

# Banking Sector Developments September 2021

Release date: 13 January 2022

	Sep-21	Aug-21	Jul-21	Jun-21
Deposit rate (%)*	1.839	1.872	1.886	1.844
Lending rate (%)*	7.806	7.764	7.752	7.737
Total Deposits (T\$m)	799.3	793.1	786.6	799.9
Total lending (T\$m)	476.1	478.8	481.6	482.4
New commitments (T\$m)	11.3	21.2	10.6	11.4
Broad Money (T\$m)	783.8	775.4	769.7	764.9

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

## High liquidity remains amid ongoing subdued credit growth

### Broad money

Broad money increased further to \$783.8 million in September 2021, by \$8.4 million (1.1%) over the month and \$143.0 million (22.3%) annually. The higher net domestic assets and net foreign assets contributed to the monthly rise. Large disbursements from development partners during the month for Government operations and other projects lowered the net credit to the central Government thus increasing net domestic assets. At the same time, the rise in foreign reserves over the month drove net foreign assets higher.

	Level as at			Change over the last	
	Sep-21 \$TOPm	Aug-21 \$TOPm	Sep-20 \$TOPm	1 month % growth	1 year % growth
<b>Broad money liabilities</b>	<b>783.8</b>	<b>775.4</b>	<b>640.8</b>	<b>1.1</b>	<b>22.3</b>
Currency in circulation	95.7	93.5	75.2	2.4	27.3
Demand deposits	285.3	279.7	227.4	2.0	25.5
Savings and term deposits*	402.8	402.2	338.2	0.2	19.1
<i>equals</i>					
<b>Net foreign assets</b>	<b>745.7</b>	<b>742.8</b>	<b>605.4</b>	<b>0.4</b>	<b>23.2</b>
<i>plus</i>					
<b>Net domestic assets</b>	<b>39.0</b>	<b>33.4</b>	<b>36.5</b>	<b>16.7</b>	<b>6.9</b>
Gross bank lending**	478.5	481.1	490.6	-0.5	-2.5
Public enterprises	48.6	49.5	59.8	-1.7	-18.7
Private Sector	428.0	429.8	428.5	-0.4	-0.1
Other financial corporations	1.8	1.8	2.3	3.3	-19.4
Other***	-439.5	-447.6	-454.1	-1.8	-3.2

\* 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, the rise in foreign reserves from the receipts of official funds, budget support, projects development, and financial assistance for COVID-19 preparations continued to push net foreign assets higher. This was also supported by a rise in net domestic assets, attributed to lower net credit to the central government as government deposits declined.

### Liquidity

Over the month and year to September 2021, liquidity in the financial system rose by \$15.2 million (3.0%) and \$178.5 million (50.7%), respectively. The higher commercial banks' Exchange Settlement Accounts (ESA) drove both increases, underpinned by net sales of foreign currencies to the Reserve Bank and the disbursement of official funds for Government projects over the month and the year. Currency in circulation rose corresponding with the events during the month and year, such as the churches' annual donations, the festive season, Kava Idol, and the Tonga High School Ex-Students' Fundraising. Statutory required reserves also increased, corresponding to the rise in total deposits, which stemmed mainly from the rise in deposits by the private sector, retirement funds, Government, and public enterprises.

## Lending

Credit growth remain subdued in September 2021. The banks' total lending declined by \$2.7 million (0.6%) over the month, and \$15.0 million (3.1%) annually to \$476.1 million. The monthly decline was driven by the lower business loans, while the annual decline was driven by contraction in both loans to businesses and households.

### Business lending

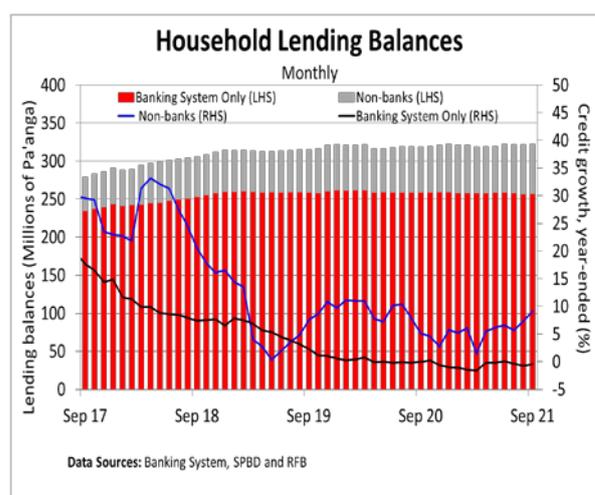
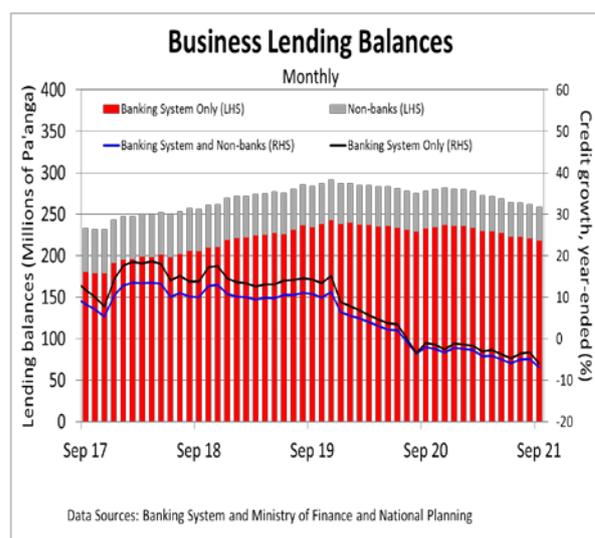
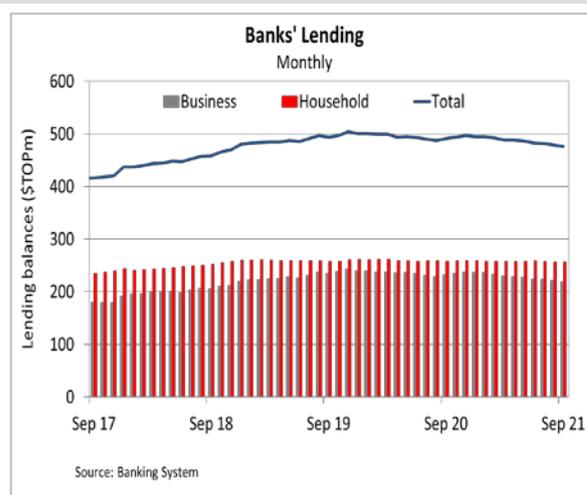
Over the month and year to September 2021, lending to businesses fell by \$3.0 million (1.3%) and \$14.0 million (6.0%) respectively. Over the month, lower loans were issued to the public enterprises as well as private businesses within the construction, professional & other services, and tourism sectors. Annually, the ongoing repayments of public enterprises' loans offset the new loans offered to the private businesses. Meanwhile, lower lending to businesses in the professional & other services, agricultural, and manufacturing sectors contributed to the annual decline. Borrowers remains cautious given the uncertainties associated with the COVID-19 developments. However, construction loans increased annually, reflecting the recovery works for TC Gita and TC Harold, and other construction projects.

### Household lending

Lending to households slightly rose in September 2021 by \$0.2 million (0.1%), however, declined annually by \$1.3 million (0.5%). Both housing and other personal loans increased over the month offsetting the decline in vehicle loans. However, annually, all housing, other personal, and vehicle loans fell.

### Non-bank financial institutions

The total loans extended by the non-bank financial institutions (NBFIs) increased over the month and year to September 2021 by \$0.7 million (1.1%) and



\$5.5 million (9.1%) respectively. These loans are mostly offered to individuals in the informal and small-medium-sized enterprises (SMEs). This reflects the NBFIs facilitating access to finance for the informal sector not served by the banking sector, thus supporting financial inclusion. However, this also raises concerns over household indebtedness.

### Non-performing loans

In September 2021, the non-performing loans accounted for 4.2% of total loans, similar to August 2021 but lower than 4.6% in September last year. Over the month, the repayment of some of the non-performing business loans improved, however they were mostly offset by rising non-performing vehicle and other personal loans. Annually, both non-performing business and household loans improved particularly in the forestry, transport, and professional & other service sectors as well as housing and vehicle loans.

Private individual loans maintained the highest share of non-performing loans at 65.0% which comprise mostly of housing and other personal loans. The remaining 35.0% are business loans in the Agriculture (24.5%), Distribution (2.9%), Fisheries (2.9%), Professional & Other Services (2.7%), and Other (2.0%) sectors.

### Deposits

The banks' total deposits increased over the month and year to September 2021, by \$6.3 million (0.8%) and \$148.8 million (22.9%) respectively. Over the month, more saving deposits were made by individuals and churches,

reflecting the month's festivities such as the womens' annual roll call, and the annual church donations (misinale). Similarly, retirement funds, money transfers, and insurance companies accounted for the rise in demand deposits over the month. However, the lower time deposits mainly reflected the maturing retirement funds' term deposits and contributes to the higher demand deposits.

Annually, higher demand deposits resulted from large deposits made by private businesses, government, and public enterprises. Similarly, the increase in saving deposits is attributed to more deposits made by the retirement funds, individuals, and churches. Furthermore, higher time deposits was underpinned by higher deposits from churches and schools.

The increasing deposits coupled with the ongoing decline in lending over the month resulted in a lower loans to deposit ratio of 58.2% in September 2021. This is compared to 59.0% and 74.0% recorded in August 2021 and September 2020 respectively, thus still remains below the 80% minimum threshold.

Table 2: Lending Balances (including new commitments)

	Level as at:			Change over the last:		Shares of totals %
	Sep 21 TOPm	Aug 21 TOPm	Sep 20 TOPm	1 month %	1 year %	
Lending, banks	476.1	478.8	491.1	-0.6	-3.1	100.0
Household	257.1	256.9	258.4	0.1	-0.5	54.0
Business*	218.7	221.6	232.7	-1.3	-6.0	45.9
Other	0.3	0.3	0.0	4.4	0.0	0.1
Lending, banks and other	581.4	584.0	596.4	-0.4	-2.5	100.0
Household**	322.5	321.6	318.3	0.3	1.3	55.5
Business	258.7	262.1	278.1	-1.3	-7.0	44.5
Other	0.3	0.3	0.0	4.4	0.0	0.1
New commitments, banks	11.3	21.2	12.0	-46.7	-6.2	N/A
Undrawn commitments, banks	9.6	17.4	14.0	-44.6	-31.4	N/A
Implied repayments, banks	7.8	-8.9	5.9	-186.7	31.4	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

Table 3: Deposit Balances

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	Monthly				Annual		
	Sep-21	Aug-21	Change	% Growth	Sep-20	Change	% Growth
Total Deposits (\$ in million)	799.3	793.1	6.3	0.8	650.5	148.8	22.9
Demand Deposits	343.9	339.9	4.0	1.2	268.6	75.3	28.0
Saving Deposits	178.5	170.4	8.1	4.7	120.2	58.3	48.5
Time Deposits	276.9	282.7	-5.8	-2.05	261.6	15.3	5.8

Sources: Banking Systems; NRB

## Interest rate spread

Over the month and year to September 2021, the weighted average interest rate spread widened by 7.4 basis points and 34.2 basis points, respectively. The monthly rise in the weighted average lending rates was due mainly to the increase in the lending rates offered to businesses such as utilities, manufacturing, and distribution sectors, and the households' housing loans. Meanwhile, the lower weighted average deposit rates over the month stems from declines in deposit rates offered to all three categories of deposits. Additionally, the higher volume of deposits also contributed to the lower weighted average deposit rates, while the lower volume of loans corresponds to the increased weighted average lending rates.

Similarly, over the year, the weighted average deposit rate declined as all rates offered to the three categories of deposits decreased, reflecting the rising volume of deposits. Nevertheless, the weighted average lending rate increased mainly on the back of rising interest rates on loans for businesses in the professional & other services, distribution, and fisheries sectors and households' vehicle and housing loans.

## Outlook

Credit growth is expected to remain subdued in the near term, while non-performing loans is projected to rise for 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 commitment loans. 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 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.

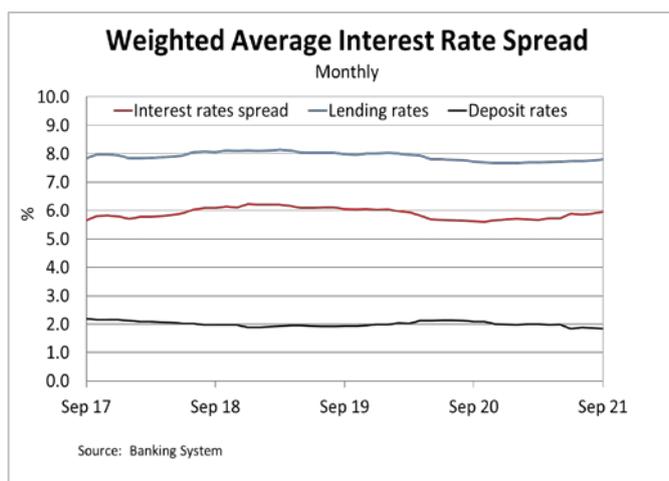


Table 4: Interest Rates

	Weighted average of all banks					
	Level as at			Change over the last <sup>A</sup>		Share of loans/deposits %
	Sep-21 %	Aug-21 %	Sep-20 %	1 month bps	1 year bps	
Interest Rate Spread	5.967	5.893	5.625	7.43	34.24	
Deposits all	1.84	1.87	2.10	-3.23	-25.94	100
Demand	0.36	0.36	0.38	-0.54	-2.62	41
Savings	2.43	2.46	2.60	-3.43	-17.45	24
Term	3.19	3.21	3.46	-1.82	-27.07	35
Loans all	7.81	7.76	7.72	4.20	8.29	100
Housing	8.10	8.09	8.05	0.71	4.81	44
Other personal	11.30	11.32	11.34	-1.47	-3.55	11
Business	7.29	7.17	7.34	11.07	-5.29	30
Other	9.40	8.78	0.00	61.85	940.23	15

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

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

Sources: Banking Systems; NRB