

Banking Sector Developments January 2015

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	Jan 15	Dec 14	Nov 14	Oct 14
Deposit rate*	2.25	2.23	2.31	2.32
Lending rate*	8.59	8.90	8.91	8.86
Total Deposits (T\$m)	371.7	373.2	357.6	356.0
Total lending (T\$m)	399.6	392.3	392.8	382.6
New commitments (T\$m)	20.3	9.8	16.8	8.8

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

Public enterprises driving lending growth

Lending

Total bank lending balances rose by 1.3% in January, driven mainly by a 7.2% increase in lower interest rate lending to public enterprises. Increases in lending to the household sector also contributed to the overall credit growth. This increase in low interest rate lending to public enterprises contributed to a lower weighted average lending rate which fell from 8.90% to 8.59% over the month. In year ended terms, total bank lending balances rose by 7.7% supported by the declining weighted average lending rates. However, including loans extended by non-banks, the lending balance would have only increased by 0.5% over the year. This is due to an unwinding of government on-lent activities.

Business lending

Bank lending to the business sector rose over the month by 2.2%, largely as a result of a drawdown to public enterprises. In year-ended terms, business lending rose by 6.6%, driven again by major loans extended to public enterprises. However, including government on-lent loans, annual business lending fell by 1.5%, reflecting declines in government on-lent loans to public and private enterprises.

Household lending

Bank lending to the household sector rose by 0.5% over the month, owing mainly to an increase in the 'other personal' component. This increase in other personal loans reflects the increase in student loan from the managed funds program as school starts up again. Bank lending to households rose over the year by 9.2%, driven by increases in other personal loans and housing loans. This increase in housing loans coincides with higher import payments for construction

materials. Including loans extended by non-banks, year-ended growth in household lending would have increased by 13.1%, reflecting a significant increase in South Pacific Business Development's lending activities.

Other lending

Other loans fell over the month and the year, driven mainly by a fall in lending to the non-profit institutional sector.

Deposits

Total bank deposit balances fell by 0.4% over the month, driven by a decline in the demand and term deposit balances. The decline in demand deposits coincides with a 2 basis points decline in the demand deposit rate whilst term deposits fell despite a rise in its interest rates. On balance, the weighted average deposit rate increased over the month to 2.25% due to the rises in savings and term deposit rates. Over the year, total bank deposit balances grew by 6.9% with demand deposits increasing the fastest.

Interest rates spread

Weighted interest rate spread narrowed over the month from 6.68% in December 2014 to 6.33% in January 2015. This was due to the 32 basis points decline in weighted average lending rate and the 2.8 basis points increase in weighted average deposit rate.

Broad money

Broad Money fell by 1.7% to T\$380.8 million over the month of January driven by a 3.9% decline in net foreign assets more than offsetting a 4.8% increase in net domestic assets. The fall in net foreign assets reflect a 2.2% decline in foreign reserves, whilst the increase in net domestic assets reflects the increase in lending. Currency in circulation and total demand deposits fell over the month, also contributed to the overall decline in broad money liabilities balance, coinciding with seasonal slowdown in activities after peaking in December. In year ended terms, broad money balance rose by 8.7%, driven mainly by the increase in lending.

Outlook

Credit growth is supported by the continuous improvements in business confidence and lending conditions. Increased competition amongst banks and the ongoing lending activities of the Government's managed funds will continue to support the current low lending rates; however, banks have indicated significant declines are unlikely.

The NRBT is forecasting credit to grow by around 10% over this financial year. This is based on; imminent drawdowns of some large loan commitments; the continued low interest rates; education loans; and the introduction of the government's new loan scheme targeting the manufacturing, construction, tourism, agricultural and fisheries sectors.

The NRBT will continue to promote prudent lending and closely monitor credit growth in light of the impact on the monetary policy targets and financial stability.

Table 1

	Lending Balances							
	Level as at					Change over the		Shares of totals %
	Jan 15 TOPm	Dec 14 TOPm	Nov 14 TOPm	Oct 14 TOPm	Jan 14 TOPm	1 month %	1 year %	
Lending, banks	292.5	288.8	289.1	281.3	271.5	1.3	7.7	100
Household	147.6	146.8	145.0	142.9	135.1	0.5	9.2	50
Business*	143.7	140.6	142.6	136.2	134.7	2.2	6.6	49
Other	1.3	1.4	1.5	2.2	1.7	-7.9	-22.4	0
Lending, banks and other	394.6	392.3	392.8	382.6	375.0	0.6	5.2	100
Household	198.2	198.8	197.2	192.6	175.3	-0.3	13.1	50
Business	195.2	192.1	194.1	187.7	198.0	1.6	-1.5	49
Other	1.3	1.4	1.5	2.2	1.7	-7.9	-22.4	0
New comm'ts, banks	20.3	9.8	16.8	8.8	5.0	107.9	307.6	N/A
Undrawn comm'ts, banks	0.0	6.7	7.6	10.1	9.7	-100.0	-100.0	N/A
Implied repay'ts, banks	23.3	10.9	11.5	5.1	5.6	113.2	318.9	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

Table 2

	Interest Rates							
	Weighted average of all banks							
	Level as at					Change over the last:		Share of loans/deposits %
Jan 15 %	Dec 14 %	Nov 14 %	Oct 14 %	Jan 14 %	1 month bps	1 year bps		
Deposits all	2.25	2.23	2.31	2.32	2.00	3	26	100
Demand	0.58	0.60	0.58	0.60	0.56	-2	1	42
Savings	2.48	2.41	2.41	2.43	2.15	7	33	15
Term	3.78	3.74	3.82	3.81	3.40	5	38	43
Loans all	8.59	8.90	8.91	8.86	9.02	-31.7	-43	100
Housing	8.45	8.58	8.57	8.60	8.65	-13.0	-20	35
Other personal	12.74	12.79	12.78	12.89	12.83	-5	-9	19
Business*	7.44	7.85	7.94	7.82	8.39	-40	-95	25
Other	6.28	6.53	6.57	7.15	7.27	-25	-98	21

*Method for calculating these series was updated in August 2014, resulting in revision to the full history of data
Sources: Banks; NRBT

Table 3

	Consolidated Balance Sheet of Depository Corporations					Change over the last:	
	Level as at					1 month % growth	1 year % growth
	Jan-15 \$TOPm	Dec-14 \$TOPm	Nov-14 \$TOPm	Oct-14 \$TOPm	Jan-14 \$TOPm		
Broad money liabilities	380.8	387.3	377.4	372.9	350.5	-1.7	8.7
Currency in circulation	40.4	43.9	40.6	38.6	33.5	-8.1	20.6
Demand deposits	138.4	141.9	134.8	132.0	131.4	-2.4	5.3
Savings and term deposits*	202.1	201.6	201.9	202.4	185.7	0.3	8.8
<i>equals</i>							
Net foreign assets	277.0	288.2	262.4	267.4	266.4	-3.9	3.9
<i>plus</i>							
Net domestic assets	103.9	99.1	114.9	105.6	84.1	4.8	23.6
Gross bank lending**	300.4	296.2	295.7	289.3	278.7	1.4	7.8
Other***	-196.5	-197.1	-180.8	-183.7	-194.7	-0.3	0.9

* 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

