



### Higher food prices continue to sustain major trading partner's inflation

The United States inflation increased by 7.1% over the year to November 2022, the smallest 12-month increase since December 2021 as the Federal Reserve aggressively increases its funds rate to fight inflation. The federal funds rate was further increased to the range of 3.75 to 4.0 percent with more interest hikes expected and to remain high until inflation returns to its 2 percent target. The Reserve Bank of Australia also projected inflation to reach 8% by the end of 2022. Food prices in New Zealand continue to rise by 10.7% in the year to November 2022, mainly driven by fruit and vegetables prices. Both Reserve Banks are also expected to continue raising rates

### Domestic activities remained vibrant

Total agricultural exports recorded a slight increase over the month, supported by the ongoing harvest season of watermelon, and seasonality of root crops (cassava and yam). Annually, agricultural exports declined by 34.4% (3,874.7 tonnes), reflecting the destructions and slow recovery from the Hunga-Tonga Hunga-Ha'apai (HTHH) disaster. The annual decline in the agricultural exports was mainly stemmed from lower export of roots crops (yam, cassava, and taro), and squash. Agricultural export proceeds also fell by \$0.4 million (6.2%) over the year. The marine exports also rose over the month by 172.8 metric tonnes (152.6%), due to higher tuna exports further depicting tuna season in the region and return of foreign vessels. At the same time, the aquarium exports also increased by 5.5% (500 pieces), coinciding with the 71.6% (\$0.1 million) increase in the marine proceeds. Annually, marine and aquarium exports both declined by 807.8 metric tonnes (48.3%) and 53,343 pieces (33.8%) respectively. Meanwhile, the marine proceeds also fell by \$3.3 million (58.7%).

The industrial sector was largely fuelled by the construction activities and the favourable spillovers to other industries in November 2022. Lending to the construction sector rose over the month by \$1.2 million (6.6%), attributed to new loan commitments to both businesses and individual. Construction import payments also rose over the month by 47.4% (\$1.8 million), reflective of the ongoing reconstruction of houses for those affected by the volcanic eruption. Ongoing projects also include new road improvements, and installation of water and electricity facilities. At the same time, the Kanokupolu foreshore is being reconstructed due to the damages from the tsunami. Furthermore, the construction of the NZD\$1.6 million Tonga Pharmaceutical Facility has also commenced, contributing to the sectoral growth.

The service sector however showed mixed outcomes over the month, but was buoyed by the increasing number of travellers into the country. Given the holiday season, international travels continued to trend positively, with more visitors via sea cruises further supporting tourism-related

and trading activities. This is further supported by the higher travel receipts over the month, which rose by \$1.7 million (22.0%). Meanwhile, total container registrations slowed down by 8.9% (108 containers), attributed to a fall in both business and private containers. Coincidentally, the wholesale and retail import payments declined by \$1.1 million (3.6%).

### Employment opportunities slightly fell

The Reserve Bank's job survey recorded a slight decline of 11.8% (9 job vacancies) in the number of job vacancies advertised over the month. Majority of the advertised vacancies were in public administration, some of which were re-advertised vacancies. Annually, the advertised job vacancies increased by 106.0% (369 job vacancies) mainly in public administration, and the transport & communications sector.

### Prices further declined over the month

Inflation decreased further by 0.5% in November 2022, attributed to decreases in both domestic and imported prices. Harvesting season and seasonality for root crops and vegetables continue to ease pressure on local food supply, hence lowering domestic prices over the month. At the same time, decreased prices of imported food items also reduced imported inflation. This includes meat products such as chicken pieces, turkey tails, and mutton flaps, and apples. The decrease in prices of imported foods portrays improvement in the global supply logistics and production levels as lockdown restrictions were eased for more countries.

Table 1: Inflation Rates

Prices	Monthly		Annual	
	Nov-22	Oct-22	Nov-22	Nov-21
Headline inflation (%)	-0.5	-0.3	11.1	8.2
Domestic prices	-0.9	0.3	14.5	6.4
Imported prices	-0.1	-0.8	8.6	9.6
Core inflation - ex. energy and imported food (%)	-0.7	-0.1	10.4	3.7

Source: Tonga Statistics Department

The headline inflation remained high at 11.1% in November 2022, lower than 13.1% (revised from 12.9%) in the previous month. This is the lowest 12-month rise after six months of soaring inflation, reflecting recovery in the local food supply from the HTHH disaster, and favourable development on supply chains and global commodity prices as lockdown restrictions were mostly scrapped. Nonetheless, domestic prices contributed 6.3 percentage points to the headline inflation (mostly from local food items, electricity, local transport services, takeaway food, and labour cost) while imported inflation contributed 4.9 percentage points to the headline inflation (stemming mainly from higher prices of fuels, imported food items, construction materials, and goods for personal care).

The core inflation (excluding energy and imported food) rose by 10.4%, lower than the 12.1% in previous month. This is a reflection of the lower domestic food prices. The core inflation still remains higher than the 5% reference rate of the Reserve Bank, reflecting the broadened inflationary pressures over the year on non-oil and non-imported food commodities.



# NATIONAL RESERVE BANK OF TONGA

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### Major trading currencies appreciated against TOP

Table 2: Effective Exchange Rates

	Monthly			Annual	
	Dec-22	Nov-22	% Growth	Dec-21	% Growth
Nominal Effective Exchange Rate Index	93.0	93.9	-0.9	90.2	3.2
Real Effective Exchange Rate Index	114.7	116.6	-1.6	108.5	5.7

Source: National Reserve Bank of Tonga

The strength of the Pa'anga measured by the Nominal Effective Exchange Rate (NEER) fell over the month of December 2023 reflecting the general appreciation of the AUD, NZD, FJD, JPY, CNY and EUR against the TOP (month ended). The Real Effective Exchange Rate (REER) declined also over the month, corresponding with the lower NEER.

Annually, the NEER remains higher by 3.2 percent as trading partners' currencies generally weakened against the TOP except for the USD. This may assist in partially offsetting some of the impacts of the higher imported inflation. The REER also increased over the year by 5.7 percent in line with Tonga's relatively higher inflation rate, indicating a loss in global trade competitiveness.

### Foreign reserves declined again in November

Table 3: Foreign Reserves

	Monthly			Annual	
	Nov-22	Oct-22	%Growth	Nov-21	% Growth
Foreign Reserves (\$ in million)	866.2	877.0	-1.2	783.9	10.5
Import Coverage (months)	13.6	13.9	-2.2	13.0	4.4

Source: National Reserve Bank Tonga

Foreign reserves declined over the month of November 2022 by \$10.8 million to \$866.2 million, equivalent to 13.6 months of imports. This was attributed to the demand for import payments. In year ended terms, foreign reserves still increased significantly by \$82.3 million attributed to higher receipts of development assistance to support tsunami reconstruction, capital inflows, and remittances. The majority of the official foreign reserves are held in USD, NZD, and AUD.

Table 4: Remittance Receipts

	Monthly			Annual		
	Nov-22	Oct-22	% Growth	Nov-22	Nov-21	% Growth
Remittance (\$ in million)	43.6	41.0	6.1	477.6	490.7	-2.7

Source: National Reserve Bank Tonga

Total remittance receipts rose over the month by \$2.5 million (6.1%) mainly driven by higher private transfers and compensation of employees. However, remittances declined over the year by \$13.1 million (2.7%) attributed to a decreased in all categories. The curfew and restrictions during the first half of 2022 affected inflow of remittance. However, with the borders opening up, remittance receipts is expected to continue to decline as families travel and bring their funds so we expect this to add to the increase in travel receipts .

### Broad money remained stable

Table 5: Broad Money

	Monthly			Annual	
	Nov-22	Oct-22	%	Nov-21	%
Broad money (\$ in million)	844.0	843.4	0.07	807.2	4.6
Net Foreign Asset	852.7	860.9	-1.0	774.1	10.1
Net Domestic Asset	-8.3	-17.0	51.3	34.0	-124.4

Source: Banking System, National Reserve Bank of Tonga

Broad money slightly grew over the month by \$0.6 million (0.1%) and over the year by \$36.8 million (6.8.6%). Net domestic assets increased during the month, due to positive credit growth and higher net credit to central government, mainly on lower government deposits. Annually, net domestic assets fell corresponding to lower net claims on government as deposits grew considerably over the year. Net foreign assets declined over the month but increased annually in line with the movements in foreign reserves.

### Liquidity in the financial system slightly fell

Table 6: Reserve money

	Monthly			Annual	
	Nov-22	Oct-22	%	Nov-21	%
Reserve money (\$ in million)	603.0	603.3	-0.1	558.1	8.1

Source: Banking System, National Reserve Bank of Tonga

Liquidity in the financial system slightly declined in November by \$0.3 million (0.1%) over the month however rose annually by \$44.9 million (12.9%). Currency in circulation fell over the month and offset the rises in Exchange Settlement Account (ESA) and Statutory Reserve Deposits (SRD). However, over the year, all the three categories of liquidity increased, led by ESA.

### Credit growth turns positive

Table 7: Total Lending

Lending	Monthly			Annual	
	Nov-22	Oct-22	Growth	Nov-21	Growth
Total Lending (\$ in million)	490.3	478.8	2.4	474.2	3.4
Business lending	232.4	221.3	5.0	215.9	7.6
Household lending	255.3	255.1	0.1	258.1	-1.1
Other lending	2.5	2.4	2.6	0.2	960.1

Source: Banking System, National Reserve Bank of Tonga

Over the month and year to November 2022, the banks' total lending climbed by \$11.5 million (2.4%) and \$16.0 million (3.4%) respectively. Both rises attributed mainly to higher lending to businesses within the professional & other services, distribution and constructions sectors. Household loans also rose and supported both trends, mainly for other personal and vehicles loans.

The banks' total deposits increased by \$5.9 million (0.7%) and \$48.8 million (6.0%) respectively, over the month and year to November 2022, to a total of \$868.6 million. The monthly rise was driven mostly by higher deposits from non-profit organisations, central government and public enterprises. Similarly, higher deposits from private businesses and the non-profit organisations led the annual rise. Relative to the weaker lending growth, the loans-to-deposit ratio fell to 54.3%, compared to 55.1% last month and 59.1% last year.



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### Weighted average interest rate spread widened further

Table 8: Weighted Average Interest Rates

Interest Rates	Monthly			Annual	
	Nov-22	Oct-22	(bps)	Nov-21	(bps)
Weighted Average Banks Deposit Rate (%)	1.619	1.631	-1.2	1.769	-15.1
Weighted Average Banks Lending Rate (%)	8.234	8.209	2.5	7.837	39.7
Weighted Average Interest Rate Spread (%)	6.615	6.578	3.0	6.067	54.8

Source: Banking System, National Reserve Bank of Tonga

The weighted average interest rate spread widened again in November 2022, to 6.62%. Weighted average lending rate continued to rise corresponding to an increase in volumes or riskier loans. Average lending rates offered to businesses within the professional and other services, utilities and fisheries sectors rose over the month. Similarly, over the year, weighted average lending rates to businesses in the agricultural, distribution and transport sectors increased. Furthermore, household lending rates increased over the month and over the year mostly for housing and vehicle loans.

On the other hand, the weighted average deposit rates kept on declining, reflecting the growing volumes of deposits and excess liquidity. The time deposit rates fell over the month and outweighed the increase in saving and demand deposit rates. Annually, all the three categories of deposit rates declined, led by time deposit rates, and followed by saving and demand deposit rates.

### Outlook

In light of the above, the expected recovery for the Tongan economy in FY2022/23 is to continue even with the continuing impact of the invasion of Ukraine and global slow down. Imports are projected to strengthen in line with the economic recovery, while remittance receipts and inflows from donor funds return to pre-pandemic levels. To sustain the ongoing economic recovery, prudent macroeconomic management and effective implementation of structural reforms including supply side measures will be critical. Meanwhile, foreign reserves levels is expected to remain comfortable above the optimal level of 7.3 months of imports cover, supported by inflows of development assistance for the HTHH reconstruction and implementation of donor projects back on track. Inflation is expected to have peaked in 2022 and is expected to continue declining in the near to medium term. However, uncertainties in the movements of global oil and commodity prices, as well domestic food supply pose a risk to this outlook. The Reserve Bank will continue to monitor the core inflation and the movements in global commodity prices and will address the underlying inflation concerns if inflation continues to remain high above its 5% reference rate. The financial system remains stable with ample liquidity available as credit growth improves. Banks are also well capitalized to absorb further shocks.