

Felipe M Medalla: Fortifying the foundations for the next generation of strategy leaders

Speech by Mr Felipe M Medalla, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the Bangko Sentral ng Pilipinas 2018–2023 Strategy Close-Out Meeting, Manila, 23 June 2023.

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To my colleagues from the Monetary Board (MB); our Bangko Sentral ng Pilipinas (BSP) family; and all the awardees, some of whom will get their certificates later, *magandang hapon po sa inyong lahat.*

As you know, because of the school where I came from [De La Salle Lipa], I love [the color] green, but yellow is fine, too. I noticed there was just one yellow [referring to the sector's perceived progress in achieving their strategic outcomes], and that was the Monetary and Economics Sector. Of course, it is very clear why-because a lot of the [elevated] inflation has nothing to do with monetary policy.

In other words, there is nothing wrong with the color yellow or, maybe, even red. The important point is how much you worked and how much you tried. The color yellow says, "Try harder and learn the lessons from the past," [but considering] the extent to which exogenous factors will not change the color.

Delivering on our three pillars in the face of global and domestic challenges

As Director Caryl [Valdez]'s presentation shows us, we have done a lot in the past. I have been Governor for just a year, but it has been my greatest honor to have worked and served alongside all of you-navigating the challenges of the pandemic, especially at a critical time of history when there was a huge pivot in US [Fed] monetary policy.

Of course, the task is getting harder. Because of the pandemic, public debt is higher; the deficit is higher. During times like those, the pressure on the central bank is clearly going to be higher, as you can see in both interest rates and inflation.

While a lot of things are outside of our control, what remains constant is [that] the BSP has three pillars and will dedicate all its strengths; all its resources; and all the hands, the minds, and the mouths in guiding the economy toward price stability; financial stability; and a safe, secure, and efficient payments and settlements system. To use Monetary Board Member (MBM) Tony [Abacan]'s favorite phrase, "The three pillars are in good hands."

Improving monetary policy formulation through technology

In the area of monetary policy formulation, we are investing in better models and leveraging Big Data and advanced analytics to improve our forecasting and analytical abilities, thereby adding to our toolkit of market surveillance and evidence-based value judgment.

The importance of reflection in the ongoing journey toward lifelong improvement

By the way, we are in an uncomfortable spot where we do not really know whether what we did was better than what we did not do. Because, by their very definition, what we did not know, we do not know what happened at that time. Only in a place where you have two alternative universes, where time travel is possible and you could go back in time and play it again, can you now tell the difference between what could have been and what has been. It does require confidence. It requires faith in ourselves. It requires the analytical ability to say, "Maybe, we could have done better here. Maybe, we missed this one."

As MBM Eli [Remolona] said, that is one important skill we must develop as an institution. [If we were] to follow Socrates who said, "An unexamined life is not worth living." OA [over acting] naman masyado iyon; it is still worth living.

Our ability to always review ourselves and say, "How do we get better?" I guess, [the answer is] this exercise of before we do things, we already mapped out what we want to achieve and what strategies we want to employ. Doing that is really a great discipline for eventually reviewing ourselves because we must review ourselves relative to the things we put on record as the basis of our actions.

Harnessing technology to improve banking supervision

In the area of financial system regulation and supervision, the implementation of our SupTech [supervisory technology] roadmap and the strengthening of our competencies in digital bank supervision will help us not just to adapt, but also to proactively respond to fintech [financial technology] trends and post-pandemic supervisory challenges.

In our pursuit of an inclusive financial system, we are looking at how we can use technology to become more effective in our communication program and to explore non-traditional methods of promoting financial literacy.

Maximizing technology to improve organizational ability

As an organization, the BSP has also tried to maximize the use of technology to ensure that we continue business as usual through hybrid work arrangements.

I read an article about hybrid work. It says [that] hybrid work was "deceptively effective." What is the meaning of that? The reason hybrid work was working [is that] if the people were working together before, as they separate, they can still work together. That is the key. Then, how do you reduce the number of commutes while, at the same time, be able to work together and be able to cooperate better? Sometimes, working together is better than just writing to each other because there are many things you do not learn unless you actually work physically in the office. The reason work-from-home and work-together work very well is [that] people work together well in the office. As they separate, they are still somehow still connected. How to do that in an environment with fewer working days together is, of course, a very important question.

As an organization, we have pursued the following [technological changes]: [First,] the [Digital] Innovation Laboratory [Sandbox] which we set up in the first quarter of 2022.

[Second,] our award-winning Cash Service Alliance was something new but was also quite effective and could be applied on a greater scale. It enables banks to draw from their own holdings and not be dependent completely on the BSP.

Now, technology is just one component of our broad-based digital transformation. As I already said, [it also includes] people and processes-people who know how to work together and, therefore, are able to adapt to changes. We envision that you, our officers and staff, will be digitally empowered, and our business processes to be digitally enabled.

Creation of new sectors: PCMS and ROAS

Now, of course, we have grown quite a bit since I joined the MB in 2011. We used to have just three deputy governors (DGs), right? Now, we have five, with the creation of PCMS [Payments and Currency Management Sector] and ROAS [Regional Operations and Advocacy Sector].

In the beginning, in 2011, I thought [that] it would be the most boring sector because printing money in the branches, circulating it, and retrieving it [are straightforward]. It turns out, it is one of the most exciting because of what technology has done. I distinctly remember the MB interviewing the applicants. There was one applicant that impressed us the most. My first reaction is: "Here is an engineer who does not sound [like] an engineer." He has developed the communication skills and the ability to interact with others that are not learned in the school of engineering. Some of my brightest friends who cannot get along with others are engineers. I distinctly remember that, [DG] Mert [Tangonan].

Through PCMS, we now have a better understanding of how payments and currency management interplays with digital payments and demand for physical cash, and their various implications on monetary policy and other core functions of the BSP.

For instance, [in] the last two or three meetings, I pointed out that actual demand for base money-cash in circulation that is not deposited with us-has been consistently below the lower end of our projection. What is clear from my point of view, although this still has to be verified, is that it is digital progress that explains that divergence.

Let me now go to ROAS. Through ROAS, we better understand the importance of strategic communication in the effective delivery of our mandates, the role of the regional offices and branches in [promoting] financial literacy and education, as well as the need to engage our primary stakeholders.

Through our regional branches, we can improve currency distribution by bringing the central bank closer to the communities that it serves. Of course, it [setting up branches] also raises our costs, but we are a public-sector corporation. Clearly, pure profit is not our objective. If we can raise our profits but, if [in] the way of doing so, we allow the quality of bills to deteriorate, we have not really succeeded. We have not really improved. Of course, as my colleagues in the MB have said, we need better metrics to

precisely find out to what extent the costs are higher because the quality is higher. In our household, if it is more expensive, it is actually better. [In] my way of talking to my wife, "It is okay to spend your own money because I will die ahead of you."

Moreover, our branches support our Clean Note and Coin Policy program by streamlining unfit currency and having good programs for replacement and retirement.

We continue to revisit our communication strategy, recalibrate our approaches, and fortify our organizational competency so we can meet the people where they are at their point of need.

Walking the talk on sustainability

In sustainability, green is the color of recovery. We are a step ahead as we have already made a deliberate choice to include sustainability as one of our strategic focus areas.

Even within the IMF [International Monetary Fund], there is a debate [on] whether a financial institution that does not have fiscal power—the power to punish, the power to give incentives—is taking on a task that it cannot deliver. What we hope for is that fiscal authorities are also doing their part so that we are not really being set up for an impossible mission.

The 11-point Sustainable Central Banking Strategy will help enable the BSP to become an enabler, doer, and mobilizer of ESG [environmental, social, and governance] principles.

In our commitment to lead by example, we are actively embedding sustainability in our forex [foreign exchange] reserves management:

- Last August 2022, the Investment Management Committee (IMC) approved the inclusion of green bonds as allowable investments in our internally managed portfolios.
- We have also included ESG scores and climate risk as additional screens for our corporate bond investments and our external fund managers.

Passing on the torch

As we come to the close of our 2018–2023 BSP Strategy, it is but fitting to say thank you to all of you for your active participation and meaningful contribution to the success of the BSP in implementing its strategies.

While many things have changed and will continue changing, I am confident that the BSP is filled with dedicated, hardworking, highly competent, and professional public servants—who, by the way, are generally good-looking—who are unwavering in their commitment to providing policy directions and central banking services that promote a high quality of life for all Filipinos.

It has been my honor to serve alongside all of you and to lead this organization for the past year. Thank you very much for that privilege.

Maraming salamat, at mabuhay ang mahal nating BSP!