

# Banking Sector Developments November 2014

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	Nov 14	Oct 14	Sep 14	Aug14
Deposit rate*	2.31	2.32	2.27	2.25
Lending rate*	8.91	8.86	8.89	8.93
Total deposits (T\$m)	357.6	356.0	360.9	351.2
Total lending (T\$m)	392.8	382.6	376.9	388.3
New commitments (T\$m)	16.8	8.8	11.3	11.4

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

## Businesses driving credit growth

### Interest rates

Weighted average interest rate spread widened over the month from 6.54% in October to 6.60% in November 2014. This was due to an increase in weighted average lending rate and a slight decline in weighted average deposit rate.

The weighted average deposit rate fell by 1 basis point to 2.31% in November 2014; the first decline since October 2013. The fall was driven by a decline in the volume of interest bearing savings and demand deposits, resulting in a decline in the weighted average demand and savings rates. The weighted average term deposit rate, however rose, due mainly to a higher volume of term deposits. In year-end terms, the deposit rates increased by 40 basis points, following a rise in all categories, particularly term deposit rates.

The weighted average lending rate rose by around 5 basis points to 8.91% over the month. This was mainly due to a 12 basis points increase in the weighted average business lending rate as a result of more loans issued to the distribution and manufacturing sectors. Over the year, the weighted average lending rate continued to fall by 39 basis points, mainly due to declines within the Business and Other Personal sectors.

## Lending

Total bank lending balances grew by 2.7% (T\$7.7million) in November led by an increase in lending to the business and household sectors. Similarly, in year-ended terms, total bank lending balances rose by 9.7% mainly due to an increase in loans to the business and household sectors. The low lending rates driven by increased competition supported the positive credit growth, which outweighed the continued write off of large non-performing exposures and settlement of loans during the year. Including loans extended by non-banks, the lending balance would have only increased by 7.3% over the year. This is due to an unwinding of government on-lent activities.

### *Business lending*

Bank lending to the business sector rose by 4.7% over the month, driven mainly by a rise in lending to public enterprises and lending from the government's managed funds to the distribution and manufacturing sectors. These increases are consistent with higher import payments for wholesale retail goods and preparations for the Christmas festivities. Year-ended business lending rose by 12.1%, which largely reflects major loans extended to public enterprises. Including government on-lent loans, business lending fell by 1.9% over the year, reflecting the unwinding of the funds lent for Nuku'alofa central business district reconstruction.

New business commitments rose over the month, mainly due to increases in commitments for the tourism, transport and manufacturing sectors. The rise in commitments for the tourism sector indicates preparation for the coronation and also to accommodate expected high tourist arrivals.

### *Household lending*

Bank lending to the household sector rose by 1.4% over the month, owing mainly to an increase in the other personal and housing components. The rise in other personal loans reflects the student loan managed funds program and preparation for the Christmas festivities. The rise in housing loans coincides with new housing commitments and lower weighted lending rates for housing over the month. Over the year, household lending increased by 8.1%. This is driven by an increase in housing loans, coinciding with higher import payments for construction materials. Including loans extended by non-banks, year-ended growth in household lending would have increased by 13.7%.

New household commitments, which contribute towards more than half of total new commitments, significantly rose over the month due to an increase in all key sectors. In particular, housing loan commitments rose as borrowers took advantage of lower housing

loan rates, whilst preparations for the upcoming holiday season saw a rise in personal loan commitments.

### *Other lending*

Other loans significantly fell over the month and the year. The decline was due mainly to a fall in lending to the non-profit institutional sector.

### **Broad money**

Broad money rose by 1.2% to T\$377.4 million over the month of November. This was largely due to an increase in net domestic assets, led by increased bank lending, outweighing a decline in net foreign assets, due to lower foreign reserves over the month. The increase in broad money is consistent with higher level of currency in circulation and a rise in demand deposits. This is a likely reflection of increased lending and revenue collection from various sectors of the economy. In year ended terms, broad money rose by 5.9%, largely attributable to a 21.5% increase in net domestic credit.

### **Outlook**

Credit growth is supported by the continuous improvements in business confidence and lending conditions. Increased competition amongst banks and the ongoing lending activities of the Government's managed funds will continue to support the current low lending rates; however, banks have indicated significant declines are unlikely.

The NRBT is forecasting credit to grow by around 10% over this financial year. This is based on imminent drawdowns of some large loan commitments; the continued low interest rates; education loans; and the utilisation of the government's managed funds loan scheme targeting the manufacturing, construction, tourism, agricultural and fisheries sectors.

The NRBT will continue to promote prudent lending and closely monitor credit growth in light of the impact on the monetary policy targets and financial stability.

Table 1

Interest Rates								
Weighted average of all banks								
	Level as at					Change over the last:		Share of loans/deposits %
	Nov 14 %	Oct 14 %	Sep 14 %	Aug 14 %	Nov 13 %	1 month bps	1 year bps	
Deposits all	2.31	2.32	2.27	2.25	1.91	-1	40	100
Demand	0.58	0.60	0.58	0.59	0.47	-2	11	39
Savings	2.41	2.43	2.42	2.31	2.15	-1	27	16
Term	3.82	3.81	3.85	3.75	3.27	0	54	44
Loans all	8.91	8.86	8.89	8.93	9.29	4.9	-39	100
Housing	8.57	8.60	8.59	8.60	8.75	-2.4	-18	35
Other personal	12.78	12.89	12.93	12.98	13.16	-10	-38	19
Business*	7.94	7.82	7.90	8.07	8.64	12	-69	26
Other	6.57	7.15	7.66	7.83	7.23	-58	-66	21

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

Sources: Banks; NRBT

Table 2

Lending Balances								
	Level as at					Change over the		Shares of totals %
	Nov 14 TOPm	Oct 14 TOPm	Sep 14 TOPm	Aug 14 TOPm	Nov 13 TOPm	1 month %	1 year %	
Lending, banks	289.1	281.3	276.8	278.1	263.5	2.7	9.7	100
Household	145.0	142.9	141.5	140.2	134.1	1.4	8.1	50
Business*	142.6	136.2	132.5	134.8	127.2	4.7	12.1	49
Other	1.5	2.2	2.8	3.1	2.1	-34.0	-31.1	1
Lending, banks and other	392.8	382.6	376.9	388.3	366.0	2.7	7.3	100
Household	197.2	192.6	190.1	187.7	173.5	2.4	13.7	50
Business	194.1	187.7	184.0	197.6	190.4	3.4	1.9	49
Other	1.5	2.2	2.8	3.1	2.1	-34.0	-31.1	1
New comm'ts, banks	16.8	8.8	11.3	11.4	6.5	91.7	158.3	N/A
Undrawn comm'ts, banks	7.6	10.1	10.9	9.8	21.5	-24.8	-64.8	N/A
Implied repay'ts, banks	11.5	5.1	11.4	10.0	5.2	127.8	120.2	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

## Consolidated Balance Sheet of Depository Corporations

	Level as at					Change over the last:	
	Nov-14 \$TOPm	Oct-14 \$TOPm	Sep-14 \$TOPm	Aug-14 \$TOPm	Nov-13 \$TOPm	1 month % growth	1 year % growth
<b>Broad money liabilities</b>	<b>377.4</b>	<b>372.9</b>	<b>373.2</b>	<b>367.3</b>	<b>356.3</b>	<b>1.2</b>	<b>5.9</b>
Currency in circulation	40.6	38.6	35.1	38.7	34.5	5.3	17.7
Demand deposits	134.8	132.0	139.3	135.1	133.4	2.2	1.1
Savings and term deposits*	201.9	202.4	198.8	193.5	188.4	-0.2	7.2
<i>equals</i>							
<b>Net foreign assets</b>	<b>262.4</b>	<b>267.4</b>	<b>268.9</b>	<b>275.2</b>	<b>261.7</b>	<b>-1.8</b>	<b>0.3</b>
<i>plus</i>							
<b>Net domestic assets</b>	<b>115.0</b>	<b>105.6</b>	<b>104.3</b>	<b>92.1</b>	<b>94.6</b>	<b>9.0</b>	<b>21.6</b>
Gross bank lending**	295.7	289.3	284.5	287.8	270.5	2.2	9.3
Other***	-180.7	-183.7	-180.2	-195.7	-175.9	-1.6	2.7

\* 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

