

Budget Statement, 2011/2012

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

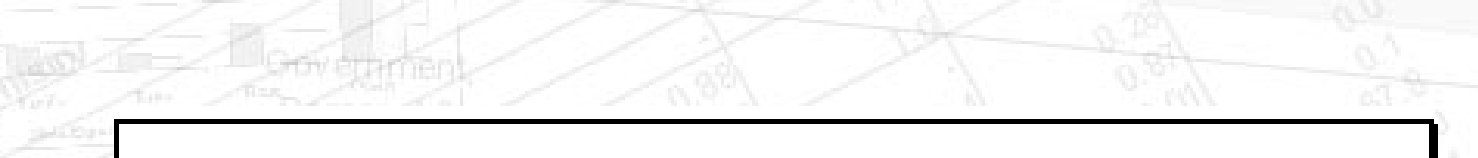


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1 THE NATIONAL DEVELOPMENT VISION

“To develop and promote a just, equitable and progressive society in which the people of Tonga enjoy good health, peace, harmony, and prosperity, in meeting their aspirations in life”.

1.1 Outcome Objectives

The Government’s Vision will be achieved by delivering the following outcome objectives:

1. **Strong inclusive communities**, by engaging districts/villages/communities in meeting their prioritized service needs and ensuring equitable distribution of development benefits.
2. **Dynamic public and private sector partnership as the engine of growth**, by promoting better collaboration between government and businesses, appropriate incentives, and streamlining of rules and regulations.
3. **Appropriate well planned and maintained infrastructure that improves the everyday lives of the people and lowers the cost of business** by the adequate funding and implementation of the National Infrastructure Investment Plan.
4. **Sound education standards**, by emphasizing quality universal basic education.
5. **Appropriately skilled workforce** to meet the available opportunities in Tonga and overseas, by delivery of improved Technical and Vocational Education & Training.
6. **Improved health of the people**, by promoting healthy lifestyles choices, with particular focus on addressing non-communicable diseases, and providing quality, effective and sustainable health services.
7. **Cultural awareness, environmental sustainability, disaster risk management, and climate change adaptation, integrated into all planning and implementation of programs**, by establishing and adhering to appropriate procedures and consultation mechanisms.
8. **Better governance**, by adherence to the principles of good governance, accountability, transparency, and the rule of law.
9. **Safe, secure and stable society**, by maintaining law and order.

1.2 Enabling Themes

The delivery of Tonga’s Outcome Objectives will be facilitated through:

Continuing progress to a more efficient and effective government by focussing on its core functions; improving coordination, service delivery and optimising use of resources.

Improving the macro-economic environment and fiscal management, including effective revenue services to ensure a level playing field and that services to the people can be appropriately funded.

Ensuring Public Enterprises are sustainable and accountable, and where appropriate moved into the private sector.

Ensuring a more coordinated whole of government approach in our partnership with development partners

2 BUDGET AT A GLANCE

The Government has approved the *Tonga Strategic Development Framework (TSDF)* which sets out the Strategies by which government plans to deliver the Outcome Objectives during its term. The TSDF informs the Ministries plans which guide the budget allocation negotiations.

The *Budget 2011/2012* is based on the Fiscal and Macroeconomic Priorities and Objectives:

1. *To regain fiscal stability while enhancing service delivery in core areas.*
2. *To increase growth by providing economic stimulus.*

Total Appropriation (cash): \$210.4 million (\$170.9 million government (including Budget support of \$27.9 million), \$39.5 million development).

Total Budget (cash plus in-kind): \$344.6 million (in-kind \$134.2 million)

Table 1: Total cash budgets for each Outcome Objectives (TOP\$m)

Outcome Objective	Government	Development Partner (cash only)
1. Strong inclusive communities	8.2	1.5
2. Dynamic public and private sector partnership as the engine of growth	10.2	4.3
3. Appropriate well planned and maintained infrastructure that improves the everyday lives of hte people and lowers the cost of business	16.8	6.8
4. Sound education standards	28.4	5.8
5. Appropriately skilled workforce	2.1	3.9
6. Improved health of the people	22.1	4.9
7. Cultural awareness, environmental sustainability, disaster risk management, and climate change adaptation, integrated into all planning and implementation of programs	9.1	2.5
8. Better Governance	62.7	9.5
9. Safe, secure and stable society	11.3	0.3
Total	170.9	39.5

Source: Ministry of Finance and National Planning

Table 2: Key Economic and Fiscal Indicators:

	2009/10	2010/11	2011/12
Real GDP Growth	0.3%	1.5%	1.2%
(As % of GDP)			
Total Revenue	21%	19%	19%
Total Expenditure	32%	32%	29%
Total Public Debt	38%	44%	41%
Debt Servicing	3%	3%	2%
Nominal GDP in \$ million	671.9	706.7	750.8

Source: Ministry of Finance and National Planning

2.1 Budget Objectives and Fiscal Approach

For the 2011/12 Budget government is giving particular focus to the following five (5) Objectives that support the TSDF.

Budget Policy Objectives:

1. **Improved Public Financial Management:** for good governance, transparency, accountability and anti-corruption, improved delivery of government's functions; and long term fiscal sustainability.
2. **Confirmed core functions of Government and improved public service structure:** to improve governments focus, effective structure and service delivery, and manage the size of the public service wage bill.
3. **Improved access to cost effective energy:** reduced costs, enable savings, increase productivity for the benefits of consumers and business.
4. **Improved enabling environment for private sector development:** to ensure the private sector can be the driver of economic growth, create job opportunities, utilization of skills, and improve trade.
5. **Viable and inclusive communities with access to improved services (health, education):** to enhance the well being of Tongans throughout the Kingdom.

Fiscal Approach and Measures:

The Government's over all *fiscal approach*, which guides the formulation of the 2011/12 budget, is based on these four key commitments:

- **prudent budgets**, which involves a degree of fiscal consolidation of the government-funded budget, to ensure fiscal sustainability, expanded fiscal space to respond to future shocks while protecting growth, welfare and reforms
- **prudent revenue system**, strengthen tax administrations within the capacity of the economy to pay
- **prudent expenditure allocation**, focussed on governments core functions, rationalized public expenditure, and available funding
- **prudent debt management** which avoids borrowing until debt is again within acceptable limits

Risks

Government recognizes its program is demanding and that risks exist. These include further down turn in the world economy and natural disasters and delays in receipt of budget support. Little can be done to directly mitigate these risks, apart from showing our development partners our commitment to good governance, and remaining a responsible member of the international community.

2.2 Government Activities by Outcome Objectives

1. Strong inclusive communities, by engaging districts/villages/communities in meeting their prioritized service needs and ensuring the equitable distribution of development benefits.

Total Budget: \$9.7 million (Recurrent \$8.2 million; Aid \$1.5 million)

Lead Ministries: LA, PMO, MOFNP, MOH, MEWAC, MOTEYS, MAFFF

Key Initiatives and Projects:

Government is providing out of recurrent funding:

- Remunerations and operational costs of District and Town Offices.
- Extension services to the community in areas such as health, agriculture, training and employment.
- Constituency Grants to each of 17 constituencies, to help particular development activities of the constituency.
- Grant to charitable organizations to help vulnerable groups.
- Grant to sporting bodies.
- Fund the operation costs of the regional committees.



Government is providing out of development funding:

- Japan Grant Assistance to Grassroots Project, including water supplies.
- NZ funded Mainstreaming of Rural Development Innovation (MORDI Tonga Trust).
- 10th EDF ACP –EU Water facility
- UNDP/SPREP Pacific Adaptation Climate Change (PACC) Project.
- Assistance from Government of Germany for Ha’apai Foa Causeway.
- Tsunami Emergency Recovery Management Project (TERMP) : World Bank for private houses, EU for health facilities, NZAID for classrooms, Japan assistance for water supply, UNDP towards livelihood activities and disaster management planning.
- Tonga Community Development scheme by Australia (TCDS) allocated for Ha’apai water tanks
- Tourism Growth Fund by NZAID to encourage tourism at the local community and income generating activities
- Vulnerability fund (Japan, ADB, EU)
- Community Driven Development Program (MoFNP/World Bank)
- Floriculture Project (income generating activities for women)
- encouraging the development and participation in sports, including training is in sporting skills, so that more sports people can compete overseas and join overseas teams (MOTEYS)

2. Dynamic public and private sector partnership as the engine of growth, by promoting better collaboration between government and business, appropriate incentives, and streamlining of rules and regulations.

Total Budget: \$14.5 million (Recurrent \$10.2 million; Aid \$4.3 million)

Lead Ministries: MLCI, MAFFF, Ministry of Tourism, Ministry of Revenue

Key Initiatives and Projects:



Government is providing out of recurrent funding:

- establishing sound macro-economic conditions within which the private sector can operate
- exploring feasible options to reduce the cost of fuel and electricity under the TERM
- directing technical support to strengthen the private sector to prepare better business plans, so they can access loans more easily
- ensuring effective operation of the post harvest facilities and the revitalisation of the High Temperature Forced Air (HTFA) at the airport to encourage exports.
- continuing efforts to revive the export of watermelon to New Zealand.
- focusing on food security and reviving exports by expanding production to include vegetables for sale in overseas supermarkets.
- ensuring proper management of sea cucumber licences to avoid over harvesting so as to replenish sea cucumber stocks.
- improving the operations of the public enterprises
- increasing the number of workers who can access the Regional Seasonal Employment and Pacific Seasonal Workers Pilot Scheme to farmers in New Zealand and Australia, and seek options from US for similar schemes there.
- supporting the private sector upgrading of tourism accommodation and other facilities
- improving the institutional framework for lending, and improve regulation and supervision
- continuing to work with the NRBT to manage the exchange rate appropriately, and ensure adequate reserves
- continuing to ensure a well educated workforce with the skills required for domestic and overseas employment
 - negotiating for more cruise ships to visit Tonga, especially through the Fiji route
 - reviewing options for improving the Small Industries Centre
 - The availability of quarantine work will contribute positively to the export of handicrafts.
 - Continue to negotiate access for Tongan products in the region, including progressing with PACER Plus

Government is providing out of development funding:

- promoting tourism, including “Eva Mai” Tourism Experience in cooperation with the private sector (NZ AID, World Bank).
- providing necessary training in the production and handling of watermelons (EU).

- increasing the tourism sector's contribution to Tonga's economic growth, whilst supporting environmental and cultural sustainability, Tonga Tourism Support Programme.
- implementing company registration and improving the business licence process for a more supportive business environment (IFC)
- China 2nd Phase of Agriculture Demo Farm Project to generate bio-gas, cultivate mushrooms and make noodles out of sweet potato.
- Improving fisheries management by EU-ACP, Commonwealth Secretariat and Pacific Islands Forum Fishing Agency.
- Food Security and Sustainable Livelihood Program and the Emergency Assistance to Support Agriculture and Fishery Systems of Tsunami affected families in Niuatoputapu (FAO)

3. Appropriate well planned and maintained infrastructure that improves the everyday lives of the people and lowers the cost of business, by the adequate funding and implementation of the National Infrastructure Investment Plan.

Total Budget: \$23.6 million (Recurrent \$16.8 million; Aid \$6.8 million)

Lead Ministries: MOT, MOW, Tourism, MICs, MOH

Key Initiatives and Projects:

Government is providing out of recurrent funding:

- Operational costs
- Foa causeway (Government funded, from saving from German loan write off)
- Negotiating with private investors for more cost effective supply of fuel
- Seeking options for the management and operations of the Friendly Island Shipping Agency



Government is providing out of development funding:

- Tongatapu, Vava'u, Ha'apai, 'Eua airport runway upgrading (World Bank grant, NZAID)
- Submarine Cable Project (World Bank and ADB grant)
- Tonga Energy Road Map to increase efficiency of energy usage and identify options for non-renewable energy (multi-donor)
- reconstruction of Nuku'alofa business district, buildings and other infrastructure, will continue for another year (loan from EXIM Bank of China)
- Vuna Wharf construction is due to be completed in 2012 (loan from EXIM Bank of China)
- road projects, throughout the country (loan from EXIM Bank of China, grants from ADB, World Bank)
- post-tsunami rehabilitation of Niuatoputapu (World Bank for housing, Japan for water supply, EU for hospital, NZAID classrooms, and UNDP with the early warning system, commencing next year).
- AusAid through the World Bank Transport Sector Consolidation Project will fund road maintenance, using local contractors the extension to the Vaiola hospital (Japan)

4. Sound education standards, by emphasising quality universal basic education.

Total Budget: \$34.2 million (Recurrent \$28.4 million; Aid \$5.8 million)

Lead Ministries: MEWAC

Key Initiatives and Projects:



Government is providing out of recurrent funding:

- ensuring the effective operations of the Quality and Assurance Control Office to monitor improvement in education.

Government is providing out of development funding:

- Tonga Education Support Program (TESP)

5. Appropriately skilled workforce to meet the available opportunities in Tonga and overseas, by delivery of improved Technical and Vocational Education & Training.

Total Budget: \$6.0 million (Recurrent \$2.1 million; Aid \$3.9 million)

Lead Ministries: TVET, MEWAC (TIHE), MOH (nursing school), TDS, MOP (training)

Key Initiatives and Projects:



Government is providing out of recurrent funding:

- improving skills for graduates to find gainful employment and contribute to their communities.
- laying the foundations for the Tonga Institute of Sports

Government is providing out of development funding:

- NZAID/AusAID substantial supports towards TVET
- Technical training for TDS (Australia, NZ, USAID)

6. Improved health of the people, by promoting healthy lifestyles choices, with particular focus on addressing non-communicable diseases, and providing quality, effective and sustainable health services.

Total Budget: \$27.0 million (Recurrent \$22.1million; Aid \$4.9 million)

Lead Ministries: MOH

Key Initiatives and Projects:



Government is providing out of recurrent funding:

- continuing the successful immunization program
- continuing to support Tonga Health to raise awareness on healthy life styles

Government is providing out of development funding:

- the extension to the Vaiola Hospital (Japan)
- Medical Treatment Scheme (MTS)

7. Cultural awareness, environmental sustainability, disaster risk management and climate change adaptation, integrated into all planning and implementation of programs, by establishing and adhering to appropriate procedures and consultation mechanisms.

Total Budget: \$11.6 million (Recurrent \$9.1 million; Aid \$2.5 million)

Lead Ministries: MECC, MOW, TDS, MOP, Fire, MLNR, MOT

Key Initiatives and Projects:

Government is providing out of recurrent funding:

- encouraging traditional cultural activities in schools
- continuing support to the National Emergency Management office and other disaster response activities
- Establishing early warning systems and training in disaster response



Government is providing out of development funding:

- Tonga Energy Road Map (TERM)
- Environmental projects.

8. Better governance, by adherence to the principles of good governance, accountability, transparency, and rule of law.

Total Budget: \$72.2 million (Recurrent \$62.7 million; Aid \$9.5 million)

Lead Ministries: PMO, MoFNP, Audit, PSC, LA, Palace, Foreign Affairs, MPE, Revenue, MLSNR, Crown Law, Commission of Public Relations

Key Initiatives and Projects:

Government is providing out of recurrent funding:

- prudent fiscal measures and approach
- working with the Parliament Public Accounts Committee to improve public expenditure management and accountability
- establishing the anti-corruption office
- developing improved communications strategy, with more transparent publication, e.g. Cabinet decisions, government publications,
- continuing to strengthen internal audit functions throughout government
- developing the capacity for performance auditing
- fully implementing public procurement regulations
- increase regularity of financial reporting to Cabinet and Parliament
- enforcement of Rule of Law
- implement and carry out the Constitutional reform
- developing debt management strategy

Government is providing out of development funding:

- strengthening anti-corruption
- institutional strengthening of MoFNP accounting, internal audit, procurement, budget, economic and policy analysis, strategic and Ministry level planning, aid management, monitoring and evaluation of plans, programs and projects support to Crown Law and, PSC operations.

9. Safe, secure and stable society, by maintaining law and order

Total Budget: \$11.6 million (Recurrent \$11.3 million; Aid \$0.3 million)

Lead Ministries: Justice, Police, TDS, TFS & Prison

Key Initiatives and Projects:

Government is providing out of recurrent funding:

- operations of justice, police, prisons and national security

Government is providing out of development funding:

- training, institutional strengthening
- substantial in-kind support to institutional development, operations for patrol boats

Linking Outcome Objectives, Ministry Plans and Budgets

Outcome and activities listed above, with key performance indicators, are based on the Ministries' Annual Management Programmes (AMPs) guided by their longer term Corporate Plans (CPs). These provide the basis for the budget allocations. The Plans are then adjusted to take account of the actual allocations received. These Plans also contain the performance indicators which Ministries as well as MoFNP and PSC will use to monitor performances during the year to ensure output are achieved not only with regards to Government funded activities but also with projects – an important element of our budget.

This process will continue to be strengthened with the development of clear links between the performance indicators for the Ministry Plans and the TSDF. Work will also proceed on developing a Medium Term Budget Framework (MTBF) to improve macro-fiscal analysis, and progress towards Output Budgeting.

These systems provide the tools both for improved management at the Ministerial level and nationally, so improving overall governance and delivery.

3 GLOBAL AND REGIONAL DEVELOPMENTS

3.1 Global Developments

The global economic recovery is picking up but the pace varies across regions, with a clear two-track trend emerging, that is, weakening growth in advanced economies (most of which are key remittance source countries for Tonga), and strong growth in emerging economies. World GDP is estimated to have expanded by 5.0 in 2010, and is projected to grow by 4.4% in 2011 and 4.5% in 2012. Strong domestic demand in emerging economies such as China and India will continue to lead the global recovery.

In advanced economies, growth is forecast to weaken from 3.0 in 2010 to an estimated 2.5 in 2011 and 2012. Economic activity remains subdued, unemployment remains high, and there is continuing uncertainty in international financial markets given sovereign debt challenges in the euro area. These are all weighing down growth in advanced economies. In the United States (US), the recovery has been stronger in the last quarter of 2010 owing to robust growth in private consumption, exports and a sizable drop in imports. Looking ahead, however, continued weakness in the labour market is still a concern not only due to the economic impact but also for the large human and social costs of high long term unemployment. Income growth remains weak, a sizable over supply in the housing markets and the need for consumers and companies to pay off debt are expected to remain a drag on private demand. Fiscal consolidation and the flow through effect of sovereign debt problems in Europe are restraining growth in the US to moderate levels.

Growth in emerging economies remains robust, but the balances of risks are now tilting to the downside. Signs of overheating are emerging in some economies, while others are projecting slower growth due to emerging capacity constraints. Strong growth in China and India, as well as growing intra-regional trade is offsetting weaker demand from advanced economies. It is estimated that emerging economies grew by 7.1% in 2010 and are projected to grow by 6.5% in 2011 and 2012.

Economic activity in most developing countries has recovered slightly due to resurgence in international and domestic financial flows and higher commodity prices. Most of the spare capacity in developing countries that was created by the crisis has been reabsorbed, and developing countries are growing at rates close to those observed before the crisis.

3.2 Regional Developments

The economic outlook for Australia and New Zealand is slightly more positive despite recent natural disasters, and unemployment rates have returned to pre-crisis levels. Expenditure related to disaster recovery and rehabilitation, as well as rising commodity prices are expected to boost GDP through 2011. The positive outlook for the Australian and NZ economies underpins an expected rise in tourism to the Pacific Islands in 2011 and some recovery in remittance flows. Overall economic growth for the Pacific Islands in 2012 is expected to remain close to 2011 levels.

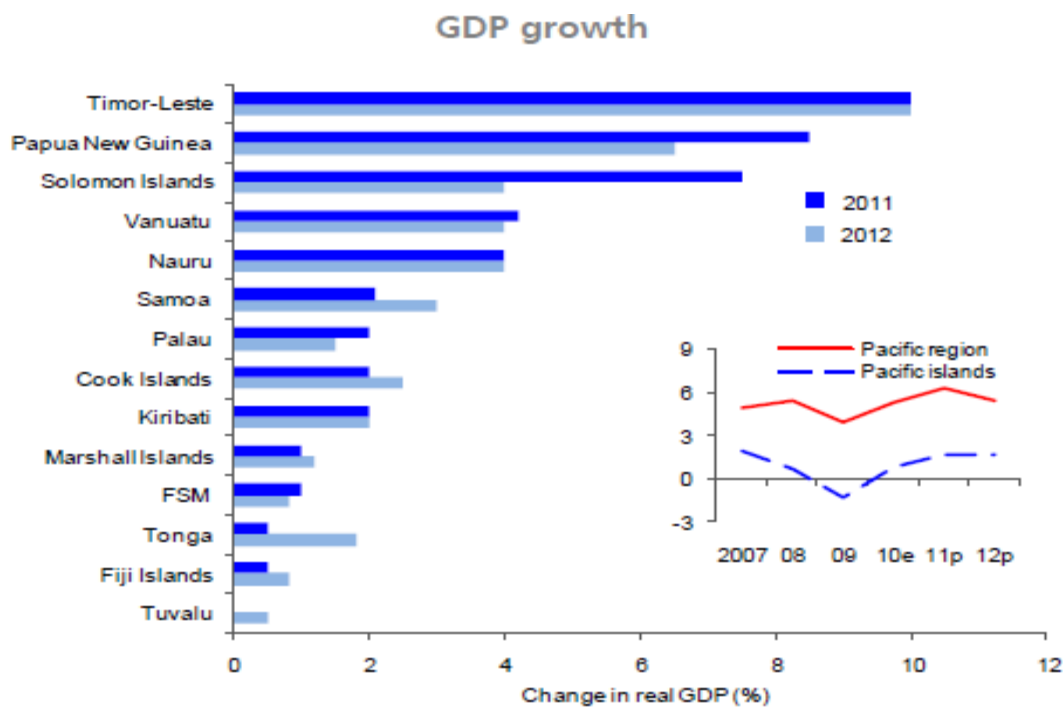
Oil prices have recently reached levels not seen for many years due to increased risk of supply disruptions from the volatile political situation in a number of countries in the Middle East and North Africa. An inflation rate of 6.5% is projected for the entire Pacific, an upward revision from 5.3% in 2010, due to higher commodity prices. The remoteness and import-dependent

Pacific island economies are particularly exposed to the economic costs of higher world fuel and food prices and they will bear the brunt of the rise in import prices.

The world recovery is supporting a sustained increase in remittance flows to developing countries. The World Bank forecasts that overall remittances to East Asia and the Pacific will increase by 7.5% in 2011, after a rise of 6.4% in 2010. This provides some confidence for an increase in remittances to the Pacific over the medium term.

The Asian Development Bank has projected overall growth for Pacific Island economies of 6.3% in 2011 slightly up from 5.3% in 2010.

Figure 1: Latest Asian Development Bank GDP projections for the Pacific



Source: Pacific Economic Monitor, February 2011, ADB

The two leading resource-rich economies in the Pacific, namely Papua New Guinea (PNG) and Timor-Leste are estimated to grow by 10% and 8.5% respectively in 2011. PNG is supported by the production of liquefied natural gas and the Timor-Leste economy will be driven by the expansion in government expenditure funded by offshore petroleum revenue. Solomon Island is expected to expand by 7.5% owing to the recommencement of gold production. Increased phosphate exports are expected to help Nauru return to a moderate growth rate.

4 TONGA'S RECENT ECONOMIC AND SOCIAL PERFORMANCE

4.1 Progress with Millennium Development Goals (MDGs)

In 2000, Tonga is among 189 nations signed to the 2000 Millennium Declaration, committed to achieving substantial progress in basic areas of human development through achieving the eight (8) overarching goals and targets of MDGs. This commitment would form the backbone for poverty alleviation and way forward for a better future for all people by year 2015.

Tonga produced its first national status report in 2005 and second report in 2010. The table below provides the following summary of progress.

Table 3: Status at a Glance: Progress and Achievability of the MDG Framework in Tonga

	State of Progress	Achievability by 2015	State of National Support
MDG1. Eradicate Extreme Poverty and Hunger			
Target 1A. By 2015, halve the proportion of people whose income is less than US\$1 a day		****	S
Target 1B. Achieve full and productive employment and decent work for all including women and young people		***	G
Target 1C. By 2015, halve the proportion of people who suffer from hunger		***	S
MDG2. Achieve Universal Basic Education			
Target 2A. Ensure, that by 2015, every child will be able to complete a full course of primary schooling		****	S
MDG3. Promote Gender Equality and Empower Women			
Target 3A. Eliminate, by 2015, gender disparity		**	G
MDG4. Reduce Child Mortality			
Target 4A. Reduce by two-thirds, between 1990 and 2015, the under- five mortality rate		***	S
MDG5. Improve Maternal Health			
Target 5A. Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio		***	S
Target 5B. Achieve, by 2015 universal access to reproductive health		***	G
MDG6. Combat HIV/AIDS, Malaria and Other Diseases			
Target 6A. Have halted by 2015 and begun the spread of HIV/AIDS		***	G
Target 6B. Achieve, by 2015, universal access to treatment for HIV/AIDS for all those who need it		***	G
Target 6C. Have halted by 2015 and begun to reverse the incidence of NCDs		**	G
MDG7. Ensure Environmental Sustainability			
Target 7A. Integrate the principles of sustainable development into country policies and programs and reverse the loss of environment resources		***	G
Target 7B. By 2010, achieve a significant reduction in biodiversity loss		***	G
Target 7C. Halve the proportion of people without sustainable access to safe and drinking water and basic sanitation		****	S
MDG8. Develop a Global Partnership for Development			
Target 8A. Develop an open, non-discriminatory trading and financial system, including good governance, and poverty reduction		***	S
Target 8B. Address the needs of small island developing states		***	G
Target 8C. In cooperation with the private sector, make available, by 2010, the benefits of new technologies, especially information and communications		***	G

<u>State of Progress Scale</u>		<u>State of National Support Scale</u>		<u>Achievability Scale</u>	
	Already Met the target or very close to meeting the target	S	Strong		****
	Progress and national support sufficient to reach the target if prevailing trends persist	G	Good		***
	Progress and national support insufficient to reach the target if prevailing trends persist	W	Weak		**
	No progress or deterioration				*
	Missing or insufficient data				

					**
					*

Sources : 2nd National Millennium Development Goals Report, Tonga, September 2010

Tonga is on track to meet all the targets except for two namely, Gender and Non-Communicable Diseases. MDG1 has been achieved with low extreme poverty in Tonga,



though there are concerns with the quality of GDP growth which is overly focussed in the urban areas. Efforts are still needed to combat basic needs poverty and provide employment, in particular for youths. Hunger is not a major issue, however, the quality of nutrition is a concern as shown by the lack of progress in addressing the prevalence and impact of non-communicable diseases.

The progress with the other health targets under MDGs 4, 5 and 6 reflects the good level of health services already attained in Tonga.

The high standard of education is shown in the progress with MDG2 (and the attainment of universal access to primary education), however there are other areas and challenges in secondary and vocational education that still need to be addressed which will be covered in the social progress section. Gender parity in education has been achieved, however, there are still shortcomings in gender empowerment, showing the lack of progress under MDG3. The poor progress against this indicator does not reflect the high status of women in Tongan custom and the large number of women working in the public service.

Tonga's commitment to a sustainable environment, in particular through the new Ministry of Environment and Climate Change, and efforts at improving availability of data and indicators are reflected in the progress on MDG7. MDG8 is making good progress with the increased efforts at improving good governance, access to information and communication, and a strong partnership with development partners' support to social services, technical assistance, and budget support.

From the 1990s until the onset of the crisis, developing countries, including Tonga, made significant progress in human development. However, the crisis has affected key drivers of progress towards the MDGs. The impact was undoubtedly negative because of the severity of the recession and indicators of human development tended to decline much more in bad times than their improvement in good times.

The latest 2009 Household Income and Expenditure Surveys (HIES) has identified hardship faced by Tongans. The survey revealed that the depth of hardship has increased, meaning that more people are facing hardship in Tonga in 2009 compared with the situation in 2001. It should be noted that 2009 saw Tonga suffering from the effects of the Global Economic Crisis (GEC) with remittances significantly lower than in recent years which greatly affected the reported income levels in the HIES. If the HIES was undertaken a year earlier, the hardship results may have been significantly different. The deterioration is of concern because this continues level it would put at risk success against some of the MDGs especially MDG1. Tonga has maintained its traditional social safety nets in the face of the income decline, which helps to protect the more vulnerable groups. Prolonged high levels of poverty risks doing damage to these traditional systems that may be difficult to reverse, which would reduce Tonga's resilience to economic downturns in future. This strengthens the case for government (and development partners) take steps to alleviate hardship now, to avoid prolonged high levels of poverty.

4.2 Economic Progress

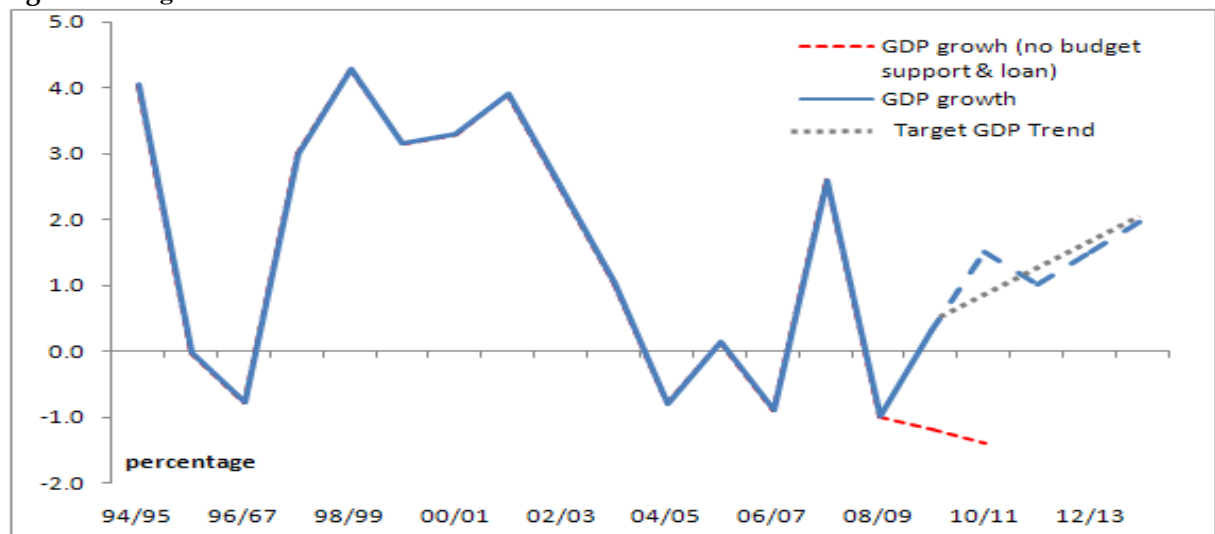
4.2.1 Historical and Targeted GDP Growth

During the 1990's Tonga's economic growth averaged 2.3%, dropping to slightly over 1.0% at the turn of the century. Growth dropped significantly in 2004/05 due to the large decline in agricultural exports, in particular squash pumpkin. Political disruptions over the next two years hindered growth before it recovered in 2007/08, in the lead up to the coronation of His Majesty King George Tupou V in August 2008 only to suffer a setback due to natural disasters and the global financial crisis in 2008/09.

Earlier estimates suggested that the economy was significantly impacted by the global crisis. Revisions to the GDP estimates for 2008/09 and 2009/10, however, to fully account for significant infrastructure investments, show that the overall impact was contained by (i) an increase in budget support which enabled the government to maintain its expenditure programs despite substantial falls in tax revenue; and (ii) access to additional capital borrowing to fund public works. As a result, GDP declined in 2008/09, but grew in 2009/10 and is projected to be at least 1.5% in 2010/11 (consistent with the revised IMF estimates). The GDP outturn for 2010/11 could well be higher; however, infrastructure investments are expected to decline in 2011/12, which will lead to a levelling off in growth in 2012/13 before picking up in 2013/14. Without the economic stimulus generated by increased infrastructure investments, the economy would have contracted in 2009/10 and 2010/11.

It is important to note that continuing to adopt an expansionary fiscal approach to stimulate economic growth is not recommended. Budget support to fund Tonga's capital expenditure program may not be available, and further borrowing must be avoided given that Tonga is already at high risk of debt distress. In addition, the spill over effects of increased personnel costs, and infrastructure investment has been focused on Nuku'alofa and not well distributed across the country. In addition, most of the externally funded infrastructure projects use imported material and foreign labour. On the other hand, projects like the extension of the Vuna wharf should encourage more cruise ships, and the road development is taking place on a range of islands.

Figure 2: Tonga Real GDP Growth for Future Years



Source : Statistics Department & Ministry of Finance and National Planning

Table 4: GDP in Current Prices (T\$million)

Item	2007/08	2008/09	2009/10	2010/11 (est)
GDP (current, T\$ millions)	661.5	650.1	671.9	706.70

Source : Statistics Department & Ministry of Finance and National Planning

GDP per capita in 2010/11 is estimated at \$6,928. GDP per capita has been relatively static in real terms over recent years.

Government aims to increase economic growth over the next three (3) years, with a realistic target of 2.0% by 2013/14. This is consistent with Tonga's long-run average growth rate. Importantly, improvements to the quality and distribution of this growth will be a major focus. Key sectors for driving this growth include:

- aligning agriculture and fisheries production to long-run demand in major export markets to ensure that the past problems of bust and boom are avoided;
- increase in high value tourism, which is focussed on the outer islands;
- directing donor-funded infrastructure investment to meet the development priorities of the country;
- community based development initiatives to help income generating activities in rural/outer islands communities;
- review implementation of Tonga Energy Road Map (TERM) to reduce the cost of energy and water consumptions; and
- improving the overall environment for a vibrant private sector.

Despite this positive outlook, the economy is still vulnerable to economic shocks and natural disasters which could hinder economic growth. The gradual improvement in Tonga's fiscal position through a program of fiscal consolidation should help build in greater flexibility to adjust to these threats. In the interim, however, efforts to raise levels of revenue will need to be stepped up, and taken in parallel with measures to control, prioritize and improve the quality of expenditure. The support of Tonga's development partners is central to this effort.

Continuing tight banking lending will also continue to weigh down growth as investors and consumers' face limited access to capital. Government will work with the National Reserve Bank of Tonga, commercial banks and the private sector to increase business' ability to access the excess liquidity and so help boost the growth of the private sector. This will not involve controlling interests nor direct controls on lending, but will focus on directing technical support to strengthen the private sector to prepare better business plans, and other reforms which make it easier for business to provide the necessary collateral for loans.

Inflation is forecast to increase with higher world fuel prices raising transportation cost and food prices which could dampen consumption of nutritious food, and increase costs to business. Government is committed to explore feasible options to reduce the cost of fuel and electricity under the TERM project.

Finally, the increased focus on transparency, accountability, improved governance and greater private-public consultation as a result of the shift to a more democratic system of government is expected to improve efforts to grow the economy.

4.2.2 GDP Sectorial Performance

There is clear potential for sustained, and even stronger, economic performance. Tonga's economy is led by the tourism, agriculture, and fisheries sectors, which can continue to be vibrant sources of employment and economic growth given Tonga's natural beauty, well-educated labor force, and land and marine resources.

Table 5: Economic Growth and Forecast by Sector - Real terms (%)

	2007/08	2008/09	2009/10	2010/11	2011/12
Primary Sector	0.6	-1.7	-3.1	0.3	1.0
Agriculture, Forestry and Fishing	0.6	-1.7	-3.1	0.3	1.0
Secondary Sector	4.8	1.8	-0.5	4.4	5.8
Mining and Quarrying	12.1	-0.2	-21.5	3.0	0.5
Manufacturing	0.6	6.4	-0.7	-0.3	0.5
Electricity and Water	0.6	6.4	-0.7	-0.3	2.3
Construction	10.9	-1.7	1.9	12.0	1.9
Tertiary Sector	2.1	-1.9	0.9	0.8	1.2
Commerce, Hotels and Restaurants	7.4	7.6	-0.3	0.3	1.2
Transport and Communications	-6.1	-5.7	3.7	1.9	2.7
Finance and Business Services	2.6	-17.8	-3.7	-0.5	1.0
Government Administration and Community Services	2.6	-1.1	2.3	0.8	0.6
Entertainment, Recreation and Personal Services	0.3	-0.9	4.9	2.0	1.4
Ownership of Dwellings	1.4	1.2	1.3	1.1	1.1
Less: Imputed Banks Service charge	-5.1	-12.8	-16.0	-0.5	1.0
Real GDP at factor Cost	2.5	-0.9	0.2	1.5	1.2
Net Indirect Taxes	3.1	-1.8	1.0	1.5	1.2
Real GDP	2.6	-1.0	0.3	1.5	1.2

Source : Statistics Department & Ministry of Finance and National Planning

Table 6: Sector Contributions to GDP (%)

	2007/08	2008/09	2009/10	2010/11	2011/12
Primary Sector	20.0	19.8	19.2	18.9	18.9
Agriculture, Forestry and Fishing	20.0	19.8	19.2	18.9	18.9
Secondary Sector	19.8	20.4	20.2	20.8	20.8
Mining and Quarrying	0.4	0.4	0.3	0.3	0.3
Manufacturing	9.3	10.0	9.9	9.7	9.7
Electricity and Water	2.6	2.5	2.4	2.3	2.4
Construction	7.6	7.5	7.7	8.5	8.5
Tertiary Sector	60.2	59.8	60.6	60.3	60.3
Commerce, Hotels and Restaurants	13.6	14.8	14.7	14.5	14.5
Transport and Communications	7.3	7.0	7.2	7.3	7.4
Finance and Business Services	10.0	8.3	8.0	7.9	7.9
Government Administration and Community Services	15.5	15.4	15.8	15.7	15.6
Entertainment, Recreation and Personal Services	3.1	3.1	3.2	3.2	3.2
Ownership of Dwellings	13.2	13.5	13.6	13.6	13.6
Less: Imputed Banks Service charge	-2.5	-2.2	-1.9	-1.9	-1.8
Real GDP at factor Cost	100.0	100.0	100	100	100

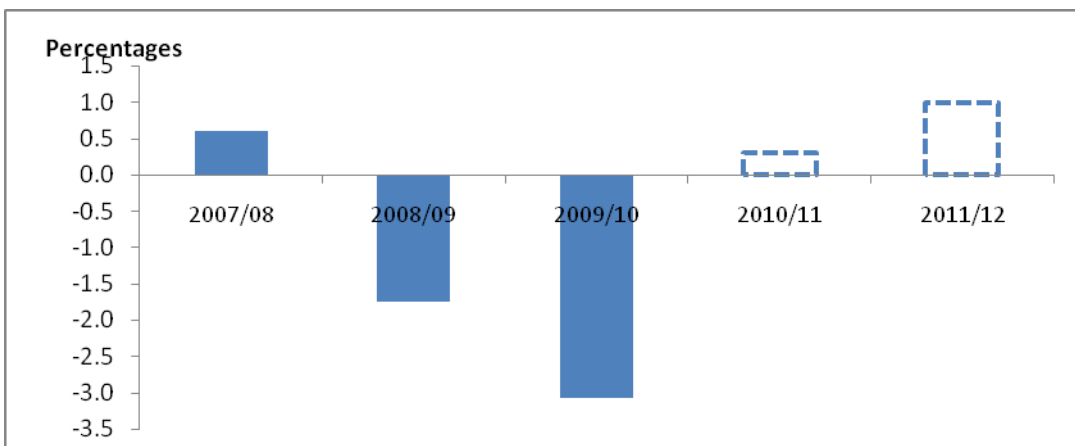
Source : Statistics Department & Ministry of Finance and National Planning

4.2.2.1 Primary Sector

4.2.2.1.1 Agriculture and Fishing



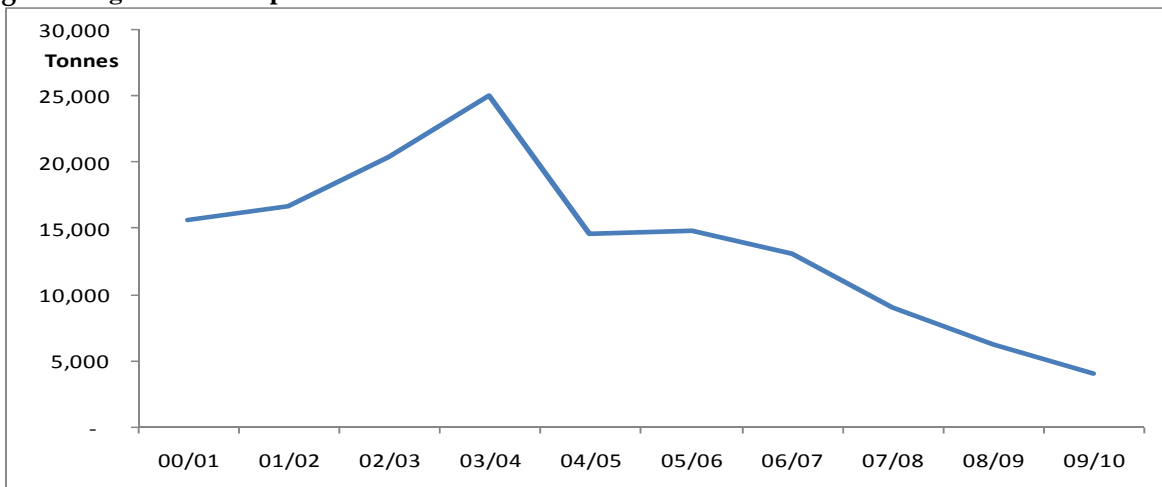
Figure 3: Agriculture, Fisheries and Forestry Sector Growth



Source : Statistics Department & Ministry of Finance and National Planning

The agricultural sector is a significant contributor to the Tongan economy and a significant source of employment, but production of primary products continues to decline. This decline has been driven by a fall in exports, in particular squash, from over \$20 million in 2002/03 and is forecast to only be about \$5 million in 2010/11.

Figure 4: Agricultural Exports



Sources : Statistics Department & Ministry of Finance and National Planning

The long term decline in agricultural products is due to a mixture of poor management of production, quality control, marketing, and natural disasters. The global crises, and the

subsequent weakening in global demand, exacerbated this decline. Squash declined by 35% in 2009/10, and fell further by 47% (to just 847 tonnes) in 2010/11. Export estimates for 2011/12 are lower. Vanilla picked up in 2009/10 by 157% from 5 tonnes to 13 tonnes but is expected to decline by 8% in 2010/11, though the outlook is still uncertain. Export of root crops declined by 53% in 2009/10 and is estimated to remain static in 2010/11 as Tongans abroad, the main consumers, continue to deal with lower household incomes. Coconut exports increased by 20% from 263 tonnes to 316 tonnes in 2009/10 and are estimated to remain constant in 2010/11. Kava exports to overseas markets increased by 2% from 54 tonnes to 55 tonnes in 2009/10. Sandalwood is currently exported at around \$50/kilo; however outlook remains uncertain due to limited stock.

Production and sales for domestic consumption remain high, despite the sharp falls in the last few years due to poor rainfalls and several cyclones.

Agricultural production is anticipated to rebound in 2011/12 by 0.5% taking into account various initiatives and infrastructure investments established in the current financial year such as the establishment of the post harvest facilities and the revitalisation of the High Temperature Forced Air (HTFA) at the airport to encourage exports.

Furthermore, government together with private sector have moved to revive the export of watermelon to New Zealand. Efforts are underway with the New Zealand Biosecurity Ministry to streamline quality controls. European Union (EU) has assisted the industry with training in the production and handling of watermelons. New Zealand Aid has also put in place a Heat Treatment Facility (HTF) at the domestic airport which will help encourage exports.

The Ministry of Agriculture is focusing on food security and reviving exports by expanding production to include vegetables for sale in overseas supermarkets. They also encourage poultry farming for domestic consumption, although ensuring cost effective feedstock is a challenge. The Food Agriculture Organization (FAO) continues to support the Ministry through the Food Security and Sustainable Livelihood Program and the Emergency Assistance to Support Agriculture and Fishery Systems of Tsunami affected families in Niuaotupapu. To the local community a Floriculture Project is also under preparation targeted at income generating activities for women.

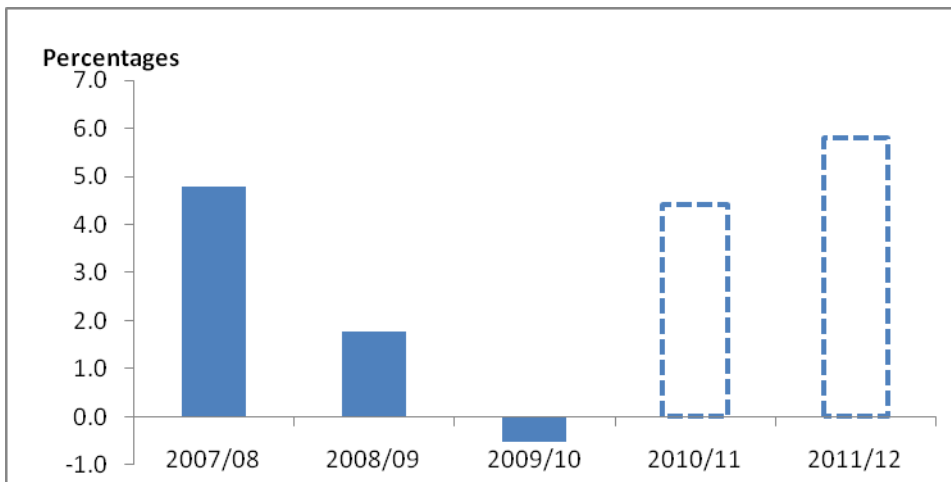
The Peoples Republic of China is also providing two years assistance to boost the agriculture industry. With this support, Tonga has launched the second phase of its Agriculture Demo Farm Project to generate bio-gas, cultivate mushrooms and make noodles out of sweet potato. The main objective is to improve the livelihood of the people of Tonga, mainly to substitute food imports.

In the fishing industry, sea cucumber has dominated the sector for the last 2 years. Exports fell by 66% in 2008/09 (from 426 tonnes to 144 tonnes) before increasing by 171% in 2009/10. Poor management of the licences, however, resulted in over harvesting and there is a need to ban further harvesting so as to replenish sea cucumber stocks. Fish exports continued to decline in 2009/10 by 28% from 287 tonnes to 207 tonnes due to market access problems, high fuel costs and depletion in fish stocks.

The Commonwealth Secretariat and Pacific Islands Forum Fishing Agency has provided technical and financial support for the Fisheries Department to improve the Fishing industry. European Union has provided support through their Intra ACP programme to support Fishery Management.

4.2.2.2 Secondary Sector

Figure 5: Secondary Sector Growth



Sources: Statistics Department & Ministry of Finance and National Planning

4.2.2.2.1 Construction



Growth in the secondary sector is mainly driven by construction. Construction is forecast to grow by 12.0% in 2010/11 compared to 1.9% in 2009/10. The construction sector has been dominated mainly by the reconstruction of Nuku'alofa business district, renovation of the Palace, Vuna Wharf construction and road projects which are funded by the loan from the EXIM Bank of China. Other donors such as the World Bank and ADB have also funded construction projects including the post-tsunami rehabilitation of Niuatoputapu, which expected to commence next year. AusAid through the World Bank Transport Sector Consolidation Project will fund road maintenance designed in a way that it will provide local employment. The Japanese government is now building the extension to the Vaiola hospital.

Following the destruction of large parts of the capital a concentration of construction in Nuku'alofa was likely; however, there is a concern about the heavy dependence on foreign companies and workers. There is also concern that the large level of activity is resulting in inadequate supervision to ensure the quality of buildings, and that there may be an oversupply of office/commercial space.

The Mining and Quarrying sub-sector contributed 0.3% of GDP in 2009/10, and declined by 21.5% in 2010/11 due to stock piling of road material in 2008/09. It is expected to increase by 3.0% in 2010/11. Mining and Quarrying is expected to move with the ongoing construction and upgrading of roads. Construction is having a major impact on overall GDP growth with this high investment. In the medium term growth will have to be improved in other sectors to compensate for the decline in new construction.

4.2.2.2.2 Manufacturing

Manufacturing contributes around 9.7% to total GDP in 2010/11. It includes food processing (in particular baking), handicrafts, tailoring, printing and construction materials such as bricks, timber and cements. This sector continued to decline by 0.3% in 2010/11; the second consecutive year of contraction. It is projected that this sector will increase by 0.5% in 2011/12.

Manufacturing has been very weak for the last few years and several companies have closed down due to financial difficulties, as well as the impacts of the global economic downturn. Increasing global oil prices, which feed through to higher electricity and labour cost, have adversely impacted this sector by raising the cost of exporting and of importing intermediate goods. The Nonu Juice Company, however, continues to operate because of strong domestic and international demand.

The government has been working with the private sector to promote and strengthen domestic production. To this end amendments to the custom tariff on imported goods for manufacturing are being introduced in 2011/12 to assist local manufactures. Options for improving the Small Industries Centre are being considered to attract productive investors for this sector.

Two groups of handicrafts producers attended the world’s largest Pacific Festival, to access new markets, and learn from other Pacific Island handicraft groups. The availability of quarantine work will contribute positively to the export of handicrafts. A mandatory heat treatment has been introduced for large mats imported through the Auckland International passenger terminal to improve access to New Zealand market.

4.2.2.2.3 Electricity and Water

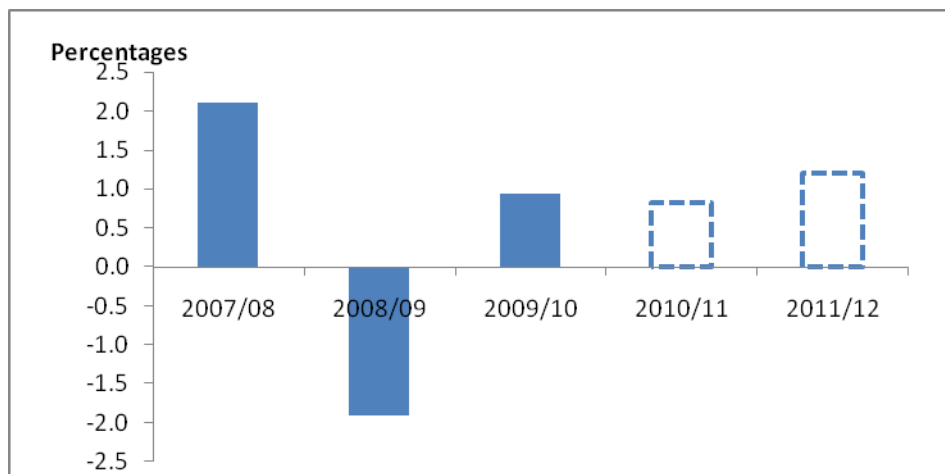


Electricity and Water contributed 2.4% of GDP in 2009/10. This sector declined by 0.7% in 2009/10 and is projected to drop further by 0.3% in 2010/11. The fall in 2009/10 relates to a reduction in electricity production and consumption together with the increase in price of water per unit in the first half of this financial year. The increase in global price of oil may encourage more efficient utilization of electricity.

Government recognizes the importance of cost effective fuel and electricity. Negotiations are underway to find more cost effective ways of importing fuel. In addition, the Government is working through the innovative, multi-donor funded. The Tonga Energy Road Map (TERM) to increase efficiency of energy usage and identify options for non-renewable energy will be implemented in order to reduce reliance on the high cost of imported fuel.

4.2.2.3 Tertiary Sector

Figure 6: Tertiary Sector Growth



Sources: Statistics Department & Ministry of Finance and National Planning

4.2.2.3.1 Commerce, Hotels and Restaurants

Commerce, Restaurants and Hotels contributed 14.5% to GDP in 2010/11. This sector declined by 0.3% in 2009/10 and is projected to increase by 0.3% in 2010/11. As the majority of this sector is dominated by Commerce, it has been hit hard by the global economic downturn which impacted tourist arrivals and household remittances.



The global recovery, particularly in Australia, New Zealand and US bodes well for this sector. The positive outlook for 2010/11 is mainly due to increase in tourist receipts. The termination of the Air New Zealand's connection from Tongatapu to Los Angeles via Apia air route has probably had a negative impact on the tourism sector. The tourism sector is discussed in more detail under the section on tourism.

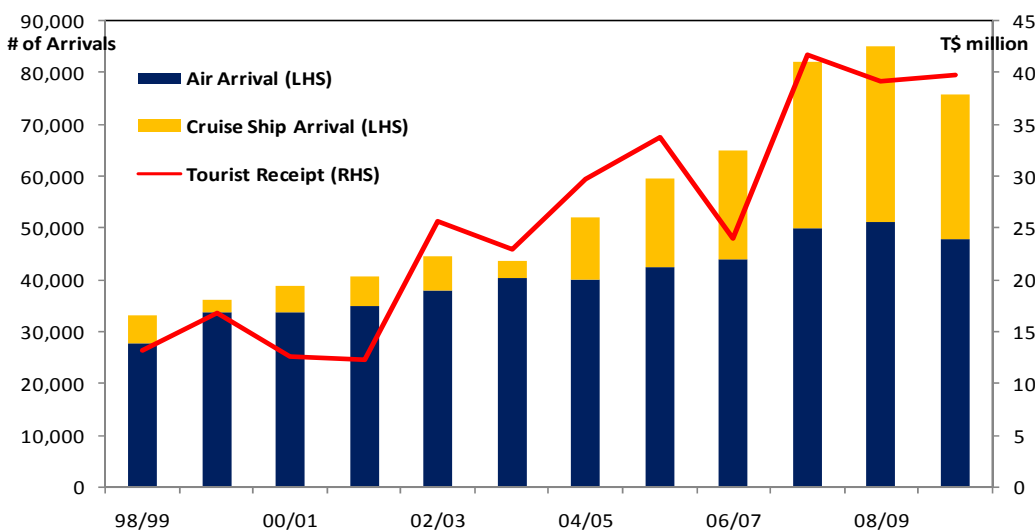
Remittances averaged around 30% of GDP between 2000/01 to 2007/08 and play a very important role in the Tongan economy by supplementing household incomes, which in turn helps stimulate other sectors of the economy. Following the global crisis, remittances declined T\$50m or by 12.5% and 12.7% in 2008/09 and 2009/10 respectively having a dampening effect on domestic demand. The level of remittances is forecast to remain stable in 2011/12.

4.2.2.3.2 Tourism Industry



Tourism is one of the major sources of foreign exchange earnings in Tonga. It does not constitute a separate GDP-sector but it contributes to a number of the core GDP sectors, such as transport, hotels, commerce and other services. The number of air visitors and cruise ships arrival increased by 11.0% and 0.8% respectively in September 2010 compared to the same period a year ago. Tourist receipts (12-months period) has reached \$60 million in January 2011 compared to \$33.6m for January 2010 and \$41.5 million in 2009. This is the highest in the past decade. Provisional data from the National Reserve Bank shows that tourist receipts continue to rise.

Figure 7: Tourist Receipts & Arrival



Source: Tonga Visitors Bureau & National Reserve Bank of Tonga

The Government's initiatives to promote tourism included the second "Eva Mai" Tourism Experience in cooperation with the private sector bringing in agents from our major destination markets. This initiative will continue to be supported by NZAID and the World Bank.

Ministry of Tourism is negotiating for more cruise ships to visit Tonga, especially those that come through the Fiji route. The number of cruise ships visiting Tonga should increase from 11 to 17 during 2011.

Development of the industry is constrained by remoteness, lack of appropriate infrastructure, insufficient funds for marketing, poor maintenance and management of historical places, and the need to upgrade accommodation. The discontinuance of the Air NZ flight to Los Angeles (TBU/LA) has worsened the situation. To help address these constraints, the Tonga Tourism Support Programme between NZ and Tonga, for \$5.3 million pa'anga was signed in January this year. This will run for three years with the goal of significantly increasing the tourism sector's contribution to Tonga's economic growth, whilst supporting environmental and cultural sustainability. An unique component of this funding is the specific allocation made to fund income generating activities for the community that encourage tourism activities.

4.2.2.3.3 Transport and Communication



The transportation and communication industry consists of communication, air, land and sea transport. A provisional estimate shows an average contribution of 7.4% to total GDP in the last two years. In real terms, the industry has improved slightly from the downturn in 2008/09, posting a growth rate of 3.7% in 2009/10. The estimated growth for the industry in 2010/11 is 1.9%.

The telecommunication sector has benefited from robust competition between the two operators providing phone, internet and TV services. Both have expanded operations and investment in an effort to strengthen market position and maximize competitiveness. There have also been investments in new mobile money services, internet access and cellular roaming services. The proposed Submarine Cable Project, scheduled to be laid during 2011/12, should boost the performance of the sector and the economy as a whole through increase capacity, faster connectivity and lower telecom prices.

The end of the Tongatapu to Los Angeles air route has forced air travellers to look for other routes, however, other international and domestic flights are still operating.

Following the disruptions to shipping due to the cessation of operations the Shipping Corporation of Polynesia (SCP), the performance of sea transportation improved in 2009/10 due to increase in services provided by the M.V. Ajang Subuh between Tongatapu, Vava'u and Ha'apai. M. V. Sitka continues to service the two Niuas. The arrival of the M.V 'Otuanga'ofa, as replacement of the M.V 'Olovaha, has also improved the convenience and opportunities for the inter-island transportation in 2010/11. Government has established the Friendly Island Shipping Agency to manage the operation of the government owned vessels. Options for the most effective structure for this operation are under discussion. Some improvement in external shipping is anticipated.

4.2.2.3.4 Finance and Business Services



Lending has declined significantly over the past two years following banking sector consolidation, and subsequent tighter credit conditions. The tight bank lending is preventing the private sector from investing, as well as consumption, which contribute to the slowdown of the domestic economy.

4.2.2.3.5 Government Administration and Community Services

In the last two years, the Government Services sector contributed an average of 15% to GDP. Provisional figures indicate that the sector grew at 2.3% in 2009/10 despite weak revenue performance due to the provision of budget support, which helped Government to maintain, and in some cases increase, levels of recurrent expenditure (particularly, salaries and wages). The sector is projected to grow by only 0.8% in 2010/11, with no salary adjustment. Government was able to avoid a significant cut in expenditure in 2010/11 due to increase budget support however delays in budget support has created cashflow difficulties at the end of the year. It is unclear if this same level of support will continue in future years, and this may have an impact on the contribution of this sector to GDP. These issues are discussed further in the section on Fiscal Performance.

4.2.2.3.6 Entertainment, Recreation and Personal Services

Entertainment and private services (family and cultural activities) contributed 3.2% to GDP in 2009/10. This sector grew at 4.9% in 2009/10 and is projected to grow at 2.0% in 2010/11.



4.2.3 Public

Enterprise Performance

Historical and Current Situation

The following table shows the latest financial results available to the Ministry of Public Enterprises for each Public Enterprise as of March 2011.

Table 7: Public Enterprise Return on Assets

		FY	Total Assets	Shareholder's Funds	Profit	ROE
1	Tonga Development Bank	Dec 2009	\$54,227,000	\$16,670,000	\$1,570,000	9.4%
2	Tonga Communications Corporation	June 2009	\$55,175,627	\$46,909,490	\$300,660	0.6%
3	Tonga Airports Limited	June 2010	\$37,191,686	\$34,895,162	-\$888,355	-2.5%
4	Tonga Water Board	June 2010	\$21,676,297	\$21,500,758	\$855,414	4.0%
5	Ports Authority Tonga	June 2010	\$20,111,983	\$15,288,150	\$535,642	3.5%
6	Tonga Investment Limited	June 2009	\$2,697,000	\$1,166,000	-\$35,000	-3.0%
7	Waste Authority	June 2009	\$3,802,000	\$3,536,000	-\$646,000	-18.3%
8	Tonga Timber	June 2009	\$5,405,417	\$4,375,957	-\$355,382	-8.1%

	Limited					
9	Tongatapu Market Ltd.	Dec 2009	\$4,130,072	\$1,399,869	-\$106,555	-7.6%
10	Tonga Broadcasting Commission	June 2005	\$3,900,000	\$2,500,000	-\$100,000	-4.0%
11	Tonga Print Ltd.	June 2010	\$1,404,554	\$1,282,409	-\$199,999	-15.6%
12	Tonga Post Ltd.	June 2009	\$1,835,523	\$1,793,091	-\$177,324	-9.9%
13	Tonga Power Ltd.	June 2010	\$60,635,372	\$38,564,816	\$2,881,877	7.5%
	Total		\$272,192,531	\$189,881,702	\$ 3,834,977	2.0%

Source: Ministry of Public Enterprises

The table on public enterprise shows that 8 Public Enterprises have been operating at a loss with only 5 showing a profit. As a result, the yield on Government's capital investment of \$189.9 million is only 2%. The table reveals a history of neglect and improper trading over a period of time.

Government is now determined to arrest the decline and restore these public enterprises to trading at an acceptable level of profit.

Government has undertaken a review and restructuring process to ensure that these public enterprises operate within Government's economic policy framework and to ensure -

- i) That the return from the businesses is increased to not less than 10%
- ii) That the payment of dividends are proportionate to the funds invested
- iii) That private sector participation and contribution are supported
- iv) That the Public Enterprises comply with their business plans and the law.

Planned Initiatives

To attain the objectives of improving the return on Government's investment and the revitalization of public enterprises, the Ministry of Public Enterprises has and is pursuing the following strategies:

1. closer monitoring of PE's and pursuing accountability
2. privatization of PE's that are competing with Private Sector
3. restructuring PE's that are not performing or privatise through sales of shares, assets or as going concern
4. encourage Public, Private Partnership to attract private sector resources including skills and capital
5. provide a competitive, fair and open legislative framework

The following programs are currently in operation:

1. Tonga Power is undergoing a significant infrastructure improvement to improve safety and security. It is also pursuing renewable energy source programs.
2. Tonga Communication Corporation is also undergoing review and restructuring. Its subsidiary Tonga Cable Ltd is being taken over by Government and established as a separate public enterprise. Government has been given grants of US\$9.7 millions by ADB and US \$10.2 million by World Bank to enable Tonga to link by Cable with the Southern Cross Cable.
3. Restructuring and Restoring of PEs are being carried out except two PEs which are being processed for sales.
4. Two former PE which were disposed by the former administration are being recovered

from the purchasers as a result of default with purchase payments.

5. Negotiations to improve oil storage is near completion. It is anticipated that the oil project will finish by end of next year (2012) and in operation the following year. The improvements to be effected is envisaged to provide savings or earnings of approximately TOP\$5-6million per annum.

Expected Outcome

The Restructuring and improving of public enterprises will allow them to operate more efficiently and supply the goods and services for which they are responsible. In some cases this will allow them to be fully sold off to the private sector. This will assist in strengthening the recovery of the economy and less the demands for funding from government.

4.2.4 Fiscal Performance

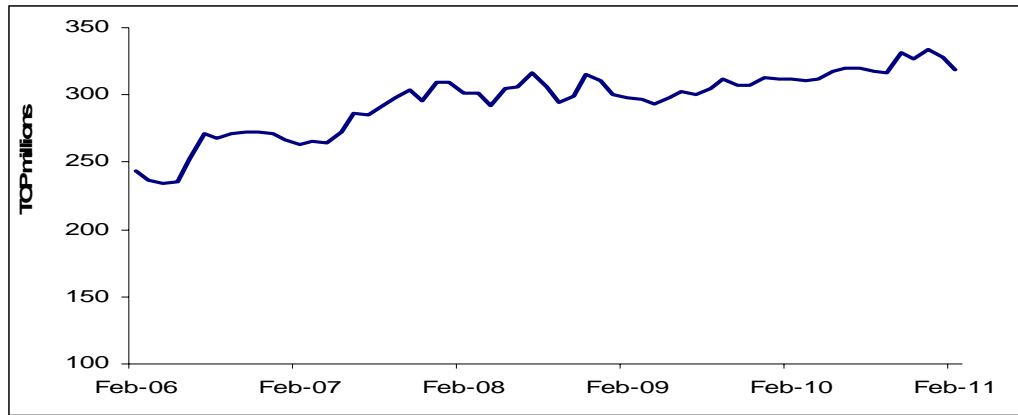
Following the global financial crisis and a number of natural disasters Tonga's domestic fiscal situation has worsened. Government has only been able to limit cuts to its recurrent expenditure through tighter controls, careful reprioritization and the provision of general budget support. Capital expenditure has been supported by substantial external loan financing. Further borrowing must be avoided in order to improve Tonga's debt position. According to the IMF/WB, Tonga's debt levels already breach sustainable thresholds which place Tonga at a high risk of debt distress. At the time of the budget preparation, delays in provision of budget support have meant that Government's own funds to cover expenditure up to the end of the year might not be sufficient. Negotiations for outstanding tax payments should cover this shortfall, but will not remove the need for serious attention to our deteriorating position. Looking forward the government will still need budget support even with strict expenditure controls. This is discussed in greater detail under the Section 6 on balancing the budget and the reform response.

4.2.5 Monetary Performance

The 2011 IMF review of the Tongan economy indicates that the current monetary policy stance is appropriate. However, if the excess liquidity in the banking system, or higher global commodity prices, puts upward pressure on inflation and downward pressure on reserves, a tightening of monetary policy would be called for. Furthermore, the recent measures to improve the institutional framework for lending, and efforts by National Reserve Bank of Tonga (NRBT) to step up prudential regulation and supervision are positive developments. The IMF encouraged government to resist pressures to administer the level of interest rates avoiding possible significant credit rationing and hampering banks' ability to adequately price risks.

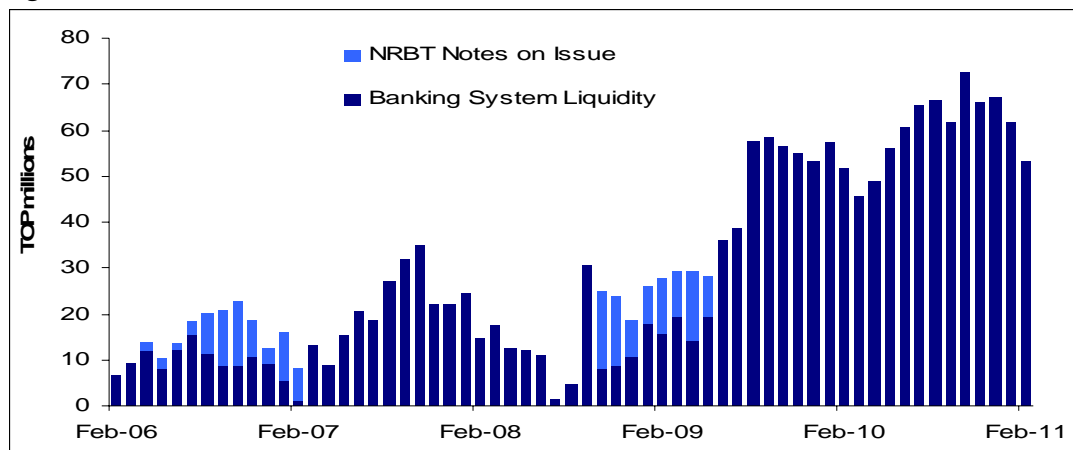
4.2.5.1 Money Supply (M3)

Total broad money (M3) remained high, rising by 1.9 percent in the year ended February 2011 to \$318.2 million, higher than the average level of \$295 million over the past five years.

Figure 8: Money Supply

Source: National Reserve Bank of Tonga

However, it has fallen from a peak of \$334.2 million in December 2010 reflecting a fall in demand deposits which have been utilized to support domestic demand is consistent with the fall in foreign reserves.

Figure 9 : Notes on Issue, Banking Liquidity

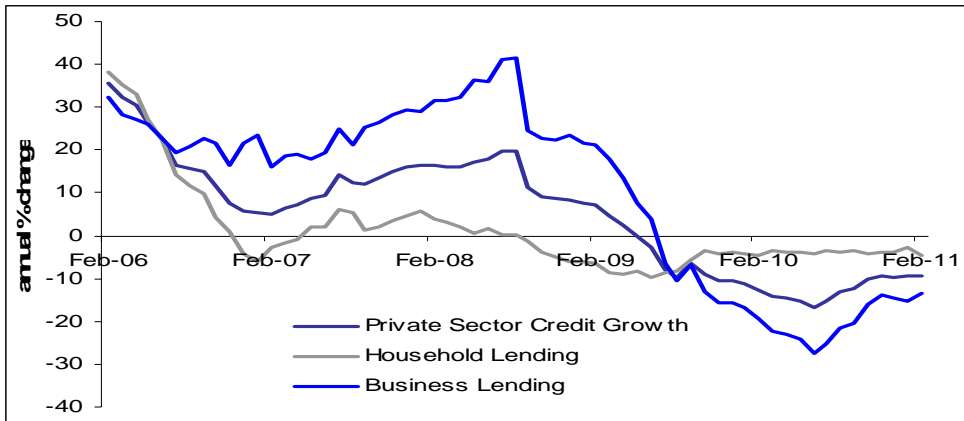
Source: National Reserve Bank of Tonga

Liquidity in the banking system fell to \$53.3 million at the end of February 2011 from \$66.3 million in August 2010. The decline in liquidity was mainly due to import payments and capital outflows.

4.2.5.2 Private Sector Credit

Total private sector credit growth in the banking system remained subdued. Credit growth contracted by 9.4 percent in the year ended February 2011, compared to 13.1 percent fall in the year ended August 2010. The contraction in private sector credit growth was mainly due to the fall in lending to the business sector by 13.4 percent in the year ended February 2011. The decline in bank lending to the business sector was largely driven by falls in lending to the category “other services”. Household credit declined by 4.8 percent in the year ended February 2011 compared to 3.8 percent fall in the year ended August 2010.

Figure 10: Private Sector Credit



Source : National Reserve Bank of Tonga

The contraction in private sector credit growth reflected the banks maintaining tight lending conditions in response to the rise in non-performing loans. Despite the excess liquidity available in the system, the banks claim that they are not receiving many bankable project proposals which could improve the credit growth. This has hindered the desired outcome of the Reserve Bank’s monetary policy measures. Government will seek ways to direct technical support to help the private sector to develop bankable projects, so this excess liquidity can be mobilized to help stimulate private sector growth.

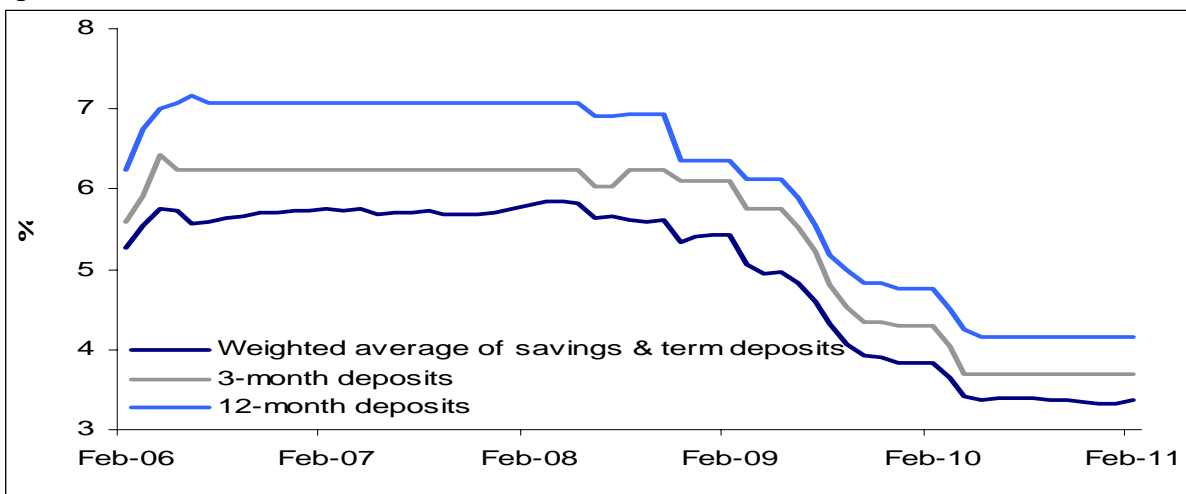
At the end of February 2011, 50 percent of total credit to the private sector was lent to the business sector, while 49.5 percent was lent to the household sector. Lending by the banking system to the business sector has been mostly directed to the wholesale and retail sector.

Liquidity in the banking system should continue to remain adequate but is expected to decline further in line with the anticipated fall in foreign reserves. Credit growth to the private sector is expected to continue to be negative, although at a slower pace with banks likely to continue to maintain tight lending standards as they restore the health of their balance sheets.

4.2.5.3 Interest Rates

Retail interest rates on deposits fell in the twelve months to February 2011. The term deposit rates for investors with less than \$50,000 have declined over the past year to February 2011.

Figure 11: Retail Deposit Rates (Deposits < \$50,000)



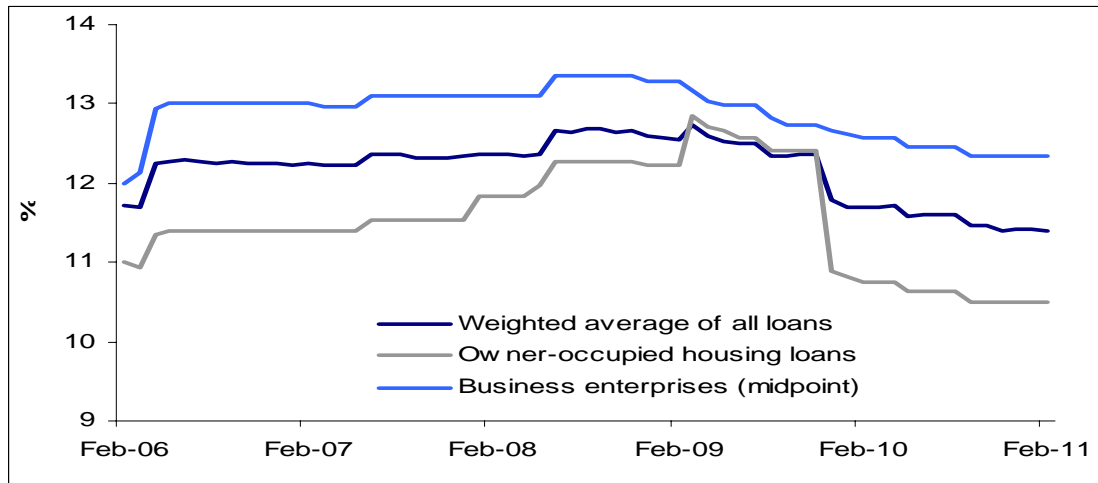
Source : National Reserve Bank of Tonga

The one-month, 3-month and 12-month term rates showed the largest fall by 0.60 percentage points from a year ago. The weighted average interest rate on term deposits offered by commercial banks fell to 3.95 percent in February 2011 from 4.6 percent in February 2010. On the contrary, the weighted average interest rates on saving deposits increased to 1.55 percent in February 2011 from 1.48 percent in February 2010.

4.2.5.4 Lending Rate

Lending rates continued to decline over the last 12 months to February 2011 continuing a 2 year long decline.

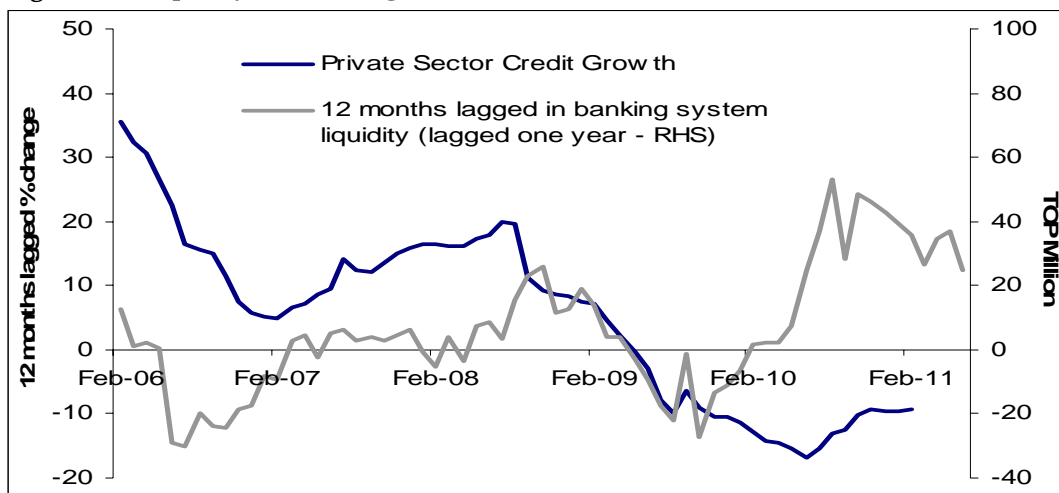
Figure 12: Lending Rates



Source : National Reserve Bank of Tonga

The rates for owner-occupied housing fell to 10.51 percent in February 2011 from 10.8 percent in February 2010. The business lending rates also fell to 12.33 percent in February from 12.6 percent in February 2010. The weighted average lending rate declined to 11.40 percent in February 2011 from 11.7 percent in February 2010 due to a slight fall in lending rates.

Figure 13: Liquidity and Lending Growth



Source : National Reserve Bank of Tonga

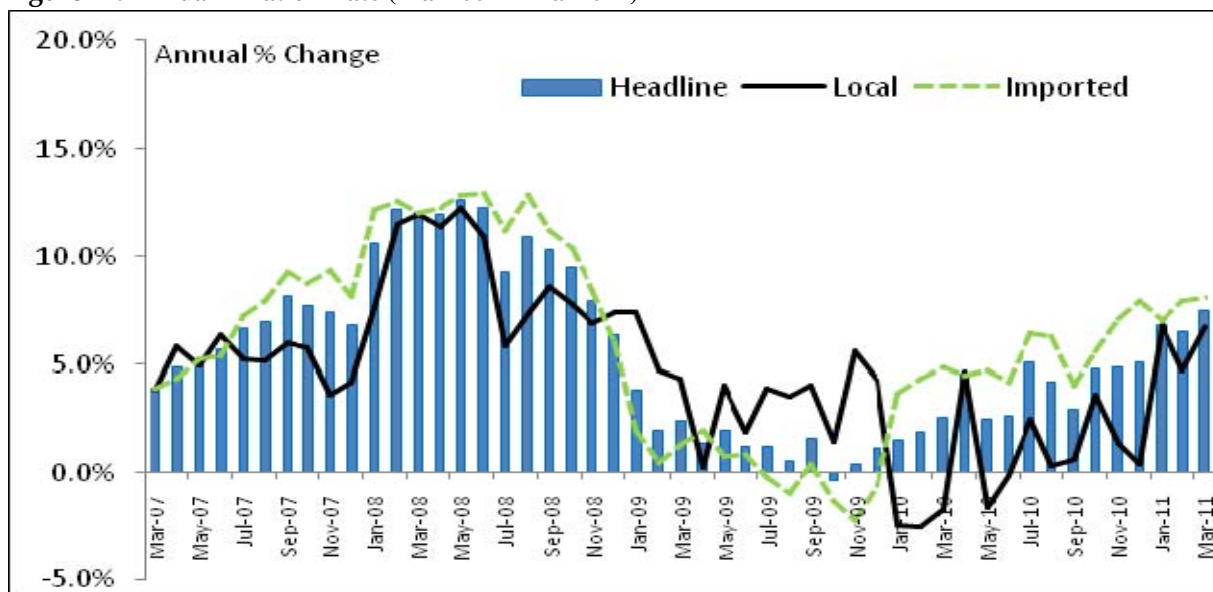
Given the weak domestic economy, and the uncertainty in the economic outlook, growth in lending will remain slow in the next 6 months.

4.2.5.5 Inflation

The current financial year started off with a 5.1% headline inflation rate, the highest since 6.3% in December 2008; however it worsened in March 2011 to 7.5%, the highest since 7.9%

in November 2008. The rise in the indexes for imported energy was the major cause of the increase in the headline inflation. International oil prices continue to rise reaching US\$112 per barrel in April 2011 due mainly to recent unrest in Libya, as well as other North African and Middle Eastern countries which could lead to the highest crude oil prices since 2008.

Figure 14: Annual Inflation Rate (Mar2007 – Mar2011)



Source: Tonga Statistics Department

The inflation rate for imported consumer goods and services was 8.1% in March 2011 compared to just 4.9% a year earlier, due mainly to high imported oil, food and tobacco prices. Petrol prices rose to \$2.93 pa'anga per litre and diesel prices went up to \$3.07 pa'anga per litre in mid-April 2011, both the highest since November 2008, which clearly reflected the rebound in oil prices. The Tongan pa'anga has recently depreciated against the New Zealand and Australian dollars which contribute to the rise in imported food prices as these countries are the main sources of food imports. Imported tobacco prices had significantly increased by 25.4% from March 2010 to March 2011 compared to just 0.4% in the previous year. This reflected an increase in excise tax for tobacco which was implemented in July 2010.

Local annual inflation rate was recorded at 6.7% in March 2011 in contrast to a deflation of 1.6% in March 2010 due mainly to local food prices, which considerably increased by 13.5% compared to 1.9% a year earlier.

The average annual inflation rate had increased to 4.8 % in the year ending in March 2011 compared to only 1.2% in the same period last year. Inflation is projected to rise, in line with the rebound in oil prices and the movement in the exchange rate.

Inflation is projected to increase in the next six mainly on the back of rising world oil price and global food price. Imported inflation is forecast to increase in the coming months due to higher world oil prices and rising global food prices. Furthermore, the impact of the natural disasters in New Zealand, Australia and Japan is likely to exert upward pressure on imported food prices.

Domestic inflation, which is highly dependent on domestic food supply and fuel-related domestic goods and services, is expected to increase on the back of increasing world oil prices. Furthermore, domestic inflation is likely to increase, should the electricity price rise in the next three months.

Overall, it is expected that inflation will continue to increase in the next six months but will remain below double digits.

4.2.6 External Performance

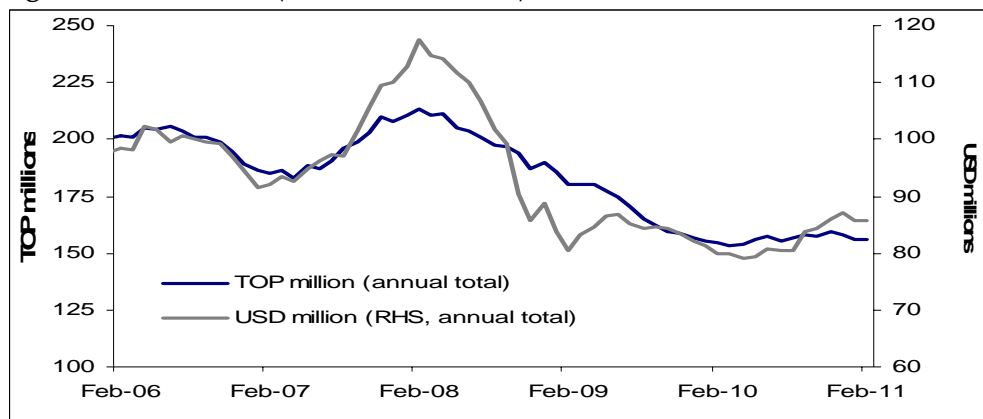
4.2.6.1 Remittances



Remittances remain the major source of foreign exchange earnings with over 50% coming from the US. Despite the pessimistic projection last year, over the last year the plunge in remittances has come to an end, increasing to US\$86 million year on year to February 2011, from US\$80 million a year earlier. Despite this increase, however, the strengthening of the Tongan pa'anga against the US dollar has meant that over the year remittances in pa'anga terms have remained static.

In the year ended February 2011, remittances accounted for the equivalent of 59 percent of total imports compared to 82 percent in the same period a year earlier. This reflects the rise in imports being funded by foreign aid.

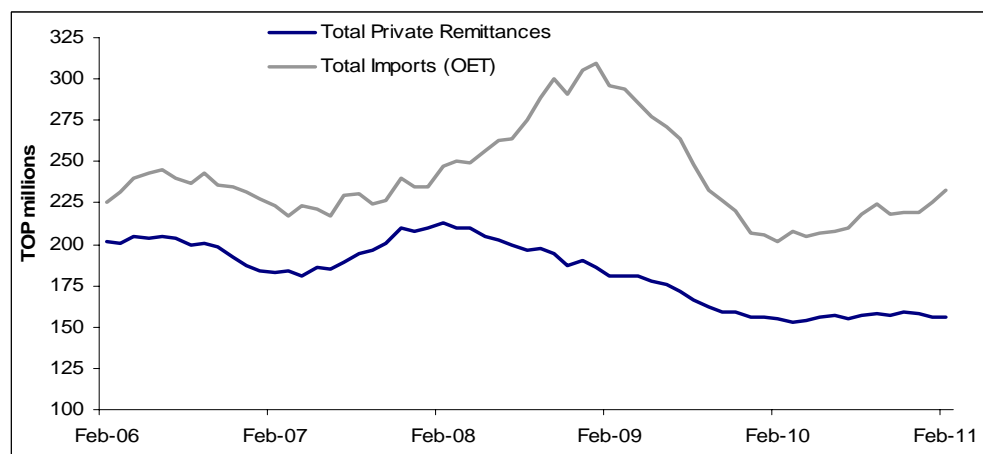
Figure 15: Remittances (Feb 2006 – Feb 2011)



Source: National Reserve Bank of Tonga

Remittances continue to be a significant share of total imports, though with the recent large increase in aid funded imports the share has declined again.

Figure 16: Remittances & Imports (12 months total)



Sources : National Reserve Bank of Tonga

The remitting countries are experiencing economic recovery and this will increase the revenue. The unemployment rate in United States has started to decline by 0.1 % point per month since January but at the same time California, where most Tongans reside, has the third highest unemployment rate. New Zealand remains above 6% coupled with natural disasters. Australia recently faced two natural disasters which devastated various sectors where Tongans are employed and this will also impacted the sources of remittances.

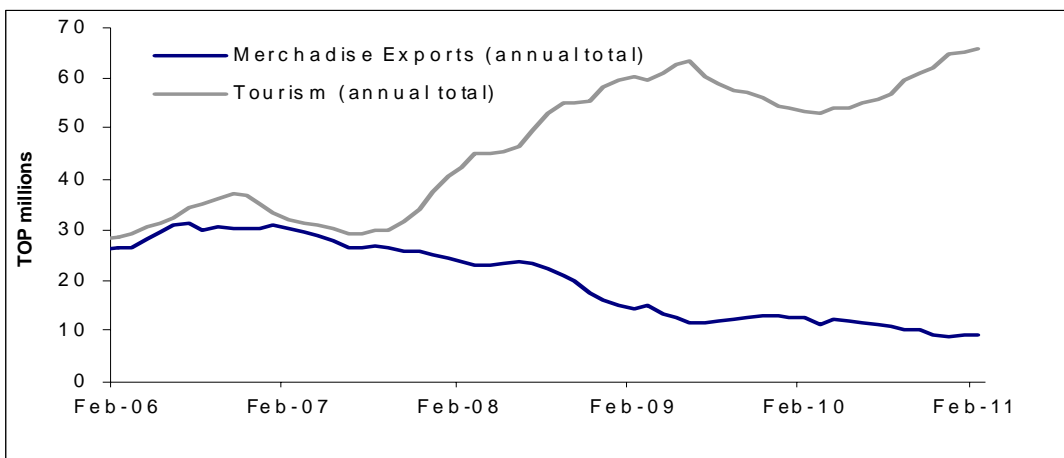
Despite these difficult situations, both Regional Seasonal Employment and Pacific Seasonal Workers Pilot Scheme still continue to send Tongan workers to farmers in New Zealand and Australia, though the NZ one is currently significantly more successful. Government will continue to negotiate with both governments to increase the opportunities under these schemes and is also seeking options from US for similar schemes there.

Remittance is expected to remain static in 2010/11 and pick up slowly in 2011/12.

4.2.6.2 Tourist Receipts

Tourist receipts continue to become an increasingly larger share of total receipts compared to exports. Tourist receipts (OET basis) made a major turnaround rising 18% to \$59 million in February from \$50 million a year earlier. This is attributed to increased tourism activities in Vava'u, improvements in cruise ship visits, and a good holiday season during the Christmas period. A large amount of the tourist receipts are from card transactions which are recorded as travel receipts. The underlying source for this classification is being reviewed by the Reserve Bank to ensure it is not capturing other transactions such as remittances.

Figure 17: Exports & Tourist Receipts (OET estimate)



Source : National Reserve Bank of Tonga

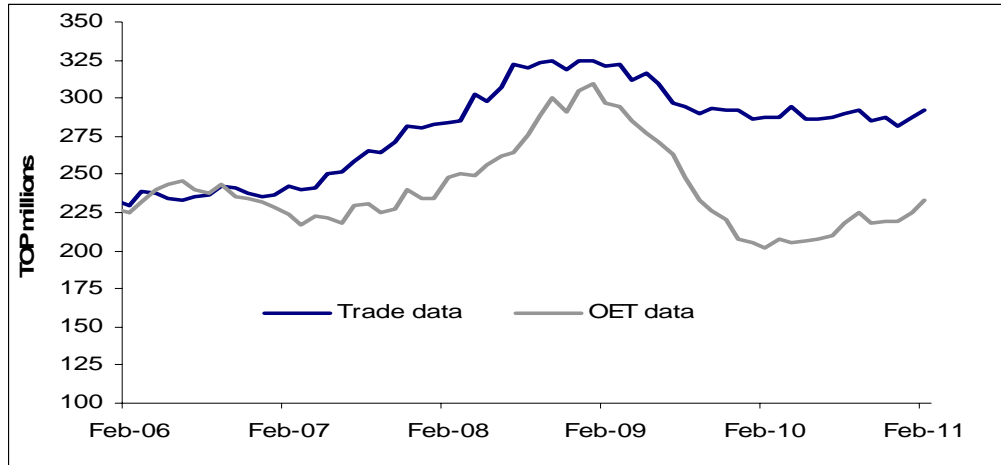
4.2.6.3 Exports

Merchandise exports (OET basis) continued to fall to \$3.4 million in the six months to February 2011 from \$5.5 million in the previous six months. In the year ended February 2011, export earnings fell by 19 percent to \$8.9 million from \$12.9 million a year earlier. The decline in exports reflected the fall in both agricultural and fish exports due to a number of factors including failure to meet quality requirements by overseas markets, and unfavourable weather condition. Lower proceeds from sea cucumber exports also contributed to the fall in other marine product exports earnings.

4.2.6.4 Imports and other Current Payments

Total payments (OET basis) rose by 10.4 percent (\$34 million) to \$361.1 million in the year ended February 2011 compared to \$327.1 million in the year to February 2010, largely due to increase in import payments and to a lesser extent higher official capital outflow.

Figure 18: Import Payments (annual total)



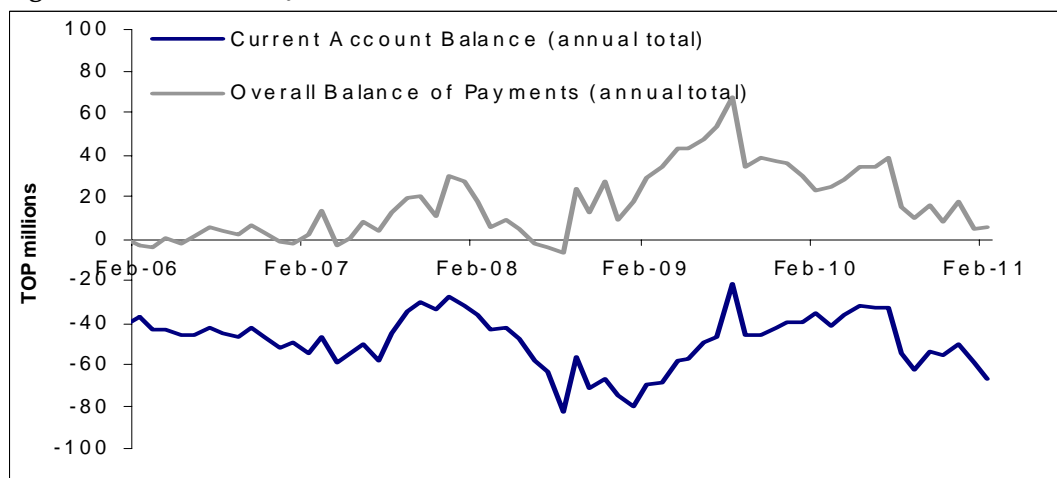
Source : National Reserve Bank of Tonga

On an annual basis, import payments increased to \$232.8 million from \$202.1 million a year earlier, mainly due to higher oil payments. Increase in imports of wholesale and retail goods, and construction materials also contributed to the rise in import payments during the year, reflecting the increase in food prices and the construction projects that are currently undertaken in the country.

4.2.6.5 Balance of Payments and Official Foreign Reserves

In the year ended February 2011, the net capital inflows more than offset the current account deficit together with the unrecorded outflow, which resulted in an overall balance of payments surplus of \$5.3 million.

Figure 19: Balance of Payments (OET estimate)

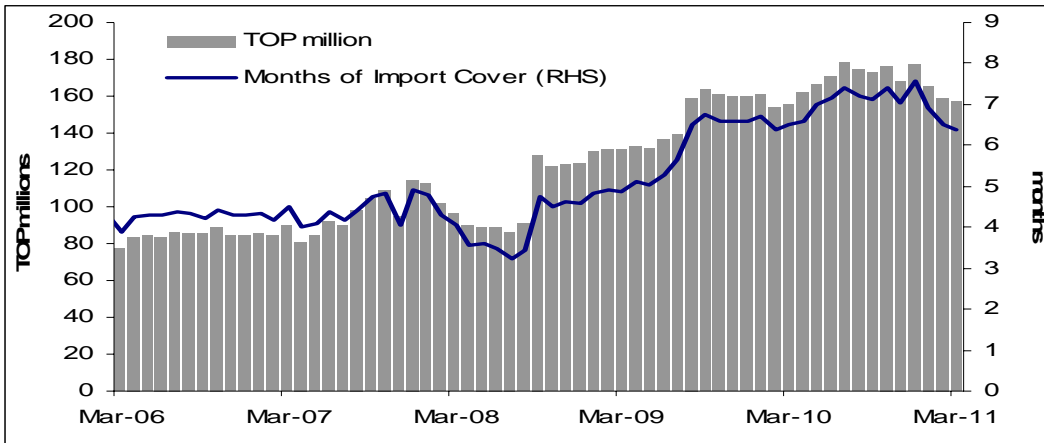


Source : National Reserve Bank of Tonga

Gross Official Foreign Reserves have remained high over the last six months, despite falling to \$157.1 million at the end of March 2011 from a high of \$177.5 million at the end of December 2010. Foreign reserves, when measured as a ratio of imports, have remained above adequate

levels, standing at 6.4 months of import coverage at the end of March 2011. The relatively high level of foreign reserves mainly reflected the receipts of foreign aid and the weak domestic consumption and tight credit conditions. The decline in foreign reserves and import coverage in the six months to March 2011, however, was mainly due to import payments and capital outflows related to the pickup in GDP activity.

Figure 20: Official Foreign Reserves (TOP\$m)



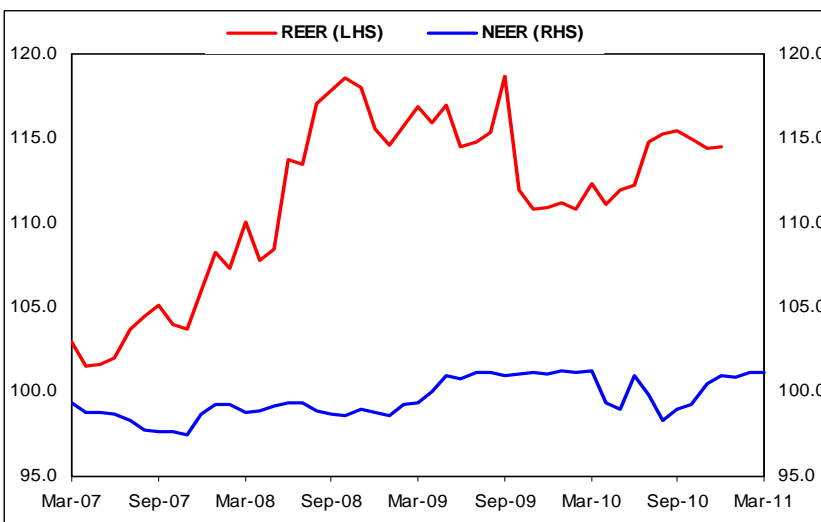
Source: National Reserve Bank of Tonga

Foreign reserves are expected to fall in the next six months largely due to the expected rise in import payments underpinned by the increase in world oil and food prices as well as the expected pick up in economic activity. Nevertheless, the level of foreign reserves is expected to remain above the adequate level of 4.0 months of import cover as the expected receipts of official foreign aid will ease the downward pressure on foreign reserves.

4.2.6.6 Exchange Rate

On a trade-weighted basis, the nominal effective exchange rate (NEER) depreciated by 0.1 percent over the year to March 2011, reflecting the weakening of the Tongan pa’anga against the currencies of its major trading partners except the US dollar. Furthermore, the real effective exchange rate (REER) rose by 3.2 percent over the year to December 2010.

Figure 21: Exchange Rate



Source : National Reserve Bank of Tonga

4.3 Social and Community Progress

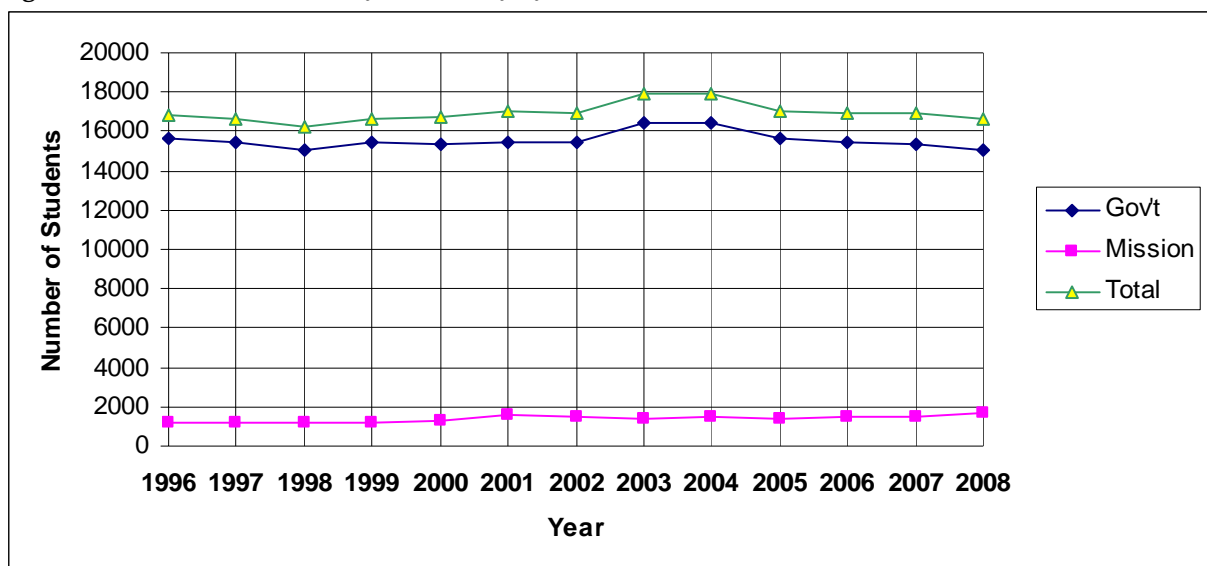
4.3.1 Education Performance

Tonga has effectively achieved universal primary education through free and compulsory education from age 6 to 14. The net enrolment ratio in primary education has increased from 91.6 in 1990, to 93 in 2008. School enrolment rates, however, decline rapidly after the age of 15 and about 15% of 16 year olds drop out of school. In response government has looked into the avenues for extending compulsory schooling age to 18. Gender parity has been achieved in education, and Tonga is on track to meeting the target of gender equality in terms of educational attainment.



Total primary & secondary school enrolments have been stable over the last five years. Enrolments have not altered from averaging around 31,000 students between the late 1990's and 2008. Primary school enrolment rose significantly between 1998 and 2003 to around 18,000 students, but has since fallen back to 16,800 students in 2008 as shown in Figure 22.

Figure 22: Enrolment in Primary Schools, by System, 1996-2008



Source : *Review of Public Expenditure on Education, April 2010*

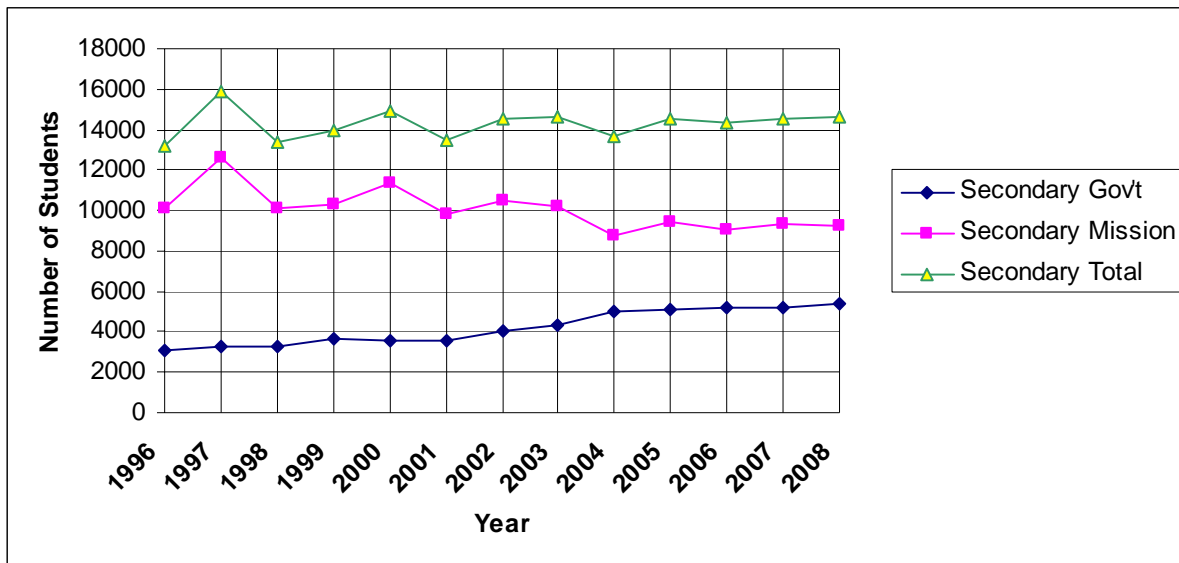
Gross primary enrolment rates over 100 per cent reflect the fact that access to primary schools has been effectively universal for many years¹. Secondary school enrolments have fluctuated around 14,000 since 1995, and were at much the same level in 2008 as in 2003 (and 1995) – see Figure 23 below.

¹ The fact that gross primary enrolment rates are over 100% reflects the fact that many parents choose to enter their children in primary school at age 5 rather than the official age of 6 years (as at 30 April).

Despite overall static enrolment, the number of primary and secondary schools has increased. There were 18 more schools² in 2008 than in 2001 – an increase of over 10% in school numbers. As a result, the average primary school size has fallen over the decade – from an already international low of 144 pupils to around 130 pupils in 2008; and to under 300 pupils at secondary school level. These small school sizes are inefficient by international standards: effectiveness norms would suggest that secondary schools should have an enrolment of at least 500 students.

The main concern revolves around the excess number of students to teacher ratio. In response the Government has increased the number of teachers by 70 in 2010/2011.

Figure 23 : Secondary School Enrolment, by System, 1996-2008



Source: Review of Public Expenditure on Education, April 2010

Moreover, while education levels are high by international, and particularly, regional, standards, the quality of education remains a concern. Government has established a Quality and Assurance Control Office which monitors improvement in education. Education has also tended to focus too much on academic qualifications and not enough on the practical and vocational skills which are more widely required in Tonga. This has resulted in a mismatch between the skills of the workforce and the skills required resulting in unemployment. Government is placing greater emphasis on providing a more appropriate balance between skills and needs through the Ministry of Training, Employment, Youth and Sports (MOT EYS) to ensure that graduates are better able to find gainful employment and contribute to their communities. Substantial assistance from NZAID and AUSAID is provided to the Ministry to support the TVET sector. Extensive training for the TDS is also provided in a wide range of technical skills supported by Australia, NZ and USA.

4.3.2 Health Performance

Using the international health indicators, the achievements of Tonga are among the best in the region. This has been supported by the strong focus on staff development and capacity building. The upgrading of Vaiola Hospital has permitted major progress in health delivery, in addition to ongoing programs of upgrading for the health centres and clinics around the Kingdom.

² The total number of primary and secondary schools increased from 158 to 176 schools, an increase of 8 primary schools (3 of whom are non-Govt) and 10 secondary schools (6 of which are non-Govt)



The gains made in child health have been safeguarded over the 1990-2010 period. The immunization program is very strong, and has enabled wide gains in reducing vaccine-preventable diseases. Child mortality is one of the lowest in the Pacific countries; however, perinatal mortality (first month of life) could be reduced further. Further reductions in mortality could be achieved, although it is acknowledged that further decline will require substantial investments in advance medical facilities. The major causes of deaths in Tonga parallels more with those of rich countries than low income countries, that is, prevalence of non-communicable diseases, hence the concerted focus on improving lifestyles, through increasing exercise and healthy eating.

Figure 24 : Leading Mortality and Trend

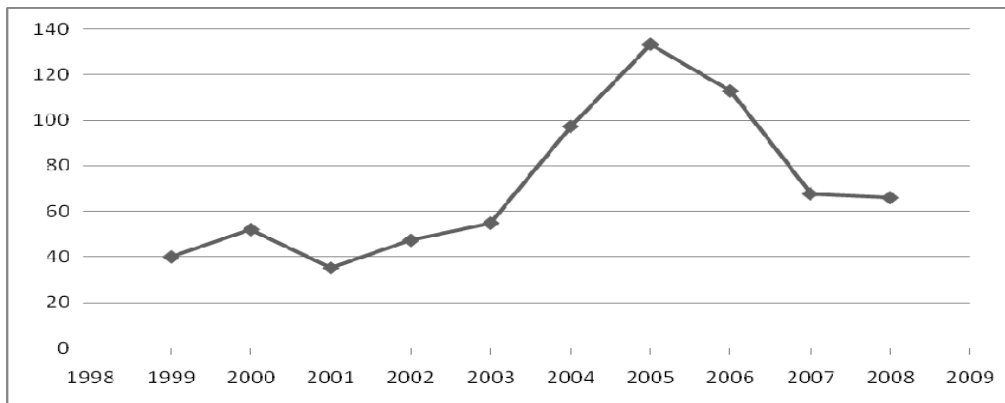


Source: Review of Public Expenditure on Health, September 2010

Maternal mortality is low and 98% of births are supported by skilled attendants. Inequalities in maternal health and mortality are not evident in Tonga. The weakness lies in achieving universal access to reproductive health, with large unmet needs in family planning. The high fertility rate (4.2) is offset by high out-migration; otherwise the high rate of natural population growth would be unsustainable in Tonga. The adolescent birth rate declined in the 5-year period between 2000 and 2005 but an upward trend occurred in 2008. A reproductive health policy was produced for the first time in Tonga in 2008, bridging a long-standing gap in reproductive health.



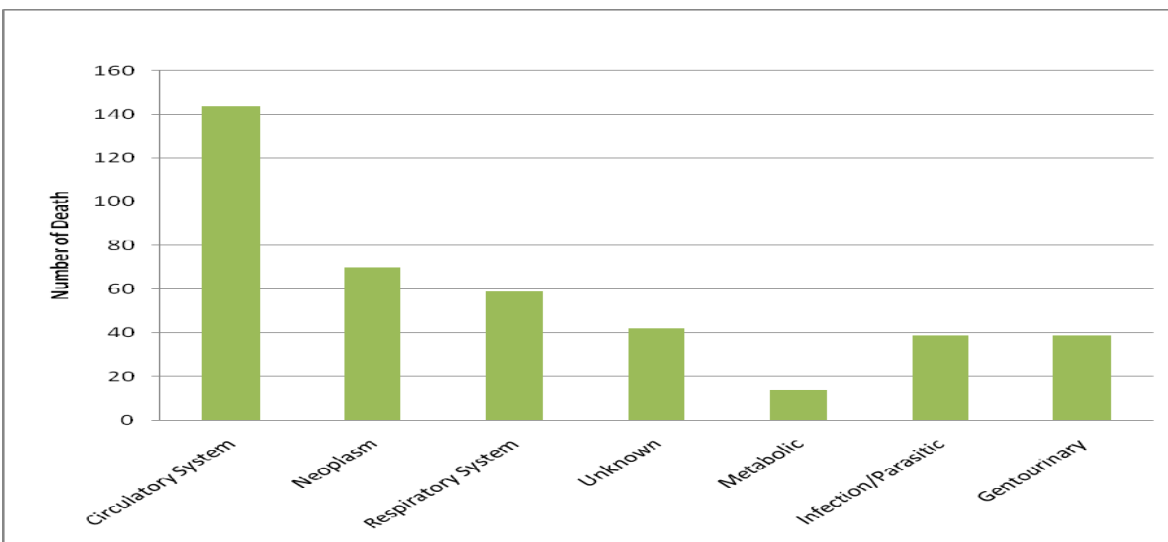
Figure 25: Weighted Maternal Mortality Rate for 1999 to 2008



Source: Review of Public Expenditure on Health, September 2010

Tonga has achieved remarkable detection and cure rates under its tuberculosis control program. The prevalence and incidence of HIV/AIDS continue to remain low, however the prevalence of STIs is high. Adolescents in Tonga have limited access to reproductive health services and knowledge which increases their vulnerability to HIV/AIDS and other sexually transmitted diseases.

Figure 26 : Leading Causes of Death in Tonga, by Disease Type, 2008



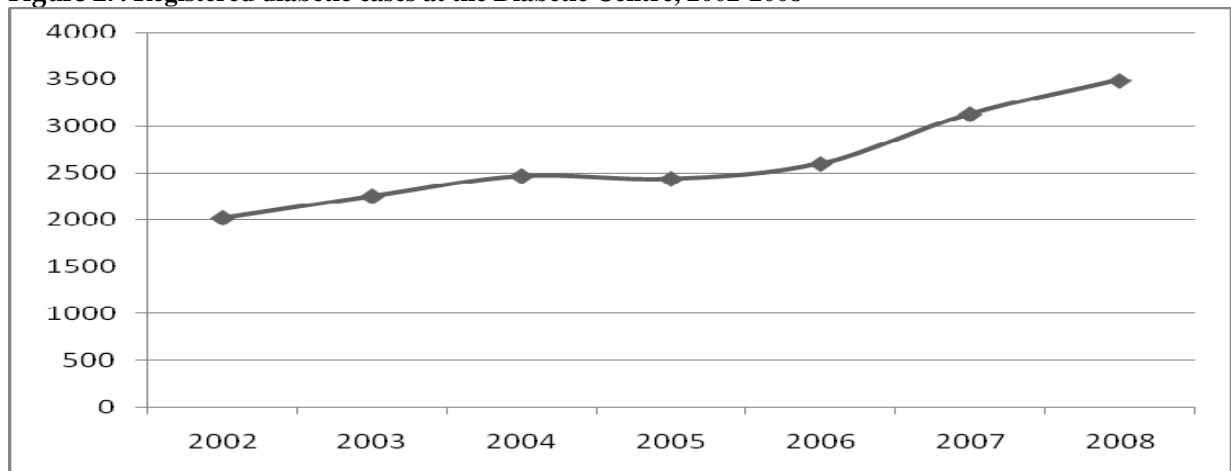
Source: Review of Public Expenditure on Health, September 2010

The urgent priority for Tonga is to control non-communicable diseases (NCDs) including diabetes, cardiovascular diseases, hypertension, and obesity. Tonga is ranked as one of the top 10 countries for diabetes prevalence, standing 15.1% in 2002, and doubles the prevalence rate in 1973. Recent data place the rate at 18% (with women having 19.1% prevalence, and men at 16.5%). However, diabetic remains largely under-diagnosed. Over 90% of the adult population is overweight or obese, especially among women.

Risk factors for NCDs include diet, physical inactivity, tobacco and alcohol. Profound dietary changes have occurred in Tonga with an unhealthy consumption of mutton flaps, and sugary foods. Schools do not impart adequate physical education. These conditions place additional burdens on the health budget and negatively affect the productivity of the work force, not to mention human welfare. As such, the government through the Ministry of Health recognize these negative effects by promoting awareness programmes. The Health Promotion Foundation has been established to concentrate on this together with the ministry and it's partners which include AusAIDS, WHO, SPC, NZAIDS, churches, schools and Communities here in Tonga.

Health is one of the four priority areas for AusAid and will focus their assistance in the reduction of the prevalence of NCDs.

Figure 27: Registered diabetic cases at the Diabetic Centre, 2002-2008



Source: Review of Public Expenditure on Health, September 2010

4.3.3 Charitable and Sporting Organizations

Tonga has a dynamic range of private and voluntary organizations, covering church and community activities and support to vulnerable groups, including the elderly, handicapped, widows, and children in poverty. With ADB support a Vulnerable Issue Paper was prepared to help identify those groups in most need. Further detailed analysis will start soon, with ADB and Japanese joint support, to come up with options on how best to assist these groups. Currently Government is providing direct grants to charitable organizations, for operational costs (e.g. rent, electricity, transport costs) to support the voluntary efforts of groups such as the Woman Crisis Centre, Children, Youth Congress, disabilities, Red Cross and civil society groups.

Government also actively supports Tonga engagement in domestic and international sporting events.

4.3.4 Community Development Performance



Given Tonga's geographical dispersion and distribution of communities over many small islands, Tonga faces real challenges in providing an appropriate level of services and promoting local economic activity. The demands of communities on Nuku'alofa, and small urban centres like Neiafu, tend to absorb much of available funding. Economic and employment opportunities also tend to be concentrated in these centres drawing populations away from smaller less economically viable communities. Government, however, wishes to ensure that services and opportunities are also provided on the outer islands and rural areas.

Government will continue to fund the operations of the regional committees to address the needs for the main regions of the Kingdom. Options for improving their operation are being considered. Development support continues to be provided for a range of projects specifically focussed on outer islands and rural areas. These include:

- **Japan Grant Assistance to Grassroots Project (over T\$1m per annum):** assistance to the grassroots level in areas of primary health care, primary education, poverty relief, public welfare, and environment.
- **NZ funded Mainstreaming of Rural Development Innovation** or the MORDI Tonga Trust (NZ\$0.5m pa) assisting capacity of target communities to plan and manage their development needs; increase employment and sustainable livelihood opportunities, especially youth and women; share learning experiences from best practices and innovations; and establish sustainable processes that enable remote rural communities to link with planning processes.
- **10th EDF ACP-EU Water Facility:** To provide water and basic sanitation to the poor especially those in the rural areas, and improve water management governance in ACP countries thus leading to improvements in health, education, & social-economic development. A proposal is being developed for Tongan participation.
- **UNDP/SPREP Pacific Adaptation Climate Change (PACC) Project (T\$0.75m)** Focused on the Hihifo Water Supply System.
- **Assistance from Government of Germany – savings from cancelled loan repayments** for the Olovaha and the Fuakavenga, for the upgrading of the Foa Causeway in Ha'apai. \$3.2m was allocated for 2010/11 with \$1.8m allocated in the 2011/12.
- **Tsunami Emergency Recovery Management Project (TERMP)** for Niuaotupapu from various donors, including World Bank \$7.5 million for private houses, EU \$2.4 million for health facilities, NZAID \$1.7 for classrooms, Japan with assistance towards water supply systems, and UNDP \$600,000 towards livelihood activities and disaster management and planning.
- **Tonga Community Development Scheme by Australia:** the Tonga Community Development Scheme is being phased out with remaining funds of approximately \$500,000 allocated to water tanks for Ha'apai.
- **Tourism Growth Fund by New Zealand Aid;** small grants scheme aimed at income generating activities that encourages tourism at the local community.
- **Government Local Budget:** Government will also continue to commit funds from the 2011/12 local budget for community development for example, \$100,000 is provided for each electorate for urgent community projects, identified through the elected members, where no donor funds are available. These projects will be subject to the normal project appraisal and supervision.
- **Community Driven Development program:** Government has agreed in principle to establish the Community Driven Development program under Ministry of Finance and National Planning with the financial support of around US\$5 million from the World Bank. The program intends to fund income generating projects to assist families in the rural and outer island communities. The scheme is currently in the final design stage.



4.3.5 Major Activities/Programs by Island in 2010/11

4.3.5.1 Tongatapu

Table 8 indicates the grant allocation to community groups in Tongatapu for 2007/08 to 2010/11. The 31% 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% in water projects in 2008/09 and Income Generation Projects also rose during the same period to triple its amount in 2007/08.

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

Table 8: Grant Allocation to Tongatapu by Project Types for 2007/08 – 2011/12

Project Types	Grant Allocation				
	2007/08	2008/09	2009/2010	2010/2011	2011/12
Town Water System/ Individual Water tank/ Sanitation	818,697	1,490,070	318,000	318,000	914,000
Income Generation	265,746	707,147			300,000
Construction/Transport/Equipment	178,063	70,000		337,483	800,000
Education	378,359	81,405	331,000	331,000	500,000
Training	152,669				120,000
Social Welfare				140,185	
Vocational Training		55,908			
TOTAL	\$1,793,534	\$2,404,531	\$649,000	\$1,126,668	\$2,634,000

Sources : Ministry of Finance and National Planning

4.3.5.2 Ha'apai

The Ha'apai Development Committee's vision is to develop the standard of living of the people of Ha'apai economically and socially. In 2010, the Committee's major priority was to formulate a Ha'apai Development Master Plan to guide the proposed development project for Ha'apai. The Cabinet approved the Master Plan last year.

The Committee commenced with the Foa Causeway Reconstruction in Nov, 2010 with a total cost of \$3.2 million. This project is funded from the Government of German debt swap agreement with the Kingdom of Tonga, where further repayments of two vessel loans were written off in return for the Kingdom funding the causeway with the savings.

In addition, the Committee proposed five other development projects:

- construct a wharf for Nomuka and Ha'afeva
- construct jetties for all the small islands (Matuku, Lofanga, 'Uiha, Fotuha'a, Kotu, Mango & Fono, 'O'ua, Tungua)
- purchase 5 ice machines and storages for the districts (1 set is equivalent to TOP\$2,000)
- road maintenance (tentative to commence in July 2012 by World Bank & Peoples

Republic of China)

- Lifuka Foreshore (AusAID is currently doing the Feasibility Study for Lifuka and anticipated to complete in June 2012).

The allocation for the above projects is yet to be confirmed.

Table 9 indicates the grant allocations towards the Ha'apai group. Grassroot Grant Projects (GGP) for 2010/11 have been completed for the Ha'apai group while AusAID has indicated that they would confirm their remaining TCDS funds of approximately \$800,000 to be allocated to water tanks for Ha'apai which will be implemented in the 2011/12 year.

Table 9: Grant Allocation to Ha'apai by Project Types: 2007/08 – 2011/12

Project Types	Grant Allocations				
	2007/08	2008/09	2009/10	2010/11	2011/12
Construction/Transport/Equipment				170,000	3,200,000
Town Water System / Individual Water tank / Sanitation	330,550	459,275	164,000	164,000	800,000
Health	151,810			300,000	
Income Generating	187,993				100,000
Education	344,501			169,000	300,000
TOTAL	\$1,014,854	\$459,275	\$164,000	\$803,000	\$4,400,000

Source : Ministry of Finance and National Planning

4.3.5.3 Vava'u

Up until the last 2 years, the Vava'u Development Committee was at the forefront in leading the development efforts to the Island Group of Vava'u with the European Union as the main donor for the island group during the 9th EDF. These have included the construction of road infrastructure with the most recent assistance towards the Vava'u Social Sector Program which was completed in 2008 with a total investment of \$9.2 million. The EDF 10th is now focussed on the renewable energy sector and is considered nationwide; it will have less direct benefit to the islands of Vava'u.

Table 10: Grant Allocation to Vava'u by Project Types: 2007/08 to 2011/12

Project Types	Grant Allocations				
	2007/08	2008/09	2009/10	2010/11	2011/12
Town Water System/Individual Water tank/Sanitation	928,100	241,073	465,000	465,000	574,000
Infrastructure	54,000				400,000
TOTAL	\$982,100	\$241,073	\$465,000	\$465,000	\$974,000

Sources : Ministry of Finance and National Planning

Table 10 illustrates other grant allocations to the Vava'u group from 2007/08 to 2010/11. The decline of 75% in 2008/09 was mainly due to Ausaid winding up their small grants assistance. The 2008/09 assistance was all provided by Japan's GGP comprising of water systems upgrading projects in the villages of Mangia and 'Utui which were completed in December 2009. For 2009/10, three upgrading water supply projects agreed for Vaimalo, Mataika and Ovaka with a total allocation of \$465,000.

4.3.5.4 'Eua

Table 11: Grant Allocation to 'Eua by Project Types: 2010/11 to 2011/12

Project Types	Grant Allocations	
	2010/11	2011/12
Construction/Transport/Equipment	175,000	6,600,000
TOTAL	\$175,000	\$6,600,000

Sources : Ministry of Finance and National Planning

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

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

New Zealand, has agreed to further upgrade the Kaufana Airport as all facets of it are badly in need of repair and/or renewal due to safety reasons. The goal is to enable both increased internal mobility and encourage tourism development in 'Eua. Construction is currently being tendered and it is expected to be completed before the end of the calendar year Japan's Grassroots assistance will fund the construction of a new children's ward and clinic for the Niu'eiki Hospital in 'Eua, totalling \$175,000. The project will be completed before the end of the 2010/11 financial year.

The 'Eua Transportation Council is also preparing a feasibility study for the purchase of a new ferry for the island to assist with the sea transport to and from Tongatapu. Cabinet has approved for the Ministry of Finance and National Planning to seek funds to finance the project.

4.3.5.5 Niua

Table 12: Grant Allocation to Niua by Project Types: 2010/11 to 2011/12

Project Types	Grant Allocations	
	2010/11	2011/12
Town Water System/ Individual Water tank/ Sanitation		804,620
Construction/Transport/Equipment	4,552,533	7,249,946
Income Generation	47,000	
Energy		2,000,000
Agriculture	523,000	
Finance	95,000	
TOTAL	\$5,217,533	\$10,054,566

Sources : Ministry of Finance and National Planning

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

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

For the long term reconstruction, a Project Management Unit (PMU) was established in February 2010, staffed by a Project Manager and two supporting staff funded by the World Bank. The PMU is established to manage and coordinate the long term recovery for Niuatoputapu through the Tonga Post Tsunami Recovery Project (TPTRP). A Project Steering Committee was also established to provide guidance to the project.

The long term recovery projects under the TPTRP for the reconstruction of Niuatoputapu cost approximately \$16.1 million. The World Bank has agreed to fund the construction of private houses; the EU has approved funding of the hospital facilities; NZAID has indicated that they would assist with classroom reconstruction; Japan with the water supply; and UNDP with the early warning system. Recent indications from MAFFF are that the proposal to FAO for food, agricultural and fisheries supplies was approved. Assistance is yet to be confirmed for the government buildings, and airport upgrade, although proposals are being prepared.

The completion of the land allocations has been the major cause of delays for the implementation of the overall TPTRP. All the land for the housing reconstruction have now been completed on 20 April 2011 consisting of 70 residential houses to be rebuilt and approximately 60 houses including small enterprises and community buildings to be rebuilt and/or repaired.

5 NATIONAL REFORM PROGRAM AND BUDGET FRAMEWORK

5.1 Introduction

Government's reform program, and the 2011/12 budget response, has been formulated based on government's Vision and strategies articulated in the Tonga Strategic Development Framework (TSDF), within a simple medium term macro fiscal framework.

The current simple fiscal framework starts the process of adjusting total government funded expenditure to fit within the medium term revenue capabilities with the forecasts budget support, from the development partners, required to close the gap. The distribution of expenditure is also being adjusted to bring down the size of expenditure on staff and make more funds available for operations and maintenance, and to move expenditure to areas of greater priority. All these adjustments are taken within the broad need to maintain social service delivery, generate a dynamic private sector that can drive growth and to protect and embed the important political reforms.

This framework will only work, however, if we can be assured of ongoing budget support from the development partners for some years to come. Government recognizes that development partners will require an agreed matrix of reforms to provide the framework within which they can continue to justify the provision of budget support. All recognize, however, that this matrix must be fully embedded in and consistent with governments own reform priorities.

The Government's over all fiscal approach, which guides the formulation of the 2011/12 budget is thus based on these key commitments:

- prudent budgets, which in 2011/12 involves a degree of fiscal consolidation of the government-funded budget, based on:
 - conservative revenue forecasts
 - maintaining domestic payments to slightly below the 2010/11 outcome, resulting in a real decline of some 5% while
 - protecting social service delivery and directing available funding into supporting more productive activities.
- prudent revenue system by:
 - reviewing the capacity of the economy and options for improving revenue collection
 - ensuring a tax system which does not damage the growth potential
 - ensuring that issues of equity are appropriately addressed.
- prudent expenditure allocation, starting with
 - restructuring the budget to reflect core functions as stipulated in Ministries' CPs & AMPs
 - rationalizing through prioritization-based expenditure
 - centralizing payments of Subscriptions, International & Regional Organizations
 - better managing of special projects such as: Charitable Org; Commissions; Tonga; Tonga Rugby Authority etc
 - strictly reserving the Contingency Fund for unforeseen emergence expenses.

- prudent debt management by:
 - avoiding any external borrowing – even on concessional terms – over the medium term until debt is safely back within the agreed debt ratios
 - only using domestic borrowing to cover short term cash flow shortfalls, such as when budget support is delayed
 - developing a debt management strategy to help contribute to a progressive reduction in Tonga’s risk of debt distress.

5.2 Linking Strategies and Reforms

The National Vision, Outcome Objectives and Enabling Themes, which are the guiding principles of the Tonga Strategic Development Framework (TSDF), are set out at the start of this Budget Paper. The TSDF replaces the National Strategic Planning Framework (NSPF), and is being published at the same time as this Budget Paper. It outlines the board strategies that government intends to pursue during its term in office. These strategies have been used by Ministries to guide their internal planning, as well as the overall allocation of the budget between Ministries. The government has also directed ministries to pay much greater attention to the cost-effectiveness, efficiency and need for the services being provided. In this context, the ministries have started to develop and implement a budget planning and management structure involving a three-year corporate plan (CP) and an annual management plan (AMP) that link directly to the annual budget, through which resources are allocated and the fiscal constraints are addressed.

The CP is the critical link between the TSDF, AMP and Budget and it will be updated annually and rolled forward to maintain a three year horizon. It will also include indications of likely new policy interventions or other new activities envisaged by the ministries. The AMP describes how the resources of the ministry are allocated annually in order to implement the programs stated in the CP. This links directly to the annual budget which contains the allocations of funding outlined in the AMP. The budget contains measures to control expenditure and improve efficiency and address the declining in revenue, however, these measures are most effective when link clearly to the TSDF.

During the preparation of 2011/12 Budget, consultations with ministries took place. The consultations restated the: (i) features of the AMP; (ii) need to focus on core responsibilities and; (iii) strong linkage between the budget and the AMP. The CP and AMP will be reviewed each year during the budget preparation. The monitoring and evaluation system for these Ministry plans, to ensure delivery of their core functions, will provide the key information for the monitoring and evaluation of the TSDF. The design of these systems will be completed during 2011/12.

5.3 Medium Term Fiscal Policy Framework

Government is committed to bringing the budget responsibly back into fiscal balance, over an appropriate time frame, while protecting social delivery, growth and the reform program. Government recognizes that expenditure levels must be determined within feasible projections of potential revenue and budget support. The medium term fiscal framework has allowed us to assess the size of the challenge we face and do some simple projections on the consequences of different ways of adjusting back to a balanced domestic budget. The analysis shows that:

1. If we were to hold expenditure constant in real terms and revenue grows with the economy, about 1.5% pa, it would take nearly 14 years to balance the domestic budget, and requires average budget support of \$15 million per annum.
2. To balance by 2014/15:
 - Revenue would have to grow over 3 times faster than real GDP with average budget support of \$16 million per annum. OR
 - Expenditure to be cut in real terms by some 5% pa with average budget support of \$14 million per annum.

During the discussions at the Tonga Development Partners Forum, development partners indicated their understanding of the tight fiscal situation facing Tonga, and that the scenarios listed above would damaged growth, undermine welfare conditions and could even threaten the stability of the political reforms. They also noted that savings need to be made, but these should first be directed to encouraging growth and protecting welfare. Development partners also recognized the reality that if a more appropriate gradual adjustment path was to be followed that continued budget support would be required over the medium term horizon. They committed to work through the coordination of the World Bank, with the government to provide as predictable budget support as possible so that government could make reliable budget forecasts. Government recognizes, with gratitude, the World Bank for taking the lead role in coordinating the development partner's response, as well as the support of World Bank, ADB, EU, Australia and New Zealand in providing the necessary and predictable budget support to allow us to plot a feasible adjustment strategy.

On the basis of the above, the 2011/12 budget assumes revenue growth only equal to inflation and conservative real GDP growth. No account has been taken of any possible revenue measures. Domestic payments (expenditure plus debt repayments) is held constant at \$170.9 million in nominal terms – equal to a fall of some 5% per annum in real terms due to inflation. For the two outer years, 2012/13 and 2013/14 figures are held constant in 2011/12 prices: revenue is projected to grow with real GDP and some revenue enhancement. Payments are assumed to stay constant in real terms.

During 2011/12 government, with support from ADB, will be developing a more sophisticated medium term fiscal framework to cover both the macroeconomic and detailed needs to ensure we have a sustainable fiscal strategy over the medium term.

5.4 Key Reform Objectives

This section outlines in more detail the five key areas of Government's focus to improve fiscal accountability with medium term sustainability, as well as a more efficient public services, and an environment in which the private sector may flourish and people pursue their aspirations in life. These reforms are also being used to guide the discussion between government and development partners on the matrix of reforms for budget support. Some areas are already being supported by development partners, and they have indicated a willingness to consider support to areas currently not covered. The five reform objectives are:

5.4.1 Improved Public Financial Management

Sound Public financial management (PFM) is recognized by Government as key for good governance, transparency and accountability. Key areas of work include strengthening budget execution, transparency of the budget process, credibility of the budget, strengthened revenue efforts and improved quality of expenditure. Sound PFM also means that Government can deliver services more effectively for the benefit of the population, and more effectively create the enabling environment under which the private sector can flourish. Many options are being

considered and in some cases are already underway. These include options for:

- more frequent budget reports to help monitor budget execution in a more effective and timely manner, to facilitate early identification and correction of any divergences from the approved budget during the year
- more regular budget reports to the Finance and Public Accounts Committee (FPAC) to increase parliamentary scrutiny of budget execution, in turn reinforcing efforts to strengthen the control of budget execution
- making budget reports available to the public to increase the transparency of budget execution and the accountability of the government for its use of public resources
- making documents such as the budget proposal available to the public when it is tabled in Parliament, to help clarify the distinction between what Cabinet proposes for the budget and what Parliament approves, and facilitate public scrutiny of the budget process
- tabling the audited Annual Financial Statements and the Annual Reports of the Auditor-General in Parliament and making these documents available to the public to improve the transparency of the audit process and strengthen its effectiveness
- modifying the operations of the Contingency Fund to avoid undermine the credibility of the budget, by avoiding the allocation of public resources to activities that have not been approved by Parliament during the year and are not unforeseen, urgent and vital
- further improvement to the credibility of the budget through ministries' AMPs, including by: encouraging line ministries to produce prioritised and costed AMPs; ensuring that line ministries receive budget allocations sufficient to cover their basic expenditure obligations; and requiring line ministries to amend their AMP subsequent to the finalisation of the budget in order to ensure that planned activities are consistent with budget appropriations
- consolidating the large number of government bank accounts to improvement cash management
- completing the revision to the chart of accounts which has eliminated redundant and duplicate codes, improve clarity and increase uniformity, and has prepared for the shift to sub-program level allocation and monitoring of budgets
- ensuring all cash and in-kind expenditures financed by donors is correctly recorded
- undertaking a tax policy and administration review to assess the tax potential of the country and identify the level of revenue, and hence level of expenditure, that is consistent with an efficient economy and appropriate level of equity
- setting clear policies and having effective decision making process in place for setting priorities among competing uses of public resources
- developing a medium term fiscal framework for sound macro-economic planning and reallocation of expenditure priorities over time, and improvement in our debt position.

5.4.2 Confirmed core functions of Government and improved public service structure

A number of institutional reviews have been undertaken to help streamline the structure of the government administration. Government is reviewing these to decide how to streamline the structure of government and ensure better identification of, and focus on, government's core functions. To ensure a government structure that is better fit for the current needs of the Kingdom.

The personnel costs have been increasing its share of total expenditure crowding out non-wage operational and capital spending. Government is already looking at how to control personnel

cost and ensure that the overall size of the establishment is more consistent with the overall budget and the new performance increment system.

5.4.3 Improved access to cost effective energy

The high cost of energy is a major constraint to economic growth and drain on consumers' limited expenditure. Through the Tonga Energy Road Map and associated investments government is working to:

- build the necessary institutional and governance structure for the sector
- reform the tariff structure to provide the financial sustainability of the electricity sector while giving incentives for efficient operations and for the use of alternative energy sources and incorporating measures to protect the vulnerable
- improve the independence and transparency of the process surrounding the pricing template for fuel, to the benefit of fuel users, as well as the incentives offered for efficiency by fuel companies
- encourage private investment to help lower the cost of shipping, storage and distribution of fuel supplies
- increase the opportunities for delivering an increased share of total energy consumption from renewable sources, both to save costs and lessening impact on climate change.

5.4.4 Improved enabling environment for private sector development

Government is working to improve the enabling environment in which the private sector can flourish and generate jobs and income by:

- improving the quality of consultation between government and business
- reviewing business licensing and other processes to identify the appropriate reforms to be implemented to help create a more enabling environment for the private sector
- identifying legislative reforms, such as enacting bankruptcy legislation
- streamlining the administrative processes for registering land lease transactions
- helping improve marketing for tourism and other products
- finding ways to ensure longer term sustainable use of land and sea based resources to avoid the boom bust scenarios that have destroyed past opportunities both for land and sea based exports
- moving public enterprises onto a more commercial footing so they provide business and the public with better quality services, and where possible moving these enterprises into full private ownership.

5.4.5 Viable and inclusive communities with access to improved services (health, education)

Strong viable communities have been the bed rock of Tonga. Government will increase efforts to help protect and strengthen communities to response effectively to the challenges from domestic and global changes, with particular focus on:

- improving administration on outer islands and in rural areas
- continuing to improve the quality of infrastructure across the Kingdom and improving its resistance to disasters and climate change
- encouraging more opportunities for growth and income generation away from the urban centres to outer islands and rural areas
- seeking ways to address un- and under-employment, in particularly among the youth, including improved education and skills appropriate to life in Tonga and options for working overseas
- improving access to health services and encouraging more healthy life styles

- recognizing who are the vulnerable groups in Tonga and what are their particular needs, and finding ways to help address them such as a more permanent social protection policy and associated measures, that is consistent with the country's financial situation and external development support.

5.4.6 Potential Risks

Government recognizes its program is demanding and that risks exist. Internal risks, over which Government has some control, include the efficiency of the public sector. Past experience, however, shows that administrative weakness can be a challenge to government's reform programs. Government will strive to address this by improved and transparent administration, and recognition of performance. Government will also seek to improve its communications with the non-government sector to ensure they understand the reforms government is striving to implement, and can be a positive source of support.

The other risks are mostly external risks, and include:

- further down turn in the world economy
- inability of development partners to fund the level of budget support they have indicated possible
- natural disasters

Little can be done to directly mitigate these external risks, apart from showing our development partners our commitment to good governance, and remaining a responsible member of the international community.

5.5 Reform Matrix with Development Partners for Budget Support

Payment of Budget Support is dependent on Government having an appropriate reform program. Out of this reform program Government and development partners will negotiate an agreed set of actions that will act as triggers for the distribution of the budget support.

Government is currently in the final stages of discussion with development partners to agree on a matrix of actions, which will be drawn from the list of five reform objectives described in section 5.4 above namely:

1. Improved Public Financial Management
2. Confirmed core functions of Government and improved public service structure
3. Improved access to cost effective energy
4. Improved enabling environment for private sector development
5. Viable and inclusive communities with access to improved services (health, education)

The Government will carefully consider these reform actions before agreeing them, since once these are agreed, it will require the continuous commitment from the responsible Government ministries to ensure these reforms are achieved before the budget support can be released.

6 2011/12 BUDGET

BUDGET PURPOSE: FISCAL STABILITY WITH GROWTH

6.1 Overview

The Government's overall fiscal balance for 2011/12 is estimated at a deficit of \$25.4 million representing an improvement from a deficit of \$56.2 million estimated outturn in 2010/11. This is the result of total expenditure and net lending of \$232.1 million exceeding revenue and grants of \$206.7 million. This deficit will be financed from the government's capital investment for the reconstruction of Nuku'alofa funded under the China EXIM Bank loan. Table 13 provide the Government's overall fiscal position using the international standard of economic classification, the Government Financial Statistics (GFS).

Table 13: Overall Fiscal Balance (\$million)

	Actual 2008/09 (p)	Actual 2009/10 (p)	Est Outturn 2010/11	Budget Est 2011/12
Total Revenue & Grants	225.7	192.1	181.9	206.7
Total Revenue	179.9	143.6	134.2	139.3
Grants	45.8	39.2	24.9	39.5
Budget support	-	9.4	22.8	27.9
Total Expenditure & Net Lending	220.6	230.1	238.0	232.1
Total Expenditure	186.0	202.3	220.9	214.4
Net lending	34.6	27.9	17.1	17.7
Total Budget Balance	5.1	(38.0)	(56.2)	(25.4)
Total Financing	-5.1	38.0	56.2	25.4
External financing	-1.0	24.7	52.2	25.4
Domestic Financing	-4.1	13.3	4.0	0.0

Sources: Ministry of Finance and National Planning

Note: GFS table is based on cash and in-kind (China loan).

6.2 Revenue and Grants

The breakdown by category of the government's overall revenue and grants for the period 2008/09 to the 2011/12 Budget is provided in Table 14. The key features include an end to the decline in total revenue, although as a percent of GDP this is still declining, from 2008/09 to 2010/11. The significant role of budget support is also shown.

Table 14: Total Revenue and Grants (\$million)

	Actual 2008/09 (p)	Actual 2009/10 (p)	Budget Est 2010/11	Est Outturn 2010/11	Budget Est 2011/12
Total Revenues and Grants	225.7	192.1	226.4	181.9	206.7
Total Revenues	179.9	143.6	132.6	134.2	139.3
Current Revenue	152.8	143.6	131.4	132.6	137.7
Tax Revenue	131.5	116.2	112.7	115.0	114.5
Income & Profit Tax	40.3	28.1	24.3	23.5	21.2
Consumption Tax	47.2	42.9	46.5	48.4	49.4
Trade Taxes	16.1	14.9	14.6	13.2	12.6
Other Taxes	28.0	30.3	27.3	30.0	31.3
Non-Tax Revenue	21.2	27.3	18.8	17.5	23.2
Capital Revenue	27.2	0.0	1.2	1.6	1.6
Grants	45.8	48.6	93.8	47.7	67.4
Project Grant	45.8	39.2	60.9	24.9	39.5
Budget Support	-	9.4	32.9	22.8	27.9

Source: Ministry of Finance & National Planning

NB: This table only captures projects funded by cash handled through the government accounts. In-kind projects, where the cash is handled directly by the development partner, are shown below.

6.2.1 Total Revenue and Grants for 2010/11

The estimated outturn for 2010/11 for Total Revenue and Grants is expected to be lower by 19.7% (\$44.5 million) compared to the budget estimate.

This is due to the lower actual cash grants received by 43.5% which caused by the delay in implementing some of the big project such as the rebuilding of Niuatoputapu by the World Bank due to delay in land issues being sorted and one off events during the year such as support to the political reform program.

6.2.1.1 Total Revenue and Grants for 2011/12

The Total Revenue and Grants (cash) for the financial year 2011/12, on a GFS basis, is estimated to be \$206.7 million, an increase by 13.7% from the 2010/11 estimated outturn, due to the significant amount of budget support anticipate to be received. Total Revenue (current & capital revenue)³ is only anticipated to increase by \$5.1 million, which is a growth of 3.8%, to \$139.3 million. This anticipated increase is mainly due to increase receipts from non-tax revenue such as telecom settlement fees.

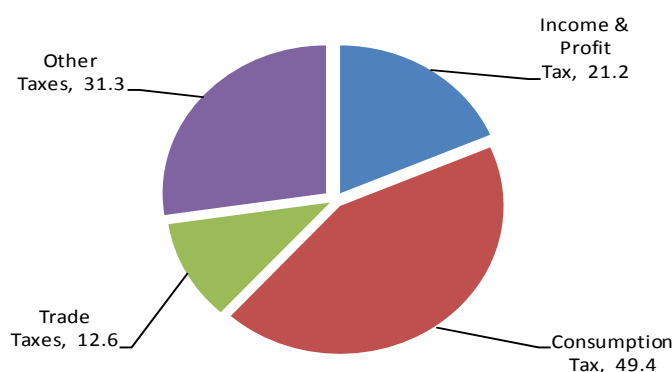
Total Project Grants (cash) are expected to increase by \$14.6 million (58.8%) higher than the 2010/11 estimated outturn, assuming no further delayed in project implementation. This projected increase comes mainly from various project initiatives to be funded by Australia, New Zealand, ADB Urban Development and World Bank/IDA.

³ Total Revenue is the summation of Current Revenue and Capital using the Government Financial Statistics classification. Note that this is different to other reports because the government revenue classifications include (i) repayment of on-lent loans which is included under Net Lending in GFS; and (ii) domestic financing from local borrowing, Bond receipts etc.

6.2.1.2 Tax Revenues

Tax revenues are expected to slightly decrease from the estimated outturn 2010/11 level.

Figure 28: Tax Revenue 2011/12



Source: Ministry of Finance & National Planning

6.2.1.2.1 Taxes on Income & Profits

Taxes on Income & Profits for 2011/12 is estimated at \$21.2 million which shows a slight decline due to fewer PAYE and tax debt arrears which are getting smaller after all these years of successful collection. The lower estimate for PAYE compared to the estimated outturn 2010/11 comes from a lower estimate from both public and private sector PAYE.

Table 15: Taxes on Income & Profits (\$million)

	Actual 2009/10	Est. Outt. 2010/11	Budget Est 2011/12
PAYE	10.1	10.8	9.4
Corporate tax	9.2	7.8	8.4
Tax arrears	8.8	4.9	3.4
Total	28.1	23.5	21.2
PAYE %	35.9	45.8	44.3
Company tax %	32.8	33.2	39.7

Source: Ministry of Finance & National Planning

The continued slow economic activity and tight restraints on bank lending impacted the performance of revenue collection. There are quite a numbers of businesses experienced losses in the past three years.

Ministry of Revenue continuous effort to strengthen compliance and the collection of tax arrears has largely contributed to the improved revenue performance since 2008.

6.2.1.2.2 Consumption Tax

Consumption tax for 2011/12 is estimated to increase slightly from the estimated outturn 2010/11.

Over the medium term, consumption tax revenue is forecast to remain at the 2008/09 level depending on the recovery in economic growth.

Government will continue to pursue economic growth through stimulating activities in the main sectors which in turn shall improve the collection of revenue such as tourism promotion activities, improve export of agricultural and fishing products etc. Other Government ongoing

initiatives will be supported to ensure improvement in remittances and imports such as the seasonal workers program. These economic activities will create jobs and consequently increase collection from consumption tax.

Table 16: Consumption Tax (\$million)

	Actual 2009/10	Est. Outt. 2010/11	Budget Est 2011/12
Import CT	41.5	43.6	43.5
Domestic CT	1.1	4.6	5.0
Govt CT	0.3	0.2	0.3
Tax Debt Recovered (CT)	-	-	0.6
Total	42.9	48.4	49.4

Source: Ministry of Finance & National Planning

6.2.1.2.3 Excise Taxes

Excise tax is estimated to slightly pick up in 2011/12 by \$0.6 million. This reflects the recent increase in the excise tax rate of tobacco by 25% from \$150 to \$200 per 1,000 sticks/kg of tobacco.

Table 17: Excise Taxes (\$million)

	Actual 2009/10	Est. Outt. 2010/11	Budget Est 2011/12
Excise Tax	24.5	25.8	26.5
Govt Excise tax	0.0	0.0	0.0
Total	24.5	25.9	26.5

Source: Ministry of Finance & National Planning

All the excisable goods (Fuel, vehicles, alcohols and cigarettes) are all using the specific rates based on their volumes.

Government will maintain the excise tax structure, however, some of the excisable goods may subject to review depending on social or health initiatives. The Ministry of Revenue will continue to review and improve compliance.

6.2.1.2.4 Trade Taxes

Tax on imports for 2011/12 is expected to be slightly lower than the estimated outturn 2010/11. The declined in the past three years is associated with the economic downturn and increasing number of development projects which are exempted from custom duty such as Nuku'alofa reconstruction under the Chinese EXIM Bank Loan, ADB & WB infrastructure projects. Government is considering reintroducing 5% of duties on capital items that had zero duty.

Table 18: Import Taxes (\$million)

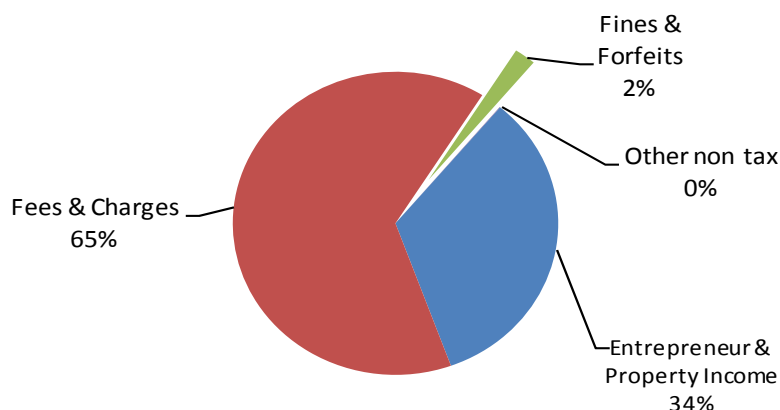
	Actual 2009/10	Est. Outt. 2010/11	Budget Est 2011/12
Trade Taxes	14.9	13.2	12.5
Other Trade Taxes	0.0	0.0	0.1
Total	14.9	13.2	12.6

Source: Ministry of Finance & National Planning

6.2.1.3 Non-tax Revenues

Non-Tax Revenue is expected to increase in 2011/12 by 32.1% from the estimated outturn 2010/11. This increase is mainly from Entrepreneurship and Property income and Administrative Fees and Charges.

Figure 29: Composition of Non Tax Revenue 2011/12



Source: Ministry of Finance & National Planning

6.2.1.3.1 Entrepreneurial & Property Income

Entrepreneurial and Property Income, as shown in Table 19 below, show an increase in 2011/12 by almost 69.6%. This increase is mainly contributed to an increase in dividends, Forum Fishing Agency (FFA) Treaty and Land Rental.

Table 19: Entrepreneurial & Property Income (\$million)

	Actual 2009/10	Est. Outt. 2010/11	Budget Est 2011/12
Interest	0.8	0.4	0.3
Dividends	13.0	3.4	6.5
FFA Treaty	0.31	0.30	0.35
Land Rental	0.4	0.3	0.4
Total	14.5	4.5	7.6

Source: Ministry of Finance & National Planning

6.2.1.3.2 Administrative fees & charges

The estimate for Administrative fees and charges for 2011/12 is increased by \$2.6 million or 22.2% to \$14.6 million from the estimated outturn 2010/11. The bulk of the fees and charges revenue comes from the Ministry of Information and Communication such as the Communication Individual License and Telecom Fees and Charges.

Telecom Settlement Fees is the highest contributor and expected to increase in 2011/12 from 2010/11 estimated outturn as depicted on the projected growth of this sector (as shown in Table 20. Passport and school fees are also expected to increase in 2011/12.

Despite the economic downturn, the revenue from Communication has stayed quite strong.

Table 20: Administrative Fees & Charges (\$million)

	Actual 2009/10	Est. Outt. 2010/11	Budget Est 2011/12
Telecom Settlement Fee	-	2.8	3.6
Passports	1.2	1.5	1.9
School fees	2.0	1.6	1.7
Communication Individual License	3.4	1.0	1.0
Motor Driving Licence	0.5	0.6	0.7
Sales of Produce & Products	0.3	0.4	0.7
Examination Fees	0.2	0.2	0.7
Visas	0.5	0.5	0.6
Export & Post Harvesting	-	-	-
Attendance Fees	0.4	0.8	0.5
Passenger service charge	-	-	0.3
Registration fees	0.3	0.2	0.3
Revolving fund	0.5	-	-
Other	0.7	2.3	2.8
Total	10.0	12.0	14.6

Source: Ministry of Finance & National Planning

6.2.1.4 Capital Revenue

The estimate for 2011/12 remains at \$1.6 million the same with the estimated outturn for 2010/11. Government still expect to collect the proceeds from sales of government quarters as well as other due arrears from non-operating public enterprises.

6.2.1.5 Grants

6.2.1.5.1 Cash Grants for Projects

Project cash grants are forecast at \$39.5 million

Table 21: Source of Cash Grants ⁴

	Actual 2009/10	Est. Outt. 2010/11	Budget Est 2011/12
World Bank/Intnl Devlpmt Agency	4.4	2.3	11.1
Pooled Funds - Australia & NZ	3.2	6.6	10.1
Australia Bilateral Assistance	10.6	3.7	9.0
ADB Grants	10.7	0.8	2.3
New Zealand Bilateral	3.9	1.1	2.1
European Union	2.7	6.3	1.5
Food Agricultural Organisation	0.0	-	1.4
Germany	-	-	0.7
Australian Defence Cooperation	0.5	0.3	0.3
UN Development Program	0.6	0.4	0.1
Sth Pacific Regnl Envrmt Prog	0.1	0.2	0.1
Forum Fisheries Agency	0.0	0.0	0.1
Other	2.1	3.0	0.7
Total	39.2	24.8	39.5

Source: Ministry of Finance & National Planning

⁴ Total does not include Budget Support.

The top three cash grant assistance are Australia, New Zealand and the World Bank. Australia and New Zealand are pooling fund. It is also expected that substantial budget support will be provided by the World Bank, Australia and New Zealand.

New Zealand Aid continues its support to the Education Sector and extending its support in the Training and Vocational Education Sector as well as economic development, AusAid is extending its support in the Health, TVET, infrastructure as well as public sector development. Government of Tonga is please with the increase in assistance from both the multilateral banks through such projects as the Tonga Fibre Optic Cable project as well as the Transport Sector Consolidation project with increased support of the aviation sector and not to mention the ongoing support already provided.

6.2.1.5.2 *In-Kind Grants for Projects*

For 2011/12 estimated in-kind funding is three times the level of estimated cash funding.

Table 22: Use of In-kind Grants – (\$million)

Description	Estimates
	2011/12
Maintenance of Runway	6.0
Maintenance of Roads	10.9
Upgd Lnd Regis Rcrd, Map & Street Signs	0.3
Maintain/New Street Signs	0.7
Rental	0.3
Training & Conferences	0.2
Research	1.0
Community Development Programs	5.8
Overseas Medical Treatment	0.8
Consultants&Technical Assistants Professional Fees	31.4
Scholarships	5.5
New Building or Plant	53.1
Renovations	-
New Machinery	0.5
New Equipment	14.7
New Boat/Ships	-
Other Capital Expenditure	2.0
Technical Equipment	1.0
Total	134.2

Source: Ministry of Finance & National Planning

6.2.1.5.3 *Budget Support*

Part of the total cash grants includes budget support which have become important in recent years to assist Tonga cope with the residual impacts of the Global Economic Crisis. This is provided to fund a short fall in domestic revenue to fund recurrent activities. Budget support is treated as a revenue item and deposited into the consolidated fund in the same manner as domestic revenue.

As noted in the section on closing the budget gap, budget support has an important role to play over the next few years. The following table lists past actual budget support and the best estimates based on the indications from development partners. As noted before, the release of this budget support will be dependent on conditions set by development partners.

The outturn for 2010/11 is \$22.8 million, \$10.1 million less than the total identified plus unidentified budget support in the budget. The estimate for 2011/12 is \$27.9 million, declining

over the next few years as we bring the budget into balance. There is some indication that development partners may be willing to continue to provide budget support over a longer time period, which will make it less difficult for the government to adjust the budget, but will not remove the need for difficult decisions.

Table 23: Budget Support 2009/010 – 2011/12

	Actual 2009/10	Est. Outt. 2010/11	Budget Est 2011/12
World Bank		9.5	8.7
ADB	9.4	9.4	
EU (v-flex)			12.8
EU EDF10			
Aus		3.9	3.9
NZ			2.5
Total Budget Support	9.4	22.8	27.9

Source: Ministry of Finance & National Planning

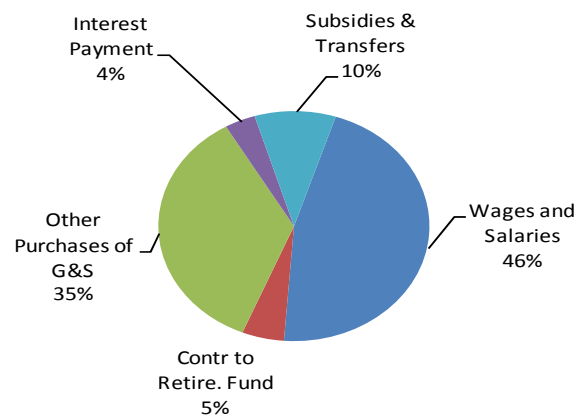
6.3 Expenditure

The formulation of the 2011/12 budget has been guided by the TSDF and the Ministries Corporate and Annual Management Plans, taking into account the overall macroeconomic conditions faced by the Kingdom. Particular attention has been given to the need to constrain expenditure, and create the conditions under which government's reform program can be implemented to help put the country on a fiscal sustainable position. The important of budget support and working with the development partners through this adjustment process is also noted.

The government funded expenditure which includes only those public expenditures that are funded by government revenues, and in 2009/10 to 2011/12, by budget support is budgeted in 2011/12 at \$170.9 million. This is equivalent to the amount reported in details in the "*Programme Budget Estimates*". Government funded expenditure as presented in GFS presentation equates to \$170.9 million less government principal repayment of loans domestically and externally of \$9.6 million which is classified under the financing section and \$0.7 million repayment of on-lending to government investment (a revenue item but is netted from lending to public enterprises in expenditure).

The development partners continued to provide significant support to the government during this time of financial hardship. This support is channelled through investment in infrastructure projects, community based assistance, support to the social sectors, assist in reviving the economic sectors and also providing financial assistance to maintain government service delivery at a base level sufficient to maintain government operations. Overall donor cash funding for 2011/12 is estimated at \$67.0 million of which development projects amounted to \$39.5 million and budget support \$27.9 million.

Figure 30: Total Expenditures by Categories for 2011/12



Source: Ministry of Finance & National Planning

6.3.1 Current Expenditure

The government's overall expenditure and net lending for the financial year 2011/12, as classified in GFS basis, amounted to \$232.1 million. This comprised of Total Expenditure of \$214.4 million, development partners cash funded projects of \$39.5 million and capital expenditure from the Chinese EXIM Bank loan of \$32.0 million. The breakdown by category groups of the government's overall expenditure and net lending is provided in the table below.

Table 24: Expenditures & Net Lending (\$million)

	Actual 2008/09 (p)	Actual 2009/10 (p)	Budget Est 2010/11 (4)	Est Outturn 2010/11	Budget Est 2011/12
Total Expenditure and Net Lending	220.6	230.1	235.7	238.0	232.1
Total Expenditure	186.0	202.3	236.2	220.9	214.4
Current Expenditure	167.0	183.8	186.3	168.9	185.1
Wages and Salaries	76.4	82.7	81.7	85.7	85.5
Contr to Retire. Fund	5.2	6.9	8.8	7.2	9.3
Other Purchases of G&S	61.9	69.4	74.0	51.5	65.6
Interest Payment	5.2	5.6	7.0	6.4	6.8
Subsidies & Transfers	18.3	19.2	14.9	18.2	17.9
Capital Expenditure	19.1	18.4	49.9	52.0	29.3
<i>in which:</i> Chinese EXIM Bank loan	1.2	11.3	30.2	42.4	16.2
Net lending	34.6	27.9	(0.5)	17.1	17.7
<i>in which:</i> Chinese EXIM Bank loan	2.6	18.0	0	15.6	15.8

Source: Ministry of Finance & National Planning

The total expenditure and net lending for 2011/12 is 2.5% lower than the previous year, due to a much lower capital spending of \$29.3 million compared to \$52.0 million invested in 2010/11. Current expenditure on the other hand is much higher in 2011/12 by 9.6% mainly from an increase of 27.4% in purchases of goods & services partly due to donor funded projects. Other components of current expenditure showed marginal increase in 2011/12 except for wages & salaries and subsidies & transfer which decline by 0.3% and 1.3% respectively.

6.3.1.1 Wages & Salaries

The government's wages and salary for 2011/12 is budgeted at \$85.5 million representing

0.3% decrease from the nominal estimated outturn in 2010/11. Of this total \$85.5 million is funded by the government and \$0.5 million comes from donor funded project. The main bulk of wages and salaries of some 89.5% goes to salaries of established civil servants increasing from 87.6% in estimated outturn in 2010/11 which squeezed out allocation for overtime, allowances and others.

The government has set a financial baseline target for this category at 45% of the total government funded expenditure. However this ratio deteriorates to 50.4% in 2010/11 and 50.3% in the 2011/12 budget. This is primarily due to the increase in the number of teachers. The ongoing improvements in budget processes have revised some expenditure items into the appropriate expenditure group.

Table 25: Wages and Salaries 2009/10 – 2011/12

	Actual 2009/10	Est. Outt. 2010/11	Budget Est 2011/12
Salaries	70.1	75.1	76.6
Overtime	2.1	2.0	1.6
Wages	3.1	2.2	1.9
Contract labour & labour hire	0.1	0.1	0.1
District & Town Officers Salary	1.3	1.1	1.2
Privy Purse	1.3	1.0	0.3
Others	4.8	4.3	3.8
Total	82.7	85.7	85.5

Source:

Ministry of Finance & National Planning

The government recognized the importance of stemming and reducing wages & salary component as the rapid rise in the wage bill, since the redundancy program.

The government is committed to reform in this area, to ensure that the salary structure of civil servants adequately reflects performance and contributes to increasing efficiency in service delivery, as detailed in the reform section above.

6.3.1.2 Employer Contributions

All civil servants are required by law (Retirement Fund Board Act) and employers to contribute compulsory 5% of her or his salary and the employer contributes 10% as of July 2009/10. This is estimated at \$9.3 million in 2011/12 budget which consist of \$6.6 million for contributions to Retirement Fund and a Transfer value of \$2.7 million which is government liability with the Retirement Fund Board since its commencement in 1999, and as at end June 2010 this amount stood at \$16.8 million.

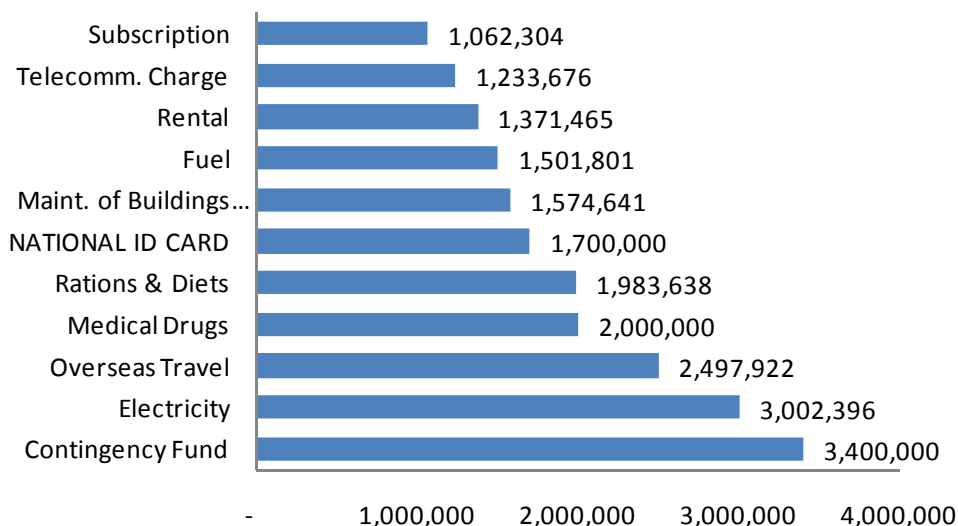
6.3.1.3 Purchases of Goods & Services

The purchases of goods and services category represent the heart of government operational cost, or resources that government allocates to support its staff in providing service delivery. Government recognizes that it is prudent fiscal policy to free up space and resources for government Public servants to undertake services that is required of them. The government is aware that squeezing the normal operational costs is likely to have reduced public sector performance, as staff lacked the complementary inputs required to perform their functions fully.

The purchases of goods and services budget for 2011/12 increased to \$65.6 million representing 27.4% increase from the estimated outturn in 2010/11, however 16.7% lower than the actual expenditure level in 2009/10. Of the total \$65.6 million for purchases of goods &

services, \$27.4 million is funded from donor assistance and \$38.2 million from government's own fund. Both donor finance and government funded expenditures have shown an increase of 36.3% and 17.1% respectively from the 2010/11 outturn.

Figure 31: Top Ten largest Expenditure items under Goods & Services.



The top areas for increase in the 2011/12 budget are national ID (\$1.7 million), electricity and Streetlights (\$0.8 million), and road maintenance (\$0.3 million). In terms of main items that were cut in the 2011/12, compared to its outturn in 2010/11, are those activities completed in 2010/11 such as specialized printing, consultants, Royal Land Commission, Constitutional, Electoral Commission and technical equipment & supplies; and improve efficiency of usage such as overseas travel, rental, fuel, telecommunication charges, printing and stationery, hospitality, uniform, recruitment cost, broadcasting, and maintenance computers and vehicles.

Of the \$27.4 million donor funded purchases of good & services, \$8.9 million were allocated from the pooled fund from the Australian and New Zealand government which is associated with the Tonga Education Sector Project, and Tonga Police Development Programme. The Australia Bilateral contributed \$8.4 million on various programme including Ministry of Health, support to Technical and Vocational Training (TVET) and environment; World Bank funding of \$3.4 million for NTT Tsunami Emergency project and Transport Sector Consolidated Project; Asian Development Bank support of \$2.2 million for Social Protection of Vulnerabilities and Economic & Strategic Management TA; NZ bilateral assistance of \$2.0 million to the Tonga Tourism Support Programme; EU funding of Urban Planning at MLSNR; and FAO assistance to the MAFFF.

6.3.1.4 Interest payments

Interest payments rose from \$6.4m in 2010/11 to \$6.8 million in 2011/12 as payments associated with the increased drawdown of the Chinese EXIM Bank Reconstruction loan and the National Roads Development loan are made. Both loans have a 5 year grace period with regards to principal payments, meaning that overall debt servicing costs will materially increase around 2014/15. These are discussed further in the Public Debt Section.

6.3.1.5 Subsidies & Transfers

Total subsidies and transfers in 2011/12 amounted to \$17.9 million showing a 1.3% decline from \$18.2 million recorded in 2010/11. In the 2011/12 budget, \$9.7 million are transfers to

household which include pensions and gratuities, scholarships and allowance; \$4.2 million transfers to non-profit organization and \$2.6 million contribution to international and regional organization.

The government continued to provide subsidies in the 2011/12 budget to the streetlights of Tonga, domestic shipping and airline services to the two Niuas, various community service obligations and to sustain service provided by the Solid Waste Authority. The government also has provision of \$0.5 million to subsidize increasing electricity prices in addition to duty exemption on fuel for generation of electricity. It is important to note that this is only an interim measure until the tariff formula is reviewed to provide a sustainable way of protecting the poorest consumers. The government, under the TERM initiative, is working with development partners to build the necessary institutional and governance structure, reform the tariff structure and give incentives for efficient operations and for use of alternative energy sources.

Furthermore, the government has allocated \$1.5 million to support sports.

6.3.2 Capital Expenditure

The total cash capital expenditure for 2011/12 budget is estimated at \$28.2 million, representing a decline by 45.8% from \$52.0 million recorded in 2010/11. The huge decline is associated with the capital investment from the Chinese EXIM Bank Loan for reconstruction of Nuku'alofa which dropped from \$42.4 million in 2010/11 to a budgeted figure of \$15.1 million. The second component of the reconstruction of Nuku'alofa, which is on lent to private sector, is budgeted at \$15.8 million. This is classified in the Net Lending sub-section in table 24.

Donor cash capital investment is budgeted at \$10.0 million reflecting an improvement from \$7.3 million disbursed in 2010/11. Donor investments are linked to the World Bank assistance for NTT Tsunami emergency project and Transport Sector Consolidated Project; pooled fund from the Australian and NZ government to the Tonga Police Development Project; and Australian bilateral assistance to the Revenue Services Ministry and Ministry of Transport. Government funded capital expenditure amounted to \$2.5 million showing 34.1% decline from \$3.8 million recorded in 2010/11. The main bulk of this capital expenditure is associated with construction of Foa Causeway, as part of the agreement from Germany to write off loans.

In-kind donor funding for capital projects is considerably greater, totalling \$71.3 million.

6.4 Financing

Table 26 outlines the financing transactions of the 2011/12 Budget. As highlighted earlier, the overall fiscal balance for 2011/12 is an anticipated deficit of \$25.4 million.

Table 26: Estimated Financing Transactions (\$million)

	Actual 2008/09 (p)	Actual 2009/10 (p)	Budget Est 2010/11	Est Outturn 2010/11	Budget Est 2011/12
Total Financing	(5.1)	38.0	9.3	56.2	25.4
External financing	(1.0)	24.7	22.3	52.2	25.4
Disbursements	41.8	36.3	30.2	67.6	32.0
Chinese EXIM Bank Loan	41.8	36.3	30.2	67.6	32.0
Repayments	4.7	4.6	7.8	5.9	6.6
Net change in EXIM loan held overseas (5)	(38.1)	(7.0)	-	(9.5)	0.0
Domestic Financing	(4.1)	13.3	(13.0)	4.0	-
Disbursement from Bonds Issued / Domestic Loan	8.8	14.6	3.4	10.4	3.0
Repayment of Matured Bonds/Loan	7.0	6.9	7.0	10.4	3.0
Net Changes in Government Cash Balances and Investment	(5.9)	5.6	(9.4)	4.0	0.0

Source: Ministry of Finance & National Planning

The 2011/12 budget will still have some loan funded expenditure from the remainder of the Chinese loans.

6.5 Public Debt

By June 2011, public debt is estimated to be \$314.8 million or 44% of GDP; well above the 40% approved threshold. Including the undisbursed part of the current loans in Net Present Value (NPV) terms, the total public debt will be equivalent to 56.1% of GDP, with 50.1% for external and 5.5% domestic. Tonga has no arrears in repayments.

Table 27: Total Public Debt (\$m)

DISBURSED OUTSTANDING DEBT (\$m)	Jun-10	Jun-11	% of GDP
External	228.81	285.44	40.9
Domestic	29.50	29.45	4.20
TOTAL PUBLIC DEBT	258.26	314.89	45.10
Guaranteed	14.80	11.21	1.60
Onlent	23.00	41.46	5.90

Source: Ministry of Finance & National Planning

6.5.1 External Creditors and Currency of External Debt

The 25% increase in external debt is due to the disbursements on the Reconstruction and Roads projects from the EXIM Bank (PRC). This makes EXIM Bank the main creditors accounting for 52% of external debt with the next largest ADB with 26%. Other creditors include World Bank, International Fund for Agricultural Development and small amounts from several commercial banks.

Following the large increase in Chinese loans, the Chinese Yuan accounts for 54% of the outstanding loans with the Special Drawing Rights accounting for 45%.

6.5.2 Outstanding Domestic Loans and Loan Guarantees

Outstanding domestic loans (bonds on issue) remain constant at \$29.4 million (4% GDP). A

new Treasury Notes (\$7m) was issued in September 2010 and must be repaid before the end of the financial year. The majority of bonds, 68%, are held by financial institutions. The rest are held by the provident funds, individuals and companies.

Outstanding guaranteed loans are about 2% of GDP. The main borrower is Tonga Power Ltd with 96%. Janfull International Dateline Hotel makes up most of the rest.

Outstanding onlent loans are about 6% of GDP. The main borrower is Janfull Hotel Ltd. (EXIM loan) with 25%. The increase in onlent debt is mainly due to the Nuku'alofa Reconstruction loans signed in December 2010 and on lending to the Phase 1 borrowers. The onlent loan repayment arrears is estimated at \$11.9m, with the main creditors being Sea Star and Janfull Hotel Ltd.

Table 28: On Lent Loans by Borrower (\$m)

Borrower	Jun-10	Jun-11
Tonga Development Bank	4.26	3.79
Tonga Communications Corporation	1.61	1.37
Sea Star Fishing Co. Ltd	3.65	3.65
Janfull International Dateline Hotel Ltd	10.91	10.48
Ports Authority Tonga	0.70	0.70
Tongatapu Market Ltd	1.87	1.86
Royco	-	2.21
Taumoepeau	-	7.16
Sanft	-	10.25
TOTAL	23.00	41.46

Source: Ministry of Finance & National Planning

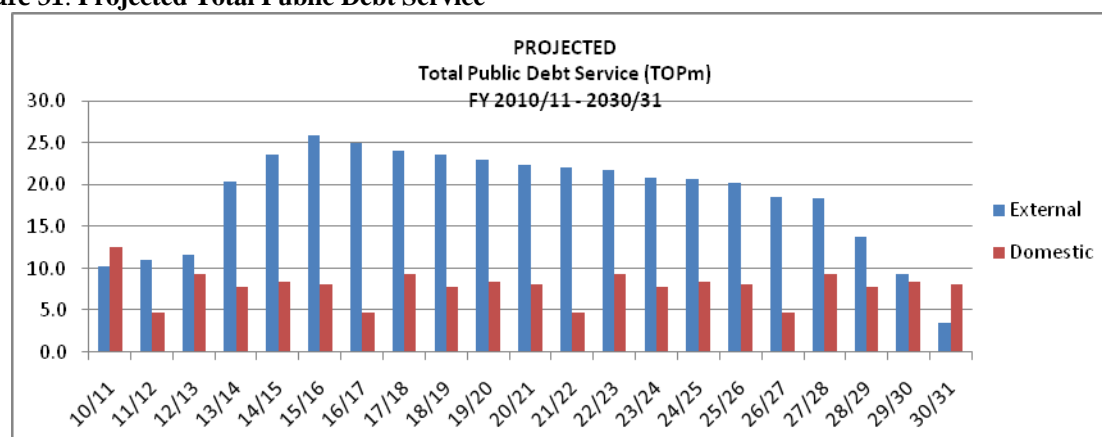
6.5.3 Total Debt Service - external and domestic (TDS)

Total debt service is estimated to be \$21.7 million for 2010/11 compared with a \$5.7 million decline to \$16.0 million in 2011/12. Annual external debt servicing obligations will increase by over \$11.7 million or around 1.5% and 8.4% of the projected GDP.

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

The domestic debt service includes projected bond roll-overs (principal) on maturity at an average of 5 years duration and (interest) for total bonds on issue based on an interest rate of 6.0% (weighted average interest per annum).

Figure 31: Projected Total Public Debt Service



Source: Ministry of Finance & National Planning

6.5.4 Debt Sustainability

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

Based on the Government of Tonga's debt sustainability targets, at 30 June 2011 and going forward, Tonga is exceeding most of the IMF recommended thresholds.

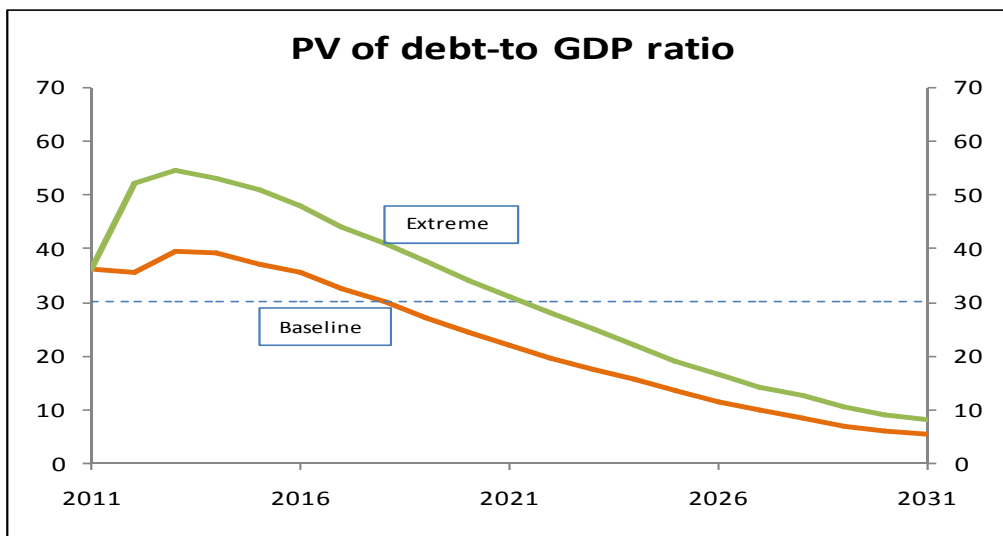
Table 29: Actual PUBLIC debt versus Government Targets

External Public Debt Indicators	GOVT TARGET (%)	Actual – June 2011 (%)
NPV of external debt		
Total debt as a % of GDP	40	51.42
Total debt as a % of exports (including remittances)	100	147.68
Total debt as a % of revenues	200	253.09
Debt Service		
Debt Service as a % of exports (including remittances)	15	9.62
Debt Service as a % of revenues	25	16.49

Source: Ministry of Finance & National Planning

Figure 32 shows the increase in Debt to GDP under the baseline scenario of stable exchange rates and the extreme scenario where the pa'anga depreciates by 30%. Even on the base line case we will not be able to borrow until after 2018.

Figure 32 : Present Value of debt to GDP



7 Conclusion

During the first six months in office the new Administration has worked hard to come to terms with the challenges facing the Kingdom. This Budget Statement sets out clearly the challenges, both internal and external, that we face in Tonga and the actions required both for the 2011/12 Budget and beyond. Government and the people of Tonga must collaborate together as we strive ***“To develop and promote a just, equitable and progressive society in which the people of Tonga enjoy good health, peace, harmony and prosperity, in meeting their aspirations in life”***



Table 1. Tonga: Selected Indicators, 2004/05-2009/10

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Output and prices						
Real GDP	-1	0.5	-1.2	2.0	-0.2	0.3
Consumer prices (period average)	10.0	7.3	5.1	9.6	5.6	1.7
Central government finance (% of GDP)						
Revenue	26.9	31.6	30.3	26.9	23.9	21.4
Grants	1.2	2.1	4.6	1.4	7.0	7.2
Current expenditure	24.1	35.5	32.3	26.0	25.8	28.8
Development expenditure	2.4	3.3	1.1	0.5	3.3	2.7
Overall balance	2.3	-4.8	1.6	1.8	1.3	-5.7
External loans (net)	0.5	2.1	-1.0	-0.8	-0.7	3.7
Domestic financing	-0.3	-0.3	-0.3	-0.8	0.3	2.0
Money and credit (end-period)						
Broad money (M2) % growth	12.1	14.4	14.0	8.4	-1.9	5.1
Domestic credit	25.6	29.0	14.8	15.2	-7.1	
Private sector credit 3/ % growth	42.4	23.2	11.4	19.7	-2.9	-15.5
Balance of payments (OET Basis)						
Exports, f.o.b.	27.2	24.2	26.3	23.5	11.4	11.4
Of which: Squash	16.2	8.3	5.6	2.7	1.9	0.5
Imports, f.o.b.	-204.2	-245.4	-212.9	-262.5	-271.3	-208.0
Services (net)	-19.3	-15.7	-35.9	-6.2	-5.4	-7.9
Income (net)	3.1	5.7	7.1	6.4	57.5	5.2
Services and Income (net)	-16.2	-10.0	-28.8	0.2	52.1	-2.7
Transfers (net)	178.1	178.5	168.6	180.2	158.0	166.9
Of which: Private transfer receipts	178.1	178.5	168.7	179.7	156.7	
Current account balance	-11.2	-45.9	-51	-58.5	-49.8	-32.4
(In percent of GDP)	-2.6	-9.8	-10.4	-9.6	-7.7	-4.8
Overall balance	-7.6	1.1	8.4	-2.5	47.1	34.3
Gross international reserves (end-period)						
In millions of pa'anga	82.1	83.2	91.6	89.1	136.3	170.5
In months of imports cover	4.4	4.3	4.4	3.5	5.1	7.1
External debt						
External debt/GDP	37.3	35.3%	33.4%	26.9%	31.3%	
Exchange rate (period average)						
T\$ per US\$ (end-period)	1.93	2.06	1.9	1.9	2.01	1.95
Real effective exchange rate (1990=100)	100.8	104.4	102	113.8	114.5	112.2
Nominal effective exchange rate (1991=100)	62.7	62.7	59.8	58.6	59.5	59.2

1/ Fiscal year begins in July.

2/ Sources for Output and Prices : Statistics Dept

2/ Sources for Government finance and External Debt : MOFNP

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

Table 2. Tonga: Real Sector Developments, 2004/05-2009/10

	2004/05	2005/06(e)	2006/07(p)	2007/08(p)	2008/09(p)	2009/10
Nominal GDP						
In pa'anga mn.	503.3	592.5	611.0	661.5	650.1	671.9
In US\$ mn.	261.9	287.2	313.5	339.4	307.0	344.8
GDP per capita (US\$)	2,599	2,839	3,086	3,341	2,985	3,380
Population	100,764	101,169	101,576	101,576	102,869	101,991
GDP (2000/01 prices)	-0.4	0.8	-3.2	1.2	-0.4	0.2
of which:						
Agriculture, forestry, and fisheries	-3.0	-0.9	-0.9	-3.2	-1.3	-3.1
Manufacturing	-7.7	0.8	-0.5	1.0	6.5	-0.7
Construction	0.4	-2.6	-6.3	6.9	1.3	1.9
Commerce, restaurants, and hotels	-0.8	1.8	5.5	-0.1	4.6	-0.3
Transportation and communications	-12.2	2.6	2.0	6.0	-7.0	3.7
Finance and real estate	2.6	2.9	-4.7	5.0	-6.8	-3.7
Government services	1.1	-0.3	-17.3	1.0	1.5	2.3
GDP (by sector; current prices)						
of which:						
Agriculture, forestry, and fisheries	26.3	25.2	25.4	26.2	17.1	19.2
Manufacturing	4.7	4.2	3.9	3.7	7.0	9.9
Construction	9.7	9.1	8.9	9.0	5.9	7.7
Commerce, restaurants, and hotels	15.1	13.4	13.3	14.2	12.7	14.7
Transportation and communications	8.7	8.7	8.8	8.8	4.0	7.2
Finance and real estate	11.9	12.1	11.5	11.9	9.8	8.0
Government services	13.8	17.9	18.8	16.5	12.2	15.7
Consumer prices (period average)						
All items	10.0	7.3	5.1	9.6	5.5	1.7
Imported component	8.8	5.3	4.0	10.1	5.5	1.8
Domestic component	12.6	11.3	7.0	7.8	5.5	1.6

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

Table 3: Annual CPI for December Quarter 2004 to 2010

	All Items	Food	Housing	H/hold Goods	Clothing and Footwear	Trans- portation	Tobacco and Alcohol	Misc. Goods & Services	Imported Items	Local Items
Weight	<u>100.0</u>	<u>44.4</u>	<u>5.3</u>	<u>12.0</u>	<u>3.4</u>	<u>14.2</u>	<u>12.3</u>	<u>8.4</u>	<u>66.2</u>	<u>33.8</u>
2004	126.7	121.4	117.5	126.9	117.1	129.4	156.8	115.9	128.2	123.9
2005	136.0	127.2	133.1	137.8	125.0	154.9	156.0	124.3	136.3	135.3
2006	142.6	132.9	141.6	150.9	133.6	162.2	158.6	129.2	140.8	146.0
2007	152.3	143.4	143.9	156.0	139.3	179.7	168.4	134.5	152.3	152.1
2008	162.0	147.3	154.7	172.2	150.1	198.3	182.0	144.3	161.4	163.3
2009	163.8	159.5	152.4	158.9	154.8	183.2	179.5	149.3	160.5	170.3
Weight	<u>100.0</u>	<u>45.8</u>	<u>2.5</u>	<u>20.8</u>	<u>3.2</u>	<u>11.9</u>	<u>6.0</u>	<u>9.8</u>	<u>57.8</u>	<u>42.2</u>
2010	99.8	99.0	99.6	100.0	100.0	102.3	100.4	99.4	100.4	98.9

Source: Statistics Department

Table 4: Annual (%) Changes in the CPI for december quarter 2004 to 2010

	All Items	Food	Housing	Household Goods	Clothing and Footwear	Transporta tion	Tobacco and Alcohol	Misc. Goods & Services	Imported Items	Local Items
Weight	100	44.4	5.3	12.0	3.4	14.2	12.3	8.4	66.2	33.8
2004	11.6	9.5	13.5	14.8	17.8	18.6	7.5	11.6	9.4	16.5
2005	7.3	4.8	13.3	8.6	6.7	19.7	-0.5	7.2	6.3	9.2
2006	4.9	4.5	6.4	9.5	6.9	4.7	1.7	3.9	3.3	7.9
2007	6.8	7.9	1.6	3.4	4.3	10.8	6.2	4.1	8.2	4.2
2008	6.4	2.7	7.5	10.4	7.8	10.4	8.1	7.3	6.0	7.4
2009	1.1	8.3	-1.5	-7.7	3.2	-7.6	-1.4	3.5	-0.6	4.3
Weight	100	45.8	2.5	20.8	3.16	11.93	6.0	9.83	57.8	42.2
2010	5.0	3.8	-3.1	1.6	-0.6	4.4	24.0	-5.5	8.0	0.4

Source: Statistics Department

Table 5: Tonga Domestic Exports by HS

HS Code SECTION ITEM	2006/07		2007/08/p		2008/09/p		2009/10	
	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%
Live Animals;Animal Products	7,357	34.7	5,900	34.1	4,147	28.0	9,857	64.3
Vegetable Products	11,778	55.61	7,321	42.3	7,087	47.8	4,019	26.2
Products of the Chemical Or Allied	580	2.74	1,489	8.6	908	6.1	585	3.8
Wood and Articles of Wood;	488	2.30	323	1.9	602	4.1	322	2.1
Miscellaneous Manufactured Articles	6	0.03	23	0.1	6	0.0	22	0.1
Works of Art, Collectors Pieces and Antiques	33	0.15	72	0.4	45	0.3	17	0.1
Other Exports	938	4.43	2,160	12.5	2,032	13.7	505	3.3
TOTAL	21,180	100	17,288	100.0	14,827	100.0	15,327	100.0

Source: Statistics Department

p: provisional numbers

Table 6: Exports by Institutional Sector, 2006/07 - 2009/10

INSTITUTIONAL SECTOR	2006/07		2007/08/p		2008/09/p		2009/10	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
Private Sector	21,180	100	17,288	100	14,827	100	15,327	100
Government Sector	0	0	0	0	0	0	0	0
Quasi-Government Sector	0	0	0	0	0	0	0	0
TOTAL	21,180	100	17,288	100	14,827	100	15,327	100

Source: Statistics Department

p: provisional numbers

Table 7: Exports by Country of Destination, 2006/07 – 2009/10

COUNTRY	2006/07		2007/08/p		2008/09p		2009/10	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
New Zealand	4,244	20.0	5,278	30.5	5,283	35.6	3,264	21.3
Australia	1,303	6.2	817	4.7	1,743	11.8	693	4.5
Mainland USA	2,581	12.2	2,939	17.0	2,636	17.8	2,551	16.6
Hawaii	2,140	10.1	1,531	8.9	227	1.5	131	0.9
Japan	7,550	35.6	2,244	13.0	1,967	13.3	517	3.4
Singapore	48	0.2	104	0.6	17	0.1	458	3.0
American Samoa	443	2.1	635	3.7	428	2.9	178	1.2
Hong Kong	40	0.2	171	1.0	551	3.7	6,433	42.0
France	0	0.0	0	0.0	0	0.0	0	0.0
All other Countries	2,831	13.4	3,569	20.6	1,975	13.3	1,103	7.2
TOTAL	21,180	100.0	17,288	100.0	14,827	100.0	15,327	100.0

Source: Statistics Department

p: provisional numbers

Table 8: Imports by Main HS Section

HS Code SECTION ITEM	2006/07		2007/08/p		2008/09/p		2009/10	
	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%
1. Live Animals; Animal Products	30,162	12.0	30,742	10.0	36,426	11.8	39,502	13.8
2. Vegetable Products	8,244	3.3	9,610	3.1	10,695	3.5	9,347	3.3
3. Prepared Foodstuff; Beverages & Tobacco	37,228	14.8	46,221	15.1	44,154	14.3	45,633	16.0
4. Products of the Chemical or Allied	9,268	3.7	14,464	4.7	11,699	3.8	13,684	4.8
5. Wood and Articles of Wood	8,096	3.2	11,065	3.6	7,269	2.3	7,164	2.5
6. Machinery and Mechanical Appliance	25,380	10.1	38,901	12.7	37,671	12.2	39,244	13.7
7. Miscellaneous Manufactured Articles	6,175	2.5	6,479	2.1	4,899	1.6	4,838	1.7
8. Vehicle, Aircraft, Vessel & Associated	10,341	4.1	17,374	5.7	17,615	5.7	15,908	5.6
9. Works of Art, Collectors Pieces	12,281	4.9	13,765	4.5	14,899	4.8	4,074	1.4
10. Other Imports	104,418	41.5	118,392	38.6	124,017	40.1	106,360	37.2
TOTAL	251,596	100.0	307,013	100.0	309,344	100.0	285,754	100.0

Source: Statistics Department

p: provisional numbers

Table 9 : Imports by Institutional Sector, 2006/07 – 2009/10

INSTITUTIONAL SECTOR	2006/07		2007/08/p		2008/09/p		2009/10	
	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%
Private Sector	231,272	91.9	291,762	95.0	294,348	95.2	277,502	97.1
Government Sector	11,162	4.4	12,457	4.1	11,114.10	3.6	5,119.80	1.8
Quasi-Government Sector	9,161	3.6	2,794	0.9	3882.1	1.3	3132.7	1.1
TOTAL	251,595	100.0	307,013	100.0	309,344	100.0	285,754	100.0

Source: Statistics Department

p: provisional numbers

Table 10: Imports by Country of Origin, 2006/07 – 2009/10

COUNTRY	2006/07		2007/08 /p		2008/09 /p		2009/10	
	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%
New Zealand	84,365	33.5	100,123	32.6	81,870	26.5	88,715	31.0
Australia	34,666	13.8	34,899	11.4	33,349	10.8	32,714	11.4
USA	25,795	10.3	26,348	8.6	35,884	11.6	41,273	14.4
United Kingdom	276	0.1	391	0.1	714	0.2	1,118	0.4
Fiji	68,710	27.3	32,568	10.6	41,411	13.4	31,007	10.9
Japan	5,845	2.3	8,354	2.7	11,375	3.7	6,844	2.4
Singapore	5,883	2.3	63,666	20.7	62,679	20.3	50,039	17.5
Others	26,056	10.4	40,664	13.2	42,061	13.6	34,043	11.9
TOTAL	251,596	100.0	307,013	100	309,344	100.0	285,754	100.0

Source: Statistics Department

p: provisional numbers

Table 11: Tonga Balance of Payment 2006/07 - 2009/10*(In millions of pa'anga, unless otherwise indicated)*

	2006/07	2007/08	2008/09 /p	2009/10/p
Balance of Trade	-190.8	-268.3	-273.2	-296.3
Exports, f.o.b.	26.7	23.5	18.3	14.9
Of which: Squash exports	5.6	2.7	1.9	n.a
Imports, f.o.b.	-217.5	-291.8	-291.5	-311.2
Services (net)	-41.2	-25.3	-28.7	-16.3
Receipts	47.1	64.9	76.0	75.4
Of which: Tourism receipts	24.2	41.7	39.2	39.7
Payments	-88.3	-90.3	-104.7	-91.7
Income (net)	14.4	14.3	13.4	7.6
Receipts	20.6	22.5	21.3	22.4
Payments	-6.2	-8.3	-7.9	-14.8
Current account balance	-58.7	-75.1	-122.0	-120.9
(Percent of GDP)	-9.6	-11.4	-18.8	-18.0
Capital account balance	53.9	68.9	188.9	n.a
Official capital (net)	19.7	42.7	146.5	n.a
Official loans, net	0.0			n.a
Disbursements	0.0			n.a
Amortization	0.0			n.a
Official capital inflows	24.7	52.6	148.0	n.a
Official capital outflows	-5.0	-9.9	-1.5	n.a
Private capital (net)	34.2	26.2	42.4	n.a
Private capital inflows	39.9	32.6	43.7	n.a
Private capital outflows	-5.7	-6.4	-1.3	n.a
Financial Account	21.0	38.4	-1.4	n.a
Other Credits	47.1	35.9	-48.6	n.a
Official Reserve	-8.4	2.5	47.2	n.a
Debits	17.7	0	0	n.a
Basic Balance	16.2	32.2	65.5	n.a
Errors and omissions	-7.8	-34.7	-18.3	n.a
Overall balance	8.4	-2.5	47.2	n.a
Memorandum items:				
Service, income, and transfers (net)	141.7	197.7	188.7	n.a
Receipts	255.0	316.3	303.3	n.a
Payments	-113.2	-126.9	-134.0	n.a
Gross official foreign reserves (TOP mil)	91.6	89.1	136.3	170.5
Months of Import cover	4.4	3.5	5.1	7.1

Table 12. Tonga: Monetary Survey, 2006/07–2009/10

	2006/07	2007/08	2008/09	2009/10
Net foreign assets	81.7	79.9	121.3	164.8
Foreign assets	103.6	99.9	154.0	186.7
Foreign liabilities	-21.9	-20.0	-32.7	-21.9
Net domestic assets	179.3	202.9	156.2	126.6
Net domestic credit	245.0	282.2	262.3	235.0
Government (net)	-11.7	-29.1	-32.7	-29.1
Non-financial public enterprises	2.5	3.7	3.9	19.6
Private sector	260.5	311.8	302.8	252.6
Non-monetary financial institutions	-6.3	-4.2	-11.7	-8.1
Other items (net)	-65.7	-79.3	-106.1	-108.4
Total domestic liquidity (M2)	261.0	282.8	277.3	291.5
Narrow money (M1)	73.8	72.6	77.9	90.1
Currency outside banks	18.5	18.8	21.9	26.8
Demand deposits	55.3	53.8	56.0	63.3
Quasi money	187.2	210.2	199.4	201.4
Savings deposits	49.3	48.8	43.6	46.4
Term deposits	125.2	150.1	143.0	142.9
Foreign currency accounts	12.8	11.3	12.8	12.0
Net foreign assets	12.6	-2.2	51.8	35.9
Foreign assets	9.0	-3.6	54.2	21.2
Foreign liabilities	-2.5	-8.7	63.7	-33.1
Net domestic assets	14.7	13.2	-23.0	-18.9
Private sector	11.4	19.7	-2.9	-16.6
Total domestic liquidity (M2)	14.0	8.4	-1.9	5.1
Narrow money (M1)	32.5	-1.6	7.3	15.7
Quasi money	8.1	12.3	-5.1	1.0
Net foreign assets	43.0	42.1	60.3	84.5
Foreign assets	54.5	52.6	76.6	95.7
Foreign liabilities	-11.5	-10.5	-16.3	-11.2
Memorandum items:				
Velocity (GDP/average M2)	1.9	0.9	2.3	2.3
Exchange rate (pa'anga per U.S. dollar; end period)	1.9	1.9	2.0	2.0

Source: National Reserve Bank of Tonga

Table 13: Summary Table of Government Operations, 2006/07 - 2009/10

Years ending June 30	2006/07	2007/08	2008/09/p	2009/10(p)
Total revenue and grants	171.2	172.2	225.7	192.1
Total revenue	148.5	163.6	179.9	143.6
Current revenue	148.5	163.6	152.7	143.6
Tax revenue	126.2	139.1	131.5	116.2
Nontax revenue	22.3	24.5	21.2	27.3
Capital revenue	0.0	0.0	27.2	0.00
Grants (in cash)	22.7	8.7	45.8	48.60
Total expenditure and lending minus repayments	163.5	161.5	220.6	230.1
Total expenditure	164.1	161.5	186.5	211.7
Current expenditure	158.5	158.5	167.4	193.2
Capital expenditure	5.6	3.04	19.1	18.4
<i>China EXIM Bank Loan</i>			1.2	
Total lending minus repayments	-0.6	-0.05	34.1	18.5
<i>China EXIM Bank Loan</i>			2.6	
Overall deficit/surplus	7.7	10.8	5.1	-38.0
Total financing	-7.7	-10.8	-5.1	38.0
External financing	-5.1	-5.0	(1.0)	24.7
Domestic bank financing	-2.6	-5.8	(4.1)	13.3
Total revenue and grants	28.0	26.0	34.7	28.6
Total revenue	24.3	25.2	27.7	21.4
Current revenue	24.3	25.2	23.5	21.4
Tax revenue	20.7	21.4	20.2	17.3
Nontax revenue	3.7	3.8	3.3	4.1
Capital revenue	0.0	0.0	4.2	0.0
Grants	3.7	1.3	7.0	7.2
Total expenditure and lending minus repayments	26.8	24.8	33.9	34.2
Total expenditure	26.9	24.8	28.7	31.5
Current expenditure	25.9	24.4	25.7	28.8
Capital expenditure	0.9	0.5	2.9	2.7
Total lending minus repayments	-0.1	0.0	5.2	2.8
Overall deficit/surplus	1.3	1.7	0.8	-5.7
Total financing	-1.3	-1.7	-0.8	5.7
External financing	-0.8	-0.8	-0.2	3.7
Domestic bank financing	-0.4	-0.9	-0.6	2.0
Memorandum items:	0.0	0.0	0.0	0.0
Current balance excluding grants	0.0	0.0	0.0	0.0
Overall balance excluding grants	4.6	4.0	5.3	4.3
Current expenditure	4.0	3.9	4.3	3.2
Total revenue	4.0	3.9	3.6	3.2
Effective import tariff (In percent)				
GDP (TOP million)	611.0	661.5	650.1	671.9

Source: Ministry of Finance and Planning

Table 14: Government Revenue Collection, 1991/92 - 2009/10

Year	Foreign Trade Taxes	Domestic Taxes	Others	Total
	(\$)	(\$)	(\$)	(\$)
1991/92	21,409,800	8,695,200	16,124,120	46,229,120
1992/93	23,862,540	11,591,670	16,832,960	52,287,170
1993/94	26,470,240	11,808,990	16,462,630	54,741,860
1994/95	26,774,790	11,068,060	20,375,610	58,218,460
1995/96	27,285,570	13,808,570	23,549,900	64,644,040
1996/97	27,231,170	14,469,290	19,776,140	61,476,600
1997/98	27,132,550	13,882,720	21,687,170	62,702,440
1998/99	27,513,660	17,589,220	21,804,800	66,907,680
1999/00	33,984,206	18,224,700	22,374,923	74,583,829
2000/01	35,777,155	19,692,515	29,300,678	84,770,348
2001/02	48,426,692	23,248,611	22,490,991	94,166,294
2002/03	56,227,260	24,845,971	23,422,871	104,496,101
2003/04	58,443,338	26,316,445	27,560,492	112,320,275
2004/05	66,984,098	30,100,037	20,661,601	117,745,736
2005/06	81,282,340	40,089,379	26,824,876	148,196,594
2006/07	91,206,168	33,605,628	26,695,806	151,507,602
2007/08	100,327,543	37,854,765	23,592,346	161,774,654
2008/09/p	81,698,070	46,060,396	59,063,262	186,821,728
2009/10/p	80,920,362	34,582,975	44,096,676	159,600,013

Source: Ministry of Finance and Planning
p: provisional numbers

Table 15: Major Sources of Tax Revenue 2006/07 - 2009/10

	2006/07		2007/08		2008/09 /p		2009/10/p	
	\$	%	\$	%	\$	%	\$	%
Import Duties	47,535,367	38.1	40,533,515	29.4	16,059,175	12.2	14,914,998	12.8
Port & Service Tax		0.0		0.0		0.0		
Excise Tax/Excise Duty	697,482	0.6	10,835,808	7.9	23,974,263	18.2	25,207,291	21.7
Income Tax	26,430,442	21.2	26,845,560	19.5	40,258,007	30.6	28,070,338	24.1
Sales Tax / Consumption Tax	49,232,786	39.4	59,676,719	43.3	47,192,812	35.9	42,908,911	36.9
Sub-Total	123,896,077	99.3	137,891,602	100.0	127,484,257	96.9	111,101,537	95.6
Other	915,707	0.7	-	0.0	4,043,330	3.1	5,140,092	4.4
TOTAL	124,811,784	100.0	137,891,602	100.0	131,527,587	100.0	116,241,629	100

Source: Ministry of Finance and Planning
p: provisional numbers

Table 16: Expenditure by Ministry for 2006/07-2009/10 (Tonga Government)

	2006/07		2007/08		2008/09/p		2009/10/p	
	\$	%	\$	%	\$	%	\$	%
Education	22,662,184	14.8	22,450,556	15.1	24,200,091	11.6	26,563,614	15.1
Health	20,002,773	13.1	19,212,939	12.9	20,900,972	10.1	22,500,834	12.8
Works	3,245,433	2.1	4,250,745	2.9	8,484,544	4.1	3,347,700	1.9
Prime Minister's Office	4,898,922	3.2	8,333,077	5.6	8,999,712	4.3	8,344,844	4.7
Sub-Total	50,809,311	33.2	54,247,316	36.4	62,585,319	30.1	60,756,992	35
Police	8,113,004	5.3	8,381,583	5.6	10,880,495	5.2	9,884,854	5.6
Agriculture	5,320,153	3.5	5,052,231	3.4	5,717,328	2.8	5,540,339	3.2
Defence	7,102,982	4.6	8,078,335	5.4	9,894,917	4.8	8,141,516	4.6
Legislative Assembly	2,884,976	1.9	3,935,384	2.6	4,719,628	2.3	4,049,559	2.3
Public Debt	16,204,370	10.6	15,592,374	10.5	17,487,685	8.4	26,398,727	15.0
Foreign Affairs	6,674,593	4.4	6,767,524	4.5	14,187,765	6.8	10,627,047	6.0
Financial Appropriations	8,407,173	5.5	9,784,920	6.6	41,033,088	19.7	19,108,411	10.9
Sub-Total	54,707,251	35.8	57,592,352	38.7	103,920,906	50.0	83,750,453	47.6
Other	47,456,503	31.0	37,077,358	24.9	41,330,702	19.9	31,302,798	17.8
GRAND TOTAL	152,973,066	100.0	148,917,026	100.0	207,836,927	100.0	175,810,243	100.0

Source: Ministry of Finance and Planning

p: provisional numbers

Table 17: GFS Presentation of the Government Finance for 2008/09 - 2011/12

	Actual 2008/09	Actual 2009/10	Estimated Outturn 2010/11	Estimate 2011/12
Total Revenue and grants	225,717,172	192,122,174	181,854,455	206,718,629
Current revenue	152,750,383	143,554,436	132,553,109	137,714,031
Tax revenue	131,527,587	116,241,629	115,018,595	114,544,255
Taxes on income and profits	40,258,563	28,118,228	23,485,565	21,210,000
Taxes on property	71,643	76,882	66,328	61,500
Domestic taxes on goods and services	73,687,268	72,372,748	78,211,768	80,702,755
Consumption tax	47,192,812	42,908,955	48,387,651	49,425,000
Other taxes	26,494,456	29,463,793	29,824,117	31,277,755
Taxes on international trade and transactions	16,064,282	14,935,478	13,179,244	12,570,000
Customs duties	16,042,295	14,914,998	13,163,674	12,520,000
Other import charges	21,987	20,481	15,570	50,000
Other taxes	1,445,832	738,293	75,690	-
Nontax revenue	21,222,796	27,312,807	17,534,513	23,169,776
Entrepreneurial and property income	10,017,476	14,538,914	4,451,027	7,550,383
Administrative fees and charges	6,783,363	10,027,993	11,950,736	15,131,193
Fines and forfeits	291,610	516,141	457,750	478,200
Other nontax revenue	4,130,347	2,229,758	675,000	10,000
Capital revenue	27,195,229	3,050	1,600,660	1,554,935
Grants (in cash)				
From abroad	45,771,560	48,564,689	47,651,438	67,049,663
From other levels of national government	0	0	49,249	400,000
Total Grants (in cash)	45,771,560	48,564,689	47,700,687	67,449,663
Expenditure and lending minus repayments	220,606,558	230,150,230	238,023,021	232,070,627
Total Expenditure	186,022,299	202,284,023	220,907,853	214,358,309
Current expenditure	166,950,123	183,837,841	168,947,631	185,097,219
Wages and salaries	76,386,891	82,731,045	85,748,415	85,487,247
Employer contributions	5,236,478	6,939,112	7,196,520	9,289,166
Other purchases of goods and services	61,887,684	69,393,941	51,477,363	65,577,261
Interest payments	5,184,358	5,550,634	6,368,478	6,819,000
Subsidies and other current transfers	18,254,711	19,223,109	18,156,855	17,924,545
Subsidies to non-financial public enterprises	2,777	-	-	-
Subsidies to financial institutions	1,018,114	-	-	30,000
Subsidies to other enterprises	818,549	1,550,845	532,825	865,000
Transfers to non-profit institutions	7,745,208	6,427,984	5,314,348	7,771,000
Transfers to households	7,718,189	10,166,947	9,756,645	7,318,341
Transfers abroad	951,874	1,077,332	2,553,037	1,940,204
Capital expenditure	19,072,176	18,446,181	51,960,221	29,261,090
Acquisition of fixed capital assets	17,868,659	18,108,115	51,381,741	29,114,596
Purchases of land and intangible assets	103,961	59,962	90,438	69,402
Capital transfers	1,099,556	278,105	488,042	77,092
Lending minus repayments	34,584,260	27,866,208	17,115,168	17,712,318
To non-financial public enterprises (net)	35,148,952	28,240,182	17,115,168	17,712,319
To financial institutions (net)	(564,693)	(373,975)	-	(1)
Abroad	-	-	-	-
Overall deficit/surplus	5,110,614	-38,028,056	-56,168,566	-25,351,998

Source: Ministry of Finance and Planning

Table 18: Full GFS Presentation of Financing Table 2008/09 - 2011/12

	Actual 2008/09	Actual 2009/10	Estimated Outturn 2010/11	Estimate 2011/12
Total Financing	-5,110,613	38,028,055	56,168,566	25,351,998
External Financing	(962,787)	24,711,843	52,166,948	25,280,640
Disbursement	41,830,645	36,282,560	67,600,000	31,996,271
Repayments	4,716,626	4,578,998	5,933,052	6,648,000
Net Change in External Cash Balance	-38,076,806	-6,991,719	-9,500,000	-67,631
Domestic Financing	(4,147,826)	13,316,212	3,930,260	-
Bonds Issued/Domestic Loan	8,777,962	14,603,000	10,360,000	3,000,000
Principal Repayment of Matured Bonds/Loan	7,000,000	6,891,255	10,360,000	3,000,000
Net Changes in Government Cash Balances and Ir	(5,925,788)	5,604,467	3,930,260	

Source: Ministry of Finance and Planning

Table 19: Loans comprising the Public Enterprises and other Organisations Debt as at 30 April 2011
(Ngaahi Mo'ua No Pa'anga mei he Pule'anga 'a e Ngaahi Kautaha 'a e Pule'anga moe Ngaahi Kautaha Kehe 'i he 'aho 30 'Epeleti 2011)

Lender	Year	Purpose	Principal	Interest	Term (Years)	Cumulative Interest Repaid	Cumulative Principal Repaid	Outstanding Principal Debt
			\$	%		\$	\$	\$
	(Ta'u)	(Taumu'a No)	(Lahi 'o e No)	(Totongi Tupu)	(Taimi Totongi No (Ta'u))	(Lahi 'o e Totongi Tupu 30.04.11)	(Sino'i Pa'anga Totongi Fakafoki 30.04.11)	(Sino'i Pa'anga te eki totongi 30.04.11)
1 Tonga Development Bank (Pangike Fakalakalaka) - ADB 624	1983	Development Lending (Nö Fakalakalaka)	1,108,197	3.00	40	412,949	548,266	559,931
2 Tonga Development Bank (Pangike Fakalakalaka) - IDA 1813	1987	Development Lending (Nö Fakalakalaka)	2,604,051	3.00	36	869,102	1,352,103	1,251,947
3 Tonga Development Bank (Pangike Fakalakalaka) - IFAD 220	1988	Development Lending (Nö Fakalakalaka)	2,636,109	3.00	25	840,269	2,372,376	263,732
4 Tonga Development Bank (Pangike Fakalakalaka) - IFAD 327	1993	Development Lending (Nö Fakalakalaka)	4,104,162	3.00	27	1,101,359	2,387,698	1,716,464
5 Tonga Telecommunication Commission (Komisoni Fetu'utaki) - ADB 1412 (reschedule)	2005	Development (Ngaue Fakalakalaka)	2,715,967	6.79	12	1,712,495	1,357,983	1,357,983
6 Sea Star Fishing (Kautaha Toutai Fetu'utaki) - ADB 1030	1993	Capital (Pa'anga Ngaue Tu'umu'u)	3,645,900	6.36	15	63,027	0	3,645,900
7 Janfull International Dateline Hotel (Hotele Janfull International Dateline) - EXIM China (reschedule)	2007	Upgrading to and expansion of Dateline Hotel (Ngaue Fakalelei 'oe Hotele Dateline)	10,233,400	2.50	9	885,361	0	10,233,400
8 Ports Authority Tonga (Ma'u Mafai ki he Ngaahi Taulanga) - ADB 1303	2002	Development Lending (Nö Fakalakalaka)	2,388,911	5.00	16	924,582	1,689,818	699,094
9 Tongatapu Market Limited (Maketi Talamahu) - ADB 927	2010	Development Lending (Nö Fakalakalaka)	3,456,176	2.00	18	591,458	1,616,046	1,840,131
10 Royco Amalgamated Co. Ltd. (Kautaha Royco) - EXIM China	2010	Reconstruction (Langa fo'ou)	2,210,932	5.00	20	0	0	2,210,932
11 M F Taumoepeau & Sons Ltd. (Kautaha Taumoepeau) - EXIM China	2010	Reconstruction (Langa fo'ou)	7,162,418	5.00	20	0	0	7,162,418
12 O G Sanif & Sons Ltd. (Kautaha Sanif) - EXIM China	2010	Reconstruction (Langa fo'ou)	10,247,322	5.00	20	0	0	10,247,322
		Total Loan to Public Enterprises & Others	\$52,513,544			\$7,400,603	\$11,324,291	\$41,189,253
		(Ngaahi No ki he ngaahi Kautaha Pule'anga mo Kehe)						
		Less : Repaid (To'u: Totongi Fakafoki)	\$11,324,291					
		Total Outstanding Loans (Katoa No te eki ke Totongi Mai)	\$41,189,253					

Table 20: Loans Comprising the Government Foreign Debt as at 30 April 2011
(Ngaahi Mo'ua No mei Muli 'a e Pule'anga 'i he 'aho 30 'Epeleti 2011.

Lender	Year	Purpose	Principal \$	Interest (%)	Term (Years)	Cumulative		Outstanding Principal Debt \$
						Interest Repaid	Principal Repaid	
(Pule'anga/Kautaha na'e fai mei ai 'a e No)	(Ta'u)	(Taamii 'a No)	(Lahi 'o e No)	(Tonongi Tupu (%))	(Taimi Tonongi No (Ta'u))	(Lahi 'o e Tonongi Tupu 30.04.11)	(No kuo Tonongi Fakafoki 30.04.11)	(No te eki totongi 30.04.11)
1 ADB - 335 TON (SF) (Pangike Fakalalaka 'Esia 335 TON)	1977	Small Industries (Ngaahi 'Ngaue'anga fiki)	663,998	1.00	40	122,477	491,647	172,351
2 ADB - 376 TON (SF) (Pangike Fakalalaka 'Esia 376 TON)	1978	First TDB Capital - Development (Pangike Fakalalaka)	2,999,268	1.00	40	466,342	1,835,195	1,164,072
3 ADB - 435 TON (SF) (Pangike Fakalalaka 'Esia 435 TON)	1979	First Multi-project - Development (Fakalalaka)	2,768,854	1.00	40	420,510	1,557,630	1,211,225
4 ADB - 540 TON (SF) (Pangike Fakalalaka 'Esia 540 TON)	1981	Second Multi-project - Development (Fakalalaka)	1,903,656	1.00	40	408,633	1,093,431	810,225
5 ADB - 624 TON (SF) (Pangike Fakalalaka 'Esia 624 TON)	1983	Development & Redevelopment & Second TDB Capital - Development (Pangike Fakalalaka)	4,173,051	1.00	40	1,071,704	2,468,886	1,704,165
6 ADB - 782 TON (SF) (Pangike Fakalalaka 'Esia 782 TON)	1986	Third Multi-project & Third TDB Capital - Development (Pangike Fakalalaka)	7,612,267	1.00	40	1,512,106	3,012,325	4,599,942
7 ADB - 927 TON (SF) (Pangike Fakalalaka 'Esia 927 TON)	1988	Fourth Multi-project - Development (Fakalalaka)	5,962,392	1.00	40	875,128	1,837,476	4,124,916
8 ADB - 990 TON (SF) (Pangike Fakalalaka 'Esia 990 TON)	1990	Fourth TDB Capital - Development (Pangike Fakalalaka)	8,130,011	1.00	40	1,658,636	2,073,013	6,056,999
9 ADB - 1030 TON (SF) (Pangike Fakalalaka 'Esia 1030 TON)	1990	Fisheries Development (Fakalalaka Tontai)	5,305,676	1.00	40	547,635	1,152,147	4,153,529
10 ADB - 1079 TON (SF) (Pangike Fakalalaka 'Esia 1079 TON)	1991	Power Development (Fakalalaka U'hila)	14,962,703	1.00	40	3,854,826	2,918,677	12,044,026
11 ADB - 1303 TON (SF) (Pangike Fakalalaka 'Esia 1303 TON)	1995	Transport Infrastructure Development (Fakalalaka Fefanonga'aki)	18,007,810	1.00	40	2,522,845	2,441,359	15,566,451
12 ADB - 1412 TON (SF) (Pangike Fakalalaka 'Esia 1412 TON)	1996	Outer Islands Agriculture Development (Fakalalaka Ngone)	6,465,434	1.00	40	642,599	666,883	5,798,551
13 ADB - 1904 TON (SF) (Pangike Fakalalaka 'Esia 1904 TON)	2002	Economic Sector Reform Project - Development (Fakalalaka Ekonomika)	19,124,789	1/1.5	24	1,676,565	1,195,298	17,929,491
14 EIB 8.0050 (Pangike Fakatupu Pa'anga 'a 'Iulope 8.0050)	1979	Regional Telecoms Network (Nanua Feni unaki)	858,454	1.00	40	177,829	588,556	269,898
15 EIB 7.0645 (Pangike Fakatupu Pa'anga 'a 'Iulope 7.0645)	1989	TDB Equity (Hasi Pangike Fakalalaka)	775,950	2.00	25	278,308	722,720	53,230
16 EIB 7.0792 (Pa'anga Fakatupu Pa'anga 'a 'Iulope 7.0792)	1989	TDB Equity IV (Hasi Pangike Fakalalaka)	434,645	2.00	25	160,842	86,929	347,716
17 IDA 1813 WORLD BANK (Pangike 'a Mamani 1813)	1987	First TDB Capital (Pangike Fakalalaka)	4,481,378	0.75	50	728,242	985,840	3,495,538
18 IDA 2084 WORLD BANK (Pangike 'a Mamani 2084)	1990	Second TDB Capital (Pangike Fakalalaka)	4,519,546	0.75	40	549,256	1,175,065	3,344,481
19 IDA 3647 WORLD BANK (Pangike 'a Mamani 3647)	2002	Cyclone Emergency Recovery Management Project (Sakolone Waka)	12,086,824	0.75	40	630,940	0	12,086,824
20 IDA 38140 WORLD BANK (Pangike 'a Mamani 38140)	2003	Tonga Health Sector Support Project (Fakalalaka 'oe Mouti)	22,542,346	0.75	40	872,556	0	22,542,346
21 IDA 40810 WORLD BANK (Pangike 'a Mamani 40810)	2005	Tonga Education Support Project (Fakalalaka 'oe Ako)	1,815,878	0.75	40	27,291	0	1,815,878
22 IFAD 129 WORLD BANK (Pangike 'a Mamani 129)	1983	Agricultural Credit Facility TDB - Development (Pangike Fakalalaka)	2,695,910	1.00	50	632,513	1,179,461	1,516,449
23 IFAD 220 WORLD BANK (Pangike 'a Mamani 220)	1988	Rural Credit facility TDB - Development (Pangike Fakalalaka)	4,787,723	1.50	50	943,939	1,556,005	3,231,718
24 IFAD 327 WORLD BANK (Pangike 'a mamani 327)	1993	Outer Islands Credit facility - Development (Pangike Fakalalaka)	6,243,148	1.50	50	1,042,943	1,248,632	4,994,516
25 BANK OF CHINA (Pangike 'a Siaina)	1998	Hapai High School Project (Ngaue Langa 'o e Ako Ma'olanga 'a Hapai)	6,732,500	0.00	20	0	0	6,732,500
26 (Pangike EXIM 'a Siaina)	2007	Upgrading to and Expansion of Dateline Hotel (Ngaue Fakalei 'oe Hotele Dateline)	10,233,400	2.50	9	2,154,801	4,203,004	6,030,396
27 EXPORT-IMPORT BANK OF CHINA (Pangike EXIM 'a Siaina)	2007	Nuku'alofa CBD Reconstruction Project (Ngaue Langa fo'ou 'o Nuku'alofa)	86,442,248	2.00	20	4,772,006	0	86,442,248
28 'a Nu'usila	2009	Tonga High Commission New Zealand (Ofisi Tafafaka Lahi 'a Tonga 'i Nu'usila)	1,809,664	6.74	10	234,716	0	1,809,664
29 WESTPAC AUSTRALIA LIMITED (Pangike WESTPAC 'a 'Aositelelia)	2010	National Road Improvement Project (Poloseki Fakalei Hala)	41,919,055	2.00	20	1,751,382	0	41,919,055
30 'Aositelelia	2009	Tonga High Commission Australia (Ofisi Tafafaka Lahi 'a Tonga 'i 'Aositelelia)	519,102	5.81	10	42,604.82	0	519,102
TOTAL GOVERNMENT FOREIGN DEBT - (FAKA-KI'UOA NGAAHI MO'UA NO KI MULI 'A E PULE'ANGA)			\$306,977,682			\$30,780,174	\$34,490,179	\$270,677,839

Table 21: Loans comprising the Government Domestic Debt as at 30 April 2011
(Ngaahi Mo'ua No Fakalotofo'ua 'a e Pule'anga 'i he 'aho 30 'Epeleti 2011)

Lender	Year	Purpose	Principal	Interest	Term (Years)	Cumulative Interest Repaid 30.04.11	Cumulative Principal Repaid 30.04.11	Outstanding Principal Debt 30.04.11
	(Tā'u)	(Taunuu 'a No)	(Lahi 'o e No)	(Totongi Tupu %)	(Taimi Totongi No (Tā'u))	(Totongi Tupu kuo totongi 30.04.11)	(No kuo Totongi Fakafoki 30.04.11)	(No te e ki totongi 30.04.11)
			\$	%		\$	\$	\$
Government Domestic Debt (Mo'ua No Fakalotofo'ua)								
Government of Tonga Bond Series No. 1, 2006/2011 (No Fakalotofo'ua 'ae Pule'anga Tonga 2006/2011)	2006	Issue of Bonds (Fakataa Ponite)	2,762,000	6.75	5	745,740.00	0	2,762,000
Government of Tonga Bond Series No. 4, 2006/2011 (No Fakalotofo'ua 'ae Pule'anga Tonga 2006/2011)	2006	Issue of Bonds (Fakataa Ponite)	1,000,000	10.00	5	400,200.00	0	1,000,000
Government of Tonga Bond Series No. 5, 2006/2011 (No Fakalotofo'ua 'ae Pule'anga Tonga 2006/2011)	2006	Issue of Bonds (Fakataa Ponite)	1,000,000	10.00	5	400,200.00	0	1,000,000
Government of Tonga Bond Series No. 1, 2008/2013 (No Fakalotofo'ua 'ae Pule'anga Tonga 2008/2013)	2008	Issue of Bonds (Fakataa Ponite)	2,488,000	10.00	5	497,600.00	0	2,488,000
Government of Tonga Bond Series No. 2, 2008/2011 (No Fakalotofo'ua 'ae Pule'anga Tonga 2008/2011)	2008	Issue of Bonds (Fakataa Ponite)	598,000	9.00	3	107,640.00	0	598,000
Government of Tonga Bond Series No. 3, 2008/2011 (No Fakalotofo'ua 'ae Pule'anga Tonga 2008/2011)	2008	Issue of Bonds (Fakataa Ponite)	1,000,000	7.25	3	145,200.00	0	1,000,000
Government of Tonga Bond Series No. 1, 2009/2014 (No Fakalotofo'ua 'ae Pule'anga Tonga 2009/2014)	2009	Issue of Bonds (Fakataa Ponite)	5,000,000	6.65	5	665,200.00	0	5,000,000
Government of Tonga Bond Series No. 2, 2009/2014 (No Fakalotofo'ua 'ae Pule'anga Tonga 2009/2014)	2009	Issue of Bonds (Fakataa Ponite)	1,000,000	6.00	5	60,000.00	0	1,000,000
Government of Tonga Bond Series No. 3, 2009/2014 (No Fakalotofo'ua 'ae Pule'anga Tonga 2009/2014)	2009	Issue of Bonds (Fakataa Ponite)	1,000,000	6.00	5	60,000.00	0	1,000,000
Government of Tonga Bond Series No. 4, 2009/2014 (No Fakalotofo'ua 'ae Pule'anga Tonga 2009/2014)	2009	Issue of Bonds (Fakataa Ponite)	2,000,000	6.00	5	120,000.00	0	2,000,000
Government of Tonga Bond Series No. 5, 2009/2014 (No Fakalotofo'ua 'ae Pule'anga Tonga 2009/2014)	2009	Issue of Bonds (Fakataa Ponite)	3,603,000	6.00	5	216,380.00	0	3,603,000
Government of Tonga Bond Series No. 6, 2009/2012 (No Fakalotofo'ua 'ae Pule'anga Tonga 2009/2012)	2009	Issue of Bonds (Fakataa Ponite)	5,000,000	5.00	3	250,200.00	0	5,000,000
Government of Tonga Bond Series No. 1, 2010/2016 (No Fakalotofo'ua 'a e Pule'anga Tonga 2010/2016)	2010	Issue of Bonds (Fakataa Ponite)	3,000,000	6.00	6	180,200.00	0	3,000,000
Government of Tonga Treasury Notes No. 1, 2010 (No Fakalotofo'ua 'a e Pule'anga Tonga 2010)	2010	Issue of Treasury Notes (Fakataa Nouti 'a e Falepa'anga)	7,000,000	3.00	6m	105,237.33	7,000,000	0
Government of Tonga Treasury Notes No. 1, 2011 (No Fakalotofo'ua 'a e Pule'anga Tonga 2010)	2011	Issue of Treasury Notes (Fakataa Nouti 'a e Falepa'anga)	7,000,000	3.00	3m	0.00	0	7,000,000
TOTAL GOVERNMENT DOMESTIC DEBT - (FAKA-KATO)			\$43,451,000			\$3,953,797	\$7,000,000	\$36,451,000
NGAAHI MO'UA NO FAKALOTOFO'UA 'A E PULE'ANGA								

**Table 22: Loans comprising the Government Guaranteed Debt as at 30 April 2011
(Ko e Ngaahi No 'oku malu'i 'e he Pule'anga 'i he 'aho 30 'Epeleli 2011**

Lender	Year	Purpose	Principal	Interest	Term (Years)	Cumulative Repaid	Outstanding Debt
						29.04.2011	29.04.2011
(Pule'anga/Kautaha na'e fai mei ai 'a e No)	(Ta'u)	(Taunui'a No)	(Lahi 'o e No)	(Totongi Tupu)	(Taimi Totongi No (Ta'u))	(Lahi 'o e Totongi Fakafoki)	(Mo'ua te'eki totongi)
			\$	%		\$	\$
Foreign (Muli)							
Westpac Bank of Tonga (Westpac Pangiké Tonga) - Loan (No)	2008	Tonga Power Limited US\$2m Term loan (No 'ae Kautaha 'Uhila a Tonga)	7,090,335	LIBOR + 3.70	7	7,090,335.00	0
Domestic (Fakaloto'ofonua)							
Westpac Bank of Tonga (Westpac Pangiké Tonga) - Loan (No)	2007	Renovation of Janfull International Dateline Hotel (Fakalelei'i 'o Hotele Janfull Dateline)	684,276	13.25	5.5	303,300	380,976
Westpac Bank of Tonga (Westpac Pangiké Tonga) - Loan (No)	2010	Tonga Power Limited Term loan (No 'ae Kautaha 'Uhila	3,177,830	6.75	2	2,036,727	1,141,103
Westpac Bank of Tonga (Westpac Pangiké Tonga) - Loan (No)	2010	Tonga Power Limited Term loan (No 'ae Kautaha 'Uhila a	4,052,636	6.75	2	2,382,275	1,670,361
Westpac Bank of Tonga (Westpac Pangiké Tonga) - Loan (No)	2010	Tonga Power Limited Term loan (No 'ae Kautaha 'Uhila a	4,146,344	6.75	2	306,515	3,839,829
Westpac Bank of Tonga (Westpac Pangiké Tonga) - Loan (No)	2010	Tonga Power Limited Term loan (No 'ae Kautaha 'Uhila a	2,721,410	6.75	6	89,628	2,631,782
Westpac Bank of Tonga (Westpac Pangiké Tonga) - Loan (No)	2010	Tonga Power Limited Term loan (No 'ae Kautaha 'Uhila a	1,254,608	6.75	6	41,864	1,212,745
Tonga Development Bank (Pangike Langa Fakalalaka a Tonga) - Bond (No)	2011	Issue of Bond (Fakatau Ponite)	108,866	4.00	3	2,000	106,866
Tonga Development Bank (Pangike Langa Fakalalaka a Tonga) - Bond (No)	2011	Issue of Bond (Fakatau Ponite)	11,000	4.50	5	0	11,000
TOTAL GUARANTEED DEBTS - (KATOA NGA'AAHI MO'UA NO						\$12,252,644	\$10,994,661
WESTPAC BANK OF TONGA						\$23,247,305	\$10,994,661

Table 23: GOVERNMENT BOND BY MATURITY DATE

FINANCIAL YEAR		PARTICULARS	MATURITY DATE	AMOUNT	IN %
	1	Series No. 1 2006/2011	29/6/2011	2,762,000	6.75
	2	Series No. 2 2008/2011	30/06/2011	598,000	9.00
	3	Treasury Notes No 1.2011	30/06/2011	7,000,000	3.00
2010/2011		TOTAL BOND PRINCIPAL DUE		10,360,000	
	4	Series No. 4. 2006/2011	30/8/2011	1,000,000	10.00
	5	Series No. 5. 2006/2011	31/10/2011	1,000,000	10.00
	6	Series No. 3 2008/2011	1/09/2011	1,000,000	7.25
2011/2012		TOTAL BOND PRINCIPAL DUE		3,000,000	
	7	Series No. 1 2008/2013	20/06/2013	2,488,000	10.00
	8	Series No. 6. 2009/2012	1/10/2012	5,000,000	5.00
2012/2013		TOTAL BOND PRINCIPAL DUE		7,488,000	
	9	Series No.1 2009/2014	14/04/2014	5,000,000	6.65
	10	Series No. 2. 2009/2014	30/06/2014	1,000,000	6.00
2013/2014		TOTAL BOND PRINCIPAL DUE		6,000,000	
	11	Series No. 3. 2009/2014	31/07/2014	1,000,000	6.00
	12	Series No. 4. 2009/2014	4/08/2014	2,000,000	6.00
	13	Series No. 5. 2009/2014	25/08/2014	3,603,000	6.00
2014/2015		TOTAL BOND PRINCIPAL DUE		6,603,000	
	13	Series No. 1. 2010/2016	7/01/2016	3,000,000	6.00
2015/2016		TOTAL BOND PRINCIPAL DUE		3,000,000	
		TOTAL GOT BONDS ON ISSUE		36,451,000	