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# The Philippine Review of Economics

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## Festschrift for Raul V. Fabella

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This special edition of the *Philippine Review of Economics* honors Dr. Raul V. Fabella in his 70th year and recognizes his invaluable contribution to the economics discipline and profession. This edition comprises 13 articles from his colleagues and several generations of former students inspired or mentored by Dr. Fabella who are themselves making their mark in economics. The broad spectrum of topics covered—agricultural economics, competition policy, contract theory, game theory, history of economic thought, international economics, issues in productivity, growth and development, monetary policy, political economy and rent-seeking, public economics, and the theory of teams—are issues that Dr. Fabella himself has written on or taught his students during

his long, productive years as a Professor of Economics at the UP School of Economics, nurturing an “oasis of excellence” in his spheres of influence, as well as advocated as a roving academic in his later years, endeavoring to engage policymakers and the public in general, in pursuit of welfare-improving changes for a better Philippines.

The wide gamut of topics in this issue is a testament to Dr. Fabella’s eclectic intellectual interests yet unwavering devotion to upholding a high standard of academic excellence. As his biographical sketch at the National Academy of Science and Technology summarizes:

Fabella’s very development as a scholar and intellectual leader presents numerous paradoxes: a classicist turned mathematical economist; a rational-choice theorist who derives material and metaphor from both history and physics; a solitary thinker who agonizes over pedagogy; a pure theorist immersed in policy-debate; an inherently shy, private man who must deal with crowds. His career displays to the fullest the range of issues – from the mathematical to the moral – that economists can and must confront if they are to attain to that “cool head and warm heart” that was Marshall’s ideal. A classicist, however, might simply recall Terentius: *Homo sum: humani nil a me alienum puto.*

Indeed, to Dr. Fabella, nothing related to human behavior is outside his interest. At 70 years of age, National Scientist of the National Academy of Science and Technology (Philippines) and Professor Emeritus at the University of the Philippines, he is yet to reach the zenith of his intellectual verve: Fabella the economist is transfiguring into Fabella the social scientist – one to whom *homo economicus* is no longer the norm, but the exception in the vast complexity of human interactions in society. It is thus unlikely that this will be the last festschrift in his honor.

Sarah Lynne S. Daway-Ducanes  
Emmanuel S. de Dios

## **A BSP closer to the people: spreading the benefits of monetary and financial stability**

Benjamin E. Diokno\*

Bangko Sentral ng Pilipinas

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This article tackles the efforts of the Bangko Sentral ng Pilipinas (BSP) to bring the achievement of its core mandates closer to the Filipino people. It examines the complex operating environment characterized by a narrowing policy space for central banks of advanced economies, the increasing scope of central bank objectives outside traditional monetary policy, greater global connectedness, and the rise of the Fourth Industrial Revolution. Moreover, it outlines the BSP's policy directions and priorities going forward. More importantly, the article also discusses how, even in a complex operating environment, the benefits of BSP's delivery of its mandates can be brought closer to the people.

**JEL classification:** E02, E52, E58, E59

**Keywords:** Bangko Sentral ng Pilipinas, financial stability, monetary stability, financial inclusion

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### **1. Introduction**

“I think the 21<sup>st</sup> century would be the century of complexity...”

- Stephen Hawking

Complexity has become an increasing feature of the global economy as far-reaching forces—ranging from narrowing monetary policy space, increasing interconnectedness, disruptive technologies, inequality, climate change, and rising populist sentiment, among others—exert their impact on markets and economies. These forces have challenged existing economic principles, pushed central bankers into unfamiliar terrain, and altered and complicated the central banking policy landscape.

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In this age of complexity, central banks need to constantly anticipate new challenges without losing focus on their core mandates. For the Bangko Sentral ng Pilipinas (BSP), this approach is enshrined in its efforts to 1) enhance its capacity to safeguard price and financial stability; 2) enhance policy responsiveness and agility; and 3) bring the benefits of macroeconomic and financial stability closer to the people through greater financial inclusion [Diokno 2019].

The rest of the article is divided into three main parts. The second section examines the challenging operating environment that central banks are currently confronting. It looks at the key forces that contribute to the complexity of the economic landscape as well as their implications on the conduct of monetary and financial policy. The third section discusses the BSP's policy response to these challenges, namely: 1) enhancements in monetary and macroprudential policy; 2) The BSP's financial inclusion initiatives; and 3) landmark reforms such as the National Retail Payments System (NRPS), support of the National ID System, amendments to the BSP charter, and Islamic banking, among others. The fourth section concludes.

## **2. Complex operating environment**

Complexity is increasingly becoming an economic and financial reality. In the context of the central bank, this presents key challenges which will influence the conduct of monetary policy and financial regulation. Four of these key challenges are: 1) the narrowing monetary policy space for central banks of advanced economies (AEs); 2) the expansion of the key mandates and objectives of a central bank; 3) increasing global connectedness and uncertainty; and 4) the rise of the Fourth Industrial Revolution.

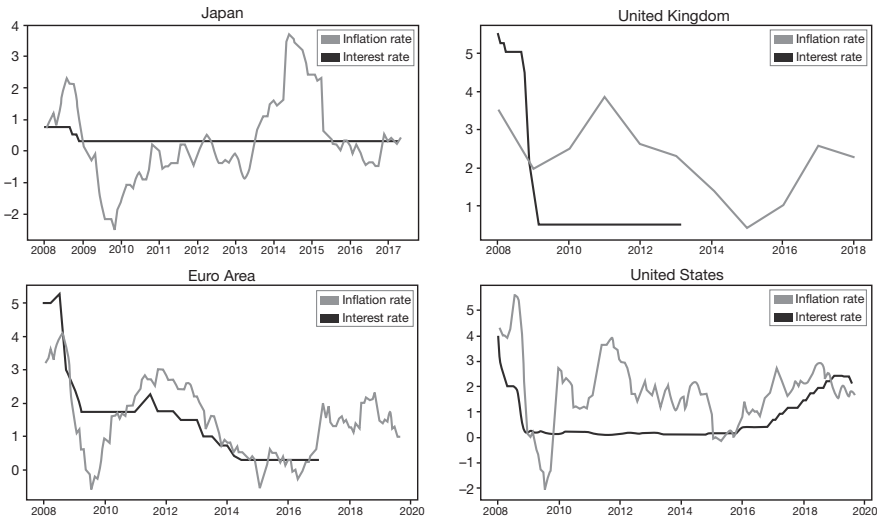
### *2.1 Narrowing policy space for central banks of advanced economies*

Slower global growth and a decline in core inflation in AEs have fueled concerns about potential deflationary spirals and the ability of central banks to address them.<sup>1</sup> Despite significant monetary stimulus, inflation in most of these economies remains relatively low (Figure 1). According to Kiley and Roberts [2017], such a scenario could potentially lead to more frequent and costly episodes of Effective Lower Bound (ELB) of nominal interest rates.

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<sup>1</sup> *IMF World Economic Outlook Update* [July 2018].



**FIGURE 1. Inflation targets and actual inflation rates**

Source: IMF and FRED

Going forward, it can be expected that central banks, especially those in the AEs, would continue to make use of unconventional tools in the conduct of monetary policy. However, these tools are also relatively new and policymakers need to develop a more thorough understanding of their transmission mechanisms and impact on real economic variables.

## 2.2 Expanding role of central banks

Since the Global Financial Crisis (GFC), central banks' policy agenda have expanded to include issues that extend beyond the ambit of conventional central banking. Issues such as inequality and climate change, among others, have come to the fore of central bank discussions.

Rising inequality, which has been cited as the cause of the rise in populist sentiment across countries, is being increasingly discussed as one of the factors that should be taken into account in policymaking. In fact, central banks are now in the midst of an evolving conversation about what monetary and financial policy should do about inequality.

From a theoretical perspective, a key question is whether monetary policy has a long-run impact on inequality, aside from what is acknowledged to be its short-run to medium-run effect on economic growth. The potential redistributive aspect of monetary policy has been bolstered by new theoretical developments in the field of macroeconomics.<sup>2</sup> For instance, Heterogenous Agents New Keynesian

<sup>2</sup> At the frontline of these developments is the recent introduction of tractable heterogeneous agents in New Keynesian models, or what Kaplan, Moll, and Violante [2018] refer to as HANK models. It should be noted, however, that HANK models still have significant caveats and their findings need to be corroborated by actual empirical evidence.

(HANK) models argue that monetary policy can affect households differently, and thus have a distributional effect due to the heterogeneity in households in terms of composition of net asset portfolios, income and consumption preferences and sources of incomes, among others. So far, an examination of the literature and the evidence seems to suggest that monetary policy's contribution to inequality appears to be a modest influence at best [Amaral 2017].

From an operational perspective, if monetary policy has an influence on long-run structural issues such as inequality, what kind of tools currently at the disposal of the central bank can realize such influence? Tinbergen's rule emphasizes that achieving the desired values of a certain number of targets requires policymakers to control an equivalent number of instruments. Accordingly, the presence of multiple policy objectives can overburden monetary policy at the risk of incoherence and loss of credibility. A central bank cannot effectively pursue and achieve multiple goals with only one policy instrument such as a short-term interest rate.

### *2.3 Increasing interconnectedness*

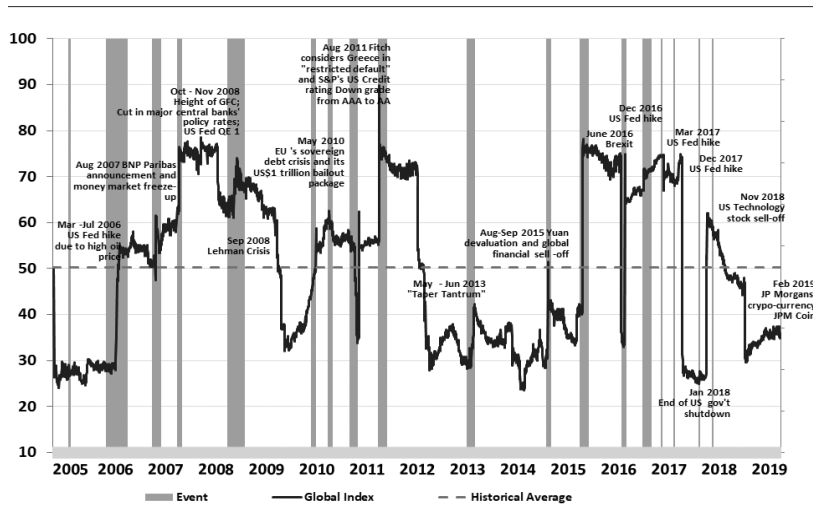
Notwithstanding the recent trade tensions and popular backlash, the world is significantly more interconnected now than in previous decades. The advent of technology coupled with advances in supply chain management and global financial markets has made the flow of funds, goods, and services extremely fast and efficient. However, this interconnectedness has also caused increases in global spillovers and uncertainties, which continue to affect domestic market performance.

Spillovers from the global equity markets (Figure 2) due to major global events such as the global financial crisis and defaults in the euro area have been an increasingly key factor in equity market fluctuations [Fernandez et al. 2017]. At the same time, greater international economic interconnectedness over recent decades has been changing inflation dynamics. Global commodity price fluctuations increasingly influence domestic inflation even as competition from imports has led to downward pressures on prices. Increased cross-border trade and competition generated by the expansion of global value chains (GVCs) partly explain the increasingly global nature of domestic inflation.<sup>3</sup>

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<sup>3</sup> International production, trade and investments are increasingly organized within so-called global value chains where the different stages of the production process are located across different countries. With globalization, companies have been motivated to restructure their operations internationally through outsourcing and offshoring of activities

FIGURE 2. Global equities spillover index



Source: BSP calculations

Greater interconnectedness and spillovers pose challenges for the conduct of monetary policy in two ways. First, domestic financial conditions could become increasingly affected by external shocks. Consequently, policymakers must respond to a broader range of developments. Second, transmission channels of monetary policy could potentially be weakened. For instance, long-term bond yields (i.e. longer-end of the yield curve) are increasingly influenced by international market developments [Obstfeld 2015].

#### 2.4 The Fourth Industrial Revolution

A discussion of challenges to central banks cannot be complete without discussing the Fourth Industrial Revolution, which is seen to potentially influence the conduct of monetary and financial policy moving forward.

Consider, for example, the impact of financial technology on the heart of central banking: monetary policy, exchange rate and banking regulation. First is the emergence of digital currencies. There are many forms of digital currencies currently being developed or conceptualized. On the one hand, we have e-money which is a digital payment mechanism for and denominated in fiat currency. On the other hand, there are privately issued virtual currencies, which are not denominated in fiat currency and have their own units of account. This distinction is important because their impact depends on how these digital currencies are designed. For instance, private virtual currencies such as cryptocurrencies can alter the organic composition and evolution of money supply and affect how the central bank can influence aggregate demand. First, this could potentially lead to the economy's fragmentation between those using fiat money and those utilising

digital currency. Second, given the decentralized nature of most cryptocurrencies using Distributed Ledger Technology (DLT), the impact of monetary policy via bank balance sheets and the cost of credit may need appropriate recalibration [Ali, Barrdear, Clews, and Southgate 2014]. Cryptocurrencies may also be used to circumvent exchange rate policies for cross-border transactions, and in the process undermine the exchange rate. These effects combined may impair the central bank's ability to influence real activity, result in resource misallocation or price distortion, and threaten price and financial stability [IMF Staff Team 2016].

One possible response put forward in the literature is for the central bank to issue its own digital currency often referred to as Central Bank Digital Currency (CBDC). This would allow a central bank to take advantage of benefits offered by a digital currency without relinquishing monetary control to decentralized organizations. Firstly, the effective lower bound of monetary policy may no longer apply [Gnan and Masciandaro 2018]. The central bank could institute a negative nominal interest rate simply by reducing balances on these electronic wallets at a pre-announced rate. In an economy with physical cash, this should, in principle, not be possible since consumers (and firms) always have the alternative of holding physical currency banknotes, a zero-nominal interest rate instrument. In principle, negative nominal interest rates should encourage consumption by making it expensive for households to maintain cash positions. Secondly, by providing competition for bank deposits, the adoption of a CBDC could limit the practice of fractional reserve banking, making for a safer financial system, with less scope for impairment in monetary policy transmission [Stevens 2017]. On the other hand, issuance of a digital currency would imply that the general public has the ability to maintain an account with the central bank. This would potentially allow users to have "permission-less" access to central banks which, in turn, could expose central banks to reputational risks such as drug cartels using CBDCs for money laundering. More importantly, too widespread a substitution of bank deposits by CBDC could lead to a significant de-funding of the banking sector, with negative spillover effects on credit creation and monetary policy.

### **3. Navigating complexity**

In the face of complexity, the BSP's response has been three-pronged: 1) remain steadfast in pursuing its core mandates; 2) enhance its policy responsiveness and agility; and 3) implement new approaches towards bringing the benefits of price and financial stability closer to the people.

#### *3.1 Remaining focused on core mandates*

The strengths of the BSP lie in its legacy of excellence, credibility, and independence in achieving its core mandates of price and financial stability conducive to a balanced and sustainable growth of the economy. These mandates shall continue to be the focus by which the BSP formulates its policies.

### *3.1.1. Price stability*

In terms of price stability, the BSP reiterates its unwavering commitment to deliver on its primary mandate of price stability. Under an inflation-targeting framework, the BSP's decisive actions have helped usher in a manageable inflation environment that is supportive of economic growth.

Following the sharp increase in inflation in 2018 and the BSP's decisive action to raise its policy interest rate by a cumulative 175 basis points beginning in May 2018, easing price pressures in 2019 and the benign inflation outlook for 2020-2021 have provided scope for a reduction in policy rates this year to support economic growth and reinforce market confidence.

At the time of writing, the Monetary Board decided to keep the policy rate unchanged during its latest meeting on monetary policy on 14 November. This followed a cumulative 75-basis-point cut in the overnight reverse repurchase rate earlier in the year

At the same time, the favorable inflation environment has allowed the BSP to resume the phased reduction in the reserve requirement ratios (RRRs) that was initiated in 2018. The BSP has announced a cumulative 400-basis-point cut in RRRs thus far in 2019, which will bring down the RRR for universal and commercial banks as well as non-banks with quasi-banking licenses (NBQBs) to 14 percent beginning on 6 December. The RRR reduction is also in line with the BSP's broader financial sector reform agenda to promote a more efficient financial system by lowering financial intermediation costs.

Decisions on the monetary policy stance going forward will remain data dependent. In determining the need for further monetary easing, the BSP will continue to observe how the inflation and growth environment is likely to evolve in the coming months. There will also be a consideration of a wider set of economic variables and their dynamics in coming up with assumptions and projections to determine if further adjustments in the monetary policy stance are warranted. Data dependency, guided primarily by the outlook on inflation and liquidity conditions, is also the bedrock for future decisions on RRRs.

Moreover, the adoption of an Interest Rate Corridor (IRC) framework on 3 June 2016 and its continued enhancement will lead to an increased capacity to guide short-term market interest rates to move closely with the BSP policy rate, and in the process, strengthen the transmission mechanism of monetary policy to the rest of the economy. Furthermore, the IRC could help strengthen the price discovery process and facilitate the effective and efficient pricing of financial products in the domestic market.

### *3.1.2. Financial stability*

In the area of financial stability, the BSP continues to foster a regulatory environment that is both enabling and responsive to emerging trends and at the same time, effective in managing new risks.

The BSP recently put in place several enhancements to its toolkit of macroprudential instruments. These include the establishment of Counter-Cyclical Buffers (CCyB) and the implementation of the Basel III Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), among others. These measures are expected to enhance the banking system's ability to absorb and withstand adverse shocks. For instance, the LCR aims to strengthen the liquidity position of Universal and Commercial banks (U/KBs) by requiring them to hold sufficient High-Quality Liquid Assets (HQLAs) that can be easily converted into cash to service liquidity requirements over a 30-day stress period. Meanwhile, the NSFR aims to promote long-term resilience against liquidity risk requiring banks and Quasi-Banks (QBs) to limit overreliance on short-term funding and promote enhanced assessment of funding risk across all on- and off-balance sheet accounts.

### *3.1.3. Efficient payments and settlements system*

The BSP has worked to establish a safe, reliable, and affordable retail payments system in the country through the National Retail Payments System which was launched in 2015. The BSP and BSP-supervised financial institutions (BFSIs), as retail payments industry participants have identified (2) two key areas at the forefront of the NRPS implementation. The first is the establishment of a payment system management body (PSMB), now incorporated as Philippine Payments Management, Inc. (PPMI), to organize the governance structure of the retail payment system in the country. Another is the formation of two-priority Automated Clearing Houses (ACHs)<sup>4</sup>—PesoNet and InstaPay—representing payment streams that could potentially contribute to the shift from cash-based payments to electronic delivery channels and platforms. Since their establishment, PesoNet and InstaPay have increased the availability of a wide range of financial products and services to the public.<sup>5</sup>

The retail payment ecosystem must also have an array of e-payments products and services that can meet the various needs of payers and payees to encourage usage. To take advantage of the latest technological developments, the BSP issued Circular No. 980 dated 06 November 2017 which requires BFSIs to ensure that the retail payment systems that they employ demonstrate sound risk management, and effective and efficient interoperability.

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<sup>4</sup> ACHs (Automated Clearing Houses) are essentially multilateral agreements among payment system participants governing their clearing and settlement activities. It should be emphasized that an ACH is neither an infrastructure nor a physical network.

<sup>5</sup> PesoNet was launched on 8 November 2017 and InstaPay was launched on 23 April 2018

### *3.2. Enhancing policy responsiveness*

While relying on the BSP's strengths is an important strategy for fulfilling its mandates, the BSP also strives to make its regulatory policies more responsive to a challenging global environment.

#### *3.2.1. Amendments to the BSP charter*

The approval of Republic Act No. 11211 or "An Act Amending Republic Act No. 7653 otherwise known as the 'New Central Bank Act' and for Other Purposes" puts the BSP in a strategic position to address new potential risks arising from the fast-evolving financial landscape. The charter restores the BSP's ability to issue debt securities as part of its monetary operations which will give the BSP greater flexibility in the conduct of its monetary operations. The BSP expects that these developments in our monetary operations will also promote capital market development through improved price discovery for money markets and increased supply of safe and liquid assets. Moreover, the amended Charter widens the coverage of institutions under the BSPs supervision to include money service businesses, credit-granting businesses, and payment system operators. This widened coverage will allow the BSP to better respond to potential risks arising from the interconnectedness of its operations with these services.

#### *3.2.2. Foreign exchange policy liberalization*

In terms of foreign exchange rate policy, the BSP is also committed to foreign exchange (FX) reforms toward a more organized FX market that supports a flexible and market-determined exchange rate. This includes further liberalising FX rules to reduce the cost of doing business and improving data capture, among others. These reforms will also give investors greater flexibility to manage their investments and cash flows.

#### *3.2.3. Building macroeconomic buffers*

The BSP is likewise working on enhancing the domestic economy's ability to absorb external shocks. In March of 2019, Republic Act 11256 or "An Act to Strengthen the Country's Gross International Reserves" was signed into law which exempts the sale to the BSP of gold sourced from small-scale mining activities from excise and income taxes. The new law will allow the BSP to build up its Gross International Reserves (GIR) while also supporting small-scale miners. Building up the GIR strengthens the Philippines' primary buffer against external economic shocks, and combined with prudent macroeconomic management, helps to reduce the cost of foreign funding for the Philippines, through improvements in the country's sovereign rating.

### 3.3. Bringing BSP closer to the people

The complexity of today's challenges more importantly calls for BSP to embark on goals outside the immediate ambit of traditional central banking. This involves bringing the benefits of central bank policies closer to the public through the pursuit of more inclusive policies.

#### 3.3.1. BSP's financial inclusion initiatives

One of the core thrusts that the BSP is spearheading is financial inclusion. Building on the gains of its policy initiatives over the years, the BSP is setting its sights on digital innovations. Digital solutions not only present opportunities for cost savings and efficiency gains that make the economics of serving the bottom of the pyramid viable but also help to fill the financial services needs of unserved and underserved markets on a broader scale.

The BSP's test-and-learn approach has proven to be a useful tool in promoting development and innovation within the financial services industry. Further enhancements to the sandbox approach are being explored to help clearly define the parameters, timelines, and eligibility criteria in the approval process of new financial products to improve transparency and efficiency. At present, the BSP is revising the regulations on e-banking/electronic financial products and services which shall formalize our test-and-learn approach. Nonetheless, it strives to maintain flexibility to the extent possible in introducing the parameters.

**TABLE 1. The BSP's test-and-learn approach**

<b>Phase/Step</b>	<b>Brief Description</b>
Allow for market to develop and innovations to take place.	After engaging with FinTech players, we determine if the proposed innovation presents major regulatory concerns. If none, we allow the market to develop and adopt such innovation.
Proceed with flexibility yet with caution.	During this phase, the BSP set certain limits or parameters before FinTech players fully market their products and services.
Understand operating and business model.	As the product or service is being offered in the market, the BSP can have better understanding of the operating/business models as well as technical considerations.
Adopt appropriate regulatory approach.	Once the BSP fully understands the operating/business model as well as detailed mechanics of the innovative product/service, appropriate regulations are then issued.
Closely monitor developments and related issues.	Lastly, we continue to monitor developments and introduce supervisory enhancements, when necessary, to address emerging issues and risks.



### 3.3.2. *Economic learning activities*

The BSP's advocacy for financial inclusion includes educating the public on the core functions of the BSP and on how to navigate an arguably complex financial system for most Filipinos, especially the unbanked. As a testament to its commitment to the promotion of financial inclusion, the BSP has launched a series of economic learning activities such as public information campaigns, outreach learning programs, and stand-alone learning sessions. Furthermore, the BSP, through its Knowledge Resource Network, continues to support and partner with local government units and state universities and colleges in improving their libraries to expand the reach of BSP publications, circulars, and strategies in addition to other publications aimed at informing the public to become more financially literate.

### 3.3.3. *Regtech and Suptech*

The BSP is likewise actively exploring RegTech and SupTech<sup>6</sup> solutions to enhance the timeliness and quality of the BSP's risk-based decision-making. The BSP partnered with R<sup>2</sup>A, or the RegTech for Regulators Accelerator, a pioneering project that provides technical assistance for financial sector regulators to develop and test the next generation of digital supervision tools and techniques (commonly referred to as RegTech solutions). The R<sup>2</sup>A is fully funded by the United States Agency for International Development (USAID), the Bill and Melinda Gates Foundation (BMGF), and the Omidyar Network.

In particular, the BSP is pursuing two RegTech solutions.<sup>7</sup> The first is an API system to connect financial service providers to the BSP. This will allow the BSP to obtain better quality data on new financial products and services, at a higher frequency and with greater accuracy that can be accessed by supervisors, regulators and analysts for their own customized reports. It also allows for the automation of the submission of periodic reports by supervised financial institutions of their daily, weekly, monthly and annual reports to the BSP. These reports are then processed by the BSP manually. The second RegTech solution is an automated complaint-handling system which allows financial customers to submit their concerns to BSP via SMS, online messaging services or web portals. These will then be processed automatically. Through this system, customers gain access to the BSP, especially when they feel that their financial institutions are unresponsive. Automation will also enhance the analytical capacity of the BSP, create greater accountability for financial institutions and amplify the "customer voice" in the policy-making process.

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<sup>6</sup> RegTech and SupTech refer to the next generation of digital supervision tools and techniques to improve the speed, quality, and comprehensiveness of information supporting targeted and risk-based decision-making by regulators.

<sup>7</sup> BSP's Supervisory Data Centre (SDC) is leading the project on RegTech initiatives of the BSP.

### 3.3.4. *Green finance*

Sustainability is a burgeoning concern for policymakers given the increasing impact of climate change on many aspects of the economy. Kulp and Strauss [2019] observed that the Philippines is highly vulnerable to the changes brought about by climate change. Coastal cities in the country are expected to be affected by rising sea levels by the year 2050 with many other environmental damages expected in other parts of the country. From the BSP's standpoint, the sustainability issues brought about by the impact of climate change pose significant risks to its core mandates of price and financial stability. With regard to price stability, climate change can have a potentially significant impact on the agricultural sector, including food prices which are a sizable component of the consumer price index. As for financial stability, climate change can affect the financial system through transition, physical, and liability risks. For instance, the move towards a greener economy could force some sectors to face transition risks such as big shifts in asset values and cost of doing business. Moreover, physical damages from climate-change could potentially lead to sharp increases in insurance claims and consequently, increases in premiums.

In response to these growing risks, the BSP has incorporated climate and disaster-related data in the monetary policy analysis forecasting, monitoring, and risk assessment. In addition, the BSP issued various regulations on corporate and risk governance, including stress testing as well as regulatory reliefs provided to banks affected by natural calamities. At the same time, the BSP, together with the Department of Finance, co-chairs a newly formed inter-agency task force that is mandated to facilitate green finance initiatives.

### 3.3.5. *National ID system*

One manner by which the BSP supports financial inclusion is through making it easier for Filipinos to have the requirements for new bank accounts or financial services. The BSP is currently helping to implement the Philippine ID System together with the Philippine Statistics Authority. Under the agreement, the BSP will produce 116 million pieces of cards over the next three years for the Philippine ID system to be issued to all Philippine citizens and resident aliens registered under the Philippine Identification System (PhilSys).<sup>8</sup> With PhilSys, a valid government identification card may easily be obtained by Filipinos and used in applying for bank accounts and other financial services, especially for the unbanked.

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<sup>8</sup> PhilSys refers to the government's central identification platform for all citizen and resident aliens of the Philippines.

### 3.3.6. *Islamic banking*

Financial inclusion is also being directed toward meeting the banking needs of our Muslim brothers and sisters. In June 2019, the Senate and the House of Representatives transmitted to Malacañang for signature of President Duterte the Congress-approved bill that seeks to provide a regulatory framework for Islamic banking and finance in the Philippines. Under House Bill No. 8281 entitled “An act providing for the regulation and organization of Islamic banks”, Islamic banks will be given the powers that are necessary and prudent to carry out the business of a bank in accordance with Shari’ah principles<sup>9</sup>, in addition to the general powers normally granted to corporations. In line with this, Islamic banks may provide Shari’ah-compliant financing contracts and structures and undertake various investments in all transactions allowed by Shari’ah principles. Moreover, an interagency working group<sup>10</sup> on Islamic banking and finance has been formed to develop a detailed regulatory framework for Islamic banking and finance, among others.

## 4. Conclusion

Stephen Hawking’s words about complexity above can refer to an emerging operating environment characterized by highly complex interconnected systems such as economies and financial markets. For the BSP, the optimal way to respond to complexity is to continue to focus on what central banks do best—achieving its core mandates. The BSP’s core mandates of price stability, financial stability, and an efficient payments and settlements system will continue to be the focus in which policies are formulated.

At the same time, the BSP continues to work towards making its policies more responsive and attuned to the rapidly evolving economic and financial landscape.

Lastly, as mentioned previously, the ambit of central banking has slowly widened over the years to other objectives. Towards this end, the BSP has also set its sights on the issue of inclusive growth and integrated this with its traditional objectives. The BSP is working hard to bring central banking activities closer to the people by advancing its financial inclusion, financial education, and consumer protection agenda to ensure that no one is left behind and the public is given the opportunity to reap the benefits of sustained economic growth.

In the long run, central banks’ price and financial stability objectives and other socio-economic goals are complementary. By remaining steadfast in safeguarding its mandate, making BSP policies more responsive, and advancing financial inclusion, the BSP will be able to spread the benefits of price and financial stability and transform itself into a BSP that is closer to the people.

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<sup>9</sup> Observed in the Islamic banking system, Shari’ah prohibits interest on money lending and on products. Thus, it is also known as “interest-free banking”.

<sup>10</sup> This group comprises the BSP, the Asian Development Bank, the Bureau of the Treasury, Department of Finance, Securities and Exchange Commission, Bureau of Internal Revenue, Financial Reporting Standards Council, and the National Commission on Muslim Filipinos.

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