

Banking Sector Developments November 2016

Release date: 24 March 2017

	Nov 16	Oct 16	Sep 16	Aug 16
Deposit rate (%)*	2.232	2.213	2.233	2.208
Lending rate (%)*	7.888	7.893	7.880	7.902
Total Deposits (T\$m)	492.9	496.8	491.2	481.9
Total lending (T\$m) ^	377.5	368.2	362.7	355.2
New commitments (T\$m)	22.3	13.1	12.4	12.8
Broad Money (T\$m)	493.6	501.2	496.2	491.0

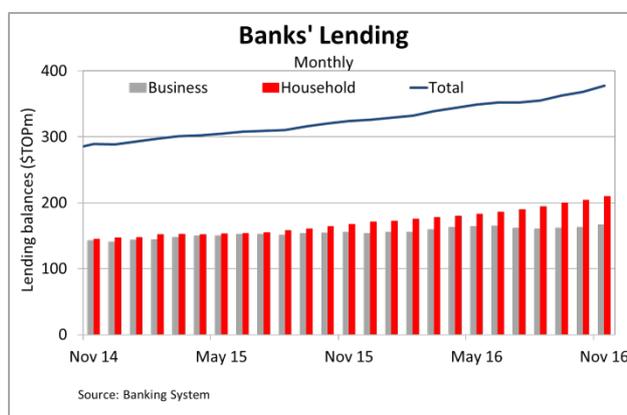
*Weighted Average calculated as a function of interest rate and volume of deposits and loans

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

Deposits declined while lending continues to grow strongly

Lending

Over November 2016, total lending by banks continued to increase by \$9.3 million (2.5%) to \$377.5 million. Business and household loans both contributed to the monthly rise. On a yearly basis, household loans contributed significantly to an overall annual credit growth of \$53.4 million (16.5%). Business lending also contributed to the annual growth.

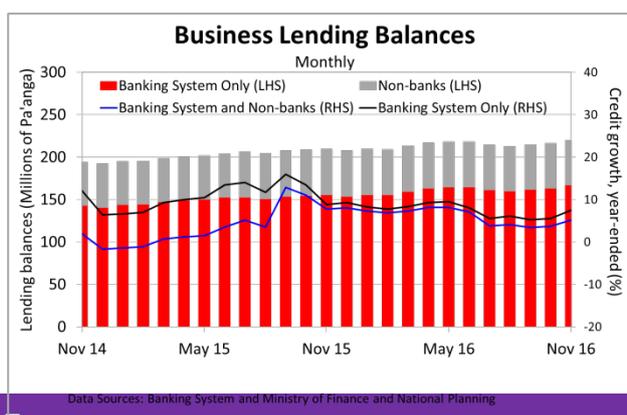


Lending activities in the non-bank financial

institutions also recorded a yearly increase of \$15.4 million (13.1%) to \$133.4 million. This was due to higher household loans which offset a decline in government on-lent loans.

Business lending

Banks' lending to businesses rose over the month by \$3.8 million (2.3%) to \$166.8 million. This mainly reflected increases in lending to public enterprises of \$1.2 million (3.0%) and private businesses involved in the construction and mining & quarrying sectors which increased by \$0.9 million (9.5%) and \$0.2

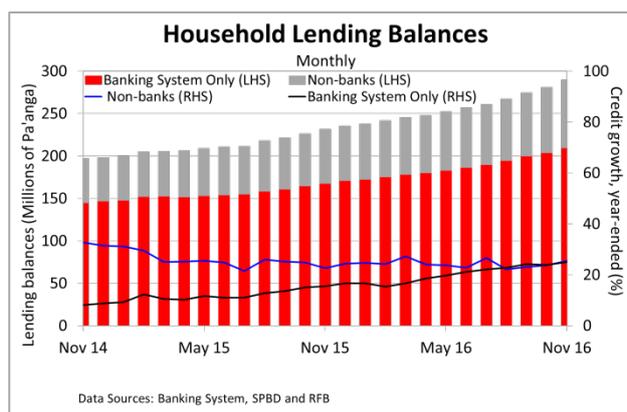


million (27.5%) respectively. In addition, the transport sector contributed to the rise in lending over the month with a \$0.6 million (38.7%), and the loans to the services sector increased by \$0.6 million (3.6%). This coincided with the increasing activity within the economy highlighting positive growth within the aforementioned sectors.

Over the year, lending to businesses increased by \$11.6 million (7.5%) underpinned mainly by increases in lending to the tourism, agricultural, manufacturing and construction sectors reflecting improved business confidence. Tourism loans recorded an annual increase of \$6.1 million (61.9%), agricultural loans rose by \$2.9 million (41.0%), manufacturing loans recorded an increase of \$2.8 million (9.2%), and construction loans rose by \$1.5 million (17.4%). These movements indicated a growing tourism sector with the re-opening of the Tanoa International Dateline Hotel, openings of upcoming accommodation providers such as House of Tonga at Mailetaha, and current construction of the Kongakava Boutique Hotel in Sopo. Government’s continuous support through its Government Development Loans partially contributed to the monthly and annual growth. With the inclusion of government on-lent loans, annual business lending increased by \$10.7 million (5.1%), reflecting a decline in government on-lent loans due to repayments made over the year.

Household lending

Household loans continued to be the main driver of both the monthly and annual credit growth. Over the month, lending by banks to households increased by \$5.6 million (2.8%) to \$209.4 million. This was attributed mainly to housing loans growing by \$3.9 million (2.7%), other personal and vehicles loans also increased over the month by \$1.7 million (2.9%) and \$0.05 million (7.7%) respectively. This stemmed from higher demand by households paired with higher capacity for lending made available by the banks. Reportedly, active competition between banks for loans, particularly housing loans, has possibly contributed to the overall increase in household lending.



Annually, banks’ lending to households increased by \$42.0 million (25.1%). Housing loans led this growth with an increase of \$37.6 million (33.5%) followed by a rise of \$4.0 million (7.4%) in other personal loans. Lower lending rates for housing and other personal loans which fell by 18.5 and 24.0 basis points respectively, supported the yearly growth. Import payments for construction materials rose over the month by \$1.7 million (47.1%) supporting the growth. Furthermore, lending from non-bank financial institutions to households increased by \$16.3 million (25.5%), reflecting higher personal loans over the year. The introduction of home improvement loan at the Retirement Fund Board in July 2016 also contributed to the annual growth.

Other lending

Other loans from banks declined over the month and over the year by \$0.09 million (7.4%) and \$0.2 million (12.9%) respectively. This was mainly caused by a decrease in lending activities within the non-profit institutions sector.

Non-performing loans

Banks' total non-performing loans rose slightly by \$0.02 million (0.1%) to \$17.12 million in November 2016. This represents 4.5% of total loans and is due to minimal increases in non-performing business and household loans. Over the year, non-performing loans decreased by \$7.8 million (31.4%) mainly as a result of a \$3.4 million (17.5%) decline in non-performing business loans.

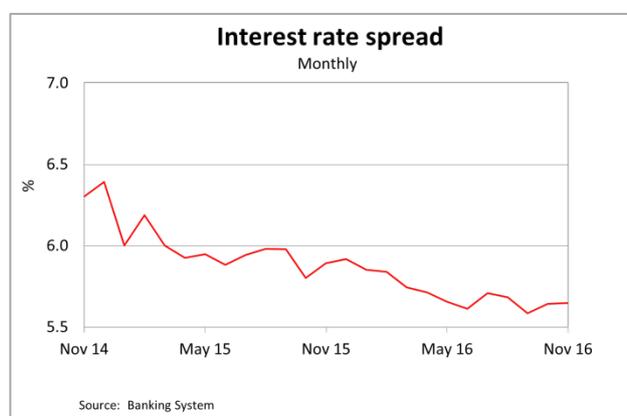
Deposits

Total bank deposits decreased by \$3.9 million (0.8%) to \$492.9 million over November 2016. This was due mainly to a fall in demand and time deposits of \$2.9 million (1.4%) and \$1.8 million (0.9%) respectively. This was due to drawing down of businesses and individuals of their deposits to fund their overseas payments as well as preparations for the upcoming festive season. Contrastingly, saving deposits increased by \$0.8 million (0.9%) over the month.

On an annual basis, total bank deposits rose by \$66.5 million (15.6%) due to increases in all categories with savings deposits contributing the most.

Interest rate spread

The weighted average deposit rate rose over the month by 1.9 basis points to 2.23%. This was due to increases in the demand and term deposit rates. Lower interest rates on household loans caused a decrease in the weighted average lending rate of 0.5 basis points to 7.89%. Consequently, the weighted average interest rate spread narrowed by 2.5 basis points over the month to 5.65% in November 2016. Over the year, the weighted average interest rate spread narrowed by 23.8 basis points mainly due to a lower weighted average lending rate and an increase in weighted average deposit rate.



Broad money

Broad money fell by \$7.6 million (1.5%) to \$493.6 million in November 2016. This was attributed to an \$8.2 million (2.2%) decrease in net foreign assets offsetting a slight increase in net domestic assets of \$0.5 million (0.4%). The foreign reserves fell over the month, contributing to the lower net foreign assets, due to high demand from the public for overseas payments. Meanwhile, the increase in private sector domestic credit over the month contributed to the higher net domestic assets, which also coincided with the decline in the Exchange Settlement Account (ESA).

In year ended terms, broad money rose significantly by \$65.7 million (15.4%). The net foreign assets rose by \$61.8 million (20.3%) and net domestic assets rose by \$3.8 million (3.1%). The Government's budget support funds received during the year contributed to the higher foreign reserves.

Liquidity

Over the month, the liquidity (reserve money)¹ in the banking system decreased by \$2.7 million (1.0%) to \$264.8 million. This was driven by higher cash withdrawal by the banks from the NRBT vault to facilitate the preparation for the festive season. The loans to deposit ratio rose slightly to 76.6% in November 2016 from 74.1% last month. This remains below the 80% minimum requirement for the banks' loan to deposit ratio and indicates excess liquidity in the banking system remains. Over the year, the banking system liquidity rose by \$13.8 million (5.5%) largely due to a \$7.4 million (4.3%) rise in banks' deposits to the NRBT vault.

Outlook

The National Reserve Bank of Tonga (NRBT) in its August 2016 Monetary Policy Statement (MPS) forecasted a 15% credit growth for 2016/17, an upward revision from 11% in the February 2016 MPS. This is higher than the 2016 IMF Article IV mission's projection of 10.8% for 2016/17. The banks' prospects for credit growth remains positive and the NRBT's projection is supported by improving economic conditions, business confidence, and annual (one-off) events taking place during the financial year.

The NRBT forecasted the annual growth in broad money to rise in June 2017 by 14%, up from 10% previously projected and higher than the 2016 IMF Article IV mission's estimated growth of 9% for June 2017, supported by the anticipated increase in lending and foreign reserves.

The banks' loan to deposit ratio of 80% - 90% is anticipated to be achieved progressively over 18 months. This measure is to encourage the utilization of the excess liquidity in the banking system to increase lending, in order to support economic growth. At the same time, the NRBT is exploring alternative monetary policy and macro prudential tools to strengthen the policy transmission mechanism, and at the same time ensure financial stability is maintained. The NRBT will closely monitor the country's economic and fiscal developments and financial conditions to maintain internal and external monetary stability, and promote a sound and efficient financial system to support macroeconomic stability and economic growth.

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:	
	Nov-16 \$TOPm	Oct-16 \$TOPm	Sep-16 \$TOPm	Aug-16 \$TOPm	Nov-15 \$TOPm	1 month % growth	1 year % growth
Broad money liabilities	493.6	501.2	496.2	491.0	427.8	-1.5	15.4
Currency in circulation	50.0	48.9	49.2	48.4	45.0	2.2	11.2
Demand deposits	185.7	190.6	182.6	194.8	161.8	-2.6	14.8
Savings and term deposits*	257.9	261.6	264.4	247.8	221.1	-1.4	16.6
<i>equals</i>							
Net foreign assets	366.8	375.0	372.8	377.9	305.0	-2.2	20.3
<i>plus</i>							
Net domestic assets	126.9	126.4	123.4	113.4	123.1	0.4	3.1
Gross bank lending**	387.2	377.7	372.0	364.1	332.9	2.5	16.3
Public enterprises	43.0	41.7	41.4	40.0	45.9	3.0	-6.4
Private Sector	327.9	320.6	315.4	308.7	270.1	2.3	21.4
Other financial corporation	16.4	15.3	15.3	15.4	16.9	6.7	-3.1
Other***	-260.3	-251.3	-248.6	-250.7	-209.7	3.6	24.1

* 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 16 TOPm	Oct 16 TOPm	Sep 16 TOPm	Aug 16 TOPm	Nov 15 TOPm	1 month %	1 year %	
Lending, banks	377.5	368.2	362.7	355.2	324.0	2.5	16.5	100.0
Household	209.4	203.8	199.7	194.3	167.5	2.8	25.1	55.5
Business*	166.8	163.1	161.7	159.6	155.2	2.3	7.5	44.2
Other	1.2	1.3	1.3	1.3	1.3	-7.4	-12.9	0.3
Lending, banks and other	510.9	498.1	490.6	481.6	442.0	2.6	15.6	100.0
Household	289.8	280.7	274.5	267.3	231.4	3.2	25.2	56.7
Business	219.9	216.2	214.8	212.9	209.2	1.7	5.1	43.1
Other	1.2	1.3	1.3	1.3	1.3	-7.4	-12.9	0.3
New comm'ts, banks	22.3	13.1	12.4	12.8	11.5	69.5	93.7	N/A
Undrawn comm'ts, banks	14.0	13.3	14.6	17.6	20.0	5.6	-29.9	N/A
Implied repay'ts, banks	12.3	8.9	7.9	10.5	8.3	37.5	48.5	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				Nov 15 %	Change over the last [^] :		Share of loans/deposits %
	Nov 16 %	Oct 16 %	Sep 16 %	Aug 16 %		1 month bps	1 year bps	
Deposits all	2.23	2.21	2.23	2.21	2.18	1.89	5.58	100
Demand	0.44	0.41	0.41	0.40	0.40	3.03	4.49	40
Savings	2.31	2.33	2.34	2.51	2.40	-1.34	-8.90	20
Term	3.92	3.89	3.82	3.88	3.87	2.76	5.40	41
Loans all	7.89	7.89	7.88	7.90	8.07	-0.50	-18.08	100
Household	8.90	8.91	8.90	8.91	9.16	-0.56	-18.08	58
<i>Housing</i>	8.10	8.09	8.08	8.08	8.29	1.53	-18.53	41.8
<i>Other personal</i>	10.96	11.02	10.98	11.00	11.20	-5.73	-24.02	16.3
Business*	6.99	6.89	6.91	6.94	7.21	10.28	-22.00	26.3
Other	6.32	6.54	6.64	6.54	6.91	-21.80	-59.06	15.6

*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