

Monthly Economic Update February 2020

Ministry of Finance (MOF)



Government of Tonga

Key Indicators	(T\$m unless otherwise indicated)			% change	
	Feb-19	Jan-20	Feb-20	Annual	Monthly
FISCAL INDICATORS (Government Financial Statistics (GFS) Basis)					
Revenue	17.8	23.5	26.1	46%	11%
Tax	16.0	21.5	13.8	-14%	-36%
Grant (cash grants)	0.2	0.4	5.8	-	-
Current Grant	0.0	0.0	0.0	-	-
Capital Grant	0.2	0.4	5.8	-	-
Other Revenue (non - tax)	1.6	1.5	6.4	-	-
Expenses	19.4	22.2	22.0	13%	-1%
Compensation of Employees	9.8	11.7	10.5	8%	-10%
Use of Goods and Service	6.1	7.1	7.6	25%	7%
Interest	0.35	0.36	0.42	19%	15%
Subsidies	0.2	0.0	0.1	-45%	-
Grant	0.2	0.7	1.1	-	69%
Social benefits	1.03	1.1	1.04	0.4%	-7%
Other Expenses	1.7	1.2	1.1	-34%	-4%
Gross Operating Balance	-1.6	1.3	4.1	-	-
Net Acquisition of Non-financial Assets	0.4	0.9	3.1	-	-
Net Lending/Borrowing Requirement (Financing)	-2.0	0.4	0.9	-	-
Total Public Debt (External & Domestic) (\$million)	473.9	N/A	N/A	-	-
FISCAL ANCHORS					
Compensation of Employees to domestic revenue to be less than 53% (annual target)					
monthly performance (%)	55%	51%	52%		
ECONOMIC ACTIVITY INDICATORS (OET basis)					
Exports	20.4	19.4	19.4	-5%	0%
Imports	440.8	429.9	425.6	-2%	-1%
MONETARY & PRICE INDICATORS					
Remittances (annual total)	350.3	350.0	350.5	-0.1%	0.1%
Official Foreign Reserves	473.5	482.9	479.8	2.0%	-0.6%
Import Cover - Trade estimate (months)	7.9	7.2	7.1	-9%	-1%
Import Cover - OET estimate (months)	9.6	9.4	9.4	-2%	0%
Inflation (annual % change)	3.2	0.6	0.8		
Retail Fuel Prices:					
Petrol (T\$/litre)	2.49	2.80	2.74	10%	-2%
Diesel (T\$/litre)	2.65	2.88	2.83	7%	-2%

Table 1 : Source: MOF, NRBT & MTED

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 update on Friday 17th April 2020)

Release Date:

July 2020

HIGHLIGHT:

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Fiscal Stability

The provisional **Fiscal Balance for the month of February 2020 recorded a surplus of \$0.9 million, a slight increase from the \$0.4 million surplus in January 2020.**

The **revenue**—both domestic revenue and grants performance—for the reviewed month (Table 1 above) **reflected an increase of \$2.6 million** (or 11 percent), compared to the previous month. This is due to the increase in non-tax revenue and grants (cash grants). On an annual basis, **total revenue increased by \$8.3 million** (or 46 percent). The details will be discussed in the Revenue section.

The total **monthly expenses** recorded in February 2020 **decreased slightly by \$0.2 million** (or negative 1.0 percent) compared to January 2020 and **increased by \$2.6 million** (or 13 percent) compared to the same time last year. The

decrease, on monthly basis, was due mainly to a lower compensation of employees or salaries. On annual basis, the increase in total expenses was attributed to both the increase in use of goods and services and other expenses.

On the outlook, fiscal balance is uncertain in view of the impact of the COVID-19 outbreak from China and the corresponding economic challenge. However, Government together with Development partners and stakeholders continue to work together at all levels to ensure financial and macroeconomic stability are maintained, by meeting respective set goals and targets to improve the revenue collection.

Domestic Revenue

Domestic revenue consists of two components: *tax* and *non-tax revenue*. The majority of domestic

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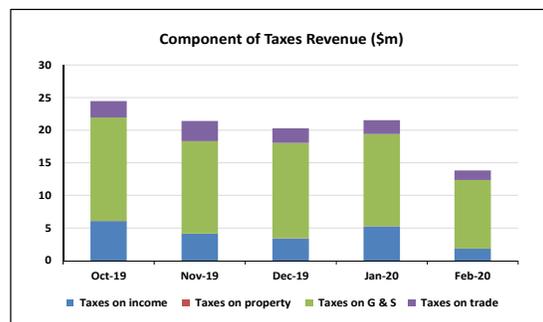
revenue is from the revenue collection on taxable items. In February 2020, 53 percent of total domestic revenue was from the tax revenue and the rest from the grants and non-tax items. In general, the domestic revenue for the reviewed month was ample to meet the total monthly expenses.

Tax Revenue

Table 2 below shows a significant drop down to negative 36 percent in total tax revenue collected in February 2020 of \$13.8 million, compared to \$21.5 million from the previous month.

TAX REVENUE (\$M)	Feb-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20
Taxes on income	4.1	6.0	4.1	3.4	5.2	1.8
Taxes on property	0.02	0.03	0.03	0.05	0.05	0.02
Taxes on G & S	10.3	15.9	14.2	14.6	14.2	10.5
Taxes on trade	1.6	2.5	3.1	2.2	2.1	1.5
Total	16.0	24.5	21.4	20.3	21.5	13.8

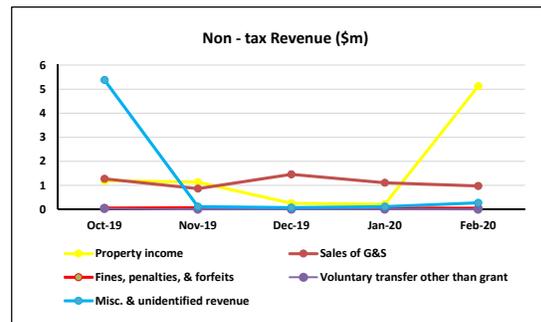
Table 2: Source: MOF



This drop was fuelled from the *Taxes on Income* by 65 percent from \$5.2 million to \$1.8 million in January 2020. This was largely due to Corporate Tax received from Large Business which fell by \$2.2 million. Similarly, the total *Taxes on goods and services* also decreased by 26 percent mainly from Consumption Tax on Domestic by \$3.0 million and Import by \$0.6 million.

Non-Tax Revenue

The non-tax revenue recorded for the month of February 2020 indicated a large increase by \$5.0 million compared to January 2020. This was driven mainly from Property Income led by dividends collected from Public Enterprises (PE's).



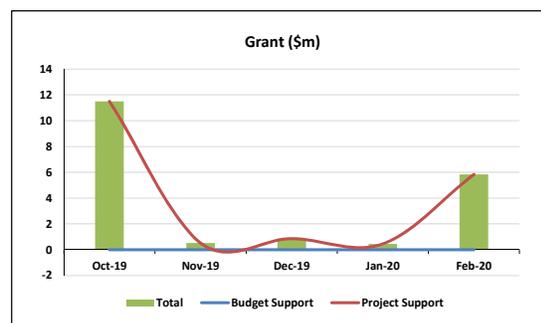
The revenue collection from Miscellaneous & unidentified revenue, mainly on royalty fees also increased by \$0.2 million.

Grants

The following Graph shows an increase, by \$5.4 million, in the total cash grant receipts during the reviewed month.

This was generated by capital grant received from international organisations – mainly from Australia Bilateral programs of \$3.0 million and \$2.0 million from World Bank/International Development Agency (IDA) on various development projects.

There was no Budget Support received in the month of February 2020.



Expenses

The total expenses recorded in February 2020 decreased by \$0.2 million to \$22.0 million, compared to the previous month, attributed to a decrease in Compensation of Employees.

EXPENSES (\$M)	Feb-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20
Compensation of employees	9.8	13.1	11.5	12.6	11.7	10.5
Use of goods and services	6.1	11.2	9.7	11.7	7.1	7.6
Other expenses	3.5	4.3	3.5	5.2	3.3	3.9
Total	19.4	28.6	24.6	29.5	22.2	22.0

Table 3 : Source: MOF

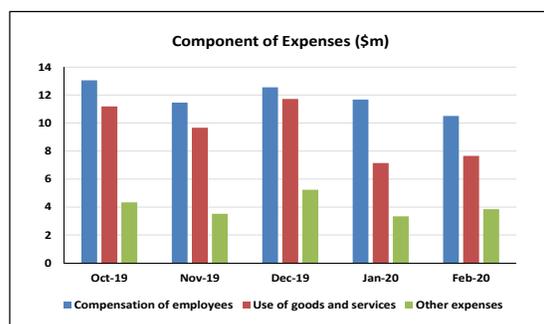
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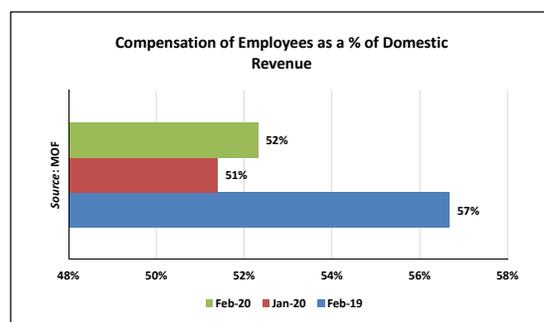
The following graph shows the decrease in compensation of employees from \$11.7 million in January to \$10.5 million in February 2020. This was attributed to increase in staff turnover in civil service during the month due to retirees, resignations and migrations.



On the other hand, *Use of goods and services* increased due to payment for medical supplies and technical equipment, due to Ministry of Health providing the necessary preparation to address COVID-19. *Other Expenses* also increased during the reviewed month, mainly on subsidies to private enterprises.

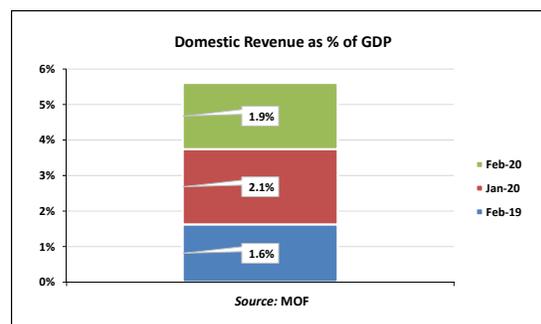
Fiscal Anchors and policy discussion

The monthly performance on the *compensation of employees as a percentage of domestic revenue* in February 2020 was 52 percent (refer Table 1). This is higher, compared to the previous month, and remained below the annual target of 53 percent. This supports the overall target to sustain macroeconomic stability, and anticipated to maintain going forward.



The monthly *domestic revenue as a percentage of GDP* in February 2020 was 1.8 percent, which was lower than the level in January 2020. The total percentage of domestic revenue to GDP for the eight months preceding February 2020, was 16.3

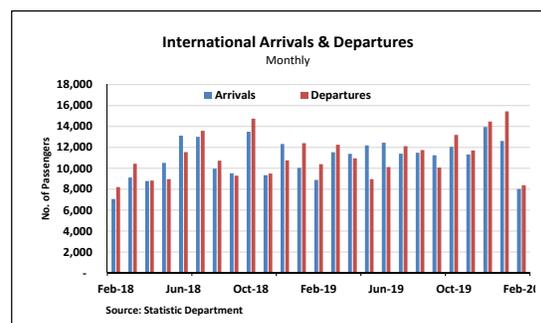
percent, aimed to achieve the set annual target of at least 22 percent by the end of the financial year. Government is there encouraged to continue in monitoring expenses, whilst working towards achieving the targets and goals in revenue collection.



International Arrivals & Departures

	Feb-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20
Total Arrivals	8,876	12,037	11,317	13,957	12,604	8,020
Air	5,428	9,431	8,533	10,942	11,752	6,336
Visitors	2,709	5,649	4,938	7,689	4,665	3,008
Returning residents	2,719	3,782	3,595	3,253	7,087	3,328
Ship	3,448	2,178	2,712	2,998	852	1,678
Yacht	-	428	72	17	-	6
Total Departures	10,386	13,186	11,700	14,470	15,427	8,366
Air	6,889	10,611	8,786	11,453	14,576	6,680
Ship	3,497	2,181	2,743	2,991	851	1,678
Yacht	-	394	171	26	-	8

The total number of international arrivals in February 2020 comprised of 8,020 visitors & returning residents, a significant decline of 36.4 percent or 4,584 passenger compared to January 2020 and down by 10 percent or 856 passenger compared to February 2019. (refer the above table)



The decrease in annual trends was due to decline in the number of cruise ships arrivals by 51 percent. This was attributed to the cancellation of 5 cruise ships due to the measles and COVID-19 outbreaks. On a monthly basis, the downturn in air arrivals by 46 percent reflects the impact of COVID-19, included Air New Zealand reducing

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flights and capacity by 6% to the Pacific Islands.

A total of 3,008 air visitor arrivals in February 2020, increase by 11 percent compared to February 2019. The purpose of visit was to visit friends and relatives (43.7%), holiday/vacation (29.7%), business and conference (6.0%) and the rest were for other reasons. New Zealand remained the lead country in the visitor category, followed by Australia and the United States of America.

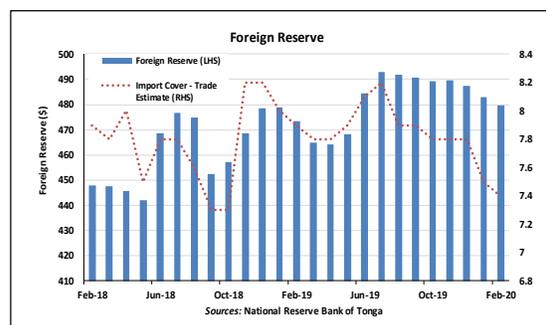
Meanwhile, the total departure for February 2020 was 8,366 people, a decrease of 45.8 percent or 7,061 passengers compared to the previous month, and 19.4 percent or 2,020 passengers compared to the same period last year. On air transport, most of the departures were Tongan residents which were most likely those who participated in the seasonal working schemes.

Net Migration

A negative net migration of 346 persons was recorded for the reviewed month as more people left the country. This is lower compared to 2,823 persons departed in January 2020, mainly due to less people travelled due to the outbreak of the COVID-19 pandemic. The outlook is still uncertain if the COVID-19 prolongs.

Foreign Reserves

Foreign Reserves decreased over the month of January 2020 from \$482.9 million to \$479.8 million in February 2020.

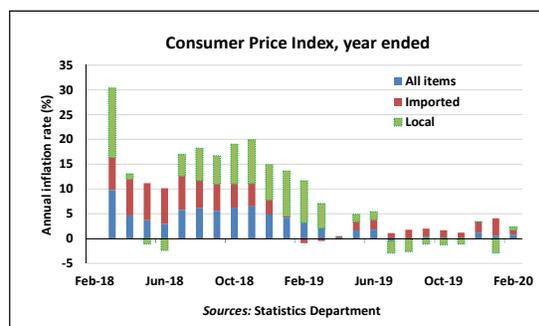


Despite the 0.6 percent or \$3.1 million decrease on a monthly basis, the level in February 2020 remained higher compared to the corresponding period in 2019. The level of foreign reserves for the reviewed month is equivalent to 7.4 months of import cover, thus remained above the NRBT's

minimum range of 3-4 months. The outlook projected foreign reserve would likely to fall due to the depreciation in global exchange rates and the expected fall in remittance receipts, due to COVID-19.

Inflation Rates

The annual headline inflation for February 2020 increased to 0.8 percent compared to 0.6 percent recorded in January 2020, thus remained well below the 5 percent reference rate target set by NRBT. The reviewed month inflation rate was much lower compared to 3.2 percent inflation rate in February 2019.



The increase on monthly basis, was attributed to the increase in domestic prices by 0.7 percent whilst the imported prices remained stable during the reviewed month. The increase in domestic pricing was mainly due to the increase in price of local food such as *fruits and vegetables* (tomatoes, capsicum, h/cabbage/water melon), *meat and fish & poultry* (reef fish (pa'aua & fua)).

On an annual basis, the imported price rose by 4.1 percent was due to the increase in price of food items such as oranges and mutton flaps. On the other hand, the lower domestic price was attributed to the cheaper prices of kava-Tonga and local foods. As such, the price of kava-Tonga declined from \$90 to \$72 per kg on average, and price of fuel decrease, compared to the previous month.

Accordingly, the outlook is expected to remain below the reference target rate of 5 percent in the near term, especially if the price of kava-Tonga continues in the current trend.

Fuel Prices

The domestic retail price for petrol and diesel in

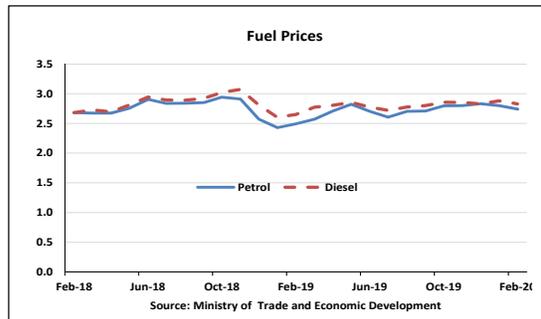
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February 2020 decreased to \$2.74 and \$2.83 respectively, compared to the previous month.



This reflected 2.1 percent (or *0.06 seniti*) and 1.7 percent (or *0.05 seniti*) decrease in price of petrol and diesel, compared to January 2020. On an annual basis, price of petrol and diesel increase by 9.9 percent (or *0.25 seniti*) and 6.9 percent (or *0.18 seniti*) respectively.

The decrease in fuel price during February 2020 was due to the crude oil price decreased to USD 63.67/bbl (down by USD 1.50/bbl) on a monthly average as a result of the COVID-19 outbreaks. The Tongan Pa'anga remained steady, attributed to the international price change trickle down effects to price for all petroleum products in Tonga.

Outlook and policy response

The outlook projected that both fiscal and economic condition would reflect impacts of the COVID-19 pandemic in Tonga.

Government would therefore require to exercise prudent fiscal measures to ensure macroeconomic stability and fiscal sustainability. Other stakeholders would need to wisely spend and manage available resources and stock on hand, given the observed and spill-over effects of the COVID-19 outbreak.

ENDS