Banking Sector Developments

February 2019

Release date: 19 June 2019

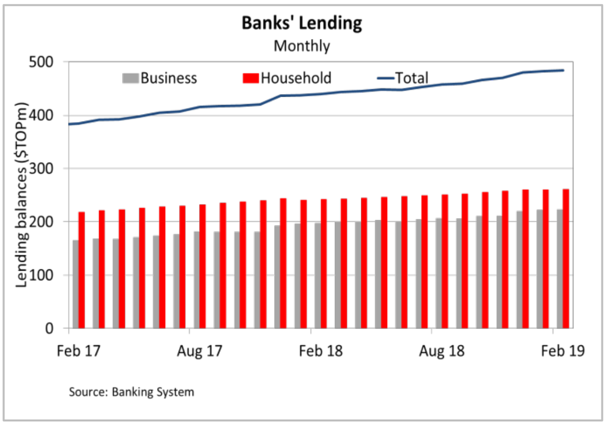
	Feb-19	Jan-19	Dec-18	Nov-18
Deposit rate (%)*	1.902	1.882	1.897	1.979
Lending rate (%)*	8.287	8.092	8.122	8.094
Total Deposits *(TSm)*	622.4	631.5	624.9	613.6
Total lending *(TSm)*	483.7	482.8	479.9	469.9
New commitments *(TSm)*	13.9	13.2	14.1	22.4
Broad Money *(TSm)*	589.0	598.3	605.3	592.3

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

Lower foreign reserves further decreased broad money

Lending

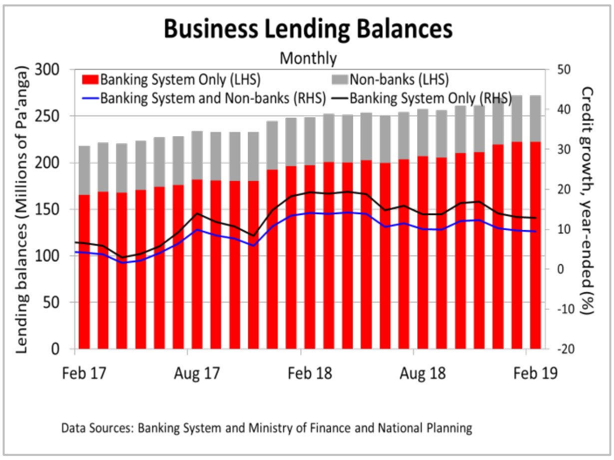
The total banks' lending for February 2019, slightly grew over the month and year by 0.2% ($0.9 million) and 10.1% ($44.2 million) respectively to $483.7 million. These resulted from an increase in lending to both businesses and individuals.



Similarly, the non-bank financial institutions loans also expanded over the month and year due mainly to its easy access for individuals. The government on-lent loans was however declined further in February 2019.

Business lending

Business loans increased over the month and year to February 2019, by 0.1% and 12.8% respectively. The monthly rise was contributed mainly by higher lending to private sectors such as manufacturing, agriculture and distribution sectors.



The annual rise in business loans were mainly for the public enterprises, transport, construction and agricultural sectors, which further indicates growth in these sectors coupled with various domestic and economic activities during the year. The rise in construction loans coincided with the 5.1% increase in construction imports. Business lending (including government on-lent loans) rose by $18.5 million (12.2%) over the year reflecting more business loans offsetting repayments of government on-lent loans.

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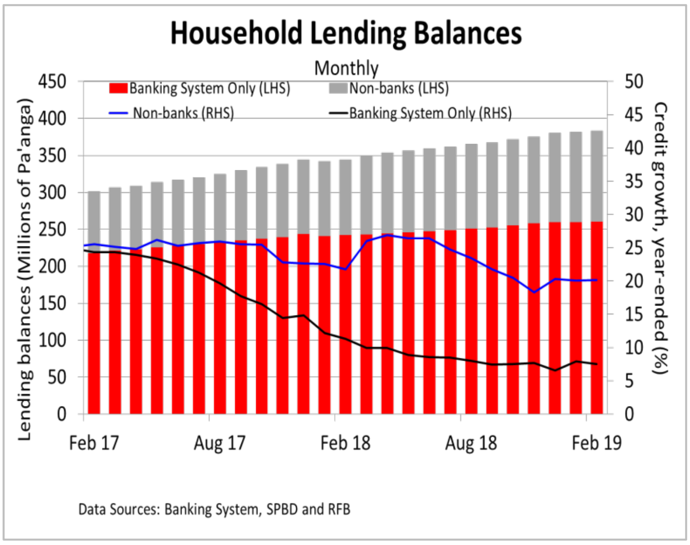
Household lending

Household loans rose by 0.2% ($0.6 million) and 7.5% ($18.2 million) respectively over the month and year to February 2019. The increase in housing and vehicle loans drove the monthly rise while housing and other personal loans led the annual growth.

Other lending

Banks' other lending turn around in February 2019, due mainly to higher lending to the non-profit institutions' sector and other depository institutions.



Non-performing loans

Table 1: Lending Balances (including new commitments)

	Level as at			Change over the last:		Shares of totals
	Feb 19	Jan 19	Feb 18	1 month	1 year	
	TOPm	TOPm	TOPm	%	%	%
Lending, banks	483.7	482.8	439.5	0.2	10.1	100.0
Household	260.8	260.2	242.6	0.2	7.5	53.9
Business*	222.6	222.3	197.3	0.1	12.8	46.0
Other	0.3	0.3	0.9	10.0	-62.7	0.1
Lending, banks and other	654.8	653.1	592.0	0.3	10.6	100.0
Household	382.6	381.2	343.9	0.4	11.2	58.4
Business	271.8	271.6	248.4	0.1	9.4	41.5
Other	0.3	0.3	0.9	10.0	-62.7	0.1
New comm'ts, banks	13.9	13.2	8.8	4.8	57.8	N/A
Undrawn comm'ts, banks	0.0	19.7	16.9	-100.0	-100.0	N/A
Implied repay'ts, banks	0.0	44.2	6.8	-100.0	-100.0	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

The non-performing loans improved over February 2019, due mainly to improvements in non-performing loans of the transport sectors, professional & other services sectors, the distribution sectors and also the Government Development Loans issued to the fisheries, agricultural, and distribution sectors. As a result, the share of non-performing loans in total loans declined from 3.8% last month and 3.9% February last year to 3.6% this month.

Deposits

The banks' total deposits over the month of February 2019 fell by 1.4% ($9.1 million) to $622.4 million, underpinned by lower time and demand deposits outweighing the rise in saving deposits. The redeeming of matured investments by pension funds and churches largely drove the decline in time deposits whereas lower government deposits led to a fall in demand deposits. On the other hand, the continuous savings made by individuals gives rise to the total saving deposits and coincided with the increased savings interest rates.

Table 2: Deposit Balances

	Monthly				Annual		
	Feb-19	**Jan-19**	Change	**%**	**Feb-18**	Change	**% Growth**
Total Deposits ($ in million)	622.4	631.5	-9.1	-1.4	571.4	51.1	8.9
Demand Deposits	280.8	285.8	-5.0	-1.8	242.8	38.0	15.6
Saving Deposits	100.4	98.1	2.3	2.3	83.8	16.6	19.8
Time Deposits	241.3	247.5	-6.3	-2.5	244.7	-3.5	-1.4

Sources: Banking Systems; NRBT

Annually, the banks' total deposit increased as a result of higher demand and saving deposits. This outweighed the decline in time deposits. The increased demand deposits were mainly contributed by increased deposits from public enterprises and private sectors while most of the saving deposits were again made by individuals. Lower time deposits were due mainly to decline in public enterprises'

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time deposits in which most of these may have converted into and supported the increased demand deposits. The rise in saving deposits was in line with the increased interest rates and the high remittances over the year while the lower time deposits coincided with the decreased time deposit rates.

Interest rate spread

The weighted average interest rate spread widened in February 2019 to 6.39%, as a result of a higher increase in weighted average lending rates more than the weighted average deposit rates. The higher weighted average lending rate was mostly for the public enterprises, fisheries, construction and manufacturing sectors as well as household loans for vehicles and housing. Similarly, the increase in weighted average deposit rates was a result of an increase in saving rates followed by the rise in both demand and time deposit rates over the month.

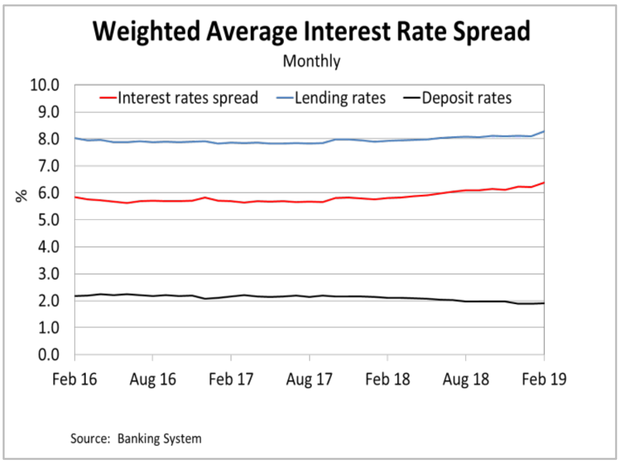

Table 3: Interest Rates

	Weighted average of all banks					
	Level as at			Change over the last^		
	Feb-19	Jan-19	Feb-18	1 month	1 year	Share of loans/deposits
	%	%	%	bps	bps	%
Interest Rate Spread	6.39	6.21	5.82	17.48	56.96	
Deposits all	1.90	1.88	2.11	2.01	-20.43	100
Demand	0.32	0.31	0.39	1.88	-6.97	45
Savings	2.60	2.56	2.35	3.73	25.33	16
Term	3.41	3.40	3.54	1.06	-13.50	39
Loans all	8.29	8.09	7.92	19.49	36.53	100
Housing	8.24	8.21	8.10	2.73	14.17	42
Other personal	11.45	11.43	11.34	2.19	10.54	12
Business	7.83	7.80	7.43	2.79	39.86	29
Other	6.25	6.25	6.25	0.00	0.00	17

*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: Banking Systems; NRBT

The weighted average interest rate spread continued widening over the year, led by a decline in the weighted average deposit rates while the weighted average lending rates increased. The increase in the weighted average lending rates stemmed from higher interest rates offered to the public enterprises, agricultural, fisheries, and distribution sectors as well as households' housing and other personal loans. The decreased weighted average deposit rates on the other hand, was largely driven by lower time and demand deposit rates.

Both volumes also increased over the year despite the contradicting movements in interest rates indicating the high demand to access loans as well as the excess liquidity available in the banking system for further lending.

Broad money

Table 4: Consolidated Balance Sheet of Depository Corporations

	Level as at			Change over the last	
	Feb-19 $TOPm	Jan-19 $TOPm	Feb-18 $TOPm	1 month % growth	1 year % growth
Broad money liabilities	**589.0**	**598.3**	**558.2**	**-1.6**	**5.5**
Currency in circulation	60.5	63.1	65.8	-4.2	-8.1
Demand deposits	217.4	219.9	181.8	-1.1	19.6
Savings and term deposits*	311.1	315.2	310.5	-1.3	0.2
equals					
Net foreign assets	**492.6**	**502.2**	**468.1**	**-1.9**	**5.2**
plus					
Net domestic assets	**96.7**	**96.4**	**90.3**	**0.4**	**7.1**
Gross bank lending**	490.0	489.6	442.9	0.1	10.6
Public enterprises	58.3	60.8	52.9	-4.0	10.3
Private Sector	429.3	426.5	387.9	0.7	10.7
Other financial corporations	2.3	2.3	2.0	0.3	14.9
Other***	-393.3	-393.3	-352.5	0.0	11.6

* 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

In February 2019, broad money declined further by 1.6% ($9.3 million) to $589.0 million, underpinned by the decline in net foreign assets. This outweighed a slight increase in net domestic assets mainly on increase credit to private sectors. The payments of oil and other imports made during the month lowered the foreign reserves and resulted in the decline of net foreign assets. However, over the year, higher net foreign assets and net domestic assets increased the

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broad money by 5.5% ($30.8 million). The receipt of budget support, cyclone relief, project funds and more remittances increased the net foreign assets whereas higher credit to private sectors led the increase in net domestic assets.

Liquidity

Liquidity (reserve money)[1] in the banking system also fell over the month of February by 1.7% ($5.5 million) to $320.6 million led by a declined currency in circulation due to less demand by the public indicating winding down of economic activities after the Christmas and new year festivities. A slight decline in the commercial banks' exchange settlement accounts (ESA) also supported the trend and was due mainly to net purchases from the Reserve Bank outweighing the net deposits made to the Reserve Bank vault. These offset the slight increase in the banks' statutory required deposits over the month which was due to the increased deposits last month. The banks' total loans to deposit ratio increased to 76.0% from 74.8% last month but still remained below the minimum level of 80%, indicating excess liquidity in the banking system for further lending.

In year ended terms, the total liquidity in the banking system increased by 7.7% ($23.0 million) due to higher ESA balances and statutory required deposits mainly on higher deposits to the Reserve Bank vault from the commercial banks' and increased deposits. These coincided with the various events and economic activities that took place throughout the year.

Outlook

The banks' prospects for credit growth remains positive hence the Reserve Bank is forecasting a 13% credit growth for the current financial 2018/19, supported by improved economic conditions, recent business performances and confidence, and annual (one-off) events that are expected to take place throughout the current financial year. 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 the 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 is maintained and that no overheating will occur in the economy.

[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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