

# Banking Sector Developments June 2017

Release date: 4 September 2017

	Jun 17	May 17	Apr 17	Mar 17
Deposit rate (%)*	2.134	2.148	2.167	2.203
Lending rate (%)*	7.834	7.830	7.856	7.845
Total Deposits (T\$m)	536.8	533.9	526.2	517.9
Total lending (T\$m) ^	404.5	397.7	391.9	391.2
New commitments (T\$m)	11.9	13.5	7.6	24.3
Broad Money (T\$m)	534.9	517.6	509.9	503.6

\*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.

## Lending and deposits continue to grow steadily

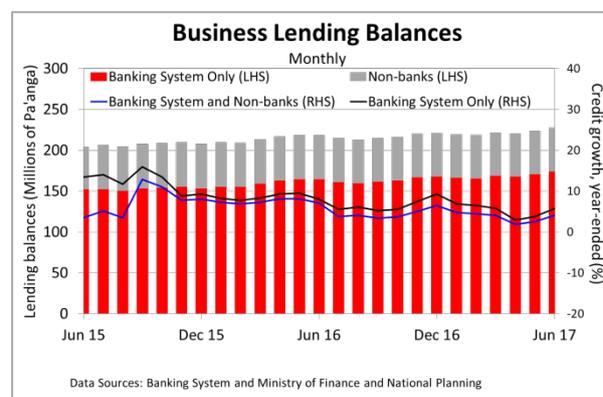
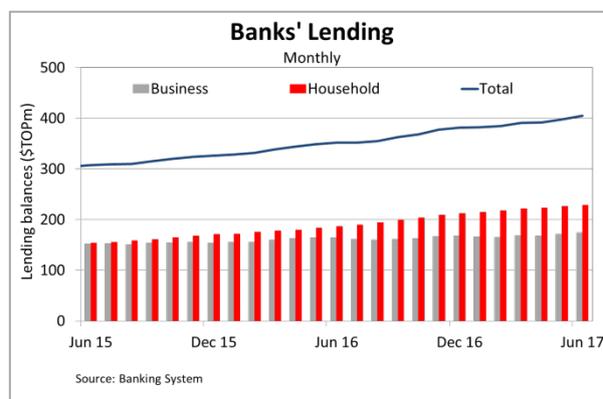
### Lending

Total banks' lending rose to a new record high of \$404.5 million, surpassing the level set last month. Similarly, lending increased over the year. The monthly and annual movements were driven by higher lending to both households and businesses.

Lending extended by non-bank financial institutions increased over the month by \$0.7 million (0.5%) and over the year by \$17.2 million (13.9%) to \$141.1 million. This continued to be driven by more household loans offsetting a fall in government on-lent loans.

### Business lending

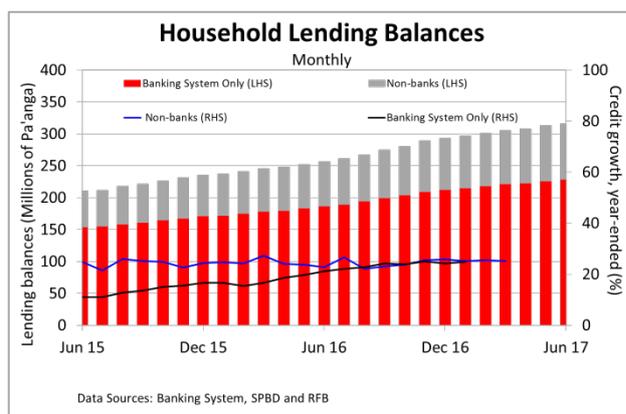
Banks' lending to businesses increased over the month by \$4.4 million (2.6%) to \$175.0 million. This was largely a result of higher lending to the manufacturing, wholesale and retail, public enterprises, and construction sectors which rose respectively by \$1.5 million (8.4%), \$0.8 million (2.0%), \$0.8 million (1.8%), and \$0.5 million (5.0%).



Over the year, lending to businesses increased by \$10.3 million (6.2%) due to significant rises in the wholesale and retail, and services sectors. These respective loans increased annually by \$9.0 million (28.5%) and \$7.8 million (52.0%). These were partially offset mainly by declines of \$2.7 million (5.9%) in loans to public enterprises, \$1.6 million (79.5%) in loans to the mining and quarrying sector, and \$0.4 million (71.3%) in lending to the entertainment and catering sector. 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 \$9.7 million (4.4%) reflecting the loan repayments made over the year for the government on-lent loans.

### Household lending

Lending to households rose by \$2.4 million (1.1%) to \$228.2 million in June, surpassing the record level it was at last month. This was solely a result of housing loans which increased by \$2.9 million (1.7%). This continues to reflect high demand and rising confidence of households. However, the increase in housing loans was partially offset by declines in vehicle and other personal loans which fell respectively by \$0.03 million (3.5%) and \$0.5 million (0.8%).



Over the year, lending to households increased considerably by \$41.9 million (22.5%) driven by increases in housing, vehicle, and other personal loans. Housing loans contributed the most to the annual rise with an increase of \$41.0 million (31.7%), followed by other personal loans which increased by \$0.9 million (1.1%) and vehicle loans by \$0.3 million (39.0%). The rise in vehicle loans also coincided with 672 (22.1%) more vehicle registrations recorded over the year to June. Import payments for construction materials also rose by \$15.8 million (49.8%) supporting the yearly increase in housing loans. Lower lending rates for housing supported the yearly growth reflecting also the banks' housing loan campaign. Lending from non-bank financial institutions to households increased by \$17.8 million (25.3%) reflecting higher personal loans made over the year. The introduction of the home improvement loan facility at the Retirement Fund Board in July 2016 also contributed to the annual growth.

### Other lending

Other loans from banks rose over the month and over the year by \$0.04 million (3.3%) and \$0.04 million (3.4%) respectively. This resulted from an increase in lending within the non-profit institutions sector.

### Non-performing loans

Banks' total non-performing loans decreased by \$0.3 million (1.5%) to \$16.9 million in June. This was due to a decline in both non-performing business and household loans. The fall in non-performing business loans were mainly due to improved performances of loans to the

manufacturing and tourism sectors. The declines in non-performing household loans were driven by a decrease in individual loans for housing and other personal purposes. Annually, non-performing loans decreased by \$7.3 million (30.2%) due to Tonga Forest Product Limited's loan being settled coupled with other minor write-offs (housing loans). The non-performing loans represented 4.2% of total loans as at the end of May 2017 compared to 4.3% last month.

## Deposits

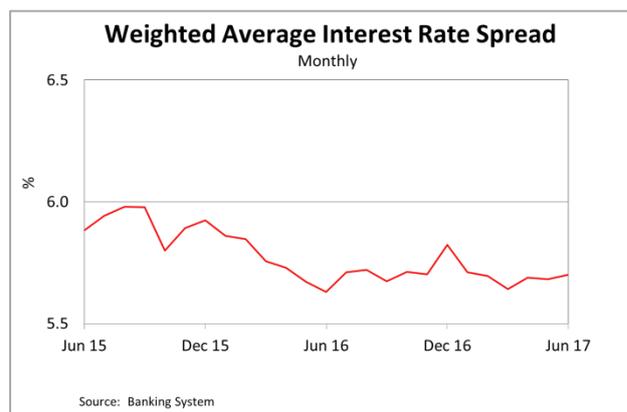
Total bank deposits continued to increase recording a \$2.9 million (0.5%) rise to \$536.8 million in June. This was a result of increases in saving and time deposits whilst demand deposits fell over the month. The overall increase in deposits coincided with higher foreign reserves. Saving deposits contributed the most to the monthly rise and increased by \$3.8 million (4.6%) whereas time deposits rose by \$0.3 million (0.1%). This increase in saving deposits was due mainly to higher deposits made by the public enterprises sector. Demand deposits on the other hand declined by \$1.1 million (0.5%) partially offsetting the overall monthly increase. This coincides with lower deposits made by commercial banks to the Reserve Bank's vault.

Over the year, total bank deposits increased by \$68.4 million (14.6%) driven by increases in all deposit categories. Demand deposits continued to be the most significant contributor to the yearly rise as it increased by \$33.7 million (16.2%) followed by time deposits which rose by \$27.1 million (14.8%) and then saving deposits which contributed \$7.6 million (9.9%). Demand deposits rose mainly as a result of an increase in private business deposits and government deposits. Time deposits grew driven by the Retirement Fund Board's deposits coupled with deposits by public enterprises and private businesses. 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 made by individuals as well as the government.

## Interest rate spread

The weighted average interest rate spread widened by 1.9 basis points (from 5.682%) over June as well as over the year by 7.1 basis points to 5.7%. The monthly increase was a result of a decline in the weighted average deposit rate outweighing the increase in the weighted average lending rate. More specifically, the weighted average lending rate rose slightly by 0.4 basis points (from 7.830% to 7.834%) over the month due to higher lending rates to households

and businesses. Higher lending rates for households applied particularly for housing, vehicle, and other personal loans. Higher rates for business loans applied mainly for utilities, fisheries, and construction sectors. The weighted average deposit rate narrowed by 1.5 basis points (from 2.15% to 2.13%) due to lower demand and saving deposit rates whilst term deposit rates increased. Over the year, the weighted average interest rate spread widened as a result of a decrease in the



weighted average deposit rate outweighing the fall in the weighted average lending rate. The weighted average lending rate fell for both business and households. In particular, lower household lending rates applied for housing, vehicle, and other personal loans. Meanwhile, lower business lending rates applied for all business categories (especially manufacturing, mining and quarrying, and tourism sectors) except the agriculture sector. These 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 11.6 basis points as a result of lower deposit rates in all deposit categories. This coincides with the yearly growth in deposits.

### **Broad money**

Over June, broad money increased significantly by \$17.2 million (3.3%) to \$534.9 million. This was driven largely by higher net foreign assets which increased by \$15.1 million (3.7%) whilst net domestic assets rose by \$2.1 million (2.0%). The increase in net foreign assets was a result of a \$15.6 million (4.0%) rise in foreign reserves and was partially offset by a slight decline in other foreign assets. Meanwhile, net domestic assets increased due to an increase in net domestic credit.

In year ended terms, broad money increased by \$64.3 million (13.7%) driven significantly and solely by an increase in net foreign assets which recorded an annual rise of \$65.5 million (18.1%). This was mainly due to an increase in foreign reserves which rose by \$53.0 million (14.9%) with other foreign assets contributing \$13.0 million (42.3%) to the annual rise. Foreign liabilities had partially offset this increase in net foreign assets. Alternatively, net domestic assets declined over the year by \$1.4 million (1.3%) as a result of credit growth. Budget support funding received during the year contributed to the higher foreign reserves and corresponded to the increase in net foreign assets.

### **Liquidity**

The liquidity (reserve money)<sup>1</sup> in the banking system declined by \$1.1 million (0.4%) to \$283.8 million in June. This was mainly a result of withdrawal of cash by the commercial banks from the Reserve Bank's vault. This also coincided with a decline in demand deposits over June. The banks' total loans to deposit ratio increased in June to 75.4% from 74.5% last month due to the credit growth of \$6.8 million (1.7%) outweighing the \$2.9 million (0.5%) rise in deposits. 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 \$27.2 million (10.6%) due mainly to a respective rise of \$16.2 million (9.6%) and \$7.9 million (11.7%) in deposits by commercial banks to the Reserve Bank's vault and currency in circulation.

### **Outlook**

The Reserve Bank estimated a credit growth of 15.0% to be achieved at the end of 2016/17 and realised an annual credit growth of 14.8% as at the end of June 2017. The Reserve Bank's forecast

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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.

was higher than the IMF Article IV's projected growth of 10.8% for 2016/17 and thus much closer to the real credit growth realised over the year to June 2017. 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 monetary policy to increase the loan to deposit ratio minimum requirement. As for broad money, the yearly increase realized was 13.7% close to the Reserve Bank's forecast for June 2017 of 14.0%.

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:	
	Jun-17 \$TOPm	May-17 \$TOPm	Apr-17 \$TOPm	Mar-17 \$TOPm	Jun-16 \$TOPm	1 month % growth	1 year % growth
<b>Broad money liabilities</b>	<b>534.9</b>	<b>517.6</b>	<b>509.9</b>	<b>503.6</b>	<b>470.5</b>	<b>3.32</b>	<b>13.7</b>
Currency in circulation	60.8	52.7	50.6	51.3	48.5	15.45	25.5
Demand deposits	202.8	197.1	192.5	187.0	181.4	2.92	11.8
Savings and term deposits*	271.2	267.9	266.9	265.2	240.7	1.24	12.7
<i>equals</i>							
<b>Net foreign assets</b>	<b>428.1</b>	<b>413.0</b>	<b>395.4</b>	<b>389.7</b>	<b>362.5</b>	<b>3.7</b>	<b>18.1</b>
<i>plus</i>							
<b>Net domestic assets</b>	<b>106.9</b>	<b>104.7</b>	<b>114.6</b>	<b>114.1</b>	<b>108.3</b>	<b>2.0</b>	<b>-1.3</b>
Gross bank lending**	414.9	408.7	402.4	401.5	361.5	1.5	14.8
Public enterprises	43.4	42.6	40.1	42.5	46.1	1.8	-5.9
Private Sector	370.1	364.8	346.8	343.7	299.7	1.5	23.5
Other financial corporations	1.4	1.3	15.5	15.3	15.7	10.7	-91.1
Other***	-308.0	-303.9	-287.8	-287.4	-253.2	1.3	21.6

\* 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

Table 2:

	Lending Balances							Shares of totals %
	Level as at					Change over the		
	Jun 17 TOPm	May 17 TOPm	Apr 17 TOPm	Mar 17 TOPm	Jun 16 TOPm	1 month %	1 year %	
Lending, banks	404.5	397.7	391.9	391.2	352.3	1.7	14.8	100.0
Household	228.2	225.8	222.9	221.3	186.3	1.1	22.5	56.4
Business*	174.2	170.7	167.7	168.7	164.7	2.1	5.7	43.1
Other	1.2	1.2	1.3	1.2	1.2	3.3	3.4	0.3
Lending, banks and other	544.9	538.1	530.2	528.8	476.2	1.3	14.4	100.0
Household	315.6	313.2	308.2	305.9	256.6	0.8	23.0	57.9
Business	227.2	223.7	220.7	221.7	218.3	1.6	4.1	41.7
Other	1.2	1.2	1.3	1.2	1.2	3.3	3.4	0.3
New comm'ts, banks	11.9	13.5	7.6	24.3	10.5	-12.0	13.4	N/A
Undrawn comm'ts, banks	21.7	24.2	25.8	28.1	16.1	-10.3	34.6	N/A
Implied repay'ts, banks	7.6	9.3	9.2	10.9	9.3	-18.6	-18.7	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 <sup>^</sup>		
	Jun 17 %	May 17 %	Apr 17 %	Mar 17 %	Jun 16 %	1 month bps	1 year bps	
Deposits all	2.13	2.15	2.17	2.20	2.25	-1.48	-11.56	100
Demand	0.38	0.41	0.41	0.44	0.51	-3.16	-12.83	42
Savings	2.35	2.38	2.36	2.37	2.53	-2.40	-17.58	17
Term	3.82	3.81	3.80	3.80	3.97	0.83	-15.13	41
Loans all	7.83	7.83	7.86	7.85	7.88	0.40	-4.46	100
Housing	8.05	8.03	8.02	8.03	8.09	1.42	-4.16	44.1
Other personal	11.18	11.14	11.18	11.10	10.95	4.78	23.82	14.7
Business*	6.85	6.82	6.85	6.83	6.97	2.39	-11.98	29.7
Other	6.55	6.44	6.61	6.25	6.25	10.84	30.26	11.5

\*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