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Philippine Central Banking and Monetary Policy: Outcomes in Development Then and Now


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Ivan Renzo Lim

Popular discourse on the role of the public sector in improving the standard of living in the Philippines is often focused on the actions of the government. Yet, the monetary policy stance adopted by the central bank is arguably equally important in influencing development outcomes. It is this underestimation that the discussion hereafter aims to elucidate by highlighting the power of monetary institutions and their setting of appropriate policy frameworks. Contrasting the confused and politically subordinated central banking regime of the Marcos dictatorship with its inflation-targeting priority today, the current robustness of monetary policy has since created positive results for the Filipino people. With the current framework and its proven track record, similar implications are expected to persist in the future.

The Old Central Bank: An Ineffective Policy Framework

There are several major flaws in the monetary policy pursued by the Central Bank of the Philippines (CBP) from 1972, when the Central Bank Act was amended by Marcos, to 1986, which led to a gradual degradation of the standard of living and an outright collapse by the end of the regime. The first of which was its commitment to a tightly managed floating exchange rate system. Though more flexible than the old fixed exchange rate system, it still caused a significant overvaluation of the peso. Particularly, the danger of such a policy priority is that it becomes the goal of monetary authorities to maintain the exchange rate rather than to use it as a means to reach its supposed

objective of price stability. For what was, in essence, an exchange rate-targeting framework, monetary policy thus helped cause the debt crisis of the 1980s (Remolona et al., 1986; Canlas, 2012).

By pegging the exchange rate to a foreign currency, there arises an imbalance between the domestic and foreign exchange value of the peso when domestic inflation and money supply growth are higher than in the country the currency is pegged. In a bid to limit the effect of the imbalance on the exchange rate, the monetary authorities will exhaust their foreign reserves until depletion, triggering a balance-of-payments (BOP) crisis (Canlas, 2012). Such was what happened in the Philippines due to the tying of the peso to the US dollar and the power granted to the CBP to exert direct control. In 1970, the intervention of the CBP in foreign exchange transactions represented only 9.4% of its total volume, but by 1972, the intermediation rose to around 60% (Pante, 1982).

Given that both consumer and wholesale price indices rose rapidly throughout 1970-1980, 13.8% and 17.1% annually, there was necessarily a large drain on foreign reserves for the CBP to prevent a BOP crisis, albeit not as evident initially. Even with the perennial trade deficits during the 1970s, the depreciation of the peso to the dollar was somewhat contained from ₱3.92 to ₱7.59 for the decade. It is more impressive when considering that the BOP crisis in 1970 induced the peso to drop to ₱6.43 by the end of that year, meaning that the remainder of the decade saw a decrease of only ₱6.43 to ₱7.59 (Pante, 1982). The problem was that this system was only operable through increasing foreign borrowing, as foreign debt outstanding rose from \$2.3B (1970) to \$17.25B (1980) (Boyce, 1990). Despite its international indebtedness allowing the CBP to attain historically high reserves in 1980 of 4.6 months of import coverage (Pante, 1982), its reliance on foreign loans merely delayed its abandonment of a crawling peg and exacerbated the crisis that followed.

The question now is why the CBP still allowed inflation to remain high and soar in the second half of the 1970s through to the 1980s while fully knowing its risks. For context, it generally implemented an expansionary monetary policy until the run-up to the 1983 debt crisis. Total liquidity (M3) rose only by 12.5% annually during 1971-1972, right after the 1970 BOP crisis, but its growth surged to 23.6% per year from 1973 to 1982. This policy stance was provoked by the ambitious growth targets set by the country's economic managers and the resulting increase in government spending to stimulate such growth. From an annual growth of 13.4% in budget expenditures throughout the 1960s, it reached 24.7% per year in 1974-1982 (Remolona et al., 1986). However, the worst was just to come by 1983, as the debt burden worsened and action was needed to mitigate the slowdown in gross domestic product (GDP) growth of the preceding years.

In 1983, the money base grew by 44%, dwarfing the 4% growth recorded in 1982. With recurring budget deficits and a monetary board that was not independent of fiscal authorities, the CBP was forced to monetize a significant share of the shortfall. As such, net credit from the CBP to the public sector rose by 54.8% (Canlas, 2012). Reserve money also increased by 48% in 1983 due to the CBP having to extend additional liquidity to banks (partially through swap operations) after a series of bank runs and the severing of external financing (Nascimento, 1991). The result was strong inflationary pressures that reached 50% in 1984 (World Bank [WB], n.d.-a). Aside from drastic M1 growth of 38.6% in 1983, supply-side pressures were present as well because of the import-dependent nature of Philippine industry, which was, in turn, partly encouraged by the initial overvaluation of the peso under the crawling peg. Once the managed exchange rate system fell apart, the peso depreciated by 52.7% and 41.1% to the dollar in 1983 and 1984, respectively, thereby leading to even higher import costs and inflation (Gochocco-Bautista & Canlas, 2003).

Second, as part of its monetary policy to stimulate private investment, the CBP imposed interest rate ceilings on lending and borrowing that were below market rates throughout the 1970s. Worse, the caps were frequently placed so that the maximum loan rate ended up being higher than the maximum deposit rate. This system discouraged the mobilization of deposits and bred inefficiency, as there would inevitably be a shortage of loanable funds (Lee & Jao, 1982). Only by 1981 were restrictions on deposit and long-term loan rates removed (Lamberte, 1993). Alongside a reduction in the reserve-requirement ratio, it contributed to the sudden spike in the growth of the money supply during the period; M3 rose from 25.6% of GNP in 1980 to 28.4% in 1982. Although it allowed for a more efficient allocation of funds, it also made it more difficult for the government to fund its deficits through cheap domestic financing. From funding ₱1.2B of the ₱2.2B deficit in 1978, commercial banks' financing rose to only ₱1.3B despite the deficit ballooning to ₱12.2B in 1981. Consequently, the CBP stepped in to monetize the deficits, with currency creation funding ₱4.2B of the 1981 deficit (Remolona & Lamberte, 1986).

Third, throughout the 1970s, the CBP assumed a quasi-developmental function in its credit extension, implementing a selective credit policy that favored supposed priority sectors of the economy. Until 1983, this was done through its rediscounting facility, whose rate widely varied to support said favored sectors (Llanto & Intal, 1998). Here, its lack of a clear policy framework and mandate allowed for the politicization of CBP operations. Aside from being a vehicle for cheap credit to government projects, it also had to support government financial institutions (GFIs) when they suffered from financial distress (de Dios et al., 2021). Given that GFIs were instrumental in propping up inefficient crony corporations, the CBP was indirectly responsible for the survival of these firms by extending rediscounting privileges and lower interest rates to GFIs.

Initially, in 1970, 70% of CBP credit to financial institutions went to private banks, but this figure steadily declined during the 1970s and 1980s. The Philippine National Bank (PNB) and Development Bank of the Philippines (DBP), on the contrary, saw their combined share of CBP credit increase from 26% in 1970 to 45% in 1981-1982. Hence, from 1970 to 1982, the value of borrowing from the CBP for both banks surged. The DBP saw its borrowing rise from ₱74M in 1970 to ₱7B in 1982 and to ₱7.5B for the PNB. The result was an overall concentration of loanable funds in GFIs, which, in turn, served political interests. By 1982, the PNB, DBP, Landbank, and Philippine Veterans Bank had total assets of ₱113B, close to those of 28 of the largest private banks, amounting to ₱143B. If including the assets of 8 politically-tied private banks among these 28, they controlled over half of all assets in the banking system (de Dios et al., 1984). By 1985, the DBP alone controlled 29% of total banking assets (Nascimento, 1991).

Crony corporations would then benefit through preferential “behest” loans from these GFIs. Not only did their political connections eliminate the potential challenges in securing these loans, but an implicit subsidy was also granted, given the lower interest rates (Dohner & Intal, 1989a). In 1992, a presidential fact-finding committee uncovered 419 suspicious cases of behest loans. Of which, 130 cases were defined as “positively behest loans,” and these alone amounted already to ₱105B in total (Chaikin & Sharman, 2009). The very fact that these ventures were highly leveraged reduced any motivation to be profitable. As a result, investment efficiency, as measured by the incremental capital-output ratio, worsened from 4.7 in 1974-1980 to 15.72 in 1983 (de Dios et al., 2021).

To begin, the proceeds from the loans would be misused by the crony debtors. They would spend the funds on purchasing overpriced assets that involved suppliers earning a hidden commission while cronies were rewarded with kickbacks (Boyce, 1993). Afterward, when operations eventually

failed, they would simply default on the loan and declare bankruptcy. The PNB or DBP would then either extend additional loans or foreclose on their assets. However, the source of the funds for the original loan was, in turn, frequently from foreign creditors who still needed repayment (de Dios et al., 2021). In all, GFI exposure to nonperforming assets jumped to ₱113B by 1986, equal to 20% of GNP. The CBP, therefore, provided loans and equity contributions to these GFIs to prevent the crisis from immediately affecting the national budget (Dohner & Intal, 1989b).

Fourth, the regulations implemented by the CBP also became less prudential and responsible as the regime progressed. Early in the regime, in 1973, the CBP set limits on the maximum credit accommodation of banks to directors, officers, stockholders, and related interests (DOSRI), but these gradually loosened by the 1980s. During the 1970s, the cap for each DOSRI borrower was placed at 15% of the total equity of a bank. Yet, over time, the CBP turned a blind eye to violations of this rule to support crony firms. A prominent example was when, in 1983, the crony-owned Construction and Development Corporation of the Philippines (CDCP) had to be bailed out by the PNB after facing severe financial trouble. PNB exposure to the CDCP thus reached 60% of its own total equity (Nascimento, 1991). In fact, the sheer value of all loans and capital injections made by these GFIs to the CDCP was ₱6.4B from 1981 to 1983, representing around 30% of all tax revenues collected by the national government in 1981 (Lindsey, 1984).

Policy Gone Bad: Consequences on Growth and Development

A decade-long expansionary monetary policy led to sustained high inflation throughout the 1970s. From 1971 to 1975, monetary growth was 16.8%, and inflation was 16.1% annually. Then, from 1976 to 1980, this stance continued, causing monetary growth of 17% and inflation of 11.7% per year (de Dios et al., 1984). By the 1980s, inflation was unpredictable due to the erratic monetary

policy set by the CBP and the contractions mandated by the International Monetary Fund (IMF) during the debt crisis. There was an extreme currency devaluation during 1982-1984 as the CBP could no longer defend the peso and had to acquiesce to IMF conditionalities for its emergency loan program to the country (Dohner & Intal, 1989c). On the whole, the total devaluation of the peso was from ₱9 to the US dollar in June 1983 down to ₱20 by the end of 1984 (Boyce, 1990).

Inflation thus skyrocketed to 50.3% in 1984 and persisted at 23.1% in 1985 (WB, n.d.-a). In reaction, the CBP implemented a sudden tightening of its monetary policy, and its policy interest rate peaked at 40%. Real money supply subsequently dropped by 30% in 1984, leading to a steep decline in inflation to 1.1% by 1986. Moreover, another reason for the tightening was to contract aggregate demand enough to solve the BOP crisis. These actions were so severe that the current account deficit by 1985 was reduced to only -\$26M (Boyce, 1990; Dohner & Intal, 1989c). The effects of such extreme austerity measures on the economy and social welfare are obvious.

Most glaringly, per capita income, as measured by real GDP, saw negative growth of -1% in 1983 until it nosedived to -9.7% and -9.4% by 1984 and 1985, respectively (WB, n.d.-b). Moreover, if real wages are to be taken as a function of living standards, there is no clearer indicator of the worsening of the quality of life during this period. Unfortunately, official statistics post-1980 are not available as the CBP ceased publishing its wage surveys by 1980 (possibly due to the regime's insecurity). The gravity of the situation, nonetheless, is palpable given that real wages had already been swiftly declining prior to 1980. From 1965 to 1975, the real wages earned by unskilled laborers decreased by 32% and then another 30% between 1975 and 1980 (de Dios et al., 2021). This initial downward trend in real wages is particularly damning considering that inflation had been significantly slower during the 1960s-70s, being relatively stable at 5%-10% except for crisis years during 1970-71

(21% peak) and 1973-74 (34% peak). Therefore, the erosion of real wages would have likely been even more severe during the 1980s debt crisis, as annual inflation exceeded 10% (50% peak) (WB, n.d.-a).

The supply-side shock also meant that final output declined by -7% and -6.9% in 1984 and 1985, respectively, from slow albeit still positive growth of 1.9% in 1983 (WB, n.d.-c). Its consequence for workers is that unemployment rose from 5.3% in 1981 to 7.3% in 1984, while underemployment increased from 24% to 36.4%. Most of those workers terminated, or 61%-74%, from 1981 through 1987, were from industry, as it was the most affected sector during the recession. Nevertheless, agricultural employment growth still turned negative at -0.4% during 1982-1983 despite already recording the most underemployed workers annually for the period (Department of Labor and Employment, 1990). As per the unreliability of dictatorship-era statistics, de Dios et al. (2021) caution that these statistics are probably even far worse in reality.

Overall, the result is an increase in poverty throughout the 20 years of the regime's hold on power (de Dios et al., 2021). Without official poverty data, estimates of poverty incidence from 1965 to 1975 range between a rise from 41% to 51.5% (Tan & Holazo, 1979) and from 43.3% to 53.2% (WB, 1980). Then, some authors estimate a decline from 56.2% (1977) to 48.6% (1980) (Fuwa et al., 2002) or from 60.6% (1975) to 40.8% (1980) (WB, 1985) despite the decline in real wages. Yet, what is clear is the poverty outcome during the 1980s, as Fuwa et al. (2002) indicate a surge to 60.6% in 1983, and the WB (1988) estimates it to be at 51.7% in 1985. By the tail-end of the regime, the CBP started implementing a more stable monetary aggregate targeting framework (late 1984), and the instability started to subside. Coincidentally, the poverty incidence also began to diminish at this time; Fajardo-Duka (1992) estimates a reduction of 6.87 percentage points from 1985 to 1988.

Income inequality measurements, however, show a seeming decrease in inequality after 1985 compared to 1971. Numerous authors have estimated a reduction in the Gini coefficient from 1971 to 1985: 0.49 to 0.452 (Estudillo, 1997), 0.49 to 0.43 (Solon & Floro, 1993), and 0.494 to 0.447 (Gerson, 1998). However, the 1984-85 recession may have merely impacted all income deciles so severely that a decrease in inequality is statistically perceived. If the income distribution pre-1980 is observed (i.e., when crony firms were operational and exploitation was in full swing), the share of income captured by the lowest-earning 60% declined from 25% (1971) to 22.9% (1979). The enrichment of the oligarchic class, partly facilitated by the CBP, is evidenced by the increase in the share of income captured by the top 10%, from 37.1% (1971) to 41.7% (1979) (de Dios et al., 1984).

Institutional Reform: A New Beginning

In October 1984, the CBP adopted a new policy framework focused on attaining monetary aggregate targets (MT), in line with monetarist thought. Base money was set as its operating target, and M3 was the intermediate target. It was expected that inflation could be controlled based on the observed positive relationship between M3 and prices. It also recognized the unsustainability of its exchange rate policy, leading to the implementation of a loosely managed float system to avoid any recurrence of the sharp devaluations in 1983-85. (Glindro & Oliva, 2020). These policy shifts yielded immediate results, as inflation slowed to 1.1% by 1986 and 4.1% in 1987 (WB, n.d.-a).

The old CBP was replaced by the Bangko Sentral ng Pilipinas (BSP) in 1993 to provide the country with a central bank unencumbered by the CBP's balance sheet problems from the Marcos era. The New Central Bank Act ensured that the BSP would be independent from government intervention and would mainly focus on price stability (Lamberte, 2003). However, MT eventually

proved to be unfavorable at times. From 1980 to 2000, it was misused and became a tool to control the current account by tightening monetary aggregates as a way of limiting overspending. This prevented monetary policy from being appropriately applied to enforce stability and accommodate growth, the very mandate given to the BSP. Severe stagflationary episodes in 1991 and 1998 further showed the ineffectiveness of MT in guiding growth (Lim, 2008). Evidence also indicates that monetary contraction may sometimes have been excessive in dealing with inflation, as deflationary pressures from exchange rate and output changes were often already present (Dakila, 2001).

In 1995, the BSP announced a new modified MT framework in recognition of the weakening relationship between the monetary aggregates and inflation. It did so on the reasoning that financial liberalization had induced volatility in the income velocity of money and the money multiplier, making MT less effective (Lim, 2008). A certain degree of deviation from its monetary targets began to be allowed as long as inflation remained acceptable and under control. By 2002, the BSP decided to forgo MT, and it shifted to an inflation-targeting (IT) policy framework (Lamberte, 2003).

Inflation-Targeting Today: Stability and Resilience

The greatest achievement of IT is in its name; it has been able to keep inflation within an acceptable range. Since 2002, the highest recorded inflation rate was 8.3% in 2008, with most years seeing inflation within a 2%-4% band (WB, n.d.-a). Statistically, it has been shown that the IT period has had the most favorable outcomes in maintaining price stability with regard to a low average inflation rate and minimal volatility (Glindro & Oliva, 2020). In comparison to non-IT Asian nations, the Philippines, alongside other economies with an IT framework, has benefited from a greater reduction in inflation persistence (i.e., prolonged deviation from target inflation) post-adoption of IT (Gerlach & Tillmann, 2012).

Empirical tests by Debuque-Gonzales (2020) have also shown that inflation has gradually become more reactive to monetary policy over time after the shift to IT. This potency has been partly the effect of systematic policy tightening, specifically increasing the policy rate, when there are positive demand-side shocks. Some degree of accommodative behavior can, moreover, be seen during depressive supply-side shocks, albeit highly transient. Although the raising of the policy rate is possibly done to counteract prolonged shocks, the level of such accommodation is only modest. This may indicate a desire to tackle inflation without causing any further downward pressure on output. In these cases, the successful setting of inflation expectations, a forward-looking policy feature impossible under MT, permits a reduction in the policy rate despite inflationary pressures.

Moreover, a flexible exchange rate system wherein the BSP only intervenes to prevent hot money volatility has led to more uniform ebbs in the international value of the peso. The result is a relative balance between appreciation and depreciation episodes and a lower pass-through of the exchange rate to inflation (Glindro & Oliva, 2020; Deluna et al., 2021). In fact, IT adoption itself has even had a stabilizing effect on the exchange rate of Asian currencies, including the peso. The more predictable nature of monetary policy under IT deters speculation and external shocks. At the same time, central banks in the region, such as the BSP, still conduct timely but minimal interventions in the foreign exchange market to limit excessive variability as part of their IT policy (Prasertnukul et al., 2010). As such, though some volatility persists, there has generally been lower exchange rate instability during the IT period compared to before its adoption (Fermo & Lemence, 2014).

Recent experience during the COVID-19 pandemic recession further exhibits the flexibility of the current IT framework. By abandoning MT, the BSP was not held back and could inject additional liquidity into the economy as long as inflation stayed within target. From 2020 to 2021, a

total of ₱2.2T, or 12.1% of GDP, was added by the BSP to the financial system through various instruments, with the national government receiving most of the said amount (Dakila, 2021). This extraordinary support would likely have been impossible under a strict MT regime, but the BSP charter now lets it temporarily exceed legal limits in financing fiscal authorities provided that it meets inflation targets (Glindro & Oliva, 2020). It even reduced its policy rate and the minimum reserve requirement for banks to stimulate the economy, thus further encouraging the expansion of the money supply (BSP, 2020). Given that the inflation rates in 2020 and 2021 of 2.4% and 3.9% were within the 2%-4% target (WB, n.d.-a), the BSP was not prevented from exercising a countercyclical stance through an expansionary monetary policy. It is difficult to imagine that such aggressive actions would have been carried out if its policy framework were still based on MT.

Policy Done Right: Positive Outcomes for the Population

The nominal median total pay (sum of median basic pay and allowances) in the country was ₱12,670 in 2014 and ₱16,969 in 2022, reflecting an increase of 33.93% throughout the period or 4.24% per year (Philippine Statistics Authority [PSA], 2024a). Meanwhile, the average nominal wages of unskilled workers rose from ₱9,652 to ₱12,276 across the same period. This change amounts to a cumulative increase of 27.19% or 3.40% annually (PSA, 2024b). In comparison, annual inflation has remained, on average, at 3.14% for these 8 years (WD, n.d.-a). Real wages have thus seen an upward trend, with real median total pay growing by 1.11% and unskilled average wages by 0.26%. Such a development is in stark contrast to the drastic decline in real wages sustained during the 1970s and 1980s under the supervision of the old CBP. It is, therefore, clear that the adoption of IT as a policy framework has allowed for an improvement in the standard of living over the past decade.

From 1972 (the year of Marcos' amendment of the Central Bank Act) to 1983 (the final full year before the adoption of IT), average GDP per capita growth was only 2.57%. If the average is extended until 1986 (the final full year of the Marcos regime and after the repercussions of its flawed monetary policy were felt), it falls to a disastrous 0.85%. On the other hand, from 2002 (the first year of IT as the policy framework) to 2023, the average is substantially higher at 3.43% (WB, n.d.-b). Indeed, slower population growth may have had an appreciable effect on GDP per capita, but even simply real GDP growth was more sluggish during 1972-86 (3.47%) than 2002-23 (5.06%) (WB, n.d.-c). Hence, inflation must have greatly depressed the recorded advancement in nominal growth when accounted for in real terms. It is no coincidence that the average annual inflation rate was markedly higher during 1972-86 (15.72%) than 2002-2023 (3.89%) (WB, n.d.-a).

Given that the BSP's IT framework has successfully limited inflation, it must have also been influential in improving poverty outcomes since then. Research in developing countries indicates that high inflation has historically had an upward pressure on poverty, with the poor becoming even poorer due to increased costs of living and lower real wages (Cardoso, 1992; Easterly & Fisher, 2001; Paul & Sharma, 2019; Khalid & Sultan, 2019). In the Philippines, a greater concern must be placed on food inflation in particular because of the dominance of food consumption in the spending patterns of the poor. For instance, rice prices have been a major contributor to headline inflation, and the magnitude and persistence of their impact on inflation are more pronounced in regions with high poverty levels (Valera et al., 2021). Intuitively, high food prices raise hunger incidence among the populace (Mapa et al., 2010). This reality has meant that food inflation has had an increasing impact on poverty (Fuji, 2013). If the BSP can handle food inflation similar to how it controls headline inflation, it would be an even more important institution in the fight against poverty than it already is. Yet, as covered in the next section, this area may be where it finds itself impotent.

Another implication of the BSP being able to rein in inflation is its contribution to ensuring macroeconomic stability. Theoretically, such stability should form a conducive environment for consistent economic growth. Through this channel, the IT framework must have also indirectly reduced poverty. Fuji (2017), Reyes and Tabuga (2011), and Clarete (2018) find that growth plays a significant role in poverty alleviation. However, the BSP may again be ineffective in this regard because all of them also emphasize the moderating role of income inequality, which will be discussed more in the following section. Nevertheless, if poverty is assessed multi-dimensionally and not income-based, growth has still been a strong mitigating force against poverty (Balisacan, 2015).

Furthermore, to a limited extent, the IT framework could conceivably help facilitate efforts toward structural transformation. Debuque-Gonzales (2020) concludes that firms are likely to be more responsive to monetary policy than households owing to the former's greater reliance on credit. This relationship is especially more observable in the manufacturing sector compared to the services sector. Positive monetary shocks have consistently been significant throughout the long run from 2002 to 2019 and across short-run periods (disaggregated within 2002-2019) in inducing manufacturing growth. Since the BSP can freely manipulate its policy rate as long as it can anchor expectations and achieve its inflation targets, the IT framework does not restrict its potential ability to momentarily support the manufacturing sector through monetary easing.

Its Limitations: On the Future of Monetary Policy and Inflation-Targeting

The most underwhelming weakness of central banking is its ineffectiveness at curbing increases in food prices. Despite the IT framework being touted for its ability to control headline inflation, food inflation has still been volatile since 2002. The IMF (2024) finds that the largest contributor to food inflation has historically been supply-side factors due to the country's reliance on

food imports, among others. In this regard, the BSP should explore how best to modify the current framework to better restrict food price fluctuations.

In fact, this failure has not been exclusive to the Philippines. Findings in both developed and other developing countries show that monetary tightening (in a bid to limit headline inflation) only causes further food price instability. Battacharya and Jain (2020) specifically attribute it to increased production costs, as tighter credit extension raises the cost of capital and encourages a shift toward expensive, labor-intensive farming practices. The wage rate then rises, which is reflected in higher food prices. Even specifically within an IT central banking regime, such food price destabilization is observable (Iddrisu & Alagidede, 2020). Though there is some evidence to suggest that monetary policy actually stabilizes food inflation in a few countries (Sami & Makun, 2024), the Philippine experience (i.e., food inflation volatility in spite of IT) leans more towards destabilization (but more research on this matter is obviously still necessary). Therefore, the inability of IT to stabilize food prices is expected to severely limit its influence in alleviating poverty in the future.

Moreover, the indirect way that low inflation can reduce poverty through economic growth is also debatable. Gonzalez et al. (2022) and Lubbock et al. (2022) discovered that inflation has not had a significant long-run relationship with GDP growth in the Philippines. Although even if there is a relationship between them, income inequality still remains a strong moderating factor (Fuji, 2017; Reyes and Tabuga, 2011; Clarete, 2018). As such, low inflation goals in support of GDP growth may be irrelevant in poverty alleviation after all.

Whether monetary policy can affect inequality is itself a matter of argument. Some authors find that it has either an ambiguous or no redistributive effect on income (Park, 2021; McKay & Wolf, 2023; O'Farrell et al., 2016), while others conclude that either a contractionary stance can reduce

inequality (Davtyan, 2016) or an expansionary stance exacerbates inequality (Andersen et al., 2023). There are also those suggesting that a contractionary stance worsens inequality (Attilio, 2023; Furceri et al., 2023). With conflicting views internationally and virtually non-existent literature in the Philippine context, the BSP cannot be expected to adopt a specific policy stance to reduce inequality.

Nevertheless, granting that there is consensus on its impact on inequality, serious concerns remain. Firstly, adopting either an expansionary or contractionary policy in the long run for the sake of reducing inequality goes against its mandate of price stability. Secondly, blinding its decision-making by solely focusing on inequality will likely hurt real wages (if expansionary) or economic growth (if contractionary). As a result, future outcomes in inequality will not depend on the actions of the BSP; this falls more in the realm of government interventions. Monetary policy thus cannot be used to exploit the positive effect of reducing inequality on poverty.

It must be questioned as well if IT is the best policy framework that the BSP can employ. For years, IT central banks around the world have faced criticism for the supposedly flawed nature of their mandates. Focusing solely on the consumer price index (CPI) does not necessarily lead to the financial stability that would support stable growth and a low output gap. Overconcern about fears of CPI inflation has strangled monetary policy and prevented an adequately expansionary stance to stimulate the economy during downturns. Other inflation measures, such as asset prices, would ostensibly be a better policy indicator than CPI. Gillitzer and Simon (2015) find that these alternatives do have merits, but the shift in the debate (i.e., from how inflation could be controlled to whether inflation should be the only policy priority of central banks) is itself a sign of IT's success.

At any rate, the Philippine experience shows that the cumulative effect of sudden monetary easing on output growth has slightly declined during the BSP's IT period. With financial shocks having

a greater influence on output, the transmission of monetary policy is limited anyway by financial frictions to begin with (Debuque-Gonzales, 2020). This raises some concerns about its ability to stimulate growth and close the output gap during recessionary periods. Hence, the mentioned need for central banks to also influence output may ultimately not be applicable here.

That being said, lessons from other central banks in the Asia-Pacific region imply that strictly targeting inflation might not be realistic. Some degree of flexibility is needed to manage any potential trade-off between inflation and output stabilization (Filardo & Genberg, 2010). Whatever the case may be, however, it is important to first consider the economic environment and the main drivers of inflation in a country to decide upon a possible modification of its monetary policy framework. Alternatively, perhaps IT only requires some tweaking. Furthermore, concentrating on enhancing the transmission of monetary policy and reducing financial frictions might be the primary issue at hand and not the framework itself.

Despite these shortcomings, central banking in the Philippines has improved greatly and has come a long way. From the exchange rate focus and political nature of the CBP to its shift to an MT framework, the BSP's current IT framework has proven to be more potent at ensuring macroeconomic stability. The negative impacts of monetary policy during the 1970s-1980s have been successfully ameliorated with the institution of an independent, prudent, and future-looking central bank. Today, it is in a better position not to repeat the mistakes of the past.

Through its mandate to maintain the purchasing power of the Filipino people, the BSP can now better complement government intervention in alleviating poverty and raising real incomes. Although the BSP can still make headway in innovating its policy methods to restrict food inflation, the main variable that will drive development outcomes henceforth is likely going to be the

government. What the future holds for the BSP is simply a decision on how best to evolve its existing framework: (1) adding flexibility to its current IT framework to make it more robust and/or (2) adopting a multi-pillared framework (e.g., dual mandate of price stability and maximum employment of the Federal Reserve) that would also proactively fill output gaps.

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