



**QUARTERLY ECONOMIC  
UPDATE (QEU) March 2020**

*MINISTRY OF FINANCE GOVERNMENT OF TONGA*

## Notes

- a) The following definitions are used in the Quarterly Economic Update (QEU):
- 'Real' means adjusted for the effect of inflation.
  - Real Gross Domestic Products (GDP) and Nominal GDP are linked through a measure of the price level.
  - The fiscal year (FY) of the government ends on 30 June. FY before a calendar year denotes the year in which the fiscal year ends, e.g.; FY2017 ends on 30 June 2017.
  - Forecast period refers to 2015/16 – 2018/19.
- b) Figures in the tables and text have been rounded. Discrepancies in tables between totals and sums of components are due to rounding.
- c) The following notations are used:
- nil
  - na not applicable (unless otherwise specified)
  - \$ refers to Tongan Pa'anga (TOP) (unless otherwise specified)
  - \$m millions of Pa'anga (TOP) (unless otherwise specified)
  - (e) estimates (unless otherwise specified)
  - (r) revised estimates (unless otherwise specified)
  - (p) projected (unless otherwise specified)
- d) The following acronyms referred to as:
- |      |                                    |
|------|------------------------------------|
| AUD  | Australian Dollars                 |
| CT   | Consumption Tax                    |
| GDP  | Gross Domestic Product             |
| EU   | European Union                     |
| IMF  | International Monetary Fund        |
| MDAs | Ministries, Departments & Agencies |
| MT   | Metric Tonnes                      |
| MTO  | Money Transfer Operators           |
| NRBT | National Reserve Bank of Tonga     |
| NZD  | New Zealand Dollars                |
| OET  | Overseas Exchange Transactions     |
| PAYE | Pay As You Earn                    |
| TASP | Tonga Agriculture Sector Plan      |
| USA  | United States of America           |
| USD  | United States' Dollars             |
| WEO  | World Economic Outlook             |

## Table of Contents

OVERVIEW .....	4
REAL SECTOR.....	5
PRIMARY.....	5
INDUSTRIES.....	6
SERVICES.....	6
FISCAL SECTOR .....	7
EXTERNAL SECTOR.....	8
MONETARY AND FINANCIAL SECTOR .....	9
RISKS .....	10
CONCLUSION .....	10

### List of Figures

Figure 1: Agricultural Exports (MT), quarterly .....	5
Figure 2: Value and Volume of Fisheries, monthly.....	5
Figure 3: House Lending Rate (%).....	6
Figure 4: Value of Residential and Non-Residential Construction.....	6
Figure 5: Remittances, Annual Total (T\$).....	7
Figure 6: Travel Receipts, annual total (T\$).....	7
Figure 7: Tax Component for September 2019- March 2020.....	7
Figure 8: Public Expenditure by Main Categories.....	8
Figure 9: Gross Foreign Reserves vs Imports Cover .....	9
Figure 10: Annual Inflation Rate .....	9
Figure 11: Domestic Fuel Prices .....	10

## OVERVIEW

The January 2020 World Economic Outlook Update from the IMF states that global growth is projected to rise from an estimated of 2.9 percent in 2019 to 3.3 percent in 2020 and an outlook of 3.4 percent in 2021- a downward revision of 0.1 percent point in 2019 and 2020 and 0.2 percent for 2021 compared to October World Economic Outlook (WEO). The impact of Covid -19 Pandemic will affect the global growth for next quarter.

Also, in the Pacific Economic Monitor Update for December 2019, ADB forecast growth to increase from 3.5 percent in 2019 to 4.2 percent in 2020. This is driven by higher liquefied natural gas production in PNG and increased construction in Samoa and the Solomon Islands.

The level of growth in our major trading partners (USA, Australia & New Zealand) will also affect our economic growth given the disruption in international trade. The overall level of remittances from our families and friends abroad are affected due to the Corona virus update.

Growth projection for Tonga in 2016/17, 2017/18 and 2018/19 is at an average rate of 2.7 percent. The outlook for the medium term is negative given the overall impact of the outbreak of corona virus in each subsector. Despite all these things, Tonga is still recovering from TC Gita and everyone's effort are needed to address the issues of disaster risk management to ensure a resilient growth and a sustainable development in all sectors of the economy is achieved.

The Domestic revenue from tax collected since July to March 2020 was 61% of the overall Tax Revenue budgeted for the 2019/20. That is below the expected 75 percent to be collected and it is due to the outbreak of the corona virus. The Total expenses for March 2020 quarter indicated a 4 percent decrease from the December 2019 quarter total expenses. The decrease in the quarterly trend reflected the amount paid out to development committees as well as other expenses. The total expenses for March quarter since July 2019 was recorded to be \$231.7 million which is under the expected spending since July.

The level of foreign reserves at the end of December 2019 was \$487.4 million; equivalent to 7.4 months of import cover. This is a drop of \$3.4 million from the previous quarter and it mainly contributed from lower receipts from remittances from our families & friends abroad. The 7.4 months of import coverage for the review quarter continues to highlight that Tonga is still in a comfortable external position that far surpasses the minimum range of 3 – 4 months set by the NRBT.

The inflation rate is expected to fall due to huge fall in the prices of kava tonga and also the impact of Covid-19 Pandemic. Prices of fuel drops as compared to last quarter-petrol drops by 14% and diesel drops by 12%. This is caused by the reduction in the overall global fuel prices. The changes in the global market prices of Fuel were taking into account plus other factors that affected the domestic fuel prices.

# REAL SECTOR

## PRIMARY SECTOR

The Total Agricultural Exports for March 2020 quarter drops by more than half of value of the previous quarter. The decline from previous quarter is mostly attributed to the end of the squash pumpkin season (121%), leaves (178%), vegetables & fruits (80%) as well the root crops (18%). Pele (frozen cooked) shows the highest percentage decrease under Leaves by 54%. Squash drop by 121 percent and under root crops, giant taro drops by 122 percent. Brown coconut contributes most to the decreases under vegetables and fruits.

On yearly basis, the declined in the total Agricultural Exports are mainly from cassava under root crops (176%), watermelons by 183% under vegetables & fruits, pele (frozen cooked) by 94% squash by 73% and herbal leaves and medicine under Leaves category by 52%. We can all witnessed these reductions are due to climate change and seasonality of squash as well as fruits and vegetables.

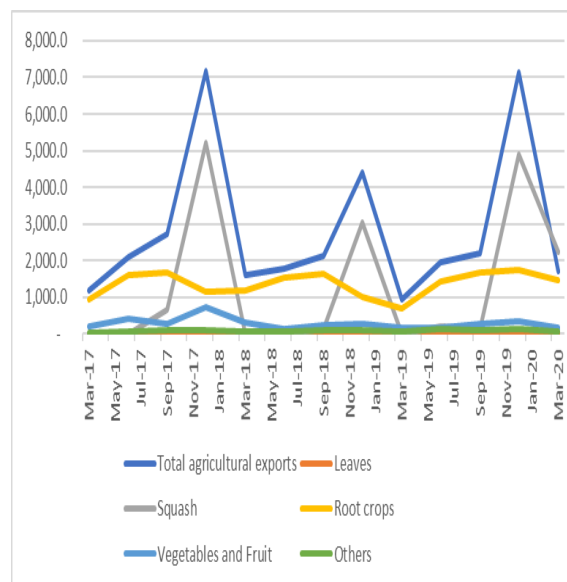
There is a 1.0 percent growth projection in 2019/20 for Agriculture and Forestry and anticipates to strengthen to an average of 2.6 percent in outer years.

### Fisheries Sector

The volumes of fish exports, comparing to the same period of last year has increased. Government continues to use the current policies to revive the sector and to reach out to people by selling fish for \$7 per kilogram encouraging healthy eating.

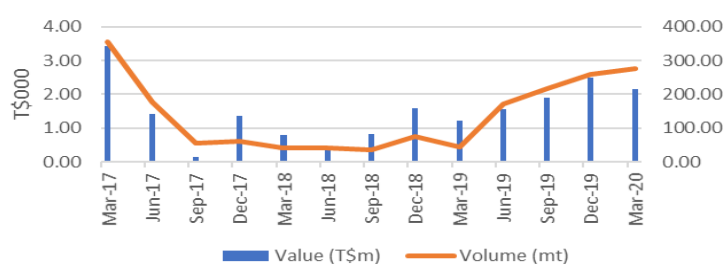
The outlook for the primary sector is positive attributed to the ongoing government projects and activities for recovery purposes in each sub-sector such as increasing participation in agricultural products – kava and vanilla due to their relatively high exports price. The corona virus outbreak encourages our people to shift to Agricultural activities which assist the forecasted growth in this sector.

**Figure 1: Agricultural Exports (mt) Quarterly**



Sources: Quarantine Division, MAFF

**Figure 2: Value and volume of Fisheries export**



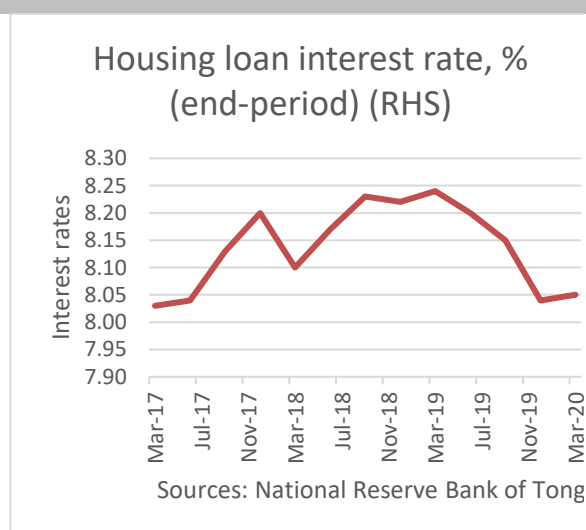
Sources: Statistics Department

## INDUSTRIAL SECTOR

The total construction increases by 21 percent from the same period of last year and falls by 8% compared to previous quarter. This is by comparing both residential and non-residential in both public and private construction.

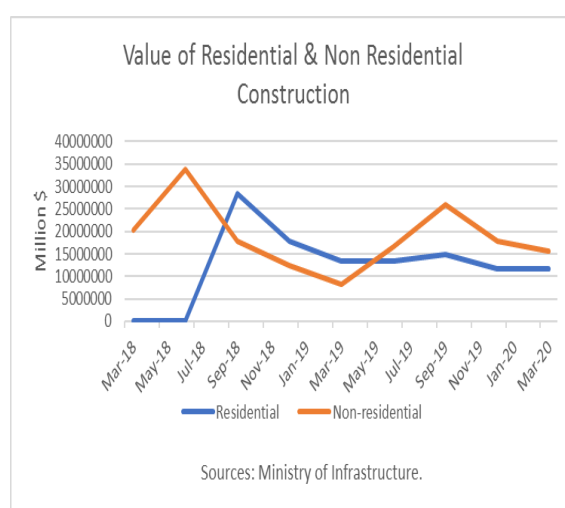
The construction projects related to TC Gita are ongoing. In the near term, more construction activities expect to occur included the re-location of Tonga Side School, the New Legislative Assembly Project and etc. The high cost for constructions especially the bank charge interest rate for house lending will affect the outlook for the construction sub-sector. The projections for manufacturing, electricity and water supply sub sectors are to continue on their current growth from last year.

**Figure 3: House Lending rate %**



Source: National Reserve Bank of Tonga

**Figure 4: Value of Residential and Non-Residential Construction**



Source: Ministry of Infrastructure & Tourism

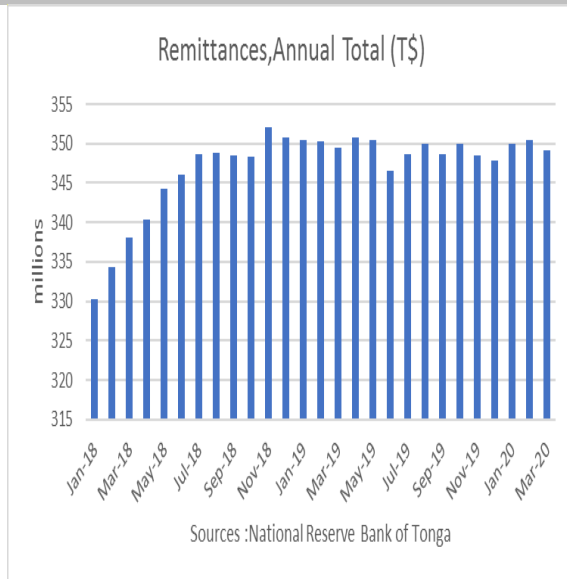
## SERVICES SECTOR

The growth in the Tertiary sector has recorded 2.9 percent for both 2017/18 and 2018/19. The estimated growth for 2019/20 is revised to negative 4.4 percent and the outlook for 2020/21 is estimated to negative 8.8. As the outbreak for corona virus started, services sector highly affected especially the Tourism subsector. The closing of overseas border affected most of the activities in each subsector of this sector such as the wholesale and retail trade, transport (both air and sea), communication etc.

The negative outlook for services sector is due to continued impacts of the global outbreak for corona virus and there is no exact time for this to end given there many countries are trying to get a vaccine for the virus.

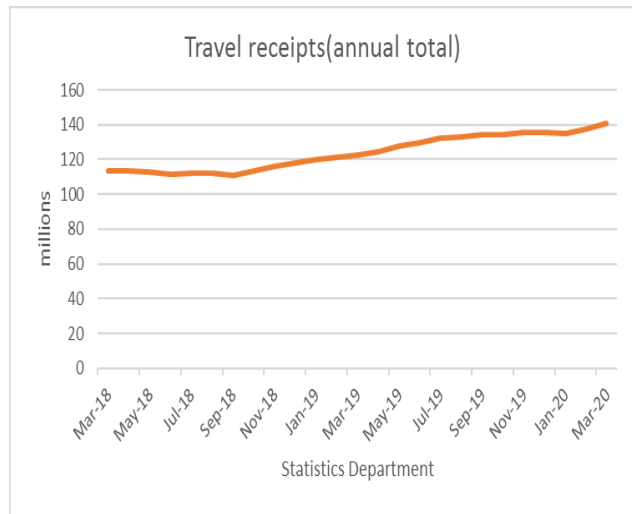
Remittances from our families & seasonal workers overseas started to fall because their number of working hours has been cut

**Figure 5: Remittances, annual total (T\$)**



Sources: National Reserve Bank of Tonga

**Figure 6: Travel Receipts, Annual Total (T\$)**

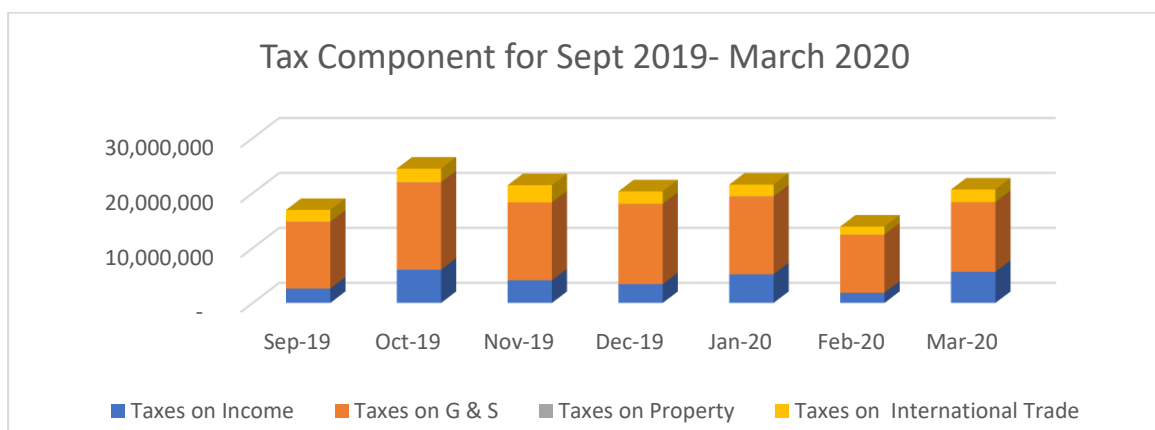


Sources: Statistics Department & Ministry of Finance

## FISCAL SECTOR

Domestic Revenue and grants for March 2020 quarter drop by 10 percent in comparison to previous quarter. This is mainly due to reduction on Taxes for Goods and Services by 34 percent where revenue from consumption tax for imported goods and services falls. The revenue from International Trade & Transactions taxes also drop by 33 percent for Import Duties on Businesses. These reflects the impact of the Pandemic Covid-19 where borders of our trading partners are starting to close. The Income Tax and Tax on Property Income also dropped by 7 percent and 15 percent respectively Grants from development partners also decreased by 5 percent for the same period.

**Figure 7: Tax Component for September 2019- March 2020**

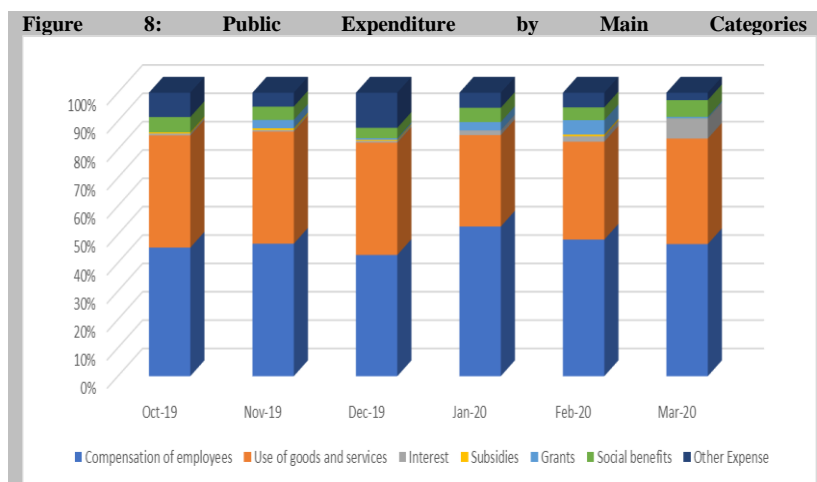


Source: Ministry of Finance

The revenue collection from Other Revenues on Property Income - Interest receipts from Deposits increases by \$2.9 million from the previous quarter. As recorded, \$5 million was collected from dividends of Public Enterprises as part of their annual dividends budgeted for the Financial Year. The Domestic revenue from Tax collected since July to March 2020 was 61% of the overall Tax Revenue budgeted for the 2019/20.

The total expenses for March 2020 quarter indicated a 4 percent decrease from the December 2019 quarter total expenses. The decrease in the quarterly trend reflected the amount paid out to development committees during the quarter, fall in the month of January and again in March. Grants for Sports Activities as well as grants for charitable organizations were also the main reasons for lower quarterly expenses. They drop by 83 percent and 81 percent respectively. One additional factor for fall in quarter expenses was the lower payments on use of goods & services (15%).

The provisional figures for Gross Operating Balance (Revenue minus Expenses) for March quarter recorded a surplus of \$3.1 million compared to a surplus of \$8.0 million in the December 2019 Quarter. A deficit of \$3.8 million was recorded in the first quarter of 2019/20. The surplus in the reviewed quarter was from the Total receipts from tax and grants of \$83.0 million compared to the total spending of \$79.8 million on the same period.



Source: Ministry of Finance and National Planning

## EXTERNAL SECTOR

As indicated from the provisional data, the expected earnings from export for March quarter shows a slightly increase from the previous quarter and double the increases from the same quarter in 2019.

This indicates the good recovery from TC Gita for the Agricultural Products. The decrease in the Agricultural Sector were mainly from the export volume of squash pumpkin due to its seasonality and Pele leaves (frozen cooked). The export volume for Root crops and Vegetables & Fruits also decreased and they contributed to the overall decrease in the export earnings of the reviewed quarter.

The figures from Ministry of Fisheries indicates a decrease in the total Fisheries Exports and it was mainly from Tuna, Snapper and Shark meat. The total Fisheries Exports drop by 5 percent.

The Trade Balance from the Overseas Exchange Transactions shows a deficit of \$97.5 million for the reviewed quarter. This is an ongoing deficit as compared to the previous quarter. Transfer balance are also reduced by 15 percent. The total remittances were recorded to fall by 1 percent from last quarter.

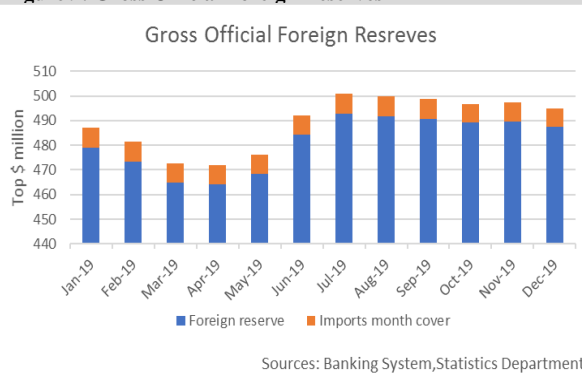
The price for diesel and fuel decreased by 92 percent from the previous quarter and it is in line with the decrease in global commodity prices. The total demand for construction were low due to the Pandemic Covid-19. People are now re-prioritizing their needs & wants to buy necessity goods.



The level of Foreign reserves that was recorded at the end of December 2019 was \$487.4 million or equivalent to 7.4 months of imports cover. The outlook for the level of Foreign Reserves expect to remain at a comfortable level (above 3 months cover) in the upcoming months.

The 7.4 months of imports cover highlights a fact that Tonga maintained a comfortable external position that exceeds the minimum range of 3-4 months set by NRBT.

**Figure 9: Gross Official Foreign Reserves**



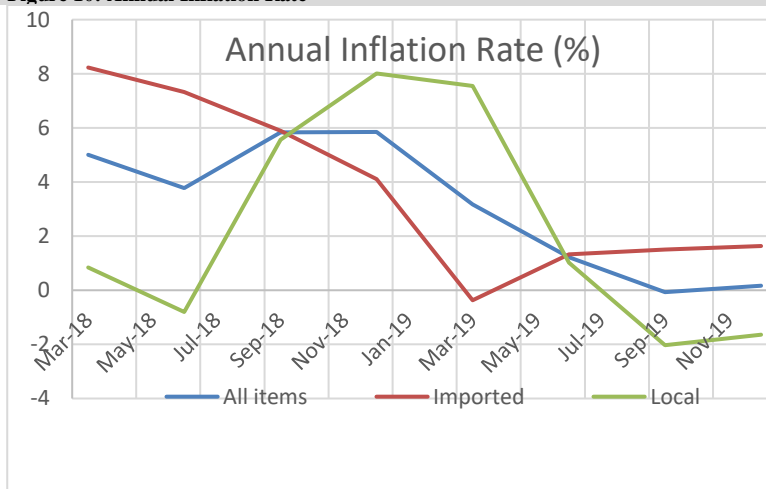
Source: National Reserve Bank of Tonga

## MONETARY AND FINANCIAL SECTOR

The available data indicates that inflation rate for December 2019 is 0.17 percent compared to negative 0.07 in the previous quarter and 5.85 percent in December 2018.

The graph conveys the contribution of the prices of local goods and imported goods on the overall inflation rates. Prices of imported goods reduced from March 2018 to the same period in 2019 and started to increase since then. Local goods on the other hand increases since June quarter of 2018 up to December 2018 and then start to drop in March 2019. It continues to fall on the next two quarters.

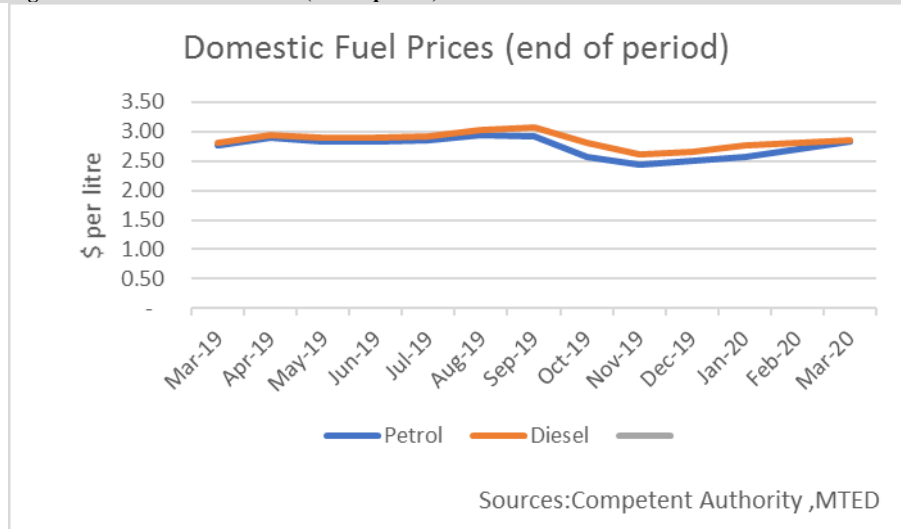
**Figure 10: Annual Inflation Rate**



Source: Tonga Statistics Department

The average annual inflation rate for FY 2018/19 is 4.02 percent compared to 4.38 percent in FY 17/18. The outlook for FY 19/20 is estimated to be lower than the two previous years. These reflects how people's preferences changes from imported tobacco to Tongan tobacco. The inflation rate for the reviewed quarter is expected to fall due to huge fall in the prices of kava tonga and also the impact of Covid 19 Pandemic not only on world markets. Prices of fuel drops as compared to last quarter. Petrol drops by 14% and Diesel drops by 12%. This is caused by the reduction in the overall global fuel prices. The changes in the global market prices of Fuel were taking into account plus other factors that affected the domestic fuel prices.

Figure 11: Domestic Fuel Prices (end of period)



Source: Competent Authority, Ministry of Trade & Economic Development

The weighted average lending rate for March 2019 recorded a 8.15 percent higher than 7.94 percent in March 2018.

On period average for the end of March 2019, the exchange rate for US Dollar and Australian Dollar depreciates while NZ Dollar appreciates compared to previous quarter. Comparing to March 2018, US Dollar appreciates while the other two currencies depreciate. These movements were due to changes with major trading partners.

## RISKS

The main risk in reviewing the March 2020 quarter is that the outbreak of Covid -19 since December 2019. This is given by the negative outlook for economic growth projection. As lockdown lift, businesses abroad start to lay-off its employees and therefore the income of our families and friends abroad affected especially New Zealand, Australia and the United States and therefore the level of remittances to the whole country are affected. The lower in remittances will also lower most household income and therefore reduced demand for goods and services. These will affect the overall economic GDP Growth.

The delay in the implementation of major construction projects led to revise down of growth during the forecast period. The major projects included the delay in the construction of Tonga Side School, Tonga High School Mini Sports Stadium and other projects.

## CONCLUSION AND POLICY ISSUES

In Conclusion, the global growth is very much affected by the outbreak of Corona Virus from China. These include the impact on global markets as well as impact on each sectors of the economy. There is a fall in the global oil prices which shows a drop in the domestic fuel prices.

In addition to that, government need to prioritize its spending of both government funds and development assistance to areas that will bring economic returns.

While the world struggle at this hard time, people are urge to make use of the scarce resources we have to be able to satisfy our everyday needs and wants given the restrictions with overseas borders and trade.