



# Snapshot of the Tongan Economy

May 2024 Release

## Overseas Economy



- US growth slowed at an annual rate of 1.6% in the first quarter of 2024, driven by lower consumer spending, exports and government spending.
- US headline inflation for March 2024 was slightly higher compared to 3.2% in February, reflecting higher food and energy prices.
- Meanwhile, New Zealand's headline inflation rose by 4.0% whilst prices eased in Australia at 3.6%, consistently decelerating from a peak of 7.8% since December 2022.

## Domestic Economy



- Domestic activities showed mixed outcomes in March 2024.
- Exporting activities in the primary industry declined.
- The service sector showed mixed outputs with the continued deceleration in tourist arrivals whilst tourist receipts increased. Container registrations increased whilst wholesale & retail payments declined, indicating a lag in receipts.
- Construction activities continued rising from ongoing public and private projects, resulting in positive spillover to other sectors in the secondary industry.

## Domestic Inflation



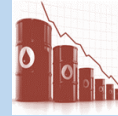
- Headline inflation edged up from 3.2% in the previous month to 4.6% in April 2024.
- Domestic inflation contributed around 3.0 percentage points to the headline inflation fueled by higher prices for food items, electricity, kava, catering services and transportation.
- Imported inflation contributed about 1.6 percentage points due to increases in international airfares, fuel, imported food items, alcoholic beverages, clothing, and goods for personal care.

## Banking System



- Broad Money increased by \$3.5 million in March 2024.
- Credit growth of 8.5% was recorded for the year to March 2024. Both lending to businesses and household increased.
- Total deposits declined over the month to a total of \$892.6 million in March 2024.
- Loans to deposit ratio rose in March 2024 to 58.7% , reflecting lower deposits.
- Non-performing loans to total loans ratio accelerated to 9.7% in March 2024, higher compared to 5.5% a year ago.
- Adequate capital and high liquidity is maintained.

## Global Prices



- Average price of Brent crude oil price rose to US\$89.11/ barrel in April 2024 from US\$84.47 in March 2024.
- Brent crude oil is expected at an average USD\$84/barrel end of July 2024.
- Food prices rose again in April 2024 driven mostly by higher meat prices.

## Foreign Reserves



- Foreign reserves increased in April 2024 to \$904.8 million, 11.6 months of imports.
- Remittances picked up to 37.0 million in March 2024 following the slowdown in the beginning of the year.
- External overall balance<sup>1</sup> contracted to a higher deficit of \$22.7 million in March 2024 reflecting external debt repayments.

## Exchange Rates



- The NEER increased in April 2024 as the Tongan Pa'anga appreciated against most currencies of its trading partners including the NZD, FJD, JPY, GBP and EUR.
- The REER rose over the month coinciding with the increase in NEER.

## Liquidity & Interest Rates



- Excess liquidity in the banking system increased in March 2024, driven by lower liquidity demand from expected inflow of remittances.
- Interest rates spread narrowed further by 4.0 basis points to 6.2% in March 2024.
- The deposit rates increased again over the month by 3.1 basis points whilst the lending rates declined by 0.9 basis points.

## Labour Market



- Job vacancies advertised increased to a total of 81 in April 2024. These vacancies were mostly in the public administration.
- Job advertisements is expected to increase in the near term as seasonal worker schemes and emigration continue to put pressure on the labour market.

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



### US growth slowed in March 2024 quarter

The US Bureau of Economic Analysis shared that the US economy rose at an annual rate of 1.6% in the March 2024 quarter. This is a slower growth pace compared to the 3.4% of previous quarter and lower than market expectations. However, growth was positively influenced by increased consumption spending, investment activities, and government spending. Increased government spending reflected higher compensation of employees, with personal income rising by \$407.1 billion. When compared to the previous quarter, slower growth was largely driven by the deceleration in consumer spending, exports and government spending. However, unemployment rate in April was 3.9%, slightly higher by 0.3% compared to April 2023. Annual headline inflation for March 2024 was 3.5%, slightly higher compared to 3.2% in February, attributed to higher food and energy prices.

Meanwhile, headline inflation in New Zealand rose by 4.0% in the March 2024 quarter, gradually slowing down for 5 consecutive quarters since December 2022 at 7.2%. Similarly for Australia, annual inflation continued to ease recording at 3.6% in the March quarter 2024, consistently decelerating from a peak of 7.8% since December 2022.

### Domestic economic activities showed mixed outcomes

Primary sector slowed down in March 2024 in comparison to previous month. Total agricultural exports declined over the month by 19.6 tonnes (4.8%) due to lower export volumes of cassava, taro, watermelon, and sweet potato. Nonetheless, total agricultural export proceeds rose by \$0.1 million (72.6%) which may indicate lag in receipts. On the other hand, total marine export volumes also decreased by 118.5 metric tonnes (33.8%) driven by a decline in tuna and shark meat exports. Coincidentally, total marine export receipts also fell by \$0.1 million (26.0%), while aquarium exports rose by 5,853 pieces (376.4%). The primary sector is anticipating strong demands from both households and businesses in the upcoming celebratory months, putting further pressure on local supply capacity.

Activities in the industrial sector remained upbeat given the ongoing implementation of both public and private projects. Credit to construction sector recorded an increase over the month by 7.5% (\$1.7 million), reflective of new \$1.2 million loan commitments during the month of. At the same time, individual housing recorded new loan commitments of \$1.9 million. Coincidentally, the total payment for construction imports significantly increased over the month by \$1.7 million (90.0%).

The service sector showed mixed outcomes in March 2024. According to the Air Terminal Services (ATS) Limited, total air passenger arrivals declined over the month by 420 passengers (6.0%), with lower air passenger departures of 262 passengers (3.6%). Nevertheless, total travel receipts rose by \$2.3 million (29.3%) attributed largely to unclassified credit transactions as well as personal and

business travels. While imported container registrations rose over the month by 139 containers (14.2%), total wholesale & retail imports payment declined by \$3.1 million (10.3%) which may indicate lag in receipts. In addition, the upcoming national events such as the annual church conferences, Miss Heilala Festival, and the schools' anniversary celebrations are expected to boost sectoral activities.

### Labour demand rose in April 2024

The Reserve Bank's job advertisement survey recorded an increase of 28 job vacancies (52.8%) in April 2024 compared to the previous month. Majority of these vacancies were in the public administration sector. This increase not only reflects the implementation of new public and private projects that demand for more workers, but also the replenishment of ongoing outflow of domestic labor force to take up new job opportunities overseas, and migration. At an annual rate, total surveyed job vacancies rose by 55 job vacancies (6.1%). Total job vacancies over the year were mostly from the public administration, transport & communications, and hotel & restaurants sector.

### Headline inflation edged up to 4.6% in April 2024

Consumer Price Index further rose over the month by 0.7%, owing to increases in both imported and domestic prices. Imported inflation was driven primarily by fuel, imported food items, and alcoholic beverages. Meanwhile, price of tobacco, household items, and construction materials declined over the month offsetting some of the increases. With the fragile global geopolitical environment, commodity prices are at risk given the possible shocks on the global energy markets and disruptions on international trade. Meanwhile, local food items further heightened in April 2024 pushing domestic prices higher. Local vegetable growers have also imported from overseas (i.e. tomatoes, carrots), aggravating prices of the locally-grown vegetables to increase to the same level as the imported vegetables. In addition, local food prices is at risk of increasing further given the resurging demand in the approaching celebratory season (i.e. annual church conferences, school celebrations, and Heilala Week Festival).

Headline inflation rose to 4.6% in April 2024, higher than the 3.2% in March 2024 but still lower than the 6.9% in April 2024. Imported inflation contributed around 1.6 percentage points (pps) to headline inflation, due largely to higher prices of international airfares, fuels, imported food items, alcoholic beverages, and clothing. Meanwhile, domestic prices further increased over the year aggravated mainly by local food items, electricity, kava, catering services, and transportation components. Overall, domestic prices contributed around 3.0 pps to the headline inflation.



Nonetheless, core inflation fell below the 5% reference rate in April 2024 to 4.5%, since 4.5% in July 2022. The main imported contributors to the core inflation were international airfares, alcoholic beverages, clothing, and goods for personal care. On the other hand, the primary domestic contributors were kava, catering services and transportation components. Meanwhile, the non-core inflation further rose to 4.6% in April 2024 indicating the further rise in local food prices and fuel over the month.

### Effective exchange rates increased marginally in April

The Nominal Effective Exchange Rate (NEER) rose over the month by 0.3%, reflecting the appreciation in the Tongan Pa'anga against NZD, FJD, JPY, GBP and EUR. Similarly, the Real Effective Exchange Rate (REER) increased by 0.6% in April 2024, corresponding with the higher NEER.

In year ended terms, the NEER remains higher by 2.3% 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 3.3% in line with Tonga's relatively higher rate of inflation.

### Foreign reserves increased in April

Foreign reserves increased in April by \$36.1 million mainly on the back of higher Government receipts. This is equivalent to over 11 months of imports, which is well above the 7.5 months recommended by the IMF. In year ended terms, reserves recorded twelve months prior was higher by \$44.3 million. The majority of the official foreign reserves are held in USD, NZD, and AUD.

### Remittances recorded a growth in March

Remittances for March increased by \$2.2 million (6.3%) following a slowdown in the first two months. All remittances categories increased except social benefits, driving the overall monthly growth. Remittances received in Australian dollar increased the most by 17.9% followed by the US and New Zealand dollar. This is supported by the eased of Australia's labour market and wages growth. The deprecation of the Tongan pa'anga against the Australian and US dollar during March also helped.

Similarly, total remittances continued to remain stronger over the year by \$18.6 million (3.7%) as the global economy gradually recovers.

### Broad money rose

Over the month and year to March 2024, broad money increased again by \$3.5 million (0.4%) and \$9.3 million (1.1%) respectively to \$853.0 million. Net domestic assets increased over the month and over the year, driven mostly by lower government deposits. On the other hand, net foreign assets decreased over the month and over the year, due mainly to lower foreign reserves.

### Reserve money fell

Liquidity in the financial system declined over the month and over the year to March 2024, by \$24.7 million (4.1%) and \$22.4 million (3.7%) respectively, to \$578.9 million. Both declines were solely driven by lower Exchange Settlement Account (ESA) from higher outward payments.

### Credit growth increased

The banks' total lending rose over the month and year to March 2024, by \$4.9 million (0.9%) and \$41.8 million (8.5%) to \$534.8 million. The monthly rise resulted from higher lending to public enterprises and businesses within the distribution, constructions and professional & other service sectors. Household other personal and housing loans also increased and supported the monthly rise.

Annually, lending to businesses such as transports, distribution, 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 \$19.1 million (2.1%) over the month to \$892.6 million, but still higher over the year by \$17.7 million (2.0%). Over the month, both demand and savings deposits fell and outweighed the increased time deposits. Government deposits declined reflecting the loan repayments made to the EXIM Bank of China and some conversions to longer-term deposits. Deposits from other depository institutions, churches and other non-profit organisations also decreased. Annually, both time and demand deposits increased and offset the lower saving deposits. Majority of these deposits were contributed by the private businesses, retirement funds, central Government, individuals, microfinance and insurance companies. The loans to deposit ratio increased in March 2024 to 58.7% compared to 57.0% last month and 54.9% last year, reflecting lower deposits over the month and higher loans over the year.

### Deposit rates increased

Over the month and year to March 2024, the weighted average interest rate spread narrowed again by 4.0 basis points and 5.4 basis points respectively to 6.2%.

The monthly decline attributed mostly to a further rise in the deposit rates over the month by 3.1 basis points coupled with a 0.7 basis points decreased in lending rates. All deposit rates increased over the month led by time deposit rates and followed by saving and demand deposit rates. On the other hand the lending rates offered to the fisheries, manufacturing and distribution sectors fell, along with the household vehicle and other personal loan rates, as well as the non-profit organisations' lending rates.

The annual decline was however driven by a 3.8 basis points decreased in lending rates, and supported by an increase in deposit rates by 1.6 basis points. Lending rates offered to the transport, manufacturing and utilities sectors decreased over the year as well as household vehicle and



housing loan rates. The annual rise in deposit rates, was led by higher time and saving deposit rates.

### Outlook

In light of the latest developments above, the NRBT expects the headline inflation to continue remaining below the 5% reference rate for the most part of 2024. An expectation of a stabilisation 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 remains stable, characterized by high liquidity and banks maintaining sufficient capital reserves to withstand potential future shocks. However, one financial institution is under close supervision, indicating a need for vigilant oversight to maintain this stability. The Reserve Bank will continue to closely monitor inflation movements and at the same time support economic recovery.

## KEY INDICATORS

		Mar-23	Dec-23	Jan-24	Feb-24	Mar-24
<b>1. Sectoral Performance Indicators*</b>						
(year-on-year % change)	Visitor arrivals	10,188.3	196.2	152.9	127.9	104.7
	Travel receipts	277.9	137.0	101.5	84.5	72.1
	Electricity production	32.9	1.5	-2.0	11.9	3.2
	Agricultural exports <sup>1/</sup>	-20.4	13.6	8.6	5.5	-1.6
<b>2. Consumption Indicators*</b>						
(year-on-year % change)	New vehicle registrations	16.0	1.9	0.1	-4.4	-4.4
	Container registrations	-1.9	10.5	8.4	11.6	18.0
	Electricity consumption	2.3	1.9	1.7	1.6	1.4
	Remittances	5.7	12.9	10.5	7.7	3.7
<b>3. Consumer Prices**</b>						
(year-on-year % change)	All items <sup>2/</sup>	9.4	6.7	6.5	3.6	3.2
	Domestic	12.8	9.6	9.1	3.7	3.8
	Imported	6.9	4.3	4.2	3.5	2.7
	Core inflation (ex energy & food)	11.6	12.1	9.5	4.9	4.9
<b>4. Labour Market***</b>						
(year-on-year % change)	NRBT Job Advertisement survey	-37.3	63.2	-7.8	19.4	-28.4
<b>5. Reserves***</b>						
(end of period)	Foreign Reserves (\$m) <sup>3/</sup>	884	902	895	891	869
	Months of imports	11.4	11.6	11.5	11.4	11.2
<b>6. Exchange Rates***</b>						
(end of period, TOP\$1 equals (index, Dec 2006=100))	US dollar	0.4255	0.4285	0.4226	0.4212	0.4199
	Australian dollar	0.6343	0.6271	0.6404	0.6483	0.643
	New Zealand dollar	0.6796	0.6769	0.6896	0.6907	0.6997
	Fijian dollar	0.9391	0.9482	0.9537	0.9534	0.9571
	Nominal effective exchange rate	93.1	94.0	94.9	95.1	95.4
	Real effective exchange rate	117.2	120.4	120.7	119.3	120.0
<b>7. Liquidity***</b>						
(end of period)	Reserve money (\$m) <sup>3/</sup>	601	612	613	604	579
	Currency in circulation (\$m) <sup>3/</sup>	110	142	123	113	117
	Exchange settlement account (\$m) <sup>3/</sup>	406	340	359	359	331
	Required reserve (\$m) <sup>3/</sup>	85	130	132	132	131
<b>8. Money and Credit***</b>						
(year-on-year % change)	Broad money	-0.1	2.0	0.3	0.4	1.1
	Net foreign assets	2.3	2.6	-2.9	-2.8	-2.9
	Net Domestic Asset	306.9	83.9	-50.5	-55.3	-119.9
	Narrow money	-5.9	4.1	4.2	3.6	8.2
	Total Lending	5.3	8.5	6.4	5.7	8.5
	Business lending	11.5	13.1	8.3	6.7	11.9
	Household lending	0.8	4.3	4.6	4.7	5.2
	Total Deposits	4.9	4.4	3.6	3.0	1.4
<b>9. Interest Rates (%)***</b>						
(monthly weighted average)	Lending rate	7.82	7.69	7.78	7.79	7.78
	Savings deposit rate	1.59	1.57	1.56	1.57	1.60
<b>10. Commodity Prices****</b>						
(end of period)	Crude oil/barrel (US\$)	79.19	77.61	78.94	81.71	84.47

Note  
<sup>1/</sup> Agricultural production shows the year on year change in terms of volume.

<sup>2/</sup> 2018 rebase. Previous data had 2010 as its base.

<sup>3/</sup> TOP millions

n.i. - not issued

Sources

\*Various industry sources

\*\*Tonga Department of Statistics

\*\*\*National Reserve Bank of Tonga

\*\*\*\*Reuters