

Monthly Economic Update February 2022

Ministry of Finance (MOF)



Government of Tonga

Release Date:

March 2022

HIGHLIGHT:

Key Indicators	(T\$m unless otherwise indicated)			% change	
	Feb-21	Jan-22	Feb-22	Annual	Monthly
FISCAL INDICATORS (Government Financial Statistics (GFS) Basis)					
Revenue	22.3	63.0	17.7	-21%	-72%
Tax	14.3	17.6	12.6	-12%	-28%
Grant (cash grants)	4.0	44.5	4.4	10%	-90%
Current Grant	0.0	0.0	0.0	-	-
Capital Grant	4.0	44.5	4.4	10%	-90%
Other Revenue (non - tax)	4.0	0.9	0.6	-84%	-31%
Expenses	28.5	22.2	26.3	-8%	19%
Compensation of Employees	12.2	11.6	13.8	13%	18%
Use of Goods and Service	13.1	6.9	9.3	-29%	35%
Interest	0.4	0.3	0.4	4%	40%
Subsidies	0.1	0.0	0.0	-	-
Grant	0.4	0.1	0.0	-100%	-100%
Social benefits	1.0	2.6	0.8	-16%	-68%
Other Expenses	1.4	0.6	1.9	41%	205%
Gross Operating Balance	-6.2	40.8	-8.6	38%	-121%
Net Acquisition of Non-financial Assets	4.3	1.1	1.8	-59%	67%
Net Lending/Borrowing Requirement (Financing)	-10.6	39.8	-10.4	-2%	-126%
Total Public Debt (External & Domestic) (\$million)	509.3	N/A	N/A	-	-
FISCAL ANCHORS					
Compensation of Employees to domestic revenue to be less than 53% (annual target)					
monthly performance (%)	66%	63%	104%	-	-
ECONOMIC ACTIVITY INDICATORS (OET basis)					
Exports (\$million)	12.1	13.8	13.4	11%	-3%
Imports (\$million)	433.9	504.4	490.2	13%	-3%
MONETARY & PRICE INDICATORS					
Remittances (annual total)	411.2	494.8	489.6	19%	-1%
Official Foreign Reserves	692.4	856.1	867.3	25%	1%
Import Cover - Trade estimate (months)	11.7	13.2	13.4	15%	2%
Import Cover - OET estimate (months)	14.6	17	17.1	17%	1%
Inflation (annual % change)	2.1	8.2	9.1	-	-
Retail Fuel Prices:					
Petrol (T\$/litre)	2.65	N/A	3.28	-	-
Diesel (T\$/litre)	2.55	N/A	3.24	-	-

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 February 2022 fell significantly to a \$10.4 million deficit compared to the \$39.8 million surplus recorded in January 2022.

The fiscal stance for the reviewed month reflected the ongoing economic and social crisis faced by the economy due to the Hunga-Tonga-Hunga-Ha'apai (HTHH) volcano eruption and tsunami and the outbreak of COVID-19 (Omicron variant) in the community. These dual shocks and the associated impacts included the national lockdown, border closed, and restrictions halted much of the domestic activities. The impacts on the economy are clearly shown by the level of revenue collection and the magnitude of fiscal pressures to the government over the month.

The total monthly revenue – both from domestic revenue and grants – for February 2022 (Table 1

above) showed a huge decline of \$17.7 million (or 72 percent) compared to the previous month. Around 75 percent of the total revenue recorded for January 2022 were from domestic revenue and about 25 percent from grants. The annual total revenue decreased by \$4.7 million (or 21 percent). The details will be discussed in the Revenue section.

The total monthly expenses recorded in February 2022 increased by \$4.1 million (or 19 percent) compared to January 2022. However, this is a decrease of \$2.3 million (or 8 percent) when compared to February 2021. More details will be provided in the Expenses section below.

Hence, the government is committed to respond to the threats posed by these events through targeted and quality spending, which would preserve much-needed fiscal space and allow

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governments to retain enough resources to respond to a worsening of current conditions and any future contingencies.

Domestic Revenue ¹

In February 2022, the total domestic revenue decreased by 29 percent to \$13.2 million compared to \$18.5 million in January 2022. The composition of the total domestic revenue were 95 percent from tax revenue, and 5 percent from the non-tax revenue. Overall, the total domestic revenue for the reviewed month was insufficient to cover the total monthly expenses.

Tax Revenue

Table 2 below indicates a fall of 28 percent, or \$4.9 million in total tax revenue collected in February 2022 to \$12.6 million, compared to \$17.6 million collected in January 2022. On an annual basis, the tax revenue decreased by \$1.7 million.

Tax Revenue (\$M)					
Components of Tax	Feb-21	Nov-21	Dec-21	Jan-22	Feb-22
Taxes on income	2.1	6.5	4.6	3.7	2.1
Taxes on property	0.1	0.02	0.03	0.01	0.02
Taxes on G & S	10.6	14.8	15.7	12.4	21.2
Taxes on trade	1.6	6.7	3.9	1.5	-10.6
Total	14.3	28.0	24.2	17.6	12.6

Table 2: Source: MOF

The contribution factor to the decrease in the total tax revenue recorded for February 2022 including the decrease in the *Taxes on Trade*² and *Taxes on Income* mainly due to the less returns from *Withholding Tax* from non-residents of \$0.9 million followed by *PAYE Tax - Government* received from small businesses of \$0.4 million.

On the other hand, *Taxes on Goods & Services*, rose significantly from \$12.4 million to \$21.2 million in February 2022, a pick-up of \$8.7 million. This was largely stemmed from *Excise Tax* income collection, reflecting the enforcement of the existing taxation on alcoholic beverages and tobacco.

Alongside, *Taxes on Property* increased during the month but only at a minimal amount.

The continuous fall in tax revenue was caused by the HTHH volcanic eruption and tsunami, and the disruptions created by the pandemic in our neighbouring countries which delayed the

trading of goods and services, not to mention the impacts from local lockdowns and restrictions due to COVID-19.

Non-Tax Revenue

The non-tax revenue recorded for February 2022 shows a decrease of \$0.3 million (Table 3) compared to January 2022, and \$3.4 million on annual performance.

Non-Tax Revenue (\$M)					
Components of Other Revenue	Feb-21	Nov-21	Dec-21	Jan-22	Feb-22
Property income	3.01	0.94	0.08	0.18	0.04
Sales of G&S	0.9	0.8	0.8	0.7	0.3
Fines, penalties, & forfeits	0.04	0.08	0.04	0.05	0.02
Voluntary transfer other than grant	0.03	0.00	0.01	0.001	0.02
Misc. & unidentified revenue	0.02	-0.03	0.02	0.01	0.3
Total	4.0	1.8	1.0	0.9	0.6

Table 3: Source: MOF

This was mainly due to lower income received from *Sales of Goods & Services* of \$0.3 million from \$0.7 million recorded in previous month, almost all Administrative fees such as *Police Record Fees*, *Operation/Exam Fees*, *Motor Driving License*, *Fishing License Fees*, and *School Fees*.

The *Property Income* decreased also by \$0.1 million, mainly due to low income received from *Interest receipts from Deposits* and *Government Land Rental*. The *Fines, penalties, & forfeits* were also decreased during the review period.

However, *Voluntary transfer other than grant* and *Misc. & unidentified revenue* increased mostly from *Local Contributions* and *Royalty Fees* respectively.

Grants

The total cash grant receipts for February 2022, decreased by \$40.1 million (Table 4) compared to January 2022. There were no records of Current Grants received during the review month. Despite the decrease on monthly comparison the grants receipts on annual basis increased by \$0.4 million from \$4.0 million recorded in February 2021.

Grant (\$M)					
	Feb-21	Nov-21	Dec-21	Jan-22	Feb-22
Current Grant	0.0	11.3	24.9	0.0	0.0
Capital Grant	4.0	8.2	4.0	44.5	4.4
Total	4.0	19.5	28.9	44.5	4.4

Table 4: Source: MOF

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.

² Note: Taxes on Trade negative number (-10.6) is due to a technical problem. We will try to resolve this issue on our next report.

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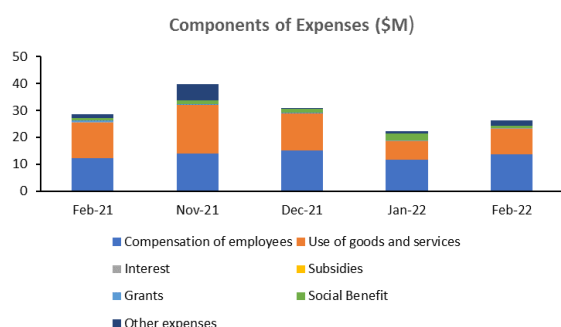
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Capital grants received during the month were primarily \$1.2 million from Asian Development Bank (ADB), \$1.0 million from Disaster Donors and \$0.8 million from World Bank/International Development Agency (IDA). This in-kind assistance was for immediate relief and economic recovery.

Expenses

The **total expenses** recorded in February 2022 **increased to \$26.3**, a rise from \$22.2 million in the previous month by \$4.1 million. However, on annual basis, total expenses recorded a decrease of \$2.3 million.



The increase on monthly basis was mainly due to higher spending on the **Use of goods and services** of \$9.3 million consisted primarily of payments on *Grant* by \$2.7 million followed by *Contract Service* of \$0.9 million, and the expenses on *Other Special Projects* of \$0.4 million. This reflected the ongoing assistance provide by the government to the economy and its people due to HTHH incident and also the pandemic outbreaks.

At the same time, **Compensation of employees'** payments also increased during the month by \$2.2 million mainly from *Salary Revision* of \$1.5 million, *Overtime* of \$0.6 million and from *Salaries* expenses of \$0.2 million. Nevertheless, the government continues its efforts to control and minimize spending on *Wages and salaries*.

Additionally, **Other Expenses** payments also increased during the month by \$1.3 million mainly for *Constituency* expenses, in order to support the communities during the hard times.

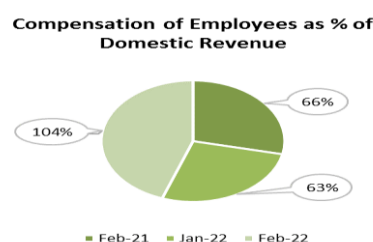
The spending on **Interest** also increased during the review month especially from the *Public Debt Interest Payment Foreign* of \$0.1 million.

However, the spending on **Social Benefit** diminished by \$1.7 million, primarily from the *Social Welfare Scheme* of \$1.2 million and *Grant – Vulnerability* of \$0.6 million. This implies the continuous assistance required towards vulnerable groups.

Besides, there is no record of spending of **Subsidies** and **Grants**.

Fiscal Anchors and policy discussion

The monthly performance on the **compensation of employees as a percentage of domestic revenue** in February 2022 was 104 percent (refer Table 1). This is very high, compared to the previous month, and way above the annual target of no greater than 53 percent.



By comparison with February 2021, the monthly performance was 66 percent, which is not also a good sign.

This higher level demonstrates more spending occurred due to the ongoing impacts from HTHH volcanic eruption and tsunami and the pandemic restrictions, which put more pressures on government side.

The monthly **domestic revenue as a percentage of GDP** in February 2022 was 1.2 percent, which is lower than level recorded in both January 2022 and February 2021.

	Feb-21	Jan-22	Feb-22
Tax + Other Revenue	18.3	18.5	13.3
Domestic Revenue as % of GDP	1.7%	1.7%	1.2%

The government continues to enforce relevant policies to stimulate the economic recovery – collection of the outstanding revenue arrears, review tax exemptions and also government fees and charges – while at the same time consider to offer government assistance in different means to assist the recovery mode across all sectors of the economy.

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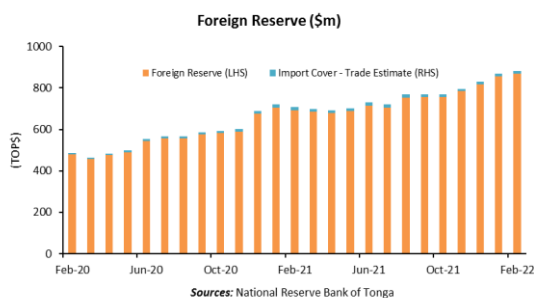
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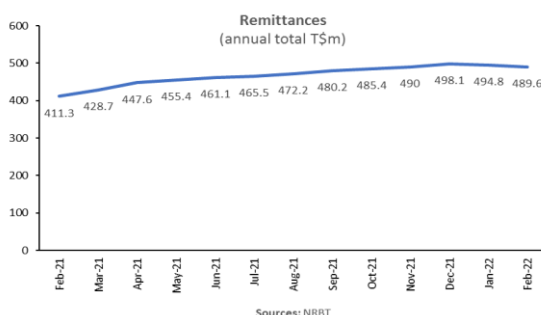
Foreign Reserves

The **Foreign Reserves rose for consecutive months to \$867.3 million in February 2022, the highest recorded for the last decade**, and an increase of 1.3 percent from \$856.1 million recorded in January 2022. This is **an increase of 25 percent compared to the same period last year**.



The level of foreign reserves for the reviewed month is equivalent to 13.4 months of import cover on the trade estimate, indicating Tonga remains at satisfactory levels.

This was attributed mostly from remittances and relief funds from development partners.



In the near term, the foreign reserves are projected to continue strong, supported by high levels of money transferred from relatives and families abroad.

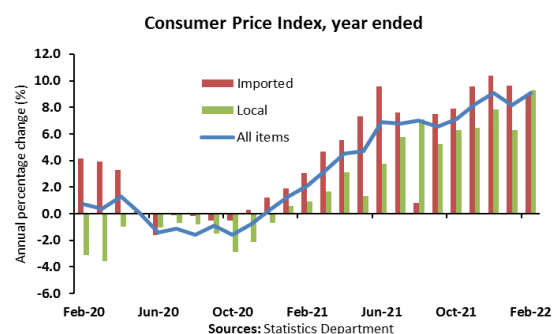
Inflation Rates

The **annual headline inflation rate for February 2022 increased to 9.1 percent** compared to 8.2 percent in January 2022. This is higher compared to 2.1 percent inflation in February 2021, and above the NRBT's target of 5 percent reference rate.

The rise on the monthly basis was attributed to the rise in both the local and import index prices by

3.7 percent and 0.6 percent respectively. This is triggered mostly by an increase in prices of food items include *vegetables* and *root crops*, *mutton flaps* and *chicken legs* as well as the price of *tobacco*. This reflected the shocks from the HTHH disaster on domestic food supply and the demand surge created by the COVID-19 lockdown.

Simultaneously, the increase in local (9.2 percent) and imported prices (8.9) over the year indicates the rise in local prices of fuel and imported food items. This stemmed from higher prices of *food items*, *electricity* and also the prices of *fuel* and *construction materials*.



On the outlook, the inflation is expected to increase in the coming months, due mainly to higher global oil prices as a result of the war between Ukraine and Russia.

Outlook and policy response

The government ensure that the current efforts are sustained and strengthened to plan, implement, monitor and evaluate the right actions within the available resources to mitigate the disasters facing with the economy.

This includes continuing the proactive application of fiscal responses, with the assistance from our partners in development.

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