

Banking Sector Developments November 2015

Release date: 29 January 2016

	Nov 15	Oct 15	Sep 15	Aug 15
Deposit rate (%)*	2.18	2.29	2.29	2.28
Lending rate (%)*	8.07	8.09	8.27	8.26
Total Deposits (T\$m)	412.6	407.8	403.9	399.8
Total lending (T\$m)	441.8	436.2	430.5	423.8
New commitments (T\$m)	11.5	14.9	13.5	10.5
Broad Money (T\$m)	427.8	428.7	422.3	424.2

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

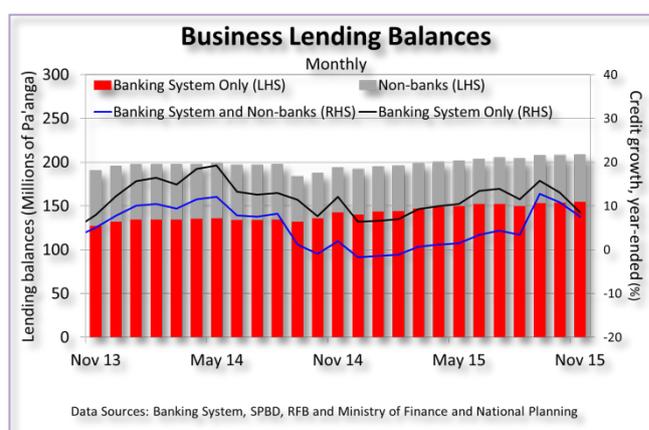
Demand for housing loans on the rise

Lending

Banks competition and low interest rates have contributed to a strong demand for housing loans. Banking data for the month of November 2015 has revealed that business loans and particularly housing loans continue to rise recording credit growth of 1.2% over the month and 12.0% over the year. The consecutive growth in housing loans coupled with rises in businesses' construction loans showed encouraging signs for the housing and construction industry.

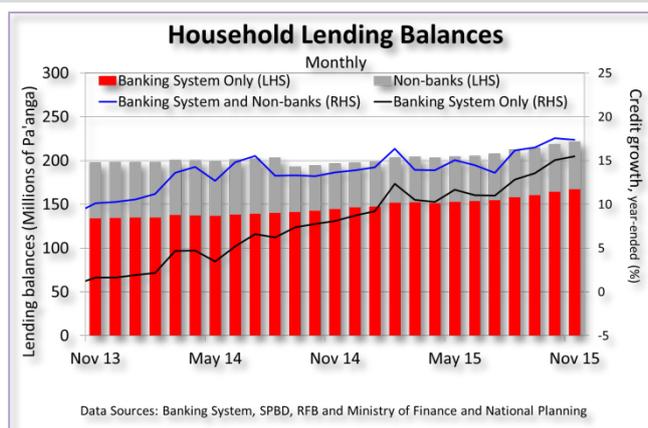
Business lending

Banks' lending to businesses increased slightly over the month by 0.4% to \$154.7 million, resulting mainly from increases in lending to the construction and manufacturing sectors. The government's managed funds loan scheme partially supported the increase in manufacturing loans. Including government on-lent loans, total lending to businesses only rose by 0.3% due to loan repayments. In year ended terms, total bank lending to businesses increased by 8.5%, reflecting major loans extended to public enterprises and increases in loans to the manufacturing, construction and trade sectors. However, including government on-lent loans, annual business lending increased only by 7.5%, reflecting declines in government on-lent loans.



Household lending

Banks' lending to households rose over the month by 1.8% to \$167.5 million, due to an increase in housing and other personal loans. Including lending from South Pacific Business Development (SPBD) and Retirement Fund Board (RFB), total lending to households also increased over the month by 2.2%. In year ended terms, total household lending increased by 15.5%,



reflecting increases in housing loans and other personal loans. Including loans extended by SPBD and RFB, annual household lending increased further by 17.4%.

Other lending

Other loans from banks increased over the month by 2.7% but fell by 7.6% over the year, driven mainly by lending activities within the non-profit institutions sector.

Non-performing loans

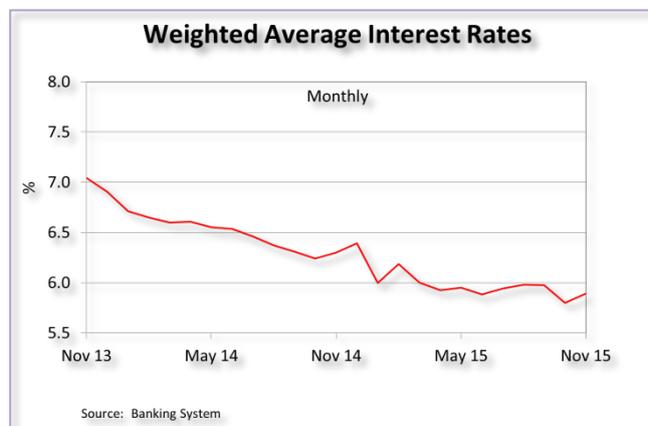
Total non-performing loans for the banking system increased over the month by 2.1% to \$25.0 million, which represents 7.7% of total loans. About 50% of total non-performing loans were businesses whilst households comprise only 28.6%. However, total non-performing loans fell over the year by 18% underpinned by a decline in household non-performing loans.

Deposits

Total bank deposits grew over the month by 1.2% to \$412.6 million, due mainly to an increase in demand and term deposits. The increase in demand deposits was driven by a rise in business deposits whilst non-profit institutions drove the higher term deposits. Bank deposits also increased over the year by 15.4% due to increases in all categories. Demand deposits increased the fastest over the year with government the main contributor.

Interest rates spread

Banks weighted average interest rate spread widened over the month from 5.80% to 5.89% in November. Weighted average deposit rate fell from 2.29% to 2.18% more than a 1.8 basis points fall in weighted average lending rate which resulted in the wider spread over the month. However, weighted average interest rate spread narrowed over the year by 41 basis points with weighted average lending rate to businesses declining the fastest. Increased competitions among banks to maintain its existing



good customers and also to attract new clients have resulted in the higher number of low interest loans to businesses.

Table 1:

Consolidated Balance Sheet of Depository Corporations							
	Level as at				Change over the last:		
	Nov-15	Oct-15	Sep-15	Aug-15	Nov-14	1 month	1 year
	\$TOPm	\$TOPm	\$TOPm	\$TOPm	\$TOPm	% growth	% growth
Broad money liabilities	427.8	428.7	422.3	424.2	377.4	-0.2	13.4
Currency in circulation	45.0	46.9	42.5	46.7	40.6	-4.2	10.7
Demand deposits	161.8	159.1	158.6	158.6	134.8	1.7	20.0
Savings and term deposits*	221.1	222.7	221.3	218.8	201.9	-0.7	9.5
<i>equals</i>							
Net foreign assets	305.0	303.3	300.1	302.4	262.4	0.6	16.2
<i>plus</i>							
Net domestic assets	123.1	125.8	122.6	122.4	115.2	-2.2	6.9
Gross bank lending**	332.9	329.2	324.4	318.5	295.7	1.1	12.6
Public enterprises	45.9	46.2	46.3	46.0	43.4	-0.6	5.9
Private Sector	270.1	268.0	262.9	257.9	238.0	0.8	13.5
Other financial corporation	16.9	14.9	15.1	14.6	14.4	13.1	17.5
Other***	-209.8	-203.3	-201.8	-196.1	-180.6	3.1	16.2

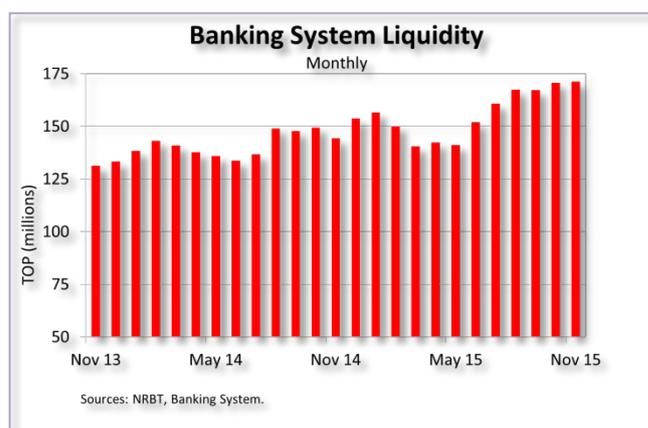
* Also includes very minor amounts for securities other than shares.
** Differs slightly from standard measures of bank lending by amounts classified as accrued interest.
*** Includes mostly capital accounts of the banks and NRBT, and their net claims on the central government.
Sources: Banking system; NRBT

Broad money

Broad money slightly fell over the month by 0.2% to \$427.8 million, resulting mainly from a 2.2% decline in net domestic assets, offsetting a 0.6% rise in net foreign assets. The decline in net domestic assets was due to a 2.2% rise in capital accounts particularly bank shares and other equity while an increase in foreign reserves led the higher net foreign assets. In year ended terms, broad money increased by 13.4% underpinned by increases in net domestic assets and net foreign assets. Total domestic demand deposits and currency in circulation also increased over the year in line with the rise in broad money.

Liquidity

Banking system liquidity increased slightly over the month by 0.3% to \$171.1 million underpinned by the increases in foreign reserves and demand deposits. Over the year to



November 2015, banking system liquidity increased by 18.6%, reflecting the increases in foreign reserves and bank deposits.

Outlook

Credit growth is supported by the continuous improvements in business confidence, improving economic conditions and annual events. Continued competition amongst banks and the ongoing lending activities of the Government's managed funds will continue to support the current low lending rates. The NRBT is forecasting credit growth to continue to grow by more than 10% in the next six months. 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 2:

	Lending Balances							
	Level as at					Change over the		Shares of totals %
	Nov 15 TOPm	Oct 15 TOPm	Sep 15 TOPm	Aug 15 TOPm	Nov 14 TOPm	1 month %	1 year %	
Lending, banks	323.8	320.1	315.6	310.0	289.1	1.2	12.0	100.0
Household	167.5	164.4	160.7	158.2	145.0	1.8	15.5	51.7
Business*	154.7	154.1	153.3	150.3	142.6	0.4	8.5	47.8
Other	1.3	1.3	1.3	1.3	1.5	2.7	-7.6	0.4
Lending, banks and other	441.8	436.2	430.5	423.8	392.8	1.3	12.5	100.0
Household	231.4	226.5	221.5	218.0	197.2	2.2	17.4	52.4
Business	208.7	208.1	207.4	204.3	194.1	0.3	7.5	47.2
Other	1.3	1.3	1.3	1.3	1.5	2.7	-7.6	0.4
New comm'ts, banks	11.5	14.9	13.5	10.5	16.8	-22.6	-31.5	N/A
Undrawn comm'ts, banks	20.0	20.6	21.3	20.6	7.6	-2.5	164.2	N/A
Implied repay'ts, banks	8.3	11.1	7.2	16.6	11.5	-25.2	-28.0	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 3:

	Interest Rates							
	Weighted average of all banks					Change over the last [^]		Share of loans/deposits %
	Nov 15 %	Oct 15 %	Sep 15 %	Aug 15 %	Nov 14 %	1 month bps	1 year bps	
Deposits all	2.18	2.29	2.29	2.28	2.308	-11.07	-13	100
Demand	0.40	0.41	0.38	0.36	0.578	-0.84	-18	42
Savings	2.40	2.38	2.42	2.45	2.412	2.26	-1	16
Term	3.87	4.09	4.10	4.07	3.817	-21.99	5	42
Loans all	8.07	8.09	8.27	8.26	8.610	-1.84	-54	100
Housing	8.29	8.39	8.48	8.52	8.574	-10.06	-29	37
Other personal	10.98	10.91	11.10	11.19	11.030	7.73	-5	18
Business*	7.21	7.22	7.54	7.38	8.017	-1.10	-81	26
Other	6.91	6.44	6.36	6.25	6.570	47.33	34	20

*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: Banks; NRBT