

At a Glance -May 2011-

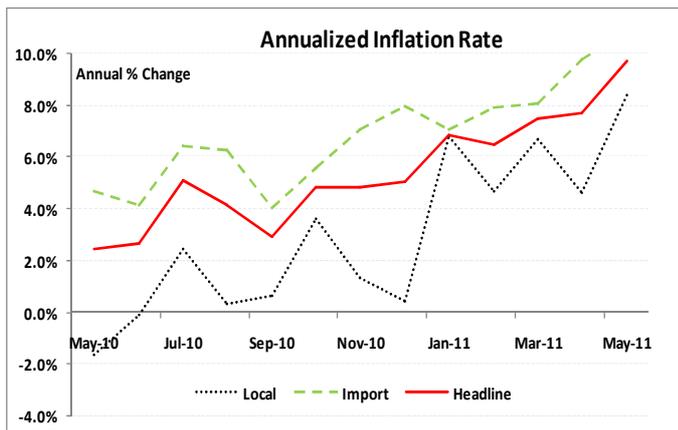


SUMMARY

- * Inflation continued to rise in May 2011 fuelled by increasing food and oil prices.
- * The level of remittances fell slightly in May 2011 compared to the previous month down by T\$0.7 million due to lower non-profit remittances sources plus the strengthening of the Tongan pa'anga against the US dollar.
- * Retail fuel prices continue to increase due to ongoing uncertainties in overseas oil markets and disruptions in the global oil supply. As a result the price for electricity was increased in May 2011 triggering a government subsidy for the first 100 kilowatts of consumption to all power consumers.
- * Receipts from official foreign aid contributed to the rise in the level of foreign reserves in May 2011, however the number of months of import coverage declined slightly due to large import payments.
- * Export receipts were boosted during May 2011 due to large earnings from sandalwood exports.
- * Tourist receipts declined in May 2011 from previous month due to weakened economic conditions in source countries like Australia and New Zealand.
- * A fall in term deposits, currency outside banks and foreign currencies contributed to a fall in the level of

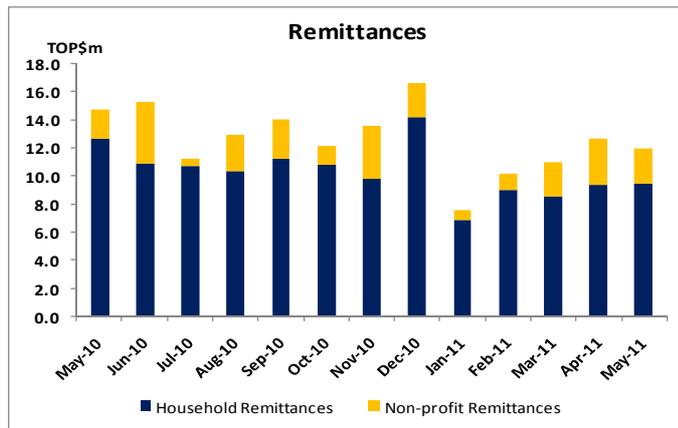
	May 2011 Values (T\$m unless otherwise indicated)	% change from May 2010	YEAR TO DATE (July 2010-May 2011)		
			Values (TOP\$m)	% of Budget (2010/11)	% of GDP (2010/11)
FISCAL INDICATORS (GFS Basis)				(92% of year)	
Total Revenue & Grants	18.64	+80.8%	162.43	83.9%	23.0%
Total Revenue	11.05	+13.0%	122.52	92.4%	17.3%
Total Grants	7.59		39.91	65.6%	5.6%
Total Expenditure & Net Lending	14.18	+16.5%	168.47	82.0%	23.8%
Total Expenditure	10.44	+11.3%	129.96	107.2%	18.4%
Aid Expenditure	3.74		38.51	45.6%	5.4%
OVERALL BALANCE¹	4.46		-6.04		0.9%
Total Public Debt	304.4		64.6		43.1%
ECONOMIC ACTIVITY				% change from period (July 2009-May 2010)	
Export (OET Basis)	3.4	+436.5%	10.4	-1.1%	1.5%
Import (OET Basis)	16.9	-8.5%	209.4	+10.8%	29.1%
Remittances	12.0	-18.8%	135.1	-4.9%	19.1%
Tourist Receipts	3.5	-8.4%	54.7	+20.2%	7.7%
MONETARY INDICATORS					
Official Foreign Reserves	170.2	+2.1%			24.1%
Money Supply (M ₃)	291.6	+0.9%			41.3%
Import Cover	6.3 months	-4.5%			
Annualized Inflation	9.7%	+7.2(% point change)			
Retail Fuel Prices: Petrol	3.01/litre	+15%			
Diesel	3.13/litre	+19%			

Note: ¹Overall Balance excludes all loan funded transactions. This means the deficit only covers government and grant funded expenditure only, not loan funded as shown in the full details in the budget statement.



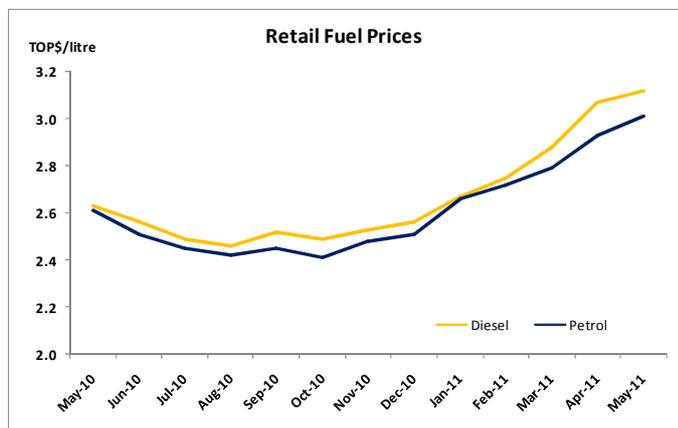
Source: Tonga Statistics Department

Annual inflation rate in May 2011 reached 9.7%, the highest since 10.3% in September 2008. This increase continues to be driven by rising food prices both local and imported, followed by price increases recorded for petrol and diesel. This reflects the continuing rising commodity prices world-wide.



Source: National Reserve Bank of Tonga

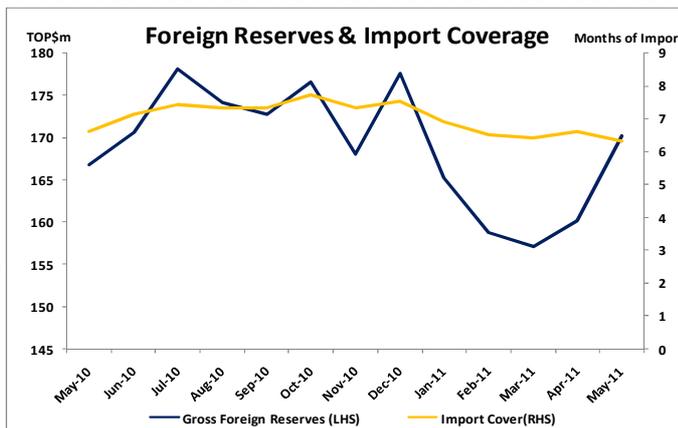
The level of remittances declined slightly in May 2011 from the previous month, by T\$0.7 million (6%), due to lower remittances from non-profit sources. The further strengthening of the Tongan pa'anga against the US dollar by 1% during the month, further suppressed the value of remittances in pa'anga terms.



Source: Ministry of Labour, Commerce & Industries

Retail fuel prices continue to increase in May 2011, with petrol up T\$0.08/litre and diesel by T\$0.05/litre. Continuing overseas oil markets tightness, as well as growing demand in emerging economies and disruptions in oil supply maintained upward pressure on fuel prices.

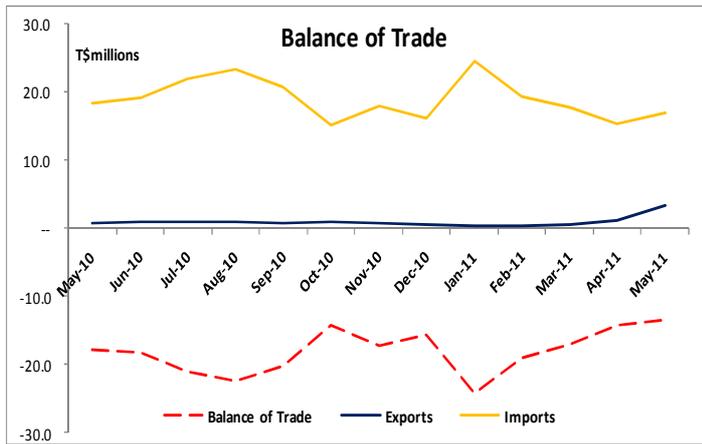
The fuel price rises triggered an increase in the price for electricity by 0.13 cents/kilowatts to 0.98 cents/kilowatts in May 2011. To mitigate the impact on consumers the government decided to subsidize power consumers by paying 0.11 cents/kilowatts for the first 100 kilowatts consumed per month starting May 2011 until August 2011.



Source: National Reserve Bank of Tonga

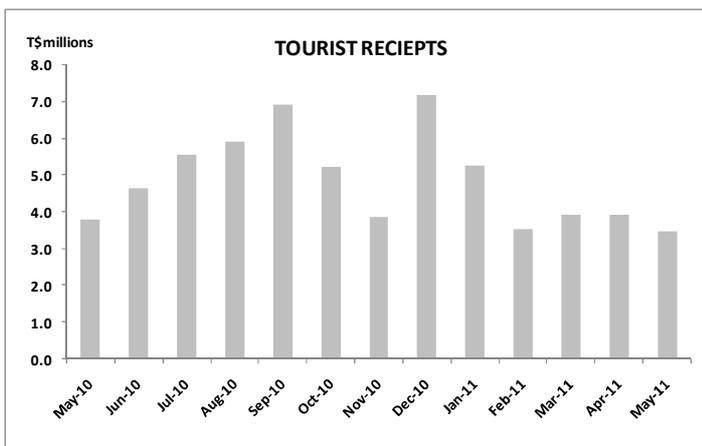
The level of foreign reserves continued to pick up after the low point in March 2011, reaching T\$170.2 million in May 2011. This increase was mainly due to receipts of official foreign aid being greater than the level of aid funded expenditure. The primary net inflow was received from AusAID.

On the other hand, foreign reserves when measured as ratio of imports compared to April 2011 decreased in May 2011 to 6.3 months due to import payments like fuel; however it still remains well above the adequate level of 4 months of import coverage.



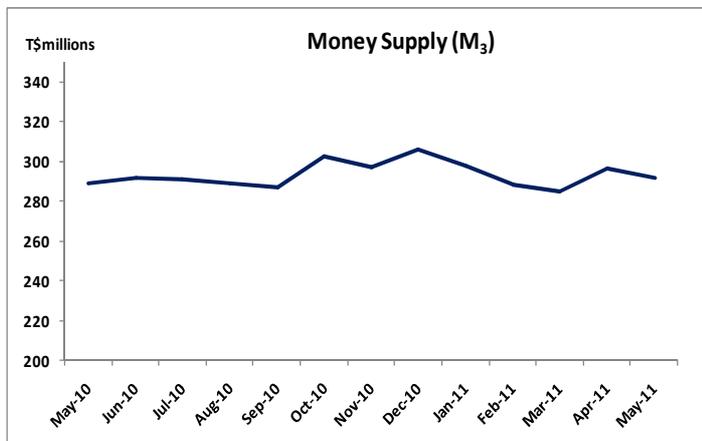
Source: National Reserve Bank of Tonga

Exports were \$3.4 million in May 2011, increase of an \$2.4million from the previous month and over 400% above the level at same time last year. This was mainly due to high receipts from sandalwood (ahi) exports. According to quarantine data, almost three thousand kilos of sandalwood were exported during this period to Fiji with each kilo worth up to \$95 pa'anga. There is a limited supply of this vulnerable and valuable commodity so this level of exports cannot be anticipated to last for long.



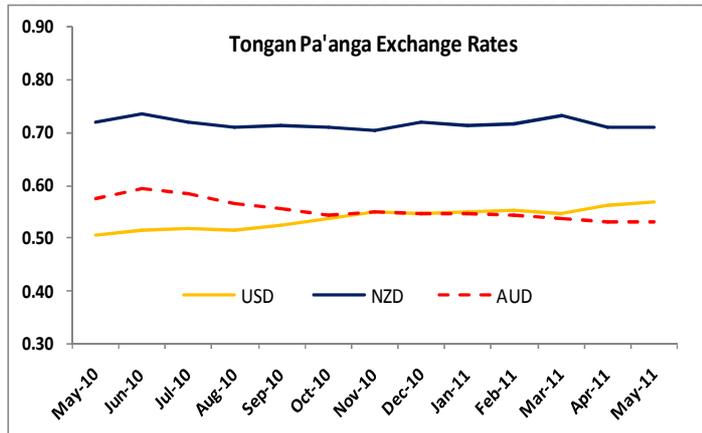
Source: National Reserve Bank of Tonga

Tourist receipts declined in May 2011 compared to the previous month, as well as year on year, due to weakening economic conditions in some source countries. Primary markets like New Zealand, Australia and the USA make up 80% of overall tourist arrival and according to the ADB (Asian Development Bank), visitors from Australia in the first quarter remained stable while the number of New Zealand visitors dropped significantly compared to same period last year. With the continuing economic uncertainty and low growth rates in NZ and US in particular, coupled with high level of transport costs, it is unlikely that tourist receipts will pick up in the near future.



Source: National Reserve Bank of Tonga & Tonga Statistics Department

Total money supply declined in May 2011 from previous month due to fall in term deposits, currency outside banks and foreign currencies accounts.



Source: National Reserve Bank of Tonga

Key Statistics:

- * Population: 101,991 (natural growth rate = 0.4%)
- * GDP/capita: T\$6,424 (real GDP growth rate 2010/11 = 1.5% (p))
- * Land Area: 748 sq km (Archipelago of 176 islands, 52 inhabited)
- * Health: Infant mortality rate (2008)—16/1000