

Monthly Economic Update October 2019



Ministry of Finance (MOF)

Government of Tonga

Key Indicators	(T\$m unless otherwise indicated)			% change	
	Oct-18	Sep-19	Oct-19	Annual	Monthly
FISCAL INDICATORS (Government Financial Statistics (GFS) Basis)					
Revenue	37.0	18.7	41.0	11%	119%
Tax	24.4	16.6	23.8	-2%	43%
Grant (cash grants)	10.6	0.1	9.7	-8%	-
<i>Budget Support</i>	4.6	0.0	4.1	-	-
<i>Project Support</i>	6.0	0.1	5.6	-7%	-
Other Revenue (<i>non - tax</i>)	2.0	2.0	7.5	-	-
Expenses	23.1	25.3	28.3	23%	12%
Compensation of Employees	10.4	13.2	12.6	21%	-5%
Use of Goods and Service	8.0	7.5	10.8	34%	43%
Interest	0.2	2.5	0.0	-85%	-99%
Subsidies	0.00	0.01	0.13	-	-
Grant	0.0	0.0	0.0	-	-
Social benefits	1.0	1.4	1.5	57%	13%
Other Expenses	3.5	0.7	3.2	-8%	-
Gross Operating Balance	13.9	-6.6	12.7	-	-
Net Acquisition of Non-financial Assets	0.8	0.7	2.3	-	-
Net Lending/Borrowing Requirement (Financing)	0.0	-7.2	10.5	-	-
Total Public Debt (External & Domestic) (\$million)	476.1	N/A	N/A	-	-
FISCAL ANCHORS					
Compensation of Employees to domestic revenue to be less than 53% (annual target)	39%	71%	40%	80.1%	-43.3%
ECONOMIC ACTIVITY INDICATORS (OET basis)					
Exports	18.3	21.1	N/A	-	-
Imports	426.2	436.7	N/A	-	-
MONETARY & PRICE INDICATORS					
Remittances (<i>annual total</i>)	348.3	348.7	N/A	-	-
Official Foreign Reserves	457.3	490.8	480.9	5%	-2.0%
Import Cover - Trade estimate (months)	7.7	7.9	7.6	-1%	-3.8%
Import Cover - OET estimate (months)	9.7	9.6	N/A	-	-
Inflation (<i>annual % change</i>)	6.2	0.4	0.2	-97%	-50.0%
Retail Fuel Prices:					
Petrol (T\$/litre)	2.94	2.71	2.80	-5%	3%
Diesel (T\$/litre)	3.02	2.80	2.85	-6%	2%

Table 1 : Source: Ministry of Finance

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 Friday 22nd November 2019)

Fiscal Stability

The Fiscal Balance for the month of October 2019 recorded a surplus of \$10.5 million, a major improvement from the \$7.2 million deficit in September 2019.

The revenue – both domestic revenue and grants performance – for the reviewed month (Table 1 above) reflected a major increase of \$22.3 million in comparison to September 2019. This is due mainly to the increase in domestic revenue collection, supported by the \$7.5 million (recorded under non-tax revenue) received from NRBT's net profit payment. On an annual basis, total revenue increased by 11 percent or \$4.0 million. The details will be discussed in the Revenue section.

The total monthly expenses recorded in October 2019 increased 12 percent compared to the previous month and 23 percent compared to the same time last year, October 2018. The increase was mainly due to an increase in the use of goods and services followed by payments for

subsidies and other expenses. On the other hand, the expenses for the compensation of employees and interest payment decreased. Annually, the increase in total expenses was both attributed to the increase in use of goods & services and compensation of employees, subsidies and social benefits.

The outlook is positive with a favourable fiscal balance to the end of 2019. Government ministries anticipate to work towards meeting their respective goals and targets and to be more effective and efficient in public service delivery. Additional revenue is expected to be collected due to schedule cruise ship, family reunions, Christmas and New Year seasons.

Domestic Revenue

Domestic revenue is classified into two components: tax and non-tax revenue groups. The total domestic revenue is mainly from revenue collection of taxable items. In September 2019, 43 percent of total domestic revenue was from the

Release Date:

November 2019

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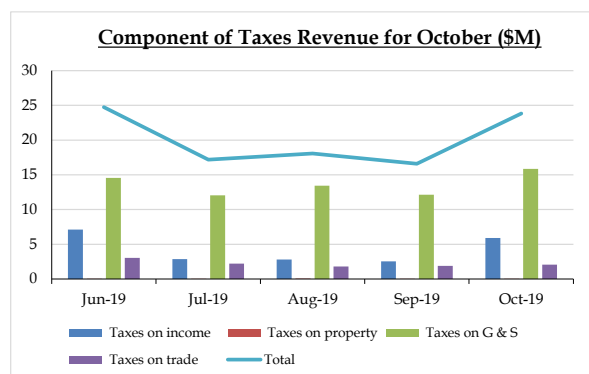
tax revenue and the balance was from the non-tax items. In general, the domestic revenue for the reviewed month was sufficient to meet the total monthly expenses. The following sections will discuss the main components of domestic revenue: tax and non-tax.

Tax Revenue

Table 2 below shows a slight increase in **total tax revenue collected in October 2019 of 0.4 percent to \$23.8 million from \$16.6 million in the previous month.**

TAX REVENUE (\$M)	Oct-18	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19
Taxes on income	5.1	7.1	2.9	2.8	2.5	5.9
Taxes on property	0.02	0.03	0.02	0.05	0.03	0.03
Taxes on G & S	15.3	14.6	12.1	13.4	12.1	15.8
Taxes on trade	3.9	3.0	2.2	1.8	1.9	2.1
Total	24.4	24.7	17.2	18.1	16.6	23.8

Table 2: Source: Ministry of Finance

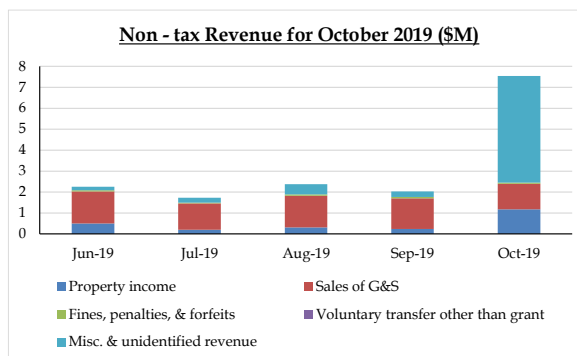


This rise was driven by the **Taxes on Goods and Services** of \$4.0 million in comparison to the previous month. This was mainly from the Consumption Tax on Domestic and Import as well as Excise Tax, which rose by \$2.2 million and 0.5 million respectively.

Similarly, the total **Taxes on Income** reflected a \$3.3 million rise due to the corporate tax received from Large Business compared to \$2.5 million in September 2019, follow by \$0.2 million corporate tax received from Small Business.

Non-Tax Revenue

The **non-tax revenue recorded for the month October 2019, indicated a huge increase by \$5.5 million in compared to September 2019.** This is driven by Misc. & unidentified revenue which is the payment of NRBT annual dividend to Government.



The revenue collection from Property income also increased by \$0.9 million- driven by \$1.0 million received on FFA Treaty, which is the share that the government receives 2 times a year from Pacific Forum Fishing Agency.

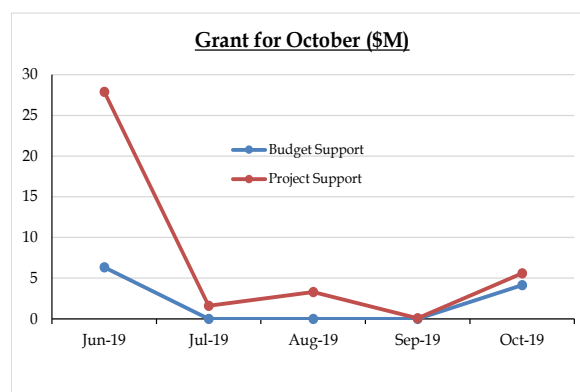
Grants

The *Graph* below indicated an increase, by \$10 million, in the **total cash grant receipts during October 2019.**

GRANT	Oct-18	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19
Budget Support	4.6	6.3	0.0	0.0	0.0	4.1
Project Support	6.0	27.9	1.6	3.3	0.1	5.6
Total	10.6	34.2	1.6	3.3	0.1	9.7

Table 3: Source: Ministry of Finance

This was triggered by capital grant received from international organisations- mainly from World Bank/International Development Agency (IDA) of \$2.9 million for statistical project on HIES survey under the Statistics Department, followed by the grant support under the NZ Bilateral and Australia Bilateral programs of \$2 million and \$0.3 million respectively on various development projects. EU Budget Support of \$4.1 million was also received during the month.



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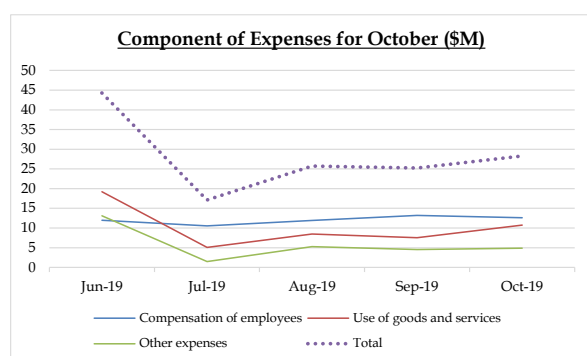
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Expenses

The total expenses recorded in October 2019 increased by 12 percent to \$28.3 million in comparison to the previous month, attributed to the accelerated expenses on uses of goods and services.

EXPENSES (\$M)	Oct-18	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19
Compensation of employees	10.4	11.9	10.5	11.9	13.2	12.6
Use of goods and services	8.0	19.2	5.1	8.5	7.5	10.8
Other expenses	4.6	13.1	1.5	5.3	4.5	4.9
Total	23.0	44.3	17.1	25.7	25.2	28.3

Table 4 : Source: Ministry of Finance



Specifically, the increase – by \$3.2 million shown in graph – in the *Use of goods and services*, (as the second largest expenses category) compared to September 2019 was for technical equipment expenses by \$1.4 million.

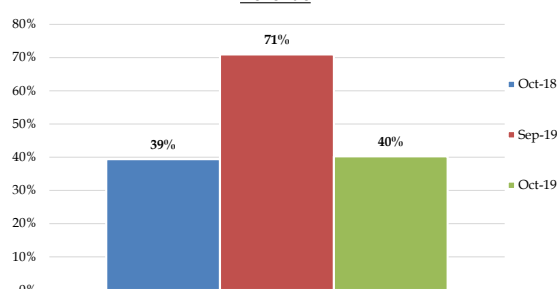
Other expenses also increase including grant expenses to sport activities, and subsidies.

The *Compensation of employees* (the largest expenses category) fell by \$0.6 million from \$13.2 million recorded in September 2019. This was attributed to increase staff turnover in the civil service during the month which included retirees, resignations and migration.

Fiscal Anchors and policy discussion

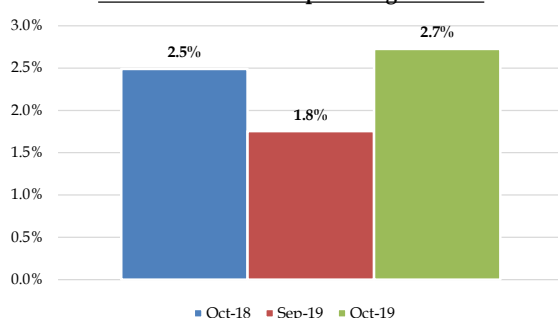
The monthly performance on the *compensation of employees as a percentage of domestic revenue in* October 2019 was 40 percent. This is lower in compared to the previous month and well below the annual target of 53 percent. The goal is to maintain levels below the target to maintain macroeconomic stability.

Compensation of Employees as a % of Domestic Revenue



The monthly *domestic revenue as a percentage of GDP* in October 2019 was 2.7 percent. This is above the level in September 2019, and contributing to the annual target of 22 percent. We anticipate additional revenue given the continuous reform to improve the revenue administration and collection.

Domestic Revenue as percentage of GDP



In summary, Government will continue to execute prudential fiscal measures to monitor expenses and collect more revenue to provide fiscal space for capital investment and growth-enhancing spending and fiscal stability.

Inflation

The annual headline inflation for October 2019 dropped to 0.2 percent in comparison to the 0.4 percent recorded in September 2019, thus remained well below the 5 percent reference rate target set by NRBT. The reviewed month inflation rate was much lower in compared to 6.2 percent inflation rate in October 2018.

Interest rate %	Oct-18	Sep-19	Oct-19
All Items	6.2	0.4	0.2
Local	8.0	-1.1	-1.3
Imported	4.8	1.6	1.5

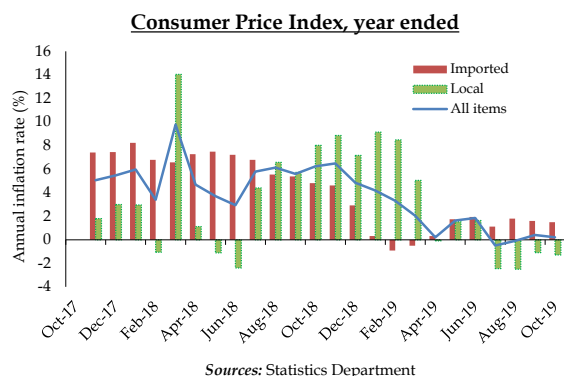
Table 3 : Source : Statistics Department

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Over the reviewed month, both imported prices and domestic prices rose by 0.2 percent and 0.9 percent respectively. The imported price rise was driven by the increase in fuel prices which was an implication on the domestic prices for petrol and diesel. Domestic prices were attributed to the increase in the prices of local fruits and vegetables such as tomatoes, capsicum, late and early yam, apples and watermelon. The prices of meat, fish & poultry items such as octopus, lobster, palu (fresh), pork and eggs also increased during the month.

On an annual basis, imported prices rose by 1.5 percent mainly due to the increase in prices of food items such as chicken legs, turkey tail and mutton flaps as well as onion and flour. On the other hand, the lower domestic prices stem from the cheaper prices of kava-Tonga and local food. Kava-Tonga has been steadily declining since September 2018 from \$150 per kg to \$70 per kg.

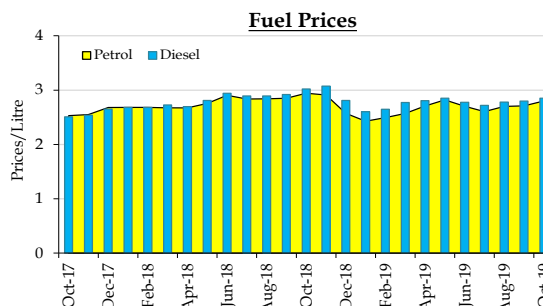
Accordingly, the outlook for the annual inflation rate is expected to remain below the reference rate of 5 percent in the near term, especially if kava continues its downward price trend. However, the fluctuation in the global oil and food prices may pose a risk.

Fuel Prices

The domestic retail prices for petrol and diesel in October 2019 increased to \$2.80 and \$2.85 respectively, compared to the previous month and the same period in 2018.

This represents a 3.3 percent (or 0.09 *seniti*) and 1.8 percent (or 0.05 *seniti*) increase for both petrol and diesel prices compared to September 2018. However, the decrease on the annual basis was 4.8

percent (or 0.14 *seniti*) and 5.6 percent (or 0.17 *seniti*) for petrol and diesel respectively.



The increase in fuel prices in October 2019 was due to a brief spike in crude oil prices by USD 12/bbl following the 14th September drone attacks in Saudi Arabia. The freight rate has increased while the Tongan Pa'anga has been steady and as a result, higher Singapore product prices have flowed through to increasing pump prices in Tonga this month.

Foreign Reserves

Foreign Reserves fell by \$1.5 million to \$489.3 million over the month of October 2019. This reflected the lower level of inflows. Annually, foreign reserve rose by \$32.0 million, but with lower months of import cover due to faster growth in import payment relative to the growth of foreign reserve.

	Oct-18	Sep-19	Oct-19
Foreign Reserve (\$m)	457.3	490.8	489.3
Import Cover (trade estimate)	7.3	7.9	7.6

Table 4: Source : Ministry of Finance

The level of foreign reserves for October 2019 is equivalent to 7.6 months of import cover which remains above the NRBT's minimum range of 3-4 months. The 7.6 months of import coverage supports positive outlook for economic growth in in the near term. This is supported by the remittance receipts for Christmas and New Year season.

ENDS