

Monthly Economic Update October 2021

Ministry of Finance (MOF)



Government of Tonga

Key Indicators	(T\$m unless otherwise indicated)			% change	
	Oct-20	Sep-21	Oct-21	Annual	Monthly
FISCAL INDICATORS (Government Financial Statistics (GFS) Basis)					
Revenue	29.6	26.0	26.0	-12.2%	0.0%
Tax	19.7	19.2	20.2	3%	5.2%
Grant (cash grants)	4.0	5.5	3.0	-25%	-45%
Current Grant	0.0	0.0	0.0	-	-
Capital Grant	4.0	5.5	3.0	-25%	-45%
Other Revenue (non - tax)	5.9	1.3	2.8	-53%	-
Expenses	34.2	29.2	35.2	3%	21%
Compensation of Employees	16.7	12.7	15.8	-5.4%	24.4%
Use of Goods and Service	14.6	13.4	14.3	-2%	7%
Interest	0.2	0.2	0.2	0%	0%
Subsidies	0.03	0.07	0.15	400%	114%
Grant	0.1	0.1	0.2	-	-
Social benefits	1.5	2.0	2.1	40.0%	5.0%
Other Expenses	1.1	0.7	2.4	-	-
Gross Operating Balance	-4.6	-3.2	-9.2	98%	-
Net Acquisition of Non-financial Assets	7.7	4.3	2.8	-63.3%	-34.8%
Net Lending/Borrowing Requirement (Financing)	-12.3	-7.5	-12.0	-2.9%	59.6%
Total Public Debt (External & Domestic) (\$million)	497.3	500.4	499.7	0.5%	-0.1%
FISCAL ANCHORS					
Compensation of Employees to domestic revenue to be less than 53% (annual target)					
monthly performance (%)	65%	62%	69%	-	-
ECONOMIC ACTIVITY INDICATORS (OET basis)					
Exports (\$million)	13.7	13.4	13.9	1%	3.7%
Imports (\$million)	416.3	496.9	500.1	20%	0.6%
MONETARY & PRICE INDICATORS					
Remittances (annual total)	378.5	480.4	485.6	28%	1%
Official Foreign Reserves	581.6	757	757	30%	0%
Import Cover - Trade estimate (months)	9.7	12.4	12.1	25%	-2%
Import Cover - OET estimate (months)	9.8	15.9	9.3	-5%	-42%
Inflation (annual % change)	-1.6	6.5	7.2	-	-
Retail Fuel Prices:					
Petrol (T\$/litre)	2.42	2.97	3.01	24%	1%
Diesel (T\$/litre)	2.33	2.84	2.94	26%	4%

Table 1: Source: MOF, NRBT & MTED

Note: Fiscal data are provisional (unless indicated) and are still subject to change until audited. Note also that some indicators were not available at the time this report was prepared. (Fiscal data based on last update on November 2021)

Fiscal Stability

The provisional **Fiscal Balance for October 2021 increased significantly to \$12.0 million, a further deficit of \$4.5 million from the \$7.5 million deficit recorded in September 2021.**

The **total revenue**—both from domestic revenue and grants performance—for the reviewed month (Table 1 above) indicated a level rate of **\$26.0 million** (or 12.2 percent) compared to the previous month. On an annual basis, **total revenue also decreased by \$3.6 million** (or 12.2 percent). The details will be discussed in the Revenue section.

The total monthly **expenses recorded in October 2021 recorded an increase of \$6.0 million** (or 21 percent) compared to September 2021. Similarly,

a **\$0.9 million** (or 3 percent) **increase** compared to the same time last year. The increase on monthly basis was due mainly to higher spending on the *Compensation of employees* and *Uses of goods and services*. On an annual basis, the increase was primarily linked to higher spending on *Social Benefits* and *Other Expenses*.

The fiscal stability remains unclear, given the uncertainty surrounding the pandemic, its prolonged impacts and the capacity to contain the virus. Given the current situation, the Government's current accommodative fiscal policies are actively implemented to support economic recovery. In addition, ongoing partnership amongst key stakeholders is vital to ensure fiscal policy objectives are met to maintain macroeconomic stability.

Release Date:

December 2021

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Domestic Revenue¹

In October 2021, **78 percent of total domestic revenue was from the tax revenue** and the rest was from grants and other sources of revenue. Overall, the domestic revenue for the reviewed month was insufficient to fulfil the total monthly expenses.

Tax Revenue

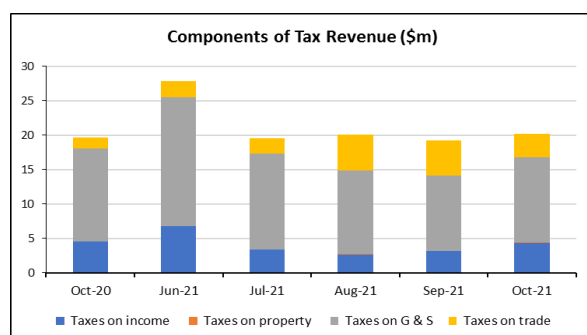
Table 2 below indicates a slight rise of **5 percent** in total tax revenue collected in October 2021 by **\$1.0 million**, compared to \$19.2 million in September 2021.

Tax Revenue (\$M)						
Component of Tax	Oct-20	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21
Taxes on income	4.6	6.8	3.4	2.7	3.2	4.4
Taxes on property	0.03	0.06	0.02	0.04	0.03	0.02
Taxes on G & S	13.4	18.7	14.0	12.2	11.0	12.4
Taxes on trade	1.6	2.4	2.2	5.2	5.0	3.4
Total	19.7	27.9	19.6	20.1	19.2	20.2

Table 2: Source: MOF

The increase was mainly sourced from the **Taxes on Goods & Services** of \$1.4 million, up from \$11.0 million to \$12.4 million in October 2021. This was largely received from *Excise Tax* by \$1.0 million, meaning more cigarettes and alcoholic beverages have been imported into the country. The revenue collected from *Consumption Tax* on domestic goods and services also increased by \$0.9 million, caused by both inflation and also higher consumption.

Similarly, **Taxes on Income** also increase during the month mainly from *Corporate Tax* from *Large Businesses* by \$1.4 million and *PAYE Tax* from *Small Businesses* by \$0.1 million.



¹ Domestic revenue consists of two components: *tax* and *non-tax revenue*. The majority of domestic revenue is from the revenue collection on taxable items.

However, **Taxes on Trade** decreased in October 2021 by \$1.6 million mostly due to lower revenue received from *Business Import Duties*.

Simultaneously, **Taxes on Property** also decreased during the review month.

Non-Tax Revenue

The non-tax revenue recorded for the month of October 2021 indicated an **increase of \$1.4 million** (Table 3) compared to September 2021.

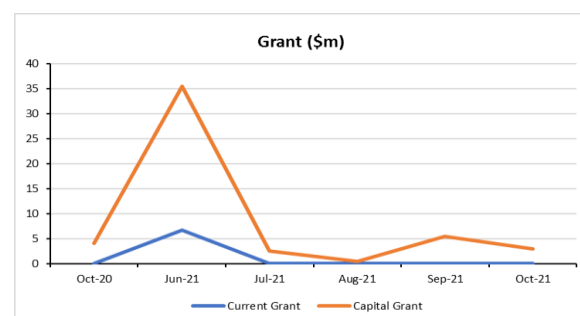
Other Revenue (\$M)						
Components of Other Revenue	Oct-20	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21
Property income	1.3	0.7	0.1	0.2	0.2	1.4
Sales of G&S	1.1	1.3	0.9	1.5	1.0	1.0
Fines, penalties, & forfeits	0.061	0.098	0.101	0.070	0.061	0.063
Voluntary transfer other than grant	0.2	0.0	0.0	0.0	0.0	0.0
Misc. & unidentified revenue	3.3	0.0	0.3	0.0	0.1	0.3
Total	5.9	2.1	1.4	1.8	1.3	2.8

Table 3: Source: MOF

This was driven mainly through **Property Income** such as income from *FFA Treaty*, followed by the revenue received from *Upper Air Space* of \$0.05 million. The **Sales of Goods & Services, Fines, penalties, & forfeits & Voluntary transfer other than grants**, and **Misc. & unidentified revenue** all increased during the review month but only at minimal amounts.

Grants

The graph below shows a **decrease, by \$2.5 million**, in the total cash grant receipts during the reviewed month. This was mainly due to no records of current grants since July 2021 up to the reviewed month.



Capital grants received during the month was mainly from the Asian Development Bank (ADB)

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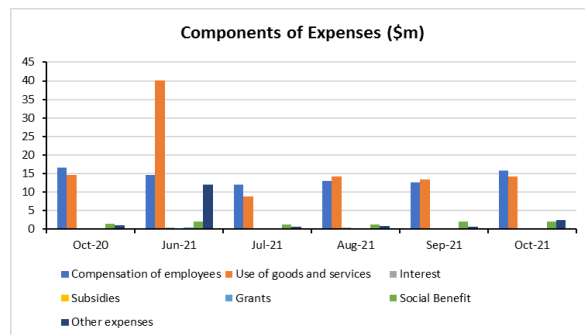


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by \$1.1 million for various projects and \$0.7 million from UN Family Planning Association.

Expenses

The total expenses recorded in October 2021 significantly increased by \$6.0 million to \$35.1 million from the \$29.1 million in September 2021. This was mainly due to higher spending on the *Compensation of employees* and the *Use of goods and services*.



The higher spending on *Compensation of employees* of \$3.2 million was primarily from the payment on *Salaries* due to more contract employees being recruited into the Government for different jobs. At the same time, the *Government contribution to Retirement Fund* also increased by \$0.4 million.

Similarly, the *Use of goods and services* also increased during the month by 7.0 percent in comparison to the previous month. This is mainly caused by higher spending on *Other Special Projects* by \$0.8 million, *Street Lighting* by \$0.4 million, and *Hire of Heavy Machinery* by \$0.3 million.

Furthermore, spending on *Other Expenses, Social Benefit, Grants, Interest* and *Subsidies* all increased during the review month.

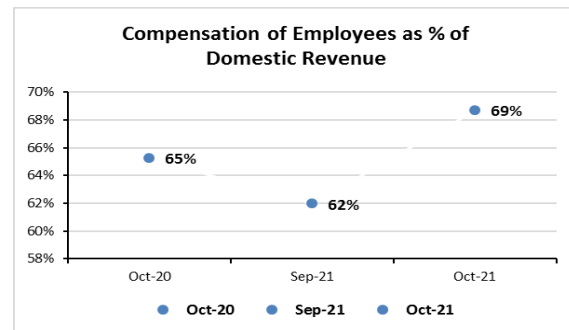
Fiscal Anchors and policy discussion

The monthly performance on the *compensation of employees as a percentage of domestic revenue* in October 2021 was 69 percent (refer Table 1). This is higher, compared to the previous month, and far above the annual target of 53 percent.

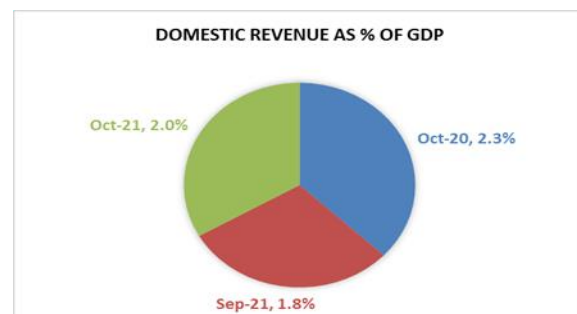
This is in comparison to the same period last year, monthly performance was 65 percent, 12 percent higher than the annual target.

Regardless, the higher percentage shown during the review month indicates that this projection should be lower in the coming months due to the Overtime Policy changes.

Therefore, the government continues its efforts to closely monitor the new policy to control the wage bill.



The monthly *domestic revenue as a percentage of GDP* in October 2021 was 2.0 percent, which is higher than the level recorded in September 2021 but lower compared to October 2020.



The government in its capacity is putting more effort to ensure that the utilization of our limited resources is efficient and effective.

Foreign Reserves

The **Foreign Reserves** remained steady at \$757 million during the month of October 2021, an increase of 35 percent compared to October 2020.

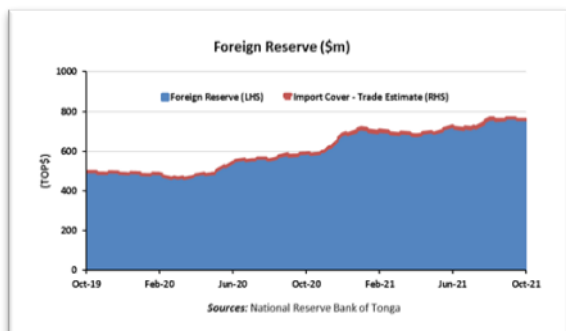
The level of foreign reserves for the reviewed month is equivalent to 12.1 months of import cover on trade estimate, thus remaining above the NRBT's minimum range of 3-4 months. This is attributed mostly to receipts of budget support, and remittances flowing into the country. The majority of the foreign reserves are held in USD, AUD, and NZD.

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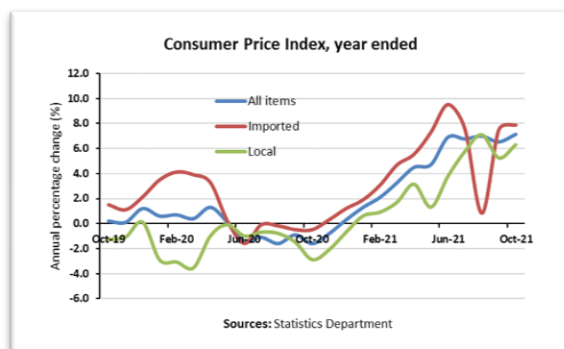
The outlook for foreign reserves is projected to continue increasing considering the continuous money transfer from seasonal workers to support their families.

Inflation Rates

The annual headline inflation rate for October 2021, increased to 7.2 percent compared to 6.5 percent inflation in September 2021. This is higher compared to 1.6 percent deflation in October 2020, and above the NRBT's reference rate of 5 percent.

The increase on monthly basis was attributed to the increase in import index prices by 0.5 percent and local index price by 0.4 percent. This is mainly due to higher prices of fuel, and food items such as lobster, suckling pigs, hakula puaka, talo leaves and watermelon. In addition, the price of electricity and gas also rose in response to the impact of increasing oils prices.

Inflationary pressure attributed mainly to the outbreak of the omicron variant further disrupted the supply chains and global prices.



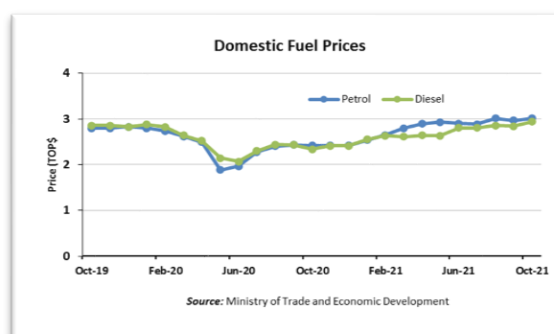
On the outlook, it is projected prices will continue to rise due to higher global oil prices and international commodities prices, as well the risk posed by the pandemic.

Fuel Prices

The domestic retail prices for petrol in October 2021 increased to \$3.01 from \$2.97, while diesel rose to \$2.94 from \$2.84, compared to September 2021.

This reflects a 0.04 *seniti* increase in price of petrol and a 0.10 *seniti* increase in diesel during the review month.

On an annual basis, prices for both petrol and diesel increased by 0.6 *seniti* respectively.



This increase was supported by the crude price rise in September which reached close to USD80/bbl. This resulted in an increase in local retail prices of all petroleum products.

On the outlook, fuel prices are expected to continue rising in the near future. The Government through the Competent Authority will continuously monitor the movements in prices on a month-to-month basis

Outlook and policy response

It is anticipated that in the coming months, both fiscal and economic indicators will continue to reflect the negative impacts of COVID-19. At the same time, the recovery initiatives that the government had planned have been put into place and are being implemented. It is also expected that they will have a positive effect on the overall performance of the economy moving forward.

ENDS