



Snapshot of the Tongan Economy

March 2025 Release

Overseas Economy



- Global economic activity decelerated slightly in early 2025. Signs of sluggish activity is observed in the Eurozone, which economic activity in China moderates. The US economy, however, appears to be holding steady with solid growth.
- Meanwhile, the Reserve Bank of Australia and the Reserve Bank of New Zealand reduced their official cash rates in February 2025 to 4.10% and 3.75% respectively, in line with easing inflation and address weakening economic activity.

Domestic Economy



- Domestic activities slowed in January 2025, marking the end of the festive holiday season. Exporting activities in the primary sector remains weak as agricultural exports declined. Similarly, the services sector performance also declined compared to the previous month as travel activities and trade winds down. Meanwhile, the resumption of infrastructure projects and the implementation of new projects in the new year will benefit the industry sector.

Domestic Inflation



- Headline inflation was reported at 5.4% in January 2025, a slight drop from 6.0% reported for December 2024 under the new 2021 CPI rebase. The main contributors to headline inflation stemmed from the Food and non-alcoholic beverages group, Alcoholic beverages, tobacco & kava group, and the Miscellaneous goods and services groups. Both imported and domestic prices increased over the year.

Banking System



- Credit growth of 11.8% was recorded for the year to January 2025, while deposits rose by 8.4% to \$989.3 million.
- Non-performing loans to total loans ratio eased slightly to 13.9% in January 2025 from December 2024, but still higher compared to 9.9% a year ago.
- Overall, the financial system is still sound, supported by adequate capital reserves and excess liquidity.

Liquidity & Interest Rates



- Broad Money grew in the year to January 2025 by 9.0% to \$922.5 million owing to higher net foreign assets. Reserve Money also grew by 2.1% to \$625.6 million owing to rising Currency in circulation and Statutory Required Deposits.
- The weighted average interest rate spread narrowed over the year to January 2025 by 12.3 basis points to 6.10%, driven mostly by a 22.1 basis points drop in the weighted average lending rate. This more than offset the fall in the weighted average deposit rate by 9.8 basis point.

Exchange Rates



- The NEER declined in February 2025 as the weighted basket of major trading currencies strengthened against the TOP. The REER decreased also in February 2025, coinciding with the lower NEER.

Global Prices



- Average price of Brent crude oil declined to US\$75.10/ barrel in February 2025 from US\$78.25 in January 2025.
- Brent crude oil prices are expected to decline further to an average of USD\$72/barrel by end of March 2025.
- Food prices increased in February 2025, after falling 1.8% in January 2025. Sugar prices contributed the most to the increase, rebounding after three consecutive declines, amid concerns over tighter global supplies in the 2024/25 season.

Foreign Reserves



- Official foreign reserves decreased again in February 2025 to \$865.4 million, equivalent to 9.9 months of imports, stemming from outflows for import payments and offshore investments.
- Remittance receipts fell by \$11.4 million (22.4%) at the beginning of 2025. This decline was underpinned by decreases across all categories mainly private transfers.

Labour Market



- Job vacancies declined in February 2025 to a total of 42 jobs advertised compared to 81 vacancies in the previous month. Majority of the total job vacancies advertised during the month stemmed largely from public administration and utilities sectors.
- Similarly, total job vacancies advertised to the public decreased over the year by 95 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.



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Global economic activity decelerated slightly

The World Bank reported that global economic activity slightly decelerated in early 2025. Among major economies, the US economy appeared to be holding steady. The Eurozone was showing signs of sluggish activity following a weak performance in the fourth quarter of 2024. Meanwhile, incoming data points to moderating economic activity in China. Recent policy rate changes by central banks could be affecting economic activity in different regions. This is in addition to ongoing geopolitical tensions and potential disruption in global supply chains.

In the region, the Reserve Bank of Australia lowered the cash rate target by 25 basis points to 4.10% in February 2025. The decision was based on easing inflation, which has been within the bank's target range, and the strength of the labour market and wage inflation. In New Zealand, the Official Cash Rate (OCR) was also reduced by 50 basis points to 3.75% in February 2025 to address the weakening economic activity.

Domestic activities wind down after Christmas festivities

The primary sector outcomes were mixed in January 2025. The agricultural exports continued to decline by 310.5 tonnes (49.7%), reflecting lower export volumes of cassava, taro, watermelon, coconut, and kava. The continued weak performance of the sector is a concern for policymakers about its overall impact on growth. On the other hand, marine exports recorded an increase of 94.4 metric tonnes (264.2%), owing largely to higher exports of tuna. Nonetheless, total aquarium exports fell by 903.0 pieces (17.1%), coinciding with the slight decline in the marine export receipts of \$0.01 million (7.0%).

The New Year starts with promising prospects for the industry sector, as new projects are lining up and previously halted projects have resumed. Lending to the construction sector rose in January 2025 by \$1.1 million (6.1%), while individual housing loans increased by \$1.2 million (0.6%). At the same time, loans to the utilities sector grew by \$0.1 million (29.5%) and lending to the manufacturing industry rose by \$0.1 million (0.4%). The growth is anticipated to be further supported by upcoming public sector projects, including the new Parliament complex and ongoing TCRTP¹ for public roads and airport runways. Meanwhile, electricity consumption fell by 4.3% (0.3 million kWh) during the month.

Indicators in the services sector showed a slowdown as the Christmas holiday season ends. Imported containers fell by 209 containers (19.6%), with both business and private containers decreasing during the month. Coincidentally, total import payments excluding oil fell by \$19.0 million (29.3%)

along with lower wholesale & retail import payments of \$1.2 million (3.4%). Similarly, travel receipts decreased by \$1.4 million (8.2%) due to fewer people travelling.

Decline in new job vacancies advertised

The Reserve Bank's survey on job advertisements recorded 42 new job vacancies for February 2025. This is a significant drop from the 81 job vacancies advertised at the start of the year. The majority of the total job vacancies advertised during the month were for public administration and the utilities sectors. Over the year to February 2025, total job vacancies advertised to the public declined by 95 (9.8%). Total job vacancies over the year were mostly from public administration, transport & communication, financial intermediation, and utilities sectors.

New CPI rebase puts headline inflation higher at 5.4 percent in January 2025

The newly released Consumer Price Index (CPI) rebased to 2021 showed a 5.4 percent annual increase in January 2025, just above the NRBT's 5.0 percent reference rate. According to the rebased CPI, this is a slight drop from 6.0 percent in the previous month. By contrast, December 2024 inflation was previously reported at 1.2 percent. As a result, the average annual inflation for the year 2024 is now higher at 5.1 percent compared to the 3.2 percent average that was previously reported in the old rebase.

The major changes in the 2021 rebase consist of a reallocation of the weights in the major groups within the CPI basket, and the introduction of new items into the basket, while a few items have been removed. The reallocation of the CPI weights reflects the household expenditure patterns in the 2021 Household Income and Expenditure Survey (HIES). This leads to a notable increase in the Restaurants-and-accommodation-services weight, from 3.1 percent to 15.0 percent, and the Food-and-non-alcoholic-beverages weight from 39.8 percent to 42.6 percent. Meanwhile, the weights of other major groups such as Alcoholic beverages-tobacco-and-narcotics, Housing-water-electricity-and-other-fuels, and Transport, declined. The weights of imported items also fell by 3.6 percentage points to 51.4 percent, whereas local items' weight grew to 48.6 percent. The new CPI basket now consists of 161 items, increasing from 154 items in the old basket.

The January 2025 CPI report shows that the 5.4 percent headline inflation stemmed largely from the Food-and-non-alcoholic-beverages group, Alcoholic-beverages-tobacco-and-kava group, and Miscellaneous-goods-and-services group. Local inflation rose by 7.1 percent over the year and contributed 3.5 percent to the headline, while imported

¹ Tonga Climate Resilient Transport Project



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inflation grew by 3.5 percent over the year and contributed 1.9 percent to the headline.

Over the month, inflation grew slightly by 0.4 percent. This was driven by domestic prices, which grew by 2.8 percent over the month, reflecting a 9.8 percent increase in the price of Food and beverage serving services. Import prices, however, declined by 2.2 percent over the month and partially offset the increasing domestic prices. This coincides with the decline in fuel prices.

Effective exchange rates declined further in February

The Nominal Effective Exchange Rate (NEER) declined over the month by 0.1%, as the weighted basket of major trading currencies strengthened against the Tongan Pa'anga. Correspondingly, the Real Effective Exchange Rate (REER) decreased in February 2025 by 1.6%.

In year-ended terms, the NEER is higher by 1.2%, as the TOP generally appreciated against all major currencies, except the USD, GBP and CNY. This assists in easing the cost of imported goods and services. However, the REER declined over the year by 0.4%, in line with Tonga's lower inflation rate.

Import payments and offshore investments reduce foreign reserves

At the end of February 2025, foreign reserves recorded a \$12.6 million monthly decline and a \$26.0 million annual decline to \$865.4 million. The decline was due to outflows for import payments and offshore investments. The current level of foreign reserves is equivalent to 9.9 months of imports cover, which is still above the IMF's recommended minimum of 7.5 months. The majority of the official foreign reserves are held in USD, NZD, and AUD.

Remittance inflow slows down in January

Following the high remittance receipts during the festive and holiday celebrations in December, remittance receipts fell by \$11.4 million (22.4%) at the beginning of 2025. This decline was also supported by decreases across all categories during the month. Private transfers remained the main contributor to the monthly trend, dropping by \$10.0 million (22.2%), followed by a negative movement in employee compensation, private capital transfers, and social benefits. Remittance inflows from major remitting countries declined, with receipts from Australia falling the most, followed by those from New Zealand and the US, respectively.

Consequently, total remittance receipts continued to decline by \$8.8 million (1.6%) over the year. Remittances is estimated to be more than 40% of Tonga's GDP, and around 38% of the total foreign exchange receipts.

Money supply contracts in January

Broad money decreased over the month to January 2025 by \$14.9 million (1.6%), however, increased annually by \$76.3 million (9.0%) to a total of \$922.5 million. Both the net foreign assets and net domestic asset decreased over the month, mainly due to lower foreign reserves and net credit to the central government. Over the year, the net foreign assets increased, underpinned by lower foreign liabilities. Similarly, the net domestic assets also climbed over the year, attributed to higher credit to the private sectors and net credit to non-financial corporations.

Reserve money declined

Liquidity in the financial system decreased by \$6.4 million (1.0%) over the month, but increased annually by \$12.6 million (2.1%) to \$625.6 million in January 2025. The currency in circulation (CIC) declined over the month and offset the rise in both the Exchange Settlement Accounts (ESA) and Statutory Required Deposits (SRD). Annually, both the SRD and CIC increased and outweighed the lower ESA. The movements in CIC reflect the demand for currency patterns, while the movements in SRD correspond to the growth in deposit volumes. Meanwhile, the higher ESA over the month is owed to higher deposits to the Reserve Bank vault and net sales of foreign currency to the Reserve Bank. The inflow of foreign aid and remittances contributes to the excess liquidity in the financial system.

Credit growth continues in January

The banks' total lending grew further over the month by \$2.0 million (0.3%) and over the year by \$62.5 million (11.8%), to a new high level of \$591.8 million in January 2025. Both business and household loans increased over the month and over the year. Lending to public enterprises increased over the month and over the year. Similarly, more loans were also issued to private businesses in the construction, tourism and utility sectors during the month. Over the year, credit to the professional & other services, tourism and distribution sectors expanded. Furthermore, household loans also increased over the month and over the year, underpinned by housing loans, other personal loans, and vehicles loans.

Total bank deposits decreased by \$1.3 million (0.1%) over the month, but increased over the year by \$76.4 million (8.4%) to \$989.3 million. The monthly decline attributed to lower demand and savings deposits from private sector. Over the year, both demand and time deposits increased, mainly from the private sector, public enterprises, and other domestic financial corporations. The total loans to deposits ratio increased slightly to 58.7% in January 2025 from 58.5% in the previous month, mainly due to the higher loans coupled with the lower total deposits.



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Interest rates spread narrowed

The weighted average interest rate spread narrowed over the month and over the year to January 2025 by 3.4 basis points and 12.3 basis points respectively to 6.10%.

The monthly decline is attributed to an increase in the weighted average deposit rate by 2.3 basis points coupled with a 1.1 basis points decrease in weighted average lending rates. Both the savings and demand deposit rates increased over the month and outweighed the lower time deposit rates. On the other hand, the lending rates offered to non-profit organisations and financial corporations declined, along with loan rates for businesses within utilities, agricultural, and transport sectors, as well as households' other personal and housing loan rates.

Annually, the weighted average lending rate decreased by 22.1 basis points and outweighed the 9.8 basis points fall in weighted average deposit rates. The lending rates offered to non-profit organisations, financial corporations and Statutory non-financial corporations declined, as well as the lending rates to businesses in mining/quarrying, utilities and professional & other services sectors. Household lending rates also fell and supported the lower weighted average lending rate. On the other hand, time deposit rates declined over the year and offset the rise in both demand and savings deposit rates. The rising volume of deposits over the year also contributed to the lower deposit rates.

Outlook

Domestic economic growth forecasts for Tonga remain gloomy, underpinned by the slow recovery of the primary sector and lower-than-expected pickup in the performance of the industry and services sectors. Escalating trade tensions in developed economies disrupts global growth and inflation, while intensifying policy uncertainties. This is expected to have negative spillovers on Tonga's domestic growth. Domestic policies that focus on stimulating economic activities and production are imperative to ensure domestic economic stability.

In light of the new CPI rebase, inflation outlook stands to be more volatile given its higher degree of sensitivity to food prices. This re-emphasizes the need for increased attention to supply side risks, especially in domestic agricultural production in order to maintain price stability. While there is still very limited information available for a more in-depth analysis and forecasting of inflation indicators, the NRBT still expects a moderation in headline inflation to the 5% reference rate in the near term, in line with the global inflation trends. However, inflation outlook figures may be relatively higher than previously anticipated. Meanwhile, trade policy uncertainties is an upside risk to the forecast that could further delay the pass-through of easing inflationary pressures to business cost structures.

Foreign reserves, while still comfortable, has been on a continuous declining trend. This might reverse in the second quarter of 2025 as festivities start back up and Government funds are expected to flow through. However, the US trade tariffs have contributed to foreign exchange volatility, which may put further strain on the foreign reserves. Anticipated positive credit growth and ample liquidity in the financial market remain supportive of economic growth. Meanwhile, effective management of non-performing loans is warranted to mitigate risks to financial stability.

In view of the recent developments and outlook, the NRBT is faced with the difficult policy trade-offs of maintaining price stability and financial stability in an environment of weak economic growth and complex risks. This requires targeted intervention and adjustment of the monetary policy tools to better cope with modern-day challenges and the multiplicity of monetary policy objectives. As such, the NRBT is pushing forward with the modernisation and strengthening of its monetary policy frameworks. This aims to enhance its liquidity and foreign reserves management, enabling it to intervene more effectively in the interest rate markets. Additionally, the NRBT is also collaborating with the Government to address shared challenges on price stability and economic growth, to ensure fiscal sustainability and macro-economic stability.

KEY INDICATORS

		Jan-24	Oct-24	Nov-24	Dec-24	Jan-25
1. Sectoral Performance Indicators* (year-on-year % change)	Air visitor arrivals	152.9	16.9	15.0	15.2	n.i.
	Travel receipts	101.5	22.3	22.2	24.2	24.9
	Electricity production	3.3	4.8	4.9	5.8	6.8
	Agricultural exports ^{1/}	8.6	-25.8	-28.9	-26.8	-24.7
2. Consumption Indicators* (year-on-year % change)	New vehicle registrations	0.1	15.4	18.4	17.2	15.3
	Container registrations	8.4	15.5	15.4	11.1	12.7
	Electricity consumption	3.4	7.2	7.1	8.3	8.2
	Remittances	12.2	-1.5	-3.0	-3.0	-3.1
3. Consumer Prices** (year-on-year % change)	All items ^{2/}	8.4	0.4	4.1	6.0	5.4
	Domestic	12.3	0.7	6.9	6.7	7.1
	Imported	4.3	-0.1	1.1	5.3	3.5
	Core inflation (ex energy & food)	n.a.	n.a.	n.a.	n.a.	7.2
4. Labour Market*** (year-on-year % change)	NRBT Job Advertisement survey	11.2	-0.9	7.0	-3.6	-5.3
5. Reserves*** (end of period)	Foreign Reserves (\$m) ^{3/}	886	924	909	906	887
	Months of imports	11.3	11.9	11.5	10.4	10.2
6. Exchange Rates*** (end of period, TOP\$1 equals) (index, Dec 2006=100)	US dollar	0.4226	0.42	0.4177	0.4104	0.4107
	Australian dollar	0.6404	0.6386	0.6425	0.6589	0.6586
	New Zealand dollar	0.6896	0.7022	0.7093	0.7269	0.7261
	Fijian dollar	0.9537	0.9578	0.9578	0.9645	0.963
	Nominal effective exchange rate	94.9	95.4	95.7	96.6	96.4
	Real effective exchange rate	120.7	119.9	119.2	122.9	121.4
7. Liquidity*** (end of period)	Reserve money (\$m) ^{3/}	613	632	636	632	626
	Currency in circulation (\$m) ^{3/}	123	138	129	136	125
	Exchange settlement account (\$m) ^{3/}	359	355	366	356	358
	Required reserve (\$m) ^{3/}	132	139	141	139	143
8. Money and Credit*** (year-on-year % change)	Broad money	0.3	7.3	6.4	8.0	9.0
	Net foreign assets	-2.9	4.1	3.0	1.4	1.3
	Net Domestic Asset	50.5	116.6	208.1	467.4	238.3
	Narrow money	4.2	13.5	12.2	19.4	15.4
	Total Lending	6.4	5.3	5.4	10.2	11.8
	Business lending	8.3	5.3	5.4	16.2	18.7
	Household lending	4.6	5.3	5.3	4.1	4.9
	Total Deposits	3.6	7.5	6.0	8.4	8.4
9. Interest Rates (%)*** (monthly weighted average)	Lending rate	7.78	7.80	7.81	7.57	7.56
	Savings deposit rate	2.44	2.57	2.55	2.52	2.55
10. Commodity Prices**** (end of period average)	Crude oil/barrel (US\$)	78.94	75.33	73.42	73.08	78.25

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