

# Banking Sector Developments May 2016

Release date: 25 July 2016

	May 16	Apr 16	Mar 16	Feb 16
Deposit rate (%)*	2.22	2.26	2.20	2.19
Lending rate (%)*	7.88	7.97	7.94	8.03
Total Deposits (T\$m)	453.7	444.0	445.3	451.1
Total lending (T\$m) ^	348.7	344.0	338.7	331.9
New commitments (T\$m)	11.3	10.6	15.7	12.9
Broad Money (T\$m)	460.5	448.3	451.6	456.5

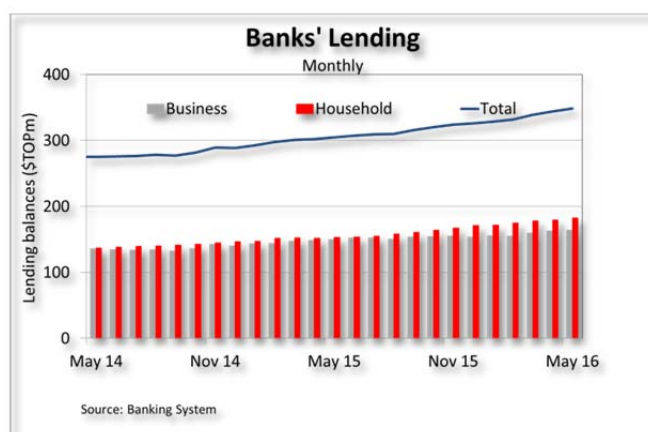
\*Weighted Average calculated as a function of interest rate and volume of deposits and loans

^This series shows total lending from the banking sector only.

## Credit growth accelerated more than projected

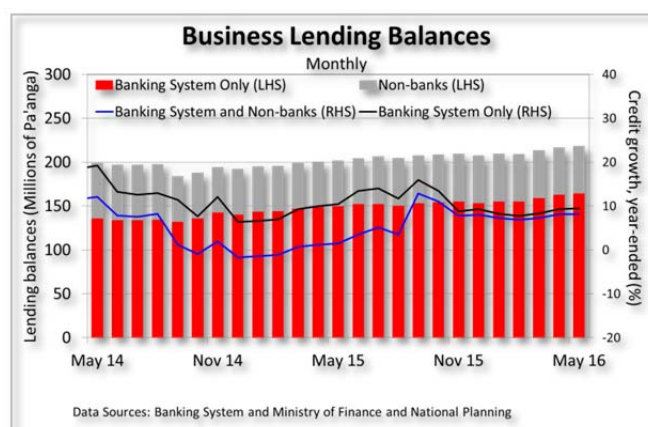
### Lending

Total bank lending broke another record high of \$348.7 million in May, increasing by \$4.7 million (1.4%) over the month and \$44.1 million (14.5%) over the year. The annual credit growth exceeded the NRBT's forecast of 14.4% for the year ending June 2016. Both household and business loans contributed to the increase, with household rising the fastest for the monthly, as well as annually. Lending activities in the non-bank financial institutions also increased over the year by \$14.5 million (14.5%) to \$123 million, resulting from rises in both household and business lending.



### Business lending

Banks' lending to businesses rose over the month by \$1.5 million (0.9%) to \$164.4 million. This reflected an increase in lending to businesses involved in the agricultural, manufacturing and tourism sectors. Growing activities in these sectors were supported by low interest rates from the Government Development Loans. In year ended terms, total bank lending to businesses rose by \$14.2 million (9.4%), largely driven by the higher



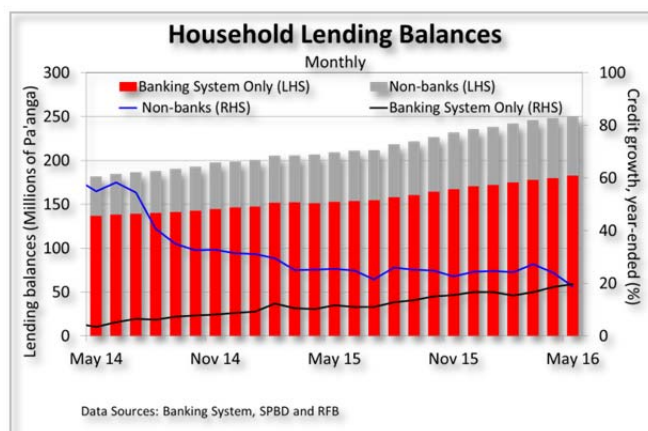
lending to the manufacturing, agricultural, tourism, construction and trade sectors. However, including government on-lent loans, annual business lending rose by \$16.5 million (8.2 %).

### Household lending

Banks' lending to households increased over the month by \$3.2 million (1.8%) to another new record high of \$183.1 million. This was attributed mainly to rises in both housing and vehicle loans, indicating strong consumer demand. Household loans have continued to benefit from ongoing competitions amongst banks. In addition, a 3.5 basis points decline in the weighted average lending rate for housing loans over the month supported the increase.

This is also in line with higher payments for the

import of construction materials in May, indicating ongoing construction activities in the country. Higher vehicle loans coincide with a new record high level of vehicle registrations as well as the higher import payments for vehicles during the month. Annually, banks' lending to households rose by \$30 million (19.6%), underpinned mainly by rises in housing and other personal loans. Meanwhile, lending from non-bank financial institutions to households also increased over the year by \$13.3 million (23.7%), reflecting growth in other personal loans.



### Other lending

Other loans from banks declined over the month and over the year by \$0.03 million (2.8%) and \$0.1 million (7.8%) respectively, driven mainly by lending activities within the non-profit institutional sector.

### Non-performing loans

Banks' total non-performing loans improved further over the month, falling by \$0.09 million (0.4%) to \$23.8 million, which represented 6.8% of total loans. This resulted from a \$0.19 million (2.6%) decline in non-performing household loans which outweighed a \$0.18 million (1.5%) increase in non-performing business loans. The decline in non-performing household loans reflects the fall in non-performing housing and vehicle loans, which were written off during the month, whilst the increase in non-performing business loans were consequences of rises in non-performing loans for the transport and mining & quarrying sectors. In year ended terms, total non-performing loans fell by \$7.2 million (23.4%), due to a decline in non-performing business loans mainly from the tourism and mining & quarrying sectors.

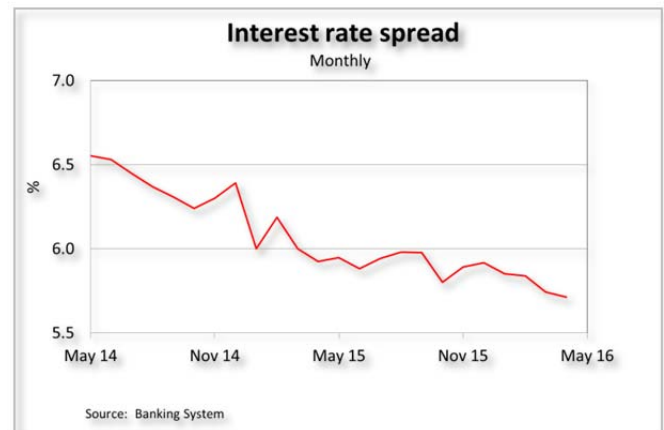
### Deposits

Total bank deposits rose over the month by \$9.8 million (2.2%) to \$453.7 million after declining for 2 consecutive months, and grew by \$72.9 million (19.1%) over the year. All deposit categories contributed to the increase with demand deposits the main driver for both the monthly and annual

increase. The higher demand deposits over the month resulted mainly from a \$2.2 million (19.2%) increase in the demand deposits of government, reflecting the lagged effects of new bonds issued in the previous month. However, demand deposits of businesses drove the rise over the year.

### Interest rate spread

Weighted average lending rate fell over the month by 9.1 basis points to 7.88%, due mainly to a 14.5 basis points decline in the weighted average business lending rate. The weighted average deposit rate also recorded a decline of 3.4 basis points to 2.22%, reflecting a decline in the weighted average demand and term deposit rates. As a result, the weighted average interest rate spread narrowed by 5.7 basis points to 5.66% in May 2016 from 5.71% in April 2016.



Over the year, both weighted average deposit and lending rates fell, with the lending rate declining the fastest by 44.5 basis points, resulting in the weighted average interest rate spread narrowing by 29.3 basis points from 5.95%.

### Broad money

Broad money increased over the month by \$12.1 million (2.7%) to \$460.5 million after decreasing in the last 2 months. This largely stemmed from a \$12.2 million (3.8%) increase in net foreign assets. An increase in foreign reserves drove the higher net foreign assets. In year ended terms, broad money increased by \$70.7 million (18.1%) resulting from rises in both net foreign assets and net domestic assets of \$58.2 million (21.1%) and \$12.5 million (10.9%) respectively.

### Liquidity

The banking system liquidity (reserve money) rose over the month by of \$7.7 million (3.2%) to \$249.4 million. This was mainly due to a \$6.8 million (11.9%) rise in currency in circulation. Over the year, banking system liquidity increased by \$35.2 million (16.4%), driven mainly by a \$23.6 million (16.7%) rise in banks' deposits to the NRBT vault.

### Outlook

Credit growth in May 2016 has exceeded the NRBT's projection of 14.4% for the end of 2015/16. The NRBT forecasts an 11% growth in 2016/17. This is in line with the IMF Article IV's projection of 15.5% credit growth for 2015/16 and 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:	
	May-16 \$TOPm	Apr-16 \$TOPm	Mar-16 \$TOPm	Feb-16 \$TOPm	May-15 \$TOPm	1 month % growth	1 year % growth
<b>Broad money liabilities</b>	<b>460.5</b>	<b>448.3</b>	<b>451.6</b>	<b>456.5</b>	<b>389.8</b>	<b>2.7</b>	<b>18.1</b>
Currency in circulation	48.7	44.9	48.4	47.6	44.1	8.4	10.3
Demand deposits	171.3	169.3	174.8	182.3	140.7	1.2	21.8
Savings and term deposits*	240.5	234.2	228.4	226.6	204.9	2.7	17.3
<i>equals</i>							
<b>Net foreign assets</b>	<b>334.0</b>	<b>321.8</b>	<b>316.3</b>	<b>330.3</b>	<b>275.8</b>	<b>3.8</b>	<b>21.1</b>
<i>plus</i>							
<b>Net domestic assets</b>	<b>126.8</b>	<b>126.8</b>	<b>135.6</b>	<b>126.5</b>	<b>114.3</b>	<b>-0.03</b>	<b>10.9</b>
Gross bank lending**	357.6	352.9	347.5	340.5	312.2	1.3	14.5
Public enterprises	45.8	45.8	44.8	44.7	47.3	0.0	-3.0
Private Sector	296.1	291.3	286.5	279.4	246.3	1.7	20.2
Other financial corporation	15.7	15.8	16.2	16.4	18.6	-0.7	-15.7
Other***	-230.8	-226.1	-211.8	-214.0	-197.9	2.1	16.6

\* 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 %
	May 16 TOPm	Apr 16 TOPm	Mar 16 TOPm	Feb 16 TOPm	May 15 TOPm	1 month %	1 year %	
Lending, banks	348.7	344.0	338.7	331.9	304.5	1.4	14.5	100.0
Household	183.1	179.8	178.0	175.3	153.0	1.8	19.6	52.5
Business*	164.4	162.9	159.4	155.4	150.2	0.9	9.4	47.1
Other	1.2	1.2	1.2	1.2	1.3	-2.8	-7.8	0.3
Lending, banks and other	468.9	466.0	459.9	451.9	411.9	0.6	13.8	100.0
Household	249.7	248.1	245.6	241.6	209.1	0.6	19.4	53.2
Business	218.0	216.6	213.1	209.1	201.6	0.7	8.2	46.5
Other	1.2	1.2	1.2	1.2	1.3	-2.8	-7.8	0.3
New comm'ts, banks	11.3	10.6	15.7	12.9	11.0	6.9	3.4	N/A
Undrawn comm'ts, banks	18.6	20.3	22.1	21.5	17.1	-8.5	8.8	N/A
Implied repay'ts, banks	8.4	7.1	8.3	9.4	8.5	17.7	-1.4	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 %
	May 16 %	Apr 16 %	Mar 16 %	Feb 16 %	May 15 %	1 month bps	1 year bps	
Deposits all	2.22	2.26	2.20	2.19	2.37	-3.39	-15.22	100
Demand	0.41	0.44	0.43	0.45	0.47	-2.81	-5.99	40
Savings	2.46	2.44	2.45	2.46	2.47	1.30	-0.97	18
Term	3.86	3.89	3.88	3.89	3.99	-2.53	-13.31	42
Loans all	7.88	7.97	7.94	8.03	8.32	-9.06	-44.48	100
Housing	8.06	8.09	8.13	8.18	8.52	-3.47	-46.18	38.2
Other personal	10.91	10.94	10.97	11.03	11.02	-2.98	-10.45	16.7
Business*	7.05	7.20	7.07	7.17	7.51	-14.48	-45.30	26.8
Other	6.25	6.25	6.25	6.25	6.30	0.00	-5.46	18.3

\*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