

Banking Sector Developments September 2017

Release date: 15 December 2017

	Sep 17	Aug 17	Jul 17	Jun 17
Deposit rate (%)*	2.186	2.148	2.189	2.148
Lending rate (%)*	7.851	7.828	7.848	7.836
Total Deposits (T\$m)	555.0	552.4	533.8	536.8
Total lending (T\$m) ^	417.0	415.6	407.1	404.5
New commitments (T\$m)	12.1	14.3	10.7	11.9
Broad Money (T\$m)	549.7	552.3	533.2	534.9

*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.

Continued growth in deposits and loans

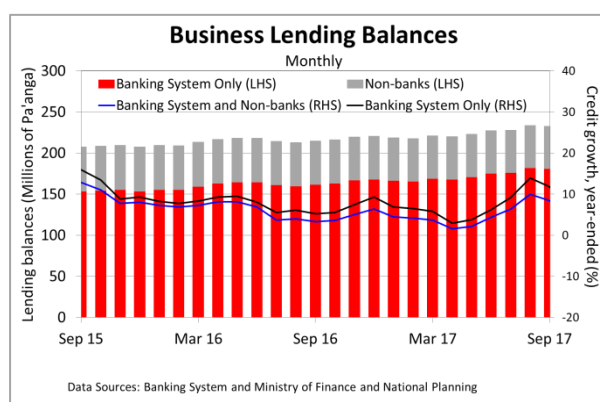
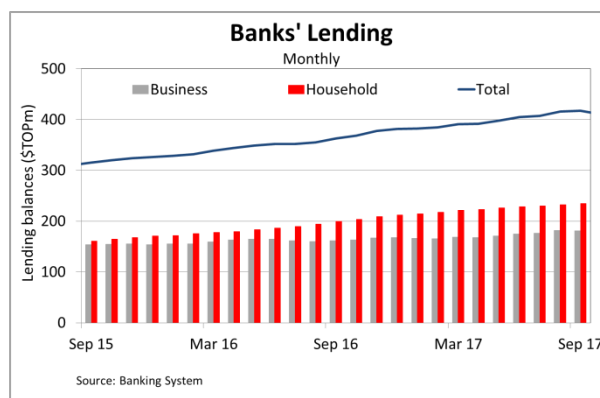
Lending

Total banks' lending continued to increase over the month and over the year to September 2017 to a new record level of \$417.0 million. This was driven by more lending to households, offsetting a decline in lending to businesses. Lending extended by non-bank financial institutions increased over the month by \$1.9 million (1.3%) and over the year by \$16.0 million (14.1%) to \$145.9 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

Banks' lending to businesses declined over September by \$1.0 million (0.6%) to \$180.8 million. This stemmed from a decline in lending to the tourism and utilities sectors which fell by \$1.4 million (8.8%) and \$0.1 million (10.5%) respectively.

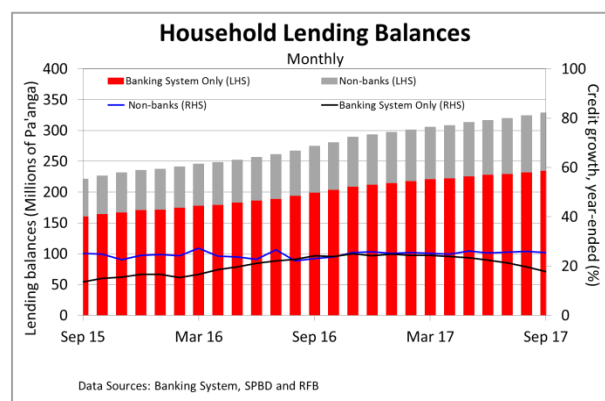
This had offset rises in lending to other sectors such as the trade and construction sectors. Over the year, business lending increased by \$19.1 million (11.8%). This was driven by an increase in lending to the wholesale and retail, manufacturing, and transport sectors which rose



respectively by \$11.3 million (37.9%), \$5.9 million (38.2%), and \$3.9 million. The Government Development Loans continued to support the credit growth and the economic activities in these sectors. With the inclusion of government on-lent loans, business lending rose by \$18.1 million (8.4%) reflecting the loan repayments made over the year for the government on-lent loans.

Household lending

Household loans increased over September by \$2.5 million (1.1%) to a new record high of \$235.1 million. This was led significantly by an increase of \$2.6 million (1.5%) for housing loans, offsetting respective declines of \$0.09 million (0.2%) and \$0.01 million (1.2%) in other personal and vehicle loans. The rise in household loans continued to reflect constantly increasing demand of households and their continued capacity to access loans. Over the year, bank's lending to households rose by \$35.4 million (17.7%).



This was resulting yet again to a major increase of \$32.8 million (23.1%) in housing loans with contribution also of \$2.5 million (4.3%) from other personal loans. Import payments for construction materials increased over the year supporting the annual rise in housing loans. Lending from non-bank financial institutions to households rose by \$19.1 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 (10.8%) and \$0.3 million (19.6%) respectively. Both movements resulted from decreases in lending within the non-profit institutions sector over the month.

Non-performing loans

Banks' total non-performing loans fell by \$0.2 million (0.9%) over September and annually by \$0.8 million (4.8%) to \$16.6 million. The monthly decline resulted from lower non-performing household loans particularly housing loans. Over the year, the decrease in non-performing loans mainly reflected settlements of non-performing business loans. The non-performing loans remained stable over the month and represented 4.0% of total loans as at the end of September 2017 compared to 4.8% in September 2016.

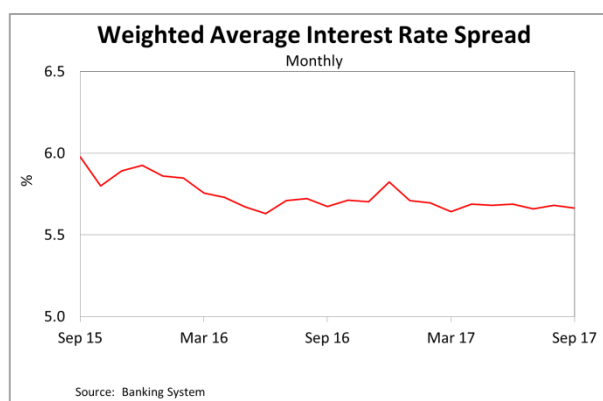
Deposits

Total bank deposits increased over September by \$2.6 million (0.5%) to \$555.0 million. This was mainly due to an increase in time deposits of \$6.9 million which was largely attributed to investments of the Provident Fund. Savings deposits also slightly increased over the month. These upward movements in time deposits and savings deposits had offset the decrease in demand deposits which recorded a decline of \$4.3 million.

Over the year, total bank deposits increased by \$63.8 million (13.0%) reflecting rises in all deposit categories. Time deposits contributed most to the annual rise by \$32.0 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 with respective increases of \$26.3 million and \$5.5 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 narrowed over September by 1.5 basis points (from 5.680%) and over the year by 0.9 basis points (from 5.674%) to 5.665%. The monthly decline was a result of an increase in the weighted average deposit rate outweighing the increase in the weighted average lending rate. The weighted average lending rate rose by 2.2 basis points (from 7.83% to 7.85%) due to higher lending rates for both households (particularly housing and vehicles)



and businesses (particularly the agriculture, manufacturing, and construction sectors). The weighted average deposit rate rose by 3.8 basis points (from 2.15% to 2.19%) over the month due to higher term and demand deposit rates. Savings deposit rates however fell slightly.

The annual decline in the weighted average interest rate spread was a result of a decrease in the weighted average lending rate outweighing the fall in the weighted average deposit rate. The weighted average lending rate (decreased by 2.9 basis points) fell for both business and household loans. Lower household lending rates applied for other personal loans whilst lower business lending rates applied mainly to the tourism, trade, and transport sectors. 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 a decrease in certain term deposit rates. However, despite all rates for most deposit categories increasing, the volume of deposits over the year rose significantly causing the weighted average deposit rate to be lower than the previous year.

Broad money

Over September, broad money fell by \$2.6 million (0.5%) to \$549.7 million. This was driven by a decline in net foreign assets offsetting an increase in net domestic assets. Net foreign assets decreased by \$10.0 million (2.3%) due to a decline in other foreign assets, more specifically, a decrease in the foreign currency accounts of commercial banks. In addition, foreign reserves declined contributing to the monthly movement. Net domestic assets, however, rose by \$7.6 million (6.2%)

mainly as a result of an increase in net domestic credit, specifically for public sector and private businesses.

Over the year, broad money increased by \$53.5 million (10.8%) driven largely by a significant rise of \$46.1 million (12.4%) in net foreign assets. Net domestic assets contributed also to the annual increase by \$7.6 million (6.2%). Net foreign assets rose reflecting the \$37.5 million (10.0%) 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. Meanwhile, net domestic assets rose reflecting the higher net domestic credit and recording a \$12.2 million (4.0%) increase. This also coincided with credit growth developments over the year.

Liquidity

Liquidity (reserve money)¹ in the banking system slightly increased over the month by \$0.1 million (0.04%) yet rose by \$14.8 million (5.5%) over the year to \$283.0 million. This indicates slow progress towards the revised Statutory Required Deposit ratio from 5% to 10% which was effective in July 2017. This stemmed largely from higher deposits over the month though partially outweighed by a decline in currency in circulation. Therefore, the banks' total loans to deposit ratio reflected this and slightly fell in September to 75.1% from 75.2% last month. This was due to an increase of \$2.6 million (0.5%) in deposits outweighing a credit growth of \$1.4 million (0.3%). The loans to deposits ratio of banks remained 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.

The annual rise in the banking system liquidity was due to increases of \$28.3 million (125.6%) and \$13.9 million (23.1%) in required reserves (statutory required deposits) and in currency in circulation respectively. These rises had offset a withdrawal of \$27.3 million (14.7%) 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 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.

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.

¹ 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:		
	Sep-17 \$TOPm	Aug-17 \$TOPm	Jul-17 \$TOPm	Jun-17 \$TOPm	Sep-16 \$TOPm	1 month % growth	1 year % growth
Broad money liabilities	549.7	552.3	533.2	534.9	496.2	-0.47	10.8
Currency in circulation	58.7	60.7	59.7	60.8	49.2	-3.26	19.2
Demand deposits	190.2	200.0	198.1	202.8	186.0	-4.91	2.3
Savings and term deposits*	300.8	291.6	275.5	271.2	261.0	3.16	15.3
<i>equals</i>							
Net foreign assets	419.0	429.0	426.5	427.3	372.8	-2.3	12.4
<i>plus</i>							
Net domestic assets	131.0	123.4	106.9	107.7	123.4	6.2	6.2
Gross bank lending**	428.6	427.0	418.3	415.7	372.0	0.4	15.2
Public enterprises	45.3	46.0	43.0	43.4	41.4	-1.6	9.4
Private Sector	381.5	379.1	374.0	371.0	329.4	0.6	15.8
Other financial corporations	1.8	1.9	1.4	1.4	1.2	-2.1	53.2
Other***	-297.6	-303.6	-311.4	-308.0	-248.6	-2.0	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 %	
	Sep 17 TOPm	Aug 17 TOPm	Jul 17 TOPm	Jun 17 TOPm	Sep 16 TOPm	1 month %		1 year %
Lending, banks	417.0	415.6	407.1	404.5	362.7	0.3	15.0	100.0
Household	235.1	232.6	229.9	228.2	199.7	1.1	17.7	56.4
Business*	180.8	181.8	176.0	175.0	161.7	-0.6	11.8	43.4
Other	1.1	1.2	1.2	1.2	1.3	-10.8	-19.6	0.3
Lending, banks and other	562.8	559.5	548.9	545.0	490.5	0.6	14.7	100.0
Household	329.0	324.6	319.8	316.3	274.5	1.4	19.9	58.5
Business	232.7	233.8	228.0	227.5	214.7	-0.5	8.4	41.3
Other	1.1	1.2	1.2	1.2	1.3	-10.8	-19.6	0.3
New comm'ts, banks	12.1	14.3	10.7	11.9	12.4	-15.0	-1.8	N/A
Undrawn comm'ts, banks	13.6	18.1	21.4	21.7	14.6	-25.0	-7.1	N/A
Implied repay'ts, banks	15.3	9.0	8.5	7.6	7.9	69.9	93.5	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 [^]		Share of loans/deposits %
	Sep 17 %	Aug 17 %	Jul 17 %	Jun 17 %	Sep 16 %	1 month bps	1 year bps	
Deposits all	2.19	2.15	2.19	2.15	2.21	3.78	-1.99	100
Demand	0.40	0.38	0.39	0.38	0.40	2.61	0.46	41
Savings	2.42	2.43	2.44	2.40	2.37	-1.52	5.28	17
Term	3.82	3.79	3.82	3.82	3.81	3.83	1.42	42
Loans all	7.85	7.83	7.85	7.84	7.88	2.24	-2.90	100
Housing	8.13	8.10	8.06	8.04	8.08	3.43	4.95	43.7
Other personal	10.98	10.97	11.19	11.18	10.98	1.17	-0.05	14.9
Business*	6.86	6.82	6.86	6.86	6.91	3.70	-5.64	29.5
Other	6.46	6.54	6.55	6.55	6.64	-7.71	-18.01	11.8

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

[^]Due to rounding errors some data may not aggregate precisely

Sources: Banks; NRBT