

Monthly Economic Update May 2019

Ministry of Finance (MOF)



Government of Tonga

Key Indicators	(T\$m unless otherwise)			% change	
	May-18	Apr-19	May-19	Annual	Monthly
FISCAL INDICATORS (Government Financial Statistics (GFS) Basis)					
Revenue	24.9	22.9	35.8	44%	56%
Tax	22.8	20.2	26.3	15%	30%
Grant (cash grants)	0.6	1.3	7.8	-	-
<i>Budget Support</i>	0.0	0.0	0.0	-	-
<i>Project Support</i>	0.6	1.3	7.8	-	-
Other Revenue (<i>non - tax</i>)	1.5	1.3	1.7	16%	33%
Expenses	23.7	23.3	29.6	25%	27%
Compensation of Employees	11.0	12.9	12.1	11%	-6%
Use of Goods and Service	7.9	6.9	13.0	66%	88%
Interest	0.1	0.5	0.1	35%	-79%
Subsidies	0.38	0.02	0.16	-59%	-
Grant	0.4	1.0	0.0	-	-
Social benefits	1.0	1.3	1.3	34%	1%
Other Expenses	3.1	0.6	2.9	-5%	-
Gross Operating Balance	1.2	-0.4	6.2	-	-
Net Acquisition of Non-financial Assets	0.9	1.0	1.5	-	46%
Net Lending/Borrowing Requirement (Financing)	0.3	-1.4	4.7	-	-
Total Public Debt (External & Domestic) (\$million)	475.6	473.7	472.9	-1%	-0.2%
FISCAL ANCHORS					
Compensation of Employees to domestic revenue to be less than 53% (annual target)	48%	64%	46%	-4%	-27.8%
ECONOMIC ACTIVITY INDICATORS (OET basis)					
Exports	19.9	20.4	20.3	2%	-0.5%
Imports	408.8	444.3	444.4	9%	0.0%
Adjusted Cash Remittances (annual total)	344.2	350.8	350.4	2%	-0.1%
MONETARY & PRICE INDICATORS					
Remittances (annual total)	344.2	350.8	350.4	2%	-0.1%
Official Foreign Reserves	441.9	464.2	468.3	6%	0.9%
Import Cover - Trade estimate (months)	7.5	7.8	7.9	5%	1.3%
Import Cover - OET estimate (months)	9.9	9.3	9.3	-6%	0.0%
Inflation (annual % change)	3.7	0.2	1.6	-57%	-
Retail Fuel Prices:					
Petrol (T\$/litre)	2.76	2.71	2.82	2%	4%
Diesel (T\$/litre)	2.81	2.81	2.85	1%	1%

Table 1 : Source: Ministry of Finance

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 updated on Friday 26th July 2019)

Release Date:

July 2019

HIGHLIGHT:

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Fiscal Stability

The Fiscal Balance for the month of May 2019 recorded a surplus of \$4.7 million, an improvement from the \$1.4 million deficit in April 2019.

The revenue performance—both domestic revenue and grants—for the reviewed month (Table 1 above) reflected a significant increase by 56 percent and 44 percent in compared to April 2019 and May 2018 respectively. Both increase on monthly basis, by 30 percent, and on annual basis, by 15 percent, were due to the additional collection in domestic revenue. The details will be discussed in the Revenue section.

The total monthly expense recorded in May 2019 was above the level in April 2019 by 27 percent and the same time last year, April 2018 by 25 percent. The increase was mainly due to an increase in the use of goods and services followed by the payment for subsidies and other expenses. On the other hand, the expenses for the compensation of employees, interest payment and grants decreased. On an annual basis, the increase in total expenses was attributed to the increase in compensation of employees, use of goods & services, interest payment and social benefits.

The outlook is positive with a favourable fiscal balance at the end of the financial year. Government ministries expect to work towards meeting their goal and targets by the end of the

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year in becoming more effective and efficient in public service delivery. Additional revenue expects to collect due to annual events occur around this time include church conference, Heilala week festivities, family reunions, school anniversary (Tonga High School) and King's birthday celebration.

Domestic Revenue

Domestic revenue is classified into two categories: *tax* and *non-tax revenue* groups. The total domestic revenue is mainly from revenue collection from tax items. In May 2019, the 73 percent of total domestic revenue was from the tax revenue and the balance was from the non-tax items. In general, the domestic revenue for the reviewed month was sufficient to meet the total monthly expenses. The following sections will discuss the main components of domestic revenue, tax and non-tax.

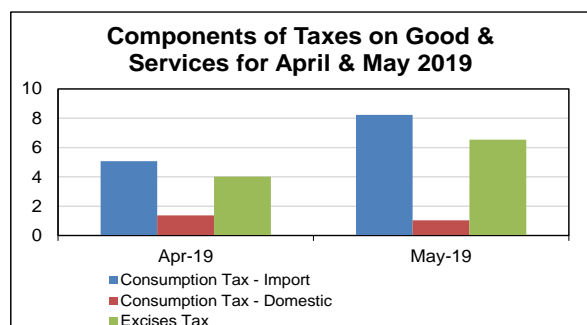
Tax Revenue

Table 2 below reflects a major increase in **total tax revenue collected in May 2019 by 30 percent to \$26.3 million from \$20.2 million in the previous month.**

TAX REVENUE (\$M)	Jan-19	Feb-19	Mar-19	Apr-19	May-19
Taxes on income	3.7	4.1	5.1	6.9	6.3
Taxes on property	0.04	0.02	0.02	0.03	0.02
Taxes on G & S	13.3	10.3	12.3	11.3	16.6
Taxes on trade	2.8	1.6	2.4	2.1	3.4
Total	19.8	16.0	19.8	20.2	26.3

Table 2: Source: Ministry of Finance

This rise was driven from the **Taxes on Goods and Services** of \$5.3 million in compared to the previous month. This was mainly from the Consumption Tax on Import as well as Excise Tax, which rose by 62 and 63 percent respectively.

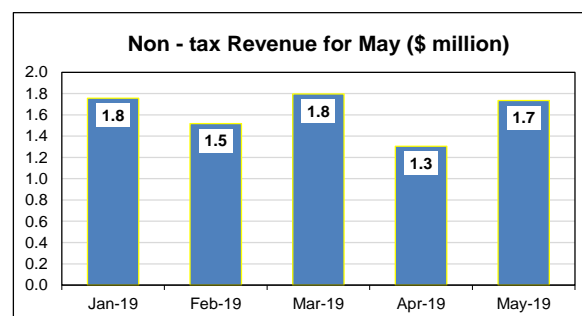


Similarly, the total **Taxes on Trade** reflected a \$1.3 million rise due to the collection of business import duties in May 2019 in compared to the previous month. Although there was a slight fall in government import duties was minimal to affect the increase in the Total Taxes on Trade.

The total **Taxes on Income** indicated a slight decrease by \$0.6 million or 9 percent in May 2019 in compared to the previous month, reflecting a declined in corporate tax received from Large Business.

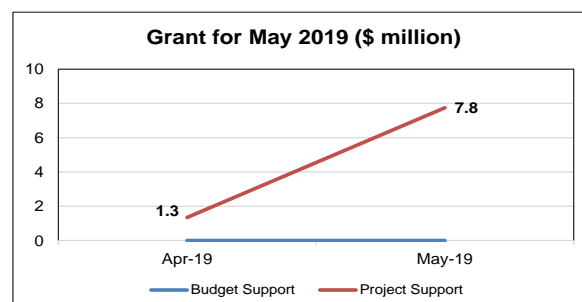
Non-Tax Revenue

The **non-tax revenue recorded for the month May 2019, indicated a small increase by \$0.4 million in compared to April 2019.** The revenue collection in almost all sub categories rose slightly in May largely the sales of goods and services by \$0.2 million—driven by higher receipts from court and visa fees.



Grants

The *Graph* below indicated an increase, by \$6.4 million, in the **total cash grant receipts during May 2019.** The amount received over the reviewed month was from foreign governments and international organisations on various development projects.



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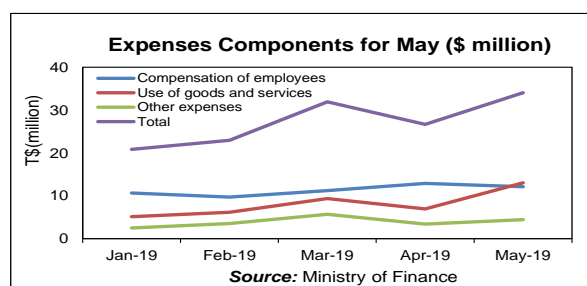
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Expenses

The total expenses recorded in May 2019 increased by 27 percent to \$29.6 million in compared to April 2019, attributed to the accelerated expenses on uses of goods and services and other expenses.

EXPENSES (\$M)	Jan-19	Feb-19	Mar-19	Apr-19	May-19
Compensation of employees	10.6	9.7	11.2	12.9	12.1
Use of goods and services	5.1	6.2	9.4	6.9	13.0
Other expenses	2.5	3.5	5.7	3.4	4.4
Total	18.3	19.4	26.3	23.3	29.6

Table 3 : Source: Ministry of Finance



Specifically, the significant increase—by \$6.1 million shown in graph—in the *Use of goods and services*, (as the largest expense category) in compared to the previous month were for maintenance expenses of buildings & compounds, roads, medical supplies, and medical drug.

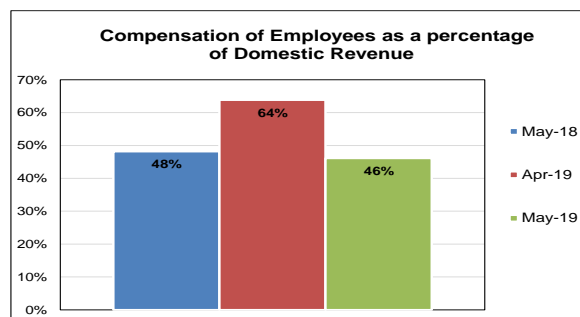
Other expenses included grant expenses to sport activities, subsidies, and constituency also rose by 30 percent.

The *Compensation of employees* (the second largest expenses category) fell by \$0.8 million from \$12.9 million recorded in April 2019. This was attributed to increase staff turnover in the civil service during the month which included retirees, migration and those who were on leave without pay.

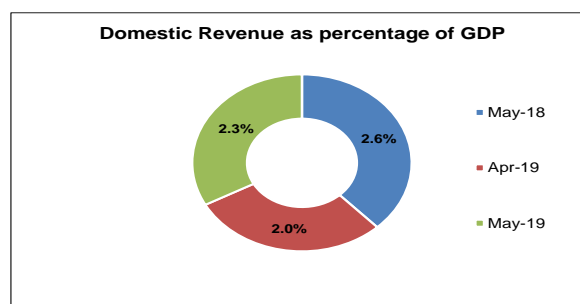
Fiscal Anchors and policy discussion

The monthly performance on the *compensation of employees as a percentage of domestic revenue in* May 2019 was 46 percent. This is lower in compared to the previous month and below the annual target of 53 percent. The target is to maintain below the target in purpose to have

macroeconomic stability.



The monthly *domestic revenue as a percentage of GDP* in May 2019 was 2.3 percent. Although this is slightly above 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.



In summary, Government will continue to execute prudential fiscal measures to monitor expenses and collect more revenue to provide fiscal space for capital investment and growth-enhancing spending and fiscal stability.

Inflation

The annual headline inflation for May 2019 rose by 1.6 percent in compared to the 0.2 percent recorded in the previous month, however, it still remains below the 5 percent reference rate and the 3.8 percent in the corresponding period last year.

Interest rate %	May-18	Apr-19	May-19
All Items	3.8	0.2	1.6
Local	-1.1	-0.1	1.5
Imported	7.5	0.3	1.7

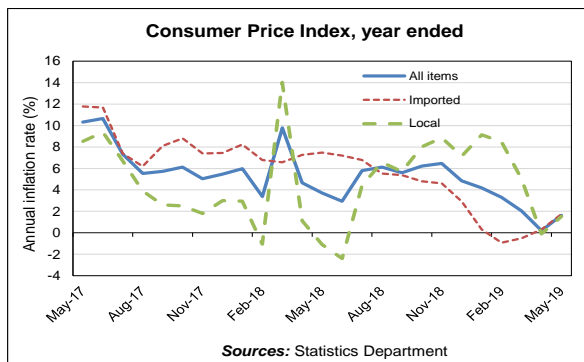
Table 3 : Source: Statistics Department

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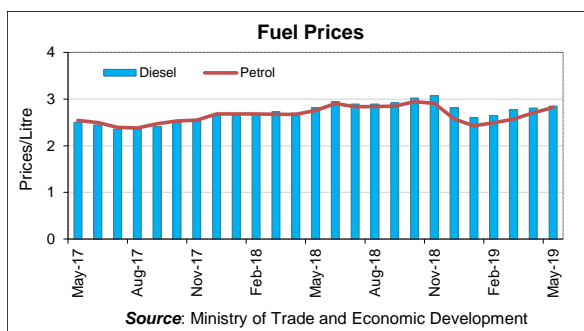
Over the reviewed month, imported prices rose by 1.7 percent due to the increase in global oil prices which implicated on the domestic prices for petrol and diesel. On the other hand, domestic prices decreased attributed to the decline in the prices of local tobacco such as Palataisi cigarettes, root crops and vegetables such as talo, kumara, lu, cabbage and carrots.

On annual basis, both imported and domestic prices rose by 1.7 percent and 1.5 percent respectively. Domestic prices increased mainly due to the higher prices for local tobacco, food and catering services whereas the rise in imported prices were attributed to the increase in prices of imported tobacco, alcohol and fuel.

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 May 2019 increased to \$2.82 and \$2.85 respectively, compared to the level in the previous month and the same period in 2018.



This represents a 4 percent (or 0.11 *seniti*) and 2 percent (or 0.04 *seniti*) increase for both petrol and diesel prices compared to previous month. The increase on annual basis, were by 2 percent (or 0.06 *seniti*) and 1 percent (or 0.04 *seniti*) for petrol and diesel respectively.

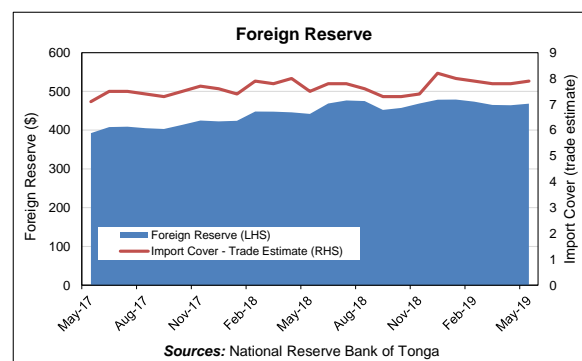
The increase in fuel prices in May 2019 was supported by refinery shutdown in India and South Korea and the increasing supply from China and Taiwan. This rise in fuel prices did have income effect on consumer's purchasing power.

Foreign Reserves

Foreign Reserves increased over the month of May 2019 to \$468.3 million from \$464.2 million in April. The increase reflected the higher level of inflows, mainly from foreign aid and remittances, into the country.

	May-18	Apr-19	May-19
Foreign Reserve (\$m)	441.9	464.2	468.3
Import Cover (trade estimate)	7.5	7.8	7.9

Table 4: Source : Ministry of Finance



The level of foreign reserves for May 2019 is equivalent to 7.9 months of import cover which remains above the NRBT's minimum range of 3-4 months. The 7.9 months of import coverage supports positive outlook for economic growth in in the near term. This is supported by the receipts of government grants as well as the remittance receipts for White Sunday, Mother's and Father's Day.

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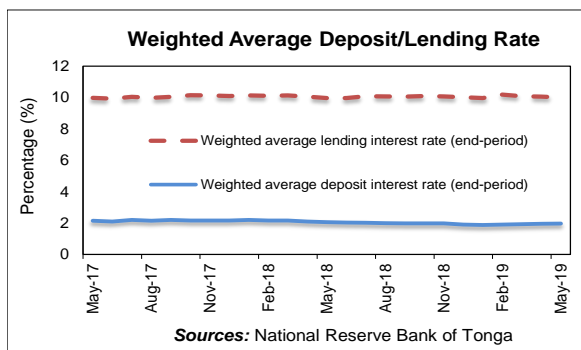


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Interest Rates

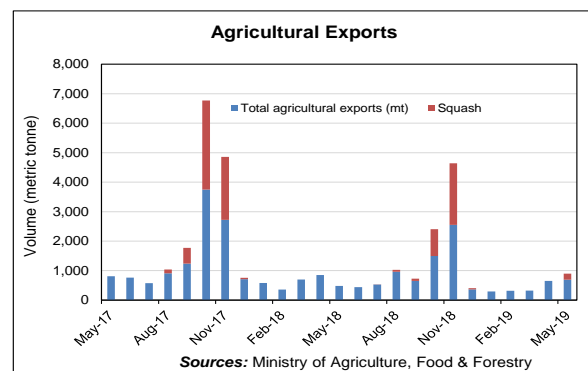
Average interest rate for deposit rose by 1 point percent in May 2019 compared to last month and declined by 12 points percent compared to same period of previous year ago. The increase in monthly deposit rate encourages more saving.

For average interest rate for lending fell by 7 points percent compared to previous month and rose by 14 points percent compared to May 2018. The decrease on monthly comparison was mainly due to fall in both business and housing loan. The increase in annual lending rate may tend to discourage borrowing for the time being and save more.



Agriculture Exports

The provisional data from Customs indicates that Agricultural exports for May 2019 was **increased**, slightly by 6 percent, compared to last month. The increase was from the exports of plant and leaves and root crops such as taro tarua leaves and cassava. However, **44 percent increased compare to May 2018.**



The outlook for agriculture exports is anticipated to be favorable in the near term due to harvesting season for squash pumpkin, yam and fruit and vegetables. The weather uncertainties still remain a risk.

ENDS