Monthly Economic Update January 2023

Ministry of Finance (MOF)

Government of Tonga

Key Indicators	(T$m unless otherwise indicated)			% change	
	Jan-22	Dec-22	Jan-23	Annual	Monthly
FISCAL INDICATORS *(Government Financial Statistics (GFS) Basis)*					
Revenue	**61.9**	**30.4**	**25.7**	-58%	-15%
Tax	17.6	25.6	21.9	24%	-14%
Grant *(cash grants)*	43.4	3.7	1.9	-	-49%
Current Grant	*0.0*	*0.0*	*0.0*	-	-
Capital Grant	*43.4*	*3.7*	*1.9*	-	-
Other Revenue *(non - tax)*	0.9	1.1	1.8	100%	64%
Expenses	**22.1**	**32.0**	**21.8**	-1%	-32%
Compensation of Employees	11.6	12.2	11.4	-2%	-7%
Use of Goods and Service	6.9	12.4	8.2	19%	-34%
Interest	0.3	0.1	0.3	4%	-
Subsidies	0.0	0.3	0.1	-	-
Grant	0.1	0.3	0.3	200%	0%
Social benefits	2.6	2.6	1.2	-	-54%
Other Expenses	0.6	4.1	0.3	-50%	-93%
Gross Operating Balance	39.8	-1.6	3.9	-90%	-347%
Net Acquisition of Non-financial Assets	1.0	1.6	0.9	-10%	-44%
Net Lending/Borrowing Requirement (Financing)	38.8	-3.2	3.0	-92%	-195%
Total Public Debt *(External & Domestic)* ($million)	N/A	N/A	N/A	-	-
FISCAL ANCHORS					
Compensation of Employees to domestic revenue to be less than 53% (annual target)					
monthly performance (%)	63%	46%	48%	-	-
ECONOMIC ACTIVITY INDICATORS *(OET basis)*					
Exports ($million)	13.8	-	-	-	-
Imports ($million)	504.0	-	-	-	-
MONETARY & PRICE INDICATORS				-	-
Remittances *(annual total)*	489.9	-	-	-	-
Official Foreign Reserves	856.1	868.9	-	-	-
Import Cover - Trade estimate *(months)*	13.2	-	-	-	-
Import Cover - OET estimate *(months)*	17.0	13.5	-	-	-
Inflation *(annual % change)*	8.2	9.2	9.7	18%	5%
Retail Fuel Prices:					
Petrol *(T$/litre)*	3.20	3.52	3.35	5%	-5%
Diesel *(T$/litre)*	3.09	4.03	3.76	22%	-7%

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 in February 2023)*

Release Date:

February 2023

HIGHLIGHT:

Fiscal Stability

The provisional **fiscal balance for January 2023 increased to a $3.0 million surplus** compared with $3.2 million deficit recorded in December 2022.

The **total revenue**—both from domestic revenue and grants performance—for the reviewed month *(Table 1 above)* **shows a decline to $25.7 million** (or 15 percent) compared to the previous month. Annually, **total revenue decreased by $36.2 million (**or 58 percent). The details will be discussed in the Revenue section below.

The **total monthly expenses recorded in January 2023 declined by $10.2 million** (or 32 percent) compared to December 2022. Simultaneously, this is a **$0.1 million** (or 1 percent) **decrease** compared to January 2022. Further details will be provided in the Expense section below.

The disruption to the economy due to the dual shocks (COVID-19 and HTHH eruption) in 2022, has generated a fiscal surplus of $3 million for the month of January 2023, with continued weakness shown in domestic revenue and controlled in expenses compared to the previous month and same time last year. Government had continued to observe prudence in fiscal management and prioritization of essential activities.

At the same time, whilst the economy is still in recovery stage, the government embarked in coordinating partnerships with key stakeholders, including the private sector, civil society, and development partners to restore growth in the economy.

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Domestic Revenue [1]

In January 2023, **around 85 percent of total domestic revenue ($23.7 million) were from tax revenue** and the remaining 15 percent were from other sources of revenue (non-tax items). Although, the domestic revenue declined, compared the level in December 2022, it was still sufficient to cover the total monthly expenses.

Tax Revenue

Table 2 below indicates **a fall** of **14 percent, or $3.7 million** in total tax revenue collected in January 2023 to **$21.9 million,** compared to $25.6 million collected in December 2022. On an annual basis, the tax revenue increased by $4.3 million. The constant trend—both monthly and annual basis—indicated the slowdown in the economic activities due to the impacts of the HTHH destructive event.

TAX REVENUE ($M)	Jan-22	Oct-22	Nov-22	Dec-22	Jan-23
Taxes on income	3.7	3.1	6.8	2.9	4.8
Taxes on property	0.01	0.02	0.02	0.03	0.04
Taxes on G & S	12.4	15.0	19.9	19.8	12.9
Taxes on trade	1.5	2.8	3.0	2.9	4.2
Total	**17.6**	**20.9**	**29.7**	**25.6**	**21.9**

Table 2: *Source:* MOF

The decrease was only occurred in the ***Taxes on Goods & Services***, a fall from $19.8 million to $12.9 million in January 2023, a drop of $6.9 million. This was largely stemmed from *Consumption Tax - Import* income collection.

Taxes on Income increased by $1.9 million mainly from *Withholding Tax* from non-residents of $0.7 million and *PAYE Tax – Non-Government* received from large/small businesses of $0.3 million.

Taxes on Trade also increased and was attributed to the increase in revenue collected from *Business Import Duties* to $4.2 million from $2.9 million as in December 2022. Additionally, ***Taxes on Property*** increased slightly from the previous month.

Non-Tax Revenue

The non-tax revenue recorded for January 2023 indicated an increase **by $0.6 million** *(Table 3)* compared to December 2022, and $0.8 million on an annual basis.

Components of Other Revenue($M)	Jan-22	Oct-22	Nov-22	Dec-22	Jan-23
Property income	0.2	0.3	0.2	0.1	0.2
Sales of G&S	0.7	1.4	1.7	0.9	1.4
Fines, penalties, & forfeits	0.0	0.10	0.09	0.03	0.06
Voluntary transfer other than grant	0.0	0.000	0.000	0.000	0.00
Misc. & unidentified revenue	0.00	0.3	0.0	0.1	0.04
Total	**0.9**	**2.1**	**2.0**	**1.1**	**1.7**

Table 3: *Source:* MOF

The increase was mainly due to income received from majority of all the indexes of non-tax revenue, led by ***Sales of Goods & Services*** of $0.5 million, mostly from *Administrative Fees* such as *Motor Driving License*, *Ground Handling Service Charge*, *Custom Entry Processing Fees and Police Record fees.*

The ***Property Income*** increased by $0.1 million was mainly due to the increase in *Interest*. Moreover, the ***Fines, penalties & forfeits*** and ***Misc. & unidentified revenue*** had also increased in the reviewed period, compared to December 2022 and the corresponding period, January 2022.

Grants

The total cash grant receipts for January 2022, **decreased by $1.8 million** *(Table 4)* to $1.9 million compared to $3.7 million recorded in December 2022. This was mainly reflected from Capital Grant only, as no records of Current Grants were received in January 2023. On annual basis, grants decreased by $42.6 million from $44.5 million recorded in January 2022, due to the increase in receipts, following the HTHH disaster in January 2022.

GRANT ($M)	Jan-22	Oct-22	Nov-22	Dec-22	Jan-23
Current Grant	0.0	0.0	0.0	0.0	0.0
Capital Grant	44.5	4.6	2.4	3.7	1.9
Total	**44.5**	**4.6**	**2.4**	**3.7**	**1.9**

Table 4: *Source:* MOF

Capital grants received during the reviewed month included, $0.06 million from Australia-Others and $1.9 million from World Bank/International Development Agency (IDA). This in-kind assistance was directly tagged for immediate relief and recovery support towards HTHH impacts.

[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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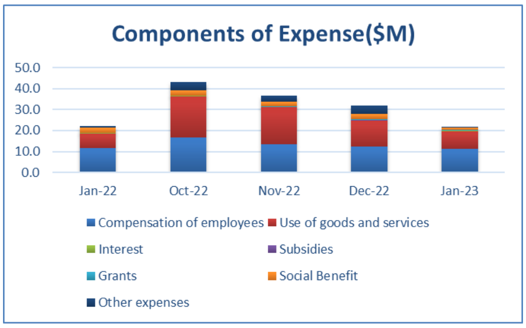
Expenses

The **total expenses recorded in January 2023 fell to $21.8 million**, declining from $32.0 million in the previous month by $10.2 million. This was mainly due to lower spending on the ***Use of goods and services***. On annual basis, total expenses decrease by $0.3 million was recorded.

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



The lower spending on the ***Use of goods and services*** of $8.2 million was primarily from payments on *Consultants & Technical Assistants Professional Fees* of $0.9 million, *Other Special Projects* by $0.6 million followed by Maintenance of Roads of $0.6 million. This reflected that most of the projects were on hold due to the HTHH incident.

At the same time, ***Compensation of employees'*** payments also decreased during the month by $0.8 million mainly from Salaries of $0.3 million and $0.1 million from Overtime expenses.

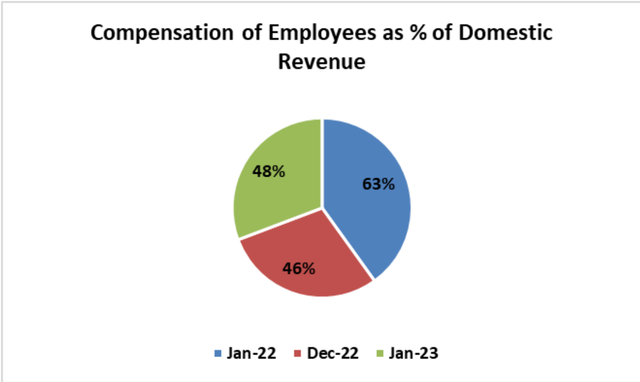
Consequently, the spending on ***Social Benefit*** declined by $1.2 million, generally from the *Government Contributions to Retirement Fund.*

Other Expenses decreased during the month by $3.8 million mainly on *Subsidies* expenses to support the people through these adversity times.

However, the spending on ***Interest*** and ***Grants*** were increased during the reviewed month at minimal amount, while there was no record of spending on ***Subsidies***.

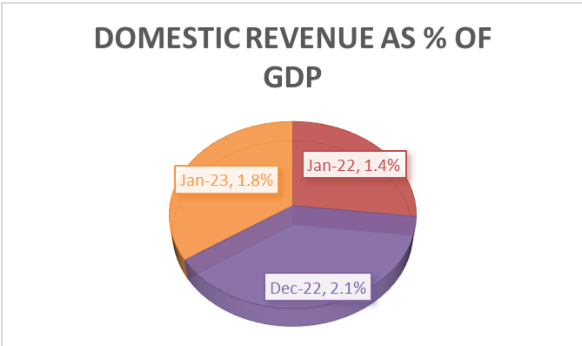
Fiscal Anchors and policy discussion

The monthly performance on the ***compensation of employees as a percentage of domestic revenue*** in January 2023 was 48 percent higher (*refer Table 1*), compared to the previous month (46 percent).



The performance in January 2023 was maintained below the target of 53 percent compared to December 2022.

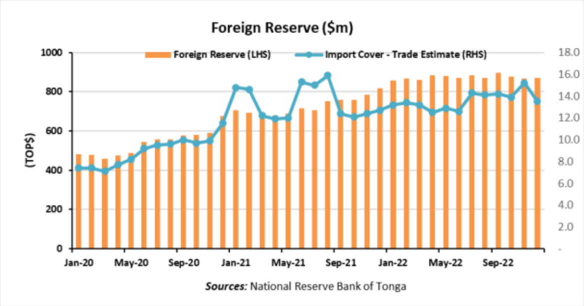
The monthly ***domestic revenue as a percentage of GDP*** in January 2023 was 1.8 percent, lower than the level recorded in December 2022 and higher than what has been recorded annually.



The government continues to implement policy measures to strengthen the revenue collection and restore growth while safeguarding recovery with the available resources.

Foreign Reserves

The latest data shows that the **official foreign reserves held at the end of December 2022 was recorded at $868.9 million**.



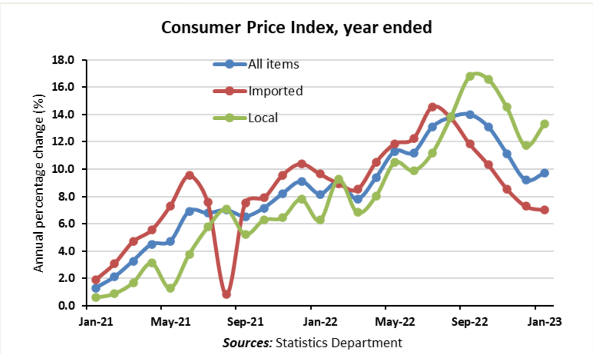
Sources: National Reserve Bank of Tonga

The is equivalent to 13.5 months of imports, above the minimum threshold of 3 months. In year ended terms, foreign reserves increased by $51.4 million, indicating that Tonga remains at adequate levels. This stems from high remittances inflow to the country from seasonal workers as well as family and relative overseas.

In the near terms, the foreign reserve is projected to rise, supported by higher receipts of development assistance to support the reconstruction from HTHH and strong levels of money transferred not only from seasonal workers but from Tongan communities abroad to support their families.

Inflation Rates

The annual headline inflation rate for January 2023 increased by 0.5 percent to 9.7 percent compared to 9.2 percent in December 2022, attributed to the fluctuation in domestic and imported prices. This is above the NRBT's target of 5 percent reference rate.



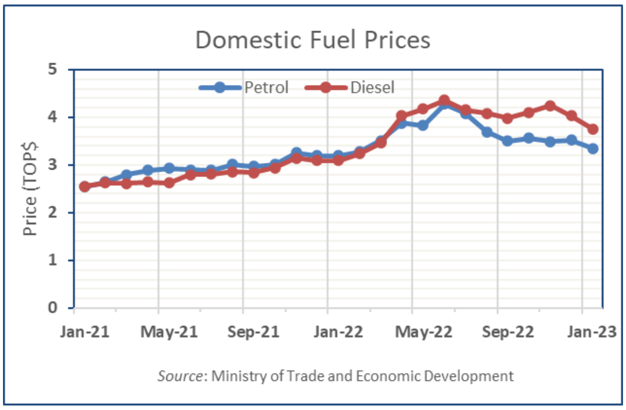
Sources: Statistics Department

Higher local food supply increases inflation by 1.6 percent. However, global food prices also reduced imported inflation by 0.3 percent. Domestic components of the CPI continued to dominate the headline inflation, since September 2022, mainly attributed to the increase in price of some local food items such as meat, vegetables and seafood.

On the outlook, the inflation levels will remain above the 5 percent threshold.

Fuel Prices

The **domestic retail price for petrol in January 2023 fell to $3.35 from $3.52**, similarly diesel also fell to $3.76 from $4.03 compared to December 2022. This reflected a large drop in both petroleum prices of *0.17 seniti* and *0.27 seniti* in the price of diesel. On annual basis, both petrol and diesel increased by 15 seniti and 67 seniti respectively.



Source: Ministry of Trade and Economic Development

The movements of Platts Singapore, the international freight rate along with the month's exchange rate impacted the monthly petroleum price for Tonga. At the same time, there is pressure on crude oil prices due to the political tension between Russia-Ukrainian.

The outlook is however expected to rise further with the on-going Russia-Ukraine tension, 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

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