

# HALF-YEARLY ECONOMIC REPORT 2012/13

*(January 2013 – June 2013)*



NATIONAL POLICY & PLANNING DIVISION  
MINISTRY OF FINANCE & NATIONAL PLANNING  
GOVERNMENT OF TONGA

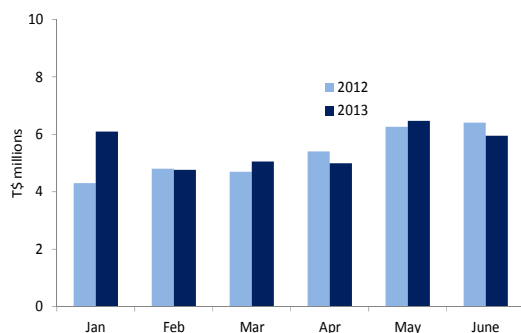
*August 2013*

**Note:** *This half-yearly economic report is to also cover economic updates for the monthly At a Glance reports of February 2013 to June 2013.*

## HIGHLIGHTS SUMMARY

- Tourism receipts for the second half of 2012/2013 totalled \$33.3 million, which was 5% higher than the same period last year, mainly attributed to increases in credit card transactions.
- Total recorded cash remittances for the second half of 2012/2013 was T\$59.7 million, 23% higher than the corresponding period last year. This was partly due to a 3 days celebration of the Free Wesleyan Church's Tupou High School Golden Jubilee, in addition to the seasonal events that happened during the May-June period - mainly churches' annual conferences and the Heilala Festival.
- Export receipts (OET Basis) for the second half of 2012/2013 totalled \$3.7 million, which was 12% higher than the first half of 2011/2012. This was mainly due to higher proceeds from the export of agriculture, fish and other marine products.
- Although total imports (Trade basis) remained relatively the same during Jan – June 2013 compared to its corresponding period last year, around an average of \$26 million per month, consumption tax revenue on imports increased by 8% to a total of \$24 million, supposedly due to improved compliance and collection.
- Average monthly foreign reserves for the second half of 2012/2013 was \$257 million, higher compared to an average of \$258 million for the second half in 2011/2012, reflecting increasing receipts – particularly remittances, which more than offset import payments. Import cover rose to an average of 9.1 months, higher than the average of 8.2 months in the second half of 2011/2012.
- Total liquidity increased in the second half of 2012/2013 by an average annual growth rate of 7%, compared to a negative growth rate of 1% in the same corresponding period last year – partly associated with a decline by 0.07 percentage points in the average lending interest rates and a 34% increase in demand deposits that mainly attributed to the increase in the level of total domestic liquidity.
- Average annual inflation for the second half of 2012/2013 was 0.7%, lower than the average of 1.6% for the same period last year. This was mostly driven by an overall decline in the domestic inflation - particularly through lower electricity prices, and imported inflation through declines in imported food and fuel prices.
- The six months average electricity prices for the second half of 2012/13 was 89 seniti per kilowatt, which was 5% lower than the same period last year. This was in line with a drop in diesel prices, which was down by 2% to around T\$2.88/ litre during the same period.
- The level of total public debt reached \$372.6 million at the end of June 2013, a 6% increase from a year ago mainly due to the depreciation of the Pa'anga against most of its borrowing currencies.
- Total government receipts received in the Jan – June 2013 period reached \$86.6 million, almost the same compared to corresponding period last year, but excluding budget support it increased by 9% to \$74.7 million. This was mainly due to increases in receipts from income tax, trade taxes and capital & other transfers.
- Government payments made in Jan – June 2013 totalled \$91 million, 9% higher than the amount last year, mainly attributed to increases in expenditure on debt repayments and salaries.

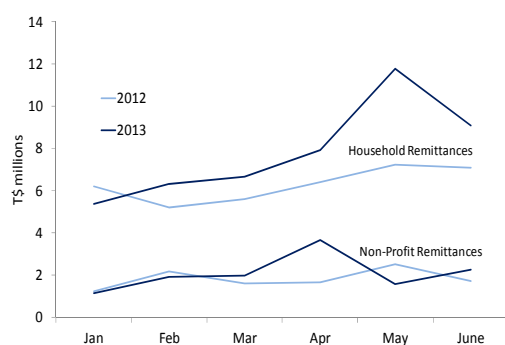
**Figure 1: Tourism Receipts**



Source: National Reserve Bank of Tonga

In the second half of 2012/13, tourism receipts<sup>1</sup> totaled \$33.3 million, which was 5% higher than the amount recorded in the corresponding period last year. On average, it was \$6 million per month in the second half of 2012/13. The main increase unusually occurred in the January 2013 month (highest January month in the past 10 years)<sup>2</sup>, mainly attributed to increases in credit card transactions. Cruise ship passengers, arriving in the newly developed Vuna Wharf<sup>3</sup> in the second half of 2012/13, totaled 3,442, from 7 cruise ships, while the corresponding period last year received 5,148 passengers from 10 cruise ships<sup>4</sup>.

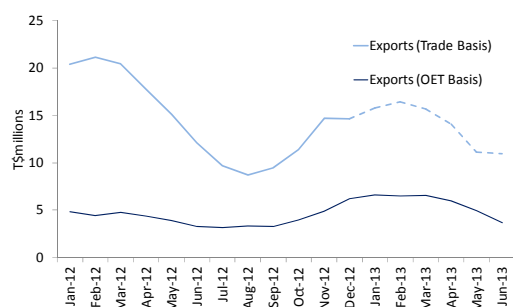
**Figure 2: Cash Remittances**



Source: National Reserve Bank of Tonga

Total recorded<sup>5</sup> cash remittances for the last six months Jan-June 2013 at T\$59.7 million, was 23% higher than the amount of T\$48.7 million recorded in the same period in 2012. Particularly receipts from the household sources contributed to this increase (up by 25%), partly due to a 3 days celebration of the Free Wesleyan Church's<sup>6</sup> Tupou High School Golden Jubilee, in addition to the seasonal events that happened during the May-June period - mainly churches' annual conferences and the Heilala Festival.

**Figure 3: Export Values<sup>7</sup> (6 months total)**



Sources: Tonga Statistics Department, National Reserve Bank of Tonga

Export receipts (OET Basis data<sup>8</sup>) for the second half of 2012/13 increased to \$3.7 million from \$3.3 million in the corresponding period last year (or up by 12%). This increase was mainly reflected in the 2013 January month, recording \$0.9 million, which was \$0.3 million higher compared to the preceding January and well above the average of \$0.4 million in the January months of the last 3 years. This was mainly due to higher proceeds from agriculture, fish and other marine products.

<sup>1</sup> Note the difficulty in distinguishing tourism receipts from remittances and export receipts

<sup>2</sup> Observed to be quite suspicious increase

<sup>3</sup> Completed and started operating in December 2012

<sup>4</sup> Note the recent air arrival data is yet to be available from data source (latest figure is for November 2012)

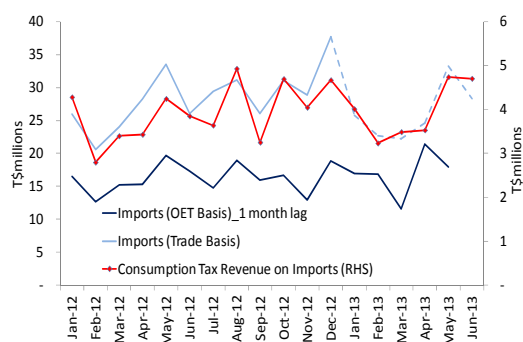
<sup>5</sup> There is increasing evidence that a large amount of remittances are not being captured and that this amount might have increased in recent years. NRBT is working on clarifying this.

<sup>6</sup> The Free Wesleyan Church of Tonga being the largest Methodist denomination in Tonga

<sup>7</sup> Exports on Trade Basis data during Jan – June 2013 are provisional numbers only (yet to include Vava'u exports figures, which represents around an average 0.1% of total exports per quarter)

<sup>8</sup> National Reserve Bank of Tonga's Overseas Exchange Transaction (OET) records of estimated export receipts

**Figure 4: Import Values<sup>9</sup> vs. CT Revenue on Imports (monthly)**

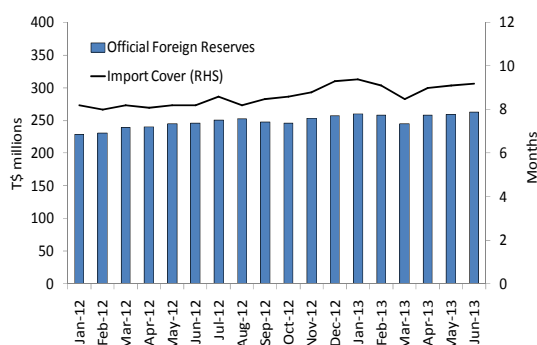


Sources: National Reserve Bank of Tonga, Tonga Statistics Department.

The total level of imports (trade basis) remained relatively the same during Jan – June 2013 compared to its corresponding period last year, around an average of \$26 million per month. However during the same comparison period, consumption tax (CT) revenue on imports increased by 8% to a total of \$24 million in the Jan – June 2013 period, supposedly due to improved compliance and collection. The CT revenue on imports figures was observed to follow more closely with the imports data recorded on trade basis compared to the recorded imports OET data i.e. CT revenue on imports<sup>10</sup> averages around 15% of total

imports on trade basis, compared to 25% on the OET basis.

**Figure 5: Official Foreign Reserves**

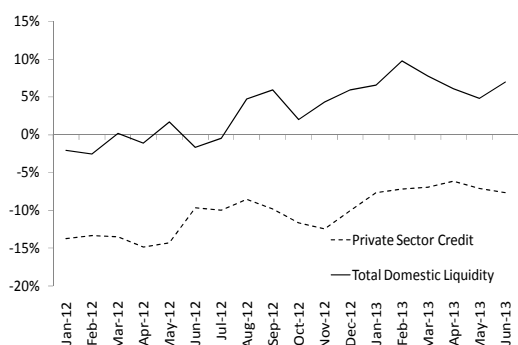


Source: National Reserve Bank of Tonga

For the six months ending June 2013, average monthly foreign reserves was \$257 million, higher compared to an average of \$238 million for the same period in 2012. The rate of increase in the first half of 2013 is less than first half of 2012 (an increase of \$3 million compared to \$16 million in 2012). The decline experienced between February and March 2013 (a decrease of \$13 million) was due to a decline in foreign exchange holdings at the NRBT (a decrease of \$12.8 million), corresponding with a slight fall in holding of Special Drawing Rights (SDRs) and reserve

position with the International Monetary Fund (IMF). Foreign reserve began to rise in April 2013 reaching a record \$263 million in June, reflecting increasing remittances (which rose from \$8.6 million in January 2013 to \$11.4 million in June). Due to higher foreign reserve in 2013, import cover rose to an average of 9.1 months in the first half of 2013, compared to an average of 8.2 months for first half 2012. Tonga’s import cover is significantly higher than the common benchmark of 3 months, which is a positive sign of Tonga’s ability to withstand external shocks.

**Figure 6: Total Domestic Liquidity vs. Private Sector Credit (annual growth rate)**



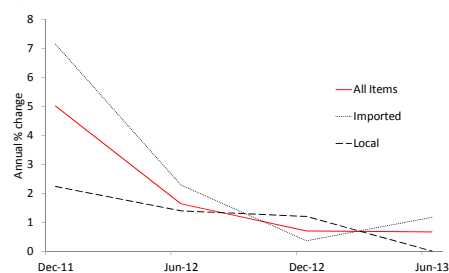
Source: National Reserve Bank of Tonga

Total liquidity increased at the end of the second half of 2012/13 (Jan-June) by an annual growth rate of 7% compared to a negative growth of 1% in the same corresponding period last year, while private sector credit dropped by 7%, an improvement, from a negative growth of 13%. This was partly associated with a decline by .07 percentage points in the average lending interest rates from 9.98% in the Jan – June 2012 period, in addition to a 34% increase in demand deposits that mainly attributed for the increase in the level of total domestic liquidity.

<sup>9</sup> Imports on Trade Basis data during Jan – June 2013 are provisional numbers only (yet to include Vava’u imports figures, which represents around an average 1 – 2% of total imports per quarter)

<sup>10</sup> CT on imports is 15%

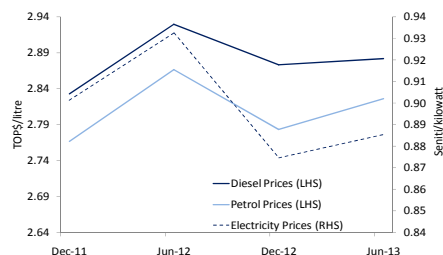
**Figure 7: Annual Inflation rate (6 months average)**



Source: Tonga Statistics Department

For the six months ending June 2013, average annual inflation rate was only 0.7%, lower than the average of 1.6% for the same period in 2012. The lower headline inflation for the Jan – June 2013 period compared to last year’s was driven largely by the overall decline in domestic inflation - particularly through lower electricity prices, and imported inflation through declines in imported food and fuel prices.

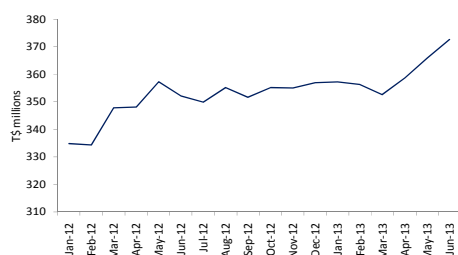
**Figure 8: Electricity vs. Retail Fuel Prices (6 months average)**



Source: Tonga Power Limited, Ministry of Commerce, Tourism & Labour (Competent Authority)

Electricity prices, on a six months average, dropped in the second half of 2012/13, to 89 seniti per kilowatt from 93 seniti per kilowatt (a fall of 5%) in the corresponding period last year. This was in line with a drop in diesel down by 2% to around T\$2.88/liter during the same period – related to an 8% decline in world oil prices<sup>11</sup> (down from US\$103/bbl to US\$95/bbl).

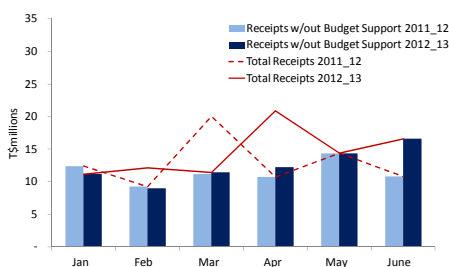
**Figure 9: Total Public Debt (end-of-period)**



Sources: Ministry of Finance & National Planning, National Reserve Bank of Tonga

The level of total public debt reached \$372.6 million at the end of June 2013, a 6% increase from a year ago. External debt was estimated at \$343.1 million and domestic debt remained constant at \$29.5 million. On average, total public debt was around \$360.5 million per month in Jan – June 2013 compared to \$345.7 million in the corresponding period last year. This was mainly due to the depreciation of the Pa’anga against most of its borrowing currencies<sup>12</sup>.

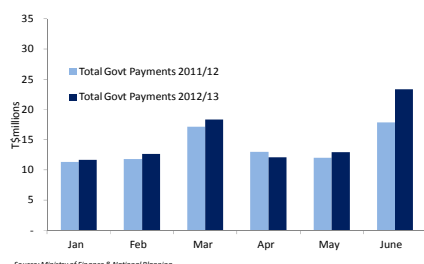
**Figure 10: Total Government Receipts**



Source: Ministry of Finance & National Planning

Total government receipts received in the Jan – June 2013 period was at \$86.6 million, almost the same compared to corresponding period last year. Excluding budget support however, total government receipts increased by 9% (or up by \$6 million) in the Jan – June 2013 period to \$74.7 million. This was mainly due to increases in receipts from income tax, trade taxes and capital & other transfers.

**Figure 11: Total Government Payments**



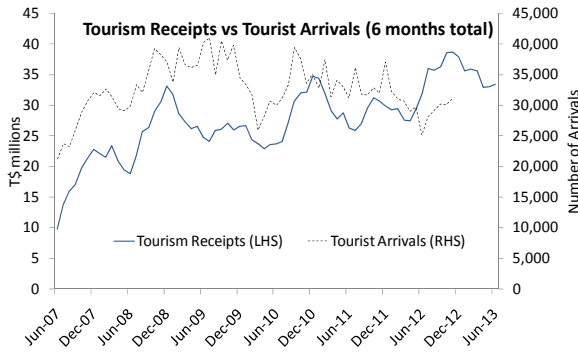
Source: Ministry of Finance & National Planning

Government payments made in Jan – June 2013 totaled \$91 million, 9% higher than the amount last year. This was mainly attributed to increases in expenditure on debt repayments and salaries.

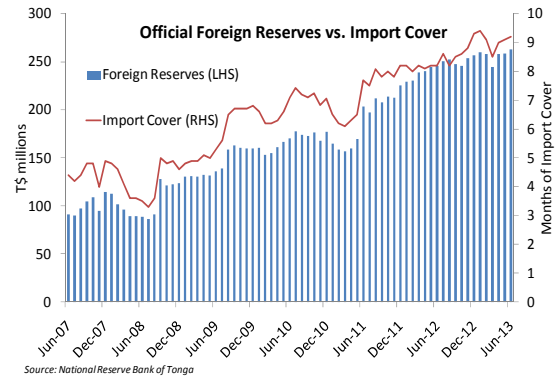
<sup>11</sup> Brent Crude Oil Spot Price

<sup>12</sup> Further detailed information and analysis regarding Tonga’s public debt is available in the Annual 2012/13 Debt Report at <http://finance.gov.to/publications/annual-public-debt-bulletin-june-2013>

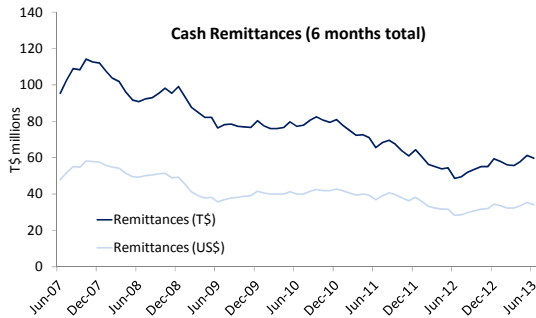
## Historical Graphs



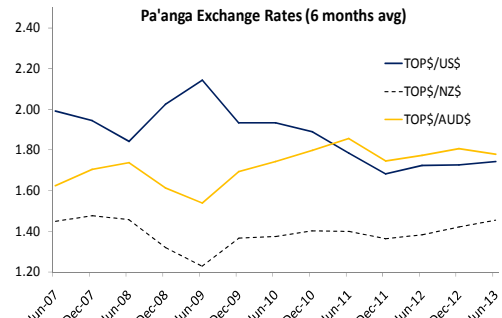
Source: National Reserve Bank of Tonga, Tonga Statistics Department



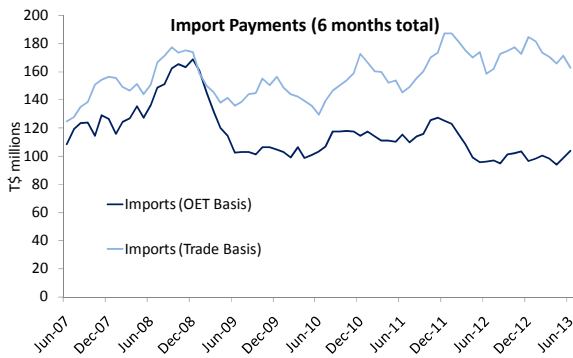
Source: National Reserve Bank of Tonga



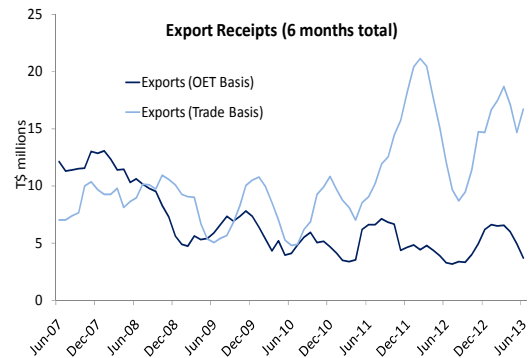
Source: National Reserve Bank of Tonga



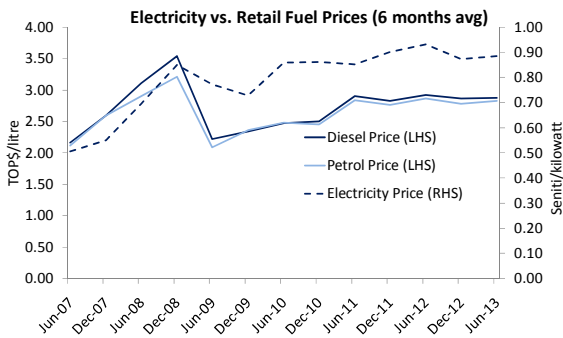
Source: National Reserve Bank of Tonga



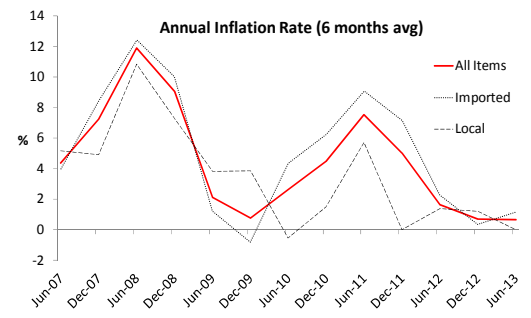
Source: National Reserve Bank of Tonga, Tonga Statistics Department, Tonga Customs Services



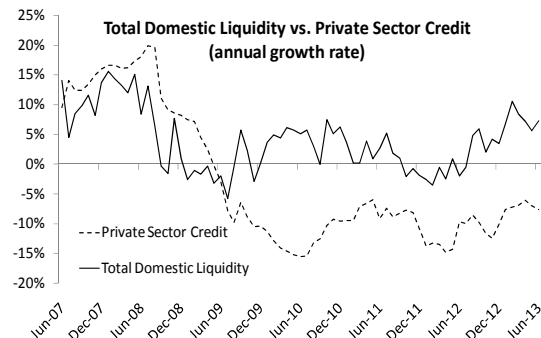
Source: National Reserve Bank of Tonga, Tonga Statistics Department, Tonga Customs Services



Source: Tonga Power Limited, Ministry of Commerce, Tourism & Labour (Competent Authority)



Source: Tonga Statistics Department



Source: National Reserve Bank of Tonga