

Monthly Economic Update August 2020

Ministry of Finance (MOF)



Government of Tonga

Key Indicators	(T\$m unless otherwise indicated)			% change	
	Aug-19	Jul-20	Aug-20	Annual	Monthly
FISCAL INDICATORS (Government Financial Statistics (GFS) Basis)					
Revenue	24.0	20.7	23.6	-1%	14%
Tax	18.4	15.8	17.3	-6%	10%
Grant (cash grants)	3.4	3.3	4.4	29%	34%
Current Grant	-	-	-	-	-
Capital Grant	3.4	3.3	4.4	29%	34%
Other Revenue (non - tax)	2.2	1.6	1.9	-14%	17%
Expenses	25.8	19.7	24.4	-5%	24%
Compensation of Employees	12.1	11.0	11.6	-4%	5%
Use of Goods and Service	8.7	6.6	9.4	7%	42%
Interest	0.4	0.3	0.5	6%	51%
Subsidies	0.01	-	0.004	-39%	-
Grant	-	0.1	0.2	-	37%
Social benefits	2.1	1.1	1.3	-38%	15%
Other Expenses	2.5	0.5	1.5	-38%	185%
Gross Operating Balance	-1.8	1.0	-0.8	-56%	-185%
Net Acquisition of Non-financial Assets	1.6	4.9	3.7	125%	-24%
Net Lending/Borrowing Requirement	-3.5	-3.9	-4.5	29%	14%
Total Public Debt (\$m) (External & Domestic)	487.7	NA	NA	-	-
FISCAL ANCHORS					
Compensation of Employees to domestic revenue to be less than 53% (annual target)					
monthly performance (%)	58.9%	63.4%	60.4%	3%	-5%
ECONOMIC ACTIVITY INDICATORS (OET basis)					
Exports	20.6	17.3	NA	-	-
Imports	441.7	416.4	NA	-	-
MONETARY & PRICE INDICATORS					
Remittances (annual total)	349.9	355.8	NA	-	-
Official Foreign Reserves	491.8	555.9	556.1	13%	0%
Import Cover - Trade estimate (months)	8.1	8.5	8.5	5%	0%
Import Cover - OET estimate (months)	9.6	11.2	NA	-	-
Inflation (annual % change)	-0.1	-1.1	-1.6		
Retail Fuel Prices:	0.0	0.0	0.0	-	-
Petrol (T\$/litre)	2.7	2.3	2.4	-11%	6%
Diesel (T\$/litre)	2.8	2.3	2.4	-12%	6%

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. (Fiscal data based on last update on Thursday 4th November 2020)

Fiscal Stability

The Fiscal Balance for the month of August 2020 indicated a deficit of \$4.5 million, further decline from deficit of \$3.9 million in July 2020 and \$3.5 million deficit in August 2019.

The monthly revenue collection for the reviewed month was increased (Table 1 above) by 2.9 million (or 14.2 percent) compared to the previous month. The increase was due to higher collections from both tax and cash grants received. On an annual basis, total revenue declined slightly by \$0.3 million (or 1.4 percent). This is mainly due to the significant fall in the collections of domestic revenue (in both tax and other revenue), which offsets the cash grants

received during the reviewed period compared to August 2019. The details will be discussed in the Revenue section.

The total monthly expenses recorded in August 2020 was increased by \$4.7 million (or 24 percent) compared to July 2020 however, decreased by \$1.4 million (or 5.3 percent) compared to August 2019. The rise on monthly basis was due to higher spending on the use of goods and services and other expenses. However, the decline on an annual basis was due to low level of spending on social benefits and other expenses from August 2019.

In the near term, projected fiscal balance remains uncertain, considering the unpredictability

Release Date:

November 2020

HIGHLIGHT:

Fiscal Balance	1
Revenue	2
Expense	2
Fiscal anchors	3
Foreign Reserves	3
Inflation Rates	4
Fuel prices	4

Monthly Economic Update August 2020

Ministry of Finance (MOF)



Government of Tonga

surrounding the availability of a safe and effectiveness vaccine, which poses a significant economic and social 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.

Domestic Revenue

The total domestic revenue collected in August 2020 was 10 percent higher compared to July 2020, however, lower by 6 percent compared to August 2019. At end of the review month, 90.2 percent of domestic revenue were from the revenue collection on taxable items. In general, the total domestic revenue collected in August 2020 was able only to cover 78.6 percent of its respective expenses.

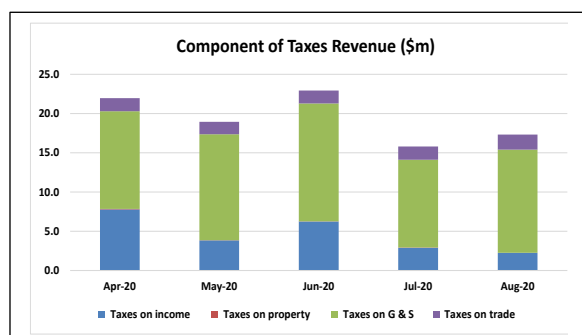
Domestic revenue consists of two components: *tax* and *other revenue*.

Tax Revenue

Tax revenue performance in August 2020 increased slightly by 10 percent to \$17.3 million from \$15.8 million in the previous month, however, decreased by 6 percent compared to August 2019, as shown in Table 2 below.

TAX REVENUE (\$M)	Aug-19	Apr-20	May-20	Jun-20	Jul-20	Aug-20
Taxes on income	2.8	7.8	3.8	6.2	2.9	2.3
Taxes on property	0.05	0.01	0.02	0.04	0.02	0.02
Taxes on G & S	13.4	12.5	13.5	15.0	11.2	13.1
Taxes on trade	2.1	1.7	1.6	1.6	1.7	1.9
Total	18.4	21.9	19.0	22.9	15.8	17.3

Table 2: Source: MOF



On monthly basis, this slight improvement was mainly due to the significant increase in *Taxes on Goods and Services* by 18 percent from \$2.0 million to \$13.1 million largely from Consumption Tax-Import from previous month.

This had net offs the declining in *Taxes on Income* by 0.6 million for the reviewed period in comparing to previous month, and was mainly from decline in collections from “withholding Tax (non-residents) “and “tax debts recovered (corporate)” in August 2020.

The decrease on an annual comparison reflected the spill over effects of COVID-19 pandemic through lower collections from *Taxes on income*—particularly from *Corporate Taxes*, down by an average of 75 percent, from both small and large businesses (mainly from tourism related businesses)—and on *trade*—as no collections from passenger service charge during the reviewed month.

Other Revenue

Table 3 below reflects a slight increase in other revenue collected in August 2020 by 17.4 percent to \$1.9 million compared to \$1.6 million in the previous month. This was driven mainly from *Property Income* led by collection from renting of Upper Air Space for the month of July 2020.

OTHER REVENUE (\$M)	Aug-19	Apr-20	May-20	Jun-20	Jul-20	Aug-20
Property income	0.3	0.6	1.5	2.7	0.2	0.4
Sales of G&S	1.5	0.8	0.9	1.4	1.2	1.3
Fines, penalties, & forfeits	0.1	0.1	0.2	0.2	0.1	0.1
Voluntary transfer other than grant	0.0	0.1	0.0	0.0	0.1	0.1
Misc. & unidentified revenue	0.3	0.3	0.0	0.0	0.1	0.0
Total	2.2	1.9	2.6	4.3	1.6	1.9

Table 3: Source: MOF

Grants

Table 4 below reflects the total cash grant receipts in August 2020, totalled to \$4.4 million, and was solely from capital grant—that is for ongoing projects. This implies a \$1.1 million (33.7 percent) rising in total grant received for the reviewed period in comparison to the previous month

GRANT (\$M)	Aug-19	Apr-20	May-20	Jun-20	Jul-20	Aug-20
Current Grant	0.0	5.8	0.0	27.6	0.0	0.0
Capital Grant	3.4	34.1	14.6	23.0	3.3	4.4
Total	3.4	39.9	14.6	50.6	3.3	4.4

Table 4: Source: MOF

Expenses

The total expenses recorded in August 2020 a significant increase by \$4.7 million to \$24.4 million in comparison to July 2020 while decrease by \$1.4 million compared to August 2019 as illustrated in Table 5 below.

Monthly Economic Update August 2020

Ministry of Finance (MOF)



Government of Tonga

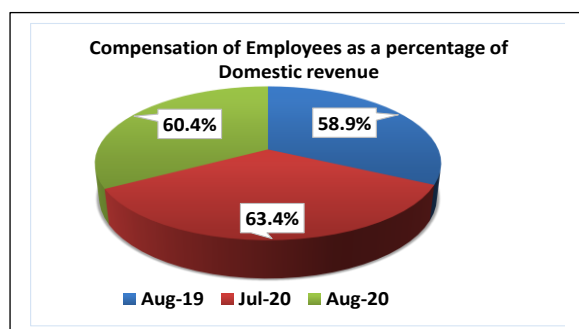
EXPENSES (\$M)	Aug-19	Apr-20	May-20	Jun-20	Jul-20	Aug-20
Compensation of employees	12.1	11.0	11.6	13.7	11.0	11.6
Use of goods and services	8.7	6.8	13.4	26.2	6.6	9.4
Interest	0.4	0.5	0.1	0.5	0.3	0.5
Subsidies	0.0	0.0	0.1	0.1	0.0	0.0
Grants	0.0	0.1	0.3	0.5	0.1	0.2
Social Benefit	2.1	1.9	1.4	1.6	1.1	1.3
Other expenses	2.5	1.0	3.4	5.1	0.5	1.5
Total	25.8	21.3	30.5	47.7	19.7	24.4

Table 5 : Source: MOF

The following graph shows slightly increase in the payment for *Compensation of Employees* from \$11.0 million in July to \$11.6 million in August 2020. This was attributed largely to an increase in payment for overtime expense by \$0.4 million (64.5 percent) compared to previous month.

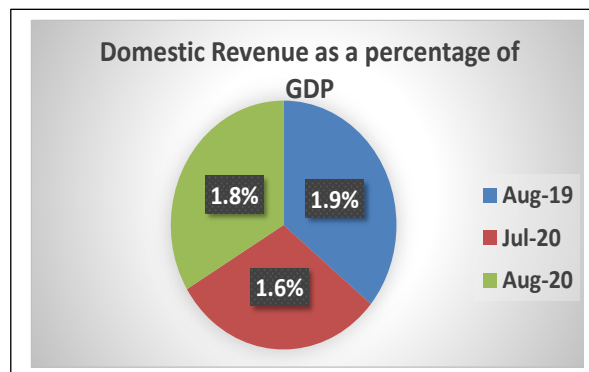
Fiscal Anchors and policy discussion

The monthly performance on the *compensation of employees as a percentage of domestic revenue* in August 2020 was 60.4 percent (refer Table 1). This is slightly lower by 3.1 percent in comparison to the previous month, however still exceeded the annual target of 53 percent. Hence, government continues its efforts to closely monitor and implement prudent fiscal measures in order to maintain macroeconomic stability and fiscal sustainability.



The monthly *domestic revenue as a percentage of GDP* in August 2020 was 1.8 percent, slightly higher by 0.2 percent than the level recorded in July 2020. The reviewed period is the second month of the financial year and the set annual target – of at least 22 percent of GDP – can be achieved if we will continue to go higher and/or not lower than this level (on monthly basis). We anticipated a potential increase in revenue collections in the medium term, associated with the ongoing reforms to improve the revenue

administration and collection. However, the challenges post by the pandemic and frequency of natural disaster on to the economy remains.



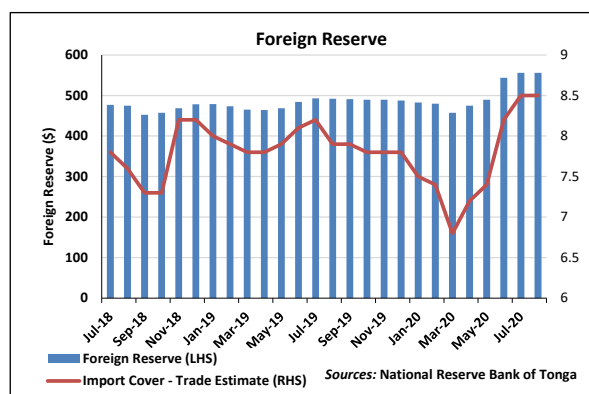
Government continues to closely monitor expenses to ensure appropriate measures are put in place, considering the unprecedented current situation.

Foreign Reserves

The **Foreign Reserves increased over the month of August 2020 to \$556.1 million from \$555.9 million in July**. This surge in reserves reflected the higher level of inflows into the country, mainly from receipts of the budget support, relief and project funds from development partners in addition to remittances.

	Aug-19	Jul-20	Aug-20
Foreign Reserve (\$m)	491.8	555.9	556.1
Import Cover (trade estimate)	7.9	8.5	8.5

Table 4: Source : National Reserve Bank of Tonga



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

Monthly Economic Update August 2020

Ministry of Finance (MOF)



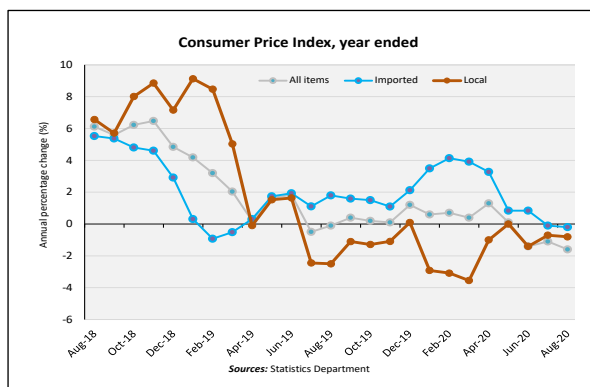
Government of Tonga

in the medium term. Majority of foreign reserves are held in US dollar.

Inflation Rates

The annual average inflation to August 2020 stood at 0.1 percent; indicates the deflation from the annual average inflation of 0.2 percent in July 2020 and from 3.0 percent in August 2019.

The annual headline inflation for August 2020 declined by 1.6 percent (deflation) compared to the 0.1 percent deflation recorded in August 2019. Similarly, on monthly basis, it has further deflated by 0.1 percent from the previous month consumer price index (CPI) of July 2020 (98.9). The deflation of 1.6 percent in August 2020 is well below the NRBT reference rate of 5 percent.



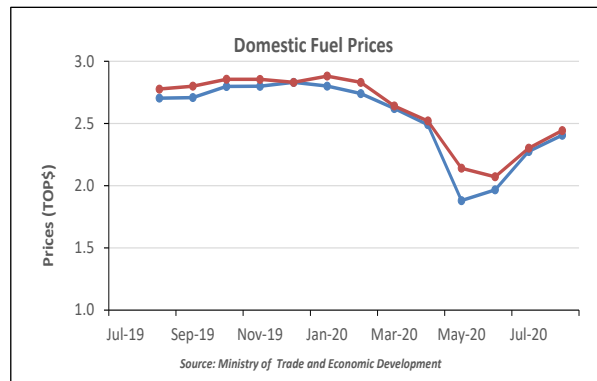
On annual basis, the deflation of 1.6 percent was mainly caused by the decrease in domestic prices contributing a 3.4 percent and the import prices fell contributing 0.2 percent to the overall deflation in August 2020. The decrease in domestic prices was mainly due to the decrease in prices of local food such as root crops (cassava and yam -early), vegetables (capsicum, tomatoes), octopus and kava Tonga. The decline in imported prices were attributed to the decrease in prices of imported meats (chicken legs and turkey tails) as well as cheaper imported fuel and diesel.

The decline in the monthly prices by 0.1 percent from the previous month prices of July 2020 was driven by the decrease in import prices, by 0.7 percent, while local prices contributed -1.1 percent to the monthly inflation of August 2020.

Fuel Prices

The domestic retail prices for petrol and diesel

in August 2020 increased to \$2.40 (from \$2.27) and \$2.44 (from \$2.30) respectively, compared to July 2020.



This represents 5.7 percent (or 0.13 *seniti*) and 6.2 percent (or 0.14 *seniti*) increase in both petrol and diesel prices. On an annual basis, prices for petrol and diesel fell by 11.0 percent (or 0.30 *seniti*) and 12 percent (or 0.33 *seniti*) respectively.

The increase in fuel prices in August 2020 was due to the increase in international prices rise combined with 2020 annual review with further increase the price of all grades.

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.

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

ENDS