



Snapshot of the Tongan Economy

January 2024 Release

Global Economy



- Growth of 3.1% estimated for 2023 and 2024 (both revised upward by 0.2 pp from October WEO), before increasing by 3.2% in 2025.
- Trade is projected to rise by 3.3% and 3.6% in 2023 and 2024, respectively as supply chain problems have eased.
- Global inflation is expected to ease from 6.8% in 2023 to 5.8% and 4.4% in 2024 and 2025, respectively.

Domestic Economy



- Both agricultural and marine exports declined in November 2023
- HTHH reconstruction buoying the secondary sector.
- Imports are still high indicating continual high consumption.

Domestic Inflation



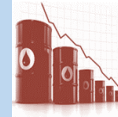
- Annual headline inflation rose to 6.7% in December 2023 from 4.9% in November 2023 but eased from 9.2% in December 2022.
- Local food prices increased by 27.5% fueled by high demand and seasonality of local produce.
- Imported inflation contributed 2.4 percentage points to headline inflation, outweighed by the 4.3 percentage points contribution by domestic inflation.

Banking System



- Broad Money increased by \$10.8 million in November 2023
- Credit rising by \$2.1 million in November 2023 as both lending to businesses and households increased. Credit rose by 7.7% over the year to November 2023.
- Total deposits continue to rise stronger than the increase in loans, hence, the loans to deposit ratio declined to 56.9%
- Non-performing loans to total loans ratio increased to 11.5% in November 2023 from 10.8% in the previous month.

Global Prices



- Average oil price declined to US\$77.6 / barrel in December 2023 from US\$82.3 in Nov 2023.
- Oil prices expected at around USD\$90/barrel in Q1.
- Food prices generally declined so as other commodity prices due to improvement in supply bottlenecks caused by the pandemic in the previous years.

Foreign Reserves



- Foreign reserves was comfortable at \$892.0 million (13.5 month of imports) in December 2023.
- Remittances are helping to offset import payments.
- External overall balance¹ recorded a \$9.7 million surplus due to higher transfer receipts in December 2023.

Exchange Rates



- Both the NEER and REER declined in December 2023.
- The TOP depreciated against the AUD and NZD

Liquidity & Interest Rates



- Higher Deposits increased excess liquidity to \$352 million from \$330 million.
- Interest rates spread widened further by 3.7 bps
- The deposit rates fell by 6.7 basis points while lending rates rose by 5.2 basis points.

Labour Market



- Job vacancies advertised increased to a total of 93.
- Vacancies were mostly in hotel & restaurants, public administration, and the utilities sectors.
- Seasonal Worker program 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 remains steady yet resilient

The International Monetary Fund in its January 2024 update of the World Economic Outlook (WEO) estimated global growth to rise by 3.1% in both 2023 and 2024, before increasing by 3.2% in 2025. Compared to the previous WEO in October 2023, growth for 2023 and 2024 are both revised upwards by 0.2 percentage points, reflecting revised estimates for the US, China, and other emerging and developing economies. Government and private spending were key drivers to the revised outlook, supported by improvements in real disposable income and easing in labour market conditions. Pandemic-era supply chain problems have also improved supporting global trade and is projected to rise by 3.3% and 3.6% in 2023 and 2024, respectively. However, geopolitical tensions and fragmentations remain a risk to global trade activities. Nevertheless, growth in low-income countries is projected to grow by 5.0% and 5.6% in 2024 and 2025 respectively. However, the risk of debt distress remains elevated. Global headline inflation is expected to ease to 5.8% in 2024 and 4.4% in 2025 from 6.8% in 2023.

Domestic activities showed mixed outcomes

Indicators in the primary sector demonstrated a slowdown for the month of November 2023. Total agricultural exports slightly fell over the month by 7.4 tonnes (-6.5%), which stemmed from lower exports of kava, root crops such as cassava, taro and yam, and coconut. Meanwhile, squash exports continued to improve over the month. Nevertheless, total agricultural export proceeds rose by \$0.6 million (97.0%). On the other hand, total marine exports declined by 98.7 metric tonnes (-66.6%) due to lower exports of tuna and shark meat. Coincidentally, total marine export proceeds dropped by \$0.1 million (-31.2%). However, total aquarium exports and marine products sold at the domestic markets both rose by 10,503 pieces (+672.4%) and 3.4 metric tonnes (+90.7%) respectively. The mixed outcomes from the marine sector reflect the unfavourable weather at that time which may have held few fishing vessels back from fishing.

Credit to the industrial sector indicate more activities in the sector over the month. Credit to the manufacturing sector increased by \$0.1 million (0.8%) along with a higher lending to the utilities sector of \$0.02 million (5.2%). Individual housing loan also recorded an increase of \$0.7 million (0.3%). At the same time, sectoral growth is supported by the ongoing public projects, including the Nuku'alofa Port Project, which received an additional boost of US\$30 million during the month. The future projects such as the Fanga'uta Lagoon Bridge and Tapanekale Housing are anticipated to boost the sectoral activities in the near term.

Tertiary sector showed mixed outcomes for the month of November 2023. Travel receipts rose by \$0.4 million (3.9%) reflective of the arrival of cruise ships during the month and as the holiday season approached bringing more travellers from overseas. However, import payments excluding oil fell

by \$12.1 million (24.2%) from the previous month driven by a \$9.8 million (-25.4%) decline in wholesale & retail imports payment.

Job opportunities rose in December 2023

The Reserve Bank's survey on job advertisement showed a substantial pick up in December 2023 by 50 job vacancies (116.3%). More job vacancies advertised from hotel & restaurants, public administration, and utilities sectors contributed to the monthly increase. This increase not only reflects new establishment, particularly in the hotel & restaurant sector, but also the ongoing loss of labour force to the labour mobility scheme and migration. Annually, total job vacancies advertised to the public rose by 214 job vacancies (28.5%). This was attributed to job vacancies in public administration, hotel & restaurants, education, and transport & communications sectors.

Local food prices pushed headline inflation to 6.7%

Consumer Price Index jumped by 2.2% in December 2023 on the back of higher local food prices. Over the month, local food prices (i.e. seafood and root crops) rose by 14.4% and reached a new record high. Higher local food prices accounted for 2.5 percentage points of the monthly increase which was partially offset by a decrease in the price of local tobacco. The hike in local food prices is indicative of the strong pick-up in demand and consumption during the Christmas holiday season amid domestic food supply issues. This also reflects the influence of the current El Nino phenomenon on agricultural production and expectations. At the same time, imported inflation generally fell and reduced only some of the increases. The decline was underpinned by lower price of fuel and imported tobacco. Meanwhile, imported food items, construction materials, and households' items further increased in December 2023.

The annual headline inflation rebounded above the 5% reference rate to 6.7% in December 2023 due to the escalated local food prices. This is compared to the 4.9% in November 2023 and 9.2% in December 2022. At annual rate, local food prices increased by 27.5% contributing 4.5 percentage points to the headline inflation. This was followed by catering services, transport components, and secondary school tuition fees. However, electricity tariff and tobacco remained cheaper compared to the same period in the previous year. Overall, domestic prices contributed 4.3 percentage points to the headline inflation. Imported inflation contributed only 2.4 percentage points to the headline inflation. Its main contributors were imported prices of food items, international airfares, household items, clothing & footwear, and goods for personal care. Meanwhile, price of fuel and LP gas declined over the year.

Core inflation, however, continued to slow down in December 2023 to 5.9% reflective of the annual decline in price of local tobacco and the base effects. Despite lower core inflation, core CPI reached a new high level in December 2023, reflecting the further increase in price of imported construction materials and household items over



the month. Meanwhile, the surge in local food prices and higher imported food items caused non-core inflation to jump to 7.3%.

Effective exchange rate declined in December

The Nominal Effective Exchange Rate (NEER) declined again over the month by 0.4%, underpinned by the depreciation of the Tongan Pa'anga against the AUD and NZD (month ended). Similarly, the Real Effective Exchange Rate (REER) also declined by 0.3% in December.

In year-ended terms, the NEER was higher by 1.4% as the TOP generally appreciated against trading partners' currencies (AUD, NZD, FJD, and JPY). This may assist in offsetting imported inflation, as overseas payments would become cheaper in terms of local currency. REER also increased over the year by 2.9% in line with the slight increase in Tonga's inflation.

Foreign reserves increased in December

Foreign reserves continued to remain comfortable at 11.6 months of imports, well above the IMF prescribed level of 7.5 months, as it rose in December 2023 by \$9.7 million to \$901.7 million. This is higher by \$32.8 million compared to December 2022. The inflow of government receipts and remittances continue to drive the overall increase. The majority of the official foreign reserves are held in USD, NZD, and AUD.

Family support contributed to higher Remittances

Remittances receipts increased over the month of November 2023 by \$0.1 million (0.3%) to \$43.1 million. Annual church donations during the month may have influenced the inflow of receipts as private transfers drove the overall monthly increase.

Total remittance receipts continue to remain stronger over the year by \$59.9 million (12.6%) largely attributed to private transfers and compensation of employees receipts. This reflects improvements of economies abroad supporting investment and employment opportunities.

Broad money rose

Broad money increased in November 2023, by \$10.8 million (1.3%) over the month and \$12.8 million (1.5%) annually. Net domestic assets increased over the month however declined over the year, corresponding to the movements in government deposits. Net foreign assets also increased over the month and over the year, in line with the rising foreign reserves and remittances.

Reserve money increased

Liquidity in the financial system increased over the month of November 2023, by \$7.0 million (1.2%). Currency in circulation (CIC) and Statutory Reserve Deposits (SRD) increased and offset the decline in the banks' Exchange Settlement Accounts (ESA).

However, over the year, liquidity in the financial system declined by \$3.0 million (0.5%). This was solely driven by

lower ESA mainly on higher cash withdrawal from the Reserve Bank's vault.

Pick up in Credit

The banks' total lending increased over the month and over the year to November 2023, by \$2.6 million (0.5%) and \$37.8 million (7.7%). Higher consumer and business confidence was reflected in the increased lending to both businesses and households as economic activities improved.

Over the month, household loans increased mainly for other personal and housing loans. Business loans also rose, led by businesses within the tourism, manufacturing and agricultural sectors. Annually, higher lending was recorded for businesses in the manufacturing, transport, distribution, tourism and construction sectors along with households' other personal and vehicles loans.

Total deposits in the banks increased by \$4.7 million (0.5%) over the month, and over the year by \$40.3 million (4.6%) to \$908.9 million due to higher demand deposits over the month and higher demand and time deposits over the year. Demand deposits from churches and private businesses increased over the month and over the year, as well as time deposits from the Retirement Funds. Higher deposits from the central government and individuals also supported the annual rise. The loans to deposit ratio decreased in November 2023 to 56.9% compared to 57.0% in October 2023 due mainly to deposits increasing at a faster rate than loans. However, over the year, the loan to deposit ratio increased from 55.3% last year, reflecting banks' efforts to grow their loan books.

Interest rates rose

Weighted average interest rate spread widened by 11.9 basis points over the month but declined annually in November 2023 by 48.7 basis points to 6.1%. The weighted average deposit rate fell by 6.7 basis points over the month and outweighed the rise in the weighted average lending rate by 5.2 basis points.

Both time and demand deposit rates declined over the month and offset the rise in saving deposit rates. Lending rates offered to the agricultural, tourism and fisheries rose over the month along with the household housing and other personal lending rates.

Over the year, both the weighted average lending and the deposit rates declined by 54.3 basis points and 5.5 basis points respectively. Lending rates offered to the agricultural, constructions, and transports sectors decreased over the year as well as all the loan rates offered to households, led by lower vehicle loans rates, and followed by the decline in other personal loan and housing loan rates. Both time and demand deposit rates declined again over the year and offsets the rise in saving deposit rates.

Outlook

Headline inflation has rebounded above the 5% reference rate as local food prices hit record levels while core inflation



NATIONAL RESERVE BANK OF TONGA

MONTHLY ECONOMIC UPDATE

Vol. 12

No. 1

January 2024 Report

is still high. Despite the recent decline in global oil prices, possible disruption to oil supply owing to the Israel-Hamas war and geopolitical tensions in the Middle East continue to put pressure on petroleum prices. The El Nino weather conditions affecting local food supply coupled with an expected rebound in demand and consumption during the holiday season are also anticipated to put further upward pressure on prices. GDP growth for the current financial year is anticipated to be moderate while domestic production is estimated to be still below potential thus allowing ample policy space for the Reserve bank to

support stronger economic growth without causing major inflationary pressure to the economy. Foreign reserves, are still at comfortable levels and is 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 and the banking system is also well capitalized to absorb further shocks. The Reserve Bank will continue to closely monitor inflation movements and at the same time support economic recovery.

TONGA: ECONOMIC & FINANCIAL STATISTICS

KEY INDICATORS

		Nov-22	Aug-23	Sep-23	Oct-23	Nov-23
1. Sectoral Performance Indicators*						
(year-on-year % change)	Visitor arrivals	4,822.7	1,656.1	888.6	589.6	393.0
	Travel receipts	110.2	352.1	292.8	245.9	195.0
	Electricity production	-1.5	2.6	2.2	0.1	n.i.
	Agricultural exports ^{1/}	-40.2	11.9	26.1	-8.0	-14.0
2. Consumption Indicators*						
(year-on-year % change)	New vehicle registrations	6.4	5.7	3.1	3.5	-0.2
	Container registrations	-0.1	12.7	8.9	9.0	6.4
	Electricity consumption	2.1	1.9	1.8	2.0	n.i.
	Remittances	-2.9	12.2	12.2	13.3	12.6
3. Consumer Prices**						
(year-on-year % change)	All items ^{2/}	11.1	2.9	3.0	6.1	4.9
	Domestic	14.5	3.8	1.3	7.4	4.7
	Imported	8.6	2.2	4.4	5.1	5.0
	Core inflation (ex energy & food)	10.4	9.5	6.8	10.8	8.8
4. Labour Market***						
(year-on-year % change)	NRBT Job Advertisement survey	3.1	-9.3	-37.3	7.9	-35.8
5. Reserves***						
(end of period)	Foreign Reserves (\$m) ^{3/}	866	920	886	891	892
	Months of imports	12.6	11.9	11.4	11.4	11.4
6. Exchange Rates****						
(end of period, TOP\$1 equals) (index, Dec 2006=100)	US dollar	0.4233	0.419	0.4179	0.4156	0.4235
	Australian dollar	0.6326	0.6466	0.6507	0.6517	0.6398
	New Zealand dollar	0.6827	0.7016	0.7008	0.7114	0.6877
	Fijian dollar	0.9415	0.9566	0.964	0.9627	0.9547
	Nominal effective exchange rate	93.9	95.3	95.5	95.8	94.7
	Real effective exchange rate	116.7	119.0	119.5	122.1	119.0
7. Liquidity***						
(end of period)	Reserve money (\$m) ^{3/}	603	602	591	593	600
	Currency in circulation (\$m) ^{3/}	122	118	120	115	127
	Exchange settlement account (\$m) ^{3/}	399	351	339	348	343
	Required reserve (\$m) ^{3/}	82	133	131	129	131
8. Money and Credit***						
(year-on-year % change)	Broad money	4.4	1.3	0.5	0.2	1.5
	Net Foreign Assets	10.1	5.9	-1.1	0.8	2.0
	Net Domestic Asset	-127.5	1244.3	-46.0	30.1	-48.9
	Narrow money	5.0	5.8	3.9	2.1	3.9
	Total Lending	3.4	7.6	8.2	9.9	7.7
	Business lending	7.6	15.2	16.3	19.3	13.6
	Household lending	-1.1	1.8	2.0	2.7	3.4
	Total Deposits	6.0	6.0	5.0	4.8	4.6
9. Interest Rates (%)***						
(monthly weighted average)	Lending rate	8.2	7.6	7.6	7.6	7.7
	Deposit rate	1.6	1.6	1.6	1.6	1.6
10. Commodity Prices****						
(end of period)	Crude oil/barrel (US\$)	91.5	85.0	92.2	89.1	82.3

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