

# Banking Sector Developments January 2019

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	Jan-19	Dec-18	Nov-18	Oct-18
Deposit rate (%)*	1.882	1.897	1.979	1.978
Lending rate (%)*	8.092	8.122	8.094	8.121
Total Deposits (T\$M)	631.5	624.9	613.6	621.7
Total lending (T\$M)	482.8	479.9	469.9	466.3
New commitments (T\$M)	13.2	14.1	22.4	13.5
Broad Money (T\$M)	598.3	605.3	592.3	595.8

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

## Credit growth continued while deposits peaked at its highest level

### Lending

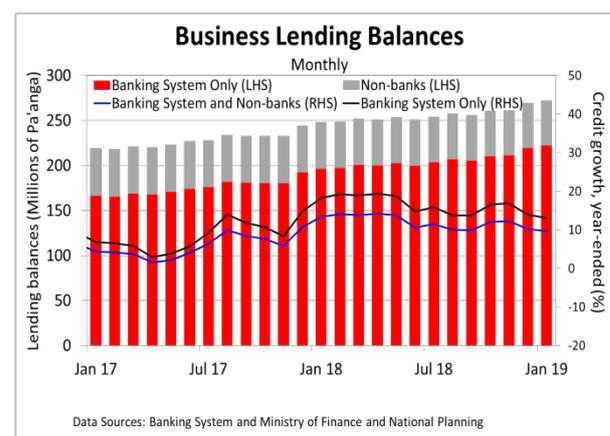
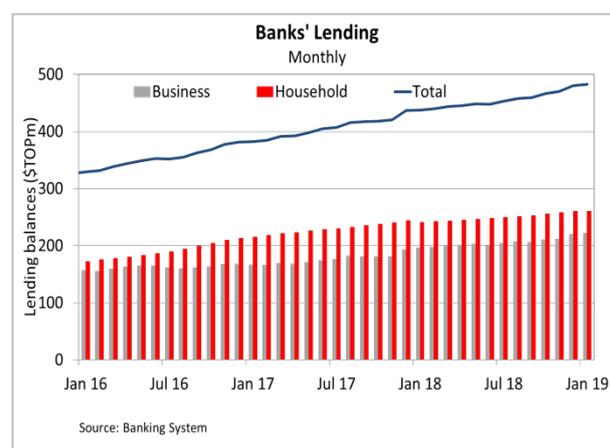
January 2019 recorded a monthly credit growth of 0.6%, underpinned by an expansion in loans to both public and private enterprises. Meanwhile, the total increase in loans for the year was 10.4%, due mainly to more business and individual loans.

The loans offered by non-bank financial institutions continued with its accelerating trend, indicating the easy access of individuals to these loans. The government on-lent loans declined again in January 2019.

### Business lending

Over the month and year to January 2019, lending to businesses grew by 1.3% and 13.1% respectively, led by an increase in loans to public enterprises and private sectors.

Lending to the tourism and construction sectors grew the most over the month, while over the year the transport and wholesale & retail loans contributed significantly to the annual increase. The rise in wholesale & retail loans coincided with the 10.6% increase in container registrations coupled with various domestic and economic activities during the year. Business lending (including government on-lent loans) rose by \$23.8 million (9.6%) over the year reflecting more business loans offsetting repayments of government on-lent loans.



## Household lending

Household lending showed minimal growth of 0.1% (\$0.2 million) in January 2019, mainly for housing loans and outweighed the decline in both vehicle and other personal loans over the month. Over the year, lending to household continues with a growth of 7.9% (\$19.1 million) as a result of higher housing and other personal loans. These offset the decline in vehicle loans over the year.

## Other lending

Banks other lending continued to decline in January 2019, again solely driven by lower lending to the non-profit institutions sector.

## Non-performing loans

	Level as at		Change over the last:			Shares of totals %
	Jan 19	Dec 18	Jan 18	1 month	1 year	
	TOPm	TOPm	TOPm	%	%	
Lending, banks	482.8	479.9	437.5	0.6	10.4	100.0
Household	260.2	260.1	241.2	0.1	7.9	53.9
Business*	222.3	219.4	196.6	1.3	13.1	46.0
Other	0.3	0.4	0.8	-31.4	-65.0	0.1
Lending, banks and other	653.1	649.6	589.5	0.5	10.8	100.0
Household	381.2	380.0	342.0	0.3	11.5	58.4
Business	271.6	269.2	247.7	0.9	9.6	41.6
Other	0.3	0.4	0.8	-31.4	-65.0	0.1
New comm'ts, banks	13.2	14.1	6.8	-6.3	93.3	N/A
Undrawn comm'ts, banks	19.7	20.3	16.9	-3.1	16.3	N/A
Implied repay'ts, banks	43.2	426.7	7.3	-89.9	491.6	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

## Deposits

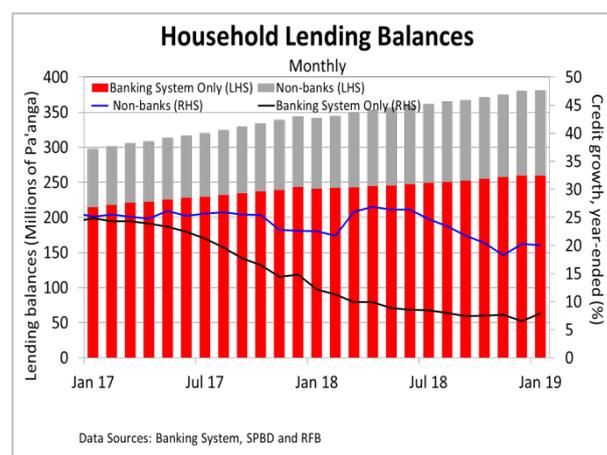
All three categories of deposits increased over January 2019, bringing the banks' total deposits to a high level of \$631.5 million. The continued collection of Government's revenue as well as receipts of government budget support increased both demand and time deposits. Additionally, more deposits from public enterprises supported the month rise in demand deposits, and most saving deposits were from the individuals.

Table 2: Deposit Balances

	Monthly				Annual		
	Jan-19	Dec-18	Change	%	Jan-18	Change	% Growth
Total Deposits (\$ in million)	631.5	624.9	6.6	1.0	571.4	60.2	10.5
Demand Deposits	285.8	282.1	3.7	1.3	242.8	43.0	17.7
Saving Deposits	98.1	95.9	2.2	2.3	83.8	14.3	17.1
Time Deposits	247.5	246.9	0.6	0.2	244.7	2.8	1.2

Sources: Banking Systems; NRB

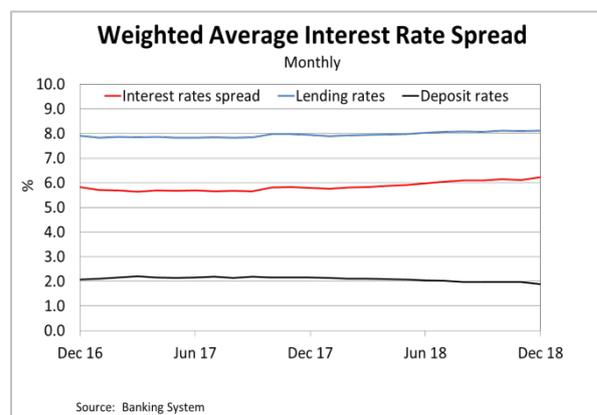
The banks' total deposit continued its annual upward trend in January 2019, due to higher demand deposits from businesses, increased savings by individuals & churches and more term deposits invested by both government and the retirement funds. These reflect better government revenue collections, higher budget support receipts, and more remittance receipts during the year.



The increased non-performing loans from the transport, trade and professional & other service sectors raised the bank's total non-performing loans in January 2019. This increased the share of non-performing loans in total loans from 3.8% last month to 3.9% but declined from 4.0% recorded in January last year.

## Interest rate spread

In January 2019, both lending rates and deposit rates decreased. The decline in the lending rates offset declines in the deposit rates and led to a narrower weighted average interest rates spread. Lower weighted average lending rate stemmed from households' housing loans and business loans to the fisheries, construction and agricultural sectors. Lower time deposit rates outweighed the rise in demand and saving rates leading to lower weighted average deposit rates.



**Table 3: Interest Rates**

	Weighted average of all banks					
	Level as at			Change over the last <sup>A</sup>		Share of loans/deposits %
	Jan-19 %	Dec-18 %	Jan-18 %	1 month bps	1 year bps	
Interest Rate Spread	6.21	6.23	5.76	-1.48	45.39	
Deposits all	1.88	1.90	2.15	-1.55	-26.62	100
Demand	0.31	0.30	0.49	0.19	-18.04	45
Savings	2.56	2.52	2.33	4.54	23.43	16
Term	3.40	3.44	3.54	-4.41	-14.61	39
Loans all	8.09	8.12	7.90	-3.03	18.77	100
Housing	8.21	8.22	8.08	-0.93	12.87	42
Other personal	11.43	11.43	11.35	-0.20	7.24	12
Business	7.80	7.89	7.38	-8.81	41.26	28
Other	6.25	6.55	6.25	-29.68	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; NRB

Over the year, the weighted average interest rate spread widened as the weighted average deposit rates decreased while the weighted average lending rates increased. Higher weighted average lending rate reflects higher rates offered for business loans to the tourism, distribution and professional & other business sectors. On the other hand, the weighted average deposit rates declined reflecting lower demand and term deposit rates for all terms except for the over five years term. Savings deposit rates, however, rose over the year and

partly offset the increased in demand and term deposits rates.

The cost of borrowing is not a concern as both volumes rose despite their increased costs. This further indicates the high demand to access loans as well as the excess liquidity which exists in the banking system and is available for further lending.

## Broad money

	Table 4: Consolidated Balance Sheet of Depository Corporations				
	Level as at			Change over the last	
	Jan-19 \$TOPm	Dec-18 \$TOPm	Jan-18 \$TOPm	1 month % growth	1 year % growth
<b>Broad money liabilities</b>	<b>598.3</b>	<b>605.3</b>	<b>552.5</b>	<b>-1.1</b>	<b>8.3</b>
Currency in circulation	63.1	73.1	60.8	-13.6	3.8
Demand deposits	219.9	218.6	177.5	0.6	23.9
Savings and term deposits*	315.2	313.6	314.2	0.5	0.3
<i>equals</i>					
<b>Net foreign assets</b>	<b>502.2</b>	<b>502.1</b>	<b>446.2</b>	<b>0.0</b>	<b>12.6</b>
<i>plus</i>					
<b>Net domestic assets</b>	<b>96.4</b>	<b>103.5</b>	<b>106.6</b>	<b>-6.9</b>	<b>-9.6</b>
Gross bank lending**	489.6	486.1	440.9	0.7	11.1
Public enterprises	60.8	60.3	52.9	0.7	15.0
Private Sector	426.5	423.3	386.2	0.8	10.4
Other financial corporations	2.3	2.5	1.8	-4.7	30.5
Other***	-393.3	-382.6	-334.2	2.8	17.7

After rising last month, broad money fell in January 2019 to \$598.3 million mainly on the back of lower net domestic assets and a slight increase in net foreign assets. The higher government deposits decreased the net credit to the government and aided the lower net domestic assets. However, in year ended terms, broad money increased due to higher foreign reserves on the receipt of government budget support, cyclone relief, and project funds, as well as more remittances. This resulted in higher government deposits which further contributed to the lower the net domestic assets.

## Liquidity

Liquidity (reserve money)<sup>1</sup> in the banking system increased for the third consecutive month in January 2019 to \$326.2 million. Higher deposits by the commercial banks to the Reserve Bank vault largely drove this increase. The higher deposits was offset by a decline in currency in circulation as public demand for cash fell after the December festive season, reflecting the seasonal slowdown in payments and transactions. The banks' total loans to deposit ratio remained below the minimum level of 80%, as it declined further to 74.8% mainly resulting from higher deposits outweighing the increase in loans indicating excess liquidity in the banking system.

Over the year, the commercial banks' deposit to the Reserve Bank vault, currency in circulation and required reserves all increased hence the annual rise. These were supported by the various events and economic activities which happened in the country throughout the year.

## Outlook

Banks' prospects for credit growth continues to be positive, and as such, the Reserve Bank forecasts a credit growth of 13.0% for the current financial year 2018/19. Furthermore, improved economic conditions, recent business performances and confidence, and annual (one-off) events that are expected to take place throughout the current financial 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 for banks to utilize the excess liquidity would continue to encourage lending and support economic activity.

The Reserve Bank will continue to closely monitor all monetary indicators particularly credit growth and broad money, particularly net credit to government and the foreign reserves 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.