Monetary Policy and Degree of Heterogeneity in the Philippines

Bangko Sentral ng Pilipinas

1. Monetary policy channels

What are the main monetary policy transmission channels that affect households and non-financial corporations (NFCs) in your jurisdiction?

The effectiveness of monetary policy transmission channels depends on prevailing economic and financial conditions, the policy environment (e.g., adoption of the inflation targeting framework) and the degree of heterogeneity among households and firms. For the Philippines, the key transmission channels often highlighted are the interest rate channel, the credit channel and, recently, the inflation expectations channel.

Savings-investment channel (interest rate channel)

An increase in the nominal policy interest rate raises the real interest rate, influencing consumption, investment and savings decisions of economic agents (both households and NFCs). Specifically, higher borrowing costs discourage consumption and investment, tempering aggregate demand, while higher real interest rates encourage saving.

For the Philippines, on average, a sustained 100 basis-point increase in the policy rate from 1995 to 2007, when monetary policy gradually shifted to inflation targeting, resulted in improved transmission to market interest rates. However, the impact was relatively small. It also reduced money supply, consumption and investment.[1] The small impact of policy rate adjustments on market interest rates stems from the gradual rate adjustments by the BSP to ensure inflation remains within target as well as from the government-dominated bond market.[2] Crises such as the 2008 Great Financial Crisis and the 2020 Covid-19 pandemic also demonstrated that they could impair monetary policy transmission to market interest rates and the economy.

The Bangko Sentral ng Pilipinas (BSP) established the interest rate corridor (IRC) system in 2016 to guide short-term market interest rates toward the policy rate, thereby strengthening the transmission of monetary policy through the financial system. The expansion and modification of the monetary tools to include auction-

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[1]   Using the BSP's preliminary Long-Term Macroeconometric Model (LTMM).

[2]   M C N Tuaño-Amador, E T Glindro and R A Claveria (2009): "Some perspectives on the monetary policy transmission mechanisms in the Philippines". *Bangko Sentral Review*, www.bsp.gov.ph/Media_And_Research/Publications/BS09_A2.pdf.

based open market operations and standing facilities, among other reforms, laid the foundation for the IRC implementation. Further enhancements to the monetary operations and framework, including the shift to a variable-rate auction format in 2023, were also implemented.

Credit channel

In 2022, despite aggressive policy rate hikes by the BSP to combat inflation, borrowing activities of NFCs continued.

- The BSP's 2022 Corporate Financial Trends Survey (CFTS)[3] showed that NFCs' leveraging activities in the Philippines have increased steadily over the years, with funds being sourced primarily from the banking sector.[4]

- The BSP's balance sheet approach also reflected NFCs as net debtors of the Philippine economy, with a high net external liability position of PHP 3 trillion in the first quarter of 2024.[5]

However, the rise in interest rates since 2022 to address inflation has led to a reduction in bank loans to the production sector.

- The share of loans for production activities to total loans of the banking system declined to 78.2% in September 2024 from 80.6% in September 2023. This aligns with the findings of Allon-Pineda et al (2024), who observed that lending growth reacts negatively to changes in policy rates, with this effect persisting for up to two years following the initial shock.[6]

- About 48.6% of the total banking system loan portfolio was for production activities, with significant shares in real estate (18.9%); wholesale and retail trade, and repair of motor vehicles and motorcycles (11.0%); electricity, gas, steam, and air conditioning supply (9.4%); and manufacturing (9.3%).

Inflation expectations channel

With the shift to inflation targeting, the BSP focused on building credibility through effective communication and transparency. Using ordinary least squares and generalised method of moments (GMM), the BSP staff found that announced targets, BSP's one-year-ahead inflation forecasts and lagged inflation significantly influence inflation expectations. Moreover, a 1 percentage point increase in real policy rates, using the weighted monetary operations rate (WMOR) adjusted for inflation, leads to

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[3] The 2022 CFTS results are based on the responses of 112 firms, covering their operations for the period 2019–21, across 19 industries.

[4] For the period 2020–21, the majority of corporate borrowings were sourced from loans (48.2%), issuance of notes (24.7%) and bonds (24.6%).

[5] See: "Preliminary Q1 2024 Philippine balance sheet approach (BSA): The country's net external liability position widens, quarter-on-quarter", press release, BSP, 30 September 2024, www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=7268.

[6] J Allon-Pineda, S Castañares, J Dacio, J Eloriaga, S de Guia and M Rosellon (2024):"Estimating the impact of BSP policy adjustments on bank lending: a panel VAR Model approach", *Bangko Sentral ng Pilipinas Discussion Paper*, no 2024-08. www.bsp.gov.ph/Sites/researchsite/Publications/BSP-Discussion-Papers/DP202408.pdf.

a 0.04 to 0.09 percentage point decline in inflation expectations (based on GMM results) (Españo and Santillan (2018)).[7]

Is the primary impact of the channels on activities (eg savings, investment) or on pricing decisions (eg wage negotiations, product pricing)?

The primary impact of monetary policy adjustments in the Philippines is mostly on aggregate demand (ie consumption, investment, net exports). However, inflation expectations and the exchange rate could also partly affect wage negotiations and pricing decisions. For example, wage and transport fares are linked closely with prevailing inflation conditions and expectations, while product pricing also depends on the share of import content (for the exchange rate channel) for the commodity.

Nevertheless, the bulk of negotiations also depends on existing institutional arrangements and direct measures (subsidies). These arrangements influence pricing decisions and mitigate second-round effects stemming from petitions for wage hikes and transport fares, toll rates, and power rates. **In the Philippines, wages** are set by regional boards on a 12-month cycle, reducing the risk of frequent and large wage adjustments. Other regulatory boards also ensure reasonable adjustments in transport fares and power costs.[8]

How do these channels compare in terms of their relative strength? Has their relative importance changed over the last few years?

The strength of transmission channels has evolved over the years. A study by Tuaño-Amador et al (2009) found that the interest rate pass-through and the bank lending channels increased starting in 1995 amid increased emphasis on inflation control. More recently, Austria and Bondoc (2018),[9] using the Kashyap and Stein model, found "weak to no evidence of monetary policy transmission through the bank lending channel." Similarly, findings by Armas (2021)[10] using a dynamic panel GMM model on individual bank data, also found a weak bank lending channel of monetary

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7   V T Españo and M Aizl Santillan (2018): "Determinants of inflation expectations in the Philippines". *Bangko Sentral Review*. www.bsp.gov.ph/Pages/MediaAndResearch/PublicationsAndReports/regular_bsrev18.aspx.

8   Among others, the Philippines has the Land Transportation Franchising and Regulatory Board for public utility vehicle fares, the Energy Regulatory Commission for electricity rate adjustments, and the Toll Regulatory Board for toll fares.

9   C P Austria and B M M Bondoc (2018): "The impact of monetary policy on bank lending activity in the Philippines". *Bangko Sentral Review,* www.bsp.gov.ph/Pages/MediaAndResearch/PublicationsAndReports/regular_bsrev18.aspx.

10   J C A Armas (2021): "Is the bank lending channel of monetary policy evident in the Philippines? A dynamic panel data approach". *Asian Economic Journal*, vol 35, no 3, pp 246–69, onlinelibrary.wiley.com/doi/abs/10.1111/asej.12249.

policy in the Philippines as highly liquid banks tend to react more to monetary tightening than less liquid banks.

Meanwhile, the interest rate pass-through in the Philippines showed that the BSP policy rate still plays a significant role in influencing market interest rates (Dakila and Claveria (2006)).[11] Dacio et al (forthcoming) found that the pass-through of monetary policy adjustments has strengthened particularly for short-term market rates, and long-run pass-through converged faster after the adoption of the IRC system. These results underpin the improvement in monetary policy transmission through the interest rate channel, which is one of the main objectives of implementing the IRC system.[12]

In recent years, there has been increased emphasis on the inflation expectations channel. The rising interest in the impact of forward guidance and central bank credibility has been further highlighted during the pandemic. A study by Españo and Santillan (2018) found that BSP-announced inflation targets and forecasts significantly influence expectations, indicating that the BSP's credibility is crucial. Results from the GMM also found that current monetary policy stance (real policy rate) is also an important determinant of private sector inflation forecasts.

2. Role of household heterogeneity in monetary policy transmission

Is data on heterogeneity among households considered in the background analysis for monetary policy? If so, is this heterogeneity understood to affect monetary policy transmission in your jurisdiction?

Household-level data in the Philippines are less frequently updated. For example, the Family Income and Expenditure Survey, a survey of income and expenditure patterns of households, was previously only published every three years, although the latest 2023 version marked the start of its biennial conduct. Nonetheless, the BSP conducts the Consumer Expectations Survey (CES), which draws information on consumer sentiment, inflation expectations and, to an extent, demand prospects. The Technical Staff regularly reports the results of the survey in the monetary policy analysis process. The Philippine Statistics Authority also releases a separate headline CPI for the bottom 30% income households, which is regularly included in the review of monetary policy stance.

There is still limited research on the impact of household heterogeneity and monetary policy in the Philippines. Nonetheless, there have been recent efforts to capture the varying effects of monetary policy on household and bank

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[11] F G Dakila and R A Claveria (2006): "The impact of BSP policy interest rates on market interest rates", *Bangko Sentral Review*, January.

[12] J Dacio, R Platitas and E Santos (forthcoming): "Revisiting the Monetary policy transmission mechanism in the Philippines". Bangko Sentral ng Pilipinas Discussion Paper.

heterogeneity. Recent papers found that high-income households are more susceptible to policy rate adjustments given their sources of income (Cabote and Fernandez (2020)).[13]

Which dimensions of differences across households matter for monetary policy transmission? How do they matter, and which transmission channels are affected?

Existing studies on this topic focused on investigating household heterogeneity using income quantiles. Cabote and Fernandez (2020) showed that increases in the reverse repurchase (RRP) rate tend to reduce total income across all income quantiles, with more pronounced effects at the higher income quantiles. They suggested this is because higher income households source their income from business, capital and financial assets. Consequently, tighter policy-setting tends to raise borrowing cost and lower investments and profits.

Meanwhile, Lomibao (2021)[14] investigated the impact of policy rate adjustments on headline inflation for all income households and the headline inflation rate for the bottom 30% income households Results of impulse response function showed that a policy rate hike negatively affects inflation rate for both all income households and bottom 30% households. However, the inflation rate for all income households tend to be affected faster than inflation rate for the bottom 30% households. The disparity could be attributed partly to the composition of the indices, with inflation rate for the bottom 30% household placing more weight on commodities that tend to be volatile (i.e., food as well as housing, electricity, gas and other fuels).[15]

What are the sources of granular household data? What are the impediments in accessing such data or using them in monetary policy analysis (e.g., incomplete or outdated data, privacy restrictions, lack of tools to analyse unstructured data)?

The BSP conducts the CES, Consumer Finance Survey (CFS), and Consumer Payments Survey (CPS), which can offer insights on household-level perceptions, conditions and outlook.

- The CES is a quarterly survey that gathers information on Filipino households' outlook in topics such as family financial situation, buying intentions and

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13   See N J Cabote and J R A J Fernandez (2020): "Distributional impact of monetary policy: evidence from the Philippines", *Bangko Sentral ng Pilipinas Working Paper*, no 2020-09.

14   N F G Lomibao (2021): "Heterogeneity in responses of inflation to monetary policy in the Philippines", *BSP Research Note*, December, DOI:10.13140/RG.2.2.27671.85929.

15   Rice accounts for 17.9% in the total CPI basket of the bottom 30% households.

macroeconomic outlook.[16] Overall consumer outlook and inflation expectations are of particular interest in current monetary policy-setting exercises.

- The CFS is a triennial survey that aims to collect data on the financial conditions of Filipino households, specifically their income, assets, expenditure and liabilities.[17]

- The CPS, piloted in 2024 (results forthcoming), elicits information on Filipino households' awareness, ownership, usage and perception of various payment instruments.[18]

While household inflation expectations are an important consideration in monetary policy formulation, challenges primarily involve the frequency, length, granularity and topical coverage of the CES data series.

- The CES is conducted quarterly and began capturing a key variable of interest—12-months-ahead inflation expectations—only in 2014.

- The limited availability of demographic variables can preclude further nuancing in research using CES data. For instance, the sample allows for statistically reliable estimates only up to two broad geographic domains (National Capital Region and Areas Outside the National Capital Region), making it difficult to analyse heterogeneity at a regional level.

- CES questions on inflation expectations are limited to short-term forecast horizons (i.e. current quarter, next quarter and next 12 months). A longer forecast horizon—beyond the 12-month time frame—would provide a better assessment of the anchoring of household inflation expectations.

The low frequency of the CFS and CPS—which are conducted every three and two years, respectively—hinders their use in the regular monetary policy analysis cycle.

The BSP aims to narrow existing data gaps by operationalising the ability under the law, via an upcoming circular,[19] to collect information from households and firms for statistical and policymaking purposes.

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[16]   For more information, see the BSP's Consumer Expectations Survey at www.bsp.gov.ph/SitePages/MediaAndResearch/ConsumerExpectationSurvey.aspx.

[17]   For more information, see the BSP's Consumer Finance Survey at www.bsp.gov.ph/SitePages/MediaAndResearch/ConsumerFinanceSurvey.aspx.

[18]   See "Consumer Payments survey (CPS)—December 2023", Department of Economic Research, www.bsp.gov.ph/Media_and_Research/Primers%20Faqs/ConsumerPaymentsSurvey(CPS).pdf.

[19]   The upcoming circular provides the effective enforcement of Section 23 of Republic Act No 7653 (as amended by Republic Act No 11211) or the New Central Bank Act, which provides the BSP the authority to require any data from any person or entity, including government offices and instrumentalities, or government-owned or -controlled corporations, for statistical and policy development purposes.

3. Role of non-financial corporations (NFCs) heterogeneity in monetary policy transmission

Are data on heterogeneity among NFCs considered in the background analysis for monetary policy? If so, is this heterogeneity understood to affect monetary policy transmission in your jurisdiction?

1. **The BSP utilises available data to assess the financial conditions of NFCs in the country,** which form part of the monetary policymaking and regulatory process at the BSP. For a more data-driven policy analysis, the BSP is pursuing the following heterogeneity of NFC data:

- **Sectoral analysis**: NFCs – particularly in key sectors such as agriculture, manufacturing, and services – contribute differently to economic activity and employment. The BSP analyses these sectors to gauge the overall economic conditions and potential impact of monetary policy on their ability to finance borrowings and sustain operations.

- **Firm size and access to credit**: Heterogeneity in terms of firm size (eg micro, small and medium enterprises (MSMEs) versus large corporations) forms a significant part of the policy analysis. Smaller firms often face more challenges in accessing credit and are more sensitive to interest rate changes, which is relevant for monetary policy transmission.

- **Debt and leverage**: NFCs with high levels of debt are more vulnerable to changes in interest rates. Analysing firm-level data on leverage provides insights into potential vulnerabilities that monetary policy actions could impact the finances and activities of corporates.

- **Survey-based data**: The BSP conducts surveys, such as the Business Expectations Survey (BES), which capture firms' perceptions of economic conditions, credit access, and inflation expectations; and the CFTS, which monitors the financial performance and trends of the Philippine corporate sector including conglomerates, large firms, and MSMEs. These data are used to support and aid in the conduct of monetary policymaking.

- **Macro-financial linkages**: The interconnectedness between NFCs and financial institutions is likewise monitored to ensure financial stability. Monetary policy adjustments could affect NFCs' profitability and could likewise affect the stability of banks that lend to these firms.

2. Data heterogeneity of NFCs is therefore critical in understanding the impact of monetary policy. The BSP ensures that existing measures and regulations related to NFCs are appropriately calibrated to support economic growth, financial stability and inclusive development.

- The main challenge in collecting granular firm-level data is in the extensive resource allocation and coordination it requires. Moreover, activities such

as surveys and interviews may suffer from low response rates,[20] which may have implications for the representativeness, broadness and reliability of the data.

- While corporate data for many firms are generally available from data service providers, the lack of standardisation in data from various providers complicates the aggregation and analysis process. Additionally, the lack of granularity in key aspects and the minimal coverage for non-listed firms and MSMEs limit the level of analysis that can be achieved.

Which dimensions of differences across firms matter for monetary policy transmission? How do they matter, and which transmission channels are affected?

- Please refer to 1a and 3a.

How adequate is the availability of granular and timely firm-level data? What are the sources of such data?

Through the Financial Stability Coordination Council[21] **financial regulators in the Philippines are continuously addressing the data gaps on NFC surveillance to gain an understanding of their financial condition**.

3. However, the timely availability of granular information on corporates remains a significant challenge for the BSP. This is being addressed through the conduct of surveys and by utilising third-party providers of information of corporate finance.

- The CFTS is conducted annually to provide a better understanding of the NFCs in terms of firm-level borrowing activity; profitability; liquidity and solvency conditions; and funding structure and usage. By gathering more granular key corporate financial data, the CFTS aids in assessing the overall condition and potential vulnerabilities of the corporate sector which are essential to the formulation of sound, responsive and well informed monetary and regulatory policies.[22]

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[20] For instance, the CFTS, which is a voluntary survey that aims to cover non-financial corporations across all industries and firm sizes, has garnered relatively low response rates. The first conduct of the CFTS in 2018 achieved a response rate of 21.3% followed by 58.4% in the second conduct, 33.6% in the third conduct and 27.1% in the fourth conduct, which ended in 2024.

[21] The Financial Stability Coordination Council is an inter-agency council where the principals from the BSP, the Department of Finance, the Securities and Exchange Commission, the Insurance Commission and the Philippine Deposit Insurance Corporation convene on a quarterly basis. These meetings provide the venue to assess possible systemic risks and to decide on appropriate macroprudential policy interventions.

[22] The accomplished survey templates by respondent NFCs are submitted via email at cfts@bsp.gov.ph or via the BSP's reports receiving system, whenever applicable. Similarly to most of the BSP's surveys, participation in the CFTS is voluntary. Results derived from the information are relatively unique, structured and symmetric across various industries.

- Third-party providers include S&P Global, London Stock Exchange Group, Bloomberg and National University of Singapore – Credit Research Initiative (NUS-CRI), which provide balance sheet and income statement information on public corporates.

4. The link from heterogeneity to monetary policy decisions

How do data on heterogeneity among households and firms feature in the quantitative analyses (eg projection models) prepared as part of the monetary policy decision-making process?

Both the CES and the BES provide insights useful for understanding inflation expectations. **While the distribution and composition of these expectations are taken into consideration in monetary policy analyses, these are more descriptive and have yet to be featured as quantitative inputs into projection models.**

The consideration of heterogenous economic agents is currently limited in the preparation of macroeconomic projections. In particular, the current workhorse models – the Multi-Equation model and Single Equation model – do not account for agent heterogeneity.

The Policy Analysis Model for the Philippines (PAMPh) considers heterogeneity, albeit in a limited manner. Specifically, the labour sector in the PAMPh considers the minimum and non-minimum wage earners. Approximately 20% of the labour force earns the government-set minimum wage, while the rest have wages influenced by business cycle conditions. Wage setting has material impact on inflation and domestic demand via household consumption. The PAMPh's credit block distinguishes between households and firms regarding the type of credit these economic agents avail. Household credit affects consumption, while firm credit affects investments.

How about the role of heterogeneity in the qualitative inputs (e.g., surveys of sentiments)?

Firm and household inflation expectations (particularly the composition, shape and statistical moments of the expectations distributions) are regularly reported in the formulation of monetary policy. Examining heterogeneity in these indicators sheds light on underlying patterns in the inflation outlook of different segments of the population.

Staff research incorporating heterogeneity has also nuanced our understanding of the formation of inflation expectations. For instance, one study revealed differences in the way demographic classes (i.e., income level, age group and

educational attainment) account for price changes in specific commodities (Mapa et al (2024)).[23]

Has incorporating heterogeneity led to decisions that are different (e.g., in terms of whether to cut rates or by how much) from those in a hypothetical scenario where heterogeneity is ignored?

No. The above considerations are already part of the baseline forecasts, which are considered in the endogenous monetary policy rule.

Do you communicate the relevance of data on heterogeneity to the public? If so, how?

Various BSP communications reflect the relevance of data on heterogeneity in the BSP's monetary policymaking process:

- The BSP publishes the BES and CES on a quarterly basis. These surveys provide indicators of overall business and consumer sentiment as well as outlook for economic conditions.

  - The CES includes consumer outlook across different income groups (ie low-, middle- and high-income groups) and geography (ie National Capital Region). Aside from economic outlook, savings behaviour and debt situation are also captured in the CES report.

  - The BES disaggregates the business outlook sentiment by area, type of business (ie importer, exporter, domestic-oriented) and size of employment (ie small, medium or large).

Results from these surveys serve as qualitative inputs that can be useful in monetary policy.

- The August 2024 Monetary Policy Report also included a box that discusses the key role of households' inflation expectations in inflation dynamics. The box shows which price changes are salient in forming Filipino consumers' inflation expectations, using data from the CES.

- Several BSP discussion papers also provide insights on the importance of data heterogeneity, focusing on household inflation expectations and uncertainty surrounding these expectations.[24]

[23] C R Mapa, M K C Bunyi, A C T Arcin and E B L Fuentes (2024): "Dissecting consumer attention: insights on consumers' inflation expectations in the Philippines", *Bangko Sentral ng Pilipinas Discussion Paper*, no 2024-15, www.bsp.gov.ph/Sites/researchsite/Publications/BSP-Discussion-Papers/DP202415.pdf.

[24] Recent BSP discussion papers on inflation expectations include Mapa et al (2024); and V T Españo, M A C C Santillan and N D De Guzman, "Measuring uncertainty in inflation expectations", *Bangko Sentral ng Pilipinas Discussion Paper*, no 2024-04.

5. Distributional effects of monetary policy

Are the distributional effects of monetary policy on households and firms also considered when setting monetary policy? Which is a more important consideration: the distributional effects of monetary policy or the interaction between heterogeneity and transmission?

Demand or output considerations are given due attention in policy discussions; the distributional effects of policy decisions are not directly or extensively considered, even though there is an awareness that high inflation tends to significantly affect lower income households. The BSP considers business and consumer sentiment – including inflation expectations at both the aggregated and disaggregated level as reported in the BES and CES – in setting the monetary policy stance. The BSP also monitors inflation developments for the bottom 30% of households, apart from overall inflation. The BSP also investigates the impact of interest rate changes on household debt situation and corporate sector financial conditions only when necessary due to data limitations. The BSP also provides more emphasis on the strength of transmission of monetary policy adjustments through different channels in general but will probably account for heterogeneity if heterogeneity will weaken monetary policy transmission.

Moreover, the BSP has also supported targeted intervention measures by the national government in addressing supply constraints. The national government, through the Economic Development Group and the Inter-Agency Committee on Inflation and Market Outlook, has identified and implemented several policy measures to address supply side price pressures and cushion the impact on vulnerable sectors. This includes (among others) cash transfers, fuel vouchers for public transportation franchisers, fuel discounts to farmers and fisherfolk, and reducing import tariffs.

Does your central bank have a mandate that distributional effects should be considered in addition to the focus on aggregate targets?

The BSP's primary mandate is price stability. Distributional effects are only implicitly considered in the BSP's assessment of price and demand conditions. Part of the BSP's pursuit of price stability requires an assessment of price and demand conditions in various sectors, such as real estate and the financial markets, which may entail looking at potential distributional effects.

Have distributional effects been mentioned in past policy communications? If yes, please provide examples.

Communications on the BSP's monetary policy stance do not typically or directly mention distributional effects.

6. Measures to address heterogeneity

Which monetary policy tools, if any, are used to address heterogeneity? Through what mechanisms do these tools work?

Heterogeneity in the distribution of liquidity among banks can influence the transmission of the monetary policy stance. To address distributional differences of funds across the banking system, the BSP offers a standing overnight lending facility (OLF) to help banks manage their daily liquidity requirements. The OLF provides unlimited funds against high-quality collateral (ie government securities) without stigma. The OLF rate is the ceiling of the BSP's IRC, thereby ensuring that overnight funds will not diverge significantly from the target RRP rate.

The BSP also has the discount window facility – formerly, the rediscount facility – which is a standing credit facility complementary to the OLF to help banks meet *temporary* liquidity needs by refinancing the loans they extend to their clients. Through the facility, the BSP makes possible the timely delivery of credit to all productive sectors of the economy. Moreover, the discount window facility is one of the monetary tools the BSP uses to influence the volume of credit in the financial system, consistent with its objective of price stability. This acts as the short-term safety valve for the banking system when banking institutions meet an unexpected shortage of reserves or funding for their temporary liquidity needs.

The imposition of the interest rate ceiling is another temporary measure of the BSP that takes into account and addresses household and firm heterogeneities. This tool works directly through the interest rate channel, where the BSP, in consultation with other regulatory agencies, sets an upper bound on the interest rates imposed on various loan/credit products. At present, the BSP has ceilings imposed on interest rates charged by: (i) lending companies, financing companies and their online lending platforms;[25] and (ii) credit card companies.[26] The ceilings were imposed to protect borrowers – especially low-income households and MSMEs – from predatory lending and high interest rates. The policies are subject to periodic review to regularly discuss their relevance.

The BSP's monetary operations aim to ensure effective transmission of monetary policy to the economy through the management of system liquidity and guidance of short-term market rates towards the policy rate to achieve the BSP's price stability mandate. Banks and non-banks with quasi-banking functions have access to BSP's active liquidity management facilities, including BSP Securities, which is also open to trust counterparties. The BSP Securities Facility is the BSP's main tool to absorb and lock in structural excess liquidity, thus, it has a broader set of eligible counterparties.

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[25]   Under BSP Circular No 1133 dated 22 December 2021, the BSP approved the ceilings on interest rate rates charged by lending companies, financing companies and their online lending platforms on short-term and low-value loans at 6.0% per month for the nominal interest rate and 15.0% per month for the real interest rate.

[26]   The BSP initially prescribed a ceiling on credit card transactions at 24.0% per annum under Circular No 1098 dated 24 September 2020. This ceiling was amended under Circular No 1165 dated 19 January 2023, which raised the cap to 36.0%.

To further strengthen the features of its policy instruments, the BSP regularly engages with market participants through regular market consultations. This allows it to get the views of market participants on a range of issues relevant to the conduct of its monetary operations, which are vital information the BSP considers prior to implementation of operational refinements.

What other measures are used by your central bank to address heterogeneities (eg special lending facilities for selected business sectors)?

The BSP largely deals with banks and has no monetary instruments that directly cater to specific segments in the financial market. However, moving forward the BSP is studying the introduction of a framework for Islamic liquidity management to provide Shari'ah-compliant liquidity risk management tools for Islamic banks. An established Shari'ah-compliant facility will allow Islamic banks to manage their excess liquidity in a way that meets BSP's regulatory requirements. At the same time, having a Shari'ah-compliant facility supports a nascent Islamic banking industry in the Philippines, which has only three Islamic banking units.

Which measures are temporary and which ones are of a relatively permanent nature?

- **An Islamic liquidity management facility is envisioned to be part of the regular monetary operations of the BSP in the medium term.** The BSP will soon offer deposit accounts and standing liquidity facilities that are Shari'ah compliant and are common central bank Islamic liquidity facilities.[27]

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[27] Islamic deposit accounts and standing liquidity facilities are currently being offered in Bangladesh, the Gulf Corporation Council (GCC), Indonesia, Malaysia, Nigeria, Pakistan and the United Kingdom. The facilities are in the form of murabahah, wakalah or mudarabah.