

Banking Sector Developments September 2016

Release date: 24 March 2017

	Sep 16	Aug 16	Jul 16	Jun 16
Deposit rate (%)*	2.297	2.219	2.217	2.267
Lending rate (%)*	7.88	7.90	7.92	7.879
Total Deposits (T\$m)	491.2	481.9	462.6	468.3
Total lending (T\$m) ^	362.7	355.2	351.9	352.3
New commitments (T\$m)	12.4	12.8	11.2	10.5
Broad Money (T\$m)	496.2	491.0	478.0	470.5

*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.

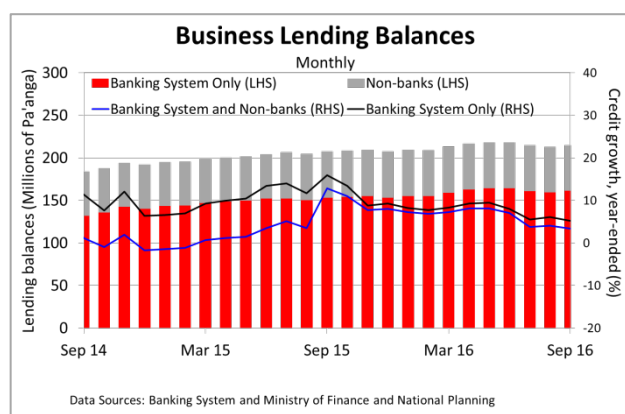
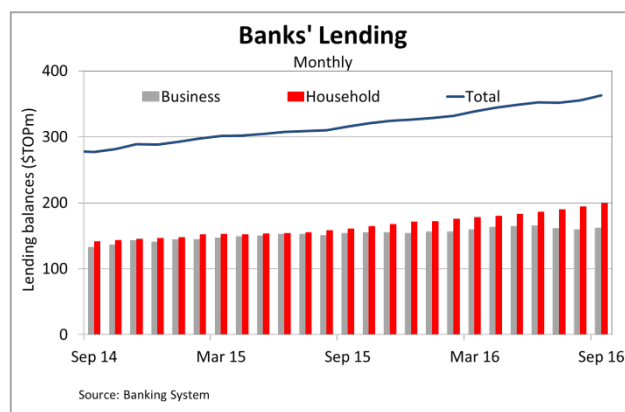
Deposits rise to a new record high

Lending

Total banks' lending rose to \$362.7 million over September 2016. This is a monthly increase of \$7.5 million (2.1%) which is much higher when compared to the \$3.3 million (1.0%) growth over August 2016. Over the year, both business and household loans drove the \$47.0 million (14.9%) rise in total bank lending with household contributing the most. Lending activities in the non-bank financial institutions also rose over the year by \$13.1 million (11.4%) to \$127.9 million. This was driven by higher household loans offsetting a decrease in government on-lent loans.

Business lending

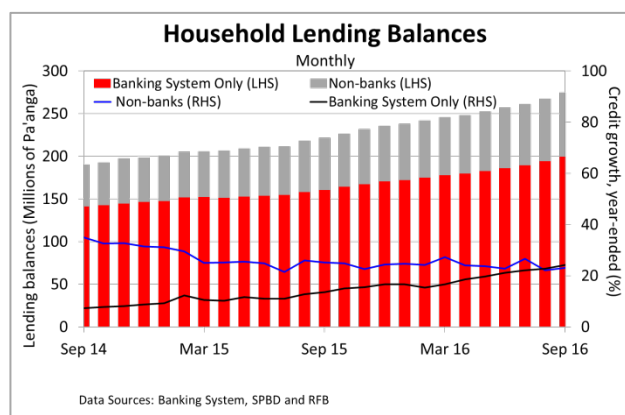
Banks' lending to businesses rose by \$2.0 million (1.3%) over the month to \$161.7 million. This was driven mainly by an increase in lending to the agricultural sector of \$0.7 million (7.2%) which were for the squash production and exporting. In addition, lending to the professional & other services sector grew by \$0.5 million (3.5%).



Over the year, lending to businesses increased by \$8.0 million (5.2%) due mainly to an increase of \$5.8 million (56.1%) in lending to the tourism sector. This is reflected in more restaurants, tour operators, and accommodation providers. Government’s continuous support through its Government Development Loan facility contributed to the monthly and annual growth. With the inclusion of government on-lent loans, annual business lending increased by \$7.0 million (3.4%), reflecting the loan repayments made over the year.

Household lending

Banks’ lending to households continued to be the main driver of monthly and annual growth in total banks’ lending. The continued high demand for loans due to more capacity for households to borrow and events taking place throughout the year coupled with lower lending rates supported the strong growth in household loans. Over September 2016, loans to households increased by \$5.4 million (2.8%) hitting a new record of \$199.7 million. This is significantly higher than a \$2.5 million (1.6%) growth in the same period last year. Housing and other personal loans increased over the month by \$4.7 million (3.4%) and \$0.7 million (1.3%) respectively.



Over the year, banks’ lending to households grew by \$39.0 million (24.3%). Housing loans rose the most by \$34.9 million (32.6%) followed by an increase of \$3.8 million (7.2%) in other personal loans. Declines in housing and other personal lending rates over the year by 39.8 and 3.5 basis points respectively supported the annual growth. The rise in housing loans coincided with higher import payments for construction materials over the year. In addition, lending from non-bank financial institutions to households increased by \$14.1 million (23.2%), reflecting higher personal loans over the year. The introduction of home improvement loans by the Retirement Fund Board in July 2016 for its members also contributed to the annual growth.

Other lending

Other loans by the banks increased over the month and over the year by \$0.03 million (2.6%) and \$0.03 million (2.0%) respectively. This was mainly caused by an increase in lending activities within the non-profit institutions sector.

Non-performing loans

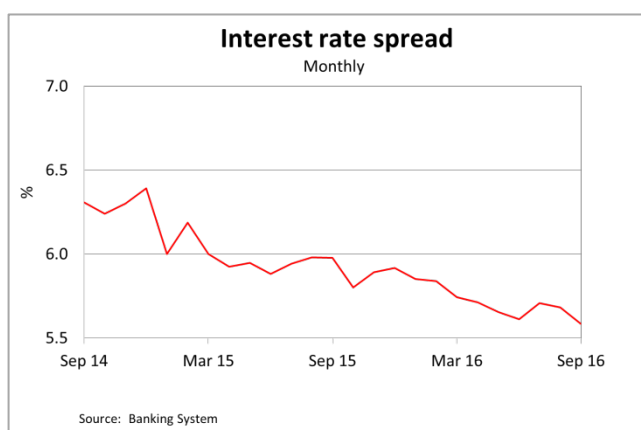
Banks’ total non-performing loans rose over the month by \$0.5 million (2.8%) to \$17.4 million, representing 4.8% of total loans. Both non-performing business and household loans contributed to the monthly increase by \$0.3 million (2.0%) and \$0.2 million (2.7%) respectively reflecting some loan downgrades during the month. Over the year, non-performing loans decreased by \$8.4 million (32.6%). This was driven mainly by the settlement of a \$5.0 million non-performing public enterprise loan. Furthermore, non-performing business loans declined by \$3.0 million (17.4%).

Deposits

Over the month, total bank deposits increased by \$9.3 million (1.9%) to a new record high of \$491.2 million. This coincided with a 7.8 basis points increase in the banks' deposit rates. Time deposits and savings deposits drove the increase in deposits over the month, rising by \$13.3 million (7.2%) and \$3.7 million (4.3%) respectively. This offset the decline in demand deposits of \$7.6 million (3.6%). This was largely driven by a rise in the retirement fund board's deposits as well as higher private individuals' deposits. In year ended terms, total deposits rose by \$74.2 million (17.8%) as a result of an increase in all categories with demand deposits contributing the most, increasing by \$28.3 million (16.2%) over the year.

Interest rate spread

The weighted average deposit rate increased by 7.8 basis points to 2.30% over September due mainly to an increase in term and demand deposit rates. The weighted average lending rate however declined by 2.3 basis points driven by both a decrease in business and household lending rates. Consequently, the weighted average interest rate spread narrowed to 5.58% from 5.68% last month. Over the year, weighted average interest rate spread narrowed by 39.5 basis points. This was due mainly to a fall in the weighted average lending rate and an increase in weighted average deposit rate.



Broad money

Broad money reached another record high of \$496.2 million in September 2016, a rise of \$5.2 million (1.1%) from the previous month. This was caused by a \$10.0 million (8.9%) rise in net domestic assets, due mainly to the growth in banks' lending, offsetting a \$5.0 million (1.3%) decrease in net foreign assets which was driven mainly by the lower foreign reserves over the month.

Over the year, broad money rose significantly by \$73.9 million (17.5%) as a result of a substantial increase in net foreign assets by \$72.8 million (24.3%). Additionally, net domestic assets rose by \$0.9 million (0.7%). The receipt of the Government's budget support funds, remittances and other receipts during the year contributed to the higher foreign reserves and corresponded to the rise in net foreign assets.

Liquidity

The liquidity (reserve money)¹ in the banking system increased slightly by \$0.9 million (0.4%) over September 2016 to \$268.1 million, which is due mainly to banks' higher deposits to the NRBT vault.

¹ Liquidity (reserve money) in the banking system is a sum of currency in circulation, exchange settlement account balances, and required reserve deposits.

The total loans to deposit ratio slightly increased from 73.7% last month to 73.8% in September, which was still below the 80% minimum loan to deposit ratio target that was effective on 1st July 2016 to be achieved by December 2016. This indicates excess liquidity in the banking system remains. In year ended terms, the banking system liquidity rose by \$25.7 million (10.6%) as a result of an \$18.3 million (10.9%) rise in banks' deposits to the NRBT vault.

Outlook

The National Reserve Bank of Tonga in its February 2016 Monetary Policy Statement (MPS) estimated a credit growth of about 11% in 2016/17. This forecast will be revised again and will be published in the August 2016 MPS. The NRBT forecast is in line with the IMF Article IV projected growth 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, annual and one-off events taking place during the year.

The NRBT forecasts the annual growth in broad money to rise by 10%, coinciding with the IMF's estimated growth of 9% projection 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.

Table 1:

Consolidated Balance Sheet of Depository Corporations							
	Level as at					Change over the last:	
	Sep-16 \$TOPm	Aug-16 \$TOPm	Jul-16 \$TOPm	Jun-16 \$TOPm	Sep-15 \$TOPm	1 month % growth	1 year % growth
Broad money liabilities	496.2	491.0	478.0	470.5	422.3	1.1	17.5
Currency in circulation	49.2	48.4	52.5	48.5	42.5	1.7	15.9
Demand deposits	182.6	194.8	188.1	181.4	158.6	-6.3	15.1
Savings and term deposits*	264.4	247.8	237.5	240.7	221.3	6.7	19.5
<i>equals</i>							
Net foreign assets	372.8	377.9	374.3	362.5	300.1	-1.3	24.3
<i>plus</i>							
Net domestic assets	123.5	113.4	103.9	108.3	122.6	8.9	0.7
Gross bank lending**	372.0	364.1	361.1	361.5	324.4	2.2	14.7
Public enterprises	41.4	40.0	40.4	46.1	46.3	3.5	-10.7
Private Sector	315.4	308.7	305.1	299.7	262.9	2.2	19.9
Other financial corporations	15.3	15.4	15.6	15.7	15.1	-1.1	1.2
Other***	-248.5	-250.7	-257.3	-253.2	-201.8	-0.9	23.2

* 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 16 TOPm	Aug 16 TOPm	Jul 16 TOPm	Jun 16 TOPm	Sep 15 TOPm	1 month %	1 year %	
Lending, banks	362.7	355.2	351.9	352.3	315.6	2.1	14.9	100.0
Household	199.7	194.3	189.5	186.3	160.7	2.8	24.3	55.1
Business*	161.7	159.6	161.2	164.7	153.6	1.3	5.2	44.6
Other	1.3	1.3	1.2	1.2	1.3	2.6	2.0	0.4
Lending, banks and other	490.6	481.6	476.8	476.2	430.5	1.9	14.0	100.0
Household	274.5	267.3	261.0	256.6	221.5	2.7	24.0	56.0
Business	214.8	212.9	214.6	218.3	207.7	0.9	3.4	43.8
Other	1.3	1.3	1.2	1.2	1.3	2.6	2.0	0.4
New comm'ts, banks	12.8	12.8	11.2	10.5	13.5	0.0	-5.4	N/A
Undrawn comm'ts, banks	17.6	17.6	18.7	16.1	21.3	0.0	-17.3	N/A
Implied repay'ts, banks	5.3	10.5	9.0	9.3	7.2	-49.5	-26.3	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 16 %	Aug 16 %	Jul 16 %	Jun 16 %	Sep 15 %	1 month bps	1 year bps	
Deposits all	2.30	2.219	2.217	2.27	2.29	7.81	0.32	100
Demand	0.41	0.40	0.42	0.52	0.38	0.59	2.85	39
Savings	2.38	2.52	2.51	2.51	2.42	-14.26	-3.81	20
Term	4.05	3.92	3.93	3.98	4.10	13.40	-5.33	41
Loans all	7.88	7.90	7.92	7.88	8.27	-2.26	-39.19	100
Housing	8.08	8.08	8.09	8.09	8.48	0.76	-39.81	41.3
Other personal	10.98	11.00	10.96	10.95	11.33	-1.52	-34.06	16.2
Business*	6.91	6.94	7.03	6.97	7.54	-2.82	-63.27	26.3
Other	6.64	6.54	6.25	6.25	6.36	10.61	28.14	16.2

*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