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March 3, 2021

**Statement by Mr. Odonye and Ms. Nainda on Philippines
(Preliminary)
Executive Board Meeting
March 5, 2021**

We thank staff for the detailed report and Ms. Mahasandana and Mr. Bautista for their helpful Buff statement.

Managing the elevated risks caused by the COVID-19 pandemic is essential for a robust Philippines' financial system. An expansion of the current macroprudential policy toolkit alongside appropriate operational procedures would be essential to address the increased credit and systemic solvency risks, particularly from the corporate sector. Despite the prior stronger macro-financial fundamentals, growth declined significantly by 9.5 percent in 2020 and was more pronounced than the period of the Asian Financial Crisis (AFC). While the financial system has broadly endured the adverse consequences helped by supplementary measures implemented to cushion the fallout from the pandemic, downside risks have risen undermining the growth path under severe scenarios. Against this background, we broadly agree with staff's assessment and policy recommendations and encourage the authorities to persevere in their efforts to ensure a more resilient financial system in the future.

We note that data constraint remains key impediment to comprehensive risk analysis. Like staff, we welcome the revised central bank charter to broaden the scope of information from broader economic sectors. It would enhance the stability analysis and we look forward to its steadfast implementation. Further, we note most of the recommendations outlined in Table 1 are expected to be undertaken in the short-term. *Given the difficult environment and past experience, how plausible would the authorities be able to implement these remedial measures in the time frame of one year, including by passing the proposed legislative amendments? Second, could staff shed light on the implications for crowding out of the private sector with the bulk of the Philippines debt denominated in local currency at about 70 percent?*

Intensified supervision of climate change and physical environment challenges would remain vital to the Philippines given its susceptibility to severe weather shocks. To this end, we recommend close monitoring of climate-related financial stability risks using relevant tools. We commend the steps taken by the Bangko Sentral ng Pilipinas (BSP) to integrate green finance and Environmental, Social and Corporate Governance (ESCG) principles into its investment policy and would be interested in the findings of ongoing research on rainfall and bank performance. We also welcome the additional efforts to build capacity to assess climate risks in collaboration with Central Banks and Supervisors Network for Greening the Financial System (NGFS). *How robust are the authorities' measures to address gaps in data collection, monitor risk metrics, and conduct stress test of climate change and environmental risks and could staff indicate whether the BSP would require complementary TA from the Fund/Bank?*

Avoiding the FATF list would better serve interest of the Philippine authorities through an accelerated resolution of the serious AML/CFT deficiencies. Given the potential negative impact on trade and remittances, we concur with staff that the authorities intensify efforts to ensure full effectiveness of the AML/CFT. The initial actions, which expanded the definition of suspicious transaction, revised reporting timelines and thematic reviews among others, are commended. Nonetheless, further work remains to fully enhance the AML/CFT effectiveness, including to address the longstanding challenges linked to the existing secrecy law. The law poses multiple challenges to supervisory effectiveness, especially to monitor and resolve liquidity risks and to reduce banks' reputational risks. Continued proactive measures to boost savings and investment in the financial system and support the recovery as outlined in the Buff statement are encouraging and would warrant close monitoring by the regulators. The plan to remove troubled loans and other non-performing assets (NPAs) by banks is also appropriate to ease stress in the banking system.