



IMF revises global growth downwards

The IMF's World Economic Outlook (WEO) in January 2020 forecasted global growth at 3.3% in 2020, a slight downward revision from its October 2019 WEO forecast of 3.4%, largely due to slower growth forecasted for emerging and developing economies. Meanwhile, the World Health Organization's (WHO) declaration of the coronavirus outbreak in China to be a public health emergency of international concern is expected to weigh down further on global growth given it is the world's second-largest economy. For Tonga's other trading partners, the bushfire crisis in Australia is expected to reduce economic growth by 0.3 percentage points in January and throughout the first quarter of 2020. This attributes to the fall in farm productions, private investments, tourism, and subdued consumer spending. Meanwhile, Treasury New Zealand reported a GDP growth of 2.7% over the year to September 2019 (latest data available), however they anticipate a slower GDP growth in the following quarters due to recent weaker performances from the manufacturing and services sector.

Mixed performances in domestic activities

Mixed outcomes were observed in the primary sector in January 2020. Tropical Cyclone Tino category 3 in January, caused some damages to plantations, power lines, and coastal areas in Vava'u and Ha'apai groups. The volume of agricultural exports continued to fall in January by 554.4 tonnes (61.9%) due to lower exports of squash, taro, and cassava. Although, over the year to January, agricultural export volumes increased by 2,686.8 tonnes (28.6%), reflecting a better harvest of squash, taro, and cassava. The latest available data on marine exports showed that the volume of exported marine products significantly rose over the year to December 2019 by 1,549.4 metric tons (192.2%), driven mostly by exports of tuna. Receipts of proceeds for marine exports rose by \$3.1 million (46.6%) over the year to January 2020, while the proceeds for agricultural exports declined by \$3.5 million (30.4%).

Partial data indicates positive performance in the industry sector. Both electricity consumption and production rose in January by 2.4% and 3.2% respectively, supporting the utility sector and pointing to productive economic activity. Electricity consumers also rose over the month by 77 consumers (0.3%), which may also contribute to the construction sector. Meanwhile, the road improvement projects are still expected to contribute favorably to the mining and quarrying sector.

Indicators of the tertiary sector generally slowed over the month. Container registrations dropped significantly by 623 registrations (42.6%) in January following a peak in December. Both private and business containers fell by 357 (53.0%) and 266 (33.8%) registrations, respectively, coinciding with the lower number of cargo ships that arrived during the month. Vehicle registrations also declined by 41 registrations (14.3%). Disruption of international and domestic flights on account of Tropical Cyclone Tino in

January led to the cancellation and delays of some of the international flights. As a result, total international air arrivals fell by 898 passengers (8.2%), coinciding with the 5% decline in travel receipts.

More vacancies become available

The total number of job vacancies advertised at the beginning of the year 2020 increased by 10 job vacancies (30.3%) from December 2019, led by recruitment intentions for the public administrations and transport & communications sector. Additionally, advertised vacancies rose by 74 (17.3%) advertisements over the year, mostly for the services sector, which may contribute to lowering the unemployment rate in Tonga.

Inflation remains low

Table 1: Inflation Rates

Prices	Monthly		Annual	
	Jan-20	Dec-19	Jan-20	Jan-19
Headline Inflation (%)	-0.3	0.2	0.6	4.2
Domestic prices	-0.6	0.7	-2.9	9.1
Imported prices	0.0	-0.3	3.6	0.2

Source: Statistics Department

Headline inflation fell by 0.3% over the month as domestic prices declined by 0.6% while imported prices remained stable during the month. Lower domestic prices were solely driven by a 2.3% fall in local food prices, contributing a negative 0.3% to the monthly movement. This reflected improvements in the supply of local food due to favorable weather conditions. Meanwhile, imported prices remained steady during the month.

Table 2: 'Average prices of selected domestic items'

Items (\$ per kg)	Unit	Monthly			Annual	
		Jan-20	Dec-19	Change	Jan-19	Change
Kava	1kg	\$90.00	\$92.50	-\$2.50	\$142.50	-\$52.50
Tomatoes	1kg	\$5.83	\$5.40	\$0.43	\$10.74	-\$4.91
Octopus	1kg	\$22.24	\$26.29	-\$4.05	\$24.19	-\$1.95
H/Cabbage	1kg	\$3.00	\$3.74	-\$0.74	\$4.93	-\$1.93
Kumala	1kg	\$1.38	\$1.28	\$0.10	\$2.26	-\$0.88
Talo - Futuna	1kg	\$1.25	\$1.52	-\$0.27	\$2.02	-\$0.77
Yams - late	1kg	\$3.07	\$3.07	\$0.00	\$3.80	-\$0.73
Carrots	1kg	\$2.43	\$2.46	-\$0.03	\$3.10	-\$0.67
Talo - Tonga	1kg	\$1.34	\$1.88	-\$0.54	\$1.99	-\$0.65
Manioka	1kg	\$0.98	\$0.97	\$0.01	\$1.45	-\$0.47

Source: Statistics Department

January 2020 annual inflation was at 0.6% compared to 1.2% in December 2019 and 4.2% in January 2019. Domestic prices declined by 2.9% over the year, partially offsetting the 3.6% rise in imported prices. Lower domestic prices were noted for domestic foods, kava Tonga, and Tongan tobacco. However, higher imported prices stemmed from higher prices for food, transport, and alcoholic beverages. Imported food prices were highest for chicken pieces, sugar, and apples.

Competitive exchange rates

Table 3: Effective Exchange Rates

	Jan-20	Monthly		Annual	
		Dec-19	% Growth	Jan-19	% Growth
Nominal Effective Exchange Rate Index	91.7	91.5	0.2	91.0	0.8
Real Effective Exchange Rate Index	106.5	107.1	-0.6	107.4	-0.8

Source: National Reserve Bank of Tonga



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Table 4: Bilateral Exchange Rates

	Jan-20	Dec-19	Jan-19
USD/TOP	0.4354	0.4349	0.4422
AUD/TOP	0.6327	0.6309	0.6171
NZD/TOP	0.6576	0.6596	0.6520
FJD/TOP	0.8987	0.8939	0.8982
JPY/TOP	47.4876	47.3495	48.1634
GBP/TOP	0.3319	0.3307	0.3421
EUR/TOP	0.3911	0.3905	0.3864
CNY/TOP	2.8329	2.8293	2.8770

Source: Banking Systems

Over the year, the NEER increased while the REER decreased, reflecting Tonga's lower headline inflation rate relative to its trading partners. This indicates an improvement in Tonga's international competitiveness.

Total OET payments exceeded total receipts

Table 5: Foreign Reserves

	Jan-20	Monthly Dec-19	% Growth	Annual Jan-19	% Growth
Foreign Reserves (\$ in million)	482.9	487.4	-0.9	478.9	0.8
Import Coverage (months)	7.5	7.8		8.1	

Source: National Reserve Bank Tonga

The official foreign reserves declined by \$4.6 million to \$482.9 million, equivalent to 7.5 months of imports. However, the foreign reserves rose by \$3.9 million over the year due to receipts of budget support, grants, and project funds from development partners.

Table 6: Overseas Exchange Transactions
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	Monthly			Annual		
	Jan-20	Dec-19	% Growth	Jan-20	Jan-19	% Growth
Overall Balance	-4.6	-2.1	-118.1	3.9	54.9	-92.8
Current Account	-8.5	-2.3	-271.6	-18.7	24.6	-176.3
Merchandise Trade	-34.9	-32.5	-7.2	-410.4	-412.6	0.5
Services	4.9	0.2	2466.5	27.9	23.8	17.3
Income	-1.2	1.6	-179.4	2.0	7.1	-71.9
Transfers	22.7	28.5	-20.4	361.8	406.3	-10.9
Capital Account	2.0	3.1	-36.3	31.3	34.7	-9.9
Financial Account	2.0	-2.9	166.7	-8.6	-4.4	-95.0

Source: Banking Systems

The overall Overseas Exchange Transactions (OET) deficit widened over the month, driven by a higher deficit in the current account. This was due mainly to oil import payments, transfer of profits offshore, and business import payments for goods and services. The current account receipts declined by \$8.5 million due to lower private transfers following the high level of remittances received in December 2019. Proceeds from exports and services also declined and outweighed the slight increase in income receipts.

Although the capital account recorded a lower surplus, this was attributed to lower capital receipts as no capital payments were recorded during the month. Additionally, the lower interbank payments improved the financial account to record a surplus in January 2020.

Annually, the overall OET balance surplus of \$3.9 million was attributed mainly to higher receipts from travel and official capital receipts for construction purposes. These

The Nominal Effective Exchange Rate (NEER) index slightly increased over the month as the USD and AUD depreciated against the TOP. The Real Effective Exchange Rate (REER) index, however, declined reflecting the monthly decline in Tonga's inflation rate.

movements had offset the higher payments for offshore investment, income, and private transfers.

Broad money declined

Table 7: Broad Money

	Monthly			Annual	
	Jan-20	Dec-19	% Growth	Jan-19	% Growth
Broad money (\$ in million)	592.5	602.2	-1.6	598.3	-1.0
Net Foreign Asset	495.7	502.5	-1.3	502.2	-1.3
Net Domestic Asset	97.3	100.4	-3.1	96.4	0.8

Source: Banking System, National Reserve Bank of Tonga

Over the month and year, broad money decreased again by \$9.8 million and \$5.8 million, respectively, to \$592.5 million. Lower net foreign assets underpinned this decline in broad money. Net foreign assets declined over the month as a result of the lower foreign reserves, and it fell over the year due to higher foreign liabilities. Net domestic assets also supported the monthly decline due to higher government deposits. However, it slightly rose over the year, partially offsetting the decline in net foreign assets.

Lower liquidity

Table 8: Reserve money

	Monthly			Annual	
	Jan-20	Dec-19	% Growth	Jan-19	% Growth
Reserve money (\$ in million)	301.3	305.1	-1.2	326.2	-7.6

Source: Banking System, National Reserve Bank of Tonga

Liquidity in the banking system decreased over the month and year, by \$3.8 million and \$24.9 million respectively to \$301.3 million. The monthly decline was attributed mainly to a drop in the currency in circulation following its high demand in the previous month, coupled with a slight decrease in the required reserves. These declines more than offset the increase in the Exchange Settlement Account (ESA). The annual decline was a result of higher withdrawals from the Reserve Bank's vault by the commercial banks supported by lower currency circulated and lower required reserves.

Slower credit growth

Table 9: Total Lending

Lending	Monthly			Annual	
	Jan-20	Dec-19	% Growth	Jan-19	% Growth
Total Lending (\$ in million)	499.3	500.9	-0.3	482.8	3.4
Business lending	239.7	239.0	0.3	222.3	7.8
Household lending	259.6	261.8	-0.8	260.2	-0.3
Other lending	0.0	0.1	-100.0	0.3	-100.0

Source: Banking System, National Reserve Bank of Tonga

The banks' total lending declined further by \$1.6 million in January 2020 to \$499.3 million, owing mostly to a decline in household loans for all categories. Lending to businesses slightly increased, underpinned by higher loans offered to public enterprises, professional & other services, tourism, and construction sectors.

More lending to businesses such as public enterprises, manufacturing, professional & other services, and tourism, pushed up total lending over the year by \$16.4 million (3.4%). This offsets the slight decline in household loans, which was mainly driven by lower other personal and vehicle loans. The banks' total loans to deposit ratio



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increased from 80.7% to 81.1% over the month depicting a higher decline in deposits relative to the decrease in loans.

Interest rate spread slightly widened

Table 10: Weighted Average Interest Rates

Interest Rates	Jan-20	Monthly		Annual	
		Dec-19	Growth (bps)	Jan-19	Growth (bps)
Weighted Average Banks Deposit Rate (%)	2.000	1.994	0.5	1.882	11.8
Weighted Average Banks Lending Rate (%)	8.033	8.020	1.3	8.092	-5.9
Weighted Average Interest Rate Spread (%)	6.034	6.026	0.8	6.210	-17.7

Source: Banking System, National Reserve Bank of Tonga

The weighted average interest rate spread widened over the month by 0.79 basis points, however, narrowed by 17.68 basis points over the year to 6.03%. The monthly rise was a result of higher business loan rates offered to the construction, agriculture, and distribution sectors. This offsets the increase in term and saving deposit rates.

Over the year, weighted average lending rates declined while weighted average deposit rates rose, thus narrowing the interest rate spread. The decline in weighted average lending rates resulted mostly from lower rates offered to households mainly for vehicle and housing loans. The increase in weighted average deposit rates was driven mainly by higher term and demand deposit rates.

Outlook

On the back of rising uncertainties surrounding the full impact of the coronavirus outbreak in China for both the global and domestic front, the Reserve Bank still expects a general slowdown in economic activities for the medium term. Tonga's tourism, travel, and trading sectors will be negatively impacted by the global supply disruptions, international travel bans, and restrictions on trade. Precautionary behavior and containment efforts may also contribute to higher business costs and inflation.

Given the above developments, the Reserve Bank estimates the foreign reserves to remain at sufficient levels above the minimum of 3 months of import cover. Inflation is forecasted to stay below the Reserve Bank's reference rate of 5% as global oil prices are expected to fall and partially offset the expected increases on other imported goods. Credit growth is also projected to slow down eventually.

In light of the recent developments, the Reserve Bank maintains its accommodative monetary policy stance at this time to encourage the utilization of the excess liquidity in the banking system for further lending to support economic activities and growth. 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.