BUSINESS DAY
Friday, 23 July 2010, p. 6

Falling client debt ignites optimism

Banking sector bullish despite static lending growth expectation, writes ANDREW GILLINGHAM

WHILE bank revenue streams are expected to remain flat, banks are optimistic about the future, particularly as levels of consumer debt fall.

Michael Jordaan, CEO of First National Bank (FNB), says the bank is bullish about prospects in the banking sector, despite expecting lending growth to remain static in real terms for the next 18 months.

"Smart individuals and corporations are using the opportunity presented by low interest rates to pay down their debt, and paying down debt still offers the best after-tax return," Jordaan says.

"In the longer term lower debt is positive for individuals, companies and the economy as everyone is reducing risk.

"It is also a perfectly rational response to an uncertain environment. Paying off debt is the best action you can take if you are uncertain that you will have your job in two years."

FNB, along with other banks, is focused on writing better-quality business with more realistic margins that are related to the risks.

He says that after the international credit crisis, credit has once again become a privilege.

David Polkinghorne, CEO of Grindrod Bank, says there is no doubt that banks are more prepared to grant mortgages in the lower and middle tiers of the property market.

He says banks are, rightly, still cautious about the upper end of the mortgage market as a number of individuals are overextended.

Michael Jordaan ... opportunity time.

"Salaried customers tend to be less of a risk at the moment than speculative buyers and those who rely on bonuses and commissions.

"This trend is illustrated by the fact that top end properties are not moving as quickly as in the past."

In the commercial and industrial property market activity has been slow and major banks are coming back cautiously into this arena with its increasing pricing pressure.

"Credit is still tight in this market and it has to be a good deal to work from a pricing perspective."

Sim Tshabalala, CEO of Standard Bank SA, says there is a slow growth pattern starting to emerge in the economy as well as a general feeling of optimism following SA's success in hosting the Soccer World Cup.

However, SA's economic recovery is closely tied to the rest of the world, and issues in Europe such as sovereign debt concerns in Greece, Portugal, Spain and Italy have quelled optimism about Europe's medium-term growth prospects.

"Last year China was SA's largest trading partner. However, a lot of our exports still go to Europe and slower growth there is likely to slow our economic growth."

He says the possibility of a double-dip recession still weighs on the global economy and there are both positive and negative economic signals around. The US Federal Reserve has trimmed its growth forecasts and wheat and corn prices are climbing, but euro pessimism has softened, evidenced by a rally in their currency and bond markets and strong growth in Germany.

Tshabalala reiterates what was said in Standard Bank's annual general meeting on May 27, namely that revenue growth is challenging for banks to achieve in this environment.

It means banks will fall back on what they can control — balancing internal efficiencies with investment in the bank's future growth and giving more attention to writing higher-quality business in terms of the loans they are prepared to grant.