

Global remittances remain resilient during COVID-19

The World Bank Group in May 2021 reported that global remittance receipts was estimated at \$702 billion for 2020, and is higher compared to the previous forecast of \$666 billion for 2020. Global remittance receipts is projected to rise by 1.5% in 2021. However, the US Bureau of Economic Analysis shared that personal income in the US fell by \$3.21 trillion (13.1%) on a monthly basis in April 2021. This largely owes to the decline in government social benefits. Meanwhile, the Reserve Bank of Australia in April 2021, continued to hold its cash rate target at 0.1%, mainly to support growth and investments in the labour market and maintain inflation between the 2% - 3% target. Similarly, the Reserve Bank of New Zealand, maintained its official cash rate at 0.25% to sustain inflation at the 2.0% annual target mid-point with employment at its maximum sustainable level.

Slowdown in the domestic economic activity

Agricultural export volumes dropped in April 2021 by 709.9 tonnes (51.6%), mainly due to lower exports of root crops such as yam, cassava, and taro. Lower export volumes coincides with the decline in exports proceeds which fell by \$0.3 million (60.6%). Annually, the agricultural exports volumes and proceeds both fell by 1,964.7 tonnes (15.5%) and \$1.7 million (20.7%) respectively. This was mainly driven by a decline in exports of squash and coconut. Nevertheless, the Government has committed \$1.3 million during the month to support domestic farmers thus promoting local production and exports of agricultural products.

Secondary sector showed mixed movements during the month indicating prolonged uncertainties triggered by the pandemic impacting activities. Loan to the manufacturing sector declined by \$0.6 million (5.6%) over the month, whilst lending to the utility sector slightly increased and construction rose by \$0.8 million (4.3%). During the month, exports of mats, tapas, and handicrafts decreased by 0.4 tonnes (2.5%) whereas utility sector was supported by a Water system upgrade project for Nukunuku under Japan's Grant Assistance for Human Security Project. On the other hand, construction sector faced delays in completing their construction projects as scheduled due to the extended Covid-19 restrictions and additional quarantine measures. This is coinciding with the drop in the import payments for construction materials over the month by \$0.4 million (11.0%).

The service sector slowed down over the month. Container registrations fell by 249 containers (21.2%) due to decline in both business and private containers. This coincides with lower import payments excluding oil and the lower number of cargo ships in Tonga over the month. International arrival passengers dropped over the month by 252 passengers (90.3%), primarily due to delayed and cancelled repatriation flights during the month. However, travel receipts were recorded over the month and showed slight increase compared to the previous month. The

annual international arrival passengers and travel receipts fell by 97,796 passengers (98.0%) and \$104.8 million (82.5%) respectively. The number of international departure passengers slightly increased in April 2021, mainly owing to departure of 213 seasonal workers to Australia. Total vehicle registrations rose by 79 vehicles (41.4%).

Job advertisements fell

National Reserve Bank of Tonga survey's showed 15 job vacancies were advertised during the month. Over half of these jobs were mainly in public administration. However, job vacancies dropped by 4 vacancies (21.1%) compared to the previous month. The annual job vacancies dropped by 262 vacancies (57.0%).

Import prices pushed higher annual inflation for April

Table 1: Inflation Rates

Prices	Monthly		Annual	
	Apr-21	Mar-21	Apr-21	Apr-20
Headline Inflation (%)	0.3	1.4	4.5	1.3
Domestic prices	-0.3	0.9	3.1	-1.1
Imported prices	0.8	1.7	5.6	3.2

Source: Statistics Department

In April 2021, monthly inflation slightly rose by 0.3%, and attributes to the rise in imported prices outweighing the decline in local items.

Higher imported prices was largely driven by the increase in fuel prices, miscellaneous goods & services, and food items.

Meanwhile, lower domestic prices owes to the decline in local food items.

Table 2: Average annual prices of selected items

Items (\$ per kg)	Unit	Annual		
		Apr-21	Apr-20	Change
Domestic				
Tomatoes	1kg	\$20.34	\$15.40	\$4.94
Octopus	1kg	\$19.02	\$14.20	\$4.82
Tuna	1kg	\$18.00	\$15.00	\$3.00
Yams - early	1kg	\$5.07	\$3.42	\$1.65
Imported				
Pall Mall	1kg	\$23.00	\$19.29	\$3.71
Turkey tails	1 kg	\$10.88	\$8.90	\$1.98
Apples	1 kg	\$6.54	\$5.13	\$1.41

Source: Statistics Department

Annual headline inflation significantly rose by 4.5%, and is the highest rise since December 2018. Higher food prices, operation of personal transport equipment (particularly fuel prices), and tobacco were key drivers of increased imported prices. However, local food items, tobacco, and clothing & footwear pushed higher domestic prices. Inflation is projected to increase in the upcoming months due to expected increases in global oil and food prices.

Major trading currencies weakened against TOP

Table 3: Effective Exchange Rates

	Monthly			Annual	
	Apr-21	Mar-21	%	Apr-20	% Growth
Nominal Effective Exchange Rate Index	87.2	87.9	-0.8	94.7	-7.9
Real Effective Exchange Rate Index	99.5	105.1	-5.4	110.4	-9.9

Source: National Reserve Bank of Tonga

The Nominal Effective Exchange Rate (NEER) fell in April 2021 as major trading currencies depreciated against the Tongan Pa'anga (TOP) over the month. Similarly, the Real Effective Exchange Rate (REER) index declined in line

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with Tonga's low inflation rates relative to its major trading partners.

Both the NEER and REER declined in year-end terms, indicating an improvement in Tonga's trade competitiveness with trading partners, further supporting foreign currency receipts.

Lower foreign reserves on higher capital payments

Table 4: Foreign Reserves

	Monthly			Annual	
	Apr-21	Mar-21	Growth	Apr-20	% Growth
Foreign Reserves (\$ in million)	679.7	685.7	-0.9	475.1	44.3
Import Coverage (months)	11.9	12.2	-2.5	7.7	54.5

Source: National Reserve Bank Tonga

Official foreign reserves decreased over the month of April 2021 by \$6.0 million to \$679.7 million, equivalent to 11.9 months of imports. This stemmed from large payments for offshore investments and oil imports. Nevertheless, foreign reserves still increased significantly over the year by \$204.6 million underpinned by receipts of budget support, official grants, and remittances. Foreign reserves are held mainly in USD, AUD, and NZD.

Table 5: Remittance Receipts

	Monthly			Annual		
	Apr-21	Mar-21	% Growth	Apr-21	Apr-20	% Growth
Remittance (\$ in million)	42.5	43.5	-2.4	447.6	345.7	29.5

Source: National Reserve Bank Tonga

Remittances fell over the month by \$1.1 million in April 2021. This resulted mainly from declines in private transfer receipts, and compensation of employees following increases in the previous month. These receipts are mostly family support and gifts. Nevertheless, the rises in private transfer receipts and compensation of employees drove the \$101.9 million annual increase in remittances.

Table 6: Overseas Exchange Transactions

	Monthly			Annual		
	Apr-21	Mar-21	% Growth	Apr-21	Apr-20	% Growth
Overall Balance	-6.0	-6.7	11.1	204.6	10.9	1777.6
Current Account	7.1	-7.2	198.8	152.3	23.9	537.8
Merchandise Trade	-35.6	-45.9	22.4	-440.6	-402.7	-9.4
Services	-1.3	-2.7	51.3	-14.5	18.1	-180.1
Income	4.4	2.6	68.5	33.4	-1.6	2193.7
Transfers	39.6	38.8	2.1	574.0	410.2	39.9
Capital Account	0.5	0.9	-42.8	42.5	29.8	42.8
Financial Account	-13.6	-0.4	-3289.4	9.7	-42.8	122.7

Source: Banking Systems

Overall, Overseas Exchange Transactions (OET) recorded a lower overall deficit of \$6.0 million in April 2021 compared to the \$6.7 million deficit in March 2021. This attributed to declines in both the financial accounts and capital accounts, specifically to higher outflow of portfolio investments.

In the year to April 2021, the higher remittance receipts, budget support, and official grants fueled the significant increase in the OET balance surplus by \$193.7 million.

Broad money peaked on improved net domestic assets

Table 7: Broad Money

	Monthly			Annual	
	Apr-21	Mar-21	% Growth	Apr-20	% Growth
Broad money (\$ in million)	712.3	707.6	0.7	581.6	22.5
Net Foreign Asset	715.5	717.6	-0.3	503.3	42.2
Net Domestic Asset	-2.3	-9.2	-75.5	78.9	-102.9

Source: Banking System, National Reserve Bank of Tonga

Over the month and year to April 2021, broad money increased again to a new high level of \$712.3 million, by \$4.8 million (0.7%) and \$130.8 million (22.5%) respectively. The net domestic assets increased further over the month, from lower net credit to the central Government on decreased government deposits. Annually, the net foreign assets increased again and outweighed the decline in net domestic assets. The foreign reserves rose higher after receiving more official funds as loans, budget support, projects development, and financial assistance for COVID-19 preparations.

Liquidity in the financial system hikes

Table 8: Reserve money

	Monthly			Annual	
	Apr-21	Mar-21	% Growth	Apr-20	% Growth
Reserve money (\$ in million)	447.0	425.8	5.0	280.6	59.3

Source: Banking System, National Reserve Bank of Tonga

Liquidity in the financial system increased again over the month and year to April 2021, by \$21.1 million (5.0%) and \$166.4 million (59.3%), respectively, to a new high level of \$447.0 million. Both rises were attributed to increases in all the three categories of liquidity. The bank's ESA rose the most, coinciding with higher transfers from the Reserve Bank to the commercial banks to assist with government operations and payments for projects. Currency in circulation followed, in line with the festivities during the year, such as the churches annual donations, 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.

Credit growth narrowed due to lower business lending

Table 9: Total Lending

Lending	Monthly			Annual	
	Apr-21	Mar-21	% Growth	Apr-20	% Growth
Total Lending (\$ in million)	488.1	488.8	-0.2	494.4	-1.3
Business lending	229.4	230.3	-0.4	235.7	-2.7
Household lending	258.2	258.1	0.1	258.7	-0.2
Other lending	0.4	0.5	-14.8	0.0	0.0

Source: Banking System, National Reserve Bank of Tonga

Over the month and over the year to April 2021, the banks' total lending fell further by \$0.8 million (0.2%) and \$6.3 million (1.3%) respectively. Both declines were mostly driven by the loans run-offs and repayments made by businesses in the wholesale & retail, manufacturing, and tourism sectors during the month, and also public enterprises, professional & other services, manufacturing, and transport sectors over the year. Similarly, households'



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other personal loans declined and supported both declines.

In April 2021, the banks' total deposits rose by \$12.7 million (1.8%) to \$721.3 million. All three categories of deposits (demand, time & saving) increased. The increase in total deposits and the decline in total lending resulted in a lower loan to deposit ratio of 66.0% in April 2021, a fall from 67.2% last month and still below the 80% minimum.

Weighted average interest rate spread widened

Table 10: Weighted Average Interest Rates

Interest Rates	Monthly			Annual	
	Apr-21	Mar-21	Growth	Apr-20	Growth
Weighted Average Banks Deposit Rate (%)	1.978	2.007	-2.9	2.117	-13.9
Weighted Average Banks Lending Rate (%)	7.711	7.687	2.39	7.946	-23.5
Weighted Average Interest Rate Spread (%)	5.733	5.680	5.3	5.829	-9.6

Source: Banking System, National Reserve Bank of Tonga

The weighted average interest rate spread widened in April 2021 by 5.3 basis points, underpinned by higher weighted average lending rates, and lower weighted average deposit rates. The higher lending rates over the month reflects the increase in loan rates offered to businesses in the manufacturing, distribution, and professional & other services sectors, as well as households' housing, and vehicle loan rates. The decrease in deposit rates attributed to decline in both

demand and time deposit rates outweighing the increase in saving deposit rates.

However, annually, the weighted average interest rates narrowed by 9.6 basis points, to 5.7%. The weighted average lending rates decreased more than the fall in weighted average deposit rates. The lower weighted average lending rates were due mainly to lower rates on household other personal loans and loans to the construction, utilities, and agricultural sectors. Similarly, the lower time deposit rates was driven by decreases in all the three categories of deposits (term, savings, and demand).

Outlook

Domestic economic growth is anticipated to remain subdued. However, the Reserve Bank's monetary policy stance remains accommodative. The Reserve Bank will continue to monitor emerging risks prompted by uncertainties surrounding the COVID-19 pandemic, impacting economic growth and potentially impairing financial stability. The Reserve Bank remains vigilant in its regulatory and supervisory roles to ensure that financial stability is maintained while mitigating the economic downturn and support recovery.