

# Monthly Economic Update August 2019

Ministry of Finance (MOF)



Government of Tonga

Key Indicators	(T\$m unless otherwise indicated)			% change	
	Aug-18	Jul-19	Aug-19	Annual	Monthly
<b>FISCAL INDICATORS (Government Financial Statistics (GFS) Basis)</b>					
<b>Revenue</b>	<b>22.5</b>	<b>19.5</b>	<b>22.9</b>	1%	17%
Tax	19.3	16.8	17.9	-8%	6%
Grant (cash grants)	1.1	1.3	3.2	192%	149%
<i>Budget Support (Current Grant)</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	-	-
<i>Project Support (Capital Grant)</i>	<i>1.1</i>	<i>1.3</i>	<i>3.2</i>	<i>192%</i>	<i>149%</i>
Other Revenue (non - tax)	2.12	1.46	1.81	-15%	24%
<b>Expenses</b>	<b>26.8</b>	<b>16.7</b>	<b>25.1</b>	-6%	51%
Compensation of Employees	12.6	10.2	11.6	-8%	13%
Use of Goods and Service	9.5	5.0	8.3	-13%	66%
Interest	0.4	0.4	0.4	14%	-3%
Subsidies	0.03	0.00	0.01	-78%	70%
Grant	0.2	0.0	0.0	-100%	-
Social benefits	1.5	0.8	2.2	45%	162%
Other Expenses	2.5	0.2	2.7	6%	1221%
<b>Gross Operating Balance</b>	<b>-4.2</b>	<b>2.9</b>	<b>-2.2</b>	<b>-47%</b>	<b>-178%</b>
Net Acquisition of Non-financial Assets	-0.2	0.5	0.9	-549%	83%
<b>Net Lending/Borrowing Requirement</b>	<b>-4.0</b>	<b>2.4</b>	<b>-3.1</b>	<b>-23%</b>	<b>-232%</b>
<b>Total Public Debt</b> (External&Domestic)(\$million)	485.9	N/A	N/A	N/A	N/A
<b>FISCAL ANCHORS</b>					
Compensation of Employees to domestic revenue to be less than 53% (annual target)	58.9%	56.0%	58.9%	-0.04%	5.1%
<b>ECONOMIC ACTIVITY INDICATORS (OET basis)</b>					
Exports	19.4	19.8	N/A	N/A	N/A
Imports	409.5	441.3	N/A	N/A	N/A
Adjusted Cash Remittances (annual total)	348.8	N/A	N/A	N/A	N/A
<b>MONETARY &amp; PRICE INDICATORS</b>					
Remittances (annual total)	348.8	348.6	N/A	N/A	N/A
Official Foreign Reserves	475.0	492.9	491.8	4%	-0.2%
Import Cover - Trade estimate (months)	7.6	8.2	8.1	7%	-1.2%
Import Cover - OET estimate (months)	10.3	9.7	N/A	N/A	N/A
Inflation (annual % change)	6.1	-0.5	-0.1	-102%	-80.0%
Retail Fuel Prices:					
Petrol (T\$/litre)	2.84	2.60	2.70	-5%	4%
Diesel (T\$/litre)	2.89	2.72	2.78	-4%	2%

Table 1: Sources: MOF(fiscal indicators), Stats Dept(price & trade indicators), NRBT(monetary indicators)

**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 Tuesday 24<sup>th</sup> of September 2019)

## Fiscal Stability

The estimated **Fiscal Balance for the month of August 2019 recorded a deficit of \$3.1 million, a decline from the \$2.4 million surplus in July 2019.**

The **revenue performance**—overall revenue collected **for the reviewed month** (Table 1 above) reflected a significant increase in monthly terms by 17% (\$3.3m) from July 2019 as well as in annual terms by 1% (\$0.3m) as compared to August 2018. These improvements were mainly driven by intensifications of Capital Support Grant injected. The details will be discussed below in the Revenue section.

The total monthly **expense recorded** in August 2019 was above the level in July 2019 by 51%

(\$8.4m), yet a huge drop by 6% (\$1.7m) from same time last year, August 2018. This spiked monthly expense incurred, were triggered by higher spending on: (i) use of goods and services—primarily on maintenance of building & compounds and the maintenance of roads (ii) other expenditures—largely on payment of subsidies as well as grant for sport activities included the financial support towards the 'Ikale Tahi Rugby team participation in Rugby World Cup 2019 competition.

Nevertheless, on annual basis, the 6% reduction in total expenses were attributed from large drop in use of good and services expenditures for (i) grants payment towards Fisheries operating & marketing expense as well as for Education

**Release Date:**

4<sup>th</sup> October 2019

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TNQAB. (ii) Other special project payment from TRIP NRBT to MORDI Tonga. Details will be further discussed below in the Expenses section.

The outlook anticipates a positive stance with a favourable fiscal balance by the end of the financial year as per the initial forecast. Government ministries expect to continue working towards operationalizing set priorities to achieve the set goals and targets by the end of the year. In addition, supplementary revenue is expected from annual events include the September month marked to especially recognize women, family reunions, Christmas and New Year season.

### Domestic Revenue

Domestic revenue is classified into two categories: *tax* and *non-tax revenue* groups. The total domestic revenue is mainly from revenue collection from tax items. In August 2019, the 91% of total domestic revenue was from the tax revenue and the balance was from the non-tax items. In general, the total domestic revenue received over the reviewed month was not enough to meet the total expenses incurred in the reviewed period. The following sections will discuss the movement in the main components of domestic revenue, tax and non-tax.

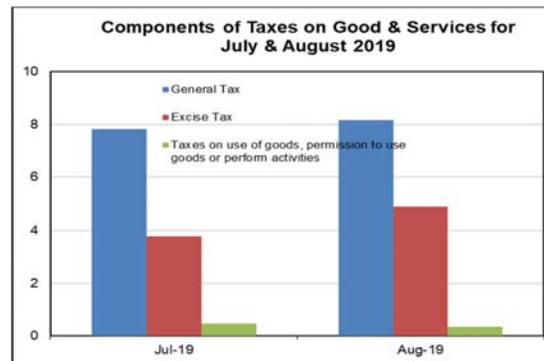
### Tax Revenue

Table 2 below reflects a 6% increase in the total tax revenue collected in August 2019 from \$16.8m collected in July 2019 to \$17.9m collected in the reporting month.

TAX REVENUE (\$M)	Apr-19	May-19	Jun-19	Jul-19	Aug-19
Taxes on income	6.8	6.3	7.1	2.8	2.7
Taxes on property	0.03	0.02	0.03	0.02	0.05
Taxes on G & S	11.3	16.5	14.6	12.1	13.4
Taxes on trade	2.1	3.6	3.0	1.9	1.7
<b>Total</b>	<b>20.2</b>	<b>26.4</b>	<b>24.7</b>	<b>16.8</b>	<b>17.9</b>

*Table 2 : Source: Ministry of Finance*

This rise was driven from the *Taxes on Goods and Services* by 11% to \$13.4m in compared to the previous month. This was mostly from the Excise Tax, which rose by 30% (\$1.1m) respectively, an indication of continuous increase in demand for 'excisable goods'.



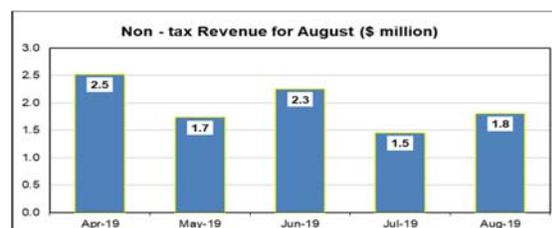
Also, a slight improvement reported in the revenue collection from *Taxes on Property* by \$0.03m attributed mainly from the enhancement in the collections from Poundage Land Rental.

However, monthly deteriorating in the collections of other tax revenue recorded in August 2019 compared to previous month, including (i.) *Taxes on Trade* by \$0.2m, triggered by a slight decline in the collections from Business Import Duties, (ii) *Taxes on Income* by \$0.09m stimulated mainly from reductions in collections from PAYE Tax-Non-Government (large and small business).

Despite these slight monthly deteriorating in revenue collections, yet was minimal to contrast the huge increase of revenue collections from Taxes on Goods and Services that has been reported earlier.

### Non-Tax Revenue

The total collection from non-tax items recorded for August 2019, indicated a small increase by \$0.4m compared to the previous month. The revenue collection in almost all sub categories rose slightly in August largely from Miscellaneous and Unidentified revenue by \$0.2m—driven by higher receipts from Sundry revenue.



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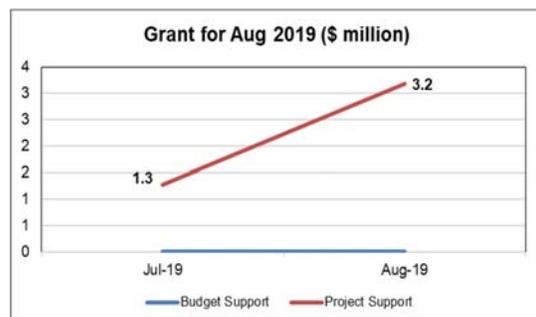
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### Grants

The *Graph* below indicated an increase, by \$1.9m (149%) to \$3.2m on the total grant receipts during the review period. This was triggered by capital grant from international organisations- largely on World Bank/ International Development Agency (IDA), for Tonga Fish Pathway Project, by \$2.0m from previous month.

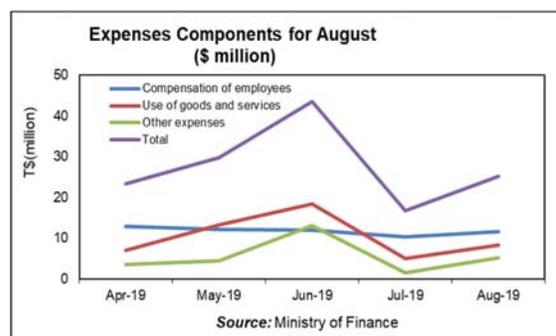


### Expenses

The total expenses recorded in August 2019 increased significantly, by 51% (\$8.4m), to \$25.1m compared to July 2019. By category, the increase was attributed to the accelerated expenses on uses of goods and services and other expenses.

EXPENSES (\$M)	Apr-19	May-19	Jun-19	Jul-19	Aug-19
Compensation of employees	12.9	12.1	11.9	10.2	11.6
Use of goods and services	6.9	13.2	18.4	5.0	8.3
Other expenses	3.4	4.5	13.1	1.5	5.2
<b>Total</b>	<b>23.3</b>	<b>29.8</b>	<b>43.5</b>	<b>16.7</b>	<b>25.1</b>

Table 3 : Source: Ministry of Finance



In *Other expenses*, the significant increase (by 255% or \$3.8m) to \$5.2m (refer 'Expenses Components' graph above) compared to the previous month were payments mainly for the following matters. Firstly, the *social benefits* such

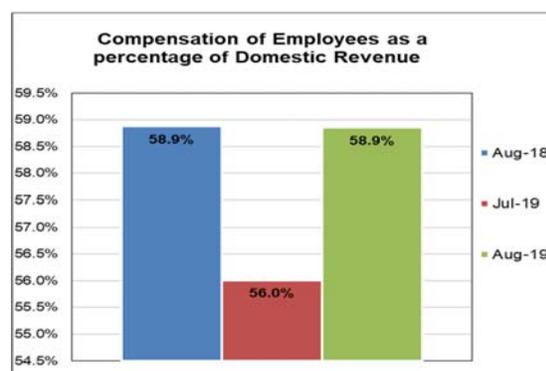
as payment of scholarship, social welfare scheme and student allowance. Lastly, the *miscellaneous expenses* such as payment of subsidies for electricity tariffs (June Quarter) and Grant for Sport- largely on payment for Tonga Sport Council (Pacific Games in Samoa) also cater for 'Ikale Tahi Rugby team allowances participating in PNG Games as well as the Home Game at Teufaiva.

The expenses under the category for the *Use of Goods and Services* rose by 66% (\$3.3m) to \$8.3m in August 2019. The increase was mainly for maintenance purposes of buildings and compounds, road and street lighting.

The *Compensation of employees* increase by 13% (\$1.4m) to \$11.6m in August 2019, triggered from increasing payment of overtime, salaries and wages. These are the significances of filling of vacant posts and hiring of daily paid workers. High overtime payment for the reviewed was partly due to the payment of overtime hours of staff were participating in the annual event of Agricultural Show in July 2019.

### Fiscal Anchors and policy discussion

The monthly performance on the *compensation of employees as a percentage of domestic revenue* in August 2019 was 58.9 percent. This is higher compared to the previous month as well as the annual target of 53 percent. The target is to remain below the target to maintain macroeconomic stability.



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The monthly *domestic revenue as a percentage of GDP* in August 2019 was 0.18%. Although this is slightly above the level in the previous month, we anticipate additional revenue given the ongoing reforms to improve the revenue administration and collection. The set annual target is at least 22 percent of GDP and, again, with this month's rate – positive performance – it is likely to achieve the target going forward.

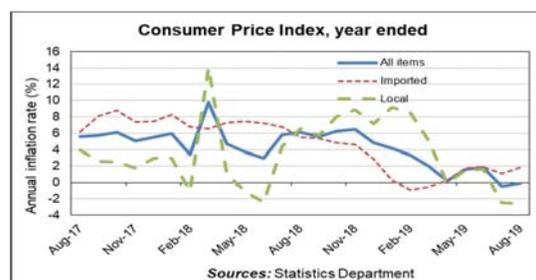
In summary, Government will continue to execute prudential fiscal measures to monitor expenses and collect more revenue to provide fiscal space for capital investment and growth-enhancing spending and fiscal stability.

### Inflation

The **annual headline inflation for August 2019** was -0.1% (deflation) compared to the -0.5% deflation in the previous month, **however, it still remains below the 5 percent reference rate** and the 6.1% in the corresponding period last year.

Inflation rate %	Aug-18	Jul-19	Aug-19
All Items	6.1	-0.5	-0.1
Local	6.6	-2.4	-2.5
Imported	5.5	1.1	1.8

**Table 3** : Source : Statistics Department



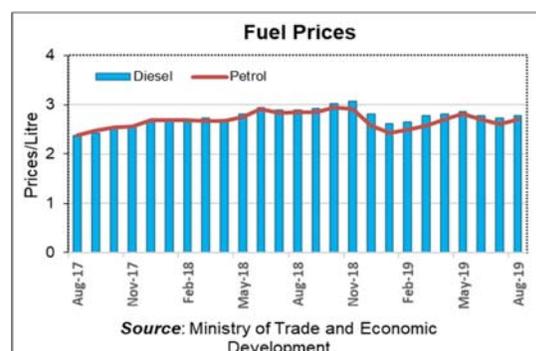
On monthly comparison, imported prices rose due to the increase in imported food and non-alcoholic beverages such as chicken wings, chicken legs, salted beef, steak beef and turkey tails. On the other hand, domestic prices remain constant as the increase in prices of the local food and non-alcoholic beverages – such as tomatoes, head cabbage, early and late yam, taro leaves and watermelons, reef fish, palu and hakula puaka – were net off by the decline in prices of the local alcoholic beverages, tobacco and kava-tonga.

On annual basis, prices of imported items rose and supported by the increase in prices of imported food, tobacco and alcohol, clothing and footwear, and maintenance and repair of dwelling. In contrast, domestic prices decline (slightly) mainly due to cheaper price of local food, kava-tonga, telephone and telefax services whereas

On the outlook, the annual inflation rate is projected to remain below the reference rate of 5 percent in the near term. However, the movement in the global oil and food prices and/or any natural disaster – weather conditions – occur, in the region or domestically, may pose a risk.

### Fuel Prices

The domestic retail prices for petrol and diesel in August 2019 stood at \$2.70 and \$2.78 respectively, which is an increase on monthly comparison but a decrease compared to the same period in 2018.



This represents a 3.8% (or 10 *seniti*) and 2.0% (or 0.06 *seniti*) increase for both petrol and diesel prices compared to previous month. However, a declined on annual basis, by 4.8% (or 0.14 *seniti*) and 4.0% (or 0.12 *seniti*) for petrol and diesel respectively.

The increase in fuel prices in August 2019 was supported by geopolitical tensions increasing prices amid supply tightening due to Hurricane Barry in the US. Petrol prices rose more as the regional markets were disrupted with unplanned outages in the Middle East and extended refinery maintenance (eg. Philippines) putting pressure on supplies. This rise in fuel prices did have income effect on consumer's purchasing power.

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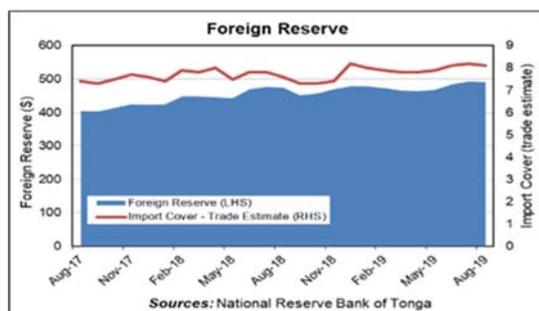
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### Foreign Reserves

Foreign Reserves fell slightly over the month of August 2019 to \$491.8m from \$492.9m in July. Despite this slight decline aforementioned, it still reflected the higher level of inflows, mainly from foreign aid and remittances, into the country.

	Aug-18	Jul-19	Aug-19
Foreign Reserve (\$m)	475	492.9	491.8
Import Cover (trade estimate)	7.6	8.2	8.1

**Table 4:** Source: Ministry of Finance



The level of foreign reserves for August 2019 is equivalent to 8.1 months of import cover which remains above the NRBT's minimum range of 3-4 months. The 8.1 months of import coverage supports positive outlook for economic growth in the near term

ENDS