

Monthly Economic Update November 2019

Ministry of Finance (MOF)



Government of Tonga

Key Indicators	(T\$m unless otherwise)			% change	
	Nov-18	Oct-19	Nov-19	Annual	Monthly
FISCAL INDICATORS (Government Financial Statistics (GFS) Basis)					
Revenue	50.4	43.2	23.5	-53%	-46%
Tax	24.0	24.0	20.9	-13%	-13%
Grant (cash grants)	23.0	11.5	0.5	-98%	-96%
<i>Budget Support</i>	0.0	4.1	0.0	-	-
<i>Project Support</i>	23.0	7.4	0.5	-98%	-93%
Other Revenue (<i>non - tax</i>)	3.3	7.6	2.1	-38%	-73%
Expenses	21.3	28.8	22.7	7%	-21%
Compensation of Employees	10.5	12.9	10.9	4%	-15%
Use of Goods and Service	7.3	10.9	9.2	26%	-15%
Interest	0.1	0.2	0.0	-	-
Subsidies	0.04	0.13	0.15	-	16%
Grant	0.05	0.0	0.0	-	-
Social benefits	0.9	1.6	1.2	32%	-21%
Other Expenses	2.2	3.2	1.2	-46%	-62%
Gross Operating Balance	29.1	14.3	0.8	-97%	-95%
Net Acquisition of Non-financial Assets	0.3	2.4	0.6	74%	-76%
Net Lending/Borrowing Requirement (Financing)	28.8	11.9	0.2	-99%	-98%
Total Public Debt (External & Domestic) (\$million)	469.3	N/A	N/A	-	-
FISCAL ANCHORS					
Compensation of Employees to domestic revenue to be less than 53% (annual target)	39%	41%	48%	5.5%	16.9%
ECONOMIC ACTIVITY INDICATORS (OET basis)					
Exports	17.9	21.5	20.8	20%	-3.3%
Imports	435.8	430.9	427.8	-1%	-0.7%
MONETARY & PRICE INDICATORS					
Remittances (<i>annual total</i>)	352.1	350.0	348.5	-1%	-0.4%
Official Foreign Reserves	468.7	489.3	489.5	4%	-
Import Cover - Trade estimate (months)	8.2	7.8	7.8	-5%	-
Import Cover - OET estimate (months)	9.9	9.5	9.6	-4%	1.1%
Inflation (<i>annual % change</i>)	6.5	0.2	0.1	-98%	-50.0%
Retail Fuel Prices:					
Petrol (T\$/litre)	2.91	2.80	2.80	-4%	-
Diesel (T\$/litre)	3.07	2.85	2.85	-7%	-

Table 1: Source: Ministry of Finance

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 14th January 2020)

Fiscal Stability

The **Fiscal Balance for the month of November 2019 recorded a surplus of \$0.2 million, a major decline from the \$11.9 million surplus in October 2019.**

The **revenue** – both domestic revenue and grants performance – **for the reviewed month (Table 1 above) reflected a major decrease of \$19.7 million** in comparison to October 2019. This is due mainly to the decrease in grant (cash grants). On an annual basis, **total revenue decreased by 53 percent or \$26.9 million.** The details will be discussed in the Revenue section.

The total monthly **expenses recorded in November 2019 was decreased by 21 percent compared to the previous month and increased by 7 percent compared to the same time last year,**

November 2018. The decrease was mainly due to a decrease in the payment for social benefits followed by the compensation of employees, the use of goods and services and other expenses. On the other hand, payment for subsidies increased.

Annually, the increase in total expenses was both attributed to the increase in use of goods & services and compensation of employees, subsidies and social benefits.

The outlook is positive with a favourable fiscal balance to the end of the financial year. The Government ministries led by Ministry of Revenue and Customs working together with businesses and other sectors towards meeting their goal and targets in improving the revenue collection by the end of the financial year.

Release Date:

November 2019

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Additional revenue is expected to be collected due to schedule cruise ship, family reunions and church conferences towards the end of the financial year.

Domestic Revenue

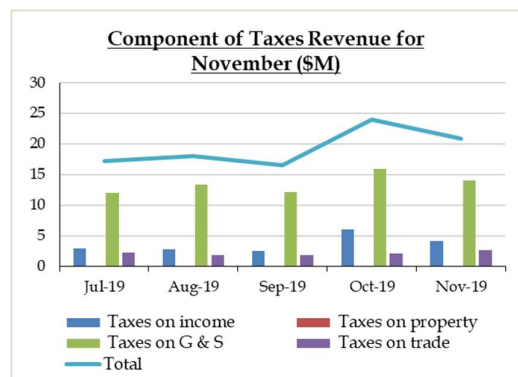
Domestic revenue is classified into two components: *tax* and *non-tax revenue* groups. The total domestic revenue is mainly from revenue collection of taxable items. In November 2019, 89 percent of total domestic revenue was from the tax revenue and the balance was from the non-tax items. In general, the domestic revenue for the reviewed month was sufficient to meet the total monthly expenses. The following sections will discuss the main components of domestic revenue: tax and non-tax.

Tax Revenue

Table 2 below reflects a fall in total tax revenue collected in November 2019 of 13 percent from \$24.0 million to \$20.9 million in the previous month.

TAX REVENUE (\$M)	Nov-18	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19
Taxes on income	6.3	2.9	2.8	2.5	6.1	4.1
Taxes on property	0.03	0.02	0.05	0.03	0.03	0.03
Taxes on G & S	15.2	12.1	13.4	12.1	15.9	14.1
Taxes on trade	2.5	2.2	1.8	1.9	2.1	2.7
Total	24.0	17.2	18.1	16.6	24.0	20.9

Table 2: Source: Ministry of Finance



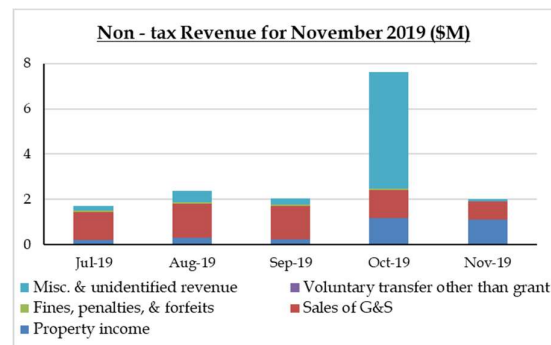
This fall was driven from the *Taxes on Income* by 32 percent to \$4.1 million compared to the previous month. This was mostly from the corporate tax received from Large Business which fell by \$1.5 million from previous month. *Taxes on goods and services* also decreases by 11 percent due to the Consumption Tax on Domestic and Excise Tax which fell by \$1.0 million and \$0.4

million respectively.

Also, an improvement recorded in the revenue collection from *Taxes on trade* by 30 percent from previous month attributed mainly from the collection from Business Import duties. A slightly increases from *Taxes on property* by 9 percent due to the enhancement in the collections from Poundage Land Rental.

Non-Tax Revenue

The non-tax revenue recorded for the month of November 2019, indicated a huge decrease by \$5.5 million in compared to October 2019. This is driven by a huge decrease from Misc. & unidentified revenue by \$5 million attributed mainly from the collection from NRBT annual dividend of \$4.2 million to the government in October 2019.



The revenue collection from Sale of Good and Services also decreased by \$0.5 million, followed by a decrease on Property income by \$0.1 million.

Grants

The Graph below indicated a decrease, by \$11 million, in the total cash grant receipts during November 2019.

GRANT	Nov-18	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19
Budget Support	0.0	0.0	0.0	0.0	4.1	0.0
Project Support	23.0	1.6	3.3	0.9	7.4	0.5
Total	23.0	1.6	3.3	0.9	11.5	0.5

Table 3: Source: Ministry of Finance

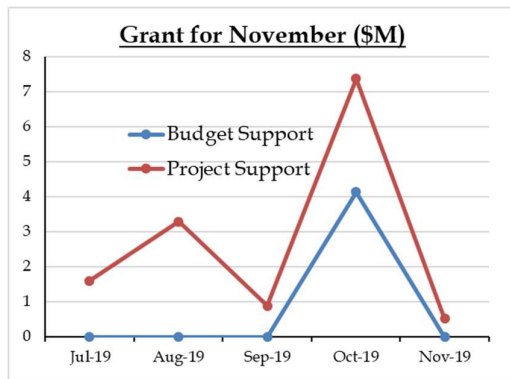
There was no budget support receive recorded in the month of November and only a small amount received on project support funds.

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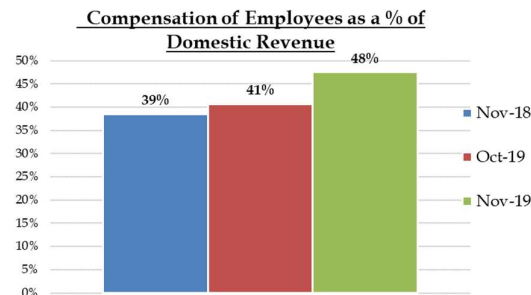
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the annual target of 53 percent. The goal is to maintain levels below the target to maintain macroeconomic stability.



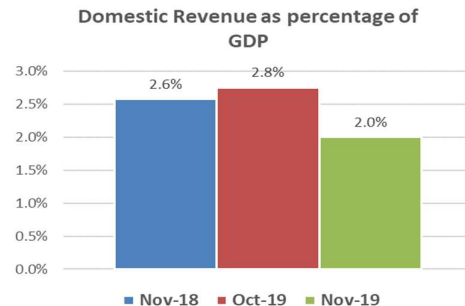
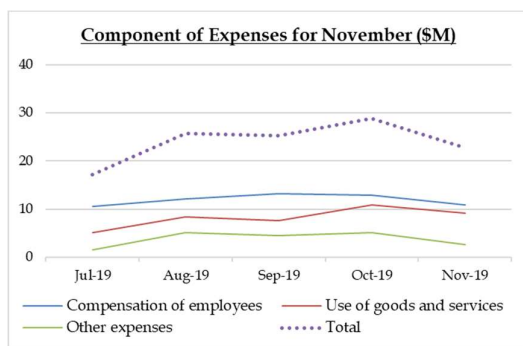
Expenses

The total expenses recorded in November 2019 decreased by 21.2 percent to \$22.7 million in comparison to the previous month, attributed to a 49 percent decrease on other expenses.

EXPENSES (\$M)	Nov-18	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19
Compensation of employees	10.5	10.6	12.1	13.3	12.9	10.9
Use of goods and services	7.3	5.1	8.4	7.6	10.9	9.2
Other expenses	3.4	1.5	5.2	4.5	5.1	2.6
Total	21.3	17.2	25.7	25.3	28.8	22.7

Table 4 : Source: Ministry of Finance

The monthly *domestic revenue as a percentage of GDP* in November 2019 was 2.0 percent. This is lower than the level in previous month. We anticipated pick up in revenue collections given the ongoing reforms to improve the revenue administration and collection for the rest of the financial year. The set annual target is at least 22 percent of GDP and with this month's rate it is likely to achieve the target going forward



Specifically, the decrease—by \$1.9 million shown in graph—in the *Compensation of employees*, (as the second largest expenses category) compared to October 2019 was mainly from staff moving out of the civil service for several reasons such as migration, retires from work etc.

In summary, Government is encouraged to continue monitoring the level of expenses to achieve the targets and goals that has been set in collecting more revenue.

Use of goods and services also decrease due a 95% fell from payment on technical equipment compare to previous month.

Inflation

Fiscal Anchors and policy discussion

The annual headline inflation for November 2019 declined by 0.1 percent compared to the 6.8 percent inflation recorded in November 2018. The inflation of 0.1 percent in November 2019 is well below the NRBT rate of 5 percent.

The monthly performance on the *compensation of employees as a percentage of domestic revenue* in November 2019 was 48 percent. This is higher in compared to the previous month and well below

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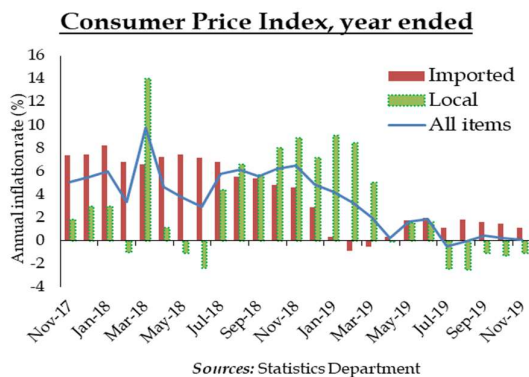
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Inflation rate %	Nov-18	Oct-19	Nov-19
All Items	6.5	0.2	0.1
Local	8.9	-1.3	-1.1
Imported	4.6	1.5	1.1

Table 3 : Source : Statistics Department



The monthly prices decreased by 0.5 percent from the previous month prices of October 2019 (0.5 percent). Over the reviewed month, both import and local prices contributed 0.2 percent and 0.8 percent respectively to the monthly inflation of 0.1 percent.

On annual basis, the inflation of 0.1 percent was mainly caused by the decrease in domestic prices contribution a -1.2 percent while import prices rose contributing 1.2 percent to the overall inflation in November 2019. The decrease in domestic prices was mainly due to decrease in prices of kava and root crops whereas rise in import prices were attributed to the increase in prices of imported tobacco, food items such as meat, onions, flour and sugar.

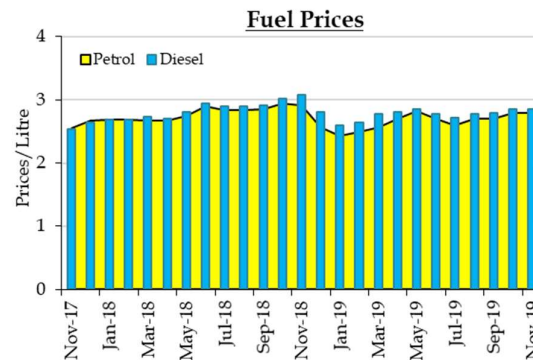
On the outlook for the annual inflation rate is expected to remain below the reference rate of 5 percent in the near term. However, the fluctuation in the global oil and food prices may pose a risk.

Fuel Prices

The domestic retail prices for petrol and diesel in November 2019 stood at \$2.80 and \$2.85 respectively, compared to the level in previous month.

This represents a 0.1 percent (or 0.002 *seniti*) increase for petrol prices and 0.03 percent (or 0.001 *seniti*) decrease for diesel prices compared to

previous month. The decrease on annual basis, were 3.8 percent (or 0.11 *seniti*) and 7.1 percent (or 0.22 *seniti*) for petrol and diesel respectively.



The small increase and small decrease in fuel prices in November 2019 was due to crude oil prices fell by USD 2.63/bbl following the 14th September drone attacks in Saudi Arabia. The freight rate has increased while the Tongan Pa'anga has been steady and as a result some regional price drops have been offset.

Foreign Reserves

The Foreign Reserves increased over the month of November 2019 to \$489.5 million from \$489.3 million in October. This surge in reserves reflected the higher level of inflows, mainly from foreign aid and remittances into the country.

	Nov-18	Oct-19	Nov-19
Foreign Reserve (\$m)	468.7	489.3	489.5
Import Cover (trade estima	8.2	7.8	7.8

Table 4: Source : Ministry of Finance

The level of foreign reserves for November 2019 is equivalent to 7.8 months of import cover which remains above the NRBT's minimum range of 3-4 months. The 7.8 months of import coverage supports positive outlook for economic growth in the near term. This is supported by the receipt of government grants, project funds as well as remittance.

ENDS