

At a Glance - January 2015

HIGHLIGHTS

➤ **Falling oil prices are causing low inflation**

Annual inflation weakened further in January 2015 to 0.1% from 0.2% in the previous month, and from 4.2% in January 2014. Both local and imported components of inflation are low. Recent declines in inflation are mainly due to the falls in global oil prices over the past 6 months. The transportation costs component of the CPI fell 5% reflecting lower fuel prices, airfares, electricity and gas prices. It is anticipated that inflation will remain weak for the next few months as the effects of lower global oil prices continue to work through the economy.

➤ **Travel receipts drop due to volcanic eruption**


Travel receipts declined to \$4.3 million in January down 37% from the previous month, and 43% from January 2014. This is due to the volcanic eruption which interrupted international and local flights in January, as well as there being no cruise ship arrivals for the month. The decline is also a result of strong receipts in December due to the festive/holiday season. Travel receipts are expected to recover in the coming months since the volcanic eruption is a temporary event, and a number of cruise ships are scheduled to arrive. Travel receipts will receive a boost later in the year due to the King's coronation.

➤ **Export earnings decline due to drought decreasing production**

Export earnings were also weak in January at \$0.1 million compared with \$2.6 million in December. Earnings were also very weak compared to the same period last year. This was mostly driven by the decline in exports of major agricultural products due to continuing drought conditions. Squash exports did increase in the month, but this was not sufficient to offset the weakness in other products. Import payments remained strong relative to exports which saw the merchandise trade deficit increase to \$30 million compared to \$18 million in the previous month. We expect exports will remain low over coming months due to the continuing dry weather conditions, but we anticipate a gradual recovery beginning later in the year.

➤ **Weak receipts and earnings caused a decrease in foreign reserves**

The level of gross foreign reserves decreased by 2.2% in January 2015 to \$287.2 million. However, reserves remain 4% higher than a year ago. The monthly decrease is a consequence of the drop in export and travel receipts. A slight increase in budget support inflows was insufficient to offset the drop in receipts. Import cover decreased slightly to 9.6 months from 9.9 months in the previous month. It is expected that with recovering travel receipts, increases in remittances and budget support, reserves will maintain the average level of 9 months in import coverage.

	(T\$m unless otherwise indicated)			% change from		YEAR TO DATE (YTD) JULY 2014/15 - JAN 2014/15		
	Jan 2014	Dec 2014	Jan 2015	Jan 2014 to Jan 2015	Dec 2014 to Jan 2015	Values (T\$m)	% of Budget (2014/15)	% of GDP ¹ 2014/15
FISCAL INDICATORS (Government Financial Statistics (GFS) Basis)								
Total Revenue & Grants	30.6	29.4	15.1	-50.8%	-48.8%	133.1	76.0%	
Total Revenue	12.5	18.0	14.5	15.7%	-19.5%	111.5	67.8%	
Grant (cash grants)	18.1	11.4	0.6	-96.9%	-95.2%	21.6	8.3%	
Total Expenditure & Net Lending	28.7	28.6	14.6	-48.9%	-48.8%	129.0	26.8%	
Expenditure (ind. cash grants)	20.0	17.4	15.3	-23.3%	-11.8%	116.9	26.8%	
Total Net Lending	8.6	11.2	-0.7	0	0	12.1		
Total Public Debt	385.8	393.0	392.6	1.8%	-0.1%	2695.8		46.0%
ECONOMIC ACTIVITY INDICATORS						YTD Values (July 2014-to Date)	% change from prev. YTD (July 2013 - Jan 2014)	YTD Values (July 14 - Jan 15) as % of GDP
Exports ² (OET Basis)	1.2	2.6	0.7	-41.7%	-73.1%	9.7	-10.2%	0.1%
Imports ³ (OET Basis)	23.0	21.1	30.7	33.5%	45.5%	182.8	17.7%	3.6%
Travel Receipts ⁴	7.6	6.8	4.3	-43.4%	-36.8%	36.2	-34.9%	0.7%
Adjusted Cash Remittances								
MONETARY & PRICE INDICATORS								
Official Foreign Reserves	276.7	293.6	287.2	4%	-2%			
Retail Fuel Prices:								
Petrol (T\$/litre)	2.9	2.5	2.3	-21.5%	-10.7%			
Diesel (T\$/litre)	3.0	2.6	2.4	-21.3%	-9.2%			
Import Cover (months)	9.4	9.9	9.6					
Inflation (annual% change)	4.2	0.2	0.1					

¹ Nominal GDP 2014/15: T\$854.4 million (estimate)

² Exports of goods (f.o.b) only, *Overseas Exchange Transactions (OET)*

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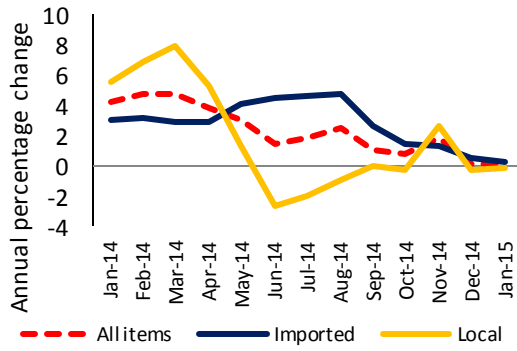
⁴ New methodology with the inclusive of Foreign Exchange Dealer differ from the old methodology which was based on central banks Reports only.(no data is being available as a result from this revision method)

⁵ Note there is difficulty in disaggregating tourism receipts from private remittances

Note Total Budget Estimate for 14/15: T\$302.7 million (cash only including Government and Donor fun

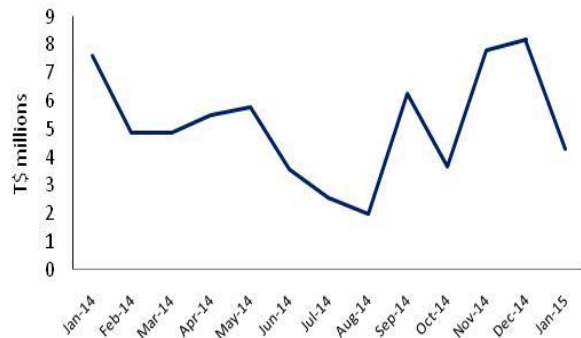
N/A : refer to not available.

Figure 1: Consumer Price Index (Inflation)



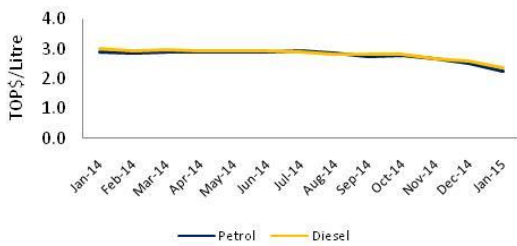
Source: Tonga Bureau of Statistics

Figure 5: Travel Receipts (monthly)



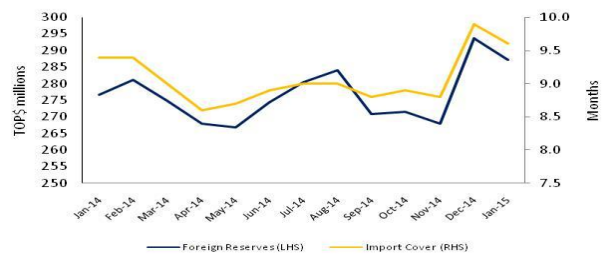
Source: National Reserve Bank of Tonga

Figure 2: Retail Fuel Prices



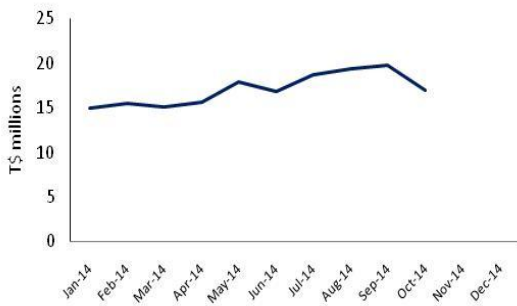
Source: Ministry of Labour, Commerce and Tourism

Figure 6: Foreign Reserves & Import Coverage



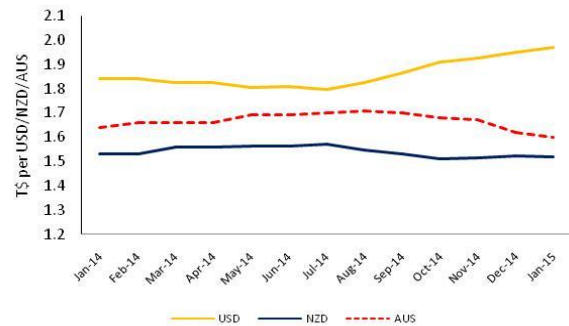
Source: National Reserve Bank of Tonga

Figure 3: Cash Remittances



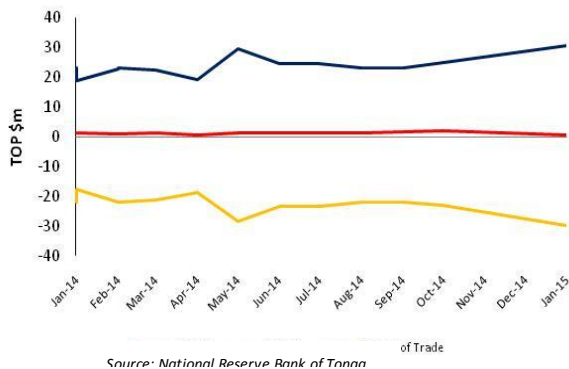
Source: National Reserve Bank of Tonga

Figure 7: Tongan Pa'anga Exchange Rates



Source: National Reserve Bank of Tonga

Figure 4: Balance of Trade (OET Basis)



Source: National Reserve Bank of Tonga

Note: All data reported are as per the most recent publication. Cash remittances are not included in this publication due to data issues, which we anticipate having resolved in order to include this information in the next At A Glance report.