



**QUARTERLY**

**ECONOMIC**

**UPDATE (June, 2014/15)**

*(August)(2015)*

**NATIONAL PLANNING & ECONOMIC DEVELOPMENT DIVISION  
MINISTRY OF FINANCE & NATIONAL PLANNING  
GOVERNMENT OF TONGA**

## Notes

- a) The following definitions are used in the Quarterly Economic Update (QEU):
- 'Real' means adjusted for the effect of inflation
  - The fiscal year (FY) of the government ends on 30 June. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2014 ends on 30 June 2014
  - Forecast period refers to 2014/15 – 2017/18.
- b) Figures in the tables and text have been rounded. Discrepancies in tables between totals and sums of components are due to rounding.
- c) The following notations are used:
- nil
  - na not applicable (unless otherwise specified)
  - \$ refers to Tongan Pa'anga (TOP) (unless otherwise specified)
  - \$m millions of Pa'anga (TOP)(unless otherwise specified)
  - (e) estimates (unless otherwise specified)
  - (r) revised estimates (unless otherwise specified)
  - (p) projected (unless otherwise specified)
- d) The following acronyms referred to as:
- |      |   |
|------|---|
| NRBT | National Reserve Bank of Tonga                  |
| OET  | Overseas Exchange Transactions                  |
| TSDF | Tonga Strategic Development Framework 2015-2025 |

## Table of Contents

OVERVIEW .....	4
REAL SECTOR .....	7
PRIMARY .....	7
SECONDARY .....	8
TERTIARY .....	11
RISKS .....	13
FISCAL SECTOR.....	14
EXTERNAL SECTOR.....	15
MONETARY AND FINANCIAL SECTOR.....	16

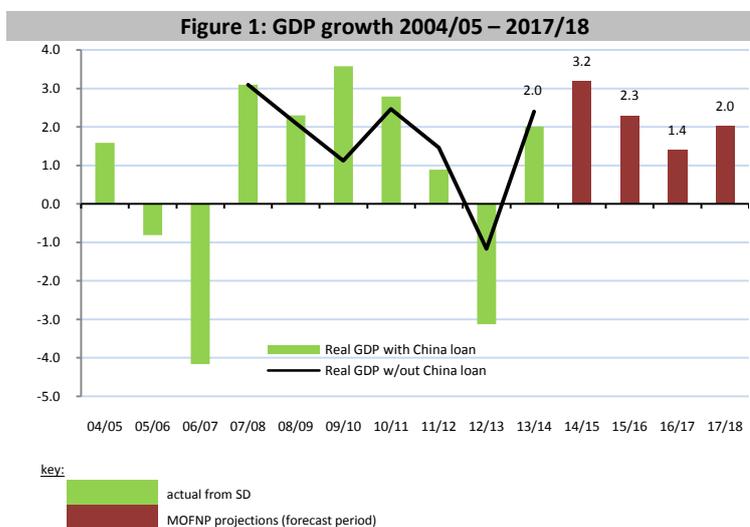
### List of Figures

Figure 1: GDP growth 2004/05 – 2017/18 .....	4
Figure 2: Primary Sector GDP Growth .....	7
Figure 3: Exports Volume in December Quarter.....	7
Figure 4: Domestic Market Sales Volume in December Quarter (Talamahu Market Only) .....	7
Figure 5: Fisheries Sector GDP Growth.....	8
Figure 6: Fisheries Export Volumes .....	8
Figure 7: Public Construction .....	9
Figure 8: Housing Loans .....	9
Figure 9: Private Non-Residential Building Construction, Values and Number of Permit .....	10
Figure 10: Total Imports (TOP millions).....	10
Figure 11: Contribution to Secondary Sector Growth.....	10
Figure 12: Tertiary Sector GDP .....	11
Figure 13: Wholesales/Retails Trade sub-sector GDP growth (%).....	11
Figure 14: Total imports (T\$m).....	11
Figure 15: Hotels and Restaurants sector GDP growth (%).....	12
Figure 16: Tourist air arrivals .....	12
Figure 17: Public administrations/services sector GDP growth (%) .....	13
Figure 18: Transport and Communication sector GDP growth (%).....	13
Figure 19: Domestic revenue by categories.....	14
Figure 20: Grants by categories.....	14
Figure 21: Public Expenditure by main categories .....	15

## OVERVIEW

This Quarterly Economic Update presents an update to our GDP forecasts to reflect economic developments since the forecasts for the Budget Statement were prepared.

GDP growth for the year 2013/14 was estimated 2.0 percent. This is a significant increase from negative growth of 3.1 percent in 2012/13 that was caused by a large contraction in the construction sector reflecting the completion of the Nuku'alofa Reconstruction Project. Growth in 2013/14 was supported by strong performance in the agriculture industry, from root crops in particular. The secondary and tertiary sectors grew at a slow pace, but stronger than in 2012/13. We forecasted growth to strengthen in 2014/15, then moderate in 2015/16 and 2016/17 before strengthening back to around average at the end of the forecast period. The average growth rate for the forecast period is 2.2 percent.



GDP growth for Tonga is expected to rise to 3.2 percent in 2014/15. This is due to strong growth in the tertiary sector largely related to the effect of the Coronation event on activity in the wholesale and retail trade and the hotels and restaurants industries. Strong growth in public administration and services also contributes to the positive performance of the sector. Growth in the secondary sector contributes to overall GDP growth as construction activity has increased supported in particular by projects such as the Ha'apai reconstruction. The primary sector actually subtracts from overall GDP growth due to a decline in agriculture production as a result of drought through 2014/15.

Growth in 2015/16 is forecast to be 2.3 percent. We expect a slowdown in tertiary sector as activity falls back to more normal levels after the boost from the Coronation, although the celebrations for the Tupou College Anniversary will provide additional support to the wholesale and retail trade industry. We expect growth to strengthen in secondary sector again driven largely by public construction projects but also reflecting an increase in private construction activity – both residential and non-residential. We expected recovery in growth of primary sector as production recovers to more normal levels following the drought.

The outlook for outer years is positive but weaker than the average of 2 percent growth for the forecast period. We expect strong growth from the primary sector and weaker growth for secondary sector for both years. Weaker growth for tertiary sector is projected for 2016/17 and estimated to strengthen back at the end of the forecast period. The projection for strong growth from the primary sector in the outer years is due to efforts for improvement in market access and attempts at diversification of agricultural products, in addition to general

expectation of a positive effect from all initiatives and developments for growth from both Agriculture and Fisheries Sector Plans. Weaker growth projected for secondary sector for the outer years is associated mainly with the revision down in the size of construction associated with the Pacific Games as well as the expected timings of the construction projects in our forecast– Aviation projects (PAIP). Weaker growth is also projected for tertiary sector is due to the fall off in wholesale and retail trade after the effects of the Coronation and Tupou College Anniversary events.

Real GDP and Nominal GDP are linked through a measure of the price level. The GDP deflator has been used as the relevant price level and inflation measure for our forecasts. Inflation is expected to have dropped significantly to negative 1.0 percent for the year ended June 2015. This largely reflects the sharp decline in global oil prices since August 2014 until January 2015, which has caused lower domestic prices for petrol and diesel, as well as for electricity. Global food prices have also declined to around the lowest level in 5 years. However, local drought conditions have offset some of this decrease in food prices in the domestic economy. For the rest of the forecast period, inflation is expected to gradually increase due mainly to a gradual (rather than sharp) increase in global oil prices as supply conditions normalize. The gradual increase in inflation is also due to the fact that lower commodity prices could still also be working through the domestic economy.

There are a number of key risks to our economic forecasts. The agriculture sector remains vulnerable to changes in weather conditions. Our forecast assumes a recovery to normal levels of production in the 2015/16 year. However, should El Nino weather conditions continue there remains risk of continuing dry conditions that could limit production in the primary sector. There is uncertainty around the timing of major construction projects. Delays in timing of the construction projects could cause weaker growth in the sector in the near-term, but somewhat stronger growth in the outer years. If projects are cancelled or scaled back, this could also lead to weaker growth through the forecast period. It is also a risk to Tongan economy if conditions (Pacific Economic Monitor, July 2015) of its main trading partners do not improve as expected, as it will decrease remittances and demand for exports. Global commodity prices are assumed to be fairly stable and then gradually increase later in the year. However, a sharp increase in commodity prices is a key risk as it may lead to:

- increases in costs of production,
- raise inflation and
- reduce household real incomes.

While the overall growth outlook is positive, the forecasts are weaker than our previous forecasts included in the Budget Statement. Weaker real growth, combined with weaker inflation leads to lower nominal GDP. This would tend to lead to lower revenue than would be consistent with our previous forecast. All else equal, lower nominal GDP would also tend to lead to higher debt ratios.

Provisional figures indicated that both domestic revenue and cash grants increased at the end of June quarter 2015 compared to previous quarter by 20 percent and corresponding period last year. This increase reflected improvements in compliance from businesses and the

Coronation effects through higher imports. The increase in cash grants reflects budget support payments from the Australian Government. At the end of 2014/15, domestic revenue collected was 8 percent higher than the original budget estimated for the year. This was mainly contributed from a 14 percent higher in the revenue collected, compared to original budget, from tax items particularly tax from corporations and businesses.

Public Expenditure is usually stronger in the June quarter, as last quarter of fiscal year, compared to March quarter. Provisional figures indicated that public expenditure increased by 19 percent in June quarter compared to the previous quarter mainly due to increase in payments of compensation of employees thus reflecting the increase in number of government employees, increase in payments for goods and services, administrative charges (electricity, telephone, rent, internet etc), and maintenance expenses for office equipments, vehicles and buildings. The expenses for the Coronation were mostly happened in the month of June, which have boosted June quarter's expenses. At the end of 2014/15, public expenditure (provisional figures) was well below the original budget estimated. By expenditure category, overspending was only for interest payments (by 4.9 percent) and grants (by 60 percent).

At the end of June 2015, foreign reserves were \$289.7 million pa'anga equivalent to 8.2 months of import cover. This is well above the minimum range of 3-4 months of import cover set by the National Reserve Bank of Tonga. The outlook, by the NRBT, is for foreign reserves to well remain above the minimum range, assuming that remittances increase as well as increase of travel receipts increase.

The IMF projects, World Economic Outlook update – July 9th 2015, global growth to be 3.3 percent in 2015. This is slightly lower than 3.4 percent growth in 2014 as per World Economic Outlook update in April 2015. Growth is forecast to gradually increase in advanced economies but to slow in emerging market and developing economies. Global growth is expected to slightly increase to around 4.0 percent in the outer years. IMF also projected that the growth of Tonga's main trading partners - Australia, New Zealand and the United States - are expected to increase throughout the forecast period. Stronger conditions in these economies should support remittances back to Tonga (also supported by increases in the number of people participating in seasonal workers schemes), and demand for Tonga's exports.

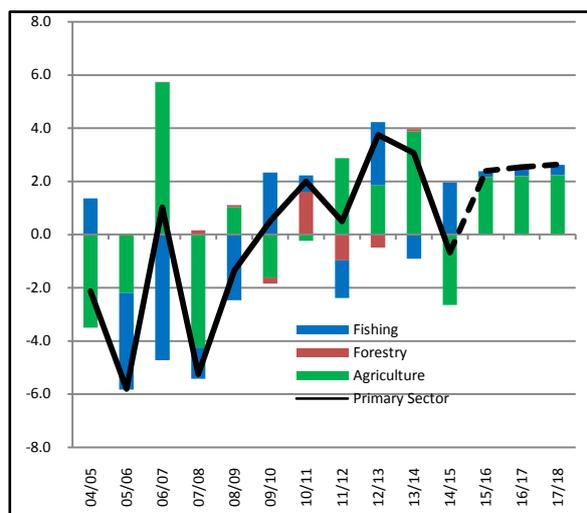
## REAL SECTOR

### PRIMARY

GDP growth for Primary sector in 2013/14 was 3.1 percent supported by the good performance of the agriculture sector. Growth in 2014/15 is expected to fall to -0.7 percent due to the effects of drought caused by the El Nino weather conditions. Recovery from drought sees positive growth in 2015/16 and growth is then expected to gradually increase in the outer years.

The impact of drought has been widespread across the agriculture industry, with both exports and domestic sales declining. In the December 2014 quarter (the latest available data), production for export and local market was lower by 19 percent and 10 percent respectively compared to the same quarter in 2013. The largest declines were in exports of squash (down 34 percent), fruits (down 28 percent), taro and pele leaves (down 60%). However, root crops do not appear to have been affected by drought as in the December quarter exports of root crops increased by 52 percent from corresponding period in 2013.

Figure 2: Primary Sector GDP Growth



Sources: Statistics Department and Ministry of Finance and National Planning

Figure 3: Exports Volume in December Quarter

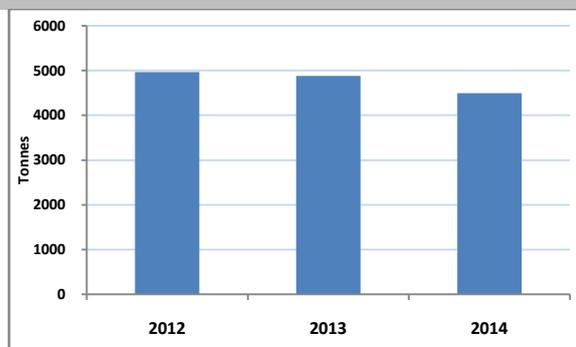
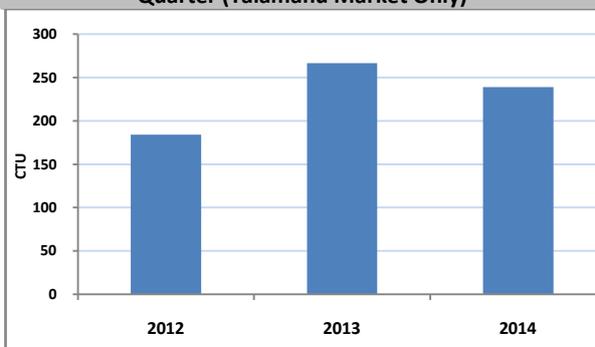
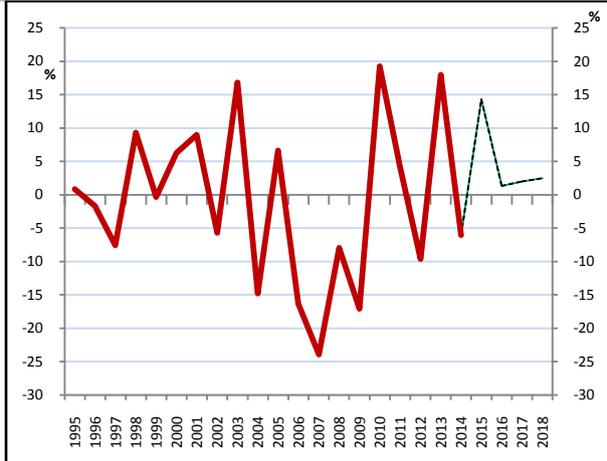


Figure 4: Domestic Market Sales Volume in December Quarter (Talamahu Market Only)



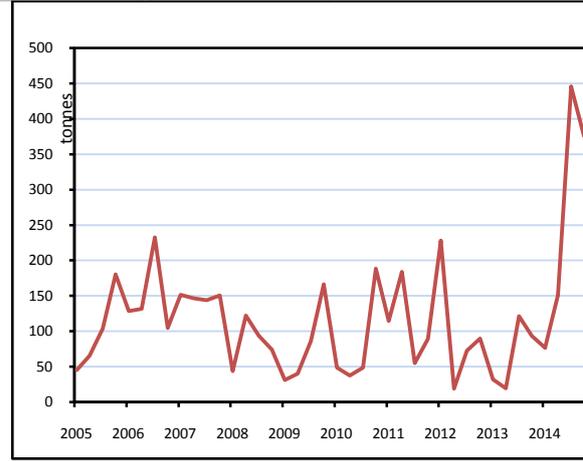
Note: CTU is common trade units e.g. bunches, bundles, baskets  
Source: Ministry of Agriculture, Food, Forestry and Fisheries

The weakened growth in the agriculture industry in 2014/15 was partially offset by strengthening in the fisheries industry. Latest available export data indicates a large increase in both the value and volume of fisheries exports in the first 9 months of the year. This increase was driven by a strong increase in tuna exports.

**Figure 5: Fisheries Sector GDP Growth**

Note: Period are in financial year

Sources: Statistics Department and Ministry of Finance and National Planning

**Figure 6: Fisheries Export Volumes**

Note: Period are in financial year

Source: Ministry of Agriculture, Food, Forestry and Fisheries

The positive growth anticipated for primary sector for 2015/16 onwards is due to production normalizing in 2015/16 from the drought. We then expect growth is to be supported by initiatives including further improvements in the market access and improving access to Agricultural Marketing Fund. Improvements in market access are supported by expansion of activities of Nishi Packing Facilities to improve quality and appropriateness of packaging agricultural exports to meet overseas markets' requirements. The second variation to the Agricultural Marketing Fund is expected to offer more opportunities for growers to more easily access to the funds. The re-opening of the European market for kava from September 2015, with 100 tonnes also supports the positive outlook for the sector in the near term (kava had been banned in 2001). There is also greater growth potential in the industry from diversification of export products (supported by district councils through Agriculture Sector Growth Committee) to include butternut and butterkin, in addition to expanding exports of vanilla and coconut

Low but positive growth is forecast for the fisheries industry for the rest of the forecast period. Sustained positive growth is expected to be supported by initiatives to increase shipping capacity for fish exports by more than doubling the number of air cargo shipments per week from the existing shipping capacity. Presently, there is only 1 flight a week out of Tonga that can carry cargo with an average of 4-5 tonnes. Increased utilization of the Fisheries Development and Export Fund could also support activity in the industry even though the impact could be reasonably small.

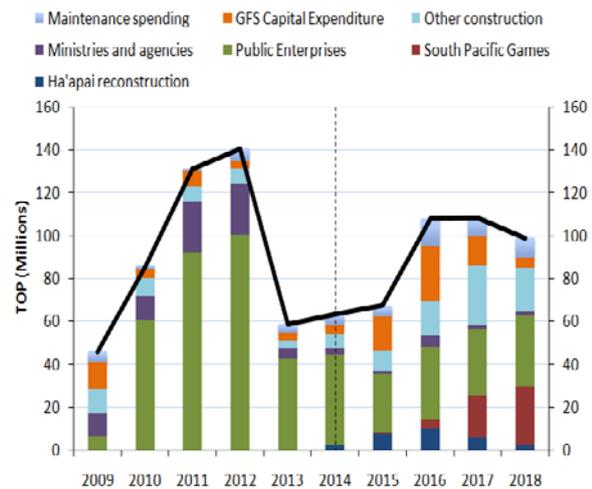
## SECONDARY

Construction remains the main driver of growth in the secondary sector through the forecast period. Manufacturing and electricity and water supply are both forecast to grow at around their historical average growth rate of 1 percent and 1.8 percent respectively. Growth for the secondary sector overall is expected to strengthen to 4.2 percent in 2014/15 compared to 1.3 percent growth in 2013/14. Growth then further strengthens to 5.6 percent in 2015/16 before falling back to an average of 1.6 percent for outer years.

The construction sector is comprised of public construction and private construction. In terms of public construction, growth has recovered from the downturn in the sector in 2012/13 (that was caused by the completion of the Nuku'alofa Reconstruction project) and is expected to continue to gradually strengthen in 2014/15 with number of projects including:

- Ha'apai Reconstruction, finally coming on stream
- Tonga Transport Sector Consolidation Project,
- Extension of the submarine cable to Vava'u and Ha'apai,
- The Tonga Village Network Upgrading Project.

**Figure 7: Public Construction**



Source: Ministry of Finance and National Planning

Growth in public construction is anticipated to increase in 2015/16 due to additional projects anticipated to begin soon including the upgrading of Fua and Nafanua wharves, Aviation projects for upgrading of Fua'amotu and Lupepau'u runways, and the extension of the solar farm project to the outer islands. Preparations for the Pacific Games are expected to start in 2016/17 and will support construction activity through the outer years of the forecast period. However, the estimated cost of the Pacific Games construction has been revised down from T\$111.8 million to T\$88 million, which has led to a flatter profile for construction activity in the outer years.

Private residential construction is forecast to increase. This is based on the recent strengthening in growth in housing loans, as well as an observed increase in the value and number of housing building permits in recent months.

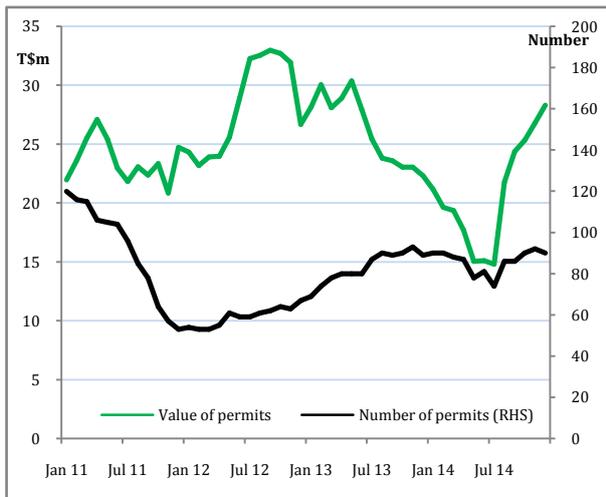
Non-residential building construction is expected to increase, also indicated by the increasing number of permits and an even stronger increase in the value of permits (tending to indicate larger projects). The forecast for the construction sector is also consistent with recent increases in total imports of construction materials.

**Figure 8: Housing Loans**



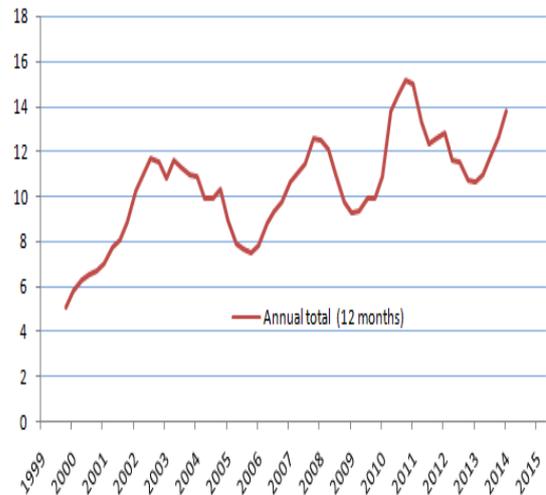
Source: National Reserve Bank of Tonga

**Figure 9: Private Non-Residential Building Construction, Values and Number of Permit**



Source: Ministry of Infrastructure

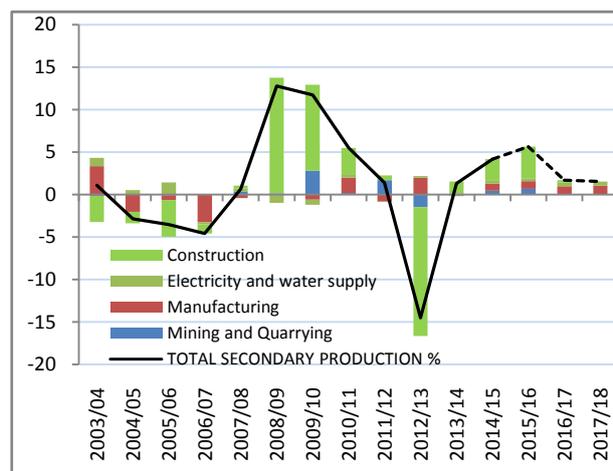
**Figure 10: Total Imports (TOP millions)**



Source: Statistics Department

The increase in growth for the Secondary sector in 2014/15 is mainly supported by number of donor funded construction projects. The increase in the number of manufacturing businesses registered and increase in number of tourist arrival as well as increase in number of cruise ships arrived in Tonga were also supportive, as shows in **Figure 11**, to the growth for 2014/15. The prospect for further increase in the sector growth for 2015/16 remain high due to number of projects that are expected to commence during the year as well as the expected expansion of solar farm project to outer islands – Vava’u and Ha’apai.

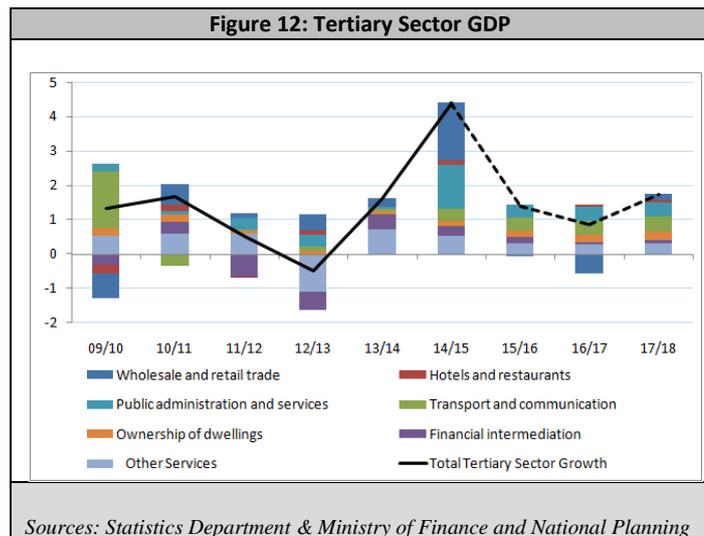
**Figure 11: Contribution to Secondary Sector Growth**



Sources: Statistics Department & Ministry of Finance and National Planning

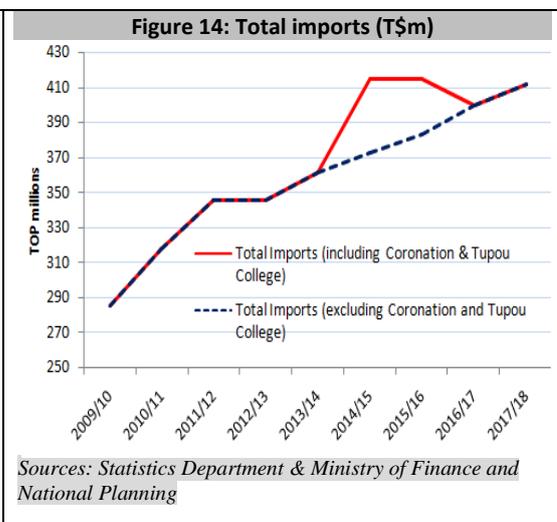
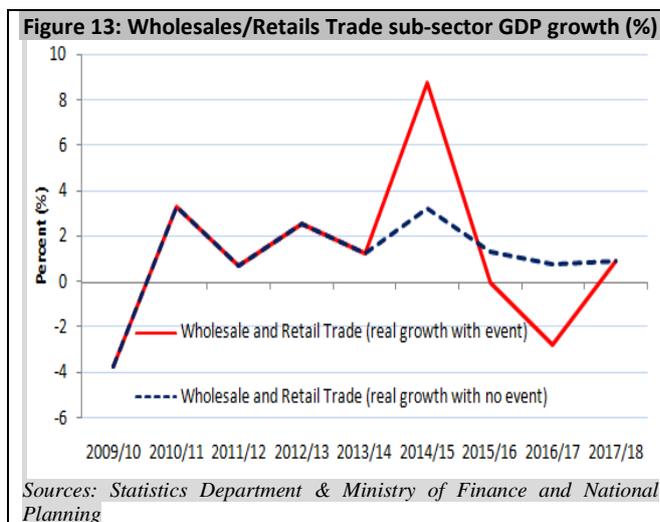
## TERTIARY

There are three main drivers of growth for the tertiary sector in our forecast. Firstly, there are two one-off events. The Coronation in July 2015 will have much of its effect in 2014/15 and some further effect in the beginning of 2015/16. The Tupou College 150<sup>th</sup> Anniversary in June 2016 will support activity in 2015/16. Secondly, the positive outlook (based on sector's development) for the Tourism industry will support tourist arrivals and increasing the demand for services. Thirdly, public sector recruitment policies have impacted on forecast growth in government services.

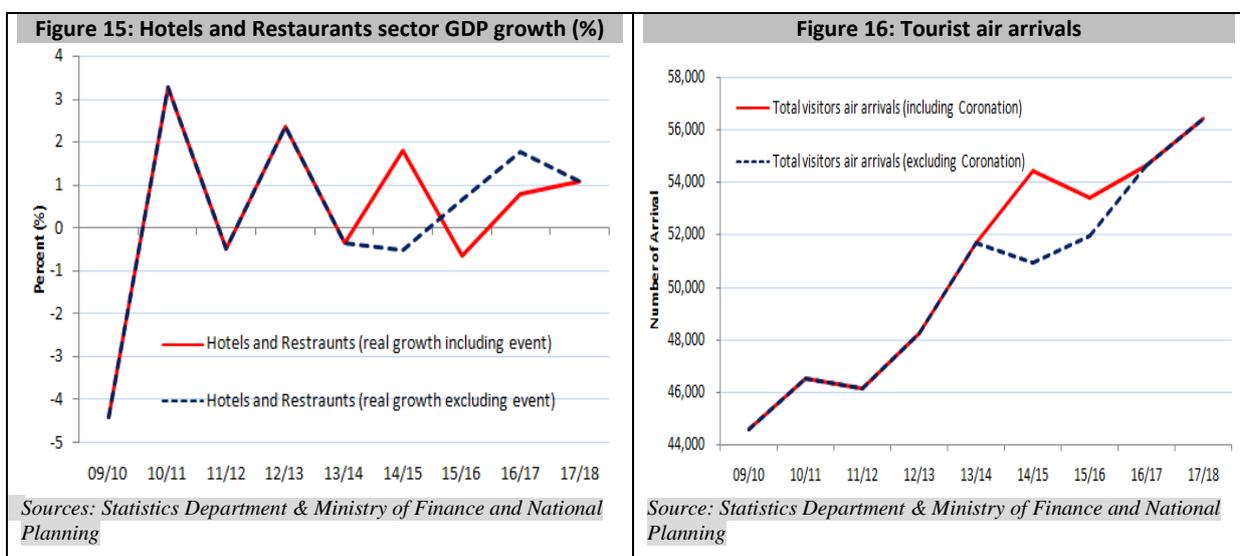


The growth for the tertiary sector is expected to strengthen in 2014/15, moderate growth through 2015/16 and 2016/17 then increase at the end of the forecast period. Growth over the forecast period averages slightly stronger than the historical average of 0.9 percent.

The Coronation, combined with the celebration of the Tonga and Liahona High Schools' anniversaries, has created greater demand for wholesale and retail goods, generating an increase in growth for the industry in 2014/15. This is also consistent with the increase in the level of import by more than double of the average of the last fiscal years as indicated by year to date data (May 2015). Similar spending patterns are likely to be generated by the Tupou College 150<sup>th</sup> Anniversary in 2015/16, maintaining the level of demand in the industry, but generating zero growth. After these two events, the level of demand in the industry is expected to fall back to more normal levels causing growth for the sector to fall, before recovering back to more average growth at the end of the forecast period.



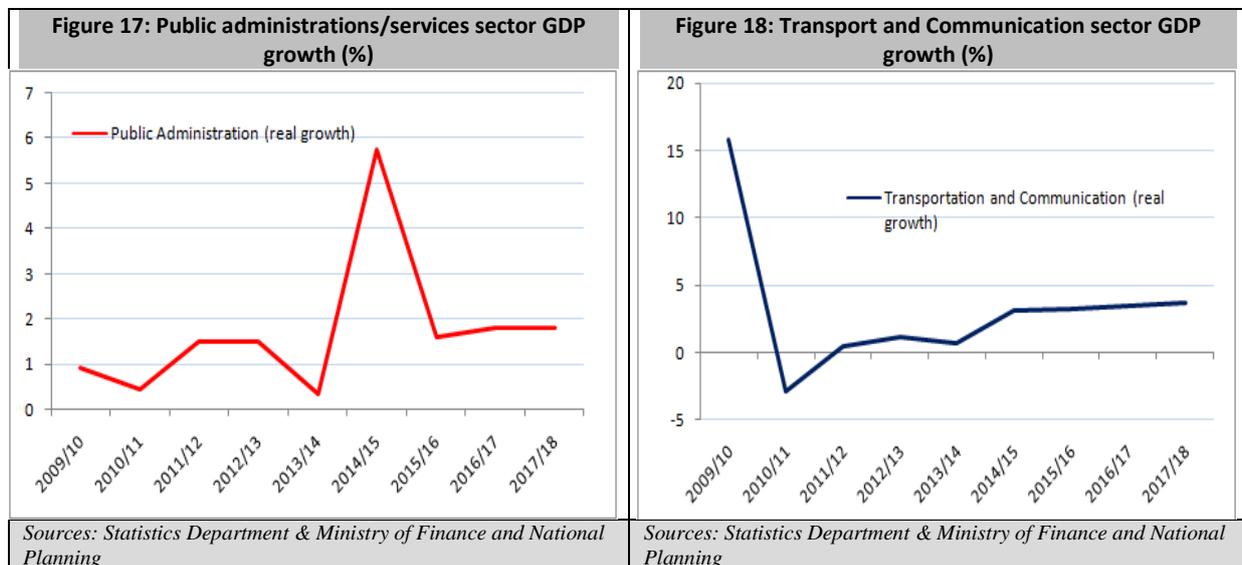
The effect of these one-off events is expected to be different in the hotels and restaurants industry. The Coronation has created much greater demand for hotels and restaurants services in 2014/15. Tourist air arrivals were 1.8 percent lower year-to-date compared to the same period in the previous fiscal year, reflecting the weakness in arrivals through early 2015 due to disruptions caused by the volcano and also aircraft issues. However, tourist air arrivals are assumed to increase by 5 percent in the month of June due to coronation effects. We expect the Tupou College Anniversary to generate less demand for hotels and restaurants than the Coronation. While there may be a high level of visitor arrivals, the impact of this is expected to be lower as many are likely to be Tongans visiting their relatives and friends. This causes negative growth for the sector in 2015/16 as demand falls back to around trend levels (consistent with underlying growth of 0.7 percent). Growth in the industry is expected to increase again in the outer years taking into account that Tano'a Hotel is expected to be operating by 2016/17.



The public administration and services industry is expected to grow very strongly in 2014/15, consistent with the observed increase in the number of government employees. The number of civil servant employees increased by 6.3 percent in 2014/15 and it appears that government ministries and departments were trying to recruit prior to the recruitment freeze. Growth in the industry is expected to fall back to 1.6 percent in 2015/16 due to the tightening of government recruitment. If the freeze had been imposed strongly, then Public Administration has dropped to nearly zero real growth. Growth in the outer years remains stable at a low rate.

Activity in the transport and communication industry is expected to increase in 2014/15 supported by Coronation effects on air transport, evident in a significant increase in the number of flights per week around the event. The industry has also been boosted by an increase in numbers of cruise ship arrivals, inter-island ferry passengers, and sea freight for transporting of construction materials to Ha'apai and outer islands as well as transporting of construction materials by land transport within Tongatapu. In the outer years of the forecast period, the growth outlook for the transport industry is very much related to the movement in the construction sector. The upgrading of Fua'amotu and Lupepau'u airport and others as well as the new direct flight between Fiji and Vava'u supported outlook for outer years in

transportation sector The communication sector is anticipated to continue to grow at around average in the outer years supported by the ongoing investment in some infrastructure projects such as the extension of fibred optic cable to outer islands (Vava’u and Ha’apai). The effects of having all these projects completed are to help boost both transport and communication sector as services become more efficient and effective.



## RISKS

There are still significant uncertainties and potential risks to the positive outlook in the medium term. In the near term, our forecast for primary sector and overall GDP growth for Tonga are still remain highly vulnerable to weather events such as drought and El Nino on the agriculture sector. Thus, if El Nino conditions remain, it increases the risk of further drought reducing production in the agriculture sector and will decrease the growth anticipated for 2015/16.

The uncertainty around timing of construction projects could cause weaker growth for the Secondary sector and if projects are scaled back this could also lead to weaker growth throughout the forecast period. For instance, if timing for project confirmed and include in our projections - like for the Fua’amotu Resort, then it would cause stronger growth for the sector in the medium term.

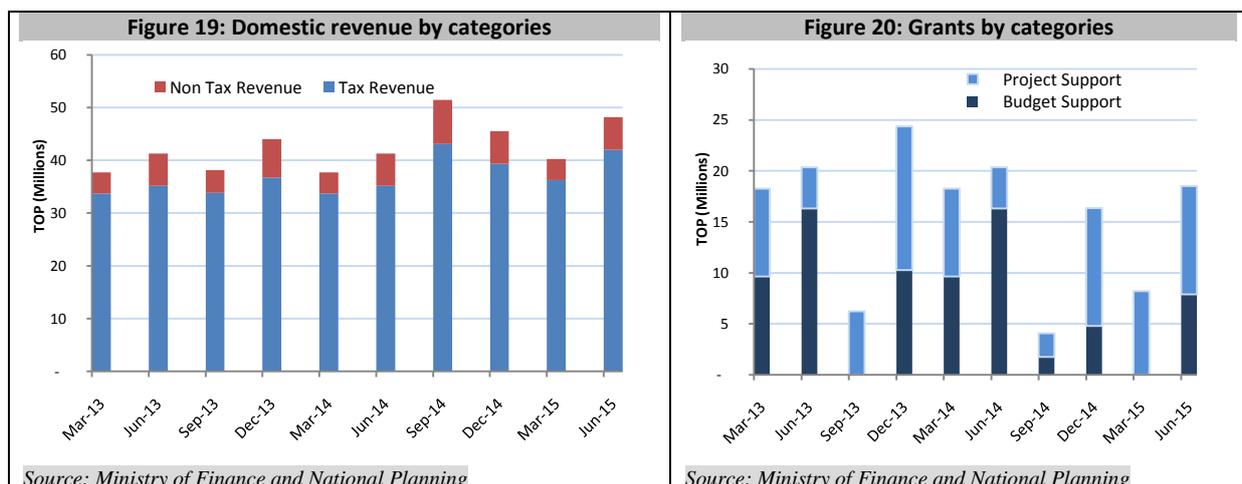
Growth in Tonga is also highly dependent on the economic conditions of its main trading partners’ (Australia, New Zealand and the United States of America). Hence, it is also a risk to Tongan economy if growth in these economies becomes weaker it may have affected remittances and demand for export. Remittances would affect incomes and domestic spending across industries while exports would largely affect the primary sector and tourism industry. Thus, it will lead to slow down in domestic activity and slow overall GDP growth.

Global commodity prices are assumed to be fairly stable and then gradually increase from later this year, 2015/16. Tonga is still highly vulnerable to changes in global commodities’ prices. Global commodities prices such as for food and oil are expected to remain relatively

stable, however, a sharp increase in commodity prices is a key risk for Tongan economy as it may lead to increase in costs of production, raise inflation and might reduced household real incomes.

## FISCAL SECTOR

In June quarter 2015, provisional figures indicated that domestic revenue increased significantly by 20 percent in June 2015 quarter compared to the previous quarter, and by 17 percent compared to the corresponding period a year ago. The 20 percent increase was mainly contributed by corporate tax from large businesses (5 percent), dividends from public enterprise (5 percent), excise tax (3 percent) and business import duties (3 percent). Domestic revenue collected at the end of June 2015, were 8 percent higher than the original budget estimated for the year, owing to 14 percent increase in tax revenue collected, mainly from corporations and businesses. Cash grants receipts were more than doubled during the quarter compared to March 2015 quarter due to the receipts of TOP \$7.9 million as budget support from the Government of Australia, and project support of TOP \$2.4 million from Australia and New Zealand fund and TOP \$1 million from the European Union during June quarter.

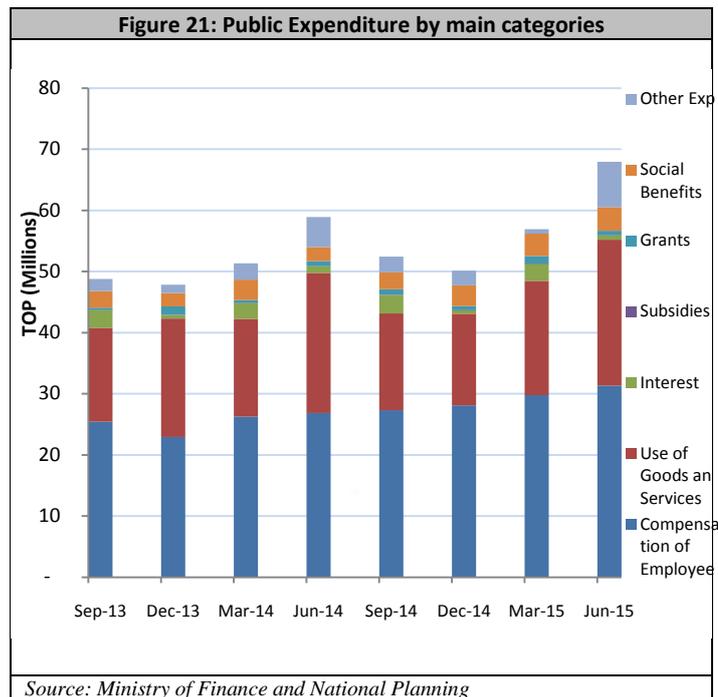


Provisional figures were also indicated that public expenditure increased by 19 percent in June quarter compared to the previous quarter. According to the current trend, the level of expenses for June quarter was very high compared to the same quarters of the last five years

The quarterly increase was mainly due to increase (by 5 percent) in payments of compensation of employees, thus reflecting the increase in number of government employees. Line ministries tried to fill their vacant positions before the end of the financial year and before the policy or recruitment became more strict.

The increase is also due to increase (by 27 percent) in payments for goods and services such as domestic and overseas travel, administrative charges (electricity, telephone, rent, internet etc), fuel, freight and maintenance expenses (office equipment, vehicles and buildings).

These expenses are expected to continue in the future quarters and would required attention as having to monitor them closely and in line with the capacity of government revenue. In addition, the expenses in June quarter were mainly boosted by the expenses for the Coronation. Generally, for the fiscal year ended June 2015, some expenditure items were well below the original budget estimate except for some expenditure items - interest payments (by 4.9 percent) and grants (by 60 percent) - that were higher than the amount budgeted.



## EXTERNAL SECTOR

Provisional figures for export earnings at the end of June quarter, 2014/15, indicated an increase by over 100 percent from its weak performance in March quarter, 2014/15 and over 110 percent increase in the corresponding period in 2013/14. The increase in total export receipts in June quarter 2014/15, was mainly supported from exporting of fish and other marine produces, while lower receipts from agricultural exports reflected the impact of drought in the industry. The Overseas Exchange Transactions for Trade balance for the June quarter continued to remain higher due to higher imports and higher Transfer balance due to increase in remittances and other official transfer associated with the coronation and other events.

Import payments rose by 24 percent in the June quarter compared to the previous quarter, and 23 percent over the corresponding period in 2013. Imports of food items, intermediate goods and capital goods were all stronger. Events created higher than normal demand for imports while the increase in both the volume and price for oil imports also generated higher import payments. Increase in payments for oil imports reflected the increase, by average of 5 percent, in retail prices of petrol and diesel in the month of June.

The outlook for the current account of the BOP is for a larger deficit in 2014/15 due to the increase in demand for imports associated with the effects of preparation for the coronation and other events. BOP is expected to be fairly stable in 2015/16 then falls back then increases in the outer years in lining with related activities of imports after the 2 one-off events and positive prospects for exports from both Agriculture and Fisheries.

Gross official foreign reserves held by the NRBT were 289.7 million as of the end of June 2015. This is an increase to level of \$278 million since December 2013. This is equivalent to 8.2 months of import cover, in which it is well above the minimum range of 3 to 4 months.

## **MONETARY AND FINANCIAL SECTOR**

Inflation is expected to drop significantly to -1.0 percent for fiscal year ended in June 2015. Contributing factors included sharp decline in global oil prices, which has caused lower domestic prices for petrol and diesel, as well as for electricity. Global food prices have also declined to around the lowest level in 5 years although local drought conditions have offset some of this decrease in the domestic economy.

According to the Statistics Department, the annual CPI inflation rate for all items was 0.3 percent at the end of June 2015. This compares with annual inflation of -0.6 percent in the previous month and 1.4 percent in the corresponding period in 2014. The positive inflation, although still very low, in the June quarter compared to last May 2015 is mainly due to an increase in prices of transportation (by 2.2 percent) which is consistent with increase in prices for both petrol and diesel (by 6 and 5 percent respectively). Prices of tobacco, alcohol and kava Tonga have also increased (by 0.4 percent) due to increase in prices of imported tobacco. The price level of local fruit and vegetables has increased 1.4 percent in the year to June and the price of imported meats, fish, and poultry has increased by 1.5 percent, despite world food prices remaining relatively low.

The outlook for the rest of the forecast period inflation is expected to gradually increase due mainly to a gradual increase in global oil prices, as supply conditions normalize. The gradual increase in domestic prices is due to the fact that lower commodity prices could still also be working through the domestic economy.

There is still substantial uncertainty about the outlook following geopolitical risk in the oil-producing countries as well as more subdued aggregate demand growth and sustained oil production growth, in which it will dominate the future level of global commodity prices as well as in the domestic market.