



# NATIONAL RESERVE BANK OF TONGA

## MONTHLY ECONOMIC REVIEW

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Month Ended: April 2019

### Global growth estimates revised down

The International Monetary Fund (IMF) has revised its projection of the global economy's growth for 2019 from 3.5% to 3.3% in its April 2019 World Economic Outlook (WEO). The downgraded growth stems from the US-China trade tensions, loss of momentum in the euro area economy and tightening of financial conditions in larger advanced economies. Consequently, dampened growth is also expected for Tonga's major trading partners. Growth in the U.S is expected to slow to 2.5% in 2019 from 2.9% in 2018. According to the Guardian, the Australia economy grew by 0.4% only compared to 2.3% as previously forecasted, due to the decline in dwelling investment and slower household consumption. New Zealand's economy is also projected to reflect a weaker than expected growth in the first half of 2019 resulting from a fall in business sentiment.

### Domestic performance broadly positive

Activities in the primary sector were mostly positive. The agricultural sector continued to perform favorably with agricultural export volumes increasing by 330.4 tonnes, more than double the volume in March. This attributed mostly to the export of yams (270.6 tonnes) as the harvesting season of late yams continues. However, looking at the same month last year, agricultural export was higher by 182.8 tonnes reflecting a better harvest than this year. Lending to the agricultural sector continued to rise as more growers prepare for planting squash. New data for the fisheries sector showed that exports of fish since the beginning of 2019 averaged at around 188 metric tons per month compared to an average of 67.2 metric tons per month in 2018. As expected, the majority of the fish exported are tuna exports accounting for 96.6% of the total 164.0 metric tons exported in April. Additionally, the export of aquarium products also rose by 94.7% over the month. Receipts from exports of fish and other marine products also grew by 3.6% over the same month.

Partial data indicated a slower pace for the secondary sector in April. However, lending for manufacturing, utilities, construction, and individual housing continues suggesting on-going economic activities for this sector. Payments for imports of construction materials rose by 6.5%, and the ongoing government infrastructural projects will continue to support strong growth in the construction sector.

The tertiary sector continued to perform positively. Container registrations rose by 7.7% in April owing largely to an increased volume of business containers reflecting active commercial trading.

Tourism remained attractive with passenger arrivals rising by 23.7%, supported by a growing number of international flights and cruise ship arrivals. Travel receipts also recorded a 1.9% increase, whereas receipts for other trade in services also increased by 19.2%, mostly transport and construction services.

### Monthly deflation recorded in April

Table 1: Inflation Rates

Prices	Monthly		Annual	
	Apr-19	Mar-19	Apr-19	Apr-18
Headline Inflation (%)	-1.6	0.5	0.2	4.7
Domestic prices	-4.2	0.6	-0.1	1.1
Imported prices	0.6	0.4	0.3	7.3

Source: Statistics Department

A 1.6% monthly deflation was recorded over the month of April 2019 attributing mostly to lower domestic prices. The prices of kava-Tonga and food declined by 8.2% and 11.1% respectively, which outweighed a 1.5% rise in transport services. Price of kava Tonga declined by 13.8% to an average price of \$121.25 per kilogram. Local food such as root crops, taro leaves, carrots, octopus and cockles (to'o) also recorded a decline in its prices. Imported prices on the other hand, rose over the month and was driven by the increases in food products and fuel. Food such as mutton flaps, chicken pieces, fruits (oranges and apples), flour and sugar recorded higher prices.

The annual headline inflation slowed further to 0.2% in April 2019 compared to 2.0% in March and 4.7% in April 2018, mostly due to declining domestic prices. The domestic inflation recorded a negative 0.1% over the year, due to the annual decline in prices of local food,

Table 2: Items contributing to annual domestic inflation

Items (\$ per kg)	Monthly			Annual	
	Apr-19	Mar-19	Change	Apr-18	Change
Kava	\$121.25	\$135.00	-\$13.75	\$146.25	-\$25.00
Capsicum	\$8.47	\$14.29	-\$5.82	\$28.55	-\$20.08
Carrots	\$3.40	\$4.17	-\$0.77	\$9.11	-\$5.71
H/cabbage	\$3.74	\$6.28	-\$2.54	\$8.20	-\$4.46
Octopus	\$17.20	\$21.03	-\$3.83	\$21.61	-\$4.41
Lu	\$4.00	\$4.83	-\$0.83	\$5.64	-\$1.64
Sausages	\$8.26	\$8.23	\$0.03	\$8.40	-\$0.14
Kumala	\$2.12	\$2.15	-\$0.03	\$2.21	-\$0.09
Talo-Futuna	\$1.73	\$1.73	\$0.00	\$1.72	\$0.01
Yams-late	\$2.45	\$2.81	-\$0.36	\$2.40	\$0.05
Talo-Tonga	\$1.70	\$2.03	-\$0.33	\$1.60	\$0.10
Cockles (to'o)	\$4.79	\$5.06	-\$0.27	\$4.68	\$0.11
Yams-early	\$3.90	\$5.06	-\$1.16	\$3.74	\$0.16
Cassava	\$1.22	\$1.82	-\$0.60	\$0.72	\$0.50

Source: Statistics Department

kava-Tonga, electricity and communication services. These outweighed the annual rise in prices of Tongan tobacco, alcoholic beverages, house maintenance and transport services. Contrastingly, imported inflation rose by 0.3%. Higher imported prices were noted for tobacco, alcoholic & non-alcoholic beverages, and clothing & footwear. Meanwhile, lower prices were recorded for imported food, fuel, gas and stationery.

### Exchange rates remained competitive

Table 1: Exchange Rates

	Monthly			Annual	
	Apr-19	Mar-19	% Growth	Apr-18	% Growth
Nominal Effective Exchange Rate Index	92.0	91.6	0.4	90.4	1.7
Real Effective Exchange Rate Index	106.7	107.0	-0.3	105.3	1.3

Source: National Reserve Bank of Tonga

In April 2019, the Nominal Effective Exchange Rate (NEER) index increased due to appreciation of the USD, AUD, EUR against TOP. On the other hand, the Real Effective Exchange Rate (REER) fell reflecting the slowdown in Tonga's inflation rate. Over the year, both the REER and NEER rose coinciding with Tonga's higher headline inflation rate in comparison to its trading partners. This may impact the international competitiveness of exported goods and services.

### Overall balance has improved

Table 3: Foreign Reserves

	Monthly			Annual	
	Apr-19	Mar-19	% Growth	Apr-18	% Growth
Foreign Reserves (\$ in million)	464.2	465.0	-0.2	445.9	4.1
Import Coverage (months)	7.8	7.8		8.0	

Source: National Reserve Bank of Tonga

The official foreign reserves remained comfortable despite a \$0.8 million decline over the month to \$464.2 million, equivalent to 7.8 months of imports. The monthly movement was attributed mainly to the repatriation of unspent project funds and net outflow from interbank foreign exchange deals.

Table 4: Overseas Exchange Transactions

	Monthly			Annual		
	Apr-19	Mar-19	% Growth	Apr-19	Apr-18	% Growth
Overall Balance	-0.8	-8.5	-91.1	18.3	74.2	-75.3
Current Account	-0.8	-11.3	-93.3	-4.6	20.7	-122.0
Merchandise Trade	-31.5	-34.7	-9.4	-423.8	-385.1	10.1
Services	6.6	1.1	501.6	22.4	45.3	-50.6
Income	1.3	-0.2	-657.8	8.2	-12.5	-165.6
Transfers	22.8	22.6	1.2	388.7	373.1	4.2
Capital Account	2.7	2.2	20.7	34.4	43.3	-20.6
Financial Account	-2.7	0.6	-549.6	-11.5	10.2	-213.1

Source: Banking Systems

The Overseas Exchange Transactions (OET) balance recorded a much smaller deficit than the previous month, stemming from an improvement in the current and capital account balances. Payments for travel, transport, and professional & management services fell by \$4.0 million while service receipts

increased by \$1.5 million leading to the \$6.6 million surplus in services. A decrease in import payments by \$3.2 million supported the lower trade deficit mostly driven by lower imports of wholesale & retail goods offsetting the rise in oil import payments. The surplus in the capital account rose due to higher receipts for both official and private capital investments, and construction projects.

Annually, the OET balance surplus dropped due to higher outflows from the current and financial accounts. Higher payments were noted for goods & services and interbank transfers. These outflows outpaced the rise in receipts for exported goods, travel receipts, and both official and private transfers including remittances.

### Broad money picked up on higher net domestic assets

Table 5: Broad Money

	Monthly			Annual	
	Apr-19	Mar-19	% Growth	Apr-18	% Growth
Broad money (\$ in million)	585.9	583.5	0.4	547.1	7.1
Net Foreign Asset	482.6	482.0	0.1	461.3	4.6
Net Domestic Asset	103.7	101.8	1.9	86.1	20.4

Source: Banking System, National Reserve Bank of Tonga

After declining for three consecutive months, broad money finally rose as a result of higher net domestic assets, mainly on higher net credit to government as government deposits decreased. Net foreign assets also edged higher due to an increase in other foreign assets. Similarly, both net foreign assets and net domestic assets increased over the year thus raising broad money. Higher net foreign assets are mostly in line with the increasing foreign reserves from the receipts of budgetary support, grants, and cyclone relief funds from development partners coupled with higher remittances. The increased net domestic assets were largely driven by higher credit to the private sectors.

### Liquidity remained high

Table 6: Reserve money

	Monthly			Annual	
	Apr-19	Mar-19	% Growth	Apr-18	% Growth
Reserve money (\$ in million)	305.9	305.4	0.2	292.2	4.7

Source: Banking System, National Reserve Bank of Tonga

Liquidity in the banking system slightly rose over the month by 0.2% to \$305.9 million, due to an increase in currency in circulation reflecting the high demand for cash from the public to cater for April activities such as the Easter Season. This outweighed the fall in both the Banks' exchange settlement accounts (ESA) and the required reserves.

The banks' total loans to deposit ratio decreased from 78.1% to 77.5% over the month, reflecting increased deposits against declining lending.

### Credit to Businesses continued to rise

Table 7: Total Lending

Lending	Monthly			Annual	
	Apr-19	Mar-19	% Growth	Apr-18	% Growth
Total Lending (\$ in million)	484.3	484.9	-0.1	444.8	8.9
Business lending	225.1	224.6	0.2	200.1	12.5
Household lending	258.9	260.0	-0.4	245.0	5.7
Other lending	0.3	0.3	-6.8	0.9	-68.1

Source: Banking System, National Reserve Bank of Tonga

Total banks' lending contracted in April yet expanded over the year to \$484.3 million. The monthly decline was underpinned by a decline in household loans. Nevertheless, lending to businesses continued to increase mainly for public enterprises, professional & other services, tourism, and fisheries. The annual credit growth was 8.9% and was driven by higher credit extended to both households for housing and personal loans, and businesses such as public enterprises, transport, professional & other services, and tourism sectors.

### Weighted average interest rate spread narrowed further

Table 8: Weighted Average Interest Rates

Interest Rates	Monthly			Annual	
	Apr-19	Mar-19	Growth (bps)	Apr-18	Growth (bps)
Weighted Average Banks Deposit Rate (%)	1.954	1.934	2.0	2.087	-13.3
Weighted Average Banks Lending Rate (%)	8.111	8.153	-4.2	7.958	15.3
Weighted Average Interest Rate Spread (%)	6.157	6.219	-6.2	5.871	28.7

Source: Banking System, National Reserve Bank of Tonga

The decline in weighted average lending rates over the month more than offsets the slight increase in weighted average deposit rates. This narrowed the weighted average interest rate spread by 6.2 basis points to 6.16%. The decrease in lending rates was due mainly to lower rates offered to the fisheries, tourism and distribution sectors. Meanwhile, the increase in deposit rates is a result of higher demand and time deposits rates.

Contrastingly, the weighted average interest rates spread widened over the year by 28.7 basis points as weighted average lending rates grows stronger whilst weighted average deposit rates fall lower. Higher lending rates, particularly for the manufacturing, construction, and professional & other service sectors, pushed the weighted average lending rates up. On the other hand, deteriorating time deposit rates more than offsets the increase in demand and saving deposit rates prompting the lower weighted average deposit rates.

### Outlook

The Reserve Bank expects domestic economic activity to remain positive in the medium term. Furthermore, the foreign reserves is expected to remain at comfortable levels and inflation to continue remaining below the Reserve Bank's inflation

reference rate of 5% per annum throughout 2019. The Reserve Bank will continue with the current monetary policy measures to ensure external viability and external stability.