

IMF estimates global growth to weaken

The International Monetary Fund (IMF) in its World Economic Outlook (WEO) Update for January reported a downward revision to global growth and is now estimated to grow at 3.5% in 2019 and 3.6% in 2020. The weakening of the global expansion is driven by dampened performances in economies such as the United States, Europe, and Asia. In other news, Tonga's other major trading partners namely Australia and New Zealand (NZ) reported better than expected economic growth. The Australian economy owes this to an improving labour market whilst NZ is a result of higher government spending. Overall, global risks are still a concern for many economies particularly the trade tensions and other geopolitical interventions which could affect global financial markets.

General slowdown reflects seasonality of domestic activity

January 2019 depicted a general slowdown in domestic activities mostly reflecting seasonal factors. For the primary sector, agricultural exports declined by 60.8 tonnes over the month marking the end of the squash season and declining taro export. Lower export receipts were also reported for fish and other marine products.

Construction activities continue to support the secondary sector performance as lending for construction and housing grew by 8.6% for businesses and 0.4% for individuals. Lending for manufacturing businesses also rose by 1.7%.

Performance of the tertiary sector was mixed, with business container registrations recording a 35.2% increase in January due to the arrival of more cargo ships, thus depicting positive activities in wholesale and retail trading. International air arrivals, on the other hand, fell by 24.3% following a monthly high in December 2018 during the Christmas season. This coincides with a \$0.5 million decline in travel receipts. Consumption tax collected also declined reflecting slower consumption activities compared to the peak season for consumption in December.

More employment opportunities

More employment opportunities were available at the beginning of the year 2019 with the total number of job advertisements rising by six vacancies. Majority of these advertisements were for public administration works.

Annual inflation remains below the reference rate

The monthly inflation for January 2019 showed an increase in domestic prices driving the overall price up by 0.3%. These were mostly from prices of local

Table 1: Inflation Rates

Prices	Monthly		Annual	
	Jan-19	Dec-18	Jan-19	Dec-18
Headline Inflation (%)	0.3	-0.9	4.2	4.8
Domestic prices	2.5	-0.5	9.1	7.1
Imported prices	-1.5	-1.2	0.3	2.9

Source: Statistics Department

root crops and vegetables such as taro, manioke, lu, tomatoes, cabbage and capsicum. In addition, school fees also increased by 4.2%, and the prices of take away food from restaurants rose by 6.8%. The decline in imported prices was mostly due to a fall in prices of petrol and diesel which declined by 7.7% and 7.8% respectively due to lower global prices.

Table 2: Items contributing to annual domestic inflation

Items (\$ per kg)	Monthly			Annual	
	Jan-19	Dec-18	Change	Jan-18	Change
H/cabbage	\$4.93	\$2.47	\$2.46	\$1.24	\$3.69
Tuna	\$16.00	\$16.00	\$0.00	\$12.36	\$3.64
Capsicum	\$8.69	\$5.07	\$3.62	\$5.51	\$3.18
Lu	\$6.12	\$4.60	\$0.11	\$3.12	\$3.00
Yams - late	\$3.80	\$3.80	\$0.00	\$2.45	\$1.35
Yams - early	\$5.43	\$5.33	\$0.10	\$4.45	\$0.98
Cassava	\$1.45	\$1.38	\$0.07	\$0.49	\$0.96
Carrots	\$3.10	\$4.08	-\$0.98	\$2.45	\$0.65

Source: Statistics Department

Annual headline inflation increased by 4.2% in January 2019. The domestic and imported component of inflation contributed 4.1 and 0.1 percentage points respectively to the

annual headline inflation. The annual rise in domestic prices is attributed to prices of food, tobacco and catering services, whereas the imported component is mostly from imported tobacco.

Exchange Rates weakened slightly

Table 3: Exchange Rates

	Monthly			Annual	
	Jan-19	Dec-18	% Growth	Jan-18	% Growth
Nominal Effective Exchange Rate Index	91.4	92.0	-0.6	90.6	1.0
Real Effective Exchange Rate Index	107.4	107.7	-0.3	103.0	4.3

Source: National Reserve Bank of Tonga

The Nominal Effective Exchange Rate (NEER) index fell slightly in January due to an appreciation of the AUD, NZD, CNY, JPY, and GBP against the TOP. Additionally, the Real Effective Exchange Rate (REER) index declined slightly also over the month. Annually, the NEER increased whilst the REER noted a more significant rise reflective of Tonga's higher headline inflation rate in comparison to its trading partners.

Foreign reserves remain comfortable

Table 5: Foreign Reserves

	Monthly			Annual	
	Jan-19	Dec-18	% Growth	Jan-18	% Growth
Foreign Reserves (\$ in million)	478.9	478.5	0.1	424.1	12.9
Import Coverage (months)	8.1	8.2		7.4	

Source: National Reserve Bank Tonga

Foreign reserves increased slightly in January as a result of an increase in inflow from foreign exchange deals with commercial banks. This led foreign

NATIONAL RESERVE BANK OF TONGA

MONTHLY ECONOMIC REVIEW

Vol. 6

No. 1

Month Ended: January 2019

reserves to another record high of \$478.9 million equivalent to 8.1¹ months of imports cover.

Table 6: Overseas Exchange Transactions
Overseas Exchange Transactions

	Monthly			Annual		
	Jan-19	Dec-18	% Growth	Jan-19	Jan-18	% Growth
Overall Balance	0.4	9.8	-95.4	54.9	43.2	26.8
Current Account	-10.1	6.7	-249.9	24.2	5.3	356.5
Merchandise Trade	-32.3	-31.8	1.6	-412.6	-375.4	9.9
Services	1.0	3.5	-70.5	23.7	35.7	-33.5
Income	1.3	1.6	-15.2	6.9	-17.3	-140.2
Transfers	19.9	33.5	-40.7	406.1	362.3	12.1
Capital Account	8.8	1.9	362.3	34.7	44.8	-22.6
Financial Account	1.8	1.2	49.1	-4.0	-6.9	-41.3

Source: Banking Systems

The current account balance declined in January yet still recorded a surplus of \$0.4 million. This was driven largely by a decrease in private transfer receipts and official transfer receipts. The movements in private transfer receipts resulted from lower remittances compared to the peak month for remittances in December, whilst official transfer receipts was due to the higher influx of government funds in the previous month. The internet outage in January delayed the operations of some of the banks and foreign exchange dealers for only a few days. Additionally, export proceeds declined in January further contributing to the lower current account balance recorded. The capital account, however, noted a considerable hike driven by higher foreign investment receipts for local business investments within the agricultural sector.

Over the year, the OET surplus balance recorded was higher than January 2018. This stemmed from higher receipts received throughout the year particularly official receipts such as budget support and Government grants. Meanwhile, the merchandise trade deficit continued to widen due to higher payments for imports, specifically oil, wholesale and retail goods, other imports, and motor vehicles.

Furthermore, the capital account continued to record the most contribution to the overall OET surplus balance. This was driven by higher official grants for investment projects and capital expenditures (mostly for government and public works). The financial account recorded a deficit yet lower than the deficit last year.

Broad money fell on lower net domestic assets

Higher government deposits lowered the net domestic assets resulting in the declined of broad money over the month. This offsets the slight increase in net foreign assets. However, in annual terms, broad money continued to rise due to higher

foreign reserves from receiving of budgetary support, grants and

Table 7: Broad Money

	Monthly			Annual	
	Jan-19	Dec-18	% Growth	Jan-18	% Growth
Broad money (\$ in million)	598.3	605.3	-1.1	552.5	8.3
Net Foreign Asset	502.2	502.1	0.0	446.2	12.6
Net Domestic Asset	96.4	103.5	-6.9	106.6	-9.6

Source: Banking System, National Reserve Bank of Tonga

cyclone relief funds from development partners and more remittances.

Excess liquidity remains

Table 8: Reserve money

	Monthly			Annual	
	Jan-19	Dec-18	% Growth	Jan-18	% Growth
Reserve money (\$ in million)	326.2	324.7	0.5	295.5	10.4

Source: Banking System, National Reserve Bank of Tonga

Liquidity in the banking system slightly rose over the month to \$326.2 million due mainly to higher deposits by the commercial banks to the Reserve Bank's vault. The slight increase in statutory required deposits also supported the trend and these offsets a decline in currency in circulation. The banks' total loans to deposit ratio slightly fell from 75.1% in the previous month to 74.8% this month reflecting the higher increase in deposits outweighing growth in loans.

Credit growth continues on growing business loans

Table 9: Total Lending

Lending	Monthly			Annual	
	Jan-19	Dec-18	% Growth	Jan-18	% Growth
Total Lending (\$ in million)	482.8	479.9	0.6	437.5	10.4
Business lending	222.3	219.4	1.3	196.6	13.1
Household lending	260.2	260.1	0.1	241.2	7.9
Other lending	0.3	0.4	-31.4	0.8	-65.0

Source: Banking System, National Reserve Bank of Tonga

Higher lending to businesses continued to drive the increase in total lending both over the month and year to \$482.8 million. Majority of the loans were for the public sectors, tourism, constructions, and transport sectors. Similarly, household loans also grew over the month and over the year, which was mostly for housing loans.

Weighted average interest rate spread narrowed

Table 10: Weighted Average Interest Rates

Interest Rates	Monthly			Annual	
	Jan-19	Dec-18	Growth (bps)	Jan-18	Growth (bps)
Weighted Average Banks Deposit Rate (%)	1.882	1.897	-1.5	2.148	-26.6
Weighted Average Banks Lending Rate (%)	8.092	8.122	-3.0	7.904	18.8
Weighted Average Interest Rate Spread (%)	6.210	6.225	-1.5	5.757	45.4

Source: Banking System, National Reserve Bank of Tonga

Both lending rates and deposit rates declined in January 2019. However, the decline in lending rates more than offset the decline in deposit rates resulting in a narrowed weighted average interest rate spread of 6.21%. Lower weighted average lending rate stemmed from households' housing loans and

¹ Revisions to the Months of Imports was due to the receipt of updated Trade data from the Statistics Department for June & September 2018 quarter.

business loans to the fisheries, construction and agricultural sectors. Lower time deposit rates outweighed the rise in demand and saving rates leading to lower weighted deposit rates.

Annually, the weighted average interest rate spread widened as the weighted average deposit rates decreased while the weighted average lending rates increased. The increase in the weighted average lending rate reflects higher rates offered for business loans to the tourism, distribution and professional & other business sectors. On the other hand, the weighted average deposit rates declined reflects lower demand and term deposit rates.

Outlook

The Reserve Bank's outlook for strong domestic economic activity remains in the medium term despite the seasonal slowdown in activities over the month of January. The level of foreign reserves is expected to remain at comfortable levels. Inflation is expected to remain below the Reserve Bank's inflation reference rate of 5% per annum throughout 2019. The Reserve Bank will continue to closely monitor developments in the domestic and global economies to ensure financial and macroeconomic stability are maintained and to change its monetary policy setting where necessary to support its monetary policy objectives.