



Snapshot of the Tongan Economy

August 2024 Release

Overseas Economy



- Global economy is projected to expand to 3.3% in 2025 compared to initial forecast of 3.2%.
- Global trade showed positive momentum and is estimated to recover by 3.3% annually in 2024 to 2025.
- Strong growth expected for advanced economies, Euro Area and, Emerging & Developing Asia region in 2024 and 2025 generally from high consumption spending.
- Meanwhile, global inflationary pressures continues to ease, slowing from 5.9% in 2024 to 4.4% in 2025. This was supported by gradual improvement in labor market conditions along with projected decline in energy prices.

Domestic Economy



- Festive season continued to boosted domestic activities in June 2024.
- Indicators for the primary sector showed mixed outcomes. although agricultural exports slowed over the month, local demand for agricultural products increased strongly due to local events hence prompted the exporters to sell locally.
- Indicators in the industrial sector demonstrated mixed outcomes. Credit to the construction sector continued decelerating over the month whilst payments for construction imports rose over the month.
- The services sector remained highly favorable given the ongoing festive season namely the churches' annual conferences, Heilala Week Festival, and other private celebrations. Total arrivals rose swiftly, coinciding with an increase in travel receipts. Trading activities were upbeat along with other tourism-related services that cater for tourists. Container registrations increased also in June 2024.

Domestic Inflation



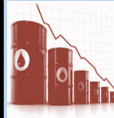
- Headline inflation is forecasted to decelerate for the rest of 2024.
- Risks to the outlook are tilted to the downside given the volatility of food prices due to vulnerability to natural disaster and war-related disruptions in the Red Sea regions.

Banking System



- Broad Money rose by 7.6% in May 2024.
- Credit growth of 4.1% was recorded for the year to June 2024. Both lending to businesses and household contributed to the annual increase.
- Total deposits increased again over the month to a new high of \$960.9 million in June 2024.
- Loans to deposit ratio declined again in June 2024 to 54.5%, as deposits growth outpaced loans.
- Non-performing loans to total loans ratio was 11.2% in June 2024, higher compared to 9.1% a year ago.
- Adequate capital and high liquidity is maintained.

Global Prices



- Average price of Brent crude oil price rose to US\$83.93/ barrel in July 2024 from US\$82.82 in June 2024.
- Brent crude oil is expected at an average USD\$85/barrel end of August 2024.
- Food prices declined in July 2024 as the decrease in the price for cereals outweighed increases in the prices for vegetable oil, meat products and sugar while the price for dairy products was almost unchanged.

Foreign Reserves



- Foreign reserves dropped in July 2024 to \$909.1 million, 10.5 months of imports cover.
- Remittances increased in June 2024 rising to \$46.6 million, due mainly to the ongoing festivities during the month.
- External overall balance¹ expanded to a surplus of \$31.3 million in June 2024, resulting from higher receipts of official grants.

Exchange Rates



- The NEER rose in July 2024 as the TOP appreciated against the NZD, AUD and FJD.
- The REER declined in July 2024, coinciding with the expected decline in inflation.

Liquidity & Interest Rates



- Excess liquidity in the banking system declined in June 2024 due to higher demand to facilitate payments for imports and dividend in addition to loan drawdown during the month.
- Interest rates spread widened by 3.0 basis points to 6.3% in June 2024.
- The deposit rate declined over the month by 3.3 basis points, outweighing the lower lending rate 0.3 basis points.

Labour Market



- Job vacancies advertised increased to a total of 107 in July 2024 from 83 job vacancies in the previous month, reflective of the advertised new recruits of the HMAF.
- These vacancies were mostly in the public administration, forestry, financial intermediation, and transport & communications sectors.
- Nevertheless, job recruitment is still a challenge due to the outflow of employees abroad and job opportunities in the private and regional offices.

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



Global growth outlook remains firm

The IMF's World Economic Outlook (WEO) July 2024 update, maintained its forecast for global growth at 3.2% in 2024, but slightly revised its forecast by 0.1% for 2025 to 3.3% when compared to the previous WEO. Global trade showed positive momentum in early 2024 and is estimated to recover to 3.3% annual growth in both 2024 to 2025. Advanced economies are anticipated to experience moderate growth of 1.7% in 2024 and 1.8% in 2025. Thus, growth amongst these economies is projected to converge over the medium term as the US economy performs slower than expected due to tempered consumption and fiscal policy tightening. Meanwhile, the Euro Area is estimated to gain momentum in 2024 and 2025 driven by stronger consumption spending on the basis of higher real wages, and investment expenditure amid easing monetary policy conditions.

Moreover, growth for Emerging & Developing Asia region (Tonga included) remains strong with a 5.4% increase in 2024 and 5.1% in 2025. This is driven by higher export activities specifically in the technology sector combined with higher private consumption. Thus, emerging market economies in Asia remains the driving force for the global economy, with growth in China and India accounting for almost half of the global growth.

Global inflationary pressures continue to ease, projected to decline from 5.9% in 2024 to 4.4% in 2025. The gradual improvement of labor market conditions, specifically in advanced economies, along with projected decline in energy prices are key drivers of global disinflation. However, persistent services inflation and commodity price volatility may slow the disinflation process.

National festivities continued in June 2024

Indicators for the primary sector showed mixed outcomes in June 2024. Total agricultural exports slowed down over the month by 179.6 tonnes (32.8%), stemming from lower exports of root crops and coconut. Coincidentally, total agricultural export receipts declined significantly by \$0.5 million (83.7%). The slowdown in export volumes may also reflect the high demand during the festive season that could have also prompted informal exporters to sell domestically instead. Meanwhile, the marine exports rose over the month as the weather conditions improved. Tuna exports rose by 47.8 tonnes, along with higher aquarium exports of 8,327 pieces.

While credit to the industrial sector declined in June 2024, the ongoing public and private construction projects continue to support sectoral growth. The construction import payments rose over the month by \$0.9 million (34.2%), driven largely by the imports of prefabricated houses for the Pacific Islands Forum in August 2024 and

the ongoing reconstructions from the HTHH disaster. At the same time, the Nuku'alofa Port upgrade project and other private dwellings and businesses are progressing. The Government also outlined several projects in its Budget Statement for FY2024-25 that will boost the sectoral performances in the medium term. This includes the new Parliament House, the Tapanekale Affordable Housing Program, Fanga'uta Bridge, Tonga National Museum, Ngū Hospital in Vava'u, the reconstruction of the Queen Salote Nursing School, and the Fua'amotu Luxury Five Star Resort.

The services sector remained strong in June 2024 bolstered by various festivities, including churches' annual conferences, Heilala Week Festival, and other private events. Total passenger arrivals increased by 1,986 passengers (22.0%), reflecting travel for these national occasions. Correspondingly, total travel receipts also increased by \$0.6 million (4.1%) in June 2024. Trading activities were strong, along with other tourism-related services that cater for tourists. The import payments excluding oil rose by \$1.4 million (2.9%), along with the higher wholesale and retail import payments of \$0.6 million (1.7%). In June 2024, total vehicle registrations also increased by 24 vehicles (7.0%).

Job vacancies increased in July 2024

According to the Reserve Bank's survey on job advertisements, there were 107 job vacancies listed in July 2024. This is a rise from 83 job vacancies advertised in June 2024, reflective of the advertised new recruits of the HMAF¹. Majority of the job vacancies advertised during the month were from the public administration, forestry, financial intermediation, and transport & communications sectors. Over the year to July 2024, total job vacancies advertised to the public declined by 42 vacancies (4.2%). Total job vacancies over the year to July 2024 is attributed mostly to public administration, transport & communications, utilities, hotel & restaurants sectors, and financial intermediation.

Temporary inflationary pressures during festive season

The inflation forecasting models suggest a downward path for the rest of 2024, nonetheless risks to the outlook are tilted to the downside given the war-related supply disruptions in the Red Sea region. Inflationary pressures in June 2024 stemmed from the demand shocks during the festive season which tend to be one-off and seasonal, and therefore expected to be transitory.

Real Effective exchange rates declined in July

The Nominal Effective Exchange Rate (NEER) increased over the month by 0.1%, underpinned by the appreciation in the Tongan Pa'anga against all major currencies except

¹ His Majesty's Armed Forces



USD, JPY, GBP, EUR and CNY. Conversely, the Real Effective Exchange Rate (REER) fell in July 2024 by 2.0%, coinciding with the expected decline in Tonga's inflation.

On a year-end basis, the NEER remains higher by 1.6% compared to the previous year as the TOP generally appreciated against all major currencies except USD and GBP, easing the cost of imported goods. In parallel, REER increased by 2.0% consistent with Tonga's relatively higher inflation rate.

Offshore investment in July prompt decline in foreign reserves

Foreign reserves was at \$909.1 million declining by \$15.3 million over the month of July 2024, due mainly to outflow of offshore investments and import payments. However, reserve levels are sufficient to cover 10.5 months of imports, which is well above the 7.5 months recommended by the IMF. Similarly, twelve months prior, reserves was lower by \$36.1 million. The majority of the official foreign reserves are held in USD, NZD, and AUD.

Remittances recorded an unusual growth for June 2024

Remittance receipts recorded an unusual increase of \$2.2 million (5.0%) in June, following the regular decline observed after the family month of May. However, the positive movement is in-line with the celebration of the Free Wesleyan Church 100th conference and the onset of the Heilala Week festivities. Private transfers continue to drive the overall increase in remittances and supported by the marginal rise in private capital transfers.

Remittances received in US dollars increased the most (11.1%) followed by Australian dollars while receipts in New Zealand dollars declined. This is parallel with the growth in the US economy for the second quarter of 2024, eased inflation, and higher personal income for June.

Despite the irregular sharp increase in June, total remittance receipts declined by \$8.0 million (1.5%) compared the the following year reflecting a slowing of international remittance for familys coping with the HTHH volcanic disaster

Broad money peaked

Broad money increased to a new record of \$906.1 million in June 2024, climbing by \$16.9 million (1.9%) over the month and \$64.2 million (7.6%) annually. These increases were driven predominantly by higher net foreign assets, mainly on rising foreign reserves over the month and lower foreign liabilities over the year. Net domestic assets on the other hand fell over the month but rose annually, corresponding to higher government deposits over the month and higher credit to private sectors over the year.

Reserve money recorded highest

Liquidity in the financial system also rose to a peak point in June 2024, by \$26.4 million (4.4%) over the month and \$31.1 million (5.2%) over the year, to a total of \$631.8 million. All the three major categories increased in both

trends. The Exchange Settlement Account's (ESA) rose the most over the month by \$15.4 million (4.3%), followed by Currency in Circulation (CIC), with an increase of \$6.3 million (5.2%) and the Statutory Required Deposits (SRD) grew by \$4.7 million (3.6%). Annually, the SRD increased the most, in line with higher deposits. CIC followed, reflecting the higher demand of money during the celebration which was predominantly funded via overseas remittances. The rise in the ESA was in line with the net receipts of foreign currency from the commercial banks.

Credit growth slightly declined

The banks' total lending decreased over the month of June 2024 by \$0.4 million (0.1%). However, over the year, it increased by \$20.9 million (4.1%), to \$533.5 million. The monthly decline was attributed mainly to lower public enterprises loans', supported by decreases in lending to businesses within the transport, constructions and manufacturing sectors as well as household other personal loans.

Annually, more loans were offered to businesses within the transport, tourism and distribution sectors. Similarly, household loans increased for all categories, which led by other personal loans and followed by housing and vehicles loans. The annual rises reflected the continued improvement in businesses and consumer confidence and economic recovery.

Total bank deposits climbed further by \$26.1 million (2.8%) over the month, and \$59.6 million (6.6%) over the year, to a new highest point of \$960.9 million. These increases were due to higher demand and savings deposits monthly, and more demand and time deposits annually. These deposits were predominantly contributed from private sectors, central Governments and the Retirement Funds. Total loan to deposit ratio decreased to 54.5% in June 2024 from 56.0% in May 2024 and 55.7% in June last year, as deposit growth outpaced lending.

Interest rates widened

In June 2024, the weighted average interest rate spread widened by 3.0 basis points from the previous month and 13.1 basis points year-to-date, reaching 6.3%. The monthly rise was supported by a 3.3 basis points decrease in deposit rates offsetting the 0.3 basis points fall in lending rates. Annually, the lending rates rose by 8.1 basis points whilst the deposits rates fell again by 5.0 basis points.

Both declines in deposit rates were contributed mainly by the significantly increased in the volume of deposit.

Lending rates offered to the distribution, tourism and fisheries sectors decreased over the month, along with households' other personal loan rates. However, over the year, the loan rates for businesses such as agricultural, fisheries and the constructions sectors increased, possibly



reflecting a rise in the banks' risk profile or perception of these sectors. Furthermore, all households' loan rates fell over the year, potentially indicating an improvement in the household risk profile or higher competition between banks for this sector.

Financial Stability

The latest Aggregate Financial Stability Index (AFSI) for Tonga² (December 23) indicates a slight quarter-on-quarter improvement of 1.8 index points to 0.597 since September 2023. The increase is attributed to improvements 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 the improving Credit-to-GDP ratio as well as a reduction in the Chicago Board Options Market Volatility Index. However, annually the AFSI decreased by 2.7 index points from 0.629 with Tonga's FSI outpacing improvements made across all other sub-indexes. Most notably, the significant deterioration of the domestic bank's Non-Performing Loans (NPL) ratio. Tonga's AFSI remains above the long-term average of 0.55.

Outlook

The overall economic outlook remains positive, supported by infrastructure projects, tourism, and domestic events. However, global geopolitical tensions and potential disruptions to trade could pose downside risks. Inflationary trend is expected to be temporary, but persistent supply-demand imbalances could prolong it. The NRBT will closely monitor the inflationary environment and implement appropriate monetary policy measures to maintain price stability. Collaborative efforts with the Government are essential to address underlying supply-demand issues and mitigate inflation pressures. 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. Despite a deterioration of the banks' NPL ratio since early 2022, the financial system continues to demonstrate adequate liquidity as well as sufficient capital reserves to absorb future shocks. The Reserve Bank is currently reviewing its monetary policy tools in light of the current macro-economic conditions to continue and ensure price stability as well as support economic recovery.

² 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

		Jun-23	Mar-24	Apr-24	May-24	Jun-24
1. Sectoral Performance Indicators*						
(year-on-year % change)	Visitor arrivals	6,014.2	104.7	82.6	62.6	51.0
	Travel receipts	354.3	72.1	67.4	57.5	42.0
	Electricity production	-1.0	3.2	9.0	10.6	24.5
	Agricultural exports ^{1/}	-11.7	-1.6	-8.8	-10.9	-14.8
2. Consumption Indicators*						
(year-on-year % change)	New vehicle registrations	11.2	-1.2	0.8	6.5	9.4
	Container registrations	8.1	18.0	18.4	18.4	17.8
	Electricity consumption	2.5	1.4	1.2	1.0	0.7
	Remittances	11.5	4.3	4.2	1.0	-1.5
3. Consumer Prices**						
(year-on-year % change)	All items ^{2/}	7.3	3.2	3.7	4.9	5.4
	Domestic	12.0	3.8	4.9	7.5	10.2
	Imported	4.0	2.7	2.8	2.8	1.4
	Core inflation (ex energy & food)	14.2	4.9	6.0	7.9	8.4
4. Labour Market***						
(year-on-year % change)	NRBT Job Advertisement survey	-25.7	-28.4	22.7	-38.4	59.6
5. Reserves***						
(end of period)	Foreign Reserves (\$m) ^{3/}	921	869	905	893	924
	Months of imports	11.9	11.1	11.6	11.5	11.9
6. Exchange Rates****						
(end of period, TOP\$1 equals)	US dollar	0.4212	0.4199	0.4196	0.4226	0.4222
(index, Dec 2006=100)	Australian dollar	0.6361	0.643	0.6392	0.6369	0.6351
	New Zealand dollar	0.6944	0.6997	0.702	0.6906	0.6938
	Fijian dollar	0.9425	0.9571	0.9604	0.9574	0.9572
	Nominal effective exchange rate	94.8	95.4	95.7	95.4	95.8
	Real effective exchange rate	120.8	120.0	119.9	122.1	123.7
7. Liquidity***						
(end of period)	Reserve money (\$m) ^{3/}	601	579	584	605	632
	Currency in circulation (\$m) ^{3/}	118	117	117	122	128
	Exchange settlement account (\$m) ^{3/}	359	331	338	353	369
	Required reserve (\$m) ^{3/}	123	131	129	130	135
8. Money and Credit****						
(year-on-year % change)	Broad money	-0.6	1.1	1.5	8.1	7.6
	Net foreign assets	4.4	-2.9	4.7	8.7	5.4
	Net Domestic Asset	1437.5	-119.9	249.0	111.7	-36.5
	Narrow money	0.7	8.2	5.3	16.6	15.8
	Total Lending	8.3	8.5	5.5	5.7	4.1
	Business lending	16.3	11.9	5.5	5.4	2.2
	Household lending	2.2	5.2	5.5	5.9	6.0
	Total Deposits	3.8	1.4	3.3	8.8	6.6
9. Interest Rates (%)*						
(monthly weighted average)	Lending rate	7.71	7.78	7.71	7.79	7.79
	Savings deposit rate	1.57	1.60	1.59	1.56	1.52
10. Commodity Prices*****						
(end of period)	Crude oil/barrel (US\$)	74.87	84.47	89.11	83.28	82.82

Note

^{1/} Agricultural production shows the year on year change in terms of volume.^{2/} 2018 rebase. Previous data had 2010 as its base.^{3/} TOP millions

n.i.- not issued

Sources

*Various industry sources

***Tonga Department of Statistics

****National Reserve Bank of Tonga

*****Reuters