



NATIONAL RESERVE BANK OF TONGA

MONTHLY ECONOMIC UPDATE

Vol. 11

No. 11

December 2023 Report

Divergence amongst growth in advanced economies

The December 2023 Asian Development Outlook reported varying growth trajectories in economic performance of major advanced economies. The US continued to maintain stronger than expected growth in the second and third quarters of 2023 at 2.1% and 4.9%, respectively, underpinned by strong consumption spending, inventory investments and high Government spending. A 2.4% annual growth is projected for 2024. Headline inflation continued to ease to 3.0% in October 2023 despite core inflation remaining high above the 2.0% Federal Reserve target.

Meanwhile growth in the Euro Area declined by 0.4% in the September quarter 2023 mainly on high interest rates and persistently high inflation coupled with the downturn in industrial production and activities in major economies such as Germany and France.

Moreover, growth projections for the Pacific region remained upbeat at 3.5% and 2.9% for 2023 and 2024, respectively, supported by ongoing public infrastructure projects with strong inflow of tourism activities. Inflation is anticipated to decelerate to 4.9% in 2023 and 4.5% in 2024. However, unfavourable weather conditions and natural hazards with volatility in international commodity prices pose downside risks to the outlook.

Domestic economic activities generally trended upward

Activities in the primary sector expanded over the month. Total agricultural exports rose by 481.0 tonnes (+72.6%) driven by a significant increase in the exports of root crops, squash, and watermelon. The ongoing squash and watermelon season continues to boost the sector's growth. Coincidentally, total agricultural proceeds increased by \$0.2 million (37.8%). At the same time, total marine exports substantially increased by 84.1 metric tonnes (+131.0%) driven largely by a significant increase in tuna exports. Even though the aquarium exports fell by 82.0% (7,120 pieces), the marine proceeds rose over the month by \$0.1 million (99.8%).

Indicators in the industrial sector showed mixed outcomes in October 2023. Credit to the construction sector declined by 1.5% (-\$0.4 million), while lending to the utilities sector dropped by 9.3% (-\$0.05 million). Nevertheless, credit to mining & quarrying increased by 31.7% (+\$0.04 million) coinciding with the higher individual housing loans of 0.4% (+\$0.9 million).

Nevertheless, upbeat activities were recorded in October 2023. More cruise ships arrived during the month, hence total passenger arrivals and departures increased by 2,177 passengers (+24.0%) and 2,231 passengers (+23.0%), respectively. At the same time, trading and tourism-related services including restaurants, accommodation, and transportation were supported by the higher consumption

from the travellers. Over the month, import payments excluding oil increased by \$13.0 million (+35.1%), reflective of the \$12.1 million (+45.9%) rise in wholesale & retail import payments. This is coinciding with the 49.6% (+398 containers) increase in the number of imported containers in October 2023, attributed to both business and private containers. This upward movement may also reflect the businesses' stock-up for the holiday season.

Fewer job vacancies advertised in November 2023

The Reserve Bank's survey on job advertisement showed fewer job vacancies over the month, decreasing by 39 job vacancies (-47.6%). Total job vacancies advertised in November 2023 stemmed largely from public administration, transport & communications, and real estate & business services. Total job vacancies advertised over the year however continued to rise by 211 job vacancies (29.4%). Majority of the job vacancies advertised over the year were mainly from the public administration, transport & communication, education sector, and health & social work.

Headline inflation dropped to 4.9% in November 2023

Table 1: Inflation Rates

Prices	Monthly (% change)		Annual	
	Nov-23	Oct-23	Nov-23	Nov-22
Headline Inflation	-1.6	2.7	4.9	11.1
Domestic prices	-3.4	6.4	4.8	14.5
Imported prices	-0.2	-0.1	5.0	8.6
Core inflation - ex. energy and food (%)	0.2	0.3	6.6	7.9

Source: Tonga Statistics Department

Consumer Price Index fell in November 2023 by 1.6%, due largely to lower domestic prices. Local food prices declined over the month, driving the fall in overall domestic prices. This was driven by a decline in the price of kava. Imported prices also fell over the month, owing primarily to a decline in prices for imported food items, fuel, and household items (i.e. aluminium foil). This outweighed the increase over the month from imported price of construction materials (iron roof and timber), non-alcoholic and alcoholic beverages.

Over the year to November 2023, headline inflation dropped below the 5% threshold to 4.9%, easing from 6.1% in previous month and 11.1% in November 2022. As the highest contributor to the headline inflation, imported prices contributed 2.8 percentage points stemming mainly from imported food items, international airfares, construction materials, fuels and goods for personal care. Meanwhile, price of LP gas fell at an annual rate. On the other hand, domestic prices contributed 2.1 percentage points to the headline inflation. Local food items contributed the most to the headline inflation with 2.3 percentage points, followed by catering services, transportation components, and secondary school tuition fees. Lower electricity tariff and tobacco price over the year however contained the inflationary pressures.

Core inflation continued to slow down in November 2023 to 6.6% from 6.9% in the previous month. This reflects the



decline in price of tobacco and kava over the month, and tapering off of the effect of some of the prices that hiked in November 2022. At the same time, non-core inflation fell from 5.7% in October 2023 to 3.7% in November 2023 indicative of the lower electricity and LP gas prices.

Effective exchange rate declined in November

Table 2: Effective Exchange Rates

	Monthly			Annual	
	Nov-23	Oct-23	% Growth	Nov-22	% Growth
Nominal Effective Exchange Rate Index	94.7	95.8	-1.1	93.9	0.9
Real Effective Exchange Rate Index	119.0	122.1	-2.5	116.7	2.0

Source: National Reserve Bank of Tonga

The Nominal Effective Exchange Rate (NEER) declined over the month by 1.1%, underpinned by the depreciation of the Tongan Pa'anga (TOP) against the NZD and AUD (month ended). Similarly, the Real Effective Exchange Rate (REER) also declined by 2.5% in November.

In year ended terms, the NEER remains higher by 0.9% as the TOP generally appreciated against trading partners' currencies (USD, AUD, NZD, FJD, and JPY). This may assist in offsetting imported inflation as overseas payments would become cheaper in terms of local currency. Additionally, REER also increased over the year by 2.0% in line with the slight increase in Tonga's inflation.

Foreign reserves increased in November

Table 3: Foreign Reserves

	Monthly			Annual	
	Nov-23	Oct-23	%Growth	Nov-22	% Growth
Foreign Reserves (\$ in million)	892.0	891.2	0.1	866.2	3.0
Import Coverage (months)	11.4	11.4	0.1	12.6	-9.0

Source: National Reserve Bank Tonga

Foreign reserves continue to remain comfortable at 11.4 months of imports well above the IMF prescribed level of 7.5 months as it rose in November 2023 by \$0.8 million to \$892.0 million. This is higher in 2023 by \$25.8 million compared to the same time in 2022. The inflow of government receipts and remittances continue to drive the overall increase. The majority of the official foreign reserves are held in USD, NZD, and AUD.

Family support contributed to higher Remittances

Table 4: Remittance and Travel Receipts

	Monthly			Annual		
	Oct-23	Sep-23	% Growth	Oct-23	Oct-22	% Growth
Remittance (\$ in million)	43.0	39.8	8.0	535.7	475.8	12.6
Travel (\$ in million)	10.7	13.3	-18.9	134.8	38.0	254.5

Source: National Reserve Bank Tonga

Remittances receipts increased over the month to October 2023 by \$3.2 million (8.0%). Annual church donations during the month may have contributed to the inflow of receipts as private transfers drove the overall monthly increase. This was also supported by the appreciation of the US dollar against the TOP in October resulting in an increase of \$2.2 million in the remittances receipts in USD.

Total remittance receipts continue to remain stronger over the year by \$59.9 million (12.6%) largely attributed to private transfers and compensation of employees receipts. This reflects improvements of economies abroad supporting investment and employment opportunities.

Broad money decreased

Table 5: Broad Money

	Monthly			Annual	
	Oct-23	Sep-23	% Growth	Oct-22	% Growth
Broad money (\$ in million)	844.9	847.8	-0.3	843.4	0.2
Net Foreign Asset	867.5	865.2	0.3	860.9	0.8
Net Domestic Asset	-22.1	-16.9	-31.2	-17.0	-30.1

Source: Banking System, National Reserve Bank of Tonga

Broad money fell over the month by \$2.9 million (0.3%) however rose annually, by \$1.5 million (0.2%) in October 2023. The net domestic assets declined over the month and over the year, mainly on higher government deposits. The net foreign assets however, increased over the month and over the year, underpinned by higher foreign reserves.

Reserve money rose

Table 6: Reserve money

	Monthly			Annual	
	Oct-23	Sep-23	% Growth	Oct-22	% Growth
Reserve money (\$ in million)	593.1	590.6	0.4	603.3	-1.7

Source: Banking System, National Reserve Bank of Tonga

Liquidity in the financial system increased by \$2.5 million (0.4%) over the month of October 2023, but declined annually by \$10.3 million (1.7%) in line with the movements in the banks' Exchange Settlement Accounts. This was solely driven by net purchases of foreign currency from the commercial banks and higher government deposits.

Credit growth increased

Table 7: Total Lending

Lending	Monthly			Annual	
	Oct-23	Sep-23	% Growth	Oct-22	% Growth
Total Lending (\$ in million)	526.0	521.8	0.8	478.8	9.9
Business lending	264.1	262.8	0.5	221.3	19.3
Household lending	261.9	259.0	1.1	255.1	2.7
Other lending	0.0	0.0	-7.7	2.4	-98.5

Source: Banking System, National Reserve Bank of Tonga

The banks' total lending increased over the month and over the year to October 2023, by \$4.2 million (0.8%) and \$47.2 million (9.9%). Both businesses and household loans increased over the month and over the year, reflecting higher consumer and business confidence as the economy recovers.

Over the month, lending to the distribution, agricultural and manufacturing sectors increased, along with household other personal and housing loans. Annually, higher lending was recorded for businesses within the distribution, manufacturing, transport, professional & other business services, constructions and tourism sectors as well as households' other personal and vehicles loans.

Total deposits in the banks increased by \$5.3 million (1.2%) over the month, and over the year by \$41.6 million (5.0%) to \$922.6 million due to higher demand deposits over the month and higher demand and time deposits over the year. Demand deposits from the central Government and churches increased over the month and over the year, as well as the time deposits from the Retirement Funds. The loans to deposit ratio therefore increased in October 2023



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to 57.0% compared to 56.9% in September 2023 and 54.3% last year.

Interest rates rose

Table 8: Weighted Average Interest Rates

Interest Rates	Monthly			Annual	
	Oct-23	Sep-23	(bps)	Oct-22	(bps)
Weighted Average Banks Lending Rate (%)	7.639	7.615	6.1	8.209	-56.9
Weighted Average Banks Deposit Rate (%)	1.630	1.606	2.3	1.632	-0.2
Weighted Average Interest Rate Spread (%)	6.010	6.009	0.1	6.577	-56.7

Source: Banking System, National Reserve Bank of Tonga

Weighted average interest rate spread widened by 0.1 basis points over the month but declined annually in October 2023 by 56.7 basis points to 6.0%. Both the weighted average lending rate and the weighted average weighted deposit rates rose over the month. The lending rates offered to the agricultural, tourism and fisheries rose over the month along with the household housing and other personal lending rates. All deposit rates rose over the month, led by time deposit rates.

Over the year, both the lending rates and the deposit rates declined. Lending rates offered to the agricultural, construction, and transport sectors decreased over the year as well as all the loan rates offered to households, led by lower vehicle lending rates, and followed by the decline in other personal loan and housing loan rates. Similarly, the

demand deposit rates fell and outweighed the rises in both the saving and time deposit rates.

Outlook

Foreign reserves, are still at comfortable levels and is projected to remain above the IMF's prescribed level of 7.5 months of imports cover in the near to medium term. The financial system continues to remain stable with ample liquidity and the banking system is also well capitalized to absorb further shocks. Global oil prices have recently eased due to supply cuts by OPEC and oil producing countries. The continual uncertainties surrounding the Israel-Hamas war and geopolitical tensions in the Middle East are threatening to disrupt oil supplies from the region putting pressures on petroleum prices. The El Nino weather conditions affecting local food supply coupled with an expected rebound in demand and consumption during the holiday season are also anticipated to put further upward pressure on prices. GDP growth for the current financial year is anticipated to be moderate and inflation has come down below 5%. However, core inflation remains high and there is a risk that headline inflation may rebound again above the 5% reference rate due to volatility of local food prices. The Reserve Bank will continue to closely monitor inflation movements and at the same time support economic recovery.