

Monthly Economic Update October 2022

Ministry of Finance (MOF)



Government of Tonga

| Key Indicators | (T\$m unless otherwise indicated) | | | % change | |
|---|-----------------------------------|--------|--------|----------|---------|
| | Oct-21 | Sep-22 | Oct-22 | Annual | Monthly |
| FISCAL INDICATORS (Government Financial Statistics (GFS) Basis) | | | | | |
| Revenue | 26.0 | 71.0 | 27.5 | 6% | -61% |
| Tax | 20.2 | 21.2 | 21.0 | 4% | -1% |
| Grant (cash grants) | 3.0 | 48.4 | 4.6 | 53% | -90% |
| Current Grant | 0.0 | 0.0 | 0.0 | - | - |
| Capital Grant | 3.0 | 5.4 | 4.6 | 53% | -15% |
| Other Revenue (non - tax) | 2.8 | 1.5 | 2.0 | -29% | 33% |
| Expenses | 35.6 | 35.9 | 42.2 | 19% | 18% |
| Compensation of Employees | 16.1 | 11.8 | 16.3 | 1% | 38% |
| Use of Goods and Service | 14.4 | 16.9 | 19.0 | 32% | 12% |
| Interest | 0.2 | 2.5 | 0.3 | 50% | -88% |
| Subsidies | 0.2 | 0.0 | 0.0 | -100% | - |
| Grant | 0.1 | 0.4 | 0.1 | 0% | -75% |
| Social benefits | 2.2 | 1.6 | 2.6 | 18% | 63% |
| Other Expenses | 2.4 | 2.7 | 3.9 | 63% | 44% |
| Gross Operating Balance | -9.6 | 35.1 | -14.6 | 52% | -142% |
| Net Acquisition of Non-financial Assets | 2.8 | 3.1 | 2.1 | -25% | -32% |
| Net Lending/Borrowing Requirement (Financing) | -12.4 | 32.0 | -16.8 | 35% | -153% |
| Total Public Debt (External & Domestic) (\$million) | NA | NA | NA | - | - |
| FISCAL ANCHORS | | | | | |
| Compensation of Employees to domestic revenue to be less than 53% (annual target) | | | | | |
| monthly performance (%) | 70% | 52% | 52% | - | - |
| ECONOMIC ACTIVITY INDICATORS (OET basis) | | | | | |
| Exports (\$million) | 13.9 | 11.8 | 10.8 | -22.3% | -8.5% |
| Imports (\$million) | 500.1 | 531.7 | 541.6 | 8.3% | 1.9% |
| MONETARY & PRICE INDICATORS | | | | | |
| Remittances (annual total) | 485.4 | 478.9 | 475.8 | -2.0% | -0.6% |
| Official Foreign Reserves | 757.0 | 895.3 | 877.0 | 15.9% | -2.0% |
| Import Cover - Trade estimate (months) | 12.0 | 14.2 | 13.9 | 15.8% | -2.1% |
| Import Cover - OET estimate (months) | 9.3 | 16.2 | 15.6 | 67.7% | -3.7% |
| Inflation (annual % change) | 7.2 | 14.0 | 12.9 | - | - |
| Retail Fuel Prices: | | | | | |
| Petrol (T\$/litre) | 3.01 | 3.50 | 3.56 | 18.3% | 1.7% |
| Diesel (T\$/litre) | 2.94 | 3.98 | 4.11 | 39.8% | 3.3% |

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 October 2022 indicated a deficit of -\$16.8 million, compared to the \$32.0 million recorded in September 2022.**

The total **revenue**—both from domestic revenue and grants performance—**for the reviewed month (Table 1 above) fell substantially by \$43.5 million** (or 61 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 6 percent). The details will be discussed in the Revenue section.

The total monthly **expenses recorded in October 2022 increase significantly by \$6.3 million** (or 18 percent) compared to September 2022 and **increased by \$6.6 million** (or 19 percent) compared to October 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

Domestic revenue consists of two components: *tax* and *other revenue*. The majority of domestic

Release Date:

January 2023

HIGHLIGHT:

| | |
|------------------|---|
| Fiscal Balance | 1 |
| Revenue | 2 |
| Expense | 2 |
| Fiscal anchors | 3 |
| Foreign Reserves | 3 |
| Inflation rates | 4 |
| Fuel prices | 4 |

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revenue is from the revenue collection on taxable items. In October 2022, 76 percent of total domestic revenue was from the tax revenue and the rest from other revenue (non-tax items). Generally, the domestic revenue for October 2022 was sufficient to cover the total monthly expenses.

Tax Revenue

Table 2 below reflects a decline in total tax revenue collected in October 2022 of 9 percent to \$20.9 million from \$21.2 million from the previous month.

| TAX REVENUE (\$M) | Oct-21 | Jun-22 | Jul-22 | Aug-22 | Sep-22 | Oct-22 |
|-------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Taxes on income | 3.8 | 7.0 | 5.8 | 2.8 | 2.8 | 3.1 |
| Taxes on property | 0.02 | 0.02 | 0.05 | 0.03 | 0.02 | 0.02 |
| Taxes on G & S | 13.5 | 10.3 | 12.2 | 14.7 | 15.9 | 15.0 |
| Taxes on trade | 1.6 | 1.9 | 2.0 | 2.0 | 2.5 | 2.8 |
| Total | 19.0 | 19.2 | 20.1 | 19.5 | 21.2 | 20.9 |

Table 2: Source: MOF

The downward movement was mainly due to the decrease in *Taxes on Goods and Services* by 0.9 million in October 2022. This is driven from Consumption Tax (domestic) which fell by 2.8 million from the previous month. Similarly, the total *Taxes on Income* also increased by 0.3 million mainly on Corporate Tax from Large Businesses.

On the annual basis, total tax revenue increased by 1.9 million.

Non - Tax Revenue

Table 3 below reflects a significant rise in other revenue collected in October 2022 by 34 percent to \$2.0 million compared to \$1.5 million from the previous month. This was driven mainly from *Property Income* led by Interest Receipts from Deposits for the month of October 2022.

| Non-Tax Revenue (\$M) | | | | | | |
|-------------------------------|------------|------------|------------|------------|------------|------------|
| Components of Other Revenue | Oct-21 | Jun-22 | Jul-22 | Aug-22 | Sep-22 | Oct-22 |
| Property income | 1.4 | 1.8 | 0.1 | 0.1 | 0.1 | 0.2 |
| Sales of G&S | 1.0 | 1.7 | 1.1 | 1.7 | 1.3 | 1.4 |
| Fines, penalties, & forfeits | 0.06 | 0.08 | 0.10 | 0.10 | 0.08 | 0.10 |
| Voluntary transfer other than | 0.01 | 0.00 | 0.10 | 0.00 | 0.000 | 0.00 |
| Misc. & unidentified revenue | 0.30 | 0.30 | 0.30 | 0.10 | 0.0 | 0.30 |
| Total | 2.8 | 3.9 | 1.7 | 2.0 | 1.5 | 2.0 |

Table 3: Source: MOF

The revenue collection from *Fines, penalties, & forfeits* and *Sales of goods and services* also increased by \$0.02 million and \$0.1 million respectively compared to the previous month.

Grants

The total grant receipts for October 2022, was \$4.6 million (Table 4) a decline from \$5.4 million recorded in September 2022. This is only from Capital Grant, with no records of Current Grant receipts. Annually, grants increased by \$1.6 million from \$3.0 million recorded in October 2021.

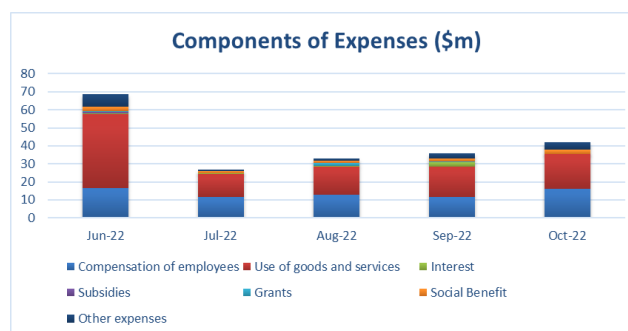
| GRANT (\$M) | Oct-21 | Jun-22 | Jul-22 | Aug-22 | Sep-22 | Oct-22 |
|---------------|------------|------------|------------|------------|------------|------------|
| Current Grant | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Capital Grant | 3.0 | 5.3 | 5.0 | 2.2 | 5.4 | 4.6 |
| Total | 3.0 | 5.3 | 5.0 | 2.2 | 5.4 | 4.6 |

Table 4: Source: MOF

The Capital Grants were \$0.8 million from World Bank/International Development Agency (IDA), \$1.7 UN International Children's Fund, \$0.2 million from the World Health Organization and \$0.1 million from the Forum Fisheries Agencies. This in-kind assistance was for various project and the assistance was targeted towards the recent disaster.

Expenses

The total expenses recorded in October 2022 increased from \$35.8 million in September to \$41.9 million recorded in October 2022. On yearly basis, total expenses increased by \$6.5 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 *Salaries* by \$4.1 million followed by Contract Labour of \$0.3 million.

Simultaneously, the increased by \$3.9 million in

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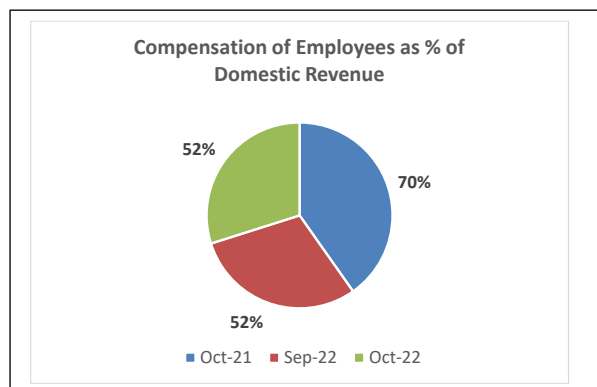
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spending on the *Use of goods and services* was derived from increasing in Consultant & Technical Assistants Professional Fees by \$1.3 million, Grant by \$1.1 million and *Insurance* by \$1.0 million. These were all contributed to the work toward mitigating the impacts created by HTHH disaster and the COVID-19 outbreaks.

Other Expenses increased as well during the reviewed month by \$1.1 million, attributed to more payments on Subsidies and Grant for Sport Activities of \$2.4 million and \$0.09 million respectively.

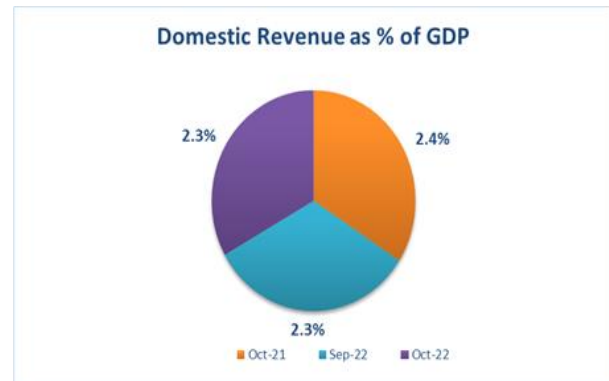
Fiscal Anchors and policy discussion

The monthly performance on the *compensation of employees as a percentage of domestic revenue* in **October 2022 was 52 percent** (refer Table 1), 1 percent below the annual target of 53 percent. This is constant compared to September 2022 and a significant fell compared to October 2021.



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

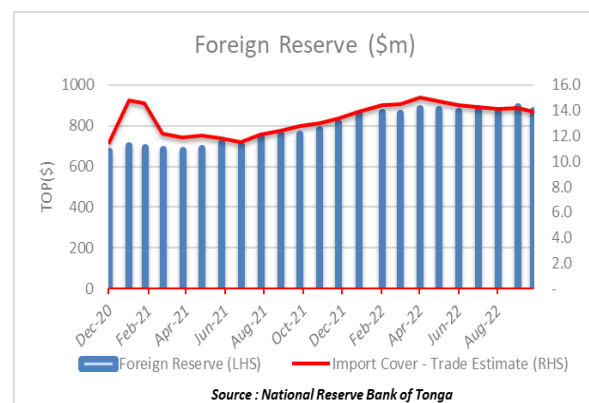
The monthly *domestic revenue as a percentage of GDP* in **October 2022 was 2.3 percent**, which is equal to the level recorded in October 2022 and less than the level recorded in October 2021. This shows the upward trend of spending in an adequate level.



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 **October 2022 fell slightly to \$877 million**, a decrease by \$18.3 million from \$895.3 in September 2022, equivalence to 13.9 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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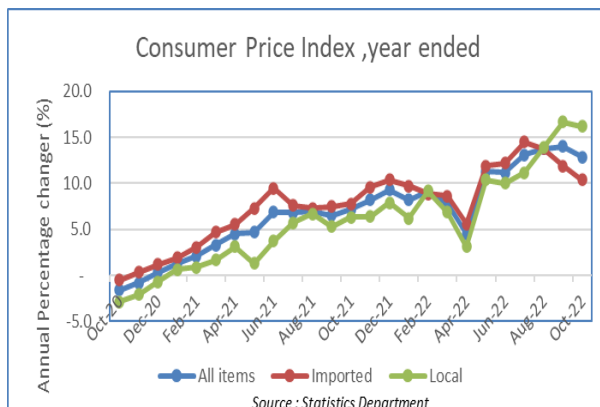


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On an annual basis foreign reserves increased by \$120 million from \$757 million. The majority of the official foreign reserves are held in USD, AUD and NZD.

Inflation Rates

The annual headline inflation rate for October 2022 increased to 12.9 percent compared to the 7.2 percent recorded in October 2021 while the monthly prices decreased by 1.1 percent from the previous month prices of September 2022 (14 percent). The inflation of 12.9 percent is much higher above the NRBT's target of 5 percent reference rate.



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

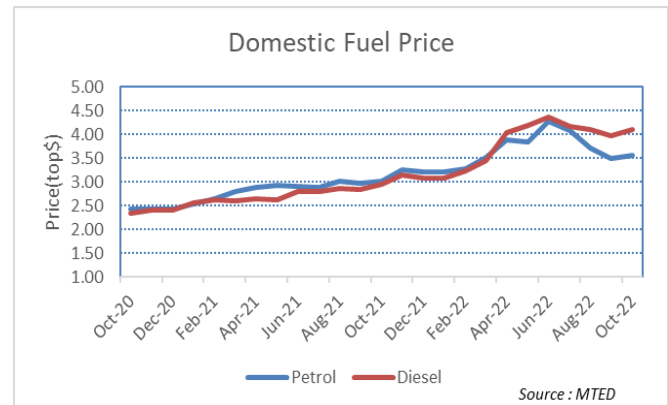
On monthly performance, the main contributor is the decrease in price of *petrol* in import prices and some prices of food items in domestic prices. Similarly, on an annual performance, the main contributor includes the increase in prices of imported and local food items, fuel and electricity.

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 October 2022 rise to \$3.56 from \$3.50, while diesel rose to \$4.11 up from \$3.98 compared to September 2022.

This reflected a 0.06 *seniti* rise in the price of petrol and a 0.13 *seniti* increase 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.

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