

Monthly Economic Update November 2017

Ministry of Finance & National Planning



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Key Indicators	(T\$m unless otherwise indicated)			% change	
	Nov-16	Oct-17	Nov-17	Annual	Monthly
FISCAL INDICATORS (Government Financial Statistics (GFS) Basis)					
Revenue	23.8	24.0	29.9	26%	25%
Tax and Non-Tax Revenue	23.2	22.1	21.5	-7%	-3%
Grant (cash grants)	0.6	1.9	8.38	1297%	341%
Budget Support	-	-	-	-	-
Project Support	-	1.9	8.38	-	341%
Expenses	17.8	22.9	18.3	3%	-20%
Compensation of Employees	10.0	13.0	10.2	2%	-22%
Gross Operating Balance	6.0	1.2	11.55	93%	863%
Net Acquisition of Non-financial Assets	0.7	0.9	5.21	624%	479%
Net Lending/Borrowing Requirement	5.2	0.3	6.34	22%	2013%
Total Public Debt (\$million)	N/A	N/A	N/A	-	-
ECONOMIC ACTIVITY INDICATORS (OET basis)					
Exports	3.0	3.2	2.8	-6.7	-12.5
Imports	27.0	37.9	25.5	-5.6	-32.7
Adjusted Cash Remittances (Ann Total)	267.3	297.2	300.1	12.3	1.0
FISCAL ANCHORS					
Wage bill to domestic revenue to be less than 53% (annual target)	43%	59%	47%	10.1	-19.3
MONETARY & PRICE INDICATORS					
Official Foreign Reserves	360.9	413.6	424.8	17.7	2.7
Import Cover - Trade estimate (months)	6.8	7.5	7.6	11.8	1.3
Import Cover - OET estimate (months)	9.7	9.9	10.1	4.1	2.0
Inflation (annual % change)	6.8	6.1	5.0	-26.5	-18.0
Retail Fuel Prices:					
Petrol (T\$/litre)	2.42	2.53	2.55	5.4	0.8
Diesel (T\$/litre)	2.40	2.51	2.54	5.8	1.2

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

Inflation

Annual rate of inflation recorded for November 2017 was 5 percent; below both the 6.1 percent recorded in October, and the 6.7 percent in November 2016. The rate is however same as the inflation reference rate of 5 percent set by NRB.

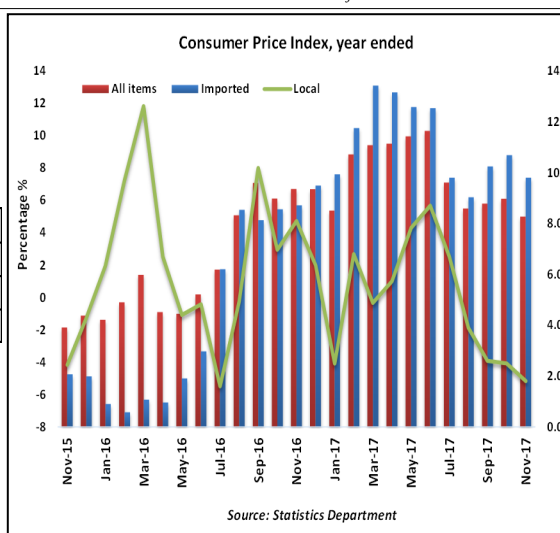
	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Nov-16
All items	7.1	5.5	5.8	6.1	5.0	6.7
Imported	7.4	6.2	8.1	8.8	7.4	5.7
Local	6.7	3.9	2.6	2.5	1.8	8.1

The continuous rise in annual inflation was due to higher prices of imported goods which contributed to 4.3 percent points to the annual headline inflation rate. Food prices was the leading contributor followed by the prices of tobacco, and fuel.

The annual imported inflation was 7.4 percent in November 2017, compared to 8.8 percent last month and 5.7 percent in November 2016. The annual change continues to be driven by higher prices of food, tobacco & alcohol, and oil prices. Food continues as the largest contributor rose by 9.9 percent. The prices of all imported items' component recorded increase with the highest contributor was the price of meat, fish & poultry by 14.3 percent. This was mainly due to the rise in prices of mutton flaps and chicken pieces.

The annual domestic inflation rose by 1.8 percent in November 2017, lower than 2.5 percent recorded last month and 8.1 percent in November 2016. The domestic component of inflation continued to be driven by the prices of electricity and local kava-Tonga over the year. The prices of fruits and vegetables fall by 14.1 percent such as pine-apples, both early and late yams, capsicum, peanuts, ripe banana, pawpaw, sweet potatoes and taro dry land.

On the outlook for the future, inflation is expected to remain at the subdued level of the review month to the near term. Moreover, movement in global oil and food prices pose a risk to the outlook. Shortages in the domestic supply of kava-Tonga may likely impact domestic inflation for sometime to come and contribute to an increase in annual headline inflation. The vulnerability of Tonga to natural disaster pose additional risk to local food prices.



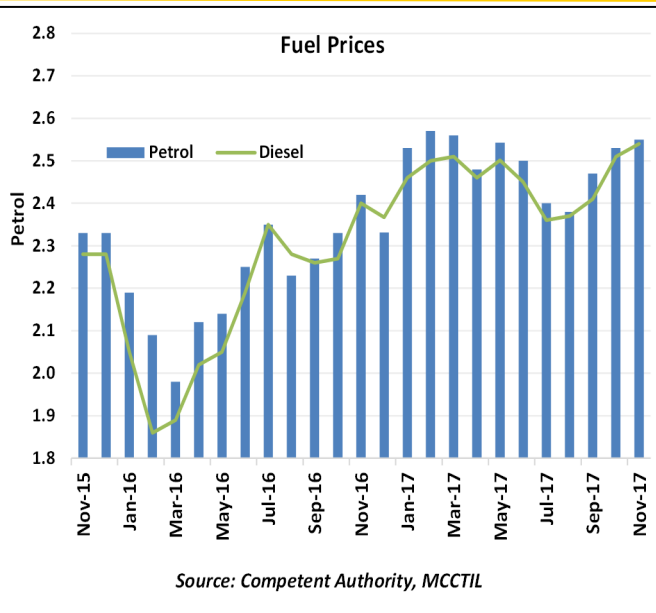
Indicators Digest

*Inflation rate for November 2017 was 5 percent.

*Retail price for petrol and diesel for November 2017 increase by 0.02 and 0.13 senti respectively.

*Foreign reserves recorded a higher level of TOP\$424.8 equivalent to 7.6 month of import cover.

*Tongan pa'anga continue depreciates against USD dollars.

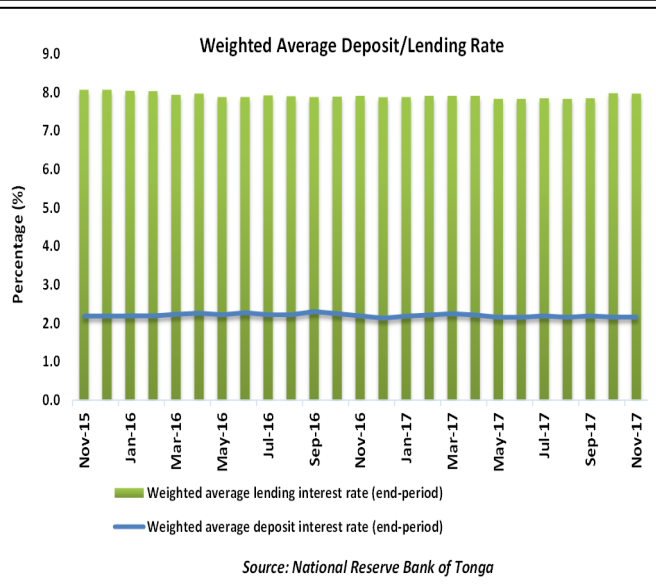


Fuel Prices

Domestic fuel prices increased in November 2017. The price of Petrol increased by 1 percent or 0.02 seniti compared to the previous month, and 5 percent or 0.13 seniti over the price for same period a year ago. Diesel price also increased against previous month by 1 percent, and by 6 percent compared to November 2016.

The increase in domestic fuel prices reflect global crude oil prices that are again on the uptick. The Dated Brent reached USD60/bbl by end of October, first time at this level since mid-2015. A weakening of the Tongan pa'anga against the US Dollar also partly contributed to the increase in domestic fuel prices.

Price/Litre	16-Nov	17-Oct	17-Nov
Petrol	\$2.42	\$2.53	\$2.55
Diesel	\$2.40	\$2.51	\$2.54



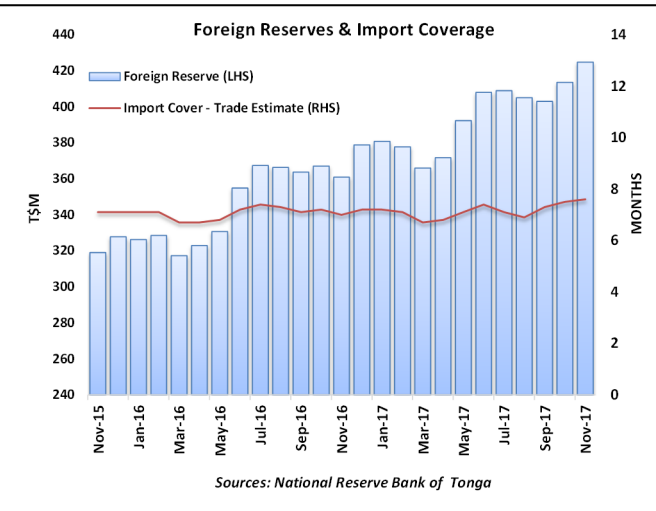
Deposit and Lending Rates

Annual lending rate rose by 1.0 percent in November 2017 compared to the same period a year ago. If the lending rate continues to rise, it will in effect discourage borrowing and lead to decline in domestic consumption.

The lending rate moreover fell by 0.1 percent against the previous month's rate; an otherwise encouraging sign for borrowing as reflected in housing loans.

The deposit rate continues to remain stable; and slightly decrease by 1.4 percent compare to corresponding period over a year ago.

INTEREST RATES	16-Nov	17-Oct	17-Nov
Weighted Average Deposit Rate (end-period)	2.19%	2.16%	2.16%
Weighted Average Lending Rate (end-period)	7.89%	7.98%	7.97%

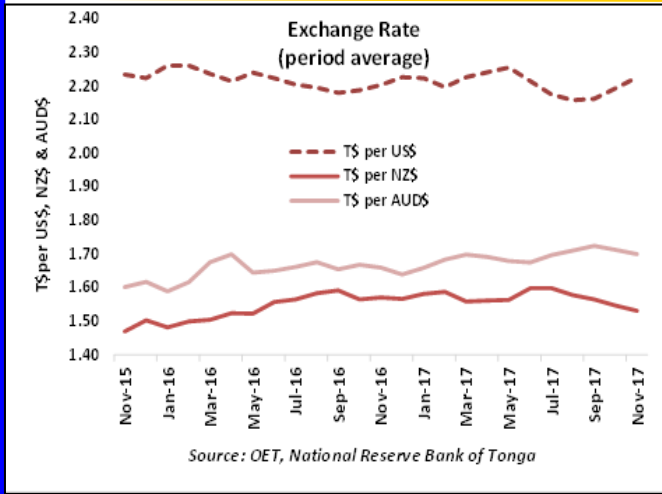


Foreign Reserves

The level of foreign reserves recorded for November 2017 was \$424.8 million; an increase of 3 percent over what it was in October and 18 percent higher than same period in 2016.

The level of foreign reserves for November is equivalent to 7.6 months of import cover on trade estimate.

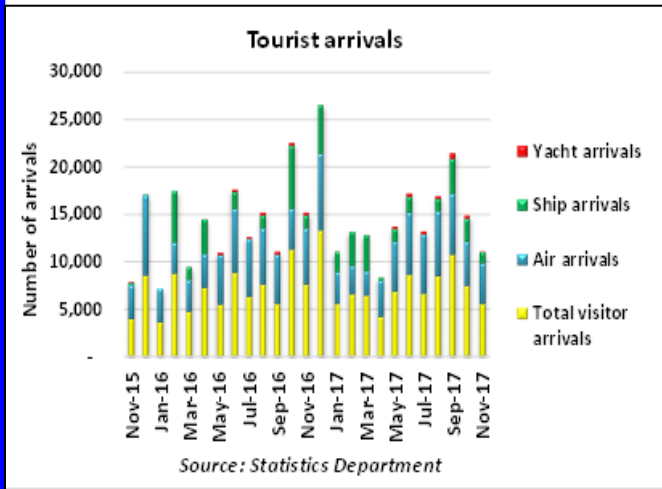
Higher level of foreign reserve continues to support positive outlook for economic growth in coming years.



Exchange Rates

The Nominal Real Trade Weighted Index and Real Trade Weighted Index for the review month declined by 0.2 percent and 2.5 percent respectively compared to October 2017. However, against the corresponding period a year ago, the two indices rose by 0.2 and 2.0 percent respectively.

At the end of November, the pa'anga continued on its depreciation trend against the US dollar. This implies continuing rise in the cost of imported food items from the USA, such as frozen meat; a factor in higher inflation.



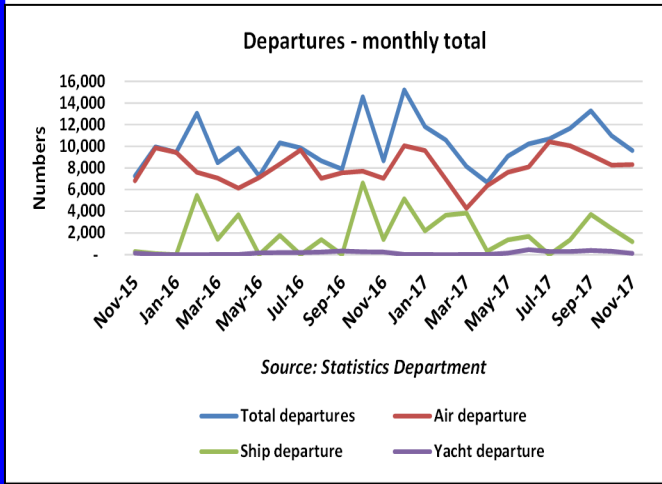
Tourism

Arrival

Tourists arrival in November 2017 was 9,210 a decline of 13.0 percent or 1,346 people compared to October 2017 and 11.0 percent or 1,114 people compared to November 2016.

The decrease in both annual and monthly levels closely mirror the fall in the number of arrivals by all modes of transport—yachts (by 78 percent monthly and 74 percent on annual basis), ships and air arrivals.

By purpose of visits, the number of those that came on holiday & vacation decreased by 44.3 percent compared to 50.4 percent in October 2017.



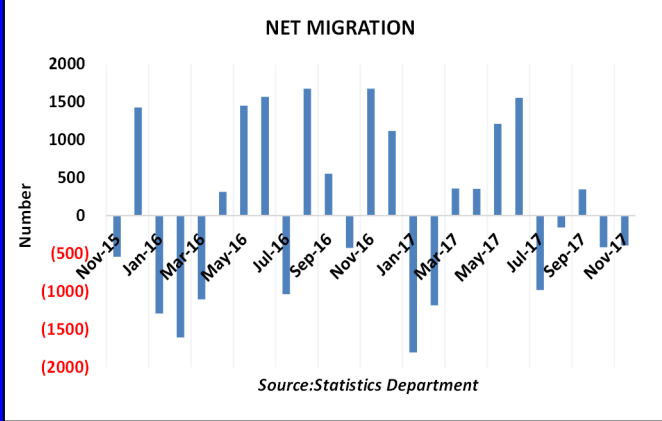
New Zealand remains the leading country in visitors' arrivals by usual residence, accounting for 45.2 percent (1,934) of total.

Departure

Total departure for November 2017 was 9,603 people; a decrease of 1,371 or 12.5 percent compared to the previous month and an increase of 954 persons or 11.0 percent with corresponding period a year ago.

The increase on year-on-year basis was due to an additional departure of 636 people by air and 318 by ship and yachts.

Considered by usual country of residence, air departure during the review month was mostly by residents of Tonga (4,145) followed by New Zealand (1,897) and Australia (835).



Net Migration

Negative net migration of 393 persons was recorded for the review month, implying more people moved from Tonga. Net migration during the review month was lower than the 418 recorded in October 2017.

On the outlook for the future, more arrivals is anticipated in the near term, due to planned family reunion and other Christmas, new year and end-of-year festivities. These will spur demand for goods and services and drive economic growth.

Fiscal performance

Revenue performance for November 2017 showed a significant increase compared to the previous month. Domestic revenue decreased by 3 percent compared to the \$22.1 million collected in October 2017. The increase in cash grants over the reviewed month including a receipts of \$8.38 million as project support was also reflected in the revenue.

The expenses recorded for the reviewed month decreased by 20 percent compared to the expenses recorded in October 2017 mainly due to the decrease in Compensation of Employees by 22 percent as no more recruitment during the month.

The November fiscal performance recorded a surplus of \$5.21 million recorded compare to October 2017. This continued to contribute to the level of cash reserve of the government.

Fiscal Anchors

The monthly performance of wage bill as a percentage of domestic revenue for November 2017 is 47 percent which is a fall from 59 percent recorded in October 2017; and below the annual target of 53 percent.

Debt to GDP ratio remains as there is no further change in the debt level.

END