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July 21, 2021

**Statement by Mr. Buissé, Mr. Rozan, and Ms. de Waziers on Philippines
(Preliminary)
Executive Board Meeting
July 23, 2021**

We thank staff for these comprehensive reports and Ms. Lim and Mr. Bautista for their insightful buff statement. We broadly share the thrust of staff's appraisal and wish to offer the following comments.

The Philippines entered the pandemic with strong fundamentals, and we commend the authorities for the resilience of the financial sector and the swift and comprehensive policy response to cushion the health, economic and social impact of the crisis. We are comforted that the economy is now recovering and agree that strong policy support will remain key considering the high level of uncertainties. We welcome the authorities' efforts to secure sufficient doses of vaccines and strongly encourage them to pursue their efforts to accelerate vaccine distribution in order to underpin the economic outlook by greater mobility and economic reopening.

We agree with staff that the expansionary fiscal stance in 2021 is appropriate and balanced between fiscal prudence and recovery needs. Given the uncertain outlook, we welcome the existence of fiscal space to respond to downside risks. We agree that an explicit medium-term fiscal strategy will strengthen fiscal credibility and should allow for short-term flexibility in case of downside scenario, while rebuilding medium-term buffers for future shocks. *Given the authorities' commitment to fiscal prudence, what is staff's assessment of the opportunity for implementing a spending rule like in peer countries?* We also support the recommendations to strengthen revenue administration and domestic revenue mobilization, improve expenditure control and efficiency, pursue reforms in public investment management and we welcome the capacity development efforts in those areas.

We encourage continued efforts in structural reforms to reduce poverty and inequality. We agree on the importance of the rapid rolling out of the National ID system to support greater efficiency in public services delivery, in social protection and in financial inclusion. In addition, after more than a year of school closure, we highlight that the recovery efforts should focus on limiting scarring and fostering inclusive growth through increased spending on social protection and investment in education and training.

To foster sustainable and greener growth, we also welcome the authorities' commitment to reduce emissions and broaden climate change policy efforts, including by building natural disaster resilience and increasing climate change adaptation and mitigation efforts. We are also encouraged by the BSP's efforts to integrate climate risks in financial supervision and encourage continued capacity building. In addition, we also welcome the attention to plastic waste and encourage, going forward, the authorities to continue policy action to preserve sustainable environment and biodiversity.

We concur with staff that the monetary policy stance is appropriate and BSP should stand ready to adjust if upside or downside risks materialize. We take note of the exceptional nature of the large buildup of reserves in 2020 because of the size of the Covid shock in the Philippines and concur that the exchange rate should continue to play an important role as a shock absorber. We agree that publishing FXI data would enhance the transparency of the inflation targeting regime and BSP's exchange rate policy.

We welcome the resilience of the banking sector and the ongoing progress to strengthen the supervisory framework in lines with FSAP recommendations but agree that asset quality risks require careful monitoring and further reforms. We support staff's recommendations to ensure adequate provisioning, to swiftly strengthen the bank resolution framework and to enhance financial system resilience with targeted macroprudential measures. **Finally, we also urge the authorities to strengthen the effectiveness of the AML/CFT regime** to support a swift exit from the FATF grey list and reduce risks of disruptions to cross-border financial flows. We welcome the authorities' commitment in this regard and encourage them to benefit from Fund or partners' assistance, including the European Commission's support.