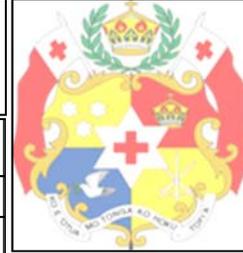


Monthly Economic Update May 2018

Ministry of Finance & National Planning



Release date:
July 2018

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Indicators Digest

*Fiscal Balance remained favourable
*Inflation rate for May 2018 was 9.4 percent.

*Retail price for petrol & diesel for February 2018 is \$2.76 and \$2.81 per litre respectively.

*Foreign reserves recorded at higher level of TOP\$441.9 equivalent to 7.8 month of import cover.

*Tongan pa'anga depreciates against USD dollars and AUD while appreciates against NZD.

Key Indicators	(T\$m unless otherwise indicated)			% change	
	May-17	Apr-18	May-18	Annual	Monthly
FISCAL INDICATORS (Government Financial Statistics (GFS) Basis)					
Revenue	39.9	24.3	24.5	-39%	1%
Tax and Non-Tax Revenue	27.3	22.5	23.8	-13%	6%
Grant (cash grants)	12.4	1.8	0.7	-95%	-63%
Budget Support	6.6	-	-	-	-
Project Support	5.7	1.8	0.7	-	-63%
Expenses	23.1	24.7	22.8	7%	-8%
Compensation of Employees	11.3	13.3	10.6	-	-20%
Gross Operating Balance	16.7	0.4	1.65	-90%	-484%
Net Acquisition of Non-financial Assets	1.5	0.4	0.9	-41%	141%
Net Lending/Borrowing Requirement	15.2	0.8	0.8	-95%	-194%
Total Public Debt (\$million)	N/A	N/A	N/A	-	-
ECONOMIC ACTIVITY INDICATORS (OET basis)					
Exports	1.8	1.1	1.9	0.1	0.7
Imports	22.0	32.5	25.9	0.2	-0.2
Adjusted Cash Remittances (Ann Total)	305.3	445.9	441.9	0.4	0.0
FISCAL ANCHORS					
Wage bill to domestic revenue to be less than 53% (annual target)	41%	59%	45%	8.6	-24.1
MONETARY & PRICE INDICATORS					
Official Foreign Reserves	392.3	445.9	441.9	12.6	-0.9
Import Cover - Trade estimate (months)	7.1	7.9	7.8		
Import Cover - OET estimate (months)	9.8	10.1	9.9		
Inflation (annual % change)	10.0	9.6	9.4		
Retail Fuel Prices:					
Petrol (T\$/litre)	2.54	2.67	2.76	8.7	3.4
Diesel (T\$/litre)	2.50	2.70	2.81	12.4	4.1

Note: Fiscal data are provisional (unless indicated) and still subject to change until audited. Note also that some indicators have been adjusted.

Fiscal Stability

The fiscal balance for May 2018 remained in the manageable level since it is reported to be less than 1 percent of the GDP. This is more favourable than the provisional balance for April 2018. Total Revenue for May remained at the same level as in April but Expense fell by 8 percent on a monthly basis.

Tax Revenue

Total tax revenue for May 2018 has slightly increase from \$20.99 million, by 7 percent, to \$22.43 million. This increase is due to a significantly increase in the performance of Taxes on goods and services (G&S) by 55 percent compared to previous month. This reflected a rise in the collection of consumption tax (CT) for May. This is mainly due to an increase in the collection of CT from imported goods.

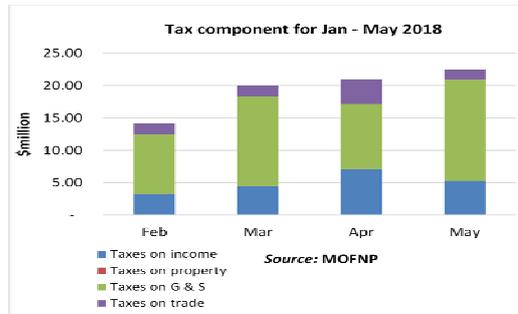
Grant and Non-Tax

Tax Revenue (\$million)	Feb	Mar	Apr	May
Taxes on income	3.30	4.47	7.10	5.26
Taxes on property	0.01	0.04	0.02	0.02
Taxes on G & S	9.17	13.84	10.05	15.63
Taxes on trade	1.73	1.66	3.82	1.53
Total	14.21	20.01	20.99	22.43

Grant and Non-tax revenue both recorded an decrease by 63% or \$1.11 million and 10% \$0.15 million respectively compared to previous month.

Non-tax revenue fall due to an decrease in the collection from property income and sales of goods and services. How-

Other Revenue (\$million)	Jan	Feb	Mar	Apr	May
Grants	2.51	0.55	5.29	1.76	0.65
Other revenue	2.98	1.58	2.90	1.53	1.38



ever Non-tax revenue maintain a low collection compared to Tax revenue due to the nature of each revenue category. The decrease in cash grants over the reviewed month due to no receipt of budget support which is also reflected in the revenue.

Non-Tax Revenue (\$million)	Jan	Feb	Mar	Apr	May
Property income (GFS)	1.45	0.07	1.63	0.27	0.24
Sales of goods and services	1.21	1.39	1.14	1.17	1.05
Fines, penalties, and forfeits	0.07	0.04	0.06	0.07	0.06
Voluntary transfers other than grants	-	-	-	-	(0.06)
Miscellaneous and unidentified revenue	0.25	0.00	0.07	0.01	0.01
Total	2.98	1.50	2.90	1.53	1.38

Expenses

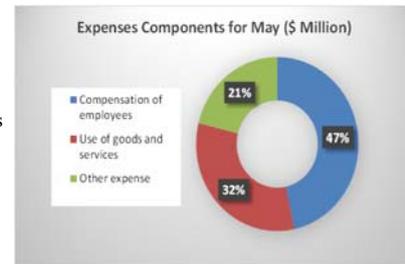
Expenses recorded for May 2018 continue to dominate by Compensation of Employees disregarding the decreasing rate with 20 percent which is an \$2.62 million from \$13.25 million recorded in April 2018. This is due to no more recruitment during the month.

Use of goods and services (G&S) is the second largest expense category with 32 percent. The level of this category decreased by \$0.61 million compared to previous months.

Expenses (\$million)	Jan	Feb	Mar	Apr	May
Compensation of employees	9.74	9.32	10.25	13.25	10.63
Use of goods and services	5.46	4.90	11.69	7.96	7.35
Other expense	2.81	2.03	8.67	3.50	4.83
EXPENSE	18.01	16.25	30.60	24.71	22.81

Fiscal Anchors

The monthly performance of wage bill as a percentage of domestic revenue for May 2018 is 49 percent which is a fall from 59 percent recorded in April 2018; and below the annual target of 53 percent which is a good sign. Debt of GDP ratio remains as there is no further change in the debt level.



Inflation

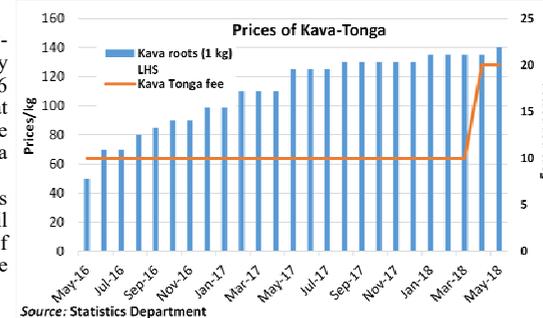
The annual rate of inflation for May 2018 was slightly down to 9.4% from 9.6% recorded last month, however lower than the 10% for the corresponding period a year ago. This continued to remain above the NRBT's inflation reference target of 5 percent.

The monthly inflation for May 2018 was in line with a continuous increase in local prices by 12.7%, mainly due to an increase in prices of some local food items through out the month such as frozen meat, cereals and kava Tonga.

	Apr-18	May-18	May-17
All items	9.6	9.4	10.0
Imported	6.8	6.9	11.8
Local	13.2	12.7	7.8

The annual change in CPI—domestic component—continues to be driven by increased prices of fruits and vegetables as a result of seasonality response and damages cause by TC Gita. Capsicum prices jumped by 96 percent while manioc prices jumped by 40 percent. Other local prices that contributed to the overall headline inflation included house maintenance goods such as concrete block and the growing prices of kava-Tonga product and fare for Kava club.

The outlook for inflation in the near term is tilted to the downside. This however depends largely on any unfavourable movement in global oil and food prices, expected increase in the domestic food supply as part of an increase of supply from crops planted after cyclone Gita, and the continued months without rain.

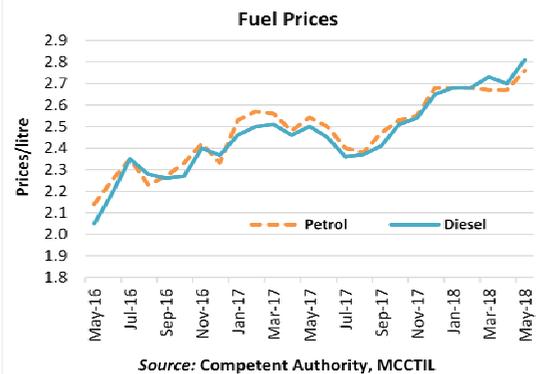


Fuel Prices

Rising global price of crude oil continues to drive up petroleum prices in the local market. The Brent crude oils reached new highs around USD75/bbl in the second half of April compared to USD65.90/bbl in previous month. Hence the rising trend in petrol and diesel prices in May 2018 compared to last month and same period in 2017.

The retail prices per litre of petrol and diesel in May 2018 increased to \$2.76 seniti or by 3.37% and \$2.81 seniti or by 4.1% respectively from previous month. The increase in prices is highly associated with the changes in freight rate and the weakening of Tongan pa'anga against US Dollar. This increase in fuel prices is expected to impact fuel related goods in the near term.

	FUEL PRICES (\$/litre)		
	May-17	Apr-18	May-18
Petrol	2.54	2.67	2.76
Diesel	2.5	2.7	2.81

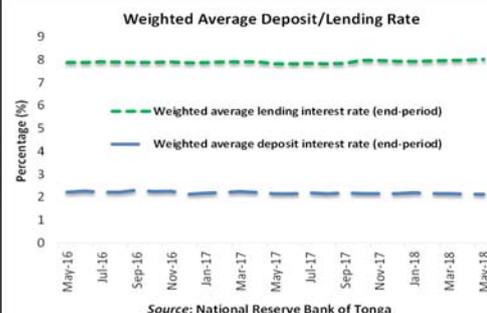


Interest rates

Average lending rate rose by 2.4 percent in May 2018 compared to the same period years ago and by 0.4 percent compared to last month. This is in line with the increase with both housing and business lending rates. On the other hand, average deposit rate fell by 0.9 percent compared to May 2017 and 0.5 percent compared to previous month.

If the lending rate continues to increase, it will in effect discourage borrowing and lead to decline in domestic consumption—while the decrease in the deposit rate discourages savings and tend to drive up consumption spending.

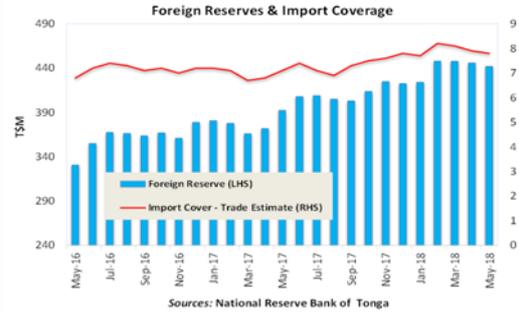
	INTEREST RATES		
	May-17	Apr-18	May-18
Weighted average lending interest rate (end of period)	7.83	7.99	8.02
Weighted average deposit interest rate (end of period)	2.15	2.14	2.13



Foreign Reserves

Foreign Reserves for May 2018 recorded TOP\$441.9 million, fall by 0.9% from TOP\$445.9 compared to last month, however higher by 13% compared to May 2017. This is the twelfth consecutive months for foreign reserves to remain above the level of \$400 million since June 2017. This higher level of foreign reserve was supported by the increasing trends of foreign aid and remittances into the country.

The level of foreign reserve for May 2018 was equivalent to 7.8 months of import cover (trade estimate) which remain above the NRBT's minimum range of 3-4 months. This level of import coverage indicates that Tonga continues to remain in a comfortable external position.

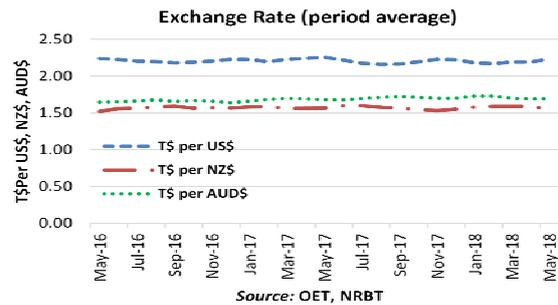


Exchange Rates

Nominal and Real Trade Weighted Index for May 2018 both increased compared to April 2018. By comparing the two rates to the same period over a year ago, both rates increased by 0.5% and 0.3% respectively.

This is due to depreciation of Tongan pa'anga against US and Australia dollars. Depreciation of Tongan pa'anga leads to a higher cost of some imported food items such as package food and frozen meat which increase throughout the month.

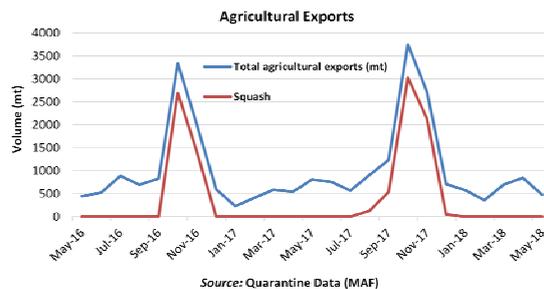
	May-17	Apr-18	May-18
Nominal Trade Weighted Index	90.17	90.45	90.66
Real Trade Weighted Index	104.08	103.72	104.37



Agricultural Exports

Provisional data from Customs indicates that Agricultural exports for May 2018 decreased by 43% compared to last month and 40% increased compared to previous year. Decrease in the export of root crops—cassava, yam, taro tarua and giant taro and brown coconut accounted for the observed trend.

Positive outlook for agricultural exports is anticipated as the harvesting season for squash pumpkin, yam and other fruits and vegetables approaches.



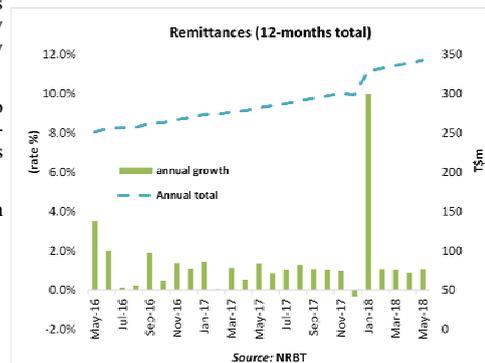
Remittances

Total remittances recorded for the 12-month period ending May 2018 was \$342.5 million, higher than the corresponding 12-month period for 2017 by 21.4 percent or \$60.4 million. In terms of foreign currencies, this was led by US Dollar

The increase is associated with the aftermath of TC Cylone Gita in addition to the events and occasions such as celebrating family month (Children's, Mother's and Father's Day) that took place during the year as well as continuous higher receipts for family support from seasonal workers scheme.

The trend for remittances is expected to increase due to the upcoming season particularly the annual conferences.

Remittance Receipts (month ended)			
	Apr-18	May-18	May-17
Private Transfers	23.2	31.5	20.13
Employee Compensation	2.3	2.5	0.9
Private Capital Transfers	0.6	0.8	0.3
Social Benefits	0.1	0.3	0.1



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