

Banking Sector Developments December 2020

Release date: 25 March 2021

	Dec-20	Nov-20	Oct-20	Sep-20
Deposit rate (%)*	1.982	2.011	2.083	2.095
Lending rate (%)*	7.681	7.671	7.701	7.723
Total Deposits (T\$m)	703.9	686.7	655.8	650.5
Total lending (T\$m)	495.4	496.5	494.0	491.1
New commitments (T\$m)	10.5	10.2	11.0	12.0
Broad Money (T\$m)	707.5	681.4	655.2	640.8

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

Broad money expanded on higher foreign reserves

Broad money

In December 2020, broad money rose above \$700 million for the first time. Over the month and year to December 2020, broad money increased by \$26.1 million (3.8%) and \$105.3 million (17.5%), respectively, bringing the total broad money to a new high level of \$707.5 million. Both rises resulted solely from the significant rise in foreign reserves, mainly receipts of budget support and donor funds during the month and over the year to support Tonga's recovery from COVID-19 and TC Harold.

	Level as at			Change over the last	
	Dec-20 \$TOPm	Nov-20 \$TOPm	Dec-19 \$TOPm	1 month % growth	1 year % growth
Broad money liabilities	707.5	681.4	602.2	3.8	17.5
Currency in circulation	94.7	82.3	66.1	15.0	43.3
Demand deposits	256.5	254.4	211.1	0.8	21.5
Savings and term deposits*	356.4	344.8	325.1	3.4	9.6
<i>equals</i>					
Net foreign assets	705.9	622.2	502.5	13.5	40.5
<i>plus</i>					
Net domestic assets	2.5	60.3	100.4	-95.8	-97.5
Gross bank lending**	496.9	496.4	501.6	0.1	-0.9
Public enterprises	56.4	58.2	63.6	-3.0	-11.3
Private Sector	438.3	436.2	435.2	0.5	0.7
Other financial corporations	2.1	2.1	2.7	2.7	-21.9
Other***	-494.4	-436.1	-401.2	13.4	23.2

* 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

On the other hand, the net domestic assets declined over the month and year due to higher government deposits from these grant receipts.

Liquidity

Liquidity in the banking system climbed further over the month and year to December 2020, by \$33.5 million (8.6%) and \$117.8 million (38.6%), respectively, to a total of \$422.8 million. The commercial banks' ESA (Exchange Settlement Account) rose the most over the month and year by \$18.3 million (8.2%) and \$84.7 million (53.8%), respectively, mainly on higher net sales from the commercial banks to the Reserve Bank. Currency in circulation also increased over the month by \$12.4 million (11.8%) and over the year by \$26.4 million (29.1%). This increase is in line with the net withdrawals by the

commercial banks from the Reserve Banks vault, and further reflects higher demand for bank notes and coins during the end of year festivities. Furthermore, required reserves grew by \$2.9 million (4.7%) over the month and \$6.6 million (11.7%) over the year, coinciding with higher deposits.

Lending

The banks' total lending declined over the month and year to December 2020, by \$1.1 million (0.2%) and \$5.4 million (1.1%), respectively, to \$495.4 million. Both businesses and household loans decreased over the month and annually, reflecting the high uncertainties of COVID-19 impacting both the banks' willingness to lend further and businesses and households' appetite to borrow.

Business lending

Lending to businesses decreased over the month and year to December 2020 by \$1.0 million (0.4%) and \$2.7 million (1.1%), respectively, to a total of \$236.3 million. The lower lending over the month attributed to fewer loans offered to public enterprises and businesses in the trade, agricultural, and tourism sectors. Similarly, over the year, loans to the public enterprises and businesses within the trade, manufacturing and utilities sectors declined.

Household lending

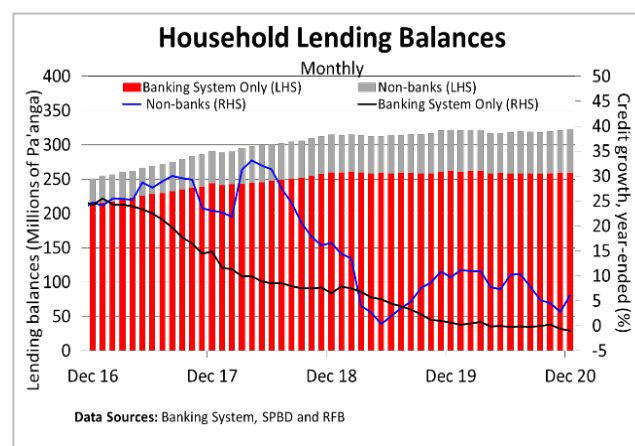
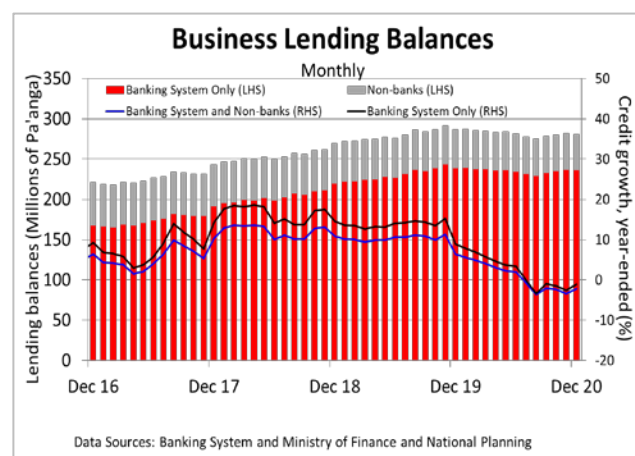
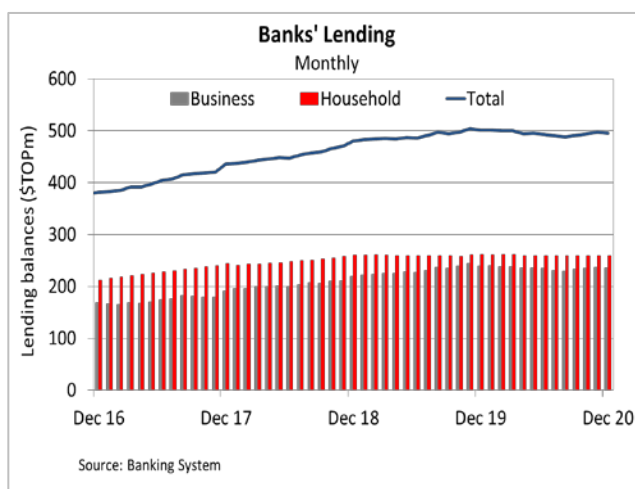
The total household loans followed the same trend as business loans. Over the month and year to December 2020, lending to households fell by \$0.1 million (0.04%) and \$2.6 million (1.0%), respectively, to a total of \$259.1 million. The drop in housing and vehicle loans led to the monthly decline, whilst the lower other personal loans drove the annual decrease.

Non-bank financial institutions

The total loans extended to the non-bank financial institutions continued to increase over the month and year to December 2020, by \$1.8 million (2.8%) and \$3.4 million (5.7%), respectively, to \$63.5 million. These loans are mostly offered to individuals in the informal and small-medium-sized enterprises (SME), indicating better accessibility of these loans to SMEs.

Non-performing loans

In December 2020, the non-performing loans rose to 3.9% from 3.8% last month and 3.4% last year. The increase is attributed to non-performing loans in the agriculture and fisheries sectors as well as



households' housing loans. This reflects the impact of COVID-19 and the unsuccessful season in the agriculture and fisheries sector and their ability to repay their loans. Meanwhile, some of the businesses directly affected by the pandemic such as the tourism sector are under the relief package of the banks. It is anticipated that once these relief packages expire, these loans will likely fall into non-performing given the extended border lockdown, thus pushing this ratio higher.

Table 2: Lending Balances (including new commitments)

	Level as at:			Change over the last:		Shares of totals %
	Dec 20 TOPm	Nov 20 TOPm	Dec 19 TOPm	1 month %	1 year %	
Lending, banks	495.4	496.5	500.9	-0.2	-1.1	100.0
Household	259.1	259.3	261.8	0.0	-1.0	52.3
Business*	236.3	237.3	239.0	-0.4	-1.1	47.7
Other	0.0	0.0	0.1	0.0	0.0	0.0
Lending, banks and other	603.4	602.6	608.8	0.1	-0.9	100.0
Household**	322.8	321.0	321.8	0.6	0.3	53.5
Business	280.5	281.6	287.0	-0.4	-2.2	46.5
Other	0.0	0.0	0.1	0.0	0.0	0.0
New commitments, banks	10.5	10.2	14.6	2.9	-28.1	N/A
Undrawn commitments, banks	10.6	9.8	14.7	8.0	-27.8	N/A
Implied repayments, banks	10.8	13.7	18.8	-21.3	-42.5	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

Deposits

The banks' total deposits reached \$703.9 million in December 2020, the first time deposits rose above \$700 million. This was attributed mainly to an increase of \$17.2 million (2.5%) in the month driven by higher time deposits from churches, and higher demand deposits made by businesses, individuals and the central government. Saving deposits, however, decreased and coincided with the lower saving deposit rates over the month, and the increase in currency in circulation reflecting drawdowns made for festive season. In year ended terms, the banks' total deposits rose by \$96.4 million (15.9%), which increased in all three categories of deposits.

Demand deposits expanded by \$49.2 million (19.4%), in line with the higher demand deposit rates over the year and was mostly driven by more deposits from public enterprises, non-profit organisations (churches) and private businesses. Time deposits followed with an increase of \$26.8 million (10.7%) due mainly to higher deposits from retirement funds, central government and non-profit organisations mainly churches. Furthermore, saving deposits grew by \$20.5 million (19.6%) as individuals tend to save more. Additionally, the high inflow of remittances, official government funds, and disbursements from the fiscal stimulus package also supports the rise in deposits. This also reflects the rise in in-kind remittances in response to the Government Covid-19 policy to waive import duties on personal effects and construction goods and also coincides with the increase in private containers.

The decline in total lending coupled with higher deposits, lowered the loans to deposit ratio in December 2020 to 68.6% from 70.4% last month. This also remained below the minimum level of

80%, indicating more liquidity available in the banking system for further lending. However, due to the uncertainties from COVID-19, it is likely that lending will remain subdued in the near term.

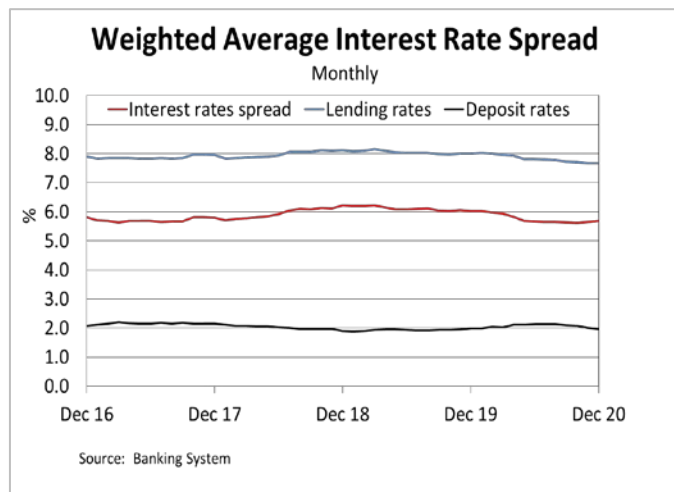
Table 3: Deposit Balances

	Monthly				Annual		
	Dec-20	Nov-20	Change	% Growth	Dec-19	Change	% Growth
Total Deposits (\$ in million)	703.9	686.7	17.2	2.5	607.4	96.4	15.9
Demand Deposits	302.8	298.4	4.3	1.5	253.5	49.2	19.4
Saving Deposits	124.8	125.4	-0.6	-0.5	104.4	20.5	19.6
Time Deposits	276.3	262.8	13.4	5.1	249.5	26.8	10.7

Sources: Banking Systems; NRBT

Interest rate spread

The higher weighted average lending rates coupled with the lower weighted average deposit rates widened the weighted average interest rate spread further in December 2020, by 3.8 basis points. The higher weighted average lending rates attributed mainly to an increase in loan rates offered to the transport, professional & other business services, fisheries, and households' housing and vehicle loans. Both time and saving deposit rates declined and outweighed the rise in demand deposit rates over the month.



In year ended terms, the weighted average interest rate spread narrowed by 32.7 basis points to 5.7%. This resulted mainly from lower weighted average lending rates offered primarily for households for other personal loans and businesses in the mining & quarrying, construction and utilities sectors, coupled with the decrease in weighted average deposit rates (term and savings).

Table 4: Interest Rates

	Weighted average of all banks					
	Level as at			Change over the last [^]		Share of loans/deposits %
	Dec-20 %	Nov-20 %	Dec-19 %	1 month bps	1 year bps	
Interest Rate Spread	5.699	5.660	6.026	3.84	-32.68	
Deposits all	1.98	2.01	1.99	-2.84	-1.17	100
Demand	0.33	0.33	0.32	0.42	1.30	40
Savings	2.54	2.61	2.54	-7.12	-0.81	19
Term	3.36	3.45	3.42	-8.56	-6.22	41
Loans all	7.68	7.67	8.02	1.00	-33.85	100
Housing	8.06	8.06	8.04	0.14	2.16	42
Other personal	11.33	11.34	11.38	-0.52	-4.53	11
Business	7.10	7.08	7.87	2.46	-76.65	30
Other	0.00	0.00	9.65	0.00	-965.00	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

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 there is 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 is maintained by closely monitoring all monetary indicators, such as credit growth, and broad money.