

# Monthly Economic Update January 2018



Release date:  
March 2018

| Key Indicators   | (T\$m unless otherwise indicated) |        |        | %change |         |
|--|-----------------------------------|--------|--------|---------|---------|
|  | Jan-17                            | Dec-17 | Jan-18 | Annual  | Monthly |
| <b>FISCAL INDICATORS (Government Financial Statistics (GFS) Basis)</b> |                                   |        |        |         |         |
| Revenue  | 19.5                              | 21.3   | 12.2   | -37%    | -43%    |
| Tax and Non-Tax Revenue  | 19.4                              | 19.1   | 12.0   | -38%    | -37%    |
| Grant (cash grants)  | 0.1                               | 2.19   | 0.20   | 186%    | -91%    |
| Budget Support   | -                                 | -      | -      | -       | -       |
| Project Support  | -                                 | 2.19   | 0.20   | -       | -91%    |
| Expenses   | 15.2                              | 17.3   | 15.6   | 3%      | -10%    |
| Compensation of Employees  | 9.0                               | 10.0   | 9.1    | 2%      | -9%     |
| Gross Operating Balance  | 4.3                               | 4.0    | 3.4    | -179%   | -186%   |
| Net Acquisition of Non-financial Assets                                | 0.97                              | 0.5    | 0.58   | -40%    | 16%     |
| Net Lending/Borrowing Requirement                                      | 3.3                               | 3.4    | 3.97   | -220%   | -215%   |
| Total Public Debt (\$million)  | N/A                               | N/A    | N/A    | -       | -       |
| <b>ECONOMIC ACTIVITY INDICATORS (OET basis)</b>                        |                                   |        |        |         |         |
| Exports  | 2.1                               | 10     | 0.9    | -57.1   | -10.0   |
| Imports  | 26.7                              | 37.1   | 34.1   | 27.7    | -8.1    |
| Adjusted Cash Remittances (Ann Total)                                  | 274.1                             | 300.9  | 304.7  | 112     | 13      |
| <b>FISCAL ANCHORS</b>  |                                   |        |        |         |         |
| Wage bill to domestic revenue to be less than 53%(annual target)       | 46%                               | 52%    | 76%    | 63.9    | 44.7    |
| <b>MONETARY &amp; PRICE INDICATORS</b>                                 |                                   |        |        |         |         |
| Official Foreign Reserves  | 380.8                             | 422.5  | 424.1  | 114     | 0.4     |
| Import Cover - Trade estimate (months)                                 | 7.1                               | 7.7    | 7.7    | 8.5     | 0.0     |
| Import Cover - OET estimate (months)                                   | 10.1                              | 9.9    | 9.9    | -2.0    | 0.0     |
| Inflation (annual %change)   | 5.4                               | 5.5    | 6.0    | 111     | 9.1     |
| <b>Retail Fuel Prices:</b>   |                                   |        |        |         |         |
| Petrol (T\$/litre)   | 2.53                              | 2.68   | 2.68   | 5.9     | 0.0     |
| Diesel (T\$/litre)   | 2.46                              | 2.65   | 2.68   | 8.9     | 11      |

## Highlights:

|                       |   |
|-----------------------|---|
| Inflation             | 1 |
| Fuel Prices           | 2 |
| Deposit/Lending Rates | 2 |
| Foreign Reserves      | 2 |
| Exchange Rates        | 2 |
| Fiscal Indicators     | 4 |

## Indicators Digest

\*Inflation rate for January 2018 was 6 percent.

\*Retail price for petrol for January 2018 remain at \$2.68 and diesel increase by 0.03 seniti compared to previous month.

\*Foreign reserves recorded a higher level of TOP\$424.1 equivalent to 7.7 month of import cover.

\*Tongan pa'anga continue depreciates against USD dollars.

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

## Inflation

Annual rate of inflation for January 2018 was 6.0%. This rate recorded higher than the NRBT's inflation reference rate of 5%.

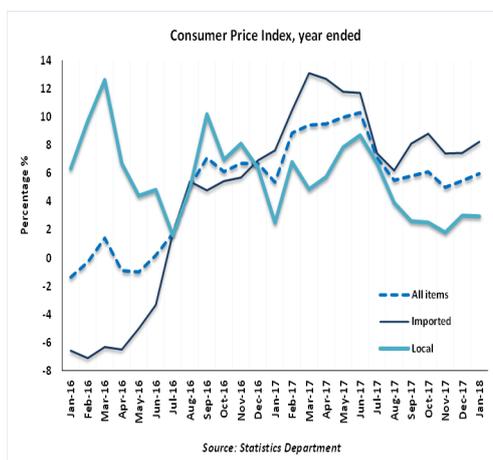
|           | Aug-17 | Sep-17 | Oct-17 | Nov-17 | Dec-17 | Jan-18 | Jan-17 |
|-----------|--------|--------|--------|--------|--------|--------|--------|
| All items | 5.5    | 5.8    | 6.1    | 5.0    | 5.5    | 6.0    | 5.4    |
| Imported  | 6.2    | 8.1    | 8.8    | 7.4    | 7.4    | 8.2    | 7.6    |
| Local     | 3.9    | 2.6    | 2.5    | 1.8    | 3.0    | 2.9    | 2.5    |

This continuous record of high inflation is attributed to a combination of rising commodity prices globally, coming into effect the depreciation of Tongan pa'anga against AUD and NZD that lead to increase in the prices of imported meat and other items.

The annual change in the Consumer Price Index (CPI), for the reviewed month, was mainly driven by an increase for both local index and imported items by 2.9% and 8.2% respectively.

However, relative to the previous month an increase in CPI by 1.0 percent was recorded in January, as a result of a slightly increase in imported price index by 0.9%, compared to December 2017 as prices for some imported items such as meat and package food, increased throughout the month.

Moreover, local index also increase compared to previous month by 1.3% as some fruits and vegetables increase throughout the month including pineapples, potatoes, carrot and cucumber.



The contribution of the local component of Tobacco, Alcohol and Kava Tonga was 1.1% to the 6.0% inflation of the reviewed month. The shortage of kava supply results in rising of local kava price which continues to charge at an average price of 150 pa'anga per kilogram and this has become connected with inflation.

## Fuel Prices

Domestic fuel prices for January 2018 continue to increase. Diesel price increased by 1.1% and 9% compared to previous month and the same period in 2017 respectively. Similarly, petrol price remain constant and 6% increase, when compared to previous month and corresponding period a year ago respectively.

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

The increase in domestic fuel prices continue to reflect the increase in oil prices in the global market in December 2017, as global price of crude oil rose above USD 60/barrel. Effect of price changes in the global market in the domestic fuel prices lag between a month or two.

The increase in fuel prices is expected to impacted electricity tariff in the near term with, with consequences on consumer's purchasing power.

## Deposit and Lending Rates

Annual lending rates for January 2018 slightly fall by -0.1% compared to the previous month, however, increased by

| INTEREST RATES   |        |        |        |
|--|--------|--------|--------|
|  | Jan-17 | Dec-17 | Jan-18 |
| Weighted average deposit interest rate (end of period) | 2.18   | 2.16   | 2.2    |
| Weighted average lending interest rate (end of period) | 7.88   | 7.94   | 7.93   |

0.6% compared to the same period a year ago. This continues to encourage more borrowing which is consistent with a 1.1% fall in housing loan interest rate.

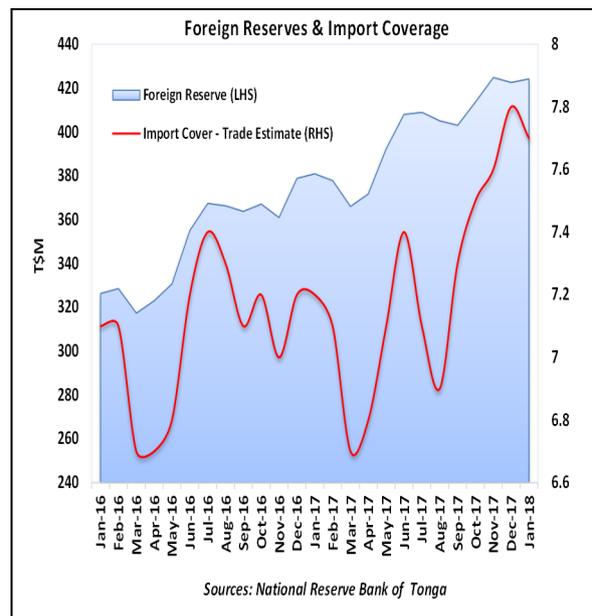
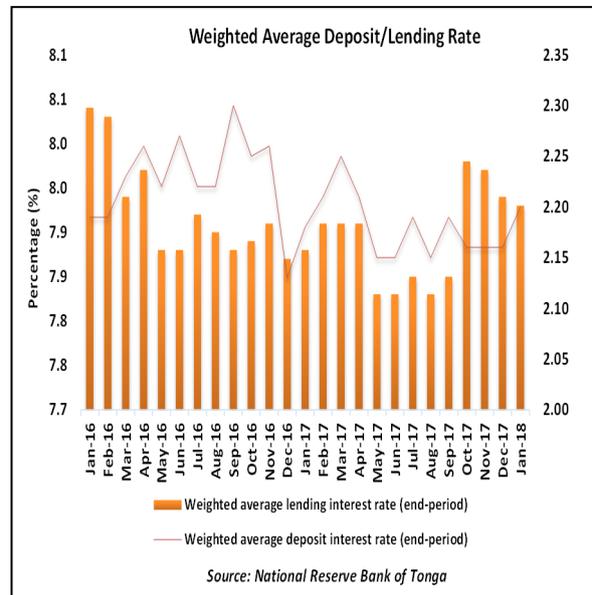
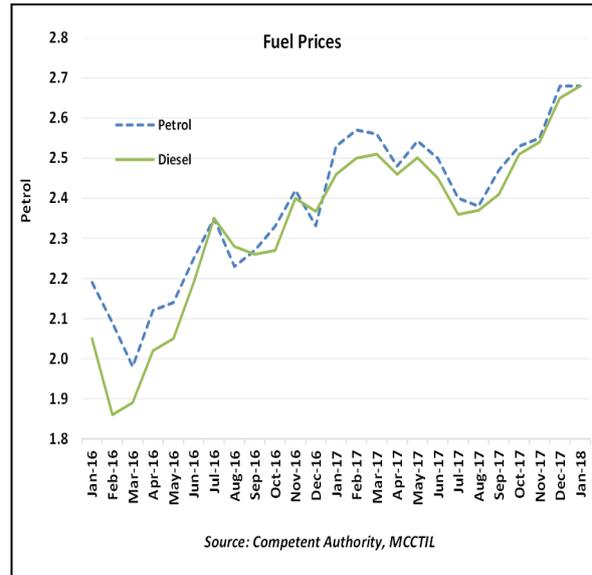
Moreover, deposit rate increased by 1.9% and 0.9% compared to previous month and January 2016 respectively. This will encourage people to save rather than spending.

## Foreign Reserves

Foreign Reserves continue to increase over the month of January 2018 to TOP\$424.1 million. This slightly increase by 0.4% compared to previous month and significantly increased by 11% compared to the corresponding period over a year ago.

The level of foreign reserves for January 2018 is equivalent to 7.7 months of import cover which remain above the NRBT's minimum range of 3-4 months.

The 7.7 months of import coverage supports positive outlook for economic growth in coming years and also highlights the fact that Tonga continues in a comfortable external position that far surpasses the minimum range of 3-4 months set by the NRBT.

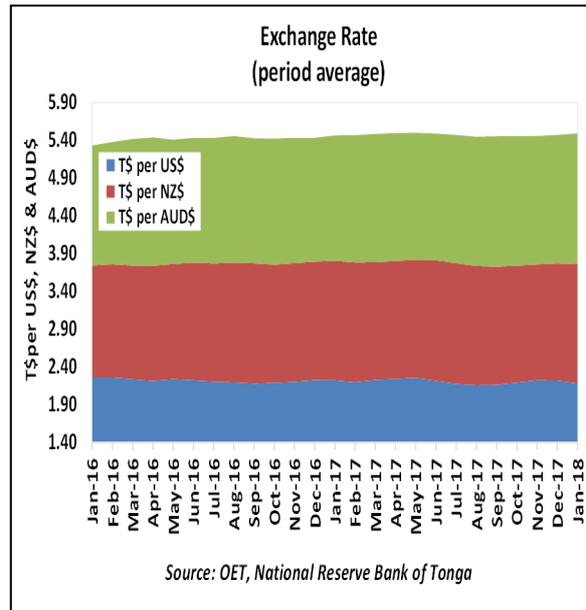


### Exchange Rate

For January 2018, Nominal Real Trade Weighted Index decreased by 0.8% and 0.5% when compared to previous month and January 2017 respectively. However, Real Trade Weighted Index increased by 0.5% and 1.9% for December 2017 and the same period a year ago respectively.

At the end of the reviewed month, both AUD and NZ dollars, on average, continue to strengthen against the Tongan pa'anga. Appreciation of these two foreign currencies imply higher cost of imported food items as Australia and New Zealand are the main foreign countries that Tonga imports frozen meat from.

In addition, despite the depreciation of Tongan pa'anga against the AUD and NZD, it remains a benefit to recipients of foreign exchange. These are individuals receiving remittances and exporters of agricultural products such as cassava and taro, which are the main commodities exported during the review month.



### Fiscal performance

Revenue performance for January 2018 showed a significant decrease compared to the previous month. Domestic revenue decreased by 43 percent compared to the \$21.3 million collected in December 2017. 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 December 2017 mainly due to the decrease in Compensation of Employees 9 percent as no more recruitment during the month.

The January fiscal performance recorded a deficit of \$3.4 million recorded compare to December 2017. Which is not a contribute to the level of cash reserve of the government.

### Fiscal Anchors

The monthly performance of wage bill as a percentage of domestic revenue for January 2018 is 76 percent which is a significant rise from 46 percent recorded in October 2017; 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