

At a Glance

December 2008

Release date: March 2009

Inside AAG
December:

Economic Indicators

Headline Indicators	Dec 08 Values (\$m Pa'anga unless otherwise indicated)	Change (vs Nov 08 unless otherwise indicated)
Economic Activity		
Exports	\$2.2	↑ 32%
Imports	\$29.5	↑ 27%
Electricity consumption	N/A	
Tourist Receipts	\$3.6	↑ 32%
Air arrivals (number)	7,695	↑ 13% vs Dec 07
- year to date		↑ 7.9% vs 2007
Outstanding housing loans	\$102.2	↓ 0.3%
Remittances	\$21.0	↑ 72%
Monetary Indicators		
Annual Inflation	6.4%	↓ 1.5%
Retail Fuel Prices	Petrol: \$2.74/ltr Diesel: \$2.84/ltr	↓ 12.2% ↓ 15.0%
Foreign Reserves	\$123.9	↑ 1.0%
Import cover	4.9 months	=
Total liquidity	\$291.5	↓ 1.5%
Balance of Payments	\$1.2	↑ 10%
Current Account Balance	-\$8.8	↑ 23%
Fiscal indicators		
Revenue (after 50% of year)	46.5%	\$100.3
Expenses (after 50% of year)	54.4%	\$117.4
Donor Activity		
Aid revenue received	\$8.6	
Aid expenditure	\$5.1	

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Summary

- ◆ A good month to be a driver, an tourist operator, a fisherman or the receiver of remittances.
- ◆ A record month for remittances somewhat offset a very poor quarter.
- ◆ Fuel price reductions means inflation continues to slow. There is a near certainty Tonga will enter a period of deflation later this year.
- ◆ After a long decline the fishing industry recorded a nearly doubled of its catch for the month.

Inflation: Getting Slower

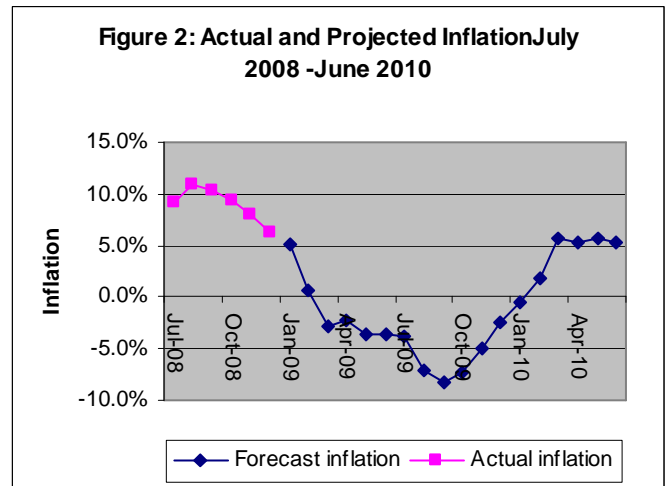
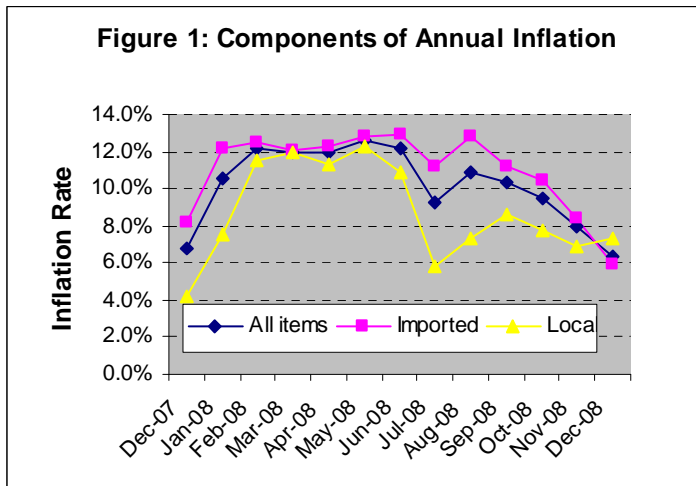
The rate of inflation continues to decline from 12.6% in May 2008 to its current level of 6.4%. Inflation is forecast to continue falling due to the reduction in international fuel prices and favorable exchange rates reducing the cost of imported food.

As a result local inflation now exceeds imported inflation for the first time since June 2007.

Table 1: Inflation Rate (%)

	Dec-08	Nov-08	Dec-07
Imported	6.0%	8.4%	8.2%
Local	7.4%	6.9%	4.2%
Average inflation	6.4%	7.9%	6.8%

Source: Statistics Department, 2008



Expectations: Reserve Bank projections forecast that Tonga will experience price deflation from March 2009 and this will continue until the beginning of 2010.

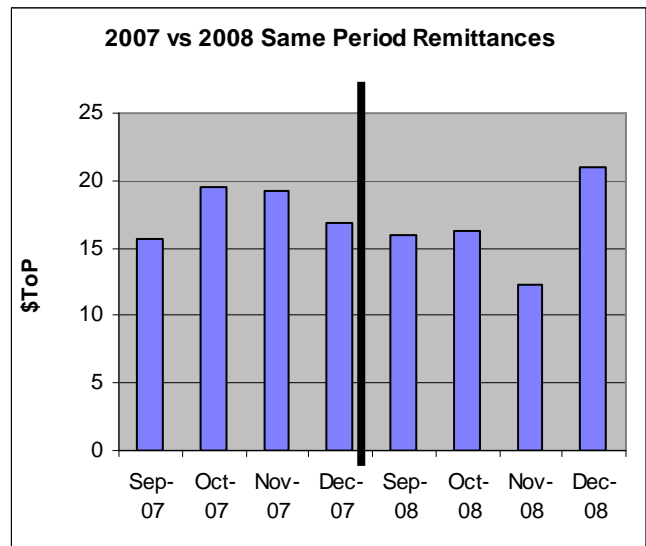
The duration and effects of this price deflation will depend upon international currency movements, in particular the strength of the US dollar against the Australian and New Zealand dollars, and the responsiveness of local prices (and price setting committees) to falls in the cost of imports.

Remittances: Record month boosts a low quarter

Remittances recovered from a sharp decline in November to the highest ever single month for remittances ever recorded. Total remittances for the last quarter of 2008 were, however, down \$6.2 million pa'anga or 11% on the same quarter of the 2007.

Table 2: Monthly Remittances (T\$m)

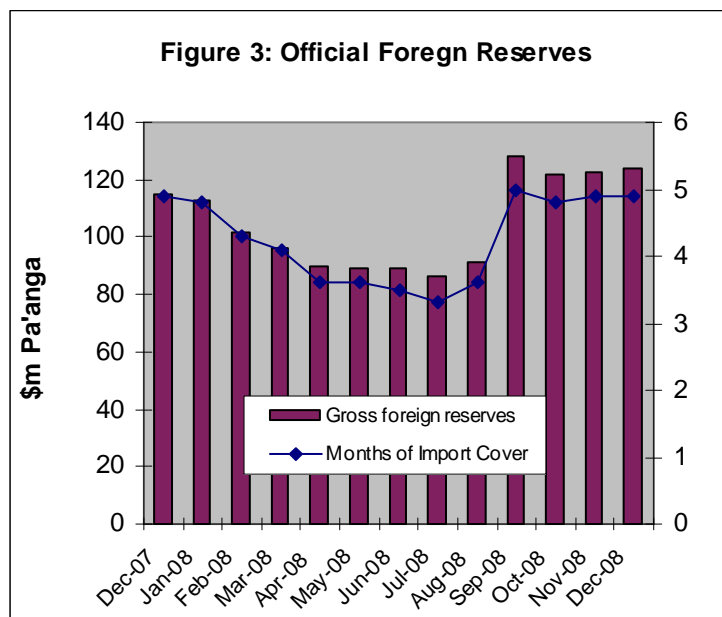
	Oct-08	Nov-08	Dec-08
Household Remittances	13.0	10.3	19.9
Non-Profit	3.2	1.9	1.1
Private	16.2	12.2	21.0



Reserves: Just where they wanna be

Foreign reserves continue to benefit from favorable exchange rates and declining oil prices.

As a result official foreign reserves have remained steady throughout the last quarter and well above the NRBT's target of around 3 months of import cover.



Source: National Reserve Bank of Tonga, 2008

Fisheries – Turning the corner?

The latest fisheries returns provide some encouraging news against what has generally been a poor year for the primary sector.

While the number of fishing vessels has continued to decline from a year ago, the total catch increased by 80% over the previous month and 10% over the same time in

December 2007.

While not too much should be read into a single good month, this upturn is encouraging.

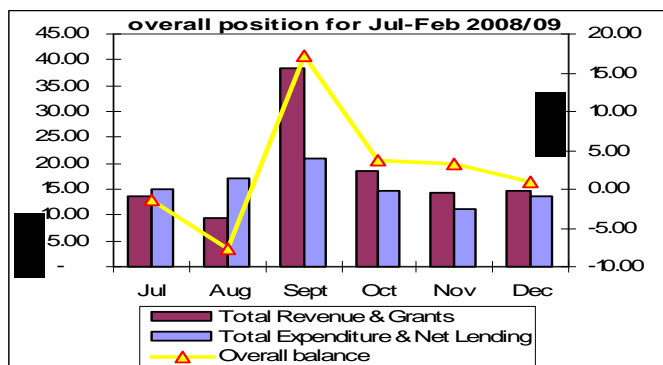
Table 3: Fisheries

	Fishing Vessels	Fuel (litres)	Exports (kg)	Local (kg)
Dec-07	21	41,262	53,162	55,763
Nov-08	15	48,572	23,061	43,228
Dec-08	18	102,515	75,175	44,097

Government Fiscal Performance (GFS basis)

1. Overall result for December

- The Government recorded a surplus of \$0.87 million pa'anga for the month of December 2008, compared to a surplus of \$7.5 million pa'anga in December 2007.
- The overall position for the six months to December, was a \$16.0 million pa'anga



2. Revenue

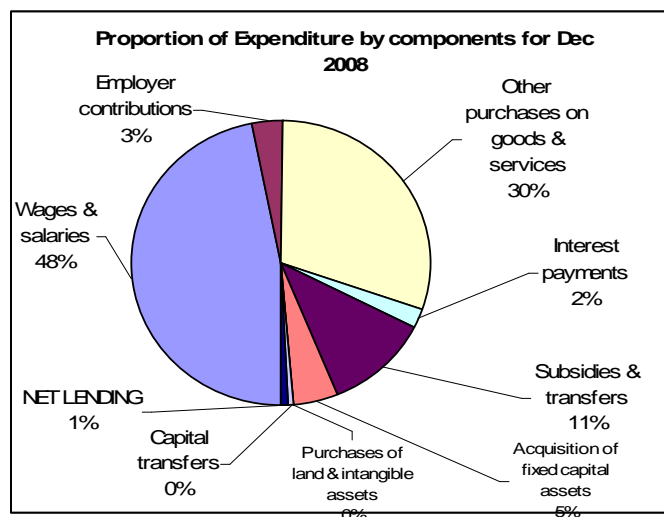
- Total revenue and grants to November was \$14.6 million pa'anga. This gave an accumulated total for the year of \$108.8 million pa'anga.
- Donors grants comprise 32% of revenue for the year to date. Of government current revenue, with 9% from . Around 86% of current revenue is received from taxes.

3. Expenditure and Net Lending

- Total expenditure and net lending to November 2008 was \$92.8 million pa'anga.
- The aggregate level of Expenditure & Net Lending in December 2008 was \$13.7 million pa'anga. This represented an increased of 21.7% over November 2008 and a 34% increased in expenditure compared to the same period in 2007/08 .

3. Expenditure and Net Lending (cont.)

- The components of government expenditure are illustrated on the following pie chart:



4. Financing

- As a result of the surplus, the government bank balance has increased by \$19.35 million pa'anga.

Debt Management

- Total public debt remained substantively unchanged in the month to 31 December at \$212.7 million pa'anga, or 35.9% of GDP.
- Of total debt, external debt is \$188.28 million pa'anga and domestic debt is \$24.41million pa'anga.
- No new debt guarantees were undertaken in December.