



NATIONAL RESERVE BANK OF TONGA

MONTHLY ECONOMIC REVIEW

Vol. 8

No. 3

Month Ended: March 2021

Global fiscal support vital for economic recovery

In its April 2021 Fiscal Monitor Report, the IMF estimated that the \$16 trillion global fiscal actions continued to drive economic recovery over the past year. This fiscal stimulus provided lifelines to firms and households and preventing severe economic contractions and job losses. The Bureau of Economic Analysis reported that the US economy rose at an annual rate of 6.4% in the first quarter of 2021. This stemmed from higher consumption spending and strong business investments on the back of increased government spending and continued distribution of COVID-19 vaccines. In Australia, the economy rose by 3.1% in the December 2020 quarter but fell by 1.1% annually. According to the Australian Bureau of Statistics, the subdued annual growth was driven mainly by lower household spending. Meanwhile, the New Zealand (NZ) economy contracted by 2.9% over the year to December 2020, mainly due to subdued growth in the manufacturing sector and weaker export activities.

Gradual recovery in the domestic economic activity

The primary sector showed growth in March 2021. The total agricultural exports in March increased by 882.0 tonnes (178.9%). This was mainly driven by an increase in the export of cassava, yam and taro. However, the agricultural export proceeds over the month declined by \$0.1 million (20.8%). During the month, 'Api-ko-Fatai cluster farming initiative was launched in Vava'u to stimulate economic development and sustainability in rural communities effectively. The agricultural sector is therefore expecting higher yields in the near future under favourable weather conditions. The marine exports in March 2021 also rose by 140.3 tonnes (265.1%), mainly owing to an increase in the exports of tuna and shark meat by 136.3 tonnes (257.6%) and 4.0 tonnes (100%), respectively. In addition, the aquarium exports over the month rose by 5,440 pieces (48.8%). Aquarium export proceeds also increased over the month by \$0.2 million (52.2%).

Loans to the secondary sector increased over the month, indicating a recovery of some activities within the industry. Lending to manufacturing and mining & quarry sectors increased over the month by \$0.4 million (3.8%) and \$0.03 million (27.4%), respectively. Although lending to the construction sector dropped by \$2.7 million (12.9%), the launch of the WASH Facilities pilot project and other projects during the month may support the construction sector. In addition, new classrooms under the Pacific Resilience Program for Lavengamalie Christian College and Emergency Coordination Centre in Vava'u were commissioned. The pandemic deferred several renewable energy projects and targets, including the Tonga Energy

Road Map 2010-2020 (TERM). Technical experts and the delay in transportation of construction materials were also due to the Covid-19 restrictions.

The service sector showed mixed results in March 2021. The container registrations substantially increased over the month by 627 containers (114.4%), mainly driven by increased business containers by 639 containers (176.5%). In contrast, the private containers dropped by 12 units (6.5%). This reflected a recovery in trading activities which coincided with the increase in wholesale and retail imports payment by \$3.8 million (17.2%), over the month. It also reflects the rise in the number of cargo ships that arrived in Tonga during March. The Government has extended their Covid-19 Business Recovery Assistance Phase 3 to support local businesses during the month until the end of June 2021. Total vehicle registrations over the month dropped by 18 vehicles (8.6%), particularly cars, and 369 vehicles (11.1%) annually. There were only three repatriation flights in March with passengers mainly from New Zealand and Fiji.

Job advertisements fell

The Reserve Bank's survey showed 19 job vacancies being advertised in March, where 14 of these vacancies are in public administration. However, job vacancies dropped over the month by 11 vacancies (36.7%). This is in line with the trend in past years, on job vacancies for March. Annually, the job vacancies dropped by 274 vacancies (58.5%), indicating the impact of the pandemic in the labour market.

Prices continue to rise in March 2021

Table 1: Inflation Rates

Prices	Monthly		Annual	
	Mar-21	Feb-21	Mar-21	Mar-20
Headline Inflation (%)	1.4	1.1	3.3	0.4
Domestic prices	0.9	0.9	1.6	-3.5
Imported prices	1.7	1.3	4.7	3.9

Source: Statistics Department

The monthly inflation for March 2021 rose driven by the increase in both the import and local prices. The increase in imported prices attributes to higher food items, fuel prices and electricity, gas & other fuels. The impacts of extreme weather conditions in the US forced the shutdown of refineries and oil production restraints in major oil-producing economies, which contributed to the increase in fuel prices. However, higher local prices were driven by rising food prices, particularly for vegetables, marine food and some root crops. The general increase in prices in previous months pushing higher costs for growers may have also contributed to the higher food prices.

Over the year to March 2021, headline inflation rose by 3.3%, marking the highest rise since January 2019. Increased food prices, tobacco & alcoholic beverages, and clothing & footwear were the main drivers of higher imported items. Similarly, rising prices for local items resulted from higher food prices, tobacco, and clothing & footwear.

Table 2: Average annual prices of selected items

Items (\$ per kg)	Unit	Annual		
		Mar-21	Mar-20	Change
Domestic				
Octopus	1kg	\$24.59	\$17.14	\$7.45
Tomatoes	1kg	\$20.28	\$15.13	\$5.15
Eggs	1 tray	\$18.30	\$16.08	\$2.22
Cockles (to'o)	1kg	\$6.23	\$4.59	\$1.64
Imported				
Pall Mall	1kg	\$23.00	\$19.29	\$3.71
Turkey tails	1 kg	\$10.88	\$9.24	\$1.64
Apples	1 kg	\$6.54	\$5.57	\$0.97

Source: Statistics Department

Inflation is projected to rise in the short term due to expected increases in oil and food prices.

Major trading currencies weakened against TOP

Table 3: Effective Exchange Rates

	Monthly			Annual	
	Mar-21	Feb-21	%	Mar-20	% Growth
Nominal Effective Exchange Rate Index	87.9	85.6	2.7	94.9	-7.4
Real Effective Exchange Rate Index	105.1	100.9	4.2	110.9	-5.2

Source: National Reserve Bank of Tonga

The Nominal Effective Exchange Rate (NEER) increased in March 2021 after nine consecutive months of consistent declines as major trading currencies depreciated against the Tongan Pa'anga (TOP) over the month. Similarly, the Real Effective Exchange Rate (REER) index rose over the month, reflecting Tonga's higher inflation.

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 import payments

Table 4: Foreign Reserves

	Monthly			Annual	
	Mar-21	Feb-21	Growth	Mar-20	% Growth
Foreign Reserves (\$ in million)	685.7	692.4	-1.0	457.5	51.4
Import Coverage (months)	11.7	11.7	0.0	7.1	64.0

Source: National Reserve Bank Tonga

Official foreign reserves declined at the end of March 2021 by \$6.7 million to \$685.7 million, equivalent to 11.7 months of imports. This stemmed from an increase in transfers for large import payments during the month. However, the foreign reserves increased significantly over the year to March 2021 by \$228.2 million. This mainly attributed to receipts of budget support, official grants, and remittances. Foreign reserves are held mainly in USD, AUD, and NZD.

Table 5: Remittance Receipts

	Monthly			Annual		
	Mar-21	Feb-21	% Growth	Mar-21	Mar-20	% Growth
Remittance (\$ in million)	43.5	32.9	32.4	428.7	349.6	22.6

Source: National Reserve Bank Tonga

Remittances rose significantly by \$10.6 million in March 2021. This was driven mainly by increases in private transfer receipts, particularly USD and AUD. These receipts are mostly family support and gifts. It is also partially due to ongoing events such as the Tonga High School ex-student fundraising. Annually, remittances continued to increase by \$79.1 million. This was attributed to higher private transfers and compensation of employees.

Table 6: Overseas Exchange Transactions

	Monthly			Annual	
	Mar-21	Feb-21	% Growth	Mar-21	Mar-20
Overall Balance	-6.7	-12.9	47.9	228.2	-7.5
Current Account	-7.2	-14.9	148.2	164.1	4.0
Merchandise Trade	-45.9	-39.0	-17.5	-435.6	-404.0
Services	-2.7	-7.3	62.6	-20.5	31.9
Income	2.6	3.0	-13.3	27.1	1.6
Transfers	38.8	28.5	36.4	593.2	374.4
Capital Account	0.9	4.7	-81.9	43.0	31.5
Financial Account	-0.4	-2.8	85.4	21.1	-42.9

Source: Banking Systems

Overall, Overseas Exchange Transactions (OET) recorded a lower overall deficit of \$6.7 million in March 2021 compared to the \$12.9 million in February 2021. This stemmed from an increase in OET receipts, primarily from private and official transfer receipts.

In March 2021, the higher remittance receipts and lower investment transfers supported the substantial rise in the OET balance surplus by \$235.7 million.

Broad money rose

Table 7: Broad Money

	Monthly			Annual	
	Mar-21	Feb-21	% Growth	Mar-20	% Growth
Broad money (\$ in million)	707.6	703.4	0.6	596.4	18.7
Net Foreign Asset	717.6	722.0	-0.6	485.3	47.9
Net Domestic Asset	-9.2	-17.6	-48.0	111.6	-108.2

Source: Banking System, National Reserve Bank of Tonga

Broad money increased over the month and year to March 2021 by \$4.2 million (0.6%) and \$111.2 million (18.7%), respectively, to a new high level of \$707.6 million. The monthly rise was underpinned by an improvement in net domestic assets, mainly on lower net credit to the central Government from the decreased government deposits. Over the year, the net foreign assets increased and outweighed the decline in net domestic assets. This resulted from the significant rise in foreign reserves on the receipt of official funds for loans, budget support, projects, and financial assistance for COVID-19 preparations.



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Liquidity in the financial system increased

Table 8: Reserve money

	Monthly			Annual	
	Mar-21	Feb-21	% Growth	Mar-20	% Growth
Reserve money (\$ in million)	425.8	421.2	1.1	292.6	45.5

Source: Banking System, National Reserve Bank of Tonga

Liquidity in the financial system also rose over the month and year to March 2021, by \$4.6 million (1.1%) and \$133.2 million (45.5%), respectively, to a new high level of \$425.8 million. The currency in circulation and the commercial banks' ESA (Exchange Settlement Account) increased over the month and offset the slight decline in the Required reserves. The higher commercial banks' ESA coincided with the increased bank deposits.

Over the year, all three categories of liquidity rose, with the bank's ESA rising the most. 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 continues to decline

Table 9: Total Lending

Lending	Monthly			Annual	
	Mar-21	Feb-21	% Growth	Mar-20	% Growth
Total Lending (\$ in million)	488.8	492.2	-0.7	499.7	-2.2
Business lending	230.3	234.0	-1.6	237.5	-3.0
Household lending	258.1	258.2	-0.1	262.1	-1.6
Other lending	0.5	0.0	0.0	0.0	0.0

Source: Banking System, National Reserve Bank of Tonga

Over the month and year to March 2021, the banks' total lending declined by \$3.4 million (-0.7%) and \$10.8 million (-2.2%), respectively. Both decreases resulted from lower businesses and household loans. The loans run-offs and repayments by businesses in the professional & other services, constructions and transport sectors led to the monthly decline. The annual decline was attributed to loan repayments by the public enterprises, professional & other services, and manufacturing sectors. Similarly, household vehicle and other personal loans also decreased over the month, whilst lower other personal loans led to the annual decline.

In March 2021, the banks' total deposits rose by \$5.5 million (0.8%) to \$708.6 million. All three categories of

deposits (saving, time & demand) increased. The increase in total deposits and the decline in total lending resulted in a lower loan to deposit ratio of 67.2% in March 2021, a fall from 68.2% last month and still below the 80% minimum.

Weighted average interest rate spread narrowed

Table 10: Weighted Average Interest Rates

Interest Rates	Monthly			Annual	
	Mar-21	Feb-21	Growth	Mar-20	Growth
Weighted Average Banks Deposit Rate (%)	2.007	2.002	0.6	2.027	-1.9
Weighted Average Banks Lending Rate (%)	7.687	7.694	-0.68	7.968	-28.1
Weighted Average Interest Rate Spread (%)	5.680	5.693	-1.2	5.942	-26.1

Source: Banking System, National Reserve Bank of Tonga

Over the month and year to March 2021, the weighted average interest rate spread narrowed again, by 1.2 basis points and 26.1 basis points, respectively, to 5.7%.

The weighted average lending rates decreased over the month while the weighted average deposit rates rose. The lower weighted average lending rates were underpinned mainly by lower rates on other personal loans and loans to the manufacturing, construction and agricultural sectors. The higher weighted average deposit rates resulted from rises in all the three categories of deposits (demand, saving & time) rates.

Over the year, the weighted average lending rates declined more than the fall in weighted average deposit rates. The decline in lending rates stemmed mostly from lower rates offered to businesses in the construction, utilities, agricultural and distribution sectors. In contrast, lower time deposit rates solely drove the lower weighted average deposit rates annually.

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.