

Banking Sector Developments January 2020

Release date: 24 June 2020

	Jan-20	Dec-19	Nov-19	Oct-19
Deposit rate (%)*	1.995	1.994	1.950	1.933
Lending rate (%)*	8.033	8.020	8.015	7.971
Total Deposits (T\$m)	604.3	607.4	607.6	614.5
Total lending (T\$m)	500.7	500.9	504.3	496.9
New commitments (T\$m)	12.2	14.6	18.9	10.7
Broad Money (T\$m)	592.5	602.2	605.6	592.5

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

Lower foreign reserves decreased broad money further

Lending

In January 2020, the banks' total lending declined further by \$0.2 million (0.04%) to \$500.7 million, owing mostly to a slight decline in household loans offsetting the rise in business loans.

Loans extended by the non-bank financial institutions decreased over the month by \$0.5 million (0.4%), however rose over the year by \$3.9 million (3.7%), reflecting the accessibility of these loans to individuals in the informal sector and small medium enterprises. Government on-lent loans declined over the month and over the year by 1.0% and 4.4% respectively due to loan settlements.

Table 1: Lending Balances (including new commitments)

	Level as at:			Change over the last:		Shares of totals %
	Jan 20 TOPm	Dec 19 TOPm	Jan 19 TOPm	1 month %	1 year %	
Lending, banks	500.7	500.9	482.8	0.0	3.7	100.0
Household	261.0	261.8	260.2	-0.3	0.3	52.1
Business*	239.7	239.0	222.3	0.3	7.8	47.9
Other	0.0	0.1	0.3	-100.0	-100.0	0.0
Lending, banks and other	608.2	608.8	586.5	-0.1	3.7	100.0
Household**	321.0	321.8	314.3	-0.2	2.2	59.1
Business	287.2	287.0	271.9	0.1	5.6	40.9
Other	0.0	0.1	0.3	-100.0	-100.0	0.0
New commitments, banks	12.2	14.6	13.2	-16.3	-7.8	N/A
Undrawn commitments, banks	15.4	14.7	22.7	5.2	-31.9	N/A
Implied repayments, banks	11.6	18.8	8.0	-38.1	45.2	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 data

Sources: SPBD; RFB; MOFNP; Banking system

Business lending

Business loans increased in January 2020 by \$0.7 million (0.3%) to \$239.7 million. This was underpinned mainly by higher loans offered to professional & other services, tourism, public enterprises and construction sectors. Similarly, over the year, lending to businesses rose due to more loans offered to public enterprises, professional & other services, agricultural, transport and tourism sectors.

Household lending

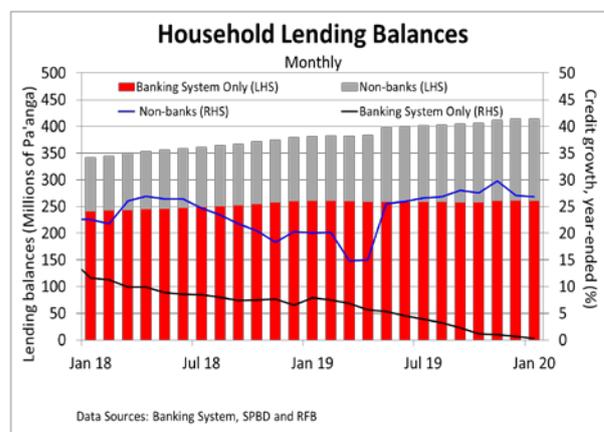
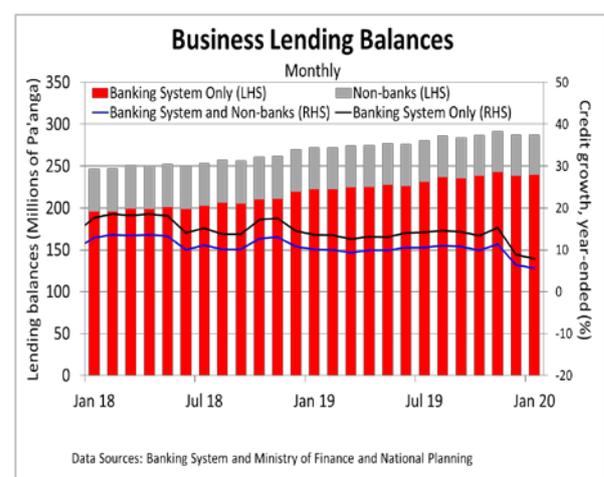
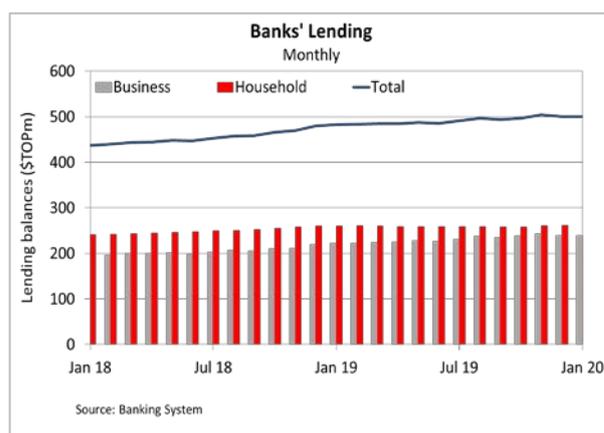
Household loans fell over the month by \$0.8 million (0.3%) to \$261.0 million. Other personal loans decreased the most followed by lower housing, and vehicle loans. However, over the year, lending to households increased by \$0.7 million (0.3%) due mainly to higher housing loans outweighing the lower vehicle and other personal loans.

Other lending

Banks' other lending decreased over the month and over the year to January 2020. This was due to movements in lending to non-profit institutions serving households.

Non-performing loans

The non-performing loan balances increased over the month of January 2020 mainly on higher non-performing loans from the wholesale & retail, tourism, and fisheries sectors. Consequently, the share of non-performing loans to total loans increased from 3.2% last month to 3.3% in January 2020. However, this is still lower than 3.7% recorded in January 2019.



Deposits

Table 2: Deposit Balances

	Monthly				Annual		
	Jan-20	Dec-19	Change	% Growth	Jan-19	Change	% Growth
Total Deposits (\$ in million)	604.3	607.4	-3.1	-0.5	631.5	-27.2	-4.3
Demand Deposits	254.9	253.5	1.4	0.5	285.8	-30.9	-10.8
Saving Deposits	101.3	104.4	-3.1	-2.9	98.1	3.2	3.2
Time Deposits	248.1	249.5	-1.4	-0.6	247.5	0.6	0.2

Sources: Banking Systems; NRBT

The banks' total deposits decreased over the month and year to January 2020, by \$3.1 million (0.5%) and \$27.2 million (4.3%) respectively to \$604.3 million. Both saving and time deposits decreased over the month, while demand deposits rose.

The saving deposits made from individual, private businesses, and the government decreased over the month. Additionally, the time deposits made by private sector and public enterprises also declined. These offsets the rise in demand deposits mainly from the central government, public enterprises and retirement funds, private non-bank financial corporations, and churches & schools.

In year ended terms, lower demand deposits from government, retirement funds, public enterprises, and private businesses, resulted in a lower overall deposits balance. This outweighed the increase in both saving and time deposits, mainly on higher deposits from government, retirement funds, churches, schools, and individuals.

Interest rate spread

The weighted average interest rate spread widened in January 2020, by 1.25 basis points to 6.04%, owing mostly to higher weighted average lending rates over the month. The higher weighted average lending rates attributed mainly to an increase in lending rates offered to businesses such as construction, agriculture, and wholesale & retail sectors as well as households' housing, and other personal loans. The slight rise in deposit rates over the month was underpinned mainly by an increase in term and saving deposits rates.

However, over the year, the weighted average interest rates narrowed by 17.23 basis points, due to lower lending rates coupled with higher deposit rates. The decline in weighted average lending rates resulted mostly from lower rates offered to households mainly for vehicle and housing loans. The increase in weighted average deposit rates was driven mainly by higher term and demand deposit rates.

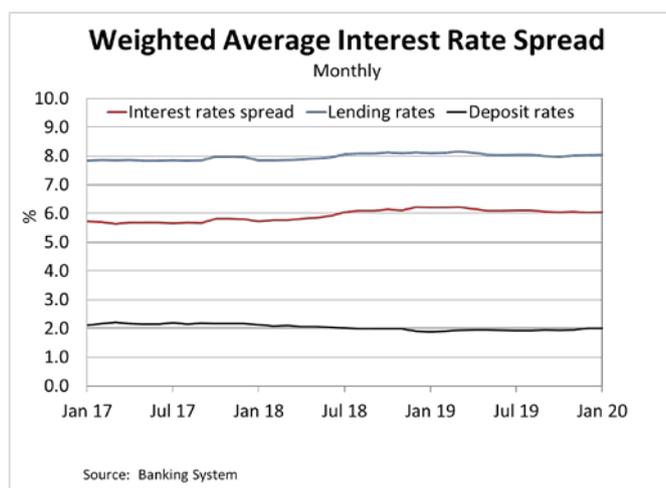


Table 3: Interest Rates

	Weighted average of all banks					
	Level as at			Change over the last ^a		
	Jan-20	Dec-19	Jan-19	1 month	1 year	Share of loans/deposits
	%	%	%	bps	bps	%
Interest Rate Spread	6.038	6.026	6.21	1.23	-17.25	
Deposits all	2.00	1.99	1.88	0.11	11.36	100
Demand	0.32	0.32	0.31	-0.27	0.94	41
Savings	2.55	2.54	2.56	0.76	-1.00	18
Term	3.44	3.42	3.40	2.04	4.52	41
Loans all	8.03	8.02	8.09	1.34	-5.89	100
Housing	8.04	8.04	8.21	0.41	-16.98	41
Other personal	11.38	11.38	11.43	0.14	-4.59	11
Business	7.91	7.87	7.80	3.56	10.90	30
Other	0.00	9.65	6.25	-965.00	-625.00	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

The lower foreign reserves over the month contributed to a decline in net foreign assets thus broad money. As such, broad money fell by \$9.8 million (1.6%) to \$592.5 million. Net domestic assets also fell and was due mainly to higher government deposits. During the year, broad money also fell by \$5.8 million (1.0%), as a result of lower net foreign assets mainly on higher foreign liabilities. This outweighed an increase in net domestic assets, due mainly to higher credit to private sectors.

Table 4: Consolidated Balance Sheet of Depository Corporations

	Level as at			Change over the last	
	Jan-20	Dec-19	Jan-19	1 month	1 year
	\$TOPm	\$TOPm	\$TOPm	% growth	% growth
Broad money liabilities	592.5	602.2	598.3	-1.6	-1.0
Currency in circulation	61.8	66.1	63.1	-6.4	-2.0
Demand deposits	210.0	211.1	219.9	-0.5	-4.5
Savings and term deposits*	320.6	325.1	315.2	-1.4	1.7
<i>equals</i>					
Net foreign assets	495.7	502.5	502.2	-1.3	-1.3
<i>plus</i>					
Net domestic assets	97.3	100.4	96.4	-3.1	0.8
Gross bank lending**	501.0	501.6	489.6	-0.1	2.3
Public enterprises	63.9	63.6	60.8	0.5	5.2
Private Sector	434.3	435.2	426.5	-0.2	1.8
Other financial corporations	2.7	2.7	2.3	0.0	17.0
Other***	-403.8	-401.2	-393.2	0.6	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

Liquidity (reserve money)¹ in the banking system decreased over the month and year to January 2020 by \$3.8 million (1.2%) and \$24.9 million (7.6%) respectively to \$301.3 million. The monthly decline was attributed mainly to lower currency in circulation following its high demand in the previous month, coupled with a slight decrease in the required reserves. These declines had offset the increase in the Exchange Settlement Account (ESA). The annual decline was a result of higher withdrawals from the Reserve Bank's vault by the commercial banks supported by lower currency circulated and lower required reserves.

The banks' total loans to deposit ratio increased over the month, from 80.7% to 81.1%, which is above the Reserve Bank minimum ratio of 80%, reflecting higher decline in deposits relative to the decrease in loans.

Outlook

Credit growth is expected to fall in the near term due to the new coronavirus pandemic weakening consumer demand and weighing on business sentiments and investments. The current accommodative monetary policy continues to encourage banks 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.

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