

# Banking Sector Developments June 2020

Release date: 19 October 2020

	Jun-20	May-20	Apr-20	Mar-20
Deposit rate (%)*	2.139	2.119	2.115	2.025
Lending rate (%)*	7.815	7.814	7.946	7.968
Total Deposits (T\$m)	619.2	602.0	595.0	603.3
Total lending (T\$m)	492.9	495.4	494.4	499.7
New commitments (T\$m)	6.1	8.5	3.6	7.1
Broad Money (T\$m)	607.1	592.2	581.6	596.4

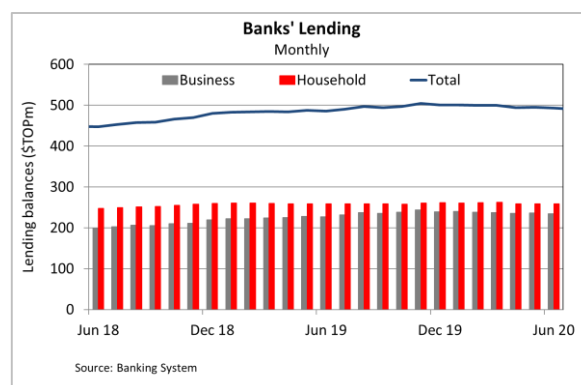
\*Weighted Average calculated as a function of interest rate and volume of deposits and loans

## Subdued credit growth recorded for the year 2019/2020

### Lending

The banks' total lending declined by \$2.5 million (0.5%) over the month of June 2020, as a result of lower business and household loans. This reflects stagnant credit growth and the normal monthly repayment reducing the outstanding loans balances. However a credit growth of \$7.0 million (1.4%) was recorded for the financial year 2019/20, much weaker than the \$38.5 million (8.6%) growth recorded in the

year to June 2019. Despite sluggish growth since the beginning of 2020 the banks' total loans still edged up to \$492.9 million at end of June 2020. This was solely driven by higher business loans of \$7.9 million (3.5%) which offset a \$0.5 million (0.2%) decline in household loans.

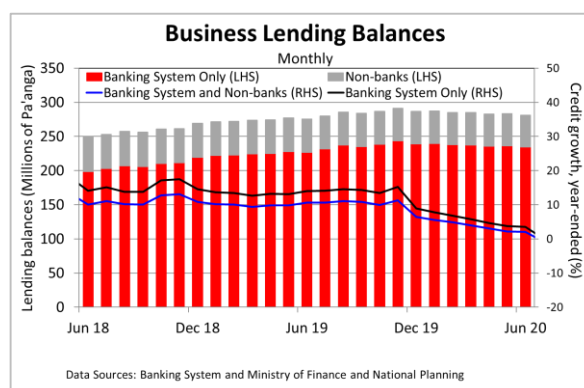


### Non-bank financial institutions

Loans extended to the non-bank financial institutions rose in June 2020 by \$2.0 million (1.9%) to a total of \$59.8 million. Majority of these loans are to individuals in the informal sector and small medium enterprises reflecting the accessibility of these loans. The usual loan settlements continued to drive total government on-lent loans lower both in the month and year to June 2020.

### Business lending

Business loans declined over the month of June 2020 by \$1.9 million (0.8%) due to lower lending mainly for businesses in the professional & other services sector, and public enterprises. This also reflects weak investment appetite due to the impact of COVID-19



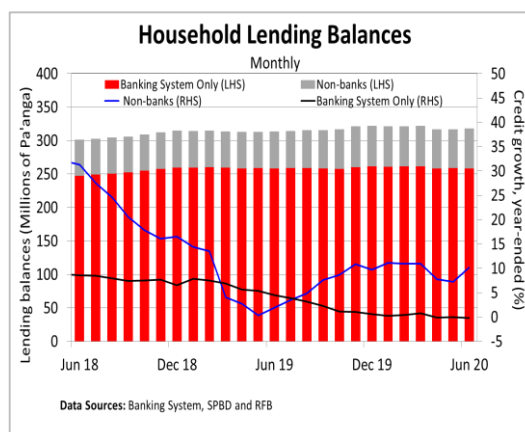
on businesses. However, business lending rose over the year to a total \$234.5 million driving the overall increase in banks' total lending.

### Household lending

Household loans fell over the month and year to June 2020 by \$0.6 million (0.2%) and \$0.5 million (0.2%) respectively, to a total \$258.4 million. While housing loans rose from continuous housing and renovation works by private households, it was outweighed by the decline in other personal loans.

### Non-performing loans

Non-performing loans as a share of total loans was at 4.4% in June 2020, higher than 3.5% in May 2020 and 3.2% in June 2019. Higher non-performing loans was attributed to the poor harvest from the squash season affecting the repayment on these agriculture loans.



**Table 1: Lending Balances (including new commitments)**

	Level as at:			Change over the last:		Shares of totals %
	Jun 20 TOPm	May 20 TOPm	Jun 19 TOPm	1 month %	1 year %	
Lending, banks	492.9	495.4	485.9	-0.5	1.4	100.0
Household	258.4	259.0	258.9	-0.2	-0.2	52.4
Business*	234.5	236.4	226.6	-0.8	3.5	47.6
Other	0.0	0.0	0.4	0.0	-100.0	0.0
Lending, banks and other	599.7	600.2	589.4	-0.1	1.7	100.0
Household**	318.2	316.7	313.1	0.5	1.6	53.1
Business	281.5	283.4	275.9	-0.7	2.0	46.9
Other	0.0	0.0	0.4	0.0	-100.0	0.0
New commitments, banks	6.1	8.5	10.3	-28.1	-41.0	N/A
Undrawn commitments, banks	11.2	11.5	26.5	-2.6	-57.7	N/A
Implied repayments, banks	8.9	8.1	7.8	9.4	13.4	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

Banks' total deposits rose in June 2020 by \$17.2 million (2.9%) mostly attributed to higher time deposits followed by savings, and demand deposits. Time deposits rose by \$10.1 million (4.0%) mainly investments by the government, retirement fund and individuals. Higher savings and time deposits were contributed by the private sector, both businesses and individuals. This coincides with the high level of remittances in June. It may also reflect peoples' preference to save rather than to spend given the uncertainties of the global pandemic, and the fall in aggregate demand due to the cancellation of annual events usually held during the month of June.

Annually, total deposits rose by \$8.1 million (1.3%) driven mainly by a \$27.8 million (11.9%) increase in time deposits from retirement funds, central government, and the private sector. This was partially offset by a decline in demand and savings deposits. These drawdowns are due to repatriation of funds offshore, and other commitments largely associated with the impact of COVID-19 such as the fiscal stimulus package payouts.

As such, the banks' total loans to deposit ratio fell to 77.9% in June 2020, after 7 months of being above the 80% minimum ratio. Total deposits increased significantly compared to total loans which declined.

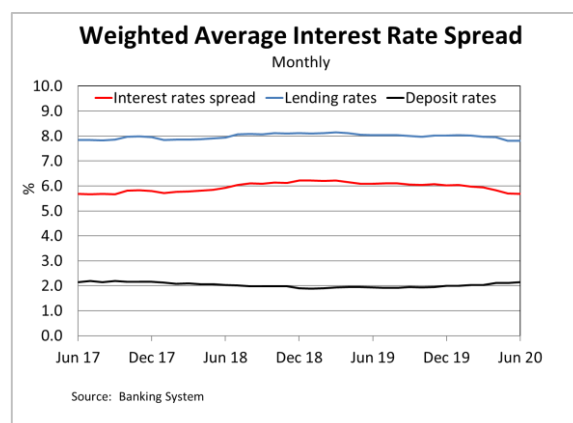
**Table 2: Deposit Balances**

	Monthly				Annual		
	Jun-20	May-20	Change	% Growth	Jun-19	Change	% Growth
Total Deposits (\$ in million)	619.2	602.0	17.2	2.9	611.0	8.1	1.3
Demand Deposits	243.6	240.9	2.7	1.1	262.8	-19.2	-7.3
Saving Deposits	113.0	108.6	4.4	4.1	113.5	-0.5	-0.4
Time Deposits	262.6	252.5	10.1	4.0	234.8	27.8	11.9

Sources: Banking Systems; NRBT

## Interest rate spread

The weighted average interest rate spread slightly narrowed over the month and year to 5.68% in June 2020. The monthly movement was a combination of minor decreases in time deposit rates, household and business lending rates. The declining time deposit rates was mainly for the short-term deposits. Households' other personal loans rates fell and offset the rises in housing and vehicle loans rates while decreases in business lending rates were mainly for the distribution, and tourism sectors. The lower volumes of lending over the month also supported the monthly decline.



In year ended terms, lower weighted average lending rates coupled with the higher weighted average deposit rates, narrowed the weighted average interest rate spread. Lower lending rates were mostly for households' housing and personal loans. Business loans rates declined particularly for the mining & quarrying, tourism, and professional & other services sectors, and public enterprises. Weighted average deposit rates however rose on higher deposit rates for savings, demand, and term deposit rates.

**Table 3: Interest Rates**

	Weighted average of all banks					
	Level as at			Change over the last <sup>^</sup>		Share of loans/deposit s %
	Jun-20 %	May-20 %	Jun-19 %	1 month bps	1 year bps	
Interest Rate Spread	5.675	5.695	6.090	-1.98	-41.47	
Deposits all	2.14	2.12	1.94	2.09	20.04	100
Demand	0.38	0.34	0.30	3.60	7.32	37
Savings	2.62	2.60	2.55	1.74	6.89	19
Term	3.45	3.48	3.43	-2.96	1.78	43
Loans all	7.81	7.81	8.03	0.10	-21.42	100
Housing	8.02	8.02	8.20	0.16	-17.94	42
Other personal	10.70	10.75	11.46	-5.16	-76.12	11
Business	7.64	7.64	7.64	-0.35	-0.41	29
Other	0.00	0.00	8.87	0.00	-886.91	18

\*Method for calculating these series was updated in August 2014, resulting in revision to the full history of data

<sup>^</sup>Due to rounding errors some data may not aggregate precisely

Sources: Banking Systems; NRBT

## Broad money

Broad money expanded over the month and year to June 2020 by \$14.9 million (2.5%) and \$7.0 million (1.2%) respectively, ending the financial year with a record of \$607.1 million. These movements were driven mostly by the significant rise in net foreign assets particularly on higher foreign reserves. These were inflows of official funds for budget support, government projects, TC Harold assistance, and on-going preparation related to COVID-19. Net domestic assets, on the other

hand, declined both over the month and year due to the rise in government deposits from the receipts of these official funds.

### Liquidity

Reserve money rose over the month and year to June 2020 due mainly to a rise in the commercial banks' ESA (Exchange Settlement Account), in line with the higher deposits in June 2020. The slight rise in currency in circulation also supported the increase in liquidity.

### Outlook

The NRBT expect credit growth to remain subdued and eventually wind down in the near term underpinned by the extreme uncertainties of the COVID-19 pandemic, weakening investment appetite, and softening aggregate demand. Tonga's extended state of emergency and border lockdown since March has triggered banks to offer COVID-19 relief packages conditional on the impacts these unprecedented situation has on each customer. Nonetheless, the current accommodative monetary policy stance continues to encourage banks to utilize the excess liquidity in the banking system for further lending to support economic growth.

The Reserve Bank will continue to closely monitor the growth across all monetary indicators, particularly credit growth and broad money movements, and to ensure financial and macroeconomic stability is maintained.

	Level as at			Change over the last	
	Jun-20 \$TOPm	May-20 \$TOPm	Jun-19 \$TOPm	1 month % growth	1 year % growth
<b>Broad money liabilities</b>	<b>607.1</b>	<b>592.2</b>	<b>600.1</b>	<b>2.5</b>	<b>1.2</b>
Currency in circulation	71.4	69.5	70.3	2.8	1.6
Demand deposits	201.8	195.8	211.6	3.1	-4.6
Savings and term deposits*	333.9	326.9	318.2	2.1	4.9
<i>equals</i>					
<b>Net foreign assets</b>	<b>570.6</b>	<b>517.2</b>	<b>506.3</b>	<b>10.3</b>	<b>12.7</b>
<i>plus</i>					
<b>Net domestic assets</b>	<b>37.2</b>	<b>75.7</b>	<b>94.2</b>	<b>-50.9</b>	<b>-60.5</b>
Gross bank lending**	492.4	494.7	487.6	-0.5	1.0
Public enterprises	61.6	62.6	60.2	-1.6	2.4
Private Sector	428.4	429.6	424.5	-0.3	0.9
Other financial corporations	2.4	2.4	2.9	-0.4	-19.7
Other***	-455.2	-418.9	-393.4	8.7	15.7

\* 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