



## Government of the Kingdom of Tonga

### Half Year Review of the 2011/12 Budget: Jan - June 2012

This report provides an overview of the Government of Tonga's budget performance for the second half year of 2011/12 Budget Estimate covering the months of January to June 2012. Preliminary full year results are provided, which are unaudited and subject to change during finalisation of the end of year accounts.

The Ministry of Finance and National Planning (MOFNP) continues to advocate the adopted theme for the 2011/12 budget, to "maintain macroeconomic stability without compromising service delivery". Its execution had been cautiously monitored right from the beginning of the year up to the last six months to ensure expenditure does not exceed what had been allocated.

The report includes the following:

- Financial results for the last six months (Jan-June) 2011/12 and preliminary full year results;
- Comments on fiscal performance;
- Economic performance and Debt position;
- Highlights of donor assistance; and
- Utilization of the contingency fund, cash reserve and unbudgeted requests.

The global economy continues to be highly uncertain, with the substantial debt overhang in many developed countries, the Euro Zone in recession, USA on the verge of a second round of recession, and the Middle East's continuing political struggles, the risk of imminent double dip global recession is very real. These present a significant ongoing risk to the Tongan economy, including capacity to generate revenues. Remittances have continued to fall, suppressing domestic consumption and investment. However, inflation declined for the period, flowing from lower commodity prices.

The full year result for FY 2011/2012 registered an operating budget surplus of \$18.0m. Total receipts were recorded at \$184.1m while total payment amounted to \$166.1m. The debt stock totalled \$352.1m or 45% of GDP. This underlines the importance to build up reserves, as global economy continues to be highly uncertain which puts domestic economy at risk.

The second half of FY 2011/2012 registered an operating budget deficit of \$6.6m, an improvement over the forecast budget deficit forecast of \$8.2m. Total receipts were recorded at \$76.6m while total payment amounted to \$83.2m.

The total number of civil servant positions is 4,280, of which 4,009 (93.7%) are occupied and 271 (6.3%) vacant. The implementation of the wage bill containment measures continues to help the MOFNP prudentially manage and avoid redirection of resources from operation to finance further recruitment.

Unbudgeted requests continue as a major budgetary concern to the MOFNP. The unbudgeted requests totaled \$9.0m, of which \$5.8m has been managed within the approved allocation of the requesting ministries and redirection of resources from the Contingency Fund. The balance of \$1.9m is yet to be financed, including the two land leasing arrangements. The MOFNP is carefully gauging options to mitigate this cost judiciously.

The overall performance of the budget during the period review is satisfactory, albeit there were fiscal pressures during the period review in which the MOFNP prudently managed with significant consideration not to jeopardize the adopted budget theme.

Malo 'Aupito

Hon. Lisiate 'Aloveita 'Akolo

**Minister for Finance and National Planning**



## 1. BUDGET HIGHLIGHTS

- ❖ **The full year result for FY 2011/2012 registered an operating budget surplus of \$18.0m.** Total receipts were recorded at \$184.1m while total payment amounted to \$166.1m. The debt stock totalled \$352.1m or 45% of GDP. This underlines the importance to build up reserves, as global economy continues to be highly uncertain which puts domestic economy at risk.
- ❖ **The second half of FY 2011/2012 registered an operating budget deficit of \$6.6m,** an improvement over the forecast budget deficit forecast of \$8.2m. Total receipts were recorded at \$76.6m while total payment amounted to \$83.2m. The better than expected result is due to collections of budget support (\$8.9m), which offset the higher than planned expenditures (\$4.5m above target).
- ❖ **Receipts (Revenue) of \$76.6m were collected** (including \$8.9m Australian budget support), exceeding the target of \$70.5m. The \$67.8m recurrent receipt was worse than the \$79.1m of the first six months, mainly due to seasonality trend of import of goods. Receipts for the same period last year was \$85.8m.
- ❖ **Payments (Expenditure) reached \$83.2m** by the end of June, higher than the target of \$78.7m. High spending reflects increased payments for purchase of goods and services, maintenance and operation and grants and transfers. Overall expenditure for the previous six months and same period of the last financial year were \$82.9m and \$93.6m respectively.
- ❖ **A redirection of \$1.8m from Contingency Fund (\$3.2m) occurred** during the period review, with a total remaining balance of \$0.07m as at end of June 2012.
- ❖ **Debt is amounted to \$352.1m or at 45% of GDP.** External debt recorded at \$322.6m (41% of GDP) whilst Domestic debt amounted to \$29.5m (4% of GDP)- (Summary shown in Section 8 and Details in Annex 4)
- ❖ **Unbudgeted requests for the period review totalled to \$9.0m.** This is a major budgetary issue as the amount requested exceeds the \$3.2m allocated for Contingency Fund. (Details shown in Table 7).
- ❖ **Establishment positions totalled to 4280** in which 93.7% (4009) are active and 6.3% (271) are still vacant. (Details shown in Table 6).

**2. OVERALL BUDGET VARIANCE BETWEEN TARGET AND ACTUAL PERFORMANCE**

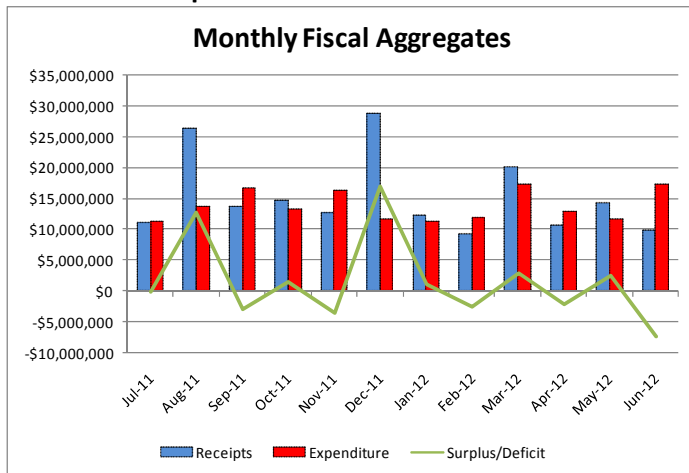
**Table 1: Variance between Target and Actual (\$ million)**

	YTD July 2011 - June 2012			Six Months from January-June 2012		
	ORIGINAL ESTIMATE 2011/2012	Cumulative Actual	Variance (Target - in-Year-Actual)	Forecast	Actual	Variance (Target - in-Year-Actual)
<b>TOTAL RECEIPTS</b>	171	184.1	-13.1	70.5	76.6	6.1
<b>TOTAL EXPENDITURE</b>	171	166.1	4.9	78.7	83.2	4.5
<b>SURPLUS/DEFICIT</b>	0.0	18.0	-18.0	-8.2	-6.6	1.6

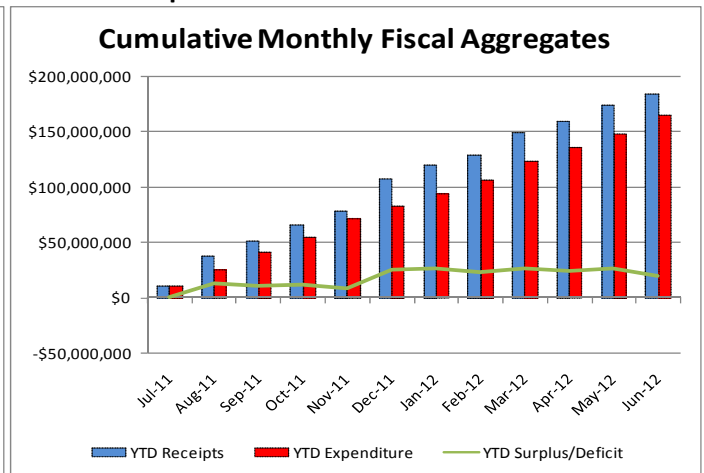
Table 1 above shows full year budget surplus of \$18m, comprised of \$184.1m in receipts and \$166.1 expenditure.

For the last six months of the financial year the budget deficit was \$6.6m. Total receipts were \$76.6m, which exceeded the target of \$70.5m due to receipts of \$8.9m budget support from Australia compared to an original estimate of \$3.9m. Recurrent receipts were \$67.8m<sup>1</sup>, mostly from corporate tax-large business as businesses are slowly recovering from the recession and increase in numbers of businesses. In addition, consumption tax-import has also contributed significantly to the recurrent receipts which reflect the high collection of Business Import Duties from the volume of trade inflows, value of foreign currencies appreciated leads to an increase in cost, insurance, and freight (CIF) and also the improvement in compliance. The total payments for the last six months stood at \$83.2m. This exceeded the target of \$78.7m mainly due to high spending on purchase of goods and services, maintenance and operation, and grants and transfers.

**Graph 1**



**Graph 2**



Graph 1 depicts the monthly actual receipts, expenditures and budget surplus/deficit until end of June.

Graph 2 is similar to graph 1 but presented on a cumulative basis. It shows that the actual receipts YTD start off slowly in the first month and quickly soared towards the second month of quarter one and end of quarter two up to the end of the

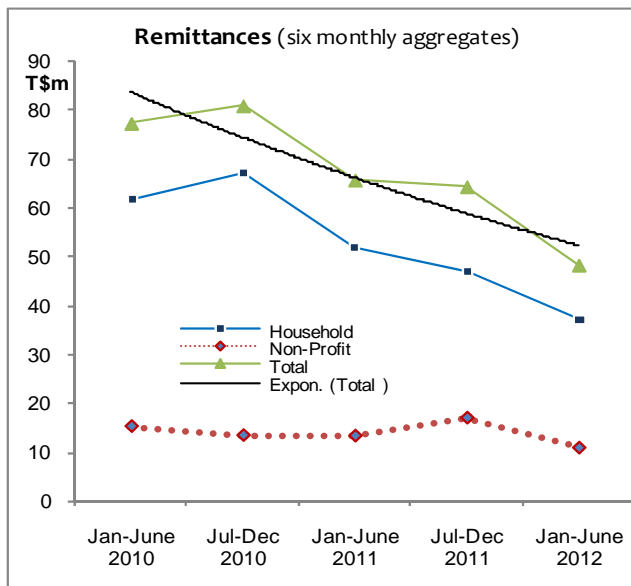
<sup>1</sup> This amount is recurrent without budget support.

year. It is important to note that despite monthly fluctuations in the budget deficit/surplus and cash balances, it was anticipated that by the end of the financial year the budget would be balanced.

A summary of the fiscal aggregates on a Government Finance Statistics (GFS) basis is provided at **Annex 2**.

**3. ECONOMIC INDICATORS**

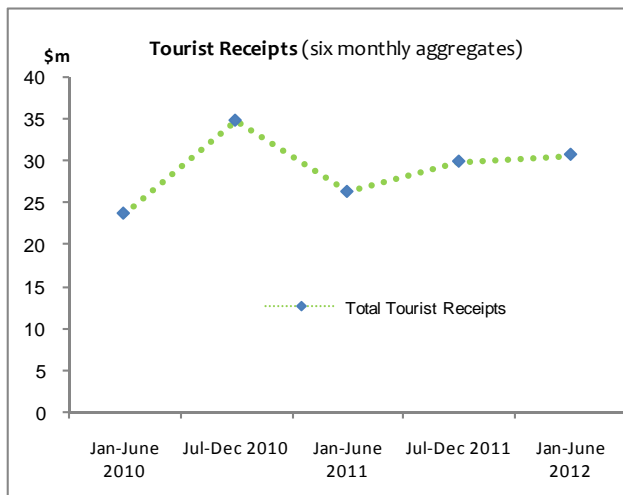
This section sets out a number of key selected economic indicators that provide selected information on economic activity during the last six months under review.



The total remittances recorded for the last six months Jan-June 2012 was \$48.2 million. This is 39% lower than the amount of \$64.2 million recorded for the previous six months Jul-Dec 2011 and 27% lower than the correspondence period of 2011. This reflects the continuing downward trend of remittance receipts. The Household receipts for Jul-Dec 2010 & 2011 are two high periods in terms of remittances. However Jul-Dec 2011 remittances was recorded at \$64.2m down by T\$16.6m from \$80.8m for the same period in 2010. The biggest contribution to the increase in remittances for the two periods came in the month of Dec 2010 and 2011.

Non-profit receipts had been stable up to Jul-Dec 2011. During this period one religion congregation received a major contribution from its overseas counterpart resulting in a surge in remittances. This only explains the trend for cash remittances. However the in-kind remittances that are provided through Melie-mei-Langi and other companies' shopping arrangements are currently not measured.

Source: National Reserve Bank of Tonga

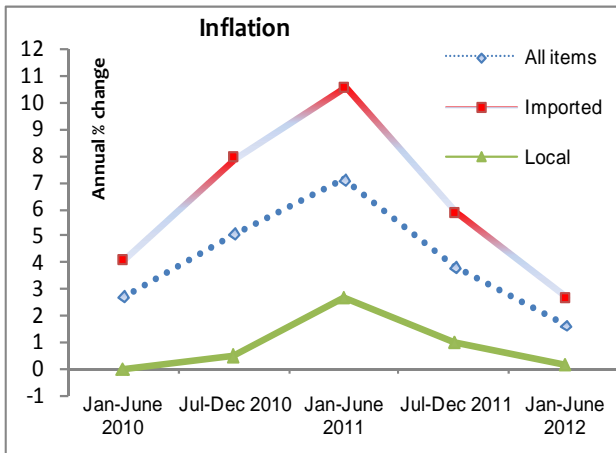


Tourist receipts of \$30.6 million were recorded during the period under review (Jan-June 2012). Compared to the previous six months Jul-Dec 2011, it showed an increase of 3% from \$29.8 million in Jul-Dec 2011 and a 17% increase from the \$26.2 million in Jan-June 2011.

The uses of foreign credit cards and ANZ Bank remittances card have also contributed to the level of receipts during the period review.

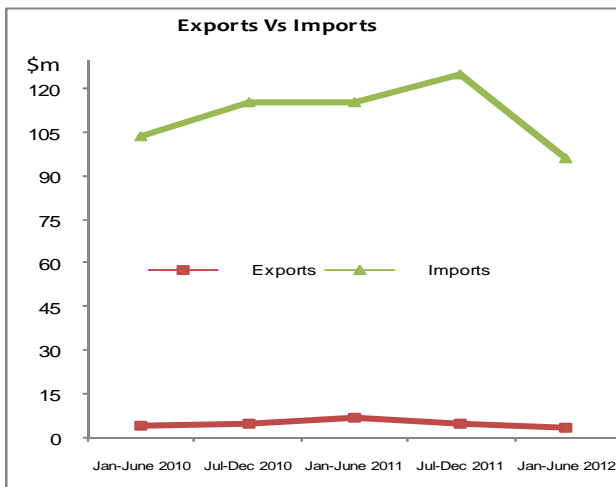
The second half of the calendar year 2012 is expected to be higher than the period review because of major events such as the Royal Wedding, Heilala Festival and Christmas Season.

Source: National Reserve Bank of Tonga



Headline inflation (end-period) continued to decline in the period under review to 1.6% since a peak in the June 2011 (7.1%). Despite the monthly fluctuations in the local inflation over this period, the main driver of the decline in headline inflation was the import inflation, particularly food and fuel prices.

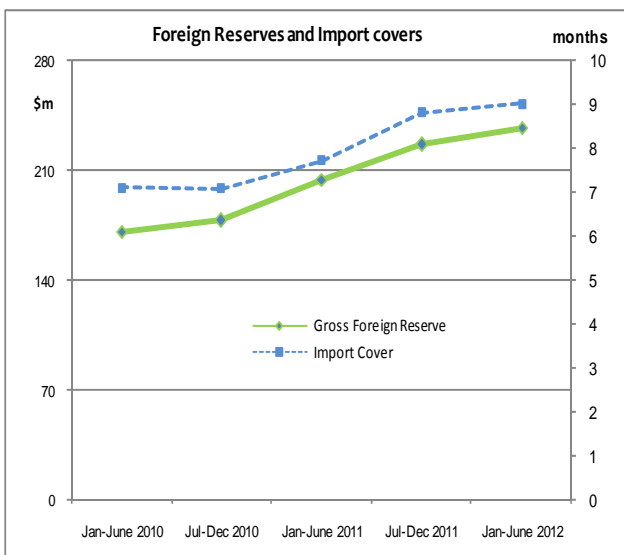
Source: Tonga Statistics Department



On average, six monthly export receipts remained stable around \$4.6 million per six months, while import value was around \$111.0 million per six months; creating a trade deficit of \$106.4 million per six months.

Export receipts declined in the first half 2012 by 30% from the high level of exports in the second half 2011. However in comparison to the same period last year, export receipts were 51% lower. Receipts in the second half of the year is due mainly to the major agricultural exports season such as exporting of the squash pumpkin.

Source: National Reserve Bank of Tonga



In the first half of 2012, the level of gross foreign reserves continued to increase to \$236.9 million from \$226.0 million in Dec 2011 and \$203.8 at the same period last year. The increase in the foreign reserves is due to receipts from donor funds that have helped maintained the level of foreign reserves.

The reserves for June 2012 were equivalent to 9 months of import coverage compared to 8.8 months in Dec 2011 and 7.7 months in the same period under review last year.

Source: National Reserve Bank of Tonga

**4. DONOR HIGHLIGHTS**

Tonga's Development Partners continued to provide technical and financial assistances to various sectors of the economy. The main highlights of donor activities over the past six months are as follows:

**1. Small Grants****a. Grant Assistance for Grass-roots Human Security Projects (GGP) funded by Government of Japan**

<b>Completed</b>	<b>Value (T\$)</b>
Upgrading of St. Joseph Business college	80,000
Upgrading Ha'avakatolo Water Supply System	180,210
Upgrading Fonoi Water Supply	92,799
Upgrading Ta'anea Water Supply System	89,540
<b>Total</b>	<b>442,549</b>
<b>New GGP</b>	
G.P.S. Ha'atu'a Structural Safety and Sanitation Project	172,200
Tonga Side School – Toilet Facilities Building Project	85,708
G.P.S. Folaha – Toilet Facilities Building Project	40,468
The Project for Improvement of Equipments of Tonga Fire Station Vava'u	51,739
Improvement of Equipments of Tonga Fire Station, 'Eua	51,739
Upgrading of 'Otuhouma FWC Kindergarten	157,324
Upgrading of Water Supply System for Houma Village	172,725
Upgrading of Facility for Women's Capacity Building in Tonga	173,189
St Andrew High School industrial arts room	134,800
Upgrading of Houma Government Primary School	173,500
Upgrading of Mata'aho Kindergarten	141,750
<b>Total</b>	<b>1,355,142</b>

**b) Tonga Community Development Scheme (TCDS) funded by AusAid:**

<b>Completed</b>	<b>Value (T\$)</b>
Upgrade of Niutoua Water Supply	398,106
Upgrade of Hofoa Water Supply	100,081
Upgrade of Ha'alalo Water Supply	66,083
<b>Total</b>	<b>564,270</b>

**2. Donor Forum**

Annual Tonga and Development Partners Forum was held 26 April 2012. This forum builds on the progress made last year in developing this mechanism for GoT to engage with development partners in strengthening the collective partnership for improved delivery of project and budget support which are essential for Tonga's development. Second forum of the calendar year is planned for October 2012.

**3. Project and Aid Coordinating Committee (PACC)**

Three Project Aid Co-ordination Committee (PACC) meetings were held during the past six months with the following 13 Project Proposals submitted and approved for donor funding consideration.

Name of the 13 Approved Projects		Status
1	Japan's Grant Aid for Provision of Industrial Products 2011	Fund secured
2	Enhanced Corporate Planning 2012 in Tonga, Policy and Planning, MOFNP	Fund secured
3	Life saving equipment, Friendly Island Shipping Agency Limited	No funding available
4	Re-submission of Communication Programme, Legislative Assembly of Tonga	Under consideration
5	Serve for Tonga Institute of Higher Education (TIHE), MEWAC	Fund secured
6	The Financial Information Management System Upgrade Project, MOFNP	Under consideration
7	Bus shelters for Éua, Eua Women's council, EDC	Under consideration
8	Eua Water Supply Project, EDC as follows	Under consideration
	Haátua water tanks, Funga Vaitaki Group, Haátuá	Under consideration
	Kolomaile water tanks, Tupetaki Development Group, Taánga	Under consideration
	Taánga water tanks, Fangumalingi Development Group, Taánga	Under consideration
9	Funding of High Court Judge for Tonga	Fund secured
10	Land Administration Project, MLSNR	Under consideration
11	Éua Multipurpose Community Hall, EDC	Under consideration
12	Éua water supply project, EDC	Under consideration
13	MET enhanced disaster Preparedness	Fund secured

#### 4. Budget Support Management Committee

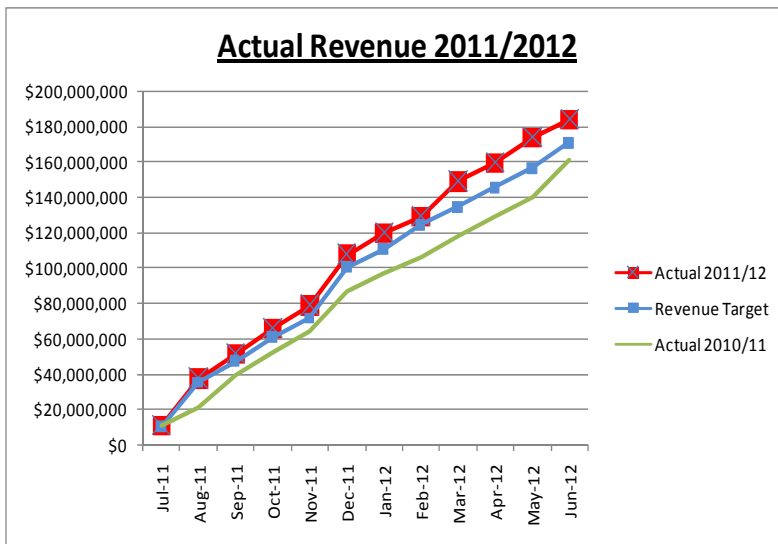
There have been three budget support management committee meetings whereby Government reaffirmed and maintained progress on the reform actions agreed to with Development Partners in order for Government to access budget support. It is estimated that approximately \$22m will be received as budget support.

#### 5. New projects

- a. Negotiated and approval has been granted for the Tonga Rural Innovation Project (TRIP) for \$4.8m to be implemented by MORDI Tonga; funded by International Fund for Agricultural Development (IFAD).
- b. Negotiated and approval has been granted for the Nuku'alofa Urban Development Project for USD15m to be implemented by the Ministry of Lands, Environment, Climate Change and Natural Resources; financed by the Asian Development Bank (ADB) as well as AusAid.
- c. Negotiated and approval has been granted for the Non Project Grant Aid (NPGA) for \$3.3m for funding of equipment for the Ministry of Infrastructure, Ministry of Health and the Ministry of Education and Training; financed by the Government of Japan
- d. Negotiated and approval has been granted for the Pilot Program for Climate Change Resilience (PPCR) for USD\$15M to be implemented by the Ministry of Lands, Environment, Climate Change and Natural Resources; funded by Climate investment Funds through the ADB.
- e. Negotiated and approval has been granted for Pacific Aviation Investment Project (PAIP) for \$55.8M to be implemented by the Ministry of Infrastructure and Tonga Air Ports Limited funded by World Bank.
- f. Negotiated and approval has been granted for Tonga Supreme Court Judge for \$1.14M to be implemented by Ministry of Justice; funded by NZ Aid.

Cash Grants received for the period Jan-June 2012 amounted to \$24,391,144m without budget support, and with budget support it was \$48,637,426m.

**5. GOVERNMENT RECEIPTS**



Graph 7: depicts the difference between the revenue targets and revenue collection. It shows that revenue collection is \$13m above the target. The budget support payments from Australia accounted for the large increase in receipts in the last six months along with high corporate tax – large business and consumption tax – import receipts.

**6. KEY INDICATOR VARIANCES (RECEIPTS) FOR JAN-JULY 2012**

Key Indicator	Variance	Key Drivers
Income Tax	\$3.0 million (higher than forecast)	o High collection from Corporate Tax – large business: businesses are slowly recovering from the recession, increased number of businesses, and improvement in compliance. Collection on PAYE – Government and Non-Government also contributes to the positive performance.
Trade Taxes	\$0.2 million (higher than forecast)	o Collection of Business Import Duties. The volume of trade inflows has gone up and the value of foreign currencies appreciated leading to an increase in cost, insurance, and freight (CIF), hence increase in the amount for import duties. Compliance also plays a role in the revenue collection for the six months.
Taxes on Goods & Services	\$1.5million (higher than forecast)	o This positive result was driven by consumption tax – imports due to high collection of Business Import Duties. The government consumption tax was also high due to some of ministries imported vehicles toward the end of the financial year.
Excise Tax	\$0.3 million (lower than forecast)	o Due to slightly lower number of petrol vessel arrivals than expected because of the cyclone in February. One petrol vessel arrived during the last week of June, so the excise tax will be recorded in July. The demand for cigarettes has gone down since the new rate was implemented.
Fees & Licenses	\$1.6 million (lower than forecast)	o Mostly due to fees from Telecommunication Settlement from TCC and Digicel (for several months in 2010 and 2011) not collected as scheduled. It was predicted to collect \$1.2m during the last six months but unfortunately there was no collection at all. Low collection of sales of produce & products, and passenger service charge also contributed to the negative performance.
Entrepreneurial and Property Income	\$5.2 million (lower than forecast)	o This negative performance was mostly driven by low collection on dividend from Public Enterprises compared to the projected amount of \$5.8m during the last six months (only \$0.9m was collected). The FFA Treaty from MAFFF was expected to receive in June but nothing was received.
Miscellaneous Revenue	\$0.3 million (lower than forecast)	o Due to no sales of government asset.
Capital & Other Transfers	\$0.09 million (lower than forecast)	o Due to low principal repayments from onlent to PE's.
Budget Support	\$8.9 million (higher than forecast)	o Budget Support received from AusAid was higher than was expected.



**Table 2: Receipt by Standard Group**

	ORIGINAL ESTIMATE 2011/2012	Forecast for Six Months to December 2011	Cumulative Actual for Six Months to December 2011	Forecast for Six Months to June 2012	Cumulative Actual for January to June 2012	Variance (Target - in-Year-Actual)	Performance for Six Months to June 2012	Cumulative Actual for January to June 2011
	\$			\$	\$	\$	%	\$
<b>RECEIPT</b>								
Income Tax	21,210,000	10,069,500	11,054,493	11,187,500	14,182,654	2,995,154	127	27,109,839
Trade Taxes	12,520,000	7,182,919	8,057,270	5,337,081	5,526,986	189,905	104	5,323,656
Taxes on Goods & Services	49,425,000	26,167,349	29,813,950	23,257,651	24,792,685	1,535,034	107	23,779,467
Excise Tax	26,510,000	12,192,430	14,989,432	14,317,570	13,989,582	(327,988)	98	15,324,715
Fees & Licences	20,488,648	11,267,093	8,025,295	9,022,844	7,437,652	(1,585,192)	82	7,677,233
Entrepreneurial & Property Inc	8,610,318	2,366,985	3,574,370	6,564,387	1,388,538	(5,175,849)	21	932,550
Miscellaneous Revenue	505,000	10,000	300,540	495,000	205,477	(289,523)	42	2,013,806
Capital & Other Transfers	3,697,682	3,339,526	3,434,885	337,927	244,107	(93,820)	72	3,610,778
Budget Support	27,925,000	27,925,000	28,226,255	-	8,855,500	8,855,500	-	-
<b>Total Revenue</b>	<b>170,891,648</b>	<b>100,520,800</b>	<b>107,476,490</b>	<b>70,519,960</b>	<b>76,623,181</b>	<b>6,103,221</b>	<b>109</b>	<b>85,772,044</b>

**Table 3: Revenue by Ministry**

MINISTRY	ORIGINAL ESTIMATE 2011/2012	Forecast for Last Six Months to June 2012	Cumulative Actual for Last six Months to June 2012	Variance (Target - in-Year-Actual)	Performance for Six Months to June 2012	Year-To-Date for 2011 / 2012	Actual for the Last six months of 2010/2011
	\$	\$	\$	\$	%	\$	\$
Audit Office	75,000	29,000	11,300	(17,700)	39	40,300	49,225
Foreign Affairs	2,500,000	1,200,000	1,456,070	256,070	121	2,884,203	1,141,152
Prime Minister's Office	60,000	32,250	42,056	9,806	130	68,536	35,485
Finance & National Planning	34,034,000	506,051	9,618,743	9,112,693	1,901	43,976,016	3,947,917
Revenue Services	110,670,000	54,642,823	59,005,973	4,363,150	108	123,404,008	71,871,272
Public Enterprise	6,000,000	6,338,026	871,775	(5,466,251)	14	1,611,596	2,599,550
Communication & Information	4,800,000	1,520,258	178,278	(1,341,981)	12	527,021	704,855
Justice	700,000	377,322	421,907	44,585	112	802,896	410,048
Police, Prisons & Fire Services	565,000	292,390	252,315	(40,075)	86	617,035	324,221
Health	950,000	517,848	522,755	4,907	101	949,531	541,121
Education, Women's Affairs & Culture	2,116,200	1,035,088	891,049	(144,038)	86	1,831,895	928,916
Training, Employment, Youth & Sports	200,000	79,521	71,599	(7,923)	90	138,165	74,685
Tourism	76,000	20,370	21,105	735	104	30,105	14,185
Labour, Commerce and Industries	645,443	275,441	361,344	85,903	131	746,027	345,075
Agriculture, Food, Forests & Fisheries	2,500,000	1,610,714	796,087	(814,627)	49	1,954,927	778,272
Works	500,000	245,000	259,798	14,798	106	472,042	261,101
Transport	4,000,005	1,478,268	1,556,784	78,516	105	3,513,457	1,436,253
Lands, Survey and Natural Resources	500,000	319,590	284,244	(35,346)	89	531,912	308,712
<b>Total</b>	<b>170,891,648</b>	<b>70,519,960</b>	<b>76,623,181</b>	<b>6,103,221</b>	<b>109</b>	<b>184,099,671</b>	<b>85,772,044</b>

Ministry	Variance	Key Drivers
Ministry of Revenue Services	\$4.1m (Higher than forecast)	High collection from Corporate Tax- large business and consumption tax due to improved compliance and increased imports during the month.
Ministry of Finance	\$9.1m (Higher than forecast)	Receipt of Budget Support from Australia was higher than expected.
Ministry of Foreign Affairs	\$0.2m (Higher than forecast)	This positive result was due to collection from passport fees.
Ministry of Labour, Commerce and Industries	\$0.09m (Higher than forecast)	Slightly higher collection from business licenses and registration.
Ministry of Transport	\$0.08m (Higher than forecast)	This positive result was due to collection from motor and driving licenses and registration.
Ministry of Justice	\$0.04m (Higher than forecast)	Marginally exceeded their target mainly due to registration fees and fine & charges.
Ministry of works	\$0.01m (Higher than forecast)	Mainly due to collection from mechanical service charges and rental.
Audit Department	\$0.02m (Lower than forecast)	Low collection of audit fees from its client.
Public Enterprises	\$5.5m (Lower than forecast)	Very low collection was due to cancelling of the sale of the Tonga Print as bulk of their revenue estimates is from sale of government asset.
Communication and Information	\$1.3m (Lower than forecast)	No collection was made from telecommunications settlement fees and communication & individual licenses.
Police, Prison and Fire	\$0.04m (Lower than forecast)	Low collection in spirituous liquor licenses as the collection was received in advance for in the first six months.
Ministry of Education	\$0.2m (Lower than forecast)	Low collection from school fees.
Ministry of Agriculture, Food, Forests & Fisheries	\$0.8m (Lower than forecast)	Receipt from FFA Treaty was not received as it was received in the first six months. Additionally, estimate provided for the FFA Treaty was over budgeted and low collection from sales of produce and products was also noted.

**Table 3** above presents an overview of the variance between revenue targets and actual collection for the last six months to June 2012. As follows are the Ministries who have collected more than their target and those Ministries fell short of the projected revenue for the period under review. Ministry of Revenue Services continues to do better than other ministries.

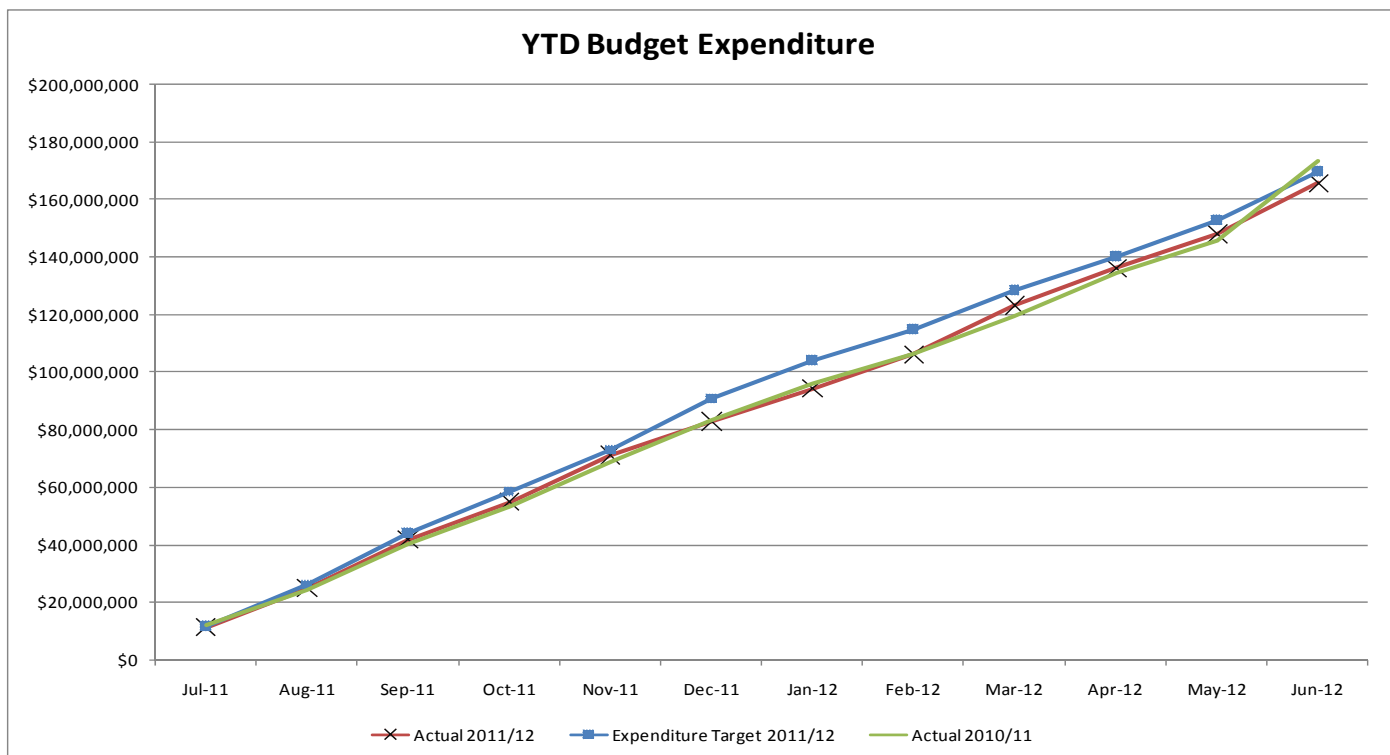
## 7. GOVERNMENT EXPENDITURE

**Table 4: Expenditure by Standard Group**

	ORIGINAL ESTIMATE 2011/2012	Forecast for Six Months to December 2011	Cumulative Actual for Six Months to December 2011	Forecast for Six Months to June 2012	Cumulative Actual for January to June 2012	Variance (Target - in-Year-Actual)	Performance for Six Months to June 2012	Cumulative Actual for January to June 2011
	\$			\$	\$	\$	%	\$
<b>EXPENDITURE</b>								
Established Staff & Others	90,331,009	43,301,872	43,979,243	44,762,682	38,597,002	(6,165,680)	86	44,510,847
Unestablished Staff	2,158,732	1,141,069	1,231,448	1,406,589	1,332,248	(74,342)	95	1,209,079
Travel and Communications	5,838,996	4,090,870	4,860,728	2,472,742	3,654,290	1,181,548	148	3,616,781
Maintenance & Operations	5,445,048	3,325,115	3,643,522	2,127,871	4,841,274	2,713,403	228	6,124,166
Purchase of Goods & Services	20,895,255	12,169,671	9,375,795	9,197,037	14,342,140	5,145,103	156	11,221,788
Grants and Transfers	12,863,671	8,049,195	6,419,621	5,711,069	8,561,289	2,850,221	150	8,683,252
Development Duties Expenditure	474,400	189,760	33,444	284,640	167,429	(117,211)	-	-
Debt Management	20,927,000	10,892,336	9,090,750	8,670,390	6,993,355	(1,677,035)	81	16,913,248
Contingency Fund	3,200,000	-	-	-	-	-	-	-
Pension & Gratuities	5,117,021	2,207,021	2,812,568	2,910,000	3,017,605	107,605	104	-
Assets	3,140,513	2,069,323	1,074,018	1,144,452	1,538,095	393,643	134	1,044,521
Equity Payments	500,000	500,000	360,308	-	178,621	178,621	-	257,803
<b>Total Expenditure</b>	<b>170,891,645</b>	<b>87,936,231</b>	<b>82,881,443</b>	<b>78,687,472</b>	<b>83,223,348</b>	<b>4,535,875</b>	<b>106</b>	<b>93,581,485</b>

Variations in Expenditure Group

Expenditure Group	Variance	Key Drivers
Established Staff & Others	\$6.2 million (lower than forecast)	• Excess target for salaries mainly due to savings from those who vacated public service via retirement, resignation and dismissal. In addition, accumulated savings as a result of delays in the recruitment process for filling of vacant positions
Unestablished Staff	\$0.1 million (lower than forecast)	• Slight underspending on daily paid staff for Palace office and Ministry of Health
Travel and Communications	\$1.2 million (higher than forecast)	• Mainly due to the high costs of overseas travel
Maintenance and Operations	\$2.7 million (higher than forecast)	• Major items with expenses exceeding target fuel consumption, expenses on maintenance of government complex and compounds and roads.
Purchase of Goods and Services	\$5.1 million (higher than forecast)	• Constituencies' expense peaked during the second half of the fiscal year far exceeding target; high spending was also recorded for electricity, office supplies and printing & stationery, rations & diets, purchase of medical drugs & supplies and overseas medical treatment.
Grants and Transfers	\$2.9 million (higher than forecast)	• Overspending in the payment of Subsidies to non-government organisations and schools, scholarships and the establishment of the National Retirement Fund (confirm details with Finance)
Development Duties Expenditure	\$0.1 million (lower than forecast)	• Government development project expenses remained well within target
Debt Management	\$1.7 million (lower than forecast)	• Low spending than expected on government guarantee loans and transfer value
Assets	\$0.4 million (higher than forecast)	• Expansion of servers in preparation for micro-pay (payroll) system upgrade
Equity Payments	\$0.2 million (higher than forecast)	• Equity payments to Talamahu Market and Waste Authority Limited (WAL)



Graph 8 depicts the difference between the targets and YTD. It shows that the difference is around \$4.5m less than forecast, which is

good reflection of the careful disciplinary actions applied to controllable expenditures. Through collaborative efforts between MOFNP and line ministries' expenditures can be managed to stay within the available resources to ensure a balance budget is achieved by financial year-end.

Table 5 below shows ministries with significant variances between targets and actual, with seventeen ministries spending more than targeted for the second half of the financial year and ten ministries with significant variances. There were four ministries that spent below their target for the period under review. Public Enterprises spent only 76% as the consultancy for the valuation of some of the Public Enterprises did not happen and one deputy director resigned. Ministry of Training, Employment, Youth & Sports spent 94% of its budget due mainly to staff resignations and contract termination and some recruitment was delayed. Audit Department spent only 88% due to low expenditure on salaries as their recruitments were delayed. Explanations for the ministries with significant variances are provided below:

**Table 5: Expenditure by Ministry**

MINISTRY	ORIGINAL ESTIMATE 2011/2012	Forecast for Six Months to December 2011	Cumulative Actual for Six Months to December 2011	Forecast for Six Months to June 2012	Cumulative Actual for January to June 2012	Variance (Target - in-Year-Actual)	Performance for Six Months to June 2012	Cumulative Actual for January to June 2011
	\$			\$	\$	\$	%	\$
Palace Office	5,335,000	2,765,434	2,561,680	2,569,566	2,649,980	80,414	103	2,974,199
Legislative Assembly	3,709,600	2,157,418	2,011,966	1,552,182	1,704,951	152,768	110	1,728,090
Audit Office	1,122,629	608,323	510,495	514,306	451,538	(62,768)	88	395,997
Commissioner of Public Relations	127,100	60,587	58,651	66,513	167,342	100,829	252	58,139
Foreign Affairs	8,450,000	4,396,395	4,624,659	4,053,605	3,767,876	(285,729)	93	5,520,023
Tonga Defence Services	6,589,000	3,958,929	3,863,336	2,630,071	3,501,872	871,801	133	3,637,543
Prime Minister's Office	5,540,000	2,649,990	2,395,624	2,518,539	2,565,505	46,966	102	3,690,677
Finance & National Planning	49,597,526	23,928,646	20,629,253	21,400,936	22,207,167	806,231	104	26,879,896
Revenue Services	4,010,300	2,045,560	1,602,025	1,964,740	2,066,613	101,873	105	1,833,719
Public Enterprises	670,000	285,396	230,880	384,604	290,608	(93,996)	76	211,328
Communication & Information	558,999	405,890	295,892	153,109	423,896	270,787	277	364,925
Justice	2,699,000	1,594,939	1,552,199	1,475,533	1,630,084	154,551	110	1,507,641
Crown Law Department	1,285,000	563,480	405,965	721,520	839,966	118,446	116	690,712
Police, Prisons & Fire Services	9,960,001	5,383,445	4,998,144	4,576,556	5,366,875	790,319	117	4,605,418
Health	22,596,000	11,837,406	10,778,904	10,758,593	11,649,520	890,927	108	12,452,516
Education, Women's Affairs & Culture	27,799,999	14,989,168	15,813,731	12,810,833	12,655,540	(155,293)	99	14,898,959
Training, Employment, Youth & Sports	2,936,999	1,401,663	1,488,518	1,535,336	1,451,384	(83,952)	95	1,155,001
Tourism	1,845,000	1,082,861	908,897	762,139	811,703	49,564	107	545,776
Labour, Commerce and Industries	2,393,152	1,191,760	1,059,725	1,201,392	1,256,864	55,472	105	1,055,625
Agriculture, Food, Forests & Fisheries	5,969,919	2,969,639	3,143,165	3,000,282	3,115,960	115,678	104	3,160,306
Works	2,662,000	1,366,445	1,323,694	1,295,555	1,714,677	419,122	132	1,478,154
Transport	2,547,420	1,164,141	1,506,517	1,383,279	1,701,634	318,354	123	3,584,849
Lands, Survey and Natural Resources	1,682,837	849,779	810,498	833,058	852,064	19,006	102	905,968
Environment and Climate Change	804,163	278,937	307,024	525,226	379,729	(145,497)	72	246,023
<b>Total</b>	<b>170,891,645</b>	<b>87,936,231</b>	<b>82,881,443</b>	<b>78,687,472</b>	<b>83,223,348</b>	<b>4,535,876</b>	<b>106</b>	<b>93,581,485</b>

## Ministries with significant variances spent over the target

Ministry	Variance	Key Drivers
Legislative Assembly	10% of the target	Committees meeting fees, overseas travel & communication and top up of underestimated salaries.
Commissioner of Public Relations	152% of the target	New recruitment of a Deputy Secretary and new office equipments for the office.
Tonga Defence Services	33% of the target	Payment of 11 pensioners for TDS which is an unbudgeted request and shortage of rations which is part of the staff salaries.
Ministry of Communication & Information	177% of the target	Payment of the new rental space which was under estimated in this FY.
Ministry of Justice	10% of the target	New equipments, printing & stationaries, Judges allowances for accomodation which was charged to consultant fees and charges, maintenance of the office space and payment of electricity.
Crown Law Department	16% of the target	Payments related to the new office rental space such as maintenance of office building and supplies for the office operation.
Ministry of Police, Prisons & Fire Services	17% of the target	Ration and diets for the new recruits and the fuel.
Ministry of Health	8% of the target	Payments of medical drugs and supplies, electricity, maintenance of the hospital and overseas medical referral.
Ministry of Tourism	7% of the target	Payment of CEO/Minister's benefits and expenses related to advertising & publicity.
Ministry of Works	32% of the target	Maintenance of roads and contract labourers.
Ministry of Transport	23% of the target	Payments of the operation to Minerva Reef, staff overtime, fuel and annual lease of Fua'amotu airport.

**8. GOVERNMENT OF TONGA DEBT POSITION**

Debt amounted to \$352.1m (45% of GDP) during the period under review. The external debt is recorded at \$322.6m (41% of GDP) whilst domestic debt recorded at \$29.5m (4% of GDP), Annex 4 provides the details.

Total public debt service (debt payment) for FY 2011/12 is estimated at \$15.4m, of which \$10.5m for external (68%) and \$4.9m for domestic debt (32%). This total debt service amount is equivalent to 2% of GDP, and in ratio to recurrent revenue (GoT) of 10.5% (at \$146.7m), and in ratio to recurrent expenditure of 9.3% (at \$165.2m).

As Tonga does not have a large economic base, it is paramount not to try to emulate what other similar economies do to seek borrowing for non-economical projects, but instead live within the nations' means thus reducing the country's susceptibility to exogenous shocks.

**9. PERSONNEL/STAFFING**

Table 6 below depicts the total number of positions in the Public Service for each of the 28 line ministries, including agencies. The total positions at the end of June 2011/2012 totals 4280 an increase of 1% (42) from the end of the first six months, December 2011, the slight increase is largely due to the strengthening of the Tonga Police Force. Of the total public service, filled and vacant positions accounts for 94% and 6% respectively. Ministry of Finance continues to closely monitor the overall wage bill.

These positions are estimated to cost the government a total of \$75.2m, filled positions takes up \$71.2m and \$3.9m for vacancies.

**Table 6: Staff Establishment by Ministry**

Ministry	Dec-11					Jun-12				
	Established Staff				Unestablished Staff	Established Staff				Unestablished Staff
	No. of Positions on Establishment	No. of Filled Positions	No. of Vacant Positions	Vacant Positions %	Number of Unestablished Staff	No. of Positions on Establishment	No. of Filled Positions	No. of Vacant Positions	Vacant Positions %	Number of Unestablished Staff
Palace Office	97	86	11	11%	6	99	86	13	13%	5
Audit Office	36	29	6	17%		36	30	6	17%	-
Commissioner of Public Relations	5	4	1	20%	1	5	4	1	20%	-
Ministry of Foreign Affairs	92	80	13	14%	5	92	75	17	18%	1
Prime Minister's Office	136	133	3	2%	8	133	129	4	3%	8
Public Service Commission	21	19	2	10%		22	18	4	18%	-
Governor of Ha'apai	44	44	-	0%	1	44	43	1	2%	1
Governor of Vava'u	52	52	-	0%		52	52	-	0%	-
Ministry of Finance & National Planning	133	115	18	14%	1	122	107	15	12%	3
Statistics	30	28	2	7%	1	31	29	2	6%	3
Ministry of Revenue Services	121	103	18	15%	4	121	101	20	17%	4
Ministry of Public Enterprise	17	12	5	29%		20	14	6	30%	-
Ministry of Communication & Information	19	11	8	42%	1	15	11	4	27%	1
Ministry of Justice	89	82	6	7%	7	85	82	3	4%	4
Crown Law Department	25	21	4	16%	1	27	24	3	11%	2
Ministry of Police	423	400	23	5%		467	422	45	10%	-
Prison	120	111	9	8%		130	120	10	8%	-
Fire Services	101	101	-	0%		101	97	4	4%	-
Ministry of Health	808	791	17	2%	38	814	813	1	0%	51
Ministry of Education, Women's Affairs & Culture	1196	1144	52	4%	3	1,173	1,144	29	2%	6
Ministry of Training, Employment, Youth & Sports	58	50	8	14%	18	61	50	11	18%	16
Ministry of Tourism	33	26	7	21%	8	33	25	8	24%	10
Ministry of Labour, Commerce and Industries	79	67	12	15%		80	62	18	23%	-
Ministry of Agriculture, Food, Forests & Fisheries	241	229	12	5%	2	249	226	23	9%	21
Ministry of Works	97	88	9	9%	18	96	88	8	8%	22
Ministry of Transport	73	69	4	5%	5	74	65	9	12%	13
Ministry of Lands, Survey and Natural Resources	69	69	-	0%	13	75	71	4	5%	4
Ministry of Environment and Climate Change	23	22	1	4%	12	23	21	2	9%	6
<b>Total</b>	<b>4,238</b>	<b>3,986</b>	<b>251</b>	<b>6%</b>	<b>153</b>	<b>4,280</b>	<b>4,009</b>	<b>271</b>	<b>6%</b>	<b>181</b>

## 10. CONTINGENCY FUND

A redirection of resources of \$1.8m occurred for the following ministries/departments:

- PSC- \$0.05m for CEO allowances and essentials;
- Foreign Affairs- \$0.2m for shortages in the Overseas Missions;
- Commissioner of Public Relation- \$0.1m for shortages in salaries, contribution to RF, vehicle and new equipment;
- Lands & Survey- \$0.03m for replenishment of returned tickets and per diem for state funeral;
- Health- \$0.2m for rations and diets, overseas medical treatment and internal medical referral;
- TDS- \$0.3m for rations and registration expenses for more than 10 vehicles and motor cycles from China;
- Prison- \$0.1m for Prison Appeals Tribunal, top up for a vehicle to Eua, essential expenses and operations;
- Communication and Information- \$0.2m for rental at Sanft Building and cost for the set up of Government Newspaper;
- Justice- \$0.3m for salaries of the Judges, Court of Appeal, duty allowances of the magistrates, maintenance of the Supreme courts and a new server;

- MAFFF- \$0.1m for replenishment of funds utilized on Agricultural Show;
- MOTEYS- \$0.07m for Seasonal Employment and the Cricket membership fee; and
- Ministry of Transport- \$0.2m for the installation of navigation light at Teleki Tokelau (Mineva Reef).

#### 11. UNBUDGETED REQUESTS

A total of \$9.0m un-budgeted expenditure requests (refer Table 7) were received by the MOFNP via Cabinet Decisions including commitments and also unexpected expenses during the period under review. About \$5.8m had been managed internally from the in-year allocation of the requested ministries and from redirection of resources from the Contingency Funds. A \$1.9m million is yet to be financed, but the MOFNP is still gauging options to mitigate the remaining balance. These requests were not included in the 2011/12 budget allocation. Going forward, the MOFNP continues to review and monitor budget performance of line ministries to ensure priorities are funded within the approved appropriation.

#### 12. CASH BALANCES

As at 30 <sup>th</sup> June 2012	
Consolidated General Bank Accounts	\$25.0m

#### 13. BUDGET DEFICIT

The cash deficit of \$6.6m recorded for second half of the FY was financed from the cash reserve.

#### 14. LESSONS LEARNT

**Budget rationalization and reprioritization expenditures-** Experience in the second six months suggested that there is lack of commitment to conduct critical expenditure rationalization exercise or reprioritization of expenditure once an emerging or unplanned activities emerge, pressuring the ministry to change priorities. This has confirmed the substantial amount of additional budget request from the Contingency Funds.

**Freezing Recruitment-** As part of the effort to contain the rising wage bill, Government via Public Service Commission issued a policy direction to freeze recruitment during the period under review. The policy direction has dual objectives: (1) to improve quality of expenditure by containing redeployment of resources to salary and wages but to deploy to activities where it can play a major developmental role and (2) it's part government restructure in an effort to identify surplus staff for possible redeployment to ministry in need of extra staff. The MOFNP maintain its effort to ensure gradual reduction of wages proportion to the overall budget to 45% target ratio over the next three years. The overall position based on the original budget is 55% or 55 cents of every dollar.

**Prudential budget control and management-** With the budget control and management elevated to sub-program levels; it has resulted in significant reduction of number of resource transfers within ministry's budget. During the period, about 200 transfers were undertaken compared to about 100 in the first six months. Comparing to whole of previous year, there were significantly less transfers conducted, which allowed more

time to budget actors to carefully put in place corrective measures or policy advice once a shock occurs. This has considerably improved the budget credibility as less transfer indicates budget is spent as per what was mandated or envisaged in the ministry's Corporate and Annual Management Plans.

**Unbudgeted or unplanned budget request-** Managing unbudgeted request to manage an unforeseeable events and unavoidable cost is critically important in budget management, particularly in time where resources are very constrained restricting rooms to manoeuvre around. However, in some cases foreseeable, avoidable or unplanned expenditures have fiscally pressured the ministry to change priorities as envisaged in their Annual Management Plan, which is a manifestation of failure by the ministries concerned to articulately communicate the resources requirement at budget preparation time. As a result, redirection of resources to meet the unbudgeted activities comes to the detrimental of high priority activities. In some case, unplanned activities are not included in the ministries' Annual Management Plans that was well used as disciplinary tool for resources distribution.

**Strategic orientation of budget management-** It is apparent that there is a significant requirement to strengthen the planning and budgeting function at ministry level. There are weak linkages identified and noticed during the first six months and again this period under review. This has been confirmed by incrementally increasing budgeting by just inflating allocation without proper assessment of its overall budget implication on the ministry fiscal envelope and what had been planned to implement.

**Under-spend Ministries-** Spending for some ministries under the projected expenditure may be perceived as good budget management. However, underspending is of concern to the MOFNP because it gives the impression that the ministries are not delivering or, alternatively, delaying the implementation of what was planned to be implemented. Going forward, it is important to consider developing an implementation plan or develop a high-level timeframe in the Corporate Plan for major activities or projects in order to avoid providing a full project budget for activities that will be undertaken across financial years.



Table 7: Unbudgeted Requests for the Second Half of the FY 2011/2012

Requests	Amount Requested (\$)	Funded Internally by requested Ministry and from CF (\$)	Balance yet to be paid (\$)	Amount requested & decline or partially met	Status
Land Lease Tongatapu airport (Tu'ipelehake)	2,700,000	1,000,000	1,700,000		This is for payment of land lease. MoFNP had identified \$1 m from MOFNP guarantee loan vote.
Ministry of Transport overseas travel (Minister)	70,000	70,000	-		Funded from Contingency Fund
Tonga Defence Services	500,000	500,000	-		Funded from Contingency Fund
Prison Department new vehicle for 'Eua & Vava'u	100,000	100,000	-		Funded from Contingency Fund
Fire Services: freight of fire trucks from Australia and maintenance for some of the existing ones	130,000	130,000	-		Funded from Contingency Fund
Ministry of Transport for Maritime & Transport safety, new license plates & replenishment of the court of marine inquiry	350,000	350,000	-		Funded from Contingency Fund
Crown Law - for payment of Attorney General's salaries	100,000	100,000			Funded from Contingency Fund
Tonga Police - for recruitment of 30 constables	70,000	70,000			Funded from Contingency Fund
Cathay Pacific Hong Kong 7s (17th March - 27th March)	21,866			21,866	No funds available
IRB PRC & Warratahs 2012 (14th Feb - 20th March)	117,353			117,353	No funds available
Tonga College PTA - Under 18 Japan	50,000			50,000	No funds available
Vava'u Rugby Union - Pagopago	15,300	15,300	-		\$15,300 paid for air tickets from MOFNP vote (Government General Fund) - paid on 04/04/2012
Tonga National Rugby League - Hawaii/May 2012	83,000	25,000		58,000	Paid \$25k from MOFNP
Tonga National Rugby League - Hawaii/May 2012	1,032,000			1,032,000	No funds available
TNCWC salaries and operation	30,000			30,000	Declined the extra request as we already funded \$50K for their operation
National Retirement Benefit Scheme additional funds to fund salaries and operation	593,000	500,000	93,000		paid NRBS \$500k from MOFNP Transfer Value vote
Prison - for the cost of the Prison Appeals Tribunal	20,000	20,000			Funded from Contingency Fund
Ministry of Communication & Information - to cater for the rent of their new office at the Sanft Building.	90,000	90,000	-		Funded from Contingency Fund
Ministry of Justice - acting and OT for the Court of Appeal, Court of appeal salaries, duty allowance of magistrates	200,000	200,000			Funded from Contingency Fund
Prison Department - essentials expenses	55,000	55,000			Funded from Contingency Fund
health - for rations & diets, overseas medical treatment and internal medical referral	220,000	220,000			Funded from Contingency Fund
Lands, Survey & natural Resources- replenish returned tickets & per diem for the State funeral	28,000	28,000			Funded from Contingency Fund
Public Relation - for salaries, GOT contribution to retirement funds, printer and vehicle	82,000	82,000			Funded from Contingency Fund
Public Relation - for new equipments	13,000	13,000			Funded from Contingency Fund
Foreign Affairs - to cover shortages in the Overseas missions	200,000	200,000			Funded from Contingency Fund
Tonga Defence Services - to cater for rations and vehicles & motor cycles registration for new vehicles [more than 10 vehicles] from China	273,000	273,000			Funded from Contingency Fund
PSC - to cover for the CEO allowances & essentials	49,102	49,102			Funded from Contingency Fund
Statistics - to cater for salaries of redeployed staff	38,420	38,420			Funded from Contingency Fund
Communication & Information - set up cost for the Government Newspaper	101,027	101,027			Funded from Contingency Fund
Justice - for maintenance of the courts and new server	80,000	80,000			Funded from Contingency Fund
Prison - operation & top up for a vehicle for Eua	50,000	50,000			Funded from Contingency Fund
Training, Employment, Youth & Sports-for Seasonal Employment and the Cricket membership fee	74,000	74,000			Funded from Contingency Fund
MAFFF- replenishment of funds utilised on Agricultural Show	100,000	100,000			Funded from Contingency Fund
Transport - for the installation of navigation light at Teleki Tokelau [Minerva Reef]	170,000	170,000			Funded from Contingency Fund
Waste Authority Limited - government financial assistance as additional equity participation	100,000		100,000		MOFNP to identify funds for this
LA - to cater for the shortage of their salaries	85,600	85,600			Funds to be identify from MOFNP
CPR - to mitigate expenses for acting allowances for thi OIC in the current financial year 2011/12	5,000	5,000			Funds to be identify from MOFNP
MAFFF - to cater for the shortage of their salaries	70,000	70,000			Funds to be identify from MOFNP
TDS - to cover outstanding operational costs for financial year 2011/12	40,000	40,000			Funded from Savings sourced from other Ministries
Prison - to cover remaining operational cost for financial year 2011/2012	50,000	50,000			Funded from Savings sourced from other Ministries
MEWAC - to cover government grant to TVET and other operational outstanding commitments for financial year 2011/12	650,000	650,000			Funded from Savings sourced from other Ministries
MAFFF - to cater for office operational outstanding costs for financial year 2011/12	200,000	200,000			Funded from Savings sourced from other Ministries
<b>Total</b>	<b>9,006,668</b>	<b>5,804,449</b>	<b>1,893,000</b>	<b>1,309,219</b>	

**Annex 1****Budget Review for January to June 2012**

	ORIGINAL ESTIMATE 2011/2012	Forecast for Six Months to June 2012	Cumulative Actual for January to June 2012	Variance (Target - in- Year-Actual)	Performance for Six Months to June 2012	Cumulative Actual for January to June 2011
	\$	\$	\$	\$	%	\$
<b>Receipt</b>						
Income Tax	21,210,000	11,187,500	14,182,654	2,995,154	127	27,109,839
Trade Taxes	12,520,000	5,337,081	5,526,986	189,905	104	5,323,656
Taxes on Goods & Services	49,425,000	23,257,651	24,792,685	1,535,034	107	23,779,467
Excise Tax	26,510,000	14,317,570	13,989,582	(327,988)	98	15,324,715
Fees & Licences	20,488,648	9,022,844	7,437,652	(1,585,192)	82	7,677,233
Entrepreneurial & Property Inc	8,610,318	6,564,387	1,388,538	(5,175,849)	21	932,550
Miscellaneous Revenue	505,000	495,000	205,477	(289,523)	42	2,013,806
Capital & Other Transfers	3,697,682	337,927	244,107	(93,820)	72	3,610,778
Budget Support	27,925,000	-	8,855,500	8,855,500	-	-
<b>Total Revenue</b>	<b>170,891,648</b>	<b>70,519,960</b>	<b>76,623,181</b>	<b>6,103,221</b>	<b>109</b>	<b>85,772,044</b>
<b>EXPENDITURE</b>						
Established Staff & Others	90,331,009	44,762,682	38,597,002	(6,165,680)	86	44,510,847
Unestablished Staff	2,158,732	1,406,589	1,332,248	(74,342)	95	1,209,079
Travel and Communications	5,838,996	2,472,742	3,654,290	1,181,548	148	3,616,781
Maintenance & Operations	5,445,048	2,127,871	4,841,274	2,713,403	228	6,124,166
Purchase of Goods & Services	20,895,255	9,197,037	14,342,140	5,145,103	156	11,221,788
Grants and Transfers	12,863,671	5,711,069	8,561,289	2,850,221	150	8,683,252
Development Duties Expenditure	474,400	284,640	167,429	(117,211)	-	-
Debt Management	20,927,000	8,670,390	6,993,355	(1,677,035)	81	16,913,248
Contingency Fund	3,200,000	-	-	-	-	-
Pension & Graduties	5,117,021	2,910,000	3,017,605	107,605	104	-
Assets	3,140,513	1,144,452	1,538,095	393,643	134	1,044,521
Equity Payments	500,000	-	178,621	178,621	-	257,803
<b>Total Expenditure</b>	<b>170,891,645</b>	<b>78,687,472</b>	<b>83,223,348</b>	<b>4,535,875</b>	<b>106</b>	<b>93,581,485</b>
<b>OPERATING SURPLUS/ (DEFICIT)</b>	<b>3</b>	<b>(8,167,512)</b>	<b>(6,600,166)</b>			<b>(7,809,441)</b>

Annex 2: GFS Report for July - June 2011/12													
	Original Estimate 2011/12	July	August	September	October	November	December	January	February	March	April	May	June
	* \$ in TOP million	T\$m	T\$m	T\$m	T\$m	T\$m	T\$m	T\$m	T\$m	T\$m	T\$m	T\$m	T\$m
<b>TOTAL REVENUE &amp; GRANTS</b>	<b>206.72</b>	<b>14.69</b>	<b>32.40</b>	<b>13.66</b>	<b>16.01</b>	<b>15.73</b>	<b>30.67</b>	<b>17.20</b>	<b>11.97</b>	<b>24.58</b>	<b>12.61</b>	<b>14.72</b>	<b>17.60</b>
<b>Tax Revenue</b>	<b>114.54</b>	<b>9.61</b>	<b>12.30</b>	<b>10.80</b>	<b>10.48</b>	<b>11.55</b>	<b>11.65</b>	<b>11.26</b>	<b>7.80</b>	<b>9.94</b>	<b>9.73</b>	<b>12.71</b>	<b>8.81</b>
Taxes on income & profits	21.21	1.37	1.59	1.69	1.71	2.95	1.75	1.85	1.42	2.30	2.34	3.86	2.41
Taxes on property	0.06	0.00	0.01	0.01	0.00	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Domestic taxes on goods & services	80.70	7.28	9.43	7.88	7.35	7.08	8.20	8.47	5.48	6.86	6.48	7.78	5.42
Taxes on international trade & transactions	12.57	0.96	1.26	1.22	1.41	1.52	1.69	0.93	0.89	0.77	0.90	1.06	0.98
Other taxes	-	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Non-tax Revenue</b>	<b>23.17</b>	<b>1.32</b>	<b>1.21</b>	<b>0.94</b>	<b>3.27</b>	<b>1.08</b>	<b>1.54</b>	<b>0.93</b>	<b>1.44</b>	<b>1.18</b>	<b>0.97</b>	<b>1.53</b>	<b>1.12</b>
Entrepreneurial & property income	7.55	0.38	0.03	0.07	2.16	0.06	0.82	0.14	0.58	0.06	0.03	0.45	0.09
Administrative fees & charges	15.13	0.89	1.10	0.81	0.90	0.90	0.71	0.74	0.81	0.95	0.91	1.01	0.99
Fines & forfeits	0.48	0.04	0.06	0.05	0.05	0.04	0.02	0.05	0.05	0.03	0.04	0.05	0.04
Other non-tax revenue	0.01	0.01	0.02	0.01	0.16	0.09	0.00	0.00	0.01	0.13	0.00	0.01	0.00
<b>CURRENT REVENUE</b>	<b>137.71</b>	<b>10.93</b>	<b>13.50</b>	<b>11.73</b>	<b>13.75</b>	<b>12.64</b>	<b>13.19</b>	<b>12.19</b>	<b>9.24</b>	<b>11.11</b>	<b>10.70</b>	<b>14.24</b>	<b>9.93</b>
<b>CAPITAL REVENUE</b>	<b>1.55</b>	<b>0.00</b>	<b>0.01</b>	<b>0.00</b>	<b>-</b>	<b>0.06</b>	<b>0.00</b>	<b>-</b>	<b>0.00</b>	<b>0.01</b>	<b>0.00</b>	<b>0.06</b>	<b>0.04</b>
<b>GRANTS</b>	<b>67.45</b>	<b>3.76</b>	<b>18.89</b>	<b>1.92</b>	<b>2.26</b>	<b>3.04</b>	<b>17.48</b>	<b>5.01</b>	<b>2.73</b>	<b>13.45</b>	<b>1.91</b>	<b>0.43</b>	<b>7.63</b>
projects	39.52	3.76	6.05	1.92	2.26	3.04	2.09	5.01	2.73	4.60	1.91	0.43	7.63
budget support	27.93	-	12.84	-	-	-	15.39	-	-	8.86	-	-	-
<b>TOTAL EXPENDITURE &amp; NET LENDING</b>	<b>232.07</b>	<b>12.35</b>	<b>15.85</b>	<b>17.94</b>	<b>13.75</b>	<b>19.81</b>	<b>16.77</b>	<b>25.07</b>	<b>27.61</b>	<b>32.25</b>	<b>29.43</b>	<b>32.30</b>	<b>41.51</b>
<b>CURRENT EXPENDITURE</b>	<b>185.10</b>	<b>12.16</b>	<b>14.93</b>	<b>16.92</b>	<b>13.48</b>	<b>18.18</b>	<b>13.76</b>	<b>13.34</b>	<b>14.82</b>	<b>18.54</b>	<b>14.74</b>	<b>16.39</b>	<b>23.29</b>
Wages & salaries	85.49	6.66	6.83	6.73	6.28	9.10	7.16	6.89	6.19	8.64	6.44	8.00	7.43
Employer contributions	9.29	0.50	0.51	0.53	0.58	0.77	0.53	0.52	0.52	0.70	0.52	0.58	1.15
Other purchases on goods & services	65.58	3.88	4.86	4.98	3.87	6.27	4.65	4.86	6.20	5.14	5.44	6.97	10.43
Interest payments	6.82	0.11	0.52	1.88	0.37	0.15	0.18	0.31	0.02	1.94	0.46	0.07	0.64
Subsidies & transfers	17.92	1.01	2.21	2.80	2.39	1.89	1.25	0.75	1.89	2.10	1.88	0.76	3.64
<b>CAPITAL EXPENDITURE</b>	<b>29.26</b>	<b>0.13</b>	<b>0.85</b>	<b>0.70</b>	<b>0.24</b>	<b>0.60</b>	<b>0.88</b>	<b>0.27</b>	<b>0.37</b>	<b>0.28</b>	<b>0.29</b>	<b>0.54</b>	<b>1.75</b>
Acquisition of fixed capital assets	12.91	0.13	0.79	0.61	0.19	0.53	0.77	0.24	0.32	0.24	0.26	0.52	1.62
Land Compensation & intangible assets	0.07	-	0.02	-	0.00	-	-	-	0.00	0.03	0.01	-	0.11
Capital transfers	0.08	-	0.04	0.09	0.04	0.08	0.11	0.03	0.04	0.01	0.01	0.02	0.01
<i>in which Chinese EXIM Bank Loan (1)</i>	16.2												
<b>NET LENDING</b>	<b>17.71</b>	<b>0.05</b>	<b>0.07</b>	<b>0.31</b>	<b>0.03</b>	<b>1.03</b>	<b>2.12</b>	<b>11.46</b>	<b>12.42</b>	<b>13.44</b>	<b>14.40</b>	<b>15.37</b>	<b>16.47</b>
Domestic	1.91	0.05	0.07	0.31	0.03	0.03	0.12	8.46	8.42	8.44	8.40	8.37	8.47
Receipt	(0.70)	(0.25)	0.00	-0.07	0.00	-0.02	-0.10	-0.15	0.00	-0.07	0.00	-0.02	0.00
Expenditure	2.61	0.30	0.07	0.38	0.03	0.05	0.22	8.62	8.42	8.50	8.40	8.39	8.47
External	0	-	-	-	-	1.00	2.00	3.00	4.00	5.00	6.00	7.00	8.00
Receipt	0	-	-	-	-	1.00	2.00	3.00	4.00	5.00	6.00	7.00	8.00
Expenditure	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>in which Chinese EXIM Bank Loan (2)</i>	15.8												
<i>Expenditure by Government Fund</i>	160.39	11.26	13.72	16.73	13.20	16.24	11.74	11.33	11.83	17.22	12.89	11.95	17.65
<i>Expenditure by Grants</i>	39.52	1.18	3.24	3.55	1.63	3.21	3.57	2.59	3.68	5.16	4.41	6.08	9.31
projects	11.60	1.18	3.24	3.55	1.63	3.21	3.57	2.59	3.51	2.32	2.84	5.21	8.44
budget support	27.93	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.17	2.84	1.57	0.88	0.86
unconfirmed budget support													
<b>CURRENT BALANCE</b>	<b>(47.38)</b>	<b>(1.23)</b>	<b>(1.42)</b>	<b>(5.19)</b>	<b>0.27</b>	<b>(5.54)</b>	<b>(0.57)</b>	<b>(1.15)</b>	<b>(5.58)</b>	<b>(7.42)</b>	<b>(4.04)</b>	<b>(2.14)</b>	<b>(13.35)</b>
<b>OVERALL BALANCE</b>	<b>(25.35)</b>	<b>2.34</b>	<b>16.55</b>	<b>(4.28)</b>	<b>2.26</b>	<b>(4.07)</b>	<b>13.91</b>	<b>(7.87)</b>	<b>(15.64)</b>	<b>(7.67)</b>	<b>(16.82)</b>	<b>(17.57)</b>	<b>(23.91)</b>
<b>TOTAL FINANCING</b>	<b>25.35</b>	<b>(2.34)</b>	<b>(16.55)</b>	<b>4.28</b>	<b>(2.26)</b>	<b>4.07</b>	<b>(13.91)</b>	<b>7.87</b>	<b>15.64</b>	<b>7.67</b>	<b>16.82</b>	<b>17.57</b>	<b>23.91</b>
External financing	(6.65)	(0.10)	(0.11)	(1.34)	20.21	(0.65)	(0.54)	(0.22)	(0.11)	(0.67)	(0.67)	(0.23)	(0.96)
Disbursements	-	0.00	0.00	0.00	20.28	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Repayments	6.65	0.10	0.11	1.34	0.08	0.65	0.54	0.22	0.11	0.67	0.67	0.23	0.96
Domestic financing		0.00	-1.00	1.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Disbursements	3.00	0.00	0.00	-2.00	-1.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Repayments	3.00	0.00	1.00	1.00	1.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unconfirmed budget support	-												
<b>CHANGES in Government Bank Balances</b>	<b>32.00</b>	<b>(2.24)</b>	<b>(15.45)</b>	<b>4.63</b>	<b>(22.47)</b>	<b>4.72</b>	<b>(13.36)</b>	<b>8.09</b>	<b>15.75</b>	<b>8.34</b>	<b>17.49</b>	<b>17.80</b>	<b>24.86</b>

(1) This amounts to the spending on roads and certain building constructions from the Chinese loan

(2) This is the onlent amount for the private sector's building constructions.

**Notes**

Government Finance Statistics (GFS) is a framework released by the International Monetary Fund that uses economic reasoning and principles that can be applied universally across all types of economies regardless of the institutional or legal structure of a country's government, the statistical development, the system of government financial accounting, or the extent of public ownership of for-profit entities. It enables the study of developments in the financial operations, financial position, and liquidity situation of the government sector consistently over time. GFS allows international comparisons independently of Tongan administrative structures. The GFS system also facilitates the study of the macro-economic impact of the Government's financial transactions on the economy and therefore assessments of the sustainability of fiscal policy objectives.

GFS is different to cash as it recognises and classifies transactions based on economic and accrual accounting concepts. Cash accounting only recognises when actual cash transactions occur. GFS records separately 'below the line' those receipts and payments transactions, such as those associated with raising or repaying loans, that are primarily associated with the actions necessary to finance a shortfall in government revenues. It also recognises aid in kind, where the Government receives a benefit, but not receives the cash. The Chinese EXIM bank loan is a key example, as this is recognised under GFS (both the loan and capital expenditure), but is not captured under the cash based accounts.

Annex 3

Government of Tonga Debt Position as at 30 June 2012

This report summarises the Government’s debt position during the FY 2011/12 from 1 July to 30 June 2012, in millions of Pa’anga. Comparisons have been made to the previous quarter (March 2012), and to the previous year (30 June 2011). The information covers external, domestic, on-lent and guaranteed debt.

**1. Total public disbursed outstanding debt (DOD)** as at 30 June 2012 is estimated at \$352.1m (at 45.1% of GDP). Total public debt increased by \$47.8m between June 2011 and June 2012. This was mainly due to the external loan disbursements from Export-Import Bank of China (EXIM) estimated at \$47.5m, for the CBD project (\$23.9m) and for the Roads project (\$23.6m).

**2. External debt** is recorded at \$322.6m (41.3% of GDP) with the main creditors of EXIM at \$198.4m (61.5%), the Asian Development Bank (ADB) at \$66m (20.5%) and the International Development Agency, World Bank (IDA) at \$40.3m (12.5%). The main outstanding loan currency denomination is in the Chinese Yuan Renminbi currency (CNY) at \$205.3m (63.6%) and the Special Drawing Rights (SDR) at \$115.1 (35.7%). During the 1 year period (June 2011 to June 2012), the Pa’anga appreciated against the Euro (10.6%), Australian Dollar (2.3%), Special Drawings Rights (1.7%), New Zealand Dollar (0.6%); and had depreciated against the Chinese Yuan (5.3%). There were no external loan payment arrears

**3. Domestic debt** is recorded at \$29.5m (3.8% of GDP), for Government bonds on issue. The main bond holders are Financial Institutions at \$19.0m (65%), and Financial Institutions Staff Retirement Funds at \$6.3 (21%). There were no domestic loan payment arrears.

**4. Total debt service (expenditure)** as at 30 June 2012 is estimated at \$15.4m, for domestic debt at \$4.9m (32%) and for external debt at \$10.5m (68%). This is equivalent to 1.97% of GDP (at \$781.5m), and in ratio to recurrent revenue (GoT) of 10.5% (at \$146.7m), and in ratio to recurrent expenditure of 9.3% (at \$165.2m). There were no public debt payment arrears.

For external debt, the main bi-annual repayment months are September 2011 at \$3.2m (30.5% of total external debt service) and March 2012 at \$2.6m (24.8%) mainly to EXIM at a total of \$4.6m; and for domestic debt are August 2011 at \$1.5m (30.6% of total domestic debt service) and October 2011 at \$1.4m (28.6%) for bond principal and interest.

The following Chart shows the position of the annual debt service over the 10 year period (FY 2010/11 to 2019/20) and the significant increase from 2013/14 for external debt service is estimated at \$9.7m (at 1.2% of GDP). This effect is due to the principal repayments beginning for the CBD and Roads loans to EXIM over the next 15 years.

Table 1: Sovereign Debt Sustainability Indicators

Indicators	IMF Threshold (%)	GoT Threshold (%)	FYTD 2011/12 (%)
NPV of external debt as % of GDP	30	40	41.3
% of exports & remittances	90	100	162.7
% of recurrent revenue	200	200	219.9
Debt Service as:			
% of exports & remittances	14	15	7.8
% of recurrent revenue	25	25	10.5

Chart 1: Total Public Debt to GDP as at 30 June 2012

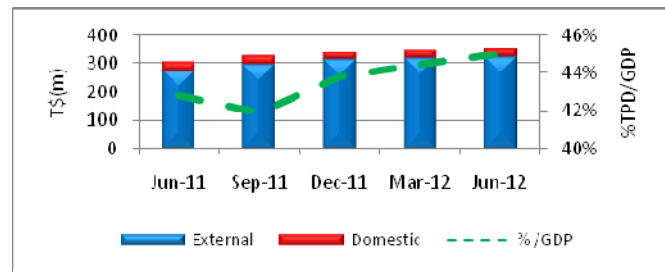


Chart 2: External DOD by Creditor as at 30 June 2012

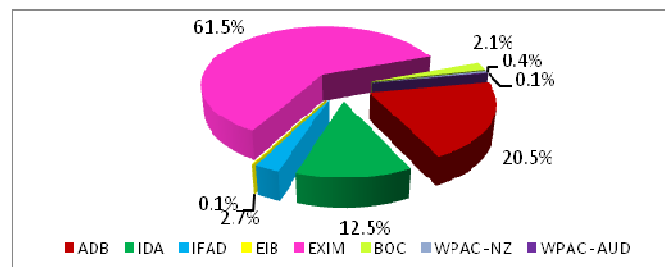


Chart 3: External DOD by Currency as at 30 June 2012

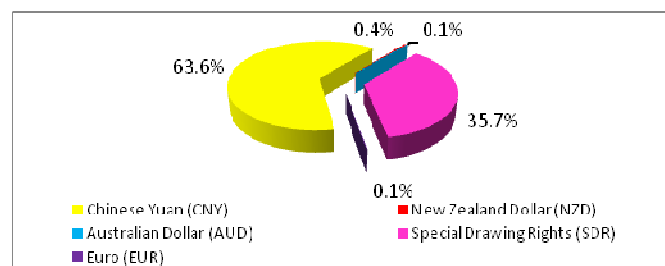


Chart 4: Domestic DOD by Creditor as at 30 June 2012

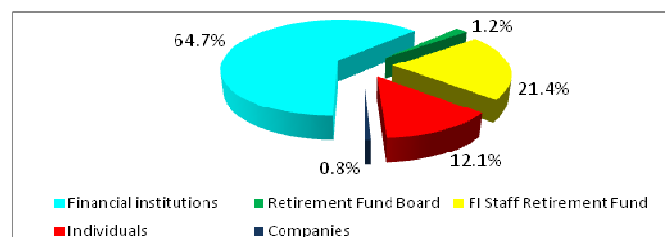
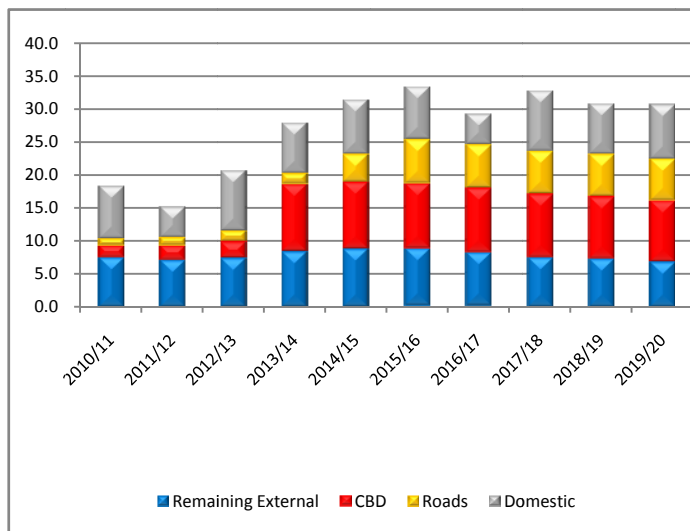


Chart 5: Total Debt Service FY 2010/11 – FY 2019/20(TOPm)



**5. Total on-lent loans** as at 30 June 2012 due to the Government from various public and other enterprises is estimated at \$40.5m (5.2% of GDP; and 12.6% of total external loans). The main Borrowers are Janfull IDH Ltd. at \$10.5m (25.8%), OG Sanft Ltd. at \$10.2m (25.3%), and MF Taumoepeau Ltd. at \$7.2m (17.7%), and also to Royco Amalgamated Co. Ltd at \$2.2m (5.4%) for loans from EXIM. The **total on-lent loan payment arrears** is estimated at \$12.8m, for loans due from Janfull at \$7.1m (55.5%) and Seastar at \$5.7m (44.5%). **Total debt service (revenue)** as at 30 June 2012 is estimated at \$0.98m, for on-lent loan repayments from Tonga Development Bank (TDB) \$0.58m (59.2%), Tonga Communications Corporation (TCC) \$0.29m (29.6%) and Royco \$0.11m (11.2%).

**6. Total guaranteed debt** as at 30 June 2012 is estimated at \$7.8m (1% of GDP and 2.2% of total public debt. This is for loans at WBOT taken by Tonga Power Limited at \$7.4m (94.9%), Janfull IDH Ltd at \$0.32m (4.1%) and Bond issued by TDB at \$0.15 (1%). There were no guaranteed loan payment arrears.

**Table 2: Summary Debt Ratios**

Particulars	Jun-11	Mar-12	Jun-12	QTRLY change (%)	YTD change (%)
<b>Total Public Debt (USD\$)</b>	<b>179.9</b>	<b>203.1</b>	<b>200.8</b>	<b>-1.1</b>	<b>11.6</b>
Total Public Debt (TOP\$)	304.3	347.8	352.1	1.2	15.7
Domestic Debt	29.5	29.5	29.5	-	-
External Debt	274.8	318.3	322.6	1.4	17.4
Total Public Debt to GDP (%)	43.1	44.2	45.1	2.0	4.6
External Debt to GDP	38.9	40.5	41.3	2.0	6.2
Domestic Debt to GDP	4.2	3.7	3.8	2.7	-9.5
Total Debt Service (\$)	22.8	12.4	15.4	24.2	-32.5
Principal	16.4	6.8	8.7	27.9	-47.0
Interest	6.4	5.6	6.7	19.6	4.7
External	10.3	8.2	10.5	28.0	1.9
Domestic	12.5	4.1	4.8	17.1	-61.6
Other	-	0.1	0.1	-	-
External Debt by Creditor category (\$)	274.8	318.3	322.6	1.4	17.4
Multilateral	121.9	117.0	115.5	-1.3	-5.3
Bilateral	150.9	199.5	205.3	2.9	36.1
Commercial	2.0	1.9	1.8	-5.3	-10.0
Debt Composition by Instrument Type (\$)	304.3	347.8	352.1	1.2	15.7
Loans	274.8	318.3	322.6	1.4	17.4
Bonds/Notes	29.5	29.5	29.5	-	-
Foreign Currency Risk (%)					
% of debt in Chinese Yuan	54.9	62.7	63.6	1.4	15.8
% of debt in SDR	44.2	36.6	35.7	-2.5	-19.2
% of debt in other currencies	0.9	0.7	0.7	-	-22.2
Fiscal Indicators (%)					
Total Debt Service to Expenditure	12.9	7.2	9.3	29.2	-27.9
Total Debt Service to Revenue	14.1	8.6	10.5	22.1	-25.5
Interest cost to Expenditure	3.6	3.2	4.1	28.1	13.9
Vulnerability Indicators (%)					
Reserves to External Debt	64.0	72.1	76.3	29.5	19.2
External Debt Service to Exports & Remittances	4.4	3.8	5.3	39.5	20.5
External Debt Service to Exports	12.8	9.8	12.2	24.5	-4.7

Source: MoFNP and NRBT