

Monthly Economic Update

October 2016

Ministry of Finance and
National Planning



Key Indicators

Indicators	(T\$m unless otherwise indicated)			% change from	
	Oct 2015	Sept 2016	Oct 2016	October 2015 to October 2016	Sept 2016 to October 2016
ECONOMIC ACTIVITY INDICATORS (OET basis)					
Exports	0.80	2.10	2.10	162.5%	0.0%
Imports	34.2	30.4	32.6	-4.7%	7.2%
Travel Receipts	9.5	5.0	9.8	3.2%	96.0%
Adjusted Cash Remittances (Annual Total)	223.7	262.1	263.3	17.7%	0.5%
MONETARY & PRICE INDICATORS					
Official Foreign Reserves	315.8	363.7	367	16.2%	0.9%
Import Cover (months)	9.1	9.2	9.3		
Inflation (annual % change)	-1.3	7.1	6.1		
Retail Fuel Prices:					
Petrol (T\$/litre)	2.38	2.27	2.33	-2.1%	2.6%
Diesel (T\$/litre)	2.32	2.26	2.27	-2.2%	0.4%

Release date: January 2017

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Note: Fiscal data were not available at the time this report was prepared.

Inflation

Annual rate of inflation recorded for October 2016 was 6.1%. This rate, for the third consecutive month, remained higher than the inflation target of 2-5% set by the NRBT.

The continuous record of high inflation of the last three months is attributed to a combination of rising commodity prices globally, coming into effect of the new excise tax on meat and poultry in Tonga, and depreciation of the Tongan pa'anga against AUD and USD that lead to increase in the prices of imported meat and other items. This persistent upward trend in inflation calls for further in-depth study to inform policy decision.

Annual change in the Consumer Price Index (CPI) for the reviewed month is therefore mainly driven by increase in price indices for both local and imported items. While domestic price change is led by increase in the price of Kava by more than 150%; on the other hand, changes in the



imported component was driven by Meat, Fish and Vegetable product's price that rose by about 12%.

However, relative to the previous month, a decrease in CPI by 0.5 percent was recorded in October. This was largely as a result of the decline in local price index by 1.8%, compared to previous month as prices of fruits and vegetables (tomatoes, pineapple and pawpaw) decreased throughout the month.

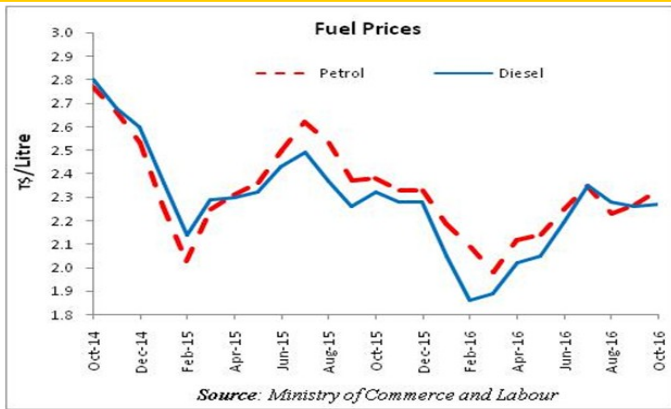
Indicators Digest

- ◆ Inflation: 6.1% for October 2016.
- ◆ Retail prices for diesel and petrol in October 2016 increased by 1 and 6 senti respectively.
- ◆ Foreign reserves remain high at TOP\$367m, equivalent to 9.3 months of import cover.
- ◆ Tongan pa'anga depreciates relative to USD and AUD.

Fuel Prices

Domestic prices for petrol and diesel increased in October 2016 by 3% and 0.4% respectively compared to September 2016. As against the corresponding period a year ago, both prices declined by 2%.

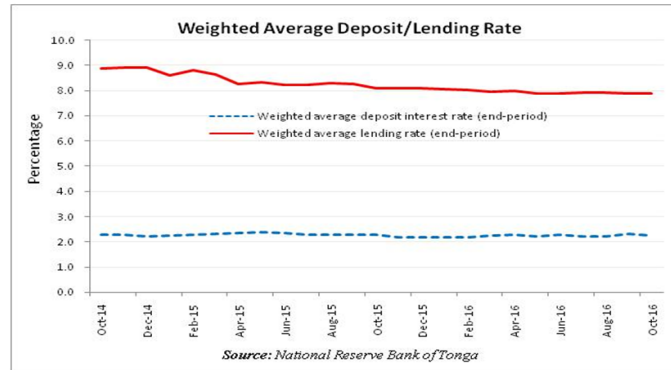
The increase in domestic fuel prices reflected the increase in price of oil in the global market. Global price of crude oil was USD 46.67/barrel in September 2016; 2 percent higher than it was in August.



Deposit and Lending Rates

Annual lending rate remained stable at 7.89 percent in October, though 2 percent point lower compared to same period last year. This is expected to encourage more borrowing, increase domestic demand for goods and services—rising domestic consumption expenditure that is growth enhancing.

Compared to what obtained in September and same period last year, deposit rate decreased by 2% respectively.

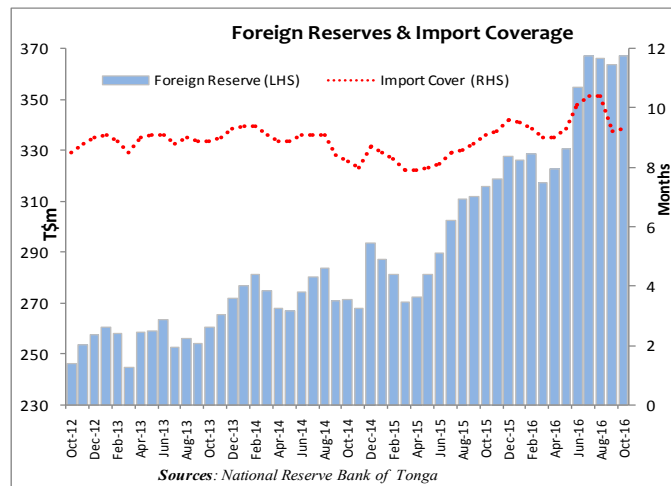


Foreign Reserves

Foreign Reserves for October 2016 remain high at a record level of TOP\$ 367 million. This represents an increase of 1 percent or TOP\$ 3.3 million compared to September 2016.

The level of foreign reserves for the reviewed month is equivalent to 9.3 months of import cover; more than double the NRBT's minimum range of 3-4 months.

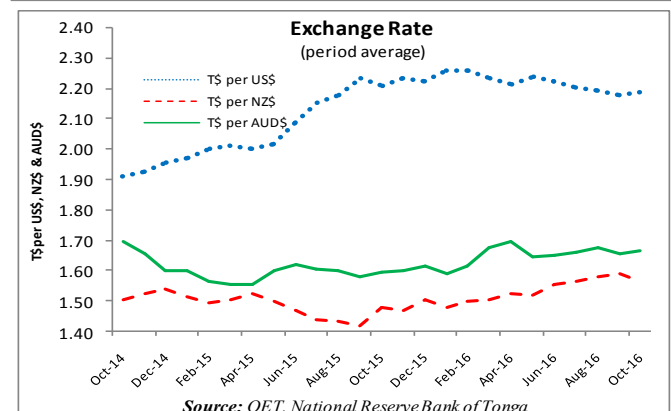
High level of foreign reserves continue to support positive outlook for economic growth in years to come.



Exchange Rate

Nominal Real Trade Weighted Index and Real Trade Weighted Index for the month of October 2016 increased slightly by 0.4% and 0.3% respectively compared to September 2016. By comparing these two rates to the corresponding period over a year ago, Nominal Real Trade weighted Index decreased by 4% and Real Trade Weighted Index increased by 5%.

At the end of October, both Australian and US dollars, on average, continue to strengthen against the Tongan pa'anga. Appreciation of these two foreign currencies imply higher cost of imported food items that come from the USA and Australia. Moreover the NZ dollar weakened slightly against Tongan Pa'anga at the end of the same period.



In addition to this, the new customs and excise tax for meat and poultry came into effect in July 2016, implying further upward pressure on imported items.

It is worthy of note though that depreciation of the Tongan pa'anga against the AUD and USD benefit recipients foreign exchange—individuals receiving remittances and exporters of agricultural products such as root crops and Kava to Australia and the USA.