Banking Sector Developments

Release date: 26 August 2021

June 2021

	Jun-21	May-21	Apr-21	Mar-21
Deposit rate (%)*	1.844	1.997	1.978	2.007
Lending rate (%)*	7.737	7.728	7.711	7.687
Total Deposits *(TSm)*	799.9	730.9	721.3	708.6
Total lending *(TSm)*	482.4	486.6	488.1	488.8
New commitments *(TSm)*	11.4	13.7	8.4	7.3
Broad Money *(TSm)*	765.2	724.7	712.3	707.6

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

Total deposits hiked whilst total lending remain subdued

Broad money

Broad money rose by $40.5 million (5.6%) over the month and $158.1 million (26.1%) over the year to $765.2 million. Both net foreign assets and net domestic assets increased over the month, due mainly to higher foreign reserves and lower capital accounts. The receipt of budget support and project funds from development partners drove the increased foreign reserves, whilst dividend payments offshore reduced the capital account. Annually, the net foreign assets rose and offset the decrease in net domestic assets. Again, the foreign reserves increased due to the receipts of official funds as loans, budget support, projects development, and financial assistance for COVID-19 preparations. These fund receipts also contributed to higher government deposits thus lower net domestic assets.

Table 1: Consolidated Balance Sheet of Depository Corporations

	Level as at			Change over the last	
	Jun-21 $TOPm	May-21 $TOPm	Jun-20 $TOPm	1 month % growth	1 year % growth
Broad money liabilities	**765.2**	**724.7**	**607.1**	**5.6**	**26.1**
Currency in circulation	94.5	91.0	71.4	3.9	32.5
Demand deposits	280.0	250.7	201.8	11.7	38.7
Savings and term deposits*	390.6	383.0	333.9	2.0	17.0
equals					
Net foreign assets	**750.7**	**724.4**	**570.6**	**3.6**	**31.6**
plus					
Net domestic assets	**15.3**	**1.2**	**37.1**	**1161.6**	**-58.8**
Gross bank lending**	484.5	488.3	492.4	-0.8	-1.6
Public enterprises	50.3	51.4	61.6	-2.0	-18.4
Private Sector	432.5	435.1	428.4	-0.6	0.9
Other financial corporations	1.7	1.8	2.4	-8.6	-29.0
Other***	-469.2	-487.1	-455.3	-3.7	3.0

* 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

Liquidity

Liquidity in the financial system expanded by $56.1 million (12.3%) over the month and $201.7 million (64.7%)over the year to June 2021 to a new level high of $513.4 million. This is the first time it rose above $500 million. All the three categories of liquidity continued to rise with the bank's ESA increasing the most, mainly on higher government deposits with the commercial banks. Currency in circulation followed, in line with the festivities during the month and year, such as the churches annual donations, Easter and family Sundays', Christmas and New Year festivities, Kava Idol, and the Tonga High School Ex-Students' Fundraising. Required reserves also increased, corresponding to the rise in total deposits.

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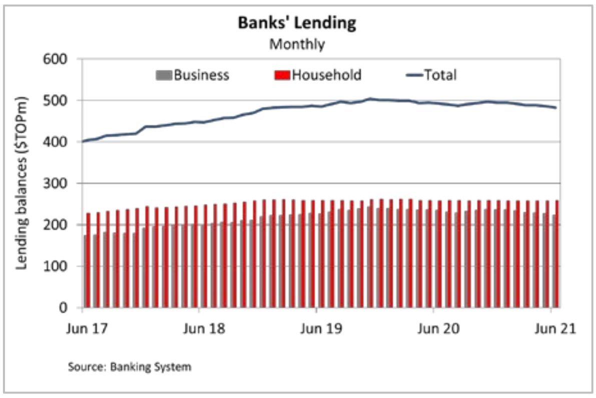
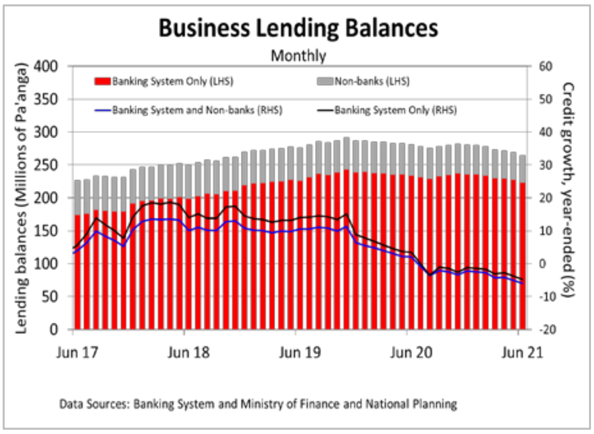
Lending

The banks' total lending declined further over the month and year to June 2021, by $4.2 million (0.9%) and $10.5 million (2.1%) respectively, to a total of $482.4 million. Both declines resulted from loan run-offs and repayments made by businesses. Household loans however marginally rose.



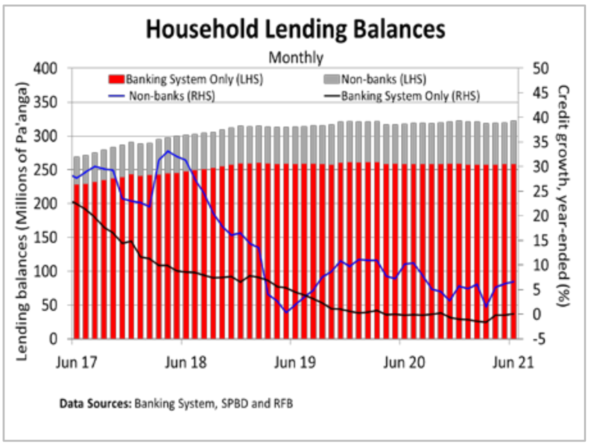
Business lending

Over the month and year to June 2021, business loans decreased by $4.4 million (1.9%) and $11.2 million (4.8%) respectively, to $223.3 million. The ongoing loan run-offs and repayments made by public enterprises offsetting new loans to other private businesses led both declines. This was also supported by lower lending to businesses in the professional & other services, wholesale & retail, and manufacturing sectors over the month and decreased loans offered to professional & other services, manufacturing, transport and agricultural sectors over the year. The slowdown in business lending reflects the impact of COVID on investment appetite, as businesses remain cautious of the uncertainties while focusing on meeting their immediate financial obligations.



Household lending

However, lending to household increased over the month and year to June 2021, by $0.1 million (0.1%) and by $0.2 million (0.1%) respectively to $258.7 million. Both rises were solely driven by higher housing loans, which surpassed the decrease in both vehicle and other personal loans.



Non-bank financial institutions

The total loans extended by the non-bank financial institutions increased over the month and year to June 2021 by $2.5 million (4.0%) and $4.0 million (6.6%). These loans are mostly offered to individuals in the informal and small-medium-sized enterprises (SMEs). This implies that non-bank financial institutions played a more significant role in financial access during the global pandemic. However, this may also contribute to household indebtedness.

Non-performing loans

In June 2021, the non-performing loans improved from 4.2% last month, and 4.4% in June 2020 to 3.6%. Both decline was attributed mainly to upgrades made to housing loans. The lower non-performing loans from the professional & other services, fisheries and agricultural sectors also supported the monthly improvements whilst decreased non-performing loans in the professional & other services, agricultural and transport sectors contributed to the annual decline.

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Table 2: Lending Balances (including new commitments)

	Level as at:			Change over the last:		*Shares of totals*
	Jun 21 TOPm	May 21 TOPm	Jun 20 TOPm	1 month %	1 year %	*%*
Lending, banks	482.4	486.6	492.9	-0.9	-2.1	100.0
Household	258.7	258.5	258.4	0.1	0.1	53.6
Business*	223.3	227.7	234.5	-1.9	-4.8	46.3
Other	0.4	0.4	0.0	5.1	0.0	0.1
Lending, banks and other	587.6	589.4	599.7	-0.3	-2.0	100.0
Household**	322.4	319.8	318.2	0.8	1.3	54.9
Business	264.8	269.2	281.5	-1.7	-6.0	45.1
Other	0.4	0.4	0.0	5.1	0.0	0.1
New commitments, banks	11.4	13.7	6.1	-17.2	86.9	N/A
Undrawn commitments, banks	9.1	8.2	11.2	10.4	-19.0	N/A
Implied repayments, banks	-0.9	2.9	8.9	-129.6	-109.7	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

The Government's fiscal stimulus package coupled with the commercial banks' COVID-19 relief packages for their clients have also assisted in maintaining the low rate of non-performing loans. Private individual loans maintained the highest share of non-performing loans with a share of 50.4% which are mostly housing loans. The remaining 49.6% are business loans in the Agriculture (25.6%), Forestry (10.5%), Fisheries (3.7%), Professional & Other Services (2.7%), Transport (1.8%) and Others (5.3%).

Deposits

Over the month and year to June 2021, total deposits in the banks grew significantly by $69.1 million (9.5%) and $180.8 million (29.2%), respectively to $799.9 million. These reflected the ongoing injections of government funds to the banking system which is followed closely by the pension funds and then recently by the non-profit organisations. As a result, the monthly rise in total deposits was mostly driven by higher demand deposits from the central government, private businesses and retirement funds, coupled with increased saving deposits contributed mainly by the retirement funds, churches and schools. These had offsets a slight decline in time deposits.

Annually, all categories of deposits increased, with demand deposits again rising the most due to more deposits from the central government, public enterprises and private businesses. Savings deposit followed, resulting from higher deposits made by the retirement funds, individuals and churches & schools. Time deposits also increased, underpinned by more deposits from churches & schools, and private businesses.

The increase in total deposits and the decline in total lending resulted in a lower loan to deposit ratio of 58.9% in June 2021, falling from 64.9% last month and still below the 80% minimum.

Table 3: Deposit Balances

	Monthly				Annual		
	Jun-21	**May-21**	Change	**% Growth**	**Jun-20**	Change	**% Growth**
Total Deposits ($ in million)	799.9	730.9	69.1	9.5	619.2	180.8	29.2
Demand Deposits	356.0	295.9	60.1	20.3	243.6	112.4	46.2
Saving Deposits	151.1	141.9	9.1	6.4	113.0	38.1	33.7
Time Deposits	292.9	293.0	-0.1	0.0	262.6	30.3	11.5

Sources: Banking Systems; NRBT

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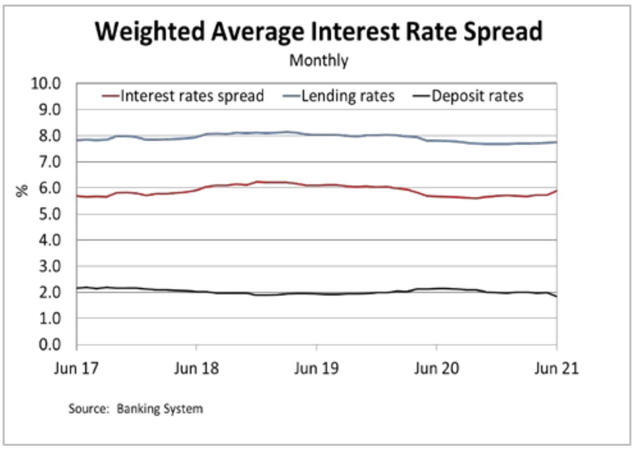
Interest rate spread



The weighted average interest rate spread widened over the month and year to June 2021 by 16.1 basis points and 22.5 basis points respectively, to 5.89%. The monthly rise was due mainly to the decline in weighted average deposit rates coupled with the rise in weighted average lending rates. In line with the increasing excess liquidity in the banking system, all deposit rates decreased over the month. However lending rates offered to businesses in the construction, and manufacturing increased as well as household other personal loans.

Annually, the weighted average deposit declined more than the fall weighted average lending rates. Again all deposit rates fell, while business loan rates for constructions, utilities and agricultural sectors also declined. The lower household other personal loan rates also supported the annual decline.

Table 4: Interest Rates

Weighted average of all banks						
	Level as at			Change over the last^		
	Jun-21 %	**May-21** %	**Jun-20** %	1 month bps	1 year bps	Share of loans/deposits %
Interest Rate Spread	5.893	5.732	5.668	16.13	22.55	
Deposits all	1.84	2.00	2.14	-15.30	-29.97	100
Demand	0.33	0.36	0.38	-2.71	-4.27	43
Savings	2.54	2.57	2.62	-2.60	-7.20	20
Term	3.18	3.22	3.46	-3.85	-27.57	37
Loans all	7.74	7.73	7.81	0.83	-7.42	100
Housing	8.11	8.08	8.02	2.54	8.43	44
Other personal	11.30	11.32	11.36	-1.54	-5.60	11
Business	7.12	7.13	7.64	-0.50	-51.57	30
Other	9.32	8.74	0.00	58.43	932.39	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, 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 and provide adequate provisions to absorb any shock 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.

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