## 2. Rapid Growth in Consumer Loan Market: Boon for Financial Inclusion or Risk to Stability?[1]

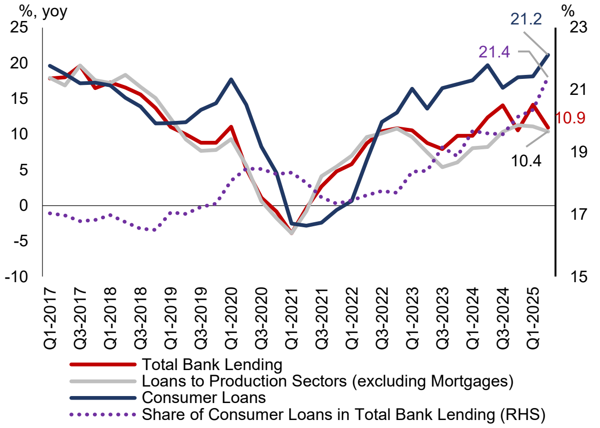
Prepared by Shunsuke Endo and Kuchsa Dy

*The sharp increase of consumer loans in the Philippines in recent years raises the question of whether this trend reflects desirable progress in financial inclusion or signals rising risks to financial stability. This Selected Issue carefully examines the background of the consumer loan surge and discusses policy challenges in reconciling financial inclusion with financial stability.*

### *Trend of Consumer Lending in the Philippines*

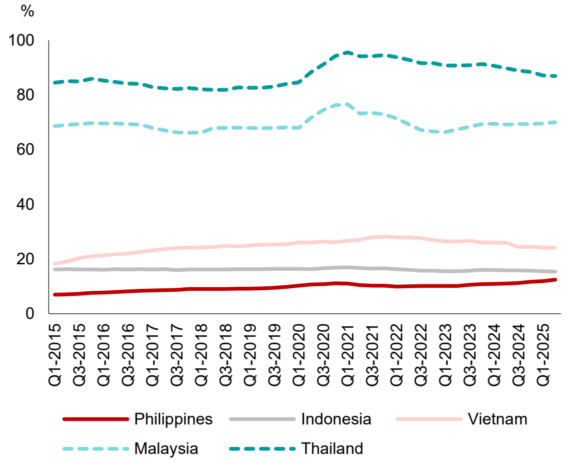
**1. Consumer loans[2] in the Philippines have increased significantly since the second half of 2022, outpacing the growth of total loans following a decline during the COVID-19 outbreak.** Average consumer loan growth from the second half of 2022 to the second quarter of 2025 registered 16.6 percent year on year, exceeding the 10.8 percent in average total bank lending growth year on year during the same period. As a result, consumer loans in the total bank lending of the banking sector rose from around 17 percent before the pandemic to 21.4 percent as of Q2 2025 (Figure A2.1). This trend is also consistent with the household debt-to-GDP ratio in the Philippines, which has been on the rise—a unique development compared with regional peers—while still staying on the lower side (Figure A2.2).

**Figure A2.1. Loan Growth and Share of Consumer Loans in Total Loans**




Source: BSP; AMRO staff calculations
Note: Data are as of the end of the periods indicated. Total bank lending refers to total loans, under the "Loans Outstanding for Production and Household Consumption" statistics.

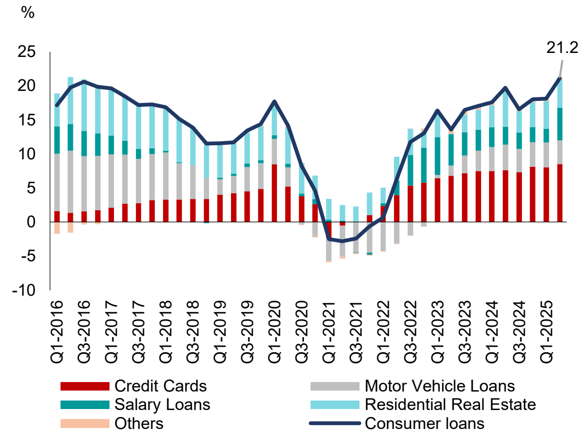
**Figure A2.2. Household Debt to GDP**




Source: CEIC; Institute of International Finance; AMRO staff calculations
Note: Household data are as of the end of the periods indicated.

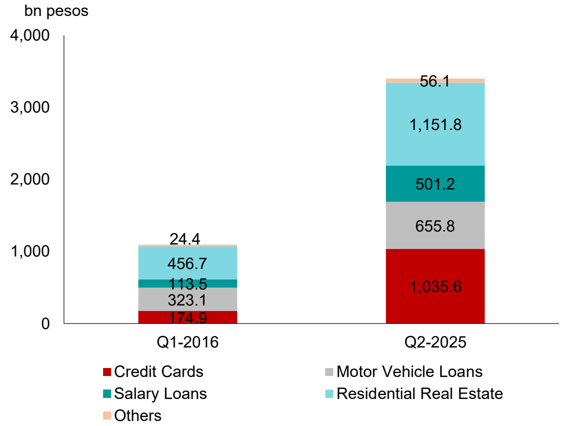
**2. The recent acceleration in consumer loan growth is primarily driven by credit card loans.** While the pre-pandemic growth in consumer loans was generally led by loans for motor vehicles and residential real estate, the increase in recent years has been mainly attributable to credit card loans, which have accounted for approximately 40-50 percent of the growth since the second half of 2022 (Figure A2.3). Correspondingly, the outstanding amount of credit card loans has built up and its share in total consumer loans increased remarkably from 16.0 percent in Q1 2016 to 30.5 percent in Q2 2025, followed by salary loans from 10.4 percent to 14.7 percent, both of which are considered unsecured loans (Figure A2.4). These loans need to be carefully monitored given their unsecured nature due to the absence of collateral assets.

**Figure A2.3. Consumer Loan Growth and Its Contribution**




Source: BSP; AMRO staff calculations
Note: Data are as of the end of the periods indicated.

**Figure A2.4. Consumer Loans by Type, Q2 2025 vs Q1 2016**

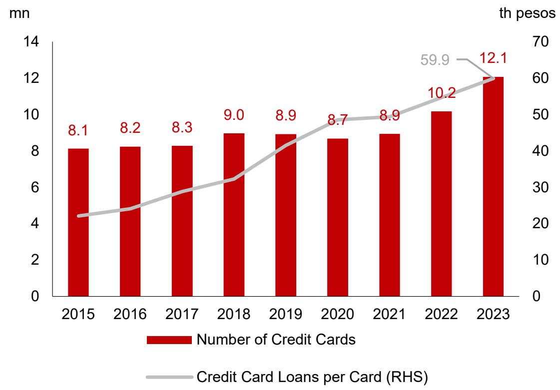



Source: BSP; AMRO staff calculations.
Note: Data are as of the end of the periods indicated.

## *Boon for Financial Inclusion or Risk to Stability?*

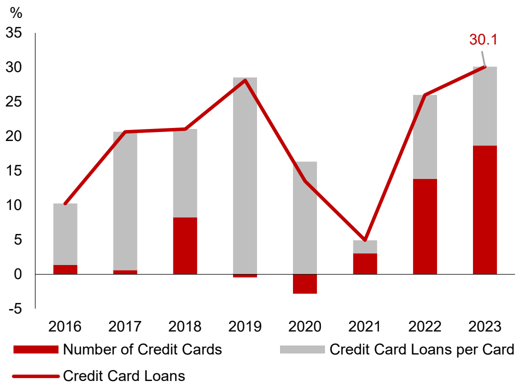
**3. The surge in credit card loans can largely be attributed to the growing number of credit cards, partly reflecting progress in digital financial inclusion.** While credit card loans per card have increased at a stable pace since 2015, the number of credit cards has accelerated noticeably since 2022 (Figure A2.5). Thus, whereas the pre-pandemic increase in credit card loans was mainly driven by higher loans per card, the post-pandemic growth has primarily stemmed from a rise in the number of credit cards since 2022, making a notable shift between the periods before and after COVID-19 (Figure A2.6). This indicates that credit card services have reached a broader segment of the population through both expanded access to credit card services and improved access to digital finance, particularly by facilitating cashless transactions.

**Figure A2.5. Number of Credit Cards Issued and Credit Card Loans per Card**




Source: BSP; IMF Finance Access Survey; AMRO staff calculations.
Note: Credit card loans per card issued are calculated by dividing total credit card loans with the total number of credit cards issued.

**Figure A2.6. Growth of Credit Card Loans and Contribution**



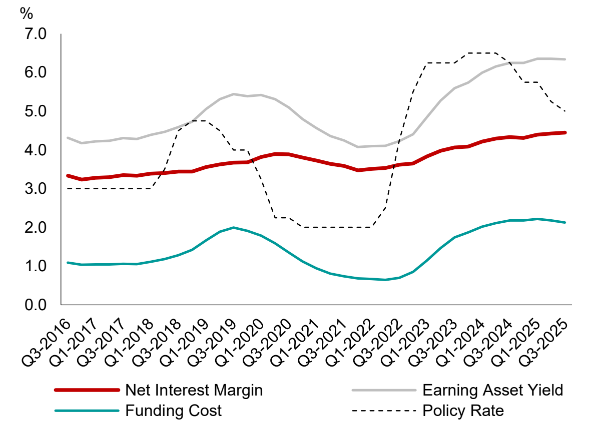

Source: BSP; IMF Finance Access Survey; AMRO staff calculations.

**4. The growth in consumer lending, due in part to progress in financial inclusion, is likely underpinned by both credit supply-side and demand-side factors.**

- On the supply side, banks have allocated resources toward high-yielding consumer lending to boost profitability.[3] While there are issues of strength and lag in monetary policy transmission, banks may have continued to gradually improve net interest margins partially supported by their strategic shift toward consumer lending of higher yields despite the onset of a policy rate easing cycle in 2024 (Figure A2.7). Thus, banks may have tilted more toward business models that generate higher-yield income while simultaneously incurring more credit costs through provisioning for credit losses and bad debt write-offs, which they consider manageable (Figure A2.8).

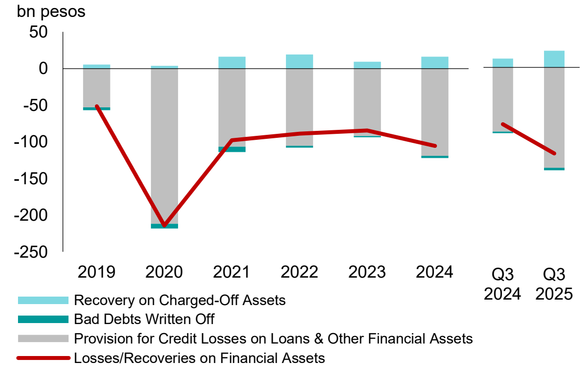
- On the demand side, the Consumer Expectations Survey Report in Q3 2025 indicates that more households intend to apply for loans over the next 12 months compared with a year earlier, with the middle-income group registering the highest percentage at 18.1 percent among all income groups.[4] Anecdotal evidence suggests that consumers have increasingly tapped into consumer credit either to smoothen their cash flow and enhance their standard of living or to shift their funding sources from informal to formal credit with a lower interest burden. Consumers have also increasingly embraced digital payments over cash and adopted new payment models, such as Buy Now Pay Later (BNPL), which may have contributed to the rise in credit card loans as well.

**Figure A2.7. Net Interest Margin**




Source: BSP; AMRO staff calculations.
Note: Data are as of the end of the periods indicated. Data except for the policy rate corresponds to relevant assets, including consumer loans.

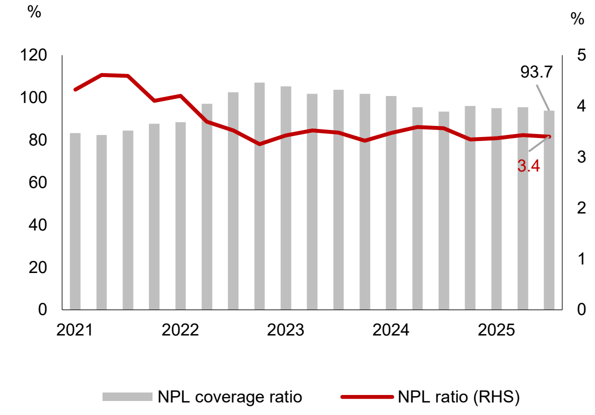
**Figure A2.8. Credit Costs in Philippine Banking System**




Source: BSP; AMRO staff calculations.
Note: Data represent quarterly figures (e.g., Q3 = total for July, August, and September). "Losses/Recoveries on Financial Assets" comprise "Provision for Credit Losses on Loans & Other Financial Assets", "Bad Debts Written Off", and "Recovery on Charged-Off Assets", encompassing expenses related not only to loans but also other financial assets. Expenses related to NPLs are represented simply as credit costs in the main text.

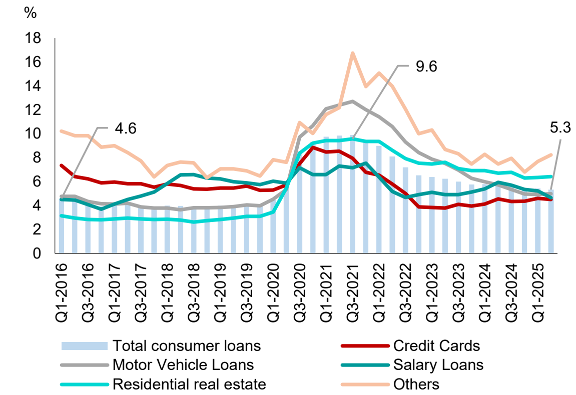
**5. In the near term, the surge in consumer lending is unlikely to undermine the soundness of the banking system.** The nonperforming loan (NPL) ratio and NPL coverage ratio in the overall loan portfolio have remained broadly stable, not showing signs of overheating (Figure A2.9). Similarly, the NPL ratio in consumer loans has continued to decline gradually albeit remaining higher than before the pandemic (Figure A2.10). Credit card loan performance has not yet shown clear signs of deterioration either, with most transactors consistently paying their balance in full each month to avoid interest payments steadily from 2019 to 2025.[5] Considering that the banks are also maintaining ample capital buffers, the banking system is operating effectively by striking a balance between higher profits and financial stability.

**Figure A2.9. NPL and NPL Coverage Ratios**




Source: BSP; AMRO staff calculations.
Note: Data are as of the end of the periods indicated. The data corresponds to total loans, including consumer loans.

**Figure A2.10. NPL Ratios in Consumer Loans**

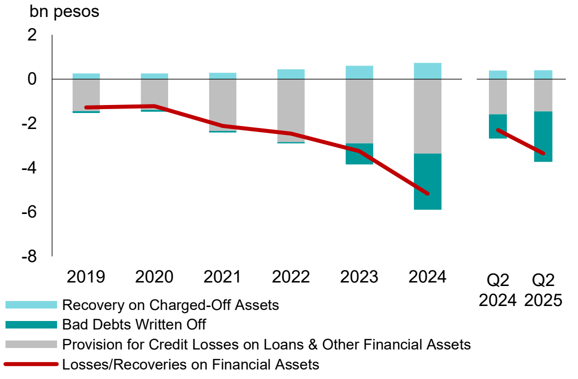



Source: BSP; AMRO staff calculations.
Note: Data are as of the end of the periods indicated.

6. **Looking ahead, the rapid expansion of credit card and salary loans warrants closer monitoring.** The NPL ratio of credit cards can be calculated as the weighted average of NPL ratios of the revolver and transactor segments.[6] Assuming the overall credit card NPL ratio is 4.5 percent based on the actual figure in June 2025, that revolvers and transactors account for 40 percent and 60 percent of the portfolio, respectively, and that transactors repay their balances in full (meaning, the transactors' NPL ratio is 0 percent), then the NPL ratio for the revolver segment would be 11.3 percent. Given that the NPL ratio of revolvers is higher than transactors by default, this simple exercise stresses the importance of monitoring the following risks to guard against a possible economic shock: (i) the risk of rising NPLs among revolvers, (ii) the risk of transactors transitioning into revolvers, and (iii) the risk that rising expenses for write-offs and loan loss provisions, which could be amplified by continuing rapid credit expansion, may weigh on profitability. In addition to credit card loans, salary loans have grown faster than other collateralized loans, such as motor vehicle and residential real estate loans. Given their unsecured nature, this rapid expansion warrants closer monitoring in light of borrowers' employment stability and repayment capacity to limit over-indebtedness.[7]

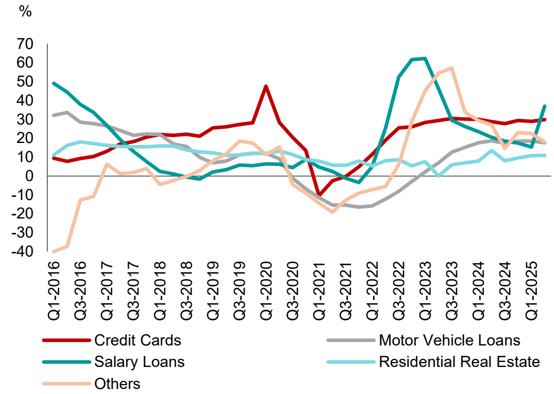
7. **While solid in the near term, the Philippine banking system is in a phase where pockets of vulnerabilities could be gradually building up.** Rural and cooperative banks have raised credit costs due to bad debt write-offs (Figure A2.11), although still managing to report an all-time high in their net profits in December 2024.[8] Other categories of banks, such as universal and commercial banks and thrift banks, have shown rising provisioning costs but not significant bad debt write-offs while recording an all-time high in their net profits,[9] as with the rural and cooperative banks. While absorbing credit costs within net profits on an aggregate basis, there could be some banks that are more vulnerable with rapid growth in unsecured loans, in particular credit card loans. Given that high growth rates in consumer loans will unlikely be sustainable for an extended period, closer monitoring is warranted as to whether potentially looser lending standards would deteriorate asset quality, particularly in vulnerable borrower segments as these pockets of vulnerabilities could be quickly amplified under negative shocks through interlinkages among banks (Figure A2.12).

**Figure A2.11. Credit Costs in Rural and Cooperative Banks**




Source: BSP; AMRO staff calculations.
Note: Data represent quarterly figures (e.g., Q2 = total for April, May, and June). "Losses/Recoveries on Financial Assets" comprise "Provision for Credit Losses on Loans & Other Financial Assets", "Bad Debts Written Off", and "Recovery on Charged-Off Assets", encompassing expenses related to not only loans but also other financial assets. Expenses related to NPLs are represented simply as credit costs in the main text.

**Figure A2.12. Consumer Loan Growth by Segment**




Source: BSP; AMRO staff calculations.
Note: Data are as of the end of the periods indicated.

## *Policy Discussion*

**8. While AMRO staff assesses that financial inclusion and financial stability are broadly compatible at present, this balance could gradually become destabilized with sustained high growth in consumer lending.** The relationship between financial inclusion and financial stability is generally considered to be highly specific to the country and context, but correlation analyses in the literature suggest a trade-off between the two on average in consumer lending (Cihák, Mare, and Melecky 2021).[10] In the context of the Philippine economy, excessive expansion of consumer credit amid intensifying competition among banks in the consumer loan market could lead to a relaxation of lending standards or a concentration of credit in certain vulnerable groups, both of which could elevate financial stability risks.

**9. Nonetheless, it is still possible to achieve synergy between financial inclusion and stability.** In the Philippines, the wider use of credit cards can help new entrants to the lending market build credit histories and broaden their access to other loan products. Furthermore, the continued expansion of financial inclusion, while leveraging digital tools, may lower the cost of access to financial services, improve consumers' trust in the formal financial system, and curb excessive credit expansion outside the regulatory perimeter, thus enhancing systemic stability. Moreover, as long as financial stability is maintained, further progress in financial inclusion could expand access to financial services for more consumers, enliven their economic activity, and ultimately contribute to sustainable economic growth, reinforcing financial stability. This also highlights the importance of promoting financial education to help consumers make effective financial decisions and ensuring that banks provide suitable loan products designed with affordability to consumers in mind.

**10. To sustain a financial system that balances inclusion and stability, banks should continue to strive to offer affordable products that support their customers' financial well-being while enhancing their credit risk management, particularly in light of increases in credit costs.** Affordable financial products enable consumers to maintain suitable use of financial services, thereby pushing financial inclusion further. On the risk management side, by type of consumer loan, rapidly growing credit card loans and, to a lesser extent, salary loans should warrant closer monitoring given their unsecured nature (Table

A2.1). As credit expands, particularly to new customer segments, banks should avoid complacency in credit screening by reassessing their scoring models and reviewing internal rating systems, taking into account recent credit cost performance. It may also be helpful to identify vulnerable borrower cohorts by product and by borrower type through stress testing and scenario analysis, and use these insights to strengthen credit monitoring. Where necessary, banks could tighten credit standards or apply more stringent borrower eligibility assessments.

**Table A2.1. Types of Consumer Loans and Selected Risk Management Considerations**

| Type | Share | Description | Selected Risk Management Considerations |
|---|---|---|---|
| Credit Card Loans | 30.5% | The total outstanding balance of credit cardholders arising from purchases of goods and services, cash advances, annual membership/renewal fees, interest, penalties, insurance fees, processing/service fees and other charges. | ➢ Monitoring borrowers' repayment capacity given the inherently high credit risk due to the absence of collateral.<br>➢ Managing revolvers, who make partial payments and incur interest charges, as distinct from transactors, who consistently pay their balances in full to avoid interest payment.<br>➢ Ensuring transparency and compliance with regulatory interest and fee ceilings. |
| Motor Vehicle Loans | 19.3% | Loans granted to individuals to buy motorized land transport vehicles primarily for personal use. | ➢ Effective collateral management, including accurate valuation, depreciation risk associated with movable assets, and the risk of asset impairment if a crash or theft occurs.<br>➢ Managing the potential mismatch between loan tenor and the vehicle's useful life, which can affect collateral coverage and repayment reliability.<br>➢ Establishing robust foreclosure and recovery procedures in the event of borrower default. |
| Salary Loans | 14.7% | Loans for a broad range of consumption purposes, granted to individuals mainly on the basis of regular salary, pension or other fixed compensation, where repayment would come from such future cash flows. | ➢ Monitoring borrowers' employment stability, particularly given the unsecured nature of the loans.<br>➢ Tracking borrowers' debt service ratios to ensure affordability and limit over-indebtedness. |
| Residential Real Estate Loans | 33.9% | Loans to individual households for occupancy. | ➢ Assessing borrowers' repayment capacity using key indicators, such as loan-to-value and debt-to-income ratios.<br>➢ Managing maturity mismatches and the associated interest rate risk. |

Source: BSP; AMRO staff compilation.
Note: The percentage refers to the proportion of each loan type in total consumer loans as of the end of June 2025.

**11. Authorities should continue to promote responsible lending behavior by banks and remain vigilant in monitoring emerging risks to deploy timely policy responses.** Authorities should continue to ensure full implementation of the existing regulations that aim to protect financial consumers.[11] If excessive credit card loan growth is seen to be driven by aggressive marketing or predatory lending, it would be crucial to prompt banks to practice more responsible lending. The BSP might also consider deepening dialogue with lenders on risk management and addressing the implementation gap in order to encourage responsible lending practices,[12] should the risk associated with consumer loans evolve significantly and generate signs of destabilizing the financial system.[13] Proactive system-wide risk assessment by drawing fully on supervisory data is also recommended to detect signs of potential overheating early. Stress testing and scenario analysis can be useful tools to identify vulnerable banks and engage in supervisory dialogue to ensure their soundness.

**12. Medium to long-term priorities for authorities include preparing for a potential rise in financial stability risks by developing appropriate policy tools and enhancing statistical infrastructure.** To mitigate risks of household over-indebtedness, authorities may consider operationalizing tools such as a debt-service ratio limit, and applying sectoral loan limits to consumer loans, the latter of which is now used for real estate loans. If continued expansion in credit card loans is primarily driven by banks' excessive objective for profits, it may also be worth considering measures such as a lower interest rate and fee cap[14] or tiered pricing frameworks.[15] To accurately assess household debt levels and repayment capacity in a timely manner, developing comprehensive data on those two economic factors, capturing both formal and informal credit, would help in formulating a more targeted policy response.

**13. Over the longer term, efforts should continue to structurally enhance compatibility between financial inclusion and stability, thereby supporting the sustainable growth trajectory in the Philippines.** Consumer-targeted financial education on topics such as debt service benchmarks and the risks of revolving credit can promote more informed borrowing decisions. In parallel, advancing initiatives to improve credit information sharing and usage would both enhance credit access by consumers and strengthen overall risk management at banks.

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# End Notes

[1] This Selected Issue was prepared by Shunsuke Endo, Senior Economist; and Kuchsa Dy, Associate.
[2] Consumer loan data is taken from quarterly "Consumer Loans" statistics and consists of motor vehicle loans, credit card loans, salary loans and residential real estate loans. The data on loans to production sectors, used in Figure A2.1. is derived from "Total Outstanding Loans to Residents (net of BSP RRP)" in the "Loans Outstanding for Production and Household Consumption" statistics less consumer loans.
[3] See Asian Banking and Finance 2025.
[4] See BSP 2025.
[5] That said, forward-looking risk management is vital to prevent financial distress arising from an increase in revolvers, referring to consumers who make partial payments and incur interest charges, which could lead to rising delinquency and dampen consumption growth.
[6] Transactors refer to consumers consistently paying their balances in full to avoid interest payment, while revolvers refer to those who make partial payments and incur interest charges.
[7] Salary loans are typically repaid through payroll deductions but are classified as unsecured, as they are not collateralized by assets unlike motor vehicle or residential real estate loans.
[8] Net profits of rural and cooperative banks increased by 39.3 percent in December 2024 year on year.
[9] Universal and commercial banks and thrift banks increased net profits by 9.7 and 9.9 percent, respectively, in December 2024 year on year. As for the credit cost breakdown in the Philippine banking system, see Figure A2.8.
[10] The study also highlights limitations in the existing empirical literature: the scarcity of research that adequately addresses endogeneity and reverse causality, resulting in most studies showing correlations without identifying causal links; and the widespread reliance on ex-post indicators, which limits the usefulness of such analyses in identifying vulnerabilities before they materialize.
[11] These regulations include the Truth in Lending Act (Philippines 1963), the General Banking Law of 2000 (Philippines 2000), the Manual of Regulations for Banks (BSP 2022a), BSP Regulations on Financial Consumer Protection; Guidelines and Procedures Governing the Consumer Assistance and Management System of BSP-Supervised Financial Institutions; and Amendments to the Manual of Regulations for Banks and Non-Bank Financial Institutions (BSP 2019), and Regulations on Financial Consumer Protection to implement Republic Act No. 11765 (BSP 2022b).
[12] The practices of national authorities show that responsible lending does not have a strict or uniform definition, but is rather used as a normative concept. The introduction of responsible lending frameworks in some jurisdictions, in addition to existing consumer protection regimes, reflects the presence of potential gaps between those regimes and the challenges of financial stability that these countries face. Accordingly, there is a policy imperative to systematically set out the requirements of responsibility and ethics in lending, which appears to underpin the adoption of such frameworks.
[13] It could be useful to draw on practices from other countries to maintain sustainable household indebtedness. In 2025, the Bank of Thailand (BOT) issued regulations on responsible lending to address the country's longstanding structural challenge of household indebtedness (BOT 2025 Xu 2025). The regulations organize the lending product life cycle, spanning credit product development, advertisement, sales processes, and extending through legal proceedings and debt transfers, into eight key areas, thereby systemically prescribing the credit management responsibilities that financial service providers should shoulder throughout the consumer's debt journey. Meanwhile, in 2023, Bank Negara Malaysia (BNM) introduced specific requirements on emerging financial products within the personal financing segment to promote prudent and responsible financing practices, explicitly bringing BNPL arrangements within the regulatory perimeter (BNM 2023). These precedents could serve as useful guidance for the Philippines in striking an appropriate balance between financial inclusion and stability in consumer lending.
[14] In the Philippines, the maximum interest rate or finance charge on the unpaid credit card balance of a cardholder is 3 percent per month or 36 percent per year. Similarly, the monthly add-on rate that credit card issuers can charge on installment loans is maintained at a maximum of 1 percent per month. The maximum processing fee on the use of credit card cash advances stays at PHP200 per transaction (BSP 2023).
[15] In Malaysia's case for instance, in 2007, BNM announced introducing a tiered pricing structure to promote good financial discipline among credit card users. For the benefit of users who have a good track record of settling the balances due each month promptly for 12 consecutive months, the finance charge is reduced from the maximum of 18percent per annum to not more than 15 percent per annum. The ceiling rate of 18 percent per annum is still applicable to other cardholders (BNM 2007).