

Monthly Economic Update January 2022

Ministry of Finance (MOF)



Government of Tonga

Key Indicators	(T\$m unless otherwise indicated)			% change	
	Jan-21	Dec-21	Jan-22	Annual	Monthly
FISCAL INDICATORS (Government Financial Statistics (GFS) Basis)					
Revenue	32.5	54.0	63.0	93%	17%
Tax	25.2	24.2	17.6	-30%	-27%
Grant (cash grants)	5.9	28.9	44.5	655%	54%
Current Grant	3.1	24.9	0.0	-100%	-100%
Capital Grant	2.8	4.0	44.5	1477%	1019%
Other Revenue (non - tax)	1.4	1.0	0.9	-35%	-9%
Expenses	26.0	30.7	22.2	-15%	-28%
Compensation of Employees	13.1	15.1	11.6	-11%	-23%
Use of Goods and Service	9.7	13.7	6.9	-29%	-50%
Interest	0.4	0.1	0.3	-22%	114%
Subsidies	0.0	0.0	0.0	-	-
Grant	0.4	0.1	0.1	-77%	-23%
Social benefits	1.1	1.4	2.6	124%	83%
Other Expenses	1.3	0.3	0.6	-51%	134%
Gross Operating Balance	6.5	23.3	40.8	527%	75%
Net Acquisition of Non-financial Assets	3.8	3.3	1.1	-72%	-68%
Net Lending/Borrowing Requirement (Financing)	2.7	20.1	39.8	1355%	98%
Total Public Debt (External & Domestic) (\$million)	514.4	498.1	N/A	-	-
FISCAL ANCHORS					
Compensation of Employees to domestic revenue to be less than 53% (annual target)					
monthly performance (%)	49%	60%	63%	-	-
ECONOMIC ACTIVITY INDICATORS (OET basis)					
Exports (\$million)	12.3	14.3	13.8	12%	-3%
Imports (\$million)	425.1	512.5	504.4	19%	-2%
MONETARY & PRICE INDICATORS					
Remittances (annual total)	403.2	498.1	494.8	23%	-1%
Official Foreign Reserves	705.3	817.5	856.1	21%	5%
Import Cover - Trade estimate (months)	12.0	12.7	13.2	10%	4%
Import Cover - OET estimate (months)	14.8	16.5	17.0	15%	3%
Inflation (annual % change)	1.3	9.1	8.2	-	-
Retail Fuel Prices:					
Petrol (T\$/litre)	2.54	3.20	N/A	-	-
Diesel (T\$/litre)	2.55	3.09	N/A	-	-

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 February 2022)

Fiscal Stability

The provisional **fiscal balance for January 2022 increased to a \$39.8 million surplus** compared with the \$20.1 million surplus recorded in December 2021.

The **total revenue** – both from domestic revenue and grants performance – for the reviewed month (Table 1 above) **shows an increase to \$63.0 million** (or 17 percent) compared to the previous month. Around 29 percent of the total revenue recorded for January 2022 were from domestic revenue and 71 percent from grants. Annually, **total revenue increased by \$30.4 million** (or 93 percent). The details will be discussed in the Revenue section below.

The total monthly **expenses recorded in January 2022 declined by \$8.6 million** (or 28 percent) compared to December 2021. Simultaneously, this is a **\$3.9 million** (or 15 percent) **decrease**

compared to January 2021. Further details will be provided in the Expense section below.

The recent shocks to the economy caused by the Hunga-Tonga-Hunga-Ha'apai (HTHH) volcano eruption and tsunami had an extreme impact on all sectors of the economy. The disruption to the economy has generated a fiscal deficit, with continued weakness shown in domestic revenue, coupled with the heavy demands on expenditure. However, the government continue to observe prudence in fiscal management and prioritization of essential activities.

At the same time, the government requires ongoing inclusive partnerships, coordination, and collaboration with key stakeholders, including the private sector, civil society, and development partners.

Release Date:

February 2022

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Domestic Revenue ¹

In January 2022, around 95 percent of total domestic revenue (\$18.5 million) were from tax revenue and the remaining 5 percent were from other sources of revenue (non-tax items). The significant increase in the grants receipts was triggered by the HTHH volcano eruption and tsunami, occurred on the 15th January 2022. Overall, the increase in the domestic revenue for the reviewed month was ample to meet the total monthly expenses.

Tax Revenue

Table 2 below indicates a fall of 27 percent, or \$6.6 million in total tax revenue collected in January 2022 to \$17.6 million, compared to \$24.2 million collected in December 2021. On an annual basis, the tax revenue decreased by \$7.7 million. The decreased—both monthly and annual basis—indicated the slowdown in the economic activities due to the impacts of the HTHH destructive event.

Tax Revenue (\$M)					
Components of Tax	Jan-21	Oct-21	Nov-21	Dec-21	Jan-22
Taxes on income	2.1	4.4	6.5	4.6	3.7
Taxes on property	0.05	0.02	0.02	0.03	0.01
Taxes on G & S	10.6	12.4	14.8	15.7	12.4
Taxes on trade	1.6	3.4	6.7	3.9	1.5
Total	14.3	20.2	28.0	24.2	17.6

Table 2: Source: MOF

The decrease was spread from all of the components of tax, led by *Taxes on Goods & Services*, a fall from \$15.7 million to \$12.4 million in January 2022, a drop of \$3.3 million. This was largely stemmed from *Consumption Tax - Import* income collection.

Concurrently, *Taxes on Trade* decreased during the month attributed to smaller revenue received from *Business Import Duties* of \$1.2 million from \$3.6 million noted in December 2021.

The *Taxes on Income* decreased as well by \$0.9 million due to less revenue collected from *Withholding Tax* from non-residents of \$0.7 million followed by *PAYE Tax - Government* received from small businesses of \$0.4 million. Additionally, *Taxes on Property* decreased also

but was minimal.

The afore mentioned fall in tax revenue was due to the disruption created by the HTHH volcano eruption and the subsequent tsunami waves, which caused the delay on international supply of goods and services. In addition, tax relief assistance for businesses and households was provided by the government for 6 months following the volcano eruption and tsunami.

Non-Tax Revenue

The non-tax revenue recorded for January 2022 indicated a decrease of \$0.1 million (Table 3) compared to December 2021, and \$0.5 million on annual performance.

Non-Tax Revenue (\$M)					
Components of Other Revenue	Jan-21	Oct-21	Nov-21	Dec-21	Jan-22
Property income	0.2	1.4	0.9	0.1	0.2
Sales of G&S	0.9	1.0	0.8	0.8	0.7
Fines, penalties, & forfeits	0.1	0.1	0.1	0.0	0.0
Voluntary transfer other than grant	0.0	0.0	0.0	0.0	0.0
Misc. & unidentified revenue	0.2	0.3	0.0	0.0	0.0
Total	1.4	2.8	1.8	1.0	0.9

Table 3: Source: MOF

This was mainly due to lower income received from almost of all the indexes of non-tax revenue, led by *Sales of Goods & Services* of \$0.2 million, mostly from *Administrative Fees* such as *Motor Driving License*, *Ground Handling Service Charge*, and *Custom Entry Processing Fees*.

The *Voluntary transfer other than grant*, and *Misc. & unidentified revenue* were all decreased but insignificantly.

However, the *Property Income* increased of \$0.1 million mostly from the *Interest* category.

Grants

The total cash grant receipts for January 2022, increased significantly by \$15.6 million (Table 4) compared to December 2021. The increase reflects the support of the development partners, Tongan diasporas, communities, families and friends locally and abroad to Tonga during the crisis. This was mainly reflected from Capital Grant only, as no records of Current Grants were received in January 2022. Annually, grants increased by \$38.6

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.

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million from \$5.9 million recorded in January 2021.

	Grant (\$M)				
	Jan-21	Oct-21	Nov-21	Dec-21	Jan-22
Current Grant	3.1	0.0	11.3	24.9	0.0
Capital Grant	2.8	3.0	8.2	4.0	44.5
Total	5.9	3.0	19.5	28.9	44.5

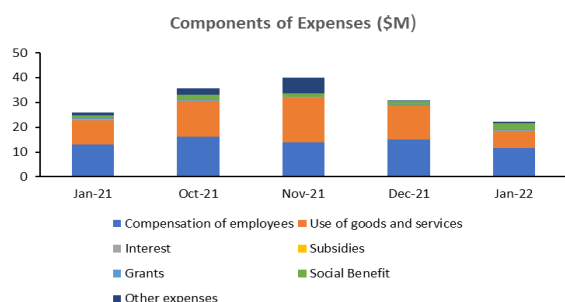
Table 4: Source: MOF

Capital grants received during the month were primarily \$22.6 million from Asian Development Bank (ADB), \$18.5 million from World Bank/International Development Agency (IDA), and \$1.8 million from the People's Republic of China. This in-kind assistance was directed for immediate relief and recovery from the HTHH destructive event including the impacts of the tsunami and ashes which blanketed the country.

Expenses

The total expenses recorded in January 2022 fell to \$22.2 million, a drop from \$30.7 million in the previous month by \$8.6 million. This was mainly due to lower spending on the *Use of goods and services*. On annual basis, total expenses recorded a decrease of \$3.9 million.

The decrease in expenses both monthly and yearly basis, was due mainly to lower spending on *Uses of goods and services* and *Compensation of employees*.



The lower spending on the *Use of goods and services* of \$6.9 million was primarily from payments on *Other Special Projects* by \$1.1 million followed by *Consultants & Technical Assistants Professional Fees* of \$0.8 million, Grants and the expenses on COVID-19 of \$0.7 million each. This reflected that most of the projects were on halt due to the HTHH incident.

At the same time, *Compensation of employees'* payments also decreased during the month by

\$3.4 million mainly from Overtime of \$1.7 million and \$0.9 million from Wages expenses. The disruption of communication—due to the disconnection of the cable fibre optic—and power off, had contributed to reduce working after hours in most of the Government ministries, departments and agencies (MDA).

However, the spending on *Social Benefit* rose by \$1.2 million, generally from the *Grant to Vulnerability and Social Welfare Scheme* of \$0.8 million each. This reflected the one-off \$200 additional stipend/allowance for all eligible elderlies and disabilities to help them during the disruptions from the volcanic eruptions. In addition, the spending on *Scholarships and Student Allowances* also increased by \$0.1 million each. This is due to the government assistance toward the students stranded overseas, in supporting them during the pandemic and the continuous border closure.

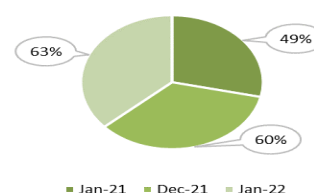
Furthermore, *Other Expenses* payments also increased during the month by \$0.4 million mainly for *Constituency* expenses, to support the people through these adversity times.

The spending on *Interest* and *Grants* were also increased during the review month but at a minimal amount, while there is no record of spending on *Subsidies*.

Fiscal Anchors and policy discussion

The monthly performance on the *compensation of employees as a percentage of domestic revenue* in January 2022 was 63 percent higher (refer Table 1), compared to the previous month (49 percent), and the annual target of no greater than 53 percent.

Compensation of Employees as % of Domestic Revenue



This higher level reflects the implementation of tax relief measure to assist with the impacts caused by the HTHH volcanic eruption and tsunami.

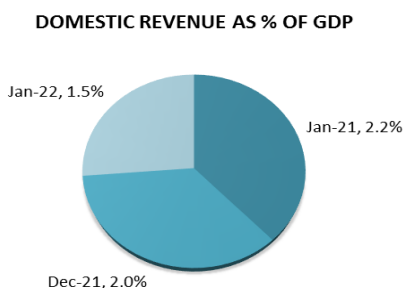
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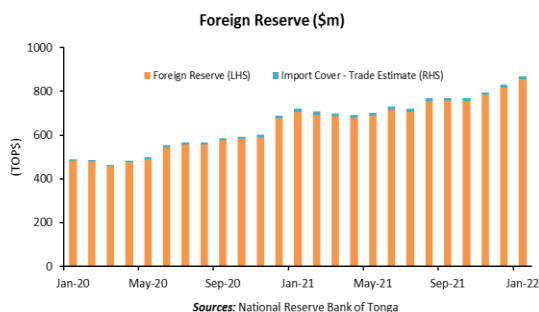
The monthly *domestic revenue as a percentage of GDP* in January 2022 was 1.5 percent, which is lower than levels recorded in both December 2021 and January 2021.



The government continues to implement policy measures to strengthen the revenue collection and promote economic recovery within available resources.

Foreign Reserves

The Foreign Reserves rose sharply to \$856.1 million in January 2022, the highest recorded for the last 5 years, an increase of 5 percent from \$817.5 million recorded in December 2021. This is an increase of 21 percent compared to the same period last year.

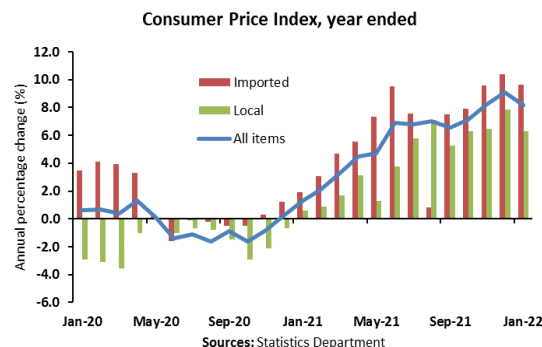


The level of foreign reserves for the reviewed month is equivalent to 13.2 months of import cover on the trade estimate, indicating that Tonga remains at adequate levels. This stems from high remittances inflow to the country from seasonal workers as well as family and relatives overseas, particularly after the natural disaster.

In the near term, the foreign reserves are projected to rise, supported by strong levels of money transferred not only from seasonal workers but Tongan communities abroad to support their families.

Inflation Rates

The annual headline inflation rate for January 2022 decreased to 8.2 percent compared to 9.1 percent in December 2021. This is higher compared to 1.3 percent inflation in January 2021, and above the NRBT's target of 5 percent reference rate.



The decrease on the monthly basis was attributed to the decline in local index prices by 0.8 percent. This is mainly due to decrease in prices of food items include *eggs* and *chicken legs*. In addition, lower prices were recorded for *fuel* and the price of *kava Tonga*. On the other hand, the prices of import index increase by 0.1 percent substantially the increase in the prices of *Electricity*, *LP gas*, *timber*, *Roofing iron* and *cement*. The price of *school uniforms* also increased.

On the outlook, the inflation levels will remain above the 5 percent reference target, by NRBT, largely due to higher import prices and the aftermath of the volcanic eruption which also disrupted domestic supply conditions.

Outlook and policy response

Despite the current devastation in the key economic sectors and activities, the outlook is positive as we seek ongoing partnership with all key stakeholders to facilitate economic recovery. This includes continuing the proactive application of fiscal responses, to offset the negative impacts of the natural shocks, pandemic and other crises on the economy.

ENDS