BANGKO SENTRAL NG PILIPINAS
BSP Working Paper Series
Series No. 2020-01

May 2020

COVID-19 Exit Strategies: How Do We Proceed?

Eloisa T. Glindro, Hazel C. Parcon-Santos, Faith Christian Q. Cacnio, Marites B. Oliva, and Laura L. Ignacio

COVID-19 Exit Strategies: How Do We Proceed?

Eloisa T. Glindro, Hazel C. Parcon-Santos, Faith Christian Q. Cacnio,
Marites B. Oliva and Laura L. Ignacio

Abstract

The COVID-19 pandemic has had an unprecedented adverse economic impact as both the domestic and global economies have ground to a virtual standstill. Recognizing the adverse economic effects of the pandemic, authorities have implemented policies to soften its impact. On its part, the Bangko Sentral ng Pilipinas (BSP) has immediately deployed measures to ease the macroeconomic fallout and to ensure that no disruptive imbalances emerge in financial markets. Taking off from the government's 4-pillar strategy and the IATF-TWG-AFP COVID-19 framework, this policy paper identifies four phases for the Philippines' macroeconomic policy response to the pandemic. It highlights the policy inroads that have been collectively achieved and puts forward policy options in navigating the recession and in adapting to the new economy. It also identifies the principles for the unwinding of policy support measures. The COVID-19 crisis has exposed vulnerabilities and gaps in existing processes and systems that need to be swiftly dealt with in order to regain momentum. It also offers rich lessons on crisis preparedness and adaptability towards a more sustainable and equitable growth path.

JEL classification: I10, I18, H12, E5, E6

Keywords: public health, exit strategy, monetary policy, central bank, fiscal policy

Corresponding authors: Laura L. Ignacio (ignacioLL@bsp.gov.ph) and
Eloisa T. Glindro (eglindro@bsp.gov.ph)

Table of Contents

COVID-19 Exit Strategies: How Do We Proceed? [1]

1. Background

The COVID-19 pandemic has had an unprecedented adverse economic impact as both the domestic and global economies have ground to a virtual standstill. While COVID-19 is primarily a public health crisis, the large-scale community quarantines and shutdown of activities represent a combination of negative demand and supply shocks. Labor and capital have been rendered temporarily idle. The longer the period of latency in labor and capital is, the sharper would be the impact on the productive capacity of the economy. As firms shed jobs and unemployment rises, there may be persistent contraction in aggregate demand.

Moreover, the economic impact of the pandemic varies across sectors. There could be greater demand pressures in some industries while others face huge demand contraction. The more interconnected the network of production is, the larger would be the negative supply shock. The transmission of demand shock would be mitigated by the flexibility in which labor can be reallocated across industries (Baqaee and Fahri, 2020).

A prolonged economic downturn would eventually affect the balance sheet of financial market stakeholders. Thus, there is the need for an organized plan of action to close the public health issue and confront the emerging financial market and macroeconomic consequences. Recognizing the adverse socio-economic effects of the pandemic, the authorities have implemented policies to soften its impact. On its part, the Bangko Sentral ng Pilipinas (BSP) has immediately deployed measures to ease the macroeconomic fallout and to ensure that no disruptive imbalances emerge in the financial markets.

Objectives. This policy paper seeks to articulate the views of the BSP on its macroeconomic response to COVID-19 pandemic. It specifically highlights the policy inroads that have been collectively achieved and propounds on policy options in navigating the recession and in adapting to the new economy post COVID-19. As many of the temporary COVID-19 policy support measures will have to be withdrawn at some point in the future, the paper offers some perspectives on the principles governing the unwinding process.

Macroeconomic response framework. Analysts and health experts agree that, until an effective treatment becomes available or a vaccine for COVID-19 is developed, the threat of new wave of infections remains (Gopinath, 2020; Schwab and Vanham, 2020; OECD, 2020; Moore et al, 2020). In response to this, the Philippine government has a 4-pillar strategy against COVID-19 called the Philippine Program for Recovery with Equity and Solidarity (PH-PROGRESO) that

---

[1] This is a peer-reviewed BSP policy paper on COVID-19 macroeconomic policy response, prepared by the Center for Monetary and Financial Policy (CMFP) under the supervision of the Monetary and Economics Sector (MES) Deputy Governor Francisco G. Dakila and Monetary Policy Sub-Sector Assistant Governor Iluminada T. Sicat. The policy paper benefited from the contributions and comments of various BSP units such as the MES-MPSS Department of Economic Research (DER), Supervisory Policy Research Department - Financial Supervision Sector (SPRD-FSS), Office of Systemic Risk Management (OSRM), and Center for Learning and Inclusion Advocacy (CLIA). CMFP is thankful to MBM V. Bruce J. Tolentino and four anonymous reviewers for their helpful comments in improving the draft. The CMFP team consists of Eloisa T. Glindro, Hazel C. Parcon-Santos, Faith Christian Q. Cacnio, Marites B. Oliva, and Laura L. Ignacio.

requires Php 1.7 trillion-worth (9.1 percent of GDP) of fiscal, budgetary and monetary measures.[2] Moreover, the Inter-agency Task Force - Technical Working Group for Anticipatory and Forward Planning (IATF-TWG-AFP), led by the National Economic and Development Authority (NEDA), has adopted a phased approach to the government's pandemic policy interventions. The phased approach, which is evidence-based and data-driven, includes three phases, i.e., response (Phase 1), mitigation (Phase 2), and transition to new normal (Phase 3).[3]

Taking off from the government's 4-pillar strategy and the IATF-TWG-AFP COVID-19 framework, there are potentially 4 phases for the Philippines' macroeconomic policy response to COVID-19 pandemic.

Phase 1 primarily covers the declaration of state of public health emergency throughout the country, implementation of enhanced community quarantine, and adoption of massive health interventions to contain the spread of the disease. At the same time, economic measures have been applied to support the economy.

Phase 2 reflects the phase in which partial operations of some economic sectors are allowed with the observance of prescribed health standards. Community quarantine continues in high-risk areas. At this stage, expanded targeted testing is considered a prudent action to lessen the probability of 2nd or 3rd wave infections.[4] It is also key to determining the extent to which economic sectors can open and the degree to which society can go back to its previous activities. In Phase 2, fiscal and monetary stimulus packages as well as regulatory and operational forbearance measures are continuously being undertaken.

Phase 3 assumes the availability of an effective remedy to lessen incidence of COVID-19 infections and fatality rate. As such, all sectors in the economy can be allowed to fully operate. At this stage, growth-boosting programs and productivity-enhancing structural reforms must be undertaken to keep economic recovery on track. Fiscal and monetary stimulus measures may likewise still be needed to help sustain growth. Nonetheless, unwinding of some of the temporary measures takes place.

Finally, **Phase 4** reflects the stage where the economy is back to the pre-COVID-19 growth path. At this stage, more structural reforms to enhance economic resilience must be undertaken.

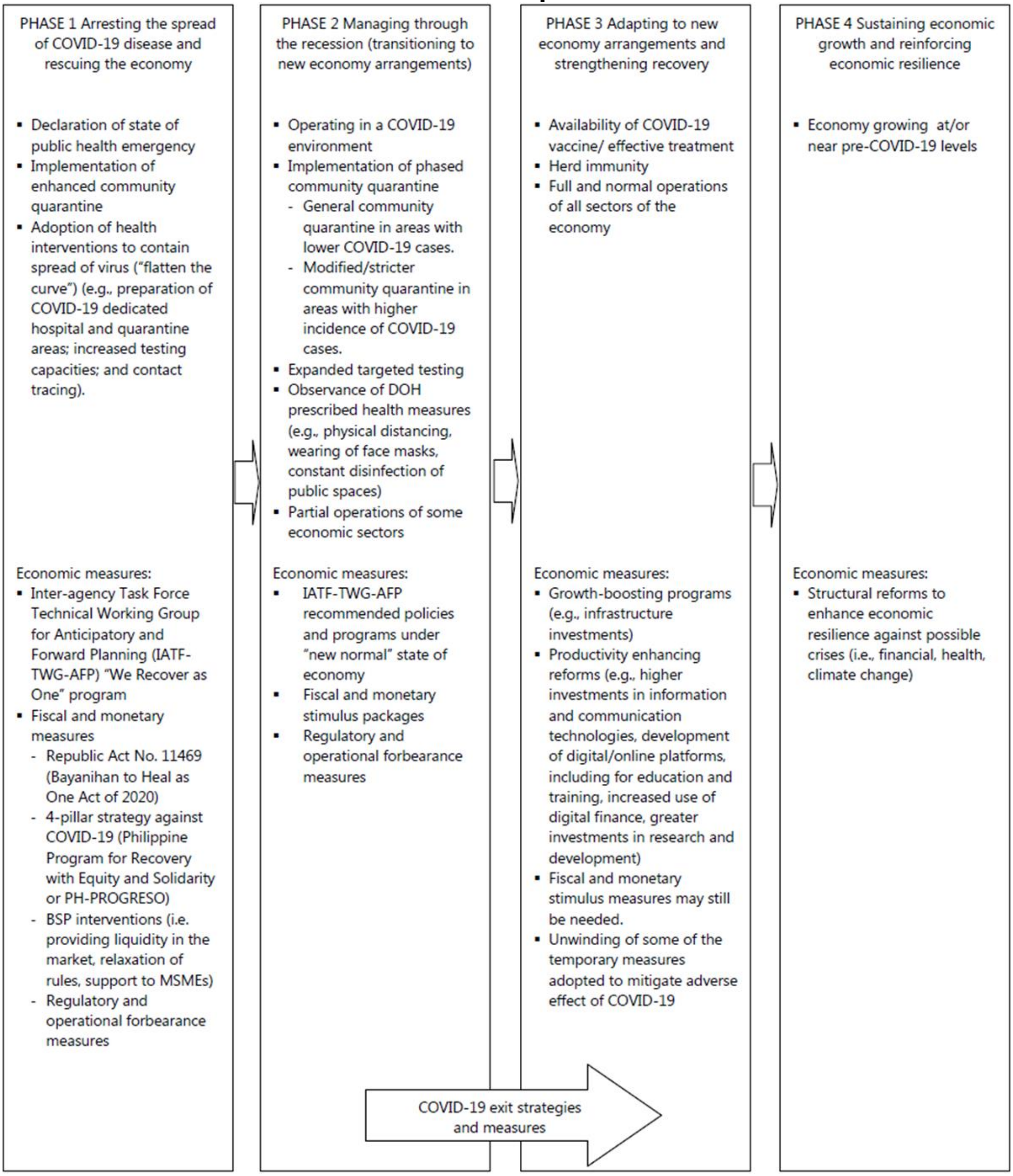
---

[2] The program includes: (a) emergency support for vulnerable groups (₱596 billion), (b) marshalling resources to fight COVID-19 such as health insurance coverage for all COVID-19 patients; special risk allowance, hazard pay, and personal protective equipment (PPE) for frontline health workers; increased testing capacity (₱ 58.6 billion); (c) fiscal and monetary actions to finance emergency initiatives and keep the economy afloat (₱ 1.1 trillion); and (d) an economic recovery plan to create jobs and sustain growth. The figures cited are as of 19 May 2020. (Department of Finance, 2020).

[3] In the 14 May 2020 *Sulong Pilipinas* online event, NEDA Secretary Karl Chua's presentation on PH-PROGRESO refers to the phases as emergency, recovery, and resiliency.

[4] The Department of Health (DOH) is targeting a capacity of 30,000 tests per day by the end of May. As of May 2, the country has been able to do up to 5,264 tests per day (DOH, 2020.)

The 4 Phases of Macroeconomic Response to COVID-19 Pandemic



Organization of the paper. This paper primarily discusses BSP's policy options under Phases 2 and 3. These correspond to the mitigation (Phase 2) and transition to new normal (Phase 3) of the IATF-TWG-AFP COVID-19 framework as well as Pillars 2 to 4 of PH-PROGRESO. The discussion is outlined as follows: Section II describes the initial measures at the onset of the enhanced community quarantine (Phase I). Section III identifies the expected conditions under a recession (Phase 2). Strategies and policies to deal with the expected conditions are recommended. Section IV identifies the policies that will have to be unwound as well as the parameters for unwinding the policy measures (Phase 3). Section V concludes.

2. Arresting liquidity run and rescuing the economy (Phase 1)

Slower economic growth. Quantitative estimates from various domestic and international organizations underscore the severity of the adverse impact of the COVID-19 pandemic on global, regional and country economic growths. Lockdowns or community quarantines have been implemented to arrest the spread of the coronavirus and to "flatten the curve."[5] However, quarantines and lockdowns have led to "economic freeze."

The Philippine economy has contracted by 0.2 percent in the first quarter of 2020, halting the 84 quarters of sustained positive economic growth. The country has dealt with unfavorable exogenous shocks in the first quarter – the Taal volcano eruption, US-China trade tensions, and African swine fever. But nothing comes close to the impact of COVID-19 pandemic and the subsequent implementation of enhanced community quarantine (ECQ) on 16 March 2020. On a positive note, there has been no strong evidence to-date of instability in the local financial market.

2.1 Fiscal policy support

The National Government (NG) has enacted measures/policies to moderate the adverse effects of the COVID-19 pandemic. Republic Act No. 11469 or the Bayanihan to Heal as One Act of 2020, signed on 24 March 2020, grants the President additional authority to combat the COVID-19 global pandemic. The act allows the President to reprogram, reallocate or realign the 2020 national budget in response to the pandemic. Based on the 9th Report to the Joint Congressional Oversight Committee, ₱351.5 billion has been allocated to fund COVID-19 efforts as of 25 May 2020. This is complemented by the Duterte Administration's 4-pillar socioeconomic strategy against COVID-19 worth ₱1.7 trillion as of 19 May 2020 (DOF, 2020).

2.2 Monetary policy support

The BSP has promptly implemented measures to ease liquidity constraints, restore business confidence, and sustain flow of credit even in crisis situation. From 4.0 percent at the beginning of the year, the BSP has successively reduced the policy rate to its current level of 2.75 percent. In April, the reserve requirement ratio (RRR) of universal and commercial banks has been reduced by 200 basis points from 14 percent to 12 percent. The BSP has temporarily suspended the term deposit facility auctions for certain tenors to ensure the availability of short-term peso liquidity in the financial system and to support funding to businesses and households during the community quarantine.

Considering the swiftness in which the pandemic has shut down economic activities, the NG through the Bureau of Treasury (BTr) and the BSP have undertaken a repurchase agreement worth of ₱300 billion (US$5.9 billion), with a term of three months and which can be extended by another three months, subject to Monetary Board approval. This is the first time since the

[5] Reducing the number of new cases to help prevent overwhelming the healthcare system. Retrieved from https://coronavirus.jhu.edu on 19 May 2020.

creation of the BSP in 1993 (RA 7653, as amended by RA 11211) that a provisional advance has been requested by the NG[6] and granted by the BSP.[7]

The BSP has also remitted dividends worth ₱20 billion to support the NG's programs during the period of community quarantine. This amount constitutes 87 percent of the estimated total dividends based on the BSP's unaudited financial statements for year 2020.

2.3 BSP's regulatory and operational relief measures

The BSP has also implemented a package of regulatory and operational relief measures to provide incentives to BSP-supervised financial institutions (BSFIs) to ensure continued access to credit and unhampered delivery of financial services, including extension of financial relief to their borrowers.

To ease possible liquidity constraints, the BSP has relaxed regulations on the (i) calculation of penalties on required reserves, (ii) single borrower limits, (iii) asset cover requirement for Expanded Foreign Currency Deposit Unit/Foreign Currency Deposit Unit (E/FCDU), and (iv) nonperforming loans. The implementation of revised capital framework for stand-alone thrift, rural and cooperative banks has been deferred by one year.[8] To reduce the impact of mark-to-market (MTM) losses on the financial condition, banks' debt securities lodged at fair value category have been allowed to be reclassified to amortized cost category.

To ensure access of retail clients to formal financing channels, the BSP has encouraged BSFIs to grant a temporary grace period for loan payments or to restructure the loan accounts of their borrowers. Fees and charges on online banking platforms, including Instapay and Pesonet, have been suspended. Application fees for authority to provide electronic payments and financial services as well as penalties for delay in the submission of regulatory reports have been waived. Moratorium on monthly payments (due to the BSP) has been imposed and the reportorial deadlines for regulatory requirements for banks have been relaxed. The measures are aimed at addressing banks' concerns over limited workforce and allowing them to devote more resources in servicing customers in need of liquidity.

The BSP has likewise devised ways to encourage banks to continue lending, especially to micro, small-and medium-enterprises (MSMEs). Banks have been allowed to include MSME loans as part of their compliance with the required reserve ratio. The credit risk weight of MSME loans that are current in status has been temporarily reduced while the assignment of zero-percent risk weight to MSME loans with government guarantee has been broadened.

[6] Sec 89. Provisional Advances to the National Government. The Bangko Sentral may make provisional advances with or without interest to the National Government to finance expenditures authorized in its annual appropriations. Provided that such advances shall be repaid before the end of three months, extendible by another three months as the Monetary Board may allow following the date the National Government received such provisional advances, and shall not, in aggregate, exceed 20% of the average annual income of the borrower for the last three preceding fiscal years.

[7] There is scope to raise the provisional advance to approximately ₱500 billion. This is based on the stipulated limit of 20% of the average annual income of NG for the period 2017 – 2019 (Sec. 89 of RA 11211).

[8] The implementation of the revised capital framework for stand-alone thrift, rural and cooperative banks has been deferred from January 2022 to January 2023. The observation period for them to meet new minimum capital requirement has been extended to December 2020 (BSP, 2020).

Please refer to Annex 2 for the list of regulatory relief measures.

3. Managing through the recession (Phase 2)

As the country enters into the general quarantine phase (GCQ), a wider range of economic activities are allowed to operate to practicable extent. Since operational capacity remains constrained, the liquidity support and regulatory relief measures remain. However, these will be subject to regular review of the general conditions of the economy and the financial sector. The withdrawal of measures to ease financing constraints would be contingent on the ability of the financial institutions to sufficiently supply credit to creditworthy corporate sector.

3.1 Macroeconomic environment

The Philippines is in stronger macroeconomic position compared with the regional peers at the onset of the pandemic. The robust growth, good fiscal performance and strong external and financial sector positions explain the relative stability of the economy amid the COVID-19 pandemic (See Annex 1). Moreover, there has been ample monetary and fiscal space, which has afforded the government to implement necessary policy measures to calm down the market and restore confidence in the financial system, minimizing instabilities in the exchange rate and the balance of payments.

With the disruption in economic production and diminished private sector demand, the Development Budget Coordination Committee (DBCC) sees gross domestic product (GDP) growth to range between –3.4 percent to –2.0 percent in 2020.[9, 10] The considerable rise in unemployment as well as possible delays in government's infrastructure spending could have an adverse impact on the economy's productive capacity. At the same time, firms are likely to put investment and expansion plans on hold so long as business sentiment remains unfavorable. The tepid external environment could also result in lower production in industries that are export-dependent, along with lower remittances and reduced tourist arrivals.

Meanwhile, government agencies have identified a set of recommended policies and programs for implementation in 2020 until 2021 (IATF-TWG-AFP, 2020). Among the programs and policies identified for the macroeconomy include:

a. Supplementary budget for 2020 to fund crucial projects outside the Bayanihan to Heal as One Act.

b. Sustained push for infrastructure investment under the Build, Build, Build program.

[9] The outlook takes into account, among others, the contraction in tourist receipts and airline revenues; the decline in Philippine exports to China, one of the country's biggest export markets; a reduction in remittances from overseas Filipinos (OFs); and slower household consumption of non-essential goods owing to the enhanced community quarantine (ECQ) implemented across Luzon.

[10] Since the ECQ has been in effect for most of Q2, a larger rate of GDP contraction can be expected for the second quarter of 2020. Even as Luzon prepares to reboot in June, adverse spillovers could last until the third quarter.

c. Budget priority on health sector and disaster risks resiliency/preparedness.

d. Information and Communications Technology (ICT) infrastructure to equip collecting agencies (i.e., Bureau of Internal Revenue (BIR) and S (BOC)) for digital taxation.

Policy space remains sufficient. While both monetary and fiscal measures have been undertaken to stave off a steep economic contraction, there is room for additional monetary and fiscal support, should circumstances warrant.

- **Monetary policy.** Benign inflation outlook over the policy horizon provides scope for policy rate adjustment.[11] At the current rate of 2.75 percent, the overnight reverse repurchase (RRP) rate is far from the zero bound for the policy rate.[12] The recent monetary easing measures are also expected to push interest rates down, thus, lowering borrowing costs for the government as well as for businesses and households.

  Moreover, the 200-bp reduction in the reserve requirement ratio (RRR) for universal and commercial banks as well as for quasi-banks is estimated to release about ₱200 billion into the financial system. The RRR can be further reduced if warranted.

  The BSP has yet to fully utilize conventional monetary instruments in its toolkit to support the liquidity requirements of the economy, thus, reducing the need for unconventional lending. In adjusting its monetary policy settings, the BSP will continue to be guided by evolving data that underpin its inflation outlook over the policy horizon as well as the risks surrounding such outlook.

- **Fiscal space.** The projected decline in government revenues (due to muted economic activities) and increased government spending to support COVID-19 response and mitigating measures may put pressure on the country's fiscal position. The NG budget deficit is seen to reach 8.1 percent in 2020 (NEDA, 2020).

  Notwithstanding expectation of larger fiscal deficit, there is fiscal space to spend more and resume the infrastructure initiatives (i.e. Build Build Build program) that will bring about multiplier effects on the economy. Through prudent debt management program, the government can still expand its borrowings without sacrificing fiscal sustainability. In terms of debt capacity, the country's debt-to-GDP ratio is projected to rise to 50.0 percent of GDP in 2020, which is still relatively low and manageable compared to 71.6 percent in 2004.[13] The NG's borrowing

[11] Based on 13 May 2020 DBCC macroeconomic assumptions, inflation forecast for 2020 is 1.75 to 3.75 percent, reflecting the subdued demand and weak domestic economic activity caused by the pandemic. This also considered the latest upward adjustment in global crude oil prices. This is projected to return to the inflation target range of 2 to 4 percent in 2021.

[12] The BSP assesses that for every 25-basis-point reduction in the policy rate, domestic liquidity could increase by about ₱6.6 billion in the next 12 months, all else held constant (BSP-DER, 2020).

[13] DOF (2020b).

activities are supported by the country's improved sovereign credit rating that translates into relatively lower borrowing costs. As fiscal actions are quick, the potential for a fast recovery can also be achieved.

3.2 External sector

The ongoing concern on the potential global economic impact of COVID-19 outbreak has had significant effects on financial markets worldwide. The Institute of International Finance (IIF, 2020a) estimated that emerging market economies (EMEs) suffered record-breaking capital outflows, particularly, portfolio debt and equity investments, of about US$83.3 billion in March, significantly larger than the one seen during the global financial crisis in 2008, the taper tantrum episode in 2014 and the renminbi devaluation in 2015. Nonetheless, in April, capital flows reversed as EMEs attracted inflows of US$17.1 billion (IIF, 2020b). The easing in the US Fed's policy rates, which initially lifted US stocks and credit markets, is now making its way to EMEs. Moreover, EMEs issued more offshore bonds to take advantage of the increasing liquidity (IIF, 2020c). Despite this positive turnaround, potential COVID-19 related shocks could prompt another second wave of outflows from EMEs.

Meanwhile, foreign direct investments (FDI) are also projected to decline due to COVID-19. The United Nations Conference for Trade and Development (UNCTAD) estimates show earnings revisions of the largest multinational enterprises (MNEs) that could put downward pressure in FDI in the range of –30 percent to –40 percent for 2020 and 2021. New investments and expansions as well as cross-border mergers and acquisitions are either being delayed or cancelled. The crisis may also have lasting effects as some MNEs are considering reshoring to make their supply chains more resilient (UNCTAD, 2020).

Slower growth in capital inflows. In the Philippines, data on BSP-registered portfolio investments showed net outflows of US$1.4 billion for January-March 2020, which is a reversal of the US$363 million net inflows registered for the same period in 2019.[14] Meanwhile, FDI for full year 2019 recorded a 23.1 percent decline from US$9.9 billion net inflows in 2018 to US$7.6 billion in 2019. Global uncertainties dampened investor sentiment during the year. The country's top investors came from Singapore, Japan, and the United States, which are all adversely affected by COVID-19.

Even as spot trading volumes declined, domestic currency has remained relatively stable amid COVID-19 fears, depreciating marginally to as much as ₱51.50 on 16 March, the start of the community lockdown.[15] The markets have also slightly recovered by the end of March, following the various policy responses of fiscal authorities and the BSP's monetary and regulatory measures.

[14] This includes inward foreign investments in Philippine Stock Exchange (PSE)-listed securities; Peso-denominated government securities (GS); Peso time deposits with banks with minimum tenor of 90 days; other Peso debt instruments; unit investment trust funds; and other portfolio investments such as Exchange Traded Funds and Philippine Depositary Receipts.

[15] 21 Jan 2020 marks the first time domestic markets reported COVID-19 as a market moving development. It closed firmer at ₱50.514 on 8 May 2020 from ₱50.975 on 20 January.

Nonetheless, foreign investors continue to recognize the country's strong economic fundamentals as evidenced by the success of the recent US bond flotation of the government which attracted a lot of interest. Moreover, the economy's robust position is attested by the stable credit outlook for the Philippines.[16] Likewise, in a recent survey released on May 2 by *The Economist* covering 66 emerging economies, the Philippines is ranked the 6th most robust on the basis of four measures of financial strength, namely, public debt, foreign debt, cost of borrowing, and reserve cover.[17] All these bode well for the recovery of capital flows in the Philippines.

The BSP should continue efforts to deepen capital markets, maintain a market-determined exchange rate and proactive macroprudential framework, and ensure adequate foreign exchange reserves to reduce vulnerabilities associated with abrupt reversal or sudden stops in capital flows. Investment Promotion Agencies (IPA) should find ways to reduce production costs for foreign firms by promoting backward linkages to local markets. Moreover, as suggested by UNCTAD (2020), IPAs should look into promoting new niche sectors for foreign investment such as digital technology and healthcare.

The legislative body, meanwhile, must provide additional measures to reduce the costs of doing business in the Philippines; ease restrictions on foreign investment; streamline the investment process; and increase business confidence by improving the business climate, fostering competition, and boosting productivity growth via the Corporate Income Tax and Incentives Rationalization Act (CITIRA)[18] and amendments to the Public Service Act.[19]

3.3 Financial sector

The Philippine banking system is in a generally strong position going into the COVID-19 pandemic. Banks are well-capitalized, liquidity positions are strong, and nonperforming loans (NPLs) are low. However, the COVID-19 pandemic has affected various industry sectors where banks have substantial exposures. The pandemic has also resulted in adverse movements in financial markets worldwide, which could affect the market value of securities holdings of BSFIs.

---

[16] On 7 May 2020, Fitch has affirmed the country's sovereign credit rating of "*BBB*" but revised the outlook from *"positive"* to *"stable,"* noting the country's strong medium growth prospects, favorable fiscal and external buffers, including the Philippines' low debt-to-GDP ratio (when compared to its peers). Fitch has just upgraded the country's sovereign credit rating to "BBB" in February 2020, following Japan-based Rating and Investments Information Inc. (R&I) upgrade from "BBB" to "BBB+". Standard & Poor's (S&P) Global and Japan Credit Rating Agency have also previously assigned a "BBB+" rating for the Philippines, a notch below the "A" scale.

[17] "Which emerging markets are in most financial peril?" *The Economist*, 2 May 2020.

[18] On 22 May 2020, CITIRA has been repackaged as Corporate Recovery and Tax Incentives for Enterprises Act (CREATE). Proposed revisions include an immediate across-the-board cut of the corporate income tax rate for all firms from 30% to 25% starting in July 2020 followed by a 1 percentage point reduction yearly from 2023-2027, bring down the corporate income tax to 20% by 2027 onwards (DOF, 2020c).

[19] Both Senate Bill 13 (introduced by Senator Franklin Drilon) and House Bill 78 (filed by Representative Joey Salceda) seek to amend the Public Services Act. The proposals introduce a definition of public utility to refer to a person or entity which "operates, manages and controls for public use any of the following: distribution of electricity, transmission of electricity and water pipeline distribution system or sewerage pipeline system." This definition distinguishes public utilities from public service. This intends to lift the foreign equity restrictions (60-40) imposed by the Philippine Constitution on other services, particularly those engaged in telecommunication, internet and transportation services (Guiang, 2019).

Amplification of financial system strains. As economic activities gradually resume, heightened strains in the whole financial system may be revealed. Postponement or cancellation of investment and expansion decisions, reduction in workforce and work hours, and changes in the capacity to pay off creditors may have adverse balance sheet and employment effects. Given interlinkages across sectors, these may have significant financial stability implications.

BSP simulations (BSP-FSS, 2020) show that under an extreme scenario of a 10 percent increase in loan loss provision (LLP) on total loans and a simultaneous write-off of interest income on total loans and non-interest income from fees and commission over a four-month period, only rural and cooperative banks would hurdle a post-shock CAR of above the regulatory minimum. A further increase in the assumed LLP on total loans to 20 percent would be destabilizing to the Philippine Banking System (PBS) and banking groups. Since total loans of the PBS account for 59.7 percent of its total resources as of end-December 2019, additional LLP on total loans would significantly pull post-shock CARs to below the minimum requirement.

While there is no current direct evidence of financial instability, BSP actions have been aimed at preventing spillover of real economy shocks into financial markets as this could lead to another round of macroeconomic vulnerabilities (i.e., financial accelerator). Financial market firewalls may be considered as prudent macroprudential policy. Pressures on corporate debt servicing capability and cash flow would rise following the temporary suspension of business activities. Thus, efforts are geared towards putting in place pre-emptive strategies to relieve debt servicing burden and minimize default incidents. Stronger inter-agency collaboration is crucial since the Philippine financial system is largely dominated by conglomerates. The adoption of the Financial Crisis Management and Recovery Framework of the Financial Stability Coordination Council (FSCC) must be expedited (OSRM, 2020).

While the banking industry continues to play a key role, a well-functioning capital market is equally important in risk mitigation, given the symbiotic relationship between the capital market and the banking industry. It would do well for the BSP to accelerate its initiatives in deepening capital market reforms, which are being pursued in collaboration with other financial regulators such as the Securities and Exchange Commission (SEC), the Bureau of the Treasury (BTR), and the Department of Finance (DOF) under the Philippine Capital Market Development Roadmap.

Necessity for continuous risk assessment. There is a need to conduct continuous assessment of risks faced by banks and implement appropriate measures to alleviate any banking stress.

Maintaining liquidity in crisis is primordial as banks may be reluctant to take on further credit risks that could deteriorate into an equity risk. In view of the significant policy support extended by the BSP, banks need to ensure access to retail cash and funding. A standard on the minimum "up times" of ATMs will have to be clearly communicated.

Given the possibility of higher defaults and NPLs, the BSP supports the Financial Institutions Strategic Transfer (FIST) bill that creates a special purpose vehicle and reinstates time-bound fiscal incentives for relieving the balance sheets of banking institutions of soured loans that may impair lending to the productive sectors of the economy.[20] As in any measure providing support, prudence has to be observed to rein in excessive moral hazard[21] that may arise.

To alleviate the plight of affected workers, families and businesses as well as to preserve the country's economic growth, the BSP supports the principles behind the proposed Philippine Economic Stimulus Act (PESA) of 2020.[22] Moreover, continuous conduct of macro stress tests among nonfinancial corporates and banks is essential. The Philippine Deposit Insurance Corporation (PDIC) can use the results of these tests to assess the adequacy of its Deposit Insurance Fund.

Increased preference for online financial services.[23] Given continuous implementation of social distancing and concern for safety, people are expected to have greater preference for electronic payment and financial services.

While there has been significant increase in the volume of digital transactions made by individuals, merchant penetration remains low with only 12 percent of all merchants accepting payments digitally. In terms of volume, growth in digital payments by businesses has been sluggish. Businesses continue to prefer checks due to lack of awareness and ambiguity in the recognition of electronic Official Receipts (eOR). Moreover, overall acceptance and penetration of digital payment instruments remain low. Only 35 percent of the adult population owns a bank account (about 24 million people), of which only 4 percent use their accounts to make a payment using debit, prepaid, or credit cards, or mobile money wallets, or internet banking apps.[24]

In light of the pandemic experience, the following measures may be considered to expand the reach of digital transactions:

- Extension of the waiver on the fees charged on the use of InstaPay and Pesonet to further influence consumer behavior.
- Encouraging banks to waive electronic fund transfer fees for micropayment transactions, which banks can, in fact, offer as a competitive edge.
- Increasing the InstaPay transaction limit from ₱ 50,000 to ₱ 100,000 to meet the needs of InstaPay users, which include the MSMEs.

---

[20] The House of Representatives' Committee on Banks and Financial Intermediaries approved HB 6622, or the FIST Act, authored by committee chair Representative Junie Cua.

[21] The enactment of the FIST bill of 2020 would help address most moral hazard concerns on the part of the borrowers. Similar to the SPV Act of 2002, the proposed law encourages financial institutions to sell NPAs to asset management companies. It encourages the private sector, government financial institutions, and government-owned-or-controlled-corporations to incorporate and invest in SPVs and help in the rehabilitation of distressed businesses with the end view of contributing to economic growth.

[22] The PESA bill has been approved at the Economic Stimulus Sub-Committee and pending for second reading at the Defeat COVID-19 Committee (Espedido, 2020).

[23] The BSP has a Digital Payments Transformation Roadmap that provides guidance on this subject.

[24] The Better than Cash Alliance study released in December 2019.

- Expanding the use of contactless payment facilities, such as PayMaya and GCash, to wet markets, retail stores, and public utility vehicles (jeepneys, taxis, tricycles, buses) to limit handling of physical cash.

- Adoption of the National QR code standard ("QR Ph") to permit interoperable payments for person-to-person (P2P) and person-to-merchant (P2M) transactions.

- Expanding the scope of the recently launched EGov Pay Facility to allow ordinary citizens to digitally pay government taxes, fees, and charges.

- Fast tracking the implementation of the Philippine Identification System (PhilSys) as an enabler for inclusive and innovative digital finance.

- Continuous monitoring of banks' business continuity and cybersecurity plans to ensure that online financial services are not only accessible to the public but are provided securely. This would require banks to educate their clients on how to use financial institution's electronic payment and financial services (EPFS) safely. Likewise, the BSP needs to ensure that all consumer complaints are promptly addressed and closed.

- Continuing engagement with stakeholders (such as the BSFIs, law enforcement agencies, service providers, the banking public, and other relevant parties) for collaboration and information sharing for boosting the resilience of the financial system against cyber security threats.

- The following legislative measures could further promote the use of electronic financial services:

    a. Institutionalization of national interoperable bills payment service characterized by a pricing structure that encourages merchants to accept e-payments from the public.

    b. Mandating the adoption of e-invoicing system by corporations and big businesses.

    c. Mandating the issuance of electronic official receipts (eOR) for electronic payment and financial transactions, as well as the recognition of the eOR for all legal purposes such as audits by the BIR and Commission on Audit (COA).

    d. Creation of an interagency committee to be headed by BSP and Department of Finance (DOF) to establish incentive program to accelerate the adoption of EPFS by the public and businesses.

    e. Mandating the relevant government institutions to bolster the country's telecommunications infrastructure, which is critical in the delivery and use of EPFS. The enhanced infrastructure should be robust and resilient to accommodate the significant increase in internet traffic and potential security threats such as cyber-attacks.

f. Mandating all government financial aids/subsidies to be digitally transferred to the beneficiaries through their formal accounts, thereby allowing said beneficiaries to transact and pay digitally.

g. Passage of the E-Government Act.

h. Amendment of the Consumer Act or enact a law to govern e-commerce.

Increased usage of non-bank channels to send/receive money. Remittance service providers (RSPs) deliver essential financial services to Filipinos. On a cross-border basis, remittances sent by Overseas Filipino Workers (OFWs) account for about 10 percent of Philippine GDP. Domestically, workers in urban areas often send money to their families in rural areas through RSPs. Thus, even with the implementation of community quarantine, RSPs have been allowed to operate with shortened operating hours. This, however, has resulted in long client queues, which must be addressed given the continuous implementation of social distancing and concern for safety.

The BSP has been improving channels of remittances with the approval of new technologies in remittance transfers (mobile phones, internet, cash cards). However, the provision of financial digital services is hampered by insufficient IT infrastructure that leads to slow internet connection, additional costs (e.g., online service fees), data privacy and cybersecurity risks, and inadequate knowledge on new technologies. Promoting financial literacy and ensuring good market conduct are important to deepen the public's trust in digital financial services.[25]

The following policies and strategies recommended by Mora and Rutkowski (2020) of the World Bank are worth considering:

- Expansion of the traditional remittance channels through banking institutions by promoting the use of digital means to send/receive money into formal accounts maintained in either a bank or non-bank financial institution such as non-bank electronic money issuers (NB EMIs).

- Assessment of the applicability of new emerging remittance models that enable originating and disbursing remittances through digital means.

- Support for universal financial access in receiving countries and among migrant workers in sending countries.

- Enhancement of the interoperability and efficiency of the domestic retail payment systems so that these digital payment rails may be leveraged for remittances.

[25] Based on the BSP's 2017 Financial Inclusion Survey, lack of awareness and concerns on cybersecurity are the key issues identified.

- Revisiting the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) policies and regulations to allow the growth and development of fast payment services utilizing the existing digital rails of PESONet and InstaPay and support the development of Digital ID solutions (and implementation of PhilSys-enabled KYC).

- Encouraging BSFIs to strengthen their existing regulatory compliance capacity to enable the BSFIs to comply with AML/CFT regulations alongside the BSFIs' promotion of greater adoption of EPFS by clients.

- Periodical publication on the government's website/s the remittance transfer fees of all financial institutions engaged in remittance services in the country.

- Support for the development of comprehensive, integrated cross-border payment solutions for MSME trade flows, e-commerce, and remittances.

- Legislative support in terms of mandating financial institutions to: (a) make remittance available in their electronic delivery channels; (b) use interoperable digital rails in offering electronic remittance services to promote efficiency and offer convenience to their clients; and (c) enhance their capacity to comply with AML/CFT laws and regulations, taking into consideration the increased utilization of fast payment services (such as InstaPay) for remittance services.

Intensified need to sanitize and quarantine bank notes. Given the health risk posed by using banknotes, the BSP has required banks to sanitize banknotes before these are deposited to the BSP.[26] The BSP Cash Operations should encourage banks to estimate the demand for and identify storage facilities for quarantined banknotes. The BSP should also require banks to provide appropriate personal protective equipment to their cash management personnel.

Unimpaired provision of credit to the real economy and sustained resilience of the financial system. Should large corporates take massive financial hit such as those in the aviation industry, the provision of government guarantee will incentivize BSFIs to lend to them since the risk is shared between the BSFI and the NG. Other risk-sharing policy options that may be considered include:

- Establishing an economic rescue fund to be made available to severely affected borrowers and industries. The fund will run for a limited period and may be lent through the Development Bank of the Philippines (DBP) and Land Bank of the Philippines (LBP).

- Allowing loans extended by banks to affected industries or borrowers to qualify as alternative compliance with all mandated credit requirements.

- Provision of tax and other incentives to "recovery loans" granted by BSFIs to industries/businesses that have been significantly affected;

[26] Banknotes for deposit must be sanitized using shrink-wrapping machines with heat levels set to the highest degree Celsius temperature (e.g., 100 to 150 degrees Celsius) for at least 40 seconds (20 seconds each part).

- Moratorium on foreclosure of properties arising from default of borrowers affected by the crisis, or restructure loans to extend the term or reduce payment amortizations.

- Relaxation of some merger, consolidation, and acquisition (MCA) requirements, with due consideration that the strength and integrity of the merged institution is not compromised.

- Amendment of R.A. No. 8791 (The General Banking Law or GBL). The GBL was enacted in 2000 primarily in response to the Asian Financial Crisis. It may be an opportune time to amend the same to strengthen further the supervisory powers of the BSP and enhance the governance and risk management standards of banks. Possible amendments include:

    a. Recovery and resolution planning, aligned with the Financial Stability Board's (FSB) Key Attributes for Effective Resolution Regime (FSB, 2014).

    b. Inclusion of digital banks as a new bank classification to recognize the emergence of digital banking and the need for appropriate regulatory parameter.

    c. Allowing BSP to look into the parent company of banking groups to enable it to assess the risks posed by the conglomerate to the bank and the banking system.

    d. Amending other pertinent provisions on ratios, ceilings and limits to reflect the new international standards and new domestic landscape.[27]

    e. Enhancing the fit and proper rules to cover stockholders and employees of banks.

[27]Accordingly, the Single Borrower's Limit under Republic Act No. 8367 (Revised Non-Stock Savings and Loan Association (NSSLA) Act of 1997) should also be amended.

4. Preparing for new economy arrangements towards recovery (Phase 3)

A number of policy measures that have been implemented in response to COVID-19 pandemic will have to be eventually undone sometime in the future. Exit strategy essentially entails reversion to policies that are consistent with long-run economic growth path. However, the uncertainty surrounding the resolution of the pandemic remains high.

The timing of the exit is pivotal because conditions and incentives change. Even the long-term growth path may also change in the post-pandemic world. Thus, the process should neither cause premature withdrawal of support nor give rise to delays in necessary restructuring. Economic life support should not be provided far longer than what is optimal for the economy and BSP's independence. Otherwise, it would just worsen imbalances and distortions in the long run.

In fostering a smooth exit process, the BSP works under the principle of policy coordination and not policy dependency. The disciplined approach to macroeconomic policy coordination has kept the country in good stead. The risk of mandate creep has been allayed by the convergence of: (i) regulatory and prudential strength; (ii) robust growth; (iii) benign inflation; and (iv) sustainable debt dynamics.

4.1 Parameters for unwinding of BSP's COVID-19 policy support measures

The decision to unwind the temporary policy responses to COVID-19 must be done gradually, prudently and in an informed way. A well thought out exit strategy is necessary.

Price stability. Inflation is a key macroeconomic indicator to watch as price instability would have far-reaching consequences on the functioning of the real and financial sectors. The country cannot afford a depression that induces deflationary spiral nor a debt crisis that engenders unsustainable inflationary pressures in the future. The decision to adjust the policy rate or interest corridor settings must continue to be data-driven, guided by the BSP's inflation outlook over the policy horizon and the risks surrounding such outlook.

Financial system stability. As system-wide risks have already materialized, there could be further pressure points before the market fully stabilizes. The significance of macroprudential policies in addressing dislocations arising from connectedness within the market network cannot be overemphasized. A clear communication on the systemic implications of the crisis and on the BSP's plan of action is necessary.

Capital and liquidity strength of financial institutions amidst expected increase in risk weighted assets would determine capacity for credit intermediation. Growth of credit to the private sector, pace of acceleration of NPLs, corporate credit downgrades, extent of loan restructuring, profitability and liquidity conditions, and financial market volatility are some of the barometers to watch out for. An assessment of these factors would help establish the timing of the unwinding of regulatory relief measures provided to banks, taking into account not only the financial viability of BSFIs but also system-wide stability.

Effective Communication. The BSP has always put a premium on clear and timely communication. It recognizes that clear communication of policy goals and strategies is crucial in anchoring market expectations, particularly during times of heightened volatility and uncertainties. Thus, communication and forward guidance will be integral parts of the BSP's COVID-19 exit strategy.[28]

According to Blinder et al. (2013), it is essential to communicate to the public well in advance on what the central bank thinks and its plans on when to exit. This will affect expectations, which are a key element in determining the effectiveness of monetary policy and for controlling inflation expectations in the long run, as well as movements and volatility in financial markets. Also, the greater information could allow the central bank to influence more the actions of financial market participants and other economic agents towards the achievement of central banks' objectives. Due to the extraordinary nature of COVID-19 crisis, the public can only form reasonable expectations based on what the central bank communicates.

Following the recommendations of Blinder et al. (2013), in communicating, the BSP should continue making the people understand the importance of forecasts in the policy process and the horizon of the forecasts. Providing guidance is a mixture of forecast and commitment. Commitments depend on how economic activity and inflation are evolving according to expectations. It is important that the public understands the outcomes that may cause the BSP to deviate from the guidance it has given. It is also useful to spell out the principal strategy of the decision to exit, such as if the BSP considers output and financial stability, aside from inflation.

4.2 Policy measures for unwinding

a. ***Repurchase agreement with the NG***. This is an emergency support to bankroll the pandemic-fighting measures of the NG as business activities and government revenue stream have been severely affected. This is expected to be repaid in six months. RA 11211 is clear on the exit provisions. As such, the six-month repayment period must be enforced to ensure orderly approach to BSP's extension of provisional advances to NG during crisis episodes. Since the current economic and financial slowdown was pandemic-induced and not triggered by imprudent and unsustainable fiscal policies, repayment would send a strong signal on responsible fiscal support that does not undermine central bank independence.

b. ***Cumulative cut in policy rate by 125 basis points (bps) since February 2020.***[29] This will be dependent on the inflation outlook and demand conditions.

[28] Communicating forward guidance is difficult and should be used only when absolutely necessary. Once the economy returns to a more normal situation, this monetary approach should be put back into the central bank's toolkit, only to be pulled out again if needed (Blinder, et al., 2013).

[29] The interest rate on the BSP's overnight reverse repurchase (RRP) facility is at 2.75 percent, effective 17 April 2020.

c. ***Daily one-hour window for purchase of GS in the secondary market and suspension of the term deposit facility auctions (TDF) for certain tenors.*** These measures were intended to reassure market participants of the demand for GS should they need to liquidate their holdings and thus, encourage participation in the GS auctions. The overall liquidity condition and appetite for GS during the transition phase would determine the timing of the closure of the window for purchasing of GS in the secondary market and the lifting of suspension in TDF auctions.

d. ***Reduction in RRR of universal and commercial banks as well as non-bank financial institutions with quasi-banking functions by 200 bps.*** Scaling back the alternative compliance to reserve requirement to pre-COVID-19 level would depend on the strength of the demand for loans as well as the scale of loan restructuring by non-financial corporates, particularly the MSMEs.

e. ***Temporary reduction in the term spread on the peso rediscounting loans relative to the overnight lending rate to zero.*** The number of banks availing of their rediscounting lines with the BSP will provide a gauge on funding pressures.

f. ***Range of regulatory relief measures[30] on the treatment and management of affected loans.*** The withdrawal of regulatory relief measures would depend on the strength of the balance sheets of BSFIs and system-wide stability. Other quantitative and qualitative assessment metrics include the magnitude of operational adjustments undertaken by banks; credit uptake of non-financial corporates; the degree of debt restructuring that will be undertaken by banks and their clients; and availment of guarantee programs for loans extended to high risk borrowers such as the MSMEs.

Early warning indicators on liquidity and credit risks are useful in appraising the timing of the withdrawal (Wood, 2020). Some of the indicators that may be looked into are as follows:

- **Liquidity risk:** heavy cross border borrowing; heavy reliance on short-term interbank borrowing; constraints in FX swap funding; and excessive deposit pricing.[31]

- **Credit risk:** cancelled transaction lines; suspended payment services; increased collateral request; delayed settlements of payment before delivery (PBD) request; exposure to high risk sectors; credit downgrade.

[30] Pursuant to BSP Memorandum No. M-2020-008, dated 14 March 2020.

[31] These are examples of non-core funding. These alternative sources of funding are more expensive and more volatile than insured deposits, which can create liquidity stress, particularly if a bank has credit quality issues or deteriorating capital levels (Clair et al., 2017; Hahm et al., 2012).

5. Conclusion

The COVID-19 pandemic has reinforced long-standing principles, revealed countries' weaknesses, and exposed the need to be more prepared for future crisis, whether they be health or economic in nature.

First, the COVID-19 pandemic, though a health crisis, has highlighted the importance of sound macroeconomic and financial policies. The Philippine economy entered the COVID-19 pandemic in a position of strength, brought about by years of structural reforms and prudent macroeconomic management. Similarly, the banking sector is stable and robust. Banks are well-capitalized and appropriate regulations are in place. The authorities still have sufficient policy space to decisively respond to the economic and financial effects of the crisis.

Second, the COVID-19 pandemic has strengthened the need to accelerate digital transformation. For the BSP, it must continuously monitor banks' business continuity and cybersecurity plans to ensure that online financial services are not only accessible to the public but are provided securely. For the NG, it should prioritize investment in digital capacity and bandwidth to ensure greater and more equitable access for all.

Third, the decision to unwind COVID-19 policy responses must be done in a gradual, prudent and informed manner. A well-thought out exit strategy is necessary to ensure that policy objectives are achieved and maintained. Complete risk assessment based on all available data must support the decision and timing of unwinding. Likewise, appropriate communication must accompany the decision to unwind.

Finally, the timing or sequencing of unwinding measures should also consider the possibility that conditions do not develop according to expectations. As such, the BSP must be flexible to act on such instances.

Moving forward on the road to recovery. The COVID-19 pandemic is unparalleled in scale, wiping out any prospects of growth for 2020 (Metrick, 2020). The COVID-19 crisis has exposed vulnerabilities and gaps in existing processes and systems that need to be swiftly dealt with in order to regain momentum. It also offers rich lessons on crisis preparedness and adaptability towards a more sustainable and equitable growth path.

The duration between Phases 2 and 3 is highly uncertain and may be a protracted one. Notwithstanding the lifting of some restrictions, the Government may have to continue supporting the economy in the face of demand and supply constraints. Monetary and financial authorities should be mindful of the delicate balance between encouraging the banking sector to provide the required assistance to the economy and maintaining the health of the banking sector so that it would be able to support the economy in the recovery phase.

References

Baqaee, D. and Fahri, E. (2020). Supply and Demand in Disaggregated Keynesian Economies with an Application to the Covid-19 Crisis. Retrieved from https://scholar.harvard.edu/farhi/publications in May 2020.

Bangko Sentral ng Pilipinas (BSP, 2017). Financial Inclusion Survey: Moving Towards Digital Financial Inclusion.

Better than Cash Alliance (2019). The State of Digital Payments in the Philippines, December.

Blinder, A., T. Jordan, D. Kohn, and F. Mishkin (2013). "Exit Strategy," Geneva Reports on the World Economy, International Center for Monetary and Banking Studies, September.

Bangko Sentral ng Pilipinas (2020). "BSP Adopts Relief Measures in Support of MSME Sector," Media Release, 5 May 2020.

BSP-Center for Monetary and Financial Policy (2020). Discussion Notes for the Global Economy Meeting of the Bank for International Settlements, 24 April 2020. Unpublished internal document.

BSP-Department of Economic Research (2020). Briefing Notes for the Makati Business Club COVID-19 Knowledge Series on Recovery and Resilience: Rethinking Growth Post COVID-19, 18 May 2020. Unpublished internal document.

BSP-Financial Supervision Sector (2020). A Modified "Freeze the Financial Calendar" Proposal: A Concept Note. Unpublished internal document.

BSP-Financial Supervision Sector (2020). Notes for the BSP Task Force on Post-COVID-19. Unpublished internal document.

BSP-Office of Systemic Risk Management (2020). Notes for the BSP Task Force on Post-COVID-19. Unpublished internal document.

Clair, S. L., W. R. Baxter, B. J. Cox, and A. Minor (2017). "Community Bank Liquidity Risk: Trends and Observations from Recent Examinations," Supervisory Insights, Federal Deposit Insurance Corporation, Summer 2017.

Espedido, G. (2020). House Committee Approved P568-billion PESA Bill. Businessworld, 18 May 2020. Retrieved from https://bworldonline.com on 25 May 2020.

Cruz, M. (2020). House Panel Oks COVID Banking Resiliency Bill. Manila Standard Online Edition, 12 May 2020. Retrieved from https://manilastandard.net on 25 May 2020.

Department of Finance (2020a). The Duterte Administration's Philippine Program for Recovery with Equity and Solidarity (PH-PROGRESO), 19 May 2020.

Department of Finance (2020b). "PHL 'financially able' to meet COVID challenges – Dominguez," Press Release, 12 April 2020.

Department of Finance (2020c). CREATE: The Recalibrated CITIRA Bill, Retrieved from bit.ly/CREATEPHRecovery on 26 May 2020.

Department of Health (2020). "LGUS, DOH Ramp up Testing Capacity; More Measures to Manage Infection Spread," Press Release, 4 May 2020.

Financial Stability Board (FSB, 2014). Key Attributes of Effective Resolution Regimes for Financial Institutions, 15 October 2014.

Gopinath. G. (2020). The Great Lockdown: Worst Economic Downturn Since the Great Depression. International Monetary Fund, 14 April 2020.

Guiang, K. (2019). "Proposed Amendments to the Public Service Act of 1936," The Manila Times, 12 September 2019.

Hahm, J-H., H. Y. Shin, K. Shin (2012). "Non-Core Liabilities and Financial Vulnerability," National Bureau of Economic Research Working Paper 18428, September.

Inter-Agency Task Force Technical Working Group for Anticipatory and Forward-Planning (2020). We Recover as One. National Economic and Development Authority.

Institute for International Finance (2020a). Capital Flows Tracker – April 2020: The COVID Cliff, 1 April 2020.

Institute for International Finance (2020b). Capital Flows Tracker – May 2020: Flows to EM Improve, 4 May 2020.

Institute for International Finance (2020c). Global Macro Views: COVID-19 and EM Stabilization, 7 May 2020.

Metrick, A. (2020). "Response to Effects of COVID-19 Crisis," Bank for International Settlements (BIS) Webinar, 30 April 2020.

Moore, K. A., M. Lipsitch, J. M. Barry, and M. T. Osterholm (2020). COVID-19 CIDRAP Viewpoint - Part 1: The Future of the COVID-19 Pandemic: Lessons Learned from Pandemic Influenza. Center for Infectious Disease Research and Policy, University of Minnesota, 30 April 2020.

Mora, A.G. and M. Rutkowski (2020). Remittances in times of the coronavirus – keep them flowing (https://blogs.worldbank.org/psd/remittances-times-coronavirus-keep-them-flowing).

National Economic and Development Authority (2020). DBCC Revisits Medium-Term Macroeconomic Assumptions and Fiscal Program Amid the COVID-19 Pandemic, 13 May 2020. Retrieved from http://www.neda.gov.ph/dbcc-revisits-medium-term-macroeconomic-assumptions-and-fiscal-program-amid-the-covid-19-pandemic/ on 22 May 2020.

OECD (2020). Testing for Covid-19: A Way to Lift Confinement Restrictions. Retrieved from http://www.oecd.org/coronavirus/policy-responses/testing-for-covid-19-a-way-to-lift-confinement-restrictions-89756248/ on 22 May 2020.

Schwab, K. and Vanham, G. (2020). What we must do to prevent a global COVID-19 depression. World Economic Forum, 13 April 2020. Article also appeared in TIME Magazine, 09 April 2020. Retrieved from https://www.weforum.org/agenda/2020/04/covid-19-how-to-prevent-a-global-depression/ on 20 May 2020.

UNCTAD (2020). "Investment Promotion Agencies: Striving to Overcome the Covid-19 Challenge," The IPA Observer, Special Issue 8, April.

Wood, N. (2020). "Liquidity Risk: Recommendations for Immediate Actions by Banks and Their Supervisors in Asia," SEACEN Webinar, 2 April 2020.

Annex 1. Selected Macroeconomic Indicators

Indicators	Pre-COVID 19 conditions	Latest available
Real GDP	6 percent (2019)	-0.2 percent (Q1 2020)
Inflation (2012=100)	2.5 percent (2019)	2.2 percent (April 2020)
Balance of payments	US$7.8 billion (2019)	-US$0.5 billion (Jan-Feb 2020)
Gross international reserves	US$87.8 billion (end 2019)	US$89 billion (end Mar 2020)
PhP/US$ exchange rate	50.7 (end-Dec 2019)	50.3 (as of 14 May 2020)
Total resources banking sector	PhP18.7 trillion (end-Dec 2019)	PhP18.5 trillion (end-Feb 2020)
Capital adequacy ratio of U/KBs	15.4% on solo basis and 16% on consolidated basis (end-Dec 2019)	n.a.
Gross NPL ratio of U/KBs	1.57% (end-Dec 2019)	1.77% ^{p} (end-Feb 2020)
NG Outstanding Debt	42.1 percent of GDP (end-Dec 2019)	44.3 percent of GDP (Q1 2020)
External debt	22.2 percent of GDP (end-Dec 2019)	n.a.

Source of data: BSP, Philippine Statistics Authority, Bureau of Treasury

Annex 2
Regulatory relief measures implemented by the BSP in response to COVID-19 pandemic

The BSP issued regulatory and operational relief measures to assist the BSP supervised financial institutions (BSFIs) withstand the effects of the health crisis as well as to support households and business enterprises.

Classification of response	Specific measure
Immediate measures for implementation by all covered institutions, as embodied in the Implementing Rules and Regulations (IRR) of Republic Act (R.A.) No. 11469 or the "Bayanihan to Heal as One Act" enacted into law on 25 March 2020.	• Implementation of a 30-day grace period for all loans with principal and/or interest falling due within the ECQ Period without incurring interest on interest, penalties, fees and other charges. The initial 30-day grace period shall automatically be extended if the ECQ Period is extended by the President.
	• Non-application of interest on interest, fees and charges during the 30-day grace period to future payments/amortizations of the individuals, households, micro, small and medium enterprises (MSMEs), and corporate borrowers.
Extension of financial relief to borrowers	• Exclusion of loans of affected borrowers from the past due and non-performing classification from 08 March 2020 until 31 December 2021, subject to reporting to the BSP as well as waiver of documentary requirements for restructuring of loans.
	• Availability of option to stagger booking of allowance for credit losses for loans to affected borrowers for a maximum period of five (5) years, subject to approval of the BSP.
	• Relief for banks with outstanding rediscounting obligations with the BSP a. A 60-day grace period on the settlement of outstanding obligations from 8 March 2020, without penalty charges, or b. Restructuring of rediscounted loans of end-user borrowers affected by the COVID-19, subject to BSP approval on a case-to-case basis. Banks which renew rediscounting lines or avail of rediscounting loans with the BSP will be assessed against relaxed eligibility criteria.
	• Regulatory relief from exposure limit (15 percent of the market value of the UITF) applicable to Unit Investment Trust Funds (UITFs).
Incentivizing lending	• Reduction of credit risk weights of loans granted to MSMEs that are current in status to 50 percent from 75 percent (qualified MSME portfolio[32]) and 100 percent (non-qualified MSME portfolio). The reduced credit risk weight will be subject to review by end-December 2021.
	• Recognition of loans granted to MSMEs as a form of alternative compliance with banks' reserve requirements against deposit liabilities and deposit substitutes effective 24 April 2020 up until 30 December 2021, subject to certain control measures, as follows:

[32] A qualified MSME portfolio is diversified with at least 500 borrowers over a number of industries.

Classification of response	Specific measure
	a. The MSME loans are granted after 15 March 2020; and b. The MSME loans are not encumbered, or rediscounted with the BSP, or earmarked for any other purpose.
	• Assignment of a zero-percent risk weight to loans that are guaranteed by the Agricultural Guarantee Fund Pool (AGFP) and the Agricultural Credit Policy Council (ACPC), in addition to loans guaranteed by the Philippine Guarantee Corporation,. This move is meant to encourage banks to lend to small farmers and fisherfolk as these are the types of exposures that are mainly covered by the guarantee programs of the AGFP and ACPC.
	• Temporary increase of SBL from 25 percent to 30 percent for a period of six (6) months beginning March 2020. The relaxation also covers increase in the 25 percent SBL for project finance loans to finance initiatives that are in line with the priority programs of the Government. This measure aims to promote the flow of liquidity at the wholesale level and ensure sustained credit for programs and projects that will support economic recovery.
	• Deferral of the implementation of the revised risk-based capital framework applicable to stand-alone thrift banks, rural banks and cooperative banks[33] to continue to support their rural community-based clients. The revised capital adequacy framework will now take effect on 1 January 2023 instead of 1 January 2022.
	• Reduction in the minimum liquidity ratio of stand-alone thrift, rural and cooperative banks from 20 percent to 16 percent until end-December 2020.
	• Allowing use of capital conservation and Liquidity Coverage Ratio (LCR) buffers of banks/quasi-banks during the crisis.
Promotion of continued access to financial services	• Relaxation of the KYC requirements, particularly, the presentation of valid IDs by retail clients, including micro-business owners to facilitate their access to formal financing channels.
	• Exercise of moral suasion for BSFIs to temporarily suspend all fees and charges imposed on the use of online banking platforms or electronic money, including those imposed on the use of *Instapay* or *PesoNet* electronic fund transfer.
	• Waiver of fees related to the application for authority to provide electronic payments and financial services as part of the relief measures for BSFIs. This will cover all applications received by the BSP within six (6) months starting from 8 March 2020, the date of declaration of state of public health emergency under Presidential Proclamation No. 922.
	• Allowing grant by BSFIs of financial assistance, in the form of loans, advances or other credit accommodations to their officers who are affected by the COVID-19, subject to subsequent regularization with the BSP, if necessary.

[33] Stand-alone thrift, rural and cooperative banks are banks that are not subsidiaries of universal or commercial banks.

Classification of response	Specific measure
	• Waiver of fees related to the grant of license or authority to provide Types A[34] and B[35] Advanced Electronic Payments and Financial Services (EPFS). The waiver of fees related to grant of EPFS licenses aims to encourage BSFIs to provide safe, efficient and reliable digital channels that support critical payment use cases such as social benefit transfers, payments to merchants or billers including to the Government, payments to suppliers, and remittances particularly during the COVID-19 situation.
Support for Continued Financial Services Delivery (operational relief)	• Suspension of the submission of reports to the BSP Financial Supervision Sector that fall due within the months of March to May 2020, except for the submission of four (4) reports necessary for surveillance and policy-making.[36] Monetary penalties shall not be imposed by the BSP for delay in the submission of these reports.
	• Relaxation of the notification requirements to the BSP related to changes in banking hours and temporary closure of bank/branch/branch-lite units and BSFI offices/service units.
	• Allowing Banks/QBs to use their legal reserves to support liquidity requirements, subject to request for BSP approval on the non-imposition of penalties on legal reserve deficiencies for a period of six (6) months from 8 March 2020.
	• Provision of accounting relief measures to reduce the impact of mark-to-market (MTM) losses on the financial condition. Banks' debt securities lodged at fair value category may also be reclassified to the amortized cost category.

Source of data: BSP – Supervisory Policy Research Department - Financial Supervision Sector

[34] This applies to BSFIs that can be assessed against the prudential criteria provided under the Policy and Regulations on Licensing. These applicants must have been examined by the BSP.

[35] This applies to proponents that cannot be assessed against the prudential criteria provided under the Policy and Regulations on Licensing. These include newly-established BSFIs and new applicants for an authority to operate as "Electronic Money Issuer-Others".

[36] Financial Reporting Package for Banks, the Consolidated Foreign Exchange (FX) Position Report, the event-driven report requirements and the reserve requirements-related reports.

BANGKO SENTRAL NG PILIPINAS
BSP Working Paper Series

Scope: The Bangko Sentral ng Pilipinas (BSP) Working Paper Series constitutes studies relevant to central banking, which are conducted by BSP researchers and occasionally, in collaboration with external contributors. The topics may include monetary policy framework and operations, bank supervision, financial markets, macro-financial risks, payments and settlements system, digitalization, big data management and analytics for central banks, central bank communication, central bank governance and legal frameworks, among others.

Peer-reviewed: The BSP working papers are reviewed by the Editorial Committee, led by the Deputy Governor of the Monetary and Economics Sector. Completed working papers are published for the purpose of soliciting comments and discussion for further refinements. The views and opinions expressed are those of the author(s) and do not necessarily reflect those of the BSP.

Copyright: Authors maintain the copyright and may submit improved version of the working paper in a peer-reviewed journal. However, authors should indicate in their submission if there is a version of the working paper that is being reviewed for publication or will be published elsewhere.

Submissions: Authors may submit their manuscripts to the following addresses below:
- BSP.Working.Paper@bsp.gov.ph with the subject line that reads BSP Working Paper Series
- The Managing Editor, BSP Working Paper Series, Center for Monetary and Financial Policy, Room 402, 4/F, 5-Storey Building, BSP Main Complex, Malate, Manila

Editorial Guidelines:
- The title page of the manuscript must include the following: title, author's name, abstract describing the main arguments and conclusions of the article, affiliation, corresponding author, 3 - 5 keywords, JEL classification
- Manuscripts must be written in English and in MS Word format, text-aligned with 1.5 line spacing, 1" margins, font Segoe UI, font size 11.
- All graphs, tables, and footnotes must be in font Segoe UI, font size 9.
- Tables must contain only essential data and hence, must be kept to a minimum. Each figure and table must be given an Arabic numeral, followed by a heading.
- All diagrams, charts, and graphs must be referred to as figures and consecutively numbered.
- All figures and tables must be cited in the text.
- Headings and sub-headings must be clearly marked.
- References must be consistent with in-text citations.
- Manuscripts must adopt the Harvard referencing system or APA referencing system.

Authors must include in their submission all graphs and tables in Excel format. They must also ensure that their manuscripts are consistently referenced and free from typographical and presentation errors. The Editorial Committee and the Editorial Staff will not undertake any retyping of manuscripts before publication.

Website: http://www.bsp.gov.ph/publications/regular_wps.asp

List of BSP Working Paper Series

- Available at http://www.bsp.gov.ph/publications/regular_wps.asp

No	Author	Title	Date
2019-04	Charday V. Batac, Eduard Joseph D. Robleza I, Jan Christopher G. Ocampo, and Cherrie F. Ramos	BSPeak: A Text Analysis of BSP's Communications	November 2019
2019-03	Ramon Moreno, Hazel Parcon-Santos, and John Michael Rennie Hallig	A Preliminary Assessment of Drivers of Philippine FX Market Liquidity	October 2019
2019-02	Veronica B. Bayangos and Jeremy L. De Jesus	Have Domestic Prudential Policies Been Effective: Insights from Bank-Level Property Loan Data	March 2019
2019-01	Cherry Wyle G. Layaoen and Vernalin Grace F. Domantay	Do Capital Regulations Influence Banks' Holding of "Excess Capital"	March 2019
2018-01	Hazel C. Parcon-Santos	Foreign Exchange Interventions, Capital Outflows, and Financial Vulnerabilities in Selected Asian Emerging Economies	November 2018
2018-01	Roberto S. Mariano, Suleyman Ozmucur, Veronica B. Bayangos, Faith Christian Q. Cacnio, and Marites B. Oliva	Review of the Potential Output and Output Gap Estimation Models of the Bangko Sentral ng Pilipinas	October 2018
2017-01	Veronica B. Bayangos	Capital Flow Measures and Domestic Macro Prudential Policy in Asian Emerging Economies: Have These Been Effective?	June 2017
2016-02	Eufrocinio M. Bernabe, Jr., Hazel C. Parcon-Santos and John Michael Rennie G. Hallig	Spillovers in ASEAN-5 Equity Markets	July 2016
2016-01	Veronica B. Bayangos, Lilia V. Elloso, John Michael Rennie G. Hallig, Jodeth Niña R. Yeung and April Michelle D. Salamatin	The Impact of Foreign Exchange Liberalization Reforms on the Philippine Economy: An Initial Assessment	March 2016
2015-01	Laura L. Ignacio, Hazel C. Parcon-Santos, Teresita B. Deveza, Maria Fatima C. Paule-de Leon, and Jean Christine A. Armas	Reformulating Effective Exchange Rates: Does the Exchange Rate Matter For Trade?	June 2015
2013-01	Francisco G. Dakila, Jr., Veronica B. Bayangos and Laura L. Ignacio	Identifying Sectoral Vulnerabilities and Strengths for the Philippines: A Financial Social Accounting Matrix Approach	July 2013

No	Author	Title	Date
2012-02	Hazel C. Parcon-Santos and Eufrocinio M. Bernabe, Jr.	The Macroeconomic Effects of Basel III Implementation in the Philippines: A Preliminary Assessment	October 2012
2012-01	Veronica B. Bayangos	Going With Remittances: the Case of the Philippines	July 2012
2010-02	Eloisa T. Glindro and Vic K. Delloro	Identifying and measuring Asset Price Bubbles in the Philippines	June 2010
2010-01	Veronica B. Bayangos and Irene T. Estigoy	A Geometric Price Index for the Philippines: A Preliminary Assessment	March 2010
2009-01	Paul D. McNelis, Eloisa T. Glindro, Ferdinand S. Co, and Francisco G. Dakila, Jr.	Macroeconomic Model for Policy Analysis and Insight (a Dynamic Stochastic General Equilibrium Model for the BSP)	December 2009
2008-02	Agnes M. Yap and Cristeta B. Bagsic	Adjustments in the Face of Peso Volatility: Perspective from the Past and Policy Directions	September 2008
2008-01	Haydee L. Ramon	Forecasting the Volatility of Philippine Inflation Using GARCH Models	September 2008
2007-02	Francisco G. Dakila, Jr. and Racquel A. Claveria	Identifying the Determinants of Overseas Filipinos' Remittances: Which Exchange Rate Measure is Most Relevant?	January 2008
2007-01	Paul D. McNelis and Cristeta B. Bagsic	Output Gap Estimation for Inflation Forecasting: The Case of the Philippines	August 2007
2006-02	Cristela Goce-Dakila and Francisco G. Dakila, Jr.	Modeling the Impact of Overseas Filipino Workers Remittances on the Philippine Economy: An Inter-Regional and Economy-Wide Approach	September 2006
2006-01	Cristeta B. Bagsic and Eloisa T. Glindro	Bangko Sentral ng Pilipinas Modernization: A Policy Perpective PDF	August 2006

BSP International Research Conference Volume

Available at http://www.bsp.gov.ph/publications/regular_irc.asp

- BSP International Research Conference on "Revisiting Macro-Financial Linkages: Looking Back and Looking Ahead", 20-21 September 2016
- BSP International Research Conference on "The Evolving Role and Limits of Monetary Policy: New Perspectives for Emerging Market Economies", 28-29 October 2014
- BSP International Research Conference on "Contemporary Challenges to Monetary Policy", 28-29 February 2012
- 2010 Central Bank Macroeconomic Modeling Workshop, 19-20 October 2010
- BSP International Research Conference on Remittances, 30-31 March 2009
- Joint BSP-BIS High-Level Conference on Transparency and Communication in Monetary Policy, 01 February 2008