



Snapshot of the Tongan Economy

February 2025 Release

Overseas Economy



- Inflation rate in the United States edged up to 3.0% in January 2025 from 2.4% in the previous month. Australia and New Zealand's annual inflation however, eased to 2.4% and 2.2% respectively, in the December 2024 quarter.
- The US economic growth slowed to 2.3% in the December 2024 quarter from 3.1% recorded in the previous quarter. The Australian economy however grew 0.3% whilst the New Zealand economy fell 1.0% in the September 2024 quarter.

Domestic Economy



- Christmas and holiday festivities boosted domestic activities in December 2024. Indicators in the services sector was vibrant with upbeat travel, community celebrations, tourism activities, and retail & wholesale trade. Vehicle registration increased during the month.
- The primary sector continued to record lower agricultural exports, but marine exports slightly improved.
- Partial indicators from the industry sector showed positive activities, with higher electricity consumption and consumers. The construction sector, however, was slowing down for the holiday season and the political uncertainties.

Domestic Inflation



- Annual headline inflation rose to 1.2% in December 2024, although still lower than the 6.7% in December 2023.
- This was driven by higher imported prices for international airfare, food, goods for personal care, household items and clothing & footwear.

Banking System



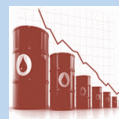
- Broad Money increased by 2.9% in December 2024, to a total \$937.5 million, driven mostly by higher net domestic assets.
- A strong credit growth of 10.2% was recorded for the year to December 2024, higher than the 8.5% in the previous year. Total deposits also increased by 8.4% to \$990.5 million.
- Non-performing loans to total loans ratio eased slightly to 14.1% in December 2024 compared to 14.8% in the previous month.
- The overall financial system remains stable, supported by high liquidity and adequate capital reserves.

Exchange Rates



- The NEER declined in January 2025 as the TOP depreciated against major trading currencies, except the USD and GBP.
- The REER also decreased coinciding with the lower NEER.

Global Prices



- Average price of Brent crude oil rose to US\$78.24/barrel in January 2025 from US\$73.08 in December 2024.
- Brent crude oil prices are expected to decline to an average of USD\$75/barrel by end of February 2025.
- Food prices declined further in January 2025, mostly due to lower sugar, vegetable oil and meat prices. This offset increases in prices of dairy product and cereals.

Foreign Reserves



- Official foreign reserves decreased in January 2025 to \$878.0 million, 10.1 months of imports, owing mostly to higher import payments.
- Remittances receipts increased markedly in December 2024 to \$50.8 million, in line with the Christmas festivities and holiday celebrations.
- External overall balance¹ narrowed to a lower deficit of \$3.1 million in December 2024, driven by the increase in private transfer receipts.

Liquidity & Interest Rates



- Excess liquidity in the banking system increased in December 2024, in line with the lower Exchange Settlement Account's (ESA) and Statutory Required Deposits (SRD).
- The interest rate spread narrowed by 13.6 basis points to 6.13% in December 2024. Both lending rates and deposit rates declined over the month by 23.6 and 10.0 basis points respectively.

Labour Market



- Job vacancies increased notably in January 2025 to a total of 81 jobs advertised compared to 29 vacancies in the previous month. These vacancies were largely from public administration (mainly police recruits), hotel & restaurants, business services, and financial intermediation sectors. This monthly increase aligns with the resumption of public sector activities following the Christmas break.
- Conversely, total job vacancies advertised to the public decreased over the year by 51 vacancies. These were mostly for public administration, transport & communication, financial intermediation, utilities, and business services.
- Job recruitment remained a challenge due to the outflow of employees abroad and job opportunities in the private and regional offices.

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



Diverging inflation outcomes in major trading partners

The United States' annual inflation edged up to 3.0 percent in January 2025 compared to 2.4 percent in December 2024, indicating stalled progress in curbing inflation. In Australia, however, the annual inflation rate was 2.4 percent in the December 2024 quarter, down from 2.8 percent in the last quarter. The main contributors to the slowdown in annual inflation were large drops in electricity prices and automotive fuel, with lower prices for new dwellings. In New Zealand, the annual headline inflation held at 2.2 percent in December 2024 similar to the September quarter. This is the second consecutive quarter that the annual inflation rate has been within the Reserve Bank of New Zealand's target band of 1 to 3 percent.

The US Bureau of Economic Analysis reported that the US economy increased at an annual rate of 2.3 percent in the December quarter of 2024. This is lower than the growth of 3.1 percent recorded in the previous quarter. The increase in real GDP reflected increases in consumer spending and government spending, which were partly offset by a decline in investment. The Australian economy also grew by 0.3 percent in the September 2024 quarter, on the back of higher Government spending and capital investment. Meanwhile, the New Zealand economy fell by 1.0 percent in the September 2024 quarter, due to lower production from the manufacturing and construction sectors.

Vibrant service sector during the Christmas season

Domestically, primary sector outcomes remained weak in December 2024. Total agricultural exports dropped by 71.4 tonnes (10.3%) due to lower export volumes of squash, cassava, and sandalwood. Few issues may have deterred squash exporters such as high input and export costs, combined with the adverse weather conditions. In addition, the stronger domestic demand from both businesses and households during the Christmas season relative to the limited domestic production may have also reduced the volume available for exports. On the other hand, total marine exports grew by 31.2 metric tons (561.1%) in December 2024, reflecting the return of tuna exports. Similarly, total aquarium exports increased by 4,452 pieces (540.9%).

Partial indicators of the industry sector were positive in December, particularly for the utilities sector. Electricity consumption was boosted by 1.3 million kWh (19.9%) as several businesses and local communities hosted Christmas light events and an increase in number of consumers. Total number of electricity consumers rose by 27 (0.1%), which may partly reflect the completion of several HTHH and Tapanekale housing projects.

Activities in the services sector were vibrant during the Christmas holiday season. Travel receipts increased by \$3.8 million (29.5%) over the month, in line with the peak

travel season. Major events such as weddings, birthdays, family, and community reunions also boosted demand for domestic activities such as accommodation, wholesale & retail trade, and recreational services. Consequently, import payments excluding oil increased substantially by \$23.9 million (58.6%), particularly for wholesale & retail import payments. Vehicle registration also rose by 35 registrations (12.0%).

Higher demand for public administration in the New Year

According to the Reserve Bank's survey on job advertisements, there were 81 job vacancies in January 2025, a significant increase compared to the 29 vacancies advertised in the previous month. Most of these vacancies were for public administration (particularly Police recruits), hotel & restaurants, business services, and financial intermediation sectors. The monthly increase aligns with the resumption of public sector activities following the Christmas break. Over the year to January 2025, total job vacancies advertised fell by 51 (5.3%) advertisements. Total job vacancies advertised over the year to January 2025 are attributed mostly to public administration, transport & communication, financial intermediation, utilities, and business services.

Headline inflation settled at 1.2 percent in December 2024

The Consumer Price Index (CPI) rose by 2.5 percent in December 2024, due to further increases in both imported and domestic prices. According to the Tonga Statistics Department, the higher imported prices were largely driven by international airfares, which recorded a notable increase due to the peak travel months. This is in addition to higher prices for fuel and imported food items. Domestically, the rise in prices was mainly attributed to higher local food prices, reflective of the stronger demand during the month.

Annual headline inflation rose again from 0.9 percent to 1.2 percent in December 2024, but still lower than the 6.7 percent in December 2023. Imported inflation contributed around 1.9 percentage points (pps) to the headline inflation, driven mostly by the higher international airfares, imported food items, goods for personal care, and household items. Meanwhile, overall domestic prices fell and partially offset the increase in imported items by 0.7 pps. This was supported by lower prices for local food items, electricity, catering services, and clothing over the year.

As a result of the higher international airfares, core inflation (excluding food & energy prices) surged to 7.2 percent in December 2024 compared to the same period in 2023. Meanwhile, non-core inflation further declined to 3.0 percent supported by lower prices for local food items and energy prices.



Effective exchange rates declined in January 2025

The Nominal Effective Exchange Rate (NEER) declined in January 2025 by 0.2%, driven by the depreciation of the Tongan Pa'anga against most of its trading partners' currencies, except the USD and GBP. Correspondingly, the Real Effective Exchange Rate (REER) also decreased in January 2025 by 1.8%.

In year-ended terms, the NEER strengthened, rising by 1.6% as the TOP generally appreciated against all major trading currencies, except for the USD, GBP and CNY. This appreciation would have contributed to lower imported inflation. However, the REER marginally declined over the year by 0.05% in line, with Tonga's lower inflation rate.

Foreign reserves continued to decline

Foreign reserves stood at \$878.0 million in January 2025, dropping by \$11.1 million from the previous month, owing mostly to higher import payments. Similarly, foreign reserves also declined by \$16.7 million over the year. Nonetheless, the current level of reserves is adequate to cover 10.1 months of imports, higher than the IMF's recommended minimum of 7.5 months. The majority of the official foreign reserves are held in USD, NZD, and AUD.

Remittances increased as expected in December

Remittance receipts markedly rose to \$50.8 million in December 2024, \$6.9 million (15.6%) higher than the previous month. Tongan households normally receive cash gifts from the Tongan diaspora during Christmas. Private transfers continued to be the main driver of the rise in remittances, followed by employee compensation, private capital transfers, and social benefits.

Total remittance receipts, however, declined by \$13.5 million (2.5%) over the year, slowly returning to pre-pandemic levels as the country recovers from previous natural disasters. This is in addition to the rising cost of living in source remitting countries.

Money supply peaked in December

Broad money increased over the month, and over the year to December 2024, by \$26.7 million (2.9%) and \$69.3 million (8.0%), respectively, to a new high level of \$937.5 million. This was driven mostly by an increase in net domestic assets, stemming from higher net credit to non-financial corporations and private sectors. Net foreign assets, however, declined over the month in line with the lower foreign reserves, but rose annually from declining liabilities.

Reserve money declined

Liquidity in the financial system decreased by \$3.6 million (0.6%) over the month, but increased annually by \$20.1 million (3.3%), to a total of \$632.0 million in December 2024. Both the Exchange Settlement Account's (ESA) and Statutory Required Deposits (SRD) decreased over the month and offset the higher currency in circulation (CIC).

The increase in CIC over the month was in line with the higher demand for currency. Annually, both the ESA and SRD increased and outweighed the decline in CIC. The annual rise in ESA and SRD corresponded to net purchases of foreign currency from the commercial banks, and the growth in deposits.

Credit growth closed strong in 2024

The banks' total lending significantly increased over the month by \$33.3 million (6.0%), and over the year by \$54.6 million (10.2%), to a new high level of \$589.8 million in December 2024. Lending to public enterprises increased over the month, as well as loans to private businesses such as professional & other services, manufacturing and transport sectors. Over the year, more loans were offered to businesses within the professional & other services, distribution, and tourism sectors. Household loans also increased for all categories, led by housing loans followed by other personal and vehicle loans.

Total bank deposits expanded by \$27.5 million (2.9%) over the month, and over the year by \$77.1 million (8.4%), to \$990.5 million. The monthly rise was driven by higher demand deposits from private businesses, public enterprises and non-profit organisations. Over the year, both demand and time deposits increased, mainly from private sectors, public enterprises, central government and the retirement funds.

The total loans to deposit ratio increased to 58.5% in December 2024 from 56.7% in the previous month, mainly due to loans rising at a faster pace than deposits.

Interest rates spread narrowed in December

The weighted average interest rate spread narrowed by 13.6 basis points over the month to 6.13% in December 2024, but still widened over the year by 0.8 basis points.

The monthly decline stems from a decline in the weighted average lending rate by 23.6 basis points, which outweighed a 10.0 basis points decrease in weighted average deposit rate. This was supported by the lower lending rates offered to Statutory non-financial corporations and financial corporations, along with loan rates for businesses within the professional and other services, agricultural and utilities sectors, as well as households' vehicle and housing loan rates. On the other hand, all the three categories of deposit rates declined.

Annually, the weighted average deposit rate decreased by 13.1 basis points and outweighed the 12.3 basis points fall in the weighted average lending rates. Demand deposit rates fell over the year and offset the rises in both the time and saving deposits rates. Meanwhile, the lending rates offered to non-profit organization and Statutory non-financial corporations declined, as well as the lending rates



NATIONAL RESERVE BANK OF TONGA

MONTHLY ECONOMIC UPDATE

Vol. 13

No. 2

February 2025 Report

to businesses such as mining/quarrying, utilities and distribution sectors, and household loans.

Outlook

The weak primary sector outcomes point to lower than expected domestic growth in current fiscal year. Unlocking production capacity and private sector development are necessary for boosting the economy's growth momentum. Capital investments in resilient and sustainable infrastructure are vital to mitigate Tonga's climate-related risks.

Inflation is projected to rise gradually in the near term, but remain below the NRBT's reference rate. This is with the assumption that core inflation is at manageable levels. Divergence in growth and inflation outcomes in major trading economies poses upside risks to the inflation outlook. However, the Reserve Bank is aware that the Tonga Statistics Department will be reviewing the CPI basket and calculation which will affect the inflation numbers in the near future. The Reserve Bank will analyse these numbers in due course and will respond accordingly.

Foreign reserves are expected to remain comfortable above the 7.5 months of imports, but rising import payments, offshore investments, and debt repayments will exert pressure on foreign reserves.

The financial system is sound, supported by adequate capital and excess liquidity to support further credit growth. Prudent management of non-performing loans by the NRBT and the commercial banks aims to curtail risks and maintain financial stability.

In light of the above developments and outlook, the NRBT has taken measures to modernize its monetary policy framework and strengthen the monetary policy transmission mechanism to optimize its impact on inflation, in line with recommendations from the IMF. These measures are outlined in the Monetary Policy Statement February 2025. Other measures in coordination with the Government will be explored to address the high cost of living and achieve broader macroeconomic stability.

KEY INDICATORS

		Dec-23	Sep-24	Oct-24	Nov-24	Dec-24
1. Sectoral Performance Indicators*						
(year-on-year % change)	Air visitor arrivals	196.207	18.360	16.867	15.034	15.181
	Travel receipts	137.002	21.819	22.318	22.179	24.178
	Electricity production	4.568	4.134	4.765	4.925	5.787
	Agricultural exports ^{1/}	13.609	-20.516	-25.848	-28.875	-26.774
2. Consumption Indicators*						
(year-on-year % change)	New vehicle registrations	1.945	12.301	15.385	18.376	17.174
	Container registrations	10.510	13.120	15.473	15.431	11.149
	Electricity consumption	3.568	6.723	7.187	7.074	8.345
	Remittances	12.881	-3.087	-2.757	-2.770	-2.501
3. Consumer Prices**						
(year-on-year % change)	All items ^{2/}	6.700	2.100	0.500	0.900	1.151
	Domestic	9.600	4.9	1.200	2.400	-1.500
	Imported	4.300	-0.1	-0.100	-0.300	3.400
	Core inflation (ex energy & food)	5.867	2.463	3.049	3.215	7.208
4. Labour Market***						
(year-on-year % change)	NRBT Job Advertisement survey	27.851	-0.423	-0.945	7.004	-3.631
5. Reserves***						
(end of period)	Foreign Reserves (\$m) ^{3/}	901.7	887.4	898.2	892.2	889.1
	Months of imports	11.7	10.2	10.3	10.3	10.2
6. Exchange Rates***						
(end of period, TOP\$1 equals)	US dollar	0.4285	0.4293	0.42	0.4177	0.4104
(index, Dec 2006=100)	Australian dollar	0.6271	0.6216	0.6386	0.6425	0.6589
	New Zealand dollar	0.6769	0.6773	0.7022	0.7093	0.7269
	Fijian dollar	0.9482	0.9494	0.9578	0.9578	0.9645
	Nominal effective exchange rate	94.0	93.9	95.4	95.7	96.6
	Real effective exchange rate	120.4	117.3	119.9	119.2	122.9
7. Liquidity***						
(end of period)	Reserve money (\$m) ^{3/}	612	633	632	636	632
	Currency in circulation (\$m) ^{3/}	142	130	138	129	136
	Exchange settlement account (\$m) ^{3/}	340	367	355	366	356
	Required reserve (\$m) ^{4/}	130	136	139	141	139
8. Money and Credit***						
(year-on-year % change)	Broad money	2.0	6.3	7.3	6.4	8.0
	Net foreign assets	2.6	3.0	4.1	2.7	1.4
	Net Domestic Asset	83.9	-164.1	-116.6	-208.1	-467.4
	Narrow money	4.1	10.1	13.5	12.2	19.4
	Total Lending	8.5	3.2	5.3	5.4	10.2
	Business lending	13.1	0.8	5.3	5.4	16.2
	Household lending	4.3	5.7	5.3	5.3	4.1
	Total Deposits	4.4	6.6	7.5	6.0	8.4
9. Interest Rates (%)***						
(monthly weighted average)	Lending rate	7.69	7.78	7.80	7.81	7.57
	Deposit rate	1.57	1.57	1.54	1.54	1.44
10. Commodity Prices****						
(end of period)	Crude oil/barrel (US\$)	77.61	73.12	75.33	73.42	73.08

Note
^{1/} Agricultural production shows the year on year change in terms of volume.

^{2/} 2018 rebase. Previous data had 2010 as its base.

^{3/} TOP millions

n.i. - not issued

Sources

*Various industry sources

**Tonga Department of Statistics

***National Reserve Bank of Tonga

****Reuters