

# Banking Sector Developments February 2016

Release date: 3 June 2016

	Feb 16	Jan 16	Dec 15	Nov 15
Deposit rate (%)*	2.19	2.19	2.15	2.18
Lending rate (%)*	8.03	8.04	8.07	8.07
Total Deposits (T\$m)	429.0	423.0	419.6	412.6
Total lending (T\$m) ^	331.9	328.9	325.4	323.8
New commitments (T\$m)	12.9	10.8	12.5	11.5
Broad Money (T\$m)	456.5	447.5	450.2	427.8

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

^This series shows total lending from the banking sector only.

## Growing housing loans drove the increase in total lending

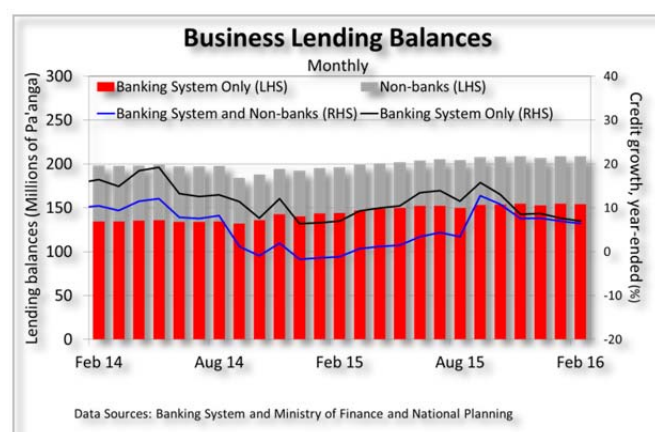
### Lending

Total bank lending increased in February by 0.9% (\$3million) to \$331.9 million. This was driven by an increase in household loans, offsetting a decline in business loans. However, over the year, both household and business loans contributed to a 11.6% (\$34.5million) growth in total bank lending with household loans contributing the most. Lending activities in the non-bank financial institutions also increased over the year by 14.4% (\$15.1 million) to \$120 million, reflecting rises in both household and business lending.

### Business lending

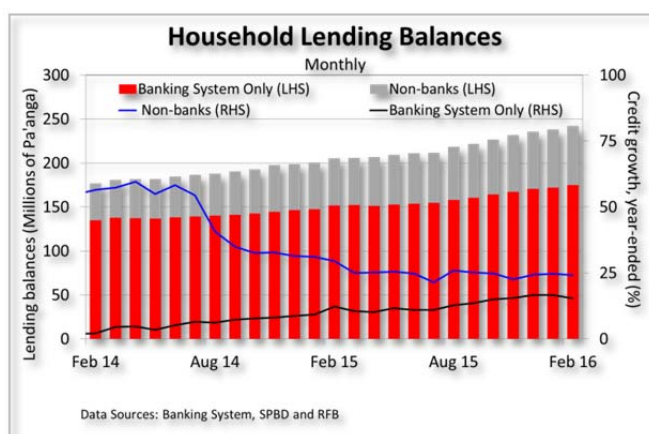
Banks' lending to businesses fell slightly over the month by 0.2% (\$0.3 million) to \$154.4 million, largely reflecting loan repayments made by agricultural and trade businesses, implying improvements in business cash flows. Annually, total bank lending to businesses increased by 7% (\$10.1 million), underpinned mainly by rises in lending to the manufacturing, tourism, construction and agricultural sectors. The Government's

managed funds loan scheme also contributed to the annual increase in total loans. Including government on-lent loans, annual business lending increased by 6.3% (\$12.4 million) reflecting higher government on-lent loans.



### Household lending

Banks' lending to households rose over the month by 1.9% (\$3.3 million) to \$175.3 million, driven by the continued growth in housing loans. This has been supported by ongoing competition particularly the housing loan campaigns and refinancing of housing loans amongst banks. The growth in housing loans coincided with a 6.8 basis points decline in weighted average lending rate for housing loans over the month. This increase in housing loans is also consistent with a 23.3% (\$0.6 million) rise in import payments for construction materials in February 2016, reflecting increases in construction activities in the country. Over the year, banks' lending to households rose by 15.4% (\$23.4 million), underpinned by increases in housing and other personal loans. Lending from non-bank financial institutions to households also increased over the year by 24.1% (\$12.9 million), reflecting rises in other personal loans.



### Other lending

Other loans from banks recorded a decrease over the month and year by 2.4% (\$0.03 million) and 7.2% (\$0.1 million) respectively, driven mainly by lending activities within the non-profit institutions sector.

### Non-performing loans

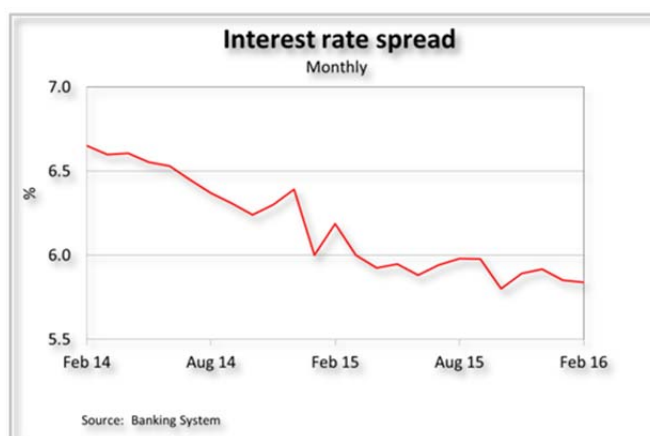
Banks' total non-performing loans fell over the month by 1.9% (\$0.5million) to \$25.7 million, which represented 7.7% of total loans. Non-performing household loans declined by 2.2% (\$0.1 million) and similarly, total non-performing business loans fell by 3.9% (\$0.3 million). This was mainly due to a decline in non-performing housing and agricultural loans. Annually, total non-performing loans fell by 8.3% (\$2.3 million) resulting mainly from a decline in non-performing housing loans and non-performing business loans mainly from the tourism and trade sectors.

### Deposits

Total bank deposits recorded a 1.4% (\$6 million) increase over the month reaching a new record high of \$429 million, led mainly by a \$4.7 million rise in demand deposits and a \$2.5 million increase in savings deposits. The increase in demand deposits resulted mainly from higher deposits of businesses whilst households drove the rise in savings deposits. Annual total deposits also increased by 17.6% (\$64.1 million), reflecting rises in all categories with demand deposits increasing the most. This was mainly due to increases in businesses' demand deposits over the year.

## Interest rate spread

The weighted average lending rate fell over the month by 1.0 basis points to 8.03%, while weighted average deposit rate rose slightly by 0.3 basis points to 2.19%. As a result, the weighted average interest rate spread slightly narrowed over the month from 5.85% in January 2016 to 5.84% in February 2016. The higher weighted average deposit rate reflected increases in deposit rates offered by banks mainly on their term deposits whilst increased competition



amongst banks have continued to drive the lower weighted average lending rate. In year ended terms, the weighted average lending rate fell by 43.5 basis points outweighing the decline in the weighted average deposit rate resulting in the weighted interest rate spread narrowing by 34.9 basis points.

Table 1:

Consolidated Balance Sheet of Depository Corporations

	Level as at					Change over the last:	
	Feb-16 \$TOPm	Jan-16 \$TOPm	Dec-15 \$TOPm	Nov-15 \$TOPm	Feb-15 \$TOPm	1 month % growth	1 year % growth
<b>Broad money liabilities</b>	<b>456.5</b>	<b>447.5</b>	<b>450.2</b>	<b>427.8</b>	<b>379.7</b>	<b>2.0</b>	<b>20.2</b>
Currency in circulation	47.6	47.8	52.8	45.0	40.2	-0.4	18.4
Demand deposits	182.3	173.9	172.0	161.8	137.1	4.8	33.0
Savings and term deposits*	226.6	225.8	225.4	221.1	202.4	0.4	11.9
<i>equals</i>							
<b>Net foreign assets</b>	<b>330.3</b>	<b>324.9</b>	<b>327.2</b>	<b>305.0</b>	<b>266.7</b>	<b>1.6</b>	<b>23.8</b>
<i>plus</i>							
<b>Net domestic assets</b>	<b>126.5</b>	<b>122.9</b>	<b>123.3</b>	<b>123.1</b>	<b>113.3</b>	<b>3.0</b>	<b>11.6</b>
Gross bank lending**	340.5	337.6	334.4	332.9	305.6	0.9	11.4
Public enterprises	44.7	45.1	45.2	45.9	47.4	-0.8	-5.6
Private Sector	279.4	275.8	272.8	270.1	244.2	1.3	14.4
Other financial corporation	16.4	16.6	16.4	16.9	14.0	-1.2	17.5
Other***	-214.0	-214.7	-211.1	-209.8	-192.2	-0.3	11.3

\* 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

## **Broad money**

Broad money rose over the month by 2.0% (\$9 million) to \$456.5 million. This resulted from a 3.0% (\$3.6 million) increase in net domestic assets and a 1.6% (\$5.3 million) rise in net foreign assets. The increase in banks' lending drove the higher net domestic assets whilst net foreign assets rose on the back of the higher foreign reserves. Over the year, broad money rose by 20.2% (\$76.8 million), reflecting a 23.8% (\$63.6 million) rise in net foreign assets and 11.6% (\$13.2 million) increase in net domestic 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 1.8% (\$3.2 million) to a new record of \$177.9 million, resulting from an increase in banks' deposits to the NRBT vault. This is in line with a 0.4% (\$5 million) decline in currency in circulation over the month. In year ended terms, banking system liquidity rose by 18.7% (\$28 million), reflecting increases in banks' deposits and foreign reserves.

## **Outlook**

The NRBT is forecasting credit growth to continue and a growth of about 14.4% to be recorded at the end of the 2015/16 and 11% in 2016/17. This is in line with the IMF Article IV's projection of 15.5% growth for 2015-16 and 10.8% for 2016/17. The banks' prospects for credit growth remain positive and the NRBT's projection is supported by improving economic conditions and annual and one-off events taking place during the next few months.

Broad money is also projected to increase in June 2016 by 13% and 10% in June 2017, supported by the anticipated rise in lending and foreign reserves. This is consistent with the IMF Article IV's projection for broad money to rise by about 12% and 9% in June 2016 and 2017 respectively.

Measures are being considered to ensure the excess liquidity in the banking system are being well utilised to support economic growth, which is expected to contribute to higher credit growth. 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 2:

	Lending Balances							
	Level as at					Change over the		Shares of totals %
	Feb 16 TOPm	Jan 16 TOPm	Dec 15 TOPm	Nov 15 TOPm	Feb 15 TOPm	1 month %	1 year %	
Lending, banks	331.9	328.9	325.4	323.8	297.4	0.9	11.6	100.0
Household	175.3	172.0	171.0	167.5	151.9	1.9	15.4	52.8
Business*	154.4	154.7	152.8	154.7	144.2	-0.2	7.0	46.5
Other	1.2	1.3	1.3	1.3	1.3	-2.4	-7.2	0.4
Lending, banks and other	452.2	448.5	444.0	441.8	402.3	0.8	12.4	100.0
Household	241.6	237.8	235.6	231.4	205.3	1.6	17.7	53.4
Business	208.3	208.7	206.7	208.7	195.7	-0.2	6.4	46.1
Other	1.2	1.3	1.3	1.3	1.3	-2.4	-7.2	0.4
New comm'ts, banks	12.9	10.8	12.5	11.5	17.2	19.4	-24.8	N/A
Undrawn comm'ts, banks	21.5	21.1	19.9	20.0	14.1	2.1	52.7	N/A
Implied repay'ts, banks	9.4	6.2	11.0	8.3	12.9	52.6	-26.7	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

Table 3:

	Interest Rates							
	Weighted average of all banks							
	Level as at					Change over the last <sup>^</sup> :		Share of loans/deposits %
Feb 16 %	Jan 16 %	Dec 15 %	Nov 15 %	Feb 15 %	1 month bps	1 year bps		
Deposits all	2.19	2.19	2.15	2.18	2.28	0.27	-9	100
Demand	0.45	0.47	0.43	0.40	0.52	-1.47	-7	43
Savings	2.46	2.34	2.33	2.40	2.44	11.53	2	16
Term	3.89	3.86	3.79	3.87	3.82	3.16	7	41
Loans all	8.03	8.04	8.07	8.07	8.46	-1.01	-43.5	100
Housing	8.18	8.25	8.29	8.29	8.47	-6.80	-29	37.6
Other personal	10.94	10.99	11.06	11.10	11.04	-5.51	-11	17.5
Business*	7.17	7.13	7.13	7.21	7.77	4.47	-60	25.9
Other	6.25	6.38	6.52	6.91	6.53	-12.93	-28	19.1

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

<sup>^</sup>Due to rounding errors some data may not aggregate precisely

Sources: Banks; NRBT