

Banking Sector Developments April 2021

Release date: 19 July 2021

	Apr-21	Mar-21	Feb-21	Jan-21
Deposit rate (%)*	1.978	2.007	2.002	1.972
Lending rate (%)*	7.711	7.687	7.694	7.681
Total Deposits (T\$m)	721.3	708.6	703.1	710.8
Total lending (T\$m)	488.1	488.8	492.2	494.5
New commitments (T\$m)	8.4	7.3	6.4	6.8
Broad Money (T\$m)	712.3	707.6	703.4	706.9

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

Total deposits picked up while total lending slowed slightly

Broad money

Over the month and year to April 2021, broad money grew by \$4.8 million (0.7%) and \$130.8 million (22.5%), respectively, to a new high level of \$712.3 million. This reflects consistent increases in the currency in circulation and deposits in the banking system. The net domestic assets improved over the month and outweighed the decline in net foreign assets.

Annually, net foreign assets increased further and offset the lower net domestic assets. Receipt of official funds for loans,

budget support, projects, and financial assistance for COVID-19 preparations from development partners, pushed foreign reserves higher over the year. These funds also led to an increase in government deposits, leading to lower net domestic assets.

Liquidity

Liquidity in the financial system increased again over the month and year to April 2021, by \$21.1 million (5.0%) and \$166.4 million (59.3%), respectively, to a new high level of \$447.0 million. Both rises were attributed to increases in all categories. The bank's Exchange Settlement Account rose the most, coinciding with higher transfers from the Reserve Bank to the commercial banks to assist with government operations and payments for projects such as Tropical Cyclone Gita & Harold reconstructions. Currency in circulation followed, in line with the festivities during the month and year, such as the churches' annual donations, Christmas and New Year festivities, Easter, Kava Idol, and the Tonga High School Ex-Students' Fundraising. Required reserves also increased, corresponding to the rise in total deposits.

	Level as at			Change over the last	
	Apr-21 \$TOPm	Mar-21 \$TOPm	Apr-20 \$TOPm	1 month % growth	1 year % growth
Broad money liabilities	712.3	707.6	581.6	0.7	22.5
Currency in circulation	91.5	85.5	66.3	7.0	38.0
Demand deposits	248.7	253.2	196.6	-1.8	26.5
Savings and term deposits*	372.2	368.9	318.7	0.9	16.8
<i>equals</i>					
Net foreign assets	715.5	717.6	503.3	-0.3	42.2
<i>plus</i>					
Net domestic assets	-2.3	-9.2	78.9	-75.5	-102.9
Gross bank lending**	489.9	490.5	493.2	-0.1	-0.7
Public enterprises	53.1	54.5	62.1	-2.5	-14.4
Private Sector	434.9	434.2	428.9	0.2	1.4
Other financial corporations	1.9	1.8	2.2	0.7	-16.2
Other***	-492.1	-499.7	-414.3	-1.5	18.8

* 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

Lending

Over the month and year to April 2021, the banks' total lending fell by \$0.8 million (0.2%) and \$6.3 million (1.3%), respectively. Both declines were mostly driven by the loan run-offs and repayments made by businesses. Household loans slightly rose over the month, however, they declined annually.

Business lending

Lending to businesses declined over the month and year to April 2021 by \$0.9 million (0.4%) and \$6.3 million (2.7%), respectively. The monthly decline was attributed to loan run-offs and repayments made by public enterprises and businesses in the wholesale & retail, manufacturing, and tourism sectors. Similarly, the loan run-offs and repayments made by public enterprises, professional & other business services, manufacturing and transport sectors contributed to the annual decline. The slowdown in business lending reflects the impact of COVID on investment, as businesses remain cautious of the uncertainties while focusing on meeting their current financial obligations.

Household lending

However, household loans slightly increased over the month of April 2021, although they declined annually by \$0.2 million (0.1%) and \$0.4 million (0.2%). Both housing and vehicle loans rose over the month, while the decline in other personal loans drove the annual decline.

Non-bank financial institutions

The total loans extended by the non-bank financial institutions increased over the month and year to April 2021 by \$0.6 million (1.0%) and \$3.2 million (5.5%). These loans are mostly offered to individuals in the informal and small-medium-sized enterprises (SMEs). This implies that non-bank financial institutions play a more significant role in financial accessibility during the global pandemic. However, this may also contribute to household indebtedness.

Non-performing loans

In April 2021, the non-performing loans increased slightly to 3.73% from 3.70% last month and 3.68% last year. The increase in non-performing loans over the month attributed to higher non-performing loans from businesses in the forestry, manufacturing, agriculture, and fisheries sectors as well as households' other personal loans. Delayed projects due to COVID-19 triggered the deterioration in the forestry sector repayments. At the same time, the unsuccessful squash season is the main driver of the non-performing agricultural sector.

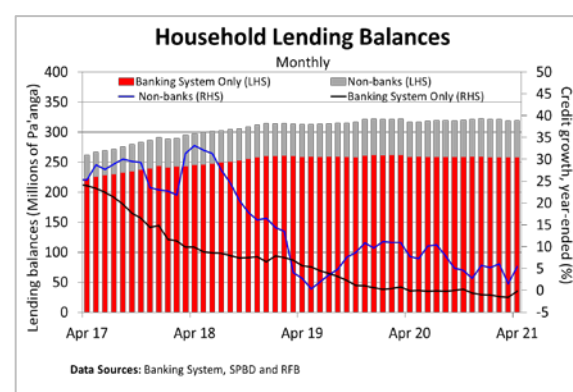
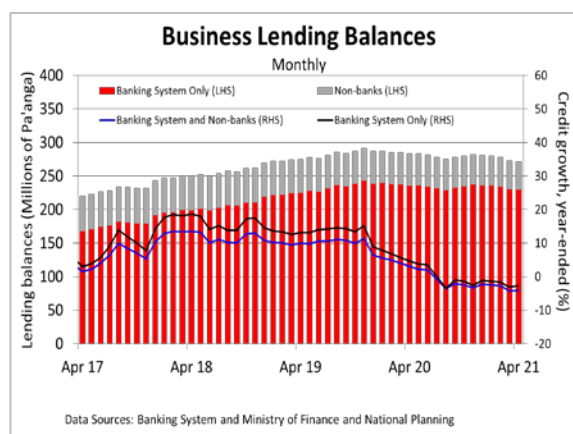
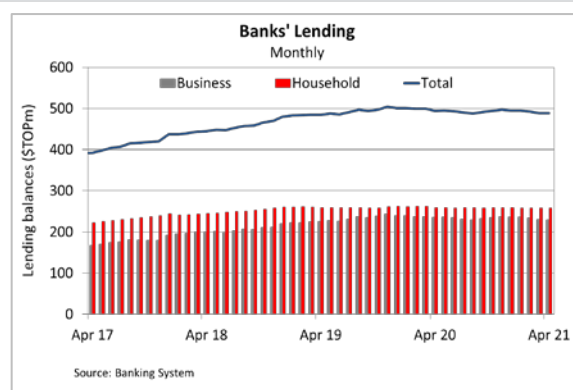


Table 2: Lending Balances (including new commitments)

	Level as at:			Change over the last:		Shares of totals %
	Apr 21 TOPm	Mar 21 TOPm	Apr 20 TOPm	1 month %	1 year %	
Lending, banks	488.1	488.8	494.4	-0.2	-1.3	100.0
Household	258.2	258.1	258.7	0.1	-0.2	52.9
Business*	229.4	230.3	235.7	-0.39	-2.7	47.0
Other	0.4	0.5	0.0	0.0	0.0	0.1
Lending, banks and other	591.2	592.0	599.5	-0.1	-1.4	100.0
Household**	319.3	318.5	316.5	0.2	0.9	54.0
Business	271.5	273.0	283.0	-0.5	-4.1	45.9
Other	0.4	0.5	0.0	0.0	0.0	0.1
New commitments, banks	8.4	7.3	3.6	16.3	132.1	N/A
Undrawn commitments, banks	11.1	9.5	12.2	16.9	-9.1	N/A
Implied repayments, banks	-1.6	-0.7	10.4	135.4	-115.5	N/A

* Method for calculating this series was updated in August 2014, resulting in revisions to the full history of data

** Method for calculating this series was updated in January 2020, resulting in revisions to the full history of data

Sources: SPBD; RFB; MOFNP; Banking system

Similarly, the higher non-performing loans over the year stem from forestry, constructions, agricultural sectors, and higher non-performing loans from households' housing loans. In addition to the poor squash season, deceased borrowers, migration, and borrowers on study leave also contributed to the higher non-performing loans. Private individual loans maintained the highest share of non-performing loans with a share of 57.1%. These are mostly housing loans, the remaining 42.9% are business loans in Agriculture (19%), Forestry (9%), Construction (6%), and Professional & Other Services (4%). The Government's fiscal stimulus package coupled with the commercial banks' COVID-19 relief packages for their clients has helped to maintain the low rate of non-performing loans.

Deposits

Table 3: Deposit Balances

	Monthly				Annual		
	Apr-21	Mar-21	Change	%	Apr-20	Change	%
				Growth			Growth
Total Deposits (\$ in million)	721.3	708.6	12.7	1.8	595.0	126.3	21.2
Demand Deposits	296.6	294.9	1.7	0.6	241.8	54.8	22.7
Saving Deposits	134.4	131.5	2.9	2.2	102.2	32.2	31.5
Time Deposits	290.3	282.3	8.1	2.9	251.0	39.4	15.7

Sources: Banking Systems; NRB

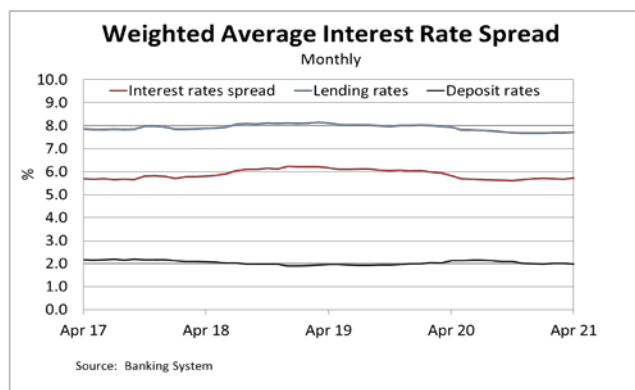
The banks' total deposits rose over the month and year to April 2021 by \$12.7 million (1.8%) and \$126.3 million (21.2%), respectively. Both rises attributed to an increase in all the three categories of deposits. Over the month, time deposits rose the most due to higher deposits from the central Government and private businesses. Saving deposits followed with more deposits made by retirement funds and individuals. Demand deposits also increased due to higher deposits from the central Government, public enterprises, private businesses, and schools, reflecting higher remittances, particularly for school fundraising activities.

Similarly, over the year, the demand deposits increased the most, underpinned by deposits from private businesses, public enterprises, churches, and schools. The higher time deposits also increased, mostly from church and school deposits, central government deposits as well as deposits from private businesses. Furthermore, saving deposits also rose due to more deposits made from individuals, retirement funds, churches, and schools.

The increase in total deposits and the decline in total lending resulted in a lower loan to deposit ratio of 66.0% in April 2021, a fall from 67.2% last month and still below the 80% minimum, reflecting the available liquidity in the banking system for further lending.

Interest rate spread

The weighted average interest rate spread widened in April 2021 by 5.3 basis points, underpinned by higher weighted average lending rates and lower weighted average deposit rates. The higher lending rates over the month reflects the increase in loan rates offered to businesses in the manufacturing, distribution, and professional & other services sectors, as well as households' housing and vehicle loan rates. The decrease in deposit rates attributed to declines in both demand and time deposit rates outweighed the increase



in saving deposit rates.

	Weighted average of all banks					
	Level as at			Change over the last [^]		Share of loans/deposits %
	Apr-21 %	Mar-21 %	Apr-20 %	1 month bps	1 year bps	
Interest Rate Spread	5.733	5.680	5.829	5.27	-9.61	
Deposits all	1.98	2.01	2.12	-2.88	-13.88	100
Demand	0.34	0.38	0.36	-3.86	-1.71	39
Savings	2.56	2.56	2.61	0.71	-5.00	20
Term	3.24	3.32	3.49	-7.95	-25.40	41
Loans all	7.71	7.69	7.95	2.39	-23.49	100
Housing	8.08	8.08	8.05	0.15	2.77	43
Other personal	11.31	11.32	11.36	-0.77	-4.43	11
Business	7.12	7.06	7.94	6.12	-81.78	30
Other	8.63	8.77	0.00	-13.56	863.44	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

in saving deposit rates.

However, annually, the weighted average interest rates narrowed by 9.6 basis points to 5.7%. The weighted average lending rates decreased more than the fall in weighted average deposit rates. The lower weighted average lending rates were due mainly to lower rates on household other personal loans, and loans to the construction, utilities, and agricultural sectors. Similarly, the lower deposit rates were driven by decreases in all three categories of deposits (term, savings, and demand).

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 households' housing and personal loans. These are mostly driven by the uncertainties of the COVID-19 pandemic, weak investment appetite, and softening aggregate demand. The Reserve Bank and the commercial banks closely monitor non-performing loans to ensure adequate provisions to absorb any shocks 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.