

At a Glance

September 2009

Inside AAG
September:

Economic Indicators

Headline Indicators	August 09 Values (\$m Pa'anga unless otherwise indicated)	September 09 Values (\$m Pa'anga unless otherwise indi- cated)	Change (vs Aug 09 unless other- wise indicated)
Economic Activity			
Exports (<i>OET basis</i>)	\$1.3	\$ 1.3	=
Imports (<i>OET basis</i>)	\$15.3	\$15.4	↑ 0.65%
Electricity consumption	N/A	N/A	
Tourist Receipts	\$3.3	\$2.6	↓ 21.2%
Air arrivals (number)	4,883	4,073	↓ 16.6%
- year to date		36,521	
Outstanding housing loans	101.3	101.3	=
Outstanding Business Loans	146.4	143.3	↓ 2.12%
Remittances	\$11.4	\$11.7	↑ 2.63%
Monetary Indicators			
Annual Inflation	0.5%	1.6%	↑ 1.1%
Retail Fuel Prices	Petrol: \$2.45/ltr	\$2.43/ltr	↓ 0.82%
	Diesel: \$2.43/ltr	\$2.38/ltr	↓ 2.06%
Foreign Reserves	\$159.2	\$163.3	↑ 2.58%
Import cover	6.2 months	6.7 months	↑ 8.06%
Total liquidity	\$284.8	\$291.4	↑ 2.32%
Balance of Payments	\$19.8	\$4.2	↓ 78.8%
Current Account Bal- ance	\$12.0	\$0.7	↓ 94.2%
Fiscal indicators			
Revenue (25% of year)		\$35.08	15.9% of Budget
Expenses (25% of year)		\$43.64	21.5% of Budget
Donor Activity			
Aid revenue received		\$3.1	(YTD) \$4.7
Aid expenditure		\$2.7	(YTD) \$5.4

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Summary

- ♦ Inflation Rate increase to 1.6% from 0.5% recorded in previous month.
- ♦ Remittances started to rise after declining for the last 2 months. Total Remittances for the year lower by \$26.4 million pa'anga as compared to same period of previous year.
- ♦ Foreign Reserves increased by \$4 million pa'anga from previous month.
- ♦ Governments overall position for the first quarter of the financial year (09/10) record a deficit of \$8.56 million pa'anga.

Inflation: Started to rise

The rate of inflation for September 09 was 1.6%. This is an increase from 0.5% in August 09. Contributions towards this index position for September record Food prices with the highest of 3.5%. Prices increased for both local and imported fruits & vegetables as well as meat and fish, while prices of Transport and Miscellaneous Goods decline. Local Index was 4.1% while Import Index was recorded at 0.4%.

National Reserve Bank of Tonga forecasts ind-

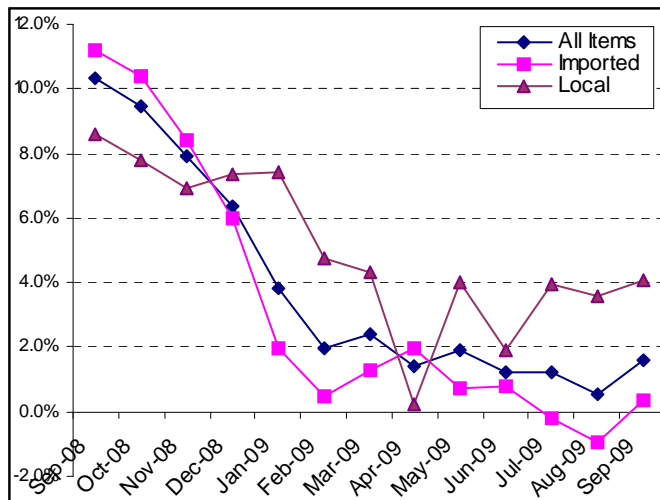
Table 1: Inflation Rate (%)

	Sept-09	Aug-09	Sept-08
Imported	0.4	-1.0	11.2
Local	4.1	3.6	8.6
Average inflation	1.6	0.5	10.3

Source: Statistics Department, 2009

icated a continued downward trend of inflation for the rest of this year and it is expected to rise again beginning of 2010.

Figure 1: Components of Inflation from Sept 08— Sept 09



Source: Statistics Department, 2009

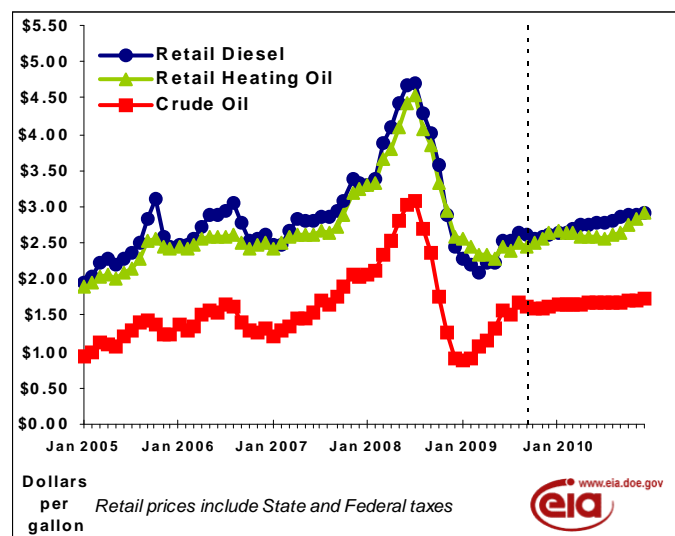
Fuel Prices: Slightly decline..

Ministry of Labour & Commerce reported domestic price of fuel started to decline. Prices for petrol and diesel decrease by \$0.02 seniti (0.82%) and \$0.05 seniti (2.06%) as compared to last month. This led Transportation costs to decline by 0.4% which is a downward contribution towards the inflation index position in September 09. As compared to same period of previous year (Sept 08): prices of petrol and diesel are lower by \$1.00 pa'anga (29.2%) and \$1.54 (39.3%) respectively. Fuel prices have remained below \$3.00 pa'anga per litre since the beginning of this year.

According to Energy Information Administration (EIA) of the United States, West Texas Intermediate (WTI) oil prices averaged \$69 per barrel in September, about \$2 per barrel below the August average, as expectations of an economic recovery and higher oil consumption were weighed down by currently weak demand and high inventories. With prices near \$70 per barrel, Organisation of the Petroleum Exporting Countries (OPEC) agreed to maintain its existing production targets, as expected, at its meeting in September. Sustainable

economic growth in China and signs of a turnaround in other Asian countries has led EIA to revised its expectations for world oil consumption upwards by 0.2 million barrels per day for the remainder of 2009 and for 2010.

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



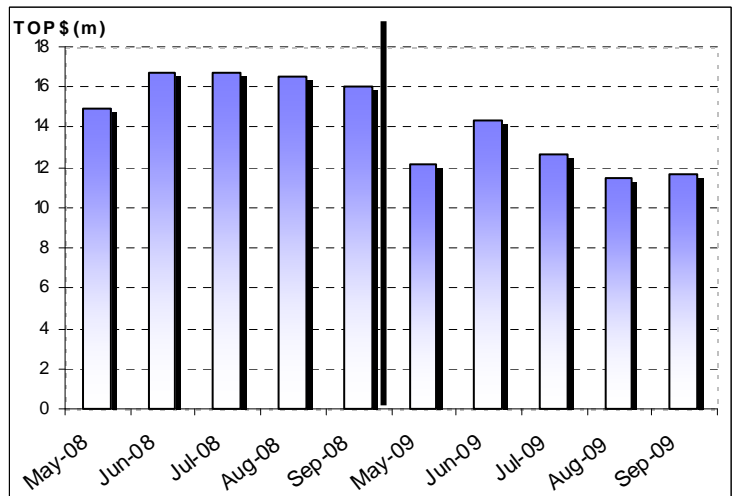
Source : Energy Information Administration, 2009

Remittances

Remittances increase by \$0.27 million pa'anga (or 2.36%) to only \$11.7 million pa'anga. Decline in Household Remittances by \$0.39 million pa'anga while Non-Profit Organizations increased by \$0.66 million pa'anga. Total Remittances for the year are \$114.1 million pa'anga compared to \$140.5 million pa'anga last year due to global economic downturn on remitting countries evident in loss of jobs and therefore lower remittances inflow to Tonga.

Total Remittances from the United States of America still records the highest followed by Australia, Japan and Fiji while New Zealand and Great Britain followed a declining trend.

Figure 3: Total Private Remittances May-September 2008 compared to 2009



Source: National Reserve Bank of Tonga, 2009

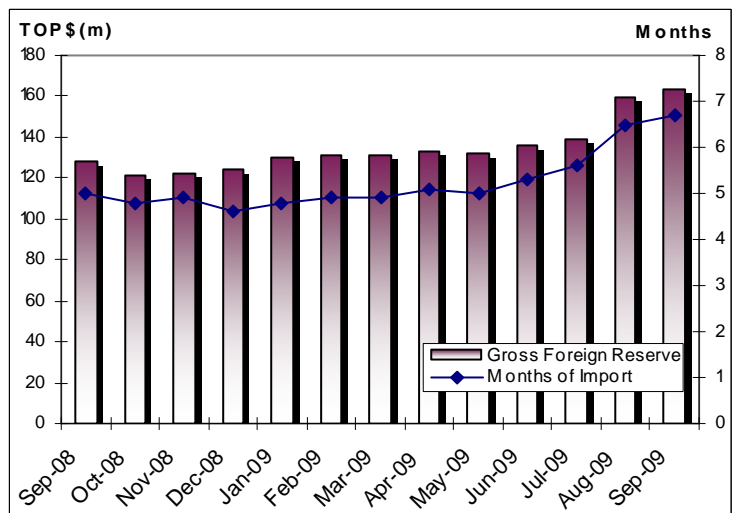
Foreign Reserves

Official foreign reserves increased by \$4 million pa'anga to \$163.3 million pa'anga this month.

This increase reflects the general allocation of Special Drawing Rights (SDR's) by the International Monetary Fund (IMF) to its member countries to address the fallout in global financial crises and accelerate recovery.

Official foreign reserves are equivalent to 6.7 months of import cover is still well above the NRBT target of around 4 months of import cover.

Figure 4: Official Foreign Reserve (Sept 08-Sept 09)



Source: National Reserve Bank of Tonga, 2009

Tourism

Tourism earning for September 09 decreased by \$0.7 million pa'anga (or 21.1%) from \$ 3.3 million pa'anga recorded in August 09 to \$2.6 million pa'anga in September 09. This was a decrease of \$1.3 million pa'anga (or 33.3%) compared to the same period of previous year.

Tourist air arrivals continue to decline after the slight increase reported in June 09, moreover this decreased by 17.98% compared to same period of the previous year.

Data of excursionist for September were not available by the time this report had been prepar-

-ed to make any appropriate comparison with previous period

Table 2 : Tourist Receipts & Arrival September 2008/09

	Sept 09	Aug 09	Sept 08
Tourist Receipts TOP \$(m)	\$2.6	\$3.3	\$3.9
Tourist Arrivals	4,073	4,883	4,966
◆ Air Arrival	4,883	4,883	4,767
◆ Cruise Ship Excursionist)	N/A	N/A	199

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

Government Fiscal Performance (GFS basis)

1. Overall result for third month of this financial year (2009/10) September

- ◆ The Government's overall position for the first quarter of this financial year (July-Sept) 2009 was a \$8.56 million pa'anga deficit. This is represented by \$8.53 million pa'anga deficit from Government fund and \$0.03 million pa'anga deficit from Grants.
- ◆ Overall position for the month of September 09 only was a deficit of \$1.13 million pa'anga represented by surplus from Grants of \$0.95 million pa'anga and deficit of \$2.08 million pa'anga from Government Fund.

2. Revenue

- ◆ Aggregate level of Revenue and Grants for this quarter (July-September) 09 was \$35.08 million pa'anga which is 15.94% of budget estimates, 17.38% from tax items, 20.58% from non-tax and 9.85% from Grants.

3. Expenditure and Net Lending

- ◆ Total Expenditure and Net Lending for this quarter (July-September) 09 was \$43.64 million pa'anga which is 21.53% of the total budgeted estimates, 21.69% for current expenditure, 17.71% for capital expenditure and 5% was net lending.

Debt Management

- ◆ Total public debt as at 30th September 2009 is estimated at \$222.55m or 31.30% of GDP. Of this external debt is \$200.10m (28.14% of GDP) and domestic debt is \$22.45m (3.16% of GDP).
- ◆ Total public debt decreased by \$2.39 million pa'anga between Qtr June 09 & Qtr September 09.
- ◆ Total Debt Servicing as serviced by the government consumes 1.24% of GDP, 22.65% are of recurrent revenue and 17.97% are recurrent expenditure.

National Strategic Planning Framework

The draft National Strategic Planning Framework has been revised and awaiting to submit to Cabinet for approval on the second week of November, 2009.

Regional & Rural Developments

2.1 Ha'apai Developments

◆ Tsunami affected the Ha'apai Islands

On September 30th, 2009 the Ha'apai Groups was affected by the tsunami. Damages occurred to the environment and the infrastructures such as the foreshore and all the buildings near the foreshore. Development work will focus on addressing the consequences of this disaster.

◆ Foa Causeway

Agreement to construct the Foa Causeway has been signed between the Government of Tonga and the Government of Germany.

2.2 'Eua Developments

- ◆ 'Eua High School Renovation has been completed.
- ◆ The water tanks projects are currently implementing with assistance from Japan AID.

2.3 Niua Developments

◆ Tsunami affected Niua Toputapu

Damages caused by the tsunami resulted in 9 people died and majorities of the infrastructures including housing, hospitals, treasury's building, TDB's building and crops were damaged by the Tsunami.

A proposal has been developed for donors consideration of priorities for Niua Toputapu redevelopment. These priorities are:

- Resettlement/relocation
- Sanitation
- Livelihood re-activation
- Early warning systems
- Government Buildings