

Monthly Economic Update August 2018

Ministry of Finance & National Planning



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Highlights:

Fiscal Balance	1
Revenue	1
Expense	2
Fiscal Anchors	2
Inflation	2
Fuel Prices	2
Interest Rates	2
Foreign Reserves	3
Exchange Rates	3
Agricultural Exports	3
Remittances	3

Indicators Digest

*Unfavourable Fiscal Balance

*Inflation rate for August 2018 was 5.7 percent.

*Retail price for petrol & diesel for August 2018 is \$2.84 and \$2.89 per litre respectively.

*Foreign reserves recorded at higher level of TOP\$475 millions equivalent to 7.7months of import cover.

*Tongan pa'anga depreciates against USD dollars while NZD and AUD both appreciate

Key Indicators	(T\$m unless otherwise indicated)			% change	
	Aug-17	Jul-18	Aug-18	Annual	Monthly
FISCAL INDICATORS (Government Financial Statistics (GFS) Basis)					
Revenue	24.9	21.7	22.5	-9%	4%
Tax and Non-Tax Revenue	19.9	16.8	21.5	8%	28%
Grant (cash grants)	5.0	4.9	1.1	-78%	-78%
Budget Support	-	-	-	-	-
Project Support	5.0	4.9	1.1	-78%	-78%
Expenses	18.5	23.6	25.7	39%	9%
Compensation of Employees	9.9	9.3	12.6	28%	36%
Gross Operating Balance	6.4	- 1.9	- 3.1	-149%	67%
Net Acquisition of Non-financial Assets	2.7	0.2	1.5	-44%	704%
Net Lending/Borrowing Requirement	3.7	- 2.1	- 4.6	-225%	124%
Total Public Debt (\$million)	N/A	N/A	N/A	-	-
ECONOMIC ACTIVITY INDICATORS (OET base)					
Exports	2.3	1.5	1.2	- 0.5	-0.2
Imports	43.0	39.8	41.0	- 0.0	0.0
Adjusted Cash Remittances (Ann Total)	291.1	348.6	348.8	0.2	0.0
FISCAL ANCHORS					
Wage bill to domestic revenue to be less than 53% (annual target)	49.8%	55.5%	58.9%	18.4	6.1
MONETARY & PRICE INDICATORS					
Official Foreign Reserves	405	476.5	475.0	17.3	-0.3
Import Cover - Trade estimate (months)	7.4	7.8	7.7	4.1	-1.3
Import Cover - OET estimate (months)	9.9	10.5	10.3	4.0	-1.9
Inflation (annual % change)	5.5	6.1	5.7	3.6	-6.6
Retail Fuel Prices:					
Petrol (T\$/litre)	2.38	2.84	2.84	19.3	0.1
Diesel (T\$/litre)	2.37	2.89	2.89	22.0	-0.1

Note: Fiscal data are provisional (unless indicated) and still subject to change until audited. Note also that some indicators have been adjusted.

Fiscal Stability

The fiscal balance for August 2018 recorded a deficit of \$3.1million. This brought additional deficit of \$1.2million spare to the provisional balance of July 2018. Total Revenue for August remained slightly similar to July, while Total Expenditure spikes by \$2.2millions (9%) on a monthly basis.

Tax Revenue

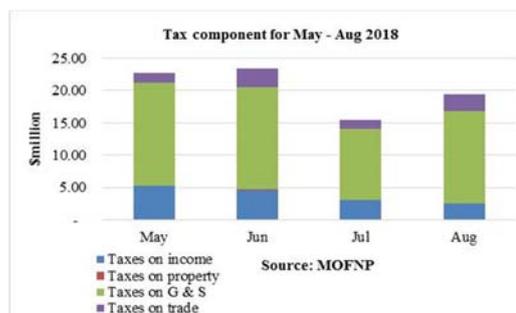
Total tax revenue for August 2018 was escalated by \$3.98 million (26%) from \$15.41 millions of July to \$19.39million in August. This increase in total tax revenue aforementioned was resulted from the improvement in collections of the Consumption Tax (CT) from imported goods, which further contributes to this increase in performance in collection of Taxes on Goods and Services (G&S) by \$3.31million (30%) from previous month.

Tax Revenue (\$million)	May	Jun	Jul	Aug
Taxes on income	5.30	4.70	3.10	2.56
Taxes on property	0.02	0.04	0.04	0.01
Taxes on G & S	15.85	15.85	10.96	14.27
Taxes on trade	1.58	2.86	1.31	2.55
Total	22.75	23.45	15.41	19.39

Grant and Non-Tax

Grant recorded a decline by \$3.80 million(-78%) from last month, while Non-tax revenue was slightly increase by \$0.68 million(49%) as compared to previous month.

Other Revenue (\$million)	Apr	May	Jun	Jul	Aug
Grants	3.03	0.65	19.87	4.89	1.09
Other revenue	1.81	1.50	1.76	1.38	2.06



Non-tax revenue collection has increased by \$0.68million (49%)from previous month. This was mainly drives by the increase in collection from miscellaneous and unidentified revenue. Non-tax revenue still maintain a low collection as compared to Tax revenue as its due to the nature of each revenue categories.

Non-Tax Revenue (\$million)	Apr	May	Jun	Jul	Aug
Property income (GFS)	0.29	0.25	0.30	0.15	0.31
Sales of goods and services	1.20	1.14	1.24	1.10	1.34
Fines, penalties, and forfeits	0.07	0.10	0.07	0.08	0.08
Voluntary transfers other than grants	-	-	-	0.04	-
Miscellaneous and unidentified revenue	0.25	0.01	0.15	0.02	0.33
Total	1.81	1.50	1.76	1.38	2.06

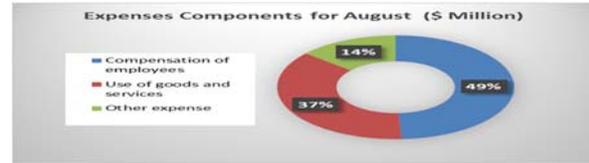
Expenses

Expenses recorded for August 2018 continue to dominate by Compensation of Employees with 49% as it was increased by \$3.31 million (36%) from \$9.32 million in July to \$12.63 million in August. This was due to increase in recruitment during the month. Use of goods and services (G&S) still the second largest expense category with 37%, despite of its reduction by \$2.53 million (-21%) from \$12.06 million of previous month.

Expenses (\$million)	Apr	May	Jun	Jul	Aug
Compensation of employees	13.28	10.96	11.27	9.32	12.63
Use of goods and services	7.94	7.86	18.88	12.06	9.53
Other expense	3.50	4.85	8.86	2.18	3.51
EXPENSE	24.72	23.67	39.01	23.56	25.68

Fiscal Anchors

The wage bill for August 2018 implies that 59cents in every \$1 pa'anga collected from our domestic revenue goes to fund the wage bill. This was an increase from a 56 cents recorded from previous month and is still beyond the annual target of 53 cents as objected, thus lightened up an alarmed situations regarding Tonga fiscal stability on monthly basis. Debt of GDP ratio remains as there is no further change in the debt level.



Inflation

The annual rate of inflation for August 2018 was slightly down to 5.7% from 6.1% recorded last month, however, still beyond the 5.5% for the corresponding period a year ago. This continued to remain above the NRB's inflation reference target of 5.0%.

The monthly inflation for August 2018 was in line with the continuous increase in local prices by 8.5%, mainly due to an increase in prices of some local food items through out the month such as dairy farm and vegetable products, house maintenance goods, household supplies and services as well as imported tobacco.

The annual change in CPI—domestic component—continues to be driven by increased prices of fruits and vegetables as a result of seasonality response and damages cause by TC Gita. Price for Banana ripe jumped by 133.7%, pawpaw rise by 128.8%, Lu price jumped by 49.3% while Pele price jumped by 82%, peanuts by 26.9% and coconuts (both dry and green) jumped by 81.5% and 56.9%. Import private transports as well as imported tobacco such as Winfield Blue also part of the main contributors to the overall headline inflation.

Positive outlook for inflation in the near term. This however depends largely on any unfavourable movement in global oil and food prices, expected increase in the domestic food supply as part of an increase of supply from crops planted after cyclone Gita, and the continued months without rain.

	Jul-18	Aug-18	Aug-17
All items	6.1	5.7	5.5
Imported	6.0	3.7	6.2
Local	6.1	8.5	3.9

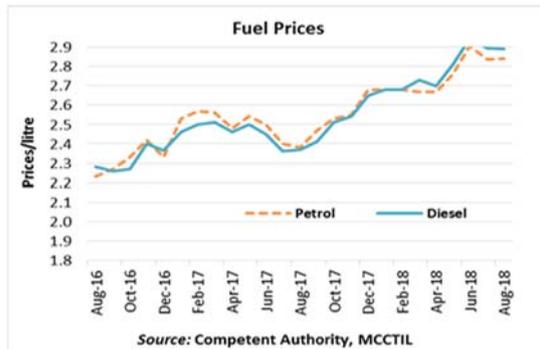


Fuel Prices

Steady global price of crude oil were virtually unchanged at monthly average of USD 74.35/bbl (up by USD 0.02/bbl). This had continue to drive down the petroleum and diesel prices by USD 0.40/bbl (0.5%) and USD 1.35/bbl (1.5%) except for jet/kerosene which remained firm supported by seasonal travel demand in comparing the July 2018 month average prices with previous month.

The local retail prices per litre of petrol and diesel in August 2018 remain unchanged at \$2.84 and \$2.89 as of previous month. This steady prices is highly associated with the continued weakened Tongan Pa'anga, which offset the marginal decrease in international prices, despite the slight increase of freight rate.

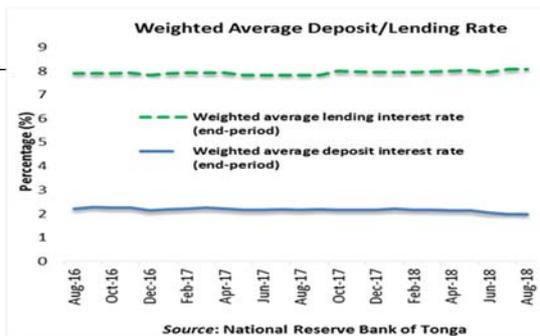
	FUEL PRICES (\$/litre)		
	Aug-17	Jul-18	Aug-18
Petrol	2.38	2.84	2.84
Diesel	2.37	2.89	2.89



Interest rates

Average lending rate rose by 3.19% in August 2018 compared to the same period years ago and by 0.25% compared to last month. This is in line with the increase with both housing and business lending rates. On the other hand, average deposit rate fell by 7.44 per cent compared to August 2017 and 1.49 per cent compared to previous month.

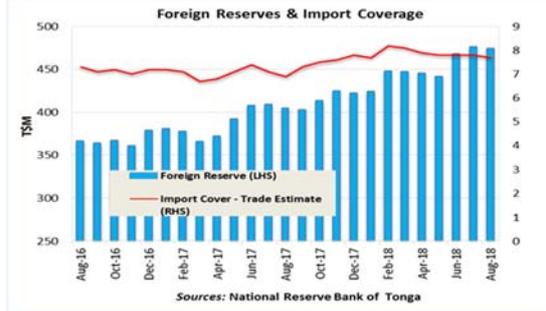
INTEREST RATES	Aug-17	Jul-18	Aug-18
Weighted average lending interest rate (end of period)	7.83	8.06	8.08
Weighted average deposit interest rate (end of period)	2.15	2.02	1.99



Foreign Reserves

Foreign Reserves for August 2018 recorded TOP\$475 million, fall by 0.31% from TOP\$476.5 compared to last month, however higher by 17.3% compared to August 2017. This is the fifteenth consecutive months for foreign reserves to remain above the level of \$400 million since June 2017. This higher level of foreign reserve was supported by the increasing trends of foreign aid and remittances into the country.

The level of foreign reserve for August 2018 was equivalent to 7.7 months of import cover (trade estimate) which remain above the NRBT's minimum range of 3-4 months. This level of import coverage indicates that Tonga continues to remain in a comfortable external position.

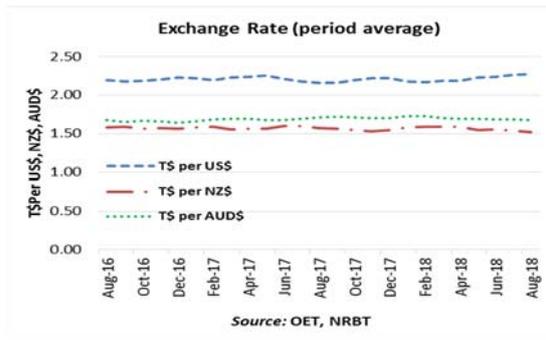


Exchange Rates

Nominal Trade Weighted Index for August 2018 was increase by 0.5% from previous month and by 0.05% from August 2017. However, Real Trade Weighted Index decline by 0.2% in August 2018 compared to previous month while rise by 1.78% compared to August 2017.

This is due to the continuous depreciation of Tongan pa'anga against US dollar since March 2018. Depreciation of Tongan pa'anga has not only increase the cost of Tonga imports from US but on the other hand remittances benefits from it, as seen that remittances from US remain at high level as compared to the starts of the depreciated period aforementioned.

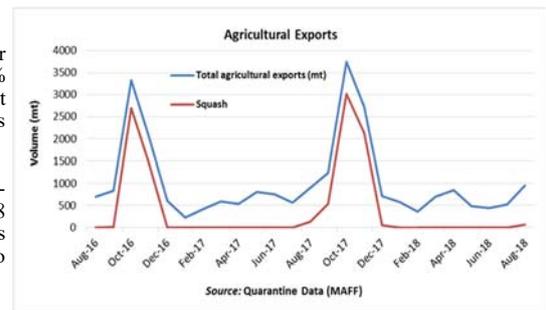
	Aug-17	Jul-18	Aug-18
Nominal Trade Weighted Index	91.49	91.12	91.54
Real Trade Weighted Index	105.59	107.67	107.47



Agricultural Exports

Provisional data from Quarantine indicates that Agricultural exports for August 2018 increased by 82.5% compared to last month and 5.8% increased compared to previous year. Increase in the export of root crops—swamp taro, giant taro, cassava, yam, squash and watermelons accounted for the observed trend.

Negative outlook for agricultural exports is anticipated as the destructive impacts of cyclone Gita together with less rainfall since April 2018 on the short term agricultural products especially fruits and vegetables such as both green and brown coconuts, watermelons and cassava, taro leaves and pele, despite the early harvest season of squash.



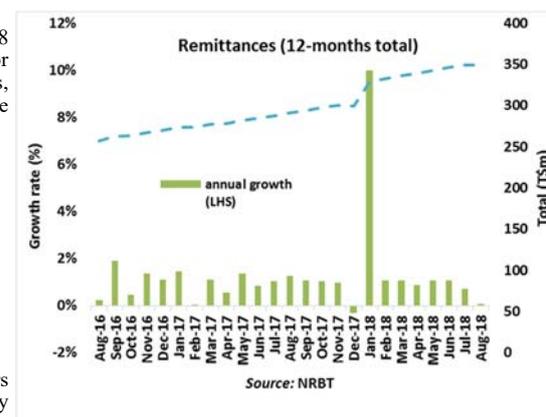
Remittances

Total remittances recorded for the 12-month period ending August 2018 was \$348.8 million, higher than the corresponding 12-month period for 2017 by 19.8 per cent or \$57.7 million. In terms of foreign currencies, this was led by US Dollar (USD) with \$10.52million and it has been the spearhead for 8th months now.

The increase is associated with the aftermath of TC Cyclone Gita as continuous higher receipts for family support from seasonal workers scheme, as well as agricultural returns from increasing agricultural exports aforementioned.

The trend for remittances is expected to be more higher in coming months due to the upcoming season particularly the "taliui sepitema" of mothers of respective churches next month as additional to the on going family supports receipt from seasonal workers and families residing overseas.

Remittance Receipts (month ended)			
	Jul-18	Aug-18	Aug-17
Private Transfers	27.2	28.5	25.67
Employee Compensation	2.1	2.1	2.0
Private Capital Transfers	0.7	0.9	0.7
Social Benefits	0.1	0.0	0.1



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