



## MONTHLY ECONOMIC REVIEW

Vol. 4

No. 9

Month Ended: September 2017

International developments continued to remain relatively firm over September. Both the Reserve Bank of Australia and the Reserve Bank of New Zealand reported again for this month unchanged monetary policy settings. Whilst economic conditions in Australia stabilised, weak wage growth and low inflation remains. The June quarter GDP for New Zealand grew in line with expectations due to recovering exports. The US Federal Reserve Bank kept its official interest rates unchanged due to recent firm economic performance. The fiscal stimulus programme is expected to unwind next month.

Indicators of domestic activity over the month of September were mixed. This was supported by strong performance in the agricultural exports which rose by 329.0 tonnes (36.7%) due to higher exports of squash, brown coconut, and watermelon. Additionally, lending to the agricultural sector increased by 1.4% over the month. On-going construction activities continued to boost performance in the secondary sector, which coincided with a 3.8% growth in business lending for construction and 1.5% increase in individual housing loans. On the other hand, economic activities in the tertiary sector slowed. Total air arrivals declined by 412 passengers (4.2%), in line with a \$1.0 million decrease in travel receipts. In addition, total number of container registrations decreased by 96 (8.1%), due to a fall in both business and private containers. Additionally, marine exports also fell by 177.5 tonnes (64.8%).

As a partial indicator of employment, the total number of job advertisements fell over September 2017 by 7 vacancies and over the year by 121 vacancies.

Monthly headline inflation continued to fall by 0.1% in September, driven by the continuous abundant supply of local fruits and vegetables. The prices of local cereal products also declined followed by the prices of communication services. However, imported inflation was still on the rise due to higher prices of imported food, such as apples, oranges, potatoes, lamb flaps, and chicken pieces.

Prices	Monthly		Annual	
	Sep-17	Aug-17	Sep-17	Aug-17
Headline Inflation (%)	-0.1	-0.2	5.8	5.2
Domestic prices	-1.3	-2.0	2.6	3.9
Imported prices	0.9	1.2	8.1	6.2

Source: Statistics Department

The annual headline inflation increased by 5.8% compared to 5.2% in August 2017 but lower than 7.1% in September 2016. Imported inflation rose by 8.1%,

triggered by an increase in prices of a variety of imported goods. All various types of imported food reflected an annual rise, led by the increase in prices of meat and fruits. Prices of other commodities such as alcohol & tobacco, and oil prices also increased over the year. The domestic inflation rate rose by 2.6% over the year driven by higher prices of household operation goods such as household furniture and electricity, followed by the price of kava-Tonga, and house maintenance services.

	Monthly			Annual	
	Sep-17	Aug-17	% Growth	Sep-16	% Growth
Nominal Effective Exchange Rate Index	91.5	91.5	0.1	90.4	1.3
Real Effective Exchange Rate Index	105.7	105.6	0.1	100.4	5.2

Sources: NRBST

In September 2017, the Tongan Pa'anga appreciated against the AUD and FJD, which resulted in a slight increase in both the Nominal Effective Exchange Rate (NEER) index and the Real Effective Exchange Rate (REER) index over the month and year. The rise in the REER index also reflected Tonga's higher headline inflation rate relative to its trading partners, which may impact the international competitiveness of the Tongan exports of goods and services.

	Monthly			Annual		
	Sep-17	Aug-17	% Growth	Sep-17	Sep-16	% Growth
OET Receipts (TOP \$ million)	58.8	69.2	-15.1	757.9	680.8	11.3
Export receipt	1.0	2.5	-61.1	23.8	17.8	34.1
Travel receipts	11.6	12.6	-7.9	114.6	87.3	31.2
Private transfers	23.0	25.7	-10.3	273.1	238.0	14.7
Others	23.2	28.4	-18.5	346.5	337.7	2.6
OET Payments (TOP \$ million)	67.4	63.3	6.5	663.1	595.1	11.4
Import payments	33.8	40.0	-15.6	378.4	340.1	11.3
Services payments	13.5	14.5	-6.4	141.5	130.3	8.6
Primary income payments	6.6	2.9	126.1	38.2	18.0	112.0
Others	13.4	5.8	129.5	104.9	106.6	-1.6

Source: Banking System

Total Overseas Exchange Transaction (OET) receipts declined by 15.1% to \$58.8 million in September 2017. This was attributed mainly to lower official receipts, following the inflows of Government budgetary support last month and a decrease in family support receipts. In year ended terms, total OET receipts rose by 11.3% to \$757.9 million driven by higher inflows of private remittance and travel receipts. Total OET payments however rose over the month by 6.5% to \$67.4 million as dividends paid to non-resident shareholders rose by more than double. Over the year, total OET payments increased by 11.4% to \$663.1 million, particularly payments for importing of wholesale & retail goods. The overall OET balance for September 2017 recorded a deficit of \$2.0 million. This contributed to the decline in the official foreign reserves to \$403.0 million, equivalent to 6.8 months<sup>1</sup> of import cover, which is above the Reserve Bank's minimum range of 3-4 months.

<sup>1</sup> Method of calculation changed in February 2017 to include both imports of goods & services (previous method used imports of goods only)



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	Monthly			Annual	
	Sep-17	Aug-17	% Growth	Sep-16	% Growth
Foreign Reserves (\$ in million)	403.0	405.0	-0.5	363.7	10.8
Import Coverage (months)	6.8	6.9		6.9	

Source: NRBT

Broad money (money supply) declined over September, due to a decrease in net foreign assets (commercial banks' foreign currency accounts/foreign reserves) outweighing the increase in net domestic assets (rise in net domestic credit). Annually, broad money increased driven significantly by a rise in the foreign reserves.

Money	Monthly			Annual	
	Sep-17	Aug-17	% Growth	Sep-16	% Growth
Money Supply (\$ in million)	549.7	552.3	-0.5	496.2	10.8
Net Foreign Asset	419.0	429.0	-2.3	372.8	12.4
Net Domestic Asset	131.0	123.4	6.2	123.4	6.2

Source: Banking System, NRBT

Liquidity in the banking system (reserve money) increased slightly over September to \$283.0 million. This resulted mainly from an increase in deposits by the commercial banks to the Reserve Bank vault. The banks' total loans to deposit ratio slightly fell to 75.1% in September from 75.2% last month. This reflected a \$2.6 million (0.5%) increase in total deposits outweighing the increase in total lending of \$1.4 million (0.3%). This ratio continues to remain below the 80% loan to deposit ratio target which indicates excess liquidity in the banking system remains and that there is capacity for further lending by banks.

Total banks' lending increased over September to \$417.0 million, driven solely by more household loans, particularly housing loans. This offset the decrease in business lending over the month. Over the year, total banks' lending increased due to more lending to both businesses and households. Growth in lending to the wholesale & retail, manufacturing, and transport sectors drove the higher business loans whilst housing, vehicle, and personal loans led the rise in lending to households. This continued to support the domestic economic activities evident throughout the year. The lower interest rates from the Government Development Loans have also supported the higher lending to these sectors.

Lending	Monthly			Annual	
	Sep-17	Aug-17	% Growth	Sep-16	% Growth
Total Lending (\$ in million)	417.0	415.6	0.3	362.7	15.0
Business lending	180.8	181.8	-0.6	161.7	11.8
Household lending	235.1	232.6	1.1	199.7	17.7
Other lending	1.1	1.2	-10.8	1.3	-19.6

Source: Banking System, NRBT

The weighted average interest rate spread narrowed over September as well as over the year to 5.665%. This resulted from a rise in the weighted average deposit rate

outweighing the increase in the weighted average lending rate. The weighted average lending rate rose due to higher rates for the loans to the manufacturing, construction, and tourism sectors. Additionally, higher lending rates for household loans resulted from an increase in interest rates for housing, vehicles, and personal loans. Meanwhile, the weighted average deposit rate rose due to higher demand and term deposit rates whilst saving deposit rates decreased. Annually, the weighted average interest rate spread narrowed reflecting the low interest rate environments which supported the substantially higher growth in lending to households and businesses.

Interest Rates	Monthly			Annual	
	Sep-17	Aug-17	Growth (bps)	Sep-16	Growth (bps)
Weighted Average Banks Deposit Rate (%)	2.186	2.148	3.8	2.206	-2.0
Weighted Average Banks Lending Rate (%)	7.851	7.828	2.2	7.880	-2.9
Weighted Average Interest Rate Spread (%)	5.665	5.680	-1.5	5.674	-0.9

Source: Banking System, NRBT

Net credit to Government continued to rise over the month by \$1.5 million, driven by a fall in government deposits. This reflected higher external debt service payments and other government expenditures during the month. Net credit to Government however fell over the year by \$44.3 million due to receipts of budgetary support funds and improved government revenue collection.

The Reserve Bank's outlook for strong domestic economic activity remains in the medium term. The level of foreign reserves is also expected to remain at comfortable levels supported by expected higher receipts of remittances and foreign aid. This will be partially offset by the projected rise in imports. Upward inflationary pressure remains in the near term, however it is expected to fall below the Reserve Bank's inflation reference rate of 5% per annum in 2017/18. In light of the above developments and that the banking system remained sound, the Reserve Bank Board maintained its current monetary policy measures. The Reserve Bank will remain vigilant and continue to closely monitor developments in the domestic and global economy for early signs of vulnerability or overheating of the economy. Furthermore, the Reserve Bank will continue to update its monetary policy setting to maintain internal and external monetary stability and to promote a sound and efficient financial system, in order to support macroeconomic stability and economic growth.