

Banking Sector Developments September 2020

Release date: 25 January 2021

	Sep-20	Aug-20	Jul-20	Jun-20
Deposit rate (%)*	2.095	2.130	2.139	2.119
Lending rate (%)*	7.723	7.783	7.811	7.814
Total Deposits (T\$m)	650.5	632.5	619.2	602.0
Total lending (T\$m)	491.1	487.6	490.4	492.9
New commitments (T\$m)	12.0	6.3	8.1	6.1
Broad Money (T\$m)	640.8	624.7	616.9	607.1

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

Inflow of funds lead broad money higher

Broad money

The significant rise in foreign reserves over the month of September 2020, boosted net foreign assets and broad money to a new high level of \$640.8 million. These were mainly receipts of grants and budget support. These funds also increased government deposits which further contributed to lower net credit to government and net domestic assets over the month.

Similarly, over the year, net foreign assets increased by \$101 million (20.0%) and outweighed the \$54.1 million (59.6%) decrease in net domestic assets. As a result, broad

money expanded by \$46.3 million (7.8%) annually. Foreign reserves rose due to receipts of official funds associated with COVID-19 preparations, TC Harold recovery, and budget support. The lower net domestic assets attributed to higher government deposits from the receipt of these grants and budget support.

Liquidity

Liquidity in the banking system also increased by \$15.4 million (4.6%) over the month and \$34.4 million (10.8%) over the year to September 2020 to a new high level of \$351.7 million. The commercial banks' ESA (Exchange Settlement Account) rose the most by \$13.3 million (7.4%) over the month and \$17.1 million (9.7%) annually. Currency in circulation followed with a monthly increase of \$1.6 million (1.7%) and an annual rise of \$15.7 million (18.7%). Furthermore, the required reserves also grew by \$0.6 million (0.9%) over the month and \$1.6 million (2.7%) over the year to September 2020. The higher ESA coincided with the rise in the banks' total deposits.

	Level as at			Change over the last	
	Sep-20 \$TOPm	Aug-20 \$TOPm	Sep-19 \$TOPm	1 month % growth	1 year % growth
Broad money liabilities	640.8	624.7	594.5	2.6	7.8
Currency in circulation	75.2	74.5	63.2	1.0	19.0
Demand deposits	227.4	214.7	215.5	5.9	5.5
Savings and term deposits*	338.2	335.5	315.8	0.8	7.1
<i>equals</i>					
Net foreign assets	605.4	582.4	504.5	3.9	20.0
<i>plus</i>					
Net domestic assets	36.6	43.0	90.7	-14.8	-59.6
Gross bank lending**	490.6	487.2	494.6	0.7	-0.8
Public enterprises	59.8	59.2	64.0	1.0	-6.5
Private Sector	428.5	425.6	426.8	0.7	0.4
Other financial corporations	2.3	2.3	3.9	-2.1	-40.8
Other***	-454.0	-444.2	-404.0	2.2	12.4

* 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

Lending

After declining for three consecutive months due to the uncertainties of COVID-19, the banks' total lending rebounds in September 2020 by \$3.4 million (0.7%). Lending to businesses expanded whilst household loans declined. However, over the year, the total banks' lending still declined by \$2.8 million (0.6%) due to lower lending to both businesses and households. Uncertainties surrounding COVID-19 has weakened investment appetite and contributes to the higher risk aversion of banks.

Business lending

Total lending to businesses increased by \$3.7 million (1.6%) in November 2020, however, declined annually by \$2.5 million (1.1%) to a total \$232.7 million. Lending to businesses within the construction, forestry, and tourism sectors led the monthly rise. New commitment loans to these businesses during the month indicate continued growth is expected for these sectors

The decline over the year was due to lower lending to public enterprises and businesses in the manufacturing, distribution, and transport sectors.

Household lending

Over the month and year to September 2020, lending to households declined further by \$0.3 million (0.1%) and \$0.1 million (0.03%) respectively to \$258.4 million. Lower other personal loans solely drove both decreases. On the other hand, housing loans slightly increased, reflecting the continuous demand for housing construction and private households' renovation works.

Non-bank financial institutions

Loans extended to the non-bank financial institutions declined in September 2020 by \$0.3 million (0.6%) to a total of \$59.9 million. However, over the year, the total lending to the non-bank financial institutions rose by \$2.3 million (5.1%). Majority of these loans are to individuals in the informal sector and small-medium sized enterprises reflecting the accessibility of these loans.

Non-performing loans

Non-performing loans as a share of total loans rose from 4.2% in August 2020 to 4.6% in September 2020, which is also higher than the 3.2% in September 2019. The increase in non-performing loans from the forestry sector and for housing purposes drove the monthly rise. The non-performing loans from the agricultural sector and housing caused the annual rise.

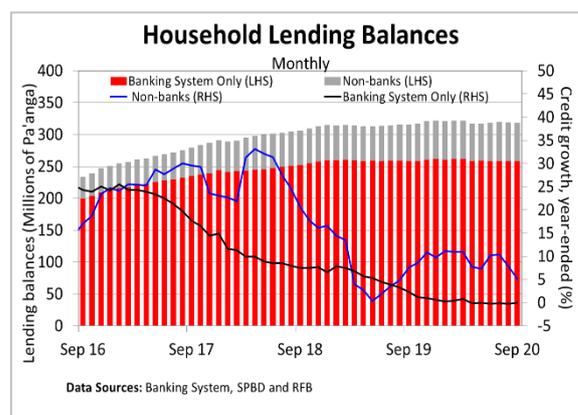
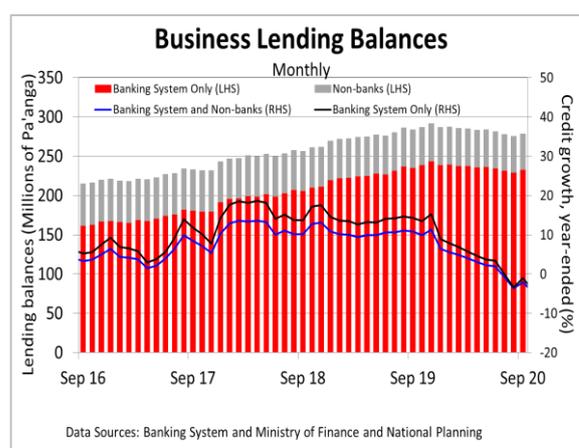
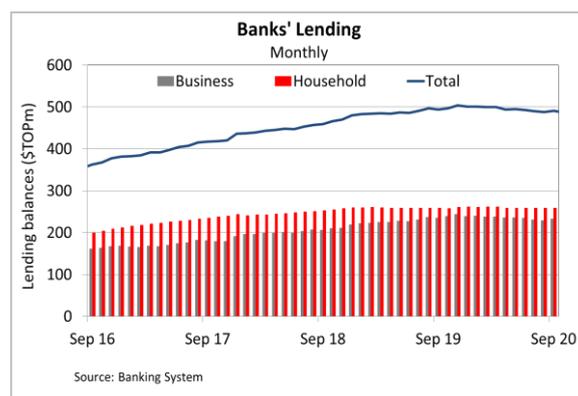


Table 2: Lending Balances (including new commitments)

	Level as at:			Change over the last:		Shares of totals %
	Sep 20 TOPm	Aug 20 TOPm	Sep 19 TOPm	1 month %	1 year %	
Lending, banks	491.1	487.6	493.9	0.7	-0.6	100.0
Household	258.4	258.7	258.5	-0.1	0.0	52.6
Business*	232.7	229.0	235.2	1.6	-1.1	47.4
Other	0.0	0.0	0.3	0.0	0.0	0.0
Lending, banks and other	596.4	594.4	599.7	0.3	-0.5	100.0
Household**	318.3	318.9	315.4	-0.2	0.9	53.4
Business	278.1	275.5	284.0	1.0	-2.1	46.6
Other	0.0	0.0	0.3	0.0	0.0	0.0
New commitments, banks	12.0	6.3	9.5	90.7	26.3	N/A
Undrawn commitments, banks	14.0	11.4	28.9	23.6	-51.4	N/A
Implied repayments, banks	5.9	8.9	-0.5	-33.8	-1,380.0	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

The banks' total deposits rose to a new high level of \$650.5 million in September 2020, consisting of an \$18.0 million (2.8%) monthly increase and \$35.2 million (5.7%) annual rise. Both demand and saving deposits increased and outweighed the decrease in time deposit over the month. Individuals savings, and deposits from the central government, businesses and public enterprises pushed the demand deposits higher over the month. Annually, the time and saving deposits rose and offset the lower demand deposits. The higher time deposits attributed to more deposits from the retirement funds, government, and churches.

As the rise in banks' in total deposits was higher than that of total loans, the loans to deposit ratio still declined from 75.5% recorded in August 2020 to 74.0% in September 2020. This is below the 80% minimum and reflects the excess liquidity in the banking system.

Table 3: Deposit Balances

	Monthly				Annual		
	Sep-20	Aug-20	Change	% Growth	Sep-19	Change	% Growth
Total Deposits (\$ in million)	650.5	632.5	18.0	2.8	615.3	35.2	5.7
Demand Deposits	268.6	251.9	16.7	6.6	270.3	-1.7	-0.6
Saving Deposits	120.2	117.3	2.9	2.5	109.6	10.7	9.7
Time Deposits	261.6	263.3	-1.6	-0.6	235.4	26.2	11.2

Sources: Banking Systems; NRBT

Interest rate spread

Over the month of September 2020, the weighted average interest rates narrowed again by 2.5 basis points due to the lower weighted average lending rates. The weighted average lending rate declined the most due to lower rates extended to businesses in the agriculture, trade, and professional & other

services sectors. Households' other personal loans rates also contributed to the decline. This was in line with the growth of loan volumes over the month. Weighted average deposit rates also declined solely driven by the lower saving deposit rates.

The weighted average interest rates declined by 42.7 basis points over the year to September 2020. This resulted from lower weighted average lending rates coupled with higher weighted average deposit rates. The weighted average lending rates declined mainly on business loans for the mining & quarrying, professional & other services, tourism, fisheries, and agricultural sectors and households' housing and other personal loans. On the other hand, both the demand and time deposit rates increased and led to higher weighted average deposit rates.

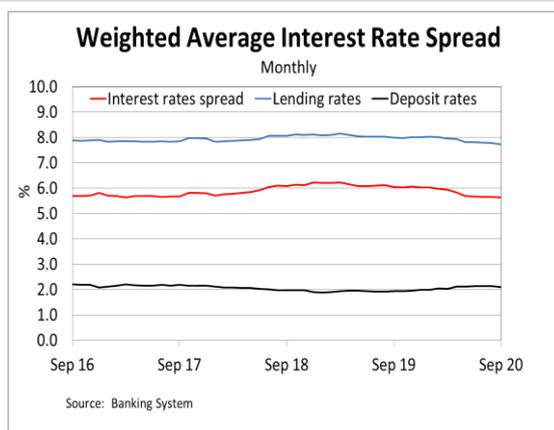


Table 4: Interest Rates

Weighted average of all banks						
	Level as at			Change over the last [^]		Share of loans/deposits %
	Sep-20 %	Aug-20 %	Sep-19 %	1 month bps	1 year bps	
Interest Rate Spread	5.628	5.653	6.055	-2.50	-42.69	
Deposits all	2.10	2.13	1.94	-3.44	15.17	100
Demand	0.38	0.38	0.37	0.18	1.49	37
Savings	2.60	2.60	2.66	-0.28	-5.51	20
Term	3.45	3.44	3.39	1.29	6.05	43
Loans all	7.72	7.78	8.00	-5.94	-27.52	100
Housing	8.05	8.04	8.15	1.42	-9.90	43
Other personal	11.34	11.35	11.43	-1.03	-8.67	11
Business	7.34	7.50	7.63	-16.63	-29.66	29
Other	0.00	0.00	7.27	0.00	-727.14	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.