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March 3, 2021

**Statement by Mr. Trabinski and Mr. Gindrat on Philippines
(Preliminary)
Executive Board Meeting
March 5, 2021**

We thank Fund staff for the comprehensive Financial System Stability Assessment, and we thank Ms. Mahasandana and Mr. Bautista for their useful Buff statement. We commend the authorities for their reform efforts over the past years, which are now bearing fruits and benefiting the financial sector. The prudent financial sector policies allowed banks to enter the pandemic with sufficient buffers and weather the shock. We broadly agree with the thrust of the report. Like staff, we see the need to continue to strengthen the financial stability framework as well as to carefully monitor the possible unintended build-up of vulnerabilities resulting from the temporary measures implemented in response to the pandemic, while taking corrective actions where and when needed. We would like to make two comments for clarification and one for emphasis.

A diversification of financing sources should be warranted. We note the very high share of NFC loans in the banks' loan portfolios. The report points to the interwovenness between banks and NFCs through mixed conglomerates, which can in part explain this fact. However, we wonder whether this high share may also suggest that domestic corporate bond market participation (both demand- and supply-side) remains constrained or not attractive enough. If this were the case, policy efforts to remove bottlenecks to corporate bond market participation could be advisable to achieve a broader risk-sharing with a possibly positive impact on the systemic relevance of NFC for the financial sector. *Staff's comment on the domestic corporate bond market participation would be much appreciated.*

We see merit in stepping up efforts to anticipate climate-change related financial risks. We take note on the measures taken by the BSP in this area. We wonder whether a cooperation with the Insurance Commission could create synergies, given that actuarial expertise applied to climate risks may be already available. Also, we note that staff's climate change stress test focuses only on the banking sector. *Could staff provide some insights on*

role of the IC concerning climate risks and the insurance sector's ability to withstand (extreme) climate events?

We concur on the importance of making the AML/CTF regime compliant with international standards. We encourage the authorities to strengthen their AML/CFT regime, building on the improvements made over the past years and FSSA's recommendations. We specifically urge the authorities to address vulnerabilities identified by FATF regarding the overall effectiveness of supervision, existing preventive measures and transparency before the indicated June 2021 deadline, after which Philippines could be included in the list of jurisdictions with serious AML/CFT deficiencies.