

Monthly Economic Update August 2017

Ministry of Finance & National Planning



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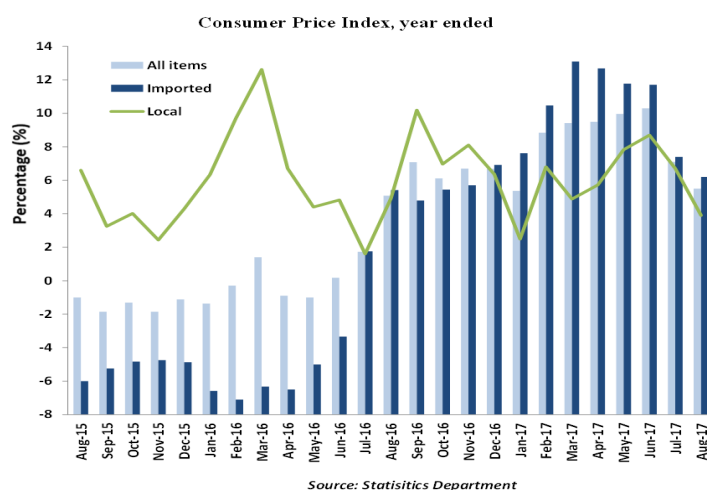
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Key Indicators	(T\$m unless otherwise indicated)			% change	
	Aug-16	Jul-17	Aug-17	Annual	Monthly
FISCAL INDICATORS (Government Financial Statistics (GFS) Basis)					
Revenue	19.1	15.5	23.5	23%	52%
Tax and Non-Tax Revenue	17.8	15.0	18.5	4%	23%
Grant (cash grants)	1.3	0.5	5.0	285%	900%
Budget Support		-	4.7		
Project Support	1.3	0.5	0.3	-77%	-40%
Expenses	22.5	13.1	17.2	-24%	31%
Compensation of Employees	13.6	8.5	9.4	-31%	10%
Gross Operating Balance	- 3.4	2.4	6.3	-285%	163%
Net Acquisition of Non-financial Assets	0.4	0.5	2.7	508%	394%
Net Borrowing/Lending Requirement	- 3.8	1.8	3.7	-195%	102%
Total Public Debt (\$million)	N/A	N/A	N/A	-	-
ECONOMIC ACTIVITY INDICATORS (OET basis)					
Exports	1.3	1.2	2.5	92.3	108.3
Imports	33.8	34.7	43.0	27.2	23.9
Adjusted Cash Remittances (Ann Total)	257.6	287.5	291.1	13.0	1.3
FISCAL ANCHORS					
Wage bill to domestic revenue to be less than 53%	76%	57%	51%		
MONETARY & PRICE INDICATORS					
Official Foreign Reserves	366.3	408.9	405.0	10.6	-1.0
Import Cover - Trade estimate (months)	7.2	7.1	6.9	-4.2	-2.8
Import Cover - OET estimate (months)	10.2	10.0	9.9	-2.9	-1.0
Inflation (annual % change)	5.1	7.1	5.5	7.8	-22.5
Retail Fuel Prices:					
Petrol (T\$/litre)	2.23	2.40	2.38	6.7	-0.8
Diesel (T\$/litre)	2.28	2.36	2.37	3.9	0.4

Note: Fiscal data are provisional (unless indicated) and still subject to change until audited. Note also that some indicators have been adjusted

Inflation



The annual inflation over the month of August 2017 was 5.5 percent, higher than the 5.1 percent in August 2016 but lower compared to 7.1 percent in the previous month. However the inflation rate for the reviewed month continues to remain above the NRBT's inflation reference target of 5 percent.

	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Aug-16
All items	9.5	10.0	10.3	7.1	5.5	5.1
Imported	12.7	11.8	11.7	7.4	6.2	5.4
Local	5.7	7.8	8.7	6.7	3.9	4.9

On annual change the higher inflation rate is attributed to a combination of rising on both imported and local items by 6.2 percent and 3.9 percent respectively.

The increase in both of the CPI components were supported by higher prices of imported meat, fish and poultry, Kava Tonga, Beer VB and Tobacco such as Winfield.

On monthly change, CPI for the reviewed month decreased by 0.2 percent as a result of 2.0 percent decrease in local index and 1.2 percent increase in import index compared to July 2017. The changes in local index were supported by decrease in prices of fruits and vegetables including capsicum, head cabbage, tomatoes, ripe banana, carrot, watermelon, taro leaves and taro dry land.

On the outlook, future inflationary is expected to decline as forecasted by the NRBT. The risk to this forecasted inflation reference rate in near term will be affected by the world oil outlook and food prices.

Indicators Digest

*Inflation rate dropped to 5.5% in August 2017

*Retail prices in Aug 2017: petrol price dropped by 2 seniti while diesel price increased by 1 seniti

*Foreign reserves fell by TOP\$3.9 million over the month to TOP\$405 million with 6.9 import cover on trade estimate

*Tongan pa'anga depreciates against NZD

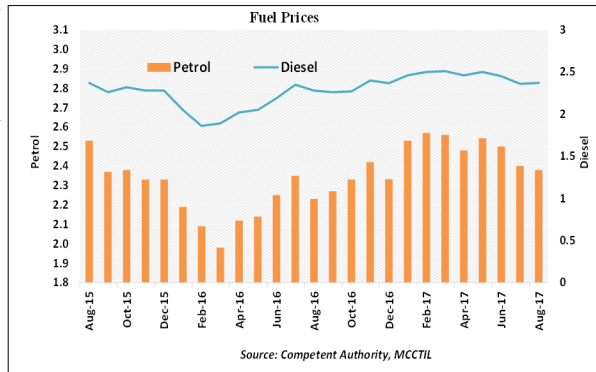
Fuel Prices

In August 2017, the domestic retail prices recorded for petrol and diesel were \$2.38 and \$2.37 per liter respectively. This represents a 0.8% (or 2 seniti) decrease for petrol and 0.4% (or 1 seniti) for diesel from previous month. This decline in petrol is associated with favorable changes in exchange rate which Tongan pa'anga continue to strengthen (about 2%) against the US dollar, offsetting some of the gain in product prices, together with increases in regional supply. Product price for diesel has risen ahead, supported by strong demands in the region.

On annual basis, fuel prices for August 2017 were higher than the fuel prices in August 2016 by 7 percent and 4 percent for petrol and diesel respectively. This increase in line with the increase of price in dollar per barrel in the US Energy Information Administration (EIA) Short-term Energy Outlook (STEO) in August 2017.

The US EIA projected that the West Texas Intermediate (WTI) crude oil spot prices at an average of \$48.04 per barrel for August 2017 and an average of \$50.50 per barrel for the year 2017.

EIA has increased its projections for world average oil prices for 2017 compared to an average price of only \$43.33 per barrel in 2016 and projection for 2018 continues to increase. The projected upward trend for average price per barrel is in line with the continued recovery in the oil supply in the global market.

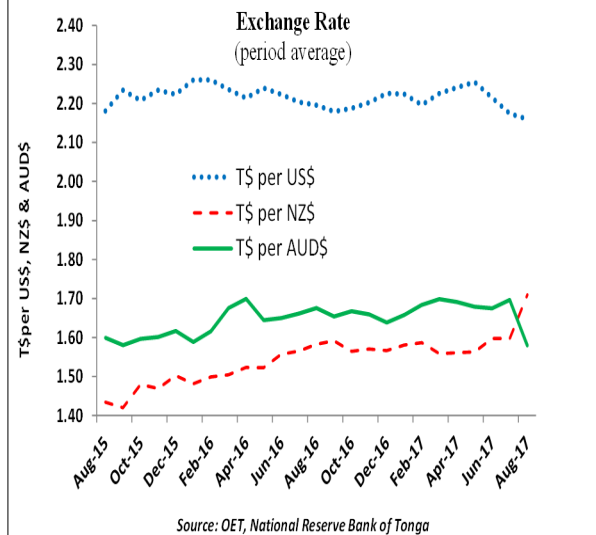


Exchange Rates

For the reviewed month, both Nominal Trade Weighted Index and Real Trade Weighted Index declined by 0.08 percent compared to the previous month. However on annual basis, both Nominal Trade Weighted Index and Real Trade Weighted Index increased by 0.7 percent and 4.5 percent respectively.

At the end of the reviewed month New Zealand dollar continued to strengthen against the Tongan pa'anga, while the US and Australian dollar weakened. Continuing depreciation of the pa'anga against NZD leads to higher inflation—imported inflation—as it translates into higher cost of some imported food items such as chicken and beef that come in from New Zealand.

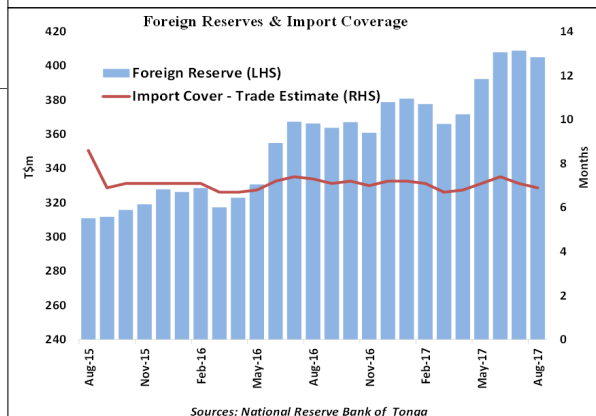
On the other hand, the fact remains though, that a depreciation of the Tongan pa'anga benefits recipients of foreign exchange—remittance—as well as exporters.



Foreign Reserves

Foreign Reserves decreased over the month of August 2017 to \$405 million from \$408.9 million in July.

Despite the 1 percent or \$3.9 million decreased on monthly changes, the level of foreign reserves in August 2017 remained at 11 percent higher compared to the corresponding period in 2016. This higher level of foreign reserves, on annual trend, was highly supported by the 13 percent increase in the annual total for remittances as well as the increase in the amount of foreign aid into the country including the receipts of budget support.



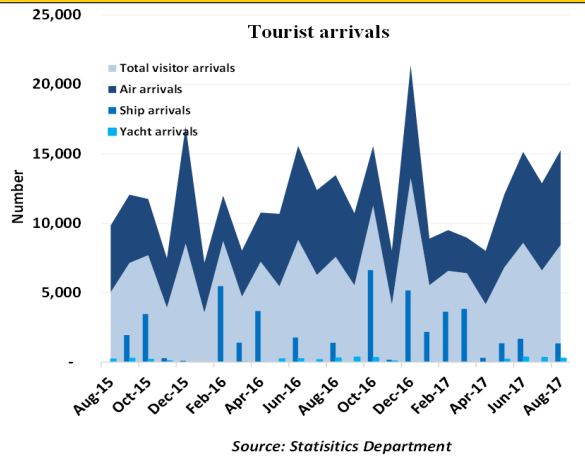
The level of foreign reserves for the reviewed month is equivalent to 6.9 months of import cover on trade estimate and 9.9 months on OET estimate which remain more than double the NRBT's minimum range of 3-4 months.

High level of foreign reserves continue to support positive outlook for economic growth in coming years, and also highlights the fact that Tonga continues to remain in a comfortable external position.

Tourism

Arrival: The number of tourist arrival in August 2017 was 8,452; a significant increase in around 24 percent or 1,841 people compared to July 2017 and 11 percent or 864 people when compared to August 2016. Increase in both annual and monthly trends were due to a rise in the number of arrivals by some transport modes—air (by annual average of 0.2 percent and 0.1 percent on monthly average), and ship as no cruise ship came on the previous month.

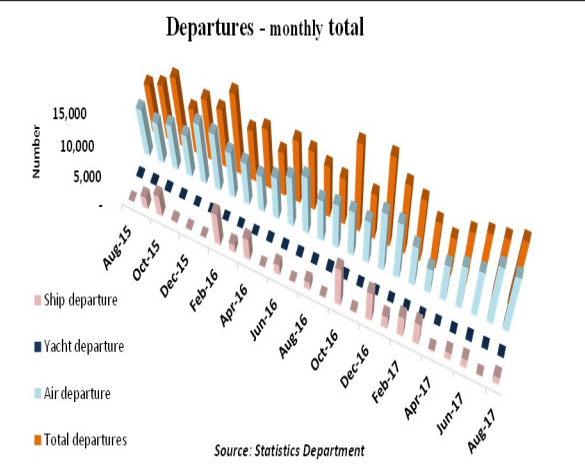
By purpose of visit, arrival growth for the reviewed month was in line with the increase in number of those who came on holiday & vacation, to visit relatives & friends (by 84 percent in sum). Others came for business & conference (6.3 percent) and for those who came due to other reasons were accounted for 9.4 percent.



Departure: Total Departure for August 2017 was 11,677 people; an increase of 3,028 persons or 35 percent compared to same period a year ago and 985 persons or 9.2 percent compared to the previous month.

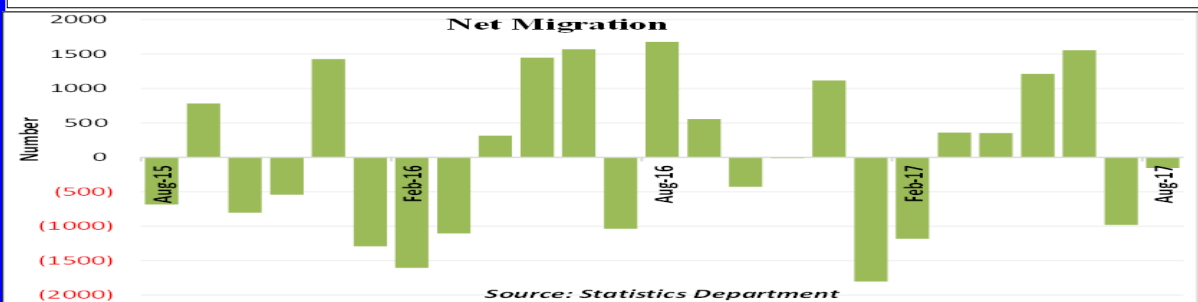
The increase on year-on-year basis was supported by additional 3,014 people that depart by air for various purpose including those who were participated in the seasonal working schemes, visitors and Tongans who lived overseas that came for the Heilala week festivities and those who to attend at some of the regional meetings and conferences. On monthly basis, the increase was due to 1,354 people departed by ship compare to no record of departed by ship on previous month.

Considered by usual country of residence, air departure during the reviewed month was mostly by residents of New Zealand followed by Tonga, Australia and others.



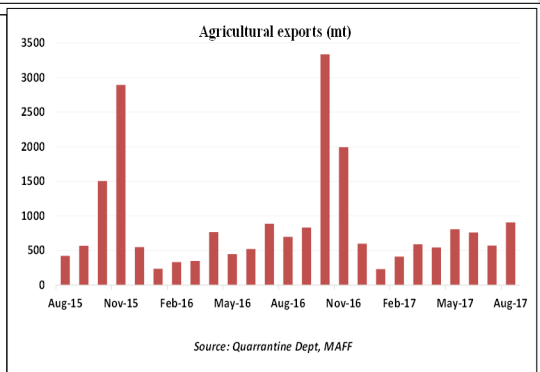
Net Migration:

Negative net migration of 154 persons was recorded for the reviewed month given more people moving out of Tonga. Even though it is still increase but at the same time it becomes lower compared to 981 persons that departed in July 2017, owing to visitors and returning residents who came to attend the annual church conference (FWC), Mailefihi & Siu'ilikupapu College Anniversary and also the celebration of His Majesty's birthday in Vava'u island. On the outlook for the future, more arrival is anticipated in the near term for the country, due to planned family reunions and also to spend Christmas and New Year season, thus contributing to economic growth.



Agricultural Exports (Customs Data)

Provisional data from Customs indicates that Agricultural exports for August 2017 increased significantly by 30.3 percent compared to same period a year ago and around 59 percent compared to previous month. Increases in exports of squash, root crops—cassava, yam, taro (tarua, swamp, giant taro), watermelon, taro leaves, kava powder/chips, vanilla cured beans and handicraft products accounted for the observed trend. Positive outlook for agricultural exports is anticipated in the near term as the harvesting season for squash pumpkin and vanilla cure beans approaches.

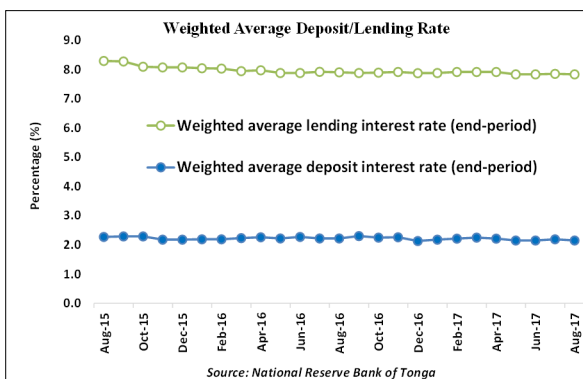


Lending and Deposit Rates

Both lending and deposit rates for August 2017 decreased when compared to the previous month and same period a year ago. On monthly comparison, lending rate dropped by 0.3 percent and 1.8 percent for deposit rate while fell by around 0.9 percent and 3.2 percent respectively on annual changes.

The decrease in annual lending rates related to higher demanding for money supply in which this continues to encourage more borrowing, resulted in higher demand for housing loans, as reflected by the 8.1 percent higher than the previous month. This has also created more demand for goods and services that supported a vibrant economic activities. Similarly, low deposit rate also encouraged consumers to spend rather than hold on to their money which also added to higher demand for goods and services, led to increase in consumption and boost economic activities.

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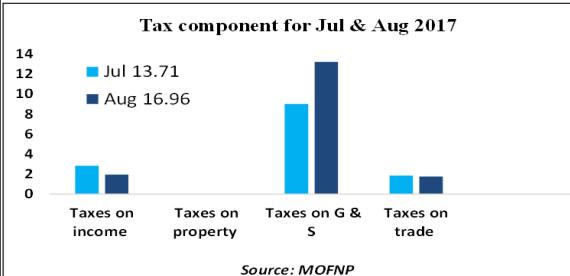


Fiscal indicators (on monthly basis)

Tax Revenue

Total tax revenue for August 2017 has slightly increase from \$13.71 million, by 24 percent, to \$17 million. This increase is due to a significant increase in the performance of Taxes on goods and services (G&S) by 46 percent compared to the previous month.

Tax Revenue (\$million)	May	Jun	Jul	Aug
Taxes on income	7.65	4.32	2.84	1.97
Taxes on property	0.01	0.02	0.01	0.03
Taxes on G & S	16.17	13.05	9.01	13.19
Taxes on trade	2.06	2.05	1.85	1.77
Total	25.89	19.44	13.71	16.96



Taxes on Goods and Services

As mentioned above, taxes on G&S reflected a rise in the collection of *consumption tax (CT)* for August compared to the previous month. This is mainly due to an increase in the collection of CT from imported goods by \$5.98 million from \$4.04 million recorded for July 2017 (refer table below). Taxes on specific activities increase but not significant.

Taxes on G & S (\$million)	May	Jun	Jul	Aug
Consumption Tax	9.15	6.66	6.09	7.7
CT-Import	6.44	6.11	4.04	5.98
CT-Domestic	2.61	0.41	1.76	1.6
Government CT	0.06	0.12	0	0.04
CT-Recovered	0.04	0.02	0.29	0.08
Excise	5.66	5.98	2.6	4.98
Taxes on specific activities	1.35	0.42	0.32	0.52
Total	25.31	19.72	15.1	20.9

Excise tax has recorded an increase for August 2017 by 92 percent from \$2.6 million recorded in July 2017, associated with more imports of vehicles, tobacco and alcohols.

Grant and Non-Tax

Grant and Non-tax revenue both recorded an increase by 4.5 million and 0.24 million respectively compared to previous

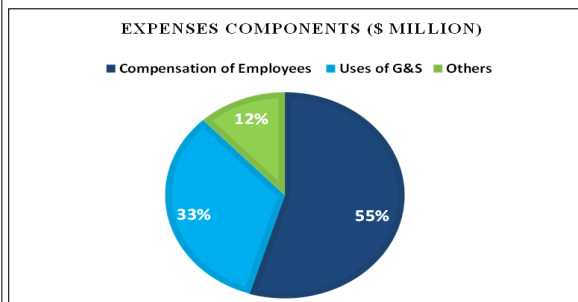
Other Revenue (\$million)	May	Jun	Jul	Aug
Grant	12.4	15.9	0.5	5
Non-tax revenue	1.58	3	1.32	1.56

month. Non-tax revenue rise due to an increase in the collection from sales of goods and services. However Non-tax revenue maintain a low collection compared to Tax revenue due to the nature of each revenue category.

Non-Tax Revenue (\$million)	May	Jun	Jul	Aug
Property income	0.39	1.75	0.49	0.3
Sales of G&S	1.1	1.19	0.78	1.15
Fines, penalties, & forfeits	0.05	0.05	0.05	0.06
Voluntary transfer other than grant	-	-	-	-
Misc. & unidentified revenue	0.04	0	0	0.05
Total	1.58	2.99	1.32	1.56

Expenses

Expenses recorded for August 2017 continued to dominate by Compensation of Employees with 55 percent which is an increase of \$0.9 million from \$8.5 million recorded in July 2017.



Use of goods and services (S&G) is the second largest expense category with 33 percent. The level of this category increased by \$2.3 million compared to the previous months.

All remaining expenses have also rise and continued to support the overall increase in August 2017.

Note

Please note that this analysis of revenue and expenses is based on the Government Finance Statistics format. Some of the numbers may be different with other reporting and this is due to differences (slightly) in the classification and grouping of individual revenue items according to the international standard of classifications.

Fiscal performance

Revenue performance for August 2017 showed a significant increase compared to the previous month. Domestic revenue increased by 22 percent compared to the \$15 million collected in July 2017. The increase in cash grants over the reviewed month including a receipts of \$4.7 million as budget during was also reflected in the revenue.

The expenses recorded for the reviewed month also increased by 31 percent compared to the expenses recorded in July 2017 mainly due to the increase in Compensation of Employees as some vacancy posts have been filled.

The August fiscal performance recorded a surplus of \$2.7 million. This continued to contribute to the level of cash reserve of the government, expecting to pay off existing public debt and provide finance on public sector investment. However, this could also increased money available to spend on public goods thus contributing to economic growth.

Fiscal Anchors

The monthly performance of wage bill for August 2017 is 51 percent which is a fall from 57 percent recorded in July 2017.

Debt to GDP ratio remains as there is no further change in the debt level.

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