At a Glance April 2010

Economic Indicators

Gross Domestic Product	2008/09	2009/10 forecast	2010/11 forecast
GDP (at constant market price)	-0.2	-1.2	1.4

Headline Indicators	April 2010 Values ($m Pa'anga unless otherwise indicated)	% change from Mar 10	% of GDP (09/10)
Economic Activity			
Outstanding housing loans	$95.1	↓ -0.6%	
Outstanding Business Loans	$132.3	↓ -0.8%	
Remittances	$13.9	↑ 14.4%	2.0%
Annual Inflation	4.5%	↑ 80.0%	
Retail Fuel Prices	Petrol: $2.53/ltr	↑ 2.8%	
	Diesel: $2.48/ltr	↑ 3.3%	
Monetary Indicators			
Foreign Reserves	$161.4	↑ 3.8%	23.1%
Import cover	6.3 months	↑ 1.6%	
Money Supply	$285.1	↑ 0.1%	40.8%
Domestic Credit	$285.8	↑ 0.1%	40.9%
Total liquidity	$290.4	↑ 0.3%	41.6%
Fiscal indicators (YTD)			
(Budget 2009/10 $220.1m)			
Revenue	$146.84	66.7% of Budget	21.0%
Government Revenue	$116.90	53.1% of Budget	16.7%
(Budget 2009/10 $202.7m)			
Expenses	$154.39	76.2% of Budget	22.1%
Government Expenses	$127.76	58.0% of Budget	18.3%
Donor Activity			
Aid revenue received	$11.7	(YTD) $30.0	1.7%
Aid expenditure	$8.9	(YTD) $27.9	1.3%

Inside AAG April:

Summary

- April remittances continue its upward trend since the beginning of 2010 but still –6.9% below the same period last year.
- Annual inflation rate for April, the highest in the last year.
- Slightly increase in the local retail fuel price from the previous month.
- Total Liquidity recorded in April rose by $1m from previous month.
- Foreign Reserves increased by 3.8% from March 2010.
- Total public debt as at 30 April 2010 recorded as 37.3% of GDP.

Remittances

Total Remittances recorded for April increased by 14.4% compared to the previous month and decreased by –6.9% from the same period of the previous year.

The –6.9% decreased from the corresponding period last year reflects the decrease in the number of seasonal scheme workers in New Zealand and the on-hold of the Australia's labour scheme.

However, remittances are expected to pick up slowly as remitting countries continue their recovery from the financial crisis.

Figure 1: Remittances

	Apr-10	Mar-10	Apr-09
Household Remittances (T$m)	11.24	10.15	13.03
Non-Profit Remittances (T$m)	2.70	2.04	1.94
Total Private Remittances (T$m)	13.94	12.19	14.97

Source: *National Reserve Bank of Tonga*

Annual Inflation

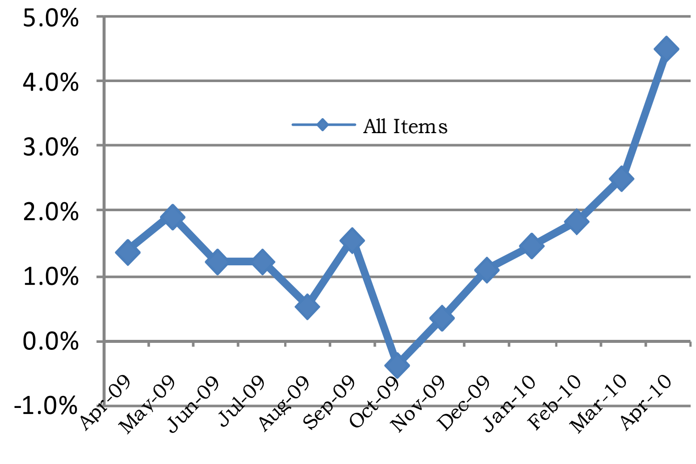
The annual inflation recorded for April is the highest over the last twelve months. It has increased by 1.5% and 3% compared to the previous month and corresponding period of last year respectively.

Food and Transportation Groups are still the main drivers for the increase.

The increase in the Food group, 2.3%, was due to the increase in the price of both local and imported fruit & vegetables, meats & sea foods. This reflects the preparation for numbers of church conferences held in May.

The increase in Transportation group, by 1.5%, was mainly due to the increase in oil prices, petrol

Fig 2: Annual Inflation rate



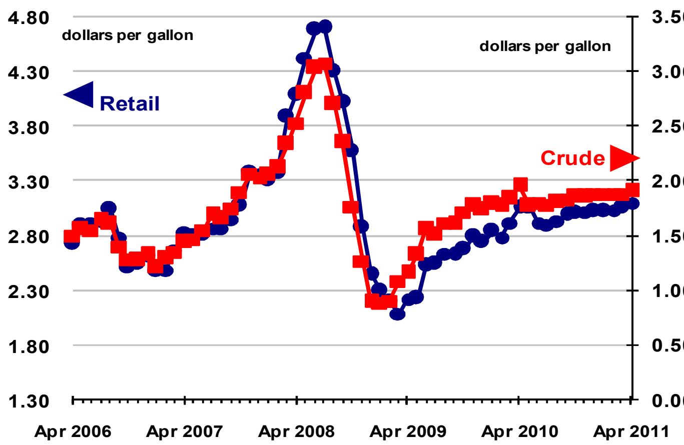
Oil Price

Retail Fuel Prices have continued their upward trend reaching $2.53 and $2.48 per litre for petrol and diesel respectively since Jan 09.

Energy Information Administration (EIA) projects West Texas Intermediate (WTI) crude oil spot prices will average $79 per barrel this year and $83 per barrel in 2011.

EIA has lowered its projections for world oil prices slightly for 2010. Uncertainty about economic growth in China and in the Euro zone has continued to weigh on oil markets, and declines in equity markets have led to fears that the economic recovery may not progress as fast as had been hoped.

Fig 3: U.S. Diesel Fuel and Crude Oil Prices



Monetary Sector Development…

Money Supply & Total Liquidity

- The level of **Money Supply** and **Total Liquidity** to the end of April 10 was $285.1 million pa'anga and $290.4 million pa'anga respectively.
- Both were slightly increase compared to the previous month and same period of previous year. The increase in money supply were due to the increase in saving deposits as well as currency o/side banks.

Monetary financial Institutions Deposits

- Deposits held within the commercial banks declined by $2.6 million pa'anga from previous month and remain at the same level as in April 09.
- However, Government demand deposit is slightly increase by $0.4 million and $1.8 million compared to previous month and same period last year respectively.

Non-monetary and monetary financial Institutions Lending

- Since the beginning of last year (2009) , the lending portfolio of financial institutions have been declining. Tightening of bank's lending criteria is the main factor attributable to this downward trend.
- However, considering the economic situation, NRBT has eased its monetary policy stance and developed policy initiatives to encourage stimulating the economy activity.

External Sector Development…

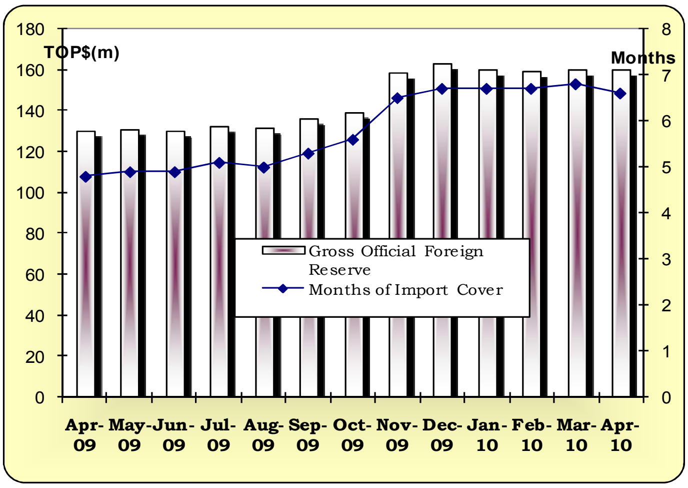
Gross Foreign Reserve

Official foreign reserves for April 2010 rose by 3.8% to $161.4 million pa'anga from $155.5 million pa'anga in Mar 10, and 21.7% from $132.6 million pa'anga in April 2009.

The ratio of official foreign reserves is equivalent to 6.3 months of import of goods.

The large increase reflects the increase in the amount of NRBT Foreign Exchange holdings and the general allocation of SDR from IMF.

Fig 4: Official Foreign Reserve



Fiscal Indicators…

Government Fiscal Performance (GFS basis)

1. **Overall result for ten months for this financial year (2009/10) April**

- The Government's overall position for Jul-Apr 2010 was a deficit of $7.55m pa'anga. This comprises a $10.87m pa'anga deficit of Government Fund and a surplus of $3.31m pa'anga from Grants.
- The overall position for April only was a deficit of $0.95m pa'anga of which $0.96m pa'anga deficit from Government fund and a surplus of $0.01m pa'anga from Grants.

2. Revenue

- Total Revenue and Grants received within Jul-Apr 2010 was $146.84m pa'anga, represented by $116.90m pa'anga from government revenue and $29.94m pa'anga from grants.
- In April alone, total revenue and grants received was $13.07m pa'anga, of which $11.69m pa'anga from government revenue and $1.37m pa'anga from grants.

3. Expenditure

- Total expenditure and net lending for Jul-April 2010 was $154.39m pa'anga of which $127.76m pa'anga were expenditures by the government fund and $26.63m pa'anga by grants.
- For April only, the total expenditure and net lending was $14.02m pa'anga of which $12.65m pa'anga was government fund and $1.36m pa'anga by grants.

Debt Management

- Total public debt as at 30 April 2010 was $260.37m or 37.3% of GDP. Of this external debt was $230.92m (33% of GDP) and domestic debt was $29.45m (4.21% of GDP).
- Total public debt increased by $0.5 million pa'anga between March 2010 and April 2010, due mainly to a disbursement for Reconstruction project and also appreciation of most borrowing currencies.
- Total Debt Servicing is $24.33m or 3.5% of GDP, 14.94% of recurrent revenue and 14.87% of recurrent expenditure.
- Total guaranteed debt as at 30 April 2010 is estimated at $16.66m.