

Banking Sector Developments May 2021

Release date: 25 August 2021

	May-21	Apr-21	Mar-21	Feb-21
Deposit rate (%)*	1.997	1.978	2.007	2.002
Lending rate (%)*	7.728	7.711	7.687	7.694
Total Deposits (T\$m)	730.9	721.3	708.6	703.1
Total lending (T\$m)	486.6	488.1	488.8	492.2
New commitments (T\$m)	13.7	8.4	7.3	6.4
Broad Money (T\$m)	724.7	712.3	707.6	703.4

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

Broad money rose on the back of higher foreign reserves

Broad money

Broad money increased further in May 2021 to \$724.7 million, by \$12.4 million (1.7%) over the month and \$132.5 million (22.4%) annually. Both rises were attributed to higher net foreign assets, driven by the influx of foreign reserves from the receipts of official funds for budget support, project development funds, and financial assistance for COVID-19.

The net domestic assets also improved over the month due to a fall in capital account coupled with an increase in other assets and liabilities. However, the net domestic assets declined annually due to higher government deposits, mostly from receipts of budget support and donor funds mentioned above.

	Level as at			Change over the last	
	May-21 \$TOPm	Apr-21 \$TOPm	May-20 \$TOPm	1 month % growth	1 year % growth
Broad money liabilities	724.7	712.3	592.2	1.7	22.4
Currency in circulation	91.0	91.5	69.5	-0.5	31.0
Demand deposits	250.7	248.7	195.8	0.8	28.0
Savings and term deposits*	383.0	372.2	326.9	2.9	17.2
<i>equals</i>					
Net foreign assets	724.4	715.5	517.2	1.3	40.1
<i>plus</i>					
Net domestic assets	1.2	-2.3	75.6	-153.8	-98.4
Gross bank lending**	488.3	489.9	494.7	-0.3	-1.3
Public enterprises	51.4	53.1	62.6	-3.3	-18.0
Private Sector	435.1	434.9	429.6	0.0	1.3
Other financial corporations	1.8	1.9	2.4	-1.6	-22.6
Other***	-487.1	-492.1	-419.0	-1.0	16.2

* 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

Liquidity

Over the month and year to May 2021, liquidity in the financial system rose further, by \$10.3 million (2.3%) and \$170.6 million (59.5%), respectively, to a new high level of \$457.3 million. All the three categories of liquidity continued rising over the month and annually. The bank's Exchange Settlement Account rose the most, coinciding with net sales of foreign currencies to the Reserve Bank, mostly receipts of remittances. Currency in circulation followed, in line with the demand for money for the festivities during the month and year, such as the churches' annual donations, 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.

Lending

Over the month and year to May 2021, the banks' total lending declined again, by \$1.5 million (0.3%) and \$8.8 million (1.8%), respectively, reducing the total loans to \$486.6 million. Both declines are attributed mainly to loan run-offs and repayments made by businesses. Household loans, however, increased over the month but declined over the year.

Business lending

Over the month and year to May 2021, lending to businesses fell by \$1.7 million (0.8%) and \$8.7 million (3.7%), respectively, to \$227.7 million. Both declines were due to ongoing loan run-offs and loan repayments by public enterprises, offsetting new loans to other private businesses. Lower lending to businesses in the manufacturing, wholesale & retail, and transport sectors contributed to the monthly fall. Additionally, decreasing loans offered to manufacturing, transport and agricultural sectors supported the annual decline. 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, household loans increased over the month of May 2021 by \$0.3 million (0.1%) but declined annually by \$0.5 million (0.2%). All categories rose over the month, whilst only other personal loans decreased, supporting the annual decline over the year.

Non-bank financial institutions

The total loans extended by the non-bank financial institutions increased over the month and year to May 2021 by \$0.2 million (0.4%) and \$3.6 million (6.2%). These loans are mostly offered to individuals in the informal and small-medium-sized enterprises (SMEs). This implies that non-bank financial institutions play a more significant role in financial access during the global pandemic. However, this may also contribute to household indebtedness.

Non-performing loans

In May 2021, the non-performing loans improved slightly to 4.2% from 4.4% last month. However, they rose from 3.5% recorded in the previous year. Over the month, the lower non-performing loans stem from the loan refinances and loan upgrades in the manufacturing, education, and transport sectors.

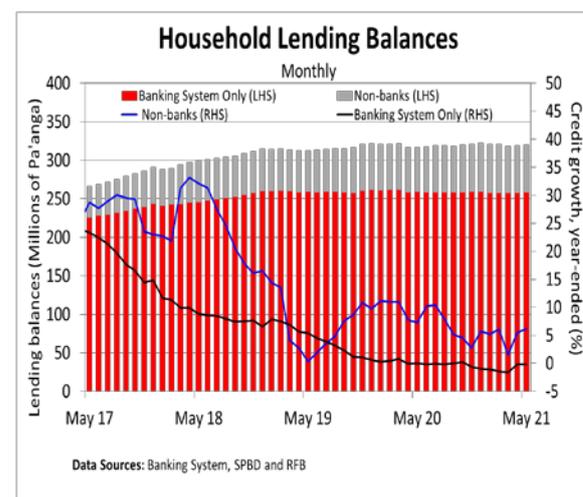
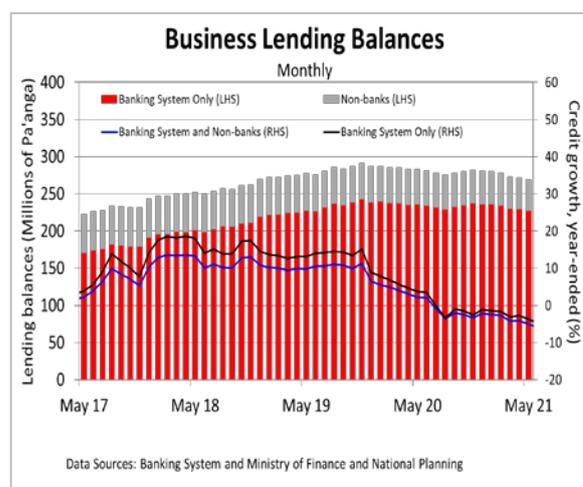
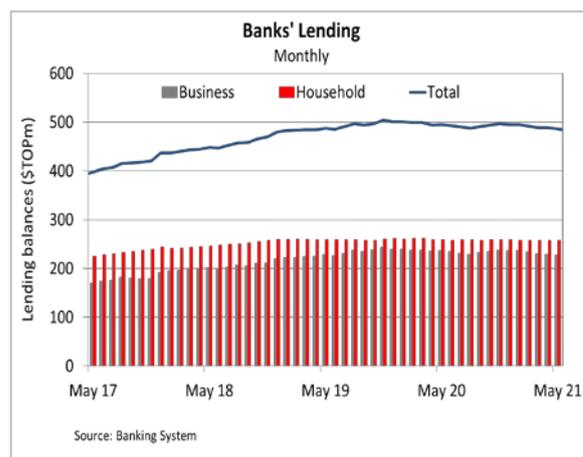


Table 2: Lending Balances (including new commitments)

	Level as at:			Change over the last:		Shares of totals %
	May 21 TOPm	Apr 21 TOPm	May 20 TOPm	1 month %	1 year %	
Lending, banks	486.6	488.1	495.4	-0.3	-1.8	100.0
Household	258.5	258.2	259.0	0.1	-0.2	52.9
Business*	227.7	229.4	236.4	-0.8	-3.7	47.0
Other	0.4	0.4	0.0	0.0	0.0	0.1
Lending, banks and other	589.4	591.2	600.2	-0.3	-1.8	100.0
Household**	319.8	319.3	316.7	0.2	1.0	54.0
Business	269.2	271.5	283.4	-0.8	-5.0	45.9
Other	0.4	0.4	0.0	0.0	0.0	0.1
New commitments, banks	13.7	8.4	8.5	62.5	62.3	N/A
Undrawn commitments, banks	8.2	11.1	11.5	-26.1	-28.5	N/A
Implied repayments, banks	2.9	-1.6	8.1	-280.2	-64.3	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

However, the higher non-performing loans over the year stemmed mostly from the forestry, agriculture, construction sectors, and households' housing loans. In addition to the poor squash season, deceased borrowers, migration, and borrowers on study leave also contributed to the higher non-performing loans. Private individual loans maintained the highest share of non-performing loans at 61.3%, mostly housing loans. The remaining 38.7% are business loans in Agriculture (20%), Forestry (10%), Professional & Other Services (4%), Transport (2%) and Others (2.7%). The Government's fiscal stimulus package coupled with the commercial banks' COVID-19 relief packages for their clients may have assisted in maintaining the low rate of non-performing loans.

Deposits

Table 3: Deposit Balances

	Monthly				Annual		
	May-21	Apr-21	Change	% Growth	May-20	Change	% Growth
Total Deposits (\$ in million)	730.9	721.3	9.5	1.3	602.0	128.9	21.4
Demand Deposits	295.9	296.6	-0.7	-0.2	240.9	55.1	22.9
Saving Deposits	141.9	134.4	7.6	5.6	108.6	33.4	30.7
Time Deposits	293.0	290.3	2.7	0.9	252.5	40.5	16.0

Sources: Banking Systems; NRBT

The banks' total deposits rose over the month and year to May 2021 by \$9.5 million (1.3%) and \$128.9 million (21.4%), respectively. Saving and time deposits increased over the month and offset the slight decline in demand deposits. The higher saving deposits over the month mainly were from individuals and the retirement funds. Similarly, more deposits from churches and schools contributed to the increase in time deposits.

Over the year, all deposit categories increased, with demand deposits rising the most, underpinned by private businesses, public enterprises, churches, and schools deposits. Time deposits also increased, mostly from churches and schools, central government and private businesses.

Furthermore, saving deposits also rose on deposits by individuals, retirement funds, churches, and schools.

The increase in total deposits coupled with the decline in total lending resulted in a lower loan to deposit ratio of 64.9% in May 2021, falling from 66.0% last month and still below the 80% minimum.

Interest rate spread

The weighted average interest rate spread narrowed marginally in May 2021 by 0.01 basis points due to the increase in weighted average deposit rates outweighing the rise in weighted average lending rates. Both the demand and savings deposits increased over the month, thus offsetting the decline in time deposit rates. The higher lending rates over the month owes to higher loan rates offered to businesses in the construction, agriculture, and fisheries sectors, in addition to households' other personal loan rates.

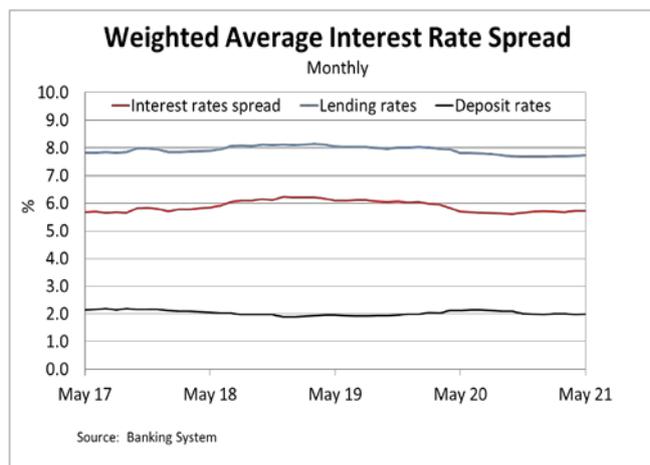


Table 4: Interest Rates

Weighted average of all banks						
	Level as at			Change over the last [^]		Share of loans/deposits %
	May-21 %	Apr-21 %	May-20 %	1 month bps	1 year bps	
Interest Rate Spread	5.732	5.733	5.693	-0.11	3.93	
Deposits all	2.00	1.98	2.12	1.81	-12.46	100
Demand	0.36	0.34	0.34	2.03	2.04	38
Savings	2.57	2.56	2.60	0.81	-2.86	21
Term	3.22	3.24	3.49	-1.44	-26.40	41
Loans all	7.73	7.71	7.81	1.70	-8.53	100
Housing	8.08	8.08	8.02	-0.13	6.05	43
Other personal	11.32	11.31	11.36	0.36	-4.27	11
Business	7.13	7.12	7.64	0.66	-51.41	30
Other	8.74	8.63	0.00	10.52	873.96	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; NRB

Annually, the weighted average interest rates widened by 3.9 basis points to 5.7%. This time, the weighted average deposit rates declined more than the fall in weighted average lending rates. The lower weighted average deposit rates resulted from the fall in time and saving deposit rates offsetting the increase in demand deposit rates, underpinned by the rising deposit volumes. Similarly, lower lending rates on the household, other personal loans and loans to the construction, utilities, and agricultural sectors drove the decline.

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. This is driven by the uncertainties of the COVID-19 pandemic, weak investment appetite, and softening aggregate demand. The Reserve Bank continues to monitor non-performing loans closely and ensure adequate provisions are in place 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 maintain financial and macroeconomic stability by closely monitoring all monetary indicators, such as credit growth, household and corporate indebtedness, and broad money.