

Banking Sector Developments August 2018

Release date: 2 January 2019

	Aug-18	Jul-18	Jun-18	May-18
Deposit rate (%)*	1.992	2.019	2.026	2.062
Lending rate (%)*	8.076	8.062	7.944	7.904
Total Deposits (T\$m)	626.2	624.7	596.2	581.9
Total lending (T\$m)	457.5	452.9	447.3	448.2
New commitments (T\$m)	12.2	14.7	19.8	10.7
Broad Money (T\$m)	606.0	606.1	575.5	561.5

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

Both deposits and lending grew

Over August 2018 credit growth grew as a result of higher loans extended to businesses and households whereas deposits picked up further boosting liquidity in the banking system.

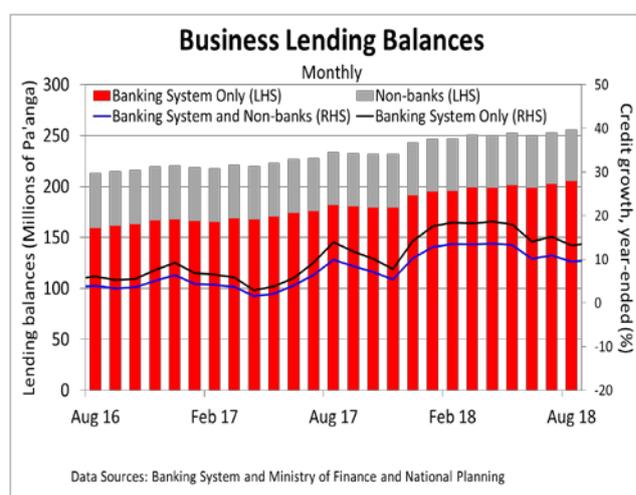
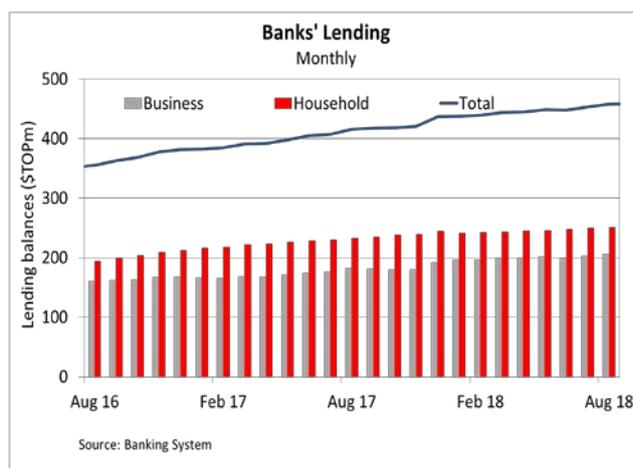
Lending

The total banks' lending grew over the month and year to August 2018 by \$4.6 million (1.0%) and \$41.9 million (10.1%) respectively to \$457.5 million. Both monthly and annual movements were attributed mainly to increase in business and household lending which partly outweighed a slight decline in other lending. New loan commitments however declined over the month by 17.2% for wholesale & retail, professional & other services sectors and also the individual housing loans.

Lending extended by non-bank financial institutions rose over August by \$1.4 million (0.9%) and over the year by \$19.9 million (13.8%) to \$163.8 million. This rise was driven by an increase in small personal loans and home improvement loans. The yearly increase again reflected higher home improvement loans, small personal loans, and household loans. This had also offset a decline in Government on-lent loans.

Business lending

Over the month and year to August 2018, the total banks' lending to businesses rose to a new high level of \$205.7 million. The monthly movement

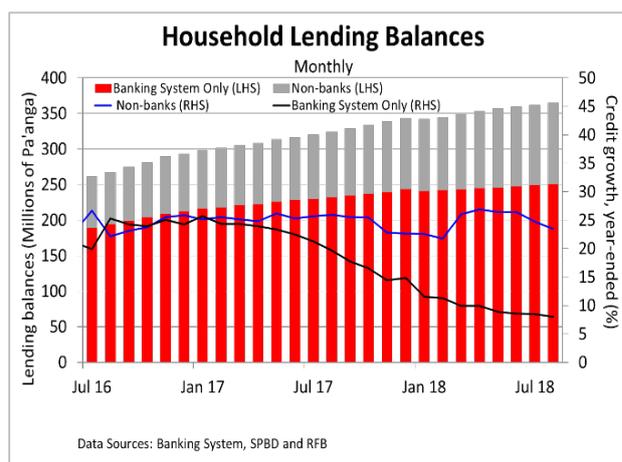


was mainly lending to public enterprises, wholesale & retail, agriculture and construction sectors. The increase in loans to the distribution sector coincided with the 5.5% rise in container registrations. Exports of agricultural products also increased by 84.1% given the increase in loans to the agricultural sector over the month.

In year ended terms, business lending rose due mainly to growth in loans extended to public enterprises and all sectors except for manufacturing and agriculture sectors. This indicates the private sector's high demand for loans supporting various economic activities occurring throughout the year. The increase in lending were for wholesale & retail, tourism, construction and fisheries sectors. Import payments for wholesale and retail goods coincided with the 15.7% increase over the year. With the inclusion of government on-lent loans, business lending rose by \$22.1 million (9.5%) reflecting more business loans offsetting repayments of government on-lent loans.

Household lending

Bank's lending to households increased in August and over the year to a new high record of \$251.1 million. The consistent rise in household loans continued to reflect the persistent increase in demand by households and their capacity to access loans. Other personal loans supported the monthly trend while vehicle loans contributed to the annual upward trend.



Lending from non-bank financial institutions to households rose over the year by \$21.6 million (23.5%) reflecting higher personal loans disbursed throughout the year.

Other lending

Other loans by banks continued to decline over the month and year due to a decline in lending to the non-profit institutions sector.

Non-performing loans

The bank's total non-performing loans improved over the month of August 2018 to \$18.0 million. Both business and private enterprises' non-performing loans decreased over the month due to improvements in non-performing loans in the agriculture, tourism and fisheries sectors. The share of non-performing loans in total loans declined from 4.2% in July 2018 and August 2017 to 3.9% this month.

	Level as at			Change over the last:		Shares of totals %
	Aug 18	Jul 18	Aug 17	1 month	1 year	
	TOPm	TOPm	TOPm	%	%	
Lending, banks	457.5	452.9	415.6	1.0	10.1	100.0
Household	251.1	249.4	232.6	0.7	8.0	54.9
Business*	205.7	202.7	181.8	1.5	13.1	45.0
Other	0.7	0.8	1.2	-14.6	-41.1	0.2
Lending, banks and other	621.3	614.2	559.5	1.2	11.0	100.0
Household	364.7	360.5	324.6	1.2	12.4	58.7
Business	255.9	252.9	233.8	1.2	9.5	41.2
Other	0.7	0.8	1.2	-14.6	-41.1	0.2
New comm'ts, banks	12.2	14.7	14.3	-17.2	-14.7	N/A
Undrawn comm'ts, banks	24.9	24.9	18.1	0.0	37.5	N/A
Implied repay'ts, banks	7.5	34.0	9.0	-77.9	-16.4	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

Deposits

The total deposits continued to grow over the month and year to a new high level of \$626.2 million. Both demand and saving deposits rose over the month mainly on the continuous increase in demand and saving deposits of the private sectors. Time deposit on the other hand declined due to a decrease in individual deposits.

Table 2: Deposit Balances

	Monthly				Annual		
	Aug-18	Jul-18	Change	% Growth	Aug-17	Change	% Growth
Total Deposits (\$ in million)	626.2	624.7	1.5	0.2	552.4	73.8	13.4
Demand Deposits	273.4	271.7	1.8	0.7	238.9	34.5	14.4
Saving Deposits	97.7	95.9	1.8	1.8	89.2	8.4	9.4
Time Deposits	255.1	257.2	-2.1	-0.8	224.2	30.9	13.8

The annual movements resulted from an increase in all deposit categories. Higher demand deposits were mainly deposits by the government and public enterprises. Time and saving deposits by individuals and churches also increased over the year. Receipts of Government budget support funds and improved government revenue collection throughout the year supported the overall rise in deposits.

Interest rate spread

The widening of the weighted average interest rate spread over the month and year reflected the rise in the weighted average lending rate and the decline in the weighted average deposit rate. Lending rates for business loans rose for the construction and tourism sectors and also housing loans. The weighted average deposit rate however declined due to a slight fall in all deposit categories.

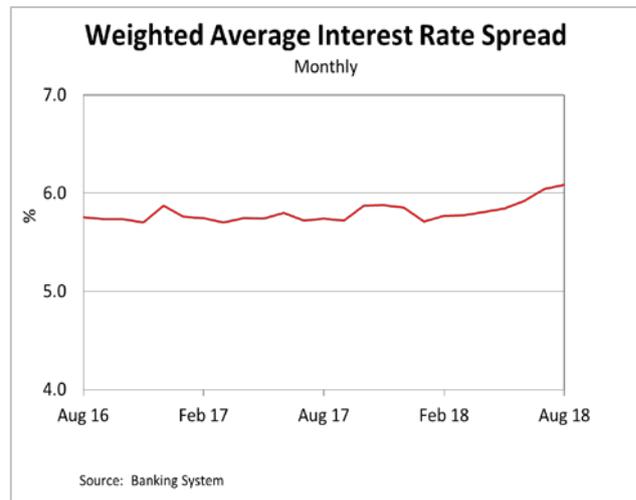


Table 3: Interest Rates

	Weighted average of all banks					
	Level as at			Change over the last [^]		Share of loans/deposits %
	Aug-18 %	Jul-18 %	Aug-17 %	1 month bps	1 year bps	
Interest Rate Spread	6.084	6.043	5.738	4.07	34.59	
Deposits all	1.99	2.13	2.13	-2.69	-9.85	100
Demand	0.29	0.39	0.39	-2.21	-8.62	43
Savings	2.42	2.44	2.44	-0.46	-1.08	17
Term	3.65	3.82	3.82	-1.76	-13.48	40
Loans all	8.08	7.85	7.85	1.38	24.74	100
Housing	8.19	8.06	8.06	1.19	8.72	43
Other personal	11.39	11.19	11.19	-1.30	41.41	13
Business	7.74	6.86	6.86	2.24	92.24	28
Other	6.25	6.55	6.55	0.00	-28.88	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

Higher weighted average lending rates over the year was mainly to businesses such as mining/quarrying, agriculture and construction sectors. On the other hand, lower deposit rates mainly for time deposits reduced the weighted average deposit rate. Decreased demand and savings deposit rates also supported the trend. Despite the decline in deposit rates, both deposits and loans continued to grow. Lending rates slightly increased as well reflecting the public’s high demand for access to loans regardless of the cost of borrowing and also the excess liquidity in the banking system.

Broad money

The net foreign assets declined which more than offset an increase in net domestic assets. Net credit to Government rose over the month due to a fall in government deposits. Over the year, broad money rose due to the significant growth in foreign reserves and corresponded to the increase in net foreign assets. The receipts of budgetary support, grants and cyclone relief funds from development partners and higher remittances during the year contributed to this annual growth.

Table 4: Consolidated Balance Sheet of Depository Corporations

	Level as at			Change over the last	
	Aug-18 \$TOPm	Jul-18 \$TOPm	Aug-17 \$TOPm	1 month % growth	1 year % growth
Broad money liabilities	606.0	606.1	552.3	0.0	9.7
Currency in circulation	69.0	67.5	60.7	2.1	13.7
Demand deposits	212.2	212.9	200.0	-0.3	6.1
Savings and term deposits*	324.8	325.6	291.6	-0.3	11.4
<i>equals</i>					
Net foreign assets	494.1	497.5	429.0	-0.7	15.2
<i>plus</i>					
Net domestic assets	112.2	108.9	123.4	3.1	-9.1
Gross bank lending**	461.3	456.0	427.0	1.2	8.0
Public enterprises	56.2	54.8	46.0	2.6	22.1
Private Sector	402.5	398.6	378.9	1.0	6.2
Other financial corporations	2.6	2.6	2.1	-0.5	24.5
Other***	-349.1	-347.1	-303.6	0.6	15.0

* 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

Liquidity

Higher deposits by the commercial banks to the Reserve Bank vault expanded liquidity (reserve money)¹ in the banking system to a new high level over the month and year of \$334.2 million. This coincides with the overall increase in deposits over August from the public to the commercial banks. The banks' total loans to deposit ratio continued to remain below the minimum requirement of 80%, despite the slight increase, indicating excess liquidity in the banking system and the capacity for further lending by the banks.

Annually, the increase in banking system liquidity was again driven mainly by the increase in commercial banks' deposits to the Reserve Bank vault which coincided with the overall increase in deposits from government, public enterprises and private individuals to the commercial banks over the year. Both required reserves (statutory required deposits) and currency in circulation also supported the trend, reflecting the various events, celebrations and economic activity throughout the year.

Outlook

The Reserve Bank forecasts credit growth of 13.0% for the current year of 2018/19. Seasonal festivals and cultural obligations coupled with the ongoing business investments will continue to support credit growth. The excess liquidity in the banking system remains indicating available capacity for further lending by banks. Improved economic conditions, recent business performances and confidence, and annual (one-off) events that are expected to take place throughout the current financial year are projected to further support the Reserve Bank's forecast. Furthermore, cyclone packages (post TC Gita) extended by the banks are expected to help the public with rebuilding and further expected to contribute to credit growth. The level of competition between banks in terms of housing loans coupled with the accommodative monetary policy is expected to encourage lending and support economic activity.

The Reserve Bank will continue to closely monitor the growth across all monetary indicators particularly credit growth and broad money movements to ensure financial and macroeconomic stability are maintained and that no overheating will occur in the economy.

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