

# Banking Sector Developments February 2015

Release date: 19 May 2015

	Feb 15	Jan 15	Dec 14	Nov 14
Deposit rate*	2.28	2.25	2.23	2.31
Lending rate*	8.79	8.59	8.90	8.91
Total Deposits (T\$m)	365.0	371.7	373.2	357.6
Total lending (T\$m)	401.7	396.7	392.3	392.8
New commitments (T\$m)	17.2	20.3	9.8	16.8
Broad money (T\$m)	379.7	380.8	387.5	377.4

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

## Household driving lending growth

### Lending

Total bank lending increased over the month by 1.7% due to an increase in all the categories. In particular, lending to households rose by 2.9% over February. In year ended terms, total bank lending rose by 9.4%, supported by the declining weighted average lending rates. However, including loans extended by non-banks, total lending increased by only 6.8% over the year due to lower on-lent loans by the government.

#### *Business lending*

Loans to businesses rose slightly over the month by 0.4%, driven mainly by a drawdown of approved loans to public enterprises. Over the year, Business lending rose by 7.0%, also due to major loans extended to public enterprises. However, including government on-lent loans, annual business lending fell by 1.1% reflecting declines in government on-lent loans to public and private enterprises.

Furthermore, new business loan commitments increased over the month by 32.5%, supported mainly by an increase in agricultural loans from the managed funds scheme.

#### *Household lending*

Lending to the household sector increased by 2.9% over the month and 12.3% over the year. These growths were driven mainly by a rise in housing loans, which reflects the housing loan campaigns by banks. This coincides with data for Overseas Exchange Transactions showing an increase in import payments for construction materials both over the month and year ended February. Including loans extended by non-banks, annual household lending would have

increased by 16%, underpinned by an increase in South Pacific Business Development and Retirement Fund Board's lending activities.

#### *Other lending*

Other loans rose slightly over the month by 0.9% however fell by 30.4% over the year. These fluctuations were both due to the rise and fall in lending to the non-profit institutional sector.

#### *Non-performing loans*

Total non-performing loans for the banking system increased over the month by 28.1%, driven mainly by an increase in impaired business loans. Over the year, total non-performing loans fell by 5.8% due to a decline in impaired business loans, mostly within the manufacturing, utility and distribution sectors.

### **Deposits**

Total bank deposits declined over the month by 1.8%, driven mainly by a fall in the demand deposits. The fall in demand deposits coincides with a 5 basis points decline in the demand deposit rate. In year ended terms, total bank deposits grew by 4.9% with savings deposits increasing the fastest. The increase in savings deposits is consistent with a 34 basis points increase in savings deposit rate.

### **Interest rates spread**

Weighted interest rate spread widened over the month from 6.33% in January 2015 to 6.51% in February 2015. This was driven by a 20 basis points increase in weighted average lending rate outweighing a 2 basis points rise in weighted average deposit rate.

### **Broad money**

Broad Money slightly fell by 0.3% to T\$379.7 million over the month driven by a 3.7% decline in net foreign assets. The fall in net foreign assets reflect a decline of 23.8% and 2.1% in other foreign assets and foreign reserves respectively. Declines in currency in circulation and total demand deposits over the month is also in line with the overall decline in broad money. In year ended terms, broad money rose by 7.5%, led mainly by the increase in lending.

### **Outlook**

Credit growth is supported by the continuous improvements in business confidence and lending conditions. Increased competition amongst banks and the ongoing lending activities of the Government's managed funds will continue to support the current low lending rates.

The NRBT is forecasting credit to grow by more than 10% in the next six months. This is based on continuous improvements in business confidence; imminent drawdowns of some large loan commitments; the continued low interest rates; and the Government's managed funds scheme. Commercial banks' prospects for credit growth remain positive. Growth will also be encouraged by potential competition from the bank takeover. 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

	Lending Balances							
	Level as at				Change over the			Shares of totals %
	Feb 15 TOPm	Jan 15 TOPm	Dec 14 TOPm	Nov 14 TOPm	Feb 14 TOPm	1 month %	1 year %	
Lending, banks	297.4	292.5	288.8	289.1	271.9	1.7	9.4	100
Household	151.9	147.6	146.8	145.0	135.2	2.9	12.3	51
Business*	144.2	143.7	140.6	142.6	134.8	0.4	7.0	48
Other	1.3	1.3	1.4	1.5	1.9	0.9	-30.4	0
Lending, banks and other	401.7	396.7	392.3	392.8	376.2	1.3	6.8	100
Household	204.7	200.2	198.8	197.2	176.4	2.2	16.0	51
Business	195.7	195.2	192.1	194.1	197.9	0.3	-1.1	49
Other	1.3	1.3	1.4	1.5	1.9	0.9	-30.4	0
New comm'ts, banks	17.2	20.3	9.8	16.8	6.1	-15.4	179.2	N/A
Undrawn comm'ts, banks	14.1	14.7	6.7	7.6	11.1	-3.9	27.5	N/A
Implied repay'ts, banks	12.9	8.6	10.9	11.5	4.4	50.0	189.4	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 2

	Interest Rates							
	Weighted average of all banks							
	Level as at				Change over the last:			Share of loans/deposits %
Feb 15 %	Jan 15 %	Dec 14 %	Nov 14 %	Feb 14 %	1 month bps	1 year bps		
Deposits all	2.28	2.25	2.23	2.31	2.04	2	24	100
Demand	0.53	0.58	0.60	0.58	0.55	-5	-2	40
Savings	2.44	2.48	2.41	2.41	2.10	-4	34	15
Term	3.81	3.78	3.74	3.82	3.47	3	34	44
Loans all	8.79	8.59	8.90	8.91	9.00	20.5	-21	100
Housing	8.47	8.45	8.58	8.57	8.65	2.1	-18	35
Other personal	12.82	12.74	12.79	12.78	12.83	7	-1	18
Business*	7.76	7.44	7.85	7.94	8.24	31	-48	25
Other	6.53	6.28	6.53	6.57	7.52	25	-98	21

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

Table 3

## Consolidated Balance Sheet of Depository Corporations

	Level as at					Change over the last:	
	Feb-15 \$TOPm	Jan-15 \$TOPm	Dec-14 \$TOPm	Nov-14 \$TOPm	Feb-14 \$TOPm	1 month % growth	1 year % growth
<b>Broad money liabilities</b>	<b>379.7</b>	<b>380.8</b>	<b>387.5</b>	<b>377.4</b>	<b>353.2</b>	<b>-0.3</b>	<b>7.5</b>
Currency in circulation	40.2	40.4	44.1	40.6	33.8	-0.4	18.8
Demand deposits	137.1	138.4	141.9	134.8	132.7	-1.0	3.3
Savings and term deposits*	202.4	202.1	201.6	201.9	186.7	0.2	8.4
<i>equals</i>							
<b>Net foreign assets</b>	<b>266.7</b>	<b>277.0</b>	<b>288.2</b>	<b>262.4</b>	<b>270.3</b>	<b>-3.7</b>	<b>-1.4</b>
<i>plus</i>							
<b>Net domestic assets</b>	<b>113.0</b>	<b>103.9</b>	<b>99.3</b>	<b>114.9</b>	<b>82.9</b>	<b>8.8</b>	<b>36.4</b>
Gross bank lending**	305.6	300.4	296.2	295.7	279.0	1.7	9.5
Other***	-192.6	-196.5	-197.0	-180.8	-196.1	-2.0	-1.8

\* 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

