

# Monthly Economic Update January 2020

Ministry of Finance (MOF)



Government of Tonga

Key Indicators	(T\$m unless otherwise indicated)			% change	
	Jan-19	Dec-19	Jan-20	Annual	Monthly
<b>FISCAL INDICATORS (Government Financial Statistics (GFS) Basis)</b>					
Revenue	21.2	23.0	23.5	11%	2%
Tax and Non-Tax Revenue	21.2	20.3	21.5	2%	6%
Grant	0.04	0.9	0.44	-	-
Current	0.02	0.0	0.0	-	-
Capital	0.02	0.86	0.44	-	-
Expenses	18.3	29.5	22.2	21%	-25%
Compensation of Employees	10.6	12.6	11.7	10%	-7%
Gross Operating Balance	2.9	-6.5	1.3	-54%	-121%
Net Acquisition of Non-financial Assets	0.4	2.1	0.9	-	-
Net Lending/Borrowing Requirement	2.5	-8.6	0.4	-	-
Total Public Debt (External & Domestic) (\$million)	469.4	482.9	N/A	-	-
<b>FISCAL ANCHORS</b>					
Wage bill to domestic revenue to be less than 53% (annual target)	50%	62%	54%		
<b>ECONOMIC ACTIVITY INDICATORS (OET basis)</b>					
Exports	20.0	19.9	19.4	-3%	-3%
Imports	433.5	427.7	429.9	-1%	0.5%
<b>MONETARY &amp; PRICE INDICATORS</b>					
Remittances (Annual Total)	350.0	350.8	350.0	0%	-0.2%
Foreign Reserves	478.9	487.4	482.9	1%	-0.9%
Import Cover - Trade estimate (months)	8.1	7.8	7.5	-7%	-3.8%
Import Cover - OET estimate (months)	9.9	9.5	9.4	-5%	-1.1%
Inflation (annual % change)	4.2	1.2	0.6		
Retail Fuel Prices:					
Petrol (T\$/litre)	2.43	2.83	2.80	15%	-1%
Diesel (T\$/litre)	2.60	2.83	2.88	11%	2%

Source: Ministry of Finance, NRBT, Statistics Department, Competent Authority

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 updated on Monday 13<sup>th</sup> April 2020)

Release Date:

July 2020

HIGHLIGHT:

Fiscal Stability	1
Revenue	1 & 2
Expense	2
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## Fiscal Stability

The fiscal balance for the month of January 2020 recorded a provisional surplus of \$0.4 million, a major increase from \$8.6 million deficit in December 2019.

The surplus was attributed to a 2 percent increase in the total revenue recorded for the reviewed month against the 25 percent decreased in the total monthly expenses compared to the previous month. The contributing factors for both the increase in the total revenue and the decrease in the total expenses will be discussed in the relevant sections below.

On the outlook, the fiscal balance is uncertain due to the impacts of COVID-19 pandemic. However, Government will continue to control spending to maintain macroeconomic stability and improving revenue collection to achieve the relevant targets.

## Domestic Revenue

Domestic revenue consists of two components: *tax* and *non-tax revenue*. In January 2020, 98 percent of total domestic revenue was from the tax revenue and the rest from the non-tax items. In general, the domestic revenue for the reviewed month was sufficient to meet the total monthly expenses.

## Tax Revenue

As in the table below, total tax revenue slightly increases by 6 percent to \$21.54 million compared to the previous month.

Tax Revenue (\$million)	Jan-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20
Taxes on income	3.57	2.80	2.62	6.05	4.12	3.40	5.22
Taxes on property	0.044	0.05	0.03	0.03	0.03	0.05	0.05
Taxes on G & S	13.15	13.44	12.15	15.89	14.17	14.60	14.16
Taxes on trade	2.76	2.06	2.14	2.49	3.10	2.25	2.12
<b>Total</b>	<b>19.52</b>	<b>18.35</b>	<b>16.93</b>	<b>24.46</b>	<b>21.42</b>	<b>20.29</b>	<b>21.54</b>

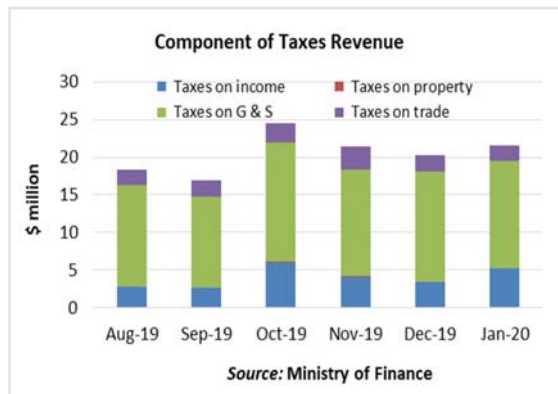
Source: Ministry of Finance

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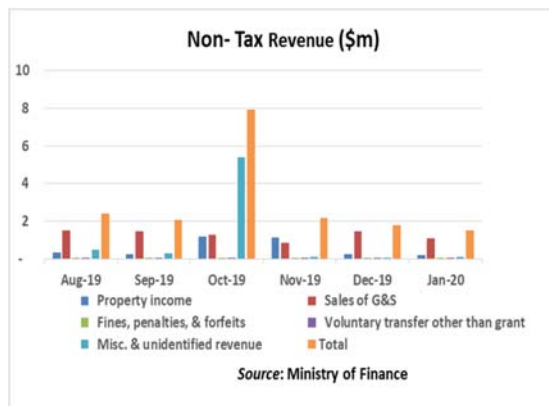
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The increase in tax revenue was triggered by the increased in Taxes on income by 53 percent, mainly from the corporate tax on large business; followed by Taxes on property by 8 percent. The taxes on good and services and Taxes on trade dropped by 3 percent and 6 percent respectively compared to the previous month.

## Non-Tax Revenue

The non-tax revenue had dropped slightly by 0.18 percent to \$1.49 million compared to the previous month. This reduction was due to the lower collection from property income and sale of good and services by 0.17 percent and 0.24 percent respectively compared to the previous period.



The revenue collection from Fines, penalties & forfeits and Misc. & unidentified revenue recorded an increase by 0.98 percent and 0.62 percent respectively compared to December 2019.

## Grants

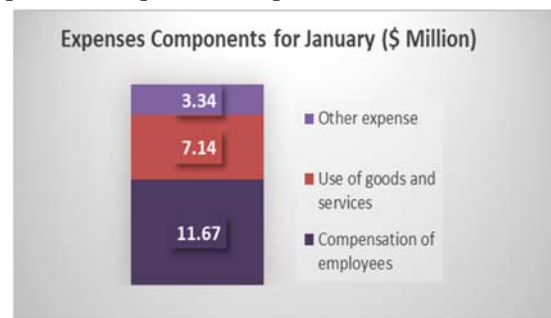
The total Grant recorded a decrease by 0.48 percent or \$0.42 million during the reviewed month compared to December 2019. The reduction indicates less receipts on capital grants and no budget support recorded for the month of January 2020. Receipts and disbursement of grants from development partners are based on the Grant Agreement per related projects.

GRANT	Jan-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20
Current	0.0	0.0	0.0	4.1	0.0	0.0	0.0
Capital	0.1	3.3	1.1	7.4	0.5	0.9	0.4
<b>Total</b>	<b>0.1</b>	<b>3.3</b>	<b>1.1</b>	<b>11.5</b>	<b>0.5</b>	<b>0.9</b>	<b>0.4</b>

Source: Ministry of Finance

## Expenses

Expenses recorded in January 2020 decreased from \$29.51 million in December 2019 to \$22.16 million. The reduction is led by a 75 percent or \$6.47 million decrease in total amount for the use of goods and services and other expenses. The downward trend reflects a significant decrease in overseas medical treatment, Consultant and technical assistance and government subsidies to private and public enterprises.



Similarly, compensation of employees for the review month also decreased by 7 percent compared to the previous month. The decrease reflected the staff movements in the civil service when civil servants retire or migrate overseas.

Expenses (\$million)	Jan-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20
Compensation of employees	10.62	12.10	13.40	13.06	11.45	12.56	11.67
Use of goods and services	5.14	8.73	7.75	11.19	9.67	11.72	7.14
Other expense	2.54	5.11	4.48	4.34	3.52	5.23	3.34
<b>EXPENSE</b>	<b>18.30</b>	<b>25.95</b>	<b>25.62</b>	<b>28.59</b>	<b>24.64</b>	<b>29.51</b>	<b>22.16</b>

Source: Ministry of Finance

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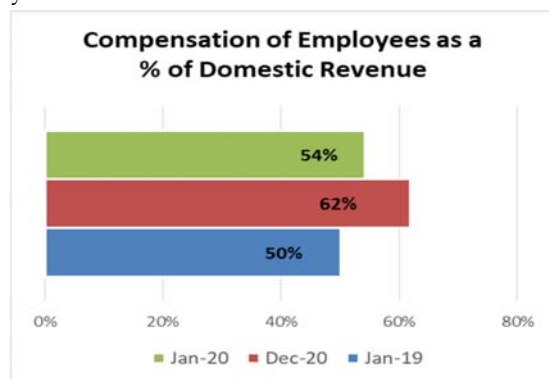
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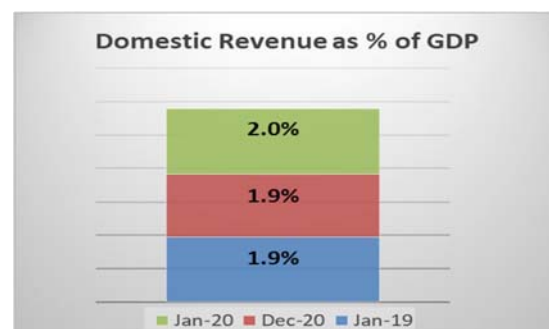
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## Fiscal Anchors and policy discussion

The monthly performance on the *compensation of employees as a percentage of domestic revenue in January 2020 was 54 percent* which is lower than 62 percent recorded in December 2019 however, slightly higher than the same period last year. The annual target is to remain below 53 percent. Government continues to improve policy measures for better monitoring of the wage bill to achieve the annual target by end of the financial year.



The *monthly domestic revenue as a percentage of GDP in January 2020 was 2.1 percent*, which is higher than the level in the previous month. The increase is in line with the ongoing reforms to improving the revenue collection and to achieve the annual target of at least 22 percent by the end of the financial year.



Government continues to control the level of expenses while collecting more revenue to maintain macroeconomic stability and improving revenue collection to achieve relevant targets, given the spill-over effects of the observed global health crisis – the COVID-19 outbreak.

## Inflation

INFLATION	Jan-19	Dec-19	Jan-20
All items	4.2	1.2	0.6
Imported	0.3	2.1	3.5
Local	9.1	0.1	2.9

Source: Statistics Department

The **annual rate of inflation for January 2020 was 0.6 percent**, remains lower than the NRBT's reference target of 5 percent, 1.2 percent in the previous month and 4.2 percent in January 2019. The decrease in both annual and monthly changes, was mainly due to the lower prices for the local items while prices for the imported items increase continuously. The decrease in local prices was contributed from the lower prices of kava and local food items. The increase in prices of the imported items was attributed to the increase in prices of imported tobacco, alcohol and food items such as meat.



The future outlook for inflation is expected to increase, particularly on global oil and food prices, in the near term given the spill-over effects if the COVID-19 outbreak prolongs.

## Foreign Reserves

Foreign Reserve	Jan-19	Dec-19	Jan-20
Foreign Reserve	478.9	487.4	482.9
Import Cover	8.1	7.8	7.5

Source: National Reserve Bank of Tonga

The **Foreign Reserves recorded for January 2020 was \$482.9 million**, fell by 0.9 percent or \$4.6 million from \$487.4 million in the previous month but increased, by 1 percent, compared to the same period in 2019.

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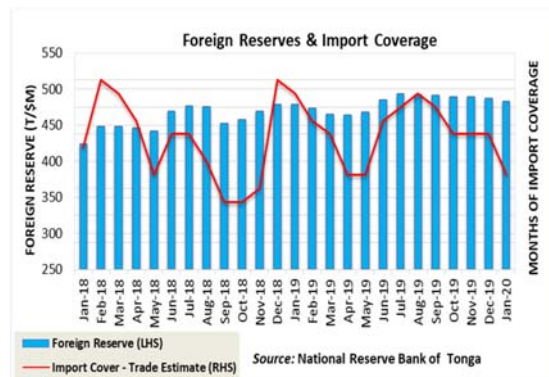
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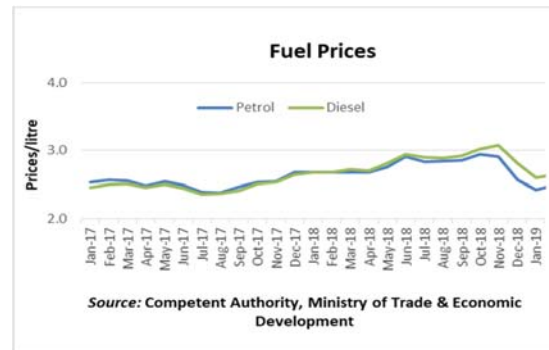
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The higher level of foreign reserves was driven by the increase of foreign aid and remittances into the country.

As of January 2020, the level of foreign reserves was equivalent to 7.5 months of import cover, (trade estimate). This is far exceeded above the NRBT's minimum range of 3 – 4 months. This indicates that the import coverage for Tonga remains in a favorable external position.



refineries established in Malaysia and Brunei. On the other hand, diesel prices rose due to increase in demand from India and reduced exports from China due to the COVID-19 pandemic.



ENDS

On the outlook, foreign reserve is more to the downside if COVID-19 outbreak continue to spread all over the world. If the outbreak prolongs it could weigh down remittances, foreign aid as well as budget support.

### Fuel Prices

In January 2020, the retail prices per litre for petrol decreased to \$2.80 while the prices for diesel increased to \$2.88 per litre compared to the level in previous month.

FUEL PRICES	Jan-19	Dec-19	Jan-20
Petrol	2.43	2.83	2.80
Diesel	2.60	2.83	2.88

Source: Competent Authority

This represents a 1 percent (or 0.03 *seniti*) decrease for petrol prices and 2 percent (or 0.05 *seniti*) increase for diesel prices compared to December 2019. However, prices for petrol and diesel increased by 15 percent (or 0.37 *seniti*) and 11 percent (or 0.28 *seniti*) respectively, compared to the same period in the previous year.

The decrease in petrol prices was due to the new