

# Monthly Economic Update May 2020

Ministry of Finance (MOF)



Government of Tonga

Key Indicators	(T\$m unless otherwise indicated)			% change	
	May-19	Apr-20	May-20	Annual	Monthly
<b>FISCAL INDICATORS</b> (Government Financial Statistics (GFS) Basis)					
<b>Revenue</b>	31.5	63.7	36.1	15%	-43%
Tax	26.5	21.9	19.0	-29%	-14%
Grant (cash grants)	2.4	39.9	14.6	-	-64%
Current Grant	0.0	5.8	0.0	-	-100%
Capital Grant	2.4	34.1	14.6	-	-57%
Other Revenue (non - tax)	2.5	1.9	2.6	1.5%	37%
<b>Expenses</b>	30.1	21.6	30.3	0.4%	40%
Compensation of Employees	12.4	11.0	11.5	-7.3%	4.2%
Use of Goods and Service	13.3	7.1	13.4	0.2%	88%
Interest	0.1	0.5	0.1	7.2%	-74%
Subsidies	0.2	0.0	0.1	-9.3%	-
Grant	0.0	0.1	0.3	-	-
Social benefits	1.3	1.9	1.4	13%	-22%
Other Expenses	2.9	1.1	3.4	17%	-
Gross Operating Balance	1.3	42.2	5.8	-	-
Net Acquisition of Non-financial Assets	1.5	2.8	3.4	-	23%
<b>Net Lending/Borrowing Requirement (Financing)</b>	4.3	39.4	2.4	-	-94%
<b>Total Public Debt (External &amp; Domestic) (\$million)</b>	477.2	497.7e	502.7e	5.3%	1.0%
<b>FISCAL ANCHORS</b>					
Compensation of Employees to domestic revenue to be less than 53% (annual target)					
monthly performance (%)	43%	46%	53%	9%	15%
<b>ECONOMIC ACTIVITY INDICATORS (OET basis)</b>					
Exports	20.3	18.7	NA	-8%	-
Imports	444.4	421.1	NA	-5%	-
<b>MONETARY &amp; PRICE INDICATORS</b>					
Remittances (annual total)	350.4	345.3	NA	-1.5%	-
Official Foreign Reserves	468.3	475.1	NA	1.5%	-
Import Cover - Trade estimate (months)	7.5	6.9	NA	-8%	-
Import Cover - OET estimate (months)	9.3	9.4	NA	1%	-
Inflation (annual % change)	1.6	1.2	0.1	-	-
Retail Fuel Prices:					
Petrol (T\$/litre)	2.82	2.49	1.88	-33%	-24%
Diesel (T\$/litre)	2.85	2.52	2.14	-25%	-15%

Table 1: Source: MOF, NRBT & MTED

Note: Fiscal data are provisional (unless indicated) and still subject to change until audited. Note also that some indicators not available at the time that this report was prepared. (Data based on last update on Tuesday 7<sup>th</sup> July 2020)

## Fiscal Stability

The Fiscal Balance for the month of May 2020 indicated a surplus of \$2.4 million, a sharp fall from the \$39.4 million surplus in April 2020.

The revenue—both from domestic revenue and grants performance—for the reviewed month (Table 1 above) reflected a huge decrease of \$27.6 million (or 43 percent) in comparison to \$23.8 million of previous month. This is due mainly to the decrease in grants (cash grants). On an annual basis, total revenue increased by \$4.6 million (or 15 percent). The details will be discussed in the Revenue section.

The total monthly expenses recorded in May 2020 rose significantly by \$8.7 million (or 40 percent) compared to April 2020 and slightly increased by \$0.2 million (or 0.4 percent) compared to May 2019. The rise on monthly basis, was due to a higher use of goods and services, including

grants and other special projects. The special projects include the setting up a new domestic airline to pick-up on the air travel service to the outer islands. On an annual basis, the increase in total expenses was attributed to the increases in other expenses such as payment of Government subsidies and contributions towards the development projects.

In the near term, projected fiscal balance remains uncertain, considering the unknown nature of the coronavirus pandemic, in relation to various economic challenges and implications. As such, Government must work together in collaboration with Development partners and key stakeholders to provide effective mechanisms for utilising and managing resources during these very difficult times, and ensuring financial and macroeconomic stability.

Release Date:

August 2020

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### Domestic Revenue

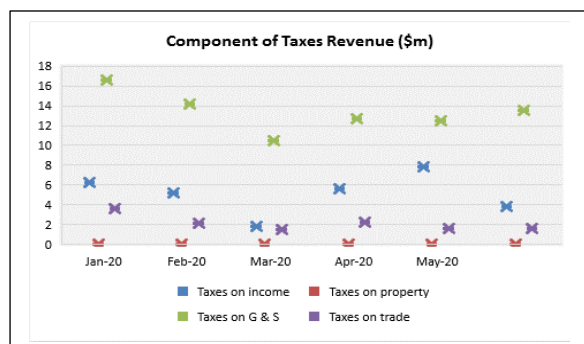
Domestic Revenue was recorded at \$21.6 million in May 2020. Domestic revenue consists of two components: *tax* and *other revenue*. The bulk of domestic revenue is from the revenue collection on taxable items. In May 2020, 88 percent of total domestic revenue was from the tax revenue and the rest from other revenues. Generally, the domestic revenue for May 2020 was sufficient to cover the total monthly expenses.

### Tax Revenue

Tax revenue performance in May 2020, decline by \$3.0 million (or 14 percent) in compared to \$21.9 million from the previous month.

TAX REVENUE (\$M)	May-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20
Taxes on income	6.3	5.2	1.8	5.7	7.8	3.8
Taxes on property	0.02	0.05	0.02	0.02	0.01	0.02
Taxes on G & S	16.6	14.2	10.5	12.7	12.5	13.5
Taxes on trade	3.6	2.1	1.5	2.3	1.7	1.6
<b>Total</b>	<b>26.5</b>	<b>21.5</b>	<b>13.8</b>	<b>20.6</b>	<b>21.9</b>	<b>19.0</b>

Table 2: Source: MOF



The downturn movement was mainly due to the fall in *Taxes on Income* by \$4.0 million compared to the amount in April 2020. The decline reflects the seasonality impact on Corporate Tax from Large Businesses, fell by \$3.7 million. In addition, a slight decrease in total *Taxes on trades* by \$0.1 million, was attributed to decrease in Business Import Duties by 19 percent.

On the other hand, *Taxes on Goods and Services* increased by \$1.1 million driven by the revenue collection from *Excise Tax*, mainly on imported cigarettes from \$600/kg to \$750/kg. Further, increase was also due to the imposing of an excise tax of \$100/kg on locally manufactured cigarettes (Tapaka Tonga).

### Other Revenue

Table 3 below reflects an increase in other revenue collected in May 2020 by \$0.7 million compared to the previous month. This was driven mainly from *Property Income* led by dividends collected from Public Enterprises (PE's).

OTHER REVENUE (\$M)	May-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20
Property income	0.2	0.2	5.1	0.1	0.6	1.5
Sales of G&S	1.3	1.1	1.0	1.3	0.8	0.9
Fines, penalties, & forfeits	0.1	0.1	0.0	0.0	0.1	0.2
Voluntary transfer other than grant	0.0	0.0	0.0	0.1	0.1	0.0
Misc. & unidentified revenue	0.0	0.1	0.3	5.0	0.3	0.0
<b>Total</b>	<b>1.6</b>	<b>1.5</b>	<b>6.4</b>	<b>6.6</b>	<b>1.9</b>	<b>2.6</b>

Table 3: Source: MOF

*Sales of goods and services* slightly increased during the month by \$0.1 million mainly on Administrative fees including motor driving license, attendance fees and registration fees.

The revenue collection from *Fines, penalties, & forfeits* also increased by \$0.2 million, mainly on fines and charges item.

### Grants

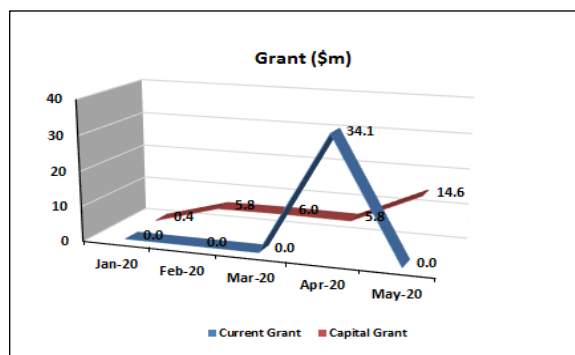
Table 4 below reflects the total cash grant receipts in May 2020, totalled to \$14.6 million.

GRANT (\$M)	May-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20
Current Grant	0.0	0.0	0.0	0.0	34.1	0.0
Capital Grant	2.4	0.4	5.8	6.0	5.8	14.6
<b>Total</b>	<b>2.4</b>	<b>0.4</b>	<b>5.8</b>	<b>6.0</b>	<b>39.9</b>	<b>14.6</b>

Table 4: Source: MOF

The grant amount received over the reviewed month was from international organisations for various development projects. This was mainly from World Bank/International Development Agency (IDA), totalled \$11.7 million and \$2.1 million from Australia Bilateral programs mainly towards THSP (Tonga Health Support Program).

There was no Current Grant (Budget Support) recorded for the month of May 2020.



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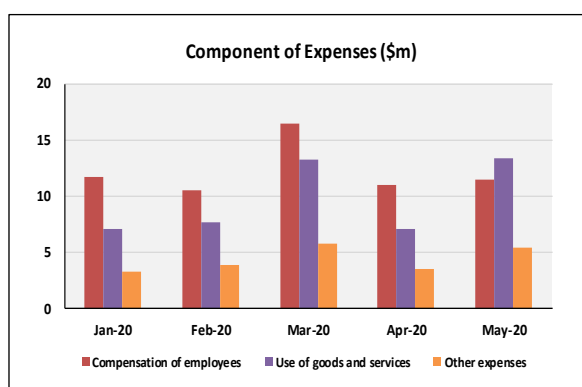
Government of Tonga

### Expenses

The total expenses recorded in May 2020 significantly increased by \$8.7 million to \$30.3 million in compared to April 2020, driven by the accelerated expenses on the use of goods and services and other expenses.

EXPENSES (\$M)	May-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20
Compensation of employees	12.4	11.7	10.5	16.5	11.0	11.5
Use of goods and services	13.3	7.14	7.65	13.2	7.11	13.4
Interest	0.11	0.36	0.42	2.50	0.47	0.12
Subsidies	0.2	0.001	0.1	0.02	0.0	0.14
Grants	0.00	0.67	1.12	0.20	0.08	0.34
Social Benefit	1.28	1.12	1.04	2.15	1.87	1.45
Other expenses	2.90	1.19	1.14	0.93	1.06	3.40
<b>Total</b>	<b>30.1</b>	<b>22.2</b>	<b>22.0</b>	<b>35.6</b>	<b>21.6</b>	<b>30.3</b>

Table 5 : Source: MOF

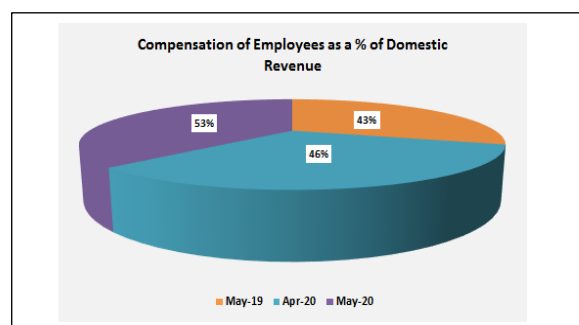


Specifically, the significant increase—by \$6.2 million—in the *Use of goods and services*, (as the largest expense category) was for grant, maintenance of buildings & compounds and other special projects. *Compensation of employees* also increased during the reviewed month, include wages for contract labour and overtime.

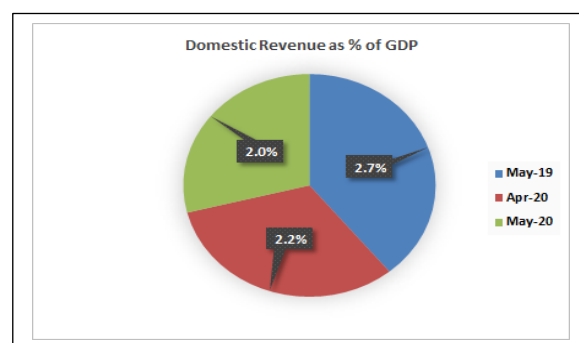
*Other Expenses* included grant expenses to sport activities, subsidies and the government development projects cost also rose during the month.

### Fiscal Anchors and policy discussion

The monthly performance on the *compensation of employees as a percentage of domestic revenue* in May 2020 was 53 percent (refer Table 1). This is higher in comparison to the previous month, and reached the annual target of 53 percent. A call is given to government to continue exercising prudent fiscal measures in order to maintain macroeconomic stability and fiscal sustainability.



The monthly *domestic revenue as a percentage of GDP* in May 2020 was 2.0 percent, which was below the level in April 2020. The total percentage of domestic revenue to GDP was 25.8 percent, proceeding May 2020, well above the set annual target of at least 22 percent of GDP.



Moreover, other related factors include the impact of COVID-19 and recent TC Harold in revenue collection; the exemption of duty/excise and CT on all imports of food items and goods for personal hygiene, goods for combatting COVID-19, building materials and capital goods for tourism business operators. Regardless of all the sudden challenges Government continues to monitor expenses to ensure appropriate measures are put in place, considering the unprecedented current situation.

### Inflation Rates

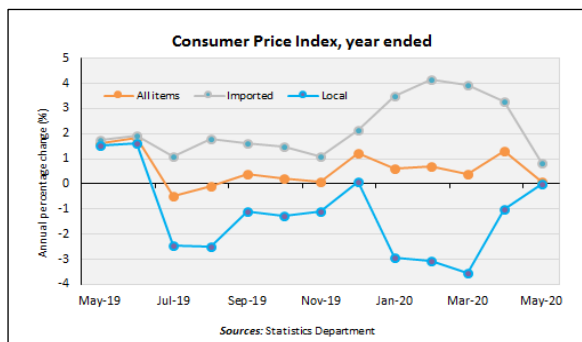
The annual headline inflation for May 2020 was 0.1 percent compared to 1.3 percent inflation in April 2020. The annual inflation for the same month of the previous year, May 2019, was 1.6 percent.

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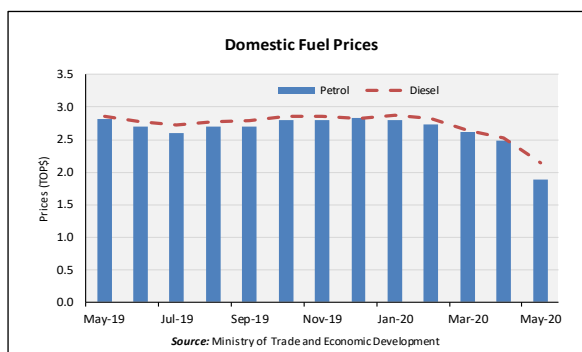


The decrease in the monthly inflation rate was attributed to a decrease in the import index by 1.2 percent, while the local index rose by 0.7 percent. The lower import price was mainly due to a significant decrease in the price of *petrol and diesel* by 7.5 percent. Additionally, the price of *fruits and vegetables* include oranges, apples and onions also dropped.

On an annual basis, the local index decreased by 0.1 percent, due to the decrease in price of *root crops* include talo (futuna/tonga), manioke and kumala. On the other hand, the higher import price was from the increase cost of *cigarettes and beer*.

### Fuel Prices

The domestic retail prices for petrol and diesel in May 2020 decreased to \$1.88 (from \$2.49) and \$2.14 (from \$2.52) respectively, compared to April 2020.



This represents 24.5 percent (or 0.61 *seniti*) and 15.1 percent (or 0.38 *seniti*) decrease in both petrol and diesel prices. On an annual basis, prices for petrol and diesel fell by 33.4 percent (or 0.94 *seniti*) and 25 percent (or 0.71 *seniti*) respectively.

The decrease in international crude oil price was due to the over-supplied market, along with the ongoing uncertainties in the global environment.

The Tongan Pa'anga depreciated by 1.8 percent, implicated from the drop in Singapore prices and retail price for all commodities in Tonga.

### Outlook and policy response

It is anticipated that in the coming months, both fiscal and economic indicators will continue to reflect the unprecedented threats posed by the COVID-19 crisis and the impacts due to TC Harold.

The Government continues to closely monitor the continuous impacts of COVID-19 to better manage the available limited resources.

ENDS