

Media and Research - Speeches

Opening Remarks of Governor Benjamin E. Diokno for the Joint BSP-AFI Knowledge Exchange Program on Central Bank Digital Currency

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Occasion: Joint BSP-AFI Knowledge Exchange Program on Central Bank Digital Currency

Speaker: BSP Governor Benjamin E. Diokno

Introduction

Good day, ladies and gentlemen. As I speak here from Manila, I would like to welcome everyone to this joint BSP-AFI Virtual Knowledge Exchange Program-3 (KX3) jointly organized by the Bangko Sentral ng Pilipinas and the Alliance for Financial Inclusion. This important collaboration follows two previous knowledge exchange programs: first on Digital Financial Services co-hosted by Bank Negara Malaysia in 2019, and the second on Open Banking co-organized with Bank of Thailand in 2020. We at the BSP are happy to co-host this three-day virtual KX3 on Central Bank Digital Currency (CBDC) for Financial Inclusion. If not for the pandemic, I am pretty sure that we would all be together spending a lovely time here in Manila.

CBDC developments

There has been plenty of interest in CBDC projects globally. According to an analytical note released by the ASEAN+3 Macroeconomic Research Office (AMRO) as of December 2021, three central banks have launched CBDCs for commercial use; 14 countries have launched or completed pilot testing of CBDCs; 16 are in stages of development or proof-of-concept stage; while another 40 countries are currently undertaking research on CBDCs.

Even global and regional multilateral institutions are also looking into CBDCs ranging from the International Monetary Fund (IMF), the Bank for International Settlements (BIS), the Asian Development Bank (ADB). These institutions are coming up with various deep-dive research

initiating policy discussions that aim to contribute to the emerging framework for adoption of a CBDC, as a potentially game-changer of the international monetary system.

Project CBDCPh

The BSP on its part has initiated an exploratory study in 2021 to inform a more collaborative and comprehensive investigation of CBDC's nature and implications for the whole financial system. A national payment system assessment was later conducted which resulted in the identification of relevant use cases of wholesale CBDC aimed at enhancing the payment system's safety, resiliency, and efficiency.

As next step, the BSP targets to roll-out in the near term, a pilot CBDC implementation which we call Project CBDCPh. The project aims to build organizational capacity and hands-on knowledge of key aspects of CBDC that are relevant for a use case around addressing frictions in the national payment system.

CBDC and financial inclusion

Beyond payment system efficiencies, the policy motivations for CBDC initiatives among central banks are many. This further suggests the potential magnitude and scale of impact of CBDCs in an economy. Certainly, financial inclusion has been highlighted as a potential benefit of CBDC. Advocates of CBDCs highlight universal accessibility, efficiency gains, and cost reductions as pathways by which CBDC can promote financial inclusion.¹

We have witnessed during the pandemic how account-based distribution of financial assistance has been widely used by governments to provide immediate support to the most vulnerable segments of society. Universally accessible CBDCs can support efficient implementation of wide-scale targeted government cash assistance programs.

Cross-border money transfers is also another financial inclusion area that CBDCs can be highly relevant. Remittance costs continue to average globally at 6.5% of the amount sent, considerably way above the 3% target of the UN Sustainable Development Goals (SDGs).² Interoperability of CBDC between jurisdictions could provide substantial benefits for remittance-receiving economies, such as the Philippines, by reducing reliance on costly correspondent banking networks.³

Emerging issues and challenges

While we recognize the potential financial inclusion benefits of CBDCs, we also acknowledge that CBDC issuance does not necessarily address the root causes of financial exclusion. Barriers to financial inclusion are multi-dimensional, involving infrastructure, socio-economic, cultural, and behavioral factors that require cross-cutting and well-coordinated policy interventions.

We also acknowledge that CBDC could bring in some legal issues. In the case of the Philippines, financial transactions of the BSP with commercial banks through a wholesale CBDC implementation appear readily feasible. But the issuance of retail CBDCs may require legislation, particularly if it involves BSP directly distributing CBDC to the public, which is not contemplated in the existing BSP charter.

In addition, monetary authorities and regulators will need to build the requisite skills and technological capacity to effectively implement and manage the risks of CBDC issuance.

Concluding notes

In closing, we could say that CBDC may be an idea whose time has come, but certainly it has many aspects that need to be better understood.

This KX3 is a valuable opportunity for us to discuss and exchange views on the various potentials, policy and technical considerations of CBDC, particularly from a financial inclusion perspective.

May this KX3 exercise help us sharpen our thinking on CBDCs to shape optimal policy choices. Given the rapid pace of technological innovations, it is inevitable that the current forms of money, both paper and electronic, will also have to evolve, alongside the transactions in which it is used.

Steve Jobs once said: “Innovation is the ability to see change as an opportunity – not a threat”. I’m glad that we central banks are looking at CBDCs for the opportunities that it can potentially offer, while also being carefully cautious on its possible repercussions.

I wish all of you a productive discussion ahead. Once again, a pleasant day to all of you.