

# Banking Sector Developments August 2017

Release date: 6 December 2017

|                        | Aug 17 | Jul 17 | Jun 17 | May 17 |
|------------------------|--------|--------|--------|--------|
| Deposit rate (%)*      | 2.148  | 2.189  | 2.148  | 2.148  |
| Lending rate (%)*      | 7.828  | 7.848  | 7.836  | 7.830  |
| Total Deposits (T\$m)  | 552.4  | 533.8  | 536.8  | 533.9  |
| Total lending (T\$m) ^ | 415.6  | 407.1  | 404.5  | 397.7  |
| New commitments (T\$m) | 14.3   | 10.7   | 11.9   | 13.5   |
| Broad Money (T\$m)     | 552.3  | 533.2  | 534.9  | 517.6  |

\*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 from commercial banks)

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

## Both lending and deposits increased significantly

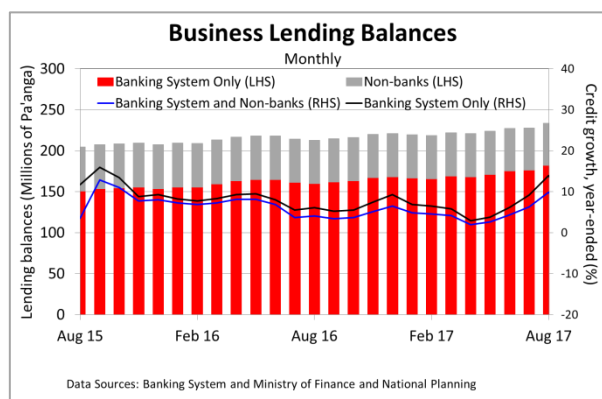
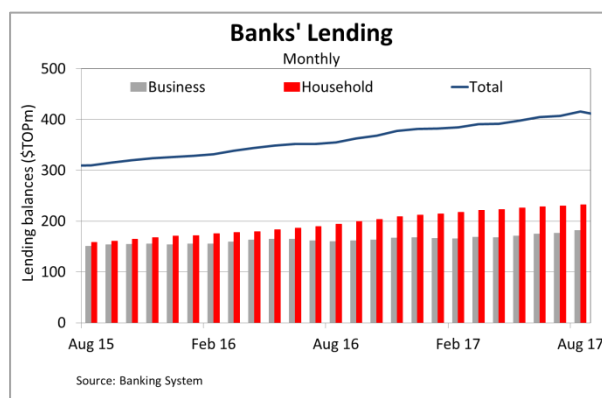
### Lending

Total banks' lending increased considerably over August to yet again a new record level of \$415.6 million. This continued to be driven by more lending to households and businesses.

Lending extended by non-bank financial institutions also increased over the month by \$2.1 million (1.5%) and over the year by \$17.9 million (25.9%) to \$143.9 million. This continued to be driven by more household loans extended by the South Pacific Business Development offsetting a fall in government on-lent loans.

### Business lending

Banks' lending to businesses increased over August by \$5.8 million (3.3%) to \$181.8 million. This was driven largely by lending to the public enterprises, transport, and agriculture sectors which increased by \$3.1 million (7.1%), \$1.1 million (23.6%) and \$0.8 million (7.1%) respectively. This reflects ongoing projects undertaken by the public enterprises as well as businesses

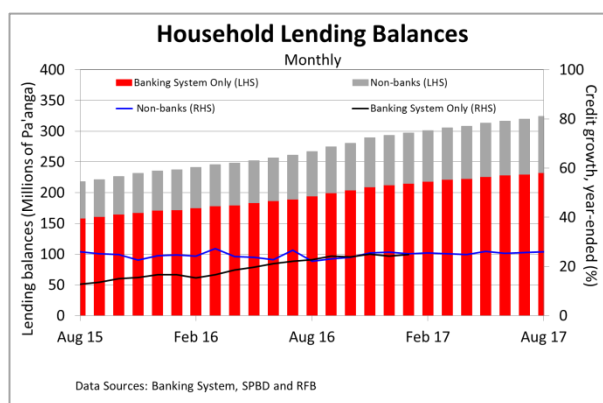


in the transport sector. Increased lending in the agricultural sector largely reflects loans to squash related businesses in preparation for the squash season.

Similarly, business lending increased over the year by \$22.2 million (13.9%). This was mainly a result of higher lending to the wholesale and retail sector which rose by \$10.1 million (33.4%), services sector by \$7.0 million (44.8%), and transport sector by \$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 \$21.1 million (9.9%) reflecting the loan repayments made over the year for the government on-lent loans.

### Household lending

Household loans rose over August by \$2.7 million (1.2%) to another record high of \$232.6 million. This was led largely by an increase of \$3.4 million (6.0%) in lending for other personal loans, offsetting respective declines of \$0.6 million (0.4%) and \$0.04 million (4.5%) in housing and vehicle loans. However, the monthly increase in household loans continued to reflect rising demand of households and their continued ability / capacity to access loans.



Over the year, bank's lending to households increased by \$38.3 million (19.7%). This was driven significantly by housing loans which rose by \$34.8 million (25.4%) and other personal loans which increased by \$3.2 million (5.7%). Vehicle loans also contributed to the overall annual increase. Import payments for construction materials as well as vehicle registrations increased over the year supporting the annual rise in vehicle and housing loans. Lending from non-bank financial institutions to households rose by \$18.9 million (25.9%) reflecting higher personal loans made over the year.

### Other lending

Other loans from banks slightly increased over the month yet declined over the year by \$0.1 million (7.5%). This resulted from an increase in lending within the non-profit institutions sector over the month.

### Non-performing loans

Banks' total non-performing loans declined by \$0.2 million (1.2%) over August and over the year by \$0.2 million (1.2%) to \$16.8 million. This resulted from lower non-performing business loans particularly for the tourism sector. Over the year, the decrease in non-performing loans was driven by settlements of non-performing business loans coupled with other minor write-offs (housing loans). The non-performing loans represented 4.0% of total loans as at the end of August 2017 compared to 4.8% in August 2016.

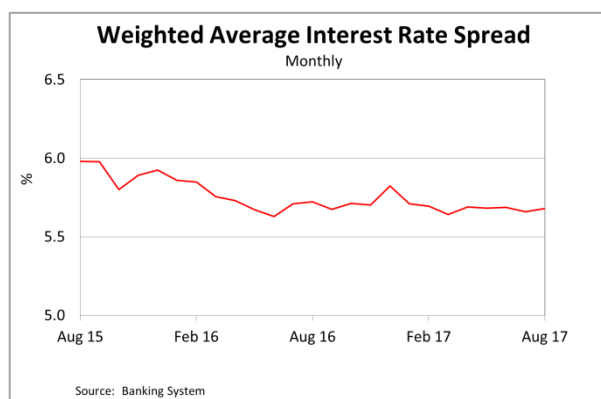
## Deposits

Total bank deposits grew strongly over August by \$18.6 million (3.5%) to \$552.4 million. This was led mainly by an increase in time deposits of \$12.3 million which was largely attributed to a new foreign currency deposit. This was a result of increases in time deposits of respective public enterprises and private businesses, including the sale of shares in Tonga Cable Limited. Demand and savings deposits also rose each contributing \$2.8 million and \$3.5 million to the monthly movement. This mainly stemmed from increases in deposits by individuals and businesses.

Annually, total bank deposits increased by \$70.5 million (14.6%) driven by increases in all deposit categories. Time deposits contributed the most to the yearly rise increasing by \$38.5 million, funded mainly by the Provident Fund deposits. Demand deposits and saving deposits followed with respective increases of \$23.7 million and \$8.3 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 and private businesses.

## Interest rate spread

The weighted average interest rate spread widened over August by 2.1 basis points (from 5.659%) yet narrowed over the year by 4.1 basis points (from 5.721%) to 5.680%. The monthly increase was a result of a decline in the weighted average deposit rate outweighing the decline in the weighted average lending rate. More specifically, the weighted average deposit rate declined by 4.1 basis points (from 2.19% to 2.15%) over the month due to lower deposit rates in all



deposit categories particularly time deposit rates. The weighted average lending rate declined by 1.9 basis points (from 7.85% to 7.83%) due to lower lending rates for business loans. This had offset the slightly higher lending rates for household loans (particularly housing and vehicle lending rates). However, the lower lending rates for business loans applied mainly to manufacturing, transport, and professional and other services sectors.

Over the year, the weighted average interest rate spread narrowed as 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 (declined by 7.4 basis points) fell for both business and household loans. Lower household lending rates applied for vehicle and other personal loans whilst lower business lending rates applied mainly to the tourism, trade, and transport sectors. These interest rate movements supported the higher credit growth within the private sector and also household loans over the year. The weighted average deposit rate declined by 3.3 basis points due to lower deposit rates in all deposit categories. This coincided with the yearly growth in deposits.

## Broad money

Over August, broad money increased by \$19.1 million (3.6%) to \$552.3 million. This was driven by increases in both net foreign assets and net domestic assets. Net domestic assets rose by \$16.5 million (15.4%) as a result of an increase in net domestic credit, particularly higher credit to the public sector as well as private businesses. This coincided with the business and individual credit growth over the month. Net foreign assets increased by \$2.5 million (0.6%) due to a rise in other foreign assets, more specifically, an increase in the foreign currency accounts of commercial banks.

Over the year, broad money increased by \$61.3 million (12.5%) driven significantly by rises in both net foreign assets and net domestic assets. Net foreign assets contributed the most with an increase of \$51.1 million (13.5%) which stemmed mainly from a significant increase in foreign reserves which rose by \$38.8 million (10.6%). Net domestic assets increased by \$10.0 million (8.8%) as a result of the credit growth 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

Despite the increase in the Statutory Required Deposit ratio from 5% to 10% which was effective last month, the liquidity (reserve money)<sup>1</sup> in the banking system increased by \$4.5 million (1.6%) to \$282.9 million in August. This was mainly a result of higher deposits over the month. The banks' total loans to deposit ratio therefore fell in August to 75.2% from 76.3% last month due to an increase of \$18.6 million (3.5%) in deposits outweighing a credit growth of \$8.5 million (2.1%). 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.

Over the year, the banking system liquidity increased by \$15.7 million (5.9%) due mainly to a rise of \$27.9 million (128.0%) and \$14.5 million (22.9%) in required reserves (statutory required deposits) and in currency in circulation respectively. These rises had offset a withdrawal of \$26.7 million (14.6%) 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.

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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: |                    |
|   | Aug-17<br>\$TOPm | Jul-17<br>\$TOPm | Jun-17<br>\$TOPm | May-17<br>\$TOPm | Aug-16<br>\$TOPm | 1 month<br>% growth   | 1 year<br>% growth |
| <b>Broad money liabilities</b>                        | <b>552.3</b>     | <b>533.2</b>     | <b>534.9</b>     | <b>517.6</b>     | <b>491.0</b>     | <b>3.59</b>           | <b>12.5</b>        |
| Currency in circulation                               | 60.7             | 59.7             | 60.8             | 52.7             | 48.4             | 1.69                  | 25.3               |
| Demand deposits                                       | 200.0            | 198.1            | 202.8            | 197.1            | 197.3            | 0.98                  | 1.4                |
| Savings and term deposits*                            | 291.6            | 275.5            | 271.2            | 267.9            | 245.2            | 5.87                  | 18.9               |
| <i>equals</i>   |                  |                  |                  |                  |                  |                       |                    |
| <b>Net foreign assets</b>                             | <b>429.0</b>     | <b>426.5</b>     | <b>427.3</b>     | <b>413.0</b>     | <b>377.9</b>     | <b>0.6</b>            | <b>13.5</b>        |
| <i>plus</i>   |                  |                  |                  |                  |                  |                       |                    |
| <b>Net domestic assets</b>                            | <b>123.4</b>     | <b>106.9</b>     | <b>107.7</b>     | <b>104.7</b>     | <b>113.4</b>     | <b>15.4</b>           | <b>8.8</b>         |
| Gross bank lending**                                  | 427.0            | 418.3            | 415.7            | 408.7            | 364.1            | 2.1                   | 17.3               |
| Public enterprises                                    | 46.0             | 43.0             | 43.4             | 42.6             | 40.0             | 7.1                   | 15.1               |
| Private Sector  | 379.1            | 374.0            | 371.0            | 364.8            | 323.0            | 1.4                   | 17.4               |
| Other financial corporations                          | 1.9              | 1.4              | 1.4              | 1.3              | 1.2              | 34.2                  | 56.7               |
| Other***  | -303.6           | -311.4           | -308.0           | -303.9           | -250.7           | -2.5                  | 21.1               |

\* 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<br>totals<br>% |
|                          | Aug 17<br>TOPm | Jul 17<br>TOPm | Jun 17<br>TOPm | May 17<br>TOPm | Aug 16<br>TOPm | 1 month<br>%    | 1 year<br>% |                          |
| Lending, banks           | 415.6          | 407.1          | 404.5          | 397.7          | 355.2          | 2.1             | 17.0        | 100.0                    |
| Household                | 232.6          | 229.9          | 228.2          | 225.8          | 194.3          | 1.2             | 19.7        | 56.0                     |
| Business*                | 181.8          | 176.0          | 175.0          | 170.7          | 159.6          | 3.3             | 13.9        | 43.8                     |
| Other                    | 1.2            | 1.2            | 1.2            | 1.2            | 1.3            | 0.2             | -7.5        | 0.3                      |
| Lending, banks and other | 559.5          | 548.9          | 545.0          | 538.3          | 481.4          | 1.9             | 16.2        | 100.0                    |
| Household                | 324.6          | 319.8          | 316.3          | 313.2          | 267.3          | 1.5             | 21.4        | 58.0                     |
| Business                 | 233.8          | 228.0          | 227.5          | 223.9          | 212.8          | 2.5             | 9.8         | 41.8                     |
| Other                    | 1.2            | 1.2            | 1.2            | 1.2            | 1.3            | 0.2             | -7.5        | 0.3                      |
| New comm'ts, banks       | 14.3           | 10.7           | 11.9           | 13.5           | 12.8           | 33.5            | 11.7        | N/A                      |
| Undrawn comm'ts, banks   | 18.1           | 21.4           | 21.7           | 24.2           | 17.6           | -15.3           | 2.8         | N/A                      |
| Implied repay'ts, banks  | 9.0            | 8.5            | 7.6            | 9.3            | 10.5           | 6.1             | -14.6       | 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 |             |             |             | Aug 16<br>% | Change over the last <sup>^</sup> |               | Share of<br>loans/deposits<br>% |
|----------------|-------------|-------------|-------------|-------------|-------------|-----------------------------------|---------------|---------------------------------|
|                | Aug 17<br>% | Jul 17<br>% | Jun 17<br>% | May 17<br>% |             | 1 month<br>bps                    | 1 year<br>bps |                                 |
| Deposits all   | 2.15        | 2.19        | 2.15        | 2.15        | 2.18        | -4.07                             | -3.29         | 100                             |
| Demand         | 0.38        | 0.39        | 0.38        | 0.41        | 0.39        | -1.39                             | -1.80         | 41                              |
| Savings        | 2.43        | 2.44        | 2.40        | 2.38        | 2.54        | -0.75                             | -10.75        | 18                              |
| Term           | 3.79        | 3.82        | 3.82        | 3.81        | 3.87        | -3.78                             | -8.01         | 41                              |
| Loans all      | 7.83        | 7.85        | 7.84        | 7.83        | 7.90        | -1.94                             | -7.40         | 100                             |
| Housing        | 8.10        | 8.06        | 8.04        | 8.03        | 8.08        | 3.90                              | 2.27          | 43.2                            |
| Other personal | 10.97       | 11.19       | 11.18       | 11.14       | 11.00       | -21.82                            | -2.75         | 15.0                            |
| Business*      | 6.82        | 6.86        | 6.86        | 6.82        | 6.94        | -4.29                             | -12.15        | 29.9                            |
| Other          | 6.54        | 6.55        | 6.55        | 6.44        | 6.54        | -1.19                             | 0.31          | 12.0                            |

\*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