GOVERNMENT OF TONGA

"Economic and Financial Update"

(April 2023)

A. FISCAL UPDATE

- From April 2023, the ***fiscal balance*** recorded a significant improvement, with the deficit declining by 59% to $5.0m in comparison to the deficit of $12.3m in March 2023 . While the government revenue decreased by 12% ($3.6m) to $26.8m, the government expenditure also declined by 27% ($10.7m) to $29.0m.

- ***Total revenue,*** including domestic revenue and grants, decreased by 12% ($3.6m) for the month of April. This is mainly attributed to the decrease in collection of non-tax revenue by 44% ($1.7 m) to $2.2m compared to $3.9m in the previous month. When taking into account that the grant funding increased by 11% ($0.3 m) , this shows the consolidated efforts within the government to promote macroeconomic stability through achieving fiscal targets.

- ***Total Expenses*** across the same period (April 2023) decreased by 27.0% ($10.7m). A major part of this reduction was attributed to the decreased cost of goods and services by 33%($5.4m) to $11.1m, compared to $16.5 m in the previous month, indicated the improvement of Tonga's fiscal position.

- With continued prudence in spending and strengthening in administration and compliance in revenue collection, a minimal fiscal deficit is estimated at the end of the financial year (end of June FY 2023) .

Government Financial Statistics (GFS)

Key Indicators	(T$m unless otherwise indicated)						
	Mar-23 ($m)	Apr-23($m)	Monthly (%)	Budget Est 22/23($m)	Actual (Jul-Apr23)($m)	Variance ($m)	Variance %
FISCAL INDICATORS *(Government Financial Statistics (GFS) Basis)*							
Revenue	**30.4**	**26.8**	**-12%**	**675.9**	**377.8**	**(298.1)**	**-44%**
Tax	24.3	24.0	-1%	253.3	229.1	(24.2)	-10%
Grant *(cash grants)*	2.2	2.5	11%	409.0	127.2	(281.8)	-69%
Current Grant	*0.0*	*0.0*	-	*81.5*	*43.0*	(38.5)	-47%
Capital Grant	*2.2*	*2.5*	9%	*327.5*	*84.0*	(243.5)	-74%
Other Revenue *(non - tax)*	3.9	2.2	-44%	33.0	23.5	(9.5)	-29%
Expenses	**39.7**	**29.0**	**-27%**	**546.8**	**330.6**	**216.2**	**40%**
Compensation of Employees	11.6	13.3	15%	177.0	128.8	48.2	27%
Use of Goods and Service	16.5	11.1	-33%	298.8	145.9	152.9	51%
Interest	2.8	0.0	-99%	7.9	7.0	0.9	11%
Subsidies	0.1	0.0	-100%	1.3	0.6	0.7	54%
Grant	0.1	0.2	90%	4.3	3.1	1.2	28%
Social benefits	2.1	1.2	-42%	27.2	17.6	9.6	35%
Other Expenses	6.5	3.0	-54%	30.3	27.6	2.7	9%
Gross Operating Balance	-9.3	(2.1)	-77%	129.1	47.2	81.9	63%
Net Acquisition of Non-financial Assets	3.0	2.9	-4%	160.9	23.0	137.8	86%
Net Lending/Borrowing Requirement (Financing)	**-12.3**	**(5.0)**	-59%	**(31.7)**	**24.2**	**(55.9)**	
Total Public Debt *(External & Domestic)* ($million)	N/A	N/A	-	NA	N/A	-	
FISCAL ANCHORS							
Compensation of Employees to domestic revenue to be less than 53% (annual target)							
monthly performance (%)	41%	51%		62%	51%	-	

Note: *Fiscal data are provisional (unless indicated) and are still subject to change until audited. Fiscal data based on last update in 7 of June 2023)*

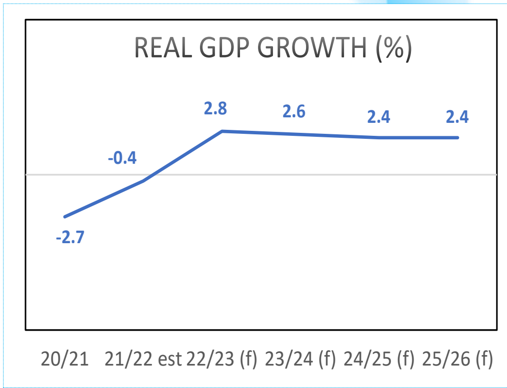
GOVERNMENT OF TONGA

B. ECONOMIC UPDATE

Tonga's economy has been gradually returning to normal since the double shocks. The government with the support of development partners has played crucial role in sustaining the economy and safeguarding vulnerable individuals. However, the country are now facing the challenge of rebuilding the economy while grappling with impacts of global energy and food prices. Therefore, the government are focus on recovery, reconstruction and social protection measures.

The economic growth for FY 2023 is expected at 2.8 percent, reflecting an economic recovery after the international border re-opened in August 2022. Over the medium term (FY 2024 - 2026), the outlook is positive for the domestic economy, with an estimated average growth rate of around 2.5 percent. This growth is expected to be led by the reconstruction activities and the development of Agriculture and Fisheries local production.

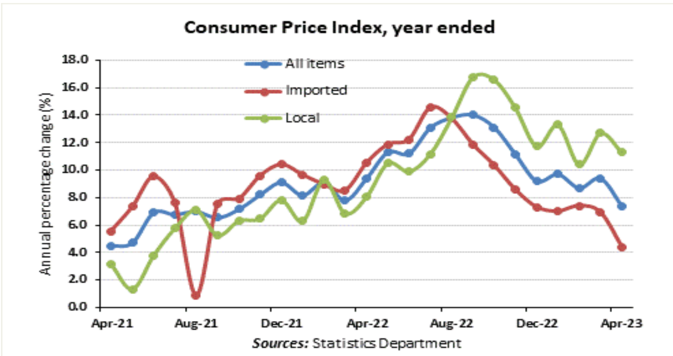
***Figure 1:*Growth**



The following table/chart outlines key selected economic indicators to describe the current economic situation for the period .

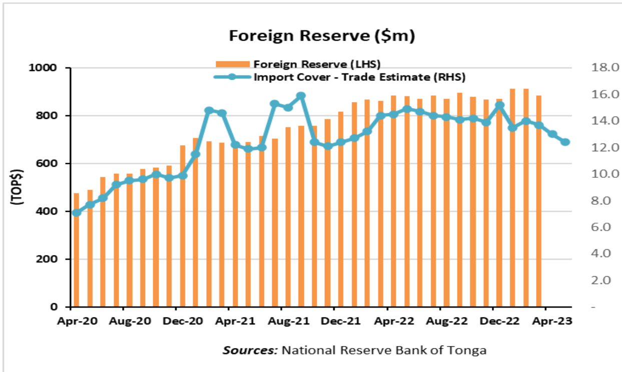
- **The annual headline inflation rate for April 2023 decreased by 2.0 percent to 7.4 percent** compared to 9.4 percent in March 2023. The decrease is due to :
- *Decline in Imported inflation for April 2023 to 4.4 percent from 6.9 percent in March 2023; and*
- *Decline in Domestic inflation to 11.3 percent from 12.7 percent in March 2023.*
- Domestic components of the CPI continue to dominate the headline inflation, since September 2022, mainly attributed to the increased in prices of local food, local transport service due to increase in price of fuel.

***Figure 2:* CPI for the month of April 2023**



- ***Foreign Reserves*** as of April recorded at $860.5 million equivalent to 12.4 months of import .Declining by $23.2 million from $883.7 million in previous month.
  - This was attributed to an increase in Government's external loan repayments to EXIM bank .
- It projected to remain comfortable at around 11 months of import cover by the end of 2023, sustained by large inflows of grants and donor funds for development projects in the near term. However, budget support and remittance receipts are expected to slow down, and import outflows are expected to continue to increase in line with the domestic economic recovery.

Figure 3: Foreign reserve March 2023



- The **domestic retail price for petrol in April 2023 fell to $3.48 from $3.52**,whereas diesel price rose from $3.63 to $3.86, compared to March 2023. This reflected large increased in diesel prices of *0.23 seniti* while *0.04 seniti* drop in the price of petrol.
- ***The outlook on fuel prices*** depends on the global environment, including external shocks. While a decline in oil prices was overseen during the last few months, this trend may reverse following Saudi Arabia's cut in it's oil production. Hence, there can be increased volatility in the global oil markets, leading to increased uncertainty.

Figure 4: Fuel prices for April 2023

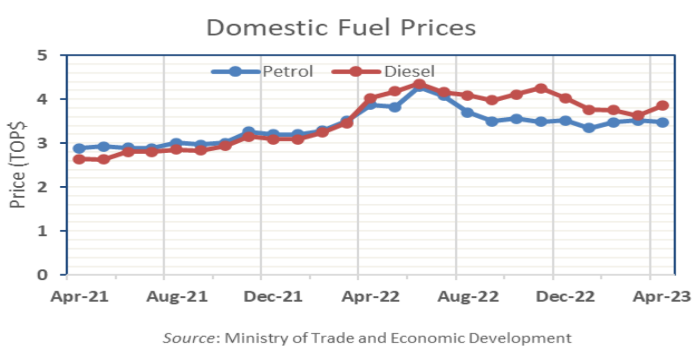


Table 1: Recurrent Budget Performance (April FY2023)

	Original Budget 2022/23($m)	Budget (Jul-Apr)($m)	Actuals (Jul-Apr)($m)	Variance ($m)	Variance (%)	% spent/ received (Jul-Apr)
Total Receipts	406.8	337.6	317.9	-19.7	-5.8%	78%
Total Payments	437.0	362.7	295.9	66.8	18.4%	68%
Balance	**-30.3**	**-25.1**	**22.0**	**-86.6**		
	Original Budget 2022/23($m)	**Budget (Jul-Apr)($m)**	**Actuals (Jul-Apr)($m)**	**Variance ($m)**	**Variance (%)**	**% spent/ received (Jul-Apr)**
Revenues	**406.8**	**337.6**	**317.9**	**-19.7**	**-5.8%**	**78%**
Domestic Revenues	325.3	270.0	274.9	4.9	1.8%	85%
Tax	245.6	203.9	219.4	15.6	7.6%	89%
Income Tax	48.2	40.0	44.5	4.5	11.3%	92%
Trade Taxes	23.3	19.3	20.6	1.2	6.3%	88%
Tax on Goods & Services	106.6	88.5	103.3	14.9	16.8%	97%
Excise Tax	67.6	56.1	51.1	-5.0	-9.0%	76%
Non-Tax	79.7	66.1	55.5	-10.7	-16.1%	70%
Fees & Licenses	28.2	23.4	21.6	-1.8	-7.7%	77%
Entrepreneurial& Property	11.6	9.6	7.2	-2.4	-24.6%	63%
Miscellaneous	1.2	1.0	0.3	-0.7	-66.2%	28%
Capital & Transfers	38.6	32.1	26.2	-5.8	-18.2%	68%
Budget Support	81.5	67.6	43.0	-24.6	-36.4%	53%
Expenditures	**437.0**	**362.7**	**295.9**	**66.8**	**18.4%**	**68%**
Wage Bill	172.9	143.5	130.8	12.7	8.8%	77%
Operations	204.1	169.4	123.6	45.8	27.0%	60%
Assets	16.5	13.7	11.0	2.7	20.0%	66%
Debt	43.6	36.2	30.5	5.6	15.6%	70%
Balance	**-30.3**	**-25.1**	**22.0**	**-47.1**		

Overall Summary

- The total recurrent budget originally estimated a $30.3m deficit by the end of the FY. As of end of April 2023, the budget is currently at a $22.0m surplus, but primarily due to the World Bank budget support of $43m and $21m loan receipts from the IMF which have already been received at the beginning of the FY.

- By end of April 2023, a benchmark of 83% is estimated to be received and spent from the original estimates. This translates to collecting $337.6m worth of receipts, and spending at $362.7m, resulting in an estimated deficit of $25.1m. However, in comparison to the actual performance as of end of April 2023, spending was lower by 18.4% and total receipts recorded was less by 5.8%.

- Total receipts by April 2023 reached 78% or $317.9m of the original target. This includes 89% of targeted tax revenues being collected, or $219.4m, which is 20% higher than pre-pandemic levels. This better than expected performance includes attribution to higher prices (inflation) particularly in the revenues being collected from consumption tax on imports.

- Budget support from development partners (normal annual allocations) have not been received to date, but will be before the end of the FY, except $23m from the World Bank and ADB.

- Despite that spending is low as of April 2023 at only 68% of the total estimates, it is 9% higher in comparison to the same period last financial year due to higher operational spending, largely in overseas travels due to international borders re-opening. In comparison of spending on overseas travels alone in Jul-Apr 2023 and pre-pandemic times, it is 38% or $1.6m higher.

Table 2: Gross Domestic Product (GDP)

Key economic indicators	20/21p	21/22f	22/23f	23/24f	24/25f	25/26f
Nominal GDP (*T$m*)	1,068.8	1,188.7	1,340.4	1,480.3	1,632.9	1,783.5
Real GPD per Capita (TOP)	106.4	118.8	130.3	140.4	151.1	161.2
Growth (%)	(2.7)	(0.4)	2.8	2.6	2.4	2.4

Table 3: Selected Key Social Indicators

Period	2018	2019	2020	2021	2022
Labor Force (15+)	**29504**				**32,319**
Male (%)	56.2				58.9
female (%)	43.7				41.1
Employment (15+)	28,598				31,037
Labor force participation rate					
male (%)	56.2				55.3
female (%)	38.4				37.3
Youth Unemployment Rate	8.9				
15-24					
Male					
Female					
Urban (youth unemployment)	9.2				
Youth unemployment rate by Island Division					
Tongatapu	19.5				
Vava'u	5.2				
Ha'apai	-				
Eua	12.7				
Niuas	-				
Total Unemployment rate (%)	**3.1**				**4.0**
Source:Labour force survey 2018,Statistic Department & ILO November 2022					
Total established staff					6,262
Total Civil Servants					6,390
Total Contract Staff					1,001
Daily Labor					809
Professional Contracts					189
Source: MOF,Statistic Department					
Total Number of Labor Mobility workers					
RSE (NZ scheme)	2,790	3,738	2,025	826	1,202
PALM (Australia scheme)	2,025	3,738	2,025	749	2,491
Source: Overseas employment Division ,MIA					

Fewer jobs vacancies advertised over the month

National Reserve Bank job survey (April 2023) shows that :

- there was a significant decrease in the number of advertised job vacancies during the month, with a decrease of 46.1% (equivalent to 53 job vacancies).
- majority of the job vacancies advertised during this period were in the public administration, transport & communications, and education sectors.
- At the annual rate, the number of advertised job vacancies increased significantly by 183.0% (equivalent to 593 job vacancies).
- This rise could be seen as a reflection of the challenges faced by domestic employers due to labor mobility schemes .