

# Banking Sector Developments March 2016

Release date: 3 June 2016

|                        | Mar 16 | Feb 16 | Jan 16 | Dec 15 |
|------------------------|--------|--------|--------|--------|
| Deposit rate (%)*      | 2.23   | 2.19   | 2.19   | 2.15   |
| Lending rate (%)*      | 7.94   | 8.03   | 8.04   | 8.07   |
| Total Deposits (T\$m)  | 426.5  | 429.0  | 423.0  | 419.6  |
| Total lending (T\$m) ^ | 337.9  | 331.9  | 328.9  | 325.4  |
| New commitments (T\$m) | 15.7   | 12.9   | 10.8   | 12.5   |
| Broad Money (T\$m)     | 451.6  | 456.5  | 447.5  | 450.2  |

\*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.

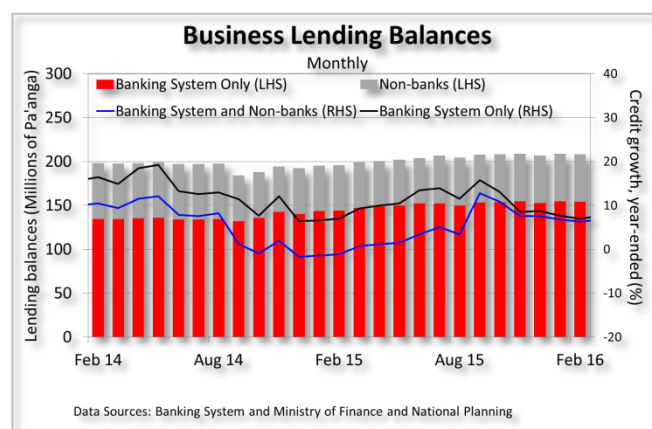
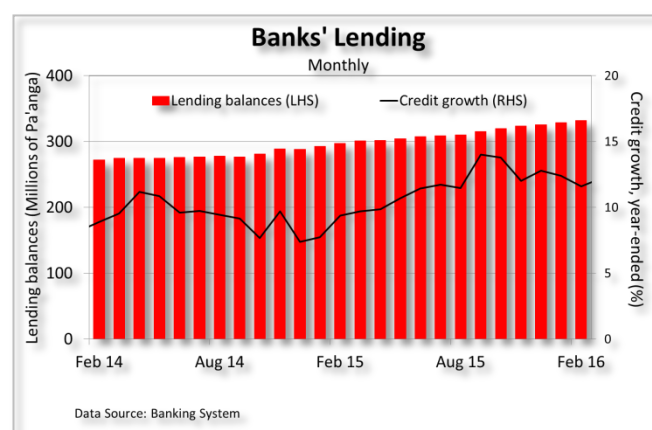
## Business activities drove increase in lending

### Lending

Total bank lending increased over the month and over the year by \$6.1 million (1.8%) and \$36.8 million (12.2%) respectively. This was due to rises in lending to both businesses and households, with business loans rising the fastest over the month. Lending activities in the non-bank financial institutions also increased over the year by \$16.8 million (15.5%) to \$121.2 million, reflecting rises in both household and business lending.

### Business lending

Banks' lending to businesses rose over the month by \$4 million (2.6%) to \$158.4 million. This reflected an increase in loans to the tourism, manufacturing, construction, fisheries, trade and agricultural sectors, indicating stronger economic activities. The increase also coincided with a 9.8 basis points decline in weighted average lending rate for business loans over the month. Additionally, the government's managed fund loan scheme also supported the increase in business lending over the month. In year ended terms, total



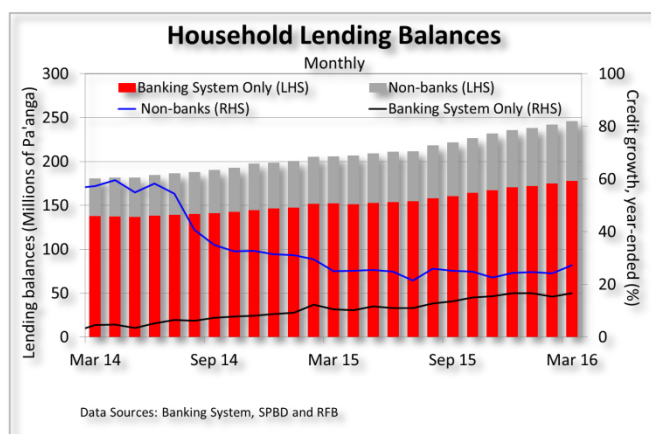
bank lending to businesses rose by \$11.2 million (7.6%), underpinned mainly by increases in lending to the manufacturing, tourism, construction and trade sectors. However, including government on-lent loans, annual business lending increased by \$13.5 million (6.8%) due to increase in government on-lent loans made over the year.

### Household lending

Banks' lending to households increased over the month by \$2.7 million (1.6%) to \$178 million, due to rises in both housing and other personal loans.

This indicates strong consumer demand. Household loans have continued to benefit from ongoing competitions amongst banks. In addition, the increase in housing loans is consistent with a 5.2 basis points decline in the weighted average lending rate for housing loans over the month. This increase is also in line with a \$1.3 million (42.7%) growth in import payments for construction materials in March 2016, indicating ongoing construction activities in the country. Over

the year, banks' lending to households rose by \$25.5 million (16.7%), due mainly to rises in housing and other personal loans. Lending from non-bank financial institutions to households also increased over the year by \$14.5 million (27.3%), reflecting rises in other personal loans.



### Other lending

Other loans from banks recorded a decline over the month and year by \$0.01 million (0.7%) and \$0.2 million (11.9%) respectively, driven mainly by lending activities within the non-profit institutions sector.

### Non-performing loans

Banks' total non-performing loans fell over the month by \$0.1 million (0.4%) to \$25.6 million, which represented 7.6% of total loans. This resulted from a \$1 million (7.7%) decline in non-performing business loans which offset a \$0.4 million (5.7%) increase in non-performing household loans. The decline in non-performing business loans is due mainly to a fall in non-performing mining and quarrying loans whilst an increase in non-performing housing loans drove the higher non-performing household loans. In year ended terms, total non-performing loans fell by \$2.8 million (9.8%) driven mainly by a decline in non-performing business loans mainly from the tourism sectors and non-performing housing loans.

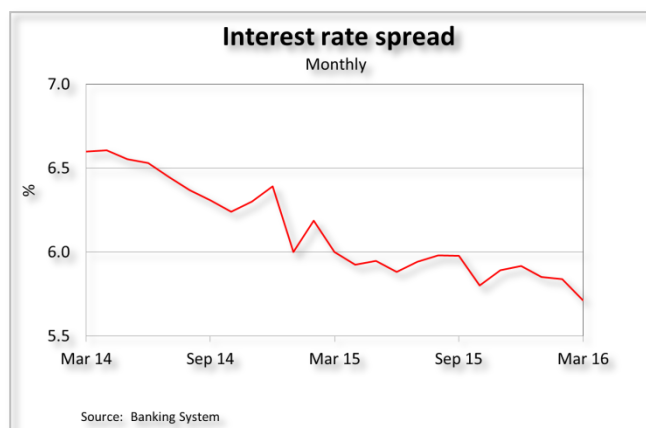
### Deposits

Total bank deposits declined over the month by \$2.5 million (0.6%) to \$426.5 million, after consecutive growth in the last 11 months. This was driven by a \$5 million (2.7%) fall in demand deposits outweighing increases in savings and term deposits. The decline in demand deposits was fuelled mainly by a \$7.4 million decrease in the demand deposits of businesses. However, total deposits

increased over the year by \$65.6 million (18.2%), reflecting rises in all categories, mainly demand deposits. This was driven by rises in businesses' demand deposits over the year.

### Interest rate spread

The weighted average lending rate fell over the month by 8.4 basis points to 7.94%, whilst the weighted average deposit rate rose by 4.2 basis points to 2.23%. As a result, the weighted average interest rate spread narrowed over the month from 5.84% in February 2016 to 5.71% in March 2016. The increased competition amongst banks have continued to drive the lower weighted average lending rate underpinned mainly by declines in businesses and other personal lending rates whilst an increase in term



deposit rates offered by banks caused the increase in weighted average deposit rate. In year ended terms, both weighted average deposit and lending rates fell with lending rate decreasing the fastest by 38.2 basis points, resulting in the weighted interest rate spread narrowing by 28.8 basis points.

Table 1:

Consolidated Balance Sheet of Depository Corporations

|                                | Level as at      |                  |                  |                  |                  | Change over the last: |                    |
|--------------------------------|------------------|------------------|------------------|------------------|------------------|-----------------------|--------------------|
|                                | Mar-16<br>\$TOPm | Feb-16<br>\$TOPm | Jan-16<br>\$TOPm | Dec-15<br>\$TOPm | Mar-15<br>\$TOPm | 1 month<br>% growth   | 1 year<br>% growth |
| <b>Broad money liabilities</b> | <b>451.6</b>     | <b>456.5</b>     | <b>447.5</b>     | <b>450.2</b>     | <b>379.6</b>     | <b>-1.1</b>           | <b>19.0</b>        |
| Currency in circulation        | 48.4             | 47.6             | 47.8             | 52.8             | 39.8             | 1.8                   | 21.9               |
| Demand deposits                | 174.8            | 182.3            | 173.9            | 172.0            | 134.0            | -4.1                  | 30.5               |
| Savings and term deposits*     | 228.4            | 226.6            | 225.8            | 225.4            | 205.9            | 0.8                   | 11.0               |
| <i>equals</i>                  |                  |                  |                  |                  |                  |                       |                    |
| <b>Net foreign assets</b>      | <b>316.3</b>     | <b>330.3</b>     | <b>324.9</b>     | <b>327.2</b>     | <b>266.0</b>     | <b>-4.2</b>           | <b>18.9</b>        |
| <i>plus</i>                    |                  |                  |                  |                  |                  |                       |                    |
| <b>Net domestic assets</b>     | <b>135.6</b>     | <b>126.5</b>     | <b>122.9</b>     | <b>123.3</b>     | <b>114.0</b>     | <b>7.2</b>            | <b>19.0</b>        |
| Gross bank lending**           | 347.5            | 340.5            | 337.6            | 334.4            | 309.4            | 2.0                   | 12.3               |
| Public enterprises             | 44.8             | 44.7             | 45.1             | 45.2             | 46.8             | 0.0                   | -4.3               |
| Private Sector                 | 286.5            | 279.4            | 275.8            | 272.8            | 245.0            | 2.6                   | 16.9               |
| Other financial corporation    | 16.2             | 16.4             | 16.6             | 16.4             | 17.6             | -1.4                  | -8.1               |
| Other***                       | -211.8           | -214.0           | -214.7           | -211.1           | -195.4           | -1.0                  | 8.4                |

\* 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 fell over the month by \$4.9 million (1.1%) to \$451.6 million, driven mainly by a \$14 million (4.2%) decline in net foreign assets. The lower net foreign assets resulted from a \$11.2 million (3.4%) decline in the foreign reserves. This offset a \$9.1 million (7.2%) increase in net domestic assets. Over the year, broad money rose by \$72 million (19%) reflecting rises in both net domestic assets and net foreign assets of \$21.7 million (19%) and \$50.3 million (18.9%) respectively. Total domestic demand deposits and currency in circulation also increased over the year in line with the rise in broad money.

### **Liquidity**

Banking system liquidity declined over the month by \$12.9 million (7.2%) to \$165.0 million driven by a fall in banks' deposits to the NRBT vault. This coincides with the decline in the foreign reserves, and a \$0.8 million (1.8%) increase in the currency in circulation. In year ended terms, banking system liquidity rose by \$24.7 million (17.6%), reflecting increases in the banks' deposits and foreign reserves.

### **Outlook**

The NRBT is forecasting credit growth to continue and a growth of about 14.4% to be recorded at the end of the 2015/16 and 11% in 2016/17. This is in line with the IMF Article IV's projection of 15.5% growth for 2015/16 and 10.8% for 2016/17. The banks' prospects for credit growth remain positive and the NRBT's projection is supported by improving economic conditions and the annual and one-off events taking place during the next few months.

Broad money is also projected to increase in June 2016 by 13% and 10% in June 2017, supported by the anticipated rise in lending and foreign reserves. This is consistent with the IMF Article IV's projection for broad money to rise by about 12% and 9% in June 2016 and 2017 respectively.

Measures are being considered to ensure the excess liquidity in the banking system are being well utilised to support economic growth, which is expected to contribute to higher credit growth. 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      |                |                |                |                | Change over the |             | Shares of<br>totals<br>% |
|                          | Mar 16<br>TOPm   | Feb 16<br>TOPm | Jan 16<br>TOPm | Dec 15<br>TOPm | Mar 15<br>TOPm | 1 month<br>%    | 1 year<br>% |                          |
| Lending, banks           | 337.9            | 331.9          | 328.9          | 325.4          | 301.2          | 1.8             | 12.2        | 100.0                    |
| Household                | 178.0            | 175.3          | 172.0          | 171.0          | 152.6          | 1.6             | 16.7        | 52.7                     |
| Business*                | 158.4            | 154.4          | 154.7          | 152.8          | 147.2          | 2.6             | 7.6         | 46.9                     |
| Other                    | 1.2              | 1.2            | 1.3            | 1.3            | 1.4            | -0.7            | -11.9       | 0.4                      |
| Lending, banks and other | 455.6            | 451.9          | 448.3          | 443.8          | 405.6          | 0.8             | 12.3        | 100.0                    |
| Household                | 242.0            | 241.6          | 237.8          | 235.6          | 205.6          | 0.2             | 17.7        | 53.1                     |
| Business                 | 212.0            | 208.1          | 208.5          | 206.6          | 198.6          | 1.9             | 6.8         | 46.5                     |
| Other                    | 1.2              | 1.2            | 1.3            | 1.3            | 1.4            | -0.7            | -11.9       | 0.4                      |
| New comm'ts, banks       | 15.7             | 12.9           | 10.8           | 12.5           | 16.9           | 21.4            | -7.3        | N/A                      |
| Undrawn comm'ts, banks   | 22.1             | 21.5           | 21.1           | 19.9           | 19.1           | 2.6             | 15.7        | N/A                      |
| Implied repay'ts, banks  | 9.0              | 9.4            | 6.2            | 11.0           | 8.2            | -4.0            | 10.8        | 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<br>loans/deposits<br>% |
| Mar 16<br>%    | Feb 16<br>%                   | Jan 16<br>% | Dec 15<br>% | Mar 15<br>% | 1 month<br>bps | 1 year<br>bps                       |       |                                 |
| Deposits all   | 2.23                          | 2.19        | 2.19        | 2.15        | 2.32           | 4.16                                | -9    | 100                             |
| Demand         | 0.43                          | 0.45        | 0.47        | 0.43        | 0.46           | -2.03                               | -3    | 42                              |
| Savings        | 2.45                          | 2.46        | 2.34        | 2.33        | 2.48           | -0.57                               | -3    | 17                              |
| Term           | 3.95                          | 3.89        | 3.86        | 3.79        | 3.88           | 6.45                                | 8     | 42                              |
| Loans all      | 7.94                          | 8.03        | 8.04        | 8.07        | 8.33           | -8.44                               | -38.2 | 100                             |
| Housing        | 8.13                          | 8.18        | 8.25        | 8.29        | 8.49           | -4.96                               | -36   | 37.7                            |
| Other personal | 10.92                         | 10.94       | 10.99       | 11.06       | 11.05          | -2.18                               | -13   | 17.2                            |
| Business*      | 7.07                          | 7.17        | 7.13        | 7.13        | 7.54           | -9.79                               | -47   | 26.5                            |
| Other          | 6.25                          | 6.25        | 6.38        | 6.52        | 6.52           | 0.00                                | -27   | 18.6                            |

\*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