Banking Sector Developments

March 2020

Release date: 30 July 2020

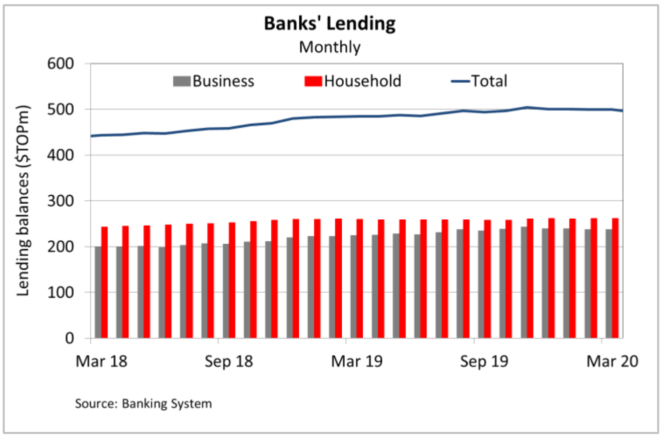
	Mar-20	Feb-20	Jan-20	Dec-19
Deposit rate (%)*	2.025	2.037	1.995	1.994
Lending rate (%)*	7.968	8.015	8.033	8.020
Total Deposits *(TSm)*	603.3	594.4	604.3	607.4
Total lending *(TSm)*	499.7	499.7	500.7	500.9
New commitments *(TSm)*	7.1	5.6	12.2	14.6
Broad Money *(TSm)*	596.4	590.1	592.5	602.2

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

Deposits increased while credit growth was stagnant in March 2020

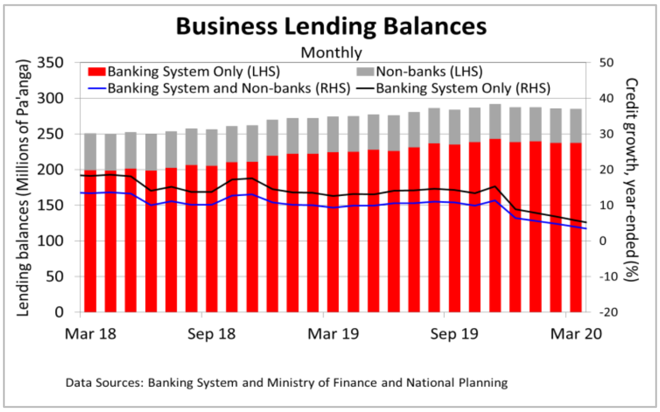
Lending

The banks' total lending marginally fell in March 2020 by $0.1 million (0.02%) to $499.7 million, similar to the total loans recorded in February 2020. Lending to businesses fell whilst household loans rose. However, total lending rose over the year by $14.7 million (3.0%) year due to an increase in both loans to businesses and households.



Business lending

Lending to businesses fell in March 2020 by $0.3 million (0.1%) to $237.5 million. These were mainly driven by lower lending to the distribution, manufacturing, and utilities sectors due to a decline in outstanding loan balances of relevant businesses. However, business loans increased over the year due to more loans issued to the agricultural, professional & other services, and tourism sectors.



Household lending

Household loans grew over the month and year to March 2020, by $0.3 million (0.1%), and $2.1 million (0.8%) respectively to $262.1 million. The monthly rise was driven by higher lending for housing, vehicles, and other personal loans. Annual growth of household lending was solely driven by individual housing loans.

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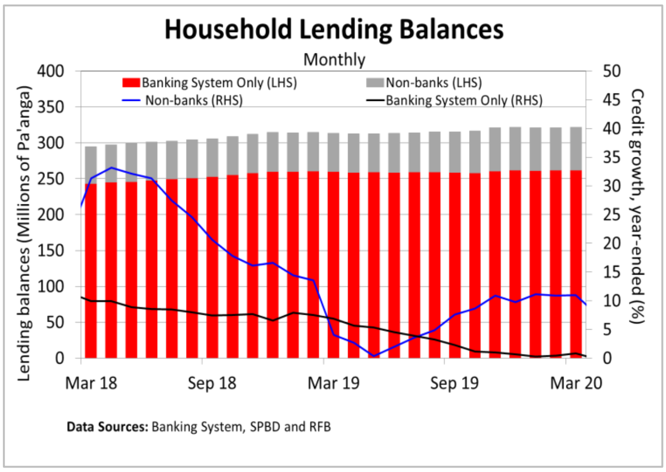
Other lending

Banks has no other lending over the month and have decreased over the year to March 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 March 2020 rose to 4.3% from 3.4% in February 2020 and 3.7% in March 2019. Non-performing loans rose during the month mainly on non-performing loans from the banks' lending to the agriculture, fisheries, and tourism sectors. The non-performing loans on government development loans also rose driven by loans to the agricultural and fisheries sector.

Non-bank financial institutions

Loans extended to the non-bank financial institutions slightly increased over the month and year by $0.1 million (0.1%) and $3.9 million (3.8%), respectively. These movements reflect the accessibility of these loans to individuals in the informal sector and small medium enterprises. Government on-lent loans remained the same over the month, however, decreased by 4.0% over the year due to loan settlements.

Table 1: Lending Balances (including new commitments)

	Level as at:			Change over the last:		*Shares of totals*
	Mar 20 TOPm	**Feb 20 TOPm**	**Mar 19 TOPm**	**1 month %**	**1 year %**	*%*
Lending, banks	499.7	499.7	484.9	0.0	3.0	100.0
Household	262.1	261.9	260.0	0.1	0.8	52.5
Business*	237.5	237.8	224.6	-0.1	5.7	47.5
Other	0.0	0.0	0.3	0.0	-100.0	0.0
Lending, banks and other	606.7	606.7	588.1	0.0	3.2	100.0
Household**	321.7	321.4	313.7	0.1	2.6	53.0
Business	285.0	285.3	274.1	-0.1	4.0	47.0
Other	0.0	0.0	0.3	0.0	-100.0	0.0
New commitments, banks	7.1	5.6	11.2	26.0	-36.9	N/A
Undrawn commitments, banks	13.7	14.3	24.8	-4.2	-44.6	N/A
Implied repayments, banks	7.7	7.6	2.2	1.4	249.8	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

The banks total deposits rose during the month of March 2020 by $8.9 million (1.5%). This monthly movement was the result of higher savings, and demand deposits while time deposits declined. The rise in savings deposit was mainly from the central government. Higher demand deposits were driven by the private sector from both businesses and individuals. Although the total time deposits declined over the month, time deposits by the public enterprises increased.

However, the total deposits fell by $3.3 million (0.5%) in the year to March 2020 due to lower demand and time deposits which outweighed a rise in savings deposits. Demand deposits fell by $10.4 million

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(3.9%) underpinned mainly by lower deposits from government, and retirement funds. The decline in time deposits was from public enterprises, and non-bank financial corporations. Government deposits, private non-bank companies, and non-profit organizations were the main contributor for the higher saving deposits over the year.

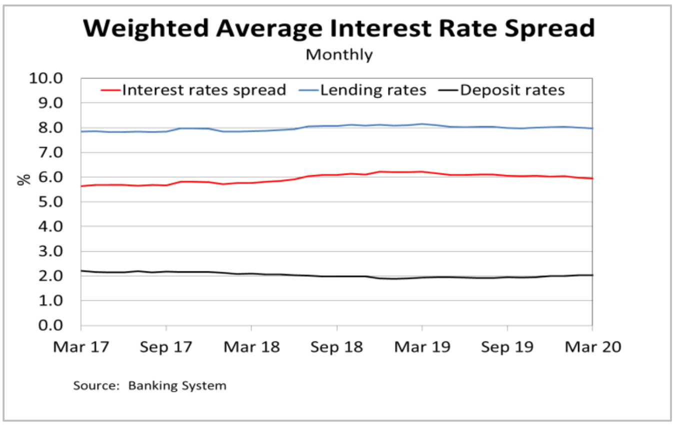
Table 2: Deposit Balances

	Monthly				Annual		
	Mar-20	**Feb-20**	Change	**% Growth**	**Mar-19**	Change	**% Growth**
Total Deposits ($ in million)	603.3	594.4	8.9	1.5	606.6	-3.3	-0.5
Demand Deposits	255.2	250.9	4.3	1.7	265.6	-10.4	-3.9
Saving Deposits	108.9	101.5	7.4	7.2	100.7	8.2	8.1
Time Deposits	239.3	242.1	-2.7	-1.1	240.4	-1.1	-0.4

Sources: Banking Systems; NRBT

Interest rate spread

The weighted average interest rate spread narrowed in March 2020 by 3.40 basis points to 5.94%. This was due mostly to a decline in the weighted average lending rate by 4.64 percentage points greater than the decline in weighted average deposit rates of 1.24 percentage points. Lower average lending rates were due to a marginal decline in individual loans for housing and other personal loans. Although the total average business lending increased, business loans for the mining & quarrying sectors, public enterprises, and construction businesses declined over the month. The average deposits rate also fell resulting from a decline in savings deposit rate.



Similarly, the weighted average interest rate spread also narrowed over the year by 27.59 percentage points. This is attributed to a decline in weighted average lending rates coupled with the increase in weighted average deposit rates. The decrease in weighted average lending rates were mainly on individual housing loans and business loans for the mining & quarrying, tourism, and fisheries sectors. Meanwhile, the increase of weighted average deposit rates was due to a rise in term deposit rates.

Table 3: Interest Rates

	Weighted average of all banks					
	Level as at			Change over the last^		
	Mar-20 %	**Feb-20** %	**Mar-19** %	1 month bps	1 year bps	Share of loans/deposits %
Interest Rate Spread	5.943	5.977	6.219	-3.40	-27.59	
Deposits all	2.02	2.04	1.93	-1.24	9.08	100
Demand	0.34	0.32	0.34	1.67	-0.50	41
Savings	2.52	2.58	2.59	-6.42	-6.75	19
Term	3.49	3.47	3.39	1.39	9.79	40
Loans all	7.97	8.01	8.15	-4.64	-18.51	100
Housing	8.05	8.05	8.24	-0.27	-18.70	42
Other personal	11.27	11.27	11.49	0.16	-22.04	11
Business	7.97	7.84	7.98	12.81	-0.76	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 rose over the month and year to March 2020 by $6.2 million (1.1%) and $12.9 million (2.2%) respectively to a total $596.4 million. Higher net domestic assets was mainly due to higher net credit to government from new bonds issued in March 2020, and a rise in credit to private sectors[1]. Net foreign assets fell over the month, in line with lower foreign reserves during March 2020. This was due to loan repayments, and payments for imported goods and services. However, net foreign assets rose over the year attributing to lower foreign liabilities on foreign currency loans.

Table 4: Consolidated Balance Sheet of Depository Corporations

	Level as at			Change over the last	
	Mar-20	Feb-20	Mar-19	1 month	1 year
	$TOPm	$TOPm	$TOPm	% growth	% growth
Broad money liabilities	**596.4**	**590.1**	**583.5**	**1.1**	**2.2**
Currency in circulation	66.3	63.2	60.9	4.9	8.9
Demand deposits	216.6	210.3	211.8	3.0	2.3
Savings and term deposits*	313.4	316.6	310.8	-1.0	0.8
equals					
Net foreign assets	**485.3**	**494.9**	**482.0**	**-2.0**	**0.7**
plus					
Net domestic assets	**111.7**	**95.8**	**101.9**	**16.6**	**9.6**
Gross bank lending**	500.0	499.7	490.4	0.1	2.0
Public enterprises	61.6	61.7	60.4	-0.1	2.1
Private Sector	436.2	435.6	427.8	0.1	2.0
Other financial corporations	2.2	2.4	2.2	-8.7	-2.7
Other***	-388.3	-403.9	-388.5	-3.9	-0.1

* 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

Although the liquidity in the banking system has been constantly declining since January 2020, the banking system remained sound over March 2020. Liquidity in the banking system decreased over the month and year to March 2020 by $5.3 million (1.8%) and $12.8 million (4.2%) respectively to $292.6 million. These movements were mostly driven by the decline in the exchange settlement accounts mainly on higher withdrawals to cater for government loan repayments and payments for oil and other imports. The required reserves also fell during the month and year to March 2020 and contributed to the lower liquidity. Hence, the currency circulated has increased on a monthly and yearly basis. The banks' total loans to deposit ratio fell from 82.2% to 81.0% over the month which is above the Reserve Bank minimum ratio of 80%, reflecting the rise in deposits as total loans declined.

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 closes its international border to international flights since March. Hence, banks' are offering COVID-19 relief packages conditional on the impacts these unprecedented situations has on each customer. 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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