

Global growth is slowing due to various risks

The world's largest economies are beginning to experience a slowdown in growth as shared by the International Monetary Fund (IMF) in November. Despite recent performances supportive of growth, global financial conditions are tightening stemming from trade tensions, commodity price movements, and geopolitical tensions. The United States currently experiences a stronger US dollar and higher interest rates which could affect some emerging markets and developing economies. The Reserve Bank of Australia reported in its Economic Outlook statement for November that domestic economic conditions have been stronger than expected and they expect that GDP growth is to remain above trend over the next two years. New Zealand Parliament reported in its November Monthly Economic Review that the latest data indicates positive growth fueled by household spending and a strengthening labour market.

Partial indicators grew at a slower pace in November

Sectoral performances over the month trended positively as indicated by partial indicators however at a slower pace than October 2018 similar to last year's trend. A total of 2,063.7 tonnes of squash exported during the month drove the total agricultural export volumes higher by 87.7% compared to a 109.4% over the month of October. This was followed by other fruit produce such as watermelon, breadfruit, and green coconut. Agricultural export proceeds rose by \$0.5 million to \$1.5 million of which \$1.0 million was receipts for exported squash. Loans to the secondary sector continue to indicate vibrant activities within the industry. Construction loans increased by 1.1% compared to 9.6% in October 2018. New commitment loans to individual housing rose by \$4.4 million whilst loans to businesses for construction purposes increased by \$0.7 million and manufacturing grew by \$0.1 million. The 2.9 tonne increase in the export of handicrafts also supported the growth in this sector.

Consumption activities remained strong supported by a \$0.9 million (14.8%) increase in new commitments for personal loans though much lower than a \$1.6 million (33.3%) increase last month. Remittances declined over the month by \$0.6 million. Container registrations rose by 93 registrations, mainly for private containers which indicates increased informal distribution. Financial services continued to grow supported by continuous credit growth although less profitable compared to October 2018. However, travel receipts declined by \$3.0 million (24.4%) which coincided with a decline in the number of flight arrivals although the number of international air arrival passengers remained the same.

More Public Sector jobs advertised during the month

Employment prospects were positive which will eventually contribute to lower unemployment rates. Job vacancies¹ increased over the month by 19 job vacancies and over the year by 160 vacancies. The monthly increase was due

to an increase in jobs advertised in the public sector by 18 vacancies.

Lower prices in 2017 drove annual inflation higher

Table 1: Inflation Rates

Prices	Monthly		Annual	
	Nov-18	Oct-18	Nov-18	Oct-18
Headline Inflation (%)	-0.4	0.7	6.5	6.2
Domestic prices	-0.3	1.1	8.9	8.1
Imported prices	-0.4	0.3	4.6	4.8

Source: Statistics Department

A 0.4% monthly deflation was recorded over the month of November 2018 as both domestic and imported prices declined. Domestic food declined by 1.0% outweighed a 0.4% rise in Tongan tobacco. The imported prices noted a decline for various goods such as food, alcoholic beverages, fuel, and timber.

However, the annual headline inflation rose to 6.5% in November 2018 compared to 6.2% in October 2018 and 5.6% in November 2017 due to lower prices in the previous year. Higher overall domestic prices were driven by increases in food, tobacco, alcoholic beverages, clothing and catering services. In addition, higher imported prices over the year were noted for tobacco & alcoholic beverages, fuel, clothing & footwear, and liquid petroleum gas.

Exchange Rates drop slightly

Table 2: Exchange Rates

	Monthly			Annual	
	Nov-18	Oct-18	% Growth	Nov-17	% Growth
Nominal Effective Exchange Rate Index	92.1	92.6	-0.5	91.5	0.6
Real Effective Exchange Rate Index	108.6	109.0	-0.4	103.1	5.4

Source: National Reserve Bank of Tonga

The Nominal Effective Exchange Rate (NEER) index fell slightly over the month resulting from a depreciation of the TOP against AUD, NZD, and FJD. The Real Effective Exchange Rate (REER) index declined slightly also reflecting the fall in inflation over the month.

Table 3: Bilateral Exchange Rates

	Nov-18	Oct-18	Nov-17
USD/TOP	0.4446	0.4373	0.4483
AUD/TOP	0.6091	0.6156	0.5917
NZD/TOP	0.6495	0.6674	0.6505
FJD/TOP	0.9344	0.9412	0.9309
JPY/TOP	50.4866	49.4040	50.1311
GBP/TOP	0.3483	0.3441	0.3338
EUR/TOP	0.3912	0.3855	0.3780
CNY/TOP	3.0866	3.0468	2.9630

Source: National Reserve Bank of Tonga

In year ended terms, the NEER increased slightly whilst the REER increased more reflecting Tonga's higher headline inflation rate in comparison to its trading partners.

Foreign reserves rise in November

Foreign reserves increased over the month following a continuing upward trend from last month. This resulted in the receipt of budget support and projects funds. Thus, the official foreign reserves at the end of November remains at comfortable levels sufficient to cover 7.4 months of imports.

Table 4: Foreign Reserves

	Monthly			Annual	
	Nov-18	Oct-18	% Growth	Nov-17	% Growth
Foreign Reserves (\$ in million)	468.7	457.3	2.5	424.8	10.3
Import Coverage (months)	7.4	7.3		7.7	

Source: National Reserve Bank Tonga

The current account noted a significant rise in its surplus due to higher receipts of transfers particularly official transfers. These transfers were for government official grants and technical assistance as well as other current expenditure. Additionally, the merchandise trade deficit

¹ Based on data collected by the Reserve Bank

improved driven by lower import payments for wholesale and retail goods, construction, and other imports.

The high merchandise trade deficit in the current account contributed significantly to the lowered OET surplus balance recorded over the year to November. This was driven largely by the higher payments for import of oil and wholesale and retail goods. Additionally, payments for other imports, such as vehicle and construction materials also rose, contributing to the yearly rise.

Table 5: Overseas Exchange Transactions

	Monthly			Annual		
	Nov-18	Oct-18	% Growth	Nov-18	Nov-17	% Growth
Overall Balance	11.4	5.1	122.7	43.9	63.8	-31.2
Current Account	20.0	0.5	3869.6	16.0	46.7	-65.6
Merchandise Trade	-32.6	-40.1	-18.7	-416.9	-357.6	16.6
Services	4.2	5.2	-18.7	23.6	41.7	-43.5
Income	1.2	1.5	-22.6	5.4	-17.9	-129.9
Transfers	47.2	33.8	39.6	404.0	380.5	6.2
Capital Account	1.0	1.3	-24.5	33.2	38.3	-13.5
Financial Account	-9.6	3.3	-392.0	-5.3	-21.2	-74.9

Source: Banking Systems

The capital account continued to contribute the most to the overall OET surplus balance. This resulted from higher official grants for investment projects and capital expenditures (mostly for government and public works). The financial account recorded a lower deficit than in the previous year due to higher receipts.

Broad money declined

Table 6: Broad Money

	Monthly			Annual	
	Nov-18	Oct-18	% Growth	Nov-17	% Growth
Broad money (\$ in million)	592.3	595.8	-0.6	553.5	7.0
Net Foreign Asset	492.6	474.6	3.8	444.2	10.9
Net Domestic Asset	102.7	121.3	-15.3	109.3	-6.0

Source: Banking System, National Reserve Bank of Tonga

Broad money declined slightly over November mainly on decreased domestic assets. This was due to a decline in net credit to government as government deposits rose in receiving of the budgetary support and grant funds from development partners. Net foreign assets continued to rise on higher foreign reserves. Over the year, the receipts of budgetary support, grants, and cyclone relief funds from development partners and higher remittances boosted the foreign reserves and resulted in broad money increased.

Liquidity remains in excess although slightly lower

Table 7: Reserve money

	Monthly			Annual	
	Nov-18	Oct-18	% Growth	Nov-17	% Growth
Reserve money (\$ in million)	317.3	325.0	-2.4	300.7	5.5

Source: Banking System, National Reserve Bank of Tonga

The banking system remained sound over November 2018 as banks maintained a strong capital position, supported by adequate profits despite a slight decline. Non-performing loans improved over the month. Lower deposits by the commercial banks to the Reserve Bank's vault contributed to the decline in reserve money. The significant decline in deposits led to a rise in the banks' total loans to deposit ratio from 73.3% in the previous month to 74.9% this month. This ratio continued to remain below the 80% minimum loan to deposit ratio which indicates that there is a capacity for further lending by the banks.

Banks' lending slightly increased

Over the month and year, lending to both businesses and individuals slightly rose while other lending declined. Over the month, the increased business loans were mainly for tourism, distribution and manufacturing sectors whereas individuals' loans were mainly for housing and other personal loans. The annual trend was mainly lending to public enterprises, wholesale & retail, tourism and agricultural sectors supported by individual housing loans.

Table 8: Total Lending

Lending	Monthly			Annual	
	Nov-18	Oct-18	% Growth	Nov-17	% Growth
Total Lending (\$ in million)	469.9	466.3	0.8	420.3	11.8
Business lending	211.2	210.4	0.4	179.7	17.5
Household lending	258.1	255.3	1.1	239.7	7.7
Other lending	0.6	0.6	-3.6	0.9	-38.0

Source: Banking System, National Reserve Bank of Tonga

The low-interest rates offered on the Government Development Loan scheme partially contributed to the monthly and annual movements and also coincided with strong domestic economic activities evident throughout the year.

Weighted average interest rate spread narrowed

Table 9: Weighted Average Interest Rates

Interest Rates	Monthly			Annual	
	Nov-18	Oct-18	Growth (bps)	Nov-17	Growth (bps)
Weighted Average Banks Deposit Rate (%)	1.979	1.978	0.1	2.103	-12.4
Weighted Average Banks Lending Rate (%)	8.094	8.121	-2.7	7.837	25.6
Weighted Average Interest Rate Spread (%)	6.115	6.143	-2.9	5.871	24.3

Source: Banking System, National Reserve Bank of Tonga

Over the month, the weighted average interest rate spread narrowed due to lower weighted average lending rate mainly for households' housing loans and business loans to the transport and distribution sectors. The weighted average deposit rate on the other hand slightly increased due to a slight increase in demand deposit rates. In the year ended terms, the weighted average interest rate spread widened due to an increase in weighted average lending rates partly offsets by decreased weighted average deposit rates. The increased weighted average lending rates were mainly on business loans for utilities, manufacturing, and professional & other service sectors and supported also by higher rates for housing and other personal loans. On the other hand, the weighted average deposit rates declined due to a decrease in demand term rates.

Outlook

In light of the above, the Reserve Bank's outlook for strong domestic economic activity remains in the medium term. The level of foreign reserves is expected to remain at comfortable levels, supported by expected receipts of budgetary support and grant funds from development partners, higher receipts of remittances and the deferment of the principal loan repayment to the EXIM Bank of China. This will be partially offset by the anticipated increase in imports. Inflation is expected to fall below the Reserve Bank's inflation reference rate of 5% per annum in 2019. The Reserve Bank will continue to closely monitor developments in the domestic and global economies to ensure financial and macroeconomic stability are



NATIONAL RESERVE BANK OF TONGA

MONTHLY ECONOMIC REVIEW

Vol. 5

No. 11

Month Ended: November 2018

maintained and to change its monetary policy setting where necessary to support its monetary policy objectives.