

Banking Sector Developments June 2014

Release date: 14 August 2014

	June 14	May 14	Apr 14	Mar 14
Deposit rate	2.09	2.09	2.09	2.04
Lending rate	8.96	8.97	9.06	8.96
Total lending	384.5	382.4	381.5	379.6
New commitments	9.1	7.9	7.5	10.6

Credit growth continues to rise over year

Interest rates

The weighted average deposit rate was unchanged in June 2014. This reflected slight declines in the rates for demand deposits offsetting a rise in savings and term deposit rates. The deposit rate increased over the year, due to an increase in rates on term deposits.

The weighted average lending rate dipped in June, driven by a decline in housing offsetting a rise in 'business' and 'other personal' categories. We expect this decline partly reflects heightened sector competition together with continued monetary policy stimulus. The largest decline in lending rates was on loans to the household sector, particularly for housing.

Over the year, all key bank lending rate categories declined, led by the 'business' and 'other' categories, whose share comprise almost half of all loans. The weighted average rate on all bank loans fell by 79 basis points. The general decline in interest rates was encouraged by:

- Increased competition from the new *Pacific International Commercial Bank*;
- The NRBT's expansionary monetary policy setting; and
- An anticipated expansion of *Tonga Development Bank* services.

Lending rates are now low by the standards of the past decade, although recent improvements to reporting requirements complicate historical comparisons.

Lending

Total bank lending balances rose slightly in June, with increases in lending for 'household and 'other' components more than offsetting a decline in lending for 'business'. The increase in lending for household coincides with an increase in the private container registrations, likely associated with strong domestic demand during the church conferences.

In year-ended terms, total bank lending balances rose by 9.6 per cent, reflecting lower lending rates and increased new commitments. This is consistent with a rise in total container registrations, suggesting strengthening activity. Including loans extended by non-banks, the lending balance increased by 11.5 per cent over the year mainly due to an increase in the household lending.

Household lending

Bank lending balances to households rose slightly over the month, due to an increase in the housing and transport components. This increase is consistent with an increase in new commitments for housing and in import payments for construction materials. Over the year, bank lending balances to households increased by 5.2 per cent, consistent with a rise in the number of private container registrations.

New household commitments rose over the month, driven by rises in the 'housing' and 'vehicle' components. The rise in new commitments for vehicles reflected an increase in the import payments for vehicles. Consistent with strong vehicle registrations growth, the increase in commitments likely stems from more affordable Japanese cars and the rise of informal markets. New household commitments make up nearly half of total new commitments. The headline growth figures continue to understate the strength of household lending at the moment as banks continue writing-off large quantities of loans that became impaired in the past. Including non-banks, year-ended growth in household lending would have been much stronger (14.8 per cent).

Business lending

Business lending fell by 3.1 per cent over the month and by 10.5 per cent over the year. This follows notable declines in manufacturing, tourism and transport components. The decrease in lending for tourism is consistent with high tourism industry arrears.

New business commitments rose over the month, mainly due to an increase in 'manufacturing', 'fisheries' and 'distribution' categories. Including government on-loans, business lending slowed over the year as on-lending for CBD reconstruction continues to unwind.

Other lending

Much of the growth in total bank lending over the past year has come from large loans extended to two local public enterprises (classified under the category of 'other'). Some of the amounts committed remain undrawn. In liquidity terms, gross loans to deposit ratio increased slightly, but remains well below the 80.0 trigger level indicating adequate liquidity in the banking system.

Broad money

The overall increase in bank lending balances, together with a lift in Tonga's net foreign assets, have led to an increase in broad money balances of 7.3 per cent over the year, to about 46 per cent of GDP. The high growth components were those that earn the lowest interest and are most suited for transactional purposes. Meanwhile, term deposits balances have contracted markedly.

Outlook

Since reducing the interest rates on Exchange Settlement Account balances by 100 basis points (to 0.0 per cent) in November 2012, banks' lending rates have only fallen by 113 basis points on average. Furthermore, improvements to business confidence and conditions will support continued credit growth. Increased competition in the sector will continue to support lower lending rates; however, banks have indicated significant declines are unlikely.

The NRBT is forecasting lending to grow by around 10 per cent over the year to December 2014. This is on the basis of imminent drawdowns of some large loan commitments; the expected fall in interest rates; and anticipated supporting of the government to the Private Sectors by implementing revolving funds for the new loan schemes targeted the sectors of the economy which will assist to improve the economic conditions broadly. Growth is expected to increase slightly in 2014-15.

The NRBT will continue to encourage lending through its monthly liaison with the banks.

If an anticipated increase in lending and a forecast increase in foreign reserves come to fruition, further rises in broad money liabilities can be expected.

Interest Rates
Weighted average of all banks

	Month ended			3 months ended			Year ended			Share of loans/deposits %
	Jun 14 %	May 14 %	Apr 14 %	Jun 14 %	Mar 14 %	Dec 13 %	Jun 14 %	Jun 13 %	Growth bps	
Deposits all	2.09	2.09	2.09	2.09	2.04	1.90	2.09	1.98	11	100
Demand	0.44	0.49	0.52	0.44	0.51	0.47	0.44	0.45	-1	41
Savings	2.02	1.97	2.00	2.02	1.91	1.87	2.02	2.16	-13	16
Term	3.69	3.63	3.56	3.69	3.55	3.37	3.69	3.24	46	43
Loans all	8.96	8.97	9.02	8.96	8.96	9.16	8.96	9.75	-79	100
Housing	8.67	8.69	8.70	8.67	8.64	8.71	8.67	9.02	-35	35
Other personal	12.95	12.93	13.10	12.95	12.81	13.17	12.95	13.24	-29	17
Business	9.07	9.03	9.29	9.07	9.09	9.22	9.07	9.81	-74	26
Other	6.05	6.05	5.84	6.05	6.07	6.09	6.05	6.69	-65	21

Sources: Banks; NRBT

Lending Balances

	Month ended			3 months ended			Year ended			Shares of totals %
	Jun 14 TOPm	May 14 TOPm	Apr 14 TOPm	Jun 14 TOPm	Mar 14 TOPm	Dec 13 TOPm	Jun 14 TOPm	Jun 13 TOPm	Growth %	
Lending, banks	276.0	275.1	274.9	276.0	274.5	268.6	276.0	251.8	9.6	100
Household	138.5	137.0	137.5	138.5	138.0	134.8	138.5	131.6	5.2	50
Business	79.9	82.5	81.9	79.9	81.5	84.1	79.9	89.3	-10.5	29
Other	57.6	55.5	55.5	57.6	55.0	49.7	57.6	30.9	86.4	21
Lending, banks and other	384.5	382.4	381.5	384.5	379.6	371.5	384.5	344.9	11.5	100
Household	184.4	181.7	181.5	184.4	180.5	174.3	184.4	160.6	14.8	48
Business	142.5	145.2	144.5	142.5	144.1	147.5	142.5	153.4	-7.1	37
Other	57.6	55.5	55.5	57.6	55.0	49.7	57.6	30.9	86.4	15
New comm'ts, banks	9.1	7.9	7.5	9.1	10.6	6.6	9.1	6.6	39.0	N/A
Undrawn comm'ts, banks	12.2	9.3	9.4	12.2	9.3	13.2	12.2	12.1	0.7	N/A
Implied repay'ts, banks	5.3	7.8	7.1	5.3	9.8	9.8	5.3	5.4	-3.0	N/A

Sources: SPBD; RFB; Government of Tonga; banking system

Consolidated Balance Sheet of Depository Corporations

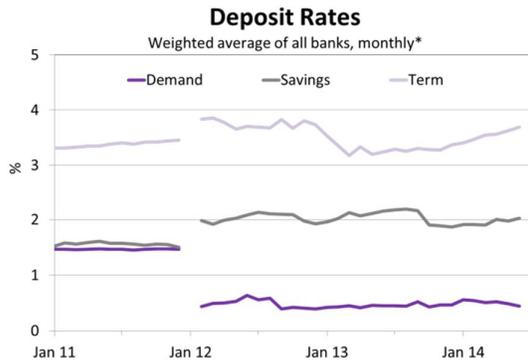
	Month ended			3 months ended			Year ended		
	Jun-14 \$TOPm	May-14 \$TOPm	Apr-14 \$Tom	Jun-14 \$TOPm	Mar-14 \$TOPm	Dec-13 \$TOPm	Jun-14 \$TOPm	Jun-13 \$TOPm	% growth
Broad money liabilities	368.9	358.1	357.5	368.9	354.5	355.8	368.9	343.9	7.3
Currency in circulation	38.9	38.5	36.0	38.9	34.3	37.0	38.9	32.1	21.4
Demand deposits	137.1	128.9	131.5	137.1	134.1	134.6	137.1	123.5	11.0
Savings and term deposits*	192.9	190.6	189.9	192.9	186.0	184.2	192.9	188.3	2.4
<i>equals</i>									
Net foreign assets	268.5	259.2	258.4	268.5	265.0	261.7	268.5	252.6	6.3
<i>plus</i>									
Net domestic assets	100.4	98.9	99.1	100.4	89.5	94.1	100.4	91.3	9.9
Gross bank lending**	285.3	282.7	282.1	285.3	281.7	275.7	285.3	258.5	10.4
Other***	-184.9	-183.9	-183.0	-184.9	-192.2	-181.6	-184.9	-167.2	10.6

* Also includes very minor amounts for securities other than shares.

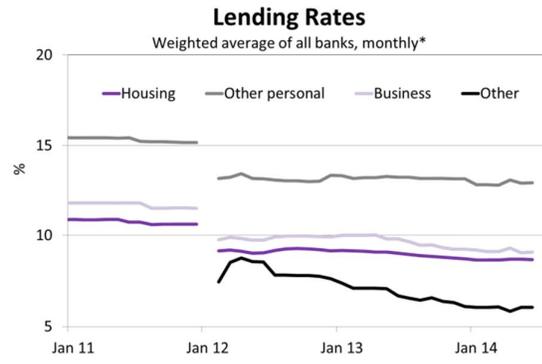
** Differs slightly from standard measures of bank lending by amounts classified as accrued interest.

*** Includes mostly capital accounts of the banks and NRBT, and their net claims on the central government.

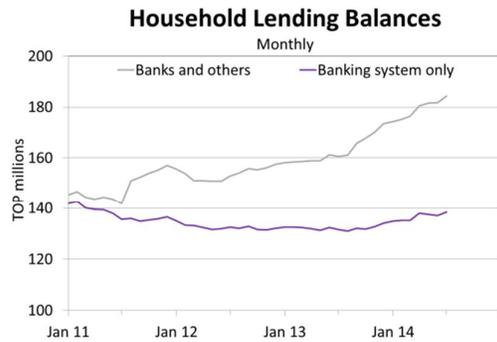
Sources: banking system; NRBT



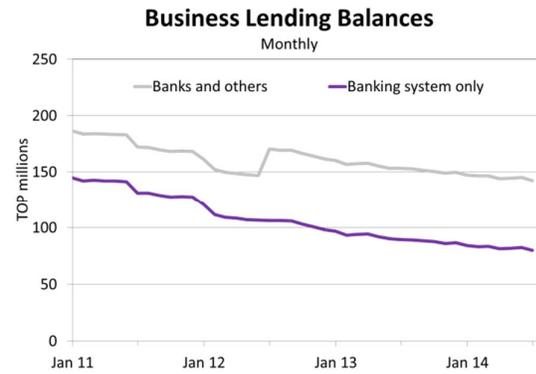
* Changes in bank reporting have occasionally caused series breaks.



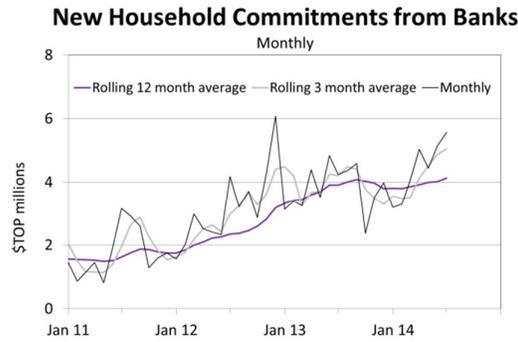
* Changes in bank reporting have caused a series break in January 2012; excludes overdrafts.



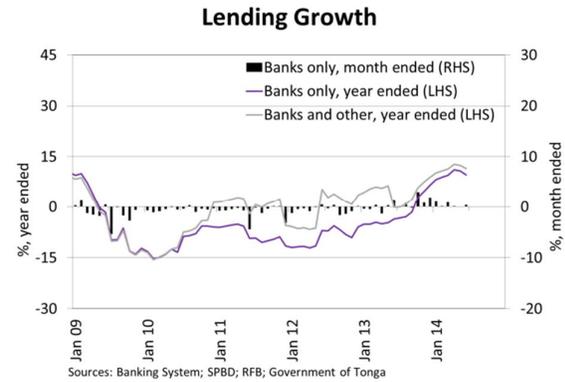
Sources: Banking System; SPBD; RFB



Sources: Banking System; Government of Tonga



Source: Banking system



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