

At a Glance

August 2010

Inside AAG
August:

Economic Indicators

Gross Domestic Product	2008/09	2009/10 forecast	2010/11 forecast
GDP (at constant market price)	-0.4	-1.2	1.4
Headline Indicators	Aug 2010 Values (\$m Pa'anga unless otherwise indicated)	% change from July 2010	% of GDP (10/11)
Economic Activity			
Export (OET basis)	\$0.95	↓ -1.0%	0.1%
Imports (OET basis)	\$23.5	↑ +6.9%	3.0%
Remittances	\$13.0	↑ 15.0%	1.7%
Annual Inflation	4.2%	Jul 5.0%	
Monetary Indicators			
Foreign Reserves	\$174.1m	↓ 2.2%	22.3%
Import cover	7.3 months	↓ 1.4%	
Fiscal indicators (YTD)			
Revenue & Grants			
(Budget 2010/11 \$193.5m)	\$11.60	6.0% of Budget	1.5%
Recurrent Revenue	\$8.92	4.6% of Budget	1.1%
Expenditure			
(Budget 2010/11 \$205.6m)	\$15.50	7.5% of Budget	2.0%
Expenditure & Net Lending			
Recurrent Expenditure	\$11.92	5.8% of Budget	1.5%
Donor Activity			
Aid revenue received	\$2.68	(YTD) \$4.38	0.34%
Aid expenditure	\$3.58	(YTD) \$4.68	0.45%
Total Public Debt	\$270.55 (YTD)	↑ 0.49%	34.7%

Overview:

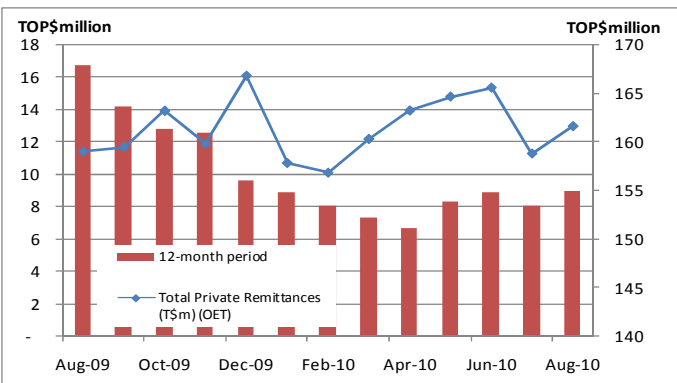
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Summary

- ◆ Remittances increased to \$13.0 million in August 2010.
- ◆ Annual Inflation rate has going down to 4.2% from last month. Local index recorded an annual inflation of 0.3% while import record a 6.2%.
- ◆ Foreign Reserves fell by 2.2% from previous month with import cover down to 7.3 months of imports.
- ◆ The Government's overall fiscal position recorded a deficit of \$3.9 million pa'anga on a GFS basis for the month of August 2010.
- ◆ Total public debt as at 31st August 2010 is estimated at \$270.55 million pa'anga or 34.7% of GDP.

Remittances

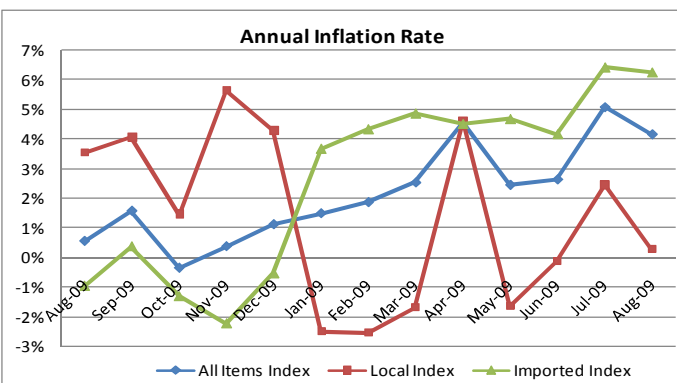
Total Remittances increased by \$2.7 million pa'anga to \$13.0 million in August 2010, and higher than \$11 million recorded for August 2009. For 12-months period, it is total up to \$155 million compared to \$168 million recorded in the previous 12-months period ended August 2009. Although the trend looks promising, but still at the risk of falling remittances as it is in the horizon.



Annual Inflation

The annual inflation rate for August 2010 declined to 4.2%, from 5.0% in July 2010 and higher than 0.5% in August 2009.

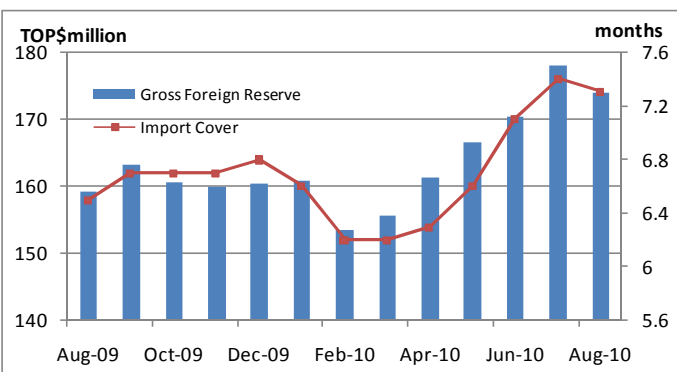
This declined comes from fall in prices for Miscellaneous Goods and Services, prices of Housing and Clothing & Footwear. Food group increased by 1.062% from previous month.



Gross Foreign Reserve

In August 2010, official foreign reserves held by the National Reserve Bank of Tonga (NRBT) fell by \$3.9 million to \$174.1 million, compared to \$178.0 million in July 2010 and \$159.2 million recorded in August 2009. The decline in foreign reserves was mainly due to higher import payments during the month, mostly for fuel.

This is equivalent to 7.3 months of imports of goods.



Government Fiscal Performance (GFS basis)

1. Overall fiscal position

- ◆ The Government's overall position for August 2010 was a deficit of \$3.90 million pa'anga.
- ◆ This deficit consists of \$3.00 million deficit from Government Fund and \$0.09 million deficit from Grants.

2. Revenue

- ◆ Total Revenue and Grants recorded for August 2010 was \$11.60 million pa'anga, attributed by \$8.92 million pa'anga from government revenue and \$2.68 million pa'anga from grants.

3. Expenditure

- ◆ Total expenditure and net lending for August 2010 was \$15.50 million pa'anga of which \$11.92 million pa'anga government fund and \$3.58 million pa'anga by grants.

Debt Management

Total public debt at the end of August 2010 is estimated at 270.55 million pa'anga, equivalent to 34.7% of GDP. Of this external debt was \$240.26 million (30.82% of GDP) and domestic debt was \$30.29m (3.88% of GDP).

Total public debt increased by \$1.33 million pa'anga between July and August 2010. This was mainly due to an appreciation of most borrowing currencies (USD 0.80%, CNY 0.42%, SDR 0.17%) and the overdraft account balance at WBOT .

Total debt service (expenditure) as at 31 August 2010 is estimated at \$1.04m (external at \$0.47m, (45.2%) domestic at \$0.57m at 54.8%). This consumed 0.13% of GDP, and in ratio to recurrent revenue of 4.12% (at \$25.25m), and in ratio to recurrent expenditure of 3.39% (at \$30.66m).

SPECIAL EDITION.....

Excise tax is a major component in the tax collected at the border. The excisable goods consist of fuel, tobacco, alcohol and vehicle. The excise tax recorded at the CMS for the month of August was around \$1.6 million compared to \$3.4 million recorded for the month of July.

Excise Tax	Jun-10	Jul-10
Grand Total	3,447,673	1,682,067
alcohol	59,729	136,419
tobacco	2,579,835	89,100
fuel	747,673	1,218,951
vehicle	60,437	237,597

The overall excise tax recorded up to July 2010 is around \$23.1 million with 52% comes from fuel. Tobacco contributed around 36% and the rest goes to alcohol and vehicle.

Fuel import comes from Fiji but originated from Singapore while 97% of tobacco comes from Australia.

The total cif value recorded for excisable goods is \$66.6 million with 83% of value goes to fuel. Vehicle contributed 9% with the rest goes to the other two (tobacco & alcohol)

Value of Imports and Duty

parameters	Tariff lines	Value	Duty
Total	2,866	227,694,735	8,918,451
Duty free goods	916	161,484,897	
excisable	78	66,625,530	
Duty free, excise free	838	94,859,367	
dutiable goods	1,950	66,209,837	8,918,451
10%	3	251,823	24,062
15%	1,602	54,910,831	6,941,321
20%	345	11,047,184	1,953,068
Total	100%	100%	100%
Duty free goods	32%	71%	
excisable	9%	41%	
Duty free, excise free	91%	59%	
dutiable goods	68%	29%	100%
10%	0.2%	0.4%	0.3%
15%	82.2%	82.9%	77.8%
20%	17.7%	16.7%	21.9%

Excise Tax

parameters	Tariff lines	Value	Excise
excisable	78	66,625,530	23,107,649
alcohol	22	1,937,073	1,325,681
tobacco	4	3,393,818	8,381,999
fuel	22	55,295,769	12,020,251
vehicle	30	5,998,870	1,379,719
excisable	100%	100%	100%
alcohol	28.2%	2.9%	5.7%
tobacco	5.1%	5.1%	36.3%
fuel	28.2%	83.0%	52.0%
vehicle	38.5%	9.0%	6.0%