Banking Sector Developments

May 2018

Release date: 20 August 2018

	May 18	Apr 18	Mar 18	Feb 18
Deposit rate (%)*[r]	2.062	2.069	2.091	2.085
Lending rate (%)*[r]	7.904	7.879	7.863	7.852
Total Deposits *(T$m)* [r]	596.0	585.5	595.5	591.3
Total lending *(T$m)* [r]	448.2	444.8	443.6	439.5
New commitments *(T$m)*	10.7	18.7	8.7	8.8
Broad Money *(T$m)*	561.5	547.1	558.7	558.2

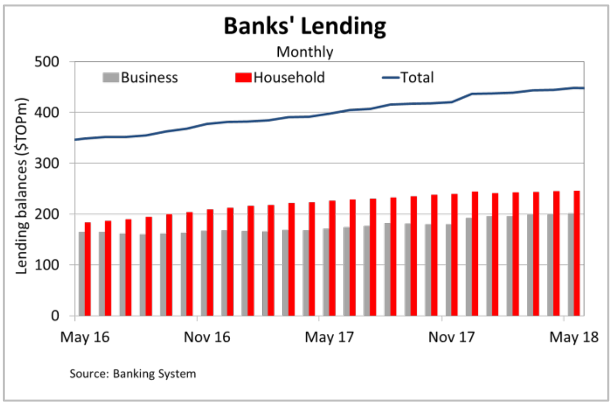
*Weighted Average calculated as a function of interest rate and volume of deposits and loans.
[r] Revised due to inclusion of Government Development Loan data.

Deposits increase driving the total money supply up

Higher deposits by Government and individuals drive the increase in bank deposits of $10.5 million over the month pushing broad money higher.

Lending

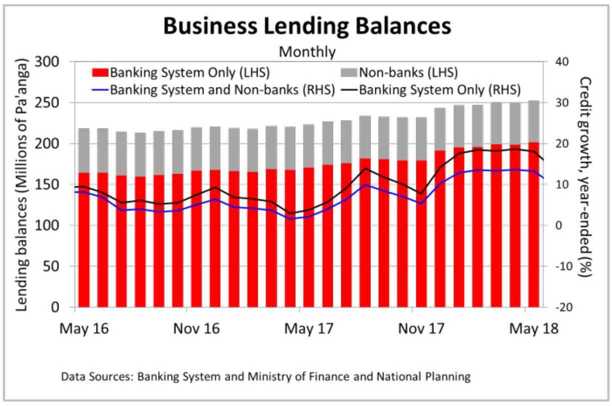
Total banks' lending rose over May also adding to the annual balance reaching a new record of $448.2 million. The monthly movement resulted mainly from more loans being extended to businesses whereas the yearly movement stemmed from more loans to both businesses and households. Private sector credit rose by 0.4% over the month and 7.9% over the year.



Lending extended by non-bank financial institutions increased over the month by $2.2 million (1.4%) and over the year by $21.9 million (15.7%) to $161.4 million. The monthly rise continued to be driven by 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 yearly growth 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 rose over May and over the year. At the end of the month, the business lending balance was at its highest level at $201.5 million. The monthly increase resulted from rises in lending to businesses involved in agriculture, transport, and manufacturing which will contribute to economic activities in these sectors.



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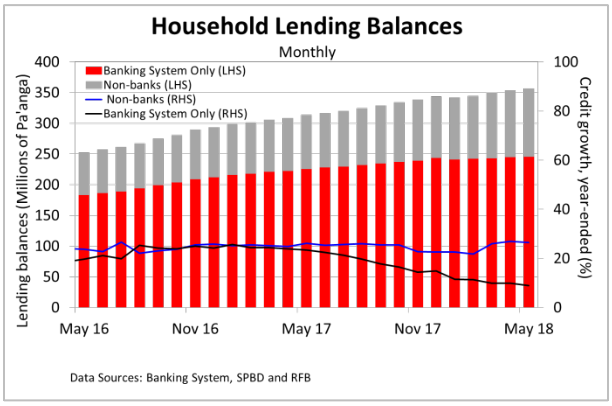
Over the year, business lending increased owing to more loans extended to the public enterprises, wholesale and retail, transport, and services sectors. The fisheries and manufacturing sectors also contributed to the annual rise in total business loans. The yearly increase continued to support credit growth and the economic activities in the business sectors. This also assists in fuelling imports for these sectors coinciding with a 48.1% increase in import payments for wholesale and retail goods during the year.

With the inclusion of government on-lent loans, business lending increased annually by $29.6 million (13.3%) reflecting more business loans offsetting repayments of government on-lent loans.

Household lending

Household loans increased over May and over the year to a new high record of $245.9 million. These respective rises stemmed largely from more housing loans reflecting people rebuilding following Tropical Cyclone Gita, indicative of an active construction sector. However, over May, housing, vehicle, and other personal household loans all increased.



Over the year, only housing loans rose driving the overall rise in household loans offsetting declines in vehicle and other personal loans. 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 $23.1 million (26.4%) reflecting higher personal loans disbursed throughout the year.

Table 1: Lending Balances (including new commitments)

	Level as at			Change over the		Shares of totals
	May 18 TOPm	Apr 18 TOPm	May 17 TOPm	1 month %	1 year %	%
Lending, banks	448.2	444.8	397.7	0.8	12.7	100.0
Household	245.9	245.0	225.8	0.4	8.9	54.9
Business*	201.5	199.0	170.7	1.3	18.1	45.0
Other	0.9	0.9	1.2	-1.2	-28.9	0.2
Lending, banks and other	609.6	604.0	537.2	0.9	13.5	100.0
Household	356.4	353.2	313.2	0.9	13.8	58.5
Business	252.4	249.9	222.8	1.0	13.3	41.4
Other	0.9	0.9	1.2	-1.2	-28.9	0.2
New comm'ts, banks	10.7	18.7	13.5	-42.4	-20.3	N/A
Undrawn comm'ts, banks	24.9	24.8	24.2	0.3	2.7	N/A
Implied repay'ts, banks	7.3	9.2	9.3	-20.7	-21.7	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

Other lending

Other loans from banks declined over May and over the year due to a fall in lending to the non-profit institutions sector.

Non-performing loans

Bank's total non-performing loans decreased over May however, increased over the year. This led total non-performing loans to $19.2 million. The monthly fall was mainly due to a decline in non-performing loans in the construction sector reflecting receipt of insurance claims on property that was affected by TC Gita. The non-performing loans represented 4.2% of total loans in May 2018, a decline from 4.5% last month.

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Deposits

Total bank deposits increased over May and over the year to $596.0 million. The monthly rise resulted mainly from an increase in government deposits (time deposits) and individual deposits (savings deposits) offsetting the decline in deposits by private businesses as they fund overseas payments (demand deposits).

Table 2: Deposit Balances

	Monthly				Annual		
Deposits ($ in million)	**May-18**	**Apr-18**	**Change**	**% Growth**	**May-17**	**Change**	**% Growth**
Total Deposits	596.0	585.5	10.5	1.8	533.9	62.1	11.6
Demand Deposits	235.8	244.1	-8.3	-3.4	243.4	-7.6	-3.1
Savings Deposits	91.5	86.5	5.0	5.8	80.9	10.6	13.1
Time Deposits	268.8	254.9	13.90	5.5	209.6	59.2	28.2

Source: Banking System, NRBT

Over the year, total bank deposits increased driven mainly by time deposits which increased due to the increased driven mainly by foreign investments, higher investments of retirement funds and higher deposits from the private sector. Additionally, saving deposits rose stemming from higher deposits by the private sector and churches. 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 May and over the year to 5.910%. 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 whist the decline in the weighted average deposit rate stemmed from the high growth in deposits.

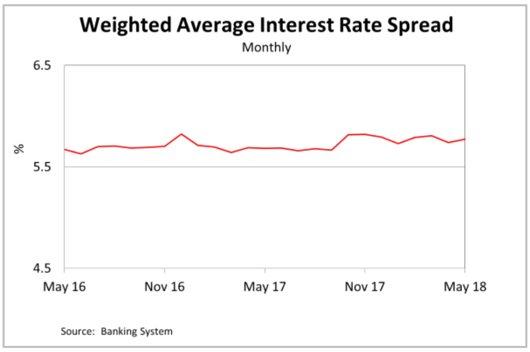

Table 3: Interest Rates

	Weighted average of all banks					
	Level as at			Change over the last^		
	May 18 %	Apr 18 %	May 17 %	1 month bps	1 year bps	*Share of loans/deposits %*
Deposits all	2.06	2.07	2.09	-0.77	-2.77	100
Demand	0.39	0.40	0.41	-1.30	-2.30	40
Savings	2.39	2.39	2.38	-0.53	0.73	17
Term	3.47	3.51	3.57	-3.82	-10.32	43
Loans all	7.90	7.88	7.83	2.47	17.35	100
Housing	8.14	8.13	8.03	0.49	10.65	43.0
Other personal	11.39	11.39	11.14	-0.50	24.99	12.7
Business*	7.18	7.11	6.82	7.45	35.75	27.3
Other	6.25	6.25	6.44	0.00	-19.42	#N/A

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

The weighted average interest rate spread rose over the year and reflected the increase in the weighted average lending rate. More specifically, he weighted average lending rate widened resulting from the high volume of loans over the year. 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

Over May, the net domestic assets solely contributed to the increase in broad money whilst net foreign assets declined. More specifically, net domestic credit led the rise due to higher loans extended to the public enterprises and private sectors coupled with higher government deposits. Foreign reserves declined over May triggering the fall in net foreign assets.

Table 4: Consolidated Balance Sheet of Depository Corporations

Consolidated Balance Sheet of Depository Corporations	Level as at			Change over the last:	
	May-18 $TOPm	Apr-18 $TOPm	May-17 $TOPm	1 month % growth	1 year % growth
Broad money liabilities	**561.5**	**547.1**	**517.6**	**2.6**	**8.5**
Currency in circulation	66.5	61.0	52.7	8.9	26.2
Demand deposits	176.4	177.1	197.1	-0.4	-10.5
Savings and term deposits*	318.7	308.9	267.9	3.2	18.9
equals					
Net foreign assets	**460.4**	**461.3**	**413.0**	**-0.2**	**11.5**
plus					
Net domestic assets	**101.3**	**86.1**	**104.7**	**17.7**	**-3.2**
Gross bank lending**	450.9	447.0	408.7	0.9	10.3
Public enterprises	54.8	52.9	42.6	3.7	28.6
Private Sector	393.5	392.1	364.8	0.3	7.9
Other financial corporations	2.6	2.0	1.3	32.4	107.3
Other***	-349.5	-360.9	-303.9	-3.1	15.0

* 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

Over the year, broad money increased. This was driven mainly by net foreign assets and had offset a decline in net domestic assets. In particular, foreign reserves significantly increased contributing to the overall increase. 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 increased over May due only to higher currency in circulation. Withdrawals by the commercial banks from the Reserve Bank vault increased coinciding with higher currency in circulation. Events during the month such as Children's Sunday, Mother's Day, Father's Day and the church annual conference explained the high demand by the public for cash. The banks' total loans to deposit ratio fell slightly to 75.2% from 76.0% last month, reflecting an increase in total deposits outweighing a rise in total loans. 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 continued 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

[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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to be met given delays and cancellation 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.

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