

# Banking Sector Developments December 2019

Release date: 15 May 2020

	Dec-19	Nov-19	Oct-19	Sep-19
Deposit rate (%)*	1.994	1.950	1.933	1.944
Lending rate (%)*	8.020	8.015	7.970	7.999
Total Deposits (T\$m)	607.4	607.6	614.5	615.3
Total lending (T\$m)	500.9	504.3	496.9	493.9
New commitments (T\$m)	14.6	18.9	10.7	9.5
Broad Money (T\$m)	602.2	605.6	592.5	594.5

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

## Credit growth slows down

### Lending

The banks' total lending for the month of December 2019 decreased by \$3.5 million (0.7%) to \$500.9 million. Lending to businesses fell and offset the increase in household loans. Loans extended to the non-bank financial institutions continued to rise over the month and year by \$0.9 million (0.5%) and \$30.3 million (17.8%), respectively.

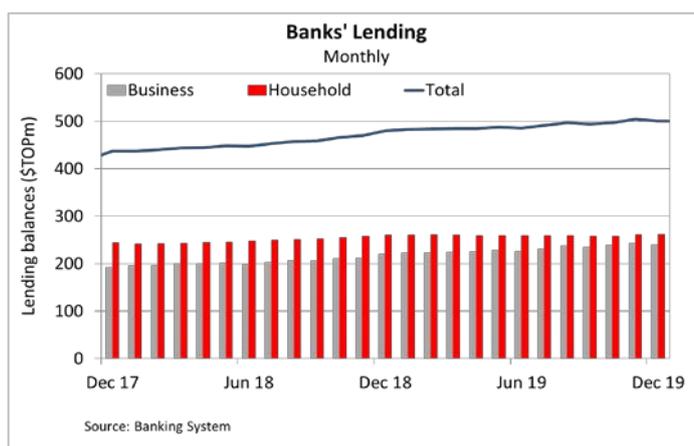


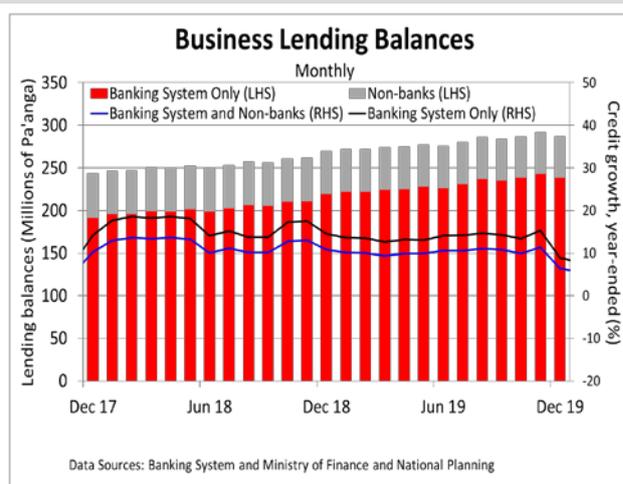
Table 1: Lending Balances (including new commitments)

	Level as at		Change over the last:			Shares of totals %
	Dec 19	Nov 19	Dec 18	1 month	1 year	
	TOPm	TOPm	TOPm	%	%	
Lending, banks	500.9	504.3	479.9	-0.7	4.4	100.0
Household	261.8	260.8	260.1	0.4	0.7	52.3
Business*	239.0	243.4	219.4	-1.8	8.9	47.7
Other	0.1	0.2	0.4	-43.4	-77.8	0.0
Lending, banks and other	701.2	703.8	650.0	-0.4	7.9	100.0
Household	414.2	412.2	380.0	0.5	9.0	59.1
Business	287.0	291.4	269.6	-1.5	6.4	40.9
Other	0.1	0.2	0.4	-43.4	-77.8	0.0
New comm'ts, banks	14.6	18.9	14.1	-23.0	3.3	N/A
Undrawn comm'ts, banks	14.7	15.4	20.3	0.0	-28.0	N/A
Implied repay'ts, banks	18.8	16.1	10.2	0.0	84.3	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

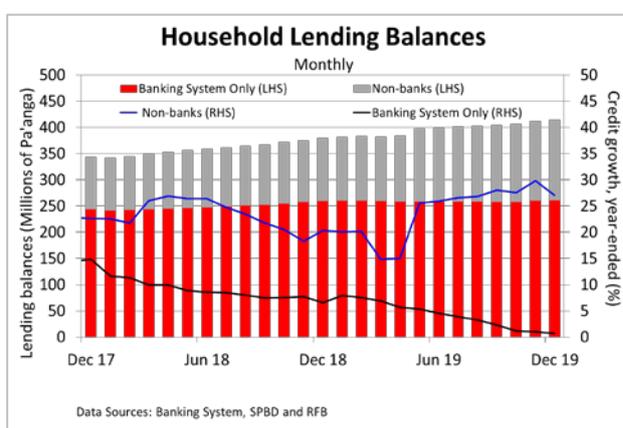
### Business lending

Lending to businesses decreased by \$4.4 million (1.8%) over the month. However, business lending increased by \$19.6 million (8.9%) over the year, to \$239.0 million. The lower loans over the month stemmed mostly from lending to state-owned enterprises, professional & other services, manufacturing, tourism and agricultural sectors. However, over the year, more loans were issued to the state-owned enterprises, professional & other services, agriculture, and transport sectors. A sharp decline in the growth rate of business lending is noted in December 2019 as annual credit growth dropped to 8.9% from 15.3% in the previous month.



### Household lending

Lending to households grew over the month and year to December 2019, by \$1.0 million (0.4%) and \$1.7 million (0.7%) respectively to \$261.8 million. Higher housing loans solely drove this increase. Although both vehicle and other personal loans declined over the month and the year, this decline was outweighed by the higher loans extended for housing purposes. However, the consistent decline in the growth rate of household lending from 6.6% in December 2018 to 0.7% in December 2020 is noted.



### Other lending

Banks' other lending decreased over the month and year to December 2019 due to movements in lending to non-profit institutions serving households.

### Non-performing loans

The non-performing loan balances increased over the month of December 2019 mainly on higher non-performing loans from the transport, fisheries, and agricultural sectors. This led to an increase in the share of non-performing loans to total loans from 2.8% last month to 3.2% in December 2019. However, this is lower than the 3.6% share recorded in December 2018.

### Deposits

In December 2019, the banks' total deposits slightly declined by \$0.1 million (0.02%) to \$607.4 million. Both the saving and demand deposits decreased and had offset the increase in time deposits. The fall in saving deposits

	Monthly						
	Monthly				Annual		
	Dec-19	Nov-19	Change	% Growth	Dec-18	Change	% Growth
Total Deposits (\$ in million)	607.4	607.6	-0.1	-0.02	624.9	-17.5	-2.8
Demand Deposits	253.5	256.9	-3.4	-1.3	282.1	-28.6	-10.1
Saving Deposits	104.4	109.3	-4.9	-4.5	95.9	8.5	8.8
Time Deposits	249.5	241.4	8.1	3.4	246.9	2.6	1.0

Sources: Banking Systems; NRBT

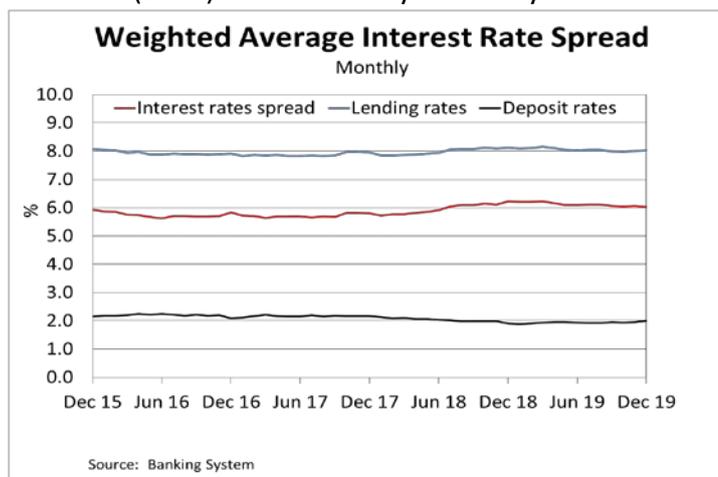
stemmed from lower deposits made by individuals, churches, and schools. In contrast, lower demand deposits was attributed mainly to a decline in deposits from private businesses. On the other hand,

the higher time deposits was a result of more deposits made by churches and schools as well as private businesses.

Annually, the banks' total deposit fell by \$17.5 million (2.8%) and was solely driven by lower demand deposits. This was due mainly to lower deposits from the central government, retirement funds, and state-owned enterprises. Meanwhile, both saving and time deposits increased driven by higher deposits made by individuals, churches, schools, state-owned enterprises, and private businesses.

### Interest rate spread

Over the month and year to December 2019, the weighted average interest rate spread narrowed by 3.9 basis points and 20.0 basis points, respectively to 6.03%. The monthly decline was driven mostly by an increase in deposit rates. The higher time and demand deposit rates led to the rise in deposit rates. Over the year, lending rates fell while deposit rates increased. The lower lending rates was due mainly to a drop in households' housing and other personal loan rates, supported by lower business loan rates offered mostly to the tourism, construction, and agricultural sectors. Meanwhile, the increase in saving and demand deposit rates underpinned the higher deposit rates and their rise more than offset the lower time deposit rates.



	Weighted average of all banks					
	Level as at			Change over the last <sup>A</sup>		
	Dec-19	Nov-19	Dec-18	1 month	1 year	Share of
	%	%	%	bps	bps	loans/deposits
Interest Rate Spread	6.03	6.06	6.23	-3.92	-19.96	
Deposits all	1.99	1.95	1.90	4.40	9.70	100
Demand	0.32	0.29	0.30	2.40	1.40	41
Savings	2.54	2.58	2.52	-4.14	2.78	18
Term	3.42	3.39	3.44	2.91	-1.94	41
Loans all	8.02	8.02	8.12	0.48	-10.26	100
Housing	8.04	8.19	8.22	-15.10	-18.32	41
Other personal	11.38	10.31	11.43	107.20	-4.92	11
Business	7.87	7.81	7.89	6.05	-1.47	30
Other	9.65	13.74	6.55	-408.71	310.32	18

<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

### Broad money

Broad money fell over the month and year to December 2019, by \$3.3 million (0.6%) and \$3.0 million (0.5%) respectively to \$602.2 million. Lower net domestic assets largely drove the decline. This was the result of lower government deposits over the month and the higher capital account over the year. The decrease in net foreign assets over the month reflects the outflow for oil and other import payments. However, over the year, net foreign assets increased due to higher receipts of budgetary support, grants, and project funds from donor partners.

	Level as at			Change over the last	
	Dec-19	Nov-19	Dec-18	1 month	1 year
	\$TOPm	\$TOPm	\$TOPm	% growth	% growth
<b>Broad money liabilities</b>	<b>602.2</b>	<b>605.6</b>	<b>605.3</b>	<b>-0.6</b>	<b>-0.5</b>
Currency in circulation	66.1	64.3	73.1	2.7	-9.6
Demand deposits	211.1	218.8	218.6	-3.5	-3.4
Savings and term deposits*	325.1	322.4	313.6	0.8	3.7
<i>equals</i>					
<b>Net foreign assets</b>	<b>502.5</b>	<b>502.8</b>	<b>502.1</b>	<b>-0.1</b>	<b>0.1</b>
<i>plus</i>					
<b>Net domestic assets</b>	<b>100.4</b>	<b>103.4</b>	<b>103.6</b>	<b>-2.9</b>	<b>-3.1</b>
Gross bank lending**	501.6	505.1	486.1	-0.7	3.2
Public enterprises	63.6	67.2	60.3	-5.3	5.5
Private Sector	435.2	435.3	423.3	0.0	2.8
Other financial corporations	2.7	2.6	2.5	3.8	11.4
Other***	-401.2	-401.7	-382.5	-0.1	4.9

\* 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

## Liquidity

Following its decline last month, liquidity (reserve money)<sup>1</sup> in the banking system rose over the month of December 2019 by \$3.9 million (1.3%) to \$305.1 million. This resulted from more currency in circulation of \$8.8 million (10.7%) which outweighed the decrease in both the Exchange Settlement Account (ESA) and the Statutory Required Deposits by \$4.2 million (2.6%) and \$0.7 million (1.2%) respectively. The higher currency in circulation reflects the rise in demand for currency during the Christmas and New Year festivities. The banks' total loans to deposit ratio decreased over the month, from 81.2% to 80.7%, which is still above the Reserve Bank's minimum ratio of 80%. This reflects the decline in loans exceeding the fall in deposits. Over the year, liquidity in the banking system fell by \$19.6 million, driven mostly by lower Exchange Settlement Account (ESA) of \$16.7 million (9.6%). This resulted from higher withdrawals made by the commercial banks from the Reserve Bank vault. The decline in both the currency circulated and the Statutory Required Deposits also supported the annual decrease.

## Outlook

Credit growth is expected to continue in the near term but at a slower pace. The new coronavirus pandemic also poses a risk to credit growth as a downturn in economic activities is expected. The current accommodative monetary policy continues to encourage banks 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 growth across all monetary indicators, particularly credit growth and broad money movements, for any signs of overheating and to ensure financial and macroeconomic stability is maintained.

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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.