

Monthly Economic Update August 2022

Ministry of Finance (MOF)



Government of Tonga

Key Indicators	(T\$m unless otherwise indicated)			% change	
	Aug-21	Jul-22	Aug-22	Annual	Monthly
FISCAL INDICATORS (Government Financial Statistics (GFS) Basis)					
Revenue	22.4	26.8	23.9	7%	-11%
Tax	20.1	20.1	19.7	-2%	-2%
Grant (cash grants)	0.5	5.0	2.2	340%	-56%
Current Grant	0.0	0.0	0.0	-	-
Capital Grant	0.5	5.0	2.2	323%	-56%
Other Revenue (non - tax)	1.8	1.7	2.0	11%	18%
Expenses	30.5	26.8	33.0	8%	23%
Compensation of Employees	13.3	11.8	13.0	-2%	10%
Use of Goods and Service	14.3	12.7	15.5	8%	22%
Interest	0.5	0.3	0.5	0%	67%
Subsidies	0.0	0.0	0.0	-100%	-
Grant	0.1	0.0	1.3	1200%	3150%
Social benefits	1.3	1.3	1.5	15%	15%
Other Expenses	1.0	0.7	1.3	30%	86%
Gross Operating Balance	-8.2	0.0	-9.1	11%	-30433%
Net Acquisition of Non-financial Assets	4.0	1.5	3.6	-10%	140%
Net Lending/Borrowing Requirement (Financing)	-12.1	-1.5	-12.7	5%	747%
Total Public Debt (External & Domestic) (\$million)	507.5	521.4	NA	-	-
FISCAL ANCHORS					
Compensation of Employees to domestic revenue to be less than 53% (annual target)					
monthly performance (%)	61%	54%	52%	-	-
ECONOMIC ACTIVITY INDICATORS (OET basis)					
Exports (\$million)	12.8	12.2	11.4	-10.9%	-6.6%
Imports (\$million)	484.8	505.6	521.2	7.5%	3.1%
MONETARY & PRICE INDICATORS					
Remittances (annual total)	472.2	472.6	477.0	1.0%	0.9%
Official Foreign Reserves	751.7	884.8	871.0	15.9%	-1.6%
Import Cover - Trade estimate (months)	12.1	14.3	14.1	16.5%	-1.4%
Import Cover - OET estimate (months)	15.9	16.4	16.0	0.6%	-2.4%
Inflation (annual % change)	7.0	13.1	13.8	-	-
Retail Fuel Prices:					
Petrol (T\$/litre)	3.01	4.08	3.70	22.9%	-9.3%
Diesel (T\$/litre)	2.94	4.16	4.09	39.1%	-1.7%

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. (Data based on last update on Tuesday 13th December 2022)

Fiscal Stability

The provisional fiscal balance for the month of August 2022 indicated a deficit of **-\$12.7 million**, compared to the **-\$1.5 million** recorded in July 2022.

The total revenue – both from domestic revenue and grants performance – for the reviewed month (Table 1 above) fell by **\$2.9 million** (or 11 percent) in comparison to previous month. This is due mainly to decrease in grant. On an annual basis, total revenue increase by **\$1.5 million** (or 7 percent). The details will be discussed in the Revenue section.

The total monthly expenses recorded in August 2022 increase significantly by **\$7.8 million** (or 23 percent) compared to July 2022 and increased by **\$3.5 million** (or 8 percent) compared to August 2021. Further details will be deliberated in the

Expense section.

The domestic economic activity is slowly normalizing following the Hunga-Tonga Hunga-Ha'apai (HTHH) volcanic eruption and tsunamis and the local outbreak of COVID-19 in early 2022.

The strong policy response and the generous support by the Development Partners has helped keep the economy afloat and protect the vulnerable.

Though, the Government continues to be prudent with regards to its fiscal policy, especially as the economy is expected to gradually depreciate relative to its pre-pandemic levels, reflecting heavy import dependence, weak competitiveness, and large infrastructure needs.

Domestic Revenue

Release Date:

January 2023

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Domestic revenue consists of two components: *tax* and *other revenue*. The majority of domestic revenue is from the revenue collection on taxable items. In August 2022, 82 percent of total domestic revenue was from the tax revenue and the rest from other revenue (non-tax items). Overall, the domestic revenue for August 2022 was sufficient to cover the total monthly expenses.

Tax Revenue

Table 2 below reflects a decline in total tax revenue collected in August 2022 of 3 percent to \$19.5 million from \$20.1 million from the previous month. Annually, the total tax revenue decreased by \$0.6 million from \$20.1 million recorded in August 2021.

TAX REVENUE (\$M)	Aug-21	Apr-22	May-22	Jun-22	Jul-22	Aug-22
Taxes on income	2.7	4.2	12.2	7.0	5.8	2.8
Taxes on property	0.04	0.02	0.02	0.04	0.05	0.03
Taxes on G & S	12.2	12.6	18.0	21.4	12.2	14.7
Taxes on trade	5.2	1.8	2.0	2.2	2.0	2.0
Total	20.1	18.6	32.2	30.7	20.1	19.5

Table 2: Source: MOF

The downward movement was mainly due to the decrease in *Taxes on Income* by \$ 3.0 million in August 2022. This is driven by Withholding Tax(residents) which fell by \$0.18 million from the previous month. Similarly, the total *Taxes on Goods and Service* also increased by \$2.5 million mainly on Consumption Tax – Import.

Non - Tax Revenue

Table 3 below reflects an upward trend in other revenue collected in August 2022 by \$0.3 million (18 percent) to \$2.0 million compared to \$1.7 million from the previous month. This was driven mainly by *Sales of Goods & Services* led by Registration fees - Administrative for the month of August 2022.

Components of Other Revenue	Non-Tax Revenue (\$M)					
	Aug-21	Apr-22	May-22	Jun-22	Jul-22	Aug-22
Property income	0.2	0.4	4.8	1.8	0.1	0.1
Sales of G&S	1.5	0.07	1.3	1.7	1.1	1.7
Fines, penalties, & forfeits	0.07	0.04	0.10	0.10	0.10	0.10
Voluntary transfer other than grant	0.01	-	-	-	0.10	0.00
Misc. & unidentified revenue	0.03	0.3	0.02	0.30	0.30	0.10
Total	1.8	0.8	6.2	3.9	1.7	2.0

Table 3: Source: MOF

However, the revenue collection from *Voluntary transfer other than grants and Miscellaneous & unidentified revenue* was decreased by \$0.1 million and \$0.2 million respectively compared to

the previous month.

Grants

The total grant receipts for August 2022, was \$2.2million (Table 4) a drop from \$5.0 million recorded in July 2022. This is only from Capital Grant, with no records of Current Grant receipts. Annually, grants increased by \$1.7 million from \$0.5 million recorded in August 2021.

GRANT (\$M)	Aug-21	Apr-22	May-22	Jun-22	Jul-22	Aug-22
Current Grant	0.0	0.0	0.0	5.2	0.0	0.0
Capital Grant	0.52	5.0	3.9	5.4	5.0	2.2
Total	0.5	5.0	3.9	10.6	5.0	2.2

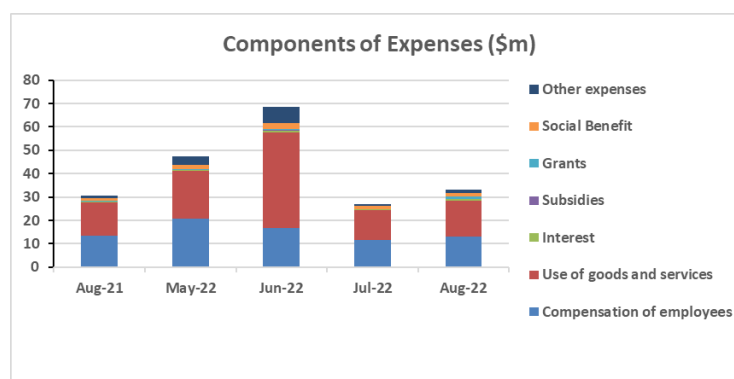
Table 4: Source: MOF

The Capital Grants were \$0.03 million from Pooled Funds-Australia & NZ, \$0.2 IFAD, \$2.0 million from World Bank/International Development Agencies (IDA), \$0.02 million from the South Pacific Regional Environmental Program and \$0.01 million from the United Nations Environment Program.

This in-kind assistance was for various project and the assistance was targeted towards the recent disaster.

Expenses

The total expenses recorded in August 2022 increased from \$26.8 million in July to \$33.0 million recorded in August 2022. On yearly basis, total expenses increased by \$3.5 million. The increasing in both periods—monthly and annual comparison—was mainly due to high spending recorded on *Compensation of employees, Uses of goods and services and Other Expenses*.



The increased-on *Compensation of employees* was mostly attributed on the expense towards Contract Labour of \$0.32 million followed by

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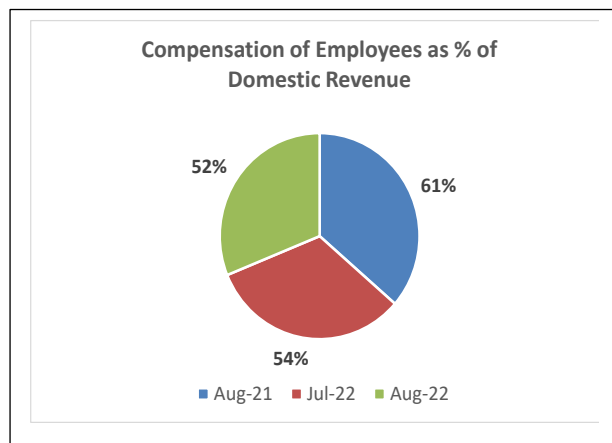
Salaries of \$0.1 million.

Simultaneously, the increased by \$1.3 million in spending on the *Use of goods and services* was derived from increasing in Consultant & Technical Assistants Professional Fees by \$0.8 million, Maintenance of Roads by \$0.6 million, Maintenance of Buildings & Compounds by \$0.4 million and Domestic Travel by \$0.4 million. These were all contributed to the work toward mitigating the impacts created by HTHH disaster and the COVID-19 outbreaks.

Other Expenses increased as well during the reviewed month by \$0.5 million, attributed to more payments on Subsidies of \$0.8 million.

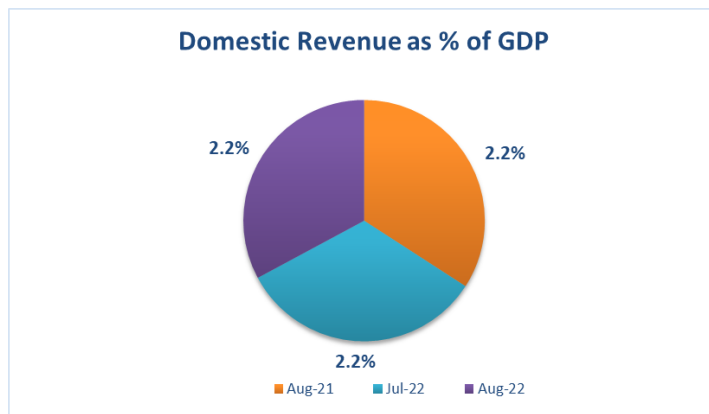
Fiscal Anchors and policy discussion

The monthly performance on the *compensation of employees as a percentage of domestic revenue* in August 2022 was 52 percent (refer Table 1), 1 percent below the annual target of 53 percent. This shows a decline by 2 percent compared to July 2022 and a significant fell by 9 percent compared to August 2021.



The Government is continuing its efforts to control the wage bill in the near-term and also strengthen revenue measures.

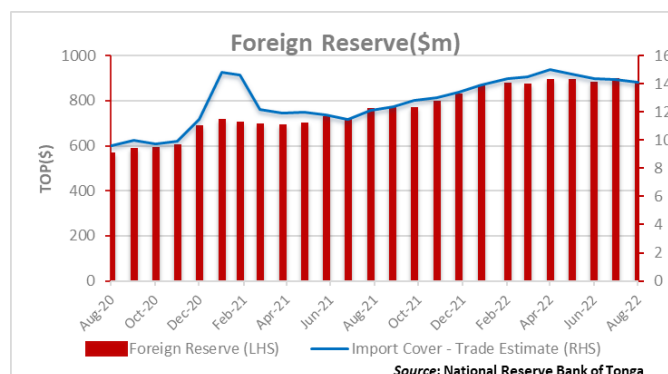
The monthly *domestic revenue as a percentage of GDP* in August 2022 was 2.2 percent, which is equal to the level recorded in both monthly and yearly basis. This shows adequate level of spending.



Moreover, other related factors include the impact of COVID-19 and recent TC Harold in revenue collection; the exemption of duty/excise and CT on all imports of food items and goods for personal hygiene, goods for combatting COVID-19, building materials and capital goods for tourism business operators. Regardless of all the sudden challenges Government continues to monitor expenses to ensure appropriate measures are put in place, considering the unprecedented current situation.

Foreign Reserves

The foreign reserves recorded for August 2022 fell slightly to \$871 million, a decrease by \$13.7 million from \$884.8 in July 2022, equivalence to 14.1 months of imports.



The decline is stemmed from an increase in transfers for import payments, Government services, and external loan repayments. In addition, lower official grants received during the reviewed month contributed to the decline. Even though there is downward slope, but the current trend set for the economy is at a comfortable level.

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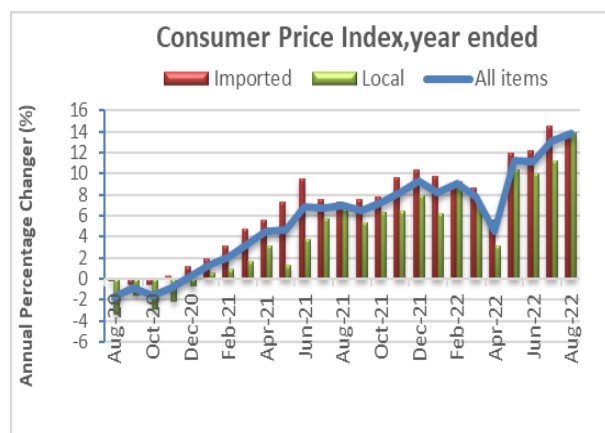


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On an annual basis foreign reserves increased by \$119.3 million from \$751.7 million. The majority of the official foreign reserves are held in USD, AUD and NZD.

Inflation Rates

The annual headline inflation rate for August 2022 increased to 13.8 percent compared to the 7 percent recorded in August 2021 as well as the monthly prices also increased by 0.8 percent from the previous month prices of July 2022 (13.8 percent). The inflation of 13.8 percent is much higher above the NRBT's target of 5 percent reference rate.



The decline in prices of imported and increases in local components of the Consumer Price Index (CPI) had contributed to the significant increase of inflation for the reviewed month, particularly, the prices of oil and some food items.

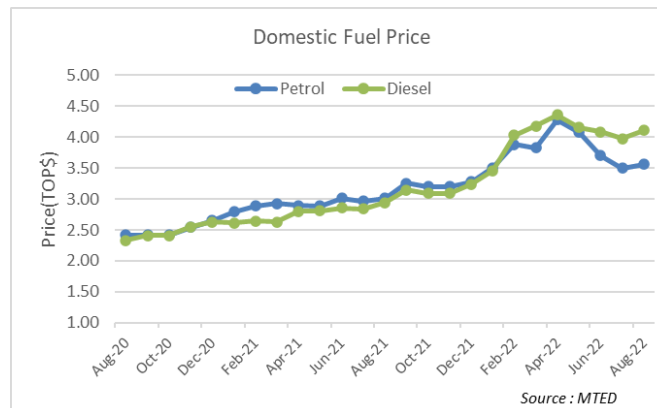
On monthly performance, the main contributor is the increase in price of *petrol* in import prices and some prices of food items in domestic prices. Similarly, on an annual performance, the main contributor includes the increase in prices of imported and local food items, fuel and electricity.

The economy is struggling to cope with the high inflation due to surging global energy and food prices.

Fuel Prices

The domestic retail price for petrol in August 2022 fell to \$3.70 from \$4.08, while diesel also

decline to \$4.09 down from \$4.16 compared to July 2022. This reflected a 0.38 *seniti* decline in the price of petrol and a 0.07 *seniti* in the price of diesel.



The movements of Platts Singapore, the international freight rate and the exchange rate impacted the monthly petroleum price for Tonga. At the same time, there is pressure on crude oil prices from geopolitical issues including the Russia-Ukrainian war.

However, the outlook is expected to rise further if the war between Russia and Ukraine continues, as well as the global impacts caused by the easing of the pandemic which will hinder the supply-demand of crude oils.

Outlook and policy response

The government continues its current accommodative fiscal strategy response while managing the high inflation related issues. This is done by expanding fiscal policy for the short-term focus on social protection and reconstruction as well strengthening public finances in the medium term.

ENDS