



Snapshot of the Tongan Economy

April 2024 Release

Overseas Economy



- Global growth of 3.2% was estimated for 2023. Growth for 2024 and 2025 is projected to continue at the same pace of 3.2%.
- Global headline inflation is projected to ease from an annual average of 6.8% in 2023 to 5.9% in 2024.
- Growth for advanced economies was revised upwards to 1.7% in 2024, largely driven by the anticipated strong growth in the US due to strong labour market and resilient aggregate demand.
- Geopolitical conflicts in the Middle East may continue to hinder international trade growth and put pressure on inflation.

Domestic Economy



- Economic activities generally picked up with increased exporting activities in the primary industry.
- Active performances in the industrial sector as construction activities continued rising resulting in positive spillover to other sectors in the secondary industry.
- Container registrations increased over the month of February 2024 as businesses replenishing their merchandise stocks following the end of the holiday period.

Domestic Inflation



- Headline inflation still remained below the 5% reference rate in March 2024 at 3.2%, lower than 3.6% in previous month and 9.4% in March 2023.
- Domestic inflation contributed 1.7 percentage points to headline due to increased prices of local food items, catering services, transportation components, kava, and electricity tariff.
- Imported inflation stemmed from international airfares, imported food items, clothing & footwear, alcoholic beverages, and goods for personal care.

Banking System



- Broad Money increased by \$3.3 million in February 2024 .
- Credit growth of 5.7% was recorded for the year to February 2024. Both lending to businesses and household increased.
- Total deposits increased to a total of \$911.6 million in February 2024.
- Loans to deposit ratio increased in February 2024 to 57.0% from 56.8% last month, reflecting lower deposits.
- Non-performing loans to total loans ratio was at 9.8% in February 2024, higher compared to 7.3% a year ago.

Global Prices



- Average price of Brent crude oil price rose to US\$84.47/ barrel in March 2024 from US\$81.71 in February 2024.
- Brent crude oil is expected at an average USD\$83/barrel end of July 2024.
- Food prices broadly increased in February 2024 from higher prices for vegetable oils, dairy products and meat.

Foreign Reserves



- Foreign reserves declined again in March 2024 to \$868.7 million, 11.1 months of imports, driven by external debt repayment.
- Remittances fell to 34.8 million in February 2024 following the high month of December 2023 and the beginning of a new academic year in January 2024.
- External overall balance¹ improved to a lower deficit of \$3.2 million in February 2024 due to lower payments for services and imports.



Exchange Rates

- The NEER increased again in March 2024 as the Tongan Pa'anga appreciated against most currencies of its trading partners including the NZD, FJD and JPY.
- The REER also increased over the month coinciding with the stronger pa'anga.



Liquidity & Interest Rates

- Excess liquidity in the banking system declined over the month.
- Interest rates spread narrowed by 0.5 basis points to 6.2% in February 2024.
- The deposit rates increased in February 2024 by 1.1 basis points, offsetting the 0.7 basis points rise in lending rates.

Labour Market



- Job vacancies advertised declined to a total of 53 in March 2024. Vacancies advertised were mostly in public administration.
- Seasonal Worker program and emigration continues to put pressure on the labour market.

¹ Note: Based on Overseas Exchange Transactions reported by banks and authorized foreign exchange dealers.



Global growth, steady but slow

The International Monetary Fund in its April 2024 World Economic Outlook update shared that global growth for 2024 is projected to continue growing at 3.2%. A similar rate to that of 2023, although it is a slight revision by 0.1% from the January 2024 WEO. Growth for 2025 is projected to continue at the same pace of 3.2%. Global growth has been remarkably resilient weathering through the aftermath of the global COVID-19 pandemic, steering through supply-chain disruptions, hiked energy prices, compounded by geo-political conflicts. Yet, avoided a global recession, with banking systems proved largely resilient, with supply chains proactively recovered, higher than expected growth in labour force, with inflationary pressure slowly easing.

Growth for Other Emerging & Developing Asia countries (including Tonga) is anticipated to rebound strongly by 5.4% in 2024 from 4.0% in 2023 supported by improvement in economic activities. Inflation² is estimated to gradually ease to 9.2% in 2024 from 11.6% in 2023, and further downwards to 6.2% in 2025.

Global headline inflation is projected to ease from an annual average of 6.8% in 2023 to 5.9% in 2024 and further downwards to 4.5% in 2025. Decisive monetary policy actions with the fading of earlier energy price shocks contributes to the outlook. However, risks such as new commodity price hikes amidst regional conflicts specifically for energy commodities may complicate and prolong disinflationary process.

Domestic activities generally trended upward

In February 2024, the primary sector recorded heightened exporting activities. Total agricultural exports increased by 151.2 tonnes (59.3%), due to higher export volumes of root crops such as cassava, sweet potato, and yam, as well as watermelon, and squash. However, the total agricultural export proceeds declined by \$0.1 million (40.6%) which may indicate lag in receipt. At the same time, total marine exports substantially increased by 231.7 metric tonnes (194.0%), driven by a significant rise in tuna and higher shark meat exports. This coincided with a 25.5% (\$0.04 million) increase in marine export proceeds for the month.

Indicators in the industrial sector demonstrated active performances during February 2024. Credit to the construction sector increased by \$0.8 million (3.8%), coinciding with higher housing loans which rose by \$0.6 million (0.3%) over the month. At the same time, credit to the utilities sector also increased by \$0.1 million (10.8%). Despite the completion of several donor-funded projects, the industrial sector is expected to sustain its positive trajectory due to the upcoming implementation of other

donor-funded projects such as the Royal Tombs Improvement, new Classrooms & Water Supplies Upgrade under GGP¹, and the China-Aid Wind Power.

Following the slowdown experienced in the previous month due to the Christmas Holiday season, the service sector showed mixed outcomes in February 2024. Container registrations increased by 237 containers (32.1%) due to a rise in both business and private containers, with higher wholesale & retail imports payment of \$1.5 million (5.3%). This may reflect businesses replenishing merchandise stocks following the end of the holiday period. However, travel receipts declined by \$4.9 million (38.2%) while vehicle registrations fell by 26.7% (87 vehicles).

More job opportunities advertised in March 2024

Based on the job advertisement survey conducted by the Reserve Bank, there were 53 new job positions advertised to the public in March 2024. However, this is a decline from the previous month by 21 job vacancies (28.4%). Majority of the job vacancies advertised during the month were from the public administrations. Nonetheless, total job vacancies rose by 8.4% (73 job vacancies) at an annual basis. Over the year, total job vacancies advertised were largely from the public administration, transport & communications, hotel & restaurants, and financial intermediation sectors.

Headline inflation dipped to 3.2% in March 2024

Consumer Price Index edged up in March 2024, driven by higher imported and domestic prices. Imported prices generally increased due to a further rise in price of fuel, LP gas, non-alcoholic beverages, and books & stationery. The increased energy prices further indicate the strong demand during the Chinese and Vietnamese New Year celebrations, exacerbated by the rising tensions in the Red Sea, which put further pressure on global trade and freight charges. Nonetheless, price of imported food items, construction materials, tobacco, and household goods declined. Meanwhile, higher domestic prices during the month were primarily influenced by local food items and catering services.

Headline inflation remained below the 5% threshold in March 2024 at 3.2%, lower than 3.6% in previous month and a significant drop from 9.4% in March 2023. Imported prices contributed 1.5 percentage points (pps) to headline inflation, primarily due to higher prices of international airfares, imported food items, clothing & footwear, alcoholic beverages, and goods for personal care. Meanwhile, prices of fuel, construction materials, and non-alcoholic beverages declined at annual rate. On the other hand, domestic prices was further pressured by higher prices of local food items, catering services, transportation components, kava, and

¹ Grant Assistance for Grassroots Human Security Projects

²Annual average inflation across Other Emerging and Developing Asia countries



electricity tariff. Contrarily, tertiary education fees, and tobacco declined over the year. Overall, domestic prices contributed 1.7 pps to the headline inflation.

Core inflation slightly dipped to 5.0% in March 2024 from 5.1% in the previous month and 7.9% in March 2023. The slowdown in the core inflation largely reflects the decline over the year in prices of certain domestic items such as tuition fees, tobacco, and clothing. At the same time, imported construction materials declined at annual rate, further supporting the lower core inflation. On the other hand, non-core inflation further slowed down to 2.0% from 2.5% in the previous month, owed mainly to improvement in energy prices over the year.

Effective exchange rates rose again in March

The Nominal Effective Exchange Rate (NEER) increased over the month by 0.4%, underpinned by the appreciation in the Tongan Pa'anga against NZD, FJD and JPY. Similarly, the Real Effective Exchange Rate (REER) increased also by 0.9% in March 2024, coinciding with the rise in NEER.

In year ended terms, the NEER remains higher by 2.5% compared to the previous year as the TOP generally appreciated against the trading partners' currencies (AUD, NZD, FJD, JPY and CNY). This may assist in partially offsetting some of the impacts of the higher imported inflation. Additionally, REER also increased over the year by 3.4% in line with Tonga's relatively higher rate of inflation.

Foreign reserves declined further in March

Foreign reserves declined again in March 2024 by \$22.7 million reflecting repayment of EXIM loans over the month. This is equivalent to over 11 months of imports, which is still higher than the 7.5 months prescribed by the IMF. Over the year, reserves recorded twelve months prior was lower by \$15.0 million than in 2024. The majority of the official foreign reserves are held in USD, NZD, and AUD.

Remittances remained lower in February

Remittances for February are normally lower following the high season of December and the beginning of a new academic year in January. Thus, total remittance receipts fell further over the month by \$1.5 million (4.0%) to \$34.8 million driven by a decline in all categories except social benefits.

However, total remittances continued to remain stronger over the year by \$38.1 million (7.7%) as the global economy gradually recovers.

Broad money rose

Over the month and year to February 2024, broad money increased by \$3.3 million (0.4%) and \$3.6 million (0.4%) respectively to \$849.5 million. The net domestic assets climbed over the month and over the year, mainly on higher net credit to central government and credit to private

sectors. Similarly, the net foreign assets increased over the month underpinned by higher foreign assets however declined annually due to lower foreign reserves.

Reserve money fell

Liquidity in the financial system declined over the month and over the year to February 2024, by \$9.3 million (1.5%) and \$8.5 million (1.4%) respectively, to \$603.6 million. Both Currency in circulation (CIC) and Statutory Required Deposits (SRD) decreased and offsets the higher Exchange Settlement Account (ESA).

Similarly, over the year, both the Exchange Settlement Account (ESA) and Currency in circulation (CIC) increased and offsets the lower Statutory Required Deposits (SRD).

Credit growth remains positive

The banks' total lending rose over the month and year to February 2024, by \$0.7 million (0.1%) and \$28.5 million (5.7%) to \$529.9 million.

The monthly rise attributed to higher household other personal and housing loans. Lending businesses within the construction, professional & other service and forestry sectors also increased and supported the monthly rise.

Annually, lending to businesses such as transport, tourism and professional & business services increased, along with all categories of households' loans, reflecting continued businesses and consumer confidence as well as recoveries in the economy.

Total deposits in the banks decreased by \$1.2 million (0.1%) over the month, but increased over the year by \$36.8 million (4.2%) to \$911.6 million. Over the month, both demand and savings deposits fell and outweighed the increased time deposits. Government deposits declined reflecting some conversions to longer-term deposits. Deposits from churches and other non-profit organisations also decreased. Over the year, both demand and time deposits increased and offsets the lower saving deposits. Majority of these deposits were contributed by the central Government, private businesses and the retirement funds. The loans to deposit ratio increased in February 2024 to 57.0% compared to 56.8% last month and 55.5% last year, reflecting lower deposits over the month and higher loans over the year.

Interest rates narrowed

Weighted average interest rate spread narrowed over the month by 0.5 basis points and over the year to February 2024, by 9.4 basis points to 6.2%.

The deposit rates increased over the month by 1.1 basis points and offset the 0.7 basis points rise in lending rates. All deposit rates increased over the month led by time deposit rates and followed by demand and saving deposit rates. Lending rates offered to the manufacturing, fisheries, and transport sectors increased over the month, along with the household vehicle loan rates.



NATIONAL RESERVE BANK OF TONGA

MONTHLY ECONOMIC UPDATE

Vol. 12

No. 4

April 2024 Report

Over the year, the lending increased by 7.2 basis points whilst the deposit rates rose by 12.2 basis points. Lending rates offered to the transport, manufacturing, construction and distribution sectors decreased over the year as well as all categories of household loan rates. Annually, both the time and demand deposit rates fell and offset the rise in saving deposit rates.

Outlook

In light of the latest developments above, the NRBT expects the headline inflation to continue to stabilise, remaining below the 5% reference rate for the next part of 2024. An expectation of a further decline in the global oil price through the year helps support this forecast. However, geopolitical conflicts such as the ongoing Russia-Ukraine war as well as the escalating tensions between Israel and Iran (including its affiliated groups) may continue to put

further pressure on the supply of certain commodities, including petroleum, and may potentially cause ongoing disruptions to important global trade routes. Although the current El Niño event is expected to end this month, its impacts on local food production and extreme weather events will likely be felt right throughout 2024. GDP growth for the 2024 financial year is anticipated to be moderate indicating a gradual economic recovery following both the COVID-19 pandemic and the Hunga Tonga-Hunga Ha'apai eruption/tsunami disaster. Foreign reserves, are still at comfortable levels and projected to remain above the IMF's prescribed level of 7.5 months of imports cover in the near to medium term. The financial system continues to remain stable with ample liquidity available as well as the banks maintaining adequate capital reserves to absorb potential future shocks to the financial system. The Reserve Bank will continue to closely monitor inflation movements and at the same time support economic recovery.

TONGA: ECONOMIC & FINANCIAL STATISTICS

KEY INDICATORS

		Feb-23	Nov-23	Dec-23	Jan-24	Feb-24
1. Sectoral Performance Indicators*						
(year-on-year % change)	Visitor arrivals	13,681.9	393.0	196.2	152.9	127.9
	Travel receipts	243.8	195.0	137.0	101.5	84.5
	Electricity production	-9.0	2.6	1.5	-2.0	11.9
	Agricultural exports ^{1/}	-31.7	9.2	13.6	8.6	5.5
2. Consumption Indicators*						
(year-on-year % change)	New vehicle registrations	26.8	-0.2	1.9	0.1	-4.4
	Container registrations	-1.5	6.4	10.5	8.4	11.6
	Electricity consumption	2.1	2.0	1.9	1.7	1.6
	Remittances	1.0	13.3	12.9	10.5	7.7
3. Consumer Prices**						
(year-on-year % change)	All items ^{2/}	8.7	4.9	6.7	6.5	3.6
	Domestic	10.4	4.7	9.6	9.1	3.7
	Imported	7.3	5.0	4.3	4.2	3.5
	Core inflation (ex energy & food)	9.9	8.8	12.1	9.5	4.9
4. Labour Market***						
(year-on-year % change)	NRBT Job Advertisement survey	100.0	-35.8	63.2	-7.8	19.4
5. Reserves***						
(end of period)	Foreign Reserves (\$m) ^{3/}	911	892	902	895	891
	Months of imports	12.0	11.4	11.6	11.5	11.4
6. Exchange Rates***						
(end of period, TOP\$1 equals)	US dollar	0.4238	0.4235	0.4285	0.4226	0.4212
(index, Dec 2006=100)	Australian dollar	0.6285	0.6398	0.6271	0.6404	0.6483
	New Zealand dollar	0.6864	0.6877	0.6769	0.6896	0.6907
	Fijian dollar	0.9391	0.9547	0.9482	0.9537	0.9534
	Nominal effective exchange rate	93.5	94.7	94.0	94.9	95.1
	Real effective exchange rate	117.2	119.0	120.4	120.7	119.3
7. Liquidity***						
(end of period)	Reserve money (\$m) ^{3/}	612	600	612	613	604
	Currency in circulation (\$m) ^{3/}	115	127	142	123	113
	Exchange settlement account (\$m) ^{3/}	413	343	340	359	359
	Required reserve (\$m) ^{3/}	84	131	130	132	132
8. Money and Credit***						
(year-on-year % change)	Broad money	-0.6	1.5	2.0	0.3	0.4
	Net foreign assets	5.2	2.0	2.6	-2.9	-2.8
	Net Domestic Asset	1681.4	48.9	83.9	-50.5	-58.0
	Narrow money	-3.2	3.9	4.1	4.2	3.6
	Total Lending	6.1	7.7	8.5	6.4	5.7
	Business lending	13.6	13.6	13.1	8.3	6.7
	Household lending	0.5	3.4	4.3	4.6	4.7
	Total Deposits	4.3	4.6	4.4	3.6	3.0
9. Interest Rates (%)***						
(monthly weighted average)	Lending rate	7.86	7.69	7.69	7.78	7.79
	Savings deposit rate	1.55	1.56	1.57	1.56	1.57
10. Commodity Prices****						
(end of period)	Crude oil/barrel (US\$)	83.56	82.28	77.61	78.94	81.71

Note

^{1/} Agricultural production shows the year on year change in terms of volume.

^{2/} 2018 rebase. Previous data had 2010 as its base.

^{3/} TOP millions

n.i.- not issued

Sources

*Various industry sources

**Tonga Department of Statistics

***National Reserve Bank of Tonga

****Reuters