Banking Sector Developments

July 2020

Release date: 30 October 2020

	Jul-20	Jun-20	May-20	Apr-20
Deposit rate (%)*	2.133	2.139	2.119	2.115
Lending rate (%)*	7.807	7.811	7.814	7.946
Total Deposits *(TSm)*	625.1	619.2	602.0	595.0
Total lending *(TSm)*	490.4	492.9	495.4	494.4
New commitments *(TSm)*	8.1	6.1	8.5	3.6
Broad Money *(TSm)*	616.9	607.1	592.2	581.6

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

Official receipts drove the higher liquidity in the banking system

Broad money

Broad money rose over the month and year to July 2020 by $9.8 million (1.6%) and $21.6 million (3.6%) respectively to a total $616.9 million. This increase was mainly attributed to the higher level of foreign reserves in July 2020, which increased the net foreign assets. Net domestic assets also supported the monthly movement with higher drawdowns of government deposits from the Reserve Bank to cater to government operations.

Table 4: Consolidated Balance Sheet of Depository Corporations

	Level as at			Change over the last	
	Jul-20 $TOPm	Jun-20 $TOPm	Jul-19 $TOPm	1 month % growth	1 year % growth
Broad money liabilities	**616.9**	**607.1**	**595.3**	**1.6**	**3.6**
Currency in circulation	76.1	71.4	64.3	6.6	18.4
Demand deposits	206.3	201.8	208.8	2.2	-1.2
Savings and term deposits*	334.5	333.9	322.2	0.2	3.8
equals					
Net foreign assets	**579.0**	**570.6**	**510.0**	**1.5**	**13.5**
plus					
Net domestic assets	**38.5**	**37.2**	**85.7**	**3.6**	**-55.1**
Gross bank lending**	489.9	492.4	492.2	-0.5	-0.5
Public enterprises	59.3	61.6	61.2	-3.8	-3.0
Private Sector	428.1	428.4	427.6	-0.1	0.1
Other financial corporations	2.4	2.4	3.5	2.6	-30.4
Other***	-451.3	-455.2	-406.5	-0.9	11.0

* 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

In the year to July 2020, net foreign assets drove the higher level of money supply supported by the significant rise in foreign reserves. These were inflows of official funds for budget support, government projects, TC Harold assistance, and COVID-19 related preparations. Nonetheless, the rise in government deposits from the receipts of these official funds lowered net domestic assets over the year.

Liquidity

The higher reserve money in July 2020 stems from a rise in the commercial banks' ESA (Exchange Settlement Account), coinciding with an increase in banks' total deposits. Currency in circulation and banks required reserves also increased and supported the high level of liquidity in the banking system.

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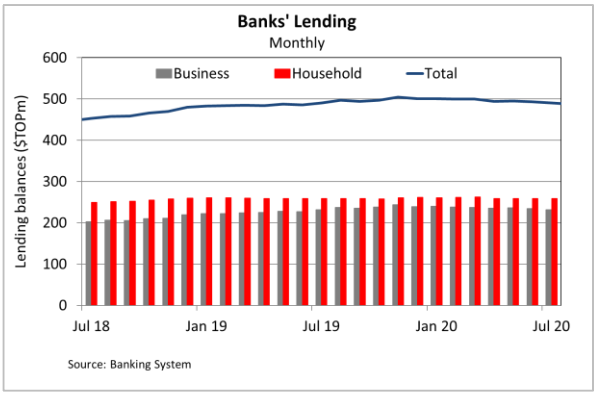
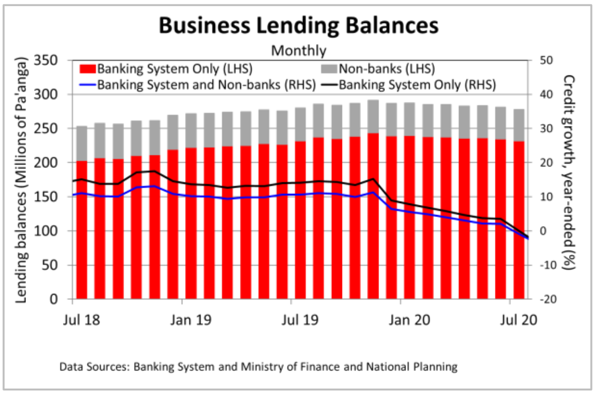
Lending



Loan activities remained subdued, mostly demand-driven as the public appears to have a tendency to save rather than to invest during these uncertain times. On the other hand, commercial banks are becoming more risk-averse. As such, banks' total lending declined by $2.5 million (0.5%) during July 2020, as a result of lower business loans, offsetting a slight rise in household loans. However, in the year to July 2020, household loans drove the overall decline in total loans by $0.5 million (0.1%) to a total of $490.4 million.

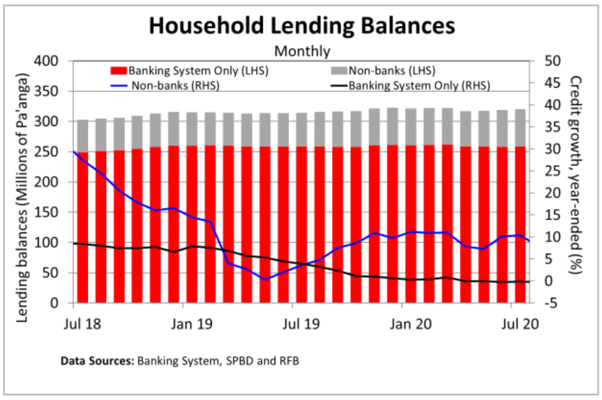
Business lending



Total lending to businesses fell by $3.0 million (1.3%) in July 2020. Lending to businesses in the professional & other services sector, public enterprises, manufacturing, construction, and agriculture sectors drove this decline. This may also indicate the impact of COVID-19 on most of the businesses. However, the new commitment loans extended to businesses grew slightly by $0.2 million (13.5%) and outweighed the normal run-offs in outstanding loan balances at the end of each month.

Annually, business loans were constant at a total of $231.5 million as higher loans to the professional & other services, tourism, agriculture, and construction sectors was offset by the decline in lending to the wholesale & retail, manufacturing, and transport sectors.

Household lending



Household loans increased slightly by $0.5 million (0.2%) in July 2020 due to the rise in loans for housing and other personal loans (including vehicle). However, lending to households lowered over the year by $0.3 million (0.1%). The continuous demand for housing construction and renovation works by private households drove the total housing loans higher. However, the decline in other personal loans outweighed this increase.

Non-bank financial institutions

Loans extended to the non-bank financial institutions rose in July 2020 by $0.7 million (1.3%) to a total of $60.5 million. Majority of these loans are to individuals in the informal sector and small-medium enterprises reflecting the accessibility of these loans. The ongoing loan repayments continued to drive the total government on-lent loans lower both in the month and year to July 2020.

Non-performing loans

In July 2020, non-performing loans as a share of total loans fell from 4.4% in June 2020 to 4.3%, however this was higher than the 3.1% in July 2019. Restructured loans mostly drove the non-

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performing loans lower, over the month. Higher non-performing loans over the year was attributed to the lower proceeds from the damaged squash that was exported, affecting the repayment on agriculture loans.

Table 1: Lending Balances (including new commitments)

	Level as at:			Change over the last:		*Shares of totals*
	Jul 20 TOPm	**Jun 20 TOPm**	**Jul 19 TOPm**	**1 month %**	**1 year %**	*%*
Lending, banks	490.4	492.9	490.8	-0.5	-0.1	100.0
Household	258.9	258.4	259.2	0.2	-0.1	52.8
Business*	231.5	234.5	231.5	-1.3	0.0	47.2
Other	0.0	0.0	0.2	0.0	-100.0	0.0
Lending, banks and other	597.4	599.7	594.4	-0.4	0.5	100.0
Household**	319.4	318.2	314.0	0.4	1.7	53.5
Business	278.0	281.5	280.2	-1.3	-0.8	46.5
Other	0.0	0.0	0.2	0.0	-100.0	0.0
New commitments, banks	8.1	6.1	13.8	33.3	-41.2	N/A
Undrawn commitments, banks	11.2	11.2	15.7	0.0	-28.5	N/A
Implied repayments, banks	10.6	8.9	19.7	19.6	-45.9	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 by $5.9 million (1.0%) in July 2020 mainly from the central government and the private sector. Private Sector businesses and individuals were the main contributors to higher savings and demand deposits. The rise in remittance receipts during the month also contributed to household savings. This also reflects the fall in consumer demand despite rising remittances. In addition to the cancellation of events, consumers were more cautious by budgeting spending and have set aside more savings due to the uncertainties posed by COVID-19. Time deposits rose by $2.8 million (1.0%) owed mainly to investments by the government.

Annually, total deposits rose by $11.9 million (1.9%) driven mainly by a $28.8 million (12.2%) increase in time deposits from retirement funds, central government, and the private sector. This was partially offset by a decline in demand and savings deposits. These drawdowns are due to repatriation of funds offshore, and other commitments largely associated with the impact of COVID-19.

As total deposits rose compared to the decline in total loans, the banks' total loans to deposit ratio fell to 76.8% in July 2020 from 77.9% in June 2020, below the 80% minimum ratio.

Table 2: Deposit Balances

	Monthly				Annual		
	Jul-20	**Jun-20**	Change	**% Growth**	**Jul-19**	Change	**% Growth**
Total Deposits ($ in million)	625.1	619.2	5.9	1.0	613.2	11.9	1.9
Demand Deposits	245.3	243.6	1.7	0.7	261.8	-16.5	-6.3
Saving Deposits	114.5	113.0	1.5	1.3	114.9	-0.5	-0.4
Time Deposits	265.4	262.6	2.8	1.0	236.5	28.8	12.2

Sources: Banking Systems; NRBT

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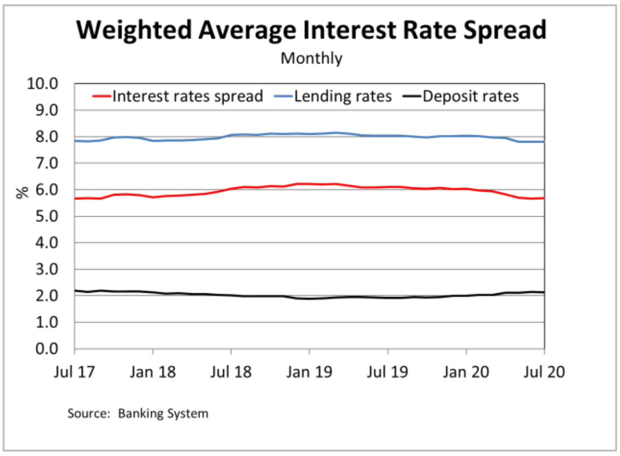
Interest rate spread

The weighted average interest rate spread rose slightly in the month of July 2020 as the weighted average deposit rates declined more than the decrease in the weighted average lending rates. The weighted average deposit rates declined due to lower rates offered for demand, savings, and time deposits. Lower average lending rates were mainly for businesses in line with the fall in banks' total lending. The lower lending interest rates also reflect the COVID-19 relief packages offered by some banks to selected customers.



However, the weighted interest rate spread continued to narrow in the year to July 2020. The weighted average lending rates declined mainly on all household loans as well as business loans for the mining & quarrying, tourism, fisheries, and professional & other services sectors. Weighted average deposit rates, however, rose on higher deposit rates for savings, demand, and term deposit rates.

Table 3: Interest Rates

Weighted average of all banks						
	Level as at			Change over the last^		
	Jul-20 %	Jun-20 %	Jul-19 %	1 month bps	1 year bps	Share of loans/deposits %
Interest Rate Spread	5.674	5.671	6.107	0.25	-43.32	
Deposits all	2.13	2.14	1.93	-0.67	20.73	100
Demand	0.37	0.38	0.27	-0.76	9.71	37
Savings	2.60	2.62	2.58	-1.94	1.83	19
Term	3.45	3.45	3.39	-0.21	5.67	43
Loans all	7.81	7.81	8.03	-0.42	-22.59	100
Housing	8.02	8.02	8.19	0.25	-16.87	43
Other personal	10.59	10.59	11.45	0.01	-86.69	11
Business	7.59	7.64	7.68	-4.81	-9.56	28
Other	0.00	0.00	6.25	0.00	-625.00	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 expects credit growth to remain subdued and eventually wind down further in the near term underpinned by the extreme uncertainties of the COVID-19 pandemic, weakening investment appetite, and softening aggregate demand. Tonga's extended state of emergency and border lockdown since March has triggered banks to offer COVID-19 relief packages only to affected customer. 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 recovery and 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.

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