

At a Glance

January 2010

Inside AAG
January:

Economic Indicators

Gross Domestic Product	2008/09	2009/10 forecast
GDP (at constant market price)	-0.2	-1.2

Headline Indicators	January 10 Values	% change from	% of GDP (09/10)
	(\$m Pa'anga unless otherwise indicated)	December 09	
Economic Activity			
Exports (<i>OET basis</i>)	\$0.2	↓ 71.4%	1.2%
Imports (<i>OET basis</i>)	\$18.7	↑ 13.3%	19.4%
Tourist Receipts	\$4.5	↑ 73.1%	3.3%
Air arrivals (<i>number</i>)	3,286	↓ 53.1%	
- year to date		51,419	
Outstanding housing loans	\$96.8	↓ 0.3%	
Outstanding Business Loans	\$142.1	↓ 1.0%	
Remittances	\$10.7	↓ 33.3%	13.8%
Monetary Indicators			
Annual Inflation	1.5%	↑ 36.3%	
Retail Fuel Prices	Petrol: \$2.10/ltr	↓ 11.4%	
	Diesel: \$2.47/ltr	↑ 2.49%	
Foreign Reserves	\$160.8	↑ 0.2%	25.1%
Import cover	6.8 months	=	=
Money Supply	\$287.1	↓ 0.2%	44.8%
Domestic Credit	\$293.3	↑ 0.7%	45.8%
Total liquidity	\$291.5	↓ 0.3%	45.5%
Balance of Payments	\$0.4	↓ 20%	3.82%
Current Account Balance	-\$9.3	↓ \$5.6m	2.89%
Fiscal indicators (YTD)			
(Budget 2009/10 \$220.1m)			
Revenue	\$95.60	43.4% of Budget	14.9%
Government Revenue	\$83.27	37.8% of Budget	12.9%
(Budget 2009/10 \$202.7m)			
Expenses	\$110.12	54.3% of Budget	17.2%
Government Expenses	\$97.35	48.0% of Budget	15.2%
Donor Activity			
Aid revenue received	\$0.2	(YTD) \$12.33	2.0%
Aid expenditure	\$1.0	(YTD) \$12.77	2.1%

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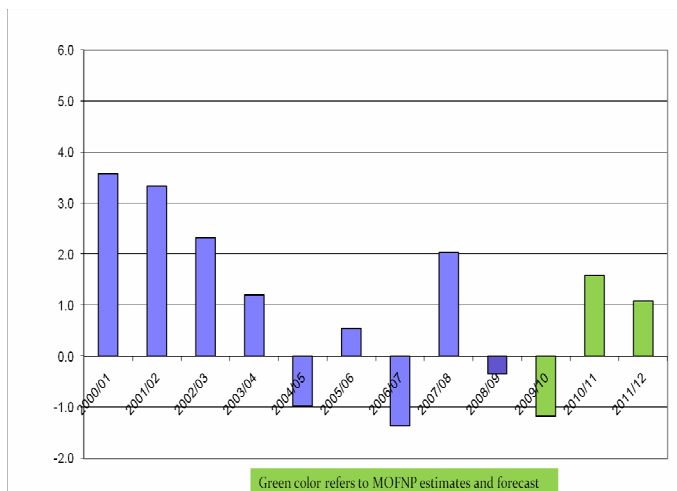
Summary

- ◆ Tongan economy is projected to contract by 1.2% this FY 2009/10. A decline from -0.4% from 2008/09.
- ◆ January remittances recorded the lowest ever in past decade of \$10 million pa'anga.
- ◆ Overall Balance of Payment recorded a surplus of \$0.4 million pa'anga for January 10.
- ◆ The government's overall position for the first seven months of the financial year [09/10] is a deficit of \$14.52 million pa'anga.

Gross Domestic Product ...

- ◆ The Tongan economy is projected to contract by 1.2% FY09/10. This is followed by a contraction of 0.2% in 2008/09.
- ◆ Primary sector reported relatively weak performance from agriculture sector while bech-de-mer boost up fisheries sector hence slow growth from -1.3% in 2008/09 to -1.0% in 2009/10.
- ◆ Secondary Sector was the main contributor to this contraction, dropping from 3.0%(2008/09) to -6.4%(2009/10).
- ◆ Tertiary sector recorded growth from -0.7% (2008/09) to 0.5%(2009/10).

Figure 1: Real GDP Growth (2000/01 prices)



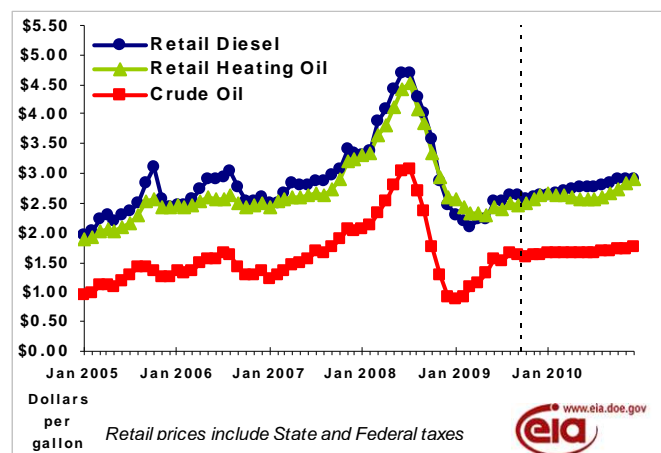
Source: Statistics Department, 2009

Oil Price....

Fuel Prices have started to rise after decline since October 09.

According to Energy Information Administration [EIA] (U.S), world crude oil prices continue to fluctuate. The West Texas Intermediate (WTI) spot price increased from \$69.48 per barrel in December to \$83.12 beginning of January and then fell back again to \$72.85 late January. EIA expects the crude oil market to strengthen again this spring with WTI rising to an average of about \$81 per barrel over the second half of this year and \$84 per barrel in 2011. The crude oil price forecast is unchanged from last month's *outlook*.

Figure 2: Short-Term Energy Outlook (US Fuel & Crude Oil)



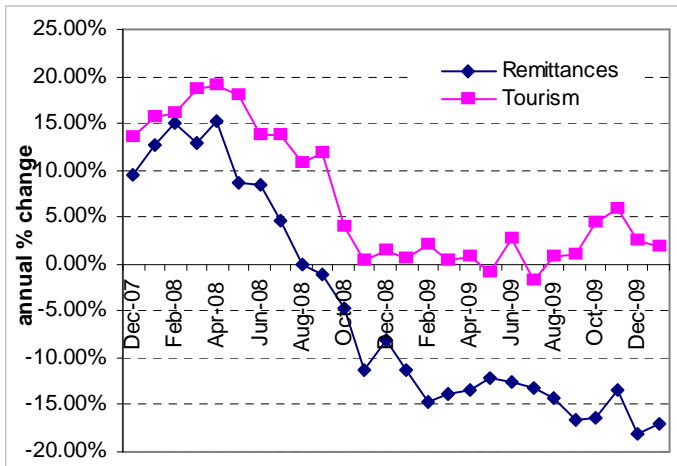
Tourism & Remittances....

Total Remittances recorded for January decline by 33% and 17% compared to the previous month and same period of the previous year. Remittances for January were the lowest ever recorded for the past decade of \$10 million pa'anga.

Tourist Receipts for the month of January increased by 73%.

A slow recovery in remittances and tourist receipts is expected as remitting countries starts to recover from the financial crisis.

Figure 3: Annual Growth for Tourism & Remittances



Source: National Reserve Bank of Tonga/ Ministry of Tourism, 2009

Monetary Sector Development...

Money Supply & Total Liquidity

- ◆ The level of **Money Supply** and **Total Liquidity** to the end of January 10 was \$287.10 million pa'anga and \$291.5 million pa'anga respectively.
- ◆ Both decline compared to the previous month and same period of previous year. This slight decline in money supply were mainly attributable to the decline in demand deposits as well as currency o/side banks.

Monetary financial Institutions Deposits

- ◆ Deposits held within commercial banks declined by \$1.8 million pa'anga.

- ◆ Main attributable to this decline is government demand deposit in which decline by \$4.4 million pa'anga.

Non-monetary and monetary financial Institutions Lending

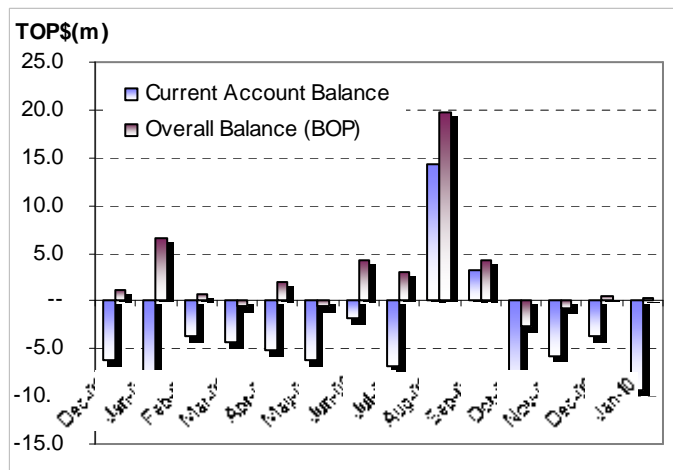
- ◆ Since the beginning of last year (2009), the lending portfolio of financial institutions have been declining.
- ◆ Tightening of bank's lending criteria is the main factor attributable to this downward trend.

External Sector Development...

Balance of Payment

The overall balance of payment for January 2010 was a surplus of \$0.4 million pa'anga. This is a decline by \$0.1 million pa'anga from previous month. Current account balance shows significant decline in merchandise trade and transfer balances while services and income balances show a slight increase. Although there's a significant decline in current account but capital and financial services balances outweigh this deficit balance recorded by \$11 million pa'anga which results in surplus BOP of \$0.4 million pa'anga for the month of January. Current Account have remained at a deficit balance since September 09.

Figure 4: OET BOP and Current Account Balance



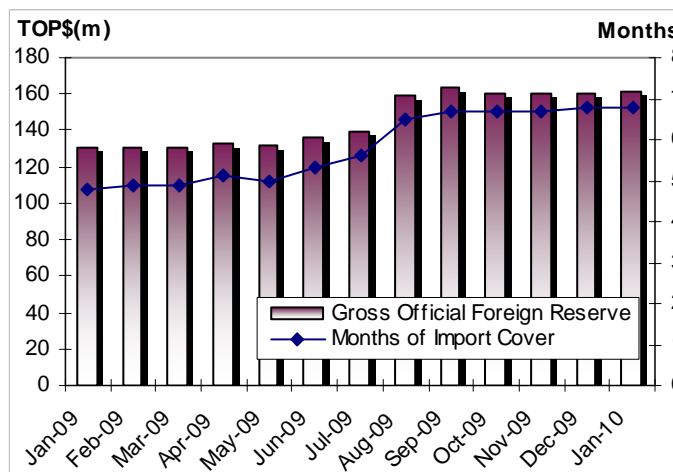
Source: National Reserve Bank of Tonga/ Ministry of Tourism, 2009

Gross Foreign Reserve

Official foreign reserve for the month have slightly increased by 0.20% and 23% compared to same period of previous year. Gross Official Foreign reserve of \$160.8 million pa'anga is equivalent to 6.8 months of imports.

This significant rise from previous year still reflects the general allocation of SDR from IMF to its member countries to address the fallout in financial crisis and to accelerate recovery and also taking into account the fact that imports have been depressed.

Figure 5: Gross Official Foreign Reserve



Source: National Reserve Bank of Tonga, 2009

Government Fiscal Performance

(GFS basis)

1. Overall result for seven months for this financial year (2009/10) January

- ◆ The Government's overall position for the first seven months of this financial year was a \$14.52 million pa'anga deficit. This is represented by \$14.08 million pa'anga deficit from Government fund and \$0.44 million pa'anga deficit from Grants.
- ◆ The position for December only was a \$3.38 million pa'anga deficit represented by a deficit from Grants of \$0.93 million pa'anga and a \$2.46 million pa'anga deficit from Government Fund.

2. Revenue

- ◆ Aggregate Revenue and Grants for July-December 09 was \$95.60 million pa'anga; of which \$83.27 million pa'anga from government revenue [12.9% of GDP] and \$12.33 million pa'anga from grant [1.9% of GDP].
- ◆ Represented by: 67.8% tax revenue which is (10% of GDP), 19.30% non tax revenue which is (2.9% of GDP) and 12.89% from grants which is (1.9% of GDP).

3. Expenditure and Net Lending

- ◆ Total Expenditure and Net Lending for July 09-January 10 was \$ 110.12 million pa'anga which is 54.3% of the total budgeted estimates (17.2% of GDP).

Debt Management

- ◆ Total public debt as at 31st January 2010 is \$234.88m or 36.7% of GDP. Of this external debt is \$205.43m (32.1% of GDP) and domestic debt is \$29.45m (4.6% of GDP).
- ◆ Total public debt increased by \$8.76 million pa'anga between December 09 and January 2010.
- ◆ Total Debt Servicing is \$21.13m or 3.3% of GDP, 16.13% of recurrent revenue and 13.58% of recurrent expenditure.
- ◆ Total guaranteed debt as at 31 January 2010 is estimated at \$0.44m.