

Banking Sector Developments February 2018

Release date: 29 May 2018

	Feb 18	Jan 18	Dec 17	Nov 17
Deposit rate (%)*	2.161	2.204	2.160	2.159
Lending rate (%)*	7.952	7.925	7.944	7.967
Total Deposits (T\$m)	577.2	574.5	571.4	570.0
Total lending (T\$m) ^	439.5	437.5	436.7	420.3
Total lending (T\$m) **	431.2	429.4	429.4	412.8
New commitments (T\$m)	8.8	6.8	28.7	13.2
Broad Money (T\$m)	558.2	552.5	560.6	553.5

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

^ Series show total lending from the banking sector only and includes Government Development Loan (GDL)

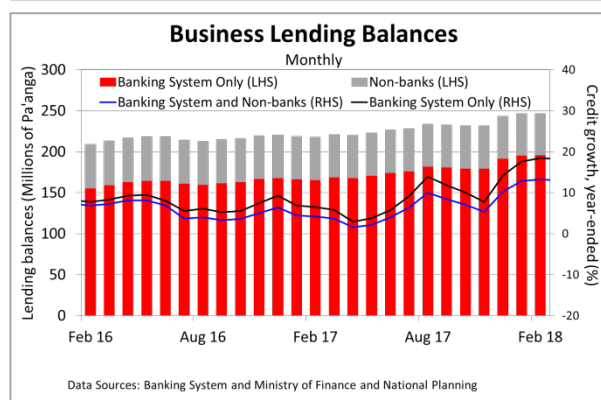
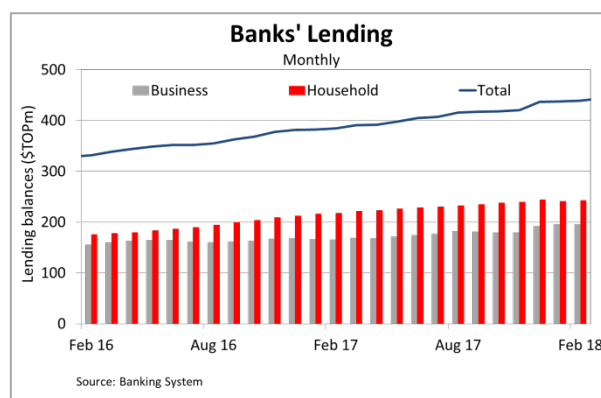
** Series show total lending from the banking sector only and excludes GDL

Credit growth continues backed by supportive lending rates

Lending

Total banks' lending¹ increased over February by \$2.0 million (0.5%) and over the year by \$55.0 million (14.3%). The level of total banks' lending thus rose to a new high record of \$439.5 million. The monthly and annual increases were a result of higher lending to both businesses and households. Total banks' lending excluding the Government Development Loan (GDL) increased over February by \$1.8 million (0.4%) and by \$56.7 million (15.1%) over the year.

Lending extended by non-bank financial institutions increased over the month by \$0.05 million (0.5%) and over the year by \$16.5 million (12.1%) to \$152.0 million. The monthly and annual rises were driven mainly by more household loans extended by the South Pacific Business Development (SPBD) as well as home



¹ Includes GDL

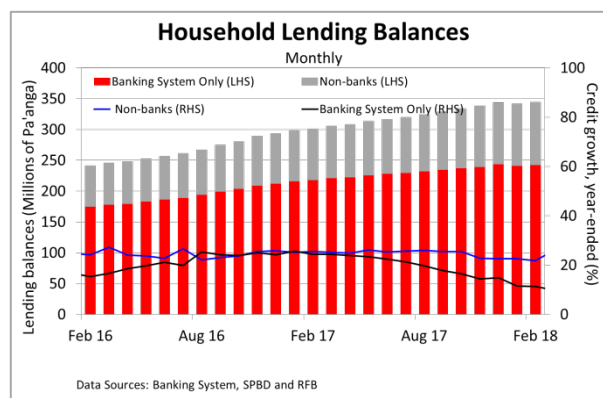
improvement and small loans extended by the Retirement Fund Board. This had also offset a decline in Government on-lent loans.

Business lending

Total banks' lending to businesses (including GDL) increased by \$0.6 million (0.3%) over the month and by \$30.6 million (18.5%) over the year to \$196.1 million. The monthly movement resulted mainly from a rise in lending to the construction, transport, and wholesale and retail sectors which equally shared a \$0.9 million increase. This was partially offset by declines in lending to the manufacturing and utilities sectors. Over the year, business lending rose as a result of higher lending to the wholesale and retail, services, and transport sectors by \$18.9 million (62.3%), \$8.4million (54.9%), and \$2.9 million (97.1%) respectively. Increased lending to the manufacturing and tourism sectors also contributed to the annual rise in total business loans. However, the growth over the year was partially offset by a decrease in lending to the agriculture and utilities sectors. Excluding GDL, business lending still recorded respective increases of \$0.4 million (0.2%) over February and \$31.9 million (20.3%) over the year. The monthly and annual movements continued to support credit growth and the economic activities in the business sectors. With the inclusion of government on-lent loans, business lending increased over the year by \$28.9 million (13.3%) reflecting repayments of government on-lent loans.

Household lending

Banks' lending to households (including GDL) increased over February by \$1.4 million (0.6%). However, excluding lending from the GDL to households, it grew by \$1.3 million (0.5%) reflecting a \$0.1 million rise in education loans offered by the GDL scheme. In year ended February, banks' lending to households (including GDL) rose by \$24.7 million (11.3%) to \$243.3 million. When excluding lending from the GDL, household loans rose by \$25.0 million (11.5%) to \$242.0 million indicating a \$0.3 million decline in the GDL balances.



The monthly and annual growth in household loans both resulted solely from the rising demand for housing loans which further increased by \$1.5 million (0.8%) and \$26.6 million (16.8%) respectively. This offset declines in vehicle and other personal loans for both over February and over the year. The decline in vehicle loans coincided with the annual fall in import payments for vehicles. 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 \$18.1 million (21.8%) reflecting higher personal loans disbursed throughout the year.

Other lending

Other loans from banks rose over February by \$0.03 million (3.2%) yet declined over the year by \$0.3 million (23.3%). The trend shows banks' lending to the non-profit institutions sector.

Non-performing loans

Bank's total non-performing loan which includes GDL increased over the month by \$0.6 million (3.7%) and over the year by \$1.1 million (6.1%) to \$18.3 million. The monthly and yearly increase was driven by increases in non-performing loans in the agricultural, professional and other services sectors as well as individual housing loans. Banks' total non-performing loans (excluding GDL) increased over February and over the year by \$0.5 million (3.0%) and \$0.3 million (1.5%) respectively to \$17.0 million. The non-performing loans (including GDL) represented 4.2% of total loans (including GDL) in February 2018.

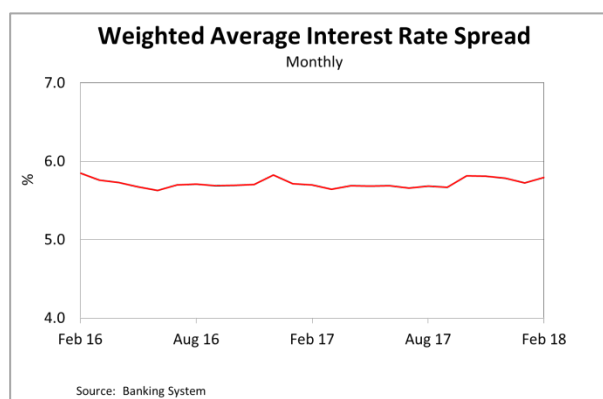
Deposits

Total bank deposits increased over the month by \$2.7 million (0.5%) to \$577.2 million. This was due to respective rises of \$5.0 million (2.1%) and \$0.5 million (0.6%) in demand and saving deposits. This outweighed a \$2.8 million (1.1%) decline in time deposits. The monthly rise stemmed largely from an increase in government deposits due to receipts of cyclone relief funds as well as higher deposits from public enterprises.

Over the year, total bank deposits significantly increased by \$52.9 million (10.1%) driven mainly by rises in time and saving deposits offsetting a decline in demand deposits. Time deposits contributed the most to the yearly increase by \$52.0 million (25.7%). This was driven mainly by the investments of Digicel in Tonga Cable Limited shares, higher investments of retirement funds and higher deposits from government and the private sector. Saving deposits increased by \$5.6 million (7.3%) driven by deposits made by the private sector. The annual decline in demand deposits stemmed mainly from the movement of government funds from a demand deposit account to a time deposit account. However, receipt of government's budget support funds and improved government revenue collection during the year contributed to the overall increase in deposits.

Interest rate spread

The weighted average interest rate spread widened over February by 7.0 basis points and by 9.6 basis points over the year to 5.791% (from 5.721% last month and 5.696% in February 2017). The monthly increase reflected an increase in the weighted average lending rate and the decline in the weighted average deposit rate. The weighted average lending rate rose by 2.7 basis points (from 7.93% to 7.95%) due to higher lending rates for households particularly for housing and vehicle



loans. Lending rates for businesses rose as well over the month (for the manufacturing, agriculture,

and construction sectors). The weighted average deposit rate fell by 4.3 basis points over the month due to a decline in demand and term deposit rates.

The annual rise in the weighted average interest rate spread reflected an increase the weighted average lending rate whilst the weighted average deposit rate remained relatively stable. The weighted average lending rate widened by 9.6 basis points which resulted from an increase in both business (agriculture, fisheries, and construction sectors) and household (housing and other personal) lending rates. The weighted average deposit rate remained largely unchanged. Overall, despite the rise in lending interest rates, it remained supportive to facilitate the increase in demand for finance from these sectors. Deposit interest rates remained attractive thus assisting growth in deposits over the year.

Broad money

Despite a \$16.3 million fall in net domestic assets, the \$21.9 million (4.9%) increase in net foreign assets triggered an increase in broad money of \$5.6 million (1.0%) to \$558.2 million over the month. Net foreign assets increased supported by the receipt of cyclone relief funds in February 2018 and in line with the increase in the foreign reserves over the month. On the other hand, the net domestic assets declined due to government deposits increasing by \$23.9 million (receipt of Tropical Cyclone Gita relief funds).

Similarly, broad money increased over the year by \$48.0 million (9.4%) due to a significant \$65.9 million (16.4%) increase in net foreign assets more than offsetting a \$17.9 million (16.6%) fall in net domestic assets. Meanwhile, net domestic assets declined over the year largely driven by a significant rise in government deposits. Budget support funding received during the year contributed to higher government deposits and the higher foreign reserves and corresponded to the increase in net foreign assets.

Liquidity

Liquidity (reserve money)² in the banking system rose over February by \$2.2 million (0.7%) to \$297.6 million. This stemmed from a \$7.0 million (8.9%) increase in the currency in circulation as the commercial banks withdrew \$5.2 million from the Reserve Bank vault to meet public's high demand for cash. The banks' total loan to deposit ratio (including GDL scheme) remained relatively stable at 76.2% in February, reflecting a proportionate growth in both total deposits and total loans of 0.5%. Total loans to deposit ratio (excluding GDL) slightly decreased to 74.7% in February from 74.8% last month. 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 \$19.7 million (7.1%) due to respective increases of \$29.4 million (122.3%) and \$20.5 million (31.8%) in required reserves (statutory required deposits) and in currency in circulation. These growths had offset a withdrawal of \$30.3

² Liquidity in the banking system (reserve money) is a sum of currency in circulation, exchange settlement account balances, and required reserve deposits.

million (16.0%) by the commercial banks from the Reserve Bank's vault. The increase in the statutory required deposits reflects the revision to raise statutory required deposit requirement ratio 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. Additionally, the banks' cyclone packages to assist the public with rebuilding following Tropical Cyclone Gita is expected to contribute to the credit growth. Therefore, a 16% 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.

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:		
	Feb-18 \$TOPm	Jan-18 \$TOPm	Dec-17 \$TOPm	Nov-17 \$TOPm	Feb-17 \$TOPm	1 month % growth	1 year % growth
Broad money liabilities	558.2	552.5	560.6	553.5	510.2	1.0	9.4
Currency in circulation	65.8	60.8	69.3	58.0	50.9	8.3	29.3
Demand deposits	181.8	177.5	182.0	192.1	200.7	2.4	-9.4
Savings and term deposits*	310.5	314.2	309.3	303.4	258.6	-1.2	20.1
<i>equals</i>							
Net foreign assets	468.1	446.2	441.8	444.2	402.2	4.9	16.4
<i>plus</i>							
Net domestic assets	90.3	106.6	119.0	109.6	108.3	-15.3	-16.6
Gross bank lending**	442.9	440.9	440.6	424.5	394.6	0.5	12.2
Public enterprises	52.9	52.9	53.7	45.1	41.4	0.1	27.7
Private Sector	387.9	386.2	384.7	377.7	352.2	0.4	10.2
Other financial corporations	2.0	1.8	2.2	1.7	1.1	13.9	94.0
Other***	-352.5	-334.2	-321.5	-314.9	-286.4	5.5	23.1

* 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							Shares of totals %
	Level as at					Change over the		
	Feb 18 TOPm	Jan 18 TOPm	Dec 17 TOPm	Nov 17 TOPm	Feb 17 TOPm	1 month %	1 year %	
Lending, banks	439.5	437.5	436.7	420.3	384.5	0.5	14.3	100.0
Household	242.6	241.2	244.1	239.7	217.9	0.6	11.3	55.2
Business*	196.1	195.5	191.7	179.7	165.5	0.3	18.5	44.6
Other	0.9	0.8	1.0	0.9	1.1	3.2	-23.3	0.2
Lending, banks and other	591.6	589.5	588.1	570.8	520.1	0.4	13.7	100.0
Household	343.9	342.0	343.7	338.3	301.1	0.6	14.2	58.1
Business	246.8	246.7	243.3	231.5	217.8	0.0	13.3	41.7
Other	0.9	0.8	1.0	0.9	1.1	3.2	-23.3	0.2
New comm'ts, banks	8.8	6.8	28.7	13.2	21.5	28.3	-59.2	N/A
Undrawn comm'ts, banks	16.9	16.9	18.2	11.1	21.4	-0.4	-21.0	N/A
Implied repay'ts, banks	6.8	7.3	5.2	11.4	18.5	-6.6	-63.2	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:

	Interest Rates							Share of loans/deposits %
	Level as at					Change over the last [^]		
	Feb 18 %	Jan 18 %	Dec 17 %	Nov 17 %	Feb 17 %	1 month bps	1 year bps	
Deposits all	2.16	2.20	2.16	2.16	2.16	-4.33	0.02	100
Demand	0.39	0.49	0.45	0.42	0.44	-9.19	-4.78	41
Savings	2.35	2.33	2.29	2.40	2.32	1.83	2.22	15
Term	3.75	3.76	3.73	3.82	3.88	-0.09	-12.77	44
Loans all	7.95	7.93	7.94	7.97	7.86	2.66	9.61	100
Housing	8.10	8.08	8.20	8.17	8.01	1.42	9.32	43.0
Other personal	11.34	11.35	11.13	11.13	10.97	-1.12	37.36	13.0
Business*	7.05	7.00	6.94	6.95	6.90	4.97	14.86	27.8
Other	6.25	6.25	7.38	6.57	6.25	0.00	0.00	0.0

*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