

Global risks rise reported by the OECD¹ in November

The OECD expects continued global growth of around 3%, although it warns that risks have increased on the back of climate change developments, particularly thus restricting business investment growth. As evident recently, the bushfires in Australia have affected rural exports and farm incomes. Consequently, the latest GDP growth reflects a 1.4% movement annually to June 2019 and is the slowest since the Global Financial Crisis in 2009. However, the OECD is not expecting a recession. Tonga's other major trading partners, the US and New Zealand experienced mixed growth in November 2019. The US grew by 2.1% over the year to September 2019 due largely to government expenditure. Meanwhile, New Zealand's GDP rose by 2.7% over the year to September 2019 due to growth within the retail sector.

Slowed outcomes in domestic activities

Partial indicators of domestic activity slowed in November 2019. Total agricultural exports declined over the month by 411.3 tonnes (12.5%) and resulted mainly from a decline in exports of fruit products by 626.3 tonnes (22.3%) as the squash season eases off. Proceeds from agricultural exports coincided with volume movement falling by \$0.2 million (29.0%), while marine export proceeds also declined by \$0.2 million (21.4%). Export proceeds however, performed positively over the year, with a rise in receipts for marine exports of \$3.2 million (51.3%) and \$0.1 million (0.8%) for agricultural exports.

Both the industry and tertiary sectors showed mixed growths. Lending to the utility sector and individual housing grew in November 2019, whereas lending to the manufacturing sector fell. Container registrations rose by 238 (26.7%) over the month as both private and business container registrations increased, however, import payments declined by \$3.3 million (8.4%). Total air arrivals declined by 446 passengers (4.9%) reflecting the lower number of international flights during the month and coincides with a \$1.7 million (13.6%) drop in travel receipts. Vehicle registrations fell slightly by 47 vehicles (15.9%) mostly for other light vehicles and cars. During the measles epidemic, many of the scheduled functions for November and December were either canceled or limited to some extent which further contributed to the domestic slowdown.

Job advertisements continue to increase

The total number of job advertisements increased to 47 vacancies in November 2019 and also rose over the year by 54 vacancies. This was led by recruitment intentions in all the sectors, particularly the services sector. These job opportunities may assist in reducing the unemployment rate in Tonga.

Lower price movements for November

Table 1: Inflation Rates

Prices	Monthly		Annual	
	Nov-19	Oct-19	Nov-19	Nov-18
Headline Inflation (%)	-0.5	0.5	0.1	6.5
Domestic prices	-0.2	0.9	-1.2	8.9
Imported prices	-0.8	0.2	1.2	4.6

Source: Statistics Department

Lower prices were reported for November 2019 as reflected by a fall of 0.5%, due to both domestic and imported prices declining. Local food prices declined by 1.4% mostly for root crops and vegetables, and drove domestic prices lower. The lower imported prices attribute to lower prices for imported food products such as imported meat and fruits.

Table 2: 'Average prices of selected domestic items'

Items (\$ per kg)	Unit	Monthly			Annual	
		Nov-19	Oct-19	Change	Nov-18	Change
Kava	1 kg	\$100.00	\$100.00	\$0.00	\$142.50	-\$42.50
Yams-early	1kg	\$5.98	\$6.06	-\$0.08	\$9.43	-\$3.45
Lu	1 kg	\$5.01	\$5.09	-\$0.08	\$5.92	-\$0.91
Kumala	1 kg	\$1.63	\$1.75	-\$0.12	\$2.37	-\$0.74
Carrots	1 kg	\$2.36	\$1.91	\$0.45	\$3.08	-\$0.72
Cassava	3 kg	\$0.92	\$1.07	-\$0.15	\$1.52	-\$0.60
Talo-Futuna	1 kg	\$1.46	\$1.55	-\$0.09	\$1.94	-\$0.48
Talo-Tonga	1 kg	\$1.89	\$2.04	-\$0.15	\$2.28	-\$0.39
Yams-late	1kg	\$3.07	\$3.07	\$0.00	\$3.41	-\$0.34
Tuna	1kg	\$17.00	\$17.00	\$0.00	\$17.31	-\$0.31

Source: Statistics Department

The annual headline inflation remained low at 0.1% in November 2019 compared to 0.2% in October 2019 and 6.5% inflation in November 2018. This was mostly due to lower domestic prices offsetting the rise in import prices over the year. Domestic prices dropped by 1.2% over the year and owing mostly to lower local food prices, kava Tonga, Tongan tobacco, and electricity prices. On the other hand, imported prices rose over the year by 1.2% due to higher prices of imported food, house maintenance, and alcoholic beverages. Domestic prices and import prices contributed -0.5% and 0.6% respectively to the annual inflation rate.

Competitive exchange rates

Table 3: Effective Exchange Rates

	Nov-19	Monthly		Annual	
		Oct-19	% Growth	Nov-18	% Growth
Nominal Effective Exchange Rate Index	92.1	92.3	-0.2	91.8	0.3
Real Effective Exchange Rate Index	107.2	108.5	-1.2	109.2	-1.7

Source: National Reserve Bank of Tonga

In November 2019, both the Nominal Effective Exchange Rate (NEER) and Real Effective Exchange Rate (REER) index declined. This was attributed to the appreciation of the USD, NZD, GBP, and CNY against the TOP. In year ended terms, the NEER increased

Table 4: Bilateral Exchange Rates

	Nov-19	Oct-19	Nov-18
USD/TOP	0.4316	0.4306	0.4436
AUD/TOP	0.6302	0.6325	0.6154
NZD/TOP	0.6740	0.6793	0.6480
FJD/TOP	0.8911	0.8896	0.8997
JPY/TOP	46.8948	46.4696	49.8480
GBP/TOP	0.3339	0.3400	0.3493
EUR/TOP	0.3896	0.3890	0.3894
CNY/TOP	2.8082	2.8015	2.8857

Source: Banking Systems

¹ Organisation for Economic Cooperation and Development

NATIONAL RESERVE BANK OF TONGA

MONTHLY ECONOMIC REVIEW

Vol. 6

No. 11

Month Ended: November 2019

whilst the REER declined due to Tonga's lower inflation rate compared to most of its major trading partners, which may support Tonga's international trade competitiveness.

The OET balance improved

Table 5: Foreign Reserves

	Monthly			Annual	
	Nov-19	Oct-19	% Growth	Nov-18	% Growth
Foreign Reserves (\$ in million)	489.5	489.3	0.0	468.7	4.5
Import Coverage (months)	7.8	7.8		8.2	

Source: National Reserve Bank Tonga

The level of official foreign reserves slightly rose by \$0.2 million to \$489.5 million, remaining at comfortable levels and sufficient to cover 7.8 months of imports. Annually, the foreign reserves rose by \$20.9 million as a result of higher receipts of budget support, grants, and project funds from development partners.

Table 6: Overseas Exchange Transactions

	Monthly			Annual		
	Nov-19	Oct-19	% Growth	Nov-19	Nov-18	% Growth
Overall Balance	0.2	-1.5	112.0	20.9	43.9	-52.5
Current Account	-1.0	8.2	-112.3	-9.2	17.2	-153.3
Merchandise Trade	-31.2	-33.9	8.0	-407.0	-417.9	2.6
Services	3.6	-0.2	1768.9	27.3	23.6	16.1
Income	1.6	1.1	44.3	5.9	5.4	9.3
Transfers	25.0	41.2	-39.4	364.6	406.2	-10.2
Capital Account	1.9	1.2	54.3	36.8	33.2	10.8
Financial Account	-0.7	-10.9	93.7	-6.8	-6.6	-3.0

Source: Banking Systems

After three consecutive months of deficits in the overall Overseas Exchange Transactions (OET) balance, November 2019 recorded a surplus of \$0.2 million. The current account noted a deficit due to lower receipts of official transfers compared to the receipt of government funds last month. However, the merchandise trade deficit improved on lower import payments, whilst the services and income accounts surplus increased due to a rise in receipts.

The capital account surplus also rose and was attributed to higher receipts for construction purposes, both official and individual. Additionally, the financial account deficit also improved from a \$10.9 million deficit in October 2019 to a \$0.7 million surplus in November due to fewer payments for investments abroad.

Contrastingly, the overall OET balance surplus decreased over the year by \$23.0 million and is underpinned by higher outflows for offshore investments and lower official transfer receipts. These movements have offset the rise in receipts from travel, private transfers, and exports.

Broad money increased

Table 7: Broad Money

	Monthly			Annual	
	Nov-19	Oct-19	% Growth	Nov-18	% Growth
Broad money (\$ in million)	605.6	592.5	2.2	592.3	2.2
Net Foreign Asset	502.8	503.9	-0.2	489.7	2.7
Net Domestic Asset	103.4	91.3	13.2	103.1	0.4

Source: Banking System, National Reserve Bank of Tonga

Broad money expanded over the month of November 2019, by \$13.1 million (2.2%), due mainly to higher net

credit to government, which offsets the slight decrease in net foreign assets from lower foreign assets. Similarly, over the year, broad money increased by \$13.3 million (2.2%) as a result of higher net foreign assets from the receipts of budgetary support, grants, and project funds as well as higher remittances. This was also supported by the minimal rise in net domestic assets mainly on higher credit to private sectors.

Liquidity declined

Table 8: Reserve money

	Monthly			Annual	
	Nov-19	Oct-19	% Growth	Nov-18	% Growth
Reserve money (\$ in million)	301.2	309.4	-2.7	317.3	-5.1

Source: Banking System, National Reserve Bank of Tonga

Liquidity in the banking system declined over the month and year to November 2019 by \$8.2 million (2.7%) and \$16.1 million (5.1%), respectively to \$301.2 million. The decline in Exchange Settlement Account (ESA) balances solely drove both decreases. Higher government payments led to the monthly decline in ESA, whereas the annual decrease was mostly for repayments of loans, oil and other import payments.

Lending continues to grow

Table 9: Total Lending

Lending	Monthly			Annual	
	Nov-19	Oct-19	% Growth	Nov-18	% Growth
Total Lending (\$ in million)	504.3	496.9	1.5	469.9	7.3
Business lending	243.4	238.6	2.0	211.2	15.3
Household lending	260.8	258.3	1.0	258.1	1.0
Other lending	0.2	0.0	315.0	0.6	-71.7

Source: Banking System, National Reserve Bank of Tonga

The banks' total lending reached a new high level of \$504.3 million in November 2019, corresponding to an increase in business lending over the month and year. More loans issued to the public enterprises, professional & other services, tourism and utilities sectors contributed the monthly rise. Over the year, higher business lending were mainly for the public enterprises, professional & other services, transport, and tourism sectors. Lending to households also rose, driven mostly by a monthly increase in other personal loans and annual rise in housing loans. The banks' total loans to deposit ratio increased from 79.1% to 81.2% over the month, reflecting the increase in loans and the fall in deposits.

Interest rate spread narrowed

Table 10: Weighted Average Interest Rates

Interest Rates	Monthly			Annual	
	Nov-19	Oct-19	Growth (bps)	Nov-18	Growth (bps)
Weighted Average Banks Deposit Rate (%)	1.950	1.933	1.7	1.979	-2.9
Weighted Average Banks Lending Rate (%)	7.969	7.970	-0.2	8.094	-12.5
Weighted Average Interest Rate Spread (%)	6.019	6.038	-1.9	6.115	-9.6

Source: Banking System, National Reserve Bank of Tonga

The weighted average interest rate spread narrowed over the month and year to November 2019, by 1.9 basis points and 9.6 basis points respectively to 6.02%. Over the month, the weighted average deposit rates increased, further supported by a decrease in weighted average

lending rates. The rise in deposit rates over the month was underpinned mainly by an increase in the volume of time deposits, as all deposit rates decreased. The lower lending rates over the month were largely driven by lower rates offered to households and businesses such as manufacturing, construction and tourism sectors.

Annually, both rates decreased with the weighted average lending rates declining the most and offset the lower weighted average deposit rates. The decline in weighted average lending rates over the year resulted mostly from lower rates offered to non-profit organizations, public enterprises, households, and businesses such as construction, tourism, and transport sectors. Weighted average deposit rates declined for both time and demand deposit rates.

Outlook

Given the above developments, the Reserve Bank expects a general slowdown in domestic economic activity for the medium term. Foreign reserves are projected to remain at comfortable levels above the minimum of 3 months of import cover. The inflation rate is forecast to remain relatively low yet stable and below the Reserve Bank's reference rate of 5%. Credit growth will continue to grow albeit at a slower pace, underpinned by excess liquidity in the banking system. The Reserve Bank, therefore, maintains its accommodative monetary policy stance to encourage the utilization of the excess liquidity in the banking system for further lending to support economic activities. Nonetheless, the Reserve Bank continues to be vigilant in closely monitoring developments in the domestic and global economies and stands ready to adjust its monetary policy setting to ensure financial and macroeconomic stability are maintained.