Banking Sector Developments

November 2020

Release date: 23 February 2021

	Nov-20	Oct-20	Sep-20	Aug-20
Deposit rate (%)*	2.011	2.083	2.095	2.130
Lending rate (%)*	7.671	7.701	7.723	7.783
Total Deposits *(TSm)*	686.7	655.8	650.5	632.5
Total lending *(TSm)*	496.5	494.0	491.1	487.6
New commitments *(TSm)*	10.2	11.0	12.0	6.3
Broad Money *(TSm)*	681.4	655.2	640.8	624.7

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

Broad Money expands on higher domestic assets

Broad money

Over the month of November 2020, the increase in net domestic assets and higher net foreign assets pushed broad money higher by $26.2 million (4.0%) to a new high level of $681.4 million. The higher net credit to the private sector and lower government deposits drove net domestic assets higher while increasing foreign reserves resulted in higher net foreign assets.

Table 1: Consolidated Balance Sheet of Depository Corporations

	Level as at			Change over the last	
	Nov-20 $TOPm	Oct-20 $TOPm	Nov-19 $TOPm	1 month % growth	1 year % growth
Broad money liabilities	**681.4**	**655.2**	**605.6**	**4.0**	**12.5**
Currency in circulation	82.3	82.7	64.3	-0.5	27.9
Demand deposits	254.4	233.4	218.8	9.0	16.3
Savings and term deposits*	344.8	339.2	322.4	1.6	6.9
equals					
Net foreign assets	**622.2**	**610.6**	**502.8**	**1.9**	**23.7**
plus					
Net domestic assets	**60.6**	**45.7**	**103.4**	**32.6**	**-41.4**
Gross bank lending**	496.4	493.7	505.1	0.5	-1.7
Public enterprises	58.2	58.9	67.2	-1.1	-13.4
Private Sector	436.2	432.6	435.3	0.8	0.2
Other financial corporations	2.1	2.2	2.6	-6.9	-21.1
Other***	-435.8	-448.0	-401.7	-2.7	8.5

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

Annually, broad money rose by $75.8 million (12.5%), due to the increase in net foreign assets outweighing the decline in net domestic assets. The receipts of official funds for COVID-19 preparations, TC Harold recovery, and budget support over the year, pushed foreign reserves higher. The lower net domestic assets were due mainly to higher government deposits from official fund receipts.

Liquidity

Over the month and year to November 2020, all components of liquidity increased expanding total liquidity in the banking system by $27.4 million (7.6%) and $88.1 million (29.3%) respectively to a total of $389.3 million. The higher net sales of foreign exchange from the commercial banks to the Reserve Bank contributed to growth in the commercial banks' ESA (Exchange Settlement Account)

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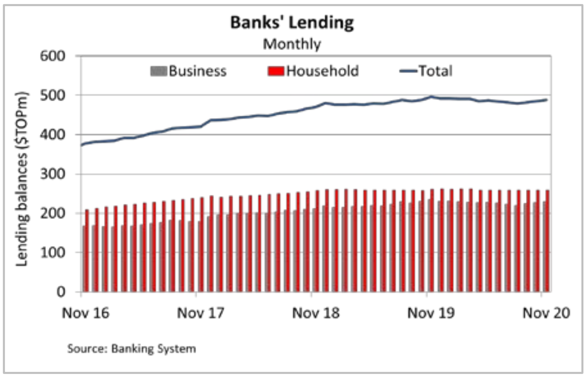
over the month and year by $21.3 million (10.5%), and $62.3 million (38.5%) respectively. Currency in circulation also rose by $5.9 million (5.9%) over the month and $22.8 million (27.8%) annually reflecting higher demand for banknotes and coins. Furthermore, required reserves rose by $0.2 million (0.4%) over the month and $3.1 million (5.4%) over the year, in line with higher deposits.

Lending

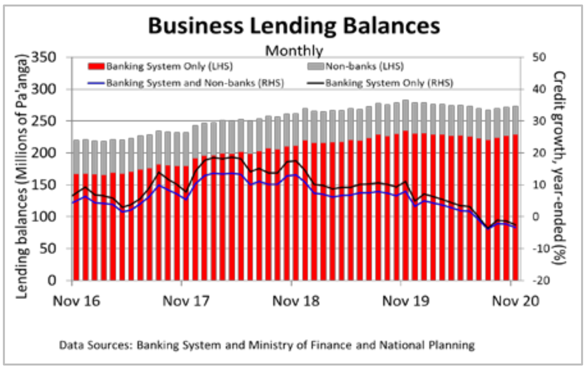
In November 2020, the banks' total lending rose by $2.5 million (0.5%) but declined annually by $7.8 million (1.5%) to a total of $496.5 million. Both businesses and household loans increased in the month but declined over the year. The annual decline in lending reflects the high uncertainties of COVID-19 impacting both the banks' willingness to lend further and businesses and households' appetite to borrow.



Business lending

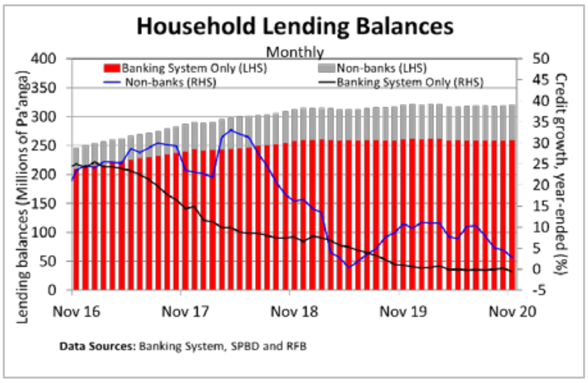
The banks' total business loans rose over the month by $2.1 million (0.9%), however, declined annually by $6.1 million (2.5%) to a total $237.3 million. Higher lending to businesses within the construction, trade, and transport sectors resulted in the monthly rise.

In contrast, lower loans offered to businesses in the manufacturing and trade sectors and public enterprises resulted in the annual decline.



Household lending

Lending to households increased by $0.4 million (0.2%) over the month of November 2020. It declined annually by $1.5 million (0.6%) taking the total lending to households to $259.3 million. Both trends reflected mainly the movements in households' other personal loans. Vehicle loans also increased and supported the monthly rise whilst housing loans declined and contributed to the annual decrease. Household indebtedness may also contribute to the slow growth in household lending.



Non-bank financial institutions

The total loans extended to the non-bank financial institutions continued rising over the month and year to November 2020, by $0.9 million (1.5%) and $1.7 million (2.7%), respectively, to $61.7 million. These loans are mostly offered to individuals, many of which are women in the informal sector and small-medium sized enterprises, indicating that these loans are more accessible.

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Non-performing loans

In November 2020, the non-performing loans rose to 3.8% from 3.6% last month and 2.8% last year. The monthly increase was due to more non-performing loans in the construction, professional & other services as well as households' other personal loans. This reflects the impact of COVID-19 on repayment of loans within these sectors. Similarly, households' housing, agriculture, and construction sectors drove the increase in non-performing loans in the year to November 2020. In the meantime, banks continue to extend their relief loan packages to those affected by COVID-19 and TC Harold.

Table 2: Lending Balances (including new commitments)

	Level as at:			Change over the last:		*Shares of totals*
	Nov 20 TOPm	**Oct 20 TOPm**	**Nov 19 TOPm**	**1 month %**	**1 year %**	*%*
Lending, banks	496.5	494.0	504.3	0.5	-1.5	100.0
Household	259.3	258.8	260.8	0.2	-0.6	53.1
Business*	237.3	235.2	243.4	0.9	-2.5	46.9
Other	0.0	0.0	0.2	0.0	0.0	0.0
Lending, banks and other	602.6	599.7	612.4	0.5	-1.6	100.0
Household**	321.0	319.6	320.8	0.4	0.0	54.0
Business	281.6	280.0	291.4	0.6	-3.4	46.0
Other	0.0	0.0	0.2	0.0	0.0	0.0
New commitments, banks	10.2	11.0	18.9	-7.8	-46.2	N/A
Undrawn commitments, banks	9.8	15.9	15.4	-38.3	-36.4	N/A
Implied repayments, banks	13.7	6.3	16.1	119.0	-14.7	N/A

* Method for calculating these series was updated in August 2014, resulting in revisions to the full history of data

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Sources: SPBD; RFB; MOFNP; Banking system

Deposits

The banks' total deposits hit a new high level of $686.7 million in November 2020, as a result of a $30.9 million (4.7%) rise over the month and $79.1 million (13.0%) increase over the year. Despite the lower deposit rates over the month, both demand and saving deposits increased and outweighed the decline in time deposits. Higher demand deposits attributed mainly to an increase in deposits from churches, public enterprises, and private businesses whilst deposits from public enterprises contributed the most to saving deposits. Annually, all three categories of deposits rose, in line with their increased deposit rates. The higher demand deposits of $41.5 million (16.2%) was mostly contributed by non-profit organisations (churches), public enterprises and government. Time deposits followed with an increase of $21.5 million (8.9%) due mainly to higher deposits from retirement funds and the central government. Furthermore, saving deposits grew by $16.2 million (14.8%) as individuals tend to save more.

Loan to deposit ratio declined further from 73.8% last month to 70.4% in November 2020, as the total deposits grew more than total loans. This also remained below the minimum level of 80%, despite the excess liquidity in the banking system.

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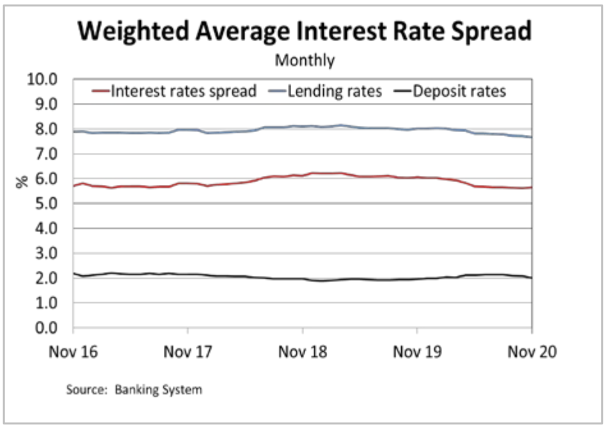
Table 3: Deposit Balances

	Monthly				Annual		
	Nov-20	**Oct-20**	Change	**% Growth**	**Nov-19**	Change	**% Growth**
Total Deposits ($ in million)	686.7	655.8	30.9	4.7	607.6	79.1	13.0
Demand Deposits	298.4	272.9	25.5	9.3	256.9	41.5	16.2
Saving Deposits	125.4	119.7	5.7	4.7	109.3	16.2	14.8
Time Deposits	262.8	263.1	-0.3	-0.1	241.4	21.5	8.9

Sources: Banking Systems; NRBT

Interest rate spread

The weighted average interest rate spread widened by 4.2 basis points in November 2020, after declining since February 2020. This was a result of lower weighted average deposit rates. Both demand and saving deposit rates declined and outweighed the rise in time deposit rates. Weighted average lending rates also declined, mainly from lower business loan rates offered to the construction, transport, agricultural sectors, and households' other personal loan rates. Lower construction loan rates coincided with the growth of construction loans over the month.



Over the year, the weighted average interest rate spread narrowed by 40.4 basis points to 5.7%. This resulted mainly from lower weighted average lending rates stemming from a decrease in lending rates offered primarily for households' housing loans and businesses in the mining & quarrying, construction, utilities, and agriculture sectors. Additionally, weighted average deposit rates increased attributing to rises in all the three deposit interest rates (term, demand, saving). The higher volume of deposits also coincided with the higher weighted average deposit rates.

Table 4: Interest Rates

Weighted average of all banks						
	Level as at			Change over the last^		
	Nov-20 %	**Oct-20** %	**Nov-19** %	1 month bps	1 year bps	Share of loans/deposits %
Interest Rate Spread	5.660	5.618	6.065	4.21	-40.44	
Deposits all	2.01	2.08	1.95	-7.20	6.07	100
Demand	0.33	0.38	0.29	-5.70	3.28	41
Savings	2.61	2.61	2.58	-0.45	2.16	20
Term	3.45	3.43	3.39	1.83	5.25	40
Loans all	7.67	7.70	8.02	-2.99	-34.37	100
Housing	8.06	8.06	8.19	0.01	-13.09	42
Other personal	11.34	11.34	10.31	-0.15	103.18	11
Business	7.08	7.19	7.81	-10.68	-73.06	30
Other	0.00	0.00	13.74	0.00	-1373.71	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

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Outlook

The NRBT continues to expect credit growth to remain subdued in the near term underpinned by the extreme uncertainties of the COVID-19 pandemic, weakening investment appetite, and softening aggregate demand. The NRBT supervision team continues to work closely with the financial institutions to ensure proper measures are in place for the emerging risks in the financial system. Nonetheless, the current accommodative monetary policy stance encourages banks to utilize excess liquidity in the banking system for further lending to support economic recovery and growth.

The Reserve Bank will continue to ensure financial and macroeconomic stability is maintained by closely monitoring all monetary indicators, such as credit growth, and broad money.

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