Banking Sector Developments

November 2021

Release date: 16 May 2022

	Nov-21	Oct-21	Sep-21	Aug-21
Deposit rate (%)*	1.769	1.837	1.839	1.872
Lending rate (%)*	7.837	7.845	7.807	7.765
Total Deposits *(TSm)*	819.8	788.7	799.3	793.1
Total lending *(TSm)*	474.2	476.7	476.2	478.9
New commitments *(TSm)*	10.1	8.7	11.3	21.2
Broad Money *(TSm)*	807.2	789.7	783.8	775.4

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

Total deposits and broad money rose above $800 million from churches' annual donations and project funds

Broad money[1]

Money supply continues to expand as broad money rose further by $17.4 million (2.2%) in November 2021 and $125.7 million (18.5%) annually. Both rises were solely driven by higher net foreign assets reflective of the growing foreign reserves from receipts of grants, budget support, and project funds from development partners. On the other hand, net domestic assets declined from lower net domestic credit as government deposits rose.

Table 1: Consolidated Balance Sheet of Depository Corporations

	Level as at			Change over the last	
	Nov-21 $TOPm	Oct-21 $TOPm	Nov-20 $TOPm	1 month % growth	1 year % growth
Broad money liabilities	**807.2**	**789.7**	**681.4**	**2.2**	**18.5**
equals					
Net foreign assets	**774.1**	**743.1**	**622.2**	**4.2**	**24.4**
plus					
Net domestic assets	**34.0**	**47.5**	**60.2**	**-28.5**	**-43.6**
Gross bank lending*	476.5	479.5	496.4	-0.6	-4.0
Public enterprises	47.0	47.6	58.2	-1.2	-19.3
Private Sector	427.6	430.0	436.2	-0.6	-2.0
Other financial corporations	2.0	2.0	2.1	-0.3	-5.3
Other**	-442.6	-432.0	-436.2	2.5	1.5

* 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[2]

The financial system continued to be highly liquid as Liquidity or Reserve Money increased in November 2021 by $23.7 million (4.4%) and $168.7 million (43.3%) annually. Both rises are attributed mainly to the increase in the commercial banks' Exchange Settlement Accounts (ESA) by $18.3 million (5.3%) over the month, and $140.8 million (62.9%) over the year. Currency in circulation also increased over the

Table 2: Liquidity in the financial system/Reserve Money

	Monthly			Annual	
	Nov-21	Oct-21	% Growth	Nov-20	% Growth
Liquidity in the financial systems/Reserve money ($ in million)	558.1	534.3	4.4	389.3	43.3
Currency in circulation	119.0	113.2	5.2	104.6	13.8
Required reserves	74.3	74.7	-0.5	60.8	22.2
Exchange Settelement Account balances	364.7	346.5	5.3	223.9	62.9

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 NRBT currency in circulation, Statutory Required Deposits and Exchange Settlement Account Balances.

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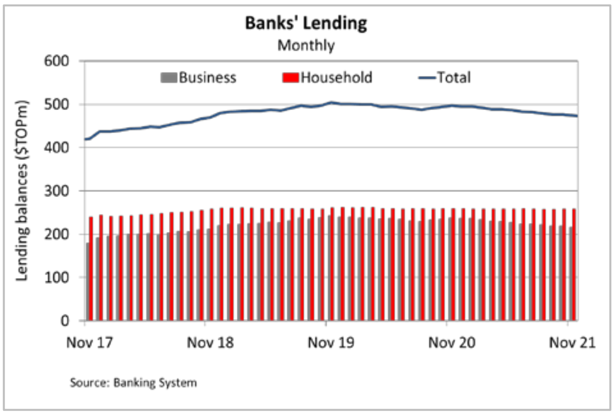
month and year by $5.8 million (5.2%) and $14.4 million (13.8%), respectively. On the other hand, the statutory reserve deposits slightly declined over the month by $0.4 million (0.5%) but rose annually by $13.5 million (22.2%).

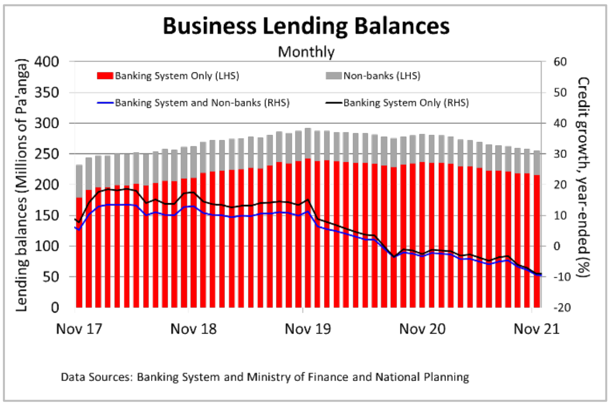
Lending



Bank credit returned to negative growth in November 2021 after a slight increase last month. Over the month and year to November 2021, the banks' total lending declined by $2.5 million (0.5%) and $22.3 million (4.5%), respectively, to $474.2 million. Business loans declined over the month and more than offset the rise in household loans. Over the year, lending to both businesses and households fell.

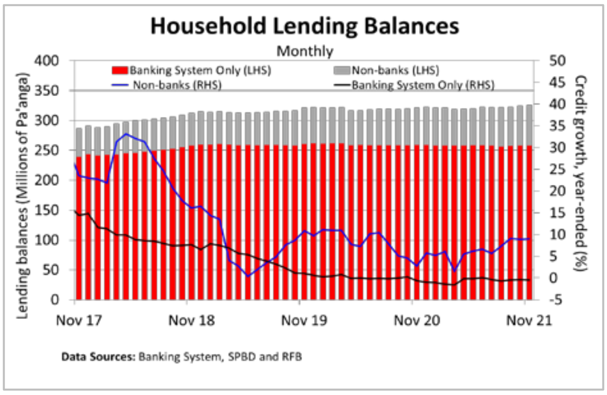
Business lending

Lending to businesses decreased over the month and year to November 2021, by $2.7 million (1.2%) and $21.4 million (9.0%), respectively. The monthly decline was underpinned by loan repayments made by businesses within the professional & other services, construction, and manufacturing sectors, which outweighed the lending opportunities offered to the distribution, professional and other business services, and transport sectors during the month. Over the year, the loan repayments made by public enterprises and businesses such as construction, professional & other services, and agricultural sectors led to the annual decline. This was also supported by fewer loans offered to the distribution, transport, and forestry sectors. Covid restrictions continue to disrupt project implementations, while uncertainties from the COVID-19 developments dampen investment appetite.



Household lending

Lending to households, however, rose further in November 2021 by $0.2 million (0.1%), but still declined annually by $1.2 million (0.5%). Both housing and other personal loans increased over the month and outweighed the lower vehicle loans. Annually, household loans declined, as all personal, housing, and vehicle loans declined. This also implies household indebtedness limiting their capacity to borrow further.



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Non-bank financial institutions[3]

The total loans extended by the non-bank financial institutions (NBFIs) continued to increase by $1.0 million (1.6%) over the month, and $5.6 million (9.0%) over the year to November 2021. These loans are mostly offered to individuals, mainly women and MSMEs (Micro, small-medium-sized enterprises) in the informal sector. NBFIs facilitate access to finance by those that are not served by the banking sector, thus supporting financial inclusion. However, borrowing costs are often very high, and extending the credit registry coverage to include NBFIs would be crucial for monitoring household indebtedness.

Non-performing loans

Covid-19 relief packages offered by banks to their affected customers assist in maintaining non-performing loans at relatively low levels. In November 2021, the non-performing loans accounted for 3.6% of total loans, lower than the 3.9% and the 3.8% recorded last month and the same time last year. The improvements over the month were due to lower non-performing business loans from the agricultural, professional & other businesses and transport sectors. Similarly, non-performing household housing and vehicle loans declined over the year, along with non-performing business loans from the professional & other business services, fisheries and transport sectors.

Table 3: Lending Balances (including new commitments)

	Level as at: Nov 21 TOPm	Oct 21 TOPm	Nov 20 TOPm	Change over the last: 1 month %	1 year %	*Shares of totals %*
Lending, banks	474.2	476.7	496.5	-0.5	-4.5	100.0
Household	258.1	257.8	259.3	0.1	-0.5	54.4
Business*	215.9	218.6	237.3	-1.2	-9.0	45.5
Other	0.2	0.3	0.0	-12.7	0.0	0.0
Lending, banks and other	580.7	582.7	602.6	-0.3	-3.6	100.0
Household**	325.4	324.1	321.0	0.4	1.4	56.0
Business	255.1	258.4	281.6	-1.3	-9.4	43.9
Other	0.2	0.3	0.0	-12.7	0.0	0.0
New commitments, banks	10.1	8.7	10.2	16.2	-0.4	N/A
Undrawn commitments, banks	10.5	10.5	9.8	-0.2	7.5	N/A
Implied repayments, banks	0.0	-0.9	13.7	-102.0	-99.9	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

Private individual loans maintained the highest share of non-performing loans at 59.4%, mostly comprising of housing and other personal loans. The remaining 40.6% are business loans in the construction (16.8%), agriculture (14.4%), distribution (3.3%), forestry (2.8%), fisheries (1.8%), and other (1.5%) sectors.

Deposits

Over the month and year to November 2021, the banks' total deposits climbed by $31.1 million (3.9%) and $133.1 million (19.4%), respectively, to $819.8 million. The monthly rise was solely driven by higher demand deposits by churches, reflecting the churches' annual donations. This was also supported by increased deposits from Government, mainly receipts of projects and operational funds. Private enterprises'

Table 4: Deposit Balances

	Monthly Nov-21	Oct-21	Change	% Growth	Annual Nov-20	Change	% Growth
Total Deposits ($ in million)	819.8	788.7	31.1	3.9	686.7	133.1	19.4
Demand Deposits	366.7	335.0	31.7	9.5	298.4	68.3	22.9
Saving Deposits	176.8	177.4	-0.6	-0.3	125.4	51.4	41.0
Time Deposits	276.2	276.3	0.0	-0.01	262.8	13.4	5.1

Sources: Banking Systems; NRBT

[3] NBFIs include the retirement funds and microfinance institutions

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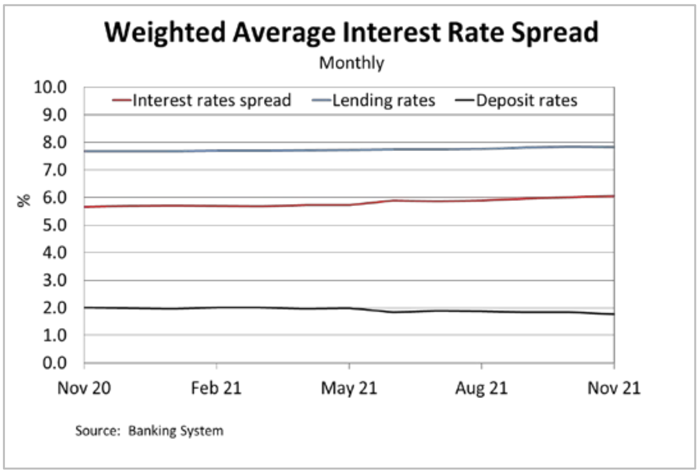
demand deposits also rose from remittances received during the month. This offset the decline in saving deposits of the Government and churches, mainly for payments of project clients and withdrawal of church donations. Time deposits also fell due to private businesses' matured deposits.

Annually, the demand deposits increased again, driving the annual rise, mostly from higher deposits made by Government, private businesses, churches, schools, and retirement funds. Similarly, saving deposits also rose mostly from higher deposits by retirement funds, individuals, and churches. Time deposits also increased from churches, schools, Government, and private businesses.

As a result of the increasing deposits, while lending declined over the month and year to November 2021, the loans to deposit ratio continued to fall to 56.6%. This is compared to 59.1% and 70.4% recorded in October 2021 and November 2020, respectively, thus remaining below the 80% minimum threshold.

Interest rate spread



In November 2021, the weighted average interest rate spread widened again by 5.9 basis points over the month, and 41.0 basis points annually to 6.07%. The monthly rise attributes mostly to the decline in the weighted average deposit rate, the annual rise was driven by the fall in the weighted average deposit rate coupled with the rise in weighted average lending rates.

All deposit rates declined over the month and year, reflecting the increase in the volume of deposits. The lower lending rates over the month were mainly for loans to businesses within the professional & other business services, fisheries, and agricultural sectors, household vehicle, and other personal loan rates. On the other hand, the higher weighted average lending rate over the year was offered mainly to non-profit organisations and businesses within the utilities, construction, and distribution sectors. Similarly, the weighted average lending rate for households housing and vehicle loans also increased. This is also in line with the shrinking loan balances.

Table 5: Interest Rates

Weighted average of all banks	Level as at			Change over the last^		
	Nov-21 %	**Oct-21** %	**Nov-20** %	1 month bps	1 year bps	Share of loans/deposits %
Interest Rate Spread	6.067	6.008	5.657	5.91	41.01	
Deposits all	1.77	1.84	2.01	-6.72	-24.48	100
Demand	0.31	0.32	0.33	-1.54	-1.96	43
Savings	2.43	2.43	2.61	-0.44	-17.87	23
Term	3.17	3.19	3.46	-1.29	-28.27	34
Loans all	7.84	7.84	7.67	-0.81	16.54	100
Housing	8.10	8.10	8.06	0.50	4.23	44
Other personal	11.29	11.31	11.34	-1.85	-4.34	11
Business	7.35	7.38	7.08	-3.11	27.06	30
Other	8.12	8.00	0.00	11.59	811.59	15

*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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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 and weak investment appetite. However, the successful vaccine rollout may assist in boosting business confidence and consumer spending, 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.

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