

Banking Sector Developments January 2018

Release date: 27 April 2018

	Jan 18	Dec 17	Nov 17	Oct 17
Deposit rate (%)*	2.204	2.160	2.159	2.160
Lending rate (%)*	7.925	7.944	7.967	7.975
Total Deposits (T\$m)	574.5	571.4	570.0	569.4
Total lending (T\$m) ^	437.5	436.7	420.3	418.1
Total lending (T\$m) **	429.4	429.4	412.8	410.0
New commitments (T\$m)	6.8	28.7	13.2	12.1
Broad Money (T\$m)	552.5	560.6	553.5	553.6

*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)

^This series show total lending from the banking sector only and includes GDL

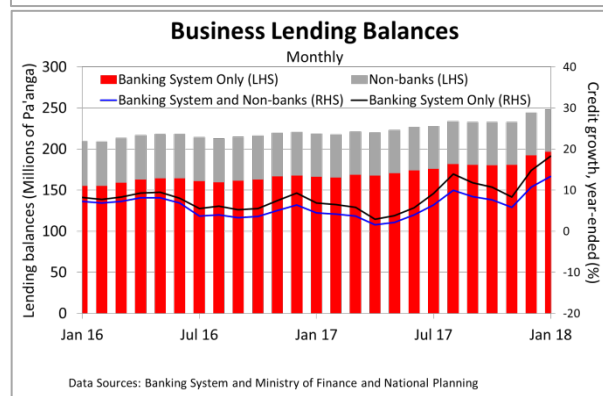
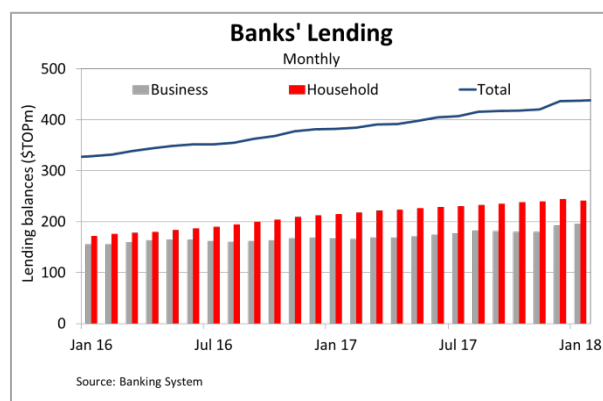
** This series show total lending from the banking sector only and excludes GDL – revisions have been made in previous months

2018 starts positively for business lending

Lending

Total banks' lending ¹ increased slightly over January by \$0.8 million (0.2%) and annually by \$55.3 million (14.5%). Consequently, this led the level of total banks' lending to a new high record of \$437.5 million. The rise over the month of January was driven solely by higher lending to businesses which outweighed the decline in lending to households. However, over the year, both households and businesses drove the increase. Total banks' lending excluding the Government Development Loans (GDL) rose slightly over January by \$0.1 million (0.02%) and by \$56.7 million (15.2%) over the year.

Lending extended by non-bank financial institutions increased over the month by \$0.6 million (0.4%) and over the year by \$17.4 million (12.9%) to \$152.0 million. The monthly and annual rises were driven mainly by more household loans



¹ Includes Government Development Loans (GDL)

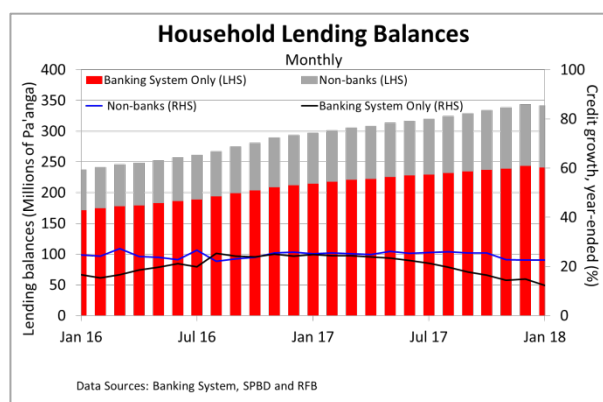
extended by the South Pacific Business Development (SPBD) as well as home improvement and personal loans extended by the Retirement Fund Board. This offset a decline in government on-lent loans.

Business lending

Total banks' lending to businesses (including GDL) increased by \$3.8 million (2.0%) over the month and by \$29.2 million (17.6%) over the year to \$195.5 million. This was driven mainly by an increase in lending to the wholesale and retail, tourism, and services sectors which recorded respective rises of \$5.8 million (13.5%), \$3.6 million (24.2%), and 1.0 million (4.0%) in January. The increase was partially offset by declines in lending to the manufacturing and mining and quarrying sectors. Over the year, business lending rose as a result of higher lending to the wholesale and retail, services, and manufacturing sectors respectively by \$19.7 million (66.9%), \$6.7 million (39.2%), and \$3.1 million (19.1%). The tourism and fisheries sectors also contributed to the annual rise. However, the growth over the year was partially offset by a decrease in lending to the agriculture sector. Excluding GDL, business lending still noted respective increases of \$3.3 million (1.8%) over January and \$30.5 million (19.3%) 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 by \$28.1 million (12.8%) reflecting repayments of government on-lent loans.

Household lending

Household loans (including GDL) fell over the month by \$2.9 million (1.2%) and rose over the year by \$25.0 million (11.6%) to \$241.2 million. The monthly decline was a result of a \$4.3 million (6.9%) fall in personal and vehicle loans, outweighing a \$1.4 million rise in housing loan. However, the annual rise in household lending was due to a significant increase of \$27.0 million (17.2%) in housing loans which outweighed a decline in personal and vehicle loans. The annual decline in vehicle loans coincided with the movement 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. Household lending (excluding GDL) declined over the month by \$3.1 million (1.3%) however, rose over the year by \$26.5 million (12.4%). Lending from non-bank financial institutions to households rose by \$18.6 million (22.6%) reflecting higher personal loans disbursed throughout the year.



Other lending

Other loans from banks declined over the month and over the year by \$0.2 million (17.5%) and \$0.3 million (25.3%) respectively. This was driven mainly by a decrease in lending to the non-profit institutions sector.

Non-performing loans

Banks' total non-performing loans which includes GDL slightly rose over the month by \$0.3 million (1.7%) and over the year by \$0.1 million (0.8%) to \$17.6 million. The monthly movement was driven by higher non-performing loans in the wholesale & retail, fisheries, education, manufacturing, and construction sectors. These sectors also drove the annual rise with the addition of non-performing loans from the agricultural and women development sectors. The non-performing loans represented 4.0% of total loans in January 2018 compared to 4.6% in January 2017. Moreover, banks' total non-performing loans (excluding GDL) slightly increased by \$0.3 million (1.6%) over the month yet declined by \$0.6 million (3.3%) over the year to \$16.5 million.

Deposits

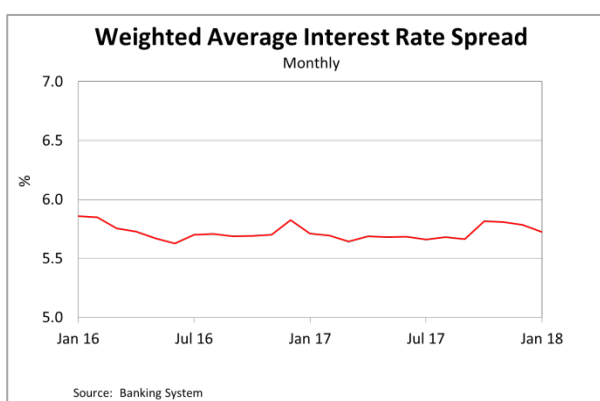
Total bank deposits increased over the month by \$3.2 million (0.6%) to \$574.5 million, due solely to a significant rise in term deposits of \$12.6 million (5.1%). The monthly rise was a result of considerable increase in deposits by government and investments by the retirement funds. Demand and saving deposits however declined over the month. The decline in demand deposits was due to the movement of government's demand deposits in to time deposits and withdrawal of deposits by the private sector. The fall in saving deposits resulted from a decline in private individuals' savings.

Over the year to January, total bank deposits increased by \$46.8 million (8.9%) driven mainly by rises in time and saving deposits and offsetting a decline in demand deposits. Time deposits contributed the most to the yearly increase by \$55.9 million (27.8%). This was driven by the investments of Digicel in Tonga Cable Limited shares and investments of retirement funds and the private sector. Saving deposits rose by \$4.6 million (5.9%) mainly driven by deposits made by churches. The annual decline in demand deposits stemmed from the return of foreign investors' funds abroad. However, the receipt of government's budget support funds and higher government revenue collection during the year partially outweigh this decline.

Interest rate spread

The weighted average interest rate spread narrowed over the month by 6.2 basis points and widened by 1.1 basis points over the year. The monthly movement resulted in a 5.721% weighted average interest rate spread (from 5.784% last month and 5.711% in January 2017). The monthly decrease was a result of a decline in the weighted average lending rate whilst the weighted average deposit rate increased. The weighted average lending rate decreased by 1.8

basis points (from 7.94% to 7.93%) and was due to lower lending rates for households (particularly for housing and vehicle loans). Lending rates for businesses, however, rose over the month. The weighted average deposit rate increased by 4.4 basis points over the month due to a rise in all deposit categories.



The annual rise in the weighted average interest rate spread reflected an increase in both the weighted average lending and weighted average deposit rate. The weighted average lending rate widened by 9.8 basis points and was driven largely by an increase in business lending rates whilst household lending rates also contributed to the yearly rise. The weighted average deposit rate increased by 8.8 basis points and was due to rises in demand and saving deposit rates whilst time 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 the month, broad money fell by \$8.0 million (1.4%) to \$552.5 million. This was solely a result of a decrease in net domestic assets offsetting the rise in net foreign assets. Net domestic assets declined by \$11.6 million (9.7%) driven mainly by an increase in government deposits. On the other hand, net foreign assets increased by \$4.4 million (1.0%) due to rises in the official foreign reserves.

Over the year, broad money increased by \$40.5 million (7.9%) mainly as a result of an increase in net foreign assets by \$39.1 million (9.6%). This was due to the significant rise in foreign reserves. Meanwhile, net domestic assets also rose over the year and contributing somewhat to the annual rise. 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)² in the banking system slightly declined over January by \$0.4 million (0.1%) to \$295.5 million. This resulted from a decrease of \$6.0 million (7.2%) in the currency in circulation offsetting the increase in deposits by the commercial banks to the Reserve Bank vault. The banks' total loans to deposit ratio (including GDL) fell slightly to 76.4% from 76.1% last month. This resulted from an increase of \$3.2 million (0.6%) in deposits outweighing an increase of \$0.8 million (0.2%) in lending. As for loans to deposit ratio (excluding GDL), the ratio fell as well from 75.1% to 74.7% reflecting higher deposits outweighing growth in lending. 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 rose by \$15.2 million (5.4%) due to respective increases of \$29.1 million (120.8%) and \$13.8 million (21.4%) in required reserves (statutory required deposits) and in currency in circulation. These rises had offset a withdrawal of \$27.7 million (14.4%) 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

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

taking place throughout the financial year. Therefore, a 16% credit growth is expected in the year to June 2018 supported by the level of competition between banks in terms 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:	
	Jan-18 \$TOPm	Dec-17 \$TOPm	Nov-17 \$TOPm	Oct-17 \$TOPm	Jan-17 \$TOPm	1 month % growth	1 year % growth
Broad money liabilities	552.5	560.6	553.5	553.6	512.0	-1.43	7.9
Currency in circulation	60.8	69.3	58.0	55.9	50.1	-12.27	21.2
Demand deposits	177.5	182.0	192.1	196.1	204.9	-2.46	-13.4
Savings and term deposits*	314.2	309.3	303.4	301.6	257.0	1.59	22.3
<i>equals</i>							
Net foreign assets	446.2	441.8	444.2	435.1	407.1	1.0	9.6
<i>plus</i>							
Net domestic assets	107.5	119.0	109.6	118.8	105.1	-9.7	2.3
Gross bank lending**	440.9	440.6	424.5	421.5	392.2	0.1	12.4
Public enterprises	52.9	53.7	45.1	45.1	42.2	-1.7	25.4
Private Sector	386.2	384.7	377.7	374.6	348.9	0.4	10.7
Other financial corporations	1.8	2.2	1.7	1.7	1.1	-17.2	67.5
Other***	-333.4	-321.5	-314.9	-302.8	-287.1	3.7	16.1

* 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		
	Jan 18 TOPm	Dec 17 TOPm	Nov 17 TOPm	Oct 17 TOPm	Jan 17 TOPm	1 month %	1 year %	
Lending, banks [^]	437.5	436.7	420.3	418.1	382.2	0.2	14.5	100.0
Household	241.2	244.1	239.7	237.5	214.8	-1.2	12.3	55.1
Business*	195.5	191.7	179.7	179.6	166.3	2.0	17.6	44.7
Other	0.8	1.0	0.9	1.0	1.1	-17.5	-25.3	0.2
Lending, banks and other	589.5	588.1	570.8	566.4	516.8	0.2	14.1	100.0
Household	342.0	343.7	338.3	333.9	297.1	-0.5	15.1	58.0
Business	246.7	243.3	231.5	231.5	218.6	1.4	12.8	41.8
Other	0.8	1.0	0.9	1.0	1.1	-17.5	-25.3	0.2
New comm'ts, banks	6.8	28.7	13.2	12.1	15.1	-76.1	-54.7	N/A
Undrawn comm'ts, banks	16.9	18.2	11.1	11.6	20.7	-6.7	-18.0	N/A
Implied repay'ts, banks	7.3	5.2	11.4	13.0	11.7	39.7	-37.8	N/A

* Method for calculating these series was updated in August 2014, resulting in revisions to the full history of data

[^] Includes GDL

Sources: SPBD; RFB; MOFNP; Banking system

Table 3:

	Interest Rates							Share of loans/deposits %
	Level as at					Change over the last [^]		
	Jan 18 %	Dec 17 %	Nov 17 %	Oct 17 %	Jan 17 %	1 month bps	1 year bps	
Deposits all	2.20	2.16	2.16	2.16	2.12	4.38	8.76	100
Demand	0.49	0.45	0.42	0.44	0.45	3.27	3.96	41
Savings	2.33	2.29	2.40	2.43	2.31	3.43	1.98	15
Term	3.76	3.73	3.82	3.80	3.79	2.39	-3.62	44
Loans all	7.93	7.94	7.97	7.98	7.83	-1.84	9.82	0
Housing	8.08	8.20	8.17	8.17	8.01	-11.69	7.86	0.0
Other personal	11.35	11.13	11.13	11.14	11.07	22.03	28.76	0.0
Business*	7.00	6.94	6.95	6.97	6.82	6.46	18.41	0.0
Other	6.25	7.38	6.57	6.55	6.25	-113.23	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