

Monthly Economic Update October 2017

Ministry of Finance & National Planning



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| Key Indicators | (T\$m unless otherwise indicated) | | | % change | |
|--|-----------------------------------|--------|--------|----------|---------|
| | Oct-16 | Sep-17 | Oct-17 | Annual | Monthly |
| FISCAL INDICATORS (Government Financial Statistics (GFS) Basis) | | | | | |
| Revenue | 23.3 | 21.8 | 24.0 | 3% | 10% |
| Tax and Non-Tax Revenue | 16.7 | 19.2 | 22.1 | 33% | 15% |
| Grant (cash grants) | 6.6 | 2.6 | 1.9 | -71% | -28% |
| Budget Support | 6.0 | - | - | | |
| Project Support | 0.6 | 2.6 | 1.9 | 215% | -28% |
| Expenses | 21.8 | 22.2 | 22.9 | 5% | 3% |
| Compensation of Employees | 13.1 | 10.8 | 13.0 | -1% | 19% |
| Gross Operating Balance | 3.8 | - 0.4 | 1.2 | -69% | -393% |
| Net Acquisition of Non-financial Assets | 0.8 | 0.9 | 0.9 | 15% | 0% |
| Net Lending/Borrowing Requirement | 3.0 | - 1.3 | 0.3 | -92% | -119% |
| Total Public Debt (\$million) | N/A | N/A | N/A | | |
| ECONOMIC ACTIVITY INDICATORS (OET basis) | | | | | |
| Exports | 2.1 | 1.0 | 3.2 | 52 | 220 |
| Imports | 32.6 | 30.0 | 37.9 | 16 | 26 |
| Adjusted Cash Remittances (Ann Total) | 263.3 | 294.2 | 297.2 | 13 | 1 |
| FISCAL ANCHORS | | | | | |
| Wage bill to domestic revenue to be less than 53% (annual target) | 78% | 56% | 59% | -25 | 4 |
| MONETARY & PRICE INDICATORS | | | | | |
| Official Foreign Reserves | 367.0 | 403.0 | 413.6 | 13 | 3 |
| Import Cover - Trade estimate (months) | 7.0 | 7.3 | 7.5 | 7 | 3 |
| Import Cover - OET estimate (months) | 10.0 | 9.7 | 9.9 | -1 | 2 |
| Inflation (annual % change) | 6.1 | 5.8 | 6.1 | 0 | 5 |
| Retail Fuel Prices: | | | | | |
| Petrol (T\$/litre) | 2.33 | 2.38 | 2.53 | 9 | 6 |
| Diesel (T\$/litre) | 2.27 | 2.37 | 2.51 | 11 | 6 |

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

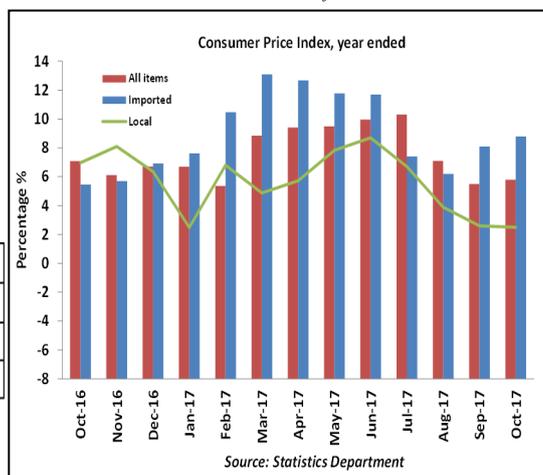
Inflation

The annual rate of inflation for October 2017 was 6.1 percent; slightly higher than the 5.8 percent of the previous month and similar to a 6.1 percent in October 2016. The inflation rate for October 2017 was above the NRBT's inflation reference target of 5 percent.

| | Jun-17 | Jul-17 | Aug-17 | Sep-17 | Oct-17 | Oct-16 |
|-----------|--------|--------|--------|--------|--------|--------|
| All items | 10.3 | 7.1 | 5.5 | 5.8 | 6.1 | 6.1 |
| Imported | 11.7 | 7.4 | 6.2 | 8.1 | 8.8 | 5.5 |
| Local | 8.7 | 6.7 | 3.9 | 2.6 | 2.5 | 7.0 |

The inflation rate is attributed more to the imported component that rose from 6.2 percent in August to 8.1 percent in September and further to 8.8 percent in October 2017. Compared to same period last year, the imported component stood at 5.5 percent in October 2016. Higher price expectations of imported food, tobacco, alcohol, and fuel are the major factors in the imported component of the CPI.

The local component on the other hand trended downward from 2.6 percent in September to 2.5 percent in October 2017, on a month-to-month basis; it moreover declined significantly from the 7.0 percent recorded for the same period in 2016. Higher price expectations on food, tobacco, alcohol, and fuel are the major factors in the imported component of the



CPI.

The sharp decline in prices of vegetable and other crops such as pineapples, tomatoes, carrots, cucumber, head cabbage, banana (green), pele, sweet potatoes and taro wetland accounted for month-to-month downward trend in CPI.

The outlook is for a dampened annual inflation in the near term. This however depends largely on movement in global oil and food prices, domestic supply situation for kava-Tonga, as well vulnerability of Tonga to natural disaster.

Indicators Digest

*Inflation rate for October 2017 was 6.1 percent.

*Retail price for diesel and petrol for October 2017 increase by 14 and 15 senti respectively.

*Foreign reserves recorded a higher level of TOP\$413.6 m equivalent to 7.5 month of import cover.

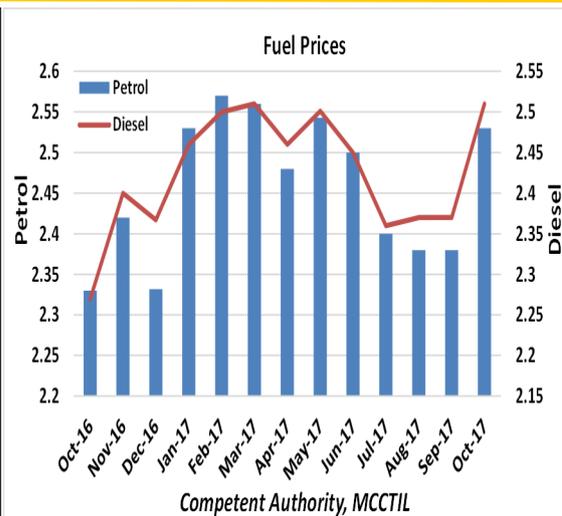
*Tongan pa'anga depreciates against USD dollars.

Fuel Prices

In October 2017, the domestic retail prices of petrol and diesel were \$2.53 and \$2.51 per liter respectively. This represent a 6 percent (or 15 seniti) increase for petrol and 5.9 percent (or 14 seniti) increase for diesel compared to previous month.

This rise in both petrol and diesel is associated with the weakening of the Tongan pa'anga (about 1.4%) against the US dollar, together with the increase in petrol prices in Singapore. The higher cost of freight caused by the disruptions in the wake of hurricane Harvey have tightened the shipping market, with more ships allocated to longer voyages.

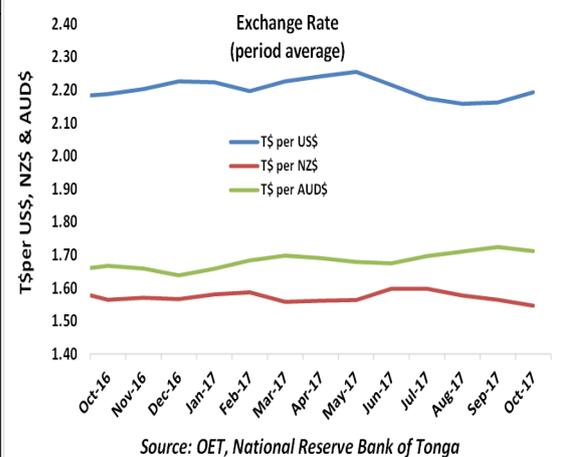
On annual basis, fuel prices for October 2017 were higher than what were recorded in October 2016 by 9 and 11 percent for petrol and diesel respectively. These are in line with increases in fuel prices in the global market. Global price of crude oil was USD 59/barrel in September 2017, the highest price for two years.



Exchange Rates

Nominal Real Trade Weighted Index for the month of October 2017 slightly increased by 0.2 percent while Real Trade Weighted Index decreased by 0.1 percent compared to September 2017. Against the corresponding period a year ago, Nominal Real Trade Weighted Index and Real Trade Weighted Index both increased by 1.1 and 4.7 percent respectively.

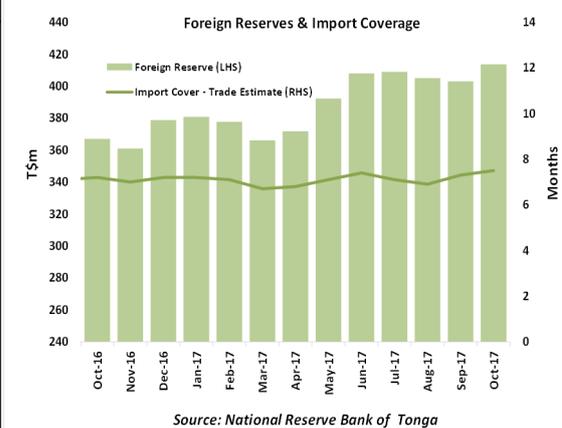
At the end of October, the pa'anga depreciated against US dollar. This depreciation imply higher cost of imported food items that came from USA, such as frozen meat, and lead to higher inflation. A depreciation of the Tongan pa'anga against the US dollar on the other hand benefit recipients of foreign currencies—individuals receiving remittances and exporters of agricultural products, such as root crops and Kava Tonga.



Foreign Reserves

A record level of \$413.6 million of Foreign Reserves was achieved in October 2017; the highest for the last decade. This represented an increase of 2.6 percent or \$10.6 million, compared to September 2017. On an annual basis, the foreign reserves level was 12.7 percent higher than the level of the corresponding period in 2016. The higher level of foreign reserves was highly supported by the 12.7 percent increase in the annual total for remittances.

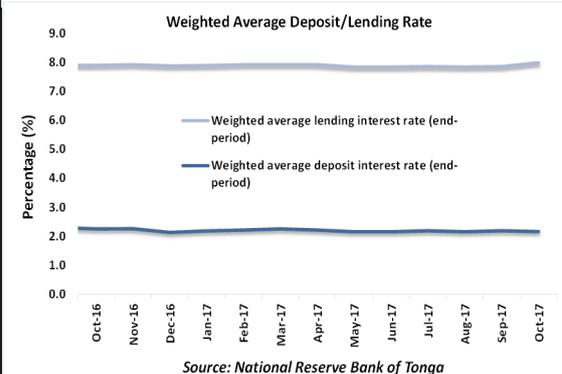
The level of foreign reserves for the reviewed month is equivalent to 7.5 months of import cover—trade estimate—and 9.9 months on OET estimate. This remains more than double the NRBT's minimum range of 3-4 months as the case has been in the last 2 years.



Deposit and Lending Rates

The lending rate for October 2017 was 7.98 percent, an increase of 1.1 percent compared to same period last year, and 1.7 percent when compared to the previous month. Increases in lending rate discourage borrowing and dampen domestic demand for goods and services. The demand for housing and business loan continue to increase, despite the rising lending rate.

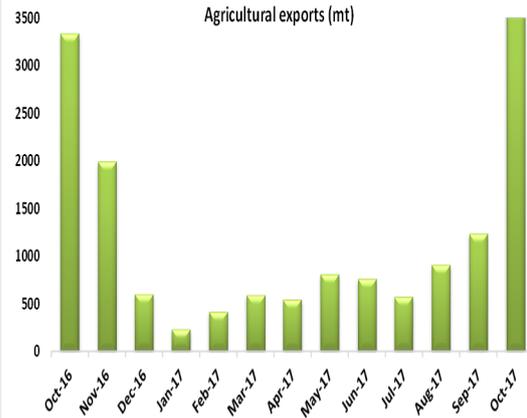
However, the low deposit rate of 2.16 percent, compared to same period a year ago and previous month, continue to discourage savings in the country.



Agricultural Exports (Customs Data)

Provisional data from Customs indicates that Agricultural exports for October 2017 recorded a huge increase of around 204 percent compared to the previous month and 12 percent compared to same period a year ago. The was largely due to the review month coinciding with the squash harvesting season of the year. Total agricultural exports volume during the month spiked by 2,482.89 tonnes (461%), to 3,021.46 tonnes; a record level of squash export of the last decade. Even with this huge increase, Tonga is still unable to meet its quota for squash export from overseas, according to one of the principal exporting companies.

Vegetables and fruits also contribute to the observed trend in agricultural export volume, with positive outlook for the near term.



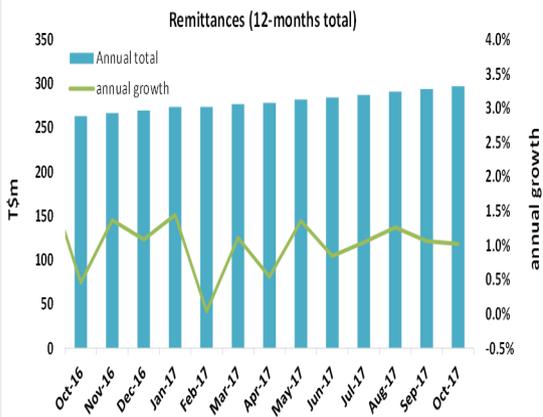
Source: Quarantine Dept, MAFF

Remittance

Remittances rose slightly in October 2017; by 0.7% (\$0.2 million) to \$26.18 million, supported by higher inflows of private transfers that are mainly receipts for family support. In year ended terms, total remittances reached \$297.2 million; \$33.8 million (12.8%) higher than it was a year ago.

In October 2017, remittances received in United States dollar (USD) increased the most, by \$1.0 million. On the other hand, both AUD and NZD receipts declined by \$0.8 million and \$0.3 million respectively.

The outlook for remittances remains positive for upcoming months leading up to the Christmas holiday festive season. Remittances receipts is the largest source of foreign exchange inflow to the economy.



Source: National Reserve Bank of Tonga

Fiscal performance

Revenue performance for October 2017 showed a significant increase compared to the previous month. Domestic revenue increased by 15 percent over the \$19.2 million collected in September 2017. The decrease in cash grants over the reviewed month, including a no-record of budget support receipts has no appreciable negative effect on revenue performance.

The expenses recorded for the reviewed month also increased by 3 percent, compared to September 2017. This was due mainly to the increase in Compensation of Employees as a number of vacant posts were filled during the month.

The October 2017 fiscal performance recorded a surplus of \$0.9 million; the same level recorded in September. This contributed to a slight increase in level of cash reserve of government during the month.

Fiscal Anchors

The monthly performance of wage bill as a percentage of domestic revenue for October 2017 was 59 percent ; higher than the 56 percent recorded in September 2017, and far above the annual target of 53 percent.

The Debt to GDP ratio remains unchanged as there has been no movement in the debt level.

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