

# Banking Sector Developments

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## June 2016

	Jun 16	May 16	Apr 16	Mar 16
Deposit rate (%)*	2.27	2.22	2.26	2.20
Lending rate (%)*	7.879	7.877	7.97	7.94
Total Deposits (T\$m)	468.3	453.7	444.0	445.3
Total lending (T\$m) ^	352.3	348.7	344.0	338.7
New commitments (T\$m)	10.5	11.3	10.6	15.7
Broad Money (T\$m)	470.5	460.5	448.3	451.6

\*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.

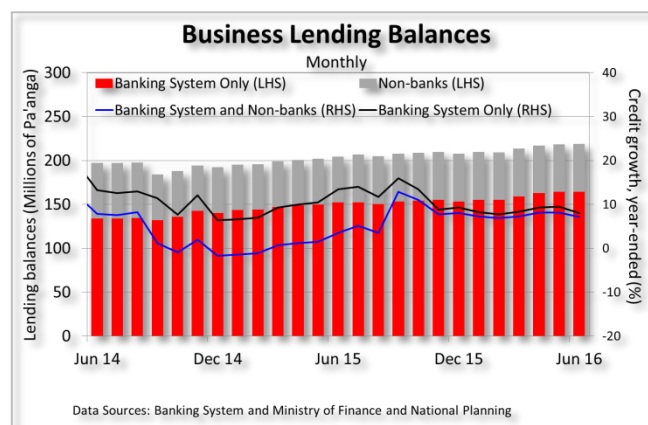
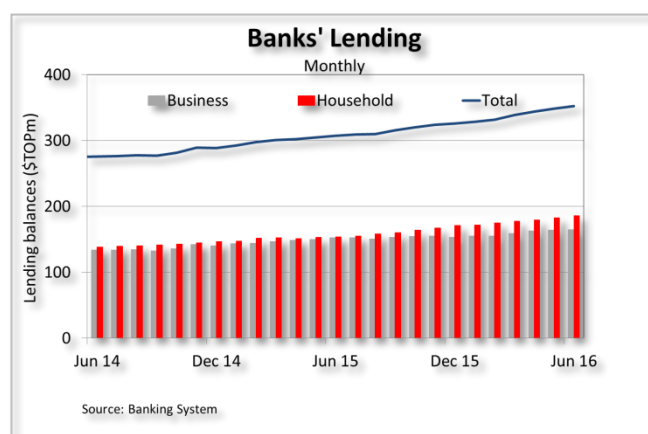
## Financial System continues to remain sound at the end of 2015/16 financial year

### Lending

Total bank lending rose to another record high of \$352.3 million in June, increasing by \$3.6 million (1%) over the month and \$44.7 million (14.5%) over the year. The increase in annual total bank lending slightly exceeds NRBT's expectations of 14.4% for 2015/16 financial year. Household loans remained as the main driver to both monthly and annual increases in credit. Lending activities in the non-bank financial institutions also increased over the year by \$15.3 million (14%) to \$124 million, reflecting rises in both household and business lending.

### Business lending

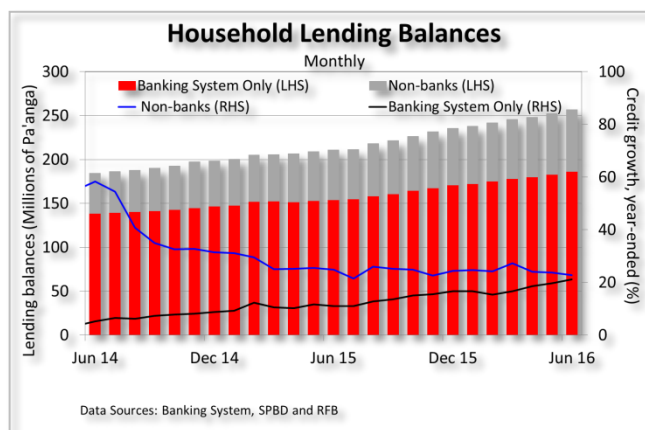
Banks' lending to businesses slightly increased over the month by \$0.4 million (0.2%) to \$164.7 million. This was mainly driven by growth in loans to the agricultural sector and public enterprises. The increasing activity in the agricultural sector was partially supported by low interest rates from the Government Development Loans scheme.



Annually, total bank lending to businesses rose by \$12.3 million (8.1%), underpinned mainly by rises in lending to the tourism, manufacturing, agricultural, trade and construction sectors. However, including government on-lent loans, business lending increased over the year by \$14.5 million (7.1 %).

### Household lending

The continuous rise in both individual housing and vehicle loans drove the \$3.3 million (1.8%) increase in banks' lending to households, to a new high of \$186.3 million. This is indicative of strong consumer confidence despite a slight increase in weighted average lending rate for housing and vehicle loans over the month of June. The rise in vehicle loans coincides with \$0.02 million (1%) rise in payments for the import of vehicles in June. Over the year, banks' lending to households grew by \$32.5 million (21.1%), led by increases in housing and other personal loans. Meanwhile, lending from non-bank financial institutions to households also rose over the year by \$13.1 million (22.8%), reflecting higher other personal loans.



### Other lending

Other loans from banks fell over the month and over the year by \$0.01 million (0.8%) and \$0.2 million (12.7%) respectively, due mainly to lending activities within the non-profit institutions sector.

### Non-performing loans

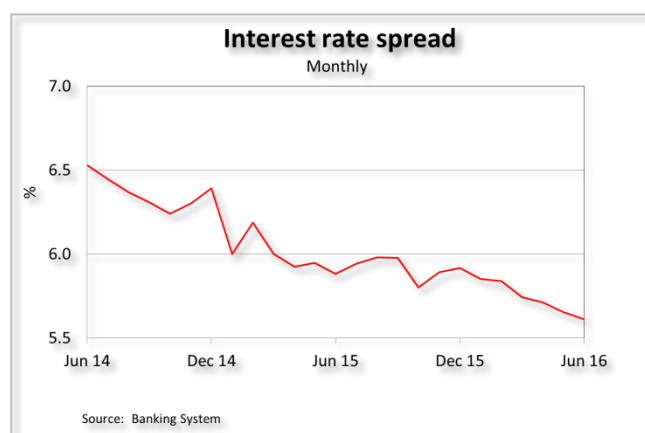
Banks' total non-performing loans increased over the month, rising by \$0.4 million (1.9%) to \$24.2 million, representing 6.9% of total loans. Both household and business non-performing loans increased over the month, with household non-performing loans growing the most, increasing by \$0.4 million (5.6%). This was due mainly to higher non-performing housing loans. On the other hand, total non-performing loans fell over the year by \$6.5 million (21.3%), resulting from a decline in non-performing business loans mainly from the tourism and mining & quarrying sectors and non-performing housing loans.

### Deposits

Total bank deposits continued to rise over the month by \$14.6 million (3.2%) to a new high level of \$468.3 million. This reflected increases in the demand and savings deposits which offset a decline in term deposits. A \$6.2 million (7.3%) increase in business deposits drove the higher demand deposits while the rise in savings deposits stemmed from a \$3.8 million (6.0%) growth in household deposits. Similarly in year ended terms, rises in all categories with demand deposits rising the most drove the annual rise of \$74.4 million (18.9%) in total bank deposits. This was driven by an increase in business demand deposits during the year.

## Interest rate spread

Weighted average lending rate increased slightly over the month by 0.2 basis points to 7.879%, due mainly to a rise in the weighted average other personal lending rate. The weighted average deposit rate also rose over the month by 4.5 basis points to 2.27%, attributed to increases in all major categories. As a result, the weighted average interest rate spread narrowed by 4.4 basis points to its lowest level recorded of 5.61%. Annually, the weighted average interest rate spread narrowed by 27.1 basis points from 5.88%. This resulted from declines in both weighted average lending and deposit rates.



## Broad money

Broad money rose over the month by \$10.1 million (2.2%) to a record high of \$470.5 million. This was driven by a \$28.5 million (8.5%) increase in net foreign assets, offsetting a \$18.5 million (14.6%) decline in net domestic assets. Higher foreign reserves continue to drive the rising net foreign assets while an increase in government deposits explained the fall in net domestic assets. Over the year, broad money increased by \$67.2 million (16.7%) underpinned by a significant rise in net foreign assets of \$79.3 million (28%) which outweighed a \$12.2 million (10.1%) decline in net domestic assets. This is the highest annual growth recorded for net foreign assets which is attributed mainly to the continued increase in foreign reserves, driven by the receipt of the budget support.

## Liquidity

The banking system liquidity (reserve money) increased over the month by \$7.1 million (2.9%) to \$256.5 million, in line with higher deposits. Total loans to deposit ratios fell over the month to 75.2% from 76.8%, which is below the 80% minimum ratio, indicating excess liquidity for the banking system remains. This resulted from the deposits exceeding lending. In year ended terms, banking system liquidity rose by \$31.1 million (13.8%) due mainly to a \$15.9 million (10.5%) rise in banks' deposits to the NRBT vault.

## Outlook

The NRBT forecasts a growth of 11% in credit for 2016/17 whilst the IMF Article IV projected 10.8% for 2016/17. The banks' prospects for credit growth remains positive and the NRBT's projection is supported by improving economic conditions, annual and one-off events taking place during the next few months.

The annual growth in broad money also exceeded the NRBT (13%) and the IMF's (12%) projection for June 2016 and is expected to continue to rise, supported by the anticipated increase in lending and foreign reserves.

The NRBT Board of Directors at its meeting in April approved a minimum range in the banks' loan to deposit ratio of 80% - 90% which is to be effective from the 1st July 2016, and to be achieved progressively over 18 months. This measure is to encourage the utilization of the excess liquidity in the banking system to increase lending, in order to support economic growth. At the same time, the NRBT is exploring alternative monetary policy and macro prudential tools to strengthen the policy transmission mechanism, and at the same time ensure financial stability is maintained. The NRBT will closely monitor the country's economic and fiscal developments and financial conditions to maintain internal and external monetary stability, and promote a sound and efficient financial system to support macroeconomic stability and economic growth.

Table 1:

Consolidated Balance Sheet of Depository Corporations							
	Level as at					Change over the last:	
	Jun-16 \$TOPm	May-16 \$TOPm	Apr-16 \$TOPm	Mar-16 \$TOPm	Jun-15 \$TOPm	1 month % growth	1 year % growth
<b>Broad money liabilities</b>	<b>470.5</b>	<b>460.5</b>	<b>448.3</b>	<b>451.6</b>	<b>403.3</b>	<b>2.2</b>	<b>16.7</b>
Currency in circulation	48.5	48.7	44.9	48.4	45.0	-0.4	7.7
Demand deposits	181.4	171.3	169.3	174.8	147.8	5.9	22.7
Savings and term deposits*	240.7	240.5	234.2	228.4	210.5	0.1	14.3
<i>equals</i>							
<b>Net foreign assets</b>	<b>362.5</b>	<b>334.0</b>	<b>321.8</b>	<b>316.3</b>	<b>283.2</b>	<b>8.5</b>	<b>28.0</b>
<i>plus</i>							
<b>Net domestic assets</b>	<b>108.3</b>	<b>126.8</b>	<b>126.8</b>	<b>135.6</b>	<b>120.5</b>	<b>-14.6</b>	<b>-10.1</b>
Gross bank lending**	361.5	357.6	352.9	347.5	315.6	1.1	14.6
Public enterprises	46.1	45.8	45.8	44.8	47.5	0.6	-3.0
Private Sector	299.7	296.1	291.3	286.5	249.5	1.2	20.1
Other financial corporation	15.7	15.7	15.8	16.2	18.6	0.2	-15.4
Other***	-253.2	-230.8	-226.1	-211.8	-195.1	9.7	29.8

\* 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							Shares of totals %
	Level as at					Change over the		
	Jun 16 TOPm	May 16 TOPm	Apr 16 TOPm	Mar 16 TOPm	Jun 15 TOPm	1 month %	1 year %	
Lending, banks	352.3	348.7	344.0	338.7	307.6	1.0	14.5	100.0
Household	186.3	183.1	179.8	178.0	153.8	1.8	21.1	52.9
Business*	164.7	164.4	162.9	159.4	152.4	0.2	8.1	46.8
Other	1.2	1.2	1.2	1.2	1.4	-0.8	-12.7	0.3
Lending, banks and other	476.3	471.6	466.0	459.9	416.3	1.0	14.4	100.0
Household	256.6	252.4	248.1	245.6	211.0	1.7	21.6	53.9
Business	218.4	218.1	216.6	213.1	203.9	0.2	7.1	45.9
Other	1.2	1.2	1.2	1.2	1.4	-0.8	-12.7	0.3
New comm'ts, banks	10.5	11.3	10.6	15.7	14.1	-7.7	-25.7	N/A
Undrawn comm'ts, banks	16.1	18.6	20.3	22.1	23.9	-13.2	-32.7	N/A
Implied repay'ts, banks	9.3	8.4	7.1	8.3	4.2	10.9	123.5	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							Share of loans/deposits %
	Level as at					Change over the last <sup>^</sup> :		
	Jun 16 %	May 16 %	Apr 16 %	Mar 16 %	Jun 15 %	1 month bps	1 year bps	
Deposits all	2.27	2.22	2.26	2.20	2.35	4.54	-7.88	100
Demand	0.52	0.41	0.44	0.43	0.38	10.36	14.05	42
Savings	2.51	2.46	2.44	2.45	2.52	4.97	-1.70	18
Term	3.98	3.86	3.89	3.88	4.08	11.69	-9.78	40
Loans all	7.88	7.88	7.97	7.94	8.23	0.18	-34.94	100
Housing	8.09	8.06	8.09	8.13	8.50	2.92	-41.71	38.7
Other personal	10.95	10.91	10.94	10.97	11.01	3.42	-6.03	16.5
Business*	6.97	7.05	7.20	7.07	7.41	-8.65	-44.11	26.6
Other	6.25	6.25	6.25	6.25	6.48	0.00	-22.60	18.2

\*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