

At a Glance

June 2010

Inside AAG
June:

Economic Indicators

Gross Domestic Product	2008/09	2009/10 forecast	2010/11 forecast
GDP (at constant market price)	-0.4	-1.2	1.4
Headline Indicators	June 2010 Values (\$m Pa'anga unless otherwise indicated)	% change from May 2010	% of GDP (09/10)
Economic Activity			
Outstanding housing loans	\$93.7	↓ -0.7%	
Outstanding Business Loans	\$124.9	↓ -2.7%	
Remittances	\$15.4	↑ 3.7%	2.2%
Annual Inflation	2.6%	↑ 8.3%	
Retail Fuel Prices	Petrol: \$2.51/ltr Diesel: \$2.56/ltr	↓ 3.8% ↓ 2.7%	
Monetary Indicators			
Foreign Reserves	\$170.5m	↑ 2.3%	24.40%
Import cover	7.1 months	↑ 7.58%	
Money Supply	\$291.5	↑ 0.83%	41.7%
Domestic Credit	\$282.0	↓ 3.39%	40.3%
Total liquidity	\$296.4	↑ 0.8%	42.4%
Fiscal indicators (YTD) (Budget 2009/10 \$220.1m)			
Revenue & Grants	\$178.92	81.3% of Budget	25.6%
Recurrent Revenue	\$143.34	65.1% of Budget	20.5%
<i>(Budget 2009/10 \$202.7m)</i>			
Expenditure & Net Lending	\$186.68	92.1% of Budget	26.7%
Recurrent Expenditure	\$149.31	73.7% of Budget	21.4%
Donor Activity			
Aid revenue received	\$4.50	(YTD) \$35.6	5.09%
Aid expenditure	\$6.12	(YTD) \$37.4	5.35%

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Summary

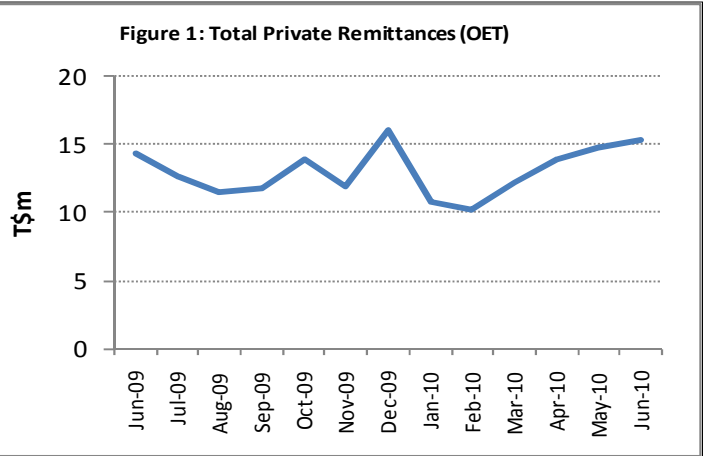
- ◆ Remittances continue on its upward trend and recorded a total of \$25.4m pa'anga at the end of this month.
- ◆ Annual inflation rate slightly increased due increase in food items and household operations.
- ◆ Foreign Reserves increased by 2.3% from the previous month which covers 7.1 months of imports.
- ◆ The government overall fiscal position for the month of June 2010 was a deficit of \$7.75 m pa'anga.
- ◆ Total public debt as at 30th June 2010 was \$258.26 m pa'anga which is as 36.9% of GDP.

Remittances

Total Remittances continue on its upward trends since February 2010. It has increased by 3.7% from May 10 and 7.0% from June 2009.

It records a \$15.4 million pa'anga this month with non-profit remittances increased dramatically while household remittance slightly declined.

This increased is in line with what have been projected. Outlook for remittances will be continuously increase but at a slower rate.



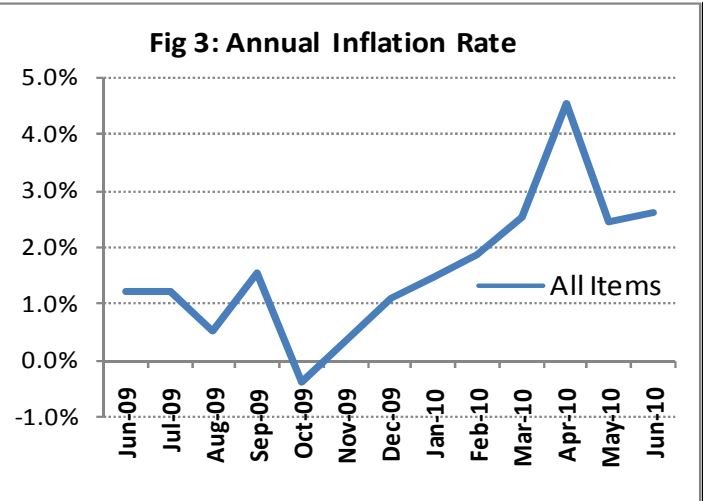
Source: National Reserve Bank of Tonga

Annual Inflation

The annual inflation rate for June 2010 was 2.7% compares to 2.5% in May 2010 and 1.2% in June 2009. This increase in attributed to slight increase in household operations and food items.

Food group increased by 0.5% from previous month and these dominated by increased in both imported and local meats, fish & poultry.

Household operations also increased by 1.3% from previous month due to increase domestic fuel, power and household furniture.



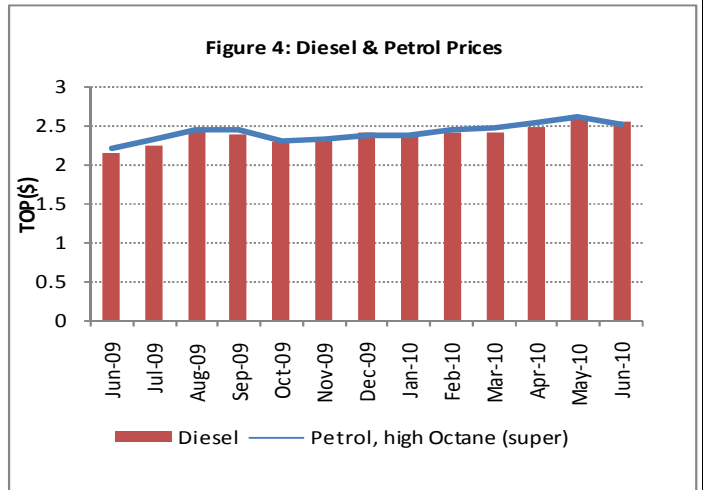
Source: Statistics Department

Oil Price

Retail prices for petrol decreased by 0.10 seniti to \$2.51/litre for June 2010 and Diesel also decreased by 0.07 seniti to \$2.56/litre.

Energy Information Administration (EIA) projects West Texas Intermediate (WTI) crude oil spot prices will average \$79 per barrel over the second half of this year and rise to \$83 per barrel in 2011. This forecast is unchanged from April's outlook.

EIA expected that world oil prices will rise slowly as an expected renewal of global economic growth leads to higher world oil demand.



Source: Statistics Department

Monetary Sector Development...

Money Supply & Total Liquidity

- ◆ The level of **Money Supply** recorded at the end of June 2010 was \$291 million pa'anga. **Total Liquidity** also recorded a \$296.4 million pa'anga for the same period.
- ◆ Both increasing in currency outside the banks and demand deposits contributed to increase in money supply.

Monetary financial Institutions Deposits

- ◆ Deposits held within the commercial banks increased by \$1.9m pa'anga to \$72.1m and increased by \$5.3m pa'anga from the corresponding month of previous year.
- ◆ However, Government demand deposit increased by \$6.5 million and \$4.3 million pa'anga from May 2010 and June 2009 respectively.

External Sector Development...

Non-monetary and Monetary Financial Institutions Lending

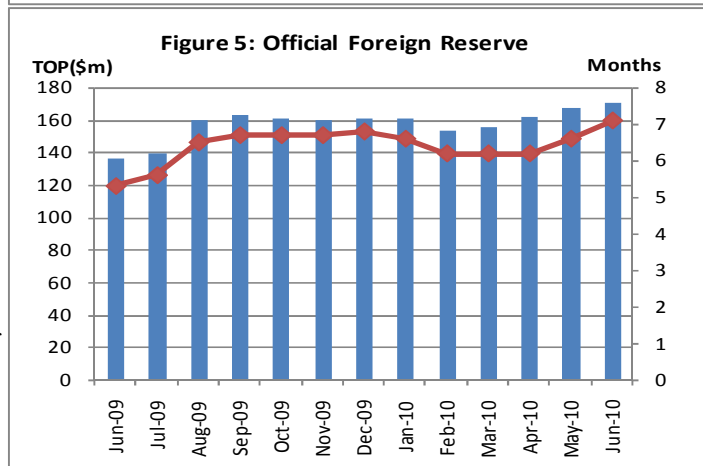
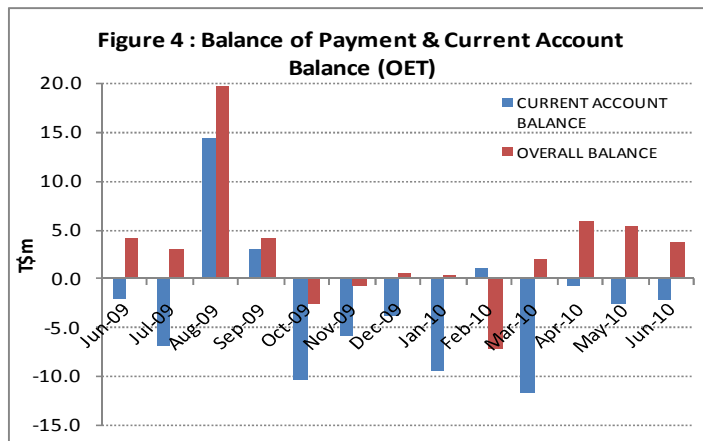
- ◆ Total loans and advances outstanding to Financial Institutions declined continuously due to declined in housing and industrial loans.

Balance of Payment

- ◆ The overall balance of payments recorded at the end of June 10 was \$3.8 million pa'anga which was declined by \$1.5m pa'anga from May 10.
- ◆ Current account balance also recorded a deficit of \$2.1 million pa'anga due high balance of trade deficit than services, investment income and transfer balances.

Gross Foreign Reserve

- ◆ Official foreign reserves continued on its upward trend for the month of June 10. It increased by 2.3% from the previous month and 25.1% from the corresponding month of last year.
- ◆ Foreign reserves is equivalent to 7.1 months of import cover. The increased is due to the receipts of government aid funds and deferred import payments.



Source : National Reserve Bank of Tonga

Fiscal Indicators...

Government Fiscal Performance (GFS basis)

1. Overall fiscal position for July-June 2010.

- ◆ The Government's overall position recorded a deficit of \$7.75m pa'anga for Jul-June 2010. This comprises a \$5.96m pa'anga deficit of Government Fund and a deficit of \$1.79m pa'anga from Grants.
- ◆ The overall position for June was a deficit of \$1.62 m pa'anga which consists of a deficit of \$1.62m pa'anga from Grants and a balance budget for the government fund.

2. Revenue

- ◆ Total Revenue and Grants recorded for Jul-June 2010 was \$178.92m pa'anga, attributed by \$143.34m pa'anga from government revenue and \$35.58m pa'anga from grants.
- ◆ Total Revenue and Grants received in June 2010 was \$19.80m pa'anga represented by \$15.30m pa'anga from government revenue and \$4.50m pa'anga from grants.

3. Expenditure

- ◆ Total expenditure and net lending for Jul-June 2010 was \$186.68 m pa'anga of which \$149.31m pa'anga were expenditures by the government fund and \$37.37m pa'anga by grants.
- ◆ For June only, the total expenditure and net lending was \$21.42m pa'anga of which \$15.30m pa'anga was government fund and \$6.12m pa'anga by grants

Debt Management

- ◆ Total public debt at the end of June 2010 is estimated at \$258.26m pa'anga, equivalent to 36.95% of GDP. Of this external debt was \$228.81m (33% of GDP) and domestic debt was \$29.45m (4.21% of GDP).
- ◆ Total public debt increased by \$2.89 million pa'anga between March and June 2010, mainly due disbursement for reconstruction project and the appreciation of the CNY currency.
- ◆ Total debt service (revenue) as at 30th June 10 was estimated at \$8.55m and debt service (expenditure) was \$26.40m pa'anga.