

Banking Sector Developments August 2015

Release date: 11 January 2016

| | Aug 15 | Jul 15 | Jun 15 | May 15 |
|------------------------|--------|--------|--------|--------|
| Deposit rate (%)* | 2.27 | 2.28 | 2.35 | 2.37 |
| Lending rate (%)* | 8.26 | 8.22 | 8.23 | 8.32 |
| Total Deposits (T\$m) | 399.8 | 388.8 | 379.6 | 365.4 |
| Total lending (T\$m) | 422.4 | 418.1 | 416.2 | 411.9 |
| New commitments (T\$m) | 10.5 | 14.5 | 14.1 | 11.0 |
| Broad Money (T\$m) | 424.2 | 413.5 | 403.3 | 389.8 |

*Weighted Average calculated as a function of interest rate and volume of deposits and loans

Household credit growth on the rise

Lending

Total bank lending slightly rose over the month by 0.3% and maintained its annual 2 digit growth since May 2015 recording a growth of 11.5% in August 2015. The interest rates for most of the key lending categories fell supporting the rise in lending. The increase in lending indicates growing economic activities in the country with household loans increasing the fastest, which would also contribute to stronger construction activities.

Household lending

Bank lending to households increased over the month by 2% to \$158.2 million, underpinned by an increase in housing loans. Lending through the non-banking system also increased driving total household lending to rise further by 3.1% over the month, indicating increases in household activities. In year ended terms, total bank lending to households rose by 12.8%, underpinned by the increases in housing and other personal loans. However, including lending from non-bank financial institutions, loans to households rose by 16.2%, reflecting increases in other personal loans. These increases were supported by declines in lending rates on housing and other personal loans over the month and in year-ended terms.

Business lending

Bank lending to businesses fell over the month by 1.5%, largely reflecting normal loan run-offs as well as a result of large drawdown of loans to public enterprises loans in the previous month. There were new business loan commitments of \$2 million in August 2015, which is \$6.3 million lower than that of previous month. Including government on-lent loans, total lending to

businesses fell by 1.1% over the month. However, annual growth in business loans was 11.5% due to increase lending to the manufacturing and agricultural sectors and major loans extended to public enterprises. Including government on-lent loans, business lending only rose by 2.7% over the year due to decline in government on-lent loans.

Other lending

Other loans fell over the month by 4.5% and declined by 59.0% over the year, due mainly to lending activities within the non-profit institutional sector.

Non-performing loans

Non-performing loans for the banking system fell over the month and year by 3.6% and 18.6% respectively to \$27.0 million, which represents 8.7% of total loans. This was due mainly to a 2.0% decline in non-performing business loans whilst an 8.4% decrease in non-performing household loans contributed to the annual decline in non-performing loans.

Deposits

Bank deposits rose over the month by 2.8%, driven by increases in all the deposits categories. Demand deposits increased the fastest, driven by an increase in deposits made by businesses. Over the year, bank deposits grew by 13.8%, underpinned by increases in all categories particularly demand deposits by businesses.

Interest rates spread

Weighted average interest rate spread widened over the month from 5.95% to 5.99% in August 2015. This was due to a 3.6 basis points increase in weighted average lending rate to 8.26%, and a 0.5 basis points decline in weighted average deposit rate. In year ended terms, weighted average interest rate spread narrowed by 38.6 basis points, largely resulting from a 35.9 basis points decline in weighted average lending rate.

Broad money

In August, broad money rose by 2.6% to \$424.2 million, driven by an increase of 3.6% and 2.3% in net domestic assets and net foreign assets respectively. This resulted from an increase in lending and the foreign reserves. In year ended terms, broad money increased by 15.5%, reflecting the increases in both net domestic assets and net foreign assets. Total domestic demand deposits and currency in circulation also increased in line with the rise in broad money.

Liquidity

Banking system liquidity increased over the month by 4.0% to \$167.2 million and over the year by 12.4%. The rise was driven by rises in deposits and foreign reserves.

Outlook

Credit growth is supported by the continuous improvements in business confidence, improving economic conditions and annual events. Continued competition amongst banks and the ongoing lending activities of the Government's managed funds will continue to support the current low

lending rates. The NRBT is forecasting credit growth to grow by more than 10% in the next six months. The NRBT will continue to promote prudent lending and closely monitor credit growth in light of the impact on the monetary policy targets and financial stability.

Table 1

| | Lending Balances | | | | | | | |
|--------------------------|------------------|-------------|-------------|-------------|-------------|-----------------|----------|--------------------|
| | Level as at | | | | | Change over the | | Shares of totals % |
| | Aug 15 TOPm | Jul 15 TOPm | Jun 15 TOPm | May 15 TOPm | Aug 14 TOPm | 1 month % | 1 year % | |
| Lending, banks | 310.0 | 309.1 | 307.6 | 304.5 | 278.1 | 0.3 | 11.5 | 100.0 |
| Household | 158.2 | 155.1 | 153.8 | 153.0 | 140.2 | 2.0 | 12.8 | 51.0 |
| Business* | 150.3 | 152.6 | 152.3 | 150.2 | 134.8 | -1.5 | 11.5 | 48.5 |
| Other | 1.3 | 1.3 | 1.4 | 1.3 | 3.1 | -4.5 | -59.0 | 0.4 |
| Lending, banks and other | 422.4 | 418.1 | 416.2 | 411.9 | 388.3 | 1.0 | 8.8 | 100.0 |
| Household | 218.0 | 211.5 | 211.0 | 209.1 | 187.7 | 3.1 | 16.2 | 51.6 |
| Business | 202.9 | 205.2 | 203.7 | 201.6 | 197.6 | -1.1 | 2.7 | 48.0 |
| Other | 1.3 | 1.3 | 1.4 | 1.3 | 3.1 | -4.5 | -59.0 | 0.4 |
| New comm'ts, banks | 10.5 | 14.5 | 14.1 | 11.0 | 11.4 | -27.9 | -8.0 | N/A |
| Undrawn comm'ts, banks | 20.6 | 27.7 | 23.9 | 17.1 | 9.8 | -25.4 | 111.3 | N/A |
| Implied repay'ts, banks | 16.6 | 9.3 | 4.2 | 8.5 | 10.0 | 77.9 | 65.6 | 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

Table 2

| | Interest Rates | | | | | | | |
|----------------|-------------------------------|----------|----------|----------|-------------|-----------------------|---------|---------------------------|
| | Weighted average of all banks | | | | | | | |
| | Level as at | | | | | Change over the last: | | Share of loans/deposits % |
| Aug 15 % | Jul 15 % | Jun 15 % | May 15 % | Aug 14 % | 1 month bps | 1 year bps | | |
| Deposits all | 2.27 | 2.28 | 2.35 | 2.37 | 2.25 | -0.45 | 2.75 | 100 |
| Demand | 0.36 | 0.37 | 0.38 | 0.47 | 0.59 | -0.64 | -22.24 | 41 |
| Savings | 2.45 | 2.46 | 2.52 | 2.47 | 2.31 | -1.25 | 13.32 | 17 |
| Term | 4.06 | 4.01 | 4.08 | 3.99 | 3.75 | 4.97 | 30.55 | 42 |
| Loans all | 8.26 | 8.22 | 8.23 | 8.32 | 8.62 | 3.58 | -35.85 | 100 |
| Housing | 8.52 | 8.53 | 8.50 | 8.52 | 8.60 | -0.54 | -7.78 | 35 |
| Other personal | 11.07 | 11.14 | 11.01 | 11.02 | 11.22 | -7.29 | -15.44 | 18 |
| Business* | 7.38 | 7.34 | 7.41 | 7.51 | 8.09 | 4.49 | -70.48 | 26 |
| Other | 6.25 | 6.38 | 6.48 | 6.30 | 7.83 | -13.14 | -157.96 | 20 |

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

Sources: Banks; NRBT

Table 3

Consolidated Balance Sheet of Depository Corporations

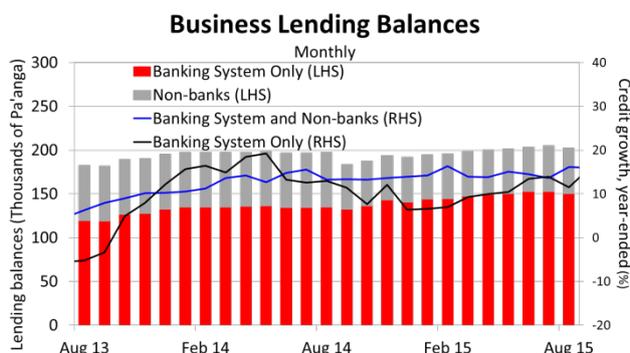
| | Level as at | | | | Change over the last: | | |
|--------------------------------|------------------|------------------|------------------|------------------|-----------------------|---------------------|--------------------|
| | Aug-15 \$TOPm | Jul-15 \$TOPm | Jun-15 \$TOPm | May-15 \$TOPm | Aug-14 \$TOPm | 1 month % growth | 1 year % growth |
| Broad money liabilities | 424.2 | 413.5 | 403.3 | 389.8 | 367.3 | 2.6 | 15.5 |
| Currency in circulation | 46.7 | 46.6 | 45.0 | 44.1 | 38.7 | 0.3 | 20.8 |
| Demand deposits | 158.6 | 152.2 | 147.8 | 140.7 | 135.1 | 4.2 | 17.4 |
| Savings and term deposits* | 218.8 | 214.7 | 210.5 | 204.9 | 193.5 | 1.9 | 13.1 |
| <i>equals</i> | | | | | | | |
| Net foreign assets | 302.4 | 295.7 | 283.2 | 275.8 | 275.2 | 2.3 | 9.9 |
| <i>plus</i> | | | | | | | |
| Net domestic assets | 122.4 | 118.1 | 120.5 | 114.3 | 92.2 | 3.6 | 32.7 |
| Gross bank lending** | 318.5 | 317.3 | 315.6 | 312.2 | 287.8 | 0.4 | 10.7 |
| Public enterprises | 46.0 | 46.8 | 47.5 | 47.3 | 41.9 | -1.8 | 9.6 |
| Private Sector | 257.9 | 251.8 | 249.5 | 246.3 | 232.7 | 2.4 | 10.9 |
| Other financial corporation | 14.6 | 18.8 | 18.6 | 18.6 | 13.2 | -22.3 | 10.6 |
| Other*** | -196.1 | -199.3 | -195.1 | -197.9 | -195.6 | -1.6 | 0.3 |

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

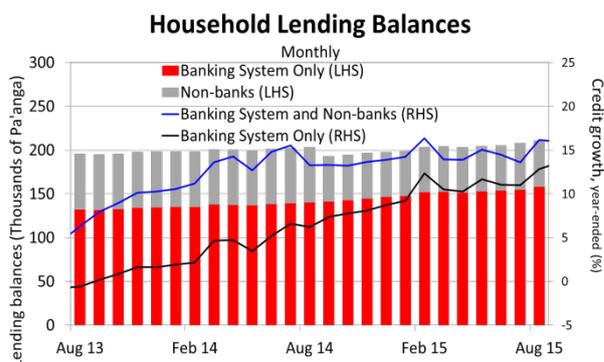
** Differs slightly from standard measures of bank lending by amounts classified as accrued interest.

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

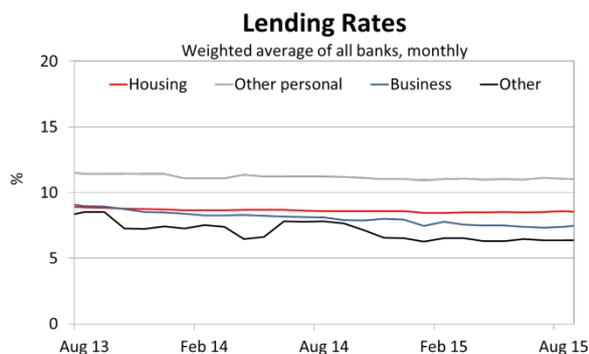
Sources: Banking system; NRBT



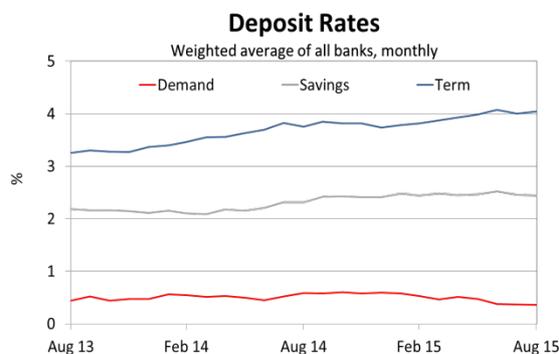
Data Sources: Banking System, SPBD, RFB and Ministry of Finance and National Planning



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Source: Banking System



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