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March 3, 2021

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

We thank staff for the comprehensive report and Ms. Mahasandana and Mr. Bautista for their informative Buff statement. The Philippine financial system has been exposed to an extreme shock due to the Covid-19 pandemic, which led to a GDP contraction of almost 10 percent in 2020. Banks have weathered the crisis well so far, but stress tests show that capital adequacy could fall below the minimum requirement in adverse scenarios. The authorities should monitor the situation closely and enhance the resolution framework. Moreover, the authorities should immediately implement reforms to improve the AML/CFT framework. **We broadly share staff's assessment and would like to offer the following points for emphasis.**

The authorities should restrict dividend distributions in the current situation to protect banks' capitalization. Such restrictions could be lifted again when the recovery is well underway and downside risks have subsided. While we understand the reasons for introducing regulatory forbearance measures during the crisis, we encourage the authorities not to extend these measures when they expire. Loan losses should be recognized in a timely fashion to avoid a gradual and concealed deterioration of banks' balance sheet. Given the large exposures to NFCs, developments in this sector warrant special attention.

The resolution framework should be clear and comprehensive. We note that the resolution powers are currently split between the Bangko Sentral ng Pilipinas (BSP) and the Philippine Deposit Insurance Corporation, with the latter having the de-facto responsibility. We encourage the authorities to update the laws to include a clear legal division of responsibilities. In addition, the resolution toolkit should be expanded beyond liquidation, including the use of bail-in tools. Resolution plans should be developed for systemically important banks, and early interventions may be necessary to reduce losses. We also

encourage the authorities to revisit the ELA framework to allow for increased access in times of crisis, subject to sufficient collateral.

Macroprudential coordination should be strengthened. The Financial Stability Coordination Council already carries out risk assessments, but the Council should also have the power to make formal recommendations, which could be subject to the comply-or-explain principle. We note that the counter-cyclical capital buffer is the only officially recognized macroprudential tool in the Philippines. At the same time, the BSP uses tools related to LTV, liquidity, and FX positions for microprudential purposes. We encourage the authorities to explore using such tools for macroprudential purposes as well.

We urge the authorities to take immediate steps to improve the AML/CFT framework. While we welcome the modernization of the microprudential oversight framework, we are concerned about the potential inclusion of the Philippines in the FATF list of jurisdictions with serious AML/CFT deficiencies. Not only do the deficiencies potentially subject the system to illicit transactions, they also pose a risk to macroeconomic and financial stability due to the reputational implications. Therefore, we strongly encourage the authorities to loosen the strict bank secrecy laws and provide regulators full access to data and to address other deficiencies.

We welcome the BSP's efforts to build capacity to assess climate risks and the decision to join the Network for Greening the Financial System. We also welcome staff's analysis of the physical risks from typhoons on banks' solvency and the BSP's initiation of studies on rainfalls and bank performance.