

# Banking Sector Developments January 2017

Release date: 21 June 2017

	Jan 17	Dec 16	Nov 16	Oct 16
Deposit rate (%)*	2.177	2.129	2.232	2.213
Lending rate (%)*	7.88	7.87	7.89	7.87
Total Deposits (T\$m)	527.8	515.1	492.9	496.8
Total lending (T\$m) ^	382.2	381.6	377.5	368.2
New commitments (T\$m)	15.1	23.8	22.3	13.1
Broad Money (T\$m)	512.0	512.2	493.6	501.2

\*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.

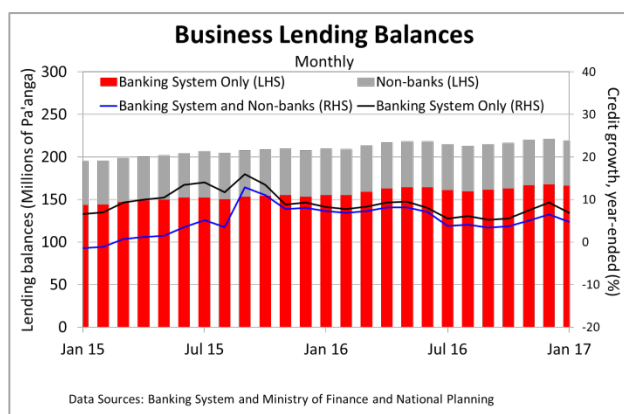
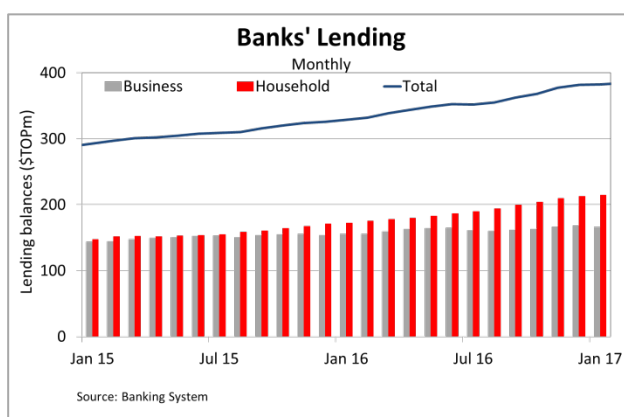
## New Year begins with continued growth in deposits

### Lending

Total banks' lending continued to rise in the New Year. Lending reached a new high level of \$382.2 million in January, an increase of \$0.6 million (0.2%) from the previous month. This was driven by higher household loans whilst business loans declined. Over the year, total banks' lending increased by \$53.4 million (16.2%) owing to rises in both household and business loans with household loans contributing the most. Lending extended by non-bank financial institutions recorded a yearly rise of \$15.8 million (13.2%) to \$135.2 million. This was attributed to more household loans offsetting a decrease in government on-lent loans.

### Business lending

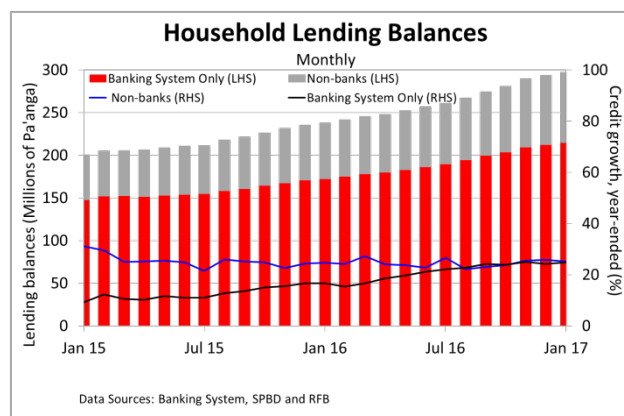
Banks' lending to businesses fell over January by \$1.6 million (0.9%) to \$166.3 million. This stemmed mainly from respective declines of \$1.1 million (10.9%) in lending to the agricultural sector and also a \$0.7 million (2.2%) fall in loans to the trade sector. However, lending to businesses rose over the year by \$10.7 million (6.9%). This was led strongly by higher lending to businesses in



tourism which rose by \$4.7 million (39.7%), professional services by \$3.3 million (23.8%), agriculture by \$2.5 million (38.6%), and manufacturing by \$1.4 million (9.2%). The Government Development Loans continued to support higher lending for agriculture and manufacturing and thereby economic activities in these sectors. With the inclusion of government on-lent loans, business lending rose by \$10.0 million (4.8%) reflecting the loan repayments made over the year for the government on-lent loans.

### Household lending

Loans to households drove the overall monthly and annual growth in banks' total lending. Over the month of January, a \$2.4 million (1.1%) increase in household loans drove the household lending to reach a new high level of \$214.8 million. This was specifically lending for housing which rose by \$4.2 million (2.7%) over January. Vehicle loans also contributed to the monthly rise with a \$0.1 million (19.0%) rise. These were partially offset by a \$2.0 million (3.3%) decline in personal loans.



Over the year, banks' lending to households rose by \$42.8 million (24.9%). This was due mainly to a \$41.0 million (35.4%) increase in loans for housing. Other personal loans and vehicle loans also contributed to the yearly rise with growths of \$1.3 million and \$0.5 million respectively. Lower lending rates for housing which declined by 21.1 basis points supported the yearly growth, which reflects banks' housing loan campaign during the year. In addition, lending from non-bank financial institutions to households rose by \$16.5 million (25.2%) reflected higher personal loans made over the year. This suggested a stronger consumer confidence and demand. The introduction of home improvement loan at the Retirement Fund Board in July 2016 also contributed to the annual growth.

### Other lending

Other loans from banks fell over January and over the year by \$0.2 million (12.7%) and \$0.1 million (11.8%) respectively. This reflected a decline in lending activities within the non-profit institutions sector.

### Non-performing loans

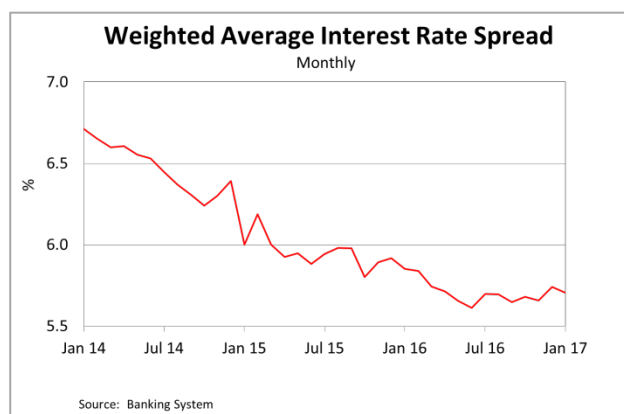
Banks' total non-performing loans slightly rose by \$0.2 million (1.0%) to \$17.0 million in January 2017 due to minimal increases in non-performing business and household loans. This represents 4.5% of total loans compared to 4.4% in December 2016. Annually, non-performing loans decreased by \$9.1 million (34.9%) driven mainly by a \$3.8 million (23.0%) decline in non-performing business loans.

## Deposits

Total bank deposits increased over January by \$12.7 million (2.5%) to a new record high of \$527.8 million. This was driven mainly by a rise in demand deposits of \$9.2 million and an increase in time deposits of \$5.0 million (2.5%). This mainly reflects deposits made by the private sector over the month and further coincides with the higher foreign reserves. On the other hand, saving deposits fell by \$1.7 million (1.6%) over the month. Over the year, total bank deposits recorded an increase of \$83.0 million (18.7%) due to increases in all categories with demand deposits rising the most. Deposits made by government contributed to these rises as government donor funds received and improved revenue collection were noted over the year.

## Interest rate spread

The weighted average interest rate spread narrowed by 3.6 basis points to 5.6%. This resulted from the weighted average deposit rate rising which outweighed the increase in weighted average lending rate. More specifically, the weighted average lending rate increased by 1.2 basis points to 7.88% due to higher household lending rates for vehicles and other personal loans. Business lending rates particularly for the manufacturing and construction sectors also increased over the month. The weighted average deposit rate rose by 4.8 basis points to 2.18% supported the higher demand deposits. Over the year, the weighted average interest rate spread narrowed by 15.7 basis points mainly due to a decline in the weighted average lending rate outweighing the decrease in the weighted average deposit rate. The lower lending rates for business and household loans contributed to driving down the weighted average lending rate. Specifically, housing lending rates dropped along with lower lending rates for the agricultural, utilities and tourism sectors. This also coincided with higher credit growth over the year. Meanwhile, lower savings and term deposit rates resulted in the decrease in the weighted average deposit rate.



## Broad money

Broad money slightly fell by \$0.1 million (0.03%) to \$512.0 million in January 2017. This was due to a decrease of \$16.7 million (13.7%) in net domestic assets which was partially offset by a \$16.6 million (4.2%) rise in net foreign assets. A large decline in the banks' other assets reflecting the clearance of cheques in transit from the previous month, as well as the increase in banks' demand deposits largely contributed to the decline in the net domestic assets over the month. Meanwhile the higher foreign reserves resulted in the higher net foreign assets over the month. Over the year, broad money increased by \$64.6 million (14.4%) driven mainly by an \$82.1 million (25.3%) rise in net foreign assets. Meanwhile, net domestic assets declined however insufficient to offset the

increase in foreign reserves. Budget support funding received during the year contributed to the higher foreign reserves and corresponded to the increase in net foreign assets.

### **Liquidity**

Over January, the liquidity (reserve money)<sup>1</sup> in the banking system decreased by \$1.0 million (0.4%) to \$280.3 million. This was mainly due to lower currency in circulation possibly due to the end of the festive season. Total loans to deposit ratio fell to 72.4% in January from 74.1% last month. This remained below the 80% minimum loan to deposit ratio target that is to be achieved by June 2017 which indicates excess liquidity in the banking system remains. Despite the strong growth in the banks' loan books, this was outweighed by the continuous growth in deposits, which coincides with the higher foreign reserves. This indicates more capacity remains for further lending by the banks. On year ended terms, the banking system liquidity increased by \$24.1 million (9.4%) driven by a \$17.1 million (9.8%) rise in banks' deposits to the Reserve Bank's vault.

### **Outlook**

The Reserve Bank estimates a credit growth of 15.0% to be achieved at the end of 2016/17. This is higher than the IMF Article IV's projected growth of 9.8% for 2016/17. The banks' prospects for credit growth remain positive and the Reserve Bank's projection is supported by improving economic conditions, business confidence, and annual (one-off) events taking place throughout the 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 the foreign reserves.

The policy measure requiring banks' loan to deposit ratio to meet a minimum of 80% by June 2017 and progressively over 18 months, is to encourage the utilization of the excess liquidity in the banking system to increase lending, in order to support economic growth, subject to ensuring financial stability is maintained.

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

Table 1:

Consolidated Balance Sheet of Depository Corporations							
	Level as at					Change over the last:	
	Jan-17 \$TOPm	Dec-16 \$TOPm	Nov-16 \$TOPm	Oct-16 \$TOPm	Jan-16 \$TOPm	1 month % growth	1 year % growth
<b>Broad money liabilities</b>	<b>512.0</b>	<b>512.2</b>	<b>493.6</b>	<b>501.2</b>	<b>447.5</b>	<b>-0.03</b>	<b>14.4</b>
Currency in circulation	50.1	59.9	50.0	48.9	47.8	-16.36	4.9
Demand deposits	199.6	193.6	185.7	190.6	173.9	3.07	14.8
Savings and term deposits*	262.3	258.6	257.9	261.6	225.8	1.44	16.2
<i>equals</i>							
<b>Net foreign assets</b>	<b>407.1</b>	<b>390.5</b>	<b>366.8</b>	<b>375.0</b>	<b>324.9</b>	<b>4.2</b>	<b>25.3</b>
<i>plus</i>							
<b>Net domestic assets</b>	<b>105.1</b>	<b>121.8</b>	<b>126.9</b>	<b>126.4</b>	<b>122.9</b>	<b>-13.7</b>	<b>-14.5</b>
Gross bank lending**	392.2	391.5	387.2	377.7	337.6	0.2	16.2
Public enterprises	42.2	43.2	43.0	41.7	45.1	-2.5	-6.6
Private Sector	333.9	332.0	327.9	320.6	275.8	0.5	21.0
Other financial corporation	16.1	16.2	16.4	15.3	16.6	-0.6	-2.9
Other***	-287.1	-269.7	-260.3	-251.3	-214.7	6.4	33.7

\* 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 %
	Jan 17 TOPm	Dec 16 TOPm	Nov 16 TOPm	Oct 16 TOPm	Jan 16 TOPm	1 month %	1 year %	
Lending, banks	382.2	381.6	377.5	368.2	328.9	0.2	16.2	100.0
Household	214.8	212.5	209.4	203.8	172.0	1.1	24.9	56.2
Business*	166.3	167.8	166.8	163.1	155.5	-0.9	6.9	43.5
Other	1.1	1.3	1.2	1.3	1.3	-12.7	-11.8	0.3
Lending, banks and other	517.4	515.8	510.8	498.1	448.3	0.3	15.4	100.0
Household	297.1	293.7	289.8	280.7	237.8	1.1	25.0	57.4
Business	219.3	220.8	219.8	216.2	209.3	-0.7	4.8	42.4
Other	1.1	1.3	1.2	1.3	1.3	-12.7	-11.8	0.3
New comm'ts, banks	15.1	23.8	22.3	13.1	10.8	-36.3	39.9	N/A
Undrawn comm'ts, banks	20.7	17.9	14.0	13.3	21.1	15.4	-2.0	N/A
Implied repay'ts, banks	11.7	15.8	12.3	8.9	6.7	-25.6	74.5	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				Jan 16	Change over the last <sup>^</sup> :		Share of loans/deposits %
	Jan 17 %	Dec 16 %	Nov 16 %	Oct 16 %		1 month bps	1 year bps	
Deposits all	2.18	2.13	2.23	2.21	2.19	4.83	-1.00	100
Demand	0.47	0.43	0.44	0.41	0.47	4.37	0.41	41
Savings	2.26	2.22	2.31	2.33	2.34	4.39	-7.77	18
Term	3.84	3.85	3.92	3.89	3.86	-1.36	-2.02	41
Loans all	7.88	7.87	7.89	7.89	8.04	1.22	-15.74	100
Housing	8.04	8.05	8.10	8.09	8.25	-1.60	-21.06	42.9
Other personal	11.10	10.95	10.96	11.02	11.09	15.15	1.60	15.6
Business*	6.89	6.97	6.99	6.89	7.13	-7.98	-23.51	26.2
Other	6.25	6.66	6.32	6.54	6.38	-40.53	-12.93	15.3

\*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