

# Monthly Economic Update

## July 2016

Ministry of Finance and  
National Planning



### Key Indicators

	(T\$m unless otherwise indicated)			% change from	
	July 2015	June 2016	July 2016	July 2015 to July 2016	June 2016 to July 2016
<b>FISCAL INDICATORS (Government Financial Statistics (GFS) Basis)</b>					
<b>Total Revenue &amp; Grants</b>	<b>16.3</b>	<b>36.1</b>	<b>20.8</b>	<b>28.0%</b>	<b>-42.4%</b>
Total Revenue	15.7	24.0	17.4	11.1%	-27.5%
Grant (cash grants)	0.6	12.1	3.4	458.5%	-71.9%
Budget Support	-	9.0	-	-	-100.0%
Project Support	0.6	3.1	3.4	458.5%	9.7%
<b>Total Expenditure &amp; Net Lending</b>	<b>18.9</b>	<b>1.9</b>	<b>4.2</b>	<b>-77.7%</b>	<b>117.6%</b>
Expenditure (incl. cash grants)	17.4	6.0	6.8	-61.2%	12.3%
Total Net Lending	1.4	4.1	0.2	-0.8	-0.9
<b>Total Public Debt</b>	<b>431.9</b>	<b>N/A</b>	<b>N/A</b>	<b>0.0%</b>	<b>0.0%</b>
<b>ECONOMIC ACTIVITY INDICATORS (OET basis)</b>					
Exports	0.80	1.30	1.40	75.0%	7.7%
Imports	22.3	35.4	32.1	43.9%	-9.3%
Travel Receipts	9.4	5.0	9.0	0.0%	0.0%
Adjusted Cash Remittances (Annual Total)	208.9	256.3	256.6	0.0%	0.0%
<b>MONETARY &amp; PRICE INDICATORS</b>					
Official Foreign Reserves	302.6	354.9	367.4	21.4%	3.5%
Import Cover (months)	8.5	10.1	10.4		
Inflation (annual % change)	-1.5	0.2	1.7		
<b>Retail Fuel Prices:</b>					
Petrol (T\$/litre)	2.62	2.25	2.35	-10.3%	4.4%
Diesel (T\$/litre)	2.49	2.19	2.35	-5.6%	7.3%

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### Indicators Digest

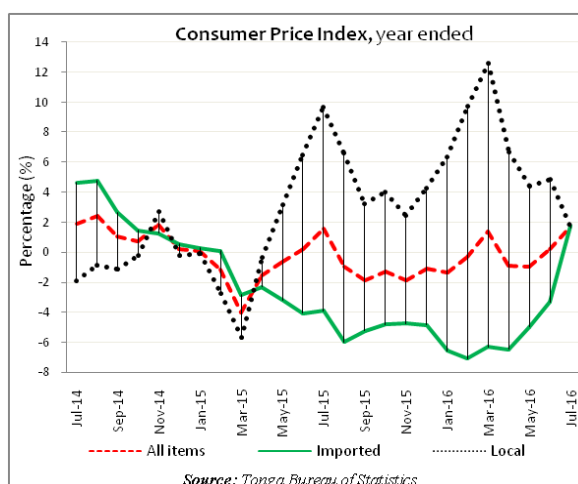
- ♦ Inflation 1.6% for July 2016
- ♦ Retail prices for diesel and petrol increased by 16 and 10 seniti respectively in July 2016
- ♦ Foreign reserves recorded TOP \$367.4 million, with the highest import cover over history of Tonga
- ♦ Tongan pa'anga depreciates relative to AUS and NZ dollars

### Inflation

Annual rate of inflation for July 2016 recorded at 1.6% compared to 0.1% in the previous month and 1.6% in the corresponding period a year ago.

The annual and monthly changes in the CPI for the reviewed month was mainly driven by the increase in the imported index (after being at deflation rate for long periods since March 2015) and a decreased in the local index.

For the imported index, the increases (by 5.6% & 1.7%) compared to previous month and same period a year ago respectively were in line with the increase in prices of imported mutton flap, chicken pieces and other tinned & packaged food. The increase in imported index also reflects the appreciation of the AUD and NZD against TOP for the month of July.



For local index, it was decreased, by 0.6%, when comparing to previous month, while increased, by 1.6%, when compared to same period a year ago. The increase in annual changes for local index was contributed by the increase in prices of some fruits and vegetables, both petrol and diesel prices, price of electricity and also price of kava and tobacco.

## Fuel Prices

Fuel prices continue to increase for the month of July 2016. Domestic petrol and diesel prices for July both increased by 4% and 7% respectively compared to a month ago. As a result, both prices are now at the same level. The increase in domestic fuel prices reflected the increase in price of oil in the global market, USD48.05/barrel, for the month of June 2016. The changes in the global oil market lagged one month prior realizing its effects in the domestic market.

When comparing to the corresponding period a year ago, petrol prices declined further by 10% and diesel prices also declined by 6%.

## Lending and Deposit Rates

On monthly changes, lending and deposit rates were slightly increased (by 1%) and decreased (by 2%) respectively, in July 2016 compared to previous month.

By comparing these two rates to the corresponding period over a year ago, both rates declined by 6% and 4% respectively. The decrease in weighted average deposit rate had discouraged savings and people tend to spend more, thus creating more demand for goods and services. On annual change, the decrease in lending rates encouraged more borrowing, thus creating more demand for goods and services.

## Foreign Reserves

Foreign Reserves continue to increase significantly to T\$367.4 million in July 2016 and recorded as the highest over history of Tonga. This increased by 4% when compared to June 2016 and by 21% when compared to same period a year ago. The level of foreign reserves for July 2016 was equivalent to 10.4 months of import cover and it continues to remain well above, more than double, the NRBT's minimum range of 3-4 months.

## Exchange Rate

Nominal Real Trade Weighted Index for July, 2016 remained constant and Real Trade Weighted Index increased by 3% compared to June 2016. By comparing these two rates to the same period over a year ago, both rates declined by 7% and 4% respectively. At the end of the same month, both Australian and New Zealand dollars continue to strengthened against the Tongan pa'anga while the US dollar has weakened. Appreciation of these two foreign currencies (AUD and NZD) lead to a higher cost of some imported food items especially meat such as mutton and chicken pieces which increased throughout the month, as Tonga mainly imports frozen meat from these two countries. At the end of the same period, the US dollar was slightly weakened against Tongan Pa'anga compared to previous month but was stronger compared to same period a year ago. Despite the weaken reflected in the monthly change, the rate still benefitted the recipients of remittances from the US as it is still more than double of a \$1 pa'anga.

