



# Snapshot of the Tongan Economy

October 2024 Release

## Overseas Economy



- Global economic performance improved in August 2024, driven by strong performance in services exports and activities.
- Global financial conditions continued easing as the US Federal Reserve reduced its federal reserve rate by 50 basis points to a range of 4.75% - 5.00% in September 2024.
- Meanwhile, the Reserve Bank of Australia in its September 2024 Monetary Policy decision continued with its current cash rate target of 4.35% as inflation still remains above its 2-3% inflation target range. The Reserve Bank of New Zealand however reduced its official cash rate to 5.25% as headline inflation continues to decline, and business inflation expectations have eased towards the 2.0% target.

## Domestic Economy



- Domestic activities generally slowed in August 2024 with mixed performances in the primary sector as agricultural exports declined despite an increase in agricultural export receipts.
- Growth in the industrial sector remained favorable given the ongoing implementation of public and private projects including the government center in 'Eua and community halls.
- The services sector slowed down in August 2024 following the end of the festive months. Both travel receipts and passenger arrivals declined. This is also reflective in the decline in business container registrations indicating a slowdown in trading and consumption activities. Total remittances inflow decreased in August 2024 but still remained firm.

## Domestic Inflation



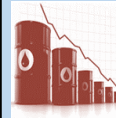
- Annual headline inflation rose to 3.5% in August 2024 from higher domestic and imported prices.
- The increase in domestic prices owed primarily to local food items, kava, electricity, and alcoholic beverages. The main contributors for the increase in imported prices were goods for personal care, household items & appliances, fuel, clothing, and alcoholic beverages.

## Banking System



- Broad Money increased in August 2024 by 1.5%.
- Credit growth of 5.0% was recorded for the year to August 2024. Both lending to businesses and household contributed to the annual increase, reflecting higher consumer confidence and economic recovery following the double disaster experienced throughout 2022.
- Total deposits rose over the month to \$942.1 million in August 2024.
- Loans to deposit ratio increased to 56.4% in August 2024 as credit growth was higher than the increase in deposits.
- Non-performing loans to total loans ratio was 11.6% in August 2024 compared to 8.8% a year ago, underpinned by a single institution which increases the risk to the sector.
- Financial stability is maintained.

## Global Prices



- Average price of Brent crude oil price declined further to a low of US\$73.12/ barrel in September 2024 from US\$78.96 in August 2024.
- Brent crude oil is expected at an average of USD\$76/barrel by end of October 2024.
- Food prices increased in September 2024 by 3% from August 2024, marking the largest monthly increase since March 2022. Prices for all commodities increased predominantly sugar, vegetable oil and dairy products.

## Foreign Reserves



- Foreign reserves diminished further in September 2024 to \$887.4 million, 10.2 months of imports cover.
- Remittances decreased in August 2024 to \$49.1 million as high months come to a close.
- External overall balance<sup>1</sup> expanded to a lower deficit of \$3.5 million in August 2024 following large outflows for offshore investment and import payments in the previous month.

## Exchange Rates



- The NEER declined again in September 2024 as the TOP depreciated against all major trading currencies except USD.
- The REER continued weakening in September 2024, coinciding with the lower NEER.

## Liquidity & Interest Rates



- Excess liquidity in the banking system increased in August 2024 in line with the higher deposits.
- Interest rates spread narrowed by 2.0 basis points to 6.2% in August 2024.
- The deposit rates increased over the month by 1.8 basis points, offsetting a decline in lending rates by 0.2 basis points.

## Labour Market



- Job vacancies declined again in September 2024 to a total of 63 jobs advertised compared to 65 vacancies in the previous month.
- These vacancies were largely from public administration, financial intermediation, and health & social work
- Total job vacancies advertised to the public declined also over the year by 4 vacancies.
- Job recruitment remained a challenge due 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.



### Mixed performance in global trade activities

The World Bank Group's September 2024 global monthly update reported that whilst overall economic activity stabilized, global trade activities varies. The Purchasing Manager Index (PMI), which is the global indicator for economic performance, improved in August 2024 driven by stronger services exports and activities. Although global goods trade has showed signs of expansion in quarter 2 of 2024, there are concerns about the sustainability of this recovery. Global manufacturing indicators continued to fall since May 2024 in both Emerging Market and Advanced Economies with notable weaker demand in China.

Global disinflation continues largely influenced by easing energy prices, which fell by 3% in August 2024, and similarly for most agricultural prices. Global financial conditions have also eased largely due to the US Federal Reserve's decision to reduce its federal reserve rate by 50 basis points to a range of 4.75% - 5.00% in September 2024. Further cuts of 75 basis points are projected towards the end of 2024 which will help relieve pressures on countries with high debt levels.

Meanwhile, the Reserve Bank of Australia in its September 2024 Monetary Policy decision maintained its cash rate target at 4.35% as inflation still remains above its 2-3% inflation target range. Conversely, the Reserve Bank of New Zealand reduced its official cash rate by 25 basis points to 5.25% in August 2024, as headline inflation continues to decline and business inflation expectations have moderated towards the 2.0% target.

### Domestic activities generally slowed in August 2024

Indicators in the primary sector showed mixed results in August 2024. Total agricultural export volumes declined by 109.2 tonnes (16.3%) due to lower exports of cassava, taro, coconut, and yam. Nonetheless, total agricultural export receipts slightly rose by \$0.01 million (3.7%) which may indicate lag in receipts. The sector's growth is expected to move forward with the implementation of private projects such as the new Cool Storage and Solar-Powered Facility at Nishi Trading. These investments are anticipated to enhance export quality, widen market access, and improve both efficiency and cost-effectiveness.

Growth in the industrial sector remains favorable driven by ongoing public and private projects. A new Government center is currently under construction in 'Eua as part of recovery programs, with a cost of approximately \$1.7 million. Additionally, under the Japan's GGP<sup>1</sup> program, two villages have received funds for the construction of a Community Hall (approx. USD\$0.1 million) and Improvements of Water Supply System (approx. US\$0.1 million).

The overall performance of the services sector slowed in August 2024 compared to the vibrant activities in previous

months. Total passenger arrivals declined by 1,249 passengers (9.1%), while total passenger departures fell by 2,640 passengers (17.3%). Coincidentally, total travel receipts decreased over the month by \$1.2 million (6.7%). At the same time, the total container registrations declined in August 2024 by 108 containers (8.2%), owed mainly to lower business containers. This may indicate a slowdown in trading activities following the festive season. This is aligned with the declined imports payment excluding oil of \$1.7 million (3.1%), along with the lower wholesale & retail imports payment of \$3.1 million (8.7%).

### Fewer job vacancies advertised in September 2024

According to the Reserve Bank's survey on job advertisements, there were 63 job vacancies advertised to the public in September 2024, a slight decline from 65 in the previous month. Majority of the job vacancies were in public administration, financial intermediation, and health & social work. At annual rate, total job vacancies slightly fell by 4 vacancies (0.4%). The yearly total stemmed largely from public administration, transport & communications, utilities, and hotel & restaurants.

### Headline inflation rose to 3.5% in August 2024

The Consumer Price Index continued to decline over the month by 0.4%, due largely to an overall decrease in domestic prices. Local food prices fell in August 2024 as domestic supply increased given the ongoing harvest season for several root crops and vegetables. Prices of local food items remain susceptible to the upcoming cyclone season, and high demand during the Christmas Holiday season. Meanwhile, prices of kava, tobacco, and non-alcoholic beverages rose, partially offsetting some of the decreases. On the contrary, the overall imported inflation recorded an increase fuelled primarily by goods for personal care, non-alcoholic beverages, household items, imported food items, and tobacco. This is partially reflective of the pressures and potential risks stimulated by the intensifying Israel-Hamas conflict on shipping logistics and freight charges. On the other hand, price of fuel and alcoholic beverages eased over the month.

The headline inflation slightly increased to 3.5% in August 2024 from 3.0% in the previous month, higher than 2.9% in August 2023. Domestic prices contributed around 2.8 percentage points (pps) to the headline inflation. The main contributors were local food items, kava, electricity, and alcoholic beverages. Meanwhile, price of catering services, clothing, tertiary education, and labor costs fell over the year. Imported inflation contributed 0.7 pps to the headline inflation, which stemmed mostly from goods for personal care, household items & appliances, fuel, clothing, and alcoholic beverages. Conversely, price of imported food

<sup>1</sup> Grass Roots Human Security Projects



items, construction materials, tobacco, and non-alcoholic beverages declined at annual rate.

Core inflation took an upturn in August 2024 to 2.5% from 1.6% July 2024. This indicates the further increase in price of kava Tonga, and imported goods such as goods for personal care, household items & appliances, and clothing. Meanwhile, non-core inflation stabilized around 4.2% in August 2024 compared to the previous month.

### Effective exchange rates declined further in September

The Nominal Effective Exchange Rate (NEER) declined over the month by 0.4%, underpinned by the depreciation in the Tongan Pa'anga against all major currencies except the US Dollars (USD) (month ended). Similarly, the Real Effective Exchange Rate (REER) fell in September 2024 by 0.6%, in line with the lower NEER.

On a year-end basis, the NEER weakened by 1.6% compared to the previous year as the TOP generally depreciated against all major currencies except for the USD. This ongoing depreciation is expected to further elevate imported inflation, as overseas payments become increasingly expensive. However, the REER increased over the year parallel to Tonga's relatively higher inflation rate.

### Foreign reserves decreased further from external loan repayments

Foreign reserves stood at \$887.4million, reflecting a \$18.1 million decline during September 2024, primarily due to Government debt repayment. The level of foreign reserves represents 10.2 months of imports, surpassing the IMF's recommended threshold of 7.5 months. Additionally, foreign reserves were \$16.7 million higher compared to the same period last year. The majority of the official foreign reserves are held in USD, NZD, and AUD.

### Remittances fell but persisted well above \$40 million in August

Despite the lack of local festivities and a relatively quiet month, remittances declined only slightly by \$0.6 million to a total \$49.1 million. This was due to decreases in all remittances categories except employee compensation. Private transfers remained the primary driver of the decline, followed by the private capital transfers and social benefits.

Remittances received in USD declined the most by 10.4% reflecting the appreciation of the Tongan pa'anga against the USD in August. Conversely, remittances received in Australian dollars and New Zealand dollars increased over the month.

Similarly, total remittance receipts weakened over the year by \$16.1(3.0%), reflecting a slowdown in remittance for coping purposes following the HTHH volcanic eruption disaster in January 2022.

### Broad money climbed

Broad money rose in August 2024 to \$898.6 million, by \$13.0 million (1.5%) over the month and \$43.9 million (5.1%) annually. Both rises were mainly driven by higher

net domestic assets, mainly on higher net credit to central government (lower government deposits) and credit to private sectors. Net foreign assets also increased over the month and year, in line with higher other foreign assets over the month and increased foreign liabilities over the year.

### Reserve money increased

Liquidity in the financial system grew also over the month and over the year to July 2024, by \$3.9 million (0.6%) over the month and \$15.1 million (2.5%) over the year, to a total of \$617.6 million. The Exchange Settlement Account's (ESA) increased over the month and outweighed the declined in both the Statutory Required Deposits (SRD) and the Currency in Circulation (CIC). The higher ESA corresponded to net deposits to Reserve Bank vault. Annually, all the three major categories rose, led by currency in circulation then followed by SRD and ESA, reflecting higher demand for currency and higher deposits.

### Total lending reached a peak in August

The banks' total lending rose in August to a new high of \$541.9 million, an increase of \$5.1 million (0.9%) over the month and \$25.9 million (5.0%) annually. Both rises reflect the continued improvement in consumer confidence and economic recovery following the impacts of the HTHH volcanic disaster in January 2022.

Over the month, lending to public enterprises and businesses within the distribution, tourism and professional & other services sectors increased, along with household housing loans.

Similarly, over the year, more loans were issued to the tourism, distribution and professional & other service sectors as well as all categories of individual loans with housing loans contributing the most, followed by other personal loans and vehicle loans.

Total bank deposits rose by \$4.5 million (0.5%) over the month, and over the year by \$31.8 million (3.5%) to \$942.1 million. The higher deposits over the month were mostly driven by the increased demand deposits from retirement funds and more saving deposits from non-profit organisations. The annual growth in deposits was attributed to higher demand and time deposits from the private sector. Total loan to deposit ratio increased to 56.4% in August 2024 from 56.1% in the previous month as the rise in total loans offset the increase in deposits.

### Interest rates spread narrowed

In August 2024, the weighted average interest rate spread narrowed by 2.0 basis points from the previous month but rose annually by 14.7 basis points to 6.2%. Deposit rates increased by 1.8 basis points over the month which offset a 0.2 basis points decline in lending rates. All the three categories of deposit rates increased, led by saving deposit rates, followed by time and demand deposit rates. The



increased saving and demand deposit rates corresponded to higher deposits from retirement funds, public businesses and the private sector. The lower lending rates over the month attributed mainly to non-profit business rates, household other personal lending rates, and business rates offered to the manufacturing, agricultural and utilities sectors.

Over the year, lending rates increased by 16.1 basis points outpacing the rise in deposit rates of 1.4 basis points. Lending rates offered to the entertainment & catering, agricultural and fisheries sectors increased over the month as well as the non-profit organisations and other commercial loan rates. Similarly, all deposit rates increased over the year, led by savings deposit rates, then followed by higher time and demand deposit rates. The volume of deposits increased by \$31.8 million (3.5%) driven mostly by higher demand and time deposits.

### Financial Stability

The latest revised Aggregate Financial Stability Index (AFSI) for Tonga<sup>2</sup> (December 23) indicates a slight quarter-on-quarter improvement of 2.2 index points to 0.74 since September 2023. The increase is predominantly attributed to increases within the Financial Development (FDI) and World Economic Conditions (WECI) Indexes outpacing decreases in Tonga's Financial Vulnerability (FVI) and

Financial Soundness (FSI) Indexes. Key economic indicators causing this shift include improvements in Tonga's Credit-to-GDP ratio as well a reduction in the Chicago Board Options Market Volatility Index. Annually the AFSI increased by 7 index points from 0.67 with the FSI being the only sub-index to experience a decline. Most notably, due to the significant deterioration of the domestic bank's Non-Performing Loans (NPL) ratio. Tonga's AFSI remains above the long-term average of 0.59.

### Outlook

Overall, the global economy is navigating a complex landscape with both positive and negative indicators. Recent escalation of conflicts in the Middle-East may affect growth through higher inflation expectation especially for oil prices. Outlook for the Tongan economy remains positive, supported by infrastructure projects, tourism, and domestic events. However, global geopolitical tensions, potential disruptions to trade, and the upcoming cyclone season could pose downside risks. Inflation is currently below the 5% reference rate but the NRBT continues to closely monitor the inflationary environment and will adjust its policies accordingly. 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. The overall financial system maintains stability with high liquidity but risks to asset quality and capital positions are tilted to the downside.

<sup>2</sup> 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 FY23 and Q3 & Q4 2023 based on NRBT's forecasts.



## KEY INDICATORS

		Aug-23	May-24	Jun-24	Jul-24	Aug-24
<b>1. Sectoral Performance Indicators*</b>						
(year-on-year % change)	Visitor arrivals	1,656.1	62.6	51.0	33.2	23.1
	Travel receipts	352.1	57.5	42.0	30.9	26.2
	Electricity production	2.6	10.6	24.5	22.6	19.9
	Agricultural exports <sup>1/</sup>	-5.3	-10.9	-14.8	-12.9	-14.9
<b>2. Consumption Indicators*</b>						
(year-on-year % change)	New vehicle registrations	5.7	6.5	9.4	11.2	12.8
	Container registrations	12.7	18.4	17.8	11.0	12.9
	Electricity consumption	1.9	1.0	0.7	0.6	0.5
	Remittances	12.2	1.0	-1.5	-3.0	-3.0
<b>3. Consumer Prices**</b>						
(year-on-year % change)	All items <sup>2/</sup>	2.9	4.9	5.4	3.1	3.5
	Domestic	3.8	7.5	10.2	5.5	6.3
	Imported	2.2	2.8	1.4	0.7	1.2
	Core inflation (ex energy & food)	9.5	7.9	8.4	4.4	5.1
<b>4. Labour Market***</b>						
(year-on-year % change)	NRBT Job Advertisement survey	-9.3	-38.4	59.6	20.2	-4.4
<b>5. Reserves***</b>						
(end of period)	Foreign Reserves (\$m) <sup>3/</sup>	920	893	924	909	906
	Months of imports	11.9	11.5	11.9	11.5	10.4
<b>6. Exchange Rates***</b>						
(end of period, TOP\$1 equals index, Dec 2006=100)	US dollar	0.419	0.4226	0.4222	0.4183	0.4268
	Australian dollar	0.6466	0.6369	0.6351	0.6396	0.6276
	New Zealand dollar	0.7016	0.6906	0.6938	0.709	0.6817
	Fijian dollar	0.9566	0.9574	0.9572	0.9579	0.9512
	Nominal effective exchange rate	95.3	95.4	95.8	95.8	94.3
	Real effective exchange rate	119.0	122.1	124.3	122.9	120.4
<b>7. Liquidity***</b>						
(end of period)	Reserve money (\$m) <sup>3/</sup>	602	605	632	614	618
	Currency in circulation (\$m) <sup>3/</sup>	118	122	128	132	130
	Exchange settlement account (\$m) <sup>3/</sup>	351	353	369	343	352
	Required reserve (\$m) <sup>3/</sup>	133	130	135	139	136
<b>8. Money and Credit***</b>						
(year-on-year % change)	Broad money	1.3	8.1	7.6	3.4	3.4
	Net foreign assets	5.9	8.7	5.4	-0.2	-0.2
	Net Domestic Asset	1244.3	111.7	-36.5	-57.2	-57.2
	Narrow money	5.8	16.6	15.8	6.4	7.5
	Total Lending	7.6	5.7	4.1	4.8	5.0
	Business lending	15.2	5.4	2.2	3.2	3.8
	Household lending	1.8	5.9	6.0	6.4	6.2
	Total Deposits	6.0	8.8	6.6	1.7	3.0
<b>9. Interest Rates (%)***</b>						
(monthly weighted average)	Lending rate	7.61	7.79	7.79	7.77	7.77
	Savings deposit rate	1.57	1.56	1.52	1.57	1.59
<b>10. Commodity Prices****</b>						
(end of period)	Crude oil/barrel (US\$)	85.05	83.28	82.82	83.93	78.96

## 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