

CENTRAL BANK OF THE PHILIPPINES

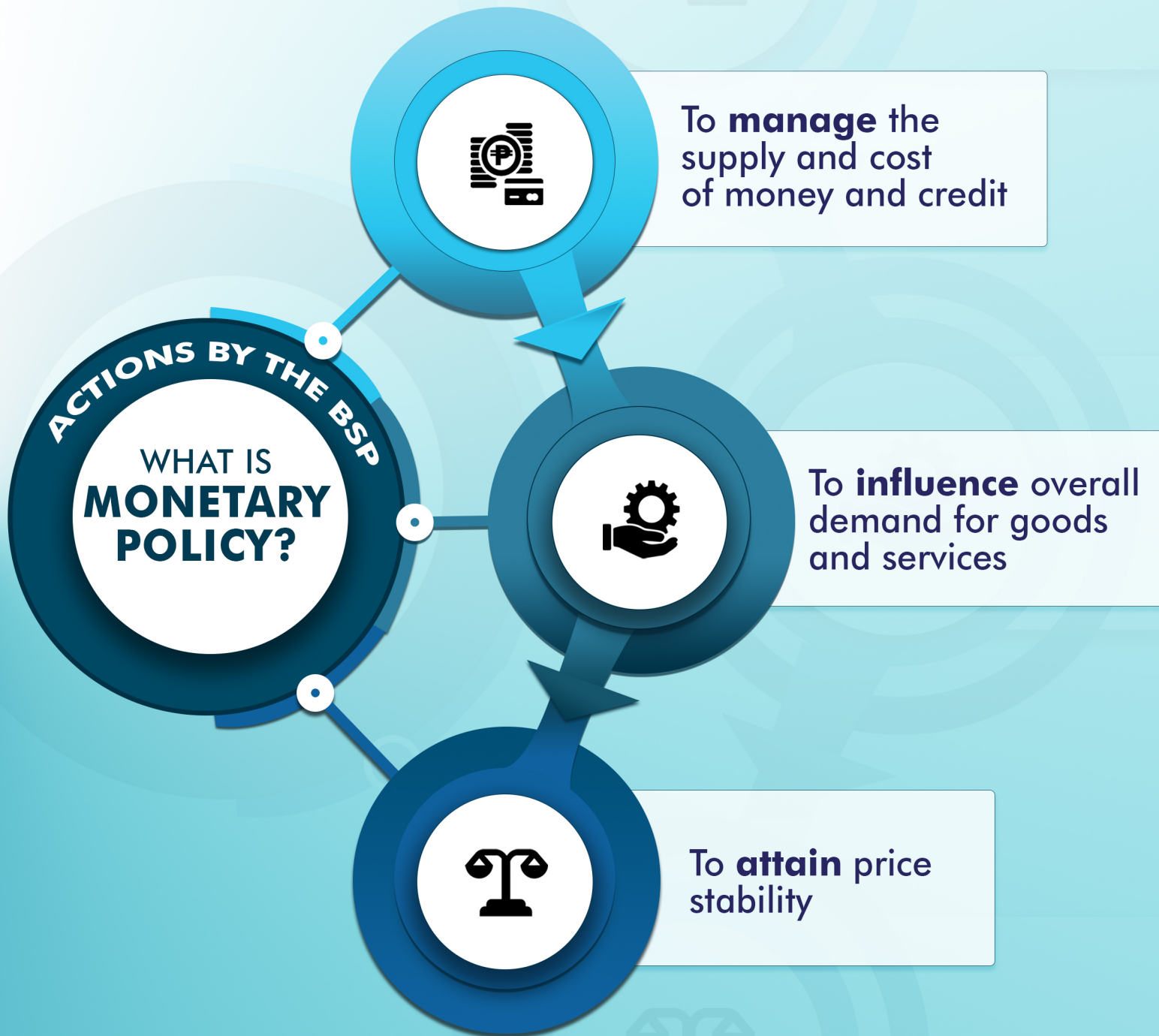


MONETARY POLICY
IN THE PHILIPPINES:

A Look at the Central Bank's Changing Approach

BSP's PRIMARY OBJECTIVE

To maintain price stability
conducive to a balanced &
sustainable growth of the
economy and employment



We can think of monetary policy as the faucet 🚰 ,
BSP as the person who controls the faucet 👤 , and
water 💧 as the supply of money in the economy.

CONTRACTIONARY

When there is “too much money” in the economy supporting overall demand for goods & services which, in turn, increases inflationary pressures, the BSP “tightens” the faucet to **reduce** the money supply.

This action dampens demand which could lead to lower inflation*.



- higher interest rates
- less lending/borrowing
- more savings
- less spending

*Inflation is the sustained increase in the general price level of goods and services typically purchased by consumers. It measures how fast overall prices are rising.

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EXPANSIONARY



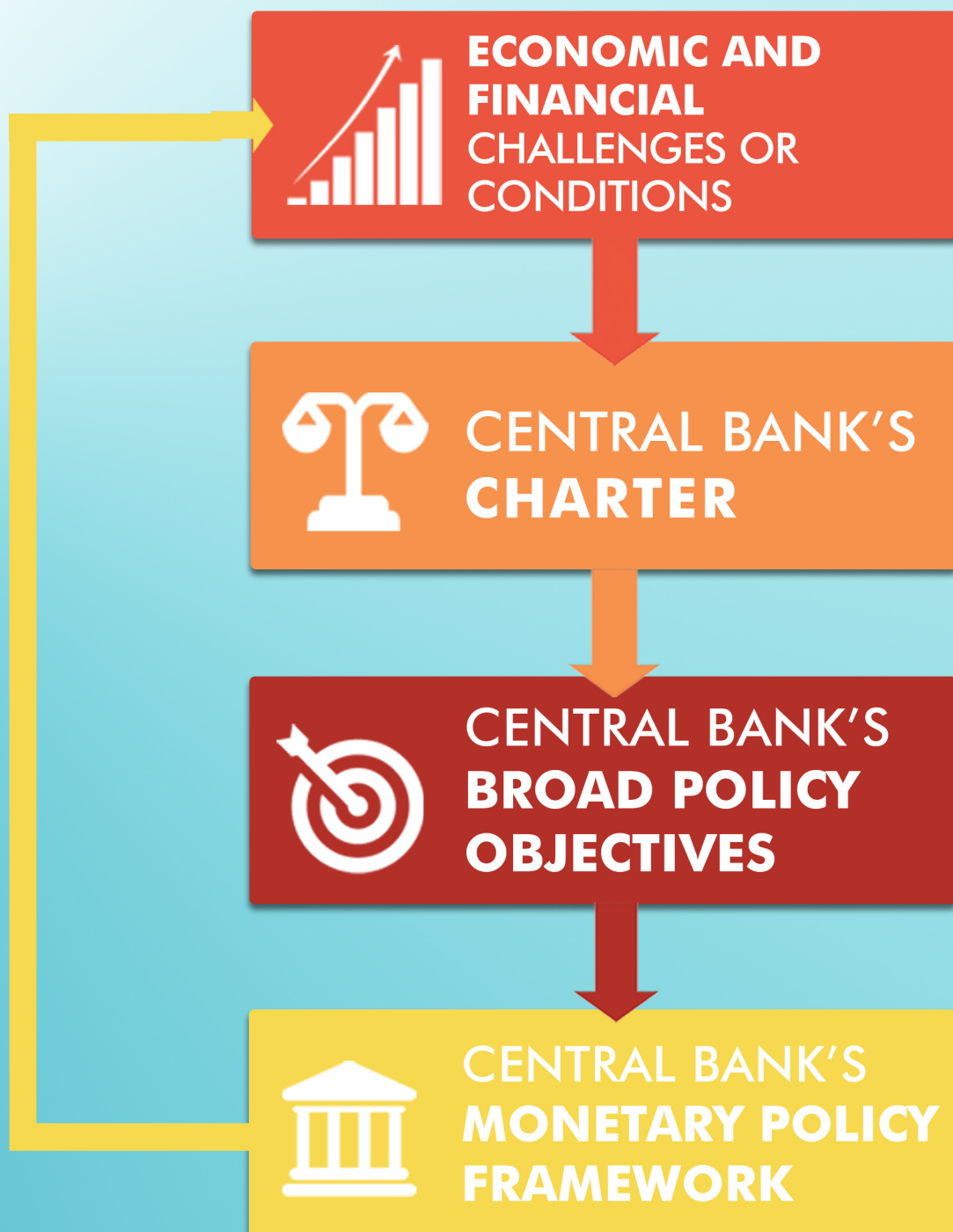
When there is “too little money”
in the economy which dampens
overall demand for goods and
services, the BSP “loosens” the
faucet to **expand** money supply.

- lower interest rates
- more lending/borrowing
- less savings
- more spending



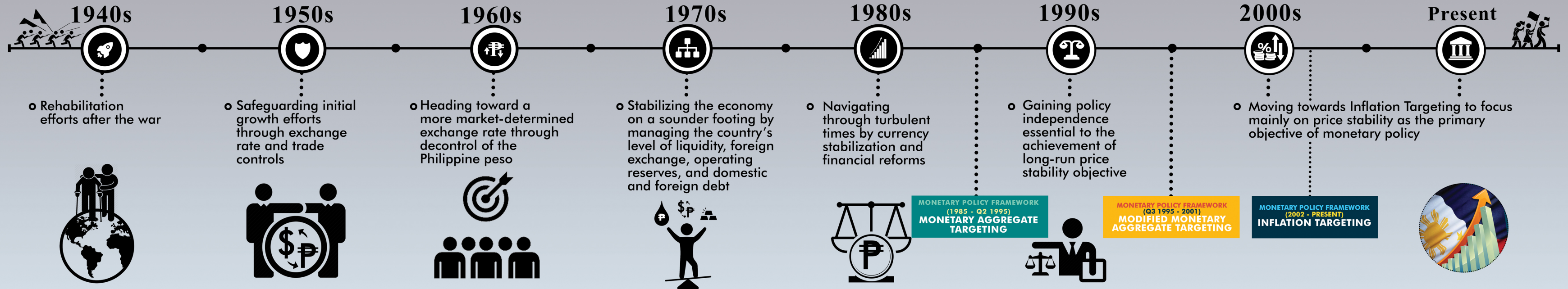
The Philippine economic and financial landscape has greatly shaped the evolution of the country's central banking in the last 70 years.

To better respond to these challenges, the conduct of central banking had also evolved through the adoption of different monetary policy frameworks.



BSP'S MONETARY POLICY OVER THE YEARS

POLICY DIRECTIONS



POLICIES IMPLEMENTED



The Central Bank Act (15 June 1948)



Central Bank of the Philippines was given developmental role to support recovery efforts of the country

Amending Republic Act No. 265 The Central Bank Act (29 November 1972)

Central Bank charter shifted from development-oriented to one focused on maintaining internal and external monetary stability in the Philippines



New Central Bank Act (14 June 1993)

New Central Bank Act passed into law - restructured and recapitalized central bank

Price stability as overriding objective



RA 11211 Amending Republic Act No. 7653 The New Central Bank Act (14 February 2019)

Restoration of CB's authority to issue debt papers as part of its regular operation gives the BSP greater flexibility in determining the timing and size of its monetary operations.

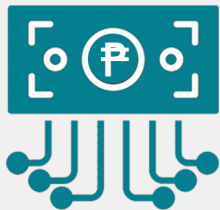
The reinstatement of the central bank's authority to require information from the non-bank private sector expands and upgrades the quantity and quality of the information set used by the BSP in policy formulation.

MONETARY POLICY FRAMEWORK (1985 - Q2 1995)

MONETARY AGGREGATE TARGETING



Central Bank announces an annual growth target of monetary aggregates



Central Bank determines the level of money supply needed to achieve a desired level of inflation

- > **M3 or domestic liquidity serves as the money supply**
- > **Base money as the operating target**



ASSUMPTIONS

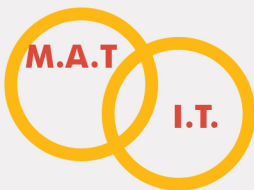
- **There is a stable and predictable relationship between money, output, and inflation**
- **Change in money supply triggers change in price or inflation**
- **Stable velocity of money (rate at which money circulates or changes hands over a given period of time)**
- **Central bank controls domestic liquidity**

MONETARY POLICY FRAMEWORK (Q3 1995 - 2001)

MODIFIED MONETARY AGGREGATE TARGETING



Greater emphasis on price stability instead of strictly attaining set targets for monetary aggregates



Enhanced effectiveness of monetary policy by complementing **monetary aggregate targeting with some form of **inflation targeting****



Monetary targets could be exceeded as long as inflation targets are met



Monitors larger set of economic variables in making decisions regarding appropriate stance of monetary policy

MONETARY POLICY FRAMEWORKS (2002 - PRESENT)

INFLATION TARGETING



**Government sets inflation target
(in consultation with BSP);
BSP announces inflation target**



**BSP assesses monetary
conditions and forecasts inflation**



**Is the inflation forecast in line with target?
If YES, no change in policy settings;
If NO, BSP adjusts policy settings**



**BSP communicates through press
statements, highlights of
Monetary Board meetings,
inflation reports, and open letter
to the President**



“

For central bankers, *understanding inflation dynamics* in relation to other economic variables *is crucial*. Most, if not all, central bankers will agree with me that controlling inflation is a demanding task. Yes, the central bank can influence inflation by tightening and easing monetary policy...

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