Banking Sector Developments
December 2018

Release date: 01 May 2019

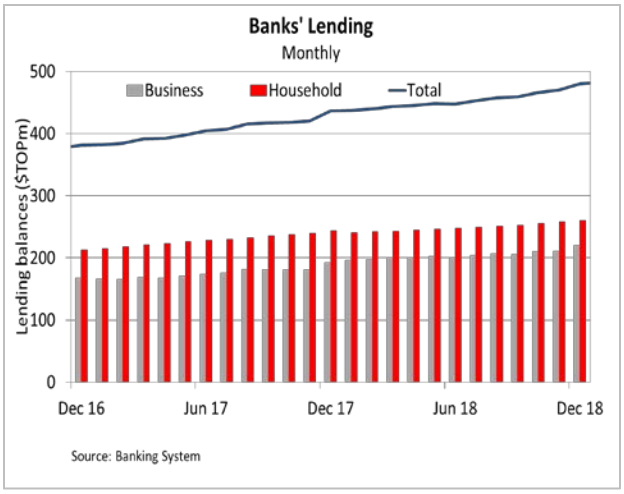
	Dec-18	Nov-18	Oct-18	Sep-18
Deposit rate (%)*	1.897	1.979	1.978	1.980
Lending rate (%)*	8.122	8.094	8.121	8.071
Total Deposits *(T$m)*	624.9	613.6	621.7	615.3
Total lending *(T$m)*	479.9	469.9	466.3	459.0
New commitments *(T$m)*	14.1	22.4	13.5	11.1
Broad Money *(T$m)*	605.3	592.3	595.8	595.2

*Weighted Average calculated as a function of interest rate and volume of deposits and loans

Broad money above $600 million

Lending

The total banks' lending reached a new high record of $479.9 million in December 2018, as it rose by $10.0 million (2.1%) over the month and by $43.2 million (9.9%) over the year. This resulted from more loans issued to both businesses and households.



Lending extended by non-bank financial institutions increased by $3.1 million (1.8%) over the month and by $18.4 million (12.1%) over the year to $169.7 million due to increases in individuals home improvement and small personal loans. However, the government on-lent loans continued to decline over the month and the year.

Business lending

Loans to businesses increased over the month and was attributed mostly to disbursements of loans to the transport, professional & other services and construction sectors indicating growth in these sectors.

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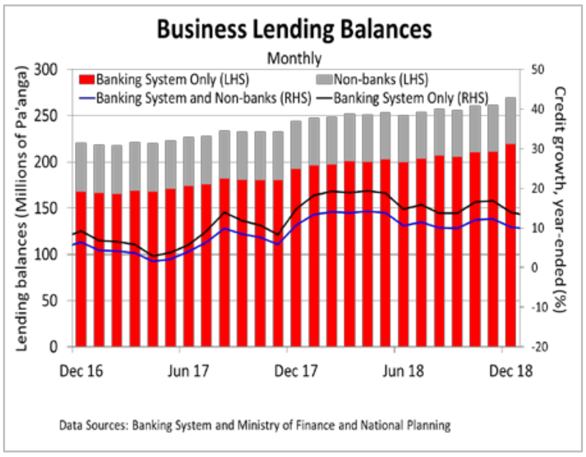
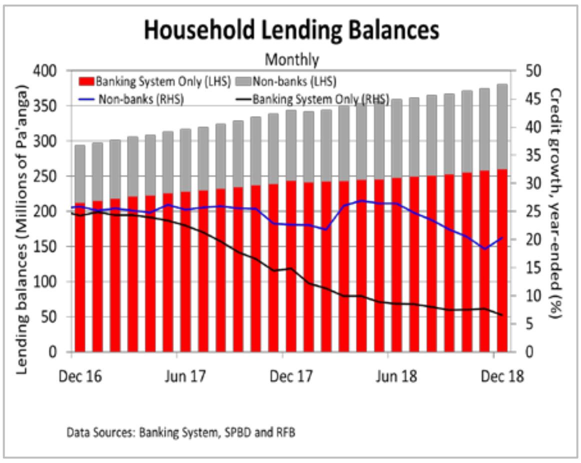
On an annual basis, the major contribution to the rise in business lending was from both the public and private sectors. The top three private sectors loans include the trade, transport and construction sectors. Higher construction loans were in line with a 34.2% increase in imports of construction materials and the increase in wholesale & retail loans coincided with the 7.7% rise in container registrations and was also supported by the numerous domestic activities throughout the year. Business lending (including government on-lent loans) rose by $25.0 million (10.2%) over the year and outweighed the offsetting repayments of government on-lent loans.



Household lending

Lending to households rose over the month and year to $260.1 million driven mainly by housing loans. This indicates the continuous demand for rebuilding by individuals. The increase in other personal loan also supported the monthly trend.



Other lending

On the other hand, banks other lending fell over December and the year due to the decline in lending to the non-profit institution's sector.

Non-performing loans

The bank's total non-performing loans for December increased due mainly to non-performing loans for individuals' and private businesses in the transport, entertainment & catering and fisheries sectors. Similarly, the share of non-performing loans in total loans slightly rose but relatively same as the 3.8% reported last month however it declined from 4.0% reported in December last year.

Deposits

Private business demand deposits drove the increase in total bank deposits over the month and year to $624.9 million. The increase in annual charitable donations by church members resulted in churches opening new term deposits during the month which also contributed to this monthly rise. These were partially offset by the decline in saving deposits of both private individuals and churches.

Table 1: Deposit Balances

	Monthly				Annual		
	Dec-18	**Nov-18**	Change	**%**	**Dec-17**	Change	**% Growth**
Total Deposits ($ in million)	624.9	613.6	11.3	1.8	571.4	53.6	9.4
Demand Deposits	282.1	271.3	10.8	4.0	242.8	39.3	16.2
Saving Deposits	95.9	99.4	-3.5	-3.5	83.8	12.1	14.4
Time Deposits	246.9	243.0	4.0	1.6	244.7	2.2	0.9

Sources: Banking Systems; NRBT

The annual rise was driven mainly by higher deposits from the public enterprises, retirement funds, and private individuals. This coincided with the higher receipts of budget support and the increase in remittance receipts during the year.

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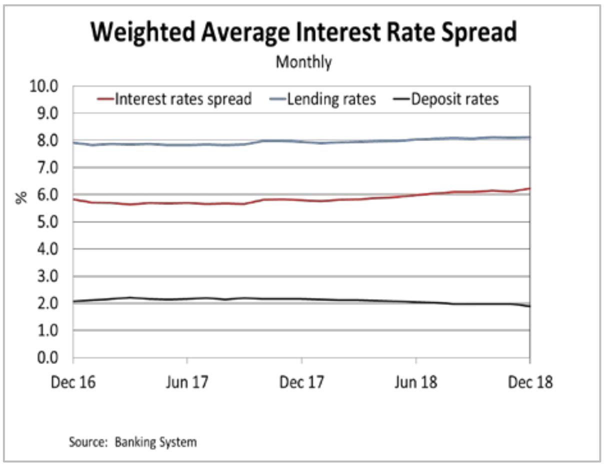
Interest rate spread

The increase in the weighted average lending rates and the fall in the weighted average deposit rates over the month and year to December 2018, widened the weighted average interest rates spread. The monthly rise in the weighted average lending rates was driven mainly by higher households' housing loan rates and business lending rates for the manufacturing and distribution sectors. The decline in the weighted average deposit rates, on the other hand, was solely driven by lower term deposit rates whilst demand and saving deposits rates remained stable.



Higher business lending rates for the manufacturing, trade and tourism sectors drove the annual increase in the weighted average lending rate. Additionally, the rise in the volume of loans also contributed to increased lending rates. Lower demand and time deposit rates continued to drive the decline in the weighted average deposit rates. All term deposit rates fell except for the interest rates for the over 5 years term.

While average lending rates increased and average deposit rates fell, both the volume of lending and deposits rose indicating the high public demand to access loans regardless of the cost to borrow and the excess liquidity in the banking system.

Broad money

Broad money grew over the month and year reaching a new high record of $605.3 million due mainly to the rise in net foreign assets. The slight increase in net domestic assets also added to the monthly trend however net domestic assets declined in year ended terms. Remittances and receipts of budgetary support & grant funds from development partners also contributed to the rise in net foreign assets. However, higher government deposits led to lower net domestic assets.

Table 2: Consolidated Balance Sheet of Depository Corporations

	Level as at			Change over the last	
	Dec-18 $TOPm	Nov-18 $TOPm	Dec-17 $TOPm	1 month % growth	1 year % growth
Broad money liabilities	**605.3**	**592.3**	**560.6**	**2.2**	**8.0**
Currency in circulation	73.1	66.4	69.3	10.1	5.5
Demand deposits	218.6	211.5	182.0	3.3	20.1
Savings and term deposits*	313.6	314.4	309.3	-0.3	1.4
equals					
Net foreign assets	**502.1**	**489.7**	**441.8**	**2.5**	**13.6**
plus					
Net domestic assets	**103.5**	**103.0**	**119.0**	**0.5**	**-13.0**
Gross bank lending**	486.1	475.6	440.6	2.2	10.3
Public enterprises	60.3	56.1	53.7	7.5	12.3
Private Sector	423.3	416.9	384.7	1.5	10.0
Other financial corporations	2.5	2.6	2.2	-4.1	13.4
Other***	-382.6	-372.6	-321.5	2.7	19.0

* 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

Liquidity

Liquidity (reserve money)[1] in the banking system followed the same upward trend as it rose over the month and year to $324.7 million. The monthly rise was primarily driven by an increase in currency in circulation. This outweighed the decline in the required reserves and the exchange settlement accounts due to higher withdrawals by the commercial banks from the Reserve Bank reflecting the high demand of the public for cash and coincided with the increase in domestic activities during the month. The banks' total loans to deposit ratio rose to 75.1% from 74.9% last month, reflecting the continued increase in total loans and total deposits.

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

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Despite the increase, the ratio has consistently remained below the minimum requirement of 80% indicating excess liquidity still exists in the banking system, and there is capacity for further lending by the banks.

The annual movement was again due to corresponding increases in the deposits to the Reserve Bank vault supported by the increase in currency circulation and required reserves (statutory required deposits). These coincided with the various events and economic activities that took place throughout the year.

Outlook

In light of the banks' positive outlook, the low-interest rates, the improved economic conditions, recent business performances and confidence, and annual (one-off) events expected during the current financial year, the Reserve Bank's anticipates strong credit growth to continue in the current year of 2018/19. Additionally, the level of competition between banks in term of housing loans coupled with the accommodative monetary policy and the excess liquidity will support lending and economic activity. The Reserve Bank will continue to closely monitor the growth across all monetary indicators particularly credit growth and broad money movements to ensure financial and macroeconomic stability is maintained and that no overheating will occur in the economy.

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