GOVERNMENT OF TONGA

# "Economic and Financial Update"

(July 2022—December 2022)

A. ECONOMIC UPDATE

Domestic Economy

The Tongan economy was estimated to be further contracted by –3.1 percent in FY2022, compared to the initial forecast of -2.7 percent. The downward revision was attributed to the substantial disruptions in economic activities in the key Economic sectors (agriculture , fisheries and tourism), due to the damages caused by HTHH eruption, COVID-19 containment measures, ongoing delay in shipment schedules, impact of inflation, labour migration and the shortage in containers available for exports.

The outlook is positive, with an annual GDP growth projected to re-bound to 2.4 percent in FY2023, led by the ongoing recovery and re-construction activities and the expected pick-up in the tourism activities following the re-opening of border. On the fiscal side, the Government remains prudent in its fiscal policy and response ,complimenting the generous support by Development Partners have helped the economy to stay afloat and protecting the vulnerable groups.
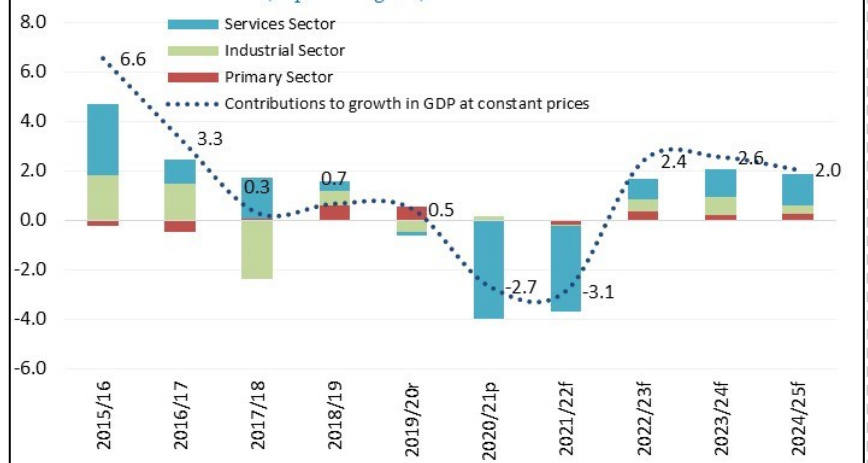

Economic growth (%) in real term
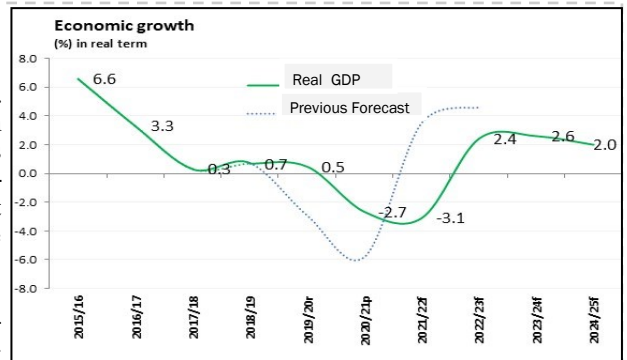
Global Economy

A slowdown in the global growth from 6.0 percent in 2021 to 3.2 percent in 2022 and 2.7 percent in 2023 (IMF-WEO October 2022 update). This was due to the cost-of-living crisis, tightening financial conditions in most region, Russia's invasion of Ukraine, and the lingering COVID-19 pandemic. The global downturn has negative impacts on the domestic economy particularly reflected on the increase inflation, higher cost of remittances and imports .

The following table/chart outlines key selected economic indicators to describe the current economic situation for the period.

◊   **Primary**: FY2023, projects a negative growth of –0.1%, reflecting the impacts on exports due to the ongoing delay in shipment schedules, Labour migrations and scarce in available containers for exports.

◊   **Industrial**: FY2023, projects growth of 3.3%, reflecting the HTHH recovery reconstruction and progress made on major projects reconstruction such as Ports Development project.

◊   **Services:** FY2023 projects growth of 1.5%, factoring the pick-up in the Tourism sector activities following the re-opening of border.

◊   The **outlook** is positive— expected to recover at an average of 2.6 percent. This is through building resilient in recovery and local investment.

Economic Growth and Sectors' Contribution

GDP growth and Sectors' contribution to growth (In percentage, %)

◊   **Inflation** declined, however forecast to remain above the reference target of 5 percent at the end FY2023

◊   **Foreign Reserve** remains steady ,mainly due to all development projects and budget support receipts.

◊   **Remittances** is projected to be on the rise, taking into account the continuous labour mobility schemes work opportunities to Australia and New Zealand.

Selected Key Economic Indicators

Period	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
Inflation(%)	13.1	13.8	14.0	13.1	11.1	9.2
Domestic(%)	11.2	13.9	16.7	16.6	14.5	11.7
Imported (%)	14.5	13.8	11.9	10.4	8.6	7.3
Foreign Reserves ($mil)	884.8	871.0	895.3	877.0	866.2	868.9
Import Cover (Trade)	14.3	14.1	14.2	13.9	15.2	13.5
Remittances ($mil)	472.6	477	478.9	475.8	477.6	-

MONETARY INDICATORS

Foreign Reserves
- Foreign reserves was comfortable at $866.2M (13.5 month of imports)
  - Remittances are helping to offset import payments.
- External overall balance[1] recorded a deficit of -$10.8 million
- Current payments[2] higher than current receipts by $11M

Banking System
- Broad Money increased by $0.6M
  - Credit to private sector rose by $9.6M
  - Adequate capital and high liquidity is maintained.
  - Non-performing loans to loans ratio fell slightly to 6.4%.
- The total financial system reported a lower net profit.

Global Prices
- Average oil price declined to US$81.27/barrel in Dec. 2022 (from US$91.51).
- Oil prices expected around USD$90/barrel in Q1.
- Food prices generally declined but commodity prices are starting to rebound.

[1,2] *Note: Based on Overseas Exchange Transactions reported by banks and authorized foreign exchange dealers.*

Domestic Inflation
- Annual headline inflation eased further from 13.1% to 11.1% in November 2022.
- Improved local food supply reducing inflation.
- Global food prices also reducing imported inflation.

Exchange Rates
- USD/TOP was higher but TOP weakened against the other major currencies
- Both the NEER and REER declined over the month.

Liquidity & Interest Rates
- Higher Deposits increased excess liquidity to $352M from $330M .
- Interest rates spread widened further by 3.7 bps
- Lending to riskier businesses driving lending rates up.

Labour Market
- Job vacancies advertised fell by 11.8%
- Vacancies were mostly in public administration
- Seasonal Worker program continue to put pressure on the labour market

Source : National Reserve Bank of Tonga

Period	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
Monthly Exchange Rates						
AUD/TOP	0.6185	0.6126	0.6249	0.6437	0.6345	0.6306
EUR/TOP	0.4167	0.421	0.4218	0.4164	0.4105	0.4023
FJD/TOP	0.9182	0.9156	0.918	0.9247	0.9238	0.9257
GBP/TOP	0.3534	0.3551	0.3685	0.3624	0.3562	0.3493
JPY/TOP	58.0608	57.6226	59.757	60.2	59.5709	57.5987
NZD	0.6849	0.681	0.7041	0.7204	0.6909	0.6701
USD	0.4254	0.4276	0.4192	0.4108	0.4197	0.4265
WST/TOP	1.1877	1.188	1.1897	1.2018	1.1973	1.1951
CNY/TOP	2.865	2.9053	2.9371	2.9508	3.0138	2.9767
Interest Rates						
Deposit rates						
Weighted average deposit interest rate (end-period)(%)	**1.63**	**1.64**	**1.66**	**1.63**	**1.62**	
12-month term (%)	3.5	3.52	3.49	3.49	3.49	
Savings (%)	2.33	2.34	2.35	2.33	2.35	
Term (%)	2.93	2.92	2.94	2.94	2.94	
Lending rates						
Weighted average lending rate (end-period)	**7.73**	**7.76**	**7.88**	**8.21**	**8.23**	
Housing loan interest rate (end-period)	8.09	8.11	8.12	8.13	8.13	
Business loan interest rate (end-period)	7.13	7.18	7.43	8.31	8.34	

Source : National Reserve Bank of Tonga

B. FINANCIAL UPDATE

Recurrent Budget Performance (July- December 2022)

RECURRENT BUDGET (T$ MILLIONS)	Original Budget 2022/23($mil)	Forecast for Jul-Dec 2022/23 ($mil)	Actual for Jul-Dec 2022/23 ($mil)	Variance 2022/23(Jul-Dec)(%)	Variance 2022/23(Jul-Dec)($mil)	Forecast for Jan-Jun 2022/23 ($mil)	Budget Received and Spent (%)
Revenues	**341.8**	**145.6**	**152.3**	**4.7**	**6.8**	**168.6**	**44.6**
Domestic Revenues	303.3	145.6	152.3	4.7	6.8	153.4	50.2
Tax	*245.7*	*122.9*	*132.8*	*8.1*	*10.0*	*124.3*	*54.0*
Income Tax	48.2	24.1	23.8	-1.2	-0.3	30.1	49.4
Trade Taxes	23.3	11.65	12.2	4.3	0.5	7.5	52.4
Tax on Goods & Services	106.6	53.3	63.5	19.1	10.2	53.8	59.6
Excise Tax	67.6	33.8	33.3	-1.5	-0.5	32.9	49.3
Non-Tax	*57.6*	*22.7*	*19.5*	*-14.1*	*-3.2*	*29.1*	*33.9*
Fees & Licenses	28.2	14.1	13.4	-5.0	-0.7	11.6	47.5
Entrepreneurial& Property	11.6	2.8	0.6	-78.6	-2.2	7.2	5.2
Miscellaneous	1.2	0.6	0.3	-50.0	-0.3	0.1	25.0
Capital & Transfers	16.6	5.2	5.2	0.0	0.0	10.2	31.3
Budget Support	38.5	0.0	0.0	0.0	0.0	15.2	0.0
Expenditures	**437.1**	**215.2**	**178.0**	**17.3**	**37.2**	**219.1**	**40.7**
Wage Bill	172.9	86.5	80.8	6.6	5.7	85	46.7
Operations	204.1	102.1	71.9	29.6	30.2	101.6	35.2
Assets	16.5	8.3	6.9	16.9	1.4	8.4	41.8
Debt	43.6	18.4	18.4	0.0	0.0	24	42.2
Balance	**-95.3**	**-69.6**	**-25.7**		**43.9**	**-50.5**	
Financing	**65.0**	**65.0**	**64.0**		**-1.0**	**12.2**	
Loan receipts (IMF RCF)	22.0	22.0	21.0		-1.0	0.0	
World Bank additional sup.	43.0	43.0	43.0		0.0	0.0	
DFAT additional sup.	-	-	-		-	12.2	
Bond issuance	-	-	-		-	-	
Sinking Fund	-	-	-		-	-	
Cash Reserves	30.3	4.6	-38.3		-42.9	-	
Balance + financing	-	-	-		-	-	

- *Benchmark for revenue* collection in Jul-Dec is 42.6%, of which actual collection has reached 44.6% or 2% points higher; mainly due to consumption tax on imports under the Tax on Goods & Services category.

- *Benchmark for spending* in Jul-Dec is 49.2%, of which actual spending has reached 40.7% or 8.5% points lower; mainly from the operations category including delays in implementing special projects under the Ministry of Finance's vote e.g. PPP, HTHH, Illicit drugs etc.

- In terms of *financing*, $64m has been received during Jul-Dec out of the target $65m for the whole FY2023; which has been able to finance a deficit of $25.7m during Jul-Dec, resulting in a $38.3m surplus. However, in the remaining months of Jan-Jun, it is expected that there will be a deficit of $50.5m, of which will be financed from the remaining $38.3m surplus in Jul-Dec and an additional $12.2m expected to be received from DFAT as additional budget support.

Most recent official data

	No
Employment (15+)	
Employed Population	28,598
male	16,153
female	12,445
urban	6,871
rural	14,534
By age Group :	
15-24	4131
25-64	23,091
65 +	1,377
Labour force participation rate (%)	
By age group: 15-24	24.4
25-64	61
65 +	23
Total unemployment rate(%)	3.1
Source : Labour Force Survey 2018, Statistics Department	
Total Established Staff	6262
Total Civil Servants	6390
Total Contract Staff	1001
Daily Labour	809
Professional Contracts	189
Source : MOF, Statistics Department	
Total Number of Labour Mobility workers	
RSE(NZ scheme)	539
PALM(Australia scheme)	927
Source :Overseas Employment Division,August 2022(Labour Sending Unit,MIA	
Household main remitter being seasonal workers	
Total Household	13072
Yes	3349
No	9723
Source : Census of Population 2021, Statistics Department	
Education (School Attendance (3 yrs +))	
Total	86969
Pre-school	5264
Primary	17995
Lower Secondary	22537
Upper Secondary	26049
Technical & Vocational	4805
Tertiary & University	10318
Current attending School	36408
Not Currently Attending school	50561
Highest level of schooling	
Source : Census of Population 2021, Statistics Department	

Social Indicator	Current Status	Government Approach
Unemployment Rate	◊ From the 2018 LFS [1}, it is estimated that about 906 people aged 15 and over were unemployed. This gives an overall unemployment rate of 3.1 percent (906). This is diminishing from 5.2 percent (1,900) in 2013 LFS.	✓ Ensure constant increase in new employment opportunities for young population.
Poverty Rate	◊ Poverty rate stood at $3.10 per day according to Statistics Department report in November, 2018. ◊ About 3 percent (around 3,200 Tongans) of Tonga's population are classified as poor households as estimated by the United Nation [2].	✓ Government targets support through the provision of; • Water tank • Sanitation facilities • Solar-power ✓ Government subsidies, relief support; • Electricity • Poor Household • Vulnerable Groups

[1]   Labour Force Survey—Tonga Statistics Department.
[2]   Voluntary National Review Report on Tonga's Progress under SDGs, United Nations, 2019.