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Banks reeling from super-low interest rate environment

Benchmark for mortgages, business loans hits record low of 0.44237%

Reports by **CONRAD TAN**

LOW interbank rates are putting severe pressure on the lending margins of banks in Singapore, OCBC Bank chief executive David Conner said yesterday, echoing the views of equity analysts and other senior bankers.

"This is the worst interest rate environment to be running a commercial bank in," he told BT after speaking at a panel discussion at the Singapore Management University.

The three-month interbank offered rate for Singapore-dollar loans or Sibor – the benchmark for many mortgages and business loans – is now just 0.44237 per cent, which is the lowest on record.

The low Sibor is squeezing the net interest margins that banks earn on loans, because already-low deposit rates make it difficult to cut funding costs even as the interest that banks charge on loans falls.

Interest rates at longer maturities are also near their lowest levels in years – the yield on 10-year Singapore government bonds yesterday was just 1.98 per cent, compared with about 2.7 per cent at the start of the year.

That means that banks are earning less from their main role as financial intermediaries – converting short-term funds from savers into longer-term loans for individuals or businesses that want to borrow money.

It isn't just the Singapore-listed banks that are hurting.

Maybank Singapore CEO Pollie Sim told BT in a recent interview that it would be difficult to maintain the bank's high returns on equity – above 20 per cent for each of its past three financial years to June 30 – amid the low interest-rate environment and renewed competition with rivals.

Even worse for the banks is that interest rates here are likely to stay low for many months to come.

"Given the traditional relationship between the Sibor and the US federal funds rate, it seems unlikely that the Sibor will rise in any material way before there is clarity on when US rates will rise," said Trevor Kalcic, an analyst at the Royal Bank of Scotland (RBS), in a recent report. RBS does not expect US rates to rise until September next year.

Over the three months to end-September, Sibor fell from 0.55958 per cent to 0.50501 per cent.

The latest decline to below 0.46 per cent may only show up in the banks' results for the first quarter of next year, Mr Kalcic said.

Banks could try to compensate for falling net interest margins by lending more money, but boosting loan volumes may be difficult at a time when economic growth is slowing.

Loans growth could also be affected by the recent government measures to cool the property market, JP Morgan analysts Harsh Modi and Sunil Garg said in a report this month.

Banks could also increase their overseas lending in countries such as Malaysia and Indonesia, where interest rates and loan margins are higher – but Singapore still accounts for the biggest chunk of the banks' lending.

United Overseas Bank is expected to report its third-quarter results this Friday, followed by OCBC on Monday and DBS Group on Thursday next week.