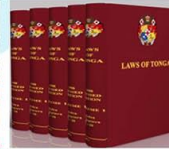


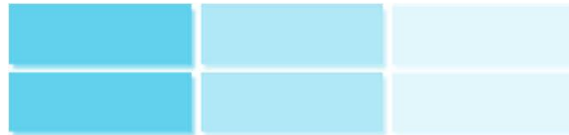


Budget Statement 2013-2014

Government of the Kingdom of Tonga



CONTINUING TO CREATE
OPPORTUNITIES BY BUILDING ON
INCLUSIVE SUSTAINABLE
GROWTH



Ministry of Finance & National Planning
Nuku'alofa, June 2013

Budget Statement 2013/14

CONTENTS

1	FOREWORD	7
2	INTRODUCTION	9
3	THE NATIONAL DEVELOPMENT VISION	10
	3.1 OUTCOME OBJECTIVES	10
	3.2 ENABLING THEMES	10
4	BUDGET ESTIMATES AT A GLANCE	11
5	PROGRESS AND OUTLOOK FOR OUTPUTS AND OUTCOMES	13
	5.1 DETAILED OUTPUTS & ACTIVITIES BY GOVERNMENT: DELIVERED IN 2012/13 AND PLANNED FOR THE NEXT BUDGET... 13	
	5.2 RECENT ECONOMIC AND SOCIAL OUTCOMES & OUTLOOK	42
	5.2.1 GDP Outcomes	42
	5.2.2 Fiscal and Debt Outcomes.....	44
	5.2.3 Foreign Reserves and Balance of Payments Outcomes.....	47
	5.2.4 Monetary Outcomes	47
	5.2.5 Social and Community Outcomes	48
	5.2.6 Poverty Reduction and Social Protection Outcomes	49
	5.3 KEY RISKS AND CHALLENGES	50
6	GOVERNMENT BUDGET: FUNDING THE OUTPUTS	52
	6.1 PRIORITY FOCUS FOR BUDGET.....	52
	6.1.1 Improve Private Sector Development	52
	6.1.2 Improve Community Development	53
	6.1.3 Improve Productivity and Effectiveness of Public Sector.....	54
	6.1.4 Maintain Sustainable Fiscal Consolidation.....	55
	6.2 SUMMARY OF 2013/2014 BUDGET ESTIMATE FUNDING THE OUTPUTS	55
	6.2.1 Government Financial Statistics (GFS)	55
	6.2.2 Revenues and Grants	57
	6.2.3 Expenditure and Net lending.....	58
	6.2.4 Financing.....	58
7	CONCLUSION	59
8	ANNEX I: ECONOMIC & SOCIAL DEVELOPMENT OUTCOMES AND OUTLOOK.....	61
	8.1 GLOBAL AND REGIONAL DEVELOPMENT.....	61
	8.1.1 Higher growth rate in 2013.....	61
	8.1.2 Tourism performances in the Pacific.....	63
	8.1.3 Regional Highlights.....	64
	8.2 RECENT ECONOMIC & SOCIAL OUTCOMES & OUTLOOK FOR TONGA	65
	8.3 GDP SECTOR OUTCOMES	66
	8.3.1 Primary Sector	67
	8.3.2 Secondary Sector	72
	8.3.3 Tertiary Sector.....	74
	8.4 FISCAL AND DEBT OUTCOMES.....	78
	8.4.1 Fiscal Position	78
	8.4.2 Public Debt Position	80

8.5	FOREIGN RESERVES AND BALANCE OF PAYMENTS OUTCOMES.....	86
8.5.1	Official Foreign Reserves.....	86
8.5.2	Foreign Exchange Payments.....	86
8.5.3	Foreign Exchange Receipts.....	87
8.5.4	Balance of Payments.....	87
8.6	MONETARY OUTCOMES.....	89
8.6.1	Inflation.....	89
8.6.2	Liquidity.....	90
8.6.3	Private Sector Credit Growth.....	90
8.6.4	Interest Rates.....	91
8.7	SOCIAL AND COMMUNITY OUTCOMES.....	92
8.7.1	Tonga Millennium Development Goals' (MDG) Progresses.....	92
8.7.2	Health Performance.....	93
8.7.3	Education Performance.....	94
8.7.4	Changing demographics in Tonga.....	95
8.8	POVERTY REDUCTION AND SOCIAL PROTECTION OUTCOMES.....	95
9	ANNEX II: FISCAL REVIEW OF THE BUDGET.....	97
9.1	GOVERNMENT FINANCIAL DEVELOPMENT.....	97
9.1.1	Overview.....	97
9.1.2	Revenue and Grants.....	99
9.1.3	Expenditure and Net Lending.....	104
9.1.4	Reconciliation Tables.....	108
9.1.5	Alternate Classifications of Financial Transactions.....	109
9.1.1	MAIN BUDGET EXPENDITURE CHANGES.....	110
9.2	DEVELOPMENT PROJECTS.....	114
9.2.1	Overview of Aid Funded Projects.....	114
9.2.2	Aid Funded Project Expenditure by Ministry and Agency.....	115
9.2.3	Aid Funded Project Expenditure by Development Partners.....	116
9.2.4	Development Partners assistance by region.....	117
10	APPENDICES.....	120

List of Figures

FIGURE 1 - GDP REAL GROWTH 2003/04 TO 2012/13 (ESTIMATE) WITH & WITHOUT CHINESE LOAN FOR CENTRAL BUSINESS AREA RECONSTRUCTION AND ROAD UPGRADING	42
FIGURE 2: FISCAL PERFORMANCE IN CONSTANT PRICES 2007-08 TO 2015-16.....	45
FIGURE 4: TOTAL PUBLIC DEBT SERVICE (TOP\$M) FY'S 2007/08 - 2014/15	46
FIGURE 3: TOTAL PUBLIC DEBT TO GDP AS AT 30 JUNE 2013	46
FIGURE 5: POPULATION BY ISLAND GROUP IN 2011 POPULATION GROWTH BETWEEN 2006 AND 2011	48
FIGURE 6: GDP AND HOUSEHOLD FINAL CONSUMPTION PER CAPITA 1993/94 TO 2011/12 (2010/2011 PRICES)	49

FIGURE 7: GDP GROWTH - %, ANNUAL.....	61
FIGURE 8: AUSTRALIAN GDP AND COMMODITY EXPORT PRICES (QUARTERLY)	62
FIGURE 9: NEW ZEALAND ECONOMIC INDICATORS (QUARTERLY)	62
FIGURE 10: PACIFIC TRADE WITH AUSTRALIA (A\$ MILLION, ANNUAL).....	63
FIGURE 11: PACIFIC TRADE WITH NEW ZEALAND.....	63
FIGURE 12: TOURIST DEPARTURE TO PACIFIC DESTINATIONS	64
FIGURE 13: GDP REAL GROWTH 2003/04 TO 2012/13 (ESTIMATE) WITH & WITHOUT CHINESE LOAN FOR CENTRAL BUSINESS AREA RECONSTRUCTION AND ROAD UPGRADING	66
FIGURE 14: CONTRIBUTION TO REAL GDP GROWTH BY SECTOR VS. REAL GDP GROWTH	67
FIGURE 15: SECTORS AS A SHARE OF GDP AT FACTOR COST (%)	67
FIGURE 16: AGRICULTURE SECTOR'S REAL GDP GROWTH.....	68
FIGURE 17: FORESTRY SECTOR'S REAL GDP GROWTH.....	69
FIGURE 18: TUNA CATCHES VS. TUNA FOREIGN FISHING VESSELS	71
FIGURE 19: - WHOLESALE & RETAIL TRADE SECTOR'S REAL GROWTH	74
FIGURE 20: TOURIST RECEIPTS VS. ARRIVALS, 2002/03 – 2011/12	75
FIGURE 21: FISCAL PERFORMANCE IN CONSTANT PRICES 2007-08 TO 2015-16.....	79
FIGURE 23 - TOTAL PUBLIC DEBT TO GDP AS AT 30 JUNE 2013	80
FIGURE 24- EXTERNAL DISBURSED OUTSTANDING DEBT (DOD) BY CREDITOR	81
FIGURE 25- FC/TOP EXCHANGE RATE TREND, AS AT 30 JUNE 2013	82
FIGURE 26- EXTERNAL DOD BY CURRENCY - JUNE 2012 AND JUNE 2013	82
FIGURE 27- GOVERNMENT BOND HOLDERS (%) AS AT 30 JUNE 2013	82
FIGURE 28- TOTAL PUBLIC DEBT SERVICE (TOPM) FY'S 2007/08 - 2014/15 (INCLUDING ACTUAL AND PROJECTED)	83
FIGURE 29 - ON-LENT DOD BY BORROWER (%) AS AT 30 JUNE 2013	85
FIGURE 30 - GUARANTEED DOD BY BORROWER (%) AS AT 30 JUNE 2013	85
FIGURE 31 – ONLENT & GUARANTEED LOANS TO GDP (%) FY'S 2007/08 – 2014/15 (INCLUDING ACTUALS AND PROJECTED)	85
FIGURE 32: OFFICIAL FOREIGN RESERVES (MONTHLY).....	86
FIGURE 33: IMPORTS (YEAR-ENDED).....	86
FIGURE 34: REMITTANCES (YEAR-ENDED, OVERSEAS EXCHANGE TRANSACTIONS)	87
FIGURE 35 - ANNUALIZED INFLATION, 2008 – 2012	89
FIGURE 36 – MATERNAL AND INFANT MORTALITY RATES 2006-2010	93
FIGURE 37 – POPULATION BY ISLAND GROUP IN 2011 POPULATION GROWTH BETWEEN 2006 AND 2011.....	95
FIGURE 38 - GDP AND HOUSEHOLD FINAL CONSUMPTION PER CAPITA 1993/94 TO 2011/12 (2010/2011 PRICES) PA'ANGA.....	96
FIGURE 39 - TAX REVENUE 2013/14 (\$ MILLION)	100
FIGURE 40 - EXCISE TAXES (CURRENT \$ MILLION).....	101

FIGURE 41: NON-TAX REVENUE COMPONENT (%).....	102
FIGURE 42 – MAJOR REVENUE ITEMS UNDER ADMINISTRATIVE FEES & CHARGES (\$MILLIONS).....	103
FIGURE 43 - TOTAL CURRENT EXPENDITURE FOR FY 2013/14 (\$ MILLIONS)	105
FIGURE 44 - MAJOR EXPENDITURE ITEMS UNDER PURCHASE OF GOODS & SERVICES 2013/2014 (\$ MILLIONS)..	106

List of Tables

TABLE 1: TOTAL BUDGET - GOVERNMENT AND AID FOR EACH OUTCOME OBJECTIVES (TOP\$M)	11
TABLE 2: KEY ECONOMIC AND FISCAL INDICATORS: (TO BE UPDATED)	12
TABLE 3: GDP MAIN COMPONENTS (REAL GROWTH RATES)	43
TABLE 4 : REVENUE AND EXPENDITURE IN GFS FORMAT (CASH, AND IN-KIND LOANS T\$ MILLIONS)	56
TABLE 5: GDP MAIN COMPONENTS (REAL GROWTH RATES).....	66
TABLE 6: PRIMARY SECTOR’S REAL GDP GROWTH.....	68
TABLE 7: SECONDARY SECTOR’S REAL GDP GROWTH (ACTUAL AND PROJECTIONS)	72
TABLE 8: TERTIARY SECTOR’S REAL GDP GROWTH (ACTUAL AND PROJECTIONS)	74
TABLE 9: REAL RATE OF GROWTH IN RECEIPTS AND PAYMENTS	78
TABLE 10: CLASSIFICATION OF DEBT ITEMS IN DEBT SECTION AND BUDGET (TOP MILLIONS).....	84
TABLE 11 - OVERALL FISCAL BALANCE (CURRENT \$ MILLION).....	98
TABLE 12: TOTAL REVENUE AND GRANTS (CURRENT \$ MILLION)	99
TABLE 13: TAXES ON INCOME & PROFITS (CURRENT \$ MILLION)	100
TABLE 14: CONSUMPTION TAX (CURRENT \$ MILLION)	101
TABLE 15: EXCISE TAXES (CURRENT \$ MILLION).....	101
TABLE 16: IMPORT TAXES (CURRENT \$ MILLION)	102
TABLE 17 : NON-TAX REVENUE COMPONENT (CURRENT \$ MILLION).....	102
TABLE 18: ENTREPRENEURIAL & PROPERTY INCOME (\$ MILLIONS).....	103
TABLE 19 : BUDGET SUPPORT (CURRENT \$ MILLION)	104
TABLE 20: TOTAL EXPENDITURES & NET LENDING (CURRENT \$ MILLIONS)	105
TABLE 21: WAGES AND SALARIES (CURRENT \$ MILLIONS)	106
TABLE 22 : ESTIMATED FINANCING TRANSACTIONS (CURRENT \$ MILLIONS).....	108
TABLE 23: RECONCILIATION BETWEEN CASH INFLOWS TO THE GOVERNMENT OF TONGA FUND AND REVENUES AS PER THE BUDGET STATEMENT.....	109
TABLE 24: RECONCILIATION BETWEEN CASH OUTFLOWS TO THE GOVERNMENT OF TONGA FUND AND REVENUES AS PER THE BUDGET STATEMENT.....	109
TABLE 25: MAIN BUDGET EXPENDITURE CHANGES 2013-2014 COMPARED TO 2012-2013.....	110
TABLE 26: TOTAL PROJECT EXPENDITURE.....	114
TABLE 27 : GRANT ALLOCATION BY PROJECT TYPES - TONGATAPU	118
TABLE 28 : GRANT ALLOCATION BY PROJECT TYPES - VAVA'U	118

TABLE 29 : GRANT ALLOCATION BY PROJECT TYPES - HA'APAI	119
TABLE 30 : GRANT ALLOCATION BY PROJECT TYPES - 'EUA	119
TABLE 31 : GRANT ALLOCATION BY PROJECT TYPES - NIUATOPUTAPU.....	120
TABLE 32. TONGA SELECTED INDICATORS, 2006/07 – 2011/12	121
TABLE 33 : TONGA: REAL SECTOR DEVELOPMENTS, 2006/07-2011/12.....	122
TABLE 34: ANNUAL AVERAGE CONSUMER PRICE INDEX FOR 2006 – 2012, BASE PERIOD (OCTOBER 2010=100.0)	123
TABLE 35: ANNUAL (%) CHANGES IN THE CPI FOR DECEMBER MONTH 2006 TO 2012	123
TABLE 36 TONGA DOMESTIC EXPORTS BY HS SECTION, 2006/07-2011/12.....	123
TABLE 37: EXPORTS BY INSTITUTIONAL SECTOR, 2006/07 - 2011/12	124
TABLE 38: EXPORTS BY COUNTRY OF DESTINATION, 2006/07 – 2011/12	124
TABLE 39: IMPORTS BY MAIN HS SECTION 2006/07 - 2011/12	124
TABLE 40: IMPORTS BY INSTITUTIONAL SECTOR, 2006/07 – 2011/12.....	125
TABLE 41: IMPORTS BY COUNTRY OF ORIGIN, 2006/07 – 2011/12.....	125
TABLE 42. TONGA BALANCE OF PAYMENTS (OET BASIS) 2006/07 – 2011/12.....	126
TABLE 43: TONGA MONETARY SURVEY, 2006/07 – 2011/12.....	127
TABLE 44: TONGA MONETARY SURVEY, 2006/07 – 2011/12.....	128
TABLE 45: GOVERNMENT REVENUE COLLECTION, 1991/92 - 2011/12.....	129
TABLE 46: MAJOR SOURCES OF TAX REVENUE 2008/09 - 2011/12.....	129
TABLE 47: EXPENDITURE BY MINISTRY FOR 2008/09-2011/12 (TONGA GOVERNMENT FUND).....	130
TABLE 48: GFS PRESENTATION OF THE GOVERNMENT FINANCE FOR 2010/11 - 2013/14	131
TABLE 49: FULL GFS PRESENTATION OF FINANCING TABLE 2010/11 - 2015/16	132
TABLE 50 : DEVELOPMENT EXPENDITURE BY MINISTRY (CASH AND IN-KIND T\$ MILLIONS)	132
TABLE 51 : DEVELOPMENT EXPENDITURE BY DEVELOPMENT PARTNER (CASH AND IN-KIND).....	133
TABLE 52: SUMMARY OF WB RECOMMENDATIONS.....	134
TABLE 53: SOVEREIGN DEBT SUSTAINABILITY INDICATORS (RED ABOVE, GREEN BELOW)	136
TABLE 54: SUMMARY DEBT LEVELS AND RATIOS.....	136
TABLE 55: DETAILS OF THE TERMS AND CONDITIONS OF THE 2 MAJOR LOANS FROM CHINA	137
TABLE 56: RECONSTRUCTION LOAN PROJECT ALLOCATION.....	138
TABLE 57: ROAD IMPROVEMENT LOAN PROJECT ALLOCATION	138
TABLE 58: ON-LENT LOANS, AS AT 30 JUNE 2013	139
TABLE 59: DEMOGRAPHIC DETAILS BY ISLAND GROUP, 2011.....	140
TABLE 60: PRIMARY AND SECONDARY STUDENT ENROLMENTS AND TEACHERS	141
TABLE 61: HEALTH INDICATOR(S) FOR TONGA 2006 – 2010.....	142

1 FOREWORD

This administration took office at a time when the economy was still recovering from the global crisis and domestic instability, and coming to terms with the consequences of the large debt it had inherited for the reconstruction of Nuku'alofa. At the same time, the expectations of the people had been raised by the momentous political changes underway.

One of government's early acts was to establish the Tonga Strategic Development Framework (TSDf) 2011-2014 to guide the outputs and reforms of government. This administration's first two budgets, 2011/12 and 2012/13, focused on prudent budgeting and management of the government's limited resources to get the finances back onto a firmer financial footing while also working with the private sector and communities to remove constraints and to improve the enabling environment for faster and more inclusive growth. At the same time, new initiatives have been introduced to help those weaker members of the society so they are not left behind.

Increase in budget support was successfully negotiated, linked to government's reform programme. This helped avoid substantial cuts in expenditure. Government ended 2011/12 with a safe level of cash balances in the consolidated fund to provide space to address unforeseen emergencies. There remained, however, serious structural issues that Government continues to struggle with. The most serious include the high proportion of the budget that goes on staff costs, and the large increase in debt repayments. This limits the scope for expanding into new initiatives.

A successful restructuring of the public service was designed during 2011/12, and substantially implemented with the 2012/13 budget. This streamlined the service and brought it into better alignment with the new Cabinet structure. A wide spread reform programme is underway, related to public financial management and improved management of ministries and their staff.

During 2012/13, Government has begun the introduction of an enhanced approach to corporate planning and budgeting, within a three year medium term budget framework. This has already allowed for better clarification of the outputs that ministries and agencies are expected to deliver for the funds they receive in the budget. Clearer outputs have helped ministries ensure their organization structure is better aligned to the delivery of these outputs. The organizational and budget structures have also been fully aligned. This should enhance the management of ministries and agencies and their respective budgets, and so better deliver the agreed outputs.

The loan funded construction boom has created a large stock of new capital with limited potential to promote long term growth. As anticipated, the end of the construction boom has resulted in a sharp slowdown in GDP growth to nearly zero. This has not fallen into negative territory, however, because growth, excluding the loan funded construction expenditures, has remained more robust at about 2.2%.

2012/13 has been a financially challenging year with the loss of about \$10m in budget support, increased incentives to the private sector in the form of tax exemptions on fisheries and other investment proposals to help promote growth, continued demands for improved services and the need for a supplementary budget of \$4.1m. As the end of 2012/13 approaches, however, the estimated outturn is a domestic budget deficit of only \$5.7m. This will result in government consolidated fund falling from \$33.7m at the end of 2011/12 to \$28.0m at the end of 2012/13. This provides nearly two month's cover of expenditure; the recommended level for prudent budgeting. It is under these still tight fiscal conditions that we have had to prepare the budget with great care. We have still been able to increase real expenditure to address urgent new needs. Our 2013/14 budget is in balance which should leave us with the same level of consolidated fund by end June 2014. Pressures already exist in the forward budget, however, which will have to be addressed next year if our cash balances are not to fall over the following two years.

Over the years, the share of staff costs in the budget have continued to grow; in many cases costing some 70%-80% of a ministry's budget. Staff freezes will take too long to cut this cost and often results in declining service as available staffing is increasingly out of line with staff needs. Active attention is being given to addressing this in the new budget.

The tight fiscal situation has, unfortunately, left limited room for funding new initiatives, and with so little scope for changing non-staff expenditure the opportunities for realigning total expenditure has been minimal. This has prohibited fulfilling the ambition to better reward ministries and agencies with additional domestic resources in recognition of their improved three year corporate planning and budgeting. It should be noted, however, that good corporate plans can help with attracting development assistance. Furthermore, corporate plans are also about improving management performance with limited resources.

The theme of government's third Budget, and the first within a stronger three year rolling medium term framework, 2013/14-2015/16, is "Continuing to Create Opportunities by Building on Inclusive Sustainable Growth". This focuses on consolidating and building on priority policy and programme areas that were implemented in 2012/13 and have the potential for further development ; these are documented further in the Budget Statement. The theme reflects the belief that the next five years will continue to be challenging reflecting the uncertain global economic conditions, but that with continued prudence, we can still encourage inclusive sustainable growth while ensuring fiscal stability.

Government will continue to work closely with the public service and the community to find ways to deliver services in a more cost effective manner, while also ensuring that the revenue due is collected effectively. To succeed, continued development of the Kingdom's new democracy is necessary. This must be based on mutual responsibility and support for the more vulnerable in our community. The ongoing partnerships with Tongans residing overseas, with the region and with the development partners, are also essential.

On behalf of the government and people of Tonga, I wish to thank our Tongan communities overseas and our development partners for their ongoing support as we struggle to uphold the theme: "Continuing to Create Opportunities by Building on Inclusive Sustainable Growth"

Before ending, I wish to take this opportunity to convey a particular thank you and word of condolences to the family and friends of our colleague, Sione Timotevalu Fehoko, who sadly passed away while working as one of the team leaders in completing this budget. His dedication and commitment will long be remembered by his friends and colleagues in the Ministry and the rest of government.

Tu'a 'Ofa Atu



Lisiate 'Aloveita 'Akolo

Minister for Finance and National Planning

2 INTRODUCTION

This is the third Budget Statement of the current Government. During this time major efforts and progress have been made to keep moving towards the Vision and Objectives of the Tonga Strategic Development Framework, despite the challenging economic environment and tight financial situation.

Improving the way government operates is a key to this process. Major reforms relate to economic and social policy analysis, national and corporate planning and budgeting. The Budget Statement is a key component of this reform process. Government continues to improve it and make it more results focused along with the results based approach, being integrated into the planning, budget and project processes.

Simply put, the budget **funds** the **inputs** and **activities** that produce the corporate plan **outputs**¹ that government delivers, which, along with the efforts of everyone else in Tonga and beyond, help us to achieve the **outcomes** we desire. Following this results-based approach is demanding, it will help us to better manage our limited resources and deliver the mandate given us by the electorate.

The Statement is structured so as to show progress with the delivery of **outputs** (and high level **activities**) that were made possible with the **funds** in the last budget followed by the outputs we planned to deliver in the next budget. Progress at the **outcome**² level is then provided in terms of progress against economic and social developments. The last section of the main paper summarizes the details of the budget and how it is financed – both domestic and aid.

The key components of the Statement are thus:

1. **Foreword**
2. **Introduction**
3. **The National Development Vision:** which summarizes the Vision and outcome objectives of the Tonga Strategic Development Framework
4. **Budget At a Glance:** which summarizes the key budget highlights for quick references.
5. **Progress and Outlook for Outputs and Outcomes:** the outputs delivered last year, and planned for the new budget; the progress at the outcome level; and the key challenges and risks that need to be taken account of as we move forward.
6. **Government Budget: Funding for the Outputs:** the first section highlights the priority areas of government drawing from the proceeding sections, then sets out the summary of the budget which is covered in more detail in Annex II.

Further detail of the analysis of the outcomes and the details of the budget are in the Annexes, with further statistical tables attached at the end.

¹ Outputs are within our capacity to deliver, so long as basic assumptions about the world are met.

² Outcomes are beyond our capacity to deliver. We support them through the outputs we deliver, but outcomes depend on the actions of many others. For example, Government can provide advice and warning on the dangers of non-communicable disease, can encourage exercise, tax bad foods...but the outcome of more healthy people depends on the decisions we all make; it is beyond the ability of Government to control.

3 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”.

3.1 Outcome Objectives

The Government’s Vision in the Tonga Strategic Development Framework (TSDF) is to be achieved by delivering the following outcome objectives:



3.2 Enabling Themes

The delivery of Tonga’s Outcome Objectives is facilitated through:

<p>Continuing progress to a more efficient and effective government by focussing on its core functions; improving coordination, service delivery and optimising use of resources</p>	<p>Improving the macro-economic environment and fiscal management, including effective revenue services to ensure a level playing field and that service to the people can be appropriately funded</p>	<p>Ensuring Public Enterprises are sustainable and accountable, and where appropriate moved into the private sector</p>	<p>Ensuring a more coordinated whole of government approach in our partnership with development partners</p>
--	--	---	--

4 BUDGET ESTIMATES AT A GLANCE

The TSDF, along with the newly implemented Medium Term Budget Framework (MTBF) inform and guide the Ministry's plans on budget allocation and the need to contribute to our theme of "Continuing to Create Opportunities by Building on Inclusive Sustainable Growth".

The *Budget 2013/2014* is based on four priority areas and six fiscal policies:

Priority Areas:

- Improve Private Sector Development;
- Improve Community Development;
- Improve Productivity and Effectiveness of Public Sector;
- Maintain Sustainable Fiscal Consolidation.

Fiscal Policy:

- To operate responsibly and prudently
- Pursue non-distortionary tax collection and remove leakages
- Improve service delivery and maintenance of assets
- Keep public debt within sustainable levels observing Governments interim "No New Loan Policy"
- Continue rationalization of Public Enterprises
- Improve donor coordination for better utilization of aid resources

Total Appropriation (cash): \$249.1 million of which \$198.8 million government (including Budget support of \$35.7 million) and \$50.3 million development.

Total Budget (cash plus in-kind): \$357.6 million, of which in-kind \$108.5 million.

Table 1: Total Budget - Government and Aid for each Outcome Objectives (TOP\$m)

Outcome Objectives	2013/2014				
	Government (Recurrent)	Donor (Cash only)	Donor (In-kind only)	Total Donor Cash & In-kind	Total Recurrent & Development
<i>1. Strong inclusive communities</i>	21.7	3.3	5.0	8.3	30.1
<i>2. Dynamic public and private sector partnership</i>	11.1	6.3	1.8	8.1	19.2
<i>3. Appropriate well planned and maintained infrastructure</i>	6.5	12.5	66.7	79.2	85.7
<i>4. Sound education standards</i>	34.0	6.9	6.1	13.0	47.0
<i>5. Appropriately skilled workforce</i>	2.0	-	-	-	2.0
<i>6. Improved health of the people</i>	23.3	5.2	0.8	5.9	29.2
<i>7. Cultural awareness, environmental sustainability</i>	3.7	2.7	22.8	25.4	29.2

8. Better Governance	71.1	6.8	3.3	10.0	81.2
9. Safe, secure and stable society	25.3	6.7	2.0	8.8	34.1
Total	198.8	50.3	108.5	158.8	357.6

Table 2: Key Economic and Fiscal Indicators:

	2011/12	2012/13	2013/14
Real GDP Growth	0.8%	0.2%	1.0%
Nominal GDP¹ in \$ million	799.3	836.1	881.2
(As % of GDP)			
Total Domestic Revenue²	18.0%	17.6%	17.7%
Total Budget Support	4.6%	1.4%	4.0%
Total Project Aid Funding (cash)	4.7%	5.5%	5.7%
Total Project Aid Funding (in-kind)	11.3%	12.7%	12.3%
Total Expenditure³	36.8%	39.7%	40.6%
Total Public Debt	44.0%	43.0%	38.0%
Debt Servicing	1.9%	2.5%	3.1%

¹ GDP 2011/12 official estimate, forecasts based on real growth projects, plus inflation of 4.4% used in the budget estimates

² GFS definition

³ GFS definition (cash + in-kind loans) plus in-kind grants

Source: Ministry of Finance and National Planning

5 PROGRESS AND OUTLOOK FOR OUTPUTS AND OUTCOMES

This section first reviews the outputs and activities that government has delivered as part of the last budget and the plans for them moving forward into the next budget. These are grouped against each of the nine outcome objectives of the Tonga Strategic Development Framework (TSDF). The second part then provides a summary of key economic and social progress at the outcome level, which is supported by a more detailed analysis in Annex I. The section ends with a summary of the key constraints and risks that need to be taken into account moving forward, which might disrupt the plans and budget.

5.1 Detailed Outputs & Activities by Government: Delivered in 2012/13 and Planned for the next Budget

Building on the results based orientation of the enhanced corporate planning and budgeting system, this section reviews the more detailed outputs and activities that ministries and agencies delivered during 2012/13, and their plans for carrying these, and any new initiatives, forward into the new budget (both locally and aid funded). These are grouped against the nine outcome objectives of the TSDF. The next TSDF will be developed on a stricter results based mapping which will further support the links between the TSDF and the enhanced corporate plans. This will also further improve detailed reporting, such as in this section.

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

Lead Ministries and Agencies: LA, PMO, MOFNP, MOH, MET, MIA, MAFFF.

• *Constituency Grant Assistance:*

2012/13

- Allocation of \$2m (increased from \$1.7m in FY 2011/12) shared among the 17 constituencies, for immediate and urgent community development activities where alternative funding is not available. There are thirteen constituencies that have disbursed funds, of which three have fully utilized their funds, for community development including community halls, road maintenance, scholarships, community development water supply etc.

Planned for 2013/14 & beyond

- Allocation to constituencies of TOP\$2m in government's budget to continue.

• *Support to the most vulnerable:*

2012/13

- Introduced domestically funded social welfare benefits of \$65 per month for the elderly (75 yrs. and above), approximately TOP\$1.4m
- Official launched of Tonga Social Service Pilot (TSSP) project targeting 150 vulnerable Elderly clients (65+ years) and 50 new born babies (0-3 years) born with a disability or disorder (currently serving 140 elderly and 35 children with disabilities). Grant funding of US\$0.9m

from the Japan Fund for Poverty Reduction (JFPR), administered by ADB. To develop a safety net model for the effective delivery of social services to the most vulnerable citizens of Tonga. The pilot areas include the rural/remote villages of Tongatapu & Lifuka (Hp). TOP\$0.3m is allocated for in 2012/13.

- A Micro-finance project is implemented to provide a loan product to stimulate income generating activities by vulnerable individuals. The project includes funding for ongoing training in business practices and financial literacy and the provision for marketing activities for project loan recipients.

Planned for 2013/14 & beyond

- Continue social welfare benefit for the elderly at the same level
- Continue implementation of the TSSP project of the Vulnerable, to same target numbers and villages. Aid funding due to end in December 2014 and government is planning to continue to fund and expand slowly to other areas in Tonga,
- Assist with a pro poor policy review and the drafting of a social service policy for the Government
- Micro-finance will continue on a revolving credit basis. 10% fixed rate, 3 month grace period, mandatory savings, and 12 month short term loan. (USD\$280k, co-funded by ADB & Japan).

• Grassroots Grants Programme (funded by Japan):

2012/13

- Completion of the water supply system for Houma, TOP\$172k
- Upgrading of school buildings (3 schools: GPS Houma, 'Otuhouma Kindergarten and Mata'aho Kindergarten), TOP\$608k
- Improvement of sanitation facilities (3 schools-GPS Ha'atu'a, Tonga Side School, GPS Folaha) TOP\$399k
- Upgrading of building for Women's Capacity Building in Tonga located at Tatakamotonga, TOP\$173k
- Support to St Andrew High School PTA (Construction of an Industrial Art building), TOP\$134k
- Improvement of Equipment (Fire Station – Vava'u & 'Eua), TOP\$104k

Planned for 2013/14 & beyond

- Upgrading of water supply system in some of the villages in Tongatapu and outer islands (5 villages – Fua'amotu, Mala'evakapuna, Longoteme, Vaipoa (Ntt) and Matangiake, TOP\$1.3m)
- Upgrading building for Mango Tree Rehabilitation Centre (one of the NGOs, TOP\$199k), to provide persons with disabilities a proper access to education and training facilities.
- Upgrading of school buildings (2 schools – Vava'u Side School & GPS Ngele'ia, TOP\$408k)

• Improving Rural community development planning and investment:

Planned for 2013/14 & beyond

- MORDI Tonga through the Tonga Rural Innovation Project (TRIP) which is funded by IFAD (International Fund for Agricultural Development) have to confirm the type of community base projects to finance throughout 60 communities (rural & isolated communities in Tonga)

in which the TRIP is targeted. A community must submit a plan to justify what project would like TRIP to finance. Focus mainly on community economic infrastructure such as agriculture boundary fence, tractor, wharfs, markets (shed), roads, agricultural, tool shed, tourist sanitation improvement etc.

• **Government Funded assistances and subsidies to Community Development:**

2012/13

- Non-Government Organisations & Civil Society Organisations (8 Charitable Organizations, TOP\$140k to help their operations: Alonga, Tonga National Center for Women Crises (TNCWC), Tonga National Youth Congress (TNYC), Civil Society, Women Crises Center (WCC), Tonga Red Cross (TRC), Langafonua, and Diocese of Polynesia)
- Government continues to pay for the maintenance of streetlights for all of Tonga (\$400k).
- Subsidization of ferry (\$240k) to the Niuaus

Planned for 2013/14 & beyond

- Non-Government Organisations & Civil Society same number and amount as in 2012/13.
- Continue subsidy for the maintenance of street lights for all of Tonga and subsidy to tariff to help low income households at same level as last year (through retention of payable dividends from Tonga Power Ltd (TPL) to government).
- Continue subsidy of the ferry at the same level and airlines (TOP\$200k) to the Niuaus
- Payment of utility costs of 'Api Tonga, to assist Tongan visa seekers and students in Fiji (TOP\$12k)
- Allocation of TOP\$480k for new School Transport especially for rural areas

• **Support to Women Development:**

2012/13

- Completed the review of 2011 Gender Policy (Convention to Eliminate of All Forms of Discrimination Against Women - CEDAW) through a wide consultation throughout the Kingdom including all the island groups. Unlike during the 2008/09, two major issues, that the women consulted did not support were: (i) extending land rights for women; and (ii) changing the inheritance for the monarchy to be the first born, irrelevant of their sex. In both cases they supported the status quo. Ratification of CEDAW is still with Solicitor General to draft the Reservations.
- Due to intensive consultation and information programmes, the issue of violence against women is much better recognized and understood. The drafting of the Family Protection Bill and its consultation is completed. Awaits submission to the Parliament for approval.
- Special Days for Women: Breast Cancer Day represented by a pink colour and International Women Day represented by white ribbon. International Day was funded by Australia TOP\$59,500 for radio talk shows and other live broadcasts
- European Union (EU) funded 60,000TOP of small awareness programmes including leadership trainings by Maa Fafine mo Famili, Tonga Girl Guides and Langa Fonua 'a Fafine aimed at building the capacity of young female leaders as well as increasing the awareness of young women with regards to domestic violence

Planned for 2013/14 & beyond

- Finalization of government decision on CEDAW
- Submit Family Protection Bill to Parliament for endorsement
- Awareness programmes to be undertaken as motivation incentives to encourage women to participate and compete for high positions in government and the society
- Continued awareness raising on the issue of violence and seeking ways to make it socially unacceptable.

• **MDGs Acceleration Framework (MAF)**

2012/13

- Formulated the MDGs Acceleration Framework (MAF) to accelerate progress on the 3 lagging goals (NCDs, Gender Equality, Poverty Reduction)
- Assistance through provision of workshops and awareness programmes

Planned for 2013/14 & beyond

- MDGs Acceleration Framework (MAF) working to accelerate existing initiatives through the following prioritised interventions
 - I. Increase local food supply/create income generating opportunities for women and vulnerable groups
 - II. Provision of curative Health Service at public hospitals
 - III. Review of legislation, subsidiary legislation and policies affecting food/tobacco/kava Tonga/alcohol and physical activities
 - IV. Advocacy for healthy lifestyles (Churches, Workplaces)
 - V. Support resources

• **Improved Government Operation on Outer Islands**

2012/13

- Centralized the ministries/agencies in outer islands including 'Eua, Vava'u, Ha'apai, and the two Niuas as a means of improving service delivery.
- Recent allocation of TOP\$100k for election of District and Town Officers.
- Support to offices for District and Town Officers in the outer islands.

Planned for 2013/14 & beyond

- Seek to establish district centers in each district which can help develop computing skills for town officers and youths
- Continue to coordinate all development projects ub the outer islands such as the recently completed construction of Foa Causeway, 'Eua Sea Transportation Ferry, boat for the Niuas
- Arrangements for establishment of offices for MPs in Outer Islands.

• **Assistance to Forum of Church Leaders**

2012/13

- Service desk at MIA (TOP\$0.077m) to improve cooperation between the National Forum of Church Leaders and government by facilitating efforts to address priority issues related to social justice, and more healthy and viable communities.

Planned for 2013/14 & beyond

- Continue support to the service desk operations at the same level.
- Establishment of a Royal Commission on student/youth Violence (TOP\$250k) to identify the causes of youth and student violence and possible solutions to lessen this violence.

• ***Community Police Posts (Tonga Police Development Programme)***

2012/13

- Police posts established in six villages in Tongatapu, and 1 village each at Vava'u (Ta'anea), Ha'apai (Lotofoa) and 'Eua (Mata'aho). This allows a stronger sense of security within the communities. Financing includes equipment, site visits, TOP\$55k.

Planned for 2013/14 & beyond

- Increase police posts at Vava'u, Ha'apai and 'Eua, TOP\$35k

OUTCOME OBJECTIVE 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.

Lead Ministries and Agencies: MCTL, MAFFF, MIA, MOR

• ***Improved Public-Private Dialogue and joint working:***

2012/13

- Established National Growth Committee with 5 Sector Growth Committees (Agriculture, Tourism, Fisheries, Construction, and Manufacturing) to identify constraints, and find joint solutions and implement them within the framework of appropriate sector plans. Extensive work has gone into ensuring a broad representation on these Committees which have identified a number of issues that are being implemented.

Planned for 2013/14 & beyond

- Establish the last Sector Growth Committee (Retailing and Wholesaling) so fully covering all sectors; provide secretarial support to improve the operations of the SGCs.

• ***Improve ease of doing business to promote the Private Sector***

2012/13

- Business License Reform: The Business License Amendment Act 2012 was approved. The Amendment Act is to improve ease of doing business by licensing businesses and not activities. The number of business licenses issued in 2012 declined by 9% from 2,077 in 2011 to 1,890 in 2012

Planned for 2013/14 & beyond

- Development and implementation of a reform programme to mitigate barriers in the business environment to:

- ❖ Improve ease of doing business particularly in the areas of starting a business, getting credit, protection of investors, insolvency resolutions, and promotion of fair trade in Tonga
 - ❖ Mitigate costs to businesses in terms of the number of procedures and time through modernization of registration systems relevant to starting a business, getting credit, protection of investors and the provision of electronic insolvency guidelines and rules to guide trade in the country
 - ❖ Protect and promote intellectual property rights (with review by WIPO) including copy rights and related rights, industrial property; traditional knowledge and expressions of culture; and developing strategies to mitigate unfair competition and to enforce intellectual property rights and border measures
 - ❖ Mitigate costs to business in terms of MCTL business service and information through modernization of the MCTL Business Service & Information Centre to allow centralization of business registrations and payments and development of communication systems necessary to improve MCTL customer service
 - ❖ Develop Business License Online.
- Continue the reform of business environment legislations to make it more robust in attracting new initiatives (domestic and foreign).

• **Marketing & Foreign Investment:**

2012/13

- Entry of Scenic Hotel in July 2012, purchased the existing airport hotel and upgraded it, increased investment by over 400%, provided improved facilities for conferences and also visitors travelling on to outer islands (noting not new investment), indicates the potential of large scale foreign investments to stimulate economic growth for the country. It emphasizes the significance of improving the investment environment and establishing a renewed focus on investment promotion so as to increase Tonga's competitiveness in the foreign investment market, particularly in the region.
- Support to women groups to export to countries such as NZ, Australia and Japan, by paying for their airfares and transport of their products, which reported significant returns
- Buy Tonga Made (BTM) awareness campaign was launched, including consideration on how Government Procurement procedures could encourage preference for Tonga made products where appropriate

Planned for 2013/14 & beyond

- Establishment of the Tonga Tourism Authority (joint funding support by NZ & GoT) with focus on implementation of an effective marketing plan and product development strategy for tourism in Tonga including:
 - ❖ A destination marketing programme aimed at increasing tourist arrivals and improving Tonga's competitiveness in the regional tourism market; including consumer marketing strategies such as digital marketing; and trade marketing strategies to promote Tonga's comparative advantages such as in the conferences, incentives market and the cruise market.
 - ❖ A destination development programme targeting quality development of tourism services including accommodation and tourist information.
 - ❖ Tonga Tourism Authority Act 2012 provides that the destination marketing and development function be outsourced to a quasi-government private sector owned organization titled Tonga Tourism Authority.

• **Enforcement of Business and Consumer Regulations through:**

Planned for 2013/14 & beyond

- Development of strategies to improve the protection of consumer rights and welfare including the development of an encouraging regulatory framework for consumer protection and the development of consumer awareness and educational programmes.
- Regulatory enforcement strategies to improve business compliance with business regulations, price control, and weights and measures regulations, consumer regulations, labour regulations tourism regulations and cooperatives and credit union regulations.

• **Development of an improved efficient labour market environment conducive to industry growth and job creation:**

Planned for 2013/14 & beyond

- Development of a helpful legal and institutional employment framework including the enactment of the Employment Relations bill
- Provision of consistent policy advice to stakeholders on particularly policies to address labour issues and impediments to employment creation in the domestic market
- Development of strategy to provide accurate and up to date labour information to stakeholders including labour research programmes and the development of labour core datasets to inform MCTL labour policy development and information mediums.
- Conducting of labour survey (as the last one was conducted in 2005) with funding source from development partners.

• **Assistance for Agriculture & Fisheries Sector**

2012/13

- Introduction of the TOP\$1m Agricultural Marketing Fund (AMF) in 2012/13 aimed to assist exporters in marketing their agricultural produce overseas, particularly for yam, cassava, taro and watermelons. Provisional consultations on the availability and form of the fund have been completed
- The Food Agriculture Organization's (FAO) assist community aquaculture development in Tonga. The primary objective is to develop commercially viable and environment-friendly milkfish farming systems in Nomuka Island and Tongatapu that will result in a sustainable source of food and income for the island communities. USD231k
- Increasing number of tuna foreign fishing vessels – 22 has been licensed at the beginning of 2013 of which 6 are locally based vessels compared to just 1 in 2012.
- Finalized the Food Bill, having taken into account the particular concerns relating to the impact of the bill on small food vendors, now awaits Parliament's endorsement.

Planned for 2013/14 & beyond

- Agricultural Marketing Fund (AM) to continue
- On-going negotiations for export pathways to regional markets for squash and watermelons
- Conducting Agricultural Census 2013
- FFA (Forum Fisheries Agency) Fund: a budget of TOP\$0.5m will be utilized for various fisheries developments

- Redeployment of the Tu'imatamoana wharf to the National Fisheries Committee
- Implementation of Aqua-culture projects (pearl farming, sea cucumber hatchery, potential aquaculture area). Establishing and operating two pilot aquaculture systems. It will require the identification of suitable farm sites, environmental impact analysis, and construction of the farm ponds, training farm operations, management, local feed production, post harvest handling of the fish and marketing.

• **Tonga Tourism Support Project (TTSP):**

2012/13

- Launched in 2012 to increase the tourism sector's contribution to Tonga's economic growth, whilst supporting environmental and cultural sustainability (TOP\$5.3m annually, funded by New Zealand)
- Focusing on existing barriers to Government – Industry partnership, including the need for more joint efforts in marketing and promotion, through the establishment of the Tonga Tourism Authority, which has just been launched with most of its Directors appointed
- Tonga National Tourism Master Plan well advanced and due to be completed in June 2013 with a draft Policy Options Paper now in place to form the basis of industry – government discussions
- Allocation of \$700k from MoFNP's budget to relinquish non-government creditors to allow termination of the International Dateline Hotel from liquidation and return it to full government ownership as the first step of finding an alternative ownership/management structure which will ensure the hotel operates successfully. The International Financial Corporation (IFC) has been contracted to prepare due diligence assessment of the Hotel, with the view of identifying suitable arrangements for upgrading to a 4-star standard; to act as flagship hotel for Tonga.

Planned for 2013/14 & beyond

- TTSP funding to continue with Budget of TOP\$5.3m, start implementation of Tourism Master Plan
- Establishment of Tourism Development Fund of TOP\$500k for private sector marketing promotion through Government Estimate funding.

• **Seasonal Labour Scheme:**

2012/13

- Tonga continued to send over 1200 seasonal horticultural workers to New Zealand and dominated the number of workers in Australia. About 85% of Australia seasonal workers are from Tonga, this shows the quality of services provided.

Planned for 2013/14 & beyond

- Looking for further overseas employment opportunities apart from horticulture such as tourism, accommodation and cotton etc.
- Employment of a designated government officer to work fulltime on monitoring of seasonal work scheme in Australia.

• **Tonga Business Enterprise Centre (TBEC)**

2012/13

- Providing business advisory and mentoring resources to local businesses to strengthen private sector growth, TOP\$1.3m. Trained over 400 participants, 50 new businesses joined the Pacific Business Mentor Programme and a whale guiding course successfully delivered in Vava'u to 66 guides.

Planned for 2013/14 & beyond

- Budget of TOP\$1.3m continued for the next three years.

• Review of Revenue Services, Administration & Policy Implementation

2012/13

- Review of revenue service's completed; identified a range of administrative reforms for a more efficient service that is more responsive and less disruptive to the operations of the private sector. Includes consistent consultation with the private sector through the tax agents' quarterly meetings with MoR, MoFNP, MCTL to discuss appropriate Revenue Policy measures.

Planned for 2013/14 & beyond

- Strengthen the tax payer function, increase enforcement and compliance; upgrade the IT systems, build staff capacity through in country training as well as overseas training. Identify further improvement to the system through studying the current processes and identify the bottlenecks for improvements.
- Upgrade IT facilities and functions to be closer to International Agreements and Standards. This will enable the MoR to respond in a timely and accurate manner to client's needs.
- Provide TOP\$300k in 2013/14 for a Royal Commission on Revenue. Strengthening and Leakage Avoidance.

• Investment Incentives Framework:

2012/13

- The Revenue Policy Committee has produced a preliminary analysis of the current exemptions and incentives. An international expert is now helping consider options for effective ways of encouraging investors to invest long term in Tonga while not undermining the revenue base needed to finance the delivery of government services.

Planned for 2013/14 & beyond

- Produce policy proposal to government for a consistent investment incentives to move away from the current ad hoc approach with the view of revamping the former Industrial Incentives Acts for certain amendment activities

• Compliance Enforcement Plan

2012/13

- Confirmed that the appropriate legal framework is in line with good international standards.

Planned for 2013/14 & beyond

- To help tax payers understand their obligations, through designing community outreach education plan as well as ongoing identification of appropriate measures and practices to strengthen compliance and enforcement

- That all residents earning income for tax purposes have a Tax Identification Number (TIN). This is in preparation for the upgrading to the RMS7 and to ensure that the Ministry collects the appropriate Revenue fairly and to encourage voluntary compliance. Further, it will assist strengthen the self-assessment system that is already in place.

• ***New Tax Regimes***

2012/13

- Consultations have been conducted on the introduction of the Small Business Tax and the Natural Resources Tax Regimes, which were recommended in the PFTAC review. A bill is now in draft form for the introduction of these two tax regimes.
- The small business tax aims to reduce the burden of record keeping on small businesses and to pay a tax sum in line with business turnover. The Natural Resource tax is to proactively ensure that the country gets the maximum benefits from its natural resources at the same time assuring investors of the stability of the fiscal requirements.

Planned for 2013/14 & beyond

- Implement the two new tax regimes.
- Install electronic equipment (scanning and detectors – for both airport & wharf) to identify illegal goods and protect the borders of Tonga from illegitimate trade (AUD\$1m, with development partner funding assistance)
- Install the Custom Management System (CMS) /Revenue Management System (RMS), with development partner funding assistance.

• ***Public Enterprise Reform:***

2012/13

- Corporatization of the Friendly Island Shipping Agency (FISA) and Tonga Assets Managers & Associates Limited (TAMA) was successfully completed. TAMA has been progressing well with their first year of becoming a PE, generate an operating profit, though due to high depreciation recorded a net loss. FISA has been declared a PE in 2012 and making good profit.
- Tonga Cable Limited (TCL) has been approved to become a Public Enterprise (PE) in the next financial year (2013/14).
- Merging of Tonga Print and Tonga Post Ltd. Tonga Print has been operating at a loss for a number of years and does not have the fund to invest in its plants and machineries. Plants and machineries are almost at the end of their economic life and the declining trend of revenue continues hence the strategic move to merge the two (with the idea of utilizing some of the product lines of Tonga Print and set up a copy centre and a post shop in town, and that the sorting of mail to be done at the Tonga Print building)

Planned for 2013/14 & beyond

- Partly privatize Tonga Communication Corporation (TCC).
- Establish TCL as a PE
- Review the regulator functions of the Tonga Power Ltd, Waste Authority Limited and Tonga Water Board.

OUTCOME OBJECTIVE 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.

Lead Ministries and Agencies: MOT, MOW, MCTL, MOH, MLECCNR, MPE

• ***National Infrastructure Investment Plan***

2012/13

- Completion of the draft review of NIIP in December 2012. Final draft to be approved by Cabinet, and implementation.

• ***Post Tsunami Recovery for Niuatoputapu***

2012/13

- Completion of extensive re-construction for Niuatoputapu including 73 houses, community halls, water supplies, roads and refurbished schools (supported by World Bank, TOP\$9.3m) which are improving the standard of living in the island.

Planned for 2013/14 & beyond

- Completion of Niuatoputapu Hospital (TOP\$2m, funded by European Union).

• ***Integrate Urban Development Sector Project (Phase I)***

2012/13

- Completed the construction of 6 main roads in Nuku'alofa including footpaths and drainages (Alaivahamama'o, Vaha'akolo, Taufā'ahau, Vuna, Salote and Railway Road) TOP\$3.5m. A saving of TOP\$1.8m was identified and will be utilized for other roads & foot paths (Fanga and Tofoa) construction in 2013/14.

Planned for 2013/14 & beyond

- Road Maintenance for Tofoa & Fanga (mini roads), Havelu Saafa & Mata-ki-'Eua (main roads) and upgrading of drainages in a low flooding area, along Railway and Salote Rd, financed from the saving.

• ***Nuku'alofa Urban Development Sector Project (Phase II)***

2012/13

- Continued from IUDSP Phase 1, Australian Government (TOP\$10m) and ADB (TOP\$10m). A Project Management Unit (PMU) has been established and recruiting local counterparts. 2012/13 budget TOP\$4.3m, but not fully utilized due to slow implementation. Aim to help Tonga Water Board (TWB) and Waste Authority Ltd (WAL) to provide effective, efficient, and sustainable urban services.

Planned for 2013/14 & beyond

- Rehabilitate 17 existing water supply wells, 4000m³ raw water reservoirs, 120KW diesel generator at Matakī'eua including installation of electric pump.
- New Landfill (Tapuhia) loader, ground water quality monitoring programme, village level waste collection service piloted in 5 urban villages.

• **Transport Sector Consolidate Project (TSCP)**

2012/13

- Focusing on maritime needs, aviation and road maintenance. Completed road maintenance, maritime needs development, laboratory materials extension (Mol) and vessel for the Niuas. Joint funding by Government US\$2.33m, Australia US\$17.5m and World Bank US\$5.44m. The project extended to 2015 to fully utilize the funds.

Planned for 2013/14 & beyond

- Fire Fighting Training Facilities for the airport.
- Road maintenance works ('Eua, Ha'apai & Hahake-Tongatapu).
- Navigational light tower.

• **Upgrading of Foa Causeway in Ha'apai:**

2012/13

- On progress \$2.17m 2012/13, targeted completion in December, 2013, This will provide link route between Lifuka District and Foa District and reduce the sea route travelling distance between Kauvai Ha'ano Island and Lifuka.

Planned for 2013/14 & beyond

- Completion by December, 2013 TOP\$2.5m (German funded)

• **Tonga Fiji Submarine Cable Project:**

2012/13

- Offices and landing site completed, Cable laying due to be completed by June and open in July. Should considerably increase the connection speed and volume between Tonga and the rest of the world (USD \$33.5m, funded by World Bank). This should provide the capacity for considerably faster, more efficient and cost effective service.

Planned for 2013/14 & beyond:

- Cable expected to be extended to Ha'apai and Vava'u (TOP\$14m), to be funded by development partner and private sector equity owners.

• **Pacific Aviation Investment Project (PAIP):**

2012/13

- Project is at its early stage and achieved the following: Project Management Unit (PMU) fully established, peer review, design & supervision of Aviation Investment and Translation of Aviation Act. Focusing on international air transport infrastructure for Fua'amotu and Vava'u International Airports, fund by World Bank/IBD (TOP\$55.8m). Lease arrangements have been completed and sub leasing to Tonga Airport Ltd (TAL) near completion.

Planned for 2013/14 & beyond

- Conduct peer review and translation of Airports Act.
- Improvement of terminals building, airfield lighting & cabling, Emergency infrastructure repairs for Fua'amotu and Lupepau'u airport; construction works.

• ***Vaipua Bridge***

2012/13

- Upgraded of bridge completed and opened in December 2012, 85m long and 9m wide including two lanes; street lights to be installed. Defects period is still in progress and will be completed December 2013 (TOP\$12m). This has shorten the route from the eastern side to Neiafu with huge cost saving to consumers.

• ***Cruise ship Terminal (Vuna Wharf)***

2012/13

- Cruise ship terminal has been completed and all cruise ships now use it releasing space at the Queen Salote Wharf for cargo ships. This makes for a more pleasant disembark for cruise ship tourists.

• ***National Domestic Airline***

2012/13

- Completed the negotiation for the new aircraft (MA60), granted by PRC, to be leased by the new national domestic airline (Real Tonga)

• ***Building of Saint George Palace office block***

Planned for 2013/14 & beyond

- Based on Pangai Si'i to provide space for PMO, MoFNP and others. Construction due to start late 2013. Total estimate TOP\$ 35m, \$5m estimated for 2014/15, by People Republic of China (PRC).

• ***Building of Niuatoputapu Hospital (European Union, TOP\$2m)***

Planned for 2013/14 & beyond

- Construction of Niuatoputapu Hospital, to improve health services (TOP\$2m, funded my European Union).

• ***Fanga'uta Evacuation Road***

Planned for 2013/14 & beyond

- Dialogue continues on the proposed bridge across Fanga'uta which is only part of the overall Tsunami evacuation plan for Nuku'alofa, where 40% of the country's population live.

• ***Establish a Website for Government Ministries***

Planned for 2013/14 & beyond

- Work with all Ministries in Government to ensure they all have a web site for efficient and convenient of disseminating of the information for greater transparency

OUTCOME OBJECTIVE 4: Appropriately sound education standards, by emphasising quality universal basic education.

Lead Ministries and Agencies: MET

• Tonga Education Support Programme (TESP):

2012/13

- Completion of TESP 1 including Curriculum Development, Renovation of schools, and The Tonga Education Lakalaka Policy Framework 2012-17.
- Assistance to Non-government schools (\$50/head for Early Childhood Education, \$400/head for secondary schools and \$1200/head for Higher Education)
- Finalization of the Staff Appraisal Policy and Handbook and the training of principals of the pilot schools in the new Appraisal Process in February/March 2013. This also includes the finalization of position descriptions for principals, primary and secondary teachers which are part of the work of the Appraisal Team.

Planned for 2013/14 & beyond

- Continuation of TESP II primarily focusing on assisting MET to improve children's level of literacy and numeracy, particularly in the early grades, to ensure a sound foundation for future learning.
- Continuation of assistance to Non-Government schools in 2013/14,
- Acceleration of training of untrained teachers to ensure maximum number of teachers are registered by 2015 when the Ministry plans to apply the Education Bill to ensure that there are no unqualified teachers teaching at schools.
- Allocating resources for the training and possible qualification of teachers for inclusive education in Tonga.

• Review of Curriculum:

2012/13

- Revision of school curricula for class 1 in primary school to Form 2 in secondary school (Year 1 – Year 8) has been completed and trialed. The trialing of the revised primary school curricula (Tonga, English, Mathematics and Science) has been completed and the curricula now finalized and are being used in Classes 1 – 8 in the schools. The new curricula for Tongan Culture and Society, Creative Technology and Movement & Fitness are in its final trial which will be completed at the end of 2013.
- Second phase continues to Form 3 – Form 7. Initial consultations have commenced for the detailed scope (including resources & expertise) and sequence for the review of Form 3 – 7 curricula.
- Good progress has been made on the nationalization of Form 6 and Form 7 Certificate to make them of equivalent standard as the Secretariat of the Pacific Board for Educational Assessment (SPBEA). The new Tonga National Form 7 Certificate has been declared as of equivalent standard to the SPBEA regional Form 7 Certificate thus becoming recognized by Australian and NZ Universities and USP.

Planned for 2013/14 & beyond

- The trial of the new curricula for Tongan Culture and Society, Creative Technology and Movement & Fitness is completed.
- Continuance of the second phase of revised curricula (Form 3 – 7) to be completed.

• ***Professional Development:***

2012/13

- Relieving teachers were successfully recruited to the Non-Government schools to relieve 20 in-service teachers for 2012.

• ***Minimum Service Standards:***

2012/13

- Improvement of Learning Environment: The Ministry with the help of Australian Government managed to renovate 51 primary schools out of the 55 primary schools requiring upgrade in Tonga.
- Literacy and Assessment Teams working in partnership with Australian partners/institutes and with the assistance of the World Bank to improve literacy and numeracy of students in Tonga.
- Policy, Regulations and Revised Education Act Phase 2 have been completed and the revision is currently tabled for the next sitting of Parliament in June 2013. The Act includes increasing the compulsory education age from 4 to 18 years. Construction and improvement of education infrastructure.

Planned for 2013/14 & beyond

- Tonga College, construction works in 2014/15 (TOP\$30m, being reported with Japan)
- Design for phase 2 of Tonga High School (TOP\$13m, PRC funded) to be completed.

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

Lead Ministries and Agencies: MET, MIA, MOH, TDS, MOP

• ***Assistances from TVET Programmes***

2012/13

- Completed the short term training courses to address some of the skill shortages and training gaps identified as priority requirements to increased employment and economic development in Tonga. 10 Institutions (5 Government & 5 Non-Government) engaged in the programme, and all students graduated with certificates.
- Two additional programmes introduced to the TIOE's programme are Certificate and Post Graduate Certificate in Education. The main purpose of integrating these 2 programmes is to strengthen teacher's proficiency. The number of untrained teachers in Non-Government secondary schools is expected to be reduced by 19% (48/258). A total of 48 teachers were enrolled in 2012.

- An Interim Progress Review was conducted in 2012 in collaboration with development partners (AusAID& NZAID). The outcomes of the review recommended redesigning the programme, conduct a Labour Force Marketing study and develop a Policy Development Framework. The redesigning of the programme will be based on these surveys. The programme is closed until redesigning completed which is anticipated after one year.

Planned for 2013/14 & beyond

- Continue support from Government and development partners (TVET-AusAID& NZAID) to non-government technical institutes through local and international trainings and providing equipment to enhance the quality of education.
- Developing a design framework for continuation of the TVET Programmes to capture all training aspects based on the TVET Policy Framework and Labour Force Study.

• ***Improvement in Technical Institutes***

2012/13

- Completed the renovation of the existing vocational training buildings and teaching aids and materials such as text books, science equipment, whiteboards, projectors to enhance the training capacity of the students TVET project (bilateral funded by NZ & Australia).
- Completed upgrading of St Joseph Business School's building for better learning environment funded by Japan TOP 0.8m.
- Completed an upgrading of 'Ahopanilolo Technical School Building's facility to help improve learning environment- TOP\$ 0.1m provided by JICA.
- Improve the capacity of computer system in Tonga Institute of Higher Education (TIHE) with 20 computers from United Nations Educational Scientific & Cultural Organisation (UNESCO).
- 32 students qualified to enter the Nursing Diploma Programme and 100% of them graduated with a diploma. The Institute has been maintaining this figure since 2000.
- Freezing the 1st year of enrolment to the Tonga Institutes of Education (TIOE) to allow current untrained teachers to graduate with a diploma.

Planned for 2013/14 & beyond

- Continue supporting the technical schools to ensure they will meet the standard approved by the TNQAB.
- Continue recruiting of student nurses
- TIOE continue to freeze Year 1 enrolment until untrained staff, currently teaching, get a diploma in teaching.

• ***Tonga Institute of Sports***

2012/13:

- Won the bid for the Pacific Games, 2019. The government covered the expenses for the members who attended with an allocation of \$ 0.3m.
- Approved the legislation for the establishment of the Sport's Organizing Committee and also the National Sport's Strategy 2013/18. These are the mechanisms to guide the preparation for the Games, 2019 in conjunction with TASANOC.

- Completed phase 1 of the ASOP (Australian Sports Outreach Programme) funded by AusAID. This project was known as “Kaumai Tonga ke tau Netball”, it aimed to encourage Netball and help increase physical activity to combat NCDs.

Planned for 2013/14 & beyond

- Sport’s Organizing Committee established and fully functioning. The Committee will work closely with MIA and TASNOC to coordinate and facilitate the implementation of the National Sport’s Policy & Strategy as a preparation for the Pacific Games, 2019. Government and Committee to identify extra funding of about USD70m (T\$122m current cost of the Games)
- Continue to implement Phase 2 of ASOP to expand from netball to volleyball. This is aimed enhancing the sport’s talents of the young people in Tonga and further combating NCDs.

• ***TDS short term training:***

2012/13

- Average of 50% of new recruits attended maritime and construction short term training conducted locally and internationally last year, funded by AusAID.

Planned for 2013/14 & beyond

- Establish a Royal Commission on causes and prevention of youth and student violence. Government allocated T\$0.25m for this Royal Commission in 2013/14

• ***Overseas Employment Schemes***

2012/13

- The sustainable Seasonal Employment Scheme has been expanded to include industries such as tourism (housekeeping), sugar industry, cotton industry, aquaculture and mining. The number of seasonal workers being employed under New Zealand & Australia Schemes has doubled from 829 in 2007/08 to 1,678 in 2011/12.

Planned for 2013/14 & beyond

- A growth of 30% is expected for 2013/14 seasonal workers
- Provide a special training programme to enhance the capacity and leadership skills of the seasonal workers that are qualified for the High Performance Unit to ensure the opportunities that are currently led by Tonga will be sustainable, such as the horticulture programme.
- Planning to extend training to cater for niche industry labour markets (hospitality, sugar, cotton, mining and aquaculture) in Australia and New Zealand.
- Develop the existing vocational training institutions such as ‘Ahopanilolo and Maritime Schools and fully equipped for better quality before training starts.

OUTCOME OBJECTIVE 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.

Lead Ministries and Agencies: MOH including Health clinics, MoFNP

• Preventative health programmes to reduce incidence of Non-Communicable Diseases (NCDs)

2012/13

- *Tonga Health Support System Programme (THSSP)*: Implementation of initiatives that help alleviate the effects of NCDs such as new legislation, fiscal measures, twinning programme, schools awareness programmes, social marketing, trainings, development & endorsement of guidelines financial assistance provided by AusAID, \$4m.
- *Tonga Health Programme*: Provide awareness programmes and innovative activities which helped the communities grow more vegetables for their own healthy consumption and for sale
- *MDG Expo Day*: Established a National Day as an awareness programme to challenge the effects of NCDs.
- Established the MDGs Acceleration Framework (MAF) to focus attention on addressing the three lagging MDGs, including the most serious related to the NDCs. UNDP funded a Consultant to formulate the MAF as a tool to guide action.
- Continued training for NCDs nurses enhancing their skills & knowledge.

Planned for 2013/14 & beyond

- *Tonga Health Support System Programme (THSSP)*: Continue implementing activities to lessen NCDs (AusAID T\$6.1m).
- *Tonga Health Programme*: Continue with the awareness programmes and innovative activities for the communities to encourage healthy eating.
- Implement the MDGs Acceleration Framework (MAF)

• New medical & equipment supplies

2012/13

- Computed Tomography (CT) scanner in place at Vaiola Hospital (PRC) to improve quality of scanning.
- AusAID continued providing equipment and maintenance for 5 Health Centres (AusAID TOP\$128k under THSSP).

• Up-skilling and improving technical knowledge

2012/13

- Scholarships for a Medical doctor programme in Cuba, commenced in 2009 with 2 students who will graduate in Dec, 2013 and 4 students who will graduate in the following years.
- Other ongoing scholarships (Dr. Supileo Foundation).
- Continue assistances from Australia, Japan, and USA offering twinning programme attachments to overseas hospitals.

- Strengthening school-based Oral Health (funded by Japan) by providing dentist expertise and equipment for oral health. Conducted annually, aiming at completing every primary school each year.

Planned for 2013/14 & beyond:

- Continue support from various organizations to improve the capacity of the doctors such as Cuba Scholarships, Supileo Foundation Scholarships and Government Scholarships.
- Continue training provided by AusAID for public nurses to build up their skills & knowledge
- Continue assistances from Australia, Japan, and USA by offering twining programmes attachment at overseas hospitals.
- Continue assistance from Government of Japan in strengthening school-based Oral Health

• ***Amending legislation to encourage healthier lifestyle***

Planned for 2013/14 & beyond

- The Healthy Eating Sub-Committee (HESC) and Physical Activity Sub-Committee (PASC) proposed to amend the Customs Tariff Schedule to increase the duty on unhealthy food imports.

• ***Improving Health infrastructure***

2012/13

- Completed the upgrading and refurbishment of Vaiola Hospital phase 2: out-patients facilities, dental facility, nursing school and NCDs clinic (Japan-TOP\$19 m).

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

Lead Ministries and Agencies: MLECCNR, MIA, MOI, TDS, MCTL

• ***Culture Preventatives Strategies***

2012/13

- Established a Natural Cultural Policy to guide the protection of Natural Resources such as historical places.
- Improvement in recording of the historical sites and events in Tonga, such as completed transcribing of interviews on Traditional Knowledge Systems, Tangible and Intangible Cultural Heritage.

Planned for 2013/14 & beyond:

- Conduct a Kava Kuo Heka Festival and other appropriate exhibitions and festivities in July every year.
- Conduct a feasibility study to establish a national museum, archive and national library

• **Climate Change and Environment Initiatives**

2012/13

- Continued supporting the secretariat roles provided by Environment for Joint National Action Plan (JNAP) funded with T\$0.4m for 2012/13, to ensure the strategies outlined in the Plan are well implemented and reach the targets incorporated in the JNAP.
- Completed the designing scope for upgrading of Hihifo's (Fo'ui to Ha'atafu) water supply and coastal protection through Pacific Adaptation to Climate Change (PACC) Project, Co-Funded by UNDP and implemented by SPREP and AusAID
- Implementing the PASAP project to Lifuka, Ha'apai
- Improved adapting of coastal areas at East (Nukuleka-Kolonga) through EU Global Climate Change Alliance Pacific Small Island States Project, implemented by SPC, to address adaptation as a coastal protection measures.
- Completed a Strategic Programme for Climate Resilience (SPCR) funded by ADB
- Completed the National Policy to monitor the ozone depleting substances that are imported to Tonga. The project is funded through Ozone Depleting Substances Project (ODS) T\$0.06m.
- Integrated Biodiversity Project and Alien Species Project is funded by UNEP (United National Environment Programme) and implemented by SPREP-T\$0.1m. The project is helping to prevent and conserve the species in the sea.
- Improvement in mitigating and adapting to the risks of climate change in the low area of Vava'u by growing mangroves through the Mangrove Ecosystem project of TOP\$0.09m funded by the International Union for Conservation of Nature.
- Participated in the Pacific Islands Task Force for Accessing Financing for Climate Change activities (funded by ADB)

Planned for 2013/14 & beyond :

- Continue to upgrade of Western (Fo'ui to Ha'atafu) water supply and coastal protection through Pacific Adaptation to Climate Change (PACC) Project, Co-Funded by UNDP (United Nation Development Programme) and implemented by SPREP and AusAID
- Continue PASAP project to Lifuka, Ha'apai.
- Continue to build the foreshore for coastal areas such as Hahake Eastern through EU Global Climate Change Alliance Pacific Small Island States Project.
- Implement the strategies outlined on the Strategic Programme for Climate Resilience (SPCR) funded by ADB
- Continue enforcement of the Ozone Depleting Substances on Customs tariff codes 2012 system. Conduct quarterly workshops with private sectors and public regarding the Ozone Depleting Substances.
- Integrate Biodiversity Project funded by SPREP (Secretariat of the Pacific Regional Environment Programme)-T\$0.1m.
- Continue the prevention, control and management of the Invasive Alien Species funded by SPREP-T\$0.05m.
- Continue mitigating and adapting the risks of climate change in the low area of Vava'u
- Pacific Environment Community Project funded by Japan through Pacific Island Forum Secretariat (PIFS) -T\$7.3m

- Pilot Project on Climate Change Resilience funded by ADB-T\$3m.
- This project is one of the major projects outlined in the Joint National Action Plan (JNAP).
- Establish the Climate Change Trust Fund (T\$5m) for community projects (administered jointly by MLECCNR and MOFNP)

• **Energy Renewable Support Programmes**

2012/13

- *Tonga Village Network Upgrade*: Provide access to safe, efficient and reliable electricity distribution network to households in rural and peri-urban villages in Tongatapu. Total costs T\$8.3m funded by NZ, T\$5.3m budgeted for 2012/13. 19 villages in Tongatapu have been completed. Estimated line loss dropped from 34% in 2011/12 to 2% in 2012/13. For the villages that have been upgraded, it is confirmed that they have already met the international standard through lines conductors, meter boxes and poles installation.
- Off-grid Coordinator has been recruited (funded by EU-T\$0.2m)
- The Solar Home Systems (SHS) which helps to install new solar power systems began with a ground breaking ceremony at Hunga Island, (JICA, T\$11m). To promote rural electrification using clean energy for 500+ households in Vava'u (11 islands) and Tongatapu (Atata & Eueki).
- Launched the Vava'u Solar Farm Project (United Arab Emirates, (UAE)-T\$6.4m) to develop and build a photovoltaic generating plant and associated facilities in Vava'u.
- UAE provided T\$1.6m for organizing of the Vava'u Solar Plant. Anticipated to start implementation next year.
- Completed the Maamamai Solar Power which was implemented by the Meridian Solar Project (NZAID).The site works completed and the solar farm had been connected. The project has been effectively generating electricity to Tongatapu and this should help reduce power costs and stop them rising so fast if fuel prices rise.
- Completed Outer Island Solar Electrification Project (JICA T\$5m)
- Wind and Solar Resource Monitoring Project has completed assessing wind potential for electricity generation in Tongatapu (Agence Francaise de Development T\$0.08m).

Planned for 2013/14 & beyond

- On-going implementation of Solar Home Systems (SHS)
- Implementation of the Vava'u Solar Farm Project funded by UAE
- Continue implementing of Outer island renewable energy project funded by ADB T\$2m. This is targeting to install solar system in every small island in Vava'u and Ha'apai that haven't received solar system.
- Wind and Solar Resource Monitoring Project extended to also cover the remote islands such as Atata, 'Eueiki and small islands in Vava'u and Ha'apai-funds.

• **Natural Resources Improvements**

2012/13

- On-going pilot Salinity monitoring Bore Drilling Project (funded by Pacific Islands Applied Geo-science Commission). To improve understanding of the quality and quantity of surface

water, groundwater, rainwater, coastal receiving waters and their vulnerability to land based pollution.

- Establishment of the International Water Resources & Water Management Committee to coordinate and oversee the effective and sustainable management of the water resources, Global Environmental Fund and coordinated by the SOPAC Division of the SPC-T\$0.2m
- *Land Administrations:* On-going collating and recording of the land information funded by the Secretariat of the Pacific Community (SPC)

Planned for 2013/14 & beyond

- Establish a Water Resource Inventory, Water Harvesting Systems for the Niuaus through ADB-SPCR funds.
- Extension of the Water System Project anticipated to effective in January 2014. The priority for the extension is to focus on implementing Sanitation Systems.
- On-going collating and recording of the land information funded by the Secretariat of the Pacific Community (SPC)

• *Disaster Mitigation and Response Emergency*

2012/13

- Equipment upgraded in Metrological Office and National Emergency Management Office.
- Reviewed the arrangements for improving disaster mitigation and response
- Continued disaster awareness week annually to improve the public information's on disaster management and the use of first aid for when disaster happen, funded by Pacific Islands Applied Geo-science Commission
- Improve enforcement of building code by continuing to charge a penalty fee for illegal building such as \$4 per square meter for commercial and \$10 if it reaches 50 square meters for individual household.
- National Emergency Management Office (NEMO) completed awareness raising activities to the public e.g. for Houma Village and St Andrew School.

Planned for 2013/14 & beyond

- On-going support to upgrade the digitizing equipment at Metrological Office and National Emergency Management Office for effective warning of natural disaster that might affect the country (AusAID).
- Draft a Metrological Bill to provide a clear direction for efficiency delivery of Metrological functions (SPREP).
- Continue disaster awareness week annually.
- Establish early warning systems and training in disaster response
- National Emergency Management Office (NEMO) continue coordinating the awareness activities to the public

• *Active operation of Environmental Impact Assessment (EIA) Committee*

2012/13

- Reviewed and approved the EIA that had been conducted, e.g. for Foa Causeway Project

Planned for 2013/14 & beyond:

- Continue monitoring of the large infrastructure/environment projects to comply with the Environmental Impact Assessment (EIA)

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

Lead Ministries and Agencies: Attorney General's Office, PMO, TDS, Auditor General's Office, MOJ, CPR, MCTL, MOFNP,

• Freedom of Information Policy

2012/13

- Launched first Freedom of Information Policy which will guide officials as well as media, civil society and public, providing a clear framework and process for accessing and disseminating of information.

• Mandate of the Audit Office and Internal Audit function of MOFNP

2012/13

- The Constitutional Electoral Reforms (CER) Project fund has been audited by the Auditor General and has been evaluated by the Public Account Committee. The recommendations had been submitted to the House for final consideration and approval.
- Adding performance audit, a new function, to the Audit Department. This is targeted to audit the performance of the Government Ministries and Public Enterprises on specific activities. There were 2 Performance reports completed covering Waste Management and Tuna Fisheries.

Planned for 2013/14 & beyond

- Commence auditing of performances of the line ministries/agencies in conjunction with PSC. This will have to ensure balance between the legislative functions of the Auditor's Office versus the executive functions of government

• Re-enforcing principles of good governance and transparency

2012/13

- Well disseminated of information through the Government website known as the Tonga Government Portal. The articles, reports, and decisions made by the Government can be posted on the website for easy public access, and promoting transparency.

Planned for 2013/14 & beyond

- Further development of use of the website to publish government information

• Public Restructure and Reform for a more efficient, effective and affordable public service

2012/13

- Review of Staff Performance Management System (SPMS) is in progress as a management and monitoring mechanism, linked to corporate plans, for measuring the performance of staff and identifying capacity development needs in ministries/agencies, so as to improve performance and delivery of ministries/agencies outputs.

- Completed the review of ministries to streamline their operations.
- Centralized the government outer island offices for more efficient and convenient provision of services and more secure keeping of records.
- *Enhance Corporate Planning*: Introduced enhance three year rolling Corporate Plans for all ministries and agencies to improve their management and budgeting and better deliver their outputs for a more efficient, effective and affordable public services
- Review ministry/agency organizational structures for consistency with delivery of their Corporate Plan outputs, and ensured budget and organizational structures were consistent

Planned for 2013/14 & beyond

- Full roll out of Staff Performance Management System linked to review of Corporate Plan outputs, to improve performance by staff
- Decide an option for implementing an E-government plan to improve delivery of public services and to minimize cost
- Introduce enhanced Quarterly and Annual Reporting by ministries/agencies covering progress against their Corporate Plan outputs, as well as their budgets

• *Improving budget and debt management*

2012/13

- Well-coordinated link between Medium Term Budget Framework (MTBF) and Enhanced Corporate Planning.
- Continued prudent debt management, and observation of the “no new loan policy”.

Planned for 2013/14 & beyond

- Further improve budget and debt service management information being provided to Cabinet and the Public.
- On-going implementing the three year rolling MTBF based on enhanced Corporate Plans to ensure the proposed budget and proposed outputs are in balance
- Commencement of repayment of principal of the loan from China
- Continue prudent debt management, and maintain no new borrowing policy, to avoid any further increase in debt burden once the existing loans are fully drawn, and to restore external debt sustainability within the recommended IMF and GoT thresholds.
- To formalise inaugural Medium Term Debt Strategy and development of other debt policies as may be required
- Resume the project of conversion from cash bases accounting system to accrual based accounting system.

• *Implementation of Public Procurement Regulations (2010)*

2012/13

- Government Procurement Committee operating and ensuring implementation of procurement reform. The committee approved a Procurement Plan Template to be used by the line ministries/agencies in planning of their expenses per financial year.

Planned for 2013/14 & beyond

- First review of the Regulation is anticipated to be conducted in December, 2013 and planning to review annually for efficient implementing of the Regulation.
- Strengthen of Procurement Division to better serve the Procurement Committee.

• **Revenue reforms for enhanced collection with less distortions**

2012/13

- Upgrading the Revenue System Management (RSM) and Custom System Management (CSM) for better revenue collection, accurate data records and reduce corruptions.

Planned for 2013/14 & beyond

Continue to strengthen tax administration through:

- Further develop communications with private sector to ensure appropriate tax is collected with minimal disruption to business activity. Conduct regular meetings with private sector through quarterly and monthly meetings with the brokers.
- Ensure correct implementation of new tax incentives and monitor for any unintended consequences
- Establish proposed Royal Revenue Commission for Avoiding Corruption and Revenue leakages

• **Improving data quality and reporting**

2012/13:

- Submitted the Budget Papers to Cabinet, LA and line ministries and published through the MOFNP's website.
- Continued working on completing the review and updating of the National Accounts, to provide more accurate and quality reports.

Planned for 2013/14 & beyond

- Annual review of the National Accounts to include all economic actions and improve their accuracy
- Labour Force Survey anticipate to complete by 2014/15 (ADB/TBS)
- Household Income & Expenditure Survey anticipate to completing by 2015/16 (WB/TBS).
- Business Establishment Census anticipate completing by 2015/16 (ADB/TBS).
- Anticipate to publish the Population Census for 2011
- Enhance cooperation within Government and with other stakeholders, for improved data collection for better analysis and policy formulation

• **Improve Management of Vital Statistics**

2012/13

- Commenced the CFTC Funded project (requested in 2009) on the Digitization of Birth/Death Marriage Certificates project (6 months, requested extension for a further 6 months). (Archiving, auditing, computerization, digitization of all records in Tongatapu + the outer islands).

Planned for 2013/14 & beyond

- Improve the National Archives and the maintenance, storage and etc of all records such as birth, marriage and death certificate and other records to be computerized – by having a qualified archivist (to be shared with Libraries at Supreme Court and Vava'u).
- Improve the performance of the VSS office (in registration and issuance of BDM Certificates and RGO in application processing) – providing manuals on procedures;

• **Improved Coordination and Cooperation with Development Partners**

2012/13

- Conducted joint and bilateral meetings during the year with the development partners on their development programmes/ projects, and budget support cash contributions

Planned for 2013/14 & beyond

- Continue joint and bilateral meetings with development partners on other development and budget support contributions.
- Revise the indicators of development projects that are currently being implemented, to align with the minimum set of indicators that are used in the Pacific region.
- Continue regular High Level Donor Forum with the aim of getting sufficient budget support to accommodate the government operational budget's deficit (pre budget support)
- On-going review of Database system for accurate project recording.

OUTCOME OBJECTIVE 9: Safe, secure and stable society, by maintaining law and order

Lead Ministries and Agencies: Attorney General's Office, MOJ, MOPPFs, TDS

• **Developing efficient and effective legal system**

2012/13

- Policy Documents to Cabinet on the following Legislation to be created/amended: Electoral Commission Act, District & Town Officers Act, District and Town Officers Regulations, National Spatial Planning Bill, (Amendments to the Constitution submitted by request from Parliament/Cabinet for: Article 8 (Freedom of Petition); Article 23 (Disabilities of Convicts) Article 50B (Vote of No Confidence).
- Transition Phase of the Ministry of Justice and the Lord Chancellor's Office. Provided Government with a written analysis on the current legal framework of the judiciary, the administration of the Courts, the Lord Chancellor's Office and the Ministry of Justice and the procedures and costs associated with these changes;
- Worked Closely with the Lord Chancellor & JADP on important issues relating to the Magistracy, Government Financial Procedures;
- Provide and address Legal Aid issues
- Separated all functions of the Register Generals Office (RGO) from the Court system and established the RGO as an independent office on 1 December, 2013. This is to strengthen the administration and services provided by both offices and to enable proper planning for each of the respective development and progress in the future. Also re-located the RGO to the Ministry's building and merged it together with its sister function of Vital Statistics.

- Continued to access and utilize funding from the Pacific Judicial Development Programme (PJDP) - a regional court organization to train the Court administrative staff;
- Undertook physical maintenance and reconstruction repairs to all the Court structures (Tongatapu (Supreme Court + 3 Magistrates' Courts) and all outer islands Vava'u Court House, Ha'apai Magistrates Court House); Re-furnished and redeveloped the main office to house the Ministry administration (top floor) and the RGO (ground floor);
- Judicial Salaries/Allowances: Implemented the new Court of Appeal Contracts approved by Privy Council (negotiated the exact terms of accommodation/travel with the Judges). Negotiated, acquired and implemented Grant Aid Funding from New Zealand for the salary of the new Supreme Court Judge for 3 years.
- Continued awareness programme to the communities in Tongatapu and outer islands on new edited laws
- Continued sponsored Law Week 2012 to encourage and create greater awareness on the purposes of the laws.

Planned for 2013/14 & beyond

- Re-organize staff structure for each division in the Ministry of Justice and ensure staffed by more qualified officers to improve the performance of the Ministry in policy output and administration;
- Assist the LCJ in the appointment and establishment of Magistrates with Enhanced Jurisdiction as well as the appointment of Justices of the Peace;
- Renovate and improve the Magistrate's Court (Fasi) – to provide better juvenile facilities;
- Strengthen and formalize coordination links with the Police and the Ministries Probation and Bailiff Division (particularly on community service orders, Distress warrants and Writs of Distress, Traffic infringement notices);
- Improve the IT and data links and networking of all computer programmes for the Justice and Court system (Case Management Software for Supreme Court, Magistrates Court and Vital Statistics Programme); Improve and adapt the software programmes for relevant data capture to be able to provide data for KPIs for Court, Enforcement and RGO sectors particularly. Link up with international legal database systems (Lexis Nexis); Ensure each officer has suitable equipment to fulfill their duties;
- Seek donor aid and funding for the building of a separate RGO.
- Encourage participation in the Law Society for continued professional development, and consistent legal advice to the public.
- On-going consultation and education of the public about Tongan laws. Continue with Annual Law Week to provide greater awareness on rule of law.

• Improved policing and prisons

2012/13

- Tonga Police Development Project (AusAID, NZ T\$3m). Community policing established in Tongatapu (6), Vava'u (1) and Ha'apai (1).
- The No Pro Violence Unit was established by Ministry of Police, Ministry of Internal Affairs, and the Women Crisis Centers. The committee's first priority is to formulate a Development Policy to mitigate and monitor the impacts of domestic violence in the Country.

- Low rate of prison escapes (2 prisoners escaped in 2012)
- Installation of CCTV in the Central Police Station at Nukualofa to improve monitoring of interaction between police and prisoners.

Planned for 2013/14 & beyond

- Continuation of Tonga Police Programme jointly funded by Tonga, NZAID and Australia Federal of Police. Anticipate establishing 1 small community policing office per region every year. It's targeted for 2015 to have established a total 7 communities policing in the outer islands.
- Review and revise custody procedures in 2013.
- Acquire two boats and establish a MOU in conjunction with TDS to enhance to marine Search and Rescue incidents.
- Enhance response to emergencies, including search and rescue, and armed events

• ***Inmate rehabilitation programme***

2012/13

- Established a Restorative Justice Programme- T\$ \$.04m mainly to provide counseling and training for the inmates to help them to generate income. The programme has supported the decrease in the rate of the recidivism compared to past years. The Prison Department also established a monitoring system since the establishment of the Restorative Programme that updates the prisoners' records to better measure its impacts.

Planned for 2013/14 & beyond

- Provide technical training to inmates to improve their skills and abilities when returning to the community.
- Enhance skills for inmates to find gainful employment and contribute to their communities

• ***Developing National Security and International Peace keeping***

2012/13

- Continuous support of Tonga Defense Services (Australian Defense Fund) by sending an average of 10 soldiers per year to Australia, USA, UK and Hawaii for attachment to develop their military skills.
- Continued to send TDS staff to Afghanistan, promoted training, external earnings and good diplomatic relations.

Planned for 2013/14 & beyond

- Continued support of Tonga Defence Services (Australian Defence Fund). Plan to send 11 troops to Australia for training in December and continue the following year.
- Continue to send TDS soldiers to Afghanistan and Solomon Islands (RAMSI),
- On-going patrol responsibilities provided by Tonga Navy vessels to avoid illegal entry from outside.

• **Improved Control of Cyber Crime**

2012/13

- Installed “cyber crime system” by the ITC funded by UN to strengthen the efficient and effective monitoring and investigation of internet and computer crimes; increasingly important with the improved telecom cable connection. The system is monitored closely by the Ministry of Information & Communication in conjunction with Ministry of Police.

Planned for 2013/14 & beyond

- Strengthen the capacities of local authorities, especially the Ministry of Police to investigate Internet and computer crimes committed electronically (cybercrime), raising public awareness, and preventing online crimes.
- Additional Budgetary Support for Justice and Attorney General’s Office
- Capacity Building and strengthening of Good Governance Commission

5.2 Recent Economic and Social Outcomes & Outlook

The preceding section looks at the outputs that Government (with the support of development partners) has been delivering and plans to deliver in the future. This current section turns to the outcomes that are supported by these outputs. These outcomes change more slowly and are dependent on the support from the government outputs plus the outputs of the rest of the Kingdom, and beyond. The section is a summary of the detailed analysis contained in Annex I.

5.2.1 GDP Outcomes

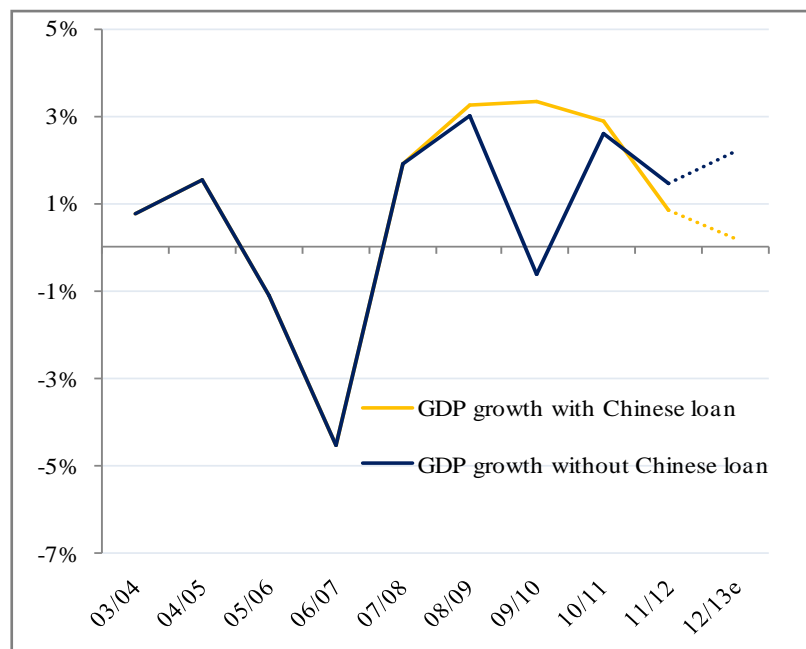
The economy has recorded strong average growth rate of 2.6% for four consecutive years, due in part to reconstruction of the Nuku'alofa central business district, large Chinese loan funded construction and other donor-funded aid projects.

As always anticipated, total growth slowed in 2011/12, to 0.8% with the slowing in the loan funded construction. It is estimated to further slow to 0.2% in 2012/13 with the complete ending of the two China funded construction loans. The estimated level of nominal GDP for 2011-12 was \$799.3 million, with GDP per capita standing at \$7,738.³

The objective of the loan funded construction was to raise growth faster than it would have been without this expenditure. This is what happened, during the years of the construction stimulus as shown in Figures 1: growth including the loan funded expenditure (yellow line) was consistently above growth excluding the loan funded expenditure (black line). Once the loan funding ends, however, the two growth rates must switch before returning to the same rate in subsequent years.⁴ Loan funding declined sharply over the last two years (2011/12 and 2012/13) which has resulted in a sharp slowdown in total growth. On the other hand,

Figure 1 - GDP Real Growth 2003/04 to 2012/13 (estimate) with & without Chinese loan for Central Business Area Reconstruction and Road Upgrading

Sources: Tonga Bureau of Statistics, Ministry of Finance and National Planning



³ There has been a slight revision to recent GDP data particularly on the construction sector as a result of obtaining and using of unit record tax data and updated data and improvements in deflators. This has tended to result in less variability in the GDP growth rate over the period of the loan, although the total growth impact remains much the same. The previously published growth rate for 2010-11 has been revised downwards to 2.9 percent, while the growth rate for 2009-10 was revised upwards from 2.7 percent to 3.3 percent.

⁴ This is a mathematical result from the way the calculations are made. During the years of the stimulus the level of GDP (with and without the loan expenditure) will diverge creating the difference in growth rates. Once the stimulus ends, the two levels will converge to the same level again. During this convergence, the rate of growth of GDP with the loan expenditure must (for at least one year) fall below the rate of growth of GDP without the loan expenditure. Once the affect of the loan expenditure has worked out of the system, the two growth rates will again be the same. This analysis does not take account of longer term potential impacts from the new investments. There is no evidence to suggest that the investment has had any growth promoting impacts yet. For example, there would need to be an sustainable increase in the number of cruise ships visiting the country.

growth without the loan funded construction has maintained a more stable level with estimated 1.4% for 2011/12, and 2.2% for 2012/13.

Overall growth is forecast to gradually strengthen over the next few years, however, it will not be possible to repeat the large boost from the heavy borrowing, which has left the country with a large debt overhang. The nature of the growth now taking place is also better balanced and more wide spread than the construction boom lead growth which was focused in Nuku'alofa, with much of the value added produced by foreign workers and company who were based in Tonga long enough to be included in GDP estimates.

Table 3: GDP Main Components (real growth rates)

Real Growth Rates	07/08	08/09	09/10	10/11	11/12	12/13e	13/14e	14/15e
Primary Sector	-5.3%	-1.4%	0.5%	2.0%	0.5%	0.3%	0.7%	0.9%
Secondary Sector	0.7%	12.9%	11.6%	5.5%	1.2%	-4.4%	2.2%	2.3%
Tertiary Sector	4.1%	0.8%	1.0%	1.8%	0.5%	1.1%	0.3%	0.8%
GDP	1.9%	3.2%	3.3%	2.9%	0.8%	0.2%	1.0%	1.3%

e - preliminary estimates

Sources: Tonga Bureau of Statistics, Ministry of Finance & National Planning

The tertiary sector remains the large sector at 60% of GDP. The Secondary Sector at slightly over 20% of GDP slightly outstrips the Primary Sector at just under 20%.

Growth in the primary sector is anticipated to remain moderate, falling to 0.3% in 2012/13, based on activity in the following sub-sectors:

Agriculture growth is slowing (0.6%) as the level of production and export for squash and other produce is maintained but there are no major new areas of activity. Going forward further gradual growth is anticipated.

A sharp further fall in **forestry** growth, at negative 30% due to the end of sandalwood exports, and the Tonga Village Network Upgrade which purchased power poles from Tonga Timber Ltd. The sector is anticipated to stabilize over the next few years.

Fisheries growth is expected to pick up to 4.5% after last year's crash, driven by over exploitation of sea cucumber stocks. Growth is being driven by a doubling in seaweed production, and large increase in the number of registered foreign tuna boats exporting tuna. Growth is anticipated to continue at more subdued rates over the next few years.

Growth in the secondary sector is estimated to be negative 4.4% in 2012/13, based on activity in the following sub-sectors:

Construction is estimated to plunge negative 9% with the end of the construction stimulus, but pick up again in future years with a stream of new construction projects including large school renovations, new government offices, energy projects, runway upgrades and start of construction for the Pacific Games. **Quarrying and mining** will also fall, by 5%, with the end of the road projects, then remain moderate into future years.

Electricity and Water is estimated to grow at 2%, with continued improvements in water and electricity supplies. **Manufacturing** will maintain 1% growth with further expansion in coconut oil exports, and the reactivation of the local brewery. Slow but steady growth is anticipated in the following years.

The tertiary sector is anticipated to grow at 1.1% in 2012/13, based on activity in the following sub-sectors:

Wholesale and retail trade is expected to grow 0.7% and strengthen slowly in the following year with the improvement in overall growth, and the associated improvement in remittances, with more being directed in the form of goods through the retail sector. **Hotels & Restaurants** is anticipated to grow at 2% with the improvement in tourism tourist⁵ air arrivals and tourism receipts. With the establishment of the Tonga Tourism Authority, along with the general pick up in visitors within the Pacific, further growth is anticipated in future years. This will be supported by the reconstruction of the International Dateline Hotel.

Transport and Communication is estimated to grow at a strong 3.8% driven by expansion in telecommunication and related services. Further strong future growth is likely to be driven by the new submarine cable boosting capacity. International and domestic shipping services remain strong despite some recent changes in ownership of a shipping company. Road transportation remains strong, on the back of improved roads. The uncertainties in the domestic airline industry remain, however, it is anticipated that these will gradually be solved as the number of planes, available to the new domestic airline, increases.

Continued slow banking sector activity is expected to limit growth in the **financial intermediation** sector to 0.3%. **Public Administration and Services** (including government funded education and health) is expected to grow at 0.6% in 2012/13. The need to maintain fiscal consolidation is likely to keep growth flat for the next few years. The private **education, health and social work** sector is estimated to grow 8.4% with the continued expansion of non-government education. The development of new clinics will also help to keep growth going in the following years. The expansion in social welfare to the elderly and disabled will help support growth in the social services sectors. The remaining minor sectors are not anticipated to have much impact on growth.

5.2.2 Fiscal and Debt Outcomes

Government's Fiscal⁶ position declined with the global slowdown and fall in remittances putting downward pressure on government receipts which fell over 14% in real terms between 2010/11 and 2011/12. This fall was despite the loan funded growth in GDP, because all imports and activity by the foreign workers and company are tax free, as is standard for foreign development assistance. Government has been successful in negotiating substantial budget support during these, and subsequent, years to avoid a large drag on GDP that would have come from government having to reduce expenditure in face of the external slow down. Despite this budget support, recurrent payments (excluding debt servicing⁷) still had to be cut nearly 15% in real terms, during the same two years (2010/11-2011/12). Without budget support government would have had to cut expenditure by a further 15% or more in real terms; however, with budget support it was possible to rebuild cash balances from a crisis level of \$1.9m in 2009/10 to a healthy \$33.7m in 2011/12 (see green bars in Figures yy below). This is the desired level of about 2 months' payments; which is considered prudent.

The fiscal conditions in 2012/13, however, are more varied. A shortfall in budget support of \$10m resulted in total receipts falling over 10%. On the other hand, domestic receipts showed a robust increase of 4.5% in real terms reflecting the underlying growth in the economy (excluding the impact of the loan funded expenditure) and a number of one off revenue payments.

⁵ Separate Tourism GDP accounts are not yet estimated in Tonga, so the impacts of tourism is distributed across several services sectors including hotels and travel.

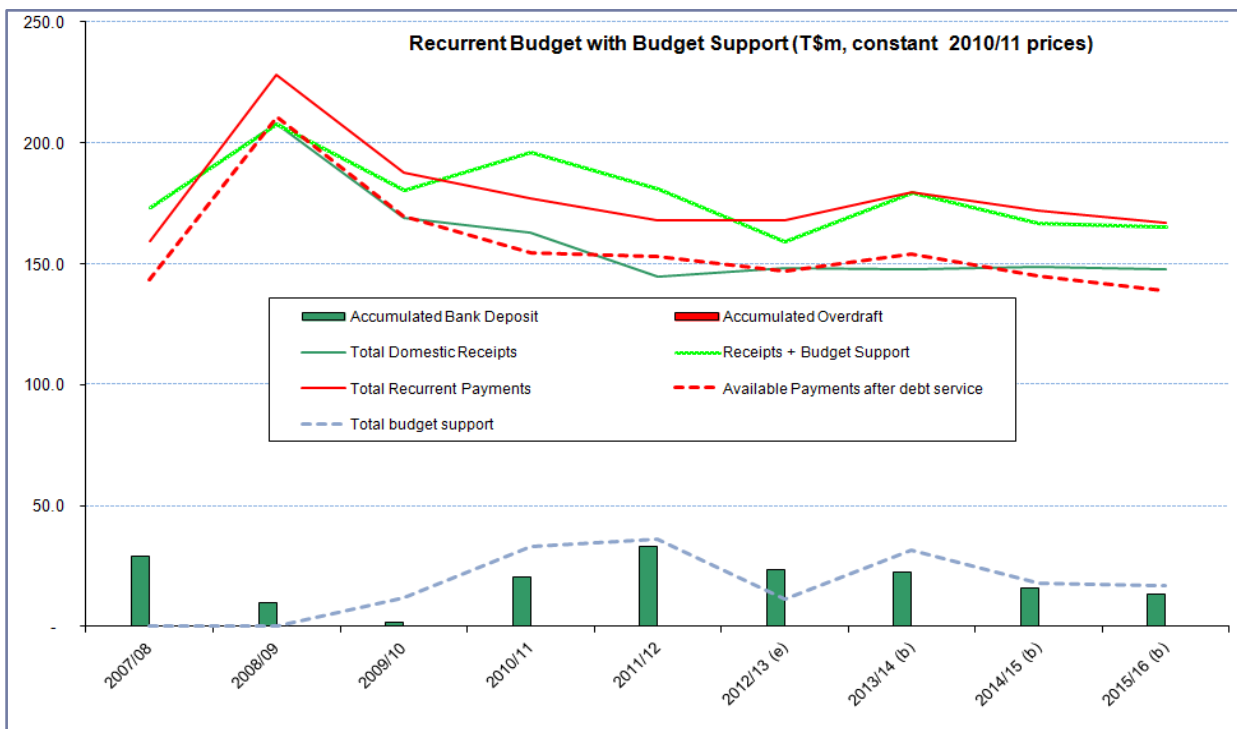
⁶ This section is focusing on government receipts (basically revenue plus repaid on-lent loans) and payments (basically expenditure plus repayment of government debt). Receipts and payments matter for governments overall cash balance, while revenue and payments matter for the GFS accounts.

⁷ This consists of repayment of interest and principle on domestic and foreign loans.

Budgeted debt servicing was up some 25%, in 2012/13, and a supplementary of about \$4m was required to meet new expenditure. Total payments thus rose by 3.3% in real terms. But despite the pressure for new expenditure, it has been possible to restrict the increase in payments (without debt service) to a real increase of 0.7% in 2012/13. Compared to a balanced budget for 2012/13, the outturn is estimated to be a deficit of \$5.7m which is still less than the full impact of the lost budget support. This will leave recurrent cash balances (available to fund recurrent payments) at \$28m which is nearly equal to the two month's coverage of expenditure considered prudent. This still leaves limit scope to cover any further shortfalls in funding or other emergency.

Figure 2: Fiscal Performance in Constant Prices 2007-08 to 2015-16

Source: Ministry of Finance & National Planning



Domestic revenue is anticipated to continue to grow in nominal terms but slower than inflation resulting in a 2% decline in real terms, as government avoids placing new pressure on businesses and consumers by raising fees and charges in line with inflation. A number of once off revenue increases in 2012/13 will also not take place again in 2013/14. A big jump in budget support, from \$11.8m to \$35.6m is in part due to a small catch up in budget support that should originally have been received in 2012/13. Most recent indications are that going forward budget support may become less available. A further 25% jump in debt servicing to \$27.7m has further limited space for new domestically funded initiatives in 2013/14. It has been possible, however, to budget a real increase of nearly 5% to address urgent demands. This will result in a balanced budget, leaving the consolidated fund constant.

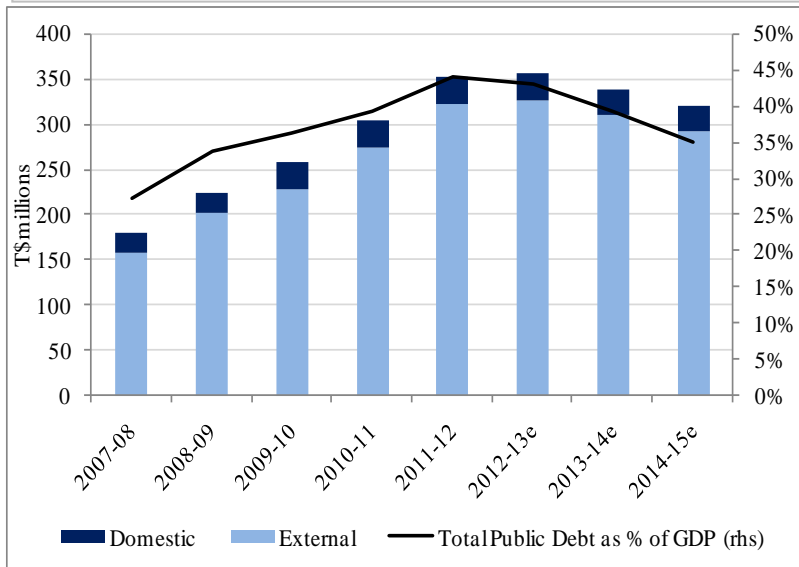
Details for the outer two years are only broad and require further working on; it is anticipated that next year the three years of the MTBF will be developed in more detail. Further significant growth in debt repayments, and the need to avoid taxing the public too much, and potentially weaker levels of budget support, means that non-debt payments are likely to have to contract in real terms. This decline in non-debt payments (in real terms) is shown by the dotted red line in Figure 2. Looking further ahead, budget support is going to continue to be needed; however, as our debt

position improves the levels of such support are likely to continue to contract. This is why continued vigilance and prudent budget must stay the center piece of government’s fiscal policy.

The **excess debt** continues to dominate government finances. Government maintains its no new borrowing policy as debt remains above the 40% of GDP threshold. Negotiations continue with key lenders to find options for easing this burden (including options for rescheduling repayments or debt forgiveness), but so far no new arrangements have been identified.

Figure 3: Total Public Debt to GDP as at 30 June 2013

Source: Ministry of Finance & National Planning



Total public debt at 30 June 2013 is estimated at \$355.0 m (43% of GDP). **External debt** is estimated at \$325.5m (39% of GDP) of which 64% is owed to Chinese EXIM, 19% to Asian Development Bank (ADB), 12% to the World Bank (IDA). Total **Domestic debt**, at 30 June 2013, is estimated at \$29.5m (4% of GDP), consisting only of Government bonds. These are held by Financial Institutions (66%); Retirement Fund (17%) and Individuals (14%).

With the full drawdown of the two Chinese loans, no further increase in debt is anticipated, other than from the depreciation of the Pa’anga against the foreign currencies in which the external debt is valued. Figure 3 shows the topping off of debt in total terms and as a percentage of GDP.

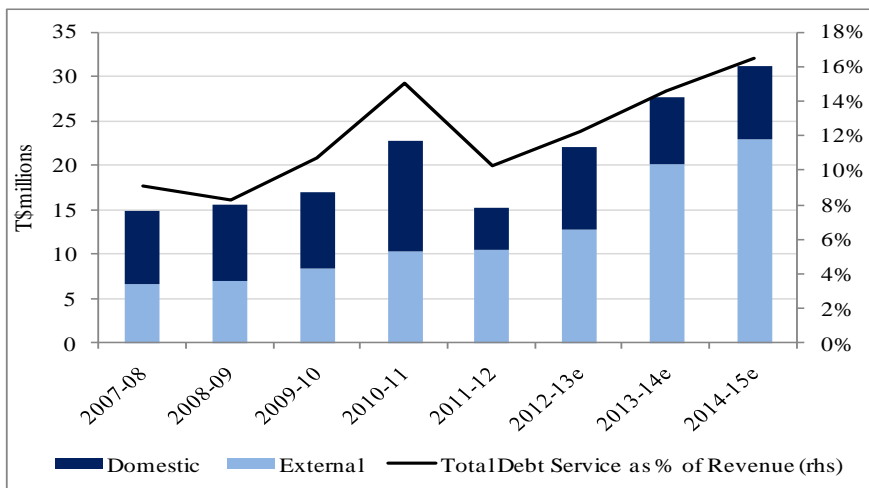


Figure 4: Total Public Debt Service (TOP\$m) FY’s 2007/08 - 2014/15

Source: Ministry of Finance & National Planning

Total debt service⁸ for 2012/13, is estimated at \$20.3m (about 2% of GDP). There are no public debt payment arrears anticipated. Debt service will rise significantly in future years with the interest

⁸ The figure in this section is smaller than that shown the Budget. The Budget figure includes a number of other payments which are not covered in this section. This difference is explained in more detail in the debt section of Annex I.

and repayment of the two Chinese loans. External debt service will jump a further \$9.1m in 2013/14. This is shown in the following figure.

Total on-lent debt, at 30 June 2013, due to Government from various public and other enterprises is estimated at \$63.4m (8% of GDP and 19% of total external loans). The main sub-borrowers are Janfull IDH Ltd. at \$10.7m (17%); Tungi Colonnade at \$16.6m (26%); OG Sanft Ltd. at \$10.3m (16%); MF Taumoepeau Ltd. at \$7.2m (11.3%); and City Assets at \$6.8m (10.7%) for the external loans from EXIM China and also loan to Royco Amalgamated Co. Ltd. at \$2.2m (6%). The above sub-borrowers are under Phase I of the Nuku'alofa CBD Reconstruction loan signed in December 2010. Sub-borrowers of Phase II include Tungi Arcade and City Assets.

Total debt service for on-lent loan repayments due for 2012/13, is \$0.96m. The total on-lent loan payment arrears are estimated at \$14.3m, for loans due from Janfull at \$8.4m (59%) and Seastar at \$5.9m (41%). Total guaranteed debt, at 30 June 2013, is estimated at \$0.15m. This is for bonds issued by TDB.

5.2.3 Foreign Reserves and Balance of Payments Outcomes⁹

Gross official foreign reserves increased by 12 per cent over the year to February, to \$258.0 million, equivalent to 9.1 months of imports, well in excess of the benchmark of 3 to 4 months. Despite the increase in external debt repayment, reserves are anticipated to remain well above this benchmark level for the next few years.

Imports as measured by the banks' overseas exchange transactions (OET) have returned to 2010 levels. Tonga's official trade data, however, shows a continued increase. This difference is probably due to changes in the structure of the foreign exchange market, with Tongans now making more overseas payments through price-competitive foreign exchange dealers. The NRBT is investigating ways to improve the data collection.

Over the last year there has been little change in the level of **cash remittances**, at a little over \$100m, or about 10% of gross national disposable income. This is the lowest on record, from the peak of over 30%. Large **in-kind flows of remittances** are not captured by this data. Remittances have been recovering in some other countries. However, the changing use of foreign exchange dealers as the route for transferring remittances suggest that there is under reporting of gross remittances. The work by the NRBT hopes to help address this issue.

Export proceeds grew by 27% to almost \$10 million, over the six months to February. Export proceeds from agriculture rose by 14 per cent, to \$4.3 million, and for fish by 14 per cent also, to \$1 million. Proceeds from other marine exports nearly doubled to \$1.9 million, mostly through a pick-up in coral and sea-weed proceeds.

The **overall balance of payments** (in OET terms) recorded a surplus of \$27.4 million, compared with a surplus of \$40.2 million over the year ended August 2012.

5.2.4 Monetary Outcomes¹⁰

Headline **inflation** has fallen significantly from 9.7% in May 2011 to 0.8% in March 2013. On average, the annual inflation rate as of March 2013 reached 1% compared to 3.3% in 2011/12. The fall in world oil prices helped contribute to the fall in imported inflation.

⁹ Source of data for this section is the NRBT.

¹⁰ Source of data for this section is the NRBT.

Liquidity in the banking system continued to rise to \$139.7 million in February 2013. This was underpinned by a net increase in foreign reserves, which the NRBT decided to leave in the banking system to encourage low interest rates and higher lending. Related to GDP and the size of the banks this level of liquidity is high.

Private sector credit growth remains negative, but falling less rapidly than a year ago. New sources of lending are available from outside of the banking system from the Retirement Fund Board to its members; and the microfinance, South Pacific Business Development.

Banks continue with their tight **lending criteria** than pre-crisis. Non-performing loans, as share of total loans, has stabilized at a little over 15%. At the end of February 2013, lending to the household sector accounted for 58% of total private sector credit (mostly for housing), with nearly all of the rest to the business sector.

To help reduce **interest rates** further, the NRBT removed all interest payments on banks' Exchange Settlement Accounts in November 2012. Some banks have offered loans at lower rates or longer terms. Monetary policy remains focused on supporting a pick-up in credit growth. There are some signs of banks becoming less risk adverse. Overall growth in total banking system is likely to be flat or slightly positive over the next year.

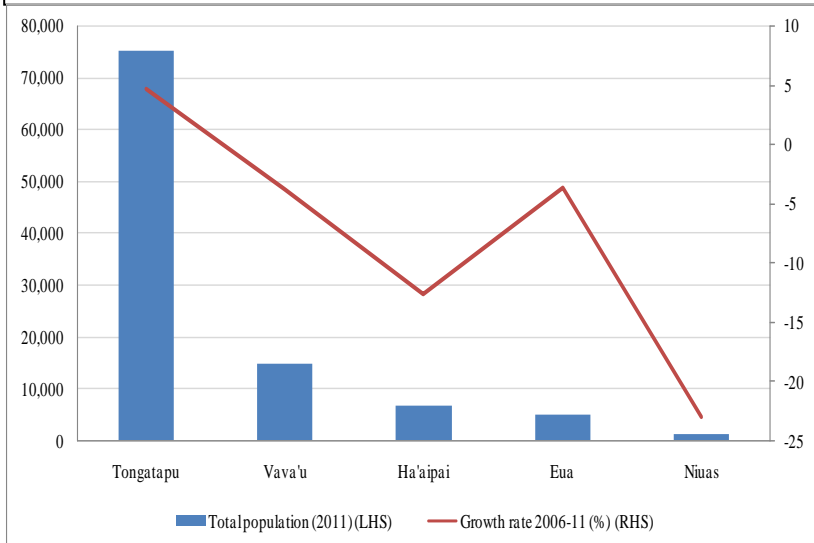
5.2.5 Social and Community Outcomes

Despite progresses against most **MDG indicators**, there are three lagging areas: related to alleviation of poverty, gender equity and health. To help address these lagging areas, government has established the MDG Acceleration Framework (MAF). MAF will focus on the three lagging indicators through the lens of the health MDG since the country is facing a national disaster from **Non Communicable Diseases (NCDs)**.

Government provides nearly all the **health services**¹¹ in the country. Health expenditure is running at over \$200 per capita, but this can have little impact on NCDs if people do not address their lifestyles: more balanced diet and increase physical activity in particular.

The NCD crisis along with rising **infant mortality** rate is cutting life expectancy. Between the period 2001-2004 and 2005-09, **life expectancy** for males dropped from 69 to 65 years and for females from 72 to 69 years.

Figure 5: Population by Island Group in 2011 population growth between 2006 and 2011



¹¹ All Health statistics come from the Ministry of Health

Both Government and the private sector are major suppliers of education¹². Over the period 2010 to 2012 there has been a 2% increase in the number of children going to **primary school** from 16,848 to 17,182. For **secondary** there has been little change in the total number of students (about 14,800).

There has been a shift in the share of students going to non-government schools. This has been associated with an absolute decline in students attending government schools, of 2-3%. Government still educates about 85% of primary and one third of secondary students.

Slightly more **boys than girls** attend school. The ratio is about 110 boys for every 100 girls at primary falling to 104 boys per 100 girls at secondary, though some schools are single sex schools.

Primary teachers for both have increased over this period. Non-government primary schools have about 19 **students per teacher** compared to just fewer than 22 for government schools. The number of teachers in government secondary schools has dropped, while the number has expanded in non-government schools. There has been little change in the student-teacher ratio, with non-government having about 13 students per teacher, well ahead of government schools with about 19.

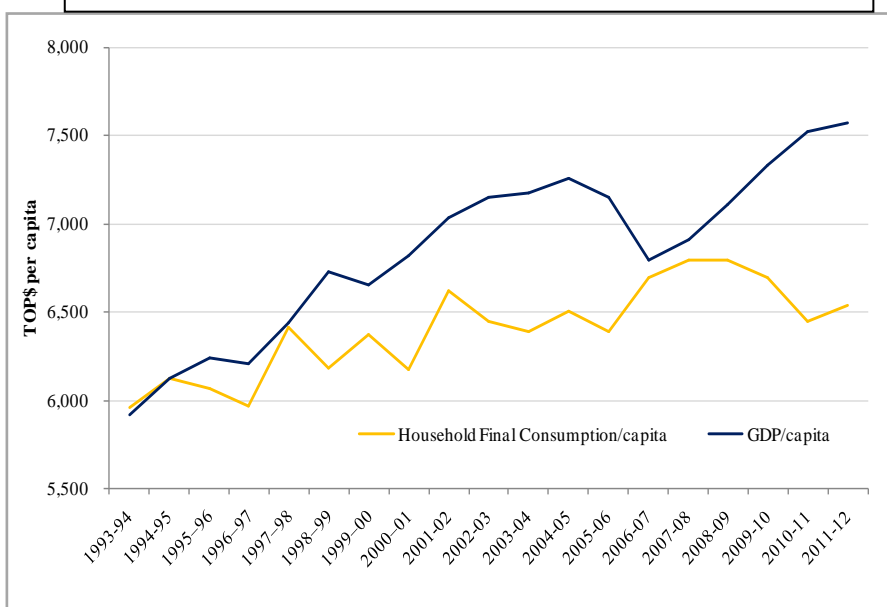
The preliminary analysis of the 2011 Populations Census are now available, this provides the following information. The **population** of Tonga grew at an average annual rate of 0.2% from 101,911 (2006 Census) to 103,036 (2011 Census). Despite a **total fertility** of about 3.8, the small actual increase reflects the large and continued net out **migration** from the Kingdom. Within the Kingdom there is a steady movement from outer islands to Tongatapu which is perceived to have more opportunities (see figure 5). This movement has also been associated with an annual growth in urban population of 0.5% and rural population of 0.2%.

These movements have consequences for where to build infrastructure and provide services. It also means that land on outer islands is increasingly being left idle while there is more pressure on land in Tongatapu, in particular in the urban areas.

5.2.6 Poverty Reduction and Social Protection Outcomes

Figure 6: GDP and Household Final Consumption per capita 1993/94 to 2011/12 (2010/2011 prices)

Source: Statistics Department



Detailed **poverty data** is only collected every five years. The last time was 2009, which showed worsening poverty, but since it took place during the depth of the Global Financial Crisis (GFC), the recent GDP growth may have helped improved conditions. Figure 6 shows the increase in **GDP/capita**. GDP, however, is not

¹² All Education statistics come from the Ministry of Education and Training

intended as a measure of welfare. The recent growth in GDP was investment driven. After a continuous decline since 2009/10, **household final consumption per capita** (a better measure) in 2011/12 picked up. This supports the observation that underlying growth is holding up.

5.3 Key Risks and Challenges

The planned outputs are based on sensible planning and possible levels of funding. While much appreciated, the support from our Development Partners is not always easy to predict. All plans, however, are based on assumptions of the risks we face. Sometimes we can plan to mitigate for them, sometimes we must just stay on watch and be ready to change our plans in face of changing circumstances. This section gives a short outline of some of the major risks and challenges that face the success of our corporate plans and budget:

- Tonga is a small isolated collection of islands in the middle of the Pacific Ocean at risk from national disasters and climate change
- The global economy, while showing some signs of recovery, remains potentially weak which could result in a drop in tourism arrivals, remittances and opportunities for our limited exports
- Excess debt from heavy borrowing which has had limited impact on improving productivity and future growth
- Our private sector is small, facing a small fragmented market, with limited entrepreneurial, managerial and technical skills
- The banking system is still recovering from the burden of too many non-performing loans and is reluctant to lend even if the private sector identifies potentially viable investments
- There are many other similar tourism destinations which are better developed and less distant from major markets
- Emigration allows individuals and families to find new livelihoods, but it is often the most skilled who leave resulting in government and business having to continue to train and build capacity
- Overseas worker schemes generate short term income earning opportunities but also put pressure on family stability
- Migration from outer islands to Tongatapu contributing to social tension, imbalance in land use, changing demands for infrastructure
- Changing diets and lifestyles are resulting in an epidemic of non-communicable disease which is starting to strike down many people in the most productive part of their life – apart from the social disruption this causes, it places further pressure on retaining sufficient skilled staff
- Tongan culture has many strengths, but also some traditional attitudes towards authority and taking responsibility which undermine performance of staff both in government and business
- Traditional indications of respect, obligation, reciprocity and gift giving, while crucial for social solidarity, can, within a more modern structure, too easily slip into modern corruption
- Tensions are developing as Tonga faces, like many countries, the challenge of integrating new residents and nationals that come from varied and different backgrounds
- Many traditional relations are also breaking down (common to this stage of a countries development), this results in some people testing the limits to the new systems – which may

not always be well defined – and some, like the elderly and vulnerable, not receiving the support that used to be provided when the society was more homogeneous

- Major political changes have been introduced, in recent years, and the public, communities, churches, businesses, public servants, politicians and traditional leaders are having to learn how to engage constructively within this evolving environment – including establishing realistic levels for government service delivery
- The revenue base is small, and government finances are heavily dependent on budget support to supplement the recurrent budget, and aid funding to finance nearly all investment and most reform projects, including human resources development and supplementary technical assistance to fill important gaps – this dependency is likely to continue for some time
- Over 54% is spent on staff costs (target 45%) and many ministries spend 70-80% of their budget on staff – this makes it nearly impossible to move funds from lower to higher priority areas

6 GOVERNMENT BUDGET: FUNDING THE OUTPUTS

6.1 Priority Focus for Budget

The government has a clear plan to build a growing economy in order to create more jobs and increase incomes, in the face of ongoing economic uncertainty in the world. Based on the Review of Support to the TSDF and other analysis for the Budget Statement the MTBF 2013/14 to 2015/16 and its associated Corporate Plans will continue to address the Government's nine outcome objectives set out in the TSDF, but will continue to focus on the most priority areas:

- i. Improve Private Sector Development;
- ii. Improve Community Development;
- iii. Improve Productivity and Effectiveness of Public Sector;
- iv. Maintain Sustainable Fiscal Consolidation.

These priority areas are consistent with the priorities in the TSDF. As government's ongoing policy, provision towards human development and social protection such as poverty, health and education is encouraged through donor contributions. Even within these four core areas all expenditure is not equal. Careful testing of proposals in the corporate plans, both for recurrent operations and maintenance, and for new aid funded projects, will be required. Serious consideration will be given to some areas, such as the Ombudsman and Anti-Corruption Commission, which are desirable for improved overall governance. Government recognizes that they are important for business confidence and the welfare of communities.

6.1.1 Improve Private Sector Development

The priority concentrates on increasing growth in agriculture, fisheries, and tourism through private sector development though any initiatives that will help other sectors should also be considered. Work will continue on setting the framework for sustainable development of Tonga's potential seabed minerals, which ensures that Tonga gets a fair share of the returns. Specific work will include the following activities:

- a. build and strengthen the government-private sector dialogue to address constraints to growth.
- b. improve the use of the Agricultural Market Fund including identifying more sustainable management options.
- c. review the operations of MAFFF under the Agriculture and Fisheries Sector Plans to ensure that the ministry is directing its programmes to better support these sectors.
- d. improve enforcement and management of marine resources to ensure that they provide sustainable long term development, rather than short bursts of activity followed by a long term slump while the stocks recover.
- e. ensure better returns from the licensing of foreign fishing vessels and the use of local business and workers for greater value added.
- f. complete the establishment of the Tonga Tourism Authority (TTA), the preparation of the National Tourism Sector plan, and ensure improvement of the tourism sector.
- g. expedite outstanding work in Public Enterprises such as finding viable options for renovating and managing the International Dateline Hotel.

- h. continue to negotiate with the private sector for more cost effective delivery of fuel while introducing viable forms of alternative energy.
- i. continue to reduce the costs of regulation, licensing to ensure that all ministries/agencies are working consistently.
- j. continue negotiations to improve trade access to Tonga's traditional and new markets;
- k. provide stimulus package to communities as outlined in the next section which has a particular focus on development of economic activities.
- l. establishment of a private sector development fund for business in fisheries, tourism and manufacturing in addition to the existing support to agriculture.
- m. removal of duty and consumption tax on fisheries capital goods to bring them into line with the exemptions provided to agriculture.

6.1.2 Improve Community Development

While the first priority has to be, promote growth in income, employment and government revenue, government is mindful of also addressing the distributional consequences of such growth. It is the developmental priority of the government that all parts of the community embrace and enjoy equitable, accessible and sustainable economic and social opportunities across the Kingdom.

The uneven impact of economic growth and rising price has made conditions more difficult for many households. While the quality of data is poor, there are indications of increased hardship and poverty particularly among low income families. The initiatives to increase assistance to communities will include the following activities:

- a. road maintenance work in village communities that will be piloted by the World Bank by training the villagers to maintain the roads.
- b. youth groups/community kava club to clean up the communities and Nuku'alofa, including the waterfront, in order to keep the environment clean and attractive. This is also part of the development of tourism.
- c. a concessionary microfinance programme using grant from the ADB will be implemented through the Tonga Development Bank.
- d. a continuation of the provision of direct cash grant to the 17 electoral constituencies, to assist community development.
- e. the ADB project on Social Protection of the Vulnerable in the Pacific (Tonga) pilot working with the NGOs on: care services for the elderly; early intervention services to children with disabilities and job placement services for people with disabilities.
- f. establishment of District Offices to accommodate the Members of Parliament, District and Town offices to facilitate the economic and social development of the communities.
- g. the continuation of the Social Welfare Scheme for the elderly introduced during 2012/2013 to ensure reduction and poverty and hardship, and the maintenance of their welfare and dignity.
- h. continue to negotiate for a greater range of options for overseas employment schemes, encouraging higher income jobs, while taking note of the impact this may have on domestic growth
- i. ensure that government policies work to maintain and strengthen the links with overseas Tongans, to ensure the continuation of family support links, and the increase the likelihood of them spending time in Tonga to help with community and business development

- j. continue to support disadvantaged households from impact of flooding and natural disasters through provision of appropriate infrastructures and safekeeping of affected families
- k. provide transport to assist students in rural areas to get to school.

6.1.3 Improve Productivity and Effectiveness of Public Sector

Public sector development remains a priority given the large amount of resources used by government and the range of services for which it is responsible. It also provides a large proportion of formal sector employment so has a significant influence on how the society and economy perform. The government is committed to getting better results and better value for money from the public service. Delivering public service within tight financial constraints has become an ongoing challenge for the government. Government remains mindful of the careful balance required to ensure improved more cost effective service delivery, while also limiting the negative impacts of changing the employment opportunities in the public sector.

The government has undergone a programme of restructuring which resulted in the merging of a number of ministries, and adjustment to the number of agencies, effective from the start of the 2012/2013 fiscal year. This initiative was intended to improve the alignment of government functions, and encourage streamlining of central functions such as corporate services. It was also expected to identify surplus staffing positions in the ministries/agencies and facilitate redeployment to those that require additional capacity for effective service delivery. This has had limited success, since most of the excess staff are related to administrative positions, while most ministries/agencies suffer shortages of professional staff. In the new budget, funding for all vacant posts will be pooled and managed by PSC, to encourage improved management of staffing costs and ensure that the most important posts are filled first,

Some fine tuning of functions between ministries/agencies continues into 2013/2014. The main focus of the enhanced corporate planning and budgeting relates to improving internal structures, systems, procedures and HR capacity, for better management and delivery by these ministries/agencies. While efficiencies are being identified, one of the key messages that continue to arise is the extent to which resources have been constrained and the impact they have on service delivery.

A number of areas for continued reform, as identified in the Report of the Working Group on Government Structural Reform (WGGSR), still remain to be addressed. All ministries/agencies are required to build on these in their corporate planning and budgeting to further identify productivity gains. Options include, but are not limited to:

- a. identification of functions that can be:
 - i. cut back or even closed down completely;
 - ii. integrated with similar functions either in the same ministry/agency or another one;
 - iii. hived off to a public enterprise, private sector, NGO to deliver by contract (this could also include cleaning, transport, security etc.).
- b. identify options for sharing with other ministries/agencies:
 - i. share office space;
 - ii. pooling services especially corporate services or 'buy in' such services from a larger ministry;
 - iii. pooling IT services is a particular area for consideration.
- c. centralized procurement of services:
 - i. government wide tendering for purchase of office supplies, fuel, phone and internet services etc;
 - ii. other options for bulk purchase.

Other reform programmes, in the Public and Financial Management (PFM) Roadmap, that aim at improving efficiency and deepening transparency and accountability include: strengthen procurement process; improve basic accounting and IT systems; and embed CP reforms. The IT network in Ministry of Finance and National Planning will be improved and roll out to line ministries/agencies continue. The further integration between the three year rolling MTBF and CP will continue. Close cooperation between the core ministries/agencies of government will ensure smooth linking of job descriptions to CPs, improved staff performance management system, and contracting of CEOs to help drive improved performance and delivery across all of government. It is this focus on evidence based monitoring of performance and the creation of appropriate incentives for public servants to improve their performance that is needed if the government is to make real progress to a more efficient, effective and affordable public service.

Public Enterprises reforms will also continue in areas such as: developing the commercial part of the Tonga Development Bank; renovation and new management of the International Dateline Hotel; and completion of Sea Star liquidation. Public Enterprises and other public sector entities laws and regulations (including the Tonga Development Act, National Reserve Bank Act, the National Retirement Benefits Act, the Financial Institution Act, Electricity Commission, etc) will be reviewed to ensure their relevance and appropriateness to the modern socio-economic development required of them. Improving the financial performance of PEs and other public sector entities has the potential to generate significant revenues that could be utilised to supplement government funding, and also help improve the delivery of their services which are a major input to an efficient private sector and community wellbeing.

6.1.4 Maintain Sustainable Fiscal Consolidation

The government will continue its fiscal consolidation strategy to:

- a. return public finances to a more sustainable position
- b. ensure we are able to meet international commitments, such as debt service obligations
- c. maintain core service delivery.

The fiscal consolidation is required in the short term to strengthen the long-term position of the budget and provide a buffer against an uncertain global economic outlook. It sends a strong message on the government's commitment to fiscal discipline.

6.2 Summary of 2013/2014 Budget Estimate funding the Outputs

This section provides a summary. Annex II provides a more detailed discussion of the various components of the budget including projects.

6.2.1 Government Financial Statistics (GFS)

The Budget Statement is presented on a GFS basis to meet international standards. GFS presentation combines all Government revenue and expenditure from different sources to ensure comprehensiveness. Expenditure and revenue associated with recurrent Government operations and donor projects are combined (although in-kind grant funding is not included in the current GFS format).

Table 4 : Revenue and Expenditure in GFS Format (cash, and in-kind loans T\$ millions)

	Actual 2011/12 (p)	Budget Estimate 2012/13	Est Outturn 2012/13	Budget Estimate 2013/14	Projection 2014/15	Projection 2015/16
Total Revenues and Grants	219.3	217.8	194.5	242.5	216.4	207.1
Total Revenues	144.4	149.3	150.8	156.5	164.2	170.6
Project Grants	37.9	46.0	32.0	50.3	31.8	15.9
Budget Support	37.1	22.5	11.8	35.7	20.4	20.6
Total Expenditure and Net Lending	241.5	220.7	202.5	227.2	203.4	187.5
Total Expenditure	232.4	220.2	202.5	226.7	203.0	187.3
Net lending	9.0	0.5	(0.0)	0.4	0.4	0.2
Total Budget Balance	(22.1)	(2.9)	(8.0)	15.3	13.0	19.6
Total Financing	22.1	2.9	8.0	(15.3)	(13.0)	(19.6)
External financing	41.2	(1.2)	1.9	(15.3)	(18.5)	(21.1)
Domestic Financing	(19.1)	4.1	6.1	(0.0)	5.4	1.5

Note: Budget Estimate 2012/13 includes a supplementary budget of \$4.1million

Source: Ministry of Finance and National Planning

Total expenditure and net lending will increase by \$24.7 million over 2012/2013 outturns. Salaries continue to account for a large percentage of expenditure, and spending increases will be made on subsidy payments, and new domestic initiatives such as the social welfare scheme, manufacturing fund, and the private sector marketing fund. Increased donor-funded expenditure on capital projects is also anticipated.

Total revenue and grants will increase by \$48.0 million from the 2012/2013 estimated outturn. This increase will be driven by a moderate increase in revenues, and a much more substantial increase in both project grants (\$18.3 million) and budget support (\$23.9 million). Total government revenue projected for 2013/2014 will reach \$156.5 million, an increase of \$5.7 million on the estimated 2012/2013 outturn.

On a GFS basis, Government is estimated to generate a total budget deficit of \$8.0 million for 2012/2013, and then shift to an estimated surplus of \$15.3 million in the 2013/2014 year. This large turnaround is primarily due to the final drawdown of the China EXIM Bank loan during 2012/2013, along with lower than anticipated receipts in the form of budget support and grants during 2012/13 and anticipated increases in budget support during 2013/2014 affecting government fund balances.

2013/14 will be the first year of principal repayments on the China EXIM reconstruction loan, with scheduled repayments of \$9.1 million to occur. These payments will continue during the two additional years of the outlook period. Principal repayments for the China EXIM roads loan are due to commence during the 2014/2015 fiscal year.

In-kind grant funded projects are not included in the earlier GFS standards. If they were included the net effect would be to increase total grants and total expenditure by the same amount leaving the balance and financing requirements unchanged. The total Expenditure and Grants would, however, be about three times greater. In-kind loans, and their expenditure, however, are included since they influence the Total Financing.

Box 1: Government Domestic Payments and Receipts

The Budget Statement is presented on a GFS basis to meet international standards. However, a key interest of government is the total funds under its direct control. Before the introduction of the integrated budget this was referred to as the Recurrent Budget. This treats loan repayments differently to the GFS. Repayment of debt is treated as “expenditure” and drawdown of loans as “revenue”, while in the GFS these are recorded under financing. Total Government controlled expenditure and revenue is thus better called payments and receipts to avoid confusion with the terms under the GFS.

Government Cash Payments and Receipts (Current \$ millions)

	Actual 2011/12 (p)	Budget Estimate 2012/13	Est Outturn 2012/13	Budget Estimate 2013/14	Projection 2014/15	Projection 2015/16
Total Payments	166.1	184.1	176.8	198.8	197.4	199.9
Wages and Salaries	85.2	95.9	97.2	98.9	99.5	100.5
Purchase of Goods and Service	22.1	25.0	22.8	22.6	21.5	21.7
Debt Management	15.9	23.7	21.0	31.2	34.7	36.8
Other	42.9	39.4	35.7	46.1	41.7	40.9
Total Receipts	185.1	180.0	171.2	198.8	191.9	198.5
Government Domestic Receipts	148.1	157.5	159.3	163.1	171.5	177.9
Budget Support	37.1	22.5	11.8	35.7	20.4	20.6

Source: Ministry of Finance and National Planning

NOTE: Budget Estimate 2012/13 includes a supplementary budget of \$4.1 million.

NOTE: Wages and Salaries of \$98.9 million includes all expenditure items under category 10 (Established Staff Expenses) a total of \$96.3 million and category 11 (Unestablished Staff Expenses) a total of \$2.7 million.

NOTE: Payments include expenditure plus repayment of debt, while Receipts include revenue, budget support and domestic loan drawdowns.

NOTE: Debt Management includes repayment of interest and principal on domestic and foreign loans, plus other minor items not included in debt service in the debt analysis. (see note on debt in Annex I)

Estimated payments during 2012/13 were lower than their original budget estimates. Receipts were also substantially short of the original estimate, primarily caused by a lower than anticipated inflow of budget support from the World Bank and non-receipt from the European Union. Total Government payments are expected to increase by \$22.0 million, or 12.4 percent, during 2013/14, with new donor-funded initiatives planned. Government is committed to a balanced cash budget during 2013/14.

6.2.2 Revenues and Grants

Tax revenue is expected to increase in 2013/14, with an increase of 3.1% (\$4.1 million), driven by increases in consumption tax collection (\$1.8 million), and other taxes. Trade tax revenue is also expected to increase by \$0.5 million.

Non-tax revenue is expected to increase in 2013/2014 by \$1.5 million or 7.9% from the 2012/2013 estimated outturn. This increase is mainly from Administrative Fees and Charges, high collection expected from school fees, registration fees and hire of machinery.

A large increase in project grants is estimated for 2013/2014, increasing by \$18.3 million over the 2012/2013 estimate. Australia, Asian Development Bank, New Zealand, and the European Union are the primary sources of grant assistance.

Major cash projects for 2013/2014 are: Tonga Education Sector Project 2 (TESP) (Pooled Funds – Aust & NZ); Tonga Police Development Program (TPDP) (Pooled Funds – Aust & NZ); Nuku'alofa Urban Development Sector Project (ADB); Global Climate Change Alliance Project; Tonga Health Support Programme (AusAid); Tonga Governance Strengthening Programme (AusAid), and the Construction of the Niuatoputapu Hospital (EU).

The sharp decline in budget support received in 2012/2013 was due to non-receipt of EU budget support, and a significant decline in budget support from World Bank. Budget support for 2013/2014 is expected to increase by \$23.9 million from the \$11.8m outturn 2012/2013, budget support is also expected from the Asian Development Bank, European Union and Papua New Guinea.

6.2.3 Expenditure and Net lending

The government's overall expenditure and net lending for 2013/2014, on a GFS basis, is made up of total expenditure of \$226.7 million and a net lending of \$0.4 million.

Total Capital expenditure in 2013/2014 will reach \$15.2 million, an increase of \$2.6 million from an estimated outturn of \$12.6 million in 2012/2013. With 2012/13 being the final year of capital expenditure related to the China EXIM loan, the overall increase in capital expenditure in 2013/14 will be driven by a substantial increase in donor-funded expenditure on equipment and buildings. Inclusion of in-kind projects would increase capital expenditure considerably.

6.2.4 Financing

The overall fiscal balance for 2013/2014 is an estimated surplus of \$15.3 million, which will be primarily used to meet the repayment obligations of the China EXIM loan. Domestically, the government intends to undertake \$6.0 million in bond issues in 2013/2014, which will involve financing rollover bonds scheduled to mature during the year.

7 CONCLUSION

In the last three years the Tonga Strategic Development Framework (TSDF) has set out the Government of Tonga's national vision and has charted a clear path to guide Tonga's development initiatives. This includes major restructuring and reform to create a stronger public service. The adoption, and gradual implementation, of the enhanced corporate planning and budgeting, within a medium term budget framework, is one of the major reform areas. A stronger public service is better able to support the progressive achievement of the vision of a just and progressive society for all Tongans.

Significant challenges remain, however. The Kingdom's public debt levels need to be brought down; the public service wage bill is crowding out critical operations and maintenance spending and limiting the capacity to fund investments from local funds while our cash reserves are declining; the civil service needs to be further rationalized; more private sector development is needed, and more jobs need to be created. We also need to continue to address the social challenges facing the people of Tonga so that the less fortunate and more vulnerable are not left behind.

The unplanned reduction in budget support for 2011/12 highlights our dependency on external support that cannot always be guaranteed. More prudent public financial management, while also pushing ahead with structural reforms to boost growth and development in the medium term, are essential if we are to continue to progress towards our Vision. This approach is consistent with the theme of this budget: **"Continuing to Create Opportunities by Building on Inclusive Sustainable Growth"**.

Given the above challenges, the 2013/14 budget was carefully designed based on realistic revenue forecasts, protecting essential service delivering, starting to address our high salary costs, and providing viable economic stimulus that can support the continued diversification of the economy to a more affordable, sustainable and inclusive growth.

May the 2013/14 budget inspire the Government and people of Tonga with the help and guidance of the Almighty God to work more diligently in collaboration with one another for the development and well being of all Tongans.

Annexes

8 ANNEX I: ECONOMIC & SOCIAL DEVELOPMENT OUTCOMES AND OUTLOOK

8.1 Global and Regional Development

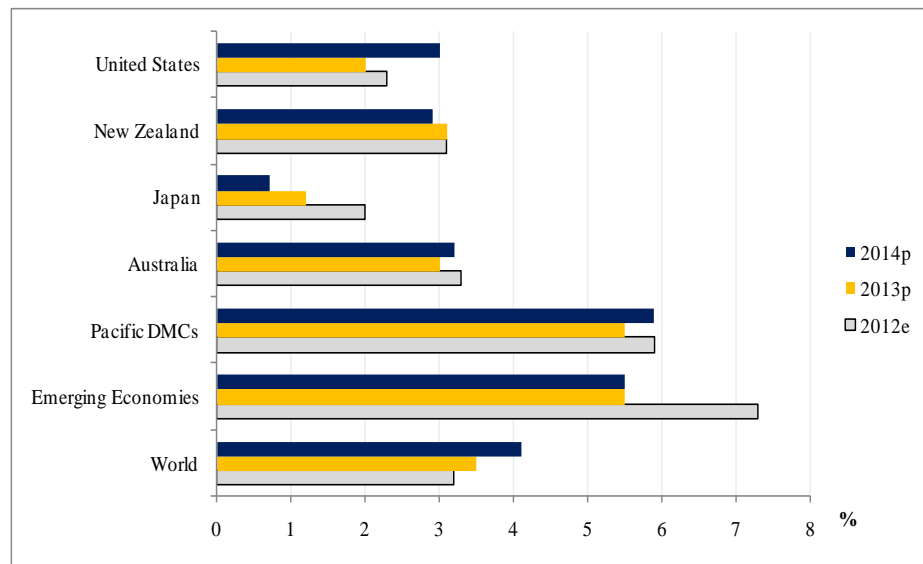
8.1.1 Higher growth rate in 2013

The prospects for world economic growth are expected to improve slightly in 2013, rising to 3.5% from 3.2% in 2012 (but still well below the 5% rate recorded in 2010), according to the International Monetary Fund's (IMF) latest World Economic Outlook Update (January 2013). The modest rise in growth is seen to be driven by projected accelerations in large developing economies such as Brazil, India, the People's Republic of China (PRC), and the Russian Federation. The United States' economy is projected to continue to grow in 2013, albeit at a slower pace compared to a year ago, supported by growth in private consumption. The Euro area is poised to enter its second consecutive year of economic contraction, although France and Germany will likely realize positive growth; however, the potential for more severe slow down remains for the Euro zone. Growth in Japan will be supported by another round of fiscal stimulus, as well as increased exports due to a weakening yen.

Figure 7: GDP growth - %, annual

DMC = developing member country, e = estimate, p = projection

Sources: International Monetary Fund 2013. World Economic Outlook Update (January 2013 and October 2012); and ADB estimates.



Monetary authorities in advanced economies have generally maintained accommodative policy stances, keeping policy interest rates at record lows and purchasing financial assets. The US Federal Reserve Bank has stated its intention to keep the federal funds rate low until the unemployment rate falls below 6.5% and longer-term inflation rises to 2.5%. The Bank of Japan has adopted a 2% inflation target and will pursue open-ended purchases of financial assets starting in 2014.

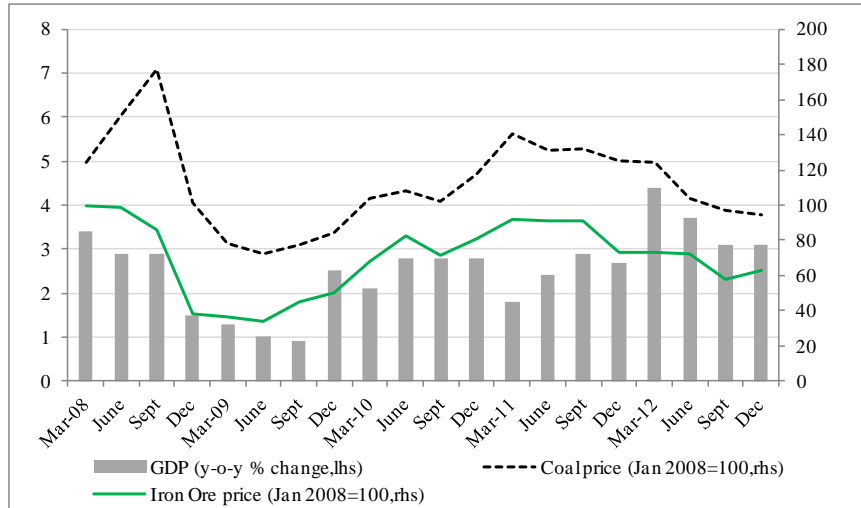
Crude oil prices in 2012 were 20% lower than the peak reached in July 2008. Other commodity prices similarly fell from 2011 highs, most notably coconut oil (35.8%, year-on-year) and logs (7.7%). The IMF expects crude oil prices to decline by about 4% over the next 2 years, while nonfuel commodity prices are projected to fall by around 3%, driven by improving global supply conditions.

The Australian economy continues to grow, supported by expansion of the mining sector, although a slowdown is noticeable from its peak in the March 2012 quarter. The price of iron ore, which fell by more than 20% in 2012, appears to have bottomed out and started to rise again in the December 2012 quarter, in tandem with stronger PRC economic growth during the same period.

Figure 8: Australian GDP and commodity export prices (quarterly)

GDP = gross domestic products, lhs= left hand scale, rhs= right hand scale, y-o-y = year-on-year.

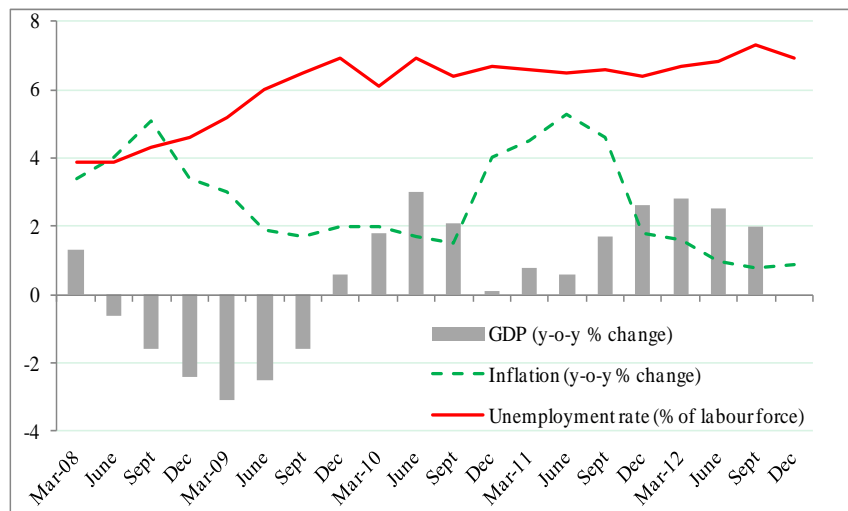
Sources: Australian Bureau of Statistics, and World Bank Community Price Data (Pink Sheet). ADB (2013) Pacific Economic Monitor: Growth Outlook.



The New Zealand economy has also seen decelerating growth after peaking during the March 2012 quarter. The unemployment rate reached 7.3% in the September 2012 quarter, which is above the high recorded during the recent economic recession. Unemployment among Pacific islanders is more than twice the national average. Growth prospects for 2013 will be driven by post-earthquake reconstruction, export demand, and the degree of fiscal consolidation.

Figure 9: New Zealand economic indicators (quarterly)

GDP= Gross Domestic Product; y-o-y% change; lhs= left hand scale; rhs = right hand scale; Source: Statistics New Zealand



The value of Pacific imports from Australia increased by 18.7% in 2012 compared with 2011, as Papua New Guinea (PNG) increased imports of machinery and transport equipment associated with its liquefied natural gas construction project. During the same period, the value of exports to Australia decreased by 5% (y-o-y). This was also due largely to PNG, whose exports (mostly of gold and petroleum) decreased by 6.5% in 2012, possibly because of the appreciation of the kina against the Australian dollar. These developments caused the Pacific's trade surplus with Australia to fall by 71.7% (y-o-y) to A\$295 million in 2012.

Figure 10: Pacific Trade with Australia (A\$ million, annual)

Source: Australia Bureau of Statistics

The value of Pacific exports to New Zealand increased by 2.5% in 2012 compared with 2011, supported by greater exports from Nauru (phosphate) and PNG (coffee and food products). Fiji’s exports of agricultural products to New Zealand fell by 11% during the same period, partly reflecting lower sugar production. Pacific imports from New Zealand fell by 8% in 2012, largely because the Republic of the Marshall Islands’ one-off importation of a ship inflated 2011 numbers. The Pacific’s trade deficit with New Zealand widened by 9.2% (y- o-y) to NZ\$845.2 million in 2012.

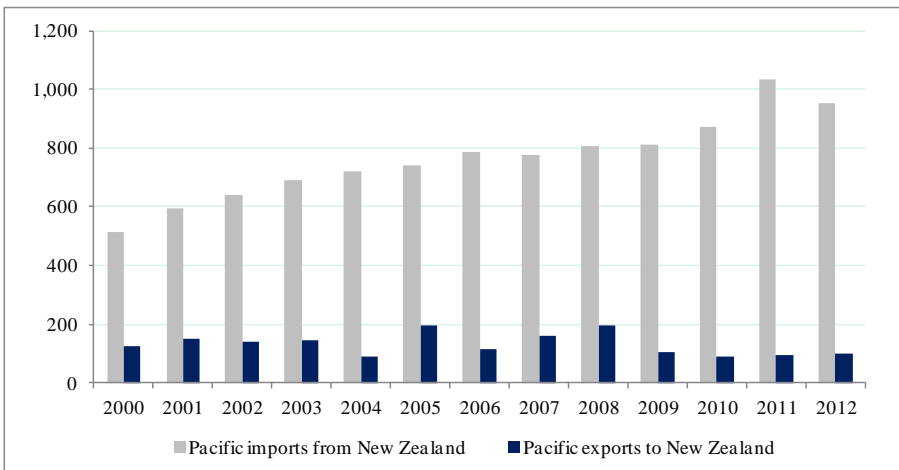
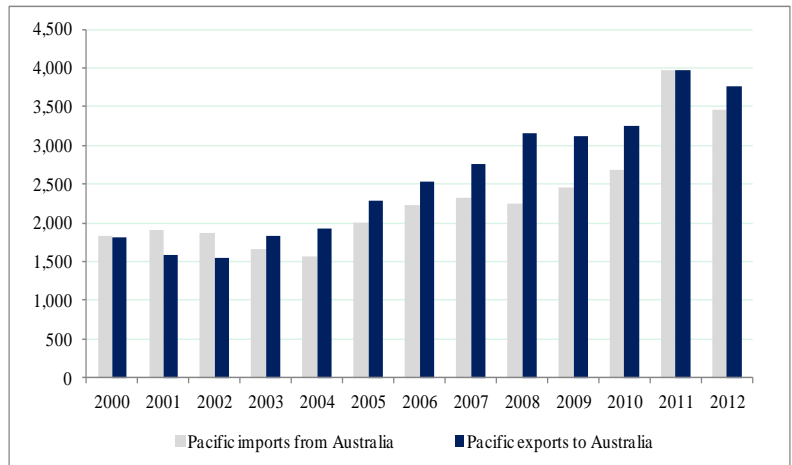


Figure 11: Pacific Trade with New Zealand

Source: Statistics New Zealand

Pacific fuel imports from Singapore grew by 3.1% in 2012 compared to 2011—a significant slowdown from the

12.2% growth (y-o-y) realized in the previous year. Diesel continued to dominate Pacific fuel trade with Singapore, but import volumes remained largely unchanged from 2011. Less demand in Fiji and PNG was offset by higher import growth elsewhere (see table 1).

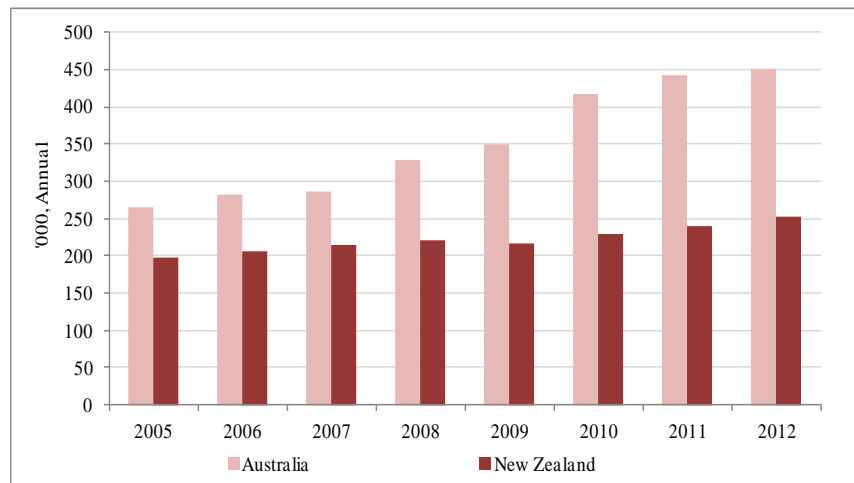
8.1.2 Tourism performances in the Pacific

Tourism to most Pacific destinations remained robust in 2012, building on historic highs set during the previous year. The continuing strength of outbound tourism from Australia and New Zealand buoyed tourist numbers in most South Pacific destinations, while the resilience of tourism from East Asia supported growth in visitor arrivals in the North Pacific.

Departures from Australia to the South Pacific maintained modest overall growth in 2012, despite some decline in the number of Australian visitors to Fiji, its main destination. This weakening is attributed to the effects of successive floods in the early months of 2012. However, as was observed following the 2009 Fiji floods, destination substitution again yielded substantial gains for Vanuatu. Double-digit growth in Australian tourism was also recorded in (i) the Cook Islands, largely because of the reintroduction of underwritten Sydney– Rarotonga flights; (ii) Samoa, where accommodation rates have been discounted; and (iii) Tonga, through its aggressive tourism marketing campaign.

Figure 12: Tourist departure to Pacific Destinations

Sources: Australian Bureau of Statistics and Statistics New Zealand



In 2012, New Zealand tourism to the South Pacific grew at its fastest rate since 2005. This was driven in part by improved economic conditions in New Zealand relative to the previous year. Departures from New Zealand to Samoa and Vanuatu were particularly high following contractions in the previous year, while those to the Cook Islands maintained a steady expansion despite some moderation from the high growth in 2011. Departures to Fiji and Tonga also posted modest gains.

Visitor arrivals in Palau continued to grow at a near double-digit rate in 2012. This was primarily driven by a sharp rise in arrivals from the Republic of Korea and the steady growth of tourist numbers from Japan and Taipei, China.

Looking ahead, the outlook for tourism to the Pacific remains positive, underpinned by steady performance projected for major source markets. Tourism Research Australia projects about a 6% increase in total outbound tourism in 2013–2014, supported by expectations of strong consumer spending and an appreciating currency. The Asia and Pacific region is seen to remain as the key driver of global tourism growth, which is projected at 3%–4% in 2013 (following an estimated expansion of about 4% in 2012), according to the World Tourism Organization.

8.1.3 Regional Highlights

Pacific growth is softening. Economic growth in the Pacific region moderated to 7.3% in 2012, from a post-crisis high of 8.3% recorded in the previous year. This regional trend was driven primarily by the performance of the region's larger, natural resource-extracting, economies. Growth slowed slightly, but remained high in Papua New Guinea (PNG) and Timor-Leste. Economic growth in the Pacific islands also moderated to 2.5% in 2012, from 2.8% a year ago. Growth in Solomon Islands moderated from double-digit rates as log revenues leveled off. Economic stimulus from infrastructure projects was lower in Kiribati, the Federated States of Micronesia, Samoa, and Tonga.

Against this trend, increased tourist arrivals supported economic growth in the Cook Islands and Vanuatu. Nauru grew due to high phosphate production, while infrastructure spending and fishing revenues prompted growth in the Republic of the Marshall Islands and Tuvalu.

Inflation moderated to 5.3% in 2012 from 8.5% in 2011 as international food and fuel prices stabilized, albeit at high levels. The appreciation of the PNG kina and other currencies used in the region helped lower price pressures. However, inflation rates varied sharply across the region due to country-specific factors.

Growth is estimated to moderate further in 2013, before picking up in 2014. Prospects for the global economy appear to be improving slightly, driven by accelerating growth in large developing economies, particularly the People's Republic of China. However, growth in the Pacific region is projected to slow to 5.2% in 2013. Completion of large infrastructure projects, particularly the PNG liquefied natural gas (LNG) pipeline project, plays a leading role in explaining the weaker growth outlook. Damages from Cyclone Evan are projected to weigh down 2013 growth in Fiji and Samoa. Regional growth is seen to pick up to 5.5% in 2014, in line with the improved global economic

outlook, commencement of PNG's LNG exports and public infrastructure projects in a number of smaller Pacific islands, and post-cyclone reconstruction efforts.

Inflation is projected to accelerate to 6.1% in 2013 and to 6.3% in 2014, despite moderating international food and fuel prices, as the muting effect of strong regional currencies on import prices is seen to dissipate in several countries. Public expenditure growth is also seen to add to regional price pressures.

8.2 Recent Economic & Social Outcomes & Outlook for Tonga

The economy has recorded strong average growth rate of 2.6% for four consecutive years, due in part to reconstruction of the Nuku'alofa central business district, large Chinese loan funded construction and other donor-funded aid projects.

As always anticipated, total growth slowed in 2011/12, to 0.8% with the slowing in the loan funded construction. It is estimated to further slow to 0.2% in 2012/13 with the complete end of the two China funded construction loans. The estimated level of nominal GDP for 2011-12 was \$799.3 million, with GDP per capita standing at \$7,738.¹³

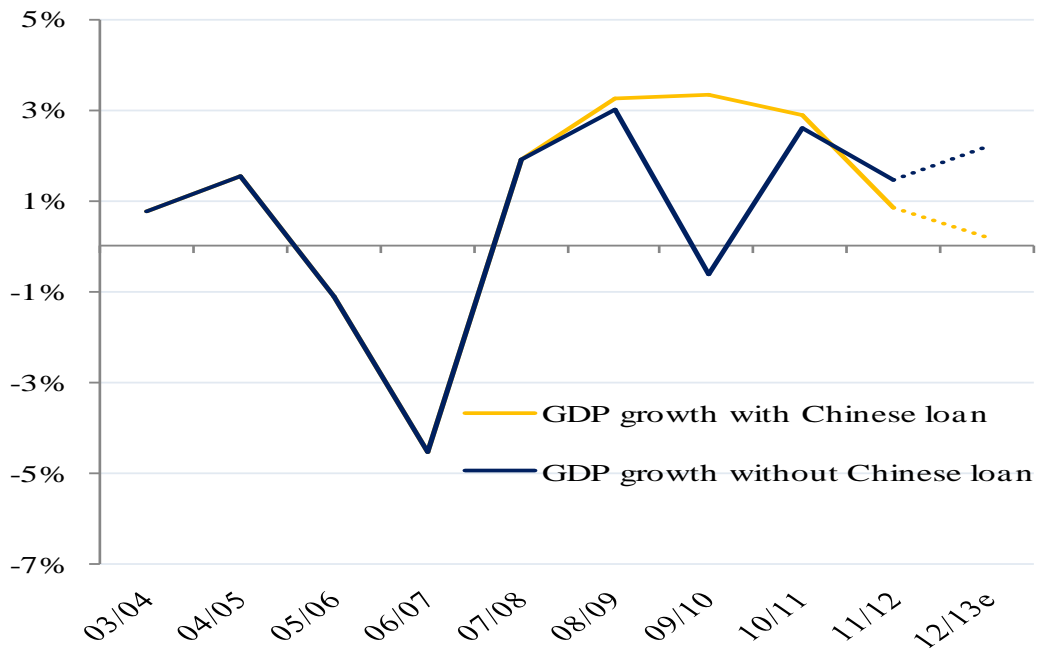
The objective of the loan funded construction was to raise growth faster than it would have been without this expenditure. This is what happened, during the years of the construction stimulus as shown in Figures 2: growth including the loan funded expenditure (yellow line) was consistently above growth excluding the loan funded expenditure (blue line). Once the loan funding ends, however, the two growth rates must switch before returning to the same rate in subsequent years.¹⁴ Loan funding declined sharply over the last two years (2011/12 and 2012/13) which has resulted in a sharp slowdown in total growth. On the other hand, growth without the loan funded construction has maintained a more stable level with estimated 1.4% for 2011/12, and 2.2% for 2012/13.

Overall growth is forecast to gradually strengthen over the next few years; however, it will not be possible to repeat the large boost from the heavy borrowing, which has left the country with a large debt overhang. The nature of the growth now taking place is also better balanced and more wide spread than the construction boom lead growth which was focused in Nuku'alofa, with much of the value added produced by foreign workers and company who were based in Tonga long enough to be included in GDP estimates.

¹³ There has been a slight revision to recent GDP data particularly on the construction sector as a result of obtaining and using of unit record tax data and updated data and improvements in deflators. This has tended to result in less variability in the GDP growth rate over the period of the loan, although the total growth impact remains much the same. The previously published growth rate of 4.7 percent for 2010-11 has been revised downwards to 2.9 percent, while the growth rate for 2009-10 was revised upwards from 2.7 percent to 3.3 percent.

¹⁴ This is a mathematical result from the way the calculations are made. During the years of the stimulus the level of GDP (with and without the loan expenditure) will diverge creating the difference in growth rates. Once the stimulus ends, the two levels will converge to the same level again. During this convergence, the rate of growth of GDP with the loan expenditure must (for at least one year) fall below the rate of growth of GDP without the loan expenditure. Once the affect of the loan expenditure has worked out of the system, the two growth rates will again be the same. This analysis does not take account of longer term potential impacts from the new investments. There is no evidence to suggest that the investment has had any growth promoting impacts yet. For example, there would need to be an sustainable increase in the number of cruise ships visiting the country.

Figure 13: GDP Real Growth 2003/04 to 2012/13 (estimate) with & without Chinese loan for Central Business Area Reconstruction and Road Upgrading



Sources: Tonga Bureau of Statistics, Ministry of Finance and National Planning

8.3 GDP Sector Outcomes

Table 6 shows the rates of real GDP growth in the major sectors.

Table 5: GDP Main Components (real growth rates)

Real Growth Rates	Actuals (Statistics Department)					Estimates (MoFNP)		
	07/08r	08/09r	09/10r	10/11r	11/12r	12/13p	13/14p	14/15p
Primary Sector	-5.3%	-1.4%	0.5%	2.0%	0.5%	0.3%	0.7%	0.9%
Secondary Sector	0.7%	12.9%	11.6%	5.5%	1.2%	-4.4%	2.2%	2.3%
Tertiary Sector	4.1%	0.8%	1.0%	1.8%	0.5%	1.1%	0.3%	0.8%
GDP	1.9%	3.2%	3.3%	2.9%	0.8%	0.2%	1.0%	1.3%

r - revised estimates

p - preliminary estimates

Sources: Tonga Bureau of Statistics, Ministry of Finance & National Planning

The contribution of each of the three main sectors to GDP growth is shown in Figure 14. The rapid construction growth, driving secondary sector growth has increased this sector's relative size over the period of the construction stimulus, while the primary sector's share has fallen by a greater percentage than the fall in the tertiary sector's share; as shown in Figure 15.

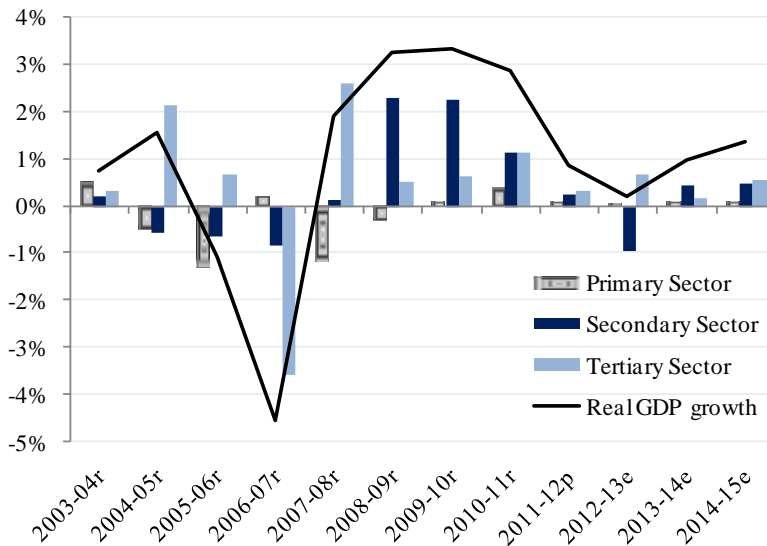
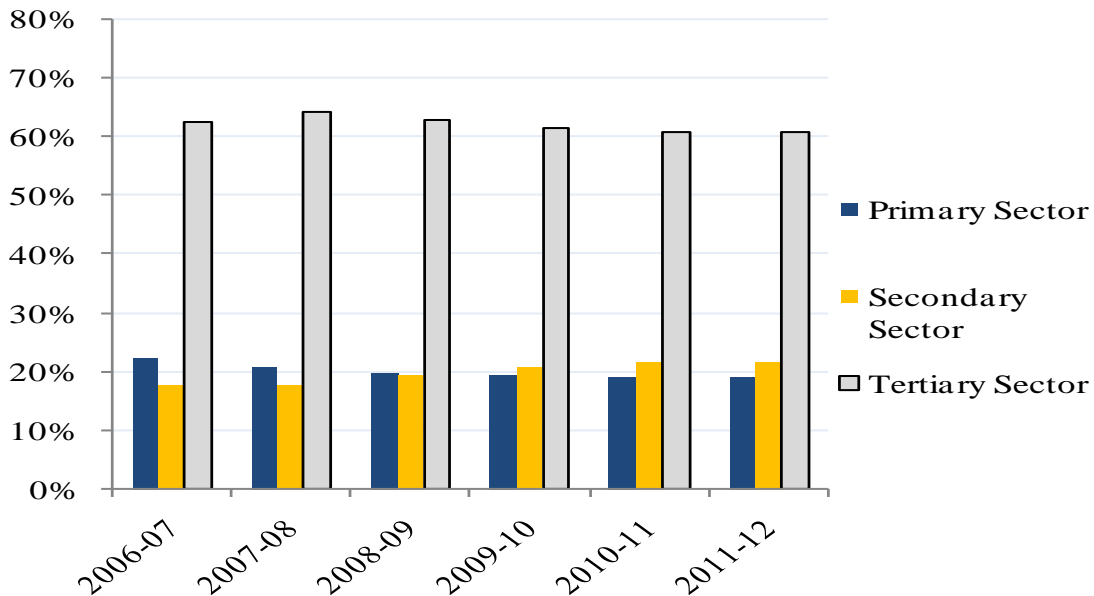


Figure 14: Contribution to Real GDP growth by Sector vs. Real GDP growth

Figure 15: Sectors as a Share of GDP at factor cost (%)



Source: Tonga Bureau of Statistics

8.3.1 Primary Sector

The primary sector includes agriculture, forestry and fisheries, which remains an important source of livelihood for the Tongan people in terms of providing food security, distribution of wealth and act as a social safety net during times of hardship. In 2011/12 the primary sector accounted for 19% of GDP and over 80% of total merchandise exports. The forecast for the primary sector in 2012/13 is a weak marginal growth of 0.3% compared to 0.5% in the previous year. This is mainly driven by a slow growth in the agricultural sector from its peak performance in 2011/12 - as squash volumes (contributing over 20% to total agricultural export earnings) are expected to experience

very minimal growth with no more off-season exports in 2012/13 and overseas market prices remain uncertain. In addition to the slow growth in 2012/13, is the expected continuing decline in the exports of sandalwood and sea cucumbers due to depletion in stock from over-harvesting. However, the primary sector's growth is expected to slowly pick up mainly by strong performances in the tuna and seaweed exports and opening up of new trade opportunities.

Some key initiatives in the sector in 2012/13 and onwards include the government's T\$1 million Agriculture Marketing Fund (AMF); Pacific Horticultural Agricultural Marketing Access (PHAMA) programme's support to supply farmers with newly designed retail packaging for exports of frozen produce; expected design and implementation of the Agriculture & Fisheries' sector plans plus other management plans aimed at conserving high-value fisheries species; the re-opening of Tonga's fishery waters to foreign fishing vessels; re-planting programmes for sandalwood & coconuts and other on-going donor funded projects and activities that help maintain and fuel growth in the primary sector.

Table 6: Primary Sector's Real GDP Growth

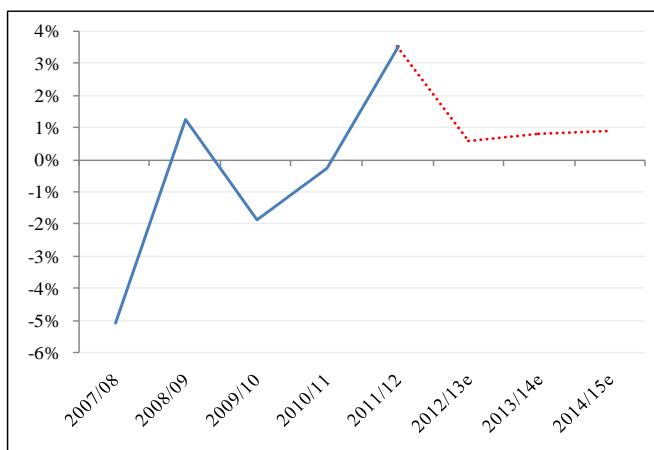
	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15
Primary Sector	-5.3%	-1.4%	0.5%	2.0%	0.5%	0.3%	0.7%	0.9%
Agriculture	-5.1%	1.3%	-1.9%	-0.3%	3.5%	0.6%	0.8%	0.9%
Forestry	7.9%	3.0%	-9.0%	72.4%	-25.7%	-29.9%	0.0%	0.0%
Fisheries	-7.9%	-17.1%	19.3%	4.2%	-9.6%	4.6%	0.4%	0.7%

Sources: Tonga Bureau of Statistics, Ministry of Finance & National Planning

8.3.1.1 Agriculture Sector

Figure 16: Agriculture Sector's Real GDP growth

Sources: Tonga Bureau of Statistics, Ministry of Finance & National Planning



Agriculture contributes some 16% to total GDP. The agriculture sector is expected to experience weak growth of 0.6% in 2012/13 and 0.8% in 2013/14 compared to a strong performance of 3.5% in 2011/12, as growth of main agriculture commodities (squash, watermelons & yam) are anticipated to ease but growing from a high base. Squash exports is likely to grow by 3% in 2012/13 compared to a 306% growth in 2011/12, due to no more off-season exports¹⁵ and uncertainties in the Japanese and Korean markets. In addition a leading squash exporter will be discontinuing exports in 2013/14. Total root crops production is expected to slightly decline in 2012/13 from a high growth in the previous year; however it still remains above the average level of exports in the past five years i.e. around 3,200 tonnes per annum. Exports of vanilla, kava and coconuts are expected to remain steady in 2012/13 from 2011/12 while breadfruit exports is anticipated to slightly decline due to a temporary technical breakdown of the High Temperature Forced Air (HTFA) facility at the airport.

¹⁵ Squash season during the year is from October to December, off-season is around May

The main challenges faced by the sector included uncertainties in overseas markets, increasing costs of production, unfavourable weather conditions, unreliable shipping schedules, and quality control issues.

Despite challenges faced by the agriculture sector, there is positive outlook anticipated for 2013/14 and onwards, supported by, government’s new initiative of the T\$1 million Agricultural Marketing Fund (AMF)¹⁶ aimed at assisting exporters in marketing their agricultural produce overseas particularly for yam, cassava, taro and watermelons as a start. The underpinning rationale for the fund is to alleviate growers’ risk exposure to external marketing shocks such as fluctuation in exchange rate, post harvest lost due to freight delays etc. As this initiative is still in the pilot stage, it is still yet to meet its full expected outcomes due to various reasons as mentioned in the challenges above.

One of the sector’s priorities is to develop Tonga’s first National Agriculture Sector Plan (NASP) – this is to be funded by the World Bank, which will help guide the sector in terms of re-focussing its vision and priorities for maximizing the contribution of agriculture (both crops and livestock) to Tonga’s economic growth and food security. The NASP would also articulate specific programmes and activities needed to achieve the sector’s priorities; clarify roles and responsibilities of the different actors in the sector; assess investment needs and provide a framework for measuring progress in the short- and medium-term.

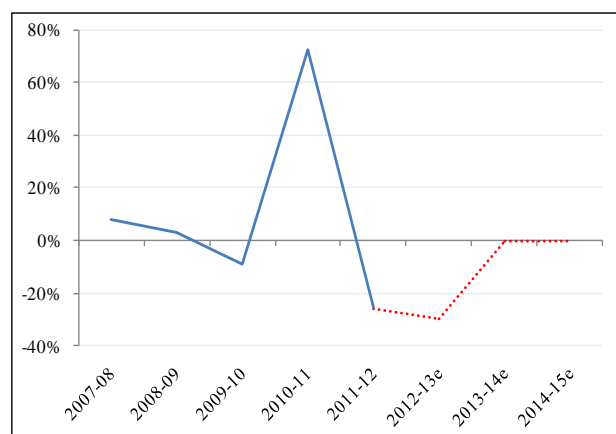
There are determined efforts under the PHAMA programme to supply farmers with newly designed retail packaging for exports of frozen produce – possibly increasing receipts through sales in overseas formal markets. The continuing support provided by the post-harvest facilities at the wharf help to sustain agricultural export operations, but may require upgrading and further development. Vegetables production is expected to remain steady but may increase in coming years due to more possible market access for potential high value vegetable crops for exports as identified under a PHAMA funded feasibility study including, flat beans, chillies, capsicums, rock melons, honeydew melons and okra. Other potential opportunities for the agriculture sector in coming years include export pathways to regional markets such as watermelon and squash (without fumigation) to Fiji & Samoa, fresh taro to Australia (de-topped) and pineapple to NZ. In addition, is looking to get the export facilities Hazard Analysis and Critical Control Points (HACCP) accredited, so that whatever is passed locally at the post-harvest facility is already of high quality and can directly go into supermarkets and formal markets.

8.3.1.2 Forestry Sector

Figure 17: Forestry Sector's Real GDP growth

Sources: Tonga Bureau of Statistics, Ministry of Finance & National Planning

Sandalwood, a high valued export commodity and major resource for Tonga’s forestry sector, was the basis for a significant one-off annual growth in 2010/11 (72% or up by T\$2 million worth in real terms from the previous year). However, due to unauthorised and unregulated cutting of sandalwood, production dropped by



¹⁶ Funded from the government’s recurrent budget 2012/13

25.7% in 2011/12. It is anticipated to further decline by 29.9% in 2012/13, due to the ending of the New Zealand funded Tonga Village Network Upgrade Project (TVNUP), to which the Tonga Forest Products (TFP) was supplying locally produced power poles¹⁷, in addition to the continuing drop in sandalwood exports. These exports are down from 77 tonnes in 2010/11, to 30 in 2011/12 and less than 2 tonnes is anticipated for 2012/13. This poses a major threat to the development of a sustainable sandalwood industry for Tonga. The Tonga's Forestry Division is developing a regulatory system for the sustainable harvesting and re-planting of sandalwood in Tonga with assistance by the Secretariat of the Pacific Community's (SPC), the European Union (EU) funded Facility Agricultural Commodity Trade (FACT) Project and the Tasmania Forest Practices Authority.

After the sharp fall over these two years, growth is anticipated to be flat for the next two years before possibly returning to a limited extent in future years. This growth could stem mainly from the expected expansion of TFP's operations aimed at increasing timber quality and production of joinery products for the local market; however it will need capital expenditures for upgrading of its production facilities. Possible future projects include a joint development of wood-fired renewable generation by TFP and the Tonga Power Limited (TPL) to develop two new biomass generators¹⁸ in Tongatapu and 'Eua (from wood chips and waste supplied from the 'Eua forest¹⁹) potentially targeted to save over 1.5 million litres of diesel each year. The possibility is also being considered for supplying Samoa with power poles. Timber production is also showing potential for exports, i.e. 6 tonnes were exported in the first half of 2012/13 and is targeting for more in the future. Using coconut for timber production is also identified as a potential area for the forestry sector, particularly as it can serve demand for affordable housing and it can also be treated locally to add value.

Challenges faced by the sector include the competition from imported timber products, mainly from New Zealand, lack of human capacity, technical skills and access to finance for capital expenditures for full capacity production.

8.3.1.3 Fisheries Sector

Fisheries contributes around 3% to GDP in 2012/13. The performance of the fisheries sector for the last three years has been mainly dominated by the growth in exports of the highly valued sea cucumbers. However due to its over harvesting (down from 353 to 84 metric tonnes exported in 2009/10 and 2011/12 respectively), the annual growth for the sector dropped significantly to a negative 9.6% in 2011/12 compared to a high growth of 19.3% in 2009/10 and 4.2% in 2010/11. This led to a three year moratorium approved by Cabinet to ban harvesting of sea cucumbers for commercial purposes commencing in 2013 but subject to conduct a stock assessment annually.

The main challenges that the fisheries sector face includes the need to effectively enforce and strengthen the implementation of management plans to address the sustainable development of fisheries resources, inappropriate infrastructure i.e. the ice machine at the Tu'imatamoana wharf, lack of value added activities to process fish for exports, distance to overseas market destinations, lack of access to overseas markets and the tight lending criteria which hinders access to funds for development of local fishing vessels and also including the high costs of utilities. However, despite these challenges, a strong growth of 4.6% is projected for 2012/13, mainly attributed to possible significant increases from the exports of tuna and seaweed. The increase in tuna exports is in line with an increase in the number of licensed tuna foreign fishing vessels, from 1 in 2011 to 9 in 2012 (of which 1 is locally based).

¹⁷ TPL normally purchases its electricity poles from New Zealand, but the supply of certified stock from the TFP ensures that the revenue stays in Tonga and helps contribute to the local economy.

¹⁸ A full feasibility study (NZ funded) is underway to determine the viability of the scheme, and confirm whether the project is commercially viable

¹⁹ Tonga's largest forestry plantation

In addition, is the outstanding performance of the seaweed industry, in which Tonga is the only overseas supplier of limu tanga’u (*mozuku*) other than Japan; and with the assistance of Tonga’s trade officials together with the regional trade office in Japan, local exporters were able to gain a contract for 12 containers of Limu for the Food market. As a result, seaweed exports increased to 293 metric tonnes in only the first half of 2012/13, more than doubling the total amount in 2011/12 (122 metric tonnes), coupled with an increase in the number of seaweed exporters from 1 in 2011 to 3 in 2012. The seaweed season mainly starts from September to December but depends on temperature.

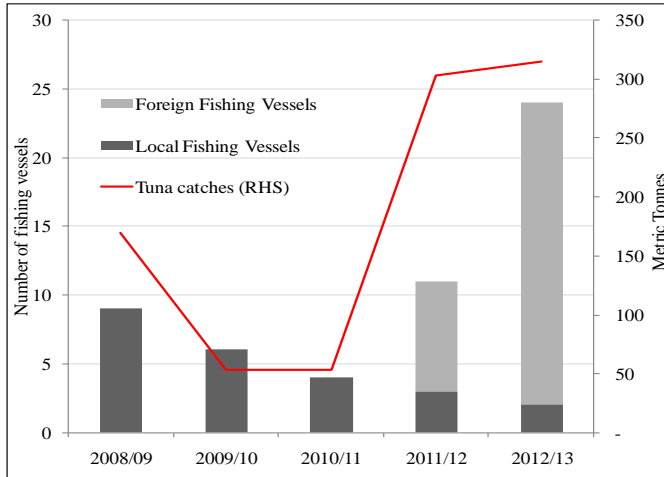


Figure 18: Tuna Catches vs. Tuna Foreign Fishing Vessels

Sources: Tonga Statistics Department, Ministry of Agriculture, Food, Forestry & Fisheries

In 2013/14, it is anticipated that there will be a continuous positive growth of 0.4%. The contributing factors include the increasing number tuna foreign fishing vessels – 22 have been licensed at the beginning of 2013 of which 6 are locally based vessels compared to just 1 in 2012, also the proposed purchase to use more hydraulic reels (14) for snapper fishing (currently only one fishing vessel is operating using hydraulic reels).

A number of other produce will also contribute to growth:

- the continuous strong overseas demand for seaweed but with the proper and quality management in place to be addressed under the newly approved Seaweed Management Plan 2012-2013
- planned implementation of aquaculture projects i.e. pearl farming & sea cucumber hatchery),
- the increasing numbers of interested communities (over 20) in the Special Management Area (SMA) programme 20
- the Food and Agriculture Organization’s (FAO) funded project on Milkfish (Finfish culture system)
- proposed Bluenose project with the New Zealand’s National Institute of Water & Atmospheric Resources Ltd (NIWA)
- Secretariat for the Pacific Community’s (SPC) assessment of live rocks²¹ to be legalised
- further improvement of Monitoring, Control & Surveillance (MCS) activities and coverage which can help increase observer opportunities not only for improvement of fisheries data but to also provide employment for locals.

²⁰ Aimed at conserving and managing of all marine resources in these declared areas (SMAs) for the good of all Tongan people in terms of food security, enhancing ecosystem as well as promoting eco-tourism

²¹ High valued species which was banned from exports in 2008

8.3.2 Secondary Sector

The secondary sector contributes some 21% to total GDP. In association with the end of the construction lead boom, and the associated boom in quarrying activity, growth in this sector will be a negative 4.4% in 2012/13 compared to the rapid growth in recent years. Between 2008/09 and 2009/10 the secondary sector contribution to Real GDP growth outperformed the primary and tertiary sector (see Table 7 at start of GDP components). The main drive behind the secondary sector successes comes from the reconstruction of Nuku'alofa CBD area and the rehabilitation of roads around Tonga. Looking forward, growth is again anticipated to pick up along with the new construction projects coming on line. Growth in the other sub-sectors is anticipated to remain relatively subdued as shown in Table 7.

Table 7: Secondary Sector's Real GDP Growth (actual and projections)

	07/08r	08/09r	09/10r	10/11r	11/12r	12/13p	13/14p	14/15p
Secondary Sector	0.7%	12.9%	11.6%	5.5%	1.2%	-4.4%	2.2%	2.3%
Mining and quarrying	26.6%	16.8%	137.5%	3.2%	37.9%	-5.0%	0.3%	0.5%
Manufacturing	-1.0%	-0.2%	-1.7%	5.9%	-2.7%	0.9%	0.5%	0.6%
Electricity and water supply	1.7%	-4.6%	-3.5%	2.9%	-1.1%	2.0%	0.5%	0.7%
Construction	0.9%	35.0%	21.7%	6.1%	1.2%	-9.0%	4.0%	4.1%

Source: Statistics Department and Ministry of Finance & National Planning

8.3.2.1 Construction

Growth in construction, and thus the size of its contribution to GDP, has varied quite a bit over recent years due to the large Chinese loan funded reconstruction of Nuku'alofa and National Road Improvement Project (NRIP), which have been a major driver of GDP growth in 2008/09 and 2009/10. The ending of these projects is associated with a fall construction sector growth, with negative growth of 9% in 2012/13. Growth is anticipated, however, to recover to some 4% in the following two years.

Road segments throughout Tonga have been reconstructed with the loan from China which has helped the economic recovery in Tonga through safer and quicker access for business and customers, but also through the provision of jobs and activity by the project itself. There are 130 km of roads throughout Tongatapu, Vava'u, Ha'apai, and 'Eua that have been reconstructed using the loan.

According to the China Civil Engineering Construction Corporation, about 75% of the labour forces for the project were local people supplemented with workers from China, and 80% of the materials used were also of local origin generating the associated rapid growth in quarrying activity.

The recovery in growth is supported by new construction projects coming on line such as installing the extension of the fibre optic cable from Tongatapu to Vava'u and Ha'apai main islands, upgrading of airport under the WB Pacific Aviation Investment Project (PAIP), solar PV hybrid for the outer islands, micro grid project (Popua power storage & Vaini micro grid control system), United Arab Emirates (UAE) and ADB solar project at the outer islands, St Georges Palace government offices, major school upgrades, Nuku'alofa Urban Development Sector Project (NUDSP) continuation, Community Routine Road Project Maintenance and start of construction work for the Pacific Games.

8.3.2.2 Mining and Quarrying

This sector is small contributing only 1% to GDP. Most activity is in quarrying where changes in activity have correlated with construction as aggregate for blocks and the large amounts of concrete and road works. The 5% negative growth in 2012/13, following the end of major road work projects,

is likely to be followed by slow growth in the following years in partly driven by agriculture and tourism roads rehabilitation.

8.3.2.3 *Electricity and Water supply*

Electricity and Water supply account for a relatively small 3% of GDP in 2012/13 but provide vital services to both the productive activities and peoples consumption needs. There are some difficulties in the measure of activity in this sector, since improvements in efficiency of distribution, which mean there is less wastage from leaks, may still be associated with increased consumption. This affect is anticipated to account for the slowing in growth from 2.0% in 2012/2013 to 0.5% in 2013/2014 and 0.7% in 2014/15. Each island group has varying water resource issues, access, and concerns depending on the pattern of outmigration, population pressures, demand, quality and quantity of water supply, local geology, agricultural and sanitation practices, and standard of extraction. Tonga Water Board (TWB) reticulated water supply production and distribution need major improvement in service and quality on the outer islands as well as Tongatapu.

The Government is investing in infrastructure including improving the power distribution. Government is also seeking ways for more effective purchase and distribution of fossil fuels which can help to lower costs which have a major impact on the cost of power generation and water pumping. Most energy needs are supplied by imports making Tonga vulnerable to the volatility of world fuel prices.

Through the Tonga Energy Road Map (TERM), projects are already on the ground to enhance Tonga's energy supply, reduce cost and improve efficiency of energy usage. This includes solar plants for Tongatapu, Vava'u, Ha'apai, 'Eua and the Niuas, alternative options for the management of the fuel farm and supply of fuel, Tonga Village Network Upgrade and improve options for micro energy generation. Government continues to provide recurrent funding for streetlight maintenance. There are also community solar power projects in operation in the outer islands.

8.3.2.4 *Manufacturing*

Manufacturing sector contributes around 7% to GDP, second to the construction sector as the largest contributor to the secondary sector. Government recognizes that manufacturing will never be one of the major contributors due to the constraints imposed by small market size, lack of economies of scale, and limited skills and capital. Some businesses, however, had been established. These nearly all cater for the domestic market, include food and beverages (bakery lines, soft drinks, beer, water and coffee); printing, furniture, construction materials, fibreglass, small boat building, rain water tanks and local timber. A number of other areas, drawing more on traditional skills, include coconut oil, local handicrafts, including mats and tapestry, which have high demand both domestically and internationally.

Due to these limitations future growth is anticipated to remain limited, but could be driven further with improvements in viable import substitution and specialized value added exports. There is some potential to contribute further to employment and growth through limited import substitution, and specialized exports utilizing agriculture and marine products, particular where value added is possible with small scale production.

Growth has fluctuated in and out of the positive territory over the last few years. A particular strong year was 2010/11, growing at 5.9% largely from the new development into diversifying new products – chips, water etc, before falling back in 2011/12. However, a slight recovery is anticipated in 2012/13 and future years mainly due to entrants to the local beer brewing industry and the increase in production of virgin coconut oil (VCO), which the Oxfam New Zealand is working with local partner, the Tonga National Youth Congress (TNYC) to support rural communities in the whole of Tonga with this programme providing local people with employment, skills and an opportunity to earn income. Currently 14 VCO sites are expected to operate by the end of 2012/13 and another 12

in 2013/14. Also the introduction of the ISO 9001 Certification process²² will help provide more benefits and opportunities for local manufacturers in terms of products quality management for future business.

The strengthening of the Manufacturing Association (MAT) - number of membership in the MAT has grown from 12 in late 2010 to about 31 companies today – provides scope for improved dialogue with government. Efforts in reducing barriers to the industry in terms of removing taxation of raw and packaging materials, and regulatory issues has been identified as a small step in helping manufacturing to meet its potential.

8.3.3 Tertiary Sector

The tertiary sector is by far the largest of the three broad sectors, accounting for some 61% of GDP. It contains several large sectors such as government administration, wholesale & retail trade, transport & communication, financial intermediation, as well as a variety of small items. In part due to its large size the rates of growth in the sector have been relatively stable, averaging out greater movements in the sub-sectors.

Table 8: Tertiary Sector’s Real GDP Growth (actual and projections)

	07/08r	08/09r	09/10r	10/11r	11/12r	12/13p	13/14p	14/15p
Tertiary Sector	4.1%	0.8%	1.0%	1.8%	0.5%	1.1%	0.3%	0.9%
Wholesale and retail trade	10.0%	4.3%	-4.7%	3.7%	0.3%	0.7%	0.8%	0.9%
Hotels and restaurants	6.2%	6.9%	-4.4%	3.3%	-0.5%	2.0%	2.1%	2.2%
Transport and communication	4.2%	15.4%	15.7%	-2.9%	0.5%	3.8%	2.0%	4.0%
Financial intermediation	3.0%	-20.4%	-2.7%	2.9%	-4.1%	0.3%	-0.2%	0.0%
Real estate, renting and business services	2.6%	1.6%	4.1%	4.2%	0.0%	2.5%	0.7%	0.7%
Public administration and services	4.6%	2.5%	0.9%	0.5%	0.8%	0.6%	0.0%	0.0%
Education - excluding government	-7.6%	-0.8%	5.5%	1.4%	8.4%	2.0%	-5.0%	1.2%
Health and social work - excluding government	0.6%	10.1%	1.3%	-1.0%	10.6%	7.0%	10.0%	0.0%
Recreational, cultural and sporting activities	8.4%	1.2%	-4.4%	2.8%	-0.4%	-3.6%	-4.6%	3.2%
Other community and personal services	0.3%	5.8%	3.1%	12.3%	3.8%	0.4%	-0.5%	0.0%
Ownership of dwellings	1.7%	1.0%	1.4%	1.2%	0.7%	0.2%	0.0%	0.0%

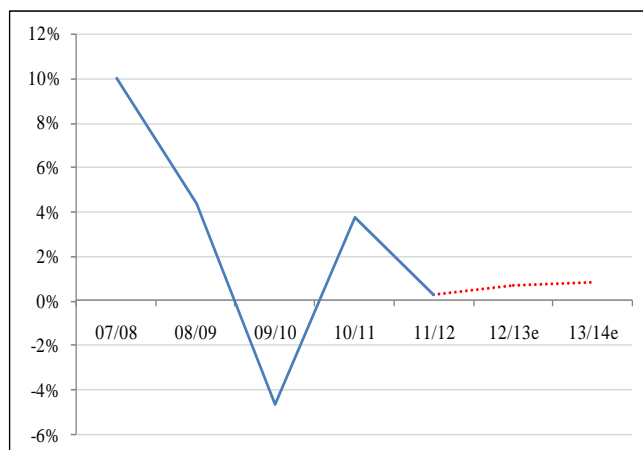
Source: Statistics Department and Ministry of Finance & National Planning

8.3.3.1 Wholesale and Retail Trade

Figure 19: - Wholesale & Retail Trade Sector’s real growth

Source: Statistics Department and Ministry of Finance & National Planning

The wholesale and retail sector contributes around 11% to GDP. Around 46% of registered businesses are in the services sector (mainly financial services) and 45% are in the trade sector



²² The Secretariat of the Pacific Community (SPC) has agreed to fund the first phase

dominated by retail ventures which identified, to be mostly owned by Chinese nationals or by companies that include Chinese shareholders.

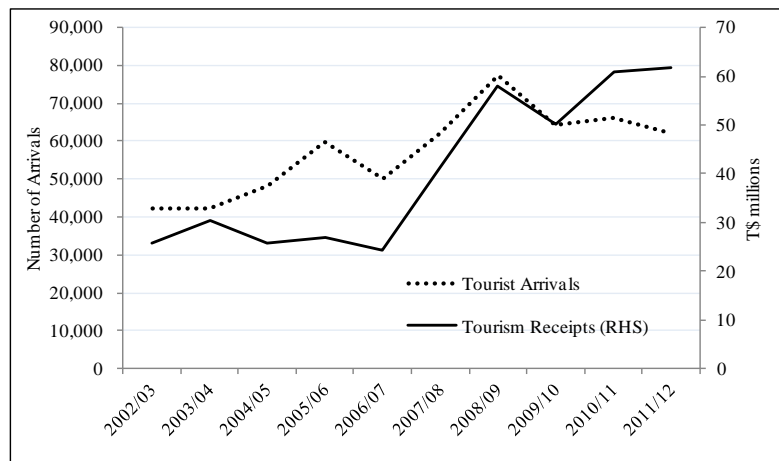
After a big jump in 2010/11, growth fell to 0.3% in 2011/12 before improving to 0.7% in 2012/13. It is anticipated to continue to grow at about 0.8% for the next few years associated in with improving growth and more remittances being directed in the form of goods through the retail sector.

The main contributors include a slight positive sign for disposable income i.e. personal loans were stronger in the first half of 2012/13, driven by borrowing outside of the main banking system. Recorded cash remittances have also leveled out.

8.3.3.2 Hotels & Restaurants

Figure 20: Tourist Receipts vs. Arrivals, 2002/03 – 2011/12

Sources: Statistics Department and NRBT



The Hotels & Restaurants sector only contributes around 3% to GDP. The sector experienced a negative growth of 0.5% in 2011/12, which was in line with a slight decline in tourist arrivals by 6% while tourism receipts²³ was relatively steady compared to the previous year (Figure 20). However, a slight growth of 2% is anticipated for the sector in 2012/13 associated with an improved performance in tourist²⁴ air arrivals i.e. the first half of 2012/13²⁵ averaging 4,400 visitors per month, compared to 3,800 in the corresponding period a year ago. As a result, tourism receipts also performed well in the first half of 2012/13 compared to that of the previous year averaging \$6.3 million per month compared to \$5 million in 2011/12. The main contributors to this increase were presumably due to certain special events, including the Royal Wedding, the nation-wide Agricultural show, two major schools in Tonga commemorated their 65th anniversaries, in addition to the usual Heilala Festival held each year and regional meetings that were hosted by Tonga.

Challenges however still remain for the hotels & restaurants sector. Most of the constraints relate to the development of tourism²⁶ which has a major impact on this sector. Three main priorities have been identified by the National Growth Committee to attempt, including (i) the need to upgrade existing tourism products specifically tourism accommodations, tourist sites, and equipments for tour operators & tourism events, (ii) developments of new tourism culturally related

²³ Note there is difficulty in distinguishing between tourism receipts and the remittances data

²⁴ Separate Tourism GDP accounts are not yet estimated in Tonga, so the impacts of tourism is distributed across several services sectors including hotels and travel.

²⁵ July 2012 – November 2012 period (only data available)

²⁶ The Tourism 'sector' is not a standard GDP sector, but covers several sectors including Hotels & Restaurants, Transport, and recreation. The main discussion on tourism is included at the point given that most hotel demand comes from overseas visitors.

products to target both cruise ship and air arrivals and (iii) staff training to be done in Tongan Language, specifically in Customer Services and Cooking. As noted further under transport, recent disruptions to the domestic airline industry are weakening this sector, especially on outer islands.

Building on the stronger visitor arrivals in 2012 and the Ministry's stepped-up destination marketing of the Kingdom such as the government of Tonga's engagement with BCG2, a New Zealand Advertising Agency to step-up the rebranding and promotion of Tonga using the slogan 'the True South Pacific'. An online advertising campaign built around this theme had operated in 2012, and in 2013 the Campaign was being extended for the first time to TV, print and billboards with support from the Tonga New Zealand Tourism Partnership, funded by the New Zealand Aid Programme. The reconstruction of the International Dateline Hotel as the flat ship hotel for Nuku'alofa will also help the sector.

8.3.3.3 Transport and Communication

The transport and communication sector consists of air, land and sea transport and telecommunication services, overall contributing around 7% to GDP. The sector is projected to grow at 3.8% in 2012/13 compared to 0.5% in 2011/12, although this is much lower than the average annual growth of around 6.6% in the last five years.

Growth in the communications sub-sector during 2011/2012 largely stemmed from having a competitive environment which allows Tonga Telecommunication Corporation (TCC) and Digicel to compete in the telecommunication and related services. Further growth beyond 2012/13 is anticipated to be mainly from the impact of the Submarine Cable Project funded by the World Bank (WB), Asian Development Bank (ADB) and TCC. This is expected to boost performance through increase capacity, faster connectivity and lower telecom prices. There is high expectation that faster and cheaper internet connection will bring significant economic investment and activities and social benefits through our education and health systems. The installation of the cable is due to be completed by mid 2013.

The transportation sub-sector is expected to continue growth in 2012/13 reflecting various activities in the domestic and international shipping services, air and road transportation. In terms of road transportation, there was a strong performance in the number of newly registered vehicles in the first half of 2012/13, averaging 345 per quarter compared to 294 in 2011/12.

Growth in the domestic shipping services is expected to improve from the introduction of the new ferry known as the MV 'Onemato intended to improve sea transportation for the 'Eua community. In addition, the government of Tonga presented a new working boat²⁷ for Niuafu'ou after identifying that it was difficult for the MV 'Otuanga'ofa to berth at Niuafu'ou and there was no means of safely transferring passengers and cargo from the 'Otuanga'ofa to the island for the working boat – this is included under the Transport Sector Consolidation Project (TSCP), funded by the World Bank. The shipping sector may also gain, during the second part of 2012/13, from the uncertainties in the domestic airline industry.

In terms of air transportation, positive effects are anticipated from the Open Skies Agreement (OSA) signed between Tonga and Singapore to allow airlines of both countries to fly on a full liberal air services framework. The withdrawal of Chatham Airlines in early March 2013 raised some uncertainty in the domestic market as well as in the international tourist market over the status of the domestic airline industry in Tonga. It is recognized that restoring confidence to the industry requires the assurance of all travelling customers that the new domestic airline is safe and reliable. The new domestic airline, 'Real Tonga', has therefore been subjected to the normal regulatory due

²⁷ The vessel is capable of carrying 3.5 tonnes or a 4 wheel drive vehicle plus passengers and cargo and can travel at up to 20 knots.

diligence to ensure safe, more affordable, frequent and undisrupted flights for all the travelling public including tourists to the Kingdom. The Company is working to increase the number of planes it has so that the domestic service can be fully restored before the peak season.

8.3.3.4 Financial Intermediation

The financial intermediation sector contributes around 6% to GDP and growth is expected to be at 0.3% in 2012/13 compared to a negative growth of 4.1% in the previous year. The deterioration in 2011/12 was mainly due to ongoing tighter lending conditions by the banks creating financial difficulties for the private sector. In addition, competition from the Retirement Fund Board (RFB) personal loans and the South Pacific Business Development²⁸ (SPBD - microfinance) loans contributed to the fall in banks' lending interest rates which fell by up to 2.5 percentage points compared to reductions of up to 2.4 percentage points in 2010/11. Deposit rates also fell by up to 0.8 percent-points during the year mainly driven by the high level of liquidity in the banking system. Unfortunately, the decline in interest rates has not resulted in a corresponding increase in credit and economic activity as anticipated.

The outlook for 2012/13, however, is conservatively positive, stemming from a strong growth in personal loans in the first half of the financial year as some commercial banks reduced their lending interest rates. The National Reserve Bank of Tonga (NRBT) continues to work together with the Association of Banks in Tonga (ABT) to discuss issues that would support a sound and stable financial system. This includes support to the ABT from the International Finance Corporation (IFC) in the setting up of Tonga's first Credit Bureau to improve the credit and lending environment in Tonga.

The Reserve Bank has included in its work-plan the consideration of the Financial Sector Economic Dialogue strategies to improve access to credit, strengthen the institutional capacity of the financial sector, increase transparency and disclosure, improve the credit worthiness of borrowers, and deepen and broaden the financial market. The Reserve Bank is working in collaboration with relevant stakeholders to implement these strategies to contribute to improving the credit environment and to support economic growth for Tonga in the future.

8.3.3.5 Public Administration and Services

The Public Administration and Services sector contributes around 13.5% of GDP, making it the largest component of the Tertiary Sector. Growth is expected to be relatively stable at 0.6% in 2012/13 compared to 0.8% in the previous year, mainly maintained by the budget supports expected to sustain expenditure. Maintaining sustainable fiscal consolidation is a key priority for the 2013/14 to 2015/16 Medium Term Budget Framework (MTBF) to ensure that the government is able to meet its current as well as future spending and debt commitments. For future years growth is anticipated to remain at zero, as recurrent expenditure remains flat (even falls) reflected in government's freezing of new recruitments policy.

8.3.3.6 Education, Health and Social Work

The education, health and social work sector - excluding public health and education, included in public administration above - contributes around 3% to GDP. It is estimated that the growth rate for non-government education in 2012/13 will be at 2% compared to 8% in the previous year. Continuous support from government and donors to non-government schools helps maintain growth in the sector, focusing on building capacity, human resources and upgrading of existing

²⁸ The micro finance programme by the SPBD provides access to financial services to over 4,500 low income self-employed and unemployed women in Vava'u, Ha'apai and Tongatapu.

school facilities. The non-government health and social work sector is expected to continue growing in future years, mainly supported by the continuous work and support from the Mango Tree Center, the Alonga Center, the 'Ofa Tui he 'Amanaki organization and others including private clinics. These services will remain vital to counter disability and health related services at all levels for Tonga. The expansion in social welfare to the elderly and disabled will help support growth in the social services sectors.

8.3.3.7 Recreation, Cultural and Sporting Activities

The recreation, cultural and sporting activities sector contributes around 1% to GDP, making it the smallest contributing sector to the Tertiary sector and growth is expected to decline.

8.4 Fiscal and Debt Outcomes

8.4.1 Fiscal Position

Government's Fiscal²⁹ position declined with the global slowdown and fall in remittances putting downward pressure on government receipts which fell over 14% in real terms between 2010/11 and 2011/12 (see Table 9 below). This fall was despite the loan funded growth in GDP, because all imports and activity by the foreign workers and company are tax free, as is standard for foreign development assistance. Government has been successful in negotiating substantial budget support during these, and subsequent, years to avoid a large drag on GDP that would have come from government having to reduce expenditure in face of the external slow down. Despite this budget support, recurrent payments (excluding debt servicing³⁰) still had to be cut nearly 15% in real terms, during the same two years (2010/11-2011/12). Without budget support government would have had to cut expenditure by a further 15% or more in real terms; however, with budget support it was possible to rebuild cash balances from a crisis level of \$1.9m in 2009/19 to a healthy \$33.7m in 2011/12 (see green bars in Figures 21 below). This is the desired level of about 2 months' payments; which is considered prudent.

Table 9: Real Rate of Growth in Receipts and Payments

Item	2010/11	2011/12	2012/13 (e)	2013/14 (b)	2014/15 (b)	2015/16 (b)
% Change in real terms over MTBF Period						
Total Domestic Receipts (without budget support)	-0.03	-0.11	0.05	-0.02	0.01	-0.01
Total Domestic Receipts (with budget support)	0.09	-0.08	-0.10	0.11	-0.08	-0.01
Total Payments	-0.06	-0.08	0.03	0.08	-0.05	-0.03
Total Payments after debt service(1)	-0.09	-0.05	0.01	0.05	-0.07	-0.04
End of year cash balance (nominal) (\$m)	20.6	33.7	28	27.9	22.4	20.9

(1) Debt service: interest and repayments of domestic and foreign debt

Source: Ministry of Finance & National Planning

The fiscal conditions in 2012/13, however, are more varied. A shortfall in budget support of \$10m resulted in total receipts falling over 10%. On the other hand, domestic receipts showed a

²⁹ This section is focusing on government receipts (basically revenue plus repaid on-lent loans) and payments (basically expenditure plus repayment of government debt). Receipts and payments matter for governments overall cash balance, while revenue and payments matter for the GFS accounts.

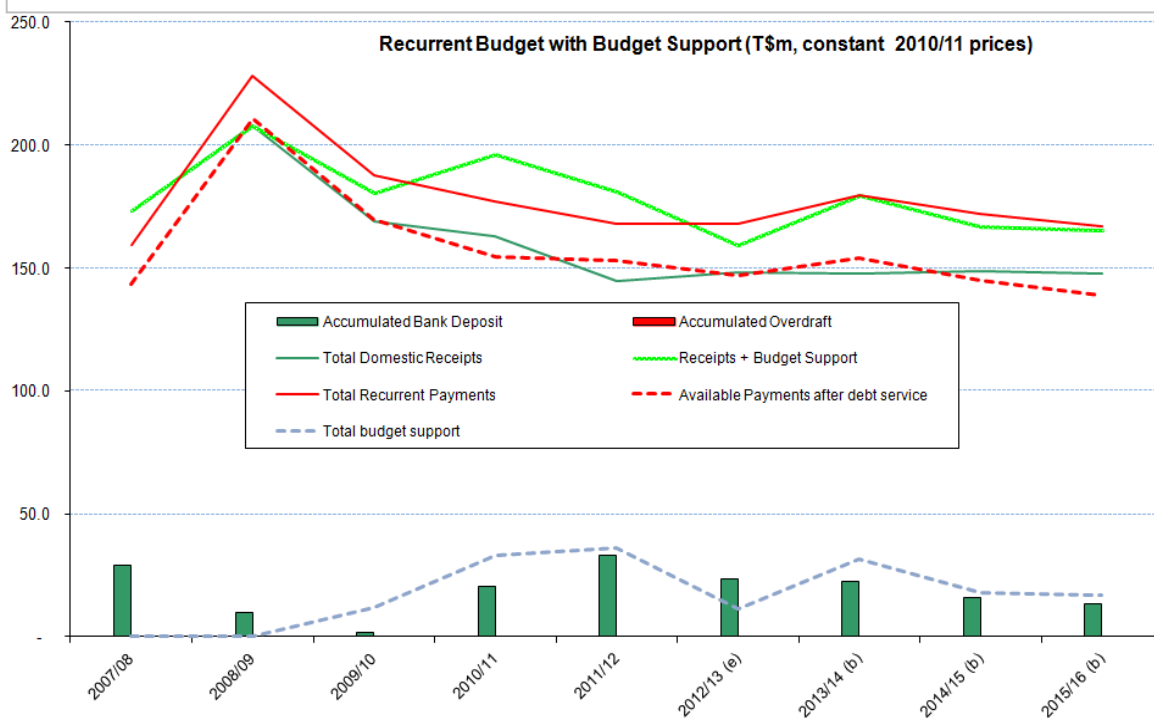
³⁰ This consists of repayment of interest and principle on domestic and foreign loans.

robust increase of 4.5% in real terms reflecting the underlying growth in the economy (excluding the impact of the loan funded expenditure) and a number of one off revenue payments.

Budgeted debt servicing was up some 25%, in 2012/13, and a supplementary of about \$4m was required to meet new expenditure. Total payments thus rose by 3.3% in real terms. But despite the pressure for new expenditure, it has been possible to restrict the increase in payments (without debt service) to a real increase of 0.7% in 2012/13. Compared to a balanced budget for 2012/13, the outturn is estimated to be a deficit of \$5.7m which is still less than the full impact of the lost budget support. This will leave recurrent cash balances (available to fund recurrent payments) at \$28m which is nearly equal to the two month's coverage of expenditure considered prudent. This still leaves limit scope to cover any further shortfalls in funding or other emergency.

Figure 21: Fiscal Performance in Constant Prices 2007-08 to 2015-16

Source: Ministry of Finance & National Planning



Domestic revenue is anticipated to continue to grow in nominal terms but slower than inflation resulting in a 2% decline in real terms, as government avoids placing new pressure on businesses and consumers by raising fees and charges in line with inflation. A number of once off revenue increases in 2012/13 will also not take place again in 2013/14. A big jump in budget support, from \$11.8m to \$35.6m is in part due to a small catch up in budget support that should originally have been received in 2012/13. Most recent indications are that going forward budget support may become less available. A further 25% jump in debt servicing to \$27.7m has further limited space for new domestically funded initiatives in 2013/14. It has been possible, however, to budget a real increase of nearly 5% to address urgent demands. This will result in a balanced budget, leaving the consolidated fund constant.

Details for the outer two years are only broad and require further working on; it is anticipated that next year the three years of the MTBF will be developed in more detail. Further significant growth in debt repayments, and the need to avoid taxing the public too much, and potentially weaker levels of budget support, means that non-debt payments are likely to have to contract in real terms. This decline in non-debt payments (in real terms) is shown by the dotted red line in Figure 2.

Looking further ahead, budget support is going to continue to be needed; however, as our debt position improves the levels of such support are likely to continue to contract. This is why continued vigilance and prudent budget must stay the center piece of government’s fiscal policy.

8.4.2 Public Debt Position

Government recognizes the importance of good debt management and reporting and is working with development partners such as the Commonwealth Secretariat and the World Bank to improve this.

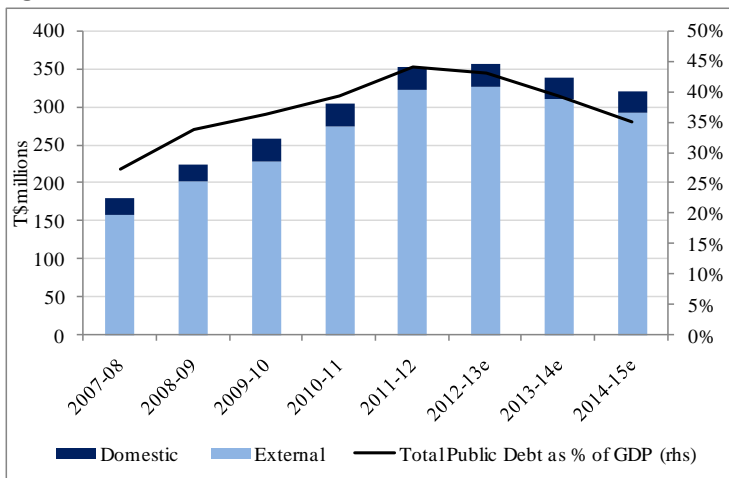
Government continues to report regularly on its debt position. The Budget Statement is one of these regular reports. This section details the Government’s debt position in June 2012 and compares it with the forecast levels for June 2013. The information covered external, domestic, on-lent, and guaranteed debt.

Given the debt sustainability ratios going forward, it shows that Government will continue to face difficulty in maintaining of debt levels within the recommended targets, especially the external debt ratios. Going forward, it is vital that our current level of economic activity prospects improve together with prudent public debt management, in order to mitigate the vulnerability to shocks on the Government’s debt portfolio and impact on our limited financial position.

8.4.2.1 Total Public Debt

Total public debt at 30 June 2013 is estimated at \$355.0 m (*at 43% of GDP*), an increase of \$2.9m from June 2012. This is mainly due to increase in external debt by 0.35 percentage points of GDP, resulting from fluctuation of the main borrowing currencies against the Pa’anga. During the FY 2012/13, final disbursement for the Roads project from Export-Import Bank of China (EXIM) was made in January 2013 (\$8m). Based on movement of the main borrowing currencies against the Pa’anga since June 2012, it is projected that the Chinese Yuan Renminbi (CNY) will appreciate by 2% and also the Special Drawing Rights (SDR)³¹ by 0.5%.

Figure 22 - Total Public Debt to GDP as at 30 June 2013



Source: Ministry of Finance & National Planning

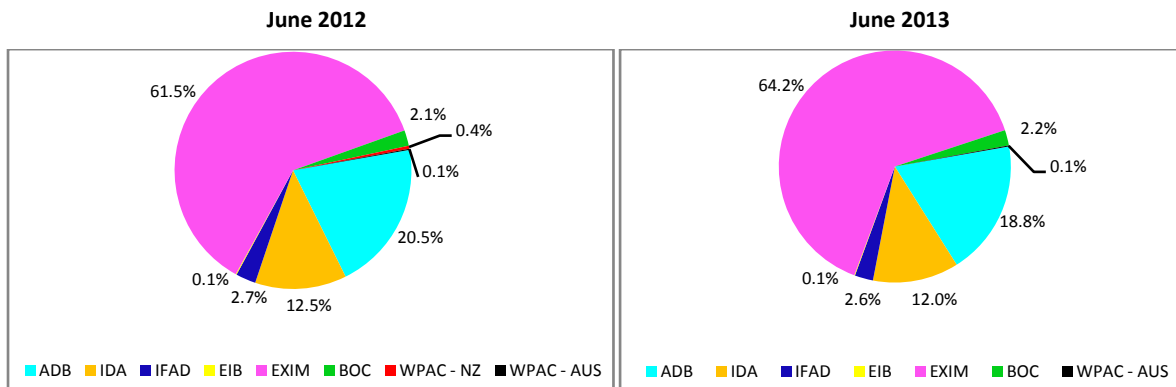
³¹ SDR is defined by a weighted currency basket of four major currencies: the USD 41.9%, EUR 37.4%, GBP 11.3% and the JPY 9.4%.

8.4.2.2 External Debt

Total external debt, at 30 June 2013, is estimated at \$325.5m (39% of GDP) with the total outstanding amount of \$209.1m (64%) to EXIM, the Asian Development Bank (ADB) at \$61.3m (19%) and International Development Agency, World Bank (IDA) at \$39.0m (12%). The other smaller borrowings are from International Fund for Agricultural Development (IFAD) at \$8.3m (2.5%), Bank of China (BOC) at \$7.0m (2.2%) and European Investment Bank (EIB) and Westpac Australia that make up the remaining \$0.8m (0.3%). During the last year, the main change was an increase in the outstanding loan balance to EXIM of \$10.7m (5.1%) mainly as result of the final drawdown for Roads project and also decrease on settlement of the loan balance to Westpac New Zealand in September 2012 from sale of the Tonga High Commission residential property in Wellington of \$1.3m (0.4%).

For details of the terms and conditions of the two major loans from China, the Nuku'alofa CBD Reconstruction project and Tonga National Road Improvement project and details of each project fund allocation are provided in *Table 55* in the *Appendices*.

Figure 23- External Disbursed Outstanding Debt (DOD) by Creditor



Source: Ministry of Finance & National Planning

8.4.2.2.1 Currency Denomination of External Debt

The main outstanding currency denomination of the external debt, as at 30 June 2013, estimates the Chinese Yuan Renminbi (CNY) at \$216.1m (66%) and the SDR at \$108.6m (33%). During the last year, there was an increase in the CNY composition of \$10.8m (2.8%) and decrease in the NZD composition of \$1.3m (0.4%). The changes in movement during June 2012 to June 2013 of the Pa'anga against the borrowing currencies (including SDR currency components) is projected to: depreciate against the Japanese Yen (JPY) 4.2%; United States Dollar (USD) 2.7%; CNY 1.8%; SDR 0.4% and appreciate against the Euro (EUR) 3.4%; Great British Pound (GBP) 2.0%; New Zealand Dollar (NZD) 1.6% and Australian Dollar (AUD) by 0.5%.

Figure 24- FC/TOP Exchange rate Trend, as at 30 June 2013

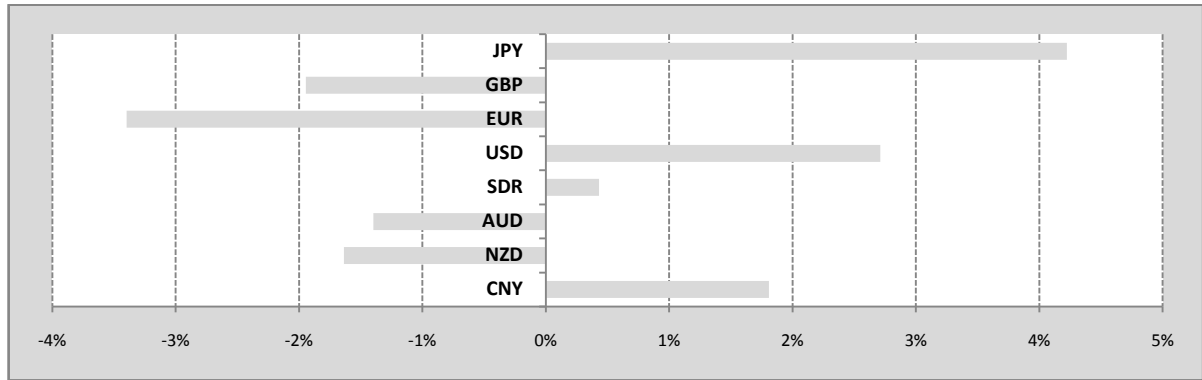
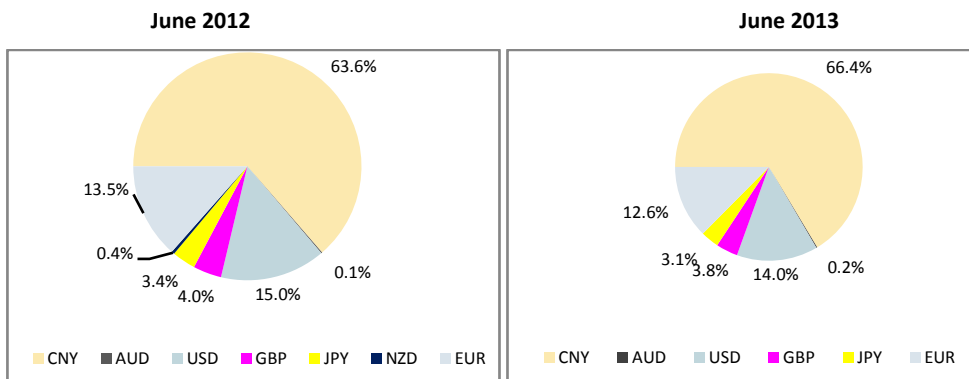


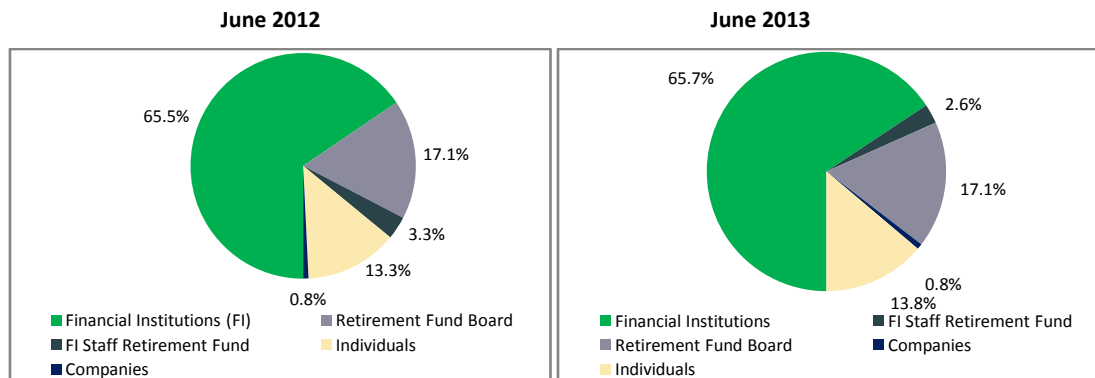
Figure 25- External DOD by Currency - June 2012 and June 2013



8.4.2.3 Domestic Debt

Total Domestic debt, at 30 June 2013, is estimated at \$29.5m (4% of GDP). This consists of just Government bonds on issue. The main bond holders are Financial Institutions at \$19.3m (66%); Retirement Fund Board at \$5.0m (17%) and Individuals at \$4.1m (14%). There has been no major change in the outstanding domestic debt between June 2012 and June 2013, with a slight increase in holdings by FI (0.2%), Individuals (0.5%) and decrease by FI Staff Retirement Funds (0.7).

Figure 26- Government Bond Holders (%) as at 30 June 2013



8.4.2.4 Debt Service

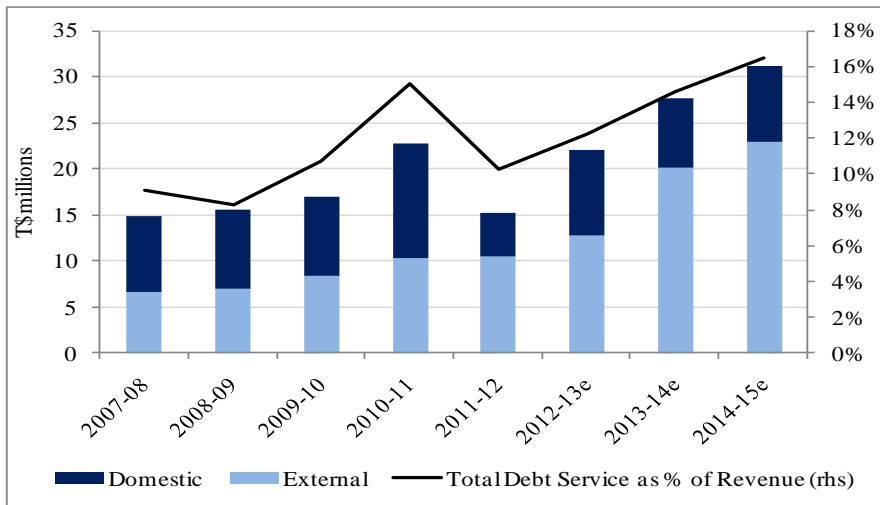
Total debt service (expenditure), for period ended 30 June 2013, is estimated at \$20.3m, with external of \$11.0m (54%) and domestic of \$9.3m (46%). During the year, there was an increase in

total debt service of \$5.1m mainly due to bond matured in October 2012, which was rolled over with the issues of a new bond. The total debt service is estimated to equivalent to 2% of GDP and in ratio to 16.1% of recurrent revenue and 11.5% of recurrent expenditure. For external loans, the main repayment months are September 2012 at \$2.9m (26% of total external debt service) and March 2013 at \$3.5m (32%) being mainly to EXIM; and for domestic loans are October 2012 at \$5.3m (57% of total domestic debt service) and June 2013 at \$2.9m (31%) for bond principal and interest. There are no public debt payment arrears anticipated.

Projected total public debt service, going forward for the next 15 years, shows a significant rise in external debt service in FY 2013/14 which is estimated at over \$9.1m or a further 1.1% of GDP; making a total of \$20.1m,. This is mainly due to the principal repayments beginning for the two major loans from EXIM China for Reconstruction in September 2013 and Roads in March 2015 with the debt service continuing over the next 15 years.

These projections include external debt service 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 is based on current bond maturity (principal) and at weighted average (interest) of 5.44% on the total bonds on issue (\$29.45m).

Figure 27- Total Public Debt Service (TOPm) FY's 2007/08 - 2014/15 (including actual and projected)



Source: Ministry of Finance & National Planning

8.4.2.4.1 Classification of Debt Servicing in different accounts

The Government Budget codes a number of different repayments under the general code 17 which is summarized as Debt Management. As shown in Table 10, this includes the public debt servicing (payment of interest and repayment of principle on domestic and foreign loans); plus three other items: an estimate for foreign exchange risk (in case exchange rates move against the TOP); repayments of government guaranteed loans where the borrow has defaulted and government has to make the payments; plus annual transfer value of payment to the pension fund for outstanding pensions obligations already in existence when the pension fund was established. At the time the fund was establishment government could not afford to pay the full amount required to capitalize the pension fund. This is treated as a form of 'debt' by not a loan.

The GFS treats the payments differently. Transfer values, interest and guarantees are reported as expenditures. (Exchange rate risk has been classified as a financing transaction). Any repayment to the Government of on-lending is classified as an offset to expenditures under net lending; while repayments of principle are part of the financing items.

Table 10: Classification of Debt Items in Debt Section and Budget (TOP millions)

Description	Budget Estimate 2012/2013	Estimate Outturn 2012/2013	Budget Estimate 2013/2014	Budget Estimate 2014/2015	Budget Estimate 2015/2016
Total Public Debt Service in Debt Section	20.56	20.47	27.70	31.23	33.31
Interest Payments - Domestic	1.70	1.86	1.61	1.61	1.61
Interest Payments - Foreign	5.33	7.49	5.31	5.06	4.74
Principle Repayments - Domestic	7.49	5.29	6.00	6.60	6.36
Principle Repayments - Foreign	6.04	5.83	14.79	17.96	20.60
Other Items Included	3.15	0.57	3.50	3.50	3.50
Exchange Rate Risk (on above repayments)	0.30	0.31	0.50	0.50	0.50
Repayment of Defaulted Guaranteed Loans	1.00	-	1.00	1.00	1.00
Transfer Value to Retirement Fund (1)	1.85	0.26	2.00	2.00	2.00
Grand Total Debt Management (Budget)	23.71	21.04	31.2	34.73	36.81

Source: Ministry of Finance & National Planning

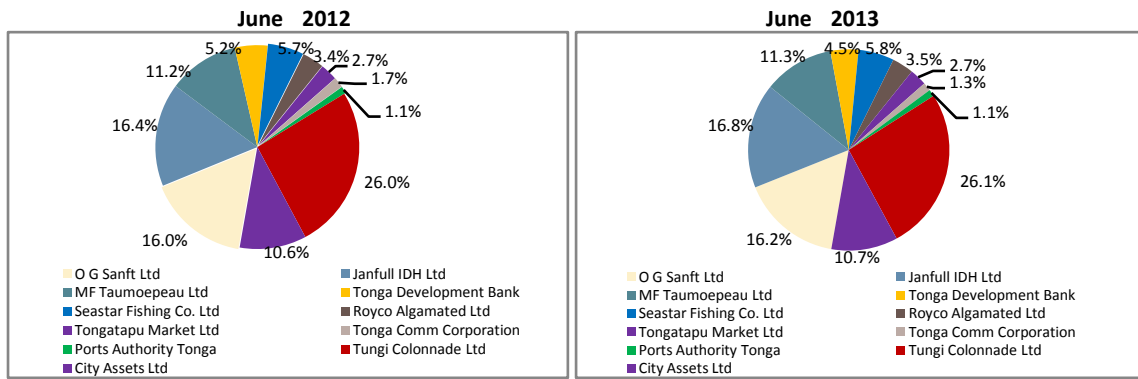
8.4.2.5 On-lent Debt

Total on-lent debt, at 30 June 2013, due to Government from various public and other enterprises is estimated at \$63.4m (8% of GDP and 19% of total external loans). The decrease of \$0.48m in the outstanding on-lent debt between June 2012 and June 2013 is due to the principal repayments made by TDB and TCC and related fluctuations in the CNY and SDR denominated debt (i.e.: Loan from EXIM to Janfull and loans from ADB to TCC and TML).

The main sub-borrowers are Janfull IDH Ltd. at \$10.7m (17%); Tungi Colonnade Ltd at \$16.6m (26%); OG Sanft Ltd. at \$10.3m (16%); MF Taumoepeau Ltd. at \$7.2m (11.3%); and City Assets Ltd at \$6.8m (10.7%) for the external loans from EXIM China and also loan to Royco Amalgamated Co. Ltd. at \$2.2m (6%). The above sub-borrowers are under Phase I of the Nuku'alofa CBD Reconstruction loan signed in December 2010. Sub-borrowers of Phase II include Tungi Colonnade Ltd and City Assets Ltd.

Total debt service (revenue), at 30 June 2013, is estimated at \$0.96m, for on-lent loan repayments from TDB of \$0.57m (59%); TCC of \$0.28m (29%) and Royco Amalgamated Co. Ltd. of \$0.11m (12%). The total on-lent loan payment arrears is estimated at \$14.3m, for loans due from Janfull at \$8.4m (59%) and Seastar at \$5.9m (41%).

Figure 28 - On-lent DOD by Borrower (%) as at 30 June 2013

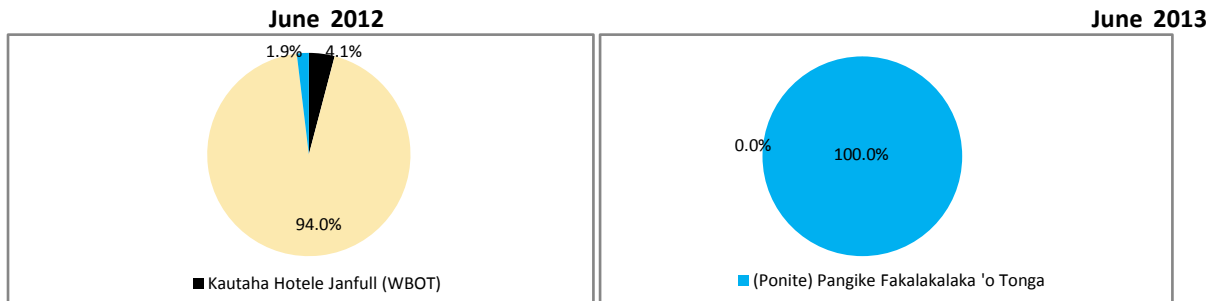


Source: Ministry of Finance & National Planning

8.4.2.6 Guaranteed Debt

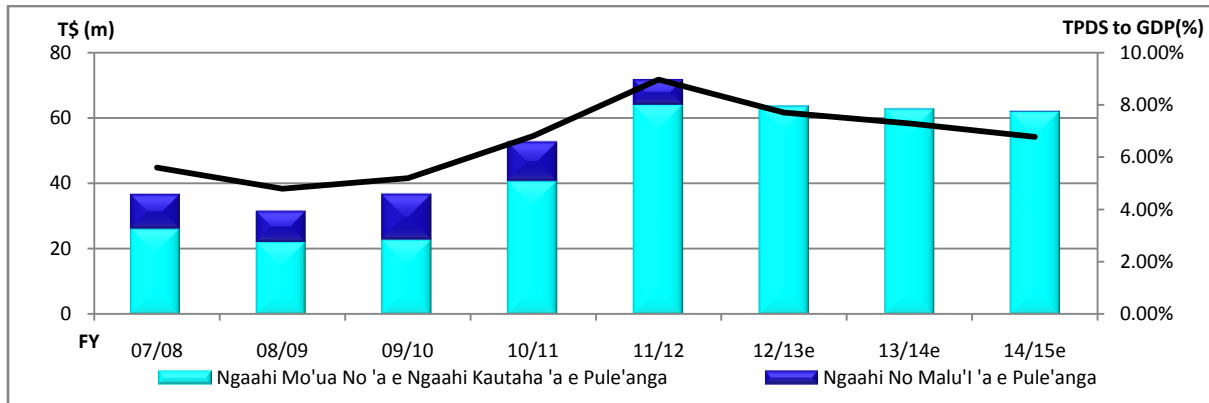
Total guaranteed debt, at 30 June 2013, is estimated at \$0.15m (0.01 % of GDP and 0.05% of total public debt). The outstanding loan balance is for bond issued by TDB. During the last year, the decrease of \$7.7m is due to cancellation of loans taken by TPL from WBOT in July 2012 and settlement of the Janfull loan by Government during liquidation process in November 2012. No guaranteed loan payment arrears are anticipated.

Figure 29 - Guaranteed DOD by Borrower (%) as at 30 June 2013



Source: Ministry of Finance & National Planning

Figure 30 – Onlent & Guaranteed Loans to GDP (%) FY's 2007/08 – 2014/15 (including actuals and projected)



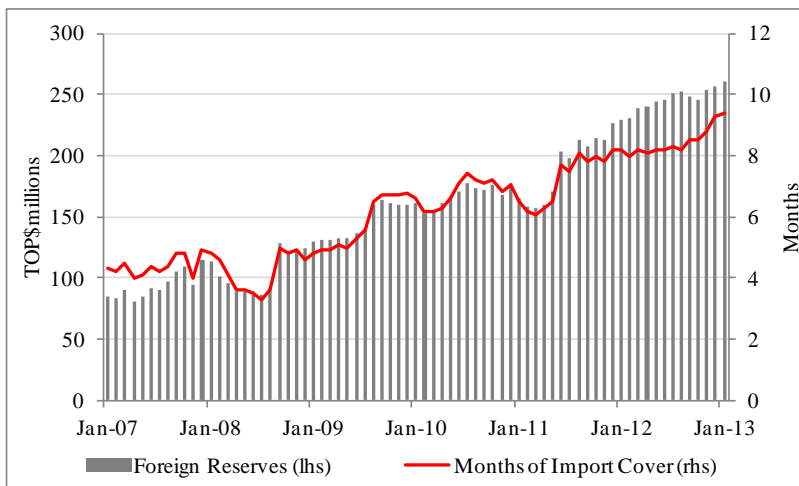
Source: Ministry of Finance & National Planning

8.5 Foreign Reserves and Balance of Payments Outcomes³²

8.5.1 Official Foreign Reserves

Gross official foreign reserves increased by 12 per cent over the year to February, to \$258.0 million. Since the last *Monetary Policy Statement* foreign reserves have increased by 2 per cent, mainly due to private sector capital inflows. The level of reserves is equivalent to 9.1 months of imports, well in excess of the NRBT benchmark of 3 to 4 months of imports.

Figure 31: Official Foreign Reserves (monthly)



Source: National Reserve Bank of Tonga

8.5.2 Foreign Exchange Payments

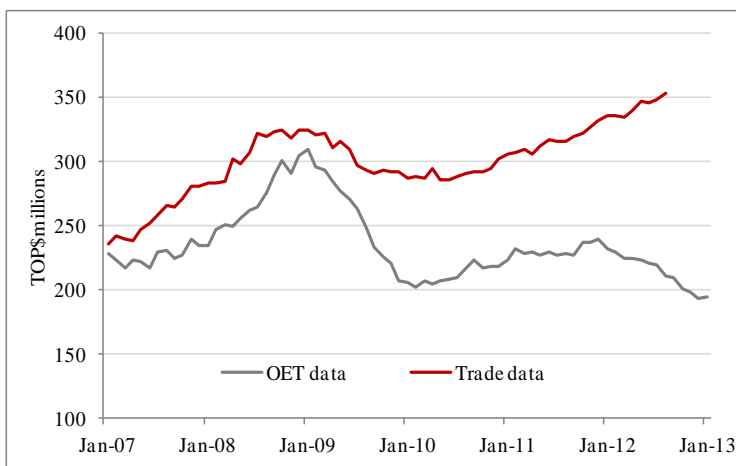


Figure 32: Imports (year-ended)

Source: National Reserve Bank of Tonga

Year-ended foreign exchange payments, measured using the banks’ overseas exchange transactions, were little changed over the six months to February 2013. A 7 per cent fall in merchandise import payments offset rises in most of the other main payment categories.

The decline in import payments was broadly based. All key components recorded falls. The exception was oil payments, which rose through higher world oil prices. With the prices of other

³² Source of data for this section is the NRBT.

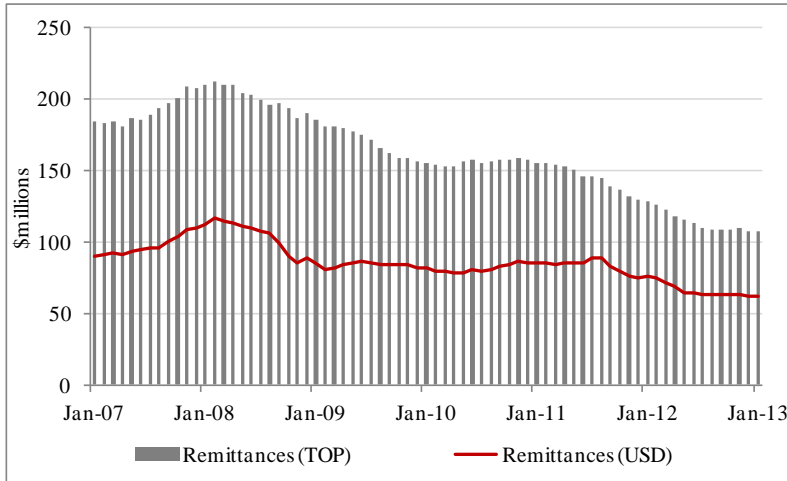
imported consumption goods being little changed over the past year, the general fall in imports is consistent with softer domestic demand. Import payments for construction materials fell particularly sharply, following the completion of major construction projects in the Kingdom.

Tonga’s official trade data, though not covering the most recent 8 months, are showing rises in imports from the start of 2012, whereas the overseas exchange transactions started showing declines. The NRBT suspects that a change in the structure of the foreign exchange market is contributing to this discrepancy, with Tongans now making more overseas payments through price-competitive foreign exchange dealers. To improve the relevance of the more-timely overseas exchange transactions data from the banks, the NRBT is investigating ways to supplement it with timely information from licensed and registered foreign exchange dealers.

8.5.3 Foreign Exchange Receipts

Year-ended receipts were unchanged over the six months to February. Falls in income and official services receipts offset increases in export and capital receipts. Remittance receipts were flat.

As a share of the Tonga Department of Statistics official measure of gross national disposable income, cash remittances are currently around 10 per cent, the lowest on record. The historical peak occurred in 2005, when the share was over 30 per cent. The fall represents a significant drag on Tongans’ disposable income. To a large extent the fall in remittances over recent years has been caused by deterioration in employment and growth outcomes in New Zealand, Australia, and the US. These are Tonga’s key sources of remittances, with information from Tonga’s foreign exchange dealers suggesting that Australia and New Zealand are the largest sources. (Using the banks’ OET data alone, remittances from the US were the largest share.) The planned improvements to the NRBT’s foreign exchange transactions data, discussed above, should help to clarify views on key sources and trends of cash remittances. In additions to these clarifications on cash remittances,



Tonga continues to receive large amounts on inkind remittances, but these have never been measured. In additions to these clarifications on cash remittances, Tonga continues to receive large amounts on inkind remittances, but these have never been measured.

Figure 33: Remittances (year-ended, overseas exchange transactions)

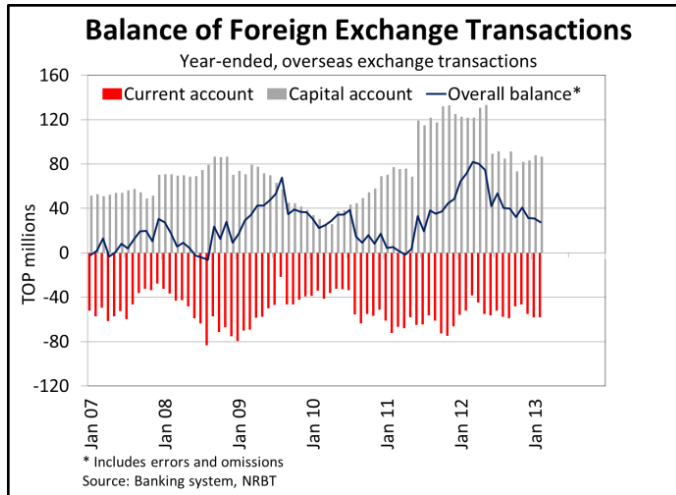
Source: National Reserve Bank of Tonga

Year-ended export proceeds grew by 27 per cent, to almost \$10 million, over the six months to February. Export proceeds from agriculture rose by 14 per cent, to \$4.3 million, and for fish by 14 per cent also, to \$1 million. Proceeds from other marine exports nearly doubled to \$1.9 million, mostly through a pick-up in coral and sea-weed proceeds. Sea cucumber proceeds were little changed at around \$300,000.

8.5.4 Balance of Payments

Looking through the volatility, the year-ended current account deficit widened over the six months to February, albeit only a little. The year-ended capital account surplus narrowed slightly, remaining well below the levels prevailing at around the same time last year. With the balance of

errors and omissions also falling, the overall balance of payments recorded a surplus of \$27.4 million, compared with a surplus of \$40.2 million over the year ended August 2012.



Source: National Reserve Bank of Tonga

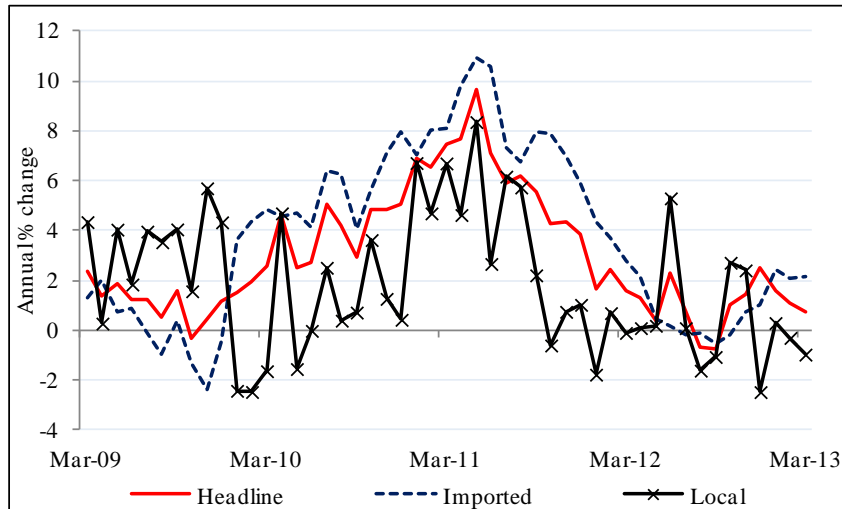
8.5.4.1 Outlook

The level of foreign reserves is expected to rise over the 2013 calendar year and to fall over the 2014 calendar year. The profile stems from four key expectations: Government foreign debt repayments are expected to rise, with repayments of the large loan from the Export-Import Bank of China commencing in September 2013; donor support may decline from its unusually high levels of the past few years; remittances are forecast to rise only slightly, following the improving global growth outlook; and imports are forecast to increase, on the back of the expected increase in remittances and an anticipated pick up in credit growth. The level of foreign reserves, however, is expected to remain comfortably above the NRBT benchmark of three to four months of import cover.

8.6 Monetary Outcomes³³

8.6.1 Inflation

Figure 34 - Annualized Inflation, 2008 – 2012



Source: Statistics Department and Ministry of Finance & National Planning

Headline inflation has fallen significantly. After reaching a peak of 9.7% in May 2011 (above the official reference of 6-8%), inflation plummeted to 0.8% in March 2013. On average, the annual inflation rate as of March 2013 reached 1% compared to 3.3% in 2011/12 and 6.1% in 2010/11.

The inflation rate for imported consumer goods³⁴ and services decelerated to 0.3% in the year ended June 2012 from 10.6% in the same period a year ago. The main contributors included falling global oil prices i.e. averaging around US\$95 per barrel³⁵ in June 2012 compared to US\$114 per barrel in June 2011. This fed into an annual 2% decline in retail fuel prices in June 2012 compared to 15% increase in June 2011. This further resulted in deflation of the “Household Operations” subsector, with a decrease of 2.3% for the year ending March 2013. Imported food prices also eased in June 2012 year-on-year particularly in the fruits & vegetables sub-group. Lower tobacco and alcohol prices also contributed to the lower import inflation.

Local inflation on the other hand increased to 5.3% in the year ended June 2012 compared to 2.7% in the same period a year ago, largely due to increases in local food prices particularly in the meat, fish & poultry sub-group (was up by 18% compared to a negative 6% in June 2011). Power prices also contributed to the higher local inflation in June 2012 – this is prior to the subsidy by government on power prices in July 2012 – September 2012, plus the impact of the solar farm, which brought down power prices by 9% from 93 seniti/ kilowatt.

On the demand side, further softening in cash remittances will have tended to remove pressure of prices, especially if spent on local goods. The end of the increased local activity, stimulated by the Chinese loan funded projects, will also remove any pressure on prices for local materials such as gravel and some local skills. Over the last 2 years the Tonga Pan’anga (TOP) has strengthened a little against the US and Australian dollars which will tend to dampen imported inflation as the TOP value

³³ Source of data for this section is the NRBT apart for inflation data from Statistics Bureau.

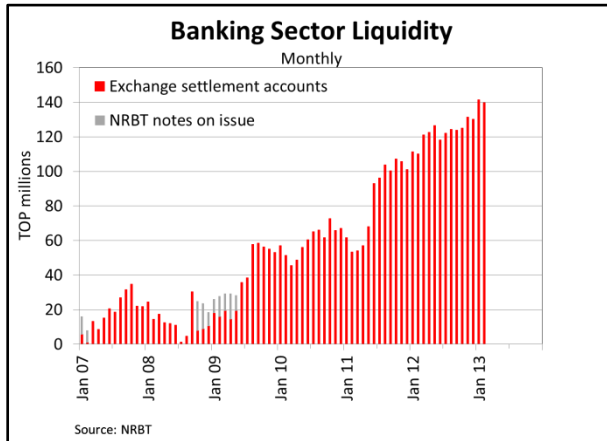
³⁴ Imported food and fuel together make up half of total imports in Tonga each year.

³⁵ Brent Crude oil prices (monthly average)

of goods like oil, denominated in USD, and consumer goods from both countries, will not rise as fast in TOP terms.

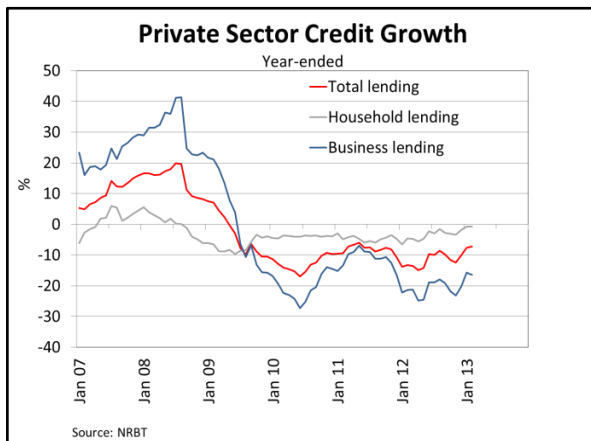
Going forward, inflation is expected to recover to a level consistent with historical trend (about 5.5%), given the stable commodity price outlook by the International Monetary Fund (IMF).

8.6.2 Liquidity

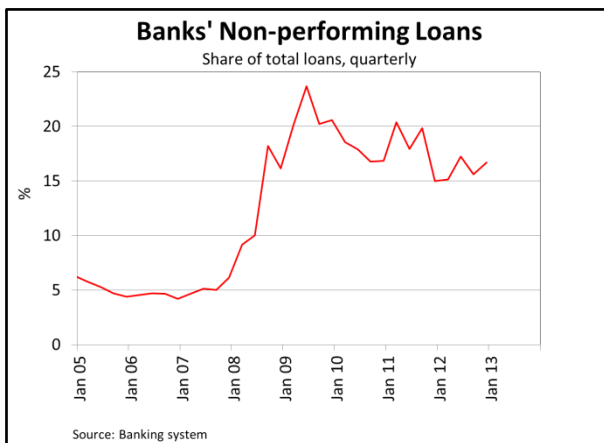


Liquidity in the banking system rose by 12 per cent, to \$139.7 million, over the six months to February 2013. The rise was underpinned by a net increase in foreign reserves, which the NRBT decided to leave in the banking system. The decision was aimed at supporting more positive economic outcomes through falls in interest rates. At the end of February the level of liquidity equated to 17 per cent of nominal GDP and 27 per cent of banking system assets, both high figures.

8.6.3 Private Sector Credit Growth



Despite interest rates being little changed recently, credit growth is less negative. Total private sector credit contracted by 7 per cent over the year ended February 2013, compared with a 9 per cent fall over the year ended August. The slight improvement in credit growth was driven by lending to the business sector. Household sector credit growth was also less negative.



In recent years an increasing share of lending has been originated outside of the banking sector: in 2011 the Retirement Fund Board (RFB) started offering non-housing personal loans to its members; in 2010 a privately owned microfinance enterprise, South Pacific Business Development (SPBD), started providing financial services to individuals and community groups who otherwise have difficulty meeting banks' lending criteria; and in 2008 the Government started on-lending large amounts of a loan from the Export-Import Bank of China for major infrastructure projects in the Nuku'alofa central business district. While the on-lent amounts of the China loans have been fully extended for over 12 months now, the amounts of the other loans have grown. Had RFB and SPBD been included in the aggregate financial system figures, household sector credit would have grown by 5.1

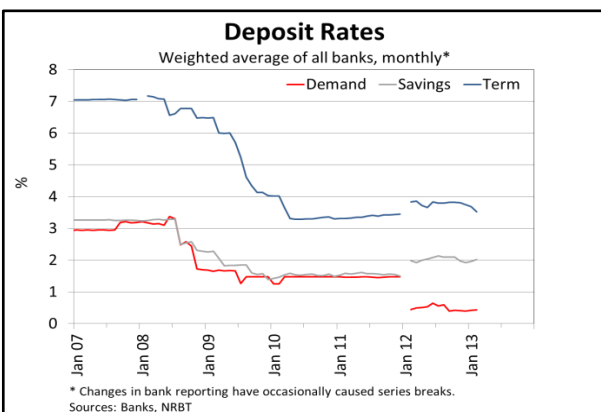
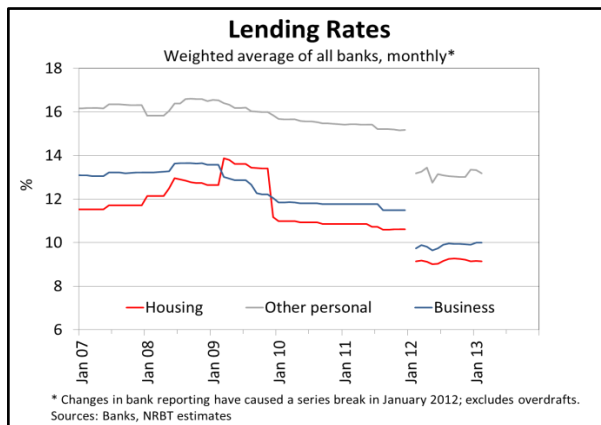
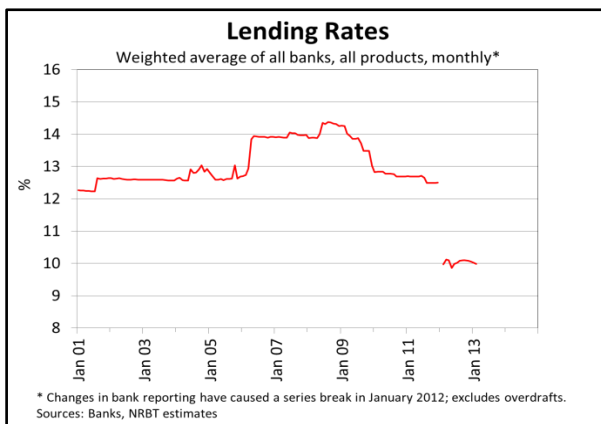
included in the aggregate financial system figures, household sector credit would have grown by 5.1

percent over the year-ended February and overall credit would have contracted by 4.2 per cent. A range of finance companies have for a long time provided loans outside of the banking sector. Data is not collected on their activities.

Still, these growth rates are well below the average rates recorded over the ten years that preceded the global financial crisis. With the frequency of borrower defaults having increased markedly in June 2008, and having remained elevated since, banks have responded by tightening their lending criteria; borrowers have had difficulty servicing their debts because remittances and other sources of disposable income have fallen. A weak and uncertain short-term economic outlook is likely to have reduced the number of attractive lending opportunities as well.

At the end of February 2013, lending to the household sector accounted for 58 per cent of total private sector credit, and lending to the business sector accounted for 41 percent. Household lending was directed mostly to housing.

8.6.4 Interest Rates



While the initial increases in banking sector liquidity helped to reduce banks' lending rates, particularly around 2009, more recent increases have been less effective. So, to help reduce rates further, the NRBT removed all interest payments on banks' Exchange Settlement Accounts in November last year. Since then some banks have indeed offered loans at lower rates or longer terms.

The lower interest rates do not yet show in the official data, probably because take-up has so far been small compared with the stock of existing loans. Over the six months to February, the weighted average rate for housing lending fell by 10 basis points, for other personal lending rose by 15 basis points, and for business lending rose by 5 basis points. Lending rates overall appear to be low by the standards of the past decade, though recent improvements to reporting requirements are complicating historical comparisons.

Weighted average rates received on deposits fell over the six months to February: rates on demand deposits fell by 15 basis points, on savings deposits by 10 basis points, and on overall term deposits by 25 basis points. Rates on term deposits with maturities of between one and two years increased though.

8.6.4.1 Outlook

The NRBT's current monetary policy settings are designed to support a pick-up in credit growth, the drag created by the post-crisis reduction in banks' risk appetite seems to be fading, and recent discussions with banks suggest that several large loans are in the pipeline for public enterprises. At the same time, other factors are likely to continue weighing on banks appetite for lending, particularly the ongoing uncertainty in Tonga's economic outlook. Overall we expect growth in total banking system credit to increase over the next year, to be flat or slightly positive by February 2014. Structural reforms aimed at improving the lending environment could provide further support to credit growth. With foreign reserves expected to pick up slightly over the remainder of the 2013 calendar year, the level of system liquidity will remain.

8.7 Social and Community Outcomes

8.7.1 Tonga Millennium Development Goals' (MDG) Progresses

Over the years of the MDG journey, the Kingdom of Tonga completed two MDG assessment reports and a Snapshot review.

The MDGs are integrated into the TSDF, as well as the Government Budget Statements, so monitoring their progress provides a good indicator of high level progress against the TSDF. The last full report was launched by the Government, development partners and relevant stakeholders in November 2010,

A series of activities – sports, prayer meetings, awareness parades, demonstration cooking of healthy foods – nationwide were held to mark the importance of MDGs in September 2011 with the theme of “Fight the waves swim on”. It emphasizes the significance of maintaining our focus in the right direction and move forward despite distracting factors around us. The same initiative was conducted on in November 2012 with the theme “The best is yet to be”. We cannot afford to congratulate ourselves on what we have achieved now and lose sight of many more successes that is yet to come.

While sharing the sense of MDGs ownership with stakeholders and the public, consistency in the MDGs messages are also paramount. The MDGs Taskforce in conjunction with UNDP hosted training for the Media Community in Tonga as part of the ongoing enhancement of partnership with the media and to ensure that the public benefits from the same MDGs messages.

Proactively, Tonga is now looking beyond the end of MDGs journey in 2015. A planned public dialogue on MDGs National Post 2015 is scheduled toward the mid 2013. This Public Dialogue envisages centralizing on what could come after 2015. This event will be co-hosted by the MDGs Taskforce, Academia of the University of the South Pacific and the Ministry of Finance and National Planning. Between key MDGs stakeholders, there are strong aspirations to discuss International Conference on Population Development (ICPD) and MDGs in one framework of National Development given the share similar objectives and use similar data.

8.7.1.1 MDG Acceleration Framework (MAF)

Despite progresses against most indicators, the second MDGs report 2010 and the Snapshot review of Tonga MDG 2012 indicated that there are three lagging areas: related to alleviation of poverty, gender equity and health. The three MDGs indicators showing this are:

- **MDG Indicator Number 1.1:** proportion of the population living below the Basic Needs Poverty Line increased from 16.2% in 2001 to 22.5 % in 2009. The poverty gap index measuring depth of poverty has increased from 4.4 in 2000 to 6.3 in 2009;

- **MDG Indicator Number 3.3:** the proportion of female representation in the National Parliament was 3.3% in 2009, which places Tonga at one of the lowest rankings in the world on this particular indicator (although women do very well on many other indicators);
- **MDG Indicator Number 6.7-6.10:** Tonga is ranked in the top 10 for diabetes prevalence. According to the latest STEPs Survey in 2003, the overall prevalence of diabetes in Tonga is estimated at 15.1% which is a double of the prevalence rate in 1973.

Government, in partnership with the Asian Development Bank and Japan Fund for Poverty Reduction, is already working on Target 1.1 by a pilot project to protect vulnerable population groups (especially the aged and disabled). Government also introduced in 2012 the National Retirement Benefit Scheme for the population above the age of 75 to provide a measure of financial security and to alleviate financial hardship in old age.

In recognition of our past MDGs successes and our strong desire to put lagging indicators on track, the United Nations Development Programme agreed to include Tonga in the MDG Acceleration Framework which focuses on addressing these lagging areas.

The final consensus for the application of MAF focuses on Goal 6C with the understanding that MDG Goal 1 (Poverty) and MDG Goal 3 (Gender Equality and Empower Women) will also be considered in the framework of achieving Goal 6C since the falling life expectancy and rising death rate related to the NDCs is become a national crisis.

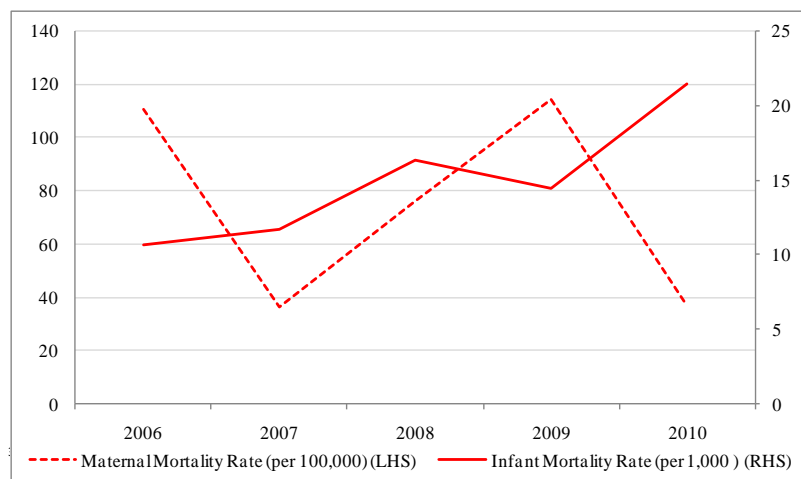
8.7.2 Health Performance³⁶

Under the Constitution the people of Tonga are entitled to free health care. While government strives to meet this entitlement, it is impossible to fulfill this to the full extent possible given the major advances in health technology. The health expenditure runs at over \$200 per capita. Government continues to provide nearly all of the health services in the country, apart from a few private clinics, mostly staffed by government doctors entitled to run their own clinics after hours. A small amount of traditional health practices are also available.

The incidence of NCDs is at a national crisis level with major increase in diabetics and heart conditions. The incidence of obesity is among the worst in the world. The key challenges in reducing NCD control relate to the risk factors that drive NCDs: poor diet, lack of physical activity, and the consumption of alcohol and tobacco.

The NCD crisis is resulting in an increased number of people dying in mid-life. Between the period 2001-2004 and 2005-09, life expectancy for males dropped from 69 to 65 years and for females from 72 to 69 years.

Figure 35 – Maternal and Infant Mortality Rates 2006-2010



Source: Ministry of Health

Over the period 2006 to 2010 there has been no clear trend in maternal mortality with it fluctuating between 110 and 37 deaths per 100,000. The infant mortality rate,

however, has shown a steady upward trend, rising from 10.7 to 21.5 deaths per 1,000 births.

8.7.3 Education Performance³⁷

Education is a high priority to both to government and to the people. It is compulsory for students to attend school up to the age of 18 or 19. To facilitate this primary schools have been established on most islands/villages where there is a population of primary school age students. Given the scattered nature of the country this has resulted in many small schools.

Over the period 2010 to 2012 there has been a 2% increase in the number of children going to primary school from 16,848 to 17,182. This has, however, been associated with a 2.1% decline in the number attending government primary schools, while the number attending non-government schools has jumped by 34.0%. Government still educates over 85% of primary school kids.

Overall, about 110 boys attend primary school for every 100 girls. The ratio is more balanced for non-government than for government schools. The ratio in non-government schools has switched from 108 boys per 100 girls to only 96 boys. This means a large part of the surge in primary school attendance in these schools has been from girls.

Both systems have increased the number of primary teachers over this period: government by 17.4% while the non-government sector has jumped by 32.7%. Because of the large jump in primary school kids attending non-government schools they have retained an average ratio of about 19 students per teacher. This remains better than government schools despite their ratio falling from 26 students per teacher to just fewer than 22. Over 70% of primary teachers are female.

For secondary education there has been little change in the total number of students (about 14,800), but there has also been a fall, of 3.2%, in students attending government schools, while non-government school attendance has risen by 2.1%. Nearly two-thirds of secondary students attend non-government schools.

At secondary level the ratio of 104 boys per 100 girls is more balanced than at primary, suggesting that more boys drop out than girls. Government schools, however, have about 125 boys per 100 girls, while non-government schools have only 94 boys per 100 girls.

During these three years there has been a drop of 8.2% in the number of teachers in government secondary schools, while the number has expanded by 7% in non-government schools. There has been little change in the student-teacher ratio, with non-government having about 13 students per teacher, well ahead of government schools with about 19. Females make up slightly over half of the teachers at secondary. Teachers in non-government schools, however, are more likely to be untrained.

At the post – secondary level there has been continued support for the Tonga Qualification and Accreditation Board to register all education and training providers at the level and to accredit their course. Institutions will continue to be supported even when this process is completed to ensure that institutions continue to offer students quality programmes with are nationally, regionally and internationally recognised and meet the development needs of Tonga. Assistance to institutions includes curriculum reform, and teacher and resources upgrading.

Open-school is an initiative to provide an additional avenue of opportunity for those who have left the system already without acquiring any formal qualification; are at work and wish to upgrade themselves; or to pursue further other career options; or are unemployed or are young mothers who wish to pursue further education in their own time.

³⁷ All Education statistics come from the Ministry of Education and Training

8.7.4 Changing demographics in Tonga

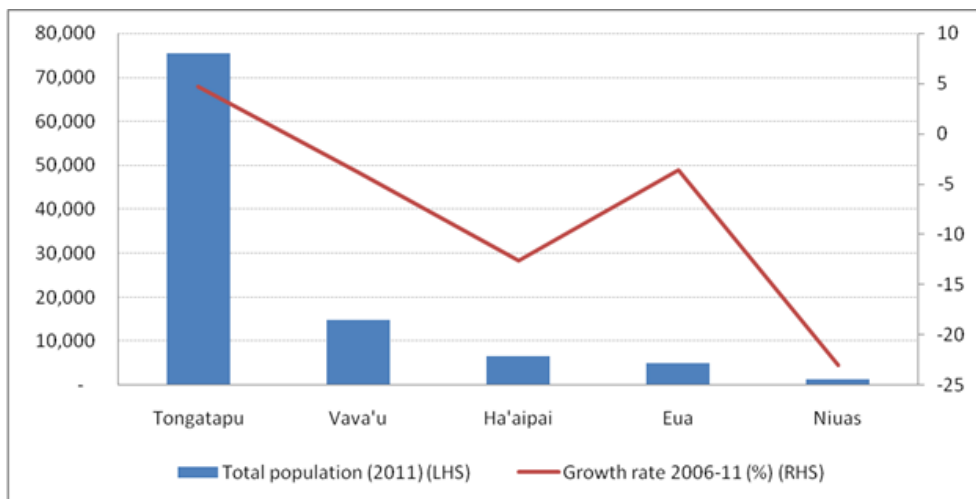
The preliminary analysis of the 2011 Populations Census is now available. The population of Tonga grew at an average annual rate of 0.2% from 101,911 (2006 Census) to 103,036 (2011 Census). Despite a total fertility of about 3.8, the small actual increase reflects the large and continued net out migration from the Kingdom. Tongan household increased 3.4% in total from 17,462 to 18,053 resulting in an insignificant fall in average household size from 5.8 to 5.7 persons.

Tonga has 170 islands with approximately 33 inhabited. They are grouped into five major island groups, with 73% of the population resident on Tongatapu. There has been a steady net migration from the four outer island groups to Tongatapu between the two censuses. This movement has also been associated with an annual growth in urban population of 0.5% and rural population of 0.2%.

The population movements reflect the greater opportunities and better infrastructure available on Tongatapu, and in particular Nuku'alofa. These movements have consequences for where to build infrastructure and provide services. It also means that land on outer islands is increasingly being left idle while there is more pressure on land in Tongatapu, in particular in the urban areas.

The size of the population on each group, and its growth are shown in Figure 37.

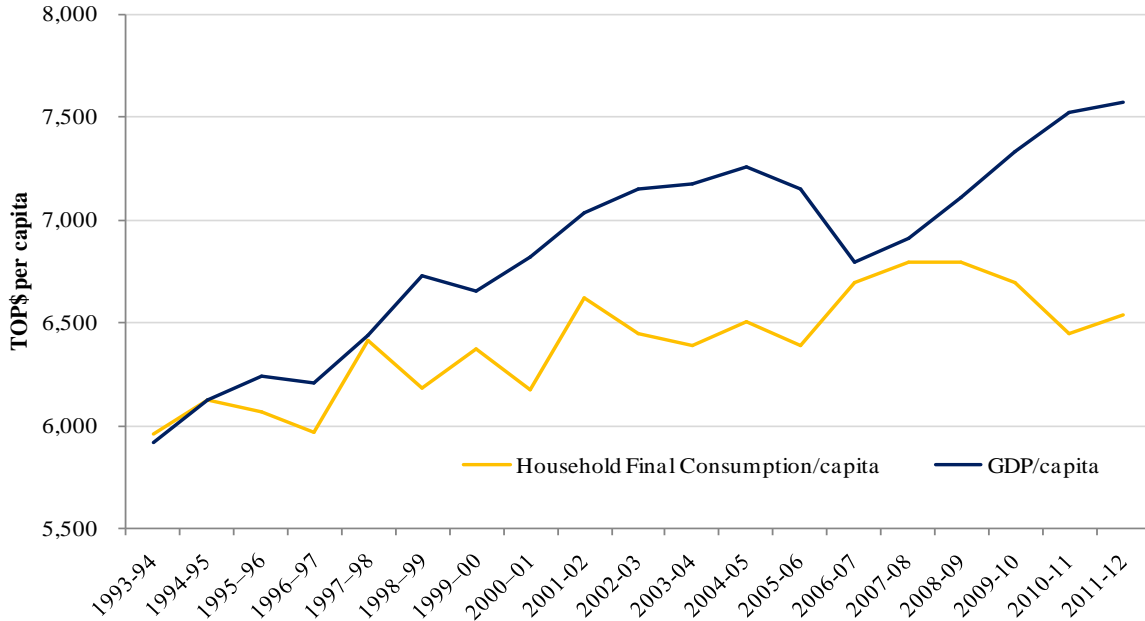
Figure 36 – Population by Island Group in 2011 population growth between 2006 and 2011



8.8 Poverty Reduction and Social Protection Outcomes

Detailed poverty data is only collected every five years. The last time was 2009, which showed worsening poverty, but since it took place during the depth of the Global Financial Crisis (GFC), the recent GDP growth may have helped improved conditions. Figure 2 shows how GDP/capita has grown with the boost in expenditure. GDP, however, is not intended as a measure of welfare. The recent growth in GDP was investment driven. After a continuous decline since 2009/10, household final consumption per capita in 2011/12 picked up. This supports the observation that underlying growth is holding up.

Figure 37 - GDP and Household Final Consumption per capita 1993/94 to 2011/12 (2010/2011 prices) pa'anga



Source: Statistics Department

The Asian Development Bank and the Japan Fund for Poverty Reduction (ADB/JFPR) grant project aims to assist the government in improving socioeconomic opportunities for the vulnerable population to alleviate the impact of recent economic crises, and building capacity to develop and implement effective safety net programmes. The project consists of the three main components: **Component A:** support for disadvantaged with access to microfinance, and social assistance services for other vulnerable groups; **Component B:** public consultations and capacity development and design social programmes for the most vulnerable; and **Component C:** a regional knowledge sharing workshop on social safety net programmes. The total grant amount allocated for Tonga is US\$900,000.

A joint effort between the ADB/JFPR Project Management Unit and the Government of Tonga resulted in a social service design for the Elderly and the Disabled, integrating services and oversight provided by contracted NGOs and Government. The pilot social services began on August 2012 and will continue until July 2014. A key aspect of this project is to assist the Government of Tonga in a pro-poor policy review and to assist in the drafting of a social service policy that will support ongoing services for vulnerable citizens. The budget for pilot social services to the elderly and the disabled is estimated at TOP\$300,000 per year.

The ADB/JFPR Project Management Unit and the Government of Tonga is working with the Tonga Development Bank to design a Micro-finance loan product that will favour the most vulnerable individuals and groups residing in village communities throughout Tonga. The goal of the product is to create income generating opportunities and increase financial literacy and experience for the most vulnerable. This joint effort between the Government of Tonga, the Asian Development Bank, and the Tonga Development Bank strives to create a micro-finance loan product that has a robust training component, an interest rate that is substantially lower than the current market rates, low or no fees, no collateral, grace period of up to three months, and mandatory savings. The pilot micro-loan product will be available in June 2013 and will pilot for twelve consecutive months, with the possibility to continue thereafter. The budget for pilot micro-finance loan product for the most vulnerable is estimated at TOP\$400,000 per year.

9 ANNEX II: FISCAL REVIEW OF THE BUDGET

9.1 Government Financial Development

BUDGET THEME: "Continuing to Create Opportunities by Building on Inclusive Sustainable Growth"

9.1.1 Overview

On a GFS basis, the Government's overall fiscal balance for 2013/2014 is an estimated surplus of \$15.3 million. This is a significant swing from the \$8.0 million deficit estimated outturn for 2012/2013, caused primarily by the end of the China EXIM Bank loan drawdown.

Total expenditure and net lending will increase by \$24.7 million over 2012/2013 outturns. This is driven by a significant increase in the value of donor-funded capital projects, and also coincides with new domestically funded initiatives such as the social welfare scheme, and private sector marketing fund.

Total revenue and cash grants³⁸ will increase by \$48.0 million from the 2012/2013 estimated outturn. This increase is overwhelmingly driven by increase in grants (which include project grants and budget support) of \$42.2 million. With grant receipts during 2012/2013 falling well short of original estimates, 2013/2014 is expected to see a significant upswing. The primary sources of budget support funding for the 2013/2014 year are expected to be Australia (\$8.8 million), World Bank (\$8.5 million), and the Asian Development Bank (\$7.6 million). Government tax revenue projected for 2013/2014 will reach \$135.2 million, an increase of \$4.1 million compared to the estimated 2012/2013 outturn.

Preliminary data indicates that Government will generate a total GFS budget deficit of \$8.0 million for 2012/2013, while the estimated result for 2013/2014 is a surplus of \$15.3 million. Once again, increased budget support and cash grant receipts, along with a moderate increase in government revenue are expected to be the main drivers of the improved budget result. While total expenditure is also estimated to increase during 2013/2014, it will rise by a smaller amount than total revenue.

The other notable feature of the 2013/2014 budget estimate data is the commencement of principal repayments on the China EXIM loan. The budget surplus of \$15.3 million will be primarily directed towards these scheduled repayments, which will continue beyond the 2013/2014 year.

³⁸ This version of the GFS format does not include in-kind grants, only in-kind loans because they affect the total financing. In-kind grants would increase total expenditure and total revenue by the same amount leaving the balances unchanged.

Table 11 shows the Government’s overall fiscal position using the Government Financial Statistics (GFS).

Table 11 - Overall Fiscal Balance (Current \$ million)

	Actual 2011/12 (p)	Budget Estimate 2012/13	Est Outturn 2012/13	Budget Estimate 2013/14	Projection 2014/15	Projection 2015/16
Total Revenues and Grants	219.3	217.8	194.5	242.5	216.4	207.1
Total Revenues	144.4	149.3	150.8	156.5	164.2	170.6
Project Grants	37.9	46.0	32.0	50.3	31.8	15.9
Budget Support	37.1	22.5	11.8	35.7	20.4	20.6
Total Expenditure and Net Lending	241.5	220.7	202.5	227.2	203.4	187.5
Total Expenditure	232.4	220.2	202.5	226.7	203.0	187.3
Net lending	9.0	0.5	(0.0)	0.4	0.4	0.2
Total Budget Balance	(22.1)	(2.9)	(8.0)	15.3	13.0	19.6
Total Financing	22.1	2.9	8.0	(15.3)	(13.0)	(19.6)
External financing	41.2	(1.2)	1.9	(15.3)	(18.5)	(21.1)
Domestic Financing	(19.1)	4.1	6.1	(0.0)	5.4	1.5

Note: Budget Estimate 2012/13 includes a supplementary budget of \$4.1million

Source: Ministry of Finance and National Planning

Box 1: Government Domestic Payments and Receipts

The Budget Statement is presented on a GFS basis to meet international standards. However, a key interest of government is the total funds under its direct control. Before the introduction of the integrated budget this was referred to as the Recurrent Budget. This treats loan repayments differently to the GFS. Repayment of debt is treated as “expenditure” and drawdown of loans as “revenue”, while in the GFS these are recorded under financing. Total Government controlled expenditure and revenue is thus better called payments and receipts to avoid confusion with the terms under the GFS.

Government Cash Payments and Receipts

	Actual 2011/12 (p)	Budget Estimate 2012/13	Est Outturn 2012/13	Budget Estimate 2013/14	Projection 2014/15	Projection 2015/16
Total Payments	166.1	184.1	176.8	198.8	197.4	199.9
Wages and Salaries	85.2	95.9	97.2	98.9	99.5	100.5
Purchase of Goods and Service	22.1	25.0	22.8	22.6	21.5	21.7
Debt Management	15.9	23.7	21.0	31.2	34.7	36.8
Other	42.9	39.4	35.7	46.1	41.7	40.9
Total Receipts	185.1	180.0	171.2	198.8	191.9	198.5
Government Domestic Receipts	148.1	157.5	159.3	163.1	171.5	177.9
Budget Support	37.1	22.5	11.8	35.7	20.4	20.6

NOTE: Budget Estimate 2012/13 includes a supplementary budget of \$4.1million.

NOTE: Wages and Salaries of \$98.9 million includes all expenditure items under category 10 (Established Staff Expenses) a total of \$96.3 million and category 11 (Unestablished Staff Expenses) a total of \$2.7 million.

NOTE: Debt Management includes repayment of interest and principal on domestic and foreign loans, plus other minor items not included in debt service in the debt analysis. (see note on debt in Annex I)

NOTE: Payments include expenditure plus repayment of debt, while Receipts include revenue, budget support and domestic loan drawdowns.

Estimated payments during 2012/13 were lower than their original budget estimates. Receipts were also substantially short of the original estimate, primarily caused by a lower than anticipated inflow of budget support from the World Bank and non-receipt from the European Union. Total Government payments are expected to increase by \$22.0 million, or 12.4 percent, during 2013/14, with new donor-funded initiatives planned. Government is committed to a balanced cash budget during 2013/14.

9.1.2 Revenue and Grants

The 2012/2013 financial year saw the estimated outturn for total revenues and grants fall significantly short of the original budget estimate. The shortfall of \$23.3 million was primarily caused by lower than anticipated receipts of grants – both project grants and budget support. Budget support that was scheduled to be received from the European Union was not received, and the level of World Bank budget support was also well below the budget estimate.

Partially offsetting the gap between the budget estimate and the estimated outturn is a higher than previously estimated level of income and profit tax; the outturn exceeding the original estimate by \$8.1 million. This was largely driven by a one-off payment for the Westpac Bank of Tonga's staff retirement.

Total revenue and grants are projected at \$242.5 million for 2013/2014, which is \$48.0 million more than the estimated outturn of \$194.5 million in 2012/2013. Total revenue is expected to increase incrementally in nominal terms, with consumption tax and other taxes being the primary sources of revenue growth. The bigger story lies in grants revenue, where a sharp projected increase in both project grants (up \$18.3 million) and budget support (up \$23.9 million) will transform the total grants figure for the 2013/2014 estimate. For more information on specific grants initiatives and partners, refer to section 9.1.2.4.

Preliminary projections for the 2014/2015 and 2015/2016 years see gradual increases across the board in current revenue categories, while grants revenue is projected to be sharply lower, pulling down the total revenues and grants figure. This is caused by a conservative approach to projecting grant revenue, whereby only currently known projects are included in the projection. New projects that are agreed upon and funded during the projection period will cause the grants figure to increase.

Table 12 sets out the detailed components of revenue and grants estimates in 2013/2014 and the variation between the two outer fiscal years.

Table 12: Total Revenue and Grants (Current \$ million)

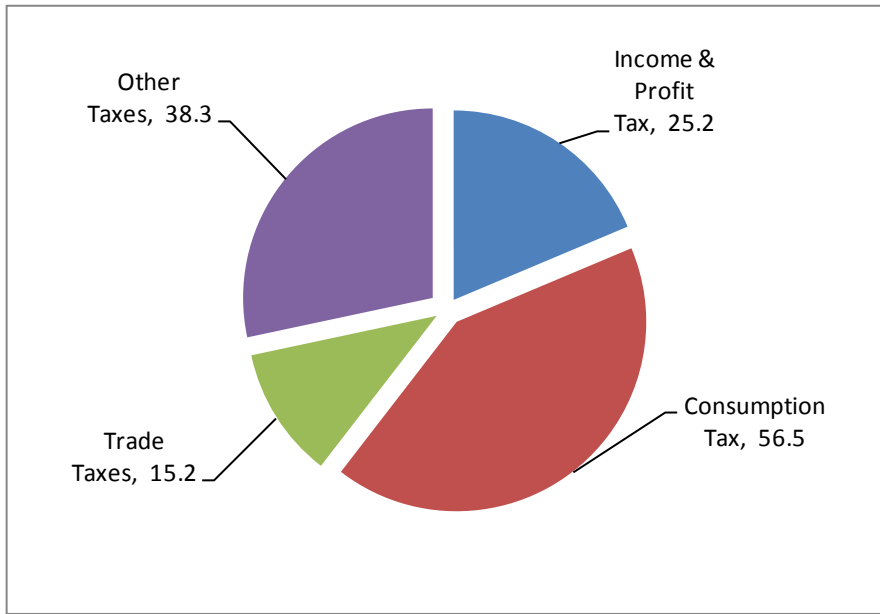
	Actual 2011/12 (p)	Budget Estimate 2012/13	Est Outturn 2012/13	Budget Estimate 2013/14	Projection 2014/15	Projection 2015/16
Total Revenues and Grants	219.3	217.8	194.5	242.5	216.4	207.1
Total Revenues	144.4	149.3	150.8	156.5	164.2	170.6
Current Revenue	144.2	147.0	150.1	155.7	163.4	169.8
Tax Revenue	126.8	127.7	131.1	135.2	142.3	148.0
Income & Profit Tax	25.3	21.3	29.4	25.2	27.4	28.6
Consumption Tax	54.7	56.0	54.7	56.5	59.1	61.7
Trade Taxes	13.6	13.9	14.7	15.2	16.5	17.2
Other Taxes	33.2	36.6	32.2	38.3	39.4	40.6
Non-Tax Revenue	17.4	19.3	19.0	20.5	21.0	21.8
Capital Revenue	0.2	2.3	0.7	0.8	0.8	0.8
Grants	75.0	68.5	43.8	86.0	52.2	36.5
Project Grant	37.9	46.0	32.0	50.3	31.8	15.9
Budget Support	37.1	22.5	11.8	35.7	20.4	20.6

Source: Ministry of Finance & National Planning

9.1.2.1 Tax Revenues

Tax revenues for 2013/2014 are expected to improve by \$4.1 million or 3.1% in nominal terms from the estimated 2012/2013 outturn. Consumption tax will continue to account for the largest portion of tax revenue, at 41.8%. The following pie-chart depicts the contribution of tax revenue components to the total.

Figure 38 - Tax Revenue 2013/14 (\$ million)



Source: Ministry of Finance & National Planning

Note: Other Taxes comprise– Tax on Property, Excise, Business and Property Licenses, Motor License and Registration, Other taxes on use of goods and services.

9.1.2.1.1 Taxes on Income & Profits

Taxes on Income & Profits for 2013/2014 are estimated at \$25.2 million. This is a reduction of \$4.2 million from the 2012/2013 estimated outturn. The estimate for Income Tax (PAYE) in 2013/2014 shows a \$1.4 million or 10.0% reduction against outturn for 2012/2013 as a result of a one-off payment for the Westpac Bank of Tonga’s staff retirement. The corporate tax estimate for 2013/2014 is expected to fall short of the 2012/13 outturn by approximately \$2.7 million, or 18.1%. The following table portrays the components of taxes on Income & Profit.

Table 13: Taxes on Income & Profits (Current \$ million)

	Actual 2011/12 (p)	Budget Estimate 2012/13	Est Outturn 2012/13	Budget Estimate 2013/14	Projection 2014/15	Projection 2015/16
PAYE	12.4	11.1	13.9	12.5	13.4	14.0
Corporate tax	12.0	9.2	14.9	12.2	13.4	14.0
Tax Debts Recovered (Corporate)	0.9	1.0	0.7	0.5	0.5	0.6
TOTAL	25.3	21.3	29.4	25.2	27.4	28.6
PAYE %	49%	52%	47%	50%	49%	49%
Company Tax %	47%	43%	51%	48%	49%	49%

Source: Ministry of Finance & National Planning

9.1.2.1.2 Consumption Tax

Consumption tax for 2013/2014 is estimated at \$56.5 million showing an increase of \$1.8 million or a nominal 3.3% from the estimated outturn 2012/2013. The 2012/13 estimated outturn shows a dip in domestic consumption tax, with the majority of the growth in 2013/14 consumption tax revenue expected to come from a domestic consumption tax rebound.

Strong ongoing domestic and import consumption tax performance is aided by improved compliance.

Table 14: Consumption Tax (Current \$ million)

	Actual 2011/12 (p)	Budget Estimate 2012/13	Est Outturn 2012/13	Budget Estimate 2013/14	Projection 2014/15	Projection 2015/16
Consumption Tax - Import	46.2	47.7	48.4	48.0	50.2	52.5
Consumption Tax - Domestic	5.6	7.0	4.8	7.5	7.8	8.1
Government Consumption Tax	2.4	0.3	1.2	0.3	0.3	0.4
Tax Debts Recovered (CT)	0.6	1.0	0.4	0.7	0.7	0.7
Total	54.7	56.0	54.7	56.5	59.1	61.7

Source: Ministry of Finance & National Planning

9.1.2.1.3 Excise Taxes

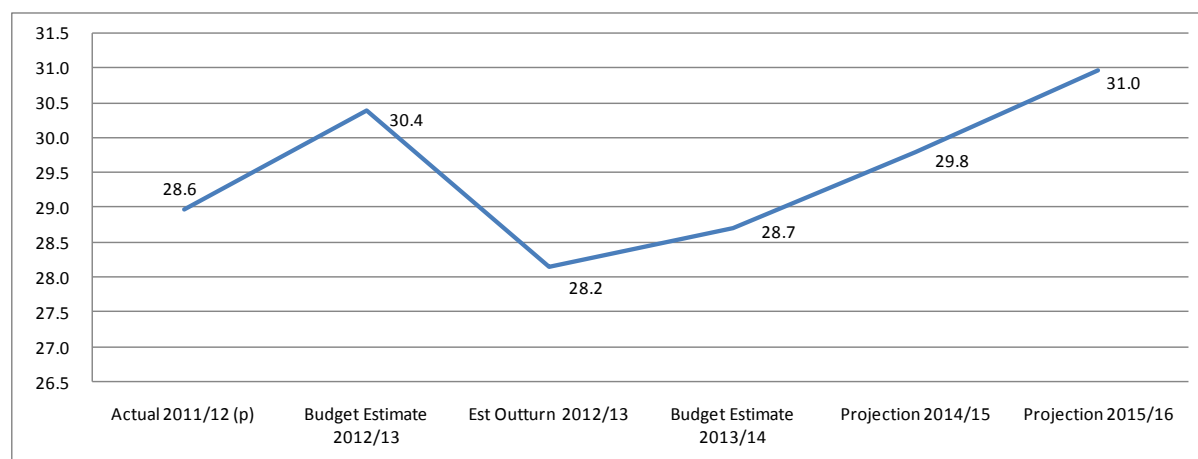
Excise tax is estimated to slightly pick up in 2013/2014 by \$0.5 million. This increase reflects the positive outcome of the amendments made to the Excise Tax Act which increase in the excise tax rate of tobacco by 25% from \$150 to \$200 per 1,000 sticks/kg. This positive growth does not take into account any behavioural changes in the market, whereby an increase in the level of taxation may cause a fall in demand.

Table 15: Excise Taxes (Current \$ million)

	Actual 2011/12 (p)	Budget Estimate 2012/13	Est Outturn 2012/13	Budget Estimate 2013/14	Projection 2014/15	Projection 2015/16
Excise Tax	29.0	30.4	28.2	28.7	29.8	31.0
Excise Tax - Government	0.008	0.010	0.001	0.010	0.010	0.011
Total	29.0	30.4	28.2	28.7	29.8	31.0

Source: Ministry of Finance & National Planning

Figure 39 - Excise Taxes (Current \$ Million)



Source: Ministry of Finance & National Planning

9.1.2.1.4 Trade Taxes

Tax on imports for 2013/2014 is expected to be \$0.5 million or 3.4% higher than the estimated outturn 2012/2013. The increase in trade tax collection will be driven by increased domestic consumption of imported items such as diesel and food.

Table 16: Import Taxes (Current \$ million)

	Actual 2011/12 (p)	Budget Estimate 2012/13	Est Outturn 2012/13	Budget Estimate 2013/14	Projection 2014/15	Projection 2015/16
Trade Taxes	13.6	13.9	14.7	15.2	16.5	17.2
Other Trade Taxes	-	0.040	0.003	0.040	0.040	0.040
Total	13.6	13.9	14.7	15.2	16.5	17.2

Source: Ministry of Finance & National Planning

9.1.2.2 Non-tax Revenues

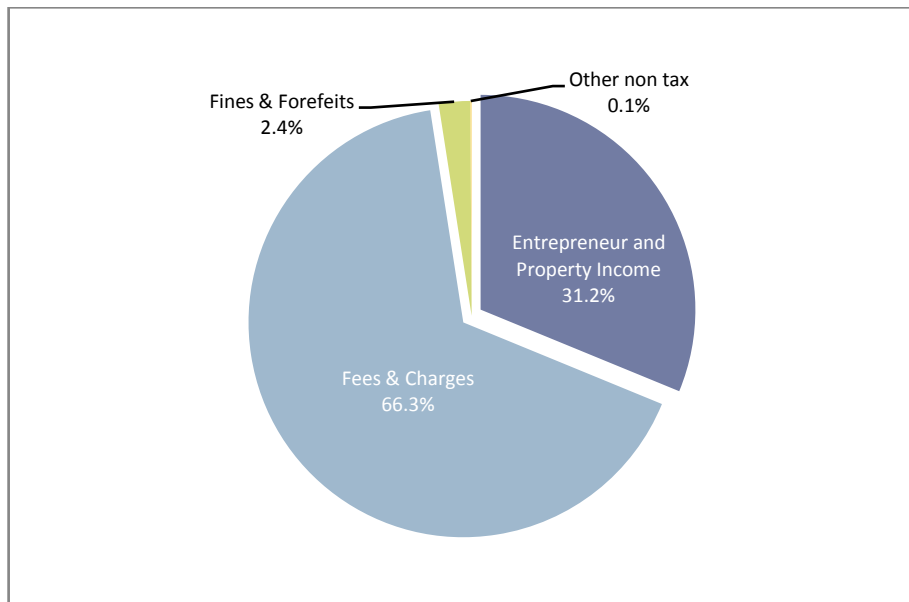
Non-Tax Revenue as shown in Table 17 below is expected to increase in 2013/2014 by \$1.5 million or 7.9% from the 2012/2013 estimated outturn. This increase is mainly derived from anticipated growth in Administrative Fees and Charges. Higher collection is expected from school fees, registration fees, and the hire of machinery.

Table 17 : Non-tax Revenue component (Current \$ million)

	Actual 2011/12 (p)	Budget Estimate 2012/13	Est Outturn 2012/13	Budget Estimate 2013/14	Projection 2014/15	Projection 2015/16
Entrepreneurial and Property Income	5.6	5.9	6.5	6.4	6.9	7.5
Administrative Fees and Charges	10.8	13.0	11.9	13.6	13.7	13.7
Fines and Forfeits	0.5	0.5	0.4	0.5	0.5	0.5
Other Non-Tax Revenue	0.5	0.0	0.1	0.0	0.0	0.0
TOTAL	17.4	19.3	19.0	20.5	21.0	21.8

Source: Ministry of Finance & National Planning

Figure 40: Non-tax Revenue component (%)



Source: Ministry of Finance & National Planning

9.1.2.2.1 Entrepreneurial & Property Incomes

No substantial changes in the size and composition of entrepreneurial and property income is expected in 2013/2014. Dividend receipts, along with interest earnings, Forum Fishing Agency (FFA) Treaty receipts, and Land Rentals are all anticipated to remain essentially static.

Table 18: Entrepreneurial & Property Income (\$ millions)

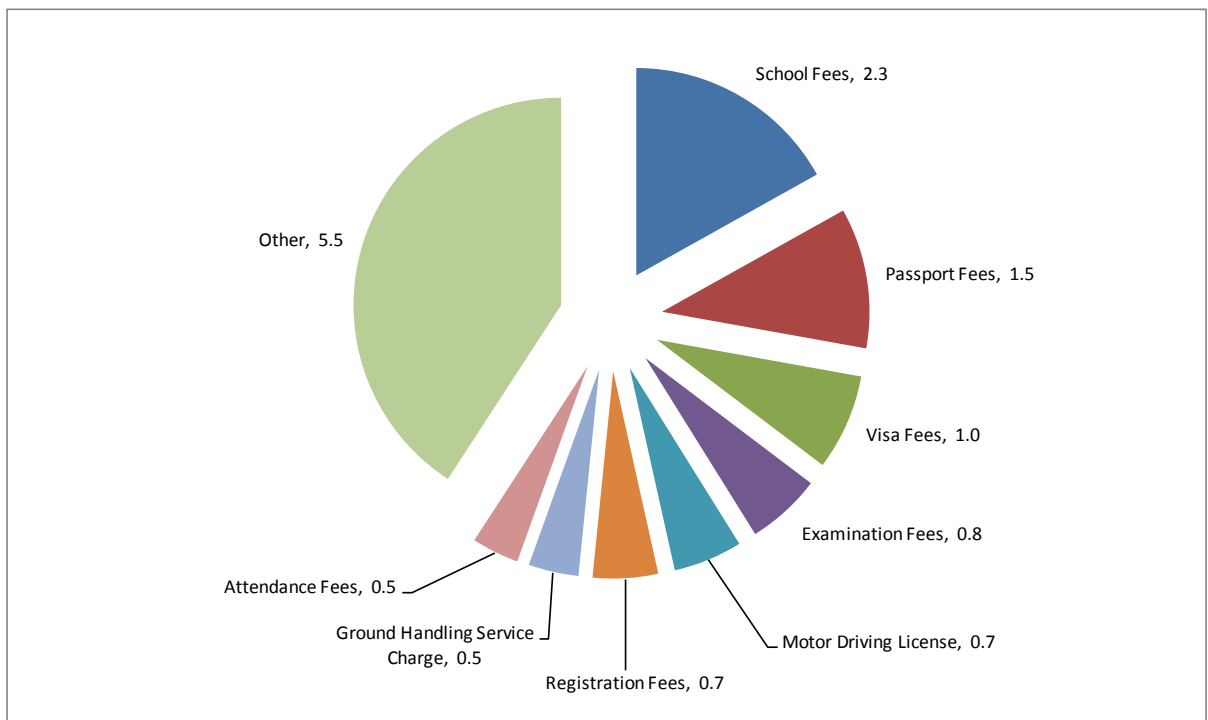
	Actual 2011/12 (p)	Budget Estimate 2012/13	Est Outturn 2012/13	Budget Estimate 2013/14	Projection 2014/15	Projection 2015/16
Interest	0.49	0.28	0.36	0.35	0.39	0.44
Dividends	3.72	4.95	5.50	5.40	5.86	6.48
FFA Treaty	0.98	0.30	0.30	0.30	0.30	0.30
Land Rental	0.38	0.33	0.37	0.33	0.33	0.33
Total	5.57	5.86	6.53	6.38	6.88	7.55

Source: Ministry of Finance & National Planning

9.1.2.2.2 Administrative fees & charges

Administrative fees and charges are projected to increase by \$1.7 million or 14.3% in 2013/2014 to \$13.6 million when compared to the 2012/2013 estimated outturn. Significant increases are expected in School Fees, Ground Handling Service Charges, and Export and Post Harvest Processing Fees due to a recently announced expansion of agricultural export markets. Registration Fees are also expected to increase.

Figure 41 – Major Revenue Items under Administrative Fees & Charges (\$millions)



Source: Ministry of Finance and National Planning

9.1.2.3 Capital Revenue

Capital revenue is estimated at \$0.8 million for 2013/2014 illustrating a \$0.1 million increase from \$0.7 million in 2012/2013 estimated outturn. The increase is due to payment of on-lent interest from sub-borrowers to Government. No substantial government asset sales are planned for 2013/2014.

9.1.2.4 Total Grants for 2013/14

9.1.2.4.1 Project Grants

Total Project Grants (cash) are expected to increase by \$18.3 million or 57.2% in 2013/2014, relative to the 2012/2013 estimated outturn. This increase is attributable to increased donor assistance and other projects still on-going from previous years. Australia, the Asian Development Bank, New Zealand, and the European Union are the primary sources of cash grant assistance.

Major projects for 2013/2014 are: Tonga Education Sector Project 2 (TESP) (Pooled Funds – Aust & NZ); Tonga Police Development Program (TPDP) (Pooled Funds – Aust & NZ); Nuku'alofa Urban Development Sector Project (ADB); Global Climate Change Alliance Project; Tonga Health Support Programme (AusAid); Tonga Governance Strengthening Programme (AusAid); Construction of the Niuatoputapu Hospital (EU).

9.1.2.4.2 Budget Support

Table 19 : Budget Support (Current \$ million)

Donor Countries	Actual 2011/12 (p)	Budget Estimate 2012/13	Est Outturn 2012/13	Budget Estimate 2013/14	Projection 2014/15	Projection 2015/16
Aust Fund (Budget Support)	8.9	9.0	8.7	8.8	8.8	8.8
Asian Development Bank (ADB) (Budget Support)	-	-	-	7.6	-	11.8
World Bank Budget Support	15.4	8.5	3.1	8.5	5.9	-
EU Budget Support	12.8	2.5	-	5.8	5.8	-
PNG Budget Support	-	-	-	5.1	-	-
TOTAL	37.1	22.5	11.8	35.7	20.4	20.6

Sources: Ministry of Finance and National Planning

The sharp decline in budget support received in 2012/2013 is due to non-receipt of EU budget support and significantly lower than anticipated levels of budget support from the World Bank. Budget support for 2013/2014 is expected to increase by \$23.9 million from the \$11.8m outturn 2012/2013, including \$5.1 million from a new source; Papua New Guinea.

9.1.3 Expenditure and Net Lending

9.1.3.1 Total Expenditure and Net-Lending

The government's overall expenditure and net lending for the financial year 2013/2014, as classified on a GFS basis, is expected to be \$227.2 million. This comprised of total expenditure of \$226.7 million, and a net lending of \$0.4 million. Total expenditure and net lending is expected to increase in 2013/2014, driven by contributions to the retirement fund, a significant percentage increase in expenditure on subsidies and transfers, and an increase in other purchases of goods and services.

The 2012/2013 year marked the final period of capital expenditure related to the Chinese EXIM Bank loan, with an anticipated increase in donor-funded capital expenditure for 2013/2014 boosting estimated capital expenditure for the year.

Table 20: Total Expenditures & Net Lending (Current \$ millions)

	Actual 2011/12 (p)	Budget Estimate 2012/13	Est Outturn 2012/13	Budget Estimate 2013/14	Projection 2014/15	Projection 2015/16
Total Expenditure and Net Lending	241.5	220.7	202.5	227.2	203.4	187.5
Total Expenditure	232.4	220.2	202.5	226.7	203.0	187.3
Current Expenditure	187.8	205.4	190.0	211.6	196.3	186.1
Wages and Salaries	83.6	90.0	91.1	92.5	92.0	91.8
Contr to Retire. Fund	7.4	9.0	7.5	9.9	10.0	10.1
Other Purchases of G&S	66.2	80.5	68.3	80.5	65.7	57.6
Interest Payment	6.5	7.0	7.2	6.9	6.7	6.3
Subsidies & Transfers	24.1	18.9	15.9	21.7	21.8	20.2
Capital Expenditure	44.7	14.8	12.6	15.2	6.7	1.1
<i>in which; Chinese EXIM Bank loan</i>	38.2	5.1	8.1	-	-	-
Net lending	9.0	0.5	(0.0)	0.4	0.4	0.2
<i>in which; Chinese EXIM Bank loan</i>	8.7	-	-	-	-	-

Source: Ministry of Finance & National Planning

NOTE:1. Budget Estimate 2012/13 includes a supplementary budget of \$4.1m 2. Wages and Salaries comprises of some expenditure items in category 10, 11 and 14 plus donor expenses. 3. Contribution to Retirement Fund comprises of transfer value and established staff contribution to retirement fund.

9.1.3.2 Current Expenditure

Current expenditure is expected to increase in FY2013/2014 by \$21.6 million from the 2012/2013 estimated outturn. Much of this increase results from projected increases in goods and services purchases associated with donor projects, along with a rise in subsidies and transfers. Current expenditure associated with donor projects is projected to increase in 2013/2014, due to a substantial anticipated increase in the receipt of donor funding.

Figure 42 - Total Current Expenditure for FY 2013/14 (\$ millions)

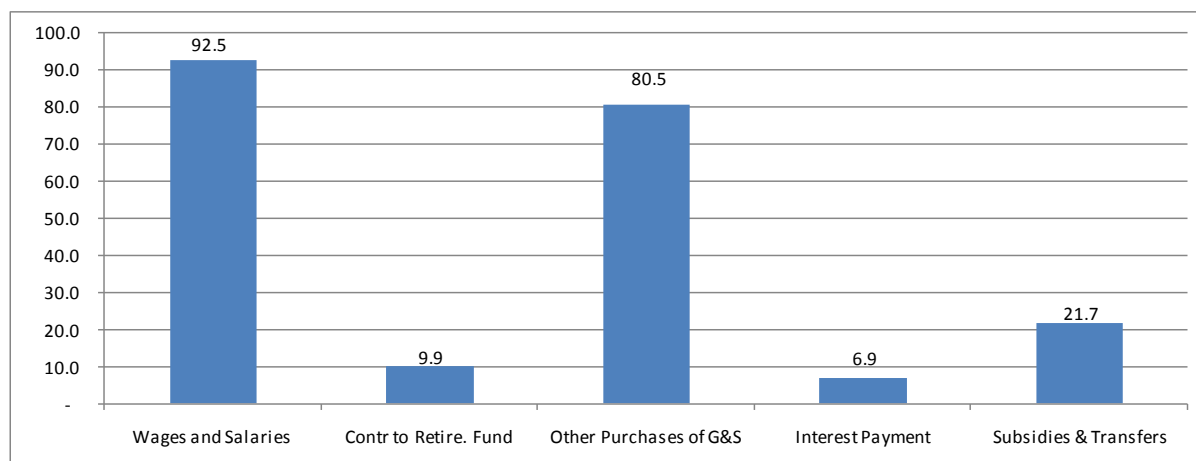


Figure 13 shows 2013/2014 current expenditure across the five major expenditure groups. Other purchases of goods and services account for the largest dollar value growth in proportion to total expenditure, while wages and salaries continue to account for the largest proportion of the overall budget.

9.1.3.2.1 Wages & Salaries

Total expenditures on wages and salaries for financial year 2013/2014 are budgeted at \$92.5 million, representing a \$1.4 million or 1.5% increase from the estimated outturn in 2012/2013. Of

this \$92.5 million, \$90.5 million is funded by government and \$2.0 million from donor funded projects. 89% of salary expenditure is allocated to established staff. This proportion has increased slightly from 2012/2013.

The government has set a financial baseline target for salary and wage expenditure at 45% of total government funded expenditure. The estimate for 2013/2014 is for salary and wage expenditure to comprise 49.7% of total government expenditure, a considerable decrease on the 2012/2013 outturn estimate of 55.0%. However, the projections for the 2014/2015 and 2015/2016 years see the wage bill hovering around the 50% mark.

Table 21: WAGES AND SALARIES (CURRENT \$ MILLIONS)

	Actual 2011/12 (p)	Budget Estimate 2012/13	Est Outturn 2012/13	Budget Estimate 2013/14	Projection 2014/15	Projection 2015/16
Salaries	70.1	80.2	79.4	82.3	82.7	83.8
Overtime	3.1	1.6	2.8	1.4	1.4	1.4
Wages	2.3	2.3	2.3	2.4	2.4	2.4
Contract Labour and Temporary Staff	0.3	0.2	0.2	0.6	0.5	0.3
District and Town Officers Salaries	1.2	1.2	1.2	1.2	1.2	1.2
Privy Purse	0.4	0.4	0.4	0.4	0.4	0.4
Others	6.3	4.2	4.8	4.3	3.3	2.4
TOTAL	83.6	90.0	91.1	92.5	92.0	91.8

Note: Budget Estimate 2012/13 includes a supplementary budget of \$4.1 million

Source: Ministry of Finance & National Planning

The Government recognizes the importance of rebalancing expenditure away from salaries and wages to ensure improved service delivery. The Government is committed to contain the wage bill in the future through restraint in civil service expansion and salary increases. One of government's moves to contain the wage bill, is the pooling of vacant positions that government line ministries are unable to fill in 2012/13. The establishment of new positions will depend on the Public Service Commission's review of line ministries' core functions and existing total number of staff.

9.1.3.2.2 Government Contributions to Retirement Fund

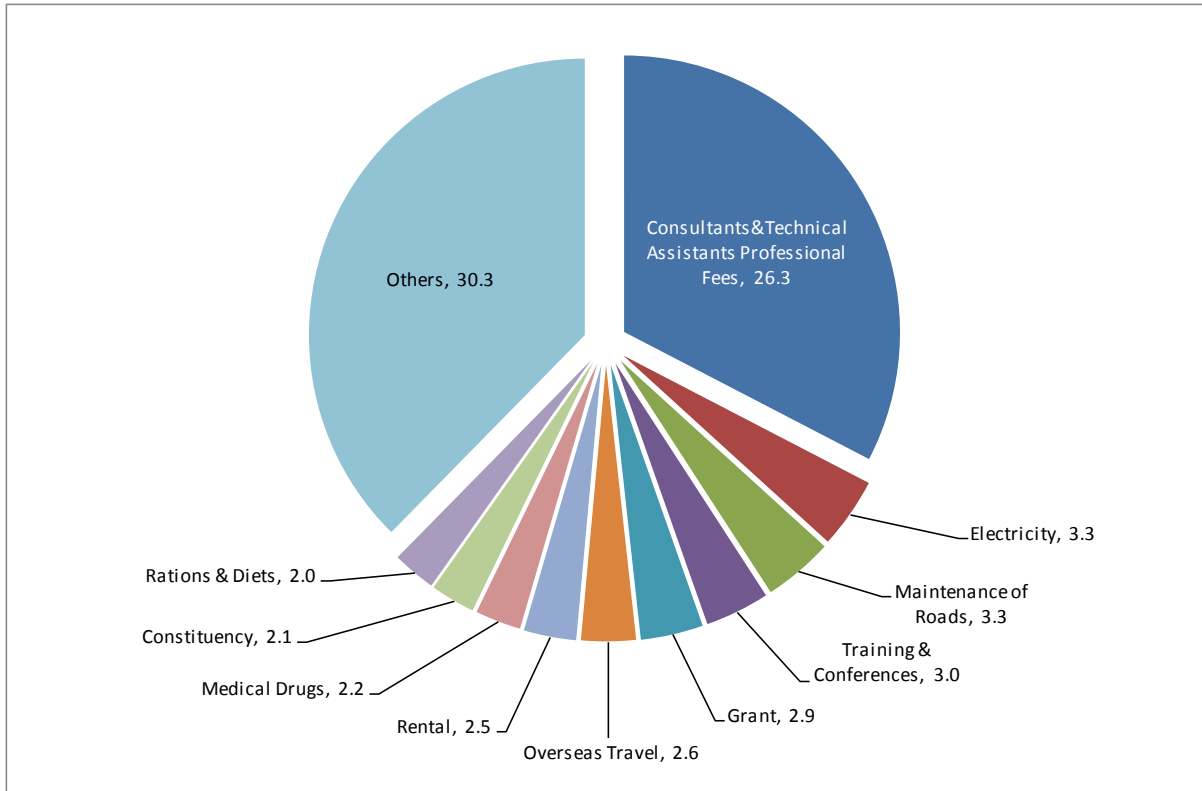
Government contributions to retirement fund are estimated at \$9.9 million in the 2013/2014 budget, which consists of \$7.9 million for contributions to the Retirement Fund and a \$2.0 million of the old scheme as transfer value.

9.1.3.2.3 Purchases of Goods & Services

The purchases of goods and services budget for 2013/2014 is set to increase to \$80.5 million, representing a 17.9% increase from the estimated outturn in 2012/2013. Of the total budget for purchases of goods and services, \$33.9 million will be funded from donor assistance and \$46.7 million from government. Other purchases of goods and services are expected to marginally increase as a share of expenditure, including new initiatives such as the Manufacturing Fund (\$0.5 million), the Commission into the Causes of Student and Youth Violence (\$0.5 million), Commission for Revenue Strengthening (\$0.25 million) and the Private Sector Marketing Fund (\$0.25 million). Wages and salaries are planned to account for a reduced proportion of total expenditure.

The major areas of increase in the 2013/2014 budget compared to the 2012/2013 outturn are consultants and technical assistants professional fees (\$10.0 million increase), training and conferences (\$1.5 million increase), and maintenance of roads (\$1.7 million increase).

Figure 43 - Major expenditure items under Purchase of Goods & Services 2013/2014 (\$ millions)



Source: Ministry of Finance & National Planning

9.1.3.2.4 Interest payments

Total interest payments are estimated at \$6.9 million for 2013/2014, slightly down from the 2012/2013 estimated outturn of \$7.2 million. Interest payments are comprised of two parts; domestic (23.2% of total interest payments) and foreign (76.8% of total). Payments for foreign loans will be dominated by servicing of the Chinese EXIM Bank Reconstruction and National Roads Development Loans. Further details are provided under the Public Debt Section.

9.1.3.2.5 Subsidies & Transfers

Expenditure on subsidies and transfers is estimated at \$21.6 million for 2013/2014. This represents an increase of \$5.7 million from the estimated 2012/2013 outturn of \$15.9 million. A significant change in this area is a transfer to non-profit organizations of \$9.6 million, part of which will be used for new initiatives such as the Social Welfare Scheme (\$1.7 million). Additionally, \$1.0 million is allocated to the recently established Agricultural Marketing Fund.

Transfers to households will include pensions & gratuities, scholarships and allowances of \$9.2 million. Transfers to government and international organizations total \$2.2 million.

9.1.3.3 Capital Expenditure

Total Capital expenditure in 2013/2014 is estimated at \$15.2 million, an increase of \$2.6 million from an estimated outturn of \$12.6 million in 2011/2012. The 2012/2013 year saw capital expenditure related to the final drawdown of the China EXIM bank road loan. More than offsetting this decline in 2013/2014, however, is substantial cash grant funded capital expenditure anticipated from numerous development partners.

Donor cash capital investment for 2013/2014 is estimated at \$11.5 million, a vast increase on 2012/2013 estimated outturn of \$2.5 million. Major donor investments include the European Union-funded construction of Niuatoputapu Hospital (\$2.0 million) and the Tonga Police Development

Program (\$2.7 million); Tonga Health System Support Program (\$1.7 million); Nuku'alofa Urban Development Sector Project (\$1.5 million); and the Revenue Management System & Customs Management System Upgrade (\$3.0 million) at the Ministry of Revenue Services. The inclusion of inkind funded projects would increase total capital expenditure considerably.

Government Capital expenditure for 2013/2014 amounts to \$3.6 million, up from the estimated outturn in 2012/2013 of \$1.8 million. The major Government-financed capital project is the ongoing construction of the Foa Causeway.

9.1.3.4 Financing

Table 16 outlines the financing transactions of the Budget for 2013/14. The overall fiscal balance is an anticipated surplus of \$15.3 million, which will be used to finance the commencement of principal repayments on the China EXIM bank reconstruction loan.

Table 22 : Estimated Financing Transactions (Current \$ millions)

	Actual 2011/12 (p)	Budget Estimate 2012/13	Est Outturn 2012/13	Budget Estimate 2013/14	Projection 2014/15	Projection 2015/16
Total Financing	22.1	(1.2)	8.0	(15.3)	(13.0)	(19.6)
External financing	41.2	(1.2)	1.9	(15.3)	(18.5)	(21.1)
Disbursements	46.9	5.1	8.1	-	-	-
Chinese EXIM Bank Loan	46.9	5.1	8.1	-	-	-
Repayments	5.7	6.3	6.1	15.3	18.5	21.1
Domestic Financing	(19.1)	-	6.1	(0.0)	5.4	1.5
Disbursement from Bonds Issued / Domestic Loan	3.0	7.5	7.9	6.0	6.6	6.4
Repayment of Matured Bonds/Loan	3.0	7.5	7.5	6.0	6.6	6.4
Net Changes in Government Cash Balances and Investment (- deposits, + drawdown)	(19.1)	-	5.7	(0.0)	5.4	1.5

Note: Budget Estimate 2012/13 includes a supplementary budget of \$4.1million

Source: Ministry of Finance & National Planning

Domestically, the government intends to undertake \$6.0 million in bond issues in 2013/2014 with the purpose of financing \$6.0 million of rollover bonds, scheduled to mature during 2013/2014. This has no net impact on financing.

9.1.4 Reconciliation Tables

Table 23 and 24 present reconciliation between cash inflow estimates as detailed in the "Programme Budget Estimates 2013/2014" document and the estimates of revenue (inflows) and expenditures (outflows), classified on a GFS Basis; noting that the Programme Budget contains inkind grant aid which is currently not included in the current version of the GFS.

Table 23: Reconciliation between Cash Inflows to the Government of Tonga Fund and Revenues as per the Budget Statement

Receipts to the Tonga Consolidated Fund		198,795,970
Domestic Receipts	163,143,312	
Budget Support	35,652,658	
<i>Plus: Receipts to Other Funds</i>		50,332,127
Tonga Trust Fund	850,000	
Revolving Funds	-	
Local Community	-	
Donor Cash Aid to Development Fund	49,482,127	
Total Receipts all Funds (as per Program Estimates)		249,128,097
<i>Less: receipts classified as offsets to expenditure</i>		651,336
Repayments from Net-Lending	651,336	
<i>Less: receipts classified as financing transactions</i>		6,000,000
External Financing (loan drawdowns)	-	
Domestic Financing (loan drawdowns)	6,000,000	
Total Revenues and Grants (as per GFS presentation)		\$ 242,476,761

Table 23 provides a breakdown of funds from all sources estimated to be collected by the various ministries and departments during the 2013/2014 financial year.

Table 24: Reconciliation between Cash Outflows to the Government of Tonga Fund and Revenues as per the Budget Statement

Payments from the Tonga Consolidated Fund		198,795,970
"Payments from Domestic Receipts"	163,143,312	
"Payments from Budget Support"	35,652,658	
<i>Plus: Payments from Other Funds</i>		50,332,127
Tonga Trust Fund	850,000	
Revolving Funds	-	
Local Community	-	
Donor Cash Aid	49,482,127	
Total Payments all Funds (as per Program Estimates)		249,128,097
<i>Less: Payments classified as offsets to revenue</i>		1,200,000
Repayments of Net-Lending	1,200,000	
<i>Less: Payments classified as financing transactions</i>		21,287,798
External Financing (loan repayments)	15,287,798	
Domestic Financing (loan repayments)	6,000,000	
Total Expenditures (as per GFS presentation)		\$ 226,640,300

Table 24 provides a breakdown of funds appropriated from all sources and for all purposes expected to be available to the various ministries and departments in 2013/2014.

9.1.5 Alternate Classifications of Financial Transactions

The Government Finance Statistics (GFS) system of classification that was introduced in 1986 was designed to facilitate the study of the macro-economic impact of the Government's financial transactions on the economy and therefore assessments of the sustainability of fiscal policy objectives. It did so by recording separately 'below the line' those receipts and payments transactions, such as those associated with raising or repaying loans, that are primarily associated with the actions necessary to finance a shortfall in government revenues. The GFS system of classification also recorded inflows to government associated with the repayment of loans made by the government as net lending within the category 'expenditure and net lending', rather than as a revenue of the government. Furthermore, by bringing together expenditures directed towards like purposes, GFS system of classification also facilitates presentation of information on the total resources devoted by the Government to those purposes and allows international comparisons

independently of local administrative structures. It is for these reasons that the primary presentation of budget estimates in the Budget Statements is on a GFS basis.

In more recent years, the IMF implemented a new Government Finance Statistics (GFS) system of classification called GFSM 2001 and it is proposed to implement the new system of GFS classification in Tonga in the future. The major enhancements implemented in GFSM 2001 include:

- mandating the inclusion with estimates of cash transaction of data related to all in kind assistance provided by donors; and
- greater clarity about:
 - the operating revenues and expenses of government;
 - the costs of the acquisition and disposal of capital assets (called in GFSM2011 net transactions in nonfinancial assets);
 - the acquisition and disposal of financial assets (primarily net lending by government [that were for GFS 1986 were included within expenditure and net lending] and movements in the government’s cash balances);
 - the acquisition and disposal of financial liabilities (primarily net borrowing by government);
 - the net borrowing requirement of government (GFS1986 by including net transactions in relation to loans made by government as expenditure does not provide for the ready disclosure of movements in the net indebtedness of government);
- with transactions in both financial assets and liabilities being recorded separately, the sign of certain ‘balance sheet’ transactions were reversed compared to those in GFS1986 so that positive net transactions in those categories meant an increase in the stock of assets or liabilities as appropriate; and
- some comparatively minor re-alignments were also made within both the expense and revenue sub-categories.

In this way, GFSM 2001, while not reducing budget disclosure in any way, the GFSM Operating Statement aligns more closely to the Profit and Loss Statements used widely within the private sector.

9.1.1 MAIN BUDGET EXPENDITURE CHANGES

Table 25: Main Budget Expenditure Changes 2013-2014 compared to 2012-2013

<i>Vote</i>	<i>Ministry</i>	<i>* Budget Allocation for FY 2013/2014(\$)</i>	<i>Special Expenditure Features 2013/2014</i>
01	Palace Office	4,743,544	* Government of Tonga: Decrease by \$0.2m due to vacancies pool of funds. * Donor Cash/In-kind Project: Cash budget decreases by \$0.5m from \$0.75m to \$0.25m due to decrease in requirement for new furniture for the Royal Palace.
02	Legislative Assembly	5,024,108	* Government of Tonga: increase by \$181k to accommodate salary (\$45k); government contribution to RF (\$9k); Overseas travel (\$50k); broadcasting (\$50k); meeting fees (\$40k); location allowance (\$3,200); constituency (\$4k); insurance (\$9,313); decrease by \$96k due to vacancies pool of funds.

			* Donor Cash/In-kind Project: Increase by \$0.5m in cash and inkind due to the introduction of the new Tonga Governance Strengthening Programme funded by AusAid and UNDP.
03	Audit Office	1,355,442	* Government of Tonga: Increase of \$8,815 for increment and contribution to RF. Donor Cash/In-kind Project: Inkind budget increases by \$0.15m in recognition of the training provided by PASAI training of auditors that are funding and conducting by PASAI.
04	Commissioner of Public Relations	185,518	* Government of Tonga: Increase by \$0.02m to cater for staff acting allowance and renovation.
05	Ministry of Foreign Affairs & Trade	8,770,160	* Government of Tonga: Decrease by \$0.2m due to pooling vacancies to MOFNP and Increase by \$0.2m for relocating staff for overseas missions, passport printer and overseas travel for trade and decrease by \$0.2m due to vacancies pool of funds * Donor Cash/In-kind Project: Inkind budget increases by \$0.7m due to new vehicles that will be funded by PRC and the Korean Government.
06	Tonga Defence Services	8,839,000	* Government of Tonga: Increase by \$0.3m due to maintenance of patrol boat * Donor Cash/In-kind Project: Cash budget decreases by \$0.2m due to the completion of maintenances provided for the vessels from Tonga Trust Fund.
07	Prime Minister's Office	16,420,459	* Government of Tonga: Increase by \$45k for Communication Frequency Equipment, and decrease by \$0.2m due to vacancies pool of funds. * Donor Cash/In-kind Project: Decrease by \$10m due to completion of the Tonga Fiber Optic Cable project (\$32.0m).
08	Ministry of Finance & National Planning	69,763,455	* Increase in Budget Support PNG by \$5m, foa causeway by \$330k, debt servicing by \$7.3m; \$250k to National Retirement Fund for administrative cost of social welfare scheme, grant for sports \$500k for Pacific games (transferred from MIA to MOFNP); Establishment of new commissions (i) student/youth violence \$250k; (ii) revenue strengthening \$250k; New funds provided for Social Welfare Scheme \$1.7m, Chief Justice \$250k, Anti-corruption commissioner \$250k, 'Api Tonga \$12k, \$35k Pacific Catastrophe risk insurance; pooling of vacant funds \$2.6m from ministries and increment funds for line ministries at \$1m; and a decrease of \$500k in contingency fund, subsidies by \$400k, National ID card by \$150k; and decrease by \$0.5m due to vacancies pool of funds. *Donor Cash In-kind Project: Decrease by \$6.4m due to the completion of several projects including the UNDP funded MDG project, Niuatoputapu Post Tsunami Recovery (\$1.4m) and the final drawdown of the Road Construction Soft

			Loan (\$5.2m).
09	Ministry of Revenue Services	8,801,575	<p>*Government of Tonga: \$61k increase in salaries/increment; decrease of \$19,725 due to vacancies pool of funds.</p> <p>* Donor Cash In-kind Project: Cash Budget increases by \$3.2m due to upgrading of the CMS and RMS (\$3.0m) funded by Ausaid/ADB and an allocation for an X-Ray machine of \$1.0m in-kind for Customs.</p>
10	Ministry of Public Enterprises	2,298,639	<p>*Government of Tonga: increase of \$40k top-up of Minister's salaries, \$30k for CEO/Minister's Benefits; decrease by \$86k due to vacancies pool of funds.</p> <p>*Donor Cash In-kind Project: Decrease by \$2.1m due to the almost completion of the Tonga Village Network upgrade (\$3.50m) phase 1 and Tonga Forestry Project (\$0.25m). TVNU will come to an end December 2013.</p>
11	Ministry of Commerce, Tourism and Labour	12,916,975	<p>*Government of Tonga: increase by \$0.5m for Manufacturing Fund and \$0.5m for Private Sector Marketing; decrease by \$57k due to vacancies pool of funds.</p> <p>* Donor Cash In-kind Project: Decreases by 0.9m due to reduction of NZAID contribution for the Tonga Tourism Support Project.</p>
12	Ministry of Justice	4,481,897	<p>*Government of Tonga: Increase by \$0.8m for Lord Chancellor \$0.6m, digitisation project \$0.02m, court of appeal \$0.02m, new equipment \$0.01m, circuit 0.1m, duty allowance \$0.005m, Justice of Peace \$0.02m, election \$0.07m and decrease by \$0.03m due to vacancies pool of funds.</p> <p>*Donor Cash In-kind Project: Increase by \$0.04 due to the introduction of the Supreme Court Vital Statistics Project Funded by Comsec.</p>
13	Attorney General's Office	2,680,181	<p>*Government of Tonga: Increase by \$0.4m for Government Liabilities, Law Consolidation Printing \$0.2m, annual meeting of Pacific Islands Law Officers Network (PILON) \$0.05m and decrease by \$0.09m due to vacancies pool of funds.</p> <p>*Donor Cash In-kind Project: budget for this office remains the same at \$0.82m for support to the Law Week and the Anti Corruption Commission</p>
14	Ministry of Police, Prisons & Fire Services	15,721,001	<p>*Government of Tonga: Increase in Police allocation by \$0.35m for new recruitment, Prison by \$0.25m for salaries, upgrading water supply and rehabilitation program and Fire by \$0.2m for salaries, technical equipment, and training.</p> <p>*Donor Cash In-kind Project: Increase by \$0.5m due to new construction planned for 13/14 under the Tonga Police Development Programme Funded by AusAid, NZAID and Government of Tonga.</p>

15	Ministry of Health	31,050,288	<p>*Government of Tonga: Increase by \$910k for new intake of nurses and promotion; government contribution to RF (\$370k); medical supplies (\$60k); decrease of \$189,166 due to vacancies pool of fund.</p> <p>* Donor Cash In-kind Project: Increase by \$1.7m due to the planned programme of activities to be funded under the Tonga Health Sector Support Project (THSSP) funded by Ausaid.</p>
16	Ministry of Education & Training	46,994,368	<p>*Government of Tonga: Increase by \$1m for Tonga Maritime Polytechnic Institute (TMPI), \$0.1k for Tonga National Qualification and Accreditation Board (TNQAB), \$0.48m grant for Community Transport and decrease by \$0.04m due to vacancies pool of funds.</p> <p>* Donor Cash In-kind Project: Cash budget decreases by \$7.4m and \$16m including inkind due to completion of the Tonga Vocational Education Training project funded by Ausaid and NZAid. This programme is currently being redesign for implementation later. The other major contributing factor to the large decrease is the delay in the renovations to Tonga College to be funded by the Government of Japan.</p>
17	Ministry of Internal Affairs	7,767,814	<p>* Government of Tonga: Increase by \$124k for staff redeployment, \$140k for Charitable Organisations, \$25k for sports and decrease \$0.07 due to vacancies pool of funds.</p> <p>* Donor Cash In-kind Project: Increase by \$2.6m due to commencement of the Tonga Rural Innovative Project (TRIP) funded by IFAD and implemented by MORDI Tonga Trust.</p>
18	Ministry of Agriculture, Food, Forests & Fisheries	8,237,089	<p>* Government of Tonga: Decrease by 0.4m due to vacancies pool of funds.</p> <p>* Donor Cash/In-kind Project: Decrease by \$0.9m due to completion of these projects, ACIAR Fruit Tree Project funded by Ausaid, piggery project funded by PRC and FAO projects of Food Security and Sustainability.</p>
19	Ministry of Infrastructure	59,949,707	<p>*Government of Tonga: Decrease by \$0.03m redeployment, increase \$250k for road maintenance, \$250k withholding tax and \$50k in Maintenance of Equipment, \$420k Aviation safety and security; and decrease by \$0.1m due to vacancies pool of funds.</p> <p>*Donor Cash/In-kind Project: Inkind budget increases by \$16m from \$31m to \$47m due to the new aircraft (\$25.0m), St George Palace (\$5.0m) which was expected to build last year. Existing projects continue such as the Pacific Aviation Investment Program \$8.9m, Transport Sector Consolidated Program (\$5.0m).</p>
20	Ministry of Lands, Environment, Climate Change & Natural Resources.	39,945,986	<p>* Government of Tonga: Increase by \$100k for beautification</p>

			* Donor Cash/ In-kind Project: Increase in total budget by \$13.8m due to new projects such as the Outer Island Renewable Energy project (\$2.0m) funded by ADB, Pacific Environment Community Funds (\$7.3m) funded by the Government of Japan through the Pacific Island Forum Secretariat, Global Climate Change Alliance project (\$1.0m) funded by SPC. Ongoing projects such as UAE funded solar farm in Vava'u \$4.0m, Nuku'alofa Urban Development Program \$4.3m funded by ADB and AusAID and the Pilot Programme on Climate Change Resilience (PPCR) (\$8.8m) funded by the Climate Investment Fund (CIF) through the ADB.
21	Public Service Commission	781,837	* Government of Tonga: Increase by \$0.04m for PSC Operation. * Donor Cash In-kind Project: Decrease by \$0.6m due to completion of Human Resources Training and Project Management which was funded by AusAID.
22	Bureau of Statistics	879,451	Increase by \$0.03m redeployment, and decrease by \$0.1m due to vacancies pool of funds. * Donor Cash In-kind Project: Decrease by \$0.1m due to completion of Statistics Advisor funded by AusAID.
	Total	357,608,494	
* Note: including Government of Tonga Fund, Budget Support, Donor Cash and Donor In-kind			

9.2 Development Projects

9.2.1 Overview of Aid Funded Projects

Estimated expenditure from development partners for 2013/2014 is \$158.8 million, of which \$50.3 m is cash and \$108.4 million is in-kind, an overall increase of \$6.5m on 2012/13 estimate. Table 26 shows the total expenditures:

Table 26: Total Project Expenditure

Type of Funding	Actual 2011-12	Budget 2012-13	Est Outturn 2012-13	Budget 2013-14	Budget 2014-15	Budget 2015-16
Cash	37.8	46.0	31.8	50.3	31.8	15.9
Inkind	90.2	106.2	62.1	108.5	170.3	83.1
Grand Total	127.9	152.3	93.9	158.8	202.1	99.0

Source Ministry of Finance and National Planning

Major projects coming to completion in 2012/13 include: Tonga Post Tsunami Recovery Project (\$1.3m), Tonga Fibre-Optic Cable project (\$19m), Sustainable Urban and Environmental Management project (\$4.1m), Millennium Development Goal project (\$0.5m), Tonga Village

Network Upgrade (\$3.5m), Tonga Education Support Programme 1 (NZAID/AUSAID, \$5.1m) projects and Tonga Vocational Education Training (\$12.3m) and Tonga Census project (Ausaid, \$0.6m).

Major existing projects that continues in 2013/2014 are : Niuatoputapu Hospital (European Union, \$2.0m), Tonga Rural Innovative Project (IFAD,\$2.5m), Grassroot Grant Programme (Japan, \$2.3m), Tonga Tourism Support (NZaid, \$5.0m), Tonga Business Enterprise Centre (NZaid, \$1.3m), Tonga Police Programme (NZaid, \$4.0m), Tonga Health System Support (AusAID, \$6.8m), Transport Sector Consolidate Project (World Bank, \$5.2), Pacific Aviation Investment Programme (World Bank, \$8.9m).

Major new projects planned to start in 2013/2014 include: Tonga Governance Strengthening Programme (Ausaid, \$6.5m), Upgrading of the Custom Management System and Revenue Management System (ADB/Ausaid, \$3.0m), Tonga Education Support Programme 2 (NZAID/AUSAID, \$6.6m), Community Water Pumping (International Union for Conservation, \$1.2m), Pacific Environment Community Fund (Pacific Island Forum Secretariat, \$7.3m) and Global Climate Change Alliance Project (Secretariat for the Pacific Communities, \$1.0m), the extension of the Tonga Submarine Cable Projects to Vava'u and Ha'apai islands is anticipated (World Bank, \$14.0m), New aircraft (China, \$25.0m), St George's Palace government offices.

These new projects will contribute to various areas such as supporting private sector growth, community development, education, health, energy and climate change.

9.2.2 Aid Funded Project Expenditure by Ministry and Agency

Table 50 in the Appendices, contains the details of major project expenditure by Ministry and Agency. Key changes in total expenditure from the 2012/13 budget estimate are due to:

- **Palace Office:** cash allocation from the Tonga Trust Fund decreased by 64.3% from 2012/13FY. Ministry only managed to use 29% of the allocated funds in 2012/13
- **Legislative Assembly:** increase by 88.7% due to the introduction of the new Tonga Governance Strengthening Programme funded by Ausaid and UNDP (\$6.5m).
- **Office of the Auditor General;** 2013/14 budget recognizes the inkind support provided by the *Pacific Association of Supreme Audit Institutions (PASAI)* estimated at 150,000
- **Ministry of Foreign Affairs and Trade;** increase in the budget by 94% due to funding for operations of the Embassy in Japan and recognition of new vehicles expected from the Governments of Korea
- **Tonga Defense Services;** decrease by 6% from the 2012/13 budget due to the completion of the maintenance of the patrol vessels
- **Prime Minister's Office:** decrease by 41% on the 2012/13 estimates due to completion of the Tonga Fibre Optic Cable. Savings from the project have been projected to be used in the 2013/14FY.
- **Ministry of Finance and National Planning :** decrease by 44.4% due to the completion of several project and the final drawdown of the road soft loan being undertaken. For 12/13 budget estimate, 80% have been achieved due to completion of most projects.
- **Ministry of Revenue Services:** substantial increase by 202.5% due to the Custom Management System & Custom Management System Upgrade being negotiated with AusAid

and ADB (\$3.0m) Expected outturn for 2012/13 was 37% as the x-ray machine was unable to be funded.

- **Ministry of Public Enterprise:** substantial decline by 56.1% due to the almost completion of the Tonga Village Network Upgrade, this project has been extended until December 2013. Estimated outturn for 2012/13 was 163% as projects were implemented efficiently and in a timely.
- **Ministry of Commerce, Tourism and Labour;** Decline by 12% on the 12/13 budget due to the completion of some of the projects
- **Ministry of Justice;** level of funding from the development partners remain the same. NZAID continue to services of the Supreme Court Judge
- **Attorney General's Office;** level of funding from the development partners remain the same with funds for the anti corruption commission
- **Ministry of Police, Prison & Fire:** an increase of 16.5% because of vehicles and training schools for Tonga Fire to be funded in the 2013/14 year while the Tonga Police Development Program remains the same. Only 57% of the 2012/13 estimates was achieved due to slow implementation of the police program thus it has been extended until June 2015.
- **Ministry of Health;** budget increases by 30% due to the ministry's ability to improve on the rate of implementation on the Tonga Health Sector Support Programme (THSSP) funded by AusAid.
- **Ministry of Education and Training:** a decrease of 56.4% due to the completion of the Tonga Vocational Education and Training project funded by AusAid and NZAid, however, Phase 2 of the Tonga Education Sector Programme (TESP II) will commence in 2013/14. In 2012/13 estimates, only 37% was achieved due to delay in rebuilding of the Tonga college.
- **Ministry of Internal Affairs;** increase by 2m due to the introduction of the Tonga Rural Innovation Project (TRIP) being implemented by MORDI Tonga Trust in collaboration with the Ministry.
- **Ministry of Agriculture, Food, Forestry & Fisheries (MAFFF):** a decrease of 42.3% in expenditure due to some of the projects being completed including FAO and the People's Republic of Chinas funded projects.
- **Ministry of Infrastructure:** increase by 69.6% due to continuation of the Pacific Aviation Investment Project (PAIP), Transport Sector Consolidated Project (TSCP) and Integrated Urban Development Project (IUDP) and the new aircraft provided by China. Expected outturn for 2012/13 was 44% due to slow implementation of the TSCP project as a result is has been extended to 2015.
- **Ministry of Lands, Environment, Climate Change & Natural Resources:** increase by 59.2% due to new projects that is expected to be implemented including the Community Water Pumping Project, Pacific Environment Community (PEC) Fund, Global Climate Change Alliance Project, Outer Island Renewable Energy Project, Third National Communication Projects. Expected outturn for 2012/13 is 26% due to project not progressing as planned.
- **Public Service Commission (PSC):** considerable decrease by 100% due to the AusAID projects coming to completion and no new projects planned yet

9.2.3 Aid Funded Project Expenditure by Development Partners

Almost all capital expenditures are financed by the kind support of Tonga's Development Partners. Some of these projects are co-funded by various development partners and are working closely with government ministries to ensure its alignment with the TSDF as well as capacity building of local counterparts.

Table 51 in the Appendices, contains the details of project expenditure by Development Partner. The major changes from the 2012/13 budget estimate are due to:

- **Australia:** decreasing by 8% due to TVET project winding up in April 2013, however Australia continues to fund development scholarships (\$3m), Tonga Health Support Program (\$4m), and provisions of technical assistance to line ministries among other projects.
- **The Asian Development Bank:** increased by 26% and continues to support urban planning cofinanced by AusAid through the Nuku'alofa Urban Development Sector Project (NUDSP) \$12m, Integrated Urban Planning Development Sector Project (IUDSP), Outer Island Renewable Energy Project and the Strategic Programme on Climate Change Resilience.
- **European Union (EU):** increasing their support by 9%, through assistance to the energy sector and the construction of the Niuaotupapu hospital (\$2m).
- **Japan:** significant decline by nearly 100% due to completion of the Vaiola Hospital. The next large projects are being negotiated, but no significant expenditure for 2013/2014 is expected. Grassroot Grant Program continues to provide assistance to communities and the outer islands.
- **New Zealand:** continues assistance through Tonga Tourism Support Project, Tonga Village Network Upgrade, development scholarships as well as the provision of a new High Court Judge among other projects. Overall assistance decreased by 20%.
- **Pooled funds, New Zealand and Australia:** anticipated a decrease of 25% due to the completion of the Tonga Vocational Education and Training (TVET) program, however the Tonga Police Development Program (\$3m) amongst other projects will continue.
- **People's Republic of China:** in-kind assistance is expected to substantial increase by 316% due to construction of the St. George Palace and provision of a new aircraft.
- **United Nation Development Program (UNDP):** increased by 58% due to the new Support for Good Governance project in partnership with Australia starting in the coming year.
- **World Bank:** Major projects, include Pacific Aviation Investment Program, Tonga-Fiji Submarine Cable, continued support of the Transport Sector Consolidated Project; and the Cash for Work Program (\$3m) did not occur as planned.

9.2.4 Development Partners assistance by region

9.2.4.1 Projects based on Tongatapu

As noted above, many large national projects are based on Tongatapu but provide benefits to the whole country.

In 2012/13, construction projects include the Tonga Fibre Optic Cable (\$32.0m), the Japan Grassroot Grant Program (\$1.2m), Road Improvement from the China soft loan (\$5.0) and smaller projects. For future years, projects expected to continue include the Nuku'alofa Urban Development Sector Program (\$3.5m), Transport Sector Consolidated Program (\$2.30m), Tonga Police Program

(\$3m) and Tonga Health Support Sector Projects (\$1.7m), and Japan Grassroot Grant Program (\$2.3m).

Energy projects that are still ongoing includes Climate Change Adaptation projects (\$2.0m), Pilot Program Climate Resilience (\$1.0m),

New projects expected to be implemented in future years include the Global Climate Change project (\$5.0m), Pacific Environment Community fund (\$7.3m), Tonga Education Support Program 2 and projects that have been delayed such as Tonga college (\$10m) and St George Palace (\$5.0m).

Table 27 : Grant Allocation by Project Types - Tongatapu

	Estimate 2012/13 (\$m)	Estimated Outturn 2012/13 (\$m)	Estimate 2013/14 (\$m)
Construction	38.1	75.6	22.0
Energy	13.0	13.4	14.2
Climate change	3.8	1.4	41.4
Education	22.7	8.5	16.9
Health	6.3	2.9	9.1
Road	2.2	2.2	5.8
Law & Order	3.3	1.2	5.4
Income Generation	0.3	0.2	1.3
Others	11.6	4.6	4.0
Total	142.7	110.0	120.1

9.2.4.2 Projects based on Vava'u

The Vava'u Development Committee has been established to address the development issues in Vava'u. For the 2012/13, the upgrading of the Vava'u side school and provision of new equipment to the Vava'u Fire Station were completed, the renewable energy project funded by the United Arab Emirates is a solar farm for the Vava'u region.. In future years, the Tonga Fiber Optic Cable extension of \$14m is anticipated to be rolled out to the outer islands, a provision of a new boat under the TSCP, upgrading of the Siu'ilikutapu College, upgrade of water supply projects to few of the outer islands and the Tonga Rural Innovation Project (TRIP) project is expected to commence implementation.

Table 28 : Grant Allocation by Project Types - Vava'u

	Estimate 2012/13 (\$m)	Estimated Outturn 2012/13 (\$m)	Estimate 2013/14 (\$m)
Constructions	2.05	0.05	14.00
Water	0.01	0.30	0.30
Energy	4.00	0.50	3.00
Total	6.06	0.85	17.30

9.2.4.3 Projects based on Ha'apai

The renovation of the Ha'apai police station had been completed in 2012/13 and funded under the Tonga Police Development Program.

For the 2013/14, a new fire station is anticipated to be built, economic infrastructure that are yet to be determine under the TRIP program and solar projects that will be funded by ADB. Foa causeway is progressing well and expected to be completed by December 2013

Table 29 : Grant Allocation by Project Types - Ha'apai

	Estimate 2012/13 (\$m)	Estimated Outturn 2012/13 (\$m)	Estimate 2013/14 (\$m)
Constructions	0.03	0.03	0.30
Water	0.23	0.80	0.10
Energy			0.10
Total	0.26	0.80	0.50

9.2.4.4 Projects based on 'Eua

For 2012/13 the Grass-roots human Security Project upgrade and renovations to the G.P.S Ha'atua for \$0.17m has been completed. A fire truck was provided by the Government of Japan through the Grass-root grant scheme, training on good governance for the 'Eua Council was also completed. In future years, it is expected that Water supplies project will be funded by the Republic of Korea, as well as an economic infrastructure by the TRIP program.

Table 30 : Grant Allocation by Project Types - 'Eua

	Estimate 2012/13 (\$m)	Estimated Outturn 2012/13 (\$m)	Estimate 2013/14 (\$m)
Constructions	0.50	0.50	0.30
Education	0.20	0.20	0.20
Health	0.0	0.20	0.10
Water & Sanitation			0.30
Income Generation	0.20	0.20	0.30
Total	0.90	1.10	1.20

9.2.4.5 Projects based on Niuatoputapu and Niuafu'ou

The World Bank assistance to Niuatoputapu of new residential homes, retro fittings to existing homes, community halls, maintenance of both water supplies and roads have been completed. Support from the European Union (EU) for provision of a new health centre which will cost \$2m is expected to commence in 2013/14. Furthermore in NTT, the water supply project to Hihifo, Vaipoa and Falehau is expected to be implemented in 2013/14 as well through Japan's Grassroot grant scheme.

In Niuafu'ou, the TRIP project has activities that are expected to commence in 2013/14: new Fire stations to both of the Niuas is anticipated to begin in future years.

Table 31 : Grant Allocation by Project Types - Niuatoputapu

	Estimate 2012/13 (\$m)	Estimated Outturn 2012/13 (\$m)	Estimate 2013/14 (\$m)
Construction	1.50	4.00	2.40
Water & Sanitation	0.30	0.0	0.60
Climate Change	0.50	0.0	0.50
Health	2.00	0.0	2.00
Grand Total	4.30	6.80	5.50

10 APPENDICES

TABLES

- ❖ Tonga Selected Indicators 2005/2006 – 2010/2011
- ❖ Real Sector Developments 2005/2006 – 2010/2011
- ❖ Annual Average Consumer Price Index for 2006-2011
- ❖ Annual (%) changes in the CPI for December month for 2006-2011
- ❖ Tonga Domestic Exports by HS Section, 2005/2006 – 2010/2011
- ❖ Exports by Institutional Sector, 2004/2005 – 2010/2011
- ❖ Exports by Country of Destination, 2004/2005 – 2010/2011
- ❖ Imports by Main HS Section 2004/2005 – 2010/2011
- ❖ Imports by Institutional Sector 2004/2005 – 2010/2011
- ❖ Imports by Country of origin 2004/2005 – 2010/2011
- ❖ Tonga Balance of Payment 2005/2006 – 2010/2011
- ❖ Tonga Monetary Survey, 2005/2006 – 2010/2011
- ❖ Summary Table of Government Operation 2007/2008 – 2010/2011
- ❖ Government Revenue Collection 1991/1992 – 2010/2011
- ❖ Major Sources of Tax Revenue, 2007/2008 – 2010/2011
- ❖ Expenditure by Ministry for 2007/2008 – 2010/2011 (Tonga Government Fund)
- ❖ GFS Presentation of the Government Finance for 2009/2010 – 2012/2013
- ❖ Full GFS Presentation and Financing Tables 2009/2010 – 2012/2013
- ❖ Development Expenditure by Ministry (cash and in-kind T\$ millions)
- ❖ Development Expenditure by Development Partner (Cash and in-kind)

Table 32. Tonga Selected Indicators, 2006/07 – 2011/12

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Output and prices 1/						
Real GDP	-4.5	1.9	3.2	3.3	2.9	0.8
Consumer prices (period average)	5.1	9.6	5.6	1.7	6.0	3.3
Money and credit (annual % change) 2/						
Broad money (M2)	14.0	8.4	-1.9	5.1	2.6	-2.0
Domestic credit	11.6	12.8	-4.3	-11.5	-11.5	-16.0
Private sector credit	9.5	18.0	-2.9	-15.5	-9.2	-9.6
Balance of payments (OET Basis)						
Exports, f.o.b.	26.7	23.5	11.4	11.4	11.2	7.9
Of which: Squash	5.6	2.7	1.9	0.5	0.7	2.2
Imports, f.o.b.	217.5	262.5	271.3	208.0	229.6	221.2
Services (net)	-35.8	-6.2	-5.4	-7.9	4.9	-2.5
Investment Income (net)	7.1	6.4	9.6	5.3	4.9	10.1
Services and Income (net)	-28.7	0.2	4.2	-2.6	9.8	7.6
Transfers (net)	168.6	180.2	157.9	146.7	143.9	149.6
Of which: Private transfer receipts	186.8	202.8	175.2	157.4	146.5	113.1
Current account balance	-50.9	-58.6	-49.8	-52.6	-64.5	-56.1
(In percent of GDP)	-8.4	-8.9	-7.5	-7.8	-9.6	-8.3
Overall balance	8.4	-2.5	47.1	34.2	33.3	42.3
Gross international reserves (end-period)						
In millions of pa'anga	91.6	89.1	136.3	170.5	203.8	246.1
In months of imports cover	4.4	3.5	5.3	7.2	7.7	8.5
External debt						
External debt/GDP (%)	26.8	24.0	30.5	32.1	35.5	40.4
Exchange rate (period average)						
T\$ per US\$	2.00	1.89	2.08	1.93	1.84	1.70
Real effective exchange rate (1991=100)	105.7	108.6	116.2	113.6	108.1	118.5
Nominal effective exchange rate (1991=100)	60.8	58.8	59.9	59.8	59.9	60.6

1/ Sources for Output and Prices : Statistics Dept

2/ Sources for Money and Credit & BOP & Foreign

Reserves & Exchange Rate: NRBT

Table 33 : Tonga: Real Sector Developments, 2006/07-2011/12

	2006/07r	2007/08r	2008/09r	2009/10r	2010/11r	2011/12p
Nominal GDP						
In pa'anga million	602.8	659.3	664.3	712.2	775.0	799.3
In US\$ million	292.3	337.3	314.4	368.6	422.6	470.7
GDP per capita (US\$)	2,865	3,298	3,067	3,586	4,102	4,557
Population (National Accounts estimate)	102,025	102,276	102,528	102,780	103,033	103,286
	<i>Annual percentage change</i>					
GDP (2010/11 prices)	-4.5	1.9	3.2	3.3	2.9	0.8
of which:						
Agriculture, forestry, and fisheries	1.0	-5.3	-1.4	0.5	2.0	0.5
Manufacturing	-7.8	-1.0	-0.2	-1.7	5.9	-2.7
Construction	-2.8	0.9	35.0	21.7	6.1	1.2
Trade, hotels & restaurants	-3.4	9.1	4.9	-4.6	3.6	0.1
Transportation and communications	-1.3	4.2	15.4	15.7	-2.9	0.5
Finance and real estate	-1.9	2.9	-16.2	-1.1	3.2	-3.1
Public Administration & Services	-15.1	4.6	2.5	0.9	0.5	0.8
	<i>Percentage of GDP</i>					
GDP (current prices)						
of which:						
Agriculture, forestry, and fisheries	16.7	14.9	15.4	16.4	17.0	16.7
Manufacturing	7.1	6.7	6.5	6.1	5.9	5.6
Construction	6.0	6.0	7.0	8.7	10.6	9.3
Trade, hotels & restaurants	10.9	12.3	13.2	12.2	12.9	13
Transportation and communications	5.5	5.7	6.6	6.7	6.2	6.2
Finance and real estate	9.0	9.3	8.0	7.6	7.4	7.4
Public Administration & Services	11.9	11.7	12.2	12.5	11.7	11.8
Consumer prices (period average)						
All items	5.1	9.6	5.5	1.7	6.1	3.3
Imported component	4.0	10.5	5.5	1.7	7.7	4.7
Domestic component	7.3	7.9	5.5	1.5	3.7	1.5
(r)-revised estimates						
(p)-preliminary estimates						
Source: Statistics Department Tonga						

Table 34: Annual Average Consumer Price Index for 2006 – 2012, Base Period (October 2010=100.0)

	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>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>
2007	84.7	82.2	96.5	94.8	89.3	88.3	73.0	93.3	83.7	86.4
2008	93.6	88.5	99.5	104.5	96.2	109.0	78.9	101.4	93.0	94.3
2009	94.9	95.4	103.8	98.5	100.8	95.2	82.9	104.1	93.2	97.9
2010	98.3	98.3	102.1	99.3	99.8	100.5	93.7	99.4	98.1	98.3
2011	104.4	104.7	99.8	101.6	104.6	112.6	101.6	101.7	106.1	102.2
2012	105.7	106.4	99.6	103.4	104.6	113.0	102.4	102.1	107.4	103.4

Source: Statistics Department

Table 35: Annual (%) Changes in the CPI for December month 2006 to 2012

	All Items	Food	Housing	Household Goods	Clothing and Footwear	Transpo rtation	Tobacco and Alcohol	Misc. Goods & Services	Imported Items	Local Items
Weight	<u>100</u>	<u>45.8</u>	<u>2.5</u>	<u>20.8</u>	<u>3.16</u>	<u>11.93</u>	<u>6.00</u>	<u>9.83</u>	<u>57.8</u>	<u>42.2</u>
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
2010	5.0	3.8	-3.1	1.6	-0.6	4.4	24.0	-5.5	7.9	0.4
2011	4.2	3.2	0.0	5.4	4.6	8.8	1.8	2.6	5.9	1.0
2012	1.3	3.3	0.4	-1.8	0.0	1.7	0.2	-0.2	2.3	-0.1

Source: Statistics Department

Table 36 Tonga Domestic Exports by HS Section, 2006/07-2011/12

HS Code SECTION ITEM	2006/07		2007/08/p		2008/09/p		2009/10		2010/11		2011/12	
	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%
Live Animals;Animal Products	7,357	34.7	5,892	35.0	4,147	28.0	9856.8	64.3	9905.4	49.9	9,277.5	36.6
Vegetable Products	11,778	55.61	7,321	43.5	7,087	47.8	4019.3	26.2	8056.3	40.5	10,592.8	41.8
Products of the Chemical Or Allied	580	2.74	709	4.2	908	6.1	585.3	3.8	646.5	3.3	366.6	1.4
Wood and Articles of Wood;	488	2.30	309	1.8	211	1.4	321.9	2.1	432.8	2.2	416.2	1.6
Miscellaneous Manufactured Articles	6	0.03	23	0.1	2	0.0	22	0.1	5.2	0.0	27.2	0.1
Works of Art, Collectors Pieces and Antiques	33	0.15	47	0.3	45	0.3	16.6	0.1	56.1	0.3	143.6	0.6
Other Exports	938	4.43	2,528	15.0	2,426	16.4	505	3.3	766	3.9	4,530.2	17.9
TOTAL	21,180	100	16,828	100.0	14,826	100.0	15,327	100.0	19,869	100.0	25,354	100.0

Source: Statistics Department

p: provisional numbers

Table 37: Exports by Institutional Sector, 2006/07 - 2011/12

INSTITUTIONAL SECTOR	2006/07		2007/08/p		2008/09/p		2009/10		2010/11		2011/12	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
Private Sector	21,180	100	16,828	100	14,826	100	15,327	100	19,863	100	25,343	100.0
Government Sector	0	0	0	0	0	0	0	0	5.7	0	6	0.0
Quasi-Government Sector	0	0	0	0	0	0	0	0	0	0	5	0.0
TOTAL	21,180	100	16,828	100	14,826	100	15,327	100	19,869	100	25,354	100

Source: Statistics Department

p: provisional numbers

Table 38: Exports by Country of Destination, 2006/07 – 2011/12

COUNTRY	2006/07		2007/08/p		2008/09p		2009/10		2010/11		2011/12	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
New Zealand	4,244	20.0	5,278	31.4	5,283	35.6	3,264	21.3	3,269	16.5	4,801	18.9
Australia	1,303	6.2	817	4.9	1,743	11.8	693	4.5	581	2.9	4,622	18.2
Mainland USA	2,581	12.2	2,939	17.5	2,636	17.8	2,551	16.6	2,685	13.5	2,651	10.5
Hawaii	2,140	10.1	1,532	9.1	227	1.5	131	0.9	-	0.0	0	0.0
Japan	7,550	35.6	2,245	13.3	1,967	13.3	517	3.4	2,862	14.4	6,293	24.8
Singapore	48	0.2	103	0.6	17	0.1	414	2.7	2	0.0	30	0.1
American Samoa	443	2.1	635	3.8	428	2.9	178	1.2	213	1.1	282	1.1
Hong Kong	40	0.2	171	1.0	551	3.7	6,433	42.0	7,538	37.9	2,355	9.3
France	0	0.0	0	0.0	0	0.0	0	0.0	1	0.0	0	0.0
All other Countries	2,831	13.4	3,108	18.5	1,975	13.3	1,146	7.5	2,718	13.7	4,322	17.0
TOTAL	21,180	100.0	16,828	100.0	14,827	100.0	15,327	100.0	19,869	100.0	25,354	100.0

Source: Statistics Department

p: provisional numbers

Table 39: Imports by Main HS Section 2006/07 - 2011/12

HS Code SECTION ITEM	2006/07		2007/08/p		2008/09/p		2009/10		2010/11		2011/12	
	(\$'000)	%	(\$'000)	%	(\$'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	40,464	12.7	39,778	11.5
2.Vegetable Products	8,244	3.3	9,610	3.1	10,695	3.5	9,347	3.3	10,216	3.2	10,536	3.1
3. Prepared Foodstuff; Beverages & Tobacco	37,228	14.8	46,221	15.1	44,154	14.3	45,633	16.0	39,041	12.3	47,152	13.7
4. Products of the Chemical or Allied	9,268	3.7	14,464	4.7	11,699	3.8	13,684	4.8	13,675	4.3	14,794	4.3
5. Wood and Articles of Wood	8,096	3.2	10,057	3.3	7,269	2.3	7,164	2.5	11,244	3.5	9,434	2.7
6. Machinery and Mechanical Appliance	25,380	10.1	38,901	12.7	37,671	12.2	39,244	13.7	41,372	13.0	46,895	13.6
7. Miscellaneous Manufactured Articles	6,175	2.5	6,479	2.1	4,899	1.6	4,838	1.7	5,415	1.7	6,850	2.0
8. Vehicle, Aircraft, Vessel & Associated	10,341	4.1	17,374	5.7	17,615	5.7	15,908	5.6	16,110	5.1	15,516	4.5
9. Works of Art, Collectors Pieces	12,281	4.9	13,765	4.5	14,899	4.8	4,074	1.4	1,194	0.4	1,074	0.3
10. Other Imports	104,418	41.5	119,400	38.9	124,017	40.1	106,360	37.2	138,897	43.7	153,382	44.4
TOTAL	251,596	100.0	307,013	100.0	309,344	100.0	285,754	100.0	317,628	100.0	345,411	100.0

Source: Statistics Department

p: provisional numbers

Table 40: Imports by Institutional Sector, 2006/07 – 2011/12

Source: Statistics Department
p: provisional numbers

INSTITUTIONAL SECTOR	2006/07		2007/08/p		2008/09/p		2009/10		2010/11		2011/12	
	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%
Private Sector	231,272	91.9	291,762	95.0	294,348	95.2	277,502	97.1	297,987	93.8	300,026	86.9
Government Sector	11,162	4.4	12,457	4.1	11,114	3.6	5,120	1.8	9,227	2.9	23,737	6.9
Quasi-Government Sector	9,161	3.6	2,794	0.9	3,882	1.3	3,133	1.1	10,414	3.3	21,649	6.3
TOTAL	251,595	100.0	307,013	100.0	309,344	100.0	285,754	100.0	317,628	100.0	345,411	100.0

Table 41: Imports by Country of Origin, 2006/07 – 2011/12

COUNTRY	2006/07		2007/08 /p		2008/09 /p		2009/10		2010/11		2011/12	
	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%
New Zealand	84,365	33.5	100,123	32.6	81,870	26.5	88,715	31.0	107,985	34.0	100,067	29.0
Australia	34,666	13.8	34,899	11.4	33,349	10.8	32,714	11.4	23,736	7.5	19,553	5.7
USA	25,795	10.3	26,348	8.6	35,884	11.6	41,273	14.4	35,741	11.3	46,022	13.3
United Kingdom	276	0.1	391	0.1	714	0.2	1,118	0.4	70	0.0	311	0.1
Fiji	68,710	27.3	32,568	10.6	41,411	13.4	31,007	10.9	25,861	8.1	29,260	8.5
Japan	5,845	2.3	8,354	2.7	11,375	3.7	6,844	2.4	8,848	2.8	17,175	5.0
Singapore	5,883	2.3	63,666	20.7	62,679	20.3	50,039	17.5	74,804	23.6	78,725	22.8
Others	26,056	10.4	40,664	13.2	42,061	13.6	34,043	11.9	40,582	12.8	54,297	15.7
TOTAL	251,596	100.0	307,013	100	309,344	100.0	285,754	100.0	317,628	100.0	345,411	100.0

Table 42. Tonga Balance of Payments (OET Basis) 2006/07 – 2011/12*(In millions of Pa'anga unless otherwise indicated)*

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Balance of Trade	-190.8	-239.0	-259.9	-196.6	-218.4	-213.3
Exports, f.o.b.	26.7	23.5	11.4	11.4	11.2	7.9
Of which: Squash exports	5.6	2.7	1.9	0.5	0.7	2.2
Imports, f.o.b.	217.5	262.5	271.3	208.0	229.6	221.2
Services (net)	-35.8	-6.2	-5.4	-7.9	4.9	-2.5
Receipts	38.8	70.1	83.7	71.8	89.0	95.2
Of which: Tourism receipts	24.1	33.3	36.7			
Payments	-74.7	-76.3	-89.1	-79.8	-84.0	-97.7
Investment Income (net)	7.1	6.4	57.6	5.3	4.9	12.7
Receipts	12.9	13.0	61.0	14.7	13.1	23.8
Payments	-5.8	-6.6	-3.4	-9.4	-8.2	-11.1
Current Transfers (net)	168.6	180.2	157.9	146.6	143.9	149.6
Official transfers (net)	-0.1	0.5	1.2	1.9	6.2	44.0
Private transfers (net)	168.7	179.7	156.7	144.7	137.7	105.6
Official transfer receipts	0.5	0.8	2.5	5.7	8.3	45.5
Official transfer payments	-0.6	-0.3	-1.3	-3.8	-2.1	-1.5
Private transfer receipts	186.8	202.8	175.2	157.4	146.5	113.1
Private transfer payments	-18.1	-23.1	-18.5	-12.7	-8.8	-7.5
Current account balance	-50.9	-58.6	-49.8	-52.6	-64.7	-53.5
(Percent of GDP)	-8.4	-8.9	-7.5	-7.4	-8.3	-6.7
Capital account balance	53.9	69.0	117.6	58.0	118.9	89.3
Official capital (net)	19.7	22.8	37.0	28.6	63.5	56.8
Official capital inflows	24.7	26.5	66.4	43.0	73.1	63.3
Official capital outflows	-5.0	-3.7	-29.4	-14.4	-9.6	-6.5
Private capital (net)	34.2	46.2	80.6	29.4	55.4	32.5
Private capital inflows	39.9	50.5	88.9	38.0	77.7	45.0
Private capital outflows	-5.7	-4.3	-8.3	-8.6	-22.3	-12.5
Overall balance	8.4	-2.5	47.2	34.2	33.3	42.3
Memorandum items:						
Service, income, and transfers (net)	139.7	180.9	211.3	145.8	160.0	203.8
Receipts	239.0	286.7	322.4	249.6	256.9	277.6
Payments	-99.2	-106.3	-112.3	-105.7	-103.1	-117.8
Gross official foreign reserves (TOP mil)	91.6	89.1	136.3	170.5	203.8	246.1
Months of Import cover	4.4	3.5	5.1	7.1	7.7	8.5

Source: National Reserve Bank of Tonga

Table 43: Tonga Monetary Survey, 2006/07 – 2011/12

(In millions of pa'anga, unless otherwise indicated)	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Net foreign assets	81.7	79.9	121.3	164.8	215.2	235.3
Foreign assets	103.6	99.9	154.0	186.7	221.6	251.0
Foreign liabilities	-21.9	-20.0	-32.7	-21.9	-6.5	-15.7
Net domestic assets	179.3	202.9	156.2	126.6	84.1	53.7
Net domestic credit	245.0	282.2	262.3	235.0	197.5	158.3
Government (net)	-11.7	-29.1	-32.7	-29.1	-32.5	-47.1
Non-financial public enterprises	2.5	3.7	3.9	19.6	13.2	10.1
Private sector	260.5	311.8	302.8	252.6	227.7	202.5
Non-monetary financial institutions 1/	-6.3	-4.2	-11.7	-8.1	-10.9	-7.2
Other items (net)	-65.7	-79.3	-106.1	-108.4	-113.4	-104.6
Total domestic liquidity (M2)	261.0	282.8	277.3	291.5	299.2	293.2
Narrow money (M1)	73.8	72.6	77.9	90.1	96.9	118.1
Currency outside banks	18.5	18.8	21.9	26.8	27.3	31.3
Demand deposits	55.3	53.8	56.0	63.3	69.7	86.8
Quasi money	187.2	210.2	199.4	201.4	202.3	175.1
Savings deposits	49.3	48.8	43.6	46.4	51.0	41.4
Term deposits	125.2	150.1	143.0	142.9	139.5	121.8
Foreign currency accounts	12.8	11.3	12.8	12.0	11.8	11.9
				<i>Annual percentage change</i>		
Net foreign assets	12.6	-2.2	51.8	35.9	30.6	9.3
Foreign assets	9.0	-3.6	54.2	21.2	18.7	13.3
Foreign liabilities	-2.5	-8.7	63.7	-33.1	-70.3	141.5
Net domestic assets	14.7	13.2	-23.0	-18.9	-33.6	-36.1
Private sector	11.4	19.7	-2.9	-16.6	-9.9	-11.1
Total domestic liquidity (M2)	14.0	8.4	-1.9	5.1	2.6	-2.0
Narrow money (M1)	32.5	-1.6	7.3	15.7	7.5	21.9
Quasi money	8.1	12.3	-5.1	1.0	0.4	-13.4
				<i>In US dollars</i>		
Net foreign assets	43.0	42.1	60.3	84.5	125.8	133.7
Foreign assets	54.5	52.6	76.6	95.7	129.6	142.6
Foreign liabilities	-11.5	-10.5	-16.3	-11.2	-3.8	-8.9
Memorandum items:						
Velocity (GDP/average M2)	2.3	0.9	2.4	2.4	2.6	2.7
Exchange rate (pa'anga per U.S. dollar; end period)	1.90	1.90	2.01	1.95	1.71	1.76

Source : National Reserve Bank of Tonga

Table 44: Summary Table of Government Operations, 2008/09 - 2011/12

Years ending June 30	2008/09(p)	2009/10(p)	2010/11(p)	2011/12(p)
Total revenue and grants	225.7	192.1	203.8	219.3
Total revenue	179.9	143.6	151.0	144.4
Current revenue	152.7	143.6	149.1	144.2
Tax revenue	131.5	116.2	133.0	126.8
Nontax revenue	21.2	27.3	16.1	17.4
Capital revenue	27.2	0.00	2.0	0.2
Grants (in cash)	45.8	48.60	52.8	75.0
Total expenditure and lending minus repayments	220.6	230.1	261.1	241.5
Total expenditure	186.5	211.7	249.9	232.4
Current expenditure	167.4	193.2	175.5	187.8
Capital expenditure	19.1	18.4	74.4	44.7
<i>China EXIM Bank Loan</i>	1.2		60.4	38.2
Total lending minus repayments	34.1	18.5	11.2	9.0
<i>China EXIM Bank Loan</i>	2.6		11.0	8.7
Overall deficit/surplus	5.1	-38.0	-57.3	-22.1
Total financing	-5.1	38.0	57.3	22.1
External financing	(1.0)	24.7	65.5	41.2
Domestic bank financing	(4.1)	13.3	(8.2)	(19.1)
Total revenue and grants	34.0	27.0	26.0	27.4
Total revenue	27.1	20.2	19.3	18.1
Current revenue	23.0	20.2	19.0	18.0
Tax revenue	19.8	16.3	17.0	15.9
Nontax revenue	3.2	3.8	2.1	2.2
Capital revenue	4.1	0.0	0.2	0.0
Grants	6.9	6.8	6.7	9.4
Total expenditure and lending minus repayments	33.2	32.3	33.3	30.2
Total expenditure	28.1	29.8	31.9	29.1
Current expenditure	25.2	27.2	22.4	23.5
Capital expenditure	2.9	2.6	9.5	5.6
Total lending minus repayments	5.1	2.6	1.4	1.1
Overall deficit/surplus	0.8	-5.3	(7.3)	(2.8)
Total financing	(0.8)	5.3	7.3	2.8
External financing	(0.2)	3.5	8.4	5.2
Domestic bank financing	(0.6)	1.9	(1.0)	(2.4)
GDP (TOP million)	664.3	711.4	783.4	799.3

Source: Ministry of Finance & National Planning

Table 45: Government Revenue Collection, 1991/92 - 2011/12

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
2010/11/p	86,244,071	46,753,268	18,039,796	151,037,135
2011/12/p	88,744,315	38,080,380	17,554,448	144,379,142

Source: Ministry of Finance and National Planning, p: provisional numbers

p: provisional numbers

Table 46: Major Sources of Tax Revenue 2008/09 - 2011/12

	2008/09 /p		2009/10/p		2010/11/p		2011/12/p	
	\$	%	\$	%	\$	%	\$	%
Import Duties	16,059,175	12.2	14,914,998	12.8	12,654,874	9.5	13,601,267	10.7
Excise Tax/Excise Duty	23,974,263	18.2	25,207,291	21.7	28,644,464	21.5	28,978,931	22.8
Income Tax	40,258,007	30.6	28,070,338	24.1	38,346,253	28.8	25,292,835	19.9
Sales Tax / Consumption Tax	47,192,812	35.9	42,908,911	36.9	49,600,697	37.3	54,734,034	43.2
Sub-Total	127,484,257	96.9	111,101,537	95.6	129,246,288	97.2	122,607,067	96.7
Other	4,043,330	3.1	5,140,092	4.4	3,751,051	2.8	4,217,627	3.3
TOTAL	131,527,587	100.0	116,241,629	100	132,997,339	100.0	126,824,694	100.0

Source: Ministry of Finance and National Planning , p: provisional numbers

p: provisional numbers

Table 47: Expenditure by Ministry for 2008/09-2011/12 (Tonga Government Fund)

	2008/09/p		2009/10/p		2010/11/p		2011/12/p	
	\$	%	\$	%	\$	%	\$	%
Education	24,200,091	11.6	26,563,614	15.1	31,879,985	18.0	28,437,195	17.1
Health	20,900,972	10.1	22,500,834	12.8	22,430,180	12.6	22,414,502	13.5
Works	8,484,544	4.1	3,347,700	1.9	10,048,278	5.7	6,243,372	3.8
Prime Minister's Office	8,999,712	4.3	8,344,844	4.7	6,330,447	3.6	3,925,456	2.4
Sub-Total	62,585,319	30.1	60,756,992	35	70,688,890	40	61,020,526	37
Police	10,880,495	5.2	9,884,854	5.6	9,139,717	5.1	10,364,848	6.2
Agriculture	5,717,328	2.8	5,540,339	3.2	5,785,623	3.3	6,264,852	3.8
Defence	9,894,917	4.8	8,141,516	4.6	7,244,281	4.1	7,363,794	4.4
Legislative Assembly	4,719,628	2.3	4,049,559	2.3	3,844,079	2.2	3,691,256	2.2
Public Debt	17,487,685	8.4	26,398,727	15.0	22,801,034	12.8	15,237,483	9.2
Foreign Affairs	14,187,765	6.8	10,627,047	6.0	11,052,518	6.2	8,389,367	5.1
Financial Appropriations	41,033,088	19.7	19,108,411	10.9	18,093,192	10.2	22,475,785	13.5
Sub-Total	103,920,906	50.0	83,750,453	47.6	77,960,444	43.9	73,787,384	44.5
Other	41,330,702	19.9	31,302,798	17.8	28,828,106	16.2	31,097,416	18.7
GRAND TOTAL	207,836,927	100.0	175,810,243	100.0	177,477,440	100.0	165,905,325	100.0

Source: Ministry of Finance and Planning

p: provisional numbers

Table 48: GFS Presentation of the Government Finance for 2010/11 - 2015/16

	Actual 2010/11	Actual 2011/12	Budget Estimate 2012/13	Estimated Outturn 2012/13	Estimate 2013/14	Projection 2014/15	Projection 2015/16
Total Revenue and grants	203,827,438	219,339,424	217,828,849	194,527,532	242,476,762	216,385,510	207,088,337
Current revenue	149,084,630	144,201,679	147,027,313	150,068,755	155,688,073	163,379,661	169,811,738
Tax revenue	132,997,339	126,824,694	127,734,503	131,103,401	135,232,750	142,330,550	148,025,940
Taxes on income and profits	38,346,253	25,292,835	21,305,000	29,399,068	25,225,000	27,380,800	28,562,504
Taxes on property	119,059	89,570	71,000	704,136	71,000	71,000	71,000
Domestic taxes on goods and services	81,877,153	87,841,022	92,466,424	86,260,656	94,744,670	98,380,850	102,200,902
<i>Consumption tax</i>	49,600,697	54,734,034	56,005,335	54,741,283	56,525,000	59,064,020	61,714,757
<i>Other taxes</i>	32,276,456	33,106,988	36,461,089	31,519,373	38,219,670	39,316,830	40,486,145
Taxes on international trade and transactions	12,654,874	13,601,267	13,852,080	14,736,208	15,152,080	16,457,900	17,151,534
<i>Customs duties</i>	12,635,635	13,584,684	13,800,000	14,726,804	15,100,000	16,405,820	17,099,454
<i>Other import charges</i>	19,240	16,583	52,080	9,404	52,080	52,080	52,080
Other taxes	-	-	40,000	3,333	40,000	40,000	40,000
Nontax revenue	16,087,291	17,376,985	19,292,810	18,965,354	20,455,324	21,049,112	21,785,799
Entrepreneurial and property income	3,279,521	5,568,860	5,856,864	6,526,198	6,382,417	6,880,005	7,547,082
Administrative fees and charges	11,212,203	10,836,090	12,962,946	11,897,474	13,568,563	13,654,397	13,724,007
Fines and forfeits	598,697	517,675	461,000	423,200	484,344	494,710	494,710
Other nontax revenue	996,870	454,361	10,000	118,482	20,000	20,000	20,000
Capital revenue	1,952,505	177,463	2,265,296	682,457	803,903	803,903	803,903
Grants (in cash)							
From abroad	29,023,622	37,739,949	44,536,240	30,951,855	49,482,127	31,514,841	15,800,275
Current Grant (Budget Support)	23,576,137	37,081,755	22,500,000	11,824,465	35,652,658	20,437,105	20,592,421
From other levels of national government	190,544	138,578	1,500,000	1,000,000	850,000	250,000	80,000
Total Grants (in cash)	52,790,303	74,960,282	68,536,240	43,776,320	85,984,785	52,201,946	36,472,696
Expenditure and lending minus repayments	261,094,923	241,471,705	220,735,638	202,536,910	227,188,963	203,363,880	187,452,072
Total Expenditure	249,936,396	232,444,184	220,216,675	202,543,311	226,740,299	202,963,834	187,261,763
Current expenditure	175,546,979	187,760,626	205,442,825	189,971,480	211,586,273	196,264,688	186,116,070
Wages and salaries	91,761,979	83,626,970	90,034,788	91,119,980	92,497,497	91,985,481	91,840,546
Employer contributions	9,138,731	7,393,872	9,027,449	7,464,380	9,931,936	10,020,370	10,143,625
Other purchases of goods and services	50,790,647	66,187,917	80,497,834	68,288,398	80,514,358	65,748,950	57,616,363
Interest payments	6,456,261	6,490,995	7,026,419	7,152,921	6,915,429	6,668,633	6,347,883
<i>Subsidies and other current transfers</i>	17,399,361	24,060,872	18,856,336	15,945,801	21,727,054	21,841,254	20,167,654
Subsidies to non-financial public enterprises	-	-	-	-	-	-	-
Subsidies to financial institutions	28,603	7,451	-	-	-	-	-
Subsidies to other enterprises	1,218,234	524,974	380,000	218,169	280,000	280,000	280,000
Transfers to non-profit institutions	8,346,836	13,184,992	8,772,304	5,748,581	10,066,304	10,085,504	8,314,304
Transfers to households	6,455,807	8,386,143	7,804,032	7,981,485	9,180,749	9,275,749	9,373,349
Transfers abroad	1,349,881	1,957,312	1,900,001	1,997,566	2,200,001	2,200,001	2,200,001
Capital expenditure	74,389,417	44,683,558	14,773,850	12,571,831	15,154,026	6,699,146	1,145,693
Acquisition of fixed capital assets	11,749,236	5,843,957	9,440,114	4,300,424	15,037,641	6,582,761	1,029,308
Purchases of land and intangible assets	2,066,431	175,213	96,713	96,713	87,513	87,513	87,513
Capital transfers	177,299	490,962	111,092	120,374	28,872	28,872	28,872
<i>in which</i> ; Chinese EXIM Bank loan	60,396,451	38,173,427	5,125,931	8,054,320	-	-	-
Lending minus repayments	11,158,526	9,027,521	518,963	(6,401)	448,664	400,046	190,309
To non-financial public enterprises (net)	112,715	312,199	518,964	(6,401)	448,664	400,046	240,368
To financial institutions (net)	-	-	(1)	-	-	-	(50,059)
Abroad	-	-	-	-	-	-	-
<i>in which</i> ; Chinese EXIM Bank loan	11,045,811	8,715,322	-	-	-	-	-
Overall deficit/surplus	-57,267,485	-22,132,281	-2,906,789	-8,009,379	15,287,798	13,021,631	19,636,266

Note: Budget Estimate 2012/13 includes a supplementary budget of \$4.1million

Source: Ministry of Finance and Planning

Table 49: Full GFS Presentation of Financing Table 2010/11 - 2015/16

	Actual 2010/11	Actual 2011/12	Budget Estimate 2012/13	Estimated Outturn 2012/13	Estimate 2013/14	Projection 2014/15	Projection 2015/16
Total Financing	57,267,485	22,132,281	2,906,789	8,009,379	-15,287,798	-13,021,631	-19,636,266
External Financing	65,457,489	41,203,719	(1,218,210)	1,917,832	(15,287,798)	(18,460,959)	(21,102,486)
Disbursement	71,442,262	46,888,749	5,125,931	8,054,320	0	0	0
Repayments	5,984,773	5,685,030	6,344,141	6,136,488	15,287,798	18,460,959	21,102,486
Net Change in External Cash Balance	0	0	0	0	0	0	0
Domestic Financing	(8,190,004)	(19,071,438)	4,124,999	6,091,547	(0)	5,439,328	1,466,220
Bonds Issued/Domestic Loan	10,360,000	3,000,000	7,488,000	7,902,270	6,000,000	6,603,000	6,360,000
Principal Repayment of Matured Bonds/Loan	10,360,000	3,000,000	7,488,000	7,490,777	6,000,000	6,603,000	6,360,000
Net Changes in Government Cash Balances and Investment	(8,190,004)	(19,071,438)	4,124,999	5,680,054	(0)	5,439,328	1,466,220

Note: Budget Estimate 2012/13 includes a supplementary budget of \$4.1million

Source: Ministry of Finance and National Planning

Table 50 : Development Expenditure by Ministry (cash and in-kind T\$ millions)

	Actual 2011-12	Budget Estimate for 2012-13	Revised Estimate for 2012-13	Estimate for 2013-14	Projection for 2014-15	Projection for 2015-16
Attorney General's Office	-	0.02	0.00	0.82	0.02	0.02
Audit Office	-	-	-	0.15	0.15	0.15
Commissioner of Public Relations	0.01	-	-	-	-	-
Legislative Assembly	0.17	0.65	0.18	1.23	3.63	2.62
Ministry of Agriculture, Food, Forests & Fisheries	0.01	2.10	0.11	1.21	0.52	0.58
Ministry of Commerce and Tourism	1.45	7.19	1.86	6.32	5.50	5.27
Ministry of Education & Training	15.14	29.87	11.10	13.01	23.31	25.31
Ministry of Finance & National Planning	53.52	15.20	14.48	8.01	5.73	3.53
Ministry of Foreign Affairs	0.20	0.72	0.68	1.40	-	-
Ministry of Health	21.76	5.52	3.71	7.23	5.59	1.47
Ministry of Infrastructure	7.20	31.18	13.60	52.88	84.74	1.39
Ministry of Internal Affairs	2.53	0.05	0.59	2.61	2.01	1.53
Ministry of Justice	-	0.45	0.97	0.49	0.49	0.49
Ministry of Lands, Environment, Climate Change & Natural Resources	10.77	23.35	5.97	37.17	56.41	48.37
Ministry of Police, Prisons & Fire Services	2.03	3.47	1.99	4.04	4.55	4.95
Ministry of Public Enterprise	2.53	3.75	6.13	1.65	1.50	1.30
Ministry of Revenue Services	0.40	1.57	0.59	4.75	1.58	0.58
Palace Office	0.10	0.70	0.20	0.25	0.55	0.08
Prime Minister's Office	3.53	24.04	32.43	14.00	4.20	-
Public Service Commission	0.17	0.66	0.22	-	-	-
Tonga Bureau of Statistics	0.72	0.20	0.53	0.10	0.82	1.02
Tonga Defence Services	2.72	1.60	1.45	1.50	0.90	0.30
Grand Total	124.96	152.28	96.81	158.81	202.19	98.97

Source: Ministry of Finance and National Planning

Table 51 : Development Expenditure by Development Partner (Cash and in-kind)

	2011-12 Actual	Budget Estimate for 2012-13	Revised Estimate for 2012-13	Current Estimate for 2013-14	Current Projection for 2014-15	Current Projection for 2015-16
Australian Bilateral	8.33	14.84	8.45	15.92	12.62	6.87
Aust Defence-Cash	1.96	0.60	0.45	0.70	0.10	0.30
Aust Other	0.09	0.04	0.04	0.05	0.05	0.09
Germany	-	-	-	0.12	0.12	0.12
Japan Government/JICA	19.08	11.00	2.97	-	10.00	10.00
Japan TTP	0.45	1.21	0.00	2.31	32.30	32.30
Aust\NZ Pooled Fund	12.84	14.48	7.40	10.75	11.63	5.90
New Zealand Bilateral	14.31	15.35	11.57	12.20	11.18	14.72
People's Republic of China	2.80	9.10	0.63	37.88	51.00	0.25
UK Government	0.78	0.82	0.80	0.80	0.80	-
India Fund	0.06	-	-	-	-	-
Korean Fund	0.10	0.10	-	0.30	-	-
Pacific Regional Initiatives for Basic Education (PRIDE)	-	-	-	-	-	-
Asian Development Bank (ADB)	5.58	23.37	17.04	29.47	22.14	12.84
World Bank/International Development Agency (IDA)	6.57	43.90	34.26	23.58	36.94	2.59
EU Budget Support	1.59	4.50	1.23	4.00	2.00	-
Commonwealth Fund Tech Coop	0.04	0.13	0.14	0.02	0.02	0.02
Unesco	0.35	0.07	-	0.02	0.02	0.02
European Union	0.87	2.52	0.57	2.75	1.95	0.75
Pacific Islands Forum Secretariat (PIFS)	-	-	-	7.30	-	-
Secretariat of the Pacific Community (SPC)	0.03	0.25	0.56	1.28	0.22	0.08
South Pacific Regional Environmental Program (SPREP)	0.16	0.20	0.41	0.72	0.21	-
United National Development Program (UNDP)	0.23	0.97	0.24	1.55	3.59	3.16
UN Family Planning Association (UNFPA)	0.11	0.01	0.12	0.10	0.10	0.10
UN International Children's Fund	0.02	-	-	-	-	-
Food & Agriculture Organisation (FAO)	-	1.42	-	0.66	0.31	0.31
World Health Org (WHO)	0.44	0.50	-	-	-	0.50
South Pacific Geoscience Commission (SOPAC)	0.40	0.02	0.13	0.11	0.08	0.08
United Nations Environment Program	0.07	0.04	0.17	0.20	0.05	0.05
Forum Fisheries Agencies (FFA)	-	0.10	0.10	0.52	0.19	0.05
Commonwealth Local Government Fund	-	-	-	0.04	0.04	0.02
International Union for Conservation of Nature (IUCN)	0.30	0.13	0.11	0.51	0.50	0.20
PRC - EXIM Bank	46.89	5.13	8.05	-	-	-
Tonga Trust Fund	0.14	1.50	1.00	0.85	0.25	0.08
Local Level Contributions	-	-	0.00	-	-	-
Unidentified Donor	0.36	-	0.37	4.11	3.79	7.57
Total	124.96	152.28	96.81	158.81	202.19	98.97

Source: Ministry of Finance and National Planning

MONEY MARKET DEVELOPMENT			
The liquidity in the banking system to be kept on balance over a period of time.	MoFNP and NRBT	MT	L
Recent amendment to NRBT ACT 2007 to be reviewed to enable NRBT to conduct open market operations using outright transactions as well repos transactions in Government securities	MoFNP and NRBT	ST	H
Central Bank and market repo to be introduced	NRBT	MT	H
Short term Treasury Bills to be used for funding temporary cash mismatches of Government in place of overdraft facility from a commercial bank at the commercial rate of interest.	MoFNP and NRBT	MT	M
NRBT to compile and disseminate money market transactions to market at a regular interval.	NRBT	LT	L
PRIMARY MARKET			
Adopt issuance policy based on Commercial Paper (CP) type issuances	MoFNP and NRBT	ST	H
Consult market actively before announcement of tenor, target issuance amounts and pricing.	MoFNP and NRBT	ST	H
Place a limit for issuance for each maturity year to contain refinancing risk	MoFNP	MT	M
Adopt and publish guidelines for issuance of Treasury Bills and Bonds	MoFNP and NRBT	MT	M
Shift to auction process at later stage	MoFNP	LT	M
Improve effectiveness of Cash Management by improving forecasting of cash balance, establishing a link between forecasted cash position and primary issuance and adoption of a comprehensive Treasury Single Account	MoFNP	ST	M
INVESTORS BASE AND SECONDARY MARKET			
Initiate an investor education programme	MoFNP	MT	M
Undertake feasibility study for undertaking issuance of 'diaspora bonds' on a regular basis	MoFNP and NRBT	MT	M
Reinstate the authority to the NRBT to acquire and own Government securities	MoFNP and NRBT	ST	H
Set up legal framework for Insurance business	MoFNP	MT	H
MARKET INFRASTRUCTURE			
Introduce system of dematerialisation of securities and phase out physical form of holding securities.	NRBT and MoFNP	ST	H
Introduce a DvP based settlement of securities using DvP I mode	NRBT	MT	H
Facilitate introduction of a simple system for execution of sale and purchase of securities by buyers and sellers	NRBT	MT	H

In the table, ST, MT and LT stand for short, medium and long term, respectively. H, M and L stand for high, medium and low priority, respectively. Timing and priority are not always clear cut. Judgment should be exercised in adapting timing and priority to changing macroeconomic environment, financial market reforms and market conditions, as the case may be.

Table 52: Summary of WB recommendations

Issues/ Project Components	Actions/Lead entity	Timing	Budget (external assistance)	Expected Output and/or Outcomes of the Actions
Developing Debt Management Strategy				
The current draft of a debt management strategy misses key components and its analytical foundation is rather weak. The focus has been on DSA and not on debt management issues. The current document does not explicitly endorse a preferred strategy	Revise the current draft of the debt management strategy to include: 1. Objectives and scope 2. Macro framework 3. Cost-risk characteristics of public debt portfolio 4. Sources of financing and analysis of alternative strategies 5. Strategy for domestic market development	Priority Level: I Start in 1Q 2013, duration 6 months	Internal	A debt management strategy document closer in line with best practice Formal and public debt management document Better coordination with NRBT
Strengthening Risk Management Framework				
On external borrowing , there has been a concentration of borrowing from few external creditors and DMS has not been involved in any loan negotiation. There is no formal policies and procedures for external borrowing; therefore, it has allowed different institutions to be involved in loan negotiations	1. Develop a procedures manual for staff and institutions, including legal advisors, for loan contracting; include the whole public investment programme into the medium-term budget to define the total financing needs, and develop the corresponding borrowing plan; 2. Analyze and evaluate	Priority level: II Start 2Q 2013, duration 4 months	Internal	Procedures manual for loan contracting will be in effect. Public Investment Programme will be integrated into the medium-term budget with more clear estimates for funding needs and more realistic projections for the borrowing plan.

	existing and potential sources of financing to choose the most beneficial terms and conditions for the government in line with the objectives established in the medium-term debt strategy			Analysis of potential sources of funding as well their most beneficial terms will be carried out leading to improved debt management
On guarantees, on-lending, and derivatives, there are no policies and operational guidelines regulating the government's approval and issuance of on-lending and guarantees. There is a need to develop risk assessment and well as creating institutional framework to collect "treasury receivables". The PPPs projects have already started but there is no institutional framework and capacity at the MoFNP to manage them.	<ol style="list-style-type: none"> 1. Finalize the "Policy Framework for Government Guarantees" and review the Public Finance Management Act (2002), to see from the legal viewpoint if additional changes are necessary; 2. Develop capacity within the MoFNP to carry out financial and capacity-to repay-analysis; 3. Build a simple "decision to issue guarantees/on-lending" matrix and develop capacity at DMS to collect treasury receivables; 4. Develop an institutional framework to evaluate, analyze, and report on PPPs 	<p>Priority level: I Start 1Q 2013, duration 12 months</p>	<p>Internal US\$40,000</p>	<p>A government framework document to provide guarantee and on-lending will be approved and in place.</p> <p>Procedures to issue guarantees and on-lending will be in effect together with improved analytical capacity in the decision process.</p> <p>The MoFNP, through the DMS will start monitoring and collecting "treasury receivables".</p> <p>An institutional framework (units in charge, procedures, criteria, etc.) to evaluate, analyze and report on government involvement in PPPs will be in effect.</p>
On operational risk management; tasks and functions in the middle office (analytical and a framework for risk analysis) are not currently guided by a set of procedures and loans' documents should be better protected against fire and natural disasters. Preparing a business continuity plan will help to reduce operational risk management.	<ol style="list-style-type: none"> 1. Formalize debt service payment procedures; 2. Design and approve middle office procedures; 3. Design and approve a business continuity plan. 	<p>Priority Level: II Start 2Q 2013, duration 8 months</p>	<p>Internal</p>	<p>Formal debt service procedures will be in place.</p> <p>Middle office functions will be guided by clear procedures.</p> <p>Business continuity plan will in effect together with a detailed plan for identifying/ managing operational risk</p> <p>Reduced operational risk</p>
Improving Coordination with Macroeconomic Policies				
<ol style="list-style-type: none"> 1. Undertake sensitivity analysis of the projections to changes in macroeconomic and financial market projections; 2. Make better use of existing committees (e.g., those involving technical staff from the Budget, Macro, Policy and Planning, and the NRBT) to jointly carryout the DSA and discuss the results and implications for their respective policy operations; 3. Develop capacity (training) to generate medium term forecasts within the MoFNP and, within DMS, to undertake scenario analysis to provide debt and debt service projections under alternative macroeconomic scenarios 	<p>Priority Level: III Start 3Q 2013, duration 8 months</p>	<p>Internal US\$40,000</p>	<p>Improved budgeting and more information about risks to the budget forecast leading to more certainty about potential budget impacts from the debt</p>	
<ol style="list-style-type: none"> 1. Prepare a MoU between the MoFNP and the NRBT; 2. Revamp The Cash Flow Committee and Debt Management Committee, by updating the ToRs. 3. Establish in the legislation explicit legal limits on the government borrowing from the NRBT 	<p>Start 2Q 2013, duration 12 months Action No. 3, start3Q2013, needs new law (preparation, discussion, approval), 18 months.</p>	<p>Internal</p>	<p>A formal agreement (Memorandum of Understanding) between the MoFNP and NRBT will be in place.</p> <p>Responsibilities will be clear and accountable.</p> <p>Coordination to implement debt management and monetary policies will be improved</p>	
<ol style="list-style-type: none"> 1. Establish a working group led by MoFNP and including the DMS, NRBT, and market participants with a focus on improving the primary market for government securities and identifying constraints to market development; 2. Request technical assistance and capacity building programmes on domestic market development for government securities; 	<p>Start 1Q 2013, duration 36 months</p>	<p>Internal US\$50,000</p>	<p>Constraints to market development will be identified and well as measures to ameliorate them.</p> <p>A programme to foster domestic market development will be prepared</p> <p>Coordination</p>	

			between MoFNP and NRBT will be improved	
--	--	--	---	--

Table 53: Sovereign Debt Sustainability Indicators (Red above, Green below)

Indicators	IMF Max Target (%)	GOT Max Target (%)	FY 2011/2012 Actual (%)	FY 2012/2013 Actual (%)
<i>NPV of External Debt as</i>				
% of GDP ¹	30	40	43	40
% of exports & remittances	80	100	155	125
% of recurrent revenue	200	200	227	209
<i>Total Debt Service as:</i>				
% of exports & remittances	12	15	7	8
% of recurrent revenue	18	25	10	13

Table 54: Summary Debt Levels and Ratios

Particulars	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
Total Public Debt (USD\$)	200.8	205.5	205.2	204.5	197.1
Total Public Debt (TOP\$)	352.1	351.6	356.9	352.5	355.0
Domestic Debt	29.5	29.5	29.5	29.5	29.5
External Debt	322.6	322.1	327.5	323.1	325.5
Total Public Debt to GDP (%)	45.1%	44.8%	45.5%	44.9%	43.0%
External Debt to GDP	41.3%	41.1%	41.7%	41.2%	39.4%
Domestic Debt to GDP	3.8%	3.7%	3.8%	3.8%	3.6%
Total Debt Service (\$)	15.2	3.9	7.7	4.0	20.3
Principal	8.7	1.0	7.0	1.5	13.2
Interest	6.5	2.9	0.7	2.5	7.1
External	10.5	3.2	2.4	3.8	11.0
Domestic	4.9	0.6	5.3	0.2	9.3

External Debt by Creditor category (\$)	322.6	322.1	327.5	323.1	325.5
Multilateral	115.5	114.1	113.7	108.9	108.9
Bilateral	205.3	207.5	213.3	213.7	216.1
Commercial	1.8	0.5	0.5	0.5	0.5
Debt Composition by Instrument Type (\$)	352.1	351.6	356.9	352.5	355.5
Loans	322.6	322.1	327.5	323.1	325.5
Bonds	29.5	29.5	29.5	29.5	29.5
Foreign Currency Risk (%)					
% of debt in Chinese Yuan	63.6%	64.4%	65.1%	66.1%	66.4%
% of debt in SDR	35.7%	35.3%	34.6%	33.6%	33.4%
% of debt in other currencies	0.7%	0.3%	0.3%	0.3%	0.2%
Fiscal Indicators (%)					
Total Debt Service to Expenditure	9.2%	2.2%	4.3%	2.2%	11.3%
Total Debt Service to Revenue	10.4%	2.5%	4.9%	2.5%	12.9%
Interest cost to Expenditure	3.9%	1.6%	0.4%	1.4%	4.0%
Vulnerability Indicators (%)					
Reserves to External Debt	76.3%	78.0%	75.2%	79.6%	79.6%
External Debt Service to Exports/Remittances	4.9%	1.3%	0.9%	1.5%	4.2%
External Debt Service to Exports	11.6%	2.2%	1.6%	2.5%	7.2%

Source: MOFNP, NRBT & IMF Staff Report for 2013 Article IV Consultation

Table 55: Details of the terms and conditions of the 2 major loans from China

Particulars	Nuku'alofa Reconstruction Project	CBD Tonga National Road Improvement Project
Loan Amount	CNY 440m, at T\$123m (ests)	CNY 291m, at T\$82m (ests)
Maturity Period	20 yrs from effective date (5 years grace period for principal, 15 years principal repayment)	20 yrs from effective date (5 years grace period for principal, 15 years principal repayment)
Payment frequency	21 st day of September and March annually (1 st interest payment 21 March 2009, last payment 21 September 2028; 1 st principal payment 21 September 2013, last payment 21 September 2028)	21 st day of September and March annually (1 st interest payment 21 March 2010, last payment 21 March 2030; 1 st principal payment 21 March 2015, last payment 21 March 2030)
Interest rate (IN)	2% per annum over 360 daily basis (from 1 st drawdown date on	2% per annum over 360 daily basis (due from 1 st drawdown date on 15

	24 September 2008)	March 2010)
Management fee (MF)	1% on loan amount (paid 12 September 2008, for lump sum due 30 days from effective date and before first drawdown date);	1% on loan amount (paid 25 February 2010, for lump sum due 30 days from effective date and before first drawdown date)
Commitment fee (CF)	0.75% per annum on undrawn loan balance (due 30 days after effective date)	0.75% per annum on undrawn loan balance (due 30 days after effective date)
Total paid	\$9.7m	\$4.7m
IN	\$6.7m	\$3.3m
MF	\$1.3m	\$0.8m
CF	\$1.7m	\$0.6m

Table 56: Reconstruction Loan Project Allocation

<i>PHASE I</i>	19.61	16%
MF Taumoepeau & Sons	7.16	6%
OG Sanft & Sons Ltd	10.25	8%
Royco Amalgamated Co.	2.20	2%
<i>PHASE II</i>	23.34	19%
Tungi Colonnade Ltd	16.57	13%
City Assets Ltd	6.76	5%
Total on-lent projects	42.94	35%
<i>PHASE I</i>		
Palace extension	14.07	11%
<i>PHASE II</i>		
Vuna wharf	32.86	27%
Civil works	19.07	16%
Asphalt Plant	5.17	4%
Total GOT projects	71.18	58%
Geographic report (stage 1)	0.56	0.5%
Mobilisation (stage 1)	1.73	1%
Design (stage 1 & 2)	2.53	2.1%
Consultancy (stage 1, 2)	0.77	0.6%
Insurance (stage 1, stage 2)	0.28	0.2%
Contingency sum	2.02	1.6%
Total other costs (CCECC)	8.92	7%
TOTAL LOAN AMOUNT	123.04	100%

Source: Ministry of Finance & National Planning

Table 57: Road Improvement Loan Project Allocation

Tongatapu	54.93	67.3%
-----------	-------	-------

Vava'u	6.82	8.3%
Ha'apai	1.88	2.3%
Eua	2.48	3.0%
<i>Establishment</i>	1.70	2.1%
<i>Mobilisation</i>	1.83	2.2%
<i>Road survey, geographical, prospecting, geography report</i>	1.70	2.1%
<i>Road designing</i>	6.53	8.0%
<i>Consultant fee</i>	2.45	3.0%
<i>Insurance</i>	0.45	0.6%
<i>Contingency sum</i>	0.89	1.1%
Total other costs (CCECC)	15.54	19.0%
TOTAL LOAN AMOUNT	81.65	100.0%

Source: Ministry of Finance & National Planning

Table 58: On-lent Loans, as at 30 June 2013

Sub-Borrowers	Jun-12 (\$m)	Jun-13 est. (\$m)
Tonga Development Bank	3.32	2.85
Tonga Communications Corporation	1.06	0.85
Sea Star Fishing Co. Ltd	3.65	3.65
Janfull International Dateline Hotel Ltd	10.29	10.66
Ports Authority Tonga	0.70	0.70
Tongatapu Market Ltd	1.72	1.73
CBD Reconstruction Projects		
Royco Amalgamated Co. Ltd.	2.20	2.20
MF Taumoepeau Ltd.	7.16	7.16
OG Sanft Ltd.	10.25	10.25
Tungi Colonnade Ltd.	16.57	16.57
City Assets Ltd.	6.76	6.76
TOTAL	63.67	63.39

Source: Ministry of Finance & National Planning

Table 59: Demographic Details by island group, 2011

Indicator	Tonga	Tt	Vv	Hp	'Eua	Niuas	Urban	Rural
Total population	103,252	75,416	14,922	6,616	5,016	1,282	24,229	79,023
Male	51,979	37,833	7,559	3,406	2,514	667	12,156	39,823
Female	51,273	37,583	7,363	3,210	2,502	615	12,073	39,200
Population change								
2006 – 2011 (no.)	1,261	3,371	-583	-954	-190	-383	571	690
2006 – 2011 (%)	1.2	4.7	-3.8	-12.6	-3.6	-23	2.4	0.9
Average Annual Growth	0.2	0.9	-0.8	-2.7	-0.7	-5.9	0.5	0.2
Population density (number of people per square km)	159	290	123	61	57	18	2,123	124
Total population by private household and Institution (resident)	103,043	75,281	14,884	6,607	4,989	1,282	24,134	78,909
Male	51,852	37,755	7,534	3,401	2,495	667	12,100	39,752
Female	51,191	37,526	7,350	3,206	2,494	615	12,034	39,157
Total population by Institution (resident & non-resident)	1,283	1,089	97	39	58	0	439	844
Male	924	772	69	34	49	0	311	613
Female	359	317	28	5	9	0	128	231
Total Tongan and part Tongan population	100,710	73,268	14,652	6,563	4,950	1,277	22,985	77,725
Male	50,547	36,633	7,399	3,377	2,474	664	11,460	39,087
Female	50,163	36,635	7,253	3,186	2,476	613	11,525	38,638
Total non Tongan population	2,542	2,148	270	53	66	5	1,244	1,298
Male	1,425	1,193	160	29	40	3	689	736
Female	1,107	945	110	24	26	2	545	562
(unspecified ethnic groups)	10	10	0	0	0	0	10	0
Total number of people living in private households	101,969	74,327	14,825	6,577	4958	1282	23,790	78,179
Male	51,055	37,061	7,490	3,372	2465	667	11,845	39,210
Female	50,914	37,266	7,335	3,205	2493	615	11,945	38,969
Total number of people (resident) living in Institutions	1,074	954	59	30	31	0	344	730
Male	797	694	44	29	30	0	255	542
Female	277	260	15	1	1	0	89	188
Total number of people (non-resident) living in Institutions	209	135	38	9	27	0	95	114
Male	127	78	25	5	19	0	56	71
Female	82	57	13	4	8	0	39	43
Household type Total	18,156	12,904	2834	1266	870	282	4266	13890
Total Number of Private household	18,033	12,818	2813	1258	862	282	4221	13812
Average household size	5.7	5.9	5.3	5.3	5.8	4.5	5.7	5.7
Total Number of Institution occupied by Tongans	73	55	4	4	4	0	24	49
Total Number of Institution occupied by non-Tongans	50	31	4	4	4	0	21	29

Source: Government Stats Census 2011

Table 60: Primary and Secondary Student Enrolments and Teachers

Education System	2010			2011			2012		
Primary Education	Male	Female	Total	Male	Female	Total	Male	Female	Total
Number of Students									
Government	7,918	7,033	14,951	7,935	7,050	14,985	7,744	6,896	14,640
Non-Government	986	911	1,897	1,047	1,001	2,048	1,247	1,295	2,542
Sub - Total	8,904	7,944	16,848	8,982	8,051	17,033	8,991	8,191	17,182
Number of Teachers									
Government	173	403	576	173	431	604	203	473	676
Non-Government	81	20	101	16	86	102	23	111	134
Sub - Total	254	423	677	189	517	706	226	584	810
Pupils/Teacher ratio			25:1			24:1			21:1
Secondary Education									
Number of Students									
Government	3,022	2,265	5,287	2,947	2,222	5,169	2,845	2,272	5,117
Non-Government	4,406	5,084	9,490	4,680	5,025	9,705	4,706	4,983	9,689
Sub - Total	7,428	7,349	14,777	7,627	7,247	14,874	7,551	7,255	14,806
Number of Teachers									
Government	130	163	293	135	178	313	117	152	269
Non-Government	340	360	700	330	378	708	360	389	749
Sub - Total	470	523	993	465	556	1,021	477	541	1,018
Pupils/Teacher ratio			15:01			15:01			15:01

Source: Ministry of Education and Training

Table 61: Health Indicator(s) for Tonga 2006 – 2010

	INDICATOR	2006	2007	2008	2009	2010
1	Estimated Population ('000)	102.4	103.3	102.3	103.1	103.6
2	Annual Population growth	0.3	0.3	0.3	0.3	0.3
	Percentage of Population less than 14 years (per 100)	38	38	38	38	38
3	Percentage of population 65 years and over (per 100)	6	6	6	6	8
4	Percentage of urban population (per 100) Census	36				
5	Rate of natural increase (per 1,000)	21.5	21.3	21.6	19.9	
6	Crude Birth Rate (per 1,000)	26.5	26.5	26.7	25.4	26
7	Crude Death Rate (per 1,000)	5	5.2	5.1	5.5	5.3
8	Maternal Mortality Rate (per 100,000)	110.5	36.5	76.1	114.4	37.1
	Life Expectancy at Birth (combined)					
	Life Expectancy (Male)				65	
9	Life Expectancy (Female)				69	
10	Infant Mortality Rate (per 1,000)	10.7	11.7	16.4	14.5	21.5
11	Perinatal Mortality Rate (per 1,000 live births)	13.1	13	18.9	13.5	12.4
	Total Health expenditure ('000) (current prices)	20170	17761	21580	21375	22500
	Per Capita	196	172	210	207	217
12	As a percentage of total recurrent budget	10.4	7.5	10	12	10.1
	Health workforce					
	Medical Officers at post	57	58	59	55	45
	Health Officers at post	20	17	19	22	21
13	Nursing and Midwifery at post	325	302	346	355	Tbc
14	Percentage of population with safe water supply	97.5	98	99	99.9	99
15	Percentage of household with adequate sanitary facilities	97.2	99.6	98	99.7	99
16	Immunization coverage	99.1	99.6	99.5	99.5	99.6
17	Percentage of pregnant women immunized with tetanus toxoid 2	97.2	97.6	99	97.8	97.9
	Percentage of population with access to appropriate health care services with regular supply of essential drugs within one hours walk	100	100	100	100	100
18	Percentage of infants attended by trained personnel	100	100	100	100	100
19	Percentage of infants attended by trained personnel	100	100	100	100	100
20	Percentage of married couples practicing contraception	23.9	27.7	27	29.8	28.4
21	Percentage of pregnant women attending ante natal care	99	98.7	98	98.6	97.7
22	Percentage of deliveries conducted by trained personnel	98	98	97	98.1	99
23	Total Fertility Rate	4.1	3.7	3.7	3.7	3.8

Source: Annual Report 2010 Ministry of Health