

# Media and Research - Speeches

## Digital Currencies: Risks and Opportunities for Financial Inclusion

**Date:** April 25, 2022

**Occasion:** 14th Annual Group of Twenty-Four (G-24) / Alliance for Financial Inclusion Policymakers' Roundtable at the 2022 IMF-World Bank Springs Meetings

**Speaker:** BSP Governor Benjamin E. Diokno

Good afternoon. Let me first thank and commend our organizers for setting a timely and highly interesting topic, at least among central banks, for this meeting, i.e., the risks and opportunities of digital currencies for financial inclusion. This subject touches on several major strategic objectives of the Bangko Sentral ng Pilipinas (BSP).

Digitalization of the payment system is one of the major goals of the BSP. Under its Digital Payments Transformation Roadmap, the BSP targets to digitalize half of total retail payments by 2023. Faster processing of payments speeds up economic activities as well as capital turnaround, and thus, income growth.

Inclusive finance is another major goal of the BSP. In the Philippines, the BSP leads the implementation of initiatives under an interagency National Strategy for Financial Inclusion (NSFI) which aims for a coherent nationwide approach in accelerating financial inclusion in the country. The potential of digital finance and capabilities of digital technologies in achieving financial inclusion are deeply embedded in the NSFI.

Ultimately, we aspire to transform the Philippines into a more technologically advanced, more inclusive, and more sustainable economy.

Alongside these, the BSP takes a proactive stance in learning digital technologies that drive the emergence of alternative payment instruments. As more than 80 central banks worldwide are exploring central bank digital currencies (CBDCs), the BSP has also taken major steps in understanding CBDCs and knowing the benefits, risks, as well as policy implications for issuing a Philippine CBDC. Allow me to briefly share what the BSP has done so far as regards to this initiative.

The BSP initially conducted an exploratory study in 2020 to determine and evaluate the issues that surround CBDC issuance based on the literature and learnings of other central banks. This study covered the prospective implications for the pillars of central banking in the Philippines, the legal aspects, as well as the potential of CBDCs in furthering financial inclusion. From this comprehensive study, we understood that a potential motivating factor for the BSP to explore CBDC issuance is to enhance the safety and efficiency of the national payment system.

In 2021, we proceeded with identifying the use cases for CBDC issuance in the Philippines by comparing the functional features of the country's existing retail and large-value payment systems with the use of CBDCs. Our goal was to identify the areas where a CBDC can yield the greatest value-adding benefit to the Philippine payment system. Based on this review, the BSP determined on the one hand, that there is minimal value added of the use of retail CBDC in the Philippines in the short term given the progress in our widespread implementation of retail payment digitalization and financial inclusion reforms. On the other hand, the BSP identified the value of a wholesale CBDC in addressing pain points in the national payment system in the following areas:

First are the frictions on large cross-border foreign currency transfers. We believe that we need to address this issue by reducing transaction costs, shortening processing times, and enhancing the transparency of such transfers.

Second is the settlement risk exposure arising from the use of commercial bank money in our equities market. We intend to mitigate this risk with CBDC, being a central bank money.

Last is the challenge of operating an Intraday Liquidity Facility (ILF) that we have yet to automate end-to-end. The CBDC may play a critical role in facilitating the settlement of ILF availments and the subsequent collection of the draw-down.

Thereafter, in light of the recommended use cases, we decided to pursue the implementation of a pilot wholesale CBDC under the initiative dubbed as Project CBDCPh. The main objectives of this Project are, as follows:

First, we want to build the BSP's capacity so we can have hands-on knowledge on the functionality, architecture, technology, operational, and organizational requirements of a CBDC; and

Also, we wish to leverage on the learnings from the pilot for pursuing further CBDC projects.

The pilot project covers the experimentation of the CBDC's use to transfer large-value financial transactions on a 24x7 basis, across a limited number of financial institutions but possibly covering both banks and non-bank institutions. The Project CBDCPh is led by an intersectoral project management team in the BSP to ensure that we are able to cover the major critical areas in operating CBDC. These areas include policy and regulatory considerations, technological infrastructure, governance and organizational requirements, legal matters, payment and settlement models, reconciliation procedures, and risk management. Equally important, the CBDCPh Project Team also includes external advisers from international standard-setting bodies and multilateral institutions to build on trainings and knowledge sharing on CBDC development and implementation all over the world.

The pilot is a major step for both the BSP and the Philippine financial industry towards understanding the potentials and risks of a wholesale CBDC. The learnings from the pilot are critical in constructing the BSP's medium to long-term roadmap for more advanced wholesale CBDC projects that shall further strengthen the Philippine payment system.

Ladies and gentlemen, emerging digital technologies do not alter the mandates of central banks. Instead, emerging technologies facilitate the means for central banks to achieve their mandate of providing safe, efficient, and inclusive payment systems. At the core of these developments are capacity building activities and/or knowledge sharing sessions, such as this major event, that help ensure that central banks are in pace and fully understand emerging digital technologies. For this reason, I thank again our organizers and participants for this important event.

Good afternoon again to all.