GOVERNMENT OF TONGA

"Economic and Financial Update"

(February 2023)

A. FISCAL UPDATE

- In February 2023, the provisional fiscal balance deteriorated to a **deficit of $6.6 million**, compared to a surplus of $51.8 million in January 2023. This is primarily due to a 67% decrease in revenue received and a 31% increase in expenses from the previous month.

- **Total revenue,** including domestic revenue and grants, decreased by $50.3 million (or 67%) in the reviewed month compared to the previous month, mainly due to a $1.3 million decrease in income taxes. This decrease is attributed to the slow collection from corporate tax and large business income. Additionally, there has been a 96% decline in grants, as the additional budget support of $48.3 million from DFAT was received in January 2023. In comparison, a total amount of $1.8 million was recorded as grants for February 2023.

- **Total expenses** have slightly increased by $6.7 million (or 31%), attributing to an increase in the use of goods and services mainly on road maintenance works. To illustrate, the cost of road maintenance has increased by $1.3 million compared to the previous month.

- An overall fiscal surplus of $37 million is estimated for the first eight months of FY 2023 (July 2022-February 2023), mainly due to the additional budget support from DFAT. With continuing prudence in spending and strengthening in administration and compliance in revenue collection, a minimal fiscal surplus/deficit is estimated at the end of the financial year.

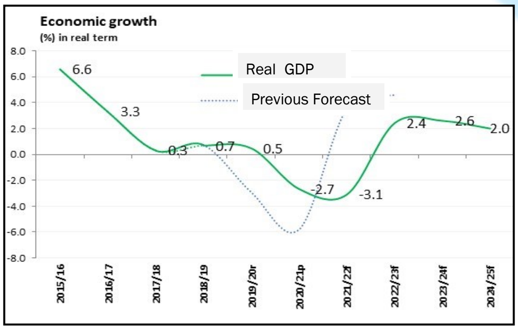
Key Indicators	**(T$m unless otherwise indicated)**						
	Jan - 2023 ($m)	**Feb-2023($m)**	**Monthly**	**Budget Est 22/23**	**Actual (Jul-Feb- 23)**	**Variance $**	**Variance %**
FISCAL INDICATORS *(Government Financial Statistics (GFS) Basis)*							
Revenue	**74.6**	**24.3**	**-67%**	**695.2**	**315.0**	**(380.2)**	**-55%**
Tax	22.0	19.5	-11%	253.3	178.9	(74.4)	-29%
Grant *(cash grants)*	50.4	1.8	-96%	409.0	119.2	(289.8)	-71%
Current Grant	*0.0*	*0.0*	-	*81.5*	*43.0*	(38.5)	-47%
Capital Grant	*50.4*	*1.8*	-96%	*327.5*	*76.2*	(251.3)	-77%
Other Revenue *(non - tax)*	2.2	2.9	32%	33.0	16.8	(16.2)	-49%
Expenses	**22.0**	**28.7**	**31%**	**604.4**	**260.8**	**343.6**	**57%**
Compensation of Employees	11.6	11.3	-3%	177.3	103.4	73.9	42%
Use of Goods and Service	8.2	13.9	70%	356.0	117.8	238.2	67%
Interest	0.3	0.0	-	7.9	4.1	3.8	49%
Subsidies	0.1	0.0	-	1.3	0.5	0.8	65%
Grant	0.3	0.0	-	4.3	2.7	1.6	38%
Social benefits	1.2	1.4	19%	27.2	14.3	12.9	47%
Other Expenses	0.3	2.1	-	30.3	18.1	12.2	40%
Gross Operating Balance	52.6	(4.4)	-	90.8	54.2	36.6	40%
Net Acquisition of Non-financial Assets	0.8	2.1	-	113.7	17.1	96.6	85%
Net Lending/Borrowing Requirement (Financing)	**51.8**	**(6.6)**	**-**	**(22.9)**	**37.1**	**(60.0)**	
Total Public Debt *(External & Domestic)* ($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 (%)	48%	50%		62%	53%	-	
ECONOMIC ACTIVITY INDICATORS *(OET basis)*							
Exports ($million)	-	-			-	-	
Imports ($million)	-	-			-	-	
MONETARY & PRICE INDICATORS							
Remittances *(annual total)*	-	-			-	-	
Official Foreign Reserves	911.1	911.2			-	-	
Import Cover - Trade estimate *(months)*	14.0	13.7			-	-	
Import Cover - OET estimate *(months)*	-	-			-	-	
Inflation *(annual % change)*	9.7	8.7			-	-	
Retail Fuel Prices:							
Petrol *(T$/litre)*	3.35	3.48			-	-	
Diesel *(T$/litre)*	3.76	3.75			-	-	

Table 1: *Source:* MOF, NRBT & MTED

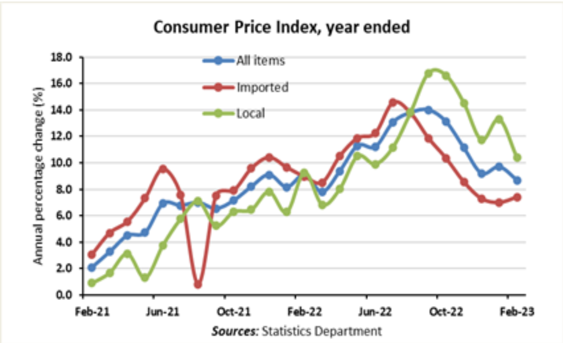
B. ECONOMIC UPDATE

The forecast for the Tonga economy as reported in the Jul-Jan 2023 report maintained the estimation of growth rate at a -3.1 percent in FY2022. The negative growth reflects the substantial disruptions in economic activities due to the impact of HTHH eruption along with the COVID-19 containment measures on the key sectors of the economy. An ongoing revision is made towards the FY2022 and outer years forecast is being based on the updated data and information. This should be reflected, in the next periodic report.

The outlook is positive, with an annual GDP growth projected to rebound to an average of 2.3 percent in the medium-term. This is led by the ongoing recovery and reconstruction activities and the Government investment in key sectors of the economy.



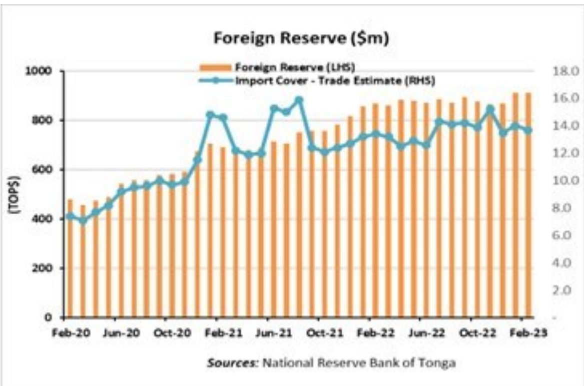
Inflation Rates



Sources: Statistics Department

- **The annual headline inflation rate for February 2023 decreased by 1.0 percent to 8.7 percent** compared to 9.7 percent in January 2023. The decrease is due to :
  - *Increase in Import inflation for February 2023 to 7.4 percent from 7.0 percent in January 2023 ; and*
  - *Decline in Domestic inflation to 10.4 percent from 13.3 percent in January 2023.*
- Since September 2022, the domestic components of the CPI continues to dominate the headline inflation. It is mainly attributed to the increases in the price of meat and seafood.

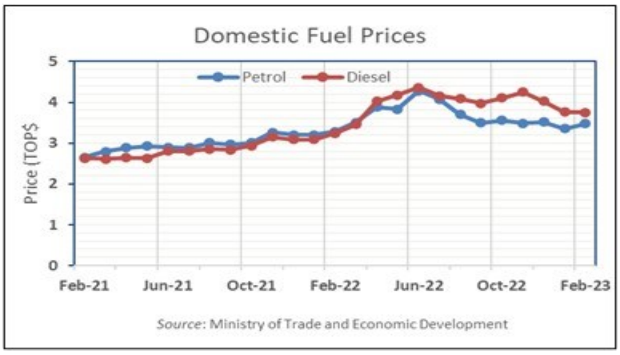
Foreign Reserves



Sources: National Reserve Bank of Tonga

- The **official foreign reserves in February 2023 was recorded at $911.2 million**, compared to $911.1 million in January 2023.
- The level of foreign reserve is equivalent to 13.7 months of imports, above the optimal level of 7.3 months import cover and the threshold of 3 months of import cover.
- In the near term, the foreign reserves are projected to rise, supported by high remittances inflow to the country from seasonal workers as well as family and relatives abroad.

Fuel Prices



Source: Ministry of Trade and Economic Development

- The **domestic retail price for petrol in February 2023 rose to $3.48 from $3.35**,whereas diesel price fell to $3.75 from $3.76, compared to January 2023. This reflected large increases in petroleum prices of *0.13 seniti* while the price of diesel dropped by *0.01 seniti*. On an annual basis, both petrol and diesel increased by 20 seniti and 51 seniti respectively.
- ***The outlook*** is expected to further worsen due to the ongoing Russia-Ukraine political tension along with supply sided shocks of the global economy.

C. FINANCIAL UPDATE

Table 2: Recurrent Budget Performance (February FY2023)

	Original Budget 2022/23	Budget (Jul-Feb)	Actuals (Jul-Feb)	Variance ($)	Variance (%)	% spent/ received (Jul-Feb)
Total Receipts	406.8	272.5	265.0	7.5	2.8%	65%
Total Payments	437.0	292.8	224.6	68.2	23.3%	51%
Balance	**(30.3)**	**(20.3)**	**40.4**	**(60.6)**		

	Original Budget 2022/23	Budget (Jul-Feb)	Actuals (Jul-Feb)	Variance ($)	Variance (%)	% spent/ received (Jul-Feb)
Revenues	**406.8**	**272.5**	**265.0**	**(7.5)**	**-2.8%**	**65%**
Domestic Revenues	325.3	217.9	222.0	4.0	1.9%	68%
Tax	245.6	164.6	174.1	9.5	5.8%	71%
Income Tax	48.2	32.3	32.4	0.2	0.5%	67%
Trade Taxes	23.3	15.6	17.4	1.8	11.4%	75%
Tax on Goods & Services	106.6	71.4	82.6	11.2	15.6%	77%
Excise Tax	67.6	45.3	41.6	(3.6)	-8.1%	62%
Non-Tax	79.7	53.4	47.9	(5.4)	-10.2%	60%
Fees & Licenses	28.2	18.9	17.0	(1.8)	-9.8%	60%
Entrepreneurial& Property	11.6	7.8	4.3	(3.4)	-44.1%	37%
Miscellaneous	1.2	0.8	0.3	(0.5)	-63.0%	25%
Capital & Transfers	38.6	25.9	26.2	0.3	1.3%	68%
Budget Support	81.5	54.6	43.0	(11.6)	-21.2%	53%
Expenditures	**437.0**	**292.8**	**224.6**	**68.2**	**23.3%**	**51%**
Wage Bill	172.9	115.8	105.1	10.7	9.3%	61%
Operations	204.1	136.7	92.3	44.4	32.5%	45%
Assets	16.5	11.1	8.1	3.0	26.9%	49%
Debt	43.6	29.2	19.2	10.0	34.3%	44%
Balance	**(30.3)**	**(20.3)**	**40.4**	**(60.6)**		

- The ***total recurrent budget*** was originally estimated at a $30.3m deficit, by the end of the FY. As of the ***end of February 2023***, the ***budget is currently at a $40.4m surplus***, 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 coupled with low spending levels.

- By end of Feb 2023, a benchmark of 67% is estimated to be received and spent from the original estimates. This translates to collecting $272.5m worth of receipts, and spending at $292.8m, resulting in an estimated deficit of $20.3m. However, the actual performance as of end of Feb 2023 was a surplus of $40.4m, which was comprised of better than expected revenue collection and slow progress in spending.

- ***Total receipts*** recorded as of Feb 2023 reached 65% or $265m of the original target. A total of $174.1m of tax revenues have been collected, which consist of approximately 71% of targeted tax revenues. This amount is 19% higher than pre-COVID levels. This better than expected performance can be attributed to the revenue administration reforms underway including the use of businesses cash registers.

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

- Despite that, ***spending*** is low as of Feb 2023, at only 51% of the total estimates. Spending is 26% higher than pre-covid spending levels, implying the increased recovery efforts of government in public service delivery since HTHH, COVID-19 and rising global fuel prices.

- Prior to taking into account the receipts for ***financing*** the deficit, revenues collected as of Feb 2023 is less than expenditure by $23.6m; of which is financed from the $64m financing measures received from WB and the IMF, resulting in a surplus of $40.4m. However, this surplus is anticipated to further lessen in the remaining 4 months of the FY as spending usually peaks.

Table 3: 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	1,156.3	1,286.3	1,419.7	1,558.8	1,728.2
Real GPD per Capita (TOP)	10,031	10,098	10,577	11,072	11,643	12,306
Growth (%)	(2.7)	(3.1)	2.4	2.6	2.0	1.8

Table 4: 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					

Labour demand slowed down over the month

The job survey of the National Reserve Bank of Tonga shows that :

- The number of job vacancies advertised have declined by 14.9% over the month of February.
- The job vacancies were mainly in the sectors of public administration, transport services, hotels & restaurants.
- The annually advertised job vacancies rose by 107.8% (389 job vacancies).
- High demand for labour over the year were also observed in the sectors of transport & restaurants and trade, corresponding to the recovery in the economic activities.
- There is an increase in the participation of domestic labour force in the ongoing seasonal workers' scheme to New Zealand and Australia.