

China's industrial slowdown causes global concern

The Chinese economy stirred international worry considering industrial output is moving at its slowest pace since 2002. This resulted mainly from lower exports to the US which dropped by 16% since a year ago. This highlights how concerning the trade crisis has become between the US and China. The US, however, revealed a 1.9% growth in GDP for the third quarter driven by consumer spending and government expenditure, although this is still slower compared to previous quarters. Meanwhile, the Reserve Bank of Australia cut its official cash rate (OCR) to 0.75%, which is the lowest its ever been. This was on the back of slow employment growth and low inflation. As for the Reserve Bank of New Zealand (RBNZ), it left its OCR unchanged at 1.00% as inflation is within target range and employment is around its maximum sustainable level.

Domestic economic performances continue to vary

Activities in the primary sector were mixed in September 2019. Fish exports, more than doubled over the month by 344.8 tons (227.7%) to a record high of 496.2 tons, driven mostly by exports of tuna which rose by 366.2 tons (422.4%) due to more trips made by fishing vessels during the month. Exports of aquarium products, on the other hand, fell by 3,045 pieces (17.2%). Over the year, exports of both marine and aquarium products rose by 1,253.9 tons (142.6%) and 7,727 pieces (3.4%) respectively, in line with the \$2.5 million (41.8%) increase in export proceeds for the same period. Agricultural export proceeds, however, declined over the month and year by \$0.3 million (23.4%) and \$0.7 million (6.2%) respectively. Meanwhile, lending to the agricultural sector rose by \$0.1 million (1.0%) in September and \$1.1 million (10.3%) over the year. The agricultural sector remains hopeful that squash and vanilla will yield positive outcomes this year due to more favourable weather conditions. The local supply of agricultural products such as root crops and kava Tonga are also improving as reflected by the lower prices of domestic food and kava compared to the same time last year.

Partial indicators point to slower activities in the industry sector in September 2019. Lending to the construction, mining & quarrying, manufacturing and utility sectors declined over the month and year to September 2019. Individual housing loans also declined by \$0.2 million (0.1%) during the month, however, rose over the year by \$7.3 million (3.7%). Import payments for construction materials also declined by \$0.4 million (18.3%), and \$0.2 million (6.3%) over the month and year to September 2019.

Performance in the tertiary sector were mixed. The number of international flights fell in September by 15 flights (14.0%), resulting in the decline in air arrivals by 795 passengers (7.6%), and departures by 1,456 passengers (13.5%). Consequently, travel receipts also declined by \$1.5 million (10.9%) in September 2019.

However, air arrivals and departures rose over the year by 4,764 passengers (7.9%) coinciding with an annual rise in travel receipts of \$23.4 million (21.0%). Container registrations rose by 316 registrations (32.6%) over the month as both business and private registrations increased by 123 (19.7%) and 193 (55.9%) containers respectively. Over the year, total container registrations rose by 1,086 registrations (8.9%) driven solely by business registrations which increased by 1,697 containers (26.4%), and outweighed the decline in private containers. This rise further coincided with the \$5.7 million (2.3%) increase in payments for wholesale and retail trade imports. Vehicle registrations declined again by 37 vehicles (11.4%) over the month, corresponding to a \$0.4 million (23.2%) decline in import payments for motor vehicles.

Demand for labour in Public Administration

The Reserve Bank survey on job advertisements shows that 34 vacancies were advertised in September 2019, compared to 33 in the previous month and 35 in the same month last year. 30 of these vacancies (88%) were from the Government ministries. Over the year, job advertisements also rose by 8 vacancies (1.9 %) due to an increase in the number of vacancies advertised within the services sector. This indicates a rising demand for labour in Tonga and should assist in reducing the unemployment rate.

Headline inflation picks up in September

Table 1: Inflation Rates

Prices	Monthly		Annual	
	Sep-19	Aug-19	Sep-19	Sep-18
Headline Inflation (%)	-0.1	0.5	0.4	5.5
Domestic prices	-0.7	0.0	-1.1	5.7
Imported prices	0.4	0.8	1.6	5.4

Source: Statistics Department

A 0.1% monthly deflation was recorded in September 2019 attributing mostly to lower domestic prices which outweighed the rise in import prices. The lower domestic prices stem from cheaper prices of kava-Tonga and local food. Kava-Tonga has been declining consistently since September 2018, from \$150 per kg to \$105 per kg. In addition, local food such as root crops, vegetables, marine food and eggs also recorded cheaper prices. Import prices, however, rose over the month and was driven by the increase in fuel prices, clothing & footwear, and imported food items. Food items such as chicken, mutton, onions, and flour recorded higher prices, which also reflects higher prices charged by overseas suppliers on imported meat.

Tonga reverts back to annual headline inflation in September 2019 of 0.4%, following a 0.1% deflation in August 2019, and compared to a 5.5% inflation in September 2018. This was driven by imported inflation which rose by 1.6% offsetting the decline of 1.1% in domestic prices. Higher import prices were noted for

alcoholic beverages, tobacco, clothing & footwear, and imported food items such as meat, vegetable, and flour. Fuel prices, however, declined over the year. Domestic prices continued to record negative annual growth of 1.1%, due to cheaper prices of kava-Tonga, Tongan tobacco and local food such as root crops, vegetables, sausages and eggs. This indicates continued improvements in the supply shortages of kava, root crops, and vegetables compared to the same time last year.

Table 2: 'Average prices of selected domestic items'

Items (\$ per kg)	Unit	Monthly			Annual	
		Sep-19	Aug-19	Change	Sep-18	Change
Kava	1 kg	\$105.00	\$112.50	-\$7.50	\$147.50	-\$42.50
Carrots	1 kg	\$1.82	\$2.45	-\$0.63	\$3.72	-\$1.90
Yams-late	1kg	\$2.34	\$2.47	-\$0.13	\$4.08	-\$1.74
Kumala	1 kg	\$2.00	\$1.96	\$0.04	\$2.93	-\$0.93
Eggs	1 tray	\$16.67	\$17.33	-\$0.66	\$17.30	-\$0.63
Talo-Futuna	1 kg	\$1.39	\$1.52	-\$0.13	\$1.91	-\$0.52
Capsicum	1 kg	\$10.23	\$15.45	-\$5.22	\$10.53	-\$0.30
Talo-Tonga	1 kg	\$2.07	\$1.68	\$0.39	\$2.28	-\$0.21
Lu	1 kg	\$5.40	\$4.34	\$1.06	\$5.50	-\$0.10
stringed fish (mixed)	1 kg	\$9.00	\$9.00	\$0.00	\$9.00	\$0.00

Source: Statistics Department

Competitive exchange rates

Table 3: Effective Exchange Rates

	Monthly			Annual	
	Sep-19	Aug-19	% Growth	Sep-18	% Growth
Nominal Effective Exchange Rate Index	92.6	92.4	0.2	91.9	0.7
Real Effective Exchange Rate Index	108.7	108.6	0.0	109.0	-0.3

Source: National Reserve Bank of Tonga

The Nominal Effective Exchange Rate (NEER) index slightly increased in September due to the depreciation of the NZD and EURO against the TOP. The Real Effective Exchange Rate (REER) index rose over the month, however, declined over the year. This indicates an improvement in Tonga's international trade competitiveness attributed to lower domestic inflation compared to most of its trading partners.

Table 4: Bilateral Exchange Rates

	Sep-19	Aug-19	Sep-18
USD/TOP	0.4312	0.4325	0.4371
AUD/TOP	0.6323	0.6371	0.6053
NZD/TOP	0.6787	0.6706	0.6619
FJD/TOP	0.8904	0.8920	0.8892
JPY/TOP	46.1576	45.8792	48.7986
GBP/TOP	0.3484	0.3548	0.3340
EUR/TOP	0.3910	0.3877	0.3740
CNY/TOP	2.8053	2.8140	2.8437

Source: Banking Systems

Lower receipts during September

Table 5: Foreign Reserves

	Monthly			Annual	
	Sep-19	Aug-19	% Growth	Sep-18	% Growth
Foreign Reserves (\$ in million)	490.8	491.8	-0.2	452.2	8.6
Import Coverage (months)	7.9	7.9		8.1	

Source: National Reserve Bank Tonga

In September, official foreign reserves fell by \$0.9 million to \$490.8 million, (equivalent to 7.9 months of imports cover) reflecting outflow of imports and loan interest payments during the month. Annually, foreign reserves rose by \$38.7 million, but with lower months of import cover due to faster growth in import payments relative to the growth of foreign reserves.

Table 6: Overseas Exchange Transactions

	Monthly			Annual		
	Sep-19	Aug-19	% Growth	Sep-19	Sep-18	% Growth
Overall Balance	-0.9	-1.1	17.0	38.7	49.1	-21.3
Current Account	-12.7	-1.4	-826.0	5.3	1.7	215.6
Merchandise Trade	-35.4	-36.2	2.2	-415.6	-398.2	-4.4
Services	2.0	1.7	16.6	33.3	20.1	65.5
Income	-2.0	0.8	-370.2	5.9	1.4	333.2
Transfers	22.8	32.4	-29.7	381.7	378.4	0.9
Capital Account	1.7	1.2	40.0	36.1	37.9	-4.9
Financial Account	10.1	-0.9	1178.8	-2.7	9.5	-128.4

Source: Banking Systems

The overall Overseas Exchange Transactions (OET) balance recorded a deficit as total receipts fell by \$13.5 million (19.4%), more than a \$1.8 million (2.7%) fall in total payments over the month. Lower receipts was mainly due to lower transfers receipts (both official and private) followed by other receipts from services, exports, and income. Although total payments for services, imports, and transfer payments, fell over the month, they were partially offset by the increase in interest payments on government loans.

Additionally, the OET balance surplus lowered over the year underpinned by net outflows from the financial account for offshore investments and import payments. These have partially offset the rise in receipts from travel, remittance, and exports.

Broad money declined

Table 7: Broad Money

	Monthly			Annual	
	Sep-19	Aug-19	% Growth	Sep-18	% Growth
Broad money (\$ in million)	594.5	602.3	-1.3	595.2	-0.1
Net Foreign Asset	504.5	510.9	-1.3	470.1	7.3
Net Domestic Asset	90.7	91.7	-1.2	125.5	-27.7

Source: Banking System, National Reserve Bank of Tonga

Broad money fell by \$7.7 million (1.3%) mainly on lower net foreign assets coupled with decreased net domestic assets. The decline in other foreign assets and foreign reserves lowered the net foreign assets while higher capital accounts resulted in lower net domestic assets. Over the year, broad money declined by \$0.7 million (0.1%) due to lower net domestic assets underpinned by higher capital accounts, offsetting the growing net foreign assets.

Liquidity grew in September

Table 8: Reserve money

	Monthly			Annual	
	Sep-19	Aug-19	% Growth	Sep-18	% Growth
Reserve money (\$ in million)	317.4	311.3	1.9	323.6	-1.9

Source: Banking System, National Reserve Bank of Tonga

Higher government deposits expanded the liquidity in the banking system over the month of September by \$6.1 million (1.9%) to \$317.4 million. However, over the year higher payments made by the commercial banks lowered the liquidity in the banking system by \$6.2 million (1.9%).

Slowing credit growth

Table 9: Total Lending

Lending	Monthly			Annual	
	Sep-19	Aug-19	% Growth	Sep-18	% Growth
Total Lending (\$ in million)	493.9	496.8	-0.6	459.0	7.6
Business lending	258.5	259.2	-0.3	252.6	2.3
Household lending	235.2	237.4	-0.9	205.7	14.3
Other lending	0.3	0.2	5.9	0.7	-64.5

Source: Banking System, National Reserve Bank of Tonga

Both businesses and household loans slowed over the month by \$0.7 million (0.6%), but increased over the year by \$34.9 million (7.6%) to \$493.9 million. The monthly decline resulted from lower lending to state-owned enterprises, wholesale & retail, manufacturing and construction sectors, as well as lower household loans mostly other personal loans. Contrastingly, household loans grew over the year mostly for housing, thus driving the annual rise in total lending. This was further supported by more business loans made to state-owned enterprises, professional & other services, transport, tourism and agricultural sectors over the year.

The banks' total loans to deposit ratio slightly decreased from 79.0% to 78.6% over the month, reflecting loans decreasing faster than deposits.

Interest rate spread narrowed

Table 10: Weighted Average Interest Rates

Interest Rates	Monthly			Annual	
	Sep-19	Aug-19	Growth (bps)	Sep-18	Growth (bps)
Weighted Average Banks Deposit Rate (%)	1.944	1.924	2.0	1.980	-3.6
Weighted Average Banks Lending Rate (%)	7.999	8.036	-3.7	8.071	-7.2
Weighted Average Interest Rate Spread (%)	6.055	6.112	-5.7	6.091	-3.6

Source: Banking System, National Reserve Bank of Tonga

Over the month and year to September 2019, the weighted average interest rate spread narrowed by 5.7

basis points and 3.6 basis points, respectively, to 6.06%. The monthly decline was due mainly to a decrease in weighted average lending rates coupled with an increase in weighted average deposit rates. Lower lending rates were mostly for businesses such as fisheries, tourism and construction sectors, as well as household housing and other personal loans. On the other hand, higher deposits rates was due mainly to increasing demand and saving deposit rates outweighing the decline in time deposit rates.

Over the year, the weighted average lending rates declined more than the decrease in weighted average deposits rates resulting in lower weighted average interest rates spread. Lower lending rates was mainly for businesses such as tourism, agriculture and transport sectors, whereas the decreased time deposit rates drove the lower weighted average deposit rates.

Outlook

The Reserve Bank still expects positive domestic economic activity in the medium term. Foreign reserves is at comfortable levels way above the minimum of 3 months of imports cover, while inflation is below the Reserve Bank's reference rate of 5%. Credit growth is expected to continue growing underpinned by excess liquidity in the banking system although at a slower pace as well as new strategies by the commercial banks. The Reserve Bank considers its current accommodative monetary policy stance appropriate at this time. However, the Reserve Bank continues to be vigilant in closely monitoring developments in the domestic and global economies and stands ready to adjust its monetary policy setting to ensure financial and macroeconomic stability are maintained.