allow wholesale access to central bank money for settling cross-border payments to a more diverse group of banks and non-banks, thus reducing fragmentation.
- **Improve settlement efficiency for financial market transactions.** Current market infrastructures often require downtimes or settlement delays due to operational constraints. Wholesale CBDCs enable operational improvements beyond existing market infrastructure capabilities. These instruments can provide 24/7 access to the

¹ Kiff et al. (2020) define CBDC as a digital representation of sovereign currency that is issued by and as a liability of a jurisdiction's central bank or monetary authority.

payment system and enable settlement of securities trades on the deal date itself (i.e., T+0 settlement), allowing buyers and sellers to enjoy greater market liquidity and act on short-term earning opportunities.

- **Reduction or discouragement of the adoption of privately-issued currencies.** CBDCs are viewed by several central banks as a response to the proliferation of cryptocurrencies, such as Bitcoin and Ethereum. Aside from the inherent volatilities of their value, these privately-issued digital tokens do not represent a claim to the central bank and do not qualify as legal tender—making them an incomparable substitute for money that is used to pay for goods and services. CBDCs can be a payment instrument, serving as an alternative to privately issued crypto assets that may be used for money laundering, cybercrimes, and other unlawful activities.

Stance and Strategic Initiatives on CBDC

In 2020, the Bangko Sentral ng Pilipinas (BSP) formed a technical working group (TWG) for the CBDC, joining other central banks in exploring the technology underpinning crypto assets in the creation of an enhanced local currency. The TWG conducts studies, reviews possible use cases, and explores potential CBDC technologies that may contribute to improving the safety and efficiency of the national payment system.

The TWG has since conducted discussions and issued an exploratory report that reflects the consolidated views of various BSP units, which serves as the take-off point for a more collaborative and comprehensive investigation of CBDC's nature and implications to the financial system. Based on its initial internal assessment in 2021, the BSP found that a wholesale CBDC may help address inefficiencies and improve the safety of wholesale payments, including cross-border fund transfers as well as settlements of equity securities and intraday liquidity facilities.

On the other hand, sustained progress in retail payments digitalization and financial inclusion makes retail CBDC less relevant to the Philippines in the short to medium term. As of end-2021, about 30.3 percent of retail payments are already digital, mainly due to the greater adoption of digital transfer channels for merchant payments, person-to-person remittances, and distribution of salaries and wages.

The sustained rise in digital payments and the pursuit of the BSP of a competitive and cooperative payment ecosystem—supported by several banks and non-bank service providers—have paved the way for a safe, efficient, and inclusive digital payment system in the country. This is similar to the vision of other central banks in developing their own retail CBDCs.

Project CBDCPh

Recognizing the relevant CBDC use cases for the Philippines, the BSP announced the commencement of Project CBDCPh in March 2022. As the Bank's wholesale CBDC project, it is one of the major capacity-building initiatives to ensure that the country is abreast of fast-evolving technologies that drive the emergence of alternative payment instruments.

The main objectives of the pilot project are: (1) to have hands-on knowledge of the functionality, architecture, technology, and operational and organizational requirements of a CBDC; and (2) to leverage methods to enhance existing payment systems.

Project CBDCPh's target use case is to enable fund transfers across a limited number of financial institutions, potentially even during off-business hours or on a 24/7 basis. The proof of concept on different CBDC technologies is underway. Soon after, the conduct of prototype testing is expected to run for several months. Upon establishing the feasibility of a wholesale CBDC for inter-institutional fund transfers, the BSP shall then proceed in conducting pilot experiments that will focus on relevant use cases for easing payment system gaps.

Ultimately, the learnings from the project shall serve as critical inputs in crafting the BSP's roadmap to wholesale CBDC, which will address pain points in the payments space. Moving forward, the BSP shall continue to expand its CBDC technology testing and emerging use case evaluation with the overall goal of enhancing the safety and efficiency of the national payment system.

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Ensuring Undisrupted Cash Operations

With the gradual recovery of the Philippines from the challenges brought about by the COVID-19 pandemic, the BSP—as the guardian of price and financial stability in the country—remained steadfast in supporting the momentum toward an economic rebound. The Bank ensured that there was an adequate supply of good quality currency to facilitate economic development, especially in the regions, and maintained confidence in the integrity of the Philippine peso.

In retrospect, the BSP continued to service the currency requirements of stakeholders through (1) strategic scheduling and adoption of more efficient modes of currency shipments; (2) providing ample buffer stock for unexpected spikes in currency demand or potential delay in currency delivery to the regions; (3) servicing the withdrawals of banks with new and fit banknotes and coins, in accordance with their denominational requests; and (4) reviewing and updating of currency operational procedures, processes, and practices, aimed at improving operational efficiency and internal controls.

Overall, the BSP produced a total of 2.3 billion pieces of banknotes and 1.3 billion pieces of coins in 2022. The Bank delivered ₱430.6 billion worth of banknotes and coins to 23 of its 25 regional offices and branches (ROBs).⁹⁴ This was 0.7 percent more than the value of currencies shipped to the ROBs in 2021. The frequency of currency shipments also rose by 25.6 percent in 2022, with a total number of 706 completed shipments to ROBs via land, air, and sea. This was despite the many challenges encountered in the procurement of cash-in-transit services and the unsuccessful biddings for the procurement of chartered aircraft services for certain regions.

Cash withdrawals in the regions declined by 6.9 percent in 2022 compared with 2021. Currency withdrawal provides significant support to the recovery of local economies by ensuring that an appropriate level of liquidity is present in the system. In 2022, total withdrawals in the regions stood at ₱734.5 billion worth of banknotes and coins.⁹⁵ This was 6.9 percent lower than the recorded withdrawals in 2021 due to the combined impact of the BSP's digitalization initiatives and the strengthened implementation of the Cash Service Alliance (CSA) initiative.

The transactions facilitated through the CSA continued to gain traction, especially in the GMA. Launched in October 2020, the CSA enabled the proactive exchange and recirculation of fit currency among banks. As of end-December 2022, 28 out of the 29 AABs participated in the CSA in the Greater Manila Regional Office (GMRO). This generated a total of 930 matched transactions for banknote and coin requirements, amounting to ₱297.3 billion.⁹⁶

⁹⁴ The other two regional offices, GMRO and South Luzon Regional Office (SLRO), are not included in the shipment of currency. The GMRO directly receives its currency requirements from the Currency Policy and Integrity Department, while the SLRO is currently located at the BSP Head Office and does not have a separate currency operations unit.

⁹⁵ In particular, the BSP GMRO serviced an aggregate of 1,307.5 million pieces or ₱505.0 billion worth of banknotes and 1,431.0 million pieces or ₱7.4 billion worth of coins.

⁹⁶ From this, 56.9 percent (in value terms) of the total fit currency holdings of AABs were recirculated, while 36.7 percent (in value terms) of total currency requirements of AABs were sourced through the CSA.

AABs outside Metro Manila were also able to source their currency requirements through the CSA, which amounted to ₱44.5 billion or 5.7 percent of the total currency requirements of banks in 2022. Although significantly lower compared with the figures recorded in the Metro, CSA utilization in the regions gained a 181.5-percent rise in 2022 from the 2021 level.

With its increasing adoption, the CSA initiative won the 2022 Currency Initiative Award from the *Central Banking* publication. The Central Banking Awards program recognizes extraordinary examples of public service and pioneering activities in the central banking community. Furthermore, the CSA core team won the 2022 Presidential *Lingkod Bayan* Award of the Civil Service Commission (CSC), with its members named as regional winners and semi-finalists in the 2022 Search for Outstanding Government Workers.

The BSP continually monitored the maintenance of currency reserves. To provide precaution and insurance against uncertainties and shocks, the BSP maintains a currency buffer stock, which is equivalent to three months' worth of banknotes and one month's worth of coins, based on average withdrawals of banks from the past three years. As of end-2022, the amount of buffer stock reached ₱198.4 billion, consisting of banknotes at ₱197.0 billion and coins at ₱1.3 billion. From this, the BSP GMRO held a total ₱147.1 billion or 284.6 million pieces across all denominations.

The BSP produced requested land titles, commemorative coins/medals, and other important documents. The central bank delivered 5.4 million pieces of judicial title forms to the Land Registration Authority in 2022. It also produced a total of 13.7 million pre-personalized and 20.3 million personalized Philippine identification cards for the PSA. Additionally, the BSP produced 1,440 pieces of presidential medals and state decorations, 5,943 pieces of commemorative coins, and 3,632 pieces of commemorative medals.^{97,98}

Reinforcing the Preservation of Currency Integrity

The BSP has the sole power and authority to issue currency in the country. It preserves and maintains the integrity of Philippine banknotes and coins to enhance public trust and confidence in the financial system. Likewise, the central bank continuously looks for ways to improve the currency in response to the evolving needs of Filipinos and the availability of modern technologies.

⁹⁷ These items included the 150-Piso commemorative coin in celebration of the 150th anniversary of the martyrdom of Fathers Mariano Gomes de los Angeles, Jose Burgos, and Jacinto Zamora, collectively known as GOMBURZA; the 125-Piso commemorative coin for the death anniversary of Dr. Jose P. Rizal; and the Catholic Bishops Conference of the Philippines' commemorative medal for 500 years of Christianity in the country.

⁹⁸ Special commemorative silver medals were produced for outgoing Monetary Board Members (MBMs) Carlos G. Dominguez III and Felipe M. Medalla, as well as outgoing BSP Governor Benjamin E. Diokno. A special commemorative gold medal was also conferred to outgoing President Rodrigo R. Duterte.

For 2022, the central bank analyzed 11,740 highly technical claims.⁹⁹ A total of 94,032 pieces, amounting to ₱24.4 million, of severely damaged banknotes and coins were examined—of which 53,343 or ₱20.8 million were replaced in favor of the claimants. Meanwhile, 4,662 pieces of examined coins, amounting to ₱20,000, and 46,008 pieces of examined banknotes, amounting to ₱28.6 million, were assessed to be counterfeits.

To ensure that only fit legal tender coins would recirculate, the BSP facilitated the destruction of counterfeit, unfit, mutilated, and demonetized (CUMD) coins. In 2022, 4.9 metric tons (mt) and 183.2 mt of defaced coins were sold on 12 April and 31 August, respectively. This generated a total of ₱76.6 million in income for the BSP. The sale concluded the coin defacement and disposal project of the GMRO for the CUMD coins stored in the central bank's vaults since 1999.¹⁰⁰

The BSP diligently worked on the defacement of newly received CUMD coins. To avoid the recurrence of accumulating high-volume CUMD coins, the central bank acquired a low-capacity coins defacement machine (LC-CDM). The LC-CDM is currently operating at an average of 60 bags or 120,000 pieces of defaced coins per day.

In April 2022, the BSP commenced the circulation of the 1,000-Piso polymer banknote. The BSP GMRO piloted the initial release of 9.7 million pieces of polymer banknotes through its client banks' withdrawals from April to September 2022. Meantime, the subsequent releases of 43.7 million pieces were coordinated with BSP ROBs.

As of end-December 2022, a total of 53.4 million pieces of 1,000-Piso polymer banknotes had been released. Over the same period, 17,304 ATMs across the country had been calibrated to dispense polymer banknotes, 42.0 percent of which were from the GMA.

In October 2022, the BSP also established the criteria for the fitness standards of the New Generation Currency (NGC), enhanced NGC (eNGC), and the 1000-Piso polymer banknotes. Various BSP offices coordinated in the preparation and formulation of recommendations on (1) the proposed criteria for unfit banknotes, (2) the standard machine parameters for the calibration of automated banknote processing machines for eNGC and polymer verification, and (3) the revised fitness thresholds for paper and polymer banknotes.

Amid the ongoing test circulation of polymer banknotes, the BSP facilitated networking opportunities among abaca farmers and possible funding agencies. In 2022, the central bank organized a meeting on the Abaca Tuxy Buying special project, which aims to empower abaca farmers to produce quality products and diversify its client base.

⁹⁹ A claim typically consists of multiple pieces of banknotes or coins that are examined on a piece-by-piece basis.

¹⁰⁰ In 2021, the BSP successfully sold via public auction an initial 249.5 mt of the total defaced coins, with a total bid price of ₱7.2 million.

The meeting was attended by the Philippine Fiber Industry Development Authority; potential funding sources, including the Land Bank of the Philippines (LBP) and the Development Bank of the Philippines; as well as relevant government institutions, particularly the Department of Trade and Industry (DTI), the Department of Agriculture–Agricultural Credit Policy Council (DA-ACPC), and the Philippine Crop Insurance Corporation.

Policy Studies

To better support policies on currency management, the BSP undertook several policy studies and drafted several reports. These included the following:

- **Integrated Currency Management Framework.** The framework provides the structure for currency policy initiatives and addresses the principal objective of ensuring an adequate supply of currency in the most cost-effective way.
- **Currency Demand Forecasting System Report.** The report documents the evolution of currency demand in the BSP from 2002 to 2021. In the coming year, the report shall be expanded to cover the outputs from the 2023 customized learning program on currency forecasting.
- **Review of the Currency Denominational Structure of the Philippines.** The BSP reviewed the country's currency denominational structure using established empirical estimation methodologies, accompanied by surveys that determine stakeholder sentiment. The draft was presented to the Research Experts Panel on 16 November 2022.
- **Public Perception Survey toward the 1,000-Piso Polymer.** This is a comprehensive survey that aimed to measure the public's awareness of the 1,000-Piso polymer, their perception in terms of the banknote's degree of saturation in the market and its features, as well as their sentiment on the possible conversion of other banknote denominations to polymer.
- **Study on the Nexus between Digitalization and Cash Usage.** The BSP employed time series regression and interrupted time series analysis in this study. Cash usage was represented by banks' currency withdrawals, while digitalization was proxied by digital variables (i.e., InstaPay, EGov Pay, and QR Ph). The preliminary draft was presented to the Research Experts Panel on 16 November 2022 and during the Research Community in Action (CIA) activity on 12 December 2022.
- **Study on the Shift to a Coin-less Philippine Society.** This benchmarking study looked into the experiences and policies adopted by selected central banks, with the intention to accelerate the adoption and use of digital payment platforms in the country.

- **Polymer Evaluation Framework.** Approved through MBR No. 1185 dated 11 August 2022, the framework consists of several studies that seek to confirm the applicability of other central banks' claimed benefits of polymer banknotes under Philippine conditions.
- **Study on the Legal Tender Limits of Coins.** With the issuance of MBR No. 1679 dated 17 November 2022, the BSP assessed the adjustment of the value-based legal tender limits of all coins. This is to account for the loss in purchasing power due to inflation and align the limit for the 20-Piso coin with that of the 1-Piso, 5-Piso, and 10-Piso coins. Following the developments from this study, Circular No. 1162 dated 1 December 2022 on the new legal tender limits was subsequently issued.¹⁰¹

With a healthy mix of safe, reliable, and innovative payment options, as well as adequate and good quality physical currency, the BSP will continue to foster a safe, efficient, and inclusive payments and settlements system as the country shifts toward a post-pandemic economy.

¹⁰¹ Circular No. 1162 dated 1 December 2022 (Legal Tender Limit of Philippine Coins for Single Transaction)

Box Article 9

The Polymer Recycling Project

The Bangko Sentral ng Pilipinas (BSP) initiated the polymer banknote circulation test to validate claims made by other countries regarding their benefits. An important aspect of the test is to study the proper management of polymer banknotes at the end of the cash cycle to ensure that they align with the BSP's sustainability goals.

In general, when unfit and mutilated paper banknotes are taken out of circulation, they are processed in a manner that ensures their removal from the cash cycle. Shredding is a common method of banknote destruction¹ where the byproducts are used as an alternative fuel in the production of cement. The BSP Security Plant Complex (SPC) follows this process and sends shredded and briquetted banknotes to a local cement manufacturer for co-processing in their cement kiln. However, the BSP regional offices, which are located separately from the SPC, often dispose of the banknotes in landfills due to the mostly biodegradable nature of banknote paper.

Similar to paper banknotes, polymer banknotes are shredded at the end of their cash cycle. However, because polymer banknotes are plastic, they take a considerable amount of time to decompose, making landfill disposal less desirable. As with other monetary authorities that have long been using polymers for their currency, like Australia, Canada, and the United Kingdom, the preferred disposal of waste polymer banknotes is through recycling.

Since the start of the polymer project, the BSP has been studying the recycling process of polymer-issuing countries. This study includes their best practices, the equipment used for destruction and upcycling, and the kinds of recycled products made from discarded polymer banknotes.

The BSP has reached out to several plastic manufacturers and recyclers to engage them on the opportunities in waste polymer banknote recycling—a pioneering initiative—should a full shift to polymer banknotes be implemented. Social enterprises involved in plastic waste management have also declared their capability and showed their interest in recycling polymer banknotes. The BSP has also tapped the academe to encourage the generation of ideas and research proposals for the environment-friendly disposal of polymer banknotes.

Currently, there is a plan in progress to engage a state university to conduct studies on how disposed polymer banknotes can be utilized. The results from the studies shall be shared with plastic manufacturers and recyclers. This will pave the way for more recycling options that are driven by “green” concepts and are consistent with the BSP's sustainability goals in terms of currency production.

¹ In the past, incineration was also a traditional method used by governments to dispose of unfit banknotes.

Box Article 10

The Pilot Implementation of the Rebates, Refunds, and Incentives on Unfit Banknote Deposits

The Bangko Sentral ng Pilipinas (BSP) has adopted the Clean Note and Coin Policy (CNCP) as part of its responsibility to maintain the integrity of Philippine currency. This helps ensure that only good quality currency is circulating within the system. The CNCP provides the conditions under which a currency is to be withdrawn from circulation, as well as the system for properly segregating fit from unfit notes and coins.

Despite the implementation of the CNCP, which aims to encourage all banks to accept unfit Philippine currency notes and coins from the depositing public to enable the expeditious withdrawal of unfit currencies from circulation, a decreasing trend in the volume of unfit banknote deposits—both in the BSP Greater Manila Regional Office (GMRO) and other regional offices and branches (ROBs)—was observed from 2018 until the onset of the pandemic in 2020.

Figure 1
GMRO Unfit Banknote Deposits
2018 to 2020; in million pieces

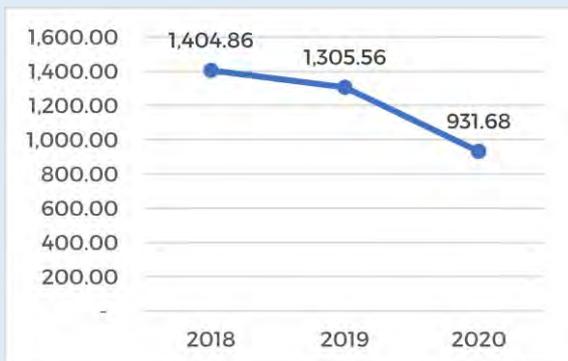
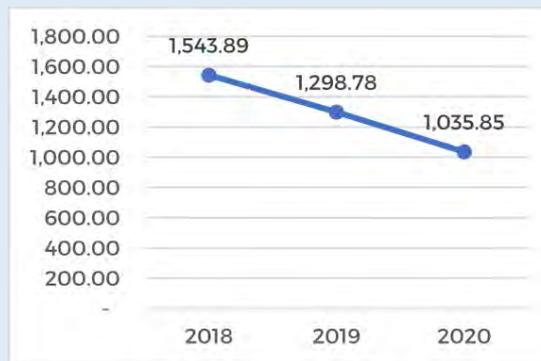
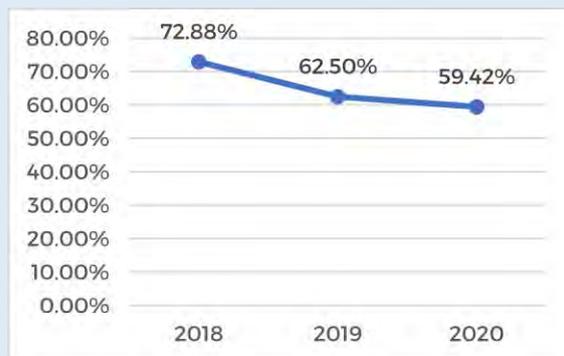


Figure 2
Other ROBs Unfit Banknote Deposits
2018 to 2020; in million pieces



The figure below also shows that the year-on-year (y-o-y) ratio of unfit banknote deposits to total banknote deposits decreased from 2018 to 2020 nationwide.

Figure 3
Ratio of Unfit Banknote Deposits to Total Banknote Deposits
2018 to 2020; in percent



To further promote the goals of the CNCP and to encourage authorized agent banks (AABs) to deposit more unfit banknotes to the BSP, the Monetary Board issued Resolution No. 1658, dated 17 December 2020, approving the provision for rebates, refunds, and incentives (RRI) for every bundle of unfit banknote deposits. This allows banks to recover the service fees paid by the AABs from their regular banknote withdrawals from the BSP.

Rebates are applied to high-denominated unfit banknote deposits (i.e., 1,000-Piso and 500-Piso). Refunds are applied to low-denominated unfit banknote deposits (i.e., 100-Piso, 50-Piso, and 20-Piso). Incentives are rewards given for every excess bundle of unfit deposits over withdrawals.

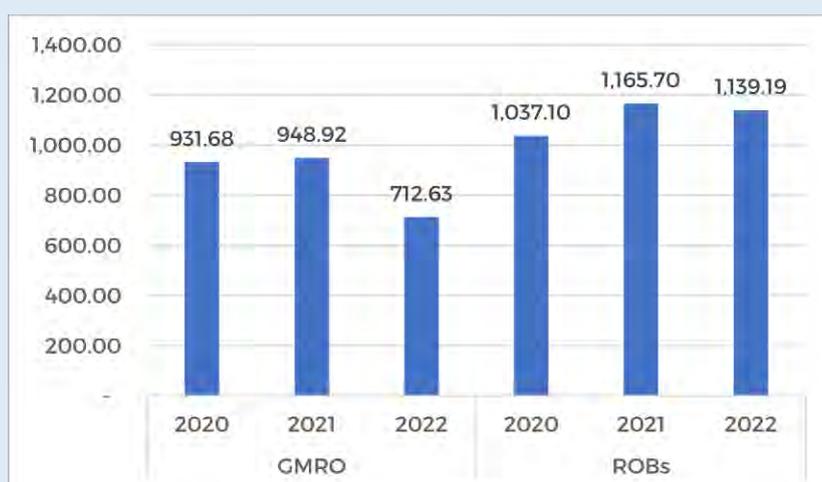
The RRI is applied to the service fees charged on banknote withdrawals within a three-year period. Any balance on service fees or RRIs after the said period may no longer be utilized.

Ultimately, the RRI scheme supports the CNCP, effectively removing unfit currency from circulation. It was first implemented in the BSP GMRO on 13 January 2021 and in the ROBs on 1 June 2021. However, key activities for the RRI implementation have been completed in 2022.

Results of the RRI's Pilot Implementation

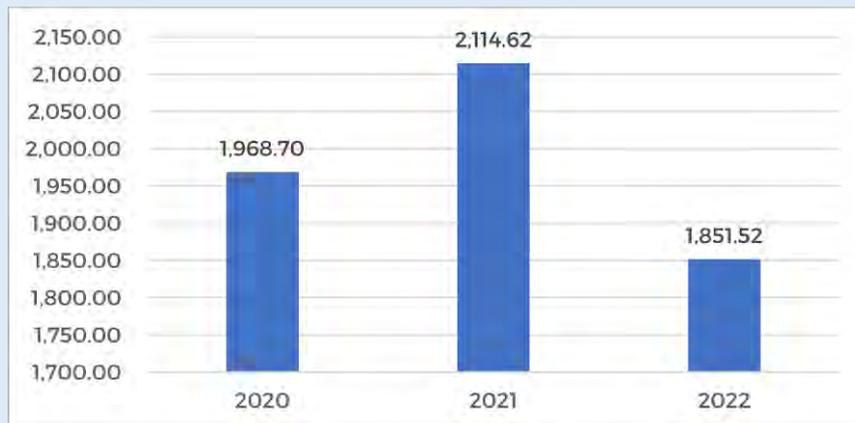
In 2021, the first year of the RRI's implementation, the volume of unfit banknote deposits of the BSP GMRO and other ROBs increased by 17.2 million pieces (1.9 percent) and 128.6 million pieces (12.4 percent), respectively, from the previous year's levels. For the year 2022, unfit banknote deposits decreased by 236.3 million pieces (24.9 percent) in the BSP GMRO, while a slight decrease by 26.5 million pieces (2.3 percent) was observed in other ROBs.

Figure 4
GMRO and Other ROBs' Unfit Banknote Deposits
 2020 to 2022; in million pieces



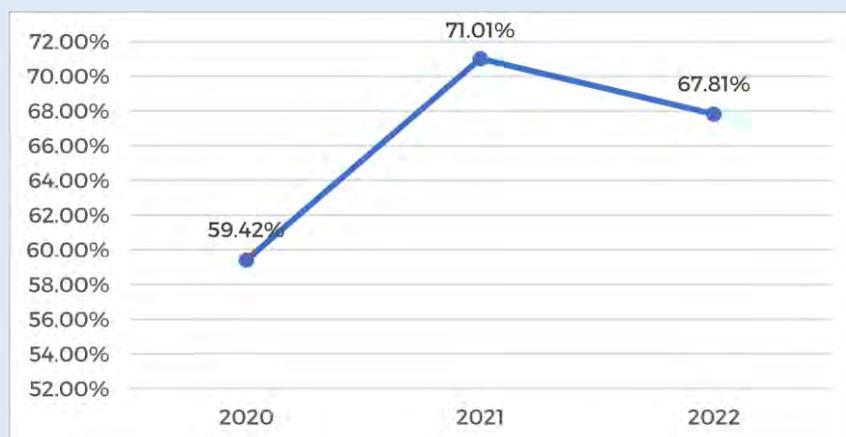
In aggregate, the volume of unfit banknote deposits to the BSP across the country increased by 145.9 million pieces (7.4 percent) in 2021 but decreased by 263.1 million pieces (12.4 percent) in 2022.

Figure 5
Unfit Banknote Deposits Nationwide
 2020 to 2022; in million pieces



The y-o-y ratio of unfit banknote deposits to total banknote deposits nationwide also increased from 59.4 percent in 2020 to 71.0 percent in 2021. However, a slight decrease to 67.8 percent was observed in 2022, as more banks preferred to utilize new banknotes from the BSP over excess fit banknotes from banks for low denominations. Available holdings of banks that remain idle are instead deposited to the BSP. The decrease in total unfit banknote deposits in 2022 was also a result of the shift of the 20-Piso from banknote to coin.

Figure 6
Ratio of Unfit Banknote Deposits to Total Banknote Deposits
 2020 to 2022; in percent

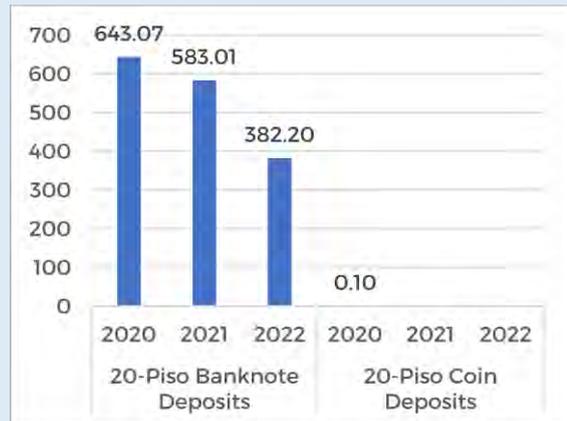


The introduction of the 20-Piso coins in 2020 prompted the decreasing trend in 20-Piso banknote withdrawals. As 20-Piso withdrawals shifted from banknotes to coins, the 20-Piso banknote deposits also decreased significantly by 60.1 million pieces and 200.8 million pieces in 2021 and 2022, respectively.

Figure 7
20-Piso Banknote and
Coin Withdrawals
 2020 to 2022; in million pieces



Figure 8
20-Piso Banknote and
Coin Deposits
 2020 to 2022; in million pieces



Unfit banknotes make up a sizable component in volume terms of the annual banknote deposits of AABs to the BSP. It was observed that this component continued to decline through the year 2022.

Figure 9
20-Piso Banknote Deposit
Classifications
 for the year 2020; in million pieces

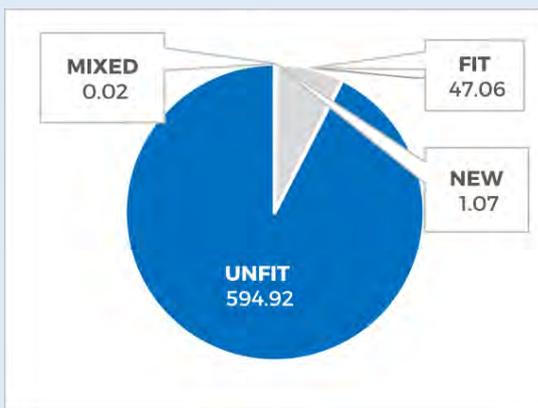


Figure 10
20-Piso Banknote Deposit
Classifications
 for the year 2021; in million pieces

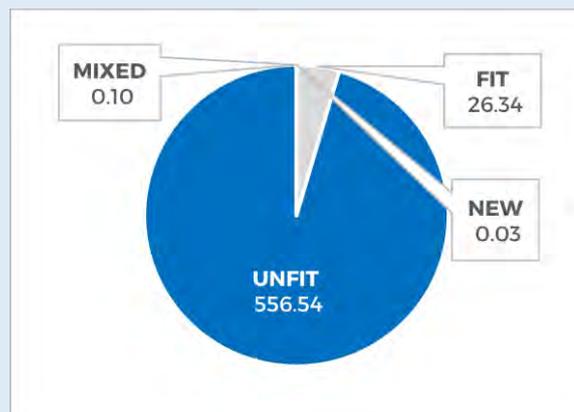
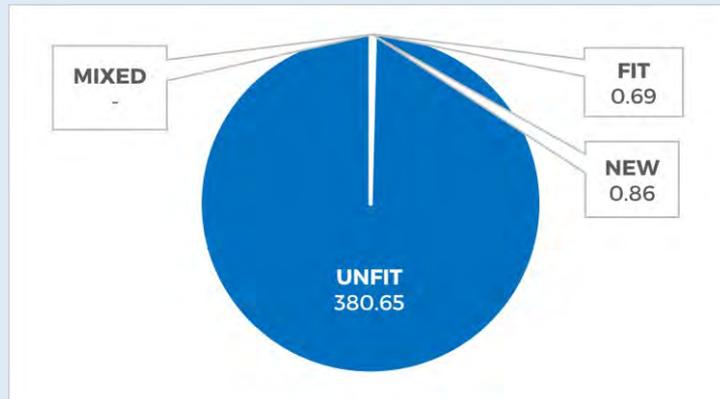


Figure 11
20-Piso Banknote Deposit Classifications
 for the year 2022; in million pieces



Consequently, the introduction of 20-Piso coins to the system as substitute for 20-Piso banknotes has led to the decline in circulation of the banknote with a corresponding increase to its counterpart.

Figure 12
20-Piso Banknotes in Circulation
 2020 to 2022; in million pieces

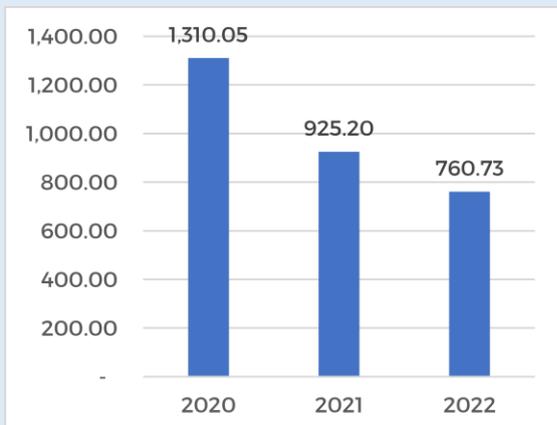
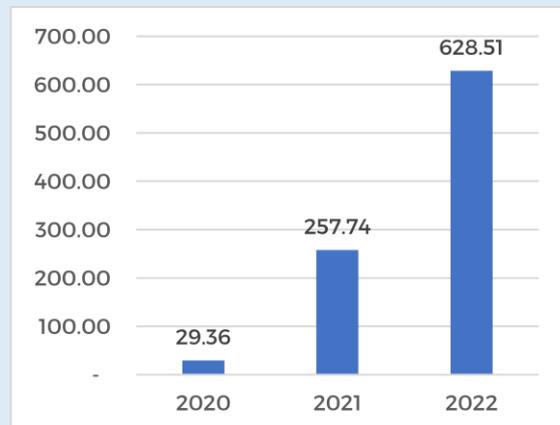


Figure 13
20-Piso Coins in Circulation
 2020 to 2022; in million pieces



RRIs Paid in 2021 and 2022

The scheduled payment of RRIs is in accordance with the BSP Regional Operations Sub-Sector's Memorandum No. 2022-076, which provides that the 2021 RRIs of banks shall be paid within the fourth quarter of 2022. Meanwhile, for the years 2022 and onwards, the RRIs that the banks are entitled to receive shall be paid within the first quarter following the reference year.

From the implementation of the RRI in the BSP GMRO in January 2021 up to year-end, a sum of 19.4 percent of the total service fees was paid to the banks within the Greater Manila Area in November 2022. Meanwhile, of the total service fees generated by other BSP ROBs from June 2021 up to year-end, 12.9 percent of RRIs were paid to the banks in December 2022.

For the year 2022, the total RRIs paid by the BSP to GMRO-client banks was slightly lower by 6.0 percent compared to the RRIs paid in 2021. On the other hand, the total RRIs to be paid to other ROB-client banks for the year 2022 was 41.7 percent higher compared to the previous year, since the RRI was only implemented in other ROBs during the second semester of 2021.

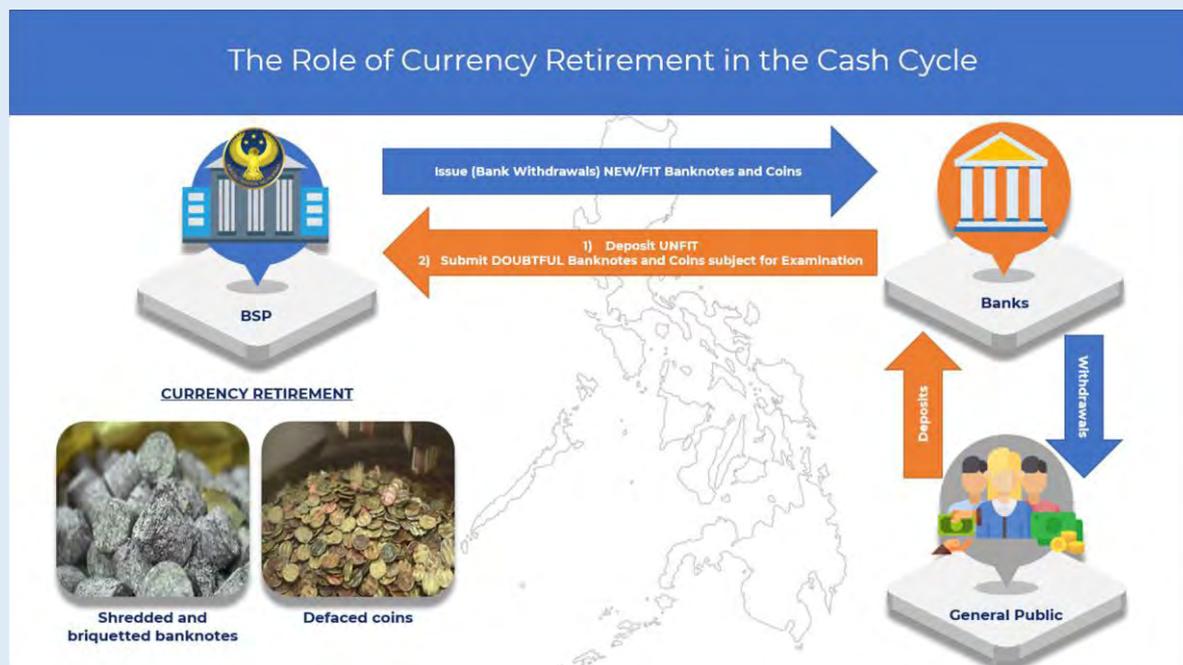
With established RRI implementation guidelines, complemented by strengthened CNCP information campaigns, the BSP foresees that AABs nationwide will increasingly realize the benefits of the RRI scheme in strategically managing their transactions with the BSP.

Box Article 11

The Coin Defacement and Disposal Project

The Bangko Sentral ng Pilipinas (BSP) is mandated to withdraw from circulation and demonetize all banknotes and coins that, for any reason, are unfit.¹ Currency retirement is the final phase of the currency lifecycle in which the BSP is tasked to shred banknotes, deface coins, and discard them through public auction. The central bank shall also replace unfit currency—except those that can no longer be identified, such as coins that show signs of filing, clipping, or perforation, as well as notes that have lost more than two-fifths of their surface or all the signatures inscribed thereon. Banknotes and coins in such mutilated conditions shall be withdrawn from circulation and demonetized without compensation to the bearer.²

The Coin Defacement and Disposal Project highlights the most cost-effective manner of achieving the BSP's objective of promptly and properly defacing³ its holdings of counterfeit, unfit, mutilated, and demonetized (CUMD) coins before disposal to prevent the risk of their recirculation.



Coin Defacement Activities

The BSP, through its Greater Manila Regional Office (GMRO), is responsible for the acceptance of verified unfit coins from its authorized agent banks (AABs), as processed by the regional offices and branches. Likewise, the BSP is responsible for the acceptance of mutilated and counterfeit coins surrendered by the public through the AABs. These coins are examined by the BSP Currency Policy and Integrity Department.

¹ Section 56 of Republic Act No. 7653 (The New Central Bank Act)

² Ibid.

³ Defacing is the manner of destroying and changing the appearance of coins.

Since the last disposal of coins in 1999, a large volume of CUMD coins has been accumulated— occupying a total of 178 m² of vault space in the BSP Manila and Quezon City offices. The destruction of these coins prior to disposal is imperative to prevent their recirculation, avoid reputational risks to the BSP, and preserve currency integrity.

On 4 October 2021, the BSP commenced the defacement of CUMD coins by outsourcing a high-capacity defacement machine. The service provider defaced a total of 445.7 metric tons (mt) of CUMD coins, which is 10.7 mt higher than what was expected.

Disposal of Defaced Coins

Pursuant to Executive Order No. 888, series of 1983, the BSP shall dispose of its unserviceable equipment and disposable property by sale through public bidding. As such, the BSP’s Security Plant Complex-Disposal Committee (SPC-DC) and the GMRO jointly facilitated the discarding of defaced CUMD coins through a series of public auctions, which started in December 2021 until October 2022. Below is the summary matrix of completed auctions:

Lot No.	Category	Percentage Share to Target Disposal (437 mt)	Completed*
1	Ferrous: scrap metal	57%	2 March 2022
1	Non-Ferrous: copper, zinc, nickel, and aluminum alloy	42%	5 October 2022
2			
3			
4	Non-Ferrous: silver, copper, zinc, and nickel	1%	26 April 2022
5			
	Total	100%	

*The winning bidder completely hauled the defaced coins.

On 5 October 2022, a total of 437.61 mt of defaced coins was fully disposed of and completely hauled by the winning bidder.

Moving Forward

To avoid the recurrence of accumulating a high volume of coins for disposal, the BSP acquired a low-capacity coins defacement machine (CDM) and is actively defacing newly received CUMD coins. Currently, the machine is operating at an average of 60 bags or 120,000 pieces of defaced coins per day. This allows the BSP to fully deliver its responsibility to withdraw and replace unfit currency in circulation, promoting further the BSP Clean Note and Coin Policy.

At the beginning of 2022, the BSP’s outstanding holdings of unfit coins for retirement is 7.0 million pieces, equivalent to ₱16.9 million. By 31 December 2022, as additional unfit coins were accumulated, the Cash Retirement Division defaced a total of 19.0 million pieces, equivalent to 113.8 mt, of CUMD coins using the low-capacity CDM, which shall be turned over completely to BSP SPC-DC within the first quarter of 2023. At the end of 2022, the BSP’s total outstanding holdings of unfit coins for defacement and retirement stood at 6.8 million pieces, equivalent to ₱15.7 million.



WHAT WE DID IN 2022:

Strategic Priorities,
Advocacies, Initiatives, and
Financial Results

What We Did in 2022: Strategic Priorities, Advocacies, Initiatives, and Financial Results

Inclusive Financial System

The BSP continues to pursue financial inclusion—a vital component of the Philippines' development agenda.

With this, the National Strategy for Financial Inclusion (NSFI) 2022–2028 was launched in January 2022 under the guidance of the interagency Financial Inclusion Steering Committee. The six-year blueprint, which takes into consideration recent developments in the technological and financial landscape, aims to generate and sustain broad-based growth and financial resilience.

Huge strides have been made since the new NSFI was launched, including the passage of important policies on financial inclusion. Among these is Executive Order No. 170, or the “Adoption of Digital Payments for Government Disbursements and Collections,” which mandates all government entities to utilize digital channels in their disbursement and collection of payments. Issued on 12 May 2022, the directive promotes the efficient delivery of government services and supports the country's development toward a future-ready economy.

Increasing Uptake of Transaction Accounts

The Basic Deposit Account (BDA) addresses many barriers to inclusion, such as cost and lack of identification documents. With a minimum opening amount of not more than ₱100.0 and simplified identification requirements, more Filipinos are now able to open an account at their nearest bank, through a cash agent, or via a mobile application. As of Q3 2022, the number of BDA holders reached 8.6 million in 152 banks, an increase from 7.6 million in 137 banks for the same period last year.

On 12 January 2022, the BSP issued Memorandum No. M-2022-003 to provide additional guidance and clarifications on the implementation of the BDA Framework under Circular No. 992, series of 2018.

Meanwhile, the BSP continuously supported the co-location strategy of the PSA and the LBP for the rollout of the Philippine Identification System (PhilSys). Under this scheme, LBP co-locates in targeted PhilSys registration centers, thus allowing registrants to open transaction accounts onsite and free of charge. In the course of the strategy's implementation from 2021 to 2022, over 8.3 million registrants have been onboarded to the formal financial system.

Recognizing the transformative power of digital technology, the BSP and the Department of the Interior and Local Government (DILG) issued a joint memorandum circular that enjoins LGUs to implement the Paleng-QR Ph program on 22 June 2022. The joint initiative is geared toward building the digital payments ecosystem in the country by promoting cashless payments in public markets, public transportation, and community shops. Throughout the year 2022, the city governments of Baguio, Davao, Tagbilaran, Lapu-Lapu, Naga, Pasig, Antipolo, and Alaminos issued ordinances on the implementation of the Paleng-QR Ph program.

Furthermore, the BSP supported the cashless mall initiative, which allows consumers to shop and pay at SM malls using QR Ph, the country's QR code standard.

Feature Article

Redefining Advocacy Work of BSP Through Paleng-QR Ph



In a seeming first anniversary celebration of the program's creation in 2022, the Paleng-QR Ph initiative marked a major milestone: the support of President Ferdinand R. Marcos Jr., a known champion of digitalization in governance.¹

President Marcos expressed his support during the 1 June 2023 meeting with the Private Sector Advisory Council (PSAC) Digital Infrastructure Cluster, wherein recommendations to further improve the country's digital infrastructure were discussed. He also ordered government agencies to educate Filipinos on using electronic wallets and other digital payment applications (apps) to prop up economic activities, particularly the inclusion of micro, small, and medium-sized enterprises.

"Mr. President, this one has a big impact on financial inclusion because the problem is [that] there's no way for banks to assess their credit scores, but if we have a digital database with their payment habits, that will be a substitute and a good proxy for credit scoring. This actually helps in the financial inclusion advocacy of the Bangko Sentral ng Pilipinas (BSP) and the government," BSP Governor Felipe M. Medalla explained to President Marcos.

PSAC member Ernest Cu, president and chief executive officer of Globe Telecom, described the Paleng-QR Ph initiative as a necessary "grassroots approach" and the use of quick response (QR) codes and digital payment apps as a "home run" for the government.

The Paleng-QR Ph program was formally launched in June 2022 with the BSP and the Department of the Interior and Local Government's issuance of a joint memorandum circular (JMC) enjoining all local government units (LGUs) to implement the program based on the guidelines provided. The program aims to promote financial inclusion and cashless transactions in public markets, community shops, and local transportation by capitalizing on the QR Ph initiative of the BSP.

¹ Update as of June 2023

Under the Paleng-QR Ph program, LGUs are expected to issue an ordinance promoting cashless payments by mandating and incentivizing the use of QR Ph digital payments by market vendors and tricycle operators and drivers (TODA). The program also includes onboarding market vendors and transport providers to transaction accounts, which would not only provide them with the means to accept QR payments but also give them access to other financial services, such as formal credit. As part of the program, financial education modules are likewise conducted for these target segments to enable them to maximize the use of their transaction accounts.

Another program component is the account opening day, which LGUs organize with the help of financial service providers participating in the QR Ph initiative.

In November 2022, the Paleng-QR Ph Plus program branding was introduced. The use of “Plus” aims to capture the broader target market of the program, expanding digital payment acceptance in every city and municipality in the country. It also better reflects the coverage of LGU ordinances to include other business establishments, which is in addition to market vendors and TODA as specified in the JMC.



A total of eight LGUs issued ordinances on the implementation of the Paleng-QR Ph program in 2022. These include the city governments of Baguio, Davao, Tagbilaran, Lapu-Lapu, Naga, Pasig, Antipolo, and Alaminos.

Six more LGUs rolled out the program through the issuance of ordinances on the Paleng-QR Ph program in 2023, particularly the cities of Ilagan, Bacolod, Angeles, and Iloilo; and the municipalities of Camiling in Tarlac and Carmona in Cavite.



Enhancing the Digital Finance Infrastructure

The BSP recognizes the role of PhilSys in enabling innovations in the delivery of financial services and the transition to a digital economy. As the chair of the Inter-Agency Committee on Use Cases and Authentication, the Bank extended technical assistance to the PSA in crafting and implementing compelling PhilSys use cases in the public and private sectors.

In this view, the BSP provided policy advice on the development of vital PhilSys policies. These included Memorandum Circular No. 95, series of 2022, directing all government instrumentalities to prepare for (1) the implementation and integration of PhilSys in government databases; (2) the PhilSys Check, which allows for a QR-based offline identity authentication using public-private key cryptography; and (3) the ongoing development of the PhilSys authentication module that will be integrated into government social services.

Moreover, the BSP successfully completed the Agent Registry Project with technical support from the Alliance for Financial Inclusion. The registry is a web portal of agents comprising retail outlets—such as small shops, convenience stores, supermarkets, pharmacies, and pawnshops—where clients can perform basic financial transactions, including cash in and cash out. These agents enable financial institutions to serve a wider client base, particularly in low-income and rural areas, at less cost compared with setting up a full branch and deploying ATMs.¹⁰²

The BSP also continues to implement the technical assistance program from the Agence Française de Développement. One component of this is the strengthening of the Bank's regulatory capacity for digital finance. While still at its initial stages, the procurement process for the development of the BSP's supervisory technology blueprint has been prioritized. The target completion of the grant facility is in 2026.

Promoting Access to Finance for the Micro, Small, and Medium-sized Enterprise and Agriculture Sectors

In its drive for inclusive economic growth, the BSP remains committed to promoting innovative approaches to increase the financing access of the MSME and agriculture sectors.

As part of this effort, the BSP has been administering the Credit Risk Database (CRD) in partnership with the Japan International Cooperation Agency (JICA). The number of participating banks under the database increased from 17 in 2020 to 32 in 2022. Further, the credit scoring model was constructed in October 2022. The project and the launch of the CRD scoring service are targeted to be completed in Q1 2023.

¹⁰² For more information, see the section on Digital Transformation: Key Projects Supporting the BSP's Strategy and Programs.

The BSP has also engaged with six participating banks for the Agriculture Value Chain Financing (AVCF) Pilot Project in coordination with the ADB. The project aims to demonstrate the viability of the AVCF approach in servicing the financing requirements of the agriculture sector.

Additionally, the BSP supported the conduct of the Supply Chain Finance (SCF) market development study of the International Finance Corporation. On 22 November 2022, the Bank co-hosted the 11th Financial Infrastructure Development Network Conference, where the results of the SCF market development study in the Philippines were presented. Key findings indicated that the country already has the necessary legal foundation, including the Personal Property Security Act (Rep. Act No. 11057), to develop SCF products.

To gain a better understanding of the needs and unique challenges of MSMEs, the BSP and the ADB conducted a national MSME demand-side survey with a focus on women entrepreneurs. This is part of the ADB's regional knowledge support and technical assistance project "Promoting Transformative Gender Equality Agenda in Asia and the Pacific." The results from the survey could support evidence-based policymaking and provide deeper market insight that could help financial service providers broaden their products and services.

Concurrently, the BSP established a technical working group (TWG), composed of industry associations and government institutions, tasked to develop a standard business loan application form. The standardized form streamlines the loan application process, making it more accessible for MSMEs. Following the standard internal policy development process and formal industry exposure, the Bank issued Circular No. 1156 on 30 September 2022, requiring banks and other supervised institutions to adopt the prescribed template for loan applications.

The BSP also persisted in supporting the enactment of the proposed amendments to Rep. Act No. 2137, or the Warehouse Receipts Law of 1912. The measure seeks to strengthen the warehouse receipt (WR) financing system and promote greater lending among farmers and MSMEs in the country. On 8 November 2022, the Bank held a virtual forum to discuss ways to further develop WR finance in the Philippines and the proposed amendments to the existing law.

In line with the Credit Surety Fund Cooperative Act of 2015 (Rep. Act No. 10744), the BSP continually provides capacity-building activities for credit surety fund (CSF) cooperatives.¹⁰³ For 2022, the central bank procured the training services of Spartan Allied Services Management, Inc., which provided five webinar sessions to registered CSF cooperatives. This is in addition to the webinars facilitated by the Bank in collaboration with other government agencies, which focused on the NSFI 2022–2028, inclusive digital finance, and credit data submission. An aggregate of 454 participants attended the webinar sessions.

¹⁰³ The CSF was launched in 2008. Since then, 55 CSFs have been established nationwide, 33 of which have already been registered as CSF cooperatives with the Cooperative Development Authority.

Microfinance

The BSP regularly monitors microfinance—an essential source of credit for the entrepreneurial poor. Microfinance in the banking sector has developed significantly over the years and is demonstrating resilience from the impact of the COVID-19 pandemic. In the first three quarters of 2022, microfinance loans grew by roughly 1.0 percent.

Consistent with the BSP's thrust to advance the microfinance sector, the first Digital Financial Inclusion Awards (DFIA) was rolled out in March 2022. Twenty-four outstanding microentrepreneurs were recognized for their successful adoption of digital solutions in their businesses, while four microfinance institutions were acknowledged for their pursuit of digital innovations to improve financial services amid the pandemic.

The DFIA is a redesigned and updated version of the Citi Microentrepreneurship Awards, which the BSP supported since the program's inception in 2002.

Economic and Financial Learning

The BSP persistently advocates for economic and financial literacy. In 2022, the Bank initiated four learning programs and nine learning sessions in coordination with its partners. It also granted 19 webinar requests from various schools, government agencies, and private institutions.

To widen the scale and reach of its learning initiatives, the BSP innovated and shifted to online modes of delivery. In November 2022, the Bank led the virtual Financial Education (FinEd) Stakeholders Expo. The expo featured seven virtual learning sessions, which attracted over 91,000 views on the BSP and PisoLit's Facebook pages.

As convener of the FSF–Consumer Protection and Education Committee, the central bank held four webinars about the Personal Equity and Retirement Account. The webinars were attended by over 500 employees from the Department of Science and Technology (DOST), the Department of Education (DepEd), the Armed Forces of the Philippines (AFP), and the CSC.

In addition, the BSP organized 14 virtual financial literacy sessions that targeted beneficiaries from government and private institutions. A series of training of trainers for partner agencies was likewise conducted, gathering a total of 554 participants.

The BSP also brought its FinEd programs closer to the people through the Regional Macroeconomic Conference Series (RMCS) held in Mindanao and North Luzon. The RMCS serves as a venue for stakeholders to better understand fundamental central banking concepts. This enables them to solicit inputs that can aid in decision formulation, as well as in monetary and financial policymaking. The virtual RMCS events were attended by almost 560 participants from the business sector, banks, pawnshops, government agencies, and the academe.

Further, the BSP conducted a face-to-face lecture for market vendors and section heads in Baguio City to encourage the adoption of cashless payments through the Paleng-QR Ph program.

In June 2022, the BSP forged partnerships with (1) DTI, together with private-sector partners BDO Foundation, Meta, and Bayan Academy, for a financial literacy program for MSMEs and DTI personnel; and (2) DA-ACPC, together with the BDO Foundation, for the development of an interactive FinEd game for its credit beneficiaries in the agri-fishery sector.

DTI and DA-ACPC are the latest additions to the BSP's existing FinEd partnerships with the AFP, CSC, DepEd, DSWD, the Overseas Workers Welfare Administration, the Bureau of Fire Protection, the Bureau of Fisheries and Aquatic Resources (BFAR), and the Philippine National Police (PNP).¹⁰⁴

¹⁰⁴ Under a partnership with the BSP, PNP institutionalized the FinEd program for uniformed and non-uniformed personnel nationwide through Memorandum Circular No. 2022-121.

Under its partnership with BFAR and BDO Foundation, the BSP developed the gameplay, tools, and framework for monitoring and evaluation of “Fish N’ LEarn.” An innovative FinEd game for fisherfolks, “Fish N’ LEarn” was launched in May 2022, the Farmers and Fisherfolks’ Month. In September of the same year, BFAR bestowed the *Gawad ng Pagkilala* Award to the BSP for the game, recognizing its contribution and support to the institution’s programs and advocacies for the fisheries sector.

To augment its economic and financial literacy efforts, the BSP maintained its engagement with the Knowledge Resource Network (KRN), using different media. The central bank conducted electronic-learning sessions and distributed electronic copies of the KRN Newsletter. Updated editions of printed BSP publications were also provided to KRN partners, which are composed of LGUs, SUCs, and private academic institutions nationwide.

Consumer Protection

The BSP consistently implements consumer protection policies in support of its financial inclusion and financial stability objectives. In this view, the central bank also provides unwavering assistance to financial consumers in the resolution of their complaints.

Consumer Protection and Market Conduct Policymaking

Rep. Act No. 11765, or the Financial Products and Services Consumer Protection Act (FCPA), provides a comprehensive legal basis for instilling market discipline and protecting the rights of financial consumers. The law was enacted on 6 May 2022 and took effect on 3 June 2022.

To implement the provisions of the FCPA, the BSP issued Circular No. 1160 on 28 November 2022, effective 20 December 2022. The circular mandates all BSP-supervised institutions (BSIs) to set up an effective consumer protection risk management system and adhere to globally accepted consumer protection standards, particularly (1) disclosure and transparency, (2) fair treatment, (3) protection of client data, (4) protection of consumer assets from fraud and misuse, and (5) effective recourse.

The BSP then drafted the rules of procedure (RoP) for consumer assistance mechanism (CAM), mediation, and adjudication, in alignment with the FCPA's provisions. These policy issuances were drafted by the BSP with assistance from the WB. The draft RoP is being finalized and will be elevated to the central bank's MB for approval.

Meanwhile, the BSP initiated preparatory work for the conduct of a pilot data analytics and policy study on responsible pricing. This is under a technical assistance program from Innovations for Poverty Action (IPA), a non-profit policy research entity. The study shall support the central bank's future policy issuances related to the determination of the reasonableness of interest rates, fees, and charges for selected financial products and services of BSIs.

Box Article 12

BSP Circular No. 1160: Financial Consumer Protection Regulations

Republic Act (Rep. Act) No. 11765, or the Financial Products and Services Consumer Protection Act (FCPA), provides a comprehensive legal framework for protecting the rights of financial consumers. It strengthens the powers of financial regulators, such as the Bangko Sentral ng Pilipinas (BSP), over the financial service providers under their supervision. The BSP, together with the Securities and Exchange Commission, the Insurance Commission, and the Cooperative Development Authority, pushed for the passage of the law in 2022.

The FCPA empowers the BSP with the express authority to make rules and regulations focused on protecting financial consumer rights. Beyond prudential supervision, the law clarifies the authority of the central bank to oversee and examine BSP-supervised institutions (BSIs) with a market conduct lens. The FCPA also enables the Bank to adjudicate consumer complaints, in addition to its usual provision of assistance to consumers with concerns about the financial products and services of BSIs. Ultimately, the law strengthens the enforcement powers and administrative sanctions of the BSP on violations of financial consumer rights.

On 28 November 2022, the Bank issued Circular No. 1160 to implement the FCPA. The said circular covers all financial products and services created, developed, offered, or marketed by BSIs. These include deposits, investments, fund transfers, trust products, loans, payments, remittances, and digital financial services, among others.

Circular No. 1160 mandates BSIs to set up an effective Consumer Protection Risk Management System (CPRMS), which should be integrated into their enterprise-wide risk management processes and risk governance framework. The CPRMS should be able to help identify, measure, monitor, mitigate, and control consumer-related and misconduct risks. It should also be adherent to the five consumer protection standards of conduct:

1. **Disclosure and transparency.** A BSI must provide clients with information that accurately represents the nature, pricing structure, terms and conditions, as well as fundamental risks and benefits of its financial products and services. This is to enable clients to make prudent financial decisions.
2. **Fair treatment.** A BSI is prohibited from discriminating against clients due to race, age, financial capacity, ethnicity, origin, sexual orientation, gender, disability, health condition, religion, or political affiliation. The terms and conditions governing the financial products and services of a BSI must be fair, without undue imbalance between the rights and obligations of the institution and its clients.
3. **Privacy and protection of client data.** A BSI must safeguard the privacy and confidentiality of its clients' personal and account information. It must uphold the rights of clients as data subjects, consistent with Rep. Act No. 10173, or the Data Privacy Act of 2012.

4. **Effective recourse.** A BSI must establish a Financial Consumer Protection Assistance Mechanism (FCPAM), which is a first-level recourse for clients who have concerns or complaints. The FCPAM should be accessible through various channels for free in a timely, efficient, and fair manner. The end-to-end steps of the FCPAM—including the actions to be taken by the BSI and the corresponding turnaround times for the resolution of issues—must be fully disclosed to clients.
5. **Protection of consumer assets against fraud and misuse.** A BSI must provide an active 24/7 reporting channel for clients with concerns about unauthorized or fraudulent transactions. The Originating Financial Institution, or the sending BSI, is primarily responsible for giving redress to its account holders. While the investigation is ongoing, the BSI should provide reasonable and applicable accommodations to its clients. These include the suspension of the imposition of interest, fees, or charges; holding, blocking, or freezing of disputed funds; and allocation of non-withdrawable provisional credit equivalent to the disputed amount.

Further, Circular No. 1160 requires BSIs to practice appropriate product design and responsible pricing—considering the varied needs, goals, understanding, and financial capabilities of their clients and target markets. BSIs must also set a cooling-off policy to allow clients to assess the costs and risks of financial products and services, devoid of pressure from sales teams and third-party agents.

Circular No. 1160 also makes BSIs solidarily liable with their third-party agents and service providers for acts, omissions, or violations of the FCPA. The sanctions include fines, penalties, cease and desist orders, administrative cases against BSI officers, as well as restrictions on the ability of BSIs to collect unreasonable fees and charges, among others.

Circular No. 1160 became effective on 20 December 2022. The transitory provision allows BSIs to (1) perform a gap analysis of their current consumer protection practices within six months from the effectivity of the circular and (2) implement an action plan approved by its Board of Directors to ensure full compliance within a year from the effectivity of the circular.

The BSP, with the issuance of Circular No. 1160, emphasizes the responsibilities of BSIs in upholding the rights of financial consumers as enshrined in the FCPA. Consumers, on the other hand, must remain well-informed and vigilant in making financial transactions and choosing financial products and services. Ultimately, financial consumer protection is a shared responsibility among financial regulators, BSIs, and consumers.

Complaints Data Management and Analytics

With technical assistance from the IPA, the BSP completed a comprehensive analysis of the complaints data collected from its CAM chatbot, called the BSP Online Buddy (BOB). An analysis of social media data on consumer complaints was also completed. The results from these two studies are being used to inform BOB system improvements and the planned acquisition of a consumer sentiment analytics tool under the BSP's "Big Data" project.

The BSP also recalibrated its complaints database to generate better analytics and to align with the changes in the regulatory environment. The New Complaints Masterfile categories and standard operating procedures now enable the Bank to generate reports in a timelier and more detailed manner.

Consumer Assistance Mechanism

From 1 January to 31 December 2022, the BSP received and processed 22,142 complaints that were escalated by financial consumers through various channels of the Bank's CAM. Around 75.0 percent of these complaints were processed through BOB.

The BSP also deployed a new Complaints, Inquiries, and Request (CIR) form as part of its CAM. The new CIR is shorter and easier to use for complainants. It likewise gathers more accurate and granular information to ensure alignment with the data categories in the New Complaints Masterfile.

Consumer Complaints Resolution Office

The BSP created the Consumer Complaints Resolution Office (CCRO) following the implementation of the FCPA. The CCRO adjudicates consumer complaints in connection with financial transactions, products, and services.

Of the 54 mediation cases referred to the BSP in 2022, 45 were terminated, while nine were ongoing as of 31 December 2022. Thirty-six of the 45 terminated mediations were successful, which means that both parties entered into a settlement agreement and/or agreed to terminate the mediation.

Strategic Communication

The BSP recognizes that proactive communication and stakeholder engagement are vital to generating and maintaining awareness of, satisfaction with, and trust in the institution. By constantly engaging key stakeholders and interest publics, the BSP continues to cultivate much-needed support for its policies and initiatives in pursuit of price stability, financial stability, and a safe and efficient payments and settlements system. The central bank also advocates financial inclusion, digitalization, and sustainable finance toward socioeconomic development that benefits all Filipinos.

In support of its primary objectives, the BSP has adopted a strategic communication program. Through the program, priority stakeholders are provided with timely and accurate information on the central bank's policy decisions and actions, as well as the relevance of its work to people's lives.

Public Opinion

In 2022, the following are the outcomes of the strategic communication program:

- In terms of stakeholders' level of trust in the BSP based on PUBLiCUS Asia's Pahayag survey (Q4 2022):
 - ❖ Ranked first among agencies in the economic development cluster
 - ❖ Ranked third across all government agencies included in the survey
- In terms of stakeholders' awareness of the BSP and its mandates, policies, and their impact on the economy based on the Social Weather Station's Public Perception Survey (Q4 2022):
 - ❖ 92.0 percent of adult Filipinos were aware of the BSP
- In terms of the public's assessment of the BSP's performance based on PUBLiCUS Asia's Pahayag survey (Q4 2022):
 - ❖ Ranked first among agencies in the economic development cluster
 - ❖ Ranked fourth across all government agencies included in the survey

Message Discipline and Tiering

As a matter of standard practice, the BSP's communication efforts have been guided by a communication tool called the "message house," which helps the Bank's units define and articulate key messages for priority stakeholders. A specific message house is crafted for every priority initiative and guides the development of communication products.

In 2022, the BSP produced 120 communication materials on its priority initiatives, such as financial inclusion and digitalization. The communication materials had an average engagement rate¹⁰⁵ of 5.0 percent, exceeding the target of 3.0 percent, and a cumulative reach¹⁰⁶ of 450,000 accounts across various media.

In pursuit of effective communication and consistent with the IMF's Code of Good Practices on Transparency in Monetary and Financial Policies,¹⁰⁷ the BSP produced communication materials with simplified technical terms and user-friendly formats. These were then distributed through platforms suited for specific target audiences.

The BSP employed tiered messaging for different demographic groups. For example, the *Monetary Policy Report*—the Bank's flagship publication—has a regular technical report and derivative communication products, including visual summaries and social media cards.

Media Engagement

The BSP continued to engage traditional media as the domestic economy recovered from the pandemic. The Bank released clear, relevant, and timely communication materials, in an effort to boost public trust and confidence in the institution. It issued 459 press releases in 2022, with the statement on the monetary policy decision that increased interest rates by 75 bps in November 2022 garnering the highest coverage in print and broadcast media.

According to third-party media monitoring firm Isentia, the BSP generated an estimated ₱13.6 billion worth of public relations value in 2022. This was based on news reports of media organizations that carried the central bank's press releases and messages.

The BSP also leverages various forms of digital media to provide the public with advisories and learning materials on its primary functions, policies, initiatives, and statistics. In 2022, the Bank utilized its website and social media accounts to disseminate infographics, audiovisual presentations, and digital exhibits for its online audiences. It regularly posted timely and relevant content, including practical financial tips, scam prevention reminders, consumer protection advisories, and simplified descriptions of complex economic issues and concepts.

With 1,310 posts during the year, the BSP's Facebook page followers rose from 728,081 in 2021 to 847,868 in 2022, representing a 16.0-percent increase. Engagement actions (e.g., likes, shares, and comments) on the BSP's Facebook posts totaled 959,025 in 2022.

¹⁰⁵ Engagement rate is a measure of how actively audiences interact with content. It is usually calculated by dividing the total number of engagements (e.g., likes, shares, and comments) by the total number of impressions or reach, and multiplying the result by 100 to get a percentage.

¹⁰⁶ Reach is determined by the total number of unique users who have seen the content across various channels, irrespective of their interactions.

¹⁰⁷ Source: BSP self-assessment, 2012

The BSP published 1,155 tweets on its Twitter account, with the number of followers reaching 63,550. As for the BSP's Instagram account, it earned 12,000 followers and had 203 posts in 2022.

Meanwhile, the BSP gradually shifted to hybrid press conferences, combining in-person and virtual audiences. In 2022, a total of 49 press conferences were conducted, of which six were hybrid and 43 were virtual. The Bank streamed its press conferences and briefings on monetary policy, the BOP, and the results of the Business Expectations Survey (BES) and the Consumer Expectations Survey (CES) via Facebook Live.

In amplifying economic and financial education, the BSP further strengthened its social media presence through the PisoLit Facebook community, which garnered 60,105 followers as of December 2022.

The BSP also increased public awareness of FX regulations and statistics by regularly posting infographics and public advisories on its social media pages concerning quarterly EDT developments and the recent amendments to FX rules under Circular No. 1146, series of 2022. Similarly, the Bank periodically updated the FX section and frequently asked questions (FAQs) page on its website, which serve as valuable references for the public.

Stakeholder Events

The BSP held 40 major events in 2022. It also completed 285 multimedia production projects, a significant increase from 122 in 2021.

Face-to-face gatherings once again became common with the lifting of pandemic restrictions, and the BSP attained a score of 4.9 out of 5.0 in customer satisfaction based on a survey of its event and venue services.

The BSP's first-ever youth summit won in the Special and Experiential Events category of the 19th Philippine Quill Awards.¹⁰⁸ Held in 2021 with the theme "*Ibangon natin ang ekonomiya, i-digital mo na!*," the summit featured (1) a nationwide college-student competition on the promotion of digital financial inclusion, (2) several discussions on financial inclusion and cyber hygiene, (3) a press chat, and (4) the #AskGovBen segment, where former BSP Governor Benjamin E. Diokno responded to questions raised by youth participants.¹⁰⁹

¹⁰⁸ The Philippine Quill Awards honors exemplary communication research, programs, skills, and creative work. The winners in 2022 came from 800 entries—the highest in the Philippine Quill Awards history.

¹⁰⁹ The youth summit gathered over 38,000 online participants and 22,000 social media engagements in 2021.

Arts and Culture

The BSP launched three online exhibits featuring select pieces from its fine art collection, pre-colonial gold, and numismatic collection. This was in pursuit of the central bank's thrust to promote the country's cultural heritage.

On top of its regular publications, the BSP also produced the book *Rise: The Women Leaders of the Bangko Sentral ng Pilipinas*, which was released in time for Women's Month in March 2022. It features narratives from the central bank's women leaders, promoting women's empowerment and inclusion.

Further, the BSP won the National Book Award for the publication *Cool Minds, Brave Hearts: The People of the Central Bank of the Philippines*, a tribute to the Bank's rich history. The book retells how the country's central monetary authority and financial system supervisor has delivered its mandates since its founding in 1949.

Communication Materials

To support its learning and information initiatives, the BSP developed several communication materials in 2022. These were released through different channels, including print, website, and social media.

One notable output is the BSP's digital literacy primer, which can be accessed and downloaded by the public starting November 2022. The primer provided an overview of digital payments services, digital solutions, and cyber-hygiene practices.

The BSP also produced a three-part video series about financial stability, systemic risk management, and macroprudential policies. The videos featured simplified information and were designed to be comprehensible to a broader audience. This aimed to raise the public's understanding of critical concepts, allowing them to be better involved in advancing the development objectives of the country.¹¹⁰

In June 2022, the BSP launched "*Bigyan ng Sagot, Please*"—a series of explainer videos that address FAQs from the Bank's email and social media accounts. Three episodes were released during the year, two of which covered topics on currency integrity preservation.

Five consumer protection audio-visual presentations were likewise produced in 2022. These were posted online and disseminated to BSP ROBs for their public information campaigns.

Other communication materials released by the BSP during the year tackled currency-related matters, including the retirement of coins and banknotes.

¹¹⁰ For more information, see the box article "The 2022 Financial Stability Video Series: Creating Outcomes Through Effective Messaging."

Box Article 13

The 2022 Financial Stability Video Series: Creating Outcomes Through Effective Messaging

The Bangko Sentral ng Pilipinas (BSP) has continued to strengthen the promotion of financial stability and systemic risk management over the years. It has championed effective policies and programs, as well as proactive communication as integral components of this initiative. The Bank has also consistently emphasized the importance of apprising and involving key stakeholders in the multi-pronged task of advancing the country's development objectives.

In 2022, the BSP bolstered its efforts on raising public awareness and understanding of core concepts—including financial stability, systemic risk management, and macroprudential policies—through a three-part video series. The videos featured simplified information, designed to be comprehensible and relatable to a broader audience. This is consistent with the thrust of bringing the BSP closer to the Filipino people.

Communication as Key for Effective Policy Execution

The whole of the financial system is greater than the sum of its parts. As such, the BSP recognizes that executing its financial stability mandate and implementing macroprudential policies will be more effective when people understand them on a practical level. Various stakeholders must be engaged to foster support of the Bank's efforts.

In hindsight, an effective intervention is composed of sound policies and a well-informed public. The BSP sought to achieve this through its 2022 video series initiative, which covered the following:

Video 1 – Understanding Financial Stability

The first video set the overall tone of the video series. It narrated the developments that led to the understanding of financial stability as a concept and a policy objective. The video started with a discussion of the Global Financial Crisis of 2007, building up the importance of financial stability. It showed that, ultimately, the objective of financial stability is to achieve a financial system that can meet the needs of the public and manage disruptions.



Video 2 – Systemic Risk Management and Macroprudential Policy

The second video discussed the management of systemic risks through macroprudential policy, which is primary to achieving financial stability. It also argued the importance of adopting a system-wide view in assessing the financial system.



Moreover, the video differentiated microprudential oversight from macroprudential policy—with the former focusing on the health of individual institutions, and the latter focusing on the whole financial system. An analogy of day-to-day traffic was used to explain why system-level outcomes respond to the individual decisions of each person on the road.

Finally, the video showcased the efforts of authorities to manage the buildup of systemic risks through macroprudential interventions—the core of the global agenda on financial stability.

Video 3 – Executing Financial Stability in the Philippines

The third video focused on the Financial Stability Coordination Council (FSCC), the vanguard of financial stability in the country, led by the BSP Governor. It also outlined the development of financial stability in the Philippines and situated it further in the context of Republic Act No. 11211, or the New Central Bank Act, which formalized “financial stability” as a BSP mandate.



Additionally, the video narrated the challenges of communicating the findings on systemic risks to various audiences. As the BSP always emphasized, the gains of financial stability should be understood and felt by the public.

Engaging the Public for Better Outcomes

Analyzing networks, models, and equations create the backbone of the BSP’s financial stability agenda—but its communication initiatives are just as important. The Bank continues to perform sectoral, intertemporal, and granular analyses, as well as scenario- building and stress tests. While these are regularly discussed in the FSCC at the technical level, they also need to be conveyed effectively to the public. This is what the use of analogies and visualizations in the video series helps achieve.

Indeed, the overall goal of the financial stability agenda is to put people in a position to make informed choices about emerging systemic risks. Thus, the BSP will continue to engage its stakeholders through various information, education, and communication campaigns using different channels and tools.

Economic Research and Information Dissemination

Despite the country's gradual recovery from the pandemic, uncertainties in the local and global environment remain. As such, the BSP continues to monitor the latest developments in the economy and conduct research and analyses to aid in policy formulation. Concurrently, the Bank provides its stakeholders with relevant information on making sound economic decisions.

Various BSP initiatives in 2022 were directed toward enhancing research capabilities, strengthening information analytics, and promoting effective information dissemination channels.

Regular Reports

Throughout the year, the BSP undertook timely surveillance and publication of periodic reports on banking system developments. These efforts aimed to provide the public with a comprehensive assessment of the financial system's performance and challenges.

The BSP launched the *Monetary Policy Report* (MPR) in 2022, replacing the quarterly publication of the *Inflation Report*. The MPR serves as the flagship BSP publication on monetary policy. It provides a detailed view of the Bank's macroeconomic outlook and guidance on the likely direction of monetary policy over the near term.

Periodic reports were also released to inform BSP stakeholders of the developments in the macroeconomic and financial sectors, as well as in the central bank's operations. Among these were the *Report on Regional Economic Developments in the Philippines* (annual), the *Report on the Philippine Financial System* (semestral), the *Financial Stability Report* (semestral),¹¹¹ the *Report on Economic and Financial Developments* (quarterly), the *Balance of Payments Report* (quarterly), the *International Investment Position Report* (quarterly), and the *Philippine Balance Sheet Approach Report* (quarterly).

In addition, the Bank informed the public about its operations and advocacies through the *BSP Annual Report* and its companion publication, the *Annual Report for the Layman*.

On top of its regular publications, the BSP prepared internal management reports, including the *Banking System Risk Analysis*, the *Report on the List of Domestic Systemically Important Banks*, the *AML/CTPF Surveillance Report*, *IamLatest*, and *Remit Express*.

The BSP likewise circulated statistical releases of key economic and financial indicators on daily, weekly, and monthly bases. These included the Recent Trends in the Philippine Financial System, the Factbook on the Philippine Banking System, the Reference Exchange Rate Bulletin, the RREPI, and the Financial Inclusion Dashboard.

As chair of the FSCC, the BSP also released the *Statement on the State of Financial Stability* in 2022. The statement provided a comprehensive assessment of 12 risk areas, highlighting the strength of the country's economic recovery while weighing in on key external challenges.

¹¹¹ The report discusses global challenges and the importance of building the financial system's resilience amid fast-changing market conditions in a volatile, uncertain, complex, and ambiguous environment.

Box Article 14

Communicating a Forward-Looking Monetary Policy: The BSP's Monetary Policy Report

Communication as a Monetary Policy Tool

Let us start with the forward-looking characteristics of monetary policy under the inflation targeting framework, which was adopted by the Bangko Sentral ng Pilipinas (BSP) in 2002. Central to this framework is establishing and maintaining well-anchored inflation expectations (Orphanides & Williams, 2007). To this end, the BSP has maintained transparency and communication by disclosing the factors that went into its policy decisions through the publication of a quarterly Inflation Report a month after the review quarter. The report discusses recent developments affecting inflation, other factors influencing the BSP's policy decisions, and the risks surrounding the inflation outlook.

The role of communication in monetary policy has expanded following the 2008 global financial crisis, which led to the use of unconventional monetary tools particularly among advanced economies to achieve their inflation target. During this turbulent time, central banks that turned to using unconventional monetary policy realized the need to communicate more extensively about the changes in how they pursue their mandates (Blinder et al., 2017).¹

Several central banks turned to providing forward guidance as traditional policy tools, like interest rates, reached their limits. In its broad sense, forward guidance is a central bank's act of communicating its monetary policy intentions in the future based on the state of the economy. Consequently, communication itself became an instrument of monetary policy.

Forward guidance as a policy tool makes further use of the expectations channel as a key determinant of inflation. In turn, forward guidance transformed monetary policy communication into a potent tool that contributes toward achieving the inflation target. For example, it has been suggested that what calmed markets the most at the height of the sovereign debt crisis in the euro area was not the actual purchase of bonds or the provision of liquidity. Rather, it was the promise by Mario Draghi in 2012 that the European Central Bank (ECB) will do "whatever it takes" within its mandate to preserve the euro, marking the turnaround of the euro crisis (ECB, 2021).

Transforming the BSP's Monetary Policy Communication

On 18 February 2022, the BSP published its first Monetary Policy Report (MPR), replacing the Inflation Report. The MPR's publication four times a year corresponds to major updates in the inflation forecasts upon the availability of actual gross domestic product data. It is released a day after the monetary policy meeting.

The MPR dedicates a substantial portion of its content to explaining the BSP's views on the likely path of inflation and growth over the next two years, based on assumptions on external and domestic developments. The report also discusses in detail each of the assumptions included in the inflation forecasting models. When necessary, the MPR provides forward guidance on the likely stance of monetary policy over a two-year policy horizon.

¹ Unconventional monetary policy refers to policies that are beyond the ambit (or scope) of conventional monetary policy.

Moreover, the MPR revisits the Monetary Board's decisions during policy meetings outside the report's publication cycle to account for the full picture of the BSP's monetary actions. It also provides abridged research studies on sectoral issues contributing to the Bank's monetary policy assessment.

The shift to the MPR in 2022 came when the BSP was gradually unwinding from pandemic-related measures amid fragile signs of economic recovery. Through the MPR, the Bank steered the expectations of financial markets and the public toward an orderly policy pivot by communicating the course of its near-term actions based on the emerging state of the economy. For instance, in the February 2022 MPR, the BSP started communicating its less dovish stance to the market. The messaging in the report recognized the need to preserve the ongoing policy support, with the view of a gradual normalization of monetary conditions prior to the eventual tightening toward the second half of 2022. In the May 2022 MPR, the BSP began its policy rate liftoff starting with a 25-basis point increase on 20 May 2022. The May 2022 issue likewise announced the Bank's exit from extraordinary liquidity measures.

Within the BSP, the shift to the MPR also marked the beginning of a deliberate effort to tailor monetary policy messages to different stakeholders and an even broader audience. Recent studies have suggested that improving the public's general knowledge of the roles and responsibilities of central banks helps build trust and credibility, both of which are essential to managing expectations. Layering the message to specific target audiences— by striking a balance between precision and simplicity of information— can help convey the monetary policy message to the larger public. Simplified language helps construct a common understanding. Meanwhile, those capable of digesting more sophisticated information similarly have access to detailed content (ECB, 2021).

Concurrent with the publication of the MPR, the BSP reactivated its network of domestic and foreign market analysts and invited them and the press to monetary policy briefings. The Bank also produced various information materials tailored to specific audiences and disseminated them through different media channels, particularly the BSP's website and accounts on Facebook, YouTube, and Twitter.

A year into the MPR publication, the BSP hopes that the report's transformation from a retrospective disclosure to a more forward-looking discourse will further enhance monetary policy transmission. In the current tightening cycle of the BSP, following accommodative monetary settings and amid global uncertainty stemming from supply constraints and emerging financial turbulence, the work of the Bank in safeguarding price stability is wrought with challenges. With the enhancements to its monetary policy communication strategies, embodied in the shift to the MPR, the BSP aims to provide credible and firm guidance as it utilizes all its monetary tools to bring inflation to target.

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Information Dissemination Activities

The BSP organized several information dissemination activities to promote public awareness of its impact and role in the economy.

In 2022, the BSP conducted the 36th and 37th environmental scanning exercises (ESEs)¹¹² with the themes “Effect of Agriculture and Fisheries Supply on Inflation and Long-Term Food Security” and “Impact of Persistent Supply Chain Constraints on Food Prices and Inflation,” respectively.

The BSP also engaged local and foreign stakeholders through webinars, including: (1) “Challenges in Financial Stability: From Concepts to Execution” for the Asia School of Business, Malaysia on 19 May 2022; (2) “Understanding Systemic Risk and Macrofinancial Linkages” for the ADB on 16 June 2022;¹¹³ and (3) “Managing Systemic Risks: From Concepts to Execution” for the Colombo Plan Staff College (CPSC) on 11 October 2022.¹¹⁴ In addition, the Bank participated in the webinar “Systemic Risks and the Evolving market Conditions,” which was organized by the Philippine Dealing System Group’s Market Governance Board, on 22 March 2022.

Meanwhile, the BSP held brownbag sessions to tackle financial stability and systemic risk issues. Among the sessions were: (1) “The Spillovers of War: Understanding the Impact of the Russia-Ukraine Conflict” for BSP employees and staff on 16 March 2022; and (2) “Financial Stability Communication” for the Bank of Mongolia on 12 August 2022.

As part of its role in maintaining the integrity of the Philippine currency, the BSP initiated 21 information sessions on the Clean Note and Coin Policy and counterfeit detection. These sessions reached over 21,781 participants throughout the year. BSP officers also served as subject matter experts, providing 13 media interviews and 783 responses to currency-related queries from the public.

Other information engagements conducted covered foreign investments and the central bank’s liquidity assistance to repatriating Ukraine-based overseas Filipinos. A virtual public information campaign on BSP-produced statistics was likewise held, with a focus on their significance and contributions to policy formulation.¹¹⁵

¹¹² The ESE is held twice a year and is attended by the BSP Governor, MBMs, and BSP officials. The resource persons come from government institutions, non-government organizations, international organizations, the private sector, commercial banks, think tanks, and the academe. They present a multi-sectoral perspective on topical issues relevant to central banking and provide feedback on the BSP’s policies, programs, and advocacies.

¹¹³ The webinar was in collaboration with the State Bank of Vietnam.

¹¹⁴ Representatives from the CPSC visited the BSP as part of the Advance Bank Management program.

¹¹⁵ The campaign was in celebration of the 33rd National Statistics Month.

Stakeholder Engagement

Stakeholder engagement is central to the BSP. Interactions with government bodies, private sector organizations, financial institutions, and the general public facilitate understanding of the Bank's strategies and actions. Engaging stakeholders also provides invaluable insights that enable more informed decision-making processes, improved policies, and practical implementation.

Investor Relations and Credit Ratings

The Philippines maintained its investment-grade credit ratings from all major international debt watchers. Their favorable credit profile assessments were based on the comprehensive data provided by the BSP, which included information on (1) the developments in the Philippine economy and reform agenda, (2) the government and the central bank's COVID-19 response measures, and (3) the country's bright economic prospects.

On another note, the BSP organized five Philippine Economic Briefings (PEBs) in and out of the country in 2022. With the country's top economic officials in attendance, these briefings apprised local and international investors, analysts, debt watchers, and other stakeholders of the country's latest economic policy direction and outlook.

The BSP also arranged 46 investor engagements during the year. These engagements provided analysts, fund managers, portfolio investors, and related stakeholders with updates on the Philippine economy.

As the country endeavored to reinvigorate growth amid the COVID-19 pandemic, the BSP and Burson Cohn & Wolfe (BCW), its international economic communication consultant, utilized public relations as a policy tool. The strategy rested on three pillars: (1) disciplined messaging, (2) developing a bench of spokespersons, and (3) going beyond traditional media. This resulted in positive messages on the Philippine economy, with a global reach of more than 1.7 billion people.¹¹⁶

Through this strategy, the BSP and BCW built trust among key stakeholders and boosted the country's global reputation before credit rating agencies and institutional investors. The campaign "Paving the Road to Recovery in the Philippines" of BCW Global and BSP bagged the Gold Standard Award in Country and Trade Promotion from the Public Relations and Communications Association in July 2022.

¹¹⁶ From September to March 2022, proactive media efforts drove 33.0 percent of all positive coverage in the country.

Interagency Collaboration

The BSP actively participated in local and international committees and working groups in 2022. It provided expert views and feedback in the discussion of economic issues and policies concerning the central bank.

Locally, the BSP extensively provided inputs on various legislative proposals and participated in the deliberations at the Philippine Congress. The Bank also joined different domestic fora as a resource institution for the Economic Development Cluster (EDC), the Development Budget Coordination Committee (DBCC), and the PDP's planning committees.

In the EDC, the BSP rendered technical views and reports on key economic policies and development issues under its purview. In the DBCC, the BSP engaged in discussions on economic policies, as well as macroeconomic assumptions and targets, serving as the bases for the preparation of the NG's annual budget and fiscal policies and programs. For the PDP 2023–2028, the BSP chaired the Planning Committee for the Subchapter on Promoting an Inclusive, Innovative, and Healthy Financial Sector and served as a member of other planning committees.

The BSP similarly contributed to other interagency committees and international organizations, including the National Price Coordinating Council, the National Food Authority Council, the National Single Window (NSW) Steering Committee and TWG, the Investment Promotion Units Network, the NEDA–Investment Coordination Committee, the Inter-agency Committee for Review of Foreign Loan Documents, the National Wages Productivity Commission, the Regional Tripartite Wages and Productivity Board, the PSA Board and statistical committees,¹¹⁷ and the Investment Promotion and Protection Agreements.

In addition, the BSP ardently supported various government initiatives. It participated in the Export Development Council and joined several export-related organizations, including the Center for International Trade Expositions and Missions, the Philippine Exporters Confederation, Inc., and the Halal Export Development and Promotion Board. These engagements allowed the BSP to help address challenges facing the export sector. The Bank also coordinated with the Philippine Trade Facilitation Committee regarding the implementation of the WTO's Trade Facilitation Agreement and other related commitments.

¹¹⁷ The BSP contributed to the PSA's interagency committees on Investment Statistics; Macroeconomic Accounts Statistics; Migration Statistics; Monetary, Financial, and Government Finance Statistics; Price Statistics; Statistical Information Management and Dissemination; Trade and Industry Statistics; and Tourism Statistics.

Thought Leadership

On the domestic front, the BSP coordinated with relevant government agencies, multilateral organizations, and development partners for research and collaboration initiatives on AML, CTPF, IT and digitalization, sustainable finance, as well as proportionality in supervision.

For the years 2020 to 2022, the BSP assumed the chairmanship of EMEAP's Working Group on Banking Supervision. The Bank presided over the biannual regular meetings and the annual Asia-Pacific high-level meetings during the two-year stint. This enabled BSP officers to convey concerns affecting the Philippine financial system, shaping collective regional views on banking issues.

The BSP likewise served as the co-chair and secretariat of the National AML and Countering the Financing of Terrorism (CFT) Coordinating Committee's Supervision of Financial Institutions Sub-Committee. As part of its responsibilities, the Bank supported the implementation of the National AML/CFT Strategies 2018–2022, organizing quarterly meetings and leading the monitoring of financial institutions' timely and effective execution of action plans. The BSP also signed a memorandum of agreement with the AMLC, the SEC, and the IC, as well as an MOU with foreign supervisory counterparts for the coordinated supervision and harmonized issuance of AML/CFT regulations and oversight.

Under the Bank Supervision Policy Committee (BSPC), the BSP facilitated 36 meetings with different financial industry associations. BSPC meetings were institutionalized to provide both the central bank and involved associations with an avenue to gain a common understanding of macroeconomic, regulatory, and financial industry developments.

Meanwhile, BSP ROBs strengthened the surveillance of NBFIs through consultative meetings with the DILG. These aimed to address various concerns raised by stakeholders in the regions about consumer protection, pawnshop operation, and AML/CTPF. The central bank also rendered technical support and provided clarifications on its regulatory framework to ensure consistent interpretation and implementation across the financial system.

Digital Transformation

The BSP effectively managed the execution of its Information Systems Strategic Plan 2020–2023.

Governance

To ensure alignment with its corporate strategy and objectives, the BSP formulated several issuances to improve its IT governance and expanded the implementation of its enterprise architecture practice.

Key Projects Supporting the BSP's Strategy and Programs

- **Agent Registry.** This system supports effective supervision, consumer protection, and financial inclusion monitoring of agent operations. It serves as:
 - a tool for streamlined submission of data for BSFIs;
 - a dataset, enabling effective analysis of dynamic agent data, such as depth, reach, and penetration of agent services; and
 - a publicly accessible and searchable database that helps locate the nearest accredited agents and their allowed services.
- **Treasury Portfolio Management System.** This system provides straight-through processing from front to back office financial market operations, enhancing the BSP's capability in efficiently managing its reserves.
- **Debt Management and Financial Analysis System (DMFAS).** This system is used for recording, monitoring, reporting, and analyzing debt data. It enables a rigorous set of validation checks to ensure the consistency of records. Used by 105 finance ministries, central banks, and other debt management offices in 69 countries, the system is expected to improve and expand the BSP's operations with the use of its data sets.

In 2022, the Bank implemented the DMFAS version 6 under a technical cooperation project with the United Nations Conference on Trade and Development. The upgraded system aimed to enhance the central bank's recording, monitoring, and validation of EDT data, providing enhanced analytical functions and stringent data integrity and security features, which are aligned with international standards.

- **TradeNet.** This internet-based application enables parties involved in trade to lodge information and documents within a single entry point for all import, export, and transit-related regulatory requirements. It was planned and established through the BSP's collaboration with trade regulatory agencies involved in the NSW-TWG.

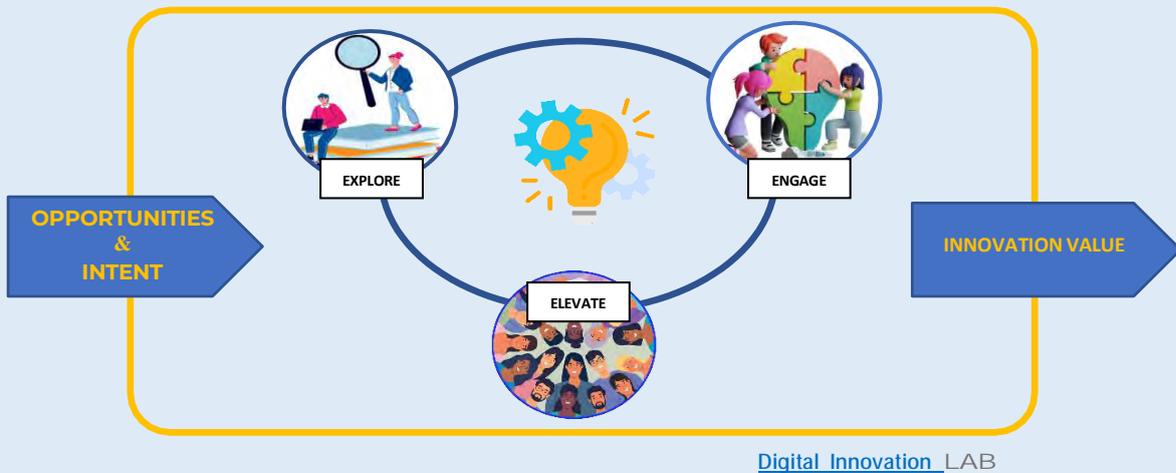
- **iKnow Migration to weKnow.** The BSP's intranet site—a primary system that supports internal corporate communications—was migrated from on-premises information and communication technology (ICT) to the cloud environment. As with other IT systems and services that were migrated to the cloud, weKnow significantly enhanced the availability, accessibility, and overall value of the central bank's intranet site.
- **Test Deployment of Satellite Internet Services.** Tests were conducted using the latest satellite internet services with two RBs in Batangas—Progressive Bank of Malvar and the Rural Bank of Cuenca—where terrestrial network infrastructure and connectivity services were not readily available. These tests were done under a joint engagement with the Department of Information and Communications Technology (DICT), the Philippine Space Agency, and DOST–Advanced Science and Technology Institute.
- **Further Adoption of Cloud Services and Platforms for External Stakeholders.** The Corporate Product Management System brings the BSP closer to the people by making its corporate products and merchandise available to the public. This provides the central bank with better sales control measures and supply-chain management. Meanwhile, the Events Registry Management System enables the BSP to manage its corporate events more effectively.
- **Creation of a Digital Innovation Laboratory.** Through the lab, the BSP will proactively explore emerging technologies and assess the feasibility of adopting them in the central bank. To date, a proof-of-concept for robotic process automation, a tool that automates manual and repetitive tasks to address process inefficiencies, has been completed in the lab.

Box Article 15

The BSP Digital Innovation Laboratory

Metaverse,¹ blockchain,² augmented reality,³ and internet of things⁴—these and many other big words dominate the discussion in today’s technological landscape. Have you ever imagined these to be used in the Bangko Sentral ng Pilipinas (BSP)? This may not be too farfetched because of the BSP’s Digital Innovation Laboratory (DigILab).

The DigILab was created in the IT Strategy and Governance Department to provide an environment where innovative ideas can turn into operational solutions. Created in September 2021, the DigILab aims to support the BSP’s Digital Transformation Program by cultivating an innovation culture and exploring emerging technology for use in the central bank.



The DigILab has three main objectives:

1. **Explore:** to proactively scan emerging technology trends to understand tools and associated practices for potential use in the BSP. This will make the central bank more resilient to the risks and impacts of technological shifts.
2. **Engage:** to provide a space for idea generation, testing or prototyping, validation, and implementation of ideas relevant to the BSP’s functions and goals. The DigILab also aims to establish an innovation community within the central bank that will lead activities, such as design-thinking challenges and hackathons.
3. **Elevate:** to open opportunities for external stakeholders—such as other central banks, government agencies, BSP-supervised financial institutions, academic institutions, start-ups, and local and global firms—to engage in the co-creation of innovative solutions related to economics, finance, and banking. This will ultimately enhance the BSP’s push for digitalization.

¹ Wiles (2022) characterizes the metaverse as the next iteration of the internet, which started as individual bulletin boards and independent online destinations that became a collective virtual shared space.

² “A blockchain is an expanding list of cryptographically signed, irrevocable transactional records shared by all participants in a network. Each record contains a time stamp and reference links to previous transactions” (Gartner, n.d.).

³ “Augmented reality is the real-time use of information in the form of text, graphics, audio, and other virtual enhancements integrated with real-world objects” (Gartner, n.d.).

⁴ “The internet of things is the network of physical objects that contain embedded technology to communicate and sense or interact with their internal states or the external environment” (Gartner, n.d.).

Since the creation of the DigILab, there has been considerable progress in the following initiatives of the BSP:

- **Exploration of Robotic Process Automation (RPA).**⁵ RPA is used by organizations to streamline manual or repetitive tasks with bots. In collaboration with selected departments, the DigILab is now working on a use case for consumer assistance, which is expected to generate at least ₱900,000 in savings annually, once implemented.
- **Creation of an Artificial Intelligence (AI)⁶ and Machine Learning (ML) Roadmap.** Research is being conducted on the technologies used in the BSP at present. From the results, a roadmap for AI and ML adoption shall be proposed within the second quarter of 2023.
- **Exploration of Blockchain.** Among the use cases currently being explored is the potential of blockchain to improve the integrity and security of transactions using immutable ledgers and smart contracts. The DigILab targets to complete at least one use case in 2023.
- **Promotion of a Design Thinking Mindset.** This mindset aims to cultivate a culture of innovation in the BSP, implemented through proposed design-thinking challenges and hackathons. Through these activities, the DigILab aims to generate novel ideas that will result in implementable prototypes.

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⁵ "RPA is a productivity tool that allows a user to configure one or more scripts (which some vendors refer to as 'bots') to activate specific keystrokes in an automated fashion. The result is that the bots can be used to mimic or emulate selected tasks (transaction steps), such as manipulating data, passing data to and from different applications, triggering responses, or executing transactions" (Gartner, n.d.).

⁶ AI is the application of advanced analysis and logic-based techniques, including ML, to interpret events, support and automate decisions, and take action.

Enabling Better Service Delivery Through Digitalization

The COVID-19 pandemic hastened the use of cloud technology as a means to ensure the continuity of businesses, services, and operations. In response, the Bangko Sentral ng Pilipinas (BSP) identified digital transformation as one of its strategic programs for 2020–2023.¹

Through digitalization, the BSP aims to streamline its processes, improve its operations, and, ultimately, increase productivity. The central bank constantly explores systems and applications that complement its various projects, programs, and advocacies. Within the Bank, employees are also empowered with the availability of productivity tools, which can even be accessed remotely. All these digitalization efforts are geared toward efficient and effective service delivery for the Filipino people.

BSP's Developed and Acquired Systems

One of the central bank's notable accomplishments in digitalization is the in-house development of the Cash Service Alliance (CSA) system. The CSA enables banks to directly service the fit currency requirements of other banks from their available cash holdings—a mutually beneficial agreement. Primarily, the BSP matches the direct exchange among banks by managing the online facility where cash requirements and available holdings are posted. Through the CSA, cash servicing operations remained uninterrupted amid restrictions at the height of the COVID-19 pandemic.²

The CSA won the 2022 Currency Initiative Award from the Central Banking publication. Consequently, the members of its core team were recognized as regional winners and semi-finalists of the Presidential *Lingkod Bayan* Award in the Civil Service Commission's 2022 Search for Outstanding Government Workers.

Another digital innovation acquired and implemented by the BSP is the Treasury Portfolio Management System (TPMS). The TPMS enhances the Bank's capability to manage gross international reserves (GIR) with greater efficiency and reduced operational risk. Its functions include straight-through processing for distinct aspects of portfolio management, segregated controls, audit trails, robust reporting tools, and cross-system integration. Through the TPMS, the BSP is able to strengthen the GIR, which is an essential ammunition in maintaining stability during financial crises. The TPMS project started in 2020 and went live in 2022.

The BSP also embarked on acquiring a governance, risk, and compliance (GRC) tool. This tool allows the Bank to effectively administer overall governance, enterprise risk management, and compliance with key regulations. It likewise permits strategic handling of information technology (IT) and non-IT risks for mitigation—enabling the BSP to generate tactical decisions.

In May 2022, two GRC modules were implemented, particularly: (1) the Cybersecurity GRC Solution (CGRCS) and (2) the Advanced Supervisory Technology Engine for Risk-Based Compliance (ASTERisC*) Solution. The CGRCS aims to provide a centralized GRC tool for cybersecurity by using an integrated collection of capabilities that streamlines all processes. This makes compliance, incident, audit, and risk management easier and less costly.

¹ <https://www.bsp.gov.ph/About%20the%20Bank/BSP%20Org%20Primer.pdf>

² The CSA was developed by the BSP in partnership with the Bankers Association of the Philippines.

Meanwhile, the ASTERisC* Solution aims to enable a risk-based, automated end-to-end processing for cybersecurity supervision and oversight. It covers cyber profiling, cyber incident reporting, cybersecurity control self-assessments, as well as the results of onsite inspections of BSP-supervised financial institutions (BSFIs).

By the end of December 2022, the BSP also completed three additional systems. First, the Corporate Product Management System serves as a facility to promote and sell the Bank's corporate products, including commemorative coins.³ On the other hand, the Agent Registry System supports the effective supervision, consumer protection, and financial inclusion monitoring of agents' operations. Lastly, the Events Registry Management System helps in organizing tasks related to BSP events, such as reservations, guest list coordination, as well as photo and video coverage, among others.

Leveraging advanced digital technologies, legacy applications of the BSP were also migrated. The Bank's intranet called weKnow was transferred to a Microsoft 365 platform, thus attaining a more modern look and feel, as well as increased security and accessibility. Moreover, institutional files are now shared through the Enhanced Document Tracking System (eDTS). The eDTS stores, routes, and tracks documents electronically, making the file-sharing process faster and more manageable across the institution.

Through the Pandemic and Beyond

The Philippines may have faced several challenges amid the pandemic, but the BSP carried on—continually innovating and digitalizing its processes to better serve the people. Beyond the crisis, the central bank shall remain agile and responsive to fast-paced and evolving technology, geared toward a resilient and progressive society.

³ <https://www.bsp.gov.ph/SitePages/CoinsAndNotes/CoinsAndNotes.aspx>

Cybersecurity and Information and Communication Technology Infrastructure

- **Full Compliance with the v2022 Society for Worldwide Interbank Financial Telecommunications (SWIFT) Customer Security Controls Framework (CSCF).** In 2022, the BSP reported full compliance with the CSCF requirements, which are a set of security controls for the operating environment of SWIFT users.
- **Collaboration with the DICT.** The BSP coordinated with the DICT for the deployment, adoption, and use of the Philippine National Public Key Infrastructure. In this view, the joint conduct of a DICT cyber drill was also held.
- **ICT Infrastructure Enhancements.** The BSP exhausted various systems and platforms to improve the interconnectivity of its regional sites, expand the use of cloud technologies for essential IT infrastructure and cybersecurity systems, and widen the coverage of the IT service desk platform for critical business units.

Expansion of Cloud Technology Usage and Connectivity Upgrade

Satellite Technology for Financial Inclusion

The use of satellite technology to expand broadband services widens the reach of financial inclusion, helping banks and non-banks with limited internet access achieve digital transformation. Its key benefit is providing underserved areas with more access points, such as branch-lite units, automated teller machines, and cash agents.

On 25 August 2022, the Bangko Sentral ng Pilipinas (BSP)—together with the Philippine Space Agency (PhilSA) and the Department of Science and Technology–Advanced Science and Technology Institute (DOST-ASTI)—completed the proof of concept (PoC) for the use of satellite technology in Malvar and Cuenca, Batangas. Meanwhile, the PoCs for Visayas and Mindanao areas are targeted to be completed by the first and second quarters of 2023, respectively.

The BSP has then approved a joint office order for the creation of the Satellite Project technical working group on 16 September 2022. Representatives from the central bank have also met with Starlink Internet Services Philippines, Inc.—a satellite internet constellation operated by SpaceX that provides satellite internet access coverage to 48 countries—for future engagements. Since collaboration will be critical to the Satellite Project, the memorandum of understanding among the BSP, DOST, PhilSA, and the Department of Information and Communications Technology is being formulated.

SWIFT ISO 2002 Adoption for Financial Markets

In July 2021, the BSP adopted the International Organization for Standardization (ISO) 2002 International Messaging and Communication Standard as the basis for electronic retail and high-value payments that go through the next-generation real-time gross settlement system, PhilPaSS^{plus}. Among its advantages are richer data, more efficient sanction screening, improved processing, and reduced possibility of risk and fraud.

The BSP is ensuring that financial markets would be able to send cross-border payments using the messaging standard as its implementation will commence in March 2023. With the assistance of the Society for Worldwide Interbank Financial Telecommunications (SWIFT), the BSP already completed the system's initial preparation for the launch of the Cross-border Payments and Reporting Plus in November 2022.

Expansion of Cloud Technologies and Other Upgrades

As part of the BSP's Information Systems Strategic Plan, there has been an increased adoption and use of cloud technologies in the central bank. For 2022, the BSP subscribed to an on-premise storage service to replace the enterprise storage system, which is already at its sunset stage. This addresses the increasing demand for storage, supporting various end-user needs and requirements for mission and non-mission critical systems (i.e., prioritized and non-prioritized). It likewise complements the existing off-premises storage utilized by the BSP, particularly SharePoint and OneDrive.

In addition, several network communication and internet bandwidth upgrades were also completed. Among the recent accomplishments are as follows:

- **Software Defined Wide Area Network Optimization.** Implemented in August 2022, this improved the connection of various BSP regional offices and branches (ROBs) to the head office and Security Plant Complex (SPC).
- **Internet Bandwidth Upgrade.** The internet bandwidth in the head office and SPC as well as the ROBs were upgraded to 1 Gbp and 10 Mbps, respectively—thus allowing faster internet connectivity.

Other network enhancements and bandwidth increases are further expected in 2023.

Box Article 18

The BSP's Cybersecurity Resilience Program

The Bangko Sentral ng Pilipinas (BSP) has long recognized that cybersecurity is crucial to ensuring a safe, efficient, and resilient Philippine financial system. As such, it continues to intensify cybersecurity resilience efforts—both within the central bank and among its supervised entities.

In establishing an information security culture, the BSP regards cybersecurity and cyber resilience as intrinsic components of its strategic goals and objectives. The Bank implements information security management systems and policies to ensure centralized visibility, continuous detection, and monitoring of cyber threats and risks, as well as efficient incident response handling.

Among the key initiatives that support the BSP's Cybersecurity Resilience Program (CsRP) is the creation of the Cybersecurity Awareness Channel (CAC) in the Bank's electronic learning management platform called BSP Edge. The CAC consists of modules on email safety, password security, and avoiding phishing threats, which users can access anytime, anywhere. Each module is also accompanied by short tests to gauge the users' understanding of the topic. As of 15 October 2022, the participation of BSP users in the CAC is almost at 100 percent. Thus, new content on promoting cybersecurity resilience will be added to the channel by the first quarter of 2023.

The BSP also engages with several institutions—including the Cybersecurity Committee, formerly the National Cybersecurity Inter-Agency Committee (NCIAC); NCIAC's Technical Working Group (TWG) for Banking and Finance; the TWG for the Philippine Identification System; and the Department of Trade and Industry-Bureau of Philippine Standards—to share information on cyber threats and the best industry practices in cybersecurity. The Bank likewise conducts regular cyber drills and tabletop exercises with the Department of Information and Communications Technology (DICT) to prepare for information security threats. The last DICT drill was held from 28 to 29 November 2022.

Within the BSP, cyber drills have been conducted since 2017 to prepare for risk scenarios that may affect business continuity. These are implemented through the collaboration of the Technology and Digital Innovation Office, the Risk and Compliance Office, the Financial Markets, and the Payments and Settlements Department.

In addition, the BSP implements the following support processes to achieve the goals of the CsRP:

1. adherence to the Society for Worldwide Interbank Financial Telecommunications' Customer Security Control Framework to ensure that security controls are maintained and effective;
2. use of principles-based access management, such as four-eyes, need-to-know, and segregation of duties;
3. employment of key risk indicator-based management of information technology security threats, aligned with the Cyber Incident Response Plan;
4. conduct of internal and third-party security assessments to provide complementary assurance in the implementation of controls; and
5. integration of cyber security strategies and initiatives in the central bank's Information Systems Strategic Plan.

Business Process Management

The BSP conducted process reviews and studies on business and operational processes to ensure the efficient delivery of services. It also developed and updated QMS manuals for selected business units. Business process improvement and reengineering studies were carried out in the areas of recruitment, information technology incident and escalation, currency management, and control of documented processes under the QMS.

Box Article 19

The Bank-wide Process Review

The Bangko Sentral ng Pilipinas (BSP) aims to improve its processes and services through the conduct of the Bank-wide Process Review (BPR). This is a timely exercise, given the increasing demands of internal and external clients following the implementation of the Ease of Doing Business Law and the structural changes brought about by the pandemic. In October 2021, the BSP entered into a contract with the University of the Philippines Diliman (UPD) for the conduct of the BPR.

The BPR, which runs for a total of 16 months, covers a total of 29 processes. The review is being conducted in two phases. The first phase looks into identified mission-critical processes, processes with significant impact on operations, and other priority processes of the BSP. Meanwhile, the second phase reviews other core and support processes.

The objectives of the BPR are the following:

1. to verify if processes conform to external and internal standards and requirements, and enable the achievement of organizational objectives and goals;
2. to determine if systems and process controls are adequate and able to identify related risks; and
3. to determine areas for improvement and optimization and generate corresponding recommendations.

At the end of the project, the team from UPD is expected to submit a final report on the results of the assessment and provide recommendations for improvement, with focus on the following:

1. alignment with organizational business strategies and compliance with internal and external standards and requirements;
2. effectiveness and efficiency in meeting organizational goals;
3. adequacy of controls and risks that must be addressed to ensure the achievement of performance objectives; and
4. changes in the areas of optimization of processes and resources, among others.

As of year-end 2022, the BPR's progress is at 88.6 percent. The target completion date for the project is February 2023.

Sustainable Central Banking

The BSP recognizes that sustainability issues, including the impact of climate change and other environmental and social risks, pose adverse effects on price and financial stability. As such, the Bank developed the SCB Strategic Program, which aims to embed sustainability principles in its key functions and operations.

In line with this, the SCB TWG conducted a vulnerability assessment of BSP offices and branches and submitted the *Report on the Assessment of the Vulnerability of BSP Sites to Natural Hazards*, which was approved by the MB on 3 February 2022.

The SCB TWG also conducted a self-assessment exercise aimed at determining the gaps in incorporating sustainability principles in the operations of the BSP and submitted the corresponding report to the Governor on 24 March 2022.

The results from these exercises were considered in the development of the SCB Roadmap, which was approved by the MB on 6 October 2022.

The SCB Roadmap, or the 11-point SCB Strategy, provides 11 action plans to mainstream sustainability principles in the central bank. It was launched on 22 December 2022, sending a strong signal to the domestic financial system and relevant stakeholders of the BSP's commitment to champion the sustainability agenda.

Organizational Capability

The BSP capitalizes on collective physical, human, financial, and intellectual resources to carry out its mandates. As such, the central bank consistently boosts its organizational capability to provide efficient and effective public service to the Filipino people.

Human Resource and Organization Development

The BSP resumed its participation in onsite job fairs in 2022. It also launched the second batch of the Young Professionals Program and hired fresh college honor graduates as Junior Central Bank Associates.

To ensure quality learning and development support for its staff, the BSP benchmarked with counterpart central banks and strengthened its linkages with academic institutions. It conducted study visits to the ECB, Deutsche Bundesbank, De Nederlandsche Bank, Banca d'Italia, and the Bank of England. The BSP also partnered with the Australian National University and the London School of Economics for its scholarship and executive development programs, respectively. Representatives from the Bank also met with counterparts from the Asia School of Business, Malaysia to learn more about their master's degree in central banking.

On health and wellness, the BSP facilitated the administration of booster vaccines for its employees to strengthen herd immunity. Various mental health programs were held and onsite physical wellness activities were resumed to help employees recover from the negative impact of the mobility restrictions imposed during the peak of the pandemic.

As part of the BSP's corporate social responsibility, outreach programs were also conducted for less fortunate communities in different parts of the country.

Training, Workshops, and Technical Assistance Projects

BSP officers and staff continually developed their capabilities through attendance in training, courses, seminars, and technical engagements with local and global partners in 2022.

The BSP partnered with the IMF for a series of technical consultations to enhance its macroeconomic frameworks, statistical methodologies, monetary operations, and monetary policy communications. Meanwhile, technical cooperation with JICA aimed to (1) improve the BSP's existing macroeconomic models and forecasting process; (2) refine its analysis of the BOP, the conduct of monetary policy operations, and the implementation of market intelligence work; and (3) enrich the discussion on CBDCs.

On the global front, BSP officers participated in the following in-person courses on financial stability: (1) the SEACEN's "Capital Flows Monitoring and Management," held on 30 September 2022 in Kuala Lumpur, Malaysia; (2) the Center for Latin American Monetary Studies' "IV Course on Financial Stability," held from 24 to 28 October 2022 in Madrid, Spain; and (3) the Banque de France's "Financial Stability and Macroeconomic Policies of Central Banks," held from 13 to 16 December 2022 in Paris, France.

The BSP also sent a delegation to the Federal Reserve Bank of Cleveland and the Office of Financial Research's Financial Stability Conference, held from 17 to 18 November 2022 in Cleveland, Ohio, US. In particular, BSP representatives took part in the forum "Frontier Risks, a New Normal, and Policy Challenges."

With an MOU on cooperation between the BSP and Otoritas Jasa Keuangan (OJK), or Indonesia Financial Services Authority, a technical discussion on digital banking, cybersecurity, and digital finance was held in April 2022. The central bank then facilitated the conduct of a technical assistance program with Bank Indonesia and OJK in September 2022. The program tackled Indonesia's processes in supervising Islamic banks and financial institutions, Shari'ah-compliant central bank loan and liquidity facilities, and Islamic financial market operations. This is part of the BSP's efforts to develop and enhance the Islamic finance ecosystem in the Philippines.

Research Development and Management

The BSP's thrust toward a leaner, more agile, and smarter organization is complemented by its evidence-based and rigorous research program.

BSP researchers, with co-authors from within and outside the Bank, produced six research articles on several topics in 2022. Two articles by BSP Research Academy (BRAC) researchers were published in the "Special Issue on Monetary Policy and Central Banking" of the *Philippine Review of Economics*.

Researchers from BRAC also authored the book *Labor Market Implications of the COVID-19 Pandemic in the Philippines*, which is due for publication in early 2023.

Concerning the financial system, BSP officers and staff came up with the working paper "Effects of Microfinance-Oriented Banks on Household Welfare in the Philippines." This paper was presented at the 15th National Convention on Statistics on 4 October 2022.

Other research publications produced by the BSP included (1) the BSP Discussion Series, which covered banking, household savings, and macroeconomic issues during the height of the COVID-19 pandemic; (2) the BSP Working Paper Series, which presented studies on economic forecasting, financial development, and financial inclusion; and (3) the BSP Economic Newsletter, which provided a review of the 2022 inflation target, the Philippine tourism sector amid the pandemic, the impact of climate change on the conduct of monetary policy, and the inflation expectations of economic agents based on the central bank's surveys.

The BSP also continued to explore big data use cases and machine learning applications to provide support in economic and financial surveillance and in policy analysis. Several exploratory studies have already been initiated in 2022, including the development of a weekly economic activity tracker that helps nowcast real GDP growth, as well as the compilation of news-based indices that measure economic policy uncertainty and market sentiment.

In terms of research collaboration, the BSP joined the study group established by the BIS' Asian Consultative Council in producing the report *Foreign Exchange Markets in Asia Pacific*. BSP officers and staff likewise worked with the Philippine Institute for Development Studies (PIDS) on a research project on fiscal risks during and after the pandemic.

On an institutional level, the BSP initiated research collaborations through the signing of MOUs with the Ateneo Center for Economic Research and Development, the University of the Philippines (UP) Los Baños, and the De La Salle University. These were on top of the four ongoing research collaborations signed in 2021.¹¹⁸

¹¹⁸ The BSP signed MOUs with four institutions in 2021, namely: (1) the PIDS, (2) the Philippine Center for Economic Development, (3) the DA-ACPC, and (4) the Philippine-American Educational Foundation. The *2021 Countryside Bank Survey: A Baseline Report* was completed as part of the collaborative engagement with DA-ACPC.

Research Dissemination Initiatives

The BSP contributed further to the domestic and global research community by initiating and participating in local and international research conferences.

In July and December 2022, the BSP managed the activities for the Research Experts Panel. These included two lecture series on relevant research topics and various presentations of BSP research studies.

The second BSP International Research Fair was also conducted from 12 to 13 July 2022. It carried the theme “*Quo Vadis? What is the Changing Role of Monetary Policy and Central Banking in the New Economy?*”

Research dissemination activities for the central bank community were likewise held through the Research CIA.¹¹⁹ Two sessions of the Research CIA were conducted for 2022, featuring five research papers by BSP staff.

Through a collaboration with APEC, the BSP co-sponsored the webinar “Strategies and Initiatives on Digital Financial Inclusion: Lessons from Experiences of APEC Economies.” Held from 26 to 28 July 2022, the webinar included a panelist from the Bank and remarks from Governor Felipe M. Medalla.

The BSP also sponsored a session during the 60th Annual Meeting and Conference of the Philippine Economic Society on 11 November 2022. Titled “What Will Make Us Leap Forward? The BSP Narrative,” the session featured the Bank’s research on monetary and fiscal policy, bank stability, and payments digitalization.

On 4 March and 23 November 2022, the central bank conducted six BSP-UP Professorial Chair Lectures. The Bank then launched the BSP-UP School of Economics Distinguished Lecture Series, with the inaugural lecture by Professor Thorsten Beck of the Florence School of Banking and Finance on 18 July 2022. A second lecture by Professor Maurice Obstfeld of the University of California, Berkeley was held on 16 December 2022.

Moreover, BRAC initiated and presented a research proposal on the impact of exchange rate volatility on economic growth before the members of the EMEAP–Monetary and Financial Stability Committee. BRAC researchers likewise served as speakers at several national and global conferences.

Surveys

The BSP conducts surveys to provide comprehensive information on banking and financial conditions, sentiments, and outlook. The results serve as valuable inputs to the central bank’s policy formulation in maintaining price and financial stability.

¹¹⁹ The Research CIA serves as a platform for BSP staff from different offices to present their papers and encourage open discussions among stakeholders.

Among the surveys implemented by the BSP in 2022 were:

- the Philippine Banking Sector Outlook Survey (semestral), which gathered the sentiments of industry leaders in the banking sector;
- the Coordinated Portfolio Investment Survey (semi-annual), which reported the residents' holdings of foreign-issued equities and their long- and short-term debt securities;
- the Coordinated Direct Investment Survey (annual and quarterly), which covered the financial transactions and stock of equity and debt between resident companies and their immediate foreign counterparts;
- the Senior Bank Loan Officers' Survey (quarterly), which assessed current bank lending conditions;
- the International Mobile Money Transfer Services Survey (quarterly), which monitored resident to non-resident e-money issuers' transactions; and
- the Cross Border Transactions Survey (monthly), which reviewed the resident to non-resident transactions that bypass the domestic banking system.

In addition, the BSP captured business and consumer sentiments on future economic conditions through the quarterly BES and CES, as well as the monthly survey of private-sector economists. Through these, the BSP collected information about the near- to medium-term outlook of the private sector on inflation, GDP growth, and the central bank's policy actions.

The BSP also presented the results of the first Corporate Financial Trends Survey (CFTS), which was launched in 2021, and began the 2022 round of assessment. The CFTS is an annual survey that gathers granular financial data from non-financial corporations across various industries in the Philippines. It was designed to improve the Bank's understanding of corporate financial conditions and vulnerabilities, enabling the conduct of timely and appropriate monetary and financial policies.

Infrastructure Project Development

The BSP continues to implement its infrastructure projects with the following corresponding percentages of completion as of December 2022:

PROJECT	COMPLETION
BSP Puerto Princesa Palawan Branch Building	99.9%
BSP Baguio Branch Building, Additional Access Road, and Slope Protection	98.0%
BSP Cotabato Branch Building	92.0%
Renovation and Conversion of the Metropolitan Museum of Manila to a One-Stop Shop Building (i.e., BSP Hub)	51.0%
Office and Commercial Building with Parking at the Philippine International Convention Center	14.0%

The Phase 3 of the BSP Wellness and Training Center and the Security Services Department's Offices and Command Operations Center for Contingency and Oversight were completed and inaugurated on 22 March and 14 November 2022, respectively. Meanwhile, the Bank has applied for the necessary permits for the construction of the BSP Iloilo Branch Building.

The New Clark City

The New Clark City (NCC) project is a 31.3-hectare development in Capas, Tarlac. It will house the BSP's currency production and distribution facility; command and data centers and other auxiliary maintenance buildings; as well as the museum, academic building, health and wellness center, and commercial establishments.

The NCC is envisioned to be a global benchmark for a smart, green, and modern facility. In view of this commitment to sustainable architecture, it received the Design of the Year Award, Architectural Design-Institutional Architecture category from Architecture MasterPrize.¹²⁰

In 2022, the NCC project continued to make progress. The BSP awarded consultancy services for architecture, engineering, and construction management to qualified firms.

Organizational Project Management

The BSP formalized its project management practice by implementing the Project Management Excellence Program in 2013. As recent developments came with new challenges, the Bank ventured into developing an IT Project Management Framework in 2021 and an enterprise project management (EPM) framework in 2022.¹²¹

To address the gaps while the EPM framework is underway, the BSP Interim Project Management Guidelines were implemented on 13 June 2022.¹²² This aims to standardize methods and processes that will guide organizational project management activities and strengthen project governance in the Bank, supportive of quality and timely decision-making.

The interim guidelines established project management structures and roles, as well as the policy, phases, and procedures involved in the preparation, review, and approval of proposals for non-IT projects. It also defined the required documentation to ensure that projects are adequately planned, and their scope, risks, cost, timeline, and quality are effectively managed.

Meanwhile, the BSP's Project Management Information System—utilized in day-to-day planning, organizing, reporting, and monitoring of project tasks—has been re-platformed to facilitate electronic forms; approval workflows; and online collaboration, reporting, and dashboarding. The system was also expanded to handle program and project portfolio management.

¹²⁰ Architecture MasterPrize is an award-giving body that aims to set a global standard for creativity and innovation in the fields of architecture and interior design.

¹²¹ The project management maturity assessment and roadmap development for the EPM framework are ongoing.

¹²² This supersedes Office Order No. 254 dated 5 April 2013, which sets forth the guidelines for the implementation of the BSP Project Management Excellence Program.

Risk Management and Compliance

The BSP enhanced its risk management frameworks, policies, and processes to ensure the effective delivery of its mandated services. These enhancements included the alignment of the Bank's enterprise risk management and business continuity management frameworks with the latest global standards and best practices, as well as the establishment of new frameworks on information security management and compliance management.

Currently, the BSP is in the process of implementing enhanced risk management frameworks using a top-down and a bottom-up approach. Through the top-down approach, or the enterprise-level assessment, the central bank identifies highly leveraged risks that set its risk priorities and areas of focus. On the other hand, the bottom-up approach, or the department-level assessment, facilitates the identification, assessment, treatment, and monitoring of risks affecting the operations of the BSP. The implementation of these frameworks is overseen by the Risk and Compliance Office, with support from several risk management units.

In implementing these enhanced frameworks, the BSP leverages digital technology. It developed and deployed the Bank-wide Incident Escalation Management System, which serves as the central information repository on reported incidents. The BSP has also commenced the procurement of a governance, risk, and compliance system that will automate the gathering and processing of risk information to enable timely reporting and decision-making.

Meantime, the BSP participates as a member of the International Operational Risk Working Group and contributes, through survey responses, inputs on cybersecurity risk management; operational risk management maturity and best practices; risk appetite, culture, and key risk indicators; and top operating and emerging risks.

Legal Services

The BSP engaged in various meetings with the SEC to review documents related to the implementation of Circular No. 1133, series of 2021. The circular provides for the ceiling rates on interests and charges imposed by lending and financing companies, as well as their online platforms.

Concurrently, the BSP rendered legal advice, drafted a request for an opinion from the Department of Justice, and provided support for various issues related to the implementation of the PhilSys project.

In the pursuit of creating a sound legal and regulatory framework for Islamic banking and finance in the country, the BSP assisted in the legal review of the implementing regulations for Rep. Act No. 11439, more commonly known as the Islamic Banking Act, and Rep. Act No. 11054, or the Organic Law for the Bangsamoro Autonomous Region in Muslim Mindanao.

The Bank also assisted in the passage of the following legislations and the issuance of their implementing rules and regulations:

- Rep. Act No. 11901 or the Agriculture, Fisheries, and Rural Development Financing Enhancement Act of 2022
- Rep. Act No. 11765 or the FCPA
- Rep. Act No. 11840 or the Amended PDIC Charter
- Rep. Act No. 11934 or the Subscriber Identity Module Registration Act

Additionally, the BSP backed 14 bills¹²³ and provided legislative support in 16 public hearings conducted by the House of Representatives and the Senate.

Monetary Board Operations Management

The MB held a total of 52 regular and policy stance meetings in 2022, including offsite MB meetings in Iloilo City and Davao City in June and November, respectively. It released 52 minutes of the meetings, 784 transcripts of board deliberations, and 2,172 resolutions adopted by the MB.

Consistent with the thrust toward digital transformation, the BSP facilitated the full implementation of the MB Directives Facility—Microsoft SharePoint, including the migration of the existing system based on the Lotus Notes platform. This allows BSP units to update online and in real-time the status of their respective compliance with MB instructions.

The BSP also upgraded the software of the MB Electronic Library to enhance its functionality and performance. The migration of the current databases has been completed, and the upgraded system is expected to go live in the first quarter of 2023.

Comptrollership Management

The BSP pushes for the digitalization of collections and disbursements. It successfully transferred the facility for payments to suppliers from the Union Bank of the Philippines to the LBP, officially commencing in March 2022.

On 31 March and 18 July 2022, the BSP remitted dividends aggregating to ₱17.4 billion to the NG.

Pursuant to the Special Allotment Release Order and Notice of Cash Allocation issued by the DBM, ₱10.0 billion was released to the BSP on 16 December 2022. The amount was credited to its corporate account with the LBP, thus increasing the central bank's capital to ₱60.0 billion.

¹²³ These included the amendments to Rep. Act No. 1405 (Law on Secrecy of Bank Deposits) and Rep. Act No. 6426 (Foreign Currency Deposit Act), the proposed Financial Accounts Regulation Act, and the Digital Payments bill.

Financial Results

The BSP's Balance Sheet

The BSP's total assets as of end-December 2022 was ₱7,247.9 billion, lower by 4.3 percent than the ₱7,576.2 billion posted in the previous year. This was attributed to lower international reserves, domestic securities, as well as loans and advances that decreased y-o-y by 3.3 percent, 8.2 percent, and 31.6 percent, respectively. In terms of composition, the BSP's assets were composed mainly of international reserves, amounting to ₱5,322.7 billion, and domestic securities, amounting to ₱1,350.1 billion.

Table 2
Balance Sheet of the BSP
in billion pesos

	2022 ^{ua}	2021 ^a	Growth Rates * (in percent)
Assets	7,247.9	7,576.2	-4.3
Liabilities	7,136.9	7,439.9	-4.1
Net worth	111.0	136.2	-18.5

Notes:

Details may not add up to total due to rounding.

^a Audited but subject to restatement

^{ua} Based on the unaudited BSP balance sheet as of end-December 2022, prior to restatement

The reduction in the BSP's assets was accompanied by a decrease in liabilities that reached a total of ₱7,136.9 billion as of end-December 2022, lower by 4.1 percent than the previous year's level of ₱7,439.9 billion. The decrease was mainly attributable to foreign and local deposits, which declined by 20.1 percent from ₱3,816.5 billion in 2021 to ₱3,049.6 billion as of end-December 2022. The decline was partially offset by the increase driven by combined growth in the allocation of SDR, the revaluation of foreign currency accounts, net bills payable, and currency issued in circulation. Meanwhile, the total shares of deposits and currency issued stood at 75.5 percent, accounting for the bulk of the BSP's liabilities.

Meanwhile, the BSP's net worth dropped by 18.5 percent, from ₱136.2 billion in 2021 to ₱111.0 billion in 2022, amid higher unrealized losses on investments in GS, stocks, and other securities.

Operating Profit

Based on unaudited data for the year 2022, the BSP registered a net income of ₱62.9 billion, up by 81.2 percent compared to ₱34.7 billion in 2021. The improvement in net income was largely due to the resulting net gain on FX rate fluctuations.¹²⁴

Table 3
Income Statement of the BSP
in billion pesos

	2022 ^{ua} December	2021 ^a December
Revenues	141.159	165.887
Less: Expenses	146.035	109.331
Net Income/(Loss) Before Net Gain/(Loss) on FX Rate		
Fluctuations and Income Tax (Expense)/Benefit	(4.877)	56.556
Net Gain/(Loss) on FX Rate Fluctuations	67.656	3.258
Income Tax (Expense)/Benefit	0.127	0.179
Capital Reserves	0.000	(25.272)
Net Income/(Loss) After Tax	62.905	34.721

Notes:

Details may not add up due to rounding.

^a Audited but subject to restatement

^{ua} Based on unaudited BSP income statement for the year ended December 2022, prior to restatement

Total revenues for 2022 amounted to ₱141.2 billion, lower by 14.9 percent than the ₱165.9 billion posted in the previous year. The decline in total revenues was mainly due to the trading loss on the price fluctuation of foreign investment. Meanwhile, total expenditures amounted to ₱146.0 billion, higher by 33.6 percent than the ₱109.3 billion posted in 2021. The y-o-y increase in expenditures was due primarily to the rise in interest expenses on government deposits and bills payable.

¹²⁴ This represents realized gains or losses from fluctuations in FX rates arising from foreign currency denominated transactions of the BSP.



STATISTICAL ANNEXES

Statistical Annexes

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Table 1
Gross National Income and Gross Domestic Product by Industry
 For periods indicated in million pesos; at constant 2018 prices

	2020	2021 ^r	2022	Percent Change		
				2020	2021 ^r	2022
Agriculture, Forestry, and Fishing	1,780,391	1,775,210	1,783,499	-0.2	-0.3	0.5
Industry	5,115,316	5,551,622	5,914,703	-13.1	8.5	6.5
Mining and Quarrying	137,493	144,498	152,185	-18.6	5.1	5.3
Manufacturing	3,266,302	3,556,426	3,730,403	-9.8	8.9	4.9
Electricity, Steam, Water, and Waste Management	589,213	615,591	647,257	-0.4	4.5	5.1
Construction	1,122,308	1,235,106	1,384,859	-25.5	10.1	12.1
Services	10,642,137	11,213,252	12,245,428	-9.1	5.4	9.2
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	3,275,537	3,413,864	3,710,868	-6.1	4.2	8.7
Transportation and Storage	515,149	547,807	678,561	-30.6	6.3	23.9
Accommodation and Food Service Activities	231,811	248,404	328,180	-45.5	7.2	32.1
Information and Communication	585,185	638,971	689,868	5.1	9.2	8.0
Financial and Insurance Activities	1,769,952	1,854,248	1,986,719	5.6	4.8	7.1
Real Estate and Ownership of Dwellings	1,031,275	1,054,235	1,110,216	-16.7	2.2	5.3
Professional and Business Services	1,068,769	1,136,507	1,240,113	-9.6	6.3	9.1
Public Administration and Defense; Compulsory Social Activities	911,188	959,685	998,321	4.5	5.3	4.0
Education	687,610	744,159	799,264	-10.2	8.2	7.4
Human Health and Social Work Activities	306,903	351,472	364,343	-5.1	14.5	3.7
Other Services	258,758	263,899	338,975	-41.0	2.0	28.4
Gross Domestic Product	17,537,843	18,540,084	19,943,630	-9.5	5.7	7.6
Net Primary Income	1,320,173	639,322	1,133,701	-31.1	-51.6	77.3
Gross National Income	18,858,016	19,179,406	21,077,331	-11.5	1.7	9.9

Note: The Philippine Statistics Authority (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 recommendations and latest classification systems; inclusion of new industries and expenditure commodities; and updating of the base year to 2018.

Details may not add up to total due to rounding.

^r Revised

Source: PSA

Table 2
Gross National Income and Gross Domestic Product by Expenditure
for periods indicated in million pesos; at constant 2018 prices

	2020	2021 ^r	2022	Percent Change		
				2020	2021 ^r	2022
Household Final Consumption Expenditure	12,911,357	13,455,117	14,570,217	-8.0	4.2	8.3
Government Final Consumption Expenditure	2,651,875	2,842,705	2,981,663	10.5	7.2	4.9
Gross Capital Formation	3,375,833	4,051,798	4,609,286	-34.2	20.0	13.8
Gross Fixed Capital Formation	3,761,791	4,132,142	4,534,347	-27.3	9.8	9.7
Changes in Inventories	-386,663	-81,107	74,175	...	...	...
Valuables	705	762	764	-50.7	8.2	0.3
Exports	4,749,668	5,129,674	5,688,704	-16.1	8.0	10.9
Less: Imports	6,150,890	6,939,209	7,906,240	-21.6	12.8	13.9
Statistical Discrepancy	0	0	0	...	...	...
Gross Domestic Product	17,537,843	18,540,084	19,943,630	-9.5	5.7	7.6
Net Primary Income	1,320,173	639,322	1,133,701	-31.1	-51.6	77.3
Gross National Income	18,858,016	19,179,406	21,077,331	-11.5	1.7	9.9

Note: The PSA released the Revised and Rebased to 2018 NAP on 20 April 2020. The salient features of the revision and rebasing are as follows: adoption of the 2008 System of National Accounts recommendations and latest classification systems; inclusion of new industries and expenditure commodities; and updating of the base year to 2018.

Details may not add up to total due to rounding.

r Revised

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Source: PSA

Table 3
Selected Labor, Employment, and Wage Indicators
 for periods indicated

	2020				2021											
	Jan	Apr	Jul	Oct	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Employment Status¹																
Labor Force (in thousands)	44,934	41,058	45,871	43,649	45,212	47,341	48,772	47,407	48,456	48,846	44,900	48,113	47,873	47,325	48,634	49,558
Employed	42,543	33,830	41,302	39,837	41,248	43,153	45,332	43,269	44,717	45,076	41,671	44,231	43,593	43,822	45,474	46,274
Unemployed	2,391	7,228	4,569	3,813	3,964	4,187	3,441	4,138	3,739	3,770	3,229	3,882	4,280	3,504	3,160	3,284
Underemployed	6,299	6,398	7,136	5,747	6,589	7,850	7,335	7,453	5,491	6,410	8,769	6,482	6,183	7,044	7,618	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	65.1	59.4	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	92.8	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	7.2	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	21.0	14.7	14.2	16.1	16.8	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	123.244	11.0	11.0	44.2	11.1	11.0

¹ Beginning with the January 2020 survey round, the Labor Force Survey (LFS) adopted the population projections based on the 2015 Population Census (POPCEN) and 2013 Master Sample Design (MSD), with a sample size of approximately 44,000 households. Starting February 2021, the monthly LFS has been conducted 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 domains and covered 123,244 households.

p Preliminary

Details may not add up to total due to rounding.

Source: PSA

Table 3
Selected Labor, Employment, and Wage Indicators (Cont'd)
for periods indicated

	2022											
	Jan	Feb	Mar	Apr ^p	May ^p	Jun ^p	Jul ^p	Aug ^p	Sep ^p	Oct ^p	Nov ^p	Dec ^p
Employment Status¹												
Labor Force (in thousands)	46,219	48,606	49,852	48,393	49,011	49,581	49,994	50,551	50,080	49,348	51,883	51,222
Employed	43,266	45,480	46,975	45,631	46,084	46,592	47,391	47,870	47,583	47,106	49,706	49,002
Unemployed	2,952	3,126	2,877	2,762	2,927	2,990	2,602	2,681	2,497	2,241	2,177	2,220
Underemployed	6,431	6,382	7,422	6,399	6,668	5,888	6,543	7,031	7,326	6,673	7,161	6,197
Labor Force Participation Rate (in %)	60.5	63.8	65.4	63.4	64.0	64.8	65.2	66.1	65.2	64.2	67.5	66.4
Employment Rate (in %)	93.6	93.6	94.2	94.3	94.0	94.0	94.8	94.7	95.0	95.5	95.8	95.7
Unemployment Rate (in %)	6.4	6.4	5.8	5.7	6.0	6.0	5.2	5.3	5.0	4.5	4.2	4.3
Underemployment Rate (in %)	14.9	14.0	15.8	14.0	14.5	12.6	13.8	14.7	15.4	14.2	14.4	12.6
Sample Size (in thousand households)	170.6	10.9	10.9	43.5	11.1	11.0	43.9	10.9	11.0	43.6	11.0	11.0

¹ Beginning with the January 2020 survey round, the LFS adopted the population projections based on the 2015 POPCEN and 2013 Master Sample Design (MSD), with a sample size of approximately 44,000 households. Starting February 2021, the monthly LFS has been conducted 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 domains and covered 123,244 households.

^p Preliminary

Details may not add up to total due to rounding.

Source: PSA

Table 3
Selected Labor, Employment, and Wage Indicators (Cont'd)
for periods indicated

	Level			Percent Change	
	2020	2021	2022	2021	2022
Overseas Employment (Deployed, in thousands)	550 ^p	743 ^p	1,205 ^p	35.1 ^p	62.3 ^p
Land-Based	333 ^p	397 ^p	820 ^p	19.4 ^p	106.5 ^p
Sea-Based	217 ^p	346 ^p	385 ^p	59.1 ^p	11.4 ^p
Strikes					
Number of New Strikes Declared	5	3	6	-40.0	100.0
Number of Workers Involved	3,154	166	622	-94.7	274.7
Legislated Wage Rates (in Philippine Peso)					
In Nominal Terms²					
Non-Agricultural					
National Capital Region (NCR)	537.00	537.00	570.00	0.0	6.1
Areas Outside the NCR (AONCR)	420.00	420.00	470.00	0.0	11.9
Agricultural					
NCR					
Plantation	500.00	500.00	533.00	0.0	6.6
Non-Plantation	500.00	500.00	533.00	0.0	6.6
AONCR					
Plantation	394.00	394.00	429.00	0.0	8.9
Non-Plantation	394.00	394.00	429.00	0.0	8.9
In Real Terms³					
Non-Agricultural					
NCR	505.65	495.39	488.85	-2.0	-1.3
AONCR	386.74	374.67	393.31	-3.1	5.0
Agricultural					
NCR					
Plantation	470.81	461.25	457.12	-2.0	-0.9
Non-Plantation	470.81	461.25	457.12	-2.0	-0.9
AONCR					
Plantation	381.04	372.75	359.00	-2.2	-3.7
Non-Plantation	381.04	372.75	359.00	-2.2	-3.7

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. 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 2018 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 total due to rounding.

Source: Philippine Overseas Employment Administration, National Conciliation and Mediation Board, and NWPC

Table 4
Consumer Price Index in the Philippines, National Capital Region, and Areas Outside National Capital Region
for periods indicated
2018=100

Commodity Group	Philippines					National Capital Region					Areas Outside National Capital Region				
	CPI			Percent Change		CPI			Percent Change		CPI			Percent Change	
	2020	2021	2022	2021	2022	2020	2021	2022	2021	2022	2020	2021	2022	2021	2022
All Items	104.8	108.9	115.3	3.9	5.8	104.0	106.9	112.3	2.7	5.1	105.0	109.5	116.1	4.2	6.0
Food and Non-Alcoholic Beverages	104.6	109.0	115.3	4.2	5.9	106.0	109.6	115.6	3.4	5.4	104.3	108.8	115.3	4.3	5.9
Food	104.4	109.1	115.7	4.5	6.1	106.2	110.1	116.4	3.7	5.7	104.1	108.9	115.6	4.6	6.2
Alcoholic Beverages and Tobacco	129.2	141.7	152.9	9.7	7.9	115.2	124.9	132.9	8.4	6.4	132.1	145.3	157.2	10.0	8.2
Non-Food	104.1	107.8	113.9	3.5	5.7	102.9	105.2	110.4	2.2	4.9	104.5	108.5	115.0	3.9	5.9
Clothing and Footware	105.0	106.9	109.7	1.8	2.6	102.9	103.7	105.5	0.8	1.7	105.4	107.6	110.5	2.0	2.8
Housing, Water, Electricity, Gas and Other Fuels	103.2	105.8	112.6	2.5	6.4	101.4	103.3	108.0	1.9	4.6	103.8	106.7	114.2	2.8	7.0
Furnishing, Household Equipment, and Routing Maintenance of the House	106.2	108.5	112.0	2.1	3.2	105.5	106.7	110.1	1.2	3.1	106.4	108.9	112.4	2.4	3.2
Health	108.1	112.2	115.1	3.8	2.6	104.0	106.2	107.7	2.2	1.4	108.9	113.3	116.6	4.1	2.8
Transport	102.7	112.3	126.7	9.3	12.9	102.2	108.6	123.0	6.3	13.3	102.8	113.1	127.6	10.0	12.8
Information and Communication	100.9	101.5	102.1	0.6	0.6	100.5	100.8	101.1	0.3	0.3	101.0	101.8	102.5	0.7	0.7
Recreation, Sport and Culture	104.5	104.8	107.2	0.3	2.3	102.3	101.8	103.3	-0.4	1.5	105.0	105.5	108.1	0.4	2.5
Education Services	105.9	106.9	108.8	0.9	1.8	106.3	106.6	110.1	0.2	3.3	105.8	107.0	108.4	1.1	1.3
Restaurants and Accommodation Services	105.7	109.4	113.9	3.5	4.1	105.7	108.0	113.5	2.2	5.1	105.7	109.9	114.0	4.0	3.7
Financial Services	100.0	132.5	143.3	32.5	8.2	100.0	134.5	146.0	34.5	8.6	100.0	132.0	142.7	32.0	8.1
Personal Care and Miscellaneous Goods and Services	104.8	107.2	110.4	2.3	3.0	103.9	105.5	107.7	1.6	2.1	105.0	107.6	111.0	2.5	3.2

Source: PSA

Table 5
Cash Operations of the National Government
for periods indicated

	Levels (in million pesos)			Annual Change (in percent)		
	2020	2021 ^r	2022 ^p	2020	2021 ^r	2022 ^p
Revenues	2,855,959	3,005,539	3,545,505	-9.0	5.2	18.0
<i>Ratio to GDP (%)</i>	15.9	15.5	16.1			
Tax Revenues	2,504,421	2,742,721	3,220,315	-11.4	9.5	17.4
Bureau of Internal Revenue	1,951,023	2,078,145	2,335,674	-10.3	6.5	12.4
Bureau of Customs	537,687	643,563	862,420	-14.7	19.7	34.0
Other Offices	15,711	21,013	22,221	-28.0	33.7	5.7
Non-tax Revenues including Grants	351,538	262,818	325,190	13.5	-25.2	23.7
of w/c: Bureau of the Treasury	219,677	125,332	154,764	49.9	-42.9	23.5
Expenditures	4,227,406	4,675,639	5,159,640	11.3	10.6	10.4
<i>Ratio to GDP (%)</i>	23.5	24.1	23.4			
of which:						
Allotments to Local Government Units	804,546	892,698	1,103,284	30.2	11.0	23.6
Interest Payments	380,412	429,432	502,858	5.4	12.9	17.1
Equity and Net Lending	34,924	65,397	38,363	71.3	87.3	-41.3
Surplus/Deficit (-)	-1,371,447	-1,670,100	-1,614,135	-107.7	-21.8	3.4
<i>Ratio to GDP (%)</i>	-7.6	-8.6	-7.3			
Financing¹	2,495,080	2,252,181	1,966,404	184.7	-9.7	-12.7
<i>Ratio to GDP (%)</i>	13.9	11.6	8.9			
External Borrowings (Net)	600,759	331,481	389,602	225.0	-44.8	17.5
<i>Ratio to GDP (%)</i>	3.3	1.7	1.8			
Domestic Borrowings (Net)	1,894,321	1,920,700	1,576,802	174.0	1.4	-17.9
<i>Ratio to GDP (%)</i>	10.6	9.9	7.2			
Total Change in Cash: Deposit/Withdrawal (-)	701,702	66,080	-119,148	412.5	-90.6	-280.3

1 Based on the revised data on financing, which are sourced from the National Government Cash Operations of the Bureau of the Treasury (BTr) to conform with the Government Finance Statistics Manual 2014 concept where reporting of debt amortization reflects the actual principal repayments to creditor including those serviced by the Bond Sinking Fund, while financing includes gross proceeds of liability management transactions such as bond exchange.

r Revised

p Preliminary

Source: BTr, PSA

Table 6
Depository Corporations Survey (SRF-based*)
as of end-periods indicated

	Levels (in million pesos)			Growth Rates (in percent)		
	2020 ^r	2021 ^r	2022 ^p	2020 ^r	2021 ^r	2022 ^p
1. Net Foreign Assets	6,095,812	6,493,307	6,265,376	25.5	6.5	-3.5
A. Central Bank	5,303,062	5,574,444	5,383,939	20.5	5.1	-3.4
Claims on Non-Residents	5,379,285	5,793,723	5,615,658	20.1	7.7	-3.1
less: Liabilities to Non-Residents	76,222	219,279	231,719	-5.1	187.7	5.7
B. Other Depository Corporations	792,750	918,863	881,437	72.8	15.9	-4.1
Claims on Non-Residents	1,773,077	1,883,376	1,979,550	7.2	6.2	5.1
less: Liabilities to Non-Residents	980,328	964,513	1,098,113	-18.0	-1.6	13.9
2. Domestic Claims	13,942,931	15,082,357	17,013,353	4.7	8.2	12.8
A. Net Claims on Central Government	3,086,762	3,761,873	4,543,749	30.6	21.9	20.8
Claims on Central Government	4,431,278	5,326,960	5,976,008	50.1	20.2	12.2
less: Liabilities to Central Government	1,344,516	1,565,087	1,432,260	128.1	16.4	-8.5
B. Claims on Other Sectors	10,856,169	11,320,484	12,469,605	-0.9	4.3	10.2
Claims on Other Financial Corporations	1,145,481	1,231,142	1,272,370	-7.1	7.5	3.3
Claims on State and Local Government	103,799	127,719	166,090	4.8	23.0	30.0
Claims on Public Nonfinancial Corporations	265,664	267,704	273,650	2.4	0.8	2.2
Claims on Private Sector	9,341,225	9,693,918	10,757,495	-0.2	3.8	11.0
3. Liquidity Aggregates						
M4 (M3 + 3.e)	16,244,474	17,540,827	18,910,496	8.7	8.0	7.8
M3 (M2 + 3.d) **	14,221,969	15,343,404	16,379,162	9.6	7.9	6.8
M2 (M1 + 3.c)	13,564,235	14,769,519	15,895,478	10.3	8.9	7.6
M1 (3.a + 3.b)	5,455,949	6,200,125	6,623,298	21.2	13.6	6.8
3.a Currency Outside Depository Corporations	1,731,812	1,876,808	2,019,974	24.1	8.4	7.6
3.b Transferable Deposits Included in Broad Money	3,724,137	4,323,317	4,603,323	20.0	16.1	6.5
3.c Other Deposits Included in Broad Money	8,108,286	8,569,394	9,272,180	4.0	5.7	8.2
Savings Deposits	5,718,130	6,251,889	6,370,526	15.1	9.3	1.9
Time Deposits	2,390,156	2,317,504	2,901,654	-15.3	-3.0	25.2
3.d Securities Other Than Shares Included in Broad Money (Deposit Substitutes)	657,734	573,885	483,684	-3.7	-12.7	-15.7
3.e Transferable and Other Deposits in Foreign Currency (FCDs-Residents)	2,022,505	2,197,423	2,531,333	2.5	8.6	15.2
4. Liabilities Excluded from Broad Money	3,794,269	4,034,837	4,368,234	17.6	6.3	8.3

* Based on the Standardized Report Forms, a unified framework for reporting monetary and financial statistics to the International Monetary Fund.

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: BTr, PSA

Table 7
Selected Domestic Interest Rates
for periods indicated in percent per annum

	Nominal Interest Rates			Real Interest Rates ⁹		
	2020	2021	2022	2020 ^r	2021 ^r	2022
Borrowing Rates of Banks						
Interbank Call Loans	3.537	1.626	3.282	1.137	-2.274	-2.518
Savings Deposit ^{1,2}	0.201 ^P	0.121 ^P	0.188 ^P	-2.199 ^P	-3.779 ^P	-5.612 ^P
Time Deposit (All Maturities) ^{1,3}	1.157 ^{P,r}	0.460 ^P	1.619 ^P	-1.243 ^{P,r}	-3.440 ^P	-4.181 ^P
Lending Rates¹						
All Maturities ⁴	7.041 ^P	6.066 ^P	5.994 ^P	4.641 ^P	2.166 ^P	0.194 ^P
High ⁵	10.488 ^{P,r}	9.964 ^P	10.697 ^P	8.088 ^{P,r}	6.064 ^P	4.897 ^P
Low ⁶	5.962 ^{P,r}	5.579 ^P	5.690 ^P	3.562 ^{P,r}	1.679 ^P	-0.110 ^P
Bangko Sentral Rates						
Overnight Lending Facility (OLF) ⁷	4.063	2.500	2.664	1.663	-1.400	-3.136
Reverse Repurchase (RRP) Facility	2.733	2.000	3.071	0.333	-1.900	-2.729
Overnight Deposit Facility (ODF) ⁷	2.054	1.500	2.369	-0.347	-2.400	-3.431
BSP Securities (28-Day) ⁸	1.844	1.770	3.342	-0.556	-2.130	-2.458
Term Deposit Facility (TDF) ⁷	2.241	1.753	2.920	-0.160	-2.147	-2.880
7-Day	2.123	1.715	3.217	-0.277	-2.185	-2.583
14-Day	2.042	1.762	2.888	-0.358	-2.138	-2.912
28-Day	2.705	...	...	0.305	...	...
Rediscounting	3.250	2.500	3.947	0.850	-1.400	-1.853
Rate on Treasury Bills						
All Maturities	2.223	1.450	2.204	-0.177	-2.450	-3.596
35-Day	1.869	...	...	-0.531	...	...
91-Day	2.018	1.113	1.864	-0.382	-2.787	-3.936
182-Day	2.261	1.431	2.364	-0.139	-2.469	-3.436
364-Day	2.422	1.694	2.468	0.022	-2.206	-3.332

1 Starting 1 January 2020, universal and commercial banks (U/KBs) are required to submit the amended reporting templates on banks' lending and deposit rates or Interest Rates on Loans and Deposits in accordance with Circular Nos. 1029 and 1037, series of 2019. Data are preliminary estimates as of 27 April 2023. Bank submissions with interest rates of 100% and above were excluded per account code from the computation per the Department of Supervisory Analytics and Supervisory Policy and Research Department's definition of outliers.

2 Refers to the interest rate based on reporting U/KBs' interest expense and outstanding peso-denominated deposits

3 Refers to the weighted average interest rate charged on interest-bearing deposits with fixed-maturity dates and evidenced by certificates issued by banks

4 Refers to the interest rate based on reporting U/KBs' interest income and outstanding peso-denominated loans

5 Refers to the average of U/KBs' reported high quoted lending rates

6 Refers to the average of U/KBs' reported low quoted lending rates

7 Beginning 3 June 2016, the BSP shifted its monetary operations to an interest rate corridor (IRC) system. The repurchase and Special Deposit Account windows were replaced by standing OLF and ODF, respectively. The RRP facility was modified to a purely overnight RRP. In addition, the TDF will serve as the main tool for absorbing liquidity. The OLF and ODF will serve as the upper and lower bound, respectively, of the IRC system.

8 Beginning 18 September 2020, the Bangko Sentral ng Pilipinas (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 supports the implementation of monetary policy under the IRC framework. BSP Bills, with tenor of 28 days, are offered for the initial issuance.

9 Nominal interest rate less inflation rate (2018=100)

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Source: BTr, BSP

Table 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
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	
2022	Ave	54.4778	0.4160	67.2851	6.9572	57.0791	41.8623	39.5102	37.7740	144.5166	14.5096	39.3674	0.0037	1.5555	14.8334	57.3345
	Jan	51.2353	0.4461	69.4853	6.5759	55.8078	40.5914	37.9407	36.7900	135.9131	13.6531	37.8007	0.0036	1.5420	13.9506	58.0302
	Feb	51.2807	0.4452	69.4913	6.5764	55.5984	40.3310	38.1031	36.7052	136.0396	13.6684	37.9621	0.0036	1.5720	13.9631	58.2185
	Mar	52.0740	0.4400	68.6336	6.6573	56.0530	41.1374	38.3355	38.3521	138.1350	13.8806	38.1949	0.0037	1.5677	14.1790	57.4094
	Apr	51.9760	0.4124	67.2949	6.6291	55.1058	41.1895	38.0663	38.3289	137.8736	13.8583	37.9274	0.0036	1.5407	14.1523	56.2680
	May	52.3618	0.4069	65.2384	6.6711	53.4789	40.7481	37.8903	36.8970	138.9044	13.9599	37.7537	0.0036	1.5220	14.2574	55.3965
	Jun	53.5685	0.4003	66.0917	6.8256	55.2350	41.8381	38.7217	37.6682	142.1162	14.2786	38.5823	0.0037	1.5355	14.5858	56.6533
	Jul	55.8925	0.4087	67.0864	7.1213	57.6655	43.2174	40.0509	38.3094	148.2801	14.8861	39.9079	0.0038	1.5392	15.2183	56.9862
	Aug	55.7501	0.4133	67.0107	7.1054	58.3458	43.2284	40.3220	38.8288	147.8969	14.8422	40.1767	0.0038	1.5573	15.1796	56.5719
	Sep	57.4338	0.4019	65.2827	7.3172	59.0615	43.2258	40.6967	38.4593	152.3543	15.2794	40.5530	0.0038	1.5550	15.6380	56.9867
	Oct	58.8247	0.4004	66.4075	7.4941	59.1537	42.9250	41.2808	37.4124	156.0047	15.6556	41.1365	0.0038	1.5524	16.0168	57.8534
	Nov	57.6523	0.4049	67.5867	7.3616	59.7599	42.9169	41.5650	37.9915	152.9655	15.3409	41.4156	0.0037	1.5824	15.6975	58.7567
Dec	55.6839	0.4115	67.8119	7.1517	59.6841	40.9986	41.1495	37.5450	147.7152	14.8116	40.9981	0.0036	1.6001	15.1621	58.8839	

Source: Reference Exchange Rate Bulletin, Financial Markets, BSP

Table 8a
Effective Exchange Rate Indices of the Philippine Peso
 period average
 1980=100

	Nominal			Real		
	Overall ¹	Trading Partners		Overall ¹	Trading Partners	
		Advanced ²	Developing ³		Advanced ²	Developing ³
2020 ^r	14.31	11.50	23.02	94.26	89.19	122.99
Jan	13.96	11.40	22.27	94.32	92.19	120.90
Feb	14.15	11.51	22.60	93.46	91.08	119.99
Mar	14.20	11.35	22.89	93.56	88.95	121.76
Apr	14.35	11.44	23.18	95.27	89.59	124.74
May	14.34	11.45	23.15	95.12	88.90	124.96
Jun	14.32	11.46	23.08	94.45	88.61	123.81
Jul	14.43	11.52	23.29	94.62	88.85	123.99
Aug	14.49	11.53	23.43	93.97	87.88	123.42
Sep	14.52	11.60	23.43	93.82	87.60	123.31
Oct	14.44	11.60	23.22	94.01	88.33	123.15
Nov	14.33	11.60	22.96	94.37	89.35	123.09
Dec	14.25	11.53	22.83	94.10	89.03	122.79
2021 ^r	14.10	11.55	22.45	94.76	91.02	122.67
Jan	14.17	11.49	22.69	98.84	95.91	127.26
Feb	14.17	11.54	22.64	97.13	94.58	124.83
Mar	14.25	11.63	22.73	96.83	93.82	124.78
Apr	14.30	11.66	22.83	97.18	93.57	125.65
May	14.37	11.74	22.91	97.32	93.06	126.28
Jun	14.35	11.77	22.83	96.44	92.31	125.08
Jul	13.97	11.42	22.26	93.13	89.19	120.74
Aug	13.92	11.35	22.21	92.61	88.14	120.46
Sep	13.92	11.38	22.18	91.91	87.12	119.82
Oct	13.83	11.40	21.94	91.35	87.41	118.49
Nov	13.96	11.58	22.08	92.52	89.08	119.62
Dec	14.01	11.63	22.15	92.67	88.99	119.98
2022	13.64	11.53	21.35	92.93	90.72	119.28
Jan	13.73	11.44	21.66	95.88	94.39	122.52
Feb	13.71	11.44	21.61	93.78	92.20	119.91
Mar	13.63	11.45	21.41	92.84	91.17	118.80
Apr	13.89	11.80	21.68	95.11	93.87	121.38
May	14.08	11.89	22.06	96.30	93.62	123.88
Jun	13.86	11.80	21.62	94.28	92.30	120.83
Jul	13.47	11.52	20.96	91.04	90.00	116.07
Aug	13.50	11.50	21.06	91.00	89.06	116.64
Sep	13.46	11.49	20.98	90.30	88.06	115.96
Oct	13.39	11.38	20.91	90.84	87.84	117.19
Nov	13.44	11.35	21.06	92.04	88.41	119.15
Dec	13.55	11.41	21.25	92.60	88.60	120.11

1 Australia, Euro Area, U.S., Japan, Hong Kong, Taiwan, Thailand, Indonesia, Malaysia, Singapore, South Korea, China, Saudi Arabia, and U.A.E.

2 U.S., Japan, Euro Area, and Australia

3 Hong Kong, Taiwan, Thailand, Indonesia, Malaysia, Singapore, South Korea, China, Saudi Arabia, and U.A.E

r Revised

Source: BSP

Table 9
Stock Market Transactions
for periods indicated; volume in million shares, value in million pesos

										Percentage Change						
	2020			2021			2022			2021			2022			
	Volume	Value	Index	Volume	Value	Index	Volume	Value	Index	Volume	Value	Index	Volume	Value	Index	
Total	1,462,521.4	1,770,899.0		2,756,187.9	2,232,520.3		334,201.6	1,788,694.6		88.5	26.1		-87.9	-19.9		
Financial	5,270.1	272,983.8		3,945.0	211,621.3		2,851.3	222,975.2		-25.1	-22.5		-27.7	5.4		
Industrial	42,093.2	316,159.7		83,458.2	620,529.8		57,003.8	489,356.2		98.3	96.3		-31.7	-21.1		
Holding Firms	26,169.6	403,484.7		31,668.9	363,908.6		18,974.1	327,256.5		21.0	-9.8		-40.1	-10.1		
Property	47,360.5	324,915.2		85,589.7	368,211.4		33,761.0	311,182.8		80.7	13.3		-60.6	-15.5		
Services	93,093.0	381,584.6		335,476.9	585,055.8		177,513.9	366,656.9		260.4	53.3		-47.1	-37.3		
Mining & Oil	1,239,928.9	39,177.1		2,212,359.3	61,578.8		38,519.3	65,147.2		78.4	57.2		-98.3	5.8		
SME	8,598.4	31,878.9		3,683.7	20,960.7		5,573.5	5,639.3		-57.2	-34.2		51.3	-73.1		
ETF	7.7	714.9		6.3	653.8		4.7	480.6		-17.4	-8.6		-25.5	-26.5		
Composite Index (PSEi)																
Average			6,357.7			6,853.5			6,675.6			7.8			-2.6	
End of Period			7,139.7			7,122.6			6,566.4			-0.2			-7.8	

Source: Philippine Stock Exchange

Table 10
Philippines: Balance of Payments
in million US dollars

	2021 ^f	2022 ^P	Growth (%) 2022 ^P
Current Account	-5,943	-17,832	-200.1
Totals as percent of Gross National Income (GNI)	-1.5	-4.2	
Totals as percent of Gross Domestic Product (GDP)	-1.5	-4.4	
Export	130,082	143,142	10.0
Import	136,024	160,974	18.3
Goods, Services, and Primary Income	-35,444	-48,358	-36.4
Export	99,630	111,832	12.2
Import	135,074	160,191	18.6
Goods and Services	-38,767	-53,761	-38.7
(Totals as percent of GNI)	-9.5	-12.6	
(Totals as percent of GDP)	-9.8	-13.3	
Export	87,798	98,518	12.2
Import	126,565	152,280	20.3
Goods	-52,806	-69,393	-31.4
(Totals as percent of GNI)	-12.9	-16.2	
(Totals as percent of GDP)	-13.4	-17.2	
Credit: Exports	54,228	57,448	5.9
Debit: Imports	107,034	126,841	18.5
Services	14,039	15,631	11.3
Credit: Exports	33,570	41,070	22.3
Debit: Imports	19,531	25,439	30.2
Primary Income	3,323	5,403	62.6
Credit: Receipts	11,832	13,314	12.5
Debit: Payments	8,509	7,911	-7.0
Secondary Income	29,501	30,526	3.5
Credit: Receipts	30,452	31,310	2.8
Debit: Payments	950	783	-17.6
Capital Account	80	14	-83.0
Credit: Receipts	99	105	5.7
Debit: Payments	19	91	370.5

Table 10
Philippines: Balance of Payments (Cont'd)
in million US dollars

Financial Account	-6,433	-12,565	-95.3
Net Acquisition of Financial Assets	10,261	2,262	-78.0
Net Incurrence of Liabilities	16,694	14,827	-11.2
Direct Investment	-9,732	-5,300	45.5
Net Acquisition of Financial Assets	2,251	3,900	73.2
Net Incurrence of Liabilities	11,983	9,200	-23.2
Portfolio Investment	10,237	-1,178	-111.5
Net Acquisition of Financial Assets	7,809	-203	-102.6
Net Incurrence of Liabilities	-2,428	975	140.2
Financial Derivatives	49	-48	-198.1
Net Acquisition of Financial Assets	-449	-632	-40.8
Net Incurrence of Liabilities	-498	-584	-17.2
Other Investment	-6,987	-6,039	13.6
Net Acquisition of Financial Assets	649	-803	-223.7
Net Incurrence of Liabilities	7,636	5,235	-31.4
Net Unclassified Items	774	-2,009	-359.5
Overall Balance of Payment (BOP) Position	1,345	-7,263	-640.2
(Totals as percent of GNI)	0.3	-1.7	
(Totals as percent of GDP)	0.3	-1.8	
Debit: Change in Reserve Assets	1,345	-7,246	-638.9
Credit: Change in Reserve Liabilities	0	17	11,180.3

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:

- 1 BOP Statistics from 2005 onwards are based on the IMF's Balance of Payments and International Investment Position Manual, 6th Edition.
- 2 Financial Account, including Reserve Assets, is calculated as the sum of net acquisitions of financial assets less net incurrence of liabilities.
- 3 Balances in the current and capital accounts are derived by deducting debit entries from credit entries.
- 4 Balances in the financial account are derived by deducting net incurrence of liabilities from net acquisition of financial assets.
- 5 Negative values of Net Acquisition of Financial Assets indicate withdrawal/disposal of financial assets; negative values of Net Incurrence of Liabilities indicate repayment of liabilities.
- 6 Overall BOP position is calculated as the change in the country's net international reserves (NIR), less non-economic transactions (revaluation and gold monetization/demonetization). Alternatively, it can be derived by adding the current and capital account balances less financial account plus net unclassified items.
- 7 Net unclassified items is an offsetting account to the overstatement or understatement in either receipts or payments of the recorded BOP components vis-à-vis the overall BOP position.
- 8 Data on Deposit-taking corporations, except the central bank, consist of transactions of commercial and thrift banks and offshore banking units (OBUs).

Table 11
Gross International Reserves
as of periods indicated in million US dollars

	2020	2021	2022
Gross International Reserves (GIR)	110,117	108,794	96,149
Reserve Position in the Fund	813	802	790
Gold	11,605	9,333	9,282
SDRs	1,233	3,939	3,765
Foreign Investments	93,645	91,625	81,370
Foreign Exchange	2,822	3,097	943
Net International Reserves¹ (NIR)	110,115	108,792	96,130
Reserve Adequacy Measures			
Import Cover ²	12.3	9.7	7.2
Short-Term External Debt Cover (in percent)			
Original Maturity ³	775.0	721.0	578.5
Residual Maturity ⁴	520.2	548.5	381.3

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. NIR refers to the difference between GIR and the total of the BSP's short-term liabilities and the Use of Fund Credits (UFC). UFC refers to the sum of outstanding drawings from the International Monetary Fund 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 the 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 the debt service schedule on outstanding external debt and outstanding short-term external debt as of 31 December 2022.

Details may not add up to total due to rounding.

Source: BSP

Table 12
Total External Debt ^{1/}
as of periods indicated in million US dollars

	31 December 2020				31 December 2021				31 December 2022			
	Short-term		Medium & Long-Term	Total	Short-term		Medium & Long-Term	Total	Short-term		Medium & Long-Term	Total
	Trade	Non-Trade			Trade	Non-Trade			Trade	Non-Trade		
Grand Total	2,219	11,989	84,279	98,488 ^a	2,431	12,658	91,339	106,428 ^a	2,860	13,759	94,649	111,268 ^a
Public Sector		414	57,706 ^b	58,119		538	63,396 ^b	63,934		936	66,471	67,406
Banks		414	3,199	3,613		538	5,823	6,361		936	5,265	6,200
Bangko Sentral ng Pilipinas (BSP)			1,336 ^c	1,336			4,033 ^c	4,033			3,833 ^c	3,833
Others		414	1,864	2,277		538	1,789	2,327		936	1,432	2,368
Non-Banks			54,506	54,506			57,573	57,573			61,206	61,206
NG and Others			54,506	54,506			57,573	57,573			61,206	61,206
Private Sector	2,219	11,576	26,574	40,369	2,431	12,120	27,942	42,494	2,860	12,824	28,178	43,862
Banks		10,584	7,363	17,947		10,867	6,312	17,179		11,699	5,774	17,472
Foreign Bank Branches		5,140	71	5,211 ^d		5,703	215	5,918 ^d		4,413	127	4,540 ^d
Domestic Banks		5,444	7,291	12,736		5,164	6,097	11,261		7,286	5,646	12,932
Non-Banks	2,219	992	19,211 ^e	22,422	2,431	1,253	21,631 ^e	25,315	2,860	1,125	22,405 ^e	26,390

1 Covers debt owed to non-residents, with classification by borrower based on primary obligor per covering loan/rescheduling agreement/document.

Exclusions	31 December 2020	31 December 2021	31 December 2022
a Residents' holdings of Philippine debt papers issued offshore; Non-residents' holdings of peso-denominated debt securities	15,548 4,450	19,216 3,510	21,768 4,251
Inclusions			
b Cumulative foreign exchange revaluation on US\$-denominated multi-currency loans from Asian Development Bank and World Bank	80	9	
c Accumulated SDR allocations from the IMF	1,208	3,913	3,721
d "Due to Head Office/Branches Abroad" accounts of branches and offshore banking units of foreign banks operating in the Philippines	3,597	3,913	2,803
e Loans without BSP approval/registration which cannot be serviced using foreign exchange from the banking system; Obligations under capital lease arrangements	5,794 736	8,355 690	7,293 613

Source: BSP

Table 13
Selected Foreign Debt Services Indicators
 for periods indicated in million US dollars

	2020					2021 ^r					2022 ^p			
	Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4
Debt Service Burden (DSB) ¹	3,008	1,579	1,508	1,441		4,138	1,371	1,912	1,695		1,266	1,878	2,139	3,304
Principal	2,220	966	881	880		3,444	952	1,278	1,285		560	1,197	962	2,027
Interest	788	613	627	560		694	419	634	410		706	680	1,177	1,277
Export Shipments (XS) ²	12,183	9,902	12,856	13,270		12,904	13,286	14,291	13,747		14,225	13,471	14,579	15,173
Exports of Goods and Receipts														
from Services and Income (XGSI) ^{2,3}	29,793	23,402	29,501	30,285		29,014	29,162	32,032	32,014		31,393	31,138	35,162	37,612
Current Account Receipts (CAR) ²	31,412	25,068	31,289	32,097		30,911	31,024	34,082	34,064		33,364	32,988	37,136	39,654
External Debt	81,421	87,453	91,979	98,488		97,047	101,186	105,929	106,428		109,753	107,692	107,910	111,268
Gross Domestic Product (GDP)	87,532	82,009	85,926	106,886		90,557	99,037	91,891	112,237		95,647	102,538	93,030	112,472
Gross National Income (GNI)	96,417	89,324	92,758	111,139		92,897	102,541	95,189	117,128		100,328	108,130	99,142	119,732
Ratios (%):														
DSB to XS	24.69	15.95	11.73	10.86		32.07	10.32	13.38	12.33		8.90	13.94	14.67	21.78
DSB to XGSI	10.10	6.75	5.11	4.76		14.26	4.70	5.97	5.29		4.03	6.03	6.08	8.78
DSB to CAR	9.58	6.30	4.82	4.49		13.39	4.42	5.61	4.98		3.79	5.69	5.76	8.33
DSB to GNI	3.12	1.77	1.63	1.30		4.45	1.34	2.01	1.45		1.26	1.74	2.16	2.76
External Debt to GDP ⁴	21.42	23.71	25.30	27.23		26.60	26.47	27.29	27.01		27.52	26.77	26.81	27.52
External Debt to GNI ⁴	19.51	21.65	23.23	25.31		25.16	25.35	26.38	26.07		26.43	25.59	25.46	25.99

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 BOP 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

Table 14
Balance Sheet of the Bangko Sentral ng Pilipinas
as of end-periods indicated in billion pesos

	2021 ^a	2022 ^p	Growth Rates * (in percent)
Assets	7,576.2	7,247.9	-4.3
International Reserves ¹	5,505.4	5,322.7	-3.3
Domestic Securities	1,470.6	1,350.1	-8.2
Loans and Advances	121.7	83.2	-31.6
Bank Premises and Other Fixed Assets	22.5	21.3	-5.3
Derivative Instruments in a Gain/(Loss) Position	0.1	0.6	500.0
Other Assets	455.9	470.0	3.1
Liabilities	7,439.9	7,136.9	-4.1
Currency Issue	2,175.9	2,337.4	7.4
Deposits	<u>3,816.5</u>	<u>3,049.6</u>	<u>-20.1</u>
Reserve Deposits of Other Depository Corporations (ODCs) ²	1,391.9	1,293.1	-7.1
Reserve Deposits of Other Financial Corporations (OFCs) ³	0.4	0.4	0.0
Secured Settlement Account	30.4	149.6	392.1
Overnight Deposit Facility (ODF) ⁴	717.8	574.9	-19.9
Term Deposit Facility (TDF) ⁴	630.1	466.1	-26.0
Bureau of the Treasury ⁵	907.6	431.8	-52.4
Foreign Financial Institutions	97.1	100.3	3.3
Other Foreign Currency Deposits	8.1	2.8	-65.4
Other Deposits ⁶	33.0	30.6	-7.3
Net Bonds Payable	25.5	27.9	9.4
Allocation of SDRs	199.5	209.4	5.0
Revaluation of Foreign Currency Accounts ⁷	617.3	689.2	11.6
Reverse Repurchase (RRP) Facility ⁴	305.0	305.1	.
Net Bills Payable - Domestic	259.9	478.9	99.6
Other Liabilities	40.4	39.4	-2.5
Net Worth	136.2	111.0	-18.5
Capital	50.0	60.0	20.0
Surplus/Reserves ⁸	86.2	51.0	-40.8

Details may not add up to total due to rounding.

1 Excludes the reserve tranche position with the IMF

2 ODCs include universal and commercial banks, specialized government banks, thrift banks, rural and cooperative banks, and non-banks with quasi-banking functions only.

3 OFCs include trust units of banks only.

4 Starting 3 June 2016, the Reverse Repurchase Agreement and Special Deposit Account have been replaced by the RRP Facility and ODF, respectively, and the TDF was introduced in line with the implementation of the Interest Rate Corridor system.

Includes accrued interest payables.

5 Previously named Treasurer of the Philippines. Includes foreign currency deposits.

6 Include GOCC deposits.

7 Previously named Revaluation of International Reserves

8 Consist of 1) Surplus account, which pertains to the unrestricted retained earnings of the BSP; 2) Capital reserves, which pertains to the funds set aside for various contingencies; and 3) Unrealized gains(losses) on investments in government securities, stocks, and other securities.

a Audited but subject to restatement

p Based on the unaudited preliminary BSP balance sheet as of end-December 2022

* Growth rates are calculated using 1 decimal place in billions.

. Rounds off to zero.

Source: BSP

Table 15
Income Position of the Bangko Sentral ng Pilipinas
for periods indicated in billion pesos

	2021 ^a	2022 ^p	Growth Rates * (in percent)
Revenues	165.887	141.159	-14.9
Interest Income	115.447	153.215	32.7
International Reserves	64.357	96.626	50.1
Domestic Securities	41.165	45.389	10.3
Loans and Advances	1.204	0.872	-27.6
Others	8.721	10.327	18.4
Miscellaneous Income ¹	49.878	-12.177	-124.4
Net income from Branches	0.562	0.121	-78.5
Expenses	109.331	146.035	33.6
Interest Expenses	60.339	85.634	41.9
National Government Deposits	21.540	32.079	48.9
Reverse Repurchase (RRP) Facility ²	6.181	9.468	53.2
Bills Payable - Domestic	6.708	15.096	125.0
Overnight Deposit Facility (ODF) ²	7.890	8.479	7.5
Term Deposit Facility (TDF) ²	15.310	15.051	-1.7
Loans Payable and Other Foreign Currency Deposits	2.702	5.457	102.0
Other Liabilities	0.009	0.004	-55.6
Cost of Minting/Printing of Currency	11.510	12.111	5.2
Other Expenses	37.481	48.290	28.8
Net Income/(Loss) Before Net Gain/(Loss) on FX Rate Fluctuations and	56.556	-4.877	-108.6
Income Tax Expense/(Benefit)			
Net Gain/(Loss) on Foreign Exchange Rate Fluctuations ³	3.258	67.656	1,976.6
Income Tax Expense/(Benefit)	-0.179	-0.127	87.3
Capital Reserves ⁴	-25.272	0.000	100.0
Net Income/(Loss) After Tax and Capital Reserves	34.721	62.905	81.2

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 RRP Agreement and Special Deposit Account have been replaced by the RRP Facility and ODF, respectively, and a TDF was introduced in line with the implementation of the Interest Rate Corridor system.
 - 3 This represents realized gains or losses from fluctuations in foreign exchange rates arising from foreign currency-denominated transactions of the BSP.
 - 4 The Capital Reserves for 2021 pertain to provision for BSP Complex - New Clark City Project.
- a Audited but subject to restatement
p Based on the unaudited preliminary BSP balance sheet as of end-December 2022
* Growth rates are calculated using 1 decimal place in billions.

Source: BSP

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