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March 3, 2021

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

1. We thank the FSAP staff for their technical and analytical Report and Ms. Mahasandana and Mr. Bautista for their comprehensive and informative Buff statement. We broadly concur with both the thrust and the appraisal of the Report.
2. Following the Covid-19 shock, a strong economic rebound in Philippines started in the third quarter, mainly driven by relaxation in containment measures and the policy stimulus. Regarding the stimulus, the Report indicates that the guarantee program is limited to SMEs and the agricultural sector (0.6 percent of GDP) and expired at the end of 2020. *Since the SME sector has been the worst-hit across the EMEs, whether the staff has an assessment as to how the SME sector may be coping up with the liquidity stress in the absence of a guarantee program?*
3. On financial sector prudence, we believe that the staff suggestion about limiting bank dividend distributions would help augment capital buffers of banks against potential capital erosion. Another important concern highlighted by the Report would require strengthening of conglomerate supervision by enhancing sectoral and group-wide supervision. It is encouraging to know from the Buff statement that the central bank (BSP) is working closely with other regulators seeking approval to amend the Bank Deposit Secrecy Laws, expand the BSP's authority on conglomerate supervision and pass other critical legislative reforms necessary to reinforce the banking supervision.
4. As highlighted by the Report, given the risk of the country getting included in the FATF list for serious AML/CFT deficiencies, we would urge the authorities to take the necessary steps to overcome the deficiencies viz., tax crimes and proliferation financing.

5. The staff recommends that the resolution toolkit should be broadened beyond liquidation and possibly with a statutory ‘bail-in tool’. We would like to underscore that the application of the bail-in tool may involve different tradeoffs in developing countries vis-à-vis the advanced countries. In developing countries, banks are predominantly engaged in the traditional commercial banking business with liabilities in the balance sheet predominantly representing savings deposits of households given the limited development of other financial products. *What could be the welfare/distributional consequences of a bail-in where claims are predominantly on the corporate sector and liabilities are mainly owed to household savings?* In the above setting, a bail-in policy would imply a sharp erosion in accumulated wealth of households as bank deposits are the predominant mode of holding financial assets – a typical phenomenon in developing countries.