

Banking Sector Developments October 2019

Release date: 13 March 2020

	Oct-19	Sep-19	Aug-19	Jul-19
Deposit rate (%)*	1.933	1.944	1.924	1.925
Lending rate (%)*	7.970	7.999	8.035	8.033
Total Deposits (T\$m)	614.5	615.3	615.5	613.2
Total lending (T\$m)	496.9	493.9	496.5	490.8
New commitments (T\$m)	10.7	9.5	13.6	13.8
Broad Money (T\$m)	592.5	594.5	602.3	593.9

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

Business loans grew in October

Lending

The banks' total lending grew over the month and year to October 2019, by \$3.0 million (0.6%) and \$30.6 million (6.6%) respectively to \$496.9 million. This increase was mostly driven by more lending to businesses.

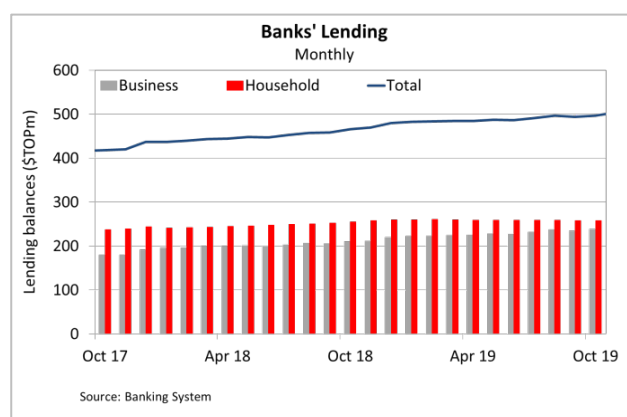
The non-bank financial institutions loans continued to increase over the month and year by \$1.2 million (0.6%) and \$29.6 million (17.8%) respectively, reflecting the accessibility of these loans to individuals in the informal sector and small medium enterprises. Government on-lent loans declined by 1.1% over the month and 4.6% over the year due to loan settlements.

Business lending

The banks' total lending to businesses increased over the month and year to October 2019, by \$3.4 million (1.5%) and \$28.2 million (13.4%) respectively to \$238.6 million. Lending to the professional & other services, agriculture, and tourism sectors led the monthly rise, whereas more loans offered to the state-owned enterprises, professional & other services, transport, and tourism sectors resulted in the annual increase.

	Level as at		Change over the last:			Shares of totals
	Oct 19	Sep 19	Oct 18	1 month	1 year	
	TOPm	TOPm	TOPm	%	%	
Lending, banks	496.9	493.9	466.3	0.6	6.6	100.0
Household	258.3	258.5	255.3	-0.1	1.1	52.0
Business*	238.6	235.2	210.4	1.5	13.4	48.0
Other	0.0	0.3	0.6	-84.0	-93.4	0.0
Lending, banks and other	693.2	689.1	633.0	0.6	9.5	100.0
Household	406.4	404.9	371.5	0.4	9.4	58.6
Business	286.8	284.0	260.9	1.0	9.9	41.4
Other	0.0	0.3	0.6	-84.0	-93.4	0.0
New comm'ts, banks	10.7	9.5	13.5	12.3	-21.0	N/A
Undrawn comm'ts, banks	20.0	28.9	21.1	0.0	-5.3	N/A
Implied repay'ts, banks	16.5	-0.2	13.6	0.0	21.9	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

Household loans however, decreased over the month by \$0.2 million (0.1%), but increased over the year by \$2.9 million (1.1%) to \$258.3 million. Both monthly and annual developments reflected the movements in housing loans. Vehicle loans however decreased over the month and over the year. As for Other personal loans, it increased over the month but declined over the year.

Other lending

Banks' other lending fell over the month and year to October 2019 by \$0.2 million (84.0%) and \$0.6 million (93.4%), due to lower loans offered to non-profit institutions serving households.

Non-performing loans

The non-performing loan balances increased over the month of October 2019, due to more non-performing loans from the professional & other services, and distribution sectors. This led to an increase in the share of non-performing loans to total loans from 3.1% last month to 3.2%, however this is still lower than the 3.6% recorded in the same month last year.

Deposits

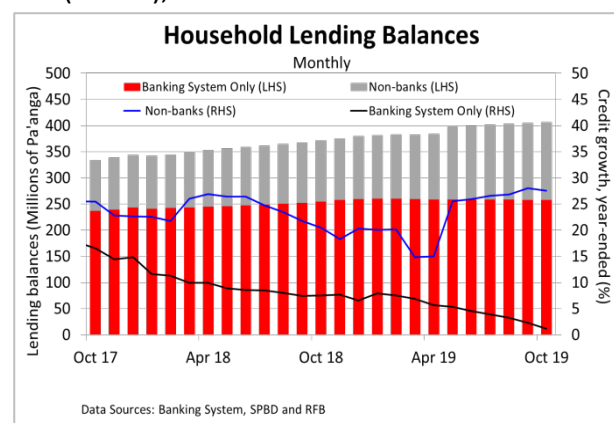
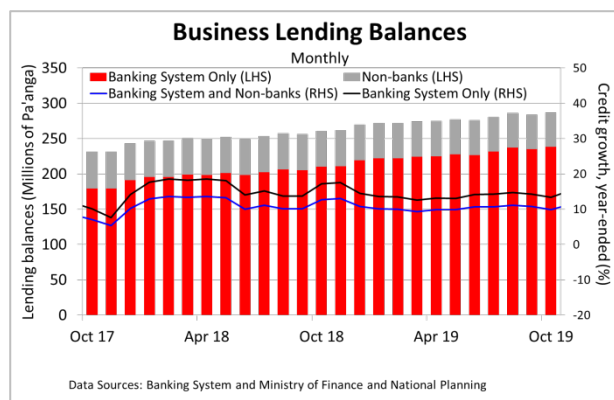


Table 2: Deposit Balances

	Monthly				Annual		
	Oct-19	Sep-19	Change	% Growth	Oct-18	Change	% Growth
Total Deposits (\$ in million)	614.5	615.3	-0.8	-0.1	621.7	-7.3	-1.2
Demand Deposits	267.4	270.3	-2.9	-1.1	274.7	-7.4	-2.7
Saving Deposits	111.0	109.6	1.5	1.3	101.8	9.2	9.1
Time Deposits	236.0	235.4	0.7	0.3	245.2	-9.1	-3.7

Sources: Banking Systems; NRBT

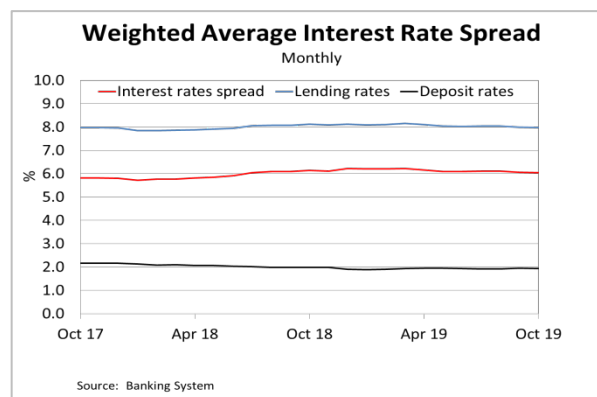
In October 2019, the banks' total deposits declined further by \$0.8 million (0.1%) to \$614.5 million. The decreasing demand deposits solely drove the monthly decline, and was a result of lower deposits from state-owned enterprises reflecting their offshore investments transfers. Both saving and time deposits increased due to higher deposits from churches, schools, and state-owned enterprises.

Over the year, the banks' total deposits fell by \$7.3 million (1.2%) as a result of lower time and demand deposits outweighing the increase in saving deposits. The decrease in time deposits was driven mainly by lower deposits from individuals, churches, and schools whereas lower demand deposits were contributed mainly by declining deposits from state-owned enterprises and government. The higher saving deposits were led by more deposits from individuals, churches, and schools.

Interest rate spread

The weighted average interest rate spread narrowed over the month of October 2019, by 1.72 basis points to 6.04%. The weighted average lending rates decreased the most, due mainly to lower lending rates on non-profit institutions and household loans. Similarly, the weighted average deposit rates declined over the month, solely driven by lower demand deposits rates which outweighed the increases in both saving and time deposits rates. Despite these, the business lending rates slightly rose over the month, underpinned by higher lending rates offered on lending to the utilities, agriculture, and manufacturing sectors.

The weighted average interest rate spread over the year follows the same trend as the monthly trend, narrowing by 10.5 basis points. This was led again by the lower lending rates for non-profit institutions and household loans, supported by lower lending rates to businesses from the construction, tourism, and transport sectors. The weighted average deposit rates declined also, solely driven by lower time deposit rates.



	Weighted average of all banks					
	Level as at			Change over the last ^A		
	Oct-19	Sep-19	Oct-18	1 month	1 year	Share of loans/deposits
	%	%	%	bps	bps	%
Interest Rate Spread	6.04	6.06	6.14	-1.72	-10.54	
Deposits all	1.93	1.94	1.98	-1.09	-4.53	100
Demand	0.31	0.37	0.29	-5.51	2.22	43
Savings	2.66	2.66	2.53	0.25	12.38	19
Term	3.40	3.39	3.62	0.41	-22.26	38
Loans all	7.97	8.00	8.12	-2.81	-15.07	100
Housing	8.01	8.15	8.27	-13.49	-25.36	41
Other personal	11.39	11.43	11.40	-3.68	-1.09	11
Business	7.77	7.63	7.80	13.82	-2.56	29
Other	9.65	7.27	6.28	237.86	336.64	18

^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

Broad money

Over the month of October 2019, broad money declined further by \$2.0 million (0.3%). The continuous decrease in net foreign assets drove the monthly decline, which offsets the slight rise in net domestic assets. The lower net foreign assets were mostly driven by offshore investments during the month, whereas lower capital accounts resulted in the increase in net domestic assets. Over the year, broad money declined by \$3.3 million (0.6%) due to lower net domestic assets, mainly on higher government deposits, thus offsetting the growing net foreign assets.

	Level as at			Change over the last	
	Oct-19	Sep-19	Oct-18	1 month	1 year
	\$TOPm	\$TOPm	\$TOPm	% growth	% growth
Broad money liabilities	592.5	594.5	595.8	-0.3	-0.6
Currency in circulation	60.1	63.2	63.2	-4.8	-4.9
Demand deposits	214.0	215.5	213.7	-0.7	0.1
Savings and term deposits*	318.4	315.8	318.9	0.8	-0.2
<i>equals</i>					
Net foreign assets	503.9	504.5	474.6	-0.1	6.2
<i>plus</i>					
Net domestic assets	91.3	90.7	121.6	0.8	-24.9
Gross bank lending**	497.6	494.6	471.6	0.6	5.5
Public enterprises	63.6	64.0	56.2	-0.6	13.2
Private Sector	429.5	426.8	412.7	0.6	4.1
Other financial corporations	4.4	3.9	2.6	14.7	69.0
Other***	-406.2	-404.0	-349.9	0.6	16.1

* 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 and year to October 2019, by \$8.0 million (2.5%) and \$15.7 million (4.8%) respectively to \$309.4 million. Both decreases were underpinned mainly by lower balances in the commercial banks Exchange Settlement Accounts. These were due mainly to higher net sales to the commercial banks to cover their customers' payments such as offshore investments, oil, and other imports. Currency in circulation decreased also over the month and supported the monthly decline, however slightly increased over the year.

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

On the other hand, the Statutory Required Deposits increased over the month and over the year. The banks' total loans to deposit ratio increased from 78.6% to 79.1% over the month, reflecting loans rising while deposits declined.

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.