

Philippine Banks Outlook 2024:

Better Economic Prospects Will Bolster Sector

S&P Global
Ratings

Nikita Anand

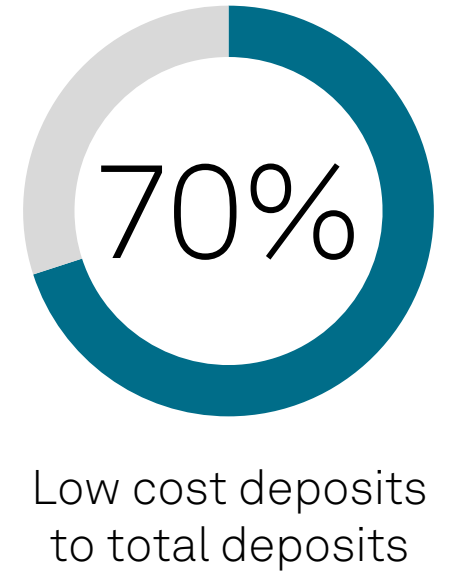
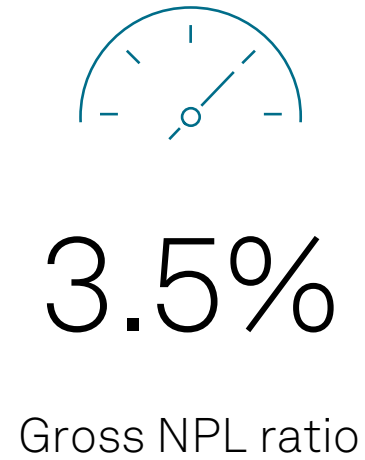
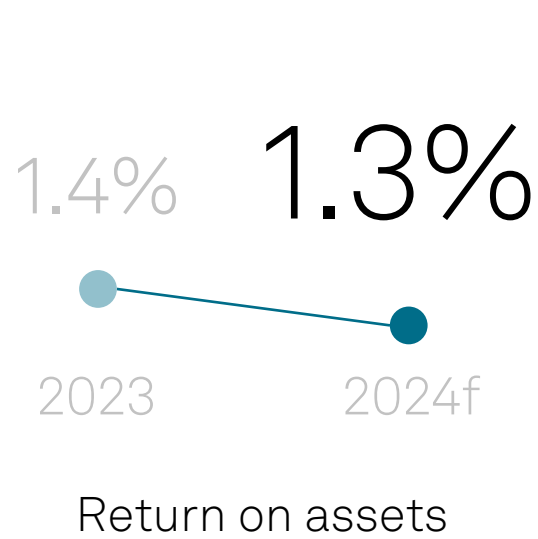
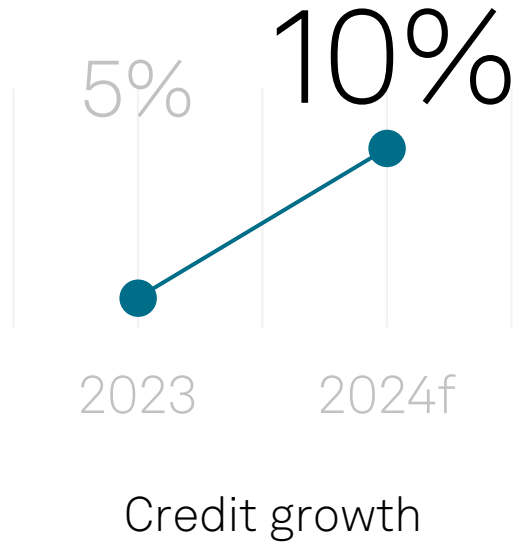
Director

Financial Institutions Ratings

Jan. 30, 2024

This report does not constitute a rating action

Key Projections



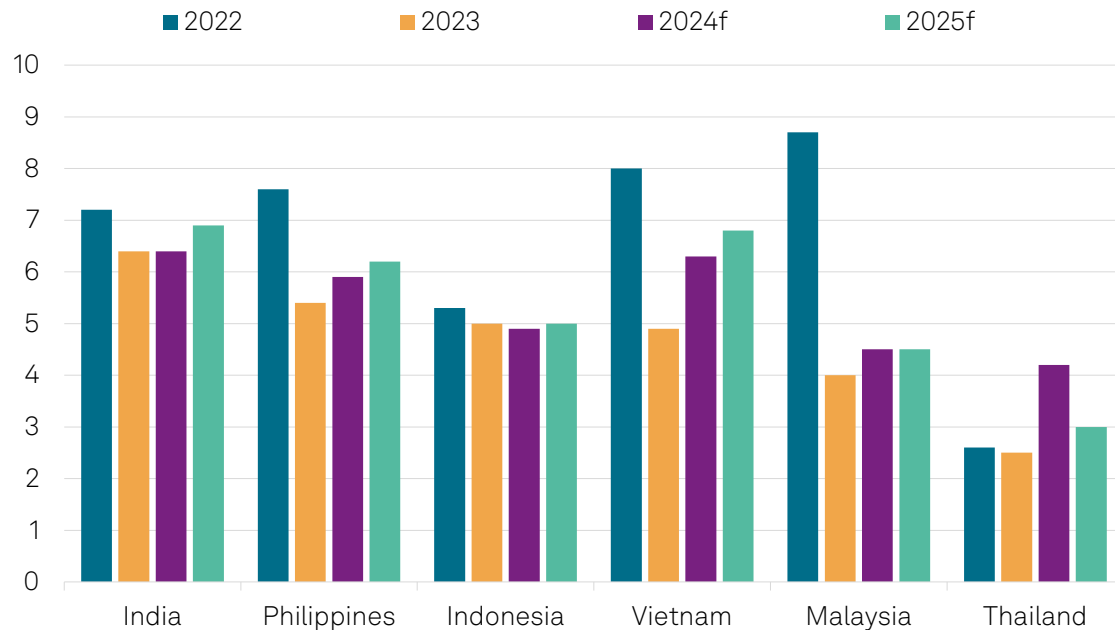
NPL--Nonperforming loan. F--Forecast. Source: S&P Global Ratings.

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

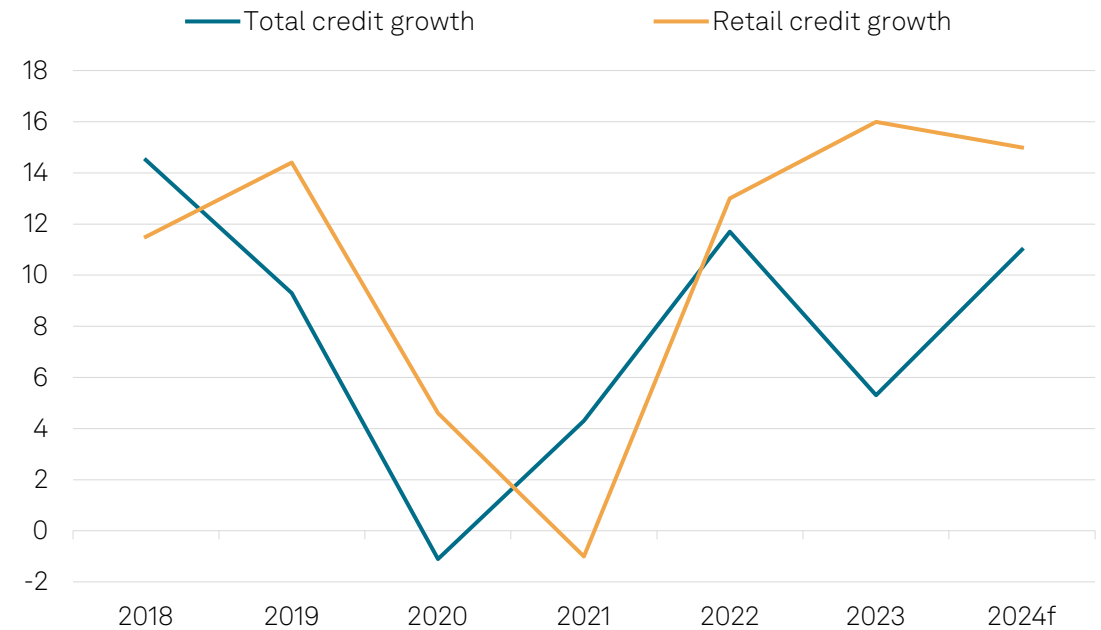
GDP growth (%)



f--Forecast. Source: S&P Global Ratings

Retail credit growth should stay robust

Annual loan growth (%)

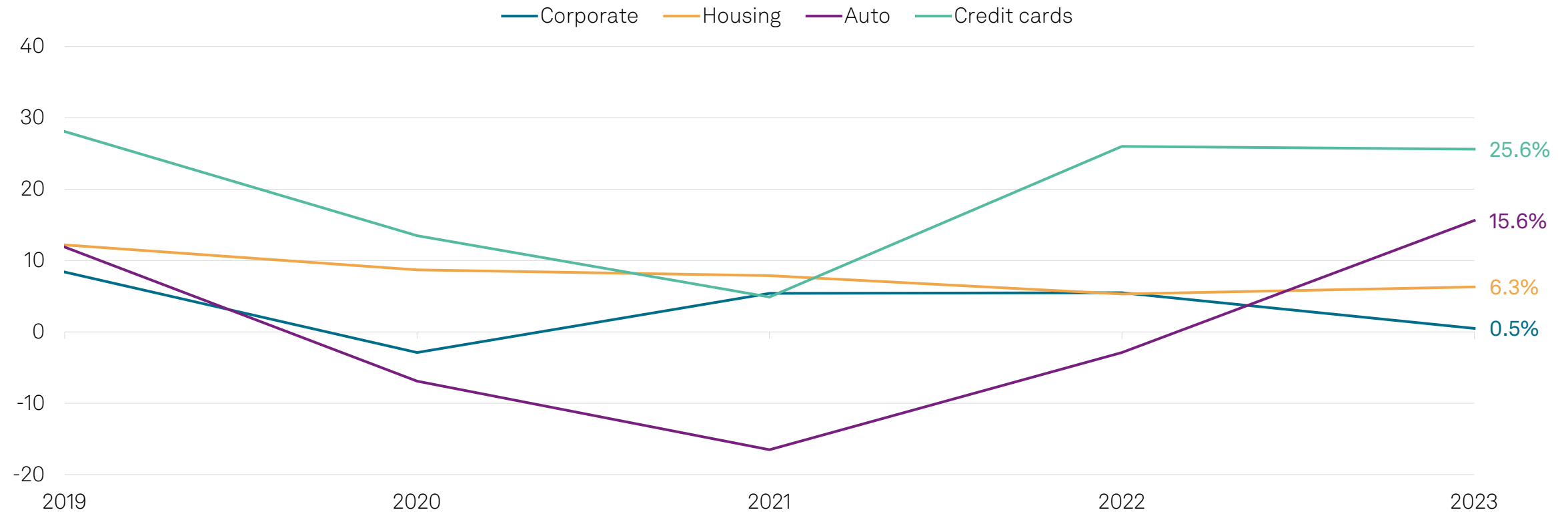


Note: For 2023, total credit growth is annualized for 11 months ended Nov. 30. Retail credit growth is annualized for nine months ended Sept. 30. f--Forecast. Source: BSP.

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 (%)

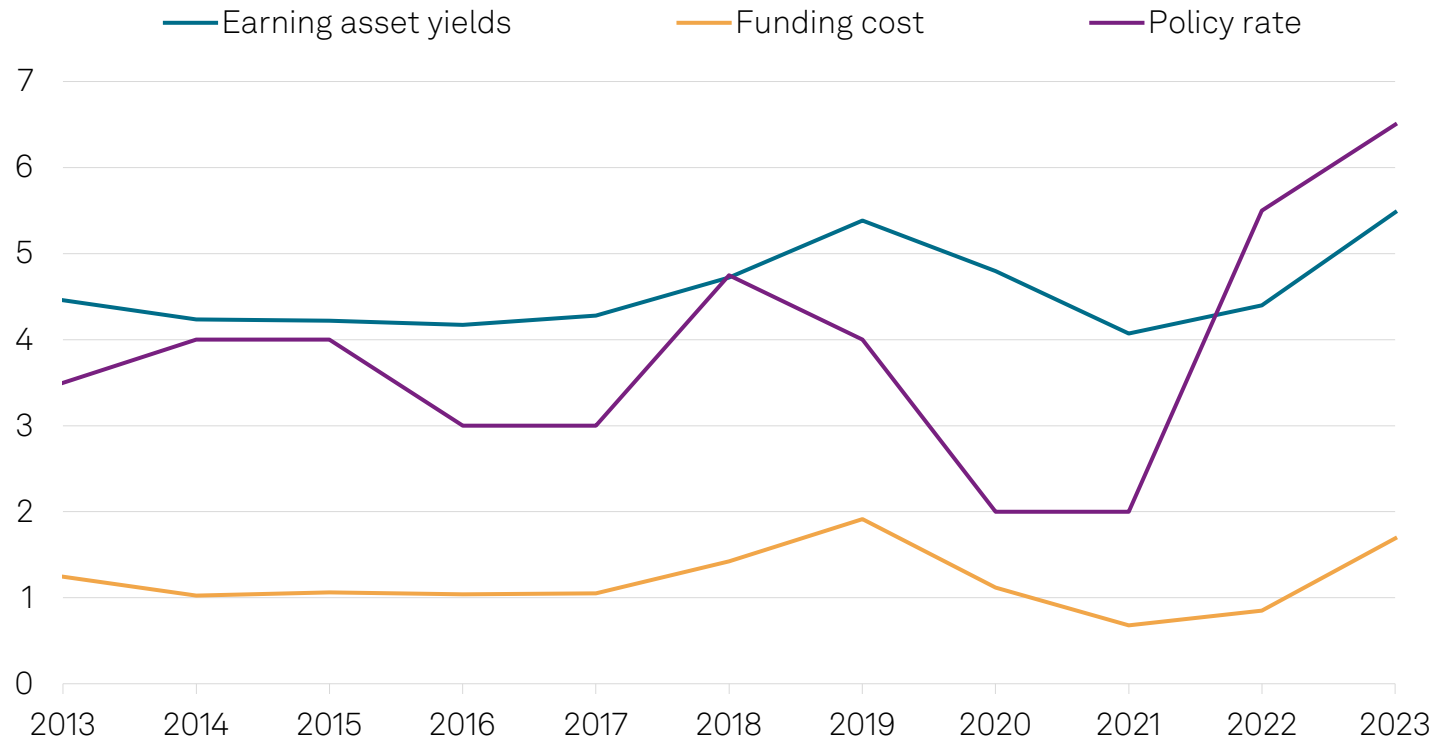


Note: Data for 2023 is annualized for the nine months ended Sept. 30. Source: BSP.

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(%)



Source: BSP.

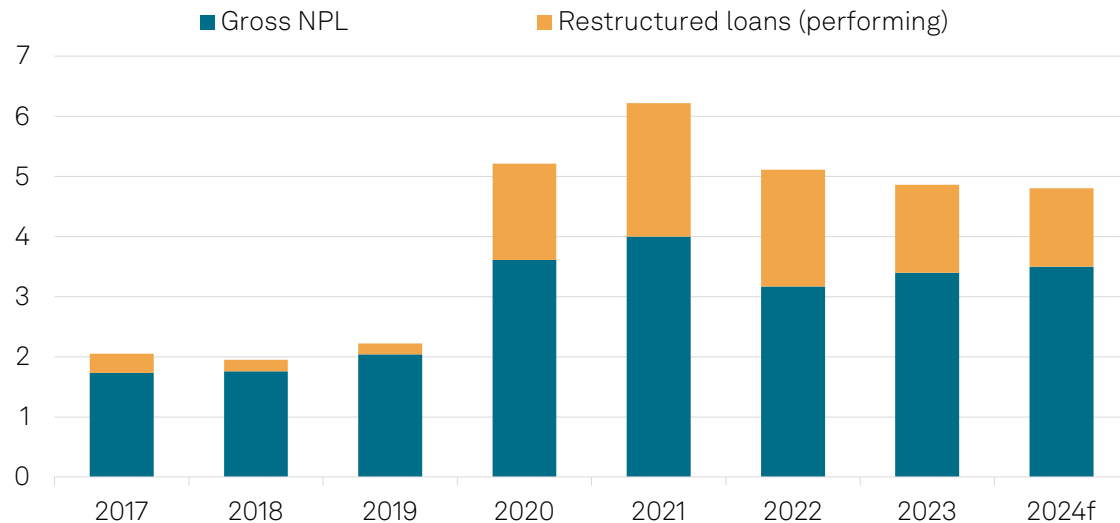
- Policy rates have risen by 450 basis points (bps) in the past two years.
- In comparison, the effect on asset yields has been smaller, with a 140 bps increase.
- A similar trend occurred during the pandemic when interest rates were cut. Asset yields at that time did not fall in tandem.
- Also, banks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

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%

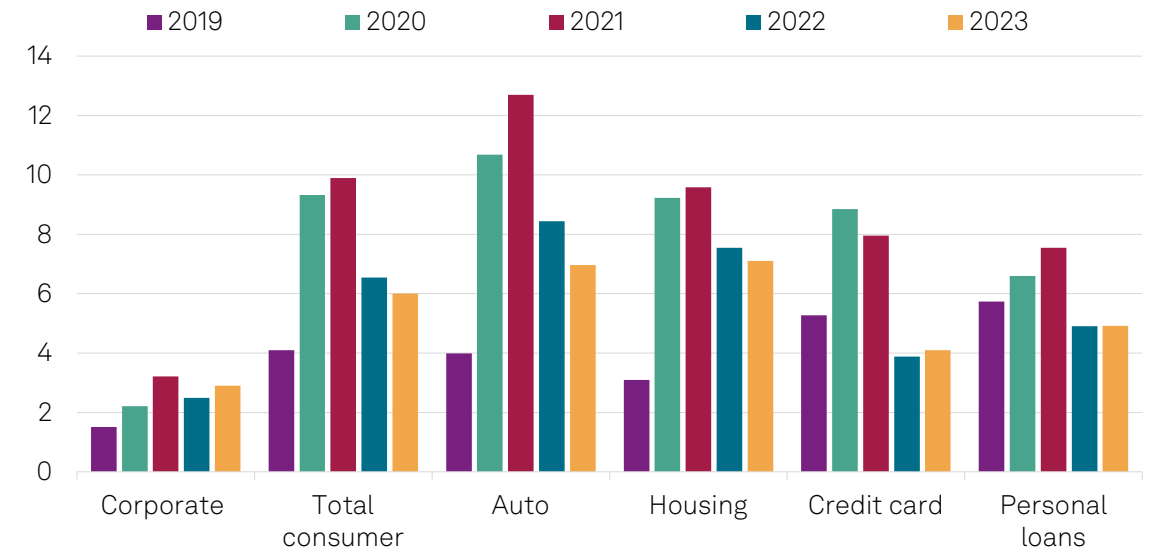
Percentage of total loans (%)



Note: 2023 data is as of Nov. 30, 2023. NPL--Nonperforming loan. f--Forecast. Source: S&P Global Ratings.

Consumer nonperforming loans are on a declining trend

NPLs as a percentage of total loans in that segment (%)

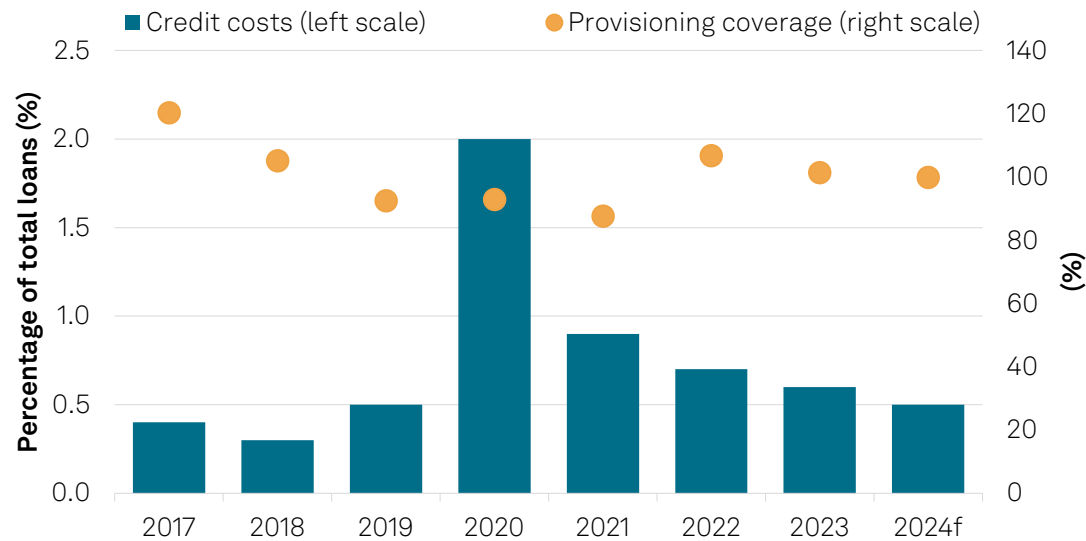


Note: 2023 data is as of Sept. 30, 2023. NPL--Nonperforming loan. Source: BSP.

Credit Costs Should Be Flattish

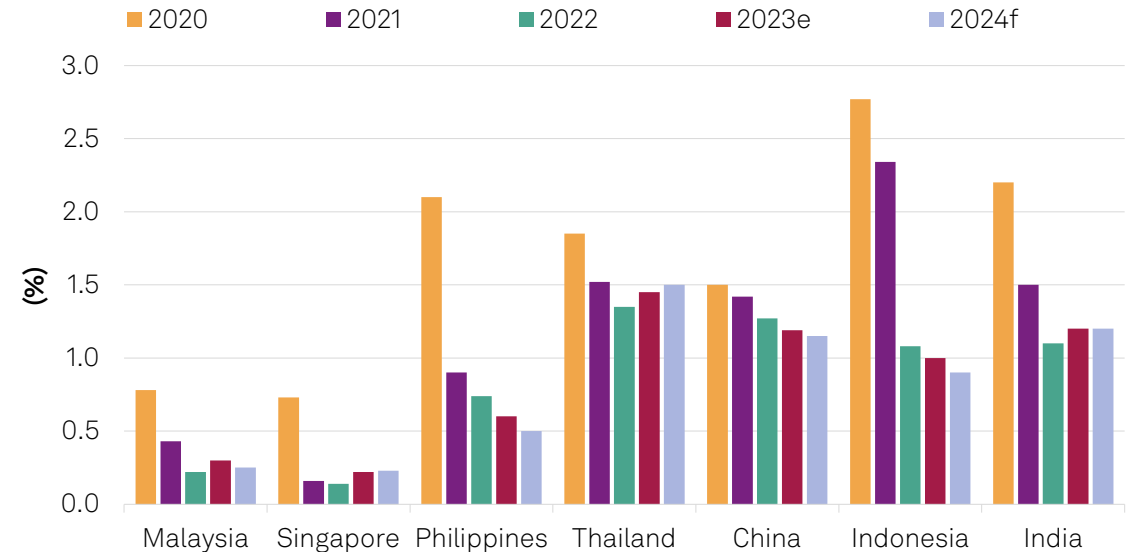
- Provisioning requirement should be contained backed by stable NPLs. Credit costs continued to decline in 2023 and are very close to pre-pandemic levels.
- Banks with higher exposure to unsecured loans could see elevated credit costs as the portfolio matures.
- Banks have adequate provisions, with coverage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

Credit costs should stay near pre-pandemic levels



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.

Credit costs are lower than most regional peers'

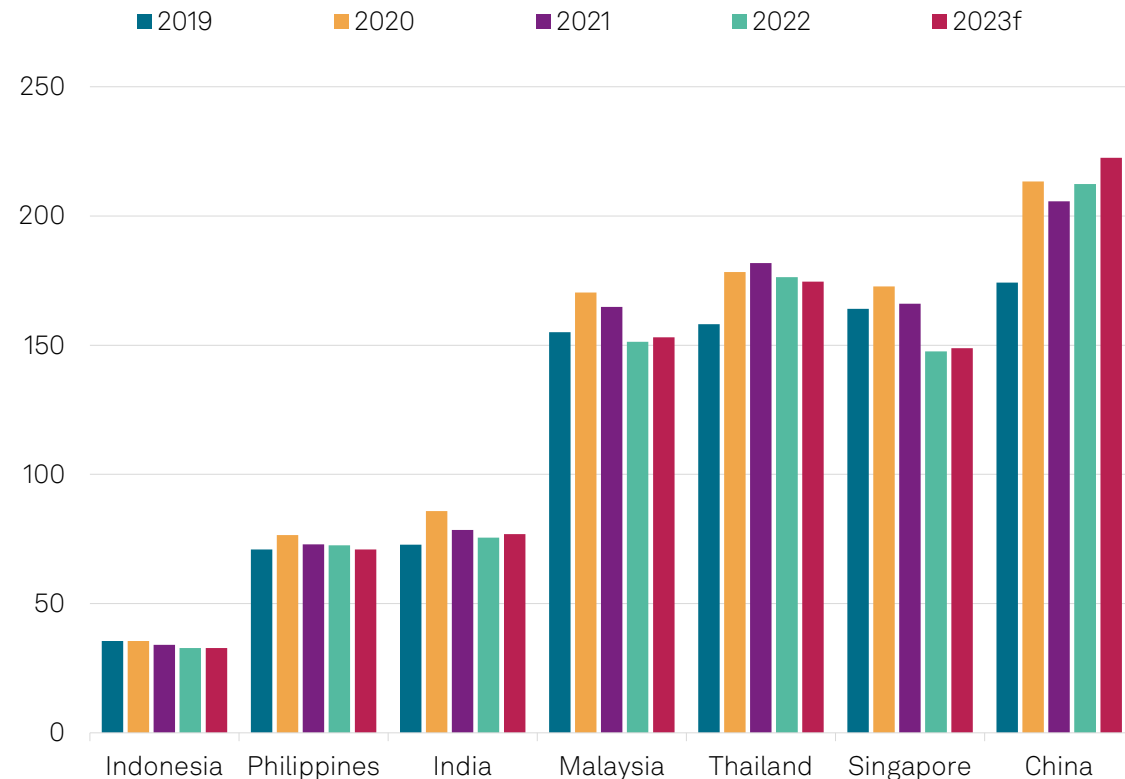


Note: For India, fiscal year ending March 31 of each year. e--Estimate. f--Forecast. Source: S&P Global Ratings.

Corporate Sector Leverage Is Moderate

Leverage in Philippines is below 75% of GDP

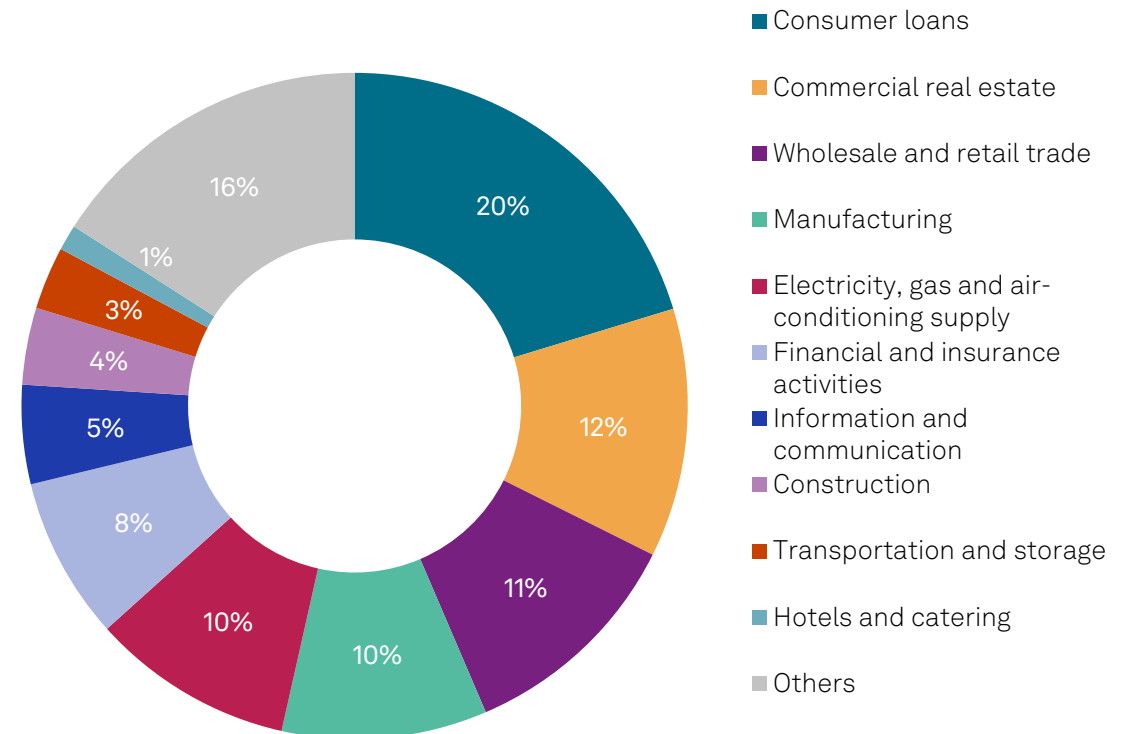
Total private sector debt as a percentage of GDP (%)



f--Forecast. Source: S&P Global Ratings.

Loan book has some concentration in real estate

As a percentage of gross loans (%)

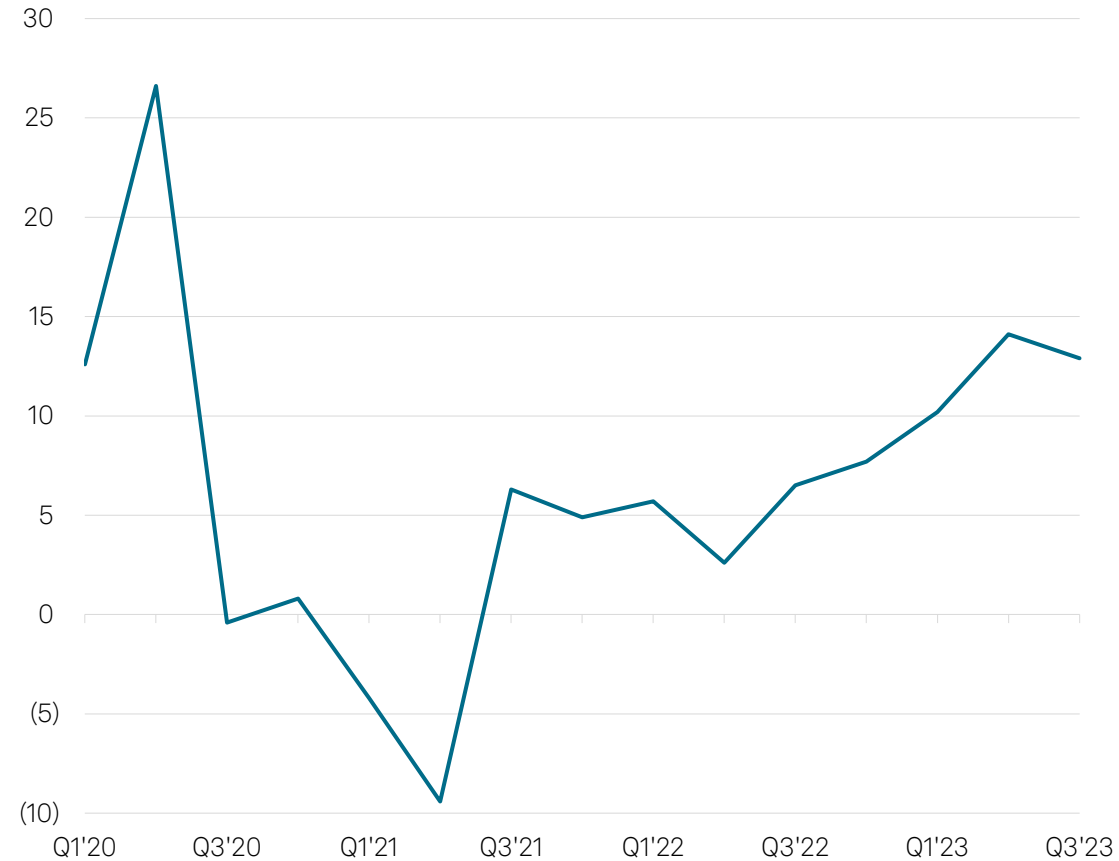


Data as of end November 2023. Sources: BSP, S&P Global Ratings.

Real Estate Sector: Elevated Vacancy Rates, Manageable Risks

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

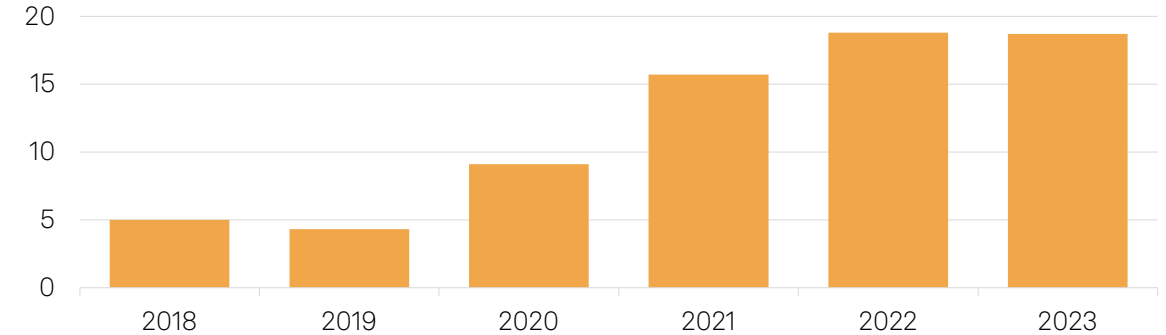
Annual change in residential real estate price index (%)



Sources: BSP, S&P Global Ratings.

Office vacancy rates in metro Manila are elevated

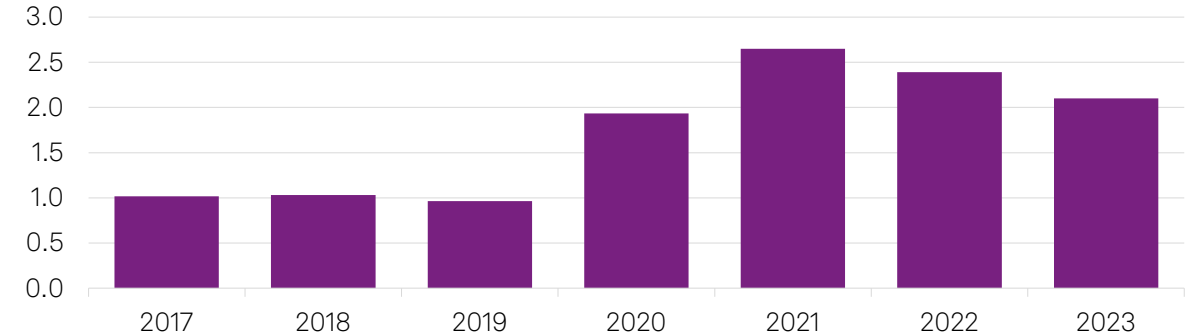
(%)



Note: 2023 data is as of Sept. 30, 2023. Sources: Colliers, S&P Global Ratings.

Commercial real estate nonperforming loans are contained

CRE NPLs as a percentage of total (%)

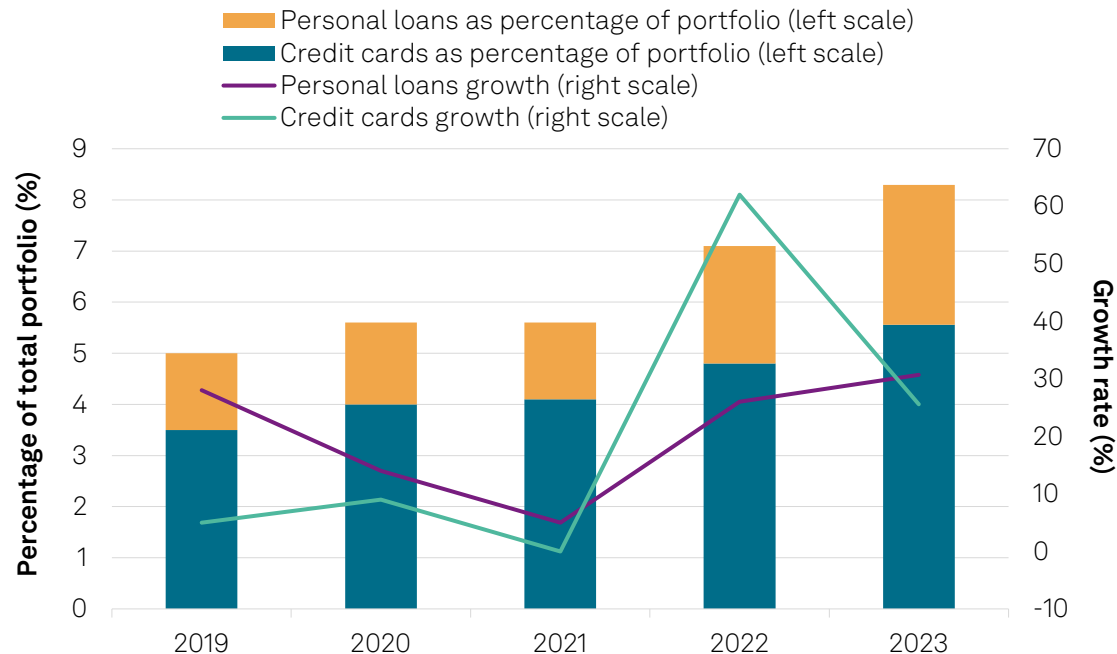


Note: 2023 data is as of Sept. 30, 2023. Sources: BSP, S&P Global Ratings.

Consumer Loans: Rising Share Of Unsecured Loans

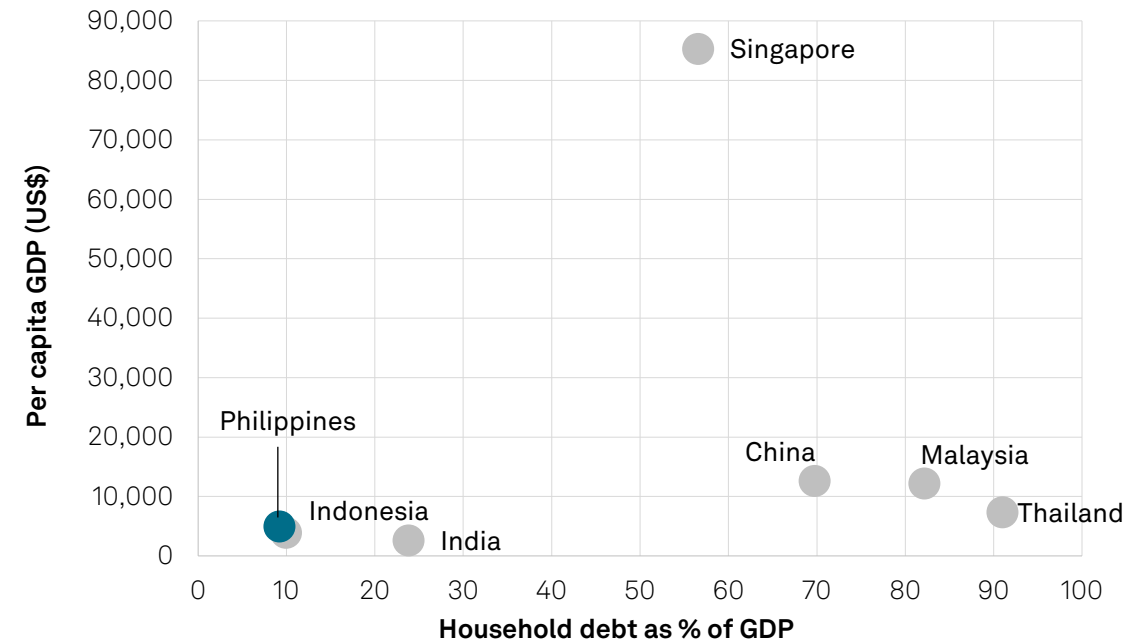
- Credit cards and unsecured personal loans form more than 8% of total loans compared with 5% in 2019. These portfolios will continue to grow at a rapid pace.
- Risks are manageable because of low household leverage and stable employment conditions.

Unsecured loans are growing rapidly



Note: 2023 data is as of Sept. 30 and growth rates are annualized for the nine months ending Sept, 30. Source: BSP.

Household leverage is low at 10% of GDP

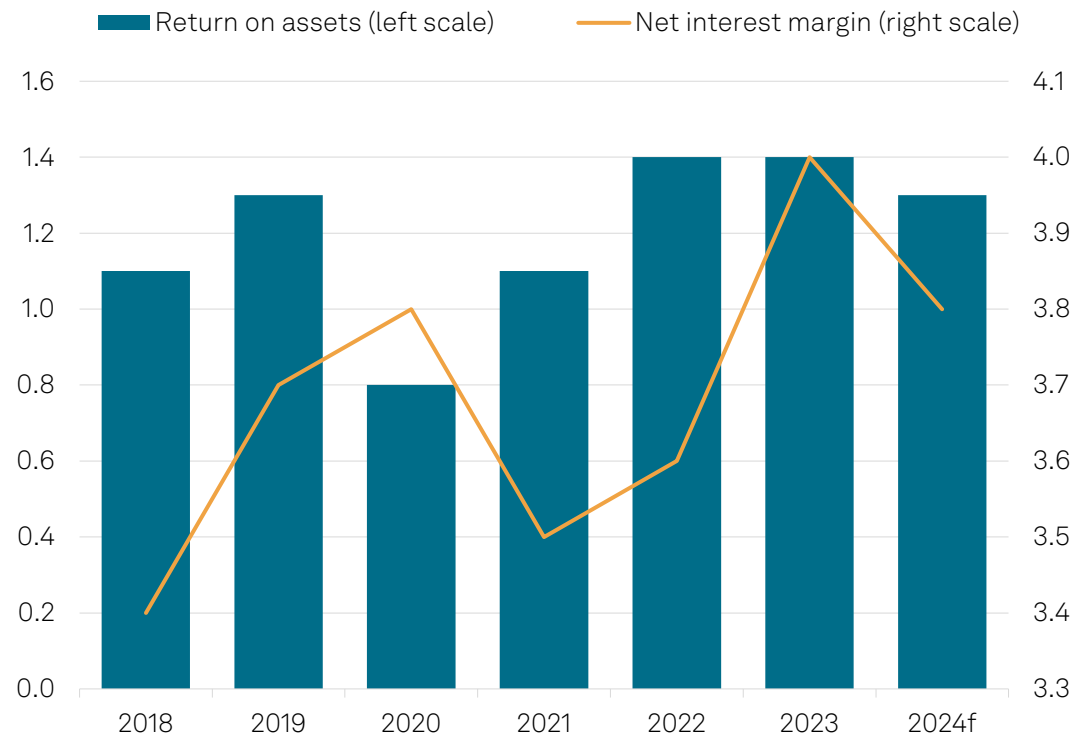


Note: Data is on estimated basis for Dec. 31, 2023. Source: S&P Global Ratings.

Profitability Should Normalize In Line With Interest Rates

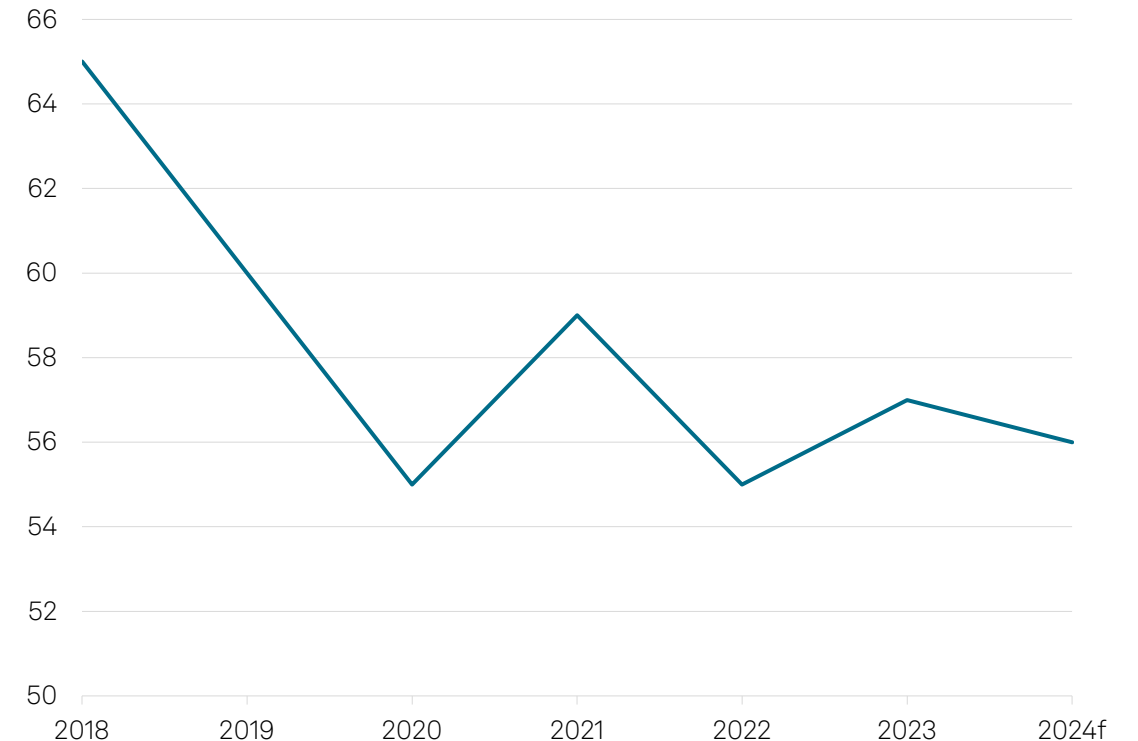
Lower operating expenses and higher share of unsecured loans provide upside potential

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



Note: 2023 data is as of Sept. 30, 2023. f--Forecast. ROA--Return on assets. Sources: BSP, S&P Global Ratings.

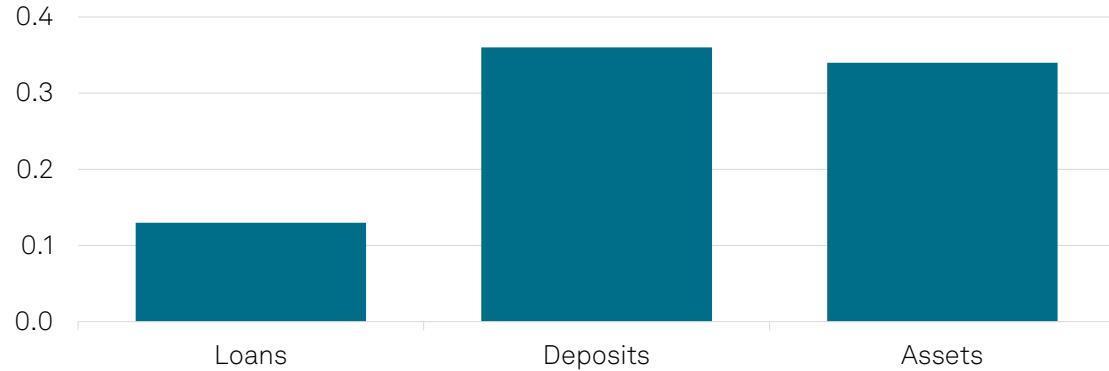
Sustained reduction in costs from digitalization Cost to income ratio (%)



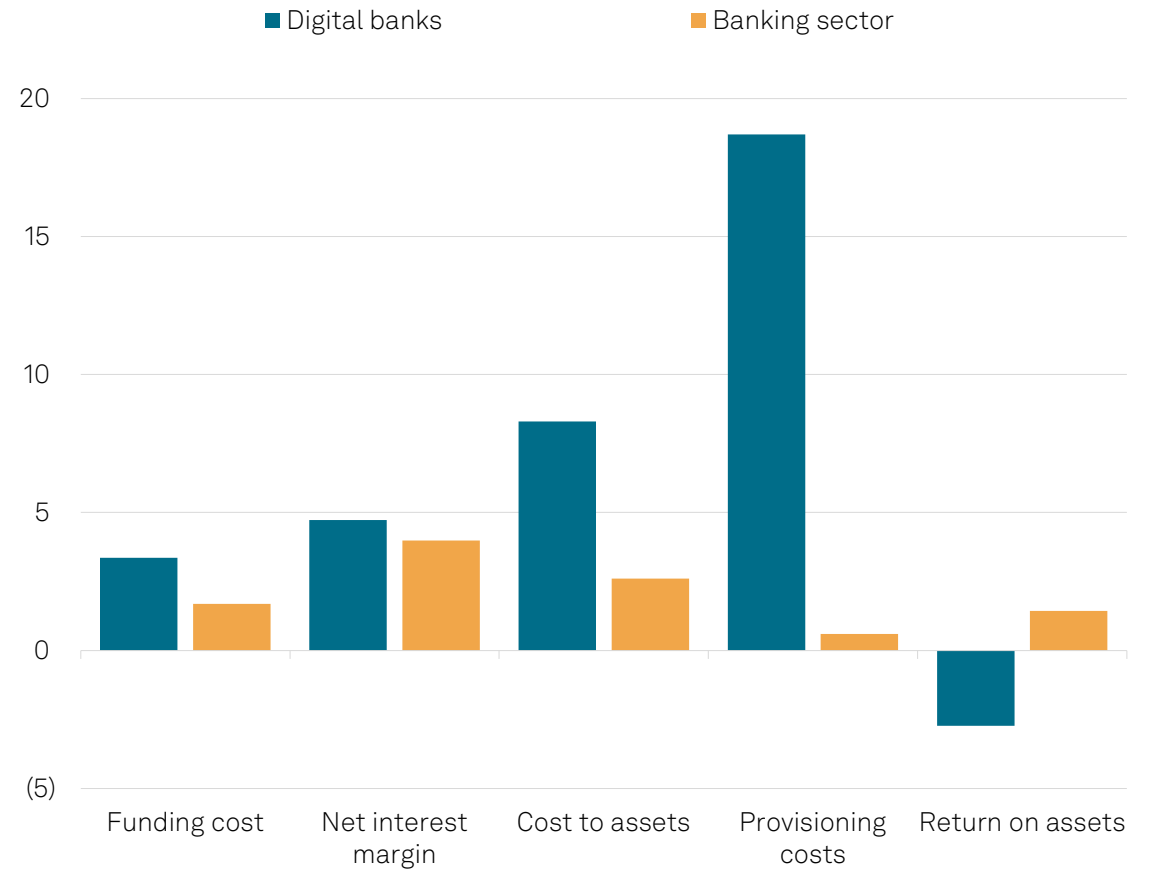
Note: 2023 data is as of Sept. 30, 2023. f--Forecast. Sources: BSP, S&P Global Ratings.

Digital Banks: Nascent Operations; Weak Asset Quality

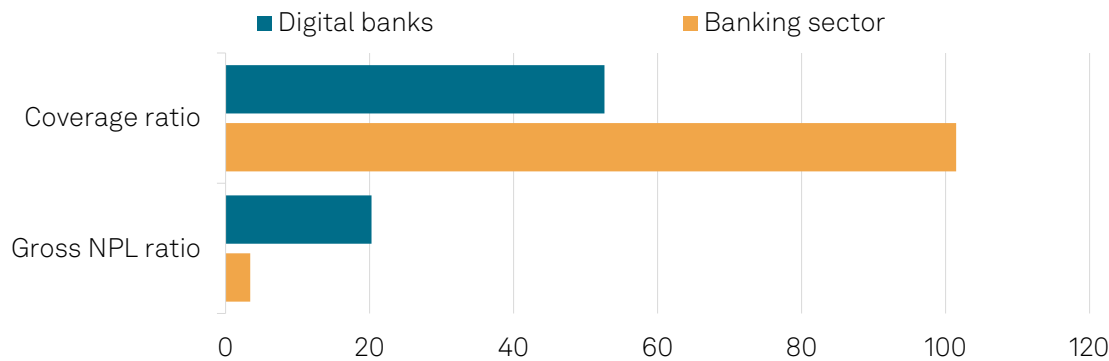
Digital banks' market share is limited (%)



High costs are constraining profitability (%)



Asset quality is significantly weaker than the industry (%)



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

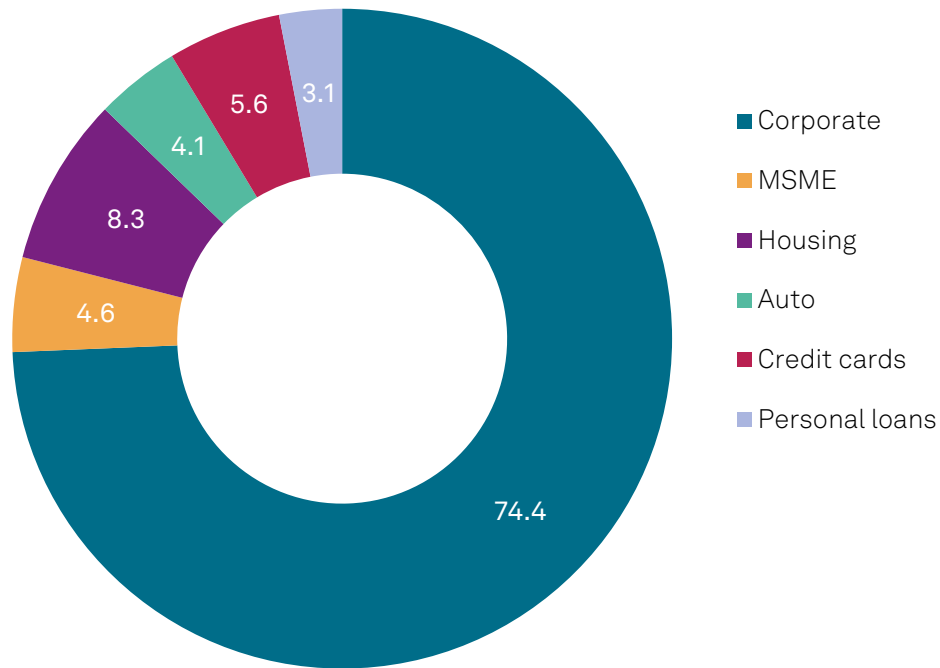
Data as of end-Sept. 2023. Sources: BSP, S&P Global Ratings.

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

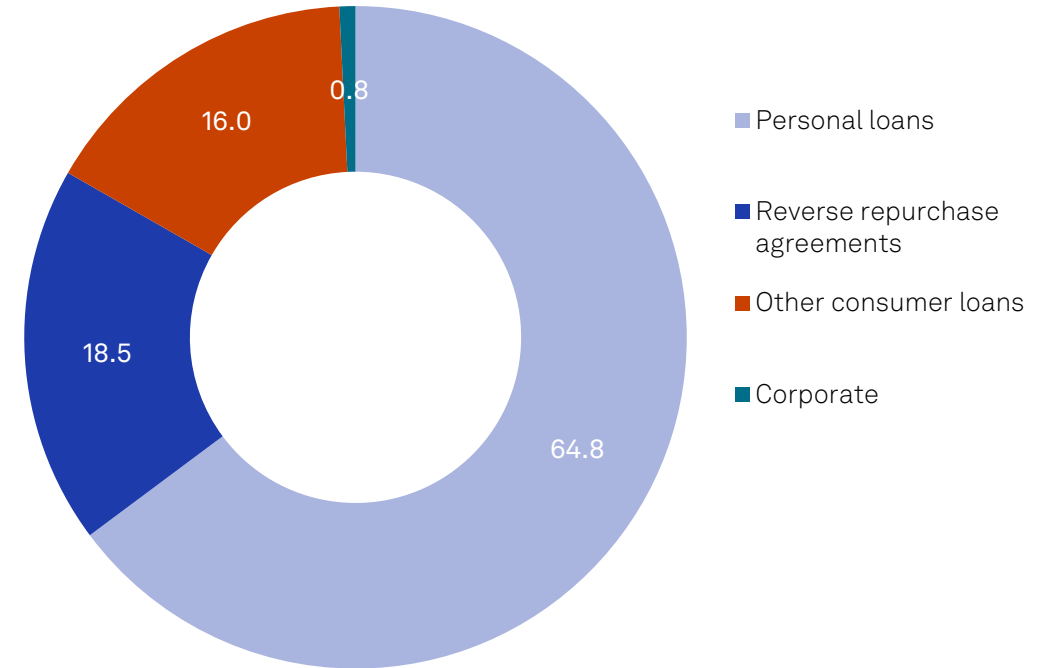
Loan breakdown of banking sector (%)



Data as of Sept. 30, 2023. MSME--Micro-, small, and medium-sized enterprises. Source: BSP.

Digital banks have heavy exposure to unsecured loans

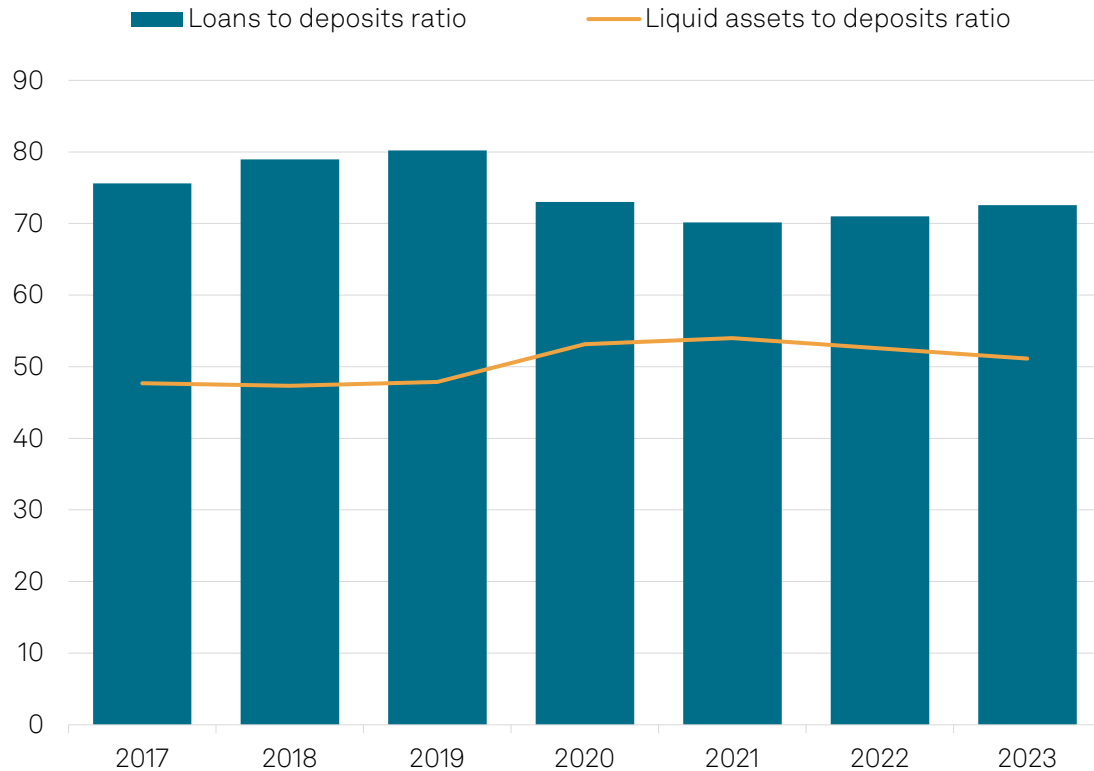
Loan breakdown of digital banks (%)



Data as of Nov. 30, 2023. Source: BSP.

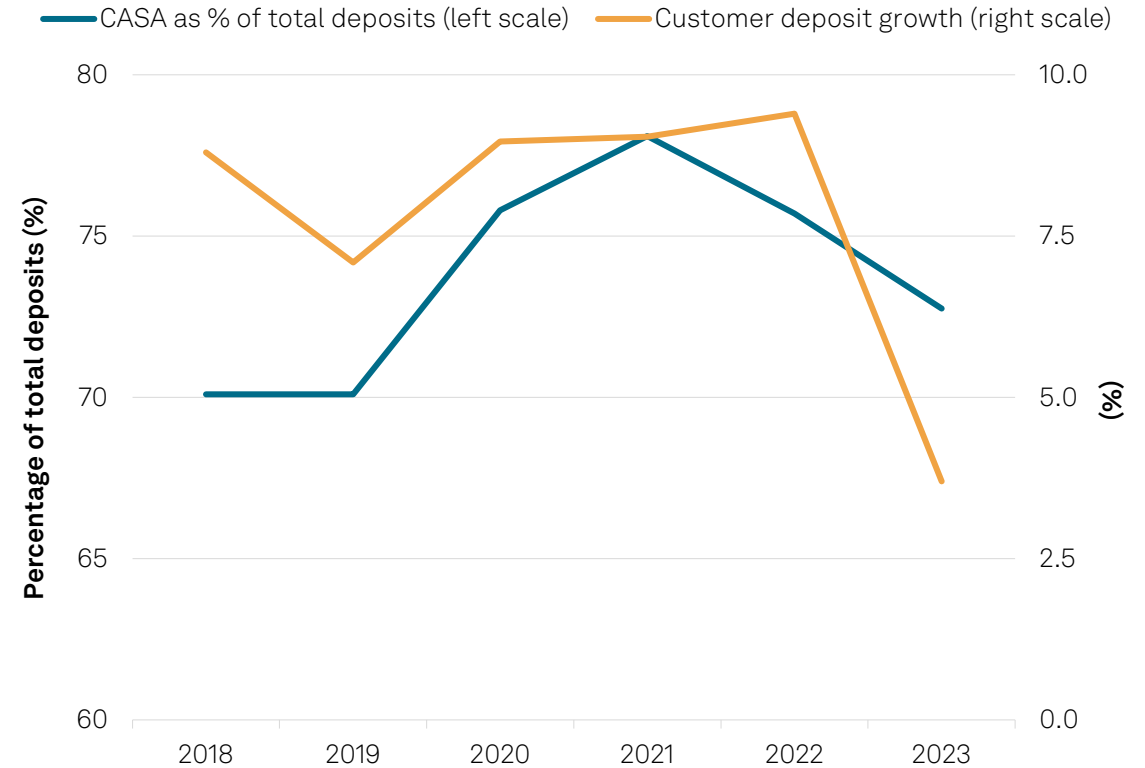
Funding And Liquidity Metrics Are Healthy

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



Source: BSP.

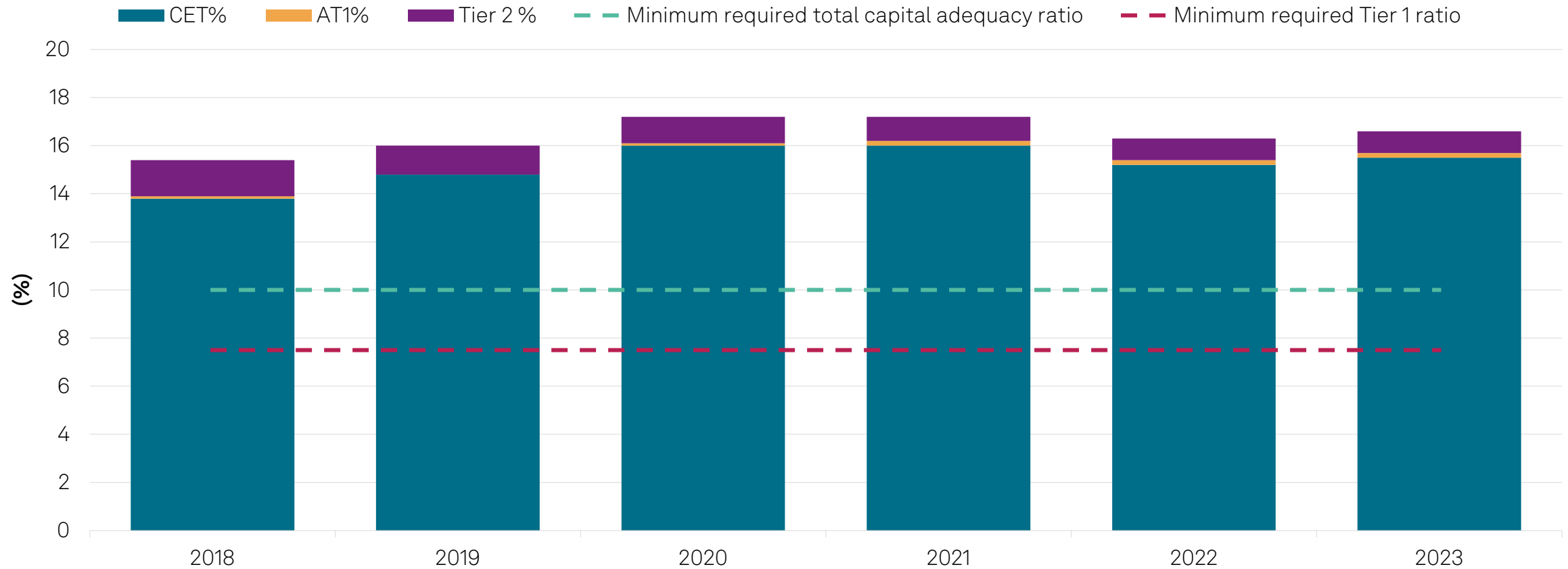
CASA decline will persist on higher term deposit flows



CASA--Current and savings accounts. Source: BSP, S&P Global Ratings' estimates.

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.



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

Analytical Contacts

Financial Institution Ratings



Nikita Anand

Director

nikita.anand@spglobal.com



Ivan Tan

Director

ivan.tan@spglobal.com



Geeta Chugh

Managing Director

geeta.chugh@spglobal.com

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge) and www.ratingsdirect.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/ratings/usratingsfees.

Australia: S&P Global Ratings Australia Pty Ltd holds Australian financial services license number 337565 under the Corporations Act 2001. S&P Global Ratings' credit ratings and related research are not intended for and must not be distributed to any person in Australia other than a wholesale client (as defined in Chapter 7 of the Corporations Act).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

spglobal.com/ratings

S&P Global
Ratings