

# Banking Sector Developments November 2017

Release date: 21 February 2018

	Nov 17	Oct 17	Sep 17	Aug 17
Deposit rate (%)*	2.159	2.160	2.186	2.148
Lending rate (%)*	7.967	7.975	7.851	7.828
Total Deposits (T\$m)	570.0	569.4	555.0	552.4
Total lending (T\$m) ^	420.3	418.1	417.0	415.6
New commitments (T\$m)	13.2	12.1	7.7	14.3
Broad Money (T\$m)	553.5	553.6	549.7	552.3

\*Weighted Average calculated as a function of interest rate and volume of deposits and loans (also note revisions have been made to deposit and lending rates data)

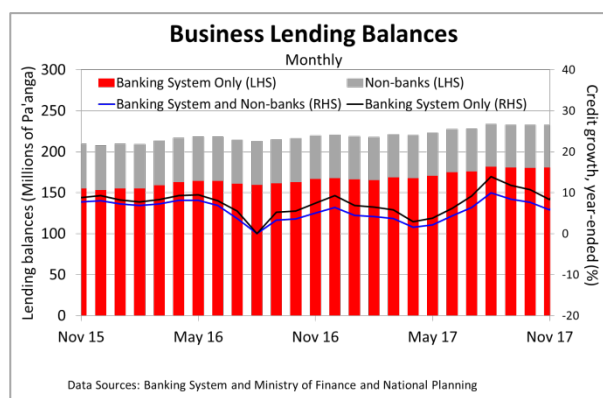
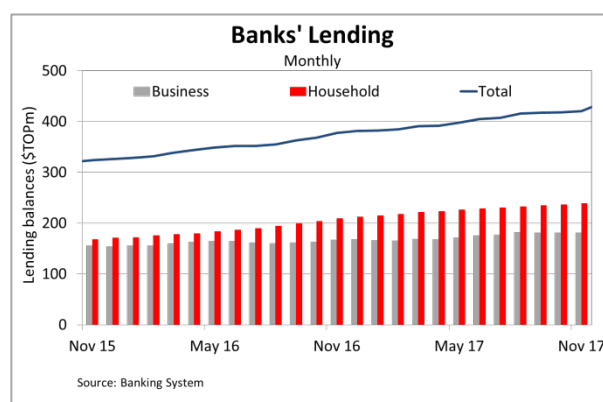
^This series shows total lending from the banking sector only.

## Housing loans remain a strong driver of credit growth

### Lending

Total banks' lending increased over the month and over the year by \$2.3 million (0.5%) and \$42.8 million (11.4%) respectively. This led the level of total banks' lending to \$420.3 million. The monthly increase was largely a result of higher lending to households as well as a slightly lower growth in lending to businesses. The annual rise was driven by increases in lending to both households and businesses. However, more specifically, housing loans continued to be the most significant contributor to the yearly movement.

Lending extended by non-bank financial institutions increased over the month by \$2.2 million (1.5%) and over the year by \$17.3 million (13.0%) to \$150.5 million. This yet again was driven by more household loans extended by the South Pacific Business Development (SPBD) offsetting a decline in government on-lent loans.

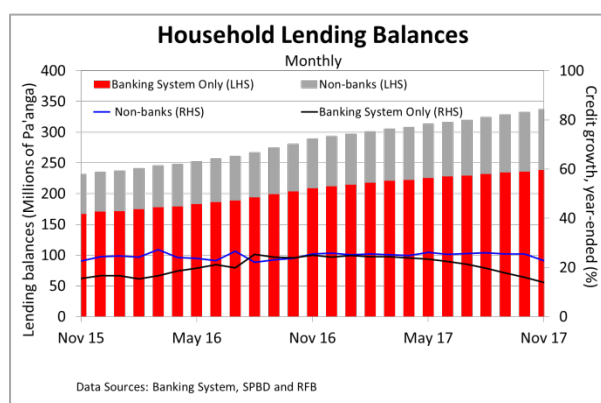


### Business lending

Over the month, total banks' lending to businesses rose slightly by \$0.1 million (0.1%) to \$180.8 million. This was mainly driven by respective growths of \$1.0 million and \$0.3 million (0.7%) in the loans to the mining and quarrying, and wholesale and retail sectors. However, these movements were partially offset by declines in lending to other sectors such as agriculture and construction. Over the year, business lending increased by \$13.9 million (8.3%). This resulted from a rise in lending to the wholesale and retail, manufacturing, and services sectors respectively by \$12.0 million (40.6%), \$5.9 million (37.8%), and \$5.6 million (34.0%). The lending to the transport and fisheries sectors also noted considerable increases over the year. However, these growths were partially offset by a decrease in lending to the agriculture and tourism sectors. The Government Development Loans throughout the year continued to support credit growth and the economic activities in these sectors. With the inclusion of government on-lent loans, business lending rose by \$12.8 million (5.8%) reflecting repayments of government on-lent loans.

### Household lending

Household loans rose over November and over the year by \$2.2 million (0.9%) and \$29.1 million (13.9%) respectively. Household lending therefore reached a new record high of \$238.6 million. Both the monthly and annual movements were significantly driven by housing loans. Additionally, other personal and vehicle loans contributed to the respective growths. More specifically, November recorded an increase of \$1.7 million (1.0%) for housing loans whilst other personal loans rose by \$0.4 million (0.7%) and vehicle loans increased by \$0.02 million (1.9%). Annually, housing loans grew by \$28.4 million (19.0%) and other personal loans and vehicle loans rose by \$1.7 million (2.9%) and \$0.1 million (14.0%) respectively. Despite import payments for construction materials declining over the year, overall import payments for wholesale and retail trade increased alongside import payments for vehicles which continued to be supported by the annual rise in housing, other personal and vehicle loans. The consistent rise in household loans continued to reflect constantly increasing demand of households and their continued capacity to access loans. Lending from non-bank financial institutions to households rose by \$18.3 million (22.8%) reflecting higher personal loans made over the year.



### Other lending

Other loans from banks declined over the month and over the year by \$0.03 million (3.5%) and \$0.2 million (19.4%) respectively. Both movements resulted from decreases in lending within the non-profit institutions sector.

### Non-performing loans

Banks' total non-performing loans increased by \$0.8 million (0.05%) over the month but declined over the year by \$0.3 million (0.02%) to \$16.8 million. The monthly rise was due to an increase in

non-performing business loans (particularly to the manufacturing, agriculture, and construction sectors) and household loans (mainly housing and other personal loans). Over the year, the fall in non-performing loans mainly resulted from settlements of non-performing business loans. The non-performing loans represented 3.8% of total loans as at the end of November 2017 compared to 3.7% last month, and 4.5% in November 2016.

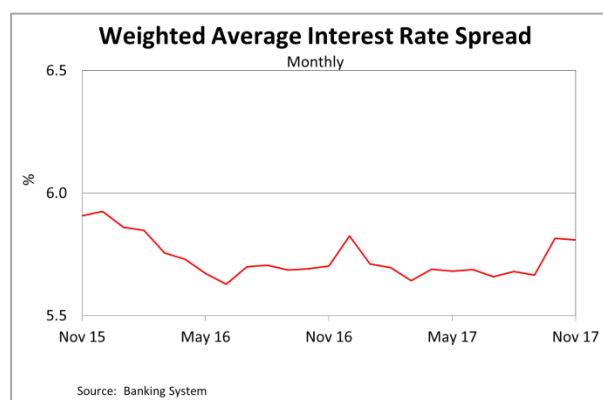
## Deposits

Total bank deposits increased slightly over November by \$0.5 million (0.1%) to \$570.0 million. This was solely due to an increase in time deposits of \$3.5 million which reflects investments by the retirement funds and deposits by non-profit institutions. This increase was partially offset by declines of \$0.9 million (0.3%) in demand deposits and \$2.1 million (2.4%) in saving deposits. However, there was a considerable increase of \$5.5 million in demand deposits by the government which was offset by withdrawals of non-financial corporations and individuals' demand deposits.

Annually, total bank deposits increased by \$77.1 million (15.6%) reflecting rises in all deposit categories. Time deposits contributed the most to the annual rise by \$42.7 million. This was driven mainly by the investments of Digicel in Tonga Cable Limited and rising time deposit balances in other depository institutions abroad. Demand deposits and saving deposits followed increasing respectively by \$30.1 million and \$4.3 million. The increase in demand deposits stemmed from growth in deposits by the Government, public enterprises, and private individuals. Receipt of government's budget support funds contributed to this increase as well as improved government revenue collection throughout the year. The rise in savings deposits were due to higher deposits mainly made by churches, private businesses, and individuals.

## Interest rate spread

The weighted average interest rate spread narrowed slightly over November by 0.7 basis points from 5.816% to 5.809%. The monthly decline was a result of a fall in the weighted average lending rate outweighing a slight decrease in the weighted average deposit rate. The weighted average lending rate decreased by 0.8 basis points (from 7.98% to 7.97%) solely due to lower lending rates for businesses (particularly for the agriculture, utilities, and trade sectors). Household lending rates remained relatively stable. The weighted average deposit rate declined slightly by 0.1 basis points (from 2.160% to 2.159%) over the month due to lower demand and savings deposit rates. Time deposit rates however increased coinciding with the increase in time deposits over November.



Over the year, the weighted average interest rate spread widened by 10.7 basis points due to a greater increase in the weighted average lending rate offsetting a fall in the weighted average deposit rate. The weighted average lending rate increased by 7.6 basis points mainly applied to lending rates for households, specifically, lending rates for housing, vehicle, and other personal

loans. Meanwhile, business lending rates decreased. Overall, the interest rates continued to support the higher credit growth within the private sector and also household loans over the year. The weighted average deposit rate declined by 3.0 basis points due to lower term deposit rates.

### **Broad money**

Over the month, broad money slightly decreased by \$0.1 million (0.02%) to \$553.5 million. This was a result of a decline in net domestic assets offsetting the rise in net foreign assets. Net domestic assets fell by \$9.2 million (7.7%) driven mainly by a decrease in net domestic credit to government as government deposits increased significantly over the month. On the other hand, net foreign assets increased by \$9.2 million (2.1%) as a result of a rise in the official foreign reserves.

Over the year, broad money increased by \$60.0million (12.2%) driven yet again by a significant rise in net foreign assets. Net foreign assets rose by \$77.5 million (21.1%) due to an increase in official foreign reserves. This rise had offset a fall in net domestic assets. Budget support and grant 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 over November by \$8.7 million (3.0%) to \$300.7 million. This resulted largely from an increase of \$6.8 million (4.0%) in deposits by the commercial banks to the Reserve Bank vault. Additionally, required reserves (statutory required deposits) and currency in circulation both contributed to the monthly rise. The banks' total loans to deposit ratio rose slightly to 73.7% from 73.4% last month. This was due to an increase of \$2.3 million (0.5%) in lending outweighing the increase of \$0.5 million (0.1%) in deposits. However, the loans to deposits ratio of banks continued to remain below the minimum 80% loans to deposits ratio which indicates excess liquidity in the banking system remains and that there is capacity for further lending by the banks.

Over the year, the banking system liquidity increased by \$35.8 million (13.5%) as a result of respective increases of \$29.5 million (126.5%) and \$10.7 million (17.0%) in required reserves (statutory required deposits) and in currency in circulation. These rises had offset a withdrawal of \$4.3 million (2.4%) by the commercial banks from the Reserve Bank's vault.

### **Outlook**

The banks' prospects for credit growth remains positive and the Reserve Bank's projection of annual credit growth is supported by improving economic conditions, business confidence, and annual (one-off) events taking place throughout the financial year. Therefore, a 15% credit growth is forecasted over the year to June 2018 supported by the level of competition between banks in term of housing loans and also the current accommodative monetary policy stance to encourage lending and utilize excess liquidity in the banking system in support of economic activity.

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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.

The Reserve Bank will continue to closely monitor the credit growth and broad money movements to ensure financial and macroeconomic stability are maintained and that there is no overheating in the economy.

Table 1:

Consolidated Balance Sheet of Depository Corporations							
	Level as at					Change over the last:	
	Nov-17 \$TOPm	Oct-17 \$TOPm	Sep-17 \$TOPm	Aug-17 \$TOPm	Nov-16 \$TOPm	1 month % growth	1 year % growth
<b>Broad money liabilities</b>	<b>553.5</b>	<b>553.6</b>	<b>549.7</b>	<b>552.3</b>	<b>493.6</b>	<b>-0.02</b>	<b>12.2</b>
Currency in circulation	58.0	55.9	58.7	60.7	50.0	3.88	16.1
Demand deposits	192.1	196.1	190.2	200.0	189.7	-2.04	1.3
Savings and term deposits*	303.4	301.6	300.8	291.6	253.8	0.58	19.5
<i>equals</i>							
<b>Net foreign assets</b>	<b>444.2</b>	<b>435.1</b>	<b>419.0</b>	<b>429.0</b>	<b>366.8</b>	<b>2.1</b>	<b>21.1</b>
<i>plus</i>							
<b>Net domestic assets</b>	<b>109.6</b>	<b>118.8</b>	<b>131.0</b>	<b>123.4</b>	<b>126.9</b>	<b>-7.7</b>	<b>-13.7</b>
Gross bank lending**	424.5	421.5	428.6	427.0	387.2	0.7	9.6
Public enterprises	45.1	45.1	45.3	46.0	43.0	-0.1	4.9
Private Sector	377.7	374.6	381.5	379.1	343.1	0.8	10.1
Other financial corporations	1.7	1.7	1.8	1.9	1.2	-1.2	48.7
Other***	-314.9	-302.8	-297.6	-303.6	-260.3	4.0	21.0

\* 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 %
	Nov 17 TOPm	Oct 17 TOPm	Sep 17 TOPm	Aug 17 TOPm	Nov 16 TOPm	1 month %	1 year %	
Lending, banks	420.3	418.1	417.0	415.6	377.5	0.5	11.4	100.0
Household	238.6	236.4	235.1	232.6	209.4	0.9	13.9	56.8
Business*	180.8	180.7	180.8	181.8	166.8	0.1	8.3	43.0
Other	0.9	1.0	1.1	1.2	1.2	-3.5	-19.4	0.2
Lending, banks and other	570.8	566.4	562.8	559.5	510.7	0.8	11.8	100.0
Household	337.2	332.8	329.0	324.6	289.8	1.3	16.4	59.1
Business	232.6	232.6	232.7	233.8	219.8	0.0	5.8	40.8
Other	0.9	1.0	1.1	1.2	1.2	-3.5	-19.4	0.2
New comm'ts, banks	13.2	12.1	7.7	14.3	22.3	8.9	-40.7	N/A
Undrawn comm'ts, banks	11.1	11.6	13.6	18.1	14.0	-3.8	-20.7	N/A
Implied repay'ts, banks	11.4	13.0	10.8	9.0	12.3	-12.5	-7.1	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				Nov 16 %	Change over the last <sup>^</sup>		Share of loans/deposits %
	Nov 17 %	Oct 17 %	Sep 17 %	Aug 17 %		1 month bps	1 year bps	
Deposits all	2.16	2.16	2.19	2.15	2.19	-0.09	-3.04	100
Demand	0.42	0.44	0.40	0.38	0.42	-1.38	0.17	42
Savings	2.40	2.43	2.42	2.43	2.36	-3.14	4.02	16
Term	3.82	3.80	3.82	3.79	3.91	2.07	-8.96	42
Loans all	7.97	7.98	7.85	7.83	7.89	-0.78	7.62	100
Housing	8.17	8.17	8.13	8.10	8.11	-0.29	6.21	45.2
Other personal	11.13	11.14	10.98	10.97	10.85	-1.08	27.83	15.1
Business*	6.95	6.97	6.86	6.82	7.04	-1.35	-8.30	27.9
Other	6.57	6.55	6.46	6.54	6.32	1.79	24.70	11.8

\*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