



# Snapshot of the Tongan Economy

June 2024 Release

## Overseas Economy



- Global unemployment rate is projected to decline by 0.1% from 2023 to 4.9% in 2024. This is supported by positive economic performance in the first quarter of 2024 in line with the steady global growth prospects, aided by easing inflationary pressures .
- During the fourth quarter of 2024, the Australian economy recorded a growth of 0.2% whilst the New Zealand economy recorded a downward growth of 0.1%, following a -0.3% growth in the previous quarter.

## Domestic Economy



- Domestic economic activities generally improved in April 2024.
- Exporting activities in the primary sector increased albeit decline in export receipts, indicating a lag in receipts. Several projects are currently underway for the sector, expecting to improve exports and its quality.
- Indicators in the industrial sector showed favorable activities. Credit to the construction sector declined over the month by 13.3% (\$3.2 million) whilst new loan commitment of \$1.0 million during the month, indicating ongoing construction of both public and private projects. Construction activities continued rising from ongoing public and private projects, resulting in sectoral growth and positive spillover to other sectors.
- The service sector showed mixed performance with the continued deceleration in tourist arrivals whilst tourist receipts increased. Container registrations declined whilst wholesale & retail payments increased as wholesalers & retailers replenish their stocks for the upcoming annual church conferences and celebratory months (May-July).

## Domestic Inflation



- Headline inflation is likely to exceed the 5% reference rate in the near term .
- Both imported and domestic food prices are volatile and demand during the celebratory months may rebound strongly and drive inflation to exceed above the 5% reference rate.

## Banking System



- Broad Money declined by \$3.5 million in April 2024 .
- Credit growth of 5.5% was recorded for the year to April 2024. Both lending to businesses and household increased.
- Total deposits increased over the month to a total of \$901.4 million in April 2024.
- Loans to deposit ratio declined in April 2024 to 57.6% , underpinned by higher deposits.

## Global Prices



- Average price of Brent crude oil price decreased to US\$83.28/barrel in May 2024 from US\$89.11 in April 2024.
- Brent crude oil is expected at an average USD\$85/barrel end of July 2024.
- Food prices increased again in May 2024, underpinned by higher prices for cereals and dairy products.

## Foreign Reserves



- Foreign reserves declined in May 2024 to \$893.0 million, 11.5 months of imports.
- Remittances rose to 40.1 million in April 2024 from higher private transfers.
- External overall balance<sup>1</sup> expanded to a surplus of \$36.1 million in April 2024, reflecting receipts of official grants from development partners.

## Exchange Rates



- The NEER fell in May 2024 as the TOP depreciated against the AUD,NZD, FJD,GBP and EUR.
- The REER increased in May 2024, reflecting Tonga's higher inflation rates relative to its major trading partners.

## Liquidity & Interest Rates



- Excess liquidity in the banking system increased in April 2024, reflecting transfer of maturing investment from the NRBT to the commercial bank.
- Interest rates spread narrowed again by 5.7 basis points to 6.1% in April 2024.
- Both lending rates and deposits rates declined over the month with lending rates declining the fastest.

## Labour Market



- Job vacancies advertised increased to a total of 93 in May 2024. These vacancies were mostly in the public administration.
- The increased job opportunities may reflect recruitment challenges relative to the outflow of employees abroad and job opportunities in the private and regional offices.

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



### Global unemployment to ease in 2024

The International Labour Organization (ILO) in its May 2024 update shared that the global unemployment rate is projected to slightly fall to 4.9% in 2024 from 5.0% in 2023. This is a downward revision from the previous outlook of a rise to 5.2% in 2024. Positive economic performance in the first quarter of 2024, coupled with steady global growth prospects, aided by easing inflationary pressures support the improvement in the global unemployment outlook for 2024. Lower than expected unemployment rates in China and other high-income economies supported this outlook.

Meanwhile, the Australian economy recorded a slight growth of 0.1% in the March 2024 quarter compared to a 0.3% growth in the previous quarter, with a 1.1% growth over the year. Growth was supported by increased consumption spending from both the Government and the household sectors. However, subdued investment activities from both private and public sectors, with net trade deficit widening contributed to slower overall growth in the March 2024 quarter.

The Reserve Bank of New Zealand continued to maintain its official cash rate at 5.5% as it targets to lower inflation towards its 1-3% target range by the end of 2024. Pressures in the labour market continued to ease offloading pressure on wage growth and inflations expectations.

### Domestic activities generally improved in April 2024

Primary sector reported some positive outcomes in April 2024. Total agricultural exports rose over the month by 14.7 tonnes (3.8%), driven by higher export volumes of breadfruit, yam, and coconut. This reflects the abundant breadfruit season in early 2024. Nevertheless, total agricultural export receipts declined slightly by \$0.01 million (0.04%) which may indicate lag in receipts. Several projects are currently underway for the sector, expecting to improve the volume and quality of exports. This includes the agricultural investments by Nishi Trading which will significantly contribute to reducing the high labor costs associated with the outflow of workers abroad for seasonal worker schemes. The introduction of their new technological and advanced machinery will streamline operations, for example allowing tasks that previously required eight labourers a day to be completed by two labourers only. This enhancement in productivity and efficiency will not only boost operational and export capacity but also ease local food prices and improve Tonga's export levels. Other projects also include the smart irrigation systems and improved cold storage for watermelons, and improved fumigation services. At the same time, 12 boats and other marine equipment were handed over to the Vava'u communities as part of the Tonga Fish Pathway project, which is expected to boost activities in the marine sector.

Indicators in the industrial sector for April 2024 showed favourable activities. Credit to the construction sector declined over the month by 13.3% (\$3.2 million). Nonetheless, the sector recorded new loan commitments of \$1.0 million during the month, indicating ongoing construction of both public and private projects. The construction of additional 17 new houses and a town hall for the 'Atata Si'i community is underway, along with the construction of the THS Sports Complex, and other private dwellings. Individual new housing loan commitments of \$3.1 million were recorded during the month. In addition, the Tonga Power Ltd.'s Improvement to Tonga's electricity network infrastructure project (costing around T\$3.8 million) is anticipated to boost sectoral growth in the near term.

The services sector demonstrated mixed performances over the month. International travel slowed down as total passenger arrivals declined by 0.4% (34 passengers), while total passenger departures decreased by 10.6% (892 passengers). Nonetheless, total travel receipts rose by \$0.4 million (3.5%) reflective of the tourists that travelled via cruise ship and yachts. Meanwhile, total number of imported containers also declined over the month by 98 containers (8.8%), due to lower business and private containers. However, wholesale & retail import payments recorded an increase of \$0.1 million (0.3%), which may depict the ongoing stock replenishment by wholesalers and retailers for the upcoming festivities.

### More job vacancies advertised in May 2024

According to the Reserve Bank's survey on job advertisements, total job vacancies rose by 12 vacancies (14.8%) in May 2024. Majority of the job vacancies advertised during the month were in the public administration sector. Annually, total job vacancies advertised to the public fell by 6.9% (67 job vacancies), reflective of the heightened labour demand recorded in previous year. Total job vacancies advertised over the year to May 2024 was attributed mostly to public administration, transport & communication, utilities, and hotel & restaurants sectors.

### Headline inflation is likely to exceed 5% threshold in the near term

The fragile global geopolitical environment poses risks to commodity prices due to possible shocks in the global energy markets and disruptions in international trade. In addition, both imported and local food prices are at risk of further increases due to the resurgence in demand expected with the upcoming local celebrations, including annual church conferences, school anniversaries, and the Heilala Week Festival. The recent El Niño event impacts on local food production and extreme weather events are likely to persist throughout 2024. The forecast models project a range of 3.6% to 5.1% for May 2024.



### Real Effective exchange rates increased

The Nominal Effective Exchange Rate (NEER) declined slightly over the month by 0.3%, reflecting the depreciation in the Tongan Pa'anga against all major currencies except the USD, JPY and CNY. On the contrary, the Real Effective Exchange Rate (REER) rose by 0.2% in May 2024, underpinned by the rising anticipated inflation.

The NEER remains higher by 1.2% compared to the previous year as the TOP generally appreciated against the USD, FJD, JPY and CNY. This may ease imported inflation as overseas payments will become cheaper in terms of the local currency. Similarly, the REER increased over the year by 1.7% in line with Tonga's relatively higher rate of inflation.

### Foreign reserves declined in May

Foreign reserves declined over the month by \$11.8 million mainly due to an increase import payments. This is sufficient to cover over 11 months of imports, which is well above the 7.5 months recommended by the IMF. In year-ended terms, the foreign reserves rose by \$28.2 million. The majority of the official foreign reserves are held in USD, NZD, and AUD.

### Remittance receipts in US dollars drove growth in April

Private transfers continue to hold the highest share of remittances driving the overall monthly growth in April of \$3.0 million (8.2%). This outweighed the decline in all other remittance categories. Remittances received in US dollars increased the most by 22.3% while receipts in Australian and New Zealand dollars declined. This aligns with the persistent positive performance of the US economy, and the depreciation of the Tongan pa'anga against the US dollar during April.

Over the year, total remittance receipts continued to remain stronger by \$18.2 million (3.6%) as the global economy continues its gradual recovery.

### Broad money declined

Broad money decreased over the month of April 2024 by \$3.5 million (0.4%), however rose annually by \$12.7 million (1.5%) to \$849.5 million. The net domestic assets fell over the month and over the year, underpinned by higher government deposits mainly receipts of project funds. Conversely, the net foreign assets increased over the month and over the year, corresponding to the higher foreign reserves.

### Reserve money rose

Liquidity in the financial system increased over both the month and year to April 2024, by \$5.2 million (0.9%) and \$0.4 million (0.1%) respectively, to \$584.1 million. Both the banks' Exchange Settlement Accounts (ESA) and the Currency in Circulation (CIC) increased over the month and offset the declines in the Statutory Reserve Deposits (SRD).

Annually, both SRD and CIC increased and outweighed the decline in the ESA.

### Credit growth declined

The banks' total lending fell over the month but rose over the year to April 2024, by \$4.6 million (0.9%) and \$27.7 million (5.5%) respectively, to \$530.2 million. The monthly decline resulted from lower lending to public enterprises and businesses within the construction, transport and manufacturing sectors. However, household loans increased across all categories over the month.

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

Total deposits in the banks increased by \$8.8 million (1.0%) over the month, and over the year by \$29.0 million (3.3%) to \$901.4 million. These increases were led by higher demand and time deposits. Over the month, the demand deposits from the central government and private businesses increased, along with the time deposits from non-profit organisations. Annually, higher demand deposits were mainly contributed by private businesses again, individuals, and the central government. Similarly, most time deposits were made by the retirement funds and the central government. The loans to deposit ratio decreased in April 2024 to 57.6% compared to 58.7% last month but rose from 56.4% last year, in line with the continuous excess liquidity in the banking system.

### Lending rates decreased

Over the month and year to April 2024, the weighted average interest rate spread narrowed by 5.7 basis points and 12.5 basis points respectively to 6.1%. Both declines were mostly driven by a 6.9 basis points decrease in lending rates over the month and over the year by 10.2 basis points. Lending rates offered to the agricultural, distribution and utilities sectors fell over the month, along with household other personal loan rates, and the non-profit organisations' lending rates. Annually, business loan rates declined mainly for agricultural, transport, and utilities sectors as well as all household lending rates and loan rates offered to non-profit organisations.

The deposit rates however declined over the month by 1.2 basis points but rose annually by 2.4 basis points. The time deposit rates decreased over the month and offset the rise in both the saving and demand deposit rates. Over the year, saving and time deposit rates increased and outweighed the lower demand deposit rates.

### Outlook

Moderate GDP growth is expected for FY 2024 as the economy gradually recovers from the 2022 disasters. Construction activities are expected to bolster growth in FY 2025, supported by events that will be hosted in the country including the upcoming Pacific Forum Meeting. Demand is



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rebounding stronger than initially anticipated given the preparations for the upcoming local celebrations, offsetting some of the favourable movement in the local energy prices (including electricity tariff) in the second quarter. As a result, NRBT has revised its projection indicating that inflation may rise above the 5% reference rate in the near term. Nonetheless, foreign reserves are projected to remain above the IMF's prescribed level of 7.5 months of imports cover in the near to medium term. The banking system maintains high liquidity and sufficient capital reserves to absorb potential future shocks. One financial institution is under close supervision, highlighting the need for vigilant oversight to ensure stability. The Reserve Bank will continue to closely monitor inflation trends while also supporting economic recovery efforts.

## KEY INDICATORS

		Apr-23	Jan-24	Feb-24	Mar-24	Apr-24
<b>1. Sectoral Performance Indicators*</b>						
(year-on-year % change)	Visitor arrivals	10,053.6	152.9	127.9	104.7	82.6
	Travel receipts	301.1	101.5	84.5	72.1	67.4
	Electricity production	7.1	-2.0	11.9	3.2	9.0
	Agricultural exports <sup>1/</sup>	-15.7	8.6	5.5	-1.6	-8.8
<b>2. Consumption Indicators*</b>						
(year-on-year % change)	New vehicle registrations	16.6	0.1	-4.4	-1.2	0.8
	Container registrations	1.8	8.4	11.6	18.0	18.4
	Electricity consumption	2.4	1.7	1.6	1.4	1.2
	Remittances	6.7	10.5	7.7	4.3	4.2
<b>3. Consumer Prices**</b>						
(year-on-year % change)	All items <sup>2/</sup>	6.9	6.5	3.6	3.2	3.7
	Domestic	10.1	9.1	3.7	3.8	4.9
	Imported	4.4	4.2	3.5	2.7	2.8
	Core inflation (ex energy & food)	10.4	9.5	4.9	4.9	6.0
<b>4. Labour Market***</b>						
(year-on-year % change)	NRBT Job Advertisement survey	100.0	-7.8	19.4	-28.4	22.7
<b>5. Reserves***</b>						
(end of period)	Foreign Reserves (\$m) <sup>3/</sup>	860	895	891	869	905
	Months of imports	11.1	11.5	11.4	11.1	11.6
<b>6. Exchange Rates***</b>						
(end of period, TOP\$1 equals (index, Dec 2006=100))	US dollar	0.4232	0.4226	0.4212	0.4199	0.4196
	Australian dollar	0.6381	0.6404	0.6483	0.643	0.6392
	New Zealand dollar	0.6885	0.6896	0.6907	0.6997	0.702
	Fijian dollar	0.9392	0.9537	0.9534	0.9571	0.9604
	Nominal effective exchange rate	93.6	94.9	95.1	95.4	95.7
	Real effective exchange rate	116.8	120.7	119.3	120.0	120.6
<b>7. Liquidity***</b>						
(end of period)	Reserve money (\$m) <sup>3/</sup>	584	613	604	579	584
	Currency in circulation (\$m) <sup>3/</sup>	111	123	113	117	117
	Exchange settlement account (\$m) <sup>3/</sup>	388	359	359	331	338
	Required reserve (\$m) <sup>3/</sup>	84	132	132	131	129
<b>8. Money and Credit***</b>						
(year-on-year % change)	Broad money	-0.9	0.3	0.4	1.1	1.5
	Net foreign assets	-2.6	-2.9	-2.8	-2.9	4.7
	Net Domestic Asset	-58.5	-50.5	-55.3	-119.9	249.0
	Narrow money	-3.6	4.2	3.6	8.2	5.3
	Total Lending	7.7	6.4	5.7	8.5	5.5
	Business lending	15.9	8.3	6.7	11.9	5.5
	Household lending	1.4	4.6	4.7	5.2	5.5
	Total Deposits	2.9	3.6	3.0	1.4	3.3
<b>9. Interest Rates (%)***</b>						
(monthly weighted average)	Lending rate	7.81	7.78	7.79	7.78	7.71
	Savings deposit rate	1.57	1.56	1.57	1.60	1.59
<b>10. Commodity Prices****</b>						
(end of period)	Crude oil/barrel (US\$)	83.69	78.94	81.71	84.47	89.11

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