

Monthly Economic Update May 2022

Ministry of Finance (MOF)



Government of Tonga

Key Indicators	(T\$m unless otherwise indicated)			% change	
	May-21	Apr-22	May-22	Annual	Monthly
FISCAL INDICATORS (Government Financial Statistics (GFS) Basis)					
Revenue	41.5	61.5	42.4	2%	-31%
Tax	21.8	18.7	32.2	48%	73%
Grant (cash grants)	16.6	41.5	4.0	-76%	-90%
Current Grant	0.0	5.0	0.0	-	-
Capital Grant	16.6	36.5	4.0	-76%	-89%
Other Revenue (non - tax)	3.1	1.4	6.2	101%	341%
Expenses	33.2	28.9	47.4	43%	64%
Compensation of Employees	14.2	12.7	20.9	47%	64%
Use of Goods and Service	16.1	12.9	20.4	26%	57%
Interest	0.2	0.5	0.2	7%	-47%
Subsidies	0.0	0.1	0.1	115%	-4%
Grant	0.5	0.4	0.2	-63%	-52%
Social benefits	1.5	1.8	1.9	28%	7%
Other Expenses	0.6	0.5	3.7	495%	689%
Gross Operating Balance	8.4	32.6	-5.0	-160%	-115%
Net Acquisition of Non-financial Assets	4.5	2.1	3.7	-17%	76%
Net Lending/Borrowing Requirement (Financing)	3.9	30.5	-8.7	-326%	-129%
Total Public Debt (External & Domestic) (\$million)	508.0	N/A	N/A	-	-
FISCAL ANCHORS					
Compensation of Employees to domestic revenue to be less than 53% (annual target)					
monthly performance (%)	57%	63%	54%	-	-
ECONOMIC ACTIVITY INDICATORS (OET basis)					
Exports (\$million)	12.5	12.6	12.7	2%	1%
Imports (\$million)	461.9	487.5	496.0	7%	2%
MONETARY & PRICE INDICATORS					
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 May 2022 dropped significantly to a \$8.7 million deficit compared to the \$30.5 million surplus recorded in April 2022.

The total revenue – both from domestic revenue and grants performance – for the reviewed month (Table 1 above) fell substantially by \$19.1 million (or 31 percent) compared to the previous month. A 91 percent of the total revenue recorded for May 2022 were from domestic revenue while 9 percent were from grants. The annual total revenue increased slightly by \$0.9 million (or 2 percent). The details will be discussed in the Revenue section.

The total monthly expenses recorded in May 2022 increased to \$47.4 million from the \$28.9 million recorded in previous month. Simultaneously, it also rose by \$14.2 million (or 43 percent) when compared to May 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 tsunami and the local outbreak of COVID-19 in early 2022. The COVID-19 traffic light system is now orange leading to easing of mobility restriction, but the Ministry of Health still urge the general public to stay alert and be cautious at all times. The easing of mobility restriction has aided the Government's efforts on economic recovery.

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.

Release Date:

June 2022

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Domestic Revenue ¹

In May 2022, **84 percent of the total domestic revenue** (\$38.4 million) was from tax revenue, while **16 percent was from other revenue** (non-tax items). Overall, the total domestic revenue for the reviewed month was sufficient when compared to the total monthly expenses.

Tax Revenue

Table 2 below indicate a substantial **increase of \$13.6 million, or 73 percent in total tax revenue collected in May 2022 to \$32.2 million**, compared to \$18.7 million collected in May 2022. On the same note, yearly performance increased by \$10.4 million or 48 percent.

Tax Revenue (\$M)					
Components of Tax	May-21	Feb-22	Mar-22	Apr-22	May-22
Taxes on income	4.2	2.1	2.3	4.2	12.2
Taxes on property	0.0	0.02	0.01	0.02	0.02
Taxes on G & S	15.7	21.2	11.6	12.6	17.9
Taxes on trade	1.8	-10.6	1.6	1.8	2.0
Total	21.8	12.6	15.5	18.7	32.2

Table 2: Source: MOF

All of the Tax categories present a pleasing level during the reviewed month, reflecting the pace of economic activities after easing few of COVID-19 lockdown and restrictions. This is led by **Taxes on Income** with a \$8.0 million increase from \$4.2 million collected in April 2022. This is driven from **Corporate Tax** received from large business of \$5.3 million followed by **Withholding Tax (non-residents)** of \$2.3 million.

Concurrently, the **Taxes on Goods & Services** jumped higher by \$5.3 million, mainly attributed from the revenue received from **Excise Tax** of \$4.0 million following **Consumption Tax on Import and Domestic** by \$1.1 million and \$0.2 million respectively.

In addition, **Taxes on Trade** rose by \$0.2 million mostly from **PG Forex Levy**. The **Taxes on Property** increased during the month but only at a minimal amount.

The favourable position also signifies the improvement in tax and customs administration including enhanced management of tax arrears

and the ongoing implementation of the Electronic Sales Register System (ESRS).

Non-Tax Revenue

The **non-tax revenue recorded for May 2022 increased by \$4.8 million (Table 3)** compared to April 2022, with an upsurge of \$3.0 million from May 2021.

Non-Tax Revenue (\$M)					
Components of Other Revenue	May-21	Feb-22	Mar-22	Apr-22	May-22
Property income	2.0	0.0	0.1	0.4	4.8
Sales of G&S	1.0	0.3	0.5	0.7	1.3
Fines, penalties, & forfeits	0.1	0.0	0.0	0.0	0.1
Voluntary transfer other than grant	0.0	0.0	0.0	0.0	0.0
Misc. & unidentified revenue	0.0	0.3	0.0	0.3	0.0
Total	3.1	0.6	0.6	1.4	6.2

Table 3: Source: MOF

This was largely from the receipts from **Property Income** of \$4.4 million which is most of the **Dividends** received from the **Public Enterprise's (PE's)**. The revenue from **Sales of Goods & Services** likewise increased by \$0.5 million specifically from **Visa and Passport Fees**. This is in line with the continuous sending of seasonal workers to overseas.

Grants

The **total grant receipts for May 2022, was \$4.0 million (Table 4)** a drop from \$41.5 million recorded in April 2022. This is only from Capital Grant, with no records of Current Grant receipts. Annually, grants decreased by \$12.7 million from \$16.6 million recorded in May 2021.

Grant (\$M)					
	May-21	Feb-22	Mar-22	Apr-22	May-22
Current Grant	0.0	0.0	5.8	5.0	0.0
Capital Grant	16.6	4.4	11.6	36.5	4.0
Total	16.6	4.4	17.4	41.5	4.0

Table 4: Source: MOF

The Capital Grants were \$1.9 million from World Bank/International Development Agency (IDA), \$1.0 Disaster Donors and \$0.6 million from Australia. This in-kind assistance was for various project and the assistance was targeted towards the recent disaster.

Expenses

The **total expenses recorded in May 2022 further increase to \$47.4 million** from \$28.9 recorded in

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.

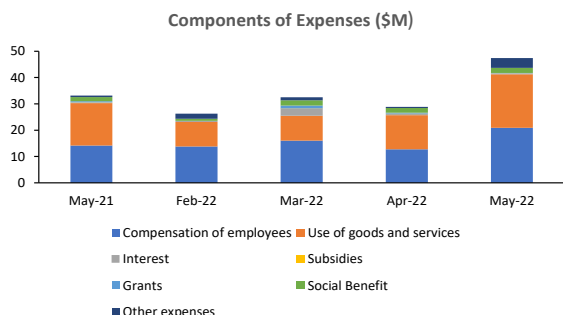
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April 2022. On yearly basis, total expenses increase by \$14.2 million. The increase in both periods—monthly and annual comparison—was mainly due to higher spending on *Compensation of employees* and *Uses of goods and services*.



The significant increase on *Compensation of employees* was mostly attributed to the expense towards *Salaries* of \$5.2 million followed by *Other Allowances* of \$1.1 million and *Overtime* payment of \$0.8 million. This reflects the increase in recruiting of critical posts before the end of the financial year, including salary revision within the Government ministries and also the payment for frontliner hazard allowance.

Concurrently, the increased, by \$7.4 million, in spending on the *Use of goods and services* was due to *Other Special Projects* by \$2.1 million, *Grant* by \$1.3 million, *Contract Service* by \$0.7 million, *Medical Supplies* by \$0.6 million and *Fishing Supplies* by \$0.4 million. These were all contributed to the work toward mitigating the impacts created by HTHH disaster and the COVID-19 outbreaks.

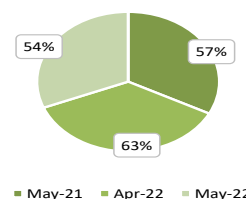
Other Expenses increased as well during the reviewed month by \$3.2 million, owing to the costs of Government Development Project and Constituency of \$1.8 million and \$1.4 million respectively. This indicates the level of support and help rolled out by the Government to assist the communities and protect the vulnerable during this difficult time.

However, the payments on *Interest* and *Grants* decreased by \$0.2 million each, led by less spending on *Contribution to Organisations* and the *Public Debt Interest Payment Domestic*.

Fiscal Anchors and policy discussion

The monthly performance on the *compensation of employees as a percentage of domestic revenue* in **May 2022 was 54 percent** (refer Table 1), 1 percent above the annual target of 53 percent. This is satisfactory compared to April 2022 and May 2021.

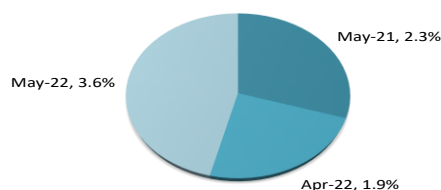
Compensation of Employees as % of Domestic Revenue



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

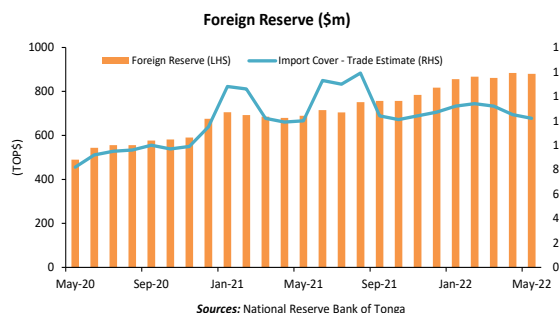
The monthly *domestic revenue as a percentage of GDP* in **May 2022 was 3.6 percent**, which is higher than the level recorded in April 2022 and also May 2021. This shows an adequate level and an improvement in revenue collection.

DOMESTIC REVENUE AS % OF GDP



Foreign Reserves

The **foreign reserves recorded for May 2022 fell slightly to \$880.4 million**, a drop of \$3.6 million from \$884.4 in April 2022, equivalence to 12.2 months of imports.



Sources: National Reserve Bank of Tonga

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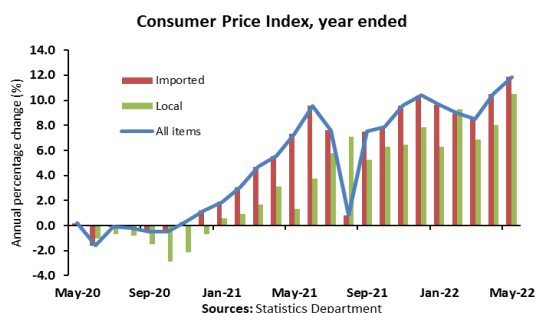
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The decline is stemmed from an increase in transfers for import payments, Government services, and external loan repayments. In addition, lower official grants received during the reviewed month contributed to the decline. Even though there is downward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

On annual basis foreign reserves increased by \$190.9 million from \$689.5 million. The majority of the official foreign reserves are held in USD, AUD and NZD.

Inflation Rates

The annual headline inflation rate for May 2022 further increased to 11.3 percent, the highest inflation level since June 2008. This is much higher compared to 4.7 percent inflation in May 2021, and far above the NRBT's target of 5 percent reference rate.



The increased in prices of both imported and 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 food items.

On monthly performance, the main contributor is the increase in price of *petrol* and *diesel* in import prices and the prices of *electricity* and 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 May 2022 fell to \$3.83 from \$3.88, while diesel rose to \$4.18, up from \$4.03 compared to April 2022. This reflected a 0.05 *seniti* fall in the price of petrol and a 0.15 *seniti* increase in the price of diesel.

Domestic Fuel Prices (TOP\$)			
	May-21	Apr-22	May-22
Petrol	2.93	3.88	3.83
Diesel	2.63	4.03	4.18

Sources: MTED

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