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October 15, 2020

Statement by the Hon. **BENJAMIN E. DIOKNO**,
Governor of the Fund for the **PHILIPPINES**

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Governor of the Fund for the Philippines

The COVID-19 pandemic severely disrupted the global economy and resulted in deep downturns for both advanced and emerging economies. Many countries are still reeling from the uncertain duration and gravity of this unprecedented crisis.

To cushion the impact of the pandemic, the Bangko Sentral ng Pilipinas (BSP) swiftly implemented a range of measures to ensure sufficient liquidity and maintain stability in the Philippine financial system. Policy rates were cut, required reserves were reduced, and banks' fresh loans to micro, small and medium enterprises as alternative compliance to reserve requirements were accepted. Further, to support the Philippine Government in its fiscal programs, the BSP also provided bridge financing in the form of a reverse repurchase agreement and advances. In total, we injected approximately Php1.9 trillion in liquidity into the financial system, equivalent to 9.6 percent of GDP¹.

The Philippine economy contracted by 16.5 percent in Q2 2020 or 9.0 percent in the first half of the year. This sharp contraction does not reflect our fundamentals, which remain strong. We are optimistic that as we face the fourth quarter of a very challenging year, our efforts will begin to bear fruit. Our manufacturing PMI has improved, remittances from Overseas Filipinos have rebounded; and the contraction in imports and exports are beginning to slow down. Our banking system continues to be stable, with sufficient capitalization and manageable loan exposure, and we continue to post a robust external payments position with ample gross international reserves.

We are putting the lessons that this crisis has brought to good use, and we are seizing the opportunities it has presented in advancing financial digitalization. Consistent with our goal to shift from a cash-heavy to a cash-lite society, the BSP targets to increase, by 2023, the adoption of electronic retail payments to 50 percent of total retail volume transaction that could support a stronger and thriving post-pandemic economic landscape. We are also embarking on a three-year digital payments transformation roadmap that will encourage the establishment of digital banks with minimal reliance on physical touchpoints. We have also implemented enabling regulations for the financial industry to encourage financial innovation and promote climate-resilient, green and sustainable growth.

As we transition to the new economy, there is a need to strengthen existing surveillance system to gain a sharper and more nuanced view of domestic and international developments.

¹ The amount includes the new provisional advance of ₱540 billion which is targeted to be released within the first week of October 2020.

The IMF has an important role in supporting member countries navigate their economies post-Covid-19 by providing effective surveillance on global developments, extending financial assistance to members in need, providing technical assistance and promoting innovative delivery of capacity development to member countries.

We encourage the Fund to conduct further studies to enhance the Integrated Policy Framework, which will help us manage the trade off and complementarities of various policy toolkits. We commend the Fund for the lending support extended to the most vulnerable countries, and for the timely review of financing toolkit to make it more responsive and tailor-fitted to the evolving needs of members. We also recognize the creativity and flexibility adopted by Fund staff in delivering virtual trainings and online consultations as some countries are still in lockdown.

We will continue to support initiatives that will ensure the Fund's adequacy of resources for crisis prevention and resolution. For the BSP, we have already agreed to double our commitment in the New Arrangements to Borrow and will continue to participate in the Fund's Bilateral Borrowing Agreement, subject to domestic approval process. These international cooperation initiatives will help propel the global economy towards a more resilient and sustainable growth path in the medium term.

Let me conclude by commending IMF Managing Director Kristalina Georgieva for acting swiftly to address the crisis by intensifying the Fund's conduct of surveillance, expanding the financing facilities and engaging with the authorities cementing the Fund's role as a trusted advisor.

Thank you and Mabuhay!