

### Dim global outlook remains

The global economy is still expected to ease further and slow down in 2019 as shared by Bloomberg. This is evident with stabilising economic activity in major economies such as the US, UK, and China. The US, however, did experience a modest pickup in retail sales. Despite the growth remaining positive, the US economy grew at a slower pace. Australia and New Zealand are expected to follow the global trend and experience slowdowns. The Deputy Governor of the Reserve Bank of Australia (RBA) reported in March that Australia's economy has been weaker than expected due to slower consumption growth and disruption to resource exports. The Reserve Bank of New Zealand (RBNZ) stated that they are considering revising their Official Cash Rate (OCR) downwards reflecting weaker global economic activity and reduced momentum in domestic spending.

### Mixed domestic economic growth for March

Domestically, economic activities were mixed during the month. Primary sector activities varied with the total volume of agricultural exports increasing slightly by 2.7 tonnes (0.9%) to 311.9 tonnes. This was attributed to the increase in the export of root crops which rose by 7.9 tonnes (3.2%). Yam crops mainly drove the increase, reflecting the harvest season of late yams. This offset the respective declines in the export of cassava and taro by 15.3% and 8.0%. However, lending for the agriculture sectors rose by 8.3% as farmers prepare for the squash planting season. Activities in the secondary sector slowed in March. This was reflected in loans extended to the construction and mining & quarrying sectors, which declined by 4.9% and 12.1% respectively. Furthermore, housing loans declined by 0.1%, and lending to the manufacturing sector also declined by 1.6%. On the other hand, the tertiary sector slightly improved over the month, supported by the number of container registrations which rose by 161 registrations due solely to the increased volume of private containers by 237 registrations (offsetting a decline in business container registrations). International air arrivals also rose by 8.9% and the arrival of four cruise ships during the month may have supported the tourism sector.

### Lower employment opportunities

The total number of job advertisements declined by 6 vacancies over the month of March 2019 led by lower recruitment intentions in the services sector.

However, the positive outlook for the economy supports the expectation for increased demand for labour in the near term and thereby lower the unemployment rate.

### Annual headline inflation remains below 5% NRBT reference rate

Headline inflation increased over the month by 0.5% mainly driven by the rise in the prices of local food.

Table 1: Inflation Rates

| Prices                 | Monthly |        | Annual |        |
|------------------------|---------|--------|--------|--------|
|                        | Mar-19  | Feb-19 | Mar-19 | Mar-18 |
| Headline Inflation (%) | 0.5     | 0.3    | 2.0    | 5.0    |
| Domestic prices        | 0.6     | 0.9    | 5.1    | 1.7    |
| Imported prices        | 0.4     | -0.5   | -0.5   | 7.4    |

Source: Statistics Department

Domestic inflation rose by 0.6% at the end of March 2019 due mainly to the availability of local food such as cassava, tomatoes, cabbage, eggs, and tuna. The imported prices also increased by 0.4% reflecting the impact of the increase in prices of petrol and diesel which rose by 2.9% and 3.0%, respectively, due to higher global oil prices. The annual headline inflation was 2.0% in March. Local component of inflation contributed 2.3 percentage points to the overall headline inflation. This was attributed to the rise in prices of tobacco, restaurants and hotels, house equipment services, and the seasonality of local food whereas the imported prices contributed a -0.3 percentage points to the overall headline inflation mostly from lower prices for imported foods such as chicken legs, fruits, flour, and transport services. The weaker NZ dollar may have contributed to the fall in imported food prices.

### Exchange rates remain competitive

Table 3: Exchange Rates

|                                       | Monthly |        |          | Annual |          |
|---------------------------------------|---------|--------|----------|--------|----------|
|                                       | Mar-19  | Feb-19 | % Growth | Mar-18 | % Growth |
| Nominal Effective Exchange Rate Index | 91.6    | 91.5   | 0.1      | 90.3   | 1.4      |
| Real Effective Exchange Rate Index    | 107.0   | 106.3  | 0.7      | 103.4  | 3.5      |

Source: National Reserve Bank of Tonga

The Nominal Effective Exchange Rate (NEER) index marginally slightly rose over the month due to a depreciation of the GBP, EUR, AUD and NZD against the TOP, suggesting a

Table 4: Bilateral Exchange Rates

|         | Mar-19  | Feb-19  | Mar-18  |
|---------|---------|---------|---------|
| USD/TOP | 0.4415  | 0.4431  | 0.4551  |
| AUD/TOP | 0.6239  | 0.6208  | 0.5939  |
| NZD/TOP | 0.6506  | 0.6478  | 0.6311  |
| FJD/TOP | 0.9388  | 0.9346  | 0.9286  |
| JPY/TOP | 48.8277 | 49.1952 | 48.6252 |
| GBP/TOP | 0.3383  | 0.3331  | 0.3233  |
| EUR/TOP | 0.3886  | 0.3897  | 0.3698  |
| CNY/TOP | 2.9753  | 2.9631  | 2.8662  |

general strengthening of the domestic currency. Additionally, the Real Effective Exchange Rate (REER) increased over the month due to Tonga's higher inflation rate relative to its major trading partners.

### Higher Current Account Payments in March

Table 5: Foreign Reserves

|                                  | Monthly |        |          | Annual |          |
|----------------------------------|---------|--------|----------|--------|----------|
|                                  | Mar-19  | Feb-19 | % Growth | Mar-18 | % Growth |
| Foreign Reserves (\$ in million) | 465.0   | 473.5  | -1.8     | 447.7  | 3.9      |
| Import Coverage (months)         | 7.7     | 7.9    |          | 7.8    |          |

Source: National Reserve Bank Tonga

Official foreign reserves held by the National Reserve Bank of Tonga (NRBT) declined by \$8.5 million over the month of March, equivalent to 7.8 months of imports. The monthly movement was attributed mainly to higher import payments and loan repayments.

Table 6: Overseas Exchange Transactions

|                          | Monthly      |              |              | Annual      |             |               |
|--------------------------|--------------|--------------|--------------|-------------|-------------|---------------|
|                          | Mar-19       | Feb-19       | % Growth     | Mar-19      | Mar-18      | % Growth      |
| <b>Overall Balance</b>   | <b>-8.5</b>  | <b>-5.5</b>  | <b>54.5</b>  | <b>17.3</b> | <b>81.6</b> | <b>-78.8</b>  |
| <b>Current Account</b>   | <b>-11.3</b> | <b>-12.6</b> | <b>-10.3</b> | <b>-8.6</b> | <b>25.6</b> | <b>-133.6</b> |
| Merchandise Trade        | -34.7        | -34.3        | 1.1          | -422.7      | -379.3      | 11.4          |
| Services                 | 1.1          | -2.3         | -148.3       | 16.5        | 46.3        | -64.4         |
| Income                   | -0.2         | 1.5          | -115.3       | 8.3         | -17.2       | -148.1        |
| Transfers                | 22.6         | 22.6         | 0.0          | 389.3       | 375.8       | 3.6           |
| <b>Capital Account</b>   | <b>2.2</b>   | <b>1.3</b>   | <b>66.8</b>  | <b>34.5</b> | <b>42.7</b> | <b>-19.1</b>  |
| <b>Financial Account</b> | <b>0.6</b>   | <b>5.8</b>   | <b>-89.7</b> | <b>-8.6</b> | <b>13.3</b> | <b>-164.8</b> |

Source: Banking Systems

The Balance of Payments (OET) deficit widened over the month due to movements in the financial account and current account payments. This was reflected in increased payments for external loan repayments and an increase in total import payments mainly for oil. Other payments which also rose included services and private transfers for travel related expenses, professional and telecommunication services.

The total receipts in March rose due to higher current account receipts for construction services, travel receipts and insurance claims. The \$3.1 million rise in remittances also supported the increase in receipts. Capital transfers for both official and private investment projects drove higher receipts in the capital account whilst higher interbank receipts drove the rise in the financial accounts.

Over the year, the OET balance recorded a surplus of \$17.3 million due to surplus in the capital account. However, this was a lower overall surplus due mainly to the widening in the merchandise trade deficit over the year.

### Decline in broad money continues

Broad money fell again this month due to lower net foreign assets offsetting the increase in net domestic

assets. Loan repayments coupled with oil and other import payments lowered the foreign reserves and resulted in the decline of the net foreign assets while net credit to government rose on the decrease in government deposits resulting in an increase in net domestic assets. Annually, broad money continued to rise led by an increase in both net domestic assets and net foreign assets. The receipts of budgetary support, grants, cyclone relief funds from development partners and remittances supported the higher foreign reserves and the rise in net foreign assets while higher credit to the private sectors contributed to the increase in net domestic assets.

Table 7: Broad Money

|                             | Monthly |        |          | Annual |          |
|-----------------------------|---------|--------|----------|--------|----------|
|                             | Mar-19  | Feb-19 | % Growth | Mar-18 | % Growth |
| Broad money (\$ in million) | 583.5   | 589.0  | -0.9     | 558.7  | 4.4      |
| Net Foreign Asset           | 482.0   | 492.6  | -2.1     | 461.7  | 4.4      |
| Net Domestic Asset          | 101.8   | 96.7   | 5.2      | 97.2   | 4.8      |

Source: Banking System, National Reserve Bank of Tonga

### Excess liquidity remains

The decline in the banks exchange settlement accounts (ESA) coupled with lower required reserves and currency in circulation decreased the liquidity in the banking system over the month by \$15.2 million to \$305.4 million.

Table 8: Reserve money

|                               | Monthly |        |          | Annual |          |
|-------------------------------|---------|--------|----------|--------|----------|
|                               | Mar-19  | Feb-19 | % Growth | Mar-18 | % Growth |
| Reserve money (\$ in million) | 305.4   | 320.6  | -4.7     | 308.9  | -1.1     |

Source: Banking System, National Reserve Bank of Tonga

The transfer of government deposits from the commercial banks to the Reserve Bank, lower deposits to the Reserve Bank vault by the commercial banks mainly drove the ESA lower. The banks' total loans to deposit ratio increased over the month from 76.0% in the previous month to 78.1%, reflecting the fall in deposits which outweighed the growth in loans.

### Slow credit growth maintained

Credit growth slightly increased by 0.2% over the month. However, over the year, a growth of 9.3% was recorded with a total lending of \$484.9 million.

Table 9: Total Lending

| Lending                       | Monthly |        |          | Annual |          |
|-------------------------------|---------|--------|----------|--------|----------|
|                               | Mar-19  | Feb-19 | % Growth | Mar-18 | % Growth |
| Total Lending (\$ in million) | 484.9   | 483.7  | 0.2      | 443.6  | 9.3      |
| Business lending              | 260.0   | 260.8  | -0.3     | 243.3  | 6.9      |
| Household lending             | 224.6   | 222.6  | 0.9      | 200.6  | 12.0     |
| Other lending                 | 0.3     | 0.3    | -7.8     | 0.9    | -65.5    |

Source: Banking System, National Reserve Bank of Tonga

The monthly rise was largely driven by increased lending to public enterprises while the annual increase was a combination of higher lending to both public and private enterprises, mainly transport, distribution, construction sectors, and housing loans.

### Weighted average interest rate spread narrowed

Table 10: Weighted Average Interest Rates

| Interest Rates                            | Monthly |        |              | Annual |              |
|---|---------|--------|--------------|--------|--------------|
|   | Mar-19  | Feb-19 | Growth (bps) | Mar-18 | Growth (bps) |
| Weighted Average Banks Deposit Rate (%)   | 1.934   | 1.902  | 3.2          | 2.110  | -17.6        |
| Weighted Average Banks Lending Rate (%)   | 8.153   | 8.287  | -13.4        | 7.938  | 21.5         |
| Weighted Average Interest Rate Spread (%) | 6.219   | 6.385  | -16.6        | 5.828  | 39.1         |

Source: Banking System, National Reserve Bank of Tonga

The weighted average interest rate spread narrowed, by 16.6 basis points to 6.22%, due mainly to lower lending rates offsetting the increase in deposit rates. The lower lending rates offered to the public sector solely drove the lower lending rates while the increased demand deposit rates led to the rise in deposit rates.

Over the year, the weighted average interest rates spread widened by 39.1 basis points as a result of higher weighted average lending rates offered mainly to the tourism, manufacturing and fisheries sectors as well as for household's housing and other personal loans. On the other hand, the decline in time and demand deposit rates led the annual decrease in the 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 macroeconomic stability is maintained.