

# Banking Sector Developments December 2014

Release date: 30 March 2015

	Dec 14	Nov 14	Oct 14	Sep 14
Deposit rate*	2.23	2.31	2.32	2.27
Lending rate*	8.90	8.91	8.86	8.89
Total deposits (T\$m)	373.2	357.6	356.0	360.9
Total lending (T\$m)	392.3	392.8	382.6	376.9
New loan commitments (T\$m)	9.8	16.8	8.8	11.3

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

## Lending activities slowed over the month

### Lending

Total bank lending balances fell by 0.1% (T\$0.5million) in December, driven by a decline in lending to the Business and Other sectors. The decline in business lending together with a fall in weighted average business lending rates led to the slight decline in the weighted average lending rate to 8.90% over the month.

In year-ended terms, total bank lending balances rose by 7.5% as a result of more loans to the Household and Business sectors in line with lower lending rates. However, including loans extended by non-banks, the lending balance would have only increased by 5.6% over the year. This is due to an unwinding of government on-lent activities.

### *Business lending*

Bank lending to the business sector fell by 1.5% over the month, as a result of a decline in lending to the construction, agriculture and distribution sectors. This decline largely reflected a slowdown from November where businesses started their preparations for the Christmas festivities, as well as some loan repayments from agricultural export proceeds. In year-ended terms, business lending rose by 6.4% reflecting major loans extended to key public enterprises. However, including government on-lent loans, annual business lending fell by 1.7%, reflecting declines in government on-lent funding to public enterprises and private companies.

### *Household lending*

Bank lending to households rose by 1.3% over the month, owing mainly to an increase in other personal loans. This rise reflects the new student loan managed funds program and preparations for the Christmas festivities. Over the year, bank lending to households increased by 8.9%. This was driven by an increase in other personal loans and housing loans, coinciding with higher import payments for construction materials. Including loans extended by non-banks, year-ended growth in household lending would have increased by 14%, reflecting the active lending activities by the South Pacific Business Development.

### *Other lending*

Other loans fell over the month and the year, largely driven by a fall in lending to the non-profit institutional sector.

### **Deposits**

Total bank deposit balances rose by 4.3% over the month, driven by increases in the demand and term deposit balances. An increase in government deposits largely due to improved revenue collection and funding of government services, as well as improved business sale proceeds from the Christmas festivities contributed to the 10% growth in demand deposit balance, resulting in a rise in weighted demand deposit rate. Over the year, total bank deposit balances grew by 7.8% with demand deposits increasing the fastest. This increase in total deposits also coincides with the improvement in the government's net credit position which was largely due to a significant increase in its deposits with the banking system.

The weighted average deposit rates continued to fall by 8.2 basis points to 2.23% over December 2014. This fall was driven by declines in volume of interest bearing savings deposit and also weighted term deposit rate, outweighing an increase in the weighted demand deposit rate. However, in year-ended terms, the weighted average deposit rates increased by 29 basis points, driven by an increase in the volume of all interest bearings Deposits.

### **Interest rates spread**

Weighted average interest rate spread widened over the month from 6.60% in November to 6.68% in December 2014. This was due to deposit rates declining more than the decline in lending rates.

### **Broad money**

Broad Money rose by 2.6% to T\$387.3 million over the month of December. This was due to an increase in net foreign assets more than offsetting a fall in net domestic assets. The rise in net foreign assets reflect an increase in foreign reserves, whilst the decline in net domestic assets reflects a slowdown in lending. Alternatively, the rise in broad money can also be explained by the increase in currency in circulation and total demand deposits,

which rose by 8.2% and 5.2% respectively over the month. In year ended terms, broad money balance rose by 8.9%, driven mainly by a rise in foreign reserves.

## Outlook

Credit growth is supported by the continuous improvements in business confidence and lending conditions. Increased competition amongst banks and the ongoing lending activities from the Government's managed funds will continue to support the current low lending rates; however, banks have indicated significant declines are unlikely.

The NRBT is forecasting credit to grow by around 10% over this financial year. This is based on imminent drawdowns of some large loan commitments; the continued low interest rates; education loans; and the introduction of the government's new loan scheme targeting the manufacturing, construction, tourism, agricultural and fisheries sectors.

The NRBT will continue to promote prudent lending and closely monitor credit growth in light of the impact on the monetary policy targets and financial stability.

Table 1

Interest Rates								
Weighted average of all banks								
	Level as at				Dec 13 %	Change over the last:		Share of loans/deposits %
	Dec 14 %	Nov 14 %	Oct 14 %	Sep 14 %		1 month bps	1 year bps	
Deposits all	2.23	2.31	2.32	2.27	1.94	-8	29	100
Demand	0.60	0.58	0.60	0.58	0.47	2	12	42
Savings	2.41	2.41	2.43	2.42	2.11	0	30	15
Term	3.74	3.82	3.81	3.85	3.37	-8	37	43
Loans all	8.90	8.91	8.86	8.89	9.16	-0.4	-25	100
Housing	8.58	8.57	8.60	8.59	8.71	0.4	-13	35
Other personal	12.79	12.78	12.89	12.93	13.17	1	-37	19
Business*	7.85	7.94	7.82	7.90	8.48	-10	-63	26
Other	6.53	6.57	7.15	7.66	7.42	-4	-89	21

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

Sources: Banks; NRBT

Table 2

	Lending Balances							Shares of totals %
	Level as at					Change over the		
	Dec 14 TOPm	Nov 14 TOPm	Oct 14 TOPm	Sep 14 TOPm	Dec 13 TOPm	1 month %	1 year %	
Lending, banks	288.8	289.1	281.3	276.8	268.6	-0.1	7.5	100
Household	146.8	145.0	142.9	141.5	134.8	1.3	8.9	51
Business*	140.6	142.6	136.2	132.5	132.0	-1.5	6.4	49
Other	1.4	1.5	2.2	2.8	1.8	-2.0	-21.1	0
Lending, banks and other	392.3	392.8	382.6	376.9	371.5	-0.1	5.6	100
Household	198.8	197.2	192.6	190.1	174.3	0.8	14.0	51
Business	192.1	194.1	187.7	184.0	195.4	-1.1	-1.7	49
Other	1.4	1.5	2.2	2.8	1.8	-2.0	-21.1	0
New comm'ts, banks	9.8	16.8	8.8	11.3	6.6	-41.9	46.9	N/A
Undrawn comm'ts, banks	6.7	7.6	10.1	10.9	13.2	-11.8	-49.3	N/A
Implied repay'ts, banks	10.9	11.5	5.1	11.4	9.8	-5.5	11.4	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

Table 3

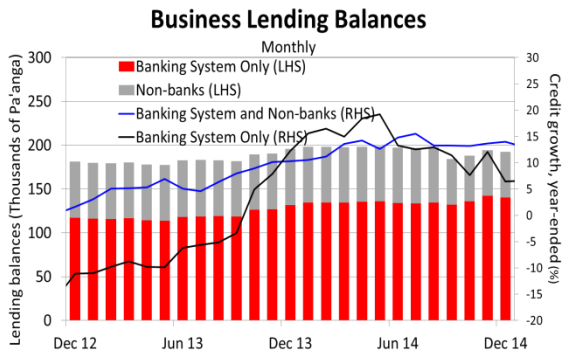
	Consolidated Balance Sheet of Depository Corporations						
	Level as at					Change over the last:	
	Dec-14 \$TOPm	Nov-14 \$TOPm	Oct-14 \$TOPm	Sep-14 \$TOPm	Dec-13 \$TOPm	1 month % growth	1 year % growth
<b>Broad money liabilities</b>	<b>387.3</b>	<b>377.4</b>	<b>372.9</b>	<b>373.2</b>	<b>355.8</b>	<b>2.6</b>	<b>8.9</b>
Currency in circulation	43.9	40.6	38.6	35.1	37.0	8.2	18.6
Demand deposits	141.9	134.8	132.0	139.3	134.6	5.2	5.4
Savings and term deposits*	201.6	201.9	202.4	198.8	184.2	-0.2	9.4
<i>equals</i>							
<b>Net foreign assets</b>	<b>288.2</b>	<b>262.4</b>	<b>267.4</b>	<b>268.9</b>	<b>261.7</b>	<b>9.8</b>	<b>10.1</b>
<i>plus</i>							
<b>Net domestic assets</b>	<b>99.1</b>	<b>114.9</b>	<b>105.6</b>	<b>104.3</b>	<b>94.1</b>	<b>-13.7</b>	<b>5.4</b>
Gross bank lending**	296.2	295.7	289.3	284.5	275.7	0.2	7.5
Other***	-197.1	-180.8	-183.7	-180.2	-181.6	9.0	8.5

\* Also includes very minor amounts for securities other than shares.

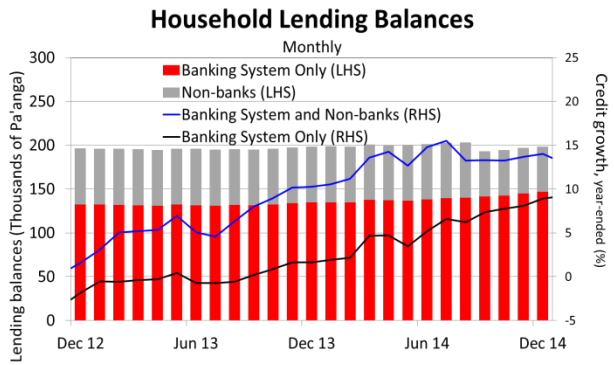
\*\* Differs slightly from standard measures of bank lending by amounts classified as accrued interest.

\*\*\* Includes mostly capital accounts of the banks and NRBT, and their net claims on the central government.

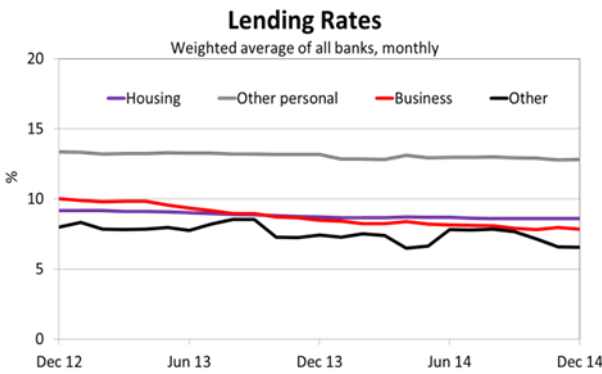
Sources: Banking system; NRBT



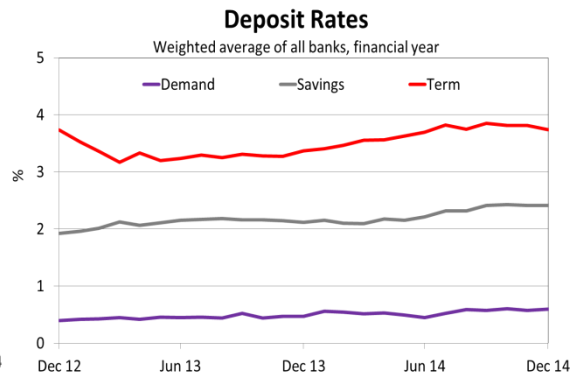
Sources: Banking System; SPBD; RFB, Ministry of Finance



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