

# Banking Sector Developments December 2017

Release date: 20 March 2018

	Dec 17	Nov 17	Oct 17	Sep 17
Deposit rate (%)*	2.160	2.159	2.160	2.186
Lending rate (%)*	7.944	7.967	7.975	7.851
Total Deposits (T\$m)	571.4	570.0	569.4	555.0
Total lending (T\$m) ^	436.7	420.3	418.1	417.0
New commitments (T\$m)	28.7	13.2	12.1	7.7
Broad Money (T\$m)	560.6	553.5	553.6	549.7

\*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)

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

## Business loans push credit growth for festive season

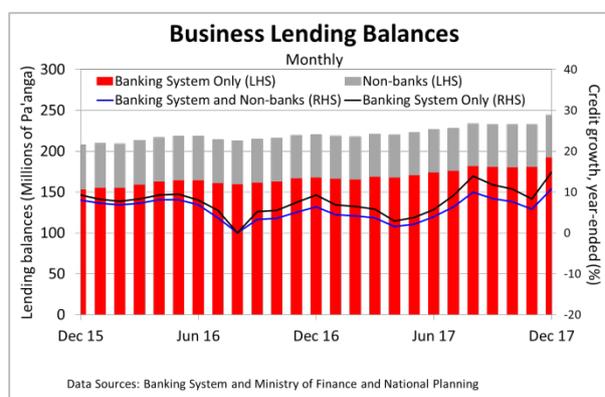
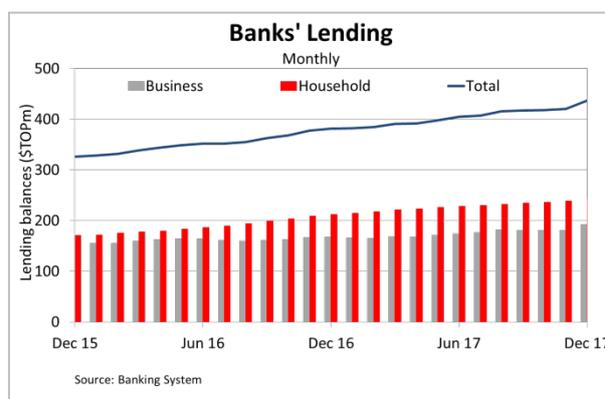
### Lending

Total banks' lending rose over the month and over the year by \$16.4 million (3.9%) and \$55.2 million (14.5%) respectively. As a result, the level of total banks' lending is at a new high record of \$436.7 million. The monthly increase was driven largely by higher lending to businesses whilst a rise in lending to households contributed as well. Annually, the increase was due to higher lending to both households and businesses.

Lending extended by non-bank financial institutions increased over the month by \$0.9 million (0.6%) and over the year by \$17.3 million (12.9%) to \$151.3 million. This yet again was driven by more household loans extended by the South Pacific Business Development (SPBD) offsetting a decline in government on-lent loans.

### Business lending

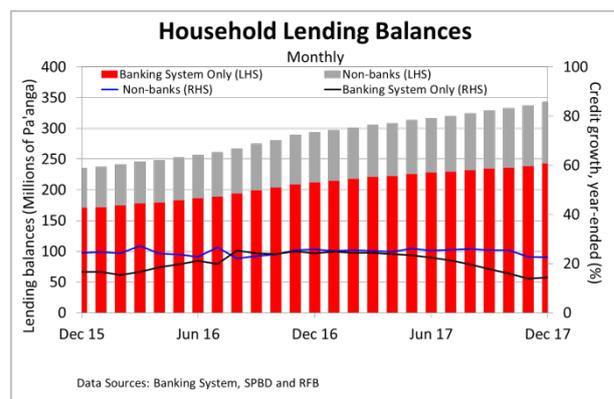
Over December, total banks' lending to businesses increased by \$11.9 million (6.6%) to \$192.7 million. This was largely driven by respective increases of \$8.7 million (19.2%), \$1.6 million (3.7%), and \$1.0 million (4.5%) in the public



enterprises, wholesale and retail, and services sectors. Over the year, business lending increased by \$24.9 million (14.8%). This was mainly due to higher lending to the wholesale and retail, services, and manufacturing sectors respectively by \$13.2 million (43.9%), \$6.8 million (42.7%), and \$6.2 million (39.0%). The transport and fisheries sectors also noted considerable growths over the year. However, these increases were partially offset by a decrease in lending to the agriculture and tourism sectors. The Government Development Loan (GDL) throughout the year continued to support credit growth and the economic activities in these sectors. With the inclusion of government on-lent loans, business lending increased by \$23.7 million (10.7%) reflecting repayments of government on-lent loans.

### Household lending

Household loans increased over December and over the year by \$4.5 million (1.9%) and \$30.6 million (14.4%) respectively. This led household lending to yet again a new record high of \$243.1 million. The monthly and annual movements continued to be significantly driven by housing loans. Additionally, other personal and vehicle loans contributed to the respective growths. More specifically, December recorded an increase of \$4.1 million (2.3%) in housing loans whilst other personal loans rose by \$0.3 million (0.5%). Annually, housing loans increased by \$29.8 million (19.5%), other personal loans rose by \$1.8 million (3.0%), and vehicle loans grew by \$0.1 million (10.0%). Despite import payments for construction materials declining over the year, overall import payments for wholesale and retail trade imports increased alongside import payments for vehicles which were supported by the annual rise in housing, other personal and vehicle loans. The consistent rise in household loans continued to reflect persistent increasing demand of households and their continued capacity to access loans. Lending from non-bank financial institutions to households rose over the year by \$18.4 million (22.7%) reflecting higher personal loans made over the year.



### Other lending

Other loans from banks rose over the month yet declined over the year. Over December, other lending increased by \$0.06 million (6.6%). This resulted from an increase in lending to the non-profit institutions sector. Annually, other lending fell by \$0.3 million (21.0%) and stemmed from a decrease in lending to the non-profit institutions sector.

### Non-performing loans

Banks' total non-performing loans increased by \$0.4 million (2.7%) over the month yet declined by \$0.6 million (3.5%) over the year to \$16.8 million. The monthly rise was due to an increase in non-performing housing loans. The yearly decline, however, was due to settlements of non-performing business loans. The non-performing loans represented 3.8% of total loans as at the end of December 2017. In December 2016, non-performing loans represented 4.4% of total loans.

## Deposits

Total bank deposits increased over December by \$1.4 million (0.2%) to \$571.4 million. This was due to a considerable increase in term deposits of \$8.5 million (3.6%) reflecting increased investments by the retirement funds and private sector. However, this rise was partially offset by declines in demand and saving deposits. The decline in demand deposits was due to the reinvestment of retirement funds' demand deposits in term deposits and withdrawal of deposits by the private sector. The fall in saving deposits resulted from a decline in private individuals' savings for holiday expenses and possibly other preparations for the festive season.

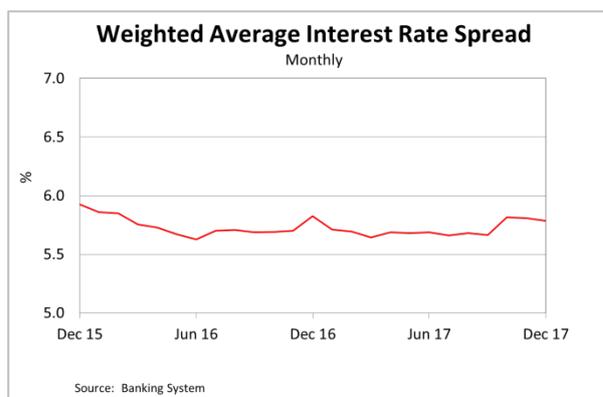
Over the year, total bank deposits increased by \$56.3 million (10.9%) driven by rises in all deposit categories. Time deposits contributed the most to the annual rise by \$48.3 million (24.6%). This was driven mainly by the investments of Digicel in Tonga Cable Limited shares and rising time deposit balances in other depository institutions abroad. Savings and demand deposits both increased respectively by \$5.0 million (6.4%) and \$3.0 million (1.2%). The rise in savings deposits was mainly due to higher deposits by churches, private businesses, and individuals whilst the increase in demand deposits stemmed from growth in deposits by Government, public enterprises, and private individuals. Receipt of government's budget support funds contributed to the increase as well as improved government revenue collection throughout the year.

## Interest rate spread

The weighted average interest rate spread narrowed slightly over the month and over the year respectively by 2.5 basis points and 4.1 basis points. This led the current weighted average interest rate spread to 5.784% (from 5.809% last month and 5.824% in December 2016). The monthly decline was a result of a decrease in the weighted average lending rate whilst the weighted average deposit rate increased. The weighted average lending rate decreased by 2.4 basis points

(from 7.97% to 7.94%) and resulted from lower lending rates for businesses (particularly for the agriculture, utilities, and tourism sectors). Higher lending rates for housing and vehicle loans drove the increase in household lending rates. The weighted average deposit rate increased slightly by 0.1 basis points over the month due to higher demand deposit rates. Both savings and term deposit rates fell.

The yearly decline in the weighted average interest rate spread reflected higher weighted average deposit rate, which outweighed the increase in weighted average lending rate. Volume of deposits and loans over the year were both rising significantly causing both the weighted average rates to be higher than the previous year. The weighted average lending rate increased by 3.7 basis points attributed to lending rates for households, specifically on rates for housing and other personal loans. Meanwhile, business lending rates decreased. The weighted average deposit rate increased



by 7.8 basis points explained by higher demand and savings deposit rates whilst term deposit rates decreased. Overall, the interest rates continued to support both the higher credit growth and growth in deposits over the year.

### **Broad money**

Over December, broad money increased by \$7.0 million (1.3%) to \$560.6 million. This was a result of an increase in net domestic assets whilst net foreign assets declined. Net domestic assets rose by \$9.5 million (8.6%) driven mainly by an increase in net domestic credit specifically lending to the public enterprises and private sector. Meanwhile, net foreign assets declined by \$2.4 million (0.6%) as a result of a fall in the official foreign reserves.

Over the year, broad money increased by \$48.4 million (9.5%) driven solely by a significant rise in net foreign assets by \$51.3 million (13.1%). This rise in net foreign assets, driven by the higher foreign reserves, had offset a decline in net domestic assets. Budget support funding received during the year contributed to the higher foreign reserves and corresponded to the increase in net foreign assets.

### **Liquidity**

Liquidity (reserve money)<sup>1</sup> in the banking system declined over December by \$4.8 million (1.6%) to \$295.9 million. This stemmed from a decrease of \$15.6 million (9.0%) in deposits by the commercial banks to the Reserve Bank vault. As usual, there is high demand for cash in December of every year to spend on family reunions, pay out of group savings, and other household demands for the festive season. This was partially offset by an increase of \$10.4 million (14.1%) in currency in circulation and \$0.4 million (0.8%) in the required reserves (statutory required deposits). The banks' total loans to deposit ratio therefore rose further to 76.4% from 73.7% last month. This resulted from an increase of \$16.4 million (3.9%) in lending outweighing an increase of \$1.4 million (0.2%) in deposits. However, the banks' total loans to deposit ratio continues to remain below the minimum requirement of 80% which indicates that 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 \$14.6 million (5.2%) due to respective increases of \$30.0 million (129.3%) and \$4.7 million (5.9%) in required reserves (statutory required deposits) and in currency in circulation. These rises had offset a withdrawal of \$20.0 million (11.2%) by the commercial banks from the Reserve Bank's vault. Overall, the yearly movements indicate movement towards the revised Statutory Required Deposit requirement ratio which was raised from 5% to 10% effective in July 2017.

### **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

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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.

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.

Table 1:

Consolidated Balance Sheet of Depository Corporations							
	Level as at					Change over the last:	
	Dec-17 \$TOPm	Nov-17 \$TOPm	Oct-17 \$TOPm	Sep-17 \$TOPm	Dec-16 \$TOPm	1 month % growth	1 year % growth
<b>Broad money liabilities</b>	<b>560.6</b>	<b>553.5</b>	<b>553.6</b>	<b>549.7</b>	<b>512.2</b>	<b>1.27</b>	<b>9.5</b>
Currency in circulation	69.3	58.0	55.9	58.7	59.9	19.34	15.6
Demand deposits	182.0	192.1	196.1	190.2	199.4	-5.27	-8.7
Savings and term deposits*	309.3	303.4	301.6	300.8	252.8	1.96	22.4
<i>equals</i>							
<b>Net foreign assets</b>	<b>441.8</b>	<b>444.2</b>	<b>435.1</b>	<b>419.0</b>	<b>390.5</b>	<b>-0.6</b>	<b>13.1</b>
<i>plus</i>							
<b>Net domestic assets</b>	<b>119.0</b>	<b>109.6</b>	<b>118.8</b>	<b>131.0</b>	<b>121.8</b>	<b>8.6</b>	<b>-2.3</b>
Gross bank lending**	440.6	424.5	421.5	428.6	391.5	3.8	12.5
Public enterprises	53.7	45.1	45.1	45.3	43.2	19.2	24.3
Private Sector	385.1	377.7	374.6	381.5	347.2	2.0	10.9
Other financial corporations	1.7	1.7	1.7	1.8	1.1	-0.2	57.9
Other***	-321.5	-314.9	-302.8	-297.6	-269.7	2.1	19.2

\* 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 %
	Dec 17 TOPm	Nov 17 TOPm	Oct 17 TOPm	Sep 17 TOPm	Dec 16 TOPm	1 month %	1 year %	
Lending, banks	436.7	420.3	418.1	417.0	381.6	3.9	14.5	100.0
Household	243.1	238.6	236.4	235.1	212.5	1.9	14.4	55.7
Business*	192.7	180.8	180.7	180.8	167.8	6.6	14.8	44.1
Other	1.0	0.9	1.0	1.1	1.3	6.6	-21.0	0.2
Lending, banks and other	588.1	570.8	566.4	562.8	515.6	3.0	14.0	100.0
Household	342.7	337.2	332.8	329.0	293.7	1.6	16.7	58.3
Business	244.4	232.6	232.6	232.7	220.7	5.1	10.7	41.6
Other	1.0	0.9	1.0	1.1	1.3	6.6	-21.0	0.2
New comm'ts, banks	28.7	13.2	12.1	7.7	23.8	117.0	20.7	N/A
Undrawn comm'ts, banks	18.2	11.1	11.6	13.6	17.9	63.0	1.3	N/A
Implied repay'ts, banks	5.2	11.4	13.0	10.8	15.8	-54.1	-66.9	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							
	Level as at					Change over the last <sup>^</sup>		Share of loans/deposits %
	Dec 17 %	Nov 17 %	Oct 17 %	Sep 17 %	Dec 16 %	1 month bps	1 year bps	
Deposits all	2.16	2.16	2.16	2.19	2.08	0.14	7.78	100
Demand	0.45	0.42	0.44	0.40	0.40	2.87	4.89	41
Savings	2.29	2.40	2.43	2.42	2.27	-10.43	1.77	16
Term	3.73	3.82	3.80	3.82	3.84	-9.09	-10.59	43
Loans all	7.94	7.97	7.98	7.85	7.91	-2.36	3.71	100
Housing	8.20	8.17	8.17	8.13	8.05	3.32	14.88	44.5
Other personal	11.13	11.13	11.14	10.98	10.85	0.30	28.41	14.6
Business*	6.94	6.95	6.97	6.86	7.09	-1.69	-15.54	27.8
Other	7.38	6.57	6.55	6.46	6.66	81.57	72.70	13.1

\*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