

At a Glance-May 2012

HIGHLIGHTS

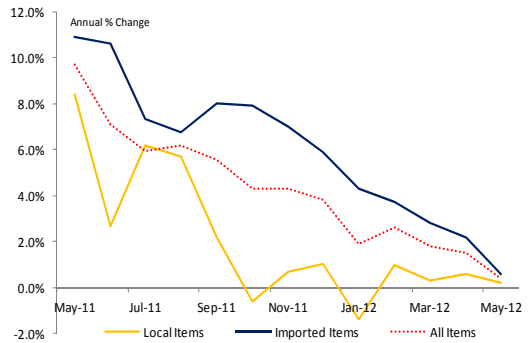
- The annual inflation rate continued to decline in May 2012 down to 0.4% compared to 1.5% in the previous month, mainly due to fall in commodity prices and exchange rate appreciation. The annual inflation trend for the same month last year, May 2011 was 9.7%, the highest since 10.3% in September 2008.
- Fuel prices were increased in May 2012 from the previous month, but still remained lower in comparison to May 2011 which was in line with a decline in world oil prices (Brent Crude Oil) during the same period.
- Due to over-harvesting and illegal fishing, a moratorium was imposed in May 2012 on harvesting of sea-cucumbers for three years to allow the stock to recoup; this was associated with a drop of 80% in export receipts in May 2012 compared to the same month last year.
- Total cash remittances continued to increase in May 2012 to \$9.8 million from the previous month, up by \$1.6 million; but compared to the level in May last year, it was 18% lower, mainly reflected in decline in remittances for household recipients.
- The level of credit to the private sector continued to decline in May 2012 year-on-year which mainly reflected the slow economic recovery and the write off of bad loans.
- The level of foreign reserves increased in May 2012 to \$245 million, from \$240.3 million in the previous month and \$170.2 million in the same month last year mainly due to the receipt of official foreign aid and remittances which offset payment for oil during the month.

	(T\$m unless otherwise indicated)			% change from		YEAR TO DATE (YTD) July 2011-May 2012		
	May 2011	April 2012	May 2012	April 2012	May 2011	Values (T\$m)	% of Budget (2011/12)	% of GDP ¹ (2011/12)
FISCAL INDICATORS (GFS Basis)						(92% of year)		
Total Revenue & Grants	18.83	12.61	14.68	+16.4%	-22.0%	203.91	98.6%	26.1%
Total Revenue	11.19	10.70	14.27	+33.4%	+27.5%	133.05	96.6%	17.0%
Grant (cash grants)	7.64	1.91	0.41	-78.5%	-94.6%	70.85	105.0%	9.1%
Total Expenditure & Net Lending	14.36	15.06	16.22	+7.7%	+13.0%	172.66	86.3%	22.1%
Expenditure (cash grants)	14.26	15.04	16.22	+7.8%	+13.7%	171.81	86.7%	22.0%
Total Net Lending	0.10	0.02	0.00			0.85	44.5%	0.1%
Total Public Debt	304.4	348.1	357.2	+2.6%	+17.3%			45.7%
ECONOMIC ACTIVITY INDICATORS						YTD Values (July 2011-May 2012)	% change from prev. YTD (July 2010-May 2011)	YTD (July 2011-May 12) as a % of GDP
Exports (OET Basis)	3.40	0.5	0.70	+40.0%	-79.4%	7.4	-28.8%	0.95%
Imports (OET Basis)	16.9	15.2	15.3	+0.7%	-9.5%	201.5	-3.8%	25.78%
Cash Remittances	12.0	8.2	9.8	+19.5%	-18.3%	103.6	-23.4%	13.26%
Tourism Receipts	4.9	5.4	6.3	+16.7%	+28.6%	57.0	+1.4%	7.29%
MONETARY INDICATORS						Note: Overall Balance is not shown because it does not include total expenditure i.e. In-kind expenditure and transactions funded by the Chinese loan which this data is not available on a monthly basis.		
Official Foreign Reserves	170.2	239.2	245.0	+2.4%	+43.9%			
Import Cover (months)	6.3	9.1	9.2	+1.1%	+46.0%			
Private Sector Credit	280.1	240.2	240.3	+0.04%	-14.2%			
Inflation	9.7%	1.5%	0.4%	-1.1% point change	-9.3% point change			
Retail Fuel Prices (monthly average)								
Petrol (T\$/litre)	3.01	2.90	2.94	+1.4%	-2.3%			
Diesel (T\$/litre)	3.13	2.96	2.97	+0.3%	-5.1%			

¹ Nominal GDP 2011/2012: T\$781.5 million

The annual inflation rate continued to fall in May 2012 down to 0.4%, the lowest since 0.4% in November 2009. The Local Index recorded an annual inflation rate of 0.2% which was below the 0.6% increase in April 2012, while the Imported inflation was 0.5%, also lower than the 2.2% increase in April 2012. This was mainly due to fall in prices of food and imported fuel. The annual inflation rate for the same month last year, May 2011 was 9.7%, the highest since 10.3% in September 2008.

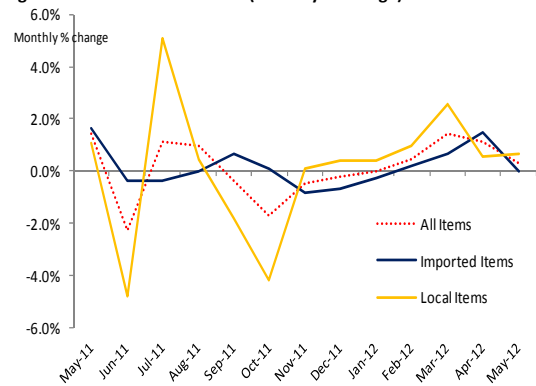
Figure 1: Consumer Price Index (annual % change)



Source: Tonga Statistics Department

Despite the declining trend in consumer prices year-on-year since late 2011 up to May 2012, on a monthly changing basis, prices remained fairly stable. In May 2012, there was a decline in prices of imported beer and imported meat like mutton flaps and chicken pieces over the month; however it was offset by an increase in fuel prices which resulted in zero change in the overall price of imported items. Meanwhile, prices for local items slightly increased in May 2012, largely due to rise in prices of local fruits and vegetables which still remained high as it in the previous month.

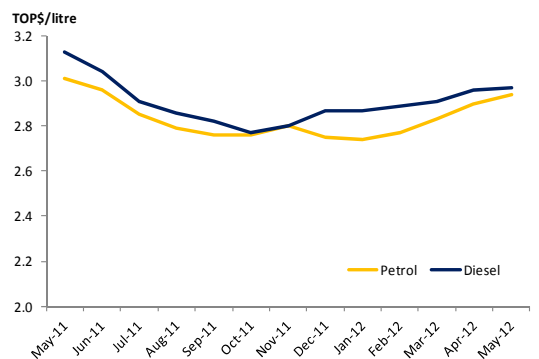
Figure 2: Consumer Price Index (monthly % change)



Source: Tonga Statistics Department

Monthly average of retail fuel prices was increased in May 2012 compared to the previous month, in which unleaded petrol was increased to \$2.94/litre up by \$0.04 seniti/litre and diesel up by \$0.01 seniti/litre to \$2.97/litre. However both prices were lower in May 2012 compared to prices in the same month last year, which was in line with a decline in world oil prices (Brent Crude Oil) down from an average US\$115/barrel to US\$110/barrel during the same period.

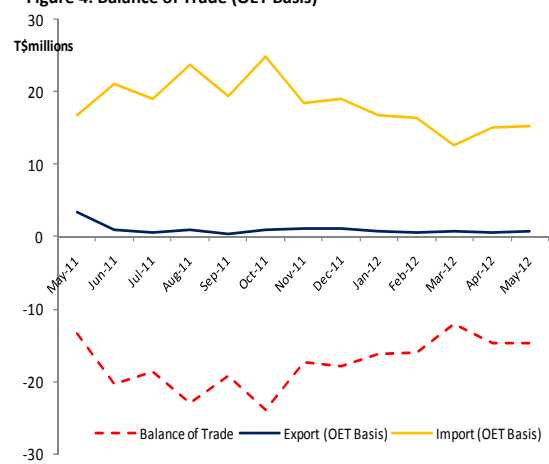
Figure 3: Retail Fuel Prices (monthly average)



Source: Tonga Statistics Department

Export receipts increased slightly in May 2012 to \$0.7 million from the previous month, up by \$0.2 million; however year-on-year, export receipts was 80% lower and this was mainly because of the sharp fall in earnings from sandalwood and sea-cucumber exports since April 2011 to May 2011.

Figure 4: Balance of Trade (OET Basis)



Source: Tonga Statistics Department

Government decided in May 2012 to close the fishing of sea-cucumbers for three years to allow the stock to recover from overharvesting and illegal fishing.

Meanwhile, imports reached \$15.3 million in May 2012 which was around the same amount in the previous month but slightly lower when compared year-on-year. This resulted in a \$14.7 million trade deficit in May 2012, the same amount in the previous month, but a larger deficit, by \$1.2 million, in comparison to May last year.

Total cash remittances continued to increase in May 2012 to \$9.8 million from the previous month, up by \$1.6 million; but compared to the level in May last year, it was 18% lower, mainly reflected in a fall in remittances for household recipients. Majority of cash remittances comes from the United States (see Figure 6) which comprised around 42% in May 2012, falling from 60% in May last year; however remittances from New Zealand and Australia showed improvement during the same period (both in value terms and % share of total remittances) which was mainly due to a slight recovery in the two economies. But despite declining unemployment rates in the U.S, the downside risks remain given fiscal uncertainty, weakness in the housing market and potential impact from the euro area crisis.

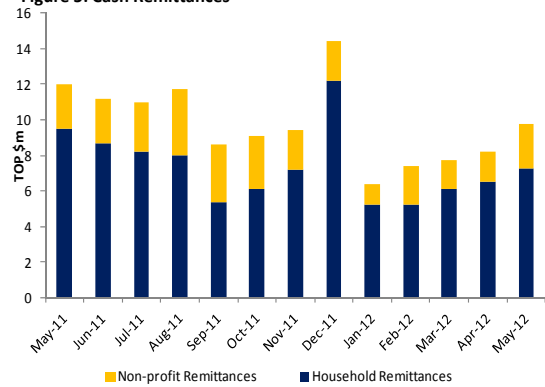
Meanwhile, Digicel expanded its Mobile Money service in May 2012 to include the United Kingdom, which means Pacific Islanders living in the U.K can now access a quick and low cost system to send money home to families in Fiji, Samoa and Tonga. However, considering the relatively few Tongans that lives in the U.K compared to countries like NZ and the U.S, the impact of this new service on remittances may be relatively minimal. Remittances from the U.K during May 2011 to May 2012 comprise on average only 1% of total cash remittances.

The level of credit to the private sector in May 2012 amounted to \$240.3 million compared to \$240.2 million in the previous month and \$280.1 million in May last year. The decline in private sector credit mainly reflected the slow economic recovery and the write off of bad loans. In addition, the competition from the Government Retirement Fund loan scheme and lending by micro finance operators may have an impact but very minimal. The banks' tight credit criteria continued to affect private sector credit growth. However, the Tonga Development Bank (TDB) reduced its interest rates by 1% on customer loans, and has offered a 50% repayment reduction on all monthly loan repayments for three months; effective 1st May 2012. The 1% reduction in interest rate is part of a long term strategy to help reduce the financial costs incurred by TDB's clients.

The level of foreign reserves increased in May 2012 to \$245 million, from \$240.3 million in the previous month and \$170.2 million in the same month last year. Months of import coverage also increased in May 2012 to 9.2 months from 9 months in April 2012 and 6.5 months in May 2011. The increase in foreign reserves was mainly due to the receipt of official foreign aid and remittances which offset payment for oil during the month.

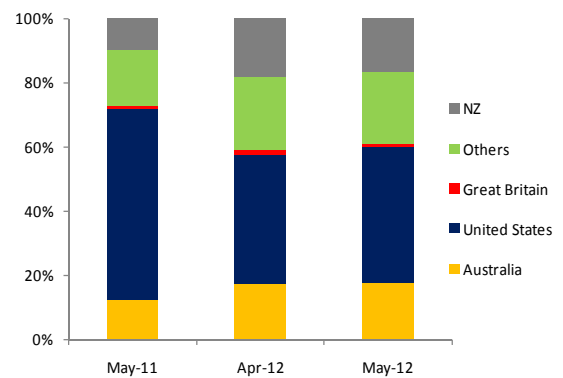
Tongan Pa'anga Exchange Rates			
	May-12	April-12	May-11
AUD\$	0.5738	0.5664	0.5289
NZD\$	0.7393	0.7271	0.7085
USD\$	0.5612	0.5848	0.5690

Figure 5: Cash Remittances



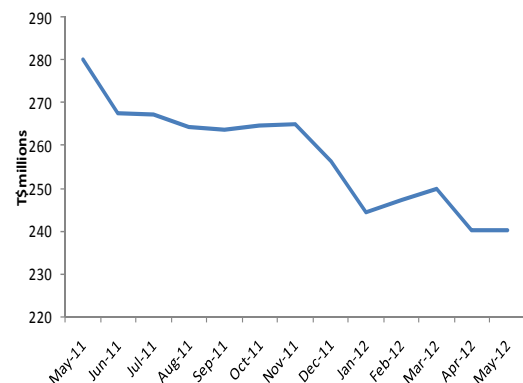
Source: National Reserve Bank of Tonga

Figure 6: Cash remittances by remitting country



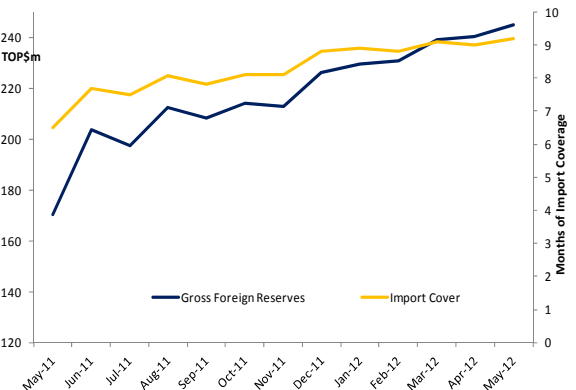
Source: National Reserve Bank of Tonga

Figure 7: Private Sector Credit



Source: National Reserve Bank of Tonga

Figure 8: Gross Foreign Reserves vs. Import Coverage



Source: National Reserve Bank of Tonga