

Banking Sector Developments May 2019

Release date: 22 October 2019

	May-19	Apr-19	Mar-19	Feb-19
Deposit rate (%)*	1.956	1.954	1.934	1.902
Lending rate (%)*	8.044	8.111	8.153	8.287
Total Deposits (T\$m)	605.1	611.0	606.6	622.4
Total lending (T\$m)	487.3	484.3	484.9	483.7
New commitments (T\$m)	13.3	8.6	11.2	13.9
Broad Money (T\$m)	584.8	585.9	583.5	589.0

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

Credit rebounds to a new high level

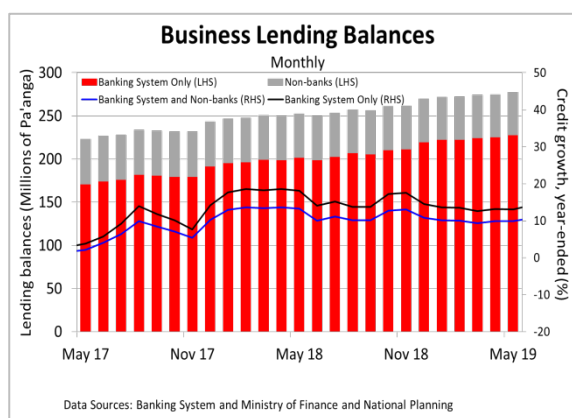
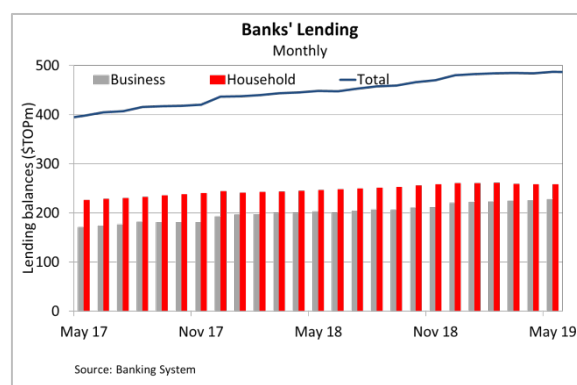
Lending

The total banks' lending grew to a new high level of \$487.3 million over the month and year to May 2019. This was contributed by both higher business and household loans.

The rise in loans offered to women by the South Pacific Business Development Microfinance Limited Tonga drove the increase in the non-bank financial institutions loans over the month and year to May 2019, by 8.2% and 16.6% respectively, to \$188.1 million. Government on-lent loans continued to decline in May 2019 both over the month and year by 0.2% and 3.0%, respectively, due to loan settlements.

Business lending

Business loans expanded over the month and year by 1.2% and 13.1%, respectively, to \$227.9 million. Higher lending to the distribution, agriculture, professional & other services, and manufacturing sectors supported the monthly rise, whereas increased lending to public enterprises, transport, professional & other services, distribution, tourism and agricultural sectors contributed to the annual rise. The increase in business lending reflects stronger business confidence and investment.



Household lending

Household loans increased over the month and year to May 2019 by 0.1% and 5.4% respectively to \$259.1 million. These rises over the month and year was a result of continuous housing and renovation works by private households. Other personal loans also rose further, supporting the annual rise.

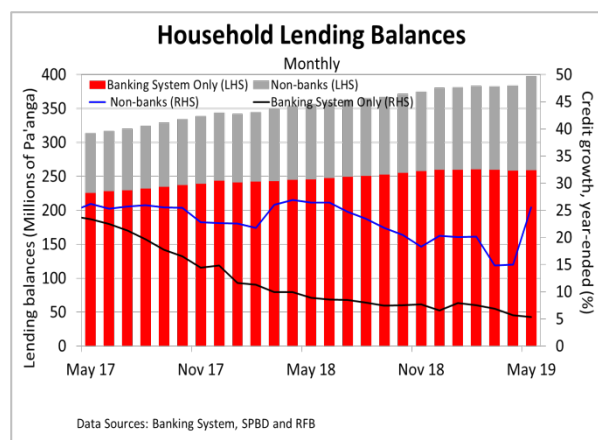
Other lending

Banks other lending increased in May 2019 by 9.8% due to more loans to non-profit institutions serving households.

Non-performing loans

	Level as at		Change over the last:			Shares of totals %
	May 19	Apr 19	May 18	1 month	1 year	
	TOPm	TOPm	TOPm	%	%	
Lending, banks	487.3	484.3	448.2	0.6	8.7	100.0
Household	259.1	258.9	245.9	0.1	5.4	53.2
Business*	227.9	225.1	201.5	1.2	13.1	46.8
Other	0.3	0.3	0.9	9.8	-64.5	0.1
Lending, banks and other	675.4	658.2	609.6	2.6	10.8	100.0
Household	397.8	383.3	356.4	3.8	11.6	58.9
Business	277.3	274.6	252.4	1.0	9.9	41.1
Other	0.3	0.3	0.9	9.8	-64.5	0.1
New comm'ts, banks	13.3	8.6	10.7	54.5	24.2	N/A
Undrawn comm'ts, banks	22.7	18.5	24.9	22.6	-8.9	N/A
Implied repay'ts, banks	-4.2	6.3	7.3	-166.3	-157.4	N/A

* Method for calculating this series was updated in August 2014, resulting in revisions to the full history of data
Sources: SPBD; RFB; MOFNP; Banking system



The non-performing loans grew over May 2019, due to more non-performing loans from the fisheries, education, vehicles/transport, and entertainment & catering sectors. Despite this increase, the share of non-performing loans in total loans remained the same over the month at 3.8%, however, it declined from 3.9% over the year.

Deposits

	Monthly				Annual		
	May-19	Apr-19	Change	% Growth	May-18	Change	% Growth
	Total Deposits (\$ in million)	605.1	611.0	-5.8	-1.0	581.9	23.2
Demand Deposits	264.0	275.1	-11.1	-4.0	235.8	28.2	12.0
Saving Deposits	106.0	99.1	6.8	6.9	91.5	14.5	15.9
Time Deposits	235.2	236.7	-1.6	-0.7	254.7	-19.5	-7.6

Sources: Banking Systems; NRBT

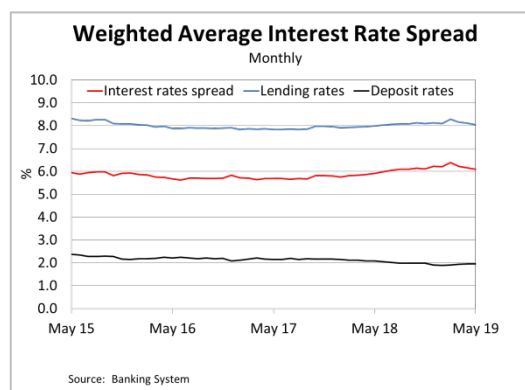
In May 2019, the banks' total deposits fell by \$5.8 million (1.0%) to \$605.1 million. This resulted from lower demand and time deposits, offsetting the rise in saving deposits. The declining demand deposits stemmed mostly from lower deposits by statutory non-bank financial corporations, private businesses and churches. These movements were underpinned by capital investments, and funds transfers to overseas headquarters. The lower time deposits were mainly matured deposits from individuals and statutory non-bank financial corporations. The lower time deposits rates also

supported the monthly decline. Saving deposits, on the other hand, increased mainly on more savings from individuals.

The bank's total deposit, however, continued to increase over the year by \$23.2 million (4.0%), as a result of the continued rise in both saving and demand deposits mainly on more deposits from individuals, churches, and state-owned enterprises. This outweighed the decline in time deposits mainly on lower deposits from individuals and churches. Again, the conversion of most time deposits to demand and saving deposits supported the movement as well as the movements in their respective interest rates.

Interest rate spread

The weighted average interest rate spread narrowed again for the third month in a row by 6.1 basis point to 6.09% in May 2019. This corresponds to shrinking weighted average lending rates compared to expanding weighted average deposit rates. Lower lending rates were offered to the manufacturing, construction and agricultural sectors as well as households' housing and other personal loan rates. Weighted average deposit rates, on the other hand, continued to edge higher, despite the decline in all the three categories of deposits' rates.



	Weighted average of all banks					
	Level as at			Change over the last ^a		Share of loans/deposits %
	May-19 %	Apr-19 %	May-18 %	1 month bps	1 year bps	
Interest Rate Spread	6.09	6.16	5.85	-6.93	24.26	
Deposits all	1.96	1.95	2.06	0.24	-10.48	100
Demand	0.37	0.43	0.39	-6.07	-1.39	43
Savings	2.54	2.58	2.39	-3.66	15.67	19
Term	3.42	3.42	3.47	-0.18	-4.46	39
Loans all	8.04	8.11	7.91	-6.69	13.79	100
Housing	8.21	8.26	8.14	-4.99	6.82	42
Other personal	11.45	11.49	11.39	-4.13	6.34	12
Business	7.69	7.82	7.32	-13.32	36.72	29
Other	7.92	6.25	6.25	167.30	167.30	17

^aMethod for calculating these series was updated in August 2014, resulting in revision to the full history of data
^bDue to rounding errors some data may not aggregate precisely
 Sources: Banking Systems; NRBT

The annual upward trend of the weighted average interest rates spread continued in May 2019. An increase of 24.26 basis points from last year, underpinned by declining deposit rates offsetting the increase in lending rates. Lower deposit rates stemmed from decreased demand and time deposit rates mainly for the five years term and the 2 -3 years term, while decreased lending rates were mainly offered to the household and business loans such as the professional & other services, manufacturing, and distribution sectors. Lending volumes also rose more than deposits supporting the higher interest rate spread.

Broad money

Broad money fell over the month of May 2019 by 0.2% (\$1.1 million) to \$584.8 million. The net domestic assets was lowered by higher credit to private sectors, which offset the increase in net foreign assets. However, in annual terms, broad money continued to rise by 4.2% (\$23.3 million) over the year and in line with the higher foreign reserves from receipts of budgetary support, grants, and cyclone relief funds from

	Level as at			Change over the last	
	May-19 \$TOPm	Apr-19 \$TOPm	May-18 \$TOPm	1 month % growth	1 year % growth
Broad money liabilities	584.8	585.9	561.5	-0.2	4.2
Currency in circulation	64.0	60.7	66.5	5.5	-3.7
Demand deposits	208.8	219.1	176.4	-4.7	18.4
Savings and term deposits*	312.0	306.1	318.7	1.9	-2.1
<i>equals</i>					
Net foreign assets	488.8	482.6	460.4	1.3	6.2
<i>plus</i>					
Net domestic assets	96.4	103.7	101.3	-7.1	-4.9
Gross bank lending**	493.5	490.0	450.9	0.7	9.5
Public enterprises	60.2	60.9	54.8	-1.2	9.9
Private Sector	430.2	426.0	393.5	1.0	9.3
Other financial corporations	3.1	3.1	2.6	-0.2	18.1
Other***	-397.1	-386.3	-349.5	2.8	13.6

* 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

development partners and remittances.

Liquidity

Over the month of May 2019, liquidity (reserve money)¹ in the banking system increased by \$5.1 million (1.7%) to \$311.0 million, due mainly to higher banks exchange settlement accounts from increased deposits by the commercial banks to the Reserve Bank vault. The increase in currency in circulation supported this monthly rise, reflecting the economic activities during the family month. The banks' total loans to deposit ratio increased from 77.5% to 78.7% over the month, reflecting higher loans against declining deposits.

In year ended terms, liquidity (reserve money) in the banking system increased by \$12.6 million (4.2%) , again mainly on higher banks exchange settlement accounts from increased deposits by the commercial banks to the Reserve Bank vault. The required reserves also rose and supported the annual rise reflecting various events and activities in May and throughout the year such as the family Sundays, family & school reunions, and the Christmas & New Year celebrations.

Outlook

The banks' prospects for credit growth remains positive hence the Reserve Bank is forecasting a 13% credit growth for the current financial 2018/19, supported by improved economic conditions, recent business performances and confidence, and annual (one-off) events that are expected to take place throughout the current financial year. The level of competition between banks in term of housing loans coupled with the accommodative monetary policy is expected to utilize the excess liquidity in the 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 is maintained and that no overheating will occur in the economy.

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