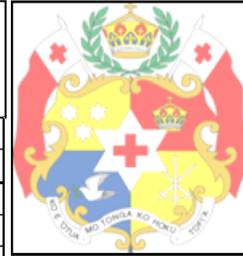


Monthly Economic Update January 2019

Ministry of Finance



Release date:
March 2019

Key Indicators	(T\$m unless otherwise indicated)			% change	
	Jan-18	Dec-18	Jan-19	Annual	Monthly
FISCAL INDICATORS (Government Financial Statistics (GFS) Basis)					
Revenue	24.9	26.5	21.2	-15%	-20%
Tax and Non-Tax Revenue	22.4	23.0	21.2	-6%	-8%
Grant (cash grants)	2.5	3.5	0.04	-98%	-99%
Budget Support	0.0	3.3	0.02	0%	-100%
Project Support	2.5	0.3	0.02	-99%	-91%
Expenses	17.8	21.3	18.3	3%	-14%
Compensation of Employees	9.7	10.5	10.6	9%	1%
Gross Operating Balance	7.1	5.2	2.9	-59%	-44%
Net Acquisition of Non-financial Assets	0.8	0.6	0.4	-52%	-38%
Net Lending/Borrowing Requirement	6.3	4.6	2.5	-60%	-45%
Total Public Debt (\$million)	468.3	416.0	412.0	-12%	-1%
ECONOMIC ACTIVITY INDICATORS (OET basis)					
Exports	20.7	20.0	20.5	-1%	2%
Imports	396.1	433.5	433.1	9%	-0.1%
Adjusted Cash Remittances (Ann Total)	330.2	350.8	350.0	6%	-0.2%
FISCAL ANCHORS					
Wage bill to domestic revenue to be less than 53% (annual target)	43%	46%	50%	15%	10%
MONETARY & PRICE INDICATORS					
Official Foreign Reserves	424.1	478.5	478.9	13%	0.1%
Import Cover - Trade estimate (months)	7.4	8.2	8.1		
Import Cover - OET estimate (months)	9.9	10.0	9.9		
Inflation (annual % change)	6.3	4.8	4.2		
Retail Fuel Prices:					
Petrol (T\$/litre)	2.7	2.6	2.4	-9%	-6%
Diesel (T\$/litre)	2.7	2.8	2.6	-3%	-7%

Highlights:

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Note: Fiscal data are provisional (unless indicated) and still subject to change until audited.

Fiscal Stability

By the end of January 2019, the operating fiscal balances maintained a fiscal surplus of 2.9 million, although down by 2.3 million or 44 percent in compared to December 2018 balance. Total Revenue recorded in January declined by 20 percent mainly of less budget support receipts recorded for the month. Total Expenditure declined by 14 percent compared to December 2018, contributed to maintaining the fiscal surplus for the month.

Tax Revenue

As in Table below, Total tax revenue slightly dropped by 2 percent to 19.52 million compared to the previous month. This reduction was triggered by the decreased in Taxes on trade by 28 percent, mainly the Business import duties and Taxes on goods and services also dropped by 2 percent. The taxes on income and Taxes on property recorded an increase by 38 percent and 15 percent respectively compared to the previous month.

Tax Revenue (\$million)	Jul	Aug	Sept	Oct	Nov	Dec	Jan
Taxes on income	3.11	2.56	2.08	5.02	6.26	2.58	3.57
Taxes on property	0.042	0.013	0.041	0.018	0.030	0.038	0.044
Taxes on G & S	10.96	15.21	8.28	15.23	15.18	13.43	13.15
Taxes on trade	1.31	2.55	2.35	4.19	2.53	3.81	2.76
Total	15.41	20.34	12.75	24.46	23.99	19.86	19.52

Source: Ministry of Finance

Other Revenue (Grants and Non-Tax)

Grants and Non-tax revenue both recorded a decrease by 75 percent or \$4.95 million respectively compared to the

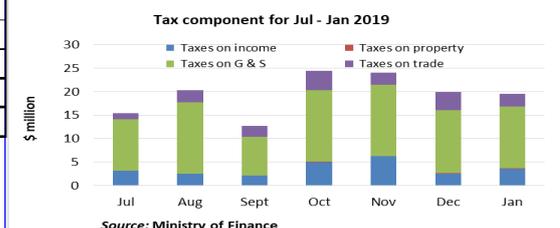
Other Revenue	Jul	Aug	Sept	Oct	Nov	Dec	Jan
Grants	4.89	1.09	0.82	10.61	23.03	3.54	0.04
Non-tax	1.38	2.06	1.43	2.02	3.33	3.10	1.65
Total	6.28	3.15	2.25	12.64	26.37	6.65	1.69

Source: Ministry of Finance

previous month. Grants for project support will be released as per project's Grant Agreement and budget supports are now targeting to receive in June 2019; whereas the declined in Non-tax revenue attributed to the lower collection from property income by 74 percent or \$1.71 million.

Non-Tax Revenue (\$million)	Jul	Aug	Sept	Oct	Nov	Dec	Jan
Property income	0.15	0.31	0.22	0.37	0.22	2.32	0.61
Sales of G&S	1.10	1.34	1.14	1.26	0.90	0.75	0.95
Fines, penalties, & forfeits	0.08	0.08	0.06	0.07	0.06	0.03	0.04
Voluntary transfer other than grant	0.04	-	-	-	-	-	-
Misc. & unidentified revenue	0.02	0.33	0.02	0.32	2.16	0.01	0.05
Total	1.38	2.06	1.44	2.02	3.33	3.10	1.65

Source: Ministry of Finance



Indicators Digest

*Fiscal Balances maintain at favourable level.

*Inflation rate for January 2019 declined from 4.8 percent to 4.2

*Retail price in January 2019 for petrol was down to \$2.43 per litre and diesel was also dropped to \$2.60 per litre .

*Foreign reserves recorded at TOP\$478.9m equivalent to 8.1 month of import cover.

Expenses

Expenses recorded in January 2019 decreased from \$21.32 million in December to \$18.30 million. The reduction led by 14 percent or \$3.02 million on Use of Goods and Services and Other Expenses. This reflect a significant decrease in Grant to International Organisations and Bank fees in January. On the other hand, compensation of employees for the reviewed month was slightly higher than the previous couple of months. The increase reflected the incorporation of the PMS rewards for the year 2017/18.

Expenses (\$million)	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Compensation of employees	9.32	12.63	12.04	10.38	10.54	10.50	10.62
Use of goods and services	12.06	9.32	6.18	8.42	7.35	8.13	5.14
Other expense	2.18	3.51	5.70	5.01	3.38	2.69	2.54
EXPENSE	23.56	25.47	23.92	23.81	21.28	21.32	18.30

Source: Ministry of Finance

Inflation

The annual rate of inflation for January 2019 was, 4.2 percent, lower than the NRBT's reference target of 5 percent. This is also lower compared to the 4.8 percent recorded in the previous month and 6.3 percent in January 2018. The decrease on both annual and monthly changes,

were mainly due to lower CPI for the imported items while prices for the local items increase continuously. The increase in local prices was contributed from the increase in prices of local food items such as *root crops*—taro tonga and taro futuna, yam—early yam, and cassava; *fruits and vegetables*—tomatoes, capsicum, head cabbage, taro leaves, watermelon, oranges, apples; and kava tonga.

Future outlook for inflation is expected to be on the downside in the near term. But, this can be changed due to policy changes or unfavourable rise in price for global oil and food prices, expected to increase of domestic food supply of crops planted as from recovery plan on TC Gita and unforeseen impact of the global trade war.

INFLATION RATE %	Jan-18	Dec-18	Jan-19
All items	6.3	4.8	4.2
Imported	9.2	2.9	0.3
Local	2.7	7.2	9.1

Source: Statistics Department

Fuel Prices

Due to the large drop to the Brent Crude oil prices that average USD 57.30/bbl. in December fell. Despite current global geopolitical issues, prices fell last month as a result of economic uncertainty and continue trade war between US and its allies against China and a weaker demand outlook for 2019. Thus, a slightly declining trend in petrol and diesel prices for January 2019 compared to previous month. It was around 10 percent decreased for petrol, 3 percent decreased for diesel as of comparing to the same period in the previous year.

In January 2019 the retail prices per litre for fuel were slightly decreased. Price for petrol was declined by 5.6 percent, from \$2.57 senti to \$2.43 and down by 7.3 percent or 21 senti for diesel price compared to December 2018.

FUEL PRICES	Jan-18	Dec-18	Jan-19
Petrol	2.68	2.57	2.43
Diesel	2.68	2.81	2.60

Source: Competent Authority, MTEd

Foreign Reserves

The total Foreign Reserves recorded for January 2019 was at TOP\$478.9 million, fell by 0.1 percent or \$0.4 million from TOP\$478.5 in the previous month. However, a significant increased by 13 percent compared to the same period in the previous year. The Foreign reserves remained above the level of \$400 million since June 2017. This higher level of foreign reserves was driven by the increase of foreign aid and remittances into the country.

Foreign Reserve	Jan-18	Dec-18	Jan-19
Foreign Reserve	424.1	478.5	478.9
Import Cover	7.7	8.2	8.1

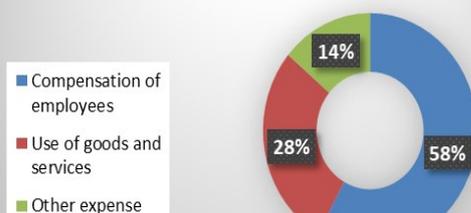
Source: National Reserve Bank of Tonga

As of January 2019, the level of foreign reserves was equivalent to around 8.1 months of import cover (trade estimate) above the 3-4-month benchmark of NRBT. This indicates that the import coverage level for Tonga remains in a favourable external position.

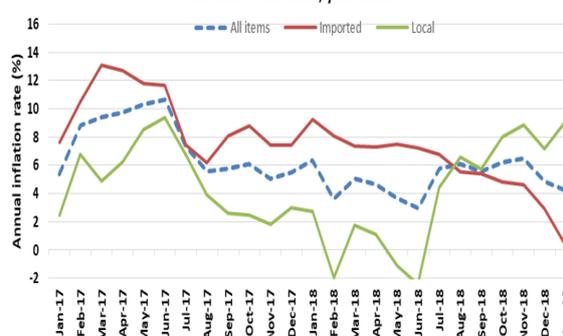
Fiscal Anchors

The monthly performance of wage bill for January 2019 as a percentage of domestic revenue was 50 percent which is higher than 46 percent recorded in December 2018 and below the annual target of 53 percent which is a good sign of managing the wage bill. Forecasting of Debt to GDP ratio will remain as there is no further change in the debt level.

Expenses Components for January (\$ Million)

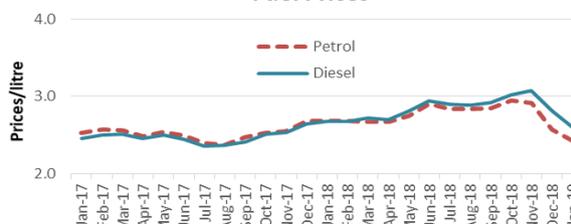


Consumer Price Index, year ended



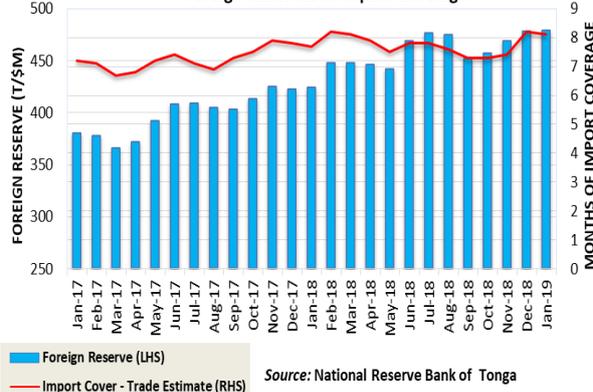
Source: Statistics Department

Fuel Prices



Source: Competent Authority, Ministry of Trade & Economic Development

Foreign Reserves & Import Coverage



Source: National Reserve Bank of Tonga

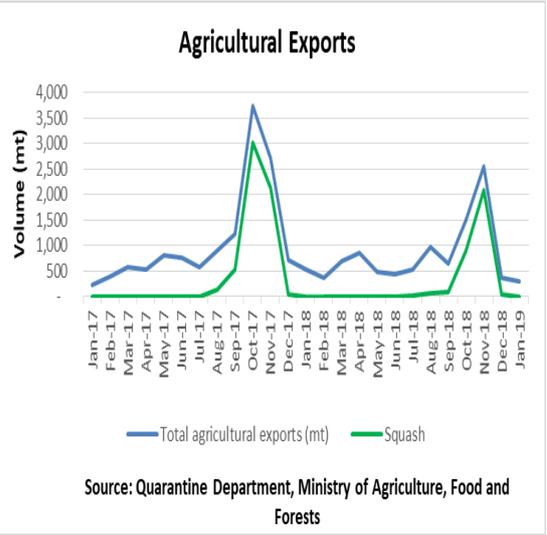
Agricultural Exports

The provisional data from Quarantine indicates that the volume of Agricultural exports in January 2019 decreased by 18 percent compared to the previous month. However, more than double the monthly result of 49 percent decreased compared to the previous year. The decrease is mainly from the export of taro leaves and roots crops such as cassava, swamp taro, giant taro and also squash pumpkin harvest season ended in December 2018.

	Jan-18	Dec-18	Jan-19
Leaves	47.9	2.9	1.3
Squash	-	44.3	-
Root crops	404.3	237.6	193.3
Vegetables and Fruit	93.4	45.3	60.2
Others	31.6	31.4	39.9
Total agricultural exports (mt)	577.2	361.6	294.7

Source: Quarantine Department, MAFF

For the future outlook, the agricultural exports are anticipated to remain positive in the near term due to harvesting season for squash pumpkin, yam and other fruits and vegetable approaches.



END