

Banking Sector Developments May 2020

Release date: 23 September 2020

	May-20	Apr-20	Mar-20	Feb-20
Deposit rate (%)*	2.119	2.115	2.025	2.037
Lending rate (%)*	7.814	7.946	7.968	8.015
Total Deposits (T\$m)	602.0	595.0	603.3	594.4
Total lending (T\$m)	495.4	494.4	499.7	499.7
New commitments (T\$m)	8.5	3.6	7.1	5.6
Broad Money (T\$m)	592.2	581.6	596.4	590.1

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

Liquidity in the banking system rose in May 2020

Lending

The total banks' lending grew over the month and year to May 2020 by \$1.1 million (0.2%) and \$8.1 million (1.7%) respectively to a total of \$495.4 million. Both business and household loans contributed to the monthly increase whilst business lending solely drove the annual rise.

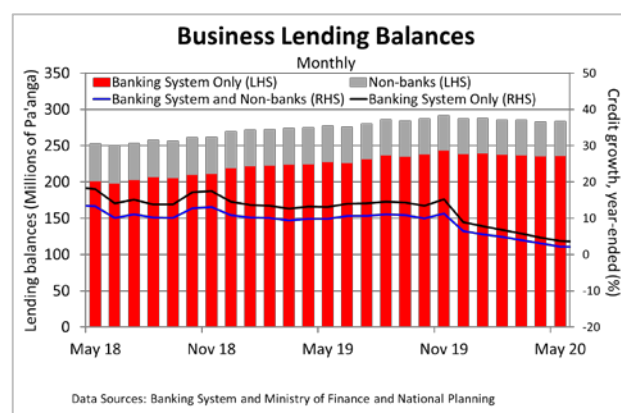
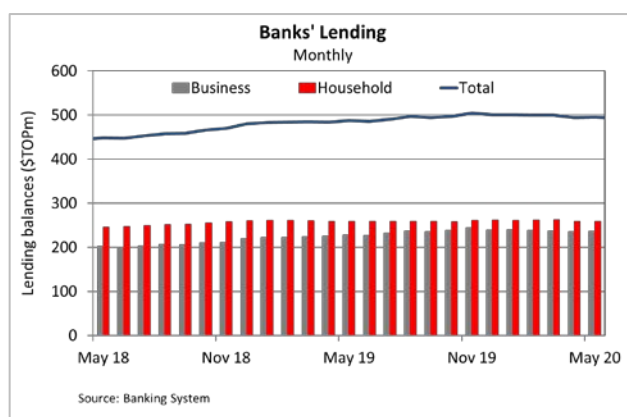
Non-bank financial institutions

Loans extended to the non-bank financial institutions continued to decline in May 2020 by \$0.4 million (0.4%) due to lower lending offered to the public and the usual loan repayments. However, it rose over the year by \$1.6 million (1.6%) reflecting the accessibility of these loans to individuals in the informal sector and small medium enterprises. Government on-lent loans declined over the month and year to May 2020 due to loan settlements.

Business lending

Business loans expanded over the month and year to May 2020 by \$0.7 million (0.3%) and \$8.5 million (3.7%) respectively, to \$236.4 million. Higher lending to public enterprises, construction, agriculture, and distribution sectors increased over the month. The annual rise was mainly driven by lending to the professional & other services businesses followed by public enterprises.

Household lending



Household loans rose over the month of May 2020 by \$0.4 million (0.1%) as a result of continuous housing and renovation works by private households. In year ended terms, household loans slightly fell to \$259.0 million from \$259.1 million recorded in May 2019. Higher housing loans by \$3.2 million (1.6%) was offset by a decline in other personal loans.

Other lending

Banks had no other lending since the beginning of 2020, hence it fell over the year to May 2020, due to a decline in lending to non-profit institutions serving households.

Non-performing loans

Non-performing loans as a share of total loans fell over the month of May 2020 to 3.5% from 3.7% in April 2020 and 3.8% in May 2019. Some loan restructures and upgrades during the month contributed to the lower non-performing loans.

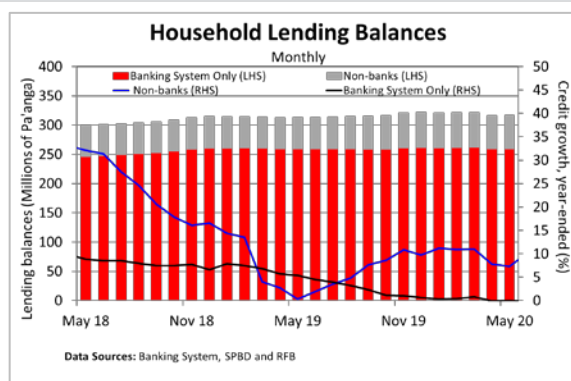


Table 1: Lending Balances (including new commitments)

	Level as at:			Change over the last:		Shares of totals %
	May 20 TOPm	Apr 20 TOPm	May 19 TOPm	1 month %	1 year %	
Lending, banks	495.4	494.4	487.3	0.2	1.7	100.0
Household	259.0	258.7	259.1	0.1	0.0	52.3
Business*	236.4	235.7	227.9	0.3	3.7	47.7
Other	0.0	0.0	0.3	0.0	-100.0	0.0
Lending, banks and other	600.2	599.5	590.4	0.1	1.6	100.0
Household**	316.7	316.5	312.9	0.1	1.2	52.8
Business	283.4	283.0	277.3	0.2	2.2	47.2
Other	0.0	0.0	0.3	0.0	-100.0	0.0
New commitments, banks	8.5	3.6	13.3	132.3	-36.6	N/A
Undrawn commitments, banks	11.5	12.2	22.7	-5.9	-49.2	N/A
Implied repayments, banks	8.1	10.4	6.2	-22.0	30.8	N/A

* Method for calculating these series was updated in August 2014, resulting in revisions to the full history of data

** Method for calculating these series was updated in January 2020, resulting in revisions to the full history of data

Sources: SPBD; RFB; MOFNP; Banking system

Deposits

Total deposits rose during May 2020 by \$7.0 million (1.2%) mostly attributed to higher saving deposits by \$5.9 million (8.8%) from individuals. Time deposits from both individuals and businesses also rose and contributed to the monthly increase. These movements coincided with the rise in total remittances received during the popular family month of May in Tonga.

However, total deposits declined annually mainly attributed to lower demand deposits by \$23.1 million (8.8%) which outweighed a rise in time and savings deposits. Demand deposits fell underpinned by lower deposits from retirement funds, private businesses, and the government. These drawdown of demand deposits was due to repatriation of funds offshore, and other commitments largely associated with the impact of COVID-19. Time deposits was from retirement funds, central government, and non-profit organizations.

The banks' total loans to deposit ratio decreased from 81.3% to 80.5% in May 2020, slightly above the Reserve Bank's minimum ratio of 80%. Total deposits increased at a higher rate compared to that of total loans.

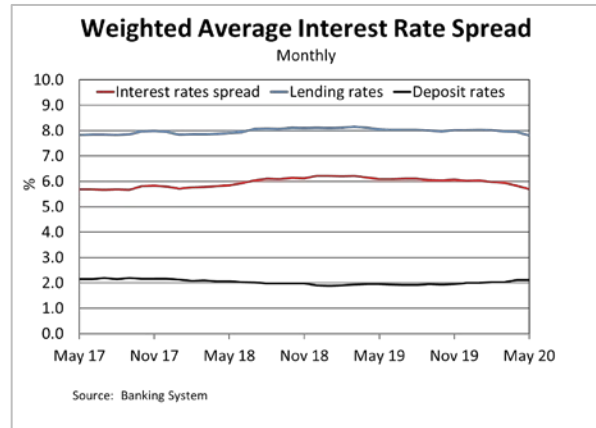
Table 2: Deposit Balances

	Monthly				Annual		
	May-20	Apr-20	Change	% Growth	May-19	Change	% Growth
Total Deposits (\$ in million)	602.0	595.0	7.0	1.2	605.1	-3.1	-0.5
Demand Deposits	240.9	241.8	-1.0	-0.4	264.0	-23.1	-8.8
Saving Deposits	108.6	102.2	6.4	6.2	106.0	2.6	2.5
Time Deposits	252.5	251.0	1.6	0.6	235.2	17.3	7.4

Sources: Banking Systems; NRBT

Interest rate spread

The weighted average interest rate spread continues to narrow both over the month and year to May 2020 by 13.57 basis points and 39.30 basis points respectively. The weighted average lending rate declined more in comparison to the slight increase in the weighted average deposit rates. Lower average lending rates was attributed to household loans for housing and other various personal loans. Business lending also declined for wholesale & retail, construction, fisheries, utilities, and tourism sectors.



The slight increase in deposit rates was due to the rise in the volume of savings deposits despite the declining deposit rates offered.

Moreover, the weighted average interest rate spread declined over the year, and was driven by the lower weighted average lending rates coupled with the increase in weighted average deposit rates. The decrease in weighted average lending rates were mainly on individual housing and other personal loans. The lower weighted interest rates for other lending coincides with the decline in lending to non-profit institutions serving households over the year. Meanwhile, the increase of weighted average deposit rates was due to a rise in term, and savings deposit rates.

Table 3: Interest Rates

	Weighted average of all banks						Share of loans/deposits %
	Level as at			Change over the last [^]			
	May-20 %	Apr-20 %	May-19 %	1 month bps	1 year bps		
Interest Rate Spread	5.695	5.831	6.088	-13.57	-39.30		
Deposits all	2.12	2.12	1.96	0.31	16.26	100	
Demand	0.34	0.36	0.37	-1.72	-3.13	39	
Savings	2.60	2.61	2.54	-1.33	5.62	18	
Term	3.48	3.49	3.42	-0.64	5.84	43	
Loans all	7.81	7.95	8.04	-13.26	-23.04	100	
Housing	8.02	8.05	8.21	-3.41	-18.75	42	
Other personal	10.75	10.82	11.45	-6.80	-69.71	11	
Business	7.64	7.94	7.69	-29.71	-5.20	29	
Other	0.00	0.00	7.92	0.00	-792.30	18	

*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

Broad money

Broad money rose over the month and year to May 2020 by \$10.6 million (1.8%) and \$7.4 million (1.3%) respectively. These movements were driven mostly by the increase in net foreign assets particularly foreign reserves. These were receipts of official funds for TC Harold assistance and ongoing preparation related to COVID-19. Net domestic assets, on the other hand, declined due to

higher government deposits, and credit to the private sector¹ over the month. Annually, the lower net domestic credit was attributed to the rise in government net deposits with the Reserve Bank.

Liquidity

Liquidity in the banking system increased in May 2020 by \$6.1 million (2.2%) solely driven by higher currency in circulation to cater for the family month of May. In the year to May 2020, liquidity declined by \$24.3 million (7.8%) as the higher currency in circulation was offset by a decline in banks' Exchange Settlement Account. This coincides with the lower total deposits over the year to cater for outgoing payments and government transfers for import payments and other COVID-19 preparations.

Outlook

The NRBT continues to expect credit growth to slow down in the near term underpinned by the impact of the COVID-19 outbreak on various sectors of the economy. This poses high uncertainties to the level of economic activities which may consequently affect the public's access to lending and financing. Although banks have offered COVID-19 relief packages conditional to customers that have been impacted by COVID-19 state of emergency and the closing of its international border to international flights since March. The term of these relief packages are short term. Nonetheless, the current accommodative monetary policy stance continues to encourage banks to utilize the excess liquidity in the banking system for further lending to support economic growth.

The Reserve Bank will also continue to closely monitor all monetary indicators, particularly credit growth, non-performing loans and broad money to ensure financial and macroeconomic stability is maintained.

¹ Excludes public enterprises