

## **Eli M Remolona: Management Association of the Philippines economic briefing and general membership meeting**

Speech by Mr Eli M Remolona, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the Management Association of the Philippines (MAP) economic briefing and general membership meeting, Manila, 11 February 2026.

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*Magandang hapon po.*

I am so glad to be a member of the MAP (Management Association of the Philippines) and [MAP President] Donald [Lim] has assured me that I am up to date on my membership and dues.

I wanted to talk a little bit about the outlook. Partly because that is what I am expected to talk about, but I also want to talk about what we are trying to do to make monetary policy more effective.

So, that part might be a bit too nerdy, but I think it is useful for the MAP membership to know about it.

In terms of the outlook, we have good news and we have bad news.

The good news is inflation.

At the BSP (Bangko Sentral ng Pilipinas), our mandate is price stability-and that mandate, we have achieved. Inflation has been coming down. It peaked at 8.7 percent in January 2023. It came down to around 1 percent and we project that it will hover around 3 percent over the next two years. Three percent is our target.

And then we have a tolerance band around 3 percent-which is 1 percent on each side. Although for me, I do not mind too much if inflation falls below 3 percent, (If it) falls to 2 percent, falls to 1.5 percent, *okay lang sa akin 'yun*. I worry more when it goes up beyond 3 percent.

So, we have achieved that so far, and even more important to us is that for the bottom 30 percent of households, inflation is even lower than it is for the average.

So, that is the good news.

The bad news, of course, is our growth has stalled. Although it has not stalled as much as you would think. Because the way we have computed our growth rates, we count expenditures. There is an expenditure approach in what is called National Income Accounting, and when we count expenditures, it looks like we had very high growth rates in 2023 and 2024.

But when we realized that not all that money went into investment or consumption-a lot of it went into cash that was stored in people's basements, then we have to adjust the numbers. And when we make that adjustment, it looks like we exaggerated our growth rate in the past two years.

And so, if we compute our growth rate in 2025, it was bad, but not as bad as it looked. So, we are saying now that actually we did not decline to 4.4 percent-we declined to 4.7 percent. So, it is a little better than what we thought, but it is still a decline.

So, that is the bad news. Our growth has stalled and as you know, it stalled mainly because of a loss of confidence, especially in the second half of 2025.

So, consumption of big-ticket items fell. Consumption of investment fell. And then, most tellingly, the public infrastructure spending in the second half of 2025 fell.

So, we are down to 4.7 percent. Compared to most other countries, 4.7 percent is pretty good. But compared to our potential, 4.7 percent is pretty bad. The big risk going forward, of course, is whether we can bring confidence back.

There are signs that confidence is coming back, tentatively, slowly. When we look at some indicators, one of the best indicators of that is when we do a survey of supply chain managers. The blue line and the yellow line are two different surveys of the same thing. But the blue line, at least, has gone up. When that number exceeds 50 percent, then we are okay. So, the blue line, which is the bigger survey, has gone above 50 percent. The yellow line is still below 50 percent.

If you look at the yields on the bonds that we issue, the GS (government securities) bonds that are issued by the Bureau of the Treasury, the yields have been coming down-that is a sign of confidence.

As of February 2026, the 10-year yield was 5.95 percent. That is pretty good. At least the investors in those bonds have some confidence. [In] the stock market, as you know, the index fell. But the index has since recovered, as you can see in the graphs. The broken line, by the way, is July-so, that is when the confidence crisis started.

So, it looks like it is beginning to come back. Not as fast as we would like, but it is coming back. And in our projections, we think, that we will be back to normal by the second half of 2026. So, that is the outlook.

Another piece of good news is when you look on the side of financial stability. We are in very good shape. The banks have very high capital buffers. In other words, if there is a big loss, they can cover it.

And they also have high liquidity buffers, which means that if there is a run on that bank, there is a run on deposits-there is enough liquidity in our banks to cover that.

And then finally, when we look at our balance of payments, and we have been through several balance of payments crises-but this time, we have ample exchange reserves, US\$112.5 billion in exchange reserves. The standard for saying ample reserves is

whether you have enough for three months of imports. We have enough for eight months of imports.

And another standard is whether you have enough to pay, to cover your short-term debt. We have three times of that amount.

So, in terms of exchange reserves, we are okay. So, that is the outlook. There is good news and there is bad news, but I am optimistic that the bad news will go away and then we will be back on track by 2028. This year, we will be back on track this year.

We have a project at the BSP, which is to make the monetary transmission mechanism more effective. As you know, when we do monetary policy, we have, I would say, one and a half tools. One tool is the policy rate, but the other tool is what we say about what will happen to the policy rate-I would count that as half a tool.

So, maybe we have one and a half tools for monetary policy for making sure that we have price stability.

The policy rate, as you can see in the graph, it goes through the money market. And the foreign guidance goes through the bond market in terms of yields.

In the money market, we were very surprised when we did a careful survey of which parts of the market are most active. We found out that the most active part of our money market is not the interbank Call [money] market, which we had assumed all along was the most active part. Hindi pala, the most active part of the money market today is the FX (foreign exchange) swap market. In other words, if you need peso liquidity, you need dollars as collateral in an FX swap market.

That is kind of weird, that is kind of strange. In other jurisdictions, in other economies, the most active part of the money market is usually the repo (repurchase) market.

We had a repo market I do not know, 20 years ago, and it died. We do not know why it died. But globally, the standard contract for a repo is called the GMRA (Global Master Repurchase Agreement) contract.

The GMRA contract is standard in the rest of the world. It is accepted in 70 jurisdictions, but not in the Philippines.

So, we introduced it last year. We kind of cajoled the banks to sign the contract so that they could do repos among themselves-and that has worked.

And now, the repo market is approaching the size of the FX swap market, and we think it will overcome, become the main part of the money market, which means a more efficient money market.

Global Master Repurchase Agreement, that is what GMRA stands for. So, we have that in place. It is working. It is very promising.

And then, the forward guidance. When we tell you what we might do going forward with the policy rate, we might raise it, we might pause. We might lower it. That is our forward guidance and that is supposed to affect the yield curve.

When we look at the existing yield curve, which is called BVAL or Bloomberg Valuation [Service], it does not make sense. When we say our forward guidance says we might lower the policy rate, the BVAL curve does not seem to reflect that.

And then, the BVAL curve has kinks. In other words, people do not do the usual arbitrage between neighboring maturities that tend to smoothen the yield curve. That happens in many other countries. It does not happen here.

So, we decided to do something through the back door. We decided to emulate what the EU (European Union) has done. In 2000, as you may remember, the EU decided to switch to a single currency.

I think at that time, there were 15 jurisdictions that were part of the EU. So, 15 currencies. The Italian lira, the French franc, the German mark. They decided [on] just one currency-which would be the euro-which left the bond markets fragmented in Europe.

So, what they did in the EU is they introduced the IRS contract, the interest rate swap contract, which means to take a position, you do not have to buy or sell the whole bond. You just buy this contract and you are responsible for only the differential between the long rate and the short rate.

So, the banks have been here. We introduced this contract last year, and the banks have been signing up. And the IRS curve is now, I would say, there are prices up to five years, but there is activity mostly at the six-month maturity, and increasingly in the three-month maturity.

So, it is beginning to take shape, and it is beginning to look like an effective yield curve in terms of the transmission of monetary policy.

So, I think, we are making progress, but slow progress. So, as I said, we are going to shift from the FX swap to the repo, and then we are going to shift from BVAL to the IRS curve.

So, to summarize, I think when it comes to inflation, we are doing okay. Growth has stalled, but recovery seems to be on its way. And then the risk remains in confidence, whether confidence will come back or not.

I think it will. The government is beginning to make some progress in governance reforms, and so if that continues, we should have confidence back this year-sometime this year.

So, *maraming salamat*. That is all I have to say.