

Monthly Economic Update July 2017

Ministry of Finance & National Planning



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Indicators Digest

- ◆ Inflation rate dropped to 7.1% in July 2017
- ◆ Retail prices for petrol and diesel decreased by 10 and 9 seniti respectively in July 2017
- ◆ Tongan pa'anga depreciates relative to AUS and NZ dollars
- ◆ Foreign reserves recorded TOP \$408.9 million, with 7.1 import cover

Key Indicators	(T\$m unless otherwise indicated)			% change	
	Jul-16	Jun-17	Jul-17	Annual	Monthly
FISCAL INDICATORS (Government Financial Statistics (GFS) Basis)					
Revenue	20.4	38.3	15.5	88%	-60%
Tax and Non-Tax Revenue	16.2	22.4	15.0	38%	-33%
Grant (cash grants)	4.2	15.9	0.5	278%	-97%
Budget Support	7.3	12.5	0.0	71%	-100%
Project Support	3.4	3.4	0.5	1%	-87%
Expenses	14.4	38.3	13.1	166%	-66%
Compensation of Employees		11.7	8.5		
Gross Operating Balance	6.0	0.0	2.4	-99%	7411%
Net Acquisition of Non-financial Assets	0.4	5.6	0.5	1290%	-90%
Net Borrowing/Lending Requirement	6.0	5.5	1.8	-192%	-133%
Total Public Debt (\$million)	N/A	N/A	N/A	-	-
ECONOMIC ACTIVITY INDICATORS (OET basis)					
Exports	1.4	1.7	1.2	-14.3	-29.4
Imports	32.1	46.7	33.9	5.6	-27.4
Adjusted Cash Remittances (Ann Total)	253.3	284.5	287.5	13.5	1.0
FISCAL ANCHORS					
Wage bill to domestic revenue to be less than 53%		52%	57%		
MONETARY & PRICE INDICATORS					
Official Foreign Reserves	367.4	407.9	408.9	11.3	0.2
Import Cover (months)	7.4	7.4	7.1	-4.1	-4.1
Inflation (annual % change)	1.6	10.3	7.1	343.8	-31.1
Retail Fuel Prices:					
Petrol (T\$/litre)	2.35	2.50	2.40	2.1	-4.0
Diesel (T\$/litre)	2.35	2.45	2.36	0.4	-3.7

Note: Fiscal data are provisional (unless indicated) and still subject to change until audited. Note also due to the unavailability of data, some information is currently inapplicable. It will be rectified in the next report.

Inflation

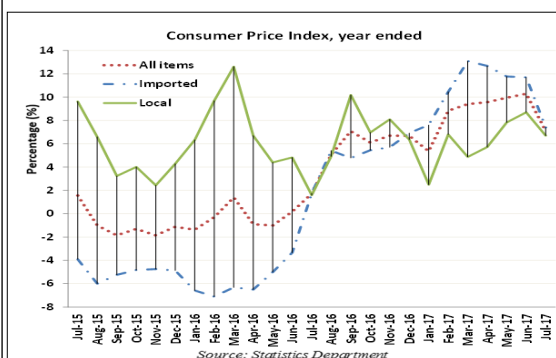
The annual inflation rate for July 2017 was 7.1%. This was higher compared to 1.7% in July 2016 but lower compared to 10.3% in previous month. However, the inflation rate for the reviewed month continues to remain above the NRBT's inflation reference rate of 5%.

On annual changes, the higher inflation rate was attributed to the increased in prices for both the imported and local items. On the imported items, it was due mainly to the increase in prices of the global oil and food. The increase in prices of oil in the global market was reflected in a higher price of fuel and electricity in the domestic market.

On the local items, the continued increase in prices of kava products, alcohol, tobacco, fish and other food items maintain the price level.

On monthly changes, the decrease was due to the fall in the price

	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Jul-16
All items	9.4	9.5	10.0	10.3	7.1	1.7
Imported	13.1	12.7	11.8	11.7	7.4	1.8
Local	4.9	5.7	7.8	8.7	6.7	1.6



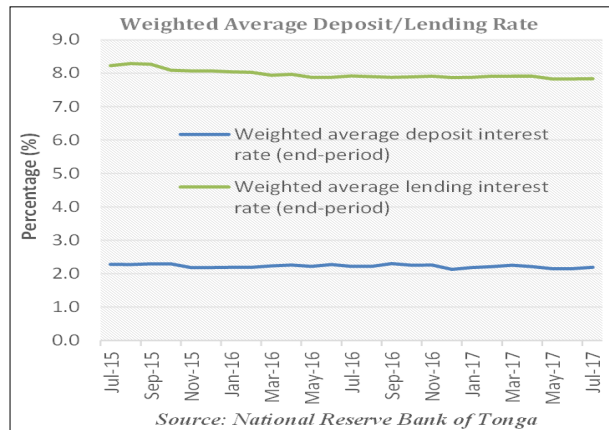
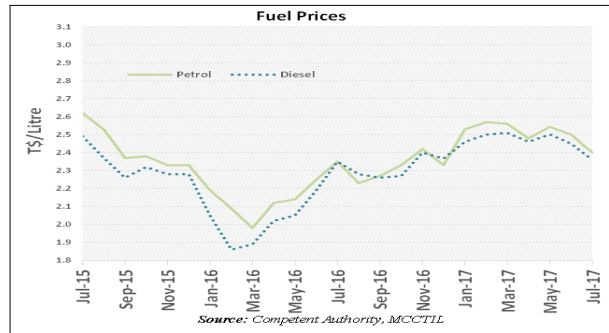
CPI continued

index of both the imported and local components of the CPI. This owes to the decrease in prices of fuel, electricity as well as fruits and vegetables. The monthly adjustment in CPI—imported component—continues to be driven due to an increase in an price of tobacco such as Winfield and Pall Mall.

Fuel Prices

The domestic prices for petrol and diesel for July 2017 was recorded at \$2.4 and \$2.36 senti/liter respectively. This represents a 4.0% decrease for both petrol and diesel from the previous month. This is driven by the decline in prices of oil in the global market and associated with favorable change in exchange rate which resulted in a lower regional product prices. This decline in fuel prices led to a fall in electricity tariff from 0.86 senti to 0.81 senti/kWh. This also had an income effect on consumer’s purchasing power.

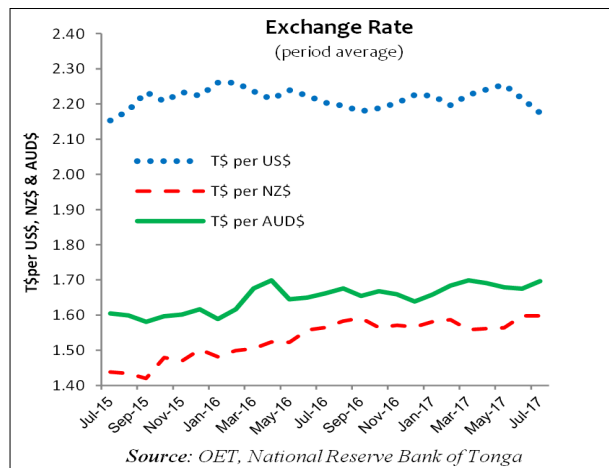
When compared to the corresponding period a year ago, petrol prices is lower by 2% and no change in diesel price .



Interest Rates

Annual lending rates in July 2017 decreased by 1% compared to the same period in 2016. However there was a slight increase of 0.1% compared to the previous month. The low lending rate encouraged more borrowing which is consistent with the continuous increase demand for housing loans despite the 0.1% rise on monthly basis. The decrease in the deposit rate discouraged savings and tends to drive up consumption spending.

Moreover, deposit rates increased by 2% compared to the previous month, but showed a 1.4% decline in the corresponding period a year ago.



Exchange rates

Nominal Real Trade Weighted Index for July 2017 increased by 0.1% and Real Trade Weighted Index declined by 0.3% compared to June 2017. By comparing these two rates to the same period over a year ago, both rates increased by 0.3% and 5.5% respectively.

At the end of the reviewed month, both Australia dollar (AUD) and New Zealand dollar (NZD) strengthen against the Tongan pa’anga while the United States (USD) dollar weakened. Depreciation against these two foreign currencies (AUD and NZD) implied higher costs of imported food items as Australia and New Zealand are the main foreign countries that Tonga import foods from.

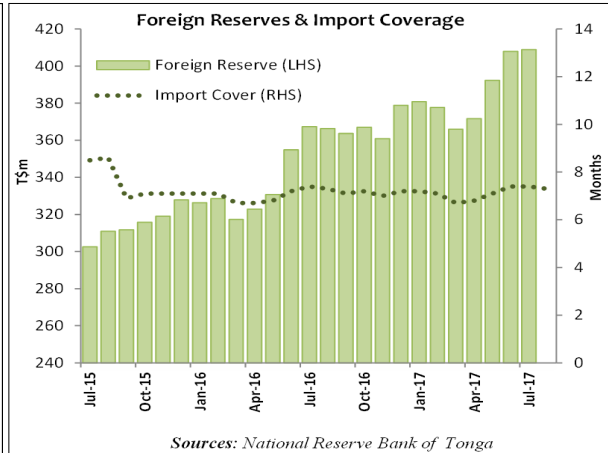
Agricultural Exports (Custom Data)

At the end of July 2017, provisional data indicated that a significant decreased in the Agricultural exports by around 36% compared to the same period in July 2016 and 25% compared to June 2017. The decline in almost all exported commodities drove the agricultural exports lower together with the Agricultural Show 2017 that held in the same month caused participants to hold relevant products for the event, which is the reason for the noticed trend. A positive outlook for agricultural exports is anticipated in the near term supported by the upcoming harvesting seasons for the new financial year for root crops, squash pumpkin, yams, fruits and vegetables as well as kava Tonga. In addition growth in lending to the agricultural sector continued to support growth in the sector.

Foreign Reserves

Foreign Reserves continue to increase significantly to TS\$408.9 million in July 2017, which holds a record of higher level over the past decade. It continues to remain stable at 11% compared to the corresponding period a year ago, which is no change compared to June 2017. The increase indicated the higher level of inflows, mainly from foreign aid and remittances into the country.

The level of foreign reserves for July 2017 was equivalent to 7.1 months of import cover, well above the Reserve Bank's minimum range of 3-4 months of imports. This level of import coverage indicates that Tonga continues to remain in a comfortable external position.



Fiscal performance

Revenue performance for July shows a big drop compared to June 2017. Revenue performance for June marked the end of the financial year with the annual church conference. Domestic revenue declined by 33% in July compared to the 22.4 million collected in June 2017. The huge drop in grant was also reflected in the revenue.

The Expense recorded for July 2017 also dropped by 66% compared to the expense recorded in June 2017. this drop was reflected in a fall in Compensation of Employees.

The July fiscal performance recorded a surplus of \$0.5 million. This will contribute to the level of cash reserve of Government and at the same time keeping excess demand and provide room for financing investment potential activities thus contributing to the economic growth. However, at the same time keeping the fiscal balance

Fiscal Anchors.

The monthly performance of wage bill for July 2017 is 57% which is an increase from 52% recorded in June 2017.

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

END