

At a Glance

October 2009

Inside AAG
October:

Economic Indicators

| Headline Indicators | October 09 Values (\$m Pa'anga unless otherwise indi- cated) | September 09 Values (\$m Pa'anga unless otherwise indi- cated) | Change (vs Sep- tember 09 unless otherwise indi- cated) |
|--------------------------------|---|--|--|
| Economic Activity | 2008/09 | 2009/10p | |
| GDP (at constant market price) | -0.4 | 0.4 | |
| Exports (OET basis) | \$0.9 | \$ 1.3 | ↓ 30.77% |
| Imports (OET basis) | \$22.4 | \$15.4 | ↑ 45.45% |
| Electricity consumption | N/A | 3,500 kwh | |
| Tourist Receipts | \$3.0 | \$2.6 | ↑ 15.38% |
| Air arrivals (number) | 3,537 | 4,073 | ↓ 13.16% |
| - year to date | | 40,820 | |
| Outstanding housing loans | \$98.6 | \$101.3 | ↓ 2.67% |
| Outstanding Business Loans | \$144.0 | \$143.3 | ↑ 0.49% |
| Remittances | \$13.9 | \$11.7 | ↑ 18.80% |
| Monetary Indicators | | | |
| Annual Inflation | -0.4% | 1.6% | ↓ 1.93% |
| Retail Fuel Prices | Petrol: \$2.30/ltr | \$2.43/ltr | ↓ 5.35% |
| | Diesel: \$2.29/ltr | \$2.38/ltr | ↓ 3.78% |
| Foreign Reserves | \$160.7 | \$163.3 | ↓ 1.59% |
| Import cover | 6.7 months | 6.7 months | = |
| Money Supply | \$281.5 | \$286.9 | ↓ 1.88% |
| Domestic Credit | \$287.9 | \$297.3 | ↓ 3.16% |
| Total liquidity | \$286.1 | \$291.4 | ↓ 1.82% |
| Balance of Payments | -\$2.6 | \$4.2 | ↓ \$6.8m |
| Current Account Balance | -\$12.8 | \$0.7 | ↓ \$13.5m |
| Fiscal indicators (YTD) | | | |
| Revenue (33% of year) | \$50.74 | 23.1% of Budget | |
| Expenses (33% of year) | \$59.29 | 29.25% of Budget | |
| Donor Activity | | | |
| Aid revenue received | \$2.9 | (YTD) \$7.6 | |
| Aid expenditure | \$1.5 | (YTD) \$6.9 | |

Overview:

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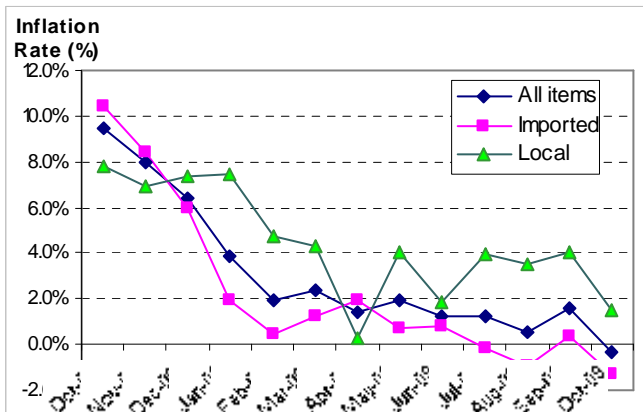
Summary

- ◆ A deflation of 0.4% for year to date to October 09. First deflation since 1995.
- ◆ Total Remittances for the year \$128.1 which is \$28.6 million pa'anga lower than the same period of previous year.
- ◆ Balance of Payment (OET based) recorded a deficit of \$2.6 million pa'anga, a fall since surplus for June 09.
- ◆ Governments overall position for the first four months of the financial year is a deficit of \$8.54 million pa'anga.

Inflation: First deflation since 1995'

The annual movement of prices of goods and services for end of October 09 results in a deflation of 0.4%, a decline from 1.6% recorded in September 09 and 9.5% in October 08. This is the first since September 1995. Percentage change from last month records Food with the highest decline of (4.8%) followed by a decline in Transportation costs (2.5%) due to decline in both prices of petrol and diesel. Tobacco, Alcohol & Kava Tonga decline by (1.1%) due to decline in prices of Winfield as well as decline in Clothing & Footwear (0.6%) and Miscellaneous Goods and Services (0.5%).

Figure 1: Annual Inflation Rate (%)



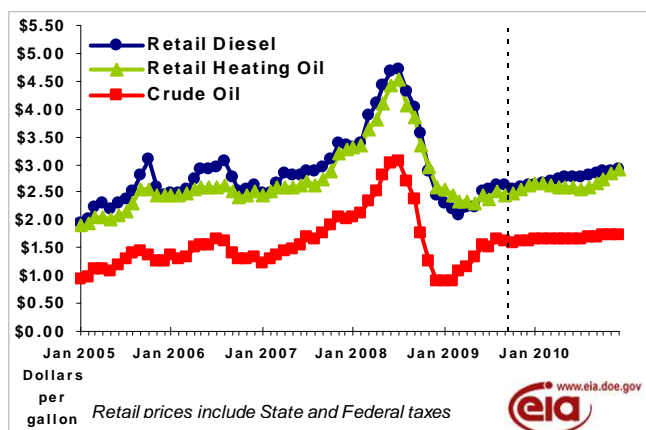
Source: Statistics Department, 2009

Fuel Prices:

Fuel Prices continue to decline since August 09. This led transportation costs to decline by 2.5% contributed to the deflation recorded for the month.

According to Energy Information Administration (U.S), the price of West Texas Intermediate (WTI) crude oil is expected to average at about \$76 per barrel during (October-March). The forecast for the monthly average WTI price dips to \$75 early next year then rises to \$82 per barrel by December 2010, assuming U.S. and world economic conditions continue to improve.

Figure 2: Short-Term Energy Outlook (US Fuel & Diesel Crude Oil Prices)



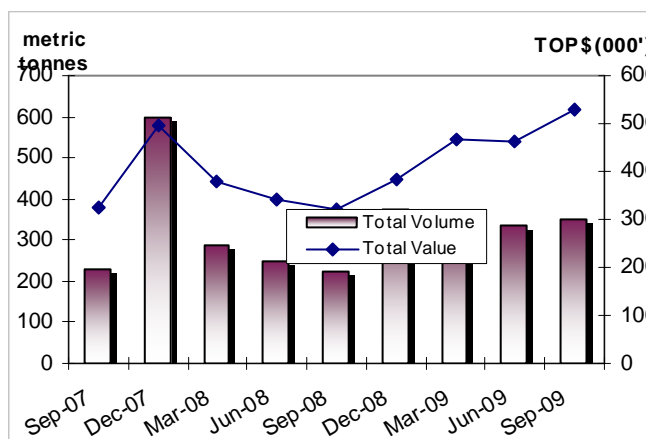
Domestic Agricultural Production: Slightly increase....

The total volume of domestic agricultural produce sold at the Talamahu Market has gradually increased for the nine months to end of September 09 Qtr. Total production increased by 57.23% compared to Qtr September 08.

Root Crops and Vegetables have increased in production while Banana and Fruits have slightly declined. The slight increase in production of yams, cassava and sweet potato contribute to the increase in root crops while the seasonal increase in tomato, capsicum, lettuce and cabbage contribute to the increase in vegetables. Total production for this year has been recorded as relatively higher than produce sold last year.

Total value have increase inline with total production by 15.24% compared to Qtr June 09 and 66.47% respectively as compared to same period of previous year.

Figure 3: Total Agricultural Production



Source: Talamahu Market Report, (Sept 2009), MAFFF

This data however should be treated with some caution as it only records production sold at the Talamahu market without taking into account the subsistence and trade performed at informal markets (production sold along the roadside) and production sold in the outer islands market.

Monetary Sector Development...

Money Supply & Total Liquidity..

The level of Money Supply and Total Liquidity to end of October 09 was \$281.5 million pa'anga and \$286.1 million pa'anga . Both decline by \$5.3 million pa'anga in September 09 and increase by \$6.4 million pa'anga compared to same period of previous year. This decline were mainly attributable to the decline in people's bank deposits. This includes demand, term and saving deposits.

Commercial Banks Lending

Commercial banks credit declined by \$2.3 million pa'anga from September to \$287.5 million pa'anga in October 09. Industrial sector which accounted for 50% of the total lending has shows a slight increase. Housing loan which accounted for 34% of total lending has decline followed by a decline of 1.5% from Agriculture sector and 0.6% from Personal loan.

Non-monetary financial Institution (NMFI) Lending

Total credit extended by NMFIs has decline by \$9.5 million pa'anga from September 09 to \$36.4 million pa'anga in October 09. This significant decline were mainly due to decline in Agricultural sector which accounted for 20% decline by 57.8% followed by a slight decline in non financial public enterprise of 1.4%.

Credits continues its declining trend for both non-monetary financial institution and commercial banks.

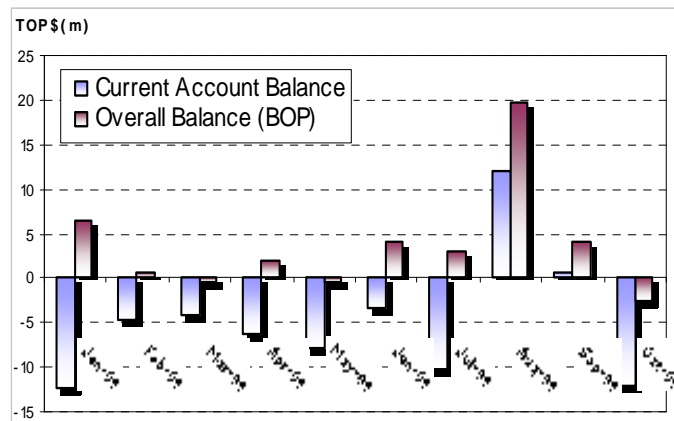
External Sector Development...

Balance of Payment

Strong domestic demand led to further decline in merchandise trade as imports increased for the month resulting in a deficit balance of \$21.6 million for October. This is a further decline by \$7.4 million pa'anga compared to the previous month. Exports declined by \$0.4 million pa'anga and slightly higher than same period of previous year. Imports on the other hand have decline since same period of previous year but have now started to rise as domestic demand increase.

Overall the Balance of Payment record a deficit of \$2.6 million pa'anga compared to surplus balance since June 09.

Figure 4: OET Trade and Current Account Balance



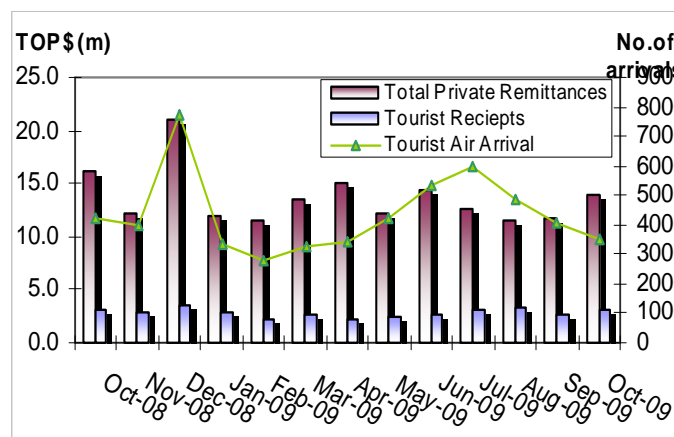
Source: National Reserve Bank of Tonga, 2009

Tourism & Remittances...

Total Remittances for October 09 was \$13.9 million pa'anga, this is an increase from \$11.7 million pa'anga in September 09. Tourist Receipts shows a slight increase from previous month while Tourist arrivals continue on their declining trend.

The impact of the GEC can be seen in Remittances received and tourism in relation to employment in remitting countries. It is expected that the recovery in remittances will be slow as unemployment and wage growth traditionally lag economic growth. Tourism is also likely to take time to recover as international holidays are a luxury item and so highly vulnerable to changes in consumer confidence and employment.

Figure 5: Tourism & Remittances (Oct 08-Oct 09)



Source: National Reserve Bank of Tonga, 2009

Government Fiscal Performance (GFS basis)

1. Overall result for fourth month of this financial year (2009/10) October

- ◆ The Government's overall position for the first four months of this financial year was a \$8.54 million pa'anga deficit. This is represented by \$8.90 million pa'anga deficit from Government fund and \$0.36 million pa'anga deficit from Grants.
- ◆ The overall position for October only was \$1.09 million pa'anga surplus represented by surplus from Grants of \$1.06 million pa'anga and \$0.03 million pa'anga from Government Fund.

2. Revenue

- ◆ Aggregate Revenue and Grants for (July-October) 09 was \$50.74 million pa'anga which is 23.05% of budget estimates, 24.40% from tax items, 34.35% from non-tax and 14.57% from Grants.

3. Expenditure and Net Lending

- ◆ Total Expenditure and Net Lending for (July-October) 09 was \$59.29 million pa'anga which is 29.25% of the total budgeted estimates.

Debt Management

- ◆ Total public debt as at 31st October 2009 is \$224.35m or 29.37% of GDP. Of this external debt is \$196.9m (25.8% of GDP) and domestic debt is \$27.45m (3.6% of GDP).
- ◆ Total public debt increased by \$1.80 million pa'anga between September 09 & October 09.
- ◆ Total Debt Servicing is \$9.18m or 1.20% of GDP, 14.49% of recurrent revenue and 14.26% of recurrent expenditure.
- ◆ Total guaranteed debt as at 31 Aug 09 is estimated at \$9.62m.

National Strategic Planning Framework

Corporate Plans and Annual Management Plans are currently being reviewed to ensure their aligning with the National Strategic Planning Framework. This work will be completed at the end of February 2010.

Regional & Rural Developments

2.1 Ha'apai Developments

◆ Foa Causeway

Agreement to construct the Foa Causeway has been signed between the Government's of Tonga and Germany.

Target implementation of this project is next year with requirements for Work Plan and timeframe of the project to be completed first by the con-Ministry of Works before implementation begins.

2.2 'Eua Developments

- ◆ 'Eua High School renovation is currently being implemented and expected to be completed by January 2010. This is funded by the Government of Japan.
- ◆ Two new Japanese funded buildings will be added to the Niu'eiki Hospital which are Clinical Wards for non-communicable disease such as diabetes etc and a Children Ward.

2.3 Niua Developments

- ◆ The United Nation Development Programme (UNDP) has offered \$ USD 300K to assist with the recovery of Niuaatoputapu after the Tsunami disaster.