

Monthly Economic Update October 2018

Ministry of Finance



Release date:
November 2018

Key Indicators	(T\$m unless otherwise indicated)			% change	
	Oct-17	Sep-18	Oct-18	Annual	Monthly
FISCAL INDICATORS (Government Financial Statistics (GFS) Basis)					
Revenue	27.3	14.5	35.8	31%	148%
Tax and Non-Tax Revenue	25.4	13.7	25.7	1%	88%
Grant (cash grants)	1.9	0.8	10.1	434%	1229%
Budget Support	-	-	9.8	-	-
Project Support	1.9	-	0.3	-84%	-
Expenses	22.8	23.9	22.6	5%	-5%
Compensation of Employees	12.9	12.0	10.3	-7%	-14%
Gross Operating Balance	4.5	- 9.4	12.7	183%	-235%
Net Acquisition of Non-financial Assets	0.9	0.4	1.4	52%	250%
Net Lending/Borrowing Requirement	3.6	- 9.7	11.3	217%	-216%
Total Public Debt (\$million)	453.5	N/A	N/A	-	-
ECONOMIC ACTIVITY INDICATORS (OET basis)					
Exports	3.2	1.6	N/A	-	-
Imports	37.9	38.7	N/A	-	-
Adjusted Cash Remittances (Ann Total)	297.2	348.5	N/A	-	-
FISCAL ANCHORS					
Wage bill to domestic revenue to be less than 53% (annual target)	51%	88%	N/A	-	-
MONETARY & PRICE INDICATORS					
Official Foreign Reserves	413.6	452.2	N/A	-	-
Remittances (annual total)	297.2	348.5	N/A	-	-
Import Cover - Trade estimate (months)	7.5	0.0	N/A	-	-
Import Cover - OET estimate (months)	9.9	9.7	N/A	-	-
Inflation (annual % change)	6.1	5.6	6.2	2%	10.7%
Retail Fuel Prices:					
Petrol (T\$/litre)	2.53	2.85	2.85	13%	0%
Diesel (T\$/litre)	2.51	2.92	2.92	16%	0%

Highlights:

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Note: Fiscal data are provisional (unless indicated) and still subject to change until audited. Note also that some indicators have been adjusted and not available.

Fiscal Stability

The fiscal balance for October 2018 was very good which indicated that the revenue collection and its good management offset any financial deficit compared with the previous year and the month of September 2018. The total Revenue for the month significantly increase by 147 percent or \$21.3 million reflecting a high level of collection and the support of grant from foreign country.

Tax Revenue

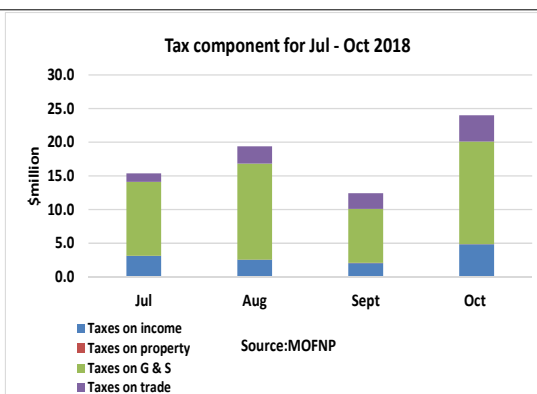
Total tax revenue for October 2018 has significantly increased by 93 percent from \$12.43 million to \$24.02 million. This increase reflects a significant increase in taxes on goods and services collection by 90 percent or \$7.2 million follow by income tax \$2.8 million and taxes on trade \$1.6 million compared to previous month. However, taxes on goods and services rose due to an increase in consumption tax on import goods and domestic goods by \$2.8 million and \$2.4 million respectively. This is reflected the high amount of imported goods together with domestic with domestic consumption for various events such as annual church donations (misinale), family reunions etc.

Tax Revenue (\$million)	Jul	Aug	Sept	Oct
Taxes on income	3.1	2.56	2.05	4.86
Taxes on property	0.04	0.01	0.04	0.02
Taxes on G & S	10.96	14.27	8.03	15.23
Taxes on trade	1.31	2.55	2.31	3.91
Total	15.41	19.39	12.43	24.02

Grant and Non-Tax

Grant and Non-tax revenue both recorded a increase by \$9.3 million and \$0.35 million respectively compared to September 2018.

Significantly increased in grant inline with the \$9.8 million grant from European Union for cyclone Gita recovery and



for budget support followed by the \$0.3 million donors from other international organizations.

Other Revenue (\$million)	Jul	Aug	Sept	Oct
Grants	4.89	1.09	0.76	10.06
Other revenue	1.38	2.06	1.36	1.71

Non-tax revenue for the month increased as well due to increase in almost all of the items lead by the collection from property income by 84 percent or \$0.16 million.

Non-Tax Revenue (\$million)	Jul	Aug	Sept	Oct
Property income	0.15	0.31	0.19	0.35
Sales of G & S	1.10	1.34	1.12	1.26
Fines, penalties, & forfeits	0.08	0.08	0.05	0.07
Voluntary transfer other than gran	0.04	0.00	0.00	0.00
Misc. & unidentified revenue	0.02	0.33	0.00	0.03
Total	1.39	2.06	1.36	1.71

Indicators Digest

*Fiscal Balances indicate an favourable level.

*Inflation rate for the month of April 2018 was slightly decreasing to 9.6 percent.

*Retail price for petrol and diesel decreased to \$2.53 per litre and \$2.51 per litre respectively as of October 2018.

*Agricultural exports for October 2018 increased in support of squash pump-kin season.

Expenses

Expenses recorded for October 2018, fall by 6 percent or \$1.4 million in line with the declined in Other expenses such as Interest, Subsidies and Social contribution etc by 27 percent also compensation of employees by 14 percent or \$1.7 million compared to previous month.

Declined on compensation of employees due to fall in number of new employees during this period and sometimes the delay in recruitment process.

Expenses (\$million)	Jul	Aug	Sept	Oct
Compensation of employees	9.32	12.63	12.04	10.36
Use of goods and services	12.06	9.53	6.18	8.04
Other expenses	2.17	3.54	5.74	4.19
Expenses	23.6	25.7	24.0	22.6

Inflation

There was a changes made to the CPI basket included a new base period to September 2018, extended to include Vava'u. Updated the basket of goods and its weights, to 12 items such as health, communication, recreation & culture, education also restaurants & hotels. and changes to the methodology. Inflation rate for September and October 2018 was calculated using the new methodology.

The inflation rate rose over the month of October due to rises both domestic and imported prices. Local food and Catering service prices increased together with the increase in imported footwear, roof iron and timber, and fuel prices.

INFLATION RATE	Jul-18	Aug-18	Sep-18	Oct-18	Oct-17
All items	6.1	5.7	5.6	6.2	6.1
Imported	6.0	3.6	5.4	4.8	8.8
Local	6.1	8.5	5.7	8.0	2.5

The annual rate of inflation for October 2018 was slightly increase to 6.2 percent from 5.5 percent recorded last month, however lower than the 6.4 percent in October 2017. This continued to remain above the NRBT's inflation reference target of 5 percent.

Higher overall domestic prices were driven by increase in food, alcoholic beverages, tobacco, kava-Tonga, clothing, goods and services for routine household maintenance and catering services. Furthermore, higher imported over the year were caused by increases in alcoholic beverages & tobacco, clothing & footwear and petroleum.

Fuel Prices

The continuous rising in global price of crude oil is due to high demand global oil, and this may ease as some countries look to reduce imports in order to offset the impact of rising prices.

Crude prices (Date Brent) reached a four year high at USD83.64/ bbl on 28th September which was up by USD6.23/BBL (8.6%) supported by the tightening of supplies from US sanctions on Iran and production disruptions in Libya and Venezuela.

Thus, slightly increasing trend in petrol and diesel prices for October 2018 compared to previous month and same period year ago.

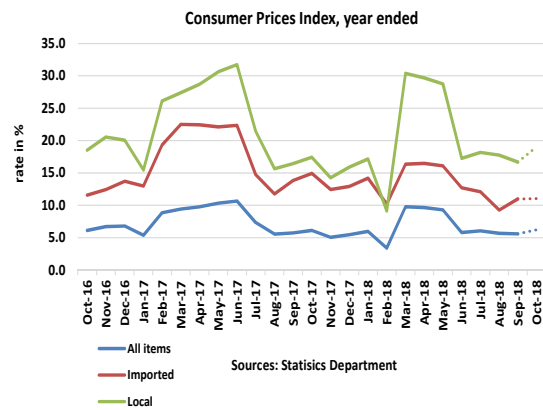
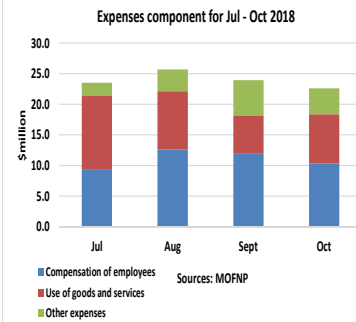
By looking at the retail prices per litre of Brent crude oils for October 2018, petrol was \$2.94 or rise by 0.09 seniti while diesel was \$3.02 or increase by 0.10 seniti compare to previous month. On annual basis both petrol and diesel increased by 0.41 and 0.51 seniti respectively.

The increase in diesel prices were supported by refinery maintenance in Japan after the earthquake disrupted exports. This is also associated with the changes in freight rate and the continuing weaken of Tongan pa'anga against the US dollar together with the higher international prices resulted in a spike in local prices.

Fiscal Anchors

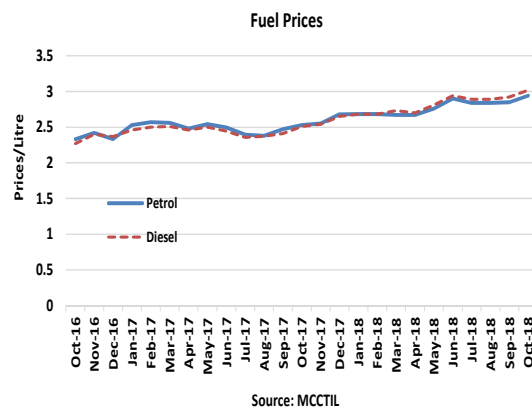
The monthly performance of wage bill for October 2018 as a percentage of domestic revenue was 40 percent which is almost the half of 88 percent recorded in September 2018; also below the annual target of 53 percent which is a very good indication and hopefully will continue to keep this level.

While Debt of GDP ratio remains as there is no further change in debt level.



Note: dot line indicates rate of inflation using the new base period: September 2018 = 100.0

On the outlook for the future, inflation rate is anticipated to remain at the upper level of the review month to the near term. Movement in global oil and food prices pose a risk to the outlook and also the vulnerability of Tonga to natural disaster pose risk to local food prices.



FUEL PRICES	Sep-18	Oct-18	Oct-17
Petrol	2.85	2.94	2.53
Diesel	2.92	3.02	2.51

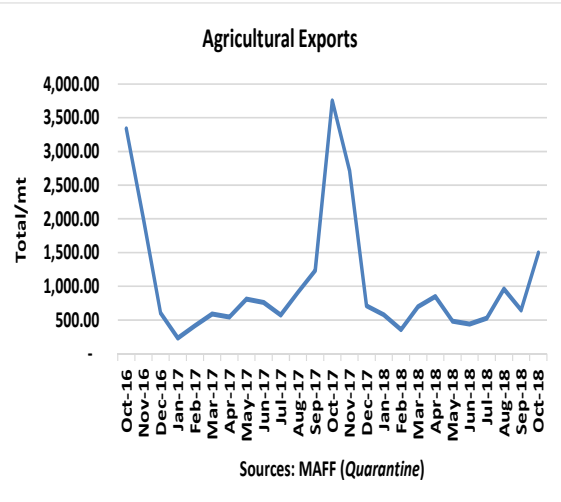
Agricultural Exports

Provisional data from Quarantine indicates that the volume of Agricultural exports for October 2018 increased from 648.91 tonnes to 1,496.36 tonnes or (131%) compare to previous month. However, almost half of monthly result of 60 percent decreased compared to previous year. This is inline with the effect of climate change and the vulnerability of Tonga to natural disaster.

The increase from export largely due to the review month coinciding with the squash harvesting season of the year. Vegetables and fruits also contribute to the observed trend.

Outlook for agricultural exports is anticipated to be positive in the near term.

	Jul-18	Aug-18	Sep-18	Oct-18	Oct-17
Leaves	2.52	2.41	0.82	1.42	3.70
Squash	4.63	66.38	75.01	910.55	3021.46
Root crops	420.25	732.44	495.99	454.82	467.35
Vegetables & Fruits	67.98	118.42	41.07	97.64	238.47
Others	31.03	40.94	36.01	31.94	18.40
Total Exports	526.41	960.59	648.91	1496.36	3749.38



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