



Snapshot of the Tongan Economy

April 2025 Release

Overseas Economy



- The US economy grew at an annual rate of 2.8% in 2024. The increase in real GDP in 2024 reflected increases in consumer spending, investment, government spending, and exports.
- In the region, the Reserve Bank of Australia maintained its cash rate at 4.1% whilst the Reserve Bank of New Zealand reduced its cash rate by 25 bps to 3.50% in April 2025. The Consume Price Index for both Australia and New Zealand increased in the March 2025 quarter.

Domestic Economy



- Economic indicators reflect mixed results across sectors in February 2025. The primary sector showed mixed outcomes as total agricultural export volumes picked up in February 2025 whilst marine exports declined. Performances in the services sector decreased as travel and trade activities declined further. Meanwhile, the industrial sector continues to be supported by the ongoing infrastructure projects and the implementation of new projects in the new year will benefit the industry sector.

Domestic Inflation



- Annual headline inflation eased to 4.0% in February 2025, lower than a 6.9% in February 2024. Both imported and domestic prices recorded year-on-year increases, contributing to the headline inflation. The main contributors to headline inflation stemmed from the tobacco & kava group, food and non-alcoholic beverages group and the miscellaneous goods and services groups.

Banking System



- Credit growth of 12.0% was recorded for the year to February 2025, higher than the 5.7% in the previous year.
- Total deposits declined further over the month to \$972.5 million in February 2025.
- Non-performing loans to total loans ratio eased slightly to 13.4% in February 2025 from the 13.9% in January 2025 but still higher compared to 9.8% a year ago.
- Nevertheless, the overall financial system remained stable, supported by high liquidity and adequate capital reserves held by banks.

Liquidity & Interest Rates



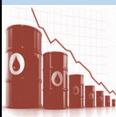
- Broad money declined over the month of the February 2025 by \$7.7 million (0.8%) however increased annually by \$65.3 million (7.7%) to a total of \$914.8 million. Both the Exchange Settlement Accounts (ESA) and the Currency in Circulation (CIC) declined over the month and outweighed the increased Statutory Required Deposits (SRD).
- The weighted average interest rate spread widened over the month but narrowed annually in February 2025 by 0.3 basis points and 11.5 basis points respectively to 6.10%.

Exchange Rates



- The NEER declined further in March 2025 as the TOP depreciated against major currencies except the USD, FJD, JPY and CNY. The REER decreased also in March 2025, coinciding with the lower NEER.

Global Prices



- Average price of Brent crude oil declined to US\$71.40/ barrel in March 2025 from US\$75.10 in February 2025.
- Brent crude oil prices are expected to decline further to an average of USD\$66/barrel by end of April 2025.
- Food prices remained largely unchanged in March 2025 as declines in prices of sugar and cereal offset an increase in vegetable oil prices.

Foreign Reserves



- Official foreign reserves declined further in March 2025 to \$842.5 million, 9.7 months of imports, predominantly due to Government loan repayments, dividend outflows and import payments.
- Remittances declined in February 2025 by \$1.7 million (4.2%), largely due to lower receipts in personal transfers and compensation of employees.
- External overall balance¹ narrowed to a higher deficit of \$12.6 million in February 2025, underpinned mainly by lower transfer receipts.

Labour Market



- Job vacancies advertised to the public increased substantially in March 2025 by 37 (88.1%). Majority of the total job vacancies advertised during the month were for public administration, trade, and transport & communications sectors
- Conversely, total job vacancies advertised to the public decreased over the year by 48 vacancies. This was due mostly to public administration, transport & communication, financial intermediation, and utilities sectors.
- Job recruitment remained a challenge due to the outflow of employees abroad and job opportunities in the private and regional offices.

¹ Note: Based on Overseas Exchange Transactions reported by banks and authorized foreign exchange dealers.



Moderate growth in advanced economies

The US Bureau of Economic Analysis reported a 2.8% annual growth in the US economy in 2024, driven by consumer spending, investment, government spending, and exports. From an industry perspective, private goods-producing industries increased by 3.4%, private services-producing industries increased by 2.8%, and government increased by 1.9%. Personal income also increased by 5.4%, underpinned by increased earnings, transfer receipts, and property income.

Meanwhile, the Trump administration has issued several tariffs in March 2025, including an additional 10% levy on imports from China, 25% tariff on imports from Canada and Mexico, and 25% tariffs on steel and aluminum. China responded with additional tariffs on imports from the US, while other countries are lining up for trade negotiations. An escalation of a trade war could have significant impacts on global inflation and growth.

In the region, the Reserve Bank of Australia maintained its cash rate at 4.1% during its April 2025 meeting, retaining borrowing costs after a 25-basis point cut in the February meeting. The Consumer Price Index rose by 0.9% in the March 2025 quarter and 2.4% annually. In New Zealand, the Official cash rate (OCR) was lowered by 25 bps to 3.50% in April 2025, aligning with market expectations. The Consumer Price Index (CPI) however increased by 0.9% compared to the previous quarter (December 2024) and by 2.5% annually, driven by rising rent and local authority prices.

Indicators reflect mixed results across sectors in February 2025

The primary sector showed mixed outcomes in February 2025. Total agricultural export volumes picked up by 17.7 tonnes (5.6%), driven largely by higher export volumes of taro, watermelon, coconut, and kava. Conversely, total agricultural export receipts declined by \$0.3 million (58.8%), indicating a delay in receipts. Meanwhile, total marine exports fell by 87.4 metric tonnes (47.8%), driven by lower tuna exports reflective of the declined tuna catches during the month, which decreased by 127.3 metric tonnes (50.8%). Coincidentally, the total marine export receipts recorded a decline of \$0.02 million (15.4%).

Credit to the industrial sector indicated favorable performance during February 2025, attributed largely to construction-related activities. Lending to the construction sector showed an increase over the month of \$0.2 million (0.9%), while lending for individual housing recorded a rise of \$2.2 million (1.0%). At the same time, total lending to the utilities sector slightly rose by \$0.03 million (6.5%). The sectoral performance continues to be supported by ongoing donor-funded projects such as the Japan's GGP¹ program (i.e. classrooms), upgrading of the Royal Tombs, and the government projects for homes affected by previous natural

disasters. On the outlook, the sectoral growth is expected to gain further momentum from future projects such as TCRT², the National Museum, and 'Eua Bridge.

Most indicators in the services sectors showed a downward trend in February 2025. Tourism authorities welcomed a couple of cruise ships during the month, although their visit in the country was brief. However, the total travel receipts declined by \$5.1 million (33.9%). Container registrations also fell by 172 containers (20.0%), owed to lower business and private containers. Coincidentally, the import payments excluding oil decreased by \$8.4 million (18.5%), along with a decline in the wholesale & retail import payments of \$9.7 million (29.2%). Additionally, total vehicle registrations recorded a decline of 126 (38.4%) compared to the previous month.

Domestic labour demand rebounded in March 2025

According to the Reserve Bank's survey on job advertisements, the new job vacancies advertised to the public increased substantially by 37 advertisements (88.1%). Majority of the total job vacancies advertised during the month were for public administration, trade, and transport & communications sectors. Over the year to March 2025, however, total job vacancies advertised to the public declined by 48 (5.1%). Total job vacancies over the year were mostly from public administration, transport & communication, financial intermediation, and utilities sectors.

Headline inflation eased to 4.0% in February 2025

The Consumer Price Index (CPI) recorded a decline over the month of 2.7%, primarily attributed to a general decrease in domestic prices. Notably, local food prices decreased by 12.8% in February 2025, contributing to a moderation in inflationary pressures during the month. In contrast, imported prices recorded a slight uptick of 0.2%, reflecting continued increases in the prices of alcoholic beverages & tobacco, imported food items, fuels, and goods for personal care.

Headline inflation fell below the 5% reference rate, settling at 4.0% in February 2025, which is a decline from 5.4% in the previous month, and 6.9% in February 2024. However, both imported and domestic prices recorded year-on-year increases, contributing to the headline inflation. Imported inflation contributed around 1.7 percentage points to the headline inflation, largely driven by goods for personal care, imported food items, furnishings & household items, and clothing & footwear. Meanwhile, domestic prices contributed around 2.3 percentage points, fueled primarily by kava Tonga, local food items, and food & beverage serving services.

¹ Grant Assistance for Grassroots Human Security Projects

² Tonga Climate Resilient Transport Project



Core inflation recorded an uptick in February 2025 to 8.0%, from 7.2% in the previous month. Domestic items such as alcoholic beverages, tobacco & kava, food & beverage serving services, and tertiary education fees largely contributed to the core inflation. The upward trend was also supported by imported items such as goods for personal care, furnishings & household items, clothing & footwear, and books & stationery. Conversely, non-core inflation declined to 0.8% from 4.0% in the previous month, mainly due to declining fuel prices, and lower costs for electricity, gas & other fuels.

Effective exchange rates continued to decline in March

The Nominal Effective Exchange Rate (NEER) declined by 0.3% over the month, indicating the depreciation of the Tongan pa'anga (TOP) against the weighted basket of its trading partners' currencies. Coincidentally, the Real Effective Exchange Rate (REER) decreased in March 2025 by 0.7%.

However, the NEER strengthened in the year-ended terms, rising by 0.6%, as the TOP generally appreciated against all major currencies, except the AUD, NZD and FJD, potentially easing the cost of imported goods. Conversely, the REER declined over the year by 1.4% in line with Tonga's lower inflation rate.

Foreign reserves declined in March

Government loan repayments, dividend outflows and import payments during the month, reduced foreign reserves to \$842.5 million in March 2025. Despite this decline, reserves remained sufficient to cover 9.7 months of imports, exceeding the IMF's recommended minimum of 7.5 months. This represented a decrease of \$22.9 million from the previous month and \$26.2 million compared to the same period last year. The majority of official foreign reserves are held in USD, NZD, and AUD.

February, a slow month for remittances

Remittances declined in February, by \$1.7 million (4.2%), largely due to lower receipts in personal transfers and compensation of employees. This is supported by the rise in Australia's unemployment rate and the decline in New Zealand's gross earning in February 2025. Consequently, remittance inflows from major remitting countries such as Australia and New Zealand decreased during the month.

Comparably, total remittance receipts continue to its slow return to normal level, falling by \$3.0 million (0.6%) over the year, in addition to rising cost of living pressures in source remitting countries.

Money supply decreased

Broad money declined over the month of the February 2025 by \$7.7 million (0.8%), however increased annually by \$65.3 million (7.7%) to a total of \$914.8 million. The net foreign assets decreased over the month and over the year, mainly on lower foreign reserves. On the other hand, the net domestic assets increased over the month and over the year, underpinned by higher net credit to central

government, increased credit to private sectors, and net credit to non-financial corporations.

Reserve money declined

Liquidity in the financial system decreased by \$11.4 million (1.8%) over the month, but increased annually by \$10.6 million (1.8%), to a total of \$614.2 million in February 2025. Both the Exchange Settlement Accounts (ESA) and the Currency in Circulation (CIC) declined over the month and outweighed the increased Statutory Required Deposits (SRD). The lower ESA & CIC over the month corresponded to the lower deposits from the commercial banks to the Reserve Bank vault, combined with less demand for currency during the month. Annually, both the SRD and CIC increased reflecting growth in deposits and higher demand for currency over the year. On the other hand, the ESA declined again over the year, from lower deposits to the Reserve Bank vault and higher government payments.

Total lending remained at high levels

The banks' total lending grew further over the month by \$1.7 million (0.3%) and over the year by \$63.5 million (12.0%), to a new high level of \$593.5 million in February 2025. Household loans increased over the month and year, underpinned by higher housing, vehicles, and other personal loans. Business loans on the other hand, declined over the month but increased annually. Lending to businesses within the professional & other services, manufacturing and agricultural sectors declined over the month. Annually, higher loans were issued to private businesses such as professional & other services, distribution and tourism sectors.

The non-performing loans to total loans ratio eased slightly to 13.4% in February 2025 from the 13.9% in January 2025 but still higher compared to 9.8% a year ago. Non-performing loans are still above trigger levels, hence close supervision of existing vulnerabilities in the banking system is maintained to ensure financial stability and support economic growth.

Total bank deposits decreased by \$16.8 million (1.7%) over the month, but increased over the year by \$60.8 million (6.7%) to \$972.5 million. All categories of deposits declined over the month, led by demand then followed by saving and time deposits. These were mostly withdrawal of deposits by the retirement funds and the central government for offshore investments and operations. Annually, both demand and time deposits increased, mainly from private sectors, government, microfinance businesses and the retirement funds. Total loan to deposit ratio increased to 59.9% in February 2025 from 58.7% in the previous month, mainly due to lower total deposits coupled with the increasing loans.



NATIONAL RESERVE BANK OF TONGA

MONTHLY ECONOMIC UPDATE

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Interest rate spread widened

The weighted average interest rate spread widened over the month but narrowed annually in February 2025 by 0.3 basis points and 11.5 basis points respectively to 6.10%.

The monthly rise owes to the weighted average lending rate increasing by 1.3 basis points, and outweighed the 1.0 basis points increase in weighted average deposit rates. Lending rates increased over the month, mainly for financial corporations and businesses within the fisheries, agricultural and tourism sectors, as well as household other personal loan rates. Deposit rates also increased, solely driven by higher demand deposit rates.

Annually, the weighted average lending rates decreased by 21.6 basis points and outweighed the 10.0 basis points fall in weighted average deposit rates. The lending rates offered to non-profit organization and statutory non-financial corporations declined, as well as the lending rates to businesses such as mining/quarrying, utilities and fisheries sectors, and household loan rates. Similarly, the time and demand deposit rates fell over the year and offset the rise in the saving deposit rates. The rising volume of deposits over the year may have contributed to the lower deposit rates, annually.

Outlook

Current domestic economic growth forecasts indicate lower than expected growth in key sectors, necessitating continued financial support for private sector development to aid in boosting domestic production. Capital investments in resilient and sustainable infrastructure are vital to mitigate Tonga's climate-related risks.

Inflation is projected to rise gradually over the next couple of months, but remain below the NRBT's reference rate. Although, the volatility of food prices and the lingering mismatch between the demand and domestic supply pose temporary risks to the forecast. Despite the easing inflation, the high cost of living strains household purchasing power. The uptick in core inflation warrants supply-side intervention to reduce business cost structures.

Foreign reserves are expected to remain comfortable, exceeding 7.5 months of imports, but rising import payments, offshore investments, and debt repayments necessitates careful management to ensure adequate buffer against external shocks. Positive credit growth and ample liquidity in the banking system are supportive of economic growth, while prudent loan management and supervision mitigates risks to financial stability.

Given the above developments, outlook, and risks, the NRBT will continue with strengthening its policy tools to strengthen the effectiveness of its monetary policy decisions.

KEY INDICATORS

		Feb-24	Nov-24	Dec-24	Jan-25	Feb-25
1. Sectoral Performance Indicators*						
(year-on-year % change)	Air visitor arrivals	127.9	15.0	15.2	15.2	<i>n.i.</i>
	Travel receipts	84.5	22.2	24.2	24.9	25.9
	Electricity production	4.9	4.9	5.8	6.8	6.8
	Agricultural exports ^{1/}	5.5	-28.9	-26.8	-24.7	-25.3
2. Consumption Indicators*						
(year-on-year % change)	New vehicle registrations	-4.4	18.4	17.2	15.3	13.1
	Container registrations	11.6	15.4	11.1	12.7	8.2
	Electricity consumption	4.0	7.1	8.3	8.2	8.4
	Remittances	12.2	-1.5	-3.0	-3.0	-3.1
3. Consumer Prices**						
(year-on-year % change)	All items ^{2/}	6.9	4.1	6.0	5.4	4.0
	Domestic	10.2	6.9	6.7	7.1	4.7
	Imported	3.5	1.1	5.3	3.5	3.2
	Core inflation (ex energy & food)	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	8.0
4. Labour Market***						
(year-on-year % change)	NRBT Job Advertisement survey	4.995	7.004	-3.631	-5.340	-9.824
5. Reserves***						
(end of period)	Foreign Reserves (\$m) ^{3/}	891.4	892.2	889.1	878.0	865.4
	Months of imports	11.5	10.3	10.2	10.1	9.9
6. Exchange Rates***						
(end of period, TOP\$1 equals)	US dollar	0.4212	0.4177	0.4104	0.4107	0.4108
(index, Dec 2006=100)	Australian dollar	0.6483	0.6425	0.6589	0.6586	0.6579
	New Zealand dollar	0.6907	0.7093	0.7269	0.7261	0.7285
	Fijian dollar	0.9534	0.9578	0.9645	0.963	0.9574
	Nominal effective exchange rate	95.1	95.7	96.6	96.4	96.2
	Real effective exchange rate	119.3	119.2	129.8	128.3	126.9
7. Liquidity***						
(end of period)	Reserve money (\$m) ^{3/}	604	636	632	626	614
	Currency in circulation (\$m) ^{3/}	113	129	136	125	123
	Exchange settlement account (\$m) ^{3/}	359	366	356	358	348
	Required reserve (\$m) ^{3/}	132	141	139	143	143
8. Money and Credit***						
(year-on-year % change)	Broad money	0.4	6.4	8.0	9.0	7.7
	Net foreign assets	-2.8	3.0	1.4	1.3	-0.3
	Net Domestic Asset	55.3	208.1	467.4	238.3	281.3
	Narrow money	3.6	12.2	19.4	15.4	12.8
	Total Lending	5.7	5.4	10.2	11.8	12.0
	Business lending	6.7	5.4	16.2	18.7	19.0
	Household lending	4.7	5.3	4.1	4.9	5.1
	Total Deposits	3.0	6.0	8.4	8.4	6.7
9. Interest Rates (%)***						
(monthly weighted average)	Lending rate	7.79	7.81	7.57	7.56	7.57
	Deposit rate	1.57	1.54	1.44	1.46	1.47
10. Commodity Prices****						
(end of period average)	Crude oil/barrel (US\$)	81.71	73.42	73.08	78.25	75.10

Note

^{1/} Agricultural production shows the year on year change in terms of volume.^{2/} 2021 rebase. Previous data had 2018 as its base.^{3/} TOP millions*n.i.* - not issued*n.a.* - not available

Sources

*Various industry sources

**Tonga Department of Statistics

***National Reserve Bank of Tonga

****Reuters