

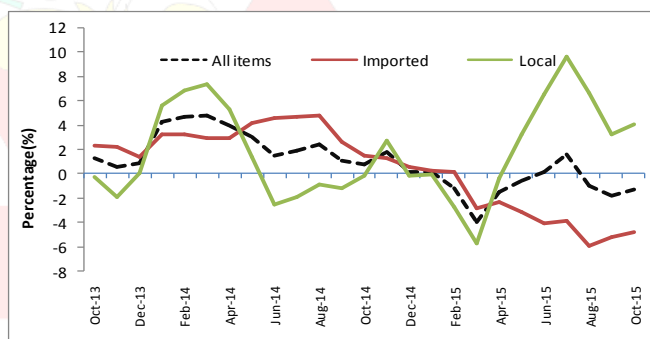
Monthly Report-October 2015

HIGHLIGHTS

➤ **Deflation for three consecutive months due to lower fuel prices.**

Annual inflation in October was -1.3% compared to deflation of 1.9% in the previous month (*Figure 1*). The annual inflation in the same period year ago was 0.8%. The monthly deflation in October was in line with a decline in imported prices by 4.9%. This was due to decrease in Transportation Index by 1.6%.

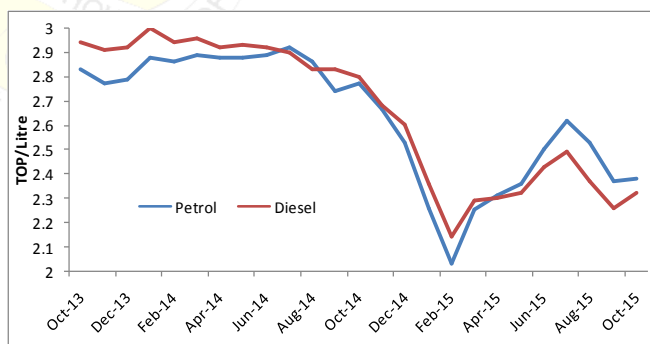
Figure 1: Annual CPI Inflation



Source: Tonga Bureau of Statistics

Domestic petrol and diesel prices increased by 0.4% and 2.7% in October 2015 compared to the previous month but both were declining by about 1.5% compared to the same corresponding period a year ago (*Figure 2*).

Figure 2: Retail Fuel Prices (end of the month)

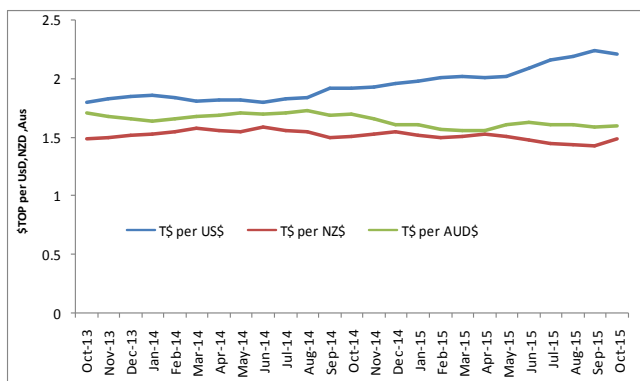


Source: Competent Authority, MCL

➤ **Tongan Pa'anga appreciates relative to US dollar and depreciates relative to NZ and AUS dollars.**

The Nominal and Real Trade Weighted Index were both decline by around 0.7% over the month compared to September 2015 (*Figure 3*). This is primary due to the depreciation of the Tongan Pa'anga against New Zealand (NZD) and Australian (AUD) Dollar. Depreciation of Tongan Pa'anga will increase cost of imports but tends to increase exports and remittances in the long run.

Figure 3: Exchange Rate (end of the month)

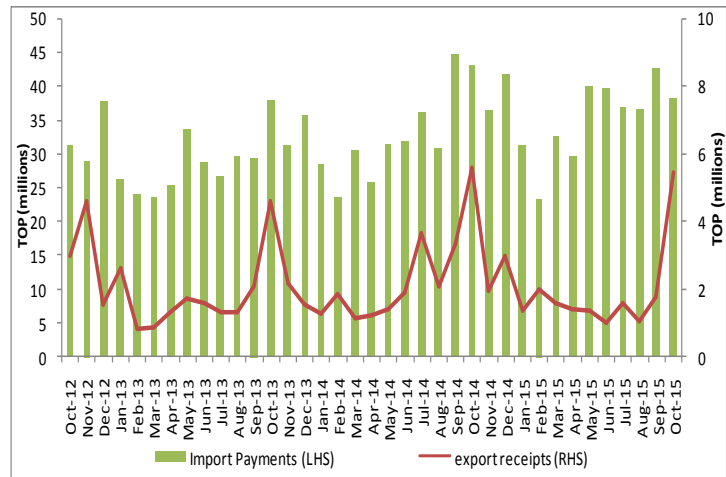


Source: National Reserve Bank of Tonga

➤ **Export receipt was boosted by the proceeds from Squash.**

The provisional monthly export receipts were increased significantly during the month compared to September and about the same level as October 2014 (Figure 4). This is normally happening in October every year with the harvesting season of squash. Volume of squash export during the month was increased by more than double compare to the previous month. The monthly increase in export receipts was driven mainly by the export agricultural produce.

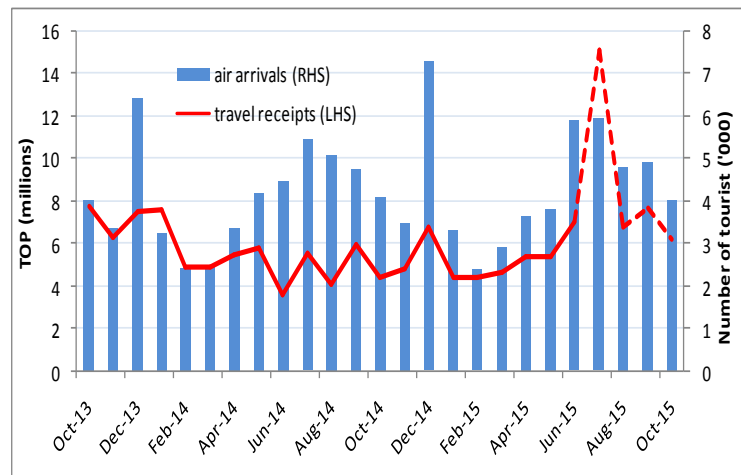
Figure 4: Balance of Trade (monthly)¹



Source: Tonga Bureau of Statistics & Customs

Monthly import payments declined by 8.7% compared to September 2015, but lower than October last year. The monthly decline in import payments was due to a decline in import payments for mineral products (contributed 5.4%), wood pulp, paper & paper board (contributed by 6.5%) and machinery, mechanical and electrical appliances (contributed by 3.8%).

Figure 5: Travel Receipts vs. Tourist Air Arrivals (monthly)²



Source: Tonga Bureau of Statistics, NRBT & MOFNP

Travel receipts in October declined by 19% which is consistent with

18% declining in total tourist air arrivals compared to the previous month. This is 11% lower than the average of the same period in the last five years (Figure 5).

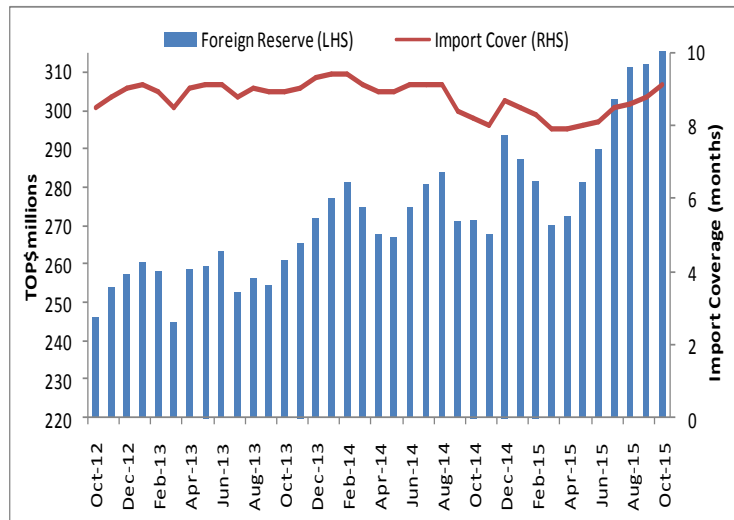
¹ Both series (import payments and export receipts) are provisional figures based on Customs Data as Statistics Department currently working on IMTS official numbers.

² The travel receipts monthly data is extracted from the NRBT quarterly's bulletin; hence the latest up to date is June 2015. From October to December 2015 will be available on December's Quarterly bulletin. Therefore, the numbers used in July to October 2015 are provisional only based on the historical trend.

➤ **Higher Foreign Reserve results from a significant inflow of receipts.**


Gross foreign reserves remain high at TOP315.8 million, up by 1.3%, compared to September 2015 and significantly increased by 16% compared to October last year (Figure 6). This is equivalent to 9.1 months of import cover, well above the NRBT’s minimum range of 3-4 months. It also reflects a strong net inflow of payments during the month reflecting an increase in total remittances and export receipts.

Figure 6: Gross Foreign Reserves



Source: National Reserve Bank of Tonga

Table 1: Key Indicators

	(T\$m unless otherwise indicated)			% change from		YEAR TO DATE (YTD) JUL - OCT 2015/2016	
	Oct 2014	Sept 2015	Oct 2015	Oct 2014 to Oct 2015	Sept 2015 to Oct 2015	% of Budget (2015/16)	% of GDP ¹ 2015/16
FISCAL INDICATORS (Government Financial Statistics (GFS) Basis)							
Total Revenue & Grants	19.7	18.6	18.2	-7.3%	-2.2%	15.8%	-
Total Revenue	14.9	18.4	17.5	17.6%	-4.9%	32.0%	
Grant (cash grants)	4.8	0.2	0.7	-84.8%	203.5%	2.2%	
Budget Support							
Project Support	4.8	0.2	0.7	-84.8%	203.5%	2.7%	
Total Expenditure & Net Lending	19.4	23.9	17.3	-10.8%	-27.6%	0.0%	
Expenditure (incl. cash grants)	18.2	23.8	17.2	-5.6%	-27.7%	0.0%	
Total Net Lending	1.2	0.1	0.1	-90.1%	0.0%		
Total Public Debt	385.9	437.9	432.0	11.9%	-1.3%		50.3%
ECONOMIC ACTIVITY INDICATORS (OET basis)							
Exports	1.4	1.0	0.8	-42.9%	-20.0%		
Imports	30.0	23.3	24.3	-19.0%	4.3%		
Travel Receipts	4.4	7.7	6.2	40.9%	-19.5%		
Adjusted Cash Remittances(Annual Total)	212.7	218.8	223.7	5.2%	2.2%		
MONETARY & PRICE INDICATORS							
Official Foreign Reserves	271.5	311.7	315.8	16%	1%		
Import Cover (months)	8.2	8.8	9.1				
Inflation (annual % change)	0.7	-1.9	-1.3				
Retail Fuel Prices:							
Petrol (T\$/litre)	2.77	2.37	2.38	-14.08%	0.42%		
Diesel (T\$/litre)	2.8	2.26	2.32	-17.14%	2.65%		

Nominal GDP 2014/15: T\$830.4 million (revised estimate by MOFNP use in the 2015/16 Budget Statement)