

Banking Sector Developments March 2017

Release date: 28 June 2017

	Mar 17	Feb 17	Jan 17	Dec 16
Deposit rate (%)*	2.251	2.213	2.177	2.129
Lending rate (%)*	7.909	7.913	7.881	7.869
Total Deposits (T\$m)	517.9	524.3	527.8	515.1
Total lending (T\$m) ^	391.2	384.5	382.2	381.6
New commitments (T\$m)	24.3	21.5	15.1	23.8
Broad Money (T\$m)	503.6	510.2	512.0	512.2

*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.

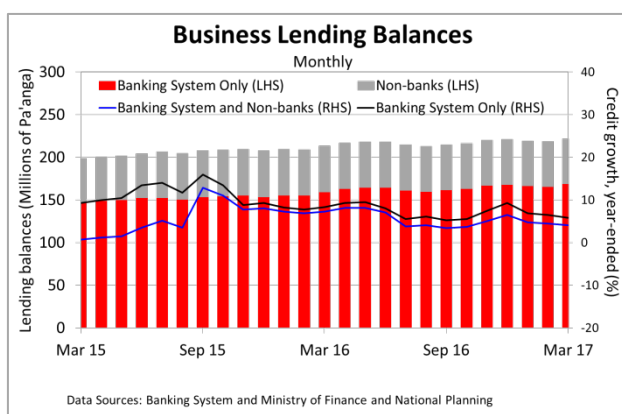
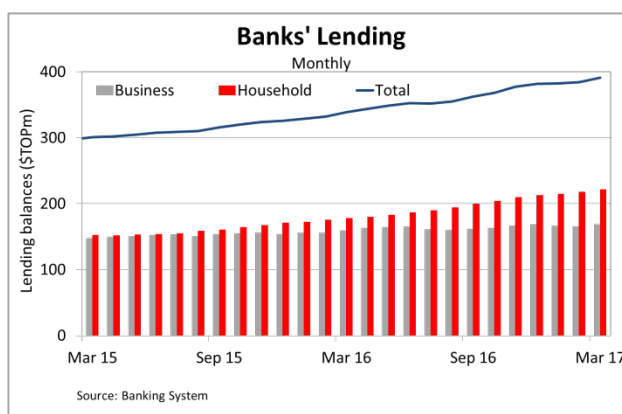
Lending by banks continue to grow

Lending

Total banks' lending reached a new record high of \$391.2 million at the end of March 2017. This resulted from an increase of \$6.7 million (1.7%) over the month and \$52.5 million (15.5%) over the year. Both the monthly and annual movements were driven by increases in lending to both business and household loans. However, household loans remained the most significant contributor to the overall growth in lending. Lending extended by non-bank financial institutions recorded a monthly and an annual rise of \$0.3 million (0.2%) and \$15.3 million (12.6%) respectively to \$136.6 million. This was driven by higher household loans offsetting a decline in government on-lent loans.

Business lending

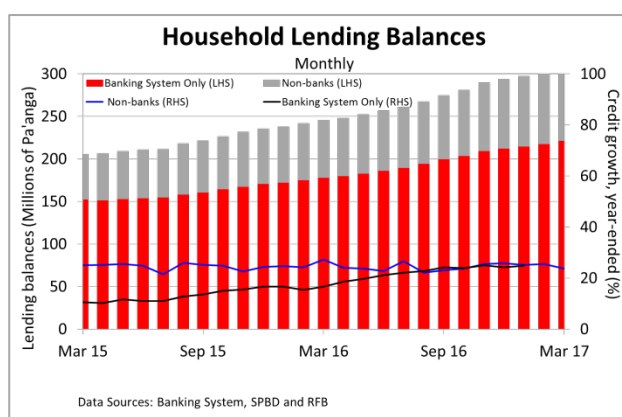
Banks' lending to businesses increased over March by \$3.3 million (2.0%) to \$168.7 million. This monthly rise follows after declines in the first two months of the year. Respective growth in lending to the trade, construction, and agricultural sectors of \$1.9 million (6.3%), \$0.4 million (4.3%), and \$0.2 million (2.5%) led the overall



rise in business loans. Further to that, business lending increased over the year by \$9.3 million (5.9%). The annual growth was driven by higher lending to most business sectors with significant contributions by agricultural loans which rose by \$3.0 million (46.8%), lending for wholesale & retail increased by \$2.0 million (6.7%), and construction loans grew by \$1.9 million (23.1%). 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 \$8.7 million (4.1%) reflecting the loan repayments made over the year for the government on-lent loans.

Household lending

Household loans contributed to the overall lending growth over March by \$3.4 million (1.6%). Lending to households reached a new high level of \$221.3 million and mainly resulted from higher lending for housing purposes. More specifically, housing loans rose by \$3.5 million (2.2%) over the month. This also reflects high demand and rising confidence of households. Vehicle loans also increased by \$0.01 million (1.4%). Both these movements outweighed a decline in other personal lending of \$0.1 million (0.1%).



Over the year, banks' lending to households increased by \$43.3 million (24.3%). This was driven significantly by a \$41.0 million (33.8%) rise in housing loans and further supported by other personal loans and vehicle loans which also increased by \$1.7 million (3.1%) and \$0.6 million (153.6%) respectively. Both vehicle registrations and import payments for construction materials rose over the year coinciding with more vehicle and housing loans. Lower lending rates for housing supported the yearly growth reflecting also the banks' housing loan campaign. Additionally, lending from non-bank financial institutions to households rose by \$16.0 million (23.7%). This further reflects 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 over the month and declined over the year. March noted a \$0.04 million (3.2%) increase whilst annually other loans recorded a decrease of \$0.07 million (5.6%). This resulted from lower lending activities within the non-profit institutions sector.

Non-performing loans

Over March, banks' total non-performing loans increased by \$1.1 million (6.5%) to \$17.8 million. This was due to a rise in both non-performing business and household loans. The increase in non-performing business loans resulted from deterioration in the performance of loans to the tourism and professional and other services sectors. On the other hand, the higher non-performing household loans were driven by private individual loans for housing purposes. Annually, non-

performing loans decreased by \$6.9 million (38.5%) driven mainly by the settlement of a major business loan as well as the write off of a business loan. The non-performing loans represented 4.6% of total loans as at the end of March 2017.

Deposits

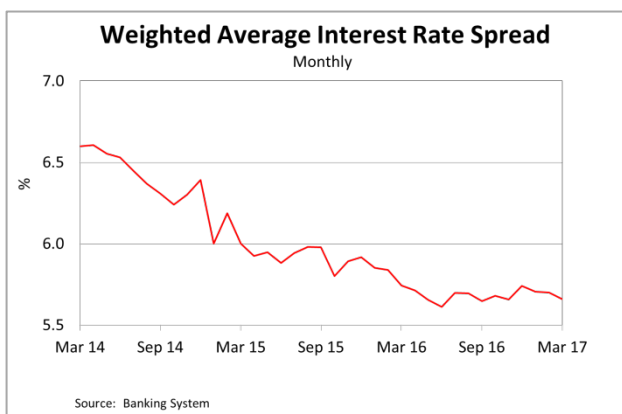
Total bank deposits fell over the month by \$6.4 million (1.2%) to \$517.9 million. This was driven by a decline in demand deposits of \$13.0 million (5.6%) offsetting an increase in savings and time deposits. This was a result of a fall in private sector businesses' demand deposits which may have been used for import payments. More specifically, import payments rose by almost double over March and coincided with the decline in the foreign reserves. On annual terms, total bank deposits rose by \$72.6 million (16.3%) due to increases in all categories. Time deposits rose the highest by \$27.9 million (15.4%) driven considerably by higher private business deposits rising by \$11.5 million. This is evident through more economic activities throughout the year especially with hosting of variety of regional conferences and events. In addition, deposits by statutory non-bank financial corporations increased by \$11.1 million largely reflecting higher deposits by the retirement funds. Furthermore, demand deposits increased as a result of higher government and private businesses' deposits.

Interest rate spread

The weighted average interest rate spread narrowed over the month and over the year by 4.2 basis points and 8.4 basis points respectively. Over March, the weighted average lending rate declined slightly by 0.4 basis points to 7.909% (from 7.913%) driven by lower lending rates to the business sector, mainly for manufacturing and trade. Meanwhile, lending rates rose over the month for household loans specifically housing. The weighted average deposit rate

increased by 3.8 basis points to 2.25% due to higher saving deposit rates and supported the higher saving deposits recorded over March. This had offset lower demand and term deposit rates over the month.

Over the year, the weighted average interest rate spread narrowed mainly due to a lower weighted average lending rate coupled with the higher weighted average deposit rate. Lower lending rates for businesses and households led to a decline in the overall weighted average lending rate. More specifically, housing lending rates decreased as well as lending rates for loans to the agricultural, utilities and tourism sectors declined over the year. This also coincided with the banks' housing loan campaigns and the resulting higher credit growth recorded over the year.



Broad money

Broad money declined by \$6.6 million (1.3%) to \$503.6 million over March. This was due to a fall of \$12.5 million (3.1%) in net foreign assets backed by the lower foreign reserves. Meanwhile, net domestic assets noted a rise of \$5.8 million (5.4%) supported by higher net domestic credit. Over the year, broad money increased by \$51.9 million (11.5%) as a result of higher net foreign assets which rose by \$73.5 million (23.2%) and corresponded to the significant growth in deposits over the year. On the other hand, net domestic assets decreased over the year by \$21.5 million (15.9%). Driving the movement in net domestic assets was banks' increased lending to the public and investment in government bonds. Contrastingly, budget support funding received during the year contributed to the higher foreign reserves and corresponded to the increase in net foreign assets.

Liquidity

Over March, the liquidity (reserve money)¹ in the banking system decreased by \$8.8 million (3.2%) to \$269.1 million. This stemmed mainly from lower cash deposits by the commercial banks to the Reserve Bank vault throughout March as well as banks purchasing foreign currency to fund their customers' import payments, which is in line with the lower deposits over the month. This coincides also with an increase in import payments. Banks' total loans to deposit ratio increased to 75.5% from 73.3% in February. This resulted from the lower deposits over March, outweighing the growth in loans, which coincided with the fall in the foreign reserves and the rise in net domestic assets. 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 exists. In year ended terms, the banking system liquidity increased by \$20.4 million (8.2%) driven largely by a \$15.3 million (9.3%) 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.

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

¹ 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:		
	Mar-17 \$TOPm	Feb-17 \$TOPm	Jan-17 \$TOPm	Dec-16 \$TOPm	Mar-16 \$TOPm	1 month % growth	1 year % growth	
Broad money liabilities	503.6	510.2	512.0	512.2	451.6	-1.30	11.5	
Currency in circulation	51.3	50.9	50.1	59.9	48.4	0.80	5.9	
Demand deposits	181.2	193.9	199.6	193.6	174.8	-6.55	3.7	
Savings and term deposits*	271.0	265.3	262.3	258.6	228.4	2.14	18.6	
<i>equals</i>								
Net foreign assets	389.7	402.2	407.1	390.5	316.3	-3.1	23.2	
<i>plus</i>								
Net domestic assets	114.1	109.8	105.1	121.8	135.6	3.9	-15.9	
Gross bank lending**	401.5	394.6	392.2	391.5	347.5	1.7	15.6	
Public enterprises	42.5	41.4	42.2	43.2	44.8	2.6	-5.0	
Private Sector	343.7	337.7	333.9	332.0	286.5	1.8	20.0	
Other financial corporations	15.3	15.5	16.1	16.2	16.2	-1.1	-5.2	
Other***	-287.4	-284.8	-287.1	-269.7	-211.8	0.9	35.7	

* 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 %
	Mar 17 TOPm	Feb 17 TOPm	Jan 17 TOPm	Dec 16 TOPm	Mar 16 TOPm	1 month %	1 year %	
Lending, banks	391.2	384.5	382.2	381.6	338.7	1.7	15.5	100.0
Household	221.3	217.9	214.8	212.5	178.0	1.6	24.3	56.6
Business*	168.7	165.5	166.3	167.8	159.4	2.0	5.9	43.1
Other	1.2	1.1	1.1	1.3	1.2	3.2	-5.6	0.3
Lending, banks and other	527.8	520.7	517.4	515.8	459.9	1.4	14.8	100.0
Household	304.9	301.1	297.1	293.7	245.6	1.2	24.1	57.8
Business	221.7	218.5	219.3	220.8	213.1	1.5	4.1	42.0
Other	1.2	1.1	1.1	1.3	1.2	3.2	-5.6	0.3
New comm'ts, banks	24.3	21.5	15.1	23.8	15.7	12.9	55.1	N/A
Undrawn comm'ts, banks	28.1	21.4	20.7	17.9	22.1	31.2	26.9	N/A
Implied repay'ts, banks	10.9	18.5	11.7	15.8	8.3	-41.0	31.1	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				Mar 16	Change over the last [^]		Share of loans/deposits %
	Mar 17	Feb 17	Jan 17	Dec 16		1 month	1 year	
	%	%	%	%	%	bps	bps	
Deposits all	2.25	2.21	2.18	2.13	2.20	3.78	4.97	100
Demand	0.46	0.47	0.47	0.43	0.43	-0.91	2.87	38
Savings	2.31	2.26	2.26	2.22	2.45	4.63	-14.27	19
Term	3.81	3.90	3.84	3.85	3.88	-8.51	-6.66	43
Loans all	7.91	7.91	7.88	7.87	7.94	-0.38	-3.48	100
Housing	8.05	8.03	8.04	8.05	8.13	1.78	-7.70	43.7
Other personal	11.16	11.03	11.10	10.95	10.97	12.65	18.45	15.6
Business*	6.92	6.97	6.89	6.97	7.07	-5.62	-15.46	26.2
Other	6.25	6.25	6.25	6.66	6.25	0.00	0.00	14.5

*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