

Banking Sector Developments March 2021

Release date: 03 June 2021

	Mar-21	Feb-21	Jan-21	Dec-20
Deposit rate (%)*	2.007	2.002	1.972	1.982
Lending rate (%)*	7.687	7.694	7.681	7.681
Total Deposits (T\$m)	708.6	703.1	710.8	703.9
Total lending (T\$m)	488.8	492.2	494.5	495.4
New commitments (T\$m)	7.3	6.4	6.8	10.5
Broad Money (T\$m)	707.6	703.4	706.9	707.5

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

Broad money rose

Broad money

Broad money increased over the month and year to March 2021 by \$4.2 million (0.6%) and \$111.2 million (18.7%), respectively, to a total of \$707.6 million. An improvement in net domestic assets underpinned the monthly rise whilst net foreign assets declined.

Over the year, the net foreign assets increased and outweighed the decline in net domestic assets. This resulted from the significant rise in foreign reserves on the receipt of official funds for loans, budget support, projects, and financial assistance for COVID-19 preparations. The decline in net domestic assets attributes mainly to higher government deposits from the receipt of budget support and relief funds from development partners.

Liquidity

Liquidity in the financial system rose over the month and year to March 2021, by \$4.6 million (1.1%) and \$133.2 million (45.5%), respectively, to a new high level of \$425.8 million. The currency in circulation and the commercial banks' ESA (Exchange Settlement Account) increased over the month and offset the slight decline in required reserves. The higher commercial banks' ESA coincided with the increase in bank deposits.

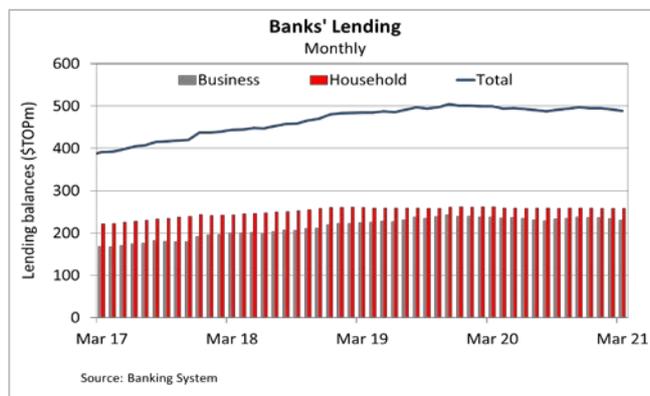
	Level as at			Change over the last	
	Mar-21 \$TOPm	Feb-21 \$TOPm	Mar-20 \$TOPm	1 month % growth	1 year % growth
Broad money liabilities	707.6	703.4	596.4	0.6	18.7
Currency in circulation	85.5	88.8	66.3	-3.8	29.0
Demand deposits	253.2	250.5	216.6	1.1	16.9
Savings and term deposits*	368.9	364.1	313.4	1.3	17.7
<i>equals</i>					
Net foreign assets	717.6	722.0	485.3	-0.6	47.9
<i>plus</i>					
Net domestic assets	-9.2	-17.6	111.6	-48.0	-108.2
Gross bank lending**	490.5	493.8	500.0	-0.7	-1.9
Public enterprises	54.5	54.2	61.6	0.5	-11.6
Private Sector	434.2	437.7	436.2	-0.8	-0.5
Other financial corporations	1.8	2.0	2.2	-5.5	-15.2
Other***	-499.7	-511.4	-388.4	-2.3	28.7

* 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

Over the year, all categories of liquidity rose, with the bank's ESA rising the most reflecting disbursements for government projects. Currency in circulation followed, in line with the festivities during the year, such as the churches' annual donations, Christmas celebrations, and New Year festivities, Kava Idol and the Tonga High School Ex-Students' fundraising. Required reserves also increased, corresponding to the rise in total deposits.

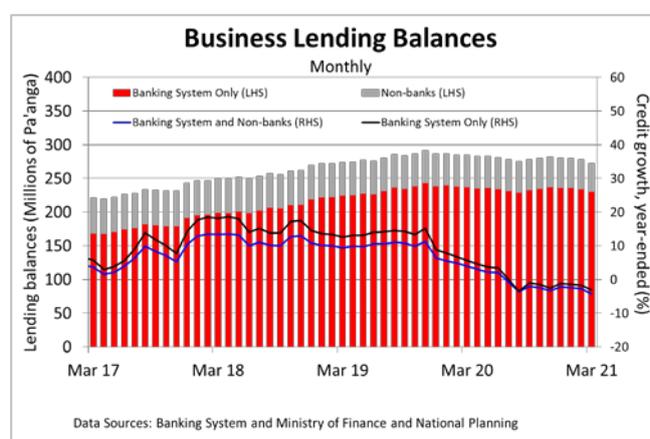
Lending

Over the month and year to March 2021, the banks' total lending declined by \$3.4 million (0.7%) and \$10.8 million (2.2%), respectively to \$488.8 million. Both decreases resulted from lower businesses and household loans, reflecting the high uncertainties of COVID-19 impacting both the banks' willingness to lend further and businesses and households' appetite to borrow.



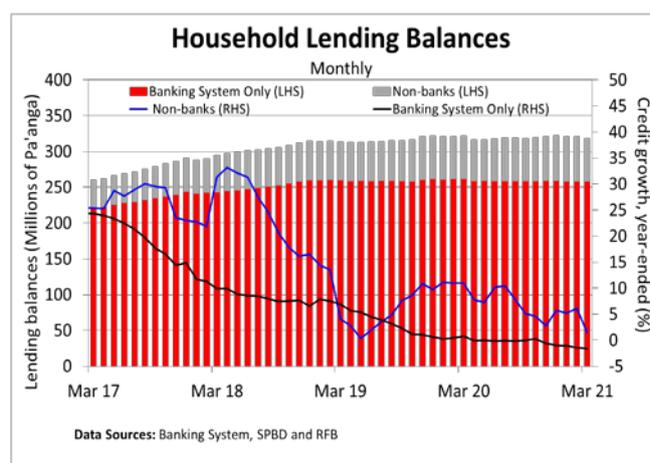
Business lending

Business loans decreased over the month and year to March 2021 by \$3.7 million (1.6%) and \$7.2 million (3.0%), respectively, to \$230.3 million. The loans run-offs and repayments by businesses in the professional & other services, construction, and transport sectors led to the monthly decline. Similarly, the annual decline was attributed to loan repayments made by the public enterprises, professional & other services, and manufacturing sectors.



Household lending

Household loans also declined over the month and year to March 2021, by \$0.2 million (0.1%) and \$4.1 million (1.6%), respectively, to a total of \$258.1 million. Household vehicle and other personal loans decreased over the month, whilst lower other personal loans led to the annual decline.



Non-bank financial institutions

The total loans extended by the non-bank financial institutions also declined over the month by \$2.7 million (4.2%), but rose annually by \$0.9 million (1.5%) to \$60.5 million. These loans are mostly offered to individuals in the informal and small-medium-sized enterprises (SMEs), indicating better accessibility of these loans to SMEs.

Non-performing loans

In March 2021, the non-performing loans increased to 3.70% from 3.62% last month, however, they decreased from 4.27% last year. The increase in non-performing loans over the month attributed to

higher non-performing loans from businesses in the agriculture, distribution, construction, and manufacturing sectors. This reflects the impact of COVID-19 on businesses and the unsuccessful squash season in the agricultural sector affecting their ability to repay their loans.

The improvement in business non-performing loans such as hotels & restaurant, agriculture, professional & other services sectors led the annual decrease, supported by lower non-performing loans from household other personal and vehicle loans, reflecting loans restructured and upgraded. Private individuals loans account for 64.3% of non-performing loans, and these are mostly housing loans, the remaining 35.7% are business loans in Agriculture (21%), Construction (6%), and Professional & Other Services (3%). The banks COVID-19 relief packages for some of their clients also helped maintain the low rate of non-performing loans.

Table 2: Lending Balances (including new commitments)

	Level as at:			Change over the last:		Shares of totals %
	Mar 21 TOPm	Feb 21 TOPm	Mar 20 TOPm	1 month %	1 year %	
Lending, banks	488.8	492.2	499.7	-0.7	-2.2	100.0
Household	258.1	258.2	262.1	-0.1	-1.6	52.8
Business*	230.3	234.0	237.5	-1.58	-3.0	47.1
Other	0.5	0.0	0.0	0.0	0.0	0.1
Lending, banks and other	592.0	599.2	606.7	-1.2	-2.4	100.0
Household**	318.5	321.4	321.7	-0.9	-1.0	53.8
Business	273.0	277.8	285.0	-1.7	-4.2	46.1
Other	0.5	0.0	0.0	0.0	0.0	0.1
New commitments, banks	7.3	6.4	7.1	14.4	2.9	N/A
Undrawn commitments, banks	9.5	8.8	13.7	7.7	-30.6	N/A
Implied repayments, banks	-0.7	0.5	7.7	-240.2	-108.8	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

Table 3: Deposit Balances

	Monthly				Annual		
	Mar-21	Feb-21	Change	% Growth	Mar-20	Change	% Growth
Total Deposits (\$ in million)	708.6	703.1	5.5	0.8	603.3	105.3	17.5
Demand Deposits	294.9	294.5	0.4	0.1	255.2	39.8	15.6
Saving Deposits	131.5	128.7	2.8	2.2	108.9	22.6	20.8
Time Deposits	282.3	279.9	2.3	0.8	239.3	42.9	17.9

Sources: Banking Systems; NRBT

The banks' total deposits increased over the month and year to March 2021, by \$5.5 million (0.8%) and \$105.3 million (17.5%), respectively, to \$708.6 million. The saving deposits rose the most over the month, mainly on higher deposits made by churches and individuals. This was followed by higher time deposits, led by private and public businesses. Furthermore, the higher demand deposits

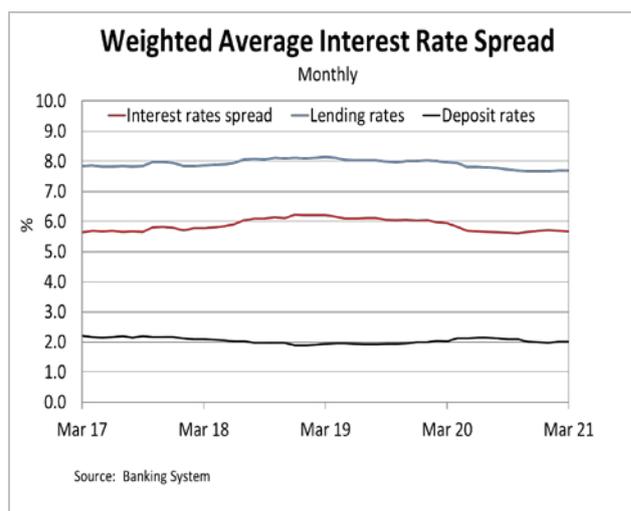
attributed mainly to more deposits made from retirement funds, microfinance, and foreign exchange dealers, reflecting high remittances received for the Tonga High School’s fundraising.

Similarly, over the year, the time deposits increased the most, underpinned by deposits by churches, central government, and retirement funds. The deposits from public enterprises, churches, microfinance, and foreign exchange dealers drove demand deposits higher, whereas an increase in saving deposits stemmed from individual deposits.

The increase in total deposits and the decline in total lending resulted in a lower loan to deposit ratio of 67.2% in March 2021, a fall from 68.2% last month and still below the 80% minimum, reflecting the available liquidity in the banking system for further lending.

Interest rate spread

Over the month and year to March 2021, the weighted average interest rate spread narrowed by 1.2 basis points and 26.1 basis points, respectively, to 5.7%. The weighted average lending rates decreased over the month while the weighted average deposit rates rose. The lower weighted average lending rates were underpinned mainly by lower rates on other personal loans and loans to the manufacturing, construction, and agricultural sectors. The higher weighted average deposit rates resulted from rises in all the three categories of deposits (demand, saving, and time) rates, coinciding with the increase in the volume of deposits over the month.



Over the year, the weighted average lending rates declined more than the fall in weighted average deposit rates. The decline in lending rates stemmed mostly from lower rates offered to businesses in the construction, utilities, agricultural, and wholesale & retail sectors. This was also supported by the decrease in households’ other personal loan rates. In contrast, lower time deposit rates solely drove the lower weighted average deposit rates annually, due mainly to decreases in all the term deposits.

Table 4: Interest Rates

	Weighted average of all banks					
	Level as at			Change over the last [^]		Share of loans/deposits %
	Mar-21 %	Feb-21 %	Mar-20 %	1 month bps	1 year bps	
Interest Rate Spread	5.680	5.693	5.942	-1.24	-26.13	
Deposits all	2.01	2.00	2.03	0.56	-1.93	100
Demand	0.38	0.34	0.34	4.09	4.05	39
Savings	2.56	2.54	2.52	1.55	3.67	20
Term	3.32	3.32	3.49	0.11	-17.38	41
Loans all	7.69	7.69	7.97	-0.68	-28.07	100
Housing	8.08	8.08	8.05	0.20	2.83	43
Other personal	11.32	11.33	11.35	-0.61	-2.95	11
Business	7.06	7.11	7.97	-5.09	-91.31	30
Other	8.77	0.00	0.00	877.00	877.00	17

^{*}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

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 household housing and personal loans. These are mostly driven by the uncertainties of the COVID-19 pandemic, weakening investment appetite, and softening aggregate demand. The Reserve Bank is also working closely with the commercial banks to monitor non-performing loans closely and ensure there are adequate provisions in place to absorb any shock to the financial system due to the prolonged state of the pandemic.

Nonetheless, the current accommodative monetary policy stance encourages banks to utilize excess liquidity in the banking system for prudent lending to support economic recovery and growth.

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.