

At a Glance

September 2010

Inside AAG
September:

Economic Indicators

Gross Domestic Product	2008/09	2009/10	2010/11 forecast
GDP (at constant market price)	-0.4	-1.2	1.4

Headline Indicators	September 2010 Values (\$m Pa'anga unless otherwise indicated)	% change from Aug 2010	% of GDP (10/11)
Economic Activity			
Export (OET basis)	\$0.7	↓ 0.2%	0.1%
Imports (OET basis)	\$20.9	↓ 0.11%	3.0%
Remittances	\$14.0	↑ 0.08	1.7%
Annual Inflation	2.9%	↓ 30%	
Monetary Indicators			
Foreign Reserves	\$172.7m	↓ 0.01%	22.3%
Import cover	7.3 months	↓ 0.01%	
Fiscal indicators (YTD)			
Revenue & Grants			
<i>(Budget 2010/11 \$193.5m)</i>			
Recurrent Revenue	\$31.46	16.3% of Budget	4.03%
Expenditure			
<i>(Budget 2010/11 \$205.6m)</i>			
Expenditure & Net Lending			
Recurrent Expenditure	\$37.32	18.2% of Budget	4.78%
Donor Activity			
Aid revenue received	\$0.79	(YTD) \$5.19	0.66%
Aid expenditure	\$3.06	(YTD) \$7.77	0.99%
Total Public Debt	\$290.23 (YTD)	↑ 7.27%	37.2%

Overview:

Inflation	2
Fuel	2
Domestic Production	2
Remittances	3
Gross Foreign Reserve	3
GFS Performance	3
Debt Management	3

Summary

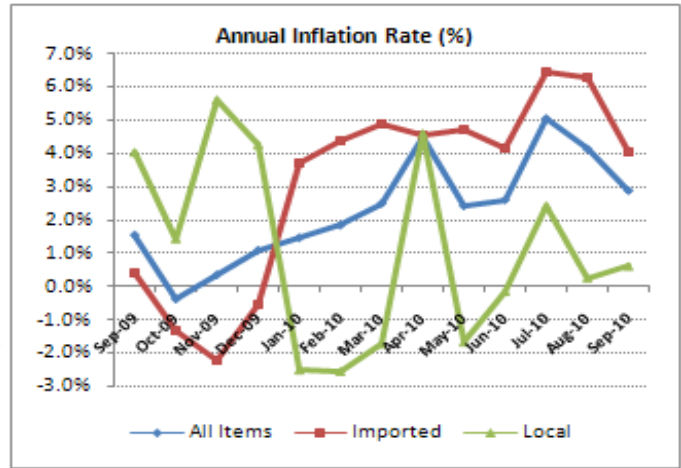
- ◆ Annual Inflation decreased to 2.9% due to a marked fall in both local and imported household maintenance goods.
- ◆ Domestic agricultural productions declined in June quarter compared to the first quarter of this year.
- ◆ Remittances slightly increased by 0.08% from the previous months
- ◆ Foreign Reserves fell by \$1.4 million pa'anga to \$172.7 million pa'anga from previous month which is equivalent to 7.3 months of imports.
- ◆ The Government's overall fiscal position recorded a deficit of \$ 8.30 million pa'anga on a GFS basis for the month of September 2010.
- ◆ Total public debt as at 31st September 2010 is estimated at \$290.23 million pa'anga or 37.23% of GDP.

Inflation

Annual inflation rate for the month of September stands at 2.9% compared to 4.2% in August 2010 and 1.6% in September 2009.

The significant decline by 3.4% in both local and imported household maintenance goods such as reinforcing steel and corrugated iron attributed to this fall.

Miscellaneous goods and services marked the largest increase in price by 1.2% and this is mainly due to increase in price of newspapers and stationery supplies from the previous months.



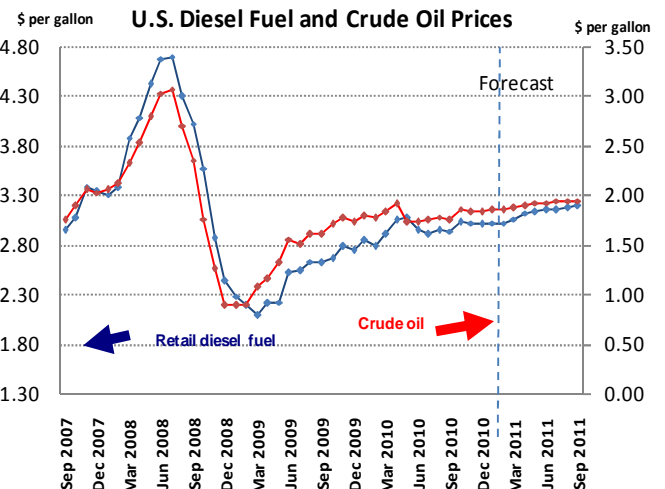
Source : Tonga Statistics Department

Fuel Prices

Fuel prices have increased from the previous months which resulted in increased of 0.7% in transportation group

According to Energy Information Administration (U.S), the price of West Texas Intermediate (WTI) crude oil prices averaged \$75 per barrel in September but rose to above \$80 at the end of October as expectations of higher oil consumption pushed up prices.

World oil prices are expected to rise gradually as global economic growth leads to higher global oil demand and growth in non-OPEC oil supply slows in 2011 according to EIA.



Source : Short-term Energy Outlook, October 2010

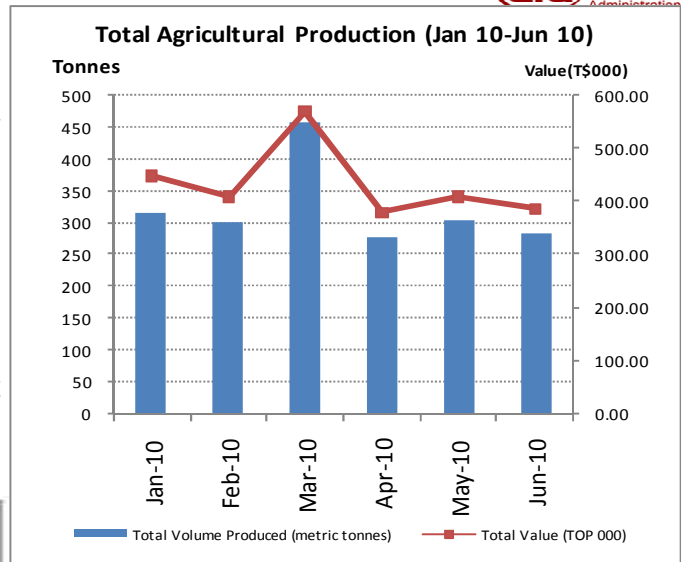


Domestic Agricultural Production

The total volume of domestic agricultural produce sold at the end of June quarter decreased by 20% from the first quarter of 2010.

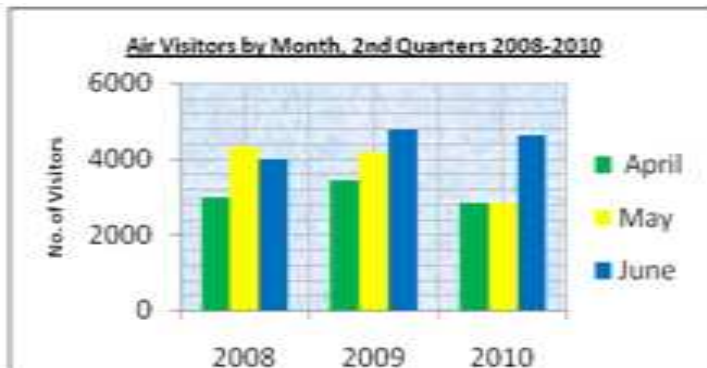
Root Crops still dominate the volume of domestic productions particularly Cassava. Watermelon reflects the highest volume of fruit due to favourable weather and was expected to export. Bananas and vegetables varies due to its seasonal nature. Commencing January 10, total agricultural productions recorded includes the roadside and 'Utukalongalu market in Vava'u.

Total value have fluctuated in line with the productions and decrease by 17% from the last quarter but unable make any comparison for the corresponding period of last year due to capturing of other markets.



Source : Domestic Market Survey Report, MAFF

Tourism



Source : Tonga Visitors Bureau

Air visitors arrivals in June 10 increased by 62% from May 10 and declined by 3.09% from May 09. This significant increase is mainly due to visiting friends and relatives who attended major conferences of churches that was held within this period.

Majority of visitors are from the major remitting countries which are Australian, New Zealand and the United States of America.

Money Supply & Total Liquidity

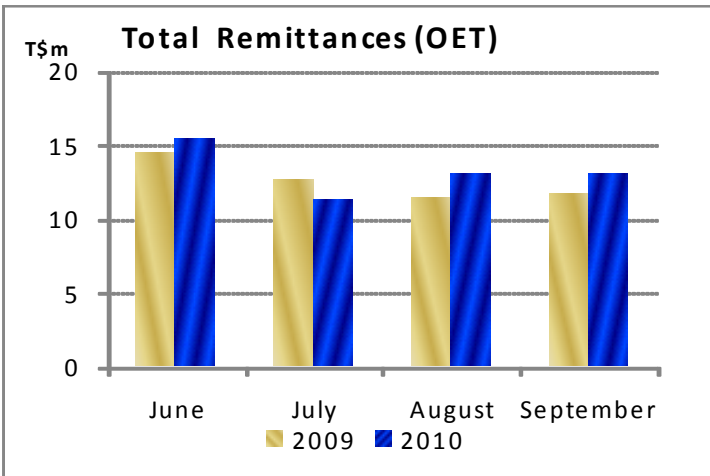
The level of Money Supply and Total Liquidity at the end of September 2010 was \$286.8 million and \$291.4 million pa'anga respectively. Money Supply declined by \$2.1 million and \$0.01 million from the previous month and from September 09 respectively. Total Liquidity declined by \$2.0 million from August 10 and increased by \$0.8 million from September 09. This decline were mainly attributed to decline in bank deposits such as term and saving deposits.

Commercial Banks Lending

Commercial banks credit declined by \$3.85 million from August 10 and \$19.51 million from September 09. Industrial sector which accounted for around 50% of the total lending has declined by 17% and Housing loan declined by 24% from last year. Tightening of banks credit criteria might be attributed to this declined in lending.

Remittances

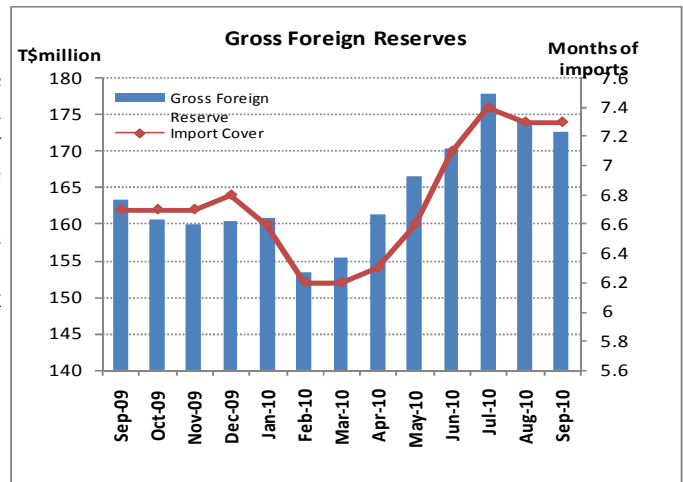
Total Remittances for September 10 increased by 0.08% to \$14.0 million from \$13.0 million in August 10 and increased by 11% from \$11.7 million in September 2009. This increase is mainly due to a slight increase in household remittances while non-profit remittances remains the same from the previous months.



Source : National Reserve Bank of Tonga

Gross Foreign Reserve

Official Foreign Reserve held by the National Reserve Bank of Tonga was \$172.7 million and equivalent to 7.3 months of imports. It fell by \$1.4 million from the previous months and increase by \$9.4 million from the corresponding month of the previous year. The decline in foreign reserves was mainly due to official capital outflow.



Source : National Reserve Bank of Tonga

Government Fiscal Performance (GFS basis)

1. Overall fiscal position

- ◆ The Government's overall position at the end of September 10 recorded a deficit of \$8.30 million pa'anga.
- ◆ This deficits consist of \$2.58 million and \$5.72 million deficits from both grants and government funds.

2. Revenue

- ◆ Total Revenue and Grants recorded a total of \$36.79 million pa'anga of which \$31.60 million from government revenue and \$5.19 million pa'anga from grants.

3. Expenditure

- ◆ Total Expenditure and Net Lending was \$45.09 million of which \$37.32 million pa'anga from government fund and \$7.77 million pa'anga from grants.

Debt Management

Total public debt at the end of September 2010 is estimated at \$290.23 million pa'anga, equivalent to 37.23% of GDP. Of this external debt was \$252.12 million (32.34% of GDP) and domestic debt was \$38.11 million (4.89% of GDP).

Total public debt increased by \$31.97 million between June and September 2010 quarter. This increased was mainly due to disbursement made for Nuku'alofa Reconstructions Project and the appreciation of the major borrowing currencies for external debt and issuing of the new treasury notes for domestic debt.

Total public debt servicing as at 30 September 10, was \$2.37m pa'anga which is \$2.37 for external debt and \$0.01m pa'anga for domestic debt. This is equivalent to 0.30% of GDP and in ratio to recurrent revenue of 5.50% and 5.42% in ratio to recurrent expenditure.