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Banking on the future of MSMEs



3rd Quarter
Banking Report
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COMPANY	AUD	BDO	BDO-USA	BT	CHB	EW	MLT	PAB	PAB	PAB	PAB	PAB	PAB	PAB	PAB
BOI ALBA C. RAO Head of Sales Training Global Sales Training and Global, Inc.	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
JAYME GONZALES Senior Research Analyst Philippine Statistical Data	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
ANNE MARIE A. RODRIGUEZ Head of Research Philippine Statistical Data - Philippines	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
JOY A. DELMAR Head of Sales Regional Development Group	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
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ABOUT THIS ISSUE

In the third quarter, the combined assets of the country's 45 universal and commercial banks (U/KBs) increased, the fastest in two quarters, while lending growth slowed due to high borrowing costs.

In the July–September period, total assets in the country's largest banks grew by 8.78% year on year to P23.37 trillion from P21.48 trillion in the same period in 2022. The pace was the fastest in two quarters or since the 11.25% in the first quarter of 2023.

Total loans extended by these big banks slowed by 7.01% to P11.44 trillion in the third quarter, weaker than the 9.74% growth posted in the same period in 2022. It was the slowest in six quarters or since the 6.21% growth in the first three months of 2022.

Nonperforming loans (NPLs) or bad loans during the period rose by 6.8% to P374.27 billion from P350.44 billion in the same quarter in 2022, bringing the NPL ratio – the share of soured loans to the total loan portfolio – to 3.62% from 2.91% in the same period in 2022.


Meanwhile, the nonperforming asset (NPA) ratio, or the share of NPLs and foreclosed properties to total assets, further eased to 0.89% from 1.10% in the same period in 2022.

In this edition, we focused on the future of micro, small, and medium enterprises (MSMEs) in banking.

We look into why banks struggle to meet the necessary credit allocation to loan small businesses and how they can restructure their lending practices to these types of businesses and build credit offerings that will cater to the needs of MSMEs.

We also discuss how to protect MSMEs from illegal lenders, as some small businesses lack criteria for applying for business loans and may end up borrowing from informal lenders.

Other stories in this issue include a Q&A with GoTyme Bank, a licensed digital bank that plans to launch a product focused on MSMEs and how it stands out among other digital banks; economists' outlook for the local financial markets; and analysts' bank stocks recommendations.

Since 1987, *BusinessWorld* has been tallying the quarterly performance of the country's U/KBs based on their published statements of condition. Apart from asset size, the Quarterly Banking Report provides other key ratios used in measuring bank performance, such as capital adequacy, earnings, and liquidity. 

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Why banks should reconsider their lending approach to MSMEs

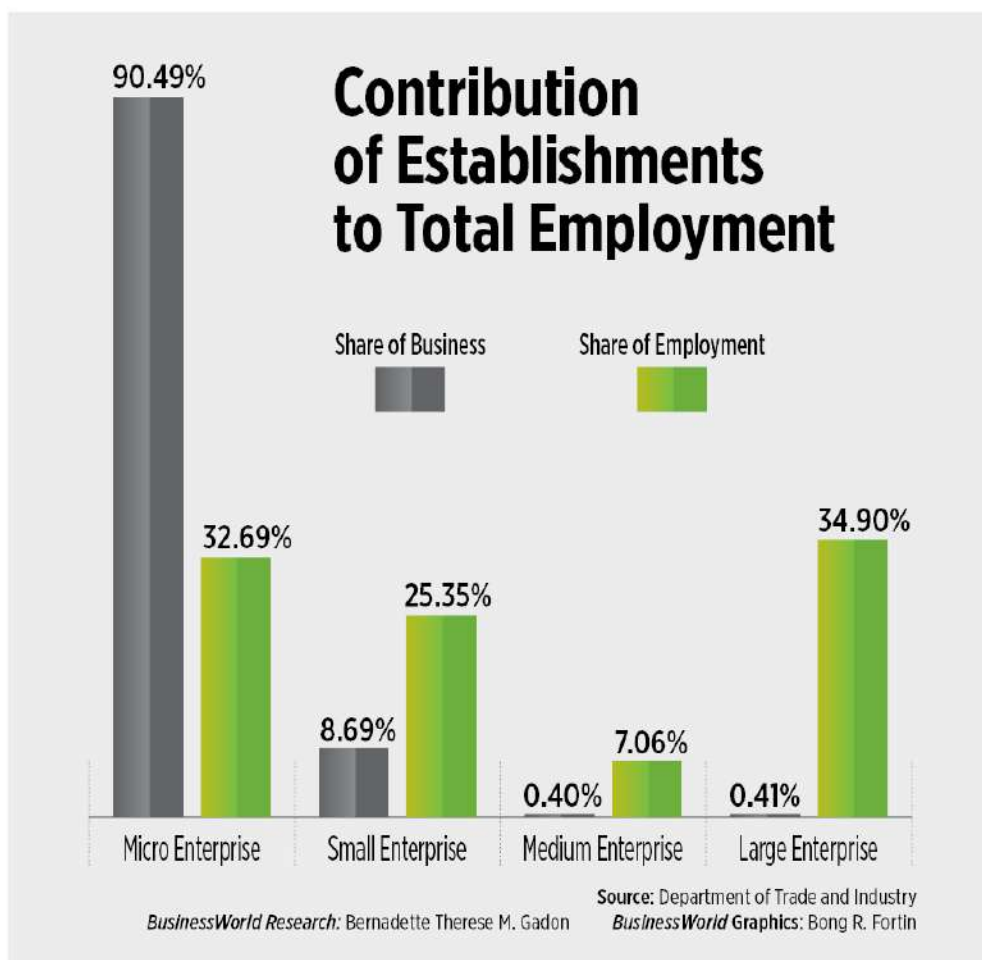
By **Abigail Marie P. Yraola**, *Researcher*

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he country's small enterprises have been the backbone of the economy but their access to credit to grow their business has been challenging.

A total of 1.11 million business enterprises were operating in the Philippines in 2022, Trade department data showed.

About 99.59% of these were MSMEs while 90.49% were micro enterprises. Additionally, of these establishments, 8.69% were small



enterprises while 0.40% were medium enterprises.

Large enterprises, meanwhile, accounted for 0.41% of the businesses operating in the country.

Latest Bangko Sentral ng Pilipinas (BSP) data showed that as of June, banks in the country did not meet the mandatory credit allocation targets for small businesses.

As of June, the country's banking industry's loan portfolio reached P9.8 trillion, with loans to micro-, small-, and medium-sized enterprises (MSMEs) accounting for just 4.71% or P461.387 billion.

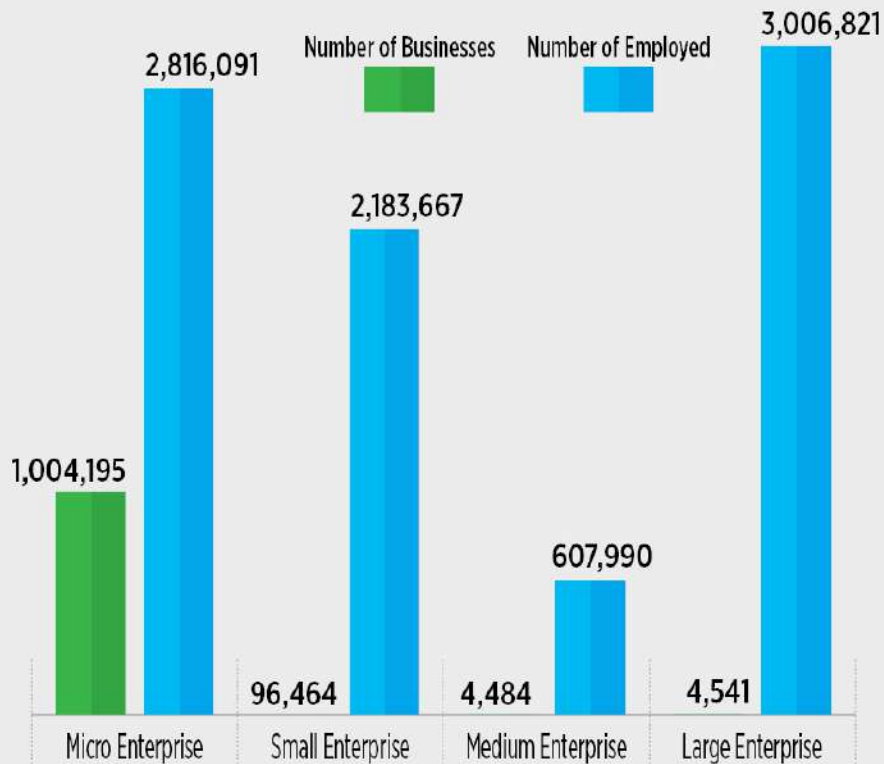
The compliance rate for micro and small enterprises (MSEs) is still under the mandated 8%, with only 1.93% of the required funds allocated to these businesses.

On the other hand, medium-sized enterprises (MEs) have exceeded the mandated 2% allocation with a compliance rate of 2.78%.

BSP data also showed that the rural and cooperative banks' compliance rate with MSEs stood at 18.59% while for MEs at 9.32%.

The central bank has stated that they are aware of the importance of financial and digital infrastructure in reducing risks and

2022 Philippine MSME Statistics



Source: Department of Trade and Industry

BusinessWorld Research: Bernadette Therese M. Gadon

BusinessWorld Graphics: Bong R. Fortin

costs associated with financing for MSMEs.

They also emphasized that they are continuously providing regulations that enable financial support for MSMEs and make it easier for them to access funds. The BSP is working towards bridging the information gap and addressing information asymmetry in the MSME market.

BSP reiterated that they are committed to providing a regulatory environment that addresses financial access barriers such as cost, lack of infrastructure, and information asymmetry, among others.

Karen L. Cua, senior vice-president at BDO Network Bank, said commercial banks struggle to meet the mandatory credit allocation targets for small business principally for two reasons.

They are either undocumented or underdocumented so that traditional methods for credit evaluation would be challenged and the owners of these small business have little or no assets against which banks can secure their exposure.

BDO Network Bank, the rural banking arm of BDO Unibank,