2023 Trends in Philippine Consumer Finance

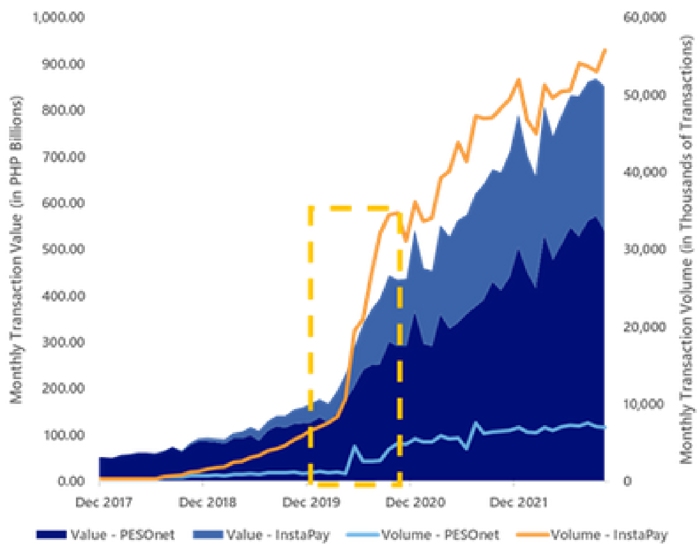
The Philippine Consumer Finance landscape saw big changes over the past three years, mostly out of necessity. In 2020-2021, Payment wallet operators such as GCash rose to prominence as mobility restrictions necessitated ways of making payments digitally. Six new digital banks entered the market, while the large traditional banks beefed up their IT spend to catch up – further solidifying the shift to digital. In 2022, revenge spending took over as pent-up consumer demand fueled consumption.

The question now is what happens next? Is the shift to digital permanent? Will the robust consumption growth in 2022 be sustained? How will consumers fund their increased expenditures? **We at the NRI Manila Branch, in this article, aim to answer these questions by (1) dissecting what the data says & (2) sharing the top themes that we think will dominate the industry for 2023.**

1.The shift to digital transactions, which was triggered by the pandemic, is here to stay.

As many expected, online banking transactions spiked during the pandemic – with aggregate PESOnet & InstaPay monthly transaction value/volume growing 225%/445% respectively in 2020. The question back then was whether these figures would revert to pre-pandemic levels as mobility restrictions were relaxed. The answer now is clear. **With transaction volume still growing at a rapid pace of 28.8% YoY as of October 2022, the numbers suggest that this shift to digital transactions is here to stay.**

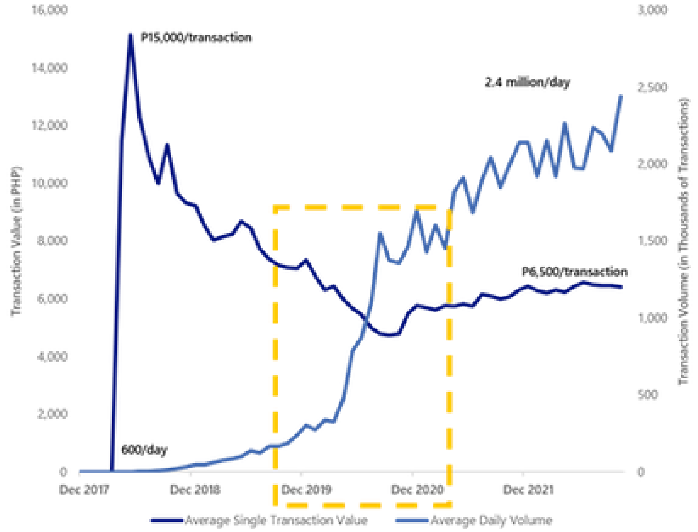
Figure 1: Combined PESOnet & InstaPay Monthly Transaction Value & Volume Data
November 2017 to October 2022



Source: BSP Data

We think that the sustained growth momentum is indicative of an underlying change in consumer behavior: Filipinos have started to integrate online banking to their daily lives, using it for more smaller transactions. The numbers support this hypothesis. Ever since the start of PESOnet's operations in November 2017, the average value of a single transaction has gone down from P160,000 to P77,000 as of October 2022 – representing a 13.9% annual decline over the past four years. InstaPay's average single transaction value has seen a similar fall, from P15,000 at its inception in May 2018 to P6,500 as of October 2022 – representing a -17.7% CAGR over the past 3.5 years.

Figure 2: InstaPay Average Transaction Value and Daily Volume Data
May 2018 to October 2022



Source: BSP Data

Figure 3: PESOnet Average Transaction Value and Daily Volume Data
Nov 2017 to October 2022

Source: BSP Data

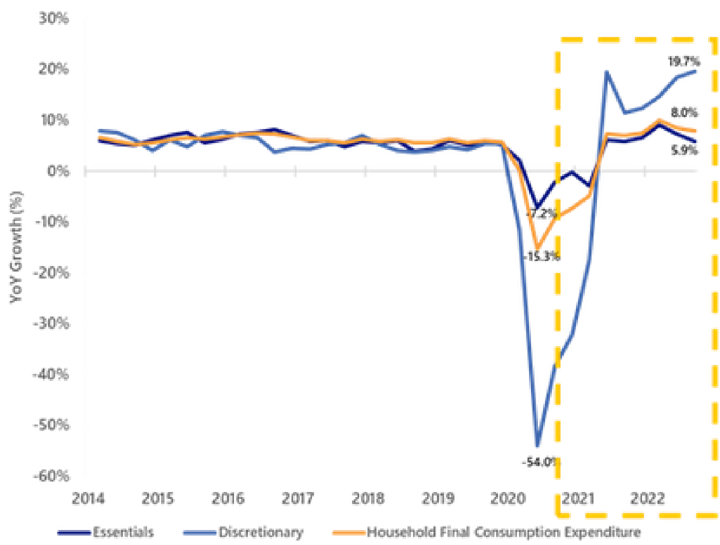
The drop in average single transaction values coincided with exponentially high growth in daily transaction volumes for both platforms. PESOnet saw an 86.3% annual uptick from 16,500 in November 2017 to 350,500 as of October 2022. Meanwhile, InstaPay daily transaction volume grew at an even faster pace – posting a 557% CAGR from 600 daily transactions in May 2018 to 2.4 million today.

These numbers suggest that customers have begun to use online banking channels to pay for small ticket items, which in the past they would have paid for in cash.

2.Consumer spending moving forward will be funded by debt, as household savings dry-up.

Private consumption continued its post-pandemic recovery, growing 8.0% in the 3rd quarter of 2022. Revenge spending was the main driver – as shown by a 19.7% increase in discretionary consumption, with easing mobility restrictions and improving economic conditions overpowering persistently high inflation and rising interest rates. Essential spending, meanwhile, lagged at 5.9% growth. Food/beverage (+3.9%) and housing utilities (+1.3%) were the main drags, as higher commodity prices shrunk consumer wallet sizes.

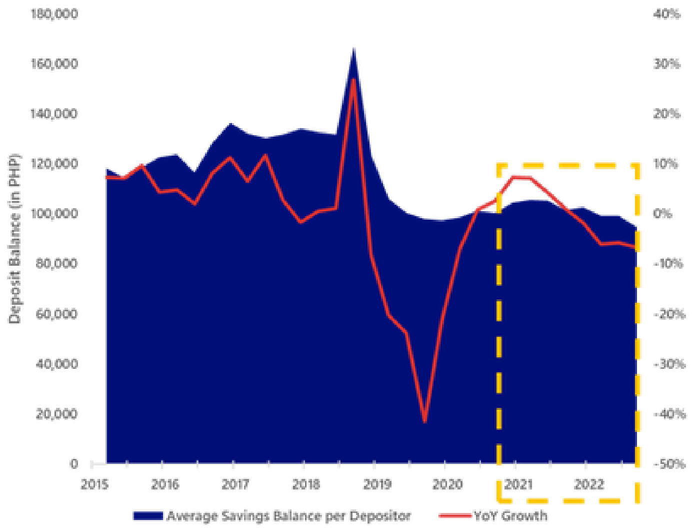
Figure 4: Household Final Consumption Expenditure (HFCE)
Constant 2018 Prices; 2014 to 2022



Source: PSA Data

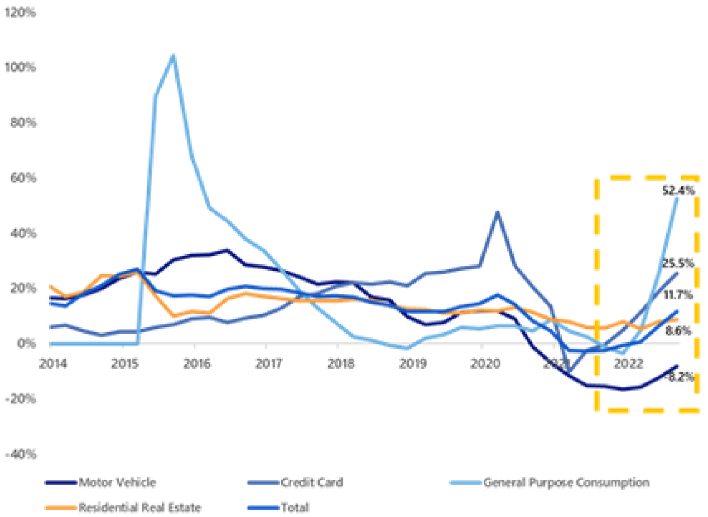
The increased consumption, initially, was funded by pent-up savings from the pandemic. In the first year of lockdowns, the average savings account balance climbed 8% – as mobility restrictions all but eliminated discretionary spending. As the lockdowns were eased, consumer spending gained steam fueled by the excess savings from the year prior. As a result, average savings account balances fell 10% over the past 12 months.

Figure 5: Average Savings Account Balance per Depositor
2015 to 2022



Source: BSP Data

Figure 6: Consumer Loan Growth
2014 to 2022



Source: BSP Data

As the excess savings dried up, consumer loans accelerated – growing 11.7% YoY in the 3rd quarter of 2022. This increase was led by the general-purpose consumption (+52.4% YoY) and credit card (+25.5%) loan segments. **These numbers suggest that households have begun to turn towards debt to fund further consumption. We expect this trend to continue in 2023.**

<u>3.Macroeconomic headwinds may finally overpower revenge spending in 2023.</u>

We expect revenge spending, which drove robust consumption growth in 2022, to taper off in 2023 as (a) consumers begin to feel the economic pain caused by persistently high inflation & rising interest rates and (b) economic growth slows down in 2023.

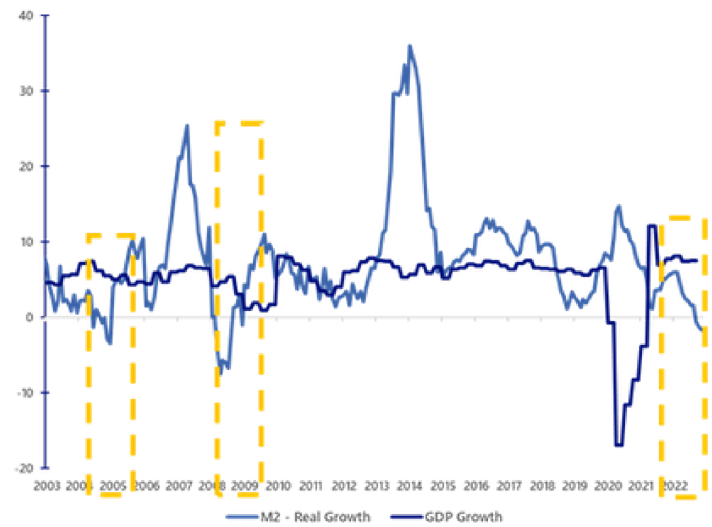
A. Inflation, Interest Rates, & Consumer Loan Growth

High inflation and rising interest rates typically discourage consumers from borrowing. This phenomenon was seen in the 2018 rate-hike cycle, which saw consumer loan growth fall by six percentage points, as inflation reached 6.4% and the BSP hiked its policy rates by 175bps. **With inflation reaching 8.7% in January 2023 and the BSP already raising rates by ~350bps since the start of its 2022 rate hikes, it would not be a surprise to see consumer loan growth follow a similar path as it did in 2018.**

Figure 7: Consumer Loan Growth, Inflation Rate, & BSP Policy Rate
2015 to 2022

Source: BSP Data

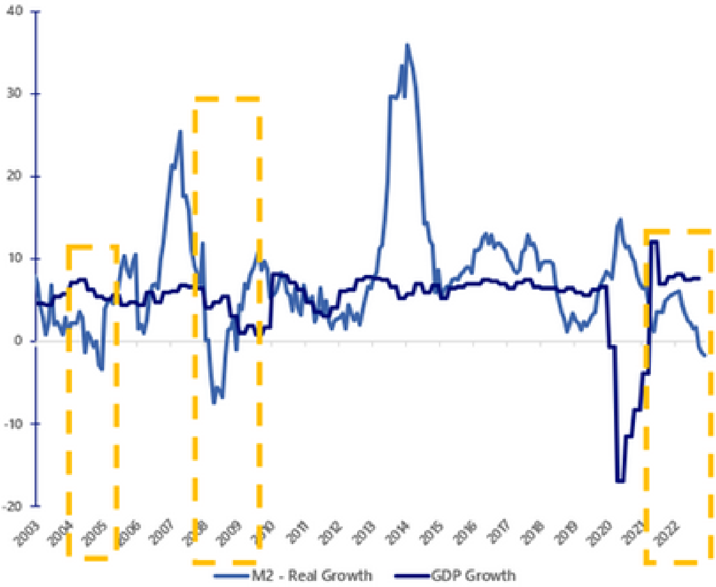
Figure 8: Real Money Supply (M2) and GDP Growth
2002 to 2022



Source: BSP and PSA Data

Consumer Loan Growth, Inflation Rate, & BSP Policy Rate
2015 to 2022

Real Money Supply (M2) and GDP Growth
2002 to 2022



B. Real Money Supply & GDP Growth

Real money supply (M2) growth was down 1.7% YoY as of November 2022. Over the last 20 years, real M2 growth has only gone below zero twice: 2004 and 2008. In both of those cases, average GDP growth for the next 12 months fell at least two percentage points vs. the past 12 months. **If history were to repeat itself, then the recent decline in real money supply suggests a potential slowdown in GDP growth for 2023.**

Going back to the three key questions from earlier in the article:

1. **Is the shift to digital permanent? Yes**
2. **Will the robust consumption growth in 2022 be sustained? Yes, but at a slower pace.**
3. **How will consumers fund their increased expenditures? More debt.**

About the Contributor

Allan Tripon Jr., CPA, CFA
Senior Manager/Sector Head
allan.tripon@nrisg.com

Allan Tripon Jr. is the Business Strategy Consulting Head of Nomura Research Institute Singapore – Manila Branch. He specializes in topics on financial markets, company valuation, economics, accounting, and taxation.

Prior to NRI, he was an investment research analyst for BDO Trust – covering the banking and mining industries, along with the large Philippine conglomerates. He was also a treasury and banking manager for P&G.

He graduated with a degree of BS Business Administration and Accountancy (Magna Cum Laude) from the University of the Philippines Diliman in 2019. He is also a Certified Public Accountant (Top 15) and Chartered Financial Analyst.

Share the Next Values!

Interested to talk about the article or any NRI's services?

nrimanila-inquiry@nrisg.com
+63-2-7757-1946 or +63-2-7757-1947
26/F Yuchengco Tower, RCBC Plaza,
6819 Ayala Avenue, Makati City 1200 Philippines