

Banking Sector Developments May 2017

Release date: 15 August 2017

	May 17	Apr 17	Mar 17	Feb 17
Deposit rate (%)*	2.148	2.167	2.203	2.160
Lending rate (%)*	7.830	7.856	7.845	7.856
Total Deposits (T\$m)	533.9	526.2	517.9	524.3
Total lending (T\$m) ^	397.7	391.9	391.2	384.5
New commitments (T\$m)	13.5	7.6	24.3	21.5
Broad Money (T\$m)	517.6	509.9	503.6	510.2

*Weighted Average calculated as a function of interest rate and volume of deposits and loans (also note revisions have been made to deposit and lending rates data from commercial banks)

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

High liquidity remains coinciding with strong growth in deposits

Lending

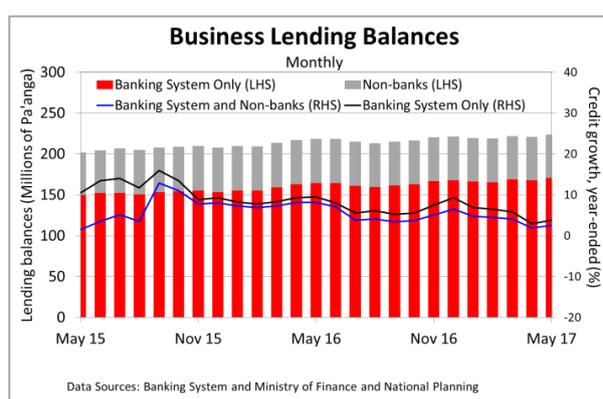
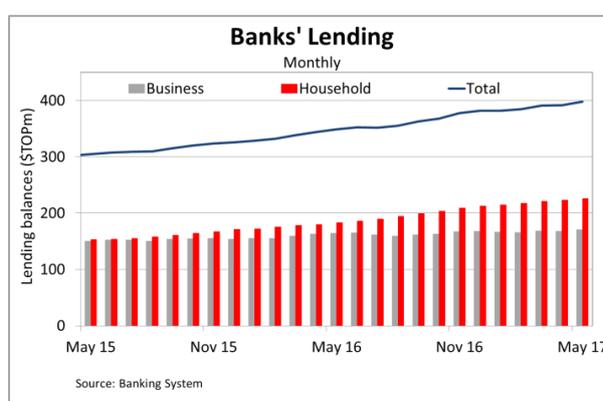
Total banks' lending climbed over the month and over the year to a new record high of \$397.7 million. This was driven mainly by lending to households, more specifically, housing loans. Lending to businesses also contributed to the overall monthly and yearly growth.

Lending extended by non-bank financial institutions increased over the month by \$2.2 million (1.6%) and over the year by \$17.4 million

(14.2%) to \$140.4 million. This remained driven by higher household loans offsetting a decline in government on-lent loans.

Business lending

Banks' lending to businesses rose over May by \$3.0 million (1.8%) to \$170.7 million. This was led mainly by rises in loans to the services, trade, and public enterprises sectors over the month. Lending to the services sector increased by \$7.3 million (47.6%) whilst loans to the trade sector by

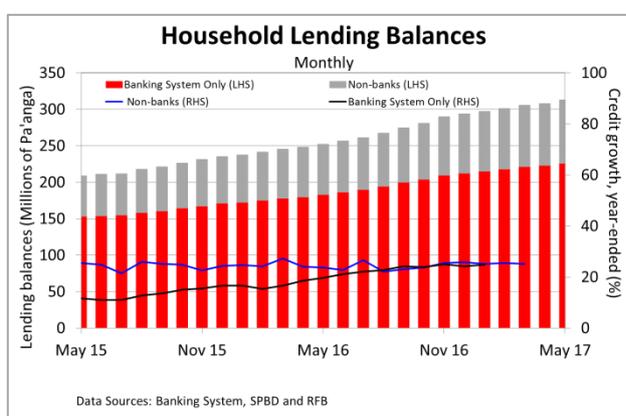


grew \$6.9 million (21.2%) and lending to public enterprises increased by \$2.5 million (6.2%).

Over the year, business loans rose by \$6.3 million (3.8%) driven mainly by the wholesale & retail sector as well as the services, manufacturing, and agriculture sectors. More specifically, loans to these sectors rose by \$8.4 million (26.7%), \$7.1 million (46.1%), \$3.0 million (19.2%), and \$2.5 million (31.1%) respectively. These were partially offset mainly by declines of \$3.2 million (7.0%) in loans to public enterprises, \$1.4 million (83.0%) in loans to the mining and quarrying sector, and \$0.3 million (1.8%) in lending to the tourism sector. The Government Development Loans continued to support the credit growth and the economic activities in these sectors. With the inclusion of government on-lent loans, business lending rose by \$5.6 million (2.6%) reflecting the loan repayments made over the year for the government on-lent loans.

Household lending

Household loans increased over May by \$2.9 million (1.3%) to \$225.8 million, reaching a new record level. Growth in household loans resulted solely from more housing loans over the month. Lending for housing purposes recorded an increase of \$3.8 million (2.3%). This continues to reflect high demand and rising confidence of households. Vehicle loans and other personal loans however declined by \$0.03 million (3.0%) and \$0.8 million (1.4%) respectively.



Annually, banks' lending to households rose significantly by \$42.8 million (23.4%) as a result of growth in all categories. Housing loans recorded a rise of \$41.4 million (32.8%) over the year to May. Additionally, other personal loans and vehicle loans increased by \$1.0 million (1.7%) and \$0.3 million (56.5%) respectively. The increase in vehicle loans also coincided with 710 (23.7%) more vehicle registrations recorded over the year. Import payments for construction materials also rose by \$13.3 million (42.1%) supporting the yearly increase in housing loans. Lower lending rates for housing supported the yearly growth reflecting also the banks' housing loan campaign. Lending from non-bank financial institutions to households increased by \$18.1 million (26.2%) reflecting higher personal loans made over the year. The introduction of the home improvement loan facility at the Retirement Fund Board in July 2016 also contributed to the annual growth.

Other lending

Other loans from banks fell over the month and over the year by \$0.08 million (6.5%) and \$0.01 million (0.7%) respectively. This resulted from a decline in lending within the non-profit institutions sector.

Non-performing loans

Banks' total non-performing loans decreased by \$1.3 million (6.9%) to \$17.2 million in May. This was due to a decline in both non-performing business and household loans. The fall in non-

performing business loans were mainly due to improved performances of loans to the agricultural and tourism sectors. The fall in non-performing household loans were driven by a decrease in individual loans for housing and other personal purposes. Over the year, non-performing loans decreased by \$6.6 million (27.7%) driven mainly by the settlement of a major business loan as well as the write off of one of the large business loans. The non-performing loans represented 4.3% of total loans as at the end of May 2017 compared to 4.7% last month.

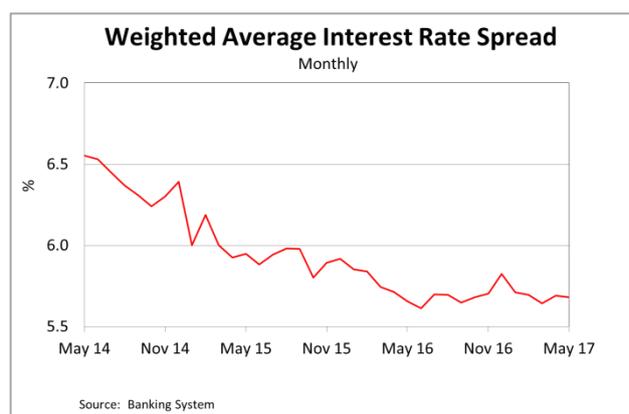
Deposits

Total bank deposits rose by \$7.7 million (1.5%) to \$533.9 million in May. This was driven by increases in all categories and coincided with the higher foreign reserves. Demand deposits continued to lead the monthly rise with \$6.6 million (2.8%) followed by growth in savings deposits of \$1.0 million (1.3%). This stemmed mainly from an increase of \$4.3 million in demand deposits by the public enterprises sector. Budget support funds received by government contributed to this increase. Time deposits also contributed by \$0.03 million (0.01%) to the overall growth in deposits. Overall, the monthly increase resulted from more deposits by private businesses, public enterprises, and the government.

Over the year, total bank deposits grew by \$80.1 million (17.7%) due to increases in all categories. Demand deposits contributed the most yet again with an increase of \$48.9 million (25.1%) followed by time deposits which rose by \$23.9 million (12.9%) and then savings deposits contributing \$7.4 million (10.0%). The rise in demand deposits resulted mainly from higher deposits by the Government and private businesses whilst the growth in time deposits stemmed from increases in the Retirement Fund Board’s investments and deposits by public enterprises. Receipt of government’s budget support funds contributed to this increase as well as improved government revenue collection throughout the year. The rise in savings deposits were due to higher deposits made by individuals as well as the government.

Interest rate spread

Over May, the weighted average interest rate spread narrowed slightly by 0.7 basis points (from 5.689%) but widened over the year by 1.0 basis points to 5.682%. The monthly decline was driven by a narrowing weighted average lending rate outweighing the decline in the weighted average deposit rate. The weighted average lending rate fell by 2.6 basis points (from 7.86% last month to 7.83%) which were led mainly by lower lending rates to both households and



businesses. Households received lower lending rates particularly for vehicles and other personal loans offsetting a higher lending rate for housing purposes. Lower lending rates for the wholesale & retail and tourism sectors mainly drove the lower lending rate to businesses. The weighted average

deposit rate narrowed by 1.9 basis points (from 2.17% last month to 2.15%) resulting solely of a decline in the demand deposit rate outweighing rises in the savings and term deposit rates.

Over the year, the weighted average interest rate spread widened due to a decline in the weighted average deposit rate which partially offset a decrease in the weighted average lending rate. The weighted average lending rate narrowed by 4.7 basis points annually as a result of lower lending rates to both households and businesses. Households received lower lending rates particularly for housing and vehicle loans. Business lending rates declined for all sectors except forestry and professional services. These rate movements supported the higher credit growth within the private sector and also household loans over the year. The weighted average deposit rate declined by 5.7 basis points as a result of lower deposit rates in savings and term deposits.

Broad money

Over May, broad money rose by \$7.7 million (1.5%) to \$517.6 million. This was due to a \$17.6 million (4.5%) increase in net foreign assets, driven significantly by a \$20.6 million (5.5%) rise in the official foreign reserves. Net domestic assets however decreased by \$9.8 million (8.6%) due mainly to higher government deposits.

In year ended terms, broad money increased by \$57.2 million (12.4%) due to a considerable rise in net foreign assets of \$79.0 million (23.7%). This was largely due to the increase in the foreign reserves of \$61.6 million (18.6%). Other foreign assets also contributed \$17.5 million (64.2%) to the yearly rise. These movements outweighed the decline in net domestic assets which decreased by \$22.0 million (17.4%) as a result of the credit growth over the year. Budget support funding received during the year contributed to the higher foreign reserves and corresponded to the increase in net foreign assets.

Liquidity

The liquidity (reserve money)¹ in the banking system increased by \$12.1 million (4.5%) to \$284.8 million in May. This was driven mainly by more cash deposits by the commercial banks to the Reserve Bank vault. This coincided with more deposits made by the government, businesses, and private individuals to the commercial banks over the month. Banks' total loans to deposit ratio remained unchanged at 74.5% from last month. This reflected not only higher deposits over May but also greater credit growth. The loans to deposits ratio of banks remained below the minimum 80% loans to deposits ratio which indicates excess liquidity in the banking system remains and that there is capacity for further lending by the banks.

Over the year, the banking system liquidity increased by \$35.4 million (14.2%) driven largely by a \$27.4 million (16.6%) rise in banks' cash deposits to the Reserve Bank vault.

¹ Liquidity in the banking system (reserve money) is a sum of currency in circulation, exchange settlement account balances, and required reserve deposits.

Outlook

The Reserve Bank estimates a credit growth of 15.0% to be achieved at the end of 2016/17. This forecast is higher than the IMF Article IV's projected growth of 10.8% for 2016/17. The banks' prospects for credit growth remains positive and the Reserve Bank's projection is supported by improving economic conditions, business confidence, and annual (one-off) events taking place throughout the financial year. The Reserve Bank forecasts the annual growth in broad money to rise in June 2017 by 15%. This coincides with the IMF's estimated growth of 9.0% projection for June 2017, supported by the anticipated increase in lending and foreign reserves level.

The Reserve Bank will continue to closely monitor the credit growth and broad money movements to ensure financial and macroeconomic stability are maintained and that there is no overheating in the economy.

Table 1:

Consolidated Balance Sheet of Depository Corporations							
	Level as at					Change over the last:	
	May-17 \$TOPm	Apr-17 \$TOPm	Mar-17 \$TOPm	Feb-17 \$TOPm	May-16 \$TOPm	1 month % growth	1 year % growth
Broad money liabilities	517.6	509.9	503.6	510.2	460.5	1.52	12.4
Currency in circulation	52.7	50.6	51.3	50.9	48.7	4.18	8.2
Demand deposits	197.1	192.5	187.0	200.7	171.3	2.40	15.0
Savings and term deposits*	267.9	266.9	265.2	258.6	240.5	0.37	11.4
<i>equals</i>							
Net foreign assets	413.0	395.4	389.7	402.2	334.0	4.5	23.7
<i>plus</i>							
Net domestic assets	104.7	114.6	114.1	108.3	126.8	-8.6	-17.4
Gross bank lending**	408.7	402.4	401.5	394.6	357.6	1.6	14.3
Public enterprises	42.6	40.1	42.5	41.4	45.8	6.2	-7.0
Private Sector	350.6	346.8	343.7	337.7	296.1	1.1	18.4
Other financial corporations	15.4	15.5	15.3	15.5	15.7	-0.6	-1.8
Other***	-303.9	-287.8	-287.4	-286.4	-230.8	5.6	31.7

* 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

Table 2:

Lending Balances								
	Level as at					Change over the		Shares of totals %
	May 17 TOPm	Apr 17 TOPm	Mar 17 TOPm	Feb 17 TOPm	May 16 TOPm	1 month %	1 year %	
Lending, banks	397.7	391.9	391.2	384.5	348.7	1.5	14.1	100.0
Household	225.8	222.9	221.3	217.9	183.1	1.3	23.4	56.8
Business*	170.7	167.7	168.7	165.5	164.4	1.8	3.8	42.9
Other	1.2	1.3	1.2	1.1	1.2	-6.5	-0.7	0.3
Lending, banks and other	538.1	530.2	528.8	520.7	471.6	1.5	14.1	100.0
Household	313.2	308.2	305.9	301.1	252.4	1.6	24.1	58.2
Business	223.7	220.7	221.7	218.5	218.1	1.3	2.6	41.6
Other	1.2	1.3	1.2	1.1	1.2	-6.5	-0.7	0.3
New comm'ts, banks	13.5	7.6	24.3	21.5	11.3	77.2	18.9	N/A
Undrawn comm'ts, banks	24.2	25.8	28.1	21.4	18.6	-6.1	30.4	N/A
Implied repay'ts, banks	9.3	9.2	10.9	18.5	8.4	1.1	10.7	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 [^]		Share of loans/deposits %
	May 17 %	Apr 17 %	Mar 17 %	Feb 17 %	May 16 %	1 month bps	1 year bps	
Deposits all	2.15	2.17	2.20	2.16	2.22	-1.86	-7.28	100
Demand	0.41	0.41	0.44	0.44	0.41	-0.26	-0.35	42
Savings	2.38	2.36	2.37	2.32	2.46	1.48	-7.86	16
Term	3.81	3.80	3.80	3.88	3.86	1.27	-4.70	42
Loans all	7.83	7.86	7.85	7.86	7.88	-2.68	-4.76	100
Housing	8.03	8.02	8.03	8.01	8.06	1.67	-2.66	44.1
Other personal	11.14	11.18	11.10	10.97	10.91	-4.05	22.46	15.0
Business*	6.82	6.85	6.83	6.90	7.05	-2.94	-23.29	26.0
Other	6.44	6.61	6.25	6.25	6.25	-16.17	19.42	14.9

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

[^]Due to rounding errors some data may not aggregate precisely

Sources: Banks; NRBT