



# Snapshot of the Tongan Economy

January 2025 Release

## Overseas Economy



- Global growth projections remains steady at 3.3% for 2025 and 2026 (IMF WEO update-January 2025). However, diverging growth paths between major economies are widening. An upward revision in the United States growth was offset by downward revisions in other major economies.
- Global disinflation is projected to continue to 4.2% in 2025 and 3.5% in 2026, driven by the gradual cooling of labor markets and the expected decline in energy prices. Nonetheless, elevated geopolitical tensions and policy shifts may reignite inflationary pressures.

## Domestic Economy



- Economic indicators showed that domestic activities slowed in November 2024. The primary sector recorded minimal marine exports, while agricultural exports rose slightly signaling the start of harvesting seasons particularly for watermelon and squash.
- In the industry sector, construction activities was cooling off, but increased lending to the manufacturing and utility sectors indicates positive activities in these sectors.
- The services sector slowed in November 2024 as both container and vehicle registrations declined. Additionally, total travel receipts dropped during the month.

## Domestic Inflation



- Annual headline inflation edged up to 0.9% in November 2024 from 0.5% in the previous month.
- The main domestic drivers included local food items, kava, tobacco, alcoholic beverages, and furnishings & household items. Imported prices however declined over the month reflecting decreases in prices for fuel, tobacco, alcoholic beverages, and healthcare products.

## Banking System



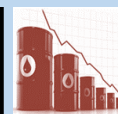
- Broad Money increased by 0.5% in November 2024, to a total \$910.7 million.
- Credit growth of 5.4% was recorded for the year to November 2024, lower than the 7.7% in the previous year.
- Total deposits declined over the month to \$963.1 million in November 2024.
- Non-performing loans to total loans ratio rose to 14.8% in November 2024 compared to 12.4% a year ago, which poses heightened risks to the sector.
- Nevertheless, the overall financial system maintains stability, supported by high liquidity and adequate capital reserves held by banks.

## Exchange Rates



- The NEER increased in December 2024 as the TOP appreciated against major trading currencies except the USD, GBP and CNY.
- The REER rose in December 2024, coinciding with the higher NEER.

## Global Prices



- Average price of Brent crude oil dropped to US\$73.08/ barrel in December 2024 from US\$73.42 in November 2024.
- Brent crude oil prices are expected to rise to an average of USD\$76/ barrel by end of January 2025.
- Food prices dipped in December 2024 compared to the previous month, led mainly by a drop in sugar prices. Dairy product and vegetable oil prices declined also during the month, offsetting an increase in meat prices.

## Foreign Reserves



- Official foreign reserves declined further in December 2024 to \$889.2 million, 10.2 months of imports, underpinned by increased import payments.
- Remittances receipts fell in November 2024 to \$43.9 million due to a decline in private transfer receipts.
- External overall balance<sup>1</sup> narrowed with a deficit of \$6.1 million in November 2024, reflecting the decline in private transfer receipts.

## Liquidity & Interest Rates



- Excess liquidity in the banking system increased in November 2024 in line with the higher Exchange Settlement Account's (ESA) and Statutory Required Deposits (SRD).
- The interest rate spread widened by 0.6 basis points to 6.27% in November 2024.
- Lending rates increased by 0.2 basis points over the month while deposit rates fell by 0.3 basis points.

## Labour Market



- Job vacancies declined substantially in December 2024 to a total of 29 jobs advertised compared to 93 vacancies in the previous month. These vacancies were largely from public administration, trade and financial intermediation sectors.
- Total job vacancies advertised to the public decreased also over the year by 35 vacancies.
- This annual decline attributed to the post-COVID recovery and HTHH reconstruction projects in 2023, which created more job opportunities and lowered the unemployment rate to 2.2% from 3.1% in 2018, as reported in Tonga's 2023 Labour Force Survey.
- Job recruitment remained a challenge due to the outflow of employees abroad and job opportunities in the private and regional offices.

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



### Advanced and Emerging economies on diverging growth paths amidst escalated uncertainties

The IMF's January 2025 World Economic Outlook (WEO) update, projected global growth to be steady at 3.3% for 2025 and 2026, lower than the historical (2000–19) average of 3.7%. The forecast for 2025 is generally unchanged from that in the October 2024 WEO, given an upward revision in the United States was offset by downward revisions in other major economies. Growth for the advanced economies is anticipated to be at 2.7% in 2025, higher than the October 2024 forecast, reflecting carryover from 2024 as well as robust labour markets and accelerating investment. However, growth performance in emerging market and developing economies for 2025 and 2026 is expected to broadly match that in 2024.

Global disinflation continues as global headline inflation is projected to decline to 4.2% in 2025 and to 3.5% in 2026. Nonetheless, progress is not the same across countries with progress stalling or remaining persistent in some countries. The gradual cooling of labor markets is expected to keep demand pressures at bay, coupled with the expected decline in energy prices. Meanwhile, elevated policy uncertainties stemming from recent geopolitical tensions are downside risks to the inflation outlook.

### Domestic activities slowed in November 2024

Indicators in the primary sector showed mixed results in November 2024. Marine exports were minimal, while total aquarium exports also decreased by 4,088 pieces (83.2%). Total agricultural exports grew slightly over the month by 71.5 tonnes (11.5%), largely driven by higher export volumes of squash, sandalwood, sweet potatoes, and watermelon. This signals the beginning of new harvesting seasons that may become more evident in the coming months. Conversely, total agricultural export receipts declined by \$0.5 million (69.2%) reflecting the lag in the receipt of export proceeds.

An increase in lending to the manufacturing sector by \$1.0 million (5.2%), and the utilities sector by \$0.01 million (2.6%) suggest some positive activities in the industry sector during November 2024. However, the construction sector is cooling off with declining loans to the sector by \$0.7 million (3.2%) in November 2024, coupled with a drop in construction applications received by the Ministry of Infrastructure (MOI) by \$2.7 million (13.8%).

The services sector outcomes were generally slow in November 2024. Total container registrations declined by 450 containers (31.0%) due to lower business and private containers. This follows a hike in container registrations from the previous month as businesses stocked up early for the Christmas holiday season. At the same time, total travel receipts dropped by \$2.3 million (15.5%) in November

2024. Total vehicle registrations also decreased by 65 vehicles (18.2%) during the month.

### Labor demand fell in December 2024

The Reserve Bank's survey on job advertisements shows that 29 job vacancies were advertised in December 2024. This is a substantial drop from the 93 job vacancies advertised in the previous month. The majority of vacancies in December 2024 were in public administration, trade, and financial intermediation. For the year ending December 2024, total job vacancies fell by 35 (3.6%). This annual decline could be attributed to the post-COVID recovery and HTHH reconstruction projects in 2023, which created more job opportunities and lowered the unemployment rate to 2.2% from 3.1% in 2018, as reported in Tonga's 2023 Labour Force Survey. The lower unemployment rate may also reflect the continued outflow of labor force to the labor mobility schemes and emigration over the years. Majority of the job vacancies advertised over the year to December 2024 stemmed from public administration, transport & communication, utilities, financial intermediation, and health & social work. The recent shift in Government to caretaker mode may have delayed some of the labour demand, particularly for public administration.

### Headline inflation edged up to 0.9% in November 2024

The Consumer Price Index (CPI) declined in November 2024 by 1.3%, reflecting an overall drop in the prices of both imported and domestic items. Imported prices fell during the month, due to lower prices for fuel and imported food items such as chicken legs, mutton flaps and sugar. Similarly, domestic prices also declined driven mainly by declining prices of local food items by 5.9%, such as cassava, sweet potatoes, taro, lū, carrots, eggs, and cockles (to'o).

Annual headline inflation slightly rose from 0.5% to 0.9% in November 2024. Domestic prices was responsible for the increase in headline inflation owing to higher costs for local food items, kava, tobacco, alcoholic beverages, and furnishings & household items compared to the same time last year. Overall, domestic prices contributed 1.1 pps to headline inflation. Imported prices however, continued to decline on an annual basis, driven by lower prices for fuel, tobacco, alcoholic beverages, and healthcare products. As a result, imported prices contributed -0.2 percentage points (pps) to headline inflation.

Core inflation continued to increase to 3.2% in November 2024 from 3.0% in the previous month. However, it remains lower than the 6.6% in November 2023. This rise reflects a further increase in prices for imported items such as construction materials, personal care products, household items, footwear, and local tobacco. This indicates prices becoming sticky at high levels as a result of previous inflation hikes, pushing up business cost structures and



depleting household income. In contrast, non-core inflation was -0.8% in November 2024, compared to -1.3% in the previous month, and 3.7% in November 2023. This is reflective of the global disinflation trend passing through energy and food prices.

### Effective exchange rates increased in December 2024

The Nominal Effective Exchange Rate (NEER) rose over the month by 0.9% as the Tongan Pa'anga appreciated against most of its trading partners' currencies particularly the AUD and NZD. As a result, the Real Effective Exchange Rate (REER) also increased in December 2024 by 3.0%.

In year-ended terms, the NEER strengthened, rising by 2.7% compared to the previous year, as the TOP generally appreciated against all major currencies, except the USD, GBP and CNY. This appreciation would have contributed to lower imported inflation. Consequently, the REER also increased over the year by 1.9%.

### Foreign reserves continued declining in December 2024

Foreign reserves decreased further to \$889.2 million in December by \$3.1 million driven by higher import payments. Over the year, foreign reserves also declined by \$12.6 million. However, this level of reserves is still comfortable, equivalent to 10.2 months of imports, surpassing the IMF's recommended minimum of 7.5 months. The majority of the official foreign reserves are held in USD, NZD, and AUD.

### Remittance receipts slowed down

Remittance receipts fell by \$2.8 million (5.9%), settling at \$43.9 million in November 2024, in line with the weaker domestic activities during the month. While employee compensation increased, the decline in private transfers continued to be the main driver of the monthly decline in remittances, followed by private capital transfers and social benefits.

Remittance receipts by source currency shows that the US dollar receipts recorded the largest decline, followed by the Australian and New Zealand dollars. This was likely influenced by the rise in US unemployment in November, as well as the appreciation of the Tongan pa'anga against both the Australian and New Zealand dollars during the month.

Total remittance receipts also contracted by \$15.0 million (2.8%) over the year, signalling a slow return to normal levels as the country recovers from previous natural disasters, in addition to rising cost of living pressures in source remitting countries.

### Money supply still high

Broad money grew over the month, and over the year to November 2024, by \$4.4 million (0.5%) and \$55.0 million (6.4%) respectively, to \$910.7 million. The net domestic assets increased mainly on higher credit to the government and private sectors as well as higher assets. The net foreign

assets however, declined over the month, but rose annually corresponding to the lower foreign reserves over the month, and higher liabilities annually. Inflow of foreign aid and remittances contributes to the excess liquidity in the financial system.

### Reserve money increased

Liquidity in the financial system increased by \$3.3 million (0.5%) over the month, and by \$35.6 million (5.9%) over the year, to a total of \$635.6 million in November 2024. Both the Exchange Settlement Account's (ESA) and Statutory Required Deposits (SRD) increased over the month and offsets the lower currency in circulation (CIC). Annually, all the three major categories rose, led by the ESA, then followed by SRD and CIC. The increased CIC and SRD over the month were in line with the higher demand for currency and growing deposits whilst the higher ESA corresponded to net purchases of foreign currency from the commercial banks.

### Credit is growing

The banks' total lending increased over the month to November 2024 by \$2.5 million (0.5%), and over the year by \$28.4 million (5.4%), to a new high level of \$556.5 million. Both businesses and household loans grew over the month and over the year. Lending to businesses such as manufacturing, professional & other services and tourism sectors rose during the month, whereas loans by businesses within distribution, tourism and professional & other services sectors increased annually. Furthermore, household loans increased over the month and annually, led by housing loans.

Total bank deposits fell by \$9.0 million (0.9%) over the month, but still rose over the year by \$54.2 million (6.0%) to \$963.1 million. The monthly decline was attributed private businesses drawing down demand deposits to make payments overseas. This is in line with the declining foreign reserves. On the other hand, the annual growth in deposits was due to higher demand deposits from the private sector, central government, and microfinance businesses. Additionally, time deposits also climbed over the year, underpinned by deposits from the central government and the retirement funds. Total loan to deposit ratio increased to 56.7% in November 2024 from 55.9% in the previous month, mainly due to lower deposits outweighing the rise in total loans.

### Interest rates spread widened

The weighted average interest rate spread widened to 6.27% in November 2024, increasing by 0.6 basis points over the month and 13.8 basis points over the year. This widening resulted from a combination of higher weighted average lending rates and lower weighted average deposit rates.



The weighted average lending rate increased by 0.2 basis points over the month and 11.4 basis points annually. Over the month, the lending rates for businesses within the fisheries, tourism and agricultural sectors, as well as household vehicle loan rates, increased. Annually, higher lending rates were offered to businesses in sectors such as entertainment & catering, agricultural, fisheries and construction.

Contrastingly, the weighted average deposit rate fell by 0.3 basis points over the month and 2.4 basis points over the year. Over the month, all the three categories of deposit rates declined, led by saving deposit rates then followed demand and time deposit rates. Annually, the demand deposit decreased and offsets the higher time and saving deposit rates.

### Outlook

Global growth outlook hinges on escalated political uncertainties as recent policy shifts threatens to reignite inflation, while growth divergence between major economies widens. The Tongan economy has also underwent its own political shift and change in Government,

followed by the stalling in the appointment of the new Cabinet members. This disruption in the political economy may affect the country's recovery from previous disasters, in addition to climate change and national disaster vulnerabilities.

Risks to inflation are high as global uncertainties remain. Trump's proposed tariff policies will have implications on imported inflation. More work is still needed to curb the rising cost of living by bringing down sticky prices, particularly the core items.

Ample foreign reserves and strong capital positions keeps the financial system stable. The market is flushed with excess liquidity from donor funded projects, and remittances. Credit growth is trending up, but anticipated vulnerabilities to asset quality are starting to materialize, prompting prudent response by the NRBT to curtail risks to the financial system.

Given the above developments and outlook, the NRBT will continue to prioritise price stability. At the same time, the NRBT will exercise vigilance in managing risks and vulnerabilities in the financial system to maintain financial stability and support economic growth.

## KEY INDICATORS

		Nov-23	Aug-24	Sep-24	Oct-24	Nov-24
<b>1. Sectoral Performance Indicators*</b>						
(year-on-year % change)	Visitor arrivals	393.0	23.1	18.4	16.9	15.0
	Travel receipts	195.0	26.2	21.8	22.3	22.2
	Electricity production	4.58	4.20	4.13	4.76	4.92
	Agricultural exports <sup>1/</sup>	9.2	-14.9	-20.5	-25.8	-28.9
<b>2. Consumption Indicators*</b>						
(year-on-year % change)	New vehicle registrations	-0.2	12.8	12.3	15.4	18.4
	Container registrations	6.4	12.9	13.1	15.5	15.4
	Electricity consumption	2.0	0.5	0.4	0.2	0.1
	Remittances	13.3	-3.0	-3.1	-2.8	-2.8
<b>3. Consumer Prices**</b>						
(year-on-year % change)	All items <sup>2/</sup>	4.9	3.5	2.0	0.5	0.9
	Domestic	2.1	2.8	2.2	0.5	1.1
	Imported	2.7	0.7	0.0	0.0	-0.2
	Core inflation (ex energy & food)	5.2	3.0	2.3	1.7	2.2
<b>4. Labour Market***</b>						
(year-on-year % change)	NRBT Job Advertisement survey	-35.8	-4.4	-10.1	1.2	116.3
<b>5. Reserves***</b>						
(end of period)	Foreign Reserves (\$m) <sup>3/</sup>	892.0	905.5	887.4	898.2	892.2
	Months of imports	11.5	10.4	10.2	10.3	10.3
<b>6. Exchange Rates***</b>						
(end of period, TOP\$1 equals (index, Dec 2006=100))	US dollar	0.4235	0.4268	0.4293	0.42	0.4177
	Australian dollar	0.6398	0.6276	0.6216	0.6386	0.6425
	New Zealand dollar	0.6877	0.6817	0.6773	0.7022	0.7093
	Fijian dollar	0.9547	0.9512	0.9494	0.9578	0.9578
	Nominal effective exchange rate	94.7	94.3	93.9	95.4	95.7
	Real effective exchange rate	119.0	118.7	117.3	119.9	119.2
<b>7. Liquidity***</b>						
(end of period)	Reserve money (\$m) <sup>3/</sup>	600	618	633	632	636
	Currency in circulation (\$m) <sup>3/</sup>	127	130	130	138	129
	Exchange settlement account (\$m) <sup>3/</sup>	343	352	367	355	366
	Required reserve (\$m) <sup>3/</sup>	131	136	136	139	141
<b>8. Money and Credit***</b>						
(year-on-year % change)	Broad money	1.5	4.5	6.3	7.3	6.4
	Net foreign assets	2.0	2.0	3.0	4.1	2.7
	Net Domestic Asset	48.9	-51.2	-164.1	-116.6	-208.1
	Narrow money	3.9	7.5	10.1	13.5	12.2
	Total Lending	7.7	5.0	3.2	5.3	5.4
	Business lending	13.6	3.8	0.8	5.3	5.4
	Household lending	3.4	6.2	5.7	5.3	5.3
	Total Deposits	4.6	3.5	6.6	7.5	6.0
<b>9. Interest Rates (%)***</b>						
(monthly weighted average)	Lending rate	7.69	7.77	7.78	7.80	7.81
	Deposit rate	1.56	1.59	1.57	1.54	1.54
<b>10. Commodity Prices****</b>						
(end of period)	Crude oil/barrel (US\$)	82.28	78.96	73.12	75.33	73.42

Note  
<sup>1/</sup> Agricultural production shows the year on year change in terms of volume.

<sup>2/</sup> 2018 rebase. Previous data had 2010 as its base.

<sup>3/</sup> TOP millions

n.i. - not issued

## Sources

\*Various industry sources

\*\*Tonga Department of Statistics

\*\*\*National Reserve Bank of Tonga

\*\*\*\*Reuters