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March 3, 2021

**Statement by Mr. Guerra and Ms. Arevalo Arroyo on Philippines
(Preliminary)
Executive Board Meeting
March 5, 2021**

We want to thank staff for the comprehensive and timely Financial System Stability Assessment of the Philippines. We also thank Ms. Mahasandana and Mr. Bautista for their insightful Buff statement. **We broadly agree with the thrust of the staff's appraisal and policy recommendations**, and we want to highlight the following points for emphasis.

Notwithstanding the build-up of ample capital and liquidity buffers during the previous decade, the Philippines' financial system is currently facing significant challenges posed by an environment of evolving risks and heightened uncertainties for macroprudential policy due to the COVID crisis. As expressed in the Buff, we take positive note that the authorities recognize these risks and are taking actions to address them. Following FSAP recommendations in a timely manner will contribute to make the financial system more resilient to future disruptions. In this regard, we welcome the authorities' commitment to provide more targeted support if the worst-case scenario materializes.

We agree with staff that regulatory forbearance that may delay loss recognition could harm economic recovery by limiting credit growth in the future. Going forward, assessing the appropriate timing to scale back the COVID-19 relief measures will be a complex endeavor given, as staff notes, the important relative weight of NFC in banks' credit portfolio. The Philippines' case illustrates the significant policy challenges that financial systems in emerging markets will face in the transition towards recovery after COVID-19. We commend staff for the detailed analysis regarding bank solvency stress tests, particularly the second-round effects analysis. The analysis results confirm our call for a timely resumption of financial surveillance activities and corresponding policy advice from the IMF.

We welcome that the authorities will use staff recommendations as inputs to develop the roadmap for the financial sector strategy to strengthening the conduct of effective banking supervision. This will be instrumental, in particular regarding regulation and supervision of financial conglomerates. *Can staff comment on the role that the Memorandum of Agreement on the establishment of a supervisory college for supervision of financial conglomerates could play? Can staff also comment on the main elements of the Executive Order to strengthen the FSCC?*

The authorities should continue their efforts to enhance effectiveness of the AML/CFT policy framework. We take positive note of recent efforts to address recommendations to designate tax crimes as predicate money laundering offenses, and recommendations towards constructing a comprehensive legal framework for targeted financial sanctions against proliferation financing, as presented in the Buff. Nevertheless, given the high risk for the country's inclusion in the FATF list of jurisdictions with serious deficiencies, this could erode correspondent banking relationships.

Finally, further strengthening of the bank resolution framework in light of downside risks to the banking system will be important. In the current context of increased risks to banks because of the pandemic, the authorities should continue their efforts to secure a comprehensive resolution process, including by taking actions in the short-term. It is encouraging that the authorities acknowledge the need to conduct resolvability assessments and to formulate resolution plans for individual banks to ensure timely and orderly resolution in case of bank failure.