

# Monthly Economic Update February 2017

Ministry of Finance and  
National Planning



Notes: Figures on the fiscal accounts are subject to change depending on the outcome of the Sun system and recent update

	(T\$m unless otherwise indicated)			% change from	
	Feb 2016	Jan 2017	Feb 2017	Feb 2016 to Feb 2017	Jan 2017 to Feb 2017
<b>FISCAL INDICATORS (Government Financial Statistics (GFS) Basis)</b>					
<b>Total Revenue &amp; Grants</b>	<b>17.4</b>	<b>19.3</b>	<b>14.1</b>	<b>-19.0%</b>	<b>-27.1%</b>
Total Revenue	13.3	19.3	13.5	1.2%	-30.2%
Grant (cash grants)	4.1	0.0	0.6	-84.5%	1925.8%
Budget Support	-	-	-	-	-
Project Support	4.1	0.9	0.0	-99.8%	-98.9%
Expenses	11.2	15.0	17.1	52.5%	14.4%
<b>Gross Operating Balance</b>	<b>6.2</b>	<b>4.4</b>	<b>-3.0</b>	<b>-1.5</b>	<b>-1.7</b>
<b>Net Acquisition of Non-financial Assets</b>	<b>0.1</b>	<b>1.0</b>	<b>0.3</b>	<b>134%</b>	<b>-66%</b>
Net Borrowing/Lending Requirement	6.0	3.4	-3.3	-280%	-199%
<b>Total Public Debt</b>	<b>441.4</b>	<b>N/A</b>	<b>468.6</b>	<b>-</b>	<b>-</b>
<b>ECONOMIC ACTIVITY INDICATORS (OET basis)</b>					
Exports	1.70	2.10	1.60	-5.9%	-23.8%
Imports	21.2	26.7	21.2	0.0%	-20.6%
Travel Receipts	4.9	13.2	5.9	20.4%	-30.6%
Adjusted Cash Remittances (Ann Total)	239.4	273.7	273.8	14.3%	0.0%
<b>MONETARY &amp; PRICE INDICATORS</b>					
Official Foreign Reserves	328.5	380.8	377.7	15.0%	-0.8%
Import Cover (months)	7.1	7.2	7.1		
Inflation (annual % change)	-0.3	5.4	8.8		
Retail Fuel Prices:					
Petrol (T\$/litre)	2.09	2.53	2.57	23.0%	1.6%
Diesel (T\$/litre)	1.86	2.46	2.50	34.4%	1.6%

Release date: May 2017

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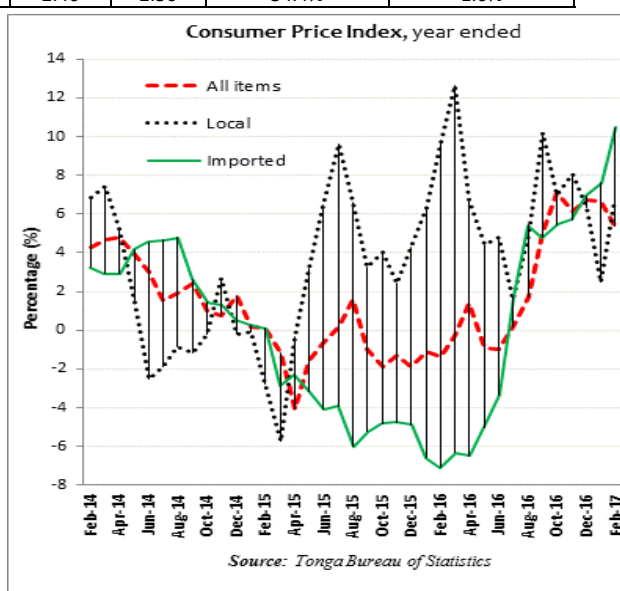
## Indicators Digest

### Inflation

Annual rate of inflation for February 2017 was 8.9% compared to 0.3% deflation in February 2016. This rate is the highest over the past six years and it has far exceeded the NRBT's inflation reference rate of 5%.

This recent record of high inflation is attributed to a combination of rising commodity prices globally, the continuous depreciation of the Tongan pa'anga against AUD and NZD that lead to increase in the prices of imported meat and other items such as fuel. This persistent upward trend in inflation continues to call for policy consideration.

The annual change in the Consumer Price Index (CPI) for February 2017 was mainly driven by increases in both imported and local items by 10.5% and 6.8% respectively. The increases in both of the CPI components were supported by higher prices of Tobacco, alcohol & Kava, fuel, food items and other items for household opera-



- ◆ Inflation: 8.9% for February 2017.
- ◆ Retail prices for diesel and petrol increased by 4 senti
- ◆ Foreign reserves recorded TOP\$377.7m with is 7.1 months of import cover .
- ◆ Tongan pa'anga depreciates relative to AUD and NZD.

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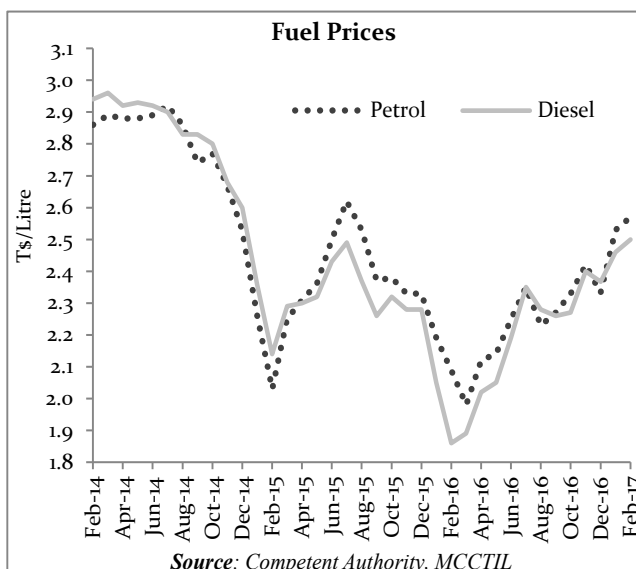
On monthly basis, CPI for the reviewed month increased by 3.7% percent as a result of the 6.3% increase in local index and 11.8% increase in import price index compared to January 2017. Both changes were supported by increases in the prices of imported items such as onions, meat and packaged food and local items such as petrol, gas, electricity, Kava root, vegetables including tomatoes, taro leaves, and carrots.

### Fuel Prices

Domestic fuel prices continue to increase in February 2017. On annual basis, prices of fuel and diesel increased significantly by 23% and 34% respectively as compared to the corresponding period over a year ago. Similarly on monthly basis, both fuel and diesel prices increased by 2% compared to January 2017.

The increase in domestic fuel prices continue to reflect the increase in oil prices in the global market, as global price of crude oil was at around USD 54.62/barrel or about 2 percent higher than what it was in December 2016. Effects of price changes in the global oil market are reflected in domestic fuel prices after a lag of about a month or two.

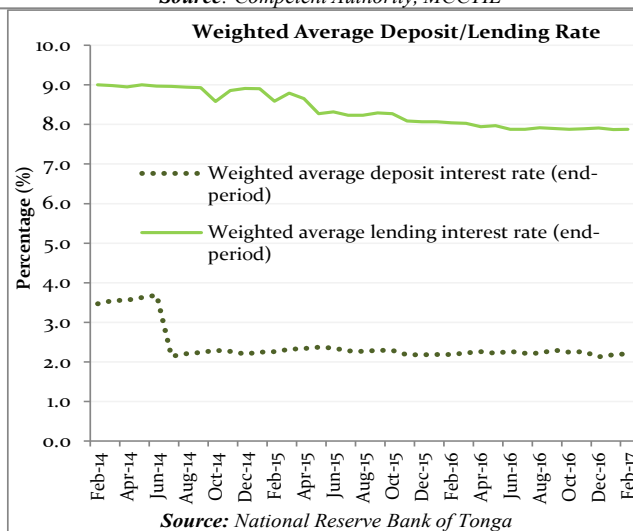
The weakened value of Tongan Pa'anga in January 2017 also contributed to the rise in fuel prices.



### Deposit and Lending Rates

Annual lending rates in February 2017 decreased by 1% compared to the same period in 2016. However it continues to remain stable when compared to previous months. The low lending rate encourages more borrowing which is consistent with the continuous increase demand for housing loans.

Moreover, deposit rate increased by 1% compared to previous month and corresponding period a year ago.

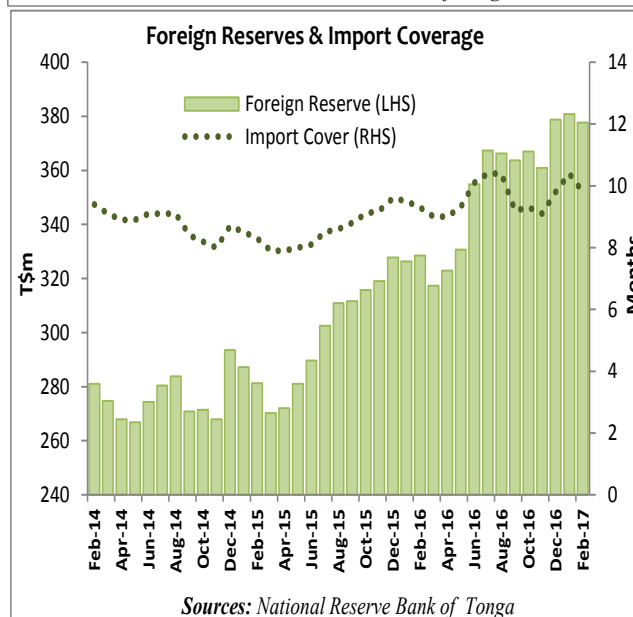


### Foreign Reserves

Foreign Reserves decreased over the month of February 2017 to \$377.7 million from \$380.8 million in January. Although about 1% decline from the previous month, the level of foreign reserves in February 2017 was 15% higher than the February 2016 level.

The level of foreign reserves for February 2017 is equivalent to 7.1 months of import cover which remains more than double the NRBT's minimum range of 3-4 months.

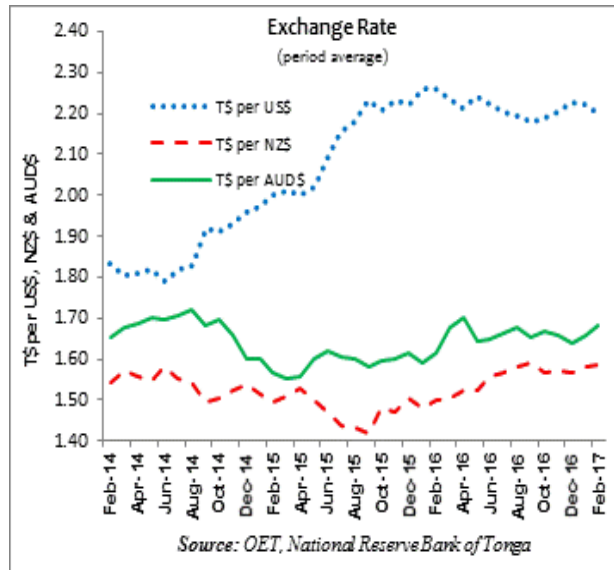
The 7.1 months of import coverage supports positive outlook for economic growth in outer years and also highlights the fact that Tonga continues to remain in a comfortable external position that far surpasses the minimum range of 3-4 months set by the NRBT.



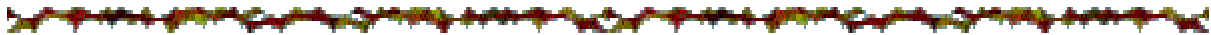
### Exchange Rate

For the reviewed month, Nominal Trade Weighted Index remained stable and Real Trade Weighted increased by 3% compared to previous month. However, year-on-year, the Nominal Real Trade weighted Index decreased by 1% and Real Trade Weighted Index increased by 11%.

At the end of February 2017, both AUD and NZ dollars, on average, remained strengthened against the Tongan pa'anga. Appreciation of these two foreign currencies imply higher cost of imported food items as Australia and New Zealand are the main foreign countries that Tonga imports frozen meat from. On the other hand, the US dollar weakened slightly against Tongan Pa'anga.



It is important to note though that the depreciation of Tongan pa'anga against the AUD and NZD remains beneficial to recipients of foreign currencies. Individuals receiving remittances and exporters of agricultural products such as cassava and sweet yam receive higher amount of domestic currencies when the Pa'anga depreciates.



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