

# Banking Sector Developments December 2016

Release date: 21 June 2017

	Dec 16	Nov 16	Oct 16	Sep 16
Deposit rate (%)*	2.129	2.232	2.213	2.233
Lending rate (%)*	7.87	7.89	7.87	7.86
Total Deposits (T\$m)	515.1	492.9	496.8	491.2
Total lending (T\$m) ^	381.6	377.5	368.2	362.7
New commitments (T\$m)	23.8	22.3	13.1	12.4
Broad Money (T\$m)	512.2	493.6	501.2	496.2

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

^This series shows total lending from the banking sector only.

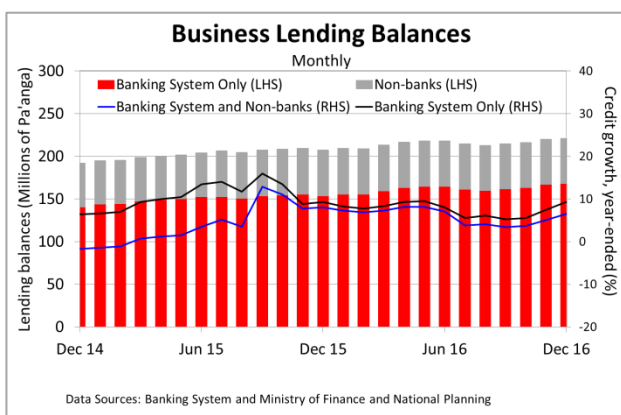
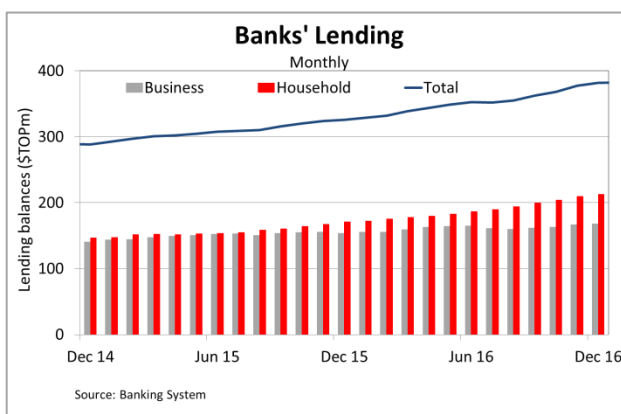
## Strong growth in deposits and loans continue

### Lending

As expected, lending growth grew over December. This was driven largely by both the business and household sectors whom were likely preparing for the festive season and New Year. Overall, total lending rose over the month by \$4.1 million (1.1%) with growth in both household and business loans contributing to the monthly growth. Annually, total bank lending increased by \$55.6 million (17.1%) as a result of rises in both household and business loans. Lending activities in the non-bank financial institutions also rose over the year by \$15.8 million (13.4%) to \$134.3 million. This was driven by higher household loans.

### Business lending

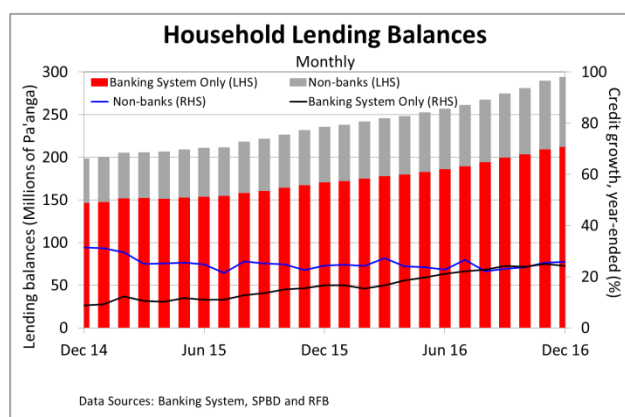
Banks' lending to businesses increased by \$1.0 million (0.6%) over December to \$167.8 million. This was due mainly to rises in lending to businesses within the transport, trade, and utilities sectors. Lending to the transport sector increased the most by \$0.9 million (40.4%). This had offset decreases in lending to sectors such as



construction and fisheries. Over the year, lending to businesses rose by \$14.2 million (9.3%) driven significantly by lending to the tourism, agricultural, manufacturing, transport, and construction sectors. Loans to the tourism sector increased by \$5.0 million (44.6%), agricultural loans rose by \$3.3 million (49.8%), and lending for manufacturing grew by \$2.4 million (18.3%). Government’s continuous support through its Government Development Loans supported the monthly and annual credit growth, and the economic activities in the aforementioned sectors. With the inclusion of government on-lent loans, business lending increased by \$13.4 million (6.4%) over the year. This was driven by higher household loans which outweighed a fall in government on-lent loans.

### Household lending

Household loans continued to significantly drive credit growth, reflected higher borrower capacity and demand. Over December, lending to households increased by \$3.0 million (1.4%) to a new record high of \$212.5 million. This was led by a \$2.7 million (1.8%) rise in housing loans followed by a \$0.3 million (0.4%) increase in other personal loans. Vehicle loans also contributed to the monthly rise by \$0.03 million (3.9%).



Banks’ lending to households increased by \$41.4 million (24.2%) over the year. Housing loans drove this significantly by a growth of \$38.0 million (33.1%) followed by an increase of \$3.0 million (5.4%) in other personal loans. Lower lending rates for housing and other personal loans supported the yearly growth as the lending rates narrowed by 23.4 and 5.3 basis points respectively. Import payments for construction materials also increased over the year by \$19.9 million (85.9%) which coincided with the annual rise in housing loans. Lending from non-bank financial institutions to households increased by \$16.7 million (25.8%), reflecting higher personal loans over the year. The introduction of the home improvement loan facility at the Retirement Fund Board in July 2016 also contributed to the annual growth.

### Other lending

Other loans from banks increased over the month by \$0.1 million (8.8%) yet fell over the year by \$0.04 million (2.8%). The overall movements over the month and year largely resulted from more lending to the non-profit institutions sector.

### Non-performing loans

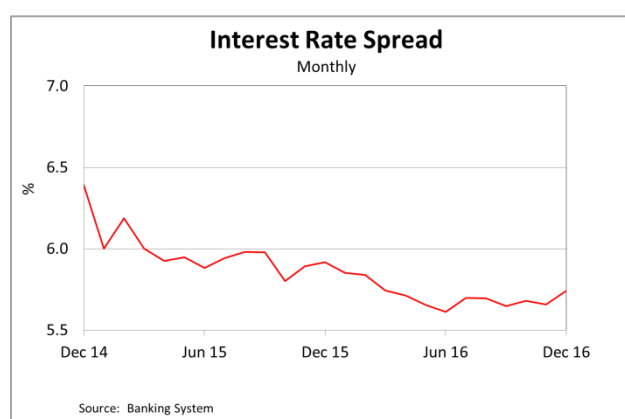
Banks’ total non-performing loans declined over the month and over the year by \$0.3 million (1.8%) and \$8.9 million (34.7%) respectively. As at the end of December, this represented 4.4% of total loans compared with 4.5% in the previous month and 7.9% in December 2015. Both the monthly and annual movements were mainly driven by a decline in the non-performing business and individual housing loans.

## Deposits

Total bank deposits increased by \$22.2 million (4.5%) over December. This was driven significantly by a \$20.8 million (10.0%) rise in demand deposits which stemmed from higher inflows into the government's operating account and receipt of government grant. Higher inflows received by the government included receipts of dividend from a number of public enterprises such as Ports Authority and Tonga Airports Limited. Time deposits contributed also to the monthly increase by \$2.9 million (1.5%). This had offset a \$1.5 million (1.7%) decline in savings deposits. The fall in savings deposits could have coincided with high consumption by households over the festive season. Over the year to December, total bank deposits increased by \$76.5 million (17.5%) due to increases in all categories with demand deposits contributing the most.

## Interest rate spread

Over December, the weighted average lending rate and weighted average deposit rate both narrowed by 1.9 and 10.3 basis points respectively. The weighted average lending rate declined to 7.87% from 7.89% in November due to lower lending rates for household and business loans. More specifically, the lower household lending rates were driven mainly by a decrease in housing and vehicle lending rates whilst business lending rates fell resulting from



lower lending rates to the manufacturing, construction, and mining and quarrying sectors. The weighted average deposit rate fell driven by lower deposit rates for all categories. Consequently, the weighted average interest rate spread widened over the month by 8.4 basis points to 5.74% in December (from 5.66% in the previous month). Contrastingly, the weighted average interest rate spread narrowed over the year by 17.6 basis points due to a decline in the weighted average deposit rate which outweighed the decrease in the weighted average lending rate.

## Broad money

Broad money increased by \$18.6 million (3.8%) to \$512.2 million in December. This is the highest level recorded for broad money and was a result of a \$23.7 million (6.5%) increase in net foreign assets offsetting a \$5.1 million (4.1%) decline in net domestic assets. In year ended terms, broad money continued to rise and recorded a growth of \$62.0 million (13.8%). This was a result of a \$63.3 million (19.4%) rise in net foreign assets outweighing a \$1.6 million decline in net domestic assets. Budget support funding received during the year contributed to the higher foreign reserves and corresponded to the increase in net foreign assets.

## Liquidity

Liquidity (reserve money)<sup>1</sup> in the banking system increased significantly by \$16.4 million (6.2%) to \$281.3 million. Despite large cash withdrawals by banks from the Reserve Bank to facilitate household demands during the month, this was offset by more sales of foreign currencies to the Reserve Bank resulting from the receipt of government grant and hike in remittances for the festive season. This was due to government receipt of budget support and rising remittances for the festive season. Total loans to deposit ratio fell to 74.5% in December from 76.6% last month. This remained below the 80% minimum requirement for the banks' loan to deposit ratio to be met by June 2017, and indicates excess liquidity in the banking system remains. Over the year, the banking system liquidity increased by \$22.7 million (8.8%) due mainly to a \$10.8 million (15.8%) increase in currency in circulation reflecting the stronger economic activities within the country.

## Outlook

The Reserve Bank estimates a credit growth of 15.0% to be achieved at the end of 2016/17. This is higher than the IMF Article IV projected growth of 9.8% for 2016/17. The banks' prospects for credit growth remains positive and the Reserve Bank's projection is supported by improving economic conditions, business confidence, and annual (one-off) events taking place throughout the financial year. The Reserve Bank forecasts the annual growth in broad money to rise in June 2017 by 10%. This coincides with the IMF's estimated growth of 10.2% projection for June 2017, supported by the anticipated increase in lending and foreign reserves level.

The policy measure requiring banks' loan to deposit ratio to meet a minimum of 80% by June 2017 and progressively over 18 months, is to encourage the utilization of the excess liquidity in the banking system to increase lending, in order to support economic growth, subject to ensuring financial 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.

Table 1:

## Consolidated Balance Sheet of Depository Corporations

	Level as at					Change over the last:	
	Dec-16 \$TOPm	Nov-16 \$TOPm	Oct-16 \$TOPm	Sep-16 \$TOPm	Dec-15 \$TOPm	1 month % growth	1 year % growth
<b>Broad money liabilities</b>	<b>512.2</b>	<b>493.6</b>	<b>501.2</b>	<b>496.2</b>	<b>450.2</b>	<b>3.77</b>	<b>13.8</b>
Currency in circulation	59.9	50.0	48.9	49.2	52.8	19.86	13.4
Demand deposits	193.6	185.7	190.6	182.6	172.0	4.29	12.6
Savings and term deposits*	258.6	257.9	261.6	264.4	225.4	0.27	14.7
<i>equals</i>							
<b>Net foreign assets</b>	<b>390.5</b>	<b>366.8</b>	<b>375.0</b>	<b>372.8</b>	<b>327.2</b>	<b>6.5</b>	<b>19.4</b>
<i>plus</i>							
<b>Net domestic assets</b>	<b>121.8</b>	<b>126.9</b>	<b>126.4</b>	<b>123.4</b>	<b>123.3</b>	<b>-4.1</b>	<b>-1.3</b>
Gross bank lending**	391.5	387.2	377.7	372.0	334.4	1.1	17.1
Public enterprises	43.2	43.0	41.7	41.4	45.2	0.6	-4.3
Private Sector	332.0	327.9	320.6	315.4	272.8	1.3	21.7
Other financial corporation	16.2	16.4	15.3	15.3	16.4	-0.8	-1.3
Other***	-269.7	-260.3	-251.3	-248.6	-211.1	3.6	27.8

\* 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

Table 2:

## Lending Balances

	Level as at					Change over the		Shares of totals %
	Dec 16 TOPm	Nov 16 TOPm	Oct 16 TOPm	Sep 16 TOPm	Dec 15 TOPm	1 month %	1 year %	
Lending, banks	381.6	377.5	368.2	362.7	326.0	1.1	17.1	100.0
Household	212.5	209.4	203.8	199.7	171.0	1.4	24.2	55.7
Business*	167.8	166.8	163.1	161.7	153.6	0.6	9.3	44.0
Other	1.3	1.2	1.3	1.3	1.3	8.8	-2.8	0.3
Lending, banks and other	515.8	510.8	498.1	490.6	444.4	1.0	16.1	100.0
Household	293.7	289.8	280.7	274.5	235.6	1.4	24.7	56.9
Business	220.8	219.8	216.2	214.8	207.5	0.4	6.4	42.8
Other	1.3	1.2	1.3	1.3	1.3	8.8	-2.8	0.3
New comm'ts, banks	23.8	22.3	13.1	12.4	12.5	6.6	90.7	N/A
Undrawn comm'ts, banks	17.9	14.0	13.3	14.6	19.9	27.6	-10.0	N/A
Implied repay'ts, banks	15.8	12.3	8.9	7.9	10.7	28.7	47.9	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

Table 3:

**Interest Rates**  
Weighted average of all banks

	Level as at					Change over the last <sup>^</sup> :		Share of loans/deposits %
	Dec 16 %	Nov 16 %	Oct 16 %	Sep 16 %	Dec 15 %	1 month bps	1 year bps	
Deposits all	2.13	2.23	2.21	2.23	2.15	-10.31	-2.22	100
Demand	0.43	0.44	0.41	0.41	0.43	-1.76	0.18	41
Savings	2.22	2.31	2.33	2.34	2.33	-9.14	-11.26	19
Term	3.85	3.92	3.89	3.82	3.79	-7.38	5.83	40
Loans all	7.87	7.89	7.89	7.88	8.07	-1.89	-19.79	100
Housing	8.05	8.10	8.09	8.08	8.29	-5.02	-23.36	42.0
Other personal	10.95	10.96	11.02	10.98	11.16	-0.98	-20.70	16.1
Business*	6.97	6.99	6.89	6.91	7.13	-1.79	-15.93	26.4
Other	6.66	6.32	6.54	6.64	6.52	33.57	13.32	15.5

\*Method for calculating these series was updated in August 2014, resulting in revision to the full history of data

<sup>^</sup>Due to rounding errors some data may not aggregate precisely

Sources: Banks; NRBT