

Banking Sector Developments June 2019

Release date: 22 October 2019

	Jun-19	May-19	Apr-19	Mar-19
Deposit rate (%)*	1.939	1.956	1.954	1.934
Lending rate (%)*	8.029	8.044	8.111	8.153
Total Deposits (T\$M)	611.0	605.1	611.0	606.6
Total lending (T\$M)	486.2	487.3	484.3	484.9
New commitments (T\$M)	10.3	13.3	8.6	11.2
Broad Money (T\$M)	600.1	584.8	585.9	583.5

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

Broad money expanded

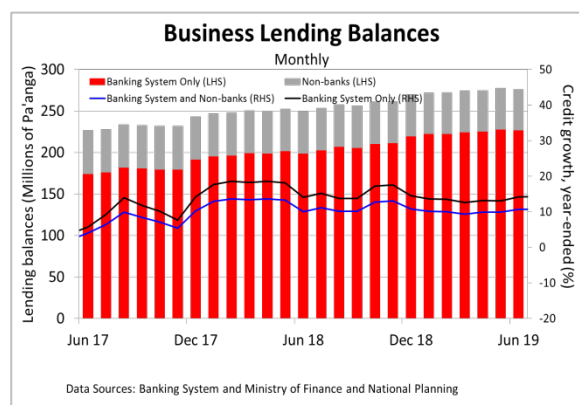
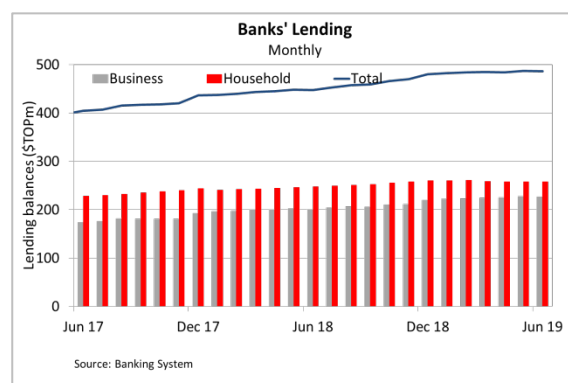
Lending

The banks' lending for June 2019 was a total of \$486.2 million, marking a slight decline of 0.2% over the month due mainly to lower business and household loans. Annually, total lending continued to grow by 8.7% as both business and household lending rose.

The non-bank financial institutions loans continued with its rising trend both over the month and year by 0.7% and 16.9%, respectively, indicating individuals may find these loans easily accessible. Government on-lent loans continued declining by 0.2% over the month and 2.8% over the year due mainly to loan repayments.

Business lending

The partial write off of a business loan for construction and tourism purposes resulted in a 0.4% decline in business loans over the month to \$226.9 million. This was also driven by lower lending to the tourism, transport and manufacturing sectors. However over the year, lending to businesses expanded by 14.2% mainly on higher loans offered to the transport, professional & other services, distribution, and tourism sectors.



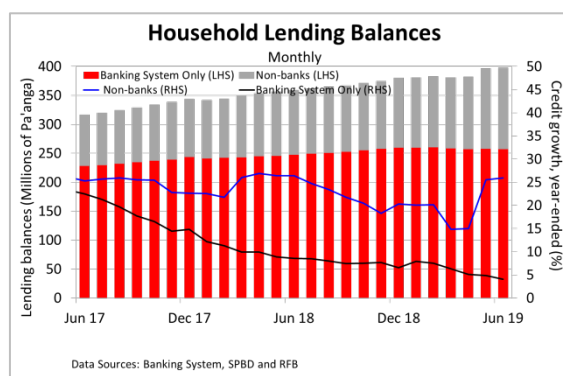
Household lending

The bank's total lending to households fell by 0.1% (\$0.2 million) over the month of June 2019, due mainly to the decline in all types of households loans with other personal loans declining the most by \$0.1 million. However, over the year, household loans grew by 4.5% as a result of higher housing and other personal loans.

Other lending

Banks other lending grew by 34.1% (\$0.5 million) in June 2019, due to more loans from non-profit institutions serving households.

Non-performing loans



	Level as at		Change over the last:			Shares of totals
	Jun 19	May 19	Jun 18	1 month	1 year	
	TOPm	TOPm	TOPm	%	%	
Lending, banks	486.2	487.3	447.3	-0.2	8.7	100.0
Household	258.9	259.1	247.7	-0.1	4.5	53.2
Business*	226.9	227.9	198.7	-0.4	14.2	46.7
Other	0.4	0.3	0.9	34.1	-52.6	0.1
Lending, banks and other	675.6	675.4	609.4	0.0	10.9	100.0
Household	399.1	397.8	359.1	0.3	11.1	59.1
Business	276.2	277.3	249.4	-0.4	10.7	40.9
Other	0.4	0.3	0.9	34.1	-52.6	0.1
New comm'ts, banks	10.3	13.3	19.8	-22.8	-47.9	N/A
Undrawn comm'ts, banks	26.5	22.7	24.9	0.0	6.5	N/A
Implied repay'ts, banks	-3.9	-4.2	20.7	0.0	-118.7	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

The non-performing loans for June 2019 further improved, partially from lower non-performing loan balances to the transport, entertainment & catering, and agricultural sectors, and a debt written off in the fisheries sector. Consequently, the share of non-performing loans in total loans improved from 3.8% last month and 3.7% last year to 3.2% in June.

Deposits

	Monthly				Annual		
	Jun-19	May-19	Change	% Growth	Jun-18	Change	% Growth
	Total Deposits (\$ in million)	611.0	605.1	5.9	1.0	596.2	14.8
Demand Deposits	262.8	264.0	-1.2	-0.4	244.5	18.3	7.5
Saving Deposits	113.5	106.0	7.5	7.1	95.0	18.4	19.4
Time Deposits	234.8	235.2	-0.4	-0.2	256.7	-21.9	-8.5

Sources: Banking Systems; NRBT

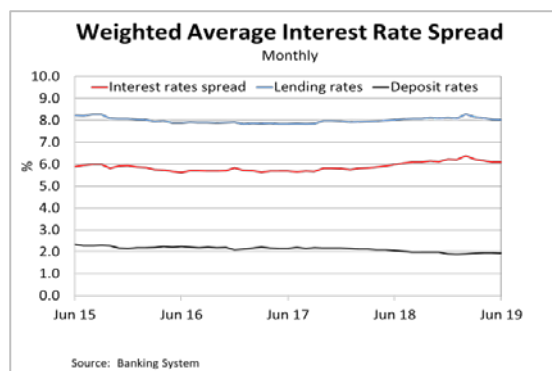
The banks' total deposits for June 2019 rose by \$5.9 million (1.0%) to \$611.0 million. This was solely driven by an increase in saving deposits, mainly from state-owned enterprises. Both demand and time deposits declined over the month due to lower deposits from state-owned enterprises, individuals and non-profit organisation.

In year ended terms, the banks' total deposit rose by \$14.8 million (2.5%), mainly on higher demand and saving deposits outweighing the decline in time deposits. Higher deposits made by private businesses, individuals and churches resulted in the increase in demand and saving deposits. The conversion of the individuals' time deposits into savings and demand deposits also drove the

decrease in time deposits as well as lower time deposits from state-owned enterprises, insurance companies, and microfinance.

Interest rate spread

The weighted average interest rate spread widened over the month and year to June 2019 by 0.2 basis points to 6.09%. This was largely driven by a decline in weighted average deposit rates at a faster pace than the decrease in weighted average lending rates, over the month. Demand deposit rates decreased, offsetting the increase in saving and time deposit rates, whereas lower lending rates were mainly for the construction, tourism, and agricultural sectors.



	Weighted average of all banks					
	Level as at			Change over the last*		
	Jun-19	May-19	Jun-18	1 month	1 year	Share of loans/deposits
	%	%	%	bps	bps	%
Interest Rate Spread	6.09	6.09	5.92	0.23	17.29	
Deposits all	1.94	1.96	2.03	-1.70	-8.76	100
Demand	0.30	0.37	0.34	-6.86	-3.49	42
Savings	2.55	2.54	2.42	0.47	13.20	20
Term	3.43	3.42	3.46	1.11	-3.06	38
Loans all	8.03	8.04	7.94	-1.47	8.52	100
Housing	8.20	8.21	8.17	-0.65	3.44	42
Other personal	11.46	11.45	11.40	1.25	6.69	12
Business	7.64	7.69	7.40	-4.90	24.32	29
Other	8.87	7.92	6.25	94.61	261.91	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

The annual rise was a result of 8.76 basis points decrease in weighted average deposit rates coupled with the 8.52 basis points rise in weighted average lending rates. Both demand and time deposits rates decreased and outweighed the increase in saving deposit rates, while the increase in lending rates were mainly for the manufacturing, distribution, and utility sectors.

Broad money

Broad money expanded by 2.6% (\$15.3 million) to \$600.1 million in June 2019. The net foreign assets hiked as a result of the high foreign reserves from the receipts of budgetary support that was received at the end of the fiscal year. This outweighed the decline in net domestic assets from higher government deposits. Over the year both net foreign assets and net domestic assets increased as a result of higher foreign reserves and credit to private sectors, followed by the rise in net credit to government.

	Level as at			Change over the last	
	Jun-19	May-19	Jun-18	1 month	1 year
	\$TOPm	\$TOPm	\$TOPm	% growth	% growth
Broad money liabilities	600.1	584.8	575.4	2.6	4.3
Currency in circulation	70.3	64.0	70.1	9.7	0.2
Demand deposits	211.6	208.8	182.2	1.4	16.2
Savings and term deposits*	318.2	312.0	323.0	2.0	-1.5
<i>equals</i>					
Net foreign assets	506.3	488.8	485.3	3.6	4.3
<i>plus</i>					
Net domestic assets	94.2	96.4	90.3	-2.3	4.4
Gross bank lending**	487.9	493.5	450.1	-1.1	8.4
Public enterprises	60.2	60.2	52.3	-0.1	15.2
Private Sector	424.8	430.2	395.5	-1.2	7.4
Other financial corporations	2.9	3.1	2.4	-5.5	21.2
Other***	-393.7	-397.1	-359.8	-0.9	9.4

* 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

Liquidity

Liquidity (reserve money)¹ in the banking system fell over the month of June 2019 by \$8.8 million (2.8%) to \$302.2 million. This was mostly driven by the decline in the exchange settlement accounts mainly on higher withdrawals for investment abroad, and to cater for the June festivities. The

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

required reserves also fell slightly, supporting the monthly decline. The decline in the exchange settlement account and the required reserves more than offset the increase in currency in circulation over the month. The banks' total loans to deposit ratio fell from 78.7% to 77.8% over the month, reflecting declining loans against higher deposits.

Over the year, liquidity (reserve money) in the banking system also declined by \$15.5 million (4.9%), solely driven by the drop in exchange settlement accounts due to the statutory non-bank financial corporations' investment abroad. This outweighed the increase in both the required reserve and the currency in circulation, mainly on higher deposits and public demand for cash to cater for major events and economic activities that took place during the year such as church conferences, family & school reunions and the Christmas & New Year celebrations.

Outlook

Credit growth from banks and other financial institutions came in lower at 10.9% when compared to the Reserve Bank's forecast of 13% credit growth for 2018/19. 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 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.