

Banking Sector Developments April 2016

Release date: 11 July 2016

	Apr 16	Mar 16	Feb 16	Jan 16
Deposit rate (%)*	2.26	2.23	2.19	2.19
Lending rate (%)*	7.97	7.94	8.03	8.04
Total Deposits (T\$m)	444.0	445.3	451.1	444.7
Total lending (T\$m) ^	344.0	338.7	331.9	328.9
New commitments (T\$m)	10.6	15.7	12.9	10.8
Broad Money (T\$m)	448.3	451.6	456.5	447.5

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

^This series shows total lending from the banking sector only.

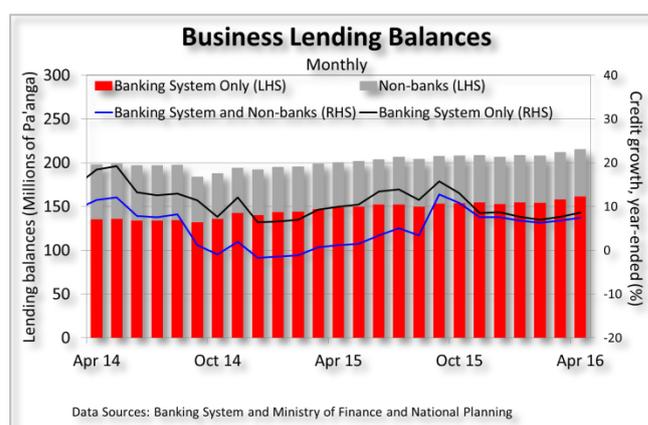
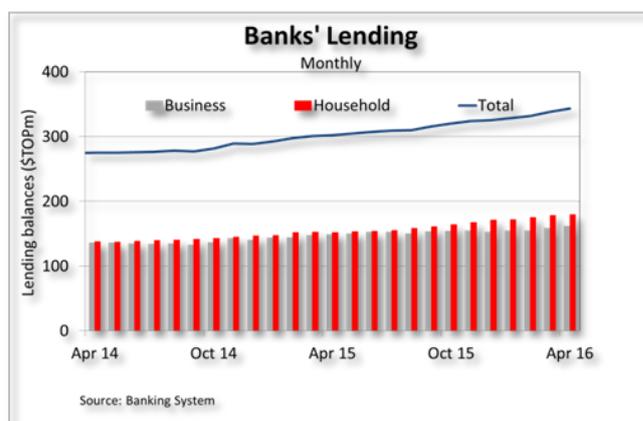
Broad money growing faster than expected

Lending

Total bank lending reached another record high of \$344.0 million in April, an increase of \$5.3 million (1.6%) from the previous month and a \$42.0 million (13.9%) increase over the year. Both household and business loans continued to rise. Business loans were the main driver for the monthly increase whilst lending to households drove the annual increase in total bank lending. Lending activities in the non-bank financial institutions also increased over the year by \$15.5 million (14.6%) to \$122.0 million, reflecting rises in both household and business lending.

Business lending

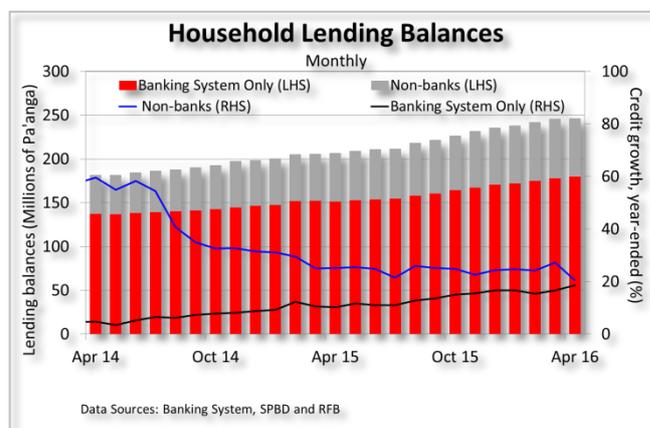
Banks' lending to businesses increased over the month by \$3.5 million (2.2%) to \$162.9 million. Increased activities in the trade, agricultural, tourism and construction sectors fuelled the rise in business loans. This was supported by low interest rates on agricultural, trade and tourism loans from the Government Development Loans managed by the Tonga Development Bank.



Annually, total bank lending to businesses rose by \$13.9 million (9.3%), due to increases in lending mainly to the manufacturing, tourism, trade, construction and agricultural sectors. However, including government on-lent loans, annual business lending rose by \$16.2 million (8.1 %).

Household lending

The ongoing competition among banks has continued to boost growth in household lending over the month to a new record high of \$179.8 million, rising by \$1.8 million (1.0%). Both housing and vehicle loans increased which offset a slight decline in other personal loans. The growth in housing loans is also supported by a 3.6 basis points decline in the weighted average lending rate for housing loans over the month. Meanwhile, the increase in vehicle loans corresponds with a 57 increase in the number of new registered vehicles, coupled with a \$0.38 million (42.8%) rise in import payments for vehicles during the month. Over the year, banks' lending to households rose by \$28.2 million (18.6%), underpinned mainly by rises in housing and other personal loans. Lending from non-bank financial institutions to households also increased over the year by \$13.2 million (24.0%), due to rises in other personal loans.



Other lending

Other loans from banks increased over the month by \$0.02 million (1.4%) to \$1.2 million but fell over the year by \$0.1 million (7.1%), due mainly to lending activities within the non-profit institutions sector.

Non-performing loans

Banks' total non-performing loans continued to fall over the month by \$1.5 million (6.0%) to \$24.0 million, which represented 7.0% of total loans. Main drivers were business and household non-performing loans with businesses declining the fastest by \$0.5 million (4.2%). The decline in non-performing business loans was driven mainly by a fall in non-performing loans to manufacturing and utilities sector whilst the lower non-performing household loans reflected the drop in non-performing housing loans. Over the year, total non-performing loans fell by \$6.9 million (22.5%), resulting mainly from a decline in non-performing business loans mainly from the tourism and mining & quarrying sectors.

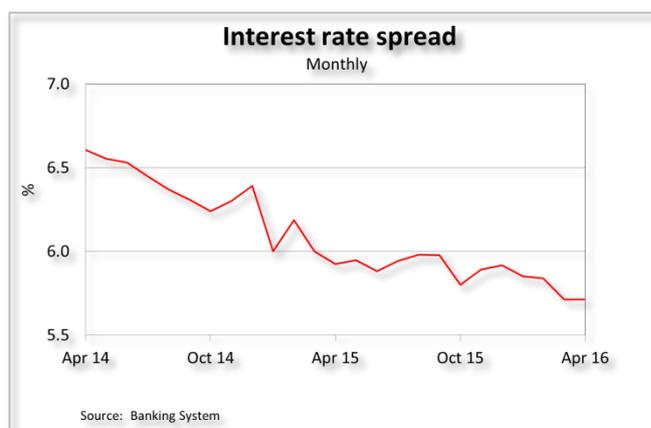
Deposits

Total bank deposits continued to fall over the month by \$1.3 million (0.3%) to \$440.0 million. This was driven by a \$7.4 million (3.8%) decline in demand deposits offsetting increases in savings and term deposits. The lower demand deposits resulted from a \$3.1 million (3.4%) decrease in the demand deposits of businesses. However, total deposits rose over the year by \$66 million (17.5%), due to

increases in all categories, with demand deposits increasing the most. This was due mainly to rises in businesses' demand deposits over the year.

Interest rate spread

Weighted average lending rate rose over the month by 2.3 basis points to 7.97%, after 3 months of declining. The weighted average deposit rate continued to increase by 2.4 basis points to 2.26%. An increase in business lending rates by 12.5 basis points drove the higher weighted average lending rate, whilst a \$1.8 million decline in total deposits caused the increase in weighted average deposit rate. As a result, the weighted average interest rate spread narrowed slightly by 0.04 basis points to 5.71% in April 2016.



Over the year, both weighted average deposit and lending rates fell with the lending rate decreasing the fastest by 30.1 basis points, resulting in the weighted interest rate spread narrowing by 21.2 basis points.

Broad money

Broad money fell over the month by \$3.3 million (0.7%) to \$448.3 million. This resulted from a \$8.8 million (6.5%) decline in net domestic assets, which offset the \$5.5 million (1.7%) increase in net foreign assets. The increase in government deposits drove the lower net domestic assets whilst net foreign assets rose on the back of higher foreign reserves. Over the year, broad money rose by \$63.4 million (16.5%) underpinned by rises in both net foreign assets and net domestic assets.

Liquidity

The banking system liquidity also referred to as the reserve money recorded a decline of \$7.0 million (2.8%) to \$247.1 million over the month. This was mainly attributed to a \$5.6 million (9.0%) drop in currency in circulation, reflecting the sale of government bonds at the end of April 2016. However, banking system liquidity rose over the year by \$29.3 million (13.8%), underpinned mainly by a \$21.6 million (15.2%) increase in banks' deposits to NRBT vault.

Outlook

The NRBT is forecasting credit growth to continue and a growth of about 14.4% to be recorded at the end of the 2015/16 and 11% in 2016/17. This is in line with the IMF Article IV's projection of 15.5% credit growth for 2015/16 and 10.8% for 2016/17. The banks' prospects for credit growth remain positive and the NRBT's projection is supported by improving economic conditions and the annual and one-off events taking place during the next few months.

The annual growth in broad money exceeded the NRBT (13%) and the IMF's (12%) projection for June 2016 as it now records a growth of 16.5% (\$63.4 million) and is expected to continue to rise supported by the anticipated rise in lending and foreign reserves.

The NRBT Board of Directors at its meeting in April approved a minimum range in the banks' loan to deposit ratio of 80% - 90% which is to be effective from the 1st July 2016 and to be achieved progressively over 18 months. This measure is to encourage the utilization of the excess liquidity in the banking system to increase lending in order to support economic growth. At the same time, the NRBT is exploring alternative monetary policy and macro prudential tools to strengthen the policy transmission mechanism at the same time ensure financial stability is maintained. The NRBT will closely monitor the country's economic and fiscal developments and financial conditions to maintain internal and external monetary stability, and promote a sound and efficient financial system to support macroeconomic stability and economic growth.

Table 1:

Consolidated Balance Sheet of Depository Corporations							
	Level as at				Change over the last:		
	Apr-16 \$TOPm	Mar-16 \$TOPm	Feb-16 \$TOPm	Jan-16 \$TOPm	Apr-15 \$TOPm	1 month % growth	1 year % growth
Broad money liabilities	448.3	451.6	456.5	447.5	385.0	-0.7	16.5
Currency in circulation	44.9	48.4	47.6	47.8	42.9	-7.4	4.6
Demand deposits	169.3	174.8	182.3	173.9	137.4	-3.2	23.2
Savings and term deposits*	234.2	228.4	226.6	225.8	204.7	2.5	14.4
<i>equals</i>							
Net foreign assets	321.8	316.3	330.3	324.9	265.7	1.7	21.1
<i>plus</i>							
Net domestic assets	126.8	135.6	126.5	122.9	119.6	-6.5	6.0
Gross bank lending**	352.9	347.5	340.5	337.6	310.3	1.6	13.7
Public enterprises	45.8	44.8	44.7	45.1	47.3	2.4	-3.2
Private Sector	291.3	286.5	279.4	275.8	244.7	1.7	19.1
Other financial corporation	15.8	16.2	16.4	16.6	18.3	-2.3	-13.8
Other***	-226.1	-211.8	-214.0	-214.7	-190.7	6.7	18.6

* 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								
	Level as at				Change over the			Shares of totals %
	Apr 16 TOPm	Mar 16 TOPm	Feb 16 TOPm	Jan 16 TOPm	Apr 15 TOPm	1 month %	1 year %	
Lending, banks	344.0	338.7	331.9	328.9	302.0	1.6	13.9	100.0
Household	179.8	178.0	175.3	172.0	151.7	1.0	18.6	52.3
Business*	162.9	159.4	155.4	155.5	149.0	2.2	9.3	47.4
Other	1.2	1.2	1.2	1.3	1.3	1.4	-7.1	0.4
Lending, banks and other	466.0	459.9	451.9	448.3	408.4	1.3	14.1	100.0
Household	248.1	245.6	241.6	237.8	206.7	1.0	20.0	53.2
Business	216.6	213.1	209.1	209.3	200.4	1.7	8.1	46.5
Other	1.2	1.2	1.2	1.3	1.3	1.4	-7.1	0.4
New comm'ts, banks	10.6	15.7	12.9	10.8	7.6	-32.2	39.7	N/A
Undrawn comm'ts, banks	20.3	22.1	21.5	21.1	17.1	-8.2	18.4	N/A
Implied repay'ts, banks	7.1	8.3	9.4	6.7	8.7	-14.4	-18.3	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								
Weighted average of all banks								
	Level as at				Apr 15 %	Change over the last [^] :		Share of loans/deposits %
	Apr 16 %	Mar 16 %	Feb 16 %	Jan 16 %		1 month bps	1 year bps	
Deposits all	2.26	2.23	2.19	2.19	2.34	2.38	-8.83	100
Demand	0.44	0.43	0.45	0.47	0.51	0.94	-7.05	40
Savings	2.44	2.45	2.46	2.34	2.45	-0.75	-1.06	17
Term	3.89	3.95	3.89	3.86	3.93	-6.57	-4.48	43
Loans all	7.97	7.94	8.03	8.04	8.27	2.34	-30.06	100
Housing	8.09	8.13	8.18	8.25	8.50	-3.56	-40.41	37.7
Other personal	10.91	10.95	11.00	11.06	11.01	-3.25	-9.51	17.0
Business*	7.20	7.07	7.17	7.13	7.48	12.47	-28.29	26.8
Other	6.25	6.25	6.25	6.38	6.31	0.00	-6.11	18.5

*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