

# Banking Sector Developments October 2017

Release date: 25 January 2018

	Oct 17	Sep 17	Aug 17	Jul 17
Deposit rate (%)*	2.160	2.186	2.148	2.189
Lending rate (%)*	7.975	7.851	7.828	7.848
Total Deposits (T\$m)	569.4	555.0	552.4	533.8
Total lending (T\$m) ^	418.1	417.0	415.6	407.1
New commitments (T\$m)	12.1	7.7	14.3	10.7
Broad Money (T\$m)	553.6	549.7	552.3	533.2

\*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.

## Households continue to be the main driver of credit growth

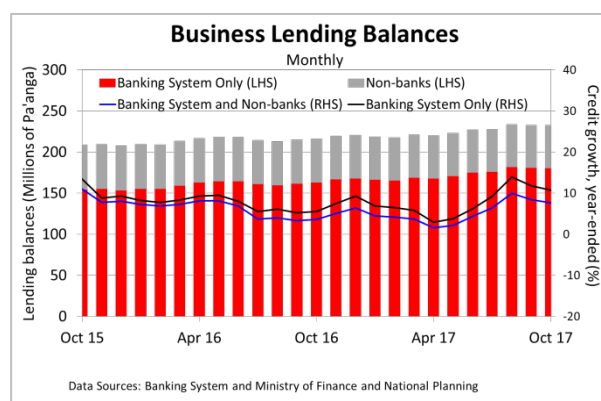
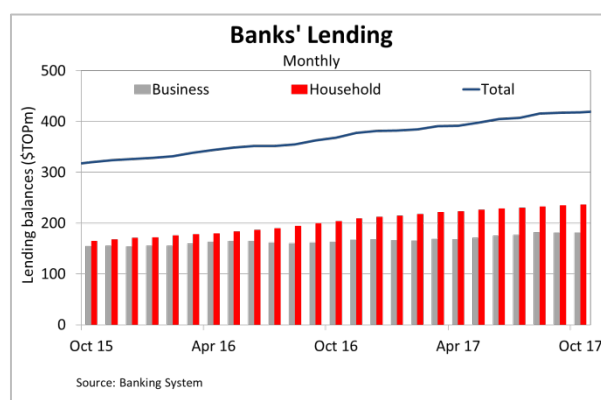
### Lending

Total banks' lending increased by \$1.1 million (0.3%) over October to \$418.1 million. This was driven solely by lending to households, offsetting the lending to businesses. Annually, total banks' lending increased by \$49.9 million (13.5%) driven by rises in lending to both households and businesses. However, households continued to remain the most significant contributor to the annual movement.

Lending extended by non-bank financial institutions increased over the month by \$2.5 million (1.7%) and over the year by \$18.5 million (14.2%) to \$148.3 million. This continued to be driven by more household loans extended by the South Pacific Business Development (SPBD) offsetting a fall in government on-lent loans.

### Business lending

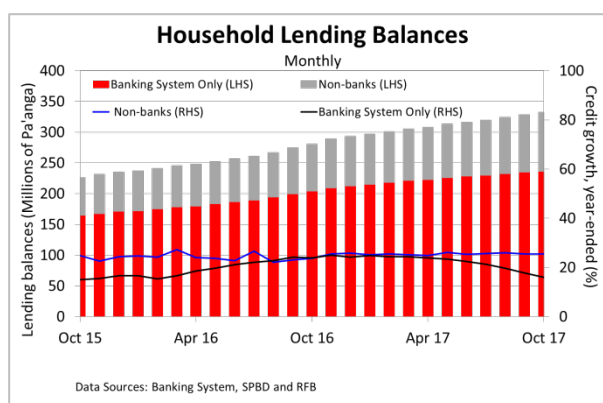
Over October, total banks' lending to businesses



declined slightly by \$0.1 million (0.1%) to \$180.7 million. This was mainly due to a decline of \$4.0 million (%) in the agriculture sector partially offset by increases in the fisheries, tourism, and wholesale and retail sectors. Over the year, business lending increased by \$17.6 million (10.8%). This was driven mainly by an increase in lending to the wholesale and retail, services, and manufacturing sectors which rose respectively by \$11.5 million (38.6%), \$6.7 million (42.6%), and \$5.9 million (37.8%). This was also partially offset by declines in the agriculture and mining and quarrying sectors. The GDL 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 \$16.5 million (7.6%) reflecting repayments for government on-lent loans.

### Household lending

Household loans rose over October by \$1.3 million (0.6%) to a new record high of \$236.4 million. This was led solely by an increase of \$1.9 million (1.1%) for housing loans, offsetting respective declines of \$0.6 million (1.0%) and \$0.01 million (0.8%) in other personal and vehicle loans. Over the year, bank's lending to households increased by \$32.6 million (16.0%). This was resulting yet again to a significant increase of \$30.6 million (21.0%) in housing loans. Other personal loans and vehicle loans also contributed to the yearly rise by \$1.8 million (3.2%) and 0.1 million (20.4%) respectively. Import payments for construction materials and vehicles increased over the year supporting the annual rise in housing and vehicle loans. The consistent rise in household loans continued to reflect constantly increasing demand of households and their continued capacity to access loans. Furthermore, lending from non-bank financial institutions to households rose by \$19.6 million (25.5%) reflecting higher personal loans made over the year.



### Other lending

Other loans from banks declined over the month and over the year by \$0.1 million (7.6%) and \$0.3 million (22.6%) respectively. Both movements resulted from decreases in lending within the non-profit institutions sector.

### Non-performing loans

Banks' total non-performing loans fell by \$1.1 million (6.5%) over October and over the year by \$1.6 million (9.2%) to \$15.5 million. The monthly decline resulted from lower non-performing business loans mainly for the tourism sector. Over the year, the decrease in non-performing loans resulted also from settlements of non-performing business loans. The non-performing loans represented 3.7% of total loans as at the end of October 2017 compared to 4.0% last month, and 4.6% in October 2016.

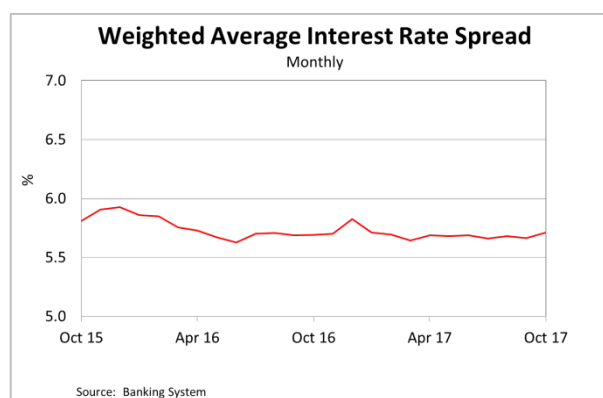
## Deposits

Total bank deposits increased over October by \$14.4 million (2.6%) to \$569.4 million. This was largely due to an increase in demand deposits of \$13.7 million which was attributed to increase in deposits by businesses and private individuals. Time deposits also contributed to the monthly rise by \$1.6 million (0.7%). Both these respective increases offset the decline in savings deposits over October.

Annually, total bank deposits increased by \$72.6 million (14.6%) reflecting rises in all deposit categories. Time deposits contributed the most to the annual rise by \$37.3 million. This was driven mainly by investments of Digicel in Government shares for Tonga Cable Limited and rising time deposit balances in other depository institutions abroad. Demand deposits and saving deposits followed increasing respectively by \$30.6 million and \$4.7 million. The increase in demand deposits stemmed from growth in Government deposits, 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 widened over October by 15.1 basis points (from 5.665%) and over the year by 12.4 basis points (from 5.691%) to 5.816%. The monthly increase was a result of an increase in the weighted average lending rate outweighing the decrease in the weighted average deposit rate. The weighted average lending rate rose by 12.4 basis points (from 7.85% to 7.98%) solely due to higher lending rates for households (applied to rates for housing,



vehicles, and other personal loans). Lending rates for businesses rose also and applied to loans for the agriculture, manufacturing, and construction sectors. The weighted average deposit rate declined by 2.6 basis points (from 2.19% to 2.16%) over the month due to lower term deposit rates. Savings deposit and demand deposit rates however increased.

Over the year, the weighted average interest rate spread widened due to a greater increase in the weighted average lending rate outweighing the fall in the weighted average deposit rate. The weighted average lending rate increased by 10.4 basis points and applied to lending rates for households whilst business lending rates declined. Higher household lending rates applied for other housing, vehicles, and other personal loans. These lower interest rates supported the higher credit growth within the private sector and also household loans over the year. The weighted average deposit rate declined by 2.0 basis points due to lower term deposit rates.

## Broad money

Over October, broad money increased by \$3.9 million (0.7%) to \$553.6 million. This was due to a significant rise in net foreign assets offsetting a decline in net domestic assets. Net foreign assets increased by \$14.2 million (3.4%) mainly as a result of a \$10.5 million (2.6%) rise in the official foreign reserves. In addition, other foreign assets contributed to the monthly increase by \$5.2 million (12.3%). Net domestic assets decreased by \$10.4 million (7.9%) mainly as a result of a decrease in net domestic credit, specifically for public sector and private businesses.

Over the year, broad money increased by \$52.5 million (10.5%) driven solely by a significant rise of \$58.1 million (15.5%) in net foreign assets offsetting a decline in net domestic assets. The rise in net foreign assets resulted largely to a \$46.5 million (12.7%) increase in foreign reserves over the year. 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 over the month by \$9.0 million (3.2%) to \$292.0 million. This stemmed largely an increase of \$9.3 million (5.9%) in deposits by the commercial banks to the Reserve Bank vault outweighing a slight decline in currency in circulation. The banks' total loans to deposit ratio reflected this and fell in October to 73.4% from 75.1% last month. This was due to an increase of \$14.4 million (2.6%) in deposits outweighing the increase in lending of \$1.1 million (0.3%). The loans to deposits ratio of banks continue 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 rose by \$24.4 million (9.1%) as a result of respective increases of \$28.8 million (125.5%) and \$12.0 million (19.7%) in required reserves (statutory required deposits) and in currency in circulation. These rises had offset a withdrawal of \$16.3 million (8.9%) by the commercial banks from the Reserve Bank's vault. Overall, the yearly movements indicate improvement towards the revised Statutory Required Deposit ratio from 5% to 10% which was effective in July 2017.

## Outlook

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. Therefore, a 15% credit growth is expected in the year to June 2018 supported by the level of competition between banks in term of housing loans also the accommodative monetary policy to utilize the excess liquidity to encourage lending in order to support 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:	
	Oct-17 \$TOPm	Sep-17 \$TOPm	Aug-17 \$TOPm	Jul-17 \$TOPm	Oct-16 \$TOPm	1 month % growth	1 year % growth
<b>Broad money liabilities</b>	<b>553.6</b>	<b>549.7</b>	<b>552.3</b>	<b>533.2</b>	<b>501.2</b>	<b>0.71</b>	<b>10.5</b>
Currency in circulation	55.9	58.7	60.7	59.7	48.9	-4.83	14.2
Demand deposits	196.1	190.2	200.0	198.1	195.0	3.12	0.6
Savings and term deposits*	301.6	300.8	291.6	275.5	257.2	0.27	17.3
<i>equals</i>							
<b>Net foreign assets</b>	<b>433.1</b>	<b>419.0</b>	<b>429.0</b>	<b>426.5</b>	<b>375.0</b>	<b>3.4</b>	<b>15.5</b>
<i>plus</i>							
<b>Net domestic assets</b>	<b>120.7</b>	<b>131.0</b>	<b>123.4</b>	<b>106.9</b>	<b>126.4</b>	<b>-7.9</b>	<b>-4.5</b>
Gross bank lending**	421.5	428.6	427.0	418.3	377.7	-1.7	11.6
Public enterprises	45.1	45.3	46.0	43.0	41.7	-0.3	8.1
Private Sector	374.6	381.5	379.1	374.0	334.8	-1.8	11.9
Other financial corporations	1.7	1.8	1.9	1.4	1.2	-3.9	48.9
Other***	-300.8	-297.6	-303.6	-311.4	-251.3	1.1	19.7

\* 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 %
	Oct 17 TOPm	Sep 17 TOPm	Aug 17 TOPm	Jul 17 TOPm	Oct 16 TOPm	1 month %	1 year %	
Lending, banks	418.1	417.0	415.6	407.1	368.2	0.3	13.5	100.0
Household	236.4	235.1	232.6	229.9	203.8	0.6	16.0	56.5
Business*	180.7	180.8	181.8	176.0	163.1	-0.1	10.8	43.2
Other	1.0	1.1	1.2	1.2	1.3	-7.6	-22.6	0.2
Lending, banks and other	566.4	562.8	559.5	548.9	498.0	0.6	13.7	100.0
Household	332.8	329.0	324.6	319.8	280.7	1.1	18.6	58.8
Business	232.6	232.7	233.8	228.0	216.1	-0.1	7.6	41.1
Other	1.0	1.1	1.2	1.2	1.3	-7.6	-22.6	0.2
New comm'ts, banks	12.1	7.7	14.3	10.7	13.1	58.5	-7.7	N/A
Undrawn comm'ts, banks	13.6	13.6	18.1	21.4	13.3	0.0	2.0	N/A
Implied repay'ts, banks	11.0	10.8	9.0	8.5	8.9	2.0	23.7	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				Oct 16	Change over the last <sup>^</sup>		Share of loans/deposits %
	Oct 17	Sep 17	Aug 17	Jul 17		1 month	1 year	
	%	%	%	%	%	bps	bps	
Deposits all	2.16	2.19	2.15	2.19	2.18	-2.62	-2.05	100
Demand	0.44	0.40	0.38	0.39	0.40	3.69	3.91	42
Savings	2.43	2.42	2.43	2.44	2.36	0.88	6.98	17
Term	3.80	3.82	3.79	3.82	3.88	-2.26	-8.10	41
Loans all	7.98	7.85	7.83	7.85	7.87	12.45	10.40	100
Housing	8.17	8.13	8.10	8.06	8.07	3.75	10.58	45.0
Other personal	11.14	10.98	10.97	11.19	11.00	15.58	13.90	15.0
Business*	6.97	6.86	6.82	6.86	6.89	11.14	7.75	28.0
Other	6.55	6.46	6.54	6.55	6.54	8.70	1.11	12.0

<sup>^</sup>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