Banking Sector Developments

February 2021

Release date: 28 May 2021

	Feb-21	Jan-21	Dec-20	Nov-20
Deposit rate (%)*	2.002	1.972	1.982	2.014
Lending rate (%)*	7.694	7.681	7.681	7.671
Total Deposits *(TSm)*	703.1	710.8	703.9	686.7
Total lending *(TSm)*	492.2	494.5	495.4	496.5
New commitments *(TSm)*	6.4	6.8	10.5	10.2
Broad Money *(TSm)*	703.4	706.9	707.5	681.4

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

Total deposits declined

Broad money

Broad money declined further over the month of February 2021, by $3.5 million (0.5%), driven by lower net foreign assets. The foreign reserves decreased as a result of higher payments made for imports and services during the month. This was partly offset by the increase in net domestic assets from the lower government deposits made in the month.

Table 1: Consolidated Balance Sheet of Depository Corporations

	Level as at			Change over the last	
	Feb-21 $TOPm	Jan-21 $TOPm	Feb-20 $TOPm	1 month % growth	1 year % growth
Broad money liabilities	**703.4**	**706.9**	**590.1**	**-0.5**	**19.2**
Currency in circulation	88.8	88.4	63.2	0.5	40.6
Demand deposits	250.5	257.2	210.3	-2.6	19.1
Savings and term deposits*	364.1	361.4	316.6	0.8	15.0
equals					
Net foreign assets	**722.0**	**735.1**	**494.9**	**-1.8**	**45.9**
plus					
Net domestic assets	**-17.6**	**-27.3**	**95.7**	**-35.4**	**-118.4**
Gross bank lending**	493.8	496.1	499.7	-0.5	-1.2
Public enterprises	54.2	56.8	61.7	-4.6	-12.2
Private Sector	437.7	437.3	435.6	0.1	0.5
Other financial corporations	2.0	2.0	2.4	-4.5	-18.0
Other***	-511.4	-523.4	-404.0	-2.3	26.6

* 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

However, over the year, broad money rose significantly by $113.3 million (19.2%) to a total of $703.4 million, underpinned by higher net foreign assets outweighing the decreased net domestic assets. The foreign reserves was boosted by the receipts of budget support, loans and grant funds from development partners for COVID-19 preparations and TC Harold recovery. These receipts drove government deposits higher and further decreased the net domestic assets annually.

Liquidity

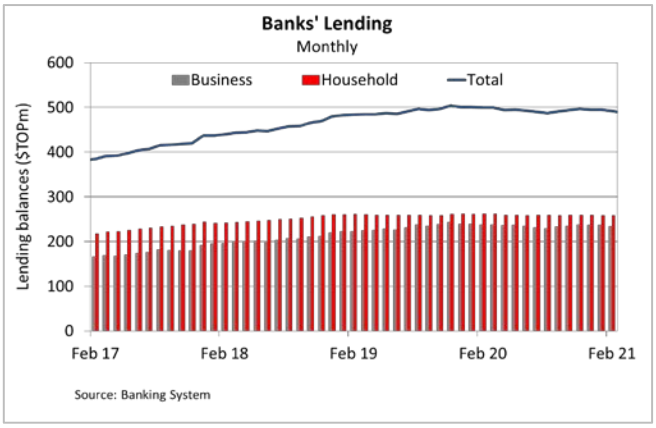
However, liquidity in the banking system decreased over the month of February 2021, by $3.7 million (0.9%), but rose over the year by $123.3 million (41.4%) to $421.2 million. Both the currency in circulation and the commercial banks' ESA (Exchange Settlement Account) fell over the month and offset the slight increase in the Required reserves. The lower commercial banks’ ESA coincided with the higher net purchases of foreign exchange from the Reserve bank to cater for the major payments,

Economics Department | National Reserve Bank of Tonga
Kasanita Kisina, Economist | k.kisina@reservebank.to | +676 24057

mainly for oil and other imports. Over the year, the bank's ESA rose the most, coinciding with the commercial banks' increased deposits to the Reserve Bank vault. Currency in circulation also increased, in line with the festivities during the year, like the churches annual donations and Christmas and New Year festivities. Required reserves also increased, corresponding to the rise in total deposits.

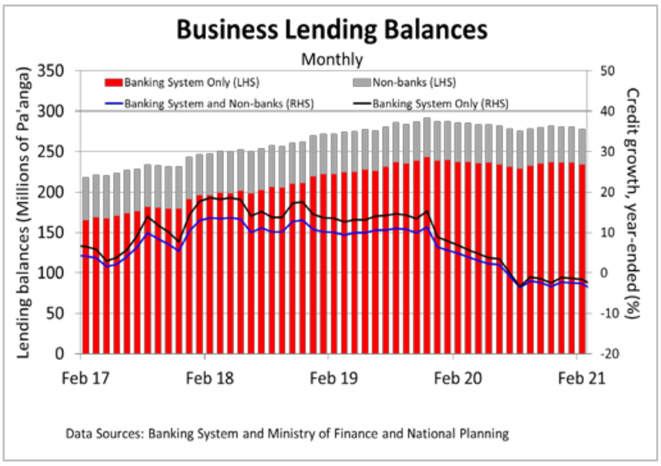
Lending

In February 2021, the banks' total lending declined again for the third consecutive month, by $2.3 million (0.5%) and also over the year by $7.5 million (1.5%). Lending to businesses decreased over the month, whilst both businesses and household loans declined annually. These decreases reflect the high uncertainties of COVID-19 impacting both the banks' willingness to lend further and businesses and households' appetite to borrow.



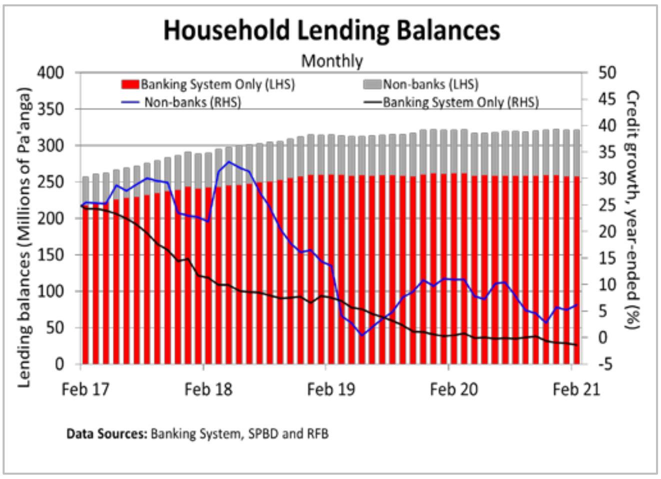
Business lending

Business loans fell over the month and year to February 2021, by $2.4 million (1.0%) and $3.8 million (1.6%), respectively, to $234.0 million. Lending to public enterprises and businesses in the distribution, agriculture, and transport sectors decreased over the month, whilst lower loans offered to public enterprises and businesses such as manufacturing, professional & other services, and utilities sectors led the annual decline.



Household lending

Lending to households increased over the month however declined annually in February 2021 by $0.1 million (0.03%) and $3.7 million (1.4%), respectively, bringing the total to $258.2 million. Higher housing loans solely drove the monthly rise, whilst the annual decline was led by the decliine in other personal loans.



Non-bank financial institutions

The total loans extended by the non-bank financial institutions slightly declined over the month by $0.04 million (0.1%) yet rose annually, by $3.6 million (6.1%) to $60.5 million. These loans are mostly offered to individuals in the informal and small-medium-sized enterprises (SMEs), indicating better accessibility of these loans to SMEs.

Non-performing loans

In February 2021, the non-performing loans decreased to 3.62% from 3.95% last month ,although it increased from 3.42% last year. The improvement over the month was attributed to lower non-performing loans from households' housing and other personal loans and businesses in the manufacturing, agriculture, fisheries and transport sectors as a result of loan restructures and upgrades. The increase in non-performing loans for businesses such as agriculture, transport and fisheries sectors led to the annual increase, supported by higher household non-performing loans. This reflects the impacts of COVID-19 on businesses and the slower season in the agricultural and fisheries sector affecting their ability to repay their loans.

Table 2: Lending Balances (including new commitments)

	Level as at:			Change over the last:		*Shares of totals*
	Feb 21 TOPm	**Jan 21 TOPm**	**Feb 20 TOPm**	**1 month %**	**1 year %**	*%*
Lending, banks	492.2	494.5	499.7	-0.5	-1.5	100.0
Household	258.2	258.1	261.9	0.0	-1.4	52.5
Business*	234.0	236.4	237.8	-1.00	-1.6	47.5
Other	0.0	0.0	0.0	0.0	0.0	0.0
Lending, banks and other	599.2	601.5	606.7	-0.4	-1.2	100.0
Household**	321.4	321.3	321.4	0.0	0.0	53.6
Business	277.8	280.2	285.3	-0.8	-2.6	46.4
Other	0.0	0.0	0.0	0.0	0.0	0.0
New commitments, banks	6.4	6.8	5.6	-7.1	13.3	N/A
Undrawn commitments, banks	8.8	9.3	14.3	-5.2	-38.3	N/A
Implied repayments, banks	0.5	1.3	7.6	-61.1	-93.6	N/A

* Method for calculating these series was updated in August 2014, resulting in revisions to the full history of data
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Sources: SPBD; RFB; MOFNP; Banking system

Deposits

In February 2021, the banks' total deposits fell by $7.7 million (1.1%) to $703.1 million, solely driven by lower demand deposits mainly by government, public enterprises, and churches. The declining government deposit reflects the withdrawals for the Gita re-construction projects and the COVID-19 stimulus package during the month. However, over the year, the banks’ total deposits rose significantly by $108.7 million due to rises in all three categories of deposits. The demand deposit increased the most, resulting from the higher deposit made by public enterprises’ and churches during the year and in line with the higher deposit rates over the year. Higher time deposits followed, driven mainly by increased deposits from the central government, retirement funds and churches. Furthermore, the increase in saving deposits was mostly contributed by individuals and retirement funds.

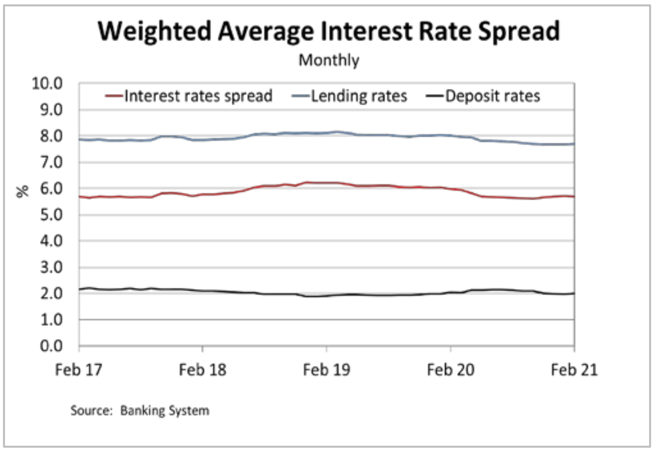
The total deposits fell more than the decline in total lending pushing the loans to deposit ratio higher in February 2021 to 68.2% from 67.8% last month. However, this still below the 80% minimum level, indicating more liquidity available in the banking system for further lending.

Table 3: Deposit Balances

	Monthly				Annual		
	Feb-21	**Jan-21**	Change	**% Growth**	**Feb-20**	Change	**% Growth**
Total Deposits ($ in million)	703.1	710.8	-7.7	-1.1	594.4	108.7	18.3
Demand Deposits	294.5	304.8	-10.3	-3.4	250.9	43.7	17.4
Saving Deposits	128.7	126.4	2.2	1.8	101.5	27.2	26.8
Time Deposits	279.9	279.6	0.3	0.1	242.1	37.9	15.7

Sources: Banking Systems; NRBT

Interest rate spread



The weighted average interest rate spread narrowed by 1.6 basis points in February 2021. The weighted average deposit rate increased and offset the rise in weighted average lending rates. The higher weighted average deposit interest rates stemmed mostly from higher demand and savings deposit rates. The increase in the weighted average lending interest rates attributed to higher housing loan rates, supported by higher rates on loans to the construction and fisheries sectors.

In year ended terms, the weighted average interest rate spread also narrowed by 28.2 basis points to 5.693%. This resulted mainly from lower weighted average lending interest rates on loans to households for other personal loans, public enterprises, and businesses in the mining & quarrying, construction, and utility sectors. Similarly, deposit interest rates declined also for savings and term deposit rates.

Table 4: Interest Rates

	Weighted average of all banks					
	Level as at			Change over the last^		
	Feb-21 %	**Jan-21** %	**Feb-20** %	1 month bps	1 year bps	Share of loans/deposits %
Interest Rate Spread	5.693	5.709	5.975	-1.62	-28.20	
Deposits all	2.00	1.97	2.04	2.96	-3.82	100
Demand	0.34	0.33	0.32	1.37	1.63	39
Savings	2.54	2.53	2.58	1.00	-4.30	20
Term	3.32	3.33	3.48	-1.05	-16.29	41
Loans all	7.69	7.68	8.01	1.34	-32.03	100
Housing	8.08	8.06	8.05	1.40	2.36	42
Other personal	11.33	11.33	11.36	-0.23	-3.11	11
Business	7.11	7.11	7.84	-0.31	-73.41	31
Other	0.00	0.00	0.00	0.00	0.00	16

*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 continues to expect credit growth to remain subdued in the near term, underpinned by the uncertainties of the COVID-19 pandemic, weakening investment appetite, and softening aggregate demand. Nonetheless, the current accommodative monetary policy stance encourages banks to utilize excess liquidity in the banking system for further lending to support economic recovery and growth. On the other hand, the Reserve Bank is working closely with the commercial banks to ensure adequate provisions for any upcoming shock to the financial system, particularly with the anticipated rise in non-performing loans once banks withdraw their relief packages for affected COVID-19 customers.

The Reserve Bank will continue to ensure financial and macroeconomic stability by closely monitoring all monetary indicators, such as credit growth and broad money.

Economics Department | National Reserve Bank of Tonga
Kasanita Kisina, Economist | k.kisina@reservebank.to | +676 24057