

Banking Sector Developments November 2019

Release date: 13 March 2020

	Nov-19	Oct-19	Sep-19	Aug-19
Deposit rate (%)*	1.950	1.933	1.944	1.924
Lending rate (%)*	8.015	7.970	7.999	8.035
Total Deposits (T\$m)	607.6	614.5	615.3	615.5
Total lending (T\$m)	504.3	496.9	493.9	496.5
New commitments (T\$m)	18.9	10.7	9.5	13.6
Broad Money (T\$m)	605.6	592.5	594.5	602.3

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

Strong growth in lending

Lending

In November 2019, the banks' total lending reached a new high level of \$504.3 million, corresponding to higher business and household loans. Over the month and year, lending increased by \$7.4 million (1.5%) and \$34.5 million (7.3%), respectively.

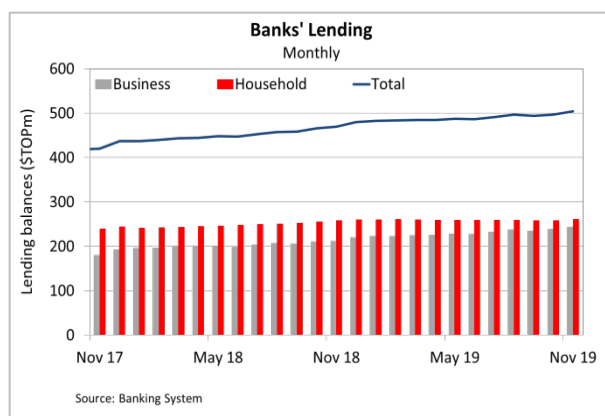
Loans extended to the non-bank financial institutions continued to rise over the month and year by \$3.1 million (1.6%) and \$32.2 million (19.2%), respectively. This increase reflects the accessibility of these loans to individuals in the informal sector and small medium enterprises. Government on-lent loans declined further by 0.5% over the month and 5.0% over the year due to loan settlements.

Business lending

Lending to businesses also reached a new high level of \$243.4 million, an increase of \$4.8 million (2.0%), and \$32.2 million (15.3%), respectively, over the month and year. More loans issued to the state-owned enterprises, professional & other services, tourism, and utilities sectors contributed to the monthly rise. Over the year, higher business

	Level as at		Change over the last:			Shares of totals %
	Nov 19	Oct 19	Nov 18	1 month	1 year	
	TOPm	TOPm	TOPm	%	%	
Lending, banks	504.3	496.9	469.9	1.5	7.3	100.0
Household	260.8	258.3	258.1	1.0	1.0	51.7
Business*	243.4	238.6	211.2	2.0	15.3	48.3
Other	0.2	0.0	0.6	315.0	-71.7	0.0
Lending, banks and other	703.8	693.2	637.1	1.5	10.5	100.0
Household	412.2	406.4	374.8	1.4	10.0	58.6
Business	291.4	286.8	261.7	1.6	11.3	41.4
Other	0.2	0.0	0.6	315.0	-71.7	0.0
New comm'ts, banks	18.9	10.7	22.4	77.1	-15.3	N/A
Undrawn comm'ts, banks	15.4	20.0	26.5	0.0	-41.8	N/A
Implied repay'ts, banks	16.1	16.5	13.5	0.0	19.6	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



lending was mainly for the state-owned enterprises, professional & other services, transport, and tourism sectors.

Household lending

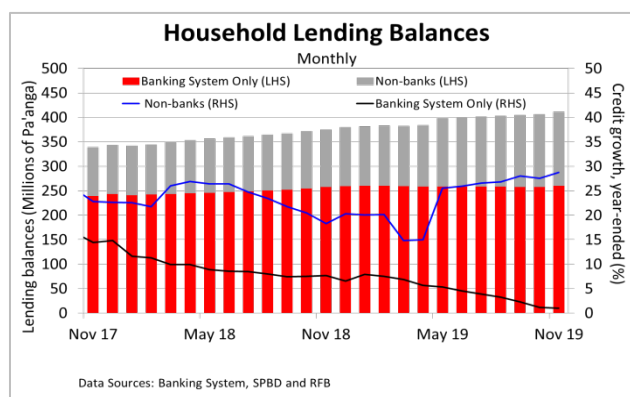
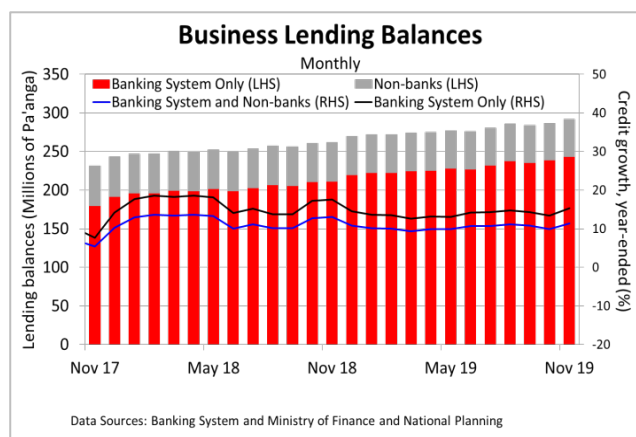
Lending to households rose over the month and year to November 2019, by \$2.5 million (1.0%) and \$2.7 million (1.0%), respectively, to \$260.8 million. An increase in other personal loans mostly drove the monthly rise. However, higher housing loans continued to drive annual growth in household lending.

Other lending

Banks' other lending increased over the month but decreased over the year to November 2019, due to movements in lending to non-profit institutions serving households.

Non-performing loans

The non-performing loan balances improved over the month of November 2019 mainly on lower non-performing loans from the professional & other services, wholesale & retail, and fisheries sectors. This led to a decrease in the share of non-performing loans to total loans from 3.2% last month and 3.6% last year to 2.8% in November 2019.



Deposits

Table 2: Deposit Balances

	Monthly				Annual		
	Nov-19	Oct-19	Change	% Growth	Nov-18	Change	% Growth
Total Deposits (\$ in million)	607.6	614.5	-6.9	-1.1	613.6	-6.1	-1.0
Demand Deposits	256.9	267.4	-10.5	-3.9	271.3	-14.4	-5.3
Saving Deposits	109.3	111.0	-1.8	-1.6	99.4	9.9	10.0
Time Deposits	241.4	236.0	5.3	2.3	243.0	-1.6	-0.7

Sources: Banking Systems; NRBT

The banks' total deposits decreased over the month and year to November 2019, by \$6.9 million (1.1%) and \$6.1 million (1.0%) respectively to \$607.6 million, due mainly to lower demand deposits. Lower government deposits mostly drove both the monthly and annual movements in demand deposits.

Saving deposits also decreased over the month yet increased over the year. The monthly decline was due mainly to lower deposits from individuals, churches, and schools. However, over the year, the deposits from individuals, churches, and schools increased, which resulted in the annual rise.

Time deposits increased over the month but fell annually. Churches, schools, and state-owned enterprises made more deposits over the month. Meanwhile, lower deposits from individuals led the annual decline, followed by state-owned enterprises, churches, and schools.

Interest rate spread

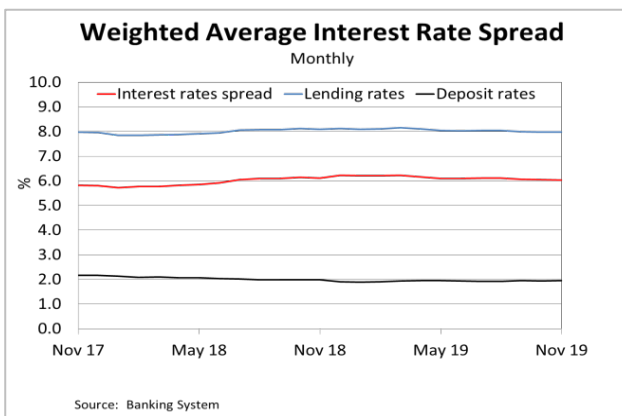
The weighted average interest rate spread widened over the month however narrowed over the year to November 2019, by 2.7 basis points and 5.0 basis points respectively to 6.06%. Over the month, the weighted average lending rates rose more than the increase in deposit rates. The higher lending rates over the month were driven mainly by higher lending rates offered to businesses such as agriculture, professional & other services, and utility sectors as well as household housing loans. Similarly, the increase in deposit rates over the month was underpinned as all deposit rates decreased. Annually, both rates fell with the weighted average lending rates declining the most and offsetting the lower weighted average deposit rates. The declining weighted average lending rates resulted mostly from lower household lending rates, mainly for other personal loans followed by lower vehicle and housing lending rates. This offsets the slight increase in business lending rates, which were mostly for the utilities, agricultural, and distribution sectors. The decrease in deposit rates over the year was led by lower time and demand deposit rates outweighing the increase in saving deposit rates.

Broad money

The higher net credit to government offset the decline in net foreign assets, leading to an increase in the net domestic assets as well as broad money over the month, by \$13.1 million (2.2%) to \$605.6 million. Similarly, over the year, broad money increased by \$13.3 million (2.2%) as a result of higher net foreign assets from the receipts of budgetary support, grants and project funds from donor partners. This was also supported by the minimal rise in net domestic assets, mainly on higher credit to private sectors.

Liquidity

Liquidity (reserve money)¹ in the banking system declined over the month and year to November 2019 by \$8.2 million (2.7%) and \$16.1 million (5.1%), respectively, to \$301.2 million. The decline in Exchange Settlement Account (ESA) balances was the main driver of the fall in liquidity. Higher government payments led to the monthly decline in ESA. In contrast, the annual ESA decrease was mostly due to loan repayments, oil, and other



mainly by the rise in the volume of time deposits

	Weighted average of all banks					
	Level as at			Change over the last ^A		
	Nov-19	Oct-19	Nov-18	1 month	1 year	Share of
	%	%	%	bps	bps	loans/deposits
Interest Rate Spread	6.06	6.04	6.11	2.70	-4.98	
Deposits all	1.95	1.93	1.98	1.75	-2.90	100
Demand	0.29	0.31	0.30	-1.93	-0.82	42
Savings	2.58	2.66	2.52	-7.25	6.98	19
Term	3.39	3.40	3.60	-0.29	-20.85	39
Loans all	8.02	7.97	8.09	4.45	-7.88	100
Housing	8.19	8.01	8.20	17.66	-1.10	38
Other personal	10.31	11.39	11.42	-108.41	-110.93	15
Business	7.81	7.77	7.79	3.75	2.02	29
Other	13.74	9.65	6.25	408.71	748.71	29

^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

	Level as at			Change over the last	
	Nov-19	Oct-19	Nov-18	1 month	1 year
	\$TOPm	\$TOPm	\$TOPm	% growth	% growth
Broad money liabilities	605.6	592.5	592.3	2.2	2.2
Currency in circulation	64.3	60.1	66.4	7.0	-3.1
Demand deposits	218.8	214.0	211.5	2.3	3.4
Savings and term deposits*	322.4	318.4	314.4	1.3	2.6
<i>equals</i>					
Net foreign assets	502.8	503.9	489.7	-0.2	2.7
<i>plus</i>					
Net domestic assets	103.4	91.3	103.1	13.2	0.4
Gross bank lending**	505.1	497.6	475.6	1.5	6.2
Public enterprises	67.2	63.6	56.1	5.7	19.8
Private Sector	432.5	429.5	416.9	0.7	3.7
Other financial corporations	5.4	4.4	2.6	22.2	110.5
Other***	-401.7	-406.2	-372.5	-1.1	7.8

* 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.

import payments. Both currency in circulation and Statutory Required Deposits fell and supported the monthly decline. However, over the year, the Statutory Required Deposits fell again and supported the annual reduction while currency in circulation increased. The banks' total loans to deposit ratio increased over the month from 79.1% to 81.2%, which is above the Reserve Bank minimum ratio of 80%, reflecting higher loans whilst deposits decreased.

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.