

Banking Sector Developments February 2017

Release date: 21 June 2017

	Feb 17	Jan 17	Dec 16	Nov 16
Deposit rate (%)*	2.213	2.177	2.129	2.232
Lending rate (%)*	7.91	7.88	7.87	7.89
Total Deposits (T\$m)	524.3	527.8	515.1	492.9
Total lending (T\$m) ^	384.5	382.2	381.6	377.5
New commitments (T\$m)	21.5	15.1	23.8	22.3
Broad Money (T\$m)	510.2	512.0	512.2	493.6

*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.

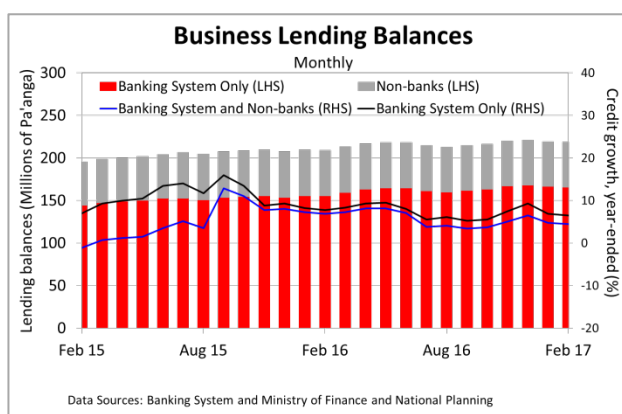
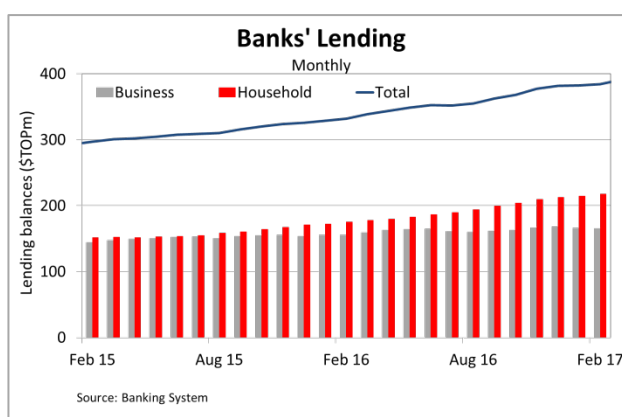
Credit growth continues to reach new levels

Lending

Total banks' lending rose to another new record high of \$384.5 million, increasing by \$2.3 million (0.6%) over the month of February and \$52.6 million (15.9%) over the year. The monthly movement was a result of an increase in household loans which outweighed a fall in business loans. The annual rise was driven by both higher household and business loans, however, household loans continued to be the major contributor to the overall credit growth. Lending extended by non-bank financial institutions recorded an annual rise of \$16.2 million (13.5%) to \$136.2 million. This was due to more household loans offsetting a decrease in government on-lent loans.

Business lending

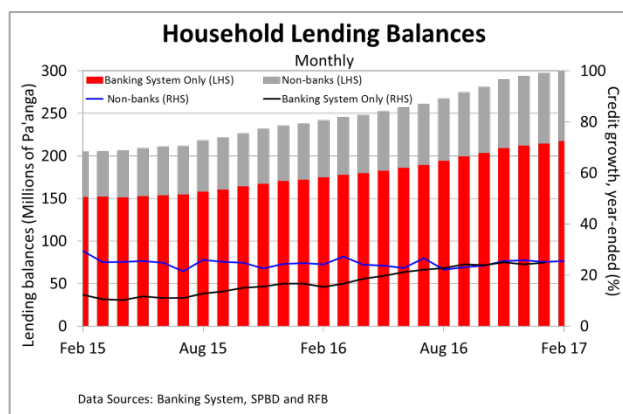
Banks' lending to businesses noted a similar trend to last month, falling by \$0.8 million (0.5%) over February. This was due to a decline in the loans for professional services, tourism, and utilities sectors of \$1.8 million (10.7%), \$0.3 million (2.0%), and \$0.1 million (4.5%) respectively. These movements had offset increases in lending to



other business sectors such as agriculture and manufacturing. Despite the monthly fall, lending to businesses rose over the year by \$10.1 million (6.5%). This was mainly driven by increases in lending to the tourism, agricultural, manufacturing, and construction sectors which recorded respective growth of \$3.9 million (32.0%), \$2.9 million (45.4%), \$2.3 million (15.5%), and \$2.0 million (25.3%). The lower interest rates from the Government Development Loans supported the higher lending to these sectors. The inclusion of government on-lent loans contributed to the rise in business lending by \$9.4 million (4.5%) reflecting loan repayments made over the year.

Household lending

Household loans led the monthly rise in lending noting a \$3.1 million (1.4%) increase. This mainly resulted from higher housing loans as well as other personal loans which both rose by \$1.8 million (1.1%) and \$1.2 million (2.2%) respectively. Vehicle loans also contributed somewhat to the monthly rise by \$0.03 million (3.0%). Loans to households therefore reached a new high level of \$217.9 million.



In year ended terms, total banks' lending to households continued to significantly drive the overall credit growth, increasing by \$42.6 million (24.3%). This stemmed considerably from an annual rise of \$40.0 million (33.7%) in housing loans. In addition, other personal loans and vehicle loans contributed to the annual growth by \$2.1 million (3.7%) and \$0.5 million (135.2%) individually. Continued decline in lending rates for housing supported the yearly growth as it declined by 14.5 basis points which reflects banks' housing loan campaign during the year. Furthermore, lending from non-bank financial institutions to households increased by \$16.9 million (25.5%). This also reflected higher personal loans made over the year. The introduction of home improvement loans at the Retirement Fund Board in July 2016 also contributed to the annual growth.

Other lending

Other loans from banks rose very minimally over February by \$0.01 million (0.5%) and decreased over the year by \$0.1 million (9.2%). This resulted from a decline in lending activities in the non-profit institutions sector.

Non-performing loans

Banks' total non-performing loans fell over the month by \$0.3 million (1.8%) and over the year by \$8.9 million (34.9%) to \$16.7 million. The yearly decline results from settlement of non-performing loans mainly in the business sector. Non-performing loans represented 4.3% of total loans as at the end of February 2017.

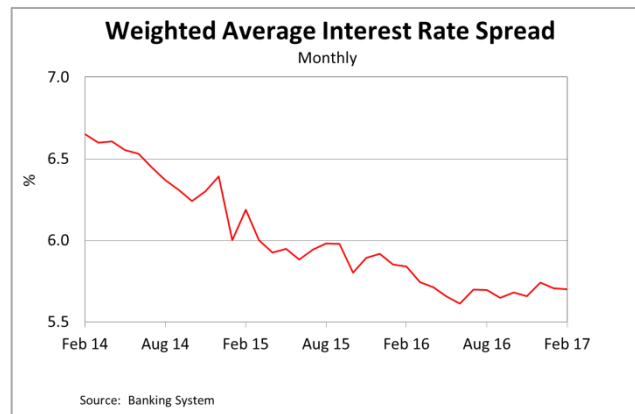
Deposits

Total bank deposits decreased over February by \$3.4 million (0.7%) to \$524.3 million. This was driven by a fall in demand deposits of \$5.3 million (2.2%) which outweighed an increase in time and

savings deposits by \$1.0 million (0.5%) and \$0.8 million (1.0%) respectively. The significant monthly fall in demand deposits was due to withdrawals from accounts of businesses, churches, and the government. This largely reflected businesses making import payments and in line with the decline in broad money (money supply) and the foreign reserves. Over the year, total bank deposits increased by \$73.2 million (16.2%) and this was due mainly to rises in all deposit categories with demand deposits contributing to the overall increase the most. The increase in the weighted average deposit rates by 2.3 basis points over the year may have supported the growth in deposits.

Interest rate spread

The weighted average interest rate spread narrowed over the month and over the year to February by 0.4 basis points and 13.9 basis points respectively.



On a monthly basis, the weighted average deposit rate increased by 3.6 basis points which outweighed the rise in weighted average lending rate by 3.2 basis points. The weighted average lending rate increased to 7.91% over the month driven solely by higher lending rates for the business sector namely loans for trade and manufacturing. Weighted average lending rates for household loans however decreased over February which supported the monthly rise in household lending. The weighted average deposit rate increased to 3.61% as a result of higher term deposit rates over the month. Annually, the weighted average lending rate declined by 11.5 basis points whilst the weighted average deposit rate increased by 2.3 basis points. This resulted in the narrowing of the weighted interest rate spread over the year. Lower lending rates for businesses and households led to a decline in the overall weighted average lending rate. More specifically, housing lending rates decreased and similarly, the lending rates for loans to the agricultural, utilities and tourism sectors also declined over the year. This also coincided with higher credit growth recorded over the year. In contrast, the increase in demand and term deposit interest rates resulted in the rise in the weighted average deposit rate.

Broad money

Broad money fell over the month by \$1.9 million (0.4%) to \$510.2 million. This was due to the lower foreign reserves resulting in a decline in net foreign assets by \$4.9 million (1.2%). This outweighed a \$4.8 million (4.5%) increase in net domestic assets which was driven mainly by the increase in net domestic credit and also the decline in deposits over the month. Over the year, broad money noted a rise of \$53.7 million (11.8%) led mainly by a significant increase of \$72.0 million (21.8%) in net foreign assets. In contrast, net domestic assets fell by \$18.2 million (14.4%), which is attributed to a decrease in net domestic credit, whilst net foreign assets rose driven by the higher foreign reserves over the year. Budget support funding received during the year contributed to the higher foreign reserves and corresponded to the increase in net foreign assets.

Liquidity

The liquidity (reserve money)¹ in the banking system declined by \$2.3 million (0.8%) to \$278.0 million. This was mainly due to higher cash withdrawals by the commercial banks from the Reserve Bank vault during the month. This largely reflected the Reserve Bank's efforts to replace mutilated notes in circulation with new banknotes issued to the public. This would in turn ensure that good quality banknotes and coins are in circulation. Furthermore, banks' total loans to deposit ratio rose over February to 73.3% from 72.4% in January, driven by the decline in deposits as well as the credit growth over the month. The lower deposits in February coincided with the fall in the foreign reserves and rise in net domestic assets. The loans to deposit ratio of banks remained below the 80% minimum loan to deposit ratio target which indicated excess liquidity in the banking system remains and that more capacity for further lending by the banks exists. Over the year, the banking system liquidity increased by \$19.7 million (7.6%) led by respective rises of \$11.4 million (6.4%) and \$5.3 million (3.7%) in banks' deposits to the Reserve Bank vault and currency in circulation.

Outlook

The Reserve Bank estimates a credit growth of 15.0% to be achieved at the end of 2016/17. This is higher than the IMF Article IV projected growth of 9.8% for 2016/17. The banks' prospects for credit growth remain positive and the Reserve Bank's projection is supported by improving economic conditions, business confidence, and annual (one-off) events taking place throughout the 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 the foreign reserves.

The policy measure requiring banks' loan to deposit ratio to meet a minimum of 80% by June 2017 and progressively over 18 months, is to encourage the utilization of the excess liquidity in the banking system to increase lending, in order to support economic growth, subject to ensuring financial stability is 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:		
	Feb-17 \$TOPm	Jan-17 \$TOPm	Dec-16 \$TOPm	Nov-16 \$TOPm	Feb-16 \$TOPm	1 month % growth	1 year % growth
Broad money liabilities	510.2	512.0	512.2	493.6	456.5	-0.36	11.8
Currency in circulation	50.9	50.1	59.9	50.0	47.6	1.53	6.9
Demand deposits	193.9	199.6	193.6	185.7	182.3	-2.83	6.4
Savings and term deposits*	265.3	262.3	258.6	257.9	226.6	1.16	17.1
<i>equals</i>							
Net foreign assets	402.2	407.1	390.5	366.8	330.3	-1.2	21.8
<i>plus</i>							
Net domestic assets	109.8	105.1	121.8	126.9	126.5	4.5	-13.2
Gross bank lending**	394.6	392.2	391.5	387.2	340.5	0.6	15.9
Public enterprises	41.4	42.2	43.2	43.0	44.7	-1.7	-7.4
Private Sector	337.7	333.9	332.0	327.9	279.4	1.2	20.9
Other financial corporations	15.5	16.1	16.2	16.4	16.4	-3.9	-5.5
Other***	-284.8	-287.1	-269.7	-260.3	-214.0	-0.8	33.1

* 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

Table 2:

Lending Balances								
	Level as at				Change over the			Shares of totals %
	Feb 17 TOPm	Jan 17 TOPm	Dec 16 TOPm	Nov 16 TOPm	Feb 16 TOPm	1 month %	1 year %	
Lending, banks	384.5	382.2	381.6	377.5	331.9	0.6	15.9	100.0
Household	217.9	214.8	212.5	209.4	175.3	1.4	24.3	56.7
Business*	165.5	166.3	167.8	166.8	155.4	-0.5	6.5	43.0
Other	1.1	1.1	1.3	1.2	1.2	0.5	-9.2	0.3
Lending, banks and other	520.7	517.4	515.8	510.8	451.9	0.6	15.2	100.0
Household	301.1	297.1	293.7	289.8	241.6	1.4	24.6	57.8
Business	218.5	219.3	220.8	219.8	209.1	-0.4	4.5	42.0
Other	1.1	1.1	1.3	1.2	1.2	0.5	-9.2	0.3
New comm'ts, banks	21.5	15.1	23.8	22.3	12.9	42.3	66.7	N/A
Undrawn comm'ts, banks	21.4	20.7	17.9	14.0	21.5	3.4	-0.8	N/A
Implied repay'ts, banks	18.5	11.7	15.8	12.3	9.4	57.9	96.6	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				Feb 16	Change over the last [^]		Share of loans/deposits %
	Feb 17	Jan 17	Dec 16	Nov 16		1 month	1 year	
	%	%	%	%	%	bps	bps	
Deposits all	2.21	2.18	2.13	2.23	2.19	3.61	2.34	100
Demand	0.47	0.47	0.43	0.44	0.45	-0.13	1.75	40
Savings	2.26	2.26	2.22	2.31	2.46	-0.18	-19.47	18
Term	3.90	3.84	3.85	3.92	3.89	6.21	1.03	41
Loans all	7.91	7.88	7.87	7.89	8.03	3.19	-11.54	100
Housing	8.03	8.04	8.05	8.10	8.18	-0.19	-14.45	43.2
Other personal	11.03	11.10	10.95	10.96	11.03	-6.92	0.19	15.9
Business*	6.97	6.89	6.97	6.99	7.17	8.35	-19.63	26.0
Other	6.25	6.25	6.66	6.32	6.25	0.00	0.00	14.9

*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