



Expected global economic recovery for 2021 remains

The International Monetary Fund in its July 2021 World Economic Outlook (WEO) projects the global economy to rise by 6.0% in 2021 from a contraction of 3.2% in 2020. The positive recovery for 2021 owes to the quick recovery in advanced economies, particularly the US, underpinned by substantial fiscal programs aimed at stimulating growth and job opportunities across various economic sectors. The Bureau of Economic Analysis reported that the US economy increased at an annual rate of 6.5% in the second quarter of 2021. This stemmed from higher consumption spending, business investments and exports. However, the Reserve Bank of Australia, in its August 2021 Monetary Policy Statement, anticipates the Australian economy to expand by 4.0% in 2021, supported by strong domestic demand and recovery in the labour market. Meanwhile, the unemployment rate in New Zealand (NZ) continued to fall in the June 2021 quarter to 4.0%, indicating the availability of job opportunities in line with the ease of COVID-19 restrictive measures.

Mixed outcomes for domestic economic activities

The primary sector showed mixed performances in June 2021. The total agricultural export volumes rose over the month by 140.7 tonnes (18.9%), coinciding with the increased proceeds by \$0.1 million (30.1%). This increase was driven by the rise in the exports of root crops, particularly cassava, yam, and taro. However, the annual agricultural export volumes and export proceeds fell by 2,638.6 tonnes (20.0%) and \$1.2 million (15.1%), respectively. The annual fall owes mainly to lower squash exports over the year. On the other hand, the marine export volumes fell over the month by 8.5 metric tons (5.3%), mainly due to the fall in tuna exports by 10.0 metric tons (6.3%). Additionally, local marine production fell during the month by 6.7 metric tons, particularly fin-fish. However, marine export proceeds slightly rose by \$0.1 million (20.2%). Annually, the marine export volumes and proceeds both fell by 457.1 metric tons (23.9%) and \$0.4 million (46.2%), respectively.

The secondary sector slowed down in June 2021. Loans extended to industries declined during the month, particularly for the manufacturing and utility sector, whilst lending to the construction sector rose by \$0.7 million (3.8%). A new military camp in 'Eua, Fangatā Military Camp, was commissioned during the month, indicating continuous support from the government and private projects to the industry sectoral growth. The implementation of the Upgrade and improvement of roads project in 'Eua in the upcoming month is expected to support the mining and quarrying sector. Both electricity consumption and production declined by 0.6 million kWh (9.7%) and 0.5

million kWh (7.3%) respectively in June, although electricity consumers rose by 123 consumers (0.5%).

The service sector also showed mixed outcomes during the month. Total container registrations fell by 96 containers (8.9%) over the month due to lower business and private containers. However, the import payments excluding oil rose over the month by \$4.7 million (13.8%), implying advanced import payments. Over the year to June 2021, container registrations and import payment excluding oil increased by 723 containers (6.5%) and \$73.4 million (21.8%), respectively. Few local events took place during the month including annual church conferences, high school anniversary, and rugby tournaments, thus boosting the wholesale and retail trading activities, local transportation services, and accommodation and food services. International arrivals also rose over the month by 258 passengers (104.5%), coinciding with the increased travel receipts by \$0.3 million (25.2%). However, the annual international arrival passengers and travel receipts continued to fall sharply by 92,745 passengers (97.1%) and \$87.4 million (80.8%), respectively. During the month, 340 passengers departed Tonga, and the majority were seasonal workers leaving for Australia. Vehicle registrations fell over the month by 13 vehicles (4.7%) and annually by 179 vehicles (5.9%).

Lower Job advertisements

The Reserve Bank's survey showed 21 job vacancies were advertised during the month, the majority of which were for public administrations. This is lower by 9 vacancies (30.0%) advertised in the previous month. Annually, job vacancies advertised also fell by 179 vacancies (44.0%).

Tonga faces temporary inflationary pressure

In June 2021, the monthly inflation rose by 0.9%, mainly due to increases in both local and

imported prices. Higher prices for food items and maintenance & repair of housing largely contributed to the higher import prices over the month. Local prices were driven mainly by higher prices for food items.

The annual inflation rate rose above the Reserve Bank's reference rate of 5% for the first time since November 2018

Table 1: Inflation Rates

Prices	Monthly		Annual	
	Jun-21	May-21	Jun-21	Jun-20
Headline Inflation (%)	0.9	-0.2	6.9	-1.4
Domestic prices	1.0	-1.0	3.7	-1.1
Imported prices	0.9	0.4	9.5	-1.5

Source: Statistics Department

Table 2: Average annual prices of selected items

Items (\$ per kg)	Unit	Jun-21	Jun-20	Annual Change
Domestic				
Octopus	1kg	\$18.49	\$10.62	\$7.87
Capsicum	1kg	\$19.92	\$13.07	\$6.85
Tuna	1 kg	\$19.50	\$15.00	\$4.50
Yams-early	1kg	\$7.07	\$4.86	\$2.21
Imported				
Turkey tails	1 box	\$12.11	\$8.91	\$3.20
Petrol	litre	\$2.94	\$1.92	\$1.02
Diesel	litre	\$2.82	\$2.11	\$0.71

Source: Statistics Department



by 6.9%. This was driven by both higher local and import prices over the year. Higher prices for food items, tobacco, and clothing primarily contributed to the higher local prices. Meanwhile, higher import prices was driven by petrol and food items. Inflation is projected to remain above the reference rate in the medium term in line with the expected rise in global oil and commodity prices. Delays and rerouting in shipments due to outbreaks of COVID-19 in neighbouring countries also incurred additional costs and disrupted supply, further contributing to imported inflation. However, the NRBT projects this inflationary hike to be transitory, and headline inflation will fall below the reference rate by early 2022 once the global market prices normalise.

Higher effective exchange rates

Table 3: Effective Exchange Rates

	Monthly			Annual	
	Jun-21	May-21	%	Jun-20	% Growth
Nominal Effective Exchange Rate Index	89.4	88.3	1.3	92.9	-3.7
Real Effective Exchange Rate Index	107.1	105.0	2.0	106.7	0.4

Source: National Reserve Bank of Tonga

The Nominal Effective Exchange Rate (NEER) rose in June 2021 as most of Tonga's trading currencies depreciated against the Tongan Pa'anga (TOP) over the month. Similarly, the Real Effective Exchange Rate (REER) index also increased over the month in line with Tonga's higher inflation rate.

In the year to June 2021, the NEER declined reflecting the general strengthening of the trading partner currencies against the Tongan Pa'anga. The REER however, rose over the year indicating a loss in Tonga's trade competitiveness.

Foreign reserves increased again in June

Table 4: Foreign Reserves

	Monthly			Annual	
	Jun-21	May-21	Growth	Jun-20	% Growth
Foreign Reserves (\$ in million)	715.2	689.5	3.7	543.8	26.8
Import Coverage (months)	12.5	12.0	4.2	9.2	35.9

Source: National Reserve Bank Tonga

Official foreign reserves rose over the month of June 2021 by \$25.7 million to \$715.2 million, equivalent to 12.5 months of imports. This stemmed mostly from receipts of budget support and project funds from development partners before the closing of the fiscal year. Annually, foreign reserves increased substantially by \$171.4 million from receipts of budget support, official grants, external debt and remittances. Majority of the official foreign reserves are held in USD, AUD, and NZD.

Table 5: Remittance Receipts

	Monthly			Annual		
	Jun-21	May-21	% Growth	Jun-21	Jun-20	% Growth
Remittance (\$ in million)	37.6	42.8	-12.0	461.1	350.7	31.5

Source: National Reserve Bank Tonga

Remittance receipts fell by \$5.1 million in June 2021, following the high levels recorded in the previous months. This was driven by the decline in private transfer receipts (particularly NZD & USD) and the compensation of employees, outweighing the slight rise in private capital transfers and social benefits. Over the year to June 2021, remittances continued to rise strongly by \$110.4 million. This attributes to higher private transfers and compensation of employees, particularly from seasonal workers.

Table 6: Overseas Exchange Transactions

	Monthly			Annual		
	Jun-21	May-21	% Growth	Jun-21	Jun-20	% Growth
Overall Balance	25.7	9.9	160.9	171.4	59.5	188.1
Current Account	21.9	15.9	37.8	135.9	53.3	154.8
Merchandise Trade	-41.4	-40.9	-1.2	-454.5	-399.3	-13.8
Services	-3.0	-2.7	-10.4	-25.1	18.8	-233.7
Income	-10.1	3.5	-384.9	22.0	5.6	290.3
Transfers	76.3	56.0	36.4	593.5	428.2	38.6
Capital Account	2.7	1.9	41.5	40.8	22.2	84.0
Financial Account	1.1	-8.0	113.9	-5.3	-16.0	67.0

Source: Banking Systems

Overall, Overseas Exchange Transactions (OET) recorded an overall balance surplus of \$25.7 million in June 2021 compared to the \$9.9 million surplus in May 2021. This resulted from increases in all of the accounts, particularly the higher official transfer receipts.

In the year to June 2021, the OET balance surplus continued to increase significantly by \$111.9 million on the back of higher official grants, budget support and remittance receipts.

Broad money expanded

Table 7: Broad Money

	Monthly			Annual	
	Jun-21	May-21	% Growth	Jun-20	% Growth
Broad money (\$ in million)	765.2	724.7	5.6	607.1	26.1
Net Foreign Asset	750.7	724.4	3.6	570.6	31.6
Net Domestic Asset	15.3	1.2	1161.6	37.1	-58.8

Source: Banking System, National Reserve Bank of Tonga

Over the month and year to June 2021, broad money increased to a new high level of \$765.2 million, by \$40.5 million (5.6%) and \$158.1 million (26.1%), respectively. Over the month, both net foreign and net domestic assets increased due to higher foreign reserves and lower capital accounts. The receipt of budget support and project funds from development partners drove the increased foreign reserves, whilst dividend payments offshore reduced the capital account. Annually, the net foreign assets rose and offset the decrease in net domestic assets. Again, the foreign reserves increased due to the receipts of official funds as loans, budget support, projects development, and financial assistance for COVID-19 preparations. The increase in government receipts contributed to the lower net domestic assets over the year.



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Liquidity in the financial system rises above \$500 million

Table 8: Reserve money

	Monthly			Annual	
	Jun-21	May-21	% Growth	Jun-20	% Growth
Reserve money (\$ in million)	513.4	457.3	12.3	311.7	64.7

Source: Banking System, National Reserve Bank of Tonga

Liquidity in the financial system expanded over the month and year to June 2021, by \$56.1 million (12.3%) and \$201.7 million (64.7%), respectively, to a new high level of \$513.4 million. All three liquidity categories continued to rise, with the bank's ESA increasing the most, mainly on higher government deposits. Currency in circulation followed, in line with the festivities during the month and year, such as the churches annual donations, Easter and 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.

Credit growth remains subdued

Table 9: Total Lending

Lending	Monthly			Annual	
	Jun-21	May-21	% Growth	Jun-20	% Growth
Total Lending (\$ in million)	482.4	486.6	-0.9	492.9	-2.1
Business lending	223.3	227.7	-1.9	234.5	-4.8
Household lending	258.7	258.5	0.1	258.4	0.1
Other lending	0.4	0.4	5.1	0.0	0.0

Source: Banking System, National Reserve Bank of Tonga

Credit growth fell by 0.9% (\$4.2 million) over the month and 2.1% (\$10.5 million) annually. Banks' total lending was at \$482.4 million at the end of June 2021. Both declines were attributed mainly to declines in business loans due to ongoing loan run-offs and repayments made by public enterprises, offsetting loans to other private businesses. The lower lending to businesses in the professional & other services, wholesale & retail, and manufacturing sectors supported the monthly fall, whereas decreased loans offered to professional & other services, transport and agricultural sectors contributed to the annual decline. Households' other personal loan decreased also over the month and year.

In June 2021, the banks' total deposits increased by \$69.1 million (9.5%) to \$799.9 million as demand and saving deposits rose over the month. The increase in total deposits

and the decline in total lending resulted in a lower loan to deposit ratio of 58.9% in June 2021, a fall from 64.9% last month and still below the 80% minimum.

Weighted average interest rate spread widened

Table 10: Weighted Average Interest Rates

Interest Rates	Monthly			Annual	
	Jun-21	May-21	Growth	Jun-20	Growth
Weighted Average Banks Deposit Rate (%)	1.844	1.997	-15.3	2.143	-30.0
Weighted Average Banks Lending Rate (%)	7.737	7.728	0.83	7.811	-7.4
Weighted Average Interest Rate Spread (%)	5.893	5.732	16.1	5.668	22.5

Source: Banking System, National Reserve Bank of Tonga

The weighted average interest rate spread widened over the month and year to June 2021 by 16.1 basis points and 22.5 basis points, respectively, to 5.89%. The monthly rise was due mainly to the rise in weighted average lending rates and the decline in weighted average deposit rates. All deposit rates' decreased over the month, whilst lending rates offered to businesses in the construction, agriculture and fisheries increased as well as household other personal loans.

Annually, the weighted average deposit rates declined more than the fall in weighted average lending rates. Again all deposit rates fell, while business loan rates for construction, utilities and the agricultural sectors also declined. The lower household other personal loan rates also supported the annual decline.

Outlook

A more positive outlook is projected for the 2021/22 fiscal year as the global economy is expected to recover coupled with the successful vaccine rollouts. Although there is expected inflationary pressure, it is projected to be transitory and will eventually fall below the 5% reference rate in the next 6 months. Foreign reserves are at comfortable levels, and the financial system is stable. In that regard, the Reserve Bank's monetary policy stance remains accommodative. The Reserve Bank will monitor emerging risks prompted by uncertainties surrounding the COVID-19 pandemic, its impact on economic growth and financial stability. The Reserve Bank remains vigilant in its regulatory and supervisory roles to maintain financial stability while supporting economic recovery.