

Banking Sector Developments April 2018

Release date: 20 August 2018

	Apr 18	Mar 18	Feb 18	Jan 18
Deposit rate (%) ^{*†}	2.069	2.091	2.085	2.125
Lending rate (%) ^{*†}	7.879	7.863	7.852	7.837
Total Deposits (T\$m) [†]	585.5	595.8	591.3	588.6
Total lending (T\$m) [†]	444.8	443.6	439.5	437.5
New commitments (T\$m)	18.7	8.7	8.8	6.8
Broad Money (T\$m)	547.1	558.7	558.2	552.5

^{*}Weighted Average calculated as a function of interest rate and volume of deposits and loans.

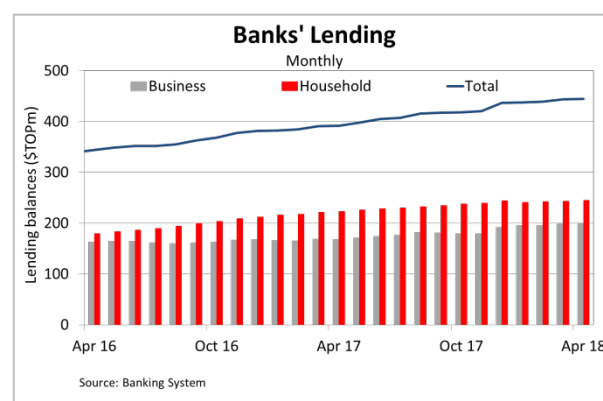
[†] Revised due to inclusion of Government Development Loan data.

New loan commitments rise by more than double

New commitment loans rise by more than double indicating continued credit growth in the future.

Lending

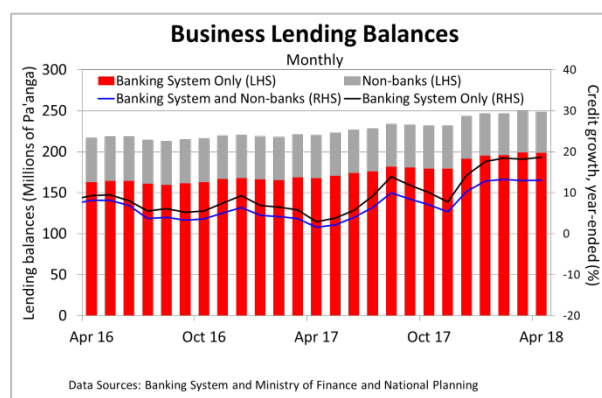
Total banks' lending increased over April and over the year. This resulted in total banks' lending reaching a new record of \$444.8 million. The monthly rise was due to higher lending to households whilst lending to businesses declined. However, the annual rise resulted from higher lending to both businesses and households. At the same time, new loan commitments have risen significantly both over the month and over the year indicating strong credit growth is expected in the coming months.



Lending extended by non-bank financial institutions increased over the month by \$1.1 million (0.7%) and over the year by \$20.3 million (14.8%) to \$157.9 million. The monthly rise resulted from increases in home improvement and small loans as well as household loans to the public as part of Tropical Cyclone (TC) Gita Assistance Packages. The annual increase resulted from higher home improvement loans, small loans, and household loans. This had also offset a decline in Government on-lent loans.

Business lending

Total banks' lending to businesses declined over the month. However, over the year, banks' lending to businesses increased. As of April 2018, the business lending balance was \$199.0 million (Table 1). The monthly decline was driven mainly by a fall in lending to the tourism, wholesale and retail, and manufacturing sectors. However, this was partially offset by increases in lending to the agriculture

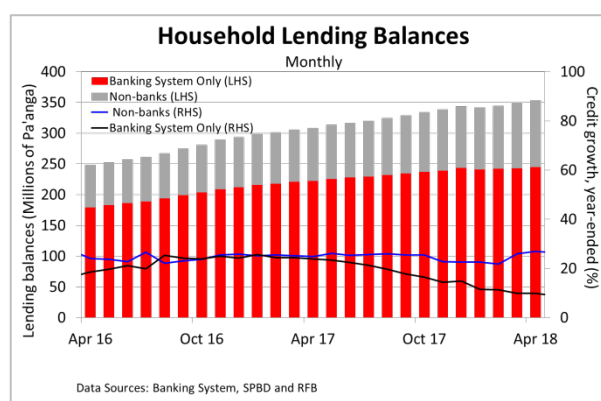


and construction sectors.

Annually, business lending increased resulting to more loans extended to the wholesale and retail, services, and transport sectors. The manufacturing, construction, and fisheries sectors also contributed to the yearly rise in total business loans. The yearly rise continued to support credit growth and the economic activities in the business sectors. With the inclusion of government on-lent loans, business lending rose annually by \$28.6 million (13.0%) reflecting more business loans offsetting repayments of government on-lent loans.

Household lending

Household loans increased over April and over the year to a new high record of \$245.0 million. The monthly and annual rise in household loans both resulted solely from an increase in housing loans by \$1.7 million (0.7%) and \$22.1 million (9.9%) respectively. This offset declines in vehicle and other personal loans for both over April and over the year. The consistent rise in household loans continued to reflect persistent increasing demand of households and rebuilding efforts of the country following TC Gita. Furthermore, this showcases households' ability and capacity to access loans.



Lending from non-bank financial institutions to households rose over the year by \$23.0 million (26.9%) reflecting higher personal loans disbursed throughout the year.

Other lending

Other loans from banks rose very slightly over April due to a minimal increase in lending to the non-profit institutions sector. However, over the year, other loans from banks declined by \$0.4 million (32.7%) resulting from a fall in lending to the non-profit institutions sector.

	Level as at			Change over the		Shares of totals %
	Apr 18 TOPm	Mar 18 TOPm	Apr 17 TOPm	1 month %	1 year %	
Lending, banks	444.8	443.6	391.9	0.3	13.5	100.0
Household	245.0	243.3	222.9	0.7	9.9	55.1
Business*	199.0	199.4	167.7	-0.2	18.6	44.7
Other	0.9	0.9	1.3	0.6	-32.7	0.2
Lending, banks and other	604.0	601.3	529.4	0.4	14.1	100.0
Household	353.2	349.9	308.2	0.9	14.6	58.5
Business	249.9	250.6	220.0	-0.3	13.6	41.4
Other	0.9	0.9	1.3	0.6	-32.7	0.2
New comm'ts, banks	18.7	8.7	7.6	114.3	145.0	N/A
Undrawn comm'ts, banks	24.8	16.5	25.8	50.0	-3.8	N/A
Implied repay'ts, banks	9.2	5.0	9.2	83.6	-0.2	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

Non-performing loans

Bank's total non-performing loan increased over the month and over the year to \$19.8 million. The monthly increase was driven by increases in non-performing loans in the wholesale & retail, manufacturing, and tourism sectors as well as individual housing loans. The non-performing loans represented 4.5% of total loans in April 2018.

Deposits

Total bank deposits fell over the month yet increased over the year to \$585.5 million. The monthly decline resulted from a fall in time and savings deposits (transfer of funds between Government accounts and maturity of Government time deposits) offsetting the increase in demand deposits.

Table 2: Deposit Balances

Deposits (\$ in million)	Monthly				Annual		
	Apr-18	Mar-18	Change	% Growth	Apr-17	Change	% Growth
Total Deposits	585.5	595.8	-10.3	-1.7	526.2	59.3	11.3
Demand Deposits	244.1	243.4	0.7	0.3	236.8	7.3	3.1
Savings Deposits	86.5	86.9	-0.4	-0.5	79.9	6.6	8.3
Time Deposits	240.8	251.5	-10.70	-4.3	209.6	31.2	14.9

Source: Banking System, NRBT

Annually, total bank deposits increased driven mainly by all deposit categories with time deposits contributing the most to the annual growth, followed by demand and saving deposits. Time deposits increased driven mainly by foreign investments, higher investments of retirement funds and higher deposits from the private sector. Demand deposits increased which was attributed to government receipts towards the TC Gita Relief Fund whilst the rise in saving deposits stemmed from private sector and churches. Additionally, receipt of government's budget support funds and improved government revenue collection during the year contributed to the overall increase in deposits.

Interest rate spread

The weighted average interest rate spread widened over April and over the year to 5.810%. The monthly increase reflected an increase in weighted average lending rate and a decline in weighted average deposit rate. The total volume of loans rising over the month affected the weighted average lending rate (particularly for housing and other personal lending rates). Meanwhile, a decline in the demand and savings deposit rates across most commercial banks resulted in the decrease in the weighted average deposit rate.

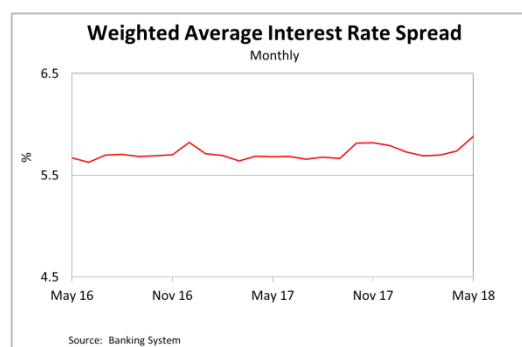


Table 3: Interest Rates

Weighted average of all banks						
	Level as at			Change over the last ^A		Share of loans/deposits %
	Apr 18 %	Mar 18 %	Apr 17 %	1 month bps	1 year bps	
Interest Rate Spread	5.810	5.772	5.689	3.80	12.09	
Deposits all	2.07	2.09	2.17	-2.00	-9.71	100
Demand	0.40	0.44	0.41	-4.32	-1.26	41
Savings	2.39	2.40	2.36	-0.84	2.75	16
Term	3.51	3.54	3.80	-3.00	-29.09	43
Loans all	7.88	7.86	7.86	2.00	12.06	100
Housing	8.13	8.10	8.02	3.26	11.83	43.2
Other personal	11.39	11.37	11.18	2.03	21.44	12.8
Business*	7.25	7.27	6.85	-2.00	25.64	27.4
Other	6.25	6.25	6.61	0.00	-35.59	12.5

*Method for calculating these series was updated in August 2014, resulting in revision to the full history of data
^ADue to rounding errors some data may not aggregate precisely
Sources: Banks; NRBT

The yearly rise in the weighted average interest rate spread reflected mainly an increase in the weighted average lending rate and the weighted average deposit rate declined. The weighted average lending rate widened resulting from the high volume of loans over the year. Additionally, housing interest rates increased contributing to the widening of the spread. The weighted average deposit rate declined driven by high growth in the volume of deposits. Overall, despite the rise in lending interest rates, it remained supportive of both the

annual credit and deposits growth.

Broad money

Respective decreases in net foreign assets and net domestic assets resulted in driving broad money lower. More specifically, net domestic assets significantly led the monthly movement due to higher government deposits whilst the fall in net foreign assets stemmed from a decrease in foreign reserves.

Table 4: Consolidated Balance Sheet of Depository Corporations

Consolidated Balance Sheet of Depository Corporations						
	Level as at			Change over the last:		
	Apr-18 \$TOPm	Mar-18 \$TOPm	Apr-17 \$TOPm	1 month % growth	1 year % growth	
Broad money liabilities	547.1	558.7	509.9	-2.1	7.3	
Currency in circulation	61.0	67.3	50.6	-9.4	20.7	
Demand deposits	177.1	180.2	192.5	-1.7	-8.0	
Savings and term deposits*	308.9	311.1	266.9	-0.7	15.7	
<i>equals</i>						
Net foreign assets	461.3	461.7	395.4	-0.1	16.7	
<i>plus</i>						
Net domestic assets	86.1	97.2	114.6	-11.4	-24.8	
Gross bank lending**	447.0	446.3	402.4	0.2	11.1	
Public enterprises	52.9	53.3	40.1	-0.9	31.8	
Private Sector	392.1	391.2	361.0	0.2	8.6	
Other financial corporations	2.0	1.7	1.3	13.5	54.2	
Other***	-360.9	-349.1	-287.8	3.4	25.4	

* 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

Over the year, broad money increased. The annual rise resulted from the significant rise in foreign reserves. Budget support funding received during the year contributed to higher government deposits and the higher foreign reserves and corresponded to the increase in net foreign assets.

Liquidity

Liquidity (reserve money)¹ in the banking system decreased in April due mainly to the settlement of maturing government bonds at the end of the month. In addition, deposits from the commercial banks to the Reserve Bank vault declined. The banks' total

¹ Liquidity in the banking system (reserve money) is a sum of currency in circulation, exchange settlement account balances, and statutory reserve deposits (SRD).

loans to deposit ratio rose to 76.0% from 74.5% last month. This continues to remain below the minimum requirement of 80% which indicates that 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 due to respective increases in required reserves (statutory required deposits) and in currency in circulation. These growths had offset a withdrawal by the commercial banks from the Reserve Bank's vault. The increase in the statutory required deposits reflects the revision to raise statutory required deposit requirement ratio from 5% to 10% effective in July 2017.

Outlook

Commercial banks' prospects for credit growth continue to remain positive. This is supported by the continued increase in new loan commitments over the month. The Reserve Bank's projection is supported by improving economic conditions, business confidence, and annual (one-off) events taking place throughout the year. Additionally, cyclone packages (post TC Gita) extended by the banks are expected to assist the public with rebuilding and further expected to contribute to the credit growth. The Reserve Bank's credit growth forecast of 16% in the year to June 2018 is unlikely to be met given delays in implementing of projects in which loans were approved for. However, the level of competition between banks in terms of housing loans coupled with the accommodative monetary policy is expected to utilize the excess liquidity in future to encourage lending and 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.