



Snapshot of the Tongan Economy

December 2024 Release

Overseas Economy



- The global economy continued its recovery in the December 2024 quarter, driven by positive business sentiment and expansion in the services sector. Global goods trade remained robust, supported by rising demand, particularly in emerging market and developing economies.
- Inflationary pressures have moderated due to easing monetary policies and improved supply chain conditions, concerns remain regarding potential trade tensions and geopolitical risks.
- Meanwhile, The US economy continued to expand, driven by strong consumer spending, exports, and government spending. Financial conditions in the US have eased post-election, reflecting improved investor sentiment.

Domestic Economy



- Economic indicators generally improved in October 2024, reflecting the positive outcomes in the primary sector. Agricultural and marine exports rose significantly, supported by the harvesting season and favourable weather conditions.
- The total value of construction applications received by the Ministry of Infrastructure increased by \$3.6 million compared to the previous month, driven by increases in both private and public sector projects.
- The indicators in the services sector showed mixed results for October 2024. Total passenger arrivals rose whilst passenger departure fell. Meanwhile, total vehicle registrations increased substantially over the month reflecting the rise in demand and consumption as the Christmas holiday season approaches.

Domestic Inflation



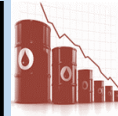
- Annual headline inflation dropped further to 0.5% in October 2024, down from 2.1% in the previous month and 6.1% in October 2023.
- The main domestic drivers included local food items, kava Tonga, and alcoholic beverages. The prime contributors for the lower imported prices were fuel, tobacco, and healthcare products.

Banking System



- Broad Money increased in October 2024 by 0.5% to a total \$906.3 million.
- Credit growth of 5.3% was recorded for the year to October 2024 lower than 9.9% in the previous year.
- Total deposits rose over the month to \$972.1 million in October 2024.
- Non-performing loans to total loans ratio rose to 14.8% in October 2024 compared to 10.8% a year ago, posing some risk to the financial system.
- Nevertheless, liquidity and capital reserves remains high.

Global Prices



- Average price of Brent crude oil fell to US\$73.42/ barrel in November 2024 from US\$75.33 in October 2024.
- Brent crude oil is expected at an average of USD\$73/barrel by end of December 2024.
- Food prices rose in November 2024 to its highest level since April 2023, driven by surging vegetable oil prices. Dairy prices increased also in November 2024 whilst other categories declined.

Foreign Reserves



- Official foreign reserves declined in November 2024 to \$892.2 million, 10.3 months of imports, due mainly to higher import payments.
- Remittances increased in October 2024 to \$46.6 million, supported by receipts for annual church offerings held during the month.
- External overall balance¹ expanded with a surplus of \$10.8 million in October 2024, following Government's debt repayment in the previous month.

Exchange Rates



- The NEER rose in November 2024 as the TOP appreciated against all major currencies except the USD .
- The REER declined in November 2024, coinciding with the lower inflation.

Liquidity & Interest Rates



- Excess liquidity in the banking system decreased in October 2024 in line with the lower Exchange Settlement Account's (ESA), mainly on net withdrawal from the Reserve Bank vault.
- Interest rates spread widened by 5.3 basis points to 6.26% in October 2024.
- The lending rates increased over the month by 2.7 basis points whilst the deposit rates declined by 2.7 basis points.

Labour Market



- Job vacancies increased in November 2024 to a total of 93 jobs advertised compared to 83 vacancies in the previous month.
- These vacancies were largely from public administration, transport & communication and financial intermediation sectors.
- Total job vacancies advertised to the public increased also over the year by 65 vacancies.
- Job recruitment remained a challenge due to the outflow of employees abroad and job opportunities in the private and regional offices.

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



Global economic recovery continue

According to the Global Monthly Report December 2024 by the World Bank Group, the global economy continued its recovery in the December 2024 quarter, driven by positive business sentiment and expansion in the services sector. Global goods trade remained robust, supported by rising demand, particularly in emerging market and developing economies.

Inflationary pressures have moderated due to easing monetary policies and improved supply chain conditions, but concerns remain regarding potential trade tensions and geopolitical risks. Although inflationary pressures eased in most economies, expectations for higher prices persist due to potential trade protectionism. The US economy continued to expand, driven by strong consumer spending, exports, and government spending. Financial conditions have eased post-election, reflecting improved investor sentiment. Thus, personal income for November 2024 rose by 0.3% over the month (US\$71 billion) reflecting higher compensation in both the service and goods-producing industries.

Ongoing geopolitical tensions and potential trade conflicts are downside risks to the global economic outlook.

Domestic activities generally improved in October 2024

The primary sector showed improvement in October 2024 compared to the previous month. Agricultural exports recorded a significant rise of 316.4 tonnes (102.8%) driven by increases in root crops and watermelon exports during harvesting season. Additionally, the marine exports also recorded a substantial increase of 103.6 metric tonnes (190.1%) compared to the previous month. This sharp rise was largely attributed to higher tuna exports, indicative of the ongoing tuna season and favorable weather conditions that supported the industry's performance.

Construction applications received by the Ministry of Infrastructure (MOI) in October 2024 indicate a positive trend for the industrial sector. The total value of construction applications increased by \$3.6 million (22.7%) compared to the previous month, driven by increases in both private and public sector projects. The higher private sector works are largely attributed to constructions for businesses, churches, and dwellings. This increase also aligns with a 0.6% (\$1.3 million) rise in loans for individual housing.

Indicators in the services sector showed mixed results for October 2024. Total passenger arrivals rose by 2,159 passengers (21.4%) while passenger departures fell by 2,546 passengers (26.4%). This trend may reflect the return of seasonal workers and students coming home for the holidays. Total passenger arrivals during the month also included visitors who arrived via yacht and ships. Meanwhile, total vehicle registrations increased substantially by 135 vehicles (60.8%) in October 2024. Demand and consumption are showing a gradual rebound as the Christmas holiday season approaches. Therefore,

activities in the services sector are anticipated to rebound strongly, boosting the sectoral growth in the near terms.

Labor demand continued to rise in November 2024

According to the Reserve Bank's survey on job advertisements, 93 job vacancies were advertised in November 2024, an increase from 83 vacancies in the previous month. The majority of job vacancies advertised during the month were in the public administration, transport & communications, and financial intermediation sectors. Compared to the same period in 2023, the total job vacancies rose by 65 advertisements (7.0%). The annual growth in job vacancies was primarily driven by sectors such as public administration, transport & communication, utilities, financial intermediation, and hotels & restaurants.

Headline inflation declined to 0.5% in October 2024

In October 2024, the Consumer Price Index (CPI) rose by 1.1%, driven by an overall increase in domestic prices. Meanwhile, imported inflation eased during the month, primarily due to a decline in fuel prices. The retail price of diesel dropped by 15 seniti/litre, while petrol decreased by 10 seniti/litre. The reduction in fuel prices outweighed the price increases in imported food items, non-alcoholic beverages, tobacco, clothing, household goods, books & stationery, and personal care products. Domestically, prices for local food items, alcoholic beverages, tobacco, and household furniture & furnishings increased, while the cost of electricity and catering services fell, partially offsetting some of the price increases.

Headline inflation dropped further to 0.5% in October 2024, down from 2.1% in the previous month and 6.1% in October 2023. In October 2024, the prices of fuel, tobacco, and healthcare products were lower compared to the same period in 2023. However, prices for imported food items, alcoholic beverages, construction materials, LP gas, household goods, clothing, books & stationery, and goods for personal care increased. Overall, domestic prices contributed around 0.5 percentage points to the headline inflation. Nonetheless, the overall imported deflation over the year slightly offset the increases. The main domestic drivers included local food items, kava Tonga, and alcoholic beverages. However, the cost of electricity, takeaway food, clothing, and tertiary education decreased, helping to offset some of the price hikes.

Core inflation rose to 3.0% in October 2024 from 2.5% in the previous month. Key imported contributors to this increase were goods for personal care, household appliances items, clothing, and books & stationery. This may further indicate the lingering effects of the Israel-Hamas conflict on global trade and shipping freight charges. Domestically, the main drivers of core inflation were kava Tonga, alcoholic beverages, tobacco, and household furniture & furnishings. Non-core inflation, on the other



hand, recorded a -1.3% in October 2024, mainly due to improved energy prices particularly fuel and electricity.

Nominal Effective exchange rates increased in November

The Nominal Effective Exchange Rate (NEER) rose by 0.3% in November 2024 as the Tongan Pa'anga appreciated against all major currencies except the USD (month ended). However, the Real Effective Exchange Rate (REER) declined by 0.6% as Tonga's inflation rate is lower compared to trading partners.

In year-end terms, the NEER strengthened, rising by 0.9% compared to the previous year, as the TOP generally appreciated against all major currencies, except the USD, AUD and GBP. This appreciation is expected to reduce imported inflation, but may negatively impact exports and remittances. The REER also increased over the year corresponding with the rise in the NEER.

Foreign reserves declined in November

Foreign reserves fell to \$892.2 million in November, down by \$6.1 million mainly due to rising import payments. This level of reserves covers 10.3 months of imports, exceeding the IMF's recommended minimum of 7.5 months. Furthermore, foreign reserves were \$0.2 million higher than the same period last year. The majority of the official foreign reserves are held in USD, NZD, and AUD.

Remittances receipt increase in October

Remittance receipts in October rose by \$4.4 million (10.4%), reaching a total of \$46.6 million, in line with the church offerings (misinale) held during the month. While employee compensation decreased, private transfers continued to be the main driver of the overall increase, followed by a rise in private capital transfers and social benefits.

Additionally, remittances received in US dollars recorded the highest increase, followed by the increase in Australian and New Zealand dollars. This trend aligns with the depreciation of the US dollar against the Tongan pa'anga during the month, as well as the growth in the US job and wages.

However, total remittance receipts declined over the year by \$14.9 million (2.8%), reflecting a slowdown in remittances for coping purposes following the HTHH volcanic eruption disaster in January 2022.

Broad money increased

Broad money rose over the month and over the year to October 2024, by \$4.7 million (0.5%) and \$61.4 million (7.3%) respectively to \$906.3 million. The net foreign assets increased both monthly and annually, mainly on higher foreign reserves as well as lower foreign liabilities over the year. On the other hand, the net domestic assets decreased over the month but rose annually, underpinned by lower net credit to central government over the month

and increased credit to private sectors both monthly and annually.

Reserve money decreased

Liquidity in the financial system decreased in October 2024, by \$0.7 million (0.1%), however, rose annually by \$39.3 million (6.6%) to a total of \$632.3 million. The monthly decline was solely driven by lower Exchange Settlement Account's (ESA), mainly on net withdrawal from the Reserve Bank vault. Annually, all the three major categories rose, led by currency in circulation (CIC) then followed by Statutory Required Deposits (SRD) and ESA. The increased CIC and SRD reflected demand for currency and growing deposits whilst the higher ESA corresponded to net purchases of foreign currency from the commercial banks.

Credit growth increased

The banks' total lending grew in October by \$15.5 million (2.9%) over the month and over the year by \$28.0 million (5.3%) to \$554.05 million. The monthly rise was due mainly to higher loans to private businesses such as distribution, professional & other services and constructions sectors as well as household housing and other personal loans. Annually, increased loans were offered to the distribution, tourism, and professional & other services sectors along with the household loans. Despite the annual rise, the credit growth was still lower as compared to last year's growth mainly on lower business loans.

Total bank deposits rose by \$16.1 million (1.7%) over the month, and over the year by \$59.3 million (6.6%) to \$958.2 million. The monthly increase was driven by higher demand and saving deposits from the private sector and retirement funds. The annual growth in deposits was attributed to higher demand and time deposits from again the private sectors and the retirement funds. Total loan to deposit ratio increased to 55.9% in October 2024 from 55.1% in the previous month, mainly due to increase in total loans offsetting the rise in total deposits.

Interest rates spread widened

The weighted average interest rate spread widened over the month and over the year to October 2024, by 5.3 basis points and 25.4 basis points respectively to 6.26%. Both rises corresponded to higher weighted average lending rates coupled with lower weighted average deposit rates.

The weighted average lending rate increased by 2.7 basis points over the month and 16.5 basis points annually. Over the month, the lending rates offered to households for vehicle and housing loans increased, as well as business lending rates offered to the tourism, agricultural and manufacturing sectors. Similarly, over the year, other commercial and non-profit organisations loans rates increased, along with lending rates offered to businesses



within the entertainment & catering, agricultural and constructions sectors. Household loan rates however, declined over the year.

The weighted average deposit rates on the other hand, fell by 2.7 basis points over the months and 8.8 basis points over the year. Both declines corresponded to the lower time and demand deposit rates. The increased volumes of time and demand deposit also contributed to their lower deposit rates.

Financial Stability

The latest revision of the Aggregate Financial Stability Index (AFSI) for Tonga¹ (as of September 2024) — a normalized measure of Tonga's current financial stability relative to its historical performance — indicates a decline of 2 index points from 0.67 to 0.65 over the past year. Despite this drop, the AFSI remains above the long-term average of 0.57.

The decline in the Index reflects a weakening of the Financial Soundness (FSI) and Financial Development (FDX) sub-indexes, which outweighed improvements in the World Economic Conditions (WECI) and Financial Vulnerability (FVI) sub-indexes.

Key drivers of the index deterioration include a significant 4.2% rise in Tongan banks' Non-Performing Loans (NPL) since September 2023 and a 1% drop in Total Credit to GDP, which now stands at 40.4%. Conversely, notable positive developments include a reduction in Total Public Debt as a percentage of GDP, falling from 38.9% to 33.2%,

as the Government began principal repayments on external debt owed to EXIM Bank. Additionally, overseas central banks' success in winding down inflation contributed to a 6% decrease in the World Uncertainty Index.

Outlook

The recovery path of the world economy still involves a high level of uncertainty given escalating country conflicts, geopolitical tensions, and fears of trade protectionism. These will impact the Tongan economy negatively as we remain vulnerable to external shocks.

The outlook for the Tongan economy to continue recovering remains, but it is not without its challenges. The recent shift in political power and the delay in the change of government may disrupt government operations and major projects in the pipeline. Inflationary pressures have eased and is expected to remain below the NRBT's reference rate. Nonetheless, cost of living is still relatively high compared to pre-pandemic levels. Taking into account the financing of external debt and rising imports, foreign reserves are expected to remain at comfortable levels, above the IMF's prescribed level of 7.5 months of imports cover in the near to medium term. Liquidity is still high in the financial system but the weaker asset quality coupled with some potential capital vulnerabilities warrants caution.

In light of these latest developments and outlook, the NRBT will continue to find avenues to address the high cost of living and support growth, while closely monitoring the developments in the financial system to ensure stability is maintained.

¹ The AFSI is a range of sub-indexes drawing from both domestic and international figures calculated based on a weighted approach. Arithmetic averages are taken to determine the values for each relevant sub-indexes. An overall average of all weighted indicators is then calculated to determine the AFSI. GDP figures for FY24 are based on NRBT's forecasts.

KEY INDICATORS

		Oct-23	Jul-24	Aug-24	Sept-24	Oct-24
1. Sectoral Performance Indicators*						
(year-on-year % change)	Visitor arrivals	888.6	51.0	33.2	23.1	18.4
	Travel receipts	292.8	42.0	30.9	26.2	21.8
	Electricity production	2.2	24.5	22.6	19.9	20.0
	Agricultural exports ^{1/}	-3.9	-14.8	-12.9	-14.9	-20.5
2. Consumption Indicators*						
(year-on-year % change)	New vehicle registrations	3.1	9.4	11.2	12.8	12.3
	Container registrations	8.9	17.8	11.0	12.9	13.1
	Electricity consumption	1.8	0.7	0.6	0.5	0.4
	Remittances	12.2	-1.5	-3.0	-3.0	-3.1
3. Consumer Prices**						
(year-on-year % change)	All items ^{2/}	3.0	5.4	3.1	3.5	2.0
	Domestic	1.3	10.2	5.5	6.3	4.9
	Imported	4.4	1.4	0.7	1.2	-0.1
	Core inflation (ex energy & food)	6.8	8.4	4.4	5.1	4.0
4. Labour Market***						
(year-on-year % change)	NRBT Job Advertisement survey	-37.3	59.6	20.2	-4.4	-10.1
5. Reserves***						
(end of period)	Foreign Reserves (\$m) ^{3/}	886	924	909	906	887
	Months of imports	11.3	11.9	11.5	10.4	10.2
6. Exchange Rates***						
(end of period, TOP\$1 equals index, Dec 2006=100)	US dollar	0.4179	0.4222	0.4183	0.4268	0.4293
	Australian dollar	0.6507	0.6351	0.6396	0.6276	0.6216
	New Zealand dollar	0.7008	0.6938	0.709	0.6817	0.6773
	Fijian dollar	0.964	0.9572	0.9579	0.9512	0.9494
	Nominal effective exchange rate	95.5	95.8	95.8	94.3	93.9
	Real effective exchange rate	119.5	124.3	121.1	118.7	117.3
7. Liquidity***						
(end of period)	Reserve money (\$m) ^{3/}	591	632	614	618	633
	Currency in circulation (\$m) ^{3/}	120	128	132	130	130
	Exchange settlement account (\$m) ^{3/}	339	369	343	352	367
	Required reserve (\$m) ^{3/}	131	135	139	136	136
8. Money and Credit***						
(year-on-year % change)	Broad money	0.5	7.6	3.4	4.5	6.3
	Net foreign assets	-1.1	5.4	-0.2	2.0	3.0
	Net Domestic Asset	-46.0	-36.5	-57.2	-51.2	-164.1
	Narrow money	3.9	15.8	6.4	7.5	10.1
	Total Lending	8.2	4.1	4.8	5.0	3.2
	Business lending	16.3	2.2	3.2	3.8	0.7
	Household lending	2.0	6.0	6.4	6.2	5.7
	Total Deposits	5.0	6.6	1.7	3.5	6.6
9. Interest Rates (%)***						
(monthly weighted average)	Lending rate	7.62	7.79	7.77	7.77	7.78
	Savings deposit rate	1.61	1.52	1.57	1.59	1.57
10. Commodity Prices****						
(end of period)	Crude oil/barrel (US\$)	92.18	82.82	83.93	78.96	73.12

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