

Banking Sector Developments October 2020

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	Oct-20	Sep-20	Aug-20	Jul-20
Deposit rate (%)*	2.083	2.095	2.130	2.133
Lending rate (%)*	7.701	7.723	7.783	7.793
Total Deposits (T\$m)	655.8	650.5	632.5	625.1
Total lending (T\$m)	494.0	491.1	487.6	490.4
New commitments (T\$m)	11.0	12.0	6.3	8.1
Broad Money (T\$m)	655.2	640.8	624.7	616.9

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

Higher broad money on account of higher deposits from churches and businesses

Broad money

Broad money rose by \$14.4 million (2.3%) to a new high level of \$655.2 million in October 2020. Both net foreign and net domestic assets expanded over the month. Net domestic assets rose due to lower government deposits and higher net credit to the private sectors. The increase in foreign reserves drove net foreign assets higher. This was mainly due to receipts of grants and budget support.

	Level as at			Change over the last	
	Oct-20 \$TOPm	Sep-20 \$TOPm	Oct-19 \$TOPm	1 month % growth	1 year % growth
Broad money liabilities	655.2	640.8	592.5	2.3	10.6
Currency in circulation	82.7	75.2	60.1	9.9	37.4
Demand deposits	233.4	227.4	214.0	2.6	9.1
Savings and term deposits*	339.2	338.2	318.4	0.3	6.5
<i>equals</i>					
Net foreign assets	610.6	605.4	503.9	0.9	21.2
<i>plus</i>					
Net domestic assets	45.7	36.6	91.4	24.9	-50.0
Gross bank lending**	493.7	490.6	497.6	0.6	-0.8
Public enterprises	58.9	59.8	63.6	-1.6	-7.5
Private Sector	432.6	428.5	429.5	1.0	0.7
Other financial corporations	2.2	2.3	4.4	-1.9	-49.4
Other***	-448.0	-454.0	-406.2	-1.3	10.3

* 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 NRB, and their net claims on the central government.
Sources: Banking system; NRB

Over the year, broad money expanded by \$62.7 million (10.6%). Net foreign assets increased again by \$106.7 million (21.2%) due mainly to higher foreign reserves from official funds' receipts for TC Harold recovery and budget support. This offset the \$45.7 million (50.0%) decrease in net domestic assets due to higher government deposits.

Liquidity

Over the month and year to October 2020, liquidity in the banking system continued to rise by \$10.2 million (2.9%) and \$52.5 million (17.0%) respectively to a new high level of \$361.9 million. The commercial banks' ESA (Exchange Settlement Account) grew the most over the month and year by \$9.6 million (5.0%) and \$33.4 million (19.7%) respectively, coinciding with higher total banks' deposits. Required reserves followed with a monthly and annual rise of \$1.3 million (2.3%) and \$2.6 million (4.5%), respectively. Currency in circulation supported the annual rise with an increase of \$16.5 million (20.1%) albeit a decline over the month.

Lending

In October 2020, the banks' total lending grew by \$2.9 million to \$494.0 million, due to higher business and household loans over the month. In year ended terms, the total loans declined by \$2.9 million as lending to businesses fell and outweighed the rise in household loans. The uncertainties surrounding COVID-19 has weakened investment appetite and contributes to the higher risk aversion of banks.

Business lending

Lending to businesses increased further over the month by \$2.5 million (1.1%). However, it still declined annually by \$3.4 million (1.4%) to a total of \$235.2 million. The monthly rise attributed mostly to higher lending to businesses in the construction, professional & other services, and trade sectors.

The lower lending over the year resulted mainly from declining loans to the public enterprises, manufacturing and distribution sectors.

Household lending

Household loans increased over the month by \$0.4 million (0.2%) and by \$0.6 million (0.2%) over the year, bringing the total lending to households to \$258.8 million. Both housing and other personal loans rose over the month, whilst vehicle loans decreased. Over the year, the vehicle and housing loans increased and outweighed the decline in other personal loans. The continuous demand for housing construction and renovation works by private households supported the growth in housing loans.

Non-bank financial institutions

In October 2020, the total loans extended to the non-bank financial institutions increased over the month by \$0.9 million (1.6%) and \$2.7 million (7.6%) annually to a total of \$60.8 million. Majority of these loans are to individuals in the informal sector and small-medium enterprises reflecting the easy accessibility of these loans to communities.

Non-performing loans

The non-performing loans improved over the month of October 2020, from 4.6% in September 2020 to 3.7% of total loans. The lower non-performing loans over the month attributed mainly to restructured loans. Annually, the non-performing loans increased from 3.2% due to higher non-performing loans from the agricultural sector.

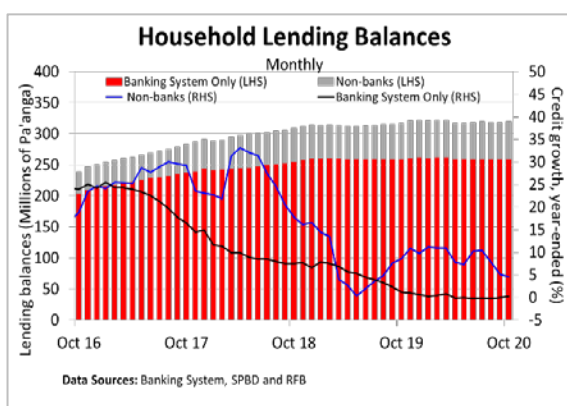
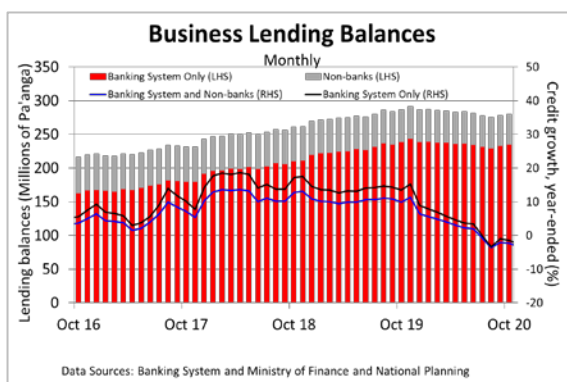
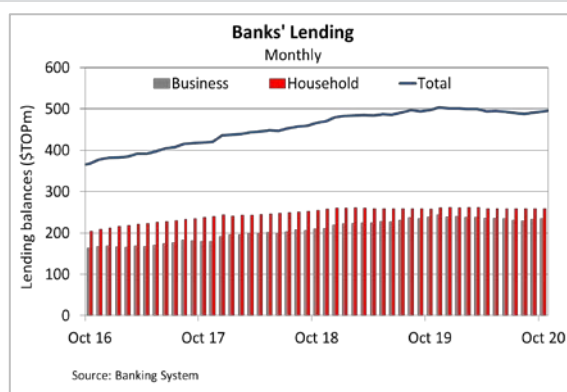


Table 2: Lending Balances (including new commitments)

	Level as at:			Change over the last:		Shares of totals %
	Oct 20 TOPm	Sep 20 TOPm	Oct 19 TOPm	1 month %	1 year %	
Lending, banks	494.0	491.1	496.9	0.6	-0.6	100.0
Household	258.8	258.4	258.3	0.2	0.2	52.4
Business*	235.2	232.7	238.6	1.1	-1.4	47.6
Other	0.0	0.0	0.0	0.0	0.0	0.0
Lending, banks and other	599.7	596.4	603.3	0.5	-0.6	100.0
Household**	319.6	318.3	316.4	0.4	1.0	53.3
Business	280.0	278.1	286.8	0.7	-2.4	46.7
Other	0.0	0.0	0.0	0.0	0.0	0.0
New commitments, banks	11.0	12.0	10.7	-8.2	3.3	N/A
Undrawn commitments, banks	15.9	14.0	20.0	13.0	-20.8	N/A
Implied repayments, banks	6.3	5.9	16.5	6.3	-62.0	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

Deposits

Over the month and year to October 2020, the banks' total deposits grew by \$5.3 million (0.8%) and \$41.3 million (6.7%) respectively to \$655.8 million. The monthly rise was due to the increase in demand and time deposits outweighing the decline in saving deposits. These movements also reflect the trends in their respective interest rates. The churches, public enterprises, and businesses drove demand deposits higher, whereas rises in deposits from churches, insurance companies, and businesses contributed to the increase in time deposits. The annual church donations (misinale) may have contributed to the higher deposits by churches.

In year ended terms, time deposits rose the most by \$27.1 million mainly on higher deposits from the pensions fund boards, and government. Saving deposits followed with an annual increase of \$8.7 million, indicating possibly individuals' preference to save more. Demand deposits also grew by \$5.5 million due mainly to more deposits from public enterprises.

Overall, total deposits continued to increase more than the banks' total loans. As a result, the loans to deposit ratio declined further in October 2020 to 73.8% from 74.0% recorded in September 2020. This is below the 80% minimum and reflects the higher excess liquidity in the banking system.

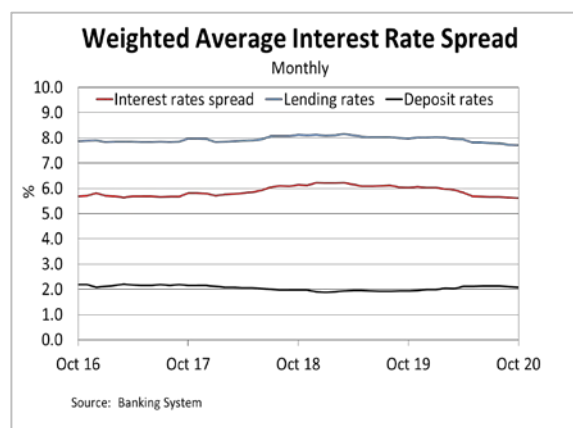
Table 3: Deposit Balances

	Monthly				Annual		
	Oct-20	Sep-20	Change	% Growth	Oct-19	Change	% Growth
Total Deposits (\$ in million)	655.8	650.5	5.3	0.8	614.5	41.3	6.7
Demand Deposits	272.9	268.6	4.3	1.6	267.4	5.5	2.1
Saving Deposits	119.7	120.2	-0.5	-0.4	111.0	8.7	7.8
Time Deposits	263.1	261.6	1.5	0.6	236.0	27.1	11.5

Sources: Banking Systems; NRBT

Interest rate spread

The weighted average interest rate spread decreased by 1.0 basis point in October 2020. The weighted average lending rates declined more than the weighted average deposit rates. Lower weighted average lending rates stemmed mostly from lower business loan rates offered to the utilities and constructions sectors and households' vehicle loan rates. The lower constructions' loan rates coincided with the growth of construction loans over the month. The lower weighted average deposit rates was led solely by lower time deposit rates in line with the growing deposit volumes.



Annually, the decrease in weighted average lending rates coupled with the increase in weighted average deposit rates narrowed the weighted average interest rate spread by 42.0 basis points to 5.6%. The lower weighted average lending rates attributed mostly to lower lending rates offered to businesses in the mining and quarrying, constructions, utilities sectors, and households' other personal loans. The higher weighted average deposit rates resulted from higher demand and time deposit rates for term deposits over five years.

Table 4: Interest Rates

	Weighted average of all banks					
	Level as at			Change over the last [^]		Share of loans/deposits %
	Oct-20 %	Sep-20 %	Oct-19 %	1 month bps	1 year bps	
Interest Rate Spread	5.618	5.628	6.038	-0.98	-41.96	
Deposits all	2.08	2.10	1.93	-1.24	15.02	100
Demand	0.38	0.38	0.31	0.04	7.05	39
Savings	2.61	2.60	2.66	1.11	-4.64	20
Term	3.43	3.45	3.40	-2.51	3.13	41
Loans all	7.70	7.72	7.97	-2.22	-26.94	100
Housing	8.06	8.05	8.01	0.98	4.56	42
Other personal	11.34	11.34	11.39	-0.09	-5.08	11
Business	7.19	7.34	7.77	-15.15	-58.63	30
Other	0.00	0.00	9.65	0.00	-965.00	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

Outlook

The NRBT continues to expect credit growth to remain subdued in the near term underpinned by the extreme uncertainties of the COVID-19 pandemic, weakening investment appetite, and softening aggregate demand. Nonetheless, the current accommodative monetary policy stance encourages banks to utilize excess liquidity in the banking system for further lending to support economic recovery and growth.

The Reserve Bank will continue to ensure financial and macroeconomic stability is maintained by closely monitoring all monetary indicators, such as credit growth, and broad money.