

Monthly Economic Update November 2022

Ministry of Finance (MOF)



Government of Tonga

Key Indicators	(T\$m unless otherwise indicated)			% change	
	Nov-21	Oct-22	Nov-22	Annual	Monthly
FISCAL INDICATORS (Government Financial Statistics (GFS) Basis)					
Revenue	49.3	27.5	33.7	-32%	22%
Tax	28.0	21.0	29.6	5%	41%
Grant (cash grants)	19.5	4.6	2.3	-88%	-50%
Current Grant	11.3	0.0	0.0	-100%	-
Capital Grant	8.2	4.6	2.3	-72%	-50%
Other Revenue (non - tax)	1.8	2.0	1.8	2%	-8%
Expenses	39.9	42.2	35.5	-11%	-16%
Compensation of Employees	13.8	16.3	12.8	-7%	-22%
Use of Goods and Service	18.1	19.0	17.3	-5%	-9%
Interest	0.1	0.3	0.1	-65%	-82%
Subsidies	0.1	0.0	0.1	84%	-
Grant	0.0	0.1	0.3	460%	444%
Social benefits	1.5	2.6	2.0	32%	-22%
Other Expenses	6.2	3.9	3.0	-51%	-23%
Gross Operating Balance	9.4	-14.6	-1.9	-120%	-87%
Net Acquisition of Non-financial Assets	3.3	2.1	2.0	-39%	-8%
Net Lending/Borrowing Requirement (Financing)	6.2	-16.8	-3.8	-162%	-77%
Total Public Debt (External & Domestic) (\$million)	507.6	NA	NA	-	-
FISCAL ANCHORS					
Compensation of Employees to domestic revenue to be less than 53% (annual target)					
monthly performance (%)	46%	71%	41%	-12%	-43%
ECONOMIC ACTIVITY INDICATORS (OET basis)					
Exports (\$million)	13.9	10.8	NA	-	-
Imports (\$million)	503.2	541.6	NA	-	-
MONETARY & PRICE INDICATORS					
Remittances (annual total)	490.0	475.8	NA	-	-
Official Foreign Reserves	783.9	877.0	866.2	10%	-1%
Import Cover - Trade estimate (12 months)	12.4	13.9	13.6	10%	-2%
Import Cover - OET estimate (12 months)	16.1	15.6	NA	-	-
Inflation (annual % change)	8.2	12.9	11.1	35%	-14%
Retail Fuel Prices:					
Petrol (T\$/litre)	3.26	3.56	3.49	7.1%	-2.0%
Diesel (T\$/litre)	3.15	4.11	4.25	34.9%	3.4%

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 Tuesday 13th December 2022)

Fiscal Stability

The provisional fiscal balance for the month of November 2022 indicated a deficit of \$3.8 million, down from the \$16.8 million deficit recorded in October 2022.

The total revenue – both from domestic revenue and grants performance – for the reviewed month (Table 1 above) reflected a rise of \$6.1 million (or 22 percent) in comparison to previous month. This is due mainly to the increase in tax. On an annual basis, total revenue fell by \$16.6 million (or 32 percent). The details will be discussed in the Revenue section.

The total monthly expenses recorded in November 2022 fell significantly by \$6.6 million (or 16 percent) compared to October 2022 and decreased by \$4.3 million (or 11 percent) compared to November 2021. Further details will be deliberated in the Expense section.

The domestic economic activity is slowly normalizing following the Hunga-Tonga Hunga-Ha'apai (HTHH) volcanic eruption, tsunami and the local outbreak of COVID-19 in early 2022.

The strong policy response and the generous support by the Development Partners has helped the economy to remain afloat as well as protecting the vulnerable.

The Government remained prudence in its fiscal policy and response, whilst targeted spending and effort on recovery.

Domestic Revenue

Domestic revenue consists of two components: tax and other revenue. The majority of domestic revenue is from the revenue collection on taxable items. In November 2022, 88 percent of total domestic revenue was from the tax revenue and the rest from other revenues. Generally, the

Release Date:

January 2023

HIGHLIGHT:

Fiscal Balance	1
Revenue	2
Expense	2
Fiscal anchors	3
Foreign Reserves	3
Inflation rates	4
Fuel prices	4

Monthly Economic Update November 2022



Ministry of Finance (MOF)

Government of Tonga

domestic revenue for November 2022 was sufficient to cover the total monthly expenses.

Tax Revenue

Table 2 below reflects a significant rise in total tax revenue collected in November 2022 of 41 percent to \$29.58 million from \$20.9 million in the previous month.

Tax Revenue(\$M)						
Components of Tax	Nov-21	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22
Taxes on income	6.5	5.8	2.8	2.8	3.1	6.7
Taxes on property	0.02	0.05	0.03	0.02	0.02	0.02
Taxes on G & S	14.8	12.2	14.8	15.9	15.0	19.8
Taxes on trade	6.7	2.1	2.1	2.5	2.8	3.0
Total	28.0	20.1	19.7	21.2	21.0	29.6

Table 2: Source: MOF

The upward movement was mainly due to the increase in *Taxes on Goods and Services* by 4.8 million in November 2022. This is driven from Consumption Tax (domestic) which rose by 3 million from the previous month. Similarly, the total *Taxes on Income* also increased by 3.6 million mainly on Corporate Tax from Large Businesses.

On the annual basis, total tax revenue increased by 1.5 million.

Non - Tax Revenue

Table 3 below reflects a slightly decrease in other revenue collected in November 2022 by 8 percent to \$1.8 million compared to \$2.0 million from the previous month. This was driven mainly from *Property Income* led by no recorded dividends collected from Public Enterprises (PE's) for the month of November 2022.

Non - Tax Revenue(\$M)						
Components of Other Revenue	Nov-21	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22
Property income	0.9	0.1	0.1	0.1	0.2	0.1
Sales of G&S	0.8	1.1	1.7	1.3	1.4	1.6
Fines, penalties, & forfeits	0.1	0.1	0.1	0.1	0.1	0.1
Voluntary transfer other than	0.0	0.1	0.0	0.0	0.0	0.0
Misc. & unidentified revenue	0.0	0.3	0.1	0.0	0.3	0.0
Total	1.8	1.7	2.0	1.5	2.0	1.8

Table 3: Source: MOF

The revenue collection from *Fines, penalties, & forfeits*-maintained collection at \$0.1 million whereas an increase in *Sales of goods and services* by \$0.2 million, compared to the previous month.

Grants

The total grant receipts for November 2022, was \$2.3 million (Table 4) a decline from \$4.6 million recorded in October 2022. This is only from Capital Grant, with no records of Current Grant receipts. Annually, grants decreased by \$17.2 million from \$19.5 million recorded in November 2021.

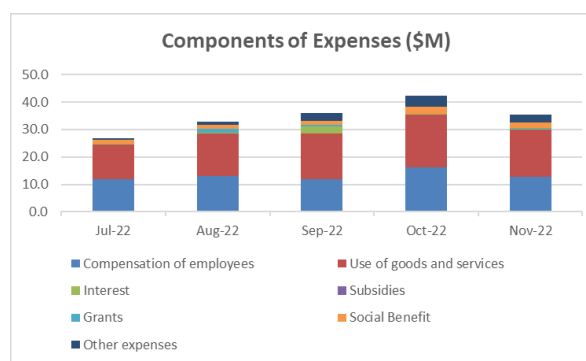
GRANT (\$M)						
	Nov-21	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22
Current Grant	11.3	0.0	0.0	43.0	0.0	0.0
Capital Grant	8.2	5.0	2.2	5.4	4.6	2.3
Total	19.5	5.0	2.2	48.4	4.6	2.3

Table 4: Source: MOF

The Capital Grants were \$1.7 million from World Bank/International Development Agency (IDA), \$0.3 UN Women, \$0.1 million from the UNDP and \$0.1 million from the International Union for Conservation. This in-kind assistance was for disaster related projects and assistance.

Expenses

The total expenses recorded in November 2022 slightly decrease to \$35.5 million from \$42.2 recorded in October 2022. On yearly basis, total expenses decrease by \$4.3 million. The decline in both periods – monthly and annual comparison – was mainly due to lower spending recorded on *Compensation of employees* and *Uses of goods and services*.



The decline on *Compensation of employees* was mostly attributed to the decrease in expense towards *Salaries* by \$3.7 million followed by Contract Labour of \$0.4 million.

Simultaneously, the decreased by \$1.8 million in spending under *Use of goods and services* was

Monthly Economic Update November 2022



Ministry of Finance (MOF)

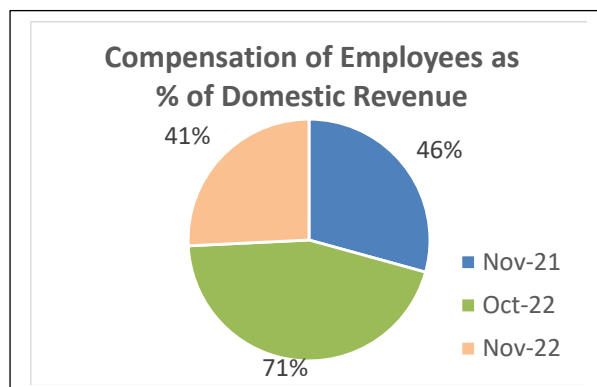
Government of Tonga

due to decrease in *Grant* by \$1.2 million, *Consultant/TA fees* by \$0.7 million and *Medical Supplies* by \$0.7 million. These were all related expenses to mitigate the impacts of HTHH disaster and the COVID-19 outbreaks.

Other Expenses decreased during the reviewed month by \$0.9 million, attributed to less payments on Subsidies and Government Development Project by \$0.9 million and \$0.1 million respectively.

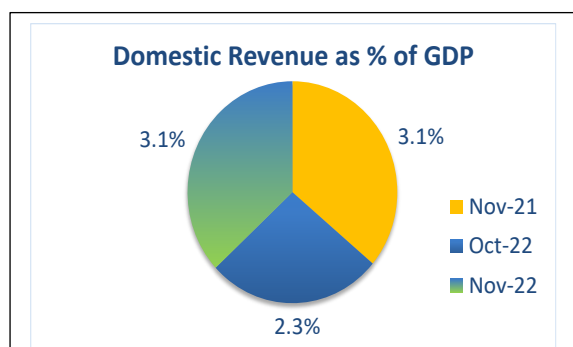
Fiscal Anchors and policy discussion

The monthly performance on the *compensation of employees as a percentage of domestic revenue* in **November 2022 was 41 percent** (refer Figure 1), 12 percent below the annual target of 53 percent. This is satisfactory compared to the level in October 2022 and November 2021.



The Government continues effort to control the wage bill in the near-term and to strengthen revenue measures.

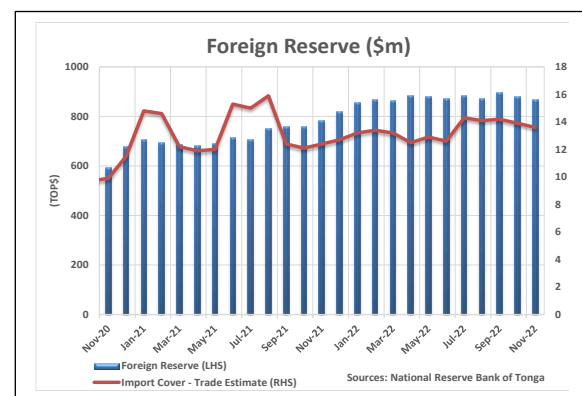
The monthly *domestic revenue as a percentage of GDP* in **November 2022 was 3.1 percent**, which is higher than the level recorded in October 2022 and in November 2021. This reflects an improvement in revenue collection.



Moreover, other related factors include the impact of COVID-19 and the recent TC Harold in revenue collection; the exemption of duty/excise and CT on all imports of food items and goods for personal hygiene, goods for combatting COVID-19, building materials and capital goods for tourism business operators. Regardless of all the sudden challenges, Government continues to monitor expenses to ensure appropriate measures are in place, considering the unprecedented current situation.

Foreign Reserves

The **foreign reserves recorded for November 2022 fell slightly to \$866.2 million**, a decrease by \$10.8 million from \$877.0 in October 2022, equivalence to 13.6 months of imports.



The decline is stemmed from an increase in transfers for import payments, Government services, and external loan repayments. In addition, lower official grants received during the reviewed month contributed to the decline. Even though there is downward sloping, the current trend is at a comfortable level.

On an annual basis foreign reserves increased by \$82.3 million from \$783.9 million. The majority of the official foreign reserves are held in USD, AUD and NZD.

Monthly Economic Update November 2022

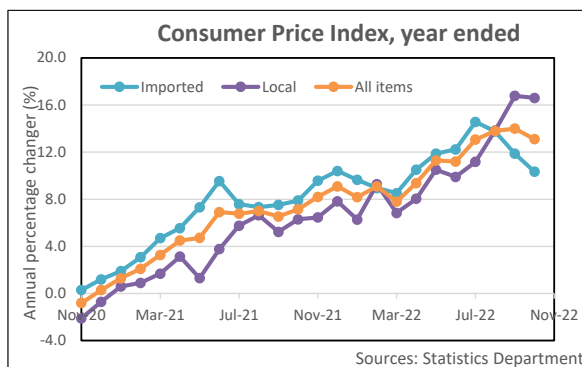


Ministry of Finance (MOF)

Government of Tonga

Inflation Rates

The annual headline inflation rate for November 2022 increased by 11.1 percent compared to the 8.2 percent recorded in November 2021 while the monthly prices decreased by 0.5 percent from the previous month prices of October 2022 (13.1 percent). The inflation of 11.1 percent is much higher above the NRBT's target of 5 percent reference rate.



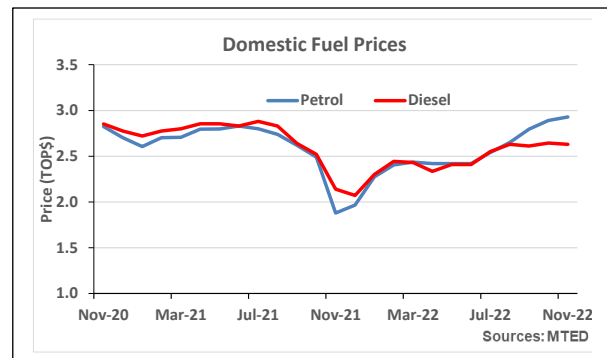
On annual basis, the inflation of 11.1 percent was mainly caused by the increase in domestic prices contributing a 6.3 percent and the import prices rose contributing 4.9 percent to the overall inflation in November 2022. The increase in prices was mainly due to increases in price of food and fuel.

The monthly prices decreased by 0.5 percent from the previous month prices of October 2022 (13.1 percent). The reduce in prices was mainly due to a decrease in prices of some local food item such as meat and seafood that includes suckling pigs' vegetables and root crops like capsicum, taro leaves, carrots, water melon etc.

The economy is struggling to cope with the high inflation due to surging global energy and food prices.

Fuel Prices

The **domestic retail price for petrol in November 2022 fell to \$3.49 from \$3.56**, while diesel rose to \$4.25, up from \$4.11 compared to October 2022. This reflected a *0.07 seniti* fall in the price of petrol and a *0.14 seniti* increase in the price of diesel.



The movements of Platts Singapore, the international freight rate and the exchange rate impacted the monthly petroleum price for Tonga. At the same time, there is pressure on crude oil prices from geopolitical issues including the Russia-Ukrainian war.

However, the outlook is expected to rise further if the war between Russia and Ukraine continues, as well as the global impacts caused by the easing of the pandemic which will hinder the supply-demand of crude oils.

Outlook and policy response

The government continues its current accommodative fiscal strategy response while managing the high inflation related issues. This is done by expanding fiscal policy for the short-term focus on social protection and reconstruction as well strengthening public finances in the medium term.

ENDS