Banking Sector Developments

August 2020

Release date: 9 December 2020

	Aug-20	Jul-20	Jun-20	May-20
Deposit rate (%)*	2.130	2.133	2.139	2.119
Lending rate (%)*	7.783	7.793	7.811	7.814
Total Deposits *(TSm)*	632.5	625.1	619.2	602.0
Total lending *(TSm)*	487.6	490.4	492.9	495.4
New commitments *(TSm)*	6.3	8.1	6.1	8.5
Broad Money *(TSm)*	624.7	616.9	607.1	592.2

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

The rise in total deposits contributed to the high level of broad money

Broad money

Both net foreign and net domestic assets rose in August 2020 and contributed to the $7.8 million increase in broad money. Net foreign assets rose in line with the rise in demand deposits from matured investments abroad. Net domestic assets rose due to higher government drawdown of deposits from the Reserve Bank to cater for government operations, ongoing reconstruction projects, and matured bonds during the month.

Table 4: Consolidated Balance Sheet of Depository Corporations

	Level as at			Change over the last	
	Aug-20 $TOPm	Jul-20 $TOPm	Aug-19 $TOPm	1 month % growth	1 year % growth
Broad money liabilities	**624.7**	**616.9**	**600.5**	**1.3**	**4.0**
Currency in circulation	74.5	76.1	67.1	-2.2	11.0
Demand deposits	214.7	206.3	209.0	4.1	2.8
Savings and term deposits*	335.5	334.5	324.4	0.3	3.4
equals					
Net foreign assets	**582.4**	**579.0**	**510.9**	**0.6**	**14.0**
plus					
Net domestic assets	**43.0**	**38.5**	**90.0**	**11.5**	**-52.3**
Gross bank lending**	487.2	489.9	497.8	-0.5	-2.1
Public enterprises	59.2	59.3	65.0	-0.2	-8.8
Private Sector	425.6	428.1	429.5	-0.6	-0.9
Other financial corporations	2.3	2.4	3.3	-3.4	-30.3
Other***	-444.2	-451.3	-407.8	-1.6	8.9

* 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

Annually, broad money expanded by $24.2 million (4.0%) mainly attributed to the higher foreign reserves on the receipt of official funds associated with COVID-19 preparations, TC Harold recovery, and budget support. The higher level of foreign reserves resulted in the increase in net foreign assets which rose by $71.5 million (14.0%) and outweighed a $47.1 million (52.3%) decline in net domestic assets. The higher official funds contributed to higher government deposits, thus lowering the net credit to government.

Liquidity

Liquidity in the banking system rose by $4.1 million (2.8%) in August 2020 attributing mainly to a $2.3 million rise in the commercial banks' ESA (Exchange Settlement Account), coinciding with the rise in the banks' total deposits. Currency in circulation and required reserves also increased over the month and supported the higher total reserve money. In the year to August 2020, total liquidity rose by $25.0 million (8.0%) as a result of the increase in currency in circulation by $13.5 million (15.9%), followed by the rise in ESA and SRD by $10.2 million (6.0%) and $1.3 million (2.2%) respectively.

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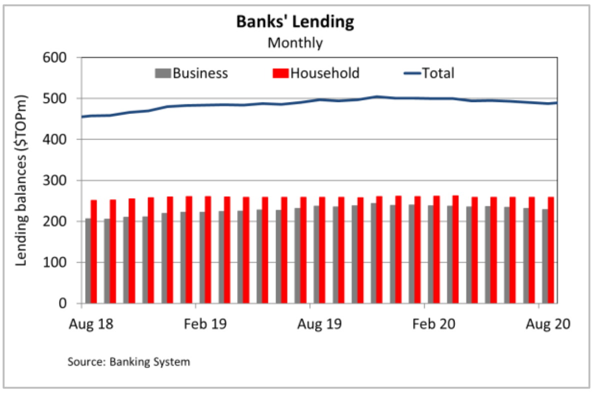
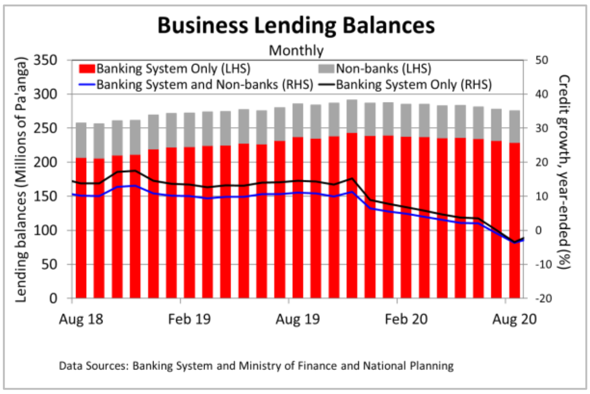
Lending

Lending activities continue to fall in August 2020 due to slower growth in new loan commitments and the usual outstanding loan balance run-offs. Total banks' lending fell over the month and year by $2.7 million (0.6%) and $8.9 million (1.8%) respectively to a total $487.6 million. The uncertainties of COVID-19, weakened investment appetite, and risk aversion of banks all contribute to the decline in both businesses and household loans.



Business lending

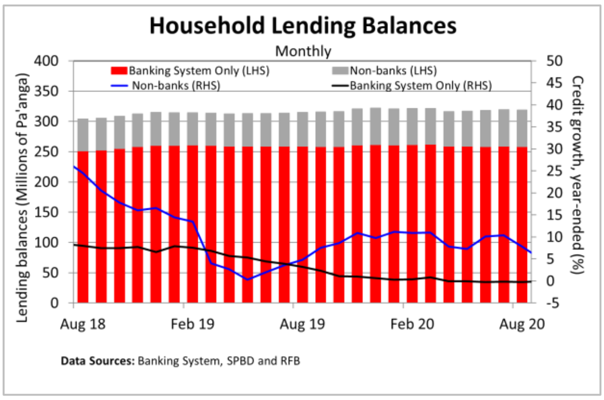
Total loans to businesses fell both over the month and year to August 2020 by $2.5 million (1.1%) and $8.1 million (3.4%) respectively to a total $229.0 million. Lending to businesses in the professional & other services, wholesale & retail, transport, and construction sectors declined over the month. This owes to lower new commitment loans to businesses, and the normal run-offs in outstanding loan balances at the end of each month.



Annually, lower business loans were mainly for the public enterprises, wholesale & retail, manufacturing, and transport sectors which outweighed a rise in lending to the professional & other services, tourism, agriculture, and construction sectors.

Household lending

Household loans slightly fell by $0.2 million (0.1%) in August 2020 due to declines in loans for housing and other personal loans. Lending to households was lower over the year by $0.5 million (0.2%) and offset the increase in housing loans depicting continuous demand for housing construction and renovation works by private households.



Non-bank financial institutions

Loans extended to the non-bank financial institutions declined in August 2020 by $0.3 million (0.5%) to a total of $60.2 million. Majority of these loans are to individuals in the informal sector and small-medium sized enterprises reflecting the easy accessibility of these loans.

Non-performing loans

Non-performing loans as a share of total loans fell from 4.3% in July 2020 to 4.2% in August 2020, however higher than the 3.0% in August 2019. Restructured loans mostly contributed to the decline in non-performing loans coupled with the lower total loans over the month. Higher non-performing loans over the year stem from agricultural loans underpinned by an unsuccessful squash export season, affecting the loan repayments.

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Table 1: Lending Balances (including new commitments)

	Level as at:			Change over the last:		*Shares of totals*
	Aug 20 TOPm	**Jul 20 TOPm**	**Aug 19 TOPm**	**1 month %**	**1 year %**	*%*
Lending, banks	487.6	490.4	496.5	-0.6	-1.8	100.0
Household	258.7	258.9	259.2	-0.1	-0.2	53.0
Business*	229.0	231.5	237.1	-1.1	-3.4	47.0
Other	0.0	0.0	0.2	0.0	-100.0	0.0
Lending, banks and other	594.4	597.4	601.2	-0.5	-1.1	100.0
Household**	318.9	319.4	315.0	-0.2	1.2	53.7
Business	275.5	278.0	285.9	-0.9	-3.6	46.3
Other	0.0	0.0	0.2	0.0	-100.0	0.0
New commitments, banks	6.3	8.1	13.6	-22.2	-53.6	N/A
Undrawn commitments, banks	11.4	11.2	16.2	1.2	-30.0	N/A
Implied repayments, banks	8.9	10.6	7.4	-16.2	21.2	N/A

* Method for calculating these series was updated in August 2014, resulting in revisions to the full history of data
* *Method for calculating these series was updated in January 2020, resulting in revisions to the full history of data
Sources: SPBD; RFB; MOFNP; Banking system

Deposits

During August 2020, the banks' total deposits rose by $7.4 million (1.2%) to a total of $632.5 million. Demand deposits rose mainly from public enterprises' matured time investments, which consequently contributed to the lower time deposits. The increase in savings deposit was attributed to non-profit organisation deposits. In year ended terms, total deposits increased by $17.0 million (2.8%) driven mainly by the higher time deposits of $27.5 million (11.7%) from retirement funds, central government, and the private sector. This was partially offset by a decline in demand and savings deposits. These drawdowns are due to repatriation of funds offshore, and other commitments largely associated with the impact of COVID-19.

Hence, the banks' total loans to deposit ratio declined from 79.0% in August 2019, and 76.8% in July 2020 to 75.5% in August 2020. These are the results of the rise in total deposits whilst total loans declined. The loans to deposit is below the 80% minimum threshold, indicating that excess liquidity remains in the banking system available for further lending.

Table 2: Deposit Balances

	Monthly				Annual		
	Aug-20	**Jul-20**	Change	**% Growth**	**Aug-19**	Change	**% Growth**
Total Deposits ($ in million)	632.5	625.1	7.4	1.2	615.5	17.0	2.8
Demand Deposits	251.9	245.3	6.6	2.7	262.3	-10.4	-4.0
Saving Deposits	117.3	114.5	2.9	2.5	117.4	-0.1	-0.1
Time Deposits	263.3	265.4	-2.1	-0.8	235.7	27.5	11.7

Sources: Banking Systems; NRBT

Interest rate spread

The continued monthly decline in total loans contributes to the narrowing of the weighted average lending rates each month. In August 2020, the weighted average lending rates declined mainly for businesses in the transport, professional & other services, and agricultural sectors. This was partially due to banks offering lower interest rates to sectors that are affected by COVID-19. Weighted average deposit rates slightly fell due to a decline in rates offered for time and saving deposits. As a result, the weighted average interest rate spread narrowed again in August 2020 by 0.72 basis points.

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A similar trend was reflected in the annual movement to August 2020 where the weighted average interest rates declined by 45.83 basis points. The weighted average lending rates declined mainly on household loans as well as business loans for the mining & quarrying, tourism, fisheries, professional & other services, and transport sectors. Weighted average deposit rates, however, rose on higher deposit rates for demand, and term deposit rates. This also coincides with the increase in the volume of time deposits.

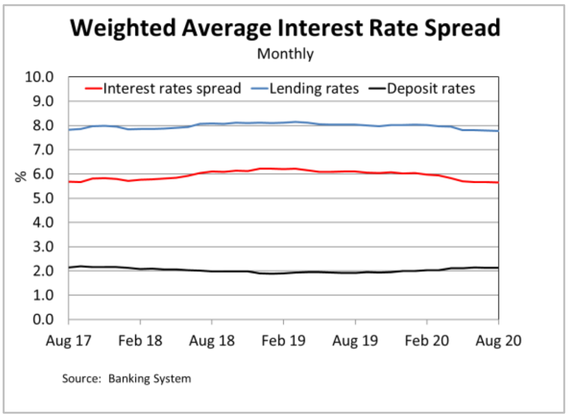

Table 3: Interest Rates

Weighted average of all banks						
	Level as at			Change over the last^		Share of loans/deposits
	Aug-20 %	Jul-20 %	Aug-19 %	1 month bps	1 year bps	%
Interest Rate Spread	5.653	5.660	6.111	-0.72	-45.83	
Deposits all	2.13	2.13	1.92	-0.30	20.57	100
Demand	0.38	0.37	0.26	1.22	12.43	37
Savings	2.60	2.60	2.60	0.57	-0.03	20
Term	3.44	3.45	3.40	-0.88	4.04	43
Loans all	7.78	7.79	8.04	-1.02	-25.27	100
Housing	8.04	8.02	8.20	1.18	-16.06	43
Other personal	11.35	11.34	11.43	0.61	-8.17	11
Business	7.50	7.56	7.69	-5.13	-18.67	29
Other	0.00	0.00	6.53	0.00	-653.09	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

Outlook

The NRBT continues to expect credit growth to remain subdued and to decline further in the near term underpinned by the uncertainties of the COVID-19 pandemic, weak investment appetite and aggregate demand. Nonetheless, the current accommodative monetary policy stance continues to encourage banks to utilize the excess liquidity in the banking system for further lending to support economic recovery and growth.

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

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