

Banking Sector Developments July 2019

Release date: 31 October 2019

	Jul-19	Jun-19	May-19	Apr-19
Deposit rate (%)*	1.925	1.939	1.956	1.954
Lending rate (%)*	8.033	8.029	8.044	8.111
Total Deposits (T\$m)	613.2	611.0	605.1	611.0
Total lending (T\$m)	491.1	486.2	487.3	484.3
New commitments (T\$m)	13.8	10.3	13.3	8.6
Broad Money (T\$m)	593.9	600.1	584.8	585.9

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

Credit growth rebounds to a new high level

Lending

Following last month's decline, the banks' total lending picked up to a new high level of \$491.1 million. This was an increase of \$4.9 million (1.0%) and \$38.2 million (8.4%), respectively, over the month and year to July 2019. Majority of this growth was for business lending, followed by household loans.

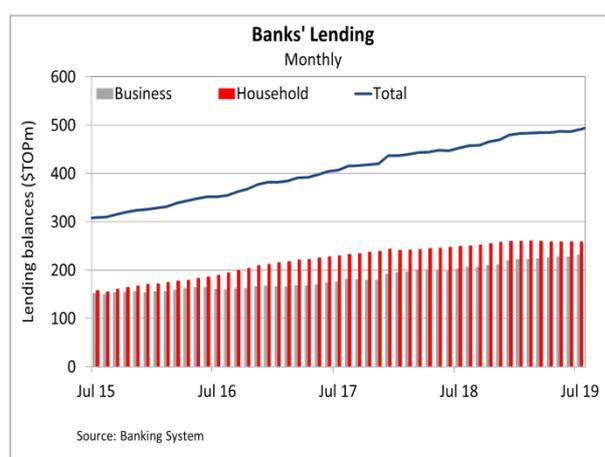
The non-bank financial institutions loans also increased over the month and year by 0.7% (\$1.2 million) and 17.2% (\$28.0 million), respectively, reflecting the accessibility of these loans to individuals in the informal sector and small medium enterprises. Government on-lent loans continued to decline by 1.0% over the month and 3.6% over the year, due to loan settlements.

Business lending

The banks' total loans to businesses increased over the month and year to July 2019, by 2.1% (\$4.8 million) and 14.3% (\$29.0 million) respectively to \$231.7 million. The monthly rise was a result of higher lending to state-owned enterprises, professional & other services, agriculture, and manufacturing sectors, whereas increased loans offered to the professional & other services, transport, state-owned enterprises, wholesale & retail, tourism, and manufacturing sectors led to the annual increase.

	Level as at		Change over the last:			Shares of totals %
	Jul 19	Jun 19	Jul 18	1 month	1 year	
	TOPm	TOPm	TOPm	%	%	
Lending, banks	491.1	486.2	452.9	1.0	8.4	100.0
Household	259.2	258.9	249.4	0.1	3.9	52.8
Business*	231.7	226.9	202.7	2.1	14.3	47.2
Other	0.2	0.4	0.8	-46.2	-73.4	0.0
Lending, banks and other	681.8	675.6	615.6	0.9	10.8	100.0
Household	401.1	399.1	361.5	0.5	10.9	58.8
Business	280.5	276.2	253.3	1.6	10.7	41.1
Other	0.2	0.4	0.8	-46.2	-73.4	0.0
New comm'ts, banks	13.8	10.3	14.7	33.7	-6.3	N/A
Undrawn comm'ts, banks	15.7	26.5	24.9	0.0	-37.1	N/A
Implied repay'ts, banks	10.8	-3.9	2.9	0.0	276.6	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



Household lending

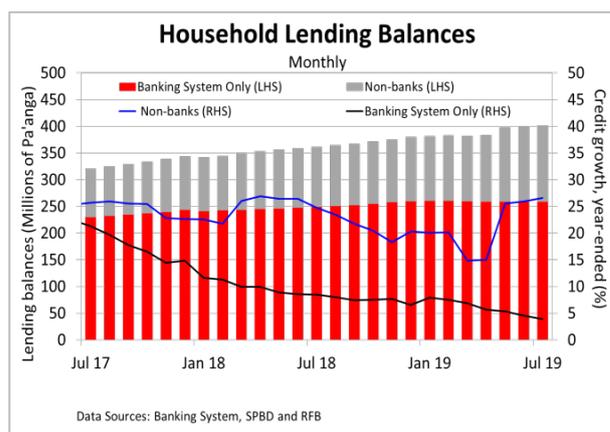
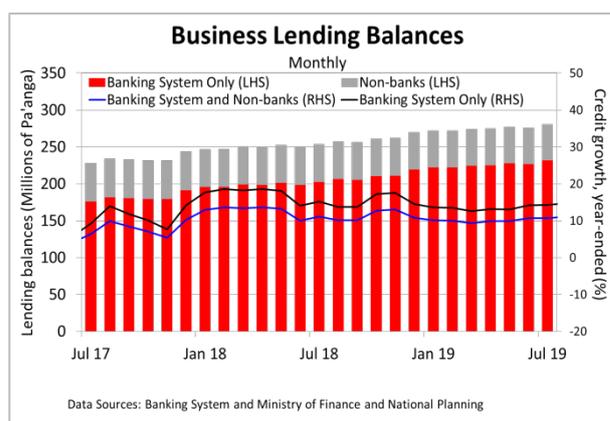
Over the month and year to July 2019, the banks' total lending to households increased by 0.1% (\$0.3 million) and 3.9% (\$9.8 million) respectively to \$259.2 million. This increase in household loans was mainly driven by the continuous increase in housing loans, and supported by higher other personal loans, over the year.

Other lending

Banks' other lending fell over the month and year to July 2019 by 46.2% (\$0.2 million) and 73.4% (\$0.6 million), due to lower loans offered to non-profit institutions serving households.

Non-performing loans

The lower non-performing loan balances from the fisheries, vehicles/transport, agricultural, and manufacturing sectors improved the overall non-performing loans further in July 2019. As a result, the share of non-performing loans to total loans also improved from 3.2% last month and 3.9% last year to 3.1% in July 2019.



Deposits

Table 2: Deposit Balances

	Monthly				Annual		
	Jul-19	Jun-19	Change	% Growth	Jul-18	Change	% Growth
Total Deposits (\$ in million)	613.2	611.0	2.2	0.4	624.7	-11.5	-1.8
Demand Deposits	261.8	262.8	-1.0	-0.4	271.7	-9.9	-3.6
Saving Deposits	114.9	113.5	1.5	1.3	95.9	19.0	19.8
Time Deposits	236.5	234.8	1.8	0.8	257.2	-20.6	-8.0

Sources: Banking Systems; NRB

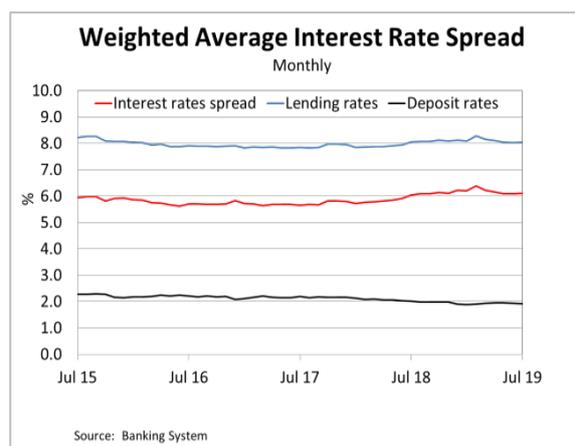
In July 2019, the banks' total deposits rose further to \$613.2 million by \$2.2 million (0.4%). Both saving and time deposits increased, reflecting more deposits made by individuals and private businesses. This offset the decline in demand deposits as a result of lower deposits from private businesses, government, and state-owned enterprises.

Over the year, the banks' total deposits fell by \$11.5 million (1.8%) due mainly to lower time and demand deposits. The decrease in time deposits was driven mainly by lower deposits from individuals, state-owned enterprises, insurance companies, and microfinance institutions, whereas the decline in demand deposits was mainly due to the lower deposits from state-owned enterprises and government. Saving deposits, however, rose over the year due to an increase in deposits made by individuals, churches, schools, as well as state-owned enterprises.

Interest rate spread

The weighted average interest rate spread widened over the month by 1.73 basis points to 6.11%. This was solely driven by the decline in weighted average deposits rates as both demand and time deposits rates declined and offset the rise in saving deposit rates. The weighted average lending rates however slightly rose due to higher lending rates to businesses which was almost offset by the decrease in household lending rates.

Over the year, the weighted average interest rate spread widened by 6.5 basis points. This was due



	Weighted average of all banks					
	Level as at			Change over the last ^a		Share of loans/deposits %
	Jul-19 %	Jun-19 %	Jul-18 %	1 month bps	1 year bps	
Interest Rate Spread	6.11	6.09	6.04	1.73	6.46	
Deposits all	1.93	1.94	2.02	-1.37	-9.35	100
Demand	0.27	0.30	0.31	-3.15	-3.95	42
Savings	2.58	2.55	2.43	3.12	15.03	20
Term	3.39	3.43	3.67	-4.11	-27.57	38
Loans all	8.03	8.03	8.06	0.36	-2.89	100
Housing	8.19	8.20	8.17	-0.81	1.71	42
Other personal	11.45	11.46	11.40	-0.85	5.47	12
Business	7.69	7.64	7.72	4.32	-3.34	29
Other	6.25	6.25	6.25	0.00	0.00	17

*Method for calculating these series was updated in August 2014, resulting in revision to the full history of data
^aDue to rounding errors some data may not aggregate precisely
 Sources: Banking Systems, NRBT

to the decrease in the weighted average deposit rates outweighing the decline in weighted average lending rates. Both demand and time deposit rates fell and exceeded the increase in saving deposit rates, whereas reduced lending rates offered to businesses within the entertainment & catering, tourism, construction, and agricultural sectors contributed to the decline in weighted average lending rates. Household lending rates however increased due mostly to higher interest rates on vehicle loans but were fully offset by the decreased business loans.

Broad money

Broad money fell over July 2019 and the year to \$593.9 million, by 1.0% (\$6.2 million) and 1.9% (\$11.7 million), respectively. This resulted from the lower net domestic assets, which was mainly driven by lower government deposits from the payout of matured government bonds over the month and higher credit to private sectors over the year. On the other hand, the net foreign assets increased over the month and year, mainly on higher foreign reserves from the receipt of budgetary support, grants, and remittances.

Liquidity

Liquidity (reserve money)¹ in the banking system rose over the month of July 2019, by 2.2% (\$6.7 million) to \$309.0 million.

The higher deposits from the commercial banks to the Reserve Bank vault led the monthly rise,

	Level as at			Change over the last	
	Jul-19 \$TOPm	Jun-19 \$TOPm	Jul-18 \$TOPm	1 month % growth	1 year % growth
Broad money liabilities	593.9	600.1	605.6	-1.0	-1.9
Currency in circulation	62.9	70.3	67.1	-10.4	-6.2
Demand deposits	208.8	211.6	212.9	-1.3	-1.9
Savings and term deposits*	322.2	318.2	325.6	1.3	-1.1
<i>equals</i>					
Net foreign assets	510.0	506.3	497.5	0.7	2.5
<i>plus</i>					
Net domestic assets	84.4	94.2	108.4	-10.4	-22.2
Gross bank lending**	492.5	487.9	456.0	0.9	8.0
Public enterprises	61.2	60.2	54.8	1.7	11.7
Private Sector	427.9	424.8	398.6	0.7	7.3
Other financial corporations	3.5	2.9	2.6	18.3	33.8
Other***	-408.1	-393.7	-347.6	3.7	17.4

* 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

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

supported by the slight increase in the bank's statutory required deposits. These outweighed the decline in currency in circulation. The banks' total loans to deposit ratio increased from 77.8% to 78.4% over the month, reflecting loans rising at a faster pace than the increase in deposits.

Over the year, liquidity (reserve money) in the banking system fell by 7.0% (\$23.4 million) due mainly to a decrease in the commercial banks' exchange settlement accounts. This resulted from higher withdrawals from the Reserve Bank vault, to cater for the festivities during the year such as church conferences, family & school reunions, and the Christmas & New Year celebrations. The currency in circulation decreased also and supported this annual decline. Statutory required deposits, on the other hand rose, reflecting the increase of the statutory required deposit requirement ratio from 5% to 10%.

Outlook

Credit growth is expected to continue in the near term but at a slower pace. The level of competition between banks in terms of housing loans coupled with the accommodative monetary policy, is expected to utilize the excess liquidity in the banking system for further lending to support economic activity.

The Reserve Bank will continue to closely monitor the growth across all monetary indicators, particularly credit growth and broad money movements, for any signs of overheating and to ensure financial and macroeconomic stability is maintained.