

# Monthly Economic Update

## November 2016

Ministry of Finance and  
National Planning



### Key Indicators

Indicators	(T\$m unless otherwise indicated)			% change from	
	Nov 2015	Oct 2016	Nov 2016	November 2015 to November 2016	Oct 2016 to November 2016
<b>ECONOMIC ACTIVITY INDICATORS (OET basis)</b>					
Exports	2.80	2.10	3.00	7.1%	42.9%
Imports	24.3	32.6	27.0	11.1%	-17.2%
Travel Receipts	5.7	5.0	7.9	38.6%	-19.4%
Adjusted Cash Remittances (Annual Total)	226.3	263.3	266.9	17.9%	1.4%
<b>MONETARY &amp; PRICE INDICATORS</b>					
Official Foreign Reserves	319	367	360.9	13.1%	-1.7%
Import Cover (months)	9.2	9.3	9.1		
Inflation (annual % change)	-1.9	6.1	6.7		
Retail Fuel Prices:					
Petrol (T\$/litre)	2.33	2.33	2.42	3.9%	3.9%
Diesel (T\$/litre)	2.28	2.27	2.40	5.3%	5.7%

Release date: February 2017

### Highlights:

Key Indicators	1
Inflation	1&2
Fuel Prices	2
Deposit/ lending rates	3
Foreign Reserves	3
Exchange Rates	3

Note: The data for fiscal indicators have not yet release.

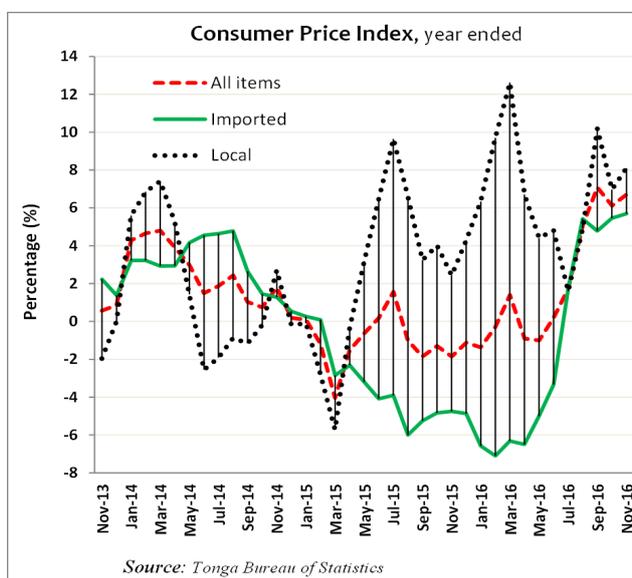
### Inflation

Annual rate of inflation recorded for November 2016 was 6.8%. This rate, for the fourth consecutive month, remained higher than the inflation reference rate of 5% set by the NRBT.

For the last four months, continuous record of high inflation is attributed to a combination of the new customs and excise tax on the domestic prices of goods in addition to the rising commodity prices globally, coming into effect the depreciation of the Tongan pa'anga against NZD and USD that lead to increase in the prices of imported meat and other items. This persistent upward trend in inflation continues to call for policy consideration.

For the reviewed month, annual change in the Consumer Price Index (CPI) was mainly driven by an increase for both local index and imported items by 8.1% and 5.8% respectively.

However, relative to the previous month, an increase in CPI by 0.1 percent was recorded



Source: Tonga Bureau of Statistics

in November, as a result of a slightly increase in import price index by 0.2%, compared to previous month as prices for some imported items such as meat, increased throughout the month.

On the other hand, local index decrease by 0.1% as some fruits and vegetables such as ripe bananas, capsicum and pawpaw decreased throughout the month.

### Indicators Digest

- ◆ Inflation: 6.8% for November 2016.
- ◆ Retail prices for diesel and petrol for November 2016 increased by 13 and 9 seniti respectively.
- ◆ Foreign reserves recorded TOP\$360.9m, equivalent to 9.1 months of import cover.
- ◆ Tongan pa'anga depreciates relative to USD and NZD.

### Shortage in supply of Kava

The continued shortage of kava has boost its price has become connected with inflation in a cause and effect relationship. As price of kava increases, inflation follows in the same direction.

Kava is classified under the Tobacco, alcohol and kava group. The weight of this group in the total basket of consumer goods established from the HIES 2009 is 6 percent. In this group, it is divided into local component (1.5) and imported (4.51) component. The weight of each component is also referred to the proportion of expenditure reflected in the HIES in 2009.

The 1.5 percent of the local component is also consist of Kava and other local manufactured tobacco and alcohol. The weighting of kava reflect the insignificant in the proportion of consumer expenditure. However, what is noted in this analysis that kava's contribution to the inflation has been significant.

The contribution of the local component of Tobacco, alcohol & kava was 0.9 % to the 1.6 % inflation in July 2016. For August 2016, the contribution of the local component of Tobacco, alcohol & kava was 1.1 % to the 5.1 % inflation. This is second to the Food group. The contribution of the local component of Tobacco, alcohol & kava was 1.2 % to the 7.0 % inflation in September 2016. This is second to the Food group. This significant contribution is enough to show the cause and effect relationship between price of kava and inflation.

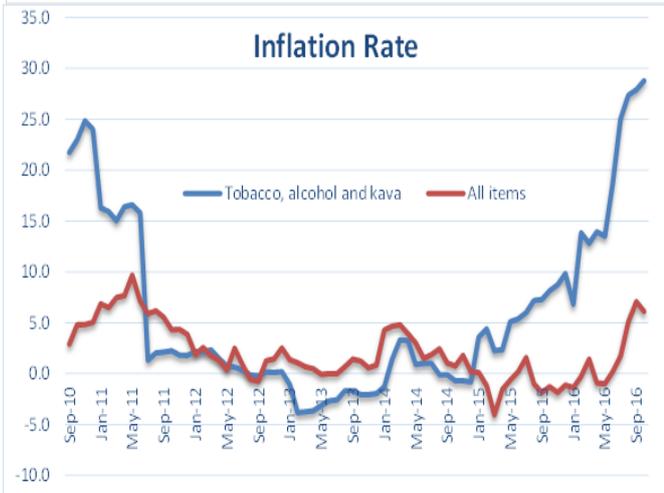
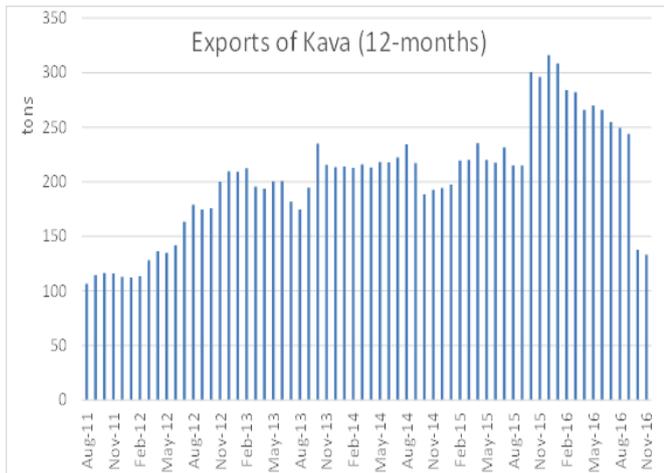
The shortage of kava supply results in rise of kava price. This short supply was started from the drought in late 2014. This results in poor

### Fuel Prices

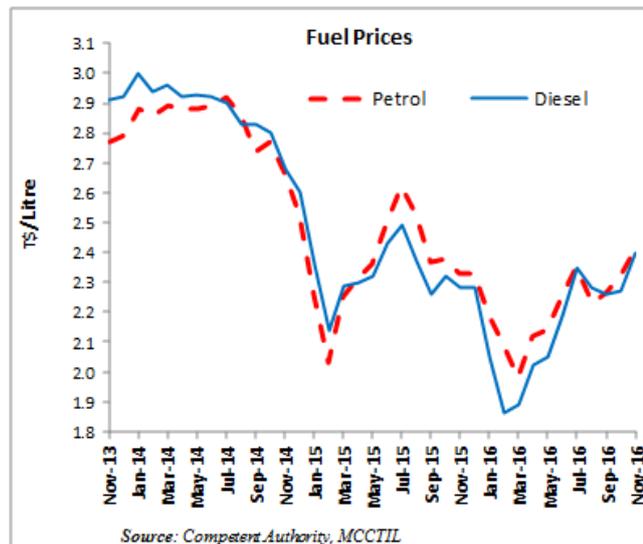
Domestic fuel prices continue to increase in November 2016. Petrol prices increase this month by 4% compared to both October 2016 and the same period in 2015. Diesel prices also increase against previous month and corresponding period a year ago by 5% and 6% respectively.

The increase in domestic fuel prices reflected the increase in price of oil in the global oil market in October 2016, as global price of crude oil continued to hover around USD 50/barrel, about USD3 higher than September.

Effects of price changes in the global oil market in the domestic fuel prices lag between a month or two.



harvesting of kava. Then following the opening of the EU market in 2015 put more pressure on the supply kava. The export of kava powder and chips suddenly jump over September 2015 by 7.51 tons. Again kava exports jump by another 21.67 tons over the month of December 2015. The export of kava was then decline since then. The short of supply in kava is witnessed on the radio with tight competition between buyers of kava from farmers by raising the prices of kava chips.



Source: Competent Authority, MCCTIL

### Deposit and Lending Rates

Annual lending rate continue to remain lower, by 2%, in November 2016 compared to the same period a year ago. This continues to encourage more borrowing which is consistent with the increasing trends in the housing loans as well as demand for business loans that leads to rising domestic consumption expenditure and growth enhancing.

Deposit rate continued to remain stable at slightly above 2%, at the end of the reviewed month and slightly increased by 4% compared to corresponding period over a year ago.

### Foreign Reserves

Foreign Reserves recorded for November 2016 had slightly decreased by 2% at a record level of TOP\$ 360.9 million compared to October 2016 and significantly increased by 13% compared to the same period in 2015.

The level of foreign reserves for November is equivalent to 9.1 months of import cover which remains more than double the NRBT’s minimum range of 3-4 months.

High level of foreign reserves continue to support positive outlook for economic growth in coming years.

### Exchange Rate

Nominal Real Trade Weighted Index increased slightly by 1% and Real Trade Weighted Index remained stable for the month of November 2016 compared to previous month. By comparing these two rates to the corresponding period over a year ago, Nominal Real Trade weighted Index decreased by 3% and Real Trade Weighted Index increased by 6%.

At the end of this reviewed month, both US and NZ dollars, on average, continue to strengthen slightly against the Tongan pa’anga. Appreciation of these two foreign currencies imply higher cost of imported food items that come from the USA and New Zealand such as frozen meat. Moreover the Australian dollar weakened slightly against Tongan Pa’anga at the end of the same period.

Despite the depreciation of the Tongan pa’anga against the USD and NZD, it remains a benefit to recipients of foreign exchange which are individuals receiving remittances and exporters of agricultural products such as cassava to NZ.

