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Revised

March 3, 2021

**Statement by Mr. Mouminah, Mr. Alhomaly, and Ms. Al Saud on Philippines
(Preliminary)
Executive Board Meeting
March 5, 2021**

We thank staff for their assessment and Ms. Mahasandana and Mr. Bautista for their helpful Buff statement. We broadly concur with staff's analysis and recommendations and would like to emphasize the following points.

We commend the authorities for their reform efforts prior to COVID-19 which have enabled Philippines to enter the pandemic with stronger fundamentals. In this connection, we positively note that growth rate has been over 6 percent in the past years with moderate inflation level and improved reserves and that risk premiums have been reduced following a steady decline in public debt. We are encouraged by the authorities' timely response to the pandemic including by focusing on policy measures aimed at alleviating liquidity pressures in the financial sector and safeguarding its stability.

Continued monitoring and agile policy response are called for in view of the immediate risks to financial stability, stemming from the current health crisis. We positively note that the financial system has broadly withstood the health crisis and that financial markets have recovered well following the short-lived volatility early last year. That said, banks are highly exposed to NFCs and staff's analysis shows that NFCs distress under sever scenario could elevate credit risks to banks with possible second-round effect on growth through weak credit. In this connection, we concur with staff's view on the need to limit bank dividend distributions and allow forbearance measures to expire as originally scheduled, while avoiding the introduction of new forbearance measures. We also agree that strengthening banks' capital should be considered, should downside risks materialize, and that further

reinforcing the resolution framework is needed. Relatedly, we echo staff's comments on the importance of expanding the macroprudential policy toolkit going forward building on the significant progress made thus far. Further, we welcome the authorities' ongoing efforts towards amending the Bank Deposits Secrecy Laws and expanding the BSP supervision to conglomerates, as noted in the Buff.

Finally, we urge the authorities to substantially strengthen the AML/CFT framework in view of the current deficiencies. In addition, Philippines should unleash its potential in the financial inclusion arena. With the global advances in Fintech, digital payments and credit information can be improved to increase access to formal finance and domestic capital markets can be further developed and deepened with efficient use of resources. To this end, IT and communication infrastructure are key. *Staff comments on the pandemic impact on Philippines digital transformation is welcome.*

With these remarks, we wish the authorities further success.