

Budget Statement for Year Ending 30<sup>th</sup> June 2009  
*Budget Statement*

Figure 2. Societal Contribution to Gross Domestic Product, constant prices for the year 1999/00





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## 1. OVERVIEW

The person delivering the Budget this year has changed, but I would like to reassure Honourable Members that, while there are changes in emphasis and priorities, the broad policies underlying the budget are not greatly changed.

The government remains committed to the development policies set out in the Eighth Strategic Development Plan. The present budget covers the final year of the period of the Eighth Development Plan and seeks further to achieve the strategic goals set out in the Plan.

We are able to do this because we have now come through the very serious difficulties that have afflicted us in the last three years arising from the wage settlement of 2005 and the events of 16 November 2006. We have been seriously distracted from the longer term strategic issues by the necessity of ensuring our economic and financial stability. We can, I think, congratulate ourselves on the way we have handled some very significant threats to the viability of our public finances and even to the stability and peace of the nation.

We have not come through unscathed. It has been necessary to reduce the size of the public service by about one fifth to accommodate the new rates of pay within the available revenues. Across the public service, ministries have lost able people important to the smooth running of the ministries. One of the tasks we face is the rebuilding and retraining of the public service in order to make good as far as possible the emergent gaps.

The contraction in the public service means also that many people whom the government was able to assist in earlier years have found the levels of support and government services available to them reduced. Most of those who were suffering hardship before 2005 have probably found their situations deteriorating over recent years. We have to redouble our efforts to support those in our community who suffer the greatest hardships.

The turnaround in our position is evident from the economic data. In 2006-07 our economy contracted by 3.2% as a direct result of the civil disturbance of November 2006 and a more indirect result of the public sector wage settlement of 2005. Preliminary estimates for 2007-08 indicate resumption of growth in the economy at about 1.2%. In 2008-09 growth is forecast at about 3%. So for the coming financial year we expect to resume what is historically a relatively high level of growth. With that growth, we can expect renewed generation of employment and incomes.

There are, as ever, some clouds on the horizon. Weaknesses in the United States financial system arising from sub-prime mortgage lending have been transmitted around the world, with a consequent reluctance of banks to lend to each other, and global constraints on credit provision. This threatens economic growth in a number of countries, though principally in the United States.

There has also been an escalation in the price of oil, with the world price of oil recently touching US\$135 per barrel. Various reasons for this escalation have been put forward. It is partly the result of the weakness of the US dollar – the price escalation in terms of the Euro and other strong currencies is notably less severe. It is attributed also to high demand for energy in the rapidly growing and very large markets of China and India. On the supply side, concerns over falling stocks have influenced prices. OPEC has declined to respond to the price escalation by increasing output. Inflationary pressures arise also from the sharp increases in the prices of rice and other basic foodstuffs.

These developments suggest the possibility of deflationary measures to contain price rises, bringing with them lower growth and the possibility of a significant downturn in global economic activity. This would potentially have a significant effect on the growth of the Tongan economy. The government will monitor international developments and make adjustments to economic and budgetary projections as necessary. At present, however, slower global growth is anticipated rather than a significant downturn.

## **2. GROWTH OF THE PRIVATE SECTOR**

The revival and continued growth of the Tongan economy depend on the initiative and energies of the private sector. One of the central goals of the Eighth Development Plan was the promotion of sustained growth in the private sector. There are three aspects to this. Firstly, there is the facilitation of formation and expansion of private companies, including the various forms of agricultural enterprise. Through a Task Force drawing members from the public and private sectors we have been able to facilitate the process of company formation. The process can now be completed more quickly and more cheaply. Innovations in the legal system mean also that disputes over contracts can now be resolved more quickly and cheaply through the courts. The World Bank produces an annual ranking of countries on the basis of 'ease of doing business' in each country. This is an important ranking. It is surprising, given the widespread commitment to promoting expansion of the 'private sector', how difficult it is in many countries to establish and operate a company. I am pleased to say that in the latest World Bank rankings, we have moved up from 51<sup>st</sup> to 47<sup>th</sup> out of 178 countries. In addition, Tonga was designated top reformer in 2007 on account of the changes we have made.

The second area of importance for business development is the quality and extent of communications and transport infrastructures. We have been a pioneer in the Pacific of competitive telecommunications services. Digicel is the latest operator to open for business in Tonga. The development of mobile phone networks has greatly enhanced the facility of doing business in the Kingdom. The impact has been felt most particularly in agriculture, since farmers now have much easier access to their suppliers and agents, and access to information about market prices for their produce.

Transport infrastructure is also of major importance to private business development. Longer, safer and faster roads extend markets and make accessible new sources of inputs. The government is investing TOP6 million per year in road construction and maintenance.

To get maximum value for money, we are contracting out these functions to private operators. This in itself is a contribution to the expansion of the private sector. We anticipate also that the private sector will be more cost effective in providing these services than the public sector. We expect to get more and better roads at a lower cost per kilometer.

But of course, given the geography of the Kingdom, roads are only part of the transport story. We have to have a network of shipping and air transport services that can convey people and goods between our islands. The government has established a new Ministry of Transport to coordinate transport initiatives across the different modes of travel and develop an integrated network serving the needs of the private sector and of people in general across the country.

Service of a rather different type is being provided to agricultural development through the provision of a cool store and snap-freezing facility. This is an important service related to the expansion of our agricultural exports.

Tongan produce will be available in overseas markets in better condition, and as a result we expect significant increases in the volume and value of exports. As a further means of expanding agricultural exports, the government is looking into the possibility of establishing a dedicated outlet for Tongan produce in Auckland. If this facility proves effective, then similar dedicated outlets will be provided in other markets.

The third area of importance for the development of the private sector lies in the reduction of costs of inputs for companies. Energy costs constitute a significant element of the cost structure of many companies. You will all be aware of the sharp increases in the price of oil that have occurred in recent months. The current prices at our local filling stations directly reflect the escalation in the world prices of oil. These price increases feed directly into the costs of companies. The government is allocating TOP660,000 for the strengthening of the Energy Planning Unit that will be seeking practical means of reducing the costs of energy to companies.

The government is also developing as a matter of urgency new sources of energy. Construction of wind turbines will begin this year to reduce dependence on imported fuel. The wind turbines will also contribute to reduction in emissions of gases that are behind the phenomena of global warming and climate change.

These three areas of activity – changes in regulations, improvements to land, sea and air transport facilities, and reductions in the cost of energy – constitute major government programmes in support of the development of the private sector. We are expecting significant increases in investment, both from local investors and foreign investors, as a consequence of our innovations.

It has long been recognised that tourism is a sector in which Tonga might achieve substantial economic returns. Strong growth has been experienced in recent years in visitor arrivals, so that there is some hard evidence to confirm the potential of tourism.

Foreign investors are beginning to recognise the potential. Warwick International Hotels will commence construction of a major new resort in Vava'u this year. The group already owns and operates three hotels in the South Pacific, including the Warwick Fiji Resort and Spa. I would like to wish them well in the venture and assure them of their welcome by the government. This Budget provides additional funding for the upgrading of tourist infrastructure and improvements to sites in Tonga of historic and natural importance. We need to blow our own trumpet about tourism, or perhaps I should say blow our own whistle, as loudly as our celebrated Pupu'apuhi, so that people and investors know that we have a lot to offer.

The expansion of the private sector implies the generation of employment and incomes in Tonga. The government has welcomed also opportunities for Tongans to gain income from short-term employment overseas. New Zealand introduced a guest labour program last year, which has proved very popular. This budget allocates an additional TOP300,000 to support expansion of the program.

### **3. GOVERNMENT REFORM PROGRAM**

We see government and the private sector as each dependent on the other. The government supports the private sector by ensuring that government services are delivered with efficiency and at minimum cost. Necessary services include the infrastructure provision mentioned above, but also education and health services. Without a well educated workforce the private sector will not be able to function. Without a healthy workforce the expansion of the private sector will also be impeded.

These are, of course, services that are essential also to the human development of our people. Extensive work has been done in recent years to reform public finance and administration. Much has been achieved, but of course, the task is never complete. This government will continue to take measures to improve the effectiveness of government, both with regard to improvements in the way our public finances are managed and in the competence of the public service.

To oversee and monitor developments we have established an Expenditure Review Committee. This committee will provide overall supervision of budgetary processes. It will review all reform initiatives and all expenditure requests from ministries. It will review budgetary performance by ministries. This Budget has been prepared in accordance with the recommendations of the Expenditure Review Committee.

We have also set in train the preparation of a Medium Term Budgetary Framework, or MTBF. This is a commitment under Goal 1, on governance, of the Eighth Strategic Development Plan. The MTBF will provide a budgetary focus for dealing with financial issues, such as revenue expansion and allocations of expenditure, and also with management issues in the public service. It will cover the financial year 2008-09, the period of the present annual budget, and the three following years, up to 2011-12. In this framework I and my colleagues in the other ministries will be working to establish feasible parameters for the delivery and funding of public services in the medium term.

One of the principle objectives of the framework exercise is to identify the core functions of ministries and ensure that we deliver core services effectively. The public service is reduced in size and it is necessary that ministries focus on their core functions, rather than spreading limited resources ineffectually over a wide range of functions.

We shall be looking at the possibility of ending some non-core services currently performed by government. We shall also be looking further at opportunities for contracting private operators to undertake activities currently performed by the public service. As I mentioned above, the road construction and maintenance programme is currently being contracted out to private operators. There are opportunities for other services to be contracted out in a similar way.

The privatization programme is continuing. We have moved from assessment of general requirements and potential for privatization to specific privatizations. Five state owned enterprises, including Leiola Duty Free and the Tongatapu Machinery Pool Limited, are currently being rationalized. The government intends also to pursue the sale of its holding in Westpac Bank of Tonga.

The principle of 'user pays' will also be further investigated in consultation with ministries through the Medium Term Budgetary Framework. At present, government does not charge for some services that might reasonably be provided on a payments basis. There are also some services where the charges made fall well short of actual costs to government in terms of time spent in providing the service. The Budgetary Framework exercise will work with ministries in reviewing this aspect of their work. The investigation will keep in mind the capacity of recipients of these services to pay for them.

#### **4. SELECTED BUDGET MEASURES**

In the present budget, we have recognised the underfunding of certain core functions in some ministries and have made allocations to remedy the situation. Thus you will see provision in the budget for additional teachers in the Ministry of Education, TOP150,000 for new health care centres, and TOP300,000 for promotion of primary health care.

I would like to bring to your attention also the provision made to strengthen Tonga's trade and diplomatic links around the world through the establishment of new posts in Brussels, Wellington and Canberra. Tonga's development is increasingly tied in with world economic developments and we need to sustain and enhance our presence in key world centres.

Our membership of the World Trade Organisation is a further aspect of our commitment to greater integration with the world economy. Tonga became the 151<sup>st</sup> member of the WTO when it ratified its membership in 2007. Our tax system, after recent reforms, is now consistent with requirements of the WTO.

We have recognised in this Budget the necessity of maintaining the security of the nation and of its people. There can be no 'good life' for our people if they feel insecure in their homes and on the streets. It is an unfortunate fact of modern life around the world that this basic security is in many places being eroded. We are providing increased funding for the defense force and for the police. We are also acquiring new firefighting equipment and constructing a new prison.

#### **5. RECONSTRUCTION OF NUKU'ALOFA**

In the aftermath of the civil disturbances of November 2006 we face the necessity of rebuilding significant parts of the business district of Nuku'alofa. I am pleased to note that it has been possible to establish a Private Sector Reconstruction Fund with resources provided by Australia and New Zealand. It is expected that draw-downs from this fund will commence soon.

The loan from the People's Republic of China for reconstruction remains under consideration. The loan is of substantial size relative to our public finances, and consequently the implications of such a large loan for debt servicing under the budget needs to be taken carefully into consideration. This can be done in the context of the Medium Term Budgetary Framework mentioned above. I will keep Honourable Members and the general public informed of progress regarding the availability of finance for reconstruction.

#### **6. CORONATION OF HIS MAJESTY KING GEORGE V**

Honourable Members, early in the new financial year we will be enjoying a rare event in Tonga – the coronation of our new King. In the financial year 2007-08 TOP3 million was allocated to preparations for the coronation. In the financial year 2008-09 provision of TOP2 million is made. The coronation will be an occasion for all Tongans, at home and overseas, to celebrate our national culture, national values and communal loyalty.

There is ample evidence in the world that the monarchy is not incompatible with democracy. The transition can sometimes be difficult, but many countries have shown that democratic systems of government can function well whilst a monarch remains as head of state and a focus of communal loyalty. This government remains committed to the introduction of democracy firmly scheduled for the year 2010. This transition can be seen as a further indication of our closer association with the rest of the world. Globally, commitment to democratic principles and

processes is seen as essential to good governance and conducive to prosperity widely distributed across populations. In support of the transition to democracy, this Budget provides funding for a Constitutional Reform Commission.

One aspect of this change is the desire of His Majesty King George Tupou V to relinquish ownership of certain commercial interests, as incompatible with the duties and responsibilities of a head of state.

The government has undertaken to purchase from the Shoreline Group the production and distribution components of the electricity business. The transaction will be conducted on the basis of commercial valuation.

## **7. REGIONAL AND RURAL DEVELOPMENT**

As I mentioned earlier in this statement, the reductions in government services in recent years have probably brought increased hardship to many who were already in difficulties. This implies shortfall in achievement of one of the important goals of the Eighth Strategic Development Plan. Through the generosity of our development partners it has nevertheless been possible to sustain significant provision to the regions and rural areas for improvements in living conditions. This assistance has covered construction projects, agricultural developments, sanitation, and water supplies, all widely distributed across our regions. Provisions for the continuation of this assistance in 2008-09 are described in Budget Paper No 3. New Zealand will contribute TOP10.3 million to these activities in 2008-09, Australia and Japan will each contribute TOP1.7 million and the European Union will contribute TOP1.3 million.

Our development partners assist us in a range of other activities. Australia and New Zealand have given strong support to work related to Goal 1 of SDP-8 on good governance. The Asian Development Bank is assisting with the road construction and maintenance work mentioned above, and with the Medium Term Expenditure Framework. The European Union is assisting with the introduction of wind turbines. We are strengthening our programming and administration of overseas aid so that we make more effective use of the funds available and tie them more closely to the government's established priorities.

## **8. HUMAN DEVELOPMENT INDEX**

We all recognise the hardships suffered by many of our people, and our strategies prominently commit us to alleviating hardship. Yet on a global reckoning our circumstances are far from the worst. In fact, we rank near the top. We are the only Pacific island country to achieve a place in the first category of countries based on economic and social status, as recorded by the United Nations Human Development Index. We have high levels of literacy; many of us live long lives; and for the most part we enjoy good health. These are the essential factors incorporated in the Human Development Index, along with Gross Domestic Product per head of population. We rank ahead of oil-rich Saudi Arabia; ahead of Russia; and ahead of Brazil. We have little or none of the very serious and immediately life-threatening poverty that is common in some countries. We have a good foundation on which to build.

## **9. EXPENDITURE, TAXATION AND DEBT**

Honourable Members, the Budget I am presenting today is a step in the advancement of our longer term strategic goals. It is a large and ambitious step. Government funded expenditure is set to increase by TOP63 million compared to 2007/08 – the largest increase ever. Expenditure will increase from TOP152 million to TOP215 million. This total expenditure includes the cost of purchasing the Shoreline Company. Revolving funds had already been incorporated into the Budget.

The increase in expenditure is possible because of measures taken by the government to improve the tax system and ensure that tax obligations of companies and individuals are properly met. It reflects also measures taken to facilitate the payment of tax by companies and individuals. The budgeted increase in revenues is a consequence also of the improved economic prospects described earlier.

Even with this significant increase in expenditures, we are able to make significant tax reductions to assist the development of private business and alleviate hardship amongst our people.

Thus we are increasing personal tax thresholds and allowing companies to retain more of their profits. The disparity in taxation between foreign and domestic companies has been removed.

In view of the rapid increase in fuel prices, we have removed the duty on oil for domestic commercial vessels and aircraft. This will help to maintain transport services across the Kingdom. Import duties have also been lifted on items of capital equipment, as an encouragement to private investment.

The government has also responded to the sharp increase in international food prices by removing the duty on meat and poultry. Price reductions resulting from this change will help people accommodate high prices of other foodstuffs in their family budgets.

The increase in estimated revenues not only gives us scope for positive initiatives in expenditure and for reduction in the rates of some taxes and duties, but also gives us the opportunity to reduce government debt. We are budgeting a surplus of revenues over expenditures of TOP5.4 million, which will be utilised mainly for the retirement of external debt.

## **10. CONCLUSION**

Honourable Members, our economic recovery is generating increased employment and incomes for our people, and increased revenues for government. I present to you today a budget that seeks to use these improved revenues for the advance, in practical terms, of those goals that we set for ourselves in the Eighth Strategic Development Plan. I have outlined also some of the measures we are taking to improve our management of funds and ensure that our future financial allocations are used with tight efficiency for the advancement of our national security, good governance and prosperity. I respectfully request your support for the measures I have described.



Figure 2. Sectoral Contribution to Gross Domestic Product, at constant prices for the year 1999/00

Budget Statement for Year Ending 30<sup>th</sup> June 2009

**Budget Paper No 1:**

*Review of the Tongan Economy and Outlook 2008/09*

Figure 5. Parts Annual air visitor arrivals





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## 1.0 OVERVIEW

Budget Paper Number 1 describes the Kingdom's economic environment and likely economic development within the major industries.

The economy has successfully returned to a positive economic growth following the domestic shocks of 2005/06 and 2006/07. This economic growth is forecast to continue into 2008/09 and beyond.

The return to positive growth after the 2006/07 economic contraction is a tribute to the hard work and resilience of the people and Government of Tonga. This growth is attributed to the revival in the performance of the private sector, supported by our government's prudent fiscal management. This has allowed Tonga to maintain the highest ranking among small Pacific Island nations on the United Nations' Human Development Index.

The 2007/08 real economic growth has been broadly based across the secondary (+4.5%) and tertiary (+2.4%) sectors with all save one sub-sector recording growth. The main drivers of this growth have been increases in tourism receipts, remittances and positive benefits from previous economic initiatives.

Unfortunately, the primary sector continued its decline in 2007/08, recording a contraction of 3.2%. Agricultural production suffered from continued low squash prices and poor market access. Declines in fisheries catches due to seasonal weather patterns and low fish stocks across the Pacific also contribute to the poor performance in this sector. While primary sector performance has been disappointing, the unavailability of informal sector data means the decline of this sector may be overstated.

Looking forward to 2008/09, economic activity is forecast to increase by 3% (same as the IMF projection of growth). This growth will be driven by increased construction, visitor numbers and remittances associated with the August 2008 royal coronation. Looking beyond 2007/08, average growth rates of around 2% are anticipated.

While the return to solid growth is encouraging much remains to be done. Tonga's economy is narrowly based and so remains vulnerable to economic shocks. Tonga's laws and institutions need to be strengthened to ensure Tonga can continue to operate in the modern world and respond to domestic challenges such as the transition to democracy. Tonga's growth rate lags behind the world average for developing nations. The Government is therefore taking steps to maintain and improve its status as a moderately developed nation and to prevent Tonga slipping into the ranks of the world's poor.

The Government is undertaking a number of reforms to business and tax laws to ensure Tonga becomes an internationally competitive place to do business. To build on this work the Government has also commissioned the development of Strategic Development Plan 9 to boost Tonga's economic performance. To control inflation and set a strong basis for future economic growth the government will continue to operate responsible fiscal and monetary policies that allow for changing economic conditions.

While not anticipated to be of significant magnitude, a possible world economic downturn poses risks to Tonga. Many Tongans are dependent on remittances from world economies that may be in, or at risk of, recession. Recession might reduce overseas Tongans' incomes and in turn their ability to send remittances. While the size and possible duration of international recession is unknown, it highlights the need to maintain responsible policies to counter adverse world economic developments that may spill over into the Tongan economy.

## 2.0 GLOBAL ECONOMIC DEVELOPMENTS

The global outlook is currently characterized by cooling housing markets, high energy and food prices and continued turbulence in world financial markets. These factors have combined to slow worldwide economic growth and put upwards pressure on inflation.

The effects of these shocks have been offset somewhat by the previous strong worldwide economic performance that had generated high growth rates, employment, incomes and consumption as well as strong profits and investor confidence.

The current economic slowdown has been greatest in the United States and countries with strong trading linkages to the United States. Western Europe has also experienced slowing growth rates. However, the Japanese economy has been more resilient. Furthermore, developing economies, led by China and India, have continued their rapid economic growth.

While growth has slowed, a global recession is not forecast, with acute recession fears only being expressed for the United States economy. Recessionary fear in the United States is due to the mutually reinforcing effects of a drastic housing adjustment and financial turmoil.

For developing countries high commodity prices have provided some protection against the various economic shocks. However, high energy and commodity prices, especially for food, are now beginning to drive up inflation in both developed and developing nations.

Overall most commentators predict the world economy, aside from the United States, will continue to grow, though at a more subdued pace than recent strong growth trends. All commentators, however, highlight short-term downside risks of a more widespread global downturn. (For example, the IMF estimates a global downturn as a 25% probability).

## 3.0 REGIONAL ECONOMIC ISSUES

In line with global trends the Asia Pacific region is expected to experience slower economic growth in 2008. The region is, however, likely to avoid a sharp economic downturn due to the current financial crisis in the United States.

The Pacific Economic Cooperation Council is projecting 4.9% real GDP growth for the region as a whole in 2008, rising to 5.2% in 2009. This forecast is likely to be revised down somewhat given the continued United States economic slowdown. The US slowdown will affect exports from Asia and the Pacific but this will be offset by import growth in China.

One significant feature of the regional economic outlook is the continuation of huge current account imbalances across the Pacific. In particular despite Chinese efforts to contain its current account surplus, this surplus is expected to grow to around 10% of GDP. This is expected to result in significant appreciation of the Chinese currency which will directly affect the cost of any loans denominated in Renminbi. Across the region high energy prices, food prices and global warming continue to feature predominantly as the top three risks to economic growth in the region.

Australia and New Zealand growth prospects are reasonably good reflecting the greater integration of these economies in recent years with Asia and the consequential smaller reliance on the United States.

Australian economists have identified the current main economic risk as inflationary pressures, with most other economic growth indicators still recording strong results. The only other significant downside risk for Australia arose from the prolonged drought experienced in many parts of the country. This has been relieved by recent rains. The New Zealand economy remains more vulnerable to spillover from the global economic downturn. Most commentators are forecasting a softening of recent economic growth rather than an economic contraction.

## 4.0 KEY DEVELOPMENTS IN THE DOMESTIC ECONOMY

This section discusses the general conditions of economic growth in 2007/08.

Table 1: Main GDP Components (T\$m at 2000/01 prices)

	05/06	06/07	07/08	08/09
Agriculture, Forestry & Fisheries	68.7	68.1	65.9	66.3
Construction and Quarrying	21.6	20.3	21.7	23.7
Commerce, Restaurants and Hotels	39.7	41.9	41.8	42.8
Transport and Communication	22.7	23.2	24.6	26.0
Finance and Real Estate	31.3	29.8	31.3	32.8
Government	44.0	36.4	36.7	37.1
Other	40.6	40.6	41.4	42.2
<b>GDP</b>	<b>268.6</b>	<b>260.1</b>	<b>263.3</b>	<b>271.1</b>

Source: Ministry of Finance & National Planning

### 4.1 Implementation of Economic Reform Program

The government continued its implementation of three significant reform initiatives to support a private sector led economic recovery. These were:

- implementation of customs and income tax reforms,
- development and introduction of business regulatory reforms; and
- Establishment of the National Economic Development Council (NEDC) as identified by the first National Economic Summit.

The new customs and income tax laws and regulations were introduced in February 2008. This is part of a package of tax reforms. The changes that have been introduced lower company income tax rates, remove duty from capital goods imports, and introduce accelerated depreciation rates for business assets. These reforms will allow businesses to benefit more from the fruits of their labor, which will in turn attract investment and encourage local businesses to employ staff and expand their operations.

As part of the World Bank assistance effort to private sector development in Tonga, the continuation of the Implementation of Regulatory Reform has been attained with the World Bank. The continuation will be to support the current government's effort to address regulatory issues through a sustainable process of engaging private sector in public policy formulation and to also align with the investment policy and promotion effort.

The continuation arrangement has been designated as Regulatory Simplification and Investment Policy and Promotion.

The benefits of this reform initiatives are being noticed with Tonga ranked as top reformer out of the 178 countries surveyed and reported in the World Bank 2008 Ease of Doing Business due to improvement on the contract enforcement. This has improved the overall ranking for Tonga from 51 in 2007 to 47. This will have a positive impact on private sector development.

The NEDC (National Economic Development Council) was set up to stimulate economic growth by identifying and recommending to Cabinet policy initiatives for a private sector led economy. The initial priority sectors that NEDC is assisting are agriculture, fisheries, tourism, and infrastructure.

## 4.2 Recovery from previous shocks and rebuilding

As foreshadowed in the 2007/08 economic outlook prudent Tongan Government has allowed an almost complete economic recovery from the recent domestic shocks. The timely and appropriate Government response to these crises have resulted in a return to trend growth rates for Tonga with 2007/08 projected at 1.2%. Growth has occurred in all save one sector of the economy. For 2008/09 the Tongan economy is forecast to grow at 3%.

While this economic activity is encouraging there have been delays in rebuilding central Nuku'alofa. This is a result of prolongation of negotiations. The Government is aware of concerns and is working with donors and other participants. While it is desirable that the availability of reconstruction assistance is confirmed as soon as possible, it is also important that refinancing occurs on terms and conditions that are fair and affordable to all.

## 4.3 Broad based economic growth

Provisional data suggests that 2007/08 economy growth has occurring in all save one sector of the economy. This indicates that economic activity is being broadly shared and that there is no speculative bubble developing in any one sector of the economy.

While measured economic growth is modest, international consultants have identified that formal statistics may be under-reporting economic growth in certain sectors. In particular, domestic agriculture and remittances in kind appear not to be currently fully captured. The Department of Statistics is working to ensure that official statistics fairly and accurately record the true state of the economy.

## 4.4 Further growth in Remittances

National Reserve Bank of Tonga data for the first half of 2007/08 shows remittances have already reached 60% of the total private transfers of 2006/07. Remittances are recorded in GDP through the economic activity they generate when spent, primarily in the construction, commerce, hotels and restaurants, and communications and transport sub-

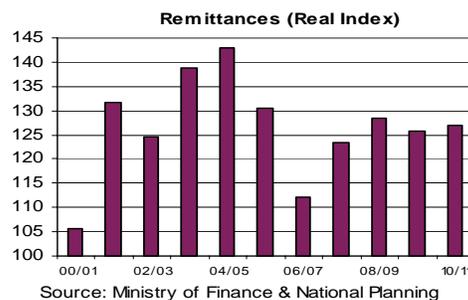


Figure 1: Remittances (Real Index)

sectors. Reasons for this growth in remittances include a steady growth in the number of Tongans living overseas as well as special schemes such as the NZ Recognized Seasonal Employment work-scheme which is increasing employment opportunities for Pacific Islanders.

The 5% annual increase in numbers allowed under this scheme and the possibility of a matching Australian scheme may offset any reduction in remittances from the United States. This continuing migration of Tongans overseas will also contribute to future remittances and offsets diminishing remittances from second or third generation Tongan's.

#### **4.5 Other Income**

The contribution of tourism to the economy has varied in recent years. In 2006/07, arrival numbers and tourist receipts declined compared to 2005/06 largely due to the civil disorder of 16 November. The general negative publicity and social disorder in neighboring island countries will also continue to affect efforts to attract tourists to Tonga.

In response the Ministry of Tourism has undertaken a vigorous promotion campaign and arrivals are projected to increase by about 20 % in 2007/08.

There are currently discussions with interested parties relating to potential development that could increase the future earnings from tourism. There are discussions with interested airline providers to provide direct Nadi-Vava'u scheduled flights which would further boost the inflow of tourists. There are other proposed investment projects in the pipeline, including a major tourism resort development in Vava'u, with construction expected to commence in late 2008.

These proposed projects will be encouraging to the development of the economy as tourism is a relatively labor-intensive industry and, therefore, can make a significant contribution to employment. This is of obvious importance in Tonga where about half of the population is under the age of 20 and where there are growing numbers of youth unemployed with limited employment opportunities.

#### **4.6 Change in Primary Production.**

Partial data indicate that primary production has fallen over the last few years. Provisional estimates for 2007/08 suggest that primary production is expected to decline by 3.2% and is likely to recover in 2008/09 with 0.7% growth. This projection is based on the agricultural sector expanding in line with population growth reflecting increasing domestic demand. The historic decline reflects deterioration in two main areas:

- Squash is one of Tonga's main agricultural exports. It is highly dependent on a narrowing and variable seasonal "window" in the Japanese market. Over recent years exporters to the Japanese market have faced increased competition from other growers and falling prices that have reduced the viability of this crop.
- Fisheries - declining fisheries catches are attributable to unfavorable weather conditions and an apparent reduction in Pacific fisheries stocks.

The overall growth for the agricultural industry is projected to drop based on a poor squash season in December quarter 2007, but it is anticipated that this will be somewhat offset by the shift to production of other crops as farmers diversify away from squash.

Kava exports have been affected by quota restrictions introduced by the Australian government, with only two kilograms of kava allowed per passenger. Tongans living in Australia were the second largest market for kava for the past five years.

The Tongan economy has been relying on agricultural products for many decades. Despite the relatively weak performance of this sector, it still remains the highest contributor to real GDP, comprising about 27% of total real GDP and an average of about 60% of total exports.

The implementation of the Heat Treatment Forced Air process at the border should assist the export of other agricultural goods. Tonga’s membership in various trade agreements is likely to provide better market access for potential new exports, including agricultural products.

## 5.0 COMPOSITION OF ECONOMIC GROWTH BY INDUSTRY

Table 2: Contributions to Growth (% real terms)

	06/07	07/08	08/09
Agriculture, Forestry & Fisheries	-0.2%	-0.8%	0.2%
Construction and Quarrying	-0.5%	0.5%	0.8%
Commerce, Restaurants and Hotels	0.8%	0.0%	0.4%
Transport and Communication	0.2%	0.5%	0.6%
Finance and Real Estate	-0.5%	0.6%	0.6%
Government	-2.8%	0.1%	0.1%
Other	0.0%	0.3%	0.3%
<b>GDP</b>	<b>-3.2%</b>	<b>1.2%</b>	<b>3.0%</b>

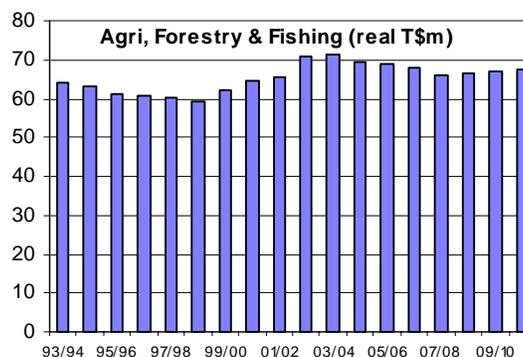
Source: Ministry of Finance & National Planning

### 5.1 Agriculture

Primary Production declined in 2006/07, and 2007/08. The agricultural sector is expected to recover slightly with an average growth of 0.8% for the next three financial years 2008/09 to 2011/12. The contraction in agriculture is due to a fall in squash and vanilla production as producers moved away from export-oriented production of these goods due to price volatility, increased global competition and the availability of cheap substitutes such as synthetic vanilla.

While overshadowed by squash, other agricultural products are increasing their contributing positively to the sector, including root crops, taro leaves and coconuts.

Partial estimates indicate that exports are likely to increase in 2008/09, despite the falling prices in the last two years, narrow export base, market access problems and high inputs cost. It is expected that root crops will improve despite lower returns. The European Union has donated \$6 million to cater for development of export-facilitating infrastructure. Diversification of the export base is currently a priority of the Ministry of Agriculture, Forestry and Fisheries.



Source: MAFF, Ministry of Finance & National Planning  
 Figure 2: Agri, Forestry and Fishing (real T\$m)

To assist with the development of export markets for traditional crops, a scoping study for a marketing outlet in Auckland for Tongan exports is being conducted.

## 5.2 Fishing

Preliminary data indicated that activity in the fishing industry is expected to continue to perform below historic levels. The decline in yield from previous yields is attributed to various reasons, including the depletion of fish stock (a general trend in the Pacific region according to various studies) and harsh weather conditions. Provisional indicators for 2007/08, however, suggest that the rate of decline in the fishing industry will slow.

Exports of other marine products are forecast to remain stable. Latest data indicate a fall in the export of seaweed due to poor market conditions and harvesting techniques. This is forecast to be offset by the end of the moratorium on beche de mer and to a lesser extent by export of live fish and coral for aquariums.

## 5.3 Manufacturing

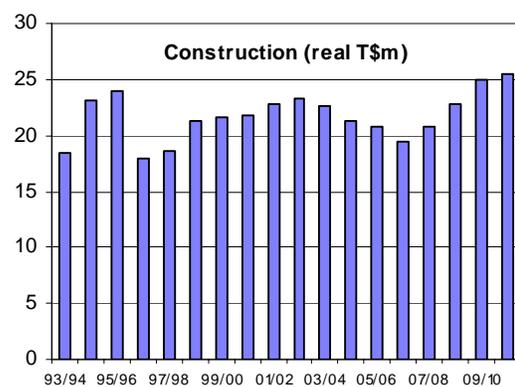
(4.3% of 2007/08 GDP, 1.0% growth for 2007/08)

Activity in this industry has been broadly unchanged for the last five years. Like many other countries in the Pacific region, manufacturing in Tonga is challenged by its remoteness from raw materials and export markets, high shipping and input costs, its relatively small market and the attractiveness of cheap manufactured goods from other countries.

Despite these challenges the outlook for manufacturing is encouraging. New income tax and customs changes, increased outsourcing of government services and government initiatives to cut red tape will provide opportunities for investors. In addition, Tonga is an active participant in various free trade agreements which will provide greater market access for Tonga's manufacturers.

## 5.4 Construction

Construction slowed in the last two financial years, with a decline of -2.6% and -6.3% for 2005/06 and 2006/07 respectively. However, looking forward, provisional estimates suggest that the construction industry will strengthen in 2007/08 by 6.9% and 9.6% in 2008/09. This growth is attributable to several major projects that will be undertaken in the new financial year, including various rebuilding projects and new tourism projects.



Source: NRBT, Min. of Finance & National Planning  
Figure 3: Construction (real T\$m)

Table 3: Economic Growth (real terms) %

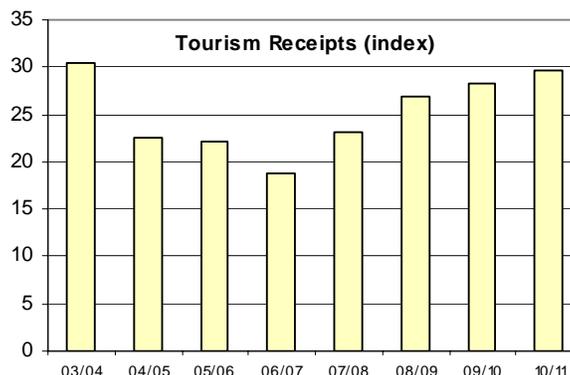
	05/06	06/07	07/08	08/09	09/10	10/11
<i>Primary sector</i>	-0.9	-0.9	-3.2	0.7	0.8	0.8
Agriculture, forestry, and fisheries	-0.9	-0.9	-3.2	0.7	0.8	0.8
<i>Secondary sector</i>	-0.8	-3.5	4.5	6.4	6.7	2.3
Mining and quarrying	-2.6	-6.3	6.9	10.6	10.8	3.2
Manufacturing	0.8	-0.5	1.0	1.0	1.0	1.0
Electricity and water	2.9	0.9	3.0	5.0	5.0	5.0
Construction	-2.6	-6.3	6.9	9.6	9.8	2.2
<i>Tertiary sector</i>	2.0	-4.0	2.4	3.0	1.5	2.6
Commerce, restaurants, and hotels	1.8	5.5	-0.1	2.3	-3.8	0.3
Transport and communication	2.6	2.0	6.0	6.0	5.8	5.8
Finance and real estate	2.9	-4.7	5.0	5.0	5.0	5.0
Government services	-0.3	-17.3	1.0	1.0	1.0	1.0
Entertainment and private services	4.6	3.0	3.0	3.0	3.0	3.0
Ownership of dwellings	2.3	2.4	2.4	2.4	2.4	2.4
Less: Imputed bank service charge	0.2	10.9	5.0	5.0	5.0	5.0
<b>Total GDP at factor cost</b>	<b>0.8</b>	<b>-3.2</b>	<b>1.2</b>	<b>3.0</b>	<b>2.1</b>	<b>2.1</b>

Source: Statistic Department of Tonga, Ministry of Finance & National Planning

## 5.5 Commerce, Restaurants and Hotels

Tourism, remittances and wage increases have played an important role in this sector in recent years.

In 2005/06 and 2006/07 this sector grew by 1.8% and 5.5% respectively. This growth reflects the wage increases and redundancy payments in each respective year. Provisional estimates show that arrivals by air for 2006/07 declined as a result of the civil disorder of 16 November 2006. Remittances also fell by 9% for 2006/07.



Source: NRBT, Min. Finance & National Planning

Figure 4: Tourism Receipts (index)

The projected weakening of growth in this sector for 2007/08 to 0.1% reflects the end of the redundancies spending in this financial year. This weakening is expected to be temporary as data indicates that tourist receipts and remittances have increased by 32.4% and 19% based on half year figures for 2007/08. For 2008/09, the Coronation is expected to drive real growth in this overall sector to 2.3%. Growth in tourism receipts is expected to grow strongly by 24% in 2008/09 due to the Royal Coronation and is expected to revert to a 10% growth rate thereafter.

## 5.6 Transport and Communication

The Transport and Communication sector has recorded positive growth for the last two financial years, with an average of 2.3% for both years. Growth in this sub-sector is attributable to technology changes reducing costs and allowing new services as well as due to competition between the two phone services companies resulting in increased productivity in this industry. There was also an increase in the shipping component of transport, a direct consequence of the higher volumes of imports in recent years.

Provisional estimates project a 6% growth rates in 2008/09 based on increasing level of activity together with the establishment of the new Ministry for Transport. A new domestic flight provider joined this industry and is expected to contribute positively to this sector. Partial estimates suggest that the other components of communications will continue to encourage growth in 2007/08 and this is expected to continue into 2008/09.

## 5.7 Other Industries

The Finance and Business services sub-sector is expected to rise at a growth of 5% for 2007/08 and beyond, due to the increase in business lending, and lower business tax.

The Government Services sector is expected to grow at a moderate growth rate of 1% after it fell by 17% in 2006/07 due to the decline in the civil servant numbers following the voluntary redundancy program in June 2006. Provisional data suggests that for 2007/08 positive performance will be recorded for some sectors such as Government Services, Finance and Real Estate and Entertainment and Private Services.

## 5.8 Domestic Price Development

Data shows that the overall inflation rate was recorded at 12 % at the end of March 2008 (Figure 5). The increase in level of inflation is largely due to significant rises in international oil and food prices. In the year to March 2008, the level of inflation for imported goods was higher than the rate for domestic goods. However, second round effects of oil price increases are now being felt in the domestic inflation index through increases in electricity, water and transport costs.

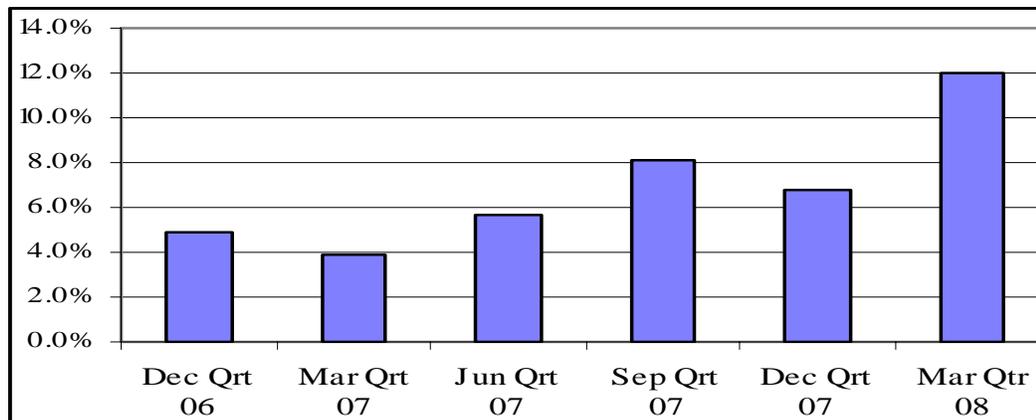


Figure 5: Quarterly Inflation rate (% end of period)  
Source: Statistic Department of Tonga

## 6.0 MONEY SUPPLY

The money supply measure, M2<sup>1</sup>, totaled \$289.5 million at end December 2007, representing annual growth of 13.5%, a decrease from the 16.0% growth recorded in the year-ended December 2006.

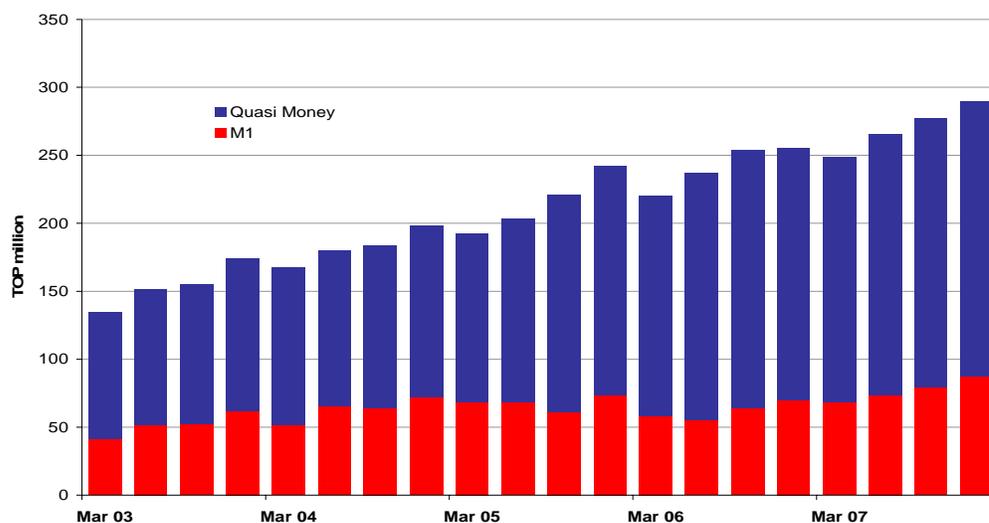


Figure 6: Components of Money Supply  
 Source: National Reserve Bank of Tonga

The growth in money supply in 2007 reflected increases in both M1 and quasi-money of \$17.8 million and \$16.6 million respectively. Within M1, currency in circulation increased by \$1.0 million and demand deposits rose by \$16.8 million. The growth in quasi-money reflected increases in time deposits of \$16.5 million, saving deposits of \$4.3 million and a decrease in foreign currency deposits of \$4.2 million.

### 6.1 Domestic Credit

Estimates show that in the year-ended December 2007, the net domestic credit (net of government deposits) extended by the banking system increased by \$43.0 million to \$306.7 million (Figure 7). This represented an annual increase of 14.6% compared with a 3.7% increase in 2006. The rise in the level of net domestic credit was largely due to an increase in private sector credit. Total credit extended to the private sector increased by 16.0% to \$327.9 million, reflecting mostly an increase in lending to the business sector. At the end of December 2007, the government was a net lender to the banking system, with a net balance of \$25.9 million compared to a net lending position of \$9.0 million in December 2006.

<sup>1</sup> the total currency in circulation plus commercial bank demand deposits and sometimes savings bank time deposits

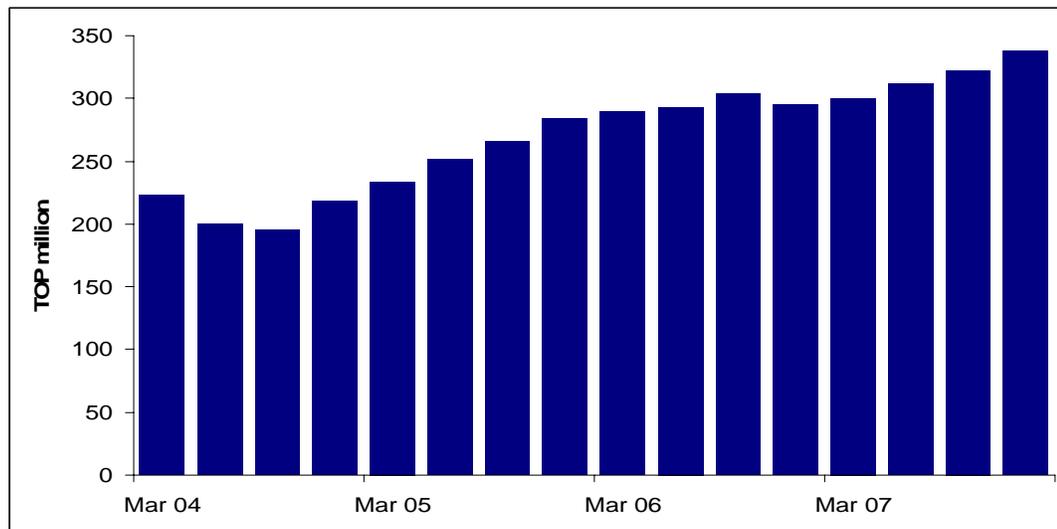


Figure 7: Domestic Credit Level for March 2003 to March 2007  
 Source: National Reserve Bank of Tonga

In December 2007 business credit was the largest contributor to private sector credit growth with a year-ended growth of 29.3%. Most loans are directed at construction and building and other businesses that are recovering from November 16, 2006. Housing lending is relatively subdued, growing at 4.6% in the year ended December 2007.

## 6.2 Deposits with the Banking System

Total deposits in the banking system at the end of December 2007 were \$278.5 million, an increase of \$34.9 million on a year earlier. Government deposits were almost flat over this period, decreasing by only \$0.2 million. However private deposits grew by \$14.7 million and others (mainly institutional investors, such as retirement funds) grew by \$20.4 million.

## 6.3 Interest Rates

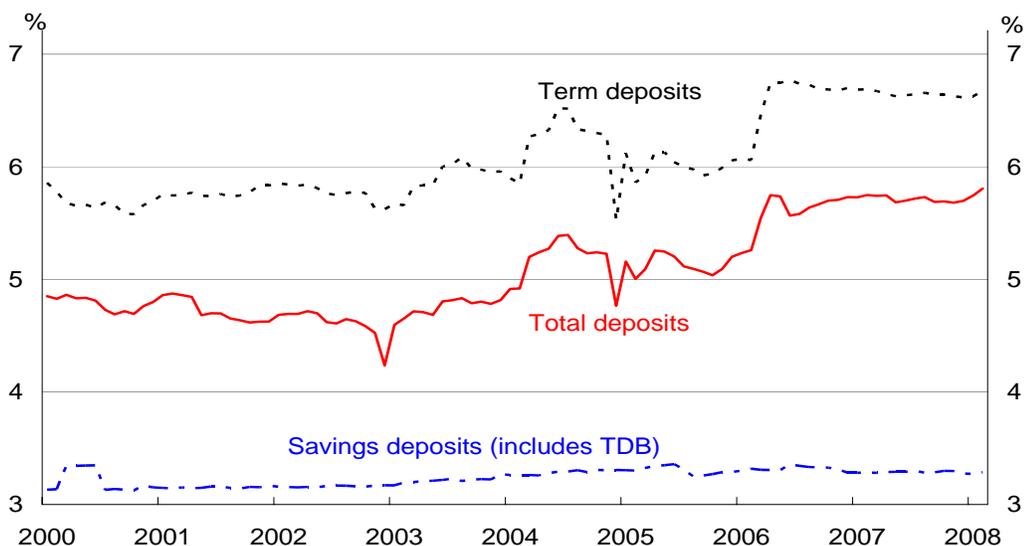


Figure 8: Weighted Deposit Interest Rates  
 Source: National Reserve Bank of Tonga

Nominal interest rates on savings deposits published by the banks were largely unchanged through 2007 (Figure 9), falling 0.01% while average term deposit rates fell from 6.70% to 6.62% over the year. However, weighted average deposit rates have followed an upward trend as reflected by the Reserve Bank's deposits indicator rate. This reflects Tongan depositors seeking out higher rates by investing in longer term funds. Since the start of the year deposit rates have shown marginal increases, though not significant enough to draw funds into the system.

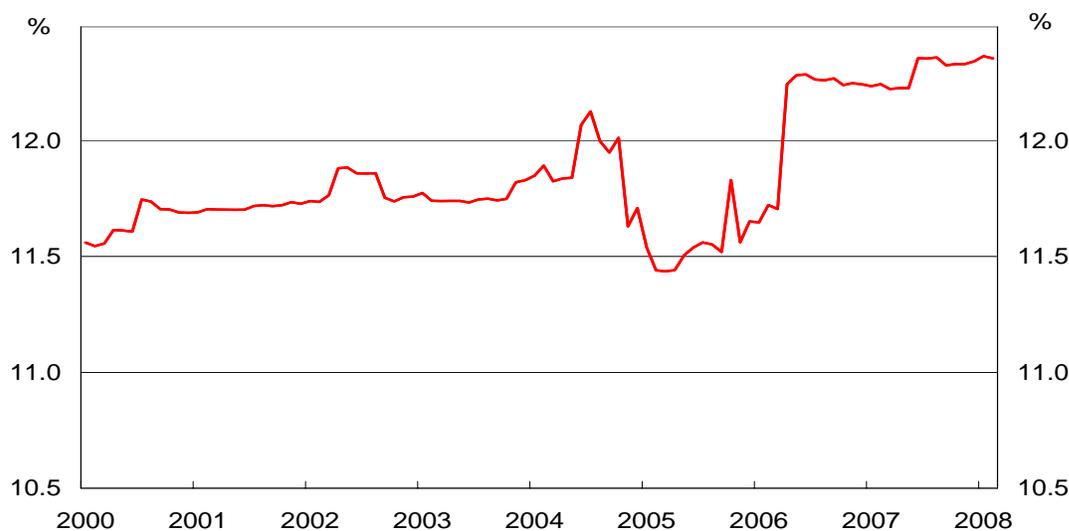


Figure 9: Banking System - Weighted Lending Rate  
Source: National Reserve Bank of Tonga

Lending interest rates published by the banks increased in 2007. The Reserve Bank's weighted average lending indicator rate stood at 12.34% at the end of December 2007. This is an increase from 12.24% at the end of December 2006 (Figure 9).

The difference between the average deposit rate and the average lending rate was 6.64% at December 2007, a rise from 6.51% a year earlier.

## 7.0 EXTERNAL SECTOR DEVELOPMENT

### 7.1 Exports

According to estimates based on the overseas exchange transactions (OET) reported by the Reserve Bank and commercial banks, the total value of merchandise exports fell by \$5.5 million to \$25.0 million in the year ended December 2007, largely reflecting lower receipts from agricultural exports, particularly squash, though fish exports declined also.

Services exports increased by, \$10.1 million in the year to December 2007 to \$54.9 million. The rise is mostly due to rises in transportation and travel services (i.e tourism related). New Zealand overtook Japan as the principal export destination in the year to September 2007 (according to Department of Statistics trade data). Exports to New Zealand were 25.3% of the total, while exports to Japan accounted for 24.7% (down from 54% in the previous corresponding period).

The significant drop in squash and fish exports to Japan also reflects the growth of Korea as a squash destination. In fact, Japan was the only market to show a significant decline in merchandise exports over this period, with exports to New Zealand, Australia, the United States and other countries all showing significant increases.

## 7.2 Imports

During 2007, the value of merchandise imports (OET based) rose by \$2.4 million to \$234.5 million, as slower growth of remittances and activity slowed growth of imports. Imports of services fell by \$2.6 million to \$68.3 million over 2007.

New Zealand continued to be Tonga's largest supplier of imports (34.3%), followed by Fiji (22.5%), and Australia (12.3%). This is displayed in Figure 10.

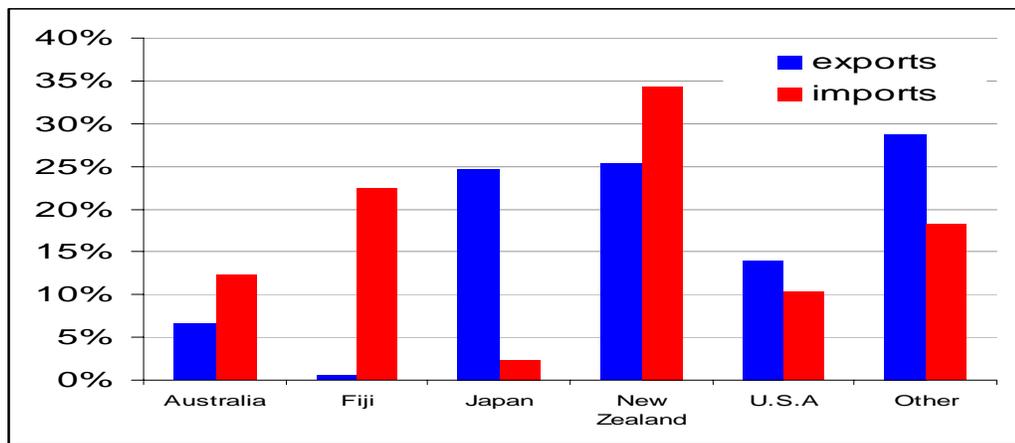


Figure 10: Direction of Trade for 2005/06  
 Source: National Reserve Bank of Tonga 1

## 7.3 Balance of Payments

The balance of merchandise trade (OET based) recorded a deficit of \$209.5 million in 2007 compared with \$201.6 million deficit in 2006 (Table 4). Deterioration in the merchandise trade deficit was offset by improvements in the balances on services (improved by \$11.3 million) and investment income (+\$4.5 million) and transfers (+\$16.8 million), resulting in a current account deficit of \$27.5 million in 2007 compared with a deficit of \$50.1 million in 2006. The increase in net capital inflow to \$70.3 million in the year-ended December 2007 more than offset the current account deficit, resulting in a balance of payments surplus of \$30.4 million. This compared to a deficit of \$1.5 million in the previous year.

Table 4: Balance of Payments T\$m

	2005	2006	2007
Merchandise Trade Balance	-200.27	-201.63	-209.53
Services Balance	-14.77	-25.11	-13.82
Investment Income Balance	7.25	3.60	8.12
Transfers Balance	170.40	170.98	187.73
Current Account Balance	-37.38	-52.16	-27.51
Capital and Financial Balance	26.78	55.06	70.33
Other items (net)	-40.29	-47.79	-15.11
Overall Balance	-7.69	-1.48	30.43

## 7.4 Gross Official Foreign Reserves

During 2007, the level of gross official external reserves ranged from \$85.4 million to a peak of \$115.6 million at the end of December 2007, equivalent to 5.1 months of imports. Since the end of 2007 reserve levels have been shifting lower, due to large import payments, to be \$96.3 million at the end of March 2008 or 4.3 months of imports.

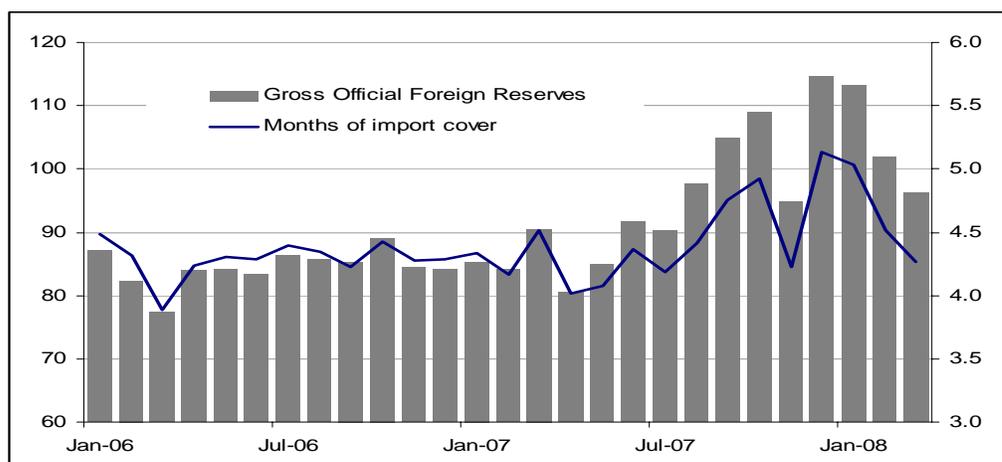


Figure 11: Gross Official Foreign Reserves  
 Source: National Reserve Bank of Tonga 2

## 8.0 EXCHANGE RATES

In 2007, the pa'anga appreciated against the United States dollar by 5.1% and the Japanese Yen 0.3%, but depreciated against the Australian dollar by 4.7% and the New Zealand dollar by 3.7%. The Nominal Effective Exchange Rate (NEER) depreciated by 2.7% over 2007.

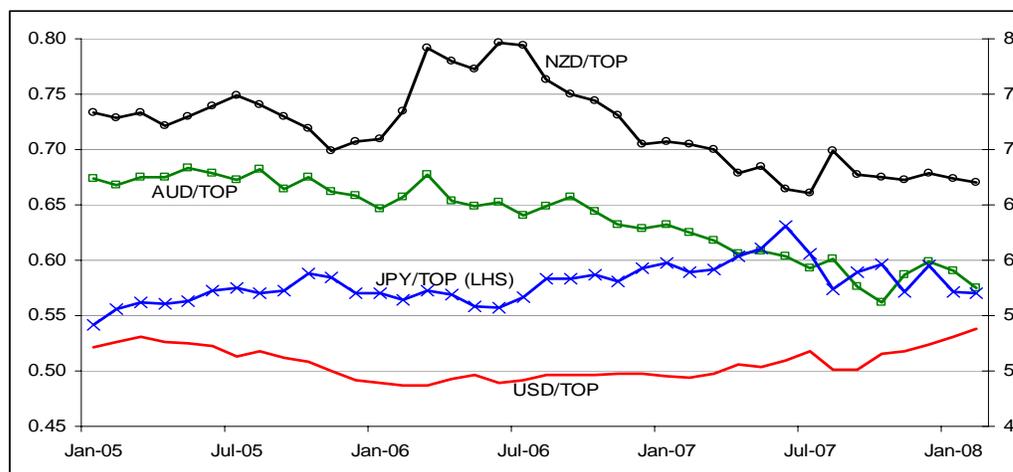


Figure 12: Figure and Exchange Rate  
 Source: National Reserve Bank of Tonga 3

Since the start of 2008 continued weakness in the United States dollar has seen the pa'anga appreciate further against the USD, but fall against the AUD and JPY, while maintaining steady against the NZD.

## **9.0 IMPROVING THE REGULATORY ENVIRONMENT**

Recognising the importance of private sector development to the economy of Tonga, the Government has implemented in 2006 a regulatory reform (IRR) project funded by the World Bank. The assistance from the World Bank ends in August 2007. However, a continuation of the project has been agreed with the World Bank to continue to support this reform initiatives. The continuation arrangements have been designated as Regulatory Simplification and Investment Policy and Promotion.

The IRR Task Force will continue to oversee and implement the continuity of the reform programme.

**Budget Statement for Year Ending 30<sup>th</sup> June 2009**  
**Budget Paper 2: *Fiscal Outlook***

**Figure 2. Sectoral Contribution to Gross Domestic Product, at constant prices for the year 1999/00**



**Figure 5. PAAS Annual arrivals**





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## 1.0 OVERVIEW

This Budget Paper 2 presents the Government's budget estimate and the underlying fiscal policies proposals for 2008/09.

The 2008/09 Budget signifies a 41% increase in government funded expenditure. The increase will be used to finance commitments of government to the coronation, purchasing of the electricity company, and strengthening the maintenance and construction of roads. Also included in this new expenditure are law and order initiatives and various initiatives to encourage private sector activities and reduced hardship for Tonga families.

The majority of the increase in new expenditure is being directed towards attaining the development targets laid out in the Government's Strategic Development Plan 8, as well as social development targets in the Millennium Development Goals.

These expenditure increases are affordable as a result of the government's prudent economic and financial management. In particular the revenue base for this Budget has been expanded as through continued economic growth as well as the ongoing tax reforms and proceeds from increased tax enforcement.

On a cash flow basis the Budget is broadly balanced in 2008/09. Using Government Finance Statistics basis which takes into account all sources of revenues and expenditures, the Government of Tonga expects to achieve a modest overall surplus of approximately \$5.4 million. This surplus will be used to repay foreign currency denominated debt.

## 2.0 FISCAL POLICIES IN 2008/09

Fiscal policies are aligned to the national strategies on Strategic Development Plan 8 (SDP8). Underpinning fiscal policy is a commitment to macroeconomic stability with debt sustainability, environmental sustainability and disaster risk reduction. To support this base the following policies will be implemented to boost private sector led economic growth, maintain law and order and improve standard of living:

- Completion of the revenue reform program;
- Continuation of the public sector reform program;
- Implementation of pro-poor policies;
- Continued improvements to good governance
- Rebuilding of Nuku'alofa

To support these policies this budget focuses on:

- law and order and political reform;
- Regulatory reform for productive sectors; and
- Investment in infrastructure.
- Contracting out of certain government services

Tonga's donor partners had been supportive and an integral part of the government's budget process. Development estimates for 2008/09 are confined to proposals that have confirmed funding and those which have a high probability of attracting funds during the budget period. Development assistance is divided into two components, namely, cash grants and in-kind assistance.

Grants are regarded as official external cash that comes in through the Government system and is disbursed by Treasury. In-kind assistance is official external assistance disbursed through other means.

### 3.0 OVERALL FISCAL BALANCE 2008/09

Table 1 below is calculated using the international standard of classification, the Government Financial Statistics (GFS)<sup>1</sup>, and shows the economic impact of government policy decisions and outturns. On this basis, the budget estimates for 2008/09 records an overall fiscal surplus of \$5.4 million. This is represented by overall revenue and grants of \$247.9 million exceeding overall expenditure and net lending of \$242.5 million.

**Table 1: Overall Fiscal Balance (\$)**

	Original Estimate 2007/08	Preliminary Outturn 2007/08	Budget Estimate 2008/09
<b>Total revenue and grants</b>	<b>216,986,550</b>	<b>180,395,013</b>	<b>247,947,044</b>
Tax revenue	127,057,293	145,502,823	158,236,693
Other revenue	35,151,936	18,037,468	47,583,174
Grants (in cash)	54,777,321	16,854,722	42,127,177
<b>Total expenditure and lending minus repayments</b>	<b>221,388,726</b>	<b>167,767,743</b>	<b>242,530,482</b>
Total expenditure	221,368,730	167,778,974	216,414,887
Wages and salaries	75,430,965	76,308,645	78,385,912
Other current expenditures	133,700,384	88,781,126	125,788,217
Capital expenditure	12,237,381	2,689,203	12,240,758
Total lending minus repayments	19,996	-11,231	26,115,595
<b>Overall deficit/surplus</b>	<b>-4,402,176</b>	<b>12,627,270</b>	<b>5,416,562</b>

### 4.0 REVENUE AND GRANTS 2008/09

Government is projected to collect \$247.9 million from total revenues and grants in 2008/09 compared to an estimated outturn of \$180.4 million in the current financial year 2007/08. This represents an increase of 37.4%. This significant revenue increase for 2008/09 is associated with a rise in expected current revenue by \$17.3 million, grants from abroad by \$24.9 million, and capital revenue by \$24.9 million compared to the 2007/08 estimated outturn. The domestic revenue increases are primary attributable to the 3% economic growth of the economy and much improved tax compliance attributed to completion of the tax reform programme. Revenue from imports duties is expected to increase despite policy initiatives to remove import duties from some food products.

Table 2 explicitly detailed the components of revenues and grants estimated at the aggregate GFS level for the current financial year and allocated budget for 2008/09.

<sup>1</sup>The GFS provides an internationally accepted framework for presenting data on a government's fiscal operations. This framework is designed to facilitate the study of the macro-economic impact of the Government's financial transactions on the economy and therefore assessments of the sustainability of fiscal policy objectives.

**Table 2: Estimated Revenues and Grants (\$) for 2008/09 Budget**

	Original Estimate 2007/08	Preliminary Outturn 2007/08	Budget Estimate 2008/09
<b>Total Revenue and grants</b>	<b>216,986,550</b>	<b>180,395,013</b>	<b>247,947,044</b>
<b>Current revenue</b>	<b>162,208,227</b>	<b>163,529,289</b>	<b>180,819,867</b>
<b>Tax revenue</b>	<b>127,057,293</b>	<b>145,502,823</b>	<b>158,236,693</b>
Taxes on income and profits	20,000,000	28,211,639	20,631,000
Taxes on property	93,588	48,814	113,588
Domestic taxes on goods and services	57,121,402	66,432,572	77,991,773
<i>Consumption tax</i>	55,000,000	63,853,577	74,280,000
<i>Other taxes</i>	2,121,402	2,578,995	3,711,773
Taxes on international trade and transactions	49,342,302	50,034,646	59,300,332
<i>Customs duties</i>	49,305,969	50,000,000	59,000,000
<i>Other import charges</i>	36,333	34,646	300,332
Other taxes	500,001	775,152	200,000
<b>Nontax revenue</b>	<b>35,150,934</b>	<b>18,026,466</b>	<b>22,583,174</b>
Entrepreneurial and property income	7,699,811	3,374,705	9,313,162
Administrative fees and charges	26,555,757	13,776,347	12,331,843
<i>of which: revolving funds</i>	<i>19,981,459</i>	<i>7,431,049</i>	<i>3,186,758</i>
Fines and forfeits	328,078	306,367	353,006
Other nontax revenue	567,288	569,047	585,163
<b>Capital revenue</b>	<b>1,002</b>	<b>11,002</b>	<b>25,000,000</b>
<b>Grants (in cash)</b>			
From abroad	54,777,319	16,854,720.0	41,809,562
From other levels of national government	2	2	317,615
<b>Total Grants (in cash)</b>	<b>54,777,321</b>	<b>16,854,722</b>	<b>42,127,177</b>

#### 4.1 Current Revenues

The total current revenue for 2008/09 is estimated at \$180.8 million which makes up 72.9% of the total estimated revenue and grants available to Government. This is 10.6% higher than the 2007/08 estimated outturn. Both components under current revenue are projected to increase in 2008/09 budget compared to the 2007/08 outturn.

Tax Revenue is expected to increase by 8.8% while Non-tax revenue increases by 25.3%. A foreshadowed positive economic outlook with 8% inflation rate for 2008/09 has allowed this growth in revenue together with successful implementation of the tax reform programme and other previous government initiatives.

The estimated increase in Tax Revenue comprises a 17.4% increase in revenues from domestic taxes on goods and services and a 18.5% increase in revenue from Taxes on international trade compared to the 2007/08 estimated outturn. In terms of returns from specific taxes there has been a 16.3% increase in Consumption tax from \$63.9 million in 2007/08 to an estimated outturn of \$74.3 million. Revenue from other taxes have also increased. Changes in revenue from Taxes on international trade include a 18% increase in Custom Duties, from \$50.0 million in 2007/08 to \$59.0 million. These increases in tax revenues are primarily attributable to economic growth, the successful completion of the tax reform programme, and improved tax compliance efforts.

## 5.0 TAX EXPENDITURE

Tax expenditure is a tax relief mechanism used by government to achieve economic, social and infrastructure development objectives.

Table 3 below shows historical information on the government tax expenditure by type from 2004/05 to 2007/08. The enactment of the new Custom Act and Income Tax on 1<sup>st</sup> February 2008 has repealed the IDI Act.

In many cases concessions are difficult to determine or forecast and so must be approximated<sup>2</sup>.

Total tax expenditure for the first ten months of 2007/08 amounted to \$12.9 million. For the first eight months of 2006/07, tax expenditure amounted to \$7.4 million.

**Table 3: Total Tax Expenditures by Type**

Tax Expenditure by type	2004/05 \$	2005/06 \$	2006/07 \$*	2007/08 \$**
Existing IDI	5,663,972	927,371	233,468	538,520
Gov't Ministries	1,719,128	n.a	81,189	111,340
Gov't Projects	1,344,305	1,589,575	521,567	502,965
Development Projects	1,777,925	650,073	449,018	720,621
Fuel	6,736,572	7,021,044	6,113,682	11,123,793
<b>Total tax Concessions</b>	<b>17,241,902</b>	<b>10,188,063</b>	<b>7,398,924</b>	<b>12,995,239</b>

Note: n.a. is not available, \* only eight months available, \*\* only ten months available.

Source: Custom Department.

### 5.1 Industrial Development Incentives

The implementation of the new Custom Act on 1<sup>st</sup> February 2008 repealed the IDI Act. Under the new Custom Act, 800 capital goods are entitled to exemption from duty as part of the government's effort to support private sector development. This supports the second SDP8 Goal of private sector led growth.

Tax expenditure under the old IDI Act amounted to \$0.5 million in 2007/08 reflecting exemptions granted for the new business development and existing ones like the renovation of the Janful Dateline Hotel for the Forum Leaders Meeting.

### 5.2 Fuel Concession

As part of the development policy under Goal 2 of SDP8, Government continued to provide a fuel concession for the fishing industry and generation of electricity. The concession for the fishing industry is based on the recognition that this industry generates foreign reserves and creates employment opportunities.

<sup>2</sup> Both tax expenditure and concessions have been valued on the conceptual basis of public sector revenue forgone. The revenue forgone is estimated by applying the appropriate tariff rate for the class of activity or asset concerned to the current volume of these activities or assets.

The idea behind this initiative is to lower the cost of production thereby encouraging fishing companies to increase production. The concession scheme had been increasingly important to the fishing companies due to the rapid increase in oil price and depletion of fish stocks in the Pacific zone.

The Government continued to subsidize the supply of electricity by exempting fuel from duty to reduce costs to consumers.

The total value of fuel concession allowed for the first ten months of 2007/08 amounted to \$11.1 million.

### **5.3 National Development Projects**

The Government of Tonga continues to receive assistance from donor countries to support a variety of social and economic development projects. These projects range from poverty eradication, climate change initiatives, humanitarian aid, gender equality, solar electrification of the outer islands (renewable energy) and water systems to the rural areas of Tongatapu. The Government also makes a contribution to these projects in the form of exemptions for duties and taxes on project materials and supplies.

The total concession provided by the Government during the first ten months of 2007/2008 amounted to \$0.7 million. This is expected to reach over \$1.8 million at the end of the current financial year. Projects such as the 'Eua Water Supply, Japanese grassroots project, rural areas water projects, European Union projects and other various projects for the Niua are covered under this scheme. The 2008/09 budget has made an allowance of \$2.9 million in recognition of the importance of these projects to the social and economic development.

## **6.0 REVENUE REFORM**

The final stage of the revenue reform has now been implemented with the new Income Tax Act 2007 and Customs and Excise Management Act 2007 whose regulations came into force on 1<sup>st</sup> February 2008. The focus of the revenue reform was to provide a fair and more business friendly taxation system, whilst providing equity for all taxpayers and reduce their administration burden. Furthermore, Tonga's international trade obligations to the global trading community was also a driving factor in the revenue reform

Revenue reform is explained in more detail below.

### **6.1 Income Tax Act 2007**

Changes under the new Income Tax Act are:

- Self Assessment. Taxpayers assess their own debt or refund and lodge a return and pay tax if required.
- Tax returns are not required from individuals if only earning income from employment and/or interest income.
- Dividend income received by residents from resident companies is exempted.
- A Progressive Tax rates for Personal Income tax has been set to implement on 1<sup>st</sup> July 2008. The rates are as follows:

For income as does not exceed \$7,400	Nil
For income as exceeds \$7,401 but does not exceed \$30,000	10 %
Income exceeding \$30,000	20 %

- New Corporate Tax of 25% applies to both residents and non-residents, small and large business.
- Farmers, fisherman, agricultural producers and handicraft producers' income are taxable provided their net income is above \$7,400. Subsistence farmers are exempted.
- Effective Date. The effective date for Corporate Income Tax for companies is as follows:

Balance Date	Effective From
31 March	1 April 2008
30 June	1 July 2008
31 December	1 Jan 2009

- There are no more tax codes as that being replaced by Employee Declaration and Individual TINS. Employees will have to apply for a Taxpayer Identification Number (TIN). These new forms replace the present IR forms.
- Employers can now make payment within 28 days of end of month in which they are required to withhold payment.
- Gross income includes salary and wages. Bonuses, director's fees, overtime pay and the value of employee's in kind benefits are also covered.
- Income threshold \$7,400 to compensate for all exemption.

## 6.2 Consumption Tax Act (CT)

An amendment to the CT Act was passed in Parliament last year that extends the period for submitting returns and payments from 15 to 28 days. This measure will assist business communities while at the same time having no significant impact on government revenues. Furthermore, internet lodging of all returns has been discussed and more details are provided in Section 5.4 below.

## 6.3 Import Duty

As stated above that Tonga's obligation to regional and global trade agreements has made Government to implement on the 1<sup>st</sup> of February a new Custom and Excise Management Act 2007 with the following changes:

- Customs Duty has been bound at 20% ad valorem. Custom duties have a ceiling rate of 15% and 20% ad valorem. This change has resulted in a revenue loss but the introduction of the new Act is expected to offset this loss particularly from excisable goods.
- Capital goods are duty free for 800 capital items to encourage investment in the Kingdom. An accelerated depreciation allowances was also implemented and it's expected to contribute to the promotion of investment.

- A 2007 Harmonized Tariff<sup>3</sup> has been adopted.
- New excise tax rates for excisable goods<sup>4</sup>. The rates are as follows:

<b>Excise tax rates</b>	
Imported Beer	\$40 per lal
Domestic Beer	\$17 per lal
Imported Liquor	\$40 per lal
Domestic Liquor	\$20 per lal
Imported Cigarettes	\$150 per 1000 sticks
Domestic Cigarettes	\$150 per 1000 sticks
Petroleum Products	0.50 per litre
Gas	\$300 per metric tones
Vehicles (0-1500cc)	\$1.50 per cc
Vehicles (>1500-3000cc)	\$2.00 per cc
Vehicles (>3000cc)	\$2.50 per cc

- Changes to Custom Administration.
- Filling of any custom entry forms is now being carried out by a custom broker or appointed employees. Custom officers no longer carry out this responsibility. Brokers are required to achieve a prescribed Customs educational standard to obtain a license which renewable annually.
- Post clearance audits become a legislated activity for Customs.
- Arrears for any importer will not be allowed to clear any further imports until the arrears are paid in full.
- Administrative penalties include \$1000 fine for giving Customs a bounced cheque plus \$10 for each day the cheque is not honored.
- Fines for offences have increased to \$100,000.
- Counterfeiting is a new offences
- Bonded warehouse license must be renewed annually.

Some features of the old Custom Act are still applied in the new Act.

- The right of the importers to appeal a Customs decision
- Prohibited and restricted imports and exports
- Coastal trade that is sending of goods via the inter-island ferry with the Customs procedures done at the final destination.
- Refunds and Drawback.
- Customs offence, including smuggling, false statements, false/incorrect entries made and presented to Customs, obstruction of a Customs officer and bribery of a Customs officer.
- Seizure and forfeiture.

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<sup>3</sup> As an internationally standardized product nomenclature, the Harmonized System (HS) is used by WTO Members in their schedules of concessions and in the definitions of product coverage for a number of WTO agreements

<sup>4</sup> Apply to both imported and domestic produced goods

## 6.4 Online Filing and Payment of Tax

Filing and payment of tax via the internet has been discussed with the supplier of the existing Revenue Management System. It is hoped that this facility will be available for taxpayers during 2009. This on-line facility will save taxpayers' time in filling his or her taxes and its going to free up staff of the Revenue Services Department to focus on more valuable tasks like auditing.

Discussions are continuing between the National Reserve Bank, the Revenue Services Department and the major banks represented in Tonga on the possibility of extending internet banking to tax payment. This facility would improve the security of taxpayer's payments, and reduce the need for Revenue Services staff to be involved in the transactions.

## 7.0 EXPENDITURE AND NET LENDING FOR 2008/09

The aggregate level of expenditure and net lending for 2008/09 is budgeted at \$242.5 million which is an increase of 44.6% from 2007/08 estimated outturn. The increase is associated with an additional \$39.1 million current expenditure and \$9.6 million additional capital expenditure.

Table 4 provides a breakdown of all expenditures and net lending items into their component categories and highlights the variation between the two years.

### 7.1 Current Expenditure

The Government's overall current expenditure for 2008/09 is estimated at \$204.2 million, up by 23.7% from \$165.1 million estimated outturn for 2007/08.

**Table 4: Estimated Expenditures & Net Lending for 2008/09 Budget (\$)**

	Original Estimate 2007/08	Preliminary Outturn 2007/08	Budget Estimate 2008/09
<b>Expenditure and lending minus repayments</b>	<b>221,388,726</b>	<b>167,767,742</b>	<b>242,530,482</b>
<i>Expenditure</i>	221,368,730	167,778,974	216,414,887
<b>Current expenditure</b>	<b>209,131,349</b>	<b>165,089,771</b>	<b>204,174,129</b>
Wages and salaries	75,430,965.0	76,308,645	78,385,912
Employer contributions	4,368,111.0	4,297,087	4,269,643
Other purchases of goods and services	89,100,616.0	58,444,583	91,457,554
Interest payments	3,781,252.0	3,781,251	5,207,028
Additional expenditures	1,678,298.0	6,178,297	3,378,297
<i>Subsidies and other current transfers</i>	34,772,107.0	16,079,909	21,475,696
Subsidies to non-financial public enterprises	1,001.0	1,000	1,000
Subsidies to financial institutions	250,003.0	183,426	2,800,003
Subsidies to other enterprises	2,825,004.0	2,825,001	3,825,002
Transfers to non-profit institutions	24,987,106.0	6,361,493	8,339,893
Transfers to households	5,346,972.0	5,346,970	5,362,434
Transfers abroad	1,362,021.0	1,362,019	1,147,364
<b>Capital expenditure</b>	<b>12,237,381.0</b>	<b>2,689,203.0</b>	<b>12,240,758</b>
Acquisition of fixed capital assets	11,678,367.0	2,176,389.0	11,412,778
Purchases of land and intangible assets	197,515.0	197,311.0	146,747
Capital transfers	361,499.0	315,503.0	681,233
<b>Lending minus repayments</b>	<b>19,996</b>	<b>-11,232.2</b>	<b>26,115,595</b>
To non-financial public enterprises (net)	489,996.0	458,102.3	26,584,929
To financial institutions (net)	-470,001.0	-469,334.4	-469,335
Abroad	1.0	0.0	1

The total wages and salaries for 2008/09 amounted to \$78.4 million. This is \$2.1 million higher than the estimated outturn for 2007/08. Expenditure on purchases of goods and services is budgeted at \$91.5 million increase by \$33.0 million from \$58.4 million in 2007/08.

Total subsidies and transfers of \$21.5 million estimated for 2008/09 is up by \$5.4 million from the 2007/08 estimated outturn. The increase is due to transfers to non-profit institutions, subsidies to other enterprises, and subscription to financial institutions. The subsidies provided to non-profit institutions included the Government subsidies to non-Government schools.

## 7.2 Capital Expenditure

The total capital expenditure for the 2008/09 budget is estimated at \$12.2 million, the majority of which will be funded through grants and loans from the development partners. Acquisition of fixed capital asset absorbed most of the finance for new building and new equipment.

A list of all capital expenditure breakdowns by Ministry is reported in Appendix 2 under “*Program Budget Estimates 2008/09*”.

## 8.0 ESTIMATED OUTTURN 2007/08

The 2007/08 financial year has presented the Government with positive growth after a recovery from economic and social shocks in the last two financial years.

The overall fiscal position (on a GFS basis) is estimated at a surplus of \$12.6 million. The surplus is made up of total revenues and grants of \$180.4 million against total expenditure and net lending of \$167.8 million. The significant turn around, compared to the budgeted \$4.4 deficit is attributable to government’s prudent fiscal management and better revenue collection compliances.

The total revenue and grant estimated outturn for 2007/08 stood at \$180.4 million which is 16.9% lower than the budgeted estimate.

## 9.0 FINANCING TRANSACTIONS FOR 2008/09

Net financing transactions measure the manner in which the overall fiscal budget deficit is financed, or a budget surplus is utilized. Table 5 outlines the financing transactions components of the 2008/09 budget and the preceding years.

As highlighted earlier in Table 1, the overall fiscal balance for 2008/09 is a surplus of \$5.4 million. This surplus will be utilized to finance loan repayment. In relation to external financing, the Government is expected to repay around \$7.0 million debt. As for domestic financing, the Government intends to roll over \$7.0 million of matured bonds.

**Table 5: Estimated Financing transactions (\$million)**

	Original Estimate 2007/08	Preliminary Outturn 2007/08	Budget Estimate 2008/09
<b>Total Financing</b>	<b>4,402,176.0</b>	<b>-12,627,270.0</b>	<b>-5,416,562</b>
<i>External Financing</i>	1,324,025.0	-6,900,000.0	-7,033,913
Disbursement	8,224,029.0	0.0	0
Repayments	6,900,004.0	6,900,000.0	7,033,913
<i>Domestic Financing</i>	3,078,151.0	-5,727,270.0	1,617,351
Bonds Issued/Domestic Loan	6,340,000.0	6,340,001.0	7,000,001
Principal Repayment of Matured Bonds/Loan	6,340,000.0	6,340,001.0	7,000,001
Subtotal domestic bond financing	0.0	0.0	0
Others: sales of shares			1,646,810
Net Changes in Government Cash Balances and Investment	3,078,151.0	-5,727,270.0	-29,459

## 10.0 PUBLIC DEBT

At the end of April 2008, provisional data indicates that the total public debt outstanding amounted to \$191.7m, with external debt amounting to \$164.01m and domestic debt amounting to \$27.7m.

The total external government debt outstanding is projected to be \$160.0 million in 2007/08. With consideration to convert into project funding the outstanding loans to KFW of EUR 1.56m (est. T\$4.5m), and excluding any disbursements on the Reconstruction loan from Export-Import Bank of China (EXIM). The total external government debt outstanding for 2006/07 was recorded at \$164.0m.

The total funds as disbursed at end April 2008 of \$7.0m was for Waka \$0.53m and for Health \$6.47m.

The total estimated external repayments for 2007/08 are \$8.0m, with principal repayment of \$6.0m and interest repayment of \$2.0m.

The total domestic government debt outstanding is projected to be \$27.7 million in 2007/08. With the government bonds maturing in June 2008 of \$6.34m, expected to be rolled over. The total domestic government debt for 2006/07 was recorded at \$27.7m.

The total domestic repayments for 2007/08 are estimated at \$8.09m, with principal repayment of \$6.34 and interest repayment of \$1.75m.

The total loans as guaranteed by government are projected to be \$11.0m in 2007/08, excluding any further repayments on the Squash facility. The total loan as guaranteed by government for 2006/07 was recorded at \$11.5m.

The total loan on lent by government to public enterprises is projected to be \$28.0m in 2007/08. The total loans on lent by government to public enterprises for 2006/07 was recorded at \$26.0m.

Reporting of statements for loans to local Statutory Boards and other organisations, external debt, domestic debt, and guaranteed loans made by the government (as at 30<sup>th</sup> April 2008). During 2007/08 the following loans were entered into by the Government pursuant to Section 25 of the Public Finance Management Act. The following table is provided pursuant to Section 25(3) of the Act.

**Table 6: Government Loans during financial year 2007/08**

Lender	Date	Purpose	Interest rate	Term	Amount
ADB it will be converted into grant)	9/8/2007	Integrated Urban Development Sector Project	1.0-1.5% p.a.	24 years	SDR 4.107m (est. T\$12.34m)
Export-Import Bank of China (not yet effect)	19/11/2007	Reconstruction Project	2.0% p.a.	20 years	CNY 440m (est. T\$116.6m)
Public bond issue	20/6/2008	Roll-over maturing bonds	To be determined on due date	To be determined on due date	\$6.34m

Government continues closely monitor its cash flow position and control its revenue and expenditure sources. It is crucial that Government ensures the debt levels over the medium- to long-term are maintained at a sustainable level. This includes prudent consideration on the feasibility of any new borrowings or lending.

At the FY end 2007/08, External debt to GDP is estimated at 30.8% and Domestic debt to GDP estimated at 5.3%. The External debt is highly concessional at an average 1.00% interest rate per annum and average maturity period of 36 years. However, the government external debt level continues to pose a high risk due to fluctuation of foreign currency exchange rates on the Pa'anga. The domestic debt level has been maintained over the last few years with roll-over of the maturing bonds.

## 10.1 Business Recovery Facility

A business recovery facility (BRF) was launched in April 2007 by NZAID, AusAID and the Government of Tonga to assist businesses affected by the events of 16 November 2006. Its aim is to provide working capital requirements, such as restocking, to promote investment vital to ensuring short and longer term recovery of the Tongan economy. The BRF is designed to pool donor funds to enable the Banks to lend on more favorable terms.

## 11.0 GOVERNMENT FINANCIAL STATISTIC

The GFS presentation records separately 'below the line' those receipts and payments transactions, such as those associated with raising or repaying loans, that are primarily associated with the actions necessary to finance a shortfall in Government revenues. It also records inflows to Government associated with the repayment of loans as net lending rather than revenue. The estimates of receipts and payments in the appropriation bill are predicated

on the cash basis of accounting<sup>5</sup>. This GFS presentation is to ensure that money is legally spent on the purpose for which it was provided and allows international comparisons independently of Tongan administrative structures.

Tables 6 and 7 therefore, present reconciliation between the cash inflow estimates as detailed in the “*Program Budget Estimates 2008/09*” document and the estimates of revenues (inflows) and expenditures (outflows), classified on a GFS basis, as discussed in the preceding sections of this paper.

**Table 7: Reconciliation between Cash Inflows to the Government of Tonga Fund and Revenues as per the Budget Statements**

<b>Inflows to the Government of Tonga Fund</b>		<b>215,668,699</b>
<i>Plus</i> Inflows to other Funds		
Tonga Trust Fund	0	
Revolving Funds	0	
Local Community	1	
Donor Cash Aid	41,809,561	41,809,562
<b>Total Inflows (as per Program Estimates)</b>		<b>257,478,261</b>
<i>Less</i> Inflows classified as offsets to expenditure		
Repayments of net lending		884,406
<i>Less</i> Inflows classified as financing transactions		
External Financing	7,000,001	
Domestic Financing	1,646,810	8,646,811
<b>Total Revenues (as per GFS Presentation)</b>		<b>247,947,044</b>

**Table 8: Reconciliation between Appropriations the Government of Tonga Fund and Expenditure as per the Budget Statements**

<b>Outflows from the Government of Tonga Fund</b>		<b>215,639,240</b>
<i>Plus</i> Outflows from other funds		
Tonga Trust Fund	0	
Revolving Funds	0	
Local Community	1	
Donor Cash Aid	41,809,561	41,809,562
<b>Total Inflows (as per Program Estimates)</b>		<b>257,448,802</b>
<i>Less</i> Inflows classified as offsets to expenditure		
Repayments of net lending		884,406
<i>Less</i> Outflows classified as financing transactions		
External Financing	7,033,913	
Domestic Financing	7,000,001	14,033,914
<b>Total Expenditures (as per GFS Presentation)</b>		<b>242,530,482</b>

Table 8 provides a breakdown of funds from all sources estimated to be collected by the various Ministries and Departments during the 2008/09 financial year.

Table 9 provides a breakdown of funds appropriated from all sources and for all purposes expected to be available to the various Ministries and Departments in 2008/09 compared to the 2007/08 Budget Estimate.

<sup>5</sup>that is funding flow into and out of the Kingdom’s bank accounts

**Table 9: Funds to be collected and received by Ministry**

Vote	Ministry	Budget Estimate		Budget Estimate	
		2007/08	%	2008/09	%
01	Palace Office	81,202	0.0%	4	0.0%
02	Legislative Assembly	7,003	0.0%	80,000	0.0%
03	Prime Minister's Office	1,260,171	0.5%	1,696,008	0.7%
04	Commissioner of Public Relations and Anti-Corruption Commission	5,322	0.0%	1,000,004	0.4%
05	Audit Office	41,976	0.0%	21,004	0.0%
06	Ministry of Finance & National Planning	23,597,936	10.0%	50,519,039	19.6%
07	Ministry of Foreign Affairs	16,970,369	7.2%	2,300,027	0.9%
08	Tonga Defence Services	541,356	0.2%	500,001	0.2%
09	Ministry of Lands, Survey, Natural Resources and Environment	3,015,316	1.3%	3,043,206	1.2%
10	Ministry of Justice	658,909	0.3%	573,008	0.2%
11	Ministry of Police, Prisons & Fire Services	2,518,547	1.1%	877,047	0.3%
12	Ministry of Education, Women's Affairs & Culture	17,012,846	7.2%	7,739,942	3.0%
13	Ministry of Health	6,733,459	2.9%	1,868,005	0.7%
14	Ministry of Agriculture, Food, Forests & Fisheries	2,603,931	1.1%	4,714,208	1.8%
15	Ministry of Labour, Commerce and Industries	1,477,767	0.6%	1,039,412	0.4%
16	Ministry of Tourism	1,922,651	0.8%	76,990	0.0%
17	Ministry of Works	8,473,043	3.6%	9,903,818	3.8%
18	Ministry of Transport	930,748	0.4%	4,671,615	1.8%
19	Ministry of Training, Employment, Youth & Sports	1,774,928	0.8%	160,002	0.1%
20	Crown Law Department	179,848	0.1%	5	0.0%
21	Ministry of Public Enterprise and Information Unit	222,953	0.1%	7,820,017	3.0%
22	Revenue Services Department	145,578,459	61.8%	158,874,899	61.7%
	<b>Total</b>	<b>235,608,740</b>	<b>100.0%</b>	<b>257,478,261</b>	<b>100.0%</b>

**Table 10: Funds to be appropriated by Ministry**

Vote	Ministry	Budget Estimate		Budget Estimate	
		2007/08	%	2008/09	%
01	Palace Office	3,408,356	1.4%	3,800,004	1.5%
02	Legislative Assembly	4,033,082	1.7%	4,166,000	1.6%
03	Prime Minister's Office	6,261,926	2.7%	9,138,997	3.5%
04	Commissioner of Public Relations and Anti-Corruption Commission	183,745	0.1%	1,378,004	0.5%
05	Audit Office	736,097	0.3%	820,004	0.3%
06	Ministry of Finance & National Planning	56,732,177	24.1%	94,997,584	36.9%
07	Ministry of Foreign Affairs	21,821,732	9.3%	9,920,027	3.9%
08	Tonga Defence Services	7,684,868	3.3%	8,853,001	3.4%
09	Ministry of Lands, Survey, Natural Resources and Environment	4,640,761	2.0%	5,208,757	2.0%
10	Ministry of Justice	1,874,763	0.8%	1,760,008	0.7%
11	Ministry of Police, Prisons & Fire Services	10,148,601	4.3%	13,026,047	5.1%
12	Ministry of Education, Women's Affairs & Culture	37,381,250	15.9%	31,023,942	12.1%
13	Ministry of Health	23,988,086	10.2%	22,942,005	8.9%
14	Ministry of Agriculture, Food, Forests & Fisheries	6,760,328	2.9%	9,511,208	3.7%
15	Ministry of Labour, Commerce and Industries	2,519,914	1.1%	3,162,413	1.2%
16	Ministry of Tourism	3,440,301	1.5%	2,082,990	0.8%
17	Ministry of Works	12,434,244	5.3%	18,797,818	7.3%
18	Ministry of Transport	2,438,390	1.0%	3,770,068	1.5%
19	Ministry of Training, Employment, Youth & Sports	3,862,553	1.6%	2,755,002	1.1%
20	Crown Law Department	1,388,038	0.6%	1,278,005	0.5%
21	Ministry of Public Enterprise and Information Unit	577,888	0.2%	806,017	0.3%
22	Revenue Services Department	23,291,640	9.9%	8,250,899	3.2%
	<b>Total</b>	<b>235,608,740</b>	<b>100.0%</b>	<b>257,448,799</b>	<b>100.0%</b>

**Budget Statement for Year Ending 30<sup>th</sup> June 2009**  
**Budget Paper No 3:**  
*Regional and Rural Development*

**Figure 2: Sectoral Contribution to Gross Domestic Product, at constant prices for the year 1999/00**

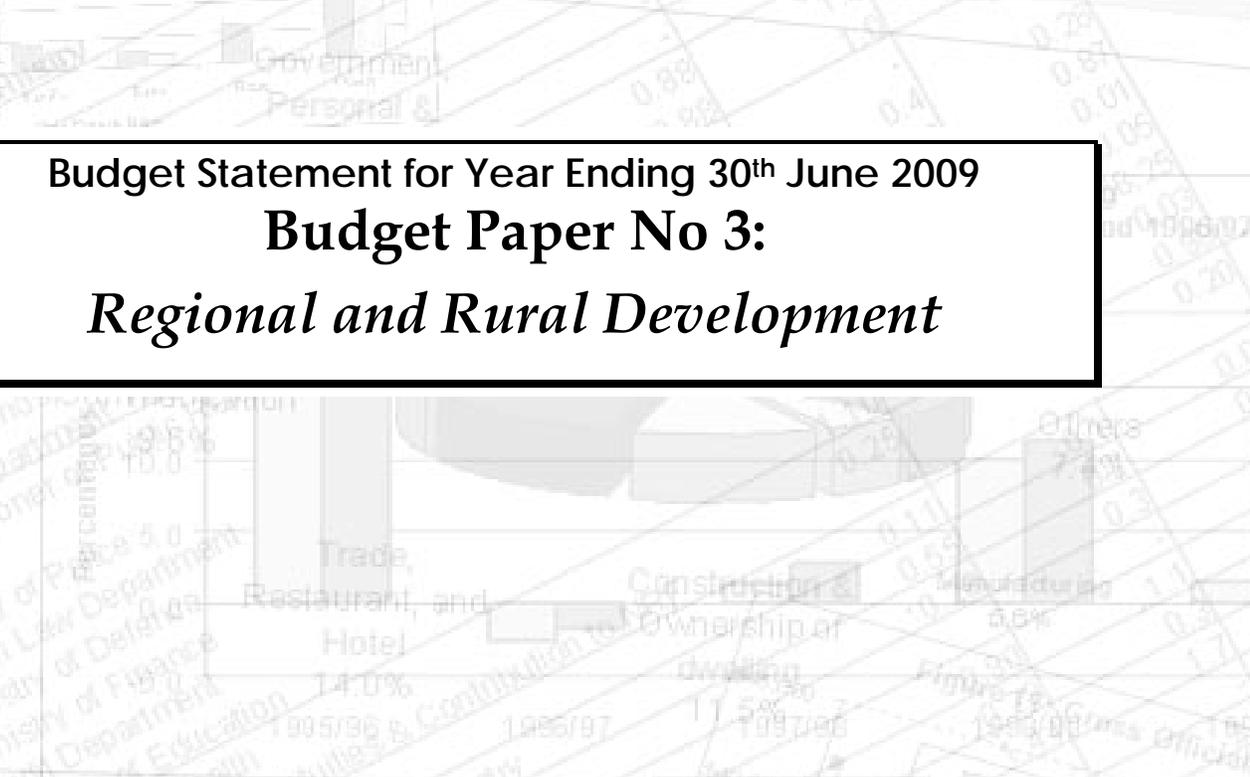


Figure 12: Exchange rates 1990/2001





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## **1.0 REGIONAL & RURAL PROJECT DEVELOPMENT PROGRAM**

Government continues to actively implement assistance programs aimed at improving the lives of Regional and Rural communities in line with the eight national development goals and strategies of the SDP8. These SDP8 goals and strategies are the tools for identifying the activities that need to be targeted and improved.

The definitions for Regional and Rural have not changed from previous budget statements and essentially encompass Tongatapu rural communities, 'Eua, Ha'apai, Vava'u and both the Niuas.

The development priorities of these communities continue to be communicated to Government through dialogue and consultations. These consultations have confirmed the need for improvements in infrastructure basic transportation, essential services of education, health, reticulated water, communication, electricity and markets. All are essential for improving the lives of the community.

A strong partnership has developed over the years between the Government, Community, Donor Partners, and Civil Societies. This partnership recognizes the need to work closely to facilitate, coordinate, appraise, implement, monitor, and evaluate the various activities

In addition this strong partnership resulted in the following major achievements for the 2007/08 Financial Year.

- Commissioning of the 'Eua Water Supply Project on 7<sup>th</sup> March 2008,
- The completion of the Niuafu'ou Solar Electrification Project, and
- Selection of the Contractor in May 2008 for refurbishing and completing the Niuatoputapu High School, which had remained incompleated since 2003.

## **2.0 FINANCIAL ASSISTANCE**

For the 2008/09 financial year contributions to regional and rural communities is estimated at TOP\$18,013,570.47 This total budget includes carry over from 2006/07 to be completed in 2007/08 but overlap to 2008/09. It should be noted that this total estimated amount may increase at the end of 2008/09 when the delayed projects are approved for implementation.

There are a number of activities that are currently appraised and procured through the NZAID-Community Development Fund, AusAID-Tonga Community Development Scheme, European Union, and Embassy of Japan Grant Assistance for Grassroots Human Security Project and the Non-Project Grant Aid Scheme scheduled for 2008/09.

Table 1, Figure 1 and Figure 2 highlight the distribution of the financial aid by donors to improve standard of living at community level and regions for 2008/09 FY

Figure 1: Distribution of Aid by Donors for Community Development for 2008/09 FY

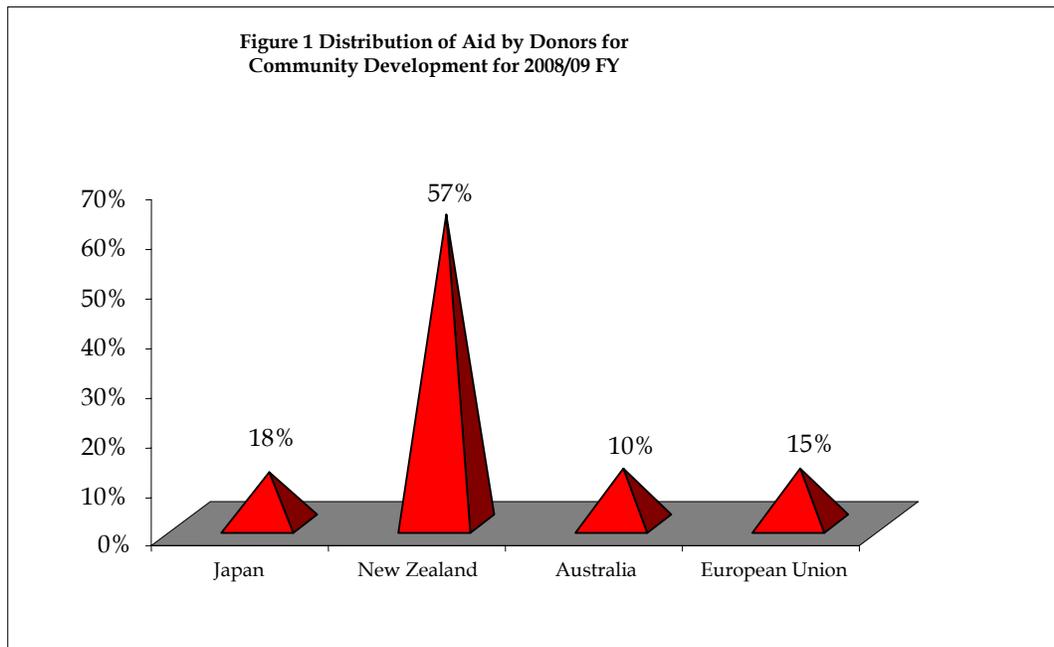
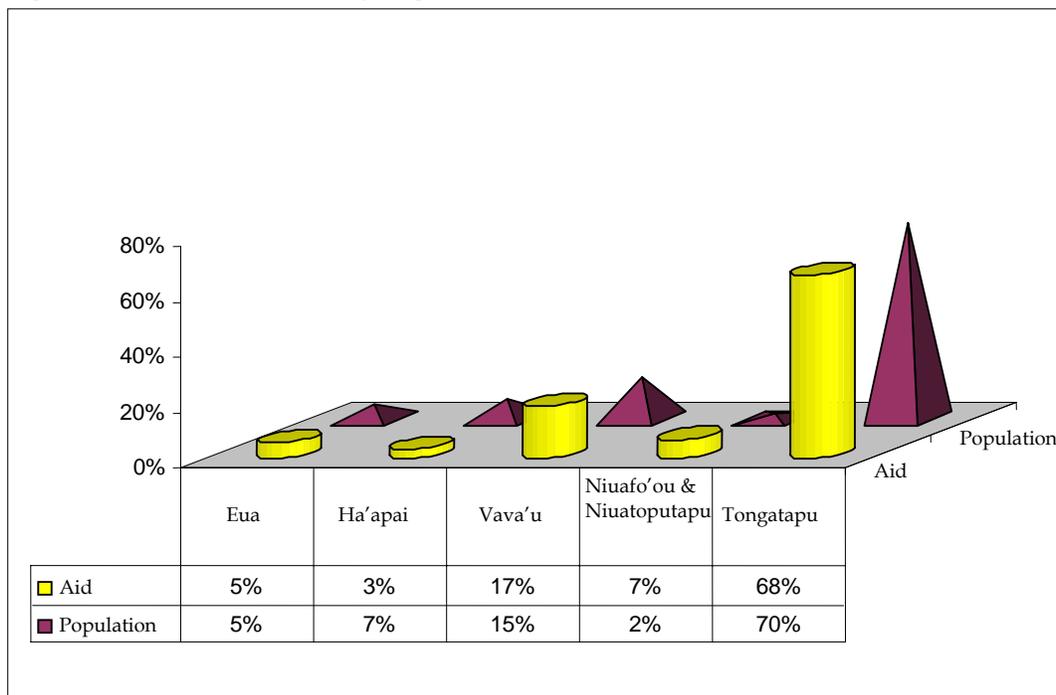


Figure 2: Distribution of Aid by Regions for 2008/09 FY



**Table 1: Regional Distribution of Donor Aid 2008/09 (TOP\$)**

Donor/ region	Eua	Ha'apai	Vava'u	NFO & NTT	Tongatapu	Total	% Distrib ution
Japan		\$162,000	\$278,403		\$2,786,619	\$3,227,022	18%
New Zealand	\$900,000		\$80,686	\$1,100,000	\$8,275,000	\$10,355,686	57%
Australia		\$377,059	\$6,300		\$1,334,080	\$1,717,439	10%
European Union, EU			\$2,713,423.47			\$2,713,423.47	15%
<b>TOTAL</b>	<b>\$900,000</b>	<b>\$539,059</b>	<b>\$3,078,812.47</b>	<b>\$1,100,000</b>	<b>\$12,395,699</b>	<b>\$18,013,570.47</b>	<b>100%</b>
<b>Total % Distribution</b>	<b>5%</b>	<b>3%</b>	<b>17%</b>	<b>7%</b>	<b>68%</b>	<b>100%</b>	

*Note: A total of TOP\$18,013,570.47 – reflects the approved amount, but will increase at the end of the 2008/09 financial year when projects appraisal are approved for funding. Hence, a boost of TOP 1.5 million for NPGA procuring pharmaceutical supplies for all region but recorded under Tongatapu allocation. Project Team is in the final phase of appraising activities that will include for 2008/09FY (when delayed projects are approved for implementation)*

Table 2 illustrates the Regional and Rural Development Committees and financial aid partners, and their responsible development region.

**Table 2: Regional and Rural Development Committees - 2007/08**

Name of Region	Core Donor	Secretariat	Hon Chairman of Regional and Rural Development Committees
Eua	New Zealand	Ministry of Labor, Commerce and Industries and Policy & Planning Division, Ministry of Finance and National Planning	Hon. Minister of Labour, Commerce and Industries
Ha'apai	Australia	Ministry of Health & Policy & Planning Division Ministry of Finance and National Planning	Hon. Deputy Prime Minister, Minister of Health
Vava'u	European Union	Ministry of Foreign Affairs & Policy & Planning Division Ministry of Finance and Planning	Hon. Minister of Foreign Affairs
Niuas	New Zealand	Ministry of Agriculture, Fisheries, Forestry, and Food & Policy & Planning Division Ministry of Finance and National Planning	Hon. Minister of Agriculture, Fisheries, and Food
Tongatapu & Rural Areas	New Zealand Australia EU Japan (GGP)	Policy & Planning Division Ministry of Finance and National Planning	Secretary of Finance

### 3.0 NIUA REGION

The Government subsidizes banking and transportation services in an effort to maintain affordable services to these remote Islands. In April 2008, the Government also provided heavy machinery to assist with the maintenance of roads. Additional assistance was received from New Zealand of \$1.0 million pa'anga as assistance for the Niuafu'ou electrifications and the Niuatoputapu district High School. Apart from these New Zealand Aid continues to fund community development projects.

Table 3 below demonstrates the activities approved under NZAID in 2007/08 and are currently being implemented.

**Table 3: Niuas Ongoing Projects approved under NZAID CDF for 2007/08 FY**

Region	Applicant	Project	Location	Amount Requested TOP\$	COMMENTS
Niua Ttp	Fekau'aki 'a Fafine Katolika 'a Vaipoa	Mulberry & Pandanus	Vaipoa	\$6,750	Ongoing
Niua Fo'ou	Fetu'u Pongipongi Development Group	Vegetable Garden	'Esia	\$4,930	Ongoing
Niua Fo'ou	Tavake Toto	Kava & Yam Plantation	'Esia	\$10,000	Ongoing
Niua Fo'ou	Seilose Group	Kava Plantation	Petani	\$10,400	Ongoing
<b>Total Allocation for 2007/08 to the Niuas</b>				<b>\$32,080</b>	

#### 3.1 Niuafu'ou Electrification

The total contract for this project is TOP\$1,090,876. The project was originally scheduled for October 31, 2007. However, transportation problems coupled with output performance issues of the solar panel system have delayed completion. The expected completion date is now October 31, 2008

#### 3.2 Niuatoputapu New High School

NZAID has committed a total budget of approximately TOP\$2.7 million to complete the high school. The Project Management Committee and the Prime Minister conducted a site assessment on April 2008 to witness the urgent need to upgrade and complete this project. To fast track the completion of the High School, NZAID has selected a project engineer with anticipation that the project will be completed by the end of 2009/10 financial year.

There are also pipeline projects, which have been finalised by the Niua Development Committee with funding options actively explored. These project proposals include; Niuas Strategic Development Plan, Wharf upgrade in Niuafu'ou and Niuatoputapu, Roads Upgrade, upgrade on Water Reticulation in Niuatoputapu, and Tafahi harbour improvement.

## **4.0 'EUA REGION**

The Government settles the tax obligations of different projects while actively working in partnership with donors in reassuring that development work is viable and sustainable.

### **4.1 'Eua Water Supply Upgrade Project**

This project was officially commissioned on 7 March 2008. The total cost was approximately NZ \$3 million for the completion.

An important part of the management component of this project, is the establishment of the 'Eua Water Consumer Committee (EWCC) which is established to assist with the project implementation and management process. The EWCC will also review the performance of the Tonga Water Board within the next four years after project completion. There are still problems with clean water during heavy rains which the Tonga Water Board is working to resolve.

### **4.2 'Eua Strategic Development Plan**

The finalisation of the 'Eua Strategic Development Plan continues to progress well with the completion of the consultation, survey, and data collection exercise. The team is currently compiling all relevant data for the Plan and is anticipated to complete the report by at the beginning of 08/09 FY. NZAID had contributed a grant valued at TOP \$17,290, towards the completion of this plan.

Moreover, through the consultative process of the 'Eua Strategic Plan, Government recognises that the upgrading work carried out by the Government in 2006/07 of the Kaufana Airport needed further investment to enable greater tourism. Government is therefore actively negotiating with Donor partners for possible assistance to upgrade all airports in the Kingdom. The resurfacing of the Kaufana Airport is urgently required.

## **5.0 HA'APAI REGION**

Government assistance through the payment of project taxes, negotiations and maintenance of good relations with donor partners have resulted in major contributions received from Australia and Japan in 2007/08.

Tonga Community Development Scheme (TCDS) had fallen behind schedule in past financial years. By August 2008 however, the program should return to its normal timeframe. Detail of projects funded for the development of Ha'apai under this scheme during 2005/06 and 2006/07 FY is in Table 4.

Table 5 outlines efforts to implement the Grant assistance for Grass-roots Human Security Projects funded by Japan which contributed a total of TOP \$162,000 for construction of 3 staff quarters at Niu'ui Hospital for 2006/07 – 2007/08 Financial Years. Table 4 lists the ongoing work conducted by AusAID for 2006/07 for community development at the Ha'apai Region.

Additionally, for the period 2006/07 the Government of Tonga was committed to assisting the upgrading of the Nomuka Wharf with a total allocation of TOP \$70,000, with further possible assistance from Germany currently being explored. The total cost of this project is approximately TOP\$210,000

**Table 4: Ha'apai Projects under the Ha'apai Development Fund (Australia), 2006/07**

Project Titles	Project Locations	Grant Total TOP\$	10% Contri. TOP\$	Project Outputs	Status
Komiti Fakakolo	Fotuha'a	\$133,059	Nil	Construct 29 Composting Toilets	Ongoing
Komiti Fakakolo	Matuku	\$91,559	Nil	Construct 20 Composting Toilets	Ongoing
St Josephs Community College	Lifuka	\$44,576	\$4,952	Purchase Industrial Art Equipments	Ongoing
Langa Fonua 'o Toutai	Matuku	\$16,054	\$1,783	Purchase Outboard Engine	Ongoing
Fakalave 'o e Vai Mahanga	Kotu	\$8,114	\$901	Purchase Generator, Fridges and Wire	Ongoing
Kulupu Koseni	'Uiha	\$8,575	\$950	Grow Pandanus	Ongoing
Kulupu Sangato Sosefo	Ha'ato'u	\$17,128	\$1,903	Grow Yams & Purchase Tools	Ongoing
Fe'ofa'aki Development Group	Koulo	\$8,316	\$924	Grow Pandanus	Ongoing
Kulupu Lotokolo	Felemea	\$8,200	\$911	Grow Pandanus	Ongoing
Kolofo'ou Development Group	Felemea	\$8,904	\$989	Grow Pandanus	Ongoing
Kulupu Houmale'eia	Faleloa	\$11,366	In-kind	Grow Mulberry	Ongoing
Makahokovalu Youth	'Uiha	\$14,184	\$1,576	Construct 16 Piggery Fences	Ongoing
		<b>\$370,035</b>	<b>\$14,890</b>		
<b>VAI PROJECTS:</b>					
FWC Youth	Koulo	\$7,024	In-kind	Coastal Replanting with fencing	Ongoing
		<b>\$7,024</b>	<b>\$0.00</b>		

**Table 5: Japan's Grant Assistant for Grassroots Projects (GGP) - 2006/07 & 2007/08**

	Project Titles	Location	Approved Allocation from Japan (TOP\$)	Project Outputs	Project Status
1.	3-Staff Quarters (Niu'ui Hospital)	Ha'apai	\$162,000	Construction of 3 new staff quarters	Ongoing
2.	Upgrading Petani Primary School	Ha'apai	\$154,000	Four Classroom, 2 water tank	Ongoing
3.	Upgrading GPS Fotua	Ha'apai	\$155,000	Three classroom, 4 unit toilet	Ongoing
<b>TOTAL ALLOCATION</b>			<b>\$ 571,000</b>		

## 6.0 VAVA'U REGION

Government assistance in partnership with the European Union (EU) continues to improve the lives of the Vava'u Region with the implementation of projects.

Assistance to the Health sector was at TOP \$513,896 for rural health clinics (Ta'anea and Tefisi), homes for District nurses (Hunga and Falevai), and Prince Ngu Hospital Renovation including an ambulance.

The Education sector received TOP \$956,400.47 primarily for Vava'u High School and the Vava'u Side School. Further assistance was made through the renovation of classrooms towards GPS Taunga, Lape, Matamaka, Tu'anuku, 'Utulei, and Makave. These include staff quarters, photocopiers to primary schools, computers, and security fence, solar system for Lape, Taunga and Matamaka Quarters.

The assistance to the Non Government Sector was estimated at TOP \$128,603. It is important to note that the budget of TOP \$550,524 remains to be disbursed between April and June 2008. A further transfer from EU HQ (Fiji) of the remaining balance of TOP \$335,000 and TOP \$219,000 for pipeline activities is expected.

The detail programming of the funds will be programmed according to each related sector. Table 6 below also refers to EDF 9 programme activities that are now approaching the completion of its implementation phases and are therefore scheduled to complete at the end of the current financial year. It is expected that none of the activities under EDF 9 will overlap to the new Financial Year. A new EDF 10 has been approved at an estimated TOP\$19 million to be allocated between renewable energy and water.

**Table 6: Programmed EU Budget 2007 & 2008 by June 2008**

Project Title Programmes	QNT	Rate	Total TOP \$
<b>TOTAL BUDGET (EDUCATION COMPONENT)</b>			<b>\$956,400.47</b>
<b>TOTAL BUDGET (HEALTH COMPONENT)</b>			<b>\$513,896</b>
<b>TOTAL Non State Actors BUDGET</b>			<b>\$128,603</b>
<b>TOTAL PIPELINE ACTIVITIES</b>			<b>\$1,114,524</b>
<b>TOTAL BUDGET</b>			
<b>PE3 BUDGET</b>			<b>\$2,713,423.47</b>

Source: VSSSP, PE3

In addition, Table 7 refers to details of the GGP's contribution of TOP \$583,253 for the upgrading of the reticulated water system for Tefisi, Tu'anuku, Okoa Villages and Ofu island in Vava'u.

**Table 7: Japan's Grant Assistant for Grassroots Projects - 2006/07 & 2007/08**

	Project Titles	Location	Approved Allocation from Japan (TOP\$)	Project Outputs	Project Status
1	Tefisi Water Supply	Vava'u	\$149,917	Upgrade Water Production	Ongoing
2	Okoa Water supply	Vava'u	\$148,530	Upgrade water Production	Ongoing
3	Tu'anuku Water Supply	Vava'u	\$142,932	Upgrade Water Production	Ongoing
4	Ofu Water Supply	Vava'u	\$141,871	Upgrade Water Production	Ongoing
<b>TOTAL ALLOCATION</b>			<b>\$583,250</b>		

The Australian assistance VAI also contributed 30 recycling bins for the Halamangaono Youth projects that shown in Table 8.

**Table 8: VAI Projects - 2006/07 & 2007/08**

Project Titles	Project Locations	Grant Total TOP\$	10% Contri.	Project Outputs	Status
Halamangaono Youth Congress	Leimatu'a	\$6,300	In-kind	Construct 30 Recycling Bins	Preparation

## 7.0 RURAL DEVELOPMENT PROGRAMME

As defined in past Budget Statements the “Rural Community” is defined to include all the outer island villages, all villages in Tongatapu, including low-lying areas of Nuku'alofa such as Sopu and Popua.

The Government in partnership with New Zealand, Australia, Japan and the European Union provides assistance in line with the priorities and goals of SDP8.

### 7.1 Community Development Fund (NZ)

For the 2007 calendar year, the Community Development Fund (NZ) has assisted with community projects in the area of agriculture and water.

New Zealand contributed a total of TOP \$141,119 for Community Development Fund for activities here in Tongatapu.

**Table 9: Projects Funded by the Government of New Zealand (CDF) - 2007/08**

Region	Applicant	Project	Location	Amount Requested TOP\$	Comments
Tongatapu	ComCare/COT Women in Development	Purchase of Processed Pandanus	Patangata/ Popua	\$15,000	Preparation
Tongatapu	Komiti Hala Fatumu	Agricultural Road construction	Fatumu	\$19,872	Preparation
Tongatapu	Langafonua 'a Fefine Tonga	Launching & Awareness Campaign on <i>National Papers of Women and NGO in Development</i>	Nuku'alofa	\$7,952	Preparation
Tongatapu	Langafonua 'a Fafine Toloa	Purchase of Sewing Machines	Toloa	\$12,636.	Preparation
Tongatapu	Kalapu 'Initia	Yam Plantation & Hoes/spades	Utulau	\$19,113	Preparation
Tongatapu	Teketua 'oe Vai ko Latai Women Development Group	Pandanus & Mulberry	Fua'amotu	\$16,346	Preparation
Tongatapu	Nualei Old & Young Growers Dev	Agricultural Road construction	Nualei	\$20,000	Preparation
Tongatapu	Nukunuku Water Committee	Water Tanks	Nukunuku	\$10,200	Preparation
Tongatapu	Komiti Fakakolo 'o Talasiu	Roading construction	Talasiu	\$20,000	Preparation
			<b>TOTAL</b>	<b>\$141,119</b>	

FN1: All applicants must contribute 25% of total amount requested for the project whether it be in money value or in-kind.

## 7.2 Tonga Community Development Scheme (Australia)

The 2006/07 TCDS activity is currently ongoing and will be carried through into 2008/09. The TCDS and VAI 2007/08 project appraisal is currently underway.

The delays in completion of activities were mainly caused by issues raised during an AUSAID evaluation exercise. This evaluation exercise was part of their regular stocktaking of development schemes to ensure continued overall value added of the whole program as well as the mainstreaming of all related components for the betterment of project implementation.

Table 10 below lists the activities that are still ongoing for 2008/09 which were approved under the Australian Community Assistant Scheme (ACAS) for 2007/08.

**Table 10: Project funded under ACAS for Tongatapu 2006/07**

Project Titles	Project Locations	Grant Total TOP\$	10% Contri.TOP\$	Project Outputs	Status
Lolo Paongo Group	Kahoua	\$8,546	In-kind	Install new tank and repair tank stand	Ongoing
Kulupu Lototaha 'o e Hala Fatafehi	Kolofo'ou	\$53,900	\$5,990	20 water cement tanks	Ongoing
Ki he Lelei Taha Group	Hofoa	\$78,540	\$4,760	26 water cement tanks	Ongoing
Halakafa WDG	Fua'amotu	\$68,040	\$7,560	27 water cement tanks	Ongoing
Kulupu Fietokoni	Lavengatonga	\$50,400	\$5,600	20 water cement tanks	Ongoing
Kulupu Matahiva	Tokomololo	\$28,000	\$2,800	11 water cement tanks	Ongoing
Tofoa Women In Development	Tofoa	\$52,920	\$5,880	21 water cement tanks	Ongoing
Kulupu Kapakau Tatangi	Pelehake	\$66,290	\$6,160	24 water cement tanks	Ongoing
Kulupu Ngaue Lototaha	Houmakelikao	\$54,670	\$6,075	21 water cement tanks	Ongoing
Kulupu Funga Tufukafa	Holonga	\$19,534	\$1,500	Grow Yam & Mulberry	Ongoing
Fakamohe Mei 'Ulu Club	Holonga	\$18,850	\$1,998	Grow Yam	Ongoing
Kulupu Tokamu'a 'o Sangato Sosefo	Lapaha	\$56,410	\$8,193	Grow Yam	Ongoing
Talafo'ou Youth	Talafo'ou	\$4,216	In-kind	Grow 4 acres of Peanuts	Ongoing
Kalapu Fuiono	Lapaha	\$24,360	In-kind	Grow Yam	Ongoing
Fu'u Fa ko Hala ki Langi Credit Union	Ha'asini	\$9,315	\$1,035	Grow 4 acres of Watermelon	Ongoing

Kalapu Fevanga 'o 'Ahopanilolo	Ma'ufanga	\$73,430	\$10,000	Purchase tractor & equipment	Ongoing
Mailo Kava Tonga Club	Houma	\$45,000	\$5,000	Construct 17 Pen Community Piggery Building	Ongoing
I 'o Lupea Coop. Society	Pelehake	\$53,736	\$5,970	Construct 16 Piggery Fences	Ongoing
Ngalukilo Women's Group	Matahau	\$63,000	\$7,000	Construct 35 Piggery Fences	Ongoing
CommCARE Tonga	Patangata	\$111,965	In-kind	Purchase 4 Fishing Boats, 4 Outboard Engine, Trailer and Safety Equipments	Ongoing
Kulupu Hala 'o Maui	Hala'ovave	\$42,615	\$4,735	Landfill 16 town allotments	Ongoing
Komiti Fakakolo	Pelehake	\$65,304	\$7,256	Upgrade Road and Tar-sealed	Ongoing
TNYC Future Farmers	Tongatapu	\$22,806	\$2,534	Farm Business Skills Training	Ongoing
CSFT	Tongatapu	\$8,000	\$800	NGO Training and Skills Share Project	Ongoing
TNYC Young Entrepreneurs	Tongatapu	\$31,420	In-kind	Small Business Traineeships and Skills Development	Ongoing
		<b>\$1,111,267</b>	<b>\$100,846</b>		
<b>VAI PROJECTS:</b>					
Komiti Vai Hihifo	Hihifo District	\$72,163	In-kind	Upgrade Water Supply System	Ongoing
CommCARE Tonga	Patangata	\$150,650	Nil	35 water poly tanks	Ongoing
		<b>\$222,813</b>	<b>\$0.00</b>		

Table 10 shows the lists of activities that were approved in 2007/08 and will be ongoing in 2008/09. Australia contributed a total of TOP \$1,334,080 for ongoing development projects in Tongatapu in 2006/07. The Vulnerability Adaptive Initiatives (VAI) scheme is primarily for activities directly related to environmental problems and degradations.

### 7.3 Japan's Grant Assistance for Grassroots Projects (GGP)

Japan's Grant Assistance for Grassroots Projects (GGP) is a bilateral aid program that provides non-refundable financial assistance to non-government organizations (NGOs), hospitals, primary schools, research institutes and other non-profitable organizations to implement development projects at the grassroots level.

The GGP contributed a grand total of TOP \$531,170 to Tongatapu TOP\$309,000 to Ha'apai and TOP\$ 583,250 to Vava'u for 2007/08 financial year, totaling TOP\$1,423,420. The Ministry of Finance is currently coordinating and finalizing application proposals to be submitted to the Japanese Embassy for funding consideration for the 2008/09 financial year.

**Table 11: Japan's Grant Assistance for Grassroots Projects - 2007/08 & 2008/09**

	Project Titles	Location	Approved Allocation from Japan (TOP\$)	Project Outputs	Project Status
1.	Afa Water Supply	Tongatapu	\$152,810	Upgrade Water Production	Completed
2.	TSS Tokomololo Building	Tongatapu	\$127,924	Upgrade three new classroom	Completed
3.	Tonga College	Tongatapu	\$130,435	Upgrade three new classroom	Completed
4.	GPS Ngele'ia Staff	Tongatapu	\$120,000	Upgrade 2 staff Quarters	Completed
5.	GPS Fotua	Ha'apai	\$155,000	Upgrade 3 classroom	Completed
6.	Petani Primary School	Ha'apai	\$154,000	Upgrade 3 classroom	Completed
7.	Tefisi Water supply	Vava'u	\$149,917	Upgrade Water Production	Ongoing
8.	Okoa Water Supply	Vava'u	\$148,530	Upgrading Water Production	Ongoing
9.	Tu'anuku Water Supply	Vava'u	\$142,932	Upgrading Water Supply	Ongoing
10	Ofu Water Supply	Vava'u	\$141,871	Upgrading Water supply	Ongoing
<b>TOTAL ALLOCATION</b>			<b>\$1,423,420</b>		

## 8.0 PROJECTS IN THE PIPELINE

The government is committed to making a difference in the lives of Regional and Rural Communities through ongoing dialogue and consultations to assist with the revision of the SDP 8. This difference is achieved through the continued effort to implement reforms that will stimulate economic activity and at the same time provide improvement in living standards.

In addition, the SDP8 goals and strategies for rural and regional development continue to be a road map for identifying the areas that need to be addressed and improved. Government in partnership with Donors is committed to the provision of resources in the 2008/09 budget for improvement of the standards

Such standards include improving access to safe drinking water, educational and health services, affordable communication; transportation, electricity and other infrastructure with the valued assistance of donor partners, the Government's effort to equally redistribute the overall economic growth and benefits outlined in Budget Paper 1 is achieving success.

The government also recognizes that maintaining good relationships with Donor Partners assist in receiving finance for these projects. We extend gratitude and appreciation to all our donor partners for their funding assistance towards regional and rural development and community projects.

Finally Government has received the following project requests from Rural and Regional Communities. These requests are part of the ongoing activities of the Ministry of Finance and National Planning to continue to focus efforts towards securing needed financing both from within government and from donor partners.

**Table 12: List of Requested Project Proposals in the pipeline seeking donor funding**

	<b>Project Titles</b>	<b>Location</b>	<b>Proposed Allocation (TOP\$)</b>	<b>Project Outputs</b>	<b>Project Status</b>
1.	Foa Causeway	Ha'apai	\$1,200,000	Upgrade Foa causeway	Seeking Donor Funding
2.	'Ohonua-Taanga – Houma Roads	'Eua	\$1,500,000	Upgrade the main to Houma	Seeking Donor funding
3.	Hihifo Water Supply	Tongatapu	\$1,300,000	Upgrade Hihifo Water Supply	Seeking Donor Funding
4.	Ta'anea – Holonga Roads	Vava'u	\$150,000	Upgrading Main Roads	Seeking Donor funding
5.	Hunga Transportation	Vava'u	\$71,000	Purchase Tractor and trailer	Seeking Donor Funding
6.	Ha'ateiho Water Supply	Tongatapu	\$282,834	Upgrade Ha'ateiho water supply	Seeking Donor funding
7.	Niutoputapu Water supply	Niutoputapu	\$450,000	Upgrade NTT Water supply	Seeking Donor Funding
8.	Custom Services	Tongatapu	\$600,000	Purchase custom equipment	Seeking Donor Funding
9.	New GPS Kahoua	Tongatapu	\$220,000	Upgrade new GPS for Kahoua	Seeking Donor Funding
10	Vaini Water Supply	Tongatapu	\$147,000	Upgrading Vaini Water supply	Seeking Donor Funding
	<b>TOTAL ALLOCATION</b>		<b>\$5,920,834</b>		