

# Banking Sector Developments July 2017

Release date: 6 December 2017

	Jul 17	Jun 17	May 17	Apr 17
Deposit rate (%)*	2.189	2.148	2.148	2.167
Lending rate (%)*	7.848	7.836	7.830	7.856
Total Deposits (T\$m)	533.8	536.8	533.9	526.2
Total lending (T\$m) ^	407.1	404.5	397.7	391.9
New commitments (T\$m)	10.7	11.9	13.5	7.6
Broad Money (T\$m)	533.2	534.9	517.6	509.9

\*Weighted Average calculated as a function of interest rate and volume of deposits and loans (also note revisions have been made to deposit and lending rates data from commercial banks)

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

## Deposits slowed down whilst lending continues to grow

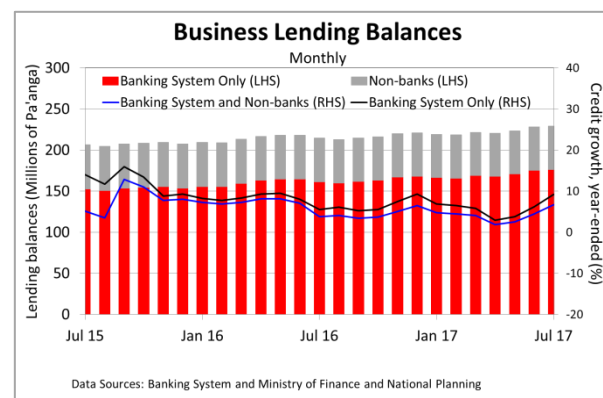
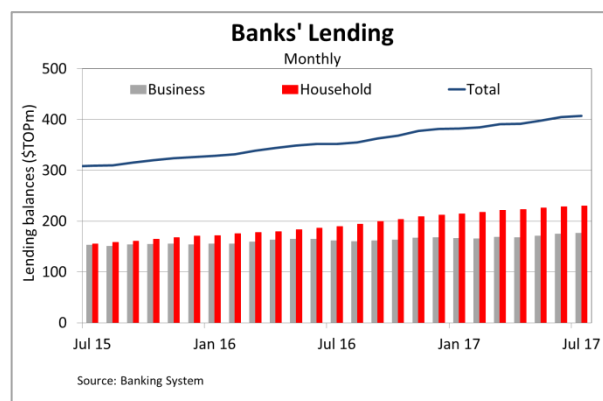
### Lending

Total banks' lending rose over the month of July and over the year to a new record high of \$407.1 million, exceeding yet again the level that was set last month. This remained driven by growth in lending to both households and businesses.

Loans extended by non-bank financial institutions increased over the month by \$1.3 million (0.9%) and over the year by \$17.3 million (13.9%) to \$141.9 million. This continued to be driven by more household loans extended by the South Pacific Business Development offsetting a fall in government on-lent loans.

### Business lending

Banks' lending to businesses rose over the month by \$1.0 million (0.6%) to \$176.0 million. Respective growth in lending to the transport, manufacturing and agriculture sectors of \$1.2 million, \$0.8 million

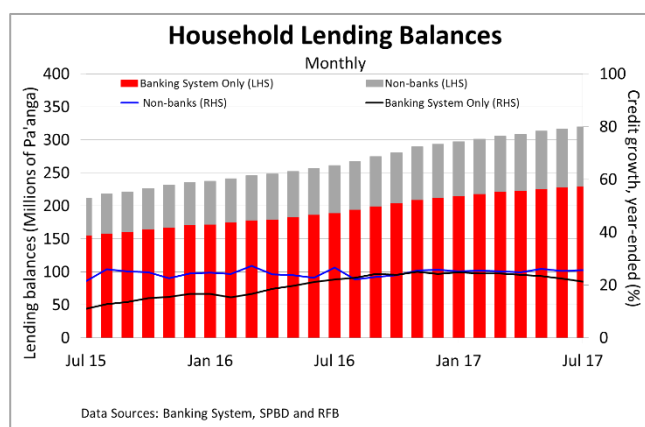


and \$0.2 million respectively led the overall increase in business loans over the month.

Similarly, business lending increased over the year by \$14.8 million (9.2%). The annual growth was due to higher lending to most business sectors with significant contributions by wholesale and retail loans which rose by \$9.3 million and lending for manufacturing increased by \$5.2 million. The Government Development Loans continued to support the credit growth and the economic activities in these sectors. With the inclusion of government on-lent loans, business lending rose by \$13.7 million (6.4%) reflecting the loan repayments made over the year for the government on-lent loans.

### Household lending

Household loans contributed to the overall lending growth over July with an increase of \$1.6 million (0.7%) to a new record high of \$229.9 million. This resulted from higher lending for housing purposes, which rose by \$2.0 million (1.2%). On the other hand, vehicle loans and personal loans decreased. This also reflected high demand of households and their continued ability / capacity to access loans.



Over the year, bank's lending to households rose by \$40.4 million (21.3%). This was driven largely by housing loans which rose by \$40.4 million (30.6%) reflecting the increased competition for housing loans and introduction of new housing loan products during the year. Lending for vehicle purposes also increased by \$0.2 million (30.2%). Personal loans however decreased over the year. Both vehicle registrations and import payments for construction materials increased over the year, which coincided with more vehicle and housing loans. Lower lending rates for housing loans supported the annual growth reflecting also the banks' housing loan campaign. Lending from non-bank financial institutions to households rose by \$18.4 million (25.7%) reflecting higher personal loans made over the year. The introduction of the home improvement loan facility at the Retirement Fund Board in July 2016 also contributed to the annual growth.

### Other lending

Other loans from banks declined over the month by \$0.05 million (4.0%) but rose over the year by \$0.001 (0.1%). The decrease over the month resulted from a decline in lending within the non-profit institutions sector.

### Non-performing loans

Banks' total non-performing loans increased very slightly by \$0.04 million (0.2%) to \$17.0 million in July. This resulted from minor rises in non-performing business loans particularly for the manufacturing and agriculture sectors. Non-performing household loans for housing purposes slightly increased as well over July. Over the year, non-performing loans decreased by \$1.4 million (7.4%) driven by settlements of non-performing business loans coupled with other minor write-offs

(housing loans). The non-performing loans represented 4.2% of total loans as at the end of July 2017 compared to 5.2% July 2016.

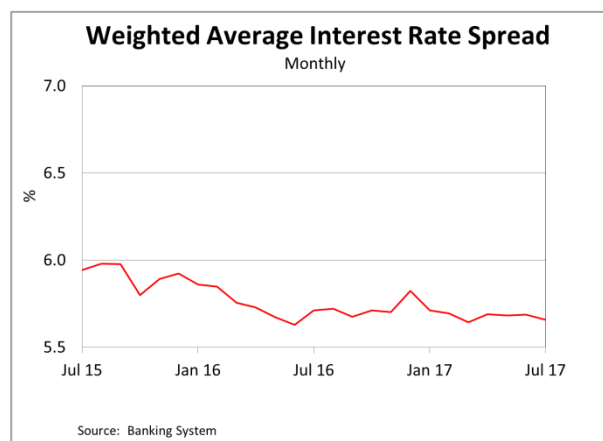
## Deposits

Total bank deposits fell over the month to July by \$3.0 million (0.5%) to \$533.8 million. This was led solely by a decrease of \$6.8 million (2.8%) in demand deposits. Savings and term deposits however increased over July but were insufficient to offset the decline in demand deposits. The decrease in demand deposits was due to large business payments made over the month and further coincided with lower deposits made by commercial banks to the Reserve Bank's vault.

Annually, total bank deposits increased by \$71.2 million (15.4%) driven by increases in all deposit categories. Time deposits was the most significant contributor to the yearly rise recording an increase of \$34.3 million (19.3%). This was driven mainly by the rise in the Retirement Fund Board's term deposits which was transferred from its demand deposits. Demand deposits and saving deposit followed with increases of \$29.8 million (14.5%) and \$7.1 million (9.0%) respectively. The increase in demand deposits stemmed from growth in Government deposits, public enterprises, and private individuals. Receipt of government's budget support funds contributed to this increase as well as improved government revenue collection throughout the year. The rise in savings deposits were due to higher deposits mainly made by churches and private businesses.

## Interest rate spread

The weighted average interest rate spread narrowed by 2.9 basis points (from 5.688%) over July as well as over the year by 5.2 basis points (from 5.711%) to 5.659%. The monthly decline was a result of an increase in the weighted average deposit rate outweighing the increase in the weighted average lending rate. More specifically, the weighted average lending rate rose by 1.1 basis points (from 7.84% to 7.85%) over the month due



to higher lending rates for both household and business loans. Higher lending rates for households applied particularly for housing, vehicle, and other personal loans. Higher interest rates for business loans was mainly for agriculture, construction, and entertainment and catering sectors. The weighted average deposit rate increased by 4.1 basis points (from 2.15% to 2.19%) due to higher saving, demand, and term deposit rates.

Over the year, the weighted average interest rate spread narrowed as a result of a decrease in the weighted average lending rate outweighing the fall in the weighted average deposit rate. The weighted average lending rate (declined by 7.6 basis points) fell for both business and household loans. In particular, lower household lending rates applied for housing and vehicle loans. Lower business lending rates were driven mainly by a decrease in interest rates for loans to the manufacturing, tourism, and utilities sectors. These interest rate movements supported the higher credit growth within the private sector and also household loans over the year. The weighted average

deposit rate declined by 2.4 basis points as a result of lower deposit rates in all deposit categories. This coincided with the yearly growth in deposits.

### **Broad money**

Over July, broad money decreased by \$1.7 million (0.3%) to \$533.2 million. This was driven by both a fall in net foreign assets and net domestic assets. Net foreign assets declined by \$0.8 million (0.2%) as a result of a fall in the foreign currency accounts of commercial banks over July. This coincided with higher import payments made over the month. Net domestic assets decreased due mainly to a rise in government deposits.

Over the year, broad money increased by \$55.2 million (11.5%) driven significantly by a rise in net foreign assets; and net domestic assets also increased. Net foreign assets which recorded an annual rise of \$52.1 million (13.9%) stemmed mainly from a significant increase in foreign reserves which rose by \$41.5 million (11.3%). Net domestic assets increased by \$3.1 million (3.0%) as a result of the credit growth 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)<sup>1</sup> in the banking system declined over July by \$5.4 million (1.9%) to \$278.4 million. This largely reflected the issuing of the new notes to the banks during the King's birthday and other events in July which is also in line with the Reserve Bank's initiative to improve the quality of the notes in circulation. The banks' total loans to deposit ratio increased in July to 76.3% from 75.4% last month due to the credit growth of \$2.6 million (0.6%) and the \$3.0 million (0.5%) decline in deposits. The loans to deposits ratio of banks remained below the minimum 80% loans to deposits ratio which indicates excess liquidity in the banking system remains and that there is capacity for further lending by the banks.

Over the year, the banking system liquidity increased by \$12.9 million (4.9%) due mainly to a rise of \$14.0 million (22.0%) and \$2.8 million (12.8%) in currency in circulation and required reserves (statutory required deposits) respectively.

### **Outlook**

The Reserve Bank estimated a credit growth of 15.0% to be achieved at the end of 2016/17 and realised an annual credit growth of 14.8% as at the end of June 2017. The Reserve Bank's forecast was higher than the IMF Article IV's projected growth of 10.8% for 2016/17 and thus much closer to the real credit growth realised over the year to June 2017. The banks' prospects for credit growth remains positive and the Reserve Bank's projection is supported by improving economic conditions, business confidence, and annual (one-off) events taking place throughout the financial year. Therefore, a 15% credit growth is expected in the year to June 2018. This is supported by the level of

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<sup>1</sup> Liquidity in the banking system (reserve money) is a sum of currency in circulation, exchange settlement account balances, and required reserve deposits.

competition between banks in terms of housing loans also the accommodative monetary policy to utilize the excess liquidity to encourage lending in order to support economic activity.

The Reserve Bank will continue to closely monitor the credit growth and broad money movements to ensure financial and macroeconomic stability are maintained and that there is no overheating in the economy.

Table 1:

Consolidated Balance Sheet of Depository Corporations							
	Level as at				Change over the last:		
	Jul-17 \$TOPm	Jun-17 \$TOPm	May-17 \$TOPm	Apr-17 \$TOPm	Jul-16 \$TOPm	1 month % growth	1 year % growth
<b>Broad money liabilities</b>	<b>533.2</b>	<b>534.9</b>	<b>517.6</b>	<b>509.9</b>	<b>478.0</b>	<b>-0.31</b>	<b>11.5</b>
Currency in circulation	59.7	60.8	52.7	50.6	52.5	-1.87	13.7
Demand deposits	198.1	202.8	197.1	192.5	190.2	-2.35	4.1
Savings and term deposits*	275.5	271.2	267.9	266.9	235.3	1.56	17.1
<i>equals</i>							
<b>Net foreign assets</b>	<b>426.5</b>	<b>427.3</b>	<b>413.0</b>	<b>395.4</b>	<b>374.3</b>	<b>-0.2</b>	<b>13.9</b>
<i>plus</i>							
<b>Net domestic assets</b>	<b>106.9</b>	<b>107.7</b>	<b>104.7</b>	<b>114.6</b>	<b>103.9</b>	<b>-0.7</b>	<b>3.0</b>
Gross bank lending**	418.3	415.7	408.7	402.4	361.1	0.6	15.8
Public enterprises	43.0	43.4	42.6	40.1	40.4	-1.0	6.3
Private Sector	374.0	371.0	364.8	361.0	319.5	0.8	17.0
Other financial corporations	1.4	1.4	1.3	1.3	1.2	-1.3	17.9
Other***	-311.4	-308.0	-303.9	-287.8	-257.3	1.1	21.0

\* 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 %
	Jul 17 TOPm	Jun 17 TOPm	May 17 TOPm	Apr 17 TOPm	Jul 16 TOPm	1 month %	1 year %	
Lending, banks	407.1	404.5	397.7	391.9	351.9	0.6	15.7	100.0
Household	229.9	228.2	225.8	222.9	189.5	0.7	21.3	56.5
Business*	176.0	175.0	170.7	167.7	161.2	0.6	9.2	43.2
Other	1.2	1.2	1.2	1.3	1.2	-4.0	0.1	0.3
Lending, banks and other	550.0	545.6	538.1	530.2	476.8	0.8	15.4	100.0
Household	319.8	316.3	313.2	308.2	261.0	1.1	22.5	58.1
Business	229.0	228.0	223.7	220.7	214.6	0.4	6.7	41.6
Other	1.2	1.2	1.2	1.3	1.2	-4.0	0.1	0.3
New comm'ts, banks	10.7	11.9	13.5	7.6	11.2	-10.0	-4.3	N/A
Undrawn comm'ts, banks	21.4	21.7	24.2	25.8	18.7	-1.6	14.1	N/A
Implied repay'ts, banks	8.5	7.6	9.3	9.2	9.0	12.3	-5.5	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				Jul 16 %	Change over the last <sup>^</sup>		Share of loans/deposits %
	Jul 17 %	Jun 17 %	May 17 %	Apr 17 %		1 month bps	1 year bps	
Deposits all	2.19	2.15	2.15	2.17	2.21	4.09	-2.42	100
Demand	0.39	0.38	0.41	0.41	0.41	0.93	-2.24	41
Savings	2.44	2.40	2.38	2.36	2.53	4.59	-8.96	17
Term	3.82	3.82	3.81	3.80	3.98	0.27	-15.38	42
Loans all	7.85	7.84	7.83	7.86	7.92	1.15	-7.58	100
Housing	8.06	8.04	8.03	8.02	8.09	1.89	-2.94	44.3
Other personal	11.19	11.18	11.14	11.18	10.96	0.83	23.24	14.5
Business*	6.86	6.86	6.82	6.85	7.03	0.48	-16.90	29.9
Other	6.55	6.55	6.44	6.61	6.25	-0.18	30.08	11.3

\*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