

Banking Sector Developments

April 2017

Release date: 7 July 2017

	Apr 17	Mar 17	Feb 17	Jan 17
Deposit rate (%)*	2.167	2.203	2.160	2.116
Lending rate (%)*	7.856	7.845	7.856	7.827
Total Deposits (T\$m)	526.2	517.9	524.3	527.8
Total lending (T\$m) ^	391.9	391.2	384.5	382.2
New commitments (T\$m)	7.6	24.3	21.5	15.1
Broad Money (T\$m)	509.9	503.6	510.2	512.0

*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.

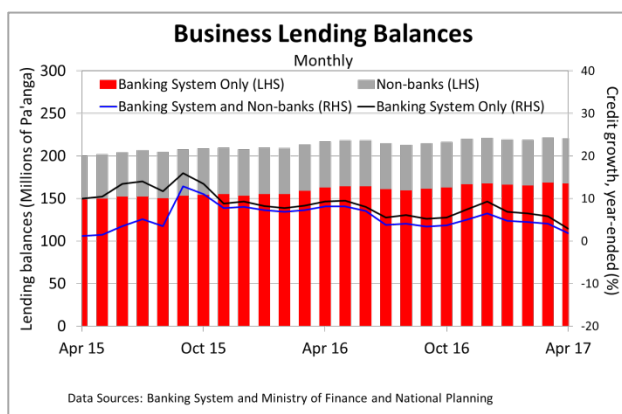
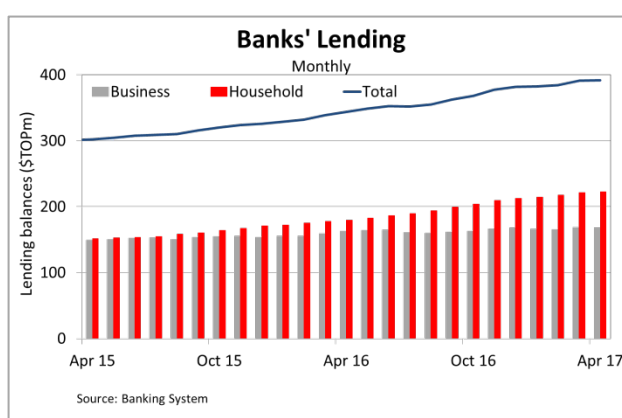
Household loans continue driving credit growth

Lending

Total banks' lending rose over April by \$0.7 million (0.2%) and further over the year by \$47.9 million (13.9%), reaching a new high level of \$391.9 million. Household loans was the sole driver of the overall growth over the month. However, over the year, both household and business loans contributed to the overall growth in lending with household loans being the significant contributor. Lending extended by non-bank financial institutions increased over April by \$0.6 million (0.5%) and over the year by \$16.3 million (13.3%) to \$138.2 million. This remained driven by higher household loans offsetting a decline in government on-lent loans.

Business lending

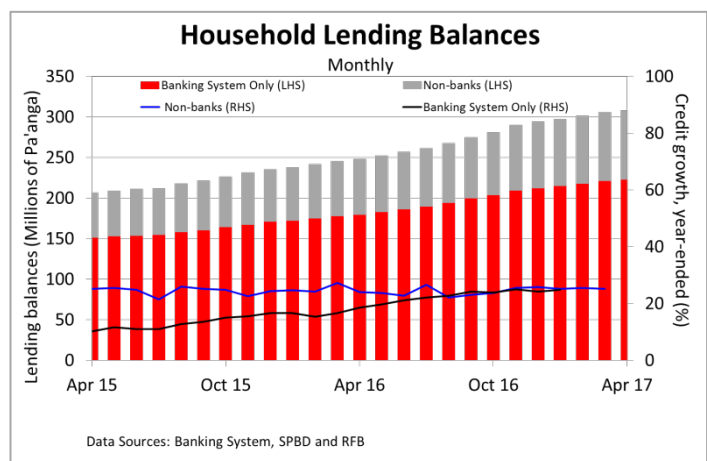
Banks' lending to businesses declined over the month by \$1.0 million (0.6%) to \$167.7 million. This was mainly a result of a decline in loans to public enterprises, construction, and mining and quarrying which recorded respective decreases of \$2.4 million (5.6%), \$0.2 million (2.0%), and \$0.1



million (18.6%). This was partially offset by increases in lending to the agricultural, trade, and services sectors. Contrastingly, business loans increased by \$4.8 million (3.0%) over the year. This was led mainly by rises in lending to the agricultural, manufacturing, and transport sectors. Agricultural loans rose by \$2.8 million (40.4%), manufacturing loans increased by \$2.4 million (16.3%), and lending to the transport sector grew by \$1.6 million (93.7%). These increases were slightly offset by decreases in lending mainly to the mining and quarrying and catering sectors which noted annual declines of \$1.2 million (67.1%) and \$0.4 million (71.8%) respectively. 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 \$4.1 million (1.9%) reflecting the loan repayments made over the year for the government on-lent loans.

Household lending

Household loans drove the total credit growth over the month rising by \$1.6 million (0.7%) to \$222.9 million, surpassing the high record set last month. Being the sole contributor to the monthly increase, household loans resulted mainly from more housing loans which rose by \$2.0 million (1.3%). Vehicle loans also increased yet very minimally. This continued to reflect high demand and rising confidence of households. Other personal loans, on the other, hand fell by \$0.4 million(1.4%) over the month.



Over the year, banks' lending to households rose by \$43.1 million (24.0%). Housing loans continued to be the significant driver of lending by households thus led the yearly rise recording growth of \$40.9 million (33.2%). Additionally, other personal and vehicle loans contributed with respective increases of \$1.8 million (3.2%) and \$0.4 million (66.8%). Higher loans for vehicle coincided with the rise in vehicle registrations over the year by 889 vehicles (31.3%). Import payments for construction materials also rose by \$13.8 million (45.1%) supporting the annual 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 rose by \$16.9 million (24.8%) 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 rose both over the month and over the year. April recorded an increase of \$0.1 million (10.8%) whilst annually other loans rose by \$0.04 million (3.2%). This resulted from higher lending activities within the non-profit institutions sector.

Non-performing loans

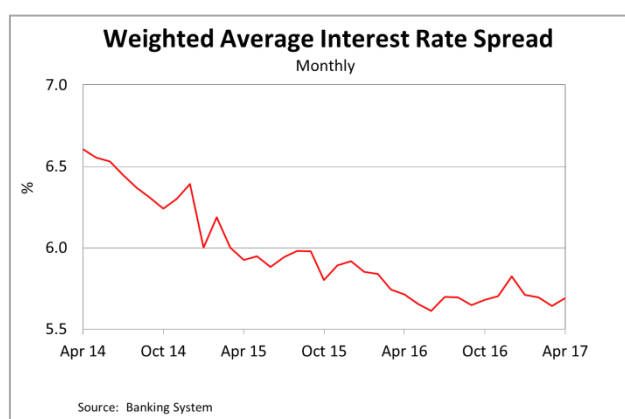
Banks' total non-performing loans increased by \$0.7 million (3.7%) to \$18.5 million in April. This was due to an increase in both non-performing business and household loans. The rise in non-performing business loans were due to deterioration in the performance of loans to the agricultural and manufacturing sectors. Similarly, the higher non-performing household loans were driven by an increase in individual loans for housing and other personal purposes. Over the year, non-performing loans decreased by \$5.4 million (22.5%) 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 4.7% of total loans as at the end of April 2017.

Deposits

Total bank deposits rose by \$8.3 million (1.6%) to \$526.2 million in April. This was driven by increases in all categories and coincided with the higher foreign reserves. Demand deposits led the rise with \$6.6 million (2.8%) followed by savings deposits with \$0.9 million (1.1%). Time deposits also contributed by \$0.8 million (0.4%) to the overall growth in deposits. The monthly increase stemmed from more deposits from private businesses, public enterprises, and the government. On annual terms, total bank deposits grew by \$82.3 million (18.5%) due to increases in all categories. Demand deposits contributed the most with an increase of \$47.5 million (25.1%) followed by time deposits which rose by \$25.1 million (13.6%) and then savings deposits contributing \$9.6 million (13.7%). The increase 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. The rise in savings deposits were due to higher deposits made by individuals as well as the government.

Interest rate spread

The weighted average interest rate spread widened by 4.7 basis points over April but narrowed by 2.3 basis points over the year to 5.7%. Over the month, the weighted average lending rate widened by 1.1 basis points driven by higher lending rates for household loans particularly personal loans, as well as a rise in business lending rates mainly lending rates for the agricultural and manufacturing sectors. The weighted average deposit rate declined in April



by 3.6 basis points to 2.17% due to lower demand and savings deposit rates. Over the year, the weighted average interest rate spread narrowed due to a decline in the weighted average lending rate which was partly offset by a decrease in the weighted average deposit rate. Lending rates for housing and business loans, namely loans to the manufacturing, agricultural, and mining and quarry sectors, fell over the year to April. These rate movements supported the higher credit growth

recorded over the year. The weighted average deposit rate declined by 8.8 basis points as a result of lower deposit rates in all categories.

Broad money

Broad money increased by \$6.4 million (1.3%) to \$509.9 million over April. This resulted mainly from a \$5.7 million (1.5%) increase in net foreign assets, driven significantly by the official foreign reserves which rose by \$5.7 million (1.5%) and slightly offset by a decline in other foreign assets of \$0.3 million (0.7%). Net domestic assets also rose by \$0.5 million (0.4%) driven mainly by higher cash withdrawals by the commercial banks from the Reserve Bank vault during the month. This was to cater for the replenishment of cash holdings of the commercial banks in the outer islands and the foreign exchange dealers. Over the year, broad money increased by \$61.6 million (13.7%) driven mainly by net foreign assets which rose by \$73.6 million (22.9%). This rise was due to the higher foreign reserves increasing by \$48.8 million (15.1%) and other foreign assets by \$23.6 million (101.4%) over the year. This had offset the annual decline of net domestic assets which fell by \$12.2 million (9.7%). Driving the fall in net domestic assets was 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 \$3.6 million (1.3%) to \$272.7 million in April. This was driven by higher currency in circulation which rose by \$4.3 million (6.6%) largely as a result of higher cash withdrawals by the commercial banks from the Reserve Bank vault. This could also imply that a lot more transactions are occurring between households, businesses, and the commercial banks. This further indicates more economic activities and perhaps festive preparations for special events over the month such as Easter. Banks' total loans to deposit ratio dropped slightly to 74.5% from 75.5% in the previous month. This reflected the higher deposits over March, outweighing the growth in loans, which also coincided with the higher foreign reserves. The loans to deposits ratio of banks remained below the 80% minimum loans to deposits ratio target 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 \$30.9 million (12.8%) driven largely by a \$16.1 million (9.8%) rise in banks' cash deposits to the Reserve Bank vault.

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 9.8% 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 10%. This coincides with the IMF's estimated growth of 10.2% projection for June 2017, supported by the anticipated increase in lending and foreign reserves level.

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

The Reserve Bank will continue to closely monitor the credit growth and broad money movements to ensure financial and macroeconomic stability are maintained.

Table 1:

Consolidated Balance Sheet of Depository Corporations							
	Level as at					Change over the last:	
	Apr-17 \$TOPm	Mar-17 \$TOPm	Feb-17 \$TOPm	Jan-17 \$TOPm	Apr-16 \$TOPm	1 month % growth	1 year % growth
Broad money liabilities	509.9	503.6	510.2	512.0	448.3	1.26	13.7
Currency in circulation	50.6	51.3	50.9	50.1	44.9	-1.44	12.7
Demand deposits	186.7	181.2	193.9	199.6	169.3	3.03	10.3
Savings and term deposits*	272.6	271.0	265.3	262.3	234.2	0.59	16.4
<i>equals</i>							
Net foreign assets	395.4	389.7	402.2	407.1	321.8	1.5	22.9
<i>plus</i>							
Net domestic assets	114.6	114.1	108.3	105.1	126.8	0.4	-9.7
Gross bank lending**	402.4	401.5	394.6	392.2	352.9	0.2	14.0
Public enterprises	40.1	42.5	41.4	42.2	45.8	-5.6	-12.4
Private Sector	346.8	343.7	337.7	333.9	291.3	0.9	19.1
Other financial corporations	15.5	15.3	15.5	16.1	15.8	1.2	-1.8
Other***	-287.8	-287.4	-286.4	-287.1	-226.1	0.1	27.3

* 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

Table 2:

Lending Balances								
	Level as at					Change over the		Shares of totals %
	Apr 17 TOPm	Mar 17 TOPm	Feb 17 TOPm	Jan 17 TOPm	Apr 16 TOPm	1 month %	1 year %	
Lending, banks	391.9	391.2	384.5	382.2	344.0	0.2	13.9	100.0
Household	222.9	221.3	217.9	214.8	179.8	0.7	24.0	56.9
Business*	167.7	168.7	165.5	166.3	162.9	-0.6	3.0	42.8
Other	1.3	1.2	1.1	1.1	1.2	10.8	3.2	0.3
Lending, banks and other	530.2	528.8	520.7	517.4	466.0	0.3	13.8	100.0
Household	308.2	305.9	301.1	297.1	248.1	0.7	24.2	58.1
Business	220.7	221.7	218.5	219.3	216.6	-0.5	1.9	41.6
Other	1.3	1.2	1.1	1.1	1.2	10.8	3.2	0.3
New comm'ts, banks	7.6	24.3	21.5	15.1	10.6	-68.7	-28.3	N/A
Undrawn comm'ts, banks	25.8	28.1	21.4	20.7	20.3	-8.1	27.0	N/A
Implied repay'ts, banks	9.2	10.9	18.5	11.7	7.1	-15.9	28.9	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				Apr 16 %	Change over the last [^]		Share of loans/deposits %
	Apr 17 %	Mar 17 %	Feb 17 %	Jan 17 %		1 month bps	1 year bps	
Deposits all	2.17	2.20	2.16	2.12	2.26	-3.58	-8.80	100
Demand	0.41	0.44	0.44	0.45	0.44	-2.36	-2.91	41
Savings	2.36	2.37	2.32	2.31	2.44	-0.32	-8.04	16
Term	3.80	3.80	3.88	3.79	3.89	0.58	-8.49	42
Loans all	7.86	7.85	7.86	7.83	7.97	1.10	-11.13	100
Housing	8.02	8.03	8.01	8.01	8.09	-1.01	-7.80	43.7
Other personal	11.18	11.10	10.97	11.07	10.94	7.88	23.53	15.4
Business*	6.85	6.83	6.90	6.82	7.20	1.89	-34.84	26.0
Other	6.61	6.25	6.25	6.25	6.25	35.59	35.59	14.8

*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