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Inside the Philippines

June 2023

Macro Movements: Upgrades in GDP growth projections and improving employment figures

The World Bank raises its Philippine growth forecast and Fitch upgrades its outlook

- The World Bank revised its 2023 growth forecast for the Philippine economy upwards to 6% from a previous 5.4%, due to strong domestic demand despite elevated inflation. A rebound in employment and improved consumer sentiment, complemented by robust overseas remittances, are anticipated to drive local consumption. This signals a resilient economic outlook for the Philippines, with domestic factors offsetting inflationary pressures.
- Fitch Ratings affirmed the Philippines' investment grade rating and upgraded its outlook to stable, reflecting optimism over the country's post-pandemic recovery. Fitch forecasts GDP growth of over 6% in the medium term, significantly higher than the "BBB" median of 3%.

Unemployment drops to 4.5% in April amid increased hiring

- The Philippine unemployment rate dipped to 4.5% in April 2023, down from 5.7% in the previous year, with around 2.3 million individuals actively seeking work, according to the Philippine Statistics Authority. This figure is a 160,000 decrease from the 2.4 million unemployed Filipinos in March 2023 and a more than half a million decrease from the 2.8 million in April 2022. The year-to-date average unemployment rate stands at 4.7%, improving from 5.4% in 2022 and 7.8% in 2021.

Industry Insight: Office market updates and pipeline real estate investment trust (REIT) listing

Office leasing sees upswing despite projected rise in vacancies

- JLL Philippines reported a substantial 39% uptick in office leasing volumes in the second quarter of 2023, predominantly fueled by the business process outsourcing industry. However, the firm anticipates a tempering of these volumes in the coming quarters as the market normalizes. With a significant amount of supply set to hit the market, JLL projects a rise in the current 17.9% vacancy rate throughout the remainder of the year.
- According to Colliers Philippines, despite an improvement in office vacancies in Metro Manila during the first quarter, a rise in vacancy levels is anticipated by year-end, driven by slow absorption and the addition of new office spaces. The firm's data predicts vacancies could peak at 21%, exceeding their earlier 20.2% estimate. The first quarter saw the construction of 48,000 sqm of new office space, a figure set to escalate to 569,100 sqm by the close of 2023.

SM Prime eyes rollout of the country’s largest REIT listing in the second half of 2023

- SM Prime Holdings, led by the Sy family, is preparing for the largest REIT listing in the Philippines with a USD 1 billion initial public offering targeted for the second half of 2023. The REIT has a target valuation of USD 3.5 billion to USD 4 billion and is expected to include an initial portfolio of 12-15 shopping malls out of SM Prime's 82 total malls. The specific mall assets to be included are yet to be finalized.

Bank Sector Snapshot: Asset growth acceleration and reductions in reserve requirements

Philippine banks witness the quickest asset growth in three quarters

- The combined assets of universal and commercial banks in the Philippines grew by 11.3% to USD 402 billion in the first quarter of 2023, marking the fastest growth in three quarters and outpacing the 9.4% expansion in the fourth quarter of 2022. BDO Unibank remained the largest bank in terms of assets with USD 71.6 billion, followed by Land Bank of the Philippines and Metropolitan Bank & Trust Co.
- The nonperforming loans ratio in the first quarter was 3.63%, higher than the 3.17% in the last quarter of 2022 but lower than the 4.03% recorded in the first quarter of 2022.

Bank reserve requirements to be reduced beginning June 30, 2023

- The Bangko Sentral ng Pilipinas will cut the reserve requirement ratio (RRR) for various financial institutions, releasing an estimated PHP 325 billion (USD 5.8 billion) into the system. The RRR refers to the proportion of customer deposits that banks need to hold as a safeguard against sudden withdrawals.
- This adjustment will reduce the RRR for universal and commercial banks by 250 basis points (bps) to 9.5%, digital banks by 200 bps to 6%, thrift banks by 100 bps to 2%, and rural and cooperative banks by 100 bps to 1%. This reduction is intended to maintain stable domestic liquidity and credit conditions. The move is also timed with the expiration of alternative reserve requirement compliance methods by the end of June 2023.

Sources: Reuters, Nikkei Asia, DealStreetAsia, BusinessWorld, The Philippine Star, Philippine Daily Inquirer, CNN Philippines, Manila Bulletin