

# Budget Statement for Year Ending 30<sup>th</sup> June 2010

## *Budget Statement*

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



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*Budget Statement for 2009/10*

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## **1.0 Introduction**

During the 2008/09 financial year, the Government continued to deliver a Budget that focused on further developing the Kingdom's economic growth using prudent fiscal and appropriate monetary policies. The Kingdom was therefore successfully steered to another year of positive economic growth. However, we're facing a situation of globally economic downturn which has indirectly impacted our economy. Remittances have declined, thus putting further pressure on growth, and ultimately impacted on Tongan families due to limited income available to cover daily necessities.

In that instance, careful economic management and good fiscal policy have assisted the alleviation of the worst impacts of the global downturn. However, economic conditions elsewhere in the region are not forecast to fully emerge from the economic crisis until late 2010. The Tongan economy will continue to be vulnerable to the global downturn for some time.

This Budget Statement therefore targets growth and stability despite the current global situation. As such, the Government has approved the draft 'National Strategic Planning Framework' which has outlined seven (7) outcome objectives, reflecting the key target areas of priorities and the four (4) enabling themes to assist in achieving those target area. Thus, to maintain a balance budget and achieve sustained economic growth, budget funding has been largely allocated to key target priority areas.

## **2.0 Economic Outlook**

Looking ahead, for 2009/10 the growth rate is projected to rise to 1.7%. The key driving factors include agriculture which is expected to halt its recent decline due to current efforts and initiatives to promote the sector. These include redirecting attention and focus to the setting up of appropriate infrastructure for better export facilities, demands to meet the requirements of the industry and to maintain the current level of domestic production. Other drivers of economic growth include, the anticipated peak in reconstruction work, continued projected positive growth in the Commerce, Restaurant and Hotel sector, and the significant growth in the Transport and Communications sector. These factors all contribute to a projected continued positive economic growth in the next year and beyond.

## **3.0 International Prospects**

As mentioned, the international prospects are not good. The global economy contracted this year for the first time in 60 years, thus our economy is feeling the pinch as the contraction spills over our border. Furthermore, the high international food and fuel prices continued early in the financial year pushing up inflation and put pressure in international reserves. However, these high international commodity prices have recently declined which allowed inflation to fall and relieved pressure on international prices. The current global downfall provides even more reason for the Government to execute prudent and appropriate economic policies to maintain stability.

## **4.0 Government Response to Global Economic Downturn**

To counter any adverse impacts on the local economy from the global economic downturn the government will be implementing a fiscal stimulus package in 2009/10. The first part of this package will be implemented immediately to build local infrastructure and push money back into the economy to maintain business confidence and preserve jobs. Initial elements of this package include additional funding for community grants, targeted funding for vocational tertiary education and a 10% increase in public service salaries as a continuation of the Economic Public Sector Reform Program (EPSRP) Which was started early in this decade

Other initiatives that may be used if required to stimulate the Tongan economy include infrastructure investment to upgrading roads on Tongatapu and outer islands, investment in renewable energy and additional tourism marketing. These projects are still under development. If required these projects will be funded by increased government expenditure through Budget support from the ADB, concessional borrowing donor funding.

## **5.0 Domestic Economy**

The Tongan domestic economy has again proved its capacity to carry on during difficult times by achieving positive economic growth despite the contraction that is occurring in the world economy. The effort and continued collaboration by the key stakeholders of society including, private sector and businesses, international and local communities, are hereby acknowledged as well as Government overall coordination role and initiatives.

## **6.0 Government Policy Priorities**

As outlined in the National Strategic Planning Framework, the Government has set priority policy areas. These included the following:

- Raising the long-term sustainable growth rate of Tonga's economy remains as the Government's prime target. This target can only be achieved if growth is driven by a vibrant private sector. That is, a private sector that is allowed by government to seek out opportunities and is not burdened by unnecessary red tape.
- Promoting the community development initiatives. This will help achieve the Government's effort to share development among all Tongans and improve living standards.
- Facilitate continuation of Constitutional Reform including the continued funding of the Constitutional and Electoral Commission. It is anticipated that the Commission's work will be vital for Tonga's successful transition to greater democracy.
- Maintaining and developing infrastructure to improve the everyday lives of the people.
- Promoting health care and education standards. The health care initiatives focus on health promotion to encourage people to make healthy lifestyle choices in an effort to reduce non-communicable lifestyle diseases such as diabetes. Whereas, to boost education the government is investing in tertiary educational institutions for the development of vocational education and training. This investment will provide young Tongans with the skills required to be effective in today's workplaces.
- Integrate environmental sustainability and climate change into all planning and

executing of programs. This is seen as a key foundation for all development initiatives.

## **7.0 Continuation of Revenue Reform Programme**

Government revenue is projected to increase through increased economic activity and the consequential flow through of activity into tax revenue. Revenue increases are forecast in the collection of import duty as well as a boost to other taxes as a result of continued economic growth and from the expected extra dividend received from the Revenue Department's efforts to improve tax compliance.

In addition, the implementation of the online filing for tax returns and customs entries is expected to become effective during the 2009/10 financial year. This will assist in creating a better and efficient taxation system.

## **8.0 Revenue Reform Measures**

The Government will not be introducing new taxes or increasing any existing taxes. However, the current work and ongoing focus will be to improve revenue administration and custom compliance.

## **9.0 Donor Assistance**

The Government continues to receive assistance from donor countries in the form of cash grants and in-kind. For 2009/10, it is anticipated that about \$37.9 million will be from cash grants and \$39.4 million will be in-kind. Australia, New Zealand, European Union, and the Asian Development Bank are our major donor partners. The Government is also fortunate to receive assistance from the People Republic of China including the concessional loan for the reconstruction of the Nuku'alofa Central Business District (CBD).

The major areas of assistance remain focused on economic development, including poverty alleviation and improving the quality of life of Tongans residing locally and abroad.

## **10.0 Moving Forward**

Due to the current unfavorable global conditions, although Tonga is not seen to be severely affected at this stage, there remains consistent effort and commitment to achieve the overall vision for the Kingdom. Government is therefore committed to maintain existing expenditure levels and funding new priorities by other means to stimulate growth. There will be no tax increases or new taxes to impose in the coming financial year, however, the Government is set to increase investment in key priority areas.

Last but not least, the Government will re-enforce the maintenance of sound fiscal policies and macroeconomic stability by continuing to execute prudent financial expenditures and management. This will include operating at sustainable debt levels in accordance with to the recently adopted debt sustainability policy that will guide decisions on borrowings.

## **11.0 Conclusion**

In summary, this is a budget for growth and stability despite the turbulence and hardship we're facing. However, we can only do so much which we will carry on doing for the betterment of our nation. With our ongoing collaboration, and with the help of Almighty God, I believe we can overcome any hurdle or turbulence that comes our way.

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

**Budget Statement for Year Ending 30<sup>th</sup> June 2010**  
**Budget Paper No 1:**  
*Review of the Tongan Economy & Outlook 2009/10*





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## 1.0 OVERVIEW

Budget Paper Number 1 describes the economic environment and medium term economic prospects for the Kingdom of Tonga.

The Tongan economy was successfully steered to positive economic growth despite a challenging international environment. Last year had witnessed an energy price spike that tripled international fuel prices before receding. This price increases had adverse impacts for the Tongan economy due to the Kingdom's total dependence on imported fuel. Tonga also experienced the indirect consequences of the global financial crisis, as a projected 6.6% decline in remittances reduced incomes and growth potential.

Worldwide, the IMF estimates that countries representing three quarters of the world's economy suffered economic contraction in 2008/09. By contrast, Tonga's economy is projected to expand slightly in 2008/09, and is now forecast to grow at an average of around 2% over the medium term.

While the maintenance of economic growth in 2008/09 is pleasing, much remains to be done. 2008/09 represents the third successive year of economic growth, although low. Tonga is forecast to achieve sustained positive economic growth of around 2%, but will still lag behind comparable nations, as the IMF forecasts an average growth rate of around 3.25% for emerging markets and developing economies in the coming year.

The Government recognises that the Tongan economy is performing below its growth potential. In response the Government has identified economic growth as the top priority in the new National Strategic Planning Framework. This will ensure that Tonga continues to implement its reform program to raise economic performance. The Government has also developed a fiscal stimulus package to counter any spillovers from the global financial crisis. The first part of this package is being delivered through the Budget with further initiatives being developed.

### 1.1 Tonga's 2008/09 Economic Performance

In 2008/09 the Ministry of Finance and National Planning estimates that the Tongan economy will grow by 0.4%. This is a downward revision from the 3% forecast at the time of the 2008/09 Budget. The reasons for this downward revision are the global financial crisis and the continued poor performance of the primary sector.

Economic growth was broadly based across the secondary (+0.5%) and tertiary (+1.2%) sectors with only one sub-sector (manufacturing) recording a decline. Unfortunately, these gains were somewhat offset by a decline in the primary sector (-1.7%).

Major trends and events that affected the economy during 2008/09 included:

- Tourism numbers increased strongly with an almost 14% growth in tourist arrivals.
- Fuel prices spiked internationally with consequent cost pressures on all activities particularly those dependent on transportation or electricity. This price spike also accelerated government moves to develop renewable energy sources with the objective of reducing Tonga's dependence on fossil fuels by around 50% in three years time.
- Nuku'alofa's reconstruction was delayed.
- Remittances declined by 6.6% due to a combination of exchange rate movements and a decrease in the total money being repatriated.

- Government and private sector cooperation increased markedly with the formation of the National Economic Development Council, providing a forum to identify and address major challenges to private sector lead economic growth.
- Information showed that the Coronation of His Majesty King George Tupou V had a positive economic impact.

## **1.2 Economic Outlook for 2009/10 and beyond**

Economic activity is forecast to increase by 1.7% in 2009/10 and thereafter by an average of around 2%. This growth will be driven by increased construction activities, continued tourism growth and increased government spending. Remittances are forecast to remain weak over the next year in line with the predicted slow recovery of the international economy.

While Tonga's resilience in the face of international events has been encouraging a number of risks underlie these forecasts. Tonga's economy is small and narrowly based and so remains vulnerable to economic shocks and natural disasters. In the coming year Tonga's laws and institutions will face the transition to democracy. Tonga's economic growth rate has also continued to lag behind regional and global averages for developing nations.

The Government's National Strategic Planning Framework seeks to address these risks through targeted improvements to key objectives. Particular objectives include improving the environment for businesses, infrastructure, vocational education and health (particularly non-communicable diseases). Framework objectives also include facilitating community development and environmental sustainability as well as ensuring that constitutional reforms are in place to allow a smooth transition to democracy.

The National Strategic Planning Framework objectives are dependent on the continuation of achievements to date. The Government will also continue to operate responsible fiscal and monetary policies that allow for changing economic conditions. The Government is also committed to ensuring that Tonga's national debt is kept within sustainable levels.

To counter the specific risk of spillovers from the global economic downturn reducing economic growth in Tonga the government will be implementing a fiscal stimulus package. The first part of this package will be implemented immediately to build local infrastructure and push money back into the economy to maintain business confidence and preserve jobs. This fiscal stimulus package will be expanded by other initiatives being.

While the Government is being proactive in its efforts to improve national economic performance, ultimately high levels of sustainable economic growth can only be achieved with a conscious effort from all Tongans. This can range from ensuring that all tourists receive a friendly and welcoming impression of Tonga through to establishing manufacturing or agricultural facilities and export markets.

## **2.0 GLOBAL ECONOMIC DEVELOPMENTS**

The global economy is currently experiencing a deep and synchronized downturn. Both the IMF and the World Bank are predicting that the global economy will contract this year for the first time since the end of World War II. The recovery from this downturn is expected to begin by the turn of the year, however, this recovery is forecast to be unusually slow and gradual.

With the benefit of hindsight the causes of this downturn emanating from very unwise lending and overinvestment in assets, particularly in the United States housing market. The subsequent sharp correction resulted in a fall in asset prices with an accompanying dramatic decrease in household net worth (approaching 20% in the US since mid-2007). At the same time complicating recovery efforts has been a tightening of credit (the global financial crisis) due to lenders withholding funds to recoup losses and uncertainty over which institutions they can safely lend to.

The decline in individuals' net worth prompted a chain reaction with surges in household savings and falls in spending, particularly on items that required borrowing such as houses and vehicles. Declines in consumer demand in combination with a credit crunch in turn resulted in the cancellation of production orders. As a result of the globalization of international trade these adjustments have ricocheted across international supply chains, decreasing international merchandise trade and depressing growth particularly in areas with major export industries such as South East Asia and Japan.

By contrast, countries with more domestic demand and less dependence on the availability and cost of credit (due to higher local reserves or other reasons) such as China, India, and Indonesia are proving to be more resilient, but not immune to the global downturn. In the Chinese economy a stimulus package had already been implemented last year to counter the bursting of a domestic construction bubble and this is beginning to take effect. As a result China is targeting 8% economic growth rate for the current year, a reduced growth rate. Such a growth rate will increase pressure for an appreciation of the Chinese Yuan with important consequences for countries, such as Tonga, with Yuan denominated debts.

Overall according to IMF projections, growth in emerging and developing economies is expected to slow sharply from 6.25% in 2008 to 3.25% in 2009. This lower growth rate is due to falling export demand, lower commodity prices, and much tighter financing. On the positive side, stronger economic fundamental in many countries have cushioned the impact of this shock. Accordingly, although developing economies will experience serious slowdowns, their growth is projected to remain positive but at a reduced rate.

Most commentators predict the global economy will begin a gradual recovery in 2010, with growth projected to pick up to 3% (from the current 0.5%). Most commentators, however, also caution that the current economic outlook is highly uncertain, and the timing and pace of the recovery will depend on prudent policy actions.

### **3.0 REGIONAL ECONOMIC ISSUES**

In line with global trends the Asia Pacific region is expected to experience slower or negative economic growth in 2009/10. Most of the region is, however, likely to avoid a sharp economic downturn due to the current financial crisis in the United States.

The Pacific Economic Cooperation Council expects real GDP growth for the Asia Pacific region to be just 1.2% in 2009, compared to around 3.5% in 2007 and 2008. This sharp decline in output growth will be led by the United States, which is expected to experience an economic contraction in 2009 of around 0.5%. By contrast, East Asia is forecast to show real GDP growth of 3.4% in 2009, about half a percentage point lower than in 2008.

Both New Zealand and Australia have entered recessions. A healthy financial sector and an aggressive macroeconomic policy response are expected to see Australia avoid the worst of the downturn that is occurring in other developed countries. Nevertheless a period of economic contraction and rising unemployment is considered unavoidable. GDP is forecast to contract by around 1.0% in 2009. It is then projected that policy initiatives, and recovery in the global economy, will allow the Australian economy to begin a slow and soft, with GDP growth of just 0.75% expected in 2010.

For New Zealand the forecasts are more pessimistic. The current global credit crunch has removed New Zealand's ability to rely on cheap foreign debt that fuelled consumer driven demand for the past decade. As a result the New Zealand economy is expected to contract by 2.8% in the current calendar year with the unemployment rate raising to close to 8% by the middle of 2010. The economy is forecast to come out of recession in the second half of the year, with sustained recovery occurring by mid 2010.

The main positive news is that region wide inflationary concerns which dominated the first half of 2008 have largely abated. Consumer prices are expected to increase by 2.3% in 2009 after an increase of 3.7 % the previous year.

## 4.0 KEY DEVELOPMENTS IN THE DOMESTIC ECONOMY

This section reviews the economic environment and the general conditions of economic growth in 2008/09. This information is based on actual data from the first 8 months of 2008/09 and projections for the last four months to provide an estimated annual outturn.

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

	Actual	Actual	Actual	Projected	Revised Projection
	05/06	06/07	07/08	08/09	08/09
Agriculture, Food, Forestry & Fishing	68.7	68.1	65.9	66.3	68.1
Construction and Quarrying	21.6	20.3	21.7	23.7	25.7
Commerce, Restaurants and Hotels	39.7	41.9	41.8	42.8	37.9
Transport and Communication	22.7	23.2	24.6	26.0	23.9
Finance and Real Estate	31.3	29.8	31.3	32.8	32.2
Government	44.0	36.4	36.7	37.1	44.1
Other	40.6	40.6	41.4	42.2	34.1
<b>GDP</b>	<b>268.6</b>	<b>260.1</b>	<b>263.3</b>	<b>271.1</b>	<b>266.0</b>

Sources : Statistics Department (actual numbers) & Ministry of Finance & National Planning (projected & revised projection)

### 4.1 Change in Primary Production

Provisional estimates for 2008/09 suggest that primary production is expected to decline by 1.7%. The outlook is for a very minor recovery in 2009/10 with 0.1% growth. This projection is based on the agricultural sector expanding in line with increased domestic demand.

It is hoped that in the near future this growth in domestic demand will be supplemented with increased production of traditional Tongan vegetables for export to Tongan communities living overseas. To support this, the government has been working with donors, especially through the STABEX programme and the private sector on options to improve agricultural exports.

The ongoing experienced by the primary sector in 2008/09 reflected deterioration in two main areas:

- The primary export – squash - experienced a further decline due to high production and shipping costs, as well as issues resulting in a large percentage of the crop spoiling prior to arrival at export markets. Declining exports were also recorded in crops such as vanilla and kava. Industry sources attribute these declines to price volatility, increased global competition and high costs of inputs and transportation.
- Fish exports have declined due to market access problems, interruptions in the supply of fishing resources (such as ice and baits), high fuel costs and depletion in fish stocks. Exports to the US market have declined in line with the ongoing recession in the United States. New markets are being opened in Dubai and China but these markets are still in their infancy.

A number of initiatives are being undertaken to boost this sector. These are identified in section 5.

#### **4.2 Continuation of the Economic and Public Sector Reform Program**

This year the government introduced and continued the implementation of a number of reform initiatives to support the long term goal of private sector led economic development. These included:

- Continued implementation of customs and income tax reforms - particularly implementation of new tariff rates and the reduction in corporate taxation rates.
- Continuing Public Finance Management Reform (including improvements to public procurement process and procedures) and Public Sector Reforms (such as reform of leave provisions, and more productive and efficient public services through increasing emphasis on performance management). Government services comprises one sixth of the Tongan economy so all initiatives that improve the performance and productivity of this sector will have direct positive impacts on national incomes.
- Contracting out of government services such as roading.
- Rationalisation, which may include privatisation, of Public Enterprises where there are no public policy reasons for their retention in government.
- Greater consultation and engagement with the private sector through vehicles such as the Tonga Chamber of Commerce and Industry and the National Economic Development Council.

The new Customs and Income Tax laws and regulations were introduced in February 2008. These legislative changes have now been fully implemented. These included changes to tax rates on personal income, the removal of duties on Capital Goods and the lowering of company income tax rates. These initiatives encourage growth by lowering the cost of doing business and increasing the rewards that arise from running a successful business.

In the 2008/09 Budget the government also instituted the contracting out of roading maintenance and construction to the private sector as a means of encouraging greater private sector involvement in the economy. This initiative also has the benefit of ensuring that taxpayers get the best value for money by encouraging innovation and competition in the delivery of services.

The Government has also encouraged greater private sector participation in the economy through continuing its program of rationalising public enterprises for which there were no compelling public policy reasons for their retention. In the last year this involved the privatisation of the Leiola Duty Free Shop and the sale of the assets of Tonga Machinery Pool. The government also sold off its shareholding in the Westpac Bank of Tonga.

The National Economic Development Council (NEDC) was set up to stimulate economic growth by identifying and recommending to Cabinet policy initiatives for a private sector led economy. The council's membership includes a number of public and private sector appointees and the council has succeeded in increasing the linkages and communication between the public and private sectors.

### **4.3 Delay in rebuilding Nuku'alofa**

The reconstruction of central Nuku'alofa has started with the construction work having commenced on two sites and some preliminary roading work also underway. The delay in the reconstruction occurred due to the longer than anticipated time to make the necessary arrangements. This included longer than expected negotiations with landowners and with those to whom money was to be on-lent.

Negotiations with the building contractors have also enabled the local content of the construction work (labour and use of local services and materials) to be on more favourable terms. As a result of these negotiations the local content of the reconstruction workload has been substantially increased.

The delay of reconstruction work will result in the economic impact of this work appearing in 2009/10 and subsequent years.

### **4.4 Fuel Price Spikes and Inflationary trends**

One dominant feature of the 2008/09 economic environment was a massive rise in both international fuel and food prices. Of these two price increases Tonga received some relief from the food price increase as the commodities in which the most significant price increases occurred (such as rice) are not staple parts of the Tongan diet. The availability of ample land for domestic agriculture also allowed an avenue for avoiding the worst of the consequences of the food price increase. To assist Tongans cope with higher international food prices the government also removed duties on meat imports.

Tonga was not, however, able to escape the near tripling of international oil prices between January 2007 and August 2008 (See figure 1). Tonga is totally dependent on fuel for both transportation and electricity generation. While the price spike in Tonga was lower than international price movement, most industries had to deal with significant cost increases that muted demand and placed pressure on operating profits. Particularly impacted were the fishing sector and the energy intensive manufacturers.

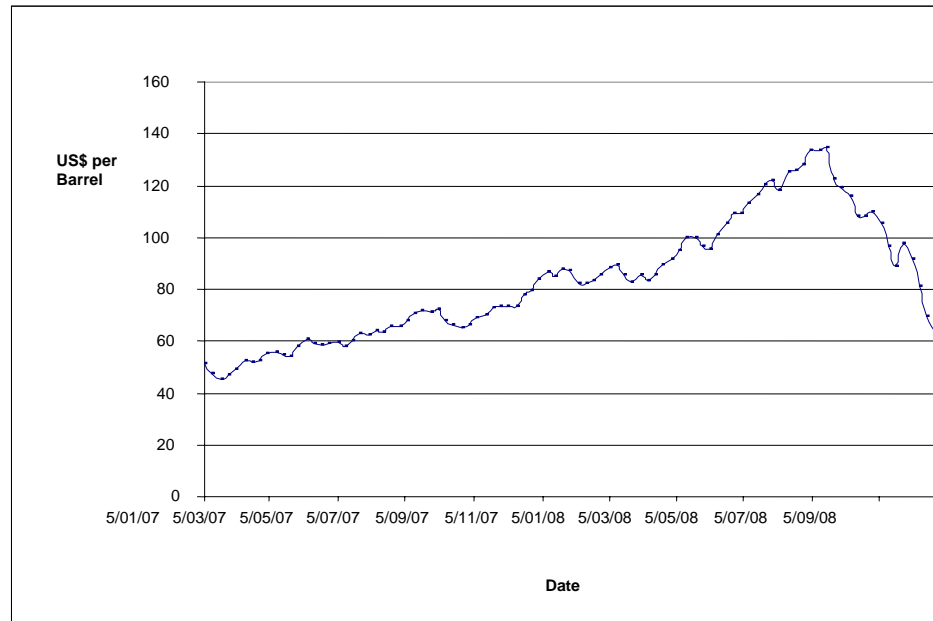


Figure 1: World Spot Oil Price  
Source: New York Times

To soften the impact of the oil price increase the government removed excise duty on oil for commercial sea and air transport operators and subsidised electricity for consumers as well as subsidising oil for the fishing industry.

#### 4.5 Growth in Tourism

The tourism sector is projected to record a 13.9% increase in the number of tourists arrivals in 2008/09. While globally tourism has been affected by increased job insecurity and high fuel prices, Tonga appears to have benefited from a number of factors including:

- Tonga is seen by potential tourists in Tonga's main markets of New Zealand and Australia as a close by and more affordable destination. This has increased the appeal of a holiday in Tonga over more distant destinations for increasingly budget conscious tourists.
- Fears over political instability in Fiji may have resulted in some tourists and regional conferences rescheduling their holidays or conference to Tonga.

#### 4.6 Decline in Remittances

After increasing by 9% in 2007/08 remittances declined by a projected 6.6% in 2008/09. This decline, while disappointing, was not unexpected as remittances are at least partly determined by the economic conditions and job security of Tongans in remitting countries. As the majority of Tongan remittances come from countries that were in recession in 2008/09, some decline in remittances was inevitable. Unfavourable exchange rate movements may also have minor impacts for the recorded decline in remittances.

Remittances are recorded in GDP through the economic activity they generate when spent, primarily in the construction, commerce, hotels and restaurants, communications and transport sub-sectors.



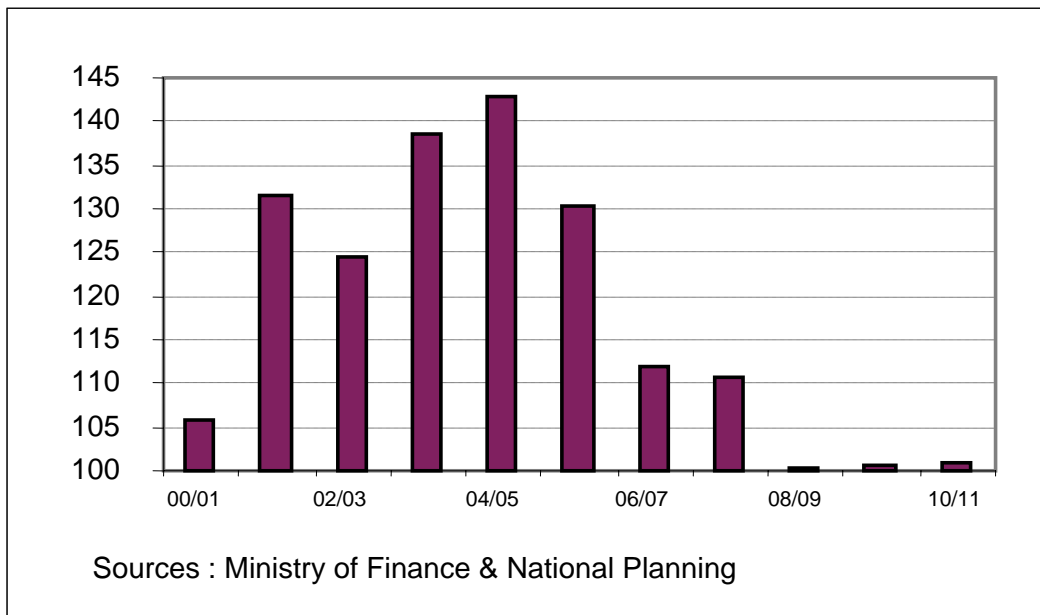


Figure 2: Remittances (Real Index)

#### 4.7 Economic Impact of the Coronation

According to the information and figures collated by the Ministry of Finance and National Planning, it suggests that the coronation of His Majesty George Tupou V had a positive economic benefit for Tonga.

The coronation appears to have generated approximately 1,800 additional visitors to the Kingdom that will have resulted in an increased tourism spending of about \$2.1 million pa'anga (which generates an economic impact of approximately \$1.3 million pa'anga ) and increased remittances of approximately \$5.1 million pa'anga (which generates an economic impact of approximately \$3.1 million pa'anga).

This economic impact of \$4.4 million pa'anga is reduced by the \$2.0 million pa'anga economic cost of Coronation activities (direct cost and foregone revenue). This \$2 million economic cost is based on international studies on the cost of raising revenue through taxation. This gives an overall positive impact for the Coronation of \$2.4 million pa'anga.

#### 5.0 COMPOSITION OF ECONOMIC GROWTH BY INDUSTRY

Unlike the previous section that reviewed the performance of the Tongan economy over the previous year, this section looks forward and forecasts the expected performance of the Tongan economy in the coming year.

##### Actual and Forecast Growth rates in the Tongan Economy

The historic and forecast growth by sector and sub-sector for the Tongan economy is outlined below.

**Table 2: Economic Growth by sector – real terms (%)**

	2005/06	2006/07	2007/08	2008/09	2008/09 Revised Projection	2009/10 Forecast	2010/11 Forecast
	Actual	Actual	Actual	Projected			
<b>Primary sector</b>	<b>-0.9</b>	<b>-0.9</b>	<b>-3.2</b>	<b>0.7</b>	<b>-1.7</b>	<b>0.1</b>	<b>1.0</b>
Agriculture, food, forestry, and fisheries	-0.9	-0.9	-3.2	0.7	-1.7	0.1	1.0
<b>Secondary sector</b>	<b>-0.8</b>	<b>-3.5</b>	<b>4.5</b>	<b>6.4</b>	<b>0.5</b>	<b>1.7</b>	<b>2.4</b>
Mining and quarrying	-2.6	-6.3	6.9	10.6	6.3	11.0	8.0
Manufacturing	0.8	-0.5	1.0	1.0	-6.3	-5.0	0.1
Electricity and water	2.9	0.9	3.0	5.0	3.0	3.2	5.0
Construction	-2.6	-6.3	6.9	9.6	2.4	3.3	2.2
<b>Tertiary sector</b>	<b>2.0</b>	<b>-4.0</b>	<b>2.4</b>	<b>3.0</b>	<b>1.2</b>	<b>2.3</b>	<b>2.4</b>
Commerce, restaurants, and hotels	1.8	5.5	-0.1	2.3	0.5	2.0	3.2
Transport and communication	2.6	2.0	6.0	6.0	2.5	7.0	3.4
Finance and real estate	2.9	-4.7	5.0	5.0	2.1	1.2	2.1
Government services	-0.3	-17.3	1.0	1.0	0.5	1.0	2.0
Entertainment and private services	4.6	3.0	3.0	3.0	1.9	1.8	1.8
Ownership of dwellings	2.3	2.4	2.4	2.4	1.3	1.4	1.4
Less: Imputed bank service charge	0.2	10.9	5.0	5.0	2.0	0.8	4.0
<b>Total GDP at factor cost</b>	<b>0.8</b>	<b>-3.2</b>	<b>1.2</b>	<b>3.0</b>	<b>0.4</b>	<b>1.7</b>	<b>2.0</b>

Sources : Statistics (actual numbers) & Ministry of Finance & National Planning (projected & revised projections)

## 5.1 Agriculture

*The Agriculture sector contributed 24.1% of GDP in 2008/09. This sector contracted by 1.7% in 2008/09 and is projected to grow at 0.1% in 2009/10*

The agricultural sector is expected to stabilise at current output levels for 2009/10 before returning to modest 1% per annum growth from 2010/11.

While overshadowed by squash, other agricultural products increasingly contributed positively to the sector, including root crops, taro leaves and coconuts. This development has been assisted by EU funds through the Stabex facility. This facility has included assistance to vanilla replanting and better treatment and storage (export) facilities.

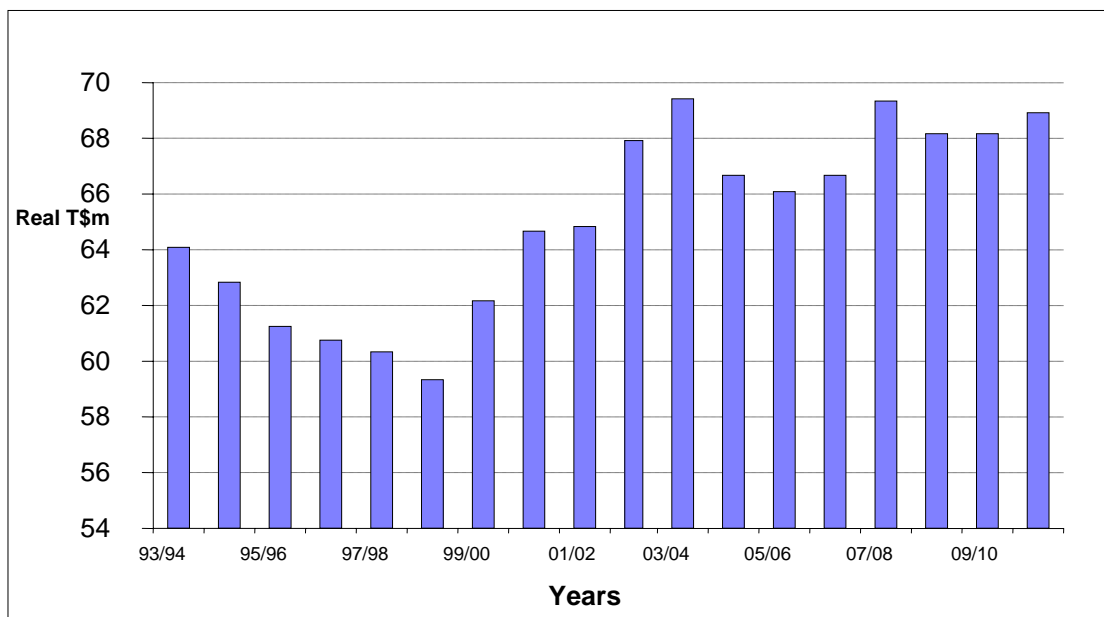


Figure 3: Agriculture, Forestry & Fishing

These facilities will assist Tongan goods meet international standards and gain access to the lucrative Australian and New Zealand markets. Within these markets large existing Tongan populations provide a ready demand for Tongan produce.

## 5.2 Fishing

*The Fishing sub-sector contributed 1.5% of GDP in 2008/09. This sector contracted by 24.1% in 2008/09 and is projected to grow at 5.0% in 2009/10*

After a very poor year in 2008/09 the forecast for the fishing industry is for positive (5%) growth albeit off a low base. The reason for this positive forecast is that the major factors attributed for the decline over the previous two years (high fuel prices and difficulty accessing fishing supplies and traditional markets) appear to have been partially redressed with the decline in international fuel prices and the gradual development of new markets such as China and Dubai.

Despite this, the outlook for fishing is tentative as the industry is notorious for huge swings in fortunes due to a dependency on factors beyond the industry’s control such as climate conditions and the migratory patterns of (and depletion) of various fish species.

Exports of other marine products are forecast to remain stable.

## 5.3 Manufacturing

*The Manufacturing sub-sector contributed 3.4% of GDP in 2008/09. This sector contracted by 6.3% in 2008/09 and is projected to contract by 5.0% in 2009/10*

The Tongan manufacturing sector is small and with the increasing openness of the economy over the last several years the sector has contracted in the face of cheap imports from international competitors. Like many other Pacific countries, manufacturing for export is difficult due to remoteness from raw materials and export markets, and high shipping costs. Manufacturing has therefore tended to concentrate on areas where local inputs can be used as importers face high shipping costs

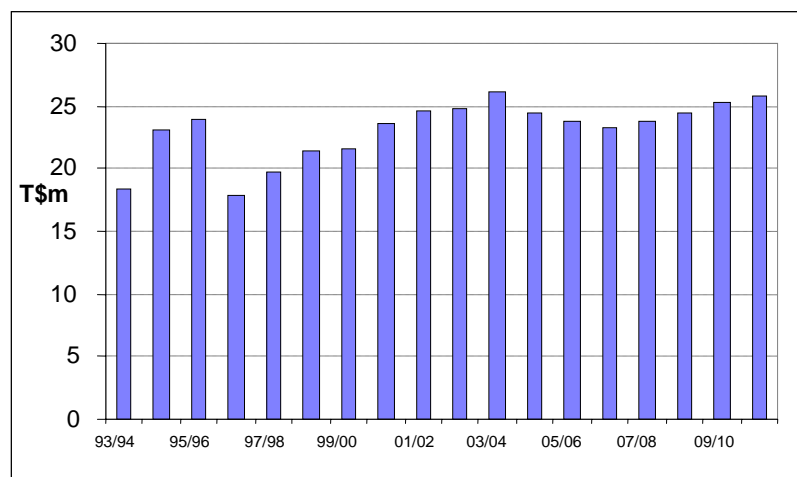
While this sector was the beneficiary last year of new income tax and custom changes and increased outsourcing of government, this sector is typically heavily dependent on electricity and transportation and so suffered rather heavily in the face of increasing energy costs in 2008/09.

To boost economic activity in this sector the National Economic Development Council has established a manufacturing sub-committee to examine challenges faced by the industry and to identify possible solutions.

## 5.4 Construction

*The Construction sub-sector contributed 9.2% of GDP in 2008/09. This sector grew at 2.4% in 2008/09 and is projected to grow at 3.3% in 2009/10.*

As illustrated in figure 4, construction is forecast to be a steady performing sector over the next three years on the basis of consistent activity across the traditional Church, Government and household sectors. The growth rate for this sector will also be boosted by the Nuku'alofa reconstruction getting fully underway over the coming year.



**Figure 4: Total Construction Activity**

Source: Ministry of Finance and National Planning

While the rebuilding of Nuku'alofa is important, from an economic growth perspective the actual construction will trail (in order of economic impact), Church building, scheduled Government and public enterprise construction (including roads, water upgrades and health clinics) and residential home building.

## 5.5 Commerce, Restaurants and Hotels

*The Commerce, Restaurants and Hotels sub-sector contributed 14.3% of GDP in 2008/09. This sector grew at 0.5% in 2008/09 and is projected to grow at 2.0% in 2009/10*

Changes in remittances, wage movements and tourism tend to dictate the performance of this sub-sector. The relative importance of these influences is illustrated in the figure below. Currently wages are the most important component of Tonga's incomes; however, tourism receipts are projected to become progressively more important over time. This will tend to boost receipts and growth in restaurants and hotels as those activities benefit relatively more from increased tourism.

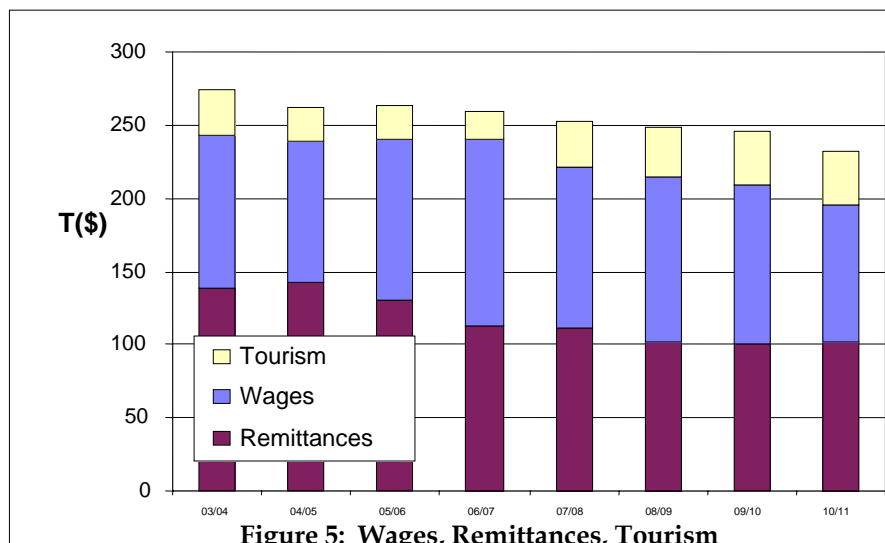


Figure 5: Wages, Remittances, Tourism  
 Source: Ministry of Finance and National Planning

The forecast rates of change in various sources of income are as outlined below:

Table 3: Changes in Source of Tongan Incomes

	06/07	07/08	08/09	09/10	10/11
Remittances	-9%	9%	-7%	-1%	7%
Tourism	-1%	27%	14%	5%	5%
Non-Government Wages	6%	3%	2%	-1%	7%
Government Wages	-4%	3%	6%	3 <sup>1</sup> %	3%
06/07 Redundancy Spending		-40%	-100%	0%	0%
Coronation	0%	100%	100%	-100%	0%
<b>Total</b>	<b>2%</b>	<b>7%</b>	<b>-2%</b>	<b>-1%</b>	<b>6%</b>

Source: Ministry of Finance and National Planning

Given the projections of an overall 1% decline in Tonga's income over the 2009/10 year, the forecast for this sector is for muted but still positive growth in the order of 0.5%. This sector will then pick up as incomes recover in 2010/11 and beyond.

## 5.6 Government Services

*The Government Services sub-sector contributed 16.6% of GDP in 2008/09. This sector grew at 0.5% in 2008/09 and is projected to grow at 1.0% in 2009/10.*

The Government Services sector is expected to grow at a rate of 0.5 percent. This projection is based on the government's initiatives to create a better conducive economic environment that will boost economic growth. Recent proposed changes to Government employment terms and conditions (including a 10% salary adjustment as part of the Economic and Public Sector

<sup>1</sup> Prior to Government announcement of Public Sector Wage Increase.

Reform Program (EPSRP) and a reduction in the number of possible leave days) may cause some small increase to actual growth rates.

## 5.7 Transport and Communication

*The Transport and Communication sub-sector contributed 1.5% of GDP in 2008/09. This sector grew at 2.5% in 2008/09 and is projected to grow at 7.0% in 2009/10*

The Transport and Communication sector is expected to experience strong growth over the 2009/10 year on the basis of:

- continued strong competition between the two telephone services providers is keeping prices low and encouraging usage.
- technological changes reducing prices but also encouraging upgrades of plant and equipment.
- the impact of declining fuel prices encouraging greater travel and the purchase of new vehicles after the deferral of purchase intentions in 2008/09 due to uncertainty over vehicle duty rates and high fuel prices.

The main downside risk in this projection is the impact of expectations on individuals purchase decisions and particularly whether the slight decline in remittances over the next year is seen as a permanent decrease or only a blip against a general recovery in incomes.

## 5.8 Other Industries

*The Mining and Quarrying sub-sector contributed 0.5% of GDP in 2008/09. This sector grew at 6.3% in 2008/09 and is projected to grow at 11.0% in 2009/10*

*The Electricity and Water sub-sector contributed 2.5% of GDP in 2008/09. This sector grew at 3.0% in 2008/09 and is projected to grow at 3.2% in 2009/10*

*The Finance and Real Estate sub-sector contributed 12.1% of GDP in 2008/09. This sector grew at 2.1% in 2008/09 and is projected to grow at 1.2% in 2009/10*

*The Entertainment and Private services sub-sector contributed 6.1% of GDP in 2008/09. This sector grew at 1.9% in 2008/09 and is projected to grow at 1.8% in 2009/10*

Of other industries the most important is the Finance and Business services sub-sector. The outlook for this sector, which primarily comprises the major trading banks, is for a continued moderate growth rate. Tonga's banks have limited direct exposure to the global financial crisis and so are not expected to be adversely impacted by international events.

The major trading banks have also recently all taken steps to clear bad debts from their lending portfolios and tighten credit control to prevent any further growth in non-performing loans. These moves are projected to offset any downside risks that may arise from international events.

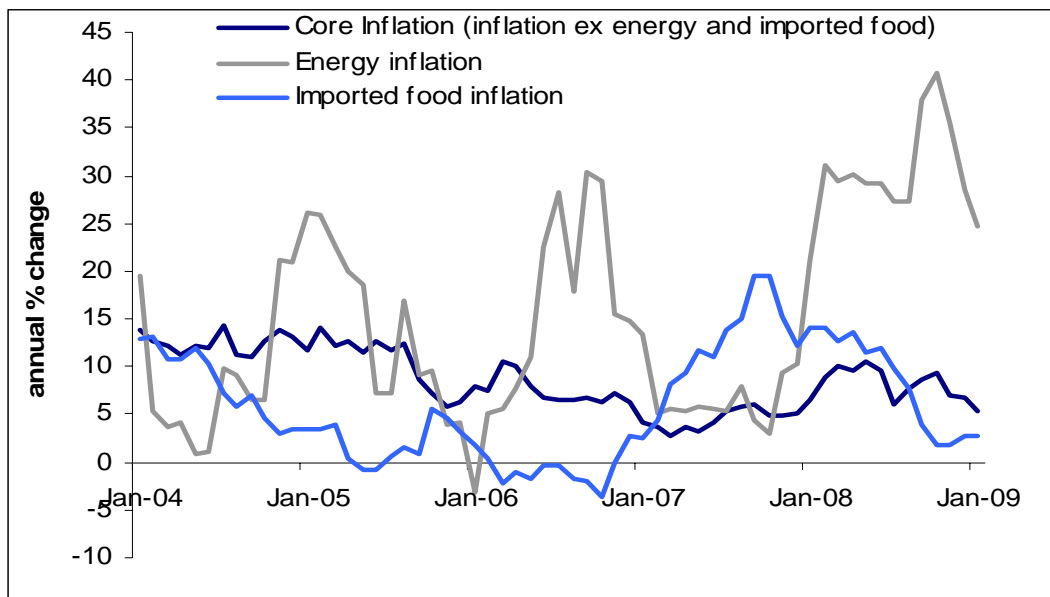
**Table 4: Contributions to Growth (% real terms)**

	06/07	07/08	08/09	09/10
Agriculture, Food, Forestry and Fisheries	-0.2%	-0.8%	-0.4%	0.0%
Construction and Quarrying	-0.5%	0.5%	0.2%	0.4%
Commerce, Restaurants and Hotels	0.8%	0.0%	0.1%	0.3%
Transport and Communication	0.2%	0.5%	0.2%	0.6%
Finance and Real Estate	-0.5%	0.6%	0.3%	0.1%
Government	-2.8%	0.1%	0.1%	0.2%
Other	0.0%	0.3%	-0.1%	0.1%
<b>GDP</b>	<b>-3.2%</b>	<b>1.2%</b>	<b>0.4%</b>	<b>1.7%</b>

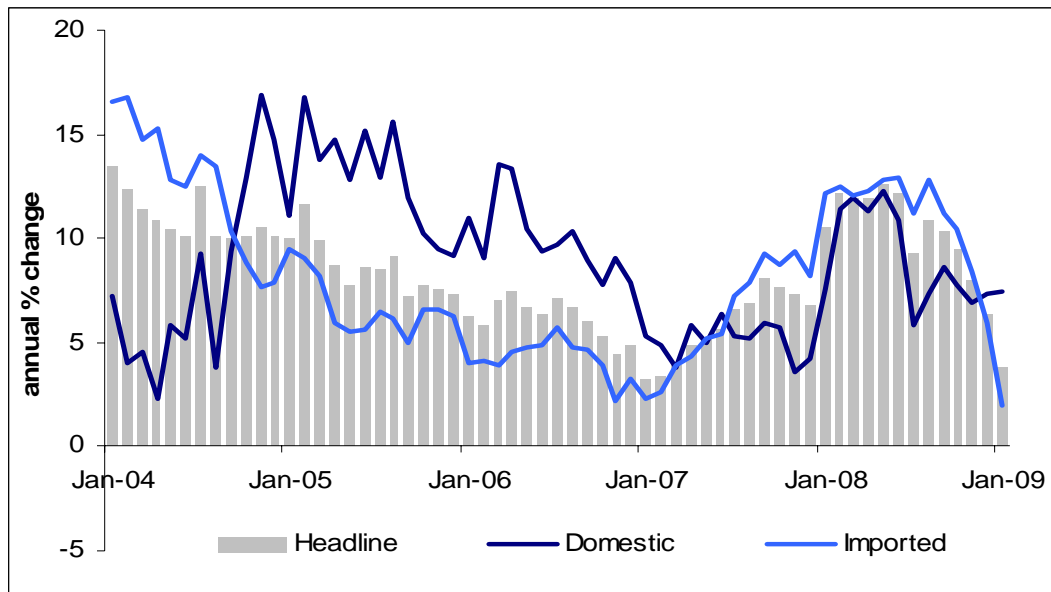
Source: Ministry of Finance & National Planning

## 5.9 Domestic Price Development

The overall inflation rate was 2.4 % at the end of March 2009. This slow down of the inflation rate is largely due to significant declines in international oil and food prices. In the year to March 2009, the level of inflation for imported goods was lower than the rate for domestic goods. However, second round effects of oil price decreases are now being felt in the domestic inflation index through decreases in electricity, water and transport costs.



**Figure 6: Inflation**



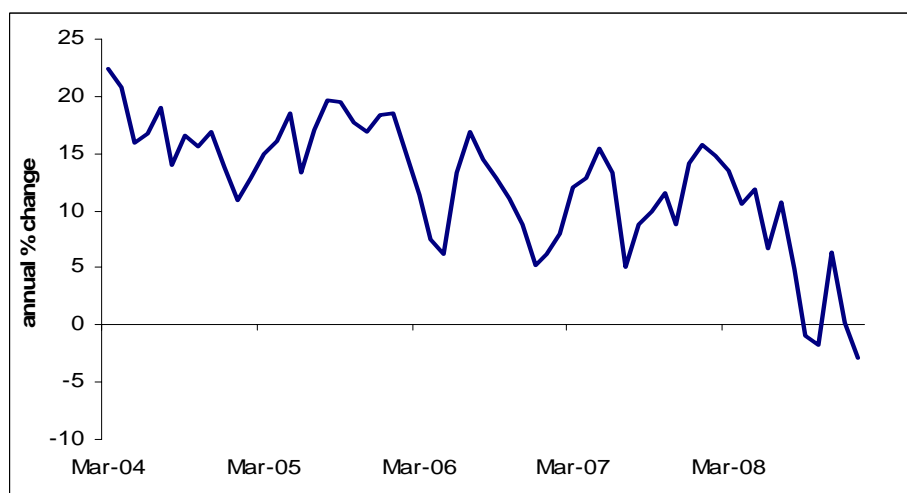
**Figure 7: Inflation by components**

Source: Statistic Department of Tonga & National Reserve Bank of Tonga

## 6.0 MONEY SUPPLY

The level of total broad money (M3) declined by 2.3% in the year ended January 2009, but remains at a similar level to the average for the previous two years. The decrease was mainly due to a decline in deposits at banks. The fall in deposits was broad-based though in general shorter time periods saw greater withdrawals, potentially as people seek higher interest rates, but also in response to the greater demand on peoples' wallets due to the high prices seen through 2008.

Demand deposits dropped 23.5% in the year to January 2009, while savings and term deposits fell 10.3% and 2.4% respectively. Cash in circulation rose by 19.7% over the same period.



**Figure 8: Money Supply (M3)**

Source: National Reserve Bank of Tonga



## 6.1 Domestic Credit

Private Sector Credit provided by the financial intermediaries increased by 7.5% in the year ended January 2009. However, credit growth slowed down after the first quarter of the year due to several factors including periods of low liquidity in the middle of 2008, tightened credit criteria by the banks, and the issue of National Reserve Bank of Tonga (NRBT) notes to reduce liquidity levels.

Throughout the past two years, lending by the banking system has been mostly directed toward the business sector, in line with reconstruction activities. Growth in lending to the business sector remains high at 21.7% annual growth, though well down on the peak of 41.3% seen in August last year.

Household borrowing meanwhile remains subdued, largely in response to tightened credit criteria. As banks reassessed their credit criteria during last year non-performing loans have jumped markedly. Consequently, large amounts were added to their provisions for bad debts and profitability has fallen considerably.

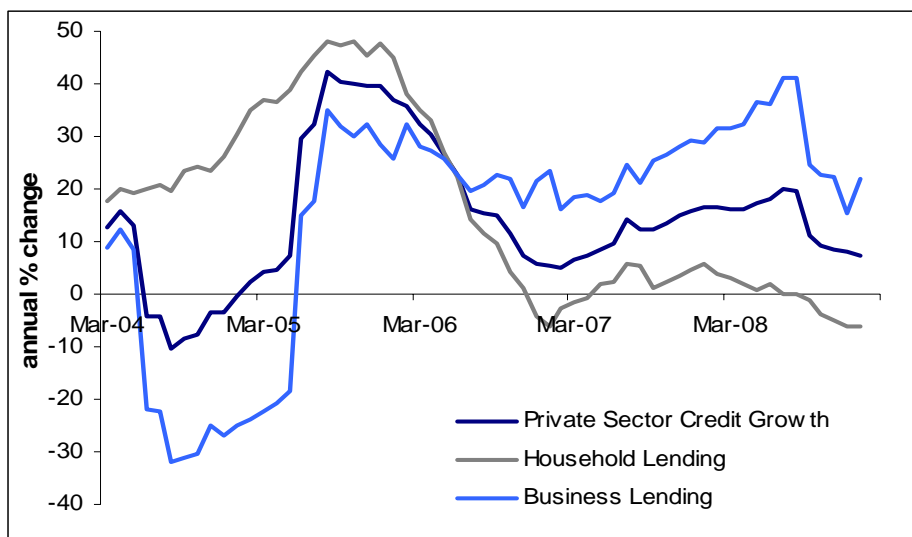


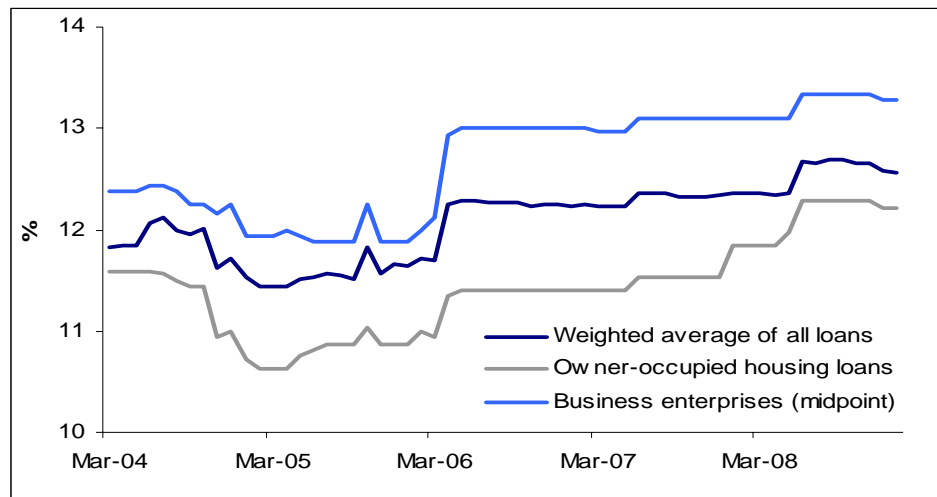
Figure 9: Private Sector Credit Growth  
Source: National Reserve Bank of Tonga

## 6.2 Interest Rates

Retail interest rates have generally been declining in the past few months, with steep declines in longer term deposit rates and a slight downward movement in the lending rates.

Deposit rates for investors with less than \$50,000 pa'anga have declined in the past six months. The largest fall is at the 12-month term with rates 0.7% lower than a year ago. Rates for 6-month deposits were also down over the same period, by 0.6%.

Meanwhile, lending rates fell slightly in the previous months, reflecting the improvement in liquidity and consequently lower funding costs. However, rates for owner-occupied housing at 12.2% are still higher than the same time last year. Business lending rates, at an average of 13.3%, are also higher than a year earlier.

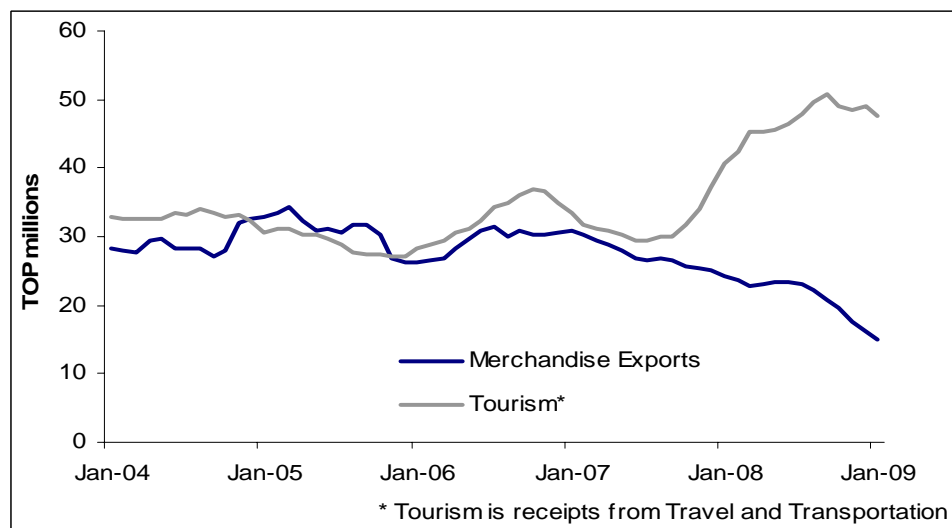


**Figure 10: Lending Rates**  
 Source: National Reserve Bank of Tonga

## 7.0 EXTERNAL SECTOR DEVELOPMENT

### 7.1 Exports

Tonga's two major export sectors are the primary sector and tourism. These sectors experienced markedly different fortunes in the previous year. Agricultural and fish exports fell significantly over the year. This fall was most notable in the largest crop (squash) however there were some agricultural exports, such as coconuts that recorded growth. By contrast as reported earlier tourism arrivals continued to grow at a rapid pace as illustrated in Figure 12.



**Figure 11: Exports (OET estimate)**  
 Source: National Reserve Bank of Tonga

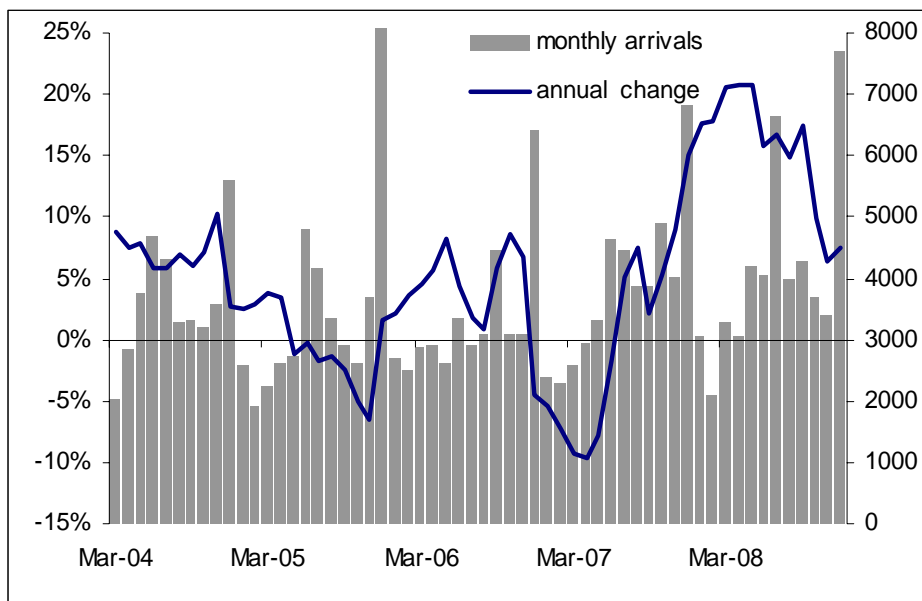


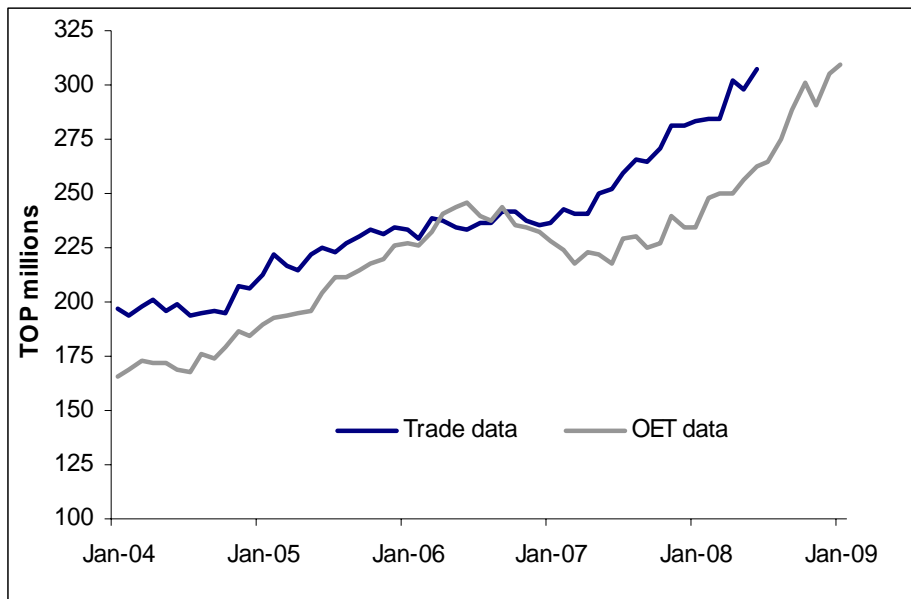
Figure 12: Visitor arrivals (air arrivals only)  
 Source: National Reserve Bank of Tonga

## 7.2 Imports

Container arrivals and vehicle registrations were significantly lower than a year ago. Some of this is in response to high costs of imported fuel and food in the second half of 2008, though the spectre of a fall in remittances may also be slowing imports down.

While import volumes declined over the last year import payments ballooned through the middle and latter part of 2008 as fuel prices rocketed. At their peak, in August 2008, imports were more than \$30 million pa'anga. As the fuel price has fallen, so have import payments putting less pressure on the reserves as months of imports cover. Monthly import payments were down to around \$20 million pa'anga in the month of January 2009, and are expected to remain around that level as long as oil prices stay low.

The strength of the United States dollar (and consequent weakness of the pa'anga) is preventing fuel payments from dropping too far. Conversely the weakness of the New Zealand dollar (and relative strength of the pa'anga) is reducing the cost of importing from New Zealand, the main source of food imports. Hence we are likely to see a continuation of lower import payments while the NZD stays weak. It is also possible that the quantity of goods imported increases and keeps payment levels the same.

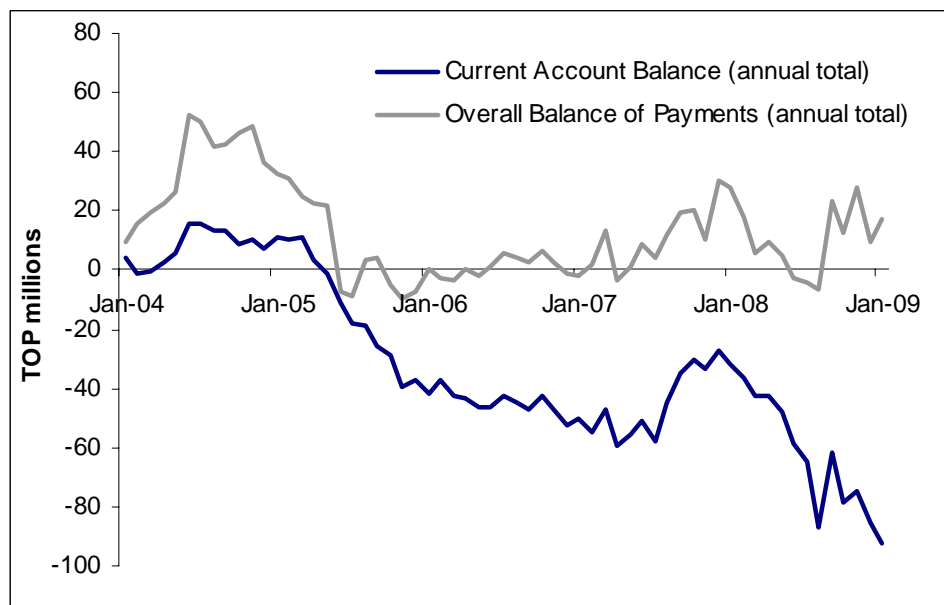


**Figure 13: Imports**

Source: National Reserve Bank of Tonga

### 7.3 Balance of Payments

The current account deficit has widened sharply in the past year, mostly due to much higher payments for imports, but also because of a significant drop in merchandise exports. The capital account surplus rose significantly during the year to offset the growing current account deficit, such that the overall balance was in surplus, and foreign reserves rose during the year.



**Figure 14: Balance of Payments (OET estimate)**

Source: National Reserve Bank of Tonga

## 7.4 Gross Official Foreign Reserves

Gross Official Foreign Reserves have recovered strongly in recent months, to be at \$130.4 million pa'anga at the end of January. Large capital inflows were the main source of increase, though a slowdown in imports due to lower fuel prices assisted. Reserves when measured as a ratio of imports are also up strongly with 5.1 months of imports coverage as at the end of January 2009.

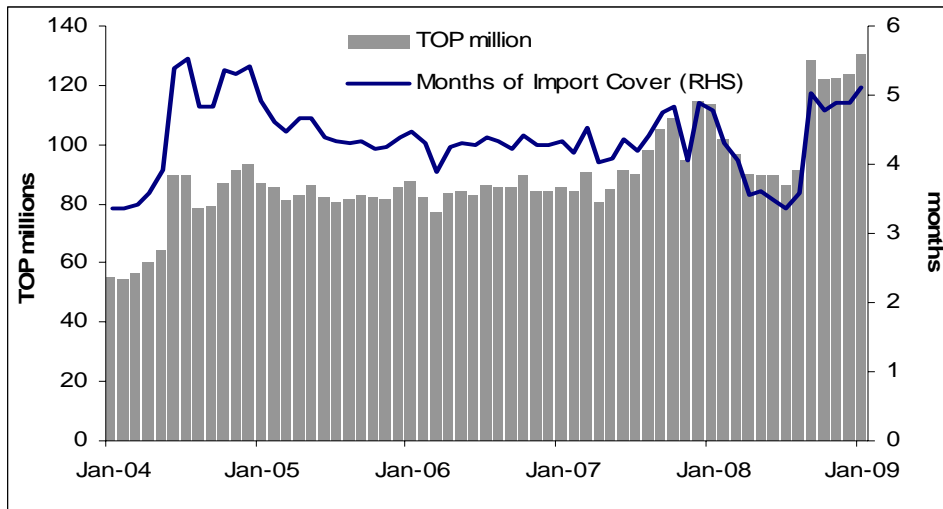


Figure 15: Official Foreign Reserves  
 Source: National Reserve Bank of Tonga

## 8.0 EXCHANGE RATES

On a trade-weighted basis the nominal effective exchange rate appreciated by 0.4% in the year ending January 2009, this mostly due to the Tongan pa'anga appreciation of 28.6% against NZD and 15.5% against AUD, as these two currencies depreciated rapidly as world financial markets sought safe haven investments. Meanwhile the Tongan pa'anga depreciated against USD by 15.6%, the United States dollar being the main beneficiary of safe-haven investing. The strengthening of the Tongan pa'anga in the second half of 2008 and the beginning of this year has helped reduce the amount of imported inflation from oil and food.

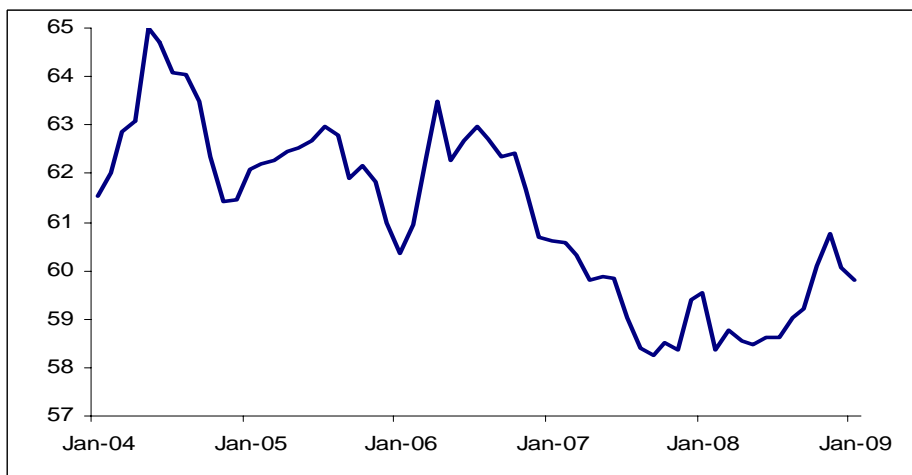


Figure 16: Nominal Effective Exchange Rate (NEER) (trade weighted index of the pa'anga)  
 Source: National Reserve Bank of Tonga

## 9.0 IMPROVING THE REGULATORY ENVIRONMENT

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

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

The Tonga Chamber of Commerce and Industries (TCCI) is currently surveying their members for other private sector impediments; their annual survey conducted in 2008 also noted that high fuel prices and lack of infrastructure were an impediment. Additionally, firms found it difficult to find skilled labour in Tonga (especially in the outer islands), and the ability to raise finance remains a problem for most small and medium sized enterprises.

Like many Pacific Island nations, Tonga maintains a “reserved list” that reserves 14 specific economic activities for Tongans only. This list is currently being reviewed by the Ministry of Labour, Commerce, and Industries.

The Ministry of Finance and National Planning in particular has taken steps, with IFC support, to institutionalize regulatory reform. A standing Task Force on Regulatory Reform meets monthly and is chaired by the Finance Minister, with participation from other Ministries. Under this Task Force are a series of Working Groups, with the most important being the Working Group on Starting a Business. This Group is examining the business license processes and recommending up to the Task Force licensing changes that will help the private sector. A second, industry-specific Working Group on Fisheries is just beginning to operate to explore issues related to business in the fishing sector.

The Ministry of Labour, Commerce and Industries is also helping to ease business registration through work with international donors. The ADB is currently assisting the amendment of the Companies Act expected to be passed this session. In tandem with this legislative change, the IFC is funding the development of an electronic company registry with a New Zealand software provider and the NZ Companies’ Office. The new registry is foreseen to be in place by the fourth quarter of 2009.

## Budget Statement for Year Ending 30<sup>th</sup> June 2010

# Budget Paper 2: *Fiscal Outlook*

**Budget Statements for Year Ending 30<sup>th</sup> June 2010**

*Paper 2: Fiscal Outlook*



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## 1.0 OVERVIEW

The 2008/09 year has been another challenging fiscal year as the global financial crisis continues to dominate the global economy. This had indirectly impacted the current fiscal context of the Kingdom. Consequently, revenue collection had declined and partially due to falling remittances, with a consequential impact on the level of imports and, business activities and the money supply in the economy. While the financial situation is not easy the Government has managed to maintain its normal expenditures for 2008/09. The Government has also designed a fiscal stimulus package which will be implemented in the 2009/10 financial year to counter any adverse impacts of the global downturn. The stimulus package is designed with the prime target of boosting economic activity to maintain business confidence and to create more jobs in the economy.

For that purpose, the 2009/10 Budget signifies a 13.8% increase in total expenditure and net lending compared to the 2008/09 estimated outturn. The increased expenditure is directed at improving the environment for businesses, infrastructure, vocational education, health (particularly non-communicable diseases) and community development.

As such, it is to be expected that proposed new expenditures will be strictly focused on key priority areas outlined in the National Strategic Planning Framework which the Government has endorsed. Moreover, the same consideration must also to be given to the Government's social development targets in the Millennium Development Goals to promote overall living standards in Tonga.

Although the Government of Tonga aims to minimize its dependence on foreign aid, the Government welcomes all the financial assistance in the form of cash and in-kind grants from the development partners. These grants are timely and fill the gap created by shortfalls in revenue against expenditure.

The planned expenditure increases require the Government to continue its policies of prudent economic management, while at the same time continuing with its customs and revenue reforms to provide an efficient and effective taxation system.

## 2.0 FISCAL POLICIES IN 2009/10

The Fiscal policies are aligned to realize the outcomes and objectives set out in the National Strategic Development Framework.

The Government vision remains:

“To create a society in which all Tongans enjoy higher living standards and a better quality of life through good governance, equitable and environmentally sustainable, private sector-led economic growth, improved education and health standards and cultural development”.

The fiscal policies that provide support to achieve this vision and macro economic stability are:

1. The Government will continue to operate responsible and prudent fiscal and monetary policies including the operation of a balanced budgets;

2. The Government will ensure that Tonga's national debt is kept within sustainable levels, and if necessary to move outside of sustainable guidelines in adverse economic conditions, then restore debt to sustainable levels as soon as possible;
3. That Government will continue progress towards more efficient government and the transfer of resources to improve services and maintenance of assets;
4. Public Enterprises will continue to operate in a commercial manner, be accountable to government as owner and provide dividends in proportion to capital invested;
5. Revenue collection methods will be based on ensuring effectiveness and non-distortionary; and
6. A coordinated whole of government approach will be applied to donor funding.

## 2.1 Fiscal Stimulus Package

Despite financial pressure from the global financial crisis which has affected the government's revenue collection capacity, the government together with assistance from its development partners put together a fiscal stimulus package to help alleviate the adverse impact of the global financial crisis on the Tongan economy.

The government is working together with its development partners in expediting the reconstruction of Nuku'alofa as a way of generating more jobs and business activities for the people of Tonga. Other projects such as roading, drainage project are seen as projects that require a high local labour component leading to job creation and generating further economic activities in the Tongan economy.

Other initiatives that may be used, if required to stimulate the Tongan economy include, roading project, the bringing forward of investments in renewable energy and additional tourism marketing. These projects are still under development. If required, these projects will be funded through increased government expenditure, budget support from the ADB, donor funding and concessional borrowing.

Further to the Stimulus Package approved by Cabinet as part of the continuing Economic Public Sector Reform Program, the civil servants will be receiving a general salary increase. This is also seen as demand side injection which will assist business activities. In addition, a grant subsidy of one million pa'anga will be provided to non government treasury and vocational training.

## 2.2 Overall Fiscal Balance 2009/10

Table 1 below is calculated using the international standard of classification, the Government Financial Statistics (GFS)<sup>1</sup>, and shows the economic impact of government policy decisions and outturns. On this basis, the budget for 2009/10 anticipates a surplus of \$17.4 million resulting from total revenue and grants of \$220.1 million exceeding total expenditure of \$202.7 million. This surplus will be utilised to pay off external debts of \$12.3 million, leaving a balance of \$5.1 million for infrastructure projects that are under consideration.

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

Table 1: Overall Fiscal Balance (\$)

	Original Estimate 2008/09	Estimated Out-turn 2008/09	Original Estimate 2009/10
<b>Total Revenues and Grants</b>	<b>222,947,045</b>	<b>198,499,743</b>	<b>220,100,619</b>
Revenues	181,137,481	155,529,162	172,217,308
Grants	41,809,564	42,970,581	47,883,311
<b>Total Expenditure and Net Lending</b>	<b>215,883,676</b>	<b>178,152,015</b>	<b>202,732,021</b>
Wages and Salaries	78,385,912	68,771,471	77,364,627
Other current expenditure	125,788,217	90,436,149	114,245,230
Capital Expenditure	12,240,758	15,172,507	11,751,425
Net lending	(531,211)	3,771,889	(629,261)
<b>Budget balance</b>	<b>7,063,369</b>	<b>20,347,728</b>	<b>17,368,598</b>
	Original Estimate 2008/09	Estimated Out-turn 2008/09	Original Estimate 2009/10
<b>Total Financing</b>	<b>(7,063,369)</b>	<b>(20,347,728)</b>	<b>(17,368,598)</b>
<b>External financing</b>	<b>(7,033,913)</b>	<b>(6,183,912)</b>	<b>(12,295,839)</b>
Disbursements	-	-	-
Repayments	7,033,913	6,183,912	12,295,839
<b>Domestic Financing</b>	<b>(29,456)</b>	<b>(14,163,816)</b>	<b>(5,072,759)</b>
Bonds Issued / Domestic Loan	7,000,001	6,000,000	7,000,000
Principal Repayment of Matured Bonds/Loan	7,000,001	7,000,000	7,000,000
Net Changes in Government Cash Balances and Investment	(29,456)	(13,163,816)	(5,072,759)

Although the recurrent revenue is projected to increase in 2009/10, it will still have a shortfall of \$4.9 million against the budgeted recurrent expenditure.

### 3.0 REVENUE AND GRANTS 2009/10

The Government is projected to collect \$220.1 million pa'anga from total revenue and grants in 2009/10. This is 10.9% higher than the \$198.5 million estimated outturn for 2008/09. The significant increase for 2009/10 is associated with an expected rise in the current revenue of \$15.4 million, capital revenue of \$1.3 million pa'anga and \$4.9 million pa'anga from grant.

The major factors attributed to the revenue projection for 2009/10 compared to the 2008/09 estimated outturn, will include increases in domestic taxes on goods and service (by 33.5%), taxes on international trade and transactions (by 36.0%) and capital revenue. On the other hand, taxes on income and profit and nontax revenue are projected to fall.

Table 2 details the estimated revenues and grants at the aggregate GFS level for the current financial year and the allocated budget for 2009/10.

Table 2: Estimated Revenues and Grants (\$) for 2009/10 Budget

	Original Estimate 2008/09	Estimated Out-turn 2008/09	Original Estimate 2009/10
<b>Total Revenue and grants</b>	<b>222,947,045</b>	<b>198,499,743</b>	<b>220,100,619</b>
<b>Total Revenue</b>	<b>181,137,481</b>	<b>155,529,162</b>	<b>172,217,308</b>
Current revenue	181,137,481	155,529,162	170,917,308
<b>Tax revenue</b>	<b>158,236,693</b>	<b>130,433,332</b>	<b>150,197,515</b>
Taxes on income and profits	30,631,000	42,380,064	31,985,000
Taxes on property	113,588	112,219	140,380
Domestic taxes on goods and services	96,991,773	70,547,257	94,214,684
Consumption tax	64,280,000	46,500,094	61,150,000
Excise and Other taxes	32,711,773	24,047,164	33,064,684
Taxes on international trade and transactions	30,300,332	16,029,000	21,800,132
Customs duties	30,000,000	16,010,508	21,500,000
Other import charges	300,332	18,492	300,132
Other taxes	200,000	1,364,791	2,057,319
<b>Nontax revenue</b>	<b>22,900,788</b>	<b>25,095,830</b>	<b>20,719,793</b>
Entrepreneurial and property income	9,630,776	13,153,428	7,174,310
Administrative fees and charges	12,331,843	11,081,218	12,503,235
Fines and forfeits	353,006	243,038	386,789
Other nontax revenue	585,163	618,146	655,459
Capital revenue	-	-	1,300,000
<b>Grants (in cash)</b>	<b>-</b>	<b>-</b>	<b>-</b>
From abroad	41,809,562	42,954,331	47,877,811
From other levels of national government	2	16,250	5,500
<b>Total Grants (in Cash)</b>	<b>41,809,564</b>	<b>42,970,581</b>	<b>47,883,311</b>

### 3.1 Current Revenues

The total current revenue for 2009/10 is estimated at \$170.9 million pa'anga which makes up 78% of the estimated revenue available to Government. This \$170.9 million is 9.9% higher than the 2008/09 estimated outturn. Most of the tax components of the current revenues are projected to increase in the 2009/10 budget compared to the 2008/09 estimated outturn with the exception of income tax and profit which is projected to decrease by 24.5%. This is due to the reduction of the corporate tax rate.

Tax revenue is estimated at \$150.2 million which is 15.2% higher than the 2008/09 estimated outturn. The increase in tax revenue is attributed to a 33.5% increase in domestic taxes on goods and services and 36.0% from taxes on international trade.

Despite the significant increase in the collections of income tax and profit in the 2008/09 financial year, the forecast for 2009/10 is much lower at \$32.0 million. This is attributed to the effects of the new income tax policy which reduce corporate income tax from 35% to 25%.

Domestic taxes continued to contribute significantly to tax revenues with an estimated \$94.2 million in 2009/10 compared to the \$70.5 million in the 2008/09 estimated outturn. The large increase is attributed to a forecasted pickup in consumption tax collections compared to its level in the current financial year. Other domestic taxes including excise tax are forecasted to increase by 37.5% to \$33.1 million in 2009/10.

Due to the continuing improvement of the Customs and Revenue Services with the implementation of the Customs Management Systems and Revenue Management Systems, it is anticipated that increased compliance will contribute positively to collections from international and domestic taxes.

The non-tax revenue is projected at \$20.7 million which is lower by 17.4% compared to the outturn in 2008/09. This is because of reduced income from dividends.

### 3.2 Capital Revenues

The Government is estimated to collect \$1.3 million in 2009/10 from the sales of government quarters.

### 3.3 Grants

Total cash grants to be received in 2009/10 is estimated at a total of \$47.9 million, which represents an increase of 11.4% from the estimated outturn of \$43.0 million in 2008/09. The major donors expected to contribute cash grants and the major projects for each major donor in 2009/10 is presented in the table below:

Donor	Estimated Grant 2009/10 (million)	Major project activities
Asia Development Bank	15.1	Program Grant, Integrated Urban Development Sector Project
Australia	12	Health, Infrastructure, Governance and jointly funded activities with NZ in Vocational Training, Tonga Police Development Program and the Constitution and Electoral Reform
New Zealand	7.4	Tonga Education Support Program, Tourism Development Project, Infrastructure and jointly funded activities with Australia in Vocational Training, Tonga Police Development Program and the Constitution and Electoral Reform
European Union	6.2	STABEX agricultural project

These figures represent only those projects expected to be implemented through cash grants received and spent through Government of Tonga financial systems. There is also a significant in-kind contribution estimated to be received of \$63.4 million from donors including China, Australia, New Zealand, Japan, Asia Development Bank, World Bank and the European Union.

## 4.0 TAX EXPENDITURE

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

The total tax expenditure for the financial year 2008/09 is projected to be \$9.8 million pa'anga. This represents an increase of 14.0% from the \$8.6 million pa'anga recorded in 2007/08. This increase in the total tax concession from 2007/08 to 2008/09 is mainly attributable to the increased cost of subsidizing fuel during the international increase in oil prices (an extra \$0.7 million pa'anga) and increased expenditure on development projects (\$0.8 million pa'anga). This was offset by a decline of \$0.6 million pa'anga due to the abolition of Industrial Development Incentives.

The total tax expenditure provided in the first ten months of 2008/09 was \$7.3 million pa'anga.

**Table 3: Total Tax Expenditure By Type**

<b>Tax Expenditure by type (\$)</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09**</b>	<b>2008/09 projection</b>
<b>Existing IDI</b>	5,663,972	927,371	310,205	600,281	11,307	13,569
<b>Gov't Ministries</b>	1,719,128	n.a	81,189	127,800	199,305	239,166
<b>Gov't Projects</b>	1,344,305	1,589,575	667,617	564,915	501,955	602,346
<b>Dev Projects</b>	1,777,925	650,073	676,683	766,725	529,617	1,635,540
<b>Fuel</b>	6,736,572	7,021,044	8,209,088	6,555,799	6,088,570	7,306,284
<b>Total tax Concessions</b>	<b>17,241,902</b>	<b>10,188,063</b>	<b>9,944,781</b>	<b>8,615,520</b>	<b>7,330,755</b>	<b>9,796,905</b>

Note: n.a. is not available, \*\* ten months period ended April 2009.

Source: Custom Department.

#### **4.1 Industrial Development Incentives (IDI)**

The new Custom Act on 1<sup>st</sup> February 2008 repealed the IDI Act. Under the new Custom Act, 800 items of capital goods became duty free as part of the government's effort to support private sector development. Tax expenditure under the old IDI Act amounted to \$0.6 million pa'anga in 2007/08.

#### **4.2 Fuel Concession**

The Government has continued to provide a fuel concession for the commercial fishing industry, the generation of electricity and commercial transportation sector, specifically for air and sea transportation.

The total value of the fuel concession for the first ten months of 2008/09 was \$6.1 million pa'anga with a full year projected cost of \$7.3 million pa'anga.

#### **4.3 National Development Projects**

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

The Government provided total tax concessions of \$1.0 million pa'anga (\$0.5 million pa'anga for Government projects and \$0.5 million pa'anga for Development projects) during the first ten months of 2008/09. This is expected to reach over \$2.0 million pa'anga by the end of the current financial year due to variances in projects estimation from the original budget. These projects included rural water projects, Japanese grassroots projects, Tonga Education Support Program (TESP), ADB Integrated Urban Development Projects, European Union projects and various projects for the Niuaus.



## 5.0 REVENUE REFORM

The implementation of the new Income Tax Act 2007, Customs and Excise Management Act 2007, Customs Act 2007 and the Excise Tax Act on 1<sup>st</sup> February 2008 marked a move towards self assessment of tax returns and administrative efficiency with measures to encourage compliance.

Tonga's international trade obligations by being a member of World Trade Organisation and the global trading community were a driving factor in the revenue reform. Tonga is now a member of PICTA and is currently preparing the foundation for the negotiations under PACER Plus with Australia and New Zealand. Trade negotiation with EU under the Economic Partnership Agreement is ongoing.

### 5.1 Online Filing and Payment of Tax

Filing and payment of tax via the internet is currently on hold. This development is heavily dependent on the automated electronic transaction of the banking. However, this initiative may take another year to be realized. Discussions are continuing between the National Reserve Bank, the Revenue Services Department on the possibility of extending internet banking to tax payment.

This facility would improve the security of taxpayer's payments, and reduce the need for Revenue Services staff to be involved in transactions allowing them to focus on more valuable tasks like auditing.

### 5.2 Import Duty

As mentioned above, it is a year since the implementation of the new Custom Laws and Regulation, the objective of reducing revenue dependence on import duty is being achieved but there are ongoing improvements still being made.

## 6.0 EXPENDITURE AND NET LENDING FOR 2009/10

The aggregate level of expenditure and net lending for 2009/10 is budgeted at \$202.7 million pa'anga which is an increase of 13.8% from the \$178.2 million pa'anga for 2008/09 estimated outturn. The increase is associated with an additional 18.2% for current expenditure, outweighing declines in the estimated level in the outturn for 2008/09 for capital expenditure and net lending of 1.9% and 2.5% respectively.

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

### 6.1 Current Expenditure

The Government's overall current expenditure for 2009/10 is estimated at \$191.6 million pa'anga, which is a reduction of 6.2% compared to the 2008/09 original estimate of \$204.6 million. The major contribution factor to the reduction includes purchasing of goods and services and wages and salaries.

**Table 4: Estimated Expenditures & Net Lending for 2009/10 Budget (\$)**

	Original Estimate 2008/09	Estimated Out- turn 2008/09	Original Estimate 2009/10
<b>Expenditure and lending minus repayments</b>	<b>215,883,676</b>	<b>178,152,015</b>	<b>202,732,021</b>
Expenditure	216,414,887	174,380,126	203,361,282
<b>Current expenditure</b>	<b>204,174,129</b>	<b>159,207,620</b>	<b>191,609,857</b>
Wages and salaries	78,385,912	68,771,471	77,364,627
Employer contributions	7,647,940	5,096,472	10,289,157
Other purchases of goods and services	91,457,554	63,888,396	78,429,707
Interest payments	5,207,028	5,207,027	5,716,080
Additional expenditures	-	-	-
Subsidies and other current transfers	21,475,696	16,244,254	19,810,286
Subsidies to non-financial public enterprises	1,000	3,181	76,000
Subsidies to financial institutions	2,800,003	-	100,000
Subsidies to other enterprises	3,825,002	1,474,465	3,207,143
Transfers to non-profit institutions	8,339,893	7,642,535	9,100,162
Transfers to households	5,362,434	5,933,166	6,463,619
Transfers abroad	1,147,364	1,190,907	863,362
<b>Capital expenditure</b>	<b>12,240,758</b>	<b>15,172,507</b>	<b>11,751,425</b>
Acquisition of fixed capital assets	11,412,778	14,808,677	11,261,752
Purchases of land and intangible assets	146,747	51,347	41,606
Capital transfers	681,233	312,483	448,067
<b>Lending minus repayments</b>	<b>(531,211)</b>	<b>3,771,889</b>	<b>(629,261)</b>
To non-financial public enterprises (net)	(61,877)	4,330,453	(159,927)
To financial institutions (net)	(469,335)	(558,564)	(469,334)
Abroad	1	-	-

The reduction in purchasing of goods and services was by 14.3% from the 2008/09 original estimate of \$91.5 million to \$78.4 million in 2009/10. This is due to one off expenditure like the Coronation, the transfer of maintenance of road program from local funding to donor funding and the reduction of government tax expenditure.

The second major reason for the reduction in current expenditure is wages and salaries by 1.3% from the 2008/09 estimate of \$78.4 compared to \$77.4 million in 2009/10. The proposed 10% salary increase for civil servants is already included in this figure.

As a corollary to the salary increase for the civil service, the leave arrangements of the civil service have been reviewed and restructured to enhance productivity. At the same time the employer's contribution to the retirement fund will increase from 7.5% to 10% in 2009/10.

## **6.2 Capital Expenditure**

The total capital expenditure for the 2009/10 budget is estimated at \$11.8 million pa'anga, 22.5% lower than the estimated outturn of \$15.2 million pa'anga for 2008/09. This \$3.4 million pa'anga decrease is caused by a reduction in the acquisition of fixed capital asset by \$3.5 million.

A large proportion of the expenditures will be funded through grants from development partners.

## 7.0 ESTIMATED OUTTURN 2008/09

The overall fiscal position (on a GFS basis) is an estimated surplus of \$20.3 million pa'anga, from this surplus, \$7.2 million was spent on debt repayment and the balance has been allocated to the \$15 million to start off the National Disaster Emergency Fund

The significant increase in total revenue and grants is primarily due to the generous grant from the Peoples Republic of China of \$23.6 million pa'anga.

The total expenditure and net lending for 2008/09 is estimated at \$178.2 million pa'anga a 17.5% decline from the original budgeted estimate for 2008/09. This decline of \$37.6 million pa'anga is largely explained by the delayed implementation of projects.

However, significant expenditures incurred in 2008/09 included the purchase of the electricity business from the Shoreline Group, the constructions of two new prisons building, the Coronation and road maintenance.

## 8.0 FINANCING TRANSACTIONS FOR 2009/10

Net financing transactions measure the manner in which the overall fiscal budget deficit is financed, or a budget surplus is utilized. Table 5 outlines the financing transactions of the 2009/10 budget and the original estimate and outturn for 2008/09 respectively.

As highlighted earlier in Table 1, the overall fiscal balance for 2009/10 is a surplus of \$17.4 million pa'anga. This surplus will be utilized to finance the \$12.3 million external loan repayment. As for domestic financing, the Government intends to roll over \$7.0 million pa'anga of matured bonds. This net change of surplus of \$5.1 million from donor funding will be considered for allocation towards the fiscal stimulus package.

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

	Original Estimate 2008/09	Estimated Out-turn 2008/09	Original Estimate 2009/10
<b>Total Financing</b>	(7,063,369)	(20,347,728)	(17,368,599)
<b>External financing</b>	(7,033,913)	(6,183,912)	(12,295,839)
Disbursements	-	-	-
Repayments	7,033,913	6,183,912	12,295,839
<b>Domestic Financing</b>	(29,456)	(14,163,816)	(5,072,760)
Bonds Issued / Domestic Loan	7,000,001	6,000,000	7,000,000
Principal Repayment of Matured Bonds/Loan	7,000,001	7,000,000	7,000,000
Net Changes in Government Cash Balances and Investment	(29,456)	(13,163,816)	(5,072,760)

## 9.0 PUBLIC DEBT

At the end of April 2009, total public debt amounted to \$208.0 million. This comprised external debt of \$185.6 million pa'anga and domestic debt of \$22.5 million pa'anga.

The total external government debt is projected to be \$221.3 million pa'anga by the end of the 2008/09 financial year. This includes disbursements for Health project (IDA) and Nuku'alofa Reconstruction project (EXIM). Total external debt in 2007/08 was \$157.9 million pa'anga.

Total external disbursements for 2008/09 are projected to be \$57.4 million pa'anga. Funds that had been disbursed by the end of April 2009 were \$20.7 million pa'anga. This comprised \$19.4 million pa'anga for the Nuku'alofa Reconstruction project and \$1.3 million pa'anga for the Health project.

External debt service payments for 2008/09 are estimated at \$9.8 million pa'anga, comprising principal repayment of \$6.2 million pa'anga and interest repayment of \$3.3 million pa'anga.

The total domestic government debt outstanding is projected to be \$22.5 million pa'anga in 2008/09. Government bonds maturing in June 2009 of \$1.0 million pa'anga are expected to be rolled over. The total domestic government debt for 2007/08 was \$24.4 million pa'anga.

The total domestic debt service for 2008/09 is estimated at \$8.6 million pa'anga, with principal repayment of \$7.0 million pa'anga and interest repayment of \$1.8 million pa'anga.

The total Government guaranteed loans are estimated at \$9.5 million pa'anga in 2008/09. The total loans guaranteed by Government for 2007/08 were \$10.6 million pa'anga.

The total loans on lent by Government to public enterprises are estimated at \$23.7 million pa'anga in 2008/09. The total loans on lent by government to public enterprises for 2007/08 was \$26.4 million pa'anga.

Details of the government debt are attached as Annexure, reporting of statements of loans to local Statutory Boards and other organisations, external debt, domestic debt, and guaranteed loans as made by the Government (as at 30<sup>th</sup> April 2009).

During 2008/09 the following loans were entered into by the Government pursuant to Section 25 of the Public Finance Management Act.

**Table 6: Government Loans During Financial Year 2008/09**

Lender	Date	Purpose	Interest rate	Term	Amount (ToP \$m)
Public bond issue	1/9/2008	Roll-over maturing bonds	7.25% p.a.	3 years	\$1.0
Public bond issue	14/4/2009	Roll-over maturing bonds	6.65% p.a.	5 years	\$5.0
Public bond issue	30/6/2009	Roll-over maturing bonds	To be confirmed	To be confirmed	\$1.0

The Government continues to closely monitor its cash flow position and control its revenue and expenditure sources, particularly during this challenging time of global economic uncertainty. It is crucial that Government ensures the debt levels over the medium to long term, are maintained at a sustainable level. With the full drawdown of the Reconstruction project loan from China, the debt levels could pose a challenge due to the fluctuation on the exchange rate between the Pa'anga and the Chinese Yuan and other major borrowing currencies.

To ensure that Tonga's public debt remains at sustainable levels and supports the Government's wider macroeconomic policy goals, a Sustainable Debt Policy is now in place. This Policy outlines objectives, criteria and targets for Government debt levels over the medium to long term.

At the end of April 2009, External debt to GDP is estimated at 30.56% and Domestic debt to GDP at 3.70%. The External debt is highly concessional at an average rate of interest of 1.0% per annum with an average maturity period of 36 years. The domestic debt level has been maintained over the last few years with the roll-over of maturing bonds.

### **9.1 Business Recovery Facility**

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

### **9.2 Private Sector Reconstruction Facility (PSRF)**

The PSRF was designed to pool donor funds to enable the Banks to lend on more favorable terms. This loan facility was provided by AusAID and NZAID to assist businesses affected by the 16 November 2006 riot. Its main purpose is for the building, rebuilding or reconstruction of a commercial building on an existing site where buildings were physically damaged.

An IMC (Independent Monitoring Company) was appointed by AusAID to oversee the PSRF. Eligible Businesses may apply for this facility through the banks with the approval provided by the IMC.

## **10.0 GOVERNMENT FINANCIAL STATISTIC**

The GFS presentation records separately 'below the line' those receipts and payments transactions, such as those associated with raising or repaying loans, that are primarily associated with the actions necessary to finance a shortfall in Government revenues. It also records inflows to Government associated with the repayment of loans as net lending rather than revenue. The estimates of receipts and payments in the appropriation bill are predicated on the cash basis of accounting<sup>2</sup>. This GFS presentation is to ensure that money is legally spent on the purpose for which it was provided and allows international comparisons independently of Tongan administrative structures.

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<sup>2</sup>that is funding flow into and out of the Kingdom's bank accounts, excluding loan disbursement to contractors and not through the government.

Tables 7 and 8 present reconciliation between the cash inflow estimates as detailed in the “*Program Budget Estimates 2009/10*” document and the estimates of revenues (inflows) and expenditures (outflows), classified on a GFS basis, as discussed in the preceding sections of this paper.

**Table 7: Reconciliation between cash inflows to the Government of Tonga fund and revenues as per the budget statements**

<b>Inflows to the Government of Tonga Fund</b>		<b>182,596,569</b>
<i>Plus</i> Inflows to other Funds		
Local Community	5,500	
Donor Cash Aid	47,877,812	47,883,312
<b>Total Inflows (as per Program Estimates)</b>		<b>230,479,881</b>
<i>Less</i> Inflows classified as offsets to expenditure		
Repayments of net lending		3,379,261
<i>Less</i> Inflows classified as financing transactions		
External Financing	0	
Domestic Financing	7,000,000	7,000,000
<b>Total Revenues (as per GFS Presentation)</b>		<b>220,100,620</b>

**Table 8: Reconciliation between appropriations of the Government of Tonga fund and expenditure as per the budget statements**

<b>Outflows from the Government of Tonga Fund</b>		<b>187,523,809</b>
<i>Plus</i> Outflows from other funds		
Local Community	5,500	
Donor Cash Aid	37,877,812	37,883,312
<b>Total Outflows (as per Program Estimates)</b>		<b>225,407,121</b>
<i>Less</i> Outflows classified as offsets to expenditure		
Repayments of net lending		3,379,261
<i>Less</i> Outflows classified as financing transactions		
External Financing	12,295,839	
Domestic Financing	7,000,000	19,295,839
<b>Total Expenditures (as per GFS Presentation)</b>		<b>202,732,021</b>

Table 9 provides a breakdown of funds from all sources estimated to be collected by the various Ministries and Departments during the 2009/10 financial year.

**Table 9: Revenue Allocation by Ministry**

Code	Ministry	2008/09	%	2009/10	%
02	Legislative Assembly	46,809	0.0%	30,000	0.0%
03	Prime Minister's Office	6,465,711	2.8%	2,310,009	1.0%
04	Commissioner of Public Relations	35,230	0.0%	1,135,714	0.5%
05	Audit Office	21,000	0.0%	40,000	0.0%
06	Ministry of Finance & National Planning	67,115,140	29.1%	26,037,143	11.3%
07	Ministry of Foreign Affairs	2,086,163	0.9%	2,595,000	1.1%
08	Tonga Defense Services	548,820	0.2%	1,000,000	0.4%
09	Ministry of Lands, Survey, Natural Resources and Environment	1,176,748	0.5%	1,092,000	0.5%
10	Ministry of Justice	458,036	0.2%	573,000	0.2%
11	Ministry of Police, Prisons & Fire Services	1,352,467	0.6%	5,999,652	2.6%
12	Ministry of Education, Women's Affairs & Culture	7,927,499	3.4%	7,271,162	3.2%
13	Ministry of Health	1,460,767	0.6%	3,955,000	1.7%
14	Ministry of Agriculture, Food, Forests & Fisheries	2,489,626	1.1%	7,922,450	3.4%
15	Ministry of Labour, Commerce and Industries	960,010	0.4%	1,034,650	0.4%
16	Ministry of Tourism	60,935	0.0%	280,000	0.1%
17	Ministry of Works	1,985,511	0.9%	8,965,000	3.9%
18	Ministry of Transport	2,106,983	0.9%	4,946,240	2.1%
19	Ministry of Tourism	359,454	0.2%	3,066,000	1.3%
20	Crown Law Department	9,998	0.0%	-	0.0%
21	Ministry of Public Enterprise	6,820,000	3.0%	5,520,560	2.4%
22	Revenue Services Department	127,071,670	55.1%	141,786,300	61.5%
23	Ministry of Communication and Information	-	0.0%	4,920,000	2.1%
	<b>Grand Total</b>	<b>230,558,577</b>	<b>100.0%</b>	<b>230,479,880</b>	<b>100.0%</b>

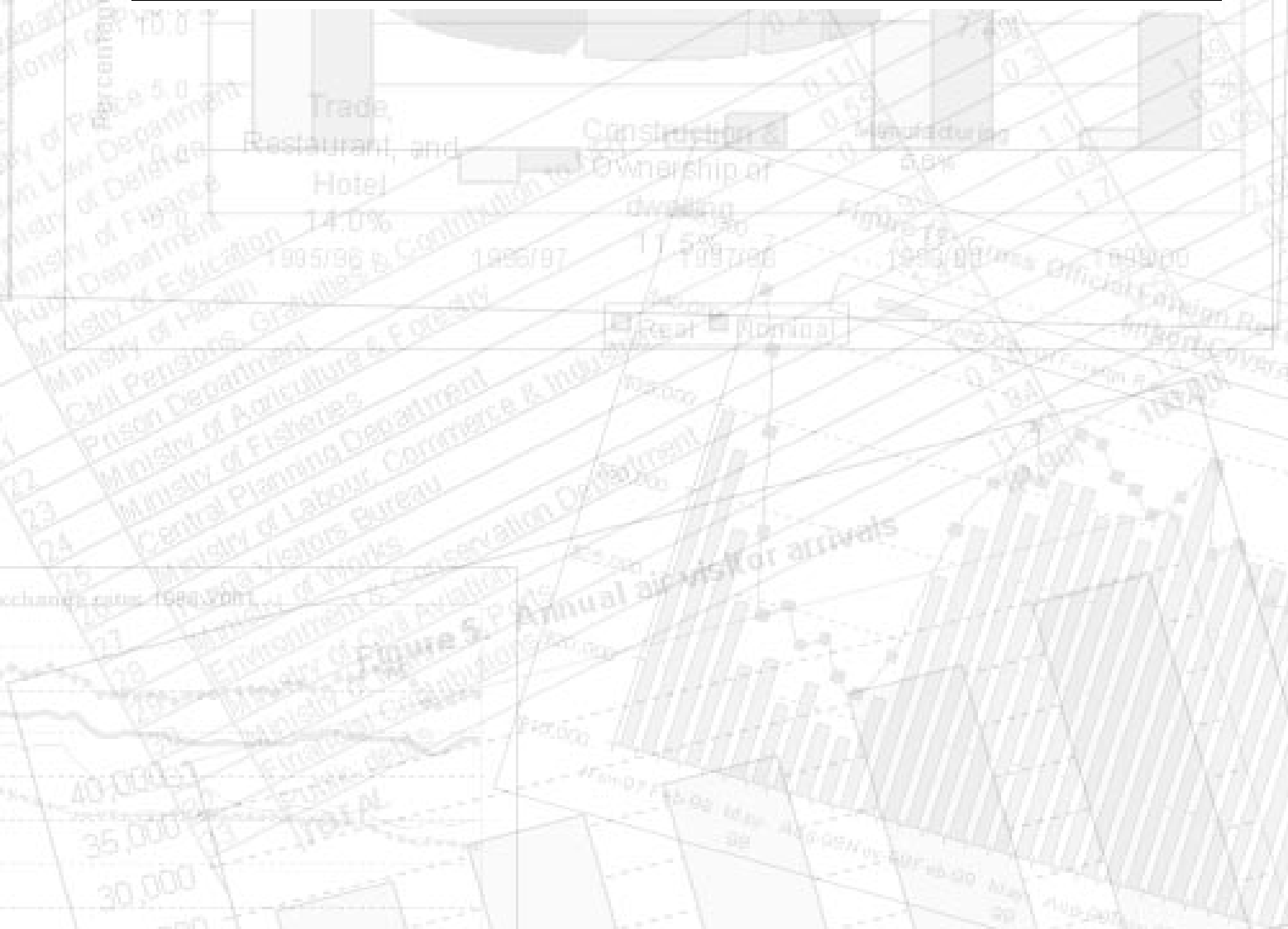
Table 10 provides a breakdown of funds appropriated from all sources and for all purposes expected to be available to the various Ministries and Departments in 2009/10 compared to the 2008/09 Budget Estimate.

**Table 10: Expenditure Allocations by Ministry**

Code	Ministry	2008/09	%	2009/10	%
01	Palace Office	5,066,885	2.3%	5,255,000	2.3%
02	Legislative Assembly	4,268,200	2.0%	4,116,000	1.8%
03	Prime Minister's Office	10,355,711	4.8%	10,229,330	4.5%
04	Commissioner of Public Relations	170,176	0.1%	1,513,714	0.7%
05	Audit Office	875,854	0.4%	1,020,000	0.5%
06	Ministry of Finance & National Planning	75,201,982	34.5%	61,617,259	27.3%
07	Ministry of Foreign Affairs	10,588,057	4.9%	9,715,000	4.3%
08	Tonga Defense Services	10,401,820	4.8%	9,353,000	4.1%
09	Ministry of Lands, Survey, Natural Resources and Environment	2,982,813	1.4%	2,500,000	1.1%
10	Ministry of Justice	1,861,431	0.9%	2,109,000	0.9%
11	Ministry of Police, Prisons & Fire Services	11,820,982	5.4%	16,548,652	7.3%
12	Ministry of Education, Women's Affairs & Culture	29,721,457	13.6%	31,385,162	13.9%
13	Ministry of Health	20,286,327	9.3%	26,049,000	11.6%
14	Ministry of Agriculture, Food, Forests & Fisheries	6,414,041	2.9%	11,827,451	5.2%
15	Ministry of Labour, Commerce and Industries	2,652,911	1.2%	2,634,650	1.2%
16	Ministry of Tourism	1,926,859	0.9%	2,174,000	1.0%
17	Ministry of Works	8,707,726	4.0%	11,102,000	4.9%
18	Ministry of Transport	3,595,673	1.7%	3,437,420	1.5%
19	Ministry of Tourism	2,765,103	1.3%	5,311,000	2.4%
20	Crown Law Department	1,635,506	0.8%	1,380,000	0.6%
21	Ministry of Public Enterprise	587,477	0.3%	622,558	0.3%
22	Revenue Services Department	5,809,312	2.7%	4,712,300	2.1%
23	Ministry of Communication and Information	198,458	0.1%	794,625	0.4%
<b>Grand Total</b>		<b>217,894,761</b>	<b>100.0%</b>	<b>225,407,121</b>	<b>100.0%</b>

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

Budget Statement for Year Ending 30<sup>th</sup> June 2010  
**Budget Paper No 3:**  
*Regional and Rural Development*





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## 1.0 REGIONAL AND RURAL DEVELOPMENT POLICIES

The Government continues to commit to Regional and Rural Development in Tonga in support of the National Vision of the Strategic Development Plan Eight (SDP8): 2006/07-2008/09, i.e., “To create a society in which all Tongans enjoy higher living standards and a better quality of life..”. This vision is carried forward in the draft National Strategic Planning Framework (The Framework) for the next 5 to 10 years.

In support of the national vision, the Government, through the Framework, will focus on achieving a number of key outcomes including facilitating community development by involving district /village communities in meeting their service needs. This is based on the goal that all regions enjoy the same economic and social opportunities, and with regional development itself contributing to national prosperity. There may be a need for targeted regional interventions to promote more balanced growth and social inclusion. Encouraging economic dynamism throughout Tonga should improve both the size of the national economy and the relative distribution of regional shares in wealth and employment creation.

The Framework sees a fundamental change in the governance structures for outer islands. Government will move to set up and support village districts and councils with the objective to give communities a greater say in local and regional development.

In support of The Framework, various Strategic Development Plans are in place, some of which are in the process to commence, to guide the development efforts for the outer regions.

There are also Regional Development Committees which have been established to oversee the development of each respective island group. These include the Ha’apai Development Committee, Vava’u Development Committee, ‘Eua Development Committee, and the Niua Development Committee.

## 2.0 REGIONAL AND RURAL DEVELOPMENT PROGRAMS

Regional and Rural Development Programs are mainly provided in the forms of aid assistance by Tonga’s main development partners. This is either through specific community development assistance schemes or as a part of donors’ main bilateral aid programs. The Government, through its budget, also provides assistance from local funding to regional and rural development. Donor and local funded programs of assistance include:-

(i) *The Tonga Community Development Scheme (TCDS) - Funded by AusAID.*

The TCDS comprises of the Australian Community Assistance Scheme (ACAS) and the Ha’apai Development Fund (HDF) which were established to address particularly the needs of the most vulnerable groups in communities. The goals of the program are to promote community standards of living and alleviate poverty. Tonga has been receiving between \$1.7 million to \$2.2 million from the TCDS for each of the FY 2006/07 – 2008/09.

(ii) *The Vulnerability Adaptation Initiatives (VAI) - Funded by AusAID*

The VAI is administered in parallel to the TCDS. Funds provided under VAI are directed at addressing projects in relation to climate change issues and significant impacts from global warming and rising sea levels.

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

The GGP focuses on providing assistance to the grassroots level in areas of primary health care, primary education, poverty relief, public welfare, and environment. Over a million Pa'anga worth of projects have been implemented in each FY from 2006/07 to 2008/09 under the GGP.

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

The CDF is aimed at assisting projects that will benefit the community at large. For the current FY 2008/09, close to \$300,000 worth of assistance is being provided under the CDF.

(v) *Projects in Donors' Main Bilateral Aid Programs*

Assistance is also provided to the outer regions through main bilateral aid programs such as the European Union (EU) program of assistance to the social sector in Vava'u. A total of \$9.2 million was provided by EU to the education and health sectors in Vava'u. Similarly, the NZAID bilateral program provides assistance towards education by upgrading the Niuatoputapu High School at a cost of \$3.2 million.

(vi) *Government Budget*

Government commits to regional and rural development by allocating a total of \$3 million for community development in FY2009/10. This consists of \$2 million for general community development and \$1 million specifically for development purposes for the Niua group.

**Table 1: TCDS and GGP Allocations: 2006/07-2008/09**

Donor/financial year	Total Grant Allocations		
	2006/07	2007/08	2008/09
TCDS	1,717,439.00	2,236,610.22	1,726,856.66
GGP	1,397,038.00	1,883,862.75	1,538,023.91
<b>TOTAL</b>	<b>\$3,114,477.00</b>	<b>\$4,120,472.97</b>	<b>\$3,264,880.57</b>

Table 1 indicates the total grant allocation from TCDS and GGP for 2006/07 to 2008/09. An increase of 32 percent in the total grant allocation from financial year 2006/07 to 2007/08 was due to an increase in the number of water projects, income generation, and education projects that were implemented. However, there was a 20 percent fall in 2008/09 because Japan (GGP) is yet to approve the projects for the second half of 2008/09. A relative decline in the TCDS for 2008/09 was due to a redesign exercise that was undertaken for the Ha'apai group which is being processed. Consequently, no projects were approved for Ha'apai during this period.

### 3.0 TONGATAPU

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

**Table 2: Grant Allocation to Tongatapu by Project Type: 2006/07-2008/09**

Project Types	Grant Allocation		
	2006/07	2007/08	2008/09
Town System/Individual tank/Sanitation Water Water	1,640,754.00	818,697.00	1,490,070.31
Income Generation	479,816.00	265,746.00	707,147.37
Infrastructure	107,919.00	178,063.00	70,000.00
Education		378,359.00	81,405.00
Training	68,526.00	152,669.75	
Fire Station	329,984.00		
Vocational Training			55,908.44
<b>TOTAL</b>	<b>\$2,626,999.00</b>	<b>\$1,793,534.75</b>	<b>\$2,404,531.12</b>

New Zealand, through its Community Development Fund (CDF) for 2008/09, has provided a total of \$293,230 for community development projects which mainly focused on training programs that are relevant for the community at large. These training programs will be conducted in Tongatapu and the outer islands. Details of the NZAID CDF is provided in Table 3.

**Table 3: NZAID Projects for Community Development Fund: 2008/2009**

Names	Project	Location	Amount
Aloua Ma'a Tonga	Recycling cages for schools and communities	Tongatapu	\$45,000.00
Tonga Cancer Society	Community Awareness and Education on Cervical Cancer for all the island groups of Tonga	Vaiola Hospital/TBU	\$45,000.00
Tonga Red Cross	Support for Training and Operation of Disabled Centre	Tongatapu	\$50,000.00
Tonga Pre-school	Training and Support for Early Childhood Education for Preschools in all island groups of Tonga	Tongatapu	\$50,000.00
Salvation Army	Training and Operational support for Alcohol and Drug Awareness Centre	Tongatapu	\$49,832.00
Tonga National Volunteers	Recruit & Training of Tonga National Volunteers for 2009 from all island groups of Tonga	Tongatapu	\$53,398.20
<b>TOTAL</b>			<b>\$293,230.20</b>

## 4.0 HA'APAI

The economy of Ha'apai depends largely on women's weaving and fishing of local men. There are a few opportunities currently available which the locals can obtain cash from. Given the smallness of Ha'apai's economy, development is very slow exacerbated by a growing number of young people who are finding it difficult to attain employment.

The Government of Australia has been the major donor contributing to the development of the Ha'apai group over the years, providing assistance at both infrastructure and community levels such as the Ha'apai Market, Electrification projects, and the development of the wharf and jetties.

The Ha'apai Group has potential as a tourist attraction with its untouched natural beauty, its fantastic beaches, and its marine organisms which contribute to its uniqueness. However, due to global climate change and the rising sea level phenomenon, the low-lying nature of the island group is exposed to nature's perils with the island of Lifuka experiencing erosion of its waterfront; the causeway to Foa is at the mercy of the tides and waves; the high saline level of its water sources are only but some of the challenges that are threatening the livelihoods of its people.

Government has approved to fund the Foa causeway with approximately \$5 million that is in the Public Debt vote of the Ministry of Finance. These funds have been identified as a result of an agreement by the Government of Germany to cancel the remaining loan repayments for the Olovaha and the Fuakavenga. The work on the causeway will commence once Germany clears this recommendation from Government.

The Ha'apai Development Committee has initiated a process to put in place a Master Development Plan which will analyse the problems encountered by the people of the region, identify risks and opportunities, and provide a clear pathway for the development of Ha'apai. The TOR for preparing the Plan has been forwarded to AusAID for funding consideration.

**Table 4: Grant Allocation to Ha'apai by Project Type: 2006-07 - 2008/09**

Project Types	Grant Allocations		
	2006/07	2007/08	2008/09
Town Water System/Individual Water tank/Sanitation	238,802.00	330,550.00	459,275.50
Health	162,000.00	151,810.00	
Income Generating	86,657.00	187,993.22	
Education		344,501.00	
Vocational Trainings	44,576.00		
Environment	7,024.00		
<b>TOTAL</b>	<b>\$539,059.00</b>	<b>\$1,014,854.22</b>	<b>\$459,275.50</b>

Table 4 illustrates the grant allocation by project type to the Ha'apai group for the period 2006/07 to 2008/09. This indicates a significant increase of approximately 80 percent in grant allocations from 2006/07 to 2007/08 financial year. This occurred due to the introduction of poly tanks in the islands where AusAid funded a total of 53 tanks at Lifuka and 'Uiha. Income generation projects also increased which included 4 fishing boats and pandanus projects in

Mango, Fotuha'a, Tungua and 'Uiha to name but a few. Japan's continuous support in the construction of primary schools also contributed to the overall increase in grant allocation in 2007/08. For the same period, Education projects received 34 percent of the total grant allocation and 32 percent to Upgrading of Water Supply systems.

As noted in Section 2, AusAID did not have an allocation for Ha'apai in the 2008/09FY as there was a redesign exercise that was conducted for AusAID's assistance to the islands. It is anticipated that assistance to the Ha'apai group will commence soon based on the new redesign framework.

## 5.0 VAVA'U

The Vava'u Development Committee has been in the forefront in leading the development efforts to the Island Group of Vava'u.

The main assistance to the Vava'u group has been provided through the European Union (EU) with the most recent assistance through the Vava'u Social Sector Programme. This program was funded from the 9<sup>th</sup> European Development Fund (EDF) and was focused on Health and the Education Sector with a total investment of \$9.2 million. The program commenced implementation in 2004 and was officially completed at the end of June 2008. The summary of the entire investments are illustrated in Table 5.

**Table 5: Vava'u Social Sector Support Programme: 2004 - 2008**

Programme Component and Activities	Outputs	Committed Budget (TOP)
<b>Education Component</b>	Upgrading of Vava'u High School, Building of New Vava'u Side School, Upgrading several Primary Schools in Vava'u include Staff Quarters and Classroom Furniture, vehicles, boat etc.	3,654,000
<b>Health Component</b>	Upgrading of Prince Ngu Hospital, 4 Rural Health Clinics, building of new staff quarters, renovation of staff quarters, procurement of medical equipment, vehicles, etc.	3,654,000
<b>Non State Actors</b>	Assisting of all missionary schools in Vava'u by building new staff quarters, providing school equipment, renovating classrooms and toilets, providing school furniture, establishing new Health Clinic and etc.	1,200,000
<b>Programme Management</b>	Managing and assuring the highest standards of coordinating the implementation of the Vava'u Social Sector Support programme	700,000
<b>TOTAL</b>		<b>9,208,000</b>

The assistance from the European Commission is now considered Nationwide instead of focusing on Vava'u only. However, the Vava'u region will be considered in the next EC programme funded from the 10<sup>th</sup> EDF of which the focal area for Tonga is 'Renewable Energy Sector'.

**Table 6: Grant Allocation to Vava’u by Project Type: 2006/07 to 2008/09**

Project Types	Grant Allocations		
	2006/07	2007/08	2008/09
Town Water System/Individual Water tank/Sanitation	278,403.00	928,100.00	241,073.95
Infrastructure		54,000.00	
<b>TOTAL</b>	<b>\$278,403.00</b>	<b>\$982,100.00</b>	<b>\$241,073.95</b>

Table 6 illustrates other grant allocations to the Vava’u group from 2006/07 to 2008/09. The decline of 75 percent in 2008/09 was mainly due to the reason that AusAid did not fund any projects in the outer islands during this period, i.e., the 2008/09 assistance was all provided by Japan’s GGP.

## 6.0 ‘EUA

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

To support the vision for ‘Eua, eight development goals have been identified under the following key areas: Agriculture, Forestry and Fisheries; Tourism; Environment; Connections; Community Development; and Private Sector. This is supported by strategies and actions necessary to implement the Development Plan in a form of an Action Matrix.

The ‘Eua Development Committee is responsible for overseeing the development of the island and will endeavour to work together with all relevant parties to achieve the development goals for ‘Eua.

New Zealand has been the main donor for ‘Eua over the years with their main recent assistance to the ‘Eua Water Supply which was approximately \$3 million. New Zealand has also agreed to upgrade the Kaufana airport.

Japan, through the GGP for 2007/08, has assisted in the upgrading of the ‘Eua High School and a new proposal for a children’s ward at the Niu’eiki hospital is in the pipeline for the next GGP cycle.

## 7.0 NIUA

The main project currently implemented in the Niua is the completion of the Niuatoputapu High School funded by New Zealand from its 2008/09 Main Bilateral Aid Program at a cost of \$3.2 million. The completion project started in July 2008 and Oregon Pacific is contracted to carry out the construction works, with an estimated completion date of December 2009. This work includes refurbishment of existing main school buildings, new classrooms, a new school hall, an industrial arts classroom, 2 houses, water and electricity supply, and levelling of playing field.

A Niuafo'ou Solar Electrification project was also completed in late 2008.

Government is allocating \$1 million from its 2009/10 local budget for development purposes for the Niuas to be implemented by technical staff of the Tonga Defence Services.

The Niua Development Committee (NDC) is responsible for overseeing the development of the Niuas.

## 8.0 REGIONAL AND RURAL DEVELOPMENT TO BE IMPLEMENTED IN 2009/10

As mentioned earlier, Government is allocating \$3 million in the 2009/10 budget for regional and rural community development comprising of \$2 million for general community development and \$1 million for the development of the Niua group.

Table 8 below indicates the GGP projects that are currently considered by Japan to be implemented in 2009/10 and Table 7 outlines the TCDS projects that have been approved to be implemented during the same period. The total fund of approximately \$1.7 million for TCDS is expected to be released by Australia towards the end of the current FY2008/09 as indicated in Tables 1 and 7.

**Table 7: TCDS Projects to be implemented in 2009/10**

Project Types	Project Locations	Grant
Plastic Water Tanks	Vaini, Ha'ateiho, Ma'ufanga, Mataika, Ha'atafu, Houmakelikao, Ma'ufanga, Pahu & Pea	579,040
Upgrade Town Water System	Ha'alalo, Niutoua, Kolonga, Hofoa, Hihifo District, Longoteme & Haveluliku	320,581
Purchase tractor, disc plough & Yam pulopula	Ha'alalo, Nukunuku, Lapaha, Pea, Lavengatonga	228,292
Women Groups Making Tapa to generate income	Nukunuku, Vaotu'u, Fahefa, Pelehake, 'Alakifonua, Lapaha	207,730
Fishing boat, outboard engines & safety equipment	Nukuleka, Popua	87,752
Construct Shelter - Lifeline Tonga	Kolofo'ou	70,000
Yam, Vegetables & Watermelon Plantation	'Utulau, Lavengatonga, Kolomotu'a	65,961
Women groups weaving mats	'Ahononou, Pelehake, Talasiu	59,768
Signs & Graphics Solutions - SDA	Vaini	53,865
Training - Tonga Disability Congress	Tongatapu	38,329
Renovation of classroom and furnishing - 'Ahopanilolo Technical College	Ma'ufanga	17,579
Construct 1 piggery fence	Talasiu	3,780
<b>TOTAL</b>		<b>\$1,726,865.66</b>



Table 8: GGP Projects to be implemented in 2009/10 \*

Project Types	Project Locations
Installation of New Water Supply	Ovaka in Vava'u & Kotu & Fotuha'a in Ha'apai
Upgrading Existing Water Supply	Vaimalo & Mataika in Vava'u & Fatai, Vaini & Ha'avakatolo
New classrooms & toilet blocks for Primary Schools	Koulo in Ha'apai, Kahoua, Vaotu'u & Hoi in Tongatapu
Children's Ward and Clinic for Niu'eiki Hospital	'Eua
Sea Ambulance for Niu'ui Hospital	Ha'apai

\*Project costs are yet to be finalised.

## 9.0 CONCLUSION

The details of both the donor and Government funds for Regional and Rural Development that are now known are indicated in the Budget Estimates: 2009/10 – 2011/12. Close monitoring of this assistance will be made to ensure that intended outputs are reached and thus contribute to the achievement of a higher living standard and a better quality of life for all Tongans.

## Budget Statement for Year Ending 30<sup>th</sup> June 2010

# Appendix



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**Table 1: Tonga: Selected Indicators, 2003/04 – 2007/08**

	2003/04	2004/05	2005/06	2006/07	2007/08 Est
<b>Output and prices</b>					
Real GDP	1	-0.4	0.8	-3.2	1.2
Consumer prices (period average)	11.8	10.0	7.3	5.1	5.1
<b>Central government finance (% of GDP)</b>					
Revenue	28.4	26.9	31.6	30.3	26.9
Grants	1.4	1.2	2.1	4.6	1.4
Current expenditure	27.3	24.1	35.5	32.3	26.0
Development expenditure	1.0	2.4	3.3	1.1	0.5
Overall balance	0.9	2.3	-4.8	1.6	1.8
External loans (net)	2.9	0.5	2.1	-1.0	-0.8
Domestic financing	-3.8	-0.3	-0.3	-0.3	-0.8
<b>Money and credit (end-period)</b>					
Broad money (M2) % growth	18.6	12.1	14.4	14.0	8.4
Domestic credit	-12.9	25.6	29.0	14.8	15.2
Private sector credit 3/ % growth	-3.8	42.4	23.2	11.4	19.7
<b>Balance of payments</b>					
Exports, f.o.b.	28.3	31.1	31.0	26.7	23.5
Of which: Squash	14.0	16.2	8.3	5.6	0
Imports, f.o.b.	-169.0	-204.2	-245.4	-217.5	-262.4
Services (net)	-5.8	-19.3	-15.7	-35.9	-6.2
Income (net)	-0.8	3.1	5.7	7.1	6.4
Services and Income (net)	-6.6	-16.2	-10.0	-28.8	0.2
Transfers (net)	163.1	178.1	178.5	168.6	180.2
Of which: Private transfer receipts	162.5	178.1	178.5	168.7	179.7
Current account balance	15.8	-11.2	-45.9	-51	-58.5
(In percent of GDP)	4.3	-2.6	-9.8	-10.4	-9.6
Overall balance	52.8	-7.6	1.1	8.4	-2.5
<b>Gross international reserves (end-period)</b>					
In millions of pa'anga	89.7	82.1	83.2	91.6	89.1
In months of imports cover	5.4	4.4	4.3	4.4	3.5
<b>External debt</b>					
External debt/GDP	44.2	37.3	35.3%	33.4%	26.9%
<b>Exchange rate (period average)</b>					
T\$ per US\$ (end-period)	2.00	1.93	2.06	1.9	1.9
Real effective exchange rate (1990=100)	97.8	100.8	104.4	102	113.8
Nominal effective exchange rate (1991=100)	64.7	62.7	62.7	59.8	58.6
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: Real Sector Developments, 2003/04-2007/08**

	2003/04	2004/05	2005/06(e)	2006/07(p)	2007/08(p)
Nominal GDP					
In pa'anga mn.	371.9	431.3	468.8	490.3	608.8
In US\$ mn.	186.9	224.4	227.2	251.6	312.4
GDP per capita (US\$)	1,862	2,227	2,246	2,477	3,075
Population	100,360	100,764	101,169	101,576	101,576
GDP (2000/01 prices)	1.0	-0.4	0.8	-3.2	1.2
of which:					
Agriculture, forestry, and fisheries	-1.2	-3.0	-0.9	-0.9	-3.2
Manufacturing	-4.2	-7.7	0.8	-0.5	1.0
Construction	-2.9	0.4	-2.6	-6.3	6.9
Commerce, restaurants, and hotels	7.9	-0.8	1.8	5.5	-0.1
Transportation and communications	-5.2	-12.2	2.6	2.0	6.0
Finance and real estate	4.6	2.6	2.9	-4.7	5.0
Government services	0.7	1.1	-0.3	-17.3	1.0
GDP (by sector; current prices)					
of which:					
Agriculture, forestry, and fisheries	26.4	26.3	25.2	25.4	26.2
Manufacturing	5.4	4.7	4.2	3.9	3.7
Construction	9.9	9.7	9.1	8.9	9.0
Commerce, restaurants, and hotels	15.5	15.1	13.4	13.3	14.2
Transportation and communications	9	8.7	8.7	8.8	8.8
Finance and real estate	11	11.9	12.1	11.5	11.9
Government services	13.9	13.8	17.9	18.8	16.5
Consumer prices (period average)					
All items	11.8	10.0	7.3	5.1	9.6
Imported component	15.4	8.8	5.3	4.0	10.1
Domestic component	5.4	12.6	11.3	7.0	7.8

**Table 3: Annual CPI for December Quarter 2003 to 2008**

	All Items	Food	Housing	H/hold Goods	Clothing and Footwear	Trans- portation	Tobacco and Alcohol	Misc. Goods & Services	Imported Items	Local Items
Weight	100.0	44.4	5.3	12.0	3.4	14.2	12.3	8.4	66.2	33.8
2003	113.5	110.9	103.5	110.6	99.4	109.1	145.9	103.9	117.2	106.3
2004	126.7	121.4	117.5	126.9	117.1	129.4	156.8	115.9	128.2	123.9
2005	136.0	127.2	133.1	137.8	125.0	154.9	156.0	124.3	136.3	135.3
2006	142.6	132.9	141.6	150.9	133.6	162.2	158.6	129.2	140.8	146.0
2007	152.3	143.4	143.9	156.0	139.3	179.7	168.4	134.5	152.3	152.1
2008	162.0	147.3	154.7	172.2	150.1	198.3	182.0	144.3	161.4	163.3

Source: Statistics Department

**Table 4: Annual (%) Changes in the CPI for December quarter 2003 to 2008**

	All Items	Food	Housing	Household Goods	Clothing and Footwear	Transportat ion	Tobacco and Alcohol	Misc. Goods & Services	Imported Items	Local Items
<b>Weight</b>	<b>100</b>	<b>43.2</b>	<b>6.4</b>	<b>14.2</b>	<b>4.2</b>	<b>15.5</b>	<b>5.4</b>	<b>11.2</b>	<b>54.2</b>	<b>45.8</b>
2003	12.3	7.8	3.5	11.1	-0.8	9.9	45.6	4.4	17.2	3.3
2004	11.6	9.5	13.5	14.8	17.8	18.6	7.5	11.6	9.4	16.5
2005	7.3	4.8	13.3	8.6	6.7	19.7	-0.5	7.2	6.3	9.2
2006	4.9	4.5	6.4	9.5	6.9	4.7	1.7	3.9	3.3	7.9
2007	6.8	10.8	1.6	3.4	4.3	10.8	6.2	4.1	8.2	4.2
2008	6.4	-100.0	7.5	10.4	7.8	10.4	8.1	7.3	6.0	7.4

Source: Statistics Department

**Table 5: Tonga Domestic Exports by HS Section, 2003/04 - 2007/08**

HS Code SECTION ITEM	2003/04		2004/05		2005/06		2006/07		2007/08p	
	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%
Live Animals;Animal Products	8,488	23.8	6,303	23.2	5,340	28.9	1,765	29.7	1627.0	27.3
Vegetable Products	25,827	72.5	17,817	65.7	12	0.1	3,729	62.67	3768	63.3
Products of the Chemical Or Allied	141	0.4	268	1.0	344	1.9	226	3.80	359	6.0
Wood and Articles of Wood;	649	1.8	2,073	7.6	507	2.7	68	1.14	28	0.5
Miscellaneous Manufactured Articles	280	0.8	7	0.0	0	0.0	46	0.77	17	0.3
Works of Art, Collectors Pieces and Antiques	35	0.1	52	0.2	20	0.1	7	0.12	3	0.1
Other Exports	218	0.6	603	2.2	12,271	66.4	109	1.83	155	2.6
<b>TOTAL</b>	<b>35,638</b>	<b>100.0</b>	<b>27,123</b>	<b>100.0</b>	<b>18,494</b>	<b>100.0</b>	<b>5,950</b>	<b>100</b>	<b>5957.0</b>	<b>100.0</b>

Source: Statistics Department  
p: provisional numbers

**Table 6: Exports by Institutional Sector, 2003/04 - 2007/08**

INSTITUTIONAL SECTOR	2003/04		2004/05		2005/06		2006/07/p		2007/08/p	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
Private Sector	35,638	100	27,123	100	18,494	100	5,950	100	5957	100
Government Sector	0	0	0	0	0	0	0	0	0	0
Quasi-Government Sector	0	0	0	0	0	0	0	0	0	0
<b>TOTAL</b>	<b>35,638</b>	<b>100</b>	<b>27,123</b>	<b>100</b>	<b>18,494</b>	<b>100</b>	<b>5,950</b>	<b>100</b>	<b>5957</b>	<b>100</b>

Source: Statistics Department  
p: provisional numbers

**Table 7: Exports by Country of Destination 2003/04 – 2007/08**

COUNTRY	2003/04 /p		2004/05 /p		2005/06 /p		2006/07		2007/08	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
New Zealand	2,301	6.5	6,203	23	1,813	10	1,190	20.0	1656	27.8
Australia	393	1.1	816	3	404	2	430	7.2	347	5.8
Mainland USA	10,256	28.8	3,269	12	2,018	11	804	13.5	924	15.5
Hawaii	2,000	5.6	2,069	8	2,991	16	821	13.8	21	0.4
Japan	15,837	44.4	12,151	45	10,143	55	2,353	39.5	1632	27.4
Singapore	0	0.0	2	0	16	0	30	0.5	17	0.3
American Samoa	1,644	4.6	655	2	285	2	268	4.5	398	6.7
Hong Kong	481	1.4	407	2	4	0	12	0.2	428	7.2
France	0	0.0	1	0	-	0	42	0.7	0	0.0
All other Countries	2,727	7.7	1,551	6	820	4	0	0.0	534	9.0
<b>TOTAL</b>	<b>35,638</b>	<b>100.0</b>	<b>27,123</b>	<b>100</b>	<b>18,494</b>	<b>100</b>	<b>5,950</b>	<b>100.0</b>	<b>5957.0</b>	<b>100.0</b>

Source: Statistics Department  
p: provisional numbers

**Table 8: Imports by Main HS Section 2003/04 – 2007/08**

HS Code SECTION ITEM	2003/04		2004/05		2005/06		2006/07/p		2007/08/p	
	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%
1.Live Animals;Animal Products	22,580	11.3			25,698	11.0	30,162	12.0	8,684	10.8
2.Vegetable Products	8,473	4.3	7,362	3.7	7,302	3.1	8,243	3.3	3,552	4.4
3.Beverages & Tobacco	27,702	13.9	28,538	14.3	31,719	13.6	37,228	14.8	13,665	17.0
4. Products of the Chemical or Allied	9,225	4.6	10,935	5.5	8,430	3.6	9,268	3.7	3,173	4.0
5. Wood and Articles of Wood	8,695	4.4	8,536	4.3	9,424	4.0	8,096	3.2	2,471	3.1
6. Machinery and Mechanical Appliance	15,747	7.9	28,685	14.3	19,051	8.2	25,380	10.1	9,307	11.6
7. Miscellaneous Manufactured Articles	4,618	2.3	6,457	3.2	4,964	2.1	6,175	2.5	1,706	2.1
8. Vehicle, Aircraft, Vessel & Associated Transport Equipment	13,919	7.0	12,986	6.5	9,672	4.2	10,341	4.1	3,842	4.8
9. Works of Art, Collectors Pieces	20,259	10.2	1,422	0.7	19,752	8.5	12,281	4.9	3,279	4.1
10. Other Imports	68,061	34.2	95,156	47.6	96,844	41.6	104,418	41.5	30,628	38.1
<b>TOTAL</b>	<b>199,279</b>	<b>100.0</b>	<b>200,076</b>	<b>100.0</b>	<b>232,856</b>	<b>100.0</b>	<b>251,592</b>	<b>100.0</b>	<b>80,307.0</b>	<b>100.0</b>

**Table 9: Imports by Institutional Sector, 2003/04 – 2007/08**

INSTITUTIONAL SECTOR	2003/04		2004/05		2005/06 /p		2006/07		2007/08	
	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%
Private Sector	177,114	88.9	204,436	91	210,386	90.4	231,272	91.9	77,554	96.6
Government Sector	19,017	9.5	15,070	7	17,437	7.5	11,162	4.4	2,505	3.1
Quasi-Government Sector	3,148	1.6	5,087	2	5,033	2.2	9,161	3.6	248	0.3
<b>TOTAL</b>	<b>199,279</b>	<b>100.0</b>	<b>224,593</b>	<b>100</b>	<b>232,856</b>	<b>100</b>	<b>251,595</b>	<b>100.0</b>	<b>80,307.0</b>	<b>100.0</b>

Source: Statistics Department  
p: provisional numbers



**Table 10: Imports by Country of Origin 2003/04 – 2007/08**

COUNTRY	2003/04 /p		2004/05 /p		2005/06		2006/07 /p		2007/08 /p	
	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%
New Zealand	78,631	39.5	85,030	37.9	81,603	35.0	84,365	33.5	19916	24.8
Australia	44,783	22.5	39,948	17.8	24,962	10.7	34,666	13.8	8272	10.3
USA	16,789	8.4	19,216	8.6	21,289	9.1	25,795	10.3	6023	7.5
United Kingdom	1,599	0.8	410	0.2	551	0.2	276	0.1	5300	6.6
Fiji	35,163	17.6	39,157	17.4	62,780	27.0	68,710	27.3	6023	7.5
Japan	5,522	2.8	6,641	3.0	8,338	3.6	5,845	2.3	402	0.5
Singapore	728	0.4	4,715	2.1	6,292	2.7	5,883	2.3	16871	21.0
Others	16,064	8.1	29,475	13.1	27,041	11.6	26,056	10.4	17500	21.8
<b>TOTAL</b>	<b>199,279</b>	<b>100.0</b>	<b>224,593</b>	<b>100.0</b>	<b>232,856</b>	<b>100.0</b>	<b>251,596</b>	<b>100.0</b>	<b>80,307</b>	<b>100</b>

Source: Statistics Department  
p: provisional numbers

**Table 11: Tonga Balance of Payments 2003/04 - 2007/08***(In millions of pa'anga, unless otherwise indicated)*

	2003/04	2004/05	2005/06 /p	2006/07	2007/08 /p
Balance of Trade	-140.7	-173.1	-214.4	-190.8	-238.9
Exports, f.o.b.	28.3	31.1	31.0	26.7	23.5
Of which: Squash exports	14.0	16.2	8.3	5.6	0
Imports, f.o.b.	-169.0	-204.2	-245.4	-217.5	-262.4
Services (net)	-5.8	-19.3	-15.7	-35.9	-6.2
Receipts	52.7	45.9	50.9	38.8	70.1
Of which: Tourism receipts	30.4	25.6	27.0	24.1	41.6
Payments	-58.5	-65.2	-66.6	-74.7	-76.3
Income (net)	-0.8	3.1	5.7	7.1	6.4
Receipts	5.6	6.6	9.9	12.9	13.0
Payments	-6.4	-3.5	-4.2	-5.8	-6.6
Current Transfers (net)	163.1	178.1	178.5	168.6	180.2
Official transfers (net)	0.6	0.0	0.0	-0.1	0.5
Private transfers (net)	162.5	178.1	178.5	168.7	179.7
Official transfer receipts	1.3	0.6	0.5	0.5	0.8
Official transfer payments	-0.7	-0.6	-0.5	-0.6	-0.3
Private transfer receipts	184.4	208.1	205.0	186.8	202.8
Private transfer payments	-21.9	-30.0	-26.5	-18.1	-23.1
Current account balance	15.8	-11.2	-45.9	-51.0	-58.5
(Percent of GDP)	4.3	-2.6	-9.8	-10.4	-9.6
Capital account balance	75.6	24.2	45.2	53.9	69.0
Official capital (net)	28.1	9.3	16.8	19.7	22.8
Official loans, net	0.0	0.0	0.0	0.0	
Disbursements	0.0	0.0	0.0	0.0	
Amortization	0.0	0.0	0.0	0.0	
Official capital inflows	33.1	16.2	22.8	24.7	26.5
Official capital outflows	-5.0	-6.9	-6.0	-5.0	-3.7
Private capital (net)	47.5	14.9	28.4	34.2	46.2
Private capital inflows	56.5	34.2	37.5	39.9	50.5
Private capital outflows	-9.0	-19.3	-9.1	-5.7	-4.3
Financial Account	2.3	23.7	14.4	-26.1	-10.4
Other Credits	70.9	39.7	37.5		
Official Reserve	-52.8	7.6	-1.1	-8.4	2.5
Debits	15.8	23.6	22.0	17.7	12.9
Basic Balance	93.7	36.7	13.7	-23.2	0.1
Errors and omissions	-40.9	-44.3	-12.6	31.6	-2.6
Overall balance	52.8	-7.6	1.1	8.4	-2.5
Memorandum items:					
Service, income, and transfers (net)	156.5	161.9	168.5	139.7	180.9
Receipts	242.7	260.6	266.3	239.0	286.7
Payments	-86.8	-98.7	-97.8	-99.2	-106.3
Gross official foreign reserves (TOP million)	89.7	82.1	83.2	91.6	89.1
Months of Import cover	5.4	4.4	4.3	4.4	3.5

Source: Statistics Department

p: provisional numbers

**Table 12: Monetary Survey, 2003/04 – 2007/08**

	2003/04	2004/05	2005/06	2006/07	2007/08
Net foreign assets	85.6	77.2	72.6	81.7	79.9
Foreign assets	109.3	91.8	95.0	103.6	99.9
Foreign liabilities	-23.8	-14.6	-22.5	-21.9	-20.0
Net domestic assets	92.8	122.9	156.3	179.3	202.9
Net domestic credit	131.8	165.5	213.5	245.0	282.2
Government (net)	-10.7	-26.3	-19.1	-11.7	-29.1
Non-financial public enterprises	11.1	6.4	3.9	2.5	3.7
Private sector	133.4	189.9	233.8	260.5	311.8
Non-monetary financial institutions 1/	-1.9	-4.5	-5.2	-6.3	-4.2
Other items (net)	-39.1	-42.6	-57.1	-65.7	-79.3
Total domestic liquidity (M2)	178.5	200.1	228.9	261.0	282.8
Narrow money (M1)	65.8	68.7	55.7	73.8	72.6
Currency outside banks	15.2	14.9	17.1	18.5	18.8
Demand deposits	50.6	53.8	38.6	55.3	53.8
Quasi money	112.7	131.4	173.2	187.2	210.2
Savings deposits	34.8	38.1	53.2	49.3	48.8
Term deposits	64.3	85.1	108.2	125.2	150.1
Foreign currency accounts	13.5	8.1	11.8	12.8	11.3
Net foreign assets	173.3	-9.8	-6.0	12.6	-2.2
Foreign assets	122.3	-16.0	3.5	9.0	-3.6
Foreign liabilities	33.0	-38.5	53.8	-2.5	-8.7
Net domestic assets	-22.1	32.5	27.2	14.7	13.2
Private sector	-3.8	42.4	23.2	11.4	19.7
Total domestic liquidity (M2)	18.6	12.1	14.4	14.0	8.4
Narrow money (M1)	27.5	4.4	-18.9	32.5	-1.6
Quasi money	14.0	16.6	31.8	8.1	12.3
Net foreign assets	42.7	39.9	35.2	43.0	42.1
Foreign assets	54.6	47.5	46.1	54.5	52.6
Foreign liabilities	-11.9	-7.6	-10.9	-11.5	-10.5
Memorandum items:					
Velocity (GDP/average M2)	2.1	2.2	2.0	1.9	0.9
Exchange rate (pa'anga per U.S. dollar; end period)	2.0	1.9	2.1	1.9	1.9

Source: National Reserve Bank of Tonga

**Table 13: Summary Table of Government Operations, 2003/04-2007/08**

Years ending June 30	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08/ P
Total revenue and grants	99.3	111.0	121.3	158.2	171.2	172.2
Total revenue	96.4	105.8	116.0	148.3	148.5	163.6
Current revenue	96.4	105.8	116.0	148.3	148.5	163.6
Tax revenue	80.7	86.1	98.4	125.9	126.2	139.1
Nontax revenue	15.7	19.7	17.6	22.4	22.3	24.5
<i>of which: Revolving funds</i>	3.5	3.1	5.4	3.5	3.5	6.0
Capital revenue	0.0	0.0	0.0	0.0	0.0	0
Grants (in cash)	2.9	5.2	5.3	9.9	22.7	8.7
Total expenditure and lending minus repayments	110.5	107.8	111.2	180.7	163.5	161.5
Total expenditure	101.0	108.7	112.3	181.9	164.1	161.5
Current expenditure	92.4	101.7	104.1	166.5	158.5	158.5
Capital expenditure	8.6	3.9	10.5	15.3	5.6	3.04
Additional expenditures	3.3	3.1	-2.3			0
Total lending minus repayments	9.6	-0.9	-1.1	-1.2	-0.6	-0.05
Overall deficit/surplus	-11.2	3.2	10.1	-22.5	7.7	10.8
Total financing	11.2	-3.2	0.6	8.3	-6.7	-8.2
External financing	5.7	10.8	2.0	9.7	-5.1	-5.0
Domestic bank financing	5.5	-14.0	-1.4	-1.4	-1.6	-3.2
<i>of which TTF</i>	0.1	0.0	0.0	0		
					0	0
Finance Gap	0.0	0.0	0.0	0.0	0.0	0
	<i>as percentage of GDP</i>					
Total revenue and grants	28.4	29.8	28.1	33.7	34.9	28.3
Total revenue	27.6	28.4	26.9	31.6	30.3	26.9
Current revenue	27.6	28.4	26.9	31.6	30.3	26.9
Tax revenue	23.1	23.1	22.8	26.9	25.7	22.8
Nontax revenue	4.5	5.3	4.1	4.8	4.5	4.0
<i>of which: Revolving funds</i>	1.0	0.8	1.2	0.7	0.7	1.0
Capital revenue	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.8	1.4	1.2	2.1	4.6	1.4
Total expenditure and lending minus repayments	31.6	29.0	25.8	38.5	33.3	26.5
Total expenditure	28.9	29.2	26.0	38.8	33.5	26.5
Current expenditure	26.4	27.3	24.1	35.5	32.3	26.0
Capital expenditure	2.5	1.0	2.4	3.3	1.1	0.5
Additional expenditures						
Total lending minus repayments	2.7	-0.2	-0.3	-0.3	-0.1	0.0
Overall deficit/surplus	-3.2	0.9	2.3	-4.8	1.6	1.8
Total financing	3.2	-0.9	0.1	1.8	-1.4	-1.3
External financing	1.6	2.9	0.5	2.1	-1.0	-0.8
Domestic bank financing	1.6	-3.8	-0.3	-0.3	-0.3	-0.8
Tonga Trust Fund	0.0	0.0	0.0	0.0	0.0	0.0
Discrepancy	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:						
Current balance excluding grants	1.1	1.1	2.7	-3.9	-2.0	0.8
Overall balance excluding grants	-4.0	-0.5	1.1	23.6	24.6	22.3
Current expenditure	26.4	27.3	24.1	4.8	4.5	4.0
Total revenue	27.6	28.4	26.9	1.0	0.8	1.0
Effective import tariff (In percent)	34.0					
GDP (TOP million)	349.4	371.9	431.3	468.8	490.3	608.8

Source: Ministry of Finance and Planning

**Table 14: Government Revenue Collection, 2003/04-2007/08**

Year	Foreign Trade Taxes (\$)	Domestic Taxes (\$)	Others (\$)	Total (\$)
2003/04	57,194,671	28,915,736	18,471,325	104,581,732
2004/05	55,597,991	42,789,145	17,601,273	115,988,409
2005/06(p)	48,884,891	76,879,445	20,703,125	146,467,461
2006/07(p)	47,525,371	77,636,389	21,826,197	146,987,957
2007/08	40,544,057	70,749,207	27,795,174	139,088,438

Source: Ministry of Finance and Planning  
p: provisional numbers

**Table 15: Major Sources of Tax Revenue 2003/04 - 2007/08**

	2003/04		2004/05		2005/06 /p		2006/07 /p		2007/08 /p	
	\$	%	\$	%	\$	%	\$	%	\$	%
Import Duties	30,118,194	35.0	34,239,234	34.8	46,335,515	36.8	47,525,371	38.0	40,533,515	15.2
Port & Service Tax	27,018,315	31.4	21,358,757	21.7	0	0.0	0	0.0	10	0.0
Income Tax	16,348,144	19.0	20,575,363	20.9	25,193,963	20.0	25,103,691	20.1	26,845,560	10.1
Sales Tax / Consumption Tax	9,040,156	10.5	18,652,896	19.0	49,276,362	39.2	49,842,353	39.8	59,676,719	22.4
<b>Sub-Total</b>	<b>82,524,809</b>	<b>95.8</b>	<b>94,826,250</b>	<b>96.4</b>	<b>120,805,840</b>	<b>96.1</b>	<b>122,471,415</b>	<b>97.9</b>	<b>127,055,804</b>	<b>47.7</b>
Other	3,575,191	4.2	3,560,886	3.6	4,958,496	3.9	2,690,345	2.1	139,088,438	52.3
<b>TOTAL</b>	<b>86,100,000</b>	<b>100.0</b>	<b>98,387,136</b>	<b>100.0</b>	<b>125,764,336</b>	<b>100.0</b>	<b>125,161,760</b>	<b>100.0</b>	<b>266,144,242</b>	<b>100.0</b>

Source: Ministry of Finance and Planning  
p: provisional numbers

**Table 16: Expenditure by Ministry for 2003/04-2007/08 (Tonga Government Fund)**

	2003/04		2004/05		2005/06		2006/07		2007/08	
	\$	%	\$	%	\$	%	\$	%	\$	%
Education	16,381,538	14.8	16,809,796	15.1	22,526,758	14.0	22,684,208	14.3	25,570,000	14.9
Health	11,765,173	10.6	13,520,930	12.1	17,021,061	10.6	20,170,094	12.7	21,580,000	12.6
Works	4,513,064	4.1	4,609,193	4.1	4,508,388	2.8	3,386,670	2.1	9,899,877	5.8
Prime Minister's Office	4,015,858	3.6	3,243,596	2.9	4,173,223	2.6	4,976,894	3.1	8,442,991	4.9
<b>Sub-Total</b>	<b>36,675,634</b>	<b>33.1</b>	<b>38,183,515</b>	<b>34.2</b>	<b>48,229,430</b>	<b>30.1</b>	<b>51,217,866</b>	<b>32.4</b>	<b>65,492,868</b>	<b>38.3</b>
Police	4,242,866	3.8	4,463,306	4.0	6,118,501	3.8	7,875,083	5.0	12,526,000	7.3
Agriculture	3,486,867	3.1	3,784,323	3.4	3,926,974	2.4	5,703,385	3.6	6,588,844	3.9
Defence	4,447,680	4.0	4,663,237	4.2	7,098,222	4.4	6,963,624	4.4	8,353,000	4.9
Legislative Assembly	1,981,718	1.8	2,441,642	2.2	3,057,050	1.9	2,941,091	1.9	4,086,000	2.4
Public Debt	20,323,790	18.3	15,909,401	14.2	16,326,330	10.2	18,890,511	11.9	2,441,000	1.4
Foreign Affairs	5,476,813	4.9	4,901,208	4.4	5,173,136	3.2	6,250,869	3.9	9,620,000	5.6
Financial Appropriations	6,626,111	6.0	6,020,377	5.4	1,045,730	0.7	9,770,208	6.2	8208895	4.8
<b>Sub-Total</b>	<b>46,585,846</b>	<b>42.0</b>	<b>42,183,494</b>	<b>37.8</b>	<b>42,745,944</b>	<b>26.7</b>	<b>58,394,771</b>	<b>36.9</b>	<b>51,823,739</b>	<b>30.3</b>
Other	27,549,896	24.9	31,318,931	28.0	69,380,048	43.3	48,673,303	30.8	53,721,000	31.4
<b>GRAND TOTAL</b>	<b>110,811,375</b>	<b>100.0</b>	<b>111,685,940</b>	<b>100.0</b>	<b>160,355,422</b>	<b>100.0</b>	<b>158,285,940</b>	<b>100</b>	<b>171,037,607</b>	<b>100</b>

Source: Ministry of Finance and Planning

**Table 17: Full GFS Presentation of the Government Operations Account 2008/09 - 2009/10**

	Original Estimate 2008/09	Estimated Out-turn 2008/09	Original Estimate 2009/10
<b>Total Revenue and grants</b>	<b>222,947,045</b>	<b>198,499,743</b>	<b>220,100,620</b>
<b>Total Revenue</b>	<b>181,137,481</b>	<b>155,529,162</b>	<b>172,217,308</b>
Current revenue	181,137,481	155,529,162	170,917,308
<b>Tax revenue</b>	<b>158,236,693</b>	<b>130,433,332</b>	<b>150,197,515</b>
Taxes on income and profits	30,631,000	46,135,580	31,985,000
Taxes on property	113,588	112,219	140,380
Domestic taxes on goods and services	96,991,773	63,509,413	94,214,684
Sales tax / Consumption tax	64,280,000	33,206,080	61,150,000
Excise and Other taxes	32,711,773	30,303,333	33,064,684
Taxes on international trade and transactions	30,300,332	19,311,328	21,800,132
Customs duties	30,000,000	19,295,843	21,500,000
Other import charges	300,332	15,485	300,132
Other taxes	200,000	1,364,791	2,057,319
<b>Nontax revenue</b>	<b>22,900,788</b>	<b>25,095,830</b>	<b>20,719,793</b>
Entrepreneurial and property income	9,630,776	13,153,428	7,174,310
Administrative fees and charges	12,331,843	11,081,218	12,503,235
Fines and forfeits	353,006	243,038	386,789
Other nontax revenue	585,163	618,146	655,459
Capital revenue	-	-	1,300,000
<b>Grants (in cash)</b>	<b>-</b>	<b>-</b>	<b>-</b>
From abroad	41,809,562	42,954,331	47,877,811
From other levels of national government	2	16,250	5,501
<b>Total Grants (in Cash)</b>	<b>41,809,564</b>	<b>42,970,581</b>	<b>47,883,312</b>
<b>Expenditure and lending minus repayments</b>	<b>215,883,676</b>	<b>178,152,015</b>	<b>202,732,021</b>
Expenditure	216,414,887	174,380,126	203,361,282
<b>Current expenditure</b>	<b>204,174,129</b>	<b>159,207,620</b>	<b>191,609,857</b>
Wages and salaries	78,385,912	68,771,471	77,364,627
Employer contributions	7,647,940	5,096,472	10,289,157
Other purchases of goods and services	91,457,554	63,888,396	78,429,707
Interest payments	5,207,028	5,207,027	5,716,080
Additional expenditures	-	-	-
Subsidies and other current transfers	21,475,696	16,244,254	19,810,286
Subsidies to non-financial public enterprises	1,000	3,181	76,000
Subsidies to financial institutions	2,800,003	-	100,000
Subsidies to other enterprises	3,825,002	1,474,465	3,207,143
Transfers to non-profit institutions	8,339,893	7,642,535	9,100,162
Transfers to households	5,362,434	5,933,166	6,463,619
Transfers abroad	1,147,364	1,190,907	863,362
<b>Capital expenditure</b>	<b>12,240,758</b>	<b>15,172,507</b>	<b>11,751,425</b>
Acquisition of fixed capital assets	11,412,778	14,808,677	11,261,752
Purchases of land and intangible assets	146,747	51,347	41,606
Capital transfers	681,233	312,483	448,067
<b>Lending minus repayments</b>	<b>(531,211)</b>	<b>3,771,889</b>	<b>(629,261)</b>
To non-financial public enterprises (net)	(61,877)	4,330,453	(159,927)
To financial institutions (net)	(469,335)	(558,564)	(469,334)
Abroad	1	-	-

Source: Ministry of Finance and Planning

**Table 18: Full GFS Presentation of: Financing Table 2008/09 – 2009/10**

	Original Estimate 2008/09	Estimated Out-turn 2008/09	Original Estimate 2009/10
<b>Total Financing</b>	(7,063,369)	(20,347,728)	(17,368,599)
<b>External financing</b>	(7,033,913)	(6,183,912)	(12,295,839)
Disbursements	-	-	-
Repayments	7,033,913	6,183,912	12,295,839
<b>Domestic Financing</b>	(29,456)	(14,163,816)	(5,072,760)
Bonds Issued / Domestic Loan	7,000,001	6,000,000	7,000,000
Principal Repayment of Matured Bonds/Loan	7,000,001	7,000,000	7,000,000
Net Changes in Government Cash Balances and Investment	(29,456)	(13,163,816)	(5,072,760)

Source: Ministry of Finance and Planning

**Table 19: Loans to Public Enterprises and other Organisations as at 30th April 2009**

*(Ngaahi Mo'ua No Pa'anga mei he Pule'anga 'a e Ngaahi Kautaha 'a e Pule'anga mo e Ngaahi Kautaha Kehe 'i he 'aho 30`o 'Epeleli 2009)*

Borrower	na'e fai 'a e No)	(Kautaha	Year (Ta'u)	Purpose (Taumu'a No)	Principal	Interest	Term	Cumulative Interest	Cumulative	Outstanding
					(Lahi 'o e No)	(Totongi Tupu)	(Years) (Taimi Totongi No (Ta'u))	Repayment 30.04.09 (Lahi 'o e Totongi Tupu 30.04.09)	Repaid 30.04.09 (Lahi 'o e Sino'i Pa'anga Totongi Fakafoki 30.04.09)	Principal Debt 30.04.09 (Mo'ua Sino'i Pa'anga te'eki totongi 30.04.09)
					\$	%			\$	\$
1	Tonga Elestic Power Board (Poate 'Uhila 'a Tonga)		2003	Working Capital Project (Pa'anga Ngaue)	500,000	6.00	3m	6,263.00	500,000	0
2	Tonga Electric Power Board (Poate 'Uhila 'a Tonga)		2004	Working Capital Project (Pa'anga Ngaue)	600,000	6.00	5m	0.00	600,000	0
3	Tonga Development Bank (Pangike Fakalalalaka) - ADB 624		1983	Development Lending (Nö Fakalalalaka)	1,108,197	3.00	40	365,705.10	431,614	676,584
4	Tonga Development Bank (Pangike Fakalalalaka) - IDA 1813		1987	Development Lending (Nö Fakalalalaka)	2,604,051	3.00	36	763,938.30	1,101,714	1,502,337
5	Tonga Development Bank (Pangike Fakalalalaka) - IFAD 220		1988	Development Lending (Nö Fakalalalaka)	2,636,109	3.00	25	814,560.40	2,108,779	527,330
6	Tonga Development Bank (Pangike Fakalalalaka) - IFAD 327		1993	Development Lending Nö Fakalalalaka)	4,104,162	3.00	27	984,090.80	2,006,262	2,097,900
7	Tonga Telecommunication Commission (Komisoni Fetu'utaki) - ADB 1412 (reschedule)		2005	Development (Ngaue Fakalalalaka)	3,052,759	6.79	12	1,120,225.86	1,017,586	2,035,172
8	Sea Star Fishing (Kautaha Toutai Fetu'utahi) - ADB 1030		1993	Capital (Pa'anga Ngaue Tu'uma'u)	3,645,900	6.36	15	63,027.20	0	3,645,900
9	Janfull International Dateline Hotel (Hotele Janfull International Dateline) (reschedule)		2007	Ugrading to and expansion of Dateline Hotel (Ngaue Fakalelei'i 'oe Hotele Dateline)	11,856,000	2.50	9	944,960.58	0	11,856,000
10	Ports Authority Tonga (Ma'u Mafai ki he Ngaahi Taulanga) - ADB 1303		2002	Development Lending (Nö Fakalalalaka)	2,388,911	5.00	16	636,888.43	932,500	1,456,411
11	Janfull International Dateline Hotel (Hotele Janfull International Dateline)		2006	Project Refurbishment of Janfull International Dateline Hotel (Ngaue Fakalelei'i 'oe Hotele Janfull International Dateline)	2,348,943	0.00	10	0.00	2,348,943	0
<b>Total Loan to Public Enterprises &amp; Others</b>					<b>\$34,845,030</b>			<b>\$ 5,699,659.67</b>	<b>\$11,047,397</b>	<b>\$23,797,633</b>
<i>(Ngaahi No ki he ngaahi Kautaha Pule'anga mo Kehe)</i>										
<b>Less : Repaid (To'o: Totongi Fakafoki)</b>					<b>\$11,047,397</b>					
<b>Total Outstanding Loans (Katoa No te'eki ke Totongi Mai)</b>					<b>\$23,797,633</b>					



Table 20: Loans comprising the Government Foreign Debt as at 30th April 2009

(Ngaahi Mo'ua No mei Muli 'a e Pule'anga 'i he 'aho 30 `o 'Epeleli 2009)

Lender	Year	Purpose	Principal	Interest	Term (Years)	Cumulative Interest Payment 30.04.09	Cumulative Principal Repaid 30.04.09	Outstanding Principal Debt 30.04.09
<i>(Pule'anga/Kautaha na'e fai mei ai 'a e No)</i>	<i>(Ta'u)</i>	<i>(Taumu'a No)</i>	<i>(Lahi 'o e No)</i>	<i>(Totongi Tupu)</i>	<i>(Taimi Totongi No (Ta'u)</i>	<i>(Lahi 'o eTotongi Tupu 30.04.09)</i>	<i>(Lahi 'o e Sino'i Pa'anga Totongi Fakafoki 30.04.09)</i>	<i>(Mo'ua Sino'i Pa'anga te'eki totongi 30.04.09)</i>
			\$	%			\$	\$
1 ADB - 335 TON (SF) (Pangike Fakalalalaka 'Esia Fika 335 - TON)	1977	Small Industries (Ngaahi Ngaue'anga Iiki)	746,336	1.00	40	133,866.91	492,647	253,689
2 ADB - 376 TON (SF) (Pangike Fakalalalaka 'Esia Fika 376 - TON)	1978	First TDB Capital (Fakalalalaka)	3,371,190	1.00	40	502,324.45	1,734,867	1,636,324
3 ADB - 435 TON (SF) (Pangike Fakalalalaka 'Esia Fika 435 - TON)	1979	First Multi-project (Fakalalalaka)	3,112,205	1.00	40	437,325.43	1,430,537	1,681,668
4 ADB - 540 TON (SF) (Pangike Fakalalalaka 'Esia Fika 540 - TON)	1981	Second Multi-project (Fakalalalaka)	2,139,718	1.00	40	439,204.63	1,055,502	1,084,217
5 ADB - 624 TON (SF) (Pangike Fakalalalaka 'Esia Fika 624 - TON)	1983	Development & Redevelopment & Second TDB (Fakalalalaka)	4,690,528	1.00	40	1,158,460.16	2,456,069	2,234,459
6 ADB - 782 TON (SF) (Pangike Fakalalalaka 'Esia Fika 782 - TON)	1986	Third Multi-project & Third TDB Capital (Fakalalalaka)	8,556,222	1.00	40	1,602,430.99	2,696,891	5,859,331
7 ADB - 927 TON (SF) (Pangike Fakalalalaka 'Esia Fika 927 - TON)	1988	Fourth Multi-project (Fakalalalaka)	6,701,755	1.00	40	895,836.08	1,535,841	5,165,915
8 ADB - 990 TON (SF) (Pangike Fakalalalaka 'Esia Fika 990 - TON)	1990	Fourth TDB (Fakalalalaka)	9,138,170	1.00	40	1,732,178.93	1,792,292	7,345,877
9 ADB - 1030 TON (SF) (Pangike Fakalalalaka 'Esia Fika 1030 - TON)	1990	Fisheries (Toutai)	5,963,604	1.00	40	522,242.63	995,505	4,968,098
10 ADB - 1079 TON (SF) (Pangike Fakalalalaka 'Esia Fika 1079 - TON)	1991	Power Development ('Uhila)	16,818,146	1.00	40	4,053,048.03	2,604,390	14,213,756
11 ADB - 1303 TON (SF) (Pangike Fakalalalaka 'Esia Fika 1303 - TON)	1995	Transport Infrastructure Project (Fakalalalaka)	20,240,860	1.00	40	2,473,525.08	1,939,019	18,301,842
12 ADB - 1412 TON (SF) (Pangike Fakalalalaka 'Esia Fika 1412 - TON)	1996	Outer Islands Agriculture Development (Fakalalalaka)	7,267,177	1.00	40	588,241.19	459,955	6,807,223
13 ADB - 1904 TON (SF) (Pangike Fakalalalaka 'Esia Fika 1904 - TON)	2002	Economic Public Sector Reform Project (Fakalalalaka)	21,496,349	1/1.5	24	1,390,183.70	0	21,496,349
14 EIB 8.0050 (Pangike Fakatupu Pa'anga 'a 'Iulope Fika 8.0050)	1979	Regional Telecoms Network (Naunau Fetu'utaki)	936,517	1.00	40	187,287.09	576,333	360,184
15 EIB 7.0426 (Pangike Fakatupu Pa'anga 'a 'Iulope Fika 7.0426)	1984	TDB Equity II ('Inasi)	846,510	2.00	25	288,166.68	846,510	0
16 EIB 7.0645 (Pangike Fakatupu Pa'anga 'a 'Iulope Fika 7.0645)	1987	TDB Equity III ('Inasi)	846,510	2.00	25	297,900.13	675,684	170,826
17 EIB 7.0792 (Pa'anga Fakatupu Pa'anga 'a 'Iulope Fika 7.0792)	1989	TDB Equity IV ('Inasi)	474,169	2.00	25	156,501.64	0	474,169
18 IDA 1813 WORLD BANK (Pangike 'a Mamani Fika 1813)	1987	Tonga Development Bank (Pangike Fakalalalaka)	5,037,089	0.75	40	752,019.97	805,871	4,231,218
19 IDA 2084 WORLD BANK (Pangike 'a Mamani Fika 2084)	1990	Tonga Development Bank (Pangike Fakalalalaka)	5,079,990	0.75	40	563,047.76	965,184	4,114,806
20 IDA 3647 WORLD BANK (Pangike 'a Mamani Fika 3647)	2002	Waka Project (Fakalalalaka)	13,585,644	0.75	40	508,442.10	0	13,585,644
21 IDA 38140 WORLD BANK (Pangike 'a Mamani Fika 38140)	2003	Health Sector Support Project (Fakalalalaka)	22,662,545	0.75	40	705,063.73	0	22,662,545
22 IFAD 129 WORLD BANK (Pangike 'a Mamani Fika 129)	1983	Development Project (Ngaue Fakalalalaka)	3,030,215	1.00	50	683,795.16	1,174,208	1,856,007
23 IFAD 220 WORLD BANK (Pangike 'a Mamani Fika 220)	1988	Agricultural Development (Fakalalalaka 'o e Ngoue)	5,381,423	1.50	50	984,092.94	1,479,887	3,901,536
24 IFAD 327 WORLD BANK (Pangike 'a Mamani Fika 327)	1993	Agricultural Development (Fakalalalaka 'o e Ngoue)	7,017,326	1.50	50	1,031,065.07	1,052,601	5,964,725
25 Bank of China (Pangike 'a Siaina)	1998	Ha'apai High School Project (Ngaue Langa 'oe Ako Ma'olunga 'a Ha'apai)	7,800,000	0.00	20	0.00	0	7,800,000
26 Export-Import Bank of China (Pangike EXIM 'a Siaina) (reschedule)	2007	Upgrading to and Expansion of Dateline Hotel (Ngaue Fakalelei'I 'oe Hotele Dateline)	11,856,000	2.50	9	1,023,999.95	2,223,000	9,633,000
27 Export-Import Bank of China (Pangike EXIM 'a Siaina)	2008	Nuku'alofa CBD Reconstruction Project	19,776,670	2.00	20	1,976,871.40	0	19,776,670
<b>TOTAL GOVERNMENT FOREIGN DEBT - (FAKA-KATO A NGA AHI MO'UA NO KI MULI 'A E PULE'ANGA)</b>			<b>\$194,796,199</b>			<b>\$23,110,250</b>	<b>\$28,992,793</b>	<b>\$185,580,077</b>

**Table 21: Loans comprising the Government Domestic Debt as at 30th April 2009**

*(Ngaahi Mo'ua No Fakalotofonua 'a e Pule'anga 'i he 'aho 30 `o 'Epeleli 2009)*

Lender	Year	Purpose	Principal	Interest	Term (Years)	Cumulative Interest Repayment 30.04.09	Cumulative Principal Repaid 30.04.09	Outstanding Principal Debt 30.04.09
<i>(Pule'anga/Kautaha na'e fai mei ai 'a e No)</i>	<i>(Ta'u)</i>	<i>(Taumu'a No)</i>	<i>(Lahi 'o e No)</i>	<i>(Totongi Tupu)</i>	<i>(Taimi Totongi No (Ta'u))</i>	<i>(Lahi 'oe Totongi Tupu 30.04.09)</i>	<i>(Lahi 'o e Sino'i Pa'anga Totongi Fakafoki 30.04.09)</i>	<i>(Mo'ua Sino'i Pa'anga te'eki totongi 30.04.09)</i>
			\$	%			\$	\$
<b>Government Domestic Debt (Mo'ua No Fakalotofonua)</b>								
1 Local Development Bonds 1969/1974 (No Fakalotofonua 1969/1974)	1969	Issue of Bonds (Fakatau Ponite)	277,780	20.00	5	44,444.80	276,260	<b>1,520</b>
2 Local Development Bonds 1974/1979 (No Fakalotofonua 1974/1979)	1974	Issue of Bonds (Fakatau Ponite)	241,200	6.50	5	60,300.00	240,530	<b>670</b>
3 Local Development Bonds 1979/1984 (No Fakalotofonua 1979/1984)	1979	Issue of Bonds (Fakatau Ponite)	658,660	7.50	5	164,665.00	657,610	<b>1,050</b>
4 Government of Tonga Bond Series No. 1. 2004/2009 (No Fakalotofonua 'ae Pule'anga Tonga 2004/2009)	2004	Issue of Bonds (Fakatau Ponite)	5,000,000	6.75	5	1,687,500.00	5,000,000	<b>0</b>
5 Government of Tonga Bond Series No. 2. 2004/2009 (No Fakalotofonua 'ae Pule'anga Tonga 2004/2009)	2004	Issue of Bonds (Fakatau Ponite)	1,000,000	6.75	5	270,000.00	0	<b>1,000,000</b>
6 Government of Tonga Bond Series No. 2. 2005/2009 (No Fakalotofonua 'ae Pule'anga Tonga 2005/2009)	2005	Issue of Bonds (Fakatau Ponite)	3,603,000	6.00	4	648,540.00	0	<b>3,603,000</b>
7 Government of Tonga Bond Series No. 1. 2006/2011 (No Fakalotofonua 'ae Pule'anga Tonga 2006/2011)	2006	Issue of Bonds (Fakatau Ponite)	2,762,000	6.75	5	372,870.00	0	<b>2,762,000</b>
8 Government of Tonga Bond Series No. 2 2006/2009 (No Fakalotofonua 'ae Pule'anga Tonga 2006/2009)	2006	Issue of Bonds (Fakatau Ponite)	1,000,000	8.00	3	160,000.00	0	<b>1,000,000</b>
9 Government of Tonga Bond Series No. 3 2006/2009 (No Fakalotofonua 'ae Pule'anga Tonga 2006/2009)	2006	Issue of Bonds (Fakatau Ponite)	2,000,000	8.00	3	318,305.75	0	<b>2,000,000</b>
10 Government of Tonga Bond Series No. 4 2006/2008 ( No Fakalotofonua 'ae Pule'anga Tonga 2006/2005)	2006	Issue of Bonds (Fakatau Ponite)	1,000,000	7.50	2	150,000.00	1,000,000	<b>0</b>
11 Government of Tonga Bond Series No. 4 2006/2011 ( No Fakalotofonua 'ae Pule'anga Tonga 2006/2011)	2006	Issue of Bonds (Fakatau Ponite)	1,000,000	10.00	5	200,000.00	0	<b>1,000,000</b>
12 Government of Tonga Bond Series No. 5 2006/2011 (No Fakalotofonua 'ae Pule'anga Tonga 2006/2011)	2006	Issue of Bonds (Fakatau Ponite)	1,000,000	10.00	5	200,000.00	0	<b>1,000,000</b>
13 Government of Tonga Bond Series No. 1 2008/2013 (No Fakalotofonua 'ae Pule'anga Tonga 2008/2013)	2008	Issue of Bonds (Fakatau Ponite)	2,488,000	10.00	5	0.00	0	<b>2,488,000</b>
14 Government of Tonga Bond Series No. 2 2008/2011 (No Fakalotofonua 'ae Pule'anga Tonga 2008/2011)	2008	Issue of Bonds (Fakatau Ponite)	598,000	9.00	3	0.00	0	<b>598,000</b>
15 Government of Tonga Bond Series No. 3 2008/2011 (No Fakalotofonua 'ae Pule'anga Tonga 2008/2011)	2008	Issue of Bonds (Fakatau Ponite)	1,000,000	7.25	3	0.00	0	<b>1,000,000</b>
16 Government of Tonga Bond Series No. 1. 2009/2014 (No Fakalotofonua 'ae Pule'anga Tonga 2009/2014)	2009	Issue of Bonds (Fakatau Ponite)	5,000,000	6.65	5	0.00	0	<b>5,000,000</b>
17 Shipping Corporation of Polynesia Ltd. (Kautaha Vaka Folautahi Polinisia)	2001	Finance Fua Kavenga II investment (Fakatau Inasi 'i he Fua Kavenga II)	1,000,000	1.00	8	0.00	0	<b>1,000,000</b>
18 Government of Tonga (Puleanga Tonga)	2006	Advance to Shoreline Group of Companies (No 'a e Kautaha Shoreline)	1,955,168	0.00	3m	0.00	1,955,168	<b>0.00</b>
<b>TOTAL GOVERNMENT DOMESTIC DEBT - (FAKA-KATO'A NGA'AAHI MO'UA NO FAKALOTOFONUA 'A E PULE'ANGA)</b>			<b>\$31,583,808</b>			<b>\$4,276,626</b>	<b>\$9,129,568</b>	<b>\$22,454,240</b>

**Table 22: Government Guaranteed Loans as at 30th April 2009***(Ko e Ngaahi No 'oku malu'i 'e he Pule'anga 'i he 'aho 30 `o 'Epeleli 2009)*

<b>Lender</b> <i>(Pule'anga/Kautaha na'e fai mei ai 'a e No)</i>	<b>Year</b> <i>(Ta'u)</i>	<b>Purpose</b>	<i>(Taufu'a No)</i>	<b>Principal</b> <i>(Lahi 'o e No)</i>	<b>Interest</b> <i>(Totongi Tupu)</i>	<b>Term (Years)</b> <i>(Taimi Totongi No (Ta'u))</i>	<b>Cumulative Principal/Interest Repaid 30.04.09</b> <i>(Lahi 'o e Sino'i Pa'anga Totongi Fakafoki 30.04.09)</i>	<b>Outstanding Principal Debt</b> <i>(Mo'ua te'eki totongi 30.04.09)</i>
				\$	%		\$	
<b>Foreign (Muli)</b>								
1 Caisse Francaise De Development (Pangike Fakalalaka Falanise)	1995	Tonga Development Bank (Pangikē Fakalalaka 'o Tonga)		2,534,284	5.00	15	2,449,189	<b>85,095</b>
								<b>85,095</b>
<b>Domestic (Fakalotofofua)</b>								
1 Tonga Development Bank (Pangikē Fakalalaka 'o Tonga) - Loan (No)	2003	International Dateline Hotel (Hotele Dateline)		1,828,751	10.50	5	1,828,751	<b>0</b>
2 Public Bond Issue No. 5. - (Ponite Kakai 'o e Fonua)	2003	Tonga Development Bank (Pangikē Fakalalaka 'o Tonga)		1,500,000	7.75	5	1,500,000	<b>0</b>
3 Tonga Development Bank (Pangikē Fakalalaka 'o Tonga) - Loan (No)	2004	Squash Growers (Kau to hina)		10,626,965	8.00	7	1,534,537	<b>9,092,428</b>
4 Westpac Bank of Tonga (Westpac Pangike Tonga) - Loan (No)	2007	Renovation of Janfull International Dateline Hotel(Fakalelei'i 'o e Hotele Janfull Dateline )		584,355	13.25	5.5	135,000	<b>463,127</b>
<b>TOTAL GUARANTEED DEBTS - (KATOA NGAARI MO'UA NO MALU'I)</b>								<b>9,555,555</b>
				<b>\$17,074,355</b>			<b>\$7,447,476</b>	<b>\$9,640,651</b>