



**Government of Tonga**

**BUDGET STATEMENT  
FOR THE YEAR 2003/2004**



HON. S.T.T 'UTOIKAMANU

MINISTER OF FINANCE



# Budget Statements for Year Ending 30<sup>th</sup> June 2004

## *The Budget Statement*



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**Budget Paper No.1: *Review of the Tongan Economy & Outlook 2003/04***

**Budget Paper No.2: *Fiscal Outlook***

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## 1. Introduction

The Budget for 2003/04 has been prepared in a climate of considerable uncertainty. Although the war between the coalition forces and Iraq is considered to be over the initial phase, there is considerable uncertainty in the world's financial and commodity markets. The impact of SARS is continuing to affect overseas travel in Asia and the Pacific while the onset of *el nino* towards the end of 2002 had a significant impact on fish catches in the Pacific. In this climate of uncertainty the budget has been prepared with the aim of achieving the government's long term vision for the development of the Kingdom as stated in the 7<sup>th</sup> Strategic Development Plan.

This vision states that over the long term Tongan society should achieve the following characteristics:

- High quality of life overall
- High standard of living throughout the Kingdom
- Respecting the options of both present and future operations
- High valued and adaptive culture
- Individual fulfillment
- Gender equity
- Political stability and
- Stable economic and financial environment

The budget for 2003/04 seeks to continue the direction of the Government's policies of preparing the foundation for building and maintaining a fair and sustainable social and economic order as outlined in the national vision. At the same time we must be mindful that the road to reform is not easy and that the long term gains cannot be obtained without sacrifice.

## 2. Economic Reform and Social Development

Although the social problems associated with youth unemployment have been recognized, limited progress has been made in implementing specific measures to address the growth of these problems. To a certain extent, progress in addressing these social problems are dependent on the rate at which the government can accelerate its public sector reform program to provide appropriate resources to enable effective responses to be implemented. To date the steady rate of implementing reform measures has resulted in the government in taking a measured approach to dealing with the social problems of juvenile delinquency and the increasing rate of petty crimes.

## 3. The Reform Agenda

As I had indicated in my budget statement last year, the reform agenda is the Government's response to these adverse social developments. The twin objectives of the Government's economic and public sector reform programmes of (1) improving the efficiency of the Government and so improving service delivery to the public and (2) of creating an environment more conducive to economic growth which will create employment opportunities are unchanged.

During the 2002 session of the Legislative Assembly, much progress was made with the approval of the key legislation which set the foundations for the reform programme. These

were the Public Finance Management Act, Public Enterprise Act, Revenue Administration Act, and the Public Service Act.

The budget for 2002/03 had targeted the achievement of improved efficiency by the Government through tighter fiscal discipline to be largely achieved through the budgetary resource allocation process and by Civil Service reform. The actual outcome has been below expectations because of the impact of unforeseen events and the need for a carefully designed and concerted effort at implementing reform. Nevertheless it is anticipated that much more rapid progress will be made in 2003/04 in implementing changes based on the foundation formed by the new legislation. The government shall introduce new measures to create an environment more conducive to economic development.

#### **4. Fiscal Objectives**

The Government's short term and medium-term fiscal policy objectives are those stated in the 7<sup>th</sup> Strategic Development Plan. These are:

- Recurrent expenditure shall be kept below 30% of GDP
- Disbursed outstanding debt shall be kept below 60% of GDP
- The debt service ratio shall be kept below 50% of the proceeds from the exports of merchandise
- Foreign reserves shall be kept at an adequate level of around 3 months to 4 months of import cover.
- A balanced budget should be achieved in the medium term.

Although recent performances have been below expectations, the Government intends to maintain a balanced operating budget over the medium term. In 2002/03 a new policy initiative by the government to recapitalise the national airline was approved and financing was arranged through loans. The Government is committed to supporting the national airline to ensure that adequate capacity is available to the tourism industry, exporters and the general public. At the same time Government is considering various options to ensure the long term sustainability of the airline. Furthermore external concessionary debt financing is being arranged for high priority investment in the health sector, to be undertaken over the period 2003/04 to 2007/08. This has affected the budget balance. The Government has targeted a gradual return to a more sustainable fiscal position over the next year.

#### **5. Budget Strategy**

The budget strategy for 2003-04 shall be to continue the process of improving public service through reducing the wage and salaries share of Government cash spending net of debt service to around 50%, while promoting new initiatives to support private sector growth. The realignment of wages and salaries is not easy but it needs to be done. As long as wages and salaries take up a large proportion of the government's spending, the amount available for maintenance and operations will be constrained below critical levels. This has a depressed effect on the delivery of public services. Although there is limited evidence of over-staffing in the major areas of Government employment such as education and health, there is evidence of a shortage of highly skilled staff as opposed to a surplus of low skilled staff. The government must therefore redeploy its allocation of staff to improve service delivery.

At the same time the Government recognizes the potential contribution of the private sector to generate both jobs for the growing labor force and increased foreign exchange earnings.



The government is introducing measures to divest itself of its non-core functions to allow the private sector to carry these out.

## **6. Public Sector Reform**

With the approval of the Public Service Act, the government is implementing far reaching changes which will improve productivity and efficiency. The Public Service Commissioners have been appointed, and the Commission is implementing a work programme which will cover the following:

- Heads of departments to be placed on employment contracts from 1st July 2003
- The delegation of powers of appointment and promotion over remaining occupational groups
- Service-wide job evaluation exercise to ensure that the remuneration structure is appropriate

The ultimate objective is to improve the quality of Government services and to create an enabling environment in which the private sector can expand and so create new employment opportunities.

At the same time the government has approved the appointment of a higher salaries review committee of independent members who are tasked with advising the government on the pay and pension and allowances of Ministers, holders of judicial office; senior civil servants; senior officers of the armed forces; senior officers of the police force and other such public appointments as may from time to time be specified.

## **7. Public Enterprise Reform**

The Government is committed to progressively implement proposals for the corporatization, reorganisation and privatization of some of its public enterprises. This is to be implemented within the framework of the Public Enterprises Act of 2002. The main benefits will be to reduce the financial burden on taxpayers, attract investment and create jobs, as well as improving efficiency in performance, productivity and accountability of public enterprises every year. Accordingly, the Government will undertake the progressive sale of shares in selected public enterprises; and accelerate the commercialisation and reorganisation of selected trading activities of government departments.

It is expected that the corporatisation of the Machinery Pool and 'Eua Forestry will be completed during the 2002/03 fiscal year, while the corporatisation of the Post Office is in progress and is expected to become operational on 1 January 2004. Furthermore, the government has approved additional trading activities such as the Printing Department and other operations as high priority for corporatisation in the 2003/04 fiscal year.

The government has approved a priority list of enterprises for sale and those on the list for 2003/04 are Leiola Duty Free, Tonga Investments Ltd and its subsidiaries. The Tonga Communications Corporation, as required under its legislation, is in the process of preparing a prospectus for offering 10 percent of its shareholding to Tongan nationals in order that they may become active stakeholders in the communications industry. The government has also decided to sell its shares in Leiola Duty Free later this year while it is anticipated that Tonga Investment Limited's subsidiaries will be offered for sale as individual entities.

## **8. Sectoral Priorities**

This budget continues to give priority to spending in law and order, education, health, and basic infrastructure. The allocations for operations and maintenance in these ministries are increased from last year. These are needed to ensure that they are better able to serve the public through the effective provision of Government services, particularly to the outer islands.

In line with the Government's plans to support the private sector, allocations to ministries that directly support private sector growth, i.e. agriculture and forestry, fisheries, labour, commerce and industry, are also increased. The increased allocations will provide essential support services.

### **8.1 Health**

The government is committed to provide quality health services through a programme of modernization of its services to meet current and potentially new demands from the public. The programme of modernization is a response to the rapid increase of non-communicable diseases such as diabetes and the spread of new diseases such as HIV/Aids and SARS. The health sector has been identified by the public as the sector of highest priority for government spending and the budget has been formulated accordingly. The Ministry of Health has been allocated \$20.6 million in 2003/04. A portion of this expenditure is to be financed by a loan from the World Bank. This is an increase from \$10.4 million for 2002/03. The major initiatives include:

- \$3.1 million for the first phase of the reconstruction of Vaiola Hospital
- \$2.1 million for preventative health care and
- \$10.4 million curative health care.

### **8.2 Education**

Education continues to account for a large share of total expenditure with \$18.9 million allocated in 2003/04. The focus of Government's efforts is to improve the quality of education at all levels. The major allocations for 2003/04 include:

- \$8 million for the provision of primary school services
- \$4.9 million for secondary school services
- \$850,000 for subsidy to non-government schools
- \$850,000 for scholarships for students at USP

### **8.3 Tourism**

Tourism has been identified as one of the key priority sectors for economic growth. One of the key areas is marketing the Kingdom as a unique destination in the Pacific. The government is committed to undertaking joint marketing exercises with wholesalers support in New Zealand, Australia and the West Coast of the United States. The government is also continuing its endeavours to work with the private sector to expand investment in the tourism sector. The government has commissioned a review of enhancing the resources available for marketing which will form the framework for financing future investment activity.

### **8.4 Agriculture**

The economy is predominantly agriculture based and it is important that the government gives priority to food and income security through the diversification of the agricultural product base. The major allocations for 2003/04 include:

- \$1.6 million for export expansion
- \$1.0 million for food security, safety and nutrition

- \$270,000 for livestock production and import substitution
- \$455,000 for forestry services
- \$2.86 million for commercial services

In addition to these allocations the government shall be commissioning a market review of the domestic agriculture sector in order to formulate a long term policy framework. The government will also review the need for a new marketing institution particularly to support small holder farmers to export their products to overseas markets. The government shall be seeking technical assistance to study the feasibility of establishing a warehouse in Auckland for the use of exporters, as well as of establishing a packing and cooling facility at the airport. At the same time funding is being sought to finance the purchase of new tractors for the outer islands.

The government shall be assessing the feasibility of the export diversification fund as well as the creation of an agricultural development fund, a youth development grant fund, an agro-business development fund and an agricultural marketing and promotion fund. These funds are intended to provide resources to the private sector to expand production and exports.

### **8.5 Fisheries**

The fisheries sector is one of the three key priority sectors for government intervention to provide new employment opportunities as well as foreign exchange income. The major allocation for 2003/04 includes:

- \$600,000 for new capital works
- \$125,000 for research and development
- \$140,000 for the development of commercial fisheries

At the same time the government shall be implementing a series of initiatives to further support the expansion of the fisheries sector. These include:

- Reviewing the incidence of input-based taxes
- Reviewing of current foreign investment policies
- Streamlining government administrative policies
- Developing fisheries management plan
- Developing explanatory fishing policy
- Establishing competent authority to control and monitor export quality to meet international quality criteria
- Implementation of EEZ
- Institutional strengthening of the ministry to provide effective resource management and development
- Enhancing the ministry's training programme
- Enhancing financial assistance for the private sector, such as access to credit
- Establishing a fisheries wharf with appropriate facilities
- Establishing a slipway
- Establishing cooling storage facility at airport
- Establishing hatcheries for aquaculture and
- Establishing ice-making facilities in the outer islands

## **9. Public Sector Financial Management**

The Government is committed to improving public sector financial management as part of its commitment to reform efforts. With the approval of the Public Finance Management Act

of 2002, the government must now follow a new regime of transparency and accountability. These new reports will be tabled before the Legislative Assembly during its current session. The Ministry of Finance will be issuing new Treasury Instructions to ensure that ministries are able to comply with the new legislation. New financial management procedures will be introduced with a view to enhancing accountability and performance.

## **10. Tax Reform**

In early May of this year, I had announced the framework of the government's proposed tax reform measures. In developing a plan for future improvement, the government proposes to ensure that the tax burden is spread as widely and fairly as possible, whilst maintaining simplicity and that the new tax measures are based at a level that is sustainable within the constraints of building an effective economy. The lessons of past experience is that sustainable development seldom comes from providing tax holidays and exemptions, rather it comes from fair, sustainable levels of tax that are competitive in the region coupled to an environment that stimulates development.

The current tax system has the essential ingredients of a system to fulfill the requirements of Tonga, but these ingredients require a number of major changes to meet the challenges. Amongst these changes are those that are coming from the larger trading partners (through organisations such as the World Trade Organisation) relating to tariff reform and the opening up of the local markets. Furthermore, the Kingdom is a part of the moves towards a regional free trade zone, such as PICTA, that will require duty concessions for goods traded within and of origin in the region to be provided over the next 10 years.

To stimulate the growth of the private sector and spread the tax burden across the community it is proposed to shift the emphasis of taxes from "trade taxes" namely Ports and Services Tax and Import Duties, to a limited domestic consumption tax. This tax would be collected primarily at the import stage and, with larger businesses, at the point of sale of imported or locally produced goods and services. Coupled to this would be a reworking of individual and corporate income tax to provide a fairer system with generally lower rates of tax and the abolition of Ports and Services Tax.

The proposed new tax has the following characteristics: (i) a minimum number of broad based taxes; (ii) fairness and equity across all; (iii) sectors of the taxpayer base; (iv) transparency, clarity and simplicity of law; (v) simple and cost effective administration (both taxpayer and revenue administration); and (vii) a system suitable to the development of Tonga.

The implementation of these reforms will take time and will be dependent on the need to refocus and train the staff of the Revenue Service Department. It is proposed that new draft legislation will be submitted to the Government for consideration for tabling before the Legislative Assembly during the 2003 session. These will include: Revenue Administration bill; a broad based consumption bill to replace the Sales Tax and Port and Service tax; a simplified individual income tax and a single low rate corporate income tax; Customs (amendment) bill to adopt the WTO valuation system and to adopt a single rate customs duty; IDI (amendment) bill to repeal tax exemptions.

## **11. Revenue Measures**

The new revenue measures that the government is proposing for 2003/04 are for increases in the rate of customs duty on imported cigarettes by 100% and on imported spirits by 50%. The proposed increases are expected to increase revenue collection by \$1.5 million. The

rationale for the increases are to raise additional revenue and also to constrain the consumption of these imports because of the health risks associated with them.

## **12. Economic Growth**

Since the presentation of the budget last year, the economic environment has been mixed. The global economic outlook has worsened. The International Monetary Fund has lowered its projected growth for the world economy for 2003 by 1 percentage point from 4.2 percent to 3.2 percent. Growth in the US and Australia has slowed down and this has serious implications for Tonga in terms of the annual remittances of \$80 - 90 million it receives. The Ministry of Finance has estimated that constant GDP growth rate for Tonga in 2002/03 is 1.9% a revised estimate of the original 2.5%.

Our balance of payments continues to be under pressure, with the gross official foreign reserves, currently at just above 2 months of import cover. This is below the Reserve Bank's minimum reserves target of 3 months of import cover.

The rate of inflation is higher than we had projected at 10 percent per annum. This means that the purchasing power of our incomes is being gradually depleted.

## **13. Economic Outlook**

The economic outlook for Tonga in 2003/04 is mixed and to a large extent depends heavily on stability and impacts from the external market and the effectiveness of the Government's fiscal and monetary policy. The global economy is predicted to stabilize in 2003/04 as major advanced economies recover from the economic downturn in 2001/02. This will play a significant role in Tonga's performance in medium term.

Imports continue to show a strong upward trend while exports overall continue to show a flat trend. At the same time the Government's financial position remains difficult due to high expenditure commitments.

GDP growth is expected to record a modest growth in the order of 2.6 percent in 2003/04. The government stricter fiscal discipline proposed should improve its financial position and moreover, ameliorate some of the pressures on inflation. The current high rate of inflation is expected to stabilize around the 10 percent mark, though it is too early in the economic cycle to forecast any significant reduction in the current high rate. The external position is expected to be stronger than previous years reflecting the disbursement of concessional external loans and the anticipated growth in remittances as global economy strengthens. Gross official foreign reserves are also projected to improve modestly. Monetary policy will be maintained at tight levels to assist conserving the level of foreign reserve at more acceptable levels.

## **14. Exchange Rate and Monetary Policies**

Although the value of the pa'anga against the value of the US dollar has stabilized during 2002/03, the value of the pa'anga against the Australian and New Zealand dollars has declined rapidly. These changes have been caused by the movements of capital and investor sentiment, factors which are essentially beyond the influence of government policy. To mitigate these factors, the Reserve Bank has approved the provision of forward cover by the commercial banks to importers, as well as exporters. The cost of paying for most of our imports has increased and has contributed to the higher rate of inflation. It has also increased the cost of doing business.

On the other hand, the lower exchange rate favours those sectors that rely on the exports of goods and services, which receive higher income. The Government and the Reserve Bank will continue to monitor the impact of the exchange rate on the economy with a view to ensure that a competitive exchange rate is maintained to support our export sectors, while at the same time minimising the impact of imported inflation.

Monetary policy has been maintained at a tight level in recent months in order to conserve the level of the foreign reserves. This will continue until such time as the gross official foreign reserves have increased to more acceptable levels.

## **15. Budget Estimates**

In economic terms, revenues and grants in 2003/04 will amount to \$125.0 million, with expenditure and net lending totaling some \$131.5 million. This will result in a deficit of \$6.6 million compared with a 2002/03 budget time estimate of a deficit of \$8.7 million.

The expenditure and net lending of \$131.5 million will be funded with \$113.0 million from Government's general revenue, \$11.0 million from foreign development assistance and the remaining \$7.5 million from revolving funds and other local contributions. Reflecting the Government's ongoing commitment to facilitate the growth of the private sector and to avoid crowding out the domestic financial markets, the estimated deficit of \$6.6 million will be financed wholly through concessional external borrowings and the use of cash balances. The only domestic borrowings planned by the Government for 2003/04 will be to finance the rollover of maturing bonds and the loan from the World Bank for the Health Sector Support Projects.

The cash components of the budget for 2003/04 will be complemented by generous in-kind contributions by our overseas development partners amounting to a further \$9.7 million.

## **16. Conclusion**

The budget continues to build the foundation which will enable us to achieve the long term vision for the people of Tonga outlined in the government's strategic development plan. Our long term vision can only be achieved through collective hard and patient work. This is the only way to ensure that we will leave a lasting legacy for the future generations of the people of Tonga. The Government is grateful to the people of Tonga for their trust and continued patience and to its overseas development partners for their continued assistance.

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S.T.T 'Utoikamanu  
Minister of Finance.  
30<sup>th</sup> May 2003

**Budget Statement for Year Ending 30<sup>th</sup> June 2004**

**Budget Paper No 1: *Review of the Tongan Economy & Outlook 2003/04***





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## 1.0 Introduction

This Budget Paper No.1 is set out to address two main issues. First, it provides an overview of the country's economic performance for 2002/03 financial year. Second, it contains a discussion of the macroeconomic framework within which the government's approved fiscal policies for 2003/04 form a basis for sustainable economic growth and improves the well being of Tongans as outlined in the Strategic Development Plan Seven.

The first half of 2002/03 marked the recovery of the world economy from the downturn experienced in 2001/02. This however slowed down in the second half due to various events such as political instability in the Middle East, outbreak of SARS and fears of any further terrorism attacks as a result of the Iraq war. The setback in the world economy's performance has trickled through to the regional and domestic economies.

The 2003/04 Budget will continue to re-enforce the underpinning principles of program budgeting by encouraging program managers to manage efficiently and operate a programme that is more transparent and affordable by the government. The budget also highlights the second year of economic reform and although limited progress has been made, the approval by the Legislative Assembly of the key legislations set the foundations for the reform programme. This is expected to provide a more efficient government performance and improve the macroeconomic environment suitable for developing private sector activities. Furthermore, new initiatives have been implemented by the government to target improvements in economic growth by making funds available for specific projects in the agriculture, fisheries and tourism sectors.

The Paper consists of Section 2 that presents the performance of the global economy. Section 3 brings to light the latest developments in the domestic economy. Section 4 presents factors behind the increasing inflation rate. Section 5 reviews developments in monetary policy, and the outlook for interest rates is in Section 6. External sector performances are outlined in section 7. Section 8 discusses the trends in Exchange Rate and the economic outlook for 2002/03 and in the medium term is addressed in Section 9.

## 2.0 Global Economy

The performance of the world economic and financial conditions was mixed in 2002. In the first half of the year, the global economy recovered strongly from the effects of the September 11 terrorist attacks, supported by monetary and fiscal stimuli, particularly in the US and initially low commodity prices. However, the pace of the international recovery slowed considerably in the second half of the year due to the political instability and continued threat from terrorist organizations, which manifested itself in weakening stock markets and higher oil prices.

The International Monetary Fund's (IMF) World Economic Outlook (April 2003) reported that the global economic recovery was expected to continue at a moderate pace considering the slowdown of the economic performance of the world's three largest economies, the US, Japan and the Euro zone. The risks to the outlook were seen primarily on the downside, however, global GDP growth for the year was estimated at 3.0 percent, 0.2 percentage point higher than earlier projected. The slow pace of the recovery was attributed mainly to the slow recovery in the industrial countries because of the war in Iraq and adverse effects of the fallout from the bursting of the equity market bubble. This is reflected by the industrial

production that has stagnated in the major advanced countries, accompanied by a slowdown in global trade growth and labor market conditions have remained soft.

However, after strengthening in the last quarter of 2002, mature financial markets fell back in early 2003, with equity markets declining to 40-60% below their early 2000 peaks. This appears largely to reflect rising risks and uncertainties with respect to both geopolitical situation and the sluggish pace of the recovery, offset in part by some improvement in risk appetite. At the same time, bond markets have remained subdued, with continuing price expectations of sluggish growth, while perhaps aided by some easing of concerns about corporate governance particularly for high yield paper.

The geopolitical uncertainties have also made significant impacts on commodities markets. After exhibiting considerable volatility throughout most of 2002, oil prices rose sharply in late 2002 and early 2003 due to the war in Iraq and supply disruptions associated with the political crisis in Venezuela. Despite OPEC's decision in early January 2003 to raise its output target by 1.5 million barrels a day prices continued to climb, peaking in mid March at US\$34 a barrel. Since that time, oil prices have fallen sharply with expectations that the war would begin and finish quickly, but the market remains exceptionally volatile.

The impact of the war in Iraq had substantial effects on the upward revision of oil prices since the last outlook and all the uncertainties associated with it. It accounted for a substantial proportion of the downward revision to global growth in 2003.

The projected growth in global output to the end of 2003 is expected to reach an estimated 3.2% compared to 3.0% recorded in 2002. The growth in the US and its economic allies is projected to rise to 1.8 percent at the end of 2003. This is a slight increase of 0.1 percent from the level recorded last year.

In terms of Tonga's major trading partners, the US economy recovered from its recession in 2002, at a considerably weaker pace than previously expected. The slowdown in the US recovery was attributed to plummeting consumer and business confidence as tensions with oil price hikes and dampening stock prices.

In the euro area, with domestic demand still quite weak, fiscal policy tightening and the euro appreciating, growth was projected to be marginally increased by 0.3% from 0.8% achieved last year. In Japan GDP growth is also expected to remain weak as deflation persists and domestic demand growth is expected to fade further. Australia and New Zealand projected a reduction of 0.8 and 1.5% respectively at the end of the 2003. The slow down in these economies is of concern to Tonga as they are major sources of remittances. Rising unemployment in the USA is also another concern given that the bulk of remittances come from the USA.

In emerging markets, GDP growth prospects for 2003 have fallen moderately, in part reflecting the weaker outlook in industrial countries. Growth in emerging Asia exceeded expectations in 2002, particularly in China, and is expected to remain solid in 2003. However, the recent slowdown in the global information technology (IT) sector will have an adverse impact on the newly industrialized economies and the ASEAN-4 and the recent outbreak of SARS poses a risk to activity in several countries.

World inflation remains very low, with consumer prices expected to increase by less than 2 percent in 2003 in advanced countries and by 6.0% in developing countries. In the advanced countries, inflation is projected to increase by 0.4% to 1.9% in 2003.

**Table 1: Advanced Economies: Real GDP, Consumer Prices and Unemployment**

	Real GDP				Consumer Prices				Unemployment			
	2001	2002	2003	2004	2001	2002	2003	2004	2001	2002	2003	2004
<b>USA</b>	0.3	2.4	2.2	3.6	2.8	1.6	2.3	2.3	4.8	5.8	6.2	5.9
<b>Japan</b>	0.4	0.3	0.8	1.0	-0.7	-0.9	-0.7	-0.6	5.0	5.4	5.5	5.4
<b>Australia</b>	2.7	3.8	3.0	3.7	4.4	3.0	2.7	2.5	6.7	6.3	6.0	5.7
<b>New Zealand</b>	2.4	4.2	2.7	3.0	2.7	2.7	1.9	2.0	5.3	5.2	5.4	5.3
<b>European Union</b>	1.4	0.8	1.1	2.3	2.6	2.3	2.0	1.5	8.0	8.3	8.8	8.7

Source: IMF World Economic Outlook, April 2003.

## 2.1. Regional Economy

After two years of stagnation, the Forum Island Countries (FICs) witnessed a slight recovery in economic growth as regional GDP grew by about 1.0% in 2002. The economic recovery was underpinned by favorable commodity prices, a rise in tourist arrivals and a general increase in domestic consumption. As projected, the recovery was notable for the emergence from recession of the PNG economy, and strengthened economic performance of Fiji and Samoa.

The improvement in the global conditions in 2002, in particular the robust growth in Australia and New Zealand also helped buoy domestic demand in the FICs. However, internal problems accompanied by weak macroeconomic management prevented the region from gaining a stronger recovery in 2002. After recording a growth of less than 1.0 percent in 2001, from 6.6% a year earlier, the FICs recorded a modest recovery of 1.0% for 2002. The growth prospect for FICs in 2003 and 2004 remain positive with growth forecast ranging between 1.5 and 3.6%.

**Table 2: Forum Island Countries Economies: GDP growth and inflation**

Countries	GDP Growth (% per year)					Inflation (% per year)	Inflation (% per year)
	2000	2001	2002	2003 (f)	2004 (f)	2002	2003 (f)
Cook Islands	7.9	5.1	0.3	1.5	3.2	3.9	3.4
FSM	4.4	1.1	0.8	2.4	1.5	0	1.5
Fiji	-3.2	4.3	4.4	5.1	3.6	0.9	3
Kiribati	0.2	1.5	2.8	2.5	2.3	5.1	Na
Tuvalu	3	4	2	2	1.8	2.6	3
Vanuatu	2.7	-2.7	-0.3	1.3	2.2	2	2.5
PNG	-1.2	-3.4	-0.5	1	2	11.8	9
Republic of Marshall Islands	0.7	2.1	4	3	2	2	2.5
Samoa	6.9	6.2	1.3	3.6	3.5	5.5	3.5
Solomon Island	-13.3	-10.1	-4	2	3	9	8

Source: ADB 2003

Despite expectations of a positive growth for the FICs, there are internal and external constraints to the growth projections. These include poor governance, political instability, oversized public sectors, increasing population growth, insufficient skilled labour and inadequacy of technological and financial sector infrastructure necessary to promote sustainable growth. Notably, good governance is an underlying strand to promoting political and economic stability in the region. External factors are mostly beyond the control of the FICs. For example the war in Iraq and the outbreak of the Severe Acute

Respiratory Syndrome (SARS) have added further headwinds to an already slowing global economy in 2003.

The IMF projected the economic growth for Australia and New Zealand to reach 3.0% and 2.7%, showing a decrease of 0.8% and 1.5% respectively from what was recorded in the previous year. The Pacific Island Forum Secretariat economic report (May) projected that Fiji and Samoa have shown growth rates of 5.1% and 3.6% compared to 4.4% and 1.3% recorded in 2002.

There is a perception that the prolonged political instability, particularly terrorist threat in the Middle East region may further hike the oil prices and world growth would have significant consequences for FIC economies. Certainly higher oil prices would dampen not only exports but also consumption levels, through higher petrol prices and potentially business investment.

## **2.2. Effect of the Iraq War on the region**

Clearly, it is difficult to quantify the impact of the war in Iraq on the regional economy, however the continuing uncertainties in the Middle East will have an economic cost. This geopolitical uncertainty has already affected the world economy in recent months through its impact on oil prices and consumer and business confidences. Any prolonged uncertainties accompanied by terrorist attacks are likely to result in a more sustained decline in consumer and business confidences. The impacts of the war in Iraq are as follows:

### **2.2.1. Oil prices**

As Iraq is a major producer and exporter of oil, the distribution of its shipments will lead to higher oil prices which are now experienced in Tonga through for example, gasoline costing \$1.45 per liter, an increase of 15 cents.

### **2.2.2. Confidence effects**

The war could further depress consumer and business confidence, with negative implications for consumption and investment spending. The impact would likely be heightened if terrorist attacks continue. While changes in confidence are not always reflective of changing spending trends, if business confidence was to be disrupted for long, spending will be adversely affected.

### **2.2.3. Travel, tourism and remittance**

Obviously, geopolitical uncertainties have made people less willing to travel, particularly internationally. This will adversely affect countries that are dependent on tourism - related revenues and will have a negative impact on airlines.

### **2.2.4. Uncertainty in financial markets**

Increased geopolitical uncertainty would likely result in higher risk in financial markets and lower equity valuations. A sustained 10 percent drop in equity prices could have a significant effect on activity, through wealth effects on consumption and investment, particularly in countries where equities are widely held in banks that have large equity holdings. A decline in equity prices would weaken bank capital and increase the risk of a credit crunch. This is more apparent when banking systems are already under pressure. Capital flows to emerging markets are also likely to decline, putting pressure on countries with large external financing.

### 2.3. The effect of SARS in the regions

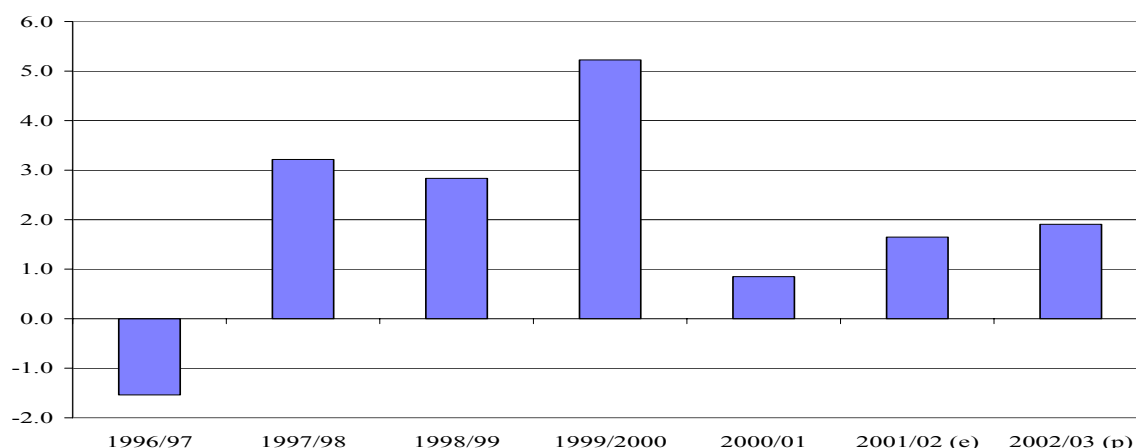
Tourism is a major foreign exchange earner in most FICs given their narrow economic bases. However, the outbreak of SARS has greatly affected the travel plans of tourists and the tourism sector.

The SARS epidemic has also significantly affected travel and tourism in several East and South East Asian countries. This also has an adverse impact on service sub sectors, such as hotels and restaurants, retail trade and transport particularly air transport within the region. In Australia, the threats of terrorism and SARS have resulted in job losses in the airline industry. This is of concern to Tonga given the potential tourists from Asian countries.

## 3.0 Domestic Economy

The latest official estimates of Gross Domestic Product (GDP) for 2000/01, at 1995/96 constant prices, stood at \$242.2 million, posting a real economic growth of 0.8%, compared to 0.5% released in last year's Budget Statement. This low growth rate reflected the weakening of the Tongan economy. On the basis of currently available economic data, the staffs of the Ministry of Finance have estimated the growth rate for 2001/02 at 1.6%, 1.9% for 2002/03 and projected rate of 2.6% for 2003/04. The GDP growth pattern for the last six years is depicted in Figure 1.

 **Figure 1: Constant Gross Domestic Product Growth Rate (1995/96 prices)**



(e): estimate by Ministry of Finance

(p): projection by Ministry of Finance

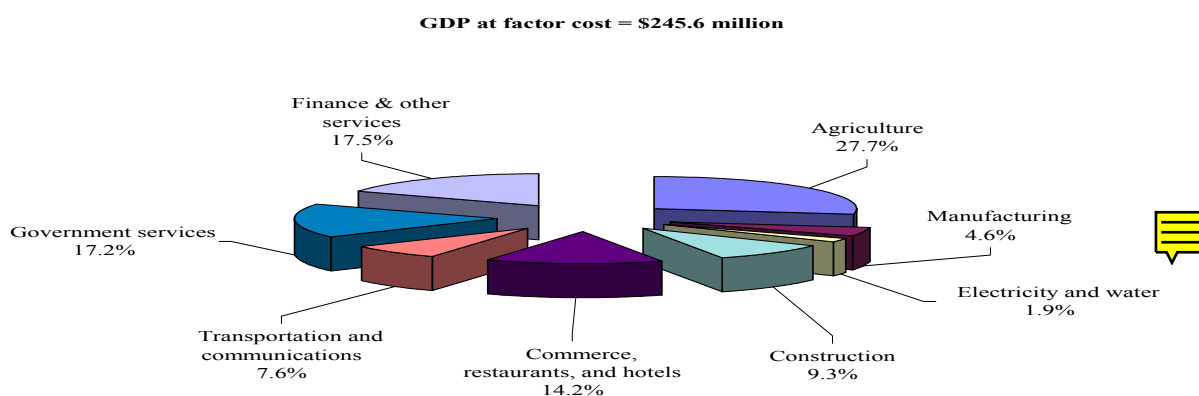
The estimate for 2001/02 is based on improvements in the agriculture sector mainly in squash and fish exports. The finance sector continued to record strong growth while the other sectors recorded modest growth.

Indicators suggest that the economy continues to expand only slightly in 2002/03. The agriculture sector contributed to this growth with increases in both exports and local production. Implementation of the Cyclone Waka rehabilitation project during 2002/03 contributed to the strong growth in the construction sector. The finance sector continued strongly and is expected to improve further. Other sectors of the economy are anticipated to pick up in the medium term. Despite the effects of the increasing inflation rate, the economic growth for 2002/03 is projected in the order of 1.9%.

### 3.1. Real Sector Developments

The Tongan economy has gone through some structural changes starting in the late eighties through the nineties and it has continued into the new millennium. This is demonstrated by the changes in sectoral contribution to GDP. While agriculture remains the largest single sector, over 50 percent of total output is contributed by the services sector. The primary sector (agriculture forestry, fisheries and mining), which dominated the Tongan economy during the eighties and early nineties now contributes less than 30 percent of the total GDP. The sectoral contribution to GDP for fiscal year 2001/02 is depicted in the pie chart below.

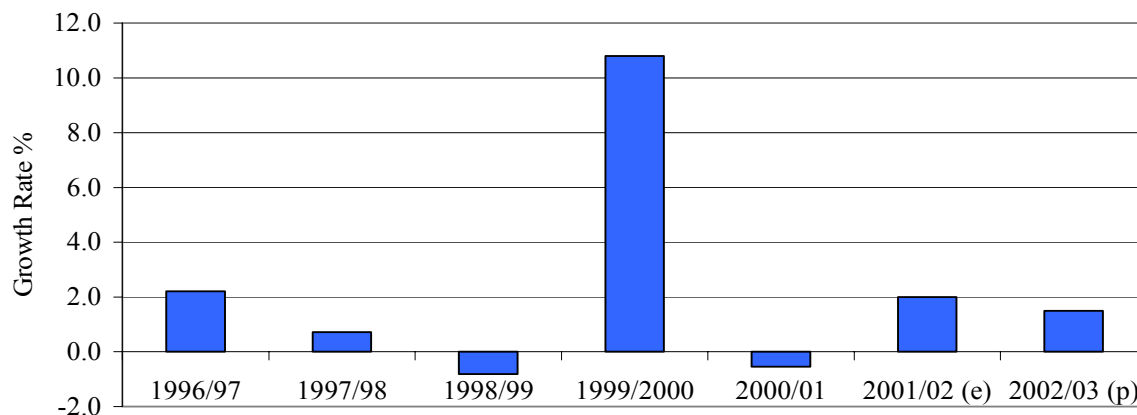
Figure 2: Sectoral Contribution to Real GDP at factor cost for the year 2001/02



### 3.2. Agriculture

The agriculture sector registered an estimated growth rate of 2.0% in 2001/02, an improvement from a negative growth rate of 0.5% in 2000/01. This is attributed to an increase in volume of squash exported in 2001 as well as marginal growth from the fishing sector. Production in 2002/03 is expected to improve on this level based on a much more favourable squash and vanilla season outweighing the adverse impact of El nino on the fishing industry. The performance of the agriculture sector over the last seven years is illustrated in Figure 3.

Figure 3: Agriculture Real Growth Rates for 1996/97 to 2002/03





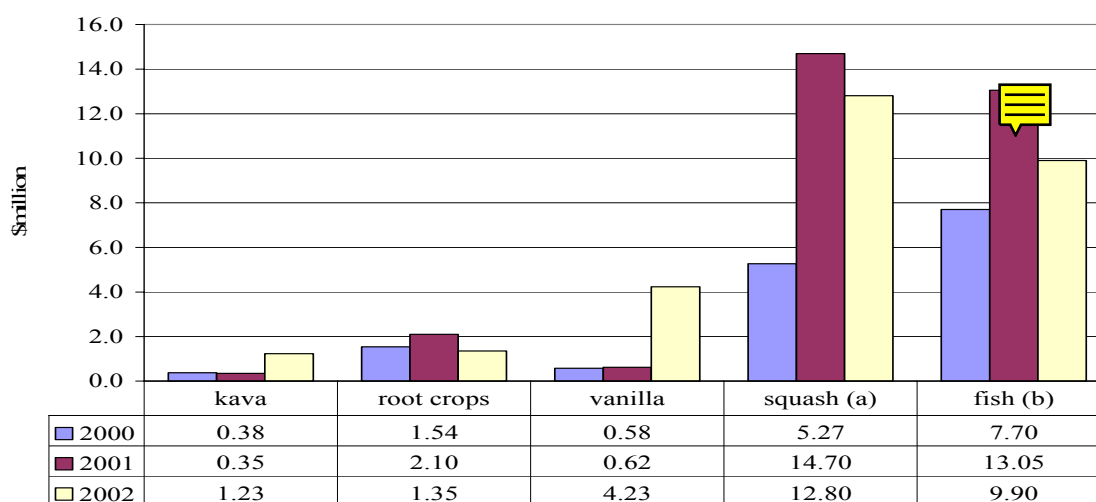
After the devastation effect of Cyclone Waka on the agriculture sector, the production has picked up in Vava'u and 'Eua. Agricultural supplies in the local markets were abundant throughout the year 2002/03. Provisional data on Talamahu market sales indicated the total volume of root crops increased by 2.0% to 2,852 mt from the level in the previous year and vegetables increased by 71.6% to 191.2 mt. However, fruits declined by 30.0% to 743.0 mt.

On exports, squash continued to dominate agricultural exports. The provisional data from the Ministry of Labour, Commerce & Industries indicated that the volume of squash exported in 2002 had increased to 18,144 metric tonnes compared to 13,390 metric tonnes in 2001. The average price however was much lower in 2002 than 2001.

Vanilla beans exports also increased to \$4.2 million for 2002 compared to only \$0.6 million recorded in 2001. This is the highest exports ever recorded in Tonga due to higher prices which reached \$46 per kilogram. Ministry of Agriculture has recently approved a project funded by the European Union under the Stabex Protocol in order to sustain production in the vanilla industry and development of Tahitian vanilla, which fetches high prices in the world market.

Root crops continued to maintain the high level of 2001 both in domestic market and exports. With the current favourable weather, it is anticipated that production will continue increasing for both food security and exports. Kava exports had picked up in 2002/03 registering \$1.2 million. This level of production is expected to increase as demands from foreign markets grow and the rehabilitation programme in Vava'u bears fruit. The Ministry of Agriculture continues with its existing projects, such as papaya<sup>1</sup>, the coconut replanting scheme, kava and Tahitian vanilla. Figure 4 shows a graphical representation of the trend of the major agricultural export commodities.

**Figure 4: Principal Exports of Agricultural Products**



(a): value for 2001 was computed using a unit price of \$1.06; value for 2002 use a unit price of .71 cents.  
 (b): fish exports statistics were taken from NRBT survey on major fishing companies.

<sup>1</sup> The establishment of the HFTA Treatment plant at the Fua'amotu airport was developed to enable the exporting of papaya, eggplant, breadfruit, local mango and tomatoes.

### 3.3. Fisheries

Activity in the fishing industry has increased in the year 2001/02 contributing over 10% to the overall value added increase in the primary sector. The total volume of fish exports was approximated at 1,500 mt, which is over 50% compared to the level in 2000/01.

However, the outturn for 2002/03 has painted a different picture as fishing was hampered severely by the impact of El Nino on weather conditions. Largely reflecting this phenomenon, fish exports for 2002 declined by 25% to \$9.9 million from \$13.0 million recorded in 2001. [Indicators on the local sales depicted a similar outturn to that in previous years.](#) The downturn has adversely impacted the operations of some of the main export companies resulting in one of them entering liquidation.

The fishing industry is vulnerable to the weather conditions as witnessed in 2002/03. Its performance is also constrained by the availability of domestic capital for investment and the high transportation cost, especially airfreight for fresh fish exports. These issues have been the focus of the Ministry of Fisheries by reviewing its current foreign investment policies as well as streamlining government administrative procedures to encourage private sector activities in the industry. The ministry is also looking into ways to provide the appropriate infrastructure and financial assistance that would strengthen the industry further.

The prospect for the agricultural and fisheries sector in 2003/04 is positive and to a large extent depends on the improvement of weather conditions. It is expected that fish catches will pick up as El Nino comes to an end and the government continues to strengthen investment policies in the fisheries sector. The growth for this sector is anticipated in the order of 3.0%.

### 3.4. Manufacturing

The performance of the industry over the past five years has stagnated averaging around 1.0% growth despite efforts to develop and encourage investment in the industry. Based on the quarterly survey by the Statistics Department, some growth had been recorded in 2001/02, which is estimated at 2.2% showing an improvement from the negative growth in the previous two years. The improvement was recorded mainly in the manufacturing of food and construction materials for domestic consumption.

In 2002/03, performance of the industry was dampened further due to the continued depreciation of the pa'anga that increased the cost of inputs for the manufacturing sector and, therefore, the costs of production. With their limited capacity to have a meaningful impact on the costs of their inputs, small enterprises are affected to a larger extent by those influences. Transportation costs have also increased making it more expensive to export manufactured commodities to overseas markets. Moreover, with the small domestic market it is difficult for import substitution enterprises to realize the economies of scale needed to compete against foreign producers. These constraints have limited the industry to a modest growth rate of 1.0%.

The government is into the second year of the Economic and Public Sector Reform Program and addressing these impediments to private sector development is a crucial component of the program. The government has streamlined its administrative barriers, reviewed government services to be more efficient, increased specific technical training, and increased availability of funds for private sector investment.

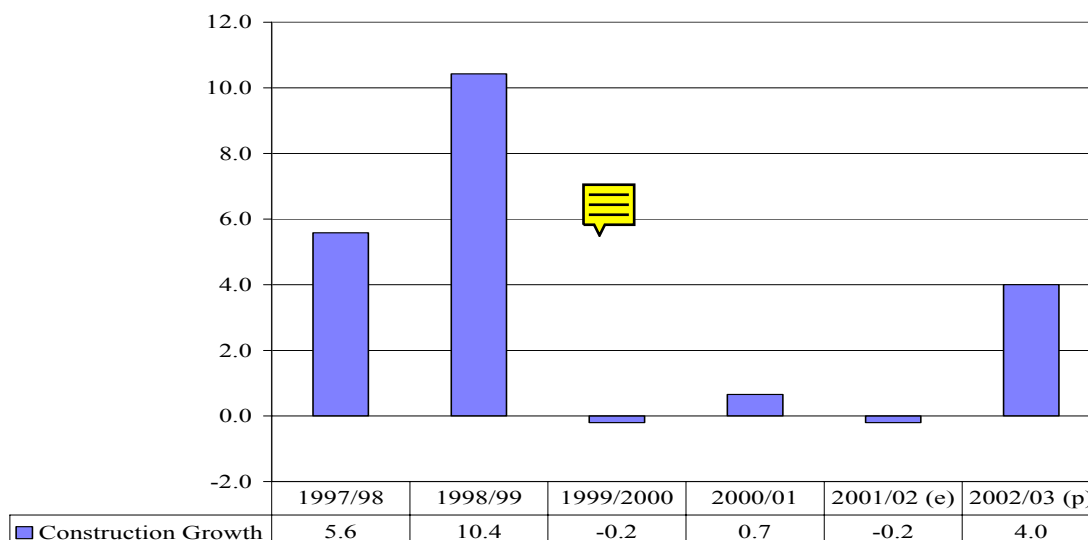
### 3.5. Construction

The construction sector grew at an average growth rate of 2.7% in the last four years. Official statistics however indicated that in 2001/02 activities in the sector recorded negative growth rate of 0.2%, a decline from the Ministry of Finance’s previous projection. The basis for the revision was due to deferral of Cyclone Waka related reconstruction work from 2001/02 to 2002/03. The slow growth also reflected the completion of some major projects.

The performance in the construction industry is projected to strengthen in 2002/03 as the main bulk of the reconstruction work for Cyclone Waka falls in this period, and an increase in the aid funded projects such as electrification projects in the Niuas and Ha’apai groups, Japanese Grassroots projects and other rural development projects. Other major construction projects during the financial year include the LDS renovation project, FIFA Goal at the soccer academy, upgrading of the Dateline hotel, completion of Fund Management business complex, **extension to the Faua wharf projects**, and commencement of Tonga High School construction. In addition, activities in smaller scale construction for residential and business purposes recorded moderate growth as evidenced by **10%** growth in bank lending for residential housing. It is anticipated that growth rate for construction sector improves in the order of 4.0% for 2002/03.

The outlook for 2003/04 is also positive in the order of 3%, taking into account the commencement of the World Bank Health Project, the construction of new Tonga High School, and the Catholic education project. Figure 5 depicts the growth rate trend of construction industry in the past six years.

**Figure 5: Real GDP Growth Rates for Construction Industry, for year 1997/98-2002/03**



(e): official estimates from Statistics Department

(p): projection by Ministry of Finance

### 3.6. Tourism

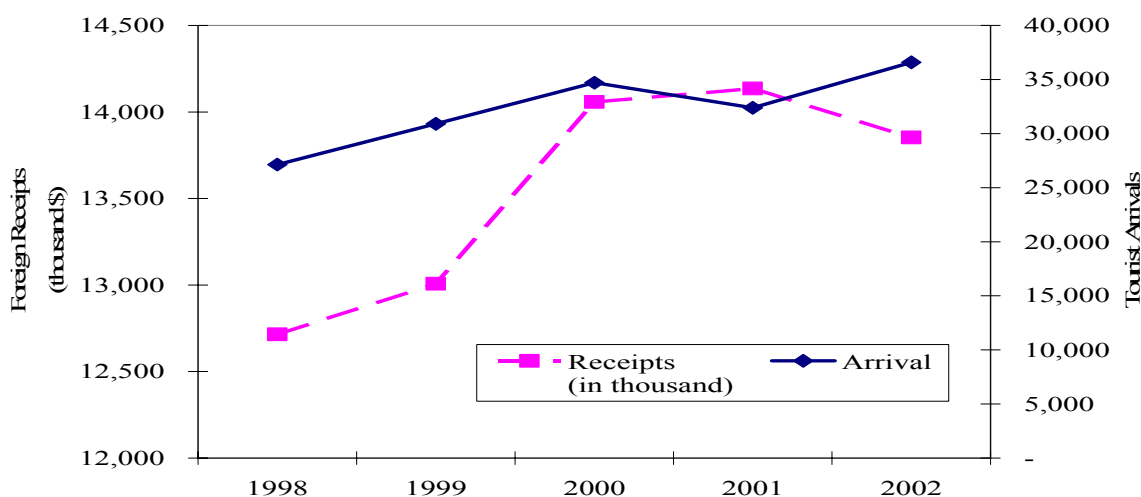
Tourism is still considered an important sector for development and one that has significant impact on the local economy through the creation of employment opportunities, generating income particularly in the rural areas and increased foreign exchange earnings. It also offers an opportunity for diversification from agricultural-based production. In 2001/02, the global tourism industry was severely affected by the terrorist attacks in the US and

consequently impacted the domestic industry. The airline companies suffered the most from the traumatic event. Partial indicators indicate that the industry slowed down by about 3.0% in 2001/02.

The industry picked up in the first half of 2002/03 with tourist arrivals reaching a total of 20,234, which is about 9% higher than the 18,567 visitors in the corresponding period last year. Foreign receipts also increased by 19.0%. About 9 cruise ships visited the Kingdom in the remaining quarters of 2002/03. According to an estimate from Tonga Visitors Bureau, an estimated foreign earning of over \$200,000 per cruise ship is paid for wharfage, fuel, water, handling and touring agencies, catering, taxis and handicrafts.

Despite the indication of improvement in 2002/03, it is important to note the adverse effects of various global events in the domestic industry. The recovery in the tourism industry from the September 11 terrorist acts caused another stumbling block in 2002/03 with the effects of the US going to war with Iraq, terrorist attack in Bali and most significantly the outbreak of Severe Acute Respiratory Syndrome (SARS). Obviously, the impact of the War in Iraq and general instability in the Middle East region is reflected in higher fuel prices in Tonga, and has inflated price levels across sectors of the economy. This has put pressure on economic activities in the Kingdom and significantly reduced the purchasing power of consumers. The outbreak of SARS, although there is no positive case in Tonga yet, has affected the confidence and restricted the ability of international travelers to travel thus negatively influencing tourism activities and the airline industry. This also has an adverse impact on service sub sectors, such as hotels and restaurants, retail trade and transportation particularly air transport.

**Figure 6: Number of Tourist Arrivals & Tourism Earning Receipts for the year 1998-2002**



The government can only do so much to minimize the adverse effects of these events in the economy and attract tourists to Tonga. The Tonga Visitors Bureau continues to focus on promoting a clear and coordinated image of Tonga in all areas of tourist development.

### 3.7. Wholesale, Retail and Distribution

The latest official statistics indicate that commerce, restaurants, and hotels performance have improved in 2001/02, recording a growth rate of 3.0% compared to 0.9% in 2000/01. It is important to note that this growth rate represents both the tourism and wholesale & retail industry. The expansion in the sector is reflected in the increased imports of goods

and services over the last five years. However, results of a consultative survey by the Ministry of Finance revealed that activity amongst major wholesaler and retailer have not performed as well as indicated. One of the major reasons for the decline is the continued expansion of the informal markets, which undermine demand for the products of the operators in the formal market.

The common indicator used to determine the performance level of this sector is international trade, particularly growth of imports. Over the years, despite escalating price levels, imports have continued to increase especially food commodities, tobacco and motor vehicles. The strength and behaviour of consumer expenditure in Tonga seem to link closely to the growth of private household remittances. The government is currently seeking ways to encourage the transfer of remittance inflows into productive investment rather than merely consumption. The commerce, restaurants and hotels industry is expected to record a growth rate of 2.0% in 2002/03.

### **3.8. Transportation & Communication**

The real value added contribution of the industry has contracted in 2001/02 recording negative growth rate of 8.2%. The decline was due to Royal Tongan Airline cessation of its Boeing-737 international services in March 2001. This has partially offset growth recorded in the shipping and land transport sectors.

In the transportation sector, the expansion by Royal Tongan Airlines of its international services through the leasing of a Boeing 757 aircraft from Royal Brunei Airlines has improved competitions in the airlines industry. Other sectors of the economy such as tourism, agriculture and fisheries benefited from the increased transportation in and out of Tonga. However, the limited size of the domestic market has constrained any significant growth in the sector coupled with the difficulties faced by most airlines in the world due to the war in the Gulf, uncertainties of terrorism attacks and the effects of SARS outbreak. Shipping on the other hand continues to expand, which is consistent with the continued increase in external sector activities.

In 2002/03, the Shoreline Group commenced operations in the telecommunication sector, providing competition to the services of the government-owned Tonga Communications Corporation. The most visible impact of competition has been the significant reduction in the costs of telecommunication services. It is anticipated that the reduction in costs will encourage a greater demand for such services, while at the same time, the limited size of the domestic market imposed constraints on the contribution by the sector to overall economic growth.



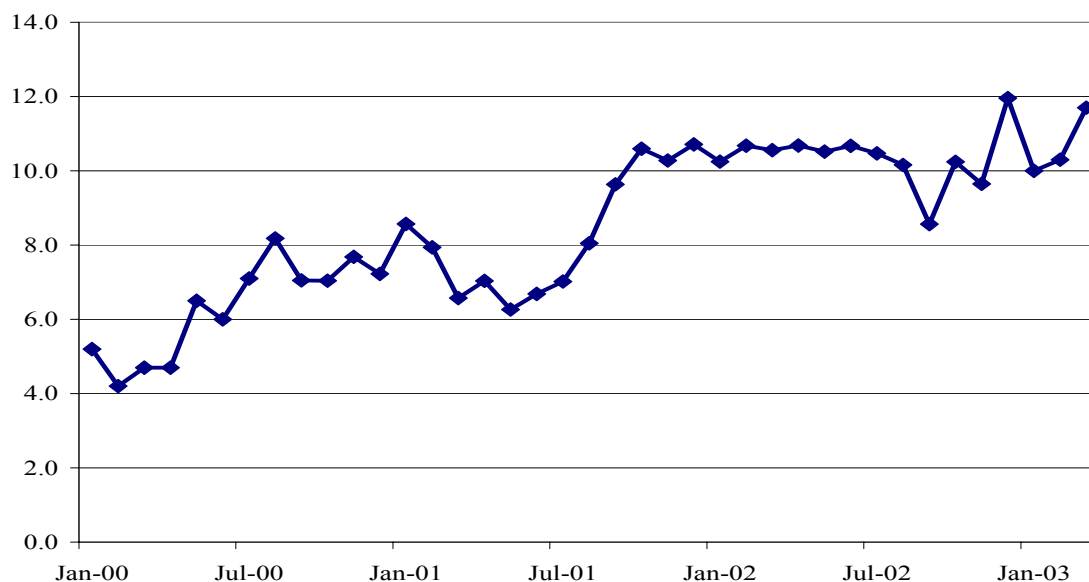
## **4.0 Domestic Price Developments**

With the new revision of the CPI base year period for November 2002, the annual inflation rate reached 11.5% at the end of March 2003, an increase of 1.2% when compared to 10.5% recorded in the same month last year.

A number of factors have contributed to the recent high inflation. The increase in world oil prices has translated directly into higher retail fuel costs and by raising the costs of transportation, production and distribution have indirectly raised prices for both local and imported goods and services. The depreciation of the pa'anga contributed significantly to the rise of the imported CPI. This is a concern as the implications of accelerating inflation and eroding the consumers' purchasing power has led to expectations for a wage and salary

increase, which in turn pushes up costs for domestic producers and distributors of imported goods.

**Figure 7: Annual Inflation Rates for all items for January 2000 to March 2003**



The most probable inflation outlook for 2003 is that inflation should not exceed the current rate and it should ease from its present level. With Tonga being a small economy, the inflation rate remains vulnerable to shocks, such as the recent fuel price increases or adverse natural calamities affecting supplies of agricultural produce. Within these constraints the government's policy is aimed at stabilizing inflation at a single digit level.

One of the notable features of the CPI is the 3.3 percent increase in the prices of imported goods. A major contributor to the jump in the inflation rate has been the increase in the prices of meat, which carries a weight of 76.7 percent of the consumer price index basket.

## 5.0 Monetary Policy & Development

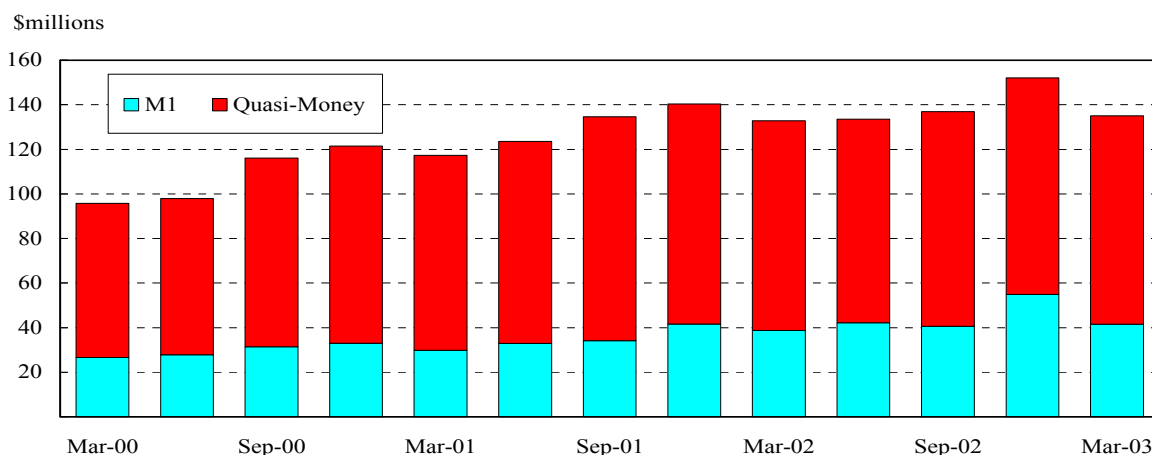
### 5.1. Money Supply

During 2001/02, the broad money supply M2 reached \$132.7 million compared to \$123.0 million in 2000/01. This represented a growth rate of 7.9 percent, a decline from the 26.5 percent growth rate recorded for the previous year June 2001.

The growth in money supply during the year was reflected by an increase in both M1 and quasi-money, by \$9.4 million and \$0.3 million, respectively. The two components of M1, currency in circulation and demand deposits, both increased by \$1.5 million and \$7.8 million, respectively. The growth in quasi-money was a result of an increase in savings deposits by \$5.6 million and term deposits by \$4.2 million.

During the first nine months of the 2002/03 financial year, broad money reached \$134.2 million, a 1.1 percent increase from the level at the end of June 2002. This increase reflected the substantial growth in foreign currency deposits by 70.0 percent.

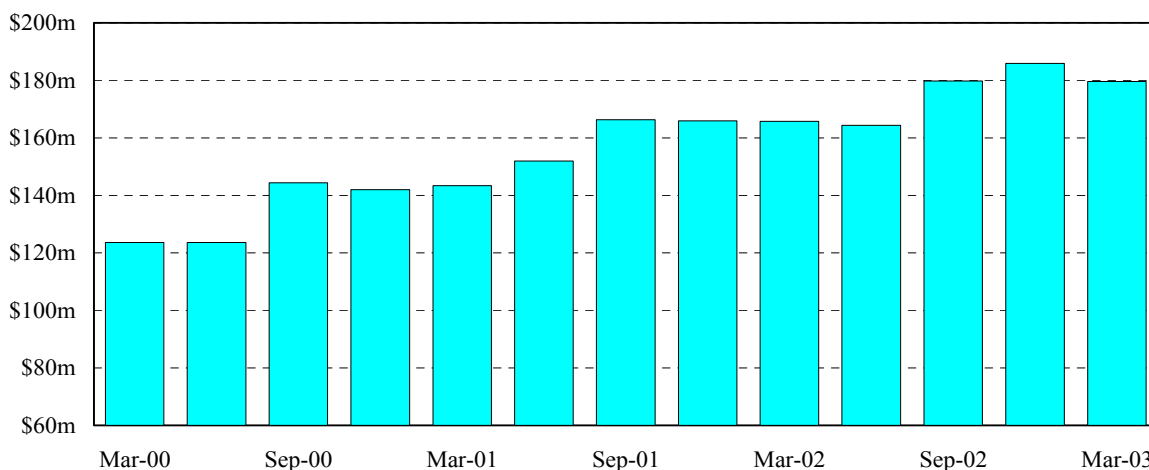
**Figure 8: Money Supply Components**



## 5.2. Domestic Credit

During the year ended June 2002, the net domestic credit (net of government deposits) extended by the banking system rose by \$12.4 million to \$164.4 million. This represented an annual growth of 8.2 percent compared with the 22.9 percent increase in 2000/01. The higher level of net domestic credit was a result of increased private and non-financial public enterprise credit. Private sector credit increased by \$20.7 million to \$162.6 million while credit to the non-financial public enterprises rose by \$3.8 million to \$10.2 million. At the same time, net credit to the Government declined by \$12.2 million to -\$8.5 million. This reflected an improvement in Government's net credit position.

**Figure 9: Domestic Credit Level**



During the nine months ended March 2003, net domestic credit increased by \$15.2 million to \$179.6 million, a 9.3 percent increase from the end of June 2002. Credit to the private sector rose by 8.4 percent while credit to Non-Financial Public Enterprises rose by 31.4 percent.

## 5.3. Bank Lending

During 2001/02, loans and advances from the commercial banks to the private sector increased by \$17.3 million to \$125.1 million. Loans to the industrial sector increased by

\$7.8 million to \$61.0 million, loans to the agricultural sector increased by \$3.1 million to \$9.8 million and that to housing increased slightly by \$0.4 million to \$34 million.

During the nine months ended March 2003, loans and advances to the private sector increased further by \$17.0 million from end of June 2002. This increase reflected increases in lending to the industrial sector by \$8.1 million and housing sector by \$7.1 million.

#### 5.4. Deposits with the Banking System

During 2001/02, total deposits with the banking system increased by \$12.7 million to a level of \$134.2 million. The rise was a result of higher deposits by the private sector, government and 'others'. Private sector deposits increased by \$5.3 million to a level of \$114.6 million. This increase was due to increases in demand deposits by \$6.0 million, savings deposits by \$6.0 million and time deposits by \$2.9 million, which more than offset the decline in foreign currency account deposits. Government deposits increased by \$4.9 million to a level of \$11.7 million and 'others' deposits rose by \$2.4 million to a level of \$7.9 million.

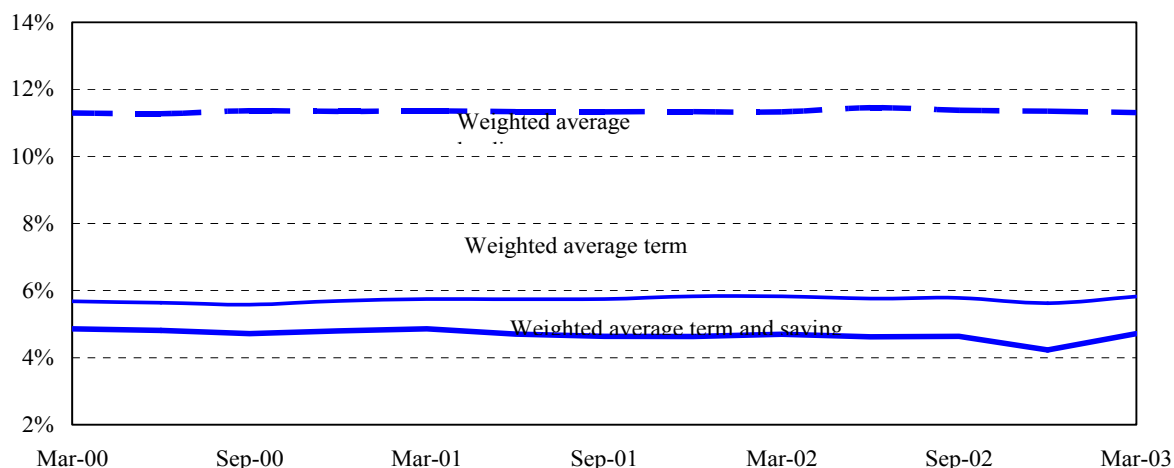
During the first nine months of 2002/03, total deposits with the banking system increased further by \$8.1 million to \$142.4 million from the end of June 2002. This growth reflected increases in government deposits by \$2.4 million and 'others' deposits by \$7.1 million.

### 6.0 Interest Rates

The nominal published annual interest rates on term and savings deposits reported by commercial banks remained unchanged during the 2001/02 financial year. However weighted average deposit rates have followed a slow downward trend. This is indicated by the weighted average interest rate paid on deposits at 4.62 percent at the end of June 2002, which was slightly lower compared with 4.70 percent at the end of June 2001, and 4.81 percent at the end of June 2000. Since the end of June 2002, the weighted average interest rate on deposits slowly climbed to 4.72 percent at the end of March 2003.

On the other hand, lending interest rates in Tonga gradually rise, as the lending indicator rate at 11.45 percent at the end of June 2002, was slightly higher compared with 11.34 percent at the end of June 2001 and 11.28 at the end of June 2000. Since the end of June 2002, the lending indicator slowly fell to 11.31 percent at the end of March 2003.

Figure 10: Interest Rates





## 7.0 External Sector Development

### 7.1. Exports

According to estimates based on the overseas exchange transactions data (oet), on a cash basis, collected by the NRBT and the commercial banks, total export receipts during 2001/02 increased by \$15.5 million to \$38.8 million, 66.5 percent higher than in the previous year. This reflected the higher level of export receipts led by squash, fish and other marine products.

During the first eight months of the 2002/03 financial year, exports earnings reached \$29.2 million, compared with \$30.2 million recorded during the same period last financial year. The decline in exports receipts during the period reviewed largely resulted from the divergent behaviour in the two main exports products, as squash exports earnings rose while fish exports proceeds declined. Squash remained the leading export commodity closely followed by fish and other marine products, and vanilla. Other primary sector exports included root crops and kava. Exports of manufactured goods remain relatively low.

Japan is the largest market for Tonga's exports, absorbing almost half of the total exports, mainly squash and fish, followed by the United States (including Hawaii) and New Zealand. The government is seeking to further diversify exports into areas such as deep-sea fishing (particularly tuna), pearl farming, and agricultural products such as coffee, nonu leaves, kava and Tahitian vanilla.

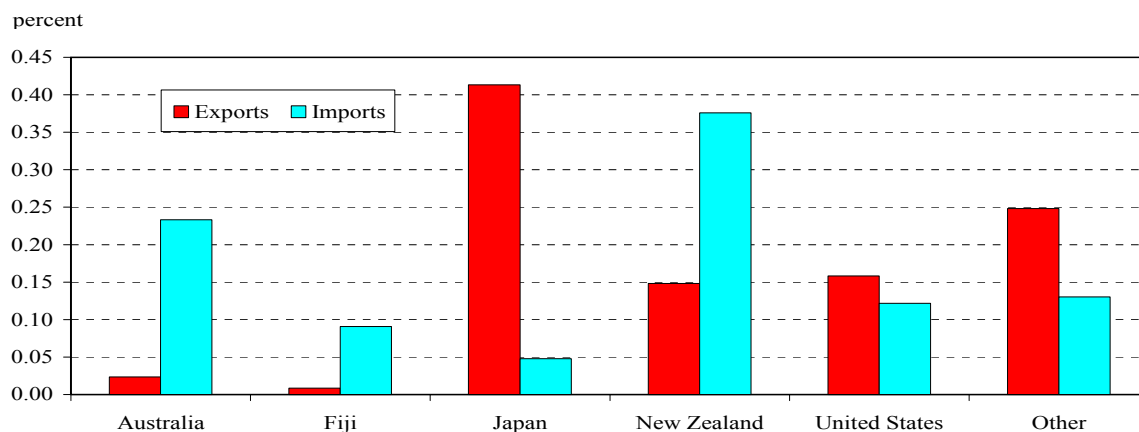
### 7.2. Imports

In 2001/02, merchandise import (OET based) payments reached \$133.7 million, a 11.4 percent increase from the previous year. This increase was attributed to increases in imports of consumer items (such as food), construction materials and manufactured goods, fuel (reflecting both increased prices and consumption), and imports of capital items such as telecommunication equipment. The value of fuel imports increased sharply, due to a combination of world fuel price increases and higher domestic fuel consumption.

During the first eight months of 2002/03, import payments reached \$110.7 million compared with \$90.8 million during the same period last financial year. This largely reflected higher imports of consumer goods, construction materials, motor vehicles, fuel and capital equipment.

New Zealand is Tonga's largest supplier (37.6 percent), followed by Australia (23.3 percent), United States (12.2 percent) and Fiji (9.1 percent).

**Figure 11: Direction of Trade for 2001/02**



### 7.3. Balance of Payments

The overall balance of payments (OET basis) recorded a surplus of \$13.8 million in the year 2001/02, compared with a deficit of \$0.4 million in 2000/01.

The balance of trade recorded a deficit of \$94.9 million, compared with \$96.7 million in the preceding year. The increase in exports receipts more than offset the increase in imports payments during the 2001/02 financial year, resulting in a slightly lower trade deficit compared with 2000/01. The services balance improved from a deficit of \$17.2 million to a deficit of \$4.1 million largely due to higher transportation and other services inflows combined with lower transportation and travel payments. Furthermore, the higher net transfer inflows of \$116.0 million were more than enough to offset the deficits in the trade, services and investment income accounts. Consequently, the current account recorded a surplus of \$15.8 million, a significant change from the \$26.2 million deficit of the previous year.

**Table 3: Balance of Payments for 1999/00 to 2002/03(OET Basis)**

	1999/00	2000/01	2001/02	2002/03 first eight months
Balance of Trade	-84.7	-96.7	-94.9	-81.5
Services Balance	3.2	-17.2	-4.2	-7.1
Investment Income Balance	-0.8	-2.2	-1.2	-2.6
Transfers Balance	66.3	89.9	116.0	86.1
Current Account Balance	-16.0	-26.2	15.8	-5.0
Capital and Financial Balance	4.2	6.2	15.8	11.3
Other Items Net	3.9	19.5	-17.8	-7.1
Overall balance	-7.9	-0.4	13.8	-0.9

The capital account recorded a surplus of \$15.8 million, a significant improvement from the \$6.2 million surplus recorded in 2000/01. This increase was attributed to the disbursement of the first tranche (\$10.7 million, equivalent to US\$5.0 million) of the loan from the Asian Development Bank (ADB), in support of the Economic and Public Sector Reform Program, plus receipts of foreign aid assistance and private capital inflows.

Overall, a balance of payments surplus of \$13.8 million was recorded in 2001/02 showing a significant improvement from the \$0.4 million deficit in 2000/01.

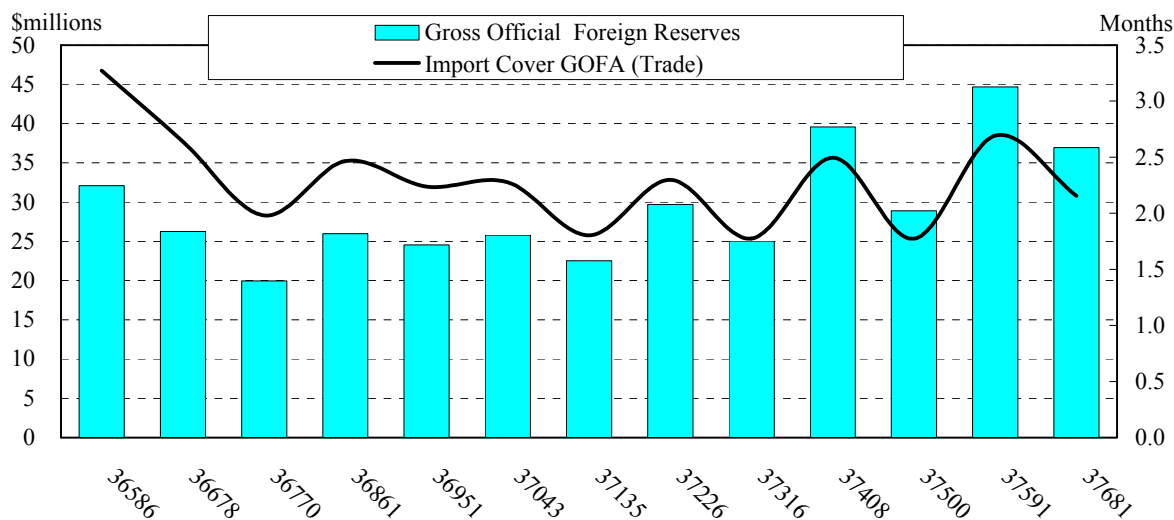
During the first eight months of the 2002/03 financial year, the balance of payments recorded an overall deficit of \$0.9 million. The capital account balance of \$11.3 million nearly offset the combined current account deficit of \$5.1 million and that of unrecorded outflows of \$7.1 million.

### 7.4. Gross Official Foreign Reserves

At the end of June 2002, the gross official foreign reserves reached \$39.6 million, compared with \$25.8 million at the end of June 2001 and \$26.2 million at the end of June 2000. At the same time, the level of official foreign reserves at the end of June 2002, was equivalent to 2.5 months of imports compared with 2.3 months of imports at the end of June 2001, and 2.6 months of imports at the end of June 2000.

At the end of March 2003, the gross official foreign reserves reached \$36.9 million compared with \$25.0 million at the end of March 2002, equivalent to 2.2 months of imports cover.

**Figure 12: Gross Official Foreign Reserves and Imports Coverage (\$m:months)**

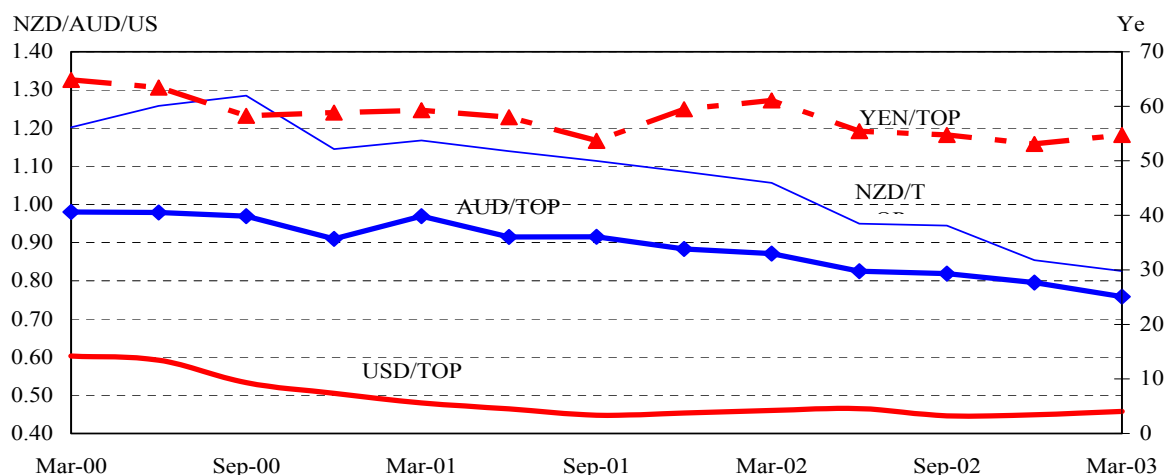


## 8.0 Exchange Rates

During the 2001/02 financial year, the pa'anga weakened against all the currencies of Tonga's major trading partners. The pa'anga depreciated against the New Zealand dollar by 16.6 percent, Fijian dollar by 10.1 percent, Australian dollar by 9.8 percent and the Japanese yen by 4.4 percent. On the other hand, the pa'anga slightly appreciated against the US dollar by 0.1 percent.

During the nine months ended March 2003, the pa'anga depreciated by 13.1 percent against the New Zealand dollar, Fijian dollar by 8.5 percent, Australian dollar by 8.1 percent, United States dollar by 1.6 percent, and the Japanese yen by 1.2 percent.

**Figure 13: End period Bilateral Exchange Rates - Selected Currencies/TOP**



## 9.0 Economic Outlook for 2003/04

The economic outlook for 2003/04 and the medium term depends to a large extent on stability in the external markets and the effectiveness of the Government's fiscal and monetary policies. The International Monetary Fund has predicted a more stabilize global

economy through 2002-2003 as major advanced economies recover from the economic downturn in 2001/02. The security situation in the Middle East, US war against Iraq, terrorist attack in Bali and now the outbreak of SARS has put major threat to the global recovery in particular its impact on business confidence as well as international oil prices. All these factors will significantly impact on Tonga's performance in medium term.

It is projected that real GDP growth in the order of 2.6% reflects further improvement from 1.9 percent forecast for 2002/03. This is due mainly to an increase in production of fish for exports reflecting the end of El Nino, a modest expansion in agricultural production, and strengthening of most sectors of the economy in particular construction, finance and tourism.

The government's tight fiscal policy proposed for 2003/04 in conjunction with the economic and public sector reform program should ameliorate some of the pressures on foreign reserves and inflation. This set out the foundation for a stable macroeconomic environment, a much needed engine for economic growth. Nevertheless, the current high rate of inflation remains a great concern. The external position is expected to strengthen reflecting improvement in the exporting sector in particular squash, fish, vanilla and root crops. The disbursement of concessional external loans will be a valuable buffer for the external position in the short term. It is anticipated that level of remittances will be sustained as global economy strengthen. The pressure on foreign reserves is expected to decrease in the medium term, nevertheless monetary policy will be maintained at tight levels to conserve the level of foreign reserve at more acceptable levels.

**Budget Statement for Year Ending 30<sup>th</sup> June 2004**  
**Budget Paper No 2: *Fiscal Outlook***

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



Figure 12: Exchange rates, 1999/2001





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## 1.0 Introduction

Budget Paper No.2 focuses on two issues. First, it analyses the economic impact of the interaction of the budget on the rest of the economy. Second it summarizes the budget allocations proposed by the government to each line ministry to meet its various responsibilities, as well as the estimated collection of receipts by each line ministry. In addition to the government's principle functions, this year's budget continues the government's focus on improving efficiency in government services, diversifying and enhancing the services to the outer islands, and supporting productive sectors of the economy to stimulate sustainable economic growth. With assistance from donor partners in recent years, including the ADB, AusAID and NZAID, the government has embarked upon an ambitious Economic and Public Sector Reform Program. In addition, following the considerable damage in Vava'u and the Niuas as a result of Tropical Cyclone Waka in January 2002, the Government has completed negotiations with the World Bank for the provision of financing to rebuild urgently needed infrastructure. The Government has also recently completed negotiations with the World Bank for a loan to finance construction of a new hospital in Tongatapu that will be available to all Tongans.

For many years, the government's budget has been significantly constrained by the level of revenues it can collect. The level of economic activity in both the domestic and global economies has been the primary influence on actual revenue collections achieved. There are only two revenue measures proposed for fiscal year 2003/04. The increases in estimated revenue collections in 2003/04 are primarily dependent upon economic developments in Tonga and overseas, as well as efforts by the Revenue Services to improve compliance. However, as part of the Economic and Public Sector Reform Program, the Government remains committed to implementation of a tax reform program aimed at broadening the tax base and at the same time assisting the enhancement of private sector development, as well as further institutional strengthening for Revenue Services to improve their capacity to ensure greater tax compliance. Explicit provision is made in the budget for funding the initial steps in the tax reforms.

On the expenditure side of the budget, the government's tight fiscal policies have been designed to ensure any borrowings are applied to high yielding capital development projects, rather than recurrent expenditure while at the same time preparing the foundation for building a fair and sustainable social and economic order in the Kingdom of Tonga.

## 2.0 Overall Balance

In addition to disclosing the program estimates in the Appropriation Bill classified on an accounting basis, the Government decided last year to also disclose the budget estimates classified on a cash-based Government Finance Statistics (GFS) basis. Presenting estimates on a GFS basis facilitates the analysis of government operations and of its impact on the economy as a whole and on particular segments of the economy. As the GFS system of classifying government transactions is used in most other countries, presenting the budget estimates in that format also allows for ready international comparison.

The budget estimates in Table 1 below show that on a GFS basis, the estimated underlying budget balance for 2003/04 will be a small deficit of \$6.6 million, compared with an estimated deficit of \$8.7 million, estimated at the time of the budget for the fiscal year 2002/03.

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

	Preliminary Outturn 2001/02	Original Estimate 2002/03	Revised Estimate 2002/03	Budget Estimate 2003/04
Revenues	93.2	96.4	95.7	109.8
Grants	2.0	7.5	1.2	15.1
Total Revenues and Grants	95.2	103.8	96.9	125.0
Expenditure	99.4	113.2	101.5	132.0
Net lending	0.6	-0.6	5.9	-0.4
Total Expenditure and Net Lending	100.0	112.5	107.4	131.5
<b>Budget balance</b>	<b>-4.7</b>	<b>-8.7</b>	<b>-10.5</b>	<b>-6.6</b>

The GFS definition of overall balance of government provides a widely used reference point for fiscal policy analysis. It aims to identify those transactions of government that result in net borrowing from other economic sectors (and are “deficit or surplus creating” or “above the line”), and provides a focus for analysis of the size of the deficit/surplus and its components, as well as the sources of deficit financing (or “below-the-line” transactions). The overall balance provides an indication of the impact of fiscal policy on aggregate demand, while components of deficit financing can indicate more specific consequences of fiscal policy (e.g. the impact of borrowing from the central bank on money supply and inflation and the impact of domestic borrowing on interest rates, investment, and growth).

In 2001, the International Monetary Fund reissued its Manual that defines the GFS system of classification of revenues and expenditures. The revised GFS system is a step forward in the standards for compilation and presentation of fiscal statistics and takes its place as part of the worldwide effort to improve government accounting and transparency in operations. Government finance statistics are a key to fiscal analysis, and they play a vital role both in developing and monitoring sound financial programs and in conducting surveillance of economic policies. The new Manual introduces accrual accounting, balance sheets, and the complete coverage of government economic and financial activities. However, few countries are currently capable of meeting the standards promulgated in that Manual and those countries still reporting on a cash basis are being encouraged to report fiscal activities in a manner consistent with the Statement of Sources and Uses of Cash. As an interim step pending formal introduction in Tonga of the new system of GFS classification, the budget estimates are also reported classified on that basis in Table 17 in the annex.

In setting its fiscal policy framework, the government intends to:

- (1) constrain recurrent expenditure below 30% of GDP;
- (2) keep the stock of outstanding public debt below 60% of GDP;
- (3) limit the debt service ratio to less than 50% of the proceeds from the exports of merchandise;
- (4) maintain foreign reserves at an adequate level of around 3 months to 4 months of import cover; and
- (5) achieve a balanced budget over the medium term.

### **3.0 Revenue and Grants**

Total revenue and grants estimated to be collected by government for the 2003/04 budget amounts to \$125.0 million, which is about \$21.2 million, or 20.4 percent higher than the budget estimate for 2002/03. About one half of the increase is related to growth in the

economy and improved tax compliance, partly as a result of the Government's ongoing institutional strengthening program in the Revenue Service. The balance of the increase in funding available to the Government is sourced from donor partners. Table 2 outlines the breakdown estimates of revenue and grants for 2003/04 and earlier years into their component economic categories.

**Table 2: Estimated Revenues and Grants (\$)**

	Preliminary Outturn 2001/02	Original Estimate 2002/03	Revised Estimate 2002/03	Budget Estimate 2003/04
<i>Revenue and grants</i>				
<i>Total revenue</i>				
<i>Current revenue</i>				
<i>Tax revenue</i>				
Taxes on income and profits	15,624,000	12,000,000	16,086,947	14,000,000
Taxes on property	54,000	81,000	47,300	81,000
<i>Domestic taxes on goods and services</i>				
Sales tax	7,624,000	6,700,000	7,680,331	8,500,000
Other taxes	2,345,000	3,016,400	2,842,127	3,149,100
Subtotal domestic taxes on goods and services	9,969,000	9,716,400	10,522,458	11,649,100
<i>Taxes on international trade and transactions</i>				
Customs duties	24,973,000	24,502,367	27,045,030	28,500,603
Other import charges	23,490,000	25,853,770	24,633,789	28,429,647
Subtotal Taxes on international trade and transactions	48,463,000	50,356,137	51,678,819	56,930,250
Other taxes	420,000	450,000	439,641	450,000
Subtotal tax revenue	74,530,000	72,603,537	78,775,165	83,110,350
<i>Nontax revenue</i>				
Entrepreneurial and property income	5,135,000	6,661,966	3,317,152	6,908,013
Administrative fees and charges	12,837,000	16,083,816	12,024,492	17,720,364
<i>of which: revolving funds</i>	4,274,000	5,425,073	2,611,489	7,159,490
Fines and forfeits	275,000	165,100	319,532	165,000
Other nontax revenue	429,000	435,501	904,742	535,201
Subtotal nontax revenue	18,676,000	23,346,383	16,565,918	25,328,578
Subtotal current revenue	93,206,000	95,949,920	95,341,083	108,438,928
Capital revenue	0	407,002	353,001	1,391,001
Subtotal revenue	93,206,000	96,356,922	95,694,083	109,829,929
<i>Grants (in cash)</i>				
From abroad	2,033,000	7,450,251	1,159,017	15,124,423
From other levels of national government	0	2	0	2
Subtotal grants (in cash)	2,033,000	7,450,253	1,159,017	15,124,425
<b>Total revenue and grants</b>	<b>95,239,000</b>	<b>103,807,175</b>	<b>96,853,100</b>	<b>124,954,354</b>

### 3.1 Current Revenues

Current revenue accounts for almost 98.7 percent of the total revenues available to the Government. The main bulk of current revenue is in the form of taxation i.e. 76.6 percent of the total revenue estimates, where 52.5 percent is collected through custom duties and the port and services tax, 10.7 percent is domestic taxes on goods & services and income taxes amounts to 12.9 percent. The remaining 23.4 percent of current revenue is from non-tax revenue. Most of the non-tax revenue comprises of administrative fees & charges (16.3 percent) and entrepreneurial & property income (6.4 percent).

Compared to the revised estimated revenue for 2002/03, and after taking account of the increase in gross revenues associated with the replacement of certain tax concessions with direct subsidy payments, tax revenue collections have only increased modestly, reflecting the Government's desire not to impose a heavy burden on the private sector. The amount of nontax revenue estimated to be collected in 2003/04 has also increased marginally by less than \$2.0 million compared to the budget estimates for 2002/03.

### 3.2 Grants

Moneys estimated to be available to the government from grants, particularly those from donor partners, are expected to increase by more than 100 percent to \$15.1 million compared to the budget estimates for 2002/03. The estimated strong growth in funding from grants reflects the willingness of the Government to bring all its influence to bring about sustainable growth for Tonga, as well as strength in Tongan's relationship with development partners.

In addition to direct cash grants to the budget from development partners, the government has successfully negotiated significant loans on concessional terms to finance much needed rebuilding of infrastructure on Vava'u and the Niuas following Tropical Cyclone Waka, as well as the Economic and Public Sector Reform Program and the building of a new hospital to be located in Tongatapu. In GFS terms, the proceeds of these loans are classified as financing transactions and are discussed in Section 5.0. In addition to its direct support through grants, it is estimated that Tonga's overseas development partners will deliver a further \$9.7 million of aid in-kind to the domestic economy

## 4.0 Tax Expenditure in Tonga

Like anywhere in the world, Government provides a number of mechanisms to different sectors in the economy to aid achieving better growth in the economy. This is often undertaken through providing fiscal concession objectives which usually called the Direct Government Expenditure or Concessional Tax treatment to all sectors or type of transaction that government seeks to encourage. For example, the Government has provided a fuel concession to the fishing industry to assist the industry to grow and provide employment opportunities for Tongans.

### 4.1 Under Industrial Development Incentives

The Industrial Development Incentives was firstly put into force in 1978. It is aimed to actively encourage entrepreneurship for the establishment and growth on industries and tourism in the Kingdom through a system of granting relief from certain taxes and duties and to provide for matters incidental thereto or connected therewith. In the current budget \$1.0 million was allocated to new license holders. At the end of April 2003, about \$0.51 million has been absorbed leaving a balance of \$0.49 million. However, on the same period, exemption granting to the existing and still valid license holders amounted to \$5.04 million.

### 4.2 Fuel Concession for Fishing Industries

The fuel concession initiative was granted to fishing companies. In the year 2000/2001 fuel concession to fishing amounted to \$0.57 million, an increase of \$0.37 million when compared to \$0.96 million recorded in 2001/02. However, in the current fiscal year to the end of April 2003, fuel concession for fishing amounted to **\$1.36** million. This is considerably higher than expected since the introduction of the subsidy and it reflects the increase in the number of the Tongan fishing fleets as well as increasing cost of fuel.

**Table 3: Summary of the distribution of Tax Expenditures by Government Function categories for the year 2002/03 estimate**

### 4.3 Fuel for Generation of Electricity

Fuel for the generation of electricity is exempted from duty and taxes. The year 2000/01

GFS Category	Amount (\$m) (Provisional)	Notes
General Public Service	0.50	This is exemption on foreign government, overseas aid and external territories from the following: <ol style="list-style-type: none"> <li>1. Goods imported for the use of the Government.</li> <li>2. Tax of official income earned in Tonga by foreign government representatives</li> </ol>
Education	1.34	This exemption is provided for the following: <ol style="list-style-type: none"> <li>1. On the amount of any fees including those fees paid in respect of lodging and traveling paid by the tax payer in the fiscal year in respect of the education within or outside the Kingdom of any dependent child of the taxpayer</li> <li>2. Rebates for self education expenses and education expenses of dependents up to \$250 per person.</li> <li>3. On goods for use by schools.</li> </ol>
Social Security and Welfare	1.00	The exemption under this category is applied for the following: <ol style="list-style-type: none"> <li>1. Any gifts of money made by the tax payer in the fiscal year to any institution, body, and trust or fund the funds of which are in the opinion of the Chief Commissioner, applied wholly or principally to any charitable purposes in the Kingdom.</li> <li>2. Contribution by tax payers to a personal retirement fund deposited in a domestic bank and shall be entitle to a deduction by way of a special exemption from his/her assessable income of the amount contributed</li> <li>3. Taxpayers who pay personal contribution to superannuation fund or pay premiums in respect of a policy of life insurance or policy of personal accident or sickness insurance for taxpayer's own benefit.</li> <li>4. Goods donated to the Red Cross Society or goods for charitable gifs</li> </ol>
Housing and Community Amenities	0.52	The exemption is applied for the following: <ol style="list-style-type: none"> <li>1. Deduction by way of special exemption from assessable income for the amount of repayment of a loan from a bank incorporated in Tonga for the purpose of building or extending a dwelling house. (The exemption shall not exceed T\$1000 each year.</li> <li>2. Sales of materials to be used for the building of residential homes on production of a certificate of exemption from the Chief Commissioner.</li> </ol>
Recreation and Culture	0.06	The exemption is applied for the following: <ol style="list-style-type: none"> <li>1. Any financial donation paid in the fiscal year to a national sporting organization, where that sporting organization is approved by Cabinet</li> <li>2. Newspaper and periodicals imported for reading.</li> <li>3. Films for cinematographs when imported on a hire basis.</li> <li>4. Grave stones and such similar memorials to deceased person.</li> </ol>
Fuel and Energy	3.64	The exemption is applied for the following: <ol style="list-style-type: none"> <li>1. Machinery, plant and equipment imported exclusively for public lighting and power purposes</li> <li>2. Fishing industries and generation of electricity</li> </ol>
Agriculture, Forestry and Fishing	0.65	The exemption is granted for the following: <ol style="list-style-type: none"> <li>1. Input and capital goods like machinery and fertilizer, natural and manufactured.</li> </ol>
Other Economics Affairs	4.71	The exemption is granted for the following: <ol style="list-style-type: none"> <li>1. Interest derived by any person from deposit in the saving banks of Tonga (the amount shall not exceed T\$900</li> <li>2. Lump sum received by any person, by way of retiring or death gratuity or consolidated compensation for death or injuries</li> <li>3. Articles or goods imported for objects of a general public character or for the establishment of an enterprise considered to be of national economic important, if approved by His Majesty in Council.</li> </ol>
Other Purposes	0.93	The exemption is provided for the following: <ol style="list-style-type: none"> <li>1. Church bells</li> <li>2. Books and publications and documents under agreement on importation of educational, scientific and cultural materials.</li> </ol>
<b>TOTAL</b>	<b>13.35</b>	

reported a \$3.34 million of tax on the acquisition was exempted fuel, an increase of \$1.03 million when compared to 1999/00. In the current financial year to the end of April, the amount of tax collections foregone on account of this concession totaled \$2.21 million.

#### **4.4 National Project**

The Government of Tonga always receive assistance from donor countries. This assistance provides support for a variety of social and economic projects ranging from water, environment, humanitarian, and electricity projects. In recognition of the need to reduce project costs to ensure the maximum benefit is delivered to all Tongans, the government provides an exemption of duties and taxes on the project supplies. In the current financial year to the end of April, the concession provided by the government on the various donor projects amounted to \$1.67 million.

#### **4.5 Other Projects**

Government always allows concession to projects that are considered national interest and of significant economic benefit via the Privy Council. At the end of April of the current financial year, the concession granted for such projects amounted to \$2.28 million.

The next two tables provide a summary of all tax expenditures exempted by government in 2001/02. Table 3 presented the distribution of tax expenditures across different sectors of the economy using Government Financial Statistics (GFS) classification of government functions categories for the year 2002/03 estimate.

### **5.0 Tax Reform**

The current effort by government is to restructure the current taxation system to a new system. This new system will create a level playing field in the area of corporate tax, to exclude thousands of low-income earners from the personal income tax role and shift from the present excessive reliance on duties, taxes and charges on imports in favour of a broad-based consumption tax.

The new tax policy plan is intended to improve the taxation system of Tonga and stimulate the development and fostering of business in an environment in which all taxpayers are treated fairly and equitably. The tax proposal is the outcome of initial discussions with the major business organizations and Government Departments on the best way forward for Tonga. The tax proposals aim to enhance and maintain political, economic and social stability, whilst maintaining the traditional values of Tonga, which are the strength of the community. They also take into account the communal system of Tonga where there is no institutional social security but a social fabric that supports all Tongans.

The most important characteristics of the proposals for the new tax system are:

- (a) a small number of broad based taxes;
- (b) fairness and equity across all sectors of the taxpayer base;
- (c) transparency, clarity and simplicity of law;
- (d) simple and cost effective administration (both taxpayer and revenue administration); and
- (e) a system suitable to the development of Tonga, and stable overtime.



## 5.1 Characteristics of the Current Tax System

The current taxation system of Tonga relies heavily on trade taxes but much less on income generated tax. This is significantly affected by many exemptions, particularly for Government and quasi-government bodies and to the private sector under the Development Incentives Act. This means that only some segments of the community bear the tax burden and that tax collection continues to be inequitable and inefficient to administer. It is evidenced that the current system does not guarantee economic growth.

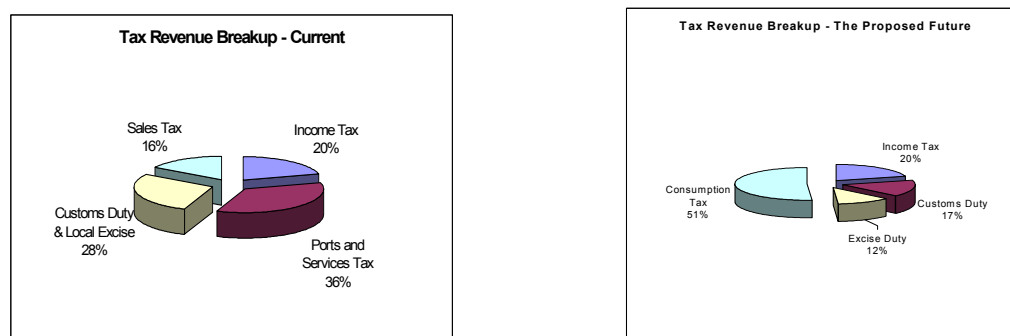
All major taxes lack sufficient administrative powers and appropriate sanctions to provide for effective administration by the authorities. This is apparent with respect to record keeping, penalties and powers to collect outstanding tax. In the case of sales tax, the law is demonstrably deficient and in some cases poorly drafted, i.e. it uses inappropriate income tax concepts, which makes it very difficult to administer the legislation.

## 5.2 Characteristics of the Proposed New Tax System

In developing a plan for future improvement, the importance of ensuring that the tax burden is spread as widely and fairly as possible, whilst maintaining simplicity, was noted. It is also important that it is based at a level that is sustainable within the constraints of building an effective economy. Sustainable development seldom comes from providing tax holidays and exemptions. It comes instead from fair, sustainable levels of tax that are competitive in the region coupled to an environment that stimulates development. Figure 1 shows the difference of the current and proposed tax revenue composition:

Although the present tax regime has the essential elements to meet Tonga's needs, they require considerable changes to conform to WTO and PICTA requirements for tariff reform and opening up of the local markets and to provide the concessions required by the Pacific to move into a regional free trade zone.

**Figure 1: Current and Proposed Composition of Tax Revenue**



To stimulate the growth of the private sector and spread the tax burden across the community, it is proposed to shift the emphasis to taxes from "trade taxes", namely, ports and services tax and import duties, to a limited domestic consumption tax. This tax would be collected primarily at the import stage and with larger businesses, at the point of sale of imported or locally produced goods and services. Coupled to this would be a reworking of individual and corporate income tax to provide a fairer system with generally lower rates of tax and the abolition of ports and services tax.

It is proposed in principle that the tax system be based around:

- (a) a simplified individual income tax; a single low rate corporate income tax;
- (b) a single rate customs duty;

- (c) excise duty on imports and local production of alcohol products, tobacco products, petroleum products and motor vehicles; and
- (d) a broad-based consumption tax .

### **5.3 Changes to the Current Revenue Administration**

The current revenue administration is operating below desirable standards. With limited computerization, an inadequate level of staff experience and training and a lack of a comprehensive and appropriate set of legislative provisions to enforce compliance, the administration are not in a position to effectively administer either the current legislation or the proposed system of taxes. Currently it is estimated that there is less than \$10 million in outstanding taxes. However, it is considered that more could be found through an effective audit program.

A global strategy has to be carefully designed to enhance the capacity of the revenue administration. This modernization-plan should be carried out prior to the major challenges created by the new tax system and as soon as possible. This strategy would focus on:

- (a) the design and the implementation of a modern and efficient revenue administration, including the creation of a special unit to monitor large taxpayers, the establishment of a comprehensive audit strategy,
- (b) and the introduction of an independent tax administration computer system; and the introduction of an automated customs clearance system aimed at strengthening and improving the efficiency in the Customs Department, and modernizing and facilitating trade procedures.

Along with better laws, including administrative powers, the Government is committed to make a concerted effort and to provide appropriate resources to increase the effectiveness of the revenue administration. Through this the administration will be able to provide both a better service to the population and increase voluntary compliance. The proposed simplification of the tax system must also be seen as an attempt to strengthen tax and customs administration and revenue collection. Progress in these areas will be critical for the success of the tax reform. The following proposals were approved by the Legislative Assembly in 2002.

- (a) A redesign of the objection/appeals process with a view to ensuring an effective avenue for appeal by taxpayers that will apply to all taxes and will expedite decisions.
- (b) The liability to pay tax, in the case of appeals, would not be affected by a request for judicial review following and unsuccessful appeal.
- (c) A redesign of the penalty regime to provide a system, which relates penalties to the amount of tax involved and ensures compliance.
- (d) Providing for seizure and sale of assets to recover outstanding debts.
- (e) Introducing a system of binding rulings that would provide for the revenue administrator to issue rulings on how he will operate or on his opinion on particular taxpayer operations with respect to the tax system that would bind him until he issues an alternative ruling.

**Table 4: Table Proposed Major Tax and Tariff Reforms**

<b>Tax</b>	<b>Current Situation</b>	<b>Proposed Reforms</b>
Corporate Income Tax	For non resident companies 37.5 % on first T\$50,000 and 42.5% on the balance. For resident companies. 17% for designated export-oriented companies: others 15% on first T\$100,000 and 30% on the balance.	Single 20% rate applied to both resident and nonresident companies. Tax holidays, exemption and credit scheme terminated: replaced by investment allowances and deductions for accelerated depreciation.
Individual Income Tax	Tax-free threshold for individuals of T\$2,500: 10% on taxable income above this level and up to T\$22,500 net of the threshold and allowances (T\$12,500 for education T\$2,000 for housing and loan repayments, T\$1,500 for pension premiums, T\$1,750 for dependents, T\$900 for interest income, T\$750 for contributions to charity or sports, T\$600 for life insurance premiums).	Progressive structure with tax-free threshold at T\$5,000: 10% up to T\$8,000 and 20% on the excess. Wage and salary earners subject to withholding system that exempts them from lodging a tax return (unless earning other income).
Customs Duty	Duties range from 0% to 525%. Standard ports and services tax of 20%.	Flat rate of 10% for almost all imports; duty drawback on inputs used in production of export goods; abolition of ports and services tax in line with WTO accession requirements.
Pacific Island Trade Agreement (PICTA)	Current system does not comply with PICTA.	Tonga has ratified PICTA on December 2001 and need to adjust Tariff rates accordingly.
Industrial Development Incentives Act	Exemptions from duties and tax granted under the Industrial Development Incentives Act	Abolish of Industrial Development Act
Excise Tax	Current levy is only on Alcohol which is \$0.75 per liter.	Excise duty to replace high tariffs on alcohol, tobacco and motor vehicles;
Port & Service Tax	Current rate is 20% on CIF value of all imported goods except for goods under normal concession.	Phase One: introduce a 5% reduction on PST (15%). Phase Two a further reduction by 5% on PST (10%). Phase three a further reduction by 5% on PST (5%). Final phase reduction of PST to zero (0%)
Sales Tax	Tax set at 5% with exemption for goods imported for personal use.	Phase one a 5% increase i.e. 10% rate applied to all imported goods and to local production of goods and services by manufacturers with annual turnover greater than T\$ 1 million and service providers with turnover greater than T\$100,000. Exemption for health, education, financial services, electricity, and public transportation. Phase two a further increase by 5% to 15% rate applied to all imported goods and to local production of goods and services by manufacturers with annual turnover greater than T\$ 1 million and service providers with turnover greater than T\$100,000. Exemption for health, education, financial services, electricity, and public transportation.

## 6.0 Expenditure and Net Lending

At the aggregate level, expenditure and net lending in 2003/04 is estimated to total some \$131.5 million. Table 5 below outlines the breakdown of expenditure and net lending into their component economic categories.

**Table 5: Estimated Expenditure and Net Lending (\$)**

	Preliminary Outturn 2001/02	Original Estimate 2002/03	Revised Estimate 2002/03	Budget Estimate 2003/04
<i>Expenditure and lending minus repayments</i>				
<i>Expenditure</i>				
<i>Current expenditure</i>				
Wages and salaries	44,014,000	50,645,676	48,450,725	52,921,245
Employer contributions	1,735,000	1,500,001	1,500,000	2,049,169
Other purchases of goods and services	26,752,000	32,831,576	33,241,874	40,236,947
Interest payments	2,302,000	2,849,309	2,786,499	3,405,564
Additional expenditures	8,600,000	1,600,000	1,600,000	1,600,000
<i>Subsidies and other current transfers</i>				
Subsidies to non-financial public enterprises	300,000	3,064,455	3,064,455	3,200,000
Subsidies to financial institutions	0	1,000,003	400,001	1,600,001
Subsidies to other enterprises	1,559,000	2,206,683	2,206,683	2,100,001
Transfers to non-profit institutions	2,804,000	1,615,220	1,347,065	2,120,521
Transfers to households	1,161,000	3,161,540	3,173,927	3,271,707
Transfers abroad	0	1,459,000	1,489,625	1,261,100
Subtotal subsidies and other current transfers	5,824,000	12,506,901	11,681,756	13,553,330
Subtotal current expenditure	89,227,000	101,933,463	99,260,854	113,766,255
<i>Capital expenditure</i>				
Acquisition of fixed capital assets	9,168,000	9,660,075	1,445,396	17,139,567
Purchases of land and intangible assets	102,000	707,653	740,676	196,753
Capital transfers	889,000	880,516	10,006	861,011
Subtotal capital expenditure	10,159,000	11,248,244	2,196,078	18,197,331
Subtotal expenditure	99,386,000	113,181,707	101,456,933	131,963,586
<i>Lending minus repayments</i>				
<i>Domestic</i>				
To non-financial public enterprises (net)	300,000	707,758	6,893,419	849,849
To financial institutions (net)	293,000	-1,344,616	-965,988	-1,273,441
Subtotal domestic	593,000	-636,858	5,927,431	-423,592
Abroad	0	1	1	1
Subtotal lending minus repayments	593,000	-636,857	5,927,432	-423,591
<b>Total expenditure and lending minus repayments</b>	<b>99,979,000</b>	<b>112,544,850</b>	<b>107,384,365</b>	<b>131,539,995</b>

When compared to the initial budget estimate for 2002/03, the estimate of expenditure and net lending for 2003/04 represents an increase of \$19.0 million, or 16.9 percent. Compared to the revised estimates for 2002/03, the estimate of expenditure and net lending for 2002/03 represents an increase of \$24.1 million or 22.4 percent.

### 6.1 Current Expenditure

Table 6 shows the budget estimates of current expenditure and their composition for the financial years 2002/03 and 2003/2004.

The reduction in the percentage of current expenditure in 2003/04 estimated to be consumed by wages and salaries is a reflection of the Government's continued determination to increase efficiency within the public sector to ensure high quality services are delivered to Tongans at a realistic cost. The increase of about \$8 million in estimated expenditure on the purchase of goods and services in 2003/04 reflects the government's desire to ensure the public sector has the requisite resources necessary to ensure it can deliver their outputs to Tongans with a quality of the high standard that is expected.

**Table 6: Distribution of Estimated Current Expenditure (\$)**

	Original Estimate 2002/03		Budget Estimate 2003/04	
<i>Current expenditure</i>				
Wages and salaries	50,645,676	49.7%	52,921,245	46.5%
Employer contributions	1,500,001	1.5%	2,049,169	1.8%
Other purchases of goods and services	32,831,576	32.2%	40,236,947	35.4%
Interest payments	2,849,309	2.8%	3,405,564	3.0%
Additional expenditures	1,600,000	1.6%	1,600,000	1.4%
<i>Subsidies and other current transfers</i>		0.0%		
Subsidies to non-financial public enterprises	3,064,455	3.0%	3,200,000	2.8%
Subsidies to financial institutions	1,000,003	1.0%	1,600,001	1.4%
Subsidies to other enterprises	2,206,683	2.2%	2,100,001	1.8%
Transfers to non-profit institutions	1,615,220	1.6%	2,120,521	1.9%
Transfers to households	3,161,540	3.1%	3,271,707	2.9%
Transfers abroad	1,459,000	1.4%	1,261,100	1.1%
Subtotal subsidies and other current transfers	12,506,901	12.3%	13,553,330	11.9%
<b>Total current expenditure</b>	<b>101,933,463</b>	<b>100.0%</b>	<b>113,766,255</b>	<b>100.0%</b>

## 6.2 Capital Expenditure

The total capital expenditure for the 2003/04 budget is estimated at \$18.2 million, of which about 82 percent is funded from grants and loans from our development partners, and the remaining 18.9 percent of capital expenditure funded from general government revenues (including revenues of revolving funds and local community contributions).

The most significant components of the Government's capital expenditure program for the 2003/04 fiscal year are:

- the expenditure associated with completion of the restoration of infrastructure in Vava'u and the Niuas following Tropical Cyclone Waka ; and
- the commencement of an important health project leading to the construction of a new public hospital in Tongatapu.

## 7.0 Estimated Out-turn 2002/03

The government fiscal position (GFS basis) in 2002/03 is expected to record an estimated deficit of \$10.5 million. This is higher than the \$8.7 million deficit previously projected in last year's budget. The deficit is represented by an estimated total revenue and grant of \$96.9 million exceeded by the total expenditure and lending minus repayment of \$107.4 million. The deficit was financed through net external financing of \$2.9 million, domestic financing from commercial banks of \$3.9 million and drawdown from government funds of \$3.3 million.

Total revenue collected in 2002/03 has increased by 2% compared to the actual revenue of \$95.2 million in 2001/02. This was due to an increase in tax revenue by 5.8% where the bulk comes in the form of trade and income taxes. Improved collections of tax revenue reflect the efforts of the Ministry of Finance to strengthen its operations by improving compliance especially for income taxes and customs duties. The Inland Revenue Department had recovered \$2 million to \$3 million of arrears during this period. Non-tax revenue on the other hand was very low showing a decline by over 10% compared to the level in 2001/02. The low collection from non-tax revenue was due to weaker than expected performances of public enterprises.

The estimated total expenditure for 2002/03 increased by \$7.4 million from the total recorded in 2001/02. The main bulk of expenditure went into current expenditure in particular wages and salaries (48.8%), purchases of goods and services (33.4%) and

subsidies (11.8%). Although capital expenditure was estimated at only \$2.2 million in 2002/03, the Waka cyclone rehabilitation project financed by the World Bank is estimated to have expended \$7.4 million during the financial year which should be accounted for as capital. Since the government approval of the policy to support the national airline, a total of approximately \$6.2 million has been injected into the airline for the purchase of unsubscribed shares during the financial year.

## 8.0 Public Enterprise Reform

### 8.1 Introduction

The Kingdom of Tonga has a number of public enterprises and trading activities owned or partially owned by the Government. Many of the public enterprises are performing poorly and this is contributing to increasing demands for additional capital injections.

On 31 March 2003 the Public Enterprise Act 2002 came into force. As part of the reporting requirements of the Act public enterprises will be required to inform Government through the Minister of Finance of their proposed dividend, borrowings, subsidies and capital requirements before the beginning of each financial year. These requirements are agreed to with the Minister of Finance (as the Government shareholding Minister) in the form of the enterprise statement of corporate intent. Unfortunately, there has not been time in the 2003/04 budget round for public enterprises to submit statements of corporate intent to the Minister of Finance.

This section is the first time the budget has attempted to include a full submission on public enterprise budget requirements.

### 8.2 Dividends

Historically very few public enterprises have provided a dividend to the Government and if they do it is often on an irregular basis. Table 7 below details the anticipated dividends for 2003/04.

**Table 7: Public enterprise dividends**

	2002/03 Estimate	2003/04 Budget
Air Pacific	-	3,000
Leiola Duty Free	-	500,000
Ports Authority Tonga	100,000	100,000
Shipping Corporation of Polynesia	30,000	20,000
Tonga Communications Corporation	-	1,000,000
Tonga Water Board	24,000	50,000
Westpac Bank of Tonga	1,478,000	2,000,000
<b>Total</b>	<b>1,632,000</b>	<b>3,673,000</b>

- 8.2.1 Leiola Duty Free dividend for 2003/04 reflects problems with the accounting systems of the company in the previous two years which saw no dividend to the Government due to uncertainties over profits. These issues are being dealt with by management and a catch up dividend will be paid in 2003/04.
- 8.2.2 Ports Authority show a dividend in 2003/04 but it should be acknowledged that they are requesting a renegotiation of their on-lent loan agreement as well as a refund for fees waived.
- 8.2.3 Shipping Corporation of Polynesia dividend for 2002/03 represents a catch-up for unpaid dividends for the previous two years.
- 8.2.4 Westpac Bank of Tonga has still to pay their June 2003 quarter dividend for 2002/03 and this has not been included in the table above.

### **8.3 Asset sales**

The revenue that government receives from the sale of an asset is often a motivation behind privatisation. It offers a one-off option to retire government debt, provide critical budgetary relief, or provide funding for specific projects. However, due to the high level of debt of many public enterprises in Tonga it is unlikely that any significant revenue flows will result from the privatisation process. In fact, in many cases it would be expected that the net return to government would be negative in the short-term. It should be noted that net assets of many of the government owned entities are negative and thus they are technically insolvent.

A privatisation paper has been endorsed by Cabinet which identifies Leiola Duty Free and Tonga Investments Ltd as candidates for sale in 2003/04. The asset sale process is not one that the Government should expect quick money from, it often being better to take the time to get the best possible price. As there have been problems with Leiola Duty Free accounts over the last two years it has been difficult to establish the net worth of the company, and therefore any likely asset sales proceeds. Tonga Investments has a number of trading companies and in all likelihood these will be tendered separately, extending the asset sale process.

Sea Star Fishing Company was set up to stimulate the fishing industry in Tonga. It was started via an ADB loan and one of the covenants of the loan was to sell the Government shares once the company was operationally sound. A contract was entered into with Maui Pacific Fishing in August 2002 with Government to receive 10 6-monthly installments of \$210,000. The first installment was due in December 2002 but MPF failed to perform. A letter of default has been sent to MPF and the Government awaits the company's response. There is a high probability that this contract will have to be cancelled as the next payment is due in June and MPF have not responded to Government in terms of their capacity to pay or make up the arrears.

### **8.4 Direct budget Assistance**

It is important in terms of transparency that Government shows budgetary support for those public enterprises that receive subsidies either directly or implicitly. A number of enterprises receive a subsidy for supplying services to the Niua's. For 2003/04 these are outlined in Table 8 below.

Additional to this subsidy for services to outer islands there sometimes is a need to provide for direct assistance to a public enterprise due to its strategic nature. In 2003/04 it is

anticipated that Royal Tongan Airlines and Tonga Broadcasting Corporation will continue to require direct budgetary assistance.

**Table 8: Public enterprise subsidies**

	2002/03	2003/04
<b>Subsidies for Niuafu'ou and Niuatoputapu</b>		
Air Travel ( <i>Royal Tongan Airlines</i> )	100,000	100,000
Sea Travel ( <i>Shipping Corporation of Polynesia</i> )	132,000	132,000
Banking ( <i>Tonga Development Bank</i> )	44,959	40,000
Total subsidies	276,959	272,000
<b>Other budget assistance</b>		
Air Travel ( <i>Royal Tongan Airlines</i> )	6,170,000	1,000,000
Tonga Broadcasting Commission	500,000	500,000
Tonga Corporation	-	300,000
<b>Total Budgetary support</b>	<b>6,946,959</b>	<b>2,072,000</b>

#### 8.4.1 Royal Tongan Airlines

Royal Tongan Airlines (RTA) is seen to play both a commercial and social service role in the Kingdom of Tonga. There is a strong view that the country must maintain its national airline identity. In the second half of 2002 RTA entered a medium term lease of a Boeing 757. RTA Board undertook this strategy with a view to improving exports and tourism markets in Tonga. To finance the lease of the new aircraft RTA has called on its shareholder (the Government) to subscribe to the remaining \$7.2 million in un-issued shares. To date the Government has paid \$6.2 million to RTA, with \$1.3 million from the budget appropriation, and the remainder from a loan, under the General Loan and Stock Act, from the Westpac Bank of Tonga. The Government had originally approached a foreign donor for financing of the costs of the expansion of the airline under a proposed air transport loan on concessionary terms. While the proposal was considered, as a short term measure, the Government arranged a short term loan in December 2002 for \$5 million from the Westpac Bank of Tonga under section 25(1) of the General Loan and Stock Act. The funds were paid to RTA under section 4(4) of the Public Revenue Act, which exempted the spending of aid and loan funds from the appropriation ceiling voted by the Legislative Assembly. This was only possible as it was prior to the new Public Finance Management Act. The foreign aid donor has since indicated that the loan application could not be considered at this time owing to prior commitments.

In the 9 months to March 2003, provisional information received RTA has shown a loss of \$8.4 million, which is higher than the budgeted loss of \$3.6 million. As at the end of March 2003 RTA's working capital is estimated to stand at negative \$10 million and the company is facing serious cash flow difficulties. The poor results to date indicate that a return to profit may be a long way off and RTA is likely to seek further Government assistance in 2003/04. It should be noted that the world tourism market is suffering significantly in 2003. RTA management have indicated that a return to profit could be up to 2 years away.

#### 8.4.2 Tonga Broadcasting Commission

The Tonga Broadcasting Commission has approached the Government with a project proposal for a second grant of \$1.2 million which it necessary for financial restructuring and to upgrade equipment. The financial restructuring includes redundancies, retirements, and the repayment of historical debt. Broadcasting equipment used in the production of television programmes and studio automation including the cost of moving from analog to



digital radio network is urgently required. A Website is also proposed to bring TBC up to date with the latest communications tools on the internet and to reach Tongan's overseas.

It is proposed that Government directly funds \$500,000 through the budget and also assists TBC to source the remaining financing through the banking system and aid donor funds.

### 8.4.3 Tonga Corporation

Tonga Corporation has requested \$300,000 urgently to retire historical debts.

## 8.5 Corporatisation

Corporatisation involves the transfer of assets, liabilities, rights and obligations of a statutory body or trading entity to a legal entity formed under the Companies Act 1995. It is the process of giving a government enterprise the form and management structures of a commercial enterprise. The new company's ownership however continues to lie with the government.

Preparation of a trading activity for corporatisation may involve a one-off capital injection. The newly formed corporation may have a necessity to upgrade its capital equipment to make it more competitive in the private sector or it may have one-off costs such as redundancies. Often the short term costs of corporatisation may seem large but in reality it is a long term investment and the Government will see the benefit of removing a trading activity from the on-going budgetary support of the past.

Trading activities in the process of corporatisation or proposed for corporatisation this year and their requests for funding are summarised in Table 9 below.

**Table 9: Corporatisation**

	<b>2003/04</b>
Machinery Pool	100,000
Eua Forest	43,000
Tonga Post Office	600,000
Government Printing Dept.	400,000
<b>Total</b>	<b>1,143,000</b>

### 8.5.1 Machinery Pool

The Machinery Pool, which is a Division within the Ministry of Agriculture, has been undergoing a corporatisation process for the last 18 months. Its original objective was to hire machinery for agricultural work to small-scale, generally family owned, farms at a subsidised cost. It also sold subsidised fertiliser, fuel, and parts to framers.

The Machinery Pool operates via a revolving fund in the Governments annual budget and has been self supporting for a number of years, providing a small net gain in the Government budget. Although the Machinery Pool has recorded a profit for the last couple of years it must be remembered that this is in part due to the fuel subsidy and duty exemption on parts.

### 8.5.2 'Eua Forestry

The 'Eua Forest Plantation is a Division within the Ministry of Agriculture and Forests. The 'Eua Forest Plantation Management Committee is in the process of negotiating a contract

with Tonga Timber to manage the forest on the Governments behalf. This will include cutting rights and responsibility for replanting.

A commercial business case was developed by Tonga Timber for the management of the forest as a division within the company. The business case requires the following inputs:

- A capital injection by NZAID; and
- Government to pay staff salary for first year.

NZAID has agreed to provide the capital injection of \$500,000 to kick start the project. They are also willing to provide technical assistance as and when is necessary.

### **8.5.3 Tonga Post Office**

In January 2002, Cabinet approved in principle the corporatisation of Tonga Post. A budget proposal has been received from Tonga Post for 2003/04. The major issue for this entity before it becomes corporatised is to pay off its historical debts. It requires \$500,000 to settle overdue airline accounts and stamp printing costs. The Post Office also needs to expand its operations to ensure it is competitive and profitable and this will require a further \$400,000. Offsetting this is a proposal for a long overdue (+10 years) increase in postal rates which will see a \$300,000 increase in revenue with the net result being one-off budgetary support of \$600,000 in 2003/04.

### **8.5.4 Government Printing Department**

The Government Print operates in a competitive environment and is recommended for corporatisation in the 2003/04 fiscal year. However, it must be noted that much of its plant and equipment is out of date and therefore it may require a considerable capital injection if it is to be competitive with other private sector operators and be viable in the long term. Once the new corporation has achieved financial stability then it should be considered for privatisation.

It is anticipated that the capital injection will not be required until the 2004/05 budget when the Government Print is removed from the budget.

## **8.6 On-lent loans**

The Government has a number of on-lent loans in its portfolio and although the borrower should be capable of servicing these loans that has not always been the case.

### **8.6.1 Sea Star Fishing Company**

Sea star was set up utilising an on-lent loan from the ADB. Sea Star has never been operationally sound enough to regularly service this loan but Government is obliged continue to make the repayments to ADB. Government has been negotiating to sell its shares in Sea Star and any sale agreement is likely to require an easing in the payment terms of the on-lent loan.

### **8.6.2 Tonga Electric Power Board**

Up until 2000 the Tonga Electric Power Board operated a monopoly in the generation and distribution of electricity in Tonga. In April 2000 the Power Board and Shoreline Power Ltd signed an agreement for the company to manage and distribute power in the Vava'u group.

In 2002 the Government signed an agreement with Shoreline to manage and distribute power to the whole of the country.

At present the TEPB is basically a shell company with its main income coming from its regulatory work via license fees. Unfortunately these fees are not significant enough to cover the cost of servicing its on-lent loans from Government and it is not deemed prudent to raise the license fees at this stage as this cost would be passed directly on to the consumers who are already deemed to be paying a high price for electricity.

The Government has agreed to cancel some of TEPB's on-lent loan.

### **8.6.3 Shipping Corporation of Polynesian**

The Shipping Corporation is covering its costs of day to day operations. It manages several vessels, including the Fua Kavenga and the 'Olovaha, on behalf of the Government which is repaying the original loans. The Corporation is currently investigating the acquisition of a new vessel to replace the MV 'Olovaha.

### **8.6.4 Ports Authority**

The Ports Authority has asked the Government for assistance to review the terms of the ADB on-lent loan, in light of the costs of waiving its wharfage charges for certain imports approved by the Government as well as bearing the costs of major capital works intended to enhance the efficiency of wharf operations. .

In each of these cases the Government, as the primary borrower, has a commitment to service the loans with ADB regardless if there are any changes to the on-lent agreements. Changes to on-lent loans therefore see no change to Government's loan repayment schedules but result in a decline in its income used to service these loans.

The costs of servicing these loans are already included in the budget.

## **8.7 Contingent Liabilities**

The Government has a significant number of contingent liabilities on its books, with the most prevalent being loan guarantees. Requests have also been recently made to Government to guarantee additional loans. A number of these contingent liabilities would have to be considered a risk for Government. A prudent Government would set aside an allocation for these contingent liabilities as there is a high probability that some of these guarantees will be called during the coming financial year.

## **8.8 Technical assistance**

The Government Investment Unit is staffed by two professional staff and one secretarial support worker. It receives intermittent inputs of technical assistance from NZAID and ADB is in the process of developing a technical assistance project to assist with public enterprise reform. However, a number of issues need addressing and in particular there is the problem that aid donors have limited capacity to respond quickly to requests for assistance which is often the case when an emergency arises in a public enterprise. There is also an issue of donors being prepared to give direct assistance to enterprises that operate in a commercial world. Donors are happy to support policy and regulatory work at the appropriate Ministries but are somewhat more reluctant to provide direct input to a public enterprise.

It is proposed that the Tonga Government put aside an allocation TOP100,000 for public enterprise reform technical assistance to help address these issues.

## 9.0 Financing Transactions

Net financing transactions measure the manner in which a headline budget deficit is financed, or a budget surplus is utilized. Table 10 outlines the financing transactions components of the budget for 2003/04 and the preceding years.

**Table 10: Estimated Financing transactions (\$)**

	Preliminary Outturn 2001/02	Original Estimate 2002/03	Revised Estimate 2002/03	Budget Estimate 2003/04
<b>External financing</b>				
Disbursements	16,400,000	10,805,024	7,445,004	10,206,425
Repayments	3,400,000	4,538,316	4,508,797	4,331,858
Subtotal external financing	13,000,000	6,266,708	2,936,207	5,874,567
<b>Domestic Financing</b>				
Bonds Issued	4,000,000	4,000,000	7,946,753	9,000,000
Principal Repayment of Matured Bonds/Loan	1,055,000	4,000,000	4,000,000	9,000,000
Subtotal domestic bond financing	2,945,000	0	3,946,753	0
Tonga Trust Fund	414,000	10	270,302	10
Net Changes in Government Cash Balances and Investment	-11,619,000	2,470,957	3,378,003	711,064
Subtotal Domestic Financing	-8,260,000	2,470,967	7,595,057	711,074
<b>Total Financing</b>	<b>4,740,000</b>	<b>8,737,675</b>	<b>10,531,264</b>	<b>6,585,641</b>

In order to avoid crowding out the emerging financial market in Tonga, with the consequential impact upon the private sector's capacity to borrow to finance expansion, the highest priority will be placed in 2003/04 on financing the headline budget deficit from overseas borrowings that can be undertaken at concessional rates therefore reducing the pressure on budget expenditures. On the domestic front, it is estimated that bond issues will be undertaken in 2003/04 only for the purpose of financing the rollover of bonds that are scheduled to mature in 2003/04.

### 9.1 Public Debt

"The average fixed interest rate of Tonga's public and publicly guaranteed external debt stood at one percent by end of June 2003."

#### 9.1.1 Introduction

This is the first attempt of the public debt analysis management of the Government of Tonga, produced by the Government Investment Unit of the Ministry of Finance. All references to debt herein relate to external and domestic liabilities except otherwise stated.

The aim of this section is to provide policymakers and other end users with policy guidance, supported by accurate and timely information on trends and developments in public finance. This section will provide a statistical and analytical base for policy formulation and design, thereby ensuring that debt management becomes an integral part of the entire macroeconomic framework in Tonga.

Data on public and publicly guaranteed debt is maintained using the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS). The National Reserve Bank maintains data on Private Sector Non-Guaranteed Debt.

This section describes in successive subheadings: the desired framework for managing external debt; the size and composition of the external debt stock, the structure of the debt profile; sensitivity analysis of debt; and moves towards transparency in reporting on debt.

### 9.1.2 Desired Framework for Managing External Debt

*“In a world of large and volatile capital flows and integrated international capital markets, the sound management of sovereign liabilities is an important element in safeguarding Tonga’s economic stability. Tonga needs a fully functional debt management office, to formulate debt management objectives in general terms, and establish formal guidelines on the source of funds, currency composition and the maturity structure of public debt.”*

It must be noted that although external debt grew by a smaller proportion than foreign currency assets during the last five years, uncontrolled growth in foreign currency debt could have serious macroeconomic consequences for Tonga.

Given the above trends, it is imperative that prior authority for borrowing be considered within pre-determined ceilings and guidelines – as a prudent way of protecting the country’s long-term balance of payments position.

The Net Present Value (NPV) of public external debt stood at USD 31.8 million by end of June 2003 reflecting a slight increase from a level of USD 30.7 million at the end of June 2002. As a share of real GDP, the NPV of external debt slightly increased to 25.8% by end of June 2003, from a share of 25.6% during the same period in 2002. The share of NPV-GDB is expected to go down to 25.3% by end of June 2004.

This measure (NPV of Debt – GDP) is generally recognised as the most appropriate indicator of the debt burden, as it measures debt relative to the ability of the Government and the country’s taxpayers to finance it.

The NPV of debt to export ratio (openness criteria) fell by 17 percentile points from 158.3% in June 2002 to 141.3% by June 2003. The share of NPV of debt to exports is expected to remain at approximately 120% during the next five years.

The fiscal window criteria (NPV of external debt to revenue) decreased in 2003 to 63%, from a level of 69% at the end of June 2002. This ratio is however expected to decline considerably to 57% by 2004. The revenue threshold (revenue to GDP ratio) increase from 37% in 2001/2002 to 41% in 2002/2003, and is estimated to jump to 44% by 2004 – suggesting a tightening of the revenue threshold.

Another measure of sustainability is the ratio of external debt service to exports, which measures the ability of the economy to generate foreign exchange currency to service foreign debt and interest payments. This indicator seems stable for Tonga, standing at approximately under 12% by end of June 2003. The interest to GDP ratio remained low at less than 0.5% between 1995/1996 to 2002/2003 and is projected to continue at this level till 2006. This is lower than the share of development expenditure to GDP, which stood at an average of 7% between 2001/2002 to 2002/2003, giving an indication that there may still be room to fund emerging priorities after external debt is serviced.

Committed undisbursed loan balances stood at USD 5.9 million by end of June 2003 and are expected to climb to USD 10 million in June 2004. As expected, 100% of undisbursed commitments are in respect of multilateral loans.

### 9.1.3 Review of Debt Profile

1. Review of Debt Stock: Debt to GDP ratio is one of the common measures to monitor and measure the sustainability of debt. This ratio can increase in two ways:

- a. If the real interest rate exceeds the real growth rate – in this scenario, rising interest payments will cause the debt ratio to rise.
- b. By running a primary (non-interest) deficit . If the primary deficit is zero, the requirement to maintain a stable debt/GDP ratio, is that nominal GDP growth rate be greater than the nominal interest rate.

For any economy, it is possible to run a primary deficit and not increase the debt to GDP ratio only if the real growth rate of the economy exceeds the real interest rate.

When the growth rate is higher than the prevailing interest rate, existing debt can be serviced by sale of new debt. On the other hand, if the real interest rate exceeds the growth rate, then, to contain the debt ratio the government has to use its own resources to service debt and it is therefore necessary to run a primary surplus.

The Tonga situation indicates that in the 1990s growth rate was lower than the prevailing interest rate, i.e. (g-r) was negative. This decline in growth was not matched by a reduction in the deficit, thereby resulting in an increase in the debt to GDP ratio from 1996/97 – 2002/03.

In 2002/2003, total external debt constituted around 63% of GDP, increasing by 14% points from 2001/2002 where it comprised 49% percent of GDP. Estimates for 2003/04 to 2006/07 indicate that this trend is set to continue till 2007/08, given the existing stock of debt at an average of USD 70.5 Million.

Discussions often focus on the relationship between the stock of debt, the size of the budget deficit, and GDP growth. Simply stated, if the trend growth of GDP is X%, and the average deficit is Y%, then the stock of indebtedness will tend towards  $(Y\% + Y\%/X\%)$ . For instance, if the GDP growth is 3% and the budget deficit 1.5% of GDP, the stock of debt will move towards and stabilise at 51.5% of GDP.

**Table 11: Summary of the External Debt (\$m) for financial year 1998/99 – 2002/03**

CREDITOR CATEGORY	1998/99	1999/00	2000/01	2001/02	2002/03
Disbursed Outstanding Debt	86.8	91.8	113	133.2	153.6
Disbursement	5.7	3.3	6.6	16.3	17.3
Principal repayment	3.0	2.4	2.9	2.4	3.3
Net flows on debt	2.7	0.9	3.8	13.9	14
Interest payments	0.9	0.9	1	1.1	1
Net transfers on debt	1.7	0	2.7	12.8	13
Total debt service	4.0	3.3	3.9	3.5	4.3

#### 9.1.4 Total Outstanding Debt

At the end of 2002/03, provisional data indicates that the total Government public debt outstanding issued by or guaranteed by the Kingdom of Tonga amounted to \$201.8 million, with external debt amounting to \$164.4 million and domestic debt amounting to \$37.4 million. About 16.8% or \$33.9 million of Government public debt has been on-lent to government owned enterprises and statutory boards.

Of the \$164.4 million external debt, government debt totaled \$158.5 million and the debt of public corporations guaranteed by the Kingdom of Tonga is \$5.9 million. The total external government debt outstanding is projected to increase to \$161.4 million in 2003/04. Total external disbursements are projected to be \$9.2 million by the end of 2003/04. Principal

repayments for 2003/04 are projected to be about \$3.9 million. During the same period, interest payments are estimated at \$1.5 million.

Of the \$37.4 million domestic debt, government debt totaled \$26.9 million and the debt of public corporations guaranteed by the Kingdom of Tonga is \$10.5 million. The total domestic government debt outstanding is expected to be unchanged in 2003/04 with loan raising limited to the amount necessary to finance the rollover of maturing bonds (refer to Table 12 below). Interest payments on domestic debt in 2003/04 are estimated at \$1.3 million. Attached in the annex are statements of loans to Local Statutory Boards and other organizations, government external debt, domestic debt, and guaranteed loans made by the government.

**Table 12: Government bonds by maturity date**

F/YEAR		PARTICULARS	DUE DATE	AMOUNT
	1	Series No. 2. 1999/2003	30/6/03	1,000,000
<b>2002/2003</b>		<b>TOTAL AMOUNT DUE</b>		<b>1,000,000</b>
	2	Series No. 3. 2000/2003	31/7/03	1,000,000
	3	Series No. 4. 2000/2003	31/10/03	1,000,000
	4	Series No. 1. 2001/2004	9/4/04	5,000,000
	5	Series No. 3. 1999/2004	30/6/04	1,000,000
<b>2003/2004</b>		<b>TOTAL AMOUNT DUE</b>		<b>8,000,000</b>
	6	Series No. 3. 2001/2004	31/7/04	1,000,000
	7	Series No. 2. 2002/2004	31/7/04	1,000,000
	8	Series No. 3. 2002/2004	30/8/04	2,000,000
	9	Series No. 1. 2002/2005	28/6/05	1,000,000
<b>2004/2005</b>		<b>TOTAL AMOUNT DUE</b>		<b>5,000,000</b>
	10	Series No. 4. 1999/2005	31/8/05	3,900,000
	11	Series No. 2. 2001/2006	29/6/06	3,000,000
<b>2005/2006</b>		<b>TOTAL AMOUNT DUE</b>		<b>6,900,000</b>
		<b>GRAND TOTAL OF BONDS</b>	<b>\$</b>	<b>20,900,000</b>

## 10.0 Alternate Classifications of Financial Transactions

Traditionally, the estimates of receipts and payments in the Appropriation Bill are predicated on the cash basis of accounting — that is as funds flow into, within, and out of the Kingdom of Tonga's bank accounts. Receipts are brought to account in the period in which they are received and payments are accounted for when the actual disbursement is made from those bank accounts. The presentation of the Government's accounts in this form is predominantly concerned with ensuring money is legally able to be spent and is spent on the purpose for which it was provided. That system of classifying the Government's financial transaction also forms the basis for effective cash planning and management.

However, since the general framework of government accounting practices was formalised, there have been substantial developments both in economic thinking and in the role of Government in the economy. With these developments has come a demand for new uses of statistics on the Government's financial transactions that could not have been envisaged by those who designed that system.

The Government Finance Statistics (GFS) system of classification was designed to facilitate the study of the macro-economic impact of the Government's financial transactions on the economy and therefore assessments of the sustainability of fiscal policy objectives. It does so by recording 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. The GFS system of classification also records inflows to government associated with the repayment of loans made by the government as net lending within the category 'expenditure and net lending', rather than as a revenue of the government. Furthermore, by bringing together expenditures directed towards like purposes, GFS system of classification also facilitates presentation of information on the total resources devoted by the Government to those purposes and allows international comparisons independently of local administrative structures. It is for these reasons that the primary presentation of budget estimates in the Budget Statements is on a GFS basis.

The following table provides reconciliation between the cash inflow estimates of the Government of Tonga Fund in 2003/04 and the estimates of revenues classified on a GFS basis.

**Table 13: Reconciliation between Cash Inflows to the Government of Tonga Fund and Revenues as per the Budget Statements**

<b>Inflows to the Government of Tonga Fund</b>		<b>113,003,033</b>
<i>Plus</i> Inflows to other Funds		
Tonga Trust Fund	10	
Revolving Funds	7,159,490	
Local Community	391,001	
Donor Cash Aid	25,330,848	32,881,349
<b>Total Inflows (as per Program Estimates)</b>		<b>145,884,382</b>
<i>Less</i> Inflows classified as offsets to expenditure		
Repayments of net lending		1,723,593
<i>Less</i> Inflows classified as financing transactions		
External Financing	10,206,425	
Domestic Financing	9,000,010	19,206,435
<b>Total Revenues (as per Program Estimates)</b>		<b>124,954,354</b>

Table 14, provides reconciliation between the appropriations of the Government of Tonga Fund in 2003/04, totals inflows and the estimates of expenditure classified on a GFS basis.

**Table 14: Reconciliation between Appropriations the Government of Tonga Fund and Expenditure as per the Budget Statements**

<b>Outflows from the Government of Tonga Fund</b>		<b>113,714,097</b>
<i>Plus</i> Outflows from other funds		
Tonga Trust Fund	10	
Revolving Funds	7,159,490	
Local Community	391,001	
Donor Cash Aid	25,330,848	32,881,349
<b>Total Inflows (as per Program Estimates)</b>		<b>146,595,446</b>
<i>Less</i> Inflows classified as offsets to expenditure		
Repayments of net lending		1,723,593
<i>Less</i> Outflows classified as financing transactions		
External Financing	4,331,858	
Domestic Financing	9,000,000	13,331,858
<b>Total Expenditures (as per Program Estimates)</b>		<b>131,539,995</b>



## 10.1 Estimates of Cash Flows

The cash flow estimates for 2003/04 across all funding sources, together with estimates of in-kind assistance are set out in the following table.

**Table 15: Aggregate resources available to the Government**

	Inflows	Outflows	Balance
Government of Tonga Fund	113,003,033	113,714,097	-711,064
Tonga Trust Fund	10	10	0
Revolving Funds	7,159,490	7,159,490	0
Local community	391,001	391,001	0
Donor cash funding	25,330,848	25,330,848	0
Budget Sector (Cash)	145,884,382	146,595,446	-711,064
Donor In Kind	9,670,564	9,670,564	0
<b>Total Budget Sector</b>	<b>155,554,946</b>	<b>156,266,010</b>	<b>-711,064</b>

Table 16 following provides a breakdown of moneys from all sources estimated to be collected by the various Ministries and Departments.

**Table 16: Moneys to be collected by Ministry**

Vote	Ministry	Revised Estimate 2002/03	%	Budget Estimate 2003/04	%
01	Palace Office	0	0.0	1	0.0
02	Legislative Assembly	0	0.0	1	0.0
03	Prime Minister's Office	2,133,862	1.9	2,089,633	1.4
04	Ministry of Foreign Affairs	1,094,226	1.0	800,000	0.5
05	Governor of Ha'apai	0	0.0	2	0.0
06	Governor of Vav'a'u	0	0.0	1	0.0
07	Ministry of Lands, Survey Natural Resources	440,493	0.4	1,614,810	1.1
08	Printing Department	750,000	0.7	850,001	0.6
10	Ministry of Justice	379,315	0.3	735,606	0.5
11	Ministry of Police	1,092,108	1.0	1,008,600	0.7
13	Defence	100,000	0.1	100,000	0.1
14	Ministry of Finance	13,178,656	11.6	21,591,940	14.8
15	Revenue Department	77,310,572	68.0	82,042,725	56.2
16	Statistics Department	38,512	0.0	159,005	0.1
18	Audit Department	3,637	0.0	32,001	0.0
19	Ministry of Education	1,080,385	1.0	3,818,923	2.6
20	Ministry of Health	471,158	0.4	9,364,603	6.4
22	Prisons Department	162,465	0.1	160,000	0.1
23	Ministry of Agriculture	2,211,388	1.9	3,878,080	2.7
24	Ministry of Fisheries	750,680	0.7	1,352,119	0.9
25	Central Planning Department	0	0.0	1,029,512	0.7
26	Ministry of Labour, Commerce and Industries	820,949	0.7	2,100,004	1.4
27	Tonga Visitor's Bureau	327,911	0.3	412,850	0.3
28	Ministry of Works	8,431,457	7.4	7,497,291	5.1
29	Environment Department	332,993	0.3	1,415,670	1.0
30	Civil Aviation	2,238,148	2.0	3,212,504	2.2
31	Ministry of Marine and Ports	319,627	0.3	618,500	0.4

The increase of more than \$8.0 million in the moneys to be received by the Ministry of Finance is largely associated with an increase in domestic loan raisings to finance the rollover of maturities in 2003/04 and the receipt of grants and loan moneys from our development partners. For the Revenue Department, the increase is largely a reflection of increased tax collections in 2003/04.

Table 17 following provides a breakdown of moneys appropriated from all sources and for all purposes expected to be available to the various Ministries and Departments.

**Table 17: Moneys to be Appropriated by Ministry**

Vote	Ministry	Revised Estimate 2002/03	%	Budget Estimate 2003/04	%
01	Palace Office	2,128,110	1.8	1,770,106	1.2
02	Legislative Assembly	2,070,469	1.8	2,070,472	1.4
03	Prime Minister's Office	3,854,747	3.3	4,320,651	2.9
04	Ministry of Foreign Affairs	5,380,620	4.6	5,647,505	3.9
05	Governor of Ha'apai	92,676	0.1	122,914	0.1
06	Governor of Vav'au	201,952	0.2	178,629	0.1
07	Ministry of Lands, Survey Natural Resources	1,995,568	1.7	2,874,628	2.0
08	Printing Department	875,435	0.7	768,423	0.5
09	Commissioner of Public Relations	122,617	0.1	125,200	0.1
10	Ministry of Justice	1,347,989	1.2	3,934,793	2.7
11	Ministry of Police	3,853,249	3.3	4,130,278	2.8
12	Crown Law Department	676,674	0.6	918,439	0.6
13	Defence	4,314,253	3.7	4,314,253	2.9
14	Ministry of Finance	34,339,940	29.3	40,287,991	27.5
15	Revenue Department	1,635,649	1.4	2,910,537	2.0
16	Statistics Department	434,352	0.4	634,387	0.4
18	Audit Department	518,706	0.4	460,608	0.3
19	Ministry of Education	16,451,430	14.1	18,986,038	13.0
20	Ministry of Health	10,438,042	8.9	20,658,784	14.1
22	Prisons Department	726,883	0.6	737,743	0.5
23	Ministry of Agriculture	4,873,233	4.2	6,781,807	4.6
24	Ministry of Fisheries	1,185,210	1.0	2,062,098	1.4
25	Central Planning Department	369,841	0.3	1,525,804	1.0
26	Ministry of Labour, Commerce and Industries	1,599,652	1.4	2,594,582	1.8
27	Tonga Visitor's Bureau	1,079,301	0.9	1,387,951	0.9
28	Ministry of Works	12,548,948	10.7	11,272,377	7.7
29	Environment Department	698,791	0.6	1,870,763	1.3
30	Civil Aviation	2,601,681	2.2	2,578,006	1.8
31	Ministry of Marine and Ports	630,527	0.5	669,678	0.5
	<b>Total</b>	<b>117,046,545</b>	<b>100.0</b>	<b>146,595,446</b>	<b>100.0</b>

The significant increase in expenditure by the Ministry of Health is associated with projects to be financed in conjunction with our development partners that are designed to provide a platform for a stronger public health system in Tonga. These projects will include the construction of a new hospital in Tongatapu that will serve the health needs of all Tongans.

Table 18 below provides the government cash balance adjusted by cash inflow and outflow for the last five years. The cash balance for 1999/00 has been audited and used as the benchmark.

**Table 18: General Revenue Balances for financial year 1999/00 – 2003/04**

General Revenue Balances (\$m)	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004
Opening General Revenue Balance as per previous					
Estimates	3.16	5.14	5.08	8.31	6.11
Adjustments	-	(2.38)	-	5.34	-
Add : Actual Out-turn of Revenue for Year[Estimates for years 2002/2003]	74.70	89.99	94.17	96.16	113.00
	77.86	92.75	99.25	109.81	119.12
Deduct : Actual Out-turn of Expenditure for Year[Estimates for years 2002/2003]	72.72	87.67	90.94	103.69	113.71
Closing General Revenue Balance	5.14	5.08	8.31	6.11	5.40

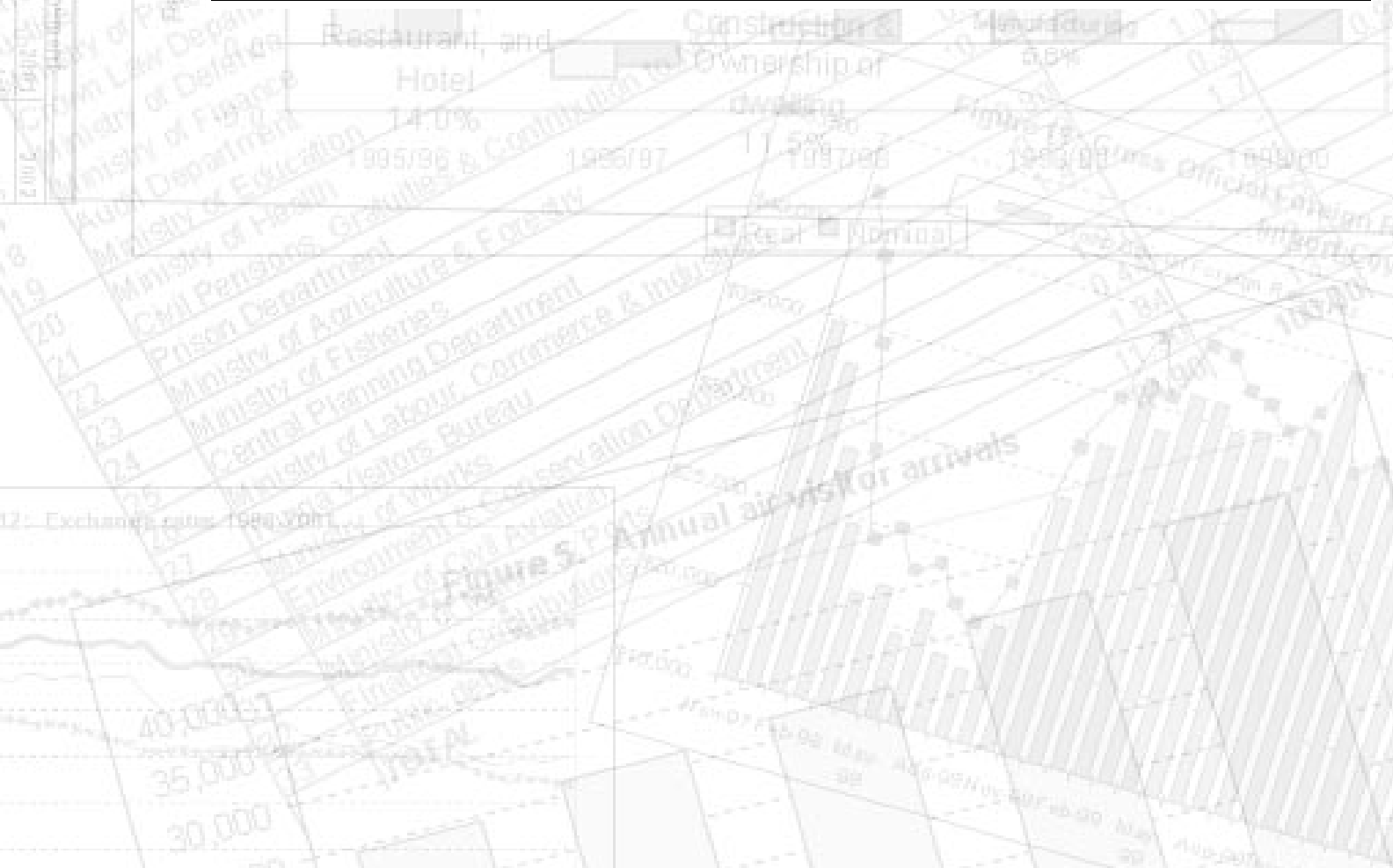


**Budget Statement for Year Ending 30<sup>th</sup> June 2004**  
**Budget Paper No 3: *Regional Development***

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



Figure 3. Construction Annual Growth Rates during the period 1998/99-1999/2000





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## Regional Development Expenditures

### 1.1 Financial Assistance

The Government of New Zealand, Australia, Japan, German, Canada and the European Union remain the key sources of financial assistance for regional and rural development in Tonga. The total financial contribution to the regions and rural communities during the year 2002/2003 is estimated at over \$6.6 million pa'anga. Table 16 shows the financial contributions to the regions and rural communities from donor agencies.

**Table 19: Distribution of Overseas Financial Aid by Donors and Regions (T\$) – 2002**

Donor/Region	'Eua	Ha'apai	Vava'u	Niufo'ou	Niutopotapu	Tongatapu	Total
Japan	137,877	196,794	127,614	224,697	238,569	881,611	1,807,162
New Zealand	448,221			222,050	266,460	154,626	1,091,357
Australia		3,466,049				242,569	3,708,618
German						17,895	17,895
European Union						24,025	24,025
TOTAL	586,098	3,662,843	127,614	446,747	505,029	1,320,726	6,649,057
% distribution	8.8%	55.1%	1.9%	6.7%	7.6%	19.9%	100.0%

### 1.2 Niuas

#### *Niua Development Fund (NDF) – NZ\$600,000*

New Zealand remains the core donor for the two Niuas with a grant of approximately \$675,523 for 2002/03 FY. The Niufo'ou Electrification Project and the Niutopotapu New High School absorbed most of this allocation. Approximately \$284,000 was allocated for **Niufo'ou Electrification Project**, \$340,000 allocated to the **Niutopotapu New High School**, and approximately \$57,000 for **other projects in the Niuas**.

**Table 20: Pending Projects submitted last year to the New Zealand Government**

Submission	NDC Status	CD Status	Requested Amount T\$	Status
Revise Installation of Buoy at Niufo'ou	Approved by NDC 3/2002 of 19 September 2002	Approved by CD 1877 of 15 October 2002	30000	NZAID has given in-principle support subject to the receiving of quotation from Ministry of Works to finalize the costs.
Tafahi Solar System Upgrading	Approved by NDC 3/2002 of 19 September 2002	Approved by CD 1877 of 15 October 2002	17830	NZAID has indicated in-principle support. Awaiting final consideration.
Kava Pounding Machines for Niutopotapu and Niufo'ou people	Approved by NDC 2/2002 of 20 June 2002	Approved by CD 1436 of 8 August 2002	33000	NZAID has given in-principle support. Awaiting NZ final consideration.
Minor Works for Queen Mata'aho Airport, NIT	Approved by NDC 1/2002 of 30 April 2002	Approved by CD 867 of 15 May 2002	20218	Still under consideration.
Niufo'ou High School Resources Project	Approved by NDC 1/2002 of 30 April 2002	Approved by CD 867 of 15 May 2002	16909	NZAID has given in-principle support.
Niutopotapu household cement water tanks	Approved by NDC 1/2002 of 30 April 2002	Approved by CD 867 of 15 May 2002	24000	Approved and completed.

One of the highlights for the Niua group is the provision of funds from the New Zealand Government is the construction Niuatoputapu High School on the new site at Hihifo, Niuatoputapu. The New Zealand development assistance allocated \$340,000 and the construction of the new high school commenced in 2002.

Another highlight for 2002, was the fine effort by the Niuafo'ou people, to work in collaboration with the Government of New Zealand (GONZ) and GOT and in finalising the revised implementation plan report for Niuafo'ou Solar Electrification.

**Table 21: Niua Projects Under the Niua Development Funds- 2002**

Project Titles	Approved Allocation (T\$)	Project Locations	Project Outputs	Project Status
Private Sector Development Project	11,178	Return Airfares for 2 from Niua to Tongatapu	Niua Participation in Annual Trade Fair Competition 2002.	Completed
Tractor/Slasher freight to Niuafo'ou	2,387	Niuafo'ou	Arrival of 1 Tractor and 1 Slasher to Niuafo'ou	Completed
Cooking Training for Niuatoputapu Women	21,865	Niuatoputapu	30 drum ovens, training and return airfares for 2 trainers from Tongatapu to Niuatoputapu	Completed
Tafahi Solar Technician travel to Niuatoputapu	485	Tafahi	Completing of assessment on Tafahi Solar Problem	Completed
Books for Niuatoputapu High School	7,009	Niuatoputapu	Library books, Science books and mathematical materials	Completed
Trailer, Slasher and ripper for Niuafo'ou Farmers	13,476	Niuafo'ou	1 Trailer, 1 Slasher, Ripper	Completed
Tractor implements disc plough	6,980	Niuatoputapu	Disc Plough Tractor Implements	Completed
Niuatoputapu Household Cement Water Tanks	24,000	Niuatoputapu	46 cement water tanks	Completed
Revise Implementation Plan Report for Niuafo'ou Electrification	11,000	Niuafo'ou	Completed Implementation Plan Report	Completed
<b>TOTAL</b>	<b>98,380</b>			

## 'Eua

**Table 22: Projects Under the 'Eua Development Funds- 2002**

Project Titles	Approved Allocation (T\$)	Project Locations	Project Outputs	Project Status
Vanilla Curing Shed	28,093	Angaha	1 Vanilla Shed	Completed
Upgrading Nafaua Harbour	30,900	Nafanua	Ramp and Steps	Completed
'Eua Water Supply Upgrading	450,349	'Eua	Yet to be implemented	Ongoing
<b>TOTAL</b>	<b>509,342</b>			

The GONZ remains the core donor for 'Eua with a grant of NZ\$500,000 (equivalent of T\$562,936.28 at 0.8882 exchange rate) for the 'Eua Development Program for financial year 2002/2003. The upgrading of 'Eua Water Supply was allocated NZ\$400,000 and the remaining NZ\$100,000 was targeted for small projects in 'Eua. Table 19 above indicates projects that were approved and implemented in 2002.

## Ha'apai

### Ha'apai Development Fund (HDF) – T\$200,000

Under the Ha'apai Development Fund (HDF) from the Tonga/Australia Bilateral Aid Program, the total allocation for the completed and/or ongoing projects during the year 2002 is estimated at \$3,300,999. The considerable allocation for Ha'apai also included the electrification project, which was technically not included in the HDF. Instead a separate line item for the electrification project was incorporated in the ABAP. Table 20 below gives the details of the project status.

For the period 2003/2004 it is anticipated that this likely to double to approximately \$450,000

**Table 23: Ha'apai Projects Under the Ha'apai Development Fund – 2002**

Project Titles	Approved Allocation (T\$)	Project Locations	Project Outputs	Project Status
Ha'apai Outer-islands Electrification (1 million per year)	2,500,000	Ha'ano, Nomuka, 'Uiha & Ha'afeva	Establishment of the Power Station at Ha'ano and 'Uiha plus more than 300 connections	Ongoing Continue on to Ha'afeva and Nomuka)
Ha'apai Cement Water Tank Phase 7	80,000	Mo'unga'one	32 Cement Water Tanks	Completed
Ha'ano Jetty	171,570	Ha'ano	Jetty	Completed
Tungua and Fonoifua Classrooms	50,000	Tungua & Fonoifua	1 classrooms each	Ongoing
Fanga 'i he Si Market (Ha'apai Market)	383,200	Pangai	* 1 Building * Toilet Facilities * Vehicle Parking Areas	Completed
Pangai Agricultural Road (Outstanding)	1,291	Pangai	1.2 KM upgrading to gravel	Completed
Cooking Training – (Ha'apai Women)	25,628	Ha'apai Villages	30 Homemade ovens	Completed
Ha'apai Women Group Weaving Development Project	18,000	Ha'apai Villages	58 pots and training	Completed
Construction of 'Uiha Communal Owned Retail Store	21,310	Pangai	Retail Shop	Completed
Nomuka FWC Fishing Boat	50,000	Nomuka	1 Fishing Boat	Completed
<b>TOTAL</b>	<b>3,300,999</b>			

## Vava'u

The European Union (EU) will continue to be the core donor for the development of Vava'u. The Vava'u Development Programme for 2003/04 will include the following:

1. Fisheries wharf and other infrastructure components – The EU has approved a project to construct fisheries wharf and small boat area. The project is earmarked for \$4.4 million. Work is expected to commence in early June 2003.
2. Education Programme - \$1 million has been earmarked for 2003/2004 and a similar amount for the following two years. The focus of the first year of operation will be the renovation and furnishing of primary school buildings, as well as the supply of essential equipment and furniture.

3. Health Programme - \$1 million has been earmarked for 2003/2004 and a similar amount for the following two years. The projects will include staff quarters, renovation of existing quarters, hospital perimeter fence, boat, and hospital upgrade and equipment.
4. Non State Actors/Civil Society – \$240,000.00 has been earmarked for 2003/04. This amount will finance projects in schools such as upgrading of home economics facilities and equipment, provision of water supplies, and renovation of buildings, provision of workshops, training, and equipment for youths, assistance to the Red Cross, and operation costs of a Civil Society Forum.
5. An allocation of up to 2 million euros could be used for emergency assistance, contributions to debt relief initiatives and mitigating adverse effects of instability in export earnings.
6. Microproject Programme IV - \$2,650,000.00. The duration will be two years starting in 2003/04.
  - Economic Sectors (\$450,000.00). The programme will cover projects in agriculture (storage facilities, fencing, equipment and one-off inputs); fisheries (small fishing vessels, pearl farming, and construction or repair of fishing wharves and jetties); tourism (upgrading of site facilities, training programmes).
  - Social Sectors (\$1,385,500.00). The programme will cover projects in education (repair, refurbishment, construction and equipping of schools); youth (training or re-training courses); health (repair refurbishment, construction and equipping of small clinics and health centers); women in development.
  - Infrastructure Sector (\$665,000.00). The programme will cover projects such as roads for agricultural purposes, and small feeder roads.
  - Other (\$150,000.00). This will encompass projects that are not specifically covered under the above categories which could include regional integrated development intervention, and regular annual audits of the overall programme.

## **1.6 Rural Development Programme**

‘Rural Community’ is defined to include all the outer island villages, all villages in Tongatapu, including low-lying areas of Nuku’alofa (Sopu and Popua).

The Rural Development Program projects were funded from the New Zealand’s Small Project Fund (NZSPF), the Australian Community Assistance Scheme (ACAS), the German Small Project Fund, the Canada Fund, the European Union (EU) Community Micro Project’s Fund and Japan’s Grant Assistance for Grassroots Projects (GGP).

### **1.6.1 New Zealand Small Project Funds**

The community development program directly assists the villages and community development activities. Given that the program is community based, communities identify priorities, either as groups or the villages themselves. In most cases, project recipients contribute financially to the total project costs.

Table 21 provides a list of projects that were approved and implemented under the New Zealand Small Projects Fund for 2002. The total project allocation from the New Zealand Government was \$154,626, that is approximately 85.9% of the total project cost and remaining 14.1% (approximately \$21,310) is the contribution of the projects’ beneficiaries.

**Table 24: Projects Funded from the New Zealand Small Projects Fund – 2002**

Project Titles	Approved Allocation (T\$)	Village Contributions (T\$)	Project Locations	Project Outputs	Project Status
GPS Longoteme toilet	18,845		Longoteme Tongatapu	Toilet facilities	Completed
Loma Linda WID water tanks	15,750	5,250	Vaini Tongatapu	21x2200 gallon water tank	Completed
Vakataha WID Water tanks	20,250	6,750	Talasiu Tongatapu	27x2200 gallon water tank	Completed
Longoteme Tank Stand	12,000		Longoteme Tongatapu	1 tank stand	Completed
Nakolo flush toilets	26,208	6,500	Nakolo Tongatapu	26 toilets	Completed
Haveluliku household water meter	15,240	2,810	Haveluliku Tongatapu	Water meters	Completed
'Alaki village water tank	20,136		'Alaki Tongatapu	29x2200 gallon water tanks	Ongoing
Faleloa Drainage	12,000		Faleloa Tongatapu	Village Drainage	Ongoing
Felemea Residences' kitchen facilities	8,763		Felemea Ha'apai	kitchens	Ongoing
Renovation of Taufu'ahau college – home economics room	5,434		Pangai Ha'apai	remodel	Ongoing
<b>TOTAL</b>	<b>154,626</b>	<b>21,310</b>			

## 1.6.2 Australian Community Assistance Scheme

**Table 25: Australian Community Assistance Scheme**

Project Titles	Approved Allocation (T\$)	Village Contributions (T\$)	Project Locations	Project Outputs	Project Status
Pelehake WID Center Hall	33,000		Pelehake Tongatapu	1 Community Hall	Completed
FWC Middle School	26,300		Pea Tongatapu	1 Toilet Facilities	Completed
Veitongo Mini Market	21,718	2,500	Veitongo Tongatapu	1 Market Facilities	Completed
Vava'u Eastern Village WC Tanks	27,115	4,785	Vava'u	29 x 2200 gallons water tanks	Completed
Lata he Peau WID Land Fill	6,300		Pili Tongatapu	Land filled	Completed
Melino mo e 'Ofa WID Water Tanks	17,250	5,750	Pili Tongatapu	23 x 2200 gallons water tanks	Completed
Hufangalupe WID Water Tanks	21,000	7,000	Vaini Tongatapu	28 x 2200 gallons water tanks	Completed
Holonga GPS Fence Project	11,636		Holonga Vava'u	Fences	Ongoing
Ha'asini Agricultural Road Project	28,400	7,000	Ha'asini Tongatapu	1.2 Kilometer Road	Ongoing
FWC Fishing Boat (Nomuka)	39,850		Nomuka Ha'apai	1 Boat	Ongoing
Fonoifua and Tungua Projects	10,000		Ha'apai		Ongoing
'Esia Kitchen Project	34,284		Niuafo'ou	24 Kitchens	Ongoing
<b>TOTAL</b>	<b>276,853</b>	<b>27,035</b>			

Table 24 lists the projects that were completed and or approved and ongoing under the Australia Community Assistance Scheme (ACAS) for 2002. The Government of Australia contributed a total of \$242,569. This is approximately 87.7% of the total project cost and the remaining 12.3% (approximated at \$27,035) were contributed by the projects' beneficiaries.

### 1.6.3 Japan's Grant Assistance for Grassroots Projects (GPP)

Japan's Grant Assistance for Grassroots Projects (GPP) was first underway in 1992. It is a bilateral aid program that provides non-refundable financial assistance to non-government organizations (NGOs), hospital, primary schools, research institutes and other non-profit organizations implementing development projects at the grassroots level.

**Table 26: Japan's Grant Assistance for Grassroots Projects – 2002**

Project Titles	Approved Allocation (\$T)	Project Locations	Project Outputs	Project Status
1. GPS Longoteme	73,187.96	Longoteme ,Tongatapu	3 Classrooms	Completed
2. GPS Ma'ufanga	70,745.94	Ma'ufanga, Tongatapu	3 Classrooms	Completed
3. GPS 'Atele	34,452.00	Ha'ateiho, Tongatapu	2 Classrooms	Completed
4. GPS Haveluloto	36,483.54	Haveluloto, Tongatapu	2 Classrooms	Completed
5. GPS Fua'amotu	14,375.84	Fua'amotu, Tongatapu	Toilet Facilities (Upgrading)	Completed
6. Naupoto Preschool	42,642.44	Haveluloto, Tongatapu	2 Classrooms	Completed
7. Folaha Water Supply	43,279.00	Folaha, Tongatapu	Upgrading Water Supply	Ongoing
8. Vaini Water Supply	43,800.00	Vaini, Tongatapu	Upgrading Water Supply	Ongoing
9. Malapo Water Supply	40,070.00	Malapo, Tongatapu	Upgrading Water Supply	Ongoing
10. Pangaimotu Water Supply	16,540.00	Pangaimotu, Vava'u	Upgrading Water Supply	Completed
11. Ta'anea Water Supply	16,923.00	Ta'anea , Vava'u	Upgrading Water Supply	Completed
12. WID Handicraft Center	31,915.00	Neiafu, Vava'u	1 Building	Completed
13. Koulo Water Supply	28,444.43	Koulo, Ha'apai	Upgrading Water Supply	Completed
14. Fotua Water Supply	18,588.33	Fotua, Ha'apai	Upgrading Water Supply	Completed
15. Fangale'ounga W/Supply	12,752.42	Fangale'ounga., Ha'apai	Upgrading Water Supply	Completed
16. 'Uiha Water Supply	12,921.33	'Uiha, Ha'apai	Upgrading Water Supply	Completed
17. Ofamo'oni Pre School	28,910.96	Pangai, Ha'apai	1 School Building (2 Classrooms)	Completed
18. St.Joseph Home	10,948.00	Pangai, Ha'apai	Home Economic	Completed

Project Titles	Approved Allocation (\$T)	Project Locations	Project Outputs	Project Status
Economic			Equipment	
19. Nomuka FWC P School	31,575.99	Nomuka, Ha'apai	School Building	Completed
20. Septic Truck	29,255.72	'Eua	1 Truck	Completed
21. Rubbish Truck	24,186.80	'Eua	1 Truck	Completed
22. Eua High School Furniture	17,034.82	'Ohonua, 'Eua	50 Chairs & Desks & Photocopy machine	Completed
23. Tafahi footsteps	45,123.63	Tafahi, Niuatoputapu	1 Footsteps to farm areas	Completed
24. 'Esia Water catchment and water tanks	39,641.35	'Esia, Niuafu'ou	1 Water Catchment	Completed
25. Kolofo'ou Cement Water Tanks	11,805.85	Kolofo'ou, Niuafu'ou	Water Tanks	Completed
26. Sapa'ata Cement water tanks	11,805.85	Sapa'ata, Niuafu'ou	Water Tanks	Completed
27. Fata'ulua Water Catchment and water tanks	39,641.35	Fata'ulua, Niuafu'ou	Water Tanks	Completed
28. Holonga Water Supply	27,343.70	Holonga, Vava'u	Upgrading Water Supply	Ongoing
29. Upgrading GPS, Houma	33700	'Eua	2 Classrooms	Ongoing
30. Upgrad GPS, Angaha	33700	'Eua	2 Classrooms	Ongoing
31. Upgrading Niu'ui Hospital	52653	Ha'apai	Renovations	Ongoing
32. Upgrading GPS Tongamama'o	37115	Niuafu'ou	Renovations	Ongoing
33. Upgrading water supply in Niuafu'ou	63999	Niuafu'ou	40 water tanks (2200 gallons)	Ongoing
34. Upgrading GPS 'Alele'uta	20689	Niuafu'ou	Improve Toilet Facilities and Water Tank	Ongoing
35. Upgrading GPS Falehau	35491	Niuatoputapu	Improve Toilet Facilities and Water Tanks	Ongoing
36. Upgrading GPS Tafahi	37499	Niuatoputapu	1 Staff Quarter	Ongoing
37. Upgrading water supply in Niuatoputapu	51199	Niuatoputapu	40 water tanks (2200 gallons)	Ongoing
38. Provision of Vocational Training Equipment for NTT District High School	69257	Niuatoputapu	Industrial Art Equipment	Ongoing
39. Upgrading GPS Sia'atoutai	62869	Tongatapu	3 Classrooms, 1 toilet set & 1 water tank	Ongoing
40. Upgrading GPS Longolongo	35999	Tongatapu	1 staff quarter	Ongoing
41. Upgrading GPS Kaiavale	35999	Tongatapu	2 classrooms	Ongoing

Project Titles	Approved Allocation (\$T)	Project Locations	Project Outputs	Project Status
42. Upgrading GPS Tu'aliku	33204	Tongatapu	2 classrooms	Ongoing
43. Upgrading water supply in Fatumu	48576	Tongatapu	Upgrading water system	Ongoing
44. Upgrading water supply in Veitongo	49884	Tongatapu	Upgrading water system	Ongoing
45. Upgrading water supply in Talafo'ou	40553	Tongatapu	Upgrading water system	Ongoing
46. Upgrading water supply in Fua'amotu	93286	Tongatapu	Upgrading water system	Ongoing
47. Upgrading GPS Fahefa	46205	Tongatapu	2 classrooms	Ongoing
48. Upgrading GPS Longoteme	35999	Tongatapu	1 staff quarter	Ongoing
49. Upgrading GPS Ovaka	34892	Vava'u	2 classrooms	Ongoing
<b>TOTAL</b>	<b>1,807,162</b>			

There was more than \$1.8 million for the projects that the Unit managed and coordinated during the year 2002. Table 23 above shows the details of the project status.

A total of 25 projects were completed during 2002 and 24 projects are ongoing. The total allocation for the completed and the ongoing projects during the year 2002 exceeds \$1.8 million.

#### 1.6.4 European Union Micro Project Fund - T\$500,000

This is a new program with an allocation of \$500,000 available for micro projects from the communities. The unit has submitted several projects under this fund but we have yet to receive approval. Two projects have been funded and are listed under Table 24.

**Table 27: Projects funded under the European Union Micro Project Fund – 2002**

Project Titles	Approved Allocation (T\$)	Village Contributions (T\$)	Project Locations	Project Outputs	Project Status
Si'atoutai Water System	15,025	5,008	Tongatapu	Improved Water Supply	Completed
Si'i Huni ko Fefe CWT	9,000	3,000	Tongatapu		Completed
<b>TOTAL</b>	<b>24,025</b>	<b>8,008</b>			

#### 1.6.5 German Small Community Fund (T\$8,500)

The German fund is fixed at \$8,500 per financial year. During year 2002, two projects were funded from this scheme (Table 25).



**Table 28: Project funded under the Germany Small Community fund**

Project Titles	Approved Allocation (T\$)	Village Contributions (T\$)	Project Locations	Project Outputs	Project Status
Halamaumaukoula WID Water Tanks	7,933	3,066	Tofoa Tongatapu	11 x 2200 gallon water tanks	Completed
Tahi Mate WID Water Cement Tanks	9,962	3,250	Pahu Tongatapu	13 x 2200 gallons water tanks	Completed
<b>TOTAL</b>	<b>17,895</b>	<b>6,316</b>			

### 1.6.6 Regional Development Assistance for 2003/04

Integrated island-wide plans are to be developed in the next financial year for the island of 'Eua and Niua. This plan will review the existing development plan and identify areas where government concentrates development assistance. Regional development remains government's priority areas for further development. Primary school classrooms and facilities, and village water supply will continue to hold priority for government under the Japanese Grassroots assistance throughout the Islands of Tonga.

For Eua, the Water Supply Project will be implemented which is estimated at over \$700,000 for 2003/2004. The implementation is expected to be completed by 2005/2006 with an overall project cost of \$2.0 million. Further assistance will be provided for the rehabilitation of the Nafanua Harbour, and community oriented projects.

The Eua and Vava'u Nature Tourism project will continue in the next financial year and will also include a feasibility study to identify tourism potential for the Niua. This is estimated at \$33000-00 for 2003/2004.

For the Niua, the construction of the Niuatoputapu High school be completed, fenced and furnished in 2003/2004. The solar electrification for Niuafou will commence in 2003/2004. This is estimated at over TOP\$1million for the next three years.

For Ha'apai, the electrification project for the four islands of Ha'apai will be completed in 2003/2004. The technical and financial difficulties by 'Uiha/Felemea and Kouvai/Ha'ano will be rectified and resolved to ensure that the project is sustainable. Some of the pipeline projects for further development of Ha'apai will include the construction of jetties for the some of Ha'apai's outlying islands. Government will continue to provide for assistance for community development of the Ha'apai Islands.

As for community development in Tongatapu, government will continue to support community activities in poverty alleviation. The total amount of community assistance for Tongatapu is estimated at around \$300,000.

### 1.7 Conclusion

The total fund approved through the Regional and Rural Development Unit for year 2002 is estimated at over \$6.9 million pa'anga. Figure 1 depicts the distribution of the total financial assistance to the regions. It highlights the development pace of the Ha'apai region. According to the National Strategic Development Plan 7 of the Tonga Government, the development of the outer islands and the rural areas is mainly to improve their access to the Government services. The extensive involvement of the communities in community-based projects has a great impact on rural development in Tonga. Great investment on water, health and education would impact the development of villages and the outer-

regions. Income generation projects would improve family income and their living standards.

**Figure 1: Distribution of the Total Financial Assistance to the Regions and Rural Communities during the year 2002**

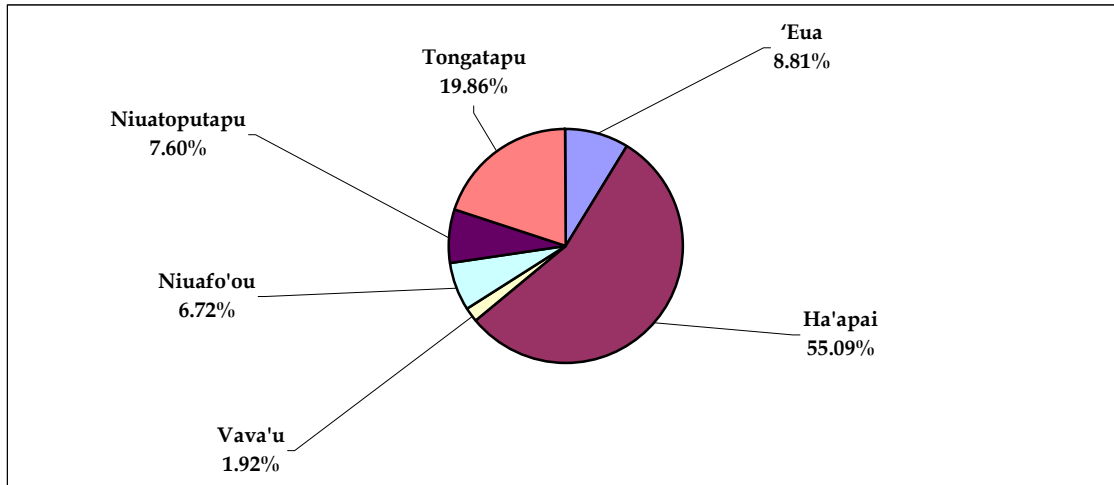
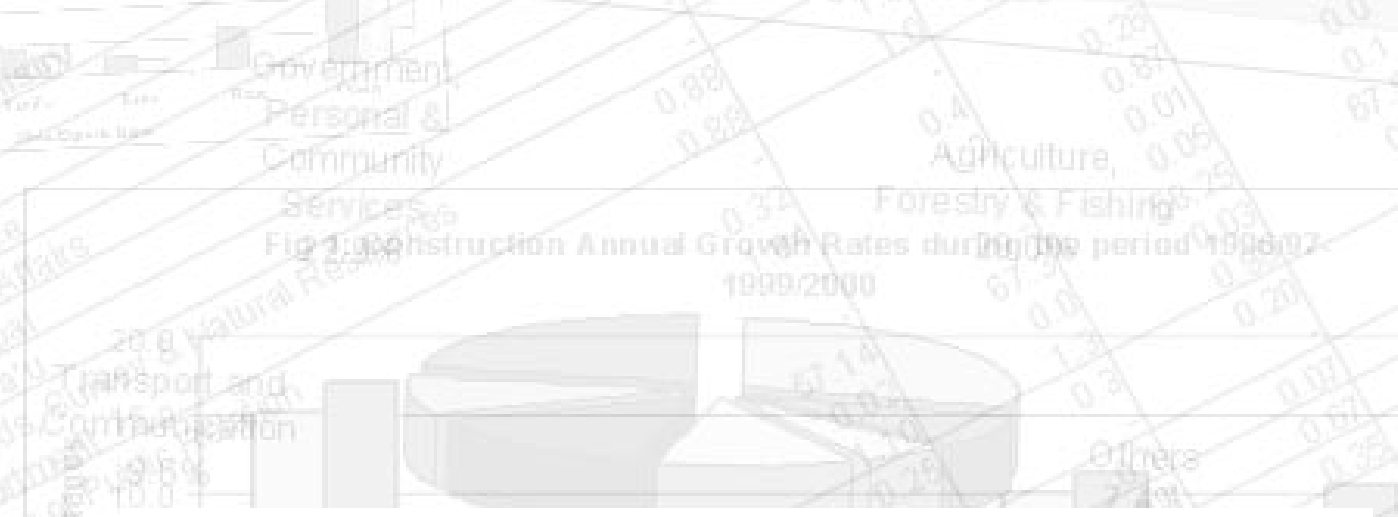
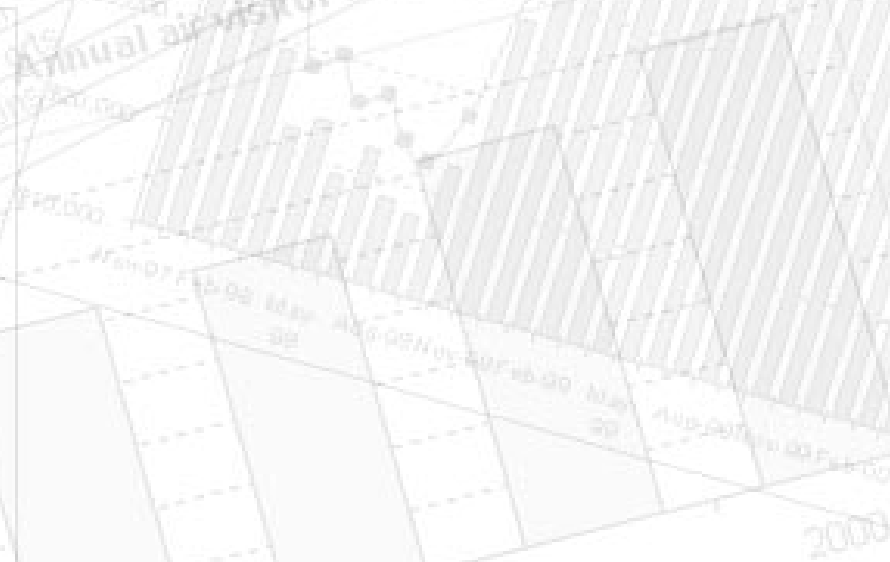


Figure 2. Sectoral Contribution to Gross Domestic Product, at constant prices for the year 1999/00



**Budget Statement for Year Ending 30<sup>th</sup> June 2004**  
**Appendix**

Figure 5. Ports Annual arrivals





**Table 1: Tonga: Selected Indicator, 1996/97-2001/02 1/**

	1997/98	1998/99	1999/00 Prel.	2000/01 Est	2001/02 Est
<b>Output and prices</b>					
Real GDP	2.4	2.9	6.5	0.5	1.6
Consumer prices (period average)	2.9	3.9	4.9	7.3	10.0
<b>Central government finance</b>					
Revenue	28.8	26.1	27.7	29.2	32.6
Grants	1.6	0.5	1.0	0.8	4.7
Current expenditure	29.3	26.7	26.3	27.6	32.0
Development expenditure	4.6	1.3	2.2	1.2	7.3
Overall balance	-2.5	-0.2	0.8	-0.9	-2.5
External loans (net)	1.5	1.4	-0.5	-2.4	-0.2
Tonga Trust Fund drawings	2.2	0.1	0.7	0.0	2.7
Domestic financing	-0.2	-0.3	0.3	2.9	0.0
<b>Money and credit (end-period)</b>					
Broad money (M2)	#DIV/0!	15.0	8.4	24.9	9.2
Private sector credit 3/	#DIV/0!	2.2	7.0	23.8	16.9
<b>Balance of payments</b>					
Exports, f.o.b.	12.3	11.5	19.5	20.7	14.8
Imports, f.o.b.	-94.0	-86.8	-99.0	-109.9	-93.3
Services and Income (net)	-32.3	-15.3	-15.8	-0.6	-16.9
Transfers (net)	87.8	62.8	73.1	76.6	62.7
Current account balance	-14.1	-17.6	-19.7	-14.5	-25.4
(In percent of GDP)	-6.4	-7.4	-7.8	-5.4	-9.5
Overall balance	-11.5	12.8	-7.8	-0.4	-2.9
<b>Gross international reserves (end-period)</b>					
In millions of pa'anga	21.3	34.1	26.3	25.9	28.8
In months of following year's imports of goods	2.5	3.9	2.8	2.5	2.7
<b>External debt</b>					
External debt/GDP	41.0	41.5	41.5	44.2	42.7
Debt service ratio 4/	3.3	8.3	5.2	1.7	12.9
<b>Exchange rate (period average)</b>					
T\$ per US\$ (end-period)	1.50	1.59	1.69	2.15	2.15
T\$ per US\$	1.35	1.58	1.64	1.97	2.18
Real effective exchange rate (1990=100)	103.9	96.8	103.0	...	...
Nominal effective exchange rate (1990=100)	99.5	91.3	90.0	...	...

Source: IMF Article IV Mission, November 2002

1/ Fiscal year begins in July.

2/ Government finance data are staff estimates.

3/ Does not include Tonga Development Bank.

4/ In percent of exports of goods and services.

**Table 2. Tonga: Real Sector Development, 1996/97-2001/02**

	1997/98	1998/99	1999/00	2000/01	2001/02
		Est.	Est.	Est.	Est.
<b>Nominal GDP</b>					
In pa'anga mn.	218.9	237.3	251.4	266.6	296.5
In US\$ mn.	160.0	147.4	150.6	139.1	136.0
GDP per capita (US\$)	2,387	2,626	2,740	2,887	3,189
GDP (1995/96 prices)	2.4	2.9	6.5	0.5	1.6
of which:					
Agriculture, forestry, and fisheries	-0.1	-3.2	10.6	-6.3	1.0
Manufacturing	11.4	16.4	0.8	2.0	9.0
Construction	5.6	10.4	-0.2	1.8	9.0
Commerce, restaurants, and hotels	2.3	-6.0	17.9	0.5	-2.0
Transportation and communications	3.0	10.4	4.6	1.1	2.0
Finance and real estate	14.0	7.5	6.2	0.4	2.0
Government services	0.3	8.9	-2.9	10.0	1.5
GDP (by sector; current prices)					
of which:					
Agriculture, forestry, and fisheries	25.7	26.4	23.7	22.6	23.7
Manufacturing	4.0	4.6	4.7	4.6	4.6
Construction	5.3	5.5	5.6	5.8	5.7
Commerce, restaurants, and hotels	11.9	10.8	12.5	11.9	11.4
Transportation and communications	7.0	7.2	7.1	7.2	6.6
Finance and real estate	8.4	8.7	9.0	8.9	8.7
Government services	14.9	15.5	15.1	16.3	16.1
Consumer prices (period average)					
All items	2.9	3.9	4.9	7.3	10.0
Domestic component	6.9	6.2	-0.2	7.3	7.3
Imported component	-0.7	1.9	9.9	7.2	12.4

Source: IMF Article IV 2002, Ministry of Finance Staffs Estimates

**Table 3: Average Consumer Price Indices for December Quarter 1993 to 2002**

	All Items	Food	Housing	H/hold Goods	Clothing and Footwear	Transportation	Tobacco and Alcohol	Misc. Goods & Services	Imported Items	Local Items
<b>Weight</b>	100	44.4	5.3	12	3.4	14.2	12.3	8.4	66.2	33.8
<b>1993</b>	68.9	64.2	81.5	72.1	74.5	76.4	62.1	71.7	64	67.5
<b>1994</b>	69	64.6	81.6	72	74.3	76	62.2	71.8	62.3	70.5
<b>1995</b>	69.1	64.9	81.6	71.9	74.1	75.5	62.3	71.8	63.5	71.1
<b>1996</b>	69	64.9	81.5	71.9	74	75.3	62.3	71.8	66	73
<b>1997</b>	70.5	66.9	81.7	72.8	74.7	74.6	64.1	75.1	66.6	75.5
<b>1998</b>	72.8	71.1	83.1	74.5	73.5	72	68.5	76.6	67.1	81
<b>1999</b>	76.1	74.9	89	77.1	77.3	72.6	67	82.5	69.8	84.1
<b>2000</b>	80.8	75.2	92.5	82.1	80.4	83.9	91.8	89.2	76.8	86
<b>2001</b>	87.6	84	96.1	86.2	82	93.8	94.9	90.9	84.3	91.7
<b>2002</b>	96.6	98.2	99.3	94.6	89.7	93.9	97.9	96.7	94	100.1

Source: Statistics Department

**Table 4: Annual (%) Changes in the CPI for December Quarter 1992 to 2002**

	All Items	Food	Housing	Household Goods	Clothing and Footwear	Transportation	Tobacco and Alcohol	Misc. Goods & Services	Imported Items	Local Items
<b>Weight</b>	100	43.2	6.4	14.2	4.2	15.5	5.4	11.2	54.2	45.8
<b>1992</b>	4.50%	5.90%	12.30%	1.80%	-4.60%	4.30%	7.00%	-1.50%	3.80%	5.20%
<b>1993</b>	4.40%	0.40%	9.50%	11.80%	4.70%	0.10%	1.60%	10.40%	2.30%	6.40%
<b>1994</b>	-2.30%	-4.20%	-5.50%	6.40%	-9.00%	-0.20%	4.80%	-3.90%	-4.50%	-0.50%
<b>1995</b>	2.70%	5.60%	0.10%	-0.70%	4.60%	1.00%	2.60%	-1.90%	6.20%	-0.30%
<b>1996</b>	1.80%	6.50%	0.80%	-1.80%	-2.40%	-6.00%	2.20%	0.90%	1.80%	1.80%
<b>1997</b>	3.00%	3.80%	-0.70%	0.10%	2.30%	3.80%	2.70%	5.30%	-0.60%	7.50%
<b>1998</b>	3.40%	7.60%	4.80%	4.10%	-1.20%	-6.80%	1.70%	0.90%	1.20%	5.80%
<b>1999</b>	5.10%	1.30%	9.80%	5.20%	8.50%	7.30%	8.50%	12.50%	9.90%	-0.10%
<b>2000</b>	7.30%	2.70%	0.50%	6.50%	1.30%	20.80%	31.60%	5.30%	6.70%	8.10%
<b>2001</b>	10.50%	18.80%	6.00%	7.20%	3.30%	2.90%	2.30%	2.20%	13.90%	6.60%
<b>2002</b>	9.70%	15.90%	3.40%	9.10%	8.20%	-0.50%	3.00%	5.90%	11.50%	9.20%

Source: Statistics Department

**Table 5: Tonga Domestic Exports by SITC Section, 1996-97 to 2001-02**

SITC®	1997/98		1998/99		1999/00 /r		2000/01 /p		2001/02 /p	
	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%
0 Food & Live Animals	10,514	83.6	8,424	73.5	16,790	86.4	12,157	95.5	17,210	93.9
1 Beverages									0.5	0.0
2 Crude Materials	1,398	11.1	2,026	17.7	1,838	9.5	222	1.7	247	1.3
3 Fuels and Lubricants									0	0.0
4 Vegetables, Oils & Fats									0.4	0.0
5 Chemicals	176	1.4	228	2	417	2.1	326	2.6	810	4.4
6/8 Manufactured Goods and Articles	431	3.4	697	6.1	310	1.6	0	0	17	0.1
7 Machinery & Transport	13	0.1			11	0.1	0	0	0	0.0
9 Other Exports	41	0.3	81	0.7	78	0.4	26	0.2	46	0.3
<b>TOTAL</b>	<b>12,574</b>	<b>100</b>	<b>11,455</b>	<b>100</b>	<b>19,443</b>	<b>100</b>	<b>12,731</b>	<b>100</b>	<b>18,331</b>	<b>100</b>

Source:: Statistics Department.

**Table 6: Exports by Institutional Sector, 1997/98 - 2001/02**

INSTITUTIONAL SECTOR	1997/98 /r		1998/99		1999/00 /p		2000/01 /p		2001/02 /p	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
Private Sector	12,364.20	98.2	11,161.90	97.4	19,438.60	100	12,730	100	18,582	100
Government Sector	85.7	0.7	172.8	1.5	5.4	0	0	0	0	0
Quasi-Government Sector	124	1.1	120.2	1			0.5	0	0	0
<b>TOTAL</b>	<b>12,573.90</b>	<b>100</b>	<b>11,454.90</b>	<b>100</b>	<b>19,444.00</b>	<b>100</b>	<b>12,730.50</b>	<b>100</b>	<b>18,582.00</b>	<b>100</b>

Source: Statistics Department

Note: /p - Data subject to Revision

/r - revised



**Table 7: Export by Country of Destination, 1996/97 – 2001/02**

COUNTRY	1997/98/r		1998/99		1999/00/p		2000/01/p		2001/02/p	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
New Zealand	1,178.20	9.40%	1,370.10	12.00%	1,494.40	7.70%	2,122.00	16.70%	2,714.00	12.9%
Australia	486.3	3.90%	361.4	3.20%	488.5	2.50%	416	3.30%	430.00	2.0%
Mainland USA	1,104.10	8.80%	2,054.60	17.90%	4,090.30	21.00%	1,463.00	11.50%	2,901.00	13.8%
Hawaii	1,207.40	9.60%	1,343.90	11.70%	724.5	3.70%	1,099.00	8.60%	942.00	4.5%
Japan	5,867.00	46.70%	4,718.30	41.20%	11,175.60	57.50%	5,695.00	44.70%	7,547.00	35.9%
Singapore	64.2	0.50%	58.9	0.50%	14.4	0.10%	0	0.00%	0.00	0.0%
American Samoa	1,935.50	15.40%	95.3	0.80%	491.5	2.50%	990	7.80%	2,690.00	12.8%
Hong Kong	55.1	0.40%	-	-	14.6	0.10%	78	0.60%	7.00	0.0%
France	0	-	-	-	-	-	-	-	0.00	0.0%
All other Countries	676.1	5.40%	14,52.4	12.70%	950.2	4.90%	868	6.80%	3,783.00	18.0%
<b>TOTAL</b>	<b>12,573.90</b>	<b>100</b>	<b>11,454.90</b>	<b>100</b>	<b>19,444.00</b>	<b>100</b>	<b>12,731.00</b>	<b>100</b>	<b>21,014.00</b>	<b>100</b>

Source: Statistics Department

e. / p - Data subject to Revision

/r - revised

**Table 8: Imports by main SITC section 1997/98 – 2001/02**

SITC(R) SECTION ITEM	1997/98		1998/99		1999/00 /p		2000/01 /p		2001/02 /p	
	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%
0 Food & Live Animals	25,352.20	25.2	28,122.40	26.8	28,368.90	24.4	21,829.10	16.1	27,038.00	14.2
1 Beverages & Tobacco	4,990.70	5	5,229.50	5	9,347.40	8.1	21,076.40	15.5	25,186.00	13.2
2 Crude Materials	5,105.50	5.1	5,693.10	5.4	4,367.30	3.8	7,969.10	5.9	18,552.00	9.7
3 Fuels and Lubricants	10,525.20	10.4	12,013.90	11.5	16,872.90	14.5	24,395.60	17.9	26,452.00	13.9
4 Vegetables Oils & Fats	295.3	0.3	423.3	0.4	474.3	0.4	974.3	0.7	1032	0.5
5 Chemicals	7,783.10	7.7	8,156.40	7.8	8,550.40	7.4	7,708.30	5.7	10,086.00	5.3
6/8 Manufactured Goods and Articles	24,611.10	24.4	26,895.40	25.6	28,159.00	24.3	20,198.60	14.9	22,323.00	11.7
7 Machinery & Transport	21,772.80	21.6	17,791.00	17	18,445.00	15.9	14,916.90	11	33,937.00	17.8
9 Other Imports	316.8	0.3	569.9	0.5	1,472.30	1.3	16,889.00	12.4	25,730.00	13.5
<b>TOTAL</b>	<b>100,752.70</b>	<b>100</b>	<b>104,894.90</b>	<b>100</b>	<b>116,057.60</b>	<b>100</b>	<b>135,957.30</b>	<b>100</b>	<b>190,336.00</b>	<b>100</b>

Source: Statistics Department

Note: The change in the percentage share by importing commodity was due to the introduction of the Harmonised System.

/p – Data subject to revision.

**Table 9: Imports by Institutional Sector, 1997/98 – 2001/02**

INSTITUTIONAL SECTOR	1997/98		1998/99		1999/00 /p		2000/01		2001/02	
	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%
Private Sector	82,604.80	82	85,565.40	81.6	100,679.30	86.7	114,144.30	84	159,655.00	84
Government Sector	11,429.00	11.3	13,618.30	13	11,300.90	9.7	16,465.90	12.1	22,266.00	12
Quasi-Government Sector	6,718.90	6.7	5,711.20	5.4	4,077.30	3.5	5,347.10	3.9	8,416.00	4
<b>TOTAL</b>	<b>100,752.70</b>	<b>100</b>	<b>104,894.90</b>	<b>100</b>	<b>116,057.50</b>	<b>100</b>	<b>135,957.30</b>	<b>100</b>	<b>190,337.00</b>	<b>100</b>

Source: Statistics Department

p/ - Data subject to revision

**Table 10: Imports by country of Origin 1997/98 – 2001/02**

COUNTRY	1997/98		1998/99		1999/00/p		2000/01 /p		2001/02 /p	
	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%
New Zealand	35,149.00	34.9	36,679.40	35	41,660.70	35.9	52,008.80	38.5	52,059.00	27.4
Australia	27,683.10	27.5	30,027.70	28.6	30,802.90	26.5	33,964.00	25	44,143.00	23.2
USA	18,128.10	18	13,707.30	13.1	14,332.40	12.3	11,684.00	8.6	23,195.00	12.2
United Kingdom	535.5	0.5	822.4	0.8	764.5	0.7	627.9	0.5	221.00	0.1
Fiji	7,954.80	7.9	9,032.80	8.6	11,966.10	10.3	20,101.50	14.8	17,521.00	9.2
Japan	5,002.60	5	5,136.40	4.9	6,800.20	5.9	8,599.20	6.3	9,126.00	4.8
Singapore	917.1	0.9	424.8	0.4	723	0.6	595.3	0.4	475.00	0.2
Others	5,382.50	5.3	9,064.10	8.6	9,007.70	7.8	8,384.60	6.2	43,598.00	22.9
<b>TOTAL</b>	<b>100,752.70</b>	<b>100</b>	<b>104,894.90</b>	<b>100</b>	<b>116,057.50</b>	<b>100</b>	<b>135,957.30</b>	<b>100</b>	<b>190,338.00</b>	<b>100</b>

Source: Statistics Department.

Note: p/ - Data subject to Revision

**Table 11: Tonga: Balance of Payment, 1997/98 – 2001/02**

*(In millions of pa'anga, unless otherwise indicated)*

	1997/98	1998/99	1999/00 Prel.	2000/01 Est	2001/02
Balance of Trade	-89.1	-68.8	-84.7	-95.0	-95.0
Exports, f.o.b.	16.0	19.1	17.9	22.0	38.7
Imports, f.o.b.	-105.1	-87.8	-102.6	-117.0	133.7
Services (net)	9.2	6.8	3.2	-8.7	-4.2
Receipts	37.5	29.6	30.0	30.0	36.2
Payments	-28.2	-22.8	-26.9	-38.7	-40.3
Income (net)	2.3	4.6	-1.3	-1.7	-1.1
Receipts	6.4	6.3	3.1	3.4	4.9
Payments	-4.1	-1.7	-4.3	-5.1	6.2
Current Transfers (net)	53.0	55.8	66.3	82.8	116.0
Official transfers (net)	0.7	2.1	0.1	0.6	0.9
Private transfers (net)	52.3	53.7	66.2	82.2	115.2
Private transfer receipts	59.5	63.6	78.6	99.2	142.1
Private transfer payments	-7.2	-9.9	-12.5	-17.0	-26.9
Current account balance	-24.5	-1.5	-16.5	-22.6	-15.7
(Percent of GDP)	-11.2	-0.6	-6.6	-8.5	-5.3
Capital account balance	9.5	14.2	4.2	3.1	15.5
Official capital (net)	9.0	6.7	5.1	7.2	11.1
Official capital inflows	11.3	11.1	8.3	10.0	27.0
Official capital outflows	-2.3	-4.4	-3.1	-2.7	-15.9
Private capital (net)	0.5	7.5	-1.0	-4.1	4.4
Private capital inflows	18.1	10.9	7.4	12.1	13.9
Private capital outflows	-17.7	-3.3	-8.4	-16.2	-9.5
Errors and omissions	3.3	0.1	4.4	13.9	-9.2
Overall balance	-11.7	12.8	-7.9	-5.5	13.7
Memorandum items:					
Service, income, and transfers (net)	64.6	67.2	68.2	72.4	123.1
Receipts	103.4	99.5	111.7	132.6	183.2
Payments	-39.5	-34.4	-43.7	-60.8	-61.0
Net official foreign reserves 1/	20.9	33.7	25.8	20.3	39.9
Gross official foreign reserves					
In millions of Pa'anga	21.3	34.1	26.2	25.8	39.6
In months of following year's imports of goods	2.9	4.0	2.7	2.3	2.5

Source: Data provided by the Tongan authorities; and Fund staff estimates.

1/ In U.S. dollar terms; changes in the stock differ from the overall balance due to valuation adjustments.

**Table 12. Tonga: Monetary Survey, 1996/97-2001/02**

	1997/98	1998/99	1999/00	M a y	
				2000/01	2000/02
Net foreign assets	16.4	34.4	26.9	26.4	33.5
Gross international reserves	26.0	39.7	32.0	40.0	44.6
Foreign liabilities	-9.7	-5.3	-5.1	-13.6	-11.1
Net domestic assets	61.6	55.3	70.5	95.1	99.1
Domestic credit	84.4	85.0	92.6	119.7	130.2
Central government (net)	2.0	0.7	0.8	6.5	-5.6
Public enterprises	0.6	1.5	2.3	3.1	9.5
Private sector	79.1	80.8	86.5	107.1	125.2
Other financial institutions	2.7	2.0	3.0	3.0	1.2
Other items (net)	-22.7	-29.7	-22.1	-24.6	-31.1
Broad money (M2)	78.0	89.7	97.3	121.5	132.7
Narrow money	21.3	24.7	27.9	32.2	42.4
Quasi-money	56.7	65.0	69.4	89.3	90.3
Net foreign assets	# D I V / 0 !	110.2	-21.8	-1.9	26.9
Net credit to central government	# D I V / 0 !	-64.6	14.3	712.5	-186.2
Credit to Private sector	# D I V / 0 !	2.2	7.0	23.8	16.9
Broad money	# D I V / 0 !	15.0	8.4	24.9	9.2
Narrow money	# D I V / 0 !	16.0	13.1	15.4	31.7
Quasi-money	# D I V / 0 !	14.7	6.7	28.7	1.1
Memorandum items:					
Velocity (GDP/average stock of M2)	2.9	2.9	2.7	2.7	2.3
Nominal GDP (pa'anga mn.)	218.9	237.3	26.1	277.1	296.5
Average stock of M2 (pa'anga mn.)	77.0	83.8	93.5	104.4	127.9

Source: National Reserve Bank of Tonga

1/ Monetary Survey excludes Tonga Development Bank.  
2/ Consolidated with the Tonga Development Bank.

Exchange rate (period average)									
T\$ per US\$ (end-period)	1.34	1.40	1.37	1.37	1.37	1.50	1.59	1.69	...
T\$ per US\$	1.32	1.37	1.37	1.37	1.37	1.35	1.58	1.64	...
Real effective exchange rate (199	108.0	105.9	107.1	107.1	107.1	111.9	101.1	103.0	...
Nominal effective exchange rate (	98.3	95.9	97.1	97.1	97.1	102.5	90.3	90.0	...

**Table 13: Tonga: Summary Table of Government Operations 1996/97-2001/2002**

Years ending June 30	1997/98	1998/99 Prel.	1999/00 Prel.	2000/01 Est	2001/02 Prel.
(In millions of pa'anga)					
Total revenue and grants	66.6	63.3	72.1	80.0	95.2
Total revenue	63.0	62.1	69.6	77.8	93.2
Current revenue	63.0	62.1	69.6	77.8	93.2
Tax revenue	43.9	47.1	52.9	56.0	74.5
Nontax revenue	19.1	14.9	16.7	21.8	18.7
<i>of which: Revolving funds</i>					4.3
Capital revenue	0.0	0.0	0.0	0.0	0.0
Grants (in cash)	3.5	1.3	2.5	2.2	2.0
Total expenditure and lending minus repayments	72.0	63.9	70.2	82.3	92.4
Total expenditure	74.3	66.6	71.9	76.8	91.8
Current expenditure	64.2	63.4	66.2	73.7	80.6
Capital expenditure	10.1	3.2	5.6	3.1	10.2
Additional expenditures				0.0	
Total lending minus repayments	-2.3	-2.7	-1.7	5.5	0.6
Overall deficit/surplus	-5.4	-0.6	1.9	-2.3	2.8
Total financing	5.4	0.6	-1.9	2.3	-2.9
External financing	3.4	3.4	-1.4	-6.3	7.3
Domestic bank financing	-0.4	-0.6	0.8	7.6	-6.8
Tonga Trust Fund	4.7	0.3	1.9	0.1	0.0
Discrepancy	-2.3	-2.5	-3.3	0.9	-3.3
(In percent of GDP)					
Total revenue and grants	30.4	26.7	28.7	30.0	32.1
Total revenue	28.8	26.1	27.7	29.2	31.4
Current revenue	28.8	26.1	27.7	29.2	31.4
Tax revenue	20.0	19.9	21.1	21.0	25.1
Nontax revenue	8.7	6.3	6.6	8.2	6.3
<i>of which: Revolving funds</i>					1.4
Capital revenue	0.0	0.0	0.0	0.0	0.0
Grants	1.6	0.5	1.0	0.8	0.7
Total expenditure and lending minus repayments	32.9	26.9	27.9	30.9	31.2
Total expenditure	34.0	28.1	28.6	28.8	31.0
Current expenditure	29.3	26.7	26.3	27.6	27.2
Capital expenditure	4.6	1.3	2.2	1.2	3.4
Additional expenditures					
Total lending minus repayments	-1.1	-1.1	-0.7	2.1	0.2
Overall deficit/surplus	-2.5	-0.2	0.8	-0.9	0.9
Total financing	2.5	0.2	-0.8	0.9	-1.0
External financing	1.5	1.4	-0.5	-2.4	2.5
Domestic bank financing	-0.2	-0.3	0.3	2.9	-2.3
Tonga Trust Fund	2.2	0.1	0.7	0.0	0.0
Discrepancy	-1.0	-1.1	-1.3	0.3	-1.1
Memorandum items:					
Current balance excluding grants	-0.6	-0.6	1.3	1.5	4.2
Overall balance excluding grants	-4.1	-0.8	-0.2	-1.7	0.2
Current expenditure	29.3	26.7	26.3	27.6	27.2
Total revenue	28.8	26.1	27.7	29.2	31.4
Effective import tariff (In percent)	26.3	33.5	34.3	31.0	31.0
GDP	218.9	237.3	251.4	266.6	296.7

**Table 14: Government Revenue Collection 1991/92 – 2001/02**

Year	Foreign Trade Taxes <sup>(1)</sup> (\$)	Domestic Taxes (\$)	Others (\$)	Total (\$)
1991/92	21,409,800	8,695,200	16,124,120	46,229,120
1992/93	23,862,540	11,591,670	16,832,960	52,287,170
1993/94	26,470,240	11,808,990	16,462,630	54,741,860
1994/95	26,774,790	11,068,060	20,375,610	58,218,460
1995/96	27,285,570	13,808,570	23,549,900	64,644,040
1996/97	27,231,170	14,469,290	19,776,140	61,476,600
1997/98	27,132,550	13,882,720	21,687,170	62,702,440
1998/99	27,513,660	17,589,220	21,804,800	66,907,680
1999/00	33,984,206	18,224,700	22,374,923	74,583,829
2000/01	35,777,155	19,692,515	29,300,678	84,770,348
2001/02	48,426,692	23,248,611	22,490,991	94,166,294

Source: Ministry of Finance

<sup>(1)</sup> Wharf ages have been transferred from Foreign trade Taxes to "Other" as figures for 2001/02 are provisional

**Table 15: Major source of Revenue 1997/98 – 2001/02**

	1997/98	%	1998/99	%	1999/00	%	2000/01	%	2001/02	%
	\$		\$		\$		\$		\$	
Import Duties	13,162,943	22	13,154,069	19	16,709,927	22	18,142,357	21	24,972,743	27
Port & Service Tax	13,969,609	22	14,359,595	21	17,274,279	23	17,634,797	21	23,453,949	25
Income Tax	9,038,404	16	10,175,207	15	10,464,358	14	11,396,029	13	15,624,184	17
Retail Sales Tax <sup>(1)</sup>	4,844,319	7	7,414,018	8	5,976,358	8	6,218,111	7	7,624,427	8
<b>Sub-Total</b>	<b>41,015,275</b>	<b>68</b>	<b>45,102,889</b>	<b>63</b>	<b>50,424,922</b>	<b>68</b>	<b>53,391,294</b>	<b>63</b>	<b>71,675,303</b>	<b>76</b>
Other <sup>(1)</sup>	21,687,169	32	21,804,792	37	23,948,719	32	31,379,054	37	22,490,991	24
<b>TOTAL</b>	<b>62,702,444</b>	<b>100</b>	<b>66,907,681</b>	<b>100</b>	<b>74,373,641</b>	<b>100</b>	<b>84,770,348</b>	<b>100</b>	<b>94,166,294</b>	<b>100</b>

Source: Ministry of Finance

<sup>(1)</sup> Retail Sale Tax does not include Fuel Sales Tax & Excise Tax

figures for 2001/02 are provisional

**Table 16: Expenditure by Ministry for 1997/98 – 2001/02 (Local Fund)**

	1997/98		1998/99		1999/00		2000/01		2001/02	
	\$	%	\$	%	\$	%	\$	%	\$	%
Education	11,910,957	19	12,155,131	16	12,210,170	17	12,687,076	15	15,547,190	17
Health	7,371,542	12	8,656,951	12	8,313,004	11	8,790,025	10	10,481,298	12
Works	3,105,104	5	3,785,976	5	3,440,090	5	3,774,532	4	4,418,068	5
Prime Minister's Office	3,031,469	5	5,750,082	8	2,980,749	4	6,140,049	7	3,119,677	3
<b>Sub-Total</b>	<b>25,419,072</b>	<b>41</b>	<b>30,348,140</b>	<b>45</b>	<b>26,944,013</b>	<b>37</b>	<b>31,391,682</b>	<b>36</b>	<b>33,566,233</b>	<b>37</b>
Police	3,082,400	5	3,115,093	4	3,182,278	4	3,366,499	4	3,939,252	4
Agriculture	2,867,609	5	3,179,577	4	2,604,247	4	2,886,160	3	3,154,329	3
Defence	3,893,792	6	3,493,050	5	3,577,035	5	4,096,739	5	4,324,636	5
Legislative Assembly	1,812,023	3	1,954,837	3	2,038,914	3	2,038,914	2	1,990,190	2
Public Debt	3,847,056	9	8,609,689	12	9,130,843	13	9,580,139	11	6,641,611	7
Foreign Affairs	2,003,454	3	2,177,896	4	2,554,960	4	3,946,116	5	4,904,543	5
Financial Contributions	643,012	1	492,767	0	1,684,724	2	7,571,629	9	8,221,928	9
<b>Total of Above</b>	<b>45,568,418</b>	<b>73</b>	<b>53,371,049</b>	<b>75</b>	<b>51,717,014</b>	<b>71</b>	<b>64,877,878</b>	<b>75</b>	<b>33,176,489</b>	<b>35</b>
Other	16,784,759	27	18,081,707	25	21,013,360	29	21,798,086	25	24,195,292	28
<b>GRAND TOTAL</b>	<b>62,353,177</b>	<b>100</b>	<b>71,452,756</b>	<b>100</b>	<b>72,730,374</b>	<b>100</b>	<b>86,675,964</b>	<b>100</b>	<b>90,938,014</b>	<b>100</b>

Source: Ministry of Finance, Government of Tonga Public Accounts (2001/02 figures are provisional)

**Table 17: Revenues and Expenditures Classified According to the 2001 Government Finance System**

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**Table 18: Government Bond by Issue Date**

<b>BONDS ISSUED - (from 1/7/02 to date)</b>					
	<b>PARTICULARS</b>	<b>AMOUNT (T\$)</b>	<b>ISSUE DATE</b>	<b>MATURITY DATE</b>	<b>OTHER INFO</b>
1	Series No. 2. 2002/2004	1,000,000	31/7/02	31/7/04	R/OVER 00/02 Bonds
2	Series No. 3. 2002/2004	2,000,000	30/8/02	30/8/04	R/OVER 01/02 Bonds
		\$ 3,000,000			
<b>OTHER BONDS ALREADY ISSUED</b>					
3	Series No. 2. 1999/2003	1,000,000	30/6/99	30/6/03	R/OVER 94/99 Bonds
4	Series No. 3. 1999/2004	1,000,000	30/6/99	30/6/04	R/OVER 94/99 Bonds
5	Series No. 4. 1999/2005	3,900,000	31/8/99	25/8/05	new issue
6	Series No. 3. 2000/2003	1,000,000	31/7/00	31/7/03	R/OVER 95/00 Bonds
7	Series No. 4. 2000/2003	1,000,000	31/10/00	31/10/03	R/OVER 98/00 Bonds
8	Series No. 2. 2001/2006	3,000,000	29/6/01	29/6/06	R/OVER 94/01 Bonds
9	Series No. 3. 2001/2004	1,000,000	31/7/01	31/7/04	R/OVER 00/01 Bonds
10	Series No. 1. 2001/2004	5,000,000	9/4/01	9/4/04	new issue
11	Series No. 1 2002/2005	1,000,000	28/6/02	28/6/05	R/OVER 99/02 Bonds
		\$ 17,900,000			
<b>TOTAL NRBT GOT BONDS</b>		<b>\$ 20,900,000</b>			

















