

Banks - Philippines

2023 industry loan growth up 7.3% YoY/2.7% MoM

Industry Overview

System-wide loans at 128% of pre-COVID level

Industry loans net of RRP's rose 7.3% YoY as of end-December 2023 to Php11.4tn. MoM, loans grew 2.7%, the fastest pace of monthly growth in twelve months. System-wide loans are now at 128% of Dec. 2019's level, after falling to an intra-year low of 116% in February. 2023 loan growth was in-line with our estimate with a gentle recovery expected in 2024E (10%). Our forecast seems conservative in view of what appears to be a more positive outlook on the back of easing inflation and improving business sentiment.

Major sectors led growth

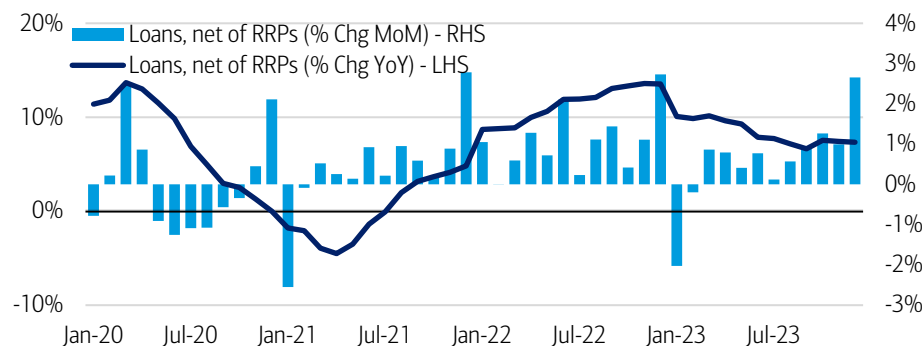
Consumer loans excl. mortgages (23.6%) led growth, followed by Real Estate (10.8%), Trade (7.9%), and Utilities (6.4%). These four combined account for 56% of total loans. Credit cards rose 30% YoY but this has so far not come at the expense of quality with NPL ratio of 4.09% (3Q23) vs. 5.25% pre-COVID. Auto loans continued to recover, up 17% YoY and now just above its pre-COVID level (101% vs. a low of 77% in Dec. 2021).

Asset quality not an issue

Asset quality remains benign with industry gross NPL ratio of 3.01% as of end-December, down 15bp MoM. YoY, the NPL ratio rose 7bp on the back of a 12% YoY increase in absolute NPLs. Credit costs will continue to normalize to 39bp (FY23E – 44bp) with NPL cover of 108.2%. Past due ratio improved to 3.5% (Nov-2023: 3.76%) while restructured loans are at 2.22% of total loans (vs. a high of 3.25% in Jan. 2022). Reiterate positive sector view, underpinned by undemanding valuation, improving credit growth, sustained NIMs, and lower credit costs.

Exhibit 1: YoY loans +7.35%, MoM +2.65%

U/KB loan growth YoY and MoM



Source: BSP, PEP estimates

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Glossary:

BSP – Bangko Sentral ng Pilipinas

Bp – Basis points

MoM – Month on month

NPLs – Non-performing loans

RRP – Reverse repurchase agreements

U/KB – Universal, commercial banks

YoY – Year on year

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Exhibit 3: U/KB breakdown of loans (December 2023)

YoY growth remains strongest in Household Consumption, Real Estate, and Trade

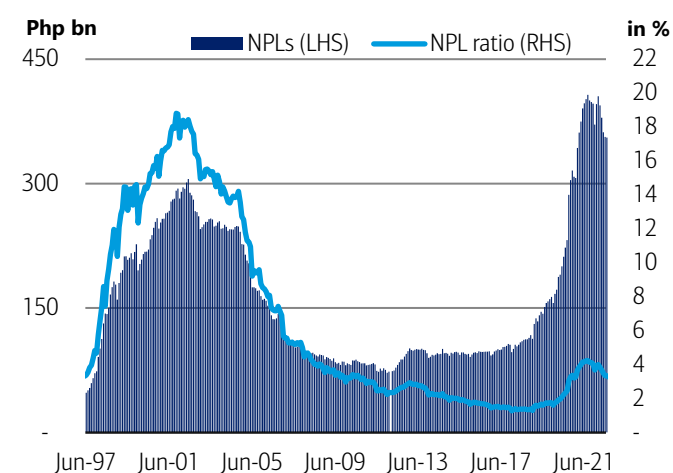
in Php bn	Dec-23	Share	MoM	YoY
Electricity, Gas, Steam and Air-conditioning Supply	1,274	11.2%	0.1%	6.4%
Financial and Insurance Activities	985	8.6%	-1.4%	-5.2%
Manufacturing	1,275	11.2%	3.5%	1.2%
Real Estate Activities	2,425	21.3%	4.0%	10.8%
Wholesale and Retail Trade, Repair of Vehicles	1,370	12.0%	3.4%	7.9%
Household Consumption	1,271	11.2%	1.8%	23.6%
Others	2,789	24.5%	3.9%	6.2%
Total	11,390	100.0%	2.7%	7.3%

Source: BSP, PEP estimates

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Exhibit 3: NPL ratio down to 3.01% vs. COVID peak of 4.23%

NPLs vs. NPL Ratio (January 1997 – December 2023)



Source: Bangko Sentral ng Pilipinas (BSP), PEP estimates

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Exhibit 4: Coverage at par with pre-COVID level

NPL Cover (January 1997 – December 2023)



Source: Bangko Sentral ng Pilipinas (BSP), PEP estimates

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