Banking Sector Developments

November 2018

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	Nov-18	Oct-18	Sep-18	Aug-18
Deposit rate (%)*	1.979	1.978	1.980	1.980
Lending rate (%)*	8.094	8.121	8.077	8.076
Total Deposits *(T$m)*	613.6	621.7	615.3	626.2
Total lending *(T$m)*	469.9	466.3	459.0	457.5
New commitments *(T$m)*	22.4	13.5	11.1	12.2
Broad Money *(T$m)*	592.3	595.9	595.2	606.0

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

New household loans enhanced credit growth

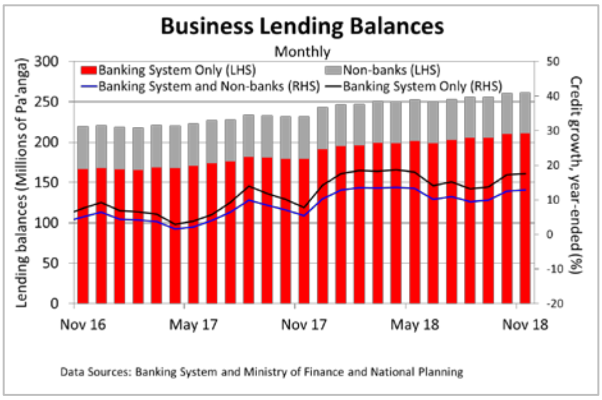
Lending

Over the month and year to November 2018, the total banks' lending grew to $469.9 million by 0.8% ($3.4 million) and 11.8% ($49.6 million) respectively due to more loans issued to both businesses and households.

Lending extended by non-bank financial institutions (NBFI) increased by $0.5 million (0.3%) and over the year by $16.1 million (10.7%) to $166.6 million. NBFI focussed only on individuals where majority of the lending were for small personal loans and home improvement loans.

Business lending

The growth in total banks' lending to businesses during the month was mainly to the tourism, distribution and manufacturing sectors.



The annual growth in business lending revealed high demand for loans, supporting various economic activities from both the public and the private sectors particularly the wholesale & retail, tourism and agricultural sectors. The increased wholesale & retail loans coincided with a 12.4% increase in imports of wholesale and retail goods and an 8.7% rise in container registrations.

Household lending

Lending to households marked a new record high of $258.1 million. The monthly rise was due mainly to the increase in housing and other personal loans whereas rising housing loans solely drove the annual rise. The increase in loans extended to the construction sector also supported the annual trend and indicates that households continue to prioritise housing projects.

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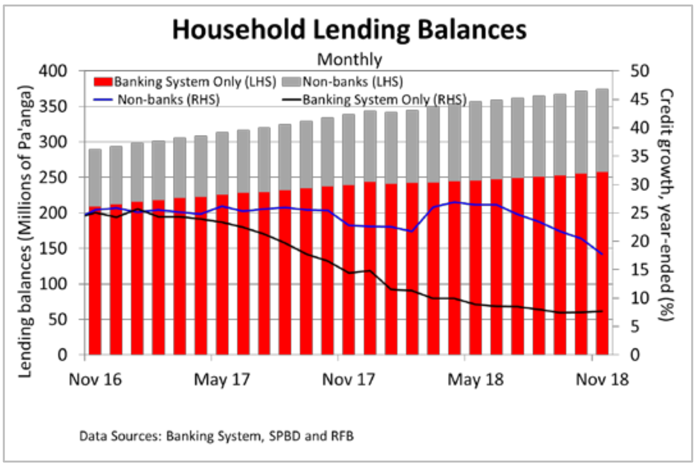
Kasanita Kisina, Economist | k.kisina@reservebank.to | +676 24057

Lending from non-bank financial institutions to households rose over the year by $19.7 million (20.5%) reflecting higher personal loans disbursed throughout the year.



Other lending

Other loans from banks increased over June due to a slight rise in lending to the non-profit institutions sector. However, over the year, other loans from banks declined due to a decrease in the same aforementioned sector.

Non-performing loans

The bank's total non-performing loan continued to improve due to a decline in both businesses and individuals' non-performing loans. Additionally, both individuals housing and personal non-performing loans improved, as well as all business sectors except the professional & other services, manufacturing, and other sectors. Furthermore, the share of non-performing loans to total loans continued to decline to 3.8% this month, compared to 3.9% last month and 4.0% last year.

Deposits

The total bank deposits declined over the month to its lowest since July 2018. All three categories of deposits decreased with demand deposits falling the most followed by savings and time deposit. Lower demand deposits from public enterprises and private sectors as well as the fall in individual savings deposits explained the fall in total bank deposits. Furthermore, the decline in both the private sector and individuals' time deposits explained the decrease in time deposits.

Table 1: Deposit Balances

	Monthly				Annual		
	Nov-18	**Oct-18**	Change	**% Growth**	**Nov-17**	Change	**% Growth**
Total Deposits ($ in million)	613.6	621.7	-8.1	-1.3	570.0	43.7	7.7
Demand Deposits	271.3	274.7	-3.4	-1.3	247.5	23.8	9.6
Saving Deposits	99.4	101.8	-2.4	-2.4	86.3	13.1	15.1
Time Deposits	243.0	245.2	-2.2	-0.9	236.2	6.8	2.9

Sources: Banking Systems; NRBT

Over the year, the total banks deposit continued to increase due to higher deposits from the public enterprises, retirement funds, government, individuals and the non-profit organisations. This corresponded to higher receipts of budget support funds, the improvement in Government revenue collection process and the increase in remittance receipts during the year.

Interest rate spread

The weighted average interest rate spread slightly narrowed in November 2018, on the lower weighted average lending rates offsetting a slight increase in the weighted average deposit rates. The growth of loans and the decline in total deposits also contributed to the monthly decline in the weighted average interest rates. The lower weighted average lending rate was due mainly to lower individual housing loan rates. Business lending rates also supported the trend mainly for the

Kasanita Kisina, Economist | k.kisina@reservebank.to | +676 24057

transport, distribution, tourism and professional & other services sectors. The slight increase in the weighted average deposits rates was solely driven by an increase in the demand deposit rates.

Table 2: Interest Rates

	Weighted average of all banks					
	Level as at			Change over the last^		
	Nov-18	Oct-18	Nov-17	1 month	1 year	Share of loans/deposits
	%	%	%	bps	bps	%
Interest Rate Spread	6.115	6.143	5.875	-2.86	23.93	
Deposits all	1.98	1.98	2.10	0.12	-12.42	100
Demand	0.30	0.29	0.42	1.11	-12.28	44
Savings	2.52	2.53	2.40	-1.86	11.83	17
Term	3.60	3.62	3.82	-1.71	-21.93	39
Loans all	8.09	8.12	7.98	-2.73	11.51	100
Housing	8.20	8.27	8.17	-6.60	3.31	43
Other personal	11.42	11.40	11.13	1.44	28.58	13
Business	7.79	7.80	6.98	-0.84	81.09	27
Other	6.25	6.28	6.57	-3.36	-31.66	17

*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: Banking Systems; NRBT

In year ended terms, the weighted average interest rate spread widened as a result of a more significant decrease in the weighted average deposit rates coupled with the increase in the weighted average lending rates. Deposit rates continued to trend lower due to the excess liquidity in the banking system. The weighted average deposit rates on demand and time deposit rates for 2 months and over 5 years, declined. On the other hand, the weighted average lending rates increased for both business and household loans. Higher household lending rates were applied for housing and other personal loans whilst higher business lending rates were mainly to the manufacturing, agriculture and the professional & other services sectors. Despite the higher lending rates, loans continued to grow over the year, indicating the public's high demand to access loans regardless of the cost to borrow.

Broad money

In November, the decline in net domestic assets outweighed the increase in net foreign assets, and resulted in a decrease in broad money. Net credit to Government drove the net domestic assets lower on the increase in Government deposits from the receipts of budget support and grant funds from development partners. At the same time, the receipt of budget support and grant funds pushed the foreign reserves higher and increased the net foreign assets. Over the year, broad money continued to rise due to the increase in foreign reserves, supported by higher budgetary support, grants, and cyclone relief funds received from development partners and also higher remittance receipts for the year.

Table 3: Consolidated Balance Sheet of Depository Corporations

	Level as at			Change over the last	
	Nov-18	Oct-18	Nov-17	1 month	1 year
	$TOPm	$TOPm	$TOPm	% growth	% growth
Broad money liabilities	**592.3**	**595.8**	**553.5**	**-0.6**	**7.0**
Currency in circulation	66.4	63.2	58.0	5.0	14.4
Demand deposits	211.5	213.7	192.1	-1.0	10.1
Savings and term deposits*	314.4	318.9	303.4	-1.4	3.6
equals					
Net foreign assets	**489.7**	**474.6**	**444.2**	**3.2**	**10.2**
plus					
Net domestic assets	**103.0**	**121.6**	**109.6**	**-15.3**	**-6.0**
Gross bank lending**	475.6	471.6	424.5	0.9	12.0
Public enterprises	56.1	56.2	45.1	-0.1	24.5
Private Sector	416.9	412.7	377.3	1.0	10.5
Other financial corporations	2.6	2.6	2.1	-1.9	23.1
Other***	-372.6	-350.0	-314.9	6.5	18.3

* 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

Liquidity

Liquidity (reserve money)[1] in the banking system fell over the month by $7.7 million (2.4%) to $317.3 million. This resulted from a fall in currency in circulation by $1.2 million and a $7.5 million decline in the commercial banks deposits (ESA) balances at the Reserve Bank which offset the rise in statutory reserve deposits. The banks' total loans to deposit ratio rose further to 74.9% from 73.3% last month, reflecting the decrease in total deposits offsetting the growth of loans. However, this is still below the NRBT benchmark of 80%, indicating that there is still room for prudent growth in lending.

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

Economics Department | National Reserve Bank of Tonga
Kasanita Kisina, Economist | k.kisina@reservebank.to | +676 24057

Outlook

The Reserve Bank continues to forecast a strong credit growth for the current year of 2018/19, given the continuous positive credit growth reported by the commercial banks. This is also supported by the improved economic conditions, recent business performances and confidence, and annual (one-off) events that are expected to take place throughout the current financial year. Furthermore, the level of competition between banks in terms of housing loans coupled with the accommodative monetary policy is expected to utilize the excess liquidity in the future to encourage lending and further support economic activity.

The Reserve Bank will continue to closely monitor the growth across all monetary indicators particularly credit growth and broad money movements to ensure financial and macroeconomic stability is maintained and that no overheating will occur in the economy.

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