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GRAY/21/609

March 3, 2021

**Statement by Mr. Tanaka, Mr. Chikada, and Mr. Kuretani on Philippines  
(Preliminary)  
Executive Board Meeting  
March 5, 2021**

We thank staff for the comprehensive report on the financial system stability assessment and Ms. Mahasandana and Mr. Bautista for their informative Buff statement. As we broadly concur with the thrust of the staff's appraisal, we will limit our comments to the following points:

**We commend the authorities for their reform effort and progress since the 2010 FSAP on various financial fronts**, which together with the authorities' counter pandemic measures, have enabled the Philippines' financial system to withstand the unprecedented pandemic crisis. While the economic impact of COVID-19 has been much more severe than the Asian Financial Crisis, we are also encouraged to learn that the economy is now recovering with policy support and easing of containment measures.

**However, continued vigilance and contingency planning for downside risks are warranted in light of elevated uncertainties.** We note that banks are closely connected to the corporate sector through high credit exposures and conglomerate ownership linkages. As distress to the corporate sector could be widespread even in the baseline and sharply rises in adverse scenarios, we encourage the authorities to prepare for the downside risks. In particular, we encourage the authorities for contingency planning to strengthen banks' capital given the significant risks as highlighted in staff analysis.

**While we commend the authorities' progress in implementing the full Basel III framework, regulatory forbearance measures could delay loss recognition and harm economic recovery.** We note that an unusually strong form of forbearance could significantly undermine banks' economic capital for an extended period. In this regard, we concur with staff that the authorities should closely monitor affected loans and enforce strict approval process. We also agree with staff that the forbearance measures should lapse as

scheduled and the authorities should use the flexibility of the tools available in the accounting and Basel capital framework.

**We welcome the significant progress on crisis management, resolution, and safety nets since the last FSAP, and encourage the authorities for continued effort to strengthen the resolution framework and broaden the resolution toolkit.** Given the downside risks to bank health, we concur with staff that the resolution toolkit should be expanded, and the assessment of resolvability should be incorporated into the supervisory and resolution framework

**We note with concern that the FATF may list the Philippines as a grey list in 2021.** While it is welcoming that some actions were already started by the authorities, additional reforms will be needed to enhance the AML/CFT regime's effectiveness, such as access to bank secrecy information for supervisors and law enforcement agencies (LEAs). In this regard, we concur with staff that the authorities should advance legislative amendments to be promptly approved.

**We welcome that the analysis of climate change incorporated physical risks and developed an innovative approach for analyzing banks' solvency, with close collaboration with the World Bank.** As the Philippines is highly exposed to physical risks, we encourage the authorities to enhance the monitoring of climate change risks over the medium term. Furthermore, going forward more attention may be warranted regarding transition risks given the Philippines' increasing dependence on coal-based power generation.