



MONTHLY ECONOMIC REVIEW

Vol. 4

No. 11

Month Ended: November 2017

Developments amongst Tonga's major trading partners remained relatively stable over November. The US Federal Reserve maintained its federal funds rate at 1.00% – 1.25% following reports of mixed economic data. The Reserve Bank of Australia left the cash rate on hold as inflation is still below the target range of 2% – 3%. The Reserve Bank of New Zealand also left the Official Cash Rate unchanged, despite subdued inflation and wage outcomes. Although, the trading partners left interest rates unchanged, economic activity is expected to pick-up for all driven generally by a projected hike in consumer demand and growth in investments and exports.

Partial indicators of domestic activity were mixed in November but overall, broadly positive. According to the Reserve Bank's liaison program with growers in the domestic agricultural market, availability of crops during November was favorable compared to last month. Electricity consumption rose by 3.2%, and 79 more customers were recorded during the month. On-going construction activity continued to boost performance in the secondary sector, which coincided with a 1.0% growth in individual housing loans. The financial sector remained strong during the month, and lending increased by \$2.3 million. On the other hand, other partial indicators in the tertiary sector declined. Total air arrivals declined by 1.9%, in line with a \$3.2 million decrease in travel receipts. In addition, total number of container registrations decreased by 20 (2.0%), attributed to the lower number of business containers which outweighed the slight increase in private containers.

As a partial indicator of employment, the total number of job advertisements fell over November 2017 by 3 vacancies and over the year by 149 vacancies. The Statistics Department reported in its Tonga 2016 Census Population and Housing report an unemployment rate of 16.4%¹.

The headline inflation for November is yet to be released by the Statistics Department. However, the Reserve Bank expects the annual headline inflation rate to slow down from 6.1% recorded in October 2017 to 5.8% in November 2017. The inflation rate is expected to be driven by the prices of food, transportation, alcohol, electricity and kava-Tonga.

In November 2017, the Tongan Pa'anga depreciated against the major currencies (NZD, USD, FJD, CNY, JPY,

Table 1: Exchange Rates

| | Monthly | | | Annual | |
|---------------------------------------|---------|--------|----------|--------|----------|
| | Nov-17 | Oct-17 | % Growth | Nov-16 | % Growth |
| Nominal Effective Exchange Rate Index | 91.2 | 91.7 | -0.6 | 91.4 | -0.2 |
| Real Effective Exchange Rate Index | 104.6 | 105.6 | -1.0 | 100.8 | 3.8 |

Sources: NRBT

EURO and GBP) with the exception of the AUD only. This resulted in a slight decrease in both the Nominal Effective Exchange Rate (NEER) index and Real Effective Exchange Rate (REER) index over the month. NEER index also declined over the year whereas the REER index rose which reflected Tonga's higher headline inflation rate relative to its trading partners, which may impact the international competitiveness of the Tongan exports of goods and services.

Table 2: Overseas Exchange Transactions

| | Monthly | | | Annual | | |
|--------------------------------------|-------------|-------------|--------------|--------------|--------------|-------------|
| | Nov-17 | Oct-17 | % Growth | Nov-17 | Nov-16 | % Growth |
| OET Receipts (TOP \$ million) | 55.1 | 69.7 | -20.9 | 769.8 | 694.8 | 10.8 |
| Export receipt | 2.9 | 3.4 | -15.4 | 24.7 | 19.3 | 27.8 |
| Travel receipts | 6.8 | 10.0 | -31.8 | 115.7 | 89.8 | 28.9 |
| Private transfers | 23.0 | 23.1 | -0.1 | 277.7 | 241.0 | 15.2 |
| Others | 22.4 | 33.3 | -32.6 | 351.7 | 344.7 | 2.0 |
| OET Payments (TOP \$ million) | 52.8 | 54.9 | -3.9 | 667.3 | 604.9 | 10.3 |
| Import payments | 26.5 | 33.7 | -21.5 | 382.3 | 341.2 | 12.0 |
| Services payments | 12.9 | 11.0 | 17.6 | 143.8 | 133.8 | 7.4 |
| Primary Income payments | 1.1 | 4.0 | -73.1 | 35.5 | 24.3 | 46.2 |
| Others | 12.3 | 6.2 | 98.6 | 105.7 | 105.5 | 0.1 |

Source: Banking System

Total Overseas Exchange Transaction (OET) receipts fell by 20.9% to \$55.1 million in November 2017. Lower receipts from both telecommunication services and travel related services largely contributed to the trend. In year ended terms, total OET receipts rose by 10.8% to \$769.8 million driven by higher inflows of private remittance and travel receipts. Total OET payments slightly fell by 3.9% to \$52.8 million over the month due to lower import payments, particularly oil imports compared to the previous month. Over the year, total OET payments rose by 10.3% to \$667.3 million, largely attributed to higher oil import payments. The overall OET balance for November 2017 recorded a surplus of \$11.2 million. This contributed to the increase in the official foreign reserves to \$424.8 million, equivalent to 7.6 months² of import cover, which is above the Reserve Bank's minimum range of 3-4 months.

Table 3: Foreign Reserves

| | Monthly | | | Annual | |
|----------------------------------|---------|--------|----------|--------|----------|
| | Nov-17 | Oct-17 | % Growth | Nov-16 | % Growth |
| Foreign Reserves (\$ in million) | 424.8 | 413.6 | 2.7 | 360.9 | 17.7 |
| Import Coverage (months) | 7.6 | 7.5 | | 6.8 | |

Sources: NRBT

Broad money (money supply) declined slightly over November as a result of a decrease in net domestic

¹ Definition used by Statistics Department refers to "not working, available and willing to work"

² Method of calculation changed in February 2017 to include both imports of goods & services (previous method used imports of goods only)



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assets (lower credit to the non-financial public sector) offsetting an increase in net foreign assets (rise in foreign reserves). Over the year, broad money rose due to a significant increase in net foreign assets (foreign reserve) outweighing a decline in net domestic assets (net domestic credit).

Table 4: Money Supply

| | Monthly | | | Annual | |
|------------------------------|---------|--------|----------|--------|----------|
| | Nov-17 | Oct-17 | % Growth | Nov-16 | % Growth |
| Money Supply (\$ in million) | 553.5 | 553.6 | 0.0 | 493.6 | 12.2 |
| Net Foreign Asset | 444.5 | 435.1 | 2.2 | 366.8 | 21.2 |
| Net Domestic Asset | 109.3 | 118.8 | -8.0 | 126.9 | -13.9 |

Source: Banking System, NRBT

Liquidity in the banking system (reserve money) increased over November to \$300.7 million. This continued to be driven mainly by an increase in deposits by the commercial banks to the Reserve Bank vault. The banks' total loans to deposit ratio rose slightly to 73.7% in November from 73.4% last month. This reflected a \$2.3 million (0.5%) increase in total lending outweighing the rise in total deposits of \$0.5 million (0.1%). This ratio continues to remain below the 80% loan to deposit ratio target which indicates excess liquidity in the banking system remains and that there is capacity for further lending by banks.

Table 5: Total Lending

| Lending | Monthly | | | Annual | |
|-------------------------------|---------|--------|----------|--------|----------|
| | Nov-17 | Oct-17 | % Growth | Nov-16 | % Growth |
| Total Lending (\$ in million) | 420.3 | 418.1 | 0.5 | 377.5 | 11.4 |
| Business lending | 180.8 | 180.7 | 0.1 | 166.8 | 8.3 |
| Household lending | 238.6 | 236.4 | 0.9 | 209.4 | 13.9 |
| Other lending | 0.9 | 1.0 | -3.5 | 1.2 | -19.4 |

Source: Banking System, NRBT

Total banks' lending³ increased over November to \$420.3 million. This was due to increases in both lending to households and businesses. In particular, housing loans increased the most. Other personal loans and vehicle loans also rose. Business lending was driven by loans to the mining & quarrying, utilities, and wholesale & retail sectors. Annually, total banks' lending increased driven by yet again higher lending to both households and businesses. Household lending rose significantly due largely to more housing loans. Other personal and vehicle loans also increased contributing to the annual rise. Meanwhile, business lending increased driven by a rise in lending to the wholesale & retail, manufacturing, and transport sectors. This continued to support the domestic economic activities evident throughout the year.

The weighted average interest rate spread narrowed over November to 5.809% from 5.816% last month. The

decrease stemmed from declines in both lending and deposit rates. The weighted average lending rate fell due to lower lending rates for housing, other personal loans and lending rates for the agriculture, utilities, and trade loans. The weighted average deposit rate declined due to lower demand and saving deposit rates outweighing higher term deposit rates. In year ended terms, the weighted average interest rate spread widened due to an increase in the weighted average lending rate outweighing the decrease in the weighted average deposit rate. However, these rates remained relatively favourable as stable credit to households and businesses maintained its growth momentum over the year.

Table 6: Weighted Average Interest Rates

| Interest Rates | Monthly | | | Annual | |
|---|---------|--------|--------------|--------|--------------|
| | Nov-17 | Oct-17 | Growth (bps) | Nov-16 | Growth (bps) |
| Weighted Average Banks Deposit Rate (%) | 2.159 | 2.160 | -0.1 | 2.189 | -3.0 |
| Weighted Average Banks Lending Rate (%) | 7.967 | 7.975 | -0.8 | 7.891 | 7.6 |
| Weighted Average Interest Rate Spread (%) | 5.809 | 5.816 | -0.7 | 5.702 | 10.7 |

Source: Banking System, NRBT

Net credit to Government declined over the month by \$9.2 million, driven by a rise in government deposits supported by the receipts of grants and project funds during the month, including the receipt of dividends from the Utility Board. Similarly, net credit to Government fell over the year by \$55.7 million due to receipts of budgetary support funds and improved government revenue collection.

The Reserve Bank's outlook for strong domestic economic activity remains in the medium term. The level of foreign reserves is also expected to remain at comfortable levels supported by expected higher receipts of remittances and foreign aid. This will be partially offset by the projected rise in imports. Upward inflationary pressure remains in the near term, however it is expected to fall below the Reserve Bank's inflation reference rate of 5% per annum in 2017/18. In light of the above developments and that the banking system remained sound, the Reserve Bank Board maintained its current monetary policy measures. The Reserve Bank will remain vigilant and continue to closely monitor developments in the domestic and global economy for early signs of vulnerability or overheating of the economy. Furthermore, the Reserve Bank will continue to update its monetary policy setting to maintain internal and external monetary stability and to promote a sound and efficient financial system, in order to support macroeconomic stability and economic growth.

³ Revision were made on October's total lending to reflect correct classification of the Government Development Loans.