Banking Sector Developments

June 2018

Release date: 7 September 2018

	Jun 18	May 18	Apr 18	Mar 18
Deposit rate (%)*	2.027	2.062	2.069	2.091
Lending rate (%)*	7.944	7.904	7.879	7.863
Total Deposits *(T$m)*	610.3	596.0	585.5	595.5
Total lending *(T$m)*	447.3	448.2	444.8	443.6
New commitments *(T$m)*	19.8	10.7	18.7	8.7
Broad Money *(T$m)*	575.5	561.5	547.1	558.7

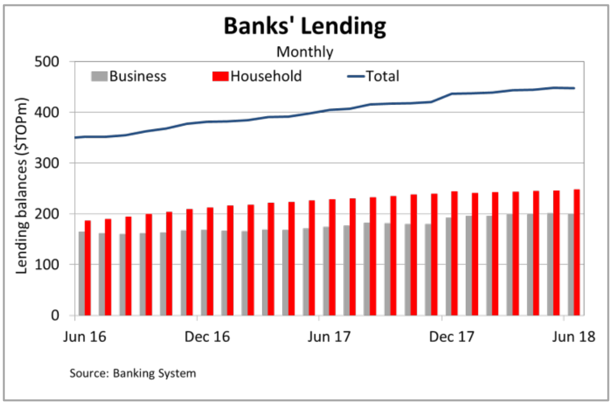
*Weighted Average calculated as a function of interest rate and volume of deposits and loans.

Lending slows down while deposits continue to climb higher

Credit growth over June fell slightly as a result of lower loans extended to businesses whilst deposits pick up further boosting liquidity in the banking system.

Lending

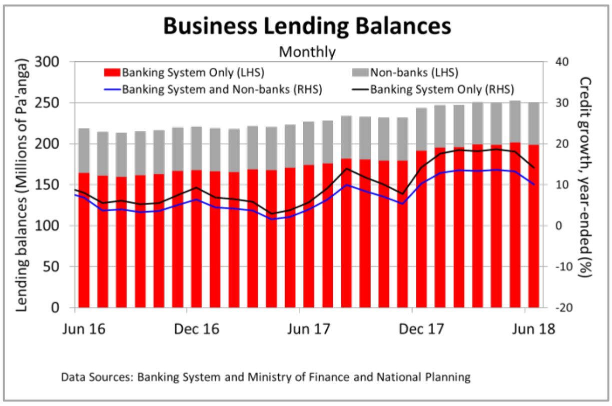
Total banks' lending slightly declined over June bringing the total outstanding loan balance to $447.3 million. In particular, business lending fell offsetting the increase in household lending. However, over the year, total banks' lending increased due to more loans extended to both businesses and households.



Lending extended by non-bank financial institutions rose over June by $0.7 million (0.4%) and over the year by $21.5 million (15.3%) to $162.1 million. This rise was driven by an increase in loans offered to individuals as small personal loans and home improvement loans. The yearly increase again reflected higher home improvement loans, small personal loans, and household loans. This had also offset a decline in Government on-lent loans.

Business lending

Total banks' lending to businesses decreased over June however increased over the year. Over June, lending to businesses fell to $198.8 million. This was mainly driven by the settlement of loans to the public enterprises, manufacturing, and services sectors.



In year ended terms, business lending rose due mainly to growth in loans extended to public enterprises, wholesale & retail, transport, and tourism sectors. Furthermore, loans extended to

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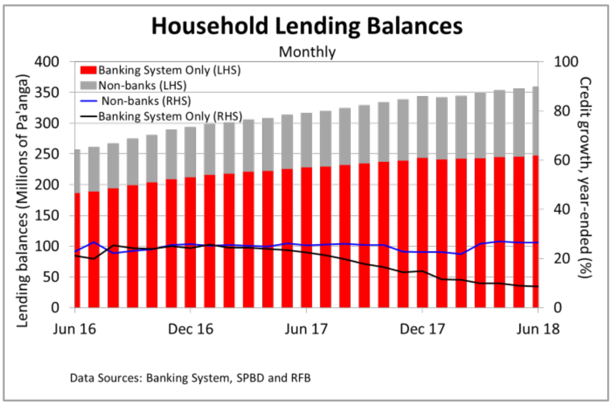
the fisheries and constructions sectors increased over the year. This indicates the private sector's high demand for loans supporting various economic activities occurring throughout the year. Import payments for wholesale and retail goods coincided with the yearly movement reporting an increase of 26.7%. With the inclusion of government on-lent loans, business lending rose by $22.8 million (10.1%) reflecting more business loans offsetting repayments of government on-lent loans.

Household lending

Bank's lending to households increased over June and over the year to a new high record of $247.7 million. Both the monthly and annual rise resulted solely from more housing loans reflecting people rebuilding following Tropical Cyclone (TC) Cyclone Gita coinciding also with more loans extended to the construction sector. Vehicle and other personal loans declined both on a monthly and annual basis indicating that households are focusing more on housing projects. However, it is evident that there has been a slowdown in household loans since June 2017. Furthermore, this reflects households' ability and capacity to access loans.



Lending from non-bank financial institutions to households rose over the year by $23.3 million (26.4%) reflecting higher personal loans disbursed throughout the year.

Other lending

Other loans from banks increased over June due to a slight rise in lending to the non-profit institutions sector. However, over the year, other loans from banks declined due to a decrease in the same aforementioned sector.

Table 1: Lending Balances (including new commitments)

	Level as at			Change over the		*Shares of totals*
	Jun 18 TOPm	May 18 TOPm	Jun 17 TOPm	1 month %	1 year %	%
Lending, banks	447.3	448.2	404.5	-0.2	10.6	100.0
Household	247.7	245.9	228.2	0.7	8.5	55.4
Business*	198.8	201.5	174.2	-1.4	14.1	44.4
Other	0.9	0.9	2.1	0.5	-59.0	0.2
Lending, banks and other	609.4	609.6	545.0	0.0	11.8	100.0
Household	359.1	356.4	316.3	0.7	13.5	58.9
Business	249.5	252.4	226.6	-1.1	10.1	40.9
Other	0.9	0.9	2.1	0.5	-59.0	0.2
New comm'ts, banks	19.8	10.7	11.9	83.9	66.4	N/A
Undrawn comm'ts, banks	24.9	24.9	21.7	0.0	14.6	N/A
Implied repay'ts, banks	20.7	7.3	7.6	184.2	173.3	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 decreased further over the month of June 2018 to $18.8 million. This stemmed largely from improvement in non-performing business loans particularly within the professional and other services sector. The non-performing loans represented 4.2% of total loans in June 2018, unchanged from last month and same month of last year.

Deposits

Higher bank deposits were recorded over June and over the year which resulted mainly from an increase in demand deposits of the Government, private sector and non-profit institutions. Further contributing to the monthly rise were higher individuals' saving deposits and time deposits which increased as a result of a rise in Government deposits.

Table 2: Deposit Balances

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Deposits ($ in million)	Monthly				Annual		
	Jun-18	May-18	Change	% Growth	Jun-17	Change	% Growth
Total Deposits	610.3	596.0	14.3	2.4	550.8	59.4	10.8
Demand Deposits	244.5	235.8	8.7	3.7	242.3	2.2	0.9
Savings Deposits	95.0	91.5	3.6	3.9	84.0	11.0	13.1
Time Deposits	256.7	254.7	2.02	0.8	210.5	46.2	22.0

Source: Banking System, NRBT

Over the year, the increase in total bank deposits stemmed largely from time deposits reflecting higher deposits from the retirement funds and the private sector. In addition, saving deposits increased as a result of higher deposits by individuals and churches. Receipt of Government's budget support funds and improved government revenue collection throughout the year assisted in the overall rise in deposits.

Interest rate spread

The weighted average interest rate spread widened further over June and over the year to 5.918%. The monthly increase reflected yet again an increase in weighted average lending rate whilst the weighted average deposit rate declined. The monthly increase in the weighted average lending rate was a result of higher business lending rates particularly for the tourism, manufacturing, and agriculture sectors. Additionally, the total volume of loans declining over the month affected the weighted average lending rate. Despite a rise in term deposit rates particularly for term deposit of over 5 years, the decline in the weighted average deposit rate stemmed from lower demand and time deposit rates offered by the commercial banks coupled with the high growth in deposits.

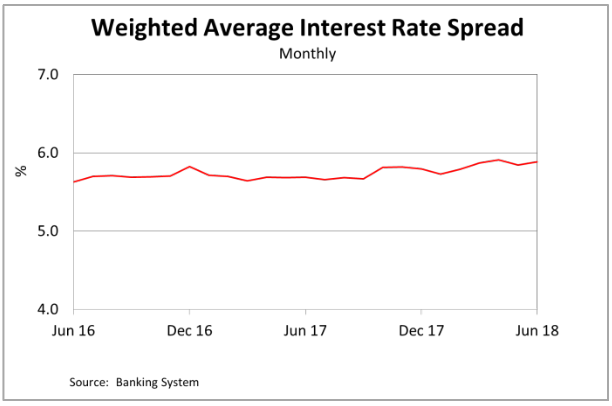

Table 3: Interest Rates

	Weighted average of all banks					
	Level as at			Change over the last^		
	Jun 18 %	May 18 %	Jun 17 %	1 month bps	1 year bps	*Share of loans/deposits %*
Interest Rate Spread	5.92	5.84	5.80	7.54	11.78	
Deposits all	2.03	2.06	2.04	-3.50	-0.96	100
Demand	0.34	0.39	0.38	-4.76	-4.16	41
Savings	2.42	2.39	2.40	2.94	1.62	17
Term	3.46	3.47	3.37	-0.30	9.76	42
Loans all	7.94	7.90	7.84	4.04	20.38	100
Housing	8.17	8.14	8.04	2.73	12.40	43.6
Other personal	11.40	11.39	11.18	0.90	21.34	12.7
Business*	7.40	7.32	6.86	8.03	32.57	27.4
Other	6.25	6.25	6.55	0.00	-30.26	16.3

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

The widening of the weighted average interest rate spread over the year reflected the rise in the weighted average lending rate. More specifically, business lending rates for most sectors contributed to the yearly rise coupled with the growth in volume of loans. The weighted average deposit rate declined driven by lower deposit rates offered by the commercial banks particularly for demand and time deposit rates. The high growth in the volume of deposits further contributed to the overall decrease in the weighted average deposit rate. Despite the rise in lending interest rates and the decline in the deposit rates, both credit and deposits continued to grow. This indicates the public's high demand to access loans regardless of the cost to borrow. Furthermore, the lower deposit rates reflect the excess liquidity in the banking system.

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Broad money

Over June as well as over the year, net foreign assets solely drove the increase in broad money whilst net domestic assets declined. In particular, the rise in the foreign reserves significantly led the monthly rise whilst high level of government deposits pushed net domestic assets down. Receipt of budget support funds during the year supported higher Government deposits and the higher foreign reserves.

Table 4: Consolidated Balance Sheet of Depository Corporations

Consolidated Balance Sheet of Depository Corporations	Level as at			Change over the last:	
	Jun-18 $TOPm	May-18 $TOPm	Jun-17 $TOPm	1 month % growth	1 year % growth
Broad money liabilities	**575.5**	**561.5**	**534.9**	**2.5**	**7.6**
Currency in circulation	70.2	66.5	60.8	5.7	15.5
Demand deposits	182.2	176.4	202.8	3.3	-10.2
Savings and term deposits*	323.0	318.7	271.2	1.4	19.1
equals					
Net foreign assets	**485.3**	**460.4**	**427.3**	**5.4**	**13.6**
plus					
Net domestic assets	**90.4**	**101.3**	**107.7**	**-10.8**	**-16.1**
Gross bank lending**	450.1	450.9	415.7	-0.2	8.3
Public enterprises	52.3	54.8	43.4	-4.6	20.5
Private Sector	395.5	393.5	371.0	0.5	6.6
Other financial corporations	2.4	2.6	1.4	-7.9	72.5
Other***	-359.7	-349.5	-308.0	2.9	16.8

* 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 increased over June and over the year to the highest level of $317.7 million. Additionally, this is the first time for liquidity to surpass $300 million. The monthly rise was driven significantly by an increase in deposits from the commercial banks to the Reserve Bank vault. This coincides with the overall increase in deposits over June from the public to the commercial banks. The banks' total loans to deposit ratio fell further to 73.3% from 75.2% last month, reflecting the increase in total deposits outweighing the movement in total loans. This has consistently remained below the minimum requirement of 80% indicating excess liquidity still exists in the banking system thus there is capacity for further lending by the banks.

Over the year, the banking system liquidity increased due to respective increases in deposits hence required reserves (statutory required deposits) and also currency in circulation. These growths had offset a withdrawal by the commercial banks from the Reserve Bank's vault. This coincided with the higher level of currency in circulation reflecting the various events and economic activity which took place in the country throughout the year. The increase in the statutory required deposits also reflected the revision to raise statutory required deposit requirement ratio from 5% to 10% effective in July 2017.

Outlook

The Reserve Bank's credit growth forecast of 16% in the year to June 2018 was not met due to delays and cancellation in implementing of projects in which loans were approved for. However, new loan commitments in recent months have indicated that credit growth will remain positive in the year 2018/19. As such, the Reserve Bank forecasts a credit growth of 14.0% for the current year of 2018/19. Furthermore, commercial banks' prospects for credit growth have reportedly been positive. Improved economic conditions, recent business performances and confidence, and annual (one-off) events that are expected to take place throughout the current financial year is projected to further

[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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support the Reserve Bank's forecast. Furthermore, cyclone packages (post TC Gita) extended by the banks are expected to help the public with rebuilding and further expected to contribute to the credit growth. The level of competition between banks in term 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 growth across all monetary indicators particularly credit growth and broad money movements to ensure financial and macroeconomic stability are maintained and that no overheating will occur in the economy.

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