



Snapshot of the Tongan Economy

November 2024 Release

Overseas Economy



- The global economy has proved resilient amidst adversity and severe crises with major disruptions on growth. Global growth is expected to remain stable over the medium term with a projected growth of 3.2% in both 2024 and 2025.
- Global headline inflation is projected to decelerate from an average of 6.7% in 2023 to 5.8% in 2024, and gradually to 4.3% in 2025. This owes to a broad-based decline in core inflation reflecting the lagged effect of tight monetary policies, and pass-through effects of earlier decline in energy prices.
- Meanwhile, the positive recovery in the tourism sector continued to drive growth in the Pacific Island Countries. A faster than anticipated slow-down in near-term growth due to monetary policy tightening could weaken consumer and business sentiments slowing household spending and business investments.

Domestic Economy



- Economic indicators mostly pointed to a slowdown in domestic activities during September 2024. Exporting activities in the primary sector slowed down due to lower agricultural and marine exports. Contrarily, total agricultural export receipts increased by \$0.1 million, which may indicate lag of receipts.
- Credit to the industrial sector shows mixed outcomes as lending to the construction sector declined over the month while lending to the mining & quarrying sector increased. Individuals' housing loan also recorded an increase of \$0.2 million.
- The indicators in the services sector portrayed a decline in performance during the month. Total passenger arrivals dropped in September 2024 and this is reflective in the decline in total travel receipts. Both container and vehicle registrations recorded a decrease following peaks in the previous months.

Domestic Inflation



- Annual headline inflation dipped to 2.1% in September 2024 from lower domestic and imported prices. This is the lowest rate since January 2021.
- The decline in domestic prices reflected lower prices for food items, kava, electricity tariff, and local transport services. The main contributors for the lower imported prices were fuel, tobacco, construction materials, and non-alcoholic beverages.

Banking System



- Broad Money increased in September 2024 by 0.9%.
- Credit growth of 3.2% was recorded for the year to September 2024 lower than 8.2% in the previous year.
- Total deposits rose over the month to \$958.2 million in September 2024.
- Non-performing loans to total loans ratio was 13.4% in September 2024 compared to 9.7% a year ago, underpinned by a single institution which increases the risk to the sector.
- Nonetheless, financial stability is still maintained.

Global Prices



- Average price of Brent crude oil price picked up to a high of US\$75.33/ barrel in October 2024 from US\$73.12 in September 2024.
- Brent crude oil is expected at an average of USD\$74/barrel by end of November 2024.
- Food prices increased in October 2024 by 2% from September 2024, pushing prices to its highest level in 18 months. Prices for all commodities increased except for meat prices.

Foreign Reserves



- Official foreign reserves increased in October 2024 to \$898.2 million, 10.3 months of imports, due mainly to Government receipts and remittances.
- Remittances declined again in September 2024 to \$42.2 million following the end of the usual months with high receipts.
- External overall balance¹ deteriorated to a higher deficit of \$18.1 million in September 2024 due mainly to Government's external loan repayments.

Exchange Rates



- The NEER rose in October 2024 as the TOP appreciated against all major currencies except the USD.
- The REER increased in October 2024, coinciding with the lower NEER.

Liquidity & Interest Rates



- Excess liquidity in the banking system increased in August 2024 in line with the higher deposits.
- Interest rates spread widened by 2.5 basis points to 6.21% in September 2024.
- The deposit rates declined over the month by 1.8 basis points, offsetting a decline in lending rates by 0.8 basis points.

Labour Market



- Job vacancies increased in October 2024 to a total of 81 jobs advertised compared to 63 vacancies in the previous month.
- These vacancies were largely from public administration, transport & communication, financial intermediation, and business services sectors.
- Total job vacancies advertised to the public however dropped over the year by 9 vacancies.
- Job recruitment remained 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 stabilizes, yet downside risks lingers

Despite experiencing severe crises with major disruptions to growth, the global economy has proved resilient amidst adversity. According to the IMF's October 2024 World Economic Outlook (WEO) report, global growth is expected to remain stable over the medium term with a projected growth of 3.2% in both 2024 and 2025. This is a slight downward revision of 0.1 percentage point for 2025 mainly on lower growth expectations for the Euro Area and China. Growth for the US was revised upwards by 0.2 percentage points (from the July 2024 WEO) to 2.8% for 2024 notably on the basis of stronger consumption outturns and investment activities.

Global headline inflation is projected to decelerate from an average of 6.7% in 2023 to 5.8% in 2024, and gradually to 4.3% in 2025. This is largely driven by a broad-based reduction in core inflation reflecting the lagged effects of tight monetary policies, and pass-through effects of previous decline in energy prices. Disinflation is expected to be faster in advanced economies compared to emerging markets and developing economies.

For Pacific Island Countries (PICs), the recovery in the tourism sector continues to drive growth, supported by up-beat demand and consumption in the wider Asia-Pacific region. However, vulnerabilities to climate shocks, lack of economic diversification, and limited investment initiatives are weighing on growth prospects. Hence, outlook for the PIC group was revised downwards by 0.1 and 0.2 percentage points, to 3.9% and 3.3% for 2024 and 2025, respectively.

Nevertheless, risks and uncertainties remains. A faster than anticipated slow-down in near-term growth due to monetary policy tightening could dampen consumer and business sentiment, leading to weaker household spending and lower business investments. Escalating conflicts in the Middle-East, and Ukraine could further disrupt global trade leading to persistent rise in food, energy, and other commodity prices.

Indicators mostly pointed to a slowdown in September 2024

Export activities in the primary sector slowed in September 2024. Total agricultural exports plummeted by 254.7 tonnes (45.3%) over the month, due to lower exports of root crops, coconut and watermelon. Contrarily, total agricultural export receipts rose by \$0.1 million (21.5%) which may indicate a lag in receipts. Nonetheless, the upcoming harvest season particularly for squash, watermelon, and root crops is anticipated to boost sectoral activities. Meanwhile, total marine exports dropped by 199.9 metric tonnes (78.6%), reflective of the declined tuna catches during the month which fell by 68.6 metric tonnes (42.0%). This may also indicate strong demand and consumption from both households and businesses that could take up substantial amount of the total catches. Coincidentally, total marine

export proceeds fell by \$0.05 million (27.5%) while aquarium exports picked up by 1,715 pieces (31.2%). At the same time, the sector's performance remains highly vulnerable to the current cyclone season and other natural hazards.

Credit to the industrial sector showed mixed outcomes in September 2024. Lending to the construction sector recorded a slight decline over the month of 0.2% (\$0.05 million), while lending to the mining & quarrying sector rose by 17.1% (\$0.02 million). Individual housing loans also recorded a slight increase of 0.1% (\$0.2 million). Additionally, construction-related import payments rose by \$0.1 million (2.4%) during the month.

Indicators in the services sector portrayed a decline in performance for September 2024. Total passenger arrivals dropped by 2,388 passengers (19.2%), while total passenger departures declined by 3,015 passengers (23.8%). Coincidentally, total travel receipts decreased by \$2.0 million (11.5%). Meanwhile, total container registrations also fell by 300 containers (24.7%) due to decreased private and business containers. This is also reflecting the lower number of cargo vessels, which declined from 12 cargo vessels in the previous month to 7 cargo vessels in September 2024. At the same time, the total number of vehicle registrations declined by 52 vehicles (19.0%), owed largely to lower Government vehicles and light vehicles. The high Government vehicles registered in the previous month reflected the transportation arrangements for the Pacific Islands Forum meeting. On the outlook, the upcoming Christmas Holiday season is anticipated to drive growth in the sector.

Job vacancies rose in October 2024

The Reserve Bank's survey on job advertisements shows that 83 job vacancies were advertised in October 2024, a 33.9% (21 job vacancies) increase from the previous month. These vacancies were mostly from public administration, transport & communications, financial intermediation, and business services sectors. At annual rate, total job vacancies advertised to the public dropped by 9 vacancies (0.9%). The total job vacancies advertised over the year to October 2024 stemmed mainly from public administration, transport & communication, utilities, and hotel & restaurants.

Headline inflation dipped to 2.1% in September 2024

The Consumer Price Index dropped further in September 2024 by 1.0%, driven by decreases in both imported and domestic prices. Imported inflation declined over the month, supported primarily by lower prices of fuel, imported food items, construction materials, tobacco, alcoholic beverages, and household items. Contrarily, price of goods for personal care and non-alcoholic beverages rose. Domestic prices also declined as price of local food items continued to ease along with non-alcoholic beverages and local transport services. Local food prices are anticipated to



take an upturn in the near term given the expected rebound in demand and consumption during the Christmas Holiday season. At the same time, risks to the local supply are skewed to the downside given the current cyclone season.

The headline inflation dropped to 2.1% in September 2024, lower than 3.5% in the previous month and 3.0% in September 2023. This is the lowest rate since January 2021. Imported inflation contributed -0.1 percentage points (pps) to the headline inflation, mainly due to lower prices for fuel, tobacco, construction materials, and non-alcoholic beverages. However, domestic prices contributed 2.2 pps to the headline inflation. The main contributors were local food items, kava, electricity tariff, and local transport services. Meanwhile, cost of catering services, clothing, tertiary education, labor, and furnishings & household items declined over the year reducing some of the inflationary pressures. Nevertheless, the inflation outlook is highly prone to ongoing geopolitical tensions and its possible disruptions to global supply chains and logistics.

Core inflation stabilized at 2.5% in September 2024. Domestically, price of kava, transport services, and alcoholic beverages contributed to the core inflation. Meanwhile, imported items such as goods for personal care, household appliances & items, clothing, and alcoholic beverages drove the core inflation. On the other hand, non-core inflation declined to 1.8% from 4.2% in the previous month.

Effective exchange rates increased in October

The Nominal Effective Exchange Rate (NEER) rose by 1.6% in October 2024 as the Tongan Pa'anga appreciated against all major currencies except the USD (month ended). Similarly, the Real Effective Exchange Rate (REER) increased by 4% during the month, coinciding with the higher NEER.

On a year-end basis, the NEER continued to weaken, declining by 0.4% compared to the previous year as the TOP generally depreciated against all major currencies except for the USD and JPY. This ongoing depreciation is expected to contribute to higher imported inflation, but will benefit exports and remittances. The REER declined also over the year in line with Tonga's relatively lower inflation rate suggesting an increase in Tonga's competitiveness in global trade.

Foreign reserves increased in October

Foreign reserves stood at \$898.2 million, underpinned by a \$10.8 million increase during October 2024 largely driven by government receipts and remittances. This represents 10.3 months of imports, surpassing the IMF's recommended threshold of 7.5 months. Additionally, foreign reserves were \$7.0 million higher compared to the same period last year. The majority of the official foreign reserves are held in USD, NZD, and AUD.

Remittances continue to wind down in September

Similar to previous years, remittance receipts fell in September by \$6.8 million (13.9%) to a total of \$42.2 million despite the annual women's roll call (Taliui Sepitema) taking place during the month. While employee compensation increased, private transfers remained the primary factor driving the overall decrease, followed by declines in private capital transfers and social benefits.

Additionally, remittances received in US, Australian, and New Zealand dollars decreased, despite the depreciation of the Tongan pa'anga against the Australian and New Zealand dollars in September 2024, as well as the growth in employment sectors in the US and Australia during the month. This decline is attributed to disruptions in the MoneyGram systems, which led to a reduction in remittance receipts through MoneyGram.

Similarly, total remittance receipts fell over the year by \$16.6 (3.1%), reflecting a slowdown in remittances following the HTHH volcanic eruption disaster in January 2022.

Broad money climbed

Broad money rose in September 2024 to \$901.6 million, by \$8.4 million (0.9%) over the month and \$53.8 million (6.3%) annually. The net domestic assets increased both monthly and annually, mainly on higher capital accounts over the month and increased credit to private sectors annually. On the other hand, the net foreign assets decreased over the month but rose annually underpinned by lower foreign reserves over the month and lower foreign liabilities annually.

Reserve money increased

Liquidity in the financial system also increased in September 2024, by \$15.4 million (2.5%) over the month and \$42.4 million (7.2%) over the year, to a total of \$633.0 million. The monthly rise attributed mostly to higher Exchange Settlement Accounts (ESA). Annually, all the three major categories rose, led by ESA then followed by currency in circulation (CIC) and Statutory Required Deposits (SRD). The higher ESA corresponded to banks' net deposits to the NRBT vault and net sales of foreign currency to the NRBT whilst the increased CIC and SRD reflected demand for cash and the growing deposits.

Credit growth declines

The banks' total lending fell in September by \$3.4 million (0.6%) but rose annually by \$16.7 million (3.2%) to \$538.5 million. The monthly decline was due mainly to lower loans to public enterprises and private businesses in the professional & other services, agriculture, and transport sectors as well as a reduction in household vehicles loans. Annually, increased loans were offered to the tourism, distribution, and entertainment and catering services sectors along with the household loans. Despite the annual



rise, the credit growth was still lower as compared to last year's growth mainly on lower business loans.

Total bank deposits rose by \$16.1 million (1.7%) over the month, and over the year by \$59.3 million (6.6%) to \$958.2 million. The monthly increase was driven by higher demand and saving deposits from the private sector and retirement funds. The annual growth in deposits was attributed to higher demand and time deposits from again the private sector and the retirement funds. Total loan to deposit ratio therefore decreased to 55.1% in September 2024 from 56.4% in the previous month.

Interest rates spread widened

The weighted average interest rate spread widened in September 2024, increasing by 2.5 basis points over the month and 20.1 basis points annually to 6.21%.

On a monthly basis, the weighted average deposit rate decreased by 1.8 basis points, offsetting a 0.8 basis points rise in the weighted average lending rate. Both the saving and demand deposit rates declined and outweighed the rising time deposit rates. The increased volumes of savings and demand deposit rates also contributed to their lower deposit rates. The lower lending rates over the month attributed mainly to non-profit organisations' lending rates, household housing and other personal lending rates, and business lending rates offered to the professional and other services, tourism and construction sectors.

Over the year, the weighted average lending rate increased by 16.3 basis points whilst the weighted average deposit rate declined by 3.8 basis points. Lending rates offered to the entertainment & catering, agricultural and construction sectors increased over the year as well as the non-profit organisations and other commercial loan rates. Similarly, all deposit rates increased over the year, led by savings deposit rates. The higher deposit rates was in line with the increased volume of deposits over the year.

Financial Stability

The latest revised Aggregate Financial Stability Index (AFSI) for Tonga¹ (December 23) indicates a slight quarter-on-quarter improvement of 2.2 index points to 0.74 since September 2023. The increase is predominantly attributed to increases 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 improvements in Tonga's Credit-to-GDP ratio as well a reduction in the Chicago Board Options Market Volatility Index. Annually the AFSI increased by 7 index points from 0.67 with the FSI being the only sub-index to experience a decline. Most notably, this is due to the significant deterioration of the domestic bank's Non-Performing Loans (NPL) ratio. Tonga's AFSI remains above the long-term average of 0.59.

Outlook

Overall, the global economy is navigating a complex landscape with both positive and negative indicators. Recent escalation of conflicts in the Middle-East may affect growth through higher inflation expectation especially for oil prices. Outlook for the Tongan economy remains positive, supported by infrastructure projects, tourism, and domestic events. However, global geopolitical tensions, potential disruptions to trade, and the upcoming cyclone season could pose downside risks. Inflation is currently below the 5% reference rate but the NRBT continues to closely monitor the inflationary environment and will adjust its policies accordingly. 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. The overall financial system maintains stability with high liquidity but risks to asset quality and capital positions are tilted to the downside.

¹ 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.

TONGA: ECONOMIC & FINANCIAL STATISTICS

KEY INDICATORS

		Sep-23	Jun-24	Jul-24	Aug-24	Sep-24
1. Sectoral Performance Indicators*						
(year-on-year % change)	Visitor arrivals	888.6	51.0	33.2	23.1	18.4
	Travel receipts	292.8	42.0	30.9	26.2	21.8
	Electricity production	2.2	24.5	22.6	19.9	20.0
	Agricultural exports ^{1/}	-3.9	-14.8	-12.9	-14.9	-20.5
2. Consumption Indicators*						
(year-on-year % change)	New vehicle registrations	3.1	9.4	11.2	12.8	12.3
	Container registrations	8.9	17.8	11.0	12.9	13.1
	Electricity consumption	1.8	0.7	0.6	0.5	0.4
	Remittances	12.2	-1.5	-3.0	-3.0	-3.1
3. Consumer Prices**						
(year-on-year % change)	All items ^{2/}	3.0	5.4	3.1	3.5	2.0
	Domestic	1.3	10.2	5.5	6.3	4.9
	Imported	4.4	1.4	0.7	1.2	-0.1
	Core inflation (ex energy & food)	6.8	8.4	4.4	5.1	4.0
4. Labour Market***						
(year-on-year % change)	NRBT Job Advertisement survey	-37.3	59.6	20.2	-4.4	-10.1
5. Reserves***						
(end of period)	Foreign Reserves (\$m) ^{3/}	886	924	909	906	887
	Months of imports	11.3	11.9	11.5	10.4	10.2
6. Exchange Rates***						
(end of period, TOP\$1 equals)	US dollar	0.4179	0.4222	0.4183	0.4268	0.4293
(index, Dec 2006=100)	Australian dollar	0.6507	0.6351	0.6396	0.6276	0.6216
	New Zealand dollar	0.7008	0.6938	0.709	0.6817	0.6773
	Fijian dollar	0.964	0.9572	0.9579	0.9512	0.9494
	Nominal effective exchange rate	95.5	95.8	95.8	94.3	93.9
	Real effective exchange rate	119.5	124.3	121.1	118.7	117.3
7. Liquidity***						
(end of period)	Reserve money (\$m) ^{3/}	591	632	614	618	633
	Currency in circulation (\$m) ^{3/}	120	128	132	130	130
	Exchange settlement account (\$m) ^{3/}	339	369	343	352	367
	Required reserve (\$m) ^{3/}	131	135	139	136	136
8. Money and Credit***						
(year-on-year % change)	Broad money	0.5	7.6	3.4	4.5	6.3
	Net foreign assets	-1.1	5.4	-0.2	2.0	3.0
	Net Domestic Asset	-46.0	-36.5	-57.2	-51.2	-164.1
	Narrow money	3.9	15.8	6.4	7.5	10.1
	Total Lending	8.2	4.1	4.8	5.0	3.2
	Business lending	16.3	2.2	3.2	3.8	0.7
	Household lending	2.0	6.0	6.4	6.2	5.7
	Total Deposits	5.0	6.6	1.7	3.5	6.6
9. Interest Rates (%)***						
(monthly weighted average)	Lending rate	7.62	7.79	7.77	7.77	7.78
	Savings deposit rate	1.61	1.52	1.57	1.59	1.57
10. Commodity Prices****						
(end of period)	Crude oil/barrel (US\$)	92.18	82.82	83.93	78.96	73.12

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