

Monthly Economic Update October 2020

Ministry of Finance (MOF)



Government of Tonga

Key Indicators	(T\$m unless otherwise indicated)			% change	
	Oct-19	Sep-20	Oct-20	Annual	Monthly
FISCAL INDICATORS (Government Financial Statistics (GFS) Basis)					
Revenue	43.9	32.3	31.0	-29%	-4%
Tax	24.4	19.2	22.0	-10%	15%
Grant (cash grants)	11.5	11.8	3.6	-69%	-70%
Current Grant	0.0	0.0	0.0	-	-
Capital Grant	11.5	11.8	3.6	-69%	-70%
Other Revenue (non - tax)	8.0	1.3	5.5	-32%	335%
Expenses	28.8	26.9	32.7	14%	22%
Compensation of Employees	13.1	12.1	16.1	23%	33%
Use of Goods and Service	11.4	11.5	13.9	22%	21%
Interest	0.2	0.5	0.0	-100%	-100%
Subsidies	0.1	0.01	0.03	-75%	206%
Grant	0.0	0.3	0.1	-	-71%
Social benefits	1.6	1.7	1.5	-4%	-11%
Other Expenses	2.5	0.8	1.1	-55%	39%
Gross Operating Balance	15.1	5.4	-1.7	-111%	-132%
Net Acquisition of Non-financial Assets	2.7	7.0	7.8	188%	12%
Net Lending/Borrowing Requirement (Financing)	12.4	-1.6	-9.6	-177%	500%
Total Public Debt (External & Domestic) (\$million)	486.8	NA	NA	-	-
FISCAL ANCHORS					
Compensation of Employees to domestic revenue to be less than 53% (annual target)					
monthly performance (%)	40%	59.1%	58.6%	-	-
ECONOMIC ACTIVITY INDICATORS (OET basis)					
Exports (\$million)	21.5	14.7	13.7	-36%	-6.8%
Imports (\$million)	430.9	411.1	416.3	-3%	1.3%
MONETARY & PRICE INDICATORS					
Remittances (annual total)	350.6	369.2	378.5	8%	2.5%
Official Foreign Reserves	489.3	576.5	581.6	19%	0.9%
Import Cover - Trade estimate (months)	7.5	10.0	9.7	29%	-3.0%
Import Cover - OET estimate (months)	9.5	11.7	11.9	25%	1.7%
Inflation (annual % change)	0.2	-0.9	-1.6	-	-
Retail Fuel Prices:					
Petrol (T\$/litre)	2.8	2.4	2.4	-14%	-1%
Diesel (T\$/litre)	2.9	2.4	2.3	-18%	-4%

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 Monday 14th December 2020)

Fiscal Stability

The Fiscal Balance for the month of October 2020 indicated a deficit of \$9.6 million, a further decline from the deficit of \$1.6 million in September 2020.

The monthly revenue collection for the reviewed month decreased slightly (Table 1 above) by \$1.2 million (or 4 percent) compared to the previous month. The decrease was due to lower collections from excise tax and cash grants received. On an annual basis, total revenue declined significantly by \$12.9 million (or 29 percent). This is mainly due to the significant fall in the collections of domestic revenue (in both tax and other revenue). The details will be discussed in the Revenue section.

The total monthly expenses recorded in October 2020 increased by \$5.9 million (or 22 percent)

compared to September 2020 and, increased by \$4.0 million (or 14 percent) compared to October 2019. The rise on both monthly and annual basis was due to higher spending on compensation of employees and the use of goods and services.

In the near term, projected fiscal balance remains uncertain, considering the unpredictability surrounding the availability of a safe and effectiveness vaccine, which poses 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.

Release Date:

January 2021

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Domestic Revenue

The total domestic revenue collected in October 2020 was 15 percent higher compared to September 2020, though, lower by 10 percent compared to October 2019. At end of the review month, 71 percent of domestic revenue was from the revenue collection on taxable items. In general, the total domestic revenue collected in October 2020 was able only to cover 84 percent of its respective expenses.

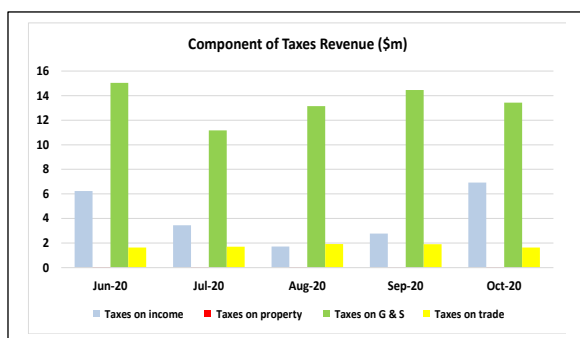
Domestic revenue consists of two components: *tax* and *other revenue*.

Tax Revenue

Tax revenue performance in October 2020 increased slightly by 15 percent to \$22.0 million from \$19.2 million in the previous month, however it decreased by 10 percent compared to October 2019, as shown in Table 2 & Graph 1 below.

TAX REVENUE (\$M)	Oct-19	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20
Taxes on income	6.0	6.2	3.4	1.7	2.8	6.9
Taxes on property	0.03	0.04	0.02	0.02	0.02	0.03
Taxes on G & S	15.9	15.0	11.2	13.1	14.5	13.4
Taxes on trade	2.4	1.6	1.7	1.9	1.9	1.6
Total	24.4	22.9	16.3	16.8	19.2	22.0

Table 2: Source: MOF



On monthly basis, this slight improvement was mainly due to the significant increase in *Taxes on Income* by \$4.1 million largely on Corporate Tax from Large Business, follow by the collections from "Withholding Tax" (non-residents).

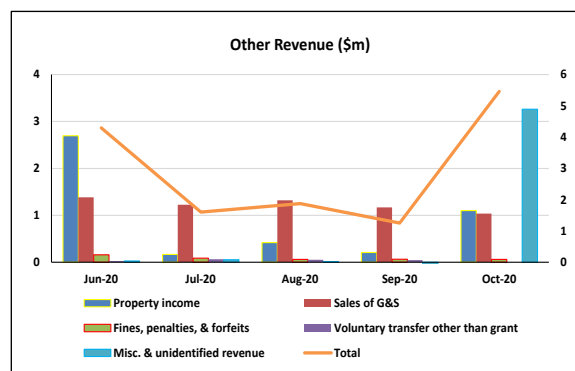
However, the total *Taxes on Trade* and *Taxes on Goods & Services* decreased by 14% (mainly from Business Import Duties) and 7% (mainly from Excise Tax) respectively.

On annual basis, all tax components fell except *Taxes on Income* which increased by 14 percent.

The decrease on an annual comparison reflected the spill over effects of COVID-19 pandemic on international trade.

Other Revenue

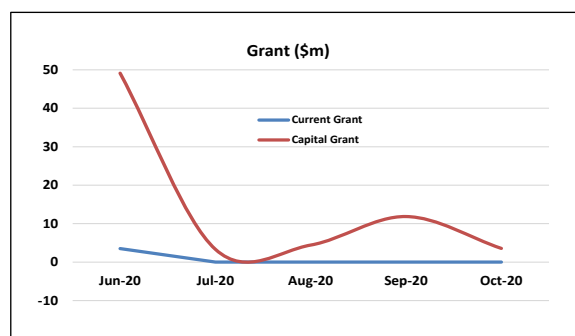
Graph 2 below reflects a significant increase in other revenue collected in October 2020 of \$4.2 million to \$5.5 million compared to \$1.3 million in the previous month. This is driven by *Miscellaneous & unidentified revenue*, which is the payment of NRBT annual dividend to Government.



The revenue collection from *Property income* also increased by \$0.9 million driven by \$1.0 million received on the FFA Treaty, which is the share that the government receive twice a year from the Pacific Fishing Agency.

Grants

Graph 3 below reflects the total cash grant receipts in October 2020, totalling to \$3.6 million, and was solely from capital grant – that is for ongoing projects. This implies a \$8.3 million (70 percent) decline in total grant received for the reviewed period in comparison to the previous month.



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Expenses

The total expenses recorded in October 2020 showed a significant increase by \$5.9 million to \$32.7 million in comparison to September 2020. This is attributed to the accelerated expenses on compensations of employees follow by the uses of goods and services, as illustrated in Table 3 below.

EXPENSES (\$M)	Oct-19	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20
Compensation of employees	13.1	13.7	12.7	10.1	12.1	16.1
Use of goods and services	11.4	26.2	6.8	9.9	11.5	13.9
Interest	0.2	0.5	0.3	0.5	0.5	0.0
Subsidies	0.1	0.1	0.0	0.004	0.0	0.0
Grants	0.0	0.5	0.1	0.2	0.3	0.1
Social Benefit	1.6	1.6	1.4	1.0	1.7	1.5
Other expenses	2.5	5.1	0.5	1.5	0.8	1.1
Total	28.8	47.7	21.9	23.3	26.9	32.7

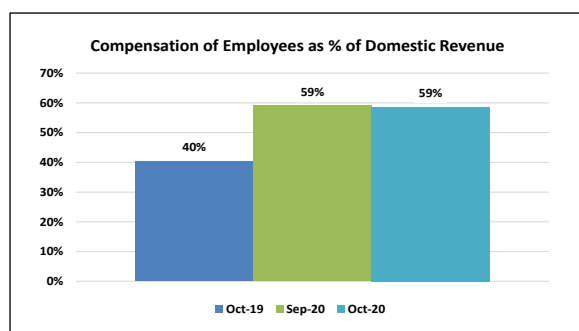
Table 3 : Source: MOF

Specifically, the increase by \$4.0 million in the *Compensation of employees*, (as the largest expenses category) compared to September 2020. This was attributed largely to an increase in payment for Wages and salaries by \$3.6 million.

Similarly, the *Uses of Goods and Services* (the second expenses category) also increase by \$2.4 million. This is mainly contributed from Consultants & Technical Assistant Professional Fees by \$1.1 million follow by the Hire of Heavy Machinery for road maintenance.

Fiscal Anchors and policy discussion

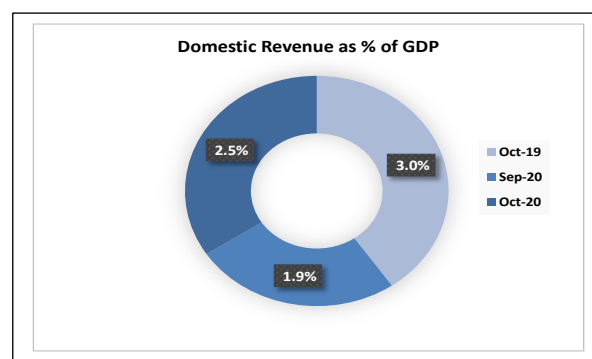
The monthly performance on the *compensation of employees as a percentage of domestic revenue* in October 2020 was 59 percent (refer Table 1). This is slightly lower by 0.8 percent in comparison to the previous month, however still exceeded the annual target of 53 percent. Hence, government continues 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 October 2020 was 2.5 percent, slightly

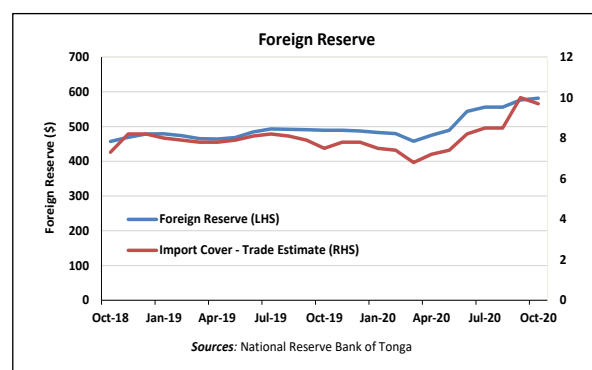
higher by 0.6 percent than the level recorded in September 2020. The reviewed period is the fourth month of the financial year and the set annual target – of at least 22 percent of GDP – can be achieved if we will continue to go higher and/or not lower than this level (on monthly basis).

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.



Foreign Reserves

The Foreign Reserves increased over the month of October 2020 to \$581.6 million from \$576.5 million in September. This rose was mainly from the receipt of budget support, project grant funds and remittance.



The level of foreign reserves for October 2020 is equivalent to 9.7 months of import cover, which remains above the NRBT's minimum threshold of 3-4 months. The 9.7 months of import coverage supports positive outlook for economic growth in in the medium term. Majority of foreign reserves are held in US dollar.

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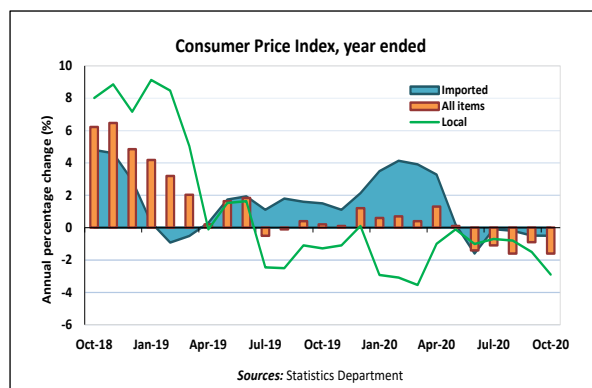
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Inflation Rates

The annual headline inflation remains negative in October 2020 of 1.6 percent compared to 0.9 percent deflation in previous month. The annual inflation for the same month of previous year, October 2019, was 0.2 percent inflation.



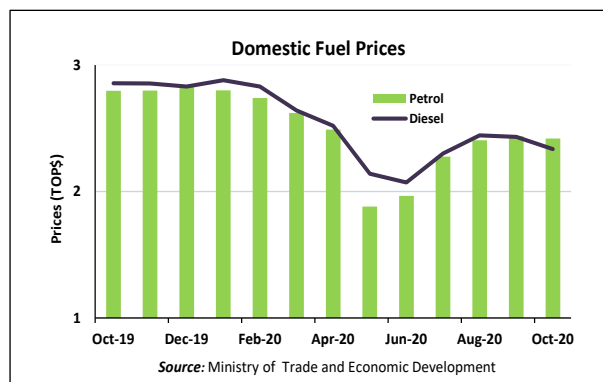
Over the review month, domestic prices fell as a result of declining in prices for food items such as roots crops and vegetables. However, imported prices rose over the month due to higher food prices.

On annual basis, both imported and local prices decreased. This is mainly due to the decline in price for electricity, gas & other fuel, kava Tonga and food items.

The future outlook, annual headline inflation is expected to remain deflation through out the year of 2020.

Fuel Prices

The domestic retail prices for petrol and diesel in October 2020 decreased to \$2.42 (from \$2.44) and \$2.33 (from \$2.43) respectively, compared to September 2020.



This represents 0.7 percent (or 0.02 *seniti*) and 4.0 percent (or 0.10 *seniti*) decrease in both petrol and diesel prices. On an annual basis, prices for petrol and diesel fell by 13.5 percent (or 0.40 *seniti*) and 18.2 percent (or 0.5 *seniti*) respectively.

The fall in fuel prices in October 2020 was a result of international price change flows through to a lower retail prices for all product.

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.

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