

Banking Sector Developments October 2014

Release date: 21 January 2015

	Oct 14	Sep 14	Aug 14	July14
Deposit rate	2.29	2.24	2.21	2.14
Lending rate	8.86	8.89	8.93	8.94
Total lending (T\$m)	382.6	376.9	388.3	385.9
New commitments (T\$m)	8.8	11.3	11.4	7.6

Lending rates continue to fall reflects pick up in total lending

Interest rates

Weighted interest rate spread was 6.57% in October 2014, narrowing from 6.65% in the previous month. This was due to an increase in deposit rates and a decline in lending rates.

The weighted average deposit rate rose by 5 basis points to 2.29% in October 2014. This is the highest since November 2012. The increase was driven by an increase in the saving and demand deposits rates which more than offset a fall in term deposit rates. The increase was mainly due to lower demand deposit and saving deposit balances reflect an increase in import payments for wholesale retail good which partly indicates a rise in consumption over the month. Fall in term deposit rates was due to a rise in term deposit balances. Furthermore, weighted average deposit rates also increased by 44 basis points over the year, following a rise in all categories, particularly weighted term deposit rates.

The weighted average lending rate declined over the month particularly 'business' and 'other' categories. The largest decline in business lending rates was in loans to the agricultural, manufacturing and construction sectors, which reflects the on-going lending activities from the Government's managed funds. Over the year, all key bank weighted average lending rates declined, led by the 'business' and 'other personal' categories, largely

reflecting loan write-off and settlement. The weighted average rate on all bank loans continued its decline, falling by 47 basis points over the year to October.

Lending rates in October were the lowest since at least January 2001, although recent improvements in reporting requirements complicate historical comparisons.

Lending

Total bank lending balances rose by 1.6% (T\$4.5million) in October underpinned by an increase in lending to the business and household sectors. Similarly, in year-ended terms, total bank lending balances rose by 7.7% mainly due to an increase in loans to the business sector, particularly public enterprises. The continued low lending rates supported the positive credit growth, which outweighed the continued write off of large non-performing exposures and settlement of loans during the year. Including loans extended by non-banks, the lending balance would have only increased by 5.8% over the year. This is due to an unwinding of government on-lent activities.

Business lending

Bank lending to the business sector grew by 2.8% over the month, driven mainly by a rise in lending to the 'agricultural', 'manufacturing', 'distribution' and 'construction' sectors. This reflects an increase in the lending of the Government's managed funds to the agricultural and manufacturing sectors. Year-ended business lending rose by 7.7%, which largely reflects major loans extended to public enterprises. Including government on-lent loans, business lending fell by 0.9% over the year, reflecting the unwinding of the on-lending for CBD reconstruction.

New business commitments fell significantly over the month, mainly due to lower commitments for the 'agricultural' and 'distribution' sectors. The fall in commitments for the distribution sector is in line with a decline in import payments for wholesale and retail goods and a drop in the number of business container registrations.

Household lending

Bank lending to the household sector rose by 1.0% over the month, owing mainly to an increase in the 'vehicle' and 'other personal' components. The rise in other personal loans reflects the student loan managed funds and partially church offering. The rise in vehicle loans is in line with a rise in new vehicle commitments and a decline in weighted lending rates for 'vehicle'. Over the year, bank lending to households increased by 7.8% due mainly to an increase in housing loans, which coincided with an increase in import payments for

construction materials. Including loans extended by non-banks, year-ended growth in household lending would have been increased by 13.2%.

New household commitments rose by 24.1% over the month, due mainly to an increase in all key sectors particularly the commitments to for vehicle and 'other personal' loans. New household commitments comprise more than half of the total new commitments.

Other lending

Other loans fell by 21.7% over the month but rose by 3.2% over the year. The decline was due mainly to a fall in lending to the non-profit institutional sector.

Broad money

Broad money fell by 0.1% to T\$372.9 million in October, largely due to a decrease in net foreign assets which outweighed an increase in net domestic assets. The decline in net foreign assets was mainly due to a fall in other foreign assets particularly a decline in other deposit in abroad. The rise in net domestic assets reflects an increase in lending supported by lower weighted lending rates. The fall in broad money is consistent with a decline in demand deposits more than offsetting an increase in currency in circulation and quasi-money. In year ended terms, broad money balance rose by 6.2% largely attributed to an increase in both net domestic assets, particularly net domestic credit, and net foreign assets of 10.7% and 4.5% respectively. An adequate liquidity margin for prudent lending remains, particularly short term deposits.

Outlook

Credit growth is supported by the continuous improvements in business confidence and lending conditions. Increased competition amongst banks and the ongoing lending activities of the Government's managed funds will continue to support the current low lending rates; however, banks have indicated significant declines are unlikely.

The NRBT is forecasting credit to grow by around 10% over the year to December 2014. This is on the basis of imminent drawdowns of some large loan commitments, the continued low interest rates, and the introduction of the government's new loan scheme, targeting the manufacturing, tourism, agricultural and fisheries sectors as well as education loans. Growth is expected to increase slightly in 2014-15.

While conventional monetary policy instruments are at their expansionary limit, the NRBT will continue to promote prudent lending, and close liaison with banks.

Interest Rates

Weighted average of all banks

	Level as at					Change over the last:		Share of loans/deposits %
	Oct 14 %	Sep 14 %	Aug 14 %	Jul 14 %	Oct 13 %	1 month bps	1 year bps	
Deposits all	2.29	2.24	2.21	2.14	1.85	5	44	100
Demand	0.60	0.57	0.58	0.52	0.43	3	16	40
Savings	2.24	2.22	2.11	2.13	1.90	1	34	16
Term	3.81	3.85	3.75	3.82	3.28	-4	53	44
Loans all	8.86	8.89	8.93	8.94	9.33	-4	-47	100
Housing	8.60	8.59	8.60	8.62	8.79	0	-19	36
Other personal	12.89	12.93	12.98	12.96	13.17	-5	-28	18
Business*	7.82	7.90	8.07	8.09	8.72	-8	-90	26
Other	7.15	7.66	7.83	7.78	7.26	-51	-11	21

*Method for calculating these series was updated in August 2014, resulting in revision to the full history of data

Sources: Banks; NRBT

Lending Balances

	Level as at					Change over the		Shares of totals %
	Oct 14 TOPm	Sep 14 TOPm	Aug 14 TOPm	Jul 14 TOPm	Oct 13 TOPm	1 month %	1 year %	
Lending, banks	281.3	276.8	278.1	276.7	261.3	1.6	7.7	100
Household	142.9	141.5	140.2	139.7	132.6	1.0	7.8	51
Business*	136.2	132.5	134.8	133.9	126.5	2.8	7.7	48
Other	2.2	2.8	3.1	3.0	2.1	-21.7	3.2	1
Lending, banks and other	382.6	376.9	388.3	385.9	361.7	1.5	5.8	100
Household	192.6	190.1	187.7	186.2	170.1	1.4	13.2	50
Business	187.7	184.0	197.6	196.7	189.5	2.0	-0.9	49
Other	2.2	2.8	3.1	3.0	2.1	-21.7	3.2	1
New comm'ts, banks	8.8	11.3	11.4	7.6	25.5	-22.5	-65.7	N/A
Undrawn comm'ts, banks	10.1	10.9	9.8	9.8	22.5	-7.6	-55.1	N/A
Implied repay'ts, banks	5.1	11.4	10.0	5.6	9.3	-55.5	-45.7	N/A

* Method for calculating these series was updated in August 2014, resulting in revisions to the full history of data

Sources: SPBD; RFB; MOFNP; banking system

Consolidated Balance Sheet of Depository Corporations

	Level as at					Change over the last:	
	Oct-14 \$TOPm	Sep-14 \$TOPm	Aug-14 \$TOPm	Jul-14 \$TOPm	Oct-13 \$TOPm	1 month % growth	1 year % growth
Broad money liabilities	372.9	373.2	367.3	364.6	351.3	-0.1	6.2
Currency in circulation	38.6	35.1	38.7	37.5	30.7	10.0	25.4
Demand deposits	132.0	139.3	135.1	136.0	135.1	-5.3	-2.3
Savings and term deposits*	202.4	198.8	193.5	191.1	185.4	1.8	9.1
<i>equals</i>							
Net foreign assets	267.4	268.9	275.2	275.1	256.0	-0.6	4.5
<i>plus</i>							
Net domestic assets	105.6	104.3	92.1	89.5	95.3	1.2	10.7
Gross bank lending**	289.3	284.5	287.8	286.1	268.1	1.7	7.9
Other***	-183.7	-180.2	-195.7	-196.6	-172.7	1.9	6.3

* Also includes very minor amounts for securities other than shares.

** Differs slightly from standard measures of bank lending by amounts classified as accrued interest.

*** Includes mostly capital accounts of the banks and NRBT, and their net claims on the central government.

Sources: banking system; NRBT

