

Eli M Remolona: Speech - Rotary Club of Manila 16th Weekly Membership Meeting

Speech by Mr Eli M Remolona, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the Rotary Club of Manila 16th Weekly Membership Meeting, Manila, 8 January 2026.

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Happy New Year. It is always a great privilege to be invited to this gathering of [Rotary Club of] Makati West and Manila.

What I will do is basically tell the same story that [Past Vice President] Joel [Valdes] has told, but I will assign some numbers to that story.

I will talk about good news, and then I will talk about bad news. Although I would say the bad news is not that bad.

The first piece of good news, I would say, is inflation. Inflation is down. We managed to tame inflation over the past two years. Not only is inflation down, it is even lower for the bottom 30 percent of households.

So, we pay a lot of attention not just to the inflation rate in general, but also the inflation rate for the bottom 30 percent.

So, blue [referring to a graph] is the inflation rate as measured. We call it headline inflation and then [the] red is the inflation rate that is based on the consumer basket of the bottom 30 percent.

So, the blue one is 1.8 [percent] as of a few days ago for December and the red one is 1.1 percent. [They are] pretty low inflation rates, although we project that the inflation rates will start to rise over the next year or so. That is the first piece of good news.

The second piece of good news I would say is-our banking system is in good shape. The way we measure the health of banking system, we look at capital adequacy and the international standard for capital adequacy in the way it is measured by central banks [which] says that it should be at least 10 percent. By capital adequacy, we mean when we measure whether it is adequate or not, we assign risk weights to various assets of the banks, and then there should be sufficient capital to support those risks.

It is not just 10 percent for us, it is 16.4 percent, so that is pretty good. And then you also look at the liquidity of banks. In case there is a deposit run, the bank should have sufficient liquidity to support the run. The international standard for that is 100 percent. The way we measure the liquidity for our banks, it is [at] 180 percent. So, our banks are not just well capitalized, they are also very liquid.

And then we also have international reserves. This is our protection against a balance of payments crisis. As of today, we hold US\$110.9 billion of international reserves. That is more than seven months of imports. The usual standard is three months of imports. We are at seven months of imports. And then we are also at four times our short-term

debt. The international standard for that is the same amount of short-term debt so, 100 percent of short-term debt. We are at 400 percent of short-term debt. So that is the good news.

Let me go to the bad news. So, as you know, our growth has slowed down so we now think that for 2025, we will see 4.6-percent growth for the whole year. The difference between that and the growth we thought would be before the flood control scandal is given by that light brown portion [on the chart]. We thought growth would be 5.7 percent in 2025. Now it looks like more like 4.6 percent. That is mainly the effect of the loss of confidence, the weakness of sentiment because of the flood control scandal. [And] that loss of confidence started in the third quarter of 2025. We do think there will be some recovery in 2026. We think the growth rate will be [at] 5.6 percent. It is lower than what we thought it would be, but not much lower. By the way, these numbers are not too different when you look at the projections by the IMF (International Monetary Fund), by Bloomberg, and by the World Bank

Although I think our projections are more accurate because we have a more sophisticated forecasting model. We take account of investor sentiment; we take account of many things that the IMF has not taken into account. And then we think there will be a strong recovery from that.

So, I think we can manage 6.3 percent in 2027. If we can achieve that, that would be very good. By the way, all these other numbers, even those for 2025 and 2026, are better than those of our neighbors, in spite of the loss of sentiment. These numbers are better than Indonesia's, better than Malaysia's, better than Thailand's. The only country in the region that is doing better than us is Vietnam.

So, that is where we stand. Let me show you one picture about sentiment. We look at many indicators of sentiment, and we stick those indicators into our models. They are tested by history. These things work historically. One thing we look at is what is called the PMI, the purchasing managers index.

This is a good indicator. This is something that is also a good indicator for other countries. For the US, it is called the ISM (Institute for Supply Management) number. It is good because in the value chain, the guys who look into the future most seriously are the purchasing managers. They have to purchase [the] inventory of their production. They have to take account very seriously of the next year or so.

And that number--by the way. there are two versions of it, but they both behave in the same way--that number started to fall in July and now about a month ago, it reached bottom. It has now started to go up.

The other number is what you guys all look at: the stock exchange numbers, the foreign exchange rate, and so on. The stock exchange-the index-has fallen since the crisis, but now it has shown some recovery. So, the stock market is saying there is hope.

So, those are the indicators that we look at. I think you all know that we reduced the policy rate in the last meeting. In December, we reduced the policy rate.

That was an effort to compensate for the loss of confidence. We can only influence the demand side of things. We have no tools for the supply side.

But on the demand side, if there is a loss of confidence, we can compensate for it a little bit by lowering the policy risk. But I think we were very close to the end of the easing cycle. There is only so much we can do. We cannot completely restore confidence. So, that is my story. I would welcome a few questions.