

Banking Sector Developments March 2018

Release date: 28 June 2018

	Mar 18	Feb 18	Jan 18	Dec 17
Deposit rate (%)*	2.164	2.161	2.204	2.160
Lending rate (%)*	7.969	7.952	7.925	7.955
Total Deposits (T\$m)	581.7	577.2	574.5	571.4
Total lending (T\$m) [^]	443.6	439.5	437.5	436.7
Total lending (T\$m) **	434.6	431.2	429.4	429.4
New commitments (T\$m)	8.7	8.8	6.8	28.7
Broad Money (T\$m)	558.7	558.2	552.5	560.6

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

[^] Series show total lending from the banking sector only and includes Government Development Loan (GDL)

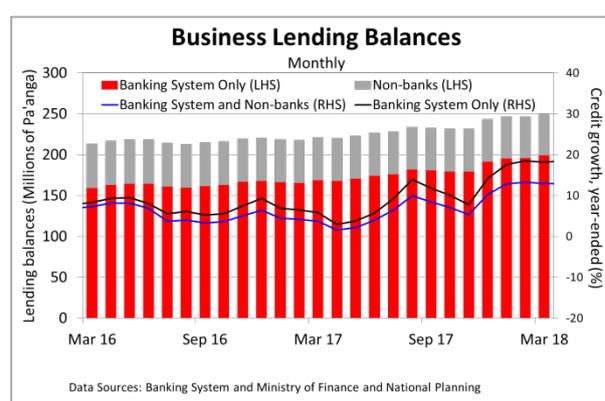
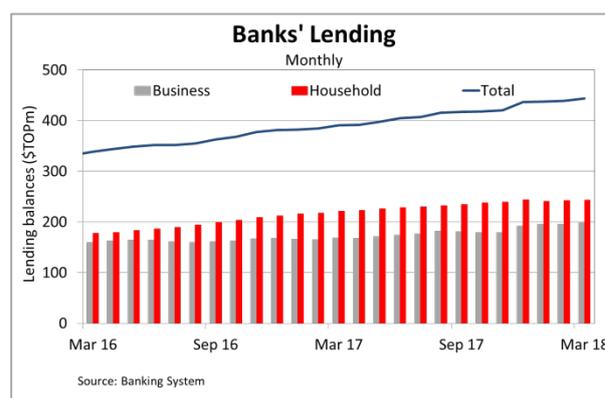
** Series show total lending from the banking sector only and excludes GDL

Steady growth remains for both lending and deposits

Lending

Total banks' lending¹ rose over March by \$4.1 million (0.9%) and further over the year by \$52.4 million (13.4%). This resulted in total banks' lending increasing to a new high record of \$443.6 million. The monthly and annual increases were due to higher lending to both businesses and households. Total banks' lending excluding the GDL increased over March by \$3.4 million (0.8%) and by \$53.4 million (14.0%) over the year.

Lending extended by non-bank financial institutions increased rather considerably over the month by \$4.7 million (3.1%) and over the year by \$19.9 million (14.5%) to \$156.8 million. The monthly rise resulted from increases in home improvement and small loans as well as household loans to the public as part of Tropical Cyclone (TC) Gita Assistance Packages. The annual increase resulted from higher home improvement loans, small loans, and household loans. This had also offset a decline in Government on-lent loans.



Business lending

Total banks' lending to businesses (including GDL) increased by \$3.3 million (1.7%) over the month and by \$30.7 million (18.2%) over the year to a new record of \$199.4 million. The monthly rise was

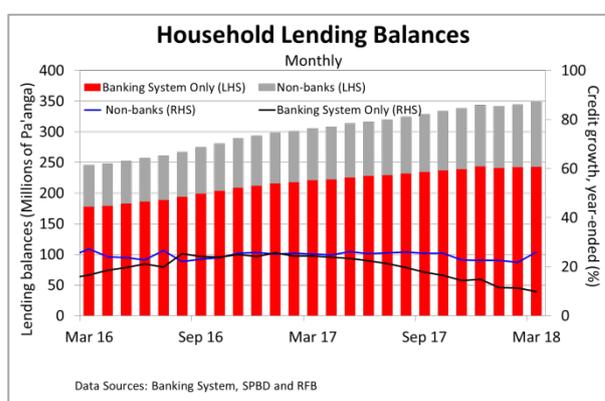
¹ Includes GDL

driven mainly by higher lending to the wholesale and retail, agriculture, and tourism sectors which recorded respective growths of \$1.3 million (2.7%), \$0.7 million (8.8%), and \$0.6 million (3.4%). Furthermore, there were increases of \$0.5 million (2.8%) and \$0.4 million (6.1%) respectively in loans for the manufacturing and transport sectors. Annually, business lending increased due to higher lending to the wholesale and retail, services, and transport sectors by \$18.3 million (56.7%), \$8.4 million (55.7%), and \$3.1million (98.7%) respectively. The tourism and manufacturing sectors also contributed to the yearly rise in total business loans. However, the growth over the year was partially offset by a fall in lending to the agriculture sector. The monthly and annual movements continued to support economic activities in the business sectors. With the inclusion of government on-lent loans, business lending increased over the year by \$28.6 million (12.9%) reflecting more business loans offsetting repayments of government on-lent loans.

Excluding GDL, business lending rose by \$2.7 million (1.4%) over March and \$31.4 million (19.6%) over the year.

Household lending

Household loans (including GDL) increased over March by \$0.7 million (0.3%). Over the year, household loans (including GDL) rose by \$22.2 million. The monthly and annual rise in household loans both resulted solely from an increase in housing loans of \$0.9 million (0.5%) and \$24.0 million (14.8%) respectively. This offset declines in vehicle and other personal loans for both over March and over the year. The consistent rise in household loans continued to reflect persistent increasing demand of households and their continued ability to access loans. Lending from non-bank financial institutions to households rose over the year by \$22.0 million (26.0%) reflecting higher personal loans disbursed throughout the year.



Household loans (excluding GDL) increased over March by \$0.7 million (0.3%) and annually by \$22.2 million. This is the same as movements for household loans (including GDL) which indicates that despite the new loans during the month for households under the GDL scheme, this was offset by repayment of existing loans.

Other lending

Other loans from banks declined over March by \$0.02 million (0.2%) and over the year by \$0.3 million (25.9%). These movements were both driven by a decline in lending to the non-profit institutions sector.

Non-performing loans

Bank's total non-performing loans (including GDL) increased over the month by \$0.3 million (1.8%) and over the year by \$0.05 million (0.3%) to \$18.6 million. The monthly and yearly increase was driven by increases in non-performing loans in the agricultural, fisheries, and manufacturing sectors as well as individual housing loans. The non-performing loans (including GDL) represented 4.2% of total loans (including GDL).

Banks' total non-performing loans (excluding GDL) increased slightly over March by \$0.1 million (0.7%) and over the year by \$0.8 million (4.6%) to \$17.0 million. These were attributed to an

increase in non-performing personal and housing loans as well as professional and other services loans. The non-performing loans (excluding GDL) represented 4.6% of total loans (excluding GDL) in March 2018.

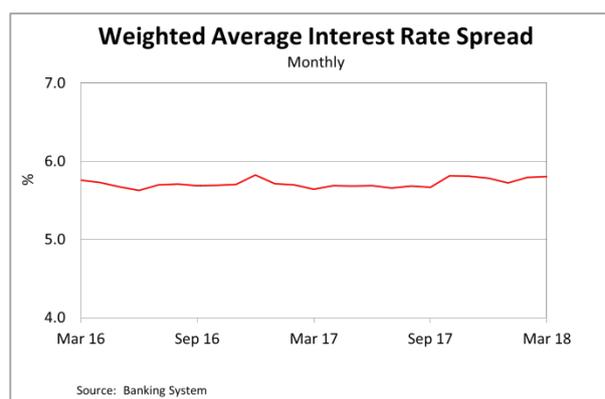
Deposits

Total bank deposits increased over the month by \$4.5 million (0.8%) to \$581.7 million. This was due to respective growths of \$4.0 million (4.9%) and \$3.4 million (1.4%) in saving and demand deposits. This outweighed a decline of \$2.9 million (1.1%) in time deposits. The monthly rise stemmed largely from deposits of Government, individuals and non-profit institutions.

Over the year, total bank deposits increased significantly by \$63.8 million (12.3%) driven mainly by growths in all deposit categories with time deposits contributing the most to the annual growth, followed by demand and saving deposits. Time deposits increased by \$42.7 million (20.5%). This was driven mainly by higher equity investments in local companies, higher deposits of retirement funds, government and the private sector. Demand deposits increased by \$13.2 million (5.7%) driven by government deposits towards the TC Gita Relief Fund. The rise of \$7.9 million (10.0%) in saving deposits stemmed from the private sector and churches. Additionally, receipt of government's budget support funds and improved government revenue collection during the year contributed to the overall increase in deposits.

Interest rate spread

The weighted average interest rate spread widened over March by 1.4 basis points and by 16.3 basis points over the year to 5.805% (from 5.791% last month and 5.642% in March 2017). The monthly increase reflected an increase in weighted average lending rate which was partly offset by a rise in the weighted average deposit rate. The weighted average lending rate increased by 1.7 basis points (from 7.95% to 7.97%) driven mainly by lending rates for businesses whilst households lending rates remained relatively stable. In particular, business lending rates rose for the manufacturing, transport, and trade sectors. The weighted average deposit rate rose slightly by 0.3 basis points over the month due to an increase in the rates for all deposit categories.



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The annual rise in the weighted average interest rate spread reflected an increase the weighted average lending rate and the decline in the weighted average deposit rate. The weighted average lending rate widened by 12.4 basis points which resulted from an increase in business lending rates (agriculture, manufacturing, and construction sectors). The weighted average deposit rate declined driven by a fall in term deposit rates. The rising volume in deposits also contributed to the fall in the weighted average deposit rates. Overall, despite the rise in lending interest rates, it remained supportive to facilitate the increase in demand for finance from these sectors. Deposit interest rates remained attractive thus assisting growth in deposits over the year.

Broad money

High net domestic credit resulted in higher net domestic assets and further offsetting the decline in net foreign assets which was driven by a fall in other foreign assets and foreign liabilities (holding of commercial banks' foreign assets). Additionally, foreign reserves slightly declined over the month. Overall, broad money rose slightly by \$0.5 million (0.1%).

Over the year, broad money increased by \$55.1 million (11.0%) mainly as a result of an increase in net foreign assets by \$72.0 million (18.5%). This is due to the significant rise in foreign reserves. Budget support funding received during the year contributed to higher government deposits and the higher foreign reserves and corresponded to the increase in net foreign assets.

Liquidity

Liquidity (reserve money)² in the banking system increased over March by \$11.2 million (3.8%) to \$308.9 million. This resulted largely from an increase of \$12.0 million (1.2%) in the commercial banks deposits to the Reserve Bank vault which coincided with a decline in currency in circulation. The banks' total loan to deposit ratio (including GDL scheme) slightly increased to 76.3% from 76.2% in February, reflecting a slightly higher increase in total deposits relative to the growth in total loans. Total loans to deposit ratio (excluding GDL) remained stable at 74.7% in March due to proportionate growth in both total deposits and total loans. These ratios continue to remain below the minimum requirement of 80% which indicates that excess liquidity in the banking system remains and that there is capacity for further lending by the banks.

Over the year, the banking system liquidity increased by \$39.7 million (14.8%) due to respective increases of \$30.1 million (125.6%) and \$19.0 million (29.3%) in required reserves (statutory required deposits) and in currency in circulation. These growths had offset a withdrawal of \$9.4 million (5.2%) by the commercial banks from the Reserve Bank's vault. The increase in the statutory required deposits reflects the revision to raise statutory required deposit requirement ratio from 5% to 10% effective in July 2017.

Outlook

The banks' prospects for credit growth remains positive and the Reserve Bank's projection is supported by improving economic conditions, business confidence, and annual (one-off) events taking place throughout the year. Additionally, the banks' TC packages to assist the public with rebuilding following TC Gita is expected to contribute to the credit growth. Therefore, a 16% credit growth is expected in the year to June 2018 supported by the level of competition between banks in terms of housing loans, and also the accommodative monetary policy to utilize the excess liquidity to encourage lending in order to support economic activity.

The Reserve Bank will continue to closely monitor the credit growth and broad money movements to ensure financial and macroeconomic stability are maintained and that there is no overheating in the economy.

² Liquidity in the banking system (reserve money) is a sum of currency in circulation, exchange settlement account balances, and required reserve deposits.

Table 1:

Consolidated Balance Sheet of Depository Corporations							
	Level as at					Change over the last:	
	Mar-18 \$TOPm	Feb-18 \$TOPm	Jan-18 \$TOPm	Dec-17 \$TOPm	Mar-17 \$TOPm	1 month % growth	1 year % growth
Broad money liabilities	558.7	558.2	552.5	560.6	503.6	0.1	11.0
Currency in circulation	67.3	65.8	60.8	69.3	51.3	2.3	31.3
Demand deposits	180.2	181.8	177.5	182.0	187.0	-0.9	-3.6
Savings and term deposits*	311.1	310.5	314.2	309.3	265.2	0.2	17.3
<i>equals</i>							
Net foreign assets	461.7	468.1	446.2	441.8	389.7	-1.4	18.5
<i>plus</i>							
Net domestic assets	97.2	90.3	106.6	119.0	114.1	7.6	-14.9
Gross bank lending**	446.3	442.9	440.9	440.6	401.5	0.8	11.1
Public enterprises	53.3	52.9	52.9	53.7	42.5	0.8	25.4
Private Sector	391.2	387.9	386.2	384.7	358.0	0.8	9.3
Other financial corporations	1.7	2.0	1.8	2.2	1.0	-14.6	74.1
Other***	-349.1	-352.5	-334.2	-321.5	-287.4	-1.0	21.5

* 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

Table 2:

Lending Balances								
	Level as at					Change over the		Shares of totals %
	Mar 18 TOPm	Feb 18 TOPm	Jan 18 TOPm	Dec 17 TOPm	Mar 17 TOPm	1 month %	1 year %	
Lending, banks	443.6	439.5	437.5	436.7	391.2	0.9	13.4	100.0
Household	243.3	242.6	241.2	244.1	221.3	0.3	9.9	54.8
Business*	199.4	196.1	195.5	191.7	168.7	1.7	18.2	45.0
Other	0.9	0.9	0.8	1.0	1.2	-0.2	-25.9	0.2
Lending, banks and other	600.4	591.6	589.5	588.1	528.1	1.5	13.7	100.0
Household	349.9	343.9	342.0	343.7	305.9	1.7	14.4	58.3
Business	249.6	246.8	246.7	243.3	221.0	1.2	12.9	41.6
Other	0.9	0.9	0.8	1.0	1.2	-0.2	-25.9	0.2
New comm'ts, banks	8.7	8.8	6.8	28.7	24.3	-0.9	-64.2	N/A
Undrawn comm'ts, banks	16.9	16.9	16.9	18.2	28.1	0.0	-39.8	N/A
Implied repay'ts, banks	4.6	6.8	7.3	5.2	10.9	-32.0	-57.5	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:

Interest Rates								
Weighted average of all banks								
	Level as at					Change over the last [^]		Share of loans/deposits %
	Mar 18 %	Feb 18 %	Jan 18 %	Dec 17 %	Mar 17 %	1 month bps	1 year bps	
Deposits all	2.16	2.16	2.20	2.16	2.20	0.34	-3.89	100
Demand	0.44	0.39	0.49	0.45	0.44	4.81	0.71	42
Savings	2.40	2.35	2.33	2.29	2.37	5.48	3.27	16
Term	3.76	3.75	3.76	3.73	3.80	0.24	-3.86	43
Loans all	7.97	7.95	7.93	7.94	7.85	1.71	12.38	100
Housing	8.10	8.10	8.08	8.20	8.03	0.18	7.56	43.0
Other personal	11.37	11.34	11.35	11.13	11.10	3.01	27.29	12.9
Business*	7.12	7.05	7.00	6.94	6.83	6.97	28.97	27.7
Other	6.25	6.25	6.25	7.38	6.25	0.00	0.00	0.0

*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: Banks; NRBT