

# Banking Sector Developments July 2014

Release date: 24 September 2014

	July 14	June 14	May 14	Apr 14
Deposit rate	2.14	2.09	2.09	2.09
Lending rate	8.94	8.96	8.97	9.02
Total lending (T\$m)	385.8	384.6	382.4	381.5
New commitments (T\$m)	7.6	9.1	7.9	7.5

## Interest rate spread narrows over year

### Interest rates

The weighted average deposit rate rose by 5 basis points in July 2014. This reflected an increase across all bank deposit rates, particularly for demand deposits. The deposit rate increased over the year, due to a rise in term deposit rates.

A rise in new loan commitments coincided with a 2 basis point fall in the weighted average lending rate in July. This was driven by 'business' and 'housing', and reflects continued competitive conditions. The largest decline in lending rates was on loans to the 'business' sector particularly the manufacturing sector, reflecting lower lending to the manufacturing sector. Over the year, all key bank lending rate categories declined, led by the 'business' and 'other' categories, whose share comprise almost half of all loans, reflecting banks writing off loans. The weighted average rate on all bank loans continued its decline, falling by 71 basis points.

Lending rates in July were the lowest since at least January 2001, although recent improvements in reporting requirements complicate historical comparisons.

### Lending

Total bank lending balances rose 0.3 per cent in July. This was driven by increases in lending for 'household' and 'other' components more than offsetting a decline in lending for

'business'. The increase coincided with a rise in new commitments, and a fall in lending rates, and non-performing loans. The increase in lending to 'other' sector was mainly the increase in lending to private non-bank financial corporation.

In year-ended terms, total bank lending balances rose a further 9.7 per cent. This was mainly due to 'housing' and 'other' sectors, partly offset by 'business', and reflects the rise in commitments and lending to the statutory non-financial corporation sector. The rise was supported by lower lending rates, and coincides with a decline in non-performing loans, reflecting banks writing off quantities of loans. This is consistent with a rise in container registrations, suggesting strengthening activity. Including loans extended by non-banks, the lending balance increased by 11.5 per cent over the year, reflecting strong growth in household lending.

#### *Household lending*

Bank lending to households rose 0.9 per cent over the month, due to an increase in the 'housing' and 'other personal' components. This is consistent with a rise in new commitments for 'housing'. Over the year, bank lending to households increased 6.6 per cent. This was largely driven by 'housing', which reflects a rise in imports for construction materials and number of private container registrations. Including non-banks, year-ended growth in household lending would have been 15.5 per cent.

New household commitments rose 4.3 per cent over the month, driven by rises in the 'other' and 'vehicle' components. The rise in new commitments for vehicles is consistent with an increase in the number of vehicle registrations. This is likely to be the result of more affordable Japanese cars and the rise of informal markets. New household commitments comprise nearly half of total new commitments.

#### *Business lending*

Business lending fell by 0.8 per cent over the month, driven by the 'other' and 'professional' components. Year-ended business lending declined 11.1 per cent, driven by 'other' and 'manufacturing' components, reflecting loan settlement and banks writing-off large quantities of loans that became impaired many years ago.

New business commitments fell over the month, mainly due to a decline in 'distribution', 'manufacturing' and 'fisheries' categories. Including government on-lent loans, business lending slowed over the year as on-lending for CBD reconstruction continues to unwind.

### *Other lending*

Much of the growth in total bank lending over the past year has come from large loans extended to two local public enterprises (classified under the category of 'other'). Some of the amounts committed remain undrawn.

### **Broad money**

Broad money fell by 1.2 per cent to \$364.6 million in July, down from 3.0 per cent in June. This reflects the rise in bank lending. In year ended terms, broad money balances rose by 6.4 per cent owing to an increase in Tonga's net foreign assets. The high growth components were those that earn the lowest interest and are most suited for transactional purposes. In liquidity terms, gross loans-to-deposit ratio remains below the 80 per cent trigger level, indicating an excess liquidity in the banking systems. However, bulk of this excess liquidity is in short term deposits. Therefore banks cannot rely on these volatile funds to lend out to borrowers given the high liquidity risk involved.

### **Outlook**

Credit growth is supported by the continuous improvements in business confidence and lending conditions. Increased competition in the sector will continue to support lower lending rates; however, banks have indicated significant declines are unlikely.

The NRBT is forecasting lending to grow by around 10 per cent over the year to December 2014. This is on the basis of imminent drawdowns of some large loan commitments; the expected fall in interest rates; introduction of the government's new loan scheme, targeting the manufacturing, tourism, agricultural and fisheries sectors. Growth is expected to increase slightly in 2014-15.

While conventional monetary policy instruments are at their expansionary limit, the NRBT will continue to liaise closely with banks, and to promote prudent lending.

### Interest Rates

Weighted average of all banks

	Month ended			3 months ended			Year ended			Share of loans/deposits %
	Jul 14 %	Jun 14 %	May 14 %	Jul 14 %	Apr 14 %	Jan 14 %	Jul 14 %	Jul 13 %	Growth bps	
Deposits all	2.14	2.09	2.09	2.14	2.09	1.96	2.14	1.99	16	100
Demand	0.52	0.44	0.49	0.52	0.52	0.56	0.52	0.45	6	43
Savings	2.13	2.02	1.97	2.13	2.00	1.91	2.13	2.17	-5	15
Term	3.82	3.69	3.63	3.82	3.56	3.40	3.82	3.29	53	42
Loans all	8.94	8.96	8.97	8.94	9.06	9.02	8.94	9.65	-71	100
Housing	8.62	8.67	8.69	8.62	8.70	8.65	8.62	8.95	-34	36
Other personal	12.96	12.95	12.93	12.96	13.10	12.83	12.96	13.24	-29	18
Business	9.00	9.07	9.03	9.00	9.29	9.18	9.00	9.64	-64	26
Other	6.05	6.05	6.05	6.05	6.04	6.06	6.05	6.54	-49	21

Sources: Banks; NRBT

**Table 1**  
Lending Balances

	Month ended			3 months ended			Year ended			Shares of totals %
	Jul 14 TOPm	Jun 14 TOPm	May 14 TOPm	Jul 14 TOPm	Apr 14 TOPm	Jan 14 TOPm	Jul 14 TOPm	Jul 13 TOPm	Growth %	
Lending, banks	276.7	276.0	275.1	276.7	274.9	271.5	276.7	252.1	9.7	100
Household	139.7	138.5	137.0	139.7	137.5	135.1	139.7	131.1	6.6	50
Business	79.3	79.9	82.5	79.3	81.9	83.1	79.3	89.2	-11.1	29
Other	57.7	57.6	55.5	57.7	55.5	53.3	57.7	31.9	80.7	21
Lending, banks and other	385.8	384.6	382.4	385.8	381.5	375.0	385.8	346.1	11.5	100
Household	186.2	184.4	181.7	186.2	181.5	175.3	186.2	161.1	15.5	48
Business	142.0	142.6	145.2	142.0	144.5	146.4	142.0	153.0	-7.2	37
Other	57.7	57.6	55.5	57.7	55.5	53.3	57.7	31.9	80.7	15
New comm'ts, banks	7.6	9.1	7.9	7.6	7.5	5.0	7.6	6.2	22.5	N/A
Undrawn comm'ts, banks	9.8	8.5	9.3	9.8	9.4	9.7	9.8	12.8	-23.2	N/A
Implied repay'ts, banks	5.6	9.0	7.8	5.6	7.1	5.6	5.6	5.2	7.2	N/A

Sources: SPBD; RFB; Government of Tonga; banking system

**Consolidated Balance Sheet of Depository Corporations**

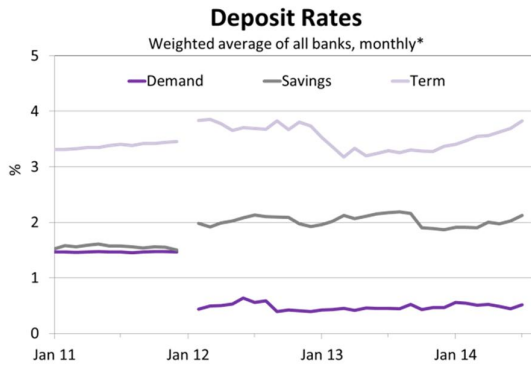
	Month ended			3 months ended			Year ended		
	Jul-14	Jun-14	May-14	Jul-14	Apr-14	Jan-14	Jul-14	Jul-13	% growth
	\$TOPm	\$TOPm	\$Tom	\$TOPm	\$TOPm	\$TOPm	\$TOPm	\$TOPm	
<b>Broad money liabilities</b>	<b>364.6</b>	<b>368.9</b>	<b>358.1</b>	<b>364.6</b>	<b>357.5</b>	<b>350.5</b>	<b>364.6</b>	<b>342.5</b>	<b>6.4</b>
Currency in circulation	37.5	38.9	38.5	37.5	36.0	33.5	37.5	29.9	25.2
Demand deposits	136.0	137.1	128.9	136.0	131.5	131.4	136.0	127.7	6.5
Savings and term deposits*	191.1	192.9	190.6	191.1	189.9	185.7	191.1	184.9	3.3
<i>equals</i>									
<b>Net foreign assets</b>	<b>275.1</b>	<b>268.5</b>	<b>259.2</b>	<b>275.1</b>	<b>258.4</b>	<b>266.4</b>	<b>275.1</b>	<b>250.7</b>	<b>9.7</b>
<i>plus</i>									
<b>Net domestic assets</b>	<b>89.5</b>	<b>100.4</b>	<b>98.9</b>	<b>89.5</b>	<b>99.1</b>	<b>84.1</b>	<b>89.5</b>	<b>91.8</b>	<b>-2.5</b>
Gross bank lending**	286.1	285.3	282.7	286.1	282.1	278.7	286.1	259.0	10.5
Other***	-196.6	-184.9	-183.9	-196.6	-183.0	-194.7	-196.6	-167.2	17.6

\* Also includes very minor amounts for securities other than shares.

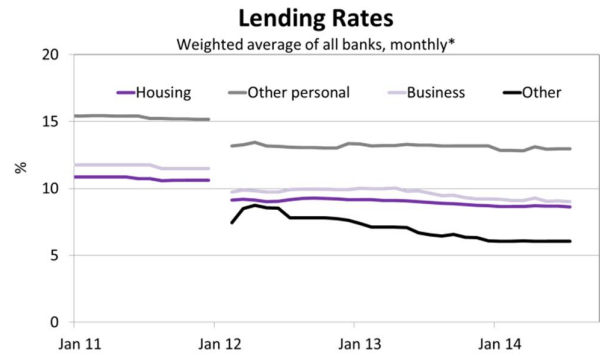
\*\* Differs slightly from standard measures of bank lending by amounts classified as accrued interest.

\*\*\* Includes mostly capital accounts of the banks and NRBT, and their net claims on the central government.

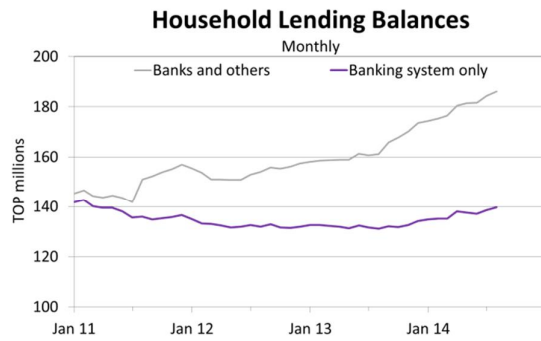
Sources: banking system; NRBT



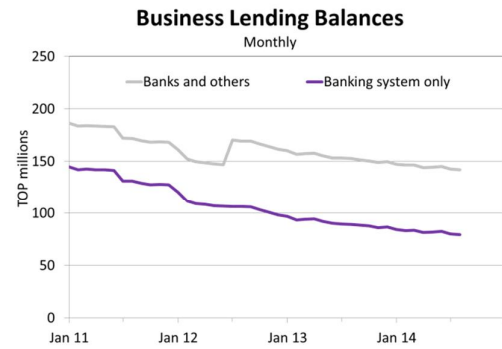
\* Changes in bank reporting have occasionally caused series breaks.



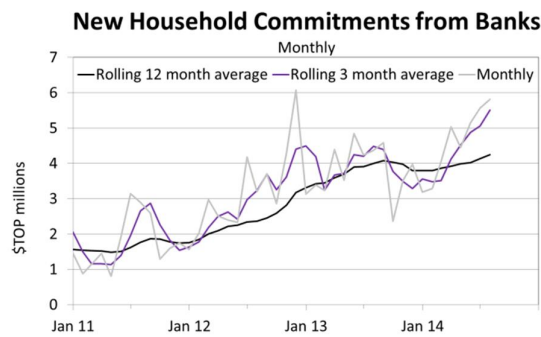
\* Changes in bank reporting have caused a series break in January 2012; excludes overdrafts.



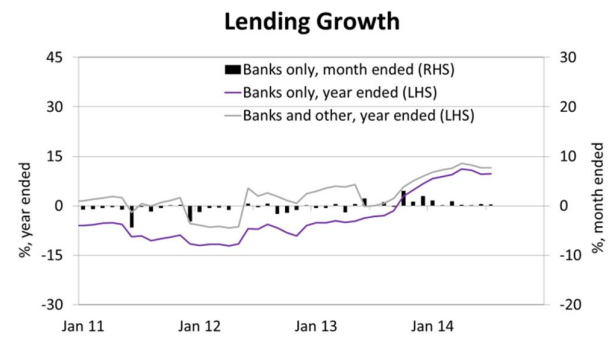
Sources: Banking System; SPBD; RFB



Sources: Banking System; Government of Tonga



Source: Banking system



Sources: Banking System; SPBD; RFB; Government of Tonga