Banking Sector Developments

April 2020

Release date: 28 August 2020

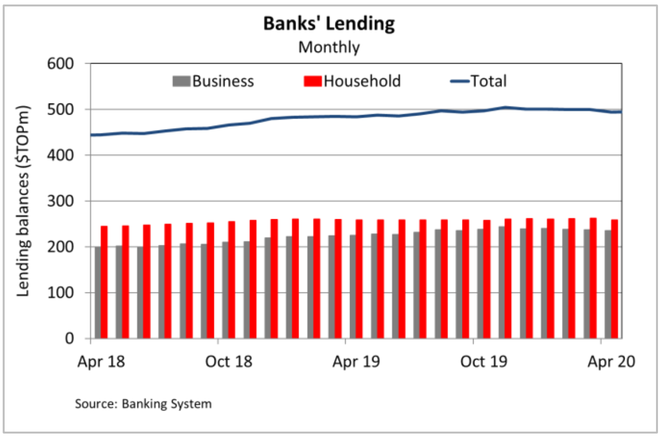
	Apr-20	Mar-20	Feb-20	Jan-20
Deposit rate (%)*	2.115	2.025	2.037	1.995
Lending rate (%)*	7.946	7.968	8.015	8.033
Total Deposits *(TSm)*	595.0	603.3	594.4	604.3
Total lending *(TSm)*	494.4	499.7	499.7	500.7
New commitments *(TSm)*	3.6	7.1	5.6	12.2
Broad Money *(TSm)*	581.6	596.4	590.1	592.5

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

Impacts of COVID-19 starts to emerge from the Banking indicators

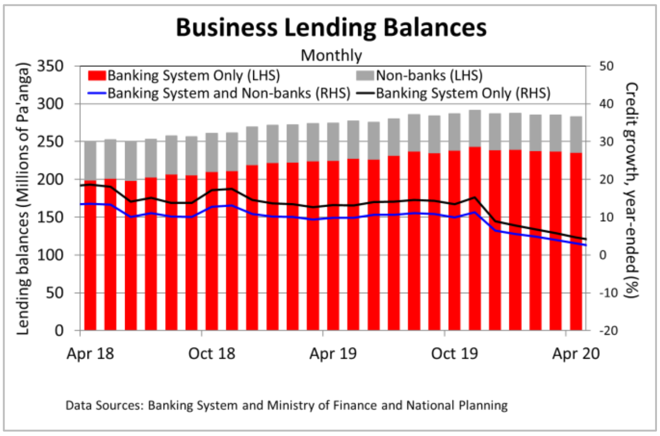
Lending

The banks' total lending lowered by $5.3 million (1.1%) in April 2020 due to a fall in loans for both businesses and individuals. However, lending rose over the year by $10.0 million (2.1%) to a total $494.4 million mainly driven by loans to the business sector.



Business lending

Lending to businesses fell in April 2020 by $1.8 million (0.8%) to $235.7 million. This was driven by lower loans to majority of all sectors except for construction and transport which rose over the month. Nonetheless, business loans increased over the year due to more loans issued to the agricultural, professional & other services, and communication sectors. The impacts of COVID-19 and TC Harold on the businesses and investment may also be contributing to the declining trend in business lending.



Household lending

Household loans fell over the month and year to April 2020, by $3.5 million (1.3%), and $0.2 million (0.1%) respectively to $225.1 million. The monthly movement was driven by loan write-offs mainly housing and other personal loans. The annual decline was attributed to lower personal loans which outweighed the rise in housing loans in the year to April 2020.

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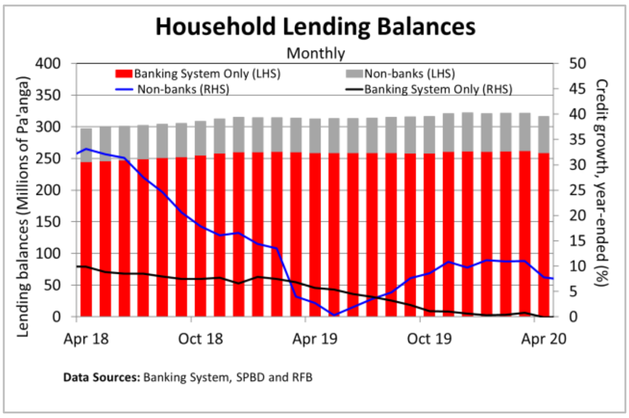
Other lending

Banks had no other lending over the month and have decreased over the year to April 2020, due to a decline in lending to non-profit institutions serving households.

Non-performing loans



Non-performing loans as a portion of total loans for the month of April 2020 fell to 3.7% from 4.3% in March 2020 and 3.8% in April 2019. Lower non-performing loans during the month was mainly due to write-offs of individual personal loans and settlement of some loans that were non-performing in the tourism sector. Commercial banks also offered moratoriums and loan restructures to assist customers who are affected by COVID-19 and TC Harold.

Non-bank financial institutions

Loans extended to the non-bank financial institutions fell over the month by $1.9 million (1.8%) due to lower lending offered However, it rose over the year by $2.0 million (2.0%) reflecting the accessibility of these loans to individuals in the informal sector and small medium enterprises. Government on-lent loans also declined over the month and year to April 2020 due to loan settlements.

Table 1: Lending Balances (including new commitments)

	Level as at:			Change over the last:		*Shares of totals*
	Apr 20 TOPm	**Mar 20 TOPm**	**Apr 19 TOPm**	**1 month %**	**1 year %**	*%*
Lending, banks	494.4	499.7	484.3	-1.1	2.1	100.0
Household	258.7	262.1	258.9	-1.3	-0.1	52.3
Business*	235.7	237.5	225.1	-0.8	4.7	47.7
Other	0.0	0.0	0.3	0.0	-100.0	0.0
Lending, banks and other	599.5	606.7	587.5	-1.2	2.1	100.0
Household**	316.5	321.7	312.6	-1.6	1.3	52.8
Business	283.0	285.0	274.6	-0.7	3.1	47.2
Other	0.0	0.0	0.3	0.0	-100.0	0.0
New commitments, banks	3.6	7.1	8.6	-48.5	-57.9	N/A
Undrawn commitments, banks	12.2	13.7	18.5	-10.8	-33.7	N/A
Implied repayments, banks	10.4	7.7	15.5	34.5	-33.0	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

Higher drawdown of deposits during April 2020 resulted in a decline of the banks total deposits over both the month and year by $8.4 million (1.4%) and $16.0 (12.1%) respectively. Demand and saving deposits fell over the month and offset the rise in time deposits. Lower demand deposits was due to drawdown of deposits by businesses for repatriation of funds offshore, largely associated with the impact of COVID-19. The decline in saving deposits was mainly driven by government re-investing in time deposits. Retirement fund investment also contributed to the rise in time deposits.

Similarly, the annual decline was mainly attributed to lower demand deposits by $33.3 million (12.1%), which outweighed a rise in savings and time deposits. Demand deposits fell underpinned by

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lower deposits from retirement funds, private businesses, and the government. Higher saving deposits was mainly from the private sector both individual and businesses. Time deposits was from retirement funds, non-profit organizations, and government.

The banks' total loans to deposit ratio increased from 81.0% to 81.3% over the month as deposits declined more than the decline in loans. Although this is above the Reserve Bank's minimum ratio of 80%, liquidity in the banking system still remains relatively high indicating that existing capacity is still available for further lending.

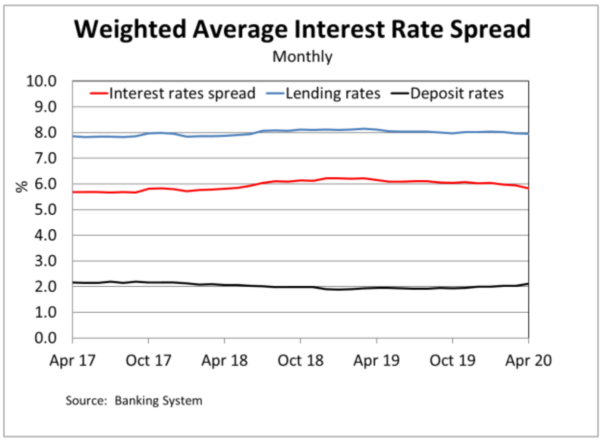
Table 2: Deposit Balances

	Monthly				Annual		
	Apr-20	**Mar-20**	Change	**% Growth**	**Apr-19**	Change	**% Growth**
Total Deposits ($ in million)	595.0	603.3	-8.4	-1.4	611.0	-16.0	-2.6
Demand Deposits	241.8	255.2	-13.4	-5.2	275.1	-33.3	-12.1
Saving Deposits	102.2	108.9	-6.6	-6.1	99.1	3.1	3.1
Time Deposits	251.0	239.3	11.6	4.9	236.7	14.2	6.0

Sources: Banking Systems; NRBT

Interest rate spread

The weighted average interest rate spread narrowed both over the month and in the year to April 2020 by 11.25 basis points and 32.66 basis points respectively. The monthly decline was due to a fall in the weighted average lending rate coupled with the increase in weighted average deposit rates. Lower average lending rates stems from the business loans for the tourism, trade, and construction sectors. However, the average deposit rates increased resulting mainly from a rise in all savings, demand and time deposit rates.



Similarly, the weighted average interest rate spread also narrowed annually as the weighted average lending rates declined coupled with the increase in weighted average deposit rates. The decrease in weighted average lending rates were mainly from 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 household 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					
	Level as at			Change over the last^		
	Apr-20 %	**Mar-20** %	**Apr-19** %	1 month bps	1 year bps	Share of loans/deposits %
Interest Rate Spread	5.831	5.943	6.157	-11.25	-32.66	
Deposits all	2.12	2.02	1.95	9.06	16.18	100
Demand	0.36	0.34	0.43	1.90	-7.49	39
Savings	2.61	2.52	2.58	9.37	3.29	18
Term	3.49	3.49	3.42	0.10	6.30	43
Loans all	7.95	7.97	8.11	-2.19	-16.48	100
Housing	8.05	8.05	8.26	0.20	-20.33	42
Other personal	10.82	11.27	11.49	-44.99	-67.04	11
Business	7.94	7.97	7.82	-3.41	11.19	29
Other	0.00	0.00	6.25	0.00	-625.00	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

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Broad money

Broad money fell over the month of March 2020 by $14.8 million (2.5%) due to lower net domestic assets as credit to the government and private sectors [1] declined. This offset the increase in net foreign assets from the receipts of budgetary support and grants for COVID-19 assistance. In year-ended terms, the decline in broad money was again driven solely by lower net domestic assets due to higher government deposits.

Table 4: Consolidated Balance Sheet of Depository Corporations

	Level as at			Change over the last	
	Apr-20 $TOPm	Mar-20 $TOPm	Apr-19 $TOPm	1 month % growth	1 year % growth
Broad money liabilities	**581.6**	**596.4**	**585.9**	**-2.5**	**-0.7**
Currency in circulation	66.3	66.3	60.7	0.0	9.2
Demand deposits	196.6	216.6	219.1	-9.3	-10.3
Savings and term deposits*	318.7	313.4	306.1	1.7	4.1
equals					
Net foreign assets	**503.3**	**485.3**	**482.6**	**3.7**	**4.3**
plus					
Net domestic assets	**79.0**	**111.7**	**103.8**	**-29.3**	**-23.9**
Gross bank lending**	493.2	500.0	490.0	-1.4	0.6
Public enterprises	62.1	61.6	60.9	0.7	1.8
Private Sector	428.9	436.2	426.0	-1.7	0.7
Other financial corporations	2.2	2.2	3.1	2.0	-28.6
Other***	-414.2	-388.3	-386.2	6.7	7.3

* 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

Liquidity

Liquidity in the banking system continued to decline both over the month and year to April 2020 by $12.1 million (4.1%) and $25.3 million (8.3%) respectively. This was mainly driven by the decline in the exchange settlement accounts on higher deposits drawdown to cater for outgoing payments and government transfers for import payments and other COVID-19 preparations. It also included withdrawals by the commercial banks for business payments of imports and services during the month. Nonetheless, there is still excess liquidity in the banking system which can be utilized for further lending.

Outlook

Credit growth is expected to slow down in the near term due to the COVID-19 outbreak affecting various sectors of the economy. This poses high uncertainties to the level of economic activities, which will also consequently affect the public's access to lending and financing. Tonga has also declared a state of emergency and closed its international border to international flights since March. Hence, banks are offering COVID-19 relief packages conditional on the impact of these unprecedented economic conditions on customers. In the meantime, 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 continue to closely monitor the growth across all monetary indicators, particularly credit growth and broad money movements, and to ensure financial and macroeconomic stability is maintained.

[1] Excludes public enterprises

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