

# Banking Sector Developments December 2015

Release date: 8<sup>th</sup> April 2016

	Dec 15	Nov 15	Oct 15	Sep 15
Deposit rate (%)*	2.15	2.18	2.29	2.29
Lending rate (%)*	8.07	8.07	8.09	8.27
Total Deposits (T\$m)	419.6	412.6	407.8	403.9
Total Loans (T\$m)^	325.4	323.8	320.1	315.6
New commitments (T\$m)	12.5	11.5	14.9	13.5
Broad Money (T\$m)	450.2	427.8	428.7	422.3

\*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.

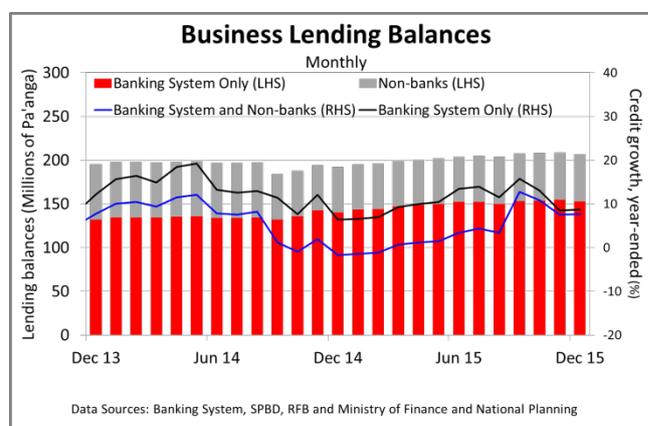
## Activities in the banking sector remain strong

### Lending

Lending in the banking sector remained strong over the month on the back of low interest rates. Banks' total lending increased by 0.5% over the month and in year-ended terms, a positive credit growth of 12.8% was recorded, underpinned by increases in lending mainly households and businesses. Ongoing competition among banks particularly through housing loans promotions have continued to lead growth in household loans contributing to strong growth in the construction sector. Lending activities in the non-bank financial institutions increased also mainly to households, indicating pick-up in economic activities.

### Business lending

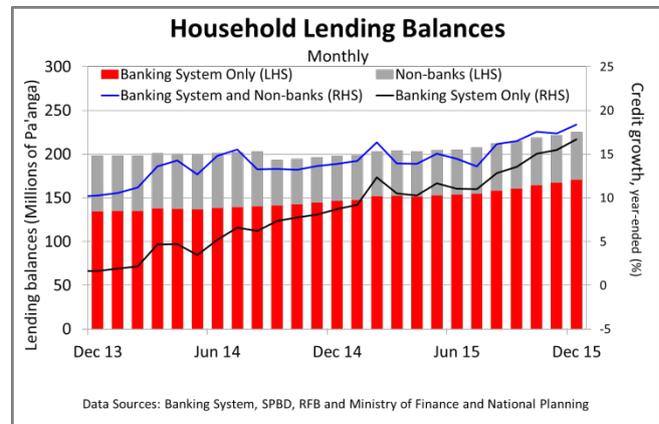
Banks' lending to businesses fell over the month by 1.3% to \$152.8 million, due mainly to declines in lending to the trade and agricultural sectors. The settlement of business loans suggests buoyant business conditions enhancing businesses' repayment capability and coincides with the higher government revenue collection, indicating stronger domestic economic activity. Over the year, total bank lending to businesses rose by 8.7%, mainly due to increases in loans to the manufacturing, tourism and construction sectors. Drawdowns of public enterprises loans also contributed to annual credit growth. With the



inclusion of government on-lent loans, annual business lending increased only by 7.7%, reflecting declines in government on-lent loans due to repayments during the year.

### Household lending

Household lending increased over the month by 2.1% to \$171.0 million. This is the eighth consecutive month of growth in banks' lending to the household sector, driven by a rise in both housing and other personal loans. This indicates strong consumer demand which was also supported by the 5% rise in the Cost of Living Allowance (COLA) in the civil servants' salaries that was effective in November 2015. Ongoing competitions



amongst banks particularly their housing loans campaigns have contributed immensely to the increase in housing loans. Annually, total household lending increased by 16.7%, underpinned by a 20.2% rise in housing loans and a 10.2% increase in other personal loans. This coincides with an increase in import payments for construction materials over the year. However, including loans extended by non-banks institutions, annual household lending increased by 18.7%.

### Other lending

Other loans fell over the month and year by 2.5% and 8.1% respectively, driven mainly by lending activities within the non-profit institutions sector.

### Non-performing loans

Banks' total non-performing loans increased slightly over the month by 0.4% to \$25.0 million, which represents 7.7% of total loans. About 53% of total non-performing loans were businesses whilst households comprised only 27.4%. However, total non-performing loans fell over the year by 19%, reflecting declines in household and business non-performing loans.

### Deposits

Total bank deposits grew over the month by 1.7% to its highest record of \$419.6 million, reflecting increases in demand and term deposits. Increases in business and government deposits drove the higher demand deposits whilst a rise in deposits by the non-profit institutions fuelled the growth in term deposits. In year ended terms, bank deposits increased by 12.5%, underpinned by rises in all categories. Demand deposits contributed the most, driven mainly by higher demand deposits by households.

### Interest rates spread

Banks' weighted average interest rate spread widened over the month from 5.89% to 5.92% in December 2015. This resulted from a 0.2 basis points decline in weighted average lending rate to 8.07% and a 2.5 basis points fall in weighted average deposit rate to 2.15%. The banks'

competition drove the weighted average lending rate lower whilst the increase in deposits caused the decline in weighted average deposit rate. In year ended terms, weighted average interest rate narrowed by 47.6 basis points, due mainly to a 55.2 basis points decline in weighted average lending rate. The decline in weighted average lending rate resulted mainly from an increase in low interest rate loans to businesses.

Table 1:

Consolidated Balance Sheet of Depository Corporations							
	Level as at					Change over the last:	
	Dec-15 \$TOPm	Nov-15 \$TOPm	Oct-15 \$TOPm	Sep-15 \$TOPm	Dec-14 \$TOPm	1 month % growth	1 year % growth
<b>Broad money liabilities</b>	<b>450.2</b>	<b>427.8</b>	<b>428.7</b>	<b>422.3</b>	<b>387.5</b>	<b>5.2</b>	<b>16.2</b>
Currency in circulation	52.8	45.0	46.9	42.5	44.1	17.5	19.9
Demand deposits	172.0	161.8	159.1	158.6	141.9	6.3	21.3
Savings and term deposits*	225.4	221.1	222.7	221.3	201.6	1.9	11.8
<i>equals</i>							
<b>Net foreign assets</b>	<b>327.2</b>	<b>305.0</b>	<b>303.3</b>	<b>300.1</b>	<b>288.2</b>	<b>7.3</b>	<b>13.5</b>
<i>plus</i>							
<b>Net domestic assets</b>	<b>123.3</b>	<b>123.1</b>	<b>125.8</b>	<b>122.6</b>	<b>99.5</b>	<b>0.2</b>	<b>23.9</b>
Gross bank lending**	334.4	332.9	329.2	324.4	294.9	0.5	13.4
Public enterprises	45.2	45.9	46.2	46.3	43.6	-1.6	3.8
Private Sector	272.8	270.1	268.0	262.9	237.1	1.0	15.0
Other financial corporation	16.4	16.9	14.9	15.1	14.2	-2.6	16.0
Other***	-211.1	-209.8	-203.3	-201.8	-195.3	0.6	8.1

\* 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 grew over the month by 5.2% to \$450.2 million, reflecting a 7.3% increase in net foreign assets and a 0.2% rise in net domestic assets. The growth in net foreign assets resulted from a rise in foreign reserves whilst an increase in lending drove the net domestic assets higher. Over the year, broad money rose by 16.2%, underpinned by a 23.9% increase in net domestic assets and a 13.5% rise in net foreign assets. Total domestic demand deposits and currency in circulation also increased over the month and over the year, in line with broad money.

## Liquidity

Liquidity in the banking system, on the other hand, recorded a 1.0% fall to \$169.4 million over the month, reflecting increases in banks withdrawing cash from the NRBT to facilitate spending

during the festive season. This coincides with a rise in currency in circulation over the month. However, banking system liquidity increased over the year by 10.2%, due to an increase in bank deposits.

## 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. 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				Dec 14 TOPm	Change over the		Shares of totals %
	Dec 15 TOPm	Nov 15 TOPm	Oct 15 TOPm	Sep 15 TOPm		1 month %	1 year %	
Lending, banks	325.4	323.8	320.1	315.6	288.5	0.5	12.8	100.0
Household	171.0	167.5	164.4	160.7	146.6	2.1	16.7	52.6
Business*	152.8	154.7	154.1	153.3	140.5	-1.3	8.7	46.9
Other	1.3	1.3	1.3	1.3	1.4	-2.5	-8.1	0.4
Lending, banks and other	444.0	441.8	436.2	430.5	392.0	0.5	13.3	100.0
Household	235.6	231.4	226.5	221.5	198.5	1.8	18.7	53.1
Business	206.7	208.7	208.1	207.4	192.0	-0.9	7.7	46.6
Other	1.3	1.3	1.3	1.3	1.4	-2.5	-8.1	0.4
New comm'ts, banks	12.5	11.5	14.9	13.5	9.8	8.3	27.7	N/A
Undrawn comm'ts, banks	19.9	20.0	20.6	21.3	6.7	-0.7	197.5	N/A
Implied repay'ts, banks	11.0	8.3	11.1	7.2	11.2	32.4	-1.8	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 <sup>^</sup> :		Share of loans/deposits %
	Dec 15 %	Nov 15 %	Oct 15 %	Sep 15 %	Dec 14 %	1 month bps	1 year bps	
Deposits all	2.15	2.18	2.29	2.29	2.23	-2.51	-8	100
Demand	0.43	0.40	0.41	0.38	0.60	2.55	-17	42
Savings	2.33	2.40	2.38	2.42	2.41	-6.79	-8	16
Term	3.79	3.87	4.09	4.10	3.74	-7.82	5	42
Loans all	8.07	8.07	8.09	8.27	8.62	-0.19	-55	100
Housing	8.29	8.29	8.39	8.48	8.58	-0.19	-29	37
Other personal	10.99	11.03	10.95	11.15	11.02	-4.02	-4	18
Business*	7.13	7.21	7.22	7.54	7.93	-7.85	-80	26
Other	6.52	6.91	6.44	6.36	6.53	-38.81	-1	20

\*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