

Banking Sector Developments August 2019

Release date: 13 March 2020

	Aug-19	Jul-19	Jun-19	May-19
Deposit rate (%)*	1.924	1.925	1.939	1.956
Lending rate (%)*	8.036	8.033	8.029	8.044
Total Deposits (T\$m)	615.5	613.2	611.0	605.1
Total lending (T\$m)	496.5	490.8	485.9	487.3
New commitments (T\$m)	13.6	13.8	10.3	13.3
Broad Money (T\$m)	600.5	595.3	600.1	584.8

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

Lending climbed to a new high level

Lending

The banks' total lending climbed further over the month and year to a new high level of \$496.5 million. Higher lending to businesses continued to drive this rise, supported by the slight increase in household loans.

The non-bank financial institutions loans also increased over the month and year by \$2.2 million (1.1%), and \$28.7 million (17.5%), respectively. This increase reflects the accessibility of these loans to individuals in the informal sector and small, medium enterprises. Government on-lent loans remained the same over the month and decreased by 3.6% over the year, due to loan settlements.

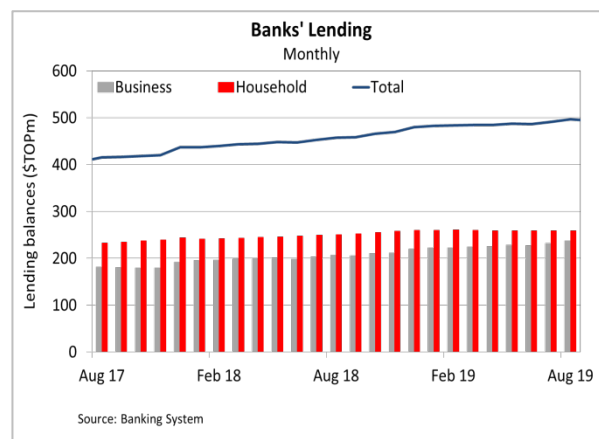
Business lending

The banks' total loans to businesses rose over the month and year by \$5.7 million (2.4%), and \$32.3 million (14.8%), respectively, to a new high level \$237.4 million. The majority of the new business loans over the month and year were for state-owned enterprises, professional & other services, wholesale and retail, and agricultural sectors. Additionally, loans extended over the year for the tourism and transport sectors also increased, reflecting higher business sentiment and confidence.

Table 1: Lending Balances (including new commitments)

	Level as at		Change over the last:			Shares of totals %
	Aug 19	Jul 19	Aug 18	1 month	1 year	
	TOPm	TOPm	TOPm	%	%	
Lending, banks	496.5	490.8	457.5	1.2	8.5	100.0
Household	259.2	259.2	251.1	0.0	3.2	52.2
Business*	237.1	231.5	206.9	2.4	14.6	47.8
Other	0.2	0.2	0.7	8.3	-66.3	0.0
Lending, banks and other	689.4	681.5	621.7	1.2	10.9	100.0
Household	403.3	401.1	364.7	0.5	10.6	58.5
Business	285.9	280.2	257.5	2.0	11.0	41.5
Other	0.2	0.2	0.7	8.3	-66.3	0.0
New comm'ts, banks	13.6	13.8	12.2	-1.3	11.8	N/A
Undrawn comm'ts, banks	16.2	15.7	28.3	3.5	-42.6	N/A
Implied repay'ts, banks	7.4	19.7	4.2	-62.6	75.8	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



Household lending

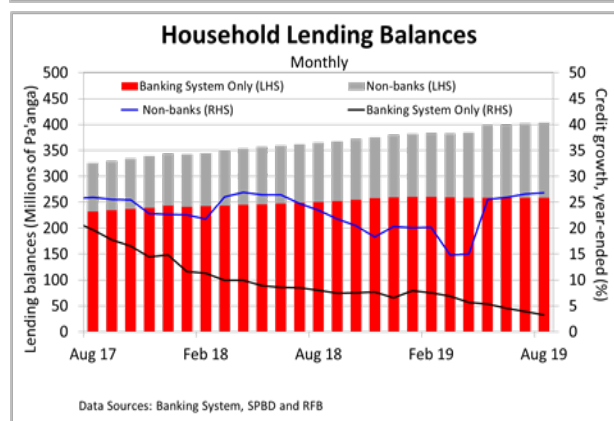
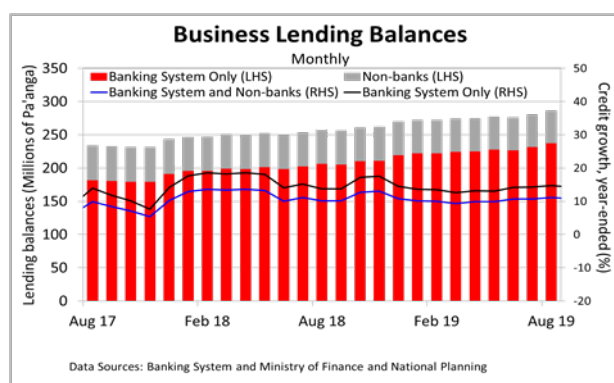
Over the month and year to August 2019, the banks' total lending to households increased by \$0.03 million (0.01%) and \$8.1 million (3.2%), respectively, to \$259.2 million. The rise in households' housing loans solely drove these movements and offset the decrease in both vehicles and other personal loans.

Other lending

Banks' other lendings changed little in August 2019, however, fell over the year by \$0.5 million (66.3%). This was due mainly to respective movements in lending to non-profit institutions serving households.

Non-performing loans

The non-performing loans decreased over the month and year to August 2019. This was due mainly to banks' efforts made to recover these non-performing loans, especially the distribution sector and vehicle loans over the month. The same also applies to entertainment & catering, transports, and communications sector loans over the year. Additionally, banks continue to raise provisions to be in line with the IFRS 9. As a result, the share of non-performing loans to total loans improved from 3.1% last month and 3.6% last year to 3.0% in August 2019.



Deposits

Table 2: Deposit Balances

	Monthly				Annual		
	Aug-19	Jul-19	Change	% Growth	Aug-18	Change	% Growth
Total Deposits (\$ in million)	615.5	613.2	2.2	0.4	626.2	-10.7	-1.7
Demand Deposits	262.3	261.8	0.5	0.2	273.4	-11.1	-4.1
Saving Deposits	117.4	114.9	2.5	2.2	97.7	19.7	20.2
Time Deposits	235.7	236.5	-0.8	-0.3	255.1	-19.3	-7.6

Sources: Banking Systems; NRBT

The banks' total deposits increased by \$2.2 million (0.4%) to \$615.5 million. This is the third consecutive month of an increase in deposits. Saving deposits made by individuals, churches, and schools increased over the month, supported by increased demand deposits from the government. Contrastingly, time deposits fell, due mainly to a decrease in individuals time deposits reflecting the conversion of these time deposits to savings and demand deposits.

Annually, the banks' total deposits declined by \$10.7 million (1.7%), largely driven by lower time and demand deposits from individuals, insurance companies, microfinance institutions, state-owned enterprises, and government. These declines offset an increase in saving deposits mainly by individuals and state-owned enterprises.

Interest rate spread

The weighted average interest rate spread widened over the month by 0.40 basis points to 6.11%. This resulted from an increase in weighted average lending rates, which had offset the decline in weighted average deposit rates. Higher lending rates were mainly offered to the construction, professional & other services, and fisheries sectors, as well as households' vehicle and housing loans. The lower demand deposit rates drove the declining weighted average deposit rates.

Over the year, the weighted average interest rate spread widened by 1.56 basis points. This was due to a more significant decrease in weighted average deposit rates compared to the decline in weighted average lending rates. Both demand and time deposit rates fell and outweighed the increase in saving deposit rates. Lending rates were reduced and driven mostly by rates extended to the tourism, agricultural, and transport sectors. On the other hand, all household lending rates increased with vehicle loan rates rising the most.

Broad money

The higher credit to public enterprises and private sectors over the month of August 2019 pushed net domestic assets up as well as broad money. An increase in net foreign assets also supported this. However, over the year, broad money fell by \$3.8 million (0.6%), mainly on lower net domestic assets outweighing the increase in net foreign assets. The decrease in net domestic assets was a result of lower net credit to the government, mostly due to higher government deposits. The receipt of budgetary support, grants, and remittances led to an increase in the net foreign assets.

Liquidity

Liquidity (reserve money)¹ in the banking system increased by \$2.3 million (0.8%) in August 2019, due mainly to higher deposits made by the commercial banks to the Reserve Bank vault. The slight rise over the month in the bank's statutory required deposits and the slight fall in the currency in circulation supported this increase. The banks' total loans to deposit ratio increased from 78.4% to 79.0% over the month, reflecting a more significant increase in loans than the rise in deposits.

Over the year, liquidity (reserve money) in the banking system fell by \$22.9 million (6.9%) due mainly to a decrease in the commercial banks' exchange settlement accounts. This resulted from higher

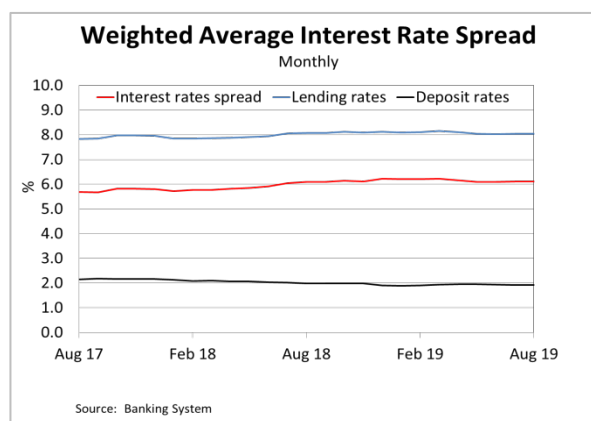


Table 3: Interest Rates

	Weighted average of all banks					
	Level as at			Change over the last ^a		Share of loans/deposits %
	Aug-19 %	Jul-19 %	Aug-18 %	1 month bps	1 year bps	
Interest Rate Spread	6.11	6.11	6.10	0.40	1.56	
Deposits all	1.92	1.93	1.98	-0.13	-5.56	100
Demand	0.26	0.27	0.29	-1.49	-3.22	42
Savings	2.60	2.58	2.42	2.43	17.95	20
Term	3.40	3.39	3.62	0.75	-22.03	38
Loans all	8.04	8.03	8.08	0.26	-4.00	100
Housing	8.20	8.19	8.19	0.44	0.96	41
Other personal	11.43	11.45	11.39	-2.23	4.53	11
Business	7.69	7.69	7.74	0.71	-4.85	29
Other	6.53	6.25	6.25	28.09	28.09	18

^aMethod for calculating these series was updated in August 2014, resulting in revision to the full history of data
^bDue to rounding errors some data may not aggregate precisely
Sources: Banking Systems; NRBT

Table 4: Consolidated Balance Sheet of Depository Corporations

	Level as at			Change over the last	
	Aug-19 \$TOPm	Jul-19 \$TOPm	Aug-18 \$TOPm	1 month % growth	1 year % growth
Broad money liabilities	600.5	595.3	606.0	0.9	-0.9
Currency in circulation	67.1	64.3	69.0	4.4	-2.7
Demand deposits	209.0	208.8	212.2	0.1	-1.5
Savings and term deposits*	324.4	322.2	324.8	0.7	-0.1
<i>equals</i>					
Net foreign assets	510.9	510.0	494.1	0.2	3.4
<i>plus</i>					
Net domestic assets	90.0	85.7	112.2	5.0	-19.8
Gross bank lending**	497.8	492.2	461.3	1.1	7.9
Public enterprises	65.0	61.2	56.2	6.2	15.6
Private Sector	429.5	427.6	402.5	0.4	6.7
Other financial corporations	3.3	3.5	2.6	-3.5	29.8
Other***	-407.8	-406.5	-349.1	0.3	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

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

withdrawals from the Reserve Bank vault to cater for the festivities during the year, such as church conferences, family & school reunions, and the Christmas & New Year celebrations. This was also supported by lower statutory required deposits, reflecting the lower deposits over the year. The currency in circulation, however, rose supported by higher demand due to the festivities that took place during the year.

Outlook

Credit growth is expected to continue in the near term but at a slower pace. 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 the banking system for further lending to support economic activity.

The Reserve Bank will continue to closely monitor the growth across all monetary indicators, particularly credit growth and broad money movements, for any signs of overheating and to ensure financial and macroeconomic stability is maintained.