

# Banking Sector Developments July 2018

Release date: 27 December 2018

	Jul-18	Jun-18	May-18	Apr-18
Deposit rate (%)*	2.019	2.026	2.062	2.069
Lending rate (%)*	8.062	7.944	7.904	7.879
Total Deposits (T\$m)	624.7	596.2	581.9	571.4
Total lending (T\$m)	452.9	447.3	448.2	444.8
New commitments (T\$m)	14.7	19.8	10.7	18.7
Broad Money (T\$m)	606.1	575.5	561.5	547.1

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

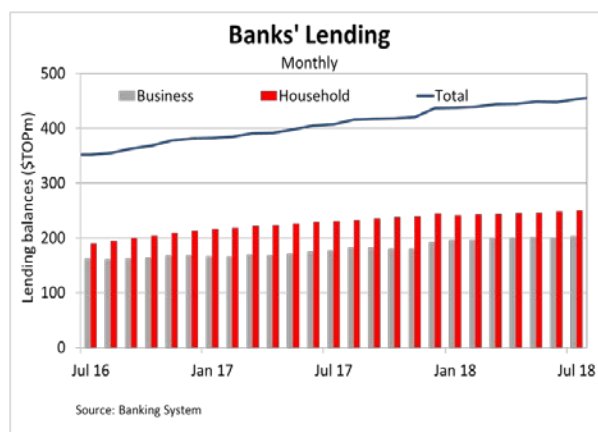
## Deposits record highest and lending improves

Higher deposits by government and non-financial corporations pushed deposits higher. Banks' lending also rose due to the increase in loans to businesses.

### Lending

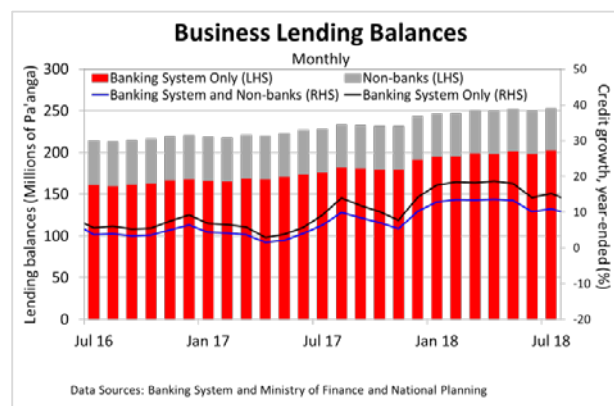
Over the month of July 2018, the total banks lending grew by 1.2% to \$452.9 million, after recording a slight decline last month. Lending to both businesses and households increased over the month with business lending contributing the most. Similarly, the continuous increase in lending to both businesses and households over the year led the annual rise in total loans by \$45.8 million.

However, loans offered by non-bank financial institutions declined by \$0.7 million (0.4%) over the month due mainly to a decline in both Government on-lent loans and loans offered by the Retirement Fund Board (RFB) to its members. Over the year, lending by non-bank financial institutions increased by \$19.5 million (13.7%) to \$161.3 million reflecting higher home improvement loans, increased personal loans, and household loans. This more than offset a fall in government on-lent loans.



### Business Lending

Total banks' lending to businesses grew by \$3.9 million (2.0%) over July 2018 to \$202.7 million. Majority of the increase was directed toward public enterprises and distribution and professional & other services sectors. This increased loans for the distribution sector coincided with the rise in both container registrations and import payments for wholesale & retail goods over the month.



Annually, lending to businesses grew by \$26.7 million (15.1%), again attributed mainly to more lending to wholesale & retail sector which also in line with a 10.5% rise in container registrations and a 19.2% increase in import payments for wholesale & retail goods. Higher lending to tourism, transport and most of the other sectors supported the trend indicating high demand for loans by these sectors to support their various economic activities. Lending to manufacturing, agricultural and the entertainment & catering sectors, however, fell over the year.

### Household lending

Lending to households rose by \$1.7 million (0.7%) over the month and by \$19.5 million (8.5%) annually to a new high record of \$249.4 million. Housing loans continued to be the major driver both over the month and annually indicating the individuals rebuilding following Tropical Cyclone (TC) Cyclone Gita. Personal loans supported the monthly trend while vehicles loans declined both on a monthly and annual basis indicating that households are focusing more on housing projects. However, it is evident that there has been a slowdown in household loans since June 2017, which reflected the households' ability and capacity to access loans.

Lending from non-bank financial institutions to households rose over the year by \$21.2 million (23.6%) reflecting higher personal loans disbursed throughout the year.

### Other lending

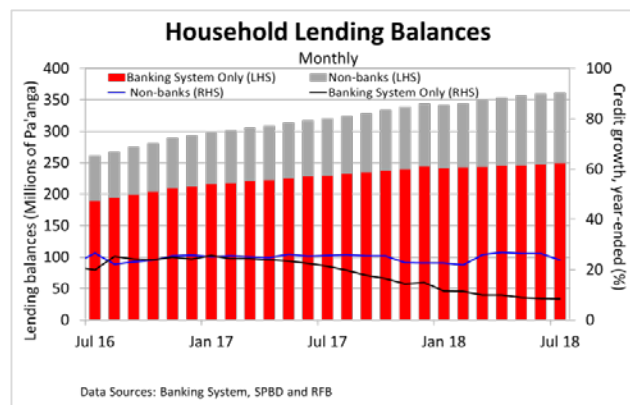
Over the month and year, other loans from banks declined due to a decline in lending to non-profit institutions sector.

### Non-performing loans

Over July 2018, the banks' total non-performing loans slightly increased to \$18.9 million. This stemmed largely from increased non-performing loans for individuals, housing and businesses, particularly within the professional and other services sector. The non-performing loans accounted for 4.2% of total loans in July 2018, compared to 4.0% last month and 4.3% last year.

### Deposits

Over July 2018, the total bank deposits recorded its highest point ever of \$624.7 million, due mainly to higher demand deposits followed by a slight increase in savings and time deposits. Demand and saving deposits were mainly from public enterprises and private businesses while time deposits were mainly from school's ex-students.



**Table 1: Lending Balances (including new commitments)**

	Level as at		Change over the		Shares of totals %	
	Jul 18	Jun 18	Jul 17	1 month		1 year
	TOPm	TOPm	TOPm	%		%
Lending, banks	452.9	447.3	407.1	1.2	11.3	100.0
Household	249.4	247.7	229.9	0.7	8.5	55.1
Business*	202.7	198.8	176.0	2.0	15.1	44.8
Other	0.8	0.9	1.2	-4.1	-30.9	0.2
Lending, banks and other	614.2	609.4	548.9	0.8	11.9	100.0
Household	360.5	359.1	319.8	0.4	12.7	58.7
Business	252.9	249.5	228.0	1.4	10.9	41.2
Other	0.8	0.9	1.2	-4.1	-30.9	0.2
New comm'ts, banks	14.7	19.8	10.7	-25.7	37.5	N/A
Undrawn comm'ts, banks	24.9	24.9	21.4	0.0	16.4	N/A
Implied repay'ts, banks	34.0	20.7	8.5	64.8	301.1	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 2: Deposit Balances**

	Monthly				Annual		
	Jul-18	Jun-18	Change	% Growth	Jul-17	Change	% Growth
Total Deposits (\$ in million)	624.7	596.2	28.5	4.8	533.8	90.9	17.0
Demand Deposits	271.7	244.5	27.2	11.1	235.4	36.2	15.4
Saving Deposits	95.9	95.0	0.9	0.9	86.5	9.4	10.9
Time Deposits	257.2	256.7	0.5	0.2	211.90	45.3	21.4

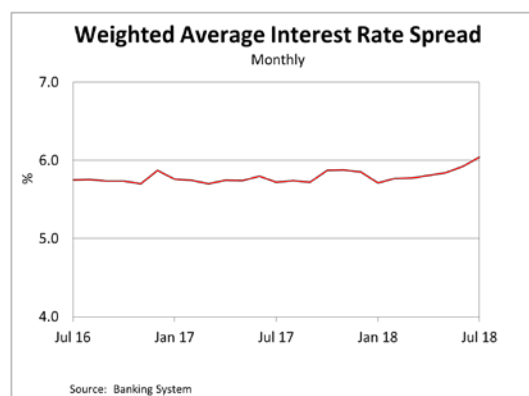
Source: Banking System, National Reserve Bank of Tonga

Over the year, the time deposits by the retirement funds and the private sector continued to be the main drivers for the increase in total bank deposits. This was supported also by higher government demand deposits as well as schools' ex-students and churches saving deposits. Receipt of Government's budget support funds and improved government revenue collection throughout the year contributed to the overall rise in deposits.

### Interest rate spread

Over the month and year to July 2018, the weighted average interest rate spread widened further to 6.043% due to movements in volume. This resulted from the increase in weighted average lending rate and a decline in the weighted average deposit rate. Higher lending interest rates for agricultural and fisheries sector loans drove the increase in the weighted average lending rate.

On the other hand, the weighted average deposit rates fell mainly on the significant increase in the volume of deposits although the term and saving deposit interest rates increased over July.

**Table 3: Interest Rates**

Weighted average of all banks						
	Level as at			Change over the last <sup>a</sup>		Share of loans/deposits %
	Jul-18 %	Jun-18 %	Jul-17 %	1 month bps	1 year bps	
Interest Rate Spread	6.043	5.918	5.719	12.52	-11.98	
Deposits all	2.12	2.02	2.13	10.61	-10.98	100
Demand	0.49	0.31	0.39	17.47	-7.79	43
Savings	2.33	2.43	2.44	-10.17	-1.37	16
Term	3.54	3.67	3.82	-12.37	-15.50	41
Loans all	7.84	8.06	7.85	-22.45	21.41	100
Housing	8.08	8.17	8.06	-9.01	11.43	43
Other personal	11.35	11.40	11.19	-4.70	20.88	13
Business	7.22	7.72	6.86	-49.85	85.71	27
Other	6.25	6.25	6.55	0.00	-30.08	17

<sup>a</sup>Method for calculating these series was updated in August 2014, resulting in revision to the full history of data

<sup>a</sup>Due to rounding errors some data may not aggregate precisely

Sources: Banking Systems; NRBT

Higher lending volume over the year was accompanied by higher lending rates mainly for loans to mining, agriculture and professional & other services sectors. The decline in weighted average deposit rate was driven by lower deposit rates offered by the commercial banks for all deposits. Term deposit rates decreased the most followed by lower demand and saving deposit rates. Despite the rise in lending interest rates and the decline in the deposit rates, both loans and deposits continued to grow. This indicates the public's high demand to access loans regardless of the cost to borrow.

Furthermore, the lower deposit rates reflect the excess liquidity in the banking system.

### Broad money

Government deposits declined over the month due to the implementation of donor-funded projects which led to an increase in net credit to the government. Subsequently, net domestic assets increased. Foreign reserves also increased over the month contributing to higher net foreign assets. Therefore, broad money increased in July 2018. Over the year, broad money rose significantly mainly

as a result of an increase in the foreign reserves. This is attributed to receipts of budgetary support, grants, and cyclone relief funds from development partners and higher remittances during the year.

**Table 4: Consolidated Balance Sheet of Depository Corporations**

Table 3: Consolidated Balance Sheet of Depository Corporations					
	Level as at			Change over the last	
	Jul-18 \$TOPm	Jun-18 \$TOPm	Jul-17 \$TOPm	1 month % growth	1 year % growth
<b>Broad money liabilities</b>	<b>606.1</b>	<b>575.5</b>	<b>533.2</b>	<b>5.3</b>	<b>13.7</b>
Currency in circulation	67.5	70.2	59.7	-3.8	13.2
Demand deposits	212.9	182.2	198.1	16.9	7.5
Savings and term deposits*	325.6	323.0	275.5	0.8	18.2
<i>equals</i>					
<b>Net foreign assets</b>	<b>497.5</b>	<b>485.3</b>	<b>426.5</b>	<b>2.5</b>	<b>16.7</b>
<i>plus</i>					
<b>Net domestic assets</b>	<b>108.6</b>	<b>90.2</b>	<b>106.7</b>	<b>20.4</b>	<b>1.7</b>
Gross bank lending**	456.0	450.1	418.3	1.3	9.0
Public enterprises	54.8	52.3	43.0	4.8	27.5
Private Sector	398.6	395.5	374.0	0.8	6.6
Other financial corporations	2.6	2.4	1.4	7.2	87.3
Other***	-347.4	-359.9	-311.6	-3.5	11.5

\* 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)<sup>1</sup> in the banking system increased for the third consecutive months due to an increase in deposits by the commercial banks to the Reserve Bank's vault. Higher deposits outweighed the growth in lending over the month resulted in a decrease in the loans to deposit ratio from 73.3% last month to 70.9% in July. This continued to remain below the 80% minimum loan to deposit ratio which indicates excess liquidity in the banking system and that there is capacity for further lending by the banks.

On year ended terms, the required reserves (statutory required deposits) increased the most reflecting the NRBT policy decision to increase the statutory

required deposit requirement ratio from 5% to 10% effective in July 2017. Banks' deposits to Reserve Bank's vault also increased. The higher level of currency in circulation coincided with the economic activity and events and celebrations during the year.

## Outlook

The Reserve Bank forecasts a credit growth of 14.0% for the current year of 2018/19. The commercial banks' prospects for credit growth have reportedly been positive. The excess liquidity in the banking system remains, indicating there is capacity for further lending by banks. Improved economic conditions, recent business performances and confidence, and annual events that are expected to take place throughout the current financial year are projected to further support the Reserve Bank's forecast. Furthermore, cyclone packages (post TC Gita) extended by the banks are expected to help the public with rebuilding and further expected to contribute to the credit growth. 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 future to encourage lending and 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 are maintained and that no overheating will occur in the economy.

<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.