

Monthly Economic Update July 2020

Ministry of Finance (MOF)



Government of Tonga

Key Indicators	(T\$m unless otherwise)			% change	
	Jul-19	Jun-20	Jul-20	Annual	Monthly
FISCAL INDICATORS (Government Financial Statistics (GFS) Basis)					
Revenue	21.3	77.8	21.2	-	-73%
Tax	17.4	22.9	16.3	-6%	-29%
Grant (cash grants)	1.6	50.6	3.3	-	-93%
Current Grant	0.0	3.5	0.0	-	-
Capital Grant	1.6	47.1	3.3	-	-93%
Other Revenue (non - tax)	2.2	4.3	1.5	-32%	-64%
Expenses	17.2	47.7	28.5	66%	-40%
Compensation of Employees	10.6	13.7	19.6	84%	43%
Use of Goods and Service	5.2	26.1	6.5	26%	-75%
Interest	0.4	0.5	0.3	-32%	-41%
Subsidies	0.0	0.1	0.0	-100%	-100%
Grant	0.0	0.5	0.1	-	-73%
Social benefits	0.8	1.6	1.4	69%	-12%
Other Expenses	0.1	5.1	0.5	-	-89%
Gross Operating Balance	4.1	30.2	-7.3	-	-
Net Acquisition of Non-financial Assets	0.7	6.0	4.9	-	-18%
Net Lending/Borrowing Requirement	3.3	24.2	-12.2	-	-
Total Public Debt (External & Internal)	475.7	489.9	NA	-	-
FISCAL ANCHORS					
Compensation of Employees to domestic revenue to be less than 53% (annual target)					
monthly performance (%)	54%	50%	110%	-7%	-
ECONOMIC ACTIVITY INDICATORS (OET basis)					
Exports	19.8	17.9	NA	-10%	-
Imports	441.4	417.2	NA	-5%	-
MONETARY & PRICE INDICATORS					
Remittances (annual total)	348.6	351.6	NA	0.9%	-
Official Foreign Reserves	492.9	543.8	555.9	10.3%	2%
Import Cover - Trade estimate (months)	8.0	8.2	8.5	2%	4%
Import Cover - OET estimate (months)	9.7	10.8	NA	11%	-
Inflation (annual % change)	-0.5	-1.4	-1.1	-	-21%
Retail Fuel Prices:					
Petrol (T\$/litre)	2.60	1.97	2.27	-13%	15%
Diesel (T\$/litre)	2.72	2.07	2.30	-15%	11%

Table 1: Source: MOF, NRBT & MTED

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 update on Monday 7th September 2020)

Fiscal Stability

The **Fiscal Balance for the month of July 2020 indicated a deficit of \$12.2 million, a sharp fall from the \$24.2 million surplus in June 2020.**

The **revenue**—both from domestic revenue and grants performance—for the reviewed month (Table 1 above) **reflected a huge decrease of \$56.7 million** (or 73 percent) in comparison to previous month. This is due mainly to the decrease in grants (cash grants). On an annual basis, **total revenue remain constant on by \$4 million** (or 15 percent). The details will be discussed in the Revenue section.

The total monthly **expenses recorded in July 2020 fell significantly by \$19.1 million** (or 40 percent) compared to June 2020 and **increased by \$11.3**

million (or 66 percent) compared to July 2019. The decrease on monthly basis was due to a lower payment on use of goods and services, including grants and other expenses. On annual basis, the increase in total expenses was attributed to the increases in payment to the Compensation of Employees and Social benefits.

In the near term, projected fiscal balance remains uncertain, considering the unknown nature of the coronavirus pandemic, in relation to various economic challenges and implications. As such, Government must work together in collaboration with Development partners and key stakeholders to provide effective mechanisms for utilising and managing resources during these very difficult times, and ensuring financial and macroeconomic stability.

Release Date:

September 2020

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Domestic Revenue

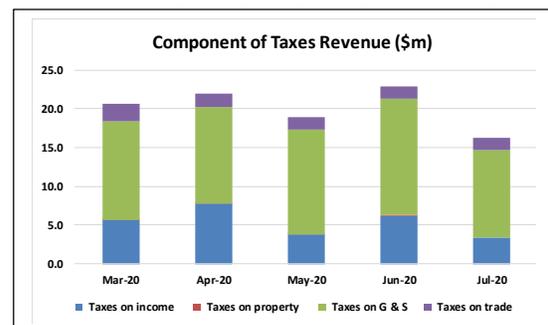
Domestic revenue consists of two components: *tax* and *other revenue*. The majority of domestic revenue is from the revenue collection on taxable items. **In July 2020, 91 percent of total domestic revenue was from the tax revenue and the rest from other revenues.** Generally, the domestic revenue for July 2020 was sufficient to cover the total monthly expenses.

Tax Revenue

Table 2 below reflects a significant fall in total tax revenue collected in July 2020 of 29 percent to \$16.3 million from \$22.9 million from the previous month.

TAX REVENUE (\$M)	Jul-19	Mar-20	Apr-20	May-20	Jun-20	Jul-20
Taxes on income	2.9	5.7	7.8	3.8	6.2	3.4
Taxes on property	0.02	0.02	0.01	0.02	0.04	0.02
Taxes on G & S	12.1	12.7	12.5	13.5	15.0	11.2
Taxes on trade	2.5	2.3	1.7	1.6	1.6	1.7
Total	17.4	20.7	21.9	19.0	22.9	16.3

Table 2: Source: MOF



The downturn movement was mainly due to the fall in *Taxes on Income* by 45 percent from \$6.2 million to \$3.4 million in July 2020. The decline reflects the seasonality impact on Corporate Tax from Large Businesses. Similarly, the total *Taxes on Goods and Services* also decreased by 26 percent mainly from Consumption Tax on Import which fell by 13% to \$4.9 million compared to previous month.

Other Revenue

Table 3 below reflects a huge decrease in other revenue collected in July 2020 by 64 percent to \$1.5 million compared to \$4.3 million from the previous month. This was driven mainly from *Property Income* led by no recorded dividends collected from Public Enterprises (PE's) for the month of July 2020.

OTHER REVENUE (\$M)	Jul-19	Mar-20	Apr-20	May-20	Jun-20	Jul-20
Property income	0.7	0.1	0.6	1.5	2.7	0.2
Sales of G&S	1.3	1.3	0.8	0.9	1.4	1.2
Fines, penalties, & forfeits	0.0	0.0	0.1	0.2	0.2	0.1
than grant	0.0	0.1	0.1	0.0	0.0	0.1
Misc. & unidentified revenue	0.2	5.0	0.3	0.0	0.0	0.0
Total	2.2	6.6	1.9	2.6	4.3	1.5

Table 3: Source: MOF

The revenue collection from *Fines, penalties, & forfeits* and *Sales of goods and services* also decreased by \$0.1 million and \$0.2 million respectively compared to the previous month.

Grants

Table 4 below reflects the total cash grant receipts in July 2020, totalled to \$3.3 million. There was no current grant received in the month of July and only a small amount received on capital grant

GRANT (\$M)	Jul-19	Mar-20	Apr-20	May-20	Jun-20	Jul-20
Current Grant	0.0	0.0	5.8	0.0	27.6	0.0
Capital Grant	3.1	6.0	34.1	14.6	23.0	3.3
Total	3.1	6.0	39.9	14.6	50.6	3.3

Table 4: Source: MOF

Expenses

The total expenses recorded in July 2020 decreased by \$19.1 million to \$28.5 million in compared to June 2020, attributed to the beginning of the new financial year.

EXPENSES (\$M)	Jul-19	Mar-20	Apr-20	May-20	Jun-20	Jul-20
Compensation of	10.6	16.5	11.0	11.6	13.7	19.6
Use of goods and services	5.2	13.2	6.8	13.4	26.1	6.5
Interest	0.4	2.5	0.5	0.1	0.5	0.3
Subsidies	0.0	0.0	0.0	0.1	0.1	0.0
Grants	0.0	0.2	0.1	0.3	0.5	0.1
Social Benefit	0.8	2.1	1.9	1.4	1.6	1.4
Other expenses	0.1	0.9	1.0	3.4	5.1	0.5
Total	17.2	35.5	21.3	30.5	47.7	28.5

Table 5: Source: MOF

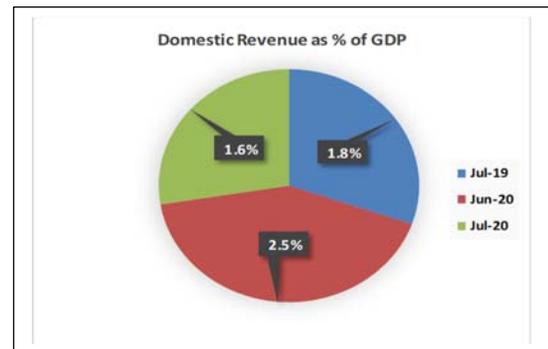
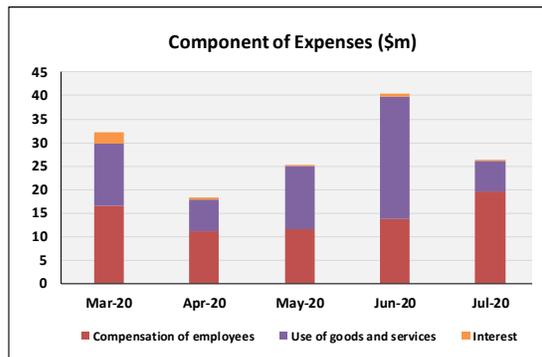
The following graph shows the decrease in the payment for Use of goods and services from \$26.1 million in June to \$6.5 million in July 2020. This was attributed to a decrease in payment for consultants & technical assistant fees including overseas travel as they both decrease by 87 percent and 58 percent respectively from the previous month due to the boarder restricted from COVID 19.

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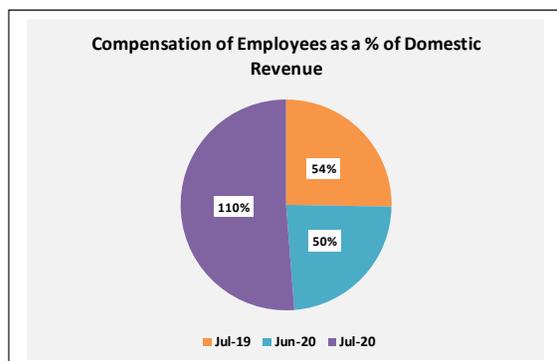
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On the other hand, *Compensation of employees* increased by 43.1 percent to \$19.6 million compared to the previous month. This was attributed by an increase by 75 percent in payment for salaries due to the new post start on the new financial year.

Fiscal Anchors and policy discussion

The monthly performance on the *compensation of employees as a percentage of domestic revenue* in July 2020 was 110 percent (refer Table 1). This is so much higher in comparison to the previous month, and over the annual target of 53 percent, which is not a good sign. A call is given to government to continue exercising prudent fiscal measures in order to maintain macroeconomic stability and fiscal sustainability.



The monthly domestic revenue as a percentage of GDP in July 2020 was 1.6 percent, which was below the level in June 2020. We anticipated pick up in revenue collections given the ongoing reforms to improve the revenue administration and collection for the rest of the financial year. The set annual target is at least 22 percent of GDP and with this month's rate, there is hope to achieve the target going forward.

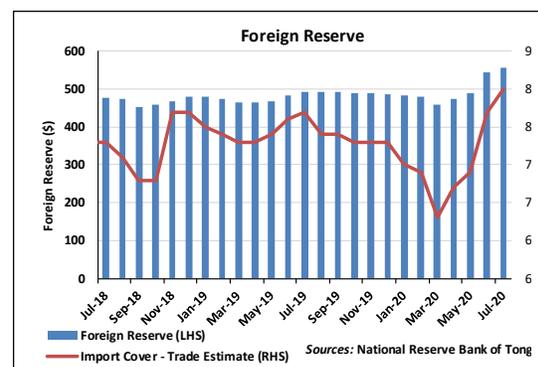
Moreover, other related factors include the impact of COVID-19 and recent TC Harold in revenue collection; the exemption of duty/excise and CT on all imports of food items and goods for personal hygiene, goods for combatting COVID-19, building materials and capital goods for tourism business operators. Regardless of all the sudden challenges Government continues to monitor expenses to ensure appropriate measures are put in place, considering the unprecedented current situation.

Foreign Reserves

The Foreign Reserves increased over the month of July 2020 to \$555.9 million from \$543.8 million in June. This surge in reserves reflected the higher level of inflows, mainly from grants for the preparation for COVID-19 and remittances, into the country.

	Jul-19	Jun-20	Jul-20
Foreign Reserve (\$m)	492.9	543.8	555.9
Import Cover (trade estimate)	8.2	8.2	8.5

Table 4: Source : National Reserve Bank of Tonga



The level of foreign reserves for July 2020 is equivalent to 8.5 months of import cover, which

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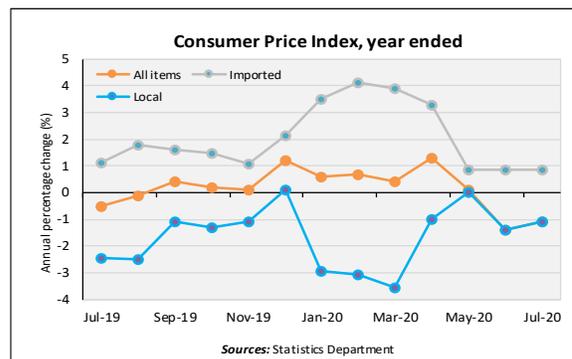
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remains above the NRBT's minimum range of 3-4 months. The 8.5 months of import coverage supports positive outlook for economic growth in the near term. The receipts of government grants as well as project funds support this.

Inflation Rates

The annual average inflation to July 2020 stood at 0.2 percent; remain on the same level from the annual average inflation of 0.2 percent in June 2020 and a declined from 3.5 percent in July 2019.

The annual headline inflation for July 2020 declined by 1.1 percent (deflation) compared to the 0.5 percent deflation recorded in July 2019 while the monthly prices increased by 0.5 percent from the previous month prices of June 2020 (-1.2 percent). The deflation of 1.1 percent in July 2020 is well below the NRBT reference rate of 5 percent and the annual average inflation to July 2020 at 0.2 percent.

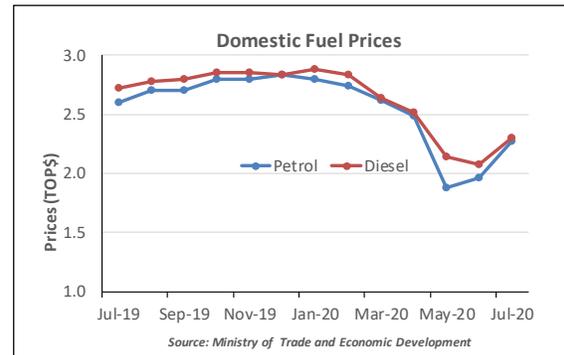


On annual basis, the deflation of 1.1 percent was mainly caused by the decrease in domestic prices contributing a -1.0 percent and the import prices fell contributing -0.1 percent to the overall deflation in July 2020. The decrease in domestic prices was mainly due to decreases in prices of kava Tonga and the lower price of electricity and some root crops whereas decline in imported prices were attributed to the decrease in prices of food such as fruits and vegetables.

The monthly prices increased by 0.5 percent from the previous month prices of June 2020 (-1.2 percent). Over the reviewed month, import prices contributed 0.9 percent while local prices contributed -0.4 percent to the monthly inflation of 0.5 percent.

Fuel Prices

The domestic retail prices for petrol and diesel in July 2020 increased to \$2.27 (from \$1.97) and \$2.30 (from \$2.07) respectively, compared to June 2020.



This represents 15.7 percent (or 0.31 *seniti*) and 11.1 percent (or 0.23 *seniti*) increase in both petrol and diesel prices. On an annual basis, prices for petrol and diesel fell by 12.7 percent (or 0.33 *seniti*) and 15.4 percent (or 0.42 *seniti*) respectively.

The increase in fuel prices in July 2020 was due to the increase on duty for fuel by 10 cents effective on 1st July 2020 and the crude oil prices rose by USD 11.46/bbl higher than in May.

Outlook and policy response

It is anticipated that in the coming months, both fiscal and economic indicators will continue to reflect the unprecedented threats posed by the COVID-19 crisis and the impacts due to TC Harold.

The Government continues to closely monitor the continuous impacts of COVID-19 to better manage the available limited resources.

ENDS