

# Banking Sector Developments September 2014

Release date: 9 December 2014

	Sep 14	Aug 14	July 14	Jun14
Deposit rate	2.24	2.21	2.14	2.09
Lending rate	8.89	8.93	8.94	8.96
Total lending (T\$m)	376.9	388.3	385.9	384.6
New commitments (T\$m)	11.3	11.4	7.6	9.1

## Interest rate spreads continue to narrow

### Interest rates

Weighted interest rate spread fell to around 6.65% in September 2014, narrower than that of 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 7 basis points to 2.24% in September 2014. This is the highest since December 2012. The increase was driven by an increase in the saving and term deposits rates which more than offset a marginal fall in demand deposit rates. The rise in savings and term deposit rates indicates that banks are building up their deposit base to fund the expansion of their loan books. On balance, deposit rates also increased by 27 basis points over the year, following a rise in all categories, particularly term deposit rates.

The weighted average lending rate on all key bank lending categories declined over the month particularly 'business' and 'other' categories, mainly due to banks offering competitive interest rates on loans to prime customers. The weighted average lending rate of 8.89% in September 2014 is the lowest by historical standards. The largest decline in business lending rates was the distribution, transport and manufacturing sectors. Over the year, all key bank weighted average lending rates declined, led by the 'business' and 'other' categories, largely reflecting the settlement and write-off of loans. The weighted average rate on all bank loans continued its decline, falling by 64 basis points over the year to September.

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

## **Lending**

Total bank lending balances fell 0.4% in September led by a decline in lending to the business sector particularly lending to the distribution, tourism and transport sectors. The fall in lending to the business sector largely reflects the loan write-offs during the month.

In year-ended terms, total bank lending balances rose by 9.1% mainly due to increase in lending to the 'business' and 'housing' sectors. The rise was supported by lower lending rates, and coincides with a decline in non-performing loans, reflecting banks writing off large non-performing exposures and settlement of loans. Including loans extended by non-banks, the lending balance increased by 6.9% over the year, reflecting strong growth in household lending.

### *Business lending*

Bank lending to the business sector fell by 1.7% over the month, driven mainly by a decline in lending to the 'distribution', 'tourism' and 'transport' sectors. The fall in lending to the distribution sector reflects loan write-offs. Year-ended business lending rose by 11.4%, driven by 'statutory non-financial corporation' component, which largely reflects major loans extended to public enterprises. Including government on-lent loans, business lending rose by 1.2% over the year.

New business commitments rose by 16.6% over the month, mainly due to a rise in commitment for the 'agriculture' and 'distribution' sectors, which reflects an increase in commitment of the managed fund and the squash season. The rise in commitments for the distribution sector is consistent with an increase in import payments for wholesale and retail goods and a rise in the number of business container registrations.

### *Household lending*

Bank lending to households rose by 0.9% over the month, due mainly to an increase in the 'housing' and 'other personal' components. The rise in lending to the housing sector is supported by a rise in new housing commitments and a decline in lending rates for 'housing'. Over the year, bank lending to households increased by 7.4%. Including non-banks, year-ended growth in household lending would have been 13.3%.

New household commitments however declined 12.3% over the month, driven by a fall in the vehicle and 'other personal' components which more than offsets a rise in new housing commitments. New household commitments comprise nearly half of total new commitments.

#### *Other lending*

Other loans fell by 8.1% over the month but rose by 11.8% over the year due to an increase in lending to the non-profit institutional sector.

#### **Broad money**

Broad money increased by 1.6% to \$373.2 million in September, largely driven by an increase in net domestic assets more than offsetting a decline in net foreign assets. The rise in net domestic assets was due mainly to an increase in other non-financial assets. The rise in broad money is consistent with an increase in quasi money particularly the saving and term deposits. In year ended terms, broad money balances rose by 7.9% led by an increase in both net domestic assets, particularly net domestic credit, and net foreign assets which grew by 12.7% and 6.2% respectively. An adequate liquidity margin for prudent lending remains, particularly in short term deposits.

#### **Outlook**

Credit growth is supported by the continuous improvements in business confidence and lending conditions. Increased competition amongst banks 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

	Month ended					Change over the last		Share of loans/deposits %
	Sep 14 %	Aug 14 %	Jul 14 %	Jun 14 %	Sep 13 %	1 month bps	1 year bps	
Deposits all	2.24	2.21	2.14	2.09	1.97	2.7	27	100
Demand	0.57	0.58	0.52	0.44	0.53	-1.2	4	41
Savings	2.22	2.11	2.13	2.02	2.16	11.0	7	16
Term	3.85	3.75	3.82	3.69	3.31	10.3	55	43
Loans all	8.89	8.93	8.94	8.96	9.54	-3.7	-64	100
Housing	8.59	8.60	8.62	8.67	8.85	-0.3	-25	36
Other personal	12.93	12.98	12.96	12.95	13.18	-4.6	-25	18
Business	7.90	8.07	8.09	8.14	8.96	-17.4	-106	25
Other	7.66	7.83	7.78	7.80	8.51	-17.0	-85	21

Sources: Banks; NRBT

### Lending Balances

	Level as at					Change over the		Shares of totals %
	Sep 14 TOPm	Aug 14 TOPm	Jul 14 TOPm	Jun 14 TOPm	Sep 13 TOPm	1 month %	1 year %	
Lending, banks	276.8	278.1	276.7	276.0	253.6	-0.4	9.1	100
Household	141.5	140.2	139.7	138.5	131.8	0.9	7.4	51
Business*	132.5	134.8	133.9	134.3	118.9	-1.7	11.4	48
Other	2.8	3.1	3.0	3.2	3.0	-8.1	-4.7	1
Lending, banks and other	376.9	388.3	385.9	384.6	352.5	-3.0	6.9	100
Household	190.1	187.7	186.2	184.4	167.7	1.3	13.3	50
Business	184.0	197.6	196.7	197.0	181.8	-6.9	1.2	49
Other	2.8	3.1	3.0	3.2	3.0	-8.1	-4.7	1
New comm'ts, banks	11.3	11.4	7.6	9.1	5.5	-0.8	104.9	N/A
Undrawn comm'ts, banks	10.9	9.8	9.8	8.5	13.9	11.8	-21.5	N/A
Implied repay'ts, banks	11.4	10.0	5.6	9.0	4.6	13.7	147.5	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:	
	Sep-14 \$TOPm	Aug-14 \$TOPm	Jul-14 \$Tom	Jun-14 \$TOPm	Sep-13 \$TOPm	1 month % growth	1 year % growth
<b>Broad money liabilities</b>	<b>373.2</b>	<b>367.3</b>	<b>364.6</b>	<b>368.9</b>	<b>345.8</b>	<b>1.6</b>	<b>7.9</b>
Currency in circulation	35.1	38.7	37.5	38.9	31.4	-9.3	11.8
Demand deposits	139.3	135.1	136.0	137.1	130.0	3.1	7.2
Savings and term deposits*	198.8	193.5	191.1	192.9	184.5	2.7	7.7
<i>equals</i>							
<b>Net foreign assets</b>	<b>268.9</b>	<b>275.2</b>	<b>275.1</b>	<b>268.5</b>	<b>253.3</b>	<b>-2.3</b>	<b>6.2</b>
<i>plus</i>							
<b>Net domestic assets</b>	<b>104.3</b>	<b>92.1</b>	<b>89.5</b>	<b>100.4</b>	<b>92.5</b>	<b>13.3</b>	<b>12.7</b>
Gross bank lending**	280.1	287.8	286.1	285.3	260.1	-2.7	7.7
Other***	-175.8	-195.7	-196.6	-184.9	-167.6	-10.2	4.9

\* 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

