

Banking Sector Developments October 2018

Release date: 26 April 2019

	Oct-18	Sep-18	Aug-18	Jul-18
Deposit rate (%)*	1.978	1.980	1.980	2.019
Lending rate (%)*	8.121	8.077	8.076	8.062
Total Deposits (T\$m)	621.7	615.3	626.2	624.7
Total lending (T\$m)	466.3	459.0	457.5	452.9
New commitments (T\$m)	13.5	11.1	12.2	14.7
Broad Money (T\$m)	595.9	595.2	606.0	605.6

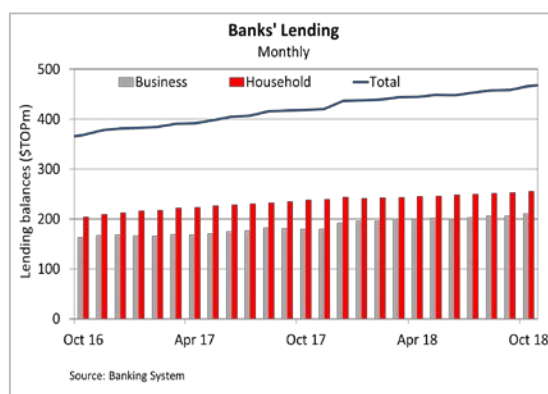
*Weighted Average calculated as a function of interest rate and volume of deposits and loans

Credit growth continues but at a slower pace

Lending

Total banks' lending increased by 7.3 million (1.6%) over the month and 48.3 million (11.5%) over the year ended October, bringing the total outstanding loan balance to \$466.3 million. This increase was due mainly to the increase in lending to both businesses and households.

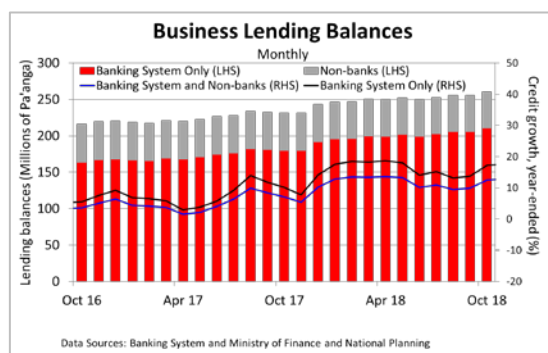
Lending extended by non-bank financial institutions also rose over October by \$1.6 million (1.0%) and over the year by \$17.8 million (12.0%) to \$166.1 million. Small personal and home improvement loans drove this increase. The yearly increase again reflected higher home improvement loans, small personal loans, and household loans.



Business Lending

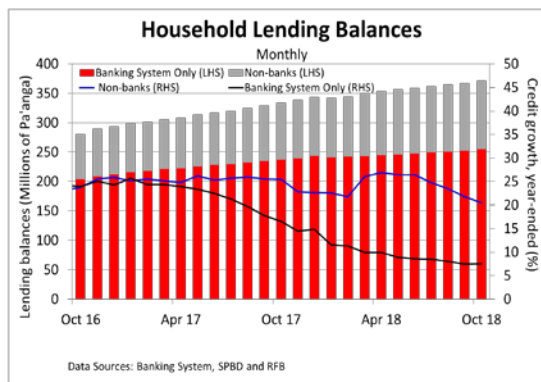
Total banks' lending to businesses increased over October by \$4.7 million (2.3%) and over the year by \$29.8 million (16.5%) to \$210.4 million. Loans to the public enterprises, distribution, construction and transport sectors drove the monthly rise.

In year ended terms, lending to businesses expanded due mainly to growth in loans extended to public enterprises, wholesale & retail, tourism and agriculture sectors. Furthermore, loans extended to the transport, construction and professional & other service sectors also increased. This indicates the private sector's high demand for loans supporting various economic activities occurring throughout the year. Import payments for wholesale and retail goods coincided with the yearly movement reporting an increase of 15.7% which is also in line with the 5.0% rise in container registrations.



Household lending

Bank's lending to households continued to increase but at a slower pace to reach a new high record of \$255.3 million. Both the monthly and annual rise resulted mainly from more housing loans, reflecting the continuous rebuilding after Tropical Cyclone (TC) Gita which also coincided with more loans extended to the construction sector and also indicates that households are focusing on housing projects. Other personal loans supported the monthly trend while vehicle loans contributed to the annual trend.



Lending from non-bank financial institutions to households rose over the year by \$17.8 million (12.05%) reflecting higher personal loans disbursed throughout the year.

Other lending

Other loans from banks decreased over the month and year to October 2018. The monthly decrease was due to a decline in lending to the non-profit institution sector whereas decreases in lending to both private and non-profit institution sectors contributed to the annual trend.

Non-performing loans

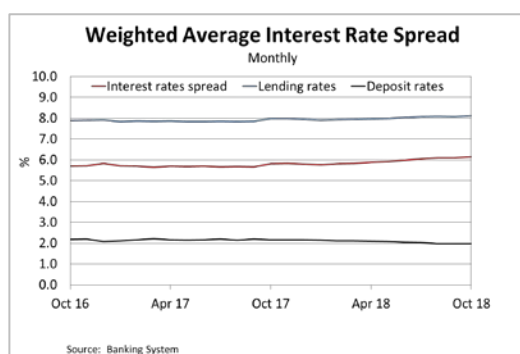
The banks' total non-performing loan slightly improved over the month to \$18.2 million from \$18.7 million last month. This stemmed mostly from improvements in non-performing individual housing loans and business loans particularly within the distribution and the professional & other business service sectors. The non-performing loans represented 3.9% of total loans in October 2018, declining from 4.1% last month and same share with October 2017.

Deposits

Deposits continued to grow over the month (by \$6.5 million) and over the year (by \$52.3 million) ended October 2018. Higher deposits by Government, the private sector and non-profit institutions explained the movement over the month, while higher demand deposits by the public enterprises and increased time deposits of Government drove the annual rise. More savings by individuals and non-profit organisation such as churches and schools also supported the annual trend.

Interest rate spread

The weighted average interest rates offered by banks on deposits remained relatively stable over the month. However, in year ended terms, the weighted average deposit rates on savings increased while the rates on demand and term deposits declined. This had caused a decline in the weighted average deposit rates (by 2.00 basis points) over the year.



Meanwhile, the weighted average interest rates on banks' lending increased (by 19.49 basis points) over the month and the year (by 36.53 basis points). The monthly increase in the weighted average lending rate resulted from higher lending rates offered to public enterprises and household, mostly for other personal loans. Lending rates to businesses such as manufacturing, construction, fisheries, and agriculture also increased and supported the monthly trend. The annual increase in the weighted average lending rate was due to higher lending rates offered to the public sector, businesses and

individuals. More specifically, higher business lending rates were for all sectors except for the entertainment & catering, utilities and transport sectors indicating the capacity to borrow in most of the business sectors.

The weighted average interest rate spread, therefore, widened to 6.143% as at the end of October 2018.

Furthermore, the high growth in the volume of deposits further contributed to the overall decrease in the weighted average deposit rate. Despite the rise in lending interest rates and the decline in the deposit rates, both credit and deposits continued to grow. This indicates the public's high demand to access loans regardless of the cost to borrow and the excess liquidity in the banking system.

Broad money

Broad Money slightly increased over the month led by an increase in foreign reserves, mainly due to the receipt of government budget support funds from the European Union. These receipts also increased local government deposits resulting in a decline in net domestic assets. Annually, broad money increased over the year mainly on higher foreign reserves due to receipts of budget support, cyclone relief, and project funds and higher remittances during the year.

Liquidity

After declining last month, liquidity (reserve money)¹ in the banking system increased over the month and year to \$325.0 million by \$1.5 million (0.5%) and \$33.0 million (11.3%) respectively. This stemmed mostly from the increase in public

demand for currency bank notes and coins, the increase in banks deposit liabilities, and the increase in c banks exchange settlement account at the reserve bank. The banks' total loans to deposit ratio rose further to 73.3% but remained below the 80% minimum requirement, due mainly to the increase in loans outweighing the increased deposits.

Over the year, the banking system liquidity continued to increase due to respective increases in deposits to the Reserve Bank, the increase in required reserves and currency circulation. These coincide with the various events and economic activity that took place in the country throughout the year.

Outlook

Banks' prospects for credit growth have reportedly been positive, and as such, the Reserve Bank forecasts strong credit growth to continue for 2018/19. Furthermore, improved economic conditions, recent business performances and confidence, and annual (one-off) events that are expected to take place throughout the year are projected to support the Reserve Bank's forecast further. The level of competition between banks in terms of housing loans coupled with the accommodative monetary policy is expected to utilize the excess liquidity in the future to encourage lending and support economic activity. The Reserve Bank will continue to closely monitor the growth across all monetary indicators particularly credit growth and broad money to ensure financial and macroeconomic stability is maintained.

Table 1: Consolidated Balance Sheet of Depository Corporations

	Level as at			Change over the last	
	Oct-18 \$TOPm	Sep-18 \$TOPm	Oct-17 \$TOPm	1 month % growth	1 year % growth
Broad money liabilities	595.8	595.2	553.6	0.1	7.6
Currency in circulation	63.2	66.1	55.9	-4.4	13.2
Demand deposits	213.7	210.1	196.1	1.7	8.9
Savings and term deposits*	318.9	319.0	301.6	0.0	5.7
<i>equals</i>					
Net foreign assets	474.6	470.1	435.1	0.9	9.1
<i>plus</i>					
Net domestic assets	121.6	125.4	118.8	-3.1	2.4
Gross bank lending**	471.6	463.5	421.5	1.7	11.9
Public enterprises	56.2	55.0	45.1	2.1	24.5
Private Sector	412.7	405.7	374.3	1.7	10.3
Other financial corporations	2.6	2.7	2.1	-4.6	26.7
Other***	-350.0	-338.0	-302.8	3.5	15.6

* 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

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