

Monthly Report-July 2015

HIGHLIGHTS

➤ **Increasing local prices caused high inflation**
Annual inflation in July was 1.6% (**Figure 1**). This is a large increase from 0.2% in the previous month. The annual inflation rate for domestic inflation is 9.7% whereas imported inflation is -3.9%. The strong increase in local inflation is caused by a massive increase of 79.2% in prices of local fruits and vegetables. This is consistent with weaker domestic agricultural production due to drought conditions.

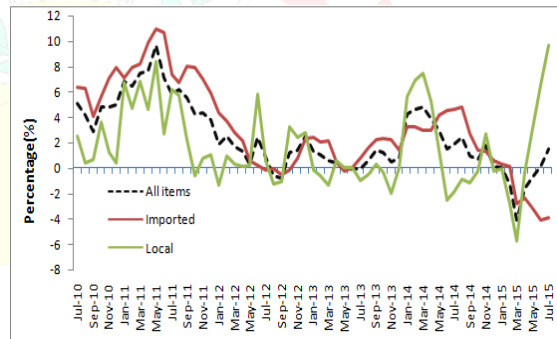
Both global oil and local fuel prices continue to increase since the beginning of 2015 after domestic fuel prices dropped significantly towards the end of 2014 (**Figure 2**). This is feeding through into higher monthly inflation in both imported and domestic prices – particularly the increase in transportation costs by 3.4% and household operation costs (domestic fuel and power) increased by 3.6%. However, prices remain below levels of a year ago.

➤ **Continuation in dry weather condition drives weak exports**

Export earnings in July decreased by 33% compared to July 2014 (**Figure 4**). This was driven by declines in the volumes of principal agricultural exports, particularly root crops and other vegetables. This reflects the effect of the continuing drought conditions brought on by the El Nino pattern that began in February this year. Our forecast in June projected a gradual recovery for the Primary Sector, but drought conditions suggest growth in the sector could remain weak.

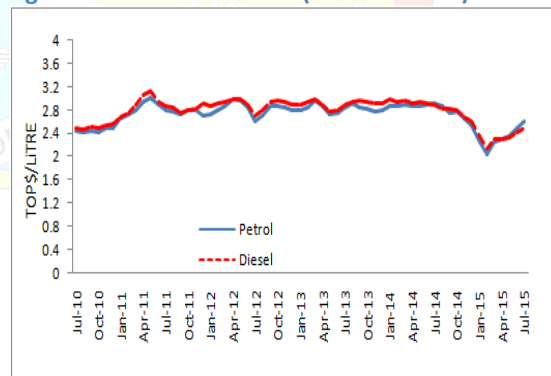
An appreciation of the Tongan pa'anga by 2% in terms of the New Zealand currency also have contributed to monthly decline in export receipts (**Figure 3**).

Figure 1: Annual Inflation Rate



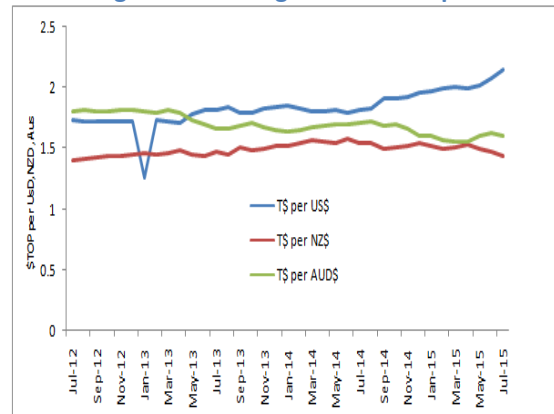
Source: Tonga Bureau of Statistics

Figure 2: Retail Fuel Prices (end of month)



Source: Competent Authority, MCL

Figure 3: Exchange Rate end of period



Source: OET, NRBT

- **Coronation boosts the number of tourist arrivals and travel receipts, but import payments weaken.**

Import payments (OET basis) in July 2015 decreased by 34% compared to June 2015 and increased by 24% compared to July 2014. These movements are consistent with provisional merchandise trade data and reflect a fall back in imports following unusually high imports in April-June ahead of the Coronation. The declines in volumes were largest for imports of live animals and animal products, chemicals and allied products and plastics and rubber with a reduction from \$33 million in June to \$22 million in July 2015 (**Figure 4**).

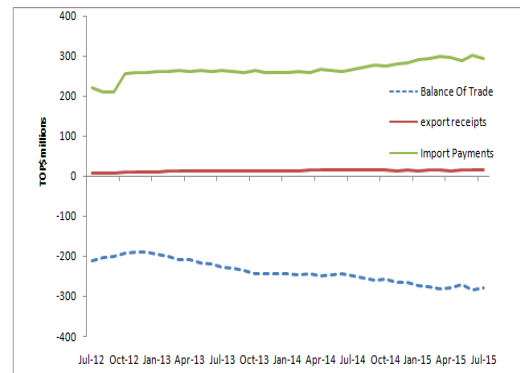
Travel receipts in July increased by 41% from June 2015 and significantly increased by 78% over July 2014. At the same time, total visitors air arrivals in July increased by 1% since June and increased by 9% compared to the same month of last year. These significant increases are both due to one main event of the month, the Coronation (**Figure 5**).

- **High Foreign Reserve, resulting from strong inflow of receipts and weaker import payment.**

The level of foreign reserves increased by 4.5% from June to July 2015 and is 8% higher than July 2014. This indicates a strong net inflow of foreign payments for the month. The monthly increase was a consequence of the boost in monthly travel receipts as well as the decline in import payments (**Figure 6**).

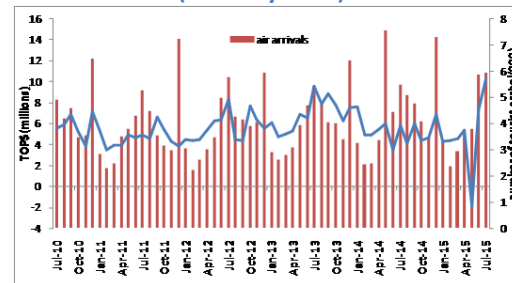
Import cover slightly increased to 8.6 months from 8.2 in the previous month and is well above the NRBT's minimum range of 3 to 4 months of import.

Figure 4: Balance OF Trade



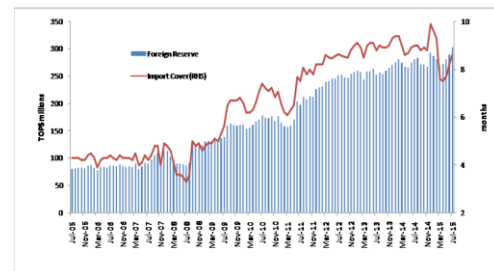
Source: National Reserve Bank of Tonga(OET)

Figure 5: Travel Receipts vs Tourist Air arrivals (monthly total).



Source: NRBT & Statistic Department

Figure 6: Foreign Reserve vs Import Cover



Source : National Reserve Bank of Tonga

	(T\$m unless otherwise indicated)			% change from		YEAR TO DATE (YTD) JUL 2015/2016		
	July 2014	June 215	July 2015	July 2014 to July 2015	June 2015 to July 2015	Values (T\$m)	% of Budget (2015/16)	% of GDP ¹ 2015/16
FISCAL INDICATORS (Government Financial Statistics (GFS) Basis)								
Total Revenue & Grants	21.3	27.8	16.3	-23.8%	-41.5%	16.3	0.0	
Total Revenue	20.3	22.5	15.7	-22.8%	-30.6%	15.7	7.2%	
Grant (cash grants)	1.1	5.3	0.6	-42.8%	-88.4%	0.6	0.6%	
Budget Support								
Project Support	1.1	5.3	0.6	-42.8%	-88.4%	0.6	0.8%	
Total Expenditure & Net Lending	7.6	44.1	18.9	149.1%	-57.2%	31.4	10.7%	
Expenditure (incl. cash grants)	14.2	34.4	17.4	22.4%	-49.4%	26.9	7.9%	
Total Net Lending	-6.7	9.7	1.4	-121.7%	-85.1%	4.5		
Total Public Debt	370.8	422.7	431.9	16.5%	2.2%			50.2%
ECONOMIC ACTIVITY INDICATORS (OET basis)								
Exports	1.2	1.0	0.8	-33.3%	-20.0%			
Imports	29.5	33.7	22.3	-24.4%	-33.8%			
Travel Receipts ,								
Adjusted Cash Remittances (Annual Total)	209.7	202.4	209.4					
MONETARY & PRICE INDICATORS								
Official Foreign Reserves	280.4	289.7	302.6	8%	4%			
Import Cover (months)	9	8.2	8.6					
Inflation (annual % change)	1.9	0.2	1.6					
Retail Fuel Prices:								
Petrol (T\$/litre)	2.92	2.5	2.62	-10.27%	4.80%			
Diesel (T\$/litre)	2.9	2.43	2.49	-14.14%	2.47%			



Nominal GDP 2014/15: T\$830.4 million (revised estimates)

To note:

- The adjusted cash remittances still no data for months being available since April 2015 .This results from the revision in methodology used by National reserve bank.
- There is difficulty in disaggregating travel receipts from private remittances.
- The travel receipts monthly data is extracted from the NRBT quarterly's bulletin; therefore the latest up to date is March 2015. From May to July 2015 will be available on June's Quarterly bulletin. This results from a strong recommendation that there has been a revision to the method used by NRBT in May 2015 and hence difficult to back out data requires revision for the historical data before any calculation to be made.