

Banking Sector Developments September 2018

Release date: 12 March 2019

| | Sep-18 | Aug-18 | Jul-18 | Jun-18 |
|------------------------|--------|--------|--------|--------|
| Deposit rate (%)* | 1.980 | 1.980 | 2.019 | 2.026 |
| Lending rate (%)* | 8.077 | 8.076 | 8.062 | 7.944 |
| Total Deposits (T\$m) | 615.3 | 626.2 | 624.7 | 596.2 |
| Total lending (T\$m) | 459.0 | 457.5 | 452.9 | 447.3 |
| New commitments (T\$m) | 11.1 | 12.2 | 14.7 | 19.8 |
| Broad Money (T\$m) | 595.2 | 606.0 | 606.1 | 575.5 |

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

Banks continue to expand their housing loan portfolio

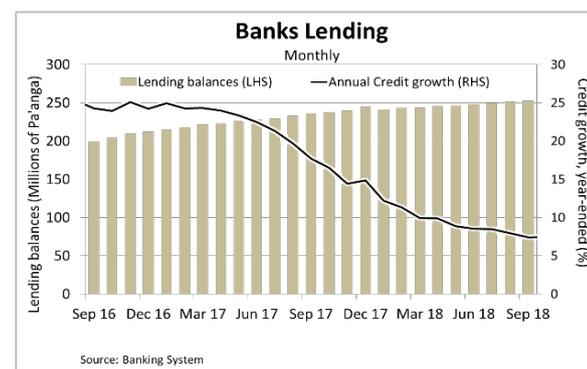
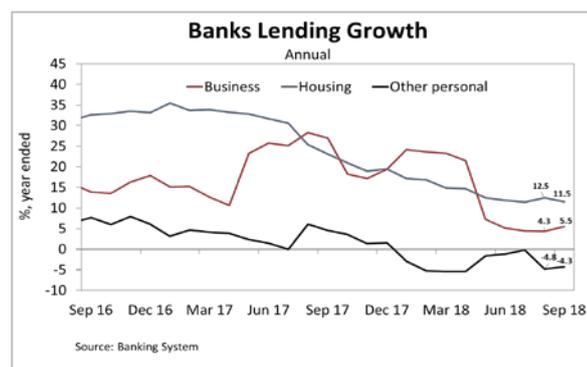
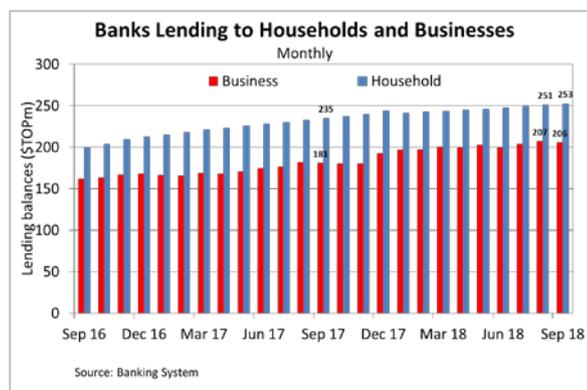
Lending

The stock of household loans continued to increase by 0.6% over the month and 7.4% in annual terms, reflecting the substantial contribution of housing loans which further contributes to overall growth in total loans. The housing loan portfolio of banks has increased 0.7% over the month of September 2018 reaching an annual monthly average of 0.9%. This increase is much lower when compared to a 1.8% annual monthly average in the year to September 2017.

Banks lending to businesses slightly decreased over the month due to the settlement of loans to the public enterprises, construction, entertainment & catering, and tourism sectors. Although business lending continued to grow in year ended terms.

Banks lending over the year depicts a declining trend indicating the capacity of individuals to access both housing loans and other personal loans. Even so, the housing loan products facilitate competition in the banking sector resulting in continuous growth in household loans which contributed to the overall monthly and annual credit growth.

In year ended terms, business lending rose due mainly to growth in loans extended to public enterprises and all private sectors except for manufacturing, agriculture and entertainment & catering. Loans to wholesale & retail sector increased the most followed by the tourism and professional & other service sectors. This increase in loans



indicates the private sector’s high demand for loans supporting various economic activities and is reflected in the 16.9% increase in import payments for wholesale and retail goods over the year.

Lending extended by non-bank financial institutions rose over September 2018 by \$0.7 million (0.5%) and over the year by \$18.7 million (12.8%) to \$164.5 million. This lending was driven by an increase in small personal and home improvement loans offered to individuals. The yearly increase also reflected higher home improvement loans and small personal loans.

Non-performing loans

Bank’s total non-performing loans increased over the month of September 2018 to \$17.5 million. This stemmed mostly from private sector non-performing loans particularly within the agriculture, professional & other services and transport sectors and the individual housing and other personal loans. The ratio of non-performing loans to total loans rose to 4.1% in September 2018 from 3.9% in the previous month.

Deposits

Acquiring of business shares, the commencement of principal loan repayments by the government and higher import payments mainly oil, resulted in the lower bank deposits recorded over the month of September 2018. This more than outweighed an increase in saving deposits of churches from their annual charitable donations.

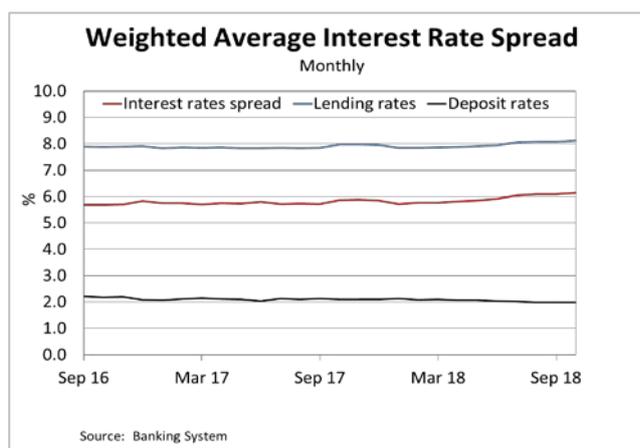
Table 2: Deposit Balances

| | Monthly | | | | Annual | | |
|--------------------------------|---------|--------|--------|----------|--------|--------|----------|
| | Sep-18 | Aug-18 | Change | % Growth | Sep-17 | Change | % Growth |
| Total Deposits (\$ in million) | 615.3 | 626.2 | -10.9 | -1.7 | 555.0 | 60.3 | 10.9 |
| Demand Deposits | 267.5 | 273.4 | -5.9 | -2.2 | 234.7 | 32.9 | 14.0 |
| Saving Deposits | 101.0 | 97.7 | 3.3 | 3.3 | 89.3 | 11.7 | 13.1 |
| Time Deposits | 246.8 | 255.1 | -8.3 | -3.3 | 231.1 | 15.7 | 6.8 |

Interest rate spread

The decline in demand and term deposit rates pushed the weighted average deposit rates lower over the month. The weighted average lending rates however slightly rose over the month mainly for manufacturing and fisheries loans. As a result, the weighted average interest rate spread widened further during September and over the year to 6.097%.

Similarly, the weighted average interest rate spread widened over the year due to the increase in weighted average lending rates mainly on business loans for mining & quarrying, agriculture, and manufacturing sectors. The lower term and demand deposit rates supported the decline in weighted average deposit rates.



The high growth in the volume of deposits further contributed to the overall decrease in the weighted average deposit rate. Despite the rise in lending interest rates and the decline in the deposit rates,

both credit and deposits continued to grow. The credit growth indicates the public's high demand to access loans regardless of the cost to borrow. Furthermore, the lower deposit rates reflect the excess liquidity in the banking system.

Broad money

Broad Money decreased over the month stemmed from a decrease in foreign reserves. The commencement of government loan principal repayment to Export-Import (EXIM) Bank of China and higher import payments particularly for oil explained the decline in foreign reserves. However, broad money increased over the year mainly on higher foreign reserves due to receiving of budget support, cyclone relief, and project funds and higher remittances during the year.

Table 4: Consolidated Balance Sheet of Depository Corporations

| | Level as at | | | Change over the last | |
|--------------------------------|------------------|------------------|------------------|----------------------|--------------------|
| | Sep-18 \$TOPm | Aug-18 \$TOPm | Sep-17 \$TOPm | 1 month % growth | 1 year % growth |
| Broad money liabilities | 595.2 | 606.0 | 549.7 | -1.8 | 8.3 |
| Currency in circulation | 66.1 | 69.0 | 58.7 | -4.1 | 12.6 |
| Demand deposits | 210.1 | 212.2 | 190.2 | -1.0 | 10.5 |
| Savings and term deposits* | 319.0 | 324.8 | 300.8 | -1.8 | 6.0 |
| <i>equals</i> | | | | | |
| Net foreign assets | 470.1 | 494.1 | 419.0 | -4.9 | 12.2 |
| <i>plus</i> | | | | | |
| Net domestic assets | 125.5 | 112.2 | 131.0 | 11.8 | -4.3 |
| Gross bank lending** | 463.5 | 461.3 | 428.6 | 0.5 | 8.1 |
| Public enterprises | 55.0 | 56.2 | 45.3 | -2.1 | 21.5 |
| Private Sector | 405.7 | 402.5 | 381.3 | 0.8 | 6.4 |
| Other financial corporations | 2.7 | 2.6 | 2.1 | 6.4 | 32.0 |
| Other*** | -338.0 | -349.1 | -297.6 | -3.2 | 13.6 |

* 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

Liquidity (reserve money)¹ in the banking system decreased over September but still increased over the year to \$323.6 million. The banks' total loans to deposit ratio slightly rose to 72.9% from 71.5% last month, reflecting the decrease in total deposits and the slight increase in total loans. The loans to deposit ratio has consistently remained below the minimum requirement of 80% indicating excess liquidity in the banking system and the capacity for further lending by the banks.

Outlook

Banks' prospects for credit growth have reportedly been positive, and as such, the Reserve Bank forecasts a credit growth of 13.0% for the current year of 2018/19. Furthermore, 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 support the Reserve Bank's forecast further. The level of competition between banks in term of housing loans coupled with the accommodative monetary policy is expected to utilize the excess liquidity in the future 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 is 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.