

# Monthly Economic Update April 2019

## Ministry of Finance



Release date:  
June 2019

### Highlights:

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Key Indicators	(T\$m unless otherwise indicated)			% change	
	Apr-18	Mar-19	Apr-19	Annual	Monthly
<b>FISCAL INDICATORS (Government Financial Statistics (GFS) Basis)</b>					
<b>Revenue</b>	<b>26.1</b>	<b>18.7</b>	<b>19.2</b>	<b>-26%</b>	<b>3%</b>
Tax	21.3	15.1	15.6	-27%	3%
Grant (cash grants)	3.0	1.9	1.2	-59%	-35%
Budget Support	0.0	0.0	0.0	-	-
Project Support	3.0	1.9	1.2	-59%	-35%
Other Revenue	1.8	1.7	2.4	35%	43%
<b>Expenses</b>	<b>24.7</b>	<b>26.2</b>	<b>23.0</b>	<b>-7%</b>	<b>-12%</b>
Compensation of Employees	13.3	11.1	12.7	-4%	14%
Use of Goods and Service	7.9	9.4	6.9	-13%	-27%
Interest	0.6	2.4	0.5	-3%	-77%
Subsidies	0.004	0.02	0.02	-	-4%
Grant	0.0	0.0	1.0	-	-
Social benefits	1.4	1.6	1.3	-8%	-23%
Other Expenses	1.5	1.6	0.6	-59%	-61%
<b>Gross Operating Balance</b>	<b>1.4</b>	<b>7.3</b>	<b>9.7</b>	<b>-</b>	<b>-</b>
Net Acquisition of Non-financial Assets	0.4	0.5	0.7	96%	35%
Net Lending/Borrowing Requirement	1.0	6.8	9.0	-	33%
<b>Total Public Debt (External &amp; Domestic) (\$million)</b>	<b>475.8</b>	<b>473.7</b>	<b>472.9</b>	<b>-1%</b>	<b>0%</b>
<b>ECONOMIC ACTIVITY INDICATORS (OET basis)</b>					
Exports	19.8	20.3	NA		
Imports	404.9	442.9	NA		
Adjusted Cash Remittances (Ann Total)	338.9	349.5	NA		
<b>FISCAL ANCHORS</b>					
Wage bill to domestic revenue to be less than 53% (annual target)	62%	74%	82%		
<b>MONETARY &amp; PRICE INDICATORS</b>					
Official Foreign Reserves	445.9	465.0	NA		
Remittances (annual total)	338.9	349.5	NA		
Import Cover - Trade estimate (months)	7.9	7.7	NA		
Import Cover - OET estimate (months)	10.1	9.4	NA		
Inflation (annual % change)	4.7	2.0	0.2	-96%	-90%
Retail Fuel Prices:					
Petrol (T\$/litre)	2.67	2.6	2.71	1%	5%
Diesel (T\$/litre)	2.70	2.77	2.81	4%	1%

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.

### Fiscal Stability

The April fiscal balance recorded a deficit of \$3.8 million, an improvement from the \$7.5 million deficit recorded in March 2019.

The revenue performance for the reviewed month (Table 1 above) reflected an increase compared to March 2019, however, a decrease compared to the same period a year ago. The increase on monthly basis, was contributed by a 3 percent increase in the domestic revenue. On annual basis, the contributing factors were due mainly to a decrease in the total grant received, by 59 percent, and domestic revenue, by 27 percent, from the \$21.3 million and \$3 million collected in April 2018. Over the month, a cash grants of \$1.2 million for various projects were received.

The expenses recorded for April 2019 were lowered when compared to March 2019 and April 2018. On month comparison, the decrease (by 12 percent) was mainly due to fall in the expenses in five of its seven main expense categories particularly in the expenses for interest payment, for use of goods and service, social benefits, subsidies and other expenses. On the other hand, the expenses for compensation of employees and grants were increased. On annual comparison, the decrease (by 7 percent) were contributed by the decrease in all expense categories in the reviewed month.

On the outlook, fiscal balance is projected to remain deficit in the next few months due to nearly completion of the financial year, where all MDAs will try to make relevant payments for all services performed within the current financial year.

### Tax Revenue

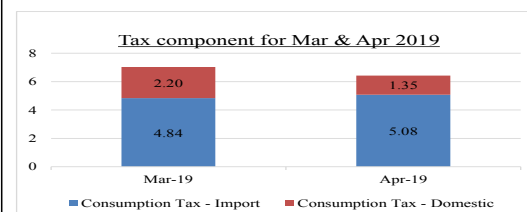
Table 2 indicated that the total tax revenue for April 2019 has increased slightly from \$15.1 million, by 3 percent to \$15.6

million. This rise is due to an increase in the performance of Taxes on Income by 34% compared to previous month. The increase in Taxes on Income reflected a rise in Corporate tax received from Large and Small Business over the reviewed month.

TAX REVENUE (\$M)	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19
Taxes on income	2.6	3.7	4.2	5.1	6.8
Taxes on property	0.039	0.044	0.019	0.021	0.026
Taxes on G & S	7.5	7.9	5.4	7.6	6.7
Taxes on trade	3.8	2.8	1.6	2.4	2.1
<b>Total</b>	<b>13.9</b>	<b>14.4</b>	<b>11.2</b>	<b>15.1</b>	<b>15.6</b>

Table 2: Source: Ministry of Finance

On the other hand, Taxes on Goods and Services reflected a decline in the collection of consumption tax (CT) for April 2019 compared to previous month. This is mainly due to decline in the collection of domestic CT from local businesses by \$1.35 million from \$2.2 million. However, import CT increase by 4.9 percent but was not sufficient to offset the decline (by 38.6 percent) in the Taxes on Goods and Services. Other contributing factor to the decrease also included the fall, by 3.1 percent, in the excise tax collected over the month of April compared to March 2019.



Similarly, Taxes on trade also reflected a 15.9 percent decrease in the collection of import duties for April 2019 compared to previous month. Import duties from both businesses

### Indicators

\*Fiscal performance recorded deficit of \$3.8 million.

\*Inflation rate for April 2019 dropped significantly to 0.2 percent.

\*Retail prices for both petrol & diesel for April 2019 rise to \$2.71 and \$2.81 respectively.

\*Some of the Monetary indicators for April 2019 not yet available at the time of this report.

and government were decreased.

### Non-Tax Revenue

The *non-tax revenue recorded for April 2019, Table 4 below, indicated an increase compared to March 2019*, owing to a significant rise in the collection from property income, by \$1.1 million—driven by higher receipts from the government land rental. However, the rest of the sub-categories of non-tax revenue such as sales of goods and services, fines, penalties and forfeits, voluntary transfer and other than grant and miscellaneous were all declined over the reviewed month. The decrease in the sales of goods and services, by \$0.3 million—due mainly to lower collection from Administrative fees, Fishing License & fees, school fees and x-ray fees.

NON-TAX REVENUE (\$)	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19
Property income	2.3	0.6	0.2	0.2	1.3
Sales of G&S	0.8	1.0	1.0	1.4	1.1
Fines, penalties, & forfeits	0.03	0.04	0.06	0.08	0.06
Voluntary transfer other than grant	0.00	0.00	-0.01	0.00	0.00
Misc. & unidentified revenue	0.0	0.1	0.3	0.0	0.0
<b>Total</b>	<b>3.1</b>	<b>1.7</b>	<b>1.5</b>	<b>1.7</b>	<b>2.4</b>

Table 4 : Source: Ministry of Finance

### Grant

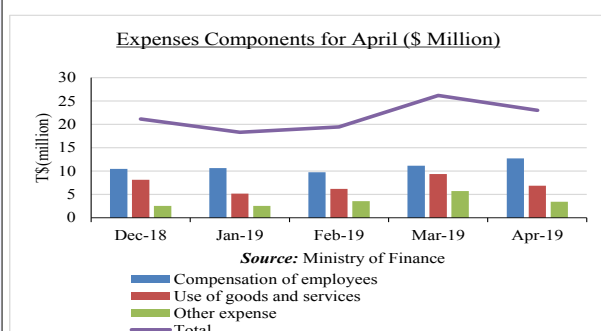
Table 3 below reflected that *the total cash grants receipts during April 2019 was decreased* by \$0.7 million. The amount received over the reviewed month was for various development projects and the disbursement will be in accordance to each of the project agreement.

OTHER REVENUE (\$M)	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19
Grants	3.5	0.1	0.2	1.9	1.2
Non-tax	3.1	1.7	1.5	1.7	2.4
<b>Total</b>	<b>6.7</b>	<b>1.7</b>	<b>1.7</b>	<b>3.6</b>	<b>3.7</b>

Table 3 : Source: Ministry of Finance

### Expenses

The *total expenses recorded for April 2019 was decreased*, by xx percent, due to fall in the payment for uses of goods and services as well as other expenses. On the other hand, the *compensation of employees* (largest expenses category) rose by \$1.6 million from \$11.1 million recorded in March 2019. This reflects the rise in recruitment during the reviewed month when all government ministries are trying to fill all vacant positions not only before end of the financial year but also to continue the delivery of all expected services from government.



EXPENSES (\$M)	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19
Compensation of employees	10.46	10.65	9.72	11.13	12.71
Use of goods and services	8.12	5.13	6.17	9.36	6.87
Other expense	2.54	2.54	3.56	5.69	3.43
<b>Total</b>	<b>21.12</b>	<b>18.32</b>	<b>19.44</b>	<b>26.18</b>	<b>23.02</b>

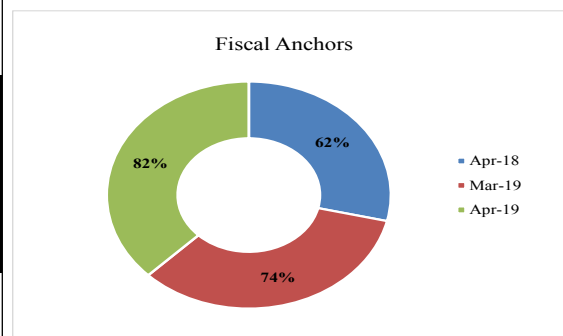
Table 5 : Source: Ministry of Finance

The *use of goods and services*, (the second largest expenses category with 30 percent. The level of expenses in this category decreased by a \$2.5 million compared to previous month. This is mainly due to the decline in using of fuels and internets.

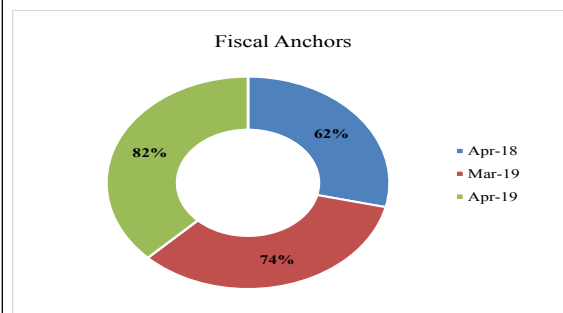
The rest of *other expenses* were dropped significantly driven by the fall in payment of interest on foreign debt by \$2.3 million.

### Fiscal Anchors

The monthly performance of *wage bill as a percentage of domestic revenue* for April 2019 is 82 percent. Which is higher compare to the previous month and way above the annual target of 53 percent which is a risk. Implementing of a more prudential fiscal policies will not only ensure more fiscal space for capital investment for the future development but also fiscal stability.



The monthly performance of *domestic revenue as a percentage of GDP* for April 2019 is 82 percent. This is *higher* compared to the previous month and far exceeded the annual target of at least 22 percent of GDP. As a way forward, more macroeconomic policy initiatives to stimulate economic activities and growth will continue to boost growth and revenue collection.

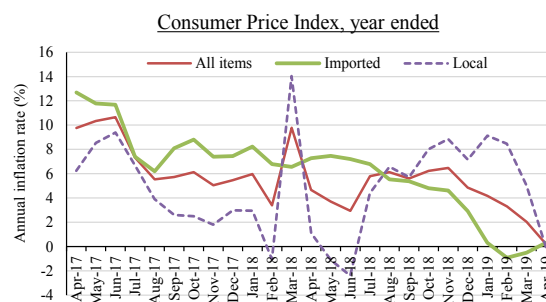


### Inflation

INFLATION RATE %	Apr-18	Mar-19	Apr-19
All items	4.7	2.0	0.2
Local	7.3	5.0	-0.1
Import	1.1	-0.5	0.3

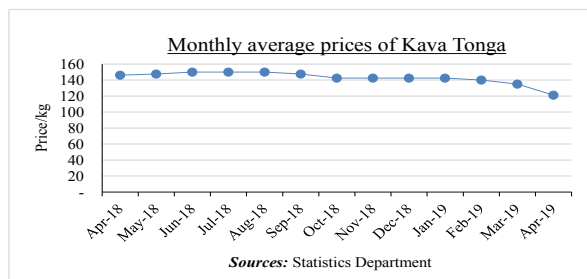
Table 6 : Sources: Statistics Department

The *annual inflation rate for April 2019 was 0.2 percent*. This is significantly lower than 2.0 percent in the previous month and the National Reserve Bank of Tonga's inflation reference target of 5 percent.



Source: Statistics Department

The April 2019 inflation is way below than the 4.7 percent recorded for April 2018. This is due mainly to lower prices of local food items such as *fruit and vegetables*—tomatoes, capsicum, head cabbage, carrots, watermelon, onions, taro leaves; *root crops*—early and late yam, taro (dryland & wetland), sweet potatoes and cassava; *meat, fish & poultry*—kanahe, palu, octopus, lobster, chicken wings and suckling pig. Prices of kava Tonga and cigarettes such as Palataisi were also decreased.



Imported goods recorded a 0.3 percent annual inflation rate while domestic goods recorded a -0.1 percent annual deflation rate. Bulk of the increase in annual inflation rate of imported items continue to reflect the increase in fuel prices.

On the outlook, the annual headline inflation rate is anticipated to increase due to unfavorable expectations in the price of domestic and imported foods. However, adverse movements in global oil and food prices may support this outlook. Additionally, the vulnerability of Tonga to natural disasters also poses a risk to the local food supply and consequently its prices and the inflation outlook.

According to the latest Climate update from the Tonga Meteorological Service, rainfall is forecasted to be average to below average for Tonga in the near term which will be unfavorable for the local food supply.

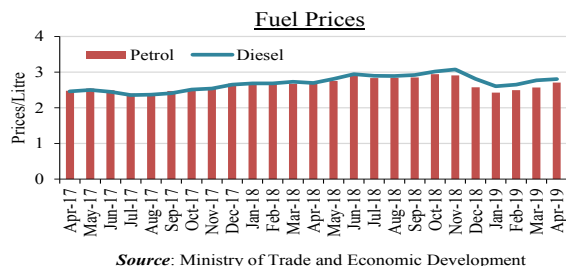
### Fuel Prices

The domestic retail prices for petrol and diesel for April 2019 were higher compared to both March 2019 and April 2018.

FUEL PRICES	Apr-18	Mar-19	Apr-19
Petrol (\$/litre)	2.67	2.57	2.71
Diesel (\$/litre)	2.70	2.77	2.81

Source: Ministry of Trade and Economic Development

This represents a 5 percent (or 0.14 *seniti*) and 1 percent (or 0.04 *seniti*) for both petrol and diesel compared to previous month. The increase on annual basis, were by 1 percent (or 0.14 *seniti*) and 4 percent (or 0.04 *seniti*) for petrol and diesel respectively.

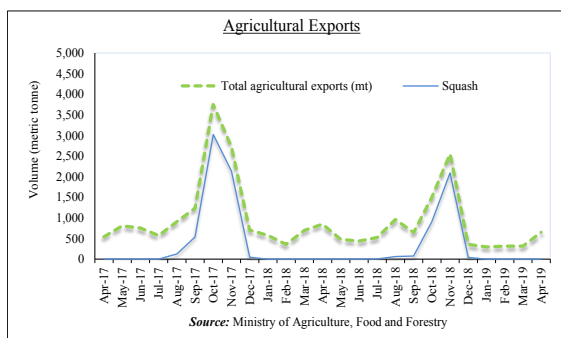


The increase was mainly driven by unfavorable changes in exchange rate and higher crude oil prices. This rise in fuel prices will have an income effect on consumer's purchasing power.

### Agricultural Exports

The provisional data from quarantine indicates that the volume of agricultural exports for April 2019 decreased by 23 percent compared to previous year. However, more than 100 percent of monthly result of 104 percent increased compared to previous month. This increase from export of root crops such as yam, cassava and taro accounted for the observed trend.

Outlook for agriculture exports is anticipated to be positive in the near term due to harvesting season for squash pumpkin, yam and other fruits and vegetables approaches. The weather uncertainties still remain a risk to the outlook.



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