

# Banking Sector Developments April 2019

Release date: 07 October 2019

	Apr-19	Mar-19	Feb-19	Jan-19
Deposit rate (%)*	1.954	1.934	1.902	1.882
Lending rate (%)*	8.111	8.153	8.287	8.092
Total Deposits (T\$m)	611.0	606.6	622.4	631.5
Total lending (T\$m)	484.3	484.9	483.7	482.8
New commitments (T\$m)	8.6	11.2	13.9	13.2
Broad Money (T\$m)	585.9	583.5	589.0	598.3

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

## Deposits turned around

### Lending

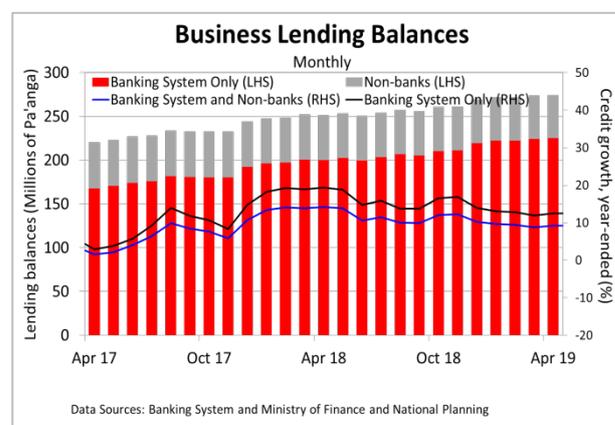
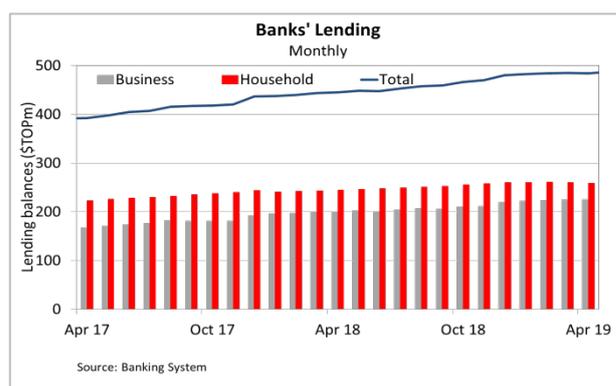
The total banks' lending slightly fell over the month of April 2019 by 0.1%. Household loans decreased and offset the rise in business loans. However, over the year, banks' lending rose by 8.9% to \$484.3 million.

The non-bank financial institutions loans increased over the month and year by 1.1% and 9.2% respectively, indicating a growing preference by individuals for these loans. Government on-lent loans remain the same over the month however, fell by 3.0% over the year to April 2019.

### Business lending

Lending to businesses grew over the month and year by 0.2% and 12.5% respectively to \$225.1 million. The monthly rise was due mainly to an increase in lending to state-owned enterprises. Lending to some of the private businesses such as the professional & other services, tourism, and fisheries sectors also rose but were offset by the decrease in lending to other sectors.

Over the year, lending to both state-owned enterprises and private sectors such as transport, professional & other services, and tourism sectors increased driving the annual rise. These reflect growing investments in these sectors during the year. Business lending (including government on-lent loans) rose by \$23.5 million (9.4 %) over the year reflecting more business loans offsetting repayments of government on-lent loans.



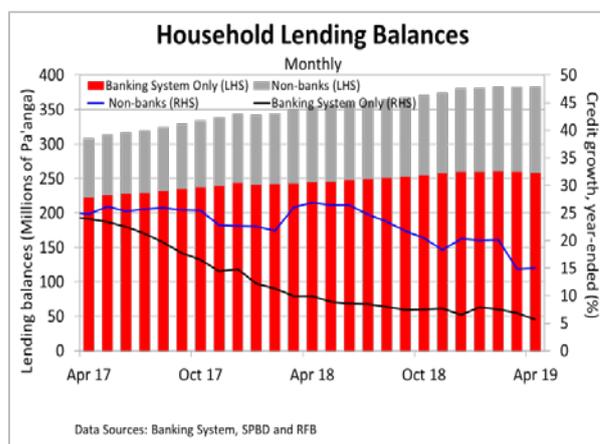
## Household lending

The 0.4% (\$1.1 million) decrease in household lending over the month, was due to a decline in other personal loans, whereas housing loans slightly rose, and vehicle loans remained unchanged. Over the year, household loans grew by 5.7% due to higher housing and other personal loans.

## Other lending

Banks' other lending fell again in April 2019 by 6.8%, due to lower loans to non-profit institutions serving households.

## Non-performing loans



	Level as at		Change over the last:			Shares of totals %
	Apr 19	Mar 19	Apr 18	1 month	1 year	
	TOPm	TOPm	TOPm	%	%	
Lending, banks	484.3	484.9	444.8	-0.1	8.9	100.0
Household	258.9	260.0	245.0	-0.4	5.7	53.5
Business*	225.1	224.6	198.9	0.2	13.2	46.5
Other	0.3	0.3	0.9	-6.8	-68.1	0.1
Lending, banks and other	657.8	656.6	604.0	0.2	8.9	100.0
Household	383.3	382.5	353.2	0.2	8.5	58.2
Business	274.2	273.9	249.9	0.1	9.7	41.7
Other	0.3	0.3	0.9	-6.8	-68.1	0.1
New comm'ts, banks	8.6	11.2	18.7	-22.8	-53.7	N/A
Undrawn comm'ts, banks	18.5	24.8	24.8	-25.4	-25.5	N/A
Implied repay'ts, banks	6.3	-7.8	9.2	-180.7	-31.3	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

The non-performing loans for April 2019 increased, due to more non-performing loans in the vehicle/transport, agriculture, fisheries, and tourism sectors. Consequently, non-performing loans as a share of total loans increased from 3.5% last month to 3.8% this month, however, it fell from 4.0% recorded in the previous year.

## Deposits

The banks' total deposits for April 2019 turned around, after declining in the past two months. This was solely driven by the increase in demand deposits which outweighed both the decline in saving and time deposits. The increased demand deposits were due to higher deposits from state-owned enterprises, private businesses and non-profit organisations such as churches and schools which are in line with the increased demand deposit rates. On the other hand, the lower savings and time deposits were underpinned by lower deposits from private businesses and non-profits organisations.

Table 2: Deposit Balances

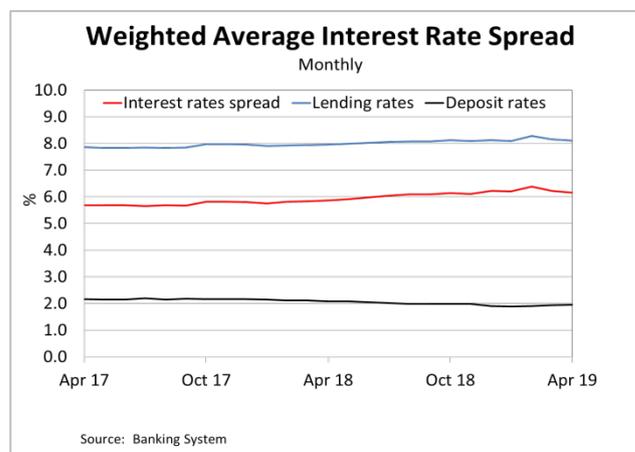
	Monthly				Annual		
	Apr-19	Mar-19	Change	% Growth	Apr-18	Change	% Growth
	Total Deposits (\$ in million)	611.0	606.6	4.3	0.7	571.4	39.6
Demand Deposits	275.1	265.6	9.5	3.6	242.8	32.2	13.3
Saving Deposits	99.1	100.7	-1.5	-1.5	83.8	15.3	18.3
Time Deposits	236.7	240.4	-3.6	-1.5	244.7	-8.0	-3.3

Sources: Banking Systems; NRBT

Over the year, both demand and savings deposits increased and offset the decline in time deposits leading to the \$39.6 million rise in the bank's total deposits. Deposits by state-owned enterprises, private businesses, non-profit organisations, and individuals drove the increase in demand and savings deposit. Furthermore, this reflects the conversion of long term deposits to short term deposits and high remittance receipts over the year.

### Interest rate spread

The weighted average interest rate spread further narrowed to 6.16% in April 2019 by a 6.2 basis point. Lending rates declined on lower rates offered to the fisheries, tourism and distribution sectors, while deposit rates slightly rose over the month, underpinned by increased demand and time deposit rates.



**Table 3: Interest Rates**

	Weighted average of all banks					
	Level as at			Change over the last <sup>A</sup>		
	Apr-19	Mar-19	Apr-18	1 month	1 year	Share of loans/deposits
	%	%	%	bps	bps	%
Interest Rate Spread	6.16	6.22	5.87	-6.18	28.65	
Deposits all	1.95	1.93	2.09	1.96	-13.32	100
Demand	0.43	0.34	0.40	8.89	3.38	45
Savings	2.58	2.59	2.39	-0.66	18.80	16
Term	3.42	3.39	3.51	3.60	-8.10	39
Loans all	8.11	8.15	7.96	-4.22	15.33	100
Housing	8.26	8.24	8.13	1.84	12.30	42
Other personal	11.49	11.49	11.39	0.00	9.97	12
Business	7.82	7.98	7.45	-15.36	37.46	29
Other	6.25	6.25	6.25	0.00	0.00	17

<sup>A</sup>Method for calculating these series was updated in August 2014, resulting in revision to the full history of data  
<sup>B</sup>Due to rounding errors some data may not aggregate precisely  
Sources: Banking Systems; NRBT

Over the year, the weighted average interest rates spread continued to widen by 28.65 basis points due to higher weighted average lending rates offsetting the declining weighted average deposit rates. Higher lending rates were offered mainly to the manufacturing, construction, and tourism sectors as well as for households' housing and other personal loans. However, time deposit rates fell and solely drove the drop in average deposit rates. Despite the disparate movements in interest rates, the volume for both lending and deposits rose, indicating a growing demand for credit as well as the excess liquidity available in the banking system for further lending.

The banks' total loans to deposit ratio decreased from 78.1% to 77.5% over the month, reflecting increased deposits against declining lending.

### Broad money

After declining for three consecutive months, broad money finally rose to \$585.9 million by 0.4% (\$2.4 million) and 7.1% (\$38.8 million) respectively. Net domestic assets increased the most over the month due to lower credit to private sectors and decreased government deposits.

Over the year, the receipt of budget support, cyclone relief funds, project funds, and remittances contributed to the higher foreign reserves and net foreign assets, whereas

higher credit to private sectors led to the rise in net domestic assets.

**Table 4: Consolidated Balance Sheet of Depository Corporations**

	Level as at			Change over the last	
	Apr-19	Mar-19	Apr-18	1 month	1 year
	\$TOPm	\$TOPm	\$TOPm	% growth	% growth
<b>Broad money liabilities</b>	<b>585.9</b>	<b>583.5</b>	<b>547.1</b>	<b>0.4</b>	<b>7.1</b>
Currency in circulation	60.7	60.9	61.0	-0.3	-0.6
Demand deposits	219.1	211.8	177.1	3.5	23.7
Savings and term deposits*	306.1	310.8	308.9	-1.5	-0.9
<i>equals</i>					
<b>Net foreign assets</b>	<b>482.6</b>	<b>482.0</b>	<b>461.3</b>	<b>0.1</b>	<b>4.6</b>
<i>plus</i>					
<b>Net domestic assets</b>	<b>103.7</b>	<b>101.8</b>	<b>86.1</b>	<b>1.9</b>	<b>20.4</b>
Gross bank lending**	490.0	490.4	447.0	-0.1	9.6
Public enterprises	60.9	60.4	52.9	1.0	15.3
Private Sector	426.0	427.8	392.1	-0.4	8.6
Other financial corporations	3.1	2.2	2.0	38.9	56.7
Other***	-386.3	-388.6	-360.9	-0.6	7.1

\* 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

## Liquidity

Liquidity (reserve money)<sup>1</sup> in the banking system slightly rose over the month by 0.2% (\$0.5 million) to \$305.9 million, solely driven by an increase in currency in circulation reflecting the high demand for cash from the public towards new loans for rebuilding or renovation works, and to cater for April activities such as the Easter Season. This increase outweighed the fall in the exchange settlement accounts and the required reserves.

Over the year, the total liquidity in the banking system increased by 4.7% (\$13.7 million) due to increases in the exchange settlement accounts, currency in circulation, and required reserves. Higher exchange settlement accounts stemmed from higher net sales and deposits from the commercial banks to the Reserve Bank vault. The increase in currency in circulation was due to higher demand from the public, whereas more deposits led to higher required reserves. These movements were also supported by the various celebrations that took place during the year such as family & school reunions, Christmas and New Year celebrations, as well as the recovery works from cyclone Gita.

## Outlook

The banks' prospects for credit growth remains positive hence the Reserve Bank is forecasting a 13% credit growth for the current financial 2018/19, supported by improved economic conditions, improved business performances and confidence, and annual (one-off) events that are expected to take place throughout the current financial year. 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 banking system for further lending to support economic activity.

The Reserve Bank will continue to closely monitor the developments across all monetary indicators particularly credit growth and broad money movements, to ensure financial and macroeconomic stability is maintained and that no overheating will occur in the economy.

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