

Banking Sector Developments December 2021

Release date: 27 May 2022

| | Dec-21 | Nov-21 | Oct-21 | Sep-21 |
|------------------------|--------|--------|--------|--------|
| Deposit rate (%)* | 1.724 | 1.769 | 1.837 | 1.839 |
| Lending rate (%)* | 7.838 | 7.837 | 7.845 | 7.807 |
| Total Deposits (T\$m) | 827.0 | 819.8 | 788.7 | 799.3 |
| Total lending (T\$m) | 472.1 | 474.2 | 476.7 | 476.2 |
| New commitments (T\$m) | 10.7 | 10.1 | 8.7 | 11.3 |
| Broad Money (T\$m) | 821.5 | 807.2 | 789.7 | 783.8 |

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

Higher foreign reserves contributes to excess liquidity

Broad money¹

Higher foreign reserves from receipts of budget support, grants, and project funds from development partners contribute to the further expansion of the money supply. This led to foreign assets rising by \$24.2 million (3.1%) over the month. Over the year to December 2021, broad money grew by \$114.0 million (16.1%) to \$821.5 million on the back of higher domestic assets as the Government deposits declined from disbursements for the fiscal stimulus package and TC Harold reconstructions.

| | Level as at | | | Change over the last | |
|--|------------------|------------------|------------------|----------------------|--------------------|
| | Dec-21 \$TOPm | Nov-21 \$TOPm | Dec-20 \$TOPm | 1 month % growth | 1 year % growth |
| Broad money liabilities <i>equals</i> | 821.5 | 807.2 | 707.5 | 1.8 | 16.1 |
| Net foreign assets <i>plus</i> | 798.4 | 774.1 | 705.9 | 3.1 | 13.1 |
| Net domestic assets | 24.0 | 34.0 | 2.4 | -29.4 | 880.5 |
| Gross bank lending* | 474.4 | 476.5 | 496.9 | -0.4 | -4.5 |
| Public enterprises | 46.3 | 47.0 | 56.4 | -1.4 | -17.9 |
| Private Sector | 426.1 | 427.6 | 438.3 | -0.3 | -2.8 |
| Other financial corporations | 2.0 | 2.0 | 2.1 | 0.9 | -7.0 |
| Other** | -450.4 | -442.6 | -494.5 | 1.8 | -8.9 |

* 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

Liquidity²

Liquidity or reserve money in the financial system rose again in December 2021, by \$20.8 million (3.7%) and \$156.0 million (36.9%) annually to \$578.8 million. Over the month, the currency in circulation rose by \$15.6 million (13.1%), followed by an increase of \$2.6 million (3.5%) in the Statutory Reserve Deposits (SRD) and a \$2.5 million (0.7%) rise in the banks' Exchange Settlement Account balances. Annually, the Exchange Settlement Accounts significantly

| | Monthly | | | Annual | |
|--|---------|--------|----------|--------|----------|
| | Dec-21 | Nov-21 | % Growth | Dec-20 | % Growth |
| Liquidity in the financial systems/Reserve money (\$ in million) | 578.8 | 558.1 | 3.7 | 422.8 | 36.9 |
| Currency in circulation | 134.6 | 119.0 | 13.1 | 117.0 | 15.1 |
| Required reserves | 76.9 | 74.3 | 3.5 | 63.6 | 20.9 |
| Exchange Settlement Account balances | 367.3 | 364.7 | 0.7 | 242.2 | 51.6 |

Sources: Banking Systems; National Reserve Bank of Tonga

¹ Broad Money (M2) consists of net foreign assets and net domestic assets.

² Liquidity in the Financial System is also called Reserve Money (M1) – consists of the NRBT currency in circulation, Statutory Required Deposits and Exchange Settlement Account Balances.

increased by \$125.1 million (51.6%), whilst currency in circulation and SRD rose by \$17.7 million (15.1%) and \$13.3 million (20.9%), respectively.

Lending

Credit growth remained subdued in December 2021. Over the month and year to December 2021, the banks' total lending declined by \$2.2 million (0.5%) and \$23.4 million (4.7%), respectively, to \$472.1 million. Both decreases were attributed to loan run-offs in both businesses and household loans which more than offset new loans offered in December.

Business lending

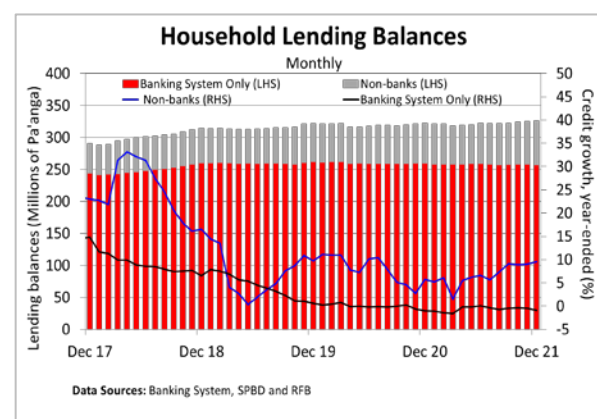
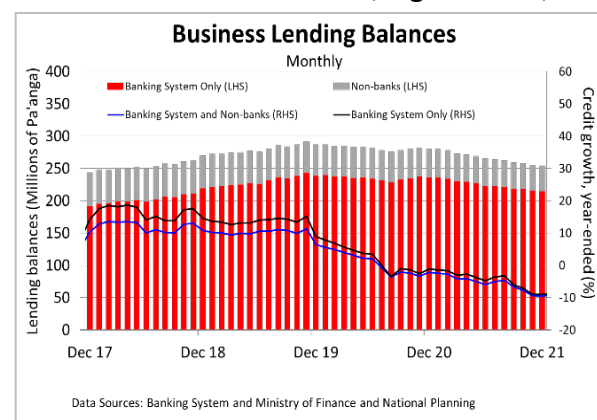
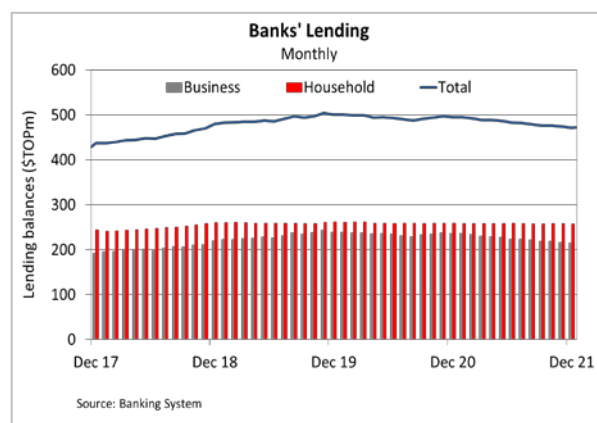
Over the month and year to December 2021, business loans declined by \$1.0 million (0.5%) and \$21.4 million (9.1%), respectively, to \$214.9 million. The monthly decline resulted from the loan repayments by public enterprises and businesses within the professional & other services, agricultural, and distribution sectors. This outweighed some of the new loans offered to the construction, fisheries, and transport sectors. Similarly, over the year, the loan repayments made by public enterprises and private businesses in the professional and other services, construction, and agricultural sectors drove the annual decline. Again these loan repayments outweighed the new loans offered to public enterprises and businesses in the distribution, forestry, and transport sectors over the year. The slow down in lending both over the month and year shows that businesses are still cautious about the uncertainties associated with the COVID-19 development.

Household lending

Household loans also declined over the month and year to December 2021 by \$1.1 million (0.4%) and \$2.2 million (0.8%), respectively to a total of \$256.9 million. Both housing and other personal loans decreased over the month and outweighed the higher vehicle loans. Annually, all housing, other personal, and vehicle loans fell. The lower housing loans over the month and year reflect the major repayments made by individuals.

Non-bank financial institutions³

The total loans extended by the non-bank financial institutions (NBFIs) grew again over the month and year to December 2021 by \$2.3 million (3.4%) and \$6.1 million (9.6%), respectively. These loans are mostly offered to individuals in the informal and MSMEs (Micro, small, medium-sized enterprises). NBFIs support financial inclusion by providing access to finance for the informal sector, which are not usually served by the banking sector. Monitoring overall household indebtedness that



³ NBFIs include the retirement funds and microfinance institutions.

includes credit offered by NBFIs is important for minimising potential adverse impacts on households' social and economic well-being while maintaining financial stability.

Non-performing loans

In December 2021, the non-performing loans accounted for 3.8% of total loans, higher than 3.6% recorded in November 2021 but lower than 3.9% in December last year. Over the month, some household housing loans were downgraded as well as construction sector loans, resulting in higher non-performing loans. However, the improvement in non-performing loans over the year was underpinned by lower non-performing household loans and a

decline in non-performing business loans within the professional and other business services, transport, and fisheries sectors.

Private individual loans maintained the highest share of non-performing loans at 58.6% which comprise mostly of housing and other personal loans. The remaining 41.4% are business loans from the Constructions (16.7%), Agriculture (13.7%), Distribution (3.2%), Forestry (2.5%), Professional & Other Services (2.1%), and Other (3.2%) sectors.

Deposits

The banks' total deposits grew over the month and year to December 2021, by \$7.2 million (0.9%) and \$123.1 million (17.5%), respectively. The monthly rise was due mainly to higher time deposits offsetting the decline in demand and saving deposits. This reflects the conversion of churches' demand and savings deposits into time deposits.

| | Table 4: Deposit Balances | | | | | | |
|--------------------------------|---------------------------|--------|--------|----------|--------|--------|----------|
| | Monthly | | | | Annual | | |
| | Dec-21 | Nov-21 | Change | % Growth | Dec-20 | Change | % Growth |
| Total Deposits (\$ in million) | 827.0 | 819.8 | 7.2 | 0.9 | 703.9 | 123.1 | 17.5 |
| Demand Deposits | 361.8 | 366.7 | -4.9 | -1.3 | 302.8 | 59.0 | 19.5 |
| Saving Deposits | 174.0 | 176.8 | -2.8 | -1.6 | 124.8 | 49.2 | 39.4 |
| Time Deposits | 291.1 | 276.2 | 14.9 | 5.40 | 276.3 | 14.9 | 5.4 |

Sources: Banking Systems; NRBT

Annually, all deposits increased, led by higher demand deposits contributed mainly by the retirement funds, Government, and private businesses. Savings deposits followed, as a result of more savings made by the retirement funds, individuals, and churches. Time deposits also rose, resulting from large deposits made by churches, Government, and private businesses. The increased deposits made by churches over the month and annually reflect the churches' annual donations.

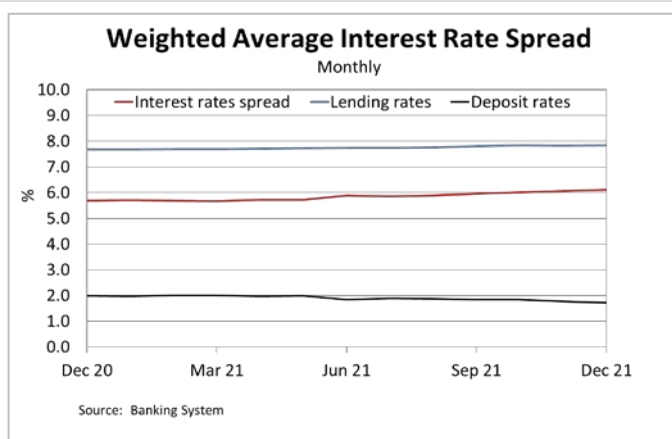
Over the month and year to December 2021, the total deposits increased while bank lending declined, resulting in the loans to deposit ratio declining to 55.8%. This is compared to 56.6% and 68.6% recorded in November 2021 and December 2020, respectively, thus remaining below the 80% minimum threshold.

| | Level as at: | | | Change over the last: | | Shares of totals % |
|----------------------------|--------------|-------------|-------------|-----------------------|----------|--------------------|
| | Dec 21 TOPm | Nov 21 TOPm | Dec 20 TOPm | 1 month % | 1 year % | |
| Lending, banks | 472.1 | 474.2 | 495.4 | -0.5 | -4.7 | 100.0 |
| Household | 256.9 | 258.1 | 259.1 | -0.4 | -0.8 | 54.4 |
| Business* | 214.9 | 215.9 | 236.3 | -0.5 | -9.1 | 45.5 |
| Other | 0.2 | 0.2 | 0.0 | -4.3 | 0.0 | 0.0 |
| Lending, banks and other | 580.7 | 580.7 | 603.2 | 0.0 | -3.7 | 100.0 |
| Household** | 326.5 | 325.4 | 322.6 | 0.4 | 1.2 | 56.2 |
| Business | 254.0 | 255.1 | 280.5 | -0.4 | -9.5 | 43.7 |
| Other | 0.2 | 0.2 | 0.0 | -4.3 | 0.0 | 0.0 |
| New commitments, banks | 10.7 | 10.1 | 10.5 | 6.0 | 2.6 | N/A |
| Undrawn commitments, banks | 12.2 | 10.5 | 10.6 | 15.9 | 15.3 | N/A |
| Implied repayments, banks | -1.7 | 0.0 | 10.8 | -9,416.7 | -115.5 | 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

Interest rate spread

Over the month and year to December 2021, the weighted average interest rate spread widened further by 4.7 basis points and 41.6 basis points, respectively, to 6.11%. Both rises were attributed to lower deposit rates coupled with higher lending rates. Deposit rates for all types of deposits declined over the month and year. The accumulation of deposits over the year also contributed to the lower weighted average deposit rates. On the other hand, higher lending rates over the month were mainly for businesses in the transport, construction, and distribution sectors and household vehicle loan rates. Similarly, lending rates offered to non-profit organisations and businesses in the utilities, construction, and distribution sectors increased over the year. Households' vehicle and housing loan rates also rose and supported the annual increase.



| | Weighted average of all banks | | | | | |
|----------------------|-------------------------------|----------|----------|-----------------------------------|------------|---------------------------|
| | Level as at | | | Change over the last ^a | | Share of loans/deposits % |
| | Dec-21 % | Nov-21 % | Dec-20 % | 1 month bps | 1 year bps | |
| Interest Rate Spread | 6.115 | 6.067 | 5.699 | 4.74 | 41.57 | 100 |
| Deposits all | 1.72 | 1.77 | 1.98 | -4.58 | -25.88 | 42 |
| Demand | 0.27 | 0.31 | 0.33 | -4.12 | -6.51 | 22 |
| Savings | 2.38 | 2.43 | 2.54 | -4.67 | -15.41 | 35 |
| Term | 3.05 | 3.17 | 3.36 | -12.45 | -31.29 | 100 |
| Loans all | 7.84 | 7.84 | 7.68 | 0.15 | 15.69 | 44 |
| Housing | 8.10 | 8.10 | 8.06 | -0.05 | 4.03 | 11 |
| Other personal | 11.26 | 11.29 | 11.33 | -3.10 | -6.93 | 30 |
| Business | 7.35 | 7.35 | 7.10 | 0.13 | 24.73 | 15 |
| Other | 8.00 | 8.12 | 0.00 | -11.59 | 800.00 | |

^aMethod for calculating these series was updated in August 2014, resulting in revision to the full history of data
^bDue to rounding errors some data may not aggregate precisely
Sources: Banking Systems; NRBT

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 loan commitments. 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. The Reserve Bank will maintain financial and macroeconomic stability by closely monitoring all monetary indicators such as credit growth, household and corporate indebtedness, and broad money.