

Banking Sector Developments September 2019

Release date: 13 March 2020

	Sep-19	Aug-19	Jul-19	Jun-19
Deposit rate (%)*	1.944	1.924	1.925	1.939
Lending rate (%)*	7.999	8.036	8.033	8.029
Total Deposits (T\$m)	615.3	615.5	613.2	611.0
Total lending (T\$m)	493.9	496.5	490.8	485.9
New commitments (T\$m)	9.5	13.6	13.8	10.3
Broad Money (T\$m)	594.5	600.5	593.9	600.1

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

Credit growth slows down

Lending

In September 2019, the banks' total lending slowed by \$2.6 million (0.5%) over the month, however, grew over the year by \$34.9 million (7.6%) to \$493.9 million. This was attributed mainly to slow growth in both businesses and household loans over the month while increasing over the year.

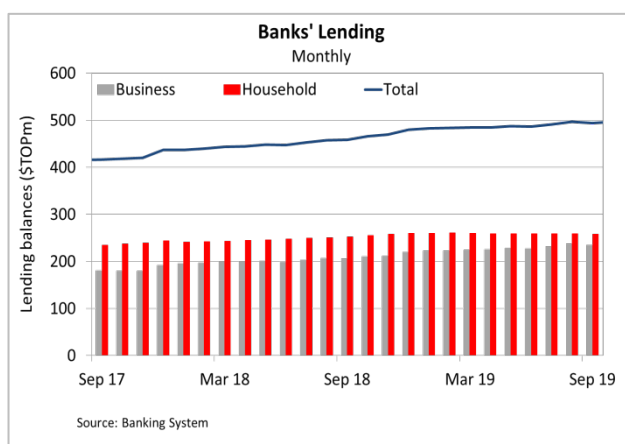
The non-bank financial institutions loans also increased over the month and year by \$2.3 million (1.2%) and \$30.3 million (18.2%), respectively, reflecting the accessibility of these loans to individuals in the informal sector and small, medium enterprises. Government on-lent loans remained unchanged over the month. However, it decreased over the year by 3.5%, mainly on loan repayments made.

Business lending

The banks' total loans to businesses decreased over the month by \$1.9 million (0.8%) but grew over the year by \$29.5 million (14.3%). These movements led the business lending balance to \$237.1 million as of September 2019. The monthly decline resulted from lower lending to state-owned enterprises, wholesale & retail, manufacturing, and construction sectors. Over the year, lending to businesses such as state-owned enterprises, professional & other services, transport, tourism, and agricultural sectors increased.

	Level as at		Change over the last:			Shares of totals %
			Sep 18	1 month	1 year	
	Sep 19	Aug 19	TOPm	%	%	
Lending, banks	493.9	496.5	459.0	-0.5	7.6	100.0
Household	258.5	259.2	252.6	-0.3	2.3	52.3
Business*	235.2	237.1	205.7	-0.8	14.3	47.6
Other	0.3	0.2	0.7	5.9	-64.5	0.1
Lending, banks and other	689.1	689.4	623.9	0.0	10.4	100.0
Household	404.9	403.3	367.0	0.4	10.3	58.8
Business	284.0	285.9	256.2	-0.7	10.8	41.2
Other	0.3	0.2	0.7	5.9	-64.5	0.1
New comm'ts, banks	9.5	13.6	11.1	-30.0	-14.5	N/A
Undrawn comm'ts, banks	28.9	16.2	28.5	77.8	1.3	N/A
Implied repay'ts, banks	-0.2	7.4	9.5	-102.4	-101.9	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

Lending to households declined over September 2019 by 0.3% (\$0.7 million), however, increased over the year by 2.3% (\$5.9 million), resulting in a total balance of \$258.5 million. The monthly decrease attributes to lower other personal loans. At the same time, the annual rise was a result of an increase in housing loans.

Other lending

Banks' other lending increased over the month by 5.9% (\$0.01 million), however, declined over the year by 64.5% (\$0.5 million), due to lower loans offered to non-profit institutions serving households.

Non-performing loans

In September 2019, the balances of non-performing loans rose mostly on non-performing loans from the fisheries, agricultural, and education sectors. Therefore, the share of non-performing loans to total loans increased from 3.0% last month to 3.2% this month but declined from 3.8% last year.

Deposits

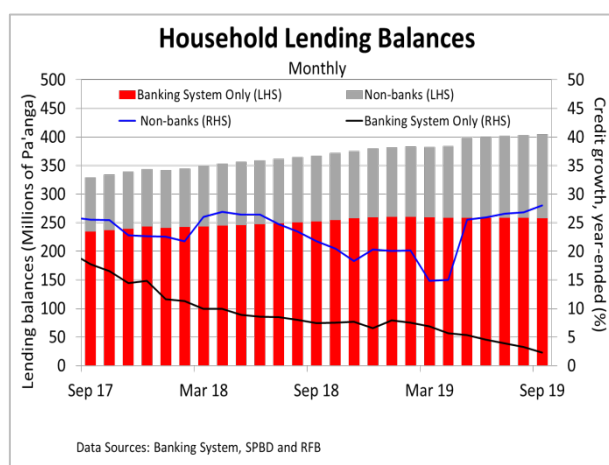
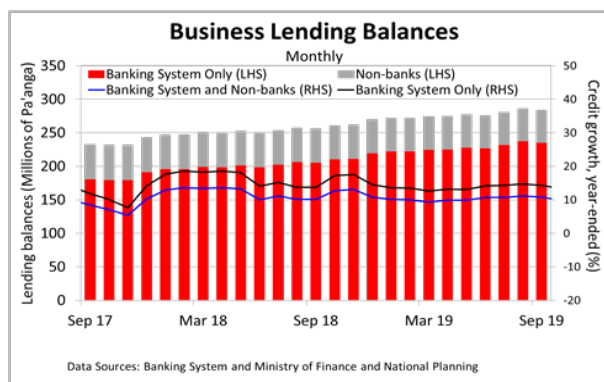


Table 2: Deposit Balances

	Monthly				Annual		
	Sep-19	Aug-19	Change	% Growth	Sep-18	Change	% Growth
Total Deposits (\$ in million)	615.3	615.5	-0.2	-0.03	615.3	0.02	0.003
Demand Deposits	270.3	262.3	8.0	3.1	267.5	2.8	1.0
Saving Deposits	109.6	117.4	-7.9	-6.7	101.0	8.6	8.5
Time Deposits	235.4	235.7	-0.3	-0.1	246.8	-11.4	-4.6

Sources: Banking Systems; NRBT

The banks' total deposits slightly decreased over the month of September 2019, by \$0.2 million (0.03%), to \$615.3 million. This was attributed mainly to lower saving deposits as a result of lower deposits from state-owned enterprises. Additionally, the total time deposits fell, mainly due to decreased deposits from churches, schools, and insurance companies.

The banks' total deposits remained relatively at the same level over the year, although its composition has changed. Both savings and demand deposits increased and was partially offset by the decline in time deposits. Individuals, churches, and schools mainly drove the increase in savings deposits. In contrast, higher demand deposits were due mainly to the rise in private businesses and retirement funds deposits. Despite these rises, the total time deposits decreased as a result of lower deposits from individuals, churches, and schools, again reflecting the conversion of these time deposits into demand and saving deposits.

Interest rate spread

Over the month and year to September 2019, the weighted average interest rate spread narrowed by 5.7 basis points and 3.6 basis points, respectively, to 6.06%. The monthly decline was due mainly to a decrease in weighted average lending rates, coupled with an increase in weighted average deposit rates. Lower lending rates were mostly for businesses within the fisheries, tourism, and construction sectors, as well as household housing and other personal loans. On the other hand, higher deposits rates stemmed mainly from an increase in demand and saving deposit rates, outweighing the decline in time deposit rates. Over the year, the decline in the weighted average lending rates was higher than the decrease in the weighted average deposit rates, resulting in lower weighted average interest rates spread. Lower lending rates was mainly for businesses such as tourism, agriculture, and transport sectors, supported by the decreasing housing loan rates. The lower weighted average deposit rates were due mainly to lower time deposit rates outweighing the increases in both demand and saving deposit rates.

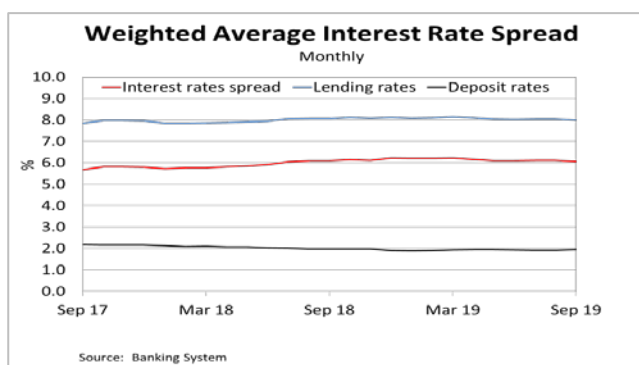


Table 3: Interest Rates

	Weighted average of all banks					
	Level as at			Change over the last ^A		
	Sep-19 %	Aug-19 %	Sep-18 %	1 month bps	1 year bps	Share of loans/deposits %
Interest Rate Spread	6.06	6.11	6.09	-5.66	-3.61	
Deposits all	1.94	1.92	1.98	1.96	-3.60	100
Demand	0.37	0.26	0.27	11.12	10.31	43
Savings	2.66	2.60	2.45	5.19	20.31	19
Term	3.39	3.40	3.63	-0.72	-23.29	38
Loans all	8.00	8.04	8.07	-3.70	-7.21	100
Housing	8.15	8.20	8.22	-4.74	-6.80	42
Other personal	11.43	11.43	10.98	-0.53	44.32	11
Business	7.63	7.69	7.77	-5.78	-13.85	29
Other	7.27	6.53	6.25	74.05	102.14	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; NRB

Broad money

Broad money fell by \$7.7 million (1.3%), mainly on lower net foreign assets coupled with a decrease in net domestic assets. The decline in other foreign assets and foreign reserves lowered the net foreign assets. At the same time, higher capital accounts resulted in lower net domestic assets. Over the year, broad money declined by \$0.7 million (0.1%) due to lower net domestic assets underpinned by higher capital accounts, thus offsetting the growing net foreign assets.

Table 4: Consolidated Balance Sheet of Depository Corporations

	Level as at			Change over the last	
	Sep-19 \$TOPm	Aug-19 \$TOPm	Sep-18 \$TOPm	1 month % growth	1 year % growth
Broad money liabilities	594.5	602.3	595.2	-1.3	-0.1
Currency in circulation	63.2	68.8	66.1	-8.2	-4.4
Demand deposits	215.5	209.0	210.1	3.1	2.6
Savings and term deposits*	315.8	324.4	319.0	-2.7	-1.0
<i>equals</i>					
Net foreign assets	504.5	510.9	470.1	-1.3	7.3
<i>plus</i>					
Net domestic assets	90.7	91.7	125.5	-1.2	-27.7
Gross bank lending**	494.6	498.1	463.5	-0.7	6.7
Public enterprises	64.0	65.0	55.0	-1.5	16.3
Private Sector	426.8	429.8	405.7	-0.7	5.2
Other financial corporations	3.9	3.3	2.7	15.2	40.6
Other***	-404.0	-406.3	-338.0	-0.6	19.5

* 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 NRB, and their net claims on the central government.
 Sources: Banking system; NRB

Liquidity

Higher government deposits expanded the liquidity (reserve money)¹ in the banking system over the month of September by \$6.1 million (1.9%) to \$317.4 million. Additionally, the statutory required deposits slightly increased, supporting this monthly rise. These movements had offset the decline in currency in circulation. The banks' total loans to deposit ratio decreased from 79.0% to 78.6% over the month, reflecting a more significant decline in loans than that of deposits.

Over the year, liquidity in the banking system fell by \$6.2 million (1.9%). This stemmed mostly from higher payments by the commercial banks to cater for various festivities during the year. These

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

festivities included church conferences, family & school reunions, and the Christmas & New Year celebrations. The statutory required deposits also decreased and supported the annual decline while currency in circulation increased over the year.

Outlook

Credit growth is expected to continue in the near term but at a slower pace. Competition among banks for 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, for any signs of overheating and to ensure financial and macroeconomic stability is maintained.