

Monthly Economic Update November 2021

Ministry of Finance (MOF)



Government of Tonga

Key Indicators	(T\$m unless otherwise indicated)			% change	
	Nov-20	Oct-21	Nov-21	Annual	Monthly
FISCAL INDICATORS (Government Financial Statistics (GFS) Basis)					
Revenue	30.3	26.0	38.0	25.4%	46.2%
Tax	19.1	20.2	28.0	47%	38.6%
Grant (cash grants)	8.7	3.0	8.2	-6%	-
Current Grant	0.0	0.0	0.0	-	-
Capital Grant	8.7	3.0	8.2	-6%	-
Other Revenue (non - tax)	2.5	2.8	1.8	-28%	-36%
Expenses	33.5	35.2	39.4	17%	12%
Compensation of Employees	11.8	15.8	13.6	15.3%	-13.9%
Use of Goods and Service	19.1	14.3	17.9	-6%	25%
Interest	0.1	0.2	0.1	0%	-50%
Subsidies	0.2	0.15	0.06	-70%	-60%
Grant	0.5	0.2	0.0	-	-
Social benefits	1.1	2.1	1.5	36.4%	-28.6%
Other Expenses	0.7	2.4	6.2	786%	-
Gross Operating Balance	-3.2	-9.2	-1.4	-58%	-85.1%
Net Acquisition of Non-financial Assets	9.9	2.8	3.3	-67%	17.9%
Net Lending/Borrowing Requirement (Financing)	-13.1	-12.0	-4.7	-64.4%	-61.0%
Total Public Debt (External & Domestic) (\$million)	492.9	499.7	499.4	1.3%	0.0%
FISCAL ANCHORS					
Compensation of Employees to domestic revenue to be less than 53% (annual target)					
monthly performance (%)	55%	69%	46%	-	-
ECONOMIC ACTIVITY INDICATORS (OET basis)					
Exports (\$million)	13.2	13.9	13.9	5%	0.0%
Imports (\$million)	420	500.1	503.2	20%	0.6%
MONETARY & PRICE INDICATORS					
Remittances (annual total)	386.5	485.6	490.0	27%	1%
Official Foreign Reserves	590.2	757	783.9	33%	4%
Import Cover - Trade estimate (months)	10.9	12.1	12.4	14%	2%
Import Cover - OET estimate (months)	9.0	9.3	16.1	79%	73%
Inflation (annual % change)	-0.8	7.2	8.2	-	-
Retail Fuel Prices:					
Petrol (T\$/litre)	2.42	3.01	3.26	35%	8%
Diesel (T\$/litre)	2.33	2.94	3.15	35%	7%

Table 1: Source: MOF, NRBT & MTED

Note: Fiscal data are provisional (unless indicated) and are still subject to change until audited. Note also that some indicators were not available at the time this report was prepared. (Fiscal data based on last update on November 2021)

Fiscal Stability

The provisional **Fiscal Balance for November 2021** dropped to a **\$4.7 million deficit** compared to the **\$12.0 million deficit** recorded in **October 2021**.

The **total revenue** – both from domestic revenue and grants performance – **for the reviewed month** (Table 1 above) **showed an increase to \$38.0 million** (or 46.2 percent) compared to the previous month. Annually, **total revenue increased by \$7.7 million** (or 25.4 percent). The details will be discussed in the Revenue section.

The total monthly **expenses recorded in November 2021** showed an **increase of \$4.2 million** (or 12 percent) compared to October 2021. Simultaneously, this is a **\$5.9 million** (or 17

percent) **increase** compared to the same period last year.

The increase in expenses was due mainly to higher spending on *Uses of goods and services*. On an annual basis, the increase was primarily linked to higher spending on the *Compensation of employees*.

The fiscal stability remains uncertain, given the doubts raised by the pandemic prolonged impacts and the closure of the borders. The Government, therefore, continues to actively ensure that the fiscal objectives are consistent with macroeconomic stability considering the circumstances. At the same time, the collaboration and co-operation with our development partners are highly recommended.

Release Date:

January 2022

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Domestic Revenue ¹

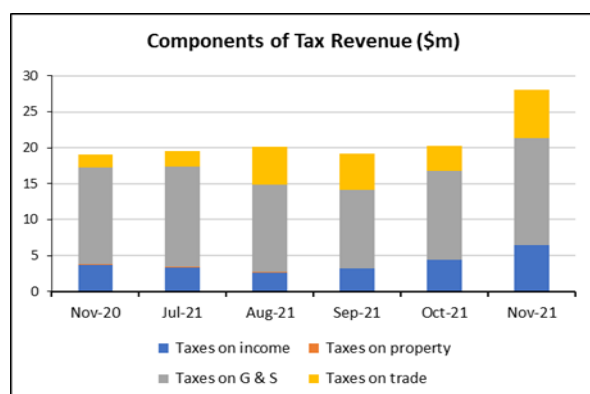
In November 2021, **74 percent of total domestic revenue was from the tax revenue** and the rest was from grants and other sources of revenue. Overall, the increase in the domestic revenue for the reviewed month was still insufficient to meet the total monthly expenses.

Tax Revenue

Table 2 below indicates a rise of **39 percent** in total tax revenue collected in November 2021 by **\$7.8 million**, compared to \$20.2 million in October 2021. On an annual basis, the tax revenue increased by \$9.0 million.

Tax Revenue (\$M)						
Component of Tax	Nov-20	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21
Taxes on income	3.7	3.4	2.7	3.2	4.4	6.5
Taxes on property	0.02	0.02	0.04	0.03	0.02	0.02
Taxes on G & S	13.5	14.0	12.2	11.0	12.4	14.8
Taxes on trade	1.8	2.2	5.2	5.0	3.4	6.7
Total	19.1	19.6	20.1	19.2	20.2	28.0

The increase was mainly sourced from the **Taxes on Trade**, up from \$3.4 million to \$6.7 million in November 2021, a rise of \$3.3 million. This was largely derived from **Business Import Duties** of \$3.3 million, due to more businesses importing, especially for end-of-years functions.



Correspondingly, **Taxes on Goods & Services** also increased during the month attributed to high revenue from the **Consumption Taxes** collected from imported goods and services by \$3.2 million. This reflects the ongoing implementation of the Electronic Sales Register System (ESRS).

The **Taxes on Income** increased as well by \$2.1 million driven by revenue collected from **Tax Debts Recovered** from Corporate by \$1.4 million.

However, **Taxes on Property** decreased during the review month but only by a minimal amount.

Non-Tax Revenue

The non-tax revenue recorded for the month of November 2021 indicated a **decrease by \$1.0 million** (Table 3) compared to October 2021, and \$0.7 million on annual performance.

Non-Tax Revenue (\$M)						
Components of Other Revenue	Nov-20	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21
Property income	1.3	0.1	0.2	0.2	1.4	0.9
Sales of G&S	1.0	0.9	1.5	0.99	1.02	0.80
Fines, penalties, & forfeits	0.064	0.10	0.07	0.061	0.063	0.08
Voluntary transfer other than grant	0.1	0.001	0.01	0.0	0.006	0.002
Misc. & unidentified revenue	0.0	0.3	0.02	0.1	0.3	0.0
Total	2.5	1.4	1.8	1.3	2.8	1.8

This was mainly due to lower income received from all of the indexes of non-tax revenue, led by **Property Income** of \$0.4 million mostly from the **Interest** category. The **Sales of Goods & Services** also decreased by \$0.2 million, which is attributed to fewer **Administrative Fees** such as **School Fees**, **Operation/Exam Fees**, **Fishing License and fees**, and **Passport Fees**. Additionally, **Misc. & unidentified revenue** decreased, with no records of **Royalty Fees** compared to the previous month.

Grants

The total cash grant receipts for November 2021, **increased by \$5.2 million** (Table 4) compared to October 2021. This was mainly from **Capital Grant** only, as no records of **Current Grants** were received in November 2021.

Grant (\$M)						
	Nov-20	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21
Current Grant	0.0	0.0	0.0	0.0	0.0	0.0
Capital Grant	8.7	2.6	0.5	5.5	3.0	8.2
Total	8.7	2.6	0.5	5.5	3.0	8.2

Capital grants received during the month were mainly \$2.5 million from IFAD and \$3.3 million World Bank/International Development Agency (IDA) for various development projects.

¹ Domestic revenue consists of two components: *tax* and *non-tax revenue*. The majority of domestic revenue is from the revenue collection on taxable items.

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Expenses

The total expenses recorded in November 2021 rose to \$39.4, up from \$35.1 million in the previous month by \$4.3 million. This was mainly due to higher spending on the *Use of goods and services*. On annual basis, total expenses recorded an increase of \$5.8 million.

Component of Expenses	Expenses (\$M)					
	Nov-20	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21
Compensation of employees	11.8	12.0	13.1	12.7	15.8	13.6
Use of goods and services	19.15	8.85	14.26	13.37	14.26	17.9
Interest	0.1	0.3	0.5	0.2	0.2	0.1
Subsidies	0.2	0.0	0.0	0.1	0.2	0.06
Grants	0.5	0.0	0.1	0.1	0.2	0.0
Social Benefit	1.12	1.26	1.35	2.01	2.15	1.5
Other expenses	0.7	0.7	1.0	0.7	2.4	6.2
Total	33.6	23.1	30.3	29.1	35.1	39.4

Table 4: Source: MOF

The higher spending on the *Use of goods and services* of \$3.6 million was primarily from payments on *Other Special Projects* by \$2.5 million followed by *Rental* expenses of \$1.7 million. This reflected the ongoing housing reconstruction from TC Harold, and the road maintenance program.

At the same time, *Other Expenses* payments also increased during the month by \$3.8 million mainly from *Subsidies* and *Government Development Project Costs*.

However, the spending on *Compensation of employees* fell by \$2.3 million, with *Salaries* falling by \$1.7 million and *Overtime* payments by \$0.6 million. This improvement indicates the ongoing monitoring of overtime costs with the support of the new policy implemented, together with focusing on recruitment of critical posts only.

Furthermore, spending on *Grants*, *Interest* and *Subsidies* all decreased during the review month but at a minimal amount.

Fiscal Anchors and policy discussion

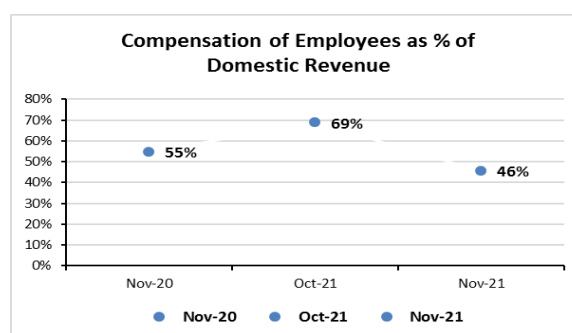
The monthly performance on the *compensation of employees as a percentage of domestic revenue* in November 2021 was 46 percent (refer Table 1). This is favorable, compared to the previous month, and achieves the annual target of no greater than 53 percent.

By comparison to November 2020, the monthly performance was 55 percent, which is only 2

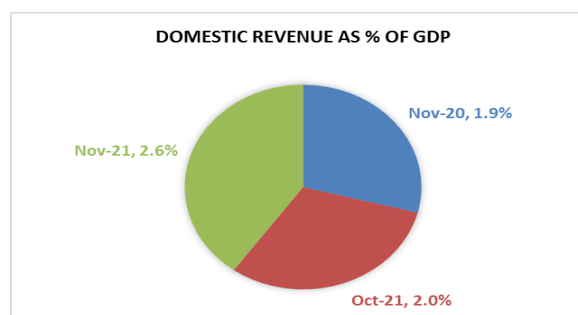
percent higher than the annual target.

This improvement reflects the ongoing monitoring of the new policy for overtime payments and the monitoring of wage bills.

Therefore, the government continues its efforts to manage the public sector wage bill to align the actual commitments below the fiscal anchor.



The monthly *domestic revenue as a percentage of GDP* in November 2021 was 2.6 percent, which is higher than both levels recorded in October 2021 and November 2020.



The government continues to implement policy measures to strengthen the revenue collection and promote economic recovery within the available resources.

Foreign Reserves

The *Foreign Reserves* rose sharply to \$783.9 million during the month of November 2021, an increase of 3.6 percent from \$757 million recorded in October 2021. This is an increase of 33 percent compared to the same period last year.

The level of foreign reserves for the reviewed month is equivalent to 12.4 months of import cover on the trade estimate, meaning Tonga remains at adequate levels. This stems from high

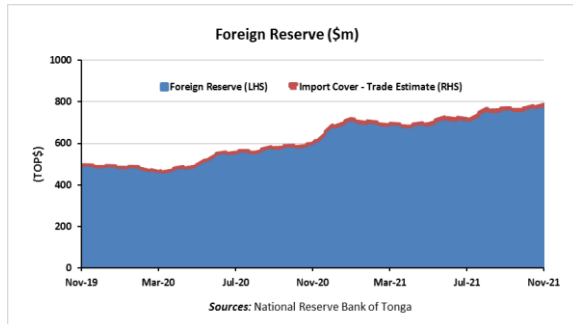
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remittance inflow to the country from seasonal workers as well as family and relatives overseas. The majority of the foreign reserves are held in USD, AUD, and NZD.

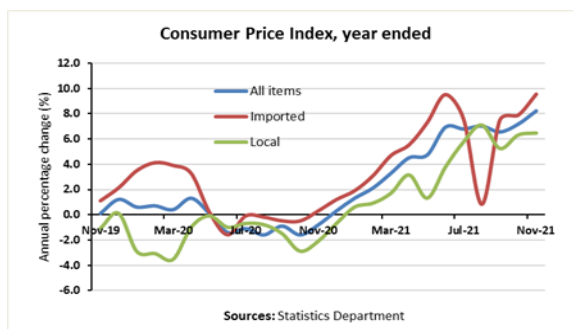


In the near term, the foreign reserves are projected to rise, supported by strong levels of money transferred from seasonal workers to support their families, especially during the coming Christmas events.

Inflation Rates

The annual headline inflation rate for November 2021, increased to 8.2 percent compared to 7.2 percent inflation in October 2021. This is higher compared to 0.8 percent deflation in November 2020, and above the NRBT's target of 5 percent reference rate.

The increase on monthly basis was attributed to the increase in import index prices by 1.6 percent and local index price by 0.9 percent. This is mainly due to higher prices of electricity, paint, cement and roofing iron. In addition, higher prices were recorded for fuel and some of the food items such as reef fish (*Fua*), octopus, tomatoes, early yam, and chicken leg.



The continuous rise is directly caused by high international commodities prices and also the impact of the pandemic.

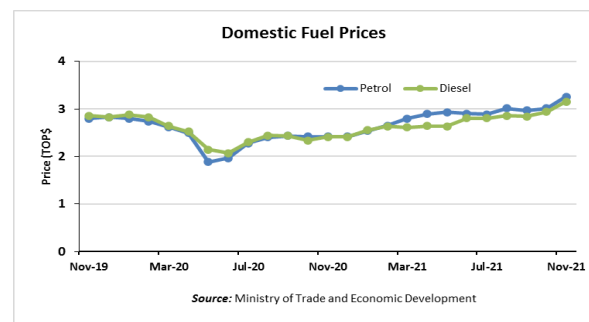
On the outlook, the inflation levels will remain high due to the ongoing pandemic which disrupted the imported prices of goods and services. The rising global oil and food prices also pose a risk to inflation rates.

Fuel Prices

The domestic retail prices for petrol in November 2021 increased to \$3.26 from \$3.01, and diesel rose to \$3.15, up from \$2.94, compared to October 2021.

This reflects an increase of 0.25 *seniti* in the price of petrol and a 0.21 *seniti* in diesel during the review month compare to the previous month.

On an annual basis, prices for both petrol and diesel increased by 0.8 and 0.7 *seniti* respectively.



This rise was reflected by the increase in the crude prices in November to USD81.05/bbl. This increase is caused by loosening pandemic-related restrictions and recovering international economies, resulting in global petroleum demand rising faster than petroleum supply. This impact affects Tonga, including the freight rates.

On the outlook, fuel prices are expected to continue rising in the near future. The Government through the Competent Authority will continually monitor the movements in prices on a month-to-month basis

Outlook and policy response

The government will continue to observe prudence in fiscal management and prioritization of essential activities. This includes continuing the proactive application of fiscal responses, to offset the negative impacts of the pandemic and other crises on the economy.

ENDS