

# Monthly Economic Update July 2018

## Ministry of Finance & National Planning



Release date:  
September 2018

Key Indicators	(T\$ m unless otherwise indicated)			% change	
	Apr-17	Mar-18	Apr-18	Annual	Monthly
<b>FISCAL INDICATORS (Government Financial Statistics (GFS) Basis)</b>					
<b>Revenue</b>	<b>25.6</b>	<b>28.2</b>	<b>24.3</b>	-5%	-14%
Tax and Non-Tax Revenue	22.7	22.9	22.5	-1%	-2%
Grant (cash grants)	2.9	5.3	1.8	-39%	-67%
Budget Support	2.2	-	-	-100%	-
Project Support	0.7	5.3	1.8	166%	-67%
<b>Expenses</b>	<b>18.4</b>	<b>30.6</b>	<b>24.7</b>	66%	-19%
Compensation of Employees	10.7	10.2	13.3	-4%	29%
Gross Operating Balance	7.2	- 0.7	2.85	-60%	-483%
Net Acquisition of Non-financial Assets	1.5	1.0	1.5	0%	52%
Net Lending/Borrowing Requirement	5.7	- 1.7	1.4	-76%	-182%
<b>Total Public Debt (\$ million)</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	-	-
<b>ECONOMIC ACTIVITY INDICATORS (OET basis)</b>					
Exports	1.4	1.3	1.1	-21%	-15%
Imports	22.1	32.9	32.5	47%	-1%
Adjusted Cash Remittances (Ann Total)	278.3	336.0	338.9	22%	1%
<b>FISCAL ANCHORS</b>					
Wage bill to domestic revenue to be less than 53% (annual target)	47%	45%	59%	25%	32%
<b>MONETARY &amp; PRICE INDICATORS</b>					
Official Foreign Reserves	371.7	447.7	445.9	20%	-0.4%
Remittances (annual total)	278.3	336.0	338.9		
Import Cover - Trade estimate (months)	6.7	8.1	7.9		
Import Cover - OET estimate (months)	9.4	10.2	10.1		
Inflation (annual % change)	9.5	9.8	9.6		
Retail Fuel Prices:					
Petrol (T\$/litre)	2.48	2.67	2.67	8%	0%
Diesel (T\$/litre)	2.46	2.73	2.70	10%	-1%

### Highlights:

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### Indicators Digest

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 April 2018 remained at a manageable level, lower than 1 percent of the GDP ratio. This ongoing favourable conditions reflecting ongoing tightened management of expenses in respect of revenue. The Total Revenue for the month declined by 14 percent while Expenses fell as well by 19 percent compared to March 2018.

### Tax Revenue

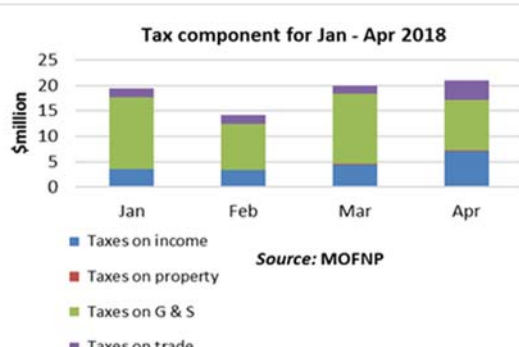
Total tax revenue for April 2018 has slightly increased by 5 percent from \$20.01 million to \$20.99 million. This increase reflects a significant increase in income tax collection by 59 percent or \$2.63 million compared to previous month. However, taxes on goods and services fell by \$3.79 million reflecting a return to normal trend after post tsunami surged in spending.

### Grant and Non-Tax

Tax Revenue (\$million)	Jan	Feb	Mar	Apr
Taxes on income	3.47	3.30	4.47	7.10
Taxes on property	0.02	0.01	0.04	0.02
Taxes on G & S	14.13	9.17	13.84	10.05
Taxes on trade	1.81	1.73	1.66	3.82
<b>Total</b>	<b>19.43</b>	<b>14.21</b>	<b>20.01</b>	<b>20.99</b>

Grant and Non-tax revenue both recorded a decrease by 47 percent or \$1.37 million and 67 percent or \$3.53 million respectively compared to previous month.

Non-tax revenue for the month decline due to lower collection from property income by 83 percent or \$1.36 million. The reduction in cash grants is inline with no receipt of



Other Revenue (\$million)	Jan	Feb	Mar	Apr
Grants	2.51	0.55	5.29	1.76
Other revenue	2.98	1.50	2.90	1.53

budget support which is reflected in the revenue.

Non-Tax Revenue (\$million)	Jan	Feb	Mar	Apr
Property income	1.45	0.07	1.63	0.27
Sales of G&S	1.21	1.39	1.14	1.17
Fines, penalties, & forfeits	0.07	0.04	0.06	0.07
Voluntary transfer other than grant	-	-	-	-
Misc. & unidentified revenue	0.25	0.00	0.07	0.01
<b>Total</b>	<b>2.98</b>	<b>1.50</b>	<b>2.90</b>	<b>1.53</b>

\*Fiscal Balances maintain at manageable level.

\*Inflation rate for the month of April 2018 was slightly decreasing to 9.6 percent.

\*Retail price for petrol remains at \$2.67 per litre while diesel decreases to \$2.70 per litre as of April 2018.

\*Foreign reserves recorded at TOP\$445.9 equivalent to 7.9 month of import cover.

\*Tongan pa'anga continuously depreciates against USD and NZD while AUD appreciates.

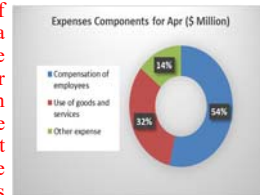
## Expenses

Expenses recorded for April 2018, again, is largely dominated by Compensation of employees although recorded a decline by 19 percent or \$5.89 million compared to the previous month. This contributed by significant reduction in Other expenses by 60 percent such as Interest Payment Foreign, Grants to International Organisations and Social benefits.

Expenses (\$million)	Jan	Feb	Mar	Apr
Compensation of employees	9.74	9.32	10.25	13.25
Use of goods and services	5.46	4.90	11.69	7.96
Other expense	2.81	2.03	8.67	3.50
<b>EXPENSE</b>	<b>18.01</b>	<b>16.25</b>	<b>30.60</b>	<b>24.71</b>

## Fiscal Anchors

The monthly performance of wage bill for April 2018 as a percentage of domestic revenue was 59 percent which is higher than 45 percent recorded in March 2018; also above the annual target of 53 percent which is not a good sign. While Debt of GDP ratio remains as there is no further change in the debt level.



## Fuel Prices

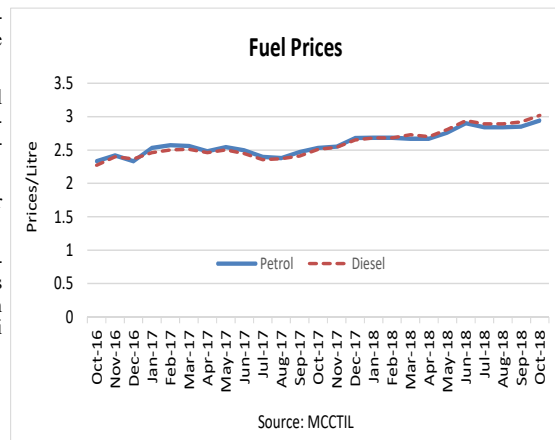
The continuous rising in global price of crude oil is due to high demand global oil, and this may ease as some countries look to reduce imports in order to offset the impact of rising prices.

Crude prices (Date Brent) reached a four year high at USD83.64/bbl on 28th September which was up by USD6.23/BBL (8.6%) supported by the tightening of supplies from US sanctions on Iran and production disruptions in Libya and Venezuela.

Thus, slightly increasing trend in petrol and diesel prices for October 2018 compared to previous month and same period year ago.

By looking at the retail prices per litre of Brent crude oils for October 2018, petrol was \$2.94 or rise by 0.09 senti while diesel was \$3.02 or increase by 0.10 senti compare to previous month. On annual basis both petrol and diesel increased by 0.41 and 0.51 senti respectively.

FUEL PRICES	Sep -18	Oct -18	Oct -17
Petrol	2.85	2.94	2.53
Diesel	2.92	3.02	2.51

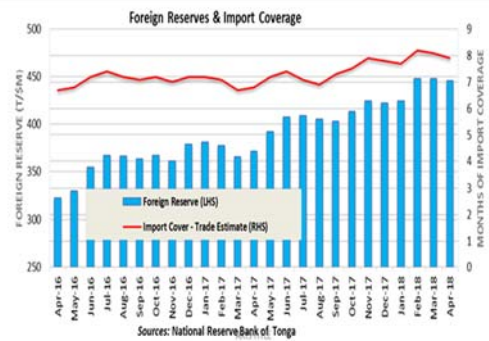


The increase in diesel prices were supported by refinery maintenance in Japan after the earthquake disrupted exports. This is also associated with the changes in freight rate and the continuing weaken of Tongan pa'anga against the US dollar together with the higher international prices resulted in a spike in local prices.

## Foreign Reserves

The total Foreign Reserves recorded for April 2018 was at TOP\$445.9 million, a decline by 0.4 percent from TOP\$445.9 compared to previous month. However, an increase by 20 percent compared to same period of previous year. Since June 2017 the foreign reserves remained above the level of \$400 million. This higher level of foreign reserve was driven by increasing trends of foreign aid and remittances into the country due to impact of TC Gita.

The level of foreign reserves for the month of April 2018 was equivalent to around 7.9 months of import cover (trade estimate) higher than the 3-4 month benchmark of NRBT. This indicates that the level of import coverage for Tonga continues to remain in a favourable external position.

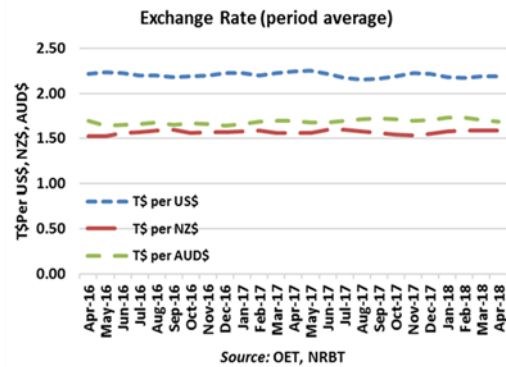


## Exchange Rates

The Nominal and Real Trade Weighted Index for April 2018 were both increased by 0.3 percent and 0.4 percent respectively compared to previous month. By comparing both rates to the same period over a previous year were decline by 0.3 percent and 0.9 percent respectively.

This is mainly due to depreciation of Tongan pa'anga against US and Australia dollars. Depreciation of Tongan pa'anga leads to a higher cost for some imported food items like package food and frozen meat was increase throughout the month.

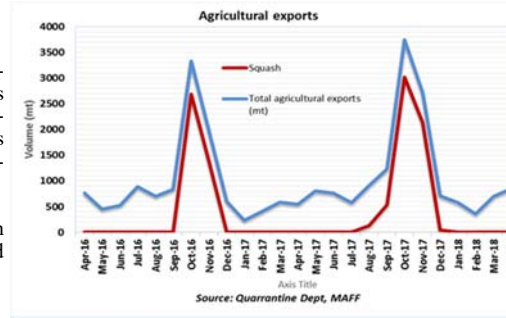
	Apr-17	Mar-18	Apr-18
Nominal Trade Weighted Index	90.71	90.15	90.45
Real Trade Weighted Index	104.67	103.40	103.72



## Agricultural Exports

The provisional data from Quarantine indicates that the volume of Agricultural exports for April 2018 increased by 22 percent compared to previous month. However, more than double of monthly result of 56 percent increased compared to previous year. This increase from export of root crops such as taro tarua, sweet yam, giant taro and yam accounted for the observed trend.

Outlook for agricultural exports is anticipated to be positive in the near term due to harvesting season for squash pumpkin, yam and other fruits and vegetables approaches.



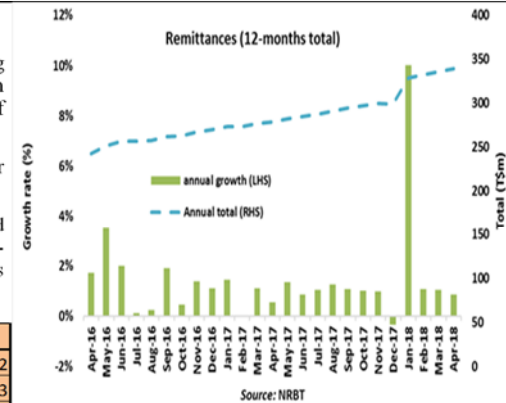
## Remittances

The total remittances recorded for the 12 consecutive month period ending April 2018 was \$338.9 million, higher than the corresponding 12-month period for previous year by 21.8 percent or \$60.56 million. In terms of foreign currencies, it was led by the US currencies.

This increase is driven by TC Cylone Gita as well as continuous higher receipts for family support from seasonal workers scheme.

The trend for remittances is expected to increase due to various social and economic reasons such as the upcoming events and occasions such as celebrating family month (White Sunday, Mother's Day and Tongan Father's Day) and Churches annual conferences.

Remittance Receipts (month ended)	Apr-17	Mar-18	Apr-18
Private Transfers	21.16	25.4	23.2
Employee Compensation	0.99	1.5	2.3
Private Capital Transfers	0.21	0.7	0.6
Social Benefits	0.06	0.4	0.1



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