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**Statement by Mr. Bevilaqua, Mr. Saraiva, and Mr. Coelho on Philippines
(Preliminary)
Executive Board Meeting
March 5, 2021**

We thank staff for the informative FSSA report and Ms. Mahasandana and Mr. Bautista for their helpful buff statement. We join Ms. Mahasandana and Mr. Bautista in welcoming staff for their nimbleness in adjusting the FSAP focus to cover the challenges posed by the pandemic. Even with such an impressive shock, the Philippine's banking system remains resilient, although continued close monitoring is warranted.

The Philippine's financial sector withstood the shock well and has shown remarkable resilience, but underlying vulnerabilities could present additional challenges if downside risks materialize. The current health crisis has impacted the financial sector mostly through economic activity and the growth outlook. However, pre-existing vulnerabilities, such as the close interconnection of banks and the non-financial corporate sector through high credit exposures and conglomerate ownership linkages, can aggravate the risks if more adverse scenarios materialize. Figures 3 (page 29) and 4 (page 30) provide a visually telling depiction of such interconnections. We generally concur with the recommendations to enhance financial conglomerate supervision to better assess and cope with those vulnerabilities. In this regard, we take positive note of the measures being contemplated by the authorities to clarify the roles of different agencies and adopt common standards, and appreciate the magnitude of the problems posed to regulators and supervisors by the intermingled interests of financial and non-financial corporates. Overall, given the strong links with the corporate sector, a wise use of the ample fiscal space can provide important support to the real sector, and hence to the health of the financial sector.

As large potential loan losses cannot be ruled out, bank dividend distribution should be limited in order to protect bank's capital. While banks that have resorted to relief benefits must be barred from distributing dividends, other restrictions should apply more generally as precautionary measures. With overall economic conditions improving, such restrictions can

be phased out accordingly. *Could staff compare the restrictions to dividends distribution taken by the Philippines with those of peers?*

Given the lingering risks, staff's emphasis on strengthening the resolution framework seems warranted. However, as regard the specific recommendation of designating PDIC as the resolution authority, we have sympathy for the points made by the authorities highlighting the complementary roles of BSP and PDIC as resolution authorities. We strongly caution against overlooking country specificities and favoring "one-size-fits-all" type of solutions. Having said that, we agree that the resolution options and instruments should be broadened to give more flexibility and nimbleness to the process. Moreover, resolvability assessments and resolution plans should start as soon as feasible with D-SIBs, and coordination failures should be addressed by the authorities. With respect to the recommendation to broaden the range of usable collaterals to access ELA, we take note of the authorities' views that the framework already accepts a broad array of high-quality collaterals. *Of course, the devil here lies in the details and we would appreciate it if staff elaborate on what specifically they have in mind when suggesting broadening the range of acceptable collaterals?*

Authorities should also continue to put emphasis in advancing their anti-corruption agenda. We acknowledge the actions taken to improve the AML/CFT framework, but underscore that the ongoing efforts to effectively comply with FAFT recommendations remain critically important. *In particular, we would like to know staff's views on how the most recent measures would affect the assessment to be made with the end of FATF's observation period?*