Philippine Banks Outlook 2024: Better Economic Prospects Will Bolster Sector

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Key Projections

- **Credit growth**
  - 2023: 5%
  - 2024f: 10%

- **Return on assets**
  - 2023: 1.4%
  - 2024f: 1.3%

- **Gross NPL ratio**
  - 2023: 3.5%
  - 2024f: 3.5%

- **Low cost deposits to total deposits**
  - 70%

Improving Economic Conditions Will Lift Credit Demand

- Economic growth is likely to improve over the next two years as inflation moderates further.
- A pickup in corporate demand may help credit growth increase to 10%-12%.

Philippines will grow faster than many Asia peers

GDP growth (%)

- Economic growth is expected to increase over the next two years as inflation moderates further.
- A pickup in corporate demand may help credit growth increase to 10%-12%.

Retail credit growth should stay robust

Annual loan growth (%)

- Retail credit growth is expected to stay robust over the next two years.

Note: For 2023, total credit growth is annualized for 11 months ended Nov. 30. Retail credit growth is annualized for nine months ended Sept. 30. f—Forecast. Source: BSP.
Corporate Credit Growth Took A Hit In 2023

Rising interest rates and high inflation kept corporate sector on the fence

Growth rate, year-on-year (%)

Note: Data for 2023 is annualized for the nine months ended Sept. 30. Source: BSP.
Pass Through Of Policy Rates To Earning Asset Yields Will Stay Measured

Spillover to asset quality should be limited

Earning asset yields have increased at a gradual pace(%) 

- Policy rates have risen by 450 basis points (bps) in the past two years.
- In comparison, the effect on asset yields has been smaller, with a 140 bps increase.
- A similar trend occurred during the pandemic when interest rates were cut. Asset yields at that time did not fall in tandem.
- Also, banks have taken a pragmatic approach to interest resets to limit new nonperforming loans (NPLs).

Source: BSP.
Asset Quality Should Remain Stable

- Lower inflation and rate cuts will support loan repayments in 2024.
- Asset quality fared better than we expected in 2023 as pass through of higher policy rates was measured.
- NPLs in corporate loans and credit cards rose slightly reflecting tighter financing conditions.

Weak loans likely to remain under 5%
Percentage of total loans (%)

Consumer nonperforming loans are on a declining trend
NPLs as a percentage of total loans in that segment (%)
Credit Costs Should Be Flattish

- Provisioning requirement should be contained backed by stable NPLs. Credit costs continued to decline in 2023 and are very close to pre-pandemic levels.
- Banks with higher exposure to unsecured loans could see elevated credit costs as the portfolio matures.
- Banks have adequate provisions, with coverage ratio of over 100%.

Credit costs should stay near pre-pandemic levels

Credit costs are lower than most regional peers’

Note: 2023 credit costs data is annualized for nine months ended Sept. 30, 2023. Coverage ratio is as of end-November 2023. Coverage is calculated as allowances for credit losses as a percentage of gross NPLs. f—Forecast. Sources: BSP, S&P Global Ratings.

Note: For India, fiscal year ending March 31 of each year. e—Estimate. f—Forecast. Source: S&P Global Ratings.
Corporate Sector Leverage Is Moderate

Leverage in Philippines is below 75% of GDP
Total private sector debt as a percentage of GDP (%)

Loan book has some concentration in real estate
As a percentage of gross loans (%)

Data as of end November 2023. Sources: BSP, S&P Global Ratings.
Real Estate Sector: Elevated Vacancy Rates, Manageable Risks

Real estate prices don’t indicate build-up of imbalances

Annual change in residential real estate price index (%)

Office vacancy rates in metro Manila are elevated (%)

Commercial real estate nonperforming loans are contained

CRE NPLs as a percentage of total (%)

Sources: BSP, S&P Global Ratings.

Note: 2023 data is as of Sept. 30, 2023. Sources: Colliers, S&P Global Ratings.
Consumer Loans: Rising Share Of Unsecured Loans

- Credit cards and unsecured personal loans form more than 8% of total loans compared with 5% in 2019. These portfolios will continue to grow at a rapid pace.
- Risks are manageable because of low household leverage and stable employment conditions.

Unsecured loans are growing rapidly

Household leverage is low at 10% of GDP
Profitability Should Normalize In Line With Interest Rates

Lower operating expenses and higher share of unsecured loans provide upside potential

Return on assets has peaked and will gradually decline (%)

Sustained reduction in costs from digitalization

Cost to income ratio (%)
Digital Banks: Nascent Operations; Weak Asset Quality

Digital banks’ market share is limited (%)

Asset quality is significantly weaker than the industry (%)

High costs are constraining profitability (%)

Data as of end-November 2023. NPL—Nonperforming loan. Sources: BSP, S&P Global Ratings.

Digital Banks’ Loan Portfolio Is Riskier

High share of unsecured consumer loans and untested credit profile of target segment is leading to significantly weaker asset quality

Corporate sector forms bulk of banking sector loans

Loan breakdown of banking sector (%)

- Corporate: 74.4%
- MSME: 8.3%
- Housing: 4.6%
- Auto: 4.1%
- Credit cards: 3.1%
- Personal loans: 5.6%

Digital banks have heavy exposure to unsecured loans

Loan breakdown of digital banks (%)

- Personal loans: 64.8%
- Reverse repurchase agreements: 18.5%
- Other consumer loans: 16.0%
- Corporate: 0.8%


Data as of Nov. 30, 2023. Source: BSP.
Funding And Liquidity Metrics Are Healthy

Loans-to-deposits ratio should continue to moderate from strong levels (%)

CASA decline will persist on higher term deposit flows


Loans to deposits ratio
Liquid assets to deposits ratio

CASA as % of total deposits (left scale)  Customer deposit growth (right scale)

Percentage of total deposits (%) 0.0  10.0
0  80  80
5.0  5.0
2.5  2.5
7.5  7.5
6.5  6.5
60  60
2018 2019 2020 2021 2022 2023

Source: BSP.

Capitalization Remains Strong

Robust internal capital generation ensures capital buffers are intact

Data as of end-June 2023. CET—Common equity Tier 1. AT1—Additional Tier 1. Source: BSP.

S&P Global Ratings

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Related Research

- Economic Outlook Asia-Pacific Q1 2024: Emerging Markets Lead The Way, Nov. 27, 2023
- Banking Industry Country Risk Assessment: Philippines, Aug. 18, 2023
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