

Monthly Economic Update November 2018

Ministry of Finance



Release date:
January 2019

Key Indicators	(T\$ million unless otherwise indicated)			% change	
	Nov-17	Oct-18	Nov-18	Annual	Monthly
FISCAL INDICATORS (Government Financial Statistics (GFS) Basis)					
Revenue	36.2	35.8	45.9	27%	28%
Tax and Non-Tax Revenue	27.9	25.7	22.9	-18%	-11%
Grant (cash grants)	8.4	10.1	23.0	174%	129%
Budget Support	-	9.8	21.9	-	124%
Project Support	8.4	0.3	1.1	-87%	306%
Expenses	18.3	23.4	23.4	28%	0%
Compensation of Employees	10.0	10.4	10.2	3%	-2%
Gross Operating Balance	18.0	13.2	25.4	41%	92%
Net Acquisition of Non-financial Assets	5.2	1.4	0.5	-90%	-64%
Net Lending/Borrowing Requirement	12.8	11.8	24.9	95%	110%
Total Public Debt (\$million)	466.3	N/A	N/A	-	-
ECONOMIC ACTIVITY INDICATORS (OET basis)					
Exports	24.7	N/A	N/A		
Imports	382.3	N/A	N/A		
Adjusted Cash Remittances (Ann Total)	N/A	N/A	N/A		
FISCAL ANCHORS					
Wage bill to domestic revenue to be less than 53% (annual target)	36%	40%	44%	23%	10%
MONETARY & PRICE INDICATORS					
Official Foreign Reserves	424.8	460.9	470.1	11%	2.0%
Remittances (annual total)	300.1	N/A	N/A		
Import Cover - Trade estimate (months)	7.9	7.4	7.5		
Import Cover - OET estimate (months)	9.9	N/A	N/A		
Inflation (annual % change)	5.1	6.2	6.5		
Retail Fuel Prices:					
Petrol (T\$/litre)	2.6	2.9	2.9	14%	-1%
Diesel (T\$/litre)	2.5	3.0	3.07	21%	2%

Highlights:

Fiscal Balance	1
Revenue	1
Expense	2
Fiscal Anchors	2
Inflation	2
Fuel Prices	2
Foreign	
Agricultural Exports	3

Fiscal Stability

As of November 2018, fiscal balances remained favourable. This favourable condition indicates the ongoing tightened management of expenses in respect of slowing revenue collection for the first six months. The Total Revenue recorded in November significantly rose by 28 percent due to receipt of Budget support from donors. Expenses remain the same at \$23.8 million as compared to October 2018.

Tax Revenue

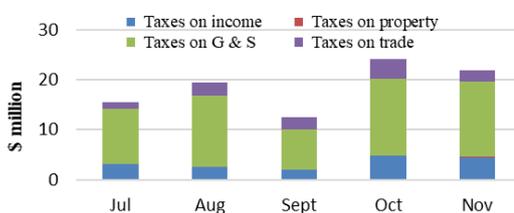
In November 2018, Total tax revenue declined from \$24.02 million to \$21.84 million by 9 percent or \$2.18 million compared to previous month. This reduction led by fall in Taxes on trade by \$1.61 million followed by fall Taxes on income by \$0.33 million and fall in Taxes on Goods and Services by \$0.25 million. This also reflects a fall in PAYE tax-Non-Government (Large/Small business), Consumer Tax-Domestic and Business Import Duties. However, Taxes on Property increased by \$0.01 million reflecting a slight increase in collection of Poundage Land Rental.

Tax Revenue (\$million)	Jul	Aug	Sept	Oct	Nov
Taxes on income	3.10	2.56	2.05	4.86	4.53
Taxes on property	0.04	0.01	0.04	0.02	0.03
Taxes on G & S	10.96	14.27	8.03	15.23	14.98
Taxes on trade	1.31	2.55	2.31	3.91	2.30
Total	15.41	19.39	12.42	24.02	21.84

Grants and Non-Tax

Grants were enormously increased more than 100 percent or \$12.95 million from \$10.06 million to \$23.01 million in November compared to previous month, reflecting the receipt of the World Bank Budget Support.

Tax component for Jul - Nov 2018



Source: Ministry of Finance and National Planning

Other Revenue (\$million)	Jul	Aug	Sept	Oct	Nov
Grants	4.89	1.09	0.76	10.06	23.01
Other revenue	1.38	2.06	1.36	1.71	1.02
Total	6.27	3.15	2.12	11.77	24.03

Non-tax revenue recorded a decline by \$0.68 million or 40 percent compared to previous month. This reduction on Non-tax revenue led by Sales of Goods and Services by 42 percent followed by 38 percent fall in Property income. This is in line with end of school academic year where collection on school fees dropped followed by passport fees.

Non-Tax Revenue (\$million)	Jul	Aug	Sept	Oct	Nov
Property income	0.15	0.31	0.19	0.35	0.21
Sales of G&S	1.10	1.34	1.12	1.26	0.73
Fines, penalties, & forfeits	0.08	0.08	0.05	0.07	0.05
Voluntary transfer other than grant	0.04	-	-	0.00	-
Misc. & unidentified revenue	0.02	0.33	0.00	0.03	0.02
Total	1.38	2.06	1.36	1.71	1.02

Indicators Digest

*Fiscal Balances continuously maintain at favourable level.

*Inflation rate for November 2018 rose by 4.0 percent to 6.5.

*Retail price in November 2018, petrol lower down to \$2.91 per litre and diesel increases to \$3.07 per litre.

*Foreign reserves recorded at TOP\$470.1 million equivalent to 7.5 month of import cover.

Expenses

Expenses recorded in November 2018 fell to \$20.52 million from \$22.57 million in October by 9 percent equivalent of \$2.05 million. Compensation of employees continue as the major Expenses. The reduction was led by 13 percent drop on Use of Goods and Services, followed by drop in Other Expenses and Compensation of employees. This also reflects a significant fall in Training and Conferences in November.

Expenses (\$million)	Jul	Aug	Sep	Oct	Nov
Compensation of employees	9.32	12.63	12.04	10.36	10.17
Use of goods and services	12.06	9.53	6.18	8.04	7.02
Other expense	2.03	3.51	5.70	4.17	3.33
Total	23.41	25.68	23.92	22.57	20.52

Inflation

The annual rate of inflation in November 2018 was 6.5 percent and in October 2018 was around 6.2 percent a slight increase by 3 percent. A significant increase by 28.3 percent compared to the same period of previous year led by huge increase in local food items in root crops, vegetables, marine and animal products and supply to the market. Talo Tonga, Talo Futuna, manioc, kumara, yams were flooded in the market.

INFLATION RATE	Nov-17	Oct-18	Nov-18
All items	94.2	100.7	100.3
Imported	95.5	100.3	99.9
Local	92.6	101.1	100.8

However, this rate remains higher than NRBT's inflation reference target of 5 percent.

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

Fuel Prices

The huge supply and increase in stock level of fuel in Singapore has led to a fall in petrol prices. Prices of petrol increased ahead of crude diesel, kerosene, supported mainly from increasing demand in China and exports reduction from Asia Pacific region. Brent crude oils was around averaged of USD81.15/bbl in October 18.

Petrol prices declined by 3 seniti while diesel prices went up by 5 seniti in November 2018 compared to previous month. In comparison to same period in previous year, prices of petrol went up by 36 seniti while diesel prices went up by 53 seniti.

FUEL PRICES	Nov-17	Oct-18	Nov-18
Petrol	2.55	2.94	2.91
Diesel	2.54	3.02	3.07

This movement in fuel prices is expected to have an impact on fuel related goods in the near period.

Foreign Reserves

For the month of November 2018, the total Foreign Reserves recorded at TOP\$470.1 million, fell by 0.2 percent or \$9.2 million from TOP\$460.9 compared to previous month. However, a significant increase by 11 percent compared to same period of previous year. Foreign reserves remained above the level of \$400 million since June 2017.

	Nov-17	Oct-18	Nov-18
Foreign Reserve	424.8	460.9	470.1
Import Cover	7.9	7.4	7.5

As of November 2018, the level of foreign reserves was equivalent to around 7.5 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.

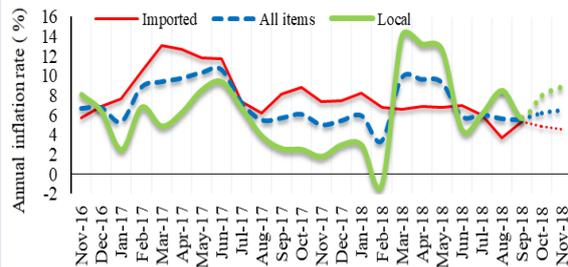
Fiscal Anchors

The monthly performance of wage bill as a percentage of domestic revenue was around 50 percent which is above 46 percent recorded in October 2018; and below the annual target of 53 percent, a good reflection of fiscal management of wage bill. Forecasting of Debt to GDP ratio will remains as there is no further change in the debt level.

Expenses Components for November (\$ Million)



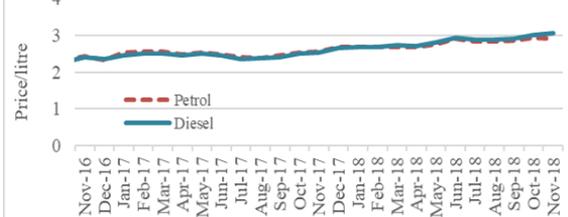
Consumer Price Index, year ended



Source: Statistics Department

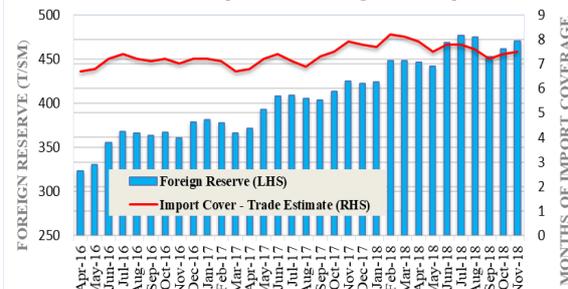
Note: the dotted lines for the last two months (Oct 18 & Nov 18) indicates the new CPI using the base period of September 2018=100.

Fuel Prices



Source: Competent Authority, Ministry of Trade & Economic Development

Foreign Reserves & Import Coverage



Sources: National Reserve Bank of Tonga

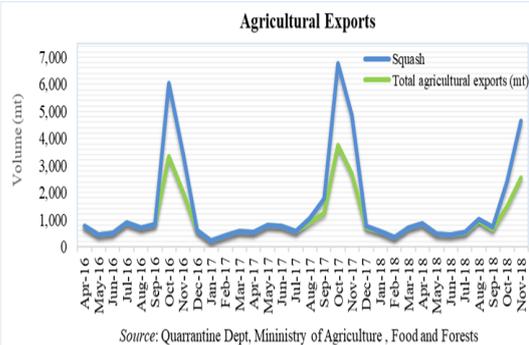
Agricultural Exports

According to the provisional data from Quarantine, the data indicates that volume of Agricultural exports recorded in November 2018 increased by 71 percent compared to previous month. This significant increase is mostly dominated by export of squash followed by sweet potatoes and watermelon accounted for the observed trend. The harvesting season of squash started in October.

A slight decline by 6 percent of monthly exports compared to same period of previous year.

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

	Nov-17	Oct-18	Nov-18
Leaves	4.0	1.4	2.8
Squash	2,137.2	910.5	2,088.3
Root crops	325.7	454.8	322.7
Vegetables and Fruit	217.4	97.6	115.3
Others	35.6	31.9	23.1
Total agricultural exports (mt)	2,719.9	1,496.3	2,552.2



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