

Banking Sector Developments February 2020

Release date: 30 July 2020

	Feb-20	Jan-20	Dec-19	Nov-19
Deposit rate (%)*	2.037	1.995	1.994	1.950
Lending rate (%)*	8.015	8.033	8.020	8.015
Total Deposits (T\$m)	594.4	604.3	607.4	607.6
Total lending (T\$m)	499.7	500.7	500.9	504.3
New commitments (T\$m)	5.6	12.2	14.6	18.9
Broad Money (T\$m)	590.1	592.5	602.2	605.6

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

Total banking deposits and lending slowed over the month

Lending

The banks' total lending declined in February 2020 by \$0.9 million (0.2%) to \$499.7 million. Lending to businesses fell and outweighed the rise in household loans. Over the year, lending increased by 3.3% due to higher loans for both business and household.

Loans extended by the non-bank financial institutions decreased over the month by \$0.5 million (0.5%) due to a decline in loans to individuals in the informal sector and small medium enterprises. However, it rose over the year by \$5.9 million (10.9%). Government on-lent loans remained the same over the month, however, decreased by 4.2% over the year due to loan settlements.

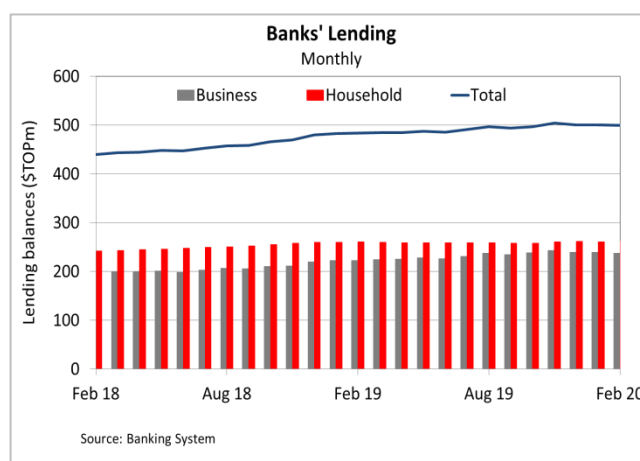


Table 1: Lending Balances (including new commitments)

	Level as at:			Change over the last:		Shares of totals %
	Feb 20 TOPm	Jan 20 TOPm	Feb 19 TOPm	1 month %	1 year %	
Lending, banks	499.7	500.7	483.7	-0.2	3.3	100.0
Household	261.9	261.0	260.8	0.4	0.4	52.4
Business*	237.8	239.7	222.6	-0.8	6.9	47.6
Other	0.0	0.0	0.3	0.0	-100.0	0.0
Lending, banks and other	606.7	608.2	586.9	-0.2	3.4	100.0
Household**	321.4	321.0	314.5	0.1	2.2	53.0
Business	285.3	287.2	272.1	-0.6	4.8	47.0
Other	0.0	0.0	0.3	0.0	-100.0	0.0
New commitments, banks	5.6	12.2	13.9	-54.1	-59.6	N/A
Undrawn commitments, banks	14.3	15.4	17.0	-7.1	-15.7	N/A
Implied repayments, banks	7.6	11.6	18.6	-34.4	-59.0	N/A

* Method for calculating these series was updated in August 2014, resulting in revisions to the full history of data

** Method for calculating these series was updated in January 2020, resulting in revisions to the full history of data

Sources: SPBD; RFB; MOFNP; Banking system

Business lending

In February 2020, lending to businesses fell by \$1.9 million (0.8%) to \$237.8 million. Lending to almost all sectors of the economy declined, led by tourism, manufacturing, and construction. However, over the year, business loans increased due to more loans issued to agricultural, professional & other services, and transport sectors.

Household lending

Household loans grew over the month and year to February 2020, by \$0.9 million (0.4%), and \$1.1 million (0.4%) respectively to \$261.9 million. This was due mainly to higher housing loans both over the month and year. However, both vehicles and other personal loans declined over the year.

Other lending

Banks had no other lending during the month. Over the year to February 2020, it decreased due to a decline in lending to non-profit institutions serving households.

Non-performing loans

Non-performing loans increased in February 2020 mainly on non-performing loans from the banks' lending to individual for housing and other personal loans, and government development loans to the agricultural, and fishing sector. Hence, the share of non-performing loans to total loans increased from 3.3% last month to 3.4% in February 2020. However, this is lower than 3.7% recorded in February 2019.

Deposits

Over the month and year to February 2020, the banks' total deposits fell to \$594.4 million by \$9.9 million (1.6%) and \$28.0 million (4.5%) respectively. The monthly decline was a result of lower time and demand deposits, mainly on decreased deposits from central government, public enterprises, non-profit institutions, and individuals. These declines had offset a slight increase in saving deposits specifically made by non-bank financial corporations and the private sector. The annual decrease was solely driven by a decline in demand deposits which outweighed the rises in both saving and time deposits. Annually, the lower demand deposits were underpinned mainly by lower deposits from retirement funds, government, and public enterprises. However, higher saving deposits are mainly private non-banks financial corporations, and non-profit institutions, and time deposits were from retirement funds, non-profit institutions and government.

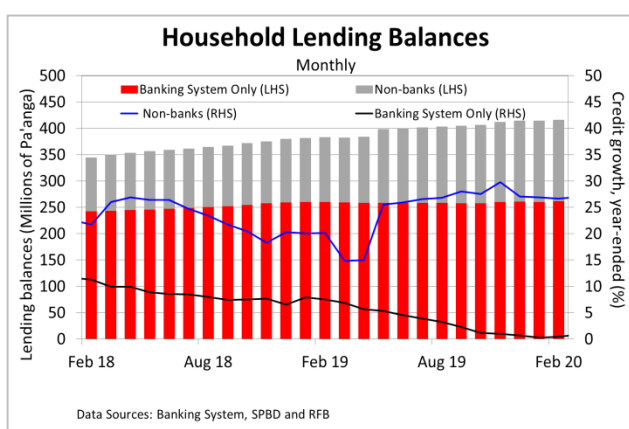
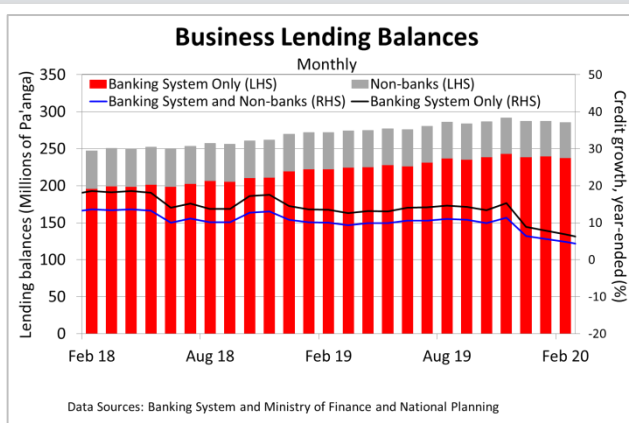


Table 2: Deposit Balances

	Monthly				Annual		
	Feb-20	Jan-20	Change	% Growth	Feb-19	Change	% Growth
Total Deposits (\$ in million)	594.4	604.3	-9.9	-1.6	622.4	-28.0	-4.5
Demand Deposits	250.9	254.9	-4.0	-1.6	280.8	-29.9	-10.7
Saving Deposits	101.5	101.3	0.2	0.2	100.4	1.1	1.1
Time Deposits	242.1	248.1	-6.0	-2.4	241.3	0.8	0.3

Sources: Banking Systems; NRBT

Interest rate spread

Over the month of February 2020, the weighted average interest rate spread narrowed by 6.09 basis points to 5.98% due to lower weighted average lending rate, mainly for business loans. In particular, lending rates for the agriculture, tourism, transport, and distribution sectors. This was also supported by the increase in saving, demand, and term deposit rates.

Over the year, the weighted average interest rate spread also narrowed largely attributing to a decline in weighted average lending rates coupled with an increase in weighted average deposit rates. The decrease in weighted average lending rates were mainly for individual lending on housing and other personal loans. On the other hand, the weighted average deposit rates increased due to a rise in term deposit rates.

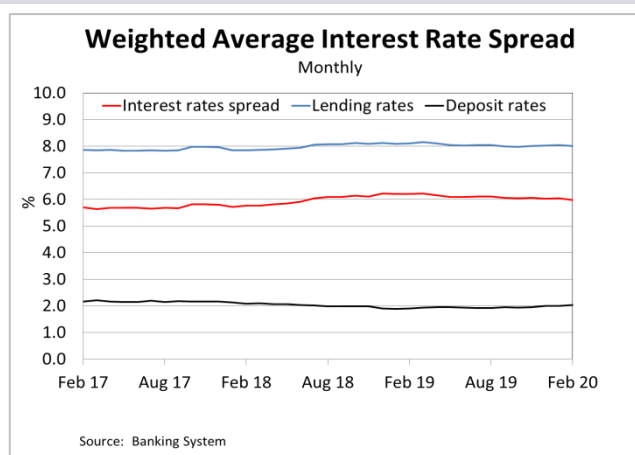


Table 3: Interest Rates

	Weighted average of all banks					
	Level as at			Change over the last ^A		Share of loans/deposits %
	Feb-20 %	Jan-20 %	Feb-19 %	1 month bps	1 year bps	
Interest Rate Spread	5.977	6.038	6.207	-6.09	-22.98	
Deposits all	2.04	2.00	1.90	4.19	13.55	100
Demand	0.32	0.32	0.32	0.72	-0.22	40
Savings	2.58	2.55	2.60	3.17	-1.55	18
Term	3.47	3.44	3.41	2.88	6.33	41
Loans all	8.01	8.03	8.11	-1.89	-9.44	100
Housing	8.05	8.04	8.24	1.01	-18.70	42
Other personal	11.27	11.38	11.45	-10.95	-17.73	11
Business	7.84	7.91	7.83	-6.48	1.69	30
Other	0.00	0.00	6.25	0.00	-625.00	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; NR BT

Broad money

Broad money fell further in February 2020 by \$2.3 million (0.4%) to \$590.1 million, mainly on decreased domestic assets. This was due to higher lending to the public sector. Net foreign assets supported the monthly decline as it continued to fall driven by lower foreign reserves. Over the year, broad money rose by \$1.1 million (0.2%) due to higher net foreign assets as a result of the receipts of budgetary support and grants from development partners which drove the foreign reserves higher. This was partly offset by a decline in net domestic assets and attributed to higher government deposits.

Table 4: Consolidated Balance Sheet of Depository Corporations

	Level as at			Change over the last	
	Feb-20 \$TOPm	Jan-20 \$TOPm	Feb-19 \$TOPm	1 month % growth	1 year % growth
Broad money liabilities	590.1	592.5	589.0	-0.4	0.2
Currency in circulation	63.2	61.8	60.5	2.2	4.5
Demand deposits	210.3	210.0	217.4	0.1	-3.3
Savings and term deposits*	316.6	320.6	311.1	-1.2	1.8
<i>equals</i>					
Net foreign assets	494.9	495.7	492.6	-0.2	0.5
<i>plus</i>					
Net domestic assets	95.8	97.3	96.8	-1.5	-1.0
Gross bank lending**	499.7	501.0	490.0	-0.3	2.0
Public enterprises	61.7	63.9	58.3	-3.5	5.7
Private Sector	435.6	434.3	429.3	0.3	1.5
Other financial corporations	2.4	2.7	2.3	-13.2	1.3
Other***	-403.9	-403.8	-393.2	0.0	2.7

* 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

The banking system remained sound over February 2020, although the liquidity in the banking system fell over the month and year by \$3.4 million (1.1%) and \$22.7 million (7.1%) respectively to \$297.9 million. The monthly decline was due to lower deposits by the commercial banks to the Reserve Bank's vault. However, higher withdrawals from the Reserve Bank's vault by the commercial banks supported by lower required reserves and lower currency circulated contributed to the yearly decline. The banks' total loans to deposit ratio rose over the month from 81.1% last month to 82.2% in February 2020, which is above the Reserve Bank minimum ratio of 80%, reflecting a higher decline in deposits relative to that of loans.

Outlook

Credit growth is expected to fall in the near term due to the COVID-19 outbreak affecting various sectors of the economy. This poses high uncertainties to the level of economic activities which will also consequently affect the public's access to lending and financing. However, the current accommodative monetary policy stance continues to encourage banks to utilize the excess liquidity in the banking system for further lending to support economic growth.

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.