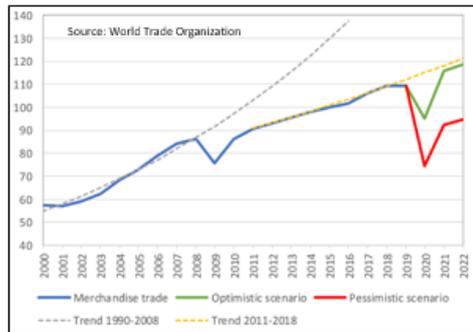




Global trade plunges amidst COVID-19 pandemic

The World Trade Organization (WTO) in April 2020 projected that global trade in its worst-case scenario could fall by 32% in 2020. This forecast

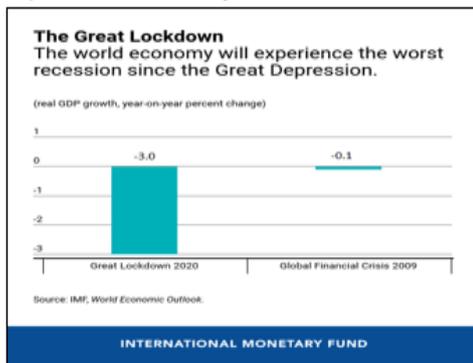
Graph 1: WTO Global Projection 2020



stemmed from the disruptions of COVID-19 lockdown and restrictions across borders. The WTO also reported that global trade fell by 0.1% in volume terms in 2019 largely due to trade tensions

between the US and China. The IMF in April 2020 projects that Global growth is also expected to fall by 6.3% to a -3.0% growth in 2020. In the US, the Bureau of Economic Analysis in April

Graph 2: IMF Global Growth Projection 2020



2020 reported a contraction in the economic growth of 4.8% in the first quarter of 2020. This results from subdued consumption spending, investments, and exports as COVID-19 weigh in heavily across the economy. The Reserve Bank of Australia reduced its cash rate to 0.25% in March 2020 to strengthen the financial systems and ensure there is sufficient liquidity in place. Similarly, the Reserve Bank of New Zealand in March 2020 lowered its Official Cash Rate from 1.0% to 0.25% in line with the government's fiscal stimulus packages to support the economy.

Slower domestic performances

In the primary sector, the volume of agricultural exports has picked up in March 2020 by 164.6 tonnes (28.0%), reflecting the harvesting season of late yams. On the other hand, fisheries data showed that for the first quarter of 2020, the volume of marine exports fell by 131.7 metric tons (22.4%) mostly due to the decline in the exports of tuna by 134.5 metric tons (23.9%). Additionally, the volume of aquarium products exported also fell by 20,798 pieces (38.4%). As a result, total export proceeds for the month slightly declined by \$0.1 million (8.2%) to \$1.0 million.

Lending for the industry sector has generally slowed down in March 2020, however newly commitment loans indicate upcoming prospective projects specifically for Construction, Utility and Manufacturing businesses.

The World Health Organization (WHO) declared COVID-19 to be a global pandemic on the 11th of March, 2020. Since then, the Tongan government has responded with various measures aiming to safeguard our border from any importation of the virus. These included diverting all cruise ships from Tonga, declaring a state of emergency, and a two weeks lockdown that started from the 29th of March. Consequently, most of the tourism activities have come to a standstill while other business services observed a general slowdown in business activities. International arrivals continued to drop significantly in March by 2,853 passengers (45.0%), and 2,438 passengers (41.1%) from the same month last year. Similarly, the number of international flights recorded also fell by 35.5% during the month, and 50.6% from March 2019. Container registrations rose by 79 registrations (13.4%) solely driven by higher private containers, whilst business container registrations declined by 17 registrations (4.8%) for wholesale and retail distributions.

Declining employment opportunities

The total number of job advertisements declined over March 2020 by 35 vacancies (60.3%) mostly for public administration. Meanwhile, some of the tourism businesses have reduced their staff due to inactivity, while other businesses were required to reduce their staff to skeleton teams only during the national lockdown. Unemployment is expected to continue rising as COVID-19 continues to remain a threat to our health system.

Low inflation remains in March

Table 1: Inflation Rates

Prices	Monthly		Annual	
	Mar-20	Feb-20	Mar-20	Mar-19
Headline Inflation (%)	0.2	0.3	0.4	2.0
Domestic prices	0.2	0.7	-3.5	5.1
Imported prices	0.2	0.0	3.9	-0.5

Source: Statistics Department

Headline inflation rose by 0.2% over the month as both domestic and imported prices both increased by 0.2% respectively. Domestic prices rose driven mostly by a 0.5% increase in local food products, particularly prices of vegetables and root crops largely reflecting the seasonality of agricultural products. Imported prices

Table 2a: Monthly average prices of selected domestic items¹

Items (\$ per kg)	Unit	Monthly		
		Mar-20	Feb-20	Change
Lu	1kg	\$7.55	\$4.96	\$2.59
Carrots	1kg	\$3.59	\$2.45	\$1.14
Kumala	1kg	\$1.39	\$1.28	\$0.11
Cockles (to'o)	1kg	\$4.59	\$4.53	\$0.06
Talo - Tonga	1kg	\$1.30	\$1.28	\$0.02

Source: Statistics Department

also rose over the month attributed to higher prices for food items as well as gas & other fuels.



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Annual inflation for March 2020 was at 0.4%, lower than the 0.8% in February 2020 and 2.0% in March 2019. Imported prices increased over the year to March 2020 resulting from higher food prices (6.5%), transportation (4.0%), and alcoholic beverages (2.3%). Imported food prices were higher for mutton flaps, chicken pieces, and apples. Meanwhile, domestic prices fell by 3.5% over the year to March 2020, partially offsetting the rise in imported prices. This owes mostly to lower prices of kava Tonga (-41.4%) and local food products (-8.8%).

Effective exchange rates rise

Table 3: Effective Exchange Rates

	Monthly		Annual		
	Mar-20	Feb-20	Mar-19	% Growth	
Nominal Effective Exchange Rate Index	94.9	93.2	1.8	91.2	4.0
Real Effective Exchange Rate Index	110.8	108.5	2.0	108.1	2.5

Source: National Reserve Bank of Tonga

The AUD, NZD, FJD, & GBP depreciated against the TOP in March 2020. Hence, both the Nominal Effective Exchange Rate (NEER) and Real Effective Exchange Rate (REER) index increased over the month. The NEER and REER also rose over the year which may imply a loss in Tonga's international trade competitiveness.

Lower foreign reserves

Table 5: Foreign Reserves

	Monthly		Annual		
	Mar-20	Feb-20	% Growth	Mar-19	% Growth
Foreign Reserves (\$ in million)	457.5	479.8	-4.7	465.0	-1.6
Import Coverage (months)	6.8	7.1		7.8	

Source: National Reserve Bank Tonga

The official foreign reserves significantly declined over the month by \$22.4 million to \$457.5 million, equivalent to 6.8 months of imports. This was attributed to outflows for import payments and repayments of external debt. The annual decline by \$7.5 million was largely due to higher payments for offshore investments, loan repayments, and imports of goods and services.

Table 6: Overseas Exchange Transactions
Overseas Exchange Transactions

	Monthly			Annual		
	Mar-20	Feb-20	% Growth	Mar-20	Mar-19	% Growth
Overall Balance	-22.4	-3.0	-637.4	-7.5	17.3	-143.4
Current Account	-2.1	4.1	-151.5	7.0	-8.6	180.9
Merchandise Trade	-32.4	-30.1	-7.7	-404.0	-422.7	4.4
Services	6.7	4.4	52.2	39.9	16.5	142.5
Income	-5.6	1.5	-468.2	-3.3	8.3	-140.1
Transfers	29.3	28.3	3.3	374.3	389.3	-3.9
Capital Account	2.1	1.6	29.5	31.5	34.5	-8.9
Financial Account	-22.4	-8.7	-156.0	-46.0	-8.6	-434.5

Source: Banking Systems

Table 2b: 'Average annual prices of selected items'

Items (\$ per kg)	Unit	Annual		
		Mar-20	Mar-19	Change
Domestic				
Kava	1kg	\$70.00	\$135.00	-\$65.00
Octopus	1kg	\$17.14	\$21.03	-\$3.89
Yams - early	1kg	\$3.74	\$5.06	-\$1.32
Imported				
Mutton flaps	1kg	\$16.95	\$15.41	\$1.54
Chicken pieces	1kg	\$3.18	\$2.63	\$0.55
Apples	1kg	\$5.57	\$5.25	\$0.32

Source: Statistics Department

The overall Overseas Exchange Transactions (OET) deficit widened in March 2020 due to higher payments from the current and financial accounts. Payments from the current account rose by \$8.9 million mainly on imports and interest payments on government loans. These outweighed a rise in current account receipts for travel receipts and private transfers. The rise in travel receipts were mostly credit card transactions. The financial account deficit also widened due to higher interbank payments. Nonetheless, the capital account surplus rose during the month due to a rise in capital receipts.

In the year to March 2020, the overall OET balance recorded a \$7.5 million deficit compared to a \$17.3 million surplus in the same month of the previous year. The capital and financial accounts both declined annually due to lower private capital transfer receipts and higher payments for offshore investment. The current account deficit improved throughout the year owing to lower payments for imports and services whilst travel receipts and private transfer receipts increased.

Broad money expanded

Table 7: Broad Money

	Monthly			Annual	
	Mar-20	Feb-20	% Growth	Mar-19	% Growth
Broad money (\$ in million)	596.4	590.1	1.1	583.5	2.2
Net Foreign Asset	485.3	494.9	-2.0	482.0	0.7
Net Domestic Asset	111.7	95.7	16.6	101.9	9.6

Source: Banking System, National Reserve Bank of Tonga

Broad money increased by \$6.2 million (1.1%) in March 2020, due mainly to higher net credit to government, which offset the decrease in net foreign assets as foreign reserves declined. Similarly, annual movements show that broad money increased by \$12.9 million (2.2%) as a result of higher net domestic assets mainly on increased net credit to government and credit to private sectors. This was also supported by the rise in net foreign assets from the other foreign assets and lower foreign liabilities.

Liquidity declined in March

Table 8: Reserve money

	Monthly			Annual	
	Mar-20	Feb-20	% Growth	Mar-19	% Growth
Reserve money (\$ in million)	292.6	297.9	-1.8	305.4	-4.2

Source: Banking System, National Reserve Bank of Tonga

Liquidity in the banking system fell over the month and the year to March 2020 by \$5.3 million (1.8%) and \$12.8 million (4.2%) respectively to \$292.6 million. These were mostly driven by the decline in the exchange settlement accounts mainly on higher withdrawals to cater to government loan repayment and payments for oil and other imports during the month. The required reserves also fell and coincided with the monthly decline.

Stagnant credit growth

The banks' total lending remained at 499.7 million in March as lower business loans offset the slight rise in individual loans.



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The decline in business lending was in the distribution, manufacturing, and utility sectors. Higher household lending was for housing, vehicle, and other personal loans. However, total lending rose over the year due to an increase in both loans to businesses and individuals such as lending to the agricultural, professional & other services, tourism sectors supported by individual housing loans.

Table 9: Total Lending

Lending	Monthly			Annual	
	Mar-20	Feb-20	% Growth	Mar-19	% Growth
Total Lending (\$ in million)	499.7	499.7	0.0	484.9	3.0
Business lending	237.5	237.8	-0.1	224.6	5.7
Household lending	262.1	261.9	0.1	260.0	0.8
Other lending	0.0	0.0	0.0	0.3	-100.0

Source: Banking System, National Reserve Bank of Tonga

The banks' total loans to deposit ratio fell from 82.2% to 81.0% over the month, reflecting declining loans against increasing deposits.

Interest rate spread narrowed further

Table 10: Weighted Average Interest Rates

Interest Rates	Monthly			Annual	
	Mar-20	Feb-20	Growth (bps)	Mar-19	Growth (bps)
Weighted Average Banks Deposit Rate (%)	2.033	2.038	-0.5	1.934	9.9
Weighted Average Banks Lending Rate (%)	7.968	8.015	-4.7	8.153	-18.5
Weighted Average Interest Rate Spread (%)	5.935	5.977	-4.2	6.219	-28.4

Source: Banking System, National Reserve Bank of Tonga

The weighted average interest rate spread narrowed by 4.15 basis points over the month due mostly to a decline in the weighted average lending rate offsetting the decline in weighted average deposit rates. Lower average lending rates are attributed to business loans for the mining/quarrying sectors, state-owned enterprises, and

construction businesses. The average deposits rate also fell resulting from a decline in the savings deposit rate.

Annually, the weighted average interest rate spread also narrowed attributing to a decline in weighted average lending rates coupled with the increase in weighted average deposit rates. The decrease in weighted average lending rates was mainly on individual housing loans and business loans for the mining & quarrying, tourism, and fisheries sectors. Meanwhile, the weighted average deposit rates increased due to a rise in term deposit rates.

Outlook

In light of the above developments, the impact of TC Harold, and the border remains closed until mid-June, the Reserve Bank is projecting an economic downturn for Tonga in 2019/20. This may continue to 2020/21 depending on the duration of the COVID-19 pandemic.

On the outlook for June 2020, foreign reserves is expected to remain at sufficient levels above the minimum of 3 months of import cover, sustained by the inflow of budget support and other relief funds from donor partners. Inflation is forecasted to gradually pick up yet remain below the Reserve Bank's reference rate of 5%. The banking system is still expected to remain sound with a slowdown in credit growth.

Monetary policy stance remains accommodative in support of domestic activities, macroeconomic growth, and mitigating the impacts of COVID-19 on the economy. The Reserve Bank remains vigilant by closely monitoring the financial and economic indicators for any sign of vulnerability and stands ready to adjust its monetary policy setting if required.