

Monthly Economic Update May 2017

Ministry of Finance & National Planning



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Key Indicators	(T\$m unless otherwise indicated)			% change	
	May-16	Apr-17	May-17	Annual	Monthly
FISCAL INDICATORS (Government Financial Statistics (GFS) Basis)					
Total Revenue & Grants	24.2	21.3	39.8	64.4	87.2
Total Revenue	16.8	18.3	27.5	63.3	50.2
Grant (cash grants)	7.4	3.0	12.4	66.9	314.4
Budget Support	-	2.2	6.6		
Project Support	7.4	0.8	5.7	-22.6	633.6
Expenses	18.0	18.5	23.1	28.5	25.2
Gross Operating Balance	6.2	2.8	16.7	168.9	498.6
Net Acquisition of Non-financial Assets	1.4	1.5	1.5	9.0	0.0
Net Borrowing/Lending Requirement	4.9	1.3	15.2	211.4	1079.8
Total Public Debt (\$million)	N/A	N/A	N/A		
ECONOMIC ACTIVITY INDICATORS (OET basis)					
Exports	1.4	1.4	1.8	28.6	28.6
Imports	22.4	26.7	22.0	-1.8	-17.6
Adjusted Cash Remittances (Ann Total)	251.3	278.3	282.1	12.3	1.4
MONETARY & PRICE INDICATORS					
Official Foreign Reserves	330.7	371.7	392.3	18.6	5.5
Import Cover (months)	6.8	6.8	7.1	4.4	4.4
Inflation (annual % change)	-1.0	9.6	10.0	-1096.3	4.0
Retail Fuel Prices:					
Petrol (T\$/litre)	2.14	2.48	2.54	18.8	2.5
Diesel (T\$/litre)	2.05	2.46	2.50	22.0	1.7

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 rate for May 2017 was 10.0 percent, slightly above the 9.6 percent rate in the previous month. It however remained 5 percentage points higher than the Reserve Bank of Tonga's reference rate of 5 percent per annum.

The galloping annual inflation rate witnessed since mid-2016 contrasts sharply with the 1.0 percent deflation recorded in May 2016. This increase is due mainly to up ticking of international fuel and food prices as well as the increase in demand for kava products in the midst of domestic supply shortages. The impact of taxation policy change on prices of imported goods also plays some part.

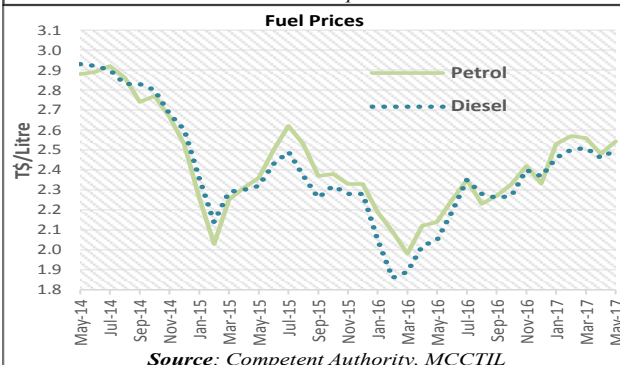
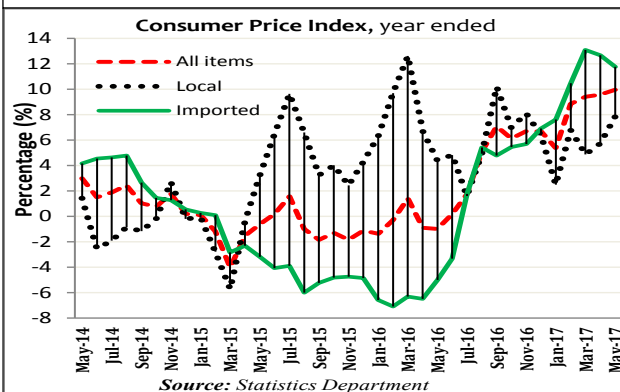
Imported items' component of the CPI recorded 11.8 percent annual growth while local items recorded 7.8 percent. The

Fuel Prices

Rising global price of crude oil continues to drive up petroleum prices in the domestic market. Hence the rising trend in fuel and diesel prices in May 2017 compared to previous month and same period in 2016.

The retail prices per litre of petrol and diesel in May 2017 increased to \$2.54 seniti and \$2.50 seniti respectively. The increase in prices is highly associated with changes in freight rate and depreciation of the Pa'anga in addition to global market trends. This increase in fuel prices is expected to impact electricity tariff in the near term, with consequences on consumers' purchasing power.

monthly change in CPI—domestic component—continues to be driven by growing prices of kava products as well as prices of some local fruits and vegetables as a result of seasonality response.



Exchange rates

In May 2017, both the Nominal and Real Trade Weighted Index decreased by 0.6 percent respectively, in comparison to previous month. However, against the same period a year ago, trade weighted index increased by 6.7 percent in real terms and fell by 1.3 percent in nominal terms. This is in line with an appreciation, on period average, in the value of Tongan Pa'anga (TOP) against the AUD while depreciating against both the USD and NZD. These changes implied higher cost of imported items such as packaged food and frozen meat.

Remittances

Total remittances recorded for the 12-month period ending May 2017 was \$282.2 million, higher than the corresponding 12-month period for 2016 by 12.3 percent or \$30.9 million. The increase is associated with a number of one-off events over the year to May 2017—Tupou College 150th Anniversary, Latter Day Saint (LDS) 100th Mission in Tonga, Queen Mother's 90th birthday celebration, etc. At the same time, observed number of participants in the seasonal workers' scheme continue to grow.

Available data indicates that remittances are increasing, but at a slower pace; at an average of 0.8 percent over the past three years. This is however only the cash component captured by NRBT's OET system; it could as well be much higher if parcels and hand-carried cash are accounted for, difficult to achieve as this may be.

Foreign Reserves

Foreign Reserves increased year-on-year to \$392.3 million in May 2017, from \$330.7 million in May 2016. This increase continues to reflect higher levels of inflow, mainly from foreign aid and remittances.

The level of foreign reserves for May 2017 was equivalent to 7.1 months of import cover, far above the NRBT's minimum range of 3-4 months. This level of import coverage indicates that Tonga continues to remain in a comfortable external position.

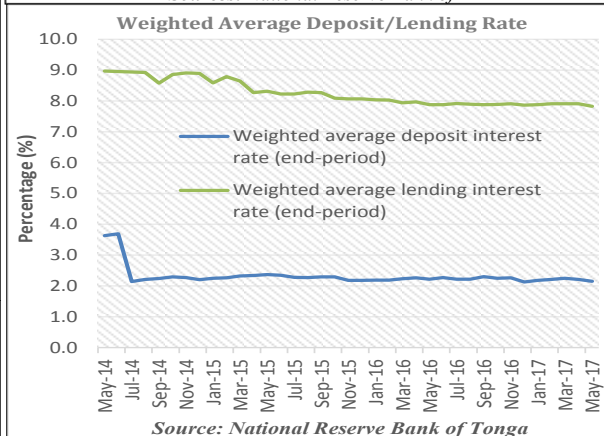
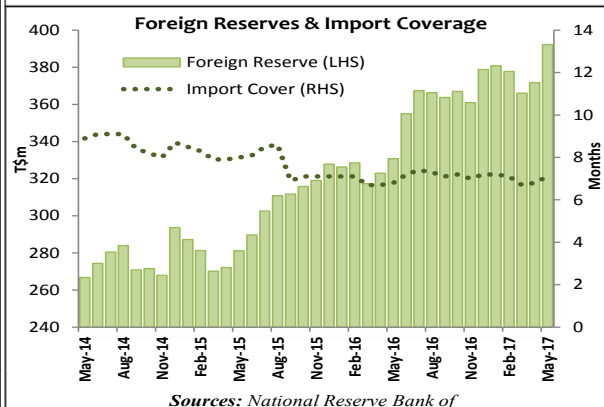
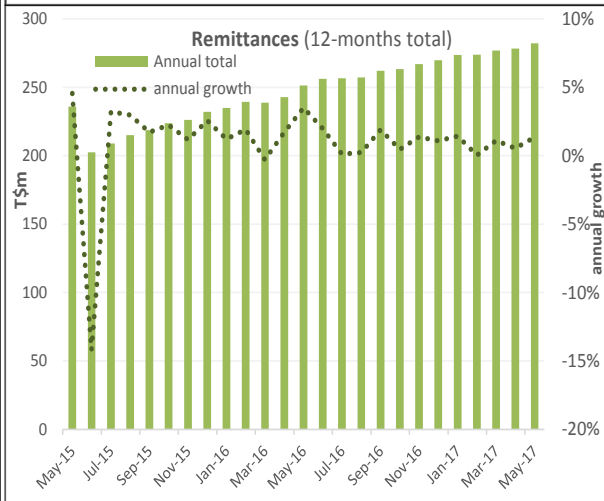
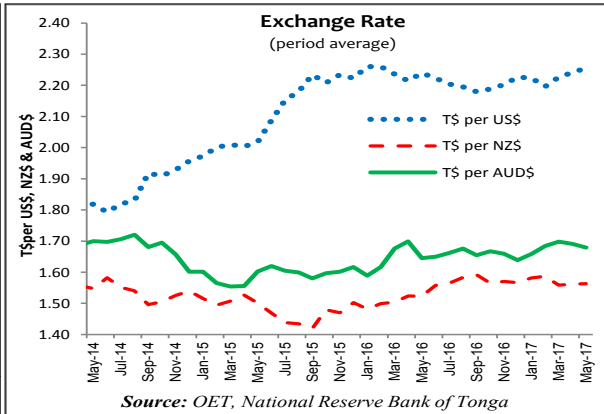
Interest rates

Both weighted average deposit and lending rates continued on the downward trend in May 2017; fell by 3.2% and 0.6% respectively compared to May 2016. Similar trend was noted on monthly basis as deposit rate decreased by 2.7% and lending rate by 1.0%.

The decrease in lending rate continues to encourage economic activities—individual and businesses—while the decrease in the deposit rate discourages savings and tend to drive up consumption spending.

Agricultural Exports (Customs Data)

Provisional data from Customs indicates that Agricultural exports for May 2017 increased significantly by around 81 percent compared to same period a year ago and 49 percent compared to previous month. Increases in the export of root crops—cassava, yam, taro (tarua, swamp, giant taro) watermelon, taro leaves, kava chips and handicraft products accounted for the observed trend. Positive outlook for agricultural exports is anticipated in the near term as the har-



vesting season for squash pumpkin, yam and other fruits and vegetables approaches.

Tourism

Arrival: The number of tourists arrival in May 2017 was 6,837; a significant increase of around 64 percent or 2,659 people compared to April 2017 and 45 percent or 1,372 people when compared to May 2016. Increases in both annual and monthly trends were due to expansion in the number of arrivals by all transport modes—air (by annual average of 47 percent), ship (by annual average of 54 percent) and yacht (by over 300 percent on monthly average). Similarly, travel receipts is estimated to increase accordingly in May 2017.

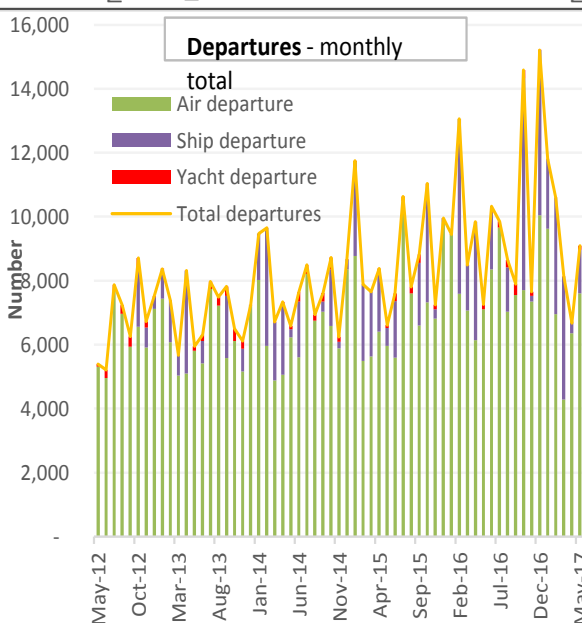
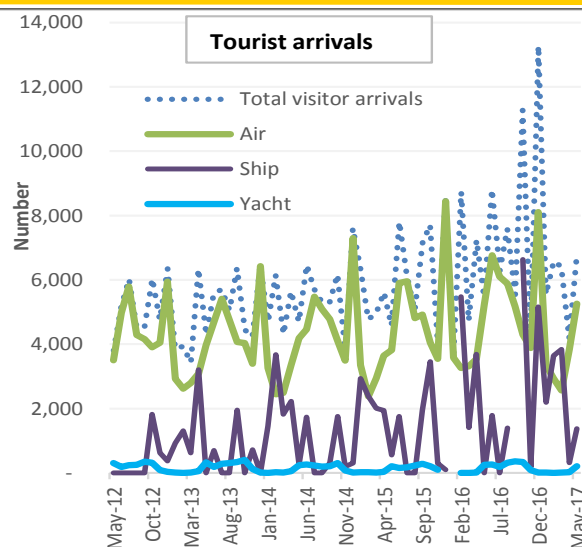
By purpose of visit, arrivals growth in the reviewed month was in line with the increase in number of those who came to visit relatives & friends, on holiday & vacation (by 29.1 percent in sum). Others came for business & conference (16.7 percent). Other reasons accounted for 9.4 percent.

Departure: Total Departure for May 2017 was 9,096 people; an increase of 1,838 persons or 25 percent compared to same period a year ago and 2,417 persons or 36 percent compared to April 2017.

The increase on year-on-year basis was due mainly to an additional 495 people that departed by air and 1,366 additional people by ship. On monthly basis, the increase was due to additional 1,240 people that departed by air, 1,051 people by ship and 126 people by yacht.

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

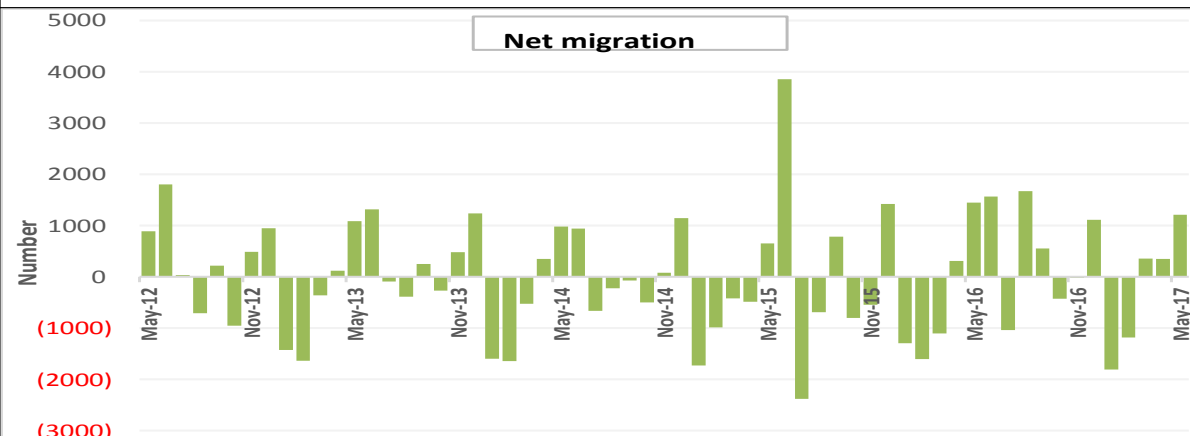
Reasons for departing Tonga during the month included return by those who came to attend annual church conferences and alumni celebrations. Others also departed to participate in the seasonal workers' programme and for others personal reasons.



Net Migration:

Positive net migration of 1,211 persons was recorded for the reviewed month given more arrivals in Tonga. This is also reflected, as highlighted above, in the upward movement in inflow of remittances. The positive net migration of May 2017 follows regular pattern of previous years as annual church conferences in May and June tend to coincide with the timing of visits to relatives and friends by Tongans in diaspora.

Summer holiday in North America, mid-term winter holiday in Australia and New Zealand, as well as regular year-end festivities in months towards the end of the calendar year are other factors that drive growth in annual net migration.



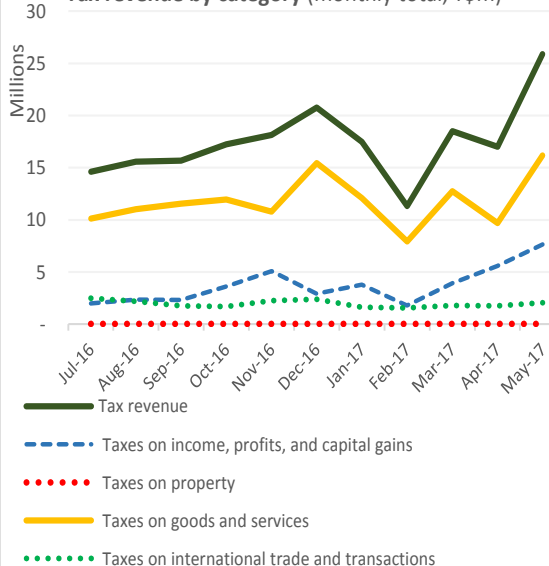
Tax Revenue

Indicative data on total tax revenue for May 2017 shows an increase by over 52 percent, to around \$26 million from \$17.01 million in the previous month. This significant increase was due to a 62 percent increase in taxes on goods and services, followed by 37 percent increase in taxes on income, profits and capital gains.

As the leading revenue category, taxes on goods and services is mainly dominated by Consumption Tax (CT), with a total of around \$9.1 million—71 percent of which is CT on imports and 29 percent on domestic CT. This is followed by \$5.1 million collected from Excise tax, close to \$0.2 million from taxes on motor vehicles license & registration and annual motor vehicle examination fees.

The remaining categories of tax revenue also increased, except for a decrease in tax on property over the reviewed month, compared to April 2017.

Tax revenue by category (monthly total, T\$m)



Grant and Non-Tax

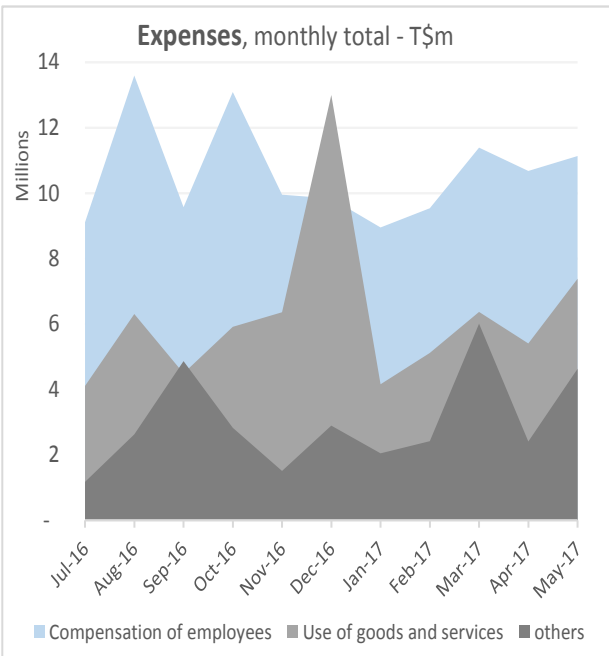
Grants receipts in May 2017 was around \$12.4 million, increased by 9.4 million, compared to the previous month. This was mainly due to the receipts of \$6.6 million as budget support from the Government of Australia in additions to \$1.7 million for various projects. Furthermore, about \$3.7 million was also received from the Pacific Islands Forum Secretariat (PIFS) and \$0.2 million from the World Health Organization (WHO) for related health activities. Receipts from other development partners for overall development further contributed to the observed increase.

Provisional data on non-tax revenue for May 2017 reveals an increased by around \$0.3 million compared to the previous month. Contributing to this are increases in receipts from government land rentals, dividends from Public enterprises, passport and visa fees, school fees and motor driving licenses. Increases were also recorded in other non-tax revenue items.

Expenses

Expenses continue to be dominated by two main categories—compensation of employees and use of goods and services.

In May 2017, expenses on compensation of employees and use of goods and services were higher by \$10.6 million (5.3 percent) and \$6.1 million (20.6 percent) respectively than the average for the past 12 months.



Domestic and overseas travels, fuel and utilities, maintenance, rentals, technical supplies, training & conferences, rations & diets, medical drugs & supplies and professional fees for consultants & technical assistant were major driving factors for the increase in expenses on use of goods and services in May 2017.

In addition, other expenses also increased as preparation for end of financial year and celebration of the King's birthday in Vava'u, gained momentum. Payments of interests on public and domestic debts, contribution to international organizations and development committees further contributed to increases in other expenses.

Note:

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