

At a Glance

December 2009

Inside AAG
December:

Economic Indicators

Headline Indicators	December 09 Values (\$m Pa'anga unless otherwise indicated)	November 09 Values (\$m Pa'anga unless otherwise indicated)	Change (vs November 09 unless otherwise indicated)
Gross Domestic Product	2008/09	2009/10	
GDP (at constant market price)	-0.4	0.4	
Economic Activity			
Exports (<i>OET basis</i>)	\$0.5	\$ 1.2	↓ 58.3%
Imports (<i>OET basis</i>)	\$16.5	\$16.8	↓ 1.8%
Electricity consumption	N/A	3,347	
Tourist Receipts	\$2.6	\$2.0	↑ 30.0%
Air arrivals (<i>number</i>)	6,999	3,282	
- year to date	50,645		
Outstanding housing loans	\$97.1	\$97.5	↓ 0.4%
Outstanding Business Loans	\$143.5	\$143.9	↓ 0.3%
Remittances	\$16.1	\$11.91	↑ 35.2%
Monetary Indicators			
Annual Inflation	1.1%	0.4%	↑ 70.0%
Retail Fuel Prices	Petrol: \$2.37/ltr Diesel: \$2.41/ltr	\$2.31/ltr \$2.34/ltr	↑ 2.6% ↑ 3.0%
Foreign Reserves	\$160.4	\$159.9	↑ 0.3%
Import cover	6.7 months	6.7 months	=
Money Supply	\$287.7	\$282.8	↑ 1.7%
Domestic Credit	\$291.2	\$289.1	↑ 0.7%
Total liquidity	\$287.7	\$282.8	↑ 1.7%
Balance of Payments	\$0.5	-\$0.8	↑ \$1.3m
Current Account Balance	-\$7.5	-\$7.8	↑ 3.9%
Fiscal indicators (YTD)			
Revenue (50% of year)	\$83.32	37.9% of Budget	
Expenses (50% of year)	\$97.09	47.9% of Budget	
Donor Activity			
Aid revenue received	\$2.0	(YTD) \$11.6	
Aid expenditure	\$1.5	(YTD) \$11.4	

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Summary

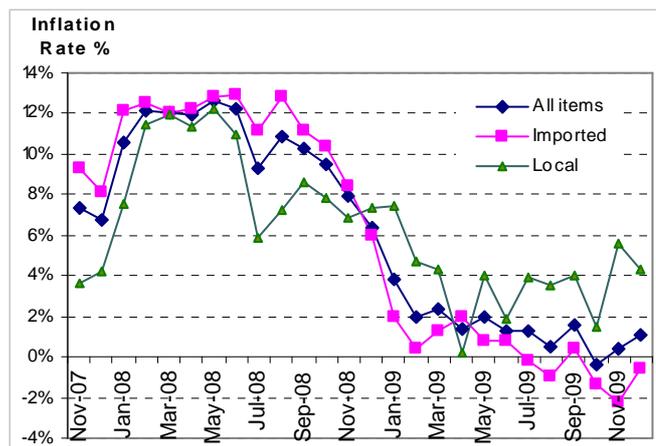
- ◆ Annual rate of inflation was 1.1% reflecting continued trend through a drop in fuel prices.
- ◆ Total Remittances for December increase by 35% from previous month but 18% below than same period of the previous year.
- ◆ A surplus for overall balance of payment of December which is an increase by \$1.3 million pa'anga from deficit balance of previous month.
- ◆ The Government's overall position for the first half of the financial year [09/10] is a deficit of \$13.77 million pa'anga.

Inflation...

The annual movement of prices of goods and services for end of December 09 was 1.1%, a rise from 0.4% recorded in November 09 and decline from 6.0% compared to December 08. Consumer Price Index increased as well as Local Index while Import index position decline.

Transportation costs marked the highest contribution towards the inflation rate for the month mainly due to the slight increase in fuel prices followed by the increase in prices of tobacco whilst prices of food and other household maintenance goods decline result in a downward contribution towards the inflation position of the month.

Figure 1: Annual Inflation Rate (%)



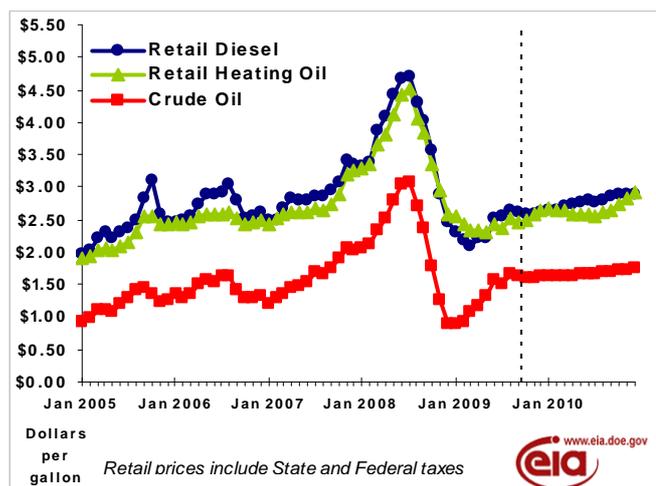
Source: Statistics Department, 2009

Oil Price....

Fuel Prices have started to rise after decline since October 09.

According to Energy Information Administration [EIA] (U.S), world crude oil prices continue to fluctuate. The West Texas Intermediate (WTI) spot price increased from \$69.48 per barrel in December to \$83.12 beginning of January and then fell back again to \$72.85 late January. EIA expects the crude oil market to strengthen again this spring with WTI rising to an average of about \$81 per barrel over the second half of this year and \$84 per barrel in 2011. The crude oil price forecast is unchanged from last month's outlook.

Figure 2: Short-Term Energy Outlook (US Fuel & Diesel Crude Oil Prices)



Real Sector....

Agriculture

Ministry of Agriculture reported the relatively weak performance of the agricultural sector as compared to previous year. The effect of the global economic crisis has shown together with the impact of drought can be seen as an attributable factor as reduction in agricultural production led to shortage of food and decline in agricultural production sold at the market. Squash Industry continue to decline as some of the squash growers withdrawn from the industry leaving it only a few to operate in the market. Work is still in progress to revive the performance of the sector.

Fisheries

Fish industry has been declining. Ministry of Fisheries reported reasons for the decline was mainly due to shift in most of the fishing vessels from tuna/snapper to sea-cucumber during the duration of the sea cucumber season {April-November 09}. Shift between method of fishing were identified as another factor attributable to the decline. The duration of the sea cucumber season have lifted up the performance of the sector as more fishing vessels shift from tuna/snapper to sea cucumber. Hong Kong still stands as the leading market for sea cucumber followed by Singapore and other Asian countries.

Monetary Sector Development...

Money Supply & Total Liquidity

The level of Money Supply and Total Liquidity to the end of December 09 was \$287.70 million pa'anga and \$292.3 million pa'anga . Both increase compared to the previous month and same period of previous year. The slight increase in money supply were mainly attributable to the increase in quasi money namely term deposits as well as currencies currently hold within the banks.

Non-monetary and monetary financial Institutions Deposits

Deposits held within commercial banks have been declining. Private and government deposits has been declining since the beginning of this year. This trend however reflect the spill over effect of

the global economic crisis as people are reluctant to save due to low term deposits interest rate in the market.

Non-monetary and monetary financial Institutions Lending

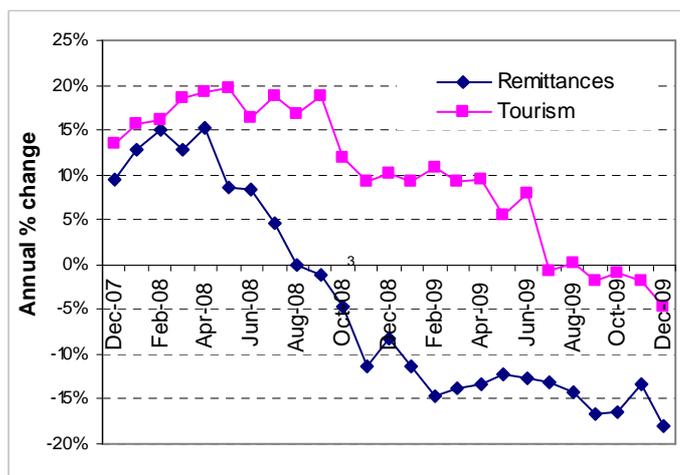
Commercial bank credit declined by 0.3% from previous month. Industrial sector, Housing, Agriculture and non financial public enterprise declined while personal loans shows a slight increase. Total loans however have decline dramatically compared to same period of previous year mainly due to the tightening of bank lending criteria.

Tourism & Remittances...

Monthly total remittances and tourist receipts for December have slightly increase, however, total year to date remittances and tourist receipts for the year records a declining as compared to same period of previous year. Both decline by 25.2% and 18% respectively compared to same period of previous year.

The spill over effects of the global economic crisis has shown significant effect in relation to the economy's main income sources from our remitting countries namely United States of America, Australia and New Zealand. It is expected that remittances and tourism will slowly pick up inline with the economic recovery in remitting countries.

Figure 3: Annual Growth for Tourism & Remittances



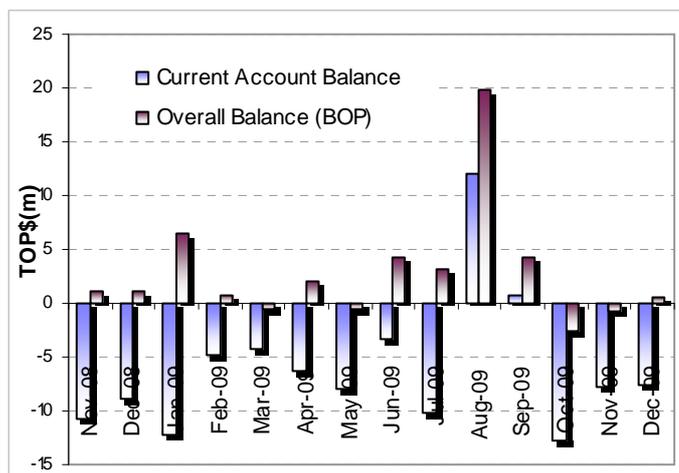
Source: National Reserve Bank of Tonga/ Ministry of Tourism, 2009

External Sector Development...

Balance of Payment

The overall balance of payment for December 09 was a surplus of \$0.5 million pa'anga. This is an increase by \$1.3 million pa'anga from deficit balance recorded for previous month. Although trade balances, services, investment income balances records a deficit balance, transfer balances surplus offset it by vast the increase in private receipts.

Figure 4: OET Trade and Current Account Balance



Source: National Reserve Bank of Tonga, 2009

Government Fiscal Performance (GFS basis)

1. Overall result for six months for this financial year (2009/10) December

- ◆ The Government's overall position for the first six months of this financial year was a \$13.77 million pa'anga deficit. This is represented by \$12.86 million pa'anga deficit from Government fund and \$0.91 million pa'anga deficit from Grants.
- ◆ The overall position for December only was \$2.83 million pa'anga deficit represented by deficit from Grants of \$0.46 million pa'anga and \$2.37 million pa'anga deficit from Government Fund.

2. Revenue

- ◆ Aggregate Revenue and Grants for (July-December) 09 was \$83.32 million pa'anga which is 37.86% of budget estimates, 36.94% from tax items, 87.05% from non-tax and 20.5% from Grants.

3. Expenditure and Net Lending

- ◆ Total Expenditure and Net Lending for (July-December) 09 was \$97.09 million pa'anga which is 47.9% of the total budgeted estimates.

Debt Management

- ◆ Total public debt as at 31st December 2009 is \$226.12m or 29.60% of GDP. Of this external debt is \$119.67m (26.13% of GDP) and domestic debt is \$26.45m (3.46% of GDP).
- ◆ Total public debt increased by \$3.57 million pa'anga between September 09 & December 09 qtr.
- ◆ Total Debt Servicing is \$20.9m or 2.74% of GDP, 21.96% of recurrent revenue and 20.24% of recurrent expenditure.
- ◆ Total guaranteed debt as at 31 Dec 09 is estimated at \$0.45m.

Regional & Rural Developments

2.1 Tongatapu Developments

- ◆ Government of Japan, under the Grassroot Grant Program (GGP), has officially signed grant contracts for upgrading of Government Primary schools in the villages of Kahoua and Hoi as well as the Free Wesleyan Church Primary School of Vaotu'u. Projects under implementation include water supply upgrading projects for Fo'ui, Pea and Ha'ateiho.
- ◆ AusAID, under the Tonga Community Assistance Scheme (TCDS), is currently funding 44 community development projects throughout the villages of Tongatapu, particularly income generation initiatives and health related projects. Recipients are mostly women development groups.

2.2 Vava'u Developments

- ◆ Projects approved by government but yet to be endorsed by Tokyo for funding under the GGP Program 2009/10 include upgrading water supply projects for the villages of Vaimalo, Ovaka, and Mataika in Vava'u. Projects that have been completed under the same program include the 'Utui and Mangia water supply upgrading projects.
- ◆ Ausaid continues supporting needs for drinking water by providing 26 water tanks under the TCDS program for the Neiafu Fietokoni group.

2.3 Ha'apai Developments

- ◆ Ministry of Works is drawing up the Terms of Reference for a Project Manager for the reconstruction of the Foa Causeway under German Funding.
- ◆ GPS Koulo is receiving funds from Japan's GGP Program for construction of two classrooms, sanitation facilities and furniture.

2.4 'Eua Developments

- ◆ NZAID has allocated funds for the upgrading of the Kaufana airport and key agencies are considering the way forward for this project.
- ◆ Japan, under the GGP, is also considering funding of a children ward for the 'Eua hospital. Renovation of the 'Eua High School has been completed.

2.5 Niuaatoputapu Developments

- ◆ Most assistance now to the Island of NTT are responses to the tsunami that hit the island in September 2009. Donors who have made or pledged assistance to NTT include the following: UNDP, World Bank, European Commission, France, AusAID, NZAID, Japan, FAO, WHO, USA, UNICEF, PNG, LDS Church, Thailand, and China.