

Media and Research - Speeches

Central Banking in the New Frontier

Date: May 26, 2022

Occasion: 2022 BOJ-IMES Conference

Speaker: BSP Governor Benjamin E. Diokno

Deputy Governor Wakatabe, my co-panelists, ladies and gentlemen, good day.

It is my pleasure to share the latest updates and developments in the Philippines, as well as how the Bangko Sentral ng Pilipinas adapts and adjusts to the challenges of an ever-changing environment.

The Philippines continues to beat the odds. The Philippines continues to beat the odds. As the International Monetary Fund cut its global growth outlook, it upgraded the Philippines' for this year from 6.3 to 6.5 percent.

For its part, the government projects the economy to growth anywhere between 7.0 and 8.0 percent this year, and by a range of 6.0 to 7.0 percent next year.

While the health and economic headwinds we faced were strong, we were quick to address and recover from them.

By expanding our healthcare capacity and accelerating our vaccination program, we were able to contain the virus. This has allowed us to ease mobility restrictions and reopen our borders to foreign tourists.

In the first quarter of the year, our gross domestic product grew by a stunning 8.3 percent—surpassing most projections. This growth serves as a good start, keeping us on track of achieving our 7.0 to 9.0 percent growth target for 2022.

Last year, gross domestic product grew by 5.7 percent, recovering most of the losses from the record 9.6-percent contraction in 2020.

The jobs market bounced back owing to increased mobility and economic activities.

From the peak of 17.6 percent in April 2020, the unemployment rate dropped to 6.4 percent in February and further to 5.8 percent in March this year, the lowest since the pandemic.

Inflation in April stood at 4.9 percent, which was within our monthly forecast range. Year-to-date inflation settled at 3.7 percent, which is manageable and within the official target range of 2.0 to 3.0 percent.

Our latest estimates show full-year inflation at 4.6 percent in 2022. This revised forecast already incorporates the impact of higher global non-oil prices, continued shortage in food commodities, and possible transportation fare hikes due to higher oil prices.

Yet, we see inflation easing back to within-target range at 3.9 percent in 2023.

With strong economic growth numbers and fast normalizing labor market, we see the need for monetary action. As evidence of second-round effects manifest, we deemed it timely to increase our key policy rate by 25 basis points to 2.25 percent.

This is consistent with our intended strategic exit and gradual withdrawal of extraordinary liquidity interventions.

Earlier, the BSP's provisional advances to the national government of 10.3 billion US dollars in 2020 and 2021 was reduced to 5.7 billion US dollars in January 2022. The National Government fully settled these advances last May 20, ahead of maturity on June 11, 2022.

Now this conference's theme, "New Dimensions and Frontiers in Central Banking," could not be timelier given the extraordinary conditions we are in amid the ongoing pandemic, geopolitical risks, and climate change.

The challenges brought by the pandemic, especially on our payment systems, have served as an effective catalyst for the financial sector to evolve and innovate.

And this is especially true for our payment systems.

Even before the pandemic, the BSP has already formulated a roadmap to transform the country's payments system into an efficient, inclusive, safe, and secure digital payment ecosystem that supports the diverse needs and capabilities of individuals and firms.

Among our strategic objectives are to convert at least half of the country's financial transactions into digital form and to have at least 70 percent of Filipino adults with transaction accounts.

In 2002, the BSP established the Philippine Payment and Settlement System or PhilPaSS, a real-time gross settlement system that processes and settles interbank high-value payment transactions through demand deposit accounts of the bank maintained with the central bank.

In the first five years of operations, PhilPaSS processed around 1,400 transactions on average in a day—valued at P350 billion per day. This grew by leaps and bounds in 2015 to 2019, recording over 6,400 daily volume of transactions on average, which were valued at P1.3 trillion per day.

Moving toward an open banking system, PhilPaSS was enhanced into PhilPaSSplus, which accommodates the growing number of settlements between financial institutions while having stringent controls to support security of transactions.

The National Retail Payment System or NRPS, our flagship program for digital finance, promotes a digital finance ecosystem where individuals, businesses, and government entities can take advantage of technology to enhance the efficiency and reliability of transferring funds.

There are two interoperable clearing houses in the country--PESONet and Instapay. As of March 31, 2022, participating banks and electronic money issuers registered with PESONet stood at 96, while that with InstaPay totaled 66.

Likewise, the digital payment streams of the National QR Code Standard, or QR Ph, has expanded to cover person-to-merchant and person-to-person payments.

We are also broadening the use cases for three digital payment streams this year.

First is the interoperable Bills Pay Facility, which will address the existing fragmented bills payment mechanism.

Second is the Request to Pay Facility, which will empower payees to initiate collections of non-recurring receivables.

Third is the Direct Debit, which will allow customers to better manage recurring payments.

We have also issued the open finance and digital banking frameworks to accelerate digital transformation and financial inclusion.

The Open Finance Framework promotes consent-driven data portability, interoperability, and collaborative partnerships among entities that adhere to the same standards of data security and privacy. The Digital Banking Framework provides the regulatory guidelines for setting up and operating a digital bank in the country.

In line with our digital transformation roadmap, the BSP has issued licenses to six purely digital banks.

The BSP, or the central bank, has also commenced initiatives in the digitalization of offshore payments. We are prioritizing the establishment of interoperable cross-border real-time retail payment systems among ASEAN member states.

With digitalization and financial technology re-shaping the landscape of the Philippine banking system, the central bank stands ready to reform, innovate, and transform. We do so by providing an enabling regulatory environment to keep pace with the evolving developments in the financial system and to prepare the country as it faces the challenges of the future.

Moving forward, I see these wide-ranging reforms ultimately creating tangible economic benefits to the Filipino public, as the central bank remains committed to promoting price stability and a resilient, responsive, and inclusive financial system. I'll stop here. Thank you.