

Banking Sector Developments August 2014

Release date: 9 December 2014

	Aug 14	July 14	June 14	May 14
Deposit rate	2.21	2.14	2.09	2.09
Lending rate	8.93	8.94	8.96	8.97
Total lending (T\$m)	388.3	385.9	384.6	382.4
New commitments (T\$m)	11.4	7.6	9.1	7.9

Strong rise in new commitments over the month

Interest rates

Weighted average interest rate spread declined to 6.72% in August 2014, compared to 6.79% in July 2014 and 7.60% from a year ago. This is mainly due to a rise in deposit rates and a decline in lending rates.

Weighted average deposit rate rose by 7 basis points to 2.21% in August 2014. This was driven by an increase in the demand deposit rates more than offsetting a decline in the savings and term deposit rates. The increase in weighted average demand deposit rates was due mainly to a decline in the volume of the short term deposits. The fall in the short term deposits largely reflected increased import payments. On balance, weighted average deposit rate also increased over the year, due to a rise in weighted term and demand deposit rates

The weighted average lending rate fell slightly in August by 1 basis points to 8.93%, driven by a decline in 'business' and 'housing' categories reflecting an increase in lending to the business and housing sectors. The largest decline in weighted average lending rates was on loans to the 'business' sector particularly the agriculture and distribution sector, which largely reflects an increase in the volume of loan to these two sectors. Over the year, all key bank weighted average lending rate categories declined, led by the 'business' and 'other' categories, largely reflecting settlement of loans. The weighted average rate on all bank loans continued declining, falling by 60 basis points over the year to August.

Lending rates in August were the lowest since at least January 2001, although recent improvements in reporting requirements complicate historical comparisons.

Lending

Total bank lending balances rose 0.5% in August, as lending among all sectors rose, particularly the business and other personal sectors. The increase in lending reflects an increase in lending of managed fund to the sector of the economy. The rise is coincided with a rise in new commitments and a fall in lending rates.

In year-ended terms, total bank lending balances rose by 9.4% mainly due to business, 'housing' and 'other personal sectors. This reflects the loan settlement and lending to public enterprises sector. The rise was supported by lower lending rates, and coincides with a decline in non-performing loans, reflecting banks writing off large non performing exposures. Including loans extended by non-banks, the lending balance increased by 10.6% over the year, reflecting strong growth in household lending.

Business lending

Business lending rose by 0.6% over the month, driven by the 'agriculture', 'distribution' 'tourism' and public enterprises sectors. This includes an increase in the lending of the Government's managed funds to the agriculture sector, contributing to the strengthening of activity in the primary sector of the economy. In year ended terms, business lending increased by 13.0 %, driven by an increase in the lending to public enterprises and other financial corporations. Including government on-lent loans, business lending rose by 8.2% over the year.

New business commitments rose substantially over the month, mainly due to a rise in 'construction', agriculture' and 'manufacturing', which reflects the Ha'apai Group reconstruction and the commencement of the squash season.

Household lending

Bank lending to households rose by 0.4% over the month, due to an increase in the 'other personal' loans. This is consistent with a rise in new commitments and low lending rates for 'housing', which was driven mainly by increased competition among banks. Over the year, bank lending to households increased by 6.2 %. Including non-banks, year-ended growth in household lending would have been 13.2%.

New household commitments rose by 10.3% over the month, driven by rises in the 'other personal' and 'housing' components suggesting likely a growth in household construction and the continuous demand for funds by private individuals. The rise in new commitments for housing is consistent with a rise in the number of private container registrations. New household commitments comprise nearly half of total new commitments.

Other lending

Other loans rose by 1.2% over the month and by 11.8% over the year due to an increase in lending to the non-profit institutional sector.

Broad money

Broad money rose by 0.7% to \$367.3 million in August, largely reflecting the rise in bank lending. In year ended terms, broad money balances rose by 5.8% led by a growth in net foreign assets which reflected an increase in foreign reserves and positive credit growth. Moreover, an increase in currency in circulation and saving and term deposits also contributed to the rise in broad money, which partly reflected a rise in government deposits. An adequate liquidity margin for prudent lending remains, particularly in short term deposits.

Outlook

Credit growth is supported by the continuous improvements in business confidence and lending conditions. Increased competition amongst banks will continue to support the current low lending rates however, banks have indicated significant declines are unlikely.

The NRBT is forecasting credit to grow by around 10% over the year to December 2014. This is on the basis of imminent drawdowns of some large loan commitments, continued low lending interest rates, and the introduction of the government's new loan scheme targeting the manufacturing, tourism, agricultural and fisheries sectors as well as education loans. Growth is expected to increase slightly in 2014-15.

While conventional monetary policy instruments are at their expansionary limit, the NRBT will continue to promote prudent lending, and close liaison with banks.

Interest Rates

Weighted average of all banks

	Level as at					Change over the last:		Share of loans/deposits %
	Aug 14 %	Jul 14 %	Jun 14 %	May 14 %	Aug 13 %	1 month bps	1 year bps	
Deposits all	2.21	2.14	2.09	2.09	1.93	7	28	100
Demand	0.58	0.52	0.44	0.49	0.44	7	14	40
Savings	2.11	2.13	2.02	1.97	2.19	-1	-7	16
Term	3.75	3.82	3.69	3.63	3.25	-7	50	44
Loans all	8.93	8.94	8.96	8.97	9.53	-1	-60	100
Housing	8.60	8.62	8.67	8.69	8.89	-2	-29	35
Other personal	12.98	12.96	12.95	12.93	13.18	2	-21	18
Business*	8.07	8.09	8.14	8.20	8.95	-2	-87	26
Other	7.83	7.78	7.80	6.62	8.52	5	-69	21

* Includes public enterprises & other financial corporations

Sources: Banks; NRBT

Lending Balances

	Level as at					Change over the		Shares of totals %
	Aug 14 TOPm	Jul 14 TOPm	Jun 14 TOPm	May 14 TOPm	Aug 13 TOPm	1 month %	1 year %	
Lending, banks	278.1	276.7	276.0	275.1	254.1	0.5	9.4	100
Household	140.2	139.7	138.5	137.0	132.1	0.4	6.2	50
Business*	134.8	133.9	134.3	136.0	119.3	0.6	13.0	48
Other	3.1	3.0	3.2	2.0	2.7	1.2	11.8	1
Lending, banks and other	388.3	385.9	384.6	382.4	351.1	0.6	10.6	100
Household	187.7	186.2	184.4	181.7	165.7	0.8	13.2	48
Business	197.6	196.7	197.0	198.7	182.6	0.5	8.2	51
Other	3.1	3.0	3.2	2.0	2.7	1.2	11.8	1
New comm'ts, banks	11.4	7.6	9.1	7.9	6.7	49.5	68.8	N/A
Undrawn comm'ts, banks	9.8	9.8	8.5	9.3	12.6	-0.3	-22.3	N/A
Implied repay'ts, banks	10.0	5.6	9.0	7.8	5.0	78.2	99.4	N/A

* Methodology for calculating these series was updated in August 2014, resulting in revisions to the full history of data

Sources: SPBD; RFB; MOFNP; banking system

Consolidated Balance Sheet of Depository Corporations

	Level as at					Change over the last:	
	Aug-14 \$TOPm	Jul-14 \$TOPm	Jun-14 \$Tom	May-14: \$TOPm:	Aug-13 \$TOPm	1 month % growth	1 year % growth
Broad money liabilities	367.3	364.6	368.9	358.1	347.0	0.7	5.8
Currency in circulation	38.7	37.5	38.9	38.5	34.6	3.2	11.7
Demand deposits	135.1	136.0	137.1	128.9	129.3	-0.7	4.5
Savings and term deposits*	193.5	191.1	192.9	190.6	183.1	1.3	5.7
<i>equals</i>							
Net foreign assets	275.2	275.1	268.5	259.2	255.0	0.0	7.9
<i>plus</i>							
Net domestic assets	92.1	89.5	100.4	98.9	92.0	2.9	0.1
Gross bank lending**	287.8	286.1	285.3	282.7	260.8	0.6	10.3
Other***	-195.7	-196.6	-184.9	-183.9	-168.8	-0.4	15.9

* 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

