



### Global economic recovery continues to be muted

The US trade deficit narrowed in October by \$13.8 billion, the lowest in six months as exports rebounded significantly according to the US Bureau of Economic Analysis. The recovery reflects somewhat of an improvement in the global supply chain issues. This coincides with a rise of 0.5% in the US monthly personal income in October 2021. Meanwhile, the extended lockdown in Australia triggered an increase in unemployment by 0.6% to 5.2% over October 2021 as recorded by the Australian Bureau of Statistics. Additionally, the New Zealand Statistics recorded a trade deficit of \$6.3 billion in the September 2021 quarter following a surplus of \$548 million in the previous quarter. A contraction in economic activities in both Australia and NZ for 2022 is expected owing to the ongoing COVID-19 uncertainties.

### Positive performance in the primary sector

The primary sector performed firmly in October 2021 in line with the harvesting seasons. The agricultural export volumes rose substantially by 1,184.4 tonnes over the month and coincided with a rise in agricultural proceeds of \$0.5 million (80.6%). This was driven by the rise in squash and cassava export volumes which both rose by 792.0 tonnes and 186.0 tonnes respectively. Additionally, watermelon, taro, and coconut exports also rose. However, agricultural export volumes fell annually by 1,506.3 tonnes (12.8%), due to lower exports of squash, coconut, and all root crops except cassava. Contrastingly, the annual agricultural export proceeds increased by \$0.8 million (13.2%). The agricultural sector is expected to benefit further from Phase 2 of the Australia Kava Pilot Program with unlimited commercial exports of kava to Australia. However, the expected drought and upcoming cyclone season continue to be downside risks to domestic production.

Mixed results in the industry sector was seen during the month. Loans to the manufacturing and utility sectors increased by \$0.2 million (1.5%) and \$0.03 million (10.4%), respectively. Housing loans also rose over the month by \$0.5 million (0.2%) indicating growth in the construction sector and coincided with the rise in import payments for construction materials. Furthermore, ongoing government projects provided some economic activities for the aforementioned sectors. On the other hand, loans extended to construction and mining and quarrying businesses fell by \$0.7 million (4.0%) and \$0.05 million (35.6%) respectively. Annually, lending for manufacturing, mining and quarrying, and housing fell.

The tertiary sector also showed mixed performances in October. The last repatriation flight from New Zealand recorded the first positive Covid-19 case for Tonga forcing the country into a one-week lockdown. All repatriation flights scheduled for the rest of the year were also canceled while focusing on the vaccination rollout. Meanwhile, there were

485 departing passengers during the month, which were mostly seasonal workers leaving for Australia. Container registrations rose significantly over the month by 952 containers, reflecting the arrival of delayed shipments from the previous months, relieving domestic shortages, and supporting wholesale and retail activities. However, container registrations declined annually by 182 containers (1.6%), mostly from private containers.

### Lower job advertisements in October 2021

The Reserve Bank's survey on job vacancies advertised declined by 68 vacancies (82.9%) during the month. The majority of the job vacancies advertised were in public administration. Annually, job vacancies slightly rose by 2 vacancies (0.7%). However, more seasonal workers are being sent to Australia and New Zealand which may negatively impact the supply of domestic labour and domestic business developments.

### Inflationary hike in October 2021, as expected

In October 2021, the monthly inflation rose by 0.5% due to higher imported and local prices. Higher imported prices were driven by increases in prices of food items and fuels. Higher prices of local food items however, fueled the increase in local prices.

Prices	Monthly		Annual	
	Oct-21	Sep-21	Oct-21	Oct-20
Headline Inflation (%)	0.5	0.1	7.2	-1.6
Domestic prices	0.4	-0.2	6.3	-2.9
Imported prices	0.5	0.4	7.8	-0.5

Source: Tonga Statistics Department

Over the year to October 2021, inflation increased by 7.2% owing to both higher imported and local prices. This remains above

Items (\$ per kg)	Unit	Oct-21	Oct-20	Annual Change
<b>Domestic</b>				
Octopus	1kg	\$26.57	\$19.59	\$6.98
Carrots	1kg	\$5.48	\$2.31	\$3.17
Tuna	1kg	\$19.67	\$17.00	\$2.67
Eggs	1kg	\$20.58	\$18.42	\$2.16
<b>Imported</b>				
Turkey tails	1kg	\$14.02	\$8.97	\$5.05
Petrol	litre	\$3.02	\$2.43	\$0.59
Diesel	litre	\$2.92	\$2.38	\$0.54

Source: Statistics Department

the 5% reference rate. Freight costs continue to be impacted by the disruptions to supply chains and logistics, coupled with the increasing oil prices. Consequently, imported prices rose reflecting the increase in prices of food items, fuels, gas, and maintenance and dwelling repair. Higher local prices was driven by higher prices of food items, gas, and other fuels. Inflationary pressure owing to the outbreak of the omicron variant further disrupting supply chains and global prices, is expected to continue in the near term. Tonga's major trading partner countries are also experiencing higher inflation rates which will also pass through to imported inflation.

### Major trading currencies appreciated against the TOP



# NATIONAL RESERVE BANK OF TONGA

## MONTHLY ECONOMIC REVIEW

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Table 3: Effective Exchange Rates

	Monthly			Annual	
	Oct-21	Sep-21	Growth	Oct-20	% Growth
Nominal Effective Exchange Rate Index	89.3	89.8	-0.6	89.1	0.3
Real Effective Exchange Rate Index	107.1	107.0	0.1	102.4	4.6

Source: National Reserve Bank of Tonga

The Nominal Effective Exchange Rate (NEER) fell slightly over the month as most of Tonga's trading partner currencies appreciated against the Tongan Pa'anga (TOP). The Real Effective Exchange Rate (REER) index however slightly rose over the month in line with the higher inflation rate.

In year-ended terms, the NEER rose slightly implying a slight weakening of trading partners' currencies against the Tongan Pa'anga. The REER increased also over the year in line with Tonga's higher inflation rate compared to its major trading partners. This indicates a loss in Tonga's trade competitiveness.

### Foreign reserves remained stable in October

Table 4: Foreign Reserves

	Monthly			Annual	
	Oct-21	Sep-21	%Growth	Oct-20	% Growth
Foreign Reserves (\$ in million)	757.0	757.0	0.0	581.6	30.2
Import Coverage (months)	12.1	12.4	-2.4	10.8	12.0

Source: National Reserve Bank Tonga

Official foreign reserves remained stable during the month of October 2021 at \$757.0 million, which is equivalent to 12.1 months of import cover. In the year to October 2021, foreign reserves increased substantially by \$175.5 million. This is mainly attributed to receipts of budget support, external financing, project funds, and remittances. The majority of the official foreign reserves are held in USD, AUD, and NZD.

Table 5: Remittance Receipts

	Monthly			Annual		
	Oct-21	Sep-21	% Growth	Oct-21	Oct-20	% Growth
Remittance (\$ in million)	43.9	44.0	-0.1	485.4	378.5	28.2

Source: National Reserve Bank Tonga

Remittance receipts slightly declined by \$0.04 million (0.1%) in October 2021 owing to a slight decline in the compensation of employees. In year ended terms, remittances increased by \$106.9 million, supported mostly by the higher private transfers and compensation of employees, mainly from seasonal workers.

Table 6: Overseas Exchange Transactions

	Monthly			Annual		
	Oct-21	Sep-21	% Growth	Oct-21	Oct-20	% Growth
<b>Overall Balance</b>	<b>0.0</b>	<b>5.3</b>	<b>-100.0</b>	<b>175.5</b>	<b>92.2</b>	<b>90.2</b>
<b>Current Account</b>	<b>0.5</b>	<b>-6.3</b>	<b>108.1</b>	<b>106.2</b>	<b>72.9</b>	<b>45.7</b>
Merchandise Trade	-42.7	-46.0	7.1	-486.2	-402.7	-20.8
Services	-3.8	-4.6	17.5	-40.8	5.2	-888.7
Income	4.1	2.5	62.1	26.7	15.1	77.0
Transfers	42.9	41.7	2.8	606.6	455.3	33.2
<b>Capital Account</b>	<b>3.6</b>	<b>2.0</b>	<b>76.5</b>	<b>33.1</b>	<b>33.3</b>	<b>-0.5</b>
<b>Financial Account</b>	<b>-4.1</b>	<b>9.6</b>	<b>-142.5</b>	<b>36.1</b>	<b>-14.0</b>	<b>358.7</b>

Source: Banking Systems

The net OET receipts fell close to zero in October 2021 compared to a \$5.3 million surplus in September 2021. The increase in the current and capital accounts was mostly offset by the fall in the financial account. Over the year, the overall balance surplus expanded by \$83.2 million largely reflecting the higher net receipts in the current and financial accounts.

### Broad money continued to rise

Table 7: Broad Money

	Monthly			Annual	
	Oct-21	Sep-21	% Growth	Oct-20	% Growth
Broad money (\$ in million)	789.7	783.8	0.8	655.2	20.5
Net Foreign Asset	743.1	745.7	-0.3	610.6	21.7
Net Domestic Asset	47.5	39.0	21.9	45.6	4.2

Source: Banking System, National Reserve Bank of Tonga

In October 2021, broad money rose further by \$5.9 million (0.8%) over the month and \$134.5 million (20.5%) annually. The higher net domestic assets drove the monthly increase resulting from lower Government deposits. This was partially offset by the decline in net foreign assets over the month. Annually, both net foreign assets and net domestic assets increased on the back of higher foreign reserves and net credit to the Government.

### Liquidity in the financial system rose

Table 8: Reserve money

	Monthly			Annual	
	Oct-21	Sep-21	% Growth	Oct-20	% Growth
Reserve money (\$ in million)	534.3	530.2	0.8	361.9	47.6

Source: Banking System, National Reserve Bank of Tonga

Liquidity in the financial system rose in October 2021 by \$4.1 million (0.8%), and annually by \$172.4 million (47.6%). Both the commercial banks' Exchange Settlement Accounts (ESA) and required reserves increased over the month and outweighed the lower currency in circulation. However, all three categories of liquidity rose over the year. Required reserves rose corresponding to the rise in total deposits mainly from the private sector, retirement funds, Government, and public enterprises over the year. Higher currency in circulation reflects the demand for money during the annual festivities such as the church's annual donations, Kava Idol, and the Tonga High School Ex-Students' Fundraising.

### Positive credit growth over the month of October

Table 9: Total Lending

Lending	Monthly			Annual	
	Oct-21	Sep-21	% Growth	Oct-20	% Growth
Total Lending (\$ in million)	476.7	476.1	0.1	494.0	-3.5
Business lending	218.6	218.7	0.0	235.2	-7.0
Household lending	257.8	257.1	0.3	258.8	-0.4
Other lending	0.3	0.3	-13.3	0.0	0.0

Source: Banking System, National Reserve Bank of Tonga

In October, the banks' total lending slightly rose by \$0.6 million (0.1%), however, declined by \$17.3 million (3.5%) over the year. All the categories of household loans increased over the month and outweighed the decline in business loans. However, over the year, both business and household loans fell. The lower business loans over the



year were mostly driven by the decline in loans to public enterprises and businesses in the professional & other services, manufacturing, and transport sectors. Household loans decreased also, led by lower housing loans, followed by other personal, and vehicle loans.

In October 2021, the banks' total deposits fell by \$10.6 million (1.3%) and outweighed the rise in total loans. This resulted in an increase in the loans to deposit ratio from 58.2% in September 2021 to 59.1%, however, remains below the 80% minimum level.

### Weighted average interest rate spread widened

Table 10: Weighted Average Interest Rates

Interest Rates	Monthly			Annual	
	Oct-21	Sep-21	(bps)	Oct-20	(bps)
Weighted Average Banks Deposit Rate (%)	1.837	1.839	-0.3	2.092	-25.5
Weighted Average Banks Lending Rate (%)	7.845	7.806	3.84	7.701	14.4
Weighted Average Interest Rate Spread (%)	6.008	5.967	4.1	5.610	39.8

Source: Banking System, National Reserve Bank of Tonga

The weighted average interest rate spread widened over the month and year to October 2021, by 4.1 basis points and 39.9 basis points, respectively, to 6.01%. Both increases were attributed to the higher weighted average lending rate, coupled with the decline in the weighted average deposit rate. The lending rates offered to businesses within the construction, distribution, and manufacturing sectors rose over the month, as well as household vehicle and other personal loan rates. Similarly, higher lending rates were also offered annually to non-profit organizations, and businesses in the construction, utilities

and distribution sectors, and also households for housing and vehicle loans. However, the lower weighted average deposit rate over the month was mainly due to declines in the demand and term deposit rates. Annually, all deposits rates declined.

### Outlook

The Reserve Bank has downgraded its GDP outlook for the current fiscal year, given the uncertainty of the pandemic dynamics, the resurgence of highly contagious variants, ongoing supply disruptions, and rising inflation. However, it still expects foreign reserves to remain at comfortable levels above the minimum of 3 months of import cover, while transitory inflationary pressure above the 5% reference rate is expected in the near term. Inflation is forecasted to return below the 5% reference rate by early 2022, should the global markets stabilize as supported by the successful rollout of COVID-19 inoculation and bring down imported inflation. The stability of the banking system is still expected to be maintained supported by adequate profits and liquidity.

Given the above developments and outlook, the current accommodative monetary policy stance is considered appropriate in support of economic recovery, while maintaining financial stability. The Reserve Bank remains vigilant in closely monitoring financial and economic developments to ensure it meets its monetary policy objectives.