

At a Glance

November 2008

Release date: January 2009

Inside AAG
November:

Economic Indicators

Headline Indicators	Nov 08 Values (\$m Pa'anga unless otherwise indicated)	Change (vs Oct 08 unless otherwise indicated)
Economic Activity		
Exports	\$1.67	↑ 120%
Imports	\$23.3	↓ 9.1%
Electricity consumption	N/A	
Tourist Receipts	\$2.8	↓ 12.5%
Air arrivals (number) - year to date	3,410	↓ 15% vs Nov 07 ↑ 6.3% vs 2007
Outstanding housing loans	\$102.5	↓ 0.2%
Remittances	\$12.2	↓ 25%
Monetary Indicators		
Annual Inflation	7.9%	↓ 1.6%
Retail Fuel Prices	Petrol: \$3.12/ltr Diesel: \$3.34/ltr	↓ 2.5% ↓ 4.3%
Foreign Reserves	\$122.7	↑ 0.9%
Import cover	4.9 months	↑ was 4.8 months
Total liquidity	\$295.8	↑ 5.7%
Balance of Payments	\$1.1	↑ was - \$6.9
Current Account Balance	-\$10.8	↑ 18.5%
Fiscal indicators		
Revenue (after 42% of year)	41.2%	
Expenses (after 42% of year)	48.2%	
Donor Activity		
Aid revenue received	\$6.2	
Aid expenditure	\$4.1	

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Summary

- ◆ Improvements to the current account and balance of trade due to increased exports and reduced imports. These results are partly due to favourable exchange rate movements.
- ◆ Declines in remittances, and tourism but no clear trend yet.
- ◆ Inflation continues to plummet giving a probability of price deflation later in the current year.

Inflation: Flying South for the Winter

Inflation has dropped markedly from its high in August 2008 and is forecast to continue falling due to the reduction in international fuel prices and favorable exchange rates reducing the cost of imported food.

Reserve Bank projections forecast that Tonga will experience price deflation from March 2009 and this will continue until the beginning of 2010.

Table 1: Inflation Rate (%)

	Nov-08	Oct-08	Nov-07
Imported	8.4%	10.4%	9.4%
Local	6.9%	7.80%	3.6%
Average inflation	7.9%	9.5%	7.4%

Source: Statistics Department, 2008

Figure 1: Components of Annual Inflation

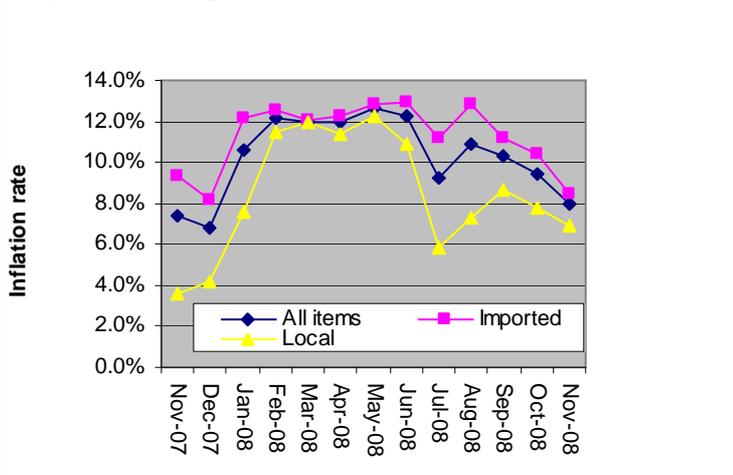
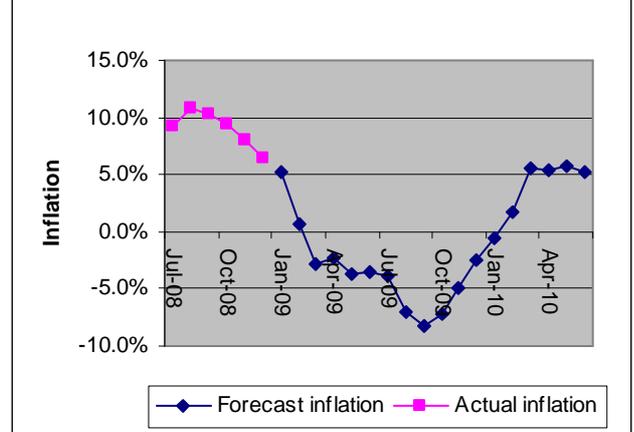


Figure 2: Actual and Projected Inflation July 2008 - June 2010



Expectations: The popping of the fuel price bubble and the appreciation of the Tongan Pa'anga against the currencies of our major suppliers of imports makes a period of deflation almost inevitable. The duration and effects of this price deflation will depend upon international currency movements, in particular the strength of the US dollar against the Australian and New Zealand dollars, and the responsiveness of local prices (and price setting committees) to falls in the cost of imports.

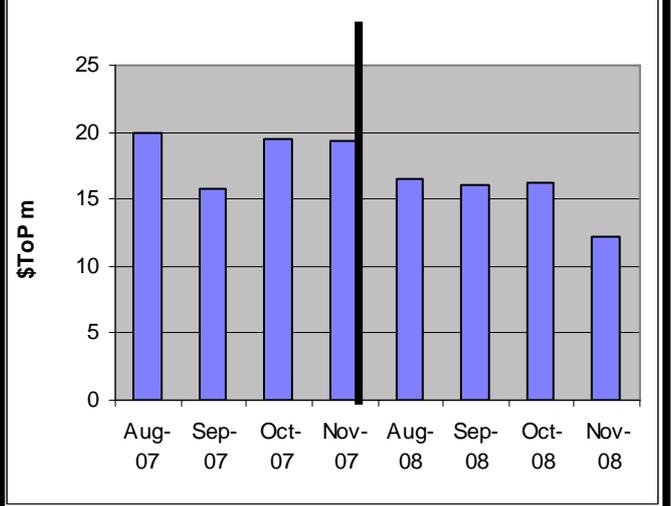
Remittances: Following Inflation?

Remittances declined by 25% in November, possibly in response to worsening economic conditions in major remitting countries. The average level of remittances remains noticeably lower than the corresponding period in 2007.

Table 2: Monthly Remittances (T\$m)

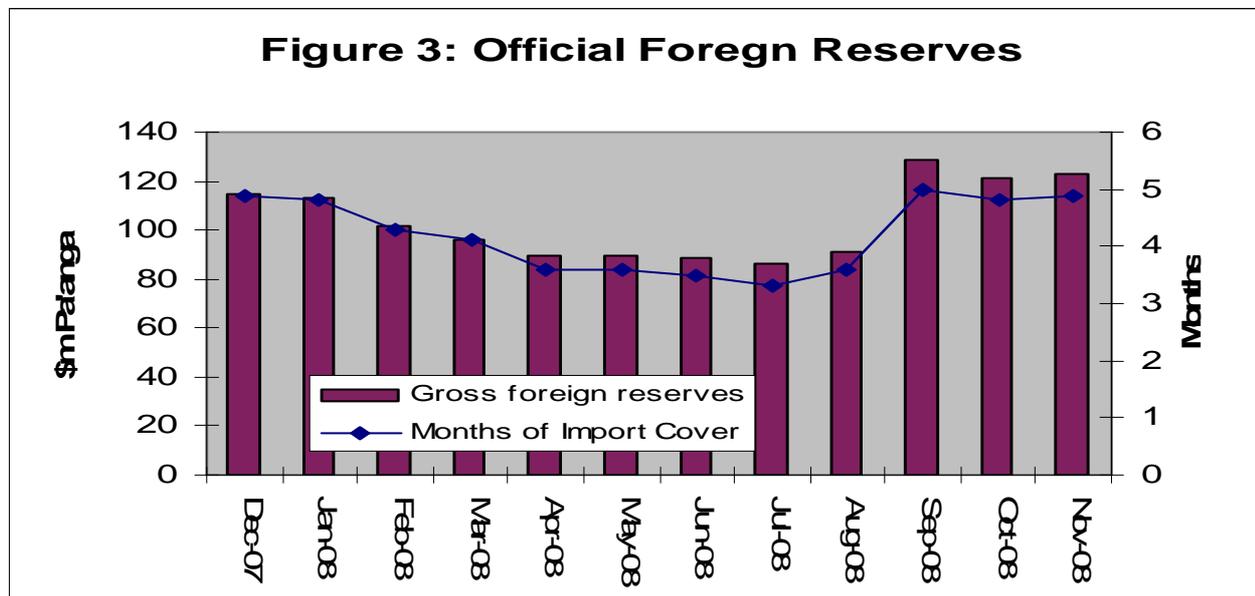
	Sep-08	Oct-08	Nov-08
Household Remittances	13.6	13.0	10.3
Non-Profit	2.4	3.2	1.9
Private	16	16.2	12.2

2007 vs 2008 Same Period Remittances



Reserves: Looking Comfortable

Benefiting from favorable exchange rates and declining oil prices official foreign reserves remained steady in November and well above the NRBT target of around 4 months of import cover.



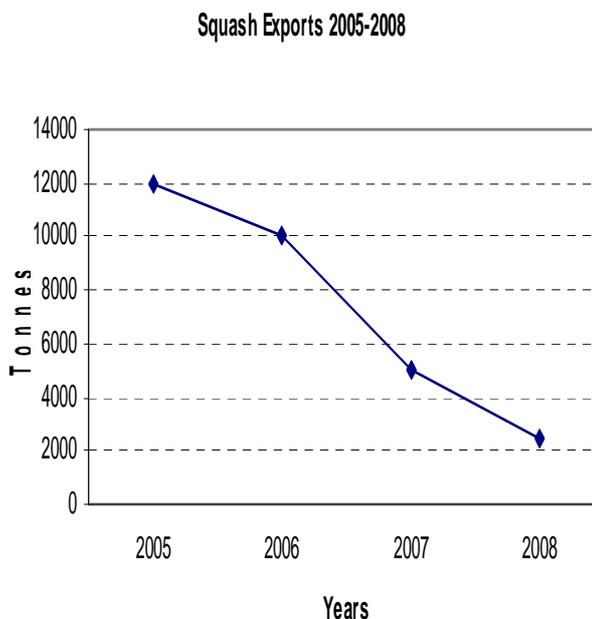
Source: National Reserve Bank of Tonga, 2008

Agriculture – Not a pretty sight

Agricultural statistics must be treated with some caution due to poor data collection. From what is apparent agriculture production is around 90% for local consumption and 10% for export with Squash and root crops being the major exports.

Due to a number of factors including increased competition in the Japanese market and local production and shipping issues the market for squash has been decimated over the last few years (see figure).

Figures for the 2008 growing season confirm this trend with reduced exports and much of the crop that was exported unfortunately arriving spoiled.



Government Fiscal Performance (GFS basis)

1. Overall result for November

- The Government overall position for the five months to November, was a \$9.1 million deficit.
- The surplus for the month of November was \$2.0 million.

2. Revenue

- Accumulated total revenue and grants to November was \$68.6 million.
- Around 91% of the total revenue and grants came from government current revenue, with 9% from donors grants.
- Around 86% of current revenue is received from taxes.
- Overall total tax and non-tax revenue declined by 0.6% compared to the same period of last year.
- Compared to October Total Revenue and Grants decreased by 32%
- While most November tax revenue components suffered decreases notable declines included income tax (-2.4%), CT (-32.3%), trade taxes (-28.1%) and property tax (-80.1%).

3. Expenditure and Net Lending

- Total expenditure and net lending to November 2008 was \$77.6 million.
- This was shared between current expenditure (88.2%), capital (7.4%) and net lending (4.4%).
- Total expenditure and net lending increased by 19.4% compared to the same period last year mainly due to the Coronation expenditure and the purchase of the Shoreline power company.

3. Expenditure and Net Lending (cont.)

- The current expenditure for November 2008 was \$9.8 million, a decrease from \$14.6 million from the same period in 2007.
- Capital expenditure was \$5.8 million, including the acquisition of TCF lease
- Compared to October, Total Expenditure and Net Lending decreased by 27.6%

4. Financing

- The deficit of \$9.1 million was financed by drawing down the government bank account balance.

Debt Management

- Total public debt grew slightly in the month to 30 November from \$208m to \$212m, or 35.7% of GDP.
- The main cause of this increase was fluctuation in the value of the Pa'anga against the currencies debt is denominated in.
- Of total debt, external debt is \$187.47m and domestic debt is \$24.41m.
- Total debt servicing consumes 0.65% of GDP (\$3.88m/\$592.8m), or 4.39% recurrent revenue.
- Remaining estimated total debt service payments for 2008 is \$12.4m .
- No new guaranteed debt was entered into in November.