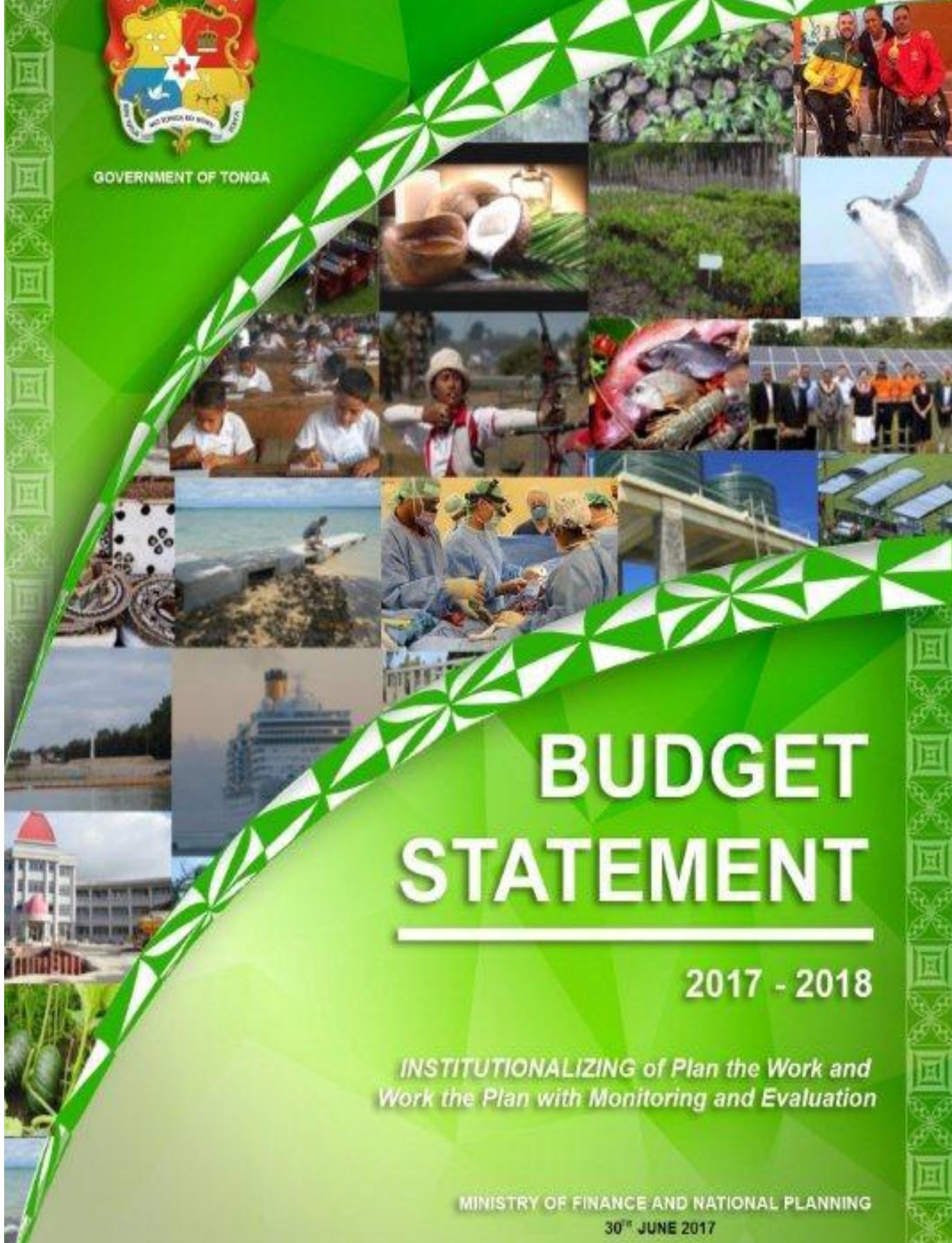




GOVERNMENT OF TONGA



# BUDGET STATEMENT

2017 - 2018

*INSTITUTIONALIZING of Plan the Work and  
Work the Plan with Monitoring and Evaluation*

MINISTRY OF FINANCE AND NATIONAL PLANNING

30<sup>th</sup> JUNE 2017



## FOREWORD

I am very pleased to present the third Budget of the current Administration. The 2017/18 budget, as the vehicle for implementing government policies and transmitting plans into actions through necessary fiscal space, remains focused on diversifying the economy towards achieving sustainable broad-based inclusive growth.

This budget constitutes an integral part of the annual corporate planning and budgeting processes for government which aims at **“A more progressive Tonga supporting a higher quality of life for all”** as the prescribed national impact under TSDF II. It is guided by our national motto: **“God and Tonga are my inheritance”**. The Budget builds on the Medium Term Budget Framework (MTBF) 2015/16 to 2017/18, and takes into account progress made during 2016/17, the need for fiscal prudence, as well as recent developments in the domestic, regional and global environments.

Government must continue to appreciate the importance of good corporate planning, budget implementation, and monitoring and evaluation. The review of Ministries, Departments and Agencies Corporate Plans undertaken early in 2017 revealed the need for further improvement in corporate planning and budgeting. In light of this, the theme for 2017/18 budget is **“Institutionalizing of Plan the Work, and Work the Plan, with Monitoring and Evaluation”**. This reflects Government’s commitment to promote good governance, accountability and transparency .

The implementation of the new remuneration framework and Performance Management System (PMS) at the beginning of July 2016 are important milestones of Government’s ongoing civil service reform programs. These reforms are expected to increase efficiency, improve performance and staff motivation to better **Plan the Work and Work the Plan** with stronger **monitoring and evaluation** at all levels of Government to ensure intended results are achieved towards a higher quality of life for all.

His Majesty’s Parliamentary Opening Address in 2016 highlighted a number of issues that relate to Health, Education and Economic growth. This budget addresses these issues as priority interventions through ongoing programs to (i) combat Non-Communicable Diseases (NCDs); (ii) promote skills development; and (iii) provide a conducive environment for private sector development and enhanced diversification of the economy.

Government remains committed to address the issue of NCDs through both national and regional initiatives. These include the implementation of on-going programmes to promote healthy lifestyle by Ministry of Health (MOH), development partners and non-government organizations such as TongaHealth. Various taxation reforms are also in place to support the fight against NCDs.

Broadening of domestic revenue base is key to sustaining government’s fiscal space. Government is putting in place a number of revenue reforms that aims not only at generating additional revenue but also to raise the purchasing power of lower income earners. These include an increase in the tax-free threshold on PAYE as well as an increase in the tax on higher income earners. Efforts will also be made to review MDAs administrative fees and charges which is long overdue.

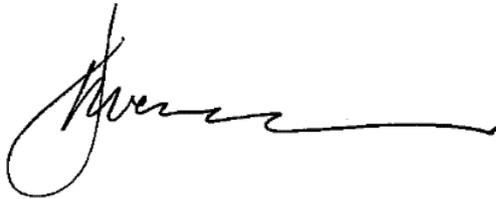
Inclusive growth and sustainable development are critical elements of the 2017/18 budget to assist government in its effort to alleviate poverty and hardship. In this context, government has approved to increase the monthly social benefit payments for the vulnerables—elderly and persons with disability.

The implementation of high impact construction projects is a top priority in this budget. In this regard, it is anticipated that a lot of infrastructure development will take place during 2017/18 including development funded projects such as the Tonga High School sports facilities funded by People's Republic of China and the Teufaiva playground funded by New Zealand. A golf course is planned to be funded by government of Tonga. The high impact projects are expected to generate both social and economic gains for Tonga in near and longer term.

All the initiatives in the 2017/18 budget can only be successfully implemented with full commitment towards *Institutionalizing of Planning the Work and Working the Plan with monitoring and evaluation* at all levels of government with the aim to achieve *“A more progressive Tonga supporting a higher quality of life for ALL”*.

**God Bless Tonga**

Faka'apa'apa atu,



**Hon. Tevita Lavemaau**

Minister for Finance and National Planning

# EXECUTIVE SUMMARY

## UNDERLYING CONDITIONS

### A. Macroeconomic Outcomes and Outlook

Positive growth in both global and regional economy continues to support robust domestic economic activities in Tonga. Growth projection for 2015/16 is 3.4 percent; slightly lower than the 3.7 percent rate achieved in 2014/15. Growth in 2014/15 and 2015/16 were supported by two major one-off events in 2015 and 2016, i.e., the King's Coronation and the Tupou College 150th Anniversary, in addition to annual Church events and Christmas and New Year festivities. Recovery from drought effects in Agriculture, good performance in fisheries and squash exports as well as implementation of donor-funded construction projects in 2015 helped to maintain growth momentum during the two years.

The forecast for 2016/17 is a more subdued growth rate of 2.7 percent as illustrated in *Executive Table 1*. This is due to delay in implementation of various construction projects that should have commenced during the financial year. However, a much higher rate of growth of 3.4 percent is expected in 2017/18. This is supported by high impact construction projects in Government priority areas, rebound in the agriculture sector, enhanced domestic demand driven by expanding levels of remittances inflow, and a more vibrant financial sector.

Growth is expected to further strengthen in the next two years before a slow down at the end of the forecast period. Continuing positive growth is also expected for the primary sector. The full operation of Tanoa International Dateline Hotel, opening of other hotels in Tongatapu, increase in number of cruise ships and tourists arrivals will not only spur growth in the tourism industry but the economy as a whole. Overall, the economy is anticipated to grow at an average of 2.8 percent in the medium-term.

Headline inflation remains significantly higher at year-on year level of 8.9 percent in February 2017. The increasing price level is mainly driven by higher imported prices. Global prices of gasoline and diesel have gradually increased since early 2016. Similarly, prices of other imported food items have gradually increased. According to Statistics Department, the largest contributor to this inflationary pressure is high import prices for Winfield tobacco with 17.4 percent price increase, followed by a 15 percent increase in fuel prices and 13.2 percent increase in the price of imported food items such as meat, fish and poultry (20.2 percent increase in price index of this component). On the domestic side, the price of kava-Tonga remained the largest single contributor, with 71.4 percent increase over the past year. Prices of some food items have also risen due to seasonal factors.

Official foreign exchange reserves continue to remain at a very comfortable level at \$380.8 million, equivalent to 10.4 months of import cover as at end of February 2017. This is well above the Reserve Bank's minimum range of 3 – 4 months of import cover. Remittances continue to increase in line with the growing number of Tongan seasonal workers participating in Australia's Seasonal Worker's program (SWP) and the New Zealand's Recognized Seasonal Employers' Program (RSE), as well as growing links between Diaspora Tongans and the domestic economy.

Overall, the growth outlook for Tonga is positive, predicated on factors highlighted below:

- ✚ The estimate for 2016/17 is based on the adjustment on all sectors after one-off events such as the Tupou College 150 Anniversary, the King's Coronation, LDS Missionary 100<sup>th</sup> years in Tonga and Church activities;
- ✚ Recovery in the Agricultural sector after the drought in 2014/15;
- ✚ A more vibrant banking sector supported by growth-enhancing monetary policies by NRBT;
- ✚ Favourable economic conditions in major trading partners and spillover effects to Tonga's economy;
- ✚ Contribution of incomes from seasonal workers to remittances—RSE and SWP—as well as expanding remittances inflow from Diaspora Tongans and increased foreign aid;
- ✚ Completion of the Ha'apai reconstruction after cyclone Ian;
- ✚ Boost in construction sector is assumed to have an impact on all other sectors of the economy;
- ✚ More vibrant domestic economic activities supported by sound fiscal policies and development finance support to small scale industries;
- ✚ Enhanced overseas marketing activities to support exports;
- ✚ Delay in implementation of earlier planned high impact construction projects from 2016/17 to 2017/18; and
- ✚ Inflationary pressures from kava-Tonga, global oil prices and imported goods.

It is important to highlight that Tonga is confronted by a number of risks, both domestic and foreign which could impact our forecasts in the near term and in outer years. These risks include:

- ✚ Vulnerability to changes in weather conditions. In this regard, should the El Nino weather conditions continue, there remains the risk of prolonged dry conditions that can limit production in the agricultural sector. Furthermore, the potential for large cyclones, with several recent near misses, remains an ongoing risk for the primary sector.
- ✚ Degree of uncertainty in the size and timing of development funded construction projects which could cause weaker growth in the near-term. However, it is anticipated that the commencement of many high impact construction projects will mitigate this risk.
- ✚ External risk in terms of conditions of Tonga's main trading partners may result in a weaker global growth and could weigh on Tonga via reduced grants, remittances, tourists arrival and demand for exports.
- ✚ Domestic risks which include unforeseen increases in fiscal expenditure, especially on wages could lead to increases in financing needs and might affect debt sustainability.
- ✚ The acceleration in credit growth could create risks to stability of the financial sector over the medium term although the banking sector is well capitalized and non-performing loans (NPLs) are low.

EXECUTIVE TABLE 1: MACRO INDICATORS

	2015/16e	2016/17f	2017/18f
<b>Real Sector</b>	<i>Annual % change</i>		
Real GDP	3.4	2.7	3.4
Nominal GDP	5.1	5.9	5.6
GDP deflator	1.69	3.06	2.10
CPI inflation (annual average)	-0.62	1.36	1.43
	<i>T\$ million</i>		
Nominal GDP	889.5	941.9	994.6
<b>Fiscal Sector</b>	<i>% of nominal GDP</i>		
Revenue and Grants	40.5	44.5	54.4
Domestic revenue	24.1	25.4	29.1
Tax revenue	20.7	21.3	24.9
Non-tax revenue	3.4	4.1	4.2
Grants	16.4	19.1	25.3
<i>of which : budget support</i>	3.1	2.5	3.8
Expenditure	39.0	44.9	55.7
Operating expenses	32.0	34.0	41.0
Capital expenditure (net)	7.0	16.4	9.9
Financing	1.5	-0.4	-1.3
Financial assets (net)	3.1	0.3	1.5
Financial liabilities (net)	1.6	0.8	0.2
<b>External Sector</b>	<i>% of nominal GDP</i>		
Current Account (OET basis)	-0.1	-0.1	-0.1
Goods trade balance	-33.3	-36.0	-39.1
Services trade balance	1.7	1.8	2.0
Capital account (OET basis)	1.8	1.9	1.9
Official reserves	39.9	39.3	37.1
	<i>T\$ million</i>		
Nominal exports (Goods & Services)	169.0	172.3	175.8
Nominal imports (Goods & Services)	499.1	461.0	465.8
Remittances	256.3	261.4	266.7
Exchange rates	<i>end of period</i>		
TOP/USD	2.21	2.05	2.03

*e = preliminary estimates**f = provisional estimates**Sources: MOFNP, NRBT and Statistics Department*

## B. Government Budget 2017/18 grouped by TSDF II Pillars

The review of global, regional and domestic economic conditions, the 2016/17 priorities and implementation challenges to date, as well as deep reflection on HM's address to Parliament, all provide the basis for achieving set goals and strategic direction the country needs to take in the near and medium term. An opportunity also arises for further consolidation and alignment of the 2017/18 budgeting process with the implementation of TSDF II that already encapsulate all elements of the SDGs, towards realisation of the national impact: *A more progressive Tonga supporting a higher quality of life for all*. To this end, the 2017/2018 budget priorities are namely:

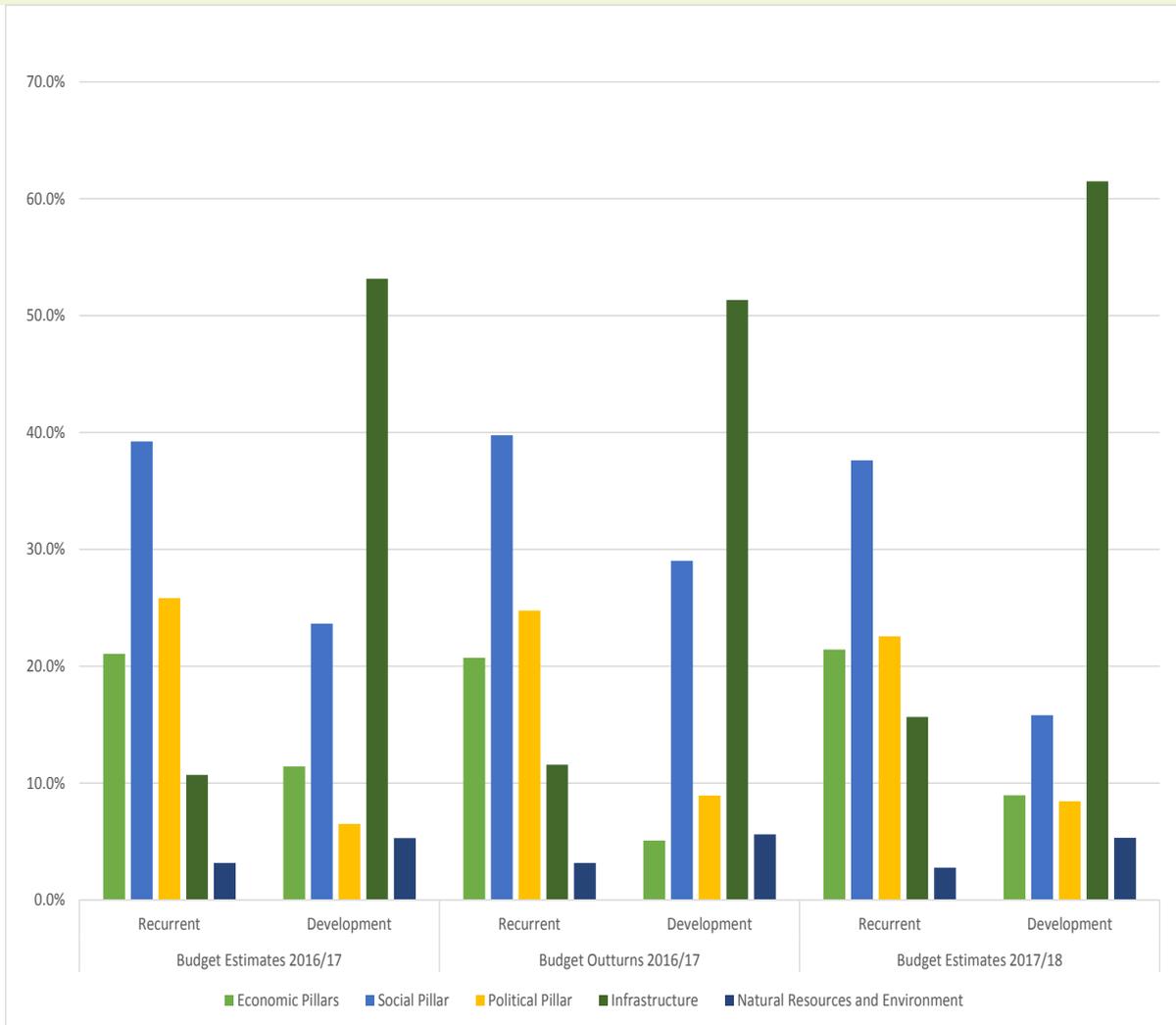
- ✚ Sports development;
- ✚ Improving Total Factor Productivity;
- ✚ Developing the private sector, manufacturing and tourism in particular;
- ✚ Improving the functionality of existing infrastructure;
- ✚ Social Development: health and quality of education;
- ✚ Climate change resilience and renewable energy;
- ✚ Good Governance; and
- ✚ Completion of on-going projects and high impact capital projects.

The main objective of these priorities is to guide the 2017/2018 budget and to appropriately support the implementation of projects and programmes identified in TSDF II. The identified priorities are further designed to underpin a One Process balanced and integrated approach that will put the country on a resilient and sustainable development pathway.

The 2017/2018 recurrent and development Budget estimates by TSDF Pillars are illustrated in *Executive Table 2* and *Executive Figure 1*. Three Institutional Pillars—Social Pillar (\$129.6 million or 38%); Economic Pillar (\$73.82 million or 21.4%); and Political Pillar (\$77.72 million or 23%)—dominate the recurrent budget for 2017/2018. On the other hand, the Infrastructure Pillar that consists mostly of aid funded projects and programs dominates by a huge margin the government development budget for 2017/18, with an estimate of \$154.5 million (62 percent). This is followed by the Social Pillar, with a development budget estimate of \$39.7 million (16 percent). The details of the 2017/2018 development budget by pillar over the MTBF period are discussed in Section 4.2.

As alluded to previously, both recurrent and development budgetary allocations to the TSDF II Pillars over the MTBF period reflect Government priority intervention areas in Health and other social services, the promotion of skills acquisition and total factor productivity, building resilience to climate change and providing conducive environment for private sector development and enhanced diversification of the economy in the near to longer term.

**EXECUTIVE FIGURE 1 : GOVERNMENT BUDGET 2017/18 GROUPED BY TSDF II PILLARS (\$M)**



*Source: MOFNP*

**EXECUTIVE TABLE 2: GOVERNMENT BUDGET 2017/18 GROUPED BY TSDF II ORGANIZATIONAL OUTCOMES (\$M)**

TSDF II Pillars	Budget Estimates 2016/17		Budget Outturns 2016/17		Budget Estimates 2017/18	
	Recurrent Budget	Development Budget	Recurrent Budget	Development Budget	Recurrent Budget	Development Budget
<b>Economic Pillar</b>	<b>60.1</b>	<b>29.7</b>	<b>59.0</b>	<b>8.2</b>	<b>73.8</b>	<b>22.5</b>
1.1: Improved macroeconomic management and stability with deeper financial markets	38.6	4.0	37.4	3.2	46.2	3.8
1.2: Closer Private Public Partnership for Economic Growth	4.3	7.3	5.1	4.1	6.0	11.7
1.3: Strengthened business enabling environment	8.8	0.9	8.2	0.3	11.2	0.5
1.4: Improved public enterprise performance	1.1	0.2	1.1	0.3	1.2	0.2
1.5: Better access to and use of overseas trade and employment and foreign investment	7.3	17.3	7.2	0.3	9.1	6.4
<b>Social Pillar</b>	<b>112.0</b>	<b>61.4</b>	<b>113.2</b>	<b>47.1</b>	<b>129.6</b>	<b>39.7</b>
2.1: Improved collaboration with and support to civil society and community groups	4.4	1.0	5.1	0.1	5.1	1.3
2.2: Closer Partnership between Government, Churches & Other Stakeholders for community development	1.4	10.0	1.5	1.9	1.9	4.3
2.3: More appropriate Social & Cultural Practices	4.6	1.9	4.8	1.9	5.2	1.3
2.4: Improved Education & Training Providing Lifetime Learning	45.0	22.6	42.9	13.3	51.4	18.9
2.5: Improved Health Care and Delivery Systems	30.0	21.8	32.0	27.2	33.4	11.2
2.6: Stronger integrated approaches to address both communicable & non - communicable diseases	3.4	4.1	3.2	2.5	9.0	2.0
2.7: Better care & support for vulnerable people, in particular the disabled	14.5	0.0	14.9	0.1	14.3	0.6
2.8: Improved collaboration with the Tongan diaspora	8.8	0.0	8.7	0.0	9.2	0.0
<b>Political Pillar</b>	<b>73.7</b>	<b>16.9</b>	<b>70.5</b>	<b>14.5</b>	<b>77.7</b>	<b>21.2</b>
3.1: More Efficient, Effective, Affordable, Honest, Transparent & Political Public Service focus on clear priorities	31.2	2.4	30.8	0.8	34.5	2.0
3.2: Improved Law & Order and Domestic Security appropriately applied	19.5	4.6	18.6	4.2	20.5	4.5
3.3: Appropriate decentralization of government admin with better scope for engagement with the public	1.2	1.0	1.1	0.0	1.3	0.8
3.4: Modern & Appropriate Constitution, laws & regulation reflecting international standard of democratic of democracies processes	4.0	0.0	3.0	0.0	4.6	0.1
3.5: Improved working relations & coordination between Privy Council, executive, legislative & judiciary	2.9	0.0	2.8	0.0	3.1	0.0
3.6: Improved collaboration with development partners	0.3	2.3	0.3	1.4	0.5	1.8
3.7: Improved Political and Defense Engagement within the Pacific and the rest of the world	14.6	6.6	14.0	8.0	13.1	12.0

Source: MOFNP

Table Cont.

<b>Infrastructure &amp; Technology Inputs</b>	<b>30.6</b>	<b>138.1</b>	<b>32.9</b>	<b>83.3</b>	<b>53.9</b>	<b>154.5</b>
4.1: More reliable and affordable energy services	0.7	19.3	0.7	23.6	1.1	27.0
4.2: More reliable, safe, affordable transport services	9.6	31.9	11.3	28.4	17.3	41.8
4.3: More reliable, safe & affordable information and Communication Technology used in more innovative	0.9	24.1	0.8	1.9	1.0	3.9
4.4: More reliable, safe & affordable, building and other structures	15.5	60.3	16.3	23.8	30.3	68.3
4.5: Improved use of research & development focussing on priority needs based on stronger foresight	3.6	0.0	3.5	0.0	3.9	0.0
4.6: More reliable, safe, affordable water supply and control, and sanitation services	0.3	2.5	0.3	5.6	0.3	13.5
<b>Natural Resources and Environment Inputs</b>	<b>9.0</b>	<b>13.7</b>	<b>9.0</b>	<b>9.1</b>	<b>9.5</b>	<b>13.4</b>
5.1: Improved land use planning & management for private and public spaces	1.9	0.1	1.8	0.1	2.7	2.3
5.2: Improved used of natural resources for long term flow of benefits	2.4	2.1	2.5	4.7	1.6	2.3
5.3: Cleaner environment with improved waste recycling	0.8	0.0	0.8	0.0	0.8	0.0
5.4: Improved resilience to natural disasters and impact of climate change	3.9	11.5	3.9	4.3	4.4	8.8
<b>TOTAL</b>	<b>285.5</b>	<b>259.8</b>	<b>284.6</b>	<b>162.1</b>	<b>344.5</b>	<b>251.3</b>

Source: MOFNP

## C. Fiscal Conditions

The 2017/2018 Budget continues to be guided by TSDF II, with Government Priorities as stated above with further details in *section 3*, that takes into full account the underlying conditions and overall fiscal space over the medium term. The Total Cash Appropriation in the budget is \$382.4 million. When in-kind support is included, the total budget covering recurrent and development is \$595.8 million. As illustrated in *Executive Table 3*, this consists of recurrent expenditure of \$344.5 million (58%) and development expenditure \$251.3 million (42%). The total expenditure will be financed by development receipts (grants) of \$228.6 million, recurrent receipts of \$285.0 million, Budget support in grants of \$23.5 million, and revolving fund of \$11.1 million. This implies a financing of 92.0 percent by receipts and deficit financing of 8.0 percent.

Government's fiscal strategy in the medium term is to maintain fiscal sustainability. It also needs to respond to changing domestic, regional and global conditions, adhere to budget support joint policy matrix and agreed fiscal anchor highlighted below, and at the same time meet the aspiration of the people of Tonga. The fiscal consolidation targets are to:

- ✚ Raise domestic revenue collections to pre-Global Financial Crisis levels of at least 22 percent of GDP;
- ✚ Minimize external borrowing, and only borrow externally on high concessional terms;
- ✚ Maintain nominal external debt below 50 percent of GDP in outer years; and
- ✚ Maintain public remuneration costs at no more than 53 percent of domestic revenue and 45 percent of operating expenditure.

**EXECUTIVE TABLE 3: FINANCING OF THE BUDGET 2017/18 (\$M)**

<b>Details</b>	<b>Cash</b>	<b>Inkind</b>	<b>Total</b>	<b>%</b>
<b>Total Expenditure</b>	<b>382.4</b>	<b>213.4</b>	<b>595.8</b>	<b>100%</b>
Total Dev. Expenditure	37.9	213.4	251.3	42%
Total Recurrent Expenditure	344.5	-	344.5	58%
<b>Total Receipts</b>	<b>357.5</b>	<b>190.7</b>	<b>548.2</b>	<b>92%</b>
Development Receipts (Grant)	37.9	190.7	228.6	
Recurrent Receipts	285.0	-	285.0	
Budget Support (Grants)	23.5	-	23.5	
Revolving Funds	11.1	-	11.1	
<b>Deficit Financing</b>	<b>25.5</b>	<b>22.7</b>	<b>48.2</b>	<b>8%</b>
Bond	14.6	-	14.6	
Budget Support (credit)	10.9	-	10.9	
Development Fund (credit)	-	22.7	22.7	

*Source: MOFNP*

## C.1 GOVERNMENT FINANCE STATISTICS (GFS)

The GFS fiscal balance for 2017/18 is a net borrowing requirement of \$13.4 million, see *Executive Table 4*. A net borrowing requirement of \$3.9 million is estimated for 2016/17, following another borrowing requirement of \$0.9 million for 2018/19. The GFS presentation of the budget is fully explained in *Section 4.3*. It illustrates Government borrowing requirement in the next three years of the MTBF, with a net lending of \$48.7 million in 2019/20 that results from the substantial increase in principal repayments of the EXIM China loans.

Fiscal balance has been maintained at a very low level with an average of fiscal deficit of 1 percent of the nominal GDP in the last 8 years up to 2016/17. This low level of fiscal outcomes reflects the recovery of domestic revenue and prudent management of government expenditure. It is however estimated at about 4.5 percent of GDP in 2019/20 given the principal repayments of the EXIM China loans scheduled to commence.

The operating revenue and grants estimates for 2017/18 is \$541.1 million, comprising of \$247.4 million from Tax revenue, \$42.2 million from other revenue and \$251.3 million from grants. Total (current) expense for 2017/18 is estimated at \$407.8 million. The largest item is the use of goods and services of \$171.6 million. This is followed by compensation of employees of \$148.7 million. The gross operating balance is a surplus of \$133.3 million.

**EXECUTIVE TABLE 4: FISCAL BALANCE (NET LENDING/BORROWING REQUIREMENT) (\$M)  
2015/16 – 2019/20**

	Actual 2015/16	Revised Estimate 2016/17	Estimates 2017/18	Projections	
				2018/19	2019/20
Fiscal Balance (\$m)	13.7	-3.9	-13.4	-0.9	-48.7
Percent of GDP (%)	1.5	-0.4	-1.3	-0.1	-4.5

Source: MOFNP

Total public debt as at 30 June 2017 is estimated at \$470.3 million (50 percent of GDP), an increase of 0.9 percent from the level in June 2016. This is mainly due to an increase in external debt to \$413.9 million (44 percent of nominal GDP); nearly two thirds of which is owed to EXIM Bank. The main change since June 2016 was the loan component of budget support from World Bank to the Pacific Resilience project, in addition to exchange valuation effect due to the Pa'anga depreciation against some of the borrowing currencies. It needs to be highlighted that the mutual agreement between EXIM Bank and Government of Tonga to defer repayment of principal of China loans for a period of five years will lead to higher debt service obligations starting in 2018/19.

## C.2 RECURRENT BUDGET

The full details of Government recurrent Budget for 2017/18 are discussed in *Section 4.1*. The recurrent budget for 2017/18 is estimated at \$344.5 million. Over the MTBF period Government will run a cash surplus in 2017/18, 2018/19 except in 2019/20, a cash deficit is anticipated. With budget support, a cash surplus of \$0.6 million is estimated for 2017/18. The cash surplus is projected to increase to \$6.1 million in 2018/19 and a larger cash deficit of \$2.4 million in 2019/20 is anticipated. The cash deficit in 2019/20 will result in large part from the additional budget allocation of \$13.9 million for sports development and other government priority projects, *Executive Table 5*.

**EXECUTIVE TABLE 5: GOVERNMENT "RECURRENT BUDGET (\$M)**

Details	Actual 2015/16	Budget Estimate 2016/17	Revised Estimate 2016/17	Budget Estimate 2017/18	Projection 2018/19	Projection 2019/20
<b>Budget Revenue (Total Recurrent Receipts)</b>	<b>267.6</b>	<b>285.6</b>	<b>285.7</b>	<b>345.2</b>	<b>351.1</b>	<b>358.2</b>
<b>Total Domestic Receipts</b>	<b>234.5</b>	<b>255.2</b>	<b>258.1</b>	<b>310.7</b>	<b>316.7</b>	<b>323.8</b>
Domestic Revenue	211.7	232.0	236.8	280.9	286.9	297.6
Transfers & Bond Receipts	19.8	14.9	13.3	18.7	19.1	15.5
Revolving Fund Receipts	3.0	8.3	7.9	11.1	10.7	10.7
<b>Budget Support</b>	<b>33.1</b>	<b>30.4</b>	<b>27.6</b>	<b>34.4</b>	<b>34.4</b>	<b>34.4</b>
<b>Budget Expenditure (Total Recurrent Payments)</b>	<b>245.2</b>	<b>285.5</b>	<b>284.6</b>	<b>344.5</b>	<b>345.1</b>	<b>360.6</b>
<b>Operating Expenditure</b>	<b>219.8</b>	<b>254.8</b>	<b>255.0</b>	<b>307.0</b>	<b>295.4</b>	<b>312.6</b>
Established & Unestablished Staff	117.8	136.2	134.6	148.0	143.4	148.5
Purchase of Goods & Services	29.4	34.2	33.3	42.2	41.1	41.0
Other Operating Expenditures	72.5	84.4	87.1	116.8	110.9	123.1
<b>Other Expenditure/ Payments</b>	<b>25.4</b>	<b>30.6</b>	<b>29.6</b>	<b>37.5</b>	<b>49.7</b>	<b>48.0</b>
<b>Cash Deficit/ Surplus</b>	<b>22.4</b>	<b>0.1</b>	<b>1.1</b>	<b>0.6</b>	<b>6.1</b>	<b>(2.4)</b>

Source: MOFNP

*Executive Table 6* shows the distribution of recurrent payments by island group. Given that majority of the population live on Tongatapu, and all the central services are based there, it should be expected that some two-thirds of expenditure goes to the Island. The details for the development budget by location are contained in *Section 4.2*.

**EXECUTIVE TABLE 6: RECURRENT BUDGET BY LOCATION (\$M)**

Location	Actual 2015/16	Budget Estimates 2016/17	Revised Estimates 2016/17	Budget Estimate 2017/18	Projection 2018/19	Projection 2019/20
Nationwide	62.4	74.9	76.7	105.0	97.4	96.2
Tongatapu	154.1	175.0	171.3	196.5	205.3	221.0
Vava'u	10.4	13.7	14.6	15.7	15.4	15.8
Ha'apai	5.6	6.9	7.0	8.5	8.9	9.1
Eua	3.6	4.9	5.0	6.8	6.4	6.7
Niuaotupapu	1.5	1.6	1.6	2.0	2.1	2.1
Niuafo'ou	1.1	1.3	1.3	1.6	1.5	1.5
Overseas	6.6	7.2	7.2	8.4	8.3	8.3
<b>Grand Total</b>	<b>245.2</b>	<b>285.5</b>	<b>284.6</b>	<b>344.5</b>	<b>345.1</b>	<b>360.7</b>

*Source: MOFNP*

### C.3 DEVELOPMENT BUDGET

International development assistance continues to provide significant contribution that complement domestic resources to ensure that government's vision is achieved. As shown in *Executive Table 7*, two means of channeling funds for projects/programs are cash and in-kind. Programs that are funded by multilateral banks are on grants and loan basis.

The estimated budget for 2017/18 amounts to \$251.3 million, a decrease of 3.3 percent over the 2016/17 original estimates. Major construction projects for the financial year include upgrading of sports facilities and construction of new buildings and plants in energy, communication, health, education and water sectors. These projects reflect increased assistance from donors based on the requests from government. Both cash and in-kind development budget estimates are also expected to increase over the MTBF period, aligned with growing need for infrastructure investment to build resilience to climate change and other construction projects in health, education and other priority projects.

**EXECUTIVE TABLE 7: TOTAL DEVELOPMENT EXPENDITURES (CASH AND IN-KIND \$MILLIONS)**

	Actual 2015/16 (\$m)	Original Estimate 2016/17 (\$m)	Estimated Outturn 2016/17 (\$m)	Budget Estimate 2017/18 (\$m)	Budget Projection 2018/19 (\$m)	Budget Projection 2019/20 (\$m)
<b>Cash</b>	30.6	42.4	30.5	37.9	29.4	25.7
<b>Inkind</b>	91.4	217.4	131.7	213.4	243.2	270.2
<b>Grand Total</b>	<b>121.9</b>	<b>259.8</b>	<b>162.1</b>	<b>251.3</b>	<b>272.6</b>	<b>295.9</b>

Source: MOFNP

*Executive Table 8* illustrates the disaggregation of development expenditure by location. It reveals that most of the projects are implemented in Tongatapu. However there are some projects that are implemented across the island groups but coded as National Programs.

**EXECUTIVE TABLE 8: DEVELOPMENT BUDGET BY LOCATION (\$M)**

Location	Actual 2015/16 (\$m)	Original Estimate 2016/17 (\$m)	Estimated Outturn 2016/17 (\$m)	Budget Estimate 2017/18 (\$m)	Budget Projection 2018/19 (\$m)	Budget Projection 2019/20 (\$m)
Nationwide	15.6	55.4	27.1	52.4	134.2	201.4
Tongatapu	83.4	172.7	103.3	163.0	92.3	64.3
Vava'u	0.2	1.4	4.6	11.1	16.0	16.0
Ha'apai	20.7	13.0	19.1	17.4	18.4	13.0
Eua	1.0	6.9	5.0	2.6	3.8	0.5
Niutoputapu	1.0	2.2	3.0	4.2	7.6	0.7
Niuafo'ou	0.0	8.2	0.0	0.5	0.4	0.0
<b>Total</b>	<b>121.9</b>	<b>259.8</b>	<b>162.1</b>	<b>251.3</b>	<b>272.6</b>	<b>295.9</b>

Source: MOFNP

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# 1 Introduction

The **Budget theme** for 2017/18 “*Institutionalizing of Plan the Work and Work the Plan with monitoring and evaluation*” highlights the fact that planning the work and working the plan will not happen over night but through continuous and persistent efforts and endeavour over time to achieve “*A more progressive Tonga supporting a higher quality of life for all*”. This long term commitment is supported by our country’s motto: “*God and Tonga are my inheritance*” which provides the overarching guidance to Tonga’s Strategic Development Framework (TSDF) II.

This **Budget statement** has six main sections.

**Section 2** provides a broad overview of global, regional and domestic economic and social outcomes and outlook for Tonga.

**Section 3** sets out the budget strategy priorities in the context of TSDF II Outcomes with updates on progress to date for 2016/17 and the budget strategy priorities for 2017/18.

**Section 4** discusses the funding sources for 2017/18 budget which include both recurrent and development sources. The GFS classification of the 2017/18 budget and government’s debt position are also covered in this section.

**Section 5** provides the conclusion; and

**Section 6** provides the Appendices with five subsections: (i) GDP Sector performance and Economic Outlook for 2016/17 to 2019/20; (ii) Balance of Payments and Monetary Outcomes; (iii) Social Development Outcomes; (iv) Supporting Tables for the Budget and (v) Acronyms.

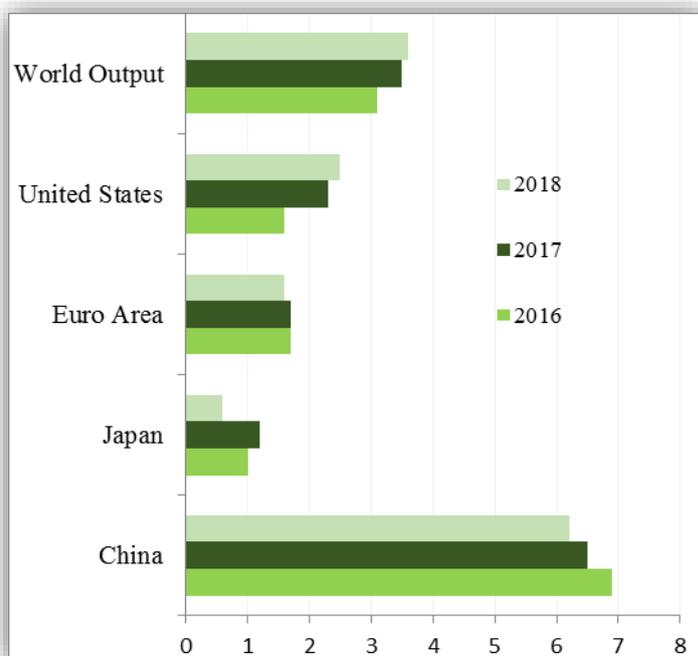
**Note:**

Minor differences between constituent figures and totals are due to rounding

## 2 Economic and Social Development Outcomes and Outlook

### 2.1 Global Highlights

FIGURE 2-1: REAL GDP GROWTH (ANNUAL)



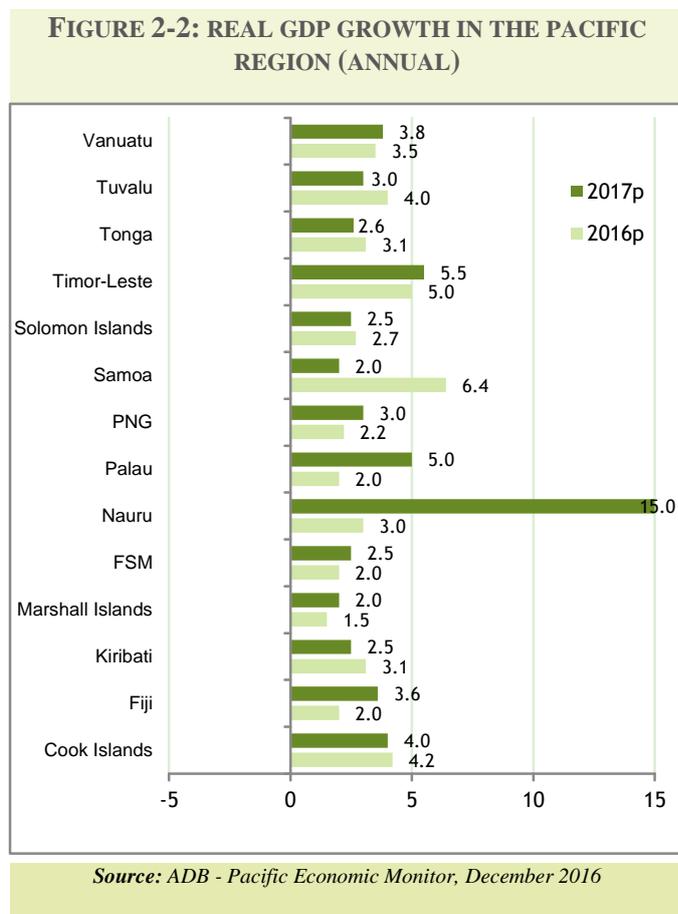
Source: WEO update – April 2017, IMF

The global economic performance continues to be subdued, largely driven by; Britain's exit from the European Union, the risk associated with rebalancing in the Chinese economy, slow recovery of commodity prices, and declining volumes of trade. As a result, the International Monetary Fund's outlook of April 2017 projects a modest global growth of 3.1 percent in 2016, from 3.4 percent recorded during 2015. The global economic outlook for 2017 is however positive, with global growth rate expected to reach 3.5 percent, underpinned by continued positive growth of 4.5 percent in emerging market and developing economies during the same year. Growth in advanced economies is also expected to improve slightly from 1.7 percent in 2016 to 2.0 percent in 2017; having declined from 2.1 percent achieved in 2015 due to weak productivity growth, low investment, and

subdued demand in the wake of global commodity prices decline. Barring any unforeseen circumstances, this momentum is expected to continue in 2018; hence the global rate of 3.6 percent projected for 2018 (see *Figure 2-1*). Growth in emerging market and developing economies (EMDEs) is also expected to peak at 4.8 percent in 2018. The growth forecast for China in 2017 is 6.5 percent—a first quarter growth rate of 6.9 percent has just been released for China—on expectations of continued accommodative policy support. However, risk of over-reliance on policy stimulus measures could result in significant disruptive effects that might be further aggravated by capital outflow pressures, especially in a more unsettled external environment.

The global crude oil prices jumped above US\$50 per barrel by end of November 2016, after OPEC sealed a deal to reduce production by 1.2 million barrels per day (mbpd) to about 32.5 mbpd for six months from the start of January 2017. In the first two weeks of December 2016, crude oil prices surged to over US\$57 per barrel as non-OPEC countries, mainly Russia and other big crude exporters also agreed with OPEC to reduce their supply by 558,000 barrels a day. In these regards, the global market continues to rebalance, as consumption rises while non-OPEC supply declines based on the agreements. Sharp upward swing in oil price was recorded in the wake of the US targeted missile strike in Syria on the 5<sup>th</sup> of April 2017; the market anticipating possible Iran, Russia and Iraq reactions to the strike. Moreover, current signal from Saudi Arabia indicates that 2017 may as well witness a gradual dismantling of the 2016 OPEC agreements if shale oil production in the United States does not stabilize .

## 2.2 Regional Highlights



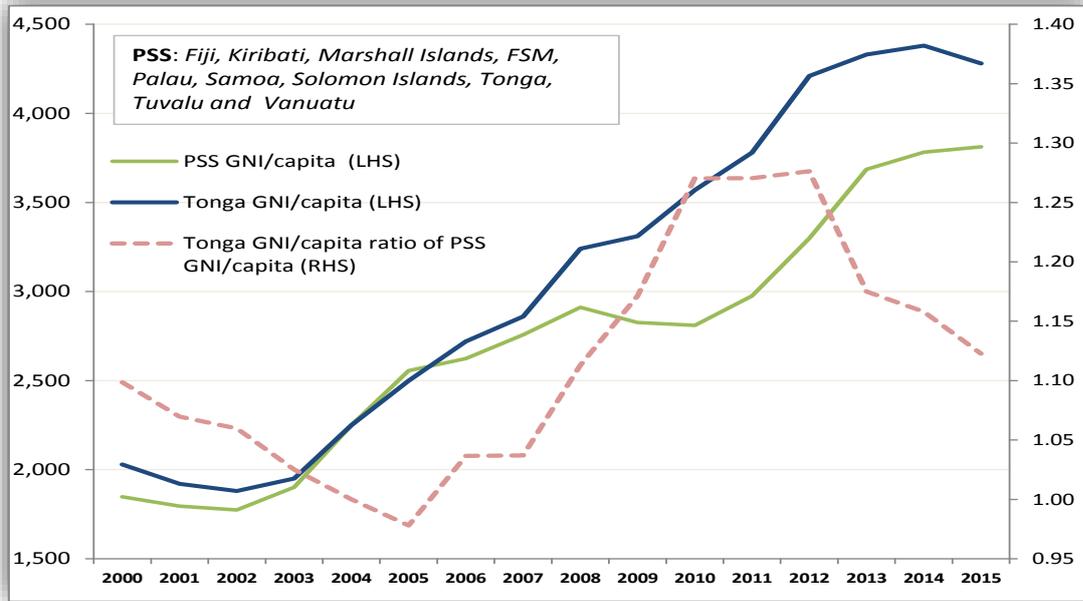
In the meantime, growth in the Pacific Island economies is projected by the Asian Development Bank at an average of 4.1 percent in 2017. This is slightly higher than the 3.2 percent projected for 2016. The slower growth rate in 2016 was a result of the spillover effects of the El Nino and its attendant variabilities in rainfall patterns that impacted negatively on agricultural output and subsequently on economic growth in almost all of the economies in the Pacific Region in 2015/16. Tonga, Samoa and Vanuatu in particular, felt the negative impact on their agricultural output and Fiji suffered severe loss to the cyclone Winston in early 2016. Furthermore, the region continues to be impacted by continuous changing migration patterns of commercial fish species due to climate change and facing increasing risks of tropical cyclones.

## 2.3 Growth in Tonga compared to the Region

**Figure 2-3** illustrates that the GNI per capita for Tonga slowed down by 2 percent in 2015, while the GNI per capita for the Pacific Island Small States (PSS) has been on the upward trend; it rose by 1 percent over the same period. The overall result is reflected in a drop by 3 percent in the ratio of Tonga’s GNI per capita to PSS GNI per capita. Over the past decade to 2015, the average growth for Tonga GNI per capita was 5.6 percent, higher than the average for the PSS GNI per capita of 4.2 percent.

Over the past twelve years to 2014, dramatic increases in remittances were driven in large part by inflow from the overseas seasonal workers scheme since it was introduced in 2007. Further expansion of the workers’ scheme would continue to increase Tonga’s GNI and GNI per capita given the slower pace of population growth. GNI per capita for the region as a whole continues to increase; reflecting expanding number of workers from the Pacific Island countries that participate in both the RSE and SWP schemes.

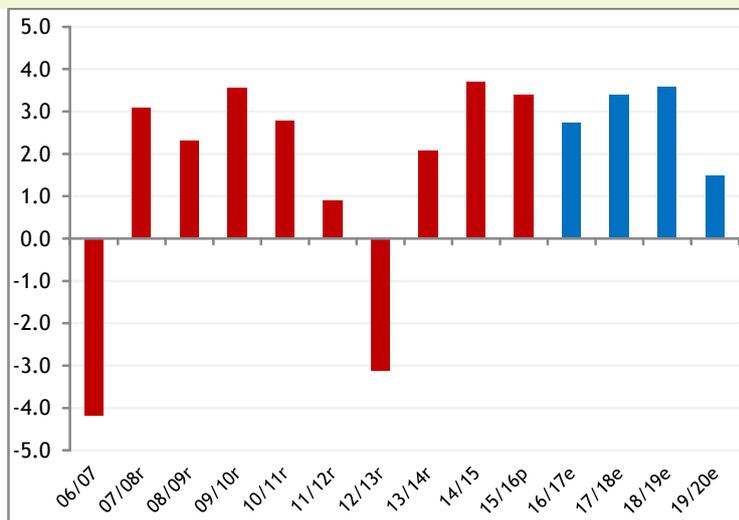
**FIGURE 2-3: PACIFIC ISLAND SMALL STATES (PSS) AND TONGA GNI/CAPITA (ATLAS METHOD), CURRENT USD, 2000-2015**



Source: World Bank (data in calendar year)

## 2.4 Recent Economic Outcomes & Outlook for Tonga

**FIGURE 2-4: REAL GDP GROWTH FOR 2006/07 - 2019/20**



Legend: ■ actual (revised) estimates ■ forward estimates

Sources: Statistics Department and MOFNP

The performance of the economy has been robust with GDP growth of 3.4 percent in 2015/16. This was supported by a combination of various factors including construction activities, recovery in agriculture and effects of events that bolstered higher domestic demand for services and increased remittances.

Growth is estimated to slow down in 2016/17 to 2.7 percent, compared to the previous two years. This is because demand for services are returning to normal level after one-off events—the King’s Coronation in 2015, the Tupou College 150<sup>th</sup> Anniversary in 2016 and annual Church meetings—in addition to the Christmas and New Year festivities and completion of the construction of

Tanoa Hotel. At the same time, growth is expected to continue being supported by increasing cruise ships arrival in Tonga, increasing remittances, strong and continuing public and private construction projects including the St. George building complex, upgrading of Fua wharf, Tropical Cyclone Ian Recovery Projects (TCIRP), Climate Resilience Sector Projects (CRSP) and the Outer Island renewable Energy Projects (OIREP).

**Figure 2-4** illustrates the growth trend of the last decade to 2015/16 including the revised GDP estimates of more recent years, the provisional figures for 2015/16 and forecasts for 2016/17 to 2019/20.

The outlook for outer years indicates positive and strong average growth of around 2.8 percent. A slow down is however anticipated at the end of the forecast period as ongoing construction projects would have been completed. Stronger growth is expected from the **construction sector** in the near term, supported by major donor funded projects and other ongoing in-line construction projects such as the Ma'ufanga to Folaaha Bridge, extension of the submarine cable to Vava'u and Ha'apai, Ha'apai Sanitation and Integrated Urban Resilience Sector Project (IURSP), Green Climate Fund (GCF) coastal protection projects, 'Eua Bridge, and the proposed slipway. Moderate growth is anticipated for the **primary sector** supported by various initiatives and investments in the agriculture, forestry and fisheries industries. Similarly, moderate growth is estimated for the **services sector**, encouraged by continuity of increasing remittances due to strong bond with diaspora residents and increasing number of Tongans that participate in the RSE and SWP seasonal workers schemes, anticipation of more tourist arrivals and travel receipts. Enhanced activities are also expected for the **tourism industry** supported by the commitments from 11 nations in the Pacific Island for the Pacific Whale Declaration that was signed in April 2017. Sound banking environment and a more stable and streamlined government expenditure policy will further boost growth prospects in outer years.

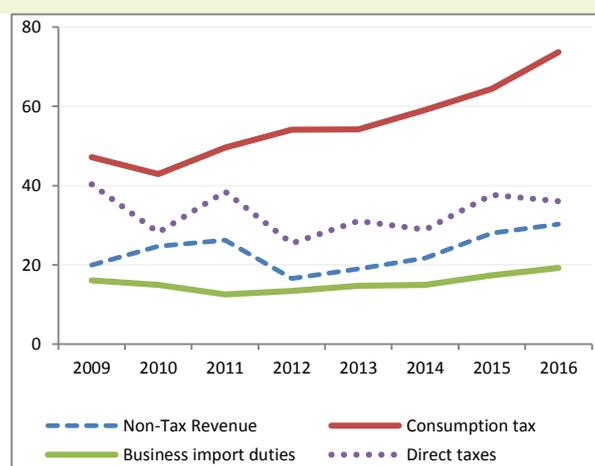
### 2.4.1 Fiscal Position

The fiscal position for financial year 2015/16 is estimated at around 2 percent of GDP. This is mainly due to improved revenue collection from consumption taxes (CT) and the Foreign exchange levy tax to help finance sports development that became operational in June 2016. The improved performance in domestic revenue is consistent with achieving one of the fiscal anchor of at least 23 percent domestic revenue to GDP. Other ratios in the fiscal anchor are as in **Table 2-1**.

Lower expenditure in 2015/16 compared to 2014/15 reflects current government prudent fiscal policy stance. Maintenance of fiscal sustainability requires close monitor of salaries and wage bill. Compensation of Employees in 2015/16 was about 60 percent of Government domestic revenue, higher than the established 53 percent of domestic revenue that is one of the fiscal anchor. Allowing compensation of employees to grow poses a risk on government fiscal space and constricts spending on other priorities **Figure 2-6**.

The operating expenditure recorded a huge improvement in 2015/16 financial year from 2013/14. This is due to fall in the spending on goods and services with strict control.

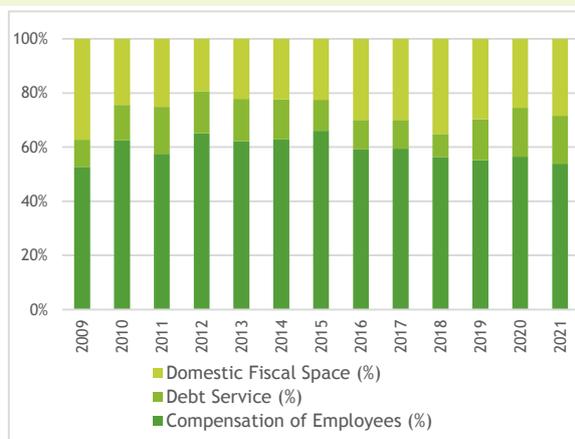
**FIGURE 2-5: DOMESTIC REVENUE (\$M)**



Source: MOFNP

Fiscal balance has been maintained at a very low level with an average of fiscal deficit of 1 percent of the Nominal GDP in the last 8 years. This low level of fiscal outcomes reflects the recovery of domestic revenue and well control expenditure.

**FIGURE 2-6: DOMESTIC FISCAL SPACE (% OF DOMESTIC REVENUE)**



Source: MOFNP

**FIGURE 2-7: EXPENSES (\$M)**



Source: MOFNP

**TABLE 2-1 : FISCAL ANCHORS**

Fiscal Anchors	target	2016/17	2017/18	2018/19	2019/20
Domestic Revenue to GDP (%)	at least 22%	25.4	29.1	24.1	23.3
Compensation of employees (% of Domestic Revenue and operating Expenditure)	not more than 53% of domestic revenue and 45% of operating expenditure	56.7	53.4	51.8	50.3
External Debt to GDP (% of GDP)	below 50%	44.0	42.65	38.8	35.2

Source: MOFNP

## 2.4.2 Main drivers of growth

### 2.4.2.1 Vibrant construction activities

**TABLE 2-2: SECONDARY SECTOR GROWTH RATE**

	12/13r	13/14r	14/15	15/16p	16/17e	17/18e	18/19e	19/20e
Mining and quarrying	-25.7	2.4	9.1	5.8	24.5	30.4	28.5	4.4
Manufacturing	6.8	-0.1	4.2	1.3	0.8	1.0	1.3	1.2
Electricity and water supply	1.3	0.7	2.1	8.3	1.2	1.4	1.3	1.1
Construction	-29.9	3.3	20.2	12.6	16.2	20.0	18.7	2.9
<b>Secondary Sector</b>	<b>-14.5</b>	<b>1.6</b>	<b>10.9</b>	<b>7.8</b>	<b>9.4</b>	<b>12.4</b>	<b>12.5</b>	<b>2.4</b>

*r* - revision (provided by Statistics Department)

*p* - provisional estimates (provided by Statistics Department)

*e* - preliminary estimates (provided by MOFNP)

*Sources:* Statistics Department and MOFNP

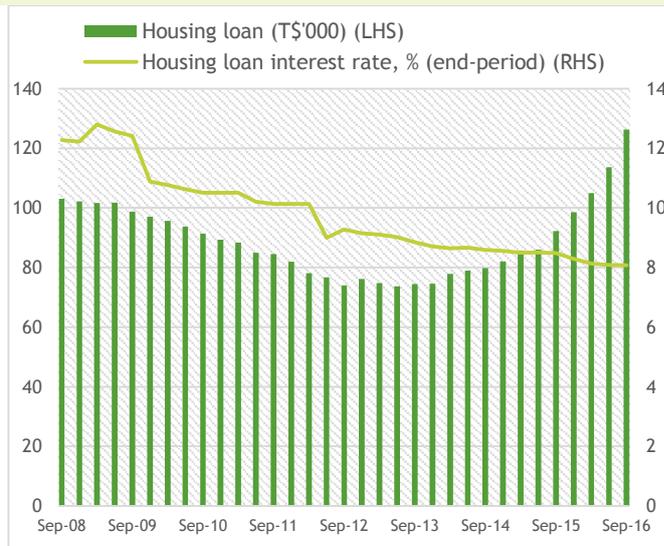
Demand for quarrying products, electricity and water supply and manufacturing products is expected to grow over the forecast period 2017/18 to 2019/20. Increases in demand for these products are driven by growth in bank lending to the construction sector as well as increase in donor funded projects in various sectors.

Quarrying activities is estimated to grow at 5.8 percent for 2015/16 and forecast to pick up in the following three financial years at an average of 21.1 percent. The increasing growth rates for this sector reflect the growing response of quarrying companies to produce sand and different sizes of gravels to meet the growing demand of construction activities. The extension of Fuaa wharf is a huge project which requires a significant amount of gravels. Construction of the new golf course will spur activities in the construction sector as well as related sectors. Moreover, the diverse donor funded construction projects contribute more values to the sector.

The value of building permits issued have increased to \$53 million in November 2016 compared to \$36 million in November 2015. This increase in value of construction is supported by both public and private activities.

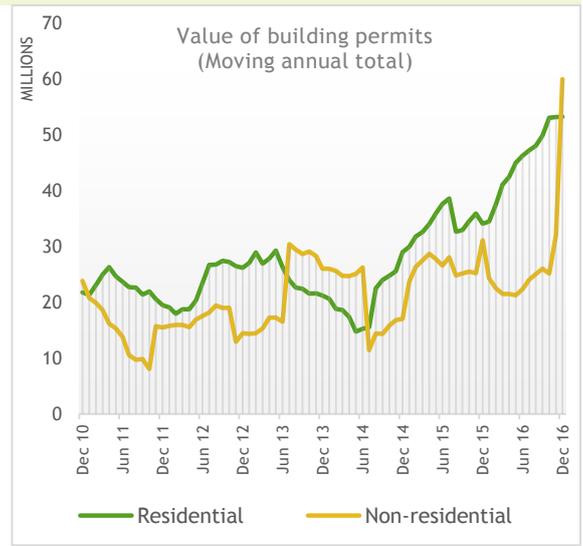
NRBT reports that credit growth was \$53.4 million (16.2%) over the year to January 2017, which exceeded the \$36.3 million (12.4%) growth in the year ended January 2016.

**FIGURE 2-8: HOUSING LOANS**



Source: NRBT

**FIGURE 2-9: VALUE OF BUILDING PERMITS**

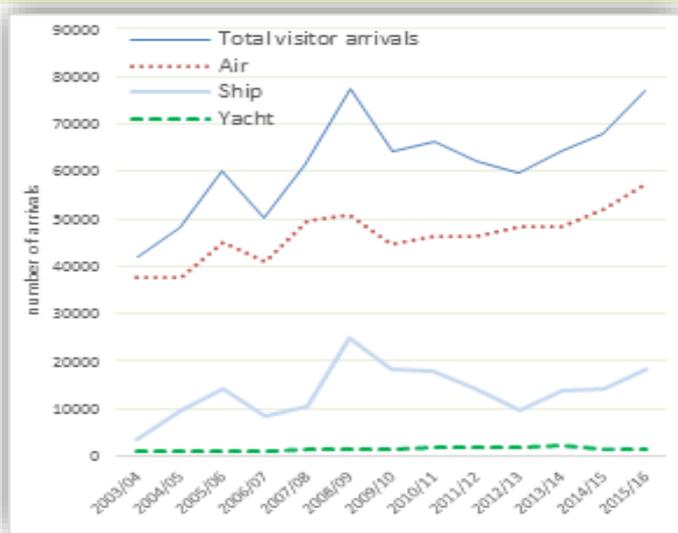


Source: MOI

### 2.4.2.2 Events and Demand for services (Hotels & Restaurants/ Transport & Communication)

The projected moderate slowdown in 2016/17 for services sector is due to normalization of domestic demand, post 2015/16 events. Other one-off events have created a higher demand for services as reflected in almost all of the sub-sectors of the services sector. While the Hotels & Restaurants sector contributes

**FIGURE 2-10: ANNUAL TOTAL TOURIST ARRIVALS**



Source: Statistics Department

relatively small to overall GDP, it does have a significant impact in terms of spillover into the tourism, transport & communication and trade subsectors.

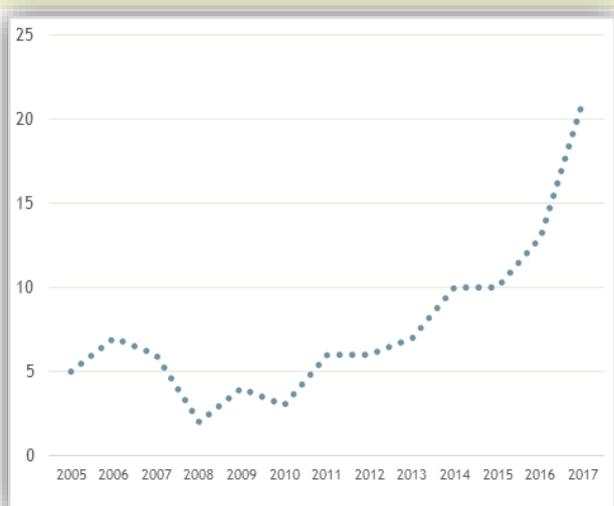
The boost in demand for services aligns with an increase of 8.2 percent (or 3,969) in the number of tourist arrivals by air in 2014/15 compared to 2013/14 and a further rise by 9.8 percent (or 5,134 tourists) in 2015/16 compared to 2014/15. Similarly, the level of travel receipts or tourist earnings recorded for 2015/16 increased by 3.3 percent to \$85.1 million compared to what was recorded for 2014/15. The number of returning residents was also higher by 15.7 percent in 2015/16 compared to 2014/15.

However, the impact of returning residents on the demand for hotels for 2016/17 is expected to be lower as visiting diaspora Tongans prefer to stay with relatives and friends. Hence, a lower growth rate of 0.4 percent on average for the subsector in 2016/17 and the next couple of years is expected. This will

strengthen towards the end of the forecast period supported by the expected expansion in tourist arrivals after upgrading of the Fua’amotu airport. The positive outlook for the subsector is also enhanced by an increase in available hotel rooms associated with the opening of Tanoa Dateline International Hotel in 2016/17. In addition, a small number of new hotels in Tongatapu also offer increased accommodation spaces.

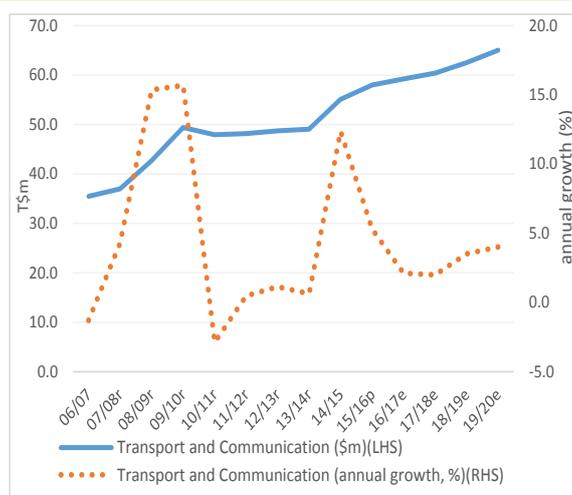
The pick-up in the number of cruise ships arrival by 30 percent in 2016 also supported the growth prospects for the subsector. The number of cruise ships is anticipated to further increase by around 62 percent in 2017 based on the number of confirmed cruise ships that berthed in Tonga in early 2017.

**FIGURE 2-11: NUMBER OF CRUISE SHIP ARRIVED INTO TONGA**



Source: Statistics Department & Tourism Office

**FIGURE 2-12: TRANSPORT AND COMMUNICATION (\$M & %)**



Sources: Statistics Department and MOFNP

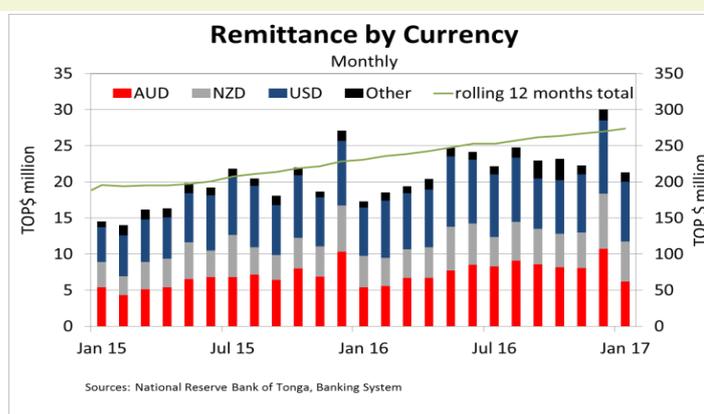
The subsector has also been boosted by the new direct flight between Fiji and Vava’u that became operational in April 2016, just before the Tupou College’s celebration. The growth rate of around 4.6 percent is projected for the outer years based on the assumption that all ongoing and planned infrastructure investment projects are completed. These projects include upgrading of Fua’amotu and Lupepau’u airports, the upgrading of the domestic wharf (Faua) and the new M. V. Vaomapa that cater for the demand for services between Tongatapu and the outer islands. The ongoing road maintenance program will also contribute to this subsector. The communication sector is anticipated to continue to grow at around average in the outer years supported by ongoing investment infrastructure projects such as the extension of the fibre optic cable to the outer islands (Vava’u and Ha’apai) and e-government project.

### 2.4.2.3 Remittances

Remittances (cash) remain an important source of income for Tongans. World Bank (2014) reported that Tonga is one of the highest in the world in terms of remittances to GDP ratio, around 27 percent. Remittances inflow is a social safety net for families; an estimated 80 percent of remittances are being used for immediate consumption by recipient households (World Bank *ibid*). Apart from its impact on individual households, remittances flow also serves to boost demand in other sectors of the economy.

Over the 12-month period to January 2017, remittances reached a new record of \$273.8 million. This was 18.6 percent higher than the previous year with a monthly average of \$22.8 million, in the year ended January 2017. Around 89 percent of the total remittances were received via the FEDs, rising from 86 percent last year. The ease of access of customers to the FEDs' services, supported by its wider geographical coverage contributed to this trend. Total remittance receipts in the major currencies rose over the year with the receipts in Australian Dollar (AUD) increasing the most by \$15.0 million (19%), followed by the United States Dollar (USD) receipts increasing by \$14.3 million (17%) and the receipts in New Zealand Dollar (NZD) rising by \$9.7 million (19%). The rising number of regional seasonal employees also contributed to the higher remittances. Total remittances represented 37 percent of the total OET receipts compared to 41 percent in the previous year.

**FIGURE 2-13: TOTAL PRIVATE REMITTANCES (ANNUAL TOTAL, \$M)**



Source: NRBT

#### 2.4.2.4 Favourable banking environment

A sound banking system plays a crucial role in contributing to economic growth through provision of services and payment systems that increases the efficiency of economic activities. Cheaper lending rates encourage more investments and healthy banking activities for both businesses and households. These benefits are reflected in recent data that indicates a recovery in private sector credit growth after a long period of decline, post global financial crisis.

The NRBT and financial services sector continue to implement a number of macro-prudential and regulatory reforms after non-performing loans (NPLs) peaked at 20 percent in March 2009 and other challenges experienced by the industry before 2009 coupled with the global financial crisis (GFC). With recent improvements in banks' capital and credit quality, bank's total NPL have declined and recorded at 1.9 percent in October 2016. On an annual basis, NPL decreased by 30 percent (\$7.3 million), due mainly to a 12.4 percent (or \$2.4 million) decrease in the NPL by businesses—tourism and manufacturing sectors. Government continuous support—through the Government Development Loan initiative, concessional loan with lower interest rates operated by Tonga Development Bank—have supported growth in domestic private sector credit. Even though lower growth is recorded in business lending, evidence indicates that repayments are on-track. Household lending increased in the year to October 2016 supported by cheaper lending rates. The introduction

of the home improvement loans by the Retirement Board Fund in July 2016 also supported the growth in household lending.

### 2.4.2.5 Prices

Price increases that fueled inflationary pressure was witnessed in the second half of 2016/17 financial year reflecting variations in custom duties on imported food aimed at promoting healthier lifestyle that became operational in July 2016. Annual inflation rate for February 2017 was 8.9 percent compared to 5.4 recorded in January 2017. Over the years, prices of imported food items remain the major contributor to import price indices. Hence, any fluctuation in global commodities' prices tend to reflect in domestic inflation.

### 2.4.2.6 Policy change and Government services

Government policy largely influences projections for the public administration and services subsector. For instance, any change in the government recruitment policy would impact the growth anticipated for the subsector. The recruitment policy in 2014/15 to abolish vacancies for level 9A and below has been reflected in the estimated lower growth rate for 2015/16. The same trend is expected in 2016/17 with an average of 0.5 percent growth in the outer years. Government continues its efforts to prudently manage expenditure within fiscal policy without compromising the delivery of its core services to the public.

### 2.4.2.7 Rebound from drought effects in the Agriculture subsector

The agricultural subsector is projected to grow at 1.1 percent in 2016/17 and is expected to maintain a moderate positive growth over the forecast period to 2019/20. This growth reflects favourable weather conditions after experiencing severe droughts associated with a strong El Nino season in the first half of 2014 which drastically reduced export and local consumption of agricultural products. This was reflected in a negative growth of 4.8 percent in 2014/15 as exports dropped significantly by 17 percent compared to 2013/14. A 2.9 percent decrease in the total volume of domestic production was also recorded in the same period.

The weather conditions in 2015/16 improved as rainfall returned to normal pattern. Rainfall increased by 40 percent compared to 2014/15 which supported increases in agricultural exports. Total export increased by 23 percent out of which 71 percent is squash pumpkin alone. Other commodities also increased: yam by 86 percent and kava powder by 22 percent. Vanilla cured beans increased significantly from 0.77 metric tonnes to 5.89 metric tones (an expansion of about 600%) over the same period.

The Tonga Agriculture Sector Plan (TASP) 2016-2020 was approved by government in December 2015. The TASP is aligned to the TSDF II's National Outcome F: *a more inclusive, sustainable and effective land and environment management with resilience to climate change and risk*. The objectives of TASP are as follows:

- i. To develop a climate-resilience environment;
- ii. To improve enabling environment;
- iii. To develop diverse, climate-resilience farming systems for the Kingdom's islands; and
- iv. To increase and sustain rural income across the Kingdom.

It is anticipated that the implementation of TASP will continue to enhance the performance of the subsector and thereby contribute to overall growth. In addition, TASP promotes climate- resilient and smart farming systems supported by development donors such as FAO, IFAD, MFAT, DFAT, PRC and UNDP.

### 2.4.2.8 Taxation reform

A number reforms to the tax regime have recently been approved by cabinet aiming at further increasing the ability of the country to mobilize domestic revenue as well as enhancing the purchasing power of the poor in the country. The reforms include the following:

- ✚ An increase in the tax-free threshold on PAYE from \$7,400 to \$10,000;
- ✚ The tax rate for those earning \$60,001 and above is increased from 20 percent to 25 percent; this implies higher income earner will have to pay more from 2017/18;
- ✚ Zero-rating for import duties, effective 1st of July 2017 until 2019/20 of construction materials in support of sports development and construction activities in priority areas.

As highlighted, one of the revenue reform measures makes the tax regime more progressive as it increases the purchasing power of lower income earners and assists to address the issue of higher inflationary pressure in the country since mid-2016. Inflation for February 2017 was 8.9 percent, year-on-year. The increase in prices due mainly to recent pick-up in global commodities' prices.

The second set of reform includes migrating a number of goods from import dutiable to excise taxable. These goods are high sugar content beverages (alcoholic and non-alcoholic), and tobacco in support of the campaign against NCDs and associated health risks.

Since construction is the major growth driver for the economy, Government addresses this in the 2017/18 budget by zero-rating duties on a number of construction materials. This initiative will also provide support for other high impact projects.

## 2.5 Risks

Despite the positive outlook for Tonga's economy, there remains challenges and key risks to our economic forecasts which includes the following:

- (i) Vulnerability to changes in weather conditions. To this effect, should El Nino weather conditions continue there remains the risk of prolonged dry conditions that can limit production in the agricultural sector. Furthermore, the potential for large cyclones, with several recent near misses, remains an ongoing risk for the primary sector.
- (ii) Degree of uncertainty in the size and timing of development funded construction projects which could cause weaker growth in the near-term. However, it is anticipated that construction of other priority projects will mitigate this risk.
- (iii) External risk in terms of conditions of Tonga's main trading partners. The risk from a weaker global growth and an increasing risk of retreat from cross-border integration could weigh on Tonga via reduced grants, remittances, tourism and demand for exports.
- (iv) Domestic risks which include unforeseen increases in fiscal expenditure, especially on wages, which could lead to increases in financing needs and threaten debt sustainability.

- (v) The acceleration in credit growth could create risks to the stability of the financial sector over the medium term although the banking sector is well capitalized and non-performing loans (NPLs) are low.

## 2.6 Monetary Policy and Outcome

The National Reserve Bank of Tonga continues to maintain an accommodative monetary policy measures. The measures include:

- (i) Maintain sound monetary policy (refer to *Section 6.1.2* for details);
- (ii) Maintain the minimum loans/deposit ratio of 80 percent to be achieved by June 2017, 85 percent by December 2017 and 90 percent by June 2018;
- (iii) Increase statutory reserve deposit ratio from 5 percent to 10 percent which will be effective in July 2017;
- (iv) Maintain the inflation reference rate at 5 percent;
- (v) To strengthen the Reserve Bank's capacity to adopt monetary policy tools such as open market operations, as well as ability to support the Government's budget financing needs, the amendment to the NRBT Act included deductions from the Revaluation Reserve Account to fund such practices, subject to the Reserve Bank Board's approval;
- (vi) Link all financial institutions' interest rate to the Reserve Bank's monetary policy rate to strengthen the monetary policy transmission mechanism; and
- (vii) Develop the domestic market in order to be more market based and efficient in the issuance of securities, in order to provide local investment opportunities and avoid pressure on the foreign reserves through outward capital flight. All of these measures are to encourage financial inclusion, spur commercial bank lending to support economic growth and encourage the mop up of excess liquidity in the banking system.

One of the outcomes of NRBT's prudent management of reserves assets is the observed persistent growth in the level of remittances. It reached \$380.8 million; equivalent to 10.4 months of import cover as at February 2017. This is about 17 percent higher than the level of remittances recorded in January 2016.

Real exchange rate (real) rose by 0.9 percent at the end of January 2017. This increase affects prices of export of goods and services and are reflected in our balance of trade account. The impact of depreciation in exchange rate impacts positively on the tourism sector and remittances receipts. *Section 6.1.2* elaborates more on NRBT's monetary policy stance and outcomes.

## 2.7 Social Developments

Poor indicators of social development continues to pose a challenge to government in terms of combating NCDs. Available statistics indicate that well over half (61.3 percent) of adult males in Tonga are obese—the highest prevalence of obesity out of 188 countries worldwide—and four of the seven countries in the world where adult female obesity is estimated to be 50 percent or more of the population are in the Pacific: Kiribati, FSM, Tonga and Samoa. Furthermore, three of the top ten countries in the world for highest rates of adult smoking are in the Pacific: Kiribati, Tonga and PNG. In Tonga, it has also been highlighted that about 60 percent of all male deaths and 58 percent of all female deaths of all ages are attributed to cardiovascular disease and diabetes. With continuing negative impact from increasing incidences of mortality from NCDs, life

expectancy in Tonga fell from 71 years in 2007—70 for male and 72 for female—to 67 in 2010; however, it is currently stands at about 73 years (WHO 2015) Under-five mortality has fluctuated widely over the years and stood at 10.7 per 1000 birth in 2013. Maternal mortality ratio, again due to incidences of NCDs, remains a major challenge for the country as it has been on persistent rise over the years. Available statistics indicate a current ratio of 124 per 100,000 live births; from 97 in 2000.

As a joint effort by Government, Ministry of Health and other related agencies have put together strategies and programs to combat NCDs and to minimize the associated risk factors. Tax policy reforms have been approved to reduce the consumption of unhealthy food including alcohol and tobacco with a view to promote healthy lifestyle.

Government continues to implement ongoing domestic and donor funded projects to address NCDs. This includes the Tonga Health Sector Support Program (THSSP) by DFAT and training programmes funded by UNFPA and WHO. The Tonga-Australia Aid Partnership Arrangement also outlines health related targets to reduce the health and economic burden of NCDs through the National Strategy for NCD Prevention and Control 2015-2020's Monitoring and Evaluation framework.

Social Development add another dimension and challenges to the government. Ranging from social indicators, different facets of problems at different levels, the geographical structure of the country and many more factors adding challenges to the government in term of mapping social development. NCDs is a long live factor but recently recognized due to its impact on the population.

The government will also continue to ensure that the disadvantaged and vulnerable groups in the society receive adequate care. Government has approved the increase in monthly stipend of disabled from \$65 to \$75 pa'anga to meet the special needs of people living in/with extremely difficult conditions. This builds on work that has been done in the past years. Donors have been providing fund to further assist in this regard and with technical assistance to build up the capacity of locals in this sector.

Cabinet has approved in March 2017 the increase of the monthly stipend payments under the old age benefit scheme for those who are above 70 years. The revised structure is as follows:

- (i) Increase the \$65 social protection monthly stipend to the old age (70+) as follows:
  - a) Age 70 to 75 to receive \$70 per month;
  - b) Age 76 to 79 to receive \$75 per month; and
  - c) Age 80 plus to receive \$80 per month.

This includes the existing pensioners that fall within the age group specified in (a) above and who are not in any form of cash employment. *Section 6.1.3* outlines further details on Social Development.

## 3 Budget Strategy Priorities in the context of TSDF II

The TSDF is the apex of a cascading system of planning and budgeting, from the national to the organization and staff levels. For the results planned by the TSDF to be achieved, all levels must contribute to the same cascading results. The 2016/17 priorities and implementation challenges to date, as well as deep reflection on His Majesty's address to Parliament, all provide the basis for achieving set goals and strategic direction the country needs to take in the near and medium term. An opportunity also arises for further consolidation and alignment of the 2017/18 budgeting process with the implementation of TSDF II that already encapsulate all elements of the SDGs, towards realization of the national impact: *A more progressive Tonga supporting a higher quality of life for all.*

This section starts with a summary of the MDAs CP review which was undertaken in 2016/17. The purpose of the review was to assess the quality of preparing the CPs as per describe in section 3.1.

### 3.1 MDAs CPs Review

#### 3.1.1 Review of MDAs corporate plans (CPs) as per TSDF II outcomes

This section examines progress made in the last three years by all MDAs measured against organizational outcomes as per respective corporate plans (CPs). The review focused on the following areas:

- i. Quality of CP/Budget 2016/17-2018/19;
- ii. MDAs Results Map and Quality of CPs ;
- iii. Organizational/corporate plan/budget structure analysis; and
- iv. Key findings and recommendations going forward.

#### 3.1.2 Quality of Corporate Plans 2016/17 - 2018/19

For MDAs 2016/17 Corporate Plans, only 25 percent was rated as 'Approaching Adequate' or 'Adequate/Good', and the remaining 75 percent were rated 'So-so', 'Poor' and 'Very Poor'. Refer to **Figure 3-1**. Improving the quality of formulating the Corporate Plan in MDAs is still an ongoing challenge and there is continuous efforts towards *institutionalising of planning the work and working the plan* to strengthen planning capacity within MDAs as per the theme of this Budget Statement.

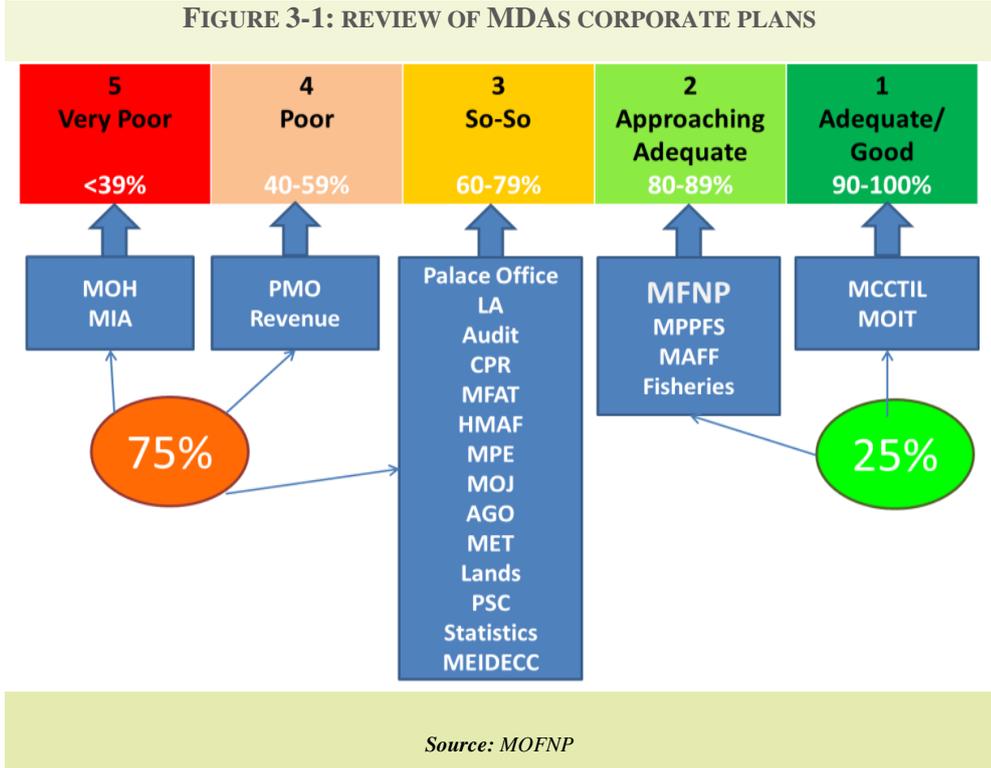


TABLE 3-1: QUALITY ASSESSMENT OF MDAS' CPs AND BUDGET 2015/16-2017/18

MDA	2015/16	2016/17	2016/17 Reassessed		2017/18		Shift Grade
			Detailed	Summary	Summary (Written CP)	Detailed (CP template)	
Palace Office		3		3	2	2	1
LA	3	3		2	1	1	1
TOAG	3	3		3	4	4	-1
Ombudsman		3		3	2	2	1
MFAT	4	3		3	3	3	0
HMAF	4	3		3	2	2	1
PMO	2	4		4		4	0
MFNP	2	2		3	2	2	0
MRC	3	4		3	2	2	1
MPE	3	3		2	1	1	1
MCCTIL	1	1		3	2	2	1
MoJ	2	3		3	2	2	1
AGO	5	3		3	4	4	-1
Police	2	2		3	4	5	-2
Prisons		2		3	1	1	2
Fire		2		3	1	1	2
MoH	3	5		3		2	1
MET	2	3		3		4	-1
MIA	4	5		5	5	5	0
MAFF	5	2		3	2	2	1
MOIT	3	1		2	1	1	1
MLSNR	3	3		3	1	1	2
PSC	2	3		3	2	2	1
Statistics		3		3	2	2	1
MEIDECC	5	3		3	3	2	1
Fisheries		2		2	1	1	1
					<b>Total Grade Shift</b>		<b>16</b>

Source: MOFNP

<b>Adequate/Good:</b> Analysis and presentation good in many areas. Few significant omissions. Good identification of outputs, KPIs usually clear, though targets may still be poor. Areas for improvement and links to the budget generally clear, though could be improved further	1
<b>Approaching Adequate:</b> most areas included and analysed. Some areas showing clarity of analysis, but still some for improvement. Usually good identification of outputs, but KPIs still have weaknesses, and targets often lacking. Links to the budget reasonably clear	2
<b>So so:</b> some areas showing better effort, but quite a bit of work needed to bring the plan up to standard. Some aspects of the planning work weak or omitted. Still not strong and clear, identification of outputs, KPIs, targets, improvement areas and links to the budget	3
<b>Poor:</b> Weak analysis and definition of stakeholder needs and of output. Poor understanding of results structure, poor analysis and diagnosis of performance problems, Weak linkages to the budget; KPIs are not SMART	4
<b>Very Poor:</b> No real attempt on the part of the MDA to adopt the corporate planning structure. Confused/perfunctory analysis and poor understanding of the requirements of the planning process. No attempts to understand and define needs or to identify outputs, No understanding of results structure, absent analysis and diagnosis of performance problems, Very weak linkages to the budget	5
<b>Not assessed:</b> CP summary was not submitted by the time the Budget Statement was published	

**Table 3-1** above shows progress made in quality of MDAs CPs since 2015/16 to 2017/18. Despite there are still some ministries still remained at 5 which means that their CP is very poor, the general trend shows there has been great improvement. This is also reflected in the Total Grade Shift of 16 reported in 2017/18 compared to 2 in 2016/17. Again, this highlights the need to *‘Institutionalize of plan the work, work the plan with M&E’*.

### 3.1.3 Key Findings from MDAs CP Review

Provided below are overall key findings which are common to all MDAs according to various criteria that was used in the marking process:

- i. Approximately 90 percent of MDAs’ organisational, corporate plan and budget structure are well align.
- ii. Lack of monitoring of performance against respective MDAs Corporate Plans.
- iii. Some of the quarterly progress reports are not usually consistent with information submitted in the Corporate Plans.
- iv. Key Performance Indicators (KPIs) are still not SMART - Specific, Measurable, Achievable, Relevant and Timely.
- v. Most MDAs do not properly maintain and update their asset lists as required by the Treasury Instructions.

## 3.2 Budget Strategy 2016/17 Progress

This section highlights (i) responses to His Majesty’s Parliamentary Opening Address in June 2016 and (ii) progress to date on the major priority interventions as stated in the Budget Strategy 2016/17. These priorities are: *completion of on-going and high impact capital projects, improving Total Factor Productivity, maintaining functionality of existing infrastructure, strengthening of human resource and implementation of new Remuneration Framework*. Progress is discussed under each of the TSDF II Pillars.

### 3.2.1 Response to His Majesty’s Parliamentary Address

#### ISSUES from HIS MAJESTY’S ADDRESS

In His Majesty’s Opening Parliamentary Address 2016/17, His Majesty addressed three critical challenges Tonga is facing that necessitates immediate actions including:

1. **Physical Health of his people** - Tonga needs to promote healthy living habits through healthy diet and increase level of physical activities with a view to overcome the challenge of NCDs.
2. **Quality of Education** - Government to ensure educated Tongans are employable both regionally and internationally.
3. **State of the economy** – Growth to be generated through national infrastructure development projects, diversifying the economy via import substitution such as wheat-flour as well as and promoting the agriculture and fisheries industries.

## GOVERNMENT RESPONSE TO HIS MAJESTY'S ADDRESS

Outlined below are government's collaboration towards attaining His Majesty's foresight through the national planning and budgeting process.

### HEALTH AND NCD

- Tax policies have been revised to promote healthy living and reduce the consumption of unhealthy food including alcohol and tobacco.
- DFAT is funding the Tonga Health Sector Support Program (THSSP) through the Ministry of Health which supports health promotion including campaigns against NCDs.
- Government of Tonga and Government of Australia have signed the Tonga-Australia Aid Partnership Arrangement in which one of the targets is to reduce the health and economic burden of non-communicable diseases (NCDs);
- Developed the National Strategy for NCD Prevention and Control 2015-2020's Monitoring and Evaluation framework;
- Government has allocated more than 10 percent of its 2017/18 recurrent budget to MOH for implementation of health programs to combat NCDs including programs by TongaHealth;

### EDUCATION

- Development Partners provide annual assistance of more than \$8 million to education through scholarships by sending Tongans abroad for higher quality level of education to meet overseas standards;
- DFAT provides \$12.5 million under the Skills Development Program while World Bank allocates \$35 million under the Youth Employability Project;
- Government continues negotiations with Australia, New Zealand and other countries to expand the existing seasonal workers scheme into other sectors such as tourism, fisheries, construction, health and others.

### GROWTH AND DEVELOPMENT

- MAFF is working on a proposed project aiming to install a wheat crushing machine with a capacity of 42,000 tons per year in Tonga. The plan is to produce 3,500 tons of flour per year.
- The conceptualization and feasibility study for the Slipway project is now completed and approved by Cabinet and is currently under funding consideration by development partners including China.
- Other relevant initiatives to promote economic growth and development are covered in the next sections.

## 3.2.2 Economic Institutions Pillar

### *Organizational Outcome 1.1: Improved macroeconomic management & stability with deeper financial markets*

- a. Government approved three major fiscal anchors as follows:
  - i. Raise domestic revenue collections to pre-Global Financial Crisis levels of at least 22 percent of GDP;
  - ii. Minimize external borrowing, and only borrow externally on high concessional terms;
  - iii. Maintain nominal external debt below 50 percent of GDP in outer years; and
  - iv. Maintain public remuneration costs at no more than 53 percent of domestic revenue and 45 percent of operating expenditure.
- b. Work towards a technical assistance for the review of non-tax revenue and widening of the collection base of administrative fees and charges is currently being finalized with the ADB and the World Bank
- c. At the same time, individual MDAs are tasked to review their fees and charges as appropriate and submit for Cabinet endorsement while awaiting the outcome of the TA review.
- d. The National Reserve Bank of Tonga has maintained its accommodative monetary policy stance. This is to encourage the utilisation of the excess liquidity in the banking system, increase lending in order to support economic growth and strengthen the monetary policy transmission mechanism through maintaining the;
  - i. monetary policy rate at 0% (zero interest rate policy);
  - ii. minimum loans/deposit ratio of 80%;
  - iii. Statutory Reserve Deposit ratio at 10% effective in July 2017; and
  - iv. inflation reference rate at 5%.

### *Organizational Outcome 1.2: Closer public/private partnership for economic growth*

- a. Government allocated approximately \$12 million for the purpose of sports development. Various contracts were approved from this allocation and signed between government and private sector organizations to undertake designing works in relation to construction activities. At the same time, government has also engaged a New Zealand company funded by MFAT, which currently implements the construction of the Teufaiva turf.
- b. Government has approved the merger of the government & national retirement fund administration to minimize costs and improve efficiency however, there are still pending issues that are yet to be finalized.
- c. The Tanoa International Dateline Hotel was officially opened in February 2017.
- d. The management of the Tonga Forest Products by Aotearoa Tonga Forest Products Ltd became effective in July 2016.
- e. Government has approved the purchase of additional properties to the 'Utukalongalu Market in Neiafu, Vava'u. (\$3.1m).
- f. Government sold part of its shares in Tonga Cable Ltd to Digicel.
- g. A number of MDAs services have been outsourced including cleaning and security services.
- h. Town and District Officers have joined the retirement pension scheme.

### *Organizational Outcome 1.3: Strengthen business enabling environment*

- a. Parliament approved the Pacific Games 2019 Taxation Incentives Act 2017 to encourage businesses and private sector development.
- b. Government continues to provide duty exemptions to Agriculture, Fisheries and Construction sectors as incentives for private sector players in these sectors.
- c. Amendments to the Foreign Investment Act has been completed and the Bill is anticipated to be tabled to Parliament in its next session. Work on relevant Regulations is in progress.
- d. ADB is assisting with current work to establish an Arbitration Legal Framework to attract FDIs.
- e. Work has been undertaken in streamlining the processes for business registration in the following areas:
  - i. An online business registry for business licence, business name registration and company registration has been established. MCCTIL, assisted by ADB, is in the process of working towards incorporating the foreign investment registry into the online system.
  - ii. Amend relevant legislations and regulations to promote streamlined processes to reduce business start up costs.
  - iii. Work with ADB to reestablishing the online payment gateway.
  - iv. Establishment of a dedicated business services and information centre that caters for all business related inquiries, filings and registrations. Two kiosks have also been established to cater for clients here in Nukualofa and one in Vava'u.

### *Organizational Outcome 1.4: Improved public enterprise performance*

- a. Ongoing work is undertaken by government to review the performance of PEs under the approved new sharing Board structure where the new structure assists to improve performance.
- b. Public enterprises have paid a total dividend of \$6.36 million against the estimates of \$8.8 million to government during 2016/17 from the following PEs:
  - i. Common Utility Board (TPL, TWB, Home Gas Ltd & WAL);
  - ii. Port Authority Ltd (PAT);
  - iii. Tonga Airport Ltd (TAL);
  - iv. Tonga Communication Corporation (TCC); and
  - v. Tonga Assets Management Authority (TAMA).
- c. Approval of return to government of the management and operation of the Tonga Exports Quality Management Ltd and Tu'imatamoana Fish Market.
- d. Approval of a Taskforce by government to review the operation of domestic airlines in Tonga and recommend suitable options. such as:
  - i. Wholly owned by government;
  - ii. Maintain the status quo;
  - iii. Partial privatization with government as majority shareholder; and
  - iv. Full privatization.
- e. Initial discussions on options to establish a Land Transport Authority.
- f. Arrangements for corporatization of Tonga Broadcasting Commission (TBC).

***Organizational Outcome 1.5: Better access to, and use of, overseas trade and employment and foreign investment***

- a. Since Tonga became a member of WTO, MCCTIL undertakes ongoing work on policy matters relating to labor, trade and securing market access through trade negotiations and development of appropriate labor strategies.
- b. Regional integration in terms of trade will strengthen national trade services delivery network. This will allow Tonga to tap into modern technologies and higher skills available in the region. These transfers of technological innovations and skills together with shared research are valuable necessities to spur industrial development. Consequently this will add value to GDP growth rate. As a result, ongoing work is undertaken in relation to trade agreements (PACER Plus and PICTA), where local businesses and domestic revenue base is expected to increase due to high levels of competition.
- c. On the other hand, lowered tariffs could reduce revenues from customs duties. This should be countered by continuous efficiency of the MORC to seal tax evasion loopholes and ensure all due collections are made on imported goods, businesses and individuals.
- d. Government continues negotiations with Australia, New Zealand and other countries to expand the existing seasonal workers scheme into other sectors such as tourism, fisheries, construction, health and others. At the same time, special attention was dedicated by government to ensure current seasonal workers are entitled to all relevant benefits and are not abused.
- e. Upon approval of the Draft Foreign Investment Bill, future foreign investments is expected to increase job opportunities and corporate tax for government.

### 3.2.3 Social Institutions Pillars

***Organizational Outcome 2.1: Improved collaboration with & support to civil society organizations (CSO) and Community Groups***

- a. EU program supported Civil Society Organizations. In 2016/17, seven CSOs were awarded a total of \$278,628.90 under the EU programme. The CSO program aimed at enhancing the artistic and artisanal capacity of women in handicrafts design; empowering people with disability to contribute to economic and trade activities; empowering vulnerable groups to become self-reliant; improving access to more efficient and sustainable sources of renewable energy; and a clean and friendly environment.
- b. MORDI Tonga Trust, under the Tonga Rural Innovation Project (TRIP), assisted communities throughout Tonga including outer islands to develop and launched 136 Community Development Plans, 408 Groups Development Plans and 23 District Development Plans. Completed community-base projects under TRIP included water tanks, new community hall, village boundary fencing, piggeries, jetties, Feleoko 'a Maui-'Eua Market, nursery operation and machineries. Sixteen percent (16%) of Tonga's population benefitted from TRIP of which 23% was identified as living below the poverty line.
- c. Government approved an obligation of \$300,000 towards reticulation of electricity network to Pātangata village.
- d. Various community projects were funded during the year from MPs constituency funds (\$2.5m).

- e. Community road maintenance was also allocated a total amount of \$5.4 million of which \$2 million is government's contribution to the World Bank's Transport Sector Consolidation project.
- f. Development partners continue to assist the implementation of community development projects including Japan, Korea, India, USA.

**Organizational Outcome 2.4: Improved education & training providing life time learning**

- a. A software has been designed and installed to compile education results at multi-level into a one data system to allow the generation of detailed reports such as specific learning activities and general progress at each level from year to year.
- b. A consultant assisted to draft an internal Grant Manual for MET to consolidate all relevant information on the terms and conditions of specific school grants. These include the ECE Grant (\$0.2 million), Tonga School Grant Program (\$2.1 million), Secondary Schools Grant & TVET Grant (\$0.8 million). The manual also assists managing each grant and ensuring timely disbursement.
- c. There is ongoing implementation of the Interim Skills Development Facility funded by DFAT and the designing phase of the Pathway for Tongan Youth Employability funded by WB. Section 3.3 below provides further details on these programs.

**Organizational Outcome 2.5: Improved health care and delivery systems (universal health coverage)**

- a. MOH budget for 2016/17 had considered several items identified from the mid-year budget review which are critical for the operation of the ministry to ensure appropriate supplies of medical supplies (\$1.3 million) and drugs (\$2.7 million), and required maintenance of buildings (\$1.1 million).

**Organizational Outcome 2.6: Stronger integrated approaches to address both communicable and non-communicable diseases**

- a. The National Strategy for Prevention and Control of Non-Communicable Diseases 2015-2020 was officially launched with an agreement signed by Government and DFAT for a AUD\$10 million bilateral support to Tonga's health sector through the Tonga Health Systems Support Program Phase 2. This bilateral support is for five years.
- b. Tax policies have been revised to promote healthy eating and reduce consumption of alcohol and tobacco. This is to complement relevant health programs to promote physical activities including higher tax on lamflaps, turkey tails, sodas, ice cream and alcohol & cigarettes.
- c. TongaHealth launched hard-hitting campaigns to reduce smoking around kids such as the "Tuku Ifi Leva" campaign as well as establishing a toll free Quitline (0800333).
- d. Encouraged Women in Sports - International Women's Day 2017 with the theme, "Be Bold For Change".
- e. TongaHealth, in partnership with other Government agencies, non-profit organizations and development partners, are leading champions in fighting against NCDs epidemic through various programs such as:
  - i. 2200 chickens and 550 ducks were distributed to families in Tongatapu, Ha'apai, & Vava'u. Training programs were also held for recipients on proper ways to raise them

- ii. “Sorted for Life with Maie5 Fruits and Vegies” is in its sixth year of implementation in primary schools for preparation and implementation of vegetable gardens, cooking classes, and relevant annual competitions. The ‘Maie5 program’ is currently implemented in primary schools in the following 10 villages: Ha’alalo & Ha’akame, Popua, Longolongo, ‘Atele, Lotolu, Mu’a, Lapaha, Ha’amonga, Ocean of Light and Acts Community School.
- iii. Launch of "First 1000 Days" SMS campaign: This novel initiative aimed to ensure that the first 1000 days of Tongan babies and infants; i.e. from conception until age two are as healthy as possible. The service provides tips about how to ensure healthy pregnancy including how to manage the risk of diabetes in pregnancy, weight and nutrition management in childbearing years and also practical nutrition advice for children up to the age of two. Breastfeeding is a critical component of this program.
- iv. TongaHealth, Tonga Police and Salvation Army conducted various trainings on Alcohol related harm for youth in Sopa, ‘Anana, Ha’ateiho, Fua’amotu and Ha’atafu during the holiday season in December 2016. This was aimed at reducing related harm due to use of alcohol - by Youth, the Tonga National Youth Congress (TNYC).

**Organizational Outcome 2.7: Better care & support to vulnerable people, in particular the disabled**

- a. Government is working with UNICEF in preparing the implementation of the National Disability and Vulnerability Survey which is a national survey to be carried out in December 2017.
- b. World Bank assisted government with a feasibility study for a Poverty Alleviation Scheme. Preliminary works started in April 2016 and is expected to complete by June 2017.
- c. Government continues to provide assistance towards vulnerable people through its social welfare schemes to persons with disability and elderly at aged 70 years and above at \$65 per month.

### 3.2.4 Political Institutions Pillar

**Organizational Outcome 3.1: More efficient, effective, affordable, honest, transparent and apolitical public service focus on clear priorities.**

- a. MOFNP continues to advocate better corporate planning and budgeting with an aim for each MDA to clearly align their duties as per their respective mandates. This involves ‘*institutionalizing of planning the work and working the plan with monitoring and evaluation*’.
- b. Government has implemented the Performance Management System (PMS) as at the beginning of 2016/17 with an aim for compensation of the public service to be performance based. The PMS assessment for the first half of 2016/17 has been completed and the end of year assessment will determine rewards based on performance.
- c. The new remuneration structure has also been implemented as at the beginning of 2016/17 as per recommendations by the Remuneration Authority.
- d. A number of MDAs underwent various restructures. This included Fisheries as a separate ministry and Tourism as a division of MOI. These ministries have adjusted their corporate plans and budgets to reflect the new structure.
- e. Town and District Officers are on the same pension arrangement as other public servants and relevant budget have been included in MIA’s budget.

**Organizational Outcome 3.2: Improved law & order and domestic security appropriately applied**

- a. Amendments to the Commissioner for Public Relations Act 2001 are now effective as follows:
  - i. Commissioner for Public Relations is now amended to ‘Ombudsman’;
  - ii. The authority to appoint the Ombudsman is now shifted to the Speaker of the Legislative Assembly from Cabinet;
  - iii. The Ombudsman has the authority to publish reports;
  - iv. Staff of the Office of the Ombudsman are no longer under the Public Service Commission with a view to promote independence on the work of the Ombudsman in relation to government and the public service.
- b. Government has established a National Task Force to develop a policy for reintegration of deportees into Tonga’s society based on the following priority areas:
  - i. Information sharing;
  - ii. Arrival at the airport; and
  - iii. Construction of a reconnection HOME.
- c. Commencing in 2016/17, the PFM Act including the Procurement Regulation now applies to the utilization of constituency fund with a view to improve the management and transparency of these funds.

**Organizational Outcome 3.3: Appropriate decentralization of Government Administration with better scope for engagement with the public.**

- a. Plans for establishment of constituency office space and qualified staff for MPs, and town officers are still in discussion. Only the offices for district officers have been established.

**Organizational Outcome 3.4: Modern and appropriate Constitution, laws & regulations reflecting international standards of democratic processes**

- a. On-going work being led by Ministry of Justice in collaboration with MOFNP to identify funds for a TA to conduct a review of the Tonga’s Constitution.
- b. Government confirmed that public consultations and public awareness programmes must be conducted prior to determining government’s position in relation to signing up for International Conventions such as the Interfaith Center on Corporate Responsibility (ICCR), International Covenant on Economic, Social, & Cultural Right (ICESCR), Convention Against Torture (CAT) and International Convention for the Protection of All Persons from Enforced Disappearance (ICCPED).

***Organizational Outcome 3.5: Improved working relations & coordination between Privy Council, executive, legislative & judicial***

- a. Ministry of Justice is planning the “Constitutional Review project” which aims at reforming Tonga’s current political structure under the Constitution into a recognized “democratic” political structure based on recognized principles of good governance and the rule of law. A Legal consultant is to be engaged to undertake this work to be submitted to Parliament in its next sitting.

***Organizational Outcome 3.6: Improved collaboration with development partners ensuring programs are better aligned to government priorities***

- a. The Cabinet Development Coordination Committee (CDCC) continues with its function to consider development proposals to be funded by development partners with a view to ensure all projects are aligned to government priorities. CDCC endorsed 14 project proposals: 10 from MDAs and 4 community projects. These proposals are currently with the donors for funding considerations. The proposal for Aid Information Management System (AIMS) for MOFNP has been approved to be funded by DFAT (\$600,000) and the proposal for an X-ray machine for MoRC has been approved by PRC (\$6 million).
- b. The Budget Support Management Committee continues to oversee, drive and manage the Joint Policy Reform Matrix (JPRM). The committee is chaired by the CEO-MOFNP and members comprise relevant development partners who currently provide budget support for Tonga.
- c. MOFNP coordinated the annual Government and Development Partners Forum held in July 2016 with the following theme: *‘Enhancing aid effectiveness through partnership for sustainable development and growth’*. This was supported by three objectives, namely: (i) updating of Development partners on the status of Tonga’s economy; (ii) alignment of development partners programmes to government priorities; and (iii) enhancing partnership through close cooperation between government and development partners to determine appropriate financial resources to deliver commitments for results.
- d. Bilateral meetings were held between government and development partners to confirm respective aid programs going forward and to discuss any relevant issues that will contribute to better implementation of aid assistance in view of the principle of aid effectiveness.
- e. The Minister of Finance and National Planning led the delegation to the Joint IMF/World Bank Annual Meeting held in Washington, DC. A number of bilateral meetings were held with relevant development partners during the margin of the annual meeting to discuss relevant aid programs to Tonga.
- f. The Projects and Aid Management Division (PAMD) of MOFNP has undertaken work on drafting an Aid Development Policy to be considered by CDCC.
- g. Ongoing development partner missions are conducted throughout the year with respective objectives in relation to various development programmes.

### 3.2.5 Infrastructure & Technology Inputs Pillar

Government has progressively improved the implementation of the infrastructure development priorities that were approved for the current financial year, 2016/17. The Infrastructure & Technology Inputs comprise all

the infrastructure developments and investments including transport (air, sea and roads), telecommunication, utilities and buildings.

***Organizational Outcome 4.2: More reliable, safe and affordable transport services***

- a. The legal provisions for economic regulations to guide the supervision of the domestic aviation industry has been drafted under the Civil Aviation Act 2014 and it is anticipated to be submitted to Cabinet and Parliament this year. The formal economic policy for the aviation transport sector is yet to be established. Preliminary discussions is being held between Government and the private sector. The policy is anticipated to be completed by the end of this financial year.
- b. MOI continues to provide the safety and security oversight obligations in conjunction with Pacific Aviation Safety Office (PASO) for the aviation industry in Tonga.
- c. Government has signed an agreement with Real Tonga Airline to provide an annual subsidy for flights to the two Niuas while at the same time continuing with the subsidy for sea transport also to the Niuas.
- d. International flights continue to take place directly between Nadi/Vava'u with an aim to improve efficiency in travelling time particularly for tourist travelers.
- e. A Taskforce has been approved by government to review operation of domestic airlines in Tonga and recommend suitable options such as (i) wholly owned by government; (ii) maintain the status quo; (iii) partial privatization with government as majority shareholder; and (iv) full privatization.

***Organizational Outcome 4.3: More reliable, safe and affordable information & communication information technology (ICT) used in more innovative ways***

- a. Work has been completed on the designing of the Domestic Cable System, the Environmental Impact Assessment, the Vava'u Landing Station (with the Ha'apai Landing Station to be build this financial year) and the Draft Tender Documents for the extension of the cable project to the outer islands. Co-financing has been secured with World Bank to implement the project.
- b. Ongoing discussions have commenced with ADB and WB for co-financing options for the implementation of the e-Government Strategy from the ADF and IDA18 programmes.
- c. Government has also prepared draft legislations to support electronic transactions, privacy and data protection, intellectual property rights protection, and cyber security. Enactment of this legislation is anticipated in the first half of 2017.

***Organizational Outcome 4.5: Improved use of research and development focusing on priority needs based on stronger foresight***

- a. The 2016 Population Census & Survey was conducted for the first time using mobile tablets which consists of a Computer Assistance Personal Interviewing (CAPI) system. The CAPI system improves efficiency in data gathering and processing of information.
- b. The mobile tablets were further utilized in other surveys such as the "Great Wall Survey" conducted by the Tonga Police in February 2017 for the Chinese community in Tongatapu and the outer island to identify problems the Chinese community is facing in terms of their safety and protection of properties.

- c. The STEPS hosted by MOH and funded by WHO used the same methodology and resources. The WHO STEPwise is an approach to develop Tonga's surveillance system to monitor and fight against NCDs.
- d. The Statistics Department is planning to conduct the Disability Survey, Business Registered Census and Labour Force Survey.

### 3.2.6 Natural Resources & Environment Inputs Pillar

#### *Organizational Outcome 5.1: Improved land use planning & management for private & public spaces*

- a. Government continues to provide funds towards the ongoing implementation of the Land Registration and Record Management. The project aims at clearing the backlogs of land applications which is anticipated to complete in the next 5 years to come.
- b. Government approved in CD No.318 dated 31<sup>st</sup> March 2017 the location for the proposed new bridge from Folaha to 'Ananā, Ma'ufanga, as well as the proposed bridge for 'Eua, to be considered for funding by development partners.

#### *Organizational Outcome 5.4: Improved resilience to natural disasters and impact of climate change*

- a. The Climate Change Revised Policy was approved by Cabinet in February 2016 with an aim to build '*A Resilient Tonga by 2035*'. The Policy intends to provide an overarching context and guiding framework with policy objectives which will require multi-sector coordination and cooperation.
- b. The Joint National Action Plan on Climate Change Adaptation and Disaster Risk Management (JNAP-CCA & DRM) 2010-2015 is currently been revised with an aim to formulate JNAP II 2017-2027.
- c. Three major ongoing regional climate related resilience projects are currently under implementation in Tonga, namely the Pacific Resilience Program (PREP), Climate Resilience Sector Program (CRSP) and the Pacific Risk Resilience Program (PRRP). These projects aim to strengthen the enabling environment for climate adaption and disaster risk reduction at both the national and local levels with a focus on integrating climate resilience and disaster risk governance into national and government's development planning, budgets, corporate plans, policies and regulations and taking into account key vulnerable sectors.
- d. The 1<sup>st</sup> Climate Finance and Risk Governance Report, under PRRP was endorsed by Cabinet in May, 2016 and was officially launched in June, 2016. As to date, 41 out of the 48 recommendations from this report has been actioned by the leading organizations and are currently being supported with assistance from development partners.
- e. Tonga has recently submitted its first Green Climate Fund (GCF) application on Coastal Protection of USD\$49.9 million through the assistance of UNDP/SPREP and is awaiting board consideration in June 2017. A renewable energy proposal of USD\$86.0 million, which is an extension to the current OIREP, has also been prepared with ADB assistance with an aim to be submitted for GCF board consideration in Dec 2017.

- f. A Climate Change Trust Fund has been established under the ADB-CRSP project funded by CIF to implement community adaptation projects. A total of 216 applications have been received and assessments are currently underway for consideration by the Trust Fund Board.
- g. Tonga is one of the 5 Pacific countries taking part in the PCRAFI regional insurance scheme which aims to provide coverage in times of natural disasters.
- h. A Contingency Emergency Response Component (CERC) has been completed plus an operational manual aiming to assist with recovery upon the declaration of a state of emergency. This would strengthen Tonga's emergency preparedness and immediate response capacity by providing swift access to immediate assistance following a disaster event.
- i. The Ridge to Reef (R2R) Project also known as the "Integrated Fanga'uta Lagoon" aims to improve eco-system resilience of climate resilient infrastructure investments by i) Increasing ability of coral reefs to recover after climate related events; ii) Improving management of mangroves for climate adaptation; iii) Upgrading evacuation and post disaster access roads; iv) Enhancing coastal protection; and v) Upgrading schools.
- j. A revised management plan of \$600,000 for 2018-2020 has been recently endorsed by the R2R Board and the PMU is currently drafting the Concept Notes for proposals to be submitted for funding consideration.
- k. The Cyclone Ian Reconstruction and Climate Resilience Project for Ha'apai is anticipated to be completed in December, 2017. Renovations of key community facilities and upgrading of schools have been completed in addition to Technical Assistance and Training for enhanced disaster and climate resilience.
- l. The National Emergency Management Office (NEMO) has pursued to activate 8 out of the 10 coordinated clusters for better management of national disaster emergencies. These clusters are in the following areas: (i) Water and Sanitation; (ii) Food Security and Livelihood (FSL); (iii) Safety and Protection; (iv) Economic and Social Recovery; (v) Communications; (vi) Logistics; (vii) Essential Services; (viii) Education; (ix) shelter; and (x) transport. Members of these clusters comprise of various stakeholders from MDAs, Civil Society, Churches, Red Cross, and Humanitarian Agencies.
- m. The WASH and FSL Clusters were active in delivering timely and recovery response to the recent flood in Fonoifua, Ha'apai such as distribution of water to the community while water tanks were tested and treated. Affected areas were also sprayed to curb water borne diseases.

### 3.3 Budget Strategy 2017/18 Priorities

This section aims at highlighting major priority interventions as stated in the Budget Strategy 2017/18. The budget priorities are as follows:

- ✓ Sports development;
- ✓ Improving Total Factor Productivity;
- ✓ Developing the private sector, manufacturing and tourism in particular;
- ✓ Improving the functionality of existing infrastructure;
- ✓ Social Development: health and quality of education;
- ✓ Climate change resilience and renewable energy;
- ✓ Good Governance; and
- ✓ Completion of on-going projects and high impact capital projects.

#### 3.3.1 Sports Development

Government has allocated in its 2017/18 recurrent budget a \$5 million for the construction of sport facilities. Government commits high priority towards these projects with a view to enhancing sporting activities in the near to medium term. In addition, development partners such as ADB, DFAT, JAPAN, MFAT and PRC, and are assisting with the financing of the sports facilities. The following activities are planned to be implemented in 2017/18:

- ✓ Construction of the THS facilities including an indoor gymnasium, an outdoor rugby field, 4 outdoor netball fields, 2 outdoor swimming pools and other supporting facilities funded by PRC at approximately \$55 million;
- ✓ Complete the work on the Teufaiva Terf funded by MFAT at approximately \$2 million;
- ✓ Construction of the Teufaiva Stadium and related facilities to be funded by government, ADB and DFAT;
- ✓ Construction of the Golf course to be funded by government;
- ✓ Construction of high performance facilities;
- ✓ Sports equipments and supplies funded by JAPAN; and
- ✓ Sports Development funded by Government of \$2 million (\$1.5 million, \$0.5 million for sports academy).

The establishment of the Project Management Unit (PMU) is anticipated to be effective at the beginning of 2017/18. The PMU will be working closely with MOI to ensure that the quality of facilities are up to international standards for promotion of sports and tourism.

#### 3.3.2 Completion of on-going projects and high impact capital projects;

Government will give priority to continue the implementation and completion of both government and donor funded projects which, in turn, generate employment opportunities for youth and those with skills in construction and other related trades. Major priority projects include the following:

- ✓ construction of sports facilities as listed in section 3.3.1 above.

- ✓ upgrading of the Fuaa domestic wharf (\$50.0 million);
- ✓ Tonga Aviation Investment Project (TAIP) (\$73.0 million);
- ✓ Extension of fibre optic cable to the outer islands – Vava’u & Ha’apai (\$16 million);
- ✓ Outer Islands Renewable Energy Project (OIREP) (\$53.5 million);
- ✓ Completion of the Government (St. George) building (\$30.0 million) funded by PRC together with renovation of Treasury building (\$1.2 million) by government;

### 3.3.3 Improving Total Factor Productivity

Improving total factor productivity and developing the private sector, manufacturing and tourism are major priority interventions under the auspices of relevant MDAs for 2017/18. Labour and entrepreneurship are relevant components being discussed in this section.

His Majesty Tupou VI, in his opening remarks of the 2016/17 Parliament session, highlighted that Tonga needs qualified and skilled labour in order to efficiently and effectively contribute to economic development. In this context, government commits to up-skill Tonga’s labour force through the Youth Employability Project of \$35 million funded by World Bank over 5 years and through the Skills Development Program of \$12.5 million funded by DFAT over 5 years.

In the 2017/18 recurrent budget, the Education sector continues to receive the largest share with \$52.6 million. Government continues with on ongoing grants to non-government schools and Trade, Vocational & Education Training (TVET) with an allocation of \$1 million. In addition, government commits to ongoing GOT scholarships with an allocation of \$3.3 million in 2017/18. Government is also enforcing the Education Act 2013 on the requirement for all educational institutions to engage qualify teachers. In this context, teachers are encouraged to enroll in Tonga Institute of Education (TIOE) and additionally a scholarship program for Science teachers is currently implemented in collaboration with the University of the South Pacific (USP), Tonga.

### 3.3.4 Developing the private sector- manufacturing and tourism

The need to develop diversified sources of economic growth continues to be a priority for government. Private sector as the engine of growth is therefore a critical player in Tonga’s economic development. Government plays an important role in creating a conducive environment for a level playing field for private sector organizations. In this context, government will continue to advance the following priorities in 2017/18:

- a. Tonga to continue penetrating niche markets such as China for exports of squash pumpkins.
- b. European markets have also re-opened for the imports of kava powder for pharmaceutical products.
- c. MCCTIL will continue to implement the following initiatives in 2017/18:-
  - i. continue to strengthen its policy and trade capacity and plans to focus on developing aid for trade strategy, research plan on trade negotiations and Tonga’s National Export Strategy;
  - ii. develop and implement a conducive legal and institutional framework and reform program for consumers; review and revise the Employment Relations Bill (ERB) 2013; develop a plan to provide a coherent policy advise for businesses;

- iii. develop a National Labour Framework (NLF) – Reform Roadmap (under the National Decent Work Country Program (DWCP)); and
  - iv. develop a PACER Plus Implementation Plan.
- d. Government allocates a total recurrent budget of \$7.3 million for MCCTIL as the leading MDA for enabling a conducive environment for private sector and businesses. This includes an allocation of \$2 million for trade research and upgrading marketing and distribution facility in Pago Pago, American Samoa and an option for a similar facility in Apia, Western Samoa.
  - e. Tonga continues negotiations with Australia and New Zealand to expand the scope of the seasonal worker schemes to include other skills such as carpentry, electrical, age care and registered nurse professions. This includes options for a work holiday visa for civil servants to participate in the workers program during periods of official leave.
  - f. Tonga is also qualified to participate in piloting fisheries projects in Timaru, New Zealand.
  - g. Government in supporting private sector development continues to invest in inter-island water and air transportation networks; available and reliable water and green power supply; as well as communication technologies which make enterprises more productive and increases potential for economic growth.
  - h. MAFF will continue to work on a proposed project aiming to install a wheat crushing machine with a capacity of 42,000 tons per year in Tonga. The plan is to produce 3,500 tons of flour per year to produce products such as bread and livestock feeds.
  - i. Government's total recurrent allocation for Ministry of Tourism is \$4.9 million which includes \$1.5 million for tourism marketing activities.
  - j. Tonga Development Bank will continue to manage the Government Development Loan (GDL) program to assist private sector organizations including Agriculture, Fisheries and Tourism.

### 3.3.5 Improving the functionality of existing infrastructure

Government dedicates priority to improve and maintain existing infrastructure as part of critical public goods for Tonga's economic growth. These include main roads, agriculture roads, government offices, maintenance of hospitals, buildings and major assets to ensure good quality throughout their optimal economic life.

- a. MOI is allocated a total recurrent allocation of \$20.6 million in 2017/18 to allow the ministry to deliver its responsibility as the leading MDA for infrastructure development.
- b. The 2017/18 budget allocates an amount of \$10.0 million for Road Maintenance. This is an increase from the \$5.4 million allocation in 2016/17. All relevant key stakeholders including MOI as the leading MDA need to work together to promote coordination of the implementation of the road maintenance program.
- c. Government will continue to emphasize the need for MDAs to better manage government assets in close collaboration with MOFNP in its overall role of asset management. Specific allocations for maintenance have been included in respective MDAs budget. However, these are often transferred for other purposes leading to insufficient funds for maintenance. MOFNP will work together with MDAs to ensure that these funds are dedicated to maintenance.
- d. As part of Government's outsourcing program, Cabinet has approved to transfer the management of Outer Islands' wharfs to Ports Authority (PAT). MOI is currently working in collaboration with PAT to implement this decision to be effective as of 1<sup>st</sup> July 2017. This will allow MOI to concentrate on its regulatory function particularly to ensure safety and affordability.

- e. MOI will continue to enforce compliance by relevant stakeholders as per the Building Code; strengthen the working relationship with relevant parties to comply with relevant coordination and process for Building Registration and Information System;
- f. MOI will also continue to give priority towards its responsibility to Civil Aviation by:
  - i. Establishing system for Resolution of Civil Aviation safety concerns;
  - ii. Establishing system for ICAO Continuous Monitoring Approach (CMA);
  - iii. Establishing system for Civil Aviation Safety Management System (SMS); and
  - iv. Developing a Domestic Air Policy for Tonga.

### 3.3.6 Social Development: health and quality of education

Social development remains an ongoing priority for government as reflected in the largest shares of the budget estimates being allocated to MOH with \$38.9 million and MET with \$52.6 million.

#### *Health Sector*

With regards to improve health care and delivery systems, government will continue to put greater efforts to ensure an appropriate supply of medical drugs and supplies are in place throughout the year to avoid previous incidents of shortage. This means there is a need for better corporate and procurement planning by MOH in collaboration with MOFNP and other relevant key stakeholders. Options for bulk procurement to be undertaken by selected companies in Australia, New Zealand or other overseas companies will be explored.

- ✓ In the 2017/18 budget, government allocates \$2.6 million to medical supplies and \$3.1 million for medical drugs. The allocations are much higher than what were allocated in 2016/17.
- ✓ Addressing NCDs remains a top priority for Government. The 2017/18 recurrent budget allocates more than 10% to combat NCDs including contribution by health staff in the curative and public health divisions towards NCD related activities. Projects funded by Development Partners such as DFAT, WHO, UNFPA, also contribute largely to combat NCDs. For example, a national campaign through various activities such as Kau Mai Tonga, strengthens enforcement of the Tobacco Act specifically **No Smoking** in public places.
- ✓ Various fiscal policy measures approved by government in 2016/17 will continue to be implemented:
  - i. Tobacco concession for inbound travellers is reduced from 500 cigarettes to 250 cigarettes;
  - ii. Duty for fresh fish has been reduced from 20% to 5%;
  - iii. Duty on vegetable oil has been reduced from 20% to 10%;
  - iv. Duty on tinned fish has been reduced from 20% to 5%;
  - v. Excise tax of \$1 per kg is imposed on lard;
  - vi. Imported fruit juice drinks:
    - having a total sugar of less than 5 grams per 100 ml with 15% duty;
    - having a total sugar exceeding 5 grams but not exceeding 20 grams per 100 ml with \$1.5 excise tax rate per litre
    - having a total sugar content exceeding 20 grams per 100 ml with \$4 per litre
  - vii. Imported flavoured in powder and ready to drink form with \$4 per kilogram
  - viii. Sugar and sweetened beverages
    - having a total sugar content not exceeding 5 grams per 100 ml from \$1 per litre to 15% ad valorem

- having a total sugar content exceeding 5 grams but not exceeding 20 grams per 100 ml from \$1 per litre to \$1.50 per litre
  - having a total sugar content exceeding 20 grams per 100 ml from \$1 per litre to \$4 per litre
  - ix. Imported sweet biscuit increased from 15% duty to excise tax \$1.50 per kg
  - x. Imported chocolate confectionaries increase to 15% duty to excise tax \$4 per kg
  - xi. Imported sugar confectionaries not containing cocoa increase from 20% duty to excise tax \$5 per
  - xii. Imported lamb flap and lamb breast increase from 15% duty to excise tax \$1.15 per kg
  - xiii. Local manufactured Instant noodle excise tax 50 seniti per kg
  - xiv. Imported liquor \$25 per lal to excise tax \$30 per lal plus 15% duty
  - xv. Excise tax on tobacco is now excise tax \$350 per 1,000 for locally manufactured tobacco/cigarettes
  - xvi. Excise tax on tobacco is now excise tax \$450 per 1,000, ad valorem of 15% for imported manufactured tobacco/cigarettes
  - xvii. Additional revenue measures in support of the fight against NCDs and promotion of healthy lifestyle approved by Cabinet early in 2017 are highlighted in chapter 4.1.7
- ✓ An allocation of \$600,000 in the 2017/18 recurrent budget plus \$3.2 million from DFAT is made to the Tonga Health Promotion Foundation. TongaHealth is mandated by Tonga Health Promotion Foundation Act 2007, as the link between community, Non-Government Organizations and Government of Tonga, to promote healthy lifestyles.
  - ✓ Government will continue to implement the *National Strategy for Prevention and Control of Non-Communicable Diseases 2015-2020*.

### **Education Sector**

Government continues to maintain related activities pertaining towards improved education & training providing life time learning as a priority.

The *Pathways For Tongan Youth Employability* project will provide funding to government and non-government technical schools providers in technical skills such as carpentry, seafaring, tourism, nursing and day care, to upgrade their facilities to meet the standard required by local and overseas accreditation authorities. This project, to be effective in July 2017 will enhance the employability of Tongan youth for both the domestic and external labour markets. A similar TVET program is also funded through financial assistance from DFAT which includes:

- i. Improve employability of participants in national and overseas labour markets, increase productivity in the workplace and potential for earning higher incomes;
- ii. Provide increased access to entrepreneurial skills to complement technical training for micro, small and medium enterprises;
- iii. Provide equitable access to skills development services for people with disabilities, women and people in the outer islands; and
- iv. Establish new training models to influence reforms in the national TVET sector.

MET will continue to improve and establish education standards that meet the requirement of the Minimum Service Standards for Basic Education, Tonga Qualification Framework for PBSE and relevant regional and international benchmarks. One of the successful programs that support this is the Tonga School Grant Program

(TSGP) for Primary Schools. This is a development funded program which focuses on providing teaching and learning resources for every primary school. The success of this program is largely due to efficient planning and effective monitoring.

As far as improving quality curriculum & relevant assessment methods, MET has planned to conduct timely revision of primary & secondary curriculum & assessment during 2017/18. MET also plans to conduct a Standardized Test for Achievement for Tonga (STAT) exercise in 2017/18 while at the same continues with projects that strengthen literacy & numeracy such as Pacific Early Age Readiness for Learning (PEARL), Pacific Literacy School Leaderships Programs (PLSLP) and Pacific Islands Literacy and Numeracy Assessment (PILNA).

### 3.3.7 Climate change resilience and renewable energy

The impacts of climate change and natural disasters is a major concern to Tonga as a small island developing state. In accordance to World Bank statistics, Tonga is the second most vulnerable country in the world to natural disasters. Government therefore continues to commit high priority towards mitigation and adaptation to climate change and natural disasters. This is in view of the fact that the effects of climate change can immensely threaten our very own existence in terms of our livelihoods and socioeconomic characteristics.

Government allocates the following total recurrent allocation under MEIDECC in 2017/18 to continue strengthening climate change resilience and renewable energy: Climate Change \$0.7 million; Energy \$1.1 million; Environment \$0.8 million; and Meteorology \$1 million.

Government will continue to give priority to the following initiatives in 2017/18:

- a. Implementation of government's Climate Change Policy which aims to build '*A Resilient Tonga by 2035*';
- b. Implementation of the 2<sup>nd</sup> Joint National Action Plan (JNAP II) 2017-2027;
- c. Continue to implement the three major ongoing regional climate related resilience projects namely, the Pacific Resilience Program: PREP (\$5.8 million), Climate Resilience Sector Program:CRSP (\$7.4 million) and the Pacific Risk Resilience Program:PRRP (\$0.3 million);
- d. Continue to implement the remaining recommendations from the 1<sup>st</sup> Climate Finance and Risk Governance Report, under PRRP which were endorsed by Cabinet in May 2016;
- e. Tonga has submitted its first Green Climate Fund (GCF) application on Coastal Protection of USD\$49.9 million through the assistance of UNDP/SPREP and is awaiting board consideration in June 2017. A renewable energy proposal of USD\$86.0 million, which is an extension to the current OIREP, has also been prepared with ADB assistance with an aim to be submitted for GCF board consideration in Dec 2017. In anticipation that Tonga's GCF applications are approved, work will then commence in 2017/18 towards processing arrangements of these funds with a view to implement the GCF as soon as possible;
- f. Implementation of projects under the Climate Change Trust Fund established as part of the ADB-Climate Resilience Sector Project (CRSP) funded by GEF which aim to assist communities with adaptation projects;
- g. Tonga will continue to participate in the PCRAFI regional insurance scheme which aims to provide coverage in times of natural disasters;

- h. Continue to implement the Ridge to Reef (R2R) Project also known as the “*Integrated Fanga’uta Lagoon*” which aims to improve eco-system resilience of climate resilient infrastructure investments including the implementation of the R2R Management Plan of \$600,000 for 2018-2020.
- i. Implementation of the component on sanitation facilities for the Cyclone Ian Reconstruction and Climate Resilience Project for Ha’apai to be funded from the World Bank’s budget support.
- j. The National Emergency Management Coordination (NEMO) will continue to play its critical role towards natural disaster emergencies. It is anticipated that a new office for NEMO in Ha’apai will be constructed in 2017/18. Under the umbrella of NEMO, the coordinated clusters for shelter and transport are expected to be established in 2017/18.

### 3.3.8 Good Governance

Good Governance remains a priority of the current administration. The Tongan Judiciary remains the main institution to protect and enforce human right, apart from Government and the Legislative Assembly. It is supported by the Attorney General’s Office, the new Office of the Ombudsman and the independent Police Commissioner in maintaining law and order.

- a. In view of the need to *institutionalize* better corporate and budgeting planning, MOFNP will continue to play a stronger role in ensuring that MDAs play an active role in their respective responsibilities towards corporate planning and budgeting with stronger monitoring and evaluation.
- b. Government will also give priority to institutionalize the implementation of the Performance Management System (PMS) which commenced in June 2016 with a view to instill awareness within the public service that performance is the core element in determining employees compensation as a result of their contribution towards MDAs mandates as per their Corporate Plans.
- c. The newly established Office of the Ombudsman will continue to play an active role in addressing any grievances to ensure good governance and the rule of Law is upheld.
- d. Government of Tonga will continue to implement in collaboration with DFAT and MFAT the Tonga Police Development Program which aims at maintaining law and order.
- e. MOFNP will continue its role in enforcing compliance under the PFM Act 2002 particularly the need for MDAs to comply with Treasury Instructions and Procurement Regulations. Subtreasuries in Ha’apai and ‘Eua will re-open as at the beginning of 2017/18 in support of MOFNP’s role in the outer islands. These subtreasuries will also assist with M&E of both donor funded projects and constituency projects in Ha’apai and ‘Eua.
- f. It is anticipated that the outcome of the Constitutional Review will promote the principles of good governance and the rule of law. A Legal consultant is to be engaged to undertake this work to be submitted to Parliament in its next sitting.

## 4 GOVERNMENT BUDGET: FUNDING THE OUTPUTS

### 4.1 Government of Tonga Recurrent Budget

#### 4.1.1 2016/17 Fiscal Performance

The revised recurrent receipt for 2016/17 is expected to be **\$285.7 million**; \$0.1 million more than the \$285.6 million in the original estimate. This result from funds received during the financial year that are not in the estimate. An example of this is budget support from the European Union. Furthermore, improvement in tax administration and compliance led to significant increases in tax revenue collected. Moreover, non-tax revenue collection fell short of expectation as anticipated inflow from dividends from other investments, lease of aircrafts, and interest payment from on-lent to Public Enterprises, seabed mineral applications and exploration license fees, amongst others have either been deferred or delayed till later in the financial year or until 2017/18. For instance, passenger service charge has been revised and implementation will only commence on the 1<sup>st</sup> of July 2017.

The revised recurrent payment in 2016/17 is **\$284.6 million** or \$0.9 million less than the \$285.5 million in the original estimates. This again results from rescheduling of some activities and programs planned for implementation in 2016/17 to accommodate unforeseen activities during the financial year. Slow recruitment process to fill vacant positions—in many cases it may take up to a month or two to complete some of the process—under-spent on salary revisions and delayed public debt repayment on foreign loans against the target commitments are factors in the under-utilize of estimated recurrent payment in 2016/17.

**TABLE 4-1: GOVERNMENT “RECURRENT BUDGET (\$M)**

Details	Actual 2015/16	Budget Estimate 2016/17	Revised Estimate 2016/17	Budget Estimate 2017/18	Projection 2018/19	Projection 2019/20
<b>Budget Revenue (Total Recurrent Receipts)</b>	<b>267.6</b>	<b>285.6</b>	<b>285.7</b>	<b>345.1</b>	<b>351.1</b>	<b>358.2</b>
<b>Total Domestic Receipts</b>	<b>234.5</b>	<b>255.2</b>	<b>258.1</b>	<b>310.7</b>	<b>316.7</b>	<b>323.8</b>
Domestic Revenue	211.7	232.0	236.8	280.9	286.9	297.6
Transfers & Bond Receipts	19.8	14.9	13.3	18.7	19.1	15.5
Revolving Fund Receipts	3.0	8.3	7.9	11.1	10.7	10.7
<b>Budget Support</b>	<b>33.1</b>	<b>30.4</b>	<b>27.6</b>	<b>34.4</b>	<b>34.4</b>	<b>34.4</b>
<b>Budget Expenditure (Total Recurrent Payments)</b>	<b>245.2</b>	<b>285.5</b>	<b>284.6</b>	<b>344.5</b>	<b>345.1</b>	<b>360.6</b>
<b>Operating Expenditure</b>	<b>219.8</b>	<b>254.8</b>	<b>255.0</b>	<b>307.0</b>	<b>295.4</b>	<b>312.6</b>
Established & Unestablished Staff	117.8	136.2	134.6	148.0	143.4	148.5
Purchase of Goods & Services	29.4	34.2	33.3	42.2	41.1	41.0
Other Operating Expenditures	72.5	84.4	87.1	116.8	110.9	123.1
<b>Other Expenditure/ Payments</b>	<b>25.4</b>	<b>30.6</b>	<b>29.6</b>	<b>37.5</b>	<b>49.7</b>	<b>48.0</b>
<b>Cash Deficit/ Surplus</b>	<b>22.4</b>	<b>0.1</b>	<b>1.1</b>	<b>0.6</b>	<b>6.1</b>	<b>(2.4)</b>

Source: MOFNP

An overall cash surplus of \$1.1 million is projected for 2016/17, a decline of \$21.3 million from the overall actual cash surplus in 2015/16. Delayed receipt of the EU budget support, withdrawal of one of the mineral company’s application, reduction in mineral exploration areas—which adversely affected collection in seabed

mineral exploration application and license fees—and deferment on collection of Passenger Service charge accounted for the moderate cash surplus anticipated for 2016/17. However, Government's efforts to prudently control its spending in addition to aforementioned improvement in domestic tax revenue administration and compliance resulted in a reversal of the anticipated cash deficit to a modest surplus of \$1.1 million in 2016/17.

#### 4.1.1.1 Challenges - 2016/17 Budget

Low collection of non-tax revenue was one of the challenges for the 2016/17 budget outturn. An example of the factors in the low collection was the withdrawal of one mineral exploration company as a result of the sharp drop in global market price of copper. Others are the reduction in exploration areas allocated for the other two companies by 50 percent, delay in implementation of Passenger Service Charge due to request from Travel Agents and IATA, and changes in the amendment made to the agreed repayment contract with the on-lent Public Enterprises, amongst others.

On the other hand, expenditure pressures continued during the 2016/17. The need to finance priority projects, several meetings of regional organisations hosted by Government and a number of unforeseen activities during the financial year—the funeral of Her Late Queen Mother for instance—fuelled upward pressure on spending. The need for Government to control expenditure therefore implied reallocation of funds within MDAs which certainly affected planned activities for the year. In addition, supplementary budgets were required to cater for some contingencies that were not absorbed by MDAs responsible for a number of the unforeseen expenditure items like fuel, accommodation, and allowances, amongst others.

Despite the high implementation rate observed in some of the development projects and programs during the year—the St George's office complex, the Fuaa Wharf Extension for instance—delays were experienced in many others due to the procurement processes of donor partners that use their own procurement system. Additional factors for the delay are lack of capacities in certain areas of the projects and programs, difficulty in predicting aid flows that arise out of failure of some Development Partners to use the national systems for project initiation, consideration, approval and management. These delays go with huge opportunity costs that tend to undermine growth prospects of the country. The Green Climate Fund, Road Maintenance projects, the E-Government, TAIP Project, and the Niuatoputapu Hospital, to mentioned a few, are some for which delays were encountered during the 2016/17 financial year.

#### 4.1.2 2017/18 Recurrent Budget and the Medium Term

The estimate for operational expenditure budget in 2017/18 is **\$307.0 million**, a 17.0 percent increase from the original estimate by \$52.2 million and \$52.0 million or 16.9 percent from the revised estimate in 2016/17. The increase in operational expenditure budget for 2017/18 is due to fund commitment from Government towards sports development, commencement in repayment of the China EXIM Loan, on-going infrastructure improvement—maintenance of roads and buildings—and payments to consultants and technical assistance. Additional expected expenditure on subsidies to non-government schools to absorb the New Zealand and Australia's allocation, and expenditure on other projects and new government initiatives that will commence in 2017/18. Almost similar percentage increases in above highlighted major expenses are expected for the outer years. It is however anticipated that further prudential management of government operational expenditure will be required to avoid cost over-run, even if this implies further pressure in some priority areas.

On the other hand, domestic revenue for 2017/18 is projected to be \$310.7 million, a rise of \$55.5 million or 17.9 percent from the original estimate in 2016/17. Positive growth in domestic revenue is also projected for the medium term. This will assist government's efforts in 2017/18 and the outer years to support Health Sector initiatives to fight non-communicable diseases (NCDs), accumulate reserves, and loan repayments that fall due from 2017/18. Estimates for foreign exchange levy collection for sports development have been increased by \$2.0 million in 2017/18 from the original estimate of \$3.0 million in 2016/17; collection for this sources is projected to be at around \$5.0 million in 2018/2019 and 2019/20 respectively.

The increase in ratio of total domestic revenue to GDP from 23.8 percent in 2015/16 to over 0.5 percent in 2016/17 is an indication that fiscal condition in the country is improving. Factors in these regards are the improvement in domestic tax revenue collection, strengthened tax administration, and further review and widening of non-tax revenue base. There is no doubt that enhanced tax and non-tax revenue collection in the country is needed in near to medium term given anticipated rise in Government operational expenditure. The commencement of construction projects for sports development and priority projects, 50 percent repayment on borrowing for budget support from the ADB and World Bank, amongst others, are reasons for rebalancing domestic revenue vis a vis prudent expenditure management in the medium term. It is projected that after paying off the remaining pension transfer value of \$1.0 million on some of the arrears from previous financial year, as well as the Ministry of Education & Training and HMAF's staff pension in 2017/18. No further payment will be made in 2018/2019 and 2019/20.

Total spending on public servants remuneration over the medium term is anticipated to maintain within or below the fiscal ratio of 53 percent as part of Government's fiscal consolidation measures to minimize public wage bill. That is, Government is committed in 2017/18 to strictly implement the recently approved human resource policy to freeze appointment and cap wage bill. This policy will ensure that resources are available to assist MDAs' operational votes. Furthermore, Government is putting aside an allocation for critical positions to be managed by the Ministry of Finance and National Planning (MoFNP). In this regard, MDAs will be required to submit new staff proposals to the Office of the Public Service Commission (OPSC) and the MoFNP to vet prior to approval for recruitment and release of funds. This policy is intended to apply to both established and un-established positions.

Despite the fact that Government is the main employer of labour in the country; its ability to, and the affordability of public goods and services in the medium term requires serious consideration going forward. This not only ensures that citizens receive quality service at all times, but Government is also able to meet debt sustainability requirements. Highlighted below are details of recent human resource policy approved to control Government's overall wage bill:

Highlighted below are details of recent human resource policy approved to control Government's overall wage bill:

- Freeze all new positions in 2017/18 except for returning scholars. MDAs are mandated to submit proposal(s) for additional staff requirement(s) with valid justifications to OPSC and MoFNP to vet prior to recruitment;
- OPSC to review recruitment processes in all MDAs;
- OPSC and the Remuneration Authority to undertake a review of the cost of living and advice the MoFNP with a view to appropriately align remuneration with current economic fundamentals; and

- OPSC to work on placing all Deputy CEO positions in the public service on contractual appointments, effective from 1st of July 2017.

In an effort to further control public expenditure in the medium term, fund has been allocated under the MoFNP in 2017/18 budget to cater for MDAs new vehicle proposals during the year. In this regard, MDAs will submit proposal(s) to MoFNP for assessment and approval, prior to release of funds and vehicle purchase. Government has also approved the proposal that MoFNP undertakes a review of all Government assets in 2017/18. When finalized, outcomes will allow for proper monitoring of future purchases and disposal of assets. In the same vein, given additional expenses that MDAs incur in the maintenance of assets—fuel, spare parts, maintenance and repair, salaries and wages—Government will in due course, put in place an insurance policy for its assets. This is to ensure sustainability and minimize maintenance and replacement costs.

### 4.1.3 Cash Budget Surplus/Deficit in the Medium Term

The estimated budget cash surplus for 2017/18 is **\$0.6 million**, an increase of **\$0.5 million** over the original estimates for 2016/17 and a decline of **\$0.5 million** against the revised estimate in 2016/17. The decrease over the revised estimates results from: (i) additional budget allocation for sports development of **\$27.2 million**; and (ii) planned salary review expected to continue in 2017/18 of **\$2.0 million**. Despite increases in the highlighted major operating expenses, Government efforts aimed at improving the business environment and enhance economic activities in the country will further strengthen its ability to mobilise domestic revenue—widening of tax and non-tax revenue base.

From the foregoing, and despite intended review and widening of non-tax revenue base in 2017/18, together with prudent control of public spending, budget cash surplus projected for 2017/18 of \$0.6 million and \$6.1 million in 2018/19, and a deficit of **\$2.4 million** 2019/20 respectively.

### 4.1.4 Total Recurrent Budget by Ministry/Departments/Agencies (MDAs)

In 2017/18, due to the addition of one MDA that results from reshuffling of Cabinet Ministers and restructuring of the MDAs in February 2017, the number of MDAs budgeted for is 25. The budget for 2017/18 takes into full consideration government priority areas and projects by MDAs as mentioned in section 3 above; all of which support the TSDF II pillars. Government investments that are necessary to facilitate private sector development and enhance productive capacity of the economy—market research activities to help identify overseas markets for marketing of local products—construction of sports facilities, and maintenance of roads, amongst others, are also accounted for in the recurrent budgets of MDAs. ki

TABLE 4-2: RRECURRENT BUDGET BY MDAS (\$M)

Ministries/Departments/Agencies (MDAs)	Recurrent Expenditure						Recurrent Expenditure						
	Provisional	Original Estimate	Revised Estimate	Estimate	Projection	Projection	Provisional	Original Estimate	Revised Estimate	Estimate	Projection	Projection	
	2015/16	2016/17	2016/17	2017/18	2018/19	2019/20	2015/16	2016/17	2016/17	2017/18	2018/19	2019/20	
01	Palace Office	-	-	-	-	-	3.7	4.4	4.6	4.9	4.5	4.5	
02	Legislative Assembly	-	-	-	-	-	4.0	6.8	7.2	7.9	7.9	7.9	
03	Tonga Office of the Auditor General	0.1	0.2	0.1	0.2	0.3	1.7	1.9	1.8	1.9	1.9	1.9	
04	Office of the Ombudsman	-	-	-	-	-	0.9	1.7	1.3	1.7	1.7	1.7	
05	Ministry of Foreign Affairs	3.0	3.0	2.7	2.9	3.0	9.0	10.4	10.4	10.9	10.5	10.5	
06	His Majesty's Armed Forces	-	-	-	-	-	8.5	8.8	9.2	9.6	8.9	9.4	
07	Prime Minister's Office	0.1	0.1	0.1	0.2	0.2	2.1	2.2	2.3	3.9	3.7	3.7	
08	Ministry of Finance & National Planning	59.1	68.2	61.0	74.8	73.2	74.0	80.9	81.1	101.3	99.4	106.1	
09	Ministry of Revenue & Customs	176.7	180.0	188.2	225.0	231.3	5.9	11.5	9.7	12.3	9.3	10.1	
10	Ministry of Public Enterprises	8.2	8.8	8.8	10.0	12.0	1.1	1.4	1.4	1.6	1.4	1.4	
11	Ministry of Commerce, Consumer, Trade, Innovation and Labour	0.7	0.9	0.8	1.0	1.0	5.7	4.5	4.0	7.3	7.4	7.6	
12	Ministry of Justice and Prison	1.1	1.1	1.1	2.1	2.1	4.6	5.8	5.8	10.1	9.2	9.7	
13	Attorney General's Office	-	-	-	-	-	2.0	2.8	1.8	3.0	3.0	3.0	
14	Ministry of Police & Fire Services	0.9	1.4	1.1	1.0	1.0	13.4	15.3	14.6	12.4	12.4	12.4	
15	Ministry of Health	1.0	1.3	1.2	1.5	1.5	32.9	32.6	34.5	38.9	38.2	40.2	
16	Ministry of Education & Training	2.3	2.4	2.4	2.9	2.9	41.3	45.9	43.8	52.6	54.6	57.1	
17	Ministry of Internal Affairs	0.0	0.0	0.1	0.1	0.0	6.9	7.9	8.4	10.0	10.1	10.3	
18	Ministry of Agriculture, Food & Forests	3.2	1.5	1.9	2.0	2.0	8.7	7.3	8.0	8.2	8.1	8.1	
19	Ministry of Infrastructure	9.0	8.4	8.2	12.3	11.6	8.5	15.2	16.8	20.2	28.8	29.9	
20	Ministry of Lands & Natural Resources	1.3	5.1	5.1	6.5	6.5	2.9	4.3	4.3	4.7	4.6	5.1	
21	Public Service Commission	-	-	-	-	-	1.2	1.6	1.4	1.8	1.7	1.7	
22	Statistics Department	-	-	-	-	-	1.5	3.1	3.0	3.3	1.6	1.9	
23	Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Communications and Climate Change	0.9	1.4	1.3	0.8	0.8	4.8	6.3	6.3	7.3	7.5	7.7	
24	Ministry of Fisheries	-	1.7	1.6	1.7	1.7	-	2.8	3.0	3.7	3.7	3.7	
25	Ministry of Tourism	-	-	-	0.1	0.1	-	-	-	5.0	5.0	5.0	
<b>Grand Total</b>		<b>267.6</b>	<b>285.6</b>	<b>285.7</b>	<b>345.1</b>	<b>351.2</b>	<b>358.3</b>	<b>245.2</b>	<b>285.5</b>	<b>284.6</b>	<b>344.5</b>	<b>345.1</b>	<b>360.7</b>

Source: MOFNP

**Table 4-2** indicates a total amount of \$52.6 million allocated to the Ministry of Education and Training (MET) which confirms that MET maintains the highest share of the recurrent budget allocation in 2017/18 estimates. This is followed by the Ministry of Health (MOH) with an estimate of \$38.9 million. The bulk of the budget allocation for MET and MOH in 2017/18 are for remuneration that is, \$33.6 million or (63.8 percent) and \$26.0 million or (66.6 percent) respectively. Allocation for operations in MET and MOH are also \$19.0 million (36.2 percent) and \$13.0 million (33.4 percent) respectively.

In 2017/2018, the ministry with the highest revenue allocation is the Ministry of Revenue and Customs of \$225.0 million, an increase of **\$45.0 million** or 20.0 percent from the original estimate in 2016/2017. This is followed by the Ministry of Finance and National Planning of \$74.8 million, an increase of \$6.6 million or 8.8 percent from the original estimate in 2016/2017. The overall increase in revenue collection is mainly due to implementation of the forex levy in 2016 and expected implementation of passenger tax in July 2017.

## 4.1.5 Total Recurrent Budget by Category, 2015/16 - 2017/18

### 4.1.5.1 Revenue by Category

It is estimated that total recurrent revenue will amount to **\$285.7 million** in 2016/17, an increase of **\$18.1 million** or 6.3 percent over the actual estimate of **\$267.6 million** in 2015/16. As illustrated in the table below, sources of total domestic revenue in 2015/16 is tax (66 percent); with a significant improved contribution of \$175.4 million. Other sources of recurrent revenue are non-tax (34 percent)—foreign exchange levy, dividends, fines and interest, sales of produce, and rental fees amongst others.

**Table 4-4** illustrates that total tax revenue is projected with a moderate increase of 0.1 million in 2016/17 from the original estimate of \$285.6 million, due largely to the tax revenue reforms that were not implemented during the financial year. As mentioned above, a number of these have been approved for implementation in 2017/18.

**TABLE 4-3: TAX CATEGORY COMPONENT (\$M)**

REVENUE	Provisional	Original	Revised	Estimate	Projection	Projection
	2015/16	2016/17	2016/17	2017/18	2018/19	2019/20
00 Income Tax	35.8	34.2	34.7	38.1	38.1	38.1
01 Trade Taxes	19.5	22.2	21.4	26.3	27.3	28.8
02 Taxes on Good & Services	75.0	76.4	80.3	96.9	100.9	104.9
03 Excise Taxes	45.1	47.7	55.6	67.8	68.8	71.8
<b>Total</b>	<b>175.4</b>	<b>180.6</b>	<b>192.0</b>	<b>229.0</b>	<b>235.0</b>	<b>243.5</b>

*Source: MOFNP*

In 2016/17, income tax is expected to reach \$34.7 million—of which company tax is around \$10.6 million, consumption tax of \$9.2 million—an increase of \$0.2 million against the original estimate of \$37.6 million for 2016/17. Despite incentives provided by government to support private sector growth and sustainability, the reduction in consumption tax as a result of tax exemptions may substantially offset expected increases in revenue from enhanced economic activities projected for 2017/18. Strict monitoring of consumption tax exemption is therefore an important task for the Ministry of Revenue and Customs (MORC) going forward.

Import and excise duties are estimated at around \$71.9 million in 2016/17, an increase of \$7.3 million over an actual amount of \$64.6 million for 2015/16. Import levies are also expected to grow in line with increased tariffs on tobacco and alcohol products. It is important to highlight that inventory movements between financial years tend to compromise all attempts to forecast accurate data for the revenue profile of tobacco suppliers. Anecdotal evidence suggests that suppliers tend to shift purchases forward to avoid increased tax payments.

**Table 4-4** shows that total recurrent revenue in 2015/16 is classified into 8 categories. Tax revenue was the highest at \$175.5 million—income tax, trade tax, taxes on goods and services, and exercise taxes. This is followed by non-tax revenue (\$92.1 million) which comprise fees and charges, entrepreneurial and property income, capital and other transfers, and budget support.

**TABLE 4-4: RECURRENT REVENUE CATEGORY (\$M)**

REVENUE	Provisional	Original Estimate	Revised Estimate	Estimate	Projection	Projection
	2015/16	2016/17	2016/17	2017/18	2018/19	2019/20
00 Income Tax	35.8	34.2	34.7	38.1	38.1	38.1
01 Trade Taxes	19.5	22.2	21.4	26.3	27.3	28.8
02 Taxes on Good & Services	75.0	76.4	80.3	96.9	100.9	104.9
03 Excise Taxes	45.1	47.7	55.6	67.8	68.8	71.8
04 Fees & Licences	23.9	28.9	24.9	31.5	32.0	33.3
05 Entrepreneurial & Property Income	10.7	20.9	15.1	20.4	20.3	21.3
06 Miscellaneous Revenue Items	1.7	1.7	4.8	3.0	1.6	1.6
07 Capital & Other Transfers	28.8	26.6	25.1	31.6	33.1	29.5
08 Budget Support	27.2	27.0	23.8	29.6	29.2	29.2
<b>Total</b>	<b>267.6</b>	<b>285.6</b>	<b>285.7</b>	<b>345.1</b>	<b>351.2</b>	<b>358.3</b>

Source: MOFNP

Non-tax revenue is expected to decrease by 12.2 percent in 2016/17. Continuing low collection of fees and charges, entrepreneurial and property income, capital and other transfers account for the shortfall. Addition to this is the uncertainty in receiving budget support from development partners, especially the European Union.

#### 4.1.5.2 Expenditure by Category

Total recurrent expenditure in 2017/18 is estimated at \$344.5 million, representing \$59.0 million or 17.1 percent more than the original estimate in 2016/17. The recurrent expenditure is classified into 13 categories (10 to 22). Remuneration (including categories 10, 11 and 19) is projected to account for most of recurrent expenditure (49 percent) in 2016/17. Remuneration also accounts the most part in 2017/18. Total actual recurrent expenditure in 2015/16 was \$245.2 million.

TABLE 4-5 : EXPENDITURE BY CATEGORY (\$M)

Expenditure by category	Actual	Budget	Revised	Budget	Projection	Projection
	2015/16	Estimates	Estimates	Estimate		
10 Established Staff	111.9	130.9	128.4	141.3	137.2	142.2
11 Unestablished Staff	5.9	5.3	6.1	6.6	6.2	6.2
12 Travel & Communication	9.0	9.7	10.8	12.4	12.0	12.5
13 Maintenance & Operations	12.6	17.3	18.0	28.1	37.6	41.8
14 Purchase of Goods & Services	29.4	34.2	33.3	42.2	41.1	41.0
15 Grants and Transfers	35.7	41.3	41.0	57.8	45.5	52.0
16 Development Duties Expenditure	2.9	2.0	2.8	3.6	2.4	2.7
17 Debt Management	22.0	24.1	23.9	29.2	47.2	45.1
18 Contingency Fund	-	1.5	1.5	1.5	1.5	1.5
19 Pension & Gratuities	4.6	5.0	5.0	5.5	4.0	5.0
20 Assets	5.3	8.6	8.4	11.0	5.0	5.2
21 Equity Payment	0.9	0.4	0.4	0.4	0.4	0.4
22 Private Sector Development Support	5.0	5.0	5.0	5.0	5.0	5.0
<b>Grand Total</b>	<b>245.2</b>	<b>285.5</b>	<b>284.6</b>	<b>344.5</b>	<b>345.1</b>	<b>360.7</b>

Source: MOFNP

As previously discussed, spending at the end of 2016/17 is anticipated to be lower by \$0.9 million or 0.3 percent than the original estimate. This is due in large part to delays in commencement of construction activities, procedural bottlenecks in procurement processes that led to under-execution of operational votes of many MDAs, as well as the recruitment process which seem to take much longer than in previous years.

Mindful of the fact that the leeway for Government to include new initiatives in the medium term is limited, given its need for strict adherence to agreed fiscal anchor and budget support joint policy matrix, few priority areas listed below have been chosen by Government to focus its spending on in 2017/18 and the medium term. The fiscal consolidation targets agreed are to:

- ✚ Raise domestic revenue collections to pre-Global Financial Crisis levels of at least 22 percent of GDP;
- ✚ Minimize external borrowing, and only borrow externally on high concessional terms;
- ✚ Maintain nominal external debt below 50 percent of GDP in outer years; and
- ✚ Maintain public remuneration costs at no more than 53 percent of domestic revenue and 45 percent of operating expenditure.

In light of the foregoing, the priority areas in 2017/18 to 2019/20 are:

- a. Sports Development construction of \$25.0 million in 2017/18; an increase of \$15.0 million from the estimate in 2016/17. The estimate for 2018/2019 and 2019/20 are **\$13.0 million** and **\$15.0 million** respectively;
- b. Road maintenance of \$10.5 million in 2017/18; to cater for all outstanding road maintenance in Tongatapu and the outer islands. The total allocation for 2018/2019 and 2019/20 will increase by additional \$5.0 million and \$10.0 million respectively.
- c. The grant to the elderly will be increased from \$65 per month as follows:

- i. Age 70 to 75 to receive \$70 per month;
  - ii. Age 76 to 79 to receive \$75 per month; and
  - iii. Age 80 plus to receive \$80 per month
- d. The monthly stipend for disability will be increased from \$65 to \$75 per person.
- e. Social monthly stipend payments will be paid to Pensioners who fall within the specified age group above and are not in any form of cash employment.
- f. Subsidies for non-government schools will increase by \$2.0 million to cover the contribution provided by the Governments of New Zealand and Australia. The contributions by NZ and Australia are expected to be terminated in 2017/18.
- g. Primary and Secondary School buildings maintenance of \$3.0 million in 2017/18. This is intended to clear out all outstanding maintenance works from previous financial years. This amount will be maintained throughout the two outer years.
- h. Purchase of goods and services for all MDAs to increase by \$15.0 million in 2019/20 as one-off expenses.
- i. Market research activities that will assist farmers in marketing agricultural products and handicrafts overseas of \$2.0m in 2017/18; the same amount will be maintained in the outer years.
- j. A debt repayment cost is estimated to increase to \$28.8 million in 2017/18 and \$30.3 million in 2018/2019. A decline to \$21.6 million is estimated for 2019/20. Bulk of the repayment is for domestic bonds of \$13.0 million in 2017/18, \$15.2 million in 2018/2019 and \$11.0 million in 2019/20.

#### 4.1.6 Total Recurrent Budget by Location

TABLE 4-6: TOTAL RECURRENT BUDGET BY LOCATION (\$M)

Location	Actual 2015/16	Budget Estimates 2016/17	Revised Estimates 2016/17	Budget Estimate 2017/18	Projection 2018/19	Projection 2019/20
Nationwide	62.4	74.9	76.7	105.0	97.4	96.2
Tongatapu	154.1	175.0	171.3	196.5	205.3	221.0
Vava'u	10.4	13.7	14.6	15.7	15.4	15.8
Ha'apai	5.6	6.9	7.0	8.5	8.9	9.1
Eua	3.6	4.9	5.0	6.8	6.4	6.7
Niuatoputapu	1.5	1.6	1.6	2.0	2.1	2.1
Niufo'ou	1.1	1.3	1.3	1.6	1.5	1.5
Overseas	6.6	7.2	7.2	8.4	8.3	8.3
<b>Grand Total</b>	<b>245.2</b>	<b>285.5</b>	<b>284.6</b>	<b>344.5</b>	<b>345.1</b>	<b>360.7</b>

Source: MOFNP

**Table 4-6** indicates the pattern of total recurrent expenditure across the island groups in 2015/16 to 2017/18, as well as in the medium term. The table reveals that Tongatapu is allocated the highest proportion of recurrent expenditure of \$196.5 million in 2017/18, an increase of \$21.5 million from the original estimate in 2016/17. This has been the case for many decades, given the size of population that resides in Tongatapu, as well as the

volume of public and private sector activities, compared to the rest of the island groups. The second largest island is Vava'u and it is proportionally allocated the next highest amount.

#### 4.1.7 Revenue Reforms in 2017/18

Government is proposing a number of revenue policy reforms in 2017/18 for an efficient tax regime and widened revenue base. Some of the revenue measures have been approved by Cabinet and will become effective from July 1st 2017. The expectation of Government is that a more diversified revenue base bolsters domestic revenue collection and ultimately assists in financing of its priority projects in the medium term without having to resort to additional borrowing. Some of the revenue policy reforms are also aimed at an additional objective of improved healthy lifestyle for Tongans. The Policy reforms are:

➤ **Increase in excise rates on alcoholic and tobacco goods**

Excise tax on alcoholic drinks and beverages has been approved to increase in addressing observed hike in road accidents and death toll. Tobacco is also included in this reform measure to discourage smokers and promote healthy lifestyle. Excise tax on local beer is increased from \$15 to \$20 per liter; imported beer from \$50 to \$60 per liter; local spirit from \$25 to \$30 per liter; imported spirit from \$50 to \$60 per liter; and imported cigarette from \$380 to \$450 per kilogram, amongst others. These tax reforms are supplemented by increased awareness campaign activities by Tonga Health on the dangers of alcohol consumption and smoking.

➤ **Migration of Non Communicable Diseases (NCD) related goods from import dutiable goods to excise taxable goods**

Government approved the proposal to move some NCD related goods—high sugar and fat content goods such as drinks, sweet biscuits, sugar confectionery and chocolate, sugar containing flavouring or colouring matter, and Lamb Flab amongst others—from import dutiable categorization to excise tax categorization, effective 1st of July 2017. The objective is to reduce consumption of unhealthy foods and promote healthy lifestyle in Tonga. It has been estimated by the MORC and MOFNP that the negative impact on revenue collection of this policy change is rather minimal compared to productivity gains when computed in man days lost to NCD related illness and death.

➤ **New Pay As You Earn (PAYE) Tax System to be implemented in 2017/18**

Government approved for implementation in 2017/18 of a revised PAYE tax system as follows:

- \$0 to \$10,000 (tax free)
- \$10,001 to \$30,000 (10%)
- \$30,001 to \$60,000 (20%)
- \$60,001 + (25%)

Again, the purpose of this policy initiative is to increase equity and fairness in tax administration along with standard benchmark of a progressive tax regime. Furthermore, tax deduction from employees' remuneration is intended to be in line with observed changes in cost of living in Tonga. The increase in the current tax-free threshold of \$7,400 to \$10,000 implies that about 60 percent of all the employees will benefit from the revision. Even though a loss of approximately \$221,915 in tax revenue is expected, it is estimated that the increase in tax rate from 20 percent to 25 percent for those earning \$60,001 and above will offset the loss. Similarly, the indirect benefits that the working population—households—and Government will derive from the adjustment have been confirmed to be higher than the expected loss in revenue in the medium to longer term.

➤ **Revision of import duties on construction materials**

Revision of import tariff on a number of construction materials has also been approved by Government. Effective from 1st of July 2017, these construction materials are zero-rated; down from

current rate of 15 percent. The listed materials under this reform include: Electrical goods, Electric Light and fittings, Co-axial cable and other co-axial electric conductors, Optical fibre cables, and Insulating fittings of plastics, amongst others. This policy reform is one of many Government's efforts aimed at encouraging investors in the construction sector during this important period. The timeframe for this reform is 1st July 2017 until end of the 2019/20. This may however be extended depending on government priority areas.

➤ **Other revenue adjustment**

A number of other reforms that have been approved earlier but whose implementation has been delayed are included in the adjustments for the 2017/18 budget. One of this is additional Passenger Service Charge of \$100, on top of the existing \$65 per passenger that was approved in 2016/17. This has been reduced to an additional \$35 per passenger; effective 1st July 2017 and operational until 2019/20. This may also be extended depending on government priority areas.

## 4.2 Government of Tonga Development Budget

This section outlines the total international development assistance, excluding budget support, for the current and next financial year—2016/17 and 2017/18—and projections for the two outer years—2018/19 to 2019/20. Projects and programmes that are stated in this budget estimates are those that are either currently on-going, confirmed to be implemented soon and those in the pipeline for which discussions are being finalized by government and development partners.

### 4.2.1 Overview of Aid Funded Projects and Programs

International development assistance continue to provide significant contribution that complement domestic resources to ensure that government's vision is achieved. As illustrated in table 4-7 below, two means of channelling funds for projects/programmes are cash and in-kind. Programmes that are funded by multilateral banks are on grants and loan basis.

**Table 4-7** shows the total development aid budget estimate for the MTBF period and the two preceding years.

TABLE 4-7: TOTAL DEVELOPMENT EXPENDITURES (CASH AND IN-KIND \$M)						
	Actual 2015/16 (\$m)	Original Estimate 2016/17 (\$m)	Estimated Outturn 2016/17 (\$m)	Budget Estimate 2017/18 (\$m)	Budget Projection 2018/19 (\$m)	Budget Projection 2019/20 (\$m)
<b>Cash</b>	30.6	42.4	30.5	37.9	29.4	25.7
<b>Inkind</b>	91.4	217.4	131.7	213.4	243.2	270.2
<b>Grand Total</b>	<b>121.9</b>	<b>259.8</b>	<b>162.1</b>	<b>251.3</b>	<b>272.6</b>	<b>295.9</b>

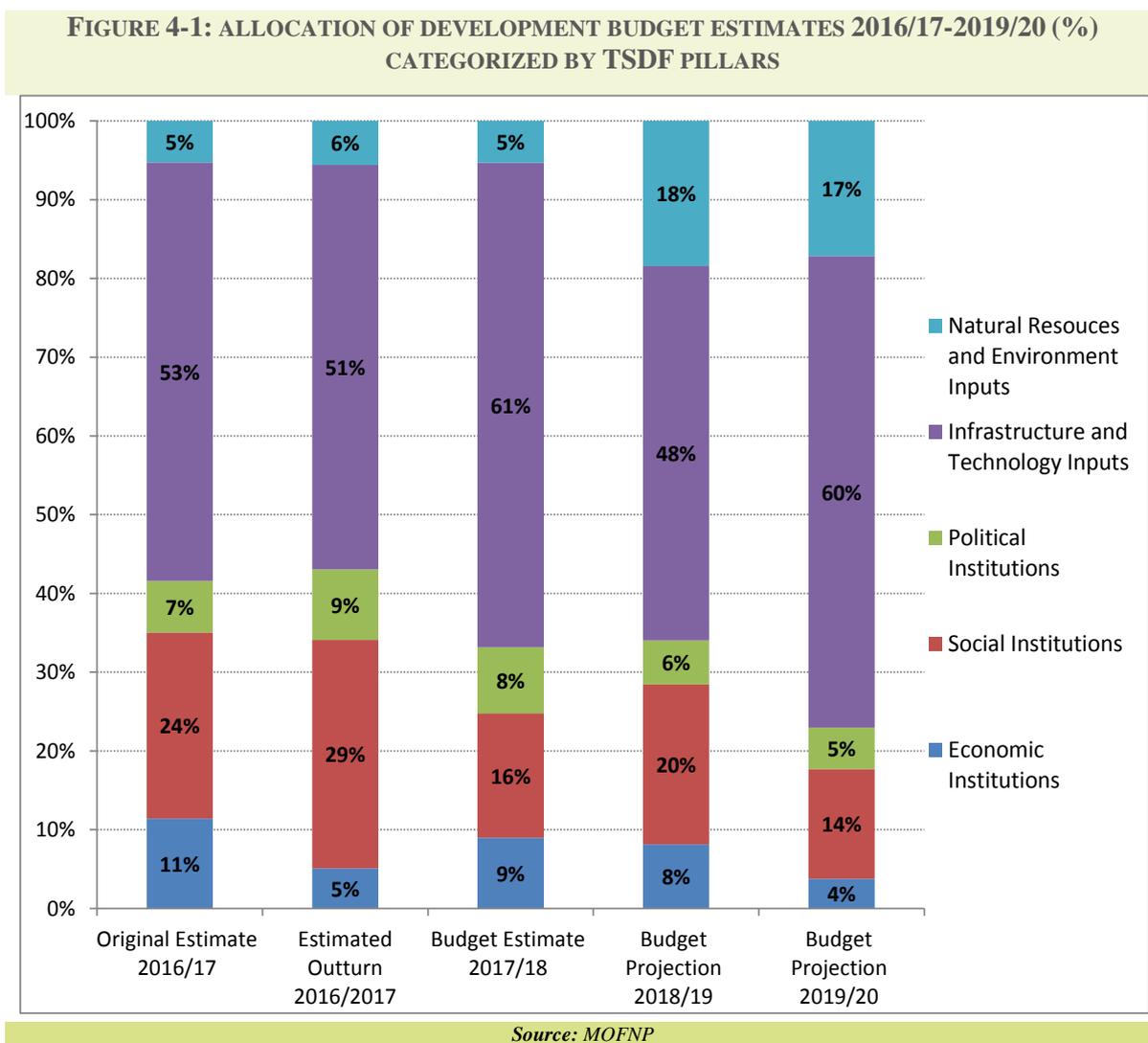
*Source: MOFNP*

The table shows that in 2016/17, total expected to be received and spent amounted to \$259.8 million, of which about 62% or \$162.1 million was expended. The shortfall in the estimates was due to various reasons; such as delay in the commencement of new projects/programmes, slow implementation of on-going programmes attributed by limited staff capacities in implementing agencies, processes and procedures of both government and donors that took longer than expected. The Ministry of Finance and National Planning in its capacity as the executing agency for most programmes is working closely with development partners and implementing agencies to expedite implementation and avoid further delays. The government has little influence on projects/programmes that are implemented outside the government system or in-kind. However, communication with the providers are always smooth and continuous.

The estimated budget for 2017/18 amounts to \$251.3 million, a reduction of 3.3 percent over the 2016/17 original estimates. This reflects increased assistance from donors based on the requests from government.

## 4.2.2 Aid Funded Project Expenditure by TSDf II Outcomes and Pillars

Out of the five TSDf Pillars, support to the Infrastructure and Technology Input Pillar is highest, followed by Social Institutions (*Figure 4-1* and *Table 4-8*). It is important to note too that the cross cutting nature of development programmes account for the observed reduction in estimates for Social Institutions from the previous year.



Major construction projects for the financial year include upgrading of sports facilities and construction of new buildings and plants in energy, communication, health, education and water sectors. These are the major contributors to the growth of Infrastructure and Technology Input Pillar.

Social Institutions’ budget covers non-infrastructure assistance to Health, Education and Communities. However, while the estimates appear to have declined in percentage terms, by nominal value, it actually increased. Economic and Political Institutions are relatively small in comparison to others, but assistance for strengthening both institutions are still very active. Even though Natural Resources and Environment Institutions appeared insignificant in value terms; majority of the development assistance are obtained from Climate Financing sources to ensure Tonga’s resilience to the adverse effect of climate change.

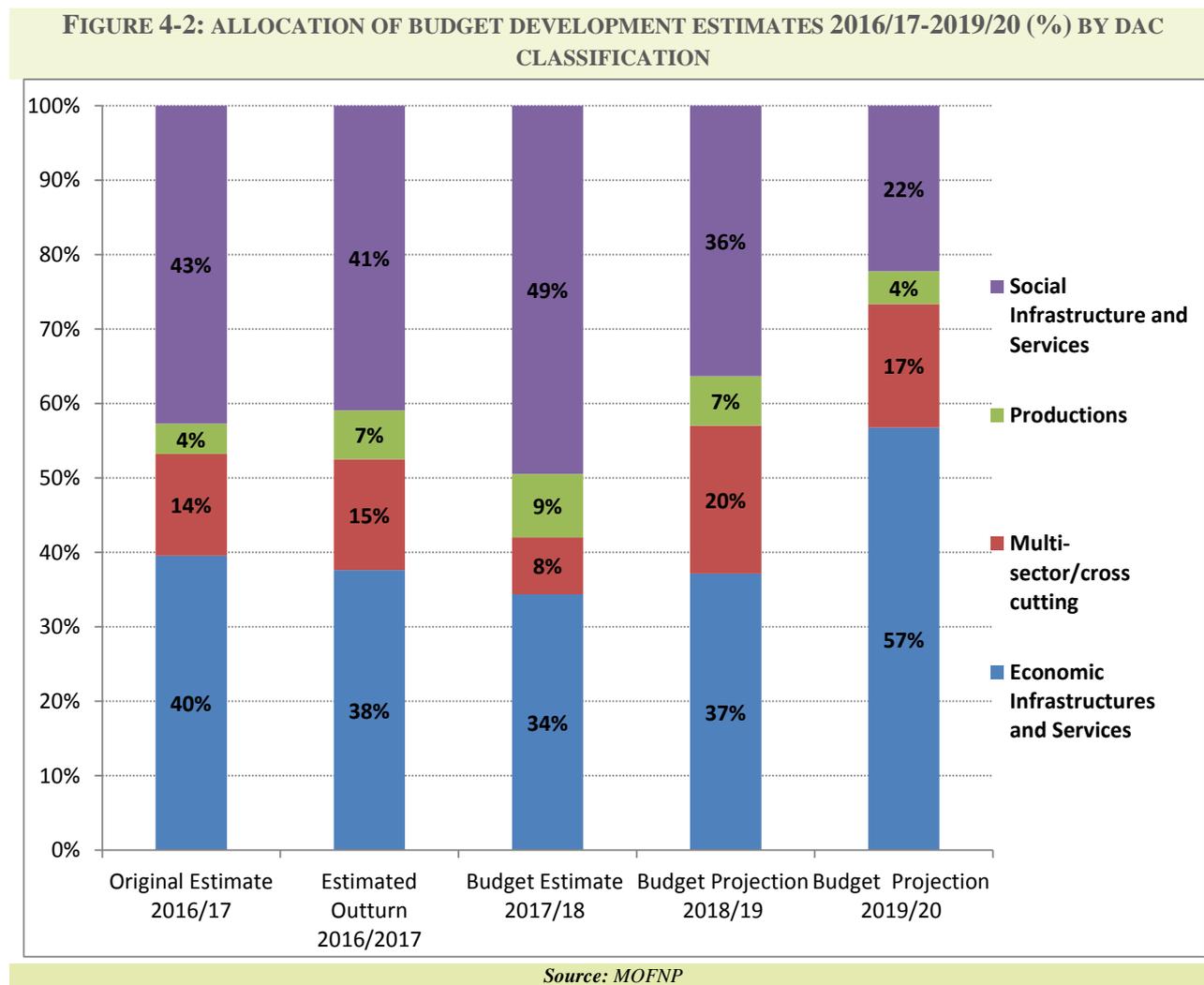
**TABLE 4-8: DETAILED DEVELOPMENT BUDGET ESTIMATES 2016/17-2017/18 BY TSDF ORGANISATIONAL OUTCOMES LINKING TO THE TSDF II PILLARS**

TSDF II Pillars	Original Estimate 2016/17 (\$m)	Estimated Outturn 2016/2017 (\$m)	Budget Estimate 2017/18 (\$m)	Budget Projection 2018/19 (\$m)	Budget Projection 2019/20 (\$m)
<b>Economic Institutions</b>	<b>29.7</b>	<b>8.2</b>	<b>22.5</b>	<b>22.2</b>	<b>11.1</b>
00. 1.1 Improved macroeconomic management and stability with deeper financial markets	4.0	3.2	3.8	4.5	5.1
00.1.2 Closer Private Public Partnership for Economic Growth	7.3	4.1	11.7	10.1	5.9
00.1.3 Strengthened business enabling environment	0.9	0.3	0.5	0.0	0.0
00.1.4 Improved public enterprise performance	0.2	0.3	0.2	0.2	0.2
00. 1.5 Better access to and use of overseas trade and employment and foreign investment	17.3	0.3	6.4	7.5	0.0
<b>Social Institutions</b>	<b>61.4</b>	<b>47.1</b>	<b>39.7</b>	<b>55.3</b>	<b>41.2</b>
00. 2.7 Better care & support for vulnerable people, in particular the disabled	0.0	0.1	0.6	0.6	0.6
00.2.1 Improved collaboration with and support to civil society and community groups	1.0	0.1	1.3	21.8	11.1
00.2.2 Closer Partnership between Government, Churches & Other Stakeholders for community development	10.0	1.9	4.3	2.5	1.7
00.2.4 Improved Education & Training Providing Lifetime Learning	22.6	13.3	18.9	17.1	14.6
00.2.5 Improved Health Care and Delivery Systems	21.8	27.2	11.2	10.3	10.3
00.2.6 Stronger integrated approaches to address both communicable & non - communicable diseases	4.1	2.5	2.0	1.8	1.9
002.3 More appropriate Social & Cultural Practices	1.9	1.9	1.3	1.0	1.0
<b>Political Institutions</b>	<b>16.9</b>	<b>14.5</b>	<b>21.2</b>	<b>15.2</b>	<b>15.6</b>
00.3.1 More Efficient, Effective, Affordable, Honest, Transparent & Political Public Service focus on clear priorities	2.4	0.8	2.0	2.0	2.0
00.3.2 Improved Law & Order and Domestic Security appropriately applied	4.6	4.2	4.5	4.7	5.1
00.3.3 Appropriate decentralization of government admin with better scope for engagement with the public	1.0	0.0	0.8	0.1	0.1
00.3.4 Modern & Appropriate Constitution, laws & regulation reflecting international standard of democratic of democracies processes	0.0	0.0	0.1	0.0	0.0
00. 3.6 Improved collaboration with development partners	2.3	1.4	1.8	1.2	1.2
00.3.7 Improved Political and Defense Engagement within the Pacific and the rest of the World	6.6	8.0	12.0	7.2	7.2
<b>Infrastructure and Technology Inputs</b>	<b>138.1</b>	<b>83.3</b>	<b>154.5</b>	<b>129.6</b>	<b>177.2</b>
00. 4.1 More reliable and affordable energy services	19.3	23.6	27.0	24.1	5.0
00.4.2 More reliable, safe, affordable building and other structures	31.9	28.4	41.8	19.9	89.0
00.4.3 More reliable, safe & Affordable information and Communication Technology used in more innovative	24.1	1.9	3.9	21.5	40.8
00.4.4 More reliable, safe & Affordable, building and other structures	60.3	23.8	68.3	57.8	37.4
00.4.6 More reliable, safe, affordable water supply and control, and sanitation services	2.5	5.6	13.5	6.3	5.0
<b>Natural Resources and Environment Inputs</b>	<b>13.7</b>	<b>9.1</b>	<b>13.4</b>	<b>50.3</b>	<b>50.7</b>
00.5.1 Improved land use planning & management for private and public spaces	0.1	0.1	2.3	2.5	2.0
00.5.2 Improved used of natural resources for long term flow of benefits	2.1	4.7	2.3	0.1	0.0
00. 5.4 Improved resilience to natural disasters and impact of climate change	11.5	4.3	8.8	47.7	48.7
<b>Grand Total</b>	<b>259.8</b>	<b>162.1</b>	<b>251.3</b>	<b>272.6</b>	<b>295.9</b>

Source: MOFNP

### 4.2.3 Aid Funded Project Expenditure by Development Aid Classification

In disaggregating the 2017/18 estimates by OECD-DAC sectors as shown in **Figure 4-2** below, Social and Economic Infrastructure services are appropriated more than 80 percent of the development assistance. This is in line with the fact Social and Economic Infrastructures constitute the two leading TSDP Pillars.



**Table 4-9** illustrates that allocation to Social Infrastructure increased significantly in 2017/18 due to delay in upgrading of the sports facilities and other priority projects by over \$40 million. Other construction are ongoing, some have been completed, while others, such as the new hospitals for Niua, Vava’u and Ha’apai are about to commence. Furthermore, construction in education institutions and other communities are continuing.

Estimates for Economic Infrastructures declined in 2017/18 from the 2016/17 outturn due to the completion of Government Administration building. On the other hand upgrading of Fuaa Wharfs is ongoing, while other infrastructural projects under communication, energy, transport and storage sector will continue during the 2017/18. Although the numbers appear to be declining in percentage terms, relative to the previous financial year, the nominal values stated on **Table 4-9** indicate the values are increasing. Multi-sector/cross cutting is mainly climate change projects; majority of whose components are infrastructural projects. Production sector are allocated same percentages as last financial year. This is an indication of continuing assistance in enhancing

the country's economic growth through increased output in Fisheries, Agricultures, Tourism and Natural Resources sectors.

**TABLE 4-9: DEVELOPMENT BUDGET BY OECD-DAC CLASSIFICATION (\$M)**

DAC SECTOR	Original Estimate 2016/17 (\$m)	Estimated Outturn 2016/17 (\$m)	Budget Estimate 2017/18 (\$m)	Budget Projection 2018/19 (\$m)	Budget Projection 2019/20 (\$m)
<b>Economic Infrastructures and Services</b>	<b>102.8</b>	<b>61.0</b>	<b>86.4</b>	<b>101.2</b>	<b>168.0</b>
Communication	22.0	1.5	2.5	18.0	36.8
Economic Infrastructure and Services	24.2	4.2	14.0	14.5	10.0
Energy	18.6	23.6	20.6	44.8	32.0
Transport & Storage	38.0	31.6	49.3	24.0	89.2
<b>Multi-sector/cross cutting</b>	<b>35.5</b>	<b>24.1</b>	<b>19.2</b>	<b>54.3</b>	<b>49.1</b>
Climate Change	31.7	19.3	14.6	51.7	47.1
General Environmental Protection	3.8	4.8	4.6	2.6	2.0
<b>Productions</b>	<b>10.6</b>	<b>10.7</b>	<b>21.4</b>	<b>18.1</b>	<b>13.0</b>
Mineral Resources & Mining	0.3	0.0	0.4	0.2	0.0
Production (Agriculture)	3.5	2.3	6.0	2.9	0.9
Production (Fisheries)	6.0	2.9	6.2	6.3	3.6
Production (Tourism)	0.9	5.4	8.9	8.7	8.5
<b>Social Infrastructure and Services</b>	<b>110.9</b>	<b>66.4</b>	<b>124.3</b>	<b>99.0</b>	<b>65.8</b>
Government and Civil Society	22.0	14.9	22.2	19.1	18.7
<b>Infrastructure &amp; Technology Inputs</b>	<b>0.0</b>	<b>0.0</b>	<b>3.3</b>	<b>6.5</b>	<b>1.0</b>
Other Social Infrastructure and Services	31.1	1.1	51.6	39.6	15.3
Social Infrastructure and Services	20.6	23.0	6.8	6.4	6.0
Social Infrastructure and Services (Education)	10.8	6.2	9.0	7.8	5.2
Social Infrastructure and Services (Health)	22.6	20.6	24.0	19.5	19.6
Water Supply & Sanitation	3.8	0.5	7.4	0.1	0.0
<b>Grand Total</b>	<b>259.8</b>	<b>162.1</b>	<b>251.3</b>	<b>272.6</b>	<b>295.9</b>

Source: MOFNP

#### 4.2.4 Aid Funded Project Expenditure by Development Partners

Tonga's development partners channel their support directly to government as bilateral assistances, through another development partners as pooled funding, or multi-financing in cases where more than two donors fund one project/programmes. Programmes that are externally funded are based on government's priorities as well on focussed areas of providers of development finances.

**TABLE 4-10: BUDGET ESTIMATES BY DEVELOPMENT PARTNERS (\$M)**

Development Partners	Estimated Outturn 2016/2017 (\$m)	Budget Estimate 2017/18 (\$m)	Budget Projection 2018/19 (\$m)	Budget Projection 2019/20 (\$m)
Asian Development Bank	33.5	48.0	83.3	125.8
Council of Regional Organization in the Pacific Agency	1.4	11.5	2.8	0.4
European Union	4.3	2.5	8.3	1.3
Government of Australia	21.8	25.8	20.1	20.5
Government of Japan	30.6	30.5	8.0	13.0
Government of New Zealand	18.1	15.6	11.2	8.2
Pooled Funds - Aust & NZ	4.3	2.5	2.5	2.5
Republic of China	20.7	56.0	13.6	20.0
United Nation Agencies	6.9	9.1	37.4	41.5
United States of America	0.5	1.5	1.5	1.5
World Bank	14.5	31.9	44.7	39.8
Other Donors	4.5	5.9	4.6	3.2
Unconfirmed Donors	1.1	10.4	34.6	18.2
<b>Grand Total</b>	<b>162.1</b>	<b>251.3</b>	<b>272.6</b>	<b>295.9</b>

*Source: MOFNP*

**Table 4-10** shows the total allocations for each Development Partners over the MTBF period. These support are often channelled to particular areas or sectors, based on the government's development priorities.

Major projects being financed by development partners are: Cyclone Ian Recovery and Reconstruction Project, Outer Island Renewable Energy Project, Climate Resilience Sector Project, Nuku'alofa Urban Development Project, Tonga Education Grant Assistance, Tonga Health System Support Project, Transport Consolidated Sector Project, Reconstruction of Niuatoputapu hospital, Vava'u hospital and Ha'apai Hospital, Tonga Aviation Investment Project, Upgrading of Fuaa Wharf, Coping with Climate Change, Pacific Resilience Program, and the Tonga Village Network Upgrade.

The projects that are in Pipeline are : Upgrading of Sports Facilities (Tonga High School Complex), Upgrading of Teufaiva Stadium, Coastal Protection projects for Tongatapu, Ha'apai and Vava'u, Outer Island Renewable Energy Phase 2, Climate Ready, and the Youth Life Skill and Employment.

## 4.2.5 Aid Funded Project Expenditure by Ministry

**Table 4-11** shows the total by MDAs, with their respective share of the overall development budget. The Ministry of Infrastructure and Tourism has the largest development estimates followed by MEIDECC and Ministry of Internal Affairs.

**TABLE 4-11: BUDGET DEVELOPMENT ESTIMATES BY MDA (\$M)**

Ministry	Estimated	Budget	Budget	Budget
	Outturn	Estimate	Projection	Projection
	2016/2017	2017/18	2018/19	2019/20
	(\$m)	(\$m)	(\$m)	(\$m)
Palace Office	0.5	0.3	0.0	0.0
Legislative Assembly	0.0	0.1	0.5	1.0
Tonga Office of the Auditor General	0.2	0.2	0.2	0.2
Office of the Ombudsman	0.0	0.0	0.0	0.0
Ministry of Foreign Affairs	0.2	0.0	0.0	0.0
His Majesty's Armed Forces	8.0	12.0	7.2	7.2
Prime Minister's Office	0.0	0.1	0.9	0.0
Ministry of Finance & National Planning	27.0	12.6	11.9	12.5
Ministry of Revenue & Customs	0.1	6.4	7.5	0.0
Ministry of Public Enterprises	9.5	4.0	1.5	0.2
Ministry of Commerce , Consumer, Trade, Innovation and Labour	0.3	0.5	0.0	0.0
Ministry of Justice	0.6	1.3	5.7	3.0
Attorney General's Office	0.1	0.2	0.2	0.2
Ministry of Police, Prisons & Fire Services	3.5	3.9	6.5	8.1
Ministry of Health	12.8	16.8	11.8	9.4
Ministry of Education & Training	13.3	18.6	17.1	14.5
Ministry of Internal Affairs	2.5	48.5	32.2	14.7
Ministry of Agriculture, Food & Forests	3.9	9.3	7.5	2.2
Ministry of Infrastructure & Tourism	36.8	49.2	24.9	91.2
Ministry of Lands, Survey & Natural Resources	0.3	7.6	6.8	5.0
Public Service Commission	0.2	2.0	1.9	1.9
Statistics Department	0.5	0.0	0.0	0.0
Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Communications and Climate Change	40.5	52.9	125.1	120.9
Ministry of Fisheries	1.2	2.8	1.8	2.3
Ministry of Tourism	0.0	2.1	1.5	1.5
<b>Grand Total</b>	<b>162.1</b>	<b>251.3</b>	<b>272.6</b>	<b>295.9</b>

Source: MOFNP

Ministry of Infrastructure is currently implementing the Tonga Aviation projects that include updrage of the Fua'amotu Airport terminal and construction of the air traffic control room. The rehabilitation and extension of borefields in Mataki'eua and Tongamai, zoning of Nuku'alofa water supply reticulation network and improved sanitations project, Faua upgrading and Ha'apai residential reconstruction and recovery are all on-going projects under the Ministry of Infrastructure.

The repair, construction and installation of solar farms in Tonga's outer islands to reduce dependence on imported fossil fuel for power generation are being implemented by MEIDECC, in addition to climate proofing of schools, hospitals, roads and coastal protections. Early Warning Systems equipment and other water projects are also still active under MEIDECC.

Grassroot Grant Programs such as construction of classrooms and water system in communities are ongoing. Other ongoing projects include the Tonga Education Project, Tonga Health Support System and trainings supported by the UNFPA and WHO to the Ministry of Education and Ministry of Health.

Assistance for the uphold of Rule of Law and Order are still active under the Ministry of Police, Prison, Fire and the Attorney General's Office.

Other Ministries also receive assistance from donors to strengthen their capacities through the provision of consultants and technical assistance.

## 4.2.6 Development Expenditure by Location

In terms of disaggregating the estimates by regions, it is important to note that most of the projects are implemented in Tongatapu. However some projects that are implemented across the island groups are coded as National Programmes.

### 4.2.6.1 Projects in Tongatapu

**Table 4-12** shows government allocation by project types that are funded by donors in Tongatapu. These major projects are:

- Tonga Aviation Investment Project which includes the renovation of the international airport terminal and air traffic controller's room; upgrading of the wharf; road maintenance; upgrading of high voltage and low voltage power distribution network across 33 villages in Tongatapu; coastal protection and climate resilience project for Hahake; Conservation of the Fanga'uta Lagoon and Catchment; Nuku'alofa Urban Development Sector Projects which includes upgrading of Mataki'eua borefield; upgrading of Mataki'eua borefield; and construction of sports facilities .

**TABLE 4-12: GRANT ALLOCATION BY PROJECT TYPES-TONGATAPU**

Tongatapu	Estimated Outturn 2016/2017 (\$m)	Budget Estimate 2017/18 (\$m)	Budget Projection 2018/19 (\$m)	Budget Projection 2019/20 (\$m)
Economic Infrastructures and Services	44.8	54.5	22.1	16.5
Multi-sector/cross cutting	5.2	10.0	20.7	14.1
Productions	8.4	16.9	9.1	3.9
Social Infrastructure and Services	44.9	81.6	40.4	29.8
<b>Total</b>	<b>103.3</b>	<b>163.0</b>	<b>92.3</b>	<b>64.3</b>

*Source: MOFNP*

## 4.2.6.2 Projects in Vava'u

**Table 4-13** shows the development projects allocated to Vava'u. These are under economic, social and health projects. The major projects are road maintenance, upgrading of Ngu hospital, coastal protections and fisheries special management areas, as well as upgrading of the emergency and meteorological offices.

**TABLE 4-13: GRANT ALLOCATION BY PROJECT TYPES-VAVA'U**

Vava'u	Estimated Outturn 2016/2017 (\$m)	Budget Estimate 2017/18 (\$m)	Budget Projection 2018/19 (\$m)	Budget Projection 2019/20 (\$m)
Economic Infrastructures and Services	4.1	4.6	4.0	0.0
Multi-sector/cross cutting	0.0	0.0	11.0	14.0
Productions	0.0	0.0	0.0	0.0
Social Infrastructure and Services	0.5	6.5	1.0	2.0
<b>Total</b>	<b>4.6</b>	<b>11.1</b>	<b>16.0</b>	<b>16.0</b>

Source: MOFNP

## 4.2.6.3 Projects in Ha'apai

Installation and repair of solar equipments in Ha'apai outer islands are still active as well as the installation of solar water pumping and solar freezer. Upgrading of the Ha'apai market is at the preparation stage while renovation of Justice, Fisheries office and emergency office are ongoing. Recovery of residential houses are now getting close the completion phase (**Table 4-14**).

**TABLE 4-14: GRANT ALLOCATION BY PROJECT TYPES-HA'APAI**

Ha'apai	Estimated Outturn 2016/2017 (\$m)	Budget Estimate 2017/18 (\$m)	Budget Projection 2018/19 (\$m)	Budget Projection 2019/20 (\$m)
Economic Infrastructures and Services	4.4	7.3	4.9	0.0
Multi-sector/cross cutting	13.9	2.1	11.0	13.0
Productions	0.0	1.3	0.0	0.0
Social Infrastructure and Services	0.8	6.8	2.5	0.0
<b>Total</b>	<b>19.1</b>	<b>17.4</b>	<b>18.4</b>	<b>13.0</b>

Source: MOFNP

#### 4.2.6.4 Projects in 'Eua

According to *Table 4-15* a total of \$2.6 million is estimated for 2017/18. Road maintenance is currently on-going as well as the installation of Eua solar projects.

**TABLE 4-15: GRANT ALLOCATION BY PROJECT TYPES-'EUA**

<b>Eua</b>	<b>Estimated Outturn 2016/2017 (\$m)</b>	<b>Budget Estimate 2017/18 (\$m)</b>	<b>Budget Projection 2018/19 (\$m)</b>	<b>Budget Projection 2019/20 (\$m)</b>
Economic Infrastructures and Services	5.0	2.1	0.0	0.0
Multi-sector/cross cutting	0.0	0.0	0.0	0.0
Social Infrastructure and Services	0.0	0.5	3.8	0.5
<b>Total</b>	<b>5.0</b>	<b>2.6</b>	<b>3.8</b>	<b>0.5</b>

*Source: MOFNP*

#### 4.2.6.5 Projects in Niuatoputapu and Niuafu'ou

Installation of Solar Home System will be implemented this financial year in both islands. Water testing is likely to be conducted before any hard infrastructure is constructed in Niuafu'ou and Niuatoputapu hospitals are completed (*Table 4-16*).

**TABLE 4-16: GRANT ALLOCATION BY PROJECT TYPES-NIUATOPUTAPU AND NIUAFO'OU**

<b>Niuatoputapu &amp; Niuafu'ou</b>	<b>Estimated Outturn 2016/2017 (\$m)</b>	<b>Budget Estimate 2017/18 (\$m)</b>	<b>Budget Projection 2018/19 (\$m)</b>	<b>Budget Projection 2019/20 (\$m)</b>
Economic Infrastructures and Services	0.0	3.3	6.5	0.0
Multi-sector/cross cutting	0.0	0.1	0.1	0.0
Social Infrastructure and Services	3.0	1.2	1.3	0.7
<b>Total</b>	<b>3.0</b>	<b>4.6</b>	<b>7.9</b>	<b>0.7</b>

*Source: MOFNP*

## 4.2.6.6 National Projects

**Table 4-17** below shows all other projects that provide national support to various sectors of the economy.

<b>TABLE 4-17: GRANT ALLOCATION BY PROJECT TYPES – NATION WIDE</b>				
<b>National</b>	<b>Estimated Outturn 2016/2017 (\$m)</b>	<b>Budget Estimate 2017/18 (\$m)</b>	<b>Budget Projection 2018/19 (\$m)</b>	<b>Budget Projection 2019/20 (\$m)</b>
Economic Infrastructures and Services	2.7	14.7	63.8	151.5
Multi-sector/cross cutting	5.0	6.9	11.5	8.0
Productions	2.3	3.2	9.0	9.1
Social Infrastructure and Services	17.1	27.7	49.9	32.8
<b>Total</b>	<b>27.1</b>	<b>52.5</b>	<b>134.2</b>	<b>201.4</b>

*Source: MOFNP*

Projects that are under national programmes cover all sectors that provide national support and therefore have an impact throughout the country. These national programmes include GGP, assistance to upgrade the HMAF facilities, training by WHO, scholarships to both public and private schools, mobile health facilities to assist the health sector and these include all outer islands health centres, maintenance of all primary schools, agricultural projects and assistance to rural communities under the Tonga Rural Initiative Projects 2. Climate proofing of roads, upgrading of the emergency office in outer islands and installation of early warning systems to all outer islands. Adaptation project funded by the Green Climate Funds are expected to commence next financial year in Tongatapu, Ha'apai and Vava'u. E-government and the Outer Island Renewable Energy Phase 2 will also implement in the near future.

## 4.3 Budget Presented in the GFS Format

### 4.3.1 Overall Fiscal Balance

This section provide a synopsis of the compilation and presentation of government finance statistics using the 2001 GFS Format approved by the International Monetary Fund (IMF) as part of the harmonized System of National Accounts (SNA). It outlines strategic information on institutional structure of Government that are of interest to policy makers and researchers alike. It conforms with standard presentation of fiscal data that is similar to accounting presentation, with a balance sheet and income statement. The format therefore ensures a common government reporting framework that allows for easy cross-country comparisons of fiscal data and assessment of fiscal policy. *Table 4-18* below outlines the fiscal data for 2015/16, 2016/17, 2017/18 and the medium term.

TABLE 4-18: GFS PRESENTATION TABLE (\$M)

	Actual 2015/16	Budget Estimate 2016/17	Revised Estimate 2016/17	Budget Estimate 2017/18	Projection 2018/19	Projection 2019/20
<b>Revenue</b>	<b>360.6</b>	<b>500.4</b>	<b>418.8</b>	<b>541.1</b>	<b>562.0</b>	<b>565.5</b>
<b>Taxes</b>	<b>184.6</b>	<b>192.1</b>	<b>200.8</b>	<b>247.4</b>	<b>252.9</b>	<b>261.2</b>
Taxes on income, profits, and capital gains	35.8	34.2	34.7	38.1	38.1	38.1
Taxes on property	0.3	0.3	0.3	0.9	0.9	0.9
Taxes on goods and services	128.6	130.7	139.4	171.9	176.3	183.3
Taxes on international trade and transactions	19.9	26.9	26.4	36.6	37.6	38.9
Other taxes	-	-	-	-	-	-
<b>Grants</b>	<b>146.0</b>	<b>266.2</b>	<b>179.4</b>	<b>251.4</b>	<b>267.5</b>	<b>260.2</b>
Current	87.4	106.6	84.7	114.3	116.6	69.5
Capital	58.6	159.5	94.7	137.1	150.9	190.7
<b>Other revenue</b>	<b>30.1</b>	<b>42.1</b>	<b>38.5</b>	<b>42.2</b>	<b>41.7</b>	<b>44.2</b>
Property income [GFS]	10.9	20.7	15.7	20.2	20.2	21.1
Sales of goods and services	13.3	17.8	17.4	17.9	18.1	19.2
Fines, penalties, and forfeits	0.7	0.7	0.7	1.3	1.3	1.3
Voluntary transfers other than grants	0.0	-	0.1	-	-	-
Miscellaneous and unidentified revenue	5.1	2.8	4.6	2.7	2.1	2.6
<b>Expense</b>	<b>284.6</b>	<b>346.3</b>	<b>320.7</b>	<b>407.8</b>	<b>408.0</b>	<b>419.4</b>
<b>Compensation of employees</b>	<b>127.3</b>	<b>139.3</b>	<b>138.1</b>	<b>148.7</b>	<b>143.0</b>	<b>148.0</b>
Wages and salaries	108.6	124.7	123.6	135.9	131.4	136.2
Social contributions	18.7	14.6	14.5	12.7	11.7	11.8
<b>Use of goods and services</b>	<b>107.3</b>	<b>145.9</b>	<b>122.7</b>	<b>171.6</b>	<b>198.8</b>	<b>199.7</b>
<b>Interest</b>	<b>7.9</b>	<b>7.5</b>	<b>8.1</b>	<b>8.1</b>	<b>8.0</b>	<b>7.7</b>
To nonresidents	6.4	6.4	6.7	6.3	6.2	5.9
To residents other than general government	1.4	1.2	1.4	1.8	1.8	1.8
<b>Subsidies</b>	<b>0.6</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>
Subsidies to public corporations	-	-	-	-	-	-
Subsidies to private enterprises	0.6	0.9	0.9	0.9	0.9	0.9
<b>Grants</b>	<b>3.7</b>	<b>4.7</b>	<b>3.7</b>	<b>2.5</b>	<b>2.2</b>	<b>5.2</b>
<b>Social benefits</b>	<b>20.8</b>	<b>22.1</b>	<b>22.1</b>	<b>24.5</b>	<b>24.9</b>	<b>28.2</b>
<b>Other expense</b>	<b>16.9</b>	<b>25.9</b>	<b>25.1</b>	<b>51.6</b>	<b>30.2</b>	<b>29.7</b>
<b>Gross Operating Balance</b>	<b>76.1</b>	<b>154.0</b>	<b>98.1</b>	<b>133.3</b>	<b>154.0</b>	<b>146.1</b>
<b>Net Acquisition Of Nonfinancial Assets</b>	<b>62.4</b>	<b>166.1</b>	<b>101.9</b>	<b>146.6</b>	<b>154.9</b>	<b>194.8</b>
<b>Fixed assets</b>	<b>62.3</b>	<b>166.0</b>	<b>101.8</b>	<b>146.4</b>	<b>154.7</b>	<b>194.6</b>
Buildings and structures	41.1	99.0	71.0	92.6	67.2	98.8
Machinery and equipment	14.8	57.2	25.5	42.5	44.6	38.7
Other fixed assets	6.4	9.8	5.3	11.3	43.0	57.1
<b>Nonproduced assets</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>
Land	0.1	0.1	0.1	0.2	0.2	0.2
<b>Net Lending/Borrowing Requirement</b>	<b>13.7</b>	<b>(12.1)</b>	<b>(3.9)</b>	<b>(13.4)</b>	<b>(0.9)</b>	<b>(48.7)</b>
<b>Net Acquisition Of Financial Assets And Liabilities (Financing)</b>	<b>13.7</b>	<b>(12.1)</b>	<b>(3.9)</b>	<b>(13.4)</b>	<b>(0.9)</b>	<b>(48.7)</b>
<b>Financial Assets</b>	<b>28.0</b>	<b>7.9</b>	<b>3.3</b>	<b>15.2</b>	<b>16.6</b>	<b>(2.5)</b>
Domestic	28.0	7.9	3.3	15.2	16.6	(2.5)
Currency and deposits	22.8	0.1	1.1	0.6	6.0	(2.4)
Loans	4.3	7.4	1.8	14.2	10.1	(0.5)
Shares and other equity	0.9	0.4	0.4	0.4	0.4	0.4
<b>Financial Liabilities</b>	<b>14.3</b>	<b>19.9</b>	<b>7.1</b>	<b>28.6</b>	<b>17.4</b>	<b>46.2</b>
Domestic	12.7	4.0	4.7	1.9	(0.7)	2.0
Foreign	1.6	15.9	2.4	26.6	18.1	44.2

Source: MOFNP

**Table 4-19** illustrates that the overall fiscal balance for 2016/17 is projected at a deficit of \$3.9 million, compared to the original estimated deficit of \$12.1 million. Contributory factors in this outturn are a reduction in deficit of \$8.2 million that reflects the strong overall performance of revenue (domestic taxes) and grants (budget support) with tight control over government spending.

In 2017/18, the overall fiscal balance is forecasted to decrease further by \$9.5 million compare to the level projected in 2016/17 due to the ongoing sports development projects. In the medium term, overall fiscal balance results in a deficit of \$0.9 million in 2018/19 and \$48.7 million in 2019/20 respectively. This effort is now augmented by an increase in capital grants from donor in the medium term, especially the construction of sporting facilities of \$51.5 million (of which \$26.5 million is from donor and \$25.0 million is government funded) amongst others.

**TABLE 4-19: OVERALL FISCAL BALANCE (\$M)**

	Actual 2015/16	Budget Estimate 2016/17	Revised Estimate 2016/17	Budget Estimate 2017/18	Projection 2018/19	Projection 2019/20
<b>Revenue</b>	<b>360.6</b>	<b>500.4</b>	<b>418.8</b>	<b>541.1</b>	<b>562.0</b>	<b>565.5</b>
Tax and Non-tax Revenue	214.6	234.2	239.3	289.6	294.5	305.4
Grants						
<i>Current</i>	87.4	106.6	84.7	114.3	116.6	69.5
<i>Capital</i>	58.6	159.5	94.7	137.1	150.9	190.7
<b>Expense</b>	<b>284.6</b>	<b>346.3</b>	<b>320.7</b>	<b>407.8</b>	<b>408.0</b>	<b>419.4</b>
<b>Gross Operating Balance</b>	<b>76.1</b>	<b>154.0</b>	<b>98.1</b>	<b>133.3</b>	<b>154.0</b>	<b>146.1</b>
Net Acquisition Of Nonfinancial Assets	62.4	166.1	101.9	146.6	154.9	194.8
<b>Net Lending/Borrowing Requirement</b>	<b>13.7</b>	<b>(12.1)</b>	<b>(3.9)</b>	<b>(13.4)</b>	<b>(0.9)</b>	<b>(48.7)</b>
<b>Net Acquisition Of Financial Assets And Liabilities (Financing)</b>	<b>13.7</b>	<b>(12.1)</b>	<b>(3.9)</b>	<b>(13.4)</b>	<b>(0.9)</b>	<b>(48.7)</b>

Source: MOFNP

The operating revenue and grants projected for 2016/17 is \$418.8 million, or 16.3 percent lower than the original estimate in the same year. As previously mentioned, the fall in operating revenue signifies the fact that some of the revenue items are not received as planned. Going forward, the expectation is that improved tax compliance, ongoing administrative actions by Ministry of Revenue and Customs as well as the abovementioned revenue reforms that will be effective in 2017/18 all imply encouraging revenue growth trajectory in the near to medium term.

On the other hand, the revised operating expense in 2016/17 is forecasted to be \$320.7 million or 7.4 percent lower than the original estimate, a further reflection of lower government spending than scheduled. Reduced spending was recorded in line items such as compensation of employees and use of goods and services. Furthermore, the aforementioned implementation problems with some current and capital projects and programs might be factors in the reduced spending against the original estimated expenditure for the 2016/17.

## 4.3.2 Tax Revenues

As previously explained, the contributory factors for the expected higher tax revenue in 2017/18, compared to the 2016/17 fiscal year is the revised tax structure—PAYE threshold for instance—and expected positive outcomes from other revenue policy reforms. All things considered, we expect tax revenue to grow in line with nominal GDP in 2017/18. For the outer years, based on assumptions of uncertainties in both domestic and external environment as well as reforms in taxes in support of sports development, tax revenue as a proportion of GDP are forecast to decline slightly as collection of forex levy start to fall as it approaches completion.

**TABLE 4-20: TAX REVENUE (\$M)**

	Actual 2015/16	Budget Estimate 2016/17	Revised Estimate 2016/17	Budget Estimate 2017/18	Projection 2018/19	Projection 2019/20
<b>Taxes</b>						
Taxes on income, profits, and capital gains	35.8	34.2	34.7	38.1	38.1	38.1
Taxes on property	0.3	0.3	0.3	0.9	0.9	0.9
Taxes on goods and services	128.6	130.7	139.4	171.9	176.3	183.3
Taxes on international trade and transactions	19.9	26.9	26.4	36.6	37.6	38.9
Other taxes	-	-	-	-	-	-
<b>Total</b>	<b>184.6</b>	<b>192.1</b>	<b>200.8</b>	<b>247.4</b>	<b>252.9</b>	<b>261.2</b>

Source: MOFNP

Tax Revenue **Table 4-20** is budgeted at \$247.4 million (24.9 percent of GDP) in 2017/18 and expected to account for 45.7 percent of total Revenue and Grants. This forecast for Tax Revenue represents an increase of 25.4 percent or \$62.8 million over actual collections in 2015/16. A tax revenue receipt in 2016/17 is projected to increase by 8.1 percent over the previous year. The budgeted increase in tax revenue in 2017/18 is predicted on a positive growth in tax collection, favourable movements in other economic variables, as well as enhanced compliance activities by the Ministry of Revenue and Customs.

### 4.3.2.1 Taxes on Income and Profits

The revised estimate for Taxes on Income and Profits in 2016/17 as illustrated in **Table 4-21** is projected to be \$34.7 million; \$0.5 million higher than the original estimate and \$1.1 million lower than 2015/16 actual figures. The table also shows that Taxes on Income & profits for 2017/18 are forecasted at \$38.1 million; \$3.4 million higher than the 2016/17 revised estimate. The increase is expected from revised PAYE threshold, and improved tax collection from large businesses.

TABLE 4-21: TAX ON INCOME AND PROFITS (\$M)

	Actual 2015/16	Budget Estimate 2016/17	Revised Estimate 2016/17	Budget Estimate 2017/18	Projection 2018/19	Projection 2019/20
<b>Taxes on Income &amp; Profits</b>						
Taxes on income, profits, and capital gains	35.8	34.2	34.7	38.1	38.1	38.1
<b>Total</b>	<b>35.8</b>	<b>34.2</b>	<b>34.7</b>	<b>38.1</b>	<b>38.1</b>	<b>38.1</b>

*Source: MOFNP*

However, the corporate tax collected from small and large businesses are projected to be at \$10.6 million at the end of 2016/17; a 8.1 percent lower than what is expected in the 2017/18 budget. The expectation is that initiatives of Government to improve the business environment in Tonga with the assistance of the Asian Development Bank and upgrade of the business registration system will translate into higher collection in 2017/18 as the number of investors increase and the level of compliance improve.

### 4.3.2.2 Tax on goods and services

Tax on goods and services as shown in **Table 4-22** for 2017/18 is projected at \$171.9 million, an increase of \$32.5 million from the revised estimate in 2016/17 and \$41.4 million higher than the 2016/17 original estimate. It is also \$43.3 million higher than the actual for 2015/16. The increases for the periods are expected from sustained growth in consumption taxes, both import and domestic, and excise taxes.

The table below illustrates that consumption taxes (both import and domestic) for 2017/18 are estimated at \$96.9 million; an increase of \$16.7 million, or 17.2 percent over the revised estimate in 2016/17. The increase reflects the impact of imports by diasporas Tongans, enhanced household incomes that derive from remittances inflow, improved economic activities as well as aforementioned improvement in compliance and administration by MORC.

TABLE 4-22: TAX ON GOODS AND SERVICES (\$M)

	Actual 2015/16	Budget Estimate 2016/17	Revised Estimate 2016/17	Budget Estimate 2017/18	Projection 2018/19	Projection 2019/20
<b>Taxes on Goods &amp; Services</b>						
General taxes on goods and services	75.0	76.4	80.2	96.9	100.9	104.9
Excises	45.1	44.7	50.6	62.8	63.7	66.7
Taxes on use of goods and on permission to use goods or perform activities	8.5	9.4	8.6	12.2	11.7	11.7
<b>Total</b>	<b>128.6</b>	<b>130.5</b>	<b>139.4</b>	<b>171.9</b>	<b>176.3</b>	<b>183.3</b>

*Source: MOFNP*

The table above further shows that excise tax for 2017/18 is budgeted at \$62.8 million; an increase of \$12.2 million or 19.4 percent from the revised estimate in 2016/17. The increase partially reflects the impact of proposed excise tax reforms, such as the change in excise tax rate on locally manufactured cigarettes, imported tobacco. These are in addition to the earlier review of excise tax on imported instant noodles, alcohol, high-sugar content carbonated drinks, mayonnaise, ice-cream, imported turkey tail, fuel, baby diapers and animal fats in support of improved healthy lifestyle in Tonga.

### 4.3.2.3 Trade Tax

**Table 4-23** illustrates that revised estimate for trade tax in 2016/17 is \$26.4 million; 1.9 percent decrease or \$0.5 million from the original estimate for the year. This is due to low collection of import duties and recoverable charges and aforementioned delay in implementing the Passenger Service Charge. However, forecasted trade taxes for 2017/18 increase as economic activities are expected to substantially increase based on favourable environment.

**TABLE 4-23 :TRADE TAX (\$M)**

	Actual 2015/16	Budget Estimate 2016/17	Revised Estimate 2016/17	Budget Estimate 2017/18	Projection 2018/19	Projection 2019/20
<b>Taxes on Trades</b>						
Business Import Duties	19.4	22.1	21.2	26.1	27.1	28.6
Government Import Duties	0.2	0.1	0.2	0.2	0.2	0.2
Recoverable Charges	0.2	0.1	-	0.1	0.1	0.1
PG Forex Levy	0.1	3.0	5.0	5.0	5.0	5.0
PG Passenger Service Charge	-	1.6	-	5.2	5.2	5.0
<b>Total</b>	<b>19.9</b>	<b>26.9</b>	<b>26.4</b>	<b>36.6</b>	<b>37.6</b>	<b>38.9</b>

Source: MOFNP

### 4.3.3 Non-tax Revenues

Non-tax revenue for 2017/18 is budgeted at \$42.2 million, an increase of 0.1 percent from the original estimate in 2016/17 (**Table 4-24**).

**TABLE 4-24: NON-TAX REVENUE COMPONENT (\$M)**

	Actual 2015/16	Budget Estimate 2016/17	Revised Estimate 2016/17	Budget Estimate 2017/18	Projection 2018/19	Projection 2019/20
<b>Non-tax Revenue (Other revenue)</b>						
Property income [GFS]	10.9	20.7	15.7	20.2	20.2	21.1
Sales of goods and services	13.3	17.8	17.4	17.9	18.1	19.2
Fines, penalties, and forfeits	0.7	0.7	0.7	1.3	1.3	1.3
Voluntary transfers other than grants	0.0	-	0.1	-	-	-
Miscellaneous and unidentified revenue	5.1	2.8	4.6	2.7	2.1	2.6
<b>Total</b>	<b>30.1</b>	<b>42.1</b>	<b>38.5</b>	<b>42.2</b>	<b>41.7</b>	<b>44.2</b>

Source: MOFNP

In addition, non-tax revenue is expected to increase in 2017/18 by \$3.7 million, or 8.8 percent, from the 2016/17 revised estimate. The rise in non-tax is predicated upon projected increase in property income, sales of goods and services, incidental sales by non-market establishments, fines and penalties, and voluntary, other than transfers. Furthermore, non-tax revenue collection is expected to improve in the outer years as a result of the review and expected widening of non-tax revenue base, approved by government for implementation in 2017/18.

### 4.3.3.1 Entrepreneurial and Property Incomes

The revenue from entrepreneurial and property income is expected to increase in 2017/18 to \$20.2 million; an increase of \$4.5 million over the revised estimate in 2016/17 as showed in **Table 4-25**.

**TABLE 4-25: ENTREPRENEURIAL AND PROPERTY INCOMES (\$M)**

	Actual 2015/16	Budget Estimate 2016/17	Revised Estimate 2016/17	Budget Estimate 2017/18	Projection 2018/19	Projection 2019/20
<b>Entrepreneurial and Property Incomes</b>						
Interest [GFS]	1.0	6.0	1.4	2.5	2.3	2.2
Dividends	8.2	12.4	12.4	13.9	14.0	15.1
Rental	1.7	2.3	1.9	3.8	3.8	3.8
<b>Total</b>	<b>10.9</b>	<b>20.7</b>	<b>15.7</b>	<b>20.2</b>	<b>20.2</b>	<b>21.1</b>

*Source: MOFNP*

The increase will derive from improvements in collection on other interests from government investments by \$2.5 million and revenue from government land rental by \$3.8 million. In comparison to the original estimate in 2016/17, the overall collection from entrepreneurial and property incomes is expected to fall in 2017/18 by \$0.5 million mainly from dividend collected from the public enterprises by \$1.5 million. It is expected that collection from entrepreneurial and property incomes in the outer years will also increase as a result of government reform programs that will provide support to public enterprises.

### 4.3.3.2 Sales of goods and services

The overall sales of goods and services, (**Table 4-26**) is projected to increase by \$0.5 million or 2.8 percent to \$17.9 million in 2017/18 compared to the revised estimate of \$17.4 million in 2016/17. On the other hand, overall sales of goods and services are forecasted to remain the same at \$17.9 million compared to the original estimate in 2016/17. The expected decrease in revenue outturn from sale of goods and services in 2016/17 is attributed to slow, or rather minimal collection from seabed mineral exploration application and license fees by \$0.2 million, passport and visa fees \$0.3 million and sale of produce and products by \$0.1 million. In the medium term, revenue is anticipated to increase to \$18.1 million in 2018/19 and \$19.2 million in 2019/20 respectively.

TABLE 4-26 : SALES OF GOODS AND SERVICES (\$M)

	Actual 2015/16	Budget Estimate 2016/17	Revised Estimate 2016/17	Budget Estimate 2017/18	Projection 2018/19	Projection 2019/20
<b>Sales of Goods &amp; Services</b>						
Sales by Market Establishment	-	-	-	-	-	-
Administrative Fees	12.0	16.1	15.6	14.6	14.8	15.9
Incidental Sales by Nonmarket Establishment	1.3	1.7	1.8	3.3	3.3	3.3
<b>Total</b>	<b>13.3</b>	<b>17.8</b>	<b>17.4</b>	<b>17.9</b>	<b>18.1</b>	<b>19.2</b>

Source: MOFNP

### 4.3.4 Grants

Grants is divided into three main categories under the GFS format namely: grants from foreign government, grants from international organization, and grants from other general government units.

**Table 4-27** illustrates that grants is forecast to decrease from \$266.2 million in 2016/17 to \$251.3 million in 2017/18 by \$14.8 million. This forecast includes flows of around \$6.9 million expected from budget support and donor project assistance. As stated above, improved tax compliance, ongoing administrative reforms in MORC, and improved capacity to mobilize administrative fees and charges by MDAs will be key to achieving and maintaining good expected revenue outturn going forward.

TABLE 4-27: GRANTS (\$M)

	Actual 2015/16	Budget Estimate 2016/17	Revised Estimate 2016/17	Budget Estimate 2017/18	Projection 2018/19	Projection 2019/20
<b>Grants</b>						
Current	87.4	106.6	84.7	114.3	116.6	69.5
Capital	58.6	159.5	94.7	137.1	150.9	190.7
<b>Total</b>	<b>146.0</b>	<b>266.2</b>	<b>179.4</b>	<b>251.4</b>	<b>267.5</b>	<b>260.2</b>

Source: MOFNP

The revised estimate for grants in 2016/17 represents a 48.4 percent decline below the original estimate of \$266.2 million. The expected decline is mainly due to decrease in assistance from foreign countries like the Republic of China (\$34.6 million), Australia (\$6.1 million), and Japan (\$3.2 million). The budget support received from New Zealand also fell by \$2.8 million. In addition, budget support was estimated in 2016/17 for the EU of \$6.0 million is expected to be received in 2017/18 instead of 2016/17. Additionally, capital grants from the following international organizations are anticipated to be below their original estimates as follows: Asian Development Bank (ADB) by \$10.6 million; World Bank (IDA) by \$8.8 million; Secretariat of the Pacific Community by \$1.9 million; and the UN Women by \$1.1 million. On the other hand, Grants are forecasted to increase in the medium term. It is important to note moreover that the ever-present issues of unpredictability of aid flows and budget support remain as major budgetary concern that government continues to grapple with. These are raised at every opportunity and at appropriate fora with

the donor community and concerned international organizations. The expectation is one of improvement in the near term in compliance according with the Paris aid effectiveness agreement and other declarations.

### 4.3.5 Total Payments, Expenses And Acquisition Of Nonfinancial Assets

Total Payments, as presented in the **Table 4-28**, is estimated at \$423.0 million in 2016/17 compared to the original estimate of \$513.5 million, and an increase of \$76.1 million from the actual in 2015/16.

**TABLE 4-28: TOTAL PAYMENTS, EXPENSES AND ACQUISITION OF NONFINANCIAL ASSETS (\$M)**

Total Payments	Actual 2015/16	Budget Estimate 2016/17	Revised Estimate 2016/17	Budget Estimate 2017/18	Projection 2018/19	Projection 2019/20
<b>Expense (Current)</b>	<b>284.6</b>	<b>346.3</b>	<b>320.7</b>	<b>407.8</b>	<b>408.0</b>	<b>419.4</b>
<i>Compensation of employees</i>	127.3	139.3	138.1	148.7	143.0	148.0
<i>Use of goods and services</i>	107.3	145.9	122.7	171.6	198.8	199.7
<i>Interest</i>	7.9	7.5	8.1	8.1	8.0	7.7
<i>Subsidies</i>	0.6	0.9	0.9	0.9	0.9	0.9
<i>Grants</i>	3.7	4.7	3.7	2.5	2.2	5.2
<i>Social benefits</i>	20.8	22.1	22.1	24.5	24.9	28.2
<i>Other expense</i>	16.9	25.9	25.1	51.6	30.2	29.7
<b>Acquisition Of Nonfinancial Assets (Capital)</b>	<b>62.5</b>	<b>167.2</b>	<b>102.3</b>	<b>147.1</b>	<b>155.0</b>	<b>194.9</b>
<i>Fixed assets</i>	62.4	167.1	102.2	146.9	154.8	194.7
<i>Buildings and structures</i>	41.1	99.0	71.0	92.6	67.2	98.8
<i>Machinery and equipment</i>	14.9	58.3	25.9	43.0	44.7	38.8
<i>Other fixed assets</i>	6.4	9.8	5.3	11.3	43.0	57.1
<i>Nonproduced assets</i>	0.1	0.1	0.1	0.2	0.2	0.2
<i>Land</i>	0.1	0.1	0.1	0.2	0.2	0.2
<i>Intangibles</i>	-	-	-	-	-	-
<b>Total Payments</b>	<b>347.1</b>	<b>513.5</b>	<b>423.0</b>	<b>554.8</b>	<b>563.0</b>	<b>614.3</b>

Source: MOFNP

In the medium term, total payments are projected to rise in 2018/19 and continue to pick up by \$59.5 million in 2019/20 respectively from the \$554.8 million estimate for 2017/18 (**Table 4-28**). The increase will largely be driven by use of goods and services \$28.1 million, social benefits \$3.7 million, fixed assets \$47.8 million. Each of these items are discussed in greater detail below.

#### 4.3.5.1 Expenses

Expenses is divided into eight major components: compensation of employees, social contributions, use of goods and services, interest, subsidies, grants (both current and capital), social benefits, and other expenses. As illustrated in **Table 4-29**, the trend shows that revised estimate for total expenses in 2016/17 is \$320.7 million; a fall of \$25.6 million from the original estimate.

TABLE 4-29 : EXPENSES (\$M)

	Actual 2015/16	Budget Estimate 2016/17	Revised Estimate 2016/17	Budget Estimate 2017/18	Projection 2018/19	Projection 2019/20
<b>Expense</b>						
Compensation of employees	127.3	139.3	138.1	148.7	143.0	148.0
Use of goods and services	107.3	145.9	122.7	171.6	198.8	199.7
Interest	7.9	7.5	8.1	8.1	8.0	7.7
Subsidies	0.6	0.9	0.9	0.9	0.9	0.9
Grants	3.7	4.7	3.7	2.5	2.2	5.2
Social benefits	20.8	22.1	22.1	24.5	24.9	28.2
Other expense	16.9	25.9	25.1	51.6	30.2	29.7
<b>Total</b>	<b>284.6</b>	<b>346.3</b>	<b>320.7</b>	<b>407.8</b>	<b>408.0</b>	<b>419.4</b>

Source: MOFNP

In 2017/18, total expenses are budgeted at \$407.8 million; an increase of \$61.5 million from the original estimate in 2016/17 and \$87.1 million from the revised estimate of the same year. Declining total expenses are projected for the outer years. This is because of a large number of one-off sports development construction expenses that are expected to be completed in 2017/18. Furthermore, projects and programs such as the remuneration review and infrastructure to address climate change impacts may be completed in the near term.

#### 4.3.5.1.1 Compensation of Employees

A total of \$148.7 million or 36.5 percent of the total expenses is allocated to compensation of employees in 2017/18. This represents an increase of \$9.4 million from the original estimate in 2016/17. The allocation includes wages and salaries of \$135.9 million, while \$12.7 million is allocated towards other forms of remuneration for public servants—allowances, meeting fees, benefits, amongst others. Compensation of employees is expected to fall in the medium term as impact of recent human resource policy begins to be felt in the economy. Going by expectations, the revised human resource policy will impose tight control on staff recruitment, allow MDAs to strategically align their staffing needs with priority initiatives in their corporate plans a priori. Furthermore, the requirement that MDAs are to submit staff requirement proposals to OPSC and MoFNP for assessment before recruitment imposes another layer of oversight. So also is the expected situation analysis of the costs of living in the country by OPSC and the Remuneration Authority that will inform Government on any option of any increase in remuneration expenses for 2017/18.

TABLE 4-30 : COMPENSATION OF EMPLOYEES (\$M)

	Actual 2015/16	Budget Estimate 2016/17	Revised Estimate 2016/17	Budget Estimate 2017/18	Projection 2018/19	Projection 2019/20
<b>Compensation of employees</b>						
Wages and salaries	108.6	124.7	123.6	135.9	131.4	136.2
Social contributions	18.7	14.6	14.5	12.7	11.7	11.8
<b>Total</b>	<b>127.3</b>	<b>139.3</b>	<b>138.1</b>	<b>148.7</b>	<b>143.0</b>	<b>148.0</b>

Source: MOFNP

Compensation of employees is estimated to be \$138.1 million at the end of 2016/17, a decrease of \$1.2 million from the original estimate for the same year and an increase of \$10.8 million from the actual in 2015/16. The fall is due to delay in recruiting to fill vacant positions in respective MDAs. As previously mentioned, unduly lengthy recruitment process by office of Public Service Commission accounts for this. Underspent of the salary revision allocation is also a factor in the shortfall.

#### 4.3.5.1.2 Social Contributions

The total social contribution originally estimated for 2016/17 is \$14.6 million; a decrease of \$4.1 million from the actual in 2015/16 and \$0.1 million above the revised estimate in 2016/17. This is due to reduction in government's transfer value arrears owed to the Retirement Fund.

TABLE 4-31: SOCIAL CONTRIBUTIONS (\$M)

	Actual 2015/16	Budget Estimate 2016/17	Revised Estimate 2016/17	Budget Estimate 2017/18	Projection 2018/19	Projection 2019/20
<b>Social Contributions</b>						
Government Contributions to Retirement Fund	8.7	11.1	10.5	11.7	11.7	11.8
Transfer Payments	-	-	-	-	-	-
Transfer Value	10.0	3.5	4.0	1.0	-	-
<b>Total</b>	<b>18.7</b>	<b>14.6</b>	<b>14.5</b>	<b>12.7</b>	<b>11.7</b>	<b>11.8</b>

Source: MOFNP

In 2017/18, the social contribution is estimated at \$12.7 million; a fall of \$1.9 million from the original estimate and \$1.8 million from the revised estimate in 2016/17 respectively. The decline is due to further reduction in government's transfer value arrears to the Retirement Fund. However, social contribution is expected to decline further in the medium term, as final payment of the transfer value arrear is planned for 2017/18. Hence, nothing is budgeted for 2018/2019 and 2019/20; but for government's contribution to the retirement fund which is expected to increase slightly.

#### 4.3.5.1.3 Use of Goods and Services

The total recurrent expenditure on use of goods and services in 2017/18 is budgeted at \$171.6 million, or 42.1 percent of total operating budget. Included in the provision for this line item is \$40.6 million to meet consultants' and technical assistance' professional fees, \$14.4 million to finance maintenance of building and

compounds, and \$14.3 million for maintenance of roads amongst others. This represents an increase of 15.0 percent or \$25.7 million over the 2016/17 original estimates.

Other major payments under the use of goods and services in 2017/18 are: \$14.1 million for training and conferences; \$6.9 million for grants; \$4.2 million for electricity; and \$4.1 million for medical supplies; amongst others. However, in the medium term, it is anticipated that the total budget for use of goods and services will increase by \$27.2 million and \$28.2 million in 2018/2019 and 2019/20 respectively. Increasing Government commitment on infrastructure investment—maintenance of roads and buildings—as well as investing in consultants and technical assistance to assist in executing some of its reform activities are some of the driving factors.

#### 4.3.5.1.4 Interest Payments

Interest payments, from a GFS perspective have three major components, namely interest payments to: non-residents or foreign; residents other than general governments; and other than general government units. **Table 4-32** shows that out of the three components, non-resident (foreign) has the highest share of interest payments in 2017/18; due mainly to interest payments on foreign debt. This is followed by interest payment to residents, which is basically the interest payment on domestic debt.

**TABLE 4-32: INTEREST PAYMENTS (\$M)**

	Actual 2015/16	Budget Estimate 2016/17	Revised Estimate 2016/17	Budget Estimate 2017/18	Projection 2018/19	Projection 2019/20
<b>Interest Payments</b>						
To nonresidents	6.4	6.3	6.7	6.3	6.2	5.9
To residents other than general government	1.5	1.2	1.4	1.8	1.8	1.8
<b>Total</b>	<b>7.9</b>	<b>7.5</b>	<b>8.1</b>	<b>8.1</b>	<b>8.0</b>	<b>7.7</b>

*Source: MOFNP*

Total original interest payments on domestic and foreign debts in 2016/17 was \$7.5 million; a decline from actual of \$7.9 million in 2015/16. However, it is anticipated that the revised estimate for interest payments will increase at the end of 2016/17 by \$0.6 million. On the other hand, interest payments on both foreign and domestic debts are projected to gradually decrease in the outer years as a result of scheduled commencement of loan service by government in 2018/2019.

#### 4.3.5.1.5 Subsidies

Subsidies comprise of two main components: subsidies to private enterprises and public corporations. In the context of Tonga's budget estimates, subsidies to public corporations are not allocated for. The only active subsidies is the assistance to Private Enterprises through the Development Committees. Such assistance is critical to community engagement and development as it gets to the grass-roots level and the benefits are almost equally shared by the people in respective communities given the size of the annual allocation.

TABLE 4-33: SUBSIDIES (\$M)

	Actual 2015/16	Budget Estimate 2016/17	Revised Estimate 2016/17	Budget Estimate 2017/18	Projection 2018/19	Projection 2019/20
<b>Subsidies</b>						
Subsidies to public corporations	-	-	-	-	-	-
Subsidies to private enterprises	0.6	0.9	0.9	0.9	0.9	0.9
<b>Total</b>	<b>0.6</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>

Source: MOFNP

The original estimate for subsidies to private enterprises in 2016/17 is \$0.9 million; an increase of \$0.3 million from the actual in 2015/16 as shown in **Table 4-33**. The subsidies' budget for 2017/18 is \$0.9 million. The budget for the medium term is expected to be maintained at about the same level of \$0.9 million as in 2017/18.

#### 4.3.5.1.6 Grants

Grants is also split into three main areas in the GFS: to foreign governments, to international organizations, and to other general government units. However, grants to international organization is the only payments currently active. These are essentially contributions to international and regional organizations that cover Tonga's financial obligations to organizations to which it is currently a member.

It is estimated that at the end of 2016/17, grants will be under-spent by \$1.0 million against its original estimate. This is due to delay in receiving invoices from international organizations regarding payments that are already due. In 2017/18, grant is budgeted at \$2.5 million; a decrease of \$1.2 million from the revised estimate in 2016/17. The total grants in 2018/2019 is expected to fall by \$0.3 million; rise again in 2019/20 by \$2.8 million as a result of an increase in Tonga's financial pledges to several international organizations.

#### 4.3.5.1.7 Social Benefits

The payment of social benefits to individuals in all countries of the world is unquestionable. It goes a long way towards meeting the needs of the most vulnerable—the elderly, pensioners, less-able, the students' scholarships, etc.—in the society. The budgeted social benefit in 2017/18 is expected to increase by \$3.7 million from the actual in 2015/16, an increase of \$2.4 million from the revised estimate in 2016/17 and again \$2.4 million from the original estimate of the same year. This arises from social welfare scheme payments budgeted to increase by \$1.3 million in 2017/18 as a result from the upward review of the social welfare scheme, pensions and gratuity by \$0.5 million and grants to the vulnerable by \$0.4 million.

#### 4.3.5.1.8 Other Expenses

The revised estimate for total other expenses for 2016/17 is forecasted at \$25.1 million; a reduction of \$0.8 million from the original estimate of \$25.9 million. This represents a fall in subsidies of around \$2.0 million, however an increase of \$8.1 million compared to the actual in 2015/16 is driven by construction activities for sports development.

The budget estimates for other expense in 2017/18 is \$51.6 million; an increase of \$25.7 million from the original estimate, and \$26.5 million over the revised estimate in 2016/17. This rather large increase in the

2017/18 budget correlates perfectly with the expected increases in construction activities for sports development and other government high impact projects expenditure. The \$25.0 million is budgeted for sport development; \$2.0 million is allocated as subsidies to non-government schools absorbed by government as the share of New Zealand and Australia which will cease in 2017/18; while \$0.8 million is allocated to constituency fund.

Moreover, other expense is projected to fall in the two outer years by \$21.4 million and \$21.9 million respectively due to completion of the construction projects in the near term.

#### 4.3.5.2 Acquisition of Non-financial Assets (payments of capital items)

**Table 4-34** illustrates that acquisition of non-financial assets is budgeted at \$146.6 million in 2017/18; an increase of \$84.2 million from the actual in 2015/16, and a fall of \$19.5 million from the original estimate and increasing again by \$44.7 million as compared to the revised estimates in 2016/17.

TABLE 4-34: ACQUISITION OF NON-FINANCIAL ASSETS (\$M)						
	Actual 2015/16	Budget Estimate 2016/17	Revised Estimate 2016/17	Budget Estimate 2017/18	Projection 2018/19	Projection 2019/20
<b>Net Acquisition Of Nonfinancial Assets</b>						
<b>Fixed assets</b>						
Buildings and structures	41.1	99.0	71.0	92.6	67.2	98.8
Machinery and equipment	14.8	57.2	25.5	42.5	44.6	38.7
Other fixed assets	6.4	9.8	5.3	11.3	43.0	57.1
Land	0.1	0.1	0.1	0.2	0.2	0.2
<b>Total</b>	<b>62.4</b>	<b>166.1</b>	<b>101.9</b>	<b>146.6</b>	<b>154.9</b>	<b>194.8</b>

Source: MOFNP

The huge increase, as aforementioned, is due to sports development construction, inflow of assistance from development partners, acquisition of solar equipment and other equipment for projects in the outer islands. It is projected that net acquisition of non-financial assets in the outer years will continue to rise: by \$8.3 million in 2018/19 and \$48.2 million in 2019/20. Despite the completion of high impact construction projects, other priority projects and programs are expected on-stream during this period.

#### 4.3.6 Financing

**Table 4-35** illustrates how Net Lending/Borrowing Requirement is expected to be financed over the budget period. The net acquisition of financial assets and liabilities are currently anticipated to be negative \$3.9 million in 2016/17, including a buildup of cash reserves of about \$1.1 million. The change in domestic financing (domestic assets minus liabilities) is relatively small. However, most of the net financing is covered by the new borrowing (foreign).

TABLE 4-35: NET ACQUISITION OF FINANCIAL ASSETS &amp; LIABILITIES (\$M)

	Actual 2015/16	Budget Estimate 2016/17	Revised Estimate 2016/17	Budget Estimate 2017/18	Projection 2018/19	Projection 2019/20
<b>Net Acquisition Of Financial Assets And Liabilities (Financing)</b>	<b>13.7</b>	<b>(12.1)</b>	<b>(3.9)</b>	<b>(13.4)</b>	<b>(0.9)</b>	<b>(48.7)</b>
<b>Financial Assets</b>	<b>28.0</b>	<b>7.9</b>	<b>3.3</b>	<b>15.2</b>	<b>16.6</b>	<b>(2.5)</b>
Domestic	28.0	7.9	3.3	15.2	16.6	(2.5)
<i>Currency and deposits</i>	22.8	0.1	1.1	0.6	6.0	(2.4)
<i>Loans</i>	4.3	7.4	1.8	14.2	10.1	(0.5)
<i>Shares and other equity</i>	0.9	0.4	0.4	0.4	0.4	0.4
Foreign	-	-	-	-	-	-
<i>Loans</i>	-	-	-	-	-	-
<b>Financial Liabilities</b>	<b>14.3</b>	<b>19.9</b>	<b>7.1</b>	<b>28.6</b>	<b>17.4</b>	<b>46.2</b>
<i>Domestic Loans</i>	12.7	4.0	4.7	1.9	(0.7)	2.0
<i>Foreign Loans</i>	1.6	15.9	2.4	26.6	18.1	44.2

Source: MOFNP

The borrowing requirement of the Government for 2017/18 amounts to \$13.4 million. Of the budgeted loan receipts, \$14.6 million is planned to be raised domestically. The higher borrowing requirement reflects the significantly higher amortization costs for 2017/18 and in the medium term.

A similar pattern is expected in the near term with increased net borrowing by Government due to the large repayments on the China EXIM Bank loan that starts in 2018/19. For 2019/20, net borrowing by government of \$48.7 million is estimated, due to repayment of the China EXIM Loan of \$25.4 million.

## 4.4 Debt Performances

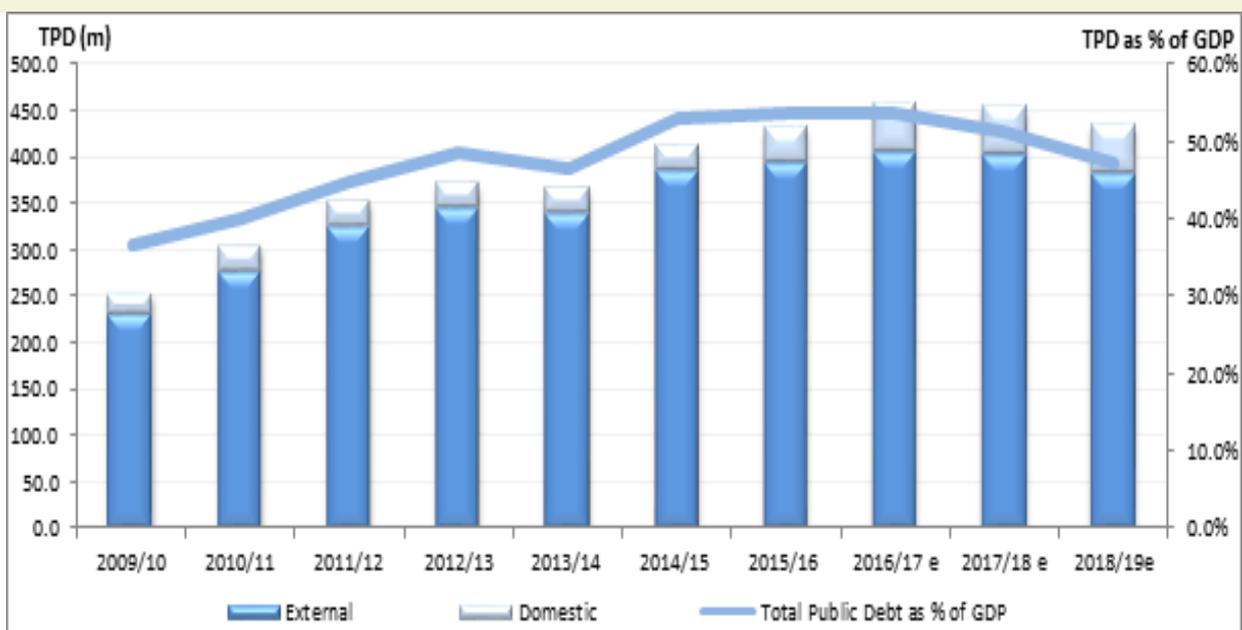
### 4.4.1 Public Debt Position

Government remains cautious of potential risks of any additional borrowing given that Tonga has improved its debt position from high to medium debt distress. As a result of this status of medium debt distress, all assistance from ADB and WB has been provided on a 50:50 grant concessional loan arrangement and this applies to both projects and budget support. Concerns have been raised at both the local and regional level regarding the need for IMF to broaden its definition of fragility to include vulnerability of Small Island Developing States (SIDS) to natural disasters and exogenous shocks in the debt sustainability analysis (DSA). This is a major concern, moreso that Tonga has been identified as the second most vulnerable country in the world to natural disaster (World Bank Report). This concern has been conveyed to IMF and WB for consideration in their terms and conditions for development assistance; going forward. IFAD is also adopting the same 50:50 grant concessional loan arrangement.

The IMF Staff Concluding Statement of March 2017 states that Tonga’s economic growth is on track for sustained growth levels similar to MOFNP and NRBT’s growth projections. As previously highlighted, growth trajectory is supported by strong recovery in agriculture and construction sectors, increased remittances and higher domestic demand. The NRBT and MOFNP are closely working on preserving macroeconomic and financial stability for improved long-term growth prospects, while safeguarding fiscal and debt sustainability in the face of near-term spending pressures and risks.

### 4.4.2 Total Public Debt

**FIGURE 4-3: TOTAL PUBLIC DEBT SERVICE (\$M) 2009/10-2018/19 (INCLUDING ACTUAL AND PROJECTED)**



Sources: MOFNP

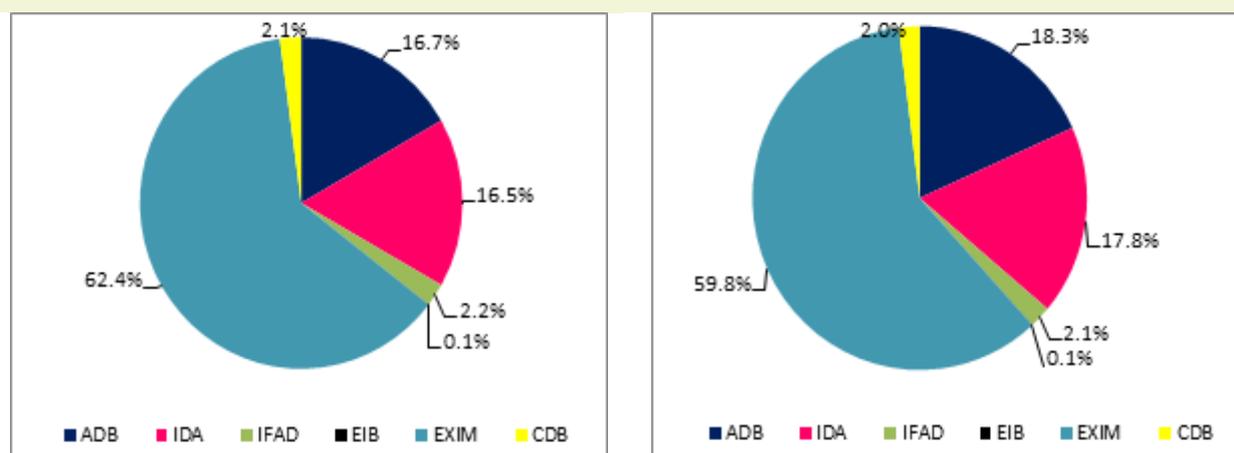
Total public debt as at 30 June 2017 is estimated at \$470.25 million (52.0 percent of GDP), an increase of 0.9 percent from the level in June 2016. This is mainly due to an increase in external debt, budget support credit portion and an increase in the domestic debt resulting from further issuance of Government Bonds for the Government Fund at Tonga Development Bank.

#### 4.4.2.1 External Debt

Total external debt as at 30 June 2017, shown in **Figure 4-4** and **Figure 4-5** is estimated at \$413.9 million<sup>1</sup> (44 percent of nominal GDP). Nearly two third of this is owed to EXIM Bank. The main change, since June 2016, was the loan component of budget support from World Bank to the Pacific Resilience project, in addition to exchange valuation effect occasioned by depreciation of the Pa'anga against some of the Borrowing currencies.

Due to mutual agreement between EXIM Bank and Government of Tonga to defer repayment of principal of China loans for a period of five years, there is the possibility of higher debt service obligations starting in 2018/19.

**FIGURE 4-4: EXTERNAL DISBURSED OUTSTANDING DEBT (DOD) BY CREDITOR, JUNE 2016** **FIGURE 4-5: EXTERNAL DISBURSED OUTSTANDING DEBT (DOD) BY CREDITOR, JUNE 2017**



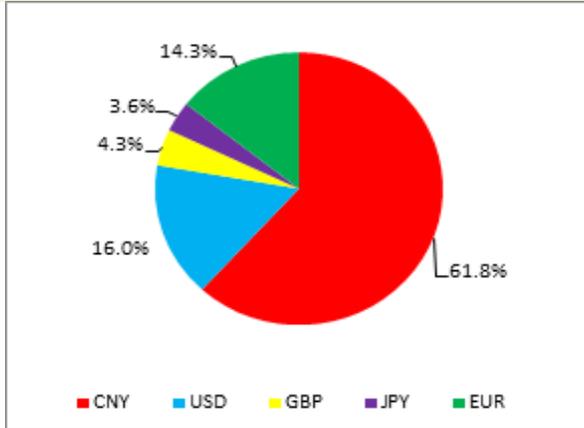
Sources: MOFNP

#### 4.4.2.2 Currency Denomination of External Debt

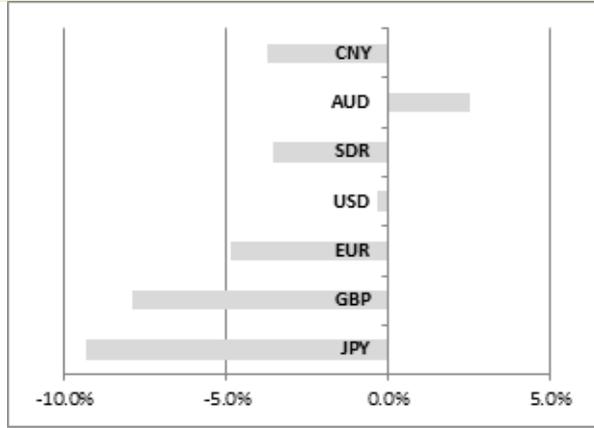
The currency denomination of main outstanding external debt, as at 30 June 2017 shown **Figure 4-6** and estimated as (CNY) at \$252.9m (61.8%); and the Special Drawing Rights (SDR), and other currencies at \$156.6m (38.2%). The projected changes in value between June 2016 to June 2017 of the Pa'anga against the borrowing currencies (including SDR currency components) is illustrated in **Figure 4-7**.

<sup>1</sup> Excludes future movement of exchange rates from April 2017

**FIGURE 4-6: EXTERNAL DISBURSED OUTSTANDING DEBT (DOD) BY CURRENCY AS AT 30<sup>TH</sup> JUNE 2017**



**FIGURE 4-7: EXTERNAL DISBURSED OUTSTANDING DEBT (DOD) BY CURRENCY AS AT 30<sup>TH</sup> JUNE 2017**

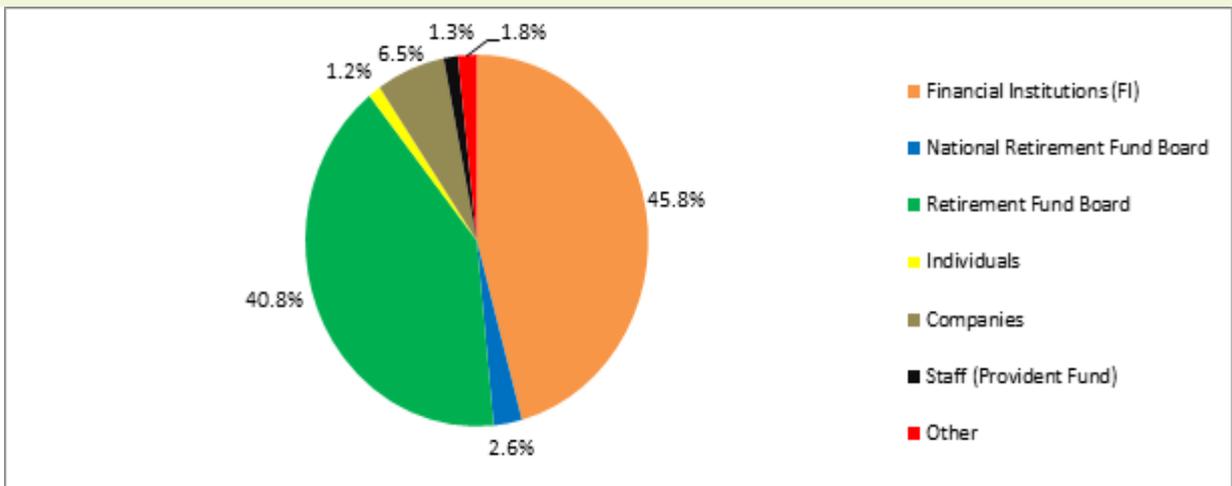


Sources: MOFNP

### 4.4.2.3 Domestic Debt

Total Domestic debt as at 30 June 2017 is estimated at \$56.35m (6 percent of GDP); consisting of 100 percent Government bonds. The shares held by various bond holders are shown in **Figure 4-8** with Financial Institutions accounting for nearly 46 percent.

**FIGURE 4-8: GOVERNMENT BOND HOLDERS (%) AS AT 30<sup>TH</sup> JUNE 2017**



Source: MOFNP

#### 4.4.2.4 Debt Service

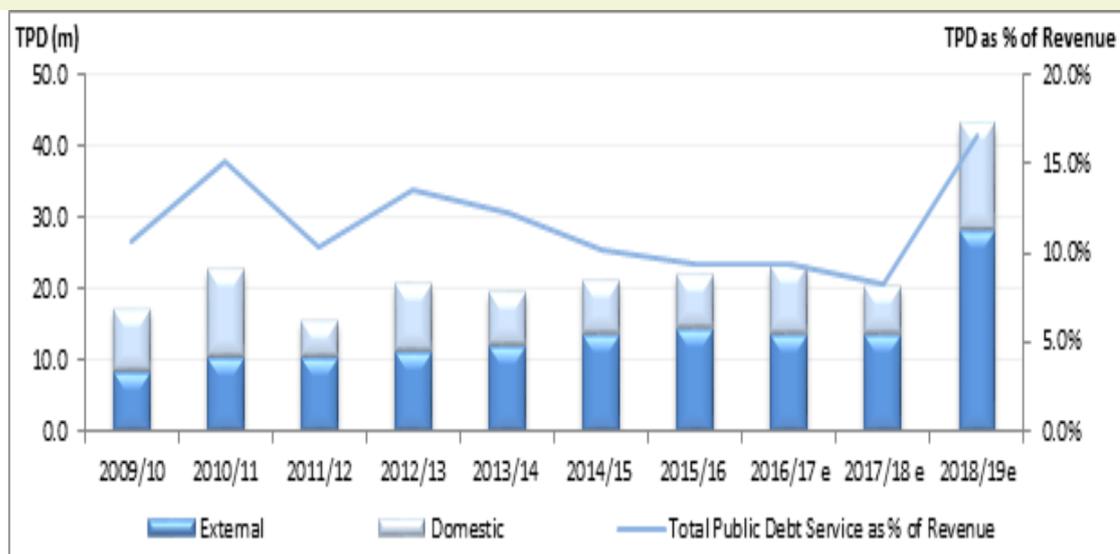
Total debt service (expenditure) for the year ended 30 June 2017 is estimated at \$22.9 million, comprising of external \$13.5 million (59 percent); and domestic \$9.5 million (41 percent). This is an increase from \$20.4 million in June 2016 due mainly to increase in exchange rate for external payments.

The total debt service is estimated as equivalent to 2.4 percent of GDP; 9.4 percent of recurrent revenue and 7.9 percent of recurrent expenditure. The main repayment months for external debt are September 2016 (27.8 percent of external debt service), and March 2017 (20.7 percent of external debt). For domestic loans, the repayment months are September 2016 (21.9 percent of total domestic debt service) and February 2017 (54.5 percent). There are no public debt payment arrears anticipated.

With the deferral of the two EXIM Bank loan repayments, loan repayments will commence in 2018/19 with a significant increase in external debt service. This will amount to around \$27.2 million, estimated at over \$13.8 million increase from 2017/18, a further 1.5 percent of GDP.

**Figure 4-9** indicates the projected debt service, with external debt service based on estimated new loans during the next few years with rescheduling of EXIM Bank loan repayments, at the prevailing exchange rates at date. The domestic debt service is based on current bond maturity (principal) at an average term of 6 years and at weighted average (interest) of 3.2 percent on the total bonds on issue (\$56.3 million). Further domestic borrowing in the medium term will be projected on similar terms.

**FIGURE 4-9: TOTAL PUBLIC DEBT SERVICE (\$M) 2009/10-2018/19E (INCLUDING ACTUAL AND PROJECTION) AS % OF REVENUE**



Source: MOFNP

#### 4.4.2.5 On-lent debt and guaranteed debt

Total on-lent debt as at 30 June 2017 due to Government from various public and other enterprises is estimated at \$52.4 million (5.6 percent of GDP and 13 percent of total external loans). The decrease of \$0.7 million in the outstanding on-lent debt between June 2016 and June 2017 reflects the slow repayments of loans from borrowers.

All sub-borrowers under the two phases of the on-lent EXIM loan have signed agreements with government, apart from City Assets Ltd which is yet to sign.

Total debt service from on-lent loans as at 30 June 2017 is estimated at \$1.06 million. The on-lent loan repayments consist of repayment received from TDB of \$0.4 million (38 percent); Ports Authority Tonga of \$0.2 million (19 percent); Royco Amalgamated Co. Ltd. of \$0.2 million (19 percent); Tungi Colonnade of \$0.15 million (14 percent); O. G. Sanft of \$0.1 million (9 percent); and Tonga Asset Managers & Associates of \$0.01 million (1 percent).

The total on-lent loan payment arrears is estimated at T\$11.1 million (59.7 percent). This is attributable to loan repayments due from Sea Star which has now ceased to operate. The handling of this loan is still under discussion. Additional on-lent loan payment arrears are from Taumoepeau at T\$1.2 million (11.3 percent); Tungi Colonnade at T\$1.4 million (12.3 percent); OG Sanft at \$1.0 million (9.2 percent); and City Assets at T\$0.8 million (7.6 percent). Government is working directly with these companies to resolve issues of repayment of the arrears.

**TABLE 4-36: ON-LENT LOAN, AS AT 30<sup>TH</sup> JUNE 2017 (\$M)**

<b>Sub-Borrowers</b>	<b>June -16 (\$m)</b>	<b>June-17 est. (\$m)</b>
Tonga Development Bank	1.84	1.50
Sea Star Fishing Co. Ltd	3.65	3.65
Ports Authority	0.30	0.15
Tonga Market Ltd	1.82	1.68
<b>CBD Reconstruction Projects</b>		
<b>Phase 1 (EXIM)</b>		
Royco Amalgamated Co. Ltd	2.15	2.05
MF Taumoepeau Ltd.	7.16	7.16
OG Sanft Ltd	10.25	10.25
<b>CBD Reconstruction Projects</b>		
<b>Phase 2 (EXIM)</b>		
City Assets Ltd	6.76	6.76
Tungi Colonnade Ltd	16.57	16.57
Tonga Asset Managers & Associates	1.48	1.48
Agriculture Managed Fund Loans	0.94	0.93
Fisheries Fund Loans	0.28	0.27
<b>Total</b>	<b>53.19</b>	<b>52.45</b>

Source: MOFNP

## 4.4.2.5.1 Summary of Debt Ratios

TABLE 4-37: SOVEREIGN DEBT SUSTAINABILITY INDICATORS OF IMF

Indicators	(IMF) Tonga Target %	FY 2015/16	est. FY 2016/17	est. FY 2017/18	est. FY 2018/19
<b>Net Present Value of External debt</b>					
% of GDP	40%	46.0%	49.0%	46.3%	43.5%
% of GDP & remittances	36%	35%	38%	37%	34%
% of exports	150%	198%	248%	249%	225%
% of exports & remittances	120%	87%	106%	104%	97%
% of government revenues	250%	142%	168%	167%	153%
<b>Debt Service as:</b>					
% of exports	20%	12%	15%	18%	26%
% of exports & remittances	16%	5%	6%	7%	11%
% of revenue	20%	8%	10%	12%	18%

Source: MOFNP

*\*earlier indicators now maintained for historical comparisons*

**Table 4-37** illustrates the actual debt sustainability indicators against the various targets. Net Present Value (NPV) of debt ratios against other macro data remain within the new indicators including exports and remittances. They are, however, in breach of the indicator without remittances: NPV of external debt as a ratio of GDP and exports are above the target value which will limit lending. These estimates are also based on foreign exchange rates prevailing as at March 2017 and do not account for any future fluctuations of foreign currency rates against the Pa'anga.

## 5 CONCLUSION

*“Institutionalizing of Plan the Work and Work the Plan with monitoring and evaluation”* is the theme of this budget statement. This theme highlights that effective corporate planning and budgeting will occur over time with ongoing monitoring and evaluation. This means that full commitment is required at all levels of government to work towards achieving **“A more progressive Tonga supporting a higher quality of life for all”**. At the same time, we should not lose focus of the overarching guidance provided by our country’s motto: **God and Tonga are my inheritance.**

To successfully implement the theme, collective efforts and strong collaboration need to take place between government and all key stakeholders including Parliament, development partners, private sector, Civil Society Organizations, community groups and churches.

## 6 APPENDICES

### 6.1 ECONOMIC AND SOCIAL DEVELOPMENT OUTCOMES AND OUTLOOK

#### 6.1.1 GDP Sector Performance

The average growth rate of 2.8 percent for the forecast period 2016/17-2019/20 is almost double the average growth for the past decade (2006/07-2015/16). Provisional GDP figure for 2015/16 indicates a strong growth for the economy, however, slightly lower by 0.3 percentage points to 3.4 percent growth from 3.7 percent in 2014/15 as shown below in *A-Table 6-1*. The decrease in growth rate between the two years (2014/15 and 15/16) is attributed to the delay in the commencement of sports development construction related activities. The outlook for 2016/17 is a further slow down to 2.7 as activities return to more normal level after one-off events and lateness in the commencement of the construction activities. Stronger growth is anticipated for 2017/18 and 2018/19; weakened growth performance is however expected at the end of the forecast period when the constructed projects are fully completed. It is anticipated moreover that new projects will come on stream as currently on-going discussions are finalized for a number of high impact projects such as the bridge, the slipway and additional hotels and road rehabilitation in Tongatapu and other Islands.

**A-TABLE 6-1: GDP MAIN COMPONENTS (REAL GROWTH RATES)**

	06/07	07/08r	08/09r	09/10r	10/11r	11/12r	12/13r	13/14r	14/15	15/16p	16/17e	17/18e	18/19e	19/20e
Primary Sector	1.0	-5.3	-1.4	0.5	2.0	0.5	3.7	3.1	-2.7	2.1	1.2	1.2	1.2	1.4
Secondary Sector	-4.6	0.6	12.8	11.7	5.5	1.4	-14.5	1.6	10.9	7.8	9.4	12.4	12.5	2.4
Tertiary Sector	-5.1	5.9	-0.4	1.3	1.7	0.5	-0.5	1.6	2.7	3.7	1.0	0.9	1.3	1.4
<b>overall GDP**</b>	<b>-4.2</b>	<b>3.1</b>	<b>2.3</b>	<b>3.6</b>	<b>2.8</b>	<b>0.9</b>	<b>-3.1</b>	<b>2.1</b>	<b>3.7</b>	<b>3.4</b>	<b>2.7</b>	<b>3.4</b>	<b>3.6</b>	<b>1.5</b>
<b>Shares of Total real GDP (%)</b>														
Primary Sector	20.0	18.4	17.7	17.2	17.0	17.0	18.2	18.4	17.2	17.0	16.8	16.4	16.0	16.0
Secondary Sector	16.0	15.6	17.2	18.6	19.1	19.2	16.9	16.8	18.0	18.8	20.0	21.7	23.6	23.8
Tertiary Sector	55.7	57.2	55.6	54.4	53.8	53.6	55.1	54.9	54.3	54.5	53.6	52.2	51.1	51.0

*r* - revision (provided by Statistics Department)

*p* - provisional estimates (provided by Statistics Department)

*e* - preliminary estimates (provided by MOFNP)

\*\* - The 10 percent accounts for the net tax and subsidies

**Sources:** Statistics Department and MOFNP

#### PRIMARY SECTOR

Primary Sector accounts for about 17 percent of total GDP which consist of Agriculture (14 percent), Forestry (0.4), and 2.7 percent for the Fisheries subsector. This sector is the main source of subsistence income for local citizens. Furthermore, employees in the formal wage sector continue to engage in farming, and fishing activities such as planting of sandalwood as an investment for future generation. The sector slowly recovers from the spillover effects of droughts in 2014 which had a major negative impact on agricultural production such as kava plants. However, the growth of the overall sector for 2015/16 was 2.1 percent. It is expected to maintain a positive growth of an average of 1.2 percent throughout the forecast period and pick up to 1.4 percent in 2019/20, supported by an improvement in the performance of the Agriculture and Fisheries subsectors. The forestry subsector accounts for only 0.4 percent of GDP in the primary sector; hence fluctuations in the subsector has little effect on the overall sector's growth.

**A-TABLE 6-2: PRIMARY SECTOR'S REAL GDP GROWTH (%)**

	06/07	07/08r	08/09r	09/10r	10/11r	11/12r	12/13r	13/14r	14/15	15/16p	16/17e	17/18e	18/19e	19/20e
Agriculture	7.3	-5.1	1.3	-1.9	-0.3	3.5	2.2	4.7	-4.8	0.3	1.1	1.1	1.1	1.3
Forestry	0.6	7.9	3.0	-9.0	72.4	-25.7	-17.3	4.1	16.8	-19.6	0.3	0.3	0.3	0.3
Fisheries	-23.9	-7.9	-17.1	19.3	4.2	-9.6	17.9	-6.0	7.4	15.7	2.0	1.87	1.96	2.0
<b>Primary Sector</b>	<b>1.0</b>	<b>-5.3</b>	<b>-1.4</b>	<b>0.5</b>	<b>2.0</b>	<b>0.5</b>	<b>3.7</b>	<b>3.1</b>	<b>-2.7</b>	<b>2.1</b>	<b>1.2</b>	<b>1.2</b>	<b>1.2</b>	<b>1.4</b>

r - revision (provided by Statistics Department)

p - provisional estimates (provided by Statistics Department)

e - preliminary estimates (provided by MOFNP)

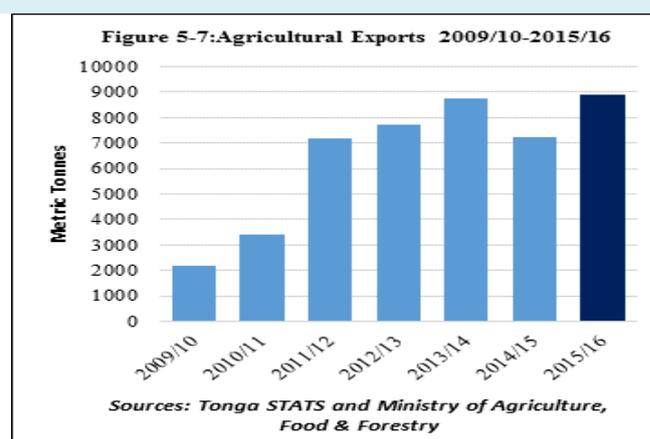
Sources: Statistics Department and MOFNP

### Agriculture subsector

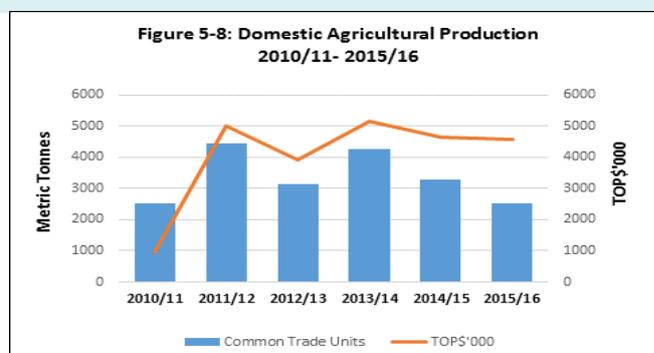
Agriculture subsector contributes about 14 percent to total GDP and dominates the primary sector. The subsector experienced a moderate positive growth of 0.3 percent in 2015/16, recovering from a negative growth of 4.8 percent in 2014/15 due to the effects of El Nino and droughts of earlier years.

According to the provisional data from Quarantine (MAFF), agricultural exports volume have steadily increased by 23 percent compared to a 17 percent decline in the previous year (see **A-Figure 6-1**) This growth in total volume of exports was due to strong exports of squash which significantly increased by 71 percent. Non-squash commodities also increased in comparison to previous year: yam (86 percent), kava powder (22 percent) and vanilla cured beans which more than doubled. However, the El Nino and droughts in 2014 continue to have a much longer impact on our crop production, especially for food and exports. As a result, despite the slight increase in volume of kava, drought effects has reduced drastically its production and raised the local price to around 100 pa'anga per kilogram for dried kava powder. The overall performance of squash exports was however sufficient enough to offset the impact of the decline in non-squash exports such as taro tarua, watermelons and coconuts.

Domestic sales volumes of Agricultural products (Talamahu market and Roadside stalls) declined by 23 percent in 2015/16 (see **A-Figure 6-2**) given slow recovery from the spillover effects of earlier period droughts. The decline in domestic agricultural production could be seen in the drop in volume out output of banana and other fruits. This

**A-FIGURE 6-1: AGRICULTURAL EXPORTS 2009/10-2015/16**

Sources: Statistics Department and MAFF

**A-FIGURE 6-2: DOMESTIC AGRICULTURAL PRODUCTION, 2010/11-2015/16**

Sources: Statistics Department and MOFNP

continues to reflect the fact that a significant share of domestic agricultural production is for household subsistence.

The real growth for the agriculture subsector is projected to be 1.1 percent in 2016/17. This moderate positive growth is expected to be maintained over the forecast period to 2019/20. An indication of this is the upturn in cassava and yam export to record levels early in 2016/17 due to a spike in demand from New Zealand. It is assumed that this is a result of a huge drop in the supply from Fiji due to cyclone Winston of early 2016. Breadfruit exports are also increasing rapidly as Tonga hosted the first Pacific Breadfruit meeting in September 2016. The price of vanilla also increased which benefits vanilla growers.

Despite the challenges faced by Agriculture including climate change, management of food safety requirements and strategic market access, there is still a positive outlook for this subsector. That includes planning to construct Eastern District Packing Facility (EDPF) in Vaini that will improve exports. MAFF in collaboration with Pacific Horticultural and Agricultural Market Access (PHAMA) program are in closely upping their efforts at new market access to the People's Republic of China. The first consignment was shipped in December 2016 and there is an encouraging positive feedback from the importers in China. Exports of squash to China are also expected to continue on the upward trend under this arrangement to further serve as a boost to economic growth and job creation.

Tonga Agriculture Sector Plan 2016-2020 (TASP) has been completed and approved by Cabinet in December, 2015. MAFF is now developing project proposals, aiming to support increased productivity, resilience and diversity of agriculture, improve dietary practices to promote food and nutrition security for the targeted population. The ministry is also fortunate to soon receive a coordinator for TASP which UNDP is willing to fund under Pacific Risk Resilience Programme (PRRP).

The launching of a new shipping service "Matson" will provide a direct link into the Fiji market for Tonga produce and enhance the current links to Apia and Pagopago. A new ferry, MV Vaomapa, was also recently launched which now provides extra services and assist in transporting agricultural produce to and from the outer islands. MAFF also plans new initiatives for the next 5 years. This include: diversify exports into semi and full processing products and empower the local community to practice conservation farming and to our stewardships responsibility of the soil, plant, animals and biodiversity resources of Tonga. These initiatives will help to further improve the subsector's performance in coming years.

### *Forestry subsector*

Forestry comprises of local wood production, power poles and minimal contribution from sandalwood production and accounts for only 0.4 percent of total GDP. The subsector experienced a huge negative growth of 19.6 percent in 2015/16; down from a positive 16.8 percent growth rate in 2014/15. According to Tinopai Farm, the El Nino and droughts seem to have broken up most of existing trees and the new plants will only start falling into the group of mature coconuts about mid-2017. Significant declines in export of sandalwood was also experienced in 2015/16. It is expected that supply should be back to normal again for exports and a moderate positive growth of 0.3 percent is expected for the subsector in 2016/17. It must be mentioned though that availability of data for proper monitoring and evaluation of the forestry subsector remains a challenge.

There remains a number of limiting factors facing the forestry subsector which includes spillover of the drought effects of earlier years; delayed replanting of sandalwood and increased mortality rate for most

existing plants. Others are the fact that seedlings demand tend to exceed production, lack of seeds and proper planting material as well as the difficulty in recruitment of labour.

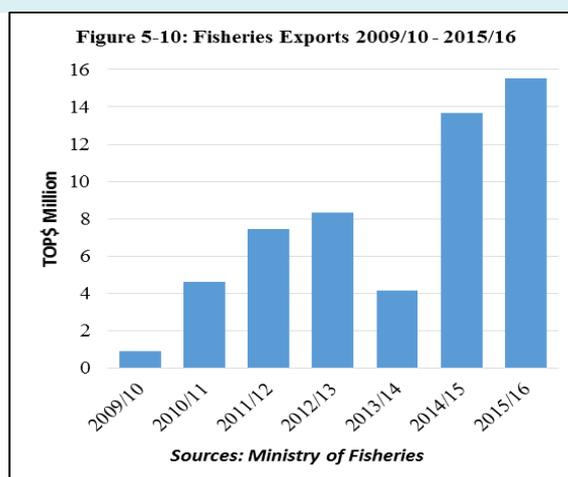
Regardless of these challenges, there are potential opportunities ahead for Forestry which includes passing of “sandalwood regulation 2016” by Cabinet. The Regulation, when it becomes law will solve a number of problems that include managing replanting and selling of sandalwood. MORDI Tonga Trust also assists the rural communities by distributing free sandalwood seedlings and work collaboratively with MAFF to conduct nursery operation training to improve livelihoods. All these will in the near future improve output and exports. The full privatization of Tonga Forest Products Ltd which is now known as Aotearoa-Tonga Forest Products Limited may also bring new strategies to boost performance in the subsector.

### *Fisheries subsector*

The fisheries subsector accounts for about 3 percent of total GDP. Fisheries production continues to fluctuate substantially due to changes in policy, resources depletion, changes in the distribution of tuna, market access, unstable market prices, shortage of funds, growing population and climate change (refer to **A-Figure 6-3**)

Tonga’s fisheries subsector experienced a rapid positive growth of 15.7 percent in 2015/16 which is 8.3 percentage points higher than the growth rate in 2014/15. This growth in the fisheries subsector offsets the negative growth in the Forestry subsector, contributing to the positive 2.1 percent growth of the overall primary sector. Total volume of tuna exports increased by 1.30 percent as the sector continues to implement the 100 percent offload from all domestic and foreign tuna vessels. These are now captured in Tonga’s production data; hence the seeming expansion of the domestic tuna industry. Exports of snapper increased significantly by 35 percent while seaweed exports also more than double during the year. The total marine products exported in the first half of 2016 was 891 metric tonnes, valued at T\$5.1 million. This represents an increase of 84 percent from the volume exported and 55 percent higher in value compared to the first half of 2015. We expect this increase to be maintained in 2016/17 due to enhanced access to existing export markets. The separation of Fisheries from MAFF will also assist the dynamism and growth of the subsector.

**A-FIGURE 6-3: FISHERIES EXPORTS 2009/10-2015/16**



Sources: MOF

Currently, Tonga Fisheries Sector Plan has been approved by the Cabinet in mid-2016, which provides a solid foundation for seeking donor funding for the sector’s high priority development projects. So far, the implementation of the first two phases of the sector plan have been started. Tonga is now a signatory to the Convention for International Trades of Endangered Species (CITIES) in August, 2016. As a result, the ministry will now be responsible for any marine trades internationally in regards to this convention listed species that exist in Tonga coastal waters. The phase 1 for building of a modern packing facility at Tu’imatamoana funded by Forum Fishing Agency (FFA) has also been completed in December, 2016.

The Government of Tonga still observes Non Communicable Disease (NCD) as one of the major issues that cause an increase in mortality rate. Ministry of Fisheries then worked collaboratively with other government

agencies to change the current policy of limiting the number of foreign fishing vessels licensed to fish in Tonga EEZ (exclusive economic zone) from six and issue the seventh licence to fish in Tonga waters. One of the condition for this additional foreign vessel is to sell five tons of its catch in every unloading in Tonga at a very lower price. The main purpose of this new arrangement is a response to the direction from His Majesty King Tupou VI, in his statement during the opening of the Parliament in 2016, emphasizing the importance of a healthy Tonga. The ministry will continue finding avenues to ensure people of Tonga will have fish protein in an affordable prices.

The exemption of fishing related imports from duty and CT continue to support the activities in the subsector so as other plans which are currently developed and implemented with the assistance of foreign donors. Aquaculture activities have already been launched here in Tonga which includes pearl farming and giant glams. Even though this work has only been started at a small – scale level, the ministry is working to develop this industry at a commercial level including opportunities for foreign investment. Seaweed farming is currently recovering from cyclone Winston and the target is to commence commercial harvest in early 2017. Amongst other fisheries development, promoting of fish aggregating device (FAD) fishery is an important activity to lessen the fishing pressure on the already overexploited inshore areas.

There are key challenges faced by the sector which includes the inadequate infrastructure at the wharf and the airport. Handling, processing and limited blast freezing capacity remains a challenge, for there is no capacity to export frozen-value added products of local tuna. The cost of production in Tonga remained high which will continue to stifle the Investment in the sector. No further exports of sea cucumber (bech-de-mer) is expected within the next few years due to over harvesting which results in the moratorium.

Despite these challenges, a moderate growth of 2.0 percent is projected for the fisheries sector in 2016/17 and outer years. For the future outlook, Ministry of Fisheries await for the Bareboat Charter Bill 2016 to be approved by the Legislative Assembly, aiming to enable local citizens to charter vessels and obtain a fishing licence to fish within Tonga waters.

Ministry of Fisheries continue to improve the sustainable development and management of marine resources, with attention to remote disadvantages communities and to improve the welfare of the people of Tonga through the expansion of special management areas (SMAs) program for our coastal communities. Since the beginning of the SMA program in 2006, only 11 were established by the end of 2015. There are currently 16 new established SMAs, financed by ADB project to be completed by 2018 and Ridge to Reef project assisted with 4 SMAs. In addition, there were new policies developed by the ministry during 2015/16 such as “Standard Operation Procedure (SOP) for illegal fishing (Inshore Fishery)” and they continue to explore investment opportunities to boost the growth of the Fisheries subsector.

## SECONDARY SECTOR

Secondary Sector is the part of the economy that transforms raw materials into goods for sale or consumption. This consist of main industries that is listed *A-Table 6-3*. Over the 5 year period from 2010/11 to 2014/15, the secondary sector has started to overtake primary sector in terms of value added to GDP. This shows the pick-up in the momentum of economic recovery led by construction industry. The six year period from 2010/11 to 2015/16 recorded an average growth rate of 2.1 percent. The outlook for the Secondary Sector is promising with enhanced construction activities for sports development and other priority projects.

The output of key segments such as public construction contributed to the rebound in 2013/14 after the impact of the domestic banking crisis of earlier years. The reconstruction of the Ha’apai group after the devastation

of cyclone Ian also contributed significantly, coupled with the improvement in house lending that led to improved housing construction activities.

The need to improve sporting activities in the country implies more facilities are to be built; this has played an important role in the outlook for the Secondary sector. The other industries are all related to construction industry and are assumed to follow the same growth pattern.

**A-TABLE 6-3: SECONDARY SECTOR'S REAL GDP GROWTH (%)**

	06/07	07/08r	08/09r	09/10r	10/11r	11/12r	12/13r	13/14r	14/15	15/16p	16/17e	17/18e	18/19e	19/20e
Mining and quarrying	0.3	26.2	8.8	155.8	4.1	41.0	-25.7	2.4	9.1	5.8	24.5	30.4	28.5	4.4
Manufacturing	-7.8	-1.0	-0.2	-1.7	5.9	-2.6	6.8	-0.1	4.2	1.3	0.8	1.0	1.3	1.2
Electricity and water supply	-1.2	1.7	-4.6	-3.5	2.9	-0.3	1.3	0.7	2.1	8.3	1.2	1.4	1.3	1.1
Construction	-2.8	0.9	35.0	21.7	6.1	1.2	-29.9	3.3	20.2	12.6	16.2	20.0	18.7	2.9
<b>Secondary Sector</b>	<b>-4.6</b>	<b>0.6</b>	<b>12.8</b>	<b>11.7</b>	<b>5.5</b>	<b>1.4</b>	<b>-14.5</b>	<b>1.6</b>	<b>10.9</b>	<b>7.8</b>	<b>9.4</b>	<b>12.4</b>	<b>12.5</b>	<b>2.4</b>

*r* - revision (provided by Statistics Department)

*p* - provisional estimates (provided by Statistics Department)

*e* - preliminary estimates (provided by MOFNP)

*Sources: Statistics Department and MOFNP*

## Construction

Growth in construction is expected to strengthen further in 2016/17 due to expected increases in both public and private construction. The outlook for construction sector is positive and anticipated to continue to grow stronger in the outer years based on current and planned projects. The ongoing public projects are upgrading of Fua Wharf, and the St. George's building complex. Sports development related projects such as the construction of a golf course and an Olympic-sized swimming pool and upgrading of the Teufaiva stadium are expected to commence in late 2017. This is also supported by the continued strength in total imports of construction materials. Other large public (donor-funded) construction projects include the resurfacing of Fua'amotu and Lupepau'u airport (PAIP), utilities network upgrades, the Climate Resilience Sector Project and Pacific Resilience Sector Project for building economic and social resilience and the cable connection between Tongatapu and Fiji. This strengthening is well in line and consistent with the profile of projects included in our public construction forecast for 2016/17. The value for private construction permits has increased by an average of 19.5 percent over the last three financial years. The number of building permits issued in the review period was also increased by 64 percent in the last two financial years. Growth in the residential construction is showing an upward trend in 2015/16 driving the total number of private building permits.

**A-FIGURE 6-4 : HOUSING LOANS (ANNUAL LEVEL AND GROWTH)**

Sources: NRBT

The outstanding housing loan continue to rise as more lending to the housing continues. The level of outstanding loan to housing in September 2016 is recorded at 126.3 million (12 months period). This is 37 percent higher than the level of Housing credit in previous 12 months. The increase in private construction was also supported by the lowest average of interest rate, 8.5 percent, recorded for 2015 since 2008, for housing loans.

Remittances to Tonga is another important source of finance for the construction sector. Anecdotal evidence from those who joined

the RSE scheme identified construction of their houses as priority in every visit. The estimated amount of compensation of employees recorded in June 2015 was \$14.79 million; this increased to \$17.51 million in

2016 with an estimated share of 7 percent of total remittances.

**A-TABLE 6-4: TOTAL REMITTANCES (\$M PA'ANGA)**

Total Remittances receipts 2015-16 (million pa'anga)		
	2015	2016
Private Transer	186.33	235.2
Compensation of Employees	14.79	17.51
Private Capital Transfers	0.85	1.6
Social Benefits	0.41	1.91
<b>Total</b>	<b>202.38</b>	<b>256.22</b>

Sources: NRBT

Further delays in the public construction projects due to various reasons including resources or funding constraints and land issues remain the most challenging factor and pose high risk to the projections for the construction sector. Scale back or further delays of projects would cause weak performance for the sector in the near term. Other sectors are projected to be supported by the growth in construction sector. The quarrying sector is projected with a huge

increase by 36.8 percent. Wholesale and retail trade is also projected to response with tons of imports of constructional materials.

### Mining & Quarrying

This sector consists essentially of quarrying as there is yet to come on stream any form of mining activity in the Kingdom. Growth for the industry is driven largely by construction activities as the quarrying industry feeds the construction industry with sand and gravels of different sizes. Quarrying also supplies the manufacturing sector sand and gravel for the production of cement blocks and cement pre-mix used in construction.

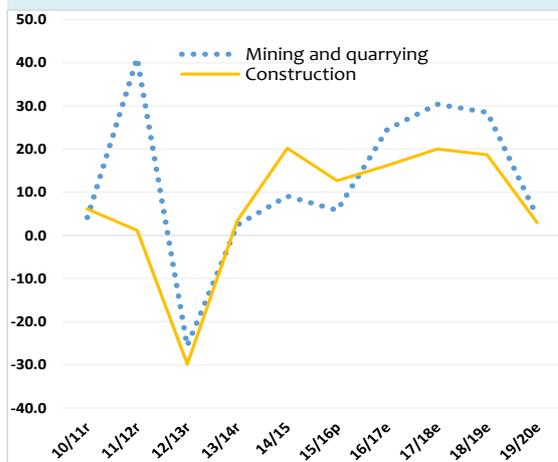
Growth in this sector in 2015/16 is estimated at 5.8 percent compared to 9.1 percent in previous year. The improvement is due to higher demand from construction as mentioned above. The 24.5 percent growth estimated for 2016/17 reflects enhanced demand arising from extension of the Fuaa wharf and the rising number of private construction.

The outlook for this sector is also promising over the forecast period as major construction projects for sports development are to start in 2017. A lot of quarrying products will be needed for the associated big projects as well as ongoing road maintenance works.

### Electricity & water supplies

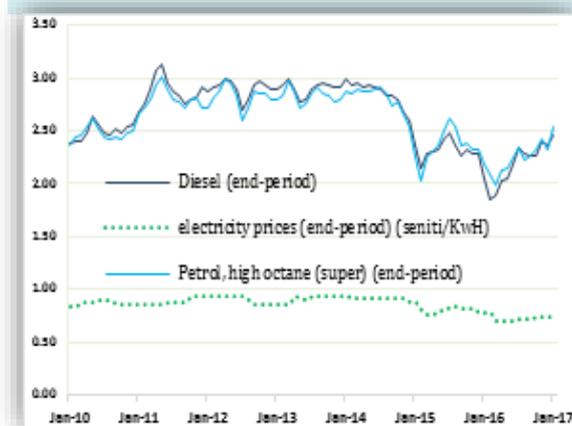
The retail prices per liter for petrol and diesel at the end of period January 2017 was 2.53 and 2.46 pa'anga respectively. This implies that prices of petrol and diesel have increased by 34 and 41 seniti compared to the same period in 2016. This increase in the fuel component of power tariff have so far remained at manageable levels thereby assisting households to reduce spending on electricity during the hot season. This also serves as a boost to higher demand for electricity in Tonga. The electricity price for October 2016 was 74 seniti per kilowatt which is lower by 7 seniti compared to 81 seniti per kilowatt recorded in October 2015. Moreover recent gradual upward trend in global oil prices have spurred Tonga Power limited to announce upward revision in the fuel component of power tariff, effective 1<sup>st</sup> April 2017. To cushion the adverse effects of this on poor households, TPL is also planning to implement the new Life Line Tariff Subsidy scheme, to become effective from 1<sup>st</sup> April 2017. Moreover, in the near term, lower electricity price per unit is anticipated given the drive towards a green economy with more reliance on solar energy, wind and hydro power. The construction of additional solar farms in the country are part of ongoing public projects is one of such. This is also supported by the implementation of the new Life Line Tariff Subsidy to become effective in April 1<sup>st</sup> 2017.

**A-FIGURE 6-5: MINING AND QUARRYING GROWTH (%)**



Source: Statistics Department and MOFNP

**A-FIGURE 6-6: DOMESTIC FUEL AND ELECTRICITY PRICES (SENITI)**



Sources: Competent Authority, MCCTIL

## Manufacturing

Manufacturing recorded 1.3 percent growth in 2015/16; a slowdown from 4.2 percent witnessed in 2014/15. This slowdown reflects the winding down of Ha'apai reconstruction with less demand for manufactured goods.

Manufacturing is projected to maintain a positive growth rate at an average of 1.1 percent over the forecast period. The improved inflow of remittances will also continue to support the growth of the industry through the growing number of small and medium scale enterprises (SMMES) owned by Tongans in recent times. The increased in number of producers of bottle of water, bricks, etc. continue to support the growth of the industry.

## TERTIARY SECTOR

The tertiary sector is by far the largest of the three broad sectors, accounting for about for 55 percent of total GDP on average, for the decade to 2014/15. It consists of several large sectors such as government administration (12.1%), wholesale & retail trade (10.4%), transport & communication (6.2%), ownership of dwellings (9.5%), financial intermediation (6.0%), hotels and restaurants (3.0%), as well as a variety of small unclassified sub-sectors. Stronger growth of 3.7 percent is estimated for 2015/16, supported by events that happened during the year which boosted demand for services. Weaker growth in the near term due to the end of the one-off events and December festivities are anticipated, before the onset of a moderately higher growth at the end of the forecast period. The projected positive growth for the sector is supported by stronger domestic demand for services, increasing remittances, strong credit growth and cheaper lending rates and the on-going efforts of government to scrutinize and manage its expenditure policies including the issue of high wage bill.

**A-TABLE 6-5: TERTIARY SECTOR'S REAL GDP GROWTH (%)**

	06/07	07/08r	08/09r	09/10r	10/11r	11/12r	12/13r	13/14r	14/15	15/16p	16/17e	17/18e	18/19e	19/20e
Wholesale and retail trade	-1.1	10.3	3.5	-3.8	3.3	0.7	2.6	1.2	4.3	2.6	0.3	0.3	1.2	1.2
Hotels and restaurants	-10.3	6.2	6.8	-4.4	3.3	-0.5	2.4	-0.3	7.7	7.3	0.6	0.3	0.4	0.5
Transport and communication	-1.3	4.3	15.4	15.7	-2.9	0.5	1.1	0.6	12.4	5.3	2.1	2.0	3.5	4.0
Public administration and serv	-15.1	4.6	2.5	0.9	0.5	1.5	1.5	0.4	1.7	0.3	0.4	0.5	0.5	0.5
Ownership of dwellings	2.1	1.7	1.0	1.4	1.2	0.4	0.5	0.5	1.0	1.8	1.8	1.7	1.7	1.7
Financial intermediation	3.3	7.5	-21.0	-2.7	3.2	-6.0	-5.3	4.6	-3.9	12.5	2.0	0.3	0.3	0.3
Others	-6.9	6.4	7.0	2.1	1.0	0.5	1.9	0.5	6.5	3.9	0.9	1.0	1.1	1.2
<b>Tertiary Sector</b>	<b>-5.1</b>	<b>5.9</b>	<b>-0.4</b>	<b>1.3</b>	<b>1.7</b>	<b>0.5</b>	<b>-0.5</b>	<b>1.6</b>	<b>2.7</b>	<b>3.7</b>	<b>1.0</b>	<b>0.9</b>	<b>1.3</b>	<b>1.4</b>

r - revision (provided by Statistics Department)

p - provisional estimates (provided by Statistics Department)

e - preliminary estimates (provided by MOFNP)

\*includes small subsectors - real estates, private education and health, recreational and other community & personal services

Sources: Statistics Department and MOFNP

### Wholesales and Retails Trade

The wholesale and retail trade sector accounts for about 10.5 percent of total GDP in 2015/16. In value terms, the level of the subsector continued to increase and grew further by 2.6 percent in 2015/16 compared to 4.3 percent growth in 2014/15. These rates are correlated with the 5.2 percent increase in imports (OET basis) in 2015/16 to \$322.1 million compared to \$306.3 million in 2014/15. The increase in imports was largely due to increased importation of fuel and lubricants, food and beverages, transport equipment and accessories, industrial supplies, machinery and other capital equipment.

The subsector is projected to continue to grow positively at a lower pace. Preliminary estimates indicate higher rate of growth for 2015/16; supported by two major one-off events that happened during the financial year—Coronation in July 2015 and Tupou College 150<sup>th</sup> Anniversary in June 2016. The subsector is anticipated to continue to grow at positive rates but subdued in the near term given end of the one-off events. Growth pick up is expected towards the end of the forecast period, supported by enhanced economic activities. Observed expansion of remittances inflow (in addition to the increasing of cash remittances) being sent in the form of goods through the retail sector are becoming important phenomenon worthy of noting in the sector. The estimated growth for 2015/16 is also supported by observed increases in the number of new wholesale and retail shops—by locally owned and Chinese owned and operated. The other main contributors include observed increases in personal disposable income derived from growing personal loans through the banking system; 9.8 percent increase in personal loans was recorded for 2015/16.

**A-FIGURE 6-7: TOTAL IMPORTS (NOMINAL TERMS)**



Sources: Statistics Department and NRBT

### Hotels and Restaurants

The Hotels & Restaurants sector accounts for only around 3 percent of total GDP. The subsector grew at 7.3 percent in 2015/16 which was consistent with the increase in tourist air arrivals by 9.8 percent and travel receipts by 35.1 percent, compared to 2014/15. The increase is highly associated with the Tupou College 150<sup>th</sup> Anniversary and other events that happened around the June 2016 quarter.

The completion of the Tanoa International Dateline Hotel, in addition to other smaller accommodations helped in hold up to positive though slightly weaker growth performance of the subsector in 2016/17; post effects of the two one-off events of 2015/16.

For the near to medium term outlook, building on stronger tourists arrivals, continuing marketing of Tonga as a cheaper tourist destination in the region, further promotion of Tonga-made handicraft and other products, and the more recent conscious efforts from over 10 Pacific nations that signed for a more consolidated efforts to preserve whale resource and improve whale watching in Tonga, will all promote tourism and the wholesale and retail sector. At the same time there still remain some challenges for the subsector; these include inadequate customer services, quality of accommodation facilities and number of delayed flights to the outer islands. Overcoming these challenges will greater serve as a driving force for the sector and the economy as a whole.

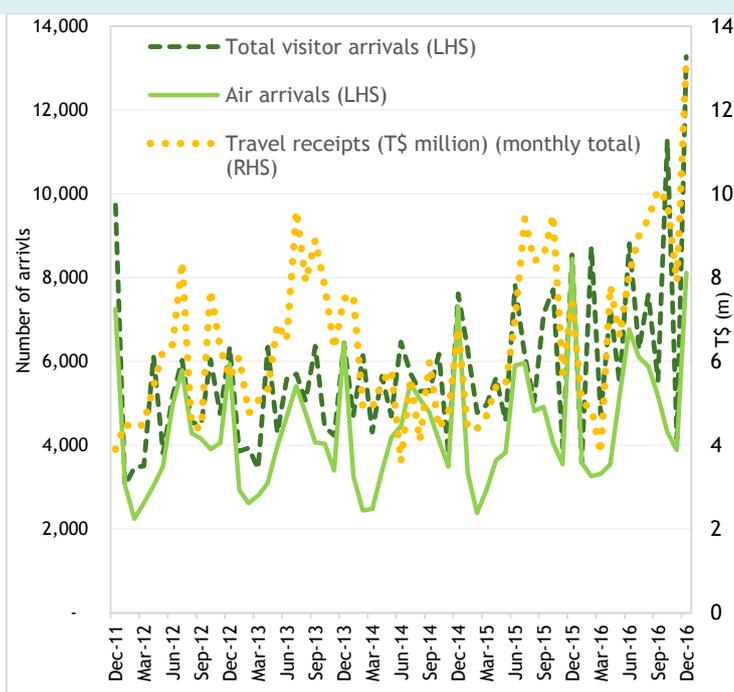
### Transport and Communication

An overall growth rate of 5.3 percent was recorded in the transport and communication sector in 2015/16, driven by expansion in air and sea transport and in telecommunication and related services. The subsector is estimated to grow relatively stronger, by close to 3 percent on average, through to the end of the forecast period. This is being supported by enhanced capacity of communication due to the extension of the submarine cable to the outer islands—Vava’u and Ha’apai—and continued competition between the two telecommunication operators (Tonga Communication Corporation (TCC) & Digicel). Competition in the telecommunication services sub-sector will strengthen market relations and allow customers to maximize benefit from the competition through increased capacity, faster connectivity and lower telecom and even international roaming prices. Increases in domestic and international flights, increase in the number of vehicles registered and improved roads and strong international and domestic shipping services are also important growth enhancing factors.

The increased access to ITCs has the potential to trigger, through various mechanisms, social and economic benefits including greater productivity, innovation, financial inclusion and many others benefits. Thus a significant economic investment and activities and social benefits through our education and health systems is highly expected.

Transport sub-sector showed some improvements in various activities including the domestic and international air services and shipping services in 2015/16 associated with transportation of construction materials for projects and people during the events. Continued improvements in the subsector is anticipated

**A-FIGURE 6-8: TRAVEL RECEIPTS AND TOURISTS ARRIVALS**



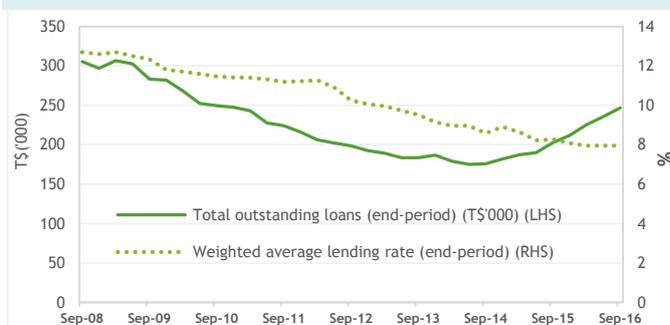
Sources: Statistics Department and NRBT

during the forecast period. In terms of air services, flights to and from various destinations to Tonga continue regular rotations on a daily basis. In terms of shipping, regular shipping services to the outer islands provided by the M.V. ‘Otuanga’ofa, and M.V. Maggie Catty around mid-2016 helped to stabilise the disruption in the provision of services by the M.V. Niuvakai towards the end of 2016. Further to this is the commencement of operation of the M.V. Vaomapa. Again, government continues to provide subsidies to the Niuas with domestic ferry and air services. International shipping services showed improvements from previous years with observed increases in the volume of cargo at wharfs. The Pacific Forum Line (PFL) and others now seem to provide around 9-10 days frequency service; far higher than what the case was previously. The coming into services of MATSON in 2016 also aided the performance of the subsector with regular connections through shipping services between Tonga and New Zealand (twice a month), the USA and Hawaii (once a month).

### *Financial Intermediation*

Growth for the subsector is projected to increase significantly to 12.5 percent in 2015/16 compared to the negative growth of -3.9 percent in 2014/15. This positive trend will though at a slower pace through to the end of the forecast period. The projected increase is supported by increasing total private outstanding loans, driven by cheaper weighted average lending rate for both housing and business loans.

**A-FIGURE 6-9: TOTAL PRIVATE OUTSTANDING LOANS (\$M)**



Source: NRBT

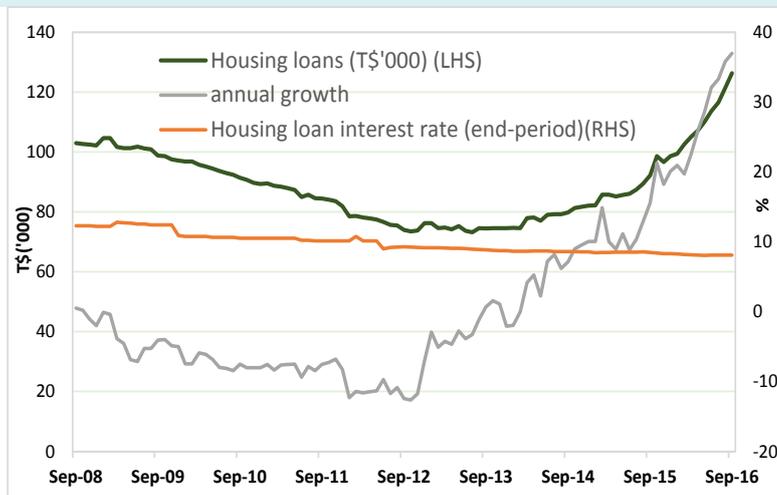
### *Public Administration and services*

Public Administration and Services sub-sector accounts for 11.7 percent to GDP in 2015/16, which is the largest component in the Services Sector. Provisional figures indicate a subdued growth rate of 0.3 percent in 2015/16 compared to a 1.7 percent in 2014/15. This growth is consistent with the increase in the number of government employees in 2015/16 due to delayed implementation of the revised recruitment policy for public servants. In March 2016, further recruitment of vacancy below level 9A was frozen. In this regards, government continued to monitor expenditure on wages and salaries, operate under a better fiscal space and improve quality of spending without compromising service delivery. Growth is projected at 0.4 percent in 2016/17; an average growth rate of around 0.5 percent is estimated for the outer years if the recruitment policy of government employees is strictly adhered to.

### Ownership of dwellings

The projected growth for the subsector in 2015/16 is 1.8 percent compared to 1.0 percent in 2014/15. A further growth at around the same pace of 1.7 percent on average is expected through to the end of the forecast period. This projected increase is supported by the cheaper interest rate for housing loans.

**A-FIGURE 6-10: HOUSING LOANS (\$'000) AND LENDING RATES (%)**



Source: NRBT

### Other services subsectors

*(Education, Health and Social works, Recreational, Cultural and Sporting Activities)*

*((i) Real estate, renting & businesses, (ii) Education-excl. govt, (iii) Health & social work-excluding govt, (iv) Recreational, cultural and sporting activities and (v) Other community & personal services)*

Education, Health and other Social and personal services subsector accounts for an average of around 3 percent to GDP in 2015/16. It only covers private sector and non-profit institutions while the government funded Health and Education is included under Public administration and services subsector. It was estimated that the growth rate for Education in 2015/16 was negative 3.2 percent compared to negative 2.8 percent in 2014/15. Growth for Health and Social Work subsectors significantly increased by 8.5 percent in 2015/16 after a huge decline, negative 7.9 percent in 2014/15. It is expected that this sector will continue to grow at positive, but slower rate with continuous support from government and development partners through various projects and initiatives. The ongoing activities and program in place under social welfare to the elderly and disabled are likely to help in supporting growth in the social services sectors. These are also discussed under the relevant sections below.

Entertainment and private services—family and cultural activities—accounts on average for around 1.4 percent to GDP in 2015/16. The subsector also grew at an average of around 6 percent in 2015/16 but lower rate is projected for 2016/17 through 2018/19. Growth is anticipated to pick towards the end of the forecast period, supported by sports development and other high impact construction projects.

## 6.1.2 Balance of Payment and Monetary Outcomes

### MONETARY POLICY ACTIONS

The National Reserve Bank of Tonga's monetary policy objectives are to maintain internal and external stability, promote financial stability and a sound and efficient financial system and conduct its activities in a manner that supports macroeconomic stability and economic growth. The Reserve Bank shall maintain adequate level of foreign reserves above 3-4 months of import cover and promote low and stable inflation below the reference rate of 5% annually.

Over the past year, the overall domestic economic activities were generally favourable and the foreign reserves remained comfortably above the minimum range of 3-4 months of imports cover, and are expected to remain high. Inflation however, picked up in July 2016 due mainly to the new customs duties and excise tax introduced, but it is anticipated that inflation will gradually decline in 2017/18. The banking system remained sound with strong capital position, supported by strong profitability and low non-performing loans. Excess liquidity remained high due to continuous rise in deposits, supported by higher foreign reserves, outweighing the strong credit growth. The annual growth in banks' lending is supported by persistent lower weighted average lending rate.

Given the above developments, the Reserve Bank has maintained its accommodative monetary policy stance to encourage the utilisation of the excess liquidity in the banking system, increase lending to support economic growth and to strengthen the monetary policy transmission mechanism. Since the publication of the 2016/17 Budget Statement, the following policy actions were implemented by the Reserve Bank to enhance its role in promoting macroeconomic and financial stability:

- Introduced a minimum requirement on the banks' loans to deposit ratio, effective on the 1<sup>st</sup> of July 2016, to encourage the banks to utilize the excess liquidity in the banking system by prudently lending to support economic development. The banks are expected to meet the minimum loan to deposit ratio of 80% by June 2017, 85% by December 2017, and 90% by June 2018.
- Adopted an inflation reference rate of 5% per annum to replace the 6%-8% inflation range, effective in November 2016. This was to ensure that the indicative inflation reference rate is consistent with the historical inflation, and this was supported by the IMF mission in November 2016.
- Eased the Exchange Control requirements effective in February 2017 to assist individuals and businesses in making foreign exchange payments and thereby provide an accommodative business environment. All current and capital payments of values up to TOP\$100,000 are now delegated to the banks and authorised restricted foreign exchange dealers, and some of the documentary requirements were also reduced.
- Improved the transparency of monetary policy by announcing policy decisions approved by the Reserve Bank Board of Directors shortly after monthly Board meetings. This was effective since January 2017.
- Directed banks to cease passing on the levy burden on foreign exchange transactions to customers through a separate fee, in order to maintain a level playing field amongst all banks and address public concerns.
- To encourage improved access to finance in a prudent way that would protect the interest of customers of the Non-Bank Financial Institutions (NBFIs), the Reserve Bank drafted several legislations for the supervision and regulation of microfinance institutions, money lenders, and credit union which have

been approved by Cabinet and awaiting discussion at Parliament. Other legislations being drafted are for the supervision of retirement funds, insurance companies, investment firms and capital markets.

- To establish a framework for the return of proceeds of exports of goods and services rendered in Tonga to enhance the foreign reserves management, as well as strengthen the licensing and supervisory requirements for foreign exchange dealers, amendments to the Foreign Exchange Control Act were drafted.
- To strengthen the controllership and receivership provisions for the resolution of problem banks and update provisions of the Act to be in line with international best practices, the Reserve Bank has therefore drafted amendment to the Financial Institutions Act and renamed the Act as the Banking Act as it focuses on bank supervision only.
- In recognition of the importance of financial inclusion to achieving the Reserve Bank's objectives, amendment to the NRBT Act has been approved by Parliament and awaiting royal assertion, to include the promoting of financial inclusion in the core functions of the Reserve Bank.
- To strengthen the Reserve Bank's capacity to adopt monetary policy tools such as open market operations, as well as ability to support the Government's budget financing needs, the amendment to the NRBT Act included deductions from the Revaluation Reserve Account to fund such practices, subject to the Reserve Bank Board's approval.
- Continued to promote financial inclusion initiatives to support inclusive economic growth. This includes developing strategies and policies to improve access to financial services, by the population at large throughout Tonga, as well as supporting the development of the Micro, Small and Medium Enterprises (MSMEs) and their access to finance.
- Revised 6 of the 12 Prudential Statements mainly to implement the amendments to the Financial Institutions Act in 2014, update to be in line with international best practices and improve consumer protection through requiring consumer loan contracts to be translated to the Tongan language and stream lining the disclosure requirements.
- Developed a new Credit Bureau Licensing Guideline to implement the Reserve Bank's power under section 59A of the NRBT Act to license and regulate credit bureaus. This would ensure credit bureaus operating in Tonga must be located in Tonga and comply with this Guideline, and thereby ensure its services are effective in enhancing the credit environment and encouraging banks to lend.

As required by the National Reserve Bank of Tonga Act, the Reserve Bank will continue to publish its Monetary Policy Statement (MPS) every six months. The Reserve Bank also publishes Quarterly Bulletins, Monthly Economic Reviews and monthly data flashes on economic indicators.

## MONETARY POLICY OUTCOMES

### *Inflation*

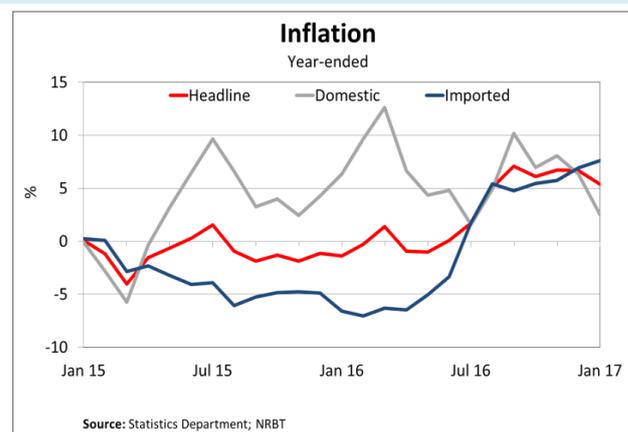
Inflation remained low during the 2015/16 financial year. However, the amended custom duties and excise taxes on various food products and tobacco, in the initiative to promote a healthier lifestyle, which became effective on the 1<sup>st</sup> July 2016 contributed to the hike in inflation rates in the beginning of the 2016/17 financial year. In July 2016 the annual inflation rate rose by 1.6% surpassing a peak of 1.4% back in March of the same year. In August 2016, the annual inflation rate increased significantly by 5.1% with 3.1 percentage point contribution from imported inflation. The annual inflation rate for the remaining months of 2016 continued to rise, peaking at 7.0% in September 2016. This is the highest since May 2011 where the annual inflation rate was 9.7%.

In the year ended January 2017, the headline inflation rate increased by 5.4%. This was mainly due to a 7.7% rise in imported prices. The largest contributor to the higher imported prices was the price of imported meat, fish and poultry with 18.3% increase, followed by a 16.6% rise in the price of imported tobacco. The prices of mutton flaps and chicken pieces increased by 27.3% and 19.1% respectively whilst the price of Winfield blue increased by 19.8%. These continued to reflect the impact of the amended custom duties and excise taxes introduced in July 2016. Additionally, fuel price had increased by 9.4% as the prices of petrol and diesel rose by 9.6% and 11.8% respectively. Also increasing over the year were the prices of other food components such as cereals and bakery products, and sugar. The prices of household supplies and services increased by 5.4% and the price of house maintenance goods rose by 2.7% annually. However, the zero rated excise tax and custom duties on imported fruits and vegetables has contributed to a 6.5% decline in the prices of these products but were insufficient to offset the increases in the prices of imported food.

Moreover, the domestic inflation rose by 2.4% annually. The price of kava-Tonga remained the largest single contributor with 167.8% rise over the year due to its continued short supply. This was followed by the increase in the prices of various food components due to seasonal factors, and increase in the prices of locally produced alcohol.

The NRBT anticipates the annual inflation rate to be well below the reference rate of 5% per annum in 2017/18. However, movements in commodity and oil prices, and other temporary factors may pose a risk to this forecast.

**A-FIGURE 6-11: INFLATION**



Sources: Statistics Department and NRBT

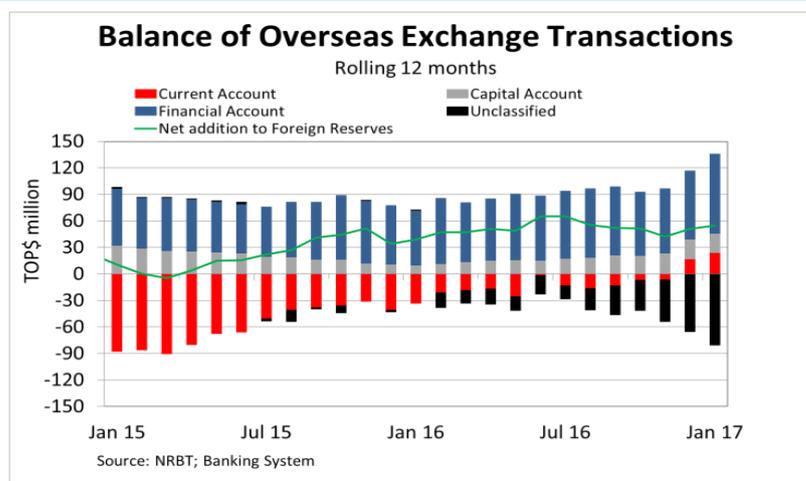
### Balance of Overseas Exchange Transactions

Data and estimates of the balance of payments are based on the Overseas Exchange Transactions (OET) data collected by the Reserve Bank from banks and authorised restricted foreign exchange dealers (FEDs).

The OET balance for the year ended January 2017 was a surplus of TOP\$54.6 million, which contributed to a rise in the foreign reserves to \$54.5 million by the end of January 2017; equivalent to 7.2 months of import<sup>2</sup> cover. This compares with a surplus of TOP\$39.1 million in the same period of last year. The higher OET balance was largely contributed by

the surplus in the current account, after recording a deficit in the previous period, and higher surpluses in the capital and financial accounts compared to the same period last year.

**A-FIGURE 6-12: BALANCE OF OVERSEAS EXCHANGE TRANSACTIONS**



Sources: Banking Systems, Foreign Exchange Dealers, NRBT

### Current Account

The current account balance started to record surpluses for the year ended December 2016 and January 2017. This is the first time since April 2005. The turnaround was due to a marked increase in transfer receipts, particularly the receipts of official grants for ongoing development projects and also private remittances.

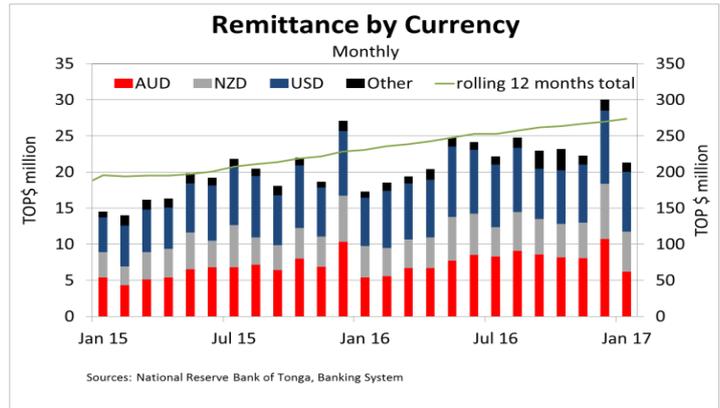
January 2017 recorded a surplus of TOP\$23.8 million in the current account balance compared to a deficit of TOP\$33.5 million in the same period of the previous year. The significant rise in transfers of TOP\$84.6 million was the main driver of this improvement in the current account balance. Official, private, and non-profit transfer receipts increased over the year largely reflecting the higher receipts of government grants as well as the higher receipts of private remittances. Additionally, the balance of services increased by TOP\$4.9 million, due mainly to a 23.7% increase in travel receipts. The increase in travel receipts was due to major festivities that took place during the year such as the Queen Mother's 90<sup>th</sup> birthday, school and church anniversaries and various family reunions. The balance of merchandise trade and income, on the other hand, declined over the year. The decrease in income was driven by loan repayments made by government. Higher imports reflecting the vibrant domestic economic activities largely contributed to the lower balance of merchandise trade.

<sup>2</sup> Methodology used for this calculation has changed to include both imports of goods and services

**Remittances**

Over the 12-month period to January 2017, remittances reached a new record of TOP\$273.8 million. This was 18.6% higher than the previous year with a monthly average of \$22.8 million, in the year ended January 2017. Around 89% of the total remittances were received via the FEDs, rising from 86% last year. The ease of access of customers to the FEDs’ services, supported by its wider geographical coverage contributed to this trend. Total remittance receipts in the major currencies rose over the year with the receipts in Australian Dollar (AUD) increasing the most by \$15.0 million (19%), followed by the United States Dollar (USD) receipts increasing by \$14.3 million (17%) and the receipts in New Zealand Dollar (NZD) rising by \$9.7 million (19%). The rising number of regional seasonal employees also contributed to the higher remittances. Total remittances represented 37% of the total OET receipts compared to 41% in the previous year.

**A-FIGURE 6-13: REMITTANCES**



Sources: Banking Systems, NRBT

Remittances are anticipated to remain high in the upcoming year due to the scheduled events for 2017 such as school anniversaries (Tonga High School, Mailefihi and Siu’ilikutapu College) in addition to annual church conferences and other festivities during the year.

**A-FIGURE 6-14: REMITTANCES RECEIPTS (END OF THE MONTH) (\$M)**

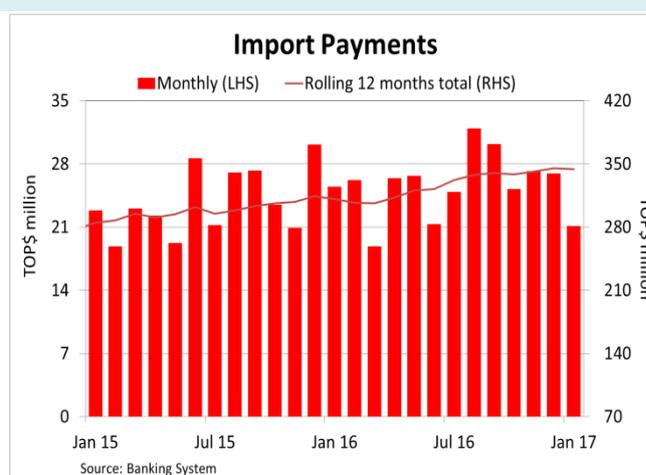


Sources: NRBT

### Imports

Total import payments for the year ended January 2017 were TOP\$344.1 million, rising by 10.7% (TOP\$33.2 million) compared with the previous year. The strengthening of the AUD and NZD against the Tongan Pa'anga over the year may have contributed to the trend. There has been an increase in the major categories of imports with the exception of oil and other imports, which was in line with the improved domestic economic activities. The major events during the year have driven the demand for consumption goods. The improved growth in the distribution sector contributed to the increase in wholesale and retail trade imports payments of 24.1%, which coincided with the 9.7% increase in container registrations. Meanwhile, the 35.4% growth in housing loans supported the 81.0% increase of imported construction materials. The removal of custom duty on construction materials also contributed to the higher imports of construction materials. The 8.9% decline in oil prices in the year ended January 2017 may have contributed to the decrease of 24.4% in oil import payments. Lower fuel prices supported higher demand for vehicles thereby resulting in the payments for the import of motor vehicles increasing by 74.6%, and coincided with a 28.8% rise in the vehicle registrations over the year.

**A-FIGURE 6-15: IMPORTS PAYMENTS**

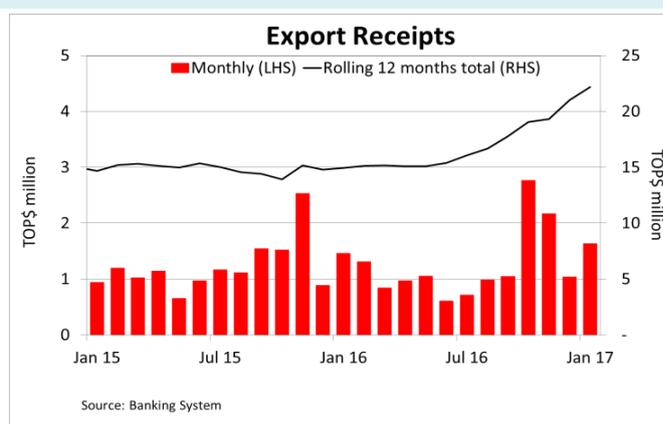


Sources: Banking Systems, Foreign Exchange Dealers, NRBT

### Exports

In the year ended January 2017, export receipts rose by 48.5%, which was attributed mainly to a rise in the proceeds from the export of agricultural and marine products of TOP\$5.1 million and TOP\$2.1 million respectively. The receipts from agricultural exports were mainly due to higher squash exports of 359.4 tonnes compared to the same period last year. The more favourable weather conditions may have contributed to the improvement in export receipts.

**A-FIGURE 6-16: EXPORTS RECEIPTS**



Sources: Banking Systems, Foreign Exchange Dealers, NRBT

### Capital Account

The capital account balance for the year ended January 2017 was a surplus of TOP\$21.6 million, an increase of TOP\$11.7 million from the previous year. This was attributed to higher private capital receipts mainly in private grants for investment projects or capital expenditures. This included private businesses involved in the construction of the St George Palace and the upgrade of the Fua wharf. The decline in local businesses' investments in properties and shares in companies abroad lowered the total capital payments from TOP\$5.7 million last year to TOP\$2.8 million this year.

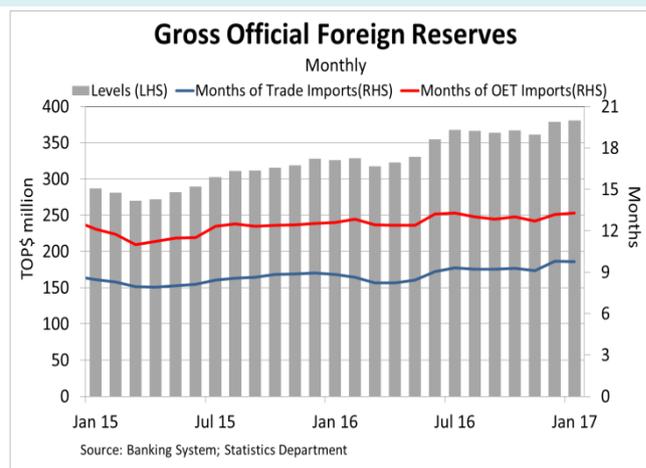
### Financial Account

The financial account balance for the year ended January 2017 was a surplus of TOP\$90.0 million, compared to a surplus of TOP\$62.1 million in the previous year. The significant rise in receipts of interbank transfer had driven this higher surplus.

### Official Foreign Reserves

In January 2017, the foreign reserves peaked at a new record high of TOP\$380.8 million, which was equivalent to 7.2 months of imports cover, well above the NRBT’s minimum range of 3-4 months. The outlook for the level of foreign reserves is to remain comfortably above the minimum range due mainly to expected higher remittances, higher export receipts and expected government receipt of budget support funds from development partners. The Reserve Bank forecast the level of foreign reserve to increase to \$371.5 million in June 2018, which is higher than the IMF Article IV projection of \$363.3 million. Any delays in receiving the government budget support funds pose a risk to this forecast. In addition, potential risks to the outlook on the level of foreign reserves include sports development and the rise in external debt service to EXIM Bank of China as the principal repayments commence in 2018/19.

**A-FIGURE 6-17: GROSS OFFICIAL FOREIGN RESERVES**



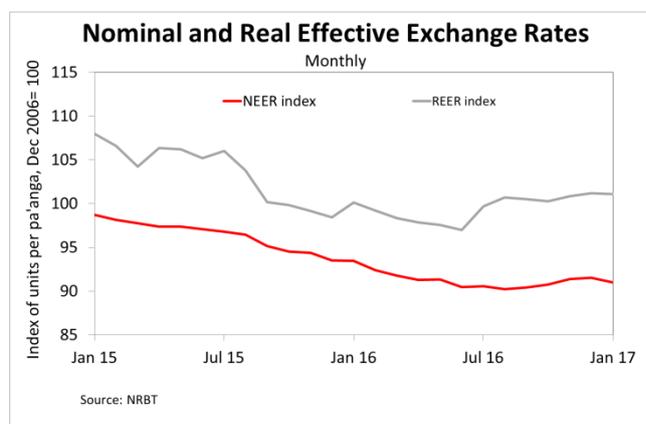
Sources: Banking Systems, Foreign Exchange Dealers, NRBT

Work is underway to amend the Foreign Exchange Control Act to establish a framework for the return of the proceeds and earnings from exports of goods and services, such as tourism activities, that are being rendered in Tonga. This would support the Reserve Bank’s role of managing the foreign reserves.

### Exchange Rates

The real effective exchange rate (REER) index rose by 0.9% while the nominal effective exchange rate (NEER) index fell by 2.7% in the year ended January 2017. The rise in the REER index reflected Tonga’s higher headline inflation rate relative to its trading partners, which may impact the international competitiveness of the Tongan exports of goods and services. The depreciation of the Tongan pa’anga over the year against most of its major trading currencies led to the fall in the NEER index. The exchange rate has been managed such that it supports the maintenance of price stability, while encouraging Tongan export and tourism industries and remittances, for the benefit of the broader economy.

**A-FIGURE 6-18: NOMINAL AND REAL EXCHANGE RATES**



Sources: Statistics Department & NRBT

## Lending Balances

Total bank lending rose over the year to January 2017 by \$53.4 million (16.2%) to \$382.2 million. This was largely contributed by growth in household loans, and business loans also had increased over the year.

All household loan categories increased, particularly housing and other personal loans. This showed encouraging signs for the housing and construction industry whilst increases in other personal loans suggest stronger consumer confidence and demand, further supporting stronger economic activities.

Banks' lending to businesses also grew over the year, driven mainly by loans extended to the manufacturing, tourism, agricultural, and construction sectors. The growing activities in these sectors were partially supported by the lower interest rates from the Government's development loan scheme. 2.5% of total loans were funded from this aforementioned scheme in which the total outstanding loans stood at \$9.5 million as at the end of January 2017, increasing from \$4.4 million in January 2016.

The Reserve Bank's credit growth forecast for 2016/17 was revised upwards from 11% to 15%, which is higher than the IMF Article IV projection of 10.8% for 2016/17. The Reserve Bank's policy measures to encourage further lending, such as the minimum loans/deposit ratio and financial inclusion initiatives, support the anticipated continued growth in credit and broad money. At the same time, it is important for the structural reforms in different sectors as well as other impediments to lending, such as the improvement to the land administrative system and the bankruptcy laws, are addressed to improve the confidence of the banks to lend further in a prudent manner.

**A-TABLE 6-6: LENDING BALANCES**

	Level as at				Jan 16 TOPm	Change over the		Shares of totals %
	Jan 17 TOPm	Dec 16 TOPm	Nov 16 TOPm	Oct 16 TOPm		1 month %	1 year %	
Lending, banks	382.2	381.6	377.5	368.2	328.9	0.2	16.2	100.0
Household	214.8	212.5	209.4	203.8	172.0	1.1	24.9	56.2
Business*	166.3	167.8	166.8	163.1	155.5	-0.9	6.9	43.5
Other	1.1	1.3	1.2	1.3	1.3	-12.7	-11.8	0.3
Lending, banks and other	516.3	515.7	510.9	498.1	448.3	0.1	15.2	100.0
Household	295.9	293.5	289.8	280.7	237.8	0.8	24.4	57.3
Business	219.4	220.9	219.9	216.2	209.3	-0.7	4.8	42.5
Other	1.1	1.3	1.2	1.3	1.3	-12.7	-11.8	0.3
New comm'ts, banks	15.1	23.8	22.3	13.1	10.8	-36.3	39.9	N/A
Undrawn comm'ts, banks	20.7	17.9	14.0	13.3	21.1	15.4	-2.0	N/A
Implied repay'ts, banks	11.7	15.8	12.3	8.9	6.7	-25.6	74.5	N/A

\* Method for calculating these series was updated in August 2014, resulting in revisions to the full history of data  
Sources: SPBD; RFB; MOFNP; Banking system

Sources: SPBD, RFB, MOFNP and Banking Systems

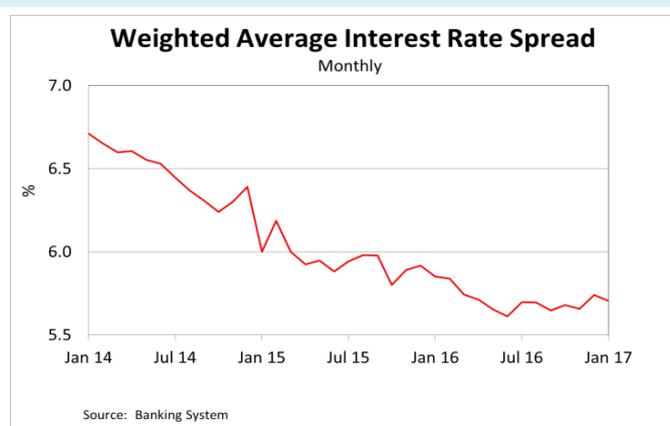
## Deposit Balances

Total bank deposit balances increased over the year to January 2017 by \$83.0 million (18.7%) to \$527.8 million. All deposit categories contributed to the growth, with demand deposits being the main driver. Business demand deposits increased, reflecting improvement in businesses' cash flow as well as higher deposits made by households. In addition, demand deposits of government also rose reflecting receipts of government grants as well as improvement in government revenue collection during the year. However, the weighted average deposit rate fell over the year, due mainly to the increase in the total deposits volume.

## Interest Rates

The weighted average interest rate spread slightly narrowed over the year to January 2017 by 14.7 basis points to 5.70%. This was a result of a 15.7 basis points decrease in the weighted average lending rate to 7.88% which outweighed a 1.0 basis points decline in weighted average deposit rate to 2.18%. The decline in business and housing lending rates both contributed to the narrowing in the weighted average lending rate. The continued high liquidity in the banking system and the active competition amongst banks largely supported the lower weighted average lending rate. Meanwhile the decrease in the weighted average deposit rate was attributed to the lower term and savings deposit rates, as well as the increase in deposits. Continued competition amongst banks and the Government's low interest rate development loan scheme will continue to support the current low lending rates.

**A-FIGURE 6-19: WEIGHT AVERAGE INTEREST RATE SPREAD**



Sources: NRBT

## Broad Money Balances

Over the year to January 2017, the broad money balance increased by \$64.6 million (14.4%) to another record high of \$512.0 million. This was largely driven by an increase in net foreign assets of \$82.1 million (25.3%) which stemmed from the rise in the foreign reserves. This offset a decrease in net domestic assets of \$17.8 million (14.5%) due to a decline in other assets, reflecting banks full utilisation of tax credits. Broad money is projected to increase in June 2017 by 14%, up from 10.0% previously projected. This projection is supported by the anticipated rise in lending and foreign reserves. This is higher than the IMF Article IV's projection for broad money to rise by about 9% in June 2017.

Liquidity in the banking system (reserve money)<sup>3</sup> increased also by 9.4%, which was due mainly to the rise in banks' deposits to the Reserve Bank vault. Excess liquidity in the banking system remains, as the bank's total loans to deposit ratio fell to 72.4% in January 2017 from 73.9% in January 2016. This was still below the 80%

<sup>3</sup> Liquidity in the banking system (reserve money) is a sum of currency in circulation, exchange settlement account balances, and statutory reserve deposits.

minimum loan to deposit ratio target that was effective on 1<sup>st</sup> July 2016, to be achieved by June 2017. Despite the strong growth in the banks' loan books, this was outweighed by the continuous rise in deposits, which is line with the higher foreign reserves. This signals there is still room for further lending by the banks.

A-TABLE 6-7: BROAD MONEY BALANCES

	Level as at				Jan-16 \$TOPm	Change over the last:	
	Jan-17 \$TOPm	Dec-16 \$TOPm	Nov-16 \$TOPm	Oct-16 \$TOPm		1 month % growth	1 year % growth
<b>Broad money liabilities</b>	<b>512.0</b>	<b>512.2</b>	<b>493.6</b>	<b>501.2</b>	<b>447.5</b>	<b>-0.03</b>	<b>14.4</b>
Currency in circulation	50.1	59.9	50.0	48.9	47.8	-16.36	4.9
Demand deposits	199.6	193.6	185.7	190.6	173.9	3.07	14.8
Savings and term deposits*	262.3	258.6	257.9	261.6	225.8	1.44	16.2
<i>equals</i>							
<b>Net foreign assets</b>	<b>407.1</b>	<b>390.5</b>	<b>366.8</b>	<b>375.0</b>	<b>324.9</b>	<b>4.2</b>	<b>25.3</b>
<i>plus</i>							
<b>Net domestic assets</b>	<b>105.1</b>	<b>121.8</b>	<b>126.9</b>	<b>126.4</b>	<b>122.9</b>	<b>-13.7</b>	<b>-14.5</b>
Gross bank lending**	392.2	391.5	387.2	377.7	337.6	0.2	16.2
Public enterprises	42.2	43.2	43.0	41.7	45.1	-2.5	-6.6
Private Sector	333.9	332.0	327.9	320.6	275.8	0.5	21.0
Other financial corporation	16.1	16.2	16.4	15.3	16.6	-0.6	-2.9
Other***	-287.1	-269.7	-260.3	-251.3	-214.7	6.4	33.7

\* Also includes very minor amounts for securities other than shares.

\*\* Differs slightly from standard measures of bank lending by amounts classified as accrued interest.

\*\*\* Includes mostly capital accounts of the banks and NRBT, and their net claims on the central government.

Sources: Banking system; NRBT

Sources: NRBT

### Banking System's Performance

Total assets of the banking system rose by 14.6% (\$96.5 million) to \$755.5 million over the year ended January 2017. This was due mainly to a 16.2% (\$53.4 million) growth in total loans as well as banks' higher deposits with the Reserve Bank (Exchange Settlement Accounts and Statutory Reserve Deposits) of \$21.8 million and abroad of \$25.7 million. Total Liabilities increased by 17.8% (\$91.8 million) to \$606.4 million which is largely attributed to an 18.7% (\$83.0 million) growth in total deposits over the year.

The total banking system remained profitable over the year to January 2017 with strong liquidity and capital positions. The Return on Assets (ROA) was 2.7% and the Return on Equity (ROE) was 12.8%, both rising from 2.2% and 9.8% respectively in January 2016. The improved profitability over the year was due mainly to lower non-interest expenses mainly that of personnel expenses, depreciation expenses and outsourcing & management fees.

The banking system's capital position remained strong as the risk-weighted capital ratio was at 34.1% in January 2017, which remained well above the Reserve Bank's minimum requirement of 15%. The risk weighted capital ratio slightly fell from 38.6% in January 2016, largely reflecting the increase in the banks' loans contributing to the higher risk-weighted assets. The net interest margin fell to 3.0% from 3.1% last year due mainly to the lower lending rates resulting in credit growth rising faster than the growth of interest income. Given the lower net interest margin and the declining weighted average interest rate spread, the Reserve Bank considers the banks' lending interest rate levels to be reasonable given the risks associated with the credit environment in Tonga.

The overall quality of the bank's assets has improved over the year. Total Non-Performing Loans fell by 34.9% (\$9.1 million) to \$17 million over the year to January 2017. This is equivalent to 4.5% of total loans compared to 8.0% a year ago. The decline in non-performing loans was driven by the settlement of a large problem loan to one of the public enterprises, and the improvement in some of the delinquent mining and quarrying loans and housing loans, as well as the write-off of loans. Provisions against loan losses fell over the year by \$2.7 million to \$14.3 million, this was due to the improvement in the status of some provisioned loans which were therefore upgraded to performing status as well as the write offs during the year. The total coverage ratio which shows the capability of the banks' total provisions to cover non-performing Loans rose to 84.2% from 65.0% last year. The value of collaterals held against the delinquent loans reported by banks was at \$40.5 million compared to total non-performing loans of just \$16.9 million. This indicates that banks hold sufficient collateral to cover for any shortfall in loan loss provisions.

The Reserve Bank continues to monitor and manage the payment system to ensure it is functioning in an efficient, sound and safe manner.

### **Supervision of Non-Bank Financial Institutions (NBFIs)**

The supervision and oversight of all non-bank financial institutions remains work in progress. The legislations for the supervision of money lenders, credit union, microfinance institutions and foreign exchange dealers have been approved by Cabinet and await submission to the Legislative Assembly in the coming year. Other legislations that are being drafted include the legislations for the supervision of retirement funds, insurance companies, investment firms, and the capital markets. The Reserve Bank is aware of the concerns of over regulating the NBFIs particularly as they are serving certain sectors of the economy or community whom are not serviced by the banks. However, the Reserve Bank would like to ensure the customers of these NBFIs are better informed of the risks associated with the NBFIs' products and that their interests are protected. This includes concerns with high interest rates charged by the informal lenders. The Reserve Bank is of the opinion that the regulation of insurance companies, retirement funds and microfinance institutions are important to minimise potential systemic risks. The licensing and supervision of foreign exchange dealers continue under the current Foreign Exchange Control Regulations, which are being amended to improve the Reserve Bank's regulatory and enforcement powers. The Reserve Bank is also developing a Financial Consumer Protection policy pursuant to section 59B(2) of the NRBT (Amendment) Act 2014 to enhance the protection of financial consumers and thereby maintain confidence in the financial system. Work is also in progress to register and stock take all the NBFIs operating in Tonga while awaiting the approval of the legislations.

The financial system continued to be affected by the banks' de-risking decisions which have resulted in the closing of some of the foreign exchange dealers' accounts due to elevated money laundering & terrorist financing risks associated with foreign exchange dealers. The NRBT continued to work together with the authorized restricted foreign exchange dealers to strengthen their Anti-Money Laundering/Counter Financing Terrorist (AML/CFT) compliance status in order for the banks to retain their accounts. A report by the IMF in August 2016 has shown the cost of remittances from New Zealand to Tonga has increased as a result of de-risking. The banks and money transfer operators are being encouraged to develop alternative ways of transferring remittance such as online-based products that are low cost. The Tonga Development Bank's 'Ave Pa'anga Pau remittance product launched in February 2017 is expected to assist in catering for the New Zealand remittances to Tonga.

### **Financial Inclusion Initiatives**

The supervision and oversight of all non-bank financial institutions remains work in progress. The legislations for the supervision of money lenders, credit union, microfinance institutions and foreign exchange dealers have been approved by Cabinet and await submission to the Legislative Assembly in the coming year. Other legislations that are being drafted include the legislations for the supervision of retirement funds, insurance companies, investment firms, and the capital markets. The Reserve Bank is aware of the concerns of over regulating the NBFIs particularly as they are serving certain sectors of the economy or community whom are not serviced by the banks. However, the Reserve Bank would like to ensure the customers of these NBFIs are better informed of the risks associated with the NBFIs' products and that their interests are protected. This includes concerns with high interest rates charged by the informal lenders. The Reserve Bank is of the opinion that the regulation of insurance companies, retirement funds and microfinance institutions are important to minimise potential systemic risks. The licensing and supervision of foreign exchange dealers continue under the current Foreign Exchange Control Regulations, which are being amended to improve the Reserve Bank's regulatory and enforcement powers. The Reserve Bank is also developing a Financial Consumer Protection policy pursuant to section 59B(2) of the NRBT (Amendment) Act 2014 to enhance the protection of financial consumers and thereby maintain confidence in the financial system. Work is also in progress to register and stock take all the NBFIs operating in Tonga while awaiting the approval of the legislations.

The global financial system continued to be affected by banks' de-risking decisions which have resulted in the closing of some of the foreign exchange dealers' accounts in Australia and New Zealand due to elevated money laundering & terrorist financing risks associated with foreign exchange dealers. The NRBT continued to work together with the authorized restricted foreign exchange dealers to strengthen their Anti-Money Laundering/Counter Financing Terrorist (AML/CFT) compliance status in order for the banks to retain their accounts. A report by the IMF in August 2016 has shown the cost of remittances from New Zealand to Tonga has increased as a result of de-risking. The banks and money transfer operators are being encouraged to develop alternative ways of transferring remittance such as online-based products that are low cost. The Tonga Development Bank's 'Ave Pa'anga Pau remittance product launched in February 2017 is expected to assist in catering for the New Zealand remittances to Tonga.

### **Anti-Money Laundering/Counter Financing of Terrorism (AML/CFT) Efforts**

The Financial Intelligence Unit (FIU) continued in its efforts to deter money laundering through effective supervision of banks and authorised restricted foreign exchange dealers. The annual compliance check of authorised foreign exchange dealers was conducted.

With the rising concerns of the implication of banks' de-risking decisions on money transfer operators and correspondent banks, the FIU is working together with the reporting entities to ensure compliance with AML/CFT requirements.

As member of the Asia Pacific Group on Money Laundering (APG), Tonga's second round of APG Mutual Evaluation is scheduled for 2019. In preparation for this, the FIU is working together with the Attorney General's Office in coordinating arrangements with technical assistance from New Zealand for the completion of Tonga's National Risk Assessment that commenced in May 2015. The risk assessment is anticipated to be finalised before the end of 2017.

The FIU's application for membership at the Egmont Group is on hold, awaiting the enactment of the amendments to the Money Laundering and Proceeds of Crime Act. It is anticipated that this membership would

enhance the relationship of the FIU with foreign counterparts in sharing of information and seeking assistance relating to financial intelligence matters.

The FIU actively receives, analyse and disseminate suspicious transaction reports filed from reporting entities. Following analysis works, the reports with confirmed suspicion are shared with law enforcement agencies for further investigations and to assist each agencies' roles in their efforts to combat money laundering and terrorist related activities in Tonga. The FIU have so far disseminated 12 reports in 2016 to agencies such as Tonga Police, Ministry of Revenue & Customs, Ministry of Foreign Affairs, Ministry of Commerce, Consumer, Trade, Innovation & Labour and Attorney General's Office.

## Way forward

The Reserve Bank's monetary policy objectives were observed during the year to January 2017. The annual headline inflation rate is anticipated to be well below NRBT's reference rate of 5% per annum in the next financial year. It is also projected that the foreign reserves will remain comfortably above the minimum range of 3 – 4 months of import cover. The stability of the financial system was maintained with no signs of overheating due to the strong credit growth over the year. Given the recent developments and the outlook on the monetary policy targets, the current accommodative monetary policy stance is considered appropriate in the medium term. Therefore, these monetary policy measures will remain unchanged in the medium term:

- ✓ Monetary policy rate (interest rate on banks' exchange settlement accounts or excess reserves) at 0% (zero interest rate policy);
- ✓ The inflation reference rate at 5%.

However, excess liquidity in the banking system still remained as the continuous increase in deposits, coinciding with the higher foreign reserves, outweighed the strong credit growth. The banks' loans/deposit ratio remained below the Reserve Bank's minimum floor of 80%. The excess liquidity in the system therefore continues to weaken the monetary policy transmission mechanism.

In light of this, the Reserve Bank aims to adopt other policy measures as outlined below to encourage the utilisation of the excess liquidity in the banking system to increase lending in order to support domestic economic growth, and strengthen the monetary policy transmission mechanism. The Reserve Bank will remain vigilant and closely monitor developments for early signs of vulnerabilities.

The following measures are adopted:

- ✓ Continue to closely monitor the effects of the eased Foreign Exchange Control requirements and economic development on the foreign reserves;
- ✓ Increase the Statutory Reserve Deposit ratio from 5% to 10% effective in July 2017;
- ✓ Conduct open market operation (such as the issuance of NRBT notes) to mop up the excess liquidity in the system and using the excess in the Reserves Revaluation Account above T\$10 million to cover the cost – this was included in the amendment to the NRBT Act this year;
- ✓ Maintain the minimum loans/deposit ratio at 80% to be achieved by June 2017, 85% by December 2017 and 90% by June 2018;

- ✓ Link all financial institutions' interest rate to the Reserve Bank's monetary policy rate to strengthen the monetary policy transmission mechanism;
- ✓ Develop the domestic market in order to be more market based and efficient in the issuing of securities, which would in turn provide local investment opportunities and avoid pressure on the foreign reserves through outgoing capital investments.

Furthermore, in pursuance of promoting financial inclusion and to address concerns raised from the Legislative Assembly and the public on high interest rates and unfair treatment of customers, the Reserve Bank continues with its initiatives to provide further protection to the consumers as follows, most of which are included in the legislative amendments that are being processed:

- ✓ Introduction of laws and regulations for non-bank financial institutions;
- ✓ Introduction of a financial consumer protection policy;
- ✓ Imposing of requirements to improve the transparency and disclosure to customers of the interest rates and fees on their loans;
- ✓ Developing policies to provide a code of conduct for the handling of mortgage arrears and the loan recovery process;
- ✓ Enhancement of consumers' financial literacy through financial inclusion programs and more transparent reporting and disclosure from all financial institutions.

Another initiative taken by the Reserve Bank in its efforts to help improve the image of Tonga to the world is by ensuring that good quality banknotes and coins are in circulation. These efforts include distributing mint quality banknotes and coins to the public directly through retail shops, Talamahu market and through church functions such as their annual charitable donation events and conferences; direct deposits of mint quality notes to the Reserve Bank's note trust depots in the outer islands from which the outer islands can interchange and replace mutilated notes with good quality notes on a timely manner.

The Reserve Bank will continue to closely monitor developments in the domestic and global economy, and update its monetary policy setting to maintain internal and external monetary stability, and to promote a sound and efficient financial system in order to support macroeconomic stability and economic growth.

## 6.1.3 Social Developments

### Social and Community Outcomes for Tonga

#### Health Performance

Life expectancy at birth for both females and males for Tonga is 71 years which increased by 2 years over the period of 2000-2012. Again in 2012, healthy expectancy in both sexes was 9 years lower than overall life expectancy at birth, for it has dropped to 62 years. This indicates the constant increase in incidence of Non Communicable Diseases (NCDs).

In His Majesty's address at opening of Parliament in 2016, a number of issues that relate to Health, Education and Economic growth were highlighted. In the area of health, His Majesty stated that Tonga needs to look into the approach to adopt in overcoming the increasing incidences of non-communicable diseases (NCDs) which has in recent years impacted negatively on life expectancy. There is an urgent need to promote the habit of healthy living through what we eat and increasing our level of physical activities.

His Majesty also highlighted the need for Tonga to improve its literacy level and the quality of education so that Tongans academic qualifications can become recognizable not just regionally but also internationally. The government needs to focus attention on improving access to education at the TVET levels for instance, so that more Tongans can have the opportunity to study, graduate and become employable abroad.

His Majesty also indicated that the nation's livelihood and economic growth are both equally important since it is now becoming difficult for graduates to secure employment. It is therefore important that the government works in partnership with relevant stakeholders to further develop the business sector, increase local manufacture and value addition.

Even though availability of data for proper monitoring and evaluation of health performance remains a challenge. Moreover, available data indicate that well over half (61.3 percent) of adult males in Tonga are obese—the highest prevalence of obesity out of 188 countries worldwide—and four of the seven countries in the world where adult female obesity is estimated to be 50 percent or more of the population are in the Pacific: Kiribati, FSM, Tonga and Samoa. Furthermore, three of the top ten countries in the world for highest rates of adult smoking are in the Pacific: Kiribati, PNG and Tonga. In Tonga, it has also been highlighted that about 60 percent of all male deaths and 58 percent of all female deaths of all ages are attributed to cardiovascular disease and diabetes. With continuing negative impact from increasing incidences of mortality from NCDs, life expectancy in Tonga fell from 71 years in 2007—70 for male and 72 for female—to 67 in 2010; currently stands at 73 years. Under-five mortality has fluctuated widely over the years and stood at 10.7 per 1000 birth in 2013. Maternal mortality ratio, again due to incidences of NCDs, remains a major challenge for the country as it has been on persistent rise over the years. Available statistics indicate a current ratio of 124 per 100,000 live births; from 97 in 2000.

A joint effort of Government, the Ministry of Health and other related agencies had put together strategies and programs in the fight against NCDs and to minimize the risk factors. Tax policies have been revised in 2016 and further revision are to come into effect in 2017/18, to promote healthy living and reduce the consumption of alcohol and tobacco. This tax is imposed on all unhealthy food such as fat meat, ice cream and other high sugar content food items with the hope to change the preference of consumers to purchase more healthy food and fight NCDs. Other programs are also in place to promote physical activities among Tongans. Amending

of the *Tobacco Control Act* in 2014 is one of the many policies. Smoking public places, such as church facilities and places where Kava is served have been prohibited. Smokers that do not abide by this Act shall pay a TOP\$100 fixed penalty to the Magistrate's Courts.

Furthermore, DFAT is funding Tonga Health Sector Support Program (THSSP) through the Ministry of Health. Government of Tonga and Government of Australia have signed the Tonga-Australia Aid Partnership Arrangement in which one of the targets is to reduce the health and economic burden of non-communicable diseases (NCDs). The Government of Tonga has also developed the National Strategy for NCD Prevention and Control 2015-2020's Monitoring and Evaluation framework, and also increased excise tax rate for sin goods such as tobacco, etc. to reduce NCDs.

The Government has in the 2017/18 increased its recurrent budget for Preventive Division under the Ministry of Health to help reducing NCDs as this is one of the requirements from the Development Partners. Tonga Health is also conducting weekly exercise training and sports tournament for government workers.

A joint-effort from the government agencies to tackle the risk factors of NCDs resulted in the Ministry of Fisheries reduction of the price of local fish per kilogram in 2015/16. Health promotions, NCD preventive awareness campaign to change people's lifestyle are also in place such as motivating the public to exercise at least thirty minutes daily. This would boost people's healthy living and lifestyles, especially having access to good and fresh local products at an affordable price.

### **Education Performance**

While waiting for the preliminary results of the 2016 Population Census, the existing official data (2011) reveals that Tonga continues to perform relatively well in all education indicators. Basic functional literacy for people aged 15-24 years—level of being able to read and write a simple sentence—remained quite high at over 99.5 percent in 2011, while as at 2013, net primary school enrolment was 97 percent. Similarly, student teacher ratio at the secondary school level decreased from 15:1 in 2012 to 13:1 in 2013. Moreover at the primary school level, the ratio increased from 21:1 in 2012 to 25:1 in 2013. According to the UNESCO Institute of Statistics and World Bank Report 2014, Tonga, in comparison to other countries, ranks at the 40 percentile in access to formal education and at the 85 percentile in learning. By gender, at the age of 15 and older, more females are with primary education and TVET qualification, while more males are with secondary and tertiary education.

There is no doubt that in the globalized and digitalized world of today, it is becoming increasingly obvious that for a nation to do well and achieve sustainable inclusive growth and development, high level of performance is required in the ability to innovate and invent. Innovation and invention on the other hand relies heavily on high intensity research and development (R & D), with support from the industrial sector. This can only be undertaken at the TVET levels. Similarly, being able to link up with the global value chain, develop the industrial sector and diversify the economy into services require high level human capital development.

The change of grading system in education recently implemented had triggered a lot of issues due to short notice. However, government continues to put more efforts to improve the quality of both teachers and students through having a quality results of examination at all level. In addition, an important aspects of a more balanced and quality education is character development for students. The improved character development in students and youth is a core element for a more progressive Tonga so that both teachers and students could have better opportunities and quality life whether in Tonga or overseas.

## Labour Force Participation in Tonga

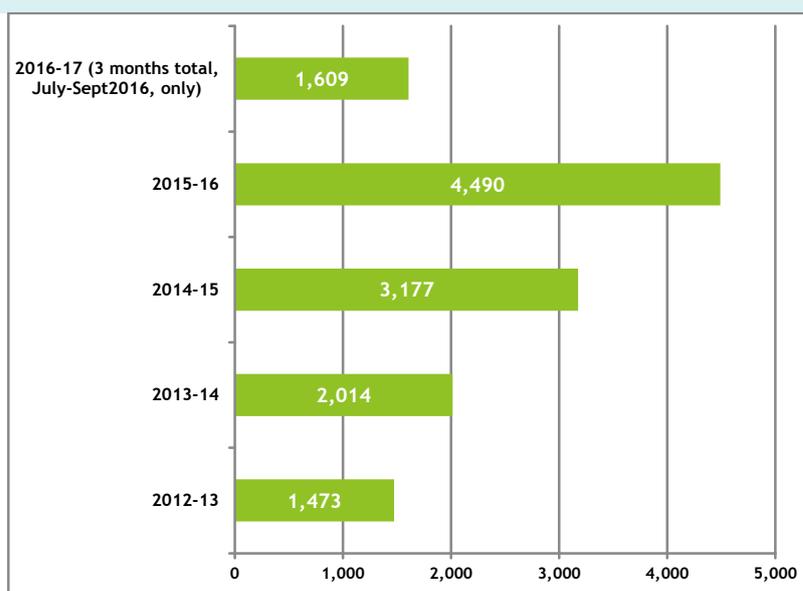
The employed population—aged 15 years and older—in 2011 totaled 33,422 people; comprising 19,695 males and 13,727 females. Out of the total employed population, about 70.9 percent were paid workers, 28.6 percent subsistence workers and the remaining categorized as unspecified workers. The employment-population ratio was 36.7 percent as at 2011, with labour force participation rate also at 52.3 percent (62.7 percent for males and 42.3 percent for females). Out of the 52.3 percent, 45.5 percent were from the urban area (Nuku'alofa) and 54.5 percent from the rural areas in Tongatapu and the outer islands.

Majority of the 54.5 percent (labour force from rural areas in Tongatapu and outer islands) participated in the RSE Program by the NZ government and the Australian SWP scheme.

Most families in Tonga benefit immensely from the Recognized Seasonal Employer (RSE) Program by the government of New Zealand and the Australia Pacific Seasonal Worker Program Scheme (SWP) since it started in 2007. More work opportunities are anticipated through the expansion of the seasonal worker program into the broader agriculture, tourism and construction sectors on a more sustained basis. This highlights the importance of regional labour mobility which is also one of the key aspects in the PACER Plus negotiations. Increased labour mobility in the Pacific reflects a greater access to Australian labour markets from the Pacific islands countries which lead to more economic opportunities, more remittances and more upgraded skills obtained by concerned workers. Upon return, they can start up businesses, create jobs and contribute to the long term economic growth and sustainable development of their countries.

*A-Figure 6-20* indicates the increasing number of Tongans who participant in both schemes. The estimated number of Tongans that participated in both schemes in 2015/16 41.3 percent (or 1,313 workers), higher than the figure for 2014/15. The number for the first three months (Jul-Sept) of 2016/17 is 9.2 percent higher than the total number for the whole 2012/13. The outlook is that the total number of Tongans participating in both schemes will continue to expand considering the economic effects of these programs on individual households.

However, negative social problems—anti-social behavioral characteristics—continue to be associated with individuals and family of several workers at the time of their period of six to seven months absence from home; both for the man (as spouse and father) or woman (as spouse and mother). This is further exaggerated by another issue of absconders. Moreover, on account of these negative consequences, government in collaboration with Tongan communities overseas and relevant Australian authorities continue to provide counseling with encouragement for more opportunities, promoting of peer group and team work to such problem (Gibson & Rohorua, 2014). Government also continues to make necessary arrangements to support workers under the SWP in Australia to minimize the rate of absconders and address complaints and concerns raised by workers. Issues and concerns raised by workers under RSE schemes in New Zealand are dealt with directly by their employers.

**A-FIGURE 6-20: TOTAL NUMBER OF WORKERS UNDER THE PACIFIC SEASONAL WORKER SCHEMES**

Sources: MIA

### Changing Demographics in Tonga

The preliminary count of the 2016 Population Census indicate a decline, by over 2000 people, in the population of Tonga. The result is consistent with the decrease in the total number of households by 16 households, compared to the 2011 Population Census.

By island division, data continue to highlight the increasing trend of internal migration as the population in the outer islands is noted to have declined in 2016 when compared to the 2011 Population Census, whereas an increase is being witnessed for Tongatapu. Despite the efforts of government to continue to deliver essential services—health and education—in the outer islands, the inequality of opportunity or inequality of access to infrastructure, for instance, including water, energy, telecom and transport remain wide, due to remoteness and geographical location of the islands.

By gender, females accounted for a slightly higher proportion (50.1%) of the population than males (49.9%). This implies a slight change in the proportion when compared to 2011; 49.7% females and 50.3% males.

### Priority needs of the Communities

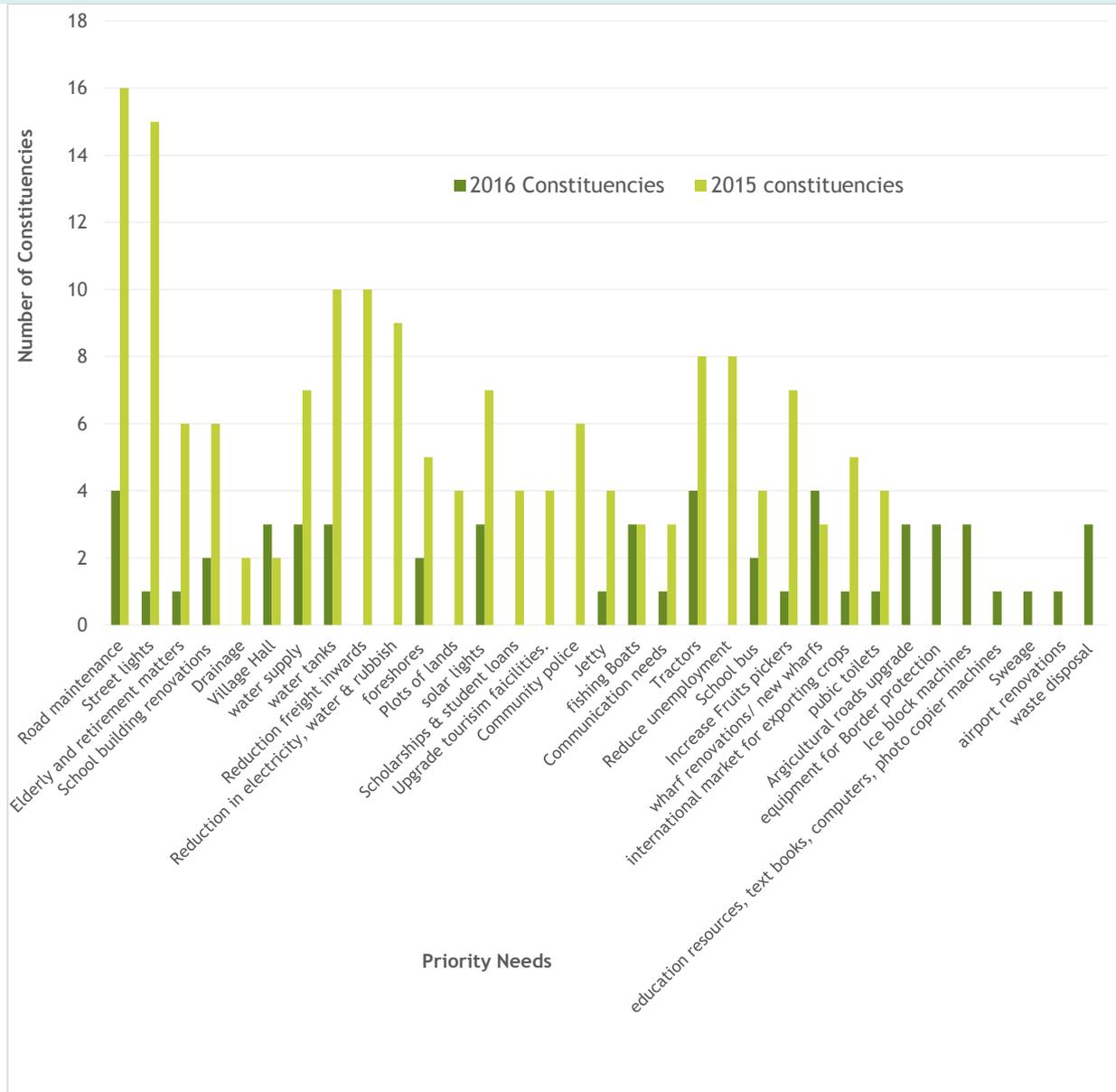
The parliamentarians are required to visit their constituency annually during their 4 year term and hold meetings with respective communities to discuss living standards and development needs. The parliamentary visit takes place for a period of two weeks during parliamentary recess, which is customarily after the approval of the Budget.

According to Legislative Assembly, only 5 reports from the 2016 annual visit out of 17 constituencies were submitted. The five reports were from the people's representatives of constituencies from the outer islands excluding 'Eua and Vava'u. According to these 5 constituencies' reports, the chart illustrates **A-Figure 6-21** their priority development needs. Road maintenance, need for agricultural tractors and wharf renovation remain highest on the list. Next to these are fishing boats, water tanks, water supplies, village halls, equipment

for border protections, ice block machines and agricultural road upgrade; needed by most of the small islands that are in the constituencies. There was also an addition of a few new development needs. However, given that these reports are based from the outer island it shows the difference in the development priority needs of those in the outer island in comparison with the development needs of those here in the main island.

MOFNP continues to monitor the existing projects and encourage communities to continue maintaining the projects for the long run benefit of the community's citizens. The establishment of constituency offices, with possible staffing by a senior officer from government, has been suggested both in the Legislative assembly and the government administration, signifying the importance of providing procedural, technical and administrative assistance to the constituencies.

**A-FIGURE 6-21: CONSTITUENCY REPORT 2015-2016 PRIORITY NEEDS**



Sources: Constituency Report 2016 to Parliament (Tonga)

Government continues to provide fund to all constituencies from its annual budget, as \$0.2 million per constituency in 2017/18, to assist with the provision for their immediate needs and wants.

## Social Protection, Disability, and Poverty Alleviation

Government continues to ensure that the disadvantage and vulnerable groups such as persons with special needs (disabilities) living in/with extreme difficulties conditions can access social protection through support to the genuinely disadvantaged.

The vision for Social Protection and Disability (DSPD) for 2017 - 2030 is “*To Maintain a Tonga where vulnerable person hardships and difficulties are reduced with social protection schemes, social policies and social programmes aiming to improve quality of life by 2030*” The desired outcome is an inclusive, sustainable and empowered human development with gender equality giving equal access in all opportunities to the vulnerable, individual and ensuring that they have better care & support, in particular the person with disability and poor individual, elderly, women and children and neglected young and adult orphans.

The strategy is to ensure that there is increasing institutional care and support services for the mentioned groups. In addition to support services to these vulnerable groups, there will be special focus on strengthening social protection and design poverty alleviation programs for village communities. With the budget provision for Social Protection and Disability for year 2016/17, the activities covered in the following sections will continue in 2017/18.

### a) Social and Human service policy

In May 12<sup>th</sup> 2016, DSPD approved and confirmed that the Tonga National Disability Taskforce consisting of 35 Stakeholders from Government and NGOs will drive, coordinate and implement the Tonga National Policy on Disability Inclusiveness (TNDIP) 2014-2018. Aligning with the TNDIP policy is part of ongoing public consultations on ratification of the Convention on the Right of Persons with Disability (CRPD) that started since the 1<sup>st</sup> of November 2016. The aim is to ratify the CRPD by December 2017, which will significantly assist vulnerable persons and special needs persons in Tonga with barrier free, create an inclusive society, respecting their rights, giving them dignity and allowing them to participate equally to reach their full potential and to be economically and politically active and empowered.

### b) Disability Welfare Scheme (DWS) Cash Assistance(A’U Ki Ai CASH Assistance)

Government continues with the Social Protection and Disability (DSPD) the Disability Welfare Scheme (DWS) known as the “A’u Ki Ai Cash Assistance” (\$65) for the severest cases of Persons with Disabilities. This amount has gone up to \$70 which will be started on the 1<sup>st</sup> of July 2017.

The current number of beneficiaries on the DWS is 747 in Tongatapu and the outer islands shown on *A-Table 6-8*. Because of the increasing possibility that the number of elderly aged 65 and older of becoming disabled and the rise

in numbers of people that are affected by the NCD’s, we expect an increase in coming years. Recent data indicates that between 2016 and 2017, 171 persons with Disabilities joined the programme.

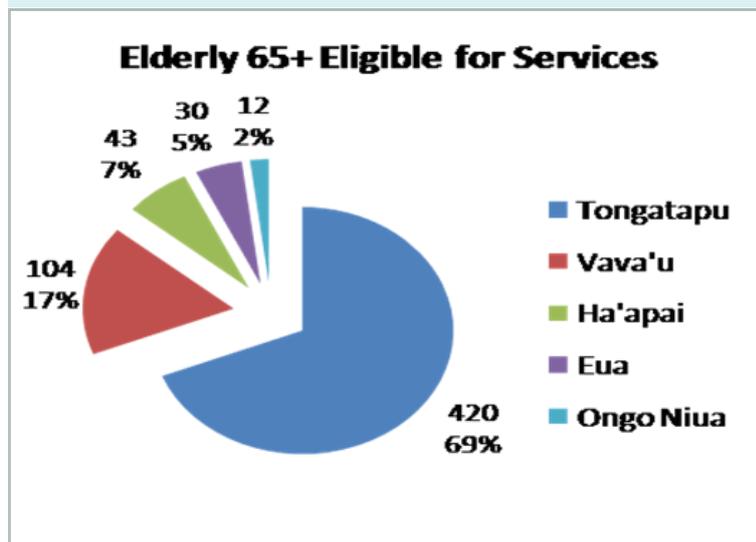
**A-TABLE 6-8: ELIGIBLE RECIPIENTS FOR DWS FOR TONGATAPU AND THE OUTER ISLANDS**

	2016	2017	Increase	2017/18 estimates
Male	287	364	77	400
Female	289	383	94	400
Deceased	34	121	87	
<b>Total</b>	<b>610</b>	<b>868</b>		
<b>Total Active Members</b>	<b>576</b>	<b>747</b>	<b>171</b>	<b>800</b>
<b>Total Costs</b>	<b>\$ 500,000</b>	<b>\$ 677,040</b>		<b>\$ 960,000</b>

Source: MIA

### c) National Aged Care Services (Ma'a Fafine mo e Famili)

**A-FIGURE 6-22: VULNERABLE ELDERLY AND ELIGIBLE FOR SERVICES BY ISLAND GROUP**



Sources: MIA

Within the country we have the Ma'a Fafine mo e Famili, serving these elderly with 155 clients out of 609. Api ko Alonga, Samaletani Lelei, Faith Based Institutions, the National Retirement Fund Board benefit schemes, LDS, Pununga Mo'ui Foundation, Caritas, Vision Impairment and also the Pshychiatric Ward in Vaiola Hospital as well as the hospital itself also served elderly and their ailments, either through cash assistance or services. Because of the rise in numbers of elderly in Tonga, DSPD priorities also focus in strengthening the NGOs and services providers in Tonga to cater for these numbers as mentioned. DSPD on behalf of the Government also signed a contract with ADB in 2016 focusing on

servicing the Elderlies in Tonga. This contract is expected to be out fold in the 2017/18 Financial Year.

### d) National Disability Survey and Services

The National Disability Survey will be launched in May/June 2017, as the funds has been acquired and preliminaries works are in place. It is expected that results will be officially released by December,2017.

### e) National Disaster Recovery Plan for Vulnerable People

Amongst the priority areas for Social Protection still was the development and design of a National Disaster Recovery Plan for vulnerable persons in Tonga. This Plan is currently developed by World Bank Team in the same time with the Poverty Alleviation Schemes, linking to the considerations of appropriate schemes to be implemented in time of Natural Disaster. The World Bank, UNICEF and Green Climate Fund have been consulted for fund and Technical Assistance with appropriate protection tools and there are positive indications that once the Feasibility Poverty Study is completed that they will assist. This is expected to be done before April or early May 2017.

### f) National poverty alleviation scheme for poverty in Tonga

Another key priority for Tonga is the alleviation of extreme poverty amongst our village communities. Preliminary works commenced in April 2016 and is expected to be completed by June 2017. This is targeted at designing programmes to focus on poverty and hardship in Tonga with assistance of the World Bank.

When the final reports of the recently concluded 2015/16 Household Income and Expenditure (HIES) survey (HIES) are released, complete picture that wil guide implementation of this scheme will become available. The team from World Bank, in August, October, December 2016, and January/February 2017, made several trips to Tonga in analysing results of the Poverty Study. It is expected that the HIES data will be released by March/April 2017

Before June 2017, DSPD will be looking into consideration of the most appropriate poverty alleviation scheme for Tonga. A submission to his Majesty Cabinet eventually will be made before DSPD implements the benefit

programmes, policy or services in Tonga. This submission is expected to be with the cabinet in May and implementation to begin in July 2017 if found agreeable.

### **g) Conventions on rights of persons with disabilities (CRPD)**

A process of consultations, staff capacity trainings, and stakeholders' meetings/workshops and seminars is envisioned to support the ratification and raise awareness of the CRPD. Amongst the priority areas is the ratification of the Convention of the right of a person with disability which is a core tool and powerful tool to provide accessibility in education, health services, employment and equal opportunity thus helping to eliminate discrimination against persons with disability. The training will continue in 2017/18 for the general public and fund has been acquired for the processes of ratifying the CRPD. The target is for the process of ratification of the CRPD is to be completed and ratified before December 2017.

### **h) Social Welfare scheme (Old Age Social Assistance): 70 years and older**

To ensure reduction of poverty and hardship as well as the maintenance of the welfare and dignity of the most vulnerable in the society, government continues with the Social Welfare Scheme for the elderly which was introduced during 2012/13. Since September 2012, the scheme started with beneficiaries aged 75 years and recently revised it down to 70 years in 2015/16. By age group, about 73.3 percent were beneficiaries (between 70-80 years old), 24.9 percent aged between 81-90 year,s and the remaining 1.8 percent were the elderly, aged 91 years and over.

In 2015/16, the Retirement Fund Office continue to administer the payment of the monthly support to the 3,964 elderly population aged 70 years and older with about 42 percent being male and 58 percent female. By location, refer **A-Figure 6-23** many of the beneficiaries (69 percent) were in Tongatapu, followed by 17 percent in Vava'u, 7 percent in Ha'apai, 5 percent in 'Eua and 2.1 percent in the Niuas (1.3 percent in Niuatoputapu and 0.8 percent in Niuafo'ou). The total payment made for the 3,964 elderly population in 2015/16 were around \$2.9 million as shown in **A-Table 6-9**. The aged population also received a donation from HRH Princess Latufuipeka Tuku'aho—a top up to \$100 of benefit for elderly aged 85 years and older for the month of June 2016 in commemoration of the 90<sup>th</sup> birthday of the Queen Mother. In addition, more donation was received by the Fund for the aged population from the Free Wesleyan Church for aged ministers in from October 2015. Furthermore, the sum of \$5,000 was received from Tonga Cable Limited in support of the HRH Princess's initiative to raise fund for the aged people of Tonga.

Old age benefit for those who are above 70 years of age are also under the Government scheme. Cabinet has recently approved the increase of their monthly stipend payments. The revised structure is as follows:

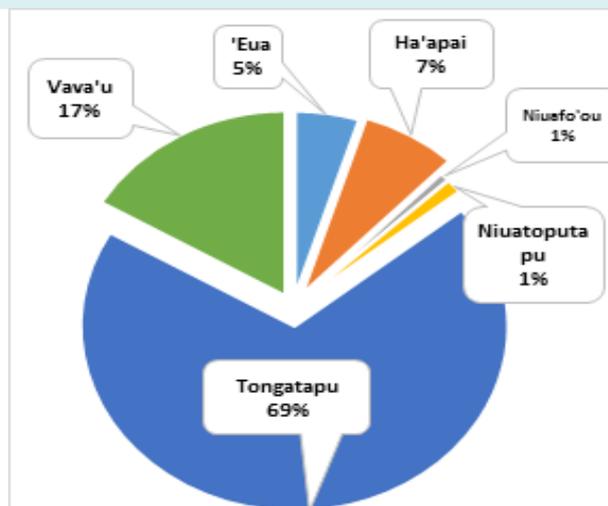
- Increase the \$65 social protection monthly stipend to the old age (70+) as follows:
  - (i) Age 70 to 75 to receive \$70 per month;
  - (ii) Age 76 to 79 to receive \$75 per month; and
  - (iii) Age 80 plus to receive \$80 per month.

These include the existing pensioners that fall within the age group specified in (i) above and who are not in any form of cash employment.

**A-TABLE 6-9: TOTAL BENEFICIARIES (70 YRS & OLDER) BY GENDER, STATION AND TOTAL AMOUNT PAID IN 2015/16**

Station	Gender		Amount (\$m)
	Male	Female	
'Eua	89	104	\$ 0.13
Ha'apai	126	163	\$ 0.21
Niuafu'ou	14	18	\$ 0.03
Niuatoputapu	30	21	\$ 0.04
Tongatapu	1120	1622	\$ 1.97
Vava'u	275	382	\$ 0.47
<b>Total</b>	<b>1,654</b>	<b>2,310</b>	<b>\$ 2.85</b>

**A-FIGURE 6-23: TOTAL ELDERLY 70+ BY STATION THAT ACCEPTED THE SOCIAL ASSISTANCE IN 2015/16**



Sources: MIA

### Future Vision for 2025

A feasibility study is already planned to garner information on the need of a Rest Home for the severest case of neglect for the elderly aged 65 years and over and to help protect recipients that have the potential to become homeless and further neglected. This will include consideration of the need for an agency or an organization that is responsible for providing appropriate devices for persons with disability.



## ANNEX 6-2: TONGA SELECTED INDICATORS

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
	<i>(Percent change)</i>							
<b>Output and prices 1/</b>								
Real GDP	3.2	3.3	2.9	0.8	0.7	2.1	3.7	3.4
Consumer prices (period average)	5.6	1.7	6.0	3.3	0.7	2.2	0.2	-0.6
<b>Money and credit (end-period) 2/</b>								
Broad money (M2) % growth	-1.9	5.1	2.6	-2.0	7.3	8.0	2.8	12.6
Domestic credit	-4.3	-11.5	-11.5	-16	-0.4	9.2	11.7	18.2
Private sector credit 3/ % growth	-2.9	-15.5	-9.2	-9.6	-7.8	-0.6	8.9	0.198
<b>Balance of payments (OET Basis)</b>								
Exports, f.o.b.	11.4	11.4	11.3	8.8	12.4	15.7	15.4	15.4
<i>Of which : Squash</i>	1.8	0.5	0.7	2.2		2.9		
Imports, f.o.b.	-271.3	-208.0	-229.6	-247.8	-260.9	-261.7	-306.3	-322.1
Services (net)	-5.4	-7.9	5.0	-4.4	6.3	-3.1	-7.3	15.2
Income (net)	57.5	5.3	4.9	5.6	-4.9	8.5	14.3	4.3
Services and Income (net)	52.1	-2.6	9.9	1.2	1.4	5.4	7.0	19.5
Transfers (net)	158.0	166.8	136.5	182.3	174.8	200.5	215.3	286.3
<i>Of which : Private transfer receipts</i>	175.2	157.4	138.9	156.8	209.6	208.9	220.4	199.8
Current account balance	-49.8	-32.4	-71.9	-55.5	-72.3	-40.1	-68.6	-1.1
(In percent of GDP)	-7.5%	-4.5%	-9.3%	-6.9%	-9.0%	-5.0%	-8.3%	-0.1%
Overall balance	47.2	34.2	31.0	38.3	11.3	11.2	26.6	65.2
	-7.5%	-4.5%	-9.3%	-6.9%	-9.0%	-5.0%	3.2%	7.3%
<b>Gross international reserves (end-period)</b>								
In millions of pa'anga	136.3	170.5	203.8	246.1	263.3	274.4	289.7	354.9
In months of imports cover	5.3	7.1	7.7	8.5	9.1	9.1	8.1	10.1
<b>External debt 3/</b>								
External debt/GDP (%)	30%	32%	35%	40%	43%	42%	46.2%	43.9%
<b>Exchange rate (period average)</b>								
T\$ per US\$ (end-period)	2.08	1.93	1.84	1.70	1.73	1.81	2.10	2.21

*Sources: 1/ Sources for Output and Prices: Statistics Dept, 2/ Sources for Money, Credit, BOP, Foreign Reserves & Exchange Rates: NRBT, 3/ Sources for External Debt : MOFNP*

## ANNEX 6-3: TONGA REAL SECTOR DEVELOPMENTS 2008/09-2015/16

	2008/09r	2009/10r	2010/11r	2011/12r	2012/13r	2013/14r	2014/15	2015/16p
<b>Nominal GDP</b>								
In pa'anga m.	663.6	712.6	775.0	800.7	781.2	804.5	846.1	889.5
In US\$ m.	314.1	368.8	422.5	471.6	450.4	442.7	435.1	398.3
GDP per capita (US\$)	3,063.5	3,588.7	4,101.0	4,565.5	4,349.6	4,265.5	4,182.0	3,819.0
Population	102,528	102,780	103,033	103,286	103,541	103,795	104,051	104,307
	<i>Annual Percentage Change</i>							
GDP (2010/11 prices)	2.3	3.6	2.8	0.9	-3.1	2.1	3.7	3.4
<i>of which:</i>								
Agriculture, forestry, and fisheries	-1.4	0.5	2.0	0.5	3.7	3.1	-2.7	2.1
Manufacturing	-0.2	-1.7	5.9	-2.6	6.8	-0.1	4.2	1.3
Construction	35.0	21.7	6.1	1.2	-29.9	3.3	20.2	12.7
Commerce, restaurants, and hotels	4.2	-3.9	3.3	0.4	2.5	0.9	5.0	3.7
Transportation and communications	15.4	15.7	-2.9	0.5	1.1	0.6	12.4	5.3
Finance and real estate	-6.8	-1.1	3.4	-4.5	-5.4	3.9	-1.3	11.2
Government services	2.5	0.9	0.5	1.5	1.5	0.4	1.7	0.4
	<i>Percentage of GDP</i>							
GDP (by sector; current prices)								
<i>of which:</i>								
Agriculture, forestry, and fisheries	17.7	17.2	17.0	17.0	18.2	18.4	17.2	17.0
Manufacturing	6.1	5.8	5.9	5.7	6.3	6.2	6.2	6.1
Construction	8.0	9.4	9.7	9.7	7.1	7.1	8.3	9.0
Commerce, restaurants, and hotels	14.0	13.0	13.0	13.0	13.7	13.6	13.7	13.7
Transportation and communications	5.9	6.5	6.2	6.2	6.4	6.3	6.9	7.0
Finance and real estate	8.0	7.6	7.7	7.2	7.1	7.2	6.8	7.4
Government services	12.4	12.1	11.8	11.9	12.5	12.3	12.0	11.7
Consumer prices (period average)								
All items	5.6	1.7	6.0	3.3	0.7	2.3	0.1	-0.6
Imported component	5.6	1.8	7.7	4.7	0.7	2.6	0.2	-5.4
Domestic component	5.6	1.6	3.5	1.5	0.6	1.8	-0.1	6.2

*r* - revised estimates

*p* - preliminary estimates

Source: Statistics Department

**ANNEX 6-4: ANNUAL AVERAGE CONSUMER PRICE INDEX FOR 2008-2016, BASE PERIOD (OCTOBER 2010=100)**

	All Items	Food	Housing	H/Hold goods	Clothing and footwear	Transportati on	Tobacco and Alcohol	Misc. Goods & Services	Imported Items	Local Items
Weight.	<u>100.0</u>	<u>45.8</u>	<u>2.5</u>	<u>20.8</u>	<u>3.2</u>	<u>11.9</u>	<u>6.0</u>	<u>9.8</u>	<u>57.8</u>	<u>42.2</u>
2008	93.6	88.5	99.5	104.5	96.2	109	78.9	101.4	93.0	94.3
2009	94.9	95.4	103.8	98.5	100.8	95.2	82.9	104.1	93.2	97.9
2010	98.3	98.3	102.1	99.3	99.8	100.5	93.7	99.4	98.1	98.3
2011	104.4	104.7	99.8	101.6	104.6	112.6	101.6	101.7	106.1	102.2
2012	105.7	106.4	99.6	103.4	104.6	113.0	102.4	102.1	107.4	103.1
2013	106.4	108.2	100.7	103.4	104.6	113.1	99.8	102.5	109.0	103.0
2014	109.1	112.2	101.4	104	119.1	112.8	100.4	105.3	112.3	104.8
2015	108	114.3	101.3	98.3	129.4	99	106.3	105.9	108.4	107.4
2016	110.7	115.8	103.5	98.5	138.6	96.1	128.4	113.2	107.8	114.8

Source: Statistics Department

**ANNEX 6-5: ANNUAL PERCENTAGE CHANGE IN CPI FOR DECEMBER MONTH 2008-2016**

	All Items	Food	Housing	H/Hold goods	Clothing and footwear	Transportati on	Tobacco and Alcohol	Misc. Goods & Services	Imported Items	Local Items
Weight.	<u>100.0</u>	<u>45.8</u>	<u>2.5</u>	<u>20.8</u>	<u>3.2</u>	<u>11.9</u>	<u>6.0</u>	<u>9.8</u>	<u>57.8</u>	<u>42.2</u>
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	3.2	-7.6	-1.4	3.5	-0.6	4.3
2010	5.0	3.8	-3.1	1.6	-0.6	4.4	24.0	-5.5	7.9	0.4
2011	3.8	3.2	0.0	3.8	4.6	8.8	1.8	2.6	5.9	1.0
2012	2.5	6.0	0.4	-1.8	0.0	1.7	0.2	-0.2	2.3	2.8
2013	0.8	1.0	1.4	2.4	0.0	-0.8	-2.0	0.8	1.4	0.0
2014	0.2	1.0	-0.3	-1.6	16.2	-5.4	-0.8	3.1	0.5	-0.2
2015	-1.2	0.2	0.4	-5.9	8.9	-8.2	-0.8	-0.1	-4.9	4.4
2016	6.7	6.3	2.3	2.5	4.0	4.5	29.9	6.9	6.9	6.4

Source: Statistics Department

## ANNEX 6-6: TONGA DOMESTIC EXPORTS BY HS SECTION, 2008/09 - 2015/16

HS Code SECTION ITEM	2008/09		2009/10		2010/11		2011/12		2012/13		2013/14		2014/15		2015/16p	
	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%
Live Animals;Animal Products	4,147	28.0	9,857	64.3	9,905	49.9	9,277	36.6	8,029	35.1	6,147	28.3	12,994	46.2	8,438	31.1
Vegetable Products	7,087	47.8	4,019	26.2	8,056	40.5	10,593	41.8	11,393	49.7	12,630	58.1	11,896	42.3	15,560	57.4
Prepared Foodstuff;Beverages, Tobacco	87	0.6	216	1.4	240	1.2	358	1.4	494	2.2	461	2.1	717	2.6	1,211	4.5
Products of the Chemical Or Allied	908	6.1	585	3.8	646	3.3	367	1.4	462	2.0	596	2.7	563	2.0	494	1.8
Wood and Articles of Wood;	602	4.1	322	2.1	433	2.2	416	1.6	424	1.9	760	3.5	986	3.5	784	2.9
Miscellaneous Manufactured Articles	6	0.0	22	0.1	5	0.0	27	0.1	112	0.5	91	0.4	33	0.1	160	0.6
Works of Art, Collectors Pieces and Antiques	45	0.3	17	0.1	56	0.3	144	0.6	26	0.1	1	0.0	2	0.0	445	1.6
Other Exports	2,338	15.8	289	1.9	526	2.6	4,173	16.5	1,963	8.6	1,045	4.8	909	3.2	0	0.0
<b>TOTAL</b>	<b>14,827</b>	<b>100.0</b>	<b>15,327</b>	<b>100.0</b>	<b>19,869</b>	<b>100.0</b>	<b>25,354</b>	<b>100.0</b>	<b>22,901</b>	<b>100.0</b>	<b>21,731</b>	<b>100.0</b>	<b>28,100</b>	<b>100.0</b>	<b>27,093</b>	<b>100.0</b>

p: provisional numbers

Source: Statistics Department

## ANNEX 6-7: EXPORTS BY INSTITUTIONAL SECTOR, 2008/09 - 2015/16

INSTITUTIONAL SECTOR	2008/09		2009/10		2010/11		2011/12		2012/13		2013/14		2014/15		2015/16	
	(T\$'000)	%														
Private Sector	14,827	100	15,327	100	19,863	100.0	25,343	100.0	22,866	99.8	21,705	99.9	28,030	99.6	36,902	98.8
Government Sector	0	0	0	0	6	0.0	6	0.0	2	0.0	21	0.1	23	0.1	251	0.7
Quasi-Government Sector	0	0	0	0	0	0.0	5	0.0	33	0.1	8	0.0	82	0.3	203	0.5
<b>TOTAL</b>	<b>14,827</b>	<b>100.0</b>	<b>15,327</b>	<b>100.0</b>	<b>19,869</b>	<b>100.0</b>	<b>25,354</b>	<b>100.0</b>	<b>22,901</b>	<b>100.0</b>	<b>21,734</b>	<b>100.0</b>	<b>28,135</b>	<b>100.0</b>	<b>37,357</b>	<b>100.0</b>

Source: Statistics Department

## ANNEX 6-8: EXPORTS BY COUNTRY OF DESTINATION, 2008/09 - 2015/16

COUNTRY	2008/09		2009/10		2010/11		2011/12		2012/13		2013/14		2014/15		2015/16	
	(T\$'000)	%														
New Zealand	5,283	35.6	3,264	21.3	3,269	16.5	4,801	18.9	6,550	28.6	7,184	33.1	7,049	25.1	11,888	27.2
Australia	1,743	11.8	693	4.5	581	2.9	4,622	18.2	1,437	6.3	2,002	9.2	3,200	11.4	8,799	20.1
Fiji	67	0.5	18	0.1	318	1.6	697	2.7	200	0.9	169	0.8	186	0.7	503	1.1
Mainland USA	2,636	17.8	2,551	16.6	2,685	13.5	2,651	10.5	3,590	15.7	3,359	15.5	5,514	19.6	11,749	26.8
Samoa	783	5.3	492	3.2	543	2.7	375	1.5	479	2.1	746	3.4	1,137	4.0	-	-
Japan	1,967	13.3	517	3.4	2,862	14.4	6,293	24.8	2,754	12.0	2,710	12.5	3,361	11.9	3,776	8.6
Korea	469	3.2	369	2.4	140	0.7	1,548	6.1	2,020	8.8	2,232	10.3	590	2.1	1,549	3.5
Singapore	17	0.1	458	3.0	2	-	30	0.1	171	0.7	0	0.0	4	0.0	2	0.0
American Samoa	428	2.9	178	1.2	213	1.1	282	1.1	323	1.4	50	0.2	453	1.6	-	-
Hong Kong	551	3.7	6,433	42.0	7,538	37.9	2,355	9.3	3,579	15.6	2,397	11.0	5,368	19.1	28	0.1
All other Countries	884	6.0	399	2.6	1,719	8.7	1,701	6.7	1,799	7.9	884	4.1	1,273	4.5	5,488	12.5
<b>TOTAL</b>	<b>14,827</b>	<b>100.0</b>	<b>15,327</b>	<b>100.0</b>	<b>19,869</b>	<b>100.0</b>	<b>25,354</b>	<b>100.0</b>	<b>22,901</b>	<b>100.0</b>	<b>21,734</b>	<b>100.0</b>	<b>28,135</b>	<b>100.0</b>	<b>43,782</b>	<b>100.0</b>

Source: Statistics Department

## ANNEX 6-9: IMPORTS BY MAIN HS SECTION, 2008/09 - 2015/16

HS Code SECTION ITEM	2008/09		2009/10		2010/11		2011/12		2012/13		2013/14		2014/15		2015/16	
	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%
1.Live Animals;Animal Products	36,426	11.8	39,502	13.8	40,464	13	39,778	12	43,922	13	33,361	13	46,987	11	48,451	17
2.Vegetable Products	10,695	3.5	9,347	3.3	10,216	3	10,536	3	10,838	3	8,157	3	11,341	3	14,588	5
3. Prepared Foodstuff; Beverages & Tobacco	44,154	14.3	45,633	16.0	39,041	12	47,152	14	48,283	14	36,701	14	55,893	13	68,165	24
4. Mineral Products	81,117	26.2	64,715	22.6	80,726	25	88,675	26	82,697	24	61,899	24	88,805	21	83,105	30
5. Products of the Chemical or Allied	11,699	3.8	13,684	4.8	13,675	4	14,794	4	14,346	4	12,927	5	15,701	4	20,121	7
6. Wood and Articles of Wood	7,269	2.3	7,164	2.5	11,243	4	9,434	3	8,063	2	6,700	3	13,763	3	16,433	6
7. Pulp of Wood and Other Fibrous Cellulosic Material	11,298	3.7	9,148	3.2	10,302	3	12,139	4	12,980	4	7,568	3	10,944	3	12,276	4
8. Base Metals & Articles of Base Metal	13,893	4.5	13,373	4.7	26,286	8	20,563	6	15,214	4	12,921	5	20,203	5	109	0
9. Machinery and Mechanical Appliance	37,671	12.2	39,244	13.7	41,372	13	46,895	14	41,744	12	35,061	13	74,142	17	279	0
10. Miscellaneous Manufactured Articles	4,899	1.6	4,838	1.7	5,415	2	6,850	2	10,281	3	5,319	2	10,952	3	13,515	5
11. Vehicle, Aircraft, Vessel & Associated Transport Equipment	17,615	5.7	15,908	5.6	16,110	5	15,516	5	19,394	6	17,478	7	40,430	9	44	0
12. Works of Art, Collectors Pieces	14,899	4.8	4,073	1.4	1,194	0	1,074	0	7,948	2	68	0	17	0	37	0
12. Other Imports	17,710	5.7	19,126	6.7	21,583	7	32,005	9	29,957	9	23,281	9	39,681	9	3,408	1
<b>TOTAL</b>	<b>309,344</b>	<b>100.0</b>	<b>285,754</b>	<b>100.0</b>	<b>317,628</b>	<b>100.0</b>	<b>345,411</b>	<b>100.0</b>	<b>345,662</b>	<b>100.0</b>	<b>261,441</b>	<b>100.0</b>	<b>428,859</b>	<b>100.0</b>	<b>280,527</b>	<b>100.0</b>

Source: Statistics Department

**ANNEX 6-10: IMPORTS BY INSTITUTIONAL SECTOR, 2008/09 - 2015/16**

INSTITUTIONAL SECTOR	2008/09		2009/10		2010/11		2011/12		2012/13		2013/14		2014/15		2015/16	
	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%
Private Sector	294,348	95.2	277,502	97.1	297,987	93.8	300,026	86.9	308,225	89.2	245,062	86.5	353,566	82.4	394,153	89.7
Government Sector	11,114	3.6	5,120	1.8	9,227	2.9	23,737	6.9	21,284	6.3	9,593	3.4	15,655	3.7	21,134	4.8
Quasi-Government Sector	3,882	1.3	3,133	1.1	10,414	3.3	21,649	6.3	15,579	4.5	28,582	10.1	59,639	13.9	24,262	5.5
<b>TOTAL</b>	<b>309,344</b>	<b>100.0</b>	<b>285,754</b>	<b>100.0</b>	<b>317,628</b>	<b>100.0</b>	<b>345,411</b>	<b>100.0</b>	<b>345,662</b>	<b>100.0</b>	<b>283,237</b>	<b>100.0</b>	<b>428,859</b>	<b>100.0</b>	<b>439,549</b>	<b>100.0</b>

*Source: Statistics Department***ANNEX 6-11: IMPORTS BY COUNTRY BY ORIGIN, 2008/09 - 2015/16**

COUNTRY	2008/09		2009/10		2010/11		2011/12		2012/13		2013/14		2014/15		2015/16	
	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%
New Zealand	81,870	26.5	88,715	31.0	107,985	34	100,067	29	101,254	29	107,342	29	122,470	30	149,427	32
Australia	33,349	10.8	32,714	11.4	23,736	8	19,553	6	17,938	5	20,562	6	24,312	6	32,750	7
USA	35,884	11.6	41,273	14.4	35,741	11	46,652	14	40,695	12	39,635	11	46,570	11	40,698	9
China	41,411	13.4	31,007	10.9	25,861	8	29,260	9	27,878	8	20,424	6	36,049	9	60,707	13
Indonesia	5,184	1.7	3,700	1.3	3,965	1	6,157	2	4,954	1	5,480	1	6,431	2	7,715	2
Fiji	41,411	13.4	31,007	10.9	25,861	8	29,260	9	27,878	6	31,257	9	34,921	9	92,199	20
Japan	11,375	3.7	6,844	2.4	8,848	3	17,175	5	20,275	29	15,501	4	35,709	9	28,438	6
Singapore	62,679	20.3	50,039	17.5	73,804	23	78,725	23	81,146	24	82,909	23	63,965	16	30,236	7
Others	23,466	7.6	18,297	6.4	18,546	6	22,339	7	31,949	9	42,649	12	35,337	9	19,337	4
<b>TOTAL</b>	<b>309,344</b>	<b>100.0</b>	<b>285,754</b>	<b>100.0</b>	<b>317,628</b>	<b>100.0</b>	<b>345,411</b>	<b>100.0</b>	<b>345,662</b>	<b>100.0</b>	<b>365,760</b>	<b>100.0</b>	<b>405,764</b>	<b>100.0</b>	<b>461,508</b>	<b>100.0</b>

*Source: Statistics Department*

## ANNEX 6-12: TONGA BALANCE OF PAYMENT 2008/09 - 2015/16

<i>(In millions of pa'anga, unless otherwise indicated)</i>	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
<b>Balance of Trade</b>	-259.9	-196.6	-218.4	-239.1	-248.6	-245.9	-291	-296.7
Exports, f.o.b.	11.4	11.4	11.2	8.7	12.3	15.7	15.4	15.4
Of which: Squash exports	1.8	0.5	0.7	2.2	2.4			
Imports, f.o.b.	271.3	208	229.6	247.8	260.9	261.7	306.3	322.1
<b>Services (net)</b>	-5.4	-7.9	4.9	-4.3	6.3	-3.1	-7.3	15.2
Receipts	83.7	71.8	89	99.4	125.2	109	99.1	136.9
Of which: Tourism receipts	36.7	50.1	60.9	61.7	70.2	80.3	63	85.1
Payments	-89.1	-79.8	84	103.7	118.8	112.1	106.6	121.8
<b>Income (net)</b>	57.6	5.3	4.9	5.6	-4.9	8.5	13.4	4.3
Receipts	64.0	14.7	13.1	13.3	11.7	25.9	25.9	20.9
Payments	-3.4	-9.4	8.2	7.7	10.8	17.5	12.6	16.6
<b>Current Transfers (net)</b>	157.9	146.6	136.4	182.4	174.8	200.5	221.4	286.3
Official transfers (net)	1.2	1.9	10.5	47.0	4.7	32.8	44.3	83.4
Private transfers (net)	156.7	144.7	147.8	175.3	246.6	247.5	274.5	259.7
Official transfer receipts	2.5	5.7	8.3	45.5	3.5	31.5	43.1	81.6
Official transfer payments	-1.3	3.8	2.2	1.5	1.2	1.3	1.2	1.8
Private transfer receipts	175.2	157.4	139.0	156.8	209.5	208.9	227	199.8
Private transfer payments	-18.5	-12.7	8.8	18.5	37.1	38.6	47.5	59.9
<b>Current account balance</b> (Percent of GDP)	-49.8	-52.6	-72.1	-55.4	-66.5	-39.9	-63.5	-1.1
<b>Capital account balance</b>	117.6	58	124.4	87.5	88.6	100.7	67.2	16.2
Official capital (net)	37.0	28.6	68.9	55.1	33.5	17.2	8.9	8.0
Official capital inflows	66.4	43	110.6	61.6	38.2	24.6	13.6	8.0
Official capital outflows	-29.4	-14.4	41.7	6.5	4.7	7.3	4.6	0.0
Private capital (net)	80.6	29.4	55.5	32.4	55.1	83.6	58.2	8.2
Private capital inflows	88.9	38	77.8	45.2	71.5	101.1	75.6	10.5
Private capital outflows	-8.3	-8.6	22.3	12.7	16.3	17.6	17.2	2.3
<b>Overall balance</b>	47.2	34.2	31.0	38.3	17.3	11.2	15.3	65.2
<b>Memorandum items:</b>								
Service, income, and transfers (net)	214.3	153.4	363.1	493.4	522.5	577.6	607.3	722.7
Receipts	325.4	249.6	249.4	315.0	349.9	375.3	395.1	439.2
Payments	-112.3	-98.1	103.2	131.4	167.9	169.5	167.9	200.1
Gross official foreign reserves (TOP million)	136.3	170.5	203.8	246.1	263.3	274.4	289.7	354.9
Months of Import cover	5.1	7.1	7.4	8.2	8.8	9.1	8.1	10.1

Source: NRBT



## ANNEX 6-14: SUMMARY OF DEBT LEVELS AND RATIOS

Particulars	Jun-15	Jun-16	Jun-17
<b>Total Public Debt (USD\$)</b>	<b>200.1</b>	<b>201.4</b>	<b>213.8</b>
<b>Total Public Debt (TOP\$)</b>	<b>422.1</b>	<b>444.6</b>	<b>470.2</b>
Domestic Debt	41.0	53.7	56.3
External Debt	381.1	390.9	413.9
<b>Total Public Debt to GDP (%)</b>	<b>50.9%</b>	<b>50.2%</b>	<b>55.2%</b>
External Debt to GDP	46.0%	47.2%	48.6%
Domestic Debt to GDP	4.9%	6.5%	6.6%
<b>Total Debt Service (\$)</b>	<b>21.3</b>	<b>22.0</b>	<b>23.1</b>
External	13.4	14.2	14.0
Domestic	7.9	7.8	9.2
Principal	14.1	14.1	14.5
Interest	7.2	7.9	7.9
<b>External Debt by Creditor category</b>	<b>381.7</b>	<b>390.9</b>	<b>413.9</b>
Multilateral	122.9	138.8	170.8
Bilateral	258.8	252.1	243.1
<b>Debt Composition by Instrument Type (\$)</b>	<b>422.1</b>	<b>444.6</b>	<b>470.2</b>
Loans	381.1	390.9	413.9
Bonds	41.0	53.7	56.3
<b>Foreign Currency Risk (%)</b>			
% of debt in Chinese Yuan	67.8%	64.5%	58.7%
% of debt in SDR	32.2%	35.4%	41.2%
% of Foreign Debt	90.3%	87.9%	88.0%
<b>Fiscal Indicators (%)</b>			
Total Debt Service to Expenditure	9.4%	9.7%	10.2%
Total Debt Service to Revenue	11.1%	10.0%	8.4%
Interest to Expenditure	3.2%	3.5%	3.5%
Interest to Revenue	3.8%	3.6%	2.9%
<b>Vulnerability Indicators (%)</b>			
Reserves to External Debt	76.0%	90.8%	91.5%
External Debt Service to Exports & Remittances	5.6%	4.9%	4.8%
External Debt Service to Exports	37.9%	40.2%	66.6%

Source: MOFNP

### ANNEX 6-15: DETAILS OF THE ORIGINAL TERMS AND CONDITIONS OF THE 2 MAJOR LOANS FROM CHINA

	Nuku'alofa CBD Reconstruction	Tonga National Road Improvement Project
<b>Loan Amount</b>	CNY 440m, latest estimates at T\$142.7m	CNY 291m, latest estimates at T\$94.5m
<b>Maturity Period</b>	20 yrs from effective date (10 years grace period for principal, 10 years principal repayment)	20 yrs from effective date (10 years grace period for principal, 10 years principal repayment)
<b>Payment Frequency</b>	21 <sup>st</sup> day of September and March annually (1st interest payment 21 March 2009, 1st principal payment 21 September 2018, last payment 21 September 2028)	21 <sup>st</sup> day of September and March annually (1 <sup>st</sup> interest payment 21 March 2010; 1st principal payment 21 March 2020, last payment 21 March 2030)
<b>Interest Rate (IN)</b>	2% per annum over 360 daily basis (from 1st drawdown date on 24 September 2008)	2% per annum over 360 daily basis (due from 1 <sup>st</sup> drawdown date on 15 March 2010)
<b>Management Fee (MF)</b>	1% on loan amount (paid 12 September 2008, for lump sum due 30 days from effective date and before first drawdown date);	1% on loan amount (paid 25 February 2010, for lump sum due 30 days from effective date and before first drawdown date)
<b>Commitment Fee (CF)</b>	0.75% per annum on undrawn loan balance (due 30 days after effective date)	0.75% per annum on undrawn loan balance (due 30 days after effective date)
<b>Total Paid</b>	<b>\$21.4m</b>	<b>\$13.2</b>
IN	\$18.4m	\$11.8m
MF	\$1.3m	\$0.8m
CF	\$1.7m	\$0.6m

Source: MOFNP

### ANNEX 6-16: RECONSTRUCTION LOAN PROJECT ALLOCATION

CBD Project (TOPm)	Total Loan	Total to Loan (%)
Tungi Colonnade Ltd	16.6	12%
OG Sanft & Sons Ltd	10.2	7%
MF Taumoepeau & Sons Ltd	7.2	5%
City Assets Ltd	6.8	5%
Royco Amalgamated Co. Ltd	2.2	2%
<b>Total On-lent projects</b>	<b>42.9</b>	<b>30%</b>
Vuna wharf	38.0	27%
Civil works	22.1	15%
Palace extension	16.3	11%
Asphalt Plant	6.0	4%
<b>Total GoT projects</b>	<b>82.3</b>	<b>58%</b>
Design	4.2	3%
Contingency	8.2	6%
Mobilisation	2.0	1%
Consultancy	1.6	1%
Insurance	0.8	1%
Geographic report	0.7	0%
<b>Total CCECC costs</b>	<b>17.5</b>	<b>12%</b>
<b>TOTAL LOAN</b>	<b>142.7</b>	<b>100%</b>

Source: MOFNP

## ANNEX 6-17: ROAD IMPROVEMENT LOAN PROJECT ALLOCATION

Projects (TOPm)	Total Loan	Total to Loan (%)
Tongatapu	63.5	67.2%
Vava'u	7.9	8.4%
Ha'apai	2.2	2.3%
Eua	2.9	3.1%
Establishment	2.0	2.1%
Mobilisation	2.1	2.2%
Road survey, geographical, prospecting, geography report	2.0	2.1%
Road designing	7.6	8.0%
Consultant fee	2.8	3.0%
Insurance	0.5	0.5%
Contingency sum	1.0	1.1%
<b>TOTAL LOAN AMOUNT</b>	<b>94.5</b>	<b>100.0%</b>

Source: MOFNP

ANNEX 6-18: ON-LENT LOANS, AS AT 30<sup>TH</sup> JUNE, 2017

Sub-Borrowers	June -16 (\$m)	June-17 est. (\$m)
Tonga Development Bank	1.84	1.50
Sea Star Fishing Co. Ltd	3.65	3.65
Ports Authority	0.30	0.15
Tonga Market Ltd	1.82	1.68
<b>CBD Reconstruction Projects</b>		
<b>Phase 1 (EXIM)</b>		
Royco Amalgamated Co. Ltd	2.15	2.05
MF Taumoepeau Ltd.	7.16	7.16
OG Sanft Ltd	10.25	10.25
<b>CBD Reconstruction Projects</b>		
<b>Phase 2 (EXIM)</b>		
City Assets Ltd	6.76	6.76
Tungi Colonnade Ltd	16.57	16.57
Tonga Asset Managers & Associates	1.48	1.48
Agriculture Managed Fund Loans	0.94	0.93
Fisheries Fund Loans	0.28	0.27
<b>Total</b>	<b>53.19</b>	<b>52.45</b>

Source: MOFNP

## ANNEX 6-19: GFS PRESENTATION

	Actual 2015/16	Budget Estimate 2016/17	Revised Estimate 2016/17	Budget Estimate 2017/18	Projection 2018/19	Projection 2019/20
<b>Revenue</b>	<b>360.6</b>	<b>500.4</b>	<b>418.8</b>	<b>541.1</b>	<b>562.0</b>	<b>565.5</b>
<b>Taxes</b>	<b>184.6</b>	<b>192.1</b>	<b>200.8</b>	<b>247.4</b>	<b>252.9</b>	<b>261.2</b>
Taxes on income, profits, and capital gains	35.8	34.2	34.7	38.1	38.1	38.1
Taxes on property	0.3	0.3	0.3	0.9	0.9	0.9
Taxes on goods and services	128.6	130.7	139.4	171.9	176.3	183.3
Taxes on international trade and transactions	19.9	26.9	26.4	36.6	37.6	38.9
Other taxes	-	-	-	-	-	-
<b>Grants</b>	<b>146.0</b>	<b>266.2</b>	<b>179.4</b>	<b>251.4</b>	<b>267.5</b>	<b>260.2</b>
Current	87.4	106.6	84.7	114.3	116.6	69.5
Capital	58.6	159.5	94.7	137.1	150.9	190.7
<b>Other revenue</b>	<b>30.1</b>	<b>42.1</b>	<b>38.5</b>	<b>42.2</b>	<b>41.7</b>	<b>44.2</b>
Property income [GFS]	10.9	20.7	15.7	20.2	20.2	21.1
Sales of goods and services	13.3	17.8	17.4	17.9	18.1	19.2
Fines, penalties, and forfeits	0.7	0.7	0.7	1.3	1.3	1.3
Voluntary transfers other than grants	0.0	-	0.1	-	-	-
Miscellaneous and unidentified revenue	5.1	2.8	4.6	2.7	2.1	2.6
<b>Expense</b>	<b>284.6</b>	<b>346.3</b>	<b>320.7</b>	<b>407.8</b>	<b>408.0</b>	<b>419.4</b>
<b>Compensation of employees</b>	<b>127.3</b>	<b>139.3</b>	<b>138.1</b>	<b>148.7</b>	<b>143.0</b>	<b>148.0</b>
Wages and salaries	108.6	124.7	123.6	135.9	131.4	136.2
Social contributions	18.7	14.6	14.5	12.7	11.7	11.8
<b>Use of goods and services</b>	<b>107.3</b>	<b>145.9</b>	<b>122.7</b>	<b>171.6</b>	<b>198.8</b>	<b>199.7</b>
<b>Interest</b>	<b>7.9</b>	<b>7.5</b>	<b>8.1</b>	<b>8.1</b>	<b>8.0</b>	<b>7.7</b>
To nonresidents	6.4	6.4	6.7	6.3	6.2	5.9
To residents other than general government	1.4	1.2	1.4	1.8	1.8	1.8
<b>Subsidies</b>	<b>0.6</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>
Subsidies to public corporations	-	-	-	-	-	-
Subsidies to private enterprises	0.6	0.9	0.9	0.9	0.9	0.9
<b>Grants</b>	<b>3.7</b>	<b>4.7</b>	<b>3.7</b>	<b>2.5</b>	<b>2.2</b>	<b>5.2</b>
<b>Social benefits</b>	<b>20.8</b>	<b>22.1</b>	<b>22.1</b>	<b>24.5</b>	<b>24.9</b>	<b>28.2</b>
<b>Other expense</b>	<b>16.9</b>	<b>25.9</b>	<b>25.1</b>	<b>51.6</b>	<b>30.2</b>	<b>29.7</b>
<b>Gross Operating Balance</b>	<b>76.1</b>	<b>154.0</b>	<b>98.1</b>	<b>133.3</b>	<b>154.0</b>	<b>146.1</b>
<b>Net Acquisition Of Nonfinancial Assets</b>	<b>62.4</b>	<b>166.1</b>	<b>101.9</b>	<b>146.6</b>	<b>154.9</b>	<b>194.8</b>
<b>Fixed assets</b>	<b>62.3</b>	<b>166.0</b>	<b>101.8</b>	<b>146.4</b>	<b>154.7</b>	<b>194.6</b>
Buildings and structures	41.1	99.0	71.0	92.6	67.2	98.8
Machinery and equipment	14.8	57.2	25.5	42.5	44.6	38.7
Other fixed assets	6.4	9.8	5.3	11.3	43.0	57.1
<b>Nonproduced assets</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>
Land	0.1	0.1	0.1	0.2	0.2	0.2
<b>Net Lending/Borrowing Requirement</b>	<b>13.7</b>	<b>(12.1)</b>	<b>(3.9)</b>	<b>(13.4)</b>	<b>(0.9)</b>	<b>(48.7)</b>
<b>Net Acquisition Of Financial Assets And Liabilities (Financing)</b>	<b>13.7</b>	<b>(12.1)</b>	<b>(3.9)</b>	<b>(13.4)</b>	<b>(0.9)</b>	<b>(48.7)</b>
<b>Financial Assets</b>	<b>28.0</b>	<b>7.9</b>	<b>3.3</b>	<b>15.2</b>	<b>16.6</b>	<b>(2.5)</b>
Domestic	28.0	7.9	3.3	15.2	16.6	(2.5)
Currency and deposits	22.8	0.1	1.1	0.6	6.0	(2.4)
Loans	4.3	7.4	1.8	14.2	10.1	(0.5)
Shares and other equity	0.9	0.4	0.4	0.4	0.4	0.4
<b>Financial Liabilities</b>	<b>14.3</b>	<b>19.9</b>	<b>7.1</b>	<b>28.6</b>	<b>17.4</b>	<b>46.2</b>
Domestic	12.7	4.0	4.7	1.9	(0.7)	2.0
Foreign	1.6	15.9	2.4	26.6	18.1	44.2

Source: MOFNP

## 6.3 ACRONYMS

<b>AGO</b>	Attorney General's Office	<b>NBFIs</b>	Non-Bank Financial Institutions
<b>AIMS</b>	Aid Information Management System	<b>NBSAP</b>	National Biodiversity Strategy and Action Plan
<b>AML/CFT</b>	Anti-Money Laundering/Counter Financing Terrorist	<b>NCDs</b>	Non-Communicable Diseases
<b>APG</b>	Pacific Group on Money Laundering	<b>NEER</b>	Nominal Effective Exchange Rate
<b>CAPI</b>	Computer Assistance Personal Interviewing	<b>NEMO</b>	National Emergency Management Office
<b>CAT</b>	Convention Against Torture	<b>NGOs</b>	Non-Government Organizations
<b>CDs</b>	Communicable Diseases	<b>NIIP</b>	National Infrastructure Investment Plan
<b>CDCC</b>	Cabinet Development Coordination Committee	<b>NLF</b>	National Labour Framework
<b>CEO</b>	Chief Executive Officer	<b>NPL</b>	Non-performing Loans
<b>CITIES</b>	Convention for International Trades of Endangered Species	<b>NPV</b>	Net Present Value
<b>CMA</b>	ICAO Continuous Monitoring Approach	<b>NRBT</b>	National Reserve Bank of Tonga
<b>CNY</b>	Chinese Yuan	<b>OECD</b>	Organization for Economic Cooperation and Development
<b>CPIA</b>	Country Policy and Institutional Assessment	<b>OET</b>	Overseas Exchange Transaction
<b>CPR</b>	Commission of Public Relations	<b>OPEC</b>	Organization of Petroleum Exporting Countries
<b>CREC</b>	Contingency Emergency Response Component	<b>OIREP</b>	Outer Island renewable Energy Projects
<b>CRPD</b>	Convention on the Right of Persons with Disability	<b>OPSC</b>	Office of Public Service Commission
<b>CRSP</b>	Climate Resilience Sector Projects	<b>PACER</b>	Public Access to Court Electronic Records
<b>CSOs</b>	Civil Society Organisations	<b>PAMD</b>	Projects and Aid Management Division of the Ministry of Finance & Planning
<b>CT</b>	Consumption Taxes	<b>PAIP</b>	Pacific Aviation Investment Project
<b>DAC</b>	Development Assistance Committee	<b>PAS</b>	Poverty Alleviation Scheme
<b>DOD</b>	Disbursed Outstanding Debt	<b>PASO</b>	Pacific Aviation Safety Office
<b>DPs</b>	Development Partners	<b>PAT</b>	Port Authority Limited
<b>DSA</b>	Debt sustainability Analysis	<b>PAYE</b>	Pay As You Earn
<b>DSPD</b>	Division of Social Protection and Disability	<b>PBS</b>	Poverty Benefit Scheme
<b>DWCP</b>	Decent Work Country Program	<b>PCRAFI</b>	Pacific Catastrophe Risk Assessment and Financing Initiative
<b>DWS</b>	Disability Welfare Scheme	<b>PEs</b>	Public Enterprises
<b>ECE</b>	Early Childhood Education	<b>PEARL</b>	Pacific Early Age Readiness for Learning
<b>EDPF</b>	Eastern District Packing Facility	<b>PHAMA</b>	Pacific Horticultural and Agricultural Market Access
<b>EEZ</b>	Exclusive Economic Zones	<b>PFM</b>	Public Financial Management
<b>EMDEs</b>	Emerging Market and Developing Economies	<b>PLSLP</b>	Pacific Literacy School Leaderships Programs
<b>ERB</b>	Employment Relations Bill	<b>PILNA</b>	Pacific Islands Literacy and Numeracy Assessment
<b>EXIM</b>	Export Import Bank of China	<b>PMO</b>	Prime Minister's Office
<b>e-waste</b>	electronic Waste	<b>PMS</b>	Performance Management System
<b>FAD</b>	Fishing Aggregating Device	<b>PMU</b>	Project Management Unit
<b>FAO</b>	Food and Agriculture Organization	<b>POPs</b>	Persistent Organic Pollutants
<b>FED</b>	Foreign Exchange Dealers	<b>P2R</b>	Ridge to Reef
<b>FDI</b>	Foreign Direct Investment	<b>PREP</b>	Pacific Resilience Program
<b>FFA</b>	Forum Fishing Agency	<b>PRRP</b>	Pacific Risk Resilience Program
<b>FIU</b>	Financial Intelligence Unit	<b>PSC</b>	Public Service Commission
<b>FSL</b>	Food Security and Livelihood		

<b>GCF</b>	Green Climate Fund	<b>PSS</b>	Pacific Island Small States
<b>GDL</b>	Government Development Loan	<b>REER</b>	Real Effective Exchange Rate
<b>GDP</b>	Gross Domestic Product	<b>RSE</b>	Recognized Seasonal Employers' Program
<b>GFC</b>	Global Financial Crisis	<b>R&amp;D</b>	Research and Development
<b>GFS</b>	Government Finance Statistics	<b>SDGs</b>	Sustainable Development Goals
<b>GGP</b>	Grassroot Grant Project	<b>SDR</b>	Special Drawinf Rights
<b>GNI</b>	Gross National Income	<b>SIDS</b>	Small Island Developing States
<b>HDI</b>	Human Development Index	<b>SMA</b>	Special Management Areas
<b>HIES</b>	Household Income Expenditure Survey	<b>SMS</b>	Civil Avation Safety Management System
<b>HMAF</b>	His Majesty's Armed Forces	<b>SNA</b>	System of National Accounts
<b>IATA</b>	International Air Traffic Association	<b>SOP</b>	Standard Operating Procedure
<b>ICAO</b>	International Civil Aviation Organization	<b>SPLGP</b>	Social Protection & Labor Global Practice
<b>ICCPED</b>	International Convention for the Protection of All Persons from Enforced Disappearance	<b>STAT</b>	Standardized Test for Achievment for Tonga
<b>ICCR</b>	Interfaith Center on Corporate Responsibility	<b>STATS</b>	Department of Statistics
<b>ICESCR</b>	International Covenant on Economic, Social, & Cultural Right	<b>STEP</b>	STEP-wise approach to Surveillance
<b>ICT</b>	Information and Communication Technology	<b>SWOT</b>	Strengths, Weakness, Opportunities and Threats
<b>IDA</b>	World Bank International Development Association	<b>SWP</b>	Seasonal Worker's program
<b>IFAD</b>	International Fund for Agriculture Development	<b>SWSE</b>	Social Welfare Scheme for the Elderly
<b>IHDI</b>	Inequality adjusted HDI	<b>TAIP</b>	Tonga Aviation Investment Project
<b>IMF</b>	International Monetary Fund	<b>TAMA</b>	Tonga Assets Management Authority
<b>IURSP</b>	Integrated Urban Resilience Sector Project	<b>TAL</b>	Tonga Airport Limited
<b>JNAP</b>	Joint National Action Plan on climate change adaption and disaster risk management	<b>TASP</b>	Tonga Agriculture Sector Plan
<b>JPRM</b>	Joint Policy Reform Matrix	<b>TBS</b>	Tonga Bureau of Statistics
<b>KPIs</b>	Key Performance Indicators	<b>TCC</b>	Tonga Communication Corporation
<b>LA</b>	Legislative Assembly	<b>TCIRP</b>	Tropical Cyclone Ian Recovery Projects
<b>M&amp;E</b>	Monitoring and Evaluation	<b>TDB</b>	Tonga Development Bank
<b>MAFF</b>	Ministry of Agriculture, Food and Forestry	<b>THPF</b>	Tonga Health Promotion Foundation
<b>MCCTIL</b>	Ministry of Commerce, Consumer, Trade, Innovation and Labor	<b>THSSP</b>	Tonga Health Sector Support Program
<b>MDAs</b>	Ministries, Departments and Agencies	<b>TIOE</b>	Tonga Institute of Education
<b>MDGs</b>	Millennium Development Goals	<b>TNDIP</b>	Tonga National Policy on Disability Inclusiveness
<b>MEIDECC</b>	Ministry of Meteorology, Environment, Information, Disaster Management, Energy, Climate Change and Communications	<b>TNYC</b>	Tonga National Youth Congress
<b>MET</b>	Ministry of Education and Training	<b>TRIP</b>	Tonga Rural Innovation Project
<b>MOFNP</b>	Ministry of Finance and National Planning	<b>TSDF</b>	Tonga Strategic Development Framework (2011-2014=I= first; 2015-2025=II = second)
<b>MIA</b>	Ministry of Internal Affairs	<b>TSGP</b>	Tonga School Grant Program
<b>MINOFA</b>	Ministry of Foreign Affairs	<b>TVET</b>	Technical and Vocational, Education & Training
<b>MLNR</b>	Ministry of Land and Natural Resources	<b>TVNUP</b>	Tonga Village Network Upgrade Project
<b>MOF</b>	Ministry of Fisheries	<b>UN</b>	United Nations
<b>MOH</b>	Ministry of Health	<b>UNICEF</b>	United Nations Children Education Fund
<b>MOIT</b>	Ministry of Infrastructure and Tourism	<b>USP</b>	University of the South Pacific
<b>MOJ</b>	Ministry of Justice	<b>UNFPA</b>	United Nations Fund For Population Activities
<b>MPE</b>	Ministry of Public Enterprises		

<b>MPI</b>	Multi-dimensional Poverty Index	<b>WB</b>	The World Bank
<b>MPPF</b>	Ministry of Police, Prisons and Fire	<b>WHO</b>	World Health Organization
<b>MPS</b>	Monetary Policy Statement		
<b>MORC</b>	Ministry of Revenue and Customs		
<b>MTBF</b>	Medium Term Budget Framework		
<b>MTOs</b>	Money Transfer Operators		

**Note:**

Minor differences between constituent figures and totals are due to rounding