



**GOVERNMENT OF TONGA**

# BUDGET STATEMENT 2015/2016

**“A MORE PROGRESSIVE TONGA”:**

*enhancing our inheritance*



Ministry of Finance and National Planning, Nuku'alofa, May, 2015



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## ACRONYMS

<b>AGO</b>	Attorney General's Office
<b>CDs</b>	Communicable Diseases
<b>CEO</b>	Chief Executive Officer
<b>CPIA</b>	Country Policy and Institutional Assessment
<b>CPR</b>	Commission of Public Relations
<b>CSOs</b>	Civil Society Organisations
<b>ECE</b>	Early Childhood Education
<b>e-waste</b>	electronic Waste
<b>GDP</b>	Gross Domestic Product
<b>GFC</b>	Global Financial Crisis
<b>GNI</b>	Gross National Income
<b>HDI</b>	Human Development Index
<b>HIES</b>	Household Income Expenditure Survey
<b>HMAF</b>	His Majesty's Armed Forces
<b>ICT</b>	Information and Communication Technology
<b>IHDI</b>	Inequality adjusted HDI
<b>JNAP</b>	Joint National Action Plan
<b>KPIs</b>	Key Performance Indicators
<b>LA</b>	Legislative Assembly
<b>M&amp;E</b>	Monitoring and Evaluation
<b>MAFFF</b>	Ministry of Agriculture, Food, Fisheries and Forestry
<b>MCTL</b>	Ministry of Commerce, Tourism and Labour
<b>MDAs</b>	Ministries, Departments and Agencies
<b>MDGs</b>	Millennium Development Goals
<b>MEIDECC</b>	Ministry of Meteorology, Environment, Information, Disaster Management, Energy, Climate Change and Communications
<b>MET</b>	Ministry of Education and Training
<b>MFAT</b>	Ministry of Foreign Affairs and Trade
<b>MFNP</b>	Ministry of Finance and National Planning
<b>MIA</b>	Ministry of Internal Affairs
<b>MLNR</b>	Ministry of Land and Natural Resources
<b>MOH</b>	Ministry of Health
<b>MOI</b>	Ministry of Infrastructure
<b>MOJ</b>	Ministry of Justice
<b>MPE</b>	Ministry of Public Enterprises
<b>MPI</b>	Multi-dimensional Poverty Index
<b>MPPF</b>	Ministry of Police, Prisons and Fire
<b>MRC</b>	Ministry of Revenue and Customs
<b>MTBF</b>	Medium Term Budget Framework
<b>JNAP</b>	Joint National Action Plan on climate change, adaptation and disaster risk management
<b>NBSAP</b>	National Biodiversity Strategy and Action Plan
<b>NCDs</b>	Non-Communicable Diseases
<b>NGOs</b>	Non-Government Organisations
<b>NIIP</b>	National Infrastructure Investment Plan
<b>NNCDD</b>	National Non Communicable Diseases Committee National National

<b>NRBT</b>	National Reserve Bank of Tonga
<b>PEs</b>	Public Enterprises
<b>PFM</b>	Public Financial Management
<b>PMO</b>	Prime Minister's Office
<b>POPs</b>	Persistent Organic Pollutants
<b>PSC</b>	Public Service Commission
<b>R&amp;D</b>	Research and Development
<b>STATS</b>	Department of Statistics
<b>SWOT</b>	Strengths, Weakness, Opportunities and Threats
<b>TAIP</b>	Tonga Aviation Investment Project
<b>THPF</b>	Tonga Health Promotion Foundation
<b>TSDF</b>	Tonga Strategic Development Framework (I= first; II = second)
<b>TVNUP</b>	Tonga Village Network Upgrade Project
<b>UN</b>	United Nations

# 1 FOREWORD

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This is the first budget delivered by the second government administration following the political reform initiated in 2010. Our national motto: **“God and Tonga are my inheritance”** has served Tonga well over the years and that it provides the foundation for this year’s budget. This is supported by impact for the Tonga Strategic Development Framework 2015-2025: **“A more progressive Tonga supporting a higher quality of life for all”**.

The Budget strategy is guided by the Priority Agenda of Government:

1. **Good Governance:** building a public service known for its efficient and effective service, delivered with honesty, transparency and accountability, promoting public trust
2. **Inclusive and Sustainable Growth:** building macro stability and strong partnerships to address key constraints to growth, in particular the banking sector mobilization of funds for investment
3. **Poverty Alleviation:** building value added employment, with a healthy and educated workforce, while targeting support to those with special needs
4. **Safer and Better Public Infrastructure:** building infrastructure (including for the Pacific Games) with good maintenance and operations and increased resilience to disasters and climate change.

While these thematic priorities guide the budget strategy, government will also continue to provide the required level of resources to maintain progress in all of the other areas that must contribute to the TSDF.

Based on these Priorities, the Budget theme is: Improved Government Delivery and Accountability to support the TSDF impact of **“A more progressive Tonga supporting a higher quality of life for all”**, through **“enhanced good governance”**.

This budget of the new administration elected in November 2014 builds on the focus for a more honest, transparent and accountable public service that is delivering improved services to the people. It is guided by the TSDF 2015-2025. The Medium Term Budget Framework, is designed to maintain fiscal stability while driving improvements in government performance.

The first six months of the administration terms was covered by the last budget of the former administration. The current administration takes full responsibility for the budgeting as well as management of financial affairs, and to ensure a responsible budget focusing on its selected priorities. The 17.5 percent increase between the 2015/16 budget and the revised outturn for 2014/15 recognizes a number of important one off additions required. These relate to supporting the Pacific Games, further expanding the low interest loan scheme managed by TDB, paying off governments obligations to the pension fund, among others.

The budget focuses on driving further and more effectively the reforms that have been underway for the last few years. Success will still depend on improving sustainable and inclusive growth which generates employment and income for all our people; while also raising government revenues to help finance the level and quality of public services expected. Success depends critically on improving the management of the public services at all levels. This requires a renewed focus on performance. It requires a stronger more focused monitoring and evaluation of performance based on more accurate data. These are all focuses of this budget and the reforms it supports.

We know that government cannot succeed alone. This must be based on a strong and more active partnership between the public and private sectors - including business, civil society organizations (CSOs) and churches. Government will continue to support and build on this partnership. This include

improving the effectiveness of joint activities related to the economy and address constraints to our economic development.

Government will expand and deepen its involvement with CSOs in supporting community development that complements the growth in economic activity. These partnerships will also expand the role of CSOs in the provision of services to help the more vulnerable groups in our society.

We are already very vulnerable to extreme natural events. This is sadly shown again with the destruction by cyclone Ian in Ha'apai, the impact of drought on the agricultural sector in 2014 and the near miss from Pam - which wrought such terrible damage on our neighbours in Vanuatu. This high risk for natural disasters will only increase with further climate change. Close collaboration between public and private sectors is essential if we are to build our resilience against such natural risks. We must build resilience into our infrastructure, into our disaster preparedness and into our response when such events do strike.

A strong, honest and reliable public service is essential for the public sector to step up and contribute its role in this expanded partnership. This is set out clearly in our new TSDF. This budget seeks to support the first three years of the 10-year TSDF. TSDF clearly sets out the national outcomes and supporting organizational outcomes needed to plan and budget for the inclusive, sustainable and resilient growth and development that is needed if we are to have **"A more progressive Tonga supporting a higher quality of life for all"**.

I wish to convey a special thanks to all of our development partners and our overseas diaspora for their continuing support to Tonga. They have made significant contributions in various ways to our national development. I also wish to thank our people, in their various engagements as workers, business people, consumers, members of churches and community groups, across the Kingdom and beyond our shores, and call on them to continue to work in partnership with Government as we drive to achieve a more progressive society, enhancing the overall standard of living for all.

I acknowledge with gratitude the invaluable role that the members of the Legislative Assembly play in considering this Budget Estimate and Statement, along with the Ministry Corporate Plans. Their effort to thoroughly scrutinise this budget and determining to ensure that it truly addresses the aspirations for our people, is part of the partnership that grows from our new and more open political system.

Finally, the national vision to elevate the standard of living of our people can only be realized through our renewed commitment and collective effort. Let us work together to build **"A more progressive Tonga, enhancing our inheritance"**

God Bless Tonga

Faka'apa'apa atu



.....  
'Aisake Valu Eke

**Minister for Finance and National Planning**

## 2 INTRODUCTION

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Improving the way government operates is key to a more efficient, effective and affordable public service, working with honesty and accountability, needed to deliver government policies and services while ensuring fiscal stability. This is also needed for a stronger partnership between the private and public sector across all areas of activity.

We will continue to strengthen the economic and social policy analysis, national and corporate planning and budgeting, staff performance and management, governance and transparency as well as other technical skills. More so than ever, we have identified that stronger management built in collaboration with strong leadership from Cabinet, and based on a clear division of labour between these two functions, is critical for success. This must be complemented by more effective monitoring and evaluation that helps drive improved performance.

The Budget Statement is a key component of this reform process. Under this approach, the budget **funds** the **inputs** and **activities** that produce the corporate plan **organisational outputs**<sup>1</sup> that government delivers, which, along with the efforts of everyone else in Tonga and beyond, help us to achieve the TSDF **organizational outcomes** we desire. These in turn support the **national outcomes** needed for our **impact** to be possible. Following this results-based approach is demanding, but it will help us to better manage our limited resources and deliver the mandate given by the electorate.

This is the first Budget Statement of the current administration. It starts with a Foreword from the Minister highlighting the focus of this budget. The introduction follows in Section 2, setting out the structure of the Statement. Section 3, contains the Executive Summary.

A summary of the new Tonga Strategic Development Framework 2015-2025 is provided in Section 4.1, as a reminder of the guiding role provided by this document and the link to the Kingdom's founding motto. This is followed by section 4.2 with Government's Priority Agenda.

The background conditions, challenges and forward estimates related to economic, social and community progress, under which the budget was designed, are outlined in Section 5. These identify progress with the **outcomes** that are supported by the **outputs** of government and others.

Based on TSDF and Government Priority Agenda in section 4 and the background conditions set out in Section 5, Section 6.1 outlines the Budget Strategy which guides the formulation of the Budget and the associated Corporate Plans. Section 6.2, outlines the Recurrent Budget, while Section 6.3 covers the Development Budget. Section 6.4 provides the Government Financial Statistics (GFS) presentation of the Budget.

After the Conclusion, the annexes contain a detailed set of tables for those readers interested in delving more deeply into the numbers behind the analysis.

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<sup>1</sup>Outputs are within our capacity to deliver and support our desired outcomes which lie beyond our capacity to directly deliver.

## 3 EXECUTIVE SUMMARY

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### 3.1 UNDERLYING CONDITIONS

Global growth is projected to increase slightly from 3.4 percent in 2014/15 to 3.5 percent in 2015/16 and then to pick up further in 2016 to an annual rate of 3.8 percent. The Pacific Island<sup>2</sup> economies grew at an average rate of 2.8 percent from 2010 to 2014. However, average growth in Tonga over this period was below the group average - though because of slow population growth the per capita growth rate was closer to the regional average. ADB projects 3.3 percent growth for the Pacific Island economies in 2015.

Since 2005 Tonga's GNI per capita has grown considerably faster than the average for the region, increasing from about the same as the regional average to 35 percent greater, however these figures are average figures for Tonga and do not give a clear reflection of distribution or inequality. GNI per capita reached US\$4,490 in 2013. Tonga also moved from a lower middle to upper middle-income bracket, with a nominal GDP per capita for 2013/14 of about \$7,700.

In Tonga, according to the latest National MDG Report, broad progress has been made in eradicating extreme poverty, achieving universal basic education, reducing child mortality and reducing the maternal mortality rate, however further effort is needed to reduce basic needs poverty, the incidence of NCDs.

Real GDP growth is expected to strengthen through the forecast period, averaging 3.1 percent over the period 2014/15-2017/18. This is supported by banks again increasing lending. Growth is forecast to peak at 3.5 percent in 2015/16, before moderating. Tonga is expected to grow between 2-3 percent during the period of 2014/15 to 2019/20 in according to the recent IMF Article IV 2015 consultation.

Growth is expected to strengthen to 2.4 percent in 2014/15. Public construction projects, particularly reconstruction in Ha'apai, provide a significant boost to growth in 2014/15. Private sector construction is also expected to strengthen supported by construction works around Nuku'alofa and outer islands especially in Ha'apai where churches destroyed in the cyclone are being re-built. However, the severe drought that began in April 2014 has affected growing conditions in the agriculture sector through 2015, causing agricultural production to decline sharply and dragging down forecast GDP growth.

In 2015/16, production in the agriculture sector is expected to normalize, while public construction also strengthens further as preparations for the Pacific Games are assumed to begin and significant other public construction projects continue. Growth in the services sector is anticipated to remain quite strong supported by good performance in the tourism sector, boosted by more tourists and visitors expected for the Coronation in July 2015.

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<sup>2</sup>Excluding PNG and Timor Leste

Continuing growth in remittances and increases in imports of retail goods contributes to continuing growth in the distribution sector. The extension of the fiber optic cable to outer islands will increase capacity in the communications sector, while the upgrading of Fuaa wharf and the resealing of Fua'amotu and Lupepau'u runways is expected to increase capacity in the transport sector supporting the potential for continued future growth, particularly assuming continuing growth in tourism. Other services sub-sectors are expected to grow at around average rates.

Despite the improved growth, inflation remains subdued along with the low world inflationary environment. Gross official foreign reserves continue to provide cover of over 9 months of goods imports, well above the minimum range of 3 to 4 months. Remittances have fully recovered to pre-GFC levels, supporting the high Gross National Income (GNI). The increase in number of Tongans participating in the overseas working schemes in Australia and NZ, passed 3000 in 2013/14. It is also supporting remittances.

Although still very serious, there are signs that efforts to address Non Communicable Diseases (NCDs) are beginning to have positive effects. Increased government support to vulnerable groups, in collaboration with CSOs, is also helping to address the conditions of those with special needs.

Table 3-1: Macro Indicators

The macro indicators provide the key economic and fiscal indicators for the years from 2013/14 to 2015/16

	2013/14p	2014/15r	2015/16e
<b>Real sector</b>			
	<i>Percentage Change</i>		
Economic Growth (Real GDP)	2.0%	2.4%	3.5%
GDP deflator	0.7%	0.9%	1.5%
Inflation (CPI, annual average)	2.2%	0.4%	1.2%
Exchange rates (1)			
TOP/USD (end of period)	5.2%	10.3%	.....
NEER (index, end-period)	-5.8%	-0.2%	.....
REER (index, end-period)	-6.9%	-5.9%	.....
	<i>Percentage</i>		
Unemployment Rate (from 2011) (2)	6.5%		
	<i>TOP million</i>		
Nominal GDP (3)	803.7	830.4	859.5
<b>Fiscal sector</b>			
	<i>As a percentage of GDP</i>		
Revenue and Grants	37.5%	40.8%	52.7%
Revenue	20.0%	21.8%	25.2%
Tax revenue	17.3%	18.6%	20.7%
Non-tax revenue	2.7%	3.2%	4.5%
Grants	17.5%	18.9%	27.5%
Budget Support	4.5%	3.6%	3.3%
Expenditure	34.9%	40.6%	55.1%
Recurrent expenditure	27.5%	31.3%	39.4%
Capital expenditure	7.4%	9.3%	15.7%
Financing	2.7%	-1.7%	-0.3%
Financial Assets (4)	1.9%	2.1%	1.6%
Financial Liabilities (5)	-0.8%	3.8%	1.8%
Total Public Debt	45.6%	48.9%	49.8%
Debt servicing	2.4%	2.6%	2.5%
<b>External sector</b>			
	<i>As a percentage of GDP</i>		
Current Account	-5.0%	....	....
Balance of Trade	-30.6%	....	....
Services Balance	-0.4%	....	....
Income	1.1%	....	....
Total Transfers	25.0%	....	....
Private Transfers (Remittances) (6)	26.0%	....	....
Capital Account	12.5%	....	....
Official Reserves (7)	34.1%	32.5%	....
<b>Notes:</b>			
(1) Data for exchange rates is presented in annual total up to March			
(2) Unemployment rate was taken from 2011 Census and it is 1.1 percent for those that did not work but actively searched for jobs. 6.5 percent is adjusted to include discouraged workers			
(3) since the budget is based on zero inflation assumption from 2014/15, the nominal GDP for 2015/16 is also show without the inflation estimate			
(4) Includes Domestic Assets (such as currency and deposits, loans, shares and other equity)			
(5) Includes domestic and foreign liabilities			
(6) Private remittances comprise two parts - compensation of employees working overseas but still a resident of Tonga (overseas workers scheme) and private transfers (includes funds and gifts sent (6) people resident overseas			
(7) latest data is March 15; covers some 9 months of imports, well above target 3 months			

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

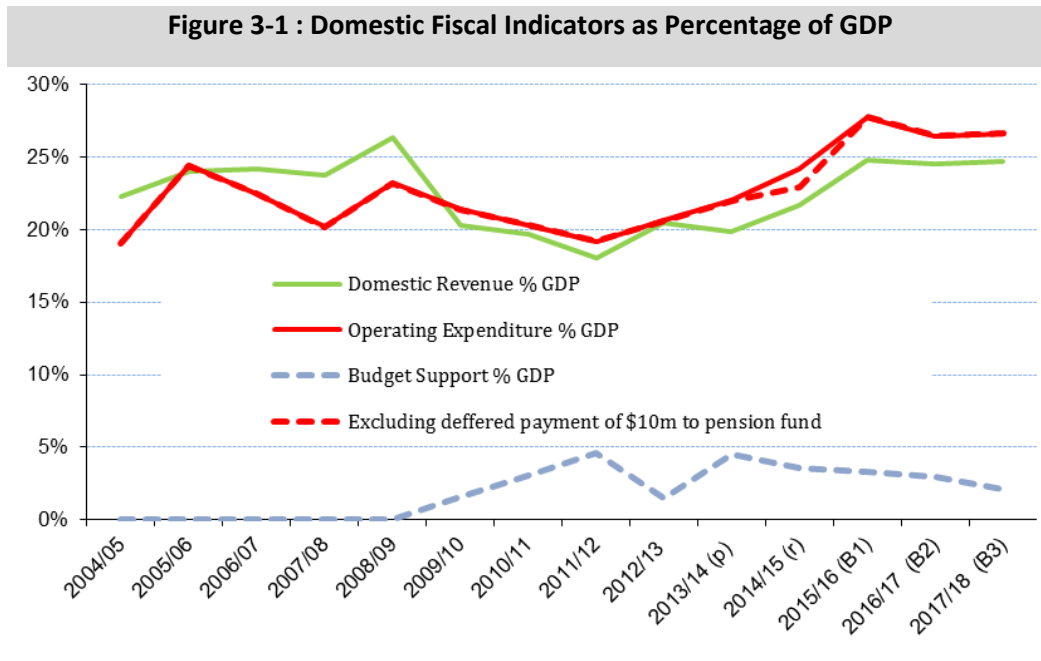


Overall, the growth outlook for Tonga is positive. However, there are a number of risks to this growth projection.

- ✚ growth in Tonga is highly dependent on the conditions of its main trading partner economies – Australia, New Zealand and the US
- ✚ activity in the construction sector is a main driver of growth in Tonga through the next three years. However, the timing of these construction projects is uncertain, and delays are possible pushing construction activity further into outer years of the projection causing weaker growth in 2014/15
- ✚ global commodity prices, such as for food and oil, are expected to remain relatively stable but if they increase, this will increase costs of production, raise inflation, and could reduce household disposable income.
- ✚ remain highly vulnerable to extreme natural events and climatic change
- ✚ weak government administration to drive the policies and reforms required to drive further improvements.

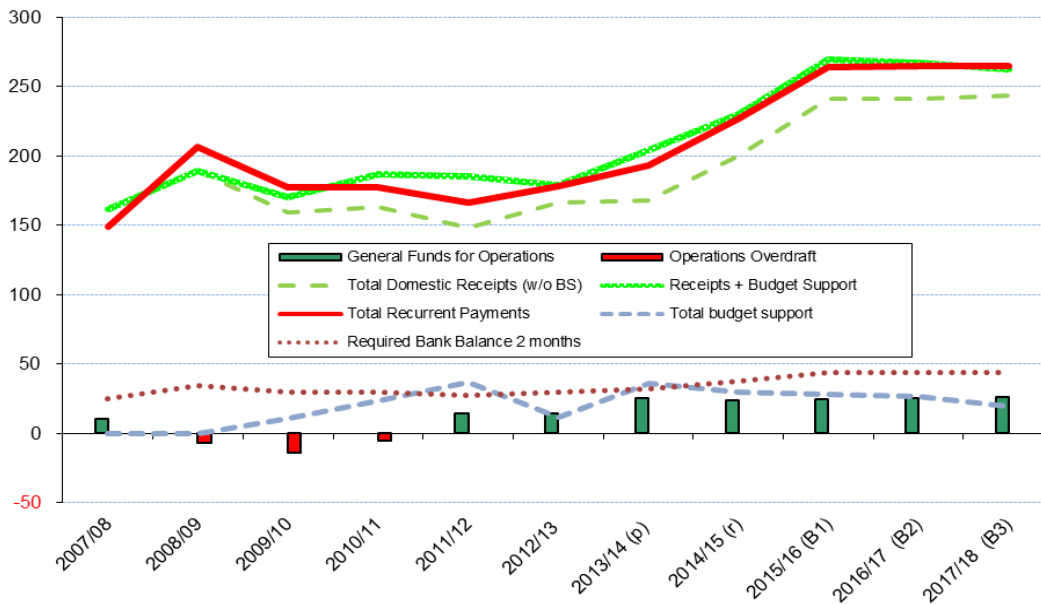
### 3.2 RECENT FISCAL TRENDS

Domestic revenue as a share of GDP has continued to recover as is forecasted to be close to 25 percent of GDP (see *Figure 3-1*), although operating expenditure continues to be higher, (as it is supported by budget support). Government cash reserves have improved but remain on the low side well under the two months cover of payments (see *Figure 3-2*). Staff costs are the single largest item. As a percent of Operating Expenditure, after its highest in 2005/06, they have continued to trend downwards. This trend will continue over the MTBF.



*Source : Ministry of Finance and National Planning*

**Figure 3-2 : Recurrent Budget with Budget Support (\$ million, current prices)**



Source : Ministry of Finance and National Planning

Tonga maintains its moderate risk level of debt distress rating over the medium term and remains within all of its new debt ratios. Total public debt as at 30<sup>th</sup> June 2015 is projected to be \$405.9 million (which is 50 percent of GDP, with external debt making up 90% of total debt). Nearly two thirds of this is owed to EXIM Bank. Following the change in debt status, government has started to borrow on concessional terms for budget support and a few critical infrastructure projects. Domestic borrowing (through bonds) has also recommenced to provide funding for private sector initiatives of providing low cost loans through the TDB. This is supporting the general improvement in bank lending.

### 3.3 SUMMARY OF THE BUDGET

The Budget strategy is guided by the following Priority Agenda of Government

1. **Good Governance:** building a public service known for its efficient and effective service, delivered with honesty, transparency accountability, and promoting public trust
2. **Inclusive and Sustainable Growth:** building macro stability and strong partnerships to address key constraints to growth, in particular the banking sector mobilization of funds for investment
3. **Poverty Alleviation:** building value added employment, with a healthy and educated workforce, while targeting support to those with special needs
4. **Safer and Better Public Infrastructure:** building infrastructure (including for the Pacific Games) with good maintenance and operations and increased resilience to disasters and climate change.

While these themes guide the budget strategy, government will also continue to provide the required level of resources to maintain progress in all of the other areas that must contribute to the TSDF.

**The Budget Theme is:**

“Improved Government Delivery and Accountability, to support the TSDF impact of “**A more progressive Tonga supporting a higher quality of life for all**”, through promoting “**enhanced good governance**” at all levels of the society”.

The Total Cash Appropriation in the budget is \$329.7 million. When in-kind support is included, the total budget is \$496.3 million. Section 6 discusses the budget both from the perspective of the government integrated Recurrent and Development Budgets, which are recorded on a cash basis, and in terms of the international Government Financial Statistics Presentation (GFS2001).

The 17.5 percent increase between the 2015/16 budget and the revised outturn for 2014/15 recognizes a number of important once off additions required. These relate to supporting the Pacific Games, further expanding the low interest loan scheme managed by TDB, paying off governments obligations to the pension fund among others. Much of this expenditure will be funded from new taxes, in the case of the PG, or from sale of bonds for the TDB loans or TV. This is a prudent use of bonds as government will save interest on the transfer value it owes the pension fund, and the loans through TDB will generate economic activity and in time be repaid to government.

These are summarized in *Table 6-1* which shows the Government of Tonga Budget presentation, covered in Sections 6.2 and 6.3 and in *Table 6-2* the GFS Budget presentation covered in Section 6.4. These two formats have different focus: the Government format is based on a cash basis of total revenue (as receipts including loan drawdowns) and expenditure (as payments including loan repayments). The GFS treats loan transactions as part of lent borrowing or lending (ie financing)<sup>3</sup>.

Based on the Tongan Strategic Development Framework (TSDF) the budget allocates total funding against the seven National Outcomes as shown in *Table 3-2* in 2015/16.

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<sup>3</sup>There are other differences but the main one is the treatment of debt.

**Table 3-2 : Total Government Budget 2015/16 (local and aid) grouped by National Outcomes (\$ million)**

National Outcomes: More inclusive and sustainable...		Government (Local and Budget Support)	Projects			Total Budget
			Donor Cash	Donor In-kind	Total Donor	
A	...and dynamic knowledge-based economy.	58.53	6.29	53.19	59.48	118.02
B	...and balanced urban and rural development across island groups.	22.11	1.35	2.60	3.95	26.05
C	...and empowering human development with gender equality.	79.97	13.49	50.41	63.90	143.87
D	...and responsive good-governance strengthening rule of law.	73.29	6.70	24.67	31.37	104.66
E	...and successful provision and maintenance of infrastructure and technology.	3.77	7.21	15.40	22.61	26.39
F	...and effective land and environment management, with resilience to climate change and risk.	9.09	30.65	18.52	49.17	58.26
G	...and consistent advancement of our external interests security and sovereignty.	16.94	0.31	1.82	2.13	19.07
<b>Grand Total</b>		<b>263.7</b>	<b>66.0</b>	<b>166.6</b>	<b>232.6</b>	<b>496.3</b>

Source : Ministry of Finance and National Planning

Table 3-3 below shows how total payments are spent across the island groups. As expected a lot of expenditure is focussed in Tongatapu with nearly three-quarters of the population and the center for many services which support the whole country.

**Table 3-3: Total Expenditure by Location**

Expenditure by Location	2013/14		2014/15		2014/15		2015/16		2016/17		2017/18	
	(Provisional)	%	(Original Estimate)	%	(Revised Estimate)	%	(Estimate)	%	(Projection)	%	(Projection)	%
Nationwide	55.9	29%	72.9	31%	71.6	32%	71.0	27%	73.6	28%	66.8	25%
Tongatapu	117.2	61%	140.0	59%	132.1	58%	164.1	62%	162.1	61%	168.2	63%
Vava'u	6.9	4%	7.6	3%	7.0	3%	10.6	4%	10.8	4%	10.9	4%
Ha'apai	3.7	2%	4.1	2%	3.3	1%	5.7	2%	5.8	2%	5.9	2%
Eua	2.4	1%	2.8	1%	3.8	2%	3.7	1%	3.8	1%	4.0	2%
Niua Toputapu	0.8	0%	0.8	0%	0.9	0%	1.5	1%	1.5	1%	1.6	1%
Niua Fo'ou	0.8	0%	0.8	0%	1.7	1%	1.1	0%	1.1	0%	1.2	0%
Overseas	5.5	3%	6.4	3%	6.7	3%	6.1	2%	6.1	2%	6.3	2%
<b>Total</b>	<b>193.1</b>	<b>100%</b>	<b>235.3</b>	<b>100%</b>	<b>227.0</b>	<b>100%</b>	<b>263.7</b>	<b>100%</b>	<b>264.8</b>	<b>100%</b>	<b>264.9</b>	<b>100%</b>

Source : Ministry of Finance and National Planning

Given Tonga's expected moderate risk level of debt distress rating over the medium term, government will continue prudent borrowing, while staying within the agreed debt ceilings listed in Section 5.4.2.7. Bond sales will continue, as shown in Table 5-5, to fund some additional funds for the loan scheme managed by TDB. Also sold to pay off the financing of the pension fund still owed by government, so resulting in a net interest savings to government.

Government will continue to borrow for budget support on concessional terms 50:50 grant/loans from ADB and World Bank, but is expected to gradually reduce its reliance on budget support. Similar concessional borrowing will also continue for high priority infrastructure projects related to the rebuilding of Ha'apai after cyclone Ian; the further development of air transport facilities, including an onlent loan to TAL; and funding to help build our resilience to future extreme natural events and threats from climate change.

## 4 TONGA STRATEGIC DEVELOPMENT FRAMEWORK 2015-2025

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### 4.1 TONGA STRATEGIC DEVELOPMENT FRAMEWORK 2015-2025

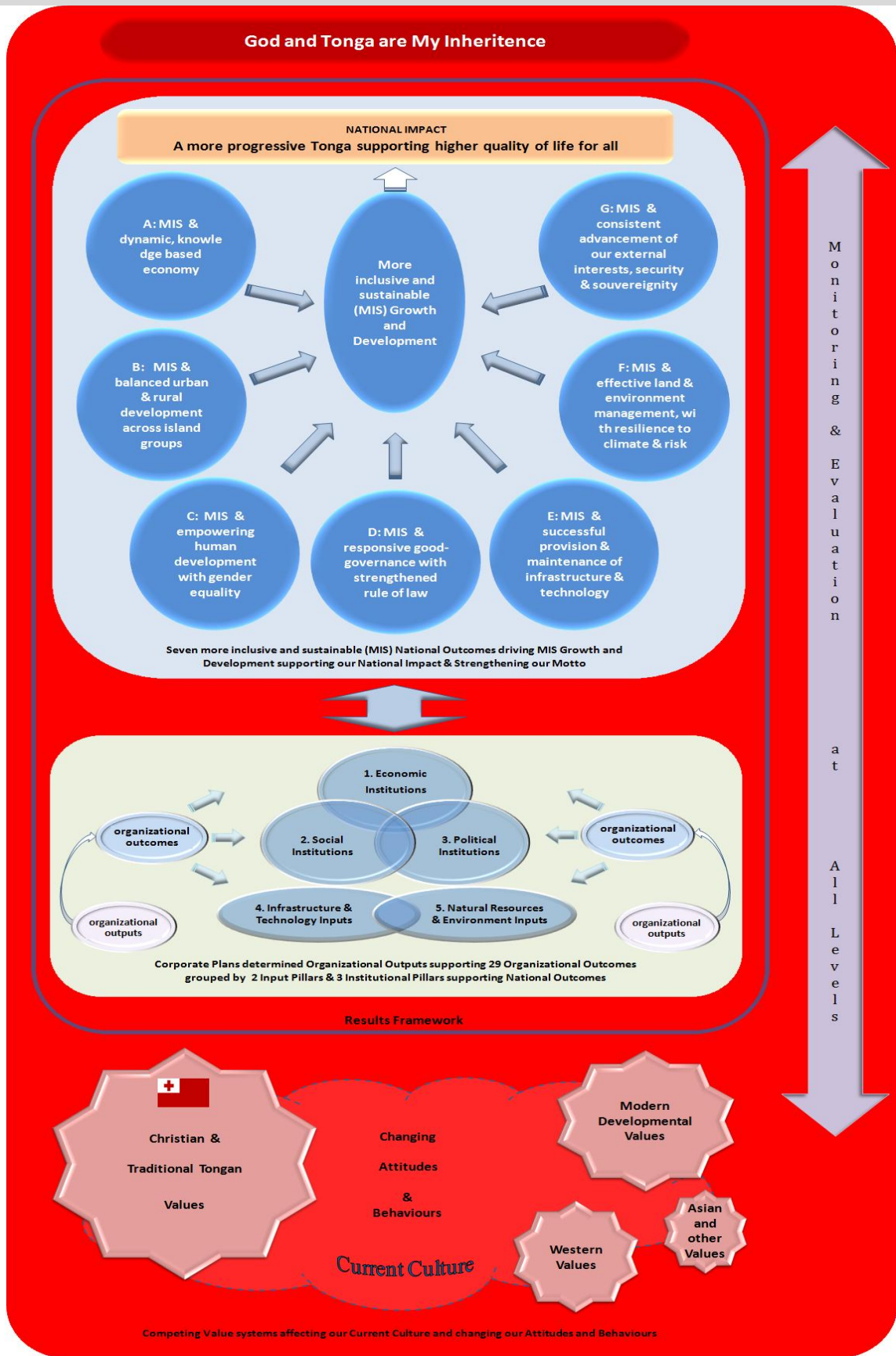
The Tonga Strategic Development Framework 2015-2025 (TSDF), has been completed and designed with a stronger results focus in line with the approaches used for projects and corporate plans. The improvements in the structure and content of TSDF strengthens the role of the TSDF as the top-level document in the integrated planning and budgeting system of the Government of Tonga. It provides better high-level guidance for all plans and budgets at the sector, district and corporate levels. *Figure 4-1* below summarises the whole Vision of TSDF.

At the core of the vision is the results structure of TSDF, embedded within the foundations of our national Motto and culture. The Figure has two core parts:

1. the red outer box containing:
  - a. Our Motto, which provides the overarching long term direction
  - b. Our Current Culture - influenced by competing value systems, some supporting progress and others retarding it, provides the foundation upon which the results framework is set
2. the inner Results Framework box containing:
  - a. the National Level Results (light blue box), which identifies the National Impact, supported by the National Outcomes working together to drive more inclusive and sustainable growth and development; these National Results interact with
  - b. Organisation Level Results (light cream box), which identify the five Pillars - three institutional, and two inputs - within which the twenty nine Organisational Outcomes are grouped. These are the lowest level of the results framework in the TSDF. The next level of results, Organisational Outputs, are set out in the sector, district and corporate plans, and should be aligned with the twenty-nine Organisational Outcomes. It is the responsibility of the MDAs of Tonga to develop their Outputs to support these Organisational Outcomes.

*Figure 4-1* presents a dynamic system with interactions flowing between the various components of the Vision. These flows can provide both reinforcing and weakening feedback between levels.

Figure 4-1: TSDF II Vision



## 4.2 GOVERNMENT PRIORITY AGENDA

Government has identified four thematic areas for the Priority Agenda. These priorities are also designed to support the TSDF impact of "*a more progressive Tonga supporting a higher quality of life for all*". This does not mean that government will fail to cover the other areas for which it is responsible, only that where ever possible increased focus will be provided to the priority areas. The four thematic areas are:

### I. Good Governance

Without improved good governance, which includes a more effective and efficient public service, it will not be possible to deliver the government's priorities. This thematic area is aligned to TSDF National Outcome D: a more inclusive, sustainable and responsive good-governance with law and order. Much remains to be done to ensure accountable, transparent and responsible governance with greater integrity. The key priorities under this theme are:

1. better managed Government finance by implementing the Public Finance Management Reform activities, including sustainable debt management and strengthened public financial management (1.1 and 3.1)<sup>4</sup>
2. the civil service challenged to rise above its comfort zone and implement innovative changes to improve the management, efficiency and effectiveness of the public service performance (3.1)
3. The enforcement of law and order to improve public confidence (3.2)
4. public enterprises providing improved service delivery and affordable public utilities: electricity, water, sanitation, waste collection, inter-island ferries etc. (1.4)
5. stronger institutional arrangements to promote anti-corruption and build the integrity of governance (3.1)
6. increased interaction between Government and public, including better e-government, facilitating (1.2)
  - a. better regulations to support and encourage responsible businesses to grow (1.3)
  - b. better support to increase community income generation (2.1 and 2.2)
  - c. better systems and human capacities for improved public services (3.1)
7. effective management of all our national resources - land, sea and air based - sea-bed mining to maximize benefits and minimize 'resource curse' by ensuring:
  - a. higher value added within Tonga (1.5 and 5.2)
  - b. sound management of revenue to ensure macroeconomic integrity (1.1)
  - c. limited social, political and economic disruption (3.1)

### II. Inclusive and Sustainable Growth

Growth is central to a higher quality of life. As covered in other themes, this growth must be inclusive and protect our environment; it must use our resources wisely and take account of the risks that we face. This thematic areas is aligned to National Outcomes A: a more inclusive, sustainable and dynamic knowledge-based economy, The key priorities under this theme are:

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<sup>4</sup>The numbers in brackets refer to the TSDF Organizational Outcomes Listed in Annex 1

1. improved coordination and cooperation between fiscal and monetary policy and implementation for more equitable and fair growth outcome, within consistent macroeconomic conditions (1.1)
2. deepened financial systems to provide more competitive funding and other financial products that support sound and productive investment, and facilitate increased savings (1.1)
3. closer cooperation between the public and private sector, including the informal business sector, and other excluded groups (1.2)
4. building a mix of smaller and larger businesses with closer internal linkages that generate higher value added, with particular priority on agriculture, fisheries, and tourism, that benefits both business owners and workers, while improving services to consumers (1.2 and 1.3)
5. focus on promotion of responsible foreign investment, and private-public-partnership, which bring new skills and activities to Tonga (1.5).

### **III. Poverty Alleviation**

The electorate expects us to address the needs of poorer and more excluded groups, so we can become a more caring and inclusive society while still promoting higher levels of income. This thematic area is aligned to several National Outcomes, in particular A: a more inclusive, sustainable and dynamic knowledge-based economy, and C. a more inclusive, sustainable and empowering human development with gender equality. The key priorities under this theme are:

1. reduced number of Tongans in poverty with more productive employment opportunities, driven by:
  - a. higher value added jobs in primary sectors: tourism, fisheries, agriculture (1.3)
  - b. more focused youth development opportunities (2.1 and 2.4)
  - c. expand the social welfare system to better target the reduction identified vulnerabilities: women, special needs, children and the elderly (2.1 and 2.7)
2. improved health conditions, focused on reduced Non Communicable Diseases (NCDs), driven by:
  - a. accelerated prevention programs (2.6)
  - b. increased tax on alcohol and tobacco (2.6)
  - c. promote healthy food production and consumption (2.6)
3. improved human development, driven by
  - a. improved educational results, focused on technical and vocational education (2.4)

### **IV. Safer and Better Public Infrastructure**

Government is the major provider of infrastructure in Tonga. This infrastructure must meet accepted international standards including being appropriate to the high risk we face from extreme natural events. We must also build to take account of climate change which will further increase our vulnerability to these extreme events. This theme is aligned to National Outcome E: a more inclusive, sustainable and successful provision and maintenance of infrastructure and technology and F: a more inclusive, sustainable land and environment management, with resilience to climate and risk. The key priorities under this theme are:

1. better maintained roads, seaports and airports, to the standard suitable for the level of usage, and where appropriate meeting the requirements and regulations from international conventions (4.2)
2. mobilized finance and support to build the sporting facilities and provide the associated operations for a successful hosting of the 2019 Pacific Games (2.1 and 4.4)
3. increased investment in ICT infrastructures (4.3)
4. increased investment in energy efficient infrastructures (4.1)
5. foster hard and soft infrastructure that increases resilience to disasters and improves adaptability to climate change (5.4)



## 5 ECONOMIC AND SOCIAL DEVELOPMENT OUTCOMES AND OUTLOOK

### 5.1 GLOBAL AND REGIONAL DEVELOPMENT

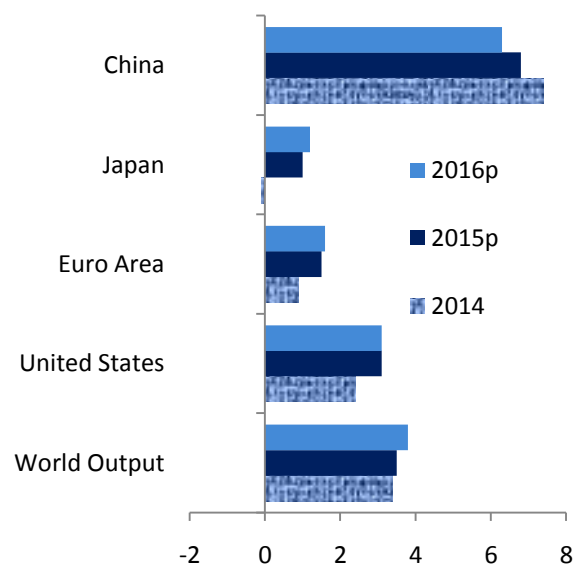
#### 5.1.1 Global Highlights <sup>5</sup>

Global growth is projected to increase slightly from 3.4 percent in 2014 to 3.5 percent in 2015 and then to pick up further in 2016 to an annual rate of 3.8 percent. The increase in growth in 2015 will be driven by a rebound in advanced economies, supported by the decline in oil prices, with the United States playing the most important role. This rebound will contribute to reducing output gaps.

A solid recovery is expected to continue in the *United States*, where growth averaged about 4 percent annualized in the last three quarters of 2014. Markedly lower energy prices, tame inflation, reduced fiscal drag, strengthened balance sheets, and an improving housing market are expected to sustain the momentum of the past three quarters. These forces are expected to more than offset the drag on net exports coming from strengthening of the dollar. As a result, growth is projected to reach 3.1 percent in 2015 as well as 2016, in line with the October forecast. However, the picture over a longer horizon is less, with potential growth estimated to only about 2 percent weighed down by an aging population and weaker total factor productivity growth.

The *Euro Area*, continued to recover during the past year, but private investment remained weak, with Ireland, Spain and Germany being notable exceptions. Lower oil prices, lower interest rates and euro depreciation, as well as the shift to a broadly neutral fiscal stance, are projected to boost activity in 2015- 2016. At the same time, potential growth remains weak – a result of crisis legacies, but also demographics and a slowdown in total factor productivity that predates the crisis. Hence the outlook is for moderate growth and subdued inflation. Specifically growth is expected to increase from 0.9 percent point in 2014 to 1.5 percent this year and 1.6 percent in 2016, slightly stronger in 2015 than envisioned last October.

**Figure 5-1 : Real GDP Growth (annual)**



Source: WEO (Update) April 2015, IMF

<sup>5</sup> This information is drawn from the IMF April 2015 World Economic Report (WEO) Report.

Activity in **Japan**, disappointed following the April 2014 consumption tax hike, which caused a sharper-than-predicted contraction in consumption. GDP growth is projected to rise from -0.1 percent in 2014 to 1 percent in 2015 and 1.2 percent in 2016, a slight upward revision relative to the October 2014 WEO. The gradual pick up reflects support from the weaker yen, higher real wages and higher equity prices due to the Bank of Japan’s additional quantitative and qualitative easing, as well as lower oil and commodity prices.

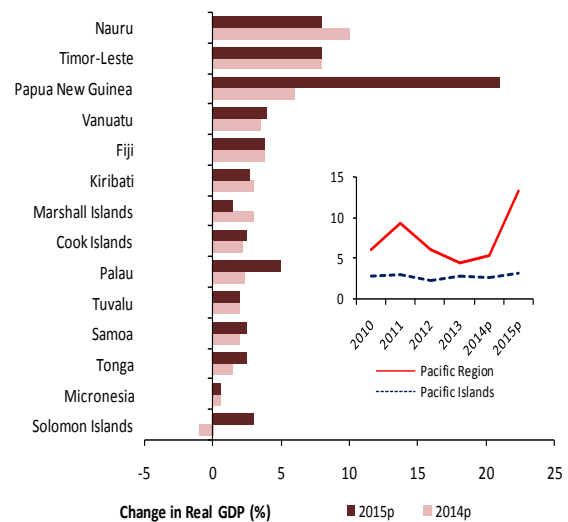
Growth in **China** is expected to decline to 6.8 percent this year and 6.3 percent in 2016. These projections have been revised downward by ¼ and ½ percentage point, respectively, as previous excesses in real estate, credit, and investment continue to unwind. The Chinese authorities are now expected to put greater weight on reducing vulnerabilities from recent rapid credit and investment growth, and hence the forecast assumes less of a policy response to the underlying moderation. Ongoing implementation of structural reforms and lower oil and commodity prices are expected to expand consumer-oriented activities, partly buffering the slowdown.

### 5.1.2 Regional Highlights<sup>6</sup>

According to the Asian Development Bank’s growth estimates, the Pacific Island<sup>7</sup> economies grew at an average rate of 2.8 percent from 2010 to 2014. However, average growth in Tonga over this period was below the group average - though because of slow population growth the per capita growth rate was closer to the regional average. ADB projects 3.3 percent growth for the Pacific Island economies in 2015.

GDP growth in Australia is expected to remain steady in 2015 at around 2.8 percent compared to 2014. Recent growth has been mainly driven by higher net exports, as higher volumes of commodity exports has largely offset the effects of lower prices for these commodities. Growth in household consumption has improved and dwelling investment is growing strongly. However business investment remains weak. Public spending is providing little stimulus for growth. The government is aiming to reduce the fiscal deficit from an equivalent of 2.8 percent of GDP in 2013/14 (ended 30<sup>th</sup> June) to 1.6 percent in 2014/15, targeting a surplus by 2017/18. Despite the fairly positive growth outlook, unemployment rose to 6.1 percent in September 2014, its highest rate since 2003.

**Figure 5-2 : Change in Real GDP (%)**



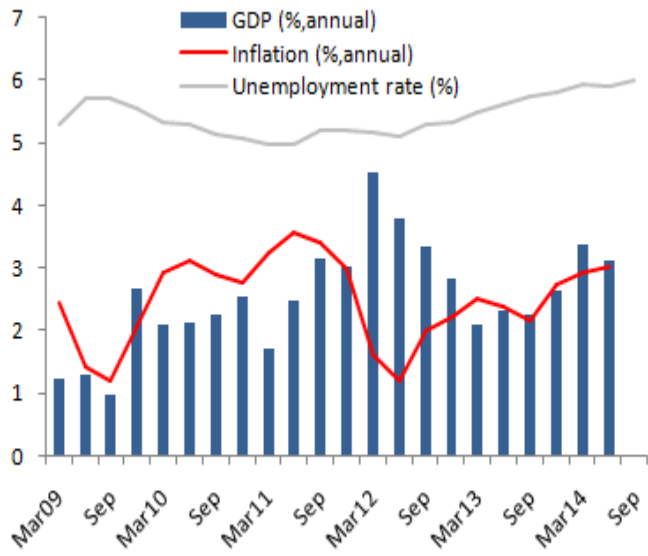
Source : Pacific Economic Monitor Dec 2014, ADB

<sup>6</sup> The projections and commentary in this section are summarizing the ADB regional outlook publication on the Pacific Monitor, December 2014

<sup>7</sup>Excluding PNG and Timor Leste

In New Zealand, GDP growth remained strong in 2014 but is expected to moderate slightly to 3 percent in 2015. Growth remains underpinned by rising exports, strong consumer confidence, and stable housing and business investment. No major changes in fiscal policy are anticipated as the current government was re-elected to a third consecutive term in September. The fiscal deficit was equivalent to 1.1 percent of GDP in 2013/14 (ended 30<sup>th</sup> June), and the government projects a fiscal surplus of 0.2 percent of GDP in 2014/15, rising to 1.1 percent by 2017/18.

**Figure 5-3: Australia Economic Indicators**



Source: Australian Bureau of Statistics

Australian tourists to the South Pacific have been relatively stable over the past three years, following reasonable growth in tourism in previous years. The strength of the Australian dollar over recent years may have encouraged diversion of outbound overseas tourism from Pacific destinations to non-Pacific destinations, as Australian departures to non-Pacific destinations has continued to grow robustly. The depreciation of the Australian dollar over the past year may see some reversal of these trends. Departures from Australia

**Figure 5-4: Tourist Departure to Major Pacific Destinations from Australia and New Zealand (tourists in '000)**



Sources: Australia Bureau of Statistics and New Zealand Statistics

to Fiji and Vanuatu (the top two Pacific destinations for Australian tourists) slowly recovered during the fiscal year, while departures to Tonga recorded minimal growth. Australian tourists to Samoa and Cook Islands, however, maintained relatively solid expansion over the same period

In contrast, New Zealand tourists to the Pacific grew strongly in 2013/14, with departures from New Zealand rising by 13.9 percent (year-on-year), outpacing growth in tourism to non-Pacific destinations. Cook Islands (the largest Pacific market for New Zealand tourists), Fiji, Samoa and Tonga, all recorded double-digit growth in the number of visitors from New Zealand.

Tourism flows from Asia to Pacific destinations also increased in 2014. In particular, rising visitor arrivals from the People Republic of China (PRC) are boosting tourism performance in the Cook Islands, Fiji, and especially, Palau. Remittances to some Pacific destinations weakened over the past year.<sup>8</sup> For example, total remittances for Samoa fell by 6.6 percent in 2013/14 driven by lower receipts from Australia and the United States. In Tonga, cash remittances declined by an insignificant 0.3 percent points in 2013/14, but recent data indicate a pickup in cash remittances in the September 2014 quarter. Remittances are anticipated to increase in Tonga supported by the increasing number of seasonal workers overseas (supporting growth in incomes earned by Tongans overseas) and continuing strong relationship between overseas Tongans and relatives in Tonga (supporting the level of private transfers).

The value of non-fuel imports from New Zealand to Pacific Islands fell by 40 percent in January – August 2014 compared to the same period in 2013. This decrease was due to the following key components:

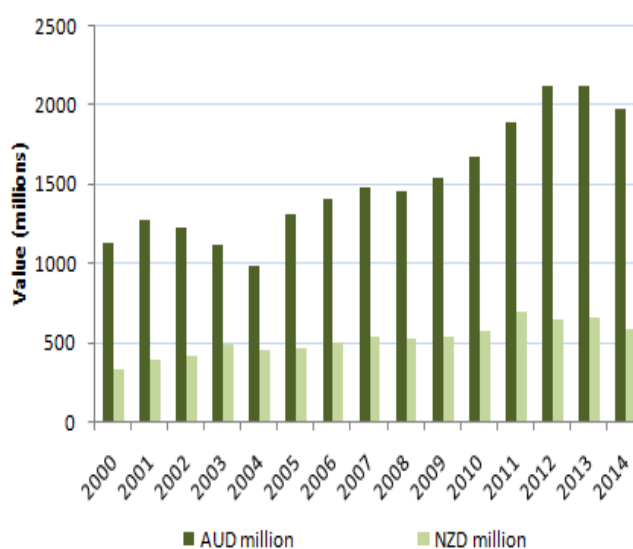
- imports of vegetables and iron and steel in Fiji;
- iron and steel, and machinery in Papua New Guinea (PNG); and
- wood and machinery in Samoa.

In addition, a 25.1 percent drop, in January - August 2014 compared to the same period in 2013, the value of Pacific non-fuel imports from Australia to PNG were mainly caused by decreased in imports of:

- machinery,
- transport equipments and
- completion of PNG’s liquefied natural gas project.

The value of exports from the region to New Zealand decreased by 6.6 percent during the period January – August 2014 compared to the corresponding period year ago. Lower processed food and clothing export earnings from Fiji and, to a lesser extent, phosphate export earnings from Nauru (due to low production) led this decline. In contrast the value of Pacific exports to Australia increased by 26.7 percent during the period January – August 2014 compared to the same period in 2013, the same period as PNG exported higher volumes of crude oil.

**Figure 5-5: Australia and New Zealand Exports to Pacific**



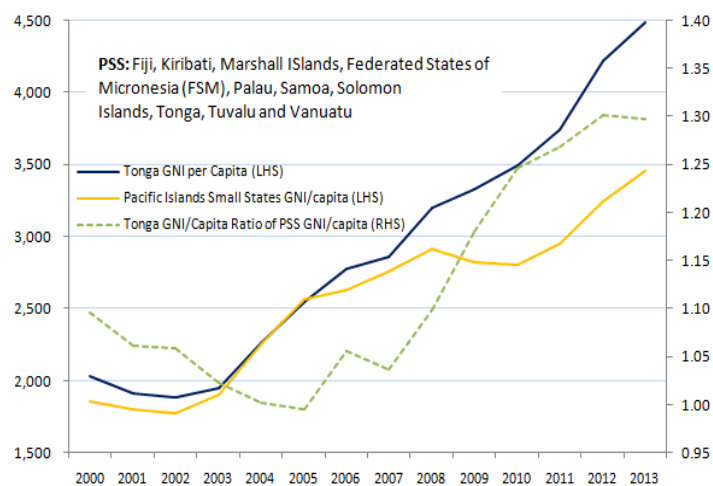
Sources: Australian Bureau of Statistics and Statistics New Zealand

<sup>8</sup> Private remittances comprise two parts – compensation of employees working overseas but still resident of Tonga (overseas workers schemes) and private transfers (includes funds and gifts sent by people resident overseas).

Due to a larger fall in the value of imports, relative to exports, the region's trade deficit with New Zealand narrowed by 12 percent (year-on-year) to NZD509.7 million. The Pacific also realized a trade surplus with Australia of AUD1 billion during the first 8 months of 2014, compared with an AUD74.7 million deficits incurred over the same period a year ago.

### 5.1.3 Growth in Tonga compared to the Region

**Figure 5-6: Pacific Islands Small States and Tongan GNI/Capita (Atlas Method) (current USD) 2000-2013**



Source: World Bank (data is in calendar year)

GNI per capita is a useful comparison as it captures both GDP and income earned from overseas (in the case of Tonga this is mainly remittance income). Remittances have always been an important source of income for Tonga, and is taking on new importance due to the expansion of overseas worker schemes. Further expansion of these schemes to include skilled labour and to other agricultural fields.

Since 2005, Tonga's GNI per capita has grown considerably faster than the average for the region, increasing from about the

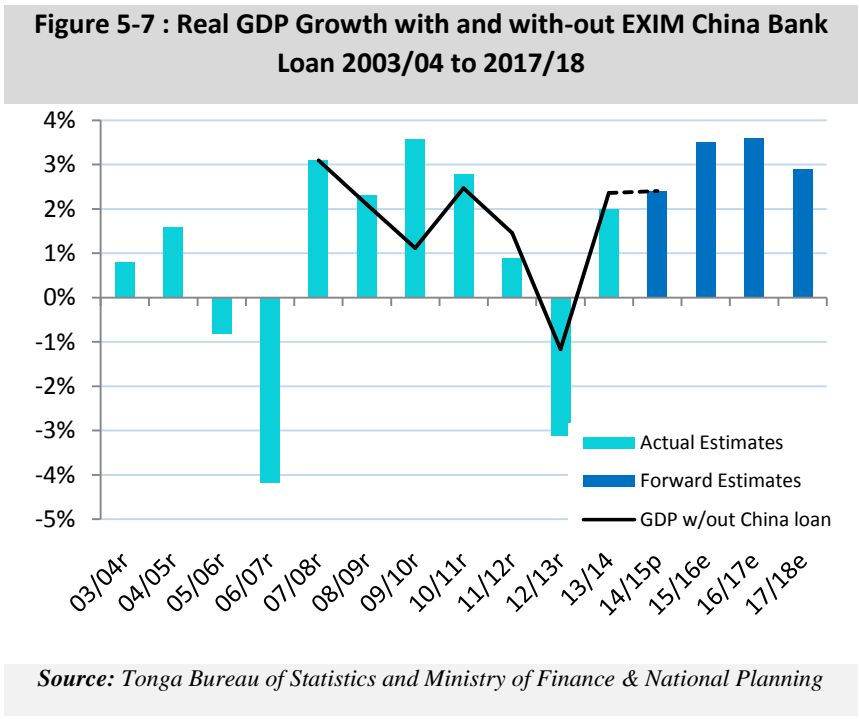
same as the regional average to 35 percent greater as shown in **Figure 5-6**. However these figures are average figures for Tonga and do not give a clear reflection of distribution or inequality. Tonga's GNI per capita has grown consistently since the falls recorded in 2000-2003. GNI per capita reached US\$4,490 in 2013. The trend GDP growth rate has been nearly 1 percent per annum for the ten years since 2002/03. For many countries, a real GDP growth of 2 percent would be needed just to keep GDP per capita constant. However, in Tonga, given the very slow growth in population, GDP per capita has tended to grow only slightly below real GDP. As a result, since June 2013, Tonga moved from a lower middle to upper middle-income bracket, with a nominal GDP per capita for 2013/14 of about \$7,700.

## 5.2 RECENT ECONOMIC OUTCOMES & OUTLOOK FOR TONGA

In Tonga, according to the latest National MDG Report, broad progress has been made in eradicating extreme poverty, achieving universal basic education, reducing child mortality and reducing the maternal mortality rate, however further effort is needed to reduce basic needs poverty, the incidence of NCDs; as well as the empowerment of women in terms of the chosen indicator which provides a poor indication of the status of women in Tonga.

The MDGs formally end in 2015, while much has been achieved, there is an unfinished development agenda even for the MDG targets that have been met. International discussions are underway to develop successor to the [Millennium Development Goals](#) (MDGs). The Sustainable Development Goals (SDGs) put forward a shared vision in terms of economic, social, environmental, and governance conditions over the next 15 years ending in 2030, in addition to covering the unfinished business of the MDGs. Presently, there are 17 proposed goals increase in targets to 169 and at least 300 statistical indicators to monitor for the SDGs are being debated.

**Figure 5-7** shows the revised GDP estimates going back to 2003/04. The contraction in 2012/13, from the completion of the Chinese loan funded reconstruction of Nuku'alofa, proved to be considerably larger than originally estimated in last year's Budget Statement. Even the 'without' China loan growth contracted due to slow growth in several sectors and decline in the non-loan funded public construction.



Real GDP is estimated to have recovered in 2013/14 with provisional estimates suggesting growth of 2 percent in 2013/14 as the construction sector returned to modest growth and the agriculture sector grew strongly. This is slightly stronger than we had forecast in the last Budget Statement, mainly due to stronger than expected growth in the agriculture sector. We had anticipated weak growth in line with an observed

decline in squash exports; however the growth in production of other products was strong enough to offset this.

Real GDP growth is expected to strengthen through the forecast period, averaging 3.1 percent over the period 2014/15-2017/18. Growth is forecast to peak at 3.5 percent in 2015/16, before moderating slightly through the end of the forecast period. According to the recent IMF Article IV 2015 consultation, Tonga is expected to grow between 2-3 percent during the period of 2014/15 to 2019/20.

Growth is expected to strengthen to 2.4 percent in 2014/15. Public construction projects, particularly reconstruction in Ha'apai, provide a significant boost to growth in 2014/15. Private sector construction is also expected to strengthen supported by construction works around Nuku'alofa and outer islands especially in Ha'apai where churches destroyed in the cyclone are being re-built. However, the severe drought that began in April 2014 has affected growing conditions in the agriculture sector through 2015, causing agricultural production to decline sharply and dragging down forecast GDP growth.

In 2015/16, production in the agriculture sector is expected to normalize, while public construction also strengthens further as preparations for the Pacific Games are assumed to begin and significant other public construction projects continue. Growth in the services sector is anticipated to remain quite strong supported by good performance in the tourism sector. The tourism sector will be boosted as more tourists and visitors are expected for the Coronation in July 2015. Continuing growth in remittances and increases in imports of retail goods contributes to continuing growth in the distribution sector. The extension of the fiber optic cable to outer islands will increase capacity in the communications sector, while the upgrading of Fua wharf and the resealing of Fua'amotu and Lupepau'u runways is expected to increase capacity in the transport sector supporting the potential for continued future growth, particularly assuming continuing growth in tourism. Other services sub-sectors are expected to grow at around average rates.

Overall, the growth outlook for Tonga is positive. However, there are a number of risks to this growth projection.

- ✚ Growth in Tonga is highly dependent on the conditions of its main trading partner economies – Australia, New Zealand and the US – as these economies are a source of export demand, tourism flows and remittance payments. A long period of slow growth in advanced and emerging economies could weigh on growth in these economies, with spillovers to Tonga through reduced demand and weak labour markets.
- ✚ Activity in the construction sector is a main driver of growth in Tonga through the MTBF period. However, the timing of these construction projects is uncertain, and our projection is based on a number of assumptions regarding the size and timing of these projects. Delays could push construction activity further into outer years of the projection causing weaker growth in 2014/15, whereas downsizing or cancellation of projects could weaken the profile overall.
- ✚ Global commodity prices, such as for food and oil, are expected to remain relatively stable but if they increase, this will increase costs of production, raise inflation, and could reduce household disposable income.
- ✚ In common with most other Pacific Island Countries, growth in Tonga is always vulnerable to climatic conditions and natural disasters. The impact of such events on growth in Tonga is evident in the effect of Cyclone Ian in 2014 and the recent drought.
- ✚ Recognizing the challenges to growth across many sectors, the Government has implemented or has planned a number of policy initiatives to support growth, including the development of the TSDF and a number of individual sector plans (more detail on these initiatives is discussed in the industry sections). The aim of these initiatives is to promote private sector development and enhance public sector performance to raise potential growth and promote more inclusive growth. They also focus on improving the sustainability and resilience of the economy and society to potential shocks. These initiatives are taken to support activity across a number of industries in our projections. Delays or lack of priority/will to implement these policies could reduce growth in the outer years of the projection.

## 5.3 GDP SECTOR OUTCOMES

*Table 5-1* shows the actual estimates for real GDP growth and shares of total GDP by sector from 2008/09 to 2012/13, and the provisional estimates for 2013/14. The figures for the other four years are based on the projected estimates of the Ministry of Finance and National Planning. This section describes recent developments and the outlook for each sector through the three year medium-term budget framework (MTBF) period.

**Table 5-1: GDP Main Components (real growth rates)**

	08/09r	09/10r	10/11r	11/12r	12/13r	13/14p	14/15e	15/16e	16/17e	17/18e
Primary Sector	-1.4	0.5	2.0	0.5	3.7	3.1	-2.4	2.9	3.5	4.2
Secondary Sector	12.8	11.8	5.5	1.4	-14.5	1.3	5.2	6.8	8.0	3.0
Tertiary Sector	-0.5	1.4	1.6	0.5	-0.4	1.6	3.0	2.6	2.1	2.2
<b>GDP**</b>	<b>2.3</b>	<b>3.6</b>	<b>2.8</b>	<b>0.9</b>	<b>-3.1</b>	<b>2.0</b>	<b>2.4</b>	<b>3.5</b>	<b>3.6</b>	<b>2.9</b>
<b>Shares of Total Real GDP (%)</b>										
	08/09r	09/10r	10/11r	11/12r	12/13r	13/14p	14/15e	15/16e	16/17e	17/18e
Primary Sector	17.7	17.2	17.0	17.0	18.2	18.4	17.5	17.4	17.4	17.6
Secondary Sector	17.2	18.6	19.1	19.2	16.9	16.8	17.3	17.8	18.6	18.6
Tertiary Sector	55.6	54.4	53.8	53.6	55.1	54.9	55.2	54.8	54.0	53.6

*r-revision (provided by Tonga Bureau of Statistics)*  
*p-provisional estimates (provided by Tonga Bureau of Statistics)*  
*e-preliminary estimates*  
 \*\*The 10 percent accounts for net tax and subsidies

*Source : Tonga Bureau of Statistics and Ministry of Finance & National Planning*

### 5.3.1 Primary Sector

**Table 5-2: Primary Sector's Real GDP Growth (%)**

	08/09r	09/10r	10/11r	11/12r	12/13r	13/14p	14/15e	15/16e	16/17e	17/18e
Agriculture	1.3	-1.9	-0.3	3.5	2.2	4.7	-3.2	2.9	3.5	4.3
Forestry	3.0	-9.0	72.4	-25.7	-17.3	4.1	3.0	4.0	4.0	5.0
Fisheries	-17.1	19.3	4.2	-9.6	17.9	-5.9	1.5	2.7	3.3	3.7
<b>Primary Sector</b>	<b>-1.4</b>	<b>0.5</b>	<b>2.0</b>	<b>0.5</b>	<b>3.7</b>	<b>3.1</b>	<b>-2.4</b>	<b>2.9</b>	<b>3.5</b>	<b>4.2</b>

*r-revision (provided by Tonga Bureau of Statistics)*  
*p-provisional estimates (provided by Tonga Bureau of Statistics)*  
*e-preliminary estimates*

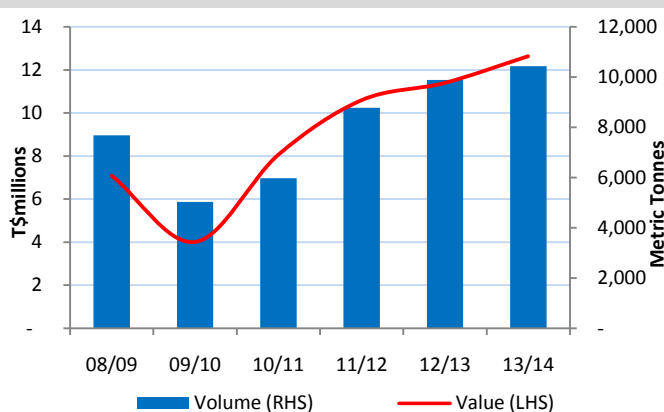
*Source : Tonga Bureau of Statistics and Ministry of Finance & National Planning*



The primary sector accounts for about 18 percent of total GDP. The sector grew strongly in 2013/14 supported by good performance from the agriculture sector. The weak performance of the fisheries sector doesn't have much impact on the total primary sector growth due to the sector's small share of GDP. Growth is expected to slow down in 2014/15 due to the impact of severe drought in the second half of 2014, which has had a major impact on agricultural production. A slow recovery in growth is projected for outer years, supported by an improvement in the performance of both the agriculture and fisheries sectors. Growth in the forestry sector has been volatile over recent years as the structure of the industry has changed. We forecast the sector to grow at around its long-term average rate, though we recognize that there may be some fluctuations around this rate as the structure of the industry continues to adjust. However, the forestry sector accounts for a very small share of GDP in the primary sector, so any fluctuations will have little effect on aggregate growth rates.

### 5.3.1.1 Agriculture Sector

**Figure 5-8: Agricultural Exports 2008/09 – 2013/14**



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

The agriculture sector accounts for around 15 percent of total GDP.<sup>9</sup>The agriculture sector experienced strong growth of 4.7 percent in 2013/14.<sup>10</sup> Of this, 1.5 percentage points were contributed by exports and 3.2 percentage points from domestic production.

Agriculture exports have steadily increased since 2009/10. In 2013/14 exports were slightly above \$12 million in value and 10,000 tonnes, representing growth of 11 percent and 6 percent respectively from the previous year (see **Figure 5-8**). This growth in total exports was due to strong exports of non-squash

commodities; particularly root crops, watermelons, coconuts, and kava. Squash exports declined by 12 percent in 2013/14 reflecting the pulling out of major exporter from the market.<sup>11</sup> While some local growers might have diverted their supply to other exporters, this exporter is the largest in the sector and so exports still declined. However, overall the strong performance from non-squash exports was enough to offset the impact of the fall in squash exports.

Agricultural sales volumes at Talamahu market declined by 10 percent in 2013/14, reflecting a decrease in sales of root crops. However, survey data from MAFFF indicates that roadside sales increase by 44 percent. The increase in volumes of roadside sales was strong enough to offset the declining in volumes of Talamahu market sales. A significant share of agricultural production is for subsistence – this production is assumed to grow in line with annual population growth.

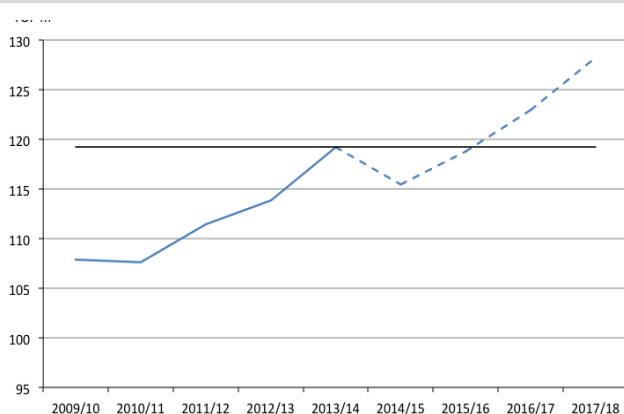
<sup>9</sup>GDP at market price

<sup>10</sup>This is based on the preliminary estimates from Tonga Bureau of Statistics

<sup>11</sup>Squash exports accounts for 38 percent of total volume of agricultural exports

Real growth for the agriculture sector is expected to be negative 3.2 percent in 2014/15. This is due to the effects of severe drought associated with the strong El Nino season during first half of 2014. The drought has reduced production for both the export and the local market.<sup>12</sup> Already in the first half of 2014/15, total agriculture exports have declined by 15 percent. Squash exports have declined by 42 percent and exports of non-squash commodities have also declined (e.g. watermelon by 31 percent and kava by 20 percent). Total domestic market sales of agricultural produce is down by 10 percent compared to the same period in the previous year. For the remainder of 2014/15 production in the sector is expected to recover only slowly due to the lingering effects of the drought on growing conditions.

**Figure 5-9: Reasonable Recovery from drought  
(Agricultural GDP \$ million)**



*Sources: Ministry of Finance & National Planning and Tonga Bureau of Statistics*

The growth rate in agricultural production is expected to recover to 2.9 percent in 2015/16 as growing conditions normalize. This may seem a strong rebound, but even this will not return agriculture production to the level of production immediately prior to the drought, see **Figure 5-9**.

There remain a number of significant limiting factors facing the agriculture sector over the medium-term, including the availability and cost of unskilled labour (which is made worse by the overseas worker schemes), management of food safety requirements, capacity to adapt to changing climate conditions, access to technology and innovative production practices, and access to strategic markets. The Government, its development partners

and the private sector continue to look into ways of addressing these issues. The Agriculture Sector Growth Committee has already identified some key sector priorities, and further priorities are being considered in the Agriculture Sector Plan, which is currently being developed.

Further out in the forecast period government policy, such as the continuation of the provision of concessional loans through the Agricultural Marketing Fund, and implementation of the Agriculture Sector Plan, is expected to support stronger growth in this sector. The Agricultural Marketing Fund was increased by \$4 million in 2014/15. The initial \$1 million Fund was targeted at shipping of agricultural produce to overseas markets, while the additional \$4 million is intended for investment more broadly in the sector.

<sup>12</sup> Subsistence production is generally assumed to grow at the same rate as population growth. However in years of drought (or when there are other natural disasters), adjustments are made to assumed growth in subsistence production to reflect the poor production conditions.

As of January 2015, 36 percent of the additional fund has been used, mainly for working capital to support exports of squash, root crops and kava. In terms of the impact of the additional fund on GDP growth, if we were to assume that all of the available funds were lent out, and these funds generated a rate of return of 25 percent, then the loan fund could boost nominal GDP in the sector by about 1 percent. However, the observed impact over time is likely to be smaller than this assumption as only 36 percent of the fund has been lent out so far, and the growth impact is likely to be spread over a number of years.

The launching of new packing facilities in November 2014 should further improve the quality and appropriateness of packaging of agricultural exports to meet the requirements of overseas markets and increase market access. We expect this to cause a boost to growth as the facility becomes fully operational. The continuation of Pacific Horticultural and Agricultural Market Access Program (PHAMA) funded by New Zealand and Australian aid programmes will also support this improved market access. We anticipate some continuing support to growth from these initiatives as the improved quality of exports continues to build trust in Tongan products. Improvements in transport will further support exports, for example, using the MV Niuvakai to transport agricultural/fish produce from Tongatapu and outer islands to Pago Pago.

### **5.3.1.2 Forestry Sector**

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The forestry sector accounts for around 0.4 percent of total GDP. The sector mainly comprises of local wood production used for home and office furnitures, power poles and timber and firewood with minimal contribution from sandalwood production. The availability of data for proper monitoring and evaluation of the forestry sector remains a challenge.

Real growth of the forestry sector dropped in the last 2 years mainly due to significant declines in exports of sandalwood due to the resource being heavily exploited. Growth is expected to recover to an average of 4 percent over the medium term in line with an expected increase in sales of wood products by Tonga Forest Product, and with marginal growth in local firewood production.<sup>13</sup>

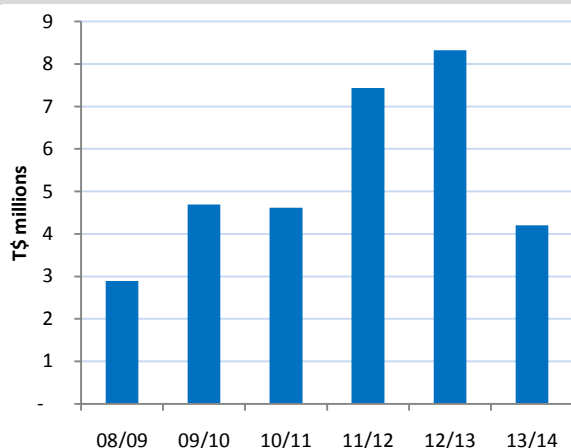
Key challenges for the sector include access to finance for capital expenditures to increase capacity for production and the need to urgently accelerate re-planting of current tree resources to ensure sustainable production in future years. Despite these challenges, there are also potential opportunities ahead for the forestry sector including, increases in product lines (including using coconut for timber for affordable housing), biomass generation from waste, and capacity building with implementation of training programmes.

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<sup>13</sup> Assuming growth in local firewood production to be in line with population growth

### 5.3.1.3 Fisheries Sector

**Figure 5-10: Fisheries Exports 2008/09 – 2013/14**



*Source: Ministry of Agriculture, Food, Forestry & Fisheries*

The fisheries sector accounts for some 3 percent of total GDP.<sup>14</sup> Tonga's fisheries production tends to fluctuate considerably due to boom and bust cycles driven by resource depletion, changes in the distribution of tuna, market access and prices, and environmental factors.

The sector experienced negative growth in 2013/14 due to declines in major fisheries exports. Tuna exports declined by 49 percent as the number of foreign fishing vessels operating in Tonga reduced from 24 to 8. This reduction in vessel numbers is reportedly due to further deterioration in the condition of infrastructure at the wharf plus other administrative issues including the fee charges were too high and also the handover of the

Tuimatamoana Fish Market to the MAFFF. Some foreign vessels that are licensed to fish in Tonga's waters never unload here, but rather unload in neighboring countries that have better wharf infrastructure. These exports are not then captured in Tonga's production statistics. Shark, snapper and seaweed exports also declined significantly in the year.<sup>15</sup>

Positive growth is forecast for the fisheries sector in 2014/15 - a recovery from weaker growth in 2013/14. This is mainly due to anticipated increases in tuna exports. Exports of tuna (which constitutes 40 percent of fisheries exports) more than doubled in the first half of 2014/15. Seaweed exports increased by 39 percent in the first half of 2014/15 compared to same period in 2013/14. In addition some high valued fisheries products such as live hard coral and live fish are anticipated to experience positive growth - up by 25 and 29 percent respectively in the first half of 2014/15 compared to the same period in 2013/14. We expect this increase to be maintained in the second half of 2014/15 due to recent investment in fisheries equipment and continued access to existing export markets. However, other marine exports (snapper and shark) declined slightly in the first half of 2014/15 compared to the average of the same period in the last five years. No further exports of sea cucumber are expected in this year due to over harvesting and this overharvesting is likely to result in further contraction in catches in coming years.

<sup>14</sup>Based on 2013/14 preliminary estimates from Tonga Bureau of Statistics

<sup>15</sup>There is not sufficient information at the moment to fully capture the domestic production of fish.

There are significant challenges to the future performance of the fisheries sector. The key challenge is the inadequate infrastructure at the wharf and the airport. Handling, processing and blast freezing capacity are limited meaning there is no capacity to export frozen value-added products of local tuna. The cost of production in Tonga is high in comparison to other neighboring fisheries such as Fiji and Samoa. These high costs have stifled the investment in the fisheries sector. In addition, fisheries resources have generally been poorly managed over time. These factors have all contributed to the progressive decline of the sector.

Despite these challenges, moderate growth is expected through the projection, reflecting some efforts underway to improve performance. The Fisheries Development & Export Fund Loans aim to increase exports, income and employment in the sector. The fund is \$300,000 at a 1 percent interest rate. A further \$750,000 at 4 percent interest was added to the fund for the 2014/15 year. In terms of the impact of the additional fund on GDP growth, if we were to assume that all of the funds were lent out and generated a 25 percent return, the loan fund could boost nominal GDP in the sector by around 1 percent. The growth impact will be smaller as only 10 percent of the additional fund has been lent out so far, and the growth impact is likely to be spread over a number of years.

Activity in the sector will continue to be supported by the exemption of fishing related imports from duty and CT. The inclusion of imported packaging materials to the exemption in February 2015 may also contribute to future growth. The fisheries sector plan is also currently being developed and this will set further priorities and targets to improve the performance in the sector.

Other projects are currently being implemented to improve the sustainability of fish production through sustainable development and management of marine resources, with attention to remote and disadvantage communities. This is being done through the special management areas (SMAs). Prior to 2011, 6 SMAs were well established. In 2013 a further three SMAs have been established. Currently there are coastal community management plans (CCMP) in place for Kolonga and Kotu Island, and another is currently under development. An extra 6 SMAs in Vava'u are expected to be implemented in 2015, financed by ADB. The farming of aquaculture is also an option being investigated to boost investment in the fisheries sector, but it will also contribute to tourism business because of the international movement towards protection and conserving of naturally marine resources

### **5.3.2 Secondary Sector**

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The secondary sector accounts for about 17 percent of GDP. Construction is the largest industry in this sector. After a strong growth averaging 10 percent per year between 2008/09 and 2010/11, growth in the secondary sector fell significantly to around negative 14 percent in 2012/13 as the reconstruction of Nuku'alofa and roads around Tonga ended. Construction activity grew at a positive but slower pace in 2013/14. Growth in construction is expected to strengthen through the forecast period as new construction projects are due to start (both public and private sector). Strengthening growth in the manufacturing and electricity and water supply sub-sectors will also support growth in the secondary sector through the forecast period.

**Table 5-3: Secondary Sector's Real GDP Growth**

	08/09 <sub>r</sub>	09/10 <sub>r</sub>	10/11 <sub>r</sub>	11/12 <sub>r</sub>	12/13 <sub>r</sub>	13/14 <sub>p</sub>	14/15 <sub>e</sub>	15/16 <sub>e</sub>	16/17 <sub>e</sub>	17/18 <sub>e</sub>
Mining & Quarrying	8.3	154.1	4.0	39.8	-25.9	3.2	8.0	9.0	10.0	3.0
Manufacturing	-0.2	-1.7	5.9	-2.6	6.8	-0.1	2.0	3.1	3.7	4.0
Electricity & Water s	-4.6	-3.5	2.9	-0.3	1.0	-1.2	2.4	2.7	3.0	3.0
Construction	35.0	21.8	6.1	1.2	-29.9	3.4	8.7	10.9	12.6	2.4
<b>Secondary Sector</b>	<b>12.8</b>	<b>11.8</b>	<b>5.5</b>	<b>1.4</b>	<b>-14.5</b>	<b>1.3</b>	<b>5.2</b>	<b>6.8</b>	<b>8.0</b>	<b>3.0</b>

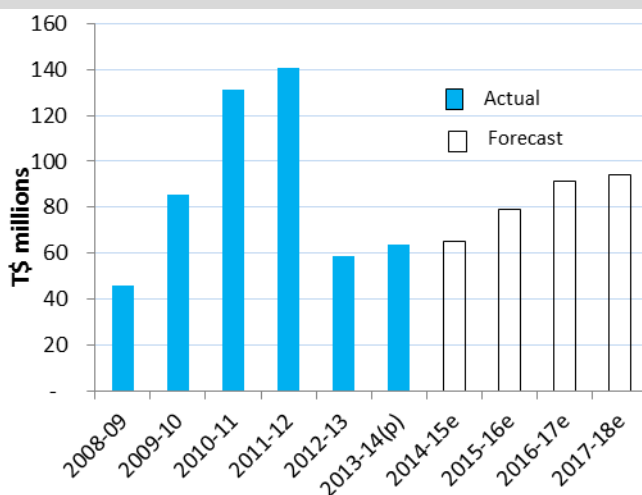
r-revision (provided by Tonga Bureau of Statistics)

p- provisional estimates (provided by Tonga Bureau of Statistics)

e-preliminary estimates

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

### 5.3.2.1 Construction

**Figure 5-11 : Public Construction Projects**

Source: Ministry of Finance and National Planning

strengthens considerably through the forecast period. This is due to large donor funded projects that are anticipated to start in 2014/15, including the Tonga Aviation Investment Project (TAIP) (the resealing of the Fua'amotu and Lupepau'u airports), energy projects including stage II & III of Tonga Village Network Upgrade Project (TVNUP) and the restoration of Ha'apai network to the standard of Tonga Village Network Upgrade Project (TVNUP), and the extension of the sub-marine cable to Vava'u and Ha'apai. Preparations for the Pacific Games are also likely to boost public construction over the forecast period.

The donor-funded reconstruction of housing in Ha'apai had an initial target completion date of December 2014. However, delays have meant that only a small proportion of the reconstruction has actually taken place. The revised date for completion is July 2015.

The reconstruction of Nuku'alofa was completed in 2012/13 at the same time that several other large projects came to an end. The drop in the level of construction activity as depicted in **Figure 5-11** resulted in growth of negative 30 percent in that year. Activity in the sub-sector grew slowly in 2013/14, from a lower base, and is expected to strengthen in 2014/15. The strong outlook for growth in the construction sector is largely due to new major donor-funded construction projects, as well as the reconstruction of Ha'apai (boosting to some extent both public and private construction) and strengthening other private sector construction.

Growth in public sector construction

Construction works in preparation for Pacific Games are assumed to commence in earnest in 2015/16, with construction activity strengthening through the following two years to reach a peak level in 2018/19 as works must be completed before Pacific Games in late 2019.

Future growth in the construction sector may be supported by government initiatives through support for construction concessional loans (\$1 million at 4 percent interest rate) to cater for investments that require capital equipment, tools, safety gears; provide capacity building in specialized field; assist and encourage local contractors who are bidding for development projects and assist local communities with their community utility requirements. In terms of the impact of the fund on GDP growth, if we were to assume that all of the funds were lent out and generated a 25 percent rate of return, the loan fund could boost nominal GDP by around 0.5 percent.

Private construction activity remains active around Nuku'alofa and in Ha'apai where churches destroyed in the cyclone are being rebuilt. Generally, non-residential construction is expected to continue to strengthen in line with a gradual recovery in business lending. The reconstruction of Tanoa International Dateline Hotel will also support non-residential construction over the coming two years. Residential construction is expected to grow strongly in 2014/15, in line with observed increases in new commitments of housing loans. New commitments increased strongly in the first half of 2014/15 compared to the same period in the previous years. The strong increase in new commitments in the first half of the current fiscal year appears to be due to the new MBF's housing loans scheme that was first initiated in February 2014. We expect the availability of finance for housing lending to improve further in coming years, supporting moderate growth in residential construction through the forecast period.

The forecast for growth in the construction sector is influenced significantly by the assumptions as to the size and timing of major projects. Therefore, the main risks to the profile for construction growth are delays in construction projects or significant revisions to the size of projects due to pressure on resources or funding constraints. Delays would cause weaker growth in earlier years of the projection, but, assuming projects are delayed and not cancelled or scaled back, this activity would shift to outer years. In addition, there are a number of projects that are yet to secure donor funding, some of which have not been included in our projections, but if funding is secured along the way this would result in stronger activity further out in the forecast period. As was experienced in the completion of the project on the reconstruction of Nuku'alofa, where growth in this sub-sector dropped by about 30 percent, it is anticipated that history will repeat itself once the construction activities related to the Pacific Games is completed.

### **5.3.2.2 Mining and Quarrying**

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The mining and quarrying sector accounts for less than 1 percent of total GDP. Growth in mining and quarrying tends to follow the performance of the construction sector. The negative growth experienced by the sector in the last two years was associated with the completion of the reconstruction in Nuku'alofa area and roads. Growth in mining and quarrying is expected to pick up in the medium terms as growth in the construction sector strengthens.

### **5.3.2.3 Electricity and Water Supply**

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The electricity and water supply sector account for about 3 percent of total GDP. This sector provides vital services to both the productive activities and people's consumption needs.

Real growth for electricity sub-sector is expected to pick up in 2014/15 from the previous year. This is largely due to the sharp falls in global oil prices since August 2014. This has reduced the cost of producing electricity and resulted in a drop in the power tariff. Lower electricity prices combined

with the unusual hot weather have increased demand for electricity. Electricity production is expected to increase by 2.5 percent and consumption up by 3 percent in 2014/15, which is consistent with increases imports of electrical materials.

Demand for electricity is expected to remain strong over the forecast period. Stronger growth in other industries, e.g. manufacturing and construction, will increase demand for electricity from the business sector. Electrification of villages throughout Tonga (supported by Phases II and III of the TVNUP project) will continue to increase household consumption of electricity.

The capacity of the sector is expanding, helping to meet growing demand, largely due to investment in solar power projects. Expanding capacity is likely to help maintain the power tariff around low rates. Two large solar farm projects have been completed and are currently operating with a total capacity of 1.42 MWh. These projects appear to be operating successfully, as for example, as of June 2014, the production of Maama Mai Solar Facility was 7.74 percent above the forecast KWH. The Vaini solar farm is soon to be launched with an expected total capacity of 1MW. These projects are reducing dependency on diesel power generation for the country's power supply. For example, the Vaini solar farm is expected to reduce consumption of diesel for electricity production by 3 percent.

Growth in water supply is expected to continue due to ongoing supply installation and upgrading projects across Tonga. Since water and electricity are key components to all development projects, it is anticipated that the future trend of this sector will be in line with the trend of other sectors including ongoing and future projects such as airport upgrade and Pacific Games.

#### **5.3.2.4 Manufacturing**

The Manufacturing sector is around 6 percent of total GDP. Growth in the sector has been volatile over the last few years. However positive growth is projected in 2014/15, in line with the increase in number of manufacturing business registered in 2014 – up by 18 percent from 181 in 2013. We assume that the new capacity from these businesses adds to realized value added in the sector, and does not simply disperse the current level of demand and activity across a greater number of businesses. The expansion of Cowley Bakery to their branch at Fasi in December 2014, increasing sales of wood products (by Tonga Forest Product), and the expanding of overseas market for Virgin Coconut Oil to Australia have also contributed to the improvement in the sector. We assume that this increase in business activity is accompanied by an increase in CT paid from manufacturing businesses. However, this will depend in part on the enforcement and compliance.

Moderate growth in manufacturing is expected to continue through the forecast period, supported by ongoing business reforms to enhance the business operating environment, including developing online payments systems, modernizing the business registry systems, and amendments to legislation such as the Foreign Investment Act and Regulation, Company and Regulation Act, the Receivership Bill, and Bankruptcy Policy. Concessional loans through a government loan fund should improve access to finance. The fund is \$250,000 at a 1 percent interest rate, and was recently expanded by \$250,000 at a 4 percent interest rate. The purpose of the fund is to support production and marketing capacity of export-ready manufacturers, to stimulate innovation and product diversification, to promote development of competitive value-added products, and to promote cooperation and coordination in the sector. However, if we were to assume that all of the funds were lent out and generated a return of 25 percent, then these additional funds would have only a minimal effect on nominal GDP growth in the sector. In addition activity in the sector is further supported by the exemption of raw materials for manufacturing process from duty and excise and CT as approved in government investment incentives bulletin in August 2014 until July 2016.



### 5.3.3 Tertiary Sector

**Table 5-4 : Tertiary Sector's Real GDP Growth (%)**

	08/09r	09/10r	10/11r	11/12r	12/13r	13/14p	14/15e	15/16e	16/17f	17/18f
Wholesale and retail trade	3.5	-3.8	3.3	0.7	2.6	1.1	4.7	4.0	2.4	2.4
Hotels and restaurants	6.9	-4.1	2.9	-0.4	2.7	-0.3	6.1	5.8	2.6	2.5
Transport and communication	15.2	15.9	-2.9	0.5	1.1	0.6	2.0	2.5	3.0	4.0
Financial intermediation	-21.0	-2.7	3.2	-6.0	-5.3	4.6	4.0	3.0	3.0	3.0
Public administration and services	0.8	4.5	3.6	0.0	-5.6	1.5	4.0	3.0	3.0	3.0
Ownership of dwellings	1.0	1.4	1.1	0.4	0.6	0.4	2.0	1.5	1.0	1.0
Others*	-3.8	4.5	0.6	1.9	-1.5	5.0	1.0	1.5	1.5	2.0
<b>Tertiary Sector</b>	<b>-0.5</b>	<b>1.3</b>	<b>1.1</b>	<b>0.1</b>	<b>0.5</b>	<b>1.5</b>	<b>3.0</b>	<b>2.6</b>	<b>2.1</b>	<b>2.2</b>

r-revision (provided by Tonga Bureau of Statistics)

p-provisional estimates (provided by Tonga Bureau of Statistics)

e-preliminary estimates

\*includes small sub-sectors: real estate, private education and health, recreational and other community & personal services

*Sources :Ministry of Finance & National Planning and Tonga Bureau of Statistics*

The tertiary sector is the largest of the three sectors of GDP, accounting for more than half of total GDP (around 54 percent).

#### 5.3.3.1 Wholesale and Retail Trade

The wholesale and retail trade sector accounts for around 10 percent of GDP. Good performance in the sector is anticipated in 2014/15, in line with an increase in the number of businesses registered in the sector. The number of wholesale businesses is up by 10 percent from 191 in 2013 to 211 in 2014, and the number of retail businesses is up by 17 percent to 1,461 in 2014. We assume that these businesses add to overall activity in the sector, rather than simply dispersing the current level of demand across a greater number of businesses. The sector is expected to continue to grow reasonably robustly through the forecast period supported by continuing income growth, with an additional boost in 2015/16 due to spending associated with the Coronation.

Growth in household incomes (comprising wages and salaries, and remittances) tends to increase demand for retail goods. Private remittances increased strongly in the first half of 2014/15, supported by an increase in the number of seasonal workers from 3,035 workers in 2013/14 to 4,250 workers so far in 2014/15. Wages and salaries of government civil servants has remained fairly stable. Household income growth is expected to continue through the forecast period, supported by further expansion of seasonal worker schemes (in size and scope), and improvement in labour market conditions in New Zealand and the United States. The unemployment rate in Australia is also expected to improve, but not until later in the forecast period.

Spending associated with the Coronation in July 2015 is expected to provide a one-off boost to activity in the wholesale and retail trade sector. Judging by developments in the sector around the time of the last Coronation (in August 2008), this event could provide a significant boost to growth in the sector. Some of this boost is expected to occur in 2014/15 in preparation for the Coronation, and more realized at the time of the actual event. The effect of the Coronation may also be seen in a temporary boost to remittance flows as Tongans overseas transfer additional funds to support family celebrations. An additional one-off boost to growth in the wholesale and retail trade sector in 2015/16 may come with the 150<sup>th</sup> Anniversary Celebration of Tupou College scheduled for June 2016.

Limited support to growth through the forecast period may also be provided by the government's new initiative of concessional loans (TOP500k at 4 percent interest rate) to support small and medium enterprises engaged in wholesale and retail trade with expansion and service development.

### 5.3.3.2 Hotels and Restaurants

The hotels and restaurants sector accounts for 3 percent of GDP. Performance of the sector is largely related to developments in tourism, including visitors for business and government, with a smaller share of activity in the sector being determined by local demand.

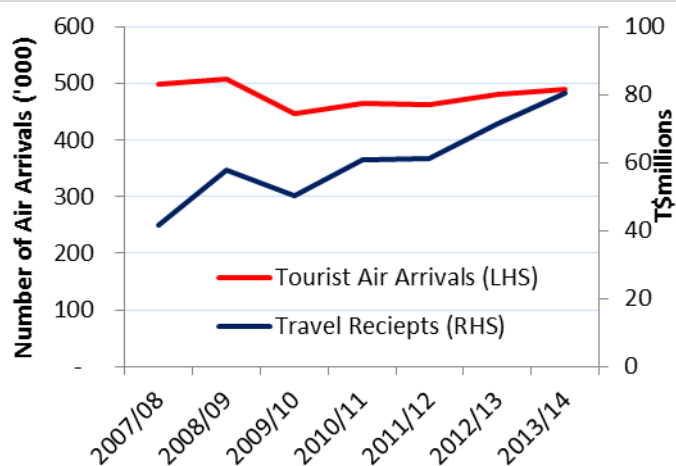
Total tourist air arrivals to Tonga increased by 2.3 percent in 2013/14 compared to 2012/13. In the first six months of 2014/15 (July-December 2014) arrivals increased 18.7 percent compared to same period last year. Travel receipts (current prices) for 2013/14 increased by 7 percent.

The sector is expected to grow robustly in 2014/15, (despite weakness in arrivals through early 2015 associated with volcanic activity and issues with aircraft operations), as more tourists and visitors are expected for the Coronation in July 2015. A further boost to visitor arrivals is anticipated for the 150th anniversary of Tupou College. These events are expected to both boost visitor arrivals and see a number of returning residents. Travel receipts are anticipated to increase, with spending on hotels and restaurants, handicrafts, and recreational and cultural activities all likely to go up. Renovation of accommodation is also expected to increase ahead of the coronation, further supporting private sector construction activity in 2014/15. Because of the Coronation being at beginning of July (the start of a new financial year), some of this boost to activity will result in stronger growth in 2014/15 as visitors arrive in advance for the event, and part of this impact will accrue in 2015/16.

Abstracting from the temporary boost from the Coronation in 2014/15-16, we expect the hotels and restaurants sector to continue to grow at a moderate pace, supported by continuing growth in the tourism sector. The investment in the Tanoa International Dateline Hotel by the Tanoa group will increase capacity in the sector in the future. The presence of a well-regarded hotel chain in Tonga may also raise the profile of Tonga as a tourist destination, attracting new visitors. The Coronation event may have a lingering impact on the tourism by raising the profile of Tonga as an interesting tourist destination.

There are a number of policy initiatives seeking to further promote the tourism sector in Tonga, including the Tonga Tourism Authority Business Plan, and the Government's Tourism Roadmap. These initiatives seek to improve marketing of Tonga as a tourist destination and improve coordination in the tourism sector.

**Figure 5-12: Travel Receipts vs. Tourist Air Arrivals (2007/08-2013/14)**



*Source: Tonga Bureau of Statistics and National Reserve Bank of Tonga*

Growth in the tourism sector may also be supported by improved access to credit for tourism businesses through the provision of government concessional loans (\$500,000 at 1 percent interest rate, with an extra \$1 million at 4 percent interest rate added in 2014/15). These loans target businesses seeking to develop new tourism products, improve the quality of small and medium accommodation, and develop the tourist environment, heritage sites and cultural events.

### **5.3.3.3 Transport and Communication**

Growth in the transport and communications sector has been relatively weak over the past three years. We expect growth in the sector to strengthen somewhat through the forecast period.

The sharp fall in oil prices during 2014 has reduced costs across the transportation sector supporting stronger growth in the current year. We expect prices to remain relatively stable at a lower level than in the past few years, and continue to support the level of activity in the sector. However, if global oil prices should increase significantly, this will increase the costs of production in the transport sector and reduce growth from what is currently forecast.

We expect strong growth in land transport in 2014/15, consistent with a large increase in the number of new vehicles registered in the first half of 2014/15 compared to the same period in the previous year. These new registrations are also consistent with an increase in online purchases of Japanese vehicles (at lower prices compared to local dealers). Additional new vehicle registrations are expected through the remainder of 2014/15 as the size of the fleet of government vehicles is increased ahead of the Coronation. Future growth in the sector may be supported the ongoing upgrading of roads around Tonga under the Transport Sector Consolidation Project (funded by the World Bank).

Demand for domestic shipping services is partly related to construction projects occurring on outer islands. Shipping is expected to be supported in 2014/15 by transportation of aid equipment and materials to Ha'apai as reconstruction progresses, as well as for other projects such as the Tonga Village Network Upgrade Project (TVNUP) and the extension of the runways in Vava'u and Ha'apai. In terms of passenger services, reasonable growth is expected in 2014/15 reflecting an increase in the number of cruise ships visiting the Kingdom – 16 cruise ships are planning to dock in Nuku'alofa in 2015, compared to 11 in 2014. The upgrading of Fua wharf should further improve capacity to accommodate the increase in domestic shipping activities in the future.

Air transportation activity is expected to grow strongly in 2014/15, due mainly to an increase in international air arrivals associated with the Coronation in July 2015. Beyond 2014/15, growth in air transport will be supported by increasing visitor arrivals generated by efforts to further promote the Tongan tourism industry. This growth is also likely to be supported by projects to expand capacity in the sector, including the Pacific Aviation Investment Project (the upgrading and resurfacing of Fua'amotu and Lupepau'u airports). The further extension of Lupepau'u airport to meet the standard of international airports is expected to facilitate a proposed direct international flight between Vava'u and Fiji, which may further promote tourism and increase air passenger numbers.

Growth in the communication sector is being supported by investment to improve the telecommunications infrastructure in Tonga, in particular the installation of fiber optic cables to expand bandwidth and provide greater internet access at a significantly lower cost. The fiber optic cable has reduced the wholesale price of bandwidth to telecommunications operators by 80 percent. The installation of the fiber optic cable around Nuku'alofa was completed in 2012/13 and this is likely to have boosted growth in the sector over the past two years. The project to extend the fiber optic cable to the main centres in Vava'u and Ha'apai, with supporting wireless links to other parts of these island groups, is due to start during 2014/15 and be completed in 2015/16. We expect this to increase internet use and support further growth in the communications sector from 2015/16 through the remainder of the forecast period.

#### **5.3.3.4 Financial Intermediation**

The financial intermediation sector accounts for some 6 percent of total GDP. The sector recovered to positive growth in 2013/14, following two years of negative growth. This negative growth resulted from a period of tight lending conditions and weak demand for credit. The recovery in growth for the sector is consistent with an improvement in general economic conditions and stronger credit growth. This includes the early competition from newly introduced bank (Pacific International Commercial Bank) in the market.

A slight increase in growth is anticipated for this sector in 2014/15, supported in part by the introduction of the government's new loan schemes in 2014/15, and the resumption of housing lending by MBF bank. This improvement in growth is consistent with observed private sector credit growth of 10 percent over the first half of 2014/15. Growth in the sector is expected to then remain fairly stable over the rest of the forecast period, supported by a continuing environment of low interest rates and a gradual recovery in demand for lending both from households and businesses.

#### **5.3.3.5 Public Administration and Services**

The Public Administration and Services sector contributes around 12 percent of GDP, making it the largest individual component of the Tertiary Sector. Growth is expected to be 2 percent in 2014/15 compared to 0.4 percent recorded in 2013/14. Growth is forecast to then moderate to 1 percent in 2016/17 reflecting prudent government spending to keep within domestic revenue and available budget support (which now contributes to increase in concessional borrowing)<sup>16</sup>. This is consistent with the Government's key priority in maintaining sustainable fiscal consolidation for the current Medium Term Budget Framework (MTBF) in order to ensure that the Government is able to meet its current as well as future spending and debt commitments. In addition, part of government's longer-term fiscal consolidation strategy is to address staffing costs, gradually reducing this to 45 percent of local operational expenditure.

The public sector reform programs continue to focus on strengthening the delivery of public services, and ensuring stronger governance and accountability. These reform programs include improved Public Financial Management; and strong Staff Performance Management System to promote increased performance; the establishment of the Anti-Corruption Commission; strengthening of the Audit Department; and increased enforcement and compliance with the Procurement Reform Strategy & Regulations. Reforms in the public service are complemented by Public Enterprises reforms aimed at ensuring they continue to become more efficient and less of a burden on government finances while delivering better services to their customers.

#### **5.3.3.6 Ownership of Dwellings**

Ownership of dwellings is about 9 percent of GDP. Growth of 2.0 percent is expected in 2014/15 mainly driven by Ha'apai post reconstruction efforts and consistent with a recovery in new loans for housing.

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<sup>16</sup> The change in debt sustainability status for Tonga means that funding from the ADB and World Bank is now provided as 50 percent grant and 50 percent concessional loans.

### **5.3.3.7 Education, Health and Social Work**

The education, health and social work sector contributes around 5percent to GDP.<sup>17</sup> It is estimated that the growth rate for the education sector in 2014/15 will be 1 percent, strengthening slightly to 1.5 percent in 2015/16. Continued support from Government and donors to non-government schools helps maintain growth in non-government education, focusing on building capacity, human resources and upgrading of existing school facilities. The non-government health and social work sector is expected to continue to grow, reflecting continuing growth in services extended by organisations such as the Mango Tree Center, the Alonga Center, the ‘Ofa Tui mo ‘Amanaki organization, Tonga’s Women and Children Crisis Center and others including private clinics. These services will remain vital to counter disability and health related services at all levels for Tonga. This expansion in private sector activity in this sector will be supported by public/private partnerships to assist private community social organizations who are leading the important work to help address the needs of vulnerable groups. The expansion in social welfare to the elderly and disabled is also likely to help support growth in the social services sectors.

### **5.3.3.8 Recreation, Cultural and Sporting Activities**

The recreation, cultural and sporting activities sector contributes around 1 percent to GDP, making it the smallest contributing sub-sector to the Tertiary sector. Growth is expected to remain positive through the forecast period supported by general growth in the tourism sector. The coronation in July 2015 is also expected to provide a temporary boost to growth across 2015/16. Sporting activities will be boosted by Pacific Game in 2019.

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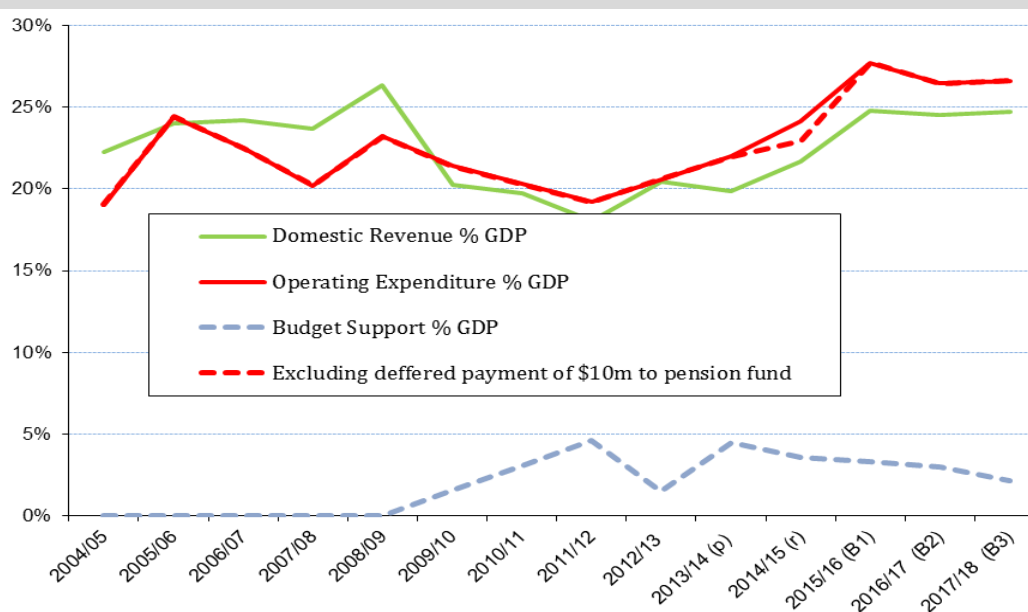
<sup>17</sup> This sector excludes public spending on health and education. These are included in public administration.

## 5.4 FISCAL AND DEBT OUTCOMES

### 5.4.1 Domestic Fiscal Position

This section provides a short review of the domestic fiscal position focussing on government finances: domestic receipts (plus budget support) and domestic payments. Also referred to as the Recurrent Budget. This review is important as this determines whether government has sufficient funds to pay for its basic operations, when including budget support. An equivalent amount of expenditure is also received in project aid for funding capital and some recurrent type operations; this is recorded in the Development Budget. The full budget is discussed in detail in Section 6.

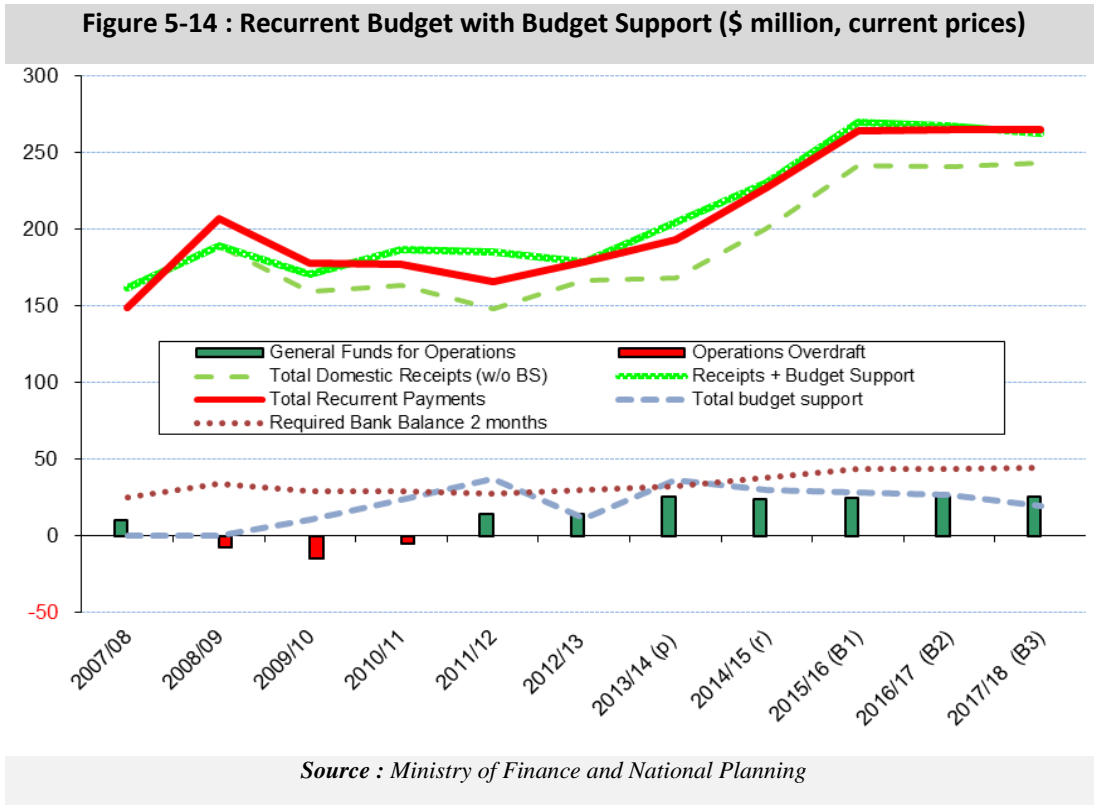
**Figure 5-13 : Domestic Fiscal Indicators as Percentage of GDP**



Source : Ministry of Finance and National Planning

From 2001/02 until mid-decade domestic revenue (excluding receipts from bonds and other funds) averaged some 24-26 percent of GDP, greater than operating expenditure (the cost of running the public service) at some 20-24 percent of GDP (see **Figure 5-13**). Following the GFC domestic revenue fell below 19 percent of GDP, falling short of operating expenditure which did not adjust down as much. Since 2011/12 they have both increased, but with operating expenditure remaining greater than domestic revenue. The gap has been covered by budget support which has been running around 2.5 to 5 percent of GDP. This support has helped avoid the need to cut priority government services.

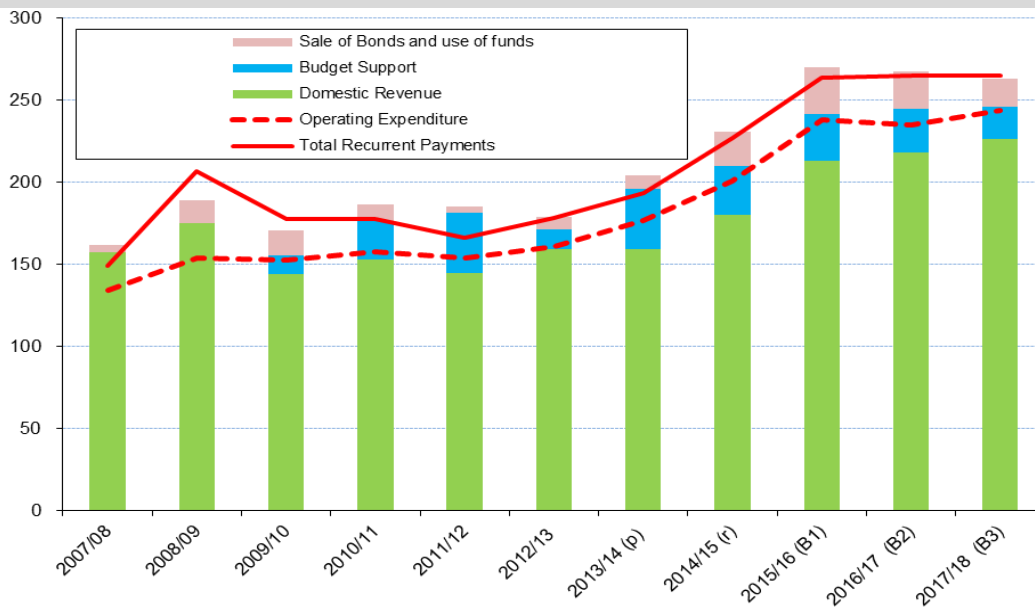
Over the MTBF domestic revenue to GDP returns to nearly 25 percent. Operating expenditure also jumps to 28.5 percent, due to once off items, as explained in more detail in Section 6. It then declines to a little over 27 percent. Budget Support is estimated to trend downward from about 3.5 to about 2 percent of GDP with the gradual decline in budget support due to attempts to decrease dependence on World Bank and ADB support now based on 50:50 grant and concessional loan.



Following the deterioration in cash balances prior to 2010/11, small cash surplus have continued to build up cash balances in the consolidated fund as shown by the Accumulated Bank Deposits in **Figure 5-14**, to levels around 1.6 months of total payments (still below the objective of two months cover) by end of 2015/16. Small cash balances are projected for most of the MTBF, but part of that is reserved for the Pacific Games Fund which will build up to about \$7 million in 2016/17 before being run down in the next two years. As a result the level of cash balances (total Consolidated Fund) available for operations is forecasted to drift down to about 1.1 months cover of payments over the MTBF.

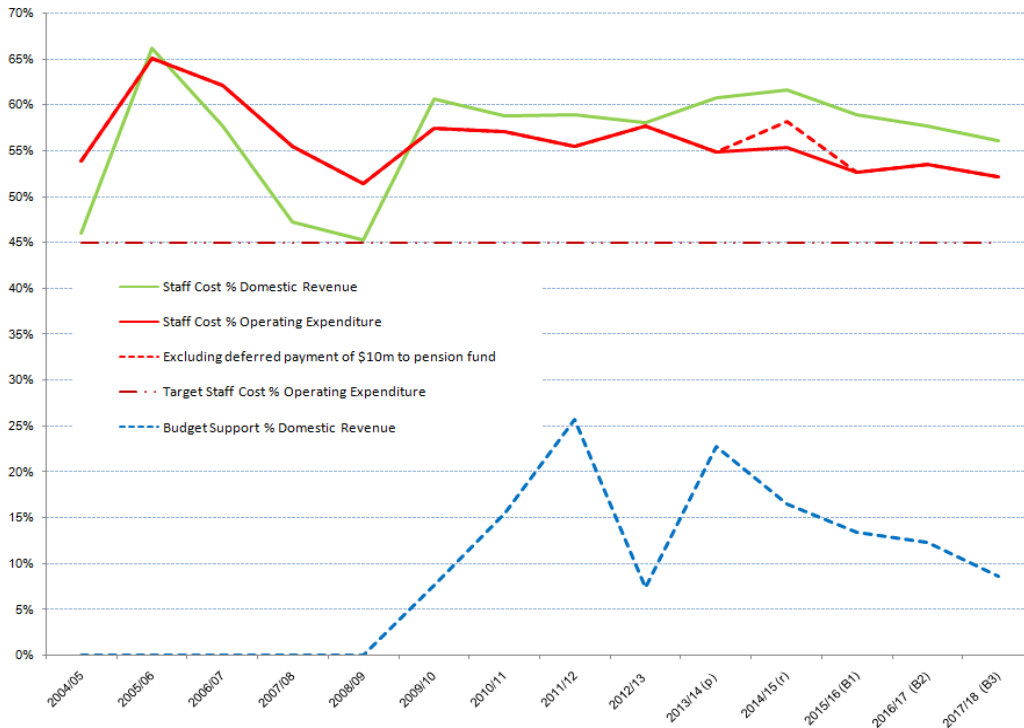
The increase in dependence on budget support, and in recent years on domestic borrowing to finance support to the loan scheme operated by TDB, has increased despite the growth in domestic revenue as shown in **Figure 5-15**. Over the period operating expenditure has risen to make use of all domestic revenue and most of the budget support. The bonds and use of funds have covered, in recent years, the new initiatives such as the loan scheme managed by TDB.

**Figure 5-15 : Recurrent Budget: Receipts and Payments (\$ million, current prices)**



Source : Ministry of Finance and National Planning

**Figure 5-16 : Staff Costs as a Percentage of Domestic Revenue and Operating Expenditure**



Source : Ministry of Finance and National Planning



Staff costs are the single largest item and also particularly sensitive given staff are humans and need to be treated with respect and dignity. Staff cost as a percent of Operating Expenditure, peaked in 2005/06, following the public service strikes and large salary increases, see *Figure 5-16*. Since then they have trended down. This trend is forecast to continue over the MTBF following below 53 percent.

Staff costs as a share of domestic revenue have averaged about 60 percent since 2009/10. Over the MTBF the forecast is to decline to nearly 56 percent of domestic revenue. This reflects the concerted effort by Government to rein in staff costs. Staff cost as a percent of operating expenditure will continue their downward trend during the MTBF, freeing up operational expenditure for other urgent expenditure, including better maintenance of government assets. The fall in budget support relative to domestic revenue also continues over the MTBF from highs over 20 percent to under 9 percent

#### **5.4.2 Public Debt Position**

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Government continues to be mindful of the risks due to the significant level of external debt that it currently holds, especially from the People's Republic of China (PRC). Government is committed to maintain external debt at a sustainable level. With prudent consideration for any further financing required from abroad in the medium term (even at concessional terms under the budget support 50 percent loan-grant financing, or for other priority Government projects) and in line with vulnerability of the economy and Tonga's exposure to exogenous shocks, limited new debt is planned during the MTBF.

Government will continue to explore ways to mitigate the costs and risks in the Government's debt portfolio. It will also seek to improve legislation and strengthen institutional arrangements for debt management including implementation of other new policies, as required.

The Ministry of Finance has produced an inaugural Medium Term Debt Strategy, with the World Bank and Commonwealth Secretariat for consideration by Government of alternative borrowing strategies which could help to meet Government's debt objectives and to achieve a more desired balanced composition of public debt. Once this document is formalized, a copy will also be available on the Ministry's website for easy access by the public.

The new Government continues to emphasize fiscal prudence in managing of its public debt as part of its budget strategy. This will be supported by regular review of the debt position and cautious planning of future borrowing requirements.

The annual IMF Article IV mission in 2015 and joint debt sustainability analysis with World Bank, confirm that Tonga maintains its upgraded rating of moderate risk level of debt distress over the medium term. As a result, government will continue to undertake prudent borrowing, while staying within the agreed debt ceilings, as shown in *Table 5-5*. Bond sales will continue, to fund some additional funds for the expansion of the private sector initiatives, the loan scheme managed by TDB. Further bonds will also be sold to further pay off the financing of the pension fund still owed by government. This should result in a net interest savings to government.

Given the very concessional terms available, and the 50 percent grant element included, government will continue to borrow for budget support from ADB and World Bank, as the level of budget support gradually declines. Concessional borrowing, under the 50:50 grant concessional loan arrangement will also continue for high priority infrastructure projects related to the rebuilding of Ha'apai after cyclone Ian; the further development of air transport facilities, including an onlent loan to TAL; and funding to help build our resilience to future extreme natural events and threats from climate change.

**Table 5-5: Net Borrowing and Main Use of Funds (\$ million)**

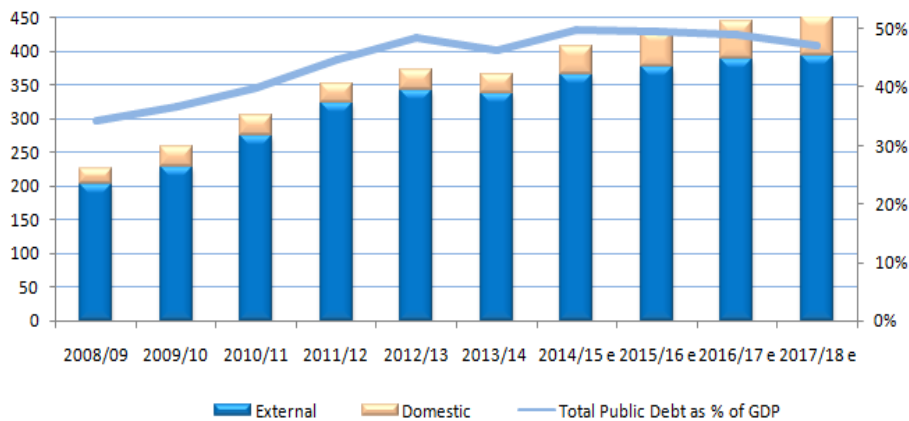
Net Borrowing and Main Use of Funds	(Provisional)	(Original Estimate)	(Revised Estimate)	(Estimate)	(Projection)	(Projection)
	2013/14	2014/15	2014/15	2015/16	2016/17	2017/18
<b>Bond Sales and Redemptions</b>						
Bond sales	6.00	26.60	17.60	21.36	11.00	5.00
Bond redemptions	6.00	6.60	6.60	6.36	8.00	5.00
<b>Net new Bonds</b>	-	<b>20.00</b>	<b>11.00</b>	<b>15.00</b>	<b>3.00</b>	-
<b>Use of New Bonds</b>	-	<b>20.00</b>	<b>11.00</b>	<b>15.00</b>	<b>3.00</b>	-
Financing to Private Sector Initiatives	-	10.00	5.00	5.00	-	-
Paying off Transfer Value	-	10.00	6.00	10.00	3.00	-
<b>Foreign Borrowing Drawdown and Repayments</b>						
<i>Principle drawdown</i>	-	<b>18.50</b>	<b>11.30</b>	<b>24.63</b>	<b>14.03</b>	<b>10.12</b>
used for Budget Support	-	9.00	4.80	9.28	4.77	4.77
used for Capital Projects	-	9.50	6.50	15.35	9.26	5.35
<i>Principle repayments *</i>	<b>6.54</b>	<b>7.18</b>	<b>6.60</b>	<b>8.40</b>	<b>7.80</b>	<b>7.10</b>
<b>Net new Foreign Borrowing</b>	-	<b>6.54</b>	<b>11.32</b>	<b>4.70</b>	<b>6.23</b>	<b>3.02</b>
<b>Total Increase in Debt</b>	-	<b>6.54</b>	<b>15.70</b>	<b>31.23</b>	<b>9.23</b>	<b>3.02</b>

\* exchange rate risk is included in this item

Source: Ministry of Finance and National Planning

### 5.4.2.1 Total Public Debt

**Figure 5-17 : Total Public Debt Service (\$ million) 2008/09-2017/18 (including actual and projected)**



Sources : Ministry of Finance and National Planning

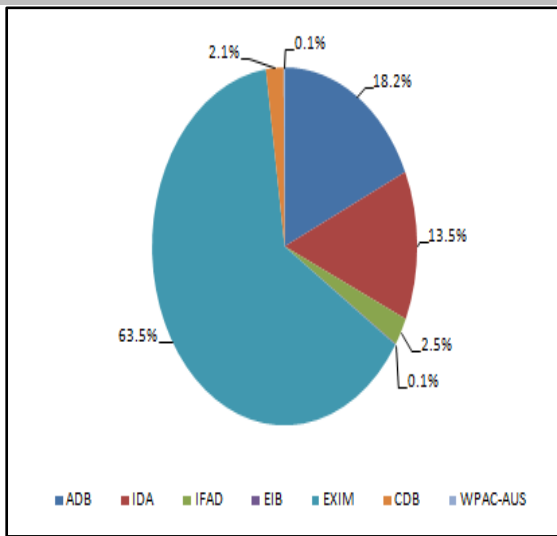
Total public debt at 30 June 2015 is estimated at \$405.9 million (50 percent of GDP), an increase of \$39.9 million from June 2014 (of 5 percent of GDP) shown in *Figure 5-17*.

During 2014/15, total public disbursement is estimated at \$15.7 million. This comprises external loan disbursements for Budget support from World Bank, the 50 percent loan component (\$4.8 million); and for 50 percent loan component of Ha’apai reconstruction (\$3.25 million) and domestic loan disbursement for bond rollover of maturing bonds (\$6.6 million), and budgeted new issuance of Bonds during 2014/15 (\$20 million).

Over the MTBF period identified external borrowing will continue for budget support from World Bank and ADB, plus the new environmental project from World Bank. Government will also consider financing from domestic borrowing, as required.

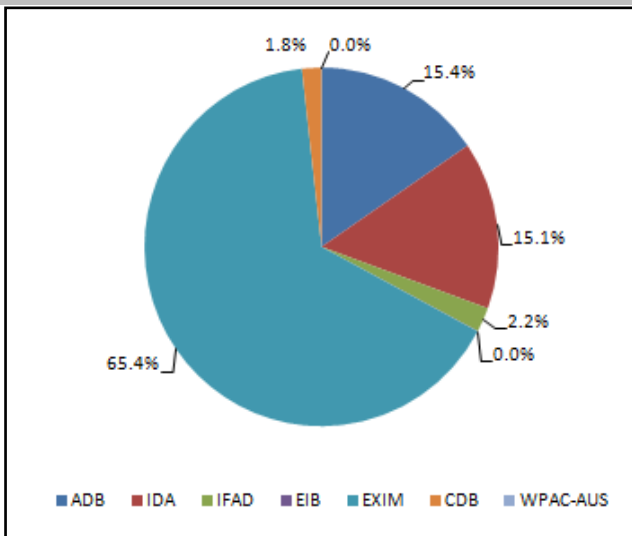
### 5.4.2.2 External Debt

**Figure 5-18 : External Disbursed Outstanding Debt (DOD) by Creditor, June 2014**



Source : Ministry of Finance and National Planning

**Figure 5-19 : External Disbursed Outstanding Debt (DOD) by Creditor, June 2015**



Source : Ministry of Finance and National Planning

Total external debt, at 30 June 2015, is shown estimated at \$365.1 million<sup>18</sup> (45 percent of GDP). Nearly two thirds of this is owed to EXIM Bank as shown in **Figure 5-18**. The main change, since June 2014, was the loan component of budget support from World Bank funded project for Ha’apai Housing Reconstruction. This is shown in **Figure 5-19**.

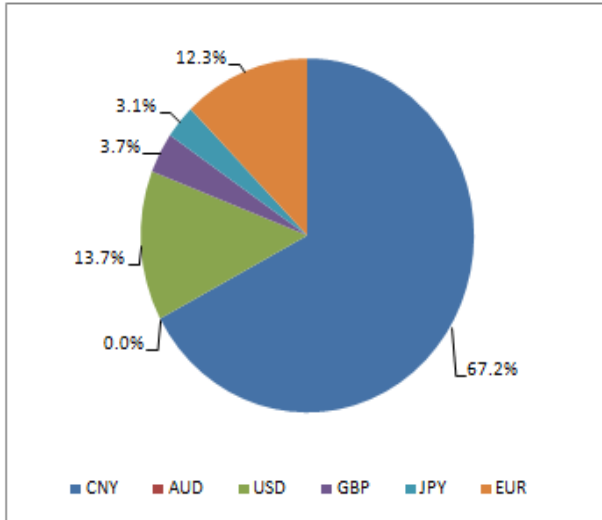
EXIM Bank has agreed to defer repayment of principal for a period of five years on their loans. The first repayments are now due to start in 2018/19. This means that total DOD will not fall as fast as projected before the deferment.

<sup>18</sup> Excludes future movement of exchange rates from February 2015

### 5.4.2.3 Currency Denomination of External Debt

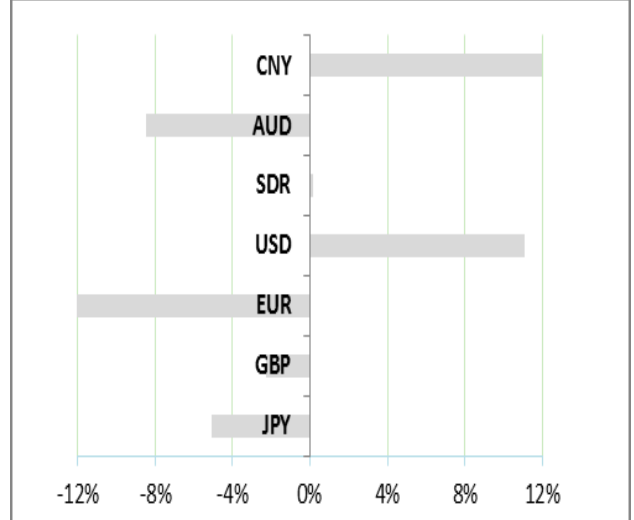
The main outstanding currency denomination of the external debt, as at 30<sup>th</sup> June 2015, as shown in **Figure 5-20** estimated as (CNY) at \$245.3m (67 percent) and the Special Drawing Rights (SDR) and other currencies at \$119.7 million (32 percent). During the last year, there was mainly an increase in the CNY composition of \$21.2 million (9.9 percent). The projected changes in value during June 2014 to June 2015 of the Pa'anga against the borrowing currencies (including SDR currency components) is shown in **Figure 5-21**.

**Figure 5-20 : External Disbursed Outstanding Debt (DOD) by Currency as at 30<sup>th</sup> June 2015**



Source : Ministry of Finance and National Planning

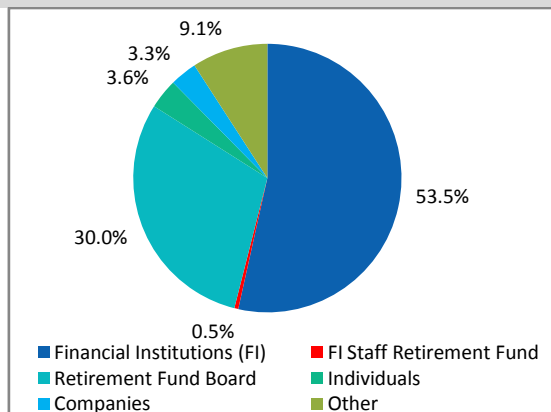
**Figure 5-21: FC/TOP Exchange rate Trend, as at 30<sup>th</sup> June 2015**



Source : Ministry of Finance and National Planning  
 Negative = pa'anga appreciation; positive = pa'anga depreciation

### 5.4.2.4 Domestic Debt

**Figure 5-22 :: Government Bond Holders (%) as at 30<sup>th</sup> June 2015**



Source : Ministry of Finance and National Planning

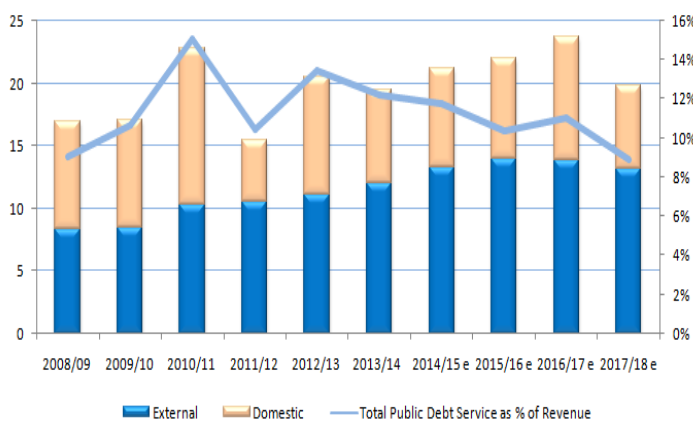
Total Domestic debt, at 30<sup>th</sup> June 2015, is estimated at \$40.8 million (5 percent of GDP); consisting only of Government bonds on issue. The shares held by different bond holders are shown in **Figure 5-22** with Financial Institutions accounting for nearly 60 percent. Between June 2014 and June 2015, there has been a noted change in the bond holders, with an increase in holdings by the Retirement Fund Board of \$3.3 million and decrease by Individuals of \$0.9 million.

### 5.4.2.5 Debt Service

Total debt service, for the year ended 30<sup>th</sup> June 2015, is estimated at \$20.2 million, composing of external \$13.3 million (63 percent) and domestic \$6.9 million (37 percent). This is an increase from \$19.7 million in June 2014, due mainly to increase in exchange rate for external payments due.

The total debt service is estimated as equivalent to 2.6 percent of GDP and 11.8 percent of recurrent revenue. The main repayment months for external debt, are September 2014 (25 percent of total external debt service), and March (26 percent). For domestic loans the months are July 2014 (14 percent of total domestic debt service) and August 2014 (75 percent). There are no public debt payment arrears anticipated.<sup>19</sup>

**Figure 5-23 : Total Public Debt Service (\$ million)  
2008/09 – 2017/18**



Source : Ministry of Finance and National Planning

With the deferral of the two EXIM Bank loan repayments, projected total public debt service increases by only \$0.3 million due to interest fees due from 2015/16 from WB and ADB loans. The deferred EXIM loan repayments will now start in 2018/19 with a significant rise in external debt service in 2018/19 to \$26.0 million from 2014/15, estimated at over \$12.7 million (further 1.6 percent of GDP).

*Figure 5-23* shows the projected debt service, with external debt service based on the known new loans in the next few years with rescheduling of Exim Bank loan repayments, at the latest available exchange rates at hand, taking no account any future currency movements. The domestic debt service is based on current bond maturity (principal) at average term of 6 years and at weighted average interest of 3.6 percent on the total bonds on issue (\$40.8 million). For further domestic borrowing in the medium term will be projected on similar terms.

### 5.4.2.6 On-lent Debt and Guaranteed Debt

Total on-lent debt, at 30 June 2015, due to Government from various public and other enterprises is estimated at \$50.7 million<sup>20</sup> (6 percent of GDP and 14 percent of total external loans), see *Figure 5-24*. The decrease of \$11.1 million in the outstanding on-lent debt between June 2014 and June 2015 is mainly due to prepayment made during the year and handing over of Janfull International Dateline Hotel to Government which resulted in a write off of \$10.9 million.

The main sub-borrowers are shown in *Table 5-6*. All sub-borrowers under the two phases of the onlent EXIM loan have signed their agreement with government, apart from City Assets Ltd which has yet to sign.

<sup>19</sup> Excludes formal arrangements on Ha'apai High loan from China

<sup>20</sup> Excludes Agriculture and Fisheries Loans to private sector (plus arrears)

Total debt service from on lent loans at 30 June 2015, is estimated at \$0.7 million, for on-lent loan repayments from TDB, of \$0.41 million (59 percent); Ports Authority Tonga of \$0.18m (26 percent) and Royco Amalgamated Co. Ltd. of \$0.11 million (15 percent).

The total on-lent loan payment arrears is estimated at T\$9.60 million. \$6.33 million (66 percent) is attributable to loan repayments due from Sea Star which has now ceased to operate. The handling of this loan is still under discussion. OG Sanft, with \$1.21 million (4 percent); Taumoepeau at T\$0.90 million (2 percent) are also in arrears. Government is working with these companies to resolve the arrears.

**Table 5-6 : On-lent Loan, as at 30th June 2015 (\$ million)**

Sub Borrowers	Jun-14 (\$m)	Jun-15 est. (\$m)
Tonga Development Bank	2.5	2.1
Seastar Star Fishing Co. Ltd	3.6	3.6
Janfull International Dateline Hotel Ltd**	10.9	0
Ports Authority Tonga*	0.6	0.4
Tongatapu Market Ltd	1.8	1.8
<b>CBD Reconstruction Projects</b>		
<b>Phase I (EXIM)</b>		
Royco Amalgamated Co. Ltd.	2.2	2.1
MF Taumoepeau Ltd.	7.2	7.2
OG Sanft Ltd.	10.2	10.2
<b>Phase II (EXIM)</b>		
City Assets Ltd.	6.8	6.8
Tungi Colonnade Ltd.	16.6	16.6
<b>Total</b>	<b>62.4</b>	<b>50.7</b>

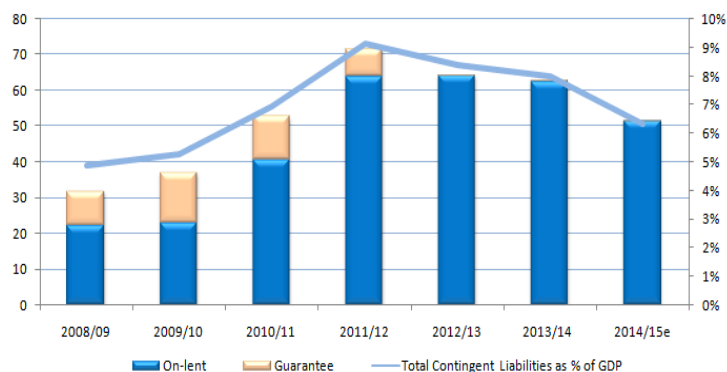
\*Does not include Vuna Wharf

\*\*Already reverted back to Government

Source : Ministry of Finance and National Planning

Total guaranteed debt, at 30 June 2015, is estimated at about \$10,000, see *Figure 5-24*. The outstanding balance is for a bond issued by TDB. During the year, there were no new loan guarantees by Government and no payment arrears are anticipated.

**Figure 5-24 : On-lent & Guaranteed Loans (%) FY's 2008/09 – 2014/15 (including actual and projected) (\$ million)**



Source : Ministry of Finance and National Planning

### 5.4.2.7 Summary of Debt Ratios

Table 5-7 summarizes the actual debt sustainability indicators against the various targets. Debt remains within the new indicators that include remittances, but are in breach of the old indicators without remittances. The new ratio of NPV of external debt as a ratio of GDP and remittances, is very near to the max value which will limit further lending over the MTBF period. These estimates are also based on foreign exchange rates at March 2015 and do not account for any future fluctuations against the Pa'anga.

**Table 5-7 : Sovereign Debt Sustainability Indicators of IMF**

Indicators	IMF (GOT)	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018
	Max Target (%)	Actual (%)	Estimate (%)	Estimate (%)	Estimate (%)	Estimate (%)
<b>NPV of external debt as :</b>						
% of GDP	40	41	44	42	39	37
% of GDP+remittances	36	32	35	33	31	29
% of exports	150	211	202	183	169	152
% of exports+remittances	120	90	91	85	79	74
% of recurrent revenue	250	206	183	171	165	155
<b>Total Debt Service as:</b>						
% of exports	20	13	12	11	10	8
% of exports+remittances	16	6	5	5	4	4
% of recurrent revenue	20	13	11	10	9	8

Numbers in Red represents those above threshold

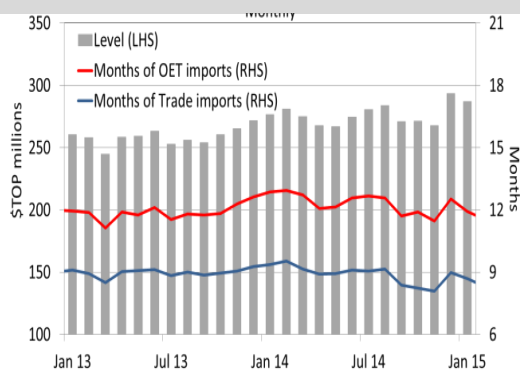
Source : Ministry of Finance and National Planning

## 5.5 BALANCE OF PAYMENTS OUTCOMES<sup>21</sup>

The following data and estimates of the balance of payments are based on the overseas exchange transactions (OET) data compiled by the National Reserve Bank of Tonga, sourced from the commercial banks and foreign exchange dealers.

### 5.5.1 Official Foreign Reserves

**Figure 5-25: Official Foreign Reserves**

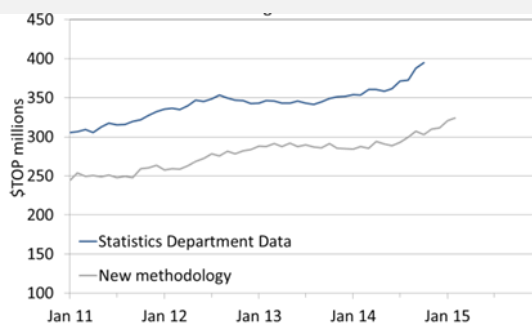


*Sources: Banking Systems, Foreign Exchange Dealers, NRBT*

Gross official foreign reserves held by the National Reserve Bank of Tonga (NRBT) increased by 3.8 percent over the year to January 2015, to \$287.2 million. This is equivalent to 8.7 months of goods imports, well above the minimum range of 3 to 4 months.

### 5.5.2 Foreign Exchange Payments

**Figure 5-26 : Import Payments (Rolling 12 month total)**



*Sources: Banking Systems, Foreign Exchange Dealers, NRBT*

The continuation of the Ha'apai reconstruction and the beginning of new large public and private construction projects drove an increase in imports of construction materials and these include Cyclone Ian reconstruction in Ha'apai, LDS new building and the new office of Government Retirement Fund Board. There was also an increase in payments for other imports such as motor vehicles, which, along with lower fuel prices, will benefit the transportation sector.

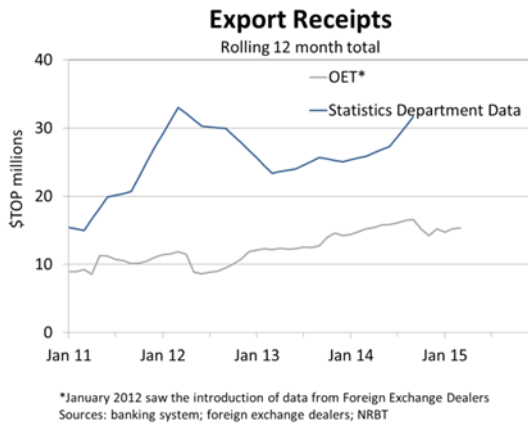
Import payments (OET) were \$289.1 million over the year to January 2015; 12 percent higher than a year ago. The increase in import payments is consistent with an increase in import volumes and also the depreciation by 2.5 percent of the pa'anga over the past year. An increase in imports of retail goods was the main driver for the rise in import payments, signaling strong growth in the distribution sector. A lively construction sector, recovering after the drop off in activity following the end of the Chinese loan funded construction, driven by the

<sup>21</sup> Source of data for this section is the NRBT



### 5.5.3 Foreign Exchange Receipts

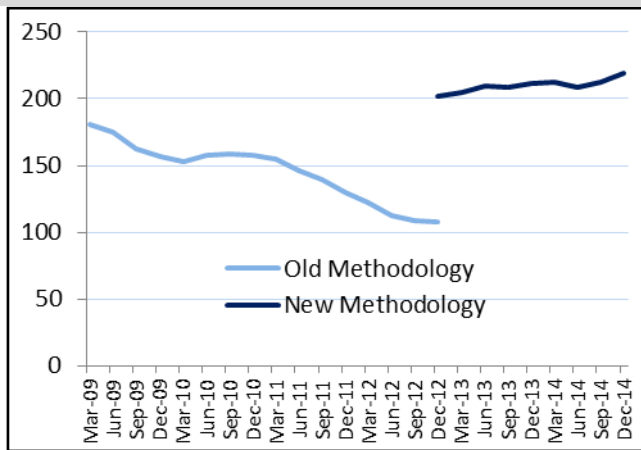
**Figure 5-27 : Exports Receipts (rolling 12 month total)**



Sources: Banking Systems, Foreign Exchange Dealers, NRBT

**Export receipts (OET)**, over the year to January 2015, amounted to \$14.7million, slightly more than a year ago by 1.8 percent. The proceeds for the agricultural sector for January - June 2014 were high. However, due to droughts and unfavorable weather conditions, agricultural exports were weak in July-December 2014, particularly squash exports. Despite the decrease in agricultural exports, exports of fisheries rose over the year to January 2015.

**Figure 5-28: Remittances Receipts (Rolling 12 month total)**



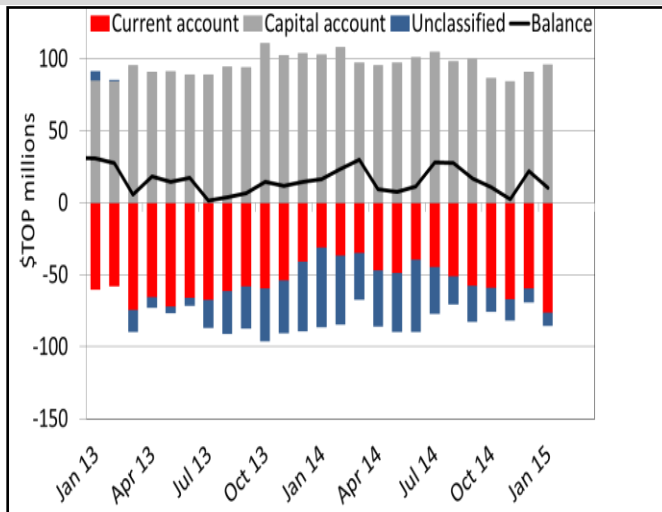
Sources: Banking Systems, Foreign Exchange Dealers, NRBT

**Remittances** account for more than half of Tonga’s current account receipts and steadily rose by 4.2 percent over the year to January 2015. Remittances increased from all three of Tonga’s key source countries, Australia, New Zealand and the US.

Annual total remittances are presently \$220.5 million – equivalent to about 20 percent of Tonga’s gross national disposable income.<sup>22</sup>

<sup>22</sup> Using the latest available official figure for gross national income of financial year 2013. This means the calculated ratio uses data from two different years and therefore is only an estimate of the actual ratio.

**Figure 5-29 : Balance of Overseas Exchange Transactions (Rolling 12 month total)**



Sources : Banking Systems, Foreign Exchange Dealers, NRBT

The balance of overseas exchange transactions was a surplus of \$10.4 million for the year to January 2015. This is a narrower surplus than that recorded for the same period in 2014. This largely reflected an increase in outflows in the current account due to higher import payments, and a lower capital account surplus due to less donor funds and budget support compared to a year ago.

#### Outlook

The NRBT expects the level of foreign reserves to increase and remain well above the NRBT minimum range throughout the remainder of 2015. Continuing growth in remittances, expected increases in travel receipts, and higher budget support payments through the remainder of the year will tend to increase reserves. These factors increasing reserves are expected to outweigh any decrease in reserves stemming from a forecast deterioration in the trade balance (due to higher imports associated with stronger lending activity). A risk to this outlook for reserves is the uncertain timing of receipts of budget support.

#### 5.5.4 Real and Nominal Exchange Rates

The Nominal trade-weighted index declined by 2.5 percent on average over the year to January 2015, with the TOP depreciating against all major currencies except for the Australian dollar and Japanese yen. Despite the depreciation, the impact on inflation has been limited. Over the year to January 2015, Tonga's real trade-weighted exchange rate index depreciated by 1.6 percent. The decline was due to Tonga's CPI increasing at a much slower pace than the rest of its major trading partners and the depreciation in the nominal exchange rate.

## 5.6 MONETARY OUTCOMES

### 5.6.1 Inflation

In year ended terms, headline inflation was 0.1 percent in January 2015. Inflation is low for both imported and local components. Imported prices rose 0.3 percent over the year, while local prices fell by 0.1 percent. The falls in global oil prices over the last six months has led to this weak inflation. This is most clearly evident in the falls in transportation prices (both imported and local), but these price falls can also lead to lower prices through the rest of the economy also.

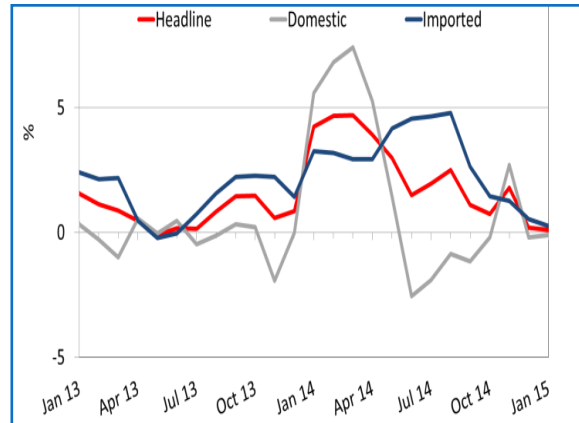
Positive inflation in the import component was primarily from higher food prices, in particular meats, fish & poultry, the prices of which increased by 7.8 percent over the year. There was also an 8.8 percent rise in the price of imported tobacco. The price of imported fruit and vegetables declined over the year.

In terms of local food prices, the effect of the drought is evident in a sharp increase in fruit and vegetable prices over the year, up 11.5 percent to January 2015. However, this was offset to a large extent by declines in meat, fish and poultry prices.

#### Outlook

Looking forward, inflation is expected to ease further in the near term with a possibility of deflation due to lag effects of falling global oil prices. Since September 2011, headline inflation has kept well below the NRBT's reference range of 6-8 percent and is expected to continue to do so, which is in line with the IMF Article IV's forecast. The NRBT is monitoring inflation levels and will adjust its monetary policy stance if needed to maintain price stability and stimulate economic growth.

Figure 5-30: Inflation (Monthly Year-ended)



Sources: Tonga Statistics Department & NRBT

## 5.6.2 Lending and Deposits Balances & Interest Rates

### 5.6.2.1 Lending Balances

**Table 5-8 : Lending Balances**

	Level as at				Change over the:		Shares of Totals %	
	Jan-15 \$TOPm	Dec-14 \$TOPm	Nov-14 \$TOPm	Oct-14 \$TOPm	Jan-14 \$TOPm	1 month % 1 year %		
Lending banks	292.6	288.8	289.1	281.3	271.5	1.3	7.7	100
Household	147.6	146.8	145	142.9	135.1	0.5	9.2	50
Business*	143.7	140.6	142.6	136.2	134.7	2.2	6.6	49
Other	1.3	1.4	1.5	2.2	1.7	-7.9	-22.4	0
Lending, banks and other	396.5	392.3	392.8	382.5	375.0	1.1	5.8	100
Household	200	198.8	197.2	192.6	175.3	0.7	14.2	50
Business	195.2	192.1	194.1	187.7	198	1.6	-1.5	49
Other	1.3	1.4	1.5	2.2	1.7	-7.9	-22.4	0
New comm'ts, banks	20.3	9.8	16.8	8.8	5	107.9	307.6	N/A
Undrawn comm'ts, banks	14.7	6.7	7.6	10.1	9.7	119.5	50.7	N/A
Implied repay'ts, banks	8.6	10.9	11.5	5.1	5.6	-21.4	54.4	N/A

\* Method for calculating these series was updated in August 2014, resulting in revisions to the full history of data

*Sources : SPBD, RFB, MoFNP and Banking Systems*

Total bank lending balances increased by 7.7 percent over the year to January 2015. This was underpinned by increases in loans to public enterprises and the private sector. Increased lending for the manufacturing, construction, distribution, fishing and agricultural sectors during this period partly reflects the new loans from the Government's managed funds scheme facilitated by the Tonga Development Bank. Loans extended under the government's managed funds scheme were at \$2.1 million at the end of January 2015.

The increase in banks' lending to households for housing and other personal loans also contributed to growth, increasing by 9.2 percent and 6.6 percent respectively compared to the same period year ago. Including loans extended by non-banks such as the Retirement Fund Board (RFB) and South Pacific Business Development (SPBD), total lending grew by 5.2 percent, driven mainly by an increase in household lending. The observed growth in credit is consistent with the monetary policy decision not to absorb banking system liquidity in order to encourage banks to mobilize assets for new lending.

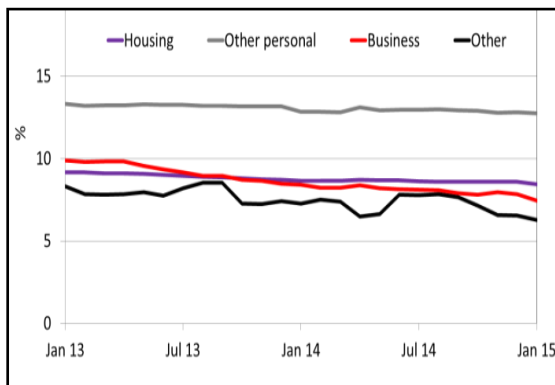
### 5.6.2.2 Deposit Balances

Total bank deposit balances rose by 6.9 percent over the year to January 2015. Deposit interest rates have also increased, reflecting in part the commencement of the new commercial bank, Pacific International Commercial Bank (PICB), who have introduced promotional products with higher deposit rates relative to the other commercial banks. This increase in total deposits also coincides with the improvement in the government's net credit position which was largely due to a significant increase in its deposits with the banking system. This stemmed from an increase in government's revenue collection and the receipt of budget support and funds for projects from donors, which at this stage of the fiscal year have not yet been spent.

In July 2014, the government undertook the first new domestic bond borrowings since January 2010, facilitated by the National Reserve Bank of Tonga. The Government’s last Budget Statement targeted total new bonds of \$20 million to be issued during the 2014/15 financial year, however, as at the end of February 2015, total bonds of \$15 million have been issued of which \$10.2 million have been allotted. Given the high Exchange Settlement Account balances and the intended use of the government bond proceeds, the issuance of government bonds did not have a material impact on banking sector liquidity. At the end of February 2015, the stock of government bonds in circulation totalled around \$36 million, increasing from \$29.5 million at the end of June 2014, of which 53 percent are held by the commercial banks. These bonds were issued at terms ranging from 2 to 7 years, carrying an interest rate ranging from 3 percent to 6 percent.

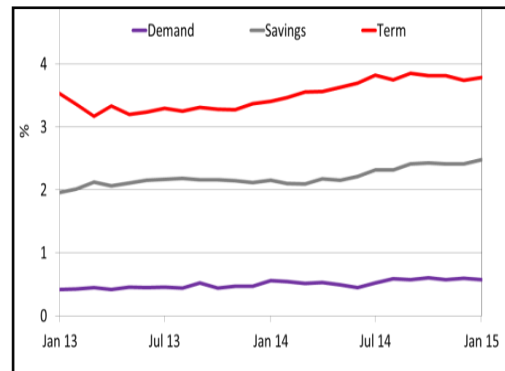
### 5.6.2.3 Interest Rates

**Figure 5-31: Lending Rates (Weighted Average of all banks, monthly)**



Source: National Reserve Bank of Tonga

**Figure 5-32: Deposit Rates (Weighted Average of all banks, monthly)**



Source: National Reserve Bank of Tonga

Over the year to January 2015, the weighted average interest rate spread narrowed to 6.33 percent as deposit rates rose by 26 basis points to 2.25 percent, while lending rates fell by 43 basis points to 8.59 percent. The higher weighted average deposit rates were driven by increases in both volume and nominal interest rates for all types of deposits. The fall in weighted average lending rates was driven mainly by very low competitive rates offered on loans to public enterprises, and increased competition among banks. The introduction of the Government’s managed funds loans, at low interest rates of 1 percent and 4 percent, also contributed to the lower weighted lending rates. High liquidity and strong competition for loans has encouraged an increase in refinancing of loans across banks, particularly for low risk customers. Lending rates remain low by the standards of the past decade.

**Table 5-9 : Bank's Effective Interest Rate (EIR)**

Banks Effective Interest Rates (EIR)*		EIR RANGE
1	Personal Loan	
	\$10,000; Term 2 Years	13.34% - 21.06%
	\$20,000; Term 2 years	12.09% - 17.65%
2	Housing Loan	
	\$200,000; Term 15 Years	9.33% - 10.5%
	\$200,000; term 20 years	9.31% - 10.5%
3	Business Loan	
	\$500,000; 5 years	9.68% - 10.86%
	\$1,000,000; 5 years	9.62% - 10.26%
<i>Source : NRBT</i>		

*Table 5-9* shows the average effective interest rate on lending for all banks in March 2015. This includes a range of other fees and costs charged to the loan, so gives a better idea what the total loan will cost the borrower. Such fees and costs involved as insurance costs and mortgage registration fees and others depending on the types of loans applied to. The EIR increases the rate paid by some 3 to 8 percentage points for personal loan. For housing loans the increase is about 1 to 2 percentage points, while for business

it is from about 2.5 percentage points to no difference.

### 5.6.3 Broad Money Balances

**Table 5-10 : Consolidated Balance Sheet of Depository Corporations**

	Level as at				Jan-14 \$TOPm	Change over the last:	
	Jan-15 \$TOPm	Dec-14 \$TOPm	Nov-14 \$TOPm	Oct-14 \$TOPm		1 month % growth	1 year % growth
<b>Broad money liabilities</b>	<b>380.9</b>	<b>387.6</b>	<b>377.3</b>	<b>373.0</b>	<b>350.5</b>	<b>-1.7</b>	<b>8.7</b>
Currency in circulation	40.4	44.1	40.6	38.6	33.5	-8.4	20.6
Demand deposits	138.4	141.9	134.8	132	131.4	-2.4	5.3
Savings and term deposits*	202.1	201.6	201.9	202.4	185.7	0.3	8.8
equals							
<b>Net foreign assets</b>	<b>277</b>	<b>288.2</b>	<b>262.4</b>	<b>267.4</b>	<b>266.4</b>	<b>-3.9</b>	<b>3.9</b>
plus							
<b>Net domestic assets</b>	<b>103.9</b>	<b>99.3</b>	<b>114.9</b>	<b>105.6</b>	<b>84.1</b>	<b>4.6</b>	<b>23.6</b>
Gross bank lending**	300.4	296.2	295.7	289.3	278.7	1.4	7.8
Other***	-196.5	-197	-180.8	-183.7	-194.7	-0.2	0.9
* Also includes very minor amounts for securities other than shares							
** Differs slightly from standard measures of bank lending by amounts classified as accrued interest.							
*** Includes mostly capital accounts of the banks and NRBT, and their net claims on the central government							

*Sources :: Banking Systems, NRBT*

The increase in domestic credit and the rise in foreign reserves have boosted broad money by 8.7 percent over the year to January 2015. The components of broad money have, however, grown at different speeds. Growth in demand deposits is consistent with the NRBT's expectations for faster economic growth this year. Savings and term deposits, however, also increased.

## **Outlook**

The NRBT is forecasting broad money balances to increase by around 7 percent in the 2014/15 financial year, led by expected positive credit growth and an increase in foreign reserves. Credit is projected to grow by around 10 percent over the same period. This is based on imminent drawdowns of some large loan commitments and the utilization of the government's managed funds loan scheme, and supported by the continued low interest rates.

### **5.6.4 Total Banking System's Position and Performance**

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Tonga's banking system remained strong and sound despite only a modest recovery in the economy. The total assets of the financial system increased by 7.9 percent to \$578 million in the year to January 2015, mainly due to a 7.7 percent growth in loans and advances during the year (as discussed above), and an increase in banks' Exchange Settlement Account balances by 10.6 percent. Total liabilities increased by 5.6 percent to \$445 million, due mainly to strong growth in deposits of 6.8 percent. On the other hand, total provisions fell by \$6.6 million (27 percent), reflecting the clearance of provisioned loans during the year.

The banking system continued to be profitable and strong liquidity and capital positions were maintained. The profitability of the total banking system declined in the year ended January 2015 due mainly to higher non-interest and provision expenses.

Return on assets and return on equity therefore declined to 2.7 percent and 8.6 percent respectively, compared with 2.9 percent and 11.2 percent respectively in January 2014. Liquidity in the banking system fell slightly in the year ended January 2015, but remains at a comfortable level. Growth in total deposits (contributing to the higher Exchange Settlement Account balances) was outweighed by the stronger credit growth. The capital position of the banking system remained strong at 41.6 percent at the end of January 2015 – the highest level since June 2010, and well above the minimum ratio required by the Reserve Bank of 15 percent.

The overall quality of the banks' assets remained a concern over the year to January 2015 but it has improved to a more manageable level compared to previous years. Total non-performing loans decreased by 32.1 percent to \$19.8 million over the year to January 2015, representing 6.8 percent of total loans, improving from 10.8 percent year ago.

### **5.6.5 Monetary Policy Stance**

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Maintaining an adequate level of foreign reserves and promoting price stability are the main monetary policy objectives of the NRBT. The NRBT's accommodative monetary policy stance remained unchanged since November 2012. Inflation has remained within acceptable levels as global oil prices continue to fall. Inflation expectations remain well within the NRBT's reference range. Foreign reserves are anticipated to remain comfortably above the NRBT's minimum range. Bank liquidity remains high. Banks' credit growth is expected to continue to increase, while the weighted average interest rate spreads are expected to continue to remain low. The government's net credit position has also improved. The existing monetary policy setting is therefore considered appropriate. The NRBT and the MOFNP will continue to closely monitor the country's economic developments and financial conditions. This will help ensure that monetary and fiscal policy stances are adjusted and consistent with each other for macroeconomic stability and economic growth.

## 5.7 SOCIAL AND COMMUNITY OUTCOMES FOR TONGA

### 5.7.1 Health Performance

There are 4.25 health workers (doctors, nurses, midwives) per 1000 population<sup>23</sup>. This compares well to the minimum WHO ratio of 2.3, and is higher than many larger countries in the region

The MDG Acceleration Framework (MAF) was established to concentrate on addressing the three lagging MDGs including the most serious goal related to NCDs. The damage caused by NCDs is shown by the falling life expectancy in *Table 5-11*. This fall in life expectancy has severely undermined Tongas Human Development Index (HDI) which has slip below high HDI status to levels last seen in the mid-1990s.

**Table 5-11: Falling Life Expectancy**

Year	Males	Females	Total
2007	70	72	71
2010	65	69	67

*Source: Ministry of Health*

**Table 5-12 : Trend in Major NCD Risk Factors 2004 and 2012**

NCD Indicators ( 25-64 year olds)	2004 Survey	2012 Survey	Trend
Physical activity (<600 MET minutes/week)	43.9% ± 5.9	23.7% ± 2.2	Significantly improved
Fruits/vegetables serves (< 5 per day)	92.2% ± 2.1	73.1% ± 3.0	Significantly improved
Alcohol consumption (in past 12 months)	8.9% ± 5.2	5.7% ± 1.3	Improved
Smoke any tobacco product	29.8% ± 3.7	29.3% ± 2.6	Marginal improved
Overweight	92.1% ± 2.1	90.7% ± 1.8	Improved
Obesity	68.7% ± 4.2	67.0% ± 2.9	Marginal improved
Combined Risk (with 3-5 risk factors)	60.7% ± 4.4	57.1% ± 4.6	Improved

*\*Both survey data has been weighted.*

*Source : STEPS Survey Report, 2014*

MAF is focusing on health promotion activities to prevent and control NCDs. This includes establishing a NCDs Day to encourage healthy living and link to raising awareness of the Diabetic Day world-wide. The initial signs are that this approach is paying off with a decline in risk factors which contribute to NCDs as shown in *Table 5-12*

Tonga Health Sector Support Project (THSSP) has recently been approved by Cabinet to be the Secretariat for the National NCD Committee and help with coordination of development partner assistance; and more effective monitoring and evaluation of all Health Promotion Activities to combat NCDs in Tonga.

Major legislations passed in 2014/15 focused on reducing NCDs:

- increase excise tax for tobacco to one of the highest amongst Pacific islands;
- increasing legal age limit for consumption and purchase of alcohol from 18 to 21 years;
- Enact to breathalyzers by police (traffic officers) to monitor driving under the Influence of alcohol. This initiative led to reduction in fatal road traffic injuries by more than 50%;

<sup>23</sup> WHO and MoH 2010 Health Service Delivery Profile



- Pass Excise Tax order 2013 to increase tax on unhealthy goods such as tobacco, fatty food and sweetened beverages;
- Pass Custom Duty Order 2013 to reduce custom duty on healthy food such as fish and fish products;
- Ensure that all road constructions have *side-walks* to facilitate safe walking by pedestrians to increase levels of physical activities and exercising for good health.

## 5.7.2 Education Performance

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Tonga's literacy rate was calculated at 98.2 percent in 2011 (see *Table 5-13*), indicating a high probability that each child in Tonga is able to read and write. Literacy and numeracy rates were tested in the Standardized Test of Achievement for Tonga (STAT) carried out in October 2014. This will provide an update to the figures from the last census in 2011. These results are expected to be released by end of April 2015.

There is a gradual increase in the number of students enrolled at primary and secondary level. There is also increasing enrolment in vocational & educational training (TVET), especially as increasing numbers of boys are dropping out from secondary school, to attend these alternative pathways of education. Already in 2009 almost two-thirds of the students at Tonga High School were girls, up from 60 percent in 2001.

There are currently 23 TVET Institutions registered with the Tonga National Qualification Accreditation Board (TNQAB) providing vocational educations in Tonga. In addition to supporting the expansion of these alternative opportunities, MET is working with them to better capture the data on these changes.

The Student Teacher ratio for primary level increased from 21:1 in 2012 to 25:1 in 2013, whereas it decreased at secondary level from 15:1 in 2012 to 13:1 in 2013. These averages hide a very large variation across schools. Many outer island schools have levels well below this, while some in Nuku'alofa have ratios double this or worse.

To improve the quality and capacity of teachers, Ministry of Education and Training is working towards every teacher having teaching qualifications. To support this training MET recruits relieving teachers especially for non-government schools to take over the classes of those who involved in the training program to obtain the required qualifications. This support is in addition to the ongoing program of financial assistance to non-government schools.

Since MET is trying to fill in the gaps for non-government teachers and schools, the ministry has created a policy to reduce 3 months maternity leaves to 1 month only. The ministry also developed a program to encourage teachers, without teaching certificate, to partake in it. This equips teachers with better skills for the local school system. It also enabled them to be more competitive and marketable when seeking job opportunities overseas. The upgrading of teachers is supported by a range of other projects, including upgrading the curriculum, improving the administration of the educations system,

While the Ministry of Education strives to improve the quality of education provided to students, there is a growing concern with the lack of progress with character development (*faka'ulungaanga*). The widening gap in the quality of character development is in part due to a lack of mentoring and counseling at school. However, character development is depended on many factors that lie outside of the education system. To improve the balance between quality education and better character in students, all stakeholders including faculty members, parents, churches and alumni need to work together to mold these attributes. An area of key concern relates the persistent

conflict between schools which breaks out in violence, rather than being channeled effectively into striving to be the best school academically and at sports.

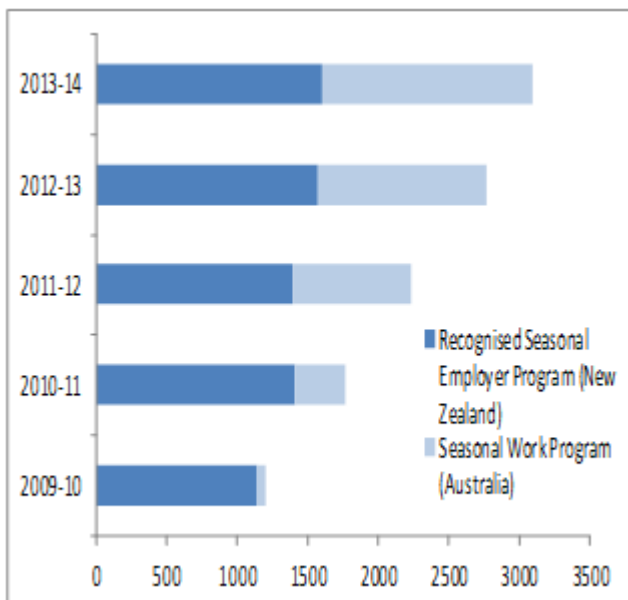
**Table 5-13 : Education Statistics**

TSDF Key Indicators	2010	2011	2012	2013	2014
Tonga's literacy rate	NA	98.2%	NA	NA	TBC
Percentage of school enrolment of population aged between 5 to 14 year old	NA	94.4%	99.9%	99.9%	TBC
Percentage of population aged 15 and older with secondary education	NA	NA	54.3%	53.2%	TBC
Number of primary school students enrolled	16,848	17,033	17,182	17,275	TBC
Number of secondary school students enrolled	14,777	14,874	14,806	14,940	TBC
Primary school students-to-teachers ratios <sub>1</sub> [max 25:1]	24.9	24.1	21.2	24.5	TBC
Secondary school students-to-teachers ratios [max 35:1]	14.9	14.6	14.5	13.3	TBC

*Source : Ministry of Education and Training; NB: The above data are in calendar year unless, otherwise stated*

### 5.7.3 Labour Force Participation in Tonga

**Figure 5-33: Number of workers under RSE and SWP schemes to New Zealand and Australia**



*Source: Ministry of Internal Affairs, Employment Division, 2014*

generated an estimated \$27.6 million in remittances in 2013-14. Government recognizes the challenges encountered by the scheme. This includes the increasing number of absconders especially in the Australian scheme and subsequent social family problems. Appropriate measures have been put

Labour force data is only collected in the census. The 2011 Census estimates the national unemployment rate at a very low 1.6% as those who did not work but were looking for and available for work. Including discouraged workers (willing to work but no longer seeking work) the adjusted unemployment rate is 6.5%. About 29% of the working age population recorded as in subsistence employed. Many of the rest are engaged in informal employment with a relatively small formal sector dominated by Government, banks and other companies.

*Figure 5-33* shows the rapidly increasing number of Tongans who participated in the New Zealand's Recognized Seasonal Employer (RSE) and Australia Pacific Seasonal Worker Pilot Scheme (SWP).

Most of the increase was under the SWP. Tonga has the highest number of people employed in these programs in comparison to other island countries. This

in place to remedy the problem. The disruption to family life associated with having men away for many months of the year also needs to be taken into account.

Despite some challenges, this is an important source of income. Government is planning to increase the number of Tongans participating in overseas employment scheme and possible extension to other areas of employment opportunities such as carpentry, care taker services and professional areas such as nursing and teaching.

#### 5.7.4 Changing Demographics in Tonga

The latest population data comes from the 2011 Census. This shows a total population of 103,252, an increased by 0.2 percent from 2006 Census figure of 101,911 (see *Table 5-14*). It is five times higher than the total population in 1901. Despite a total fertility of about 3.8, and a population structure most consistent with a fast growing population, the small actual increase reflects the large and continued net out migration from the Kingdom.

There has also been a steady net migration from the four outer island groups to Tongatapu between the two censuses with populations on outer islands falling between 3 and 23 percent over the period. 73 percent of the population are now residents on Tongatapu. This is part of an ongoing rural/urban migration common to most countries with people seeking greater opportunities in the more dynamic urban centers - be they in Nuku'alofa or overseas.

This migration, both within the country and to overseas is also placing pressure on traditional social systems. This contributes to the rise of more vulnerable groups while overall incomes are rising. It is also placing pressure on space and existing infrastructure within the urban center, though in the longer term it is much cheaper to expand infrastructure over a small area rather than many dispersed islands. New vulnerable groups include elderly who lack family to support them locally; it includes people living in crowded conditions on land unsuitable for housing.

**Table 5-14: Total Population by Division<sup>24</sup>**

Islands	1986	1996	2006	2011
Tonga	94,649	97,784	101,991	103,252
Tongatapu	63,794	66,979	72,045	75,416
Vava'u	15,175	15,715	15,505	14,922
Ha'apai	8,919	8,138	7,570	6,616
'Eua	4,393	4,934	5,206	5,016
Niuas	2,368	2,018	1,665	1,282

*Source: Ministry of Finance and National Planning*

Government recognizes the benefit of having a more detailed policy related to these population issues and will be working on this over the next year.

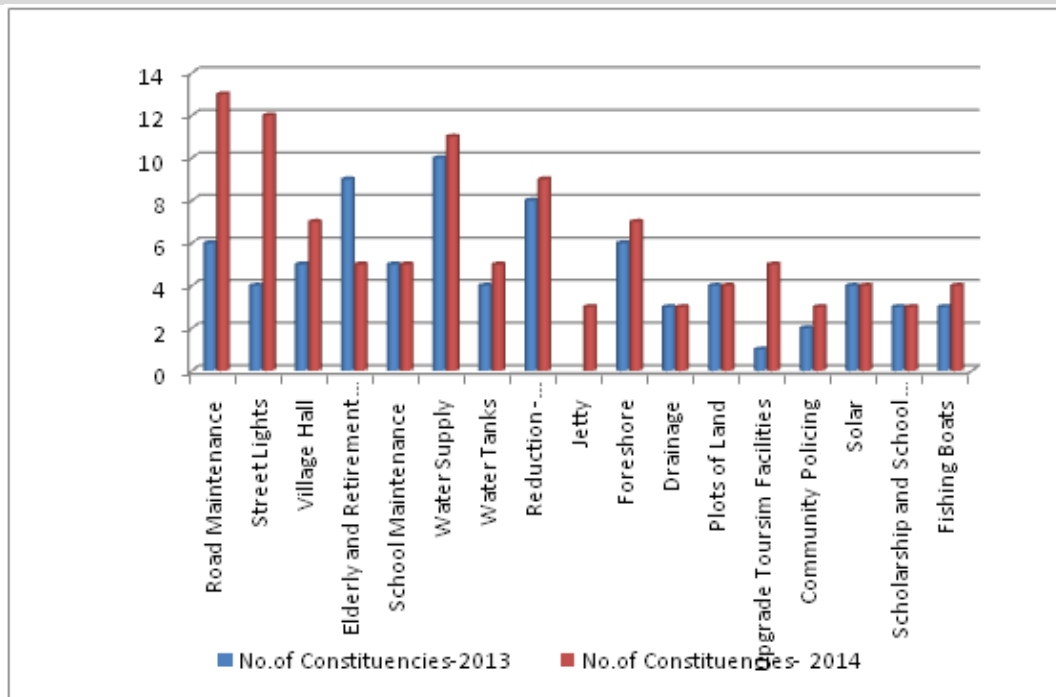
<sup>24</sup>Population Census, 2011

### 5.7.5 Parliament Constituency Report

The Parliamentarians are required to visit their constituency annually during their 4 year term and hold meetings with the community in order to discuss the concerns and needs. The parliamentary visit takes place during the two weeks of the Parliament recess, which is customarily after the approval of the Budget. The *Figure 5-34* below shows the number of constituencies in 2014 who identified priority needs against 17 categories of need.

This shows that road maintenance is the main priority need identified in the 2014 visit, while water tank was the priority need in 2013. Building a jetty was raised during the 2014 in three constituencies, but none were identified in 2013. Generally, the chart illustrates that the 2014 priority needs are similar to those from 2013, with some like water and electricity and waste' remaining high in both years.

**Figure 5-34 : Constituency Report 2014 Priority Needs**



*Source: Constituency Report to Parliament (Tonga)*

MFNP continues to monitoring the existing projects and encourage communities to continue maintaining the project for the long-run benefit of the community's citizens. The establishment of constituency offices, with possible staffing by a senior officer from government, has been suggested both in the Legislative Assembly and the government administration signifying the importance of providing procedural, technical and administrative assistances to the constituencies.

## 5.8 POVERTY REDUCTION AND SOCIAL PROTECTION

The Tonga Social Services Pilot Project, funded by Japan Fund for Poverty Reduction and administered by the Asian Development Bank provided aged care services for a piloted number of the elderly in Tongatapu and Ha'apai who were assessed as most vulnerable, as well as Early Intervention Services for Children Born with Disabilities and/or Developmental Delays (0-3 years). The pilot was started under the MFNP. The transfer of this project to a new division within the Ministry of Internal Affairs (MIA) began from July 2014. The microfinance component of the project, administered by the Tonga Development Bank, is also being transferred. This is in addition to the Government managed funds available for the private sectors.

### 5.8.1 Old Age Social Assistance: 70 years and older

Government continues in 2015/16 Budget with the social assistance support to the elderly extended in the current Budget to cater for citizens 70 (recently lowered from 75) years and older. This continues at the rate \$65 per month since the scheme started in September 2012.

**Table 5-15 : Eligible Beneficiaries 70 Years Old and Older**

Female	2,161
Male	1,812
Total Beneficiaries	3,973
<b>Estimated cost</b>	
60% of eligible beneficiaries accepting assistance	\$1.86 million
100% of eligible beneficiaries accepting assistance	\$3.10 million

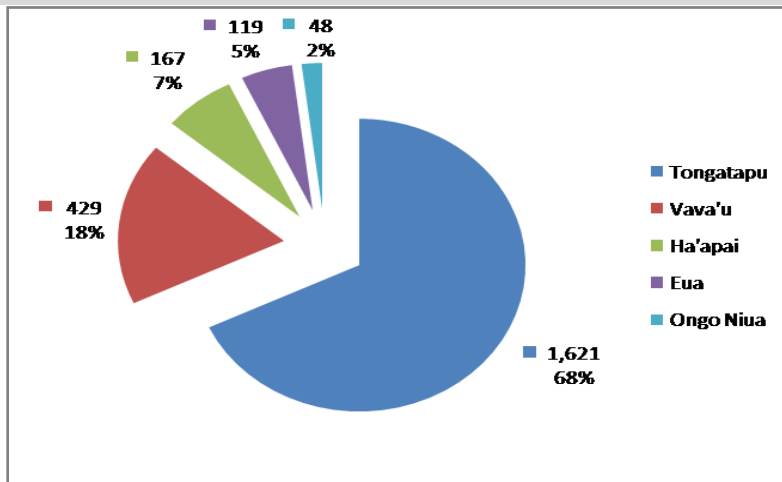
*Source: Ministry of Finance and National Planning*

*Figure 5-35* shows the estimated eligible number of beneficiaries for the 2014-15 financial year and cost of services.<sup>25</sup> Last year, an estimated 60 percent of eligible elderly beneficiaries received the benefit. The remaining 40 percent either were unaware or chose not to receive the benefit.

The Retirement Fund Office will continue to administer the payment of the monthly support to the elderly with the accountable administrative system already in place as well as the necessary arrangement with many of the elderly.

<sup>25</sup>Based on the Tonga Census of Housing and Population, 2011

**Figure 5-35: Elderly 70+ Estimated Eligible beneficiaries to Accept Social Assistance in 2014-15**



Source : Ministry of Finance and National Planning

If the 2014/15 trend continues, then an estimated 2,383 beneficiaries will choose to accept the social assistance at the estimated cost of some \$1.86 million. The distribution of this group by island is shown in *Figure 5-35*. The share of 68 percent in Tongatapu is slightly lower than the 73 percent share of the total population on the island. This means that the concentration of elderly on outer islands is slightly higher.

*The Micro-finance component* is a revolving fund to assist individuals and groups with income generating activities. Due to the challenges and hardships some local women groups were experiencing with the high level of interest rates of local micro-finance agencies, the microfinance component continues as the Government of Tonga-Tonga Development Bank Microfinance Revolving Fund. The grant funded, loan product is designed to be more manageable for vulnerable groups by providing a lower, subsidized, interest rate, with no hidden fees, and shorter terms; these are shown in *Table 5-16*.

**Table 5-16 : Tonga Development Bank Microfinance Revolving Fund**

Loan Size	Interest Rate	Bank Fees	Grace Period-First Payment	Term
Up to \$5000	10% p.a.	Nil	Up to 3 months	12 months

Source : Ministry of Finance and National Planning

The *Social Protection component*, also known as the Tonga Social Service Pilot (TSSP) commenced in August 2012 with disability services and Aged Care Services. The TSSP continues to rely heavily on training and capacity building of aged care and disability staff. For instance, aged care staff are currently undergoing a Certificate III training programme accredited by Metro College of Technology of Australia which will run for 20 weeks and end May 2015.

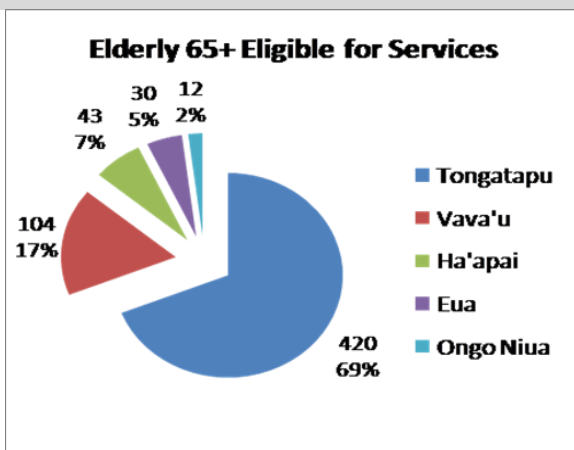
Government has now taken on the Social Service activities, recently implemented by the ADB-JFPR Project, and now provides age care services to over 151 vulnerable elderly and 55 infants born with a disability and/or developmental delay aged 0-3 years. This is set out in more detail below.

### 5.8.2 New Division of Social Protection and Disability

In January 2015, Government created the new Division of Social Protection and Disability (DSPD) within MIA. The new division will also assist with the customer service, management, and oversight of the newly implemented Disability Welfare Scheme (DWS) and future social service programmes. This new site will also act as a “One Stop Shop” for beneficiaries and other social programmes and services and will be wheelchair accessible for the elderly and persons with mobility disabilities. The new Division will focus on continued social services to the elderly and persons with disabilities with the contracted NGO service provider (Ma’a Fafine mo e Famili). It will also focus on new national human service policies, quality assurance, ombudsman, monitoring and evaluation and conduct a full disability survey on a national basis.

### 5.8.3 National Aged Care Services

**Figure 5-36: Vulnerable Elderly and Eligible for Services by Island group**



Source: Ministry of Finance and National Planning

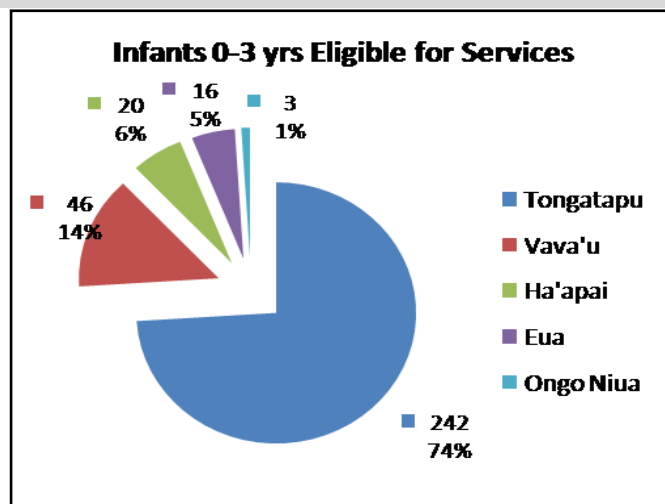
island groups.

The new Division of Social Protection and Disability will manage the national roll out of social services which is estimated to occur in the 2016/17 Budget. The Division will also work on a national disability and vulnerability survey, drafting of national human service and social service policies, and a national tender and recruitment for a local service provider NGO. The national services will include aged care services to the most vulnerable elderly Tongan citizens 65 yrs and older. Using the 2011 Tongan Population and Housing Census, it is estimated that there are 6,089 elderly 65 yrs and older, of which about 609 (10 percent) will be eligible for aged care services. *Figure 5-36* shows the distribution of eligible elderly by island. The national share of eligible at 10 percent is much the same on all

### 5.8.4 National Disability Services

As mentioned above, there is a need to ensure that national policies, surveys, and reviews are in place prior to the national roll out of social services for infants 0-3 yrs old born with a disability or developmental delay. It is planned for the national rollout to occur in the 2016/17 financial year. Based on the 2011 Census, there are an estimated 10,879 children between 0-3 yrs old. *Figure 5-37* shows the estimated 0 to 3 years infants eligible for service are distributed across the islands. It is estimated that about 3 percent, or 82 infants, will be born with a disability or developmental delay (Pre-Mature) each year. In this case, the share on

**Figure 5-37: Eligible Infants for Service**



Source : Ministry of Finance and National Planning

Tongatapu is in line with the share of total population on that island.

The Independent Living Programme is funding support for persons with disabilities to participate in a paid internship with local businesses and government offices. This service is also planned to be available on a national basis during the 2016/17 financial year.



## 6 GOVERNMENT BUDGET: FUNDING THE OUTPUTS

### 6.1 BUDGET STRATEGY

Government's Budget Strategy is founded on supporting the Organizational and National Outcomes identified within the TSDF; it also draws on the analysis and priorities set out in sector, district and corporate plans. It is not possible each year for the Budget Strategy to cover the whole scope of the TSDF, outlined in Section 4.1. It is not always possible to even cover all of the Governments Priority Agenda listed in Section 4.2. Therefore the Budget Strategy has identified 5 policy-driven priorities which are critical and interdependent, to support the TSDF Outcomes based on the current conditions as set out in Section 5. These five key priorities focus on the areas identified to be of greatest urgency; of which three of them directly support the Budget Theme: the need for better governance. This includes better management, planning, analysis, consultation with dialogue, decision making, implementation, accountability, and monitoring and evaluation 'at all levels of the society'.

#### **The Budget Theme is:**

“Improved Government Delivery and Accountability, to support the TSDF 2015-2025 impact of **“A more progressive Tonga supporting a higher quality of life for all”**, through promoting **“enhanced good governance”** at all levels of the society”.

#### **The 2015/16-2017/18 Budget has five key priorities:**

1. to enhance good governance with greater transparency and accountability
2. to improve the efficiency and effectiveness of the public service
3. to facilitate the political development of the country
4. to facilitate broad based sustainable growth to achieve at least 3.0 per cent average growth rate
5. to promote community development with more balanced development across all island groups and greater care to the vulnerable groups

#### **Medium Term Fiscal Consolidation Strategy**

The budget is formulated within the development of a medium to longer term fiscal consolidation strategy to ensure return to a more sustainable fiscal path. The Fiscal Consolidation Strategy aims to maintain fiscal responsibility through financial and technical measures to:

1. strengthen the capacity to establish clearer organizational outputs consistent with the TSDF organizational outcomes, and associated sector and district plans
2. establish clearer priorities (including appropriate support to facilitate more inclusive and sustainable development of the private sector and communities) to guide the choice of organizational outputs across MDAs, with clear procedures for moving funds from lower to higher priority areas where the return to the public is higher
3. address the management of the government staffing costs to gradually bring them down to 45% of total operating expenditure
4. continue to strengthen and widen the tax base to improve government domestic revenue collection in a fairer way, limiting distortions
5. develop and implement a strategy for managing a gradual exit from budget support consistent with the overall progress in improving budgeting and revenue collection

6. maintain at least balanced cash budgets to avoid cash reserves (consolidated fund) from falling below one month of total recurrent payments, gradually moving into budgeted cash surplus so reserves can be increased to a more prudent two months of cover
7. enable designing of budgets to generate a primary (GFS) surplus to support debt consolidation as part of the overall work improvements - including the establishment of sinking fund separate to the consolidated fund
8. ensure the Medium Term Debt Strategy is kept up to date, to manage exposed risks and to guide the level of borrowing each year.

These will take longer than the three year period of the Medium Term Budget Framework (MTBF) to implement. The long term strategy will feature fiscal targets to be achieved during the medium term fiscal years 2015/16 to 2017/18 but using 2014/15 as a baseline. The fiscal targets include 45 percent for salaries, keeping total payments cover above 0.5 months at the end of each month, and aiming for one and a half months cover.

Detailed policies are included under the respective sections grouped by TSDF organizational outcomes.

### **Revenue and Expenditure Measures over the three year MTBF**

Revenue is anticipated to grow in line with the estimated growth in the economy and related activity along with the continued efforts to improve compliance and collection. Several specific initiatives are introduced in the budget that require changes to the tax system or tax rates:

- funding for the Pacific Games (PG) as explained in *Section 6.4*
  - increasing departure tax (international departing passengers, 12 years and over) by \$100 in addition to the existing rate of \$65 per passenger
  - introducing a Foreign Exchange (Forex) Levy of 1 seniti on the existing spread of foreign exchange transactions (including all official transactions by government, and official development assistance)
- promoting more healthy life style, by amending the existing custom duties and excise taxes for targeted commodities:
  - imposing excise tax on unhealthy food items currently zero rated (instant noodles and turkey tail)
  - zero rating of import duties on healthy foods like fruits, vegetables, tinned fish, and raw fish
  - imposing additional import duty on imported beer, imported spirits, and imported cigarettes and tobacco products by 15%
  - increasing excise taxes on locally manufactured beers to \$15 per liter of alcohol and manufactured spirits by \$25 per liter of alcohol; \$50 per liter of alcohol on imported spirits; \$240 per kilogram on locally manufactured cigarettes; and \$255 per kilogram on imported cigarettes
- affecting the cost of transport:
  - reducing to half of the current excise tax rates on used vehicles (for transport of persons) aged 10 years or more at date of importation
  - increasing excise tax applicable to petroleum and oils to 56 seniti per liter
- promoting traditional crafts:
  - reducing from 15% to 0% the duty on paper for traditional tapa cloth.
- increase Government share from Public Resources

**Key priority expenditures include:**

- rationalization of employment for both established and un-established staff, by carefully reviewing all vacant posts and proposed new posts, with the intention of better aligning staffing needs to required outputs, and reducing the overall staff costs; posts will continue to be provided for returning scholars
- providing \$5.0 million to cater for the remuneration review of civil servants in 2015/16
- reviewing of MDAs expenditure with the aim to reduce excessive spending on discretionary expenditures such as overseas travel, fuel, and utilities; and promote more efficient and effective spending by MDAs
- expansion of maintenance to protect government infrastructure, e.g. allocation of \$2.0 million to MET for primary schools maintenance and \$1 million for operation of Primary Schools.
- continuing the successful efforts to reduce NCDs
- expand the road maintenance by \$3.0 million for each year
- provide funding for the preparation for the Pacific Games, \$2.0 million in 2015/16 and rising in future years to be funded from new tax initiatives
- provide \$1 million under the Private Sector Initiatives fund to support Youth Development programs with \$0.5 million and womens' micro finance with \$0.5 million.
- provide \$10 million to further pay off the governments transfer value with the pension fund.
- \$0.7 million for charitable organizations.

**Key institutional reorganizations:**

- moving the Immigration Services (Border Control) from MFAT to MRC – establish a more integrated unit focussing on more effective border control within the Customs Division.
- transferring the PUMA from MLSNR to MoI.
- establishing the multi-sector regulator to maximize regulatory efficiencies and consistency in decision making in order to ensure access and affordability of selected public utilities (power, water, sanitation)
- completing the capacity establishment of MEIDECC to ensure Tonga consolidates its preparedness for disaster and resilience to climate change

## 6.2 DETAILED PRIORITIES

The priority strategies for the three-year MTBF are set out under the same Pillars and Organizational Outcomes as in the TSDF to facilitate the links between the TSDF II and the Budget Strategy.

During the Budget year, the following policies and initiatives will be pursued, grouped by the five pillars of the TSDF 2015-2025.

### 6.2.1 Economic Institutions

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#### 1.1 Improved macroeconomic management & stability with deeper financial markets

- drafting a longer term Fiscal Consolidation Strategy, addressing issues such as the gradual exit from budget support, appropriate level of taxation, and transparent mechanism for moving funding from lower to higher priority areas. This is to be shared with the Development Partners Forum
- reviewing all government revenue arrears, a significant amount are long overdue; legal action needs to be taken or arrears be written off
- reviewing all government non-tax revenue, such as fees and charges, by end of 2015/16, to align with inflation and to reflect real cost of services

- scrutinizing the amount of capital investments funded within the recurrent budget and considering these to be funded by aid programs
- ensuring debt financing is limited to soft external loans and domestic bond issues, while remaining within all of the new Medium Term Debt Strategy ratios
- paying off the remaining “transfer value” debt to the Retirement Fund Board, mostly through bond issues of \$10 million in 2015/16.
- providing legal space for NRBT to further strengthen the supervision of both banking and non-financial institution systems- subject to prudential regulations taking note of the need to protect against future rapid run down of the excess liquidity
- constructing of a new Government office building “St George Palace” at Pangai Si’i in the Nuku’alofa CBD, funded by the People of the Republic of China. This has been postponed until after the Coronation of King Tupou VI in July 2015.

### **1.2 Closer public/private partnership for economic growth**

- continuing to seek opportunities for joint public/private partnership for management and funding larger businesses, including the recent arrangements for the International Dateline Hotel Limited and other priority capital investments, in particular for tourism
- revising the terms and conditions (including collateral requirements, extended repayment period, and new products), and raising greater awareness for the Loan Scheme managed by the TDB, on behalf of government, to be more accessible with greater flexibility to support the outer islands
- extending the coverage of the Loan Scheme (from investment in agriculture, fisheries, tourism, commerce, manufacturing, retailer, wholesaler, construction and education) to include new products, women groups micro finance, and youth development
- continuing to review regularly the TDB managed funds to ensure funds are well utilised, and repayments are made on time for further use of other borrowers
- completing the Agriculture and Fisheries Sector Plans, and the Climate Resilience Plan, so together with other existing Sector Plans (e.g. Tourism), they could drive productive investment and reforms in these sectors
- reviewing the results of outsourcing of government functions to determine the appropriateness of outsourcing versus the options of operating within government ministries, and determining how to regulate the rates in the market where there is inadequate competition
- starting the merger of the government and national retirement fund administrations to minimize costs and improve efficiency
- being more proactive in supporting national economic and development objectives, by supporting the Government partnership with the private sector (Tonga Chambers of Commerce) and non-Government actors.

### **1.3 Strengthen business enabling environment**

- continuing current programs to improve the registration of businesses and other initiatives to lower the cost of doing business in Tonga

### **1.4 Improved public enterprise performance**

- continuing the PEs reform to become more efficient and provide better returns to government within the constraints of affordable rates to consumers. This includes a review of the benefits of establishing a new multi-sector regulatory arrangement to address key public utilities such as electricity, water, waste disposal and telecommunications
- continuing review of Government and public enterprise assets, and considering situations where selling them can improve delivery by the private sector

- monitoring all borrowings of PEs to ensure that PEs are financially sound to repay their loans avoiding potential contingent liabilities on government
- establishing a reform policy and implementation plan to provide the basis for rationalizing the PEs
- improving forestry development through the provision of Technical Assistant Support of two Managers for the Tonga Forest Product Limited, funded by the Government of New Zealand
- reset of the 2008 Electricity Concession Contract to reflect Government priorities in related to affordability of electricity across Tonga including the continuing expansion of renewable energy.
- continue to develop the medium range tanker project for cheaper fuel delivery
- reset the electricity concession agreement by July 2015, with clearer cross-subsidy between urban and non-urban areas

### **1.5 Better access to, and use of, overseas trade and employment and foreign investment**

- providing funding for two new posts of Liaison Officers in Australia to negotiate for a greater range of access options to overseas employment schemes, in particular more skilled workers, and encourage workforce participation in the Recognised Seasonal Employer (RSE)
- undertaking a review of the effectiveness of initiatives to encourage Foreign Direct Investment (FDI), and to ensure that they are effective in promoting the types of FDI most appropriate to promote more sustainable and inclusive growth
- review of the Foreign Investment Act including process of employment and business visa

## **6.2.2 Social Institutions**

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### **1.1 Improved collaboration with & support to civil society organizations (CSO) and Community Groups**

- promoting and facilitating basic life skills and good values in the youth, in particular promoting sports, youth development programmes that are able to make use of the concessionary loan funds at TDB, and \$0.5 million top up from Government which includes communities.
- promoting the development of sports and participation by Tongans in local and international competitions such as the World Cup (\$0.7 million), and the Pacific Games (PG) by introducing new tax measures to ensure funding is available, with \$2.0 million to assist the capital cost and preparatory work in 2015/16.
- providing support to vulnerable women and children through Charitable Organisations with an additional grant of \$0.5 million in 2015/16.

### **1.2 Closer partnership between government, churches and other stakeholders for community development**

- strengthening further the partnership between government and churches with more regular meetings of church leaders and government, facilitated by the church leaders' desk officer in MIA.
- improving basic human needs, which is highly beneficial at the grassroots level through the Japan's Grant Assistance for Grassroots Human Security Program (GGP) funded by the Government of Japan.

### **1.3 More appropriate social and cultural practices**

#### **1.4 Improved education & training providing life time learning**

- reviewing how to work in better partnership with churches and other groups for the provision of secondary and tertiary education, to ensure that government school grants have the required impact on improving the level of efficiency and equity in educational institutions
- reconsidering the review for revising school fees in government secondary schools to support increasing public financing of education
- reviewing the procedures for the operation of the Tonga Government Scholarship Fund, managed by MET, and enforcing them to ensure that scholarship awards are funded and supported efficiently within the increased allocation (additional \$1.0 million)
- improving access to education so that all children increase reading and numeracy skills for early grade student learning through the Tonga Education Support Program (TESP2) funded by NZAID and DFAT

#### **1.5 Improved health care and delivery systems (universal health coverage)**

- improving facilitation of Health services through increasing recurrent funding to MoH for internal medical referrals, medical drugs, medical supplies (pharmaceuticals), rations and diets, technical supplies, and staffing costs (incl. overtime)
- strengthening the Procurement Unit in MoH
- battling rising NCDs, and supporting the health service systems by building MoH's capacity to implement improvements through the Tonga Health Systems Support Program 2 (THSSP2) funded by Australia

#### **1.6 Stronger integrated approaches to address both communicable and non-communicable diseases**

- gradually increasing focus on disease prevention by providing additional funds towards prevention activities

#### **1.7 Better care & support to vulnerable people, in particular the disabled**

- streamlining and implementing the National Disability Policy, to improve support for the needs of more vulnerable people, with a grant of \$0.8 million for vulnerable people (disabled, elderly and children)

### **6.2.3 Political Institutions**

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#### **1.1 More efficient, effective, affordable, honest, transparent and apolitical public service focused on clear priorities**

- reducing the costs of service delivery, and re-prioritising within existing spending, to better serve the people; areas of focus are:
  - ensuring the effective implementation of the PFM Reform Roadmap to drive the required reforms, including aid funding for a new Integrated Financial Management Information System (IFMIS)
  - driving the implementation of the integrated corporate planning and budgeting system (the One Tool Process) to ensure the mandate of MDAs is delivered through better focussed outputs that concentrate on core services, dropping non priority areas
  - reviving the Public Service Reform Committee (consisting of Central Agencies) - this will include a proper review of staffing and related costs in relation to outputs, to develop a path for lowering the total staff costs to operating expenditure ratio to the medium term target of 45 percent.

- PSC driving the use of the staff performance management system (SPMS) throughout government to drive improved performance, taking account of the Remuneration Authority recommendations on performance
- implementing the Procurement Regulations (Amendment 2015) aligned with Treasury Instructions, improving compliance and transparency, and bulk tendering of common use items starting with overseas travel
- establishing, with donor support, a government wide e-governance to improve service delivery and outreach to the public

### **1.2 Improved law & order and domestic security appropriately applied**

- improve the operation of the MoJ based on reform of the Tongan Judicial system and its relationship to the Chancellor Office; the Draft Legislation is currently in place awaiting His Majesty's assent
- strengthening the role of the Anti-Corruption Office and Ombudsman to function effectively and independently through a new allocation of \$1.4 million for the Commission of Public Relations
- strengthening the Internal Audit function within MFNP, and starting internal audit in some ministries
- increase of Constituency allocation to \$150,000 per constituency, to improve outreach to communities
- strengthening of the efficiency and effectiveness of the public prosecution unit, and delivery of public prosecution services funded by the Government of New Zealand.
- Provision of \$0.3 million to renovate Ministry of Justice Office.

### **1.3 Appropriate decentralization of government administration with better scope for engagement with the public**

- supporting the District Development Committees in Vava'u, Ha'apai, 'Eua, and the Niuaus, by provision of \$0.6 million directly to the Committees (using government procurement procedures) in 2015/16 and 2016/17.

### **1.4 Modern and appropriate Constitution, laws & regulations reflecting international standards of democratic processes**

- absorbing the staffing costs to continue with the implementation of the constitutional reform program, previously funded by UNDP and TGSP.

### **1.5 Improved working relations & coordination between Privy Council, executive, legislative & judicial**

- establishing a clear program of reform to address points of uncertainty between all wings of government, and developing a plan for addressing these uncertainties, which lets them address their responsibilities under the Constitution while working together in a more effective and collaborative manner - AID funded (UNDP - TGSP)
- supporting and strengthening Tonga's Governance institutions and improving understanding in communities of the role of parliament through the Tonga Governance Strengthening Programme (TGSP) funded by the UNDP

### **1.6 Improved collaboration with development partners**

- ensuring that all development funding is redirected to priority areas of the government and increasingly uses government procedures
- strengthening further the good relations with development partners for mutual partnership, aid effectiveness, donor harmonisation and predictability, and identifying common constraints to

the implementation of development programs and how these could be implemented with fewer delays.

- establishing a Cabinet Sub Committee, called the Project and Aid Coordination Committee, to review proposals for consideration by Development partners, and monitor implementation and evaluation to ensure alignment to the TSDF II and the priorities set out in sector, district and corporate plans; special focus will be given to improve implementation and reduce the return of unused funds
- negotiating, based on the Fiscal Consolidation Strategy, with development partners an appropriate level of budget support consistent with revenue forecasts and constraints on expenditure
- continuing to strengthen the Government of Tonga and Development Partner's Forum as a platform for sharing and gaining better understanding of the development issues of the country and better identifying where development partners can assist.

## **6.2.4 Infrastructure & Technology Inputs**

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### **1.1 More reliable, safe, and affordable energy services**

- securing a cost-effective mix of input prices for energy services, such as continued scrutiny of the country's petroleum downstream volume and striving to get the same for a cheaper price
- continue development of renewable energy projects
- establish arrangements for a tariff life line of \$1.0 million subsidy to help lower income groups to address future increases in power prices
- Tonga Village Network Upgrade Project continues in 2015/16 benefiting 20 villages by improving access to electricity and reducing leakage in the distribution lines.

### **1.2 More reliable, safe and affordable transport services**

- strengthening the policy environment for a safe and reliable domestic airline industry
- upgrading Fua'amotu and Lupepau'u Airport
- building a domestic shipping terminal
- establishing clear arrangements for the supervision of the domestic aviation industry to facilitate an operator that provides reliable services at a reasonable cost across all island groups. This is part of the MoI core function
- Tonga Transport Sector Consolidation Project 2 funded by the World Bank under IDA allocation, continuing the work from phase 1 to improve compliance in civil aviation and maritime to meet international safety and security standards

### **1.3 More reliable, safe and affordable information & communication technology (ICT) used in more innovative ways**

- extending telecommunications connectivity from Tongatapu to the rest of the outer islands, with the Fiber Optic Cable project extending to the outer islands
- implement, upon approval, the new legal framework and safeguard policies on encouraging better cyber-safety
- establishing an e-Government Strategy with clear implementation plans to expand the use of e-government, e-commerce, e-learning and e-entertainment – finding ways to use these to mitigate the distance between our communities
- attract additional regional programs and other sources to implement the e-Government Strategy with the initial amount of US\$1.0 million (as seed money) allocated from World Bank IDA



## **6.2.5 Natural Resources & Environment Inputs**

### **1.1 Improved land use planning & management for private & public spaces**

- provide additional budget to complete the backlog of land applications

### **1.2 Improved use of natural resources for long term flow of benefits**

- ensuring that the laws and regulations in place on sea bed mining are being followed and enforced with greater consistency and effectiveness
- ensuring projects on conservation areas are effectively implemented
- fishing boat fees changed from a flat licence fee to a 5 percentage fee of catch, which is \$50,000 pa per vessel compared to the \$10,000 fee

### **1.4 Cleaner environment with improved waste recycling**

- Nuku'alofa Urban Development Sector Project (NUDSP) strengthening waste collection and disposal with ADB support
- ensuring regulations and enforcement procedures are in place to facilitate the operations of the Waste Authority and other waste recycling businesses, with a stronger focus on increased community involvement to promote the Cleaner Tonga program.
- A new allocation of \$100,000 for beautification and landscaping under MoI

### **1.5 Improved resilience to natural disasters and impact of climate change**

- improving the provision of appropriate infrastructures, and safekeeping of affected areas to ensure better support to disadvantaged households from the impacts of flooding and natural disasters through the disaster recovery program.
- foreshore protection through the implementation of the Climate Resilience Sector Project (CRSP)- ADB funded
- new World Bank Pacific Resilience Program (PREP) over 5 years to strengthen the resilience of the Pacific to impacts of climate change
- new World Bank allocation of \$0.5 million for the Tonga Broadcasting Commission Radio Broadcaster to support the AM Radio Broadcaster as it plays an important role in broadcasting disaster warnings

## **6.3 GOVERNMENT OF TONGA RECURRENT BUDGET**

The Recurrent Budget covers the transaction directly under the control of the government. The transaction from this budget also determine the level of cash balances at the beginning and end of the financial year. Retaining this cash balance, often referred to as the Consolidated Fund, in a healthy condition is a key part of prudent and sustainable fiscal management. Loan draw downs and repayments are treated as “expenditure” and drawdown of loans as “revenue”, while in the GFS2001 these are recorded as net lending or borrowing. Total Government controlled "expenditure" and "revenue" in the Recurrent Budget is thus better called payments and receipts to avoid confusion with the terms under the GFS. Budget Receipts (called revenue in the budget document) comprise of: (i) domestic revenue (taxes, charges, fees etc), transfers from other funds and sale of bonds, plus funding from revolving funds; and (ii) Budget Support.

Budget Payments (called expenditure in the budget document) comprise of: (i) operating expenditure (such as staffing cost, purchase of goods and services, and other operating costs); and (ii) other payments which include purchase of assets and equity, and repayment of debt.

Provisional recurrent receipts for 2013/14 amounted to \$204.4 million, with payments of \$193.1 million resulting in a \$11.3 million cash surplus at the end of the financial year. The surplus was partly due to a faster than anticipated rate of collection in taxes of goods and services, income tax, and excise tax, related to greater economic activities.

In 2014/15, Government anticipates total recurrent receipts of \$230.4 million against an approved budget of \$235.3 million. The shortfall of \$4.9 million was partly due to the deferment on budget support from the Asian Development Bank.

Government total recurrent payments are currently assessed to be of \$227.0 million at the end of the year against an approved budget of \$235.3 million. The underutilisation of the recurrent expenditure by \$8.3 million will be largely due to slow disbursement of the Private Sector Initiative funds (related to the slow sale of new bonds) and the expectation that some of the activities planned for the year will be delayed. Tight control of MDAs approved budget also contributes towards this slower rate of spending.

During the first three quarters of 2014/15, local payments exceeded receipts due to slow receipt of confirmed budget support as projected, although strong revenue collection in the first two quarters provided financial breathing space to the Government despite the short term cash flow imbalances we continue to encounter.

Government anticipates a \$3.3 million cash surplus towards the end of the 2014/15 (resulting from royalty fees received from Tongasat in 2014/15). This will raise the consolidated or general fund to cover about 1.3 months of payments, down from 1.6 months at the end of 2013/14.

Receipts for 2015/16 are expected to rise from new revenue streams created to assist the Pacific Games, royalty from Tongasat, further sale of bonds and budget support from the Asian Development Bank for the 2015/16 which includes budget support deferred from 2014/15. These additional receipts will be used to fund the 17.5 percent increase in the budget compared to 2014/15 revised outturn. This covers priority needs, such as the PGs preparations, the payment of a large part of the remaining balance of government's transfer value with the pension fund, and further low interest lending through TDB. A number of other key adjustments have also been made to the government budget to address urgent needs for maintenance and the implementation of the staff salary review. This should leave a more focussed service, and leave scope for tighter budgeting over the rest of the MTBF with limited further increase.

The resulting cash balance budgetted for at \$6 million will represent the net accumulation of funds for the PG. Half of the anticipated cash surplus for 2016/17, is attributable to further build up of the PG Fund. The projected cash deficit in 2017/18 will relate to the run down of the PG Fund as expenditure for the games preparations increases. Excluding the PG Fund, the consolidated fund will be little changed over the two outer years resulting in an average of 1.2 months cover.

The Government Recurrent Budget details are summarised in *Table 6-1* below along with the cash deficit/surplus which shows the change in the Consolidated Fund. The key elements of the Development Budget (discussed in Section 6.3) are also included.

**Table 6-1 : Accounting Presentation of the Budget (\$ million)**

	(Provisional) 2013/14	(Original Estimate) 2014/15	(Revised Estimate) 2014/15	(Estimate) 2015/16	(Projection) 2016/17	(Projection) 2017/18
<b>Total Budget "Revenue" (all receipts)</b>	<b>308.9</b>	<b>483.7</b>	<b>369.1</b>	<b>502.3</b>	<b>430.8</b>	<b>392.9</b>
<b>Total Budget "Expenditure" (all payments)</b>	<b>297.6</b>	<b>483.6</b>	<b>365.7</b>	<b>496.3</b>	<b>428.3</b>	<b>395.1</b>
<b>Overall Cash Surplus/deficit</b>	<b>11.3</b>	<b>0.0</b>	<b>3.3</b>	<b>6.0</b>	<b>2.6</b>	<b>-2.2</b>
<b>RECURRENT BUDGET</b>						
<b>Total Recurrent Receipts</b>	<b>204.4</b>	<b>235.3</b>	<b>230.4</b>	<b>269.7</b>	<b>267.4</b>	<b>262.8</b>
<b>Total Domestic Receipts</b>	<b>168.1</b>	<b>197.6</b>	<b>200.6</b>	<b>241.2</b>	<b>240.8</b>	<b>243.3</b>
Domestic Revenue	159.4	167.9	179.9	212.8	217.8	226.3
Tax Revenue	133.0	135.7	147.9	162.9	168.7	174.0
Non-Tax Revenue	26.5	32.2	32.0	49.9	49.1	52.3
Capital (inc Bonds) & Other Transfers	7.3	17.3	13.3	21.9	11.5	5.5
Revolving Fund Receipts	1.4	12.4	7.4	6.5	11.5	11.5
<b>Budget Support</b>	<b>36.2</b>	<b>37.7</b>	<b>29.7</b>	<b>28.4</b>	<b>26.6</b>	<b>19.4</b>
<b>Total Recurrent Payments</b>	<b>193.1</b>	<b>235.3</b>	<b>227.0</b>	<b>263.7</b>	<b>264.8</b>	<b>264.9</b>
<b>Operating Expenditure</b>	<b>176.6</b>	<b>206.6</b>	<b>199.9</b>	<b>238.2</b>	<b>235.0</b>	<b>243.7</b>
Established & Unestablished Staff	96.9	111.2	110.9	125.3	125.7	127.0
Other Operating Expenditure	79.7	95.4	89.0	112.9	109.3	116.6
<b>Other Recurrent Payments</b>	<b>16.5</b>	<b>28.7</b>	<b>27.1</b>	<b>25.5</b>	<b>29.9</b>	<b>21.3</b>
<b>Cash Balance Surplus/deficit before budget Support</b>	<b>-25.0</b>	<b>-37.6</b>	<b>-26.4</b>	<b>-22.5</b>	<b>-24.0</b>	<b>-21.6</b>
<b>Cash Balance Surplus /deficit after budget Support</b>	<b>11.3</b>	<b>0.0</b>	<b>3.3</b>	<b>6.0</b>	<b>2.6</b>	<b>2.2</b>
<b>Net new Bond sales (domestic borrowing)</b>	<b>-</b>	<b>20.0</b>	<b>11.0</b>	<b>15.0</b>	<b>3.0</b>	<b>0.0</b>
<b>DEVELOPMENT BUDGET</b>						
<b>Total Development Receipts</b>	<b>104.5</b>	<b>248.4</b>	<b>138.7</b>	<b>232.6</b>	<b>163.4</b>	<b>130.1</b>
Project Grants	104.5	238.9	132.2	217.3	154.2	124.7
Project Loan Drawdowns	0.0	9.5	6.5	15.3	9.3	5.4
<b>Total Development Payments</b>	<b>104.5</b>	<b>248.4</b>	<b>138.7</b>	<b>232.6</b>	<b>163.4</b>	<b>130.1</b>
Project expenditure	104.5	248.4	138.7	232.6	163.4	130.1

Source : Ministry of Finance and National Planning

Table 6-2: GFS Presentation of The Budget (\$ million)

	(Provisional) 2013/14	(Original Estimate) 2014/15	(Revised Estimate) 2014/15	(Estimate) 2015/16	(Projection) 2016/17	(Projection) 2017/18
<b>Revenue</b>	301.5	436.9	338.4	452.7	397.2	369.2
<b>Tax and Non-tax Revenue</b>	160.8	169.3	181.3	216.3	221.2	229.8
Tax Revenue	139.1	141.4	154.8	177.8	184.1	190.7
Non-Tax Revenue	21.7	27.9	26.5	38.5	37.2	39.1
<b>Grants</b>	140.7	267.6	157.1	236.4	176.0	139.4
Current (budget support)	36.2	28.7	24.9	19.2	21.8	14.7
Current (projects grants)	45.2	82.3	54.2	82.6	44.7	28.3
Capital (project grants)	59.3	156.6	78.0	134.6	109.4	96.5
<b>Expense</b>	221.0	294.7	259.7	338.5	289.7	277.5
Compensation of Employees (all staff)	101.6	122.6	115.9	135.4	129.3	127.7
Other Operating Expenditure	119.4	172.1	143.8	203.1	160.4	149.9
<b>Gross Operating Balance</b>	80.5	142.2	78.8	114.2	107.5	91.7
<b>Net Acquisition of Non-financial Assets (capital)</b>	59.1	156.0	77.3	134.9	114.6	97.3
Buildings and structures	2.6	85.8	22.0	89.9	94.2	90.0
Machinery and equipment	41.8	48.3	37.8	31.9	10.1	1.1
Other fixed assets	14.6	21.9	17.5	13.1	10.3	6.2
<b>Net Lending/Borrowing Requirement</b>	21.4	-13.8	1.5	-20.7	-7.1	-5.6
<b>Net Acquisition of Financial Assets &amp; Liabilities (Financing)</b>	-21.4	13.8	-1.5	20.7	7.1	5.6
<b>Financial Assets</b>	14.9	17.6	17.2	10.5	2.2	-2.5
<b>Domestic</b>	14.9	17.6	17.2	10.5	2.2	-2.5
Currency and deposits	10.1	0.0	3.3	3.0	-5.4	-10.1
Net Loans by Government	-1.3	11.4	9.3	7.5	7.5	7.5
Shares and other equity	6.1	6.2	4.6	0.1	0.1	0.1
<b>Financial Liabilities</b>	-6.5	31.3	15.7	31.2	9.2	3.0
<b>Domestic</b>	0.0	20.0	11.0	15.0	3.0	0.0
Bond sales	6.0	26.6	17.6	21.4	11.0	5.0
Bond redemptions	6.0	6.6	6.6	6.4	8.0	5.0
<b>Foreign</b>	-6.5	11.3	4.7	16.2	6.2	3.0
Principle drawdown (budet support)	0.0	9.0	4.8	9.3	4.8	4.8
Principle drawdown (project)	0.0	9.5	6.5	15.3	9.3	5.4
Principle repayment (project and budet support)	6.3	6.7	6.1	7.9	7.3	6.6
Exchange rate risk	0.2	0.5	0.5	0.5	0.5	0.5

Source: Ministry of Finance and National Planning

## 6.4 GOVERNMENT OF TONGA DEVELOPMENT BUDGET

This section explains the development assistance either in-kind or cash provided via government to various sectors of the economy, from 2013/14 to 2014/15 and projected to 2015/16 to 2017/18. The section also covers assistance either through grants and loan projects and their associated expenditures.

### 6.4.1 Overview of Aid Funded Projects and Programs

Estimated expenditure from Development Partners for 2015/16 is \$232.61 million, of which \$66.00 million in cash and \$166.61 million is in-kind, an overall decrease of \$15.68 million compared to 2014/15 budget estimate.

The development assistance is a large component of the government budget. For 2014/15, total development funding was estimated at \$248.38 million, compared to the revised estimate of \$138.71 million. The revised estimate for development expenditure is usually lower than that budgeted since a number of projects anticipated at the start of the year take longer to start, both because of delays in the development partners and in Tonga. And sometimes project costs are overestimated because of lack of information provided to the Ministry particularly the in-kind assistance. While it is known there will be delays, it is difficult to estimate which projects may be delayed because of uncertainties and unpredictability associated with the implementation processes.

*Table 6-3* shows the total development aid budget estimate for the period of the MTFB and two preceding years.

**Table 6-3 : Total Development Expenditures (cash and in-kind \$ millions)**

Type of Funding	Actual 2013/14	Budget Estimate 2014/15	Revised Estimate 2014/15	Budget Estimate 2015/16	Projection 2016/17	Projection 2017/18
Cash	33.77	67.39	40.53	66.00	32.60	14.30
In-Kind	71.81	180.97	98.18	166.61	130.82	115.77
<b>Grand Total</b>	<b>105.59</b>	<b>248.38</b>	<b>138.71</b>	<b>232.61</b>	<b>163.42</b>	<b>130.07</b>

*Source : Ministry of Finance and National Planning*

### 6.4.2 Aid Funded Project Expenditure by Ministry

*Table 6-4* contains the aid funded projects by Ministry for the five years in the budget document. This covers both cash (those projects where funding is managed through GoT accounts) and in-kind (those projects where funding is managed by the development partner or some other organization outside of GoT accounts).

Table 6-4: Project Expenditure by Ministry (TOP\$ million)

Ministry	Actual 2013/14	Budget Estimate 2014/15	Revised Estimate 2014/15	Budget Estimate 2015/16	Projection 2016/17	Projection 2017/18
Palace Office	0.39	0.30	0.00	0.50	0.00	0.00
Legislative Assembly	0.11	1.75	0.19	0.29	0.09	0.09
Audit Office	0.00	0.15	0.15	0.15	0.15	0.15
Commissioner of Public Relations	0.00	0.80	0.00	0.20	0.20	0.20
Ministry of Foreign Affairs & Trade	0.71	0.80	4.00	0.20	0.00	0.00
His Majesty's Armed Forces	2.50	0.60	10.20	0.60	0.50	0.50
Prime Minister's Office	14.78	0.06	0.00	0.06	0.00	0.00
Ministry of Finance and National Planning	2.64	9.26	8.16	17.96	16.80	8.25
Ministry of Revenue and Customs	0.00	4.09	0.16	4.60	1.00	0.00
Ministry of Public Enterprises	12.30	6.38	4.87	5.74	6.60	6.00
Ministry of Commerce, Tourism and Labour	1.50	0.89	0.63	5.24	3.97	0.13
Ministry of Justice	0.42	0.49	0.50	0.67	0.70	0.75
Attorney General's Office	0.09	0.30	0.14	0.15	0.15	0.15
Ministry of Police, Prisons and Fire Services	3.97	10.49	2.08	10.48	3.07	1.35
Ministry of Health	5.01	8.84	5.81	7.33	4.86	3.70
Ministry of Education and Training	5.01	14.80	8.62	16.53	9.21	6.00
Ministry of Internal Affairs	0.69	1.97	1.47	42.70	63.66	70.01
Ministry of Agriculture, Food, Forests and Fisheries	0.37	1.09	0.51	0.71	0.61	0.21
Ministry of Infrastructure	29.98	84.04	39.36	57.25	28.21	21.09
Ministry of Lands and Natural Resources	25.10	4.28	2.97	0.15	0.00	0.00
Public Service Commission	0.00	1.63	0.47	1.20	0.50	0.50
Beureau of Statistics	0.02	0.08	0.02	1.50	0.50	0.00
Ministry of Meteorology, Environment, Information, Disaster Management, Energy, Communications and Climate Change	0.00	95.29	48.41	58.41	22.64	11.00
<b>Grand Total</b>	<b>105.59</b>	<b>248.38</b>	<b>138.71</b>	<b>232.61</b>	<b>163.42</b>	<b>130.07</b>

Source: Ministry of Finance and National Planning

Among the 23 MDAs, 5 recorded the highest allocation of aid-funded projects: the Ministry of Finance and National Planning, Ministry of Education and Training, Ministry of Internal Affairs, Ministry of Infrastructure and Ministry of Meteorology, Environment, Information, Disaster Management, Energy, Communications and Climate Change. The high allocation to these ministries reflects in part the government's efforts to improve the country's infrastructural system such as road, transportation and communication.

Major projects planned to commence over the next two to three years include new Government Buildings (St George Palace), the venue and facilities for the 2019 Pacific Games, and further projects to help achieve the target of a 50 percent generating of power from renewable energy, rather than fossil fuel, by 2020. Several large projects also focus on enhancing Tonga's adaptability to the repercussions of climate change, with funds provided by some United Nation agencies and other global financiers.

*Table 6-5* in the next page provides total cash funding, by ministry, for the MTBF period with about \$66 million estimated to be funded by development partners in 2015/16. Three ministries are estimated to receive cash-funds of more than \$5 million for 2015/16 supporting the priority needs in education, tourism and climate change.

Table 6-5: Development Expenditure by Ministry (Cash \$ millions)

Ministry	Actual 2013/14	Budget Estimate 2014/15	Revised Estimate 2014/15	Budget Estimate 2015/16	Projection 2016/17	Projection 2017/18
Palace Office	0.39	0.00	0.00	0.50	0.00	0.00
Legislative Assembly	0.11	0.02	0.00	0.10	0.06	0.06
Audit Office	0.00	0.00	0.00	0.00	0.00	0.00
Commissioner of Public Relations	0.00	0.80	0.00	0.00	0.00	0.00
Ministry of Foreign Affairs & Trade	0.71	0.00	0.00	0.20	0.00	0.00
His Majesty's Armed Forces	2.50	0.40	0.00	0.00	0.00	0.00
Prime Minister's Office	0.78	0.06	0.00	0.06	0.00	0.00
Ministry of Finance & National Planning	2.64	3.20	2.24	2.60	1.80	0.80
Ministry of Revenue & Customs	0.00	1.50	0.00	0.38	0.00	0.00
Ministry of Public Enterprises	6.28	6.00	4.73	0.20	0.00	0.00
Ministry of Commerce, Tourism and Labour	0.20	0.89	0.63	5.04	3.90	0.05
Ministry of Justice	0.42	0.49	0.50	0.67	0.70	0.75
Attorney General's Office	0.09	0.30	0.14	0.15	0.15	0.15
Ministry of Police, Prisons & Fire Services	3.97	2.04	2.08	3.17	2.93	1.29
Ministry of Health	4.15	5.10	4.16	2.92	2.46	2.00
Ministry of Education & Training	5.01	8.02	3.91	9.83	3.21	0.00
Ministry of Internal Affairs	0.69	0.00	0.90	0.79	0.05	0.00
Ministry of Agriculture, Food, Forests & Fisheries	0.37	0.65	0.21	0.31	0.21	0.21
Ministry of Infrastructure	2.01	0.00	1.12	1.13	0.50	0.00
Ministry of Lands & Natural Resources	3.44	0.78	0.97	0.15	0.00	0.00
Public Service Commission	0.00	1.63	0.00	0.20	0.00	0.00
Bureau of Statistics	0.02	0.00	0.02	0.60	0.00	0.00
Ministry of Meteorology, Environment, Information, Disaster Management, Energy, Communications and Climate Change	0.00	35.51	18.92	37.01	16.64	9.00
<b>Grand Total</b>	<b>32.77</b>	<b>67.39</b>	<b>40.53</b>	<b>66.00</b>	<b>32.60</b>	<b>14.30</b>

Source : Ministry of Finance and National Planning



*Table 6-6* provides the value of in-kind assistance from development partners, by Ministry, for the MTBF period. Many of the in-kind projects are large infrastructure projects, and includes the two World Bank projects for upgrading the airport and the reconstruction of Haápai. These WB assistance is in the form of 50% grant and 50% loan. Other in-kind assistances including small scale community projects such as the water-tanks provided under the Japanese Grassroots Grant. Some projects are also directly channeled to the district development communities. These are often received during the project reviews and budget consultations with MDAs and donor partners.

**Table 6-6: Development Expenditure by Ministry (In kind \$ millions)**

Ministry	Actual 2013/14	Budget Estimate 2014/15	Revised Estimate 2014/15	Budget Estimate 2015/16	Projection 2016/17	Projection 2017/18
Palace Office	-	0.30	-	-	-	-
Legislative Assembly	-	1.73	0.19	0.19	0.03	0.03
Audit Office	-	0.15	0.15	0.15	0.15	0.15
Commissioner of Public Relations	-	-	-	0.20	0.20	0.20
Ministry of Foreign Affairs & Trade	-	0.80	4.00	-	-	-
His Majesty's Armed Forces	-	0.20	10.20	0.60	0.50	0.50
Prime Minister's Office	14	-	-	-	-	-
Ministry of Finance & National Planning	-	6.06	5.92	15.36	15.00	7.45
Ministry of Revenue & Customs	-	2.59	0.16	4.22	1.00	-
Ministry of Public Enterprises	6.02	0.38	0.14	5.54	6.60	6.00
Ministry of Commerce, Tourism and Labour	1.30	-	0.00	0.20	0.07	0.08
Ministry of Justice	-	-	-	-	-	-
Attorney General's Office	-	-	-	-	-	-
Ministry of Police, Prisons & Fire Services	-	8.45	-	7.31	0.14	0.06
Ministry of Health	0.86	3.74	1.65	4.41	2.40	1.70
Ministry of Education & Training	-	6.78	4.71	6.70	6.00	6.00
Ministry of Internal Affairs	-	1.97	0.57	41.91	63.61	70.01
Ministry of Agriculture, Food, Forests & Fisheries	-	0.44	0.30	0.40	0.40	-
Ministry of Infrastructure	27.97	84.04	38.24	56.12	27.71	21.09
Ministry of Lands & Natural Resources	21.66	3.50	2.00	-	-	-
Public Service Commission	-	-	0.47	1.00	0.50	0.50
Bureau of Statistics	-	0.08	-	0.90	0.50	-
Ministry of Meteorology, Environment, Information, Disaster Management, Energy, Communications: and Climate Change	0	59.78	29.49	21.40	6.00	2.00
<b>Grand Total</b>	<b>71.81</b>	<b>180.97</b>	<b>98.18</b>	<b>166.61</b>	<b>130.82</b>	<b>115.77</b>

*Source : Ministry of Finance and National Planning*

### 6.4.3 Major Project Expenditure (grant and loan) by Development Partners

*Table 6-7* shows all project with expenditures (both cash and in-kind) over \$1 million for 2015/16 with the sources of funding. This is equivalent to nearly 86% of estimated development expenditure. Several projects are co-funded or multi-funded by various donors. These projects are implementing through various agencies within government and through other non-government- organizations that are working hand-in-hand with the Development Partners. The joint efforts are to ensure that implementation is smoothly carried-out and, equally important, the projects expected outputs are achieved.

<b>Table 6-7: Project Expenditures (both cash and in-kind) over \$1 million for 2015/16</b>		
<b>Project Name</b>	<b>Funded By</b>	<b>Budget 2015/16</b>
Pacific Games Village( TCA & THS)	People's Republic of China	30.00
Tonga Aviation Investment Program	World Bank/International Development Agency (IDA)	18.15
Faua Wharf	Japan - Other	11.00
Government Administration Building	People's Republic of China	10.00
Tropical Cyclone Ian Recovery Climate Resilience Project	World Bank/International Development Agency (IDA)	10.00
Transport Sector Consolidate Project 2	World Bank/International Development Agency (IDA)	9.03
Upgrade of Teufaiva Stadium	New Zealand Bilateral	8.00
Pacific Resilience Project	World Bank/International Development Agency (IDA)	7.75
Microgrid	Japan - Other	6.50
Tonga Village Network Upgrade	New Zealand Bilateral	5.40
Tonga Broadcasting Relocation to Mataki'Eua	Japan	5.00
Tonga Education Support Program 2	Pooled Funds - Australia & New Zealand	6.83
Haapai Power Reconstruction	Asian Development Bank	4.50
Tonga New Zealand Tourism Program	New Zealand	4.20
X-Ray heavy machine	People's Republic of China	3.00
Haapai Education Reconstruction	New Zealand	3.00
Integrated Environmental Management Fanga'uta Lagoon	United National Development Program	3.00
Tonga Police Development Programme	Pooled Funds - Australia & New Zealand	2.68
Scholarship	New Zealand	2.60
Non -Project Grant Aid	Japan	2.50
Regional Scholarship	Australia	2.50
Police Head Quarters Reconstruction	Unconfirmed Donors	2.40

Continue from Table 6-7		
Project Name	Funded By	Budget 2015/16
2 new fire trucks	Australia	2.00
Tonga Health Sector Support Project 2	Australia	2.00
Maintenance Primary Schools	World Bank/International Development Agency (IDA)	2.00
Maintenance of all roads in Tongatapu	Unconfirmed Donors	2.00
Outer Island Connectivity	Asian Development Bank	2.00
E – Government	World Bank/International Development Agency (IDA)	2.00
Climate Change Mitigation Project	United National Development Program	2.00
Tonga Broadcasting Commission's Repeater Radio Mast in Vava'u	Japan - Other	1.80
Tonga Rural Innovation Projects	International Fund for Agricultural Development	1.60
Medical Materials	People's Republic of China	1.50
Tonga Institute of Sports	Unconfirmed Donors	1.50
APT J3 E-disaster project (early warning system for Tonga)	Unconfirmed Donors	1.47
Coping with Climate Change in the Pacific Island Region (CCCPIR).	Secretariat of the Pacific Community	1.30
Medical experts teams and equipment	People's Republic of China	1.20
Outer Island Renewable Energy Project	Asian Development Bank	1.10
Financial Management Info System	Australia	1.00
Grassroot Grant Project	Japan - Other	1.00
ASYCUDA SYSTEM	Unconfirmed Donors	1.00
Maintenance Secondary Schools	World Bank/International Development Agency (IDA)	1.00
Maintenance of all roads in Vv incl new causeways	Unconfirmed Donors	1.00
Nuku'alofa Urban Development Project	Asian Development Bank	1.00
Digitization of Government Records	Unconfirmed Donors	1.00
Tonga-Fiji Connectivity Project	World Bank/International Development Agency (IDA)	1.00
Climate Resilience Sector Project	Asian Development Bank	1.00
Cyclone Ian Recovery Project	Asian Development Bank	1.00
<b>Total</b>		<b>193.51</b>

Source : Ministry of Finance and National Planning

### 6.4.4 Development Expenditure by Region and National

Projects fund development needs across the country as shown in the following six tables which show total expenditure (cash plus in-kind) for each island group. Unsurprisingly, most of these are based on Tongatapu, as seen in *Table 6-8*, the island is home to nearly three-quarters of the population. All government MDAs, major international transport ports, education, central hospitals and other facilities are also based there.

#### 6.4.4.1 Projects in Tongatapu

*Table 6-8* below are major Development expenditures for projects and programs that based in Tongatapu by sectors. These are:

- Pacific Risk Resilience Projects (PRRP) assists in strengthening governance mechanism for disaster risk reduction and climate change adaptation, implemented by UNDP and funded by Australia.
- Nuku'alofa Urban Development Sector Project (NUDSP) aims at effective, efficient and sustainable water and solid waste services in Nuku'alofa area and is co-funded by ADB and Australia
- continuation of the Transport Sector Consolidation projects currently on its final year with the periodic maintenance of road component with expectation to be completed in the next two years
- major component of the Pacific Aviation Investment Program which is the resurfacing of Fua'amotu airport runway funded by the World Bank
- Tonga Health Support Project part II planned to implement in 2015 aiming to support training and to provide support to the Vaiola Hospital information system.
- Tonga Governance and Strengthening Project implemented by UNDP and funded by Australia, estimated end of this project is 2016.
- Tonga Police Development Programme Phase II funded by both Australia & New Zealand, and the activities aimed at reducing crime for safe and free communities.
- Japan Grassroots Grant Program still continues and funded by the Government of Japan.
- St George Palace is planned to be built in July after the coronation, funded by the People's Republic of China. This project has been delayed for two years due to slow progress with the designing.

*Table 6-8* explains the government allocation by project types funded by donors to Tongatapu alone.

**Table 6-8 : Grant Allocation by Project Types – Tongatapu (\$ million)**

Sectors	Actual 2013/14	Budget Estimate 2014/15	Revised Estimate 2014/15	Budget Estimate 2015/16	Projection 2016/17	Projection 2017/18
Transport & Storage	4.05	45.24	16.14	35.27	17.60	14.20
Education	5.08	9.19	5.18	19.42	6.15	0.90
Government & Civil Society	16.28	20.14	9.98	18.02	9.59	4.59
Energy Generation & Supply	24.17	25.30	20.42	15.37	9.60	8.00
Constructions	2.34	4.09	2.39	10.49	10.08	5.00
Climate Change and Disaster Risk Management	6.24	4.56	3.89	6.36	3.00	2.00

Continue from Table 6-8						
Sectors	Actual 2013/14	Budget Estimate 2014/15	Revised Estimate 2014/15	Budget Estimate 2015/16	Projection 2016/17	Projection 2017/18
Law & Order	3.97	6.40	2.08	6.33	2.99	1.35
Health	4.25	6.93	5.28	6.10	4.30	3.20
Business & Other Services	-	3.81	0.16	3.00	-	-
Multi-sector/Cross-cutting	-	1.35	0.23	1.00	1.00	-
Tourism	0.01	-	0.01	0.72	0.27	0.13
Agriculture	0.23	0.60	0.30	0.40	0.40	-
Fishing	0.12	0.45	0.19	0.31	0.21	0.21
Road	-	-	-	0.03	0.03	0.03
Other Social Infrastructure and services	0.40	-	-	-	-	-
Humanitarian Aid	-	0.16	-	-	-	-

Source : Ministry of Finance and National Planning

#### 6.4.4.2 Projects based in Vava'u

Table 6-9 shows the development projects allocated for Vava'u, ranging from economic, social and health projects.

Table 6-9 : Grant Allocation by Project Types - Vava'u (\$ million)

Sectors	Actual 2013/14	Budget Estimate 2014/15	Revised Estimate 2014/15	Budget Estimate 2015/16	Projection 2016/17	Projection 2017/18
Government & Civil Society	-	0.50	-	6.80	-	1.01
Transport & Storage	-	1.50	-	1.21	1.01	-
Health	-	-	0.02	0.46	-	-
Law & Order	-	-	-	0.20	-	-
Education	-	-	0.03	-	-	-
Energy Generation & Supply	1.01	0.70	0.01	-	-	-
Climate Change	0.42	1.70	1.49	-	-	-
Multi-sector/Cross-cutting	-	0.16	0.16	-	-	-

Source : Ministry of Finance and National Planning

Key projects include:

- UNFPA Training – this is a nationwide project, which has an allocation for Vava'u funded by UN Family Planning Association. Training and workshop activities are for reproductive health and promote the right of every woman, man and child to enjoy a life of health and equal opportunity of the people.
- WHO Training continues providing training workshops on the health of the people of Vava'u.
- the Fiber-Optic Cable Projects extension to Vava'u from Tongatapu is being negotiated with several donors, particularly the ADB and WB for implementation in 2015/16; their financing options are being explored to fund this project if WB and ADB are unable to assist

- Japan Grassroots Grant Program still continues and funded by the Government of Japan.
- Tonga Rural Innovation Projects implemented by MORDI and funded by IFAD is to, upgrade the Hunga community agricultural boundary fence and few others in the island depending on the identified priority needs.
- the Climate Resilience Project funded by ADB is expected to build a jetty for Ofu island and allocated funds for Special Marine Management Areas for Fisheries.
- the European Union through the Ministry of Health will be conducting a training workshop on prevention of NCDs in Vava'u islands. This is a project that runs for two years ending in December 2015.

#### **6.4.4.3 Projects based in Ha'apai**

Cyclone Ian reconstruction continues in Ha'apai with expectation to be completed by July 2015. There were delays in the construction works due to land issues, however, government with the support of the local communities work together with the Constructors to ensure the work progressed smoothly and to likely meet the revised deadline. These construction projects have contributed to the big increase in total funding to Ha'apai. The Ha'apai recovery taskforce is working in collaboration with the World Bank together with the Ha'apai Development Committee in monitoring the progress of the work.

##### **Key projects include:**

- the Climate Resilience Sector projects funded by ADB will relocate and build the Niu'ui Hospital for the people of Ha'apai, after the hospital was damaged by Cyclone Ian on January 2014.
- renovating primary schools that were affected by Cyclone Ian is also planned to start in the this financial year
- continuing of the Outer Island Renewable Energy Project by installing solar power systems in selected islands and villages in Ha'apai with total capacity of 0.2MWp.
- Pacific Islands Greenhouse Gas Abatement through Renewable Energy in the Pacific (PIGGAREP), plus funding by Secretariat of the Pacific Regional Environment Programme (SPREP) contain projects for Ha'apai Island by supplying a Solar PV-powered well water pumping systems for the people of Ha'apai.
- upgrading of power supply jointly funded by New Zealand and ADB.

**Table 6-10 : Grant Allocation by Project Types – Ha’apai (\$ million)**

Sectors	Actual 2013/14	Budget Estimate 2014/15	Revised Estimate 2014/15	Budget Estimate 2015/16	Projection 2016/17	Projection 2017/18
Constructions	-	26.75	14.00	13.00	-	0.21
Climate Change	-	7.04	5.61	4.50	-	0.01
Government & Civil Society	-	8.00	-	2.00	3.00	-
Transport & Storage	-	0.70	-	0.71	0.21	-
Law & Order	-	3.00	-	0.50	-	-
Health	-	1.50	0.12	0.06	0.06	-
Education	-	0.01	0.04	0.01	0.01	-
Energy Generation & Supply	-	2.80	2.30	-	-	-
Multi-sector/Cross-cutting	-	0.14	0.14	-	-	-
Humanitarian Aid	-	4.10	-	-	-	-

*Source : Ministry of Finance and National Planning*

#### 6.4.4.4 Projects based in ‘Eua

**Table 6-11 : Grant Allocation by Project Types - ‘Eua (\$ million)**

	Actual 2013/14	Budget Estimate 2014/15	Revised Estimate 2014/15	Projection 2016/17	Projection 2016/17	Projection 2017/18
Transport & Storage	-	5.6	-	0.51	0.21	0.21
Constructions	-	0.5	-	0.5	-	-
Water Supply & Sanitation	-	-	0.34	0.3	-	-
Health	-	-	-	0.2	-	-
Climate Change	-	0.2	-	-	-	-
Health	-	-	0.1	-	-	-
Education	-	-	0.01	-	-	-
Energy Generation & Supply	-	0.4	-	-	-	-
Multi-sector/Cross-cutting	-	0.29	0.1	-	-	-
<b>Total</b>	<b>0</b>	<b>6.89</b>	<b>0.55</b>	<b>1.51</b>	<b>0.21</b>	<b>0.21</b>

*Source : Ministry of Finance and National Planning*

Key projects include:

- Republic of Korea funded 30 water tanks for ‘Eua communities that are completed.
- MORDI have implemented their infrastructural project in ‘Eua and reviewed several Community Plans . There is a proposal from ‘Eua for construction of a packing house to be used to pack local produces prior to shipment to Tonga and beyond.
- The Government of Japan through their GGP program have funded the upgrading of Hofangahau College and Tufuvai Government Primary School.

- WHO Training provided a workshop for the Health of the people of 'Eua
- Tonga Education Support Program both funded by New Zealand and Australia continues to provide some assistance to 'Eua via the main office in Nukuálofa.
- Sports Outreach Program – Grant for sports activities to 'Eua people funded by Australia Bilateral Assistance.
- Periodic road maintenance under the TSCP project continues
- ADB Climate Resilience Project will fund climate proofing of one school and road

#### 6.4.4.5 Projects based in NTT and NF

**Table 6-12: Grant Allocation by Project Types – Niuatoputapu (\$ million)**

NT	Actual 2013/14	Budget Estimate 2014/15	Revised Estimate 2014/15	Budget Estimate 2015/16	Projection 2016/17	Projection 2017/18
Construction	-	-	-	2.4	-	0.15
Multi-sector/Cross-cutting	-	0.02	0.02	0.6	0.6	-
Government & Civil Society	-	2.43	-	0.5	0.5	0.5
Transport & Storage	-	-	-	0.35	0.15	-
Energy Generation & Supply	-	0.1	-	-	-	-
Other Social Infrastructure and Services	0.9	-	-	-	-	-
<b>Total</b>	<b>0.9</b>	<b>2.55</b>	<b>0.02</b>	<b>3.85</b>	<b>1.25</b>	<b>0.65</b>

*Source: Ministry of Finance and National Planning*

**Table 6-13: Grant Allocation by Project Types – Niuafu'ou (\$ million)**

NF	Actual 2013/14	Budget Estimate 2014/15	Revised Estimate 2014/15	Budget Estimate 2015/16	Projection 2016/17	Projection 2017/18
Transport & Storage	-	-	-	0.15	0.15	0.15
Climate Change	-	0.03	0.01	-	-	-
Energy Generation & Supply	-	0.1	-	-	-	-
<b>Total</b>	<b>0</b>	<b>0.13</b>	<b>0.01</b>	<b>0.15</b>	<b>0.15</b>	<b>0.15</b>

*Source: Ministry of Finance and National Planning*

With the completion of the Tonga Post Tsunami project in December 2013 there is a significant decrease in the number of projects.

Key projects include:

- Niuatoputapu hospital has now being confirmed to be built during the 2015/16 budget . This construction work was expected to start last year, but had been delayed because of various reasons.
- Japan's Grassroot program has approved funding for upgrading water supply system for Vaipoa, Hihifo and Falehau villages and is scheduled to commence later in 2015. .
- A 0.15 MWp of solar power capacity will be connected to a newly installed distribution system in Niuatoputapu. It is planned under the OIREP project together with expanding existing solar home system capacity in Niuafu'ou by installing an additional 100 units of 200 watt peak SHSs.



- The Climate Resilience projects will fund climate proofing of 3 schools and conduct water survey in Niuafu'ou and coastal monitoring network in Niuafu'ou, funded by ADB support for climate change.

#### 6.4.4.6 National Projects

*Table 6-14* below covers all other projects that provide national support to various sectors of the economy.

**Table 6-14 : Development Expenditure by Project Type**

Sectors	Actual 2013/14	Budget Estimate 2014/15	Revised Estimate 2014/15	Budget Estimate 2015/16	Projection 2016/17	Projection 2017/18
Education	0.61	5.61	4.27	38.20	65.10	75.10
Transport & Storage	25.00	31.50	20.10	6.01	2.99	1.44
Tourism	1.49	0.89	0.62	4.20	3.70	-
Climate Change	3.71	4.66	3.40	4.10	2.00	2.00
Government & Civil Society	3.17	5.42	10.00	2.07	0.50	0.50
Energy Generation & Supply	-	0.73	0.23	1.60	-	-
Health	0.76	0.40	0.30	0.51	0.50	0.50
Multi – sector/Cross –cutting	0.12	-	0.13	-	-	-
Business & Other Services	-	0.12	-	-	-	-
Law & Order	-	0.25	-	-	-	-
Agriculture	0.36	0.03	-	-	-	-
Fishing	0.01	0.02	0.02	-	-	-
Humanitarian Aid	0.21	2.47	1.99	-	-	-
Disasters Donors	-	0.10	-	-	-	-
<b>Total</b>	<b>35.46</b>	<b>51.99</b>	<b>40.86</b>	<b>56.68</b>	<b>74.79</b>	<b>79.54</b>

*Source: Ministry of Finance and National Planning*

## 6.5 GOVERNMENT BUDGET: FUNDING THE OUTPUTS

### 6.5.1 Government Domestic or “Recurrent Budget”

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The transaction from this budget also determines the level of cash balances at the beginning and end of the financial year. Retaining this cash balance, often referred to as the Consolidated Fund, in a healthy condition is a key part of prudent and sustainable fiscal management. Loan draw downs and repayments are treated as “expenditure” and drawdown of loans as “revenue”, while in the GFS2001 these are recorded as net lending or borrowing. Total Government controlled “expenditure” and “revenue” in the Recurrent Budget is thus better called payments and receipts to avoid confusion with the terms under the GFS. Budget Receipts (called revenue in the budget document) comprise of: (i) domestic revenue (taxes, charges, fees etc), transfers from other funds and sale of bonds, plus funding from revolving funds; and (ii) Budget Support.

Budget Payments (called expenditure in the budget document) comprise of: (i) operating expenditure (such as staffing cost, purchase of goods and services, and other operating costs); and (ii) other payments which include purchase of assets and equity, and repayment of debt.

Provisional recurrent receipts for 2013/14 amounted to \$204.4 million, with payments of \$193.1 million resulting in a \$11.3 million cash surplus at the end of the financial year. The surplus was partly due to a faster than anticipated rate of collection in taxes of goods and services, income tax, and excise tax, related to greater economic activities.

In 2014/15, Government anticipates total recurrent receipts of \$230.4 million against an approved budget of \$235.3 million. The shortfall of \$4.9 million was partly due to the deferment on budget support from the Asian Development Bank.

Government anticipates total recurrent payments of \$227.0 million at the end of the year against an approved budget of \$235.3 million. The underutilisation of the recurrent expenditure by \$8.3 million will be largely due to slow disbursement of the Private Sector Initiative funds, and the expectation that some of the activities planned for the year will be delayed. Tight control of MDAs approved budget also contributes towards this slower rate of spending.

During the first three quarters of 2014/15, local payments exceeded receipts due to slow receipt of budget support as projected, but strong revenue collection in the first two quarters gave financial breathing space to the Government despite the short term cash flow imbalances we continue to encounter.

Government anticipate a \$3.3 million cash surplus towards the end of the 2014/15 (resulting from royalty fees received from Tongasat, and budget support from the European Union that was not budgeted for in 2014/15). This will raise the consolidated or general fund to cover about 1.3 months of payments, down from 1.6 months at the end of 2013/14.

Receipts for 2015/16 are expected to rise from new revenue streams created to assist the Pacific Games, royalty from Tongasat, and an increase in budget support from the Asian Development Bank for the FY 2015/16 which includes budget support deferred from FY 2014/15. The resulting cash balance budgeted at \$6 million will represent the net accumulation of funds for the PG. Half of the anticipated cash surplus for 2016/17 is attributable to further build up of the PG Fund. The projected cash deficit in 2017/18 will relate to the rundown of the PG Fund as expenditure for the games preparation increases. Excluding the PG Fund, the consolidated fund will be little changed over the two outer years resulting in an average of 1.2 months cover.

The Accounting Presentation of the Budget details are summarised in *Table 6-1* below along with the cash deficit/surplus which shows the change in the Consolidated Fund. The key elements of the Development Budget (discussed in Section 6.4) are also included.

## 6.6 BUDGET PRESENTED IN THE GFS FORMAT

### 6.6.1 Overall Fiscal Balance

Using the 2001 GFS format, this section provides an overview of the expenditure, revenue and financing over the MTBF. This covers both the locally controlled finances discussed in Section 6.3, and the aid funding (both cash and in-kind) for the projects as described in more detail in Section 6.4 under Development Expenditure. By following international standards we are able to be compared against others, and the format also provides a sound base for analysis shown by the government consolidated budget which covers the details shown under Recurrent Budget and Development Budget in Sections 6.3 and 6.4 respectively. All tables in this section show the same period as in the Budget Document: Provisional for 2013/14, through to the end of the three-year MTBF in 2017/18.

The overall fiscal balance is shown in *Table 6-15*. This summarises total Revenue, separated into domestic and foreign sources. As noted earlier, this does not include any loan drawdowns as it is not revenue but a source of financing. It also shows total Expenses (same as operational expenditure) - the cost of running government no matter how it is funded. The difference between Revenue and Expense is the Gross Operating Balance. Net Acquisition on Non official Assets (essential capital expenditure) is then subtracted to provide the Net Lending/Borrowing Requirement - what is needed to finance the gap between all revenue and all expenditure. The last item shows the Net Acquisition of Financial Assets/Liabilities to finance the line above. A positive figure indicates a net increase in assets, in our case mostly a cut in debt and/or increase in cash balances.<sup>26</sup> On the other hand, a negative figure means a need to run down cash balances or borrow more.

**Table 6-15: Overall Fiscal Balance (\$ million)**

	Provisional 2013/14	Original Estimate 2014/15	Revised Estimate 2014/15	Estimate 2015/16	Projection 2016/17	Projection 2017/18
<b>Revenue</b>	<b>301.5</b>	<b>436.9</b>	<b>338.4</b>	<b>452.7</b>	<b>397.2</b>	<b>369.2</b>
Tax and Non-tax Revenue	160.8	169.3	181.3	216.3	221.2	190.7
Grants						
Current	81.4	111.0	79.1	101.8	66.6	42.9
Capital	59.3	156.6	78.0	134.6	109.4	96.5
<b>Expense</b>	<b>221.0</b>	<b>294.7</b>	<b>259.7</b>	<b>338.5</b>	<b>289.7</b>	<b>277.5</b>
<b>Gross Operating Balance</b>	<b>80.5</b>	<b>142.2</b>	<b>78.8</b>	<b>114.2</b>	<b>107.5</b>	<b>91.7</b>
<b>Net Acquisition Of Nonfinancial Assets</b>	<b>59.1</b>	<b>156.0</b>	<b>77.3</b>	<b>134.9</b>	<b>114.6</b>	<b>97.3</b>
<b>Net Lending/Borrowing Requirement</b>	<b>21.4</b>	<b>-13.8</b>	<b>1.5</b>	<b>-20.7</b>	<b>-7.1</b>	<b>-5.6</b>
<b>Net Acquisition Of Financial Assets And Liabilities (Financing)</b>	<b>-21.4</b>	<b>13.8</b>	<b>-1.5</b>	<b>20.7</b>	<b>7.1</b>	<b>5.6</b>

*Source: Ministry of Finance & National Planning*

<sup>26</sup>In GFS1986 the financing lines (which were calculated slightly differently) had opposite signs. In GFS2001 they both show the same sign.

Revenue was estimated in 2014/15 to be \$436.9 million (tax, non-tax and grants), but is revised down to \$338.4 million in 2015/16. The downward revision of \$98.5 million relates mainly to the deferment of the Asian Development Bank budget support, and less grants being received than projected. Receiving less project funds is a regular feature related to the difficulty of estimating project expenditure, and the number of possible projects that will actually proceed in the following financial year.

Movement in tax and non-tax revenue resulted in an upward revision of operating revenue by \$12.0 million, or 7.1 percent, as a result of improved enforcement and compliance in revenue collection, and increased economic activities that led to improvements in collection from taxes on goods and services, income tax, excise tax, and duty. As a result, the non-receipt of ADB budget support did not threaten the cash balances.

Operating expenses was estimated in 2014/15 to be \$294.7 million. It is now expected that the Government will spend \$35.0 million, or 11.9 percent, less than estimated. This resulted mainly from tight controlling of expenditure by ministries, and some reprioritizing of existing programs to ensure MDAs' priority needs are addressed first by funding within any unbudgeted request. In 2015/16, operating expenses is budgeted at \$338.5 million, an increase of 14.9 percent from the 2014/15 original estimate, due to a number of one off items. . This also relates to the focus of government on addressing a number of urgent needs to place the operations of the public service on a more sound footing. A decrease in both of the two outer years to \$289.7 million and \$277.5 million respectively, is projected.

An operating surplus of \$114.2 million is budgeted for in 2015/16. \$5.5 million of this surplus belongs to the Pacific Games Fund. To allow for the build up of cash balances, mostly related to the Pacific Games Fund (PGF). This leaves \$108.7 million, which will cover about 80 percent of the planned investments, mostly development projects. The rest of the gap will be financed from domestic and foreign borrowing. Smaller amounts of borrowing will be required in the two outer years; this will be within the debt targets.

Government continues with its effort to assist the private sector through its Private Sector Initiatives program of soft loans managed by the TDB. The long term fiscal challenge, if this initiative is to be further expanded, is to identify sustainable funding for this expansion, instead of relying on further short term domestic borrowing. Excess domestic borrowing will undermine the fiscal sustainability as set out in the approved debt targets in the MTDS.

Some of the other notable features of the 2015/16 estimate data, in terms of government funding, is the preparatory work for the Pacific Game, St George's Palace Office complex (government and donor (PRC) funded), implementation of the remuneration review exercise, assistance towards the Community Development Committees in the Outer Islands, expanded support to vulnerable groups (including welfare payments and services, and the electricity tariff lifeline for low electricity users), passport investigation program, and the Coronation.

## **6.6.2 Total Expenditure**

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Total expenditure (current plus capital) is shown in *Table 6-16*. Current expenditure is shown across the six major expenditure groups: compensation of employee accounts and use of goods and services account for nearly 87 percent of total current expenditure. The remaining 13 percent is captured by the other four groupings, plus 'other expense' which cover the rest. Capital expenditure is

separated into three main types of fixed assets with building & structures, plus machinery & equipment accounting for some 90 percent of the total. The detailed discussion of movements under each of these items is provided in the following sections.

**Table 6-16 : Total Expenditure on GFS Basis (\$ million)**

	Provisional 2013/14	Original Estimate 2014/15	Revised Estimate 2014/15	Estimate 2015/16	Projection 2016/17	Projection 2017/18
<b>Expense (Current)</b>	<b>221.0</b>	<b>294.7</b>	<b>259.7</b>	<b>338.5</b>	<b>289.7</b>	<b>277.5</b>
Compensation of employees	101.6	122.6	115.9	135.4	129.3	127.7
Use of goods and services	85.3	130.5	102.6	157.6	112.0	97.2
Interest	7.1	6.8	6.8	7.4	7.2	7.2
Subsidies	0.1	0.1	0.1	0.7	0.9	1.8
Grants	3.1	2.2	3.5	4.8	4.4	4.4
Social benefits	10.7	18.8	18.4	19.3	20.6	20.6
Other expense	13.0	13.8	12.4	13.3	15.3	18.7
<b>Acquisition Of Nonfinancial Assets (Capital)</b>	<b>59.1</b>	<b>156.0</b>	<b>77.3</b>	<b>134.9</b>	<b>114.6</b>	<b>97.3</b>
Fixed assets	59.0	155.9	77.2	134.8	114.5	97.1
<i>Buildings and structures</i>	2.6	85.8	22.0	89.9	94.2	90.0
<i>Machinery and equipment</i>	41.8	48.3	37.8	31.9	10.1	1.2
<i>Other fixed assets</i>	14.6	21.8	17.4	13.0	10.2	6.0
Nonproduced assets	0.1	0.1	0.1	0.1	0.1	0.2
<i>Land</i>	0.1	0.1	0.1	0.1	0.1	0.2
<b>Total Payments</b>	<b>280.1</b>	<b>450.7</b>	<b>337.0</b>	<b>473.5</b>	<b>404.4</b>	<b>374.8</b>

Note: Payments associated with the acquisition of nonfinancial assets with the amounts in the GFS reports, the amount of the estimated receipts from the sale of capital items needs to be deducted from the figures in this table.

*Source: Ministry of Finance & National Planning*

### 6.6.2.1 Total Expenditure by Location

Expenditure by location continues to exhibit considerable variations. The group with the highest allocation of the budget is “Tongatapu” receiving, in 2015/16, 62 percent of the total estimate, followed by the “Nationwide” group with 27 percent, then Vava’u at 4 percent and the remaining 7 percent shared by the remaining locations. *Table 6-17* gives the detail of the budget allocation by Island group.

**Table 6-17 : Recurrent Budget allocation by Location (\$ million and percent).**

Expenditure by Location	2013/14		2014/15		2014/15		2015/16		2016/17		2017/18	
	(Provisional)	%	(Original Estimate)	%	(Revised Estimate)	%	(Estimate)	%	(Projection)	%	(Projection)	%
Nationwide	55.9	29%	72.9	31%	71.6	32%	71.0	27%	73.6	28%	66.8	25%
Tongatapu	117.2	61%	140.0	59%	132.1	58%	164.1	62%	162.1	61%	168.2	63%
Vava'u	6.9	4%	7.6	3%	7.0	3%	10.6	4%	10.8	4%	10.9	4%
Ha'apai	3.7	2%	4.1	2%	3.3	1%	5.7	2%	5.8	2%	5.9	2%
Eua	2.4	1%	2.8	1%	3.8	2%	3.7	1%	3.8	1%	4.0	2%
Niua Toputapu	0.8	0%	0.8	0%	0.9	0%	1.5	1%	1.5	1%	1.6	1%
Niua Fo'ou	0.8	0%	0.8	0%	1.7	1%	1.1	0%	1.1	0%	1.2	0%
Overseas	5.5	3%	6.4	3%	6.7	3%	6.1	2%	6.1	2%	6.3	2%
<b>Total</b>	<b>193.1</b>	<b>100%</b>	<b>235.3</b>	<b>100%</b>	<b>227.0</b>	<b>100%</b>	<b>263.7</b>	<b>100%</b>	<b>264.8</b>	<b>100%</b>	<b>264.9</b>	<b>100%</b>

*Source :Ministry of Finance and National Planning*

### 6.6.2.2 Current Expenditure

Current expenditure, recorded as Expense in *Table 6-16*, shows the trends discussed in the overview section: the decrease in 2014/15 between the budget and revised estimates, the large jump in 2015/16, and the decline in the two outer years. This is explained in more detail under each of the items below.

#### 6.6.2.2.1 Compensation of Employees

Total compensation of employees budgeted in 2015/16 is \$135.4 million (of which \$115.0 million is for wages and salaries and \$20.4 million is for social contributions). This is an increase of \$19.5 million from the revised estimates in 2014/15. It is expected that the budget for the outer years will be increasing at a minimal rate as a result of a freeze in recruitment, and much of the transfer value arrears are expected to be paid in 2015/16.

The revised estimates for GFS expenditures on wages and salaries for 2014/15 are slightly down as shown in Table 6-5. For 2015/16, the budget for wages and salaries is increased to \$115.0 million, over 13 percent more than the revised estimate for 2014/15. This increase reflects the remuneration review exercise to be effective in July 2015.

97 percent of salary expenditure is allocated to established staff. This proportion has increased since 2013/14 and will slightly decrease in the outer years as a result of freezing recruitment and ceasing of annual increment while the impacts of the policy change in location and travel allowances to the Outer Islands increase the overall wages and salaries budget for the outer years.

**Table 6-18: Compensation of Employees (\$ million)**

	Provisional 2013/14	Original Estimate 2014/15	Revised Estimate 2014/15	Estimate 2015/16	Projection 2016/17	Projection 2017/18
<b>Compensation of employees</b>						
Wages and salaries	92.4	102.6	101.8	115.0	115.3	116.5
Social contributions	9.2	19.9	14.0	20.4	14.1	11.1
<b>Total</b>	<b>101.6</b>	<b>122.6</b>	<b>115.9</b>	<b>135.4</b>	<b>129.3</b>	<b>127.7</b>

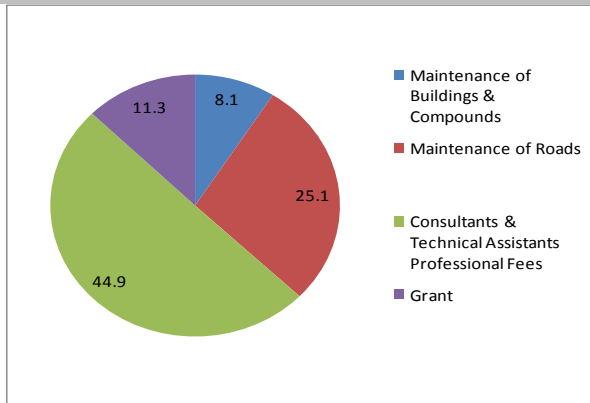
*Source : Ministry of Finance and National Planning*

The Government on its budget priority for the 2015/16 and the outer years recognizes the importance of rebalancing expenditure away from salaries and wages to ensure improved service delivery. Moreover, Government decided to freeze further recruitment until the remuneration review exercise is completed for civil servants. The Ministry of Finance and National Planning, with the assistance of the Public Service Commission, continue to be tasked with scrutinizing of recruitments. The establishment of new positions will depend on the confirmation of funds by the Ministry of Finance and National Planning while Public Service Commission reviews the line ministries' organizational structure, core functions, and existing total number of staff. More importantly, recruitment of staff in line ministries must be in line with their Corporate Plans.

Social contributions are estimated at \$20.4 million in the 2015/16 budget, which consists of \$9.9 million for contributions to the Retirement Fund and \$10.5 million as transfer value to meet part of the Government's long standing arrears bill.

#### 6.6.2.2.2 Use of Goods and Services

**Figure 6-1 : Major expenditure items under Use of Goods and Services 2015/2016 (\$ million)**



Source : Ministry of Finance and National Planning

The use of goods and services for 2015/16 is set to increase to \$157.6 million, representing an increase of 54 percent from the estimated outturn in 2014/15 of \$102.6 million. Other uses of goods and services are only expected to increase marginally.

The major areas of increase in the 2015/16 budget compared to the 2014/15 outturn are consultants and technical assistants professional fees of \$44.9 million, maintenance of roads of \$25.1 million, bulk of which is a grant of \$11.3 million, and maintenance of building and compounds of \$8.1 million.

#### 6.6.2.2.3 Social Benefits

Government's contribution towards social benefits is expected to increase by \$0.9 million in 2015/16, an increase of 4.9 percent from the estimated outturn in 2014/15. The increase is partly a result of an increase in scholarship fund by \$1.2 million from the estimated outturn in 2014/15 of \$7.8 million. Social benefits is anticipated to increase again in 2016/17 by \$1.3 million as a result of the Defence Force staff gratuities which are now paid for by Government, and the same amount will be expected for 2017/18. **Table 6-19** outlines the details regarding social benefits.

**Table 6-19 : Social Benefits (\$ million)**

	Provisional 2013/14	Original Estimate 2014/15	Revised Estimate 2014/15	Estimate 2015/16	Projection 2016/17	Projection 2017/18
Social security benefits	10.7	18.8	18.4	19.3	20.6	20.6
<b>Total</b>	<b>10.7</b>	<b>18.8</b>	<b>18.4</b>	<b>19.3</b>	<b>20.6</b>	<b>20.6</b>

Source : Ministry of Finance and National Planning

#### 6.6.2.2.4 Interest payments

Total interest payments on domestic and foreign debt, in **Table 6-20**, are estimated at \$7.4 million for 2015/16, slightly up by \$0.6 million from the estimated outturn for 2014/15 of \$6.8 million, and it will remain constant in the outer years at \$7.2 million. Interest payments are comprised of two parts; domestic (17.6 percent of total interest payments) and foreign (82.4 percent of total interest payments). In the future, interest payments for foreign loans will be separated to show servicing of the

Chinese EXIM Bank Reconstruction loans, and all other loans from the Asian Development Bank and World Bank. Further details are provided under the Public Debt in Section 5.

**Table 6-20 : Interest (\$ million)**

	Actual 2013/14	Budget Estimate 2014/15	Revised Estimate 2014/15	Budget Estimate 2015/16	Projection 2016/17	Projection 2017/18
<b>Interest</b>						
To nonresidents	5.7	5.3	5.3	6.1	5.9	5.9
To residents other than general government	1.5	1.5	1.5	1.3	1.3	1.3
<b>Total</b>	<b>7.1</b>	<b>6.8</b>	<b>6.8</b>	<b>7.4</b>	<b>7.2</b>	<b>7.2</b>

Source: Ministry of Finance and National Planning

#### 6.6.2.2.5 Subsidies

On GFS basis, expenditure on subsidies has been a low \$0.1 million per annum. It is estimated to rise to \$0.7 million for 2015/16, with further increases to \$0.9 million and \$1.8 million in the outer years, as shown in *Table 6-21*. This represents an increase on average of \$0.8 million in the medium term of subsidies to the private enterprises, such as subsidies to the Outer Island Development Committees, and the inclusion of subsidies to Development Committees for Tongatapu in 2017/18 for the first time. The purpose of these subsidies is to assist critical development projects and activities at the community level.

**Table 6-21 : Subsidies (\$ millions)**

	Actual 2013/14	Budget Estimate 2014/15	Revised Estimate 2014/15	Budget Estimate 2015/16	Projection 2016/17	Projection 2017/18
<b>Subsidies</b>						
Subsidies to public corporations	-	-	-	-	-	-
Subsidies to private enterprises	0.1	0.1	0.1	0.7	0.9	1.8
<b>Total</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.7</b>	<b>0.9</b>	<b>1.8</b>

Source: Ministry of Finance and National Planning

#### 6.6.2.2.6 Grants

Expenditure on grants is estimated to increase in 2015/16 by \$1.3 million, an increase of 37 percent from the estimated outturn in 2014/15. The increase reflects Government contribution to organizations which are outside Government and the numbers of these organizations have increased compared to those in 2014/15, and partly the impact of the exchange rate fluctuations that affect grants to international organizations. It is expected that the Government grants to international organizations will remain the same for the outer years.



**Table 6-22 : Grants (\$ million)**

	Provisional 2013/14	Original Estimate 2014/15	Revised Estimate 2014/15	Estimate 2015/16	Projection 2016/17	Projection 2017/18
Grants						
To international organizations	3.1	2.2	3.5	4.8	4.4	4.4
<b>Total</b>	<b>3.1</b>	<b>2.2</b>	<b>3.5</b>	<b>4.8</b>	<b>4.4</b>	<b>4.4</b>

Source: Ministry of Finance and National Planning

#### 6.6.2.2.7 Other Expenses

Other expenses comprise of Government spending under GFS basis that are not classified under any of the expense categories discussed above namely: the subsidies to local public enterprises, grants for sport activities and charitable organisations, and tax expenditures on Government Projects. It is estimated that the other expenses for 2015/16 will increase by \$0.9 million, a 7.2 percent increase from the estimated outturn in 2014/15, as shown in **Table 6-23** below. The increase results from an increase in grants to sports as the Tonga Sports Teams will be participate in the World Cup as well as the preparation work for the Pacific Games anticipated to commence in 2015/16, and the outer years. Grants to charitable organisations also increase by \$0.5 million

**Table 6-23 : Other Expenses(\$ million)**

	Provisional 2013/14	Original Estimate 2014/15	Revised Estimate 2014/15	Estimate 2015/16	Projection 2016/17	Projection 2017/18
Other Expenses						
Miscellaneous Other Expense	13.0	13.8	12.4	13.3	15.3	18.7
<b>Total</b>	<b>13.0</b>	<b>13.8</b>	<b>12.4</b>	<b>13.3</b>	<b>15.3</b>	<b>18.7</b>

Source: Ministry of Finance and National Planning

#### 6.6.2.3 Capital Expenditure

Total Capital expenditure (or the acquisition of nonfinancial assets), is shown in **Table 6-24**. This is substantially funded from aid grants and soft loans and mainly driven by buildings and structures. The 2014/15 estimated outturn is \$77.3 million, a reduction of \$78.7 million from 2014/15 original estimate and an increase of \$18.2 million from 2013/14 actual. The reduction from the original estimate is due to delay on implementation of several projects as well as some of the machinery and equipments were not received as projected for the year. The reduction from the original estimate is expected and explained under development projects in Section 6.3 due to the difficulties in estimating aid funding.

Total Capital expenditure in 2015/16 is estimated at \$134.9 million, in which it comprises 66.6 percent for buildings and structures, 23.6 percent for machinery and equipment and 9.8 percent from others. An increase of \$57.6 million in 2015/16 from 2014/15 estimated outturn of \$77.3 million, mainly due to increase in buildings and structures projects anticipated for the year. However, it will also be likely that the final outturn will be considerably less.

**Table 6-24 : Capital Expenditure (\$ million)**

	Provisional 2013/14	Original Estimate 2014/15	Revised Estimate 2014/15	Estimate 2015/16	Projection 2016/17	Projection 2017/18
<b>Fixed assets</b>						
Buildings and structures	2.6	85.8	22.0	89.9	94.2	90.0
Machinery and equipment	41.8	48.3	37.8	31.9	10.1	1.1
Other fixed assets	14.6	21.8	17.4	13.0	10.2	6.0
Land	0.1	0.1	0.1	0.1	0.1	0.2
<b>Total</b>	<b>59.1</b>	<b>156.0</b>	<b>77.3</b>	<b>134.9</b>	<b>114.6</b>	<b>97.3</b>

Source: Ministry of Finance and National Planning

#### 6.6.2.3.1 Buildings and structures

Building and structures in 2015/16 is estimated at \$89.9 million, an increase of \$67.9 million from the revised estimate in 2014/15. The increase is mainly due to a greater number of new buildings and structures projects expected to be implement in 2015/16 such as the buildings for the Pacific Games of \$30.0 million, Fuaa Wharf of \$11.0 million, Saint George Palace building of \$10.0 million, upgrade of Teufaiva Stadium of \$8.0 million, and Energy Micro-grid Project (Solar) of \$6.5 million. Buildings and structures projects are projected to increase in the two outer years as compared to 2015/16.

#### 6.6.2.3.2 Machinery and equipment

Machinery and equipment in 2015/16 is estimated at \$31.9 million, a reduction of \$5.9 million from the estimated outturn in 2014/15. The decline is mainly due to fall in number of machinery and equipment projects requested to be funded in 2015/16 and the diversion of focus to construction of new buildings and structures based on Government's current priority (in terms of capital projects) at the time. The only machinery and equipments projects planned for 2015/16 are as follows: Tonga Broadcasting relocation to Mataki'eua of \$5.0 million, Customs container x-ray machine of \$3.0 million, NPGA Project of \$2.5 million, Tonga Broadcasting Commission of \$1.8 million, ASYCUDA System of \$1.0 million, and digitization of government records of \$1.0 million.

### 6.6.3 Revenue and Grants

Following GFS format *Table 6-25* covers domestic revenue- which is directly controlled by government, plus all grants- which are controlled by development partners. Estimating the former is generally easier than the latter. Actual grants in 2013/14 tend to be about equal in value to domestic revenue showing the high dependence on external funding for budget support, and for most of capital expenditure. Despite the best efforts of the MFNP, not all in-kind grants (those managed directly by MDAs) are captured in the data - the difference between cash and in-kind grants is discussed further in Section 6.3 of development projects.

**Table 6-25 : Total Revenue and Grants (\$ million)**

	Provisional 2013/14	Original Estimate 2014/15	Revised Estimate 2014/15	Estimate 2015/16	Projection 2016/17	Projection 2017/18
<b>Revenue</b>						
Taxes	139.1	141.4	154.8	177.8	184.1	190.7
Grants	140.7	267.6	157.1	236.4	176.0	139.4
Non-Tax Revenue	21.7	27.9	26.5	38.5	37.2	39.1
<b>Total</b>	<b>301.5</b>	<b>436.9</b>	<b>338.4</b>	<b>452.7</b>	<b>397.2</b>	<b>369.2</b>

*Source: Ministry of Finance and National Planning*

Tax and non-tax revenue is equal to the domestic revenue of government. This has grown steadily over the period as shown in *Table 6-25*. The Revised estimate for taxes for 2014/15 is \$154.8 million, or 9.5 percent greater than the original estimate for the same financial year. The estimate for 2015/16 is \$177.8 million, a further increase of nearly 15 percent from the estimated outturn in 2014/15. Other revenue has been estimated to remain fairly flat over the MTBF.

Both revised current and capital grants for 2014/15 are significantly less by \$110.5 million, or over 41.3 percent, than the original estimate in the same year; this is usually the case as discussed in Section 6.3 on development projects, due to the difficulty in estimating project grants and expenditure. The revised grants are still higher by \$16.4 million, or 11.7 percent, than in 2013/14. The delay in the receipt of budget support (\$4.5 million) from Asian Development Bank (ADB) was an important short fall, though it was covered by extra revenue collection. Budgeted grants for 2015/16 again show a large increase of 50.5 percent over the revised figure for 2014/15. Again it can be anticipated that much of this will not be received, but knowing which projects will and which will not be funded is difficult to project.

Total revenue and grants for 2015/16 is estimated to be at its highest level ever at \$452.7 million, about \$15.8 million higher than the 2014/15 original budget, and \$114.3 million higher than the 2014/15 estimated outturn. As noted, the likely outturn will be much less on the grants side.

Details of the trends in specific tax and non-tax items underlying the domestic revenue is covered under the following sections. The trend for grants is explained by the budget support, detailed below, and the development projects.

The budget also provides preliminary projections for the outer years 2016/17 and 2017/18 based on the macroeconomic parameters but most importantly to give government a framework to monitor fiscal sustainability into the medium term years, as well as providing government through line ministries a platform for their respective reform initiatives. Projected revenue and grants for outer years is projected to be at \$397.2 million and \$369.2 million respectively. These figures, in particular the grants figures, will change with time.

### **6.6.3.1 Taxes Revenue**

Total tax revenues as shown in *Table 6-26*, reported an increase by 11.3 percent in the revised estimate for 2014/15 from actual revenues collected in 2013/14 of \$139.1 million. However, total tax revenue is projected to increase by 14.9 percent to \$177.8 million in 2015/16 compared to the revised estimate in 2014/15. This is mainly attributed to increases in both consumption taxes on imports by \$4.0 million, corporate tax - large businesses by \$1.9 million, tax debt recovered on consumption tax by \$0.8 million, tax debt recovered on corporate tax by \$0.2 million, as well as taxes on international trade transactions specifically business import duties by \$1.5 million.

Table 6-26 : Taxes Revenue (\$ million)

	Provisional 2013/14	Original Estimate 2014/15	Revised Estimate 2014/15	Estimate 2015/16	Projection 2016/17	Projection 2017/18
<b>Taxes</b>						
Taxes on income, profits, and capital gains	28.8	29.9	34.7	36.8	38.9	40.4
Taxes on property	0.1	0.2	0.1	0.2	0.2	0.2
Taxes on goods and services	95.1	95.5	103.4	115.2	118.8	123.3
Taxes on international trade and transactions	15.1	15.8	16.6	25.7	26.2	26.8
Other taxes	-	0.0	0.0	-	-	-
<b>Total</b>	<b>139.1</b>	<b>141.4</b>	<b>154.8</b>	<b>177.8</b>	<b>184.1</b>	<b>190.7</b>

Source: Ministry of Finance and National Planning

#### 6.6.3.1.1 Taxes on Income and Profits

The estimated outturn in 2014/15 for Taxes on Income and Profits as shown in *Table 6-27*, is projected to be \$34.7 million, \$4.8 million higher than was budgeted in 2014/15 and \$5.9 million higher than 2013/14 provisional figures, due mainly to income tax (PAYE) and tax debt arrears. Taxes on income (PAYE) increased as a result of the 6% COLA, and increase in recruitment.

Table 6-27 : Taxes on Income &amp; Profits (\$ million)

	Provisional 2013/14	Original Estimate 2014/15	Revised Estimate 2014/15	Estimate 2015/16	Projection 2016/17	Projection 2017/18
<b>Taxes on Income &amp; Profits</b>						
PAYE	13.9	14.3	15.3	15.2	16.0	16.8
Corporate Tax	13.7	12.6	12.2	14.2	15.3	15.8
Tax Debts Recovered	1.1	3.0	7.2	7.4	7.6	7.8
<b>Total</b>	<b>28.8</b>	<b>29.9</b>	<b>34.7</b>	<b>36.8</b>	<b>38.9</b>	<b>40.4</b>

Source: Ministry of Finance and National Planning

Taxes on Income & Profits for 2015/16 are projected at \$36.8 million, \$2.1 million above the 2014/15 estimated outturn. The increase is expected to come from corporate tax of \$1.9 million, and \$0.7 million from tax debt recovered.

Corporate tax collected from small businesses is about 8 percent of corporate tax from larger businesses. Government continues to encourage more small businesses in the informal sector to become properly registered.

## 6.6.3.1.2 Taxes on goods and services

Table 6-28 : Taxes on Goods and Services (\$ million)

	Provisional 2013/14	Original Estimate 2014/15	Revised Estimate 2014/15	Estimate 2015/16	Projection 2016/17	Projection 2017/18
<b>Taxes on Goods and Services</b>						
Consumption Taxes	60.7	61.1	64.2	69.1	71.2	73.4
Excise Taxes	28.4	29.0	32.5	36.8	37.9	39.1
Taxes on use of goods, on permission to use goods or perform activities	6.0	5.4	6.8	9.2	9.6	10.9
Other taxes on goods and services	-	0.0	0.0	-	-	-
<b>Total</b>	<b>95.1</b>	<b>95.5</b>	<b>103.4</b>	<b>115.2</b>	<b>118.8</b>	<b>123.3</b>

*Source: Ministry of Finance and National Planning*

The total taxes on goods and services as shown in **Table 6-28**, for 2015/16 are estimated at \$115.2 million, showing an increase of \$11.8 million and \$19.7 million from the 2014/15 estimated outturn and 2014/15 original budget respectively. The increases for both periods are mostly driven by consumption taxes (CT), and excise taxes. CT on domestic consumption is about 14 percent of the amount collected from imports.

Consumption tax for 2015/16 is estimated at \$69.1 million showing an increase of \$5.0 million, or 8.0 percent, from the estimated outturn for 2014/15. The increase reflects continuous strong domestic demand and improved economic activities noting increases in collections above budgeted targets from year to year since 2011/12. Improved compliance also contributed.

Excise tax is estimated to increase in 2015/16 by \$7.8 million and \$4.3 million from original budget for 2014/15 and estimated outturn for 2014/15 respectively to \$36.8 million. The increase reflects revisions made to the excise tax schedule to increase the excise tax rate for locally manufactured beers, locally manufactured and imported spirits, locally manufactured and imported cigarettes, petroleum and oils, instant noodles, and turkey tails; and reduction of excise tax rates for used vehicles age 10 years or more which will increase the number of imported vehicles. Continued growth in revenues will also rely on tight control on ad-hoc tax exemptions.

## 6.6.3.1.3 Trade Taxes

Table 6-29 : Taxes on international trade and transactions (\$ million)

	Provisional 2013/14	Original Estimate 2014/15	Revised Estimate 2014/15	Estimate 2015/16	Projection 2016/17	Projection 2017/18
<b>Taxes on international trade and transactions</b>						
Customs and other import duties	15.1	15.8	16.6	18.2	18.7	19.3
Profits of export or import monopolies	-	-	-	2.0	2.0	2.0
Other taxes on international trade and transactions	-	-	-	5.5	5.5	5.5
<b>Total</b>	<b>15.1</b>	<b>15.8</b>	<b>16.6</b>	<b>25.7</b>	<b>26.2</b>	<b>26.8</b>

*Source: Ministry of Finance and National Planning*

Trade taxes as shown in *Table 6-29*, for 2015/16 amounted to \$25.7 million, an increase of \$9.1 million, or 54.8 percent, higher than the estimated outturn for 2014/15. The \$9.0 million increase comes from business import duties resulting in a slight growth in the economy; and also the revisions made to import duty rates.

This section also captures the new taxes for the Pacific Games Fund. *Table 6-30* shows \$2 million from the 1 seniti fee on the foreign exchange rate spread and \$5.5 million from the departure tax increase of \$100. This important contribution will help design a successful Pacific Games. To ensure these special contributions by the people of Tonga and our visitors are well used, MFNP will only release these funds against carefully prepared budgets to the PGO and require full transparent reporting on the use of these funds. All payments will follow strictly Government procurement and other financial regulations and funds will be carefully audited.

**Table 6-30: Estimated Movements in the Pacific Games Fund (\$ million)**

	Estimate 2015/16	Estimate 2016/17	Estimate 2017/18	Estimate 2018/19
<b>Revenue</b>	<b>7.50</b>	<b>7.50</b>	<b>7.50</b>	<b>7.50</b>
Departure tax	5.50	5.50	5.50	5.50
Forex levy	2.00	2.00	2.00	2.00
<b>Expenditure</b>	<b>2.00</b>	<b>6.00</b>	<b>10.00</b>	<b>12.00</b>
<b>Surplus (+ve) Deficit (-ve)</b>	<b>5.50</b>	<b>1.50</b>	<b>- 2.50</b>	<b>4.50</b>
<b>Balance</b>	<b>5.50</b>	<b>7.00</b>	<b>4.50</b>	<b>-</b>

*Source: Ministry of Finance and National Planning*

*Table 6-30* shows the phasing of this special tax collection over the next four years leading up to the PGs. The balance of the PG Funds will be held as part of the Government Accounts (Consolidated Fund).

### 6.6.3.2 Non-tax Revenues

Non-Tax Revenues as shown in *Table 6-31* below is expected to increase in 2015/16 by \$12.0 million, or 45.3 percent, from the 2014/15 estimated outturn. The increase is mainly derived from anticipated growth in sales of goods and services by \$5.3 million, miscellaneous revenue such as royalty from Tongasat of \$3.5 million, followed by property income of \$2.9 million.

**Table 6-31 : Non-Tax Revenue component (\$ million)**

	Provisional 2013/14	Original Estimate 2014/15	Revised Estimate 2014/15	Estimate 2015/16	Projection 2016/17	Projection 2017/18
<b>Non-Tax Revenue</b>						
Property income [GFS]	9.5	12.0	11.7	14.6	15.2	16.2
Sales of goods and services	11.4	15.2	13.4	18.7	19.3	20.3
Fines, penalties, and forfeits	0.6	0.6	0.6	0.9	0.9	0.9
Miscellaneous and unidentified revenue	0.2	0.2	0.7	4.3	1.7	1.8
<b>Total</b>	<b>21.7</b>	<b>27.9</b>	<b>26.5</b>	<b>38.5</b>	<b>37.2</b>	<b>39.1</b>

*Source: Ministry of Finance and National Planning*

### 6.6.3.2.1 Entrepreneurial and Property Incomes

Revenue from entrepreneurial and property income, *Table 6-32*, is expected to increase in 2015/16 to \$14.6 million, an increase of \$2.9 million from estimated outturn recorded in 2014/15. This is attributed to increase in dividends from PEs by \$1.6 million reflecting an improvement in the level of enforcement and compliance in the Ministry of Public Enterprises, other interest income increases by \$1.3 million due to loan repayments from CBD Reconstruction on-lent loans

**Table 6-32 : Entrepreneurial and Property Income (\$ millions)**

	Actual 2013/14	Budget Estimate 2014/15	Revised Estimate 2014/15	Budget Estimate 2015/16	Projection 2016/17	Projection 2017/18
<b>Entrepreneurial and Property Income</b>						
Interest	0.5	1.2	1.2	2.5	2.4	2.4
Dividends	7.9	8.9	9.5	11.1	12.0	12.9
Rent	1.2	1.9	1.1	1.0	0.8	0.8
<b>Total</b>	<b>9.5</b>	<b>12.0</b>	<b>11.7</b>	<b>14.6</b>	<b>15.2</b>	<b>16.2</b>

*Source: Ministry of Finance and National Planning*

### 6.6.3.2.2 Sales of goods and services

The overall sales of goods and services as shown in *Table 6-33*, are projected to increase by \$5.3 million or 39.6 percent, to \$18.7 million in 2015/16 compared to the estimated outturn in 2014/15. The increase reflects the seabed mineral exploration license of \$2.2 million, school fees of \$0.5 million as vocational trainings at the Tonga Maritime Polytechnical Institute is expected to start in July 2015, motor driving license of \$0.5 million due to improvement in level of enforcement and compliance, and sale of sands of \$0.4 million.

**Table 6-33 : Sales of Goods and Services (\$ million)**

	Provisional 2013/14	Original Estimate 2014/15	Revised Estimate 2014/15	Estimate 2015/16	Projection 2016/17	Projection 2017/18
<b>Sales of Goods and Services</b>						
Administrative fees	10.1	13.4	11.9	16.5	17.3	18.2
Incidental sales by nonmarket establishments	1.3	1.8	1.5	2.2	2.0	2.1
<b>Total</b>	<b>11.4</b>	<b>15.2</b>	<b>13.4</b>	<b>18.7</b>	<b>19.3</b>	<b>20.3</b>

*Source: Ministry of Finance and National Planning*

## 6.6.4 Financing

*Table 6-34* outlines the financing transactions. The net acquisition of financial assets and liabilities are anticipated to be about 1.5 million in 2014/15. For 2015/16, an overall net borrowing requirement of \$20.7 million is budgeted. It is expected that the overall net borrowing requirement will fall again to \$7.1 million and \$5.6 million for the two outer years. This results from a reduction in principal repayments from on-lent to public enterprises and loan repayments from the Private Sector Initiatives funds (managed by Tonga Development Bank) given the revolving nature of the fund.

Domestically, the government plans to undertake \$15.0 million in bond issues. \$5.0 million will be used by Government to further support the Private Sector Initiative funds managed by Tonga Development Bank, while the other \$10.0 million will be used to pay government's long standing arrears on the civil servants retirement fund.

New Zealand assistance towards the village electrification through the Tonga Power Board is recorded as an increase in government's equity with Tonga Power Board Limited for 2013/14 and 2014/15.

Following Tonga's re-classification from high to medium debt distress borrowing the World Bank and Asian Development Bank has restarted as their assistance (project and budget support) on a 50:50 grant and concessional loan basis. The overseas loans show this borrowing. This is also shown in more detail under Debt in Section 5.

**Table 6-34: Estimated Financing Transactions**

	Provisional 2013/14	Original Estimate 2014/15	Revised Estimate 2014/15	Estimate 2015/16	Projection 2016/17	Projection 2017/18
<b>Financial Assets</b>						
Domestic						
Currency and deposits	10.1	0.0	3.3	3.0	-5.4	-10.1
Loans	-1.3	11.4	9.3	7.5	7.5	7.5
Shares and other equity	6.1	6.2	4.6	0.1	0.1	0.1
Foreign						
Loans	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Assets</b>	<b>14.9</b>	<b>17.6</b>	<b>17.2</b>	<b>10.5</b>	<b>2.2</b>	<b>-2.5</b>
<b>Financial Liabilities (less)</b>	<b>-6.5</b>	<b>31.3</b>	<b>15.7</b>	<b>31.2</b>	<b>9.2</b>	<b>3.0</b>
<b>Total Financial Assets and Liabilities</b>	<b>21.4</b>	<b>-13.8</b>	<b>1.5</b>	<b>-20.7</b>	<b>-7.1</b>	<b>-5.6</b>

*Source: Ministry of Finance and National Planning*



## 7 CONCLUSION

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The Government, in the first year of administration, is set to drive a step towards change in performance in line with the new approach set out in the second Tonga Strategic Development Framework 2015-2025. Honesty, accountability, performance are the key expectations. This will focus on building a deeper and stronger partnership with the people of Tonga (in the Kingdom and beyond) and all relevant key stakeholders. This partnership will work to support a more inclusive, and sustainable growth and development. This requires collaboration to drive economic progress; to protect the vulnerably no matter who they may be, and to build great resilience to existing and increasing risks from major environmental events.

The new administration was left with areas on progress and areas of challenge from the period of the last administration. The budget seeks to address the known areas of challenge. We expect new challenges, yet to be identified. We seek to build improved monitoring, adaptability and resilience to address these challenges as they become apparent. We have the opportunity to rise to the challenge to make Tonga a more progressive country that will secure a much better standard of living for all now and the future. Let us make this aspiration as a reality.

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## Annex 1: TSDF Organizational Outcomes Grouped by Pillars supporting National Outcomes

Pillars	National Outcomes => Organizational Outcomes	More inclusive, sustainable and...						
		A: ...dynamic & knowledge based economy	B: ...balanced urban & rural development across island groups	C: ...empowering human development with gender equality	D: ... responsive good-governance with strengthened rule of law	E: ... successful provision & maintenance of infrastructure & technology	F: ... effective land & environment management, with resilience to climate & risk	G: ... consistent advancement of our external interests, security and Sovereignty
1. Economic Institutions	1.1 Improved macroeconomic management & stability with deeper financial markets	significant	partial	partial	partial	partial	partial	partial
	1.2 Closer public/private partnership for economic growth	partial	partial	partial	partial	partial	partial	partial
	1.3 Strengthened business enabling environment	significant	partial	partial	partial	partial	partial	partial
	1.4 Improved public enterprise performance	partial	partial	partial	partial	partial	partial	partial
	1.5 Better access to, and use of, overseas trade & employment, and foreign investment	partial	partial	partial	partial	partial	partial	significant
2. Social Institutions	2.1 Improved collaboration with & support to civil society organizations and community groups	partial	significant	significant	partial	partial	partial	partial
	2.2 Closer partnership between government, churches & other stakeholders for community development	partial	partial	partial	partial	partial	partial	partial
	2.3 More appropriate social & cultural practices	partial	partial	partial	partial	partial	partial	partial
	2.4 Improved education & training providing life time learning	partial	partial	partial	partial	partial	partial	partial
	2.5 Improved health care and delivery systems (universal health coverage)	partial	partial	partial	partial	partial	partial	partial
	2.6 Stronger integrated approaches to address both communicable & non-communicable diseases	partial	partial	partial	partial	partial	partial	partial
	2.7 Better care & support for vulnerable people, in particular the disabled	partial	partial	partial	partial	partial	partial	partial
	2.8 Improved collaboration with the Tongan diaspora	partial	partial	partial	partial	partial	partial	partial
3. Political Institutions	3.1 More efficient, effective, affordable, honest, transparent & apolitical public service focussed on clear priorities	partial	partial	partial	partial	partial	partial	partial
	3.2 Improved law & order and domestic security appropriately applied	partial	partial	partial	partial	partial	partial	partial
	3.3 Appropriate decentralization of government admin with better scope for engagement with the public	partial	partial	partial	partial	partial	partial	partial
	3.4 Modern & appropriate Constitution, laws & regulations reflecting international standards of democratic processes	partial	partial	partial	partial	partial	partial	partial
	3.5 Improved working relations & coordination between Privy Council, executive, legislative & judiciary	partial	partial	partial	partial	partial	partial	partial
	3.6 Improved collaboration with development partners ensuring programs better aligned behind gov't priorities	partial	partial	partial	partial	partial	partial	partial
	3.7 Improved political and defence engagement within the Pacific & the rest of the world	partial	partial	partial	partial	partial	partial	partial
4. Infrastructure & Technology Inputs	4.1 More reliable, safe and affordable energy services	partial	partial	partial	partial	partial	partial	partial
	4.2 More reliable, safe, affordable transport services	partial	partial	partial	partial	partial	partial	partial
	4.3 More reliable, safe and affordable information & communication technology (ICT) used in more innovative ways	partial	partial	partial	partial	partial	partial	partial
	4.4 More reliable, safe and affordable buildings and other structures	partial	partial	partial	partial	partial	partial	partial
	4.5 Improved use of research & development focussing on priority needs	partial	partial	partial	partial	partial	partial	partial
5. Natural Resources & Environment Inputs	5.1 Improved land use planning & management for private & public spaces	partial	partial	partial	partial	partial	partial	partial
	5.2 Improved use of natural resources for long term flow of benefits	partial	partial	partial	partial	partial	partial	partial
	5.3 Cleaner environment with improved waste recycling	partial	partial	partial	partial	partial	partial	partial
	5.4 Improved resilience to natural disasters and impact of climate change	partial	partial	partial	partial	partial	partial	partial

Level of support from Organizational Outcome to National Outcome:

significant
moderate
partial
none

## Annex 2 : Tonga Selected Indicators, 2006/07 – 2013/14

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
	<i>Annual Percentage Change (%)</i>							
<b>Output and prices 1/</b>								
Real GDP	-4.2	3.1	2.3	3.6	2.8	0.9	-3.1	2.0
Consumer prices (period average)	5.0	9.6	5.5	1.7	6.0	3.3	0.7	2.2
<b>Money and credit (end-period) 2/</b>								
Broad money (M2)	14.0	8.4	-1.9	5.1	2.6	-1.6	7.0	8.0
Total Net Domestic credit	14.9	14.0	4.4	11.2	14.3	20.6	1.1	6.2
Private sector credit	11.4	18.0	-2.9	-16.9	-7.6	-10.5	-7.5	-1.1
<b>Balance of payments (OET Basis)</b>	<i>TOP in millions</i>							
Exports, f.o.b.	26.3	23.5	11.4	11.4	11.2	8.7	12.3	15.8
Of which: Squash	5.6	0.0	0.0	0.5	0.7	2.2	2.4	2.9
Imports, f.o.b.	-212.9	-262.5	-271.3	-208.0	-229.6	247.8	260.9	261.7
Services (net)	-35.8	-6.2	-5.4	-7.9	4.9	-4.3	6.3	-3
Income (net)	7.1	6.4	9.6	5.3	4.9	5.6	0.9	8.5
Services and Income (net)	-28.7	0.2	4.2	-2.6	9.8	1.3	7.2	5.5
Transfers (net)	168.6	180.2	157.9	146.7	136.4	182.4	174.8	200.6
Of which: Private transfer receipts	186.8	202.8	175.2	157.4	139	156.8	209.5	208.9
Current account balance	-50.9	-58.6	-49.8	-52.6	-72.1	-55.4	-66.5	-39.8
(In percent of GDP)	-8.5%	-8.8%	-7.5%	-7.4%	-9.3%	-6.9%	-8.5%	-5.0%
Overall balance	8.4	-2.5	47.1	34.3	31.0	42.3	17.2	11.0
<b>Gross international reserves (end-period)</b>								
In millions of pa'anga	91.6	89.1	136.3	170.5	203.8	246.1	263.3	274.4
In months of imports cover	4.4	3.5	5.3	7.2	7.7	8.5	9.1	8.9
	<i>As a percentage of GDP (%)</i>							
<b>External debt 3/</b>								
External debt	31%	27%	31%	32%	35%	40%	44%	42%
<b>Exchange rate (period average)</b>								
T\$ per US\$ (end-period)	2.00	1.86	2.03	1.95	1.71	1.76	1.80	1.81
Real effective exchange rate (1990=100)	105.7	108.6	116.2	112.2	119.8	121.7	110.6	106
Nominal effective exchange rate (1991=100)	60.8	99.3	100.8	101.1	104.1	103.3	101.6	97.9
1/ Sources for Output and Prices: Statistics Dept								
2/ Sources for Money, Credit, BOP, Foreign Reserves & Exchange Rates: NRBT								
3/ Sources for External Debt : MOFNP								

## Annex 3 Tonga Real Sector Developments, 2006/07-2013/14

	2006/07r	2007/08r	2008/09r	2009/10r	2010/11r	2011/12r	2012/13r	2013/14r
<b>Nominal GDP</b>								
In pa'anga million	601.1	664.3	663.6	712.6	775.0	800.7	779.1	803.7
In US\$ million	300.6	358.1	327.7	365.6	454.0	455.2	431.9	445.0
GDP per capita (US\$)	2,946	3,501	3,196	3,557	4,406	4,407	4,171	4,214
Population	102,025	102,276	102,528	102,783	103,033	103,286	103,541	105,612
	<i>Annual Percentage Change (%)</i>							
GDP (2010/11 prices)	-4.2	3.1	2.3	3.6	2.8	0.9	-3.1	2.0
<i>of which:</i>								
Agriculture, forestry, and fisheries	1.0	-5.3	-1.40	0.50	2.00	0.50	3.70	3.10
Manufacturing	-7.8	-1.0	-0.2	-1.7	5.9	-2.6	6.8	-0.1
Construction	-2.8	0.9	35.0	21.7	6.1	1.2	-29.9	3.3
Restaurants, and Hotels	-10.3	6.2	6.80	-4.40	3.30	-0.50	2.40	-0.30
Transportation and communications	-1.3	4.3	15.2	15.8	-2.9	0.5	1.1	0.6
Financial Intermediation	3.3	7.5	-21.00	-2.70	3.20	-6.00	-5.30	4.60
Public Administration	-15.1	4.6	2.5	0.9	0.5	1.5	1.5	0.4
GDP (by sector; current prices)								
<i>of which:</i>								
Agriculture, forestry, and fisheries	7.9	-2.5	3.9	14.9	12.9	1.4	2.6	-0.1
Manufacturing	3.4	3.7	-2.5	-0.3	6.3	-1.0	8.6	1.3
Construction	5.0	8.4	18.9	32.0	22.1	-1.2	-34.0	1.6
Restaurant and Hotels	-0.6	11.0	3.9	6.7	29.7	5.6	9.8	-7.3
Transportation and communications	1.4	13.7	17.2	10.7	-1.9	3.2	1.2	0.6
Financial Intermediation	8.6	17.8	-16.7	-1.1	9.4	-2.8	-4.8	7.0
Public Administration	-18.6	7.5	5.1	9.8	3.0	2.3	0.7	6.7
Consumer prices (period average)								
All items	81.8	89.6	94.5	96.1	101.9	105.3	106.0	108.4
Imported	80.3	88.7	93.6	95.2	102.5	107.3	108.0	110.9
Domestic	84.4	91.1	96.1	97.6	101.0	102.8	103.2	105.0
r - revised estimates								
Source: Statistics Department								

**Annex 4: Annual Average Consumer Price Index for 2007 – 2014, Base Period (October 2010=100)**

	All Items	Food	Housing	H/Hold goods	Clothing and footwear	Transportation	Tobacco and Alcohol	Misc. Goods & Services	Imported Items	Local Items
<b>Weight.</b>	<b>100.0</b>	<b>45.8</b>	<b>2.5</b>	<b>20.8</b>	<b>3.2</b>	<b>11.9</b>	<b>6.0</b>	<b>9.8</b>	<b>57.8</b>	<b>42.2</b>
2007	84.7	82.2	96.5	94.8	89.3	88.3	73.0	93.3	83.7	86.5
2008	93.6	88.5	99.5	104.5	96.2	109	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	103.1
2013	106.4	108.2	100.7	103.4	104.6	113.1	99.8	102.5	109.0	103.0
2014	109.1	112.2	101.4	104.0	119.1	112.8	100.4	105.2	112.3	104.8

Source: Statistics Department

**Annex 5: Annual Percentage Change in CPI for December month 2007-2014**

	All Items	Food	Housing	H/Hold goods	Clothing and footwear	Transportation	Tobacco and Alcohol	Misc. Goods & Services	Imported Items	Local Items
<b>Weight.</b>	<b>100.0</b>	<b>45.8</b>	<b>2.5</b>	<b>20.8</b>	<b>3.2</b>	<b>11.9</b>	<b>6.0</b>	<b>9.8</b>	<b>57.8</b>	<b>42.2</b>
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	3.8	3.2	0.0	3.8	4.6	8.8	1.8	2.6	5.9	1.0
2012	2.5	6.0	0.4	-1.8	0.0	1.7	0.2	-0.2	2.3	2.8
2013	0.8	1.0	1.4	2.4	0.0	-0.8	-2.0	0.8	1.4	0.0
2014	0.2	1.0	-0.3	-1.6	16.2	-5.4	-0.8	3.1	0.5	-0.2

Source: Statistics Department

**Annex 6 : Tonga Domestic Exports by HS Section, 2006/07 – 2013/14**

HS Code	2006/07		2007/08		2008/09		2009/10		2010/11		2011/12		2012/13		2013/14	
	SECTION ITEM	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	
Live Animals;Animal Products	7,357	34.7	5900.0	33.4	4147.4	28.0	9856.8	64.3	9,905	49.9	9,277	36.6	8,029	35.1	6,146	23.7
Vegetable Products	11,778	55.61	7321	41.5	7087.1	47.8	4019.3	26.2	8,056	40.5	10,593	41.8	11,393	49.7	12,628	48.8
Prepared Foodstuff;Beverages, Tobacco	654	3.10	190	1.1	87	0.6	216	1.4	240	1.2	358	1.4	494	2.2	4,608	17.8
Products of the Chemical Or Allied	580	2.74	1489	8.4	907.7	6.1	585.3	3.8	646	3.3	367	1.4	462	2.0	596	2.3
Wood and Articles of Wood;	488	2.30	323	1.8	601.6	4.1	321.9	2.1	433	2.2	416	1.6	424	1.9	739	2.8
Miscellaneous Manufactured Articles	6	0.03	23	0.1	5.7	0.0	22	0.1	5	0.0	27	0.1	112	0.5	90	0.3
Works of Art, Collectors Pieces and Antiques	33	0.15	72	0.4	44.6	0.3	16.6	0.1	56	0.3	144	0.6	26	0.1	-	0.0
Other Exports	284	1.34	2339	13.9	2,338	15.8	289	1.9	526	2.6	4,173	16.5	1,963	8.6	1,069	4.1
<b>TOTAL</b>	<b>21,180</b>	<b>100</b>	<b>17,657</b>	<b>100.0</b>	<b>14,827</b>	<b>100.0</b>	<b>15,327</b>	<b>100.0</b>	<b>19,869</b>	<b>100.0</b>	<b>25,354</b>	<b>100.0</b>	<b>22,901</b>	<b>100.0</b>	<b>25,876</b>	<b>100.00</b>

Source: Statistics Department

### Annex 7 : Exports by Institutional Sector, 2006/07 – 2013/14

INSTITUTIONAL SECTOR	2006/07		2007/08		2008/09		2009/10		2010/11		2011/12		2012/13		2013/14	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
Private Sector	21,180	100	17,288	100	14,827	100	15,327	100	19,863	100.0	25,343	100.0	22,866	99.8	21,705	99.9
Government Sector	0	0	0	0	0	0	0	0	6	0.0	6	0.0	2	0.0	20	0.1
Quasi-Government Sector	0	0	0	0	0	0	0	0	0	0.0	5	0.0	33	0.1	8	0.0
<b>TOTAL</b>	<b>21,180</b>	<b>100</b>	<b>17,288</b>	<b>100</b>	<b>14,827</b>	<b>100</b>	<b>15,327</b>	<b>100</b>	<b>19,869</b>	<b>100.0</b>	<b>25,354</b>	<b>100.0</b>	<b>22,901</b>	<b>100.0</b>	<b>21,733</b>	<b>100.0</b>

Source: Statistics Department

### Annex 8 : Exports by Country of Destination, 2006/07 – 2013/14

COUNTRY	2006/07		2007/08		2008/09		2009/10		2010/11		2011/12		2012/13		2013/14	
	(T\$'000)	%	(T\$'000)	%	(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	3269	16.5	4801	18.9	6550	28.6	7,184	24.2
Australia	1,303	6.2	817	4.9	1,743	11.8	693	4.5	581	2.9	4622	18.2	1437	6.3	2,001	6.7
Fiji	141	0.7	75	0.4	67	0.5	18	0.1	318	1.6	697	2.7	200	0.9	169	0.6
Mainland USA	2,581	12.2	2,939	17.5	2,636	17.8	2,551	16.6	2685	13.5	2651	10.5	3590	15.7	3,359	11.3
Samoa	483	2.3	666	4.0	783	5.3	492	3.2	543	2.7	375	1.5	479	2.1	746	2.5
Japan	7,550	35.6	2,244	13.3	1,967	13.3	517	3.4	2862	14.4	6293	24.8	2754	12	2,710	9.1
Korea	1,724	8.1	241	1.4	469	3.2	369	2.4	140	0.7	1548	6.1	2020	8.8	2,231	7.5
Singapore	48	0.2	104	0.6	17	0.1	458	3.0	2	0	30	0.1	171	0.7	0.0	0
American Samoa	443	2.1	635	3.8	428	2.9	178	1.2	213	1.1	282	1.1	323	1.4	49	0.2
Hong Kong	40	0.2	171	1.0	551	3.7	6,433	42.0	7538	37.9	2355	9.3	3579	15.6	2,396	8.07
All other Countries	2,623	12.4	3,658	21.7	884	6.0	399	2.6	1719	8.7	1701	6.7	1799	7.9	8,837	29.8
<b>TOTAL</b>	<b>21,180</b>	<b>100.0</b>	<b>16,828</b>	<b>99.9</b>	<b>14,827</b>	<b>100.0</b>	<b>15,327</b>	<b>100.0</b>	<b>19,869</b>	<b>100</b>	<b>25,354</b>	<b>100</b>	<b>22,901</b>	<b>100</b>	<b>29,682</b>	<b>100</b>

Source: Statistics Department

### Annex 9 : Imports by Main HS Section, 2006/07 – 2013/14

HS Code SECTION ITEM	2006/07		2007/08		2008/09		2009/10		2010/11		2011/12		2012/13		2013/14	
	(\$'000)	%	(\$'000)	%	(\$'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	13	39,778	12	43,922	13	44,283	14
2.Vegetable Products	8,243	3.3	9,610	3.1	10,695	3.5	9,347	3.3	10,216	3	10,536	3	10,838	3	11,004	3
3. Prepared Foodstuff; Beverages & Tobacco	37,229	14.8	46,221	15.1	44,154	14.3	45,633	16.0	39,041	12	47,152	14	48,283	14	28,286	9
4. Mineral Products	67,621	26.9	78,863	25.7	81,117	26.2	64,715	22.6	80,726	25	88,675	26	82,697	24	81,782	26
5. 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	14,794	4	14,346	4	16,556	5
6. Wood and Articles of Wood	8,096	3.2	10,057	3.3	7,269	2.3	7,164	2.5	11,243	4	9,434	3	8,063	2	9,200	3
7. Pulp of Wood and Other Fibrous Cellulosic	8,679	3.4	9,283	3.0	11,298	3.7	9,148	3.2	10,302	3	12,139	4	12,980	4	10,441	3
8. Base Metals & Articles of Base Metal	12,582	5.0	13,619	4.4	13,893	4.5	13,373	4.7	26,286	8	20,563	6	15,214	4	16,321	5
9. Machinery and Mechanical Appliance	25,380	10.1	38,901	12.7	37,671	12.2	39,244	13.7	41,372	13	46,895	14	41,744	12	58,595	19
10. Miscellaneous Manufactured Articles	6,175	2.5	6,479	2.1	4,899	1.6	4,838	1.7	5,415	2	6,850	2	10,281	3	7,031	2
11. Vehicle, Aircraft, Vessel & Associated	10,342	4.1	17,374	5.7	17,615	5.7	15,908	5.6	16,110	5	15,516	5	19,394	6	22,212	7
12. Works of Art, Collectors Pieces	12,282	4.9	13,765	4.5	14,899	4.8	4,073	1.4	1,194	0	1,074	0	7,948	2	85	0
12. Other Imports	15,537	6.2	17,639	5.7	17,710	5.7	19,126	6.7	21,583	7	32,005	9	29,957	9	8,624	3
<b>TOTAL</b>	<b>251,596</b>	<b>100.0</b>	<b>307,017</b>	<b>100.0</b>	<b>309,344</b>	<b>100.0</b>	<b>285,754</b>	<b>100.0</b>	<b>317,628</b>	<b>100</b>	<b>345,411</b>	<b>100</b>	<b>345,662</b>	<b>100</b>	<b>314,420</b>	<b>100</b>

Source: Statistics Department

**Annex 10 : Imports by Institutional Sector, 2006/07 – 2013/14**

	2006/07		2007/08		2008/09		2009/10		2010/11		2011/12		2012/13		2013/14	
	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%
<b>INSTITUTIONAL SECTOR</b>																
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	308,225	89.2	316,513	87.5
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	21,284	6.3	12,648	3.5
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	15,579	4.5	32,477	9.0
<b>TOTAL</b>	<b>251,595</b>	<b>100.0</b>	<b>307,013</b>	<b>100.0</b>	<b>309,344</b>	<b>100.0</b>	<b>285,754</b>	<b>100.0</b>	<b>317,628</b>	<b>100</b>	<b>345,411</b>	<b>100</b>	<b>345,662</b>	<b>100</b>	<b>361,638</b>	<b>100</b>
Source: Statistics Department																

**Annex 11 : Imports by Country of Origin, 2006/07 – 2013/14**

COUNTRY	2006/07		2007/08		2008/09		2009/10		2010/11		2011/12		2012/13		2013/14	
	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(T\$'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	101,254	29.3	107,341	29.7
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	17,938	5.2	20,562	5.7
USA	25,795	10.3	26,348	8.6	35,884	11.6	41,273	14.4	35,741	11.3	46,652	13.5	40,695	11.8	39,635	11.0
China	13,218	5.3	17,795	5.8	41,411	13.4	31,007	10.9	25,861	8.1	29,260	8.5	27,878	8.1	20,424	5.6
Indonesia	3,683	1.5	4,839	1.6	5,184	1.7	3,700	1.3	3,965	1.2	6,157	1.8	4,954	1.4	5,479	1.5
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	27,878	5.9	31,257	8.6
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	20,275	29.3	15,500	4.3
Singapore	5,883	2.3	63,666	20.7	62,679	20.3	50,039	17.5	73,804	23.2	78,725	22.8	81,146	23.5	82,909	22.9
Others	9,432	3.7	18,425	6.0	23,466	7.6	18,297	6.4	18,546	5.8	22,339	6.5	31,949	9.2	38,528	10.7
<b>TOTAL</b>	<b>251,596</b>	<b>100.1</b>	<b>307,017</b>	<b>100</b>	<b>309,344</b>	<b>100.0</b>	<b>285,754</b>	<b>100.0</b>	<b>317,628</b>	<b>100</b>	<b>345,411</b>	<b>100</b>	<b>345,662</b>	<b>100</b>	<b>361,636</b>	<b>100</b>
Source: Statistics Department																



## Annex 12 : Tonga Balance of Payment 2006/07 – 2013/14

<i>(In millions of pa'anga, unless otherwise indicated)</i>	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
<b>Balance of Trade</b>	244.2	-239.0	-259.9	-196.6	-218.4	-239.1	-248.6	-245.9
Exports, f.o.b.	26.7	23.5	11.4	11.4	11.2	8.7	12.3	15.8
Of which: Squash exports	5.6	2.7	1.8	0.5	0.7	2.2	2.4	2.9
Imports, f.o.b.	217.5	262.5	271.3	208	229.6	247.8	260.9	261.7
<b>Services (net)</b>	-35.9	-6.2	-5.4	-7.9	4.9	-4.3	6.3	-3
Receipts	38.8	70.1	83.7	71.8	89	99.4	125.2	109
Of which: Tourism receipts	24.1	42.0	58.0	50.0	61.0	67.0	75.0	80
Payments	-74.7	-76.3	-89.1	-79.8	84	103.7	118.8	112.1
<b>Income (net)</b>	7.1	6.4	57.6	5.3	4.9	5.6	-4.9	8.5
Receipts	12.9	13.0	64.0	14.7	13.1	13.3	11.7	25.9
Payments	-5.8	-6.6	-3.4	-9.4	8.2	7.7	10.8	17.4
<b>Current Transfers (net)</b>	168.6	180.2	157.9	146.6	136.4	182.4	174.8	200.6
Official transfers (net)	-0.1	0.5	1.2	1.9	29.3	44.0	2.3	30.4
Private transfers (net)	168.7	179.7	156.7	144.7	147.8	138.3	172.5	170.3
Official transfer receipts	0.5	0.8	2.5	5.7	8.3	45.5	3.5	31.6
Official transfer payments	-0.6	-0.3	-1.3	-3.8	21	1.5	1.2	1.2
Private transfer receipts	186.8	202.8	175.2	157.4	139	156.8	209.5	208.9
Private transfer payments	-18.1	-23.1	-18.5	-12.7	8.8	18.5	37	38.6
<b>Current account balance</b>	-50.9	-58.6	-49.8	-52.6	-72.1	-55.4	-66.5	39.9
(Percent of GDP,%)	-8.5	-8.8	-7.5	-7.4	-9.3	-6.9	-8.5	5.0
<b>Capital account balance</b>	53.9	69.0	117.6	58	124.4	87.5	88.6	100.7
Official capital (net)	19.7	22.8	37.0	28.6	68.9	55.1	33.5	17.1
Official capital inflows	24.7	26.5	66.4	43	110.6	61.6	38.2	24.5
Official capital outflows	-5.0	-3.7	-29.4	-14.4	41.7	6.5	4.7	7.3
Private capital (net)	34.2	46.2	80.6	29.4	55.5	32.4	55.1	83.5
Private capital inflows	39.9	50.5	88.9	38	77.8	45.2	71.5	101.1
Private capital outflows	-5.7	-4.3	-8.3	-8.6	22.3	12.7	16.3	17.6
<b>Overall balance</b>	8.4	-2.5	47.2	34.2	31.0	42.3	11.4	11.2
<b>Memorandum items:</b>								
Service, income, and transfers (net)	139.7	180.9	214.3	145.8	400.7	490.4	520.0	575.2
Receipts	239.0	286.7	325.4	249.6	249.4	315.0	349.9	375.4
Payments	-99.2	-106.3	-112.3	-105.7	122.0	131.4	167.8	169.4
Gross official foreign reserves (TOP million)	91.6	89.1	136.3	170.5	203.8	246.1	263.3	274.4
Months of Import cover	4.4	3.5	5.3	7.2	7.7	8.5	9.1	9.1

Source: National Reserve Bank of Tonga

## Annex 13 :Tonga Monetary Survey, 2006/07 – 2013/14

(In millions of Pa'anga, unless otherwise indicated)	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	
Net foreign assets	81.7	79.9	121.3	164.8	215.1	235.3	258.6	265.9	
Foreign assets	103.6	99.9	154.0	186.7	221.6	251.0	268.8	281.7	
Foreign liabilities	-21.9	-20.0	-32.7	-21.9	-6.5	-15.7	-10.2	-15.8	
Net domestic assets	179.3	202.9	156.2	126.6	84.1	59.1	56.4	74.2	
Net domestic credit	251.3	286.4	273.9	243.1	208.4	165.5	167.4	177.7	
Government (net)	-11.7	-29.1	-32.7	-29.1	-32.5	-47.1	-29.2	-34.1	
Non-financial public enterprises	2.5	3.7	3.9	19.6	13.2	10.1	13.1	36.6	
Private sector	260.5	311.8	302.8	252.6	227.7	202.5	183.5	175.3	
Non-monetary financial institutions 1/	-6.3	-4.2	-11.7	-8.1	-10.9	-7.2	-8.8	-4.0	
Other items (net)	-65.7	-79.3	-106.1	-108.4	-113.4	-99.2	-102.2	-99.6	
Total domestic liquidity (M2)	261.0	282.8	277.3	291.5	299.3	294.4	314.8	339.9	
Narrow money (M1)	73.8	72.6	77.9	90.1	97.0	119.3	152.1	174.5	
Currency outside banks	18.5	18.8	21.9	26.8	27.3	31.3	32.1	40.1	
Demand deposits	55.3	53.8	56.0	63.3	69.7	88.0	120.0	134.4	
Quasi money	187.2	210.2	199.4	201.4	202.3	175.1	162.7	165.4	
Savings deposits	49.3	48.8	43.6	46.4	51.0	41.4	43.0	44.2	
Term deposits	125.2	150.1	143.0	142.9	139.5	121.8	110.1	109.2	
Foreign currency accounts	12.8	11.3	12.8	12.0	11.8	11.9	9.7	12.0	
				<i>Annual Percentage Change</i>					
Net foreign assets	12.6	-2.2	51.8	35.9	30.5	9.4	9.9	2.8	
Foreign assets	9.0	-3.6	54.2	21.2	18.7	13.3	7.1	4.8	
Foreign liabilities	-2.5	-8.7	63.7	-33.1	-70.3	141.5	-35.0	54.9	
Net domestic assets	14.7	13.2	-23.0	-18.9	-33.6	-29.7	-4.6	31.6	
Private sector	11.4	19.7	-2.9	-16.6	-9.9	-11.1	-9.4	-4.5	
Total domestic liquidity (M2)	14.0	8.4	-1.9	5.1	2.7	-1.6	6.9	8.0	
Narrow money (M1)	32.5	-1.6	7.3	15.7	7.7	23.0	27.5	14.7	
Quasi money	8.1	12.3	-5.1	1.0	0.4	-13.4	-7.1	1.7	
				<i>In US dollars</i>					
Net foreign assets	40.9	43.1	59.9	84.6	126.0	133.8	143.3	147.2	
Foreign assets	51.8	53.8	76.0	95.8	129.8	142.7	149.0	156.0	
Foreign liabilities	-11.0	-10.8	-16.2	-11.2	-3.8	-8.9	-5.7	-8.7	
Memorandum items:									
Velocity (GDP/average M2)	0.0	2.1	2.4	2.3	2.4	2.6	2.5	2.3	
Exchange rate (pa'anga per U.S. dollar; end period)	2.00	1.86	2.03	1.95	1.71	1.76	1.80	1.81	

Source: National Reserve Bank of Tonga

## Annex 14 : Summary of Debt Levels and Ratios

<i>Particulars</i>	<i>Jun-14</i>	<i>Sep-14</i>	<i>Dec-14</i>	<i>Mar-15</i>	<i>Jun-15</i>
Total Public Debt (USD\$)	203.4	201.9	200.7	199.9	201.8
Total Public Debt (TOP\$)	366.0	387.3	392.9	398.4	405.9
Domestic Debt	29.5	30.8	30.9	35.9	40.8
External Debt	336.5	356.5	362.0	362.5	365.1
Total Public Debt to GDP (%)	44.1%	45.3%	48.5%	47.7%	50.0%
External Debt to GDP	40.6%	3.6%	44.7%	43.4%	45.9%
Domestic Debt to GDP	3.6%	4.7%	3.8%	4.3%	5.0%
Total Debt Service (\$)	19.5	11.0	13.7	14.4	21.2
External	12.1	3.9	6.6	7.1	13.3
Domestic	7.5	7.1	7.1	7.3	7.9
Principal	12.3	7.9	8.1	10.6	14.0
Interest	7.2	3.1	3.1	3.8	7.2
External Debt by Creditor category	359.3	356.5	362.0	362.1	365.1
Multilateral	116.6	117.8	120.4	118.8	119.8
Bilateral	242.7	238.3	241.2	243.4	245.3
Commercial	0.4	0.4	0.4	-	-
Debt Composition by Instrument Type (\$)	366.0	387.3	392.9	398.4	400.1
Loans	336.5	356.5	362.0	362.5	365.1
Bonds	29.5	30.8	30.9	35.9	40.8
Foreign Currency Risk (%)					
% of debt in Chinese Yuan	67.6%	66.8%	66.6%	67.2%	67.2%
% of debt in SDR	34.6%	32.9%	33.2%	34.5%	32.8%
% of debt in other currencies	0.1%	0.2%	0.2%	0.2%	0.03%
% of Foreign Debt	91.9%	92.0%	92.1%	91.0%	90.0%
Fiscal Indicators (%)					
Total Debt Service to Expenditure	10.3%	4.7%	4.7%	6.1%	9.0%
Total Debt Service to Revenue	12.4%	5.9%	5.9%	7.3%	11.1%
Interest to Expenditure	3.8%	1.3%	1.3%	1.6%	2.1%
Interest to Revenue	4.6%	1.7%	1.7%	1.9%	2.5%
Vulnerability Indicators (%)					
Reserves to External Debt	81.7%	91.4%	91.5%	79.2%	79.9%
External Debt Service to Exports & Remittances	3.2%	1.2%	1.2%	1.7%	3.2%
External Debt Service to Exports	7.5%	2.1%	2.1%	3.5%	7.3%

*Source: Ministry of Finance and National Planning*

### Annex 15: Details of the original terms and conditions of the 2 major loans from China

	Nuku'alofa CBD Reconstruction	Tonga National Road Improvement Project
Maturity Period	CNY 440m, est T\$143m	CNY 291m, est T\$94m
Maturity Period	20 yrs from effective date (10 yrs grace period for principal, 10 yrs principal repayment)	20 yrs from effective date (10 yrs grace period for principal, 10 yrs principal repayment)
Payment Frequency	21 <sup>st</sup> day of Sept and Mar annually (1st interest payment 21 Mar 2009, rescheduled 1st principal payment 21 Sept 2018, last payment 21 Sept 2028)	21 <sup>st</sup> day of Sept and Mar annually (1 <sup>st</sup> interest payment 21 Mar 2010; rescheduled 1st principal payment 21 Mar 2020, last payment 21 Mar 2030)
Interest Rate (IN)	2% per annum over 360 daily basis (from 1st drawdown date on 24 Sept 2008)	2% per annum over 360 daily basis (due from 1 <sup>st</sup> drawdown date on 15 Mar 2010)
Management Fee (MF)	1% on loan amount (paid 12 Sept 2008, for lump sum due 30 days from effective date and before first drawdown date);	1% on loan amount (paid 25 Feb 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	\$17.0m	\$9.2m
IN	\$13.9m	\$7.6m
MF	\$1.4m	\$0.9m
CF	\$1.7m	\$0.7m

*Source: Ministry of Finance and National Planning*

### Annex 16: Reconstruction Loan Project Allocation

<i>CBD Project (TOPm)</i>	<i>Total Loan</i>	<i>Total to Loan (%)</i>
Tungi Colonnade Ltd	16.6	13%
OG Sanft & Sons Ltd	10.2	7%
MF Taumoepeau & Sons Ltd	7.2	5%
City Assets Ltd	6.8	5%
Royco Amalgamated Co. Ltd	2.2	2%
Total On-lent projects	42.9	30%
Vuna wharf	37.9	27%
Civil works	22.0	15%
Palace extension	16.2	11%
Asphalt Plant	5.9	4%
Total GoT projects	82.2	58%
Design	4.2	3%
Contingency	8.2	6%
Mobilisation	2.0	1%
Consultancy	1.6	1%
Insurance	0.8	0.5%
Geographic report	0.7	0.5%
Total CCECC costs	17.4	9%
<b>TOTAL LOAN</b>	<b>142.6</b>	<b>100%</b>

*Source: Ministry of Finance and National Planning*

### Annex 17: Road Improvement Loan Project Allocation

<i>Projects (TOPm)</i>	<i>Total Loan</i>	<i>Total to Loan (%)</i>
Tongatapu	63.4	67.3%
Vava'u	7.9	8.3%
Ha'apai	2.2	2.3%
Eua	2.9	3.0%
Establishment	2.0	2.1%
Mobilisation	2.1	2.2%
Road survey, geographical, prospecting, geography report	2.0	2.1%
Road designing	7.5	8.0%
Consultant fee	2.8	3.0%
Insurance	0.5	0.6%
Contingency sum	1.0	1.1%
<b>TOTAL LOAN AMOUNT</b>	<b>94.3</b>	<b>100.0%</b>

Source: Ministry of Finance and National Planning

### Annex 18: On-lent Loans, as at 30th June 2015

	<i>Jun-14 (\$m)</i>	<i>Jun-15 est. (\$m)</i>
TDB	2.5	2.5
Seastar	3.7	3.6
Janfull	10.9	-
Ports Authority	0.6	0.5
Talamahu	1.8	1.8
Royco	2.2	2.2
Taumoepeau	7.2	7.2
Sanft	10.3	10.3
City Assets	6.8	6.8
Tungi Colonnade	16.6	16.6
Total	62.5	51.4

Source: Ministry of Finance and National Planning

## Annex 19: Full GFS 2001.

	Provisional 2013/14	Original Estimate 2014/15	Revised Estimate 2014/15	Estimate 2015/16	Projection 2016/17	Projection 2017/18
<b>Revenue</b>	<b>301.5</b>	<b>436.9</b>	<b>338.4</b>	<b>452.7</b>	<b>397.2</b>	<b>369.2</b>
<b>Taxes</b>	<b>139.1</b>	<b>141.4</b>	<b>154.8</b>	<b>177.8</b>	<b>184.1</b>	<b>190.7</b>
Taxes on income, profits, and capital gains	28.8	29.9	34.7	36.8	38.9	40.4
Taxes on property	0.1	0.2	0.1	0.2	0.2	0.2
Taxes on goods and services	95.1	95.5	103.4	115.2	118.8	123.3
Taxes on international trade and transactions	15.1	15.8	16.6	25.7	26.2	26.8
Other taxes	-	0.0	0.0	-	-	-
<b>Grants</b>	<b>140.7</b>	<b>267.6</b>	<b>157.1</b>	<b>236.4</b>	<b>176.0</b>	<b>139.4</b>
Current	81.4	111.0	79.1	101.8	66.6	42.9
Capital	59.3	156.6	78.0	134.6	109.4	96.5
<b>Non-Tax Revenue</b>	<b>21.7</b>	<b>27.9</b>	<b>26.5</b>	<b>38.5</b>	<b>37.2</b>	<b>39.1</b>
Property income [GFS]	9.5	12.0	11.7	14.6	15.2	16.2
Sales of goods and services	11.4	15.2	13.4	18.7	19.3	20.3
Fines, penalties, and forfeits	0.6	0.6	0.6	0.9	0.9	0.9
Miscellaneous and unidentified revenue	0.2	0.2	0.7	4.3	1.7	1.8
<b>Expense</b>	<b>221.0</b>	<b>294.7</b>	<b>259.7</b>	<b>338.5</b>	<b>289.7</b>	<b>277.5</b>
<b>Compensation of employees</b>	<b>101.6</b>	<b>122.6</b>	<b>115.9</b>	<b>135.4</b>	<b>129.3</b>	<b>127.7</b>
Wages and salaries	92.4	102.6	101.8	115.0	115.3	116.5
Social contributions	9.2	19.9	14.0	20.4	14.1	11.1
<b>Use of goods and services</b>	<b>85.3</b>	<b>130.5</b>	<b>102.6</b>	<b>157.6</b>	<b>112.0</b>	<b>97.2</b>
<b>Interest</b>	<b>7.1</b>	<b>6.8</b>	<b>6.8</b>	<b>7.4</b>	<b>7.2</b>	<b>7.2</b>
To nonresidents	5.7	5.3	5.3	6.1	5.9	5.9
To residents other than general government	1.5	1.5	1.5	1.3	1.3	1.3
<b>Subsidies</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.7</b>	<b>0.9</b>	<b>1.8</b>
Subsidies to public corporations	-	-	-	-	-	-
Subsidies to private enterprises	0.1	0.1	0.1	0.7	0.9	1.8
<b>Grants</b>	<b>3.1</b>	<b>2.2</b>	<b>3.5</b>	<b>4.8</b>	<b>4.4</b>	<b>4.4</b>
<b>Social benefits</b>	<b>10.7</b>	<b>18.8</b>	<b>18.4</b>	<b>19.3</b>	<b>20.6</b>	<b>20.6</b>
<b>Other expense</b>	<b>13.0</b>	<b>13.8</b>	<b>12.4</b>	<b>13.3</b>	<b>15.3</b>	<b>18.7</b>
<b>Gross Operating Balance</b>	<b>80.5</b>	<b>142.2</b>	<b>78.8</b>	<b>114.2</b>	<b>107.5</b>	<b>91.7</b>
<b>Net Acquisition Of Nonfinancial Assets</b>	<b>59.1</b>	<b>156.0</b>	<b>77.3</b>	<b>134.9</b>	<b>114.6</b>	<b>97.3</b>
<b>Fixed assets</b>	<b>59.0</b>	<b>155.9</b>	<b>77.2</b>	<b>134.8</b>	<b>114.4</b>	<b>97.1</b>
Buildings and structures	2.6	85.8	22.0	89.9	94.2	90.0
Machinery and equipment	41.8	48.3	37.8	31.9	10.1	1.1
Other fixed assets	14.6	21.8	17.4	13.0	10.2	6.0
<b>Nonproduced assets</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>
Land	0.1	0.1	0.1	0.1	0.1	0.2
<b>Net Lending/Borrowing Requirement</b>	<b>21.4</b>	<b>-13.8</b>	<b>1.5</b>	<b>-20.7</b>	<b>-7.1</b>	<b>-5.6</b>
<b>Net Acquisition Of Financial Assets And Liabilities (Financing)</b>	<b>-21.4</b>	<b>13.8</b>	<b>-1.5</b>	<b>20.7</b>	<b>7.1</b>	<b>5.6</b>
<b>Financial Assets</b>	<b>14.9</b>	<b>17.6</b>	<b>17.2</b>	<b>10.5</b>	<b>2.2</b>	<b>-2.5</b>
Domestic	14.9	17.6	17.2	10.5	2.2	-2.5
Currency and deposits	10.1	0.0	3.3	3.0	-5.4	-10.1
Loans	-1.3	11.4	9.3	7.5	7.5	7.5
Shares and other equity	6.1	6.2	4.6	0.1	0.1	0.1
<b>Financial Liabilities</b>	<b>-6.5</b>	<b>31.3</b>	<b>15.7</b>	<b>31.2</b>	<b>9.2</b>	<b>3.0</b>
Domestic	-	20.0	11.0	15.0	3.0	-
Foreign	-6.5	11.3	4.7	16.2	6.2	3.0

Source: Ministry of Finance and National Planning