

Monthly Economic Update April 2020

Ministry of Finance (MOF)



Government of Tonga

Key Indicators	(T\$m unless otherwise)			% change	
	Apr-19	Mar-20	Apr-20	Annual	Monthly
FISCAL INDICATORS (Government Financial Statistics (GFS) Basis)					
Revenue	24.1	33.2	63.7		92%
Tax	20.2	20.6	21.9	9%	6%
Grant (cash grants)	1.4	6.0	39.9	-	-
Current Grant	0.0	0.0	5.8	-	-
Capital Grant	1.4	6.0	34.1	-	-
Other Revenue (non - tax)	2.5	6.6	1.9	-26%	-72%
Expenses	23.4	35.6	21.6	-8%	-39%
Compensation of Employees	13.0	16.5	11.0	-15%	-34%
Use of Goods and Service	7.0	13.2	7.1	2%	-46%
Interest	0.5	2.5	0.5	-14%	-81%
Subsidies	0.0	0.0	0.0	-	-
Grant	1.0	0.2	0.1	-92%	-58%
Social benefits	1.3	2.2	1.9	47.7%	-13%
Other Expenses	0.6	0.9	1.1	71%	13%
Gross Operating Balance	0.7	-2.3	42.1	-	-
Net Acquisition of Non-financial Assets	0.7	2.0	2.8	-	41%
Net Lending/Borrowing	-0.3	-4.3	39.4	-	-
Total Public Debt (External & Internal)	472.9	N/A	N/A	-	-
FISCAL ANCHORS					
Compensation of Employees to domestic revenue to be less than 53% (annual target)					
<i>monthly performance (%)</i>	57%	61%	46%	6%	-24%
ECONOMIC ACTIVITY INDICATORS (OET basis)					
Exports	20.4	19.2	18.7	-6%	-3%
Imports	444.3	423.1	421.1	-5%	0%
MONETARY & PRICE INDICATORS					
Remittances (annual total)	350.8	349.2	345.3	-0.5%	-1.1%
Official Foreign Reserves	464.2	457.5	475.1	-1.4%	3.8%
Import Cover - Trade estimate (months)	7.5	6.8	6.9	-9%	1%
Import Cover - OET estimate (months)	9.3	9	9.4	-3%	4%
Inflation (annual % change)	0.2	0.4	1.2	-	-
Retail Fuel Prices:					
Petrol (T\$/litre)	2.71	2.62	2.49	-8%	-5%
Diesel (T\$/litre)	2.81	2.64	2.52	-10%	-5%

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 16th June 2020)

Fiscal Stability

The provisional **Fiscal Balance for the month of April 2020 recorded a surplus of \$39.4 million, a massive increase from the \$4.3 million deficit in March 2020.**

The **revenue**—both domestic revenue and grants performance—for the reviewed month (Table 1 above) **reflected an increase of \$30.5 million** (or 92 percent) in comparison to previous month. This is due to the increase in grants (cash grants). On an annual basis, **total revenue increased by \$39.7**

million. The details will be discussed in the Revenue section.

The total **monthly expenses** recorded in April 2020 **decreased by \$14 million** (or 39 percent) compared to March 2020 and **decreased by \$1.8million** (or 8 percent) compared to the same time last year. The decrease was mainly due to a decrease in the payment for interests followed by the payment for grants, the use of goods and services, the compensation of employees and social benefits.

Release Date:

July 2020

HIGHLIGHT:

Fiscal Balance	1
Revenue	1 & 2
Expense	2 & 3
Fiscal anchors	3
Foreign Reserves	4
Inflation Rates	4
Fuel prices	4 & 5

Monthly Economic Update April 2020

Ministry of Finance (MOF)



Government of Tonga

On annual basis, the decrease in total expenses was attributed to a decrease in the payment for grants, compensation of employees and grants 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, the Government together with Development partners and stakeholders continue to work together at all levels to ensure financial and macroeconomic stability are maintained, by meeting their goals and targets in improving the revenue collection.

Domestic Revenue

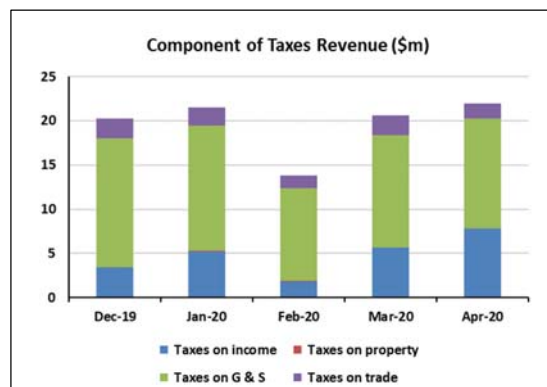
Domestic revenue consists of two components: *tax* and *non-tax revenue*. The majority of domestic revenue is from the revenue collection of taxable items. **In April 2020, 92 percent of total domestic revenue was from the tax revenue and the rest from the non-tax items.** In general, the domestic revenue for the reviewed month was sufficient to meet the total monthly expenses.

Tax Revenue

Table 2 below reflects a rise in **total tax revenue collected in April 2020 of 6.3 percent from \$20.6 million to \$21.9 million in the previous month.**

TAX REVENUE (\$M)	Apr-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20
Taxes on income	6.9	3.4	5.2	1.8	5.7	7.8
Taxes on property	0.03	0.05	0.05	0.02	0.02	0.01
Taxes on G & S	11.3	14.6	14.2	10.5	12.7	12.5
Taxes on trade	2.0	2.2	2.1	1.5	2.3	1.7
Total	20.2	20.3	21.5	13.8	20.6	21.9

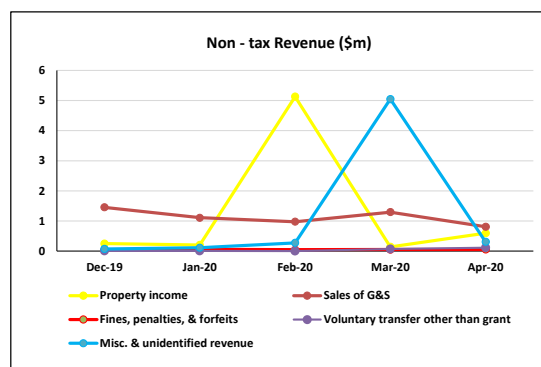
Table 2: Source: MOF



This increase was driven from the **Taxes on Income** by 37 percent from \$5.7 million to \$7.8 million in April 2020. This was largely due to Corporate Tax received from Large Business which rose by \$2.9 million. On the other hand, **Taxes on goods and services** and the other taxes decreased.

Non-Tax Revenue

The non-tax revenue recorded for the month of April 2020 indicated a **huge decrease by \$4.7 million** compared to March 2020. This is driven mainly from Misc. & Unidentified revenue led by a Transfers from NRBT.



The revenue collection from Sales of goods and services also decrease by \$0.5 million, which were administrative fees.

Grants

The following *Graph* shows a **huge increase, by \$33.9 million**, in the total cash grant receipts during the reviewed month.

This was generated by capital grant received from international organisations – mainly from Australia Development Bank (ADB) of \$14.9 million followed by Australia Bilateral programs of \$10.2 million and \$6.6 million from New Zealand Bilateral on various development projects.

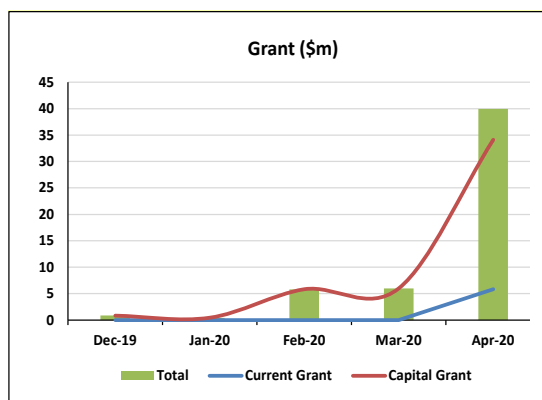
There was \$5.8 million on Current Grant (Budget Support) recorded for the month of April 2020 from Australia Fund.



Monthly Economic Update April 2020

Ministry of Finance (MOF)

Government of Tonga



reviewed month such as payment on social benefits.

Fiscal Anchors and policy discussion

The monthly performance on the *compensation of employees as a percentage of domestic revenue* in April 2020 was 46 percent (refer Table 1). This is lower in comparison to the previous month, and still below the annual target of 53 percent. This achieves the goal to sustain macroeconomic stability, and is anticipated to continue on this level.

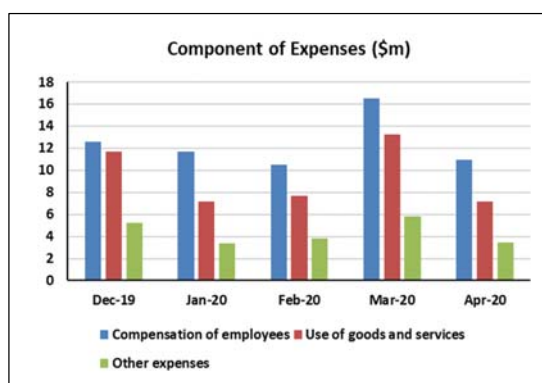
Expenses

The total expenses recorded in April 2020 decreased by \$14.0 million to \$21.6 million in comparison to the previous month, attributed to a decrease in payment for Use of goods and services.

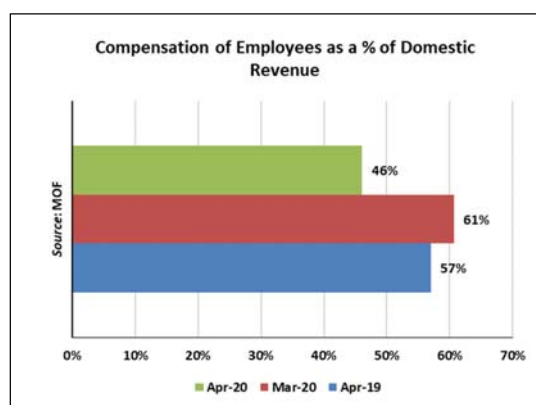
EXPENSES (\$M)	Apr-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20
Compensation of employees	13.0	12.6	11.7	10.5	16.5	11.0
Use of goods and services	7.0	11.7	7.1	7.6	13.2	7.1
Other expenses	3.4	5.2	3.3	3.9	5.8	3.5
Total	23.4	29.5	22.2	22.0	35.6	21.6

Table 3 : Source: MOF

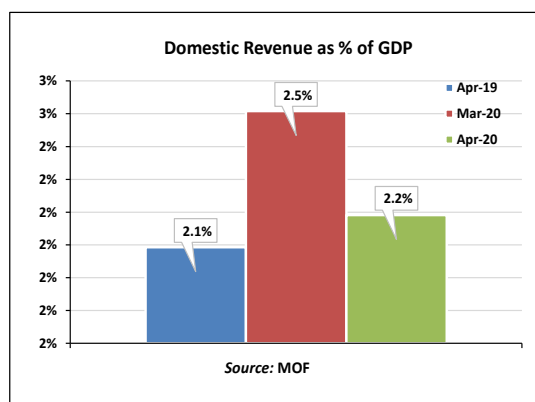
The following graph shows the decrease in the payment for Use of goods and services from \$13.2 million in March to \$7.1 million in April 2020. This was attributed to a decrease in payment for overseas travel as 96% decrease from the previous month due to the boarder restricted from COVID 19.



However, *Compensation of employees* decreased by 34 percent from the previous month due to a decrease in payment of wages and salaries on lockdown period on the last week of March and first week of April as from COVID 19 restricted. *Other Expenses* also decreased during the



The monthly *domestic revenue as a percentage of GDP* in April 2020 was 2.2 percent. Although this is slightly below the level in the previous month, we anticipate additional revenue given the ongoing reforms to improve the revenue administration and collection. The set annual target is at least 22 percent of GDP.



Monthly Economic Update April 2020

Ministry of Finance (MOF)



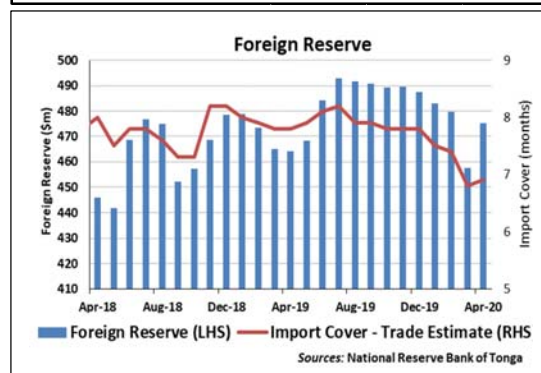
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Foreign Reserves

Foreign Reserves increased over the month of April 2020 to \$475.1 million from \$457.5 million in March. The increase reflected the higher level of inflows, mainly on grants from donor partner for preparation for COVID-19.

	Apr-19	Mar-20	Apr-20
Foreign Reserve (\$m)	464.2	457.5	475.1
Import Cover (trade estimate)	7.8	6.8	6.9

Table 4: Source : National Reserve Bank of Tonga



The level of foreign reserves for April 2020 is equivalent to 6.9 months of import cover which remains above the NRBT's minimum range of 3-4 months. The 6.9 months of import coverage supports positive outlook for economic growth in the near term. This is supported by the receipts of government grants as well as project funds.

Inflation

The annual average inflation to April 2020 stood at 0.6 percent, an increase from the annual average inflation of 0.5 percent in March 2020 and a decrease from 4.2 percent in April 2019.



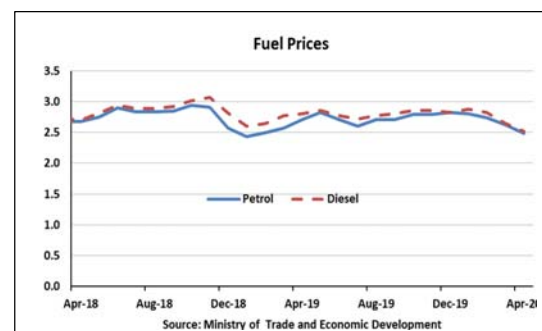
The annual headline inflation for April 2020 rose by 1.3 percent compared to the previous year prices in April 2019 (0.2 percent), this was mainly caused by the increase in imported prices contributing a 1.8 percent while the domestic prices fell by 0.5 percent to the overall inflation in April 2020. The increase in imported prices was mainly due to increases in prices of some food and alcoholic beverages whereas fall in domestic prices were attributed to the decrease in prices of imported tobacco, alcohol and fuel.

Over the reviewed month, inflation rate for April 2020 decreased by 0.8 percent from the previous month prices of March 2020 (0.2 percent), mainly caused by the decreased in both domestic price by 0.78 percent and imported price by 0.03 percent respectively. The inflation rate of 1.3 percent in April 2020 is well below the NRBT reference rate of 5 percent. Both import and local prices contributed 0.78 percent and 0.03 percent respectively to the monthly deflation of 0.8 percent.

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

Fuel Prices

The **domestic retail prices for petrol and diesel in April 2020 decreased** to \$2.49 and \$2.52 respectively compared to the level in the previous month and the same period in 2019.



This represents a 5 percent (or 0.13 *seniti*) and 4.5 percent (or 0.12 *seniti*) decrease for both petrol and diesel prices compared to previous month. The decrease on annual basis, were by 8 percent (or

Monthly Economic Update April 2020

Ministry of Finance (MOF)



Government of Tonga

0.22 *seniti*) and 10.2 percent (or 0.29 *seniti*) for petrol and diesel respectively.

The decrease in fuel prices in April 2020 was due falling Brent Crude Oil Prices in the month of March at USD 55.48 to USD 22.74 a barrel as COVID-19 virus spread to more countries, resulting in multiple border closure and demand also fell drastically.

Outlook and policy response

It is anticipated that in the coming months, both fiscal and economic indicators will continue to reflect the impacts of the COVID-19 pandemic in Tonga.

Government continue exercise prudent fiscal measures to ensure macroeconomic stability and fiscal sustainability. Other stakeholders to wisely spend and manage available resources and stock on hand, given the observed and spill-over effects of the outbreak from the global economy to Tonga.

ENDS