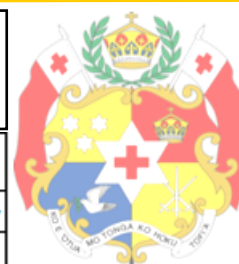


Monthly Economic Update February 2018



Release date:
May 2018

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Indicators Digest

*Inflation rate for February 2018 was 3.4 percent.

*Retail price for petrol & diesel for February 2018 remain at \$2.68 per litre.

*Foreign reserves recorded a higher level of TOP\$448.0 equivalent to 8.2 month of import cover.

*Tongan pa'anga appreciates against USD dollars and continue depreciates against NZD and AUD dollars.

Key Indicators	(T\$m unless otherwise indicated)			%change	
	Feb-17	Jan-18	Feb-18	Annual	Monthly
FISCAL INDICATORS (Government Financial Statistics (GFS) Basis)					
Revenue	14.1	24.9	16.3	15%	-35%
Tax and Non-Tax Revenue	13.5	22.4	15.7	16%	-30%
Grant (cash grants)	0.6	2.5	0.6	-8%	-78%
Budget Support	-	-	-	-	-
Project Support	-	2.5	0.6	-	-78%
Expenses	17.1	18.0	16.3	5%	-10%
Compensation of Employees	9.5	9.7	9.3	-	-4%
Gross Operating Balance	- 3.0	6.9	-	-100%	-100%
Net Acquisition of Non-financial Assets	0.3	0.8	0.3	-3%	-65%
Net Lending/Borrowing Requirement	- 3.3	6.1	- 0.3	-91%	-105%
Total Public Debt (\$million)	N/A	N/A	N/A	-	-
ECONOMIC ACTIVITY INDICATORS (OET basis)					
Exports	16	0.9	13	-0.2	0.4
Imports	22.1	34.1	28.5	0.3	-0.2
Adjusted Cash Remittances (Ann Total)	273.8	329.0	332.5	0.2	0.0
FISCAL ANCHORS					
Wage bill to domestic revenue to be less than 53%(annual target)	71%	43%	59%	-16.0	36.5
MONETARY & PRICE INDICATORS					
Official Foreign Reserves	377.7	424.1	448.0	18.6	5.6
Import Cover - Trade estimate (months)	7.1	7.7	8.2	15.5	6.5
Import Cover - OET estimate (months)	9.8	9.9	10.3	5.1	4.0
Inflation (annual % change)	8.8	6.0	3.4	-614	-43.3
Retail Fuel Prices:					
Petrol (T\$/litre)	2.57	2.68	2.68	4.3	0.0
Diesel (T\$/litre)	2.50	2.68	2.68	7.2	0.0

Note: Fiscal data are provisional (unless indicated) and still subject to change until audited. Note also that some indicators have been adjusted.

Inflation

The annual rate of inflation for February 2018 was 3.4% the lowest since July 2016 compares to 6.0% in previous month. The annual inflation for the same month of previous year was 8.8%. The rate is below the inflation reference rate of 5 percent set by NRBT.

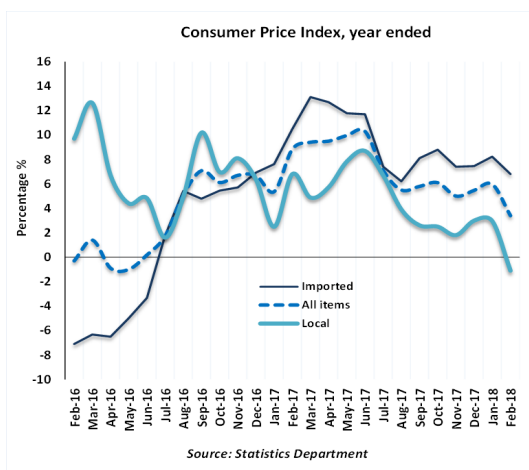
	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Feb-17
All items	6.1	5.0	5.5	6.0	3.4	8.8
Imported	8.8	7.4	7.4	8.2	6.8	10.5
Local	2.5	1.8	3.0	3.0	-1.1	6.8

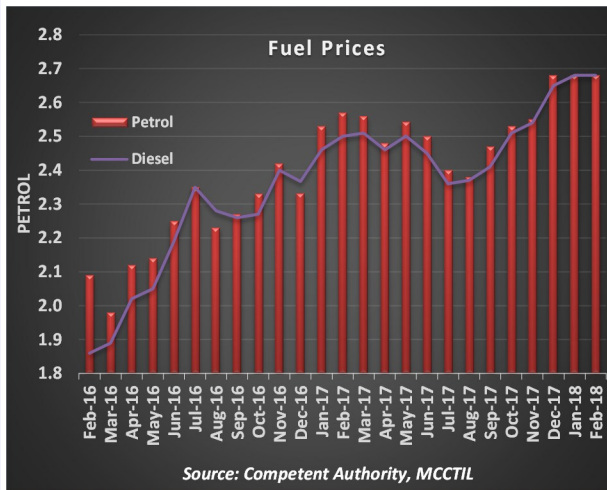
The inflation rate is attributed more to the imported component that rose from 7.4 percent in December 2017 to 8.2 percent in January 2018 and keep the increasing rate 6.8 percent in February 2018. Compared to same period last year the imported experienced a high level of 10.5 percent in February 2017.

Annual imported inflation for the reviewed month driven by higher prices for food, tobacco and clothing. Imported food prices continued to be the largest contributor which rose to 9.4 percent. The meat, fish & poultry category had the highest increase of 14.1 percent, followed by an 11.4 percent rise in the prices of dairy farm & vegetables products, and 2.9 percent rise in the prices of other food components which comprises of items such as sugar and flour. Movements in the global prices with the changes to customs duties and excise taxes on meat product were driving prices higher.

The local component on the other hand trended downward from 3.0 percent in January to -1.1 percent in February 2018, on a month-to-month basis; it moreover declined significantly from 6.8 percent recorded for the same period in 2017. This was driven by the fall in local food, electricity prices and fuel prices remain constant which outweighed the annual increase in prices of kava-Tonga.

The outlook is for annual headline inflation rate is anticipated to be increase in the near term. This however depends largely on movement in global oil and food prices, domestic constructions material, kava-Tonga, transportation as well as recovery from tropical cyclone Gita.



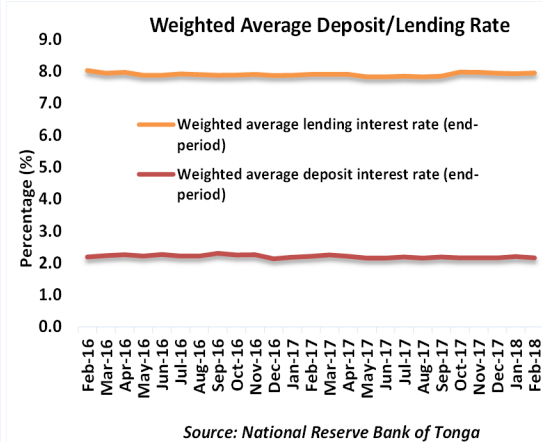


Fuel Prices

On monthly basis domestic fuel prices for petrol and diesel remain no change at \$2.68 per litre respectively. This is mainly due to the aftermath of cyclone Gita having affected Tongatapu and 'Eua on the 12th of February 2018. On annual basis prices for petrol and diesel increased by 4 percent or 0.11 seniti and 7 percent or 0.18 seniti respectively.

The constant in domestic fuel prices reflect global crude oil prices which is fell from USD70/bbl to less than USD62/bbl mid-February. An appreciates in Tongan pa'anga against the USD dollar also partly contributed to the status off domestic fuel prices.

FUEL PRICES			
	Feb-17	Jan-18	Feb-18
Petrol	2.53	2.68	2.68
Diesel	2.46	2.65	2.68

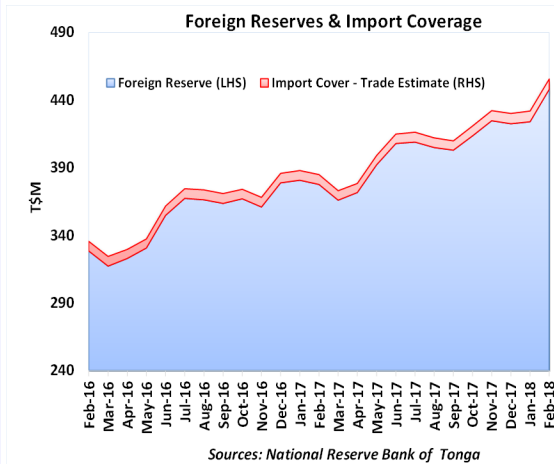


Deposit and Lending Rates

The lending rate for February 2018 was 7.95 percent, an increase of 0.5 percent compared to same period last year, and 0.3 percent when compared to last month. Increase in lending rate continue discourage borrowing and dampen domestic demand for good and services. This was reflect on decrease at housing and business loan for the review month.

However, the low deposit rate of 2.16 percent, compared to same period a year ago and previous month, continue discourage savings in the country.

INTEREST RATES			
	Feb-17	Jan-18	Feb-18
Weighted average deposit interest rate (end of period)	2.21	2.20	2.16
Weighted average lending interest rate (end of period)	7.91	7.93	7.95



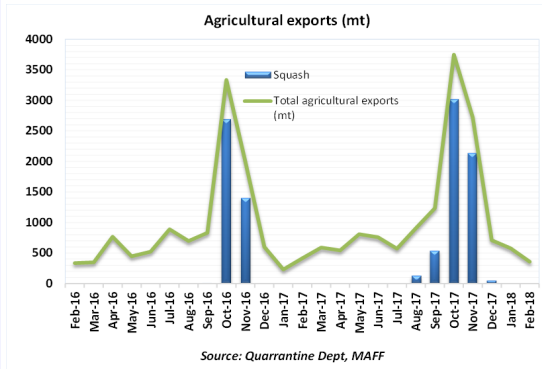
Foreign Reserves

The level of foreign reserves recorded for February 2018 was \$448.0 million the highest for the last decade; an increase of 5.6 percent over what it was in January and 19 percent higher than February 2017.

The level of foreign reserves for February is equivalent to 8.2 months of import cover on trade estimate.

Higher level of foreign reserves continues to support positive outlook for economic growth in coming years.

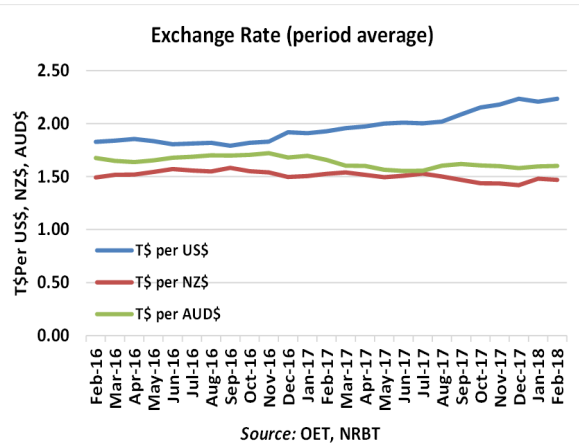
	Feb-17	Jan-18	Feb-18
Foreign Reserve	377.7	424.1	448.0
Import Cover	7.1	7.7	8.2



Agricultural Exports (Custom Data)

Provisional data from Customs indicates that Agricultural exports for February 2018 recorded a slightly decrease of 38 percent compared to the previous month and 14 percent compared to same period a year ago. This was largely due to the aftermath of tropical cyclone Gita in mid February. The fall in leaves and root crops export mainly contribute to the decreased in agricultural export during the month, which is also reflect the effect of TC Gita.

Positive outlook for agricultural exports is anticipated in the near term as the harvesting season and recovery from cyclone Gita.

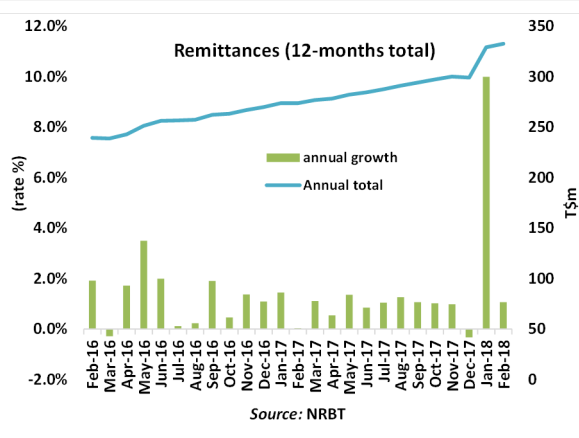


Exchange Rate

Nominal Real Trade Weighted Index for the month of February 2018 slightly decreased by 0.3 percent while Real Trade Weighted Index increased by 0.4 percent compared to January 2018. Against the corresponding period a year ago, Nominal Real Trade Weighted Index and Real Trade Weighted Index both decreased by 1.0 percent and 0.7 percent respectively.

At the end of February, the pa'anga appreciates against US dollar. This appreciation imply lower cost of imported food items that came from USA, such as frozen meat, and lead to a factor in lower inflation. This is mainly due to the effect of TC Gita that hit Tonga-tapu and 'Eua during the month. A depreciation of the Tongan pa'anga

AUD and NZD continue both continue to strengthen against the Tongan pa'anga.



Remittance

Remittance fall slightly in February 2018; by 6% (\$1.5 million) to \$23.6 million, supported by lower inflows of private transfers that are mainly receipts for family support. In year ended terms, total remittances reached \$332.5 million; \$58.7 million (21.4%) higher than it was a year ago.

In February 2018, remittances received in all currency declined except Euro (EUR) dollar.

The outlook for remittances to increase in the near term due to the upcoming busy season particularly the family month of May and the annual conferences. Additionally the continuous fund from overseas for TC Gita recovery.

Remittance Receipts (month ended)			
	Feb-17	Jan-18	Feb-17
Private Transfers	20.36	22.6	21.1
Employee Compensation	0.62	1.3	1.1
Private Capital Transfers	0.15	1.2	1.2
Social Benefits	0.09	0	0.1

Fiscal performance

Revenue performance for February 2018 showed a significant decrease compared to the previous month. Domestic revenue decreased by 30 percent compared to the \$22.4 million collected in January 2018. The decrease in cash grants over the reviewed month due to no receipt of budget support which is also reflected in the revenue.

The expenses recorded for the reviewed month decreased by 10 percent compared to the expenses recorded in January 2018 mainly due to the decrease in Compensation of Employees 4 percent as no more recruitment during the month.

The February fiscal performance recorded no deficit or surplus compare to last month.

Fiscal Anchors

The monthly performance of wage bill as a percentage of domestic revenue for February 2018 is 59 percent which is a rise from 49 percent recorded in January 2018; and above the annual target of 53 percent which is a risk.

Debt to GDP ratio remains as there is no further change in the debt level.

END