

# Monthly Economic Update April 2022

## Ministry of Finance (MOF)



Government of Tonga

Key Indicators	(T\$m unless otherwise indicated)			% change	
	Apr-21	Mar-22	Apr-22	Annual	Monthly
<b>FISCAL INDICATORS</b> (Government Financial Statistics (GFS) Basis)					
<b>Revenue</b>	<b>25.9</b>	<b>33.5</b>	<b>61.5</b>	138%	83%
Tax	19.2	15.5	18.7	-3%	21%
Grant (cash grants)	2.2	17.4	41.5	1817%	138%
Current Grant	0.0	5.8	5.0	-	-13%
Capital Grant	2.2	11.6	36.5	1585%	213%
Other Revenue (non - tax)	4.5	0.6	1.4	-69%	118%
<b>Expenses</b>	<b>31.8</b>	<b>32.5</b>	<b>28.9</b>	-9%	-11%
Compensation of Employees	11.3	16.0	12.7	13%	-20%
Use of Goods and Service	16.4	9.5	12.9	-21%	37%
Interest	0.4	2.8	0.5	13%	-83%
Subsidies	0.0	0.0	0.1	2684%	300%
Grant	0.9	1.0	0.4	-60%	-66%
Social benefits	1.7	2.0	1.8	4%	-9%
Other Expenses	1.0	1.1	0.5	-54%	-59%
Gross Operating Balance	-5.9	1.0	32.6	-649%	3022%
Net Acquisition of Non-financial Assets	5.6	1.0	2.1	-62%	105%
<b>Net Lending/Borrowing Requirement (Financing)</b>	<b>-11.5</b>	<b>0.01</b>	<b>30.5</b>	<b>-365%</b>	<b>368962%</b>
<b>Total Public Debt (External &amp; Domestic) (\$million)</b>	<b>508.1</b>	<b>N/A</b>	<b>N/A</b>	<b>-</b>	<b>-</b>
<b>FISCAL ANCHORS</b>					
Compensation of Employees to domestic revenue to be less than 53% (annual target)					
monthly performance (%)	48%	99%	63%	-	-
<b>ECONOMIC ACTIVITY INDICATORS</b> (OET basis)					
Exports (\$million)	12.5	12.6	12.7	2%	1%
Imports (\$million)	461.9	487.5	496.0	7%	2%
<b>MONETARY &amp; PRICE INDICATORS</b>					
Remittances (annual total)	455.4	474.8	471.5	4%	-1%
Official Foreign Reserves	689.5	884.0	880.4	28%	0%
Import Cover - Trade estimate (months)	14.7	12.5	12.2	-17%	-2%
Import Cover - OET estimate (months)	12.0	17.1	16.8	40%	-2%
Inflation (annual % change)	4.7	9.4	11.3	-	-
Retail Fuel Prices:					
Petrol (T\$/litre)	2.93	3.88	3.83	31%	-1%
Diesel (T\$/litre)	2.63	4.03	4.18	59%	4%

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 April 2022)

## Fiscal Stability

The provisional fiscal balance for April 2022 rose sharply to \$30.5 million surplus compared to the \$0.01 million surplus recorded in March 2022.

The improved in the fiscal stance for the reviewed month was highly contributed by higher receipts of official funds trigger for recovery, as well as higher level of remittances received.

The total revenue – both from domestic revenue and grants performance – for the reviewed month (Table 1 above) shows a huge increase of \$28.0 million (or 83 percent) compared to the previous month. About 33 percent of the total revenue were from the domestic revenue and around 67 percent were from grants. The total annual revenue increased by \$35.7 million (or 138 percent). The details will be discussed in the Revenue section.

The total monthly expenses recorded in April 2022 fell by \$3.6 million (or 11 percent) compared to March 2022. At the same time, it also decreased by \$2.9 million (or 9 percent) when compared to April 2021. More details will be further discussed in the Expense section.

Domestic activities in all three sectors of the economy (Primary, Secondary, and Tertiary) are slowly recovering from the impacts of the Hunga-Tonga Hunga-Ha'apai (HTHH) disaster and the COVID-19 outbreak.

Government has put a strong effort to rejuvenate the economy through stimulus packages to targeted groups, rolling out reconstruction projects, and allowing the majority of businesses in the private sector to resume operations.

Simultaneously, the Government continues to

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May 2022

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practice sound fiscal management, especially considering these unprecedented times and with limited resources.

### Domestic Revenue <sup>1</sup>

In April 2022, **93 percent of the total domestic revenue (\$20.1 million) was from tax revenue**, and 7 percent were from the non-tax revenue. Overall, the total domestic revenue for the reviewed month was sufficient when compared to the total monthly expenses.

### Tax Revenue

Table 2 below reveal a **21 percent increase, or \$3.2 million** in total tax revenue collected in April 2022 to **\$18.7 million**, compared to \$15.5 million collected in March 2022. On the other hand, on a yearly basis, the tax revenue decreased by \$0.6 million.

Tax Revenue (\$M)					
Components of Tax	Apr-21	Jan-22	Feb-22	Mar-22	Apr-22
Taxes on income	7.0	3.7	2.1	2.3	4.2
Taxes on property	0.0	0.01	0.02	0.01	0.02
Taxes on G & S	10.3	12.4	21.2	11.6	12.6
Taxes on trade	1.9	1.5	-10.6	1.6	1.8
<b>Total</b>	<b>19.2</b>	<b>17.6</b>	<b>12.6</b>	<b>15.5</b>	<b>18.7</b>

Table 2: Source: MOF

All of the Taxes categories increased during the reviewed month, driven by **Taxes on Income** by \$2.0 million attributed from *Corporate Tax* received from large business of \$1.1 million followed by *Withholding Tax (residents)* of \$0.5 million. The **Taxes on Goods & Services** rose also by \$1.0 million due more revenue collection from *Excise Tax* of \$0.7 million. The revenue received from **Taxes on Trade** increased as well by \$0.2 million mainly from the *PG Forex Levy*. The **Taxes on Property** was also increased.

### Non-Tax Revenue

The **non-tax revenue recorded for April 2022 increased by \$0.8 million (Table 3)** compared to March 2022, and decreased by \$3.1 million from the same time last year.

Non-Tax Revenue (\$M)					
Components of Other Revenue	Apr-21	Jan-22	Feb-22	Mar-22	Apr-22
Property Income	3.0	0.2	0.0	0.1	0.4
Sales of G&S	1.1	0.7	0.3	0.5	0.7
Fines, penalties, & forfeits	0.1	0.05	0.02	0.03	0.05
Voluntary transfer other than grant	0.001	0.00	0.02	0.0003	0.005
Misc. & unidentified revenue	0.3	0.0	0.3	0.0	0.3
<b>Total</b>	<b>4.5</b>	<b>0.9</b>	<b>0.6</b>	<b>0.6</b>	<b>1.4</b>

Table 3: Source: MOF

The monthly increase was supported by higher revenue receipts from **Property Income** (\$0.3 million), **Misc. & unidentified revenue** (\$0.3 million), and **Sales of Goods & Services** (\$0.2 million). In particular, the increase in the collection from the *Interest receipts from Deposits*, *Royalty Fees* and the *Administrative fees* such as *Motor Driving License*, *Visa Fees*, *Passport Fees* and *Audit Fees*.

### Grants

The total grant receipts for April 2022, **increased by \$24.1 million (Table 4)** compared to March 2022. This consisted of \$5.0 million from Current Grants, with the majority from Capital Grant of \$36.5 million. Annually, grants increased by \$39.3 million from \$2.2 million recorded in April 2021.

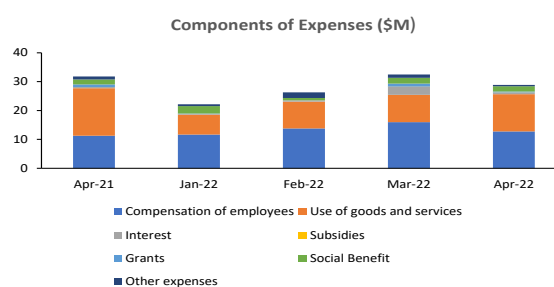
Grant (\$M)					
	Apr-21	Jan-22	Feb-22	Mar-22	Apr-22
Current Grant	0.0	0.0	0.0	5.8	5.0
Capital Grant	2.2	44.5	4.4	11.6	36.5
<b>Total</b>	<b>2.2</b>	<b>44.5</b>	<b>4.4</b>	<b>17.4</b>	<b>41.5</b>

Table 4: Source: MOF

Current grants received during the month were the budget support from the Australia Fund. Capital grants were \$17.9 million from Australia Bilateral Assistance, and \$4.5 million from New Zealand Bilateral. This in-kind assistance was for various project and for economic recovery.

### Expenses

The **total expenses recorded in April 2022 decreased to \$28.9 million**, a drop from \$32.5 million in the previous month by \$3.6 million. This was mainly due to less payments on the **Compensation of employees** followed by spending on **Interest**. At the same time, total expenses recorded a decrease of \$2.9 million in yearly basis.



<sup>1</sup> 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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The lower spending on *Compensation of employees* attributed mainly from the payment towards *Salaries* of \$7.2 million from \$11.4 million in March 2022. This indicates the continuing efforts of recruitment strategies, as well as reflecting staff movements such as retirement and those who have gone into the private sector. The *Other Allowances* also fell during the review month by \$0.4 million.

In addition, the spending on *Interest* also decreased by \$2.6 million mainly from *Public Debt Interest Payment Foreign*. Also, the spending on both *Grants*, and *Social Benefits* declined during the month by \$0.7 million each and by \$0.2 million in *Other Expenses*.

However, the payments on *Use of goods and services* increased by \$3.5 million, led by spending on *Consultants & Technical Assistants Professional Fees* (\$0.8 million), *Rental* (\$0.5 million), *Grants* (\$0.5 million) and also *Domestic Travel* (\$0.2 million). *Subsidies* also recorded \$0.1 million expenses on *Development Committee*.

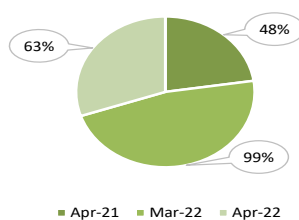
### Fiscal Anchors and policy discussion

The monthly performance on the *compensation of employees as a percentage of domestic revenue* in April 2022 was 63 percent (refer Table 1). This is lower compared to the previous month, yet higher than the annual target of 53 percent.

This high level indicates the work and support through cash grants and projects that the Government has spent to revive the economy from the impacts posed by HTHH disaster and COVID-19 due to lockdowns.

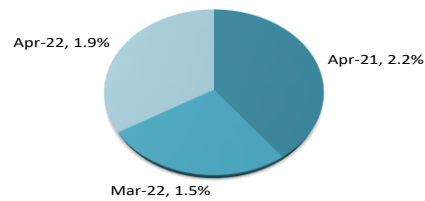
However, by comparison with April 2021, the monthly performance was 48 percent, which is satisfactory.

Compensation of Employees as % of Domestic Revenue



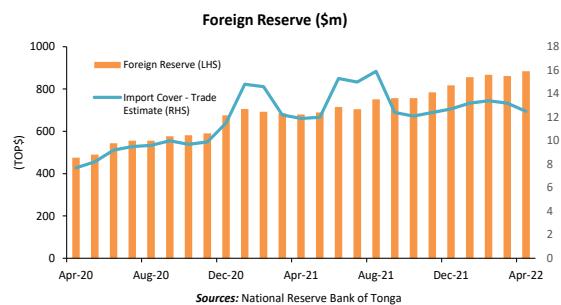
The monthly *domestic revenue as a percentage of GDP* in April 2022 was 1.9 percent, which is higher than the level recorded in March 2022 and higher than the record of April 2021. It implies an improvement in revenue collection during the month, and it is expected to remain high in the coming months.

DOMESTIC REVENUE AS % OF GDP



### Foreign Reserves

The **Foreign Reserves** recorded for **April 2022** was **\$884.0 million**, an increase of \$22.6 million from \$861.4 in March 2022, a **new record**, equivalent to **12.5 months of imports**.



This is generally contributed by the receipts of relief funds received from the Donor partners in assistance for the recovery from the dual disaster (Hunga-Tonga Hunga-Ha'apai/Covid-19) which hit the country. Remittances receipts also contributed to the high level with a record of \$471.5 on annual total.

Simultaneously, the annual performance recorded a \$204.3 million rise from \$676.7 million, supported by more income received for budget support, official grants and remittances.

### Inflation Rates

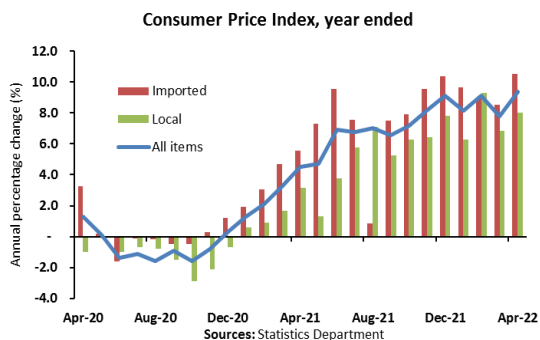
The annual headline inflation rate for April 2022 rose to 9.4 percent compared to 7.8 percent in March 2022. This is much higher compared to 4.5 percent inflation in April 2021, and far above the NRBT's target of 5 percent reference rate.

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On monthly performance, the inflated rate was caused by higher prices on both imported goods and the local index by 2.6 percent and 0.8 percent respectively. This is driven mostly by the increase in price of *petrol* and *diesel*, prices of *takeaway food* as most of the restaurants and catering businesses are back to operation after the lockdowns, price of furnishing, household equipment and maintenance such as *washing machine*, *detergent* and *aluminum foil*. In addition, prices rose for food and non-alcoholic beverages such as seafood (*reef fish – fua and pa'aua*), vegetables and root crops like *capsicum*, *orange*, *water melon*, *early yam*, *sweet potatoes*, as well as *corned beef* and *eggs*.

The annual performance also increased during the month on both the index, with import prices up by 10.5 percent and 8.1 percent increases for local price. This is mainly due to higher food prices and electricity costs.

All of this reflected the ongoing disruptions of supply due to the global pandemic and the Russia-Ukrainian war causing the higher prices on global oil and food.

On the outlook, the inflation is expected to remain high in the near-term due to the continuing Russia-Ukrainian conflict and the global pandemic.

### Fuel Prices

The domestic retail price for petrol in April 2022 increased to \$3.88 from \$3.51, while diesel rose to \$4.03 from \$3.46, compared to March 2022.

Domestic Fuel Prices (TOP\$)			
	Apr-21	Mar-22	Apr-22
Petrol	2.89	3.51	3.88
Diesel	2.64	3.46	4.03

Table 5: Source: MTED

This reflected a *0.4 seniti* increase in the price of petrol and a *0.6 seniti* increase in the price of diesel.

The stated increase reflected the unfavorable movements in international prices and the significant increase in the international freight rates, both resulting from Russia-Ukrainian war in addition to the global pandemic.

The Ministry of Trade and Economic Development urged the people to pay more attention to daily consumption, especially in transportation and the use of the electricity. It is projected it will continue rise due to the uncertainty of the current events.

### Outlook and policy response

The government continues its current accommodative stance include proactive support of the monetary policy instituted by the NRBT, which is considered the most appropriate course of action at this time in order to help revive the economy and preclude economic growth shrinkage.

ENDS