

Banking Sector Developments January 2016

Release date: 26th April 2016

	Jan 16	Dec 15	Nov 15	Oct 15
Deposit rate (%)*	2.19	2.15	2.18	2.29
Lending rate (%)*	8.04	8.07	8.07	8.09
Total Deposits (T\$m)	423.0	419.6	412.6	407.8
Total lending (T\$m) ^	328.9	325.4	323.8	320.1
New commitments (T\$m)	10.8	12.5	11.5	14.9
Broad Money (T\$m)	447.5	450.2	427.8	428.7

*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.

Positive growth for banks' credit and deposits continues

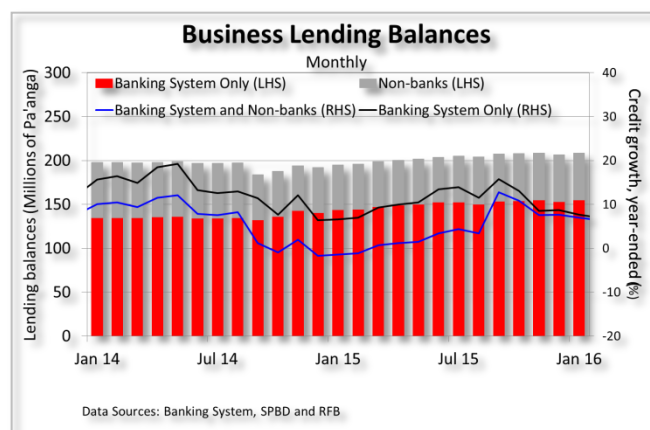
Lending

Total bank lending rose over the month by 1.1% to \$328.9 million, resulting from increases in lending to both businesses and households. Credit growth has been supported by lower interest rates reflecting ongoing competitions among banks. Annual total bank lending recorded an increase of 12.4% with lending to household increasing the most. Lending activities in the non-bank financial institutions captured by the NRBT also increased over the year by 14.9% to \$119.7 million, reflecting increases in both household and business lending.

Business lending

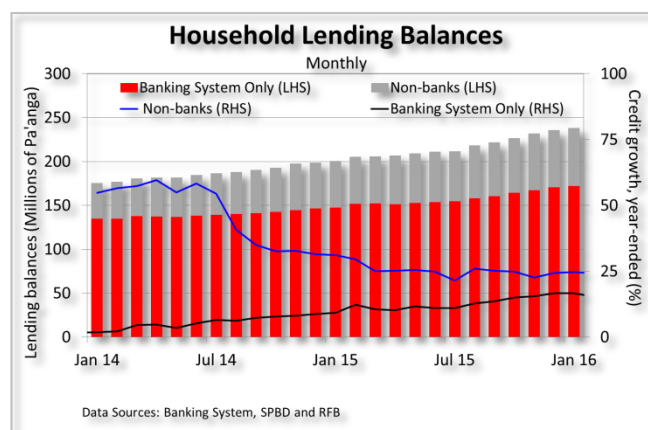
Banks' lending to businesses recorded an increase of 1.3% to \$154.7 million over the month. This reflected increase in lending to the businesses involved in manufacturing, tourism and trade, indicating growing activities in these sectors. In addition, the support from the government's managed funds loan scheme has contributed to higher outstanding loans over the month. In year ended terms, total bank lending to businesses rose by 7.7%, mainly due to increase in lending to

the manufacturing, tourism, construction and agricultural sectors. However, including government on-lent loans, annual business lending increased by only 6.9% due to declines in government on-lent loans. This resulted mainly from loan repayments made over the year.



Household lending

Banks' lending to households increased slightly over the month by 0.6% to \$172.0 million, underpinned mainly by a rise in housing loans. This is supported by ongoing housing loans campaigns amongst banks. The increase in the Cost of Living Allowance (COLA) in the civil servants' salaries that was effective in November 2015 which enhanced the civil servants' borrowing capacity, may have also contributed to the rise in household lending. The growth in housing loans also coincides with a 3.9 basis points decline in weighted average lending rate for housing loans.



Over the year, banks' lending to households rose by 16.6%, reflecting increases in housing and other personal loans. Lending from non-bank financial institutions to households captured by the NRBT also increased over the year by 24.8%.

Other lending

Other loans from banks fell over the month and year by 3.8% and 4.0% respectively, driven mainly by lending activities within the non-profit institutions sector.

Non-performing loans

Banks' total non-performing loans rose over the month by 1.6% to \$26.2 million, which represents 8% of total loans. Non-performing loans to households and businesses increased to 2.2% and 4.1% of total loans from 2.0% and 4.0% respectively in December 2015. This was mainly driven by an increase in housing non-performing loans and a rise in non-performing loans to businesses involved in agricultural activities. Over the year, total non-performing loans rose by 19.6% due mainly to a rise in non-performing loans to public enterprises. Non-performing loans to businesses involved in the agricultural and manufacturing activities also increased over the year, offsetting a decline in private individual's housing non-performing loans.

Deposits

Total bank deposits increased slightly over the month by 0.8% to a new record high of \$423 million, which is consistent with the high liquidity in the banking system. This was mainly due to a 1.8% rise in demand deposits and a 0.4% increase in term deposits, offsetting a 0.7% decline in savings deposits. The increase in demand and term deposits coincides with a 4.1 basis points and 6.5 basis points rises in both weighted average demand deposit rate and weighted average term deposit rate respectively. A rise in Government deposits led the increase in demand deposits whilst higher household deposits drove the higher term deposits. Total deposits increased also by 13.8% over the year, resulting from increases in all categories with the increase in demand deposits being the highest.

Interest rates spread

Banks' weighted average interest rate spread narrowed over the month from 5.92% in December 2015 to 5.85% in January 2016. This stemmed from a 2.8 basis points decline in weighted average lending rate to 8.04% and a 3.6 basis points increase in weighted average deposit rate to 2.19%. Increased competition amongst banks have continued to drive the lower weighted average lending rate whilst the higher weighted average deposit rate reflected increases in deposit rates offered by banks mainly on their term deposits. Over the year, weighted average interest rate spread narrowed by 14.6 basis

points, reflecting a decline in the weighted average lending rate by 21.6 basis points outweighing a decrease of 7.0 basis points in the weighted average deposit rate. The decline in weighted average lending rate is due to an increase in low interest rate loans to businesses whilst the increase in deposits drove the lower weighted average deposit rate.

Table 1:

Consolidated Balance Sheet of Depository Corporations							
	Level as at				Jan-15 \$TOPm	Change over the last:	
	Jan-16 \$TOPm	Dec-15 \$TOPm	Nov-15 \$TOPm	Oct-15 \$TOPm		1 month % growth	1 year % growth
Broad money liabilities	447.5	450.2	427.8	428.7	380.8	-0.6	17.5
Currency in circulation	47.8	52.8	45.0	46.9	40.4	-9.5	18.4
Demand deposits	173.9	172.0	161.8	159.1	138.4	1.1	25.7
Savings and term deposits*	225.8	225.4	221.1	222.7	202.1	0.2	11.7
<i>equals</i>							
Net foreign assets	324.9	327.2	305.0	303.3	277.0	-0.7	17.3
<i>plus</i>							
Net domestic assets	122.9	123.3	123.1	125.8	104.2	-0.4	17.9
Gross bank lending**	337.6	334.4	332.9	329.2	300.4	0.9	12.4
Public enterprises	45.1	45.2	45.9	46.2	46.9	-0.2	-3.9
Private Sector	275.8	272.8	270.1	268.0	239.3	1.1	15.2
Other financial corporation	16.6	16.4	16.9	14.9	14.1	1.1	18.0
Other***	-214.7	-211.1	-209.8	-203.3	-196.1	1.7	9.5

* 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 slightly fell over the month by 0.6% to \$447.5 million, due to a 0.7% decline in net foreign assets, and a 0.4% fall in net domestic assets. The lower net foreign assets resulted from a 0.4% decline in the foreign reserves whilst a decrease in other items (net) driven by an increase in banks' miscellaneous liability items explains the decrease in net domestic assets. Currency in circulation also recorded a fall over the month by 9.5% which is in line with the decline in broad money. In year ended terms, broad money rose by 17.5%, reflecting the increases in both net domestic assets and net foreign assets of 17.9% and 17.3% respectively. Total domestic demand deposits and currency in circulation also increased in line with the rise in broad money.

Liquidity

Liquidity in the banking system increased over the month by 3.1% to a new record of \$174.7 million, driven mainly by rises in banks' deposits of their customers' proceeds from the sales during the festive season to the NRBT vault. This coincides with a 9.5% decline in currency in circulation over the month.

Annually, banking system liquidity rose by 11.7%, reflecting increases in bank 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 continue to grow by more than 10% in the next six months. 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 %
	Jan 16 TOPm	Dec 15 TOPm	Nov 15 TOPm	Oct 15 TOPm	Jan 15 TOPm	1 month %	1 year %	
Lending, banks	328.9	325.4	323.8	320.1	292.5	1.1	12.4	100.0
Household	172.0	171.0	167.5	164.4	147.6	0.6	16.6	52.3
Business*	154.7	152.8	154.7	154.1	143.7	1.3	7.7	47.0
Other	1.3	1.3	1.3	1.3	1.3	-3.8	-4.0	0.4
Lending, banks and other	448.5	444.0	441.8	436.2	396.7	1.0	13.1	100.0
Household	237.8	235.6	231.4	226.5	200.2	0.9	18.7	53.0
Business	208.7	206.7	208.7	208.1	195.2	0.9	6.9	46.5
Other	1.3	1.3	1.3	1.3	1.3	-3.8	-4.0	0.4
New comm'ts, banks	10.8	12.5	11.5	14.9	20.3	-13.2	-46.7	N/A
Undrawn comm'ts, banks	21.1	19.9	20.0	20.6	14.7	5.9	43.6	N/A
Implied repay'ts, banks	6.2	11.0	8.3	11.1	8.3	-43.9	-25.4	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					Change over the last [^] :		Share of loans/deposits %
	Jan 16 %	Dec 15 %	Nov 15 %	Oct 15 %	Jan 15 %	1 month bps	1 year bps	
Deposits all	2.19	2.15	2.18	2.29	2.26	3.62	-7	100
Demand	0.47	0.43	0.40	0.41	0.58	4.14	-11	42
Savings	2.34	2.33	2.40	2.38	2.48	0.90	-14	16
Term	3.86	3.79	3.87	4.09	3.79	6.49	7	42
Loans all	8.04	8.07	8.07	8.09	8.25	-2.83	-21.6	100
Housing	8.25	8.29	8.29	8.39	8.45	-3.90	-20	37
Other personal	10.96	11.03	11.07	10.99	10.98	-7.10	-2	18
Business*	7.13	7.13	7.21	7.22	7.46	-0.40	-33	26
Other	6.38	6.52	6.91	6.44	6.28	-14.28	10	19

*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