



Global economy expects a slow recovery in 2021

The World Bank Group (WBG) reported in January 2021 that the global economy is projected to rebound by 4.0% in 2021. The rollout of COVID-19 vaccines and recovery of economic activities support business confidence, trade, and investment. However, this is expected to remain below pre-pandemic projections given the prolonged impacts of COVID-19 and emergence of virus' new variants. The US Bureau of Economic Analysis reported that personal income and consumption spending declined by 1.1% and 0.4% respectively in November 2020. Lower government social benefits mostly drove this decline. Australia removed, the lockdown measures in most states, and the unemployment rate fell by 0.2% to 6.8% in November 2020 (Australian Bureau of Statistics). Statistics New Zealand (NZ) reported that their economy recorded the largest quarterly rise on record of 14.0% in the third quarter. Since last quarter, ease of restrictions allowed the services sector to operate more fully, which drove the increase. However, the annual growth fell by 2.2%, reflecting the severe impacts imposed by the COVID-19 pandemic.

Domestic economy staggers on with slight growth

The primary sector showed dampened outcomes in November 2020. The total volume of agricultural exports decreased over the month by 55.6 tonnes (5.0%) due to lower root crops exported, particularly taro and yam. This was coupled with the decline in exported watermelons by 81.5 tonnes. This attributed to the delay in shipments and biosecurity restrictions. Nonetheless, 298.7 tonnes of squash were exported in November but was significantly lower compared to November 2019. Proceeds from agricultural exports rose by \$1.7 million while marine export proceeds fell by \$0.1 million over the month.

The completion of more new classrooms under the Pacific Resilience Program (PREP) project and the new Multi-Hazard Early Warning and Emergency Operation Centre were key drivers to growth in the secondary sector during the month. Moreover, construction loans rose by \$3.8 million (23.1%) over the month and \$9.6 million (91.3%) annually. New commitment loans to individual housing increased to \$1.6 million (by 3.0%) indicating individuals' willingness to invest in construction activities.

The services sector continued showing some activity in November 2020. Travel receipts slightly rose by \$0.3 million (20.1%) over the month as repatriation flights from New Zealand, and Australia brought back our citizens and some seasonal workers. On the other hand, trade showed an upward movement as container registrations rose over the month by 126 registrations (11.6%) mostly driven by more business containers. The launch of 'Ave Pa'anga Pau Limited online remittance service during the month enabled a convenient means for the Tongan diaspora in Australia to

transfer remittances and allow faster access to remittance receipts for families and friends locally.

Some public service offices advertise vacancies

The Reserve Bank's survey showed a slight increase in vacancies over the month by 7 job vacancies (43.8%) and mostly for public services. However, job advertisements declined in the year to November 2020 by 200 vacancies (42.1%). As labour demands from Australian farms continue, around 135 workers departed in November 2020 for employment opportunities. Yet, the uncertainty of the COVID-19 pandemic continues to pose a downside risk for the availability of employment opportunities as global cases continue to rise.

Annual inflation continues to fall in November

Higher local prices during November 2020 was driven by the rise of electricity, gas & other fuel prices and food items

Table 1: Inflation Rates

Prices	Monthly		Annual	
	Nov-20	Oct-20	Nov-20	Nov-19
Headline Inflation (%)	0.3	-0.1	-0.8	0.1
Domestic prices	0.7	-0.5	-2.0	-1.2
Imported prices	0.0	0.2	0.3	1.2

Source: Statistics Department

specifically for octopus, vegetables, and root crops. Meanwhile, imported prices largely remained the same over the month.

Over the year, headline inflation continues to fall for the sixth consecutive month since June 2020. The decline in domestic prices outweighs the rise in imported items due to lower prices for electricity, gas & other fuels, which is in line with the slow recovery of

Table 2: Average annual prices of selected items

Items (\$ per kg)	Unit	Nov-20	Annual	
			Nov-19	Change
Domestic				
Kava	1kg	\$60.00	\$100.00	-\$40.00
Tomatoes	1kg	\$2.55	\$7.06	-\$4.51
Capsicum	1kg	\$7.90	\$9.88	-\$1.98
Yams - late	1kg	\$2.37	\$3.07	-\$0.70
Imported				
Pall Mall	1kg	\$23.29	\$19.29	\$4.00
Mutton Flaps	1 kg	\$18.12	\$15.95	\$2.17
Oranges	1 kg	\$8.18	\$7.77	\$0.41

Source: Statistics Department

global oil prices, and kava Tonga. The slight rise in the price of imported items owes to higher food prices, tobacco, clothing & footwear items. New excise taxes imposed on tobacco and food items in July 2020 may contribute to higher imported food and tobacco prices. Inflation is expected to remain relatively low in the near future.

Effective exchange rates declined again in November

Table 3: Effective Exchange Rates

	Monthly			Annual	
	Nov-20	Oct-20	%	Nov-19	% Growth
Nominal Effective Exchange Rate Index	87.6	89.1	-1.6	92.1	-4.9
Real Effective Exchange Rate Index	101.1	102.5	-1.4	107.6	-6.1

Source: National Reserve Bank of Tonga

The Nominal Effective Exchange Rate (NEER) declined in November 2020 as major trading currencies appreciated



against the Tongan Pa'anga (TOP). The Real Effective Exchange Rate (REER) index also fell in line with Tonga's lower inflation rate.

Both the NEER and REER decreased over the year, suggesting an improvement in Tonga's trade competitiveness with trading partners, supporting export proceeds, and remittance receipts.

Table 4: Bilateral Exchange Rates

	Nov-20	Oct-20	Nov-19
USD/TOP	0.4351	0.4324	0.4316
AUD/TOP	0.5959	0.6044	0.6302
NZD/TOP	0.6326	0.6501	0.6740
FJD/TOP	0.8857	0.8897	0.8911
JPY/TOP	45.3565	45.4014	46.8948
GBP/TOP	0.3284	0.3321	0.3339
EUR/TOP	0.3669	0.3664	0.3896
CNY/TOP	2.8306	2.8129	2.8082

Source: Banking Systems

Foreign reserves rise again to a new high

Table 5: Foreign Reserves

	Monthly			Annual	
	Nov-20	Oct-20	% Growth	Nov-19	% Growth
Foreign Reserves (\$ in million)	590.2	581.6	1.5	489.5	7.5
Import Coverage (months)	9.9	9.7	0.2	7.4	33.8

Source: National Reserve Bank Tonga

The foreign reserves rose in November 2020 by \$8.7 million to \$590.2 million, attributed to the receipt of budget support and project grants from development partners, in addition to remittances. This is equivalent to 9.9 months of imports. Similarly, the foreign reserves increased substantially over the year by \$100.7 million due to higher receipts of budget support, official grants, and remittances. The foreign reserves are held mostly in USD, AUD, and NZD.

Table 6: Remittance Receipts

	Monthly			Annual		
	Nov-20	Oct-20	% Growth	Nov-20	Nov-19	% Growth
Remittance (\$ in million)	37.0	38.7	-1.6	386.6	348.9	10.8

Source: National Reserve Bank Tonga

Remittances declined in November 2020 by \$1.6 million to \$37.0 million driven solely by lower private transfer receipts, particularly AUD and USD receipts. However, remittances increased by \$37.6 million from \$348.9 million in November 2019. This resulted from higher private transfers and compensation of employees receipts.

Overall, Overseas Exchange Transactions (OET) recorded a higher surplus of \$8.7 million in November 2020, compared to the surplus of \$5.1 million in the previous month. This resulted from a decline in OET payments mainly for imports and other professional services coupled with the rise in official transfer receipts.

In the year to November 2020, the OET balance surplus rose substantially by \$79.8 million underpinned by higher current account surplus. This attributed mainly to higher official transfer receipts, an increase in income receipts, and lower merchandise trade deficits. The capital account recorded a higher surplus supported by the rise in official capital receipts. However, financial account deficit deteriorated over the year due mainly to higher loan

repayments and interbank transfer payments.

Table 7: Overseas Exchange Transactions

	Monthly			Annual		
	Nov-20	Oct-20	% Growth	Nov-20	Nov-19	% Growth
Overall Balance	8.7	5.1	71.1	100.7	20.9	382.8
Current Account	7.9	-3.1	157.2	82.0	-9.9	724.4
Merchandise Trade	-34.0	-40.0	15.1	-405.3	-407.1	0.5
Services	2.5	-2.0	23.6	3.9	27.3	-85.6
Income	2.4	2.8	-15.7	15.8	5.0	215.1
Transfers	37.1	36.1	2.6	467.5	364.8	28.1
Capital Account	7.2	9.1	-20.7	38.7	36.8	5.0
Financial Account	-6.5	-1.0	-560.4	-19.9	-6.0	-231.8

Net domestic assets rose more than net foreign assets

Table 8: Broad Money

	Monthly			Annual	
	Nov-20	Oct-20	% Growth	Nov-19	% Growth
Broad money (\$ in million)	681.4	655.2	4.0	605.6	12.5
Net Foreign Asset	622.2	610.6	1.9	502.8	23.7
Net Domestic Asset	60.6	45.7	32.6	103.4	-41.4

Source: Banking System, National Reserve Bank of Tonga

Broad money hit a new high level of \$681.4 million in November 2020 on the continued rise in both net domestic and net foreign assets. The higher net credit to the private sector and lower government deposits drove net domestic assets higher whilst increased foreign reserves resulted in higher net foreign assets.

Liquidity in the financial system consistently grows

Table 9: Reserve money

	Monthly			Annual	
	Nov-20	Oct-20	% Growth	Nov-19	% Growth
Reserve money (\$ in million)	389.3	361.9	7.6	301.2	29.3

Source: Banking System, National Reserve Bank of Tonga

Liquidity in the financial system expanded again to a new high level due to the continuous increase in the commercial banks' ESA (Exchange Settlement Account), reflecting the increase in net sales from the commercial banks to the Reserve Bank. Currency in circulation and required reserves also increased and supported the higher total reserve money.

More business and households access lending

Table 10: Total Lending

Lending	Monthly			Annual	
	Nov-20	Oct-20	% Growth	Nov-19	% Growth
Total Lending (\$ in million)	496.5	494.0	0.5	504.3	-1.5
Business lending	237.3	235.2	0.9	243.4	-2.5
Household lending	259.3	258.8	0.2	260.8	-0.6
Other lending	0.0	0.0	0.0	0.2	0.0

Source: Banking System, National Reserve Bank of Tonga

In November 2020, the banks' total lending rose further over the month but declined annually. Both businesses and household loans increased in the month, mainly for constructions, distribution and transport sectors, vehicle, and other personal loans. Over the year, both households and businesses loans continued declining due to lower loans issued to the manufacturing, distribution and professional & other service sectors, and households' other personal loans. The annual decline in lending reflects the high uncertainties of COVID-19 impacting both the banks'



willingness to lend further coupled with businesses and households' appetite to borrow.

Higher demand and saving deposits continue to be made by churches, public enterprises, and businesses pushing the banks' total deposits by \$30.9 million (4.7%) to a new high level of \$686.7 million. The rise in total deposits exceeded the increase in total loans. Hence, the loans to deposit ratio declined slightly to 70.4% in November 2020 from 73.8% recorded in October 2020, and below the 80% minimum.

Average interest rate spread suddenly widened

Table 11: Weighted Average Interest Rates

Interest Rates	Monthly			Annual	
	Nov-20	Oct-20	Growth	Nov-19	Growth
Weighted Average Banks Deposit Rate (%)	2.011	2.083	-7.2	1.950	6.1
Weighted Average Banks Lending Rate (%)	7.671	7.701	-3.0	8.015	-34.4
Weighted Average Interest Rate Spread (%)	5.660	5.618	4.2	6.065	-40.4

Source: Banking System, National Reserve Bank of Tonga

The weighted average interest rate spread rose by 4.2 basis points in November 2020, after declining since February 2020. The decrease in demand and saving deposit rates led the weighted average deposit rates to drop more than the month's weighted average lending rates. The lower weighted average lending rates were due mainly to lower business loan rates offered to the construction, transport, agricultural sectors, and households' other personal loan

rates. Lower construction loan rates coincided with the growth of construction loans over the month.

Over the year, the weighted average interest rate spread narrowed by 40.4 basis points to 5.7%. This resulted mainly from lower weighted average lending rates from decreased lending rates offered primarily for households for housing loans and businesses in the mining/quarrying, constructions, utilities, agriculture sectors, and the increase in weighted average deposit rates (term, demand, saving). The higher volume of deposits also coincided with the higher weighted average deposit rates over the year.

Outlook

In light of the above, the expected downturn for economic growth is to continue. However, the Reserve Bank's monetary policy stance remains accommodative. Furthermore, the Reserve Bank is committed to continue monitoring the emerging risks prompted by uncertainties surrounding the COVID-19 pandemic, which may impact economic growth and potentially impair financial stability. The Reserve Bank remains vigilant in its regulatory and supervisory roles to ensure that financial stability is maintained whilst working to mitigate the economic downturn and support recovery.