



Supply disruptions slows global economic recovery

The US Bureau of Economic Analysis reported a growth of 2.0% in the third quarter of 2021, lower than the 6.7% growth recorded in the previous quarter. Slower-than-expected recovery resulted from ongoing pandemic-related supply chain issues. This coincides with the 11.2% increase in the monthly international trade deficit in September 2021. The Australian Bureau of Statistics recorded an increase of 3% in inflation over the year to September 2021. This was mainly on the back of higher automotive fuel prices from rising global oil prices, and supply disruptions. Meanwhile, the unemployment rate for New Zealand (NZ) fell in the September quarter to 3.4% from 4.0% last quarter as reported by the Reserve Bank of New Zealand. Both Australia and NZ expect a contraction in economic activities for the December quarter, given COVID-19 uncertainties.

Mostly negative performances in the domestic economy

There were mostly negative performances in the primary sector for September 2021. During the month, the agricultural export volumes fell by 240.7 tonnes (32.0%) due to lower exports of root crops. This coincided with the decline in agricultural export proceeds by \$0.2 million (19.9%). Similarly, agricultural export volumes also declined by 4,242.4 tonnes (30.5%) over the year, although agricultural export proceeds slightly rose. The total marine export volumes fell in September by 120.2 tonnes (46.9%), whilst aquarium exports rose by 7,423 pieces (46.0%). The higher aquarium exports coincide with the slight increase in the total marine export proceeds over the month by \$0.03 million (5.5%). Annually, the marine and aquarium export volumes both fell by 136.6 tonnes (8.5%) and 1,487 pieces (1.0%), respectively. The total marine export proceeds also dropped by \$1.3 million (19.6%) over the same period.

The industry sector showed mixed outcomes during the month, as reflected in loans extended to each industry. Lending to the utility sector slightly rose during the month by 2.5%, whereas loans to the manufacturing sector increased by 3.6%. On the other hand, loans extended to the mining and quarrying sector slightly fell by 1.4%, in line with the lower lending to the construction sector by 7.9%. A few projects such as the Small Islands Wharves Project for Nomuka and 'Uiha islands may contribute positively to this sector. Additionally, the Government's water tank project received 500 water tanks from China during the month, thus further contributing to the growth in the utility sector.

The indicators in the services sector also point to a slowdown in September 2021. Container registrations declined substantially by 635 containers (68.4%) as both business and private containers fell. There were only 3 cargo ships that arrived during the month compared to 11 in the previous month due to new border security measures

to reroute ships that transit through Fiji due to the recent outbreak of the Delta variant. However, payments for imports of wholesale & retail goods and motor vehicles rose, indicating that imports would arrive in the upcoming months. Annually, the container registrations fell by 143 containers (1.3%), while annual import payments (excluding oil) increased by \$85.4 million (25.0%), reflecting the rise in import and freight prices, which may negatively affect local trade. The tourism sector remains stagnant with worsening prospects as the pandemic resurges in our neighbouring countries, forcing the Government to keep the borders closed. However, the Government plans to repatriate from countries with community transmission once 70% of the population is fully vaccinated. They aim to reach this 70% target by the end of 2021.

More job opportunities during the month

The Reserve Bank's survey showed 82 job vacancies advertised during the month, a significant rise compared to 21 vacancies advertised in the previous month. Majority of these vacancies are in public administration. Annually, advertised jobs declined by 24 job vacancies (7.2%). The on-going export of our seasonal workers to Australia also relieves some pressure on unemployment. The upcoming one-way quarantine-free travel to New Zealand will further absorb some of the available labour force for the seasonal working schemes.

Inflation above the reference rate of 5% as projected

In September 2021, the monthly inflation rose by 0.1%, primarily due to higher imported prices. The main contributors to the 0.4% rise in imported prices were higher prices of cement and timber, fuels, and food items. This was partially offset by the slight fall in local prices by 0.2%, driven by lower food prices.

Prices	Monthly		Annual	
	Sep-21	Aug-21	Sep-21	Sep-20
Headline Inflation (%)	0.1	0.2	6.5	-0.9
Domestic prices	-0.2	-0.2	5.3	-1.5
Imported prices	0.4	0.4	7.5	-0.5

Source: Tonga Statistics Department

Over the year to September 2021, inflation rose by 6.5%, largely owing to higher imported and local prices. Higher prices of food items, fuels, and cement and timber contributed the most to the 4.2% increase in imported prices. Additional costs and shortages of goods and services incurred from the diversion of international shipments and rising global oil prices fueled

	Sep-21	Sep-20
CPI	6.5	-0.9
Imported	4.2	-0.3
Food and non-alcoholic beverages	1.9	0.1
Transport	1.8	-0.9
Housing, water, electricity, gas and other fuels	0.3	-0.1
Domestic	2.3	-0.7
Housing, water, electricity, gas and other fuels	1.2	-1.0
Food and non-alcoholic beverages	1.0	0.2

Source: Tonga Statistics Department; NRBT
*Due to rounding and Tonga Department of Statistics errors some data may not aggregate precisely.



NATIONAL RESERVE BANK OF TONGA

MONTHLY ECONOMIC REVIEW

Vol. 8

No. 9

Month Ended: September 2021

the higher imported prices. Higher local prices were attributed to higher electricity and local food prices.

Major trading currencies depreciated against the TOP

Table 3: Effective Exchange Rates

	Monthly			Annual	
	Sep-21	Aug-21	% Growth	Sep-20	% Growth
Nominal Effective Exchange Rate Index	89.8	89.4	0.4	90.1	-0.3
Real Effective Exchange Rate Index	107.0	107.4	-0.3	104.1	2.8

Source: National Reserve Bank of Tonga

The Nominal Effective Exchange Rate (NEER) increased slightly over the month as most of Tonga's trading partners' currencies depreciated against the Tongan Pa'anga (TOP). Conversely, the Real Effective Exchange Rate (REER) index slightly declined over the month.

In year-ended terms, the NEER fell as trading partners' currencies strengthened against the Tongan Pa'anga. However, the REER increased over the year in line with the higher inflation rate. This is indicative of a loss in Tonga's trade competitiveness in comparison to its trading partners.

Official receipts push foreign reserves higher

Table 4: Foreign Reserves

	Monthly			Annual	
	Sep-21	Aug-21	%Growth	Sep-20	% Growth
Foreign Reserves (\$ in million)	757.0	751.7	0.7	576.5	31.3
Import Coverage (months)	13.1	13.1	0.0	10.1	29.7

Source: National Reserve Bank Tonga

Official foreign reserves increased in September 2021 by \$5.3 million to \$757.0 million, equivalent to 13.1 months of imports. This stemmed from receipts of government project funds and remittances. In year ended terms, foreign reserves increased significantly by \$180.5 million, supported by receipts of budget support, project funds, external financing, and remittances. The majority of the official foreign reserves are held in USD, AUD, and NZD.

Table 5: Remittance Receipts

	Monthly			Annual		
	Sep-21	Aug-21	% Growth	Sep-21	Sep-20	%
Remittance (\$ in million)	44.0	43.2	1.7	480.2	369.2	30.1

Source: National Reserve Bank Tonga

Remittance receipts increased by \$0.8 million (1.7%) to a new record high in September 2021, attributed to higher receipts for family support mostly for church donations and private capital transfer receipts. This offsets a decline in receipts for compensation of employees and social benefits. In the year to September 2021, remittances remained firm, increasing by \$111.0 million. This stemmed mostly from the higher private transfers and compensation of employees, mostly from seasonal workers.

Overall, Overseas Exchange Transactions (OET) recorded an overall balance surplus of \$5.3 million in September 2021 compared to a \$47.0 million surplus in August 2021. This resulted from decreases in the financial account and current account, due mostly to higher outward interbank

transfers and widening of the merchandise trade account from higher imports.

Table 6: Overseas Exchange Transactions

	Monthly			Annual		
	Sep-21	Aug-21	% Growth	Sep-21	Sep-20	% Growth
Overall Balance	5.3	47.0	-88.7	180.5	85.7	110.7
Current Account	-6.3	-1.7	-277.5	102.6	82.9	23.7
Merchandise Trade	-46.0	-39.1	-17.5	-483.6	-396.5	-22.0
Services	-4.6	-6.7	30.9	-38.9	6.9	-661.0
Income	2.5	3.9	-34.6	25.4	12.2	108.0
Transfers	41.7	40.3	3.7	599.7	460.3	30.3
Capital Account	2.0	1.4	40.9	38.7	25.4	52.4
Financial Account	9.6	47.2	-79.6	39.2	-22.6	273.3

Source: Banking Systems

Annually, the OET balance surplus rose strongly by \$94.8 million from higher official grants, budget support, external debt, and remittance receipts.

Broad money rose

Table 7: Broad Money

	Monthly			Annual	
	Sep-21	Aug-21	% Growth	Sep-20	% Growth
Broad money (\$ in million)	783.8	775.4	1.1	640.8	22.3
Net Foreign Asset	745.7	742.4	0.4	605.4	23.2
Net Domestic Asset	39.0	33.4	16.7	36.5	6.9

Source: Banking System, National Reserve Bank of Tonga

Broad money increased again in September 2021 by \$8.4 million (1.1%) over the month and \$143.0 million (22.3%) annually. The higher net domestic assets led to the monthly rise whilst increased net foreign assets drove the annual rise. Large payments made over the month for Government's operations and other projects lowered the government deposits. They contributed to the higher net credit from the central Government. This was also supported by an increase in net foreign assets, mainly on higher foreign reserves. Annually, higher net foreign assets corresponded to higher foreign reserves whereas higher net domestic assets reflected the higher net credit from the central Government, driven mostly by lower government deposits.

Liquidity in the financial system rose

Table 8: Reserve money

	Monthly			Annual	
	Sep-21	Aug-21	% Growth	Sep-20	% Growth
Reserve money (\$ in million)	530.2	515.0	3.0	351.7	50.7

Source: Banking System, National Reserve Bank of Tonga

Over the month and year to September 2021, liquidity in the financial system continued to increase by \$15.2 million (3.0%) and \$178.5 million (50.7%), respectively. Both rises are attributed to increases in all three categories. The higher commercial banks' Exchange Settlement Accounts (ESA) led both rises, underpinned by net sales of foreign currencies to the Reserve Bank and higher deposits of official project funds over the month and the year. Currency in circulation followed, in line with the events during the month and year, such as the churches annual donations, the festive season, Kava Idol, and the Tonga High School Ex-Students' Fundraising. Required reserves also increased, corresponding to the rise in total deposits mainly



from the private sector, retirement funds, Government and public enterprises.

Credit growth remains subdued

Table 9: Total Lending

Lending	Monthly			Annual	
	Sep-21	Aug-21	% Growth	Sep-20	% Growth
Total Lending (\$ in million)	476.1	478.8	-0.6	491.1	-3.1
Business lending	218.7	221.6	-1.3	232.7	-6.0
Household lending	257.1	256.9	0.1	258.4	-0.5
Other lending	0.3	0.3	4.4	0.0	0.0

Source: Banking System, National Reserve Bank of Tonga

Over the month and year to September 2021, the banks' total lending declined by \$2.7 million (0.6%) and \$15.0 million (3.1%). Both declines are attributed to public enterprises' loan repayments, which outweighed the few lending opportunities offered to other private businesses. Lower lending to businesses in the construction, professional & other services, and tourism sectors as well as household vehicle loans, also supported the monthly decline. Similarly, lower loans offered to businesses within the professional & other services sector, agricultural sector, manufacturing sector, and household loans contributed to the annual decline.

In September 2021, the banks' total deposits increased by \$6.3 million (0.8%) as saving and demand deposits increased over the month. As the gap between total loans and total deposits widens, the loan to deposit ratio slipped further to 58.2% in September 2021 compared to 59.0% last month, thus remaining below the 80% minimum.

Weighted average interest rate spread widened further

Table 10: Weighted Average Interest Rates

Interest Rates	Monthly			Annual	
	Sep-21	Aug-21	(bps)	Sep-20	(bps)
Weighted Average Banks Deposit Rate (%)	1.839	1.872	-3.2	2.099	-25.9
Weighted Average Banks Lending Rate (%)	7.806	7.764	4.20	7.723	8.3
Weighted Average Interest Rate Spread (%)	5.967	5.893	7.4	5.625	34.2

Source: Banking System, National Reserve Bank of Tonga

The weighted average interest rate spread widened over the month and year to September 2021, by 7.4 basis points and 34.2 basis points, respectively, to 5.97%. The monthly rise is owed to an increase in weighted average lending

rates coupled with the decline in weighted average deposit rates.

The higher lending rates offered over the month were mainly to businesses within the utilities, manufacturing, and distribution sectors and households' housing loans. However, lower weighted average deposit rates was due to declines in deposit rates offered to all three categories of deposits. The increased volume of deposits also contributed to the lower weighted average deposit rates whilst lower volume of loans corresponds to the increased weighted average lending rates. Similarly, over the year, the weighted average deposit rates declined while the weighted average lending rates rose. Again all rates offered to the three categories of deposits decreased, reflecting the rising volume of deposits. Nevertheless, the weighted average lending rates increased mainly for businesses in the professional & other services, distribution, and fisheries sectors and households' vehicle and housing loans.

Outlook

The global pandemic continues to impact economic development, both globally and domestically. The Reserve Bank still expects foreign reserves to remain at comfortable levels above the minimum of 3 months of import cover. Inflation is expected to remain above the 5% reference rate in the upcoming months. The projection is largely driven by the pressure from disruptions to supply chains, given the escalated transmission of COVID-19 new variants in major trading partners. Nevertheless, the inflation is forecasted to return below the 5% reference rate in early 2022, given the markets will stabilize as supported by the successful rollouts of COVID-19 inoculation. The banking system is still expected to remain sound despite subdued credit growth. The current monetary policy stance remains accommodative but the Reserve Bank will continue to monitor emerging risks prompted by uncertainties surrounding the 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 supporting economic recovery.