

Banking Sector Developments March 2019

Release date: 20 June 2019

	Mar-19	Feb-19	Jan-19	Dec-18
Deposit rate (%)*	1.934	1.902	1.882	1.897
Lending rate (%)*	8.153	8.287	8.092	8.122
Total Deposits (T\$M)	606.6	622.4	631.5	624.9
Total lending (T\$M)	484.9	483.7	482.8	479.9
New commitments (T\$M)	11.2	13.9	13.2	14.1
Broad Money (T\$M)	583.5	589.0	598.3	605.3

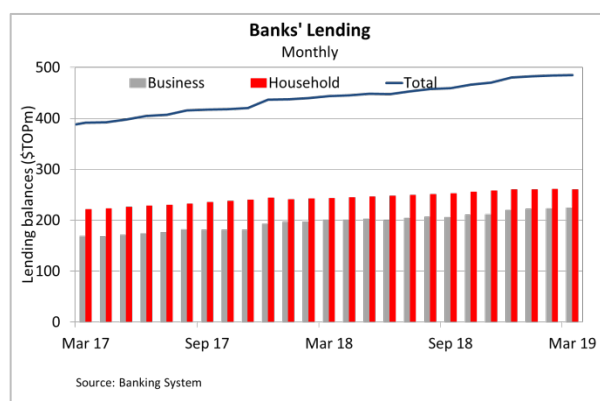
*Weighted Average calculated as a function of interest rate and volume of deposits and loans

Broad money fell again on higher payments for loan and imports

Lending

The banks' lending for March 2019 was a total of \$484.9 million, marking a slight rise of 0.2% over the month and 9.3% annual growth. This was largely driven by higher lending to businesses which outweighed the decline in both individuals and other loans.

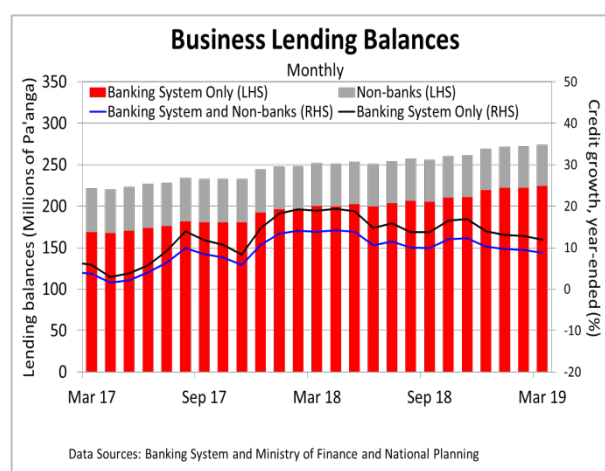
The non-bank financial institutions loans continued with its rising trend both over the month and year by 0.5% and 14.9% respectively, indicating individuals may find these loans easily accessible. Government on-lent loans continued declining in March 2019 by 0.03%.



Business lending

Lending to businesses expanded over the month and year by 0.9% and 12.0% respectively to \$224.6 million. The monthly growth was largely driven by higher lending to public enterprises, transport, and agriculture sectors offsetting the decline in lending to private sectors mainly construction, professional & other services, and manufacturing sectors. Lower construction loans over the month coincided with the 22.4% decline in imports of construction materials.

The annual credit growth attributed mainly to higher business loans offered to both public enterprises and private sectors such as transport, professional & other services, construction and agricultural sectors, indicating growth in these sectors



coinciding with various domestic and economic activities during the year. The increase in construction loans was supported by the 13.9% rise in imports of construction materials. Business lending (including government on-lent loans) rose by \$22.1 million (8.8%) over the year reflecting more business loans offsetting repayments of government on-lent loans.

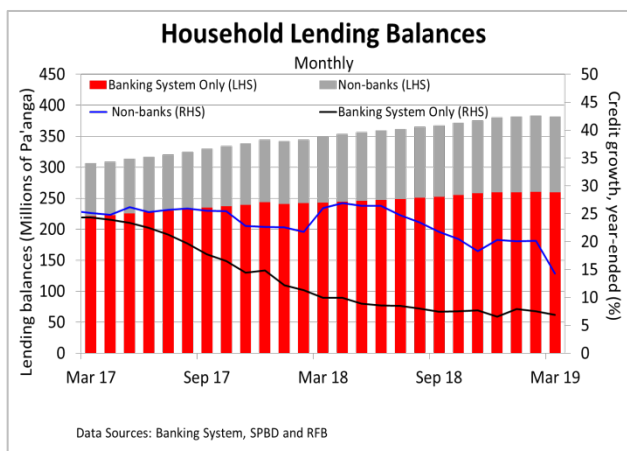
Household lending

The bank's total lending to household fell by 0.3% (\$0.8 million) over the month of March 2019 due mainly to the decline in households' other personal loans as well as lower housing and vehicle loans. Over the year, household loans still expanded but lower than the 7.5% growth recorded last month, by 6.9% mainly on higher housing and other personal loans.

Other lending

Banks other lending slightly decline in March 2019 by 7.8%, as lending to other depository institutions fell.

Non-performing loans



	Level as at		Change over the last:			Shares of totals %
	Mar 19	Feb 19	Mar 18	1 month	1 year	
	TOPm	TOPm	TOPm	%	%	
Lending, banks	484.9	483.7	443.6	0.2	9.3	100.0
Household	260.0	260.8	243.3	-0.3	6.9	53.6
Business*	224.6	222.6	200.6	0.9	12.0	46.3
Other	0.3	0.3	0.9	-7.8	-65.5	0.1
Lending, banks and other	656.0	654.8	601.3	0.2	9.1	100.0
Household	381.8	382.6	349.9	-0.2	9.1	58.2
Business	273.9	271.8	251.8	0.7	8.8	41.7
Other	0.3	0.3	0.9	-7.8	-65.5	0.1
New comm'ts, banks	11.2	13.9	8.7	-19.2	28.6	N/A
Undrawn comm'ts, banks	0.0	0.0	16.5	0.0	-100.0	N/A
Implied repay'ts, banks	0.0	0.0	5.0	0.0	-100.0	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 March 2019 improved further, due mainly to lower non-performing loan balances from the transport, vehicles, and tourism sectors. Consequently, the share of non-performing loans in total loans improved from 3.6% last month and 3.8% last year to 3.5% this month.

Deposits

In March 2019, the banks' total deposits decreased further to \$606.6 million by 2.5% (\$15.8 million) due mainly to decline in demand and time deposits. Saving deposits, however, rose mainly driven by increased savings from individuals. Lower demand deposits were largely driven by the transfer of government deposits from the commercial banks to the Reserve Bank. The decrease in time deposits of individuals led the decline in time deposits which also coincided with the lower time deposit rates over the month.

Table 2: Deposit Balances

	Monthly				Annual		
	Mar-19	Feb-19	Change	%	Mar-18	Change	% Growth
Total Deposits (\$ in million)	606.6	622.4	-15.8	-2.5	571.4	35.3	6.2
Demand Deposits	265.6	280.8	-15.2	-5.4	242.8	22.8	9.4
Saving Deposits	100.7	100.4	0.3	0.3	83.8	16.9	20.1
Time Deposits	240.4	241.3	-0.9	-0.4	244.7	-4.3	-1.8

Sources: Banking Systems; NRBT

In year ended terms, the increased demand and savings deposits continued to be the major driver for the \$35.3 million (6.2%) increase in the banks' total deposits. Again, the individuals contributed the most to saving deposits while the public enterprises' held the most contribution to the increase in demand deposits. On the other hand, time deposits fell again as a result of the decline in public enterprises' time deposits in which most of these may have converted and supported the increased demand deposits. The rise in saving deposits was in line with the increased interest rates and the high remittances over the year while the lower time deposits coincided with the decreased time deposit rates.

Interest rate spread

In March 2019, the weighted average interest rate spread narrowed by 16.6 basis point to 6.22%, due mainly to lower lending rates offsetting the increase in deposit rates. The lower lending rates offered to the public sector solely drove the lower weighted average lending rate and offsets the rise in lending rates offered to individuals and private businesses. The increased demand deposit rates led to the rise in the weighted average deposit rate. At the same time, both the saving and time deposit rates fell over the month.

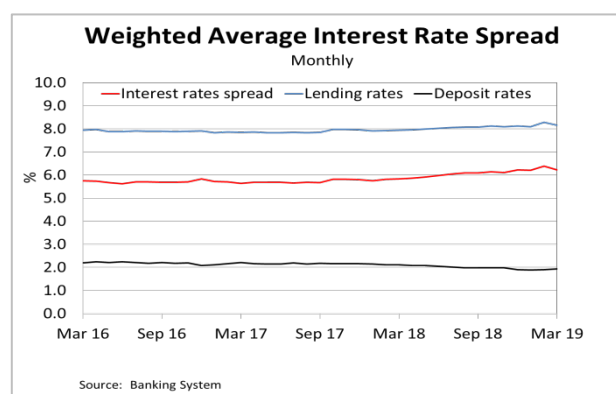


Table 3: Interest Rates

	Weighted average of all banks					
	Level as at			Change over the last ^a		Share of loans/deposits
	Mar-19	Feb-19	Mar-18	1 month	1 year	
	%	%	%	bps	bps	%
Interest Rate Spread	6.22	6.39	5.83	-16.61	39.11	
Deposits all	1.93	1.90	2.11	3.22	-17.61	100
Demand	0.34	0.32	0.44	1.95	-9.84	45
Savings	2.59	2.60	2.40	-1.23	18.63	16
Term	3.39	3.41	3.54	-2.06	-15.54	39
Loans all	8.15	8.29	7.94	-13.38	21.50	100
Housing	8.24	8.24	8.10	-0.26	13.73	42
Other personal	11.49	11.45	11.37	4.47	12.00	12
Business	7.98	7.83	7.45	15.27	52.34	29
Other	6.25	6.25	6.25	0.00	0.00	17

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

Over the year, the weighted average interest rates spread widened by 39.1 basis points as a result of a higher weighted average lending rate. Higher lending rates were offered mainly to the tourism, manufacturing, and fisheries sectors as well as for households' housing and other personal loans. On the other hand, the decline in time and demand deposit rates led the annual decrease in the weighted average deposit rates.

Both volumes also increased over the year despite the contradicting movements in interest rates

indicating the high demand to access loans as well as the excess liquidity available in the banking system for further lending.

Broad money

	Table 4: Consolidated Balance Sheet of Depository Corporations				
	Level as at			Change over the last	
	Mar-19	Feb-19	Mar-18	1 month	1 year
	\$TOPm	\$TOPm	\$TOPm	% growth	% growth
Broad money liabilities	583.5	589.0	558.7	-0.9	4.4
Currency in circulation	60.9	60.5	67.3	0.7	-9.6
Demand deposits	211.8	217.4	180.2	-2.6	17.5
Savings and term deposits*	310.8	311.1	311.1	-0.1	-0.1
<i>equals</i>					
Net foreign assets	482.0	492.6	461.7	-2.1	4.4
<i>plus</i>					
Net domestic assets	101.8	96.7	97.2	5.2	4.8
Gross bank lending**	490.4	490.0	446.3	0.1	9.9
Public enterprises	60.4	58.3	53.3	3.4	13.2
Private Sector	427.8	429.3	391.2	-0.4	9.4
Other financial corporations	2.2	2.3	1.7	-4.9	28.1
Other***	-388.6	-393.3	-349.1	-1.2	11.3

^{*} 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

Broad money fell for the third consecutive month in March 2019 by \$5.5 million (0.9%) to \$583.5 million. This was largely driven by lower net foreign assets outweighing the increase in net domestic assets. The lower net foreign assets was a result of the decline in foreign reserves due to the loan repayment made to the EXIM Bank of China coupled with oil and other import payments. On the other hand, the lower government deposits increased the net credit to

government as well as the net domestic assets. Annually, broad money rose by \$24.8 million (4.4%) underpinned by higher net foreign assets and net domestic assets. The increased foreign reserves due to the receipt of budget support, cyclone relief, project funds and remittances continued to increase the net foreign assets, and higher credit to private sectors led the growth in net domestic assets.

Liquidity

Liquidity (reserve money)¹ in the banking system declined again over the month by 4.7% (\$15.2 million) to \$305.4 million as a result of the decrease in the banks' Exchange Settlement Accounts (ESA) followed by lower required reserves and currency in circulation. The transfer of government deposits from the commercial banks coupled with their net purchases from the Reserve Bank led to the declined ESA. The lower required reserves reflects the lower deposits last month and the decline in currency in circulation indicates less demand by the public reflecting less activities & festivities during the month. The banks' total loans to deposit ratio climbed further to 78.1% from 76.0% last month but still remained below the minimum level of 80%, indicating excess liquidity still remains in the banking system for further lending.

Over the year, the total liquidity in the banking system slightly decreased by 1.1% (\$3.4 million) underpinned by a decline in the currency circulated and the banks' ESA balances due mainly to lower demand by the public and net purchases by the commercial banks from the Reserve Bank. These movements offset the increase in the statutory required deposits mainly on higher deposits. Overall, this further coincided with the various events and economic activities that took place throughout the year such as church conferences, family reunions and the Christmas and New Year celebrations.

Outlook

Banks' prospects for credit growth continue to be positive, and as such, the Reserve Bank forecasts a credit growth of 13.0% for the current financial year (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. The level of competition between banks in terms of housing loans coupled with the accommodative monetary policy for banks to utilize the excess liquidity would continue to encourage further lending and support economic activity.

The Reserve Bank will continue to closely monitor all monetary indicators particularly credit growth and broad money, with respect to net credit to government and the foreign reserves 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.