

Banking Sector Developments August 2021

Release date: 26 November 2021

| | Aug-21 | Jul-21 | Jun-21 | May-21 |
|------------------------|--------|--------|--------|--------|
| Deposit rate (%)* | 1.839 | 1.872 | 1.886 | 1.844 |
| Lending rate (%)* | 7.764 | 7.752 | 7.737 | 7.728 |
| Total Deposits (T\$m) | 794.3 | 786.6 | 799.9 | 730.9 |
| Total lending (T\$m) | 478.8 | 481.6 | 482.4 | 486.6 |
| New commitments (T\$m) | 21.2 | 10.6 | 11.4 | 13.7 |
| Broad Money (T\$m) | 775.4 | 769.7 | 764.9 | 724.7 |

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

Credit growth slows down but new commitment loans rise

Broad money

Over the month and year to August 2021, broad money increased by \$5.7 million (0.7%) and \$150.6 million (24.1%) respectively to \$775.4 million. Both net domestic assets and net foreign assets grew over the month by \$3.2 million (10.5%) and \$2.6 million (0.3%) respectively. Net domestic assets rose on the back of higher net credit to central government, as a result of lower government deposits. Similarly, higher foreign reserves contributed to the monthly increase in net foreign assets.

| | Level as at | | | Change over the last | |
|--------------------------------|------------------|------------------|------------------|----------------------|--------------------|
| | Aug-21 \$TOPm | Jul-21 \$TOPm | Aug-20 \$TOPm | 1 month % growth | 1 year % growth |
| Broad money liabilities | 775.4 | 769.7 | 624.7 | 0.7 | 24.1 |
| Currency in circulation | 93.5 | 97.2 | 74.5 | -3.9 | 25.6 |
| Demand deposits | 279.7 | 273.9 | 214.7 | 2.1 | 30.2 |
| Savings and term deposits* | 402.2 | 398.6 | 335.5 | 0.9 | 19.9 |
| <i>equals</i> | | | | | |
| Net foreign assets | 742.8 | 740.2 | 582.4 | 0.3 | 27.5 |
| <i>plus</i> | | | | | |
| Net domestic assets | 33.4 | 30.3 | 42.9 | 10.5 | -22.0 |
| Gross bank lending** | 481.1 | 483.9 | 487.2 | -0.6 | -1.3 |
| Public enterprises | 49.5 | 50.0 | 59.2 | -1.0 | -16.5 |
| Private Sector | 429.8 | 432.0 | 425.6 | -0.5 | 1.0 |
| Other financial corporations | 1.8 | 1.9 | 2.3 | -6.5 | -23.6 |
| Other*** | -447.6 | -453.6 | -444.3 | -1.3 | 0.7 |

* 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

Annually, net foreign assets increased corresponding to the rise in foreign reserves

from the receipts of official funds, budget support, projects development, and financial assistance for COVID-19 preparations. This offsets the decline in net domestic assets, which was driven mostly by lower credit to public enterprises and lower net claims on the central government stemming from the rise in government deposits.

Liquidity

Liquidity in the financial system increased over the month and year to August 2021, by \$11.0 million (2.2%) and \$178.7 million (53.1%) respectively. The monthly rise was solely driven by higher commercial banks' Exchange Settlement Accounts (ESA), mainly on net deposits to the Reserve Bank vault and net purchases of foreign currency. Annually, all categories rose with the commercial banks' ESA increasing the most due to higher government deposits. Currency in circulation also increased in line with festivities during the year, such as the churches annual donations, Easter, family month of May, Christmas and New Year festivities, Kava Idol, and the Tonga High School Ex-Students' Fundraising. Required reserves increased also, corresponding to the rise in total deposits.

Lending

Credit growth continued slowing down in August 2021. The banks' total lending declined by \$2.8 million (0.6%) over the month, and \$8.8 million (1.8%) over the year to \$478.8 million. Both declines resulted from loan repayments made by both businesses and households.

Business lending

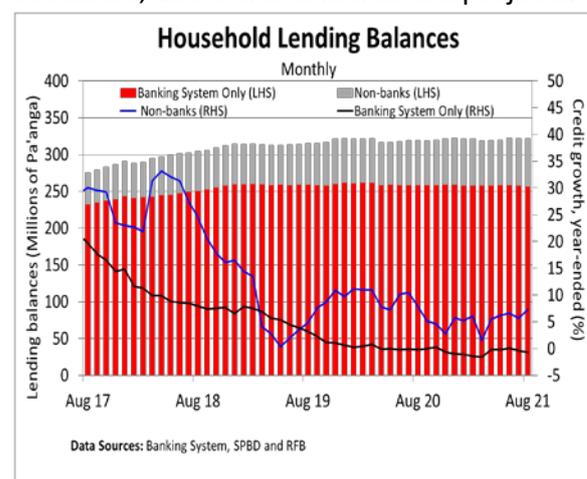
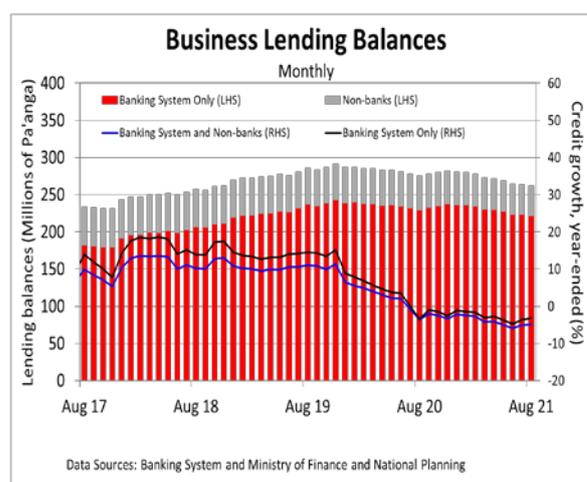
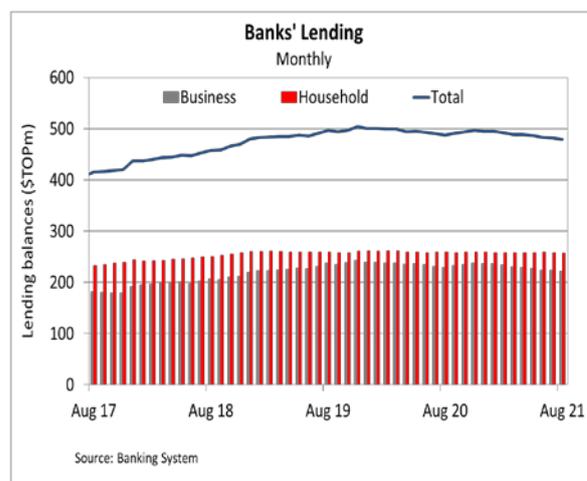
Business loans declined over the month and year to August 2021, by \$1.5 million (0.7%) and \$7.4 million (3.2%) respectively, to \$221.6 million. Both declines are largely attributed to ongoing repayments of public enterprises' loans offsetting new loans offered to private businesses. The lower lending to businesses in the distribution, professional & other services, and construction sectors contributed to the decline over the month, whereas lower loans offered to the manufacturing, professional & other services, and agricultural sectors drove the decline over the year. The slowdown in lending to these sectors reflected the impact of COVID-19 related uncertainties on businesses' investment appetite. Meanwhile, construction loans continued to increase annually, reflecting the recovery works for TC Gita and TC Harold, and other construction projects.

Household lending

Over the month and year to August 2021, household loans fell by \$1.1 million (0.4%) and \$1.7 million (0.7%) respectively to a total of \$256.9 million. This was mostly driven by a fall in housing loans over the month partially offset by a slight rise in both other personal and vehicle loans. However, annually, all the three lending categories decreased led by housing loans, followed by personal and vehicle loans.

Non-bank financial institutions

The total loans extended by the non-bank financial institutions increased over the month and year to August 2021 by \$0.7 million (1.1%) and \$4.4 million (7.4%). These loans are mostly offered to individuals in the informal and small-medium-sized enterprises (SMEs). This reflects the limited access to finance available in the banking sector to the



informal sector, hence the non-bank financial institutions is gaining a more significant role in the financial system. However, this also raises concerns over household indebtedness.

Non-performing loans

In August 2021, the non-performing loans accounted for 4.2% of total loans, similar to August 2020 but higher than 3.7% recorded last month. The monthly rise was driven mainly by higher non-performing housing loans reflecting the impact of COVID-19

on household incomes. Annually, some improvements were reported for the non-performing fisheries loans yet partially offset by more non-performing housing loans.

Private individual loans maintained the highest share of non-performing loans with a share of 63.6% which are mostly housing and other personal loans. The remaining 36.4% are business loans in the Agriculture (24.5%), Professional & Other Services (3.0%), Distribution (3.0%), Fisheries (2.9%), and Others (3.0%).

Deposits

Over the month and year to August 2021, the banks' total deposits rose by \$6.5 million (0.8%) and \$160.6 million (25.4%) respectively. The monthly rise was driven mostly by higher demand and saving deposits from individuals, churches, schools, and the retirement funds. The higher demand and saving deposits from churches reflect some of the churches' annual donations (misinale).

Annually, all categories of deposits increased, led by higher demand deposits, and followed by more saving and term deposits. Higher demand deposits resulted from large deposits made by the central government, private businesses, and public enterprises. Similarly, the increase in saving deposits is attributed to more deposits made by the retirement funds, individuals, and churches. Furthermore, the higher time deposits was underpinned by higher deposits from churches and schools.

The loans to deposit ratio decreased further from 59.8% in July 2021 and 75.5% in August 2020, to 59.0% in August 2021, and still remained below the 80% minimum threshold. These were driven by the rising total deposits coupled with the decrease in total lending over the month and annually.

| | Level as at: | | | Change over the last: | | Shares of totals % |
|----------------------------|--------------|-------------|-------------|-----------------------|----------|--------------------|
| | Aug 21 TOPm | Jul 21 TOPm | Aug 20 TOPm | 1 month % | 1 year % | |
| Lending, banks | 478.8 | 481.6 | 487.6 | -0.6 | -1.8 | 100.0 |
| Household | 256.9 | 258.1 | 258.7 | -0.4 | -0.7 | 53.7 |
| Business* | 221.6 | 223.2 | 229.0 | -0.7 | -3.2 | 46.3 |
| Other | 0.3 | 0.4 | 0.0 | -24.4 | 0.0 | 0.1 |
| Lending, banks and other | 584.0 | 586.5 | 594.4 | -0.4 | -1.7 | 100.0 |
| Household** | 321.6 | 322.0 | 318.9 | -0.1 | 0.8 | 55.1 |
| Business | 262.1 | 264.1 | 275.5 | -0.8 | -4.9 | 44.9 |
| Other | 0.3 | 0.4 | 0.0 | -24.4 | 0.0 | 0.1 |
| New commitments, banks | 21.2 | 10.6 | 6.3 | 99.5 | 235.6 | N/A |
| Undrawn commitments, banks | 17.4 | 8.4 | 11.4 | 105.8 | 53.1 | N/A |
| Implied repayments, banks | -8.9 | 0.6 | 8.9 | -1,488.0 | -200.3 | N/A |

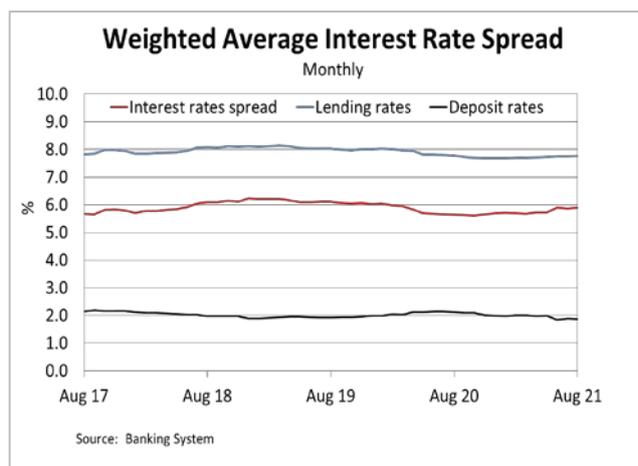
* Method for calculating these series was updated in August 2014, resulting in revisions to the full history of data
** Method for calculating these series was updated in January 2020, resulting in revisions to the full history of data
Sources: SPBD; RFB; MOFNP; Banking system

| | Monthly | | | | | | | Annual | | |
|--------------------------------|---------|--------|--------|----------|--------|--------|----------|--------|--------|----------|
| | Monthly | | | | Annual | | | Annual | | |
| | Aug-21 | Jul-21 | Change | % Growth | Aug-20 | Change | % Growth | Aug-20 | Change | % Growth |
| Total Deposits (\$ in million) | 793.1 | 786.6 | 6.5 | 0.8 | 632.5 | 160.6 | 25.4 | 632.5 | 160.6 | 25.4 |
| Demand Deposits | 339.9 | 335.2 | 4.8 | 1.4 | 251.9 | 88.0 | 34.9 | 251.9 | 88.0 | 34.9 |
| Saving Deposits | 170.4 | 161.8 | 8.7 | 5.4 | 117.3 | 53.1 | 45.3 | 117.3 | 53.1 | 45.3 |
| Time Deposits | 282.7 | 289.6 | -6.9 | -2.40 | 263.3 | 19.4 | 7.4 | 263.3 | 19.4 | 7.4 |

Sources: Banking Systems; NRBT

Interest rate spread

The weighted average interest rate spread widened over the month and year to August 2021 by 2.6 basis points and 24.3 basis points, respectively. The monthly rise is attributed to lower deposit rates coupled with higher lending rates. Lower demand and saving deposit rates led a decline in deposit rates. However, higher lending rates offered mainly to businesses within the fisheries, agriculture, and transport sectors as well as household vehicles and other personal loans drove the monthly rise in lending rates.



Annually, the decline in the weighted average deposit rates outpaced the fall in the weighted average lending rates. All deposit rates fell, contributed mainly by the higher volume of deposits. Similarly, lower lending rates for businesses in the utilities, construction, and agricultural sectors, coupled with the lower lending rates offered to households for other personal loans contributed to the annual decline.

| | Weighted average of all banks | | | | | |
|----------------------|-------------------------------|----------|----------|-----------------------------------|------------|---------------------------|
| | Level as at | | | Change over the last ^a | | Share of loans/deposits % |
| | Aug-21 % | Jul-21 % | Aug-20 % | 1 month bps | 1 year bps | |
| Interest Rate Spread | 5.893 | 5.866 | 5.649 | 2.65 | 24.35 | |
| Deposits all | 1.87 | 1.89 | 2.13 | -1.40 | -26.19 | 100 |
| Demand | 0.36 | 0.37 | 0.38 | -0.61 | -1.90 | 41 |
| Savings | 2.46 | 2.48 | 2.60 | -2.13 | -14.30 | 23 |
| Term | 3.21 | 3.18 | 3.45 | 2.97 | -24.02 | 36 |
| Loans all | 7.76 | 7.75 | 7.78 | 1.25 | -1.84 | 100 |
| Housing | 8.09 | 8.11 | 8.04 | -1.46 | 5.51 | 43 |
| Other personal | 11.32 | 11.30 | 11.35 | 2.30 | -3.12 | 11 |
| Business | 7.17 | 7.15 | 7.50 | 2.87 | -32.99 | 30 |
| Other | 8.78 | 8.54 | 0.00 | 24.56 | 878.37 | 16 |

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

Outlook

The NRBT continues to expect credit growth to remain subdued in the near term, with non-performing loans projected to rise for both businesses and households' housing and personal loans. These are mostly driven by the uncertainties of the COVID-19 pandemic, weak investment appetite, and softening aggregate demand. However, the vaccine rollout may reverse this outlook as observed in the rise in new loan commitments. The Reserve Bank will continue to monitor non-performing loans and ensure adequate provisions are in place to absorb any shocks to the financial system.

The current monetary policy stance remains accommodative at this time and the Reserve Bank will continue to ensure financial and macroeconomic stability is maintained, by closely monitoring all monetary indicators such as credit growth, household and corporate indebtedness, and broad money.