

At a Glance

May 2010

Inside AAG
May:

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	May 2010 Values (\$m Pa'anga unless otherwise indicated)	% change from Apr 2010	% of GDP (09/10)
Economic Activity			
Outstanding housing loans	\$94.4	↓ -0.7%	
Outstanding Business Loans	\$128.3	↓ -3.0%	
Remittances	\$14.8	↑ 6.5%	2.1%
Annual Inflation	2.4%	↓ 46.7%	
Retail Fuel Prices	Petrol: \$2.61/ltr Diesel: \$2.63/ltr	↑ 3.1% ↑ 6.0%	
Monetary Indicators			
Foreign Reserves	\$166.7	↑ 3.3%	23.9%
Import cover	6.6 months	↑ 4.7%	
Money Supply	\$289.1	↑ 1.42%	41.4%
Domestic Credit	\$291.9	↑ 2.14%	41.8%
Total liquidity	\$294.2	↑ 1.3%	42.1%
Fiscal indicators (YTD) (Budget 2009/10 \$220.1m)			
Revenue & Grants	\$157.35	71.5% of Budget	22.5%
Recurrent Revenue	\$126.87	57.6% of Budget	18.2%
(Budget 2009/10 \$202.7m)			
Expenditure & Net Lending	\$169.47	83.61% of Budget	22.1%
Recurrent Expenditure	\$137.93	68.0% of Budget	19.7%
Donor Activity			
Aid revenue received	\$0.54	(YTD) \$30.5	0.08%
Aid expenditure	\$2.78	(YTD) \$30.4	0.40%

Overview:

Remittances	2
Inflation	2
Fuel Price	2
Monetary Sector	2
External Sector	3
GFS Performance	3
Debt Management	3

Summary

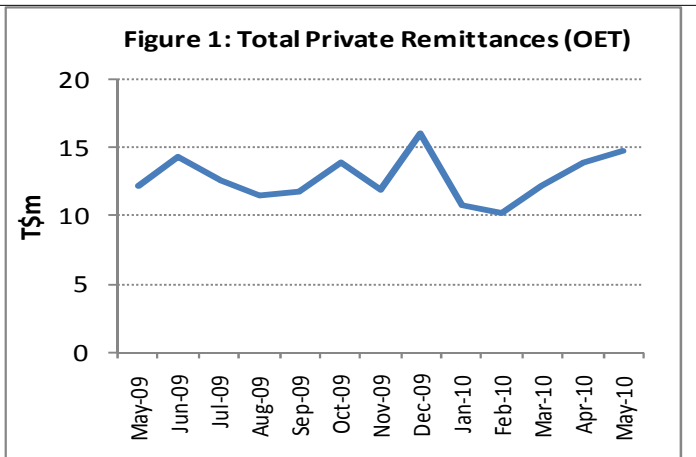
- ◆ Remittances continue to increase in May 2010 which recorded a total of \$14.8m pa'anga.
- ◆ Annual inflation rate decrease significantly due to decline in the prices of food items.
- ◆ Fuel prices increase continue to increase in May 2010.
- ◆ Foreign Reserves increased by 3.3% from the previous month.
- ◆ The government overall fiscal position for the month of May 2010 was a deficit of \$10.98 m pa'anga.
- ◆ Total public debt as at 31st May 2010 was \$259.71 m pa'anga which is as 37.2% of GDP.

Remittances

Total Remittances for May 2010 increase by 6.2% and 21.7% from April 2010 and May 2009 respectively.

Both household and non-profit remittances have started to pick up slowly for the last four months.

However, it is expected that remittances are bottoming out which is in line with the recovery of the remitting countries from the financial crisis.



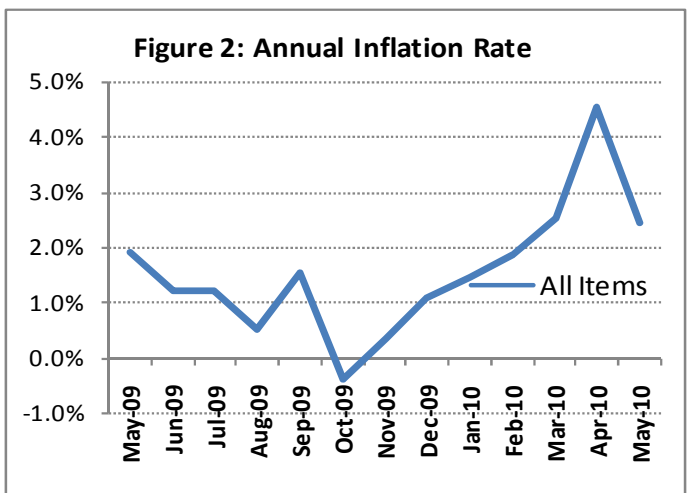
Annual Inflation

The annual inflation rate for May 2010 declined to 2.4% from the highest of 4.5% recorded last month. This decrease is mainly due to decline in local food items. Imported tobacco, alcohol and transportation slightly increase.

Food group decrease by 5% mainly due to decline on local fruits and vegetables. The abundant of these items for some of the church conferences has contributed to this decline.

The increase in imported petrol and diesel has contributed to increase by 2.4 of transportation.

Source: National Reserve Bank of Tonga



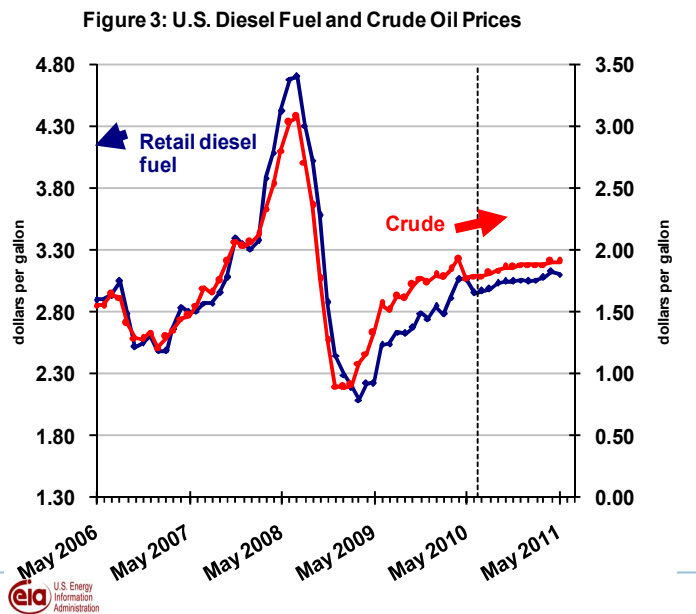
Source: Statistics Department

Oil Price

Retail prices for petrol increased by 0.08 seniti to \$2.61/litre for May 2010. Diesel retail prices also increased by 0.15 seniti to \$2.63/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: EIA Short Term Outlook, May 2010

Monetary Sector Development...

Money Supply & Total Liquidity

- ♦ The level of **Money Supply** and **Total Liquidity** recorded at the end of May 2010 was \$289.1 million pa'anga and \$294.2 million pa'anga respectively.
- ♦ Increase in currency outside the banks and demand deposits attributed to increase in money supply.

Monetary financial Institutions Deposits

- ♦ Deposits held within the commercial banks increased by \$4.4m pa'anga to \$70.2m and increased by \$3.9m pa'anga from the corresponding month of previous year.
- ♦ However, Government demand deposit declined by \$3.9 million and \$0.7 million pa'anga from April 2010 and May 2009 respectively.

External Sector Development...

Non-monetary and Monetary Financial Institutions Lending

- Financial Institutions lending portfolio continued to decline due to decrease in lending to housing and industrial sector.

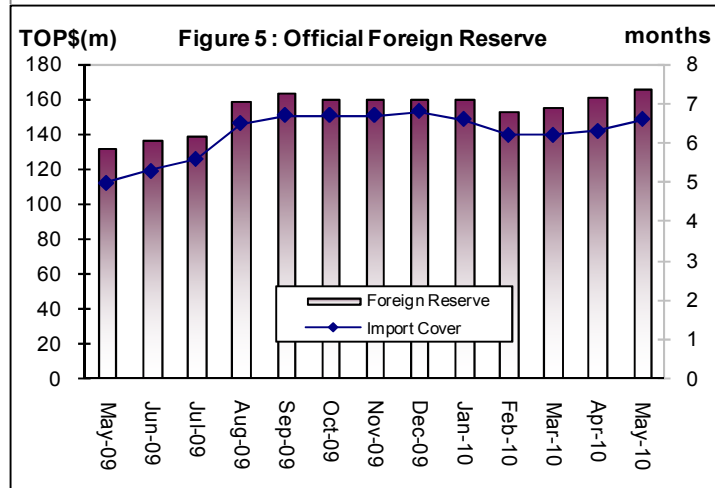
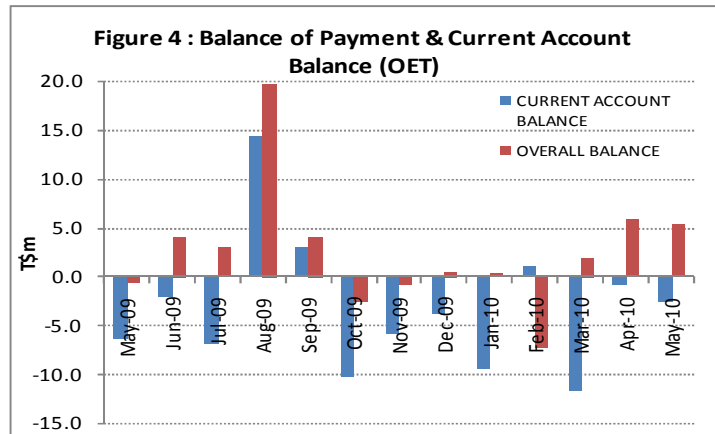
Balance of Payment

- The overall balance of payments declined to \$5.3m pa'anga from \$5.9m pa'anga on the previous month.
- Current account balance recorded a deficit of \$2.6 million pa'anga due higher balance of trade deficit than services, investment income and transfer balances.

Gross Foreign Reserve

Official foreign reserves continued to rise in May 2010 by \$5.3 million pa'anga to \$166.7 million pa'anga from the previous month, which is equivalent to 6.6 months of imports.

The significant increase was due to capital injection by one commercial bank and deferred oil payments.



Source : National Reserve Bank of Tonga

Fiscal Indicators...

Government Fiscal Performance (GFS basis)

1. Overall fiscal position for July-May 2010.

- The Government's overall position recorded a deficit of \$10.98m pa'anga for Jul-May 2010. This comprises a \$11.07m pa'anga deficit of Government Fund and a surplus of \$0.08m pa'anga from Grants.
- The overall position for May was a deficit of \$1.85 m pa'anga which consists of a deficit of \$2.24m pa'anga from Grants and a surplus of \$0.38m pa'anga from Government fund.

2. Revenue

- Total Revenue and Grants recorded for Jul-May 2010 was \$157.35m pa'anga, attributed by \$126.87m pa'anga from government revenue and \$30.48m pa'anga from grants.
- Total Revenue and Grants received in May 2010 was \$10.31m pa'anga represented by \$9.77m pa'anga from government revenue and \$0.54m pa'anga from grants.

3. Expenditure

- Total expenditure and net lending for Jul-May 2010 was \$168.33 m pa'anga of which \$137.93m pa'anga were expenditures by the government fund and \$30.40m pa'anga by grants.
- For May only, the total expenditure and net lending was \$12.16m pa'anga of which \$9.38m pa'anga was government fund and \$2.78m pa'anga by grants

Debt Management

- Total public debt at the end of May 2010 is estimated at \$259.71m pa'anga, equivalent to 37.2% of GDP. Of this external debt was \$230.25m (33% of GDP) and domestic debt was \$29.45m (4.21% of GDP).
- Total public debt increased by \$0.67 million pa'anga between April and May 2010, mainly due to depreciation of most borrowing currencies.
- Total Debt Servicing is estimated at \$24.68 m or 3.5% of GDP, 16.13% of recurrent revenue and 14.52% of recurrent expenditure.
- Total guaranteed debt as at 31st May 2010 is estimated at \$16.42m.