

Figure 2. Sectoral Contribution to Gross Domestic Product, at constant prices for the year 1990/01

**Budget Statement for Year Ending 30<sup>th</sup> June 2011**  
**Budget Paper No 1:**  
*Review of the Tongan Economy & Outlook 2010/11*



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## 1 OVERVIEW

Budget Paper 1 reviews the economic development and medium term economic forecast for the Tongan economy.

During financial year 2009/10, the Tongan economy experienced the full extent of the Global Economic Crisis (GEC), which started around September 2008. The Ministry of Finance and National Planning projected a positive growth of 0.4% for 2008/09 but the actual result was a contraction of 0.4%. Remittances declined further than expected which reduced incomes and hindered growth.

The International Monetary Fund (IMF) estimated a slight improvement in the world's economy in 2009/10 but the actual growth exceeded expectations. Activity in emerging and developing economies is leading the way while advanced economies are recovering more sluggishly. The Tongan economy by contrast declined by 1.2%. This means Tonga will have experienced two consecutive years of negative growth. The outlook for the medium term is more positive with growth expected to average around 1.5%.

The adverse impact of GEC on the Tongan economy come on top of tsunami, drought, cyclone and the Ashika tragedy, which have been recognized as having a significant negative impact on economic activity over recent months. Economic growth is among the target priorities in the National Strategic Planning Framework (NSPF). The Government therefore has continued to implement its reform program to raise economic performance while also adopting a more cautious fiscal position. Our development partners have been instrumental in sustaining development projects as well as providing budget support program for this year and the next financial year.

### 1.1 Tonga's 2009/10 Economic Performance.

Ministry of Finance and National Planning estimates show that the Tongan economy has contracted by 1.2%. The original forecast at the time of the 2009/10 budget was a growth of 1.7%. The downward revision is attributed to the severe impact of domestic banking consolidation, the global economic crisis which has been more severe than expected and natural disasters that affected all sectors of the economy.

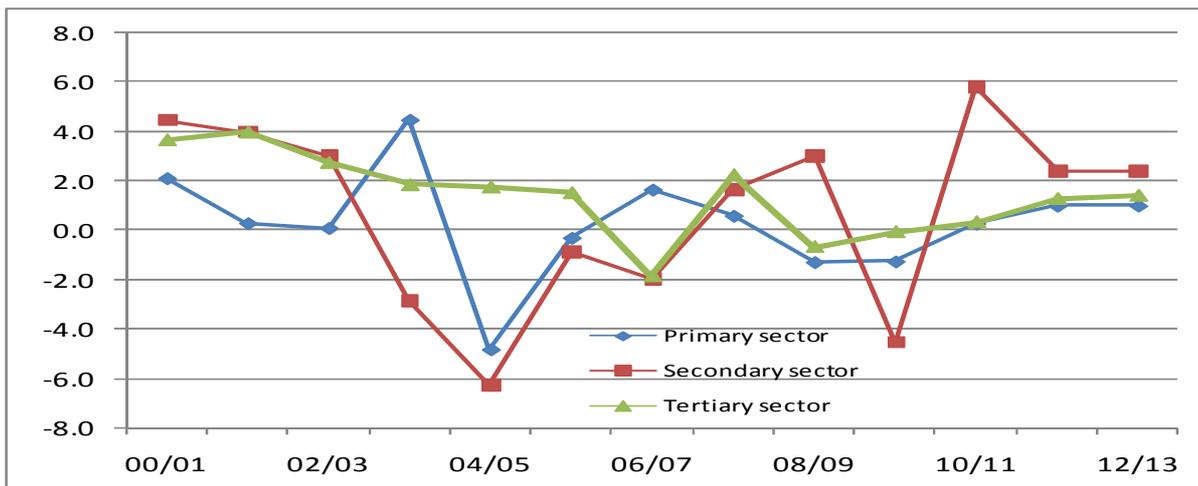
Other developments that influenced the economy include:

- Remittances declined by 18.0% due to the impacts of the GEC reducing wealth in major remitting countries.
- Tourist receipts declined by 14.8% with total number of arrivals declining by 13.9% due to a decrease in the number of cruise ships visiting, while air arrival increased by 5%.
- Delay in some of the major construction projects.
- Bank lending has been constrained due to bank's consolidating after past high levels of loan defaults.
- The Niuatoputapu tsunami, drought and Cyclone Renee adversely impacted key economic sub-sectors.
- Rising fuel prices which affected all activities particularly those dependent on transportation, electricity and food.

- Continued poor export performance

Overall, the economic contraction was spread across the Primary (-1.2%), Secondary (-4.5%) and Tertiary (-0.1%) sectors. As a result of this economic downturn the Government’s revenue collection was also 22% lower than Budget. Figure 1 below shows the past and projected trend for the primary, secondary and tertiary sectors of the economy. For further details, please refer to Section 5.

**Figure 1: Trend of Primary, Secondary and Tertiary sectors.**



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

## 1.2 Economic Outlook for 2010/11 and beyond.

Tonga’s economy is forecast to grow by 1.4% in 2010/11 and achieve average growth of 1.5% in the following years. This growth will be driven mainly by the secondary sector with increased construction and infrastructure activities. Agricultural and Fishing activities are forecast to grow with increased varieties of export products and increases in the volume of sea cucumber being exported. Tourism and remittances will depend on the pace of economic recovery in other economies particularly the United States of America, Australia and New Zealand.

Despite this positive outlook, the economy is still vulnerable to economic shocks and natural disasters which may hinder economic growth. Tonga’s economic growth rate has also continued to lag behind regional and global averages for developing nations.

It is expected that there will be some new development arising out of the transition to a more democratic Government in November 2010, which will have an unknown impact on economic development. The Government loan from the China Export Import (EXIM) Bank to upgrade infrastructure, donor funded projects in particular from the Asian Development Bank (ADB), Australian International Development Assistance (AusAID), Japan, New Zealand International Development Assistance (NZ Aid), People’s Republic of China (PRC), European Union (EU) and the World Bank will all contribute to economic activities in areas related to energy, the environment, infrastructure, health and education.

Tonga’s economic outlook should also be boosted by progress towards achieving NSPF objectives. These objectives range from improving the environment for businesses, infrastructure, vocational education and health particularly non-communicable diseases (NCD)

to facilitate community development and environmental sustainability as well as ensuring that constitutional reforms are in place for a smooth transition to fuller democracy.

## **2 GLOBAL ECONOMIC DEVELOPMENTS.**

The IMF and World Bank have indicated that the global economy is returning to positive growth this year following the deepest global downturn in recent history. Recovery commenced in the 2<sup>nd</sup> half of 2009 and is expected to be relatively strong although proceeding at different paces around the world. Extraordinary fiscal and monetary stimulus packages implemented in countries around the world have fuelled the quick recovery.

Advanced economies are expected to grow by an average 2.3% in 2010 and 2011 following a contraction of 3.2% in 2009. Emerging and developing economies are projected to grow at above 6% per annum in the medium term which is a significant increase from growth of 2.4% in 2009 according to the IMF. Global activity is recovering rapidly and is projected to accelerate further.

The United States (US) economy is expected to grow at 3.1% but is still constrained by high unemployment, restricted lending and a weakening housing market. Slowing the deterioration in US labour markets contributed to the return of positive growth while investment fostered by strong orders and a recovering corporate bond market, easing of bank lending standards and the bottoming out of credit has helped to improve the growth in the advanced economies. Despite the return to positive growth, financial conditions remain difficult as government deficits and increasing public debts have contributed to a sharp increase in sovereign risk premiums, creating spill-overs into other economies and markets. Some EU economies are still experiencing difficulties in debt distress and high unemployment.

Domestic demand has been very strong in key emerging economies, which has helped recovery while external demand has been lifted by the normalization of global trade.

Risks associated with this outlook is an untimely withdrawal of macroeconomic stimulus measures, a sharp increase in international commodity prices, deteriorating fiscal positions and the persistence of global imbalances. The stronger recovery of developing Asia and higher interest rate in those major industrial countries are already attracting potentially volatile capital flows, complicating macroeconomic management. Rising food prices that disproportionately impact the poor, also pose a risk.

## **3 REGIONAL ECONOMIC ISSUES**

Recovery is underway in most Asia-Pacific economies but this recovery is potentially fragile as there is still ample risk of slow growth and persistent unemployment, a re-emergence of global imbalances and financial volatility. Most Asia-Pacific economies experienced sharp declines in exports, output and employment and plunging asset prices during the economic crisis.

Growth in developing Asian countries growth is projected to rebound to 7.5% in 2010 from 5.2% growth in 2009, with further moderate growth of 7.3% for 2011 according to the ADB. The developed economies are the fastest growing economies in this region with Gross Domestic Product (GDP) growth close to 10% for China in 2010 and 8.8% for India. Both

recoveries are supported by strong domestic demand.

Aggregate growth in the Pacific is expected to pick up slowly in 2010 after a contraction of 2.3% in 2009. Economic growth is expected for most Pacific Islands following a recovery in tourism receipts, remittances, export earnings and tax revenue.

Australia's economic growth is projected to pick up in 2010 with a 3.0% after a slow growth of 1.3% in 2009 and it is expected to accelerate to 3.5% in 2011. Growth is led by both private and public domestic demand and commodity prices picking up. This is expected to boost investment in the resource sector. Unemployment has slightly declined from 5.6% in 2009 to 5.3% this year and is expected to continue declining in the future.

New Zealand's economy may be recovering slightly more strongly than expected, but this recovery has only just begun. The economy accelerated to 2.9% growth this year after a contraction of 1.6% in 2009 and it is expected that the recovery will continue to accelerate in 2011. Unemployment is expected to increase in 2010 to 7.2% before declining to 6.6% in 2011. Output growth will be supported by higher commodity export prices, especially for dairy products, permanent income tax cuts, and recovering house prices. Business confidence recovery is expected to continue in 2010.

#### 4 MAIN DRIVERS OF THE DOMESTIC ECONOMY IN 2009/10.

This section provides a more in depth review of economic performance in 2009/10 and the projected growth for 2010/11. This information is based on actual data from the first nine months of 2009/10 and projections for the last three months to provide an estimated annual outturn.

**Table 1: Contributions to Growth (real terms).**

	06/07	07/08	08/09	09/10	10/11	11/12	12/13
Agriculture	0.3%	0.1%	-0.3%	-0.2%	0.1%	0.2%	0.2%
Construction and Quarrying	-0.2%	0.2%	0.1%	-0.6%	0.7%	0.2%	0.2%
Commerce, Restaurants and Hotels	0.5%	0.9%	0.2%	-0.6%	-0.2%	0.2%	0.2%
Transport and Communication	0.4%	-0.5%	-0.2%	0.1%	0.2%	0.2%	0.2%
Finance and Real Estate	-0.2%	0.3%	-0.4%	-0.2%	-0.1%	0.1%	0.1%
Government	-2.0%	0.5%	0.2%	0.2%	0.1%	0.1%	0.1%
Other	0.2%	-0.5%	0.1%	-0.2%	-0.7%	-0.5%	-0.6%
GDP	-1.4%	2.0%	-0.4%	-1.2%	1.4%	1.5%	1.5%

*Sources: Statistics Department & Ministry of Finance & National Planning.*

#### 4.1 Remittances

Remittances declined in 2008/09 by 12.5% as revealed by National Reserve Bank of Tonga (NRBT) data. Remittances are projected to further decline by 18.0% for 2009/10 due to the economic conditions and job security of Tongans in countries from which remittances are sourced. The total amount of remittance inflows for the first 9 months of 2009/10 declined by 16% to \$113.4 million from the \$135.3 million recorded in the same period of 2008/09. Despite the high unemployment rate in New Zealand, Tongan's is still engaged with seasonal workers scheme although numbers are decreasing while Australia's labour scheme is on hold. Although remitting countries such as US and New Zealand are returning to positive growth it will take some time before remittances pick up again.

The decline in remittances has a direct impact on the household disposable income resulting in a reduction in demand for goods and services in most sectors of the Tongan economy.

Table 2: Changes in Remittances and Tourist Receipts.

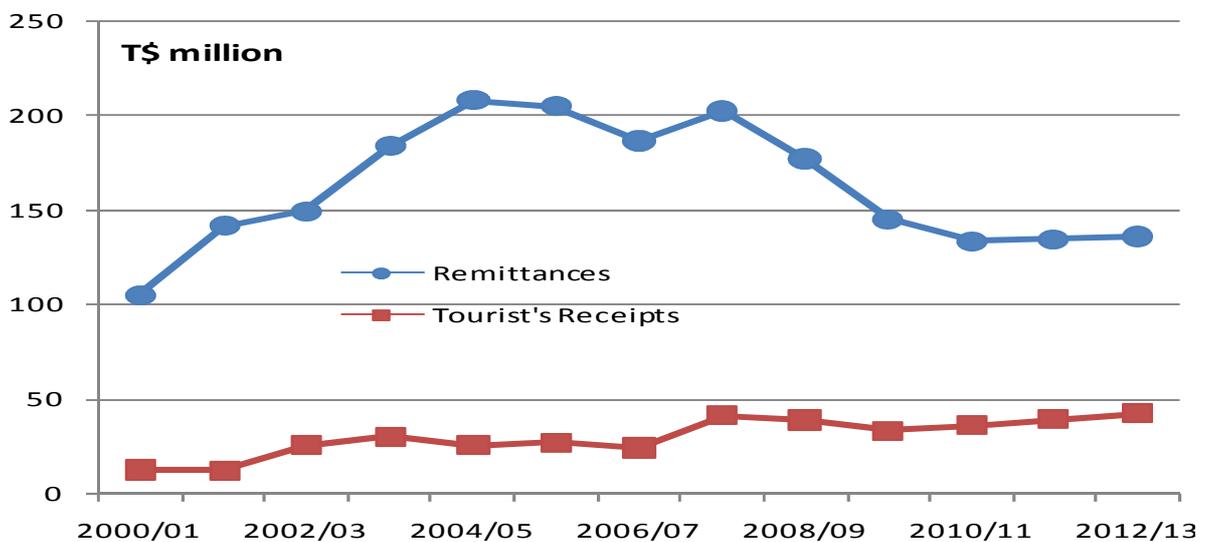
	07/08	08/09	09/10	10/11	11/12	12/13
Total Labour Income	-31.8%	-2.4%	1.4%	0.0%	0.0%	0.5%
Remittances	8.4%	-12.5%	-18.0%	-8.0%	1.0%	1.0%
Tourism		-5.6%	-14.8%	8.3%	8.5%	8.5%
<b>Total Income of Tongans</b>		<b>-7.1%</b>	<b>-8.0%</b>	<b>-2.2%</b>	<b>1.1%</b>	<b>1.4%</b>
CPI	9.6%	5.6%	2.0%	3.3%	3.3%	3.3%
<b>Real Change in Total Incomes</b>		<b>-12.7%</b>	<b>-10.0%</b>	<b>-5.5%</b>	<b>-2.2%</b>	<b>-1.9%</b>

Source: Ministry of Finance and National Planning & National Reserve Bank of Tonga.

The significant fall in 2007/08 labour incomes reflects the impact of the government redundancy package in that year.

The forecast for the continued decline in remittances is very conservative. This forecast is largely based on anecdotal evidence that overseas Tongans have been very severely affected by the economic downturn and despite increasing employment opportunities and wealth, it is assumed that overseas Tongans will first rebuild personal balance sheets prior to beginning to resume sending remittances.

Figure 2: Remittances, Tourist Receipts.



Source: Ministry of Finance and National Planning & NRBT.

## 4.2 Tourism

Tourist receipts are projected to decline further in 2009/10 by 14.8% compared to a 5.6% decline in 2008/09. The total number of tourist arrivals declined by 36.9% in the first 8 months compared to the same period in 2008/09. This decline is mainly due to a decline in the number of cruise ships arrivals while air arrivals have remained steady. Only 10 cruise ships are scheduled to arrive in the Kingdom in 2010 compared with 23 visits in 2009. While visitors arriving by air typically spend more on goods and services in the Kingdom, the sheer size of the decline in cruise ship visits will have a noticeable impact on tourist receipts. The disruption in the inter island ferries also constrained activities in the tourism sector, although

this impact is likely to have been more than offset by the increased frequency and reliability of domestic airline services.

Recent development initiatives in this sector included, the Ministry of Tourism and the Tonga Tourism Association joint “Eva Mai Festival” in the March quarter. This festival engaged the community through performance of cultural activities for tourists. The Ministry is organizing to hold a major event once every quarter particularly for visiting friends and relatives as a promotion for the tourism sector. In addition, the Ministry propose to include tourism in the school curriculum from primary to tertiary level, will attempt hope to reduce domestic airfares, improve the flight schedule to Tonga from all markets and upgrade of tourism sites and access roads throughout Tonga. In addition to these activities tourism marketing has been substantially increased with the NEDC having spent \$250,000 on tourism branding this year, with NZAID having spent a similar amount.

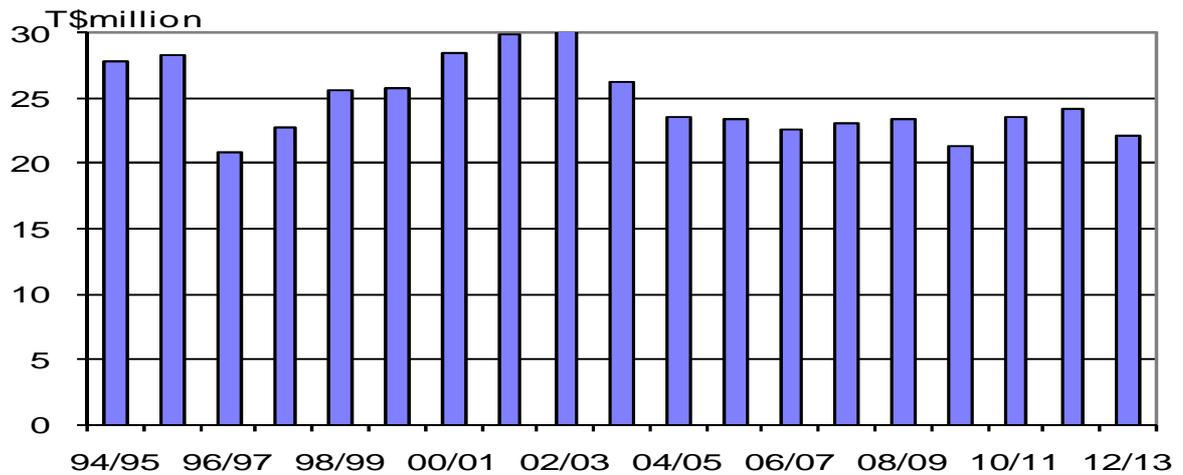
The Tonga Tourism Association and Tonga Tourism have set up websites to promote the tourism industry and to improve the availability of tourism information to the market.

### **4.3 Construction**

The Construction sub-sector contributed 6.7% of GDP in 2009/10. This sector experienced an estimated fall of 7.8% in 2009/10 and is projected to grow at 10.0% in 2010/11. The decline in 2009/10 was due to delays in the commencement of some of the planned projects and lending restrictions imposed by the banking sector. The reconstruction of Nuku’alofa is ongoing with the Fung Shing, Golden fortune, ANZ Bank, and Narrotams, all complete, and other sites (OG Sanft, Lalita’s, Royco, and the Taumoepeau Building) well advanced. Recently, several construction projects have been subcontracted which could increase the utilization of local workers and material. Arrangements continue for the National Roads Development loan from China which was approved by the Legislative Assembly and is now ready for drawdown and implementation.

However, building of roads, churches, the final phase of the Vaiola hospital and the development of the school, hospital, road and residential dwelling on Niuatoputapu that were destroyed in the recent tsunami will be implemented over the next three years. The funding from the Japanese Government of \$38 million for the final phase of Vaiola Hospital is progressing and the construction will begin in 2010/11. The ADB is funding road development of about \$10.5 million under the Urban Integrated Road Project and European Union (EU) will be funding rural development electricity. All these will help boost growth in this sector.

Figure 3: Total Construction Activity.



Source: Ministry of Finance and National Planning.

Falling remittances also constrained the construction of residential dwellings and Church buildings but are expected to increase in the medium term depending on the pace of recovery in the countries from which remittances are sourced. It is also expected that there will be improvement in bank lending for residential housing.

#### 4.4 Finance and Real Estate.

The Finance sector continues to contract but at a slower rate of 2.0% in 09/10 compared to a contraction of 3.4% in 08/09. Banks tightened their lending conditions as a result of the rapid increase in non-performing loans of which a significant portion were in the business sector. In the past six months the banking sectors contribution to GDP has declined significantly by 11.0%.

After considering the economic situation, the NRBT has eased its monetary policy stance and developed policy initiatives to stimulate economic activity including reducing the required deposit reserve from 10% to 5%; discontinuing the issuance of NRBT notes; and the payment of 1% interest on bank exchange settlement account balance of over T\$1 million.

## 5 OTHER SECTORS OF THE ECONOMY AND THE MEDIUM TERM OUTLOOK.

This section provides details on other sectors and the outlook over the medium term.

Table 3: Economic Growth by Sector - real terms (%).

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
	Actual	Actual	Actual	Revised	Forecast	Forecast	Forecast
<b>Primary sector</b>	<b>1.7</b>	<b>0.6</b>	<b>-1.3</b>	<b>-1.2</b>	<b>0.3</b>	<b>1.0</b>	<b>1.0</b>
Agriculture, forestry, and fisheries	1.7	0.6	-1.3	-1.2	0.3	1.0	1.0
<b>Secondary sector</b>	<b>-2.0</b>	<b>1.7</b>	<b>3.0</b>	<b>-4.5</b>	<b>5.8</b>	<b>2.4</b>	<b>2.4</b>
Mining and quarrying	2.2	5.2	-2.9	-7.8	10.0	2.7	2.7
Manufacturing	-1.9	0.8	6.5	-2.3	3.5	2.2	2.2
Electricity and water	0.9	3.6	-4.5	-3.9	3.3	2.3	2.3
Construction	-3.4	1.9	1.3	-7.8	10.0	2.7	2.7
<b>Tertiary sector</b>	<b>-1.9</b>	<b>2.2</b>	<b>-0.7</b>	<b>-0.1</b>	<b>0.3</b>	<b>1.3</b>	<b>1.4</b>
Commerce, restaurants, and hotels	4.3	6.9	1.4	-4.1	-1.7	1.2	1.4
Transport and communication	5.9	-5.7	-2.1	1.9	2.4	2.7	3.0
Finance and real estate	-2.0	3.0	-3.4	-2.0	-1.0	1.0	1.0
Government services	-15.1	4.6	1.5	1.3	0.6	0.6	0.6
Entertainment and private services	-2.8	-1.7	-7.1	4.3	1.8	1.8	2.1
Ownership of dwellings	2.1	1.9	1.5	1.1	1.1	1.1	1.1
Less: Imputed bank service charge	4.0	-6.4	9.3	-2.0	-1.0	1.0	1.0
<b>Total GDP at factor cost</b>	<b>-1.2</b>	<b>2.0</b>	<b>-0.4</b>	<b>-1.2</b>	<b>1.4</b>	<b>1.5</b>	<b>1.5</b>

Sources: Statistics Department & Ministry of Finance & National Planning.

### 5.1 Agriculture and Fishing.

The Agriculture and Fishing sector contributed 19.9% of GDP in 2009/10. This sector contracted by 1.2% in 2009/10 and is projected to grow at 0.3% in 2010/11. This projection considers the residual impact of the dry spell in late 2009 and the cyclone in early 2010. It is estimated by the Ministry of Agriculture, Forestry, Food and Fisheries that these climatic factors cost the agricultural sector over \$15 million pa'anga.

Agricultural exports in 2008/09 experienced a further decline and, in particular, the tonnage of squash exports decreased by 52%. The drought and cyclone Renee' have destroyed some of the root crops, vanilla and kava that may have been exported as well as affecting production for domestic consumption. Viruses also affected the majority of the papaya crop that was expected to be exported. There is demand from overseas markets for our agricultural products but supply is constrained. There is also the difficulty of meeting quarantine and market requirements. The Government and private sector are working jointly in overcoming those constraints.

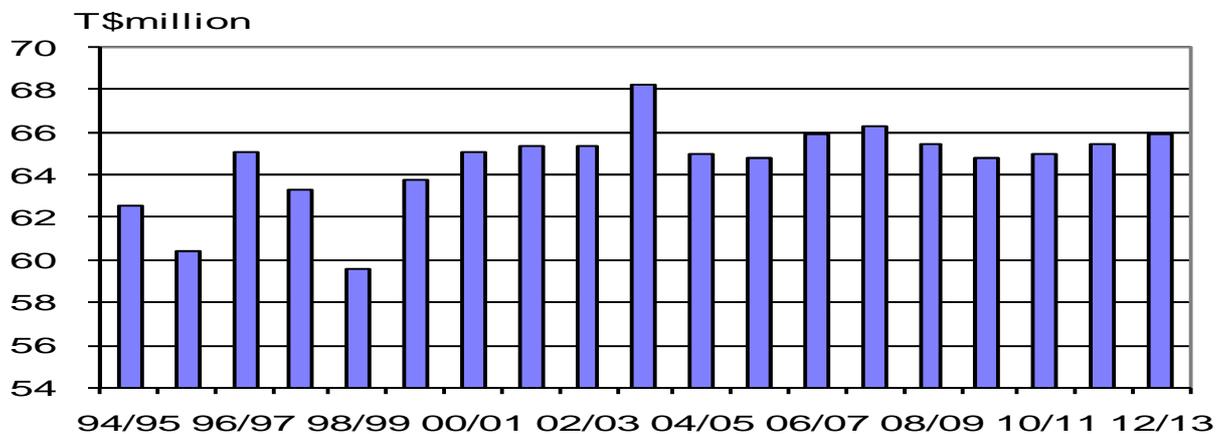
The outlook for agricultural production is expected to return to modest growth of 0.3% for 2010/11. Donor initiatives are assisting in the development of this sector including the EU Stabilisation of Export Earnings (STABEX) programme involving replanting kava and vanilla, fixing of the High Temperature Forced Air (HTFA) machine at the airport and establishing

quarantine facilities in Tongatapu and Vava'u. These facilities will assist exports from Tonga to meet the import standards of the markets.

The fishing sector experienced an improvement through the exporting of marine products such as live fish and sea cucumber to overseas markets particularly China achieving very high prices. While sea cucumber played an important role in this sector, fish exports continued to decline.

Fish exports declined by 29% due to market access problems; interruptions in the supply of fishing resources; high fuel costs; and depletion in fish stocks. The exports of sea cucumber increased significantly by 139% as its' price spiked to around \$40 per kilo. Fishing resources were also diverted to fishing of sea cucumber due to the increase in the export quota and extension of the fishing season by 2 months.

**Figure 4: Agriculture, Forestry & Fishing.**



*Source: Ministry of Finance & National Planning.*

## 5.2 Manufacturing

The Manufacturing sub-sector contributed 9.9% of GDP in 2009/10. This sector contracted by 2.3% in 2009/10 and is projected to expand by 3.5% in 2010/11. Manufacturing of food for domestic consumptions drives this sector. Manufacture for exports is still constrained by high costs of input goods and services such as electricity, labour, transportation and the limited capacity of the domestic market meaning that there are few opportunities to exploit economies of scale. Falling remittances has reduced demand for locally produced items especially food items.

Various trade agreements have been entered into by the Government that should have a positive impact on this sector.

There are also current efforts underway to improve the sector's performance and the National Economic Development Council (NEDC) was established with the objective to 'Stimulate economic growth by identifying and recommending to Cabinet, policy initiatives for private sector led economy'. At the same time, the Ministry of Labour, Commerce and Industries is looking to either outsource and/or corporatize the management of the Small Industries Centre.

## 5.3 Commerce, Restaurants and Hotels

The Commerce, Restaurants and Hotels sub-sector contributed 13.3% of GDP in 2009/10.

This sector declined by 4.1% in 2009/10 but is projected to decline by just 1.7% in 2010/11. This sector was deeply affected by the global economic downturn and declining tourist receipts. Approximately 80% of this sector is driven by Commerce and the rest by Restaurants and Hotels.

The significant fall in remittances adversely affected the household disposable incomes which also contributed to a decline in this sector.

The overall projection for Tongan's income from remittances and tourist receipts (wage is included) for 2010/11 is a decline by 5.5% compared to a contraction of 9.9% of 2009/10 as outlined in Table 2. However, there is a more positive outlook for the medium term as a result of the international recovery from the GEC. Government and private sector wages are expected to remain stable.

#### **5.4 Government Services**

The Government Services sub-sector contributed 12.3% of GDP in 2009/10. This sector grew by 1.3% in 2009/10 compared to 1.5% in 2008/09 and is projected to grow by 0.6% in 2010/11. The 2009/10 result reflects the fiscal policy stance of Government to maintain macroeconomic stability compared to the expansionary fiscal policy in 2008/09. The Government, as a result of the economic downturn introduced a freeze on recruitment, deferred expenditure on capital and maintenance and froze non-essential travel expenditure. This resulted in an overall reduction in Ministries budgets except health and education.

The Government sector, despite its' relatively small share of the economy was one of the few sectors to make a positive contribution to the economy in 2009/10. However, the Government recognizes that long term sustainable growth can only be achieved through private sector lead growth. The Government therefore remains committed to implement various reform initiatives in order to maintain service delivery, increase efficiency and rationalise Government structure to enhance growth.

It is anticipated that in the medium term, Government services will grow modestly at 0.6%. However, the political reform at the end of 2010 will play a major role in the future of this sector.

#### **5.5 Transport and Communication.**

The Transport and Communication sub-sector contributed 7.5% of GDP in 2009/10. This sector grew by 1.9% in 2009/10 and is projected to grow by 2.4% in 2010/11. This sector has been driven mainly by strong competition between the two domestic telecommunication operators. This resulted in continued lower prices and increasing usage and coverage despite the small size of the market. This sector is also benefiting from a strong performance from a new domestic airline, with spill over benefits provided to other sectors from the availability of an efficient and reliable domestic carrier.

The sinking of the MV Ashika disrupted inter-islands' sea transport. This resulted in the better enforcement of regulatory requirements for marine vessels and as a consequence, the temporary discontinuation of other services. The arrival of the interim ferry and the upgrade of other sea transport providers have improved the connection between the main islands and outer islands groups. Air service has continued to provide vital links despite the slowdown in the global economy.

The outlook for the Communication sector is positive with expected capital investment in improving connectivity with the rest of the world. The two telecommunication providers with the support of the Government and ADB/World Bank are currently developing a sub-marine cable project which will greatly increase bandwidth and also hopefully reduce costs. Domestic air capacity is also set to increase with the current domestic airline planning to expand services and the potential for the introduction of some competition in the near future.

## 5.6 Other Industries

The Mining and Quarrying sub-sector contributed 0.3% of GDP in 2009/10. This sector is declined by 7.8% in 2009/10 but is expected to grow by 10.0% in 2010/11. Mining and Quarrying is assumed to grow in line with Construction.

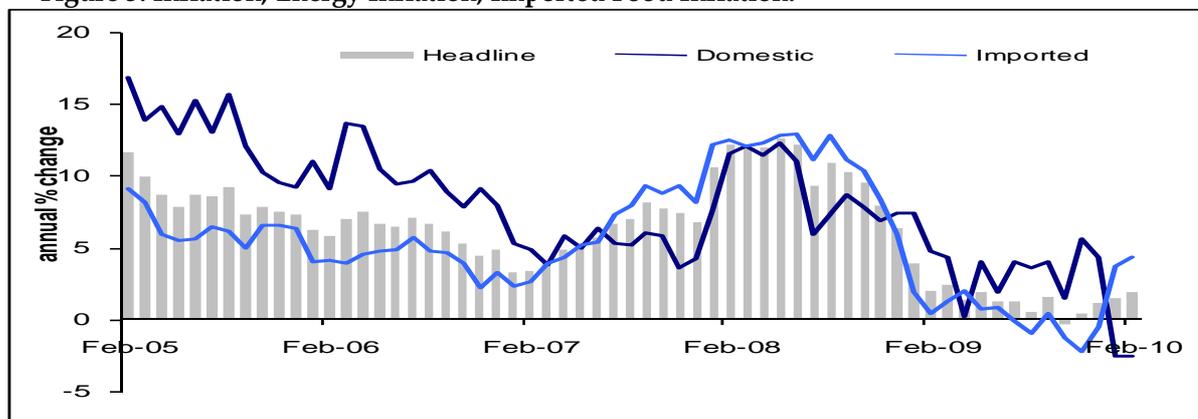
The Electricity and Water sub-sector contributed 2.4% of GDP in 2009/10. This sector declined by 3.9% in 2009/10 but is projected to grow by 3.3% in 2010/11. The fall in 2009/10 relates to a reduction in demand probably resulting from a decline in remittances. The price of water per unit increased in the first half of this financial year. An increase in water and electricity utilisation is expected next year due to projected increases in construction activities and demand.

The Entertainment and Private services sub-sector contributed 6.7% of GDP in 2009/10. This sector grew at 4.3% in 2009/10 and is projected to grow at 1.8% in 2010/11. The outlook is optimistic and is driven by cultural activities such as churches, community activities and family functions.

## 5.7 Inflation.

Headline inflation has moderated over the past year with the economy experiencing deflation of 0.4 percent in the year ended October 2009. Prices have since edged higher. The annual inflation rate rose to 1.9 percent in the year ended February 2010 from 1.5 percent in the twelve months to January 2010, which is slightly lower than 2.0 percent recorded a year earlier. The increase in the annual inflation rate reflected the rise in imported inflation as international oil prices continue to trend upward reaching more than US\$80 per barrel in March 2010. The recent increase in world oil prices has been attributed to the strong demand from the developing countries especially China, cold weather in the Northern Hemisphere, signs of improvement in the US economy and weakness in the US dollar. The movement in the world oil prices has a flow on effect to domestic fuel prices with a lag of one month.

Figure 5: Inflation, Energy Inflation, Imported Food Inflation.



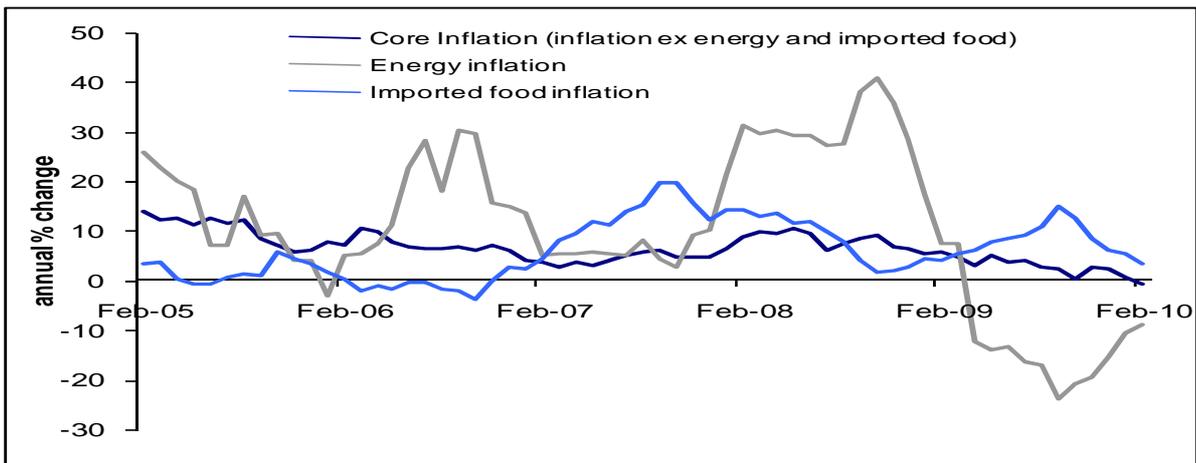
Source: National Reserve Bank of Tonga

Imported inflation rose to 4.3 percent in the year ended February 2010 from 0.4 percent a year earlier. The rise in imported inflation was mainly driven by an increase in imported transportation costs reflecting the rebound in the world oil prices. Despite the weakening in the Tongan pa'anga against the New Zealand dollar in the past six months, imported food inflation continued to fall reflecting the sharp slowdown in the rate of growth of food prices in New Zealand and Australia. It is possible that with the slowdown of economic growth in Tonga (i.e. lower aggregate demand) importers may have absorbed some of the increased costs arising from the depreciation of the pa'anga by trimming their margins, resulting in less pass through into domestic prices.

Domestic inflation fell by 2.5 percent in the year ended February 2010. Domestic fuel and power prices dominated the fall in domestic inflation reflecting the fall in the local price of electricity by 19 percent over the year to February 2010. The fall in the price of electricity was driven by the drop in the price of diesel over the year.

In underlying terms, which excludes imported food prices and energy prices, inflation fell by 0.6 percent in the year ended February 2010, down from 5.8 percent a year earlier. The average annual inflation rate fell to 1.2 percent in the year ended February 2010 compared with 9.1 percent in the same period last year.

Figure 6: Inflation by components.

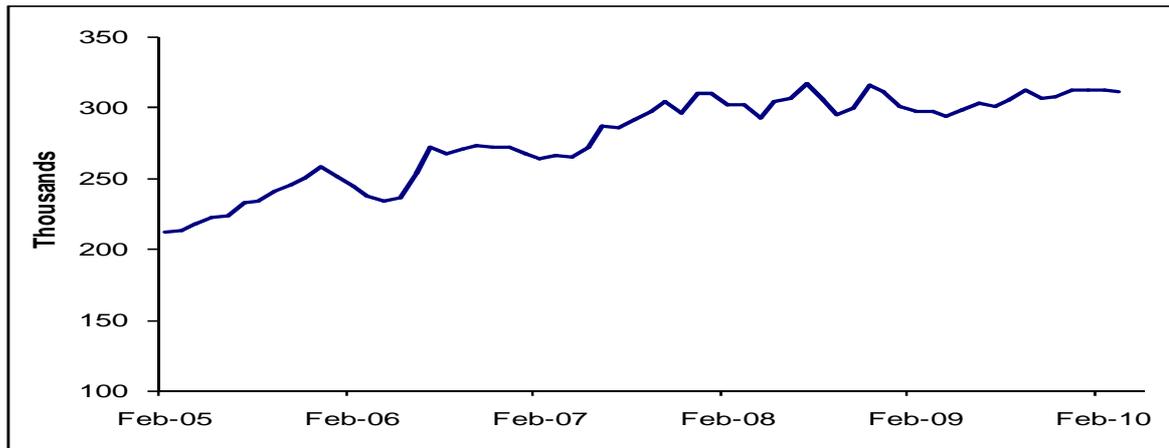


Source: National Reserve Bank of Tonga.

## 6 MONEY SUPPLY

Total broad money (M3) rose by 4.9% to \$312.2 million in the year ended February 2010 mainly due to the increase in term deposits by 8.8%. Demand deposits and currency in circulation also increased over the year to February 2010 by 5.4% and 9.6% respectively.

Figure 7: Money Supply (M3).



Source: National Reserve Bank of Tonga.

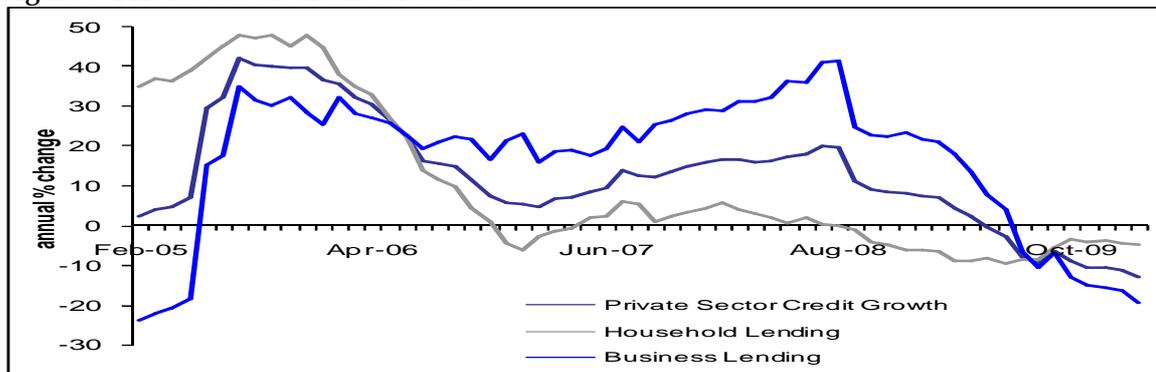
### 6.1 Private Sector Credit

Total private sector credit in the banking system contracted by 12.9 percent in the year ended February 2010 mainly due to a 19.3% decline in lending to the business sector. Household credit also fell by 4.6 percent in the same period. The contraction in banks' lending reflected the banks' tightened credit criteria in response to the rapid increase in non-performing loans, the impact of the global financial crises on domestic economic activity and the settlement of the long outstanding squash council loan.

Throughout the past two years, lending by the banking system has been mostly directed toward the business sector driven by loans to other services, and wholesale and retail business. In the past six months lending to the business sector declined significantly by 11.0 percent.

In the past six months, monetary policy remained accommodative, given the adequate level of foreign reserves, low inflation and the positive outlook for these indicators. From January 2010, the Reserve Bank paid 1 percent interest on the banks' exchange settlement account balances over T\$1 million to enable further reduction in lending interest rates not only to assist borrowers but also to encourage lending to stimulate economic activity. In March 2010 the Reserve Bank's repurchase interest rate was reduced from 4.5 percent to 1.9 percent in line with the fall in the interbank lending interest rate. Liquidity remained high amounting to \$51.6 million at the end of February 2010.

Figure 8: Private Sector Credit Growth.



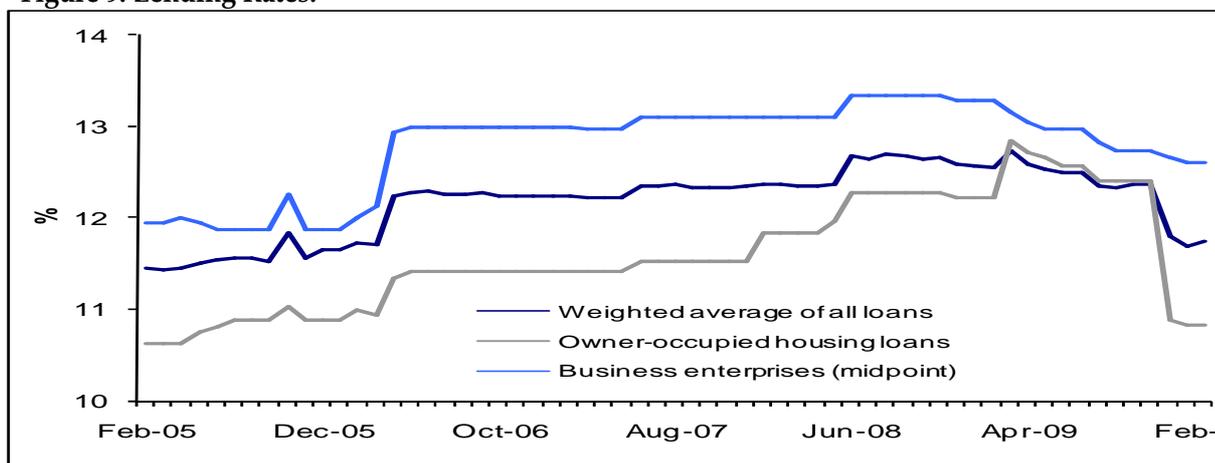
Source: National Reserve Bank of Tonga.

## 6.2 Interest Rates

Retail interest rates have declined in the past six to twelve months with steep declines in term deposit rates and reductions in lending rates. Deposit rates for investors with less than \$50,000 have declined over the past year to February 2010. The one-month term rates showed the largest fall by 2.5 percentage points from a year ago. Rates for 3-month and 12-month deposits were also down over the same period by 1.8 percentage points and 1.6 percentage points respectively. The weighted average interest rate on term deposits offered by commercial banks fell to 4.6% in February 2010 from 6.3% in February 2009.

Lending rates have also fallen in the past twelve months to February 2010, reflecting bank's lower funding costs and measures imposed by the Reserve Bank in its aim to reduce interest rates. The average rate for owner-occupied housing is now 10.8%, compared with 12.2% a year earlier. The average business lending rate at 12.6% percentage 13.3% in the same period last year. The weighted average lending rate fell to 11.7% in February 2010 from 12.6% in February 2009.

Figure 9: Lending Rates.



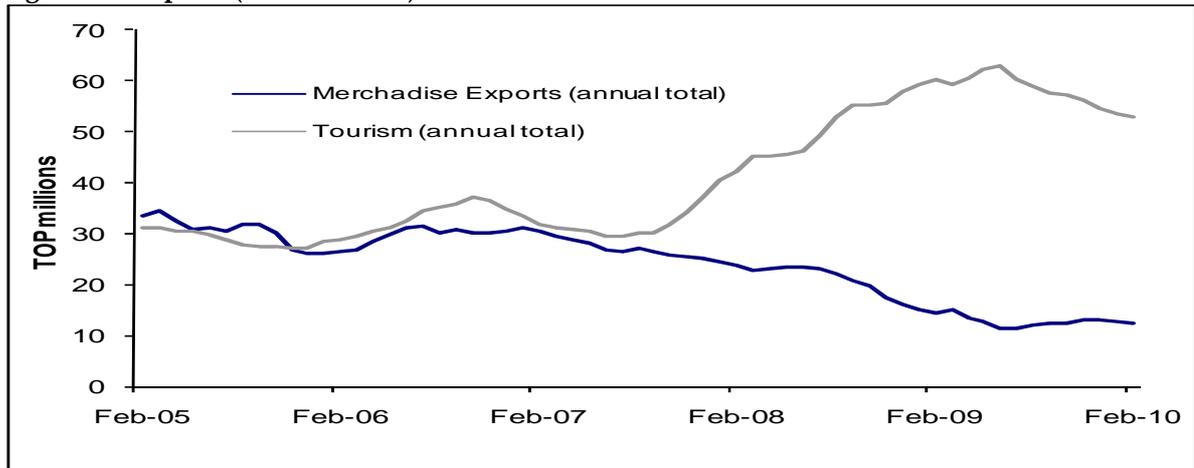
Source: National Reserve Bank of Tonga.

## 7 EXTERNAL SECTOR DEVELOPMENT

### 7.1 Exports

Merchandise exports have declined, falling by 13% year on year to February 2010 (Overseas Exchange Transactions (OET) basis). The decline in exports since 2008 followed the fall in squash and fish exports, despite the positive contribution from the sea cucumber exports.

Figure 10: Exports (OET estimate)

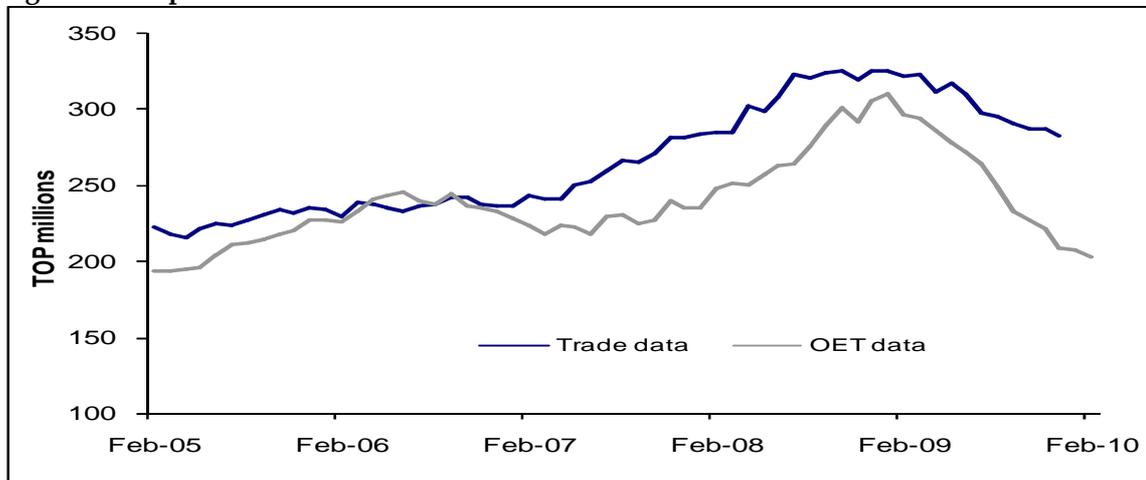


Source: National Reserve Bank of Tonga.

## 7.2 Imports

Import payments continued to decline, reflecting weak domestic demand due to the dramatic fall in remittances. In the year ended February 2010, import payments fell by 32 percent to \$203 million compared to \$296.4 million a year earlier. Despite the fall in total import payments, fuel payments have started to increase in the past six months, in line with the upward trend in world oil prices, putting pressure on the foreign reserves.

Figure 11: Imports

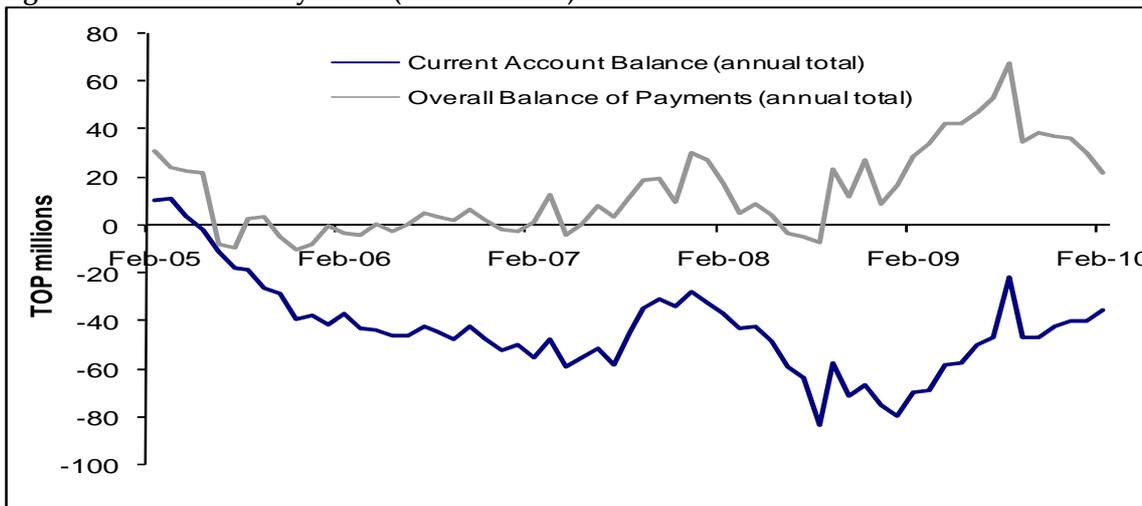


Source: National Reserve Bank of Tonga.

## 7.3 Balance of Payments

The current account deficit has narrowed to \$35.1 million year on year to February 2010 compared to \$68.9 million in February 2009 due to the substantial decline in import payments. The net capital inflows and the net unrecorded inflows more than offset the deficit in the current account, and resulted in an overall balance of payments surplus of \$22.4 million for the year ended February 2010.

Figure 12: Balance of Payments (OET estimate)

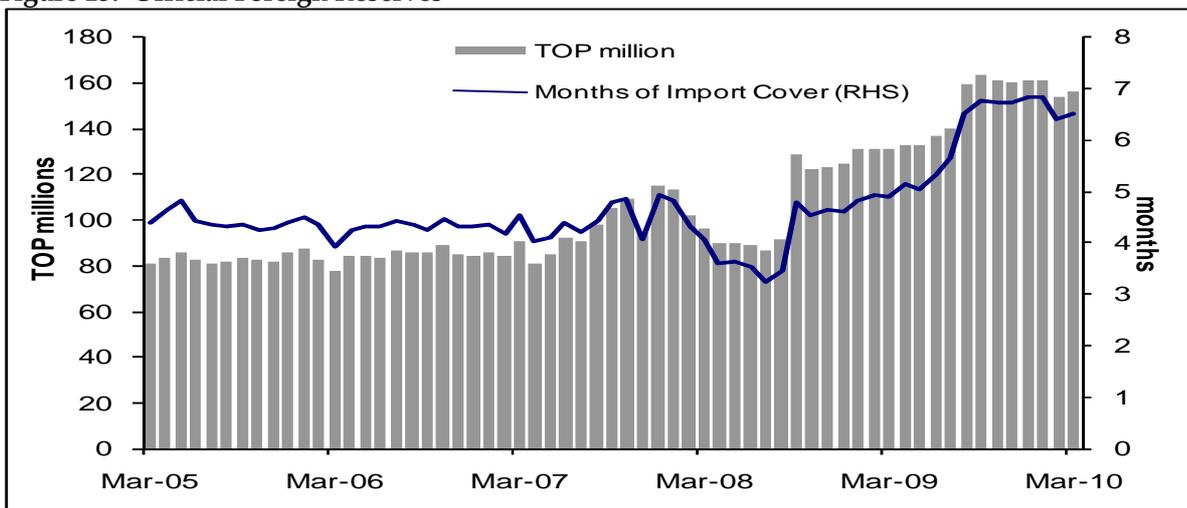


Source: National Reserve Bank of Tonga.

### 7.4 Gross Official Foreign Reserves

Gross Official Foreign Reserves have remained high over the last six months despite falling to \$155.5 million at the end of March 2010 from a record level of \$163.3 million at the end of September 2009. The relatively high level of foreign reserves since August 2009 reflects the receipts from the IMF and the ADB combined with the decline in imports which more than offset the fall in remittances and tourist receipts. The recent fall in foreign reserves is due to high official foreign currency loan repayments. As at the end of March, reserves when measured as a ratio of imports have remained above adequate level at 6.5 months of imports coverage. This reflects weak domestic demand, falling imports and tight credit conditions.

Figure 13: Official Foreign Reserves



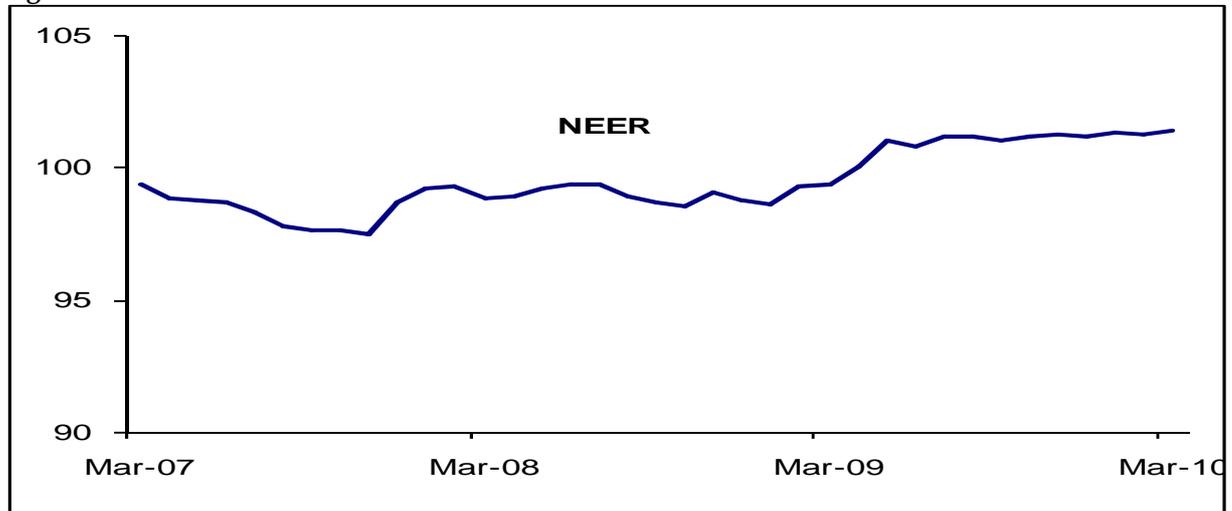
Source: National Reserve Bank of Tonga.

### 7.5 Exchange Rate

During the year ended March 2010, the pa'anga strengthened against the US dollar by 12.9 percent and the Japanese Yen by 8.0 percent but weakened against the Australian dollar by 16.3 percent and the New Zealand dollar by 10.3 percent. On a trade-weighted basis, the nominal effective exchange rate (NEER) appreciated by 2.0 percent over the year to March 2010, reflecting the strengthening of the Tongan pa'anga against the US dollar and the

Japanese Yen. However, the Real Effective Exchange Rate (REER) fell by 4.0 percent over the year to December 2009.

Figure 14: Nominal Effective Ex. Rates



Source: National Reserve Bank of Tonga.

## 8 GOVERNMENT REFORM PROGRAMS.

### 8.1 Improving the Regulatory Environment.

Private sector development is critical to the economy of Tonga. The Government is supporting this with direct action to exit the government from the ownership of businesses where there is no good public policy reason for continued ownership. The Government has continued to contract out services in some sectors to encourage private sector development.

While these are important steps to support private sector development the government also recognises that establishing and maintaining a regulatory environment that supports business and employment growth is vital to the long term development of Tonga and the achievement of the National Strategic Planning Framework objectives.

Tonga came 1<sup>st</sup> in the Pacific in ranking in terms of cost of doing business, however, it is noted that Fiji was not included this year. However, the rankings remain the same and just relative to the rest of the world. There have been some good ideas within government for regulatory reform but implementation has been slow due to various issues and challenges.

Government and private sector must work hand in hand to address these challenges. Currently, the government reserves 14 economic activities for Tongans only under the Foreign Investment Act 2002. This Act is currently under review by the Ministry of Labour, Commerce, and Industries to improve investment and growth opportunities. The private sector has identified a number of impediments to private sector development and have shared these with the Government. This is being done through the Taskforce for Regulatory Reform assisted by the International Funding Corporation (IFC) and they address issues relating to business licencing, immigration visas and commercial legislations. The Government is also reviewing its policy on foreign investment and taxation reform. To reduce compliance costs and delays, Tonga has recently migrated all businesses to a new electronic companies registration process.

## **8.2 Other reforms progress.**

Some reforms have been completed in terms of legislation, public service, taxation and finance management system.

This year has been very important as the Government and the Legislative Assembly continue to progress the electoral and political reform. At the same time the Government continues implementing the reform initiatives to improve government services and to encourage private sector developments.

Government has been the regional frontrunner in developing renewable energy policy in co-operation with donors. The Government's objective is to implement projects and programmes by 2012 that will reduce Tonga's dependency on imported oil by 50%. This is a very ambitious objective but it is receiving wide support which saw the development of the Tongan Energy Road map which was completed in April 2010 under the lead of the World Bank.

A Royal Land Commission was established as part of the land reform programme to monitor illegal transactions under the Land Act. This Commission has produced its first report on functions of the Ministry of Lands, Survey and Natural Resources which is being reviewed by Government.

Figure 2: Societal Contribution To Gross Domestic Product, at  
constant prices for the year 1999/00

**Budget Statement for Year Ending 30<sup>th</sup> June 2011**  
**Budget Paper 2: *Fiscal Analysis & Outlook***





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## 1. OVERVIEW

The predominant driver of the Tongan economy throughout 2009/10 was the continued impact of the global economic crisis coupled with constraints on local bank liquidity. This resulted in a significant decline in economic activity and income flows into the Kingdom. The reduction in economic activity diminished national income and, in turn, severely undermined the Government's fiscal position. This situation is expected to continue in the budget year but fortunately we have ongoing financial support from donors.

According to the IMF, developed economies are now emerging out of the economic crisis aided by massive fiscal stimulus packages. Despite this international recovery, Tonga continues to feel the residual impact of the crisis and may do so for most of the next financial year. The slow flow through of improved global economic activity is illustrated by the fact that remittances in February 2010 were the lowest by month since 2003.

The financial difficulties faced by the Government were compounded by the tragic loss of lives in the sinking of the MV Princess Ashika, and natural disasters including a tsunami in Niuaotupapu, drought and a cyclone. The Government was deeply concerned with the human cost of these disasters. These disasters also put pressure on an already difficult fiscal position.

In total, these international and domestic events resulted in the Government's revenue falling by over 20% from a forecast of \$172 million to an estimated outturn of around \$137 million. A summary of the recent economic and fiscal history of Tonga is outlined in Table 1 below.

**TABLE 1: MACROECONOMIC & FISCAL OVERVIEW**

	2006/07	2007/08	2008/09	2009/10 Est	2010/11 Budget	2011/12	2012/13
<b>Macroeconomic Aggregates % annual change</b>							
<b>Real GDP</b>	-1.2	2.0	-0.4	-1.2	1.4	1.5	1.5
<b>Inflation</b>	5.1	9.6	5.6	2.0	6.0	6.0	6.0
Nominal GDP % change	0.0%	7.9%	-1.6%	7.8%	11.5%	11.6%	11.7%
<b>Govt Revenue % of GDP</b>							
<b>Revenue</b>	24.3	24.8	21.9	19.6	17.0	16.4	16.0
Tax Revenue	20.6	21.1	18.4	15.7	14.3	13.8	13.5
Tax Revenue % change		10.4	-14.4	-7.9	1.9	7.2	9.2
Tax Revenue T\$m	126.0	139.1	119.1	109.7	111.8	119.8	130.8
<b>Govt Expenditure % of GDP</b>							
Total Expenditure	26.9	24.5	28.6	25.9	26.4	18.7	16.7
Capital Expenditure	0.9	0.5	2.7	1.7	2.5	1.1	0.9
Current Expenditure	25.9	24.0	25.8	23.9	23.9	17.6	15.7
Personnel Cost (PC)	14.1	12.1	12.6	12.8	11.6	9.8	8.7
% of PC to Current Expenditure	54.2	50.5	48.7	53.6	48.6	55.4	55.4
<b>Budget Balance % of GDP</b>							
Overall Balance	1.0	1.6	-0.8	-0.5	-1.5	0.6	1.6

*Source: Ministry of Finance & National Planning.*

As a result of the decline in its revenue, the Government has had to take stringent measures to maintain a manageable deficit position for 2009/10. This has resulted in cutbacks in some Government services. The Government has, however, recognized the need to protect the most vulnerable members of society, and, with donor assistance, has ensured that Health and Education services were protected from any cutback.

Looking towards the future, the economy is expected to begin a recovery over the next financial year, with an improving international situation feeding through into Tonga. While Government revenue is expected to remain depressed over the next year, international and bilateral donors have come to Tonga's assistance. In response to this generosity the Government recognizes the obligation that this places on Tonga to ensure that all financial assistance is used in an effective and cost efficient manner to ensure the achievement of priority objectives. To ensure that expenditure continued to be directed to the highest value uses the Government has undertaken to implement a strategic review of all Government expenditure as well as reviewing all departments to ensure that they are providing high quality services at least cost. This aims to help the Government navigate the current difficult fiscal position.

Increased donor funding is expected to replenish the shortfall in revenue experienced due to the international economic crisis. This will enable the Government to continue to provide high value/priority basic public services and continue to implement National Strategic Planning Framework objectives. Donor support will also be used to progress economic reforms and other actions, such as progressing renewable energy initiatives. These reforms will raise long-run growth and reduce future dependence on donor funding.

## **2. Overall Fiscal Balance 2010/11**

In light of the economic conditions identified above, the Government's overall fiscal position and projected position is outlined in Table 2 below. This table is calculated using the international standard of classification, the Government Financial Statistics (GFS). On this basis, the budget for 2010/11 anticipates a deficit of \$12.1 million. This is the result of total expenditure and net lending of \$205.6 million exceeding revenue and grants of \$193.5 million. This deficit will be financed from the \$23.5 million budget support being sought from donors. To achieve the fiscal objective of balanced budget, the unconfirmed budget support will not be expended until the approval and receipt of the budget support from donors.

One particularly noticeable feature of the multi-year trend is the more than doubling of donor grant receipts to be received through the generous assistance of donors. This influx of donor support is primarily focused on energy efficiency, roading and infrastructure projects and capacity building.

Another feature of the fiscal outlook is the large drop in revenue and expenditure between 2010/11 and 2011/12. While this contraction in Government revenue and expenditure is programmed based on current donor and Government intentions, the reality is that even with the best of intentions, delays in project planning, approval and implementation mean that a sizeable component of project expenditure will be carried forward from 2010/11 into 2011/12. This will effectively smooth the fiscal effect over two years.

**TABLE 2: OVERALL FISCAL BALANCE (\$MILLIONS)**

	2008/09 (p)	2009/10 Budget	2009/10 (p)	2010/11 Budget	2011/12	2012/13
<b>Total Revenues and Grants</b>	<b>187.5</b>	<b>220.1</b>	<b>176.4</b>	<b>193.5</b>	<b>167.5</b>	<b>177.4</b>
Revenues	142.0	172.2	136.9	132.6	142.7	155.7
Grants of which	45.5	47.9	39.5	60.9	24.9	21.7
<i>Grant project</i>				51.46	24.87	21.74
<i>Grant Budget support confirmed</i>			9.7	9.4	-	
<b>Total Expenditure and Net Lending</b>	<b>192.7</b>	<b>202.7</b>	<b>180.0</b>	<b>205.6</b>	<b>162.2</b>	<b>162.1</b>
Wages and Salaries	76.4	77.4	82.1	81.8	76.4	75.3
Other current expenditure	91.1	114.2	84.6	104.7	76.9	77.7
Capital Expenditure	17.8	11.8	14.1	19.7	9.2	9.2
Net lending	7.4	(0.6)	(0.9)	(0.6)	(0.3)	(0.1)
<b>Budget balance</b>	<b>(5.3)</b>	<b>17.4</b>	<b>(3.6)</b>	<b>(12.1)</b>	<b>5.3</b>	<b>15.3</b>
<b>Total Financing</b>	<b>(16.2)</b>	<b>(17.4)</b>	<b>3.6</b>	<b>12.1</b>	<b>(5.3)</b>	<b>(15.3)</b>
<b>External financing</b>	<b>(4.8)</b>	<b>(12.3)</b>	<b>(4.4)</b>	<b>(7.8)</b>	<b>(12.7)</b>	<b>(13.3)</b>
Disbursements	-	-	-	-	-	-
Repayments	4.8	12.3	4.4	7.8	12.7	13.3
<b>Domestic Financing</b>	<b>(11.4)</b>	<b>(5.1)</b>	<b>8.0</b>	<b>19.9</b>	<b>7.4</b>	<b>(2.0)</b>
Bonds Issued / Domestic Loan	8.8	7.0	14.6	3.4	3.0	7.5
Principal Repayment of Matured Bonds/Loan	(7.0)	(7.0)	(6.9)	(7.0)	(5.0)	(9.5)
<b>Donor Funding</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23.5</b>	<b>9.4</b>	<b>-</b>
unconfirmed budget support	-	-	-	23.5	9.4	-
Net Changes in Government Cash Balances and Investment	(13.2)	(5.1)	0.3	-	-	-

*Source: Ministry of Finance & National Planning*

## 2.1 Budget Support

The New Zealand Government provides budget support during 2009/10 for payment of the grants for non-government secondary schools (\$1.2 million), grant for non-government Vocational and Tertiary Institutions (\$0.4million) to settle the 50% due in 2009 academic year and additional fund to Ministry of Police.

The budget support of \$1.6 million will be receiving from the Australian Government in the current financial year to use for payment of salaries for Ministries of Health and Education.

The 2010/11 revenue projection includes Budget Support of \$9.4 million which has been confirmed by the Asian Development Bank. However, \$23.5 million of the budget support which is being processed through the internal approval mechanisms of the World Bank (\$9.4 million) and the European Union (\$14.1 million) is presented as a financing item in Table 2. No spending of the \$23.5 million unconfirmed donor support will be made until these funds have been received.

As can be seen from the table below the bulk of unconfirmed budget support is currently provided for in Ministry of Finance baselines and will be reallocated according to National Strategic Planning Framework and other Government priorities once funds have been received:

**TABLE 3: ALLOCATION OF UNCONFIRMED BUDGET SUPPORT (\$MILLIONS)**

<b>Ministry</b>	<b>Allocation</b>
Contingency Fund	6.0
Finance – Govt wide payments	4.7
Finance – Debt Servicing	3.6
Prime Minister & Cabinet Office	2.2
Ministry of Education	1.2
Other Ministries	5.8
<b>Total</b>	<b>23.5</b>

*Source: Ministry of Finance & National Planning*

### **3. Government Fiscal Policies**

Government fiscal policies remain unchanged from those outlined in the 2009/10 budget statement. These fiscal policies are aligned to the outcomes and objectives set out in the national strategic planning framework and include:

1. Government will operate responsible and prudent fiscal and monetary policies including the operation of a balanced budget;
2. Revenue collection methods will be non-distortionary, ensure effective revenue collection and provide a level playing field for all;
3. Government will continue progress towards more efficient Government and the transfer of resources to improve services and maintenance of assets. In particular the Government has adopted the following financial ratios expenditure targets to facilitate this policy:

**TABLE 4: FINANCIAL EXPENDITURE TARGET & PROJECTED PERFORMANCE<sup>1</sup>**

Measure	Target ratio	Baseline	Projected Performance		
		2009/10	2010/11	2011/12	2012/13
Capital Expenditure and Maintenance	Maintain at no less than 2009/10 capital expenditure (5% of total government funds)	1.7%	2.7%	3.8%	7.4%
Government Personnel costs	Capped at 2009/2010 levels - 45% of total government expenditure with a view to increasing the relative proportion spent on the delivery of services	45.0%	51.1%	52.4%	49.1%
Other (non-personnel) operating costs	Gradually increased from 2009/2010 levels to 35% of the total government funds, by the percentage of real economic growth	33.3%	28.5%	25.5%	26.5%
Debt servicing	maintain at less than 15% of Government fund	14.3%	12.9%	11.5%	14.0%
Sovereign Debt	maintain at less than 40% of GDP	40.5%	46.9%	42.4%	38.1%

*Source: Ministry of Finance & National Planning*

4. The Government will ensure that Tonga's national debt is kept within sustainable levels (as outlined in section 8 below), and, when forced to move outside of sustainable levels due to adverse economic circumstances, the Government will restore debt to sustainable levels as soon as possible;
5. Government will progress its public enterprise rationalization process, ensuring Public Enterprises operate in a commercial manner, are accountable to Government as owner, and provide dividends in proportion to capital invested; and
6. A coordinated whole of Government approach will be applied to donor funding.

The Fiscal policies are aligned to support the achievement of the outcomes and objectives set out in the National Strategic Planning Framework (outlined below in Section 6). In addition to these policies, to strengthen fiscal management Government is in the process of adopting a Medium Term Budgetary Framework and monitoring its budget through undertaking a process of Public Expenditure Reviews.

## **4. GOVERNMENT FISCAL INITIATIVES AND REFORMS**

This section outlines Government fiscal reforms and other initiatives designed to make Government more effective in delivering services to the people of Tonga and promoting economic growth.

### **4.1 Fiscal Response to Global Economic Crisis**

To minimize the continuing impact of the global recession on the domestic economy the Tongan Government has undertaken a fiscal program aimed at stimulating domestic economic activity.

<sup>1</sup> These are figures from the Government Estimates, Table 3

The projects selected to be the focus of this fiscal program have been chosen on the basis of the likelihood that they will produce future economic benefits and also that they require a high level of domestic labour and domestically produced goods and services. For these reasons the focus has tended to be on infrastructure projects that will support future economic growth and use locally supplied goods and services such as quarries, machinery, and transport equipment.

To reduce Tonga's vulnerability to oil price shocks an "Energy Road Map 2010-2020" has been developed and will be implemented with support from donor agencies. In addition to reducing Tonga's vulnerability to energy price shocks and supply constraints, the development of renewable energy will reduce Tonga's dependency on fossil fuels reduces Green House Gas Emissions.

Current Government initiatives to assist in stimulating the domestic economy include:

- Nuku'alofa reconstruction program;
- Integrated Urban Development Project;
- National Roads Development; and
- Renewable Energy Road Map.

To fund revenue shortfall the Government has negotiated a program grant with ADB to bring forward an ADF grant allocation for 2010 – 2012. This has made US\$5m available in each of the 2009/10 and 2010/11 fiscal years. Donor funding towards Budget Support has been indicated from the European Union, the World Bank and Australia and New Zealand.

Other funding to boost economic activity was sourced through borrowing. While this pushes Tonga's debt burden considerably beyond the Government agreed sustainable debt levels, the Government policy explicitly recognizes the need to exceed sustainable debt levels in periods of extraordinary national need. A MOU has therefore been signed with China for a \$63.2<sup>2</sup> million loan to undertake national road development programs.

## **4.2 Public Sector Reform**

The major challenges facing the public sector include:

- Ensuring that public service recruitment and promotion systems are rigorous and ensure the selection and promotion of the best person for the job;
- Ensuring that public servants have appropriate incentives to perform their functions to the best of their ability and that performance reporting and management systems exist that correctly and consistently identify and encourage a high performance culture;
- That the functions of Heads of Department and Ministers are clear and that each party operates within their defined roles;
- That public accountability and transparency in Government is maintained through publication of information on ex ante and ex post Ministry performance so that Government can be held accountable for the use of taxpayer funding; and

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<sup>2</sup> Application of April 2010 exchange rate for the CNY.

- That the public sector is organized in a way that best facilitates the effective and efficient delivery of services to the public.

To deliver on these challenges the Public Service Commission, in conjunction with other central agencies, has been working on a framework of initiatives over the last two years. These include:

- Ensuring decentralized recruitment follows robust processes to ensure all appointees are the best person for the role;
- The trialing of a performance management and reporting system with a view to rolling out performance management systems across the entire public service in the near future;
- Clarification of roles and responsibilities including promulgating a code of conduct for state sector employees;
- Pushing for improvements in public sector accountability documents and reporting processes; and
- A review of selected departments to ensure that the structure of the state sector is appropriate and services being delivered are in line with Government priorities.

These reforms will take some time to become ingrained in the public service. However, over time they are expected to significantly raise public sector performance and effectiveness in delivering services to all Tongans.

### **4.3 Public Financial Management Reform**

A number of initiatives have been undertaken to improve Tonga's Public Financial Management. These steps include devolution of financial responsibility to departments, improvements to auditing, the development and implementation of a Treasury Manual to guide public sector financial decision making and the compiling and release of all outstanding public accounts. In addition, improvements have been made to Procurement legislation and processes, Ministry baselines will be reviewed to remove lower value expenditure and sustainable public debt targets and policies have been agreed and implementation.

Other financial management reforms include a review of Ministries' Corporate Plans against performance in order to align and improve the quality of expenditure. Procurement processes are being strengthened which is improving transparency and improving the cost effective utilization of taxpayers' money. Donor coordination is also being improved to ensure that where possible donor efforts are directed at the areas of greatest need and individual donor projects compliment Government initiatives and the work of other donors.

Initiatives supported by external parties include work by the Pacific Financial Technical Assistance Center to improve budgetary process, strengthen macroeconomic forecasting, and the development of a Medium Term Budgetary Framework. Public Expenditure Reviews are also being undertaken with donor funding to analyze the effectiveness of Government utilization of resources.

#### **4.4 Public Enterprise Reform**

The 2009/10 year has been a year of continued progress in the management of the public enterprise portfolio. The government has developed reform strategies for most public enterprises and also supported ongoing director training. The Government is also considering significant changes to the Public Enterprise Act, which will enhance the commercial focus of public enterprises as well as strengthening their governance arrangement by, amongst other initiatives, requiring all politicians to stand down from public enterprise boards.

While the public enterprise portfolio contains a number of key infrastructural companies, such as Tonga Airports Limited and Tonga Power Limited, there are still a number of public enterprises that are involved in purely commercial activities that often compete with the private sector. The sale of Leiola Duty Free, and the liquidation of Tonga Machinery Pool removed some public enterprises for which there were no compelling public policy reasons for their continued retention, however, more remains to be done. The Government has therefore recently directed the Ministry of Public Enterprises to prepare privatization assessments for three public enterprises as well as recommendations on how regulatory oversight can be improved so that more enterprises could be reviewed for sale in the future.

The ongoing focus for the Ministry of Public Enterprises is to ensure that the public enterprises are subject to strict commercial disciplines and that they generate a rate of return that fully compensates the Government and justifies its investment in the enterprise recognizing the commercial risk they face. This includes ensuring that in any cases where Government owned assets are not performing, that appropriate corrective action is taken to ensure that taxpayers' investment is protected. However, the Government must always ask whether ongoing investment in a public enterprise is in the best interests of the country and where there is no justification for the investment, the public enterprise should be sold.

#### **4.5 Transport Sector Consolidation Project**

The objective of the Transport Sector Consolidation Project is the establishment of a sustainable transport sector. Doing this includes development of an institutional and operational framework for the transport sector. Key components of the project include: support for preparation of sustainable investment plans for the aviation, maritime and roads sub-sectors; strategic investments to meet mandatory (urgent and high priority) safety and security standards required under international agreements, treaties and obligations; support of the Government of Tonga in implementing key initiatives towards a more sustainable transport sector and creation of a unified Ministry of Transport; and project implementation support within the Ministry of Transport to provide the necessary technical support to the Ministry and Tonga Airports Limited for project implementation.

The Transport Sector Consolidation Project received initial funding of approximately USD \$5.4 million. However, anticipated additional funding will bring this up to USD \$8-9 million. If received, this additional funding will extend the project's timeframe until approximately 31 December 2013. It is anticipated the majority of the additional financing will be focused on establishing a domestic road contracting capacity, with some additional investment in the maritime and aviation sectors.

#### **4.6 Contracting Out**

The Government has continued its policy of contracting out the provision of services where there is no compelling reason for the Government to actually provide the service itself. This policy is designed to encourage private sector growth by directing Government work to the private sector as well as reduce cost and improve the quality of services by encouraging innovation and competition in the delivery of services. This also helps to increase the capability to implement more donor funded projects.

While no new services were contracted out in 2009/10, a number of services have continued to be contracted out including road maintenance, the Tonga Chronicle, Tonga National Center, and Queen Salote Memorial Hall.

#### **4.7 Private Sector Recovery Facility**

This facility was created with donor funding support in response to the devastation wrought by the 2006 Nuku'alofa riot. This facility subsidizes on lent loans for reconstruction purposes.

#### **4.8 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.

#### **4.9 Disaster Recovery Fund**

In 2009 the Government allocated \$15 million to a dedicated Disaster Recovery fund. This fund is intended to be gradually increased by appropriating future Budget surpluses. This will allow Tonga to respond immediately to disasters. The fund currently stands at approximately \$13 million.

To date the Government has met the cost of all disasters from this fund including the tsunami, cyclone and MV Princess Ashika (including the costs of the Commission of Inquiry).

#### **4.10 Revenue Reform**

2009/2010 saw the first full year implementation of the revenue reform program begun in 2002. This reform included the Consumption Tax Act 2003, Income Tax Act 2007, Customs and Excise Management Act 2007, Customs Act 2007 and the Excise Tax Act 2008.

This reform has shifted the source of Government revenue away from direct taxes on trade and towards indirect taxes such as consumption tax. This helps the economy as it removes incentives to structure business decisions for tax purposes. Ensuring that economic rather than taxation considerations drives decision making in turn improves the quality of spending and investment and improves the overall performance of the economy.

##### **4.10.1 Self Assessment of tax returns**

The past year saw the first full year of self assessment of tax returns. This reform has been well received with figures demonstrating that around 80% of required returns have been

lodged and paid on time. The main issue that has been detected has been that a small number of employers have made incorrect tax deductions from employees. Administrative measures are being taken to improve the efficiency of self assessment and encourage compliance.

#### **4.10.2 Online Filing and Payment of Tax**

Online Filing and Payment of Tax will improve the security of taxpayer's payments, and reduce the need for Revenue Services staff to be involved in transactions allowing them to focus on more valuable tasks like auditing.

Unfortunately the filing and payment of tax via the internet has remained on hold for all of the past year. This initiative is heavily dependent on the automated electronic transaction and unfortunately suitable arrangements still remain to be settled. Discussions are continuing between the National Reserve Bank, the Revenue Services Department on the possibility of extending internet banking to tax payment.

#### **4.10.3 Improving Compliance**

To improve future compliance and ensure that all taxpayers pay their fair share of tax auditing activity has focused on examining previous year's affairs of significant taxpayers. Compliance has also been improved by requiring the withholding of tax from payments to non-resident taxpayers. The enforcement of procurement processes has also increased taxpayer compliance by bringing some suppliers within the tax base, as being properly enrolled for Consumption Tax is a prerequisite for bidding for Government projects.

#### **4.10.4 Import Duty & Customs Compliance**

2009/10 has seen the implementation of the Customs Management System (CMS). This has involved the computerization of Customs and Trade Services Division documentation to improve the quality, accuracy and availability of data. This in turn will allow a greater focus on higher risk shipments and an improved ability to detect areas where compliance appears to be low.

The CMS was formally implemented by the Custom Department on the 1st of July 2009 following the passage of the new Customs Act in 2007 and regulations that were introduced in February 2008. While the full benefits of this new system are still being identified, it is expected that the CMS reform will significantly improve the performance of Customs in compliance with legislation, border security and revenue collection.

#### **4.10.5 New Taxes and Changes to Taxation Rates**

The Government introduced no new taxes and did not change the rate of any taxes in 2009/10. However, due to changes in company balance dates some companies only implemented changes to taxation rates in the current year. While the level of some fees was increased, user charges are only set at rates to recover only the cost of the service provided.

In 2010/11 the Government is anticipated that the new amendments to the Custom Tariff will come in to effect on the 1<sup>st</sup> July 2010. The amendments includes increasing in excise tax rates on alcohol and tobacco, inserting of new tariff lines for the detail classification of beche-de-mer, impose a import duty rate on water, changing the import duty rate of resins for paint and a new tariff line to allow the free importation of egg trays. This increase in alcohol and tobacco excise rates is expected to produce a double dividend to the Government and people

of Tonga. In addition to the expected full year positive revenue impact of around \$5 million, the increased tax rates will discourage smoking and drinking with consequential health and welfare benefits for Tongan families. These amendments anticipate replacing revenue lost from the repeal of the Stamp Duty Act. The fiscal impact of these measures is already taken into consideration in calculation of tax revenue for the 2010/11 financial year.

## 5 REVENUE AND GRANTS

### 5.1 Revenue Analysis 2010/11

The Government is projected to collect \$193.5 million from total revenue and grants in 2010/11.

Table 5 details the estimated revenues and grants at the aggregate GFS level for the current financial year and the allocated budget for 2010/11.

**TABLE 5: ESTIMATED REVENUE AND GRANTS (\$MILLION) FOR 2010/11 BUDGET.**

	2008/09 (p)	2009/10 Budget	2009/10 (p)	2010/11 Budget	2011/12	2012/13
<b>Total Revenue and grants</b>	<b>187.5</b>	<b>220.1</b>	<b>176.4</b>	<b>193.5</b>	<b>167.5</b>	<b>177.4</b>
<b>Total Revenue</b>	<b>142.0</b>	<b>172.2</b>	<b>136.9</b>	<b>132.6</b>	<b>142.7</b>	<b>155.7</b>
Current revenue	142.0	170.9	136.9	132.6	142.7	155.7
<b>Tax revenue</b>	<b>119.1</b>	<b>150.2</b>	<b>109.7</b>	<b>111.8</b>	<b>119.8</b>	<b>130.8</b>
Taxes on income and profits	30.3	32.0	24.6	24.3	26.0	28.0
Taxes on property	0.1	0.1	0.1	0.1	0.1	0.1
Domestic taxes on goods and services	71.3	94.2	69.3	72.5	77.3	84.3
Consumption tax	47.2	61.2	43.0	46.5	50.0	55.0
Excise and Other taxes	24.1	33.1	26.3	26.0	27.3	29.3
Taxes on international trade and transactions	16.1	21.8	15.0	14.6	16.1	18.1
Customs duties	16.0	21.5	15.0	14.5	16.0	18.0
Other import charges	0.0	0.3	0.0	0.1	0.1	0.1
Other taxes	1.4	2.1	0.7	0.4	0.4	0.4
<b>Nontax revenue</b>	<b>22.8</b>	<b>20.7</b>	<b>27.2</b>	<b>20.9</b>	<b>22.8</b>	<b>24.8</b>
Entrepreneurial and property income	9.2	7.2	15.3	5.9	6.9	7.9
Administrative fees and charges	11.9	12.5	9.8	14.4	15.4	16.4
Fines and forfeits	0.3	0.4	0.7	0.6	0.6	0.6
Other nontax revenue	1.4	0.7	1.5	-	-	-
Capital revenue	-	1.3	-	0.0	-	-
<b>Grants (in cash)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Grant project				51.46	24.87	21.74
Grant Budget support			9.7	9.4	-	
confirmed budget support			9.7	9.4		
From abroad	45.5	47.9	39.5	60.9	24.9	21.7
From other levels of national government	0.0	0.0	0.0	-	-	-
<b>Total Grants (in Cash)</b>	<b>45.5</b>	<b>47.9</b>	<b>39.5</b>	<b>60.9</b>	<b>24.9</b>	<b>21.7</b>

*Source: Ministry of Finance & National Planning*

A notable feature of the above table is the increase of \$31.1 million in tax revenue expected at the beginning of 2009/10. The expected outturn is now a decline of \$9.4 million below the

2008/09 level. This reflects some optimism in the assumptions as to the potential for increasing revenue collection, and a lack of information to gauge accurately the impact of the global economic crisis on the economy and Government revenues. To this was added the impact on local businesses and incomes of a consolidation of local trading bank lending and the impact of changes to the company tax rate [see 5.2.1].

## 5.2 Current Revenue

### 5.2.1 Tax Revenues

Looking forward tax revenues are expected to hold at roughly their 2009/10 levels in 2010/11. This is based on Government revenue growing at the expected rate of underlying economic growth.

#### Taxes on Income & Profits

The two components of this revenue category are PAYE and company income tax.

**TABLE 6: TAXES ON INCOME & PROFITS (\$MILLION).**

	2006/07	2007/08	2008/09	2009/10 Revised	2010/11 Budget	2011/12	2012/13
PAYE	9.0	9.2	7.3	9.7	8.6	9.2	9.7
Company tax	17.4	17.6	23.0	14.9	15.7	16.8	18.3
<b>Total</b>	<b>26.4</b>	<b>26.8</b>	<b>30.3</b>	<b>24.6</b>	<b>24.3</b>	<b>26.0</b>	<b>28.0</b>
PAYE %	34.1%	34.3%	24.0%	39.4%	35.4%	35.4%	34.6%
Company tax %	65.9%	65.7%	76.0%	60.6%	64.6%	64.6%	65.4%

*Source: Ministry of Finance & National Planning*

After a decline in PAYE collections in 2008/09 following the introduction in July 2008 of new personal income tax rates, PAYE collections in 2009/10 returned to levels higher than before the introduction of the new rates. This reflects increased compliance efforts and steps taken by the Revenue Services Department to ensure that all taxpayers who should be paying tax file correct returns. The 2009/10 result is also boosted by the collection of some tax arrears. This will not be repeated in 2010/11.

While PAYE collections have been strong, company taxes have declined noticeably. This was due to two factors. These were a change in company tax rates from 35% (42% for non-residents) to 25% for all companies which reduced the tax collected by an estimated \$9 million. The other factor was the impact of the global economic crisis and tighter restraints on bank lending that fueled the recession that Tonga has experienced over the last two years. As a result of this recession, companies have experienced difficult trading conditions and a large number of taxpayers have experienced tax losses. Consequently company tax is expected to be considerably less than that collected in the previous year.

Considerable effort has been undertaken by the Revenue Services Department on compliance and the collection of tax arrears. In late 2008 the Department set up a dedicated debt collection team and the results from this have been encouraging. Tax arrears collected for 2009/10 amounted to \$7.9m with a further \$7.5m expected in 2010/11.

## Consumption Tax

Consumption tax in Tonga was introduced in April 2005. This tax tends to closely track economic conditions with strong economic growth in 2007/08 being reflected in a rise in consumption tax collections of 21.3%. However, this turnaround was short-lived as the impacts of rising world oil prices and the global economic crisis hit home in 2008/09. As a result, consumption tax has fallen steadily in the last two years and is now at a lower level than in 2006/07. Another contributing factor to this decline is the delay in reconciliation before consumption tax refunds are made. This reconciliation often occurs well after the relevant fiscal year.

**TABLE 7: CONSUMPTION TAX (\$MILLION).**

Point of collection	2006/07	2007/08	2008/09	2009/10 Revised	2010/11 Budget	2011/12	2012/13
Wharf	43.0	49.8	43.1	40.0	42.7	45.7	50.4
Domestic	5.6	8.7	2.8	2.7	3.5	4.0	4.2
Govt CT	0.6	1.2	1.2	0.3	0.3	0.4	0.4
<b>Total</b>	<b>49.2</b>	<b>59.7</b>	<b>47.1</b>	<b>43.0</b>	<b>46.5</b>	<b>50.1</b>	<b>55.0</b>

*Source: Ministry of Finance & National Planning*

Over the medium term consumption tax revenue is forecast to slowly return to 2006/07 levels through better compliance at the wharf and through mild economic growth.

## Other Domestic Taxes

The main component in this category is excise taxes. Business licenses and motor vehicle registration are also significant components.

**TABLE 8: OTHER DOMESTIC TAXES (\$MILLION).**

	2006/07	2007/08	2008/09	2009/10 Revised	2010/11 Budget	2011/12	2012/13
Business licenses	0.4	0.3	0.3	0.4	1.0	1.0	1.0
Motor vehicle	0.8	0.7	0.9	1.1	1.4	1.6	1.6
Excise taxes	0.7	10.0	22.5	20.9	23.4	24.6	26.6
Other domestic taxes	0.3	0.1	0.3	3.9	0.1	0.1	0.1
<b>Total</b>	<b>2.2</b>	<b>11.1</b>	<b>24.0</b>	<b>26.3</b>	<b>25.9</b>	<b>27.3</b>	<b>29.3</b>

*Source: Ministry of Finance & National Planning*

In February 2008, tax on alcohol, tobacco, petroleum, and motor vehicles moved from being classified as import duties to being classified as excise taxes. The 2007/08 result reflects 4 months of excise taxes while 2008/09 shows a full year of taxes.

## Customs Duties

A new Custom Management System (CMS) was introduced on the 1<sup>st</sup> of July 2009 as part of the tax reform package which was introduced in 2002. Part of the changes was implemented in February 2008 when all custom duty rates were brought down to one of 4 bands, 0%, 10%, 15% or 20%. Over 800 customs items covering capital goods imports were reduced to zero duty. Prior to February 2008 excise taxes and import duties were combined.

**TABLE 9: IMPORT TAXES (\$MILLION).**

	2006/07	2007/08	2008/09	2009/10 Revised	2010/11 Budget	2011/12	2012/13
Custom Duties	47.5	40.5	16.0	15.0	14.5	16.0	18.0
Other Import charges	0.0	0.0	0.0	0.0	0.1	0.1	0.1
<b>Total</b>	<b>47.5</b>	<b>40.5</b>	<b>16.0</b>	<b>15.0</b>	<b>14.6</b>	<b>16.1</b>	<b>18.1</b>

*Source: Ministry of Finance & National Planning*

### 5.2.2 Non-tax Revenues

#### Entrepreneurial & Property Income

The components of entrepreneurial & property income are shown in Table 10 below. The largest component, dividends, sees a marked decline as a result of Government selling its shares in Westpac and the Leiola Group in 2008. This decline is not immediately obvious in 2009/10 due to the payment of a special dividend from the Tonga Development Bank. However, in the absence of this special dividend the decline is noticeable.

The sale of the Government's shares in Westpac and the Leiola Group reflects a continuation of the public enterprise rationalization program but more importantly it sees a divestment of companies that operate in a competitive private sector environment and therefore were priorities for privatization.

**TABLE 10: ENTREPRENEURIAL & PROPERTY INCOME (\$MILLION).**

	2006/07	2007/08	2008/09	2009/10 Revised	2010/11 Budget	2011/12	2012/13
Interest	1.3	2.4	2.8	2.0	0.4	0.4	0.4
Dividends	5.3	7.1	5.6	12.9	5.0	6.0	7.0
FFA Treaty	0.4	0.6	0.4	-	0.3	0.3	0.3
Land rental	0.3	0.4	0.4	0.4	0.3	0.2	0.2
<b>Total</b>	<b>7.3</b>	<b>10.5</b>	<b>9.2</b>	<b>15.3</b>	<b>6.0</b>	<b>6.9</b>	<b>7.9</b>

*Source: Ministry of Finance & National Planning*

#### Administrative fees & charges

As can be seen from Table 11 below, the total for administrative fees and charges remained relatively constant from 2006/07 to 2008/09. However, the actual revenue components that make up the total have changed considerably.

Airports Tonga was corporatized in July 2007 and as a result the revenue streams (such as landing fees and passenger charge) associated with running the airport was transferred to the new corporation.

Communications fees were reviewed in 2008 and the Tonga license fees and termination fees were found to be the lowest in the Pacific. These were adjusted in late 2008. However, the change, along with changes in technology and prevailing economic conditions seem to have resulted in a considerable change in phone activity with communication fees dropping markedly after an initial spike in additional revenue.

**TABLE 11: ADMINISTRATIVE FEES & CHARGES (\$MILLION).**

	2006/07	2007/08	2008/09	2009/10 Revised	2010/11 Budget	2011/12	2012/13
Telecom Settlement Fee	0.4	0.6	2.7	1.1	4.7	4.9	5.3
Passports	1.6	1.4	1.4	1.2	1.9	1.9	1.9
School fees	1.2	1.4	1.4	1.6	1.6	1.6	1.6
Motor drivers licenses	0.5	0.5	0.5	0.4	0.7	0.7	0.7
Visas	0.0	-	-	0.5	0.6	0.7	0.7
Registration fees	0.2	0.2	0.2	0.4	0.3	0.3	0.3
Airport landing fees	1.1	0.1	-	-	-	-	-
Other	8.0	8.5	5.7	4.5	4.7	5.4	6.0
<b>Total</b>	<b>13.0</b>	<b>12.7</b>	<b>11.9</b>	<b>9.7</b>	<b>14.5</b>	<b>15.5</b>	<b>16.5</b>

*Source: Ministry of Finance & National Planning*

The decline in 2009/10 reflects the Government's policy of abolishing revolving funds and ensuring all Government revenues flow directly through the Government accounts. Revenue formerly received through revolving funds is now reported over a number of different classifications.

This category is boosted in the 2010/2011 forecast by Telecom Settlement Fees. This was previously reported under the category of Domestic Taxes on Goods and Services.

### **5.2.3 Capital Revenue**

The \$1.3 million for 2009/10 that was expected from selling of Government quarters was not realized in the budget year. However, the Government is still proceeding with the sale of selected Government quarters over the next year. The likely revenue from this revised sale process is undetermined at this stage.

### **5.2.4 Grants**

Grant funding is an integral component of most developing country economies. The grant funding reported in this section is not an exhaustive list of all grants received by the Kingdom of Tonga. Rather the following section identifies cash funding routed through the Government or provided as direct assistance to the Government in forms other than cash (in-kind).

Tonga is forecast to receive total cash grants in 2010/11 of \$84.4 million, which represents a more than doubling of the estimated outturn of \$37.5 million in 2009/10. The primary driver of this increase is the \$32.9 million of donor assistance pledged as Budget support to assist Tonga cope with the residual impacts of the Global Economic Crisis and to assist Tonga move forward with a range of priority projects. These projects include reducing Tonga's reliance on imported fuels and assisting with the transition to greater democracy.

In addition to progressing priority projects, the increased level of grant funding will ensure that the Government is not required to cut back on essential public goods and services due to the expected continued shortfalls in domestic revenue.

**TABLE 12: SOURCE OF CASH GRANTS (\$MILLION).**

	2006/07	2007/08	2008/09	2009/10 Est	2010/11 B	2011/12	2012/13
Australia	1.4	1.1	7.0	5.7	8.6	9.9	11.5
European Union	3.5	1.1	2.2	5.4	3.1	0.3	-
New Zealand	7.6	4.1	7.7	3.4	14.6	9.2	7.6
China	7.5	0.1	-	6.1	0.3	-	-
UN	0.6	0.5	0.6	0.4	2.4	1.5	1.3
WB/IDA	0.8	0.7	0.5	1.0	10.1	2.2	0.3
WHO	0.3	0.1	0.2	0.3	0.4	0.4	0.4
ADB	0.4	0.0	0.8	1.1	3.5	0.7	0.6
ADB Budget Support	-	-	-	9.4	9.4	-	-
Unconfirmed budget support					23.5	9.4	
Other	0.6	1.0	1.6	4.7	8.5	0.7	0.0
<b>Total</b>	<b>22.6</b>	<b>8.7</b>	<b>20.6</b>	<b>37.5</b>	<b>84.4</b>	<b>34.3</b>	<b>21.7</b>

*Source: Ministry of Finance & National Planning*

The main sources of increased cash grant assistance are Australia, New Zealand, EU and the World Bank.

Australia has stepped up their assistance to Tonga from an estimated outturn for 2009/10 of \$5.6 million to \$8.6 million in 2010/11 having signed the Tonga Australia Partnership Agreement between the two Governments with a focus on Public Sector Reform, Health, TVET and Infrastructure. Their assistance is for projects such as the Health Support Program (\$1.6 million), TVET with the Ministry of Training, Employment, Youth and Sports (\$1.9 million), Public Sector Reform with the Customs Division, Ministry of Finance and the Public Service Commission (\$0.7 million). Lastly, support is provided for infrastructure with funding towards the Transport Sector Consolidation Project of \$1 million. The remaining \$3.4 million is targeted at smaller projects.

New Zealand has also increased its' assistance from an estimated outturn for 2009/10 of \$3.4 million to \$14.6 million in 2010/11. This assistance is mainly for the Tonga Education Sector Support Project (TESP) (\$6.9 million) as well as assistance towards the outer islands (\$3.6 million) and also the TVET program (\$1.5 million). The remaining \$2.6 million is being used to fund a number of smaller projects.

World Bank assistance has increased from an estimated outturn for 2009/10 of \$1.0 million to \$10.1 million in 2010/11. In particular, World Bank funding is directed at the recovery effort in Niuatoputapu with the majority (\$6.3 million) of Bank funding being directed there. Also under the Bank's current program funding is the continuation of the Transport Sector Consolidation Project (\$2.4 million).

#### **5.2.4.1 Major Uses of Cash and In-Kind Grants**

The uses, and planned uses, for cash grants are as follows:

**TABLE 13: USE OF CASH GRANTS- MAJOR PROJECTS ONLY (\$MILLION).**

Purpose	Est. 2009/2010	2010/2011
Tonga Education Support Program (TESP)	3.9	8.9
NTT recovery project	0	7.1
Integrated Urban Dev Project	1.0	3.5
Transport Sector IDA Grant	0.4	3.5
(TVET) Support Program	0	3.4
Tonga Police Development Program	0.7	3.0
Outer Island development	0	3.0
CEC (Constitutional Electoral Commission)	1.2	1.5
Climate Change Enabling Activity	0.2	1.2
Health Support Program	0	1.0
Support to the Public Service Commission	0.3	0.8
Other	20.5	14.6
<b>Total<sup>3</sup></b>	<b>28.1</b>	<b>51.5</b>
Budget Support	9.4	32.9
<b>Grand Total</b>	<b>37.5</b>	<b>84.4</b>

*Source: Ministry of Finance & National Planning*

Total donor in-kind grants are estimated at \$44.1 million in 2009/2010. This is projected to increase to \$128.6 million in 2010/2011. Major projects that this funding will be devoted to include:

**TABLE 14: USE OF IN-KIND GRANTS – PROJECTS ABOVE \$1 MILLION ONLY (\$MILLION).**

Purpose	Est. 2009/2010	2010/2011
Otuanga'ofa- New Interisland ferry	0	25.0
Upgrading and Refurbishment of Vaiola Hospital	0	19.0
Tonga Energy Roadmap	0.4	9.6
Outer Island Solar Electrification	0	5.0
Transport Sector IDA Grant	0.3	4.9
Integrated Urban Dev Project	1.3	3.4
Development Scholarships AusAID	2.9	2.9
Development Scholarships NZAID	2.2	2.7
Food Security and Sustainable Livelihood Program	0	2.5
Health Support Program	0	2.5
Ajung Shubu- interim ferry	1.0	1.9
Tourism sector scoping study	0	1.5
Urban Planning TA	0	1.5
Fibre Optic Cable	0	1.5
WS- GGP	1.0	1.0
UNESCO	0	1.0
Other	35.0	42.7
<b>Total</b>	<b>44.1</b>	<b>128.6</b>

*Source: Ministry of Finance & National Planning*

<sup>3</sup> Total does not include Budget Support of \$9.4 million in 2009/10 and \$32.9 million in 2010/11.

## **6 EXPENDITURE**

### **6.1 Expenditure priorities**

In early 2009 the Tonga Government approved its National Strategic Planning Framework which replaces the historical Strategic Development Plan (SDP) and other development series. Rather than the broad and all inclusive approach used for SDP8 and its predecessors, this new planning framework focuses on a limited number of uniquely national or whole of Government priorities, with action in supporting areas through Ministries' corporate plans.

#### **Facilitate Community Development through strengthening local Government**

The National Strategic Planning Framework is based on the pre-requisite for all regions to enjoy the same economic and social opportunities, and with regional development itself contributing to national prosperity. The Framework looks to build up economic activity throughout Tonga by promoting skills, enterprise and innovation everywhere. However, beyond this, there may be a need for targeted regional interventions to promote more balanced growth and social inclusion.

The Government will also move to set up and support local councils with the objective to give communities a greater say in local and regional development. The Government intends to devolve responsibility for community roading, community policing, and youth employment schemes, etc to the village/district councils.

#### **Support private sector growth through better engagement with Government, appropriate incentives, and streamlining of rules and regulations**

Raising the long-term sustainable growth rate of Tonga's economy is a Government priority, as it is only through economic growth that sustainable poverty alleviation can be achieved. Economic prosperity is only secured through the efforts and contributions of a wide range of individuals and bodies, working in an integrated and collaborative manner. Government policy, commercial laws, regulations and creating an environment that facilitates investment will be key factors that underpin private sector led growth. The key economic sectors remain as for SDP8; agriculture, fisheries, and tourism.

The National Economic Development Council (NEDC) was established as a response to the national effort to support the economic development activities in Tonga. The main objective of the NEDC is to "Stimulate economic growth by identifying and recommending to Cabinet policy initiatives for a private sector led economy". To date the NEDC has been particularly effective in the formulation of umbrella organisations to facilitate greater cooperation between Government and the private sector. The Government of Tonga budget for the NEDC is \$0.5 million.

#### **Facilitate continuation of Constitutional Reform**

The Kingdom of Tonga is undertaking a most historic and fundamental Constitutional reform. The Constitutional and Electoral Commission Act 2008 established a Commission to identify issues and implement the reforms necessary to established and ensure sustainable nation building and the introduction of greater democracy up to and beyond the 2010 elections.

As part of this reform Government will look at Law, Justice, and Electoral reform, International Treaties, National Security and Administration over the longer term reform process. While these are separate programs, under tripartite arrangements involving the Tonga, Australian, and New Zealand Governments arrangements have been set up to fund joint initiatives progressing Constitutional Reform, Electoral Reform and the Tonga Police Development Programme.

### **Maintain and develop infrastructure to improve the everyday lives of the people**

The physical infrastructure of Tonga underpins the competitiveness of enterprises and high-quality infrastructure is a pre-requisite for a thriving and successful economy. Government will continue its program to strengthen and modernize infrastructure to reduce business costs and to facilitate market access.

The Government is developing a medium term Infrastructure Development Plan, which incorporates not only the projects within the core public service, but also the projects planned by the SOEs. Having identified the project list the next step is to develop a prioritization matrix to assist the Government in determining which projects should be supported and which should not. Cabinet on an ongoing basis will review the plan as new projects are proposed, projects are completed, or existing projects drop off the list.

Highlights from the infrastructure plan undertaken to date are:

- Core Government infrastructural projects identified through until 2015 total \$359 million, while total SOE infrastructure projects identified total \$170 million;
- Of the core Government infrastructural projects identified \$242.1 million (67%) for which potential funding sources have been identified; and
- Very few of the SOEs have identified funding sources for their projects, although some will be able to fund these through their own balance sheets.

### **Increase performance of Technical Training Vocational Education & Training (TVET) to meet the challenges of increasing skills and developing services and infrastructure**

Basic education and skills are crucial to any strategy for growth and are the bedrock for the foundation of a competitive economy. It is therefore important that basic education be maintained at a high level. To ensure that students emerge from compulsory education with the requisite basic skills the Government has increased the years of compulsory education to now cover between the ages of 5 years to 18 years. The Government is still working out some of the practical issues in how to deliver on this commitment.

Years of education alone do not guarantee learning. A skills and learning strategy must embrace the full range of skills, including basic skills of literacy and numeracy for all; the skills required of employees, managers and entrepreneurs; and the skills of our academic community.

A joint 5 year program between the Tongan, Australian, and New Zealand Governments is being designed to support technical and vocational training in Tonga. The Tongan Government sees the initial focus of the program on the “strengthening of the capacity of local suppliers to deliver internationally recognized and certificated courses”.

To achieve this end the Government is working to ensure that both the necessary resources are provided and that standards are set and maintained. To the latter end the National Qualification and Accreditation Board was established in 2008/09 and is functioning more fully to ensure the quality of qualifications out of TVET, tertiary and secondary institutions. To ensure that the necessary resources are provided the Government started making \$1,200 grants per student in the 2009/10 financial year. These grants go to all non-Government tertiary institutions, including TVET institutions. This will continue into the future and are in addition to grants to non-Government secondary institutions.

### **Improve the health of the people by minimizing the incidence of Non-Communicable Diseases (NCDs)**

Tonga's population has a relatively high standard of health. Advances in the health indicators testify to Tonga's effective primary health care delivery, public health infrastructure and the importance of comprehensive antenatal and postnatal care, immunization, water and sanitation and waste disposal programmes. Infectious and most communicable diseases are under control. However, like most other Pacific island nations, the increased prevalence of non-communicable diseases such as sugar diabetes has become a major problem. Because of the chronic nature of NCDs, the burden they impose on the patient, their family and the health system is long term.

NCDs are responsible for four of the five most common causes of mortality. In addition they are a major cause of morbidity particularly from diabetes, heart disease, CVA (stroke) and lung diseases.

In 2007 the Tonga Health Promotion Foundation Act was passed. This provided the provisions for Tonga Health – an independent statutory body to provide funding for NCDs activities addressing Physical Activity, Tobacco Control and Healthy Eating programmes. Funding for Tonga Health is from Government and donors with AusAID providing a major portion of the initial funding of \$7 million.

### **Integrate environmental sustainability and climate change into all planning and executing of programs**

The Tonga Government takes seriously the responsibility of preserving for future generations the economic opportunities and environmental resources that we enjoy today. The Government is committed to integrating the principles of sustainable development into all of its policies. There is a need to use resources more efficiently, reduce energy consumption, and develop renewable sources of energy.

The Kingdom's vulnerability to oil price shocks is being dealt with by Government with a new initiative in conjunction with our development partners, the "Energy Road Map 2010-2020". The Energy Road Map will be a planned, programmed approach, collectively funded by Government and its development partners, providing for implementation of Renewable Energy sources of electricity generation. This plan includes accessibility to grid power electricity through hybrid systems in places that currently are not serviced, such as the Niuas and remote islands of Ha'apai and Vava'u.

The creation of a separate Ministry for the Environment & Climate Change also recognises the impact and importance of climate change and the Government's need to be proactive in

addressing the causes and consequences of climate change. It is highly likely that climate change will be one of the biggest challenges that Tonga faces in the future.

## 6.2 Current Expenditure

The Government's overall expenditure and net lending is provided in the table below. Government's recurrent expenditure has been relatively constrained from 2006/07 to 2009/10. In real terms it has declined.

Donor support will enable total expenditure and net lending to increase to \$205.6 million in 2010/11. This considerable increase in expenditure is due to a significant increase in donor project funded expenditure (that is total donor support of \$51.5 million excluding budget support of \$32.9 million). This has increased funding for donor projects from approximately \$30 million in 2009/10 to \$51 million in 2010/11.

The sizeable reduction in the purchase of goods and services between 2008/09 (from \$62.5 million to \$53.3 million in 2009/10) was due to the removal of one off expenditures like the Coronation, the transfer of maintenance of road program from local funding to donor funding and the reduction of Government tax expenditure.

**TABLE 15: EXPENDITURES & NET LENDING (\$MILLION).**

	2008/09 (p)	2009/10 Budget	2009/10 (p)	2010/11 Budget	2011/12	2012/13
<b>Expenditure and lending minus repayments</b>	<b>192.7</b>	<b>202.7</b>	<b>180.0</b>	<b>205.6</b>	<b>162.2</b>	<b>162.1</b>
Expenditure	185.3	203.4	180.9	206.2	162.5	162.2
<b>Current expenditure</b>	<b>167.5</b>	<b>191.6</b>	<b>166.8</b>	<b>186.5</b>	<b>153.3</b>	<b>153.0</b>
Wages and salaries	76.4	77.4	82.1	81.8	76.4	75.3
Employer contributions	5.2	10.3	7.2	8.8	8.6	9.6
Other purchases of goods and services	62.5	78.4	52.5	74.1	55.7	50.5
Interest payments	5.2	5.7	5.7	7.0	0.2	0.1
Additional expenditures	-	-	-	-	-	-
Subsidies and other current transfers	18.2	19.8	19.2	14.8	12.4	17.5
Subsidies to non-financial public enterprises	0.0	0.1	-	-	-	-
Subsidies to financial institutions	1.0	0.1	-	0.0	0.0	0.0
Subsidies to other enterprises	2.1	3.2	1.3	1.5	0.5	0.9
Transfers to non-profit institutions	7.9	9.1	9.8	5.1	5.8	6.8
Transfers to households	6.2	6.5	7.0	6.1	4.0	5.2
Transfers abroad	1.0	0.9	1.0	2.0	2.2	4.6
<b>Capital expenditure</b>	<b>17.8</b>	<b>11.8</b>	<b>14.1</b>	<b>19.7</b>	<b>9.2</b>	<b>9.2</b>
Acquisition of fixed capital assets	16.6	11.3	13.8	19.4	8.7	8.9
Purchases of land and intangible assets	0.1	0.0	0.1	0.1	0.0	0.0
Capital transfers	1.1	0.4	0.2	0.3	0.4	0.2
<b>Lending minus repayments</b>	<b>7.4</b>	<b>(0.6)</b>	<b>(0.9)</b>	<b>(0.6)</b>	<b>(0.3)</b>	<b>(0.1)</b>
To non-financial public enterprises (net)	6.8	(0.2)	0.5	(0.1)	0.2	0.4
To financial institutions (net)	0.6	(0.5)	(1.4)	(0.5)	(0.5)	(0.5)
Abroad	-	-	-	-	-	-

Source: Ministry of Finance & National Planning

### 6.2.1 Wages & Salaries

Real Government expenditure on salaries has been declining (based on average inflation of 8% per annum). As a component of the salaries and wages review the leave entitlements of civil servants have been revised to bring them in line with developed countries. Tonga has

always had the most generous leave entitlements in the Pacific. Also the system of automatic annual increments has been reviewed and a policy introduced that no more than 40% of ministry personnel may be awarded increments (based on performance) in any one year.

**TABLE 16: WAGES & SALARIES (\$MILLION)**

	2006/07	2007/08	2008/09	2009/10 Est		2010/11 B	
				Govt Fund	Donor Fund	Govt Fund	Donor Fund
Salaries	56.6	58.4	61.3	69.1	1.8	69.5	0.3
Overtime & Allowances	5.7	5.3	10.1	6.2	0.4	6.0	0.0
Wages	3.6	3.4	3.6	2.6	0.0	1.8	0.0
District & Town Officers	-	-	1.2	1.0	-	1.2	-
Others	14.2	3.0	0.2	1.1	-	3.0	-
<b>Total</b>	<b>80.1</b>	<b>70.1</b>	<b>76.4</b>	<b>80.0</b>	<b>2.1</b>	<b>81.5</b>	<b>0.3</b>

*Source: Ministry of Finance & National Plan*

The new leave policy which drastically reduces entitlements will see significant efficiency gains in many ministries. A review of structures and human resources is being conducted ministry by ministry and the anticipated outcome from this will be a decline in civil service numbers over the medium term.

### **6.2.2 Employer Contributions**

Employer contributions represent deductions from pay for compulsory contributions in the Retirement Fund. Historically, at the time of its creation the Government, with the consent of the Retirement Fund, only transferred part of the value of compulsory contributions to the Retirement Fund Board. This has left the Government with a debt of around \$16 million to the Retirement Fund Board. The Government pays interest on this outstanding commitment.

The 2009/10 increase in interest payments reflects Governments increase in contribution from 7.5% of salaries to 10%.

### **6.2.3 Purchases of Goods & Services**

Purchases of goods and services have increased through to 2008/9 in line with Government's policy of shifting expenditures away from salaries and wages to other operational expenditures. The reduction in 2009/10 is the result of action to reduce the deficit.

The most significant increases in purchases in goods and services for 2010/11 are a direct reflection of the increased donor funds being made available to Tonga as part of the assistance to allow Tonga to mitigate the impacts of the global economic crisis.

The two areas in which the greatest declines in expenditure are forecast are in funding for travel due to tighter restrictions that are to be placed on public servants travel, and forecast declines in the cost of utilities due to lower international oil prices than in previous years.

**TABLE 17: PURCHASES OF GOODS & SERVICES (\$MILLION)**

	2006/07	2007/08	2008/09	2009/10 Revised		2010/11 Budget	
				Govt Fund	Donor Fund	Govt Fund	Donor Fund
Consultants & technical assistance	1.5	1.3	1.4	1.3	0.0	1.0	0.0
Maintenance of roads, runways & buildings	1.9	2.4	4.9	1.9	-	2.2	8.9
Travel	5.1	6.5	6.5	4.7	0.2	3.2	0.3
Utility	2.9	3.1	4.1	3.2	0.0	2.8	0.0
Medical drugs	-	1.7	2.2	1.3	-	2.7	-
Rations	1.4	1.7	1.8	1.1	-	1.7	-
Rental	1.0	1.0	2.0	1.5	0.0	1.7	0.0
Training	0.5	0.5	0.8	0.1	0.7	0.2	1.1
Specialised Printing	0.3	0.6	0.5	0.1	-	1.4	-
Curriculum Development	-	-	0.0	-	-	-	1.3
Fuel	2.6	2.3	2.7	1.7	0.1	1.6	0.1
Royal Land Commission	-	-	-	1.0	-	1.0	-
Contingency	-	1.0	1.6	0.0	-	6.7	-
Other	32.6	35.3	33.9	24.4	9.1	13.0	23.3
<b>Total</b>	<b>49.9</b>	<b>57.5</b>	<b>62.5</b>	<b>42.5</b>	<b>10.1</b>	<b>39.1</b>	<b>35.0</b>

Source: Ministry of Finance & National Plan

#### 6.2.4 Interest payments

Interest payments rise from \$5.2m in 2008/09 to \$7.0m in 2010/11 as payments associated with the increased drawdown of the Chinese Reconstruction loan and the National Roads Development loan are made. Both loans have a 5 year grace period with regards to principal payments, meaning that overall debt servicing costs will materially increase at the end of the grace period.

#### 6.2.5 Subsidies & Transfers

This section outlines the Government's operation of tax expenditure or subsidies. These tax relief mechanisms are intended to achieve economic, social and infrastructure development objectives.

**TABLE 18: PURPOSE OF SUBSIDIES & TRANSFERS (\$MILLION).**

	2006/07	2007/08	2008/09	2009/10 Revised		2010/11 Budget	
				Govt Fund	Donor Fund	Govt Fund	Donor Fund
Subsidies	7.1	6.8	6.3	4.6	4.1	4.0	0.2
Pensions & Gratuities	5.4	5.3	5.7	6.2	-	5.3	-
NEDC	-	-	0.7	0.5	0.5	0.5	0.5
Scholarships	1.3	1.2	1.3	0.7	-	0.7	-
Other	5.7	3.9	4.1	2.6	0.0	3.5	-
<b>Total</b>	<b>19.5</b>	<b>17.2</b>	<b>18.1</b>	<b>14.6</b>	<b>4.6</b>	<b>14.0</b>	<b>0.7</b>

Source: Ministry of Finance & National Planning

The total tax expenditure for subsidies and transfers for the financial year 2009/10 was \$19.2 million. The largest single subsidy in 2009/10 was the \$8.7 million fuel concession Government provides for the commercial fishing industry, for electricity generation, and for street lighting.

This increase in the total tax concession from 2007/08 to 2008/09 was predominantly attributable to the increased cost of subsidizing fuel during the international increase in oil prices. This cost is projected to decrease to \$4.2 million in 2010/11.

### 6.3 Capital Expenditure

The total capital expenditure for the 2010/11 budget is estimated at \$19.7 million. This returns capital expenditure to 2008/09 levels after the cutbacks required by the decline in Government revenue in 2009/10.

Approximately half of the new capital expenditure will be invested in the construction of new plant and buildings.

**TABLE 19: CAPITAL EXPENDITURE (\$MILLION).**

	2006/07	2007/08	2008/09	2009/10 Est		2010/11 B	
				Govt Fund	Donor Fund	Govt Fund	Donor Fund
New Buildings	3.0	1.5	6.5	1.2	7.5	0.3	9.3
Renovations	0.4	0.1	3.0	0.7	1.0	0.0	2.3
Machinery & equipment	0.4	0.2	2.6	0.4	2.2	0.1	2.2
Vehicles	1.0	0.3	1.7	0.6	0.2	0.3	0.0
Other	0.2	-	2.8	0.3	0.1	3.5	1.7
<b>Total in Budget</b>	<b>5.0</b>	<b>2.1</b>	<b>16.6</b>	<b>3.2</b>	<b>11.0</b>	<b>4.2</b>	<b>15.5</b>

*Source: Ministry of Finance & National Planning*

### 6.4 Current Expenditure by Functional Classification

**TABLE 20: EXPENDITURE BY FUNCTION OF GOVERNMENT (T\$MILLION)**

Description	2009/10 Revised	%	2010/11 Budget	%	2011/12 Budget	%	2012/13 Budget	%
General public services	74.7	0.4	83.9	0.5	72.7	0.5	80.8	0.5
Defence	7.9	0.0	6.6	0.0	6.2	0.0	6.2	0.0
Public order and safety	14.5	0.1	12.8	0.1	12.0	0.1	12.0	0.1
Economic affairs	18.9	0.1	15.0	0.1	14.8	0.1	14.8	0.1
Environmental Protection	-	0.1	0.6	0.0	0.6	0.0	0.6	0.0
Health	21.8	0.1	22.5	0.1	21.8	0.1	21.8	0.1
Education	28.4	0.2	29.2	0.2	28.4	0.2	28.4	0.2
<b>Total</b>	<b>166.1</b>	<b>1.0</b>	<b>170.6</b>	<b>1.0</b>	<b>156.4</b>	<b>1.0</b>	<b>164.5</b>	<b>1.0</b>

*Source: Ministry of Finance & National Planning*

Table 20 reflects the cost of running the Government with an average of 44% goes to General public services.

The Government is committed to monitoring actual Budget shares against National Strategic Planning Framework priorities and reporting achievement against these in the following year's Budget Statement. Note that the above allocations are indicative only and will change once unconfirmed donor support currently allocated Economic Affairs sub-category is allocated to NSPF and other Government priorities.

## 7. FINANCING TRANSACTIONS FOR 2010/11

Net financing transactions measure the manner in which the overall fiscal budget deficit is financed, or a budget surplus is utilized. Table 21 outlines the financing transactions of the 2010/11 Budget.

As highlighted earlier, the overall fiscal balance for 2010/11 is an anticipated deficit of \$12.1 million. Budget support of \$23.5 million is shown as financing transaction.

**TABLE 21: ESTIMATED FINANCING TRANSACTIONS (\$MILLION).**

	2008/09 actual	2009/10 Budget	2009/10 Revised	2010/11 Budget	2011/12	2012/13
<b>Total Financing</b>	(16.2)	(17.4)	3.6	12.1	(5.3)	(15.3)
<b>External financing</b>	(4.8)	(12.3)	(4.4)	(7.8)	(12.7)	(13.3)
Disbursements	-	-	-	-	-	-
Repayments	4.8	12.3	4.4	7.8	12.7	13.3
<b>Domestic Financing</b>	(11.4)	(5.1)	8.0	19.9	7.4	(2.0)
Bonds Issued / Domestic Loan	8.8	7.0	14.6	3.4	3.0	7.5
Principal Repayment of Matured Bonds/Loan	(7.0)	(7.0)	(6.9)	(7.0)	(5.0)	(9.5)
<b>Donor Funding</b>	-	-	-	<b>23.5</b>	<b>9.4</b>	-
unconfirmed budget support	-	-	-	23.5	9.4	-
Net Changes in Government Cash	(13.2)	(5.1)	0.3	-	-	-

*Source: Ministry of Finance & National Planning*

## 8. PUBLIC DEBT<sup>4</sup>

### 8.1 Total Public Debt

The total book value of public debt is estimated to be \$283.4 million or 41% of GDP (\$698.9 million). With the inclusion of undisbursed loans, the total public debt in Net Present Value

<sup>4</sup> This section covers the estimated position of Government Debt as at 30 June 2010.

(NPV) terms is estimated to be \$390 million or 55.8% of GDP<sup>5</sup>, comprising of external debt of \$359 million (51.4%) and domestic debt of \$31 million (4.4%).

**TABLE 22: TOTAL PUBLIC DEBT (\$MILLION).**

DISBURSED OUTSTANDING DEBT (\$m)	Jun-09	Jun-10
External	202.5	<b>253.9</b>
Domestic	22.5	<b>29.5</b>
<b>Total public debt</b>	<b>225.0</b>	<b>283.4</b>
Guaranteed	9.5	<b>16.3</b>
On lent	23.1	<b>23.1</b>

*Source: Ministry of Finance & National Planning*

## 8.2 External Creditors

Outstanding external loans are estimated at \$253.9 million (or 36% of GDP). The significant increase in external debt is due to the disbursements on the Reconstruction and Roads projects from the EXIM Bank (China). The main creditors of loans are the EXIM Bank (China) account for 43% (\$108 million) and loans to ADB account for 32% (\$81 million).

**TABLE 23: PUBLIC DEBT BY SOURCE (\$MILLION).**

CREDITOR	Jun-09	Jun-10
ADB	88.1	80.7
IDA	43.9	45.2
IFAD	11.5	10.4
EIB	1.0	0.8
Westpac – NZ	-	1.7
<b>Multilateral Sub Total</b>	<b>144.5</b>	<b>138.8</b>
Bank of China	7.4	7.1
EXIM Bank	50.6	108.0
<b>Bilateral Sub Total</b>	<b>58.0</b>	<b>115.1</b>
<b>TOTAL</b>	<b>202.5</b>	<b>253.9</b>

*Source: Ministry of Finance & National Planning*

## 8.3 Currency of Tonga's External Public Debt

The main currency of Tonga's external debt is "Special Drawing Rights" which account for 54% (\$136 million) of the outstanding loans and the Chinese Yuan which accounts for 45% (\$115 million).

<sup>5</sup> GDP = T\$698.88m (2009/10)

**TABLE 24: PUBLIC DEBT BY CURRENCY (\$MILLION).**

<b>CURRENCY COMPOSITION</b>	<b>Jun-09</b>	<b>Jun-10</b>
Special Drawing Rights (SDR)	143.5	<b>136.3</b>
Euro (EUR)	1	<b>0.8</b>
Chinese Yuan (CNY)	58	<b>115.1</b>
New Zealand Dollar (NZD)	-	<b>1.7</b>
<b>Total EXTERNAL (DOD)</b>	<b>202.5</b>	<b>253.9</b>

*Source: Ministry of Finance & National Planning*

#### **8.4 Outstanding Loans and Loan Guarantee**

Outstanding domestic loans (bonds on issue) are estimated at \$29 million (at 4% of GDP). Two new bonds were issued for budget support (\$5 million in October 2009 and \$3 million in January 2010). The majority of bonds 68% or \$20 million are held by financial institutions. There are no domestic loan repayment arrears.

Outstanding guaranteed loans are estimated at \$17 million (2% of GDP). The main Borrower is Tonga Power Ltd at 97% (\$16 million). There are no guaranteed loan repayment arrears.

**TABLE 25: ON LENT LOANS BY BORROWER (\$MILLION)**

<b>BORROWER</b>	<b>Jun-09</b>	<b>Jun-10</b>
TDB	0.1	-
Squash Facility	9	-
Janfull (WBOT)	0.5	<b>0.4</b>
TPL (WBOT)	-	<b>16.2</b>
<b>Total by borrower</b>	<b>9.6</b>	<b>16.6</b>

*Source: Ministry of Finance & National Planning*

Outstanding onlent loans are estimated at \$23 million (3% of GDP). The main Borrower is Janfull Hotel Ltd. (EXIM loan) at 47% (\$11 million). The onlent loan repayment arrears is estimated at \$10m, with the main creditors Seastar (\$5 million) and Janfull Hotel Ltd. (\$4 million).

**TABLE 26: ON LENT LOANS BY BORROWER (\$MILLION).**

<b>BORROWER</b>	<b>Jun-09</b>	<b>Jun-10</b>
TDB	4.7	<b>4.3</b>
TCC	2	<b>1.6</b>
Seastar	3.7	<b>3.7</b>
Janfull	11.2	<b>10.8</b>
Ports Authority	1.5	<b>0.8</b>
Tongatapu Market Ltd.	-	<b>1.9</b>
<b>Total ONLENT</b>	<b>23.1</b>	<b>23.1</b>

*Source: Ministry of Finance & National Planning*

#### **8.5 Total Debt Service - external and domestic (TDS)**

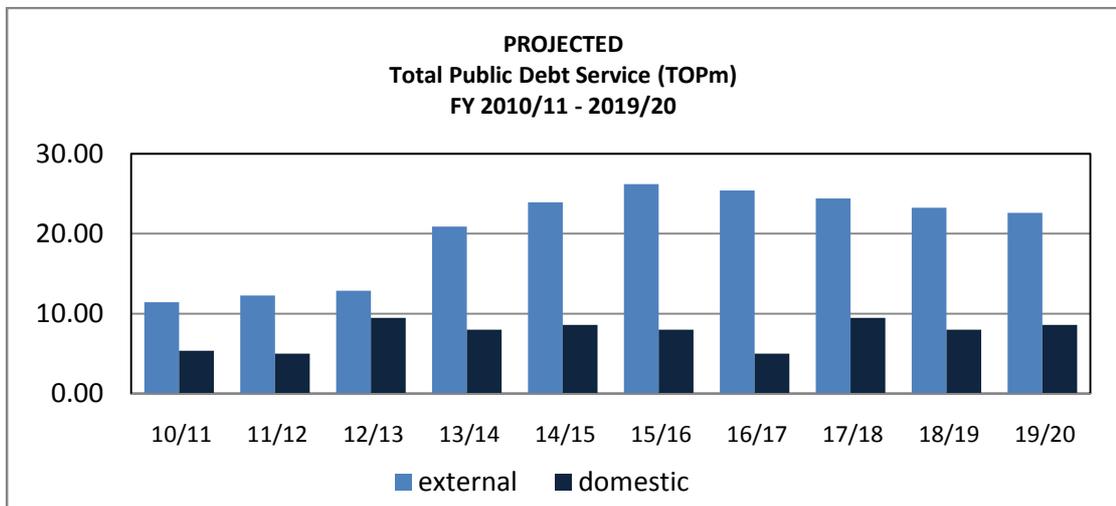
The need to service Tonga's outstanding debt will consume an increasing share of GDP from 2013/14, due to the principal repayments beginning for both the Reconstruction and Roads

Project/s (EXIM). At this time annual external debt servicing obligations will increase by \$9 million or around 1.2% of the projected GDP. These increasing debt obligations will reduce funding available for other priorities. Allowance for this increase in future debt servicing costs should begin as soon as possible to reduce the shock to Government finances in 2013/14, including the need to establish alternate revenue sources, increase taxes or reduce current expenditure levels.

The external debt service projections are based on the latest available TOP/FC rates at hand and do not take into account any future appreciation of the borrowing currencies.

The domestic debt service includes projected bond roll-overs (principal) on maturity at an average of 5 years duration and (interest) for total bonds on issue based on an interest rate of 6.7% (weighted average interest per annum).

**FIGURE 1: PROJECTED TOTAL PUBLIC DEBT SERVICE.**



*Source: Ministry of Finance & National Planning*

## 8.6 Debt Sustainability Targets

The Sustainable Debt Policy for Tongan Sovereign Debt approved in May 2009, sets the Government's debt objective as the maintenance of sovereign debt within levels that are sustainable over time. To quantify this objective, explicit debt targets were set based on the IMF's sustainable debt indicators. The targets are modified to reflect the unique aspects of the Tongan economy, namely the low formal export base and the large remittance flows.

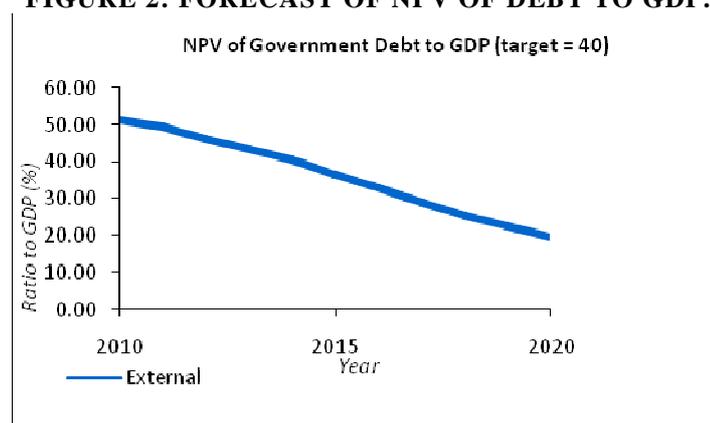
**TABLE 27: OVERVIEW OF PUBLIC DEBT (\$MILLION).**

	2009/10
Total public disbursed outstanding debt	283.3
External disbursed outstanding debt	253.9
Domestic disbursed outstanding debt	29.5
Total debt service	26.4
GDP (nominal) (million)	\$698.9
Remittances	\$145.3
Exports of goods & services (IMF est.)	\$87.65
Recurrent Revenue (million)	\$154.1
Grants (cash) (million)	\$39.5
Real growth rate % p.a.	-1.2%
GDP deflator/inflation rate (% p.a.)	2.0%

*Source: Ministry of Finance & National Planning*

The following tables compare the Government of Tonga's debt targets to the actual debt position, as at 30 June 2010. These show that the NPV-of-external debt to GDP ratio is 51%, and the debt to exports ratio is 136%, both which exceed the Government's targets. The exceeding of the Government's targets is deliberate, and represents the additional borrowing undertaken response to fund the fiscal stimulus package. This package is intended to minimise the impact of the global economic crisis on Tonga.

**FIGURE 2: FORECAST OF NPV OF DEBT TO GDP.**



*Source: Ministry of Finance & National Planning*

**TABLE 28: ACTUAL PUBLIC DEBT VERSUS GOVERNMENT TARGETS**

External Public Debt Indicators	GOVT TARGET (%)	Actual – June 2010 (%)
<b>NPV of external debt</b>		
Total debt as a % of GDP	40	51.4
Total debt as a % of exports (including remittances)	100	135.7
<b>Debt Service</b>		
Total debt as a % of revenues	200	236.1
Interest as a % of exports (including remittances)	15	10.0
Interest as a % of revenues	25	13.5

*Source: Ministry of Finance & National Planning*

## 8.7 Overview of Sustainable Debt Position

Based on the Government of Tonga's debt sustainability targets, at June 2010 and going forward, Tonga is exceeding most of the IMF recommended thresholds and also the modified targets chosen to reflect Tonga's special circumstances. Exceeding these targets indicates that Tonga is at high risk of not being able to maintaining a sustainable debt level. Any further borrowing therefore risks pushing Tonga into further debt distress and the possibility of Tonga requiring a foreign bail-out. It is therefore recommended that new financial assistance be sought in the form of grants or highly concessional loans only. This will preserve any remaining debt headroom for dealing with potential crisis situations.

## 9. GOVERNMENT FINANCIAL STATISTIC (GFS)

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>6</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 29 and 30 present reconciliation between the cash inflow estimates as detailed in the "Program Budget Estimates 2010/11" document and the estimates of revenues (inflows) and expenditures (outflows), classified on a GFS basis, as discussed in the preceding sections.

**TABLE 29: 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>137,700,001</b>
<i>Plus</i> Inflows to other Funds		
Local Community	0	
Donor Cash Aid	84,364,744	84,364,744
<i>Grant project</i>	51,464,743.5	
<i>Grant Budget support</i>	<b>32,900,000.0</b>	
<i>confirmed budget support</i>	9,400,000.0	
<i>unconfirmed budget support/Deficit</i>	23,500,000.0	
<b>Total Inflows (as per Program Estimates)</b>		<b>222,064,745</b>
<i>Less</i> Inflows classified as offsets to expenditure		
Repayments of net lending		1,706,400
<i>Less</i> Inflows classified as financing transactions		
External Financing	0	
Domestic Financing	3,360,000	
<i>unconfirmed budget support/Deficit</i>	23,500,000.0	26,860,000
<b>Total Revenues (as per GFS Presentation)</b>		<b>193,498,345</b>

*Source: Ministry of Finance & National Planning*

<sup>6</sup>That is funding flow into and out of the Kingdom's bank accounts, excluding loan disbursement to contractors and not through the Government.

**TABLE 30: RECONCILIATION BETWEEN APPROPRIATIONS OF THE GOVERNMENT OF TONGA FUND AND EXPENDITURE AS PER THE BUDGET STATEMENTS.**

<b>Outflows from the Government of Tonga Fund</b>		<b>170,599,999</b>
<i>Plus</i> Outflows from other funds		
Local Community	0	
Donor Cash Aid	51,464,744	51,464,744
<b>Total Outflows (as per Program Estimates)</b>		<b>222,064,742</b>
<i>Less</i> Outflows classified as offsets to expenditure		
Repayments of net lending		1,706,400
<i>Less</i> Outflows classified as financing transactions		
External Financing	7,830,483	
Domestic Financing	6,960,000	14,790,483
<b>Total Expenditures (as per GFS Presentation)</b>		<b>205,567,859</b>

*Source: Ministry of Finance & National Planning*

Table 31 provides a breakdown of funds from all sources estimated to be collected by the various Ministries and Departments during the 2010/11 financial year.

**TABLE 31: GOVERNMENT FUND AND CASH GRANTS ALLOCATION BY MINISTRY.**

Code	Ministry	2009/10		2010/11	
		Revised	%	Budget	%
01	Palace Office	5.1	2.6%	5.3	2.4%
02	Legislative Assembly	3.9	2.0%	3.5	1.6%
03	Audit Office	0.9	0.4%	0.8	0.4%
04	Commissioner of Public Relations	0.1	0.1%	0.1	0.1%
05	Ministry of Foreign Affairs	9.6	5.0%	8.0	3.6%
06	Tonga Defence Services	8.3	4.3%	6.6	3.0%
07	Prime Minister's Office	9.0	4.6%	11.0	5.0%
08	Ministry of Finance & National Planning	51.3	26.5%	54.8	24.7%
09	Revenue Services Department	4.5	2.3%	4.6	2.1%
10	Mnistry of Public Enterprises	0.4	0.2%	0.5	0.2%
11	Ministry of Communication and Information	0.7	0.4%	0.6	0.3%
12	Ministry of Justice	2.6	1.3%	2.3	1.0%
13	Crown Law Department	1.8	0.9%	1.3	0.6%
14	Ministry of Police, Prisons & Fire Services	10.9	5.6%	12.3	5.5%
15	Ministry of Health	23.2	12.0%	24.6	11.1%
16	Ministry of Education, Women's Affairs & Culture	31.5	16.3%	36.5	16.4%
17	Ministry of Training, Employment, Youth & Sports	3.6	1.9%	6.5	2.9%
18	Ministry of Tourism	1.6	0.8%	1.8	0.8%
19	Ministry of Labour, Commerce and Industries	2.8	1.4%	3.0	1.3%
20	Ministry of Agriculture, Food, Forests & Fisheries	10.9	5.6%	5.3	2.4%
21	Ministry of Works	4.3	2.2%	18.9	8.5%
22	Ministry of Transport	3.6	1.9%	9.1	4.1%
23	Ministry of Lands, Survey, Natural Resources	2.9	1.5%	2.0	0.9%
24	Ministry of Environment and Climate Change	0.4	0.2%	2.7	1.2%
<b>Grand Total</b>		<b>193.9</b>	<b>100.0%</b>	<b>222.1</b>	<b>100.0%</b>

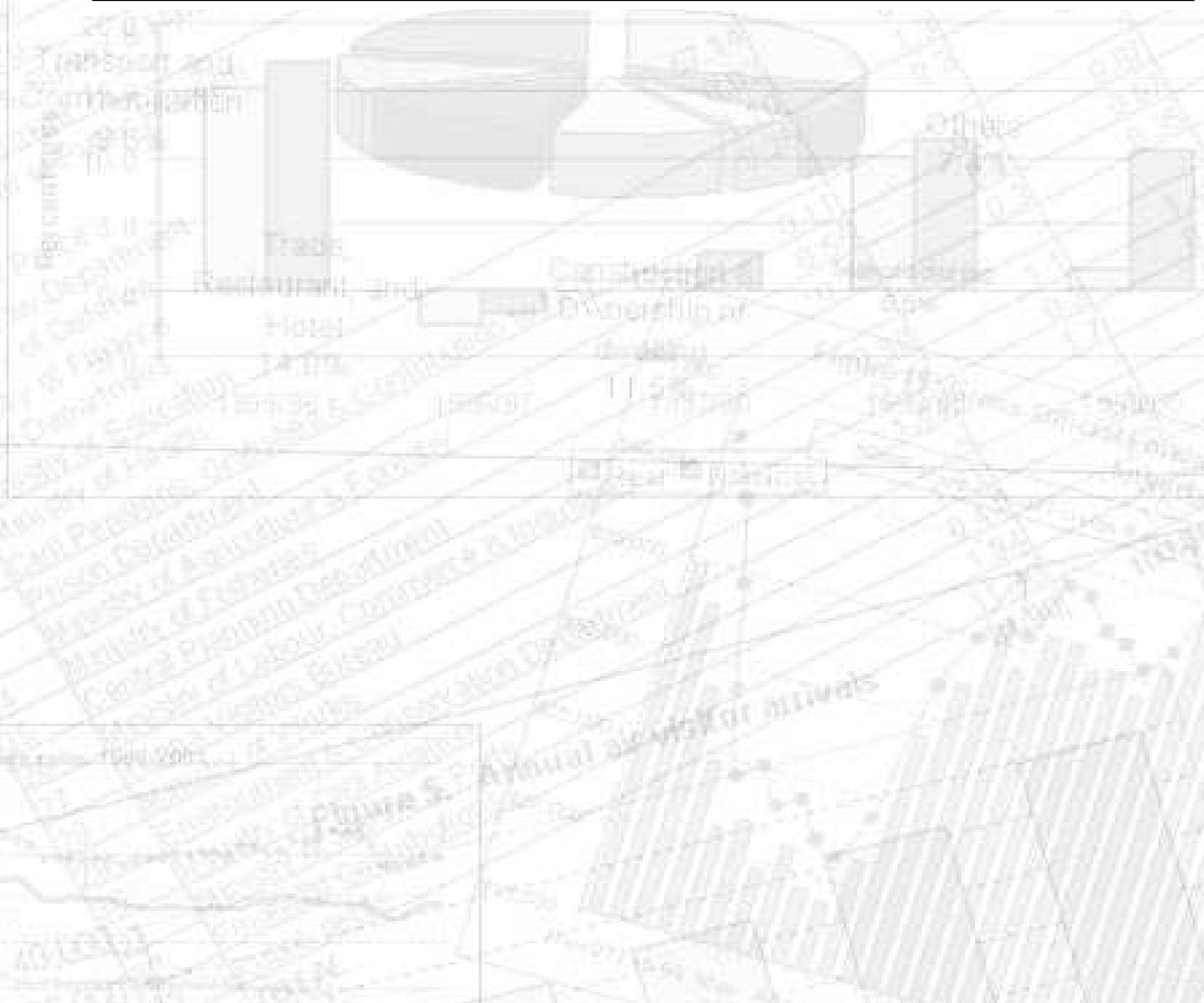
*Source: Ministry of Finance & National Planning*

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 2011**

**Budget Paper No 3:**

*Regional and Rural Development*





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## **1. REGIONAL & RURAL DEVELOPMENT CHALLENGES**

Whilst government remains focus towards its commitment to regional and rural development, it is important to note from the outset that four (4) major events had affected progress towards development in this sector over the course of the 2009/10 budget year. These were:

- (i) The global financial and economic crisis which has affected each and every member of Tonga's population but the hardest hit was the poor and the vulnerable in the rural areas and outer islands. These had been in the forms of reduced remittances and slow-down of tourism receipts particularly for handicrafts as well as tourist resorts.
- (ii) The sinking of the MV Princess Ashika in August 2009 with the lost of 74 lives was a hard hit disaster for the people of Tonga particularly those of the outer islands especially Ha'apai, Vava'u and Tongatapu. The disaster has affected all levels of society including individuals, families, churches, government, and civil organisations. It will take a long time, especially those families that were directly affected, to get over the effects of this huge loss.
- (iii) The tsunami of September 2009 was a major setback for the island of Niuatoputapu which led to the lost of nine (9) lives and the destruction of social infrastructure including private houses and government infrastructure in the island; and
- (iv) Cyclone Renee which hit Tonga in March 2010 which affected the whole of Tonga including the outer islands. Damages were largely in the agricultural sector particularly fruit trees but also root crops to a lesser extent. There were also infrastructure damages in the outer islands.

## **2. REGIONAL & RURAL DEVELOPMENT POLICIES**

Despite the setbacks caused by the crises and disasters as mentioned above, government still remains focused on community development as set out in the National Strategic Planning Framework for the next 5 to 10 years. This is in support of the national vision of creating a society in which all Tongans enjoy higher living standards and a better quality of life. Regional and rural development policies therefore still remain to be:

- facilitating community development by involving district/village communities in meeting their service needs;
- need for targeted regional interventions to promote more balanced growth and social inclusion;
- encouraging economic dynamism throughout Tonga which should improve both the size of the national economy and the relative distribution of regional shares in wealth and employment creation; and
- move towards fundamental change in the governance structures for outer islands by setting up and supporting village districts and councils with the objective to give communities a greater say in local and regional development.

### 3. REGIONAL & RURAL DEVELOPMENT ACHIEVEMENTS

Achievements during the 2009/10 budget year in terms of the policy focus and regional and rural development programs included the following:-

- The progress on political reform where there will be an increase of elected Members of Parliament representing the people to seventeen (17) altogether comprising ten (10) from Tongatapu, three (3) from Vava'u, two (2) from Ha'apai, one (1) from 'Eua, and one (1) from the Niua group. The greater number of politicians to be elected from smaller divisions will allow the voice of each community to be better heard at the Parliamentary level.
- The establishment of Village Community Councils registered under the Incorporated Society in the Ministry of Labour, Commerce & Industries which included village councils in Fanganonu, Ha'alalo, Lapaha, Veitongo, and Nukunuku.
- The establishment of 7 District Centres for District and Town Officers throughout Tongatapu with funds from the 2009/10 local budget. These included centres at Kolomotu'a, Kolofo'ou, Vaini, Lapaha, Tatakamotonga, Nukunuku, and Kolovai. The centres are fully equipped and are currently being used by district and town officers.
- The recent approval by the Commonwealth Secretariat of support towards the establishment of a Town Council for Nuku'alofa.
- The recent recruitment of local consultants to start the work on the formulation of the Ha'apai Master Plan to guide the development for the Ha'apai Group.
- The implementation of the Tonga Community Development Scheme (TCDS) funded by AusAID but managed by Ministry of Finance & National Planning. More than 30 projects were implemented throughout Tongatapu most of which were income generating activities ranging from small scale farming to handicraft making and water projects. A total allocation of approximately \$1.5 million was approved for these projects.
- The implementation of the Grant for Grassroot Projects (GGP) funded by Japan but also managed by the Ministry of Finance & National Planning. A total of 11 projects altogether were implemented most of which were upgrading of water supply systems in Tongatapu, Ha'apai and Vava'u. A total of \$1.5 million were spent on these projects.
- The implementation of the community development initiatives funded by the NZAID Community Development Fund which focussed on training and community awareness programs. A total of \$293,000 were spent on these projects.
- The commencement of a Pacific Adaptation Climate Change (PACC) initiative funded by UNDP/SPREP which focuses on the Hihifo Water Supply System. A total of \$750,000 is allocated for this project and will run into 2010/11.
- The recruitment of a Project Manager for the construction of the Foa Causeway funded by the Federal Republic of Germany.
- The implementation of the immediate relief work at Niuatoputapu following the tsunami that hit the island in September 2009. This was financed from the Niua Development Fund allocated from the local budget as well as assistance from donor communities.

- The establishment of the Project Management Unit staffed by a Project Manager and two supporting staff funded by the World Bank to manage and coordinate the long term reconstruction for Niuaotupapu through the Tsunami Emergency Recovery Management Project (TERMP).
- The financial pledges towards the recovery of Niuaotupapu after the damages that were caused by the tsunami. These include, inter alia, assistance from World Bank, EU, Australia, New Zealand, UNDP, Japan and FAO.
- The continuation of Regional Development Committees to guide and oversee the development of each respective island of Ha'apai, 'Eua, Vava'u, and the Niuaus.

#### **4. REGIONAL AND RURAL DEVELOPMENT PROGRAMS**

Regional and Rural Development Programs for 2010/11 budget period are indicated in Table 1 below which consists of the following:-

**(i) Japan Grant Assistance to Grassroots Project (GGP)**

The GGP focuses on providing assistance to the grassroots level in areas of primary health care, primary education, poverty relief, public welfare, and environment. Current discussions are conducted with the Japanese authorities regarding their wish to broaden the scope of the GGP program to other areas such as sanitation and income generating activities. Over a million Pa'anga worth of projects is implemented every year under the GGP.

**(ii) Community Development Fund (CDF) by NZAID**

As of December 2009, the management of New Zealand's Community Development Fund has been transferred from NZAID to Mainstreaming of Rural Development Innovation (MORDI) in Tonga known as MORDI Tonga Trust. The key objectives of MORDI Tonga is to strengthen the capacity of target communities to plan and manage their development needs; increase employment and sustainable livelihood opportunities, especially youth and women; share learning experiences from best practices and innovations; and establish sustainable processes that enable remote rural communities to link with planning processes. An allocation of T\$479,000 has been allocated from the NZAID bilateral program to MORDI Tonga to fund their activities covering the period 1 December 2009 to 31 December 2010. NZAID has also tentatively allocated a similar amount for the next two years.

**(iii) 10<sup>th</sup> EDF ACP-EU Water Facility**

The principle objective of this Facility is to provide water and basic sanitation to the poor especially those in the rural areas, and to improve water management governance in ACP countries thus leading to improvements in health, education, & social-economic development. An amount of 200 million euro under the 10<sup>th</sup> EDF was approved at the end of 2009 to be allocated to this facility for ACP countries.

The Ministry of Health and the Tonga Water Board are working on a proposal for Tonga to be considered under this facility which should benefit the poor and the vulnerable groups in rural areas and outer islands.

**(iv) UNDP/SPREP Pacific Adaptation Climate Change (PACC) Project**

The PACC is an UNDP/SPREP initiative and it is focussed on the Hihifo Water Supply System. The project is in two phases. One is a survey or a vulnerability assessment of the underground water situation in the Hihifo district (Fo'ui to Ha'atafu), and the second phase is

designing of appropriate projects to be implemented in this area. The Ministry of Environment and Climate Change is the focal point for this initiative and an amount of \$750,000 has been allocated to the PACC project. This project has commenced but will run into the 2010/11 period.

**(v) Assistance from Government of Germany**

Funds have been identified as a result of an agreement by the Government of Germany to cancel the remaining loan repayments for the Olovaha and the Fuakavenga and for these funds to be allocated to the upgrading of the Foa Causeway in Ha'apai. A total of \$3.2 million has been allocated in the 2010/11 local budget for this purpose.

**(vi) Assistance towards the Tsunami Emergency Recovery Management Project (TERMP)**

Various donors have pledged assistance towards the TERMP following the tsunami that hit Niuaotupapu (NTT) last year. These include the World Bank with \$7.5 million for private houses, EU with \$2.4 million for health facilities, NZAID with \$1.7 for classrooms, Japan with assistance towards water supply systems, and UNDP with \$600,000 towards livelihood activities and disaster management and planning. Most of these funds will be received during the 2010/11 fiscal year. Annex A provides more details.

**(vii) Tonga Community Development Scheme by Australia**

It should be noted in this section that the new Partnership Agreement with Australia focuses on the public sector; health (NCDs); technical and vocational education and training (TVET); and infrastructure. As such, the Tonga Community Development Scheme is being phased out with remaining funds of approximately \$500,000 to be confirmed by that will be allocated to water tanks for Ha'apai in 2010/11.

**(viii) Government Local Budget**

Government will also continue to commit some funds from the 2010/11 local budget for community development but this will depend on the fiscal situation.

Table 1 below indicates a total of approximately \$21.5 million of donor funds that will flow into rural and regional development during the 2010/11 budget period.

**Table 1: Estimated Donor Funds for Regional and Rural Development: 2006/07 - 2010/11**

Donor/financial year	Total Grant Allocations				
	2006/07	2007/08	2008/09	2009/2010	2010/11
TCDS	1,717,439	2,236,610	1,726,856	On- hold	500,000
GGP	1,397,038	1,883,862	1,538,023	1,622,000	1,500,000
NZAID Community Funds				293,230	479,000
PACC (UNDP/SPREP)				50,000	700,000
German Funds					3,200,000
TERMP- NTT					16,193,000
10 <sup>th</sup> EDF Water Facility					Yet to be determined
<b>TOTAL</b>	<b>\$3,114,477</b>	<b>\$4,120,472</b>	<b>\$3,264,880</b>	<b>\$1,965,230</b>	<b>\$21,572,000</b>

## 5. TONGATAPU

Table 2 indicates the grant allocation to community groups in Tongatapu for 2006/07 to 2009/10. There was a decline of 31 per cent in grant allocation in 2007/08 whereas there was an increase of 34 percent in 2008/09. The decline in 2007/08 was due to fewer water supply upgrade projects and a fall in the income generation projects for that cycle. However, there was a significant increase of 82 percent in water projects in 2008/09 and Income Generation Projects also rose during the same period to triple its amount in 2007/08.

The decline in the total allocation from \$2.4 million in 2008/09 to \$649,000 indicates the fact that the TCDS is phasing out. A total of \$1.5 million worth of TCDS projects were implemented throughout Tongatapu in 2008/09 with some still continuing into 2009/10. These projects consist of 20 water projects, 8 income generation projects (farming and handicrafts), and 2 training projects.

**Table 2: Grant Allocation to Tongatapu by Project Types for 2006/07 - 2009/10**

Project Types	Grant Allocation			
	2006/07	2007/08	2008/09	2009/2010
Town Water System/Individual Water tank/Sanitation	1,640,754	818,697	1,490,070	318,000
Income Generation	479,816	265,746	707,147	
Infrastructure	107,919	178,063	70,000	
Education		378,359	81,405	331,000
Training	68,526	152,669		
Fire Station	329,984			
Vocational Training			55,908	
Health				
<b>TOTAL</b>	<b>\$2,626,999</b>	<b>\$1,793,534</b>	<b>\$2,404,531</b>	<b>\$649,000</b>

New Zealand, through its Community Development Fund (CDF) for 2008/09, has provided a total of \$293,230 for community development projects in Tongatapu which mainly focused on training programs that are relevant to the community at large. Most of these were implemented during the 2009/10 budget period. These included: recycling cages for schools and communities; community awareness and education on cervical cancer for all the island groups of Tonga; support for training and operation of Disabled Centre; training and support for early childhood education for preschools in all island groups of Tonga; training and operational support for Alcohol and Drug Awareness Centre; and recruit and training of Tonga National Volunteers for 2009 from all island groups of Tonga. Most of these activities have been completed with objectives being achieved while some are continuing into their second phases.

## 6. HA'APAI

The Ha'apai Development Committee has been tasked with steering the development of the Ha'apai group and has directed that a Ha'apai Master Plan should be prepared in consultation with the residents of the island group to guide the efforts towards the development of the island. The status of this work is that two consultants are now being recruited to undertake this task by analysing the socio-economic situation of the island group and determine a clear pathway for development. It is expected that the Master Plan will be completed in August this year.

The Ha'apai Master Plan is a timely exercise, particularly with the increasing challenges that are faced by the island of Ha'apai threatening the livelihood of its people. These include:-

- very low economic activity with weaving and fishing as the main livelihood;
- development is very slow given the smallness and the spread of the islands over a vast area of ocean;
- A growing number of young people are finding it difficult to find employment;
- Due to global climate change and the rising sea level phenomenon, the island group has experienced erosion in the island of Lifuka and the Foa causeway has also been affected by the tides and waves;
- There is high saline level of water sources due to the low-lying nature of the islands.

Despite the challenges, the Ha'apai Group has potential to be developed as a tourist attraction with its untouched natural beauty, its fantastic beaches, and its marine organisms which contribute to its uniqueness. Transport and marketing of handicrafts, mats and tapa is another area that needs to be looked into to further enhance income generation, and planting of trees and mangroves should be encouraged all throughout the island group to help combat the issue of climate change. The outcome of the Master Plan should further identify other potential areas for development for Ha'apai.

The following development took place during the 2009/10 budget period:-

- The establishment of a Project Manager for the upgrading of the Foa Causeway is currently being processed. The project should result in an improved structure of the causeway which leads to secure transport link between the island of Foa and Lifuka and thus improve accessibility to education, health, market, and employment in the two islands. The Project Manager's term of appointment will be for 18 months by which time the project should be completed. The project is funded by the Government of the Federal Republic of Germany with an allocation of \$3.2 million for 2010/11.
- The implementation of water supply upgrading projects in the islands of Ha'afeva, Nomuka and Lofanga funded from the Japan's GGP Program with a total allocation of \$459,275. Minor repair works is being done on the Lofanga water supply.
- The recent award and signing of a new contract for the construction of two (2) new classrooms, four (4) toilet units, and fifteen (15) sets of desks for the Government Primary School of Koulo. The project is again funded by Japan's GGP Program with a total allocation of \$169,000. The project should be completed during the 2010/11 period.
- The recent award and signing of a new contract for the upgrading of water supply for the island of Kotu with a total allocation of \$164,000, again funded by Japan's GGP program. Implementation will mostly fall under the 2010/11 period.
- The ongoing implementation of some of the TCDS outstanding projects in Ha'apai including a health clinic at 'Uiha, health staff quarters at 'Uiha and Ha'ano, purchasing of fishing nets for Felemea, procurement of library books for GPS Pangai, and the construction of a kindergarten in 'Uiha. The work on the staff quarters at 'Uiha and Ha'ano

was stalled due to the fact that the firm that was contracted to do this work has been liquidated. Another contractor is being engaged to complete these quarters.

Table 3 indicates the grant allocations towards the Ha'apai group. Further allocations for GGP Projects for 2010/11 are not confirmed yet for the Ha'apai group while AusAID has indicated that they would confirm their remaining TCDS funds of approximately \$500,000 to be allocated to water tanks for Ha'apai.

**Table 3: Grant Allocation to Ha'apai by Project Types: 2006/07 – 2010/11**

Project Types	Grant Allocations				
	2006/07	2007/08	2008/09	2009/10	2010/11
Infrastructure (Foa Causeway)					3,200,000
Town Water System / Individual Water tank / Sanitation	238,802	330,550	459,275	164,000	
Health, water & sanitation	162,000	151,810			500,000
Income Generating	86,657	187,993			
Education		344,501		169,000	
Vocational Trainings	44,576				
Environment	7,024				
<b>TOTAL</b>	<b>\$539,059</b>	<b>\$1,014,854</b>	<b>\$459,275</b>	<b>\$333,000</b>	<b>3,700,000</b>

## 7. VAVA'U

Until the last 2 years, the Vava'u Development Committee has been in the forefront in leading the development efforts to the Island Group of Vava'u with the European Union as the main donor for the island group during the 9<sup>th</sup> EDF. These have included the construction of road infrastructure with the most recent assistance towards the Vava'u Social Sector Program which was completed in 2008 with a total investment of T\$9.2 million. The EDF 10<sup>th</sup> is now focussed on the renewable energy sector and is considered nationwide and should benefit the islands of Vava'u in one way or another.

**Table 4: Grant Allocation to Vava'u by Project Types: 2006/07 to 2009/10**

Project Types	Grant Allocations			
	2006/07	2007/08	2008/09	2009/10
Town Water System/Individual Water tank/Sanitation	278,403	928,100	241,073	465,000
Infrastructure		54,000		
<b>TOTAL</b>	<b>\$278,403</b>	<b>\$982,100</b>	<b>\$241,073</b>	<b>\$465,000</b>

Table 4 illustrates other grant allocations to the Vava'u group from 2006/07 to 2009/10. The decline of 75 percent in 2008/09 was mainly due to the reason that AusAid did not fund any projects in the outer islands during this period. That is, the 2008/09 assistance was all provided by Japan's GGP comprising of water systems upgrading projects in the villages of Mangia and 'Utui which were completed in December 2009. For 2009/10, three (3) upgrading water supply projects have been recently signed to be implemented in Vaimalo, Mataika and Ovaka with a total allocation of \$465,000.

## 8. 'EUA

The 'Eua Development Committee is responsible for overseeing the development of the island of 'Eua under the umbrella of the 'Eua Strategic Development Plan: 2007 – 2015 which prescribes the following vision: “The people of 'Eua with ownership of their future, will live together sustainably and safely on the healthiest and most beautiful island in the Kingdom of Tonga with the highest standard of living, caring for the environment, honouring Tongan culture, religious values and international obligations.”

To support the vision for 'Eua, eight development goals have been identified under the following key areas: Agriculture, Forestry and Fisheries; Tourism; Environment; Connections; Community Development; and Private Sector. Proposed activities have been mainstreamed into the work plans of line ministries.

One of the most potential areas for development in 'Eua is tourism. The island is home to the 'Eua National Park – 450 hectares of pristine tropical rainforest rich in native bird life. Between July and October, it is also a good location from which to spot whales travelling close to shore. This should result in significant tourism to the island and considerable potential for development.

As such, 'Eua's main donor, New Zealand, has agreed to further upgrade the Kaufana Airport as all facets of the it are badly deteriorated and in need of repair and/or renewal. The overall goal of this project is to enable both increased internal mobility and encourage tourism development in 'Eua. A concept report on the proposed work has been prepared by Kramer Tonga Ltd for the government, and a tender has been put out for a Project Manager who will then finalise the design and run the tender for the construction phase. The project is on track for completion before the next cyclone season. An amount of NZ\$2 million has been allocated by NZAID for this work which most of it should be utilised during the 2010/11 period.

Under Japan's Grassroot assistance, a contract has been recently signed with one of the local contractors to construct a new children's ward and clinic for the Niu'eiki Hospital in 'Eua. The total grant is \$175,000 and the project should be completed before the end of the year.

The 'Eua Transportation Council is also preparing a feasibility study for the purchase of a new ferry for the island to assist with the sea transport to and from Tongatapu.

## 9. NIUA

Similar to Ha'apai, the main livelihood of the people in the Niua is weaving especially of fine mats by women and fishing by local men. Apart from that, there is hardly any opportunity for earning any cash income. The remoteness of the islands had made it more difficult with government having to subsidise the boats that visit the group usually on an irregular basis. The flight to the islands is once a week though there are times there are no flights due to technical problems.

The social and economic situation of the island group was exacerbated by the tsunami that hit Niuaotupapu in September 2009. The disaster devastated the island and destroyed most of the infrastructure including government offices, the hospital, and 60% of private houses. Nine (9) lives were also claimed by the tsunami with four (4) people seriously injured.

Since the disaster, a lot of attention has been directed to Niuatoputapu both from Government and the donor communities in terms of immediate relief and long term recovery. The Tonga Defence Service has been in the forefront in undertaking immediate relief work such as clearance of debris; road works; building and maintenance works in preparation for the cyclone season; drainage works; etc. The immediate relief work was mainly funded from the Niua Development Fund (\$1 million) from the local budget and Australia funded the heavy equipment.

In terms of the long term reconstruction, a Project Management Unit (PMU) has been established in February this year, staffed by a Project Manager and two supporting staff funded by the World Bank. The PMU is established to manage and coordinate the long term recovery for Niuatoputapu through the Tsunami Emergency Recovery Management Project (TERMP). A Project Steering Committee has also been established to provide guidance to the project.

**Annex A** indicates the long term recovery projects that will be covered by the TERMP and **Annex B** outlines most of the major indicative assistance for the reconstruction of Niuatoputapu which is approximately \$16.1 million. The World Bank has agreed to fund the construction of private houses; the EU has approved funding of the hospital facilities; NZAID has indicated that they would assist with classroom reconstruction; Japan with the water supply; and UNDP with the early warning system. Recent indications had also been made from MAFFF that the proposal to FAO for food, agricultural and fisheries supplies has been approved. Assistance is yet to be confirmed for the harbour channels, government buildings, and solar electrification, albeit proposals are being prepared.

The main issue that needs to be resolved quickly is the finalisation of the relocation to higher grounds which hinges on the land issue. It is expected that this will be finalised by the end of June, while at the same time there is on-going work on the construction designs, procurement, etc. Once the land issue is sorted out, the construction can actually start during the second half of the year.

It is critical to monitor closely the recovery work at Niuatoputapu to ensure that the construction works are resilient to future disasters and to ensure that normalcy is brought back to the lives of the people of the island as well as recreate a platform for them to recover their standard of living and to build upon future development.

## **10. CONCLUSION**

Government still remains focussed to achieve inclusive development through community development as stated in its National Strategic Planning Framework for the next five (5) to ten (10) years. Despite the great challenges that were faced by this sector during the 2009/10 financial year, a number of initiatives were progressed during the same period as outlined above. For the 2010/11 financial year, a total amount of approximately \$21.5 million is expected from donor funds to flow into regional and rural development. Close monitoring of these funds will be made to ensure that objectives, outputs and outcomes are achieved and this contribute to the achievement of a higher living standard and a better quality of life for all Tongans.

## Long Term Recovery Project as at 16 December 2009

Project Title	Brief Description	Responsible Ministry	Estimated Cost (TOP)	Status of Assistance	Action Required
1. Reconstruction residential houses	Reconstruction of 85 houses using approved building design of MoW to build a building which includes a common bedroom, living room, toilet and shower.	MOW	7.5 million	World Bank has approved US\$4.0m (T\$7.5m) and is flexible in using the same design as for the cyclone resistant houses under Waka for NTT	<ul style="list-style-type: none"> <li>• Firm decision/ agreement on relocation of beneficiaries to higher grounds</li> <li>• List of beneficiaries to be finalized</li> <li>• Design of housing unit to be firmly approved so bidding and works of nature can proceed</li> <li>• Finalize land survey and negotiation for new settlement location.</li> </ul>
2. Hospital Reconstruction	New health center built at higher elevation to be run by (1) Health officer, (2) nurses & (2) Dental Therapist, catering for common health needs of 900 people supported by a good referral system to Vava'u District Hospital	MOW & MOH	2,493,660	EU has confirmed its willingness to use funds from its B Envelope for the construction of a new hospital, staff quarter and equipments	<ul style="list-style-type: none"> <li>• Project land to be secured</li> <li>• Building designs and other paper work to be completed so work will commence once land issue is resolved.</li> </ul>
3. School Reconstruction	Reconstruction of new Primary School of Hihifo at a new higher elevation. Building of 7 classroom plus sanitary requirements.	MOW & MEWAC	490,000	NZAID has indicated its willingness to fund the school reconstruction as well as other assistance. NZAid has pledged \$1 million NZ dollar for this assistance	<ul style="list-style-type: none"> <li>• Firm decision by MEWAC on project land to be made</li> <li>• Building design also need to be finalized to be ready to commence once land issue is resolved.</li> </ul>
4. Water Supply	Replacement & installation of new pumping systems &	MOH & MOFNP	200,000	Japan has pledged \$464,000 to fund	<ul style="list-style-type: none"> <li>• Japanese Embassy is awaiting decision on the relocation to</li> </ul>

	recruited network for 3 villages of Hihifo, Vaipoa & Falehau.			this project	higher grounds
5. Harbour Channels	Engineering works on deepening & installation of navigational equipment at the harbors to NTT & Tafahi	MOT	230,000	An aid donor is yet to be identified.	<ul style="list-style-type: none"> <li>• Firm approach to a potential donor to be taken ASAP</li> </ul>
6. Early Warning System	Pilot Project for the whole of Tonga. Install 2 or 3 sirens, to be controlled and signal activated from Met Office at Fua'amotu using VHF signals	MET Office (MOT)	750,000	UNDP has agreed to provide \$50,000 USD under an agreement already signed with Government & India has been sought to cover the remaining cost.	<ul style="list-style-type: none"> <li>• Director Meteorology has completed project proposals including costing. Awaiting reply from Indian High Commission.</li> </ul>
7. Long Term Government Buildings	Replacement of prefab Govt Center & Staff Quarter with permanent materials by 2012	MOW	2,000,000	No donor funding yet identified	<ul style="list-style-type: none"> <li>• Firm decision by Government on Ministries/Departments to use this building</li> <li>• Once a decision on this is made a funding source needs to be identified</li> </ul>
8. Solar Electrification	Community solar electrification program for each of the 4 villages of Hihifo, Vaipoa, Falehau & Tafahi	MLSNR	2,000,000	To be requested from PIF program financed by Japan under PALM as well as seeking funds from the Prime Minister's Energy Road Map.	<ul style="list-style-type: none"> <li>• Finalize Project Proposals</li> <li>• Formal request to be submitted to PIF</li> </ul>

<b>Annex B: Donor Assistance to Niuatoputapu Tsunami Long Term Recovery Project</b>					
<b>Indicative available funding as of 28th May 2010</b>					
<b>Donor</b>	<b>Amount</b>	<b>Amount (TOP)</b>	<b>Possible Rehabilitation activity</b>	<b>Responsible Ministry</b>	<b>Comment</b>
UNDP	300,000 USD	600,000	Coordination of recovery program, Fishing boats, Rebuild women's huts, Early warning system	MoFNP, MoW	Project is under implementation
World Bank	4 million USD	6,800,000	Housing construction and settlement relocation	Ministry of Works	pending on settlement of land issues for relocation whilst at the same time designing and bidding document are being developed.
EU	0.885m Euro	2,493,660	Reconstruction of health sector - hospital, staff quarters, and equipment	Ministry of Works & Ministry of Health	pending on settlement of land issues for relocation whilst at the same time designing and bidding document are being developed.
NZAid	1.5m NZD	1,716,247	Class rooms and transitional shelters	Ministry of Education and Ministry of Works	1 million NZD remaining, the 0.5 million have been re-allocated to assist Tonga Red Cross with transitional shelters
Japan		2,464,000	Water supply system for all three villages. Solar Electrification of all villages	Ministry of Health & MoFNP, MLSNR	Water supply is pending on settlement of land issues for relocation. Project Proposal for solar is still under development to be considered by PIFS who is managing Japan's funds for renewable energy.
FAO	275,000 USD	467,500	Food supply, fishing boat, agricultural supplies	MAFFF	Approval recently indicated by MAFFF but exact details of components and funds will be discussed with FAO shortly.
Indian High Commission Fund	250,000 USD	500,000	Early Warning System	MoT & NEMO Office	Government of India has funds available for community projects, so a proposal was sent to them to assist UNDP in funding an early warning system for the whole of Tonga and is still awaiting their reply.
France	83,000 Euros	233,868.70	Procurement of heavy equipments for civil work	Chief Secretary and Secretary to Cabinet	Still awaiting reply from France Embassy
NTT Tsunami Relief Fund		917,772	Not yet identified what to be used for	MOFNP	
<b>TOTAL</b>		<b>\$ 16,193,047.67</b>			

Figure 2. Sectoral Contribution to Gross Domestic Product, at constant prices for the year 1990=100

**Budget Statement for Year Ending 30<sup>th</sup> June 2011.**  
**Annex C**



Figure 3. Exchange rate, 1990=100





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**Table 1: Tonga Selected Indicators, 2004/05 – 2008/09**

	2004/05	2005/06	2006/07	2007/08	2008/09
<b>Output and prices</b>					
Real GDP	-1	0.5	-1.2	2.0	-0.2
Consumer prices (period average)	10.0	7.3	5.1	9.6	5.6
<b>Central government finance (% of GDP)</b>					
Revenue	26.9	31.6	30.3	26.9	23.9
Grants	1.2	2.1	4.6	1.4	7.0
Current expenditure	24.1	35.5	32.3	26.0	25.8
Development expenditure	2.4	3.3	1.1	0.5	3.3
Overall balance	2.3	-4.8	1.6	1.8	1.3
External loans (net)	0.5	2.1	-1.0	-0.8	-0.7
Domestic financing	-0.3	-0.3	-0.3	-0.8	0.3
<b>Money and credit (end-period)</b>					
Broad money (M2) % growth	12.1	14.4	14.0	8.4	-1.9
Domestic credit	25.6	29.0	14.8	15.2	-7.1
Private sector credit 3/ % growth	42.4	23.2	11.4	19.7	-2.9
<b>Balance of payments</b>					
Exports, f.o.b.	27.2	24.2	26.3	23.5	11.4
Of which: Squash	16.2	8.3	5.6	2.7	1.9
Imports, f.o.b.	-204.2	-245.4	-212.9	-262.4	-271.4
Services (net)	-19.3	-15.7	-35.9	-6.2	-5.4
Income (net)	3.1	5.7	7.1	6.4	57.5
Services and Income (net)	-16.2	-10.0	-28.8	0.2	52.1
Transfers (net)	178.1	178.5	168.6	180.2	158.0
Of which: Private transfer receipts	178.1	178.5	168.7	179.7	156.7
Current account balance	-11.2	-45.9	-51	-58.5	-49.8
(In percent of GDP)	-2.6	-9.8	-10.4	-9.6	-7.7
Overall balance	-7.6	1.1	8.4	-2.5	47.1
<b>Gross international reserves (end-period)</b>					
In millions of pa'anga	82.1	83.2	91.6	89.1	136.3
In months of imports cover	4.4	4.3	4.4	3.5	5.3
<b>External debt</b>					
External debt/GDP	37.3	35.3%	33.4%	26.9%	31.3%
<b>Exchange rate (period average)</b>					
T\$ per US\$ (end-period)	1.93	2.06	1.9	1.9	2.01
Real effective exchange rate (1990=100)	100.8	104.4	102	113.8	114.5
Nominal effective exchange rate (1991=100)	62.7	62.7	59.8	58.6	59.5

1/ Fiscal year begins in July.

2/ **Sources** for Output and Prices : Statistics Dept

2/ **Sources** for Government finance and External Debt : MOFNP

4/ **Sources** for Money and Credit & BOP & Foreign Reserves & Exchange Rate: NRBT

**Table 2: Tonga Real Sector Developments, 2004/05 – 2008/09**

	2004/05	2005/06(e)	2006/07(p)	2007/08(p)	2008/09(p)
<b>Nominal GDP</b>					
In pa'anga mn.	431.3	468.8	490.3	608.8	648.6
In US\$ mn.	224.4	227.2	251.6	312.4	307.0
GDP per capita (US\$)	2227.0	2246.0	2476.6	3075.2	2984.6
Population	100763.9	101169.1	101576.0	101576.0	102868.7
<b>GDP (2000/01 prices)</b>					
	-0.4	0.8	-3.2	1.2	-0.4
of which:					
Agriculture, forestry, and fisheries	-3.0	-0.9	-0.9	-3.2	-1.3
Manufacturing	-7.7	0.8	-0.5	1.0	6.5
Construction	0.4	-2.6	-6.3	6.9	1.3
Commerce, restaurants, and hotels	-0.8	1.8	5.5	-0.1	4.6
Transportation and communications	-12.2	2.6	2.0	6.0	-7.0
Finance and real estate	2.6	2.9	-4.7	5.0	-6.8
Government services	1.1	-0.3	-17.3	1.0	1.5
<b>GDP (by sector; current prices)</b>					
of which:					
Agriculture, forestry, and fisheries	26.3	25.2	25.4	26.2	17.1
Manufacturing	4.7	4.2	3.9	3.7	7.0
Construction	9.7	9.1	8.9	9.0	5.9
Commerce, restaurants, and hotels	15.1	13.4	13.3	14.2	12.7
Transportation and communications	8.7	8.7	8.8	8.8	4.0
Finance and real estate	11.9	12.1	11.5	11.9	9.8
Government services	13.8	17.9	18.8	16.5	12.2
<b>Consumer prices (period average)</b>					
All items	10.0	7.3	5.1	9.6	5.5
Imported component	8.8	5.3	4.0	10.1	5.5
Domestic component	12.6	11.3	7.0	7.8	5.5

Source: Data provided by the Tongan authorities; Fund staff estimates and 2008/09 figures from SD

**Table 3: Annual CPI for December Quarter 2004 - 2009**

(Base Year: November 2002= 100.00)

	All Items	Food	Housing	H/hold Goods	Clothing and Footwear	Trans- portation	Tobacco and Alcohol	Misc. Goods & Services	Imported Items	Local Items
Weight	100.0	44.4	5.3	12.0	3.4	14.2	12.3	8.4	66.2	33.8
2004	126.7	121.4	117.5	126.9	117.1	129.4	156.8	115.9	128.2	123.9
2005	136.0	127.2	133.1	137.8	125.0	154.9	156.0	124.3	136.3	135.3
2006	142.6	132.9	141.6	150.9	133.6	162.2	158.6	129.2	140.8	146.0
2007	152.3	143.4	143.9	156.0	139.3	179.7	168.4	134.5	152.3	152.1
2008	162.0	147.3	154.7	172.2	150.1	198.3	182.0	144.3	161.4	163.3
2009	163.8	159.5	152.4	158.9	154.8	183.2	179.5	149.3	160.5	170.3

Source: Statistics Department

**Table 4: Annual (%) Changes in the CPI for December Quarter, 2004 - 2009**

	All Items	Food	Housing	Household Goods	Clothing and Footwear	Transporta tion	Tobacco and Alcohol	Misc. Goods & Services	Imported Items	Local Items
<i>Weight</i>	<i>100</i>	<i>43.2</i>	<i>6.4</i>	<i>14.2</i>	<i>4.2</i>	<i>15.5</i>	<i>5.4</i>	<i>11.2</i>	<i>54.2</i>	<i>45.8</i>
2004	11.6	9.5	13.5	14.8	17.8	18.6	7.5	11.6	9.4	16.5
2005	7.3	4.8	13.3	8.6	6.7	19.7	-0.5	7.2	6.3	9.2
2006	4.9	4.5	6.4	9.5	6.9	4.7	1.7	3.9	3.3	7.9
2007	6.8	7.9	1.6	3.4	4.3	10.8	6.2	4.1	8.2	4.2
2008	6.4	2.7	7.5	10.4	7.8	10.4	8.1	7.3	6.0	7.4
2009	1.1	8.3	-1.5	-7.7	3.1	-7.6	-1.4	3.5	-0.6	4.3

Source: Statistics Department

**Table 5: Tonga Domestic Exports by HS Section, 2004/05 - 2008/09**

HS Code SECTION ITEM	2004/05		2005/06		2006/07		2007/08/p		2008/09/p	
	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%
Live Animals;Animal Products	6,303	23.2	5,340	28.9	7,357	34.7	5900.0	34.1	4147.4	28.0
Vegetable Products	17,817	65.7	12	0.1	11,778	55.61	7321	42.3	7087.1	47.8
Products of the Chemical Or Allied	268	1.0	344	1.9	580	2.74	1489	8.6	907.7	6.1
Wood and Articles of Wood;	2,073	7.6	507	2.7	488	2.30	323	1.9	601.6	4.1
Miscellaneous Manufactured Articles	7	0.0	0	0.0	6	0.03	23	0.1	5.7	0.0
Works of Art, Collectors Pieces and Antiques	52	0.2	20	0.1	33	0.15	72	0.4	44.6	0.3
Other Exports	603	2.2	12,271	66.4	938	4.43	2160	12.5	2,032	13.7
<b>TOTAL</b>	<b>27,123</b>	<b>100.0</b>	<b>18,494</b>	<b>100.0</b>	<b>21,180</b>	<b>100</b>	<b>17,288</b>	<b>100.0</b>	<b>14,827</b>	<b>100.0</b>

Source: Statistics Department

p: provisional numbers

**Table 6: Exports by Institutional Sector, 2004/05 – 2008/09**

INSTITUTIONAL SECTOR	2004/05		2005/06		2006/07		2007/08/p		2008/09/p	
	(T\$'000)	%								
Private Sector	27,123	100	18,494	100	21,180	100	17,288	100	14,827	100
Government Sector	0	0	0	0	0	0	0	0	0	0
Quasi-Government Sector	0	0	0	0	0	0	0	0	0	0
<b>TOTAL</b>	<b>27,123</b>	<b>100</b>	<b>18,494</b>	<b>100</b>	<b>21,180</b>	<b>100</b>	<b>17,288</b>	<b>100</b>	<b>14,827</b>	<b>100</b>

Source: Statistics Department

p: provisional numbers

**Table 7: Exports by Country of Destination, 2004/05 – 2008/09**

COUNTRY	2004/05		2005/06		2006/07		2007/08/p		2008/09p	
	(T\$'000)	%								
New Zealand	6,203	22.9	1,813	9.8	4,244	20.0	5,278	30.5	5,283	35.6
Australia	816	3.0	404	2.2	1,303	6.2	817	4.7	1,743	11.8
Mainland USA	3,269	12.1	2,018	10.9	2,581	12.2	2,939	17.0	2,636	17.8
Hawaii	2,069	7.6	2,991	16.2	2,140	10.1	1,531	8.9	227	1.5
Japan	12,151	44.8	10,143	54.8	7,550	35.6	2,244	13.0	1,967	13.3
Singapore	2	0.0	16	0.1	48	0.2	104	0.6	17	0.1
American Samoa	655	2.4	285	1.5	443	2.1	635	3.7	428	2.9
Hong Kong	407	1.5	4	0.0	40	0.2	171	1.0	551	3.7
France	1	0.0	-	0.0	0	0.0	0	0.0	0	0.0
All other Countries	1,551	5.7	820	4.4	2,831	13.4	3,569	20.6	1,975	13.3
<b>TOTAL</b>	<b>27,123</b>	<b>100.0</b>	<b>18,494</b>	<b>100.0</b>	<b>21,180</b>	<b>100.0</b>	<b>17,288</b>	<b>100.0</b>	<b>14,827</b>	<b>100.0</b>

Source: Statistics Department

p: provisional numbers

**Table 8: Imports by Main HS Section, 2004/05 – 2008/09**

**Table 8: Imports by Main HS Section 2004/05 - 2008/09**

HS Code SECTION ITEM	2004/05		2005/06		2006/07		2007/08/p		2008/09/p	
	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%
1.Live Animals;Animal Products	2,452	1.2	25,698	11.0	30,162	12.0	30,742	10.0	36,426	11.8
2.Vegetable Products	7,362	3.6	7,302	3.1	8,244	3.3	9,610	3.1	10,695	3.5
3. Prepared Foodstuff; Beverages & Tobacco	28,538	14.1	31,719	13.6	37,228	14.8	46,221	15.1	44,154	14.3
4. Products of the Chemical or Allied	10,935	5.4	8,430	3.6	9,268	3.7	14,464	4.7	11,699	3.8
5. Wood and Articles of Wood	8,536	4.2	9,424	4.0	8,096	3.2	11,065	3.6	7,269	2.3
6. Machinery and Mechanical Appliance	28,685	14.2	19,051	8.2	25,380	10.1	38,901	12.7	37,671	12.2
7. Miscellaneous Manufactured Articles	6,457	3.2	4,964	2.1	6,175	2.5	6,479	2.1	4,899	1.6
8. Vehicle, Aircraft, Vessel & Associated Transport Equipment	12,986	6.4	9,672	4.2	10,341	4.1	17,374	5.7	17,615	5.7
9. Works of Art, Collectors Pieces	1,422	0.7	19,752	8.5	12,281	4.9	13,765	4.5	14,899	4.8
10. Other Imports	95,156	47.0	96,844	41.6	104,418	41.5	118,392	38.6	124,017	40.1
<b>TOTAL</b>	<b>202,528</b>	<b>100.0</b>	<b>232,856</b>	<b>100.0</b>	<b>251,596</b>	<b>100.0</b>	<b>307,013</b>	<b>100.0</b>	<b>309,344</b>	<b>100.0</b>

Source: Statistics Department

p: provisional numbers

**Table 9: Imports by Institutional Sector, 2004/05 – 2008/09**

INSTITUTIONAL SECTOR	2004/05		2005/06 /p		2006/07		2007/08/p		2008/09/p	
	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%
Private Sector	204,436	91.0	210,386	90.4	231,272	91.9	291,762	95.0	294,348	95.2
Government Sector	15,070	6.7	17,437	7.5	11,162	4.4	12,457	4.1	11114.1	3.6
Quasi-Government Sector	5,087	2.3	5,033	2.2	9,161	3.6	2,794	0.9	3882.1	1.3
<b>TOTAL</b>	<b>224,593</b>	<b>100</b>	<b>232,856</b>	<b>100</b>	<b>251,595</b>	<b>100.0</b>	<b>307,013</b>	<b>100.0</b>	<b>309,344</b>	<b>100.0</b>

Source: Statistics Department

p: provisional numbers

**Table 10: Imports by Country of Origin, 2004/05 – 2008/09**

COUNTRY	2004/05		2005/06		2006/07		2007/08 /p		2008/09 /p	
	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%
New Zealand	85,030	37.9	81,603	35.0	84,365	33.5	100,123	32.6	81,870	26.5
Australia	39,948	17.8	24,962	10.7	34,666	13.8	34,899	11.4	33,349	10.8
USA	19,216	8.6	21,289	9.1	25,795	10.3	26,348	8.6	35,884	11.6
United Kingdom	410	0.2	551	0.2	276	0.1	391	0.1	714	0.2
Fiji	39,157	17.4	62,780	27.0	68,710	27.3	32,568	10.6	41,411	13.4
Japan	6,641	3.0	8,338	3.6	5,845	2.3	8,354	2.7	11,375	3.7
Singapore	4,715	2.1	6,292	2.7	5,883	2.3	63,666	20.7	62,679	20.3
Others	29,475	13.1	27,041	11.6	26,056	10.4	40,664	13.2	42,061	13.6
<b>TOTAL</b>	<b>224,593</b>	<b>100.0</b>	<b>232,856</b>	<b>100.0</b>	<b>251,596</b>	<b>100.0</b>	<b>307,013</b>	<b>100</b>	<b>309,344</b>	<b>100.0</b>

Source: Statistics Department

p: provisional numbers

**Table 11: Tonga Balance of Payments, 2004/05 – 2008/09**  
(In millions of pa'anga, unless otherwise indicated)

	2004/05	2005/06	2006/07	2007/08	2008/09 /p
Balance of Trade	-173.1	-214.4	-190.8	-268.3	-275.3
Exports, f.o.b.	31.1	31.0	26.7	23.5	16.2
Of which: Squash exports	16.2	8.3	5.6	0	
Imports, f.o.b.	-204.2	-245.4	-217.5	-291.8	-291.5
Services (net)	-19.3	-15.7	-35.9	-24.7	-28.5
Receipts	45.9	50.9	38.8	66.1	76.4
Of which: Tourism receipts	25.6	27.0	24.1	33.3	36.7
Payments	-65.2	-66.6	-74.7	-90.8	-104.9
Income (net)	3.1	5.7	7.1	14.3	13.1
Receipts	6.6	9.9	12.9	22.6	21.0
Payments	-3.5	-4.2	-5.8	-8.3	-7.9
Current Transfers (net)	178.1	178.5	168.6	200.4	184.6
Official transfers (net)	0.0	0.0	-0.1	8.4	19.4
Private transfers (net)	178.1	178.5	168.7	192.0	165.2
Official transfer receipts	0.6	0.5	0.5	8.7	20.8
Official transfer payments	-0.6	-0.5	-0.6	-0.3	-1.4
Private transfer receipts	208.1	205.0	186.8	220.1	185.2
Private transfer payments	-30.0	-26.5	-18.1	-28.1	-20.0
Current account balance	-11.2	-45.9	-51.0	-78.3	-106.1
(Percent of GDP)	-2.2	-7.7	-8.3	-11.9	-16.4
Capital account balance	24.2	45.2	53.9	68.9	188.9
Official capital (net)	9.3	16.8	19.7	42.7	146.5
Official loans, net	0.0	0.0	0.0		
Disbursements	0.0	0.0	0.0		
Amortization	0.0	0.0	0.0		
Official capital inflows	16.2	22.8	24.7	52.6	148.0
Official capital outflows	-6.9	-6.0	-5.0	-9.9	-1.5
Private capital (net)	14.9	28.4	34.2	26.2	42.4
Private capital inflows	34.2	37.5	39.9	32.6	43.7
Private capital outflows	-19.3	-9.1	-5.7	-6.4	-1.3
Financial Account	23.7	14.4	21.0	38.4	-1.4
Other Credits	39.7	37.5	47.1	35.9	-48.6
Official Reserve	7.6	-1.1	-8.4	2.5	47.2
Debits	23.6	22.0	17.7	0	0
Basic Balance	36.7	13.7	23.9	29.0	81.4
Errors and omissions	-44.3	-12.6	-15.5	-31.5	-34.2
Overall balance	-7.6	1.1	8.4	-2.5	47.2
Memorandum items:					
Service, income, and transfers (net)	161.9	168.5	139.7	198.4	188.6
Receipts	260.6	266.3	239.0	317.5	303.4
Payments	-98.7	-97.8	-99.2	-127.5	-134.2
Gross official foreign reserves (TOP mil)	82.1	83.2	91.6	89.1	136.3
Months of Import cover	4.4	4.3	4.4	3.5	

Source: Statistics Department

p: provisional numbers

**Table 12: Monetary Survey, 2004/05 – 2008/09**

	2004/05	2005/06	2006/07	2007/08	2008/09
Net foreign assets	77.2	72.6	81.7	79.9	121.3
Foreign assets	91.8	95.0	103.6	99.9	154.0
Foreign liabilities	-14.6	-22.5	-21.9	-20.0	-32.7
Net domestic assets	122.9	156.3	179.3	202.9	368.4
Net domestic credit	165.5	213.5	245.0	282.2	262.3
Government (net)	-26.3	-19.1	-11.7	-29.1	-32.7
Non-financial public enterprises	6.4	3.9	2.5	3.7	3.9
Private sector	189.9	233.8	260.5	311.8	302.8
Non-monetary financial institutions 1/	-4.5	-5.2	-6.3	-4.2	-11.7
Other items (net)	-42.6	-57.1	-65.7	-79.3	106.1
Total domestic liquidity (M2)	200.1	228.9	261.0	282.8	277.3
Narrow money (M1)	68.7	55.7	73.8	72.6	77.9
Currency outside banks	14.9	17.1	18.5	18.8	21.9
Demand deposits	53.8	38.6	55.3	53.8	56.0
Quasi money	131.4	173.2	187.2	210.2	199.4
Savings deposits	38.1	53.2	49.3	48.8	48.6
Term deposits	85.1	108.2	125.2	150.1	143.0
Foreign currency accounts	8.1	11.8	12.8	11.3	12.8
Net foreign assets	-9.8	-6.0	12.6	-2.2	51.8
Foreign assets	-16.0	3.5	9.0	-3.6	54.2
Foreign liabilities	-38.5	53.8	-2.5	-8.7	63.7
Net domestic assets	32.5	27.2	14.7	13.2	81.5
Private sector	42.4	23.2	11.4	19.7	-2.9
Total domestic liquidity (M2)	12.1	14.4	14.0	8.4	-1.9
Narrow money (M1)	4.4	-18.9	32.5	-1.6	7.3
Quasi money	16.6	31.8	8.1	12.3	-5.1
Net foreign assets	39.9	35.2	43.0	42.1	71.3
Foreign assets	47.5	46.1	54.5	52.6	90.6
Foreign liabilities	-7.6	-10.9	-11.5	-10.5	-19.3
Memorandum items:					
Velocity (GDP/average M2)	2.2	2.0	1.9	0.9	2.3
Exchange rate (pa'anga per U.S. dollar; er	1.9	2.1	1.9	1.9	1.7

Source: National Reserve Bank of Tonga

**Table 13: Summary Table of Government Operations, 2004/05 – 2008/09**

<b>Years ending June 30</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09/p</b>
Total revenue and grants	121.3	158.2	171.2	172.2	200.3
Total revenue	116.0	148.3	148.5	163.6	154.8
Current revenue	116.0	148.3	148.5	163.6	154.8
Tax revenue	98.4	125.9	126.2	139.1	129.09
Nontax revenue	17.6	22.4	22.3	24.5	25.69
Capital revenue	0.0	0.0	0.0	0.0	0.0
Grants (in cash)	5.3	9.9	22.7	8.7	45.5
Total expenditure and lending minus repayments	111.2	180.7	163.5	161.5	191.6
Total expenditure	112.3	181.9	164.1	161.5	185.3
Current expenditure	104.1	166.5	158.5	158.5	167.53
Capital expenditure	10.5	15.3	5.6	3.04	17.8
Total lending minus repayments	-1.1	-1.2	-0.6	-0.05	6.27
Overall deficit/surplus	10.1	-22.5	7.7	10.8	8.7
Total financing	0.6	8.3	-6.7	-8.2	-3.0
External financing	2.0	9.7	-5.1	-5.0	-4.79
Domestic bank financing	-1.4	-1.4	-1.6	-3.2	1.78
	<i>as percentage of GDP</i>				
Total revenue and grants	24.1	26.6	28.0	26.1	30.9
Total revenue	23.1	25.0	24.3	24.8	23.9
Current revenue	23.1	25.0	24.3	24.8	23.9
Tax revenue	19.6	21.2	20.7	21.1	19.9
Nontax revenue	3.5	3.8	3.7	3.7	4.0
Capital revenue	0.0	0.0	0.0	0.0	0.0
Grants	1.1	1.7	3.7	1.3	7.0
Total expenditure and lending minus repayments	22.1	30.4	26.8	24.5	29.5
Total expenditure	22.3	30.6	26.9	24.5	28.6
Current expenditure	20.7	28.0	25.9	24.0	25.8
Capital expenditure	2.1	2.6	0.9	0.5	2.7
Total lending minus repayments	-0.2	-0.2	-0.1	0.0	1.0
Overall deficit/surplus	2.0	-3.8	1.3	1.6	1.3
Total financing	0.1	1.4	-1.1	-1.2	-0.5
External financing	0.4	1.6	-0.8	-0.8	-0.7
Domestic bank financing	-0.3	-0.2	-0.3	-0.8	-0.7
Memorandum items:					
Current balance excluding grants	2.4	-3.1	-1.6	0.8	-2.0
Overall balance excluding grants	0.9	18.6	19.7	20.6	17.2
Current expenditure	20.7	3.8	3.7	3.7	4.0
Total revenue	23.1	0.8	0.7	0.9	-1.0
Effective import tariff (In percent)					
<b>GDP (TOP million)</b>	<b>503.0</b>	<b>594.1</b>	<b>611.0</b>	<b>659.2</b>	<b>648.6</b>

Source: Ministry of Finance and Planning

**Table 14: Government Revenue Collection, 2004/05 – 2008/09**

<b>Year</b>	<b>Foreign Trade Taxes (\$)</b>	<b>Domestic Taxes (\$)</b>	<b>Others (\$)</b>	<b>Total (\$)</b>
2004/05	66,984,098	30,100,037	20,661,601	117,745,736
2005/06	81,282,340	40,089,379	26,824,876	148,196,594
2006/07	91,206,168	33,605,628	26,695,806	151,507,602
2007/08	100,327,543	37,854,765	23,592,346	161,774,654
2008/09/p	81,698,070	46,060,396	59,063,262	186,821,728

Source: Ministry of Finance and Planning

p: provisional numbers

**Table 15: Major Sources of Tax Revenue, 2004/05 – 2008/09**

	<b>2004/05</b>		<b>2005/06</b>		<b>2006/07</b>		<b>2007/08</b>		<b>2008/09 /p</b>	
	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>
Import Duties	34,241,685	35.3	41,828,931	34.5	47,535,367	38.1	40,533,515	29.3	16,042,295	12.6
Port & Service Tax	21,302,943	21.9	8	0.0	12	0.0	10	0.0	5	0.0
Excise Tax	1,139,415	1.2	414,174	0.3	697,482	0.6	9,950,939	7.2	22,519,488	17.6
Income Tax	20,583,175	21.2	26,871,537	22.2	26,430,442	21.2	26,845,560	19.4	40,258,563	31.5
Sales Tax / Consumption Tax	18,647,753	19.2	50,886,494	42.0	49,232,786	39.4	59,676,719	43.2	47,191,719	36.9
<b>Sub-Total</b>	<b>95,914,971</b>	<b>98.8</b>	<b>120,001,144</b>	<b>99.0</b>	<b>123,896,089</b>	<b>99.3</b>	<b>137,006,743</b>	<b>99.1</b>	<b>126,012,070</b>	<b>98.6</b>
Other	1,169,164	1.2	1,238,553	1.0	915,707	0.7	1,175,565	0.9	1,746,396	1.4
<b>TOTAL</b>	<b>97,084,135</b>	<b>100.0</b>	<b>121,239,697</b>	<b>100.0</b>	<b>124,811,796</b>	<b>100.0</b>	<b>138,182,308</b>	<b>100.0</b>	<b>127,758,466</b>	<b>100.0</b>

Source: Ministry of Finance and Planning

p: provisional numbers

**Table 16: Expenditure by Ministry, 2004/05 – 2008/09 (Tonga Government Fund)**

	2004/05		2005/06		2006/07		2007/08		2008/09/p	
	\$	%	\$	%	\$	%	\$	%	\$	%
Education	16,770,212	15.2	22,553,997	14.1	22,662,184	14.8	22,450,556	15.1	24,200,091	11.6
Health	13,520,930	12.3	17,076,431	10.7	20,002,773	13.1	19,212,939	12.9	20,900,972	10.1
Works	4,609,193	4.2	4,533,964	2.8	3,245,433	2.1	4,250,745	2.9	8,484,544	4.1
Prime Minister's Office	3,773,229	3.4	4,884,103	3.1	4,898,922	3.2	8,333,077	5.6	8,999,712	4.3
<b>Sub-Total</b>	<b>38,673,563</b>	<b>35.2</b>	<b>49,048,495</b>	<b>30.7</b>	<b>50,809,311</b>	<b>33.2</b>	<b>54,247,316</b>	<b>36.4</b>	<b>62,585,319</b>	<b>30.1</b>
Police	5,420,020	4.9	7,284,202	4.6	8,113,004	5.3	8,381,583	5.6	10,880,495	5.2
Agriculture	4,651,198	4.2	5,232,194	3.3	5,320,153	3.5	5,052,231	3.4	5,717,328	2.8
Defence	4,663,237	4.2	7,077,663	4.4	7,102,982	4.6	8,078,335	5.4	9,894,917	4.8
Legislative Assembly	2,441,642	2.2	3,057,511	1.9	2,884,976	1.9	3,935,384	2.6	4,719,628	2.3
Public Debt	16,113,876	14.6	16,661,205	10.4	16,204,370	10.6	15,592,374	10.5	17,487,685	8.4
Foreign Affairs	4,901,208	4.5	4,956,456	3.1	6,674,593	4.4	6,767,524	4.5	14,187,765	6.8
Financial Appropriations	6,020,377	5.5	11,057,038	6.9	8,407,173	5.5	9,784,920	6.6	41,033,088	19.7
<b>Sub-Total</b>	<b>44,211,559</b>	<b>40.2</b>	<b>55,326,270</b>	<b>34.6</b>	<b>54,707,251</b>	<b>35.8</b>	<b>57,592,352</b>	<b>38.7</b>	<b>103,920,906</b>	<b>50.0</b>
Other	27,121,037	24.7	55,610,778	34.8	47,456,503	31.0	37,077,358	24.9	41,330,702	19.9
<b>GRAND TOTAL</b>	<b>110,006,159</b>	<b>100.0</b>	<b>159,985,543</b>	<b>100.0</b>	<b>152,973,066</b>	<b>100.0</b>	<b>148,917,026</b>	<b>100.0</b>	<b>207,836,927</b>	<b>100.0</b>

Source: Ministry of Finance and Planning

p: provisional numbers

**Table 17: Full GFS Presentation of the Government Operations Account, 2008/09 – 2012/13**

	2008/09 (p)	2009/10 Budget	2009/10 (p)	2010/11 Budget	2011/12	2012/13
<b>Total Revenue and grants</b>	<b>187.5</b>	<b>220.1</b>	<b>176.4</b>	<b>193.5</b>	<b>167.5</b>	<b>177.4</b>
<b>Total Revenue</b>	<b>142.0</b>	<b>172.2</b>	<b>136.9</b>	<b>132.6</b>	<b>142.7</b>	<b>155.7</b>
Current revenue	142.0	170.9	136.9	132.6	142.7	155.7
<b>Tax revenue</b>	<b>119.1</b>	<b>150.2</b>	<b>109.7</b>	<b>111.8</b>	<b>119.8</b>	<b>130.8</b>
Taxes on income and profits	30.3	32.0	24.6	24.3	26.0	28.0
Taxes on property	0.1	0.1	0.1	0.1	0.1	0.1
Domestic taxes on goods and services	71.3	94.2	69.3	72.5	77.3	84.3
Consumption tax	47.2	61.2	43.0	46.5	50.0	55.0
Excise and Other taxes	24.1	33.1	26.3	26.0	27.3	29.3
Taxes on international trade and transactions	16.1	21.8	15.0	14.6	16.1	18.1
Customs duties	16.0	21.5	15.0	14.5	16.0	18.0
Other import charges	0.0	0.3	0.0	0.1	0.1	0.1
Other taxes	1.4	2.1	0.7	0.4	0.4	0.4
<b>Nontax revenue</b>	<b>22.8</b>	<b>20.7</b>	<b>27.2</b>	<b>20.9</b>	<b>22.8</b>	<b>24.8</b>
Entrepreneurial and property income	9.2	7.2	15.3	5.9	6.9	7.9
Administrative fees and charges	11.9	12.5	9.8	14.4	15.4	16.4
Fines and forfeits	0.3	0.4	0.7	0.6	0.6	0.6
Other nontax revenue	1.4	0.7	1.5	-	-	-
Capital revenue	-	1.3	-	0.0	-	-
<b>Grants (in cash)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Grant project</i>				27.96	15.47	21.74
<i>Grant Budget support</i>			<b>9.7</b>	<b>32.9</b>	<b>9.4</b>	
<i>confirmed budget support</i>			9.7	9.4		
<i>unconfirmed budget support</i>				23.5	9.4	
From abroad	45.5	47.9	39.5	60.9	24.9	21.7
From other levels of national government	0.0	0.0	0.0	-	-	-
<b>Total Grants (in Cash)</b>	<b>45.5</b>	<b>47.9</b>	<b>39.5</b>	<b>60.9</b>	<b>24.9</b>	<b>21.7</b>

	2008/09 (p)	2009/10 Budget	2009/10 (p)	2010/11 Budget	2011/12	2012/13
<b>Expenditure and lending minus repayments</b>	<b>192.7</b>	<b>202.7</b>	<b>180.0</b>	<b>205.6</b>	<b>162.2</b>	<b>162.1</b>
Expenditure	185.3	203.4	180.9	206.2	162.5	162.2
<b>Current expenditure</b>	<b>167.5</b>	<b>191.6</b>	<b>166.8</b>	<b>186.5</b>	<b>153.3</b>	<b>153.0</b>
Wages and salaries	76.4	77.4	82.1	81.8	76.4	75.3
Employer contributions	5.2	10.3	7.2	8.8	8.6	9.6
Other purchases of goods and services	62.5	78.4	52.5	74.1	55.7	50.5
Interest payments	5.2	5.7	5.7	7.0	0.2	0.1
Additional expenditures	-	-	-	-	-	-
Subsidies and other current transfers	18.2	19.8	19.2	14.8	12.4	17.5
Subsidies to non-financial public enterprises	0.0	0.1	-	-	-	-
Subsidies to financial institutions	1.0	0.1	-	0.0	0.0	0.0
Subsidies to other enterprises	2.1	3.2	1.3	1.5	0.5	0.9
Transfers to non-profit institutions	7.9	9.1	9.8	5.1	5.8	6.8
Transfers to households	6.2	6.5	7.0	6.1	4.0	5.2
Transfers abroad	1.0	0.9	1.0	2.0	2.2	4.6
<b>Capital expenditure</b>	<b>17.8</b>	<b>11.8</b>	<b>14.1</b>	<b>19.7</b>	<b>9.2</b>	<b>9.2</b>
Acquisition of fixed capital assets	16.6	11.3	13.8	19.4	8.7	8.9
Purchases of land and intangible assets	0.1	0.0	0.1	0.1	0.0	0.0
Capital transfers	1.1	0.4	0.2	0.3	0.4	0.2
<b>Lending minus repayments</b>	<b>7.4</b>	<b>(0.6)</b>	<b>(0.9)</b>	<b>(0.6)</b>	<b>(0.3)</b>	<b>(0.1)</b>
To non-financial public enterprises (net)	6.8	(0.2)	0.5	(0.1)	0.2	0.4
To financial institutions (net)	0.6	(0.5)	(1.4)	(0.5)	(0.5)	(0.5)
Abroad	-	-	-	-	-	-

**Table 18: Full GFS Presentation of Financing Table, 2008/09 – 2012/13**

	2008/09 (p)	2009/10 Budget	2009/10 (p)	2010/11 Budget	2011/12	2012/13
<b>Total Financing</b>	(16.2)	(17.4)	3.6	12.1	(5.3)	(15.3)
<b>External financing</b>	(4.8)	(12.3)	(4.4)	(7.8)	(12.7)	(13.3)
Disbursements	-	-	-	-	-	-
Repayments	4.8	12.3	4.4	7.8	12.7	13.3
<b>Domestic Financing</b>	(11.4)	(5.1)	8.0	19.9	7.4	(2.0)
Bonds Issued / Domestic Loan	8.8	7.0	14.6	3.4	3.0	7.5
Principal Repayment of Matured Bonds/Loan	7.0	7.0	6.9	7.0	5.0	9.5
Net Changes in Government Cash Balances and Investment	(13.2)	(5.1)	0.3	23.5	9.4	(0.0)
Donor Funding	-	-	-	-	-	-
unconfirmed budget support	-	-	-	23.5	9.4	-

**Table 19: Loans to Public Enterprises and other Organizations as at 30 April 2010**

<i>(Ngaahi Mo'ua No Pa'anga mei he Pule'anga 'a e Ngaahi Kautaha 'a e Pule'anga moe Ngaahi Kautaha Kehe 'i he 'aho 30 'Epeleli 2010)</i>							
<b>Lender</b>	<b>Year</b>	<b>Purpose</b>	<b>Principal</b>	<b>Interest</b>	<b>Term (Years)</b>	<b>Cumulative Principal Repaid 30.04.10</b>	<b>Outstanding Principal Debt 30.04.10</b>
<i>(Pule'anga/Kautaha na'e fai mei ai 'a e No)</i>	<i>(Ta'u)</i>	<i>(Taumu'a No)</i>	<i>(Lahi 'o e No)</i>	<i>(Totongi Tupu)</i>	<i>(Taimi Totongi No (Ta'u))</i>	<i>(Lahi 'o e Sino'i Pa'anga Totongi Fakafoki 30.04.10)</i>	<i>(Sino'i Pa'anga te'eki totongi 30.04.10)</i>
			<b>\$</b>	<b>%</b>		<b>\$</b>	<b>\$</b>
1 Tonga Development Bank ( <i>Pangike Fakalalakalaka</i> ) - ADB 624	1983	Development Lending ( <i>Nö Fakalalakalaka</i> )	1,108,197	3.00	40	501,605	<b>606,592</b>
2 Tonga Development Bank ( <i>Pangike Fakalalakalaka</i> ) - IDA 1813	1987	Development Lending ( <i>Nö Fakalalakalaka</i> )	2,604,051	3.00	36	1,201,870	<b>1,402,181</b>
3 Tonga Development Bank ( <i>Pangike Fakalalakalaka</i> ) - IFAD 220	1988	Development Lending ( <i>Nö Fakalalakalaka</i> )	2,636,109	3.00	25	2,240,578	<b>395,531</b>
4 Tonga Development Bank ( <i>Pangike Fakalalakalaka</i> ) - IFAD 327	1993	Development Lending ( <i>Nö Fakalalakalaka</i> )	4,104,162	3.00	27	2,196,980	<b>1,907,182</b>
5 Tonga Telecommunication Commission ( <i>Komisoni Fetu'utaki</i> ) - ADB 1412 (reschedule)	2005	Development ( <i>Ngaue Fakalalakalaka</i> )	2,810,812	6.79	12	1,171,172	<b>1,639,640</b>
6 Sea Star Fishing ( <i>Kautaha Toutai Fetu'utahi</i> ) - ADB 1030	1993	Capital ( <i>Pa'anga Ngaue Tu'uma'u</i> )	3,645,900	6.36	15	0	<b>3,645,900</b>
7 Janfull International Dateline Hotel ( <i>Hotele Janfull International Dateline</i> ) (reschedule)	2007	Ugrading to and expansion of Dateline Hotel ( <i>Ngaue Fakalelei'i 'oe Hotele Dateline</i> )	10,822,400	2.50	9	0	<b>10,822,400</b>
8 Ports Authority Tonga ( <i>Ma'u Mafai ki he Ngaahi Taulanga</i> ) - ADB 1303	2002	Development Lending ( <i>Nö Fakalalakalaka</i> )	2,388,911	5.00	16	1,621,521	<b>767,390</b>
9 Tongatapu Market Limited ( <i>Maketi Talamahu</i> ) - ADB 927	2010	Development Lending ( <i>Nö Fakalalakalaka</i> )	2,723,995	2.00	18	819,604	<b>1,904,391</b>
		<b>Total Loan to Public Enterprises &amp; Others</b>	<b>\$32,844,537</b>			<b>\$9,753,329</b>	<b>\$23,091,207</b>
		<i>(Ngaahi No ki he ngaahi Kautaha Pule'anga mo Kehe)</i>					
		<b>Less : Repaid (To'o: Totongi Fakafoki)</b>	<b>\$9,753,329</b>				
		<b>Total Oustanding Loans (Katoa No te'eki ke Totongi Mai)</b>	<b>\$23,091,207</b>				

**Table 20: Loans comprising the Government Foreign Debt as at 30 April 2010**

<i>(Ngaahi Mo'ua No mei Muli 'a e Pule'anga 'i he 'aho 30 'Epeleli 2010)</i>							
Lender	Year	Purpose	Principal	Interest (%)	Term (Years)	Cumulative Principal Repaid 30.04.10	Outstanding Principal Debt 30.04.10
<i>(Pule'anga/Kautaha na'e fai mei ai 'a e No)</i>	<i>(Ta'u)</i>	<i>(Taumu'a No)</i>	<i>(Lahi 'o e No)</i>	<i>(Totongi Tupu %)</i>	<i>(Taimi Totongi No (Ta'u))</i>	<i>(Lahi 'o e Sino'i Pa'anga Totongi Fakafoki 30.04.10)</i>	<i>(Sino'i Pa'anga te'eki totongi 30.04.10)</i>
			\$	%		\$	\$
ADB - 335 TON (SF) <i>(Pangike Fakalalakalaka 'Esia 335 TON)</i>	1977	Small Industries <i>(Ngaahi Ngaue'anga Itiki)</i>	687,185	1.00	40	481,209	205,976
ADB - 376 TON (SF) <i>(Pangike Fakalalaka 'Esia 376 TON)</i>	1978	Development <i>(Fakalalakalaka)</i>	3,104,006	1.00	40	1,748,326	1,355,680
ADB - 435 TON (SF) <i>(Pangike Fakalalakalaka 'Esia 435 TON)</i>	1979	Development <i>(Fakalalakalaka)</i>	2,865,547	1.00	40	1,390,876	1,474,671
ADB - 540 TON (SF) <i>(Pangike Fakalalakalaka 'Esia 540 TON)</i>	1981	Development <i>(Fakalalakalaka)</i>	1,970,135	1.00	40	1,051,731	918,403
ADB - 624 TON (SF) <i>(Pangike Fakalalakalaka 'Esia 624 TON)</i>	1983	Development <i>(Fakalalakalaka)</i>	4,318,780	1.00	40	2,334,836	1,983,944
ADB - 782 TON (SF) <i>(Pangike Fakalalakalaka 'Esia 782 TON)</i>	1986	Development <i>(Fakalalakalaka)</i>	7,878,098	1.00	40	2,800,334	5,077,764
ADB - 927 TON (SF) <i>(Pangike Fakalalakalaka 'Esia 927 TON)</i>	1988	Development <i>(Fakalalakalaka)</i>	6,170,607	1.00	40	1,657,880	4,512,727
ADB - 990 TON (SF) <i>(Pangike Fakalalakalaka 'Esia 990 TON)</i>	1990	Development <i>(Fakalalakalaka)</i>	8,413,923	1.00	40	1,815,298	6,598,625
ADB - 1030 TON (SF) <i>(Pangike Fakalalakalaka 'Esia 1030 TON)</i>	1990	Fisheries <i>(Toutai)</i>	5,490,958	1.00	40	1,027,034	4,463,924
ADB - 1079 TON (SF) <i>(Pangike Fakalalakalaka 'Esia 1079 TON)</i>	1991	Power Development <i>(Uhila)</i>	15,485,222	1.00	40	2,709,290	12,775,932
ADB - 1303 TON (SF) <i>(Pangike Fakalalakalaka 'Esia 1303 TON)</i>	1995	Development <i>(Fakalalakalaka)</i>	18,636,669	1.00	40	2,155,978	16,480,690
ADB - 1412 TON (SF) <i>(Pangike Fakalalakalaka 'Esia 1412 TON)</i>	1996	Development <i>(Fakalalakalaka)</i>	6,691,217	1.00	40	556,836	6,134,380
ADB - 1904 TON (SF) <i>(Pangike Fakalalakalaka 'Esia 1904 TON)</i>	2002	Development <i>(Fakalalakalaka)</i>	19,792,654	1/1.5	24	0	19,792,654
EIB 8.0050 <i>(Pangike Fakatupu Pa'anga 'a 'Iulope 8.0050)</i>	1979	Telecoms Network <i>(Naunau Fetu'utaki)</i>	853,542	1.00	40	555,059	298,484
EIB 7.0645 <i>(Pangike Fakatupu Pa'anga 'a 'Iulope 7.0645)</i>	1987	Equity <i>(Inasi)</i>	771,510	2.00	25	666,662	104,848
EIB 7.0792 <i>(Pa'anga Fakatupu Pa'anga 'a 'Iulope 7.0792)</i>	1989	Equity <i>(Inasi)</i>	432,158	2.00	25	0	432,158
IDA 1813 WORLD BANK <i>(Pangike 'a Mamani 1813)</i>	1987	Tonga Development Bank <i>(Pangike Fakalalakalaka)</i>	4,637,874	0.75	50	881,135	3,756,740
IDA 2084 WORLD BANK <i>(Pangike 'a Mamani 2084)</i>	1990	Tonga Development Bank <i>(Pangike Fakalalakalaka)</i>	4,677,375	0.75	40	1,029,008	3,648,367
IDA 3647 WORLD BANK <i>(Pangike 'a Mamani 3647)</i>	2002	Development <i>(Fakalalakalaka)</i>	12,508,913	0.75	40	0	12,508,913
IDA 38140 WORLD BANK <i>(Pangike 'a Mamani 38140)</i>	2003	Development <i>(Fakalalakalaka)</i>	23,329,557	0.75	40	0	23,329,557
IDA 40810 WORLD BANK <i>(Pangike 'a Mamani 40810)</i>	2005	Tonga Education Support Project <i>(Fakalalakalaka e Ako)</i>	1,879,291	0.75	40	0	1,879,291
IFAD 129 WORLD BANK <i>(Pangike 'a Mamani 129)</i>	1983	Development Projects <i>(Ngaue Fakalalakalaka)</i>	2,790,055	1.00	50	1,150,898	1,639,157
IFAD 220 WORLD BANK <i>(Pangike 'a Mamani 220)</i>	1988	Agricultural Development <i>(Fakalalakalaka 'o e Ngoue)</i>	4,954,917	1.50	50	1,486,471	3,468,447
IFAD 327 WORLD BANK <i>(Pangike 'a mamani 327)</i>	1993	Agricultural Development <i>(Fakalalakalaka 'o e Ngoue)</i>	6,461,167	1.50	50	1,130,707	5,330,461
WESTPAC NEW ZEALAND LIMITED <i>(Pangike Westpac 'a Nu'usila)</i>	2009	Tonga High Commission New Zealand <i>(Ofisi Talafekau Lahi 'a Tonga 'i Nu'usila)</i>	1,814,272	6.29	10	121,831	1,692,441
BANK OF CHINA <i>(Pangike 'a Saina)</i>	1998	Ha'apai High School Project <i>(Ngaue Langa 'o e Ako Ma'olunga 'a Ha'apai)</i>	7,120,000	0.00	20	0	7,120,000
EXPORT-IMPORT BANK OF CHINA - reschedule <i>(Pangike EXIM 'a Saina)</i>	2007	Upgrading to and Expansion of Dateline Hotel <i>(Ngaue Fakalelei 'i 'o e Hotele Dateline)</i>	10,822,400	2.50	9	3,961,771	6,860,629
EXPORT-IMPORT BANK OF CHINA <i>(Pangike EXIM 'a Saina)</i>	2007	Nuku'alofa CBD Reconstruction Project <i>(Ngaue Langa fo'ou 'o Nuku'alofa)</i>	52,221,088	2.00	20	0	52,221,088
EXPORT-IMPORT BANK OF CHINA <i>(Pangike EXIM 'a Saina)</i>	2010	Road Improvement Project <i>(Poloseki Fakalelei Hala)</i>	24,863,040	2.00	20	0	24,863,040
<b>TOTAL GOVERNMENT FOREIGN DEBT - (FAKA-KATO A NGA AHI MO'UA NO KI MULI 'A E PULE'ANGA)</b>			<b>\$261,642,160</b>			<b>\$30,713,169</b>	<b>\$230,928,991</b>

Budget Statements for year ending 30<sup>th</sup> June 2011

Annex: C

Table 21: Loans comprising the Government Domestic Debt as at 30 April 2010

<i>(Ngaahi Mo'ua No Fakaloto fonua 'a e Pule'anga 'i he 'aho 30 'Epeleli 2010)</i>								
	Lender	Year	Purpose	Principal	Interest	Term (Years)	Cumulative Principal Repaid 30.04.10	Outstanding Principal Debt 30.04.10
	<i>(Pule'anga/Kautaha na'e fai mei ai 'a e No)</i>	<i>(Ta'u)</i>	<i>(Taumu'a No)</i>	<i>(Lahi 'o e No)</i>	<i>(Totongi Tupu)</i>	<i>(Taimi Totongi No (Ta'u))</i>	<i>(Lahi 'o e Sino'i Pa'anga Totongi Fakafoki 30.04.10)</i>	<i>(Sino'i Pa'anga te'eki totongi 30.04.10)</i>
				\$	%		\$	\$
<b>Government Domestic Debt (Mo'ua No Fakaloto fonua)</b>								
1	Local Development Bonds 1969/1974 <i>(No Fakaloto fonua 1969/1974)</i>	1969	Issue of Bonds <i>(Fakatau Ponite)</i>	277,780	20.00	5	276,260	1,520
2	Local Development Bonds 1974/1979 <i>(No Fakaloto fonua 1974/1979)</i>	1974	Issue of Bonds <i>(Fakatau Ponite)</i>	241,200	6.50	5	240,530	670
3	Local Development Bonds 1979/1984 <i>(No Fakaloto fonua 1979/1984)</i>	1979	Issue of Bonds <i>(Fakatau Ponite)</i>	658,660	7.50	5	657,610	1,050
4	Government of Tonga Bond Series No. 2. 2005/2009 <i>(No Fakaloto fonua 'ae Pule'anga Tonga 2005/2009)</i>	2005	Issue of Bonds <i>(Fakatau Ponite)</i>	3,603,000	6.00	4	3,603,000	0
5	Government of Tonga Bond Series No. 1. 2006/2011 <i>(No Fakaloto fonua 'ae Pule'anga Tonga 2006/2011)</i>	2006	Issue of Bonds <i>(Fakatau Ponite)</i>	2,762,000	6.75	5	0	2,762,000
6	Government of Tonga Bond Series No. 2. 2006/2009 <i>(No Fakaloto fonua 'ae Pule'anga Tonga 2006/2009)</i>	2006	Issue of Bonds <i>(Fakatau Ponite)</i>	1,000,000	8.00	3	1,000,000	0
7	Government of Tonga Bond Series No. 3. 2006/2009 <i>(No Fakaloto fonua 'ae Pule'anga Tonga 2006/2009)</i>	2006	Issue of Bonds <i>(Fakatau Ponite)</i>	2,000,000	8.00	3	2,000,000	0
8	Government of Tonga Bond Series No. 4. 2006/2011 <i>(No Fakaloto fonua 'ae Pule'anga Tonga 2006/2011)</i>	2006	Issue of Bonds <i>(Fakatau Ponite)</i>	1,000,000	10.00	5	0	1,000,000
9	Government of Tonga Bond Series No. 5. 2006/2011 <i>(No Fakaloto fonua 'ae Pule'anga Tonga 2006/2011)</i>	2006	Issue of Bonds <i>(Fakatau Ponite)</i>	1,000,000	10.00	5	0	1,000,000
10	Government of Tonga Bond Series No. 1. 2008/2013 <i>(No Fakaloto fonua 'ae Pule'anga Tonga 2008/2013)</i>	2008	Issue of Bonds <i>(Fakatau Ponite)</i>	2,488,000	10.00	5	0	2,488,000
11	Government of Tonga Bond Series No. 2. 2008/2011 <i>(No Fakaloto fonua 'ae Pule'anga Tonga 2008/2011)</i>	2008	Issue of Bonds <i>(Fakatau Ponite)</i>	598,000	9.00	3	0	598,000
12	Government of Tonga Bond Series No. 3. 2008/2011 <i>(No Fakaloto fonua 'ae Pule'anga Tonga 2008/2011)</i>	2008	Issue of Bonds <i>(Fakatau Ponite)</i>	1,000,000	7.25	3	0	1,000,000
13	Government of Tonga Bond Series No. 1. 2009/2014 <i>(No Fakaloto fonua 'ae Pule'anga Tonga 2009/2014)</i>	2009	Issue of Bonds <i>(Fakatau Ponite)</i>	5,000,000	6.65	5	0	5,000,000
14	Government of Tonga Bond Series No. 2. 2009/2014 <i>(No Fakaloto fonua 'ae Pule'anga Tonga 2009/2014)</i>	2009	Issue of Bonds <i>(Fakatau Ponite)</i>	1,000,000	6.00	5	0	1,000,000
15	Government of Tonga Bond Series No. 3. 2009/2014 <i>(No Fakaloto fonua 'ae Pule'anga Tonga 2009/2014)</i>	2009	Issue of Bonds <i>(Fakatau Ponite)</i>	1,000,000	6.00	5	0	1,000,000
16	Government of Tonga Bond Series No. 4. 2009/2014 <i>(No Fakaloto fonua 'ae Pule'anga Tonga 2009/2014)</i>	2009	Issue of Bonds <i>(Fakatau Ponite)</i>	2,000,000	6.00	5	0	2,000,000
17	Government of Tonga Bond Series No. 5. 2009/2014 <i>(No Fakaloto fonua 'ae Pule'anga Tonga 2009/2014)</i>	2009	Issue of Bonds <i>(Fakatau Ponite)</i>	3,603,000	6.00	5	0	3,603,000
18	Government of Tonga Bond Series No. 6. 2009/2012 <i>(No Fakaloto fonua 'ae Pule'anga Tonga 2009/2012)</i>	2009	Issue of Bonds <i>(Fakatau Ponite)</i>	5,000,000	5.00	3	0	5,000,000
19	Government of Tonga Bond Series No. 1. 2010/2016 <i>(No Fakaloto fonua 'a e Pule'anga Tonga 2010/2016)</i>	2010	Issue of Bonds <i>(Fakatau Ponite)</i>	3,000,000	6.00	6	0	3,000,000
20	Shipping Corporation of Polynesia Ltd. <i>(Kautaha Vaka Fola utahi Polinisia)</i>	2001	Fua Kavenga II Loan <i>(No 'ae Fua Kavenga II)</i>	1,000,000	1.00	8	1,000,000	0
<b>TOTAL GOVERNMENT DOMESTIC DEBT - (FAKA-KATO A NGA AHI MO'UA NO FAKALOTO FONUA 'A E PULE'ANGA)</b>				<b>\$38,231,640</b>			<b>\$8,777,400</b>	<b>\$29,454,240</b>

Table 22: Government Guaranteed Loans as at 30 April 2010

<i>(Ko e Ngaahi No 'oku malu'i 'e he Pule'anga 'i he 'aho 30 'Epeleli 2010</i>								
<i>Lender</i>	<i>Year</i>	<i>Purpose</i>	<i>Principal</i>	<i>Interest</i>	<i>Term (Years)</i>	<i>Cumulative Repaid</i>	<i>Outstanding Debt</i>	
						<b>30.04.10</b>	<b>30.04.10</b>	
<i>(Pule'anga/Kautaha na'e fai mei ai 'a e No)</i>	<i>(Ta'u)</i>	<i>(Taumu'a No)</i>	<i>(Lahi 'o e No)</i>	<i>(Totongi Tupu)</i>	<i>(Taimi Totongi No (Ta'u))</i>	<i>(Lahi 'o e Totongi Fakafoki)</i>	<i>(Mo'ua te'eki totongi)</i>	
						<i>30.04.10</i>	<i>30.04.10</i>	
			<b>\$</b>	<b>%</b>		<b>\$</b>	<b>\$</b>	
<b>Foreign (Muli)</b>								
1	Caisse Francaise De Development ( <i>Pangike Fakalalakalaka Falanise</i> )	1995	Tonga Development Bank ( <i>Pangikē Fakalalakalaka 'o Tonga</i> )	2,246,879	5.00	15	2,246,879	0
2	Westpac Bank of Tonga (Westpac Pangikē Tonga) - Loan (No)	2008	Tonga Power Limited US\$2m Term loan (No 'ae Kautaha 'Uhila a Tonga)	7,871,175	LIBOR + 3.70	7	3,887,000.00	3,984,175
								3,984,175
<b>Domestic (Fakalotofonua)</b>								
1	Tonga Development Bank ( <i>Pangikē Fakalalakalaka 'o Tonga</i> ) - Loan (No)	2004	Squash Growers ( <i>Kau to hina</i> )	10,712,377	8.00	7	10,712,377	0
2	Westpac Bank of Tonga (Westpac Pangikē Tonga) - Loan (No)	2007	Renovation of Janfull International Dateline Hotel ( <i>Fakalelei'i 'o e Hotele Janfull Dateline</i> )	645,551	13.25	5.5	219,920	425,631
3	Westpac Bank of Tonga (Westpac Pangikē Tonga) - Loan (No)	2008	Tonga Power Limited Overdraft facility (No 'ae	3,000,000	12.75	n/a	854,729	2,145,271
4	Westpac Bank of Tonga (Westpac Pangikē Tonga) - Loan (No)	2010	Tonga Power Limited Term loan (No 'a e Kautaha 'Uhila 'a Tonga)	2,883,219	6.75	2	145,493	2,737,726
5	Westpac Bank of Tonga (Westpac Pangikē Tonga) - Loan (No)	2010	Tonga Power Limited Term loan (No 'ae Kautaha	3,686,850	6.75	2	170,175	3,516,675
6	Westpac Bank of Tonga (Westpac Pangikē Tonga) - Loan (No)	2010	Tonga Power Limited Term loan (No 'ae Kautaha 'Uhila a Tonga)	3,859,864	6.75	2	6,608	3,853,256
								12,678,559
<b>TOTAL GUARANTEED DEBTS - (KATO A NGA AHI MO'UA NO MALU'I)</b>				<b>\$34,905,914</b>			<b>\$18,243,180</b>	<b>\$16,662,734</b>

Table 23: Government Bond by Maturity Date

<b>FINANCIAL YEAR</b>		<b>PARTICULARS</b>	<b>MATURITY DATE</b>	<b>AMOUNT</b>	<b>IN %</b>
	1	Series No. 1 2006/2011	29/6/2011	2,762,000	6.75
	2	Series No. 2 2008/2011	30/06/2011	598,000	9.00
<b>2010/2011</b>		<b>TOTAL BOND PRINCIPAL DUE</b>		<b>3,360,000</b>	
	3	Series No. 4. 2006/2011	30/8/2011	1,000,000	10.00
	4	Series No. 5. 2006/2011	31/10/2011	1,000,000	10.00
	5	Series No. 3 2008/2011	1/09/2011	1,000,000	7.25
<b>2011/2012</b>		<b>TOTAL BOND PRINCIPAL DUE</b>		<b>3,000,000</b>	
	6	Series No. 1 2008/2013	20/06/2013	2,488,000	10.00
	7	Series No. 6. 2009/2012	1/10/2012	5,000,000	5.00
<b>2012/2013</b>		<b>TOTAL BOND PRINCIPAL DUE</b>		<b>7,488,000</b>	
	8	Series No.1 2009/2014	14/04/2014	5,000,000	6.65
	9	Series No. 2. 2009/2014	30/06/2014	1,000,000	6.00
<b>2013/2014</b>		<b>TOTAL BOND PRINCIPAL DUE</b>		<b>6,000,000</b>	
	10	Series No. 3. 2009/2014	31/07/2014	1,000,000	6.00
	11	Series No. 4. 2009/2014	4/08/2014	2,000,000	6.00
	12	Series No. 5. 2009/2014	25/08/2014	3,603,000	6.00
<b>2014/2015</b>		<b>TOTAL BOND PRINCIPAL DUE</b>		<b>6,603,000</b>	
	13	Series No. 1. 2010/2016	7/01/2016	3,000,000	6.00
<b>2015/2016</b>		<b>TOTAL BOND PRINCIPAL DUE</b>		<b>3,000,000</b>	
		<b>TOTAL GOT BONDS ON ISSUE</b>		<b>29,451,000</b>	