



**BUDGET STATEMENT
2019/20**

OUR COUNTRY OUR PEOPLE



Hon Dr. Pohiva Tu'i'onetoa
Minister for Finance

**MINISTRY OF FINANCE
Government of Tonga**



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1. FOREWORD

The 2019/20 budget is guided by the theme: *‘Our Country Our People.’* This is with the objective that all work carried out by Government funded by this budget is aimed to benefit all our people in Tonga, the country that we love and cherish. We are therefore calling on everyone in the society to work in collaboration to develop our people and our country. With continued vigor and great enthusiasm, by God’s guidance and grace, our nation will get through difficult times and overcome any challenges ahead. This year’s budget will reinforce Government plans and efforts towards meeting its development aspirations to raise the living standards of all Tongans to attain the National Vision of *‘A more progressive Tonga, supporting a quality of life for all.’*

The strategic thrust of the 2019/20 Budget recognizes and gives attention to relevant key issues to the budget raised by His Majesty’s closing address in Parliament on 28th February, 2019. These issues emphasize the importance of:

- preparedness to ensure resilience at times of natural disasters;
- accountability, transparency and reporting of aid assistance from Development Partners for recovery;
- Complete the reconstruction and recovery efforts following TC Gita & TC Ian;
- Establish independent commissions on the passport and the Nuku’alofa riot;
- Increased effort to address the issues of illicit drugs and deportees; and
- Improve language support to prepare Tongans for overseas employment.

Government draws focus on nine key areas of priority as Government Priority Agenda (GPA) to guide development works and initiatives in the medium term, 2019-2022. These areas are (i) public sector system reform; (ii) development of informal sector; (iii) combat and address the impacts of illicit drugs; (iv) improve beautification program (road & infrastructure development); (v) digital government framework; (vi) Quality Education; (vii) Health (NCDs, CDs and UHC); (viii) Support Energy Support; and (ix) Land Administration and Management.

The rationale behind the GPA is to promote a more dynamic and inclusive economy. This is through empowering of the informal sector to improve economic stability and individual income including developing the agriculture and fisheries sectors with better infrastructure to increase export products. Simultaneously, an ongoing effort is made to establish secure and affordable energy source and preserve the environment. At the same time, there is a need to expedite public sector system reforms as well as digitization of government processes and systems. The issue of illicit drugs needs to be urgently addressed given its large negative impacts on the Tongan society. Health and Education remain as priorities for human development and essential necessity. Land management and administration at the same time is a critical priority area given that land is Tonga’s most important asset apart from its people.

Furthermore, this budget will pick up on the remaining recovery works following TC Gita. These include the major recovery projects such as the school reconstruction works, which is expected to commence soon. Government is also considering options in terms of housing policy to address those households that were affected by TC Gita. Additionally, there is current work in progress towards the establishment of water tanks for the Ha’apai households that were affected by TC Ian.

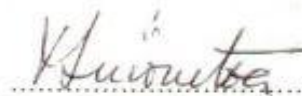
We acknowledge the timely support from our development partners and families abroad in providing immediate and timely response and assistance in the wake of Cyclone Gita.

The economy grew by 0.3 percent in 2017/18, taking into account the assessment on the severe impacts of TC Gita on the key sectors of the economy. The outlook for outer years is positive, in view of the recovery works and economic activities to rebuild the country and revive the economy. Government will continue to execute prudence in fiscal management emphasizing the need for government ministries to prioritise their activities over the medium term and clearly identify what can be delivered in 2019/20 considering our limited financial capacity.

Last but not least, we encourage strong coordination and collaboration across Government both horizontally and vertically together with stakeholders which is paramount for the successful implementation of Government priorities. We will need to stand and work together to develop our country, in line with this year's Budget theme: ***"Our Country Our People."***

Finally, I wish to conclude with the bible verse in Philippians 4:13, "I can do all things through Christ who strengthens me". That is our prayer and faith, let us continue to work together and God will do the rest.

God Bless Tonga



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Minister for Finance

29/4/19



2. INTRODUCTION

The budget theme for 2019/20 is “**Our Country our People**” which is established to reflect the ongoing development efforts and initiatives to build our nation and improve the living standard of all citizens. This serves to emphasize that in 2019/20 and the medium term, there is a call on everyone in the society to work in collaboration to pick up on current development progress to promote inclusive and sustainable development in all sectors of the economy.

The budget statement has seven sections as follows.

Section 3 provides a broad summary of the macroeconomic outcomes and outlook for Tonga. The GFS classification of the 2019/20 budget is also covered in this section. This includes the main drivers and key assumptions for the GDP forecasting and government’s debt position.

Section 4 introduces the Government Priority Agenda, 2019-2022, outlining the nine strategic areas of focus and linkages to the Budget 2019/20.

Section 5 discusses the 2019/20 Budget Estimates at a Glance.

Section 6 provides the Government Budget by funding allocations for both recurrent and development estimates and by ministry, location and funding sources.

Section 7 provides the conclusion; and

Sections 8-II provide the Appendices with relevant detailed information and supporting tables for the budget as follows:

Annex I: Macroeconomic and Social Outcomes and Outlook;

Annex II: Budget contribution to the Government Priority Agenda 2019/20;

Annex III: Revenue (Both Recurrent and Development) for 2019/20-2021/22

Annex IV: Development Aid Classification by Location; and

Annex V: Tropical Cyclone Gita and Ian Recovery Report.

Note:

Differences in numbers could be due to rounding

3. MACROECONOMIC OUTCOMES AND OUTLOOK

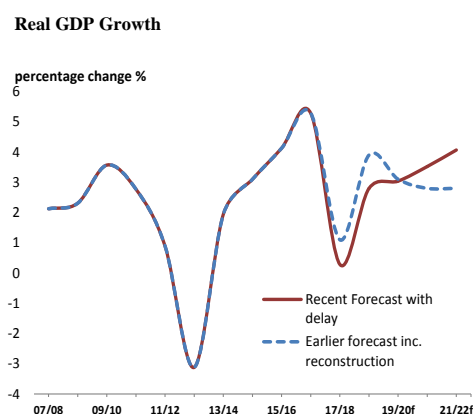
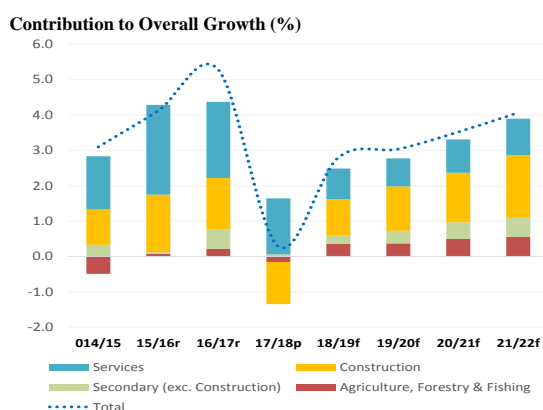
3.1 Global and Regional Highlights

The global economic growth¹ has weakened to 3.5 percent in 2019 from 3.7 percent in 2018, and expects to slightly grow to 3.6 percent in 2020. The weakening in the global growth was due to slow growth in both the advanced economies, emerging market and developing economies. The major contributing factors—for the advanced economies—included prolonged uncertainty of the Brexit outcome, decrease in the growth forecast for the United States and lower growth projection for Japan's economy. The slow down in the emerging market and developing economies was due to decline in growth of Asia and China attributed to the trade war with US. Prospects for the global commodity prices expect to rise mainly due to the projected rise in oil prices as an impact of the latest economic sanction in Iran. Agricultural price, on average, is also expected to increase in 2019 contributed to the estimated higher costs of energy and fertilizers.

Over the last twenty years, Tonga's economy's per capita GDP has grown by 1.3 percent on average, compared to 2.3 percent globally. While this growth is modest by developing country standards, it is faster than the small Pacific islands average (0.9 percent). On the other hand, like many other small Pacific island nations, Tonga's economic growth is constrained by structurally high costs of production and public service delivery and exposure to economic and environmental shocks. Among Pacific Islands Countries (PIC)², Tonga has the highest inflation rate of 5.5 percent recorded in 2018, followed by Papua New Guinea (PNG) of 5 percent and Fiji of 4 percent. The rest of the PICs have lower rates than 4 percent. As such, Tonga is implementing appropriate measures to maintain the inflation rate below the 5 percent target.

3.2 Domestic Economy and Outlook

Tonga's economy slows down to 0.3 percent in 2017/18, against 1.1 percent as initially forecasted in June 2018, reflecting the impact of Tropical Cyclone (TC) Gita. TC Gita caused serious damage to various sectors of the economy including shelters, agriculture, fishing, retail services, electricity and water and public sectors. The estimated cost of damages and economic loss was at \$328.4 million³. Government response was heavily dependent on available financing leaving a huge gap estimated at \$190.2 million.



Sources: Ministry of Finance, Statistics Dept. Tonga

¹ IMF World Economic Outlook, January 2019,

² ADB Pacific Economic Monitor, December 2018

³ World Bank assessment

Main drivers of growth in 2018/19

The following paragraphs briefly discuss the economic performance under the key sectors of the economy and its subsectors that drives growth in the economy.

Primary Sector (17 percent of GDP) growth averaged at 1.2 percent in the past five years and dropped to negative 1.0 percent due to impacts of TC Gita. The outlook forecast is positive, anticipating to slowly recover in 2019/20 and increase in outer years.

Agriculture: the estimated growth rate for the agriculture sub-sector grew by 0.6 percent in 2017/18, downward revision from 1.6 percent growth in 2016/17. There is a 2.5 percent growth projection in 2018/19 and anticipates to strengthen to an average of 3 percent in outer years.

Forestry: a negative growth was experienced in the past two years mainly due to a significant decline in exports of sandalwood. Growth expects to slowly recover and improve over the medium term and in outer years.

Fisheries: the drop in invertebrates and live fish deteriorated growth to negative 0.1 percent in 2016/17. The declining of foreign vessels and impact of TC Gita further deteriorated growth to negative 9.3 percent in 2017/18. Government's recovery program include reviews of current policies and enforcement and compliance contribute to the projection of 1.7 percent growth in 2018/19 financial year.

Secondary Sector (18 percent GDP): following the strong growth in 2016/17, growth fell significantly to negative 5.8 percent in 2017/18, pick up to an average growth of 8.9 percent in 2018/19 and outer years. This sector is mainly driven by construction activities.

Construction: Strong growth of 16 percent recorded in 2016/17 and dropped significantly to negative 11.8 percent in 2017/18. This reflects the completion and delays of major construction projects which include the domestic wharf and sports related development projects. The forecast for the outer years is positive to an average of 13.3 percent, taking into account that major construction projects will actually happen in 2019/20 and the following year.

Mining and Quarrying subsector is focrecast to move at the same direction with the construction activities.

Electricity and Water Supply: sector growth in 2017/18 fell to negative 0.3 percent in line with the decrease in the construction activities. 2018/19 is forecast to pick up to an average of 3.2 percent due to an anticipated further expansion in the services and increase in construction activities.

Manufacturing: growth in 2017/18 was 0.2 percent and it expects to strengthen to an average of 1.6 percent in 2018/19 and outer years. This is reflected in the increased demand for construction materials and inputs, water, bread and others.

Tertiary Sector (55 percent of GDP): Growth is estimated at 2.9 percent in 2017/18 and projects positive growth at an average of 1.2 percent in 2018/19 financial year. The positive growth is supported by expected growth in the following subsectors.

Wholesale and retail trade: an estimate growth of 0.1 percent in 2018/19 and outer years. This is due to the increase in cash and inkind remittances in the retail sector.

Hotels and Restaurants: A negative growth was estimated in 2017/18, reflected the impacts of TC Gita impact on resorts, other tourist sites and disruption to the airline and cruise ship schedules. For 2018/19 and outer years, the industry expects to strengthen considering the increase number of tourist arrivals, receipts and cruise ships.

Transport and communication: sector grew by 9 percent in 2017/18, expects to slow down to 3.9 percent in 2018/19 before strengthening back to an average of 7.2 percent in the outer years.

This positive growth outlook is driven by the expected infrastructure improvement projects including roads, ports and airport and the proposed implementation of the digital e-government project.

Financial intermediation: banking sector activities grew by 3.9 percent in 2017/18 and expects to increase in a positive trend over the medium term. This is driven by the increase in demand due to the need to support family and relatives that affected by TC Gita and other private obligations, excess liquidity in the banking system and also strong credit growth.

Public Administration and Services (including Government funded Education and Health): These sectors experience growth of 2.8 percent in 2017/18 and an estimated average of 1 percent in 2018/19 and outer years. This is consistent with the observed increase in the number of government employees and other reforms in the public sector.

The rest of the smaller subsectors include private *education, health and social work, community and personal services and others* have minimal impact.

3.3 Fiscal Policy and Measures

3.3.1 Fiscal policy/anchors and position

The 2019/20 Budget estimates a balance fiscal position and in the medium term if Government continues to prudently manage the established fiscal anchors. That includes the proposed control measures to sustain or even bring down the total wage bill is highly regarded and requires ongoing monitoring. Since Revenue continues to perform above the baseline and fiscal set target, the proposed new revenue measures and improvement in revenue sector will further strengthen the revenue collection and in achieving the overall fiscal target. Government appears to meet and well maintain its debt level below the set target of 50 percent of GDP, with a current total debt of 42.7 percent however its exceeding IMF target of 40 percent of GDP. On that note, continuous effort to manage our debt situation is recommended in purpose to maintain macroeconomic and fiscal sustainability overall. Refer to *Annex 1 Section 8.3.3* for further details.

Table 1 : Fiscal Anchors and Position

Fiscal anchors	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Domestic revenue to GDP (>22% of GDP)	24.3	25.1	25.2	26.4	25.5	24.5
Compensation of employees (<53% of domestic revenue)	53.2	47.9	51.6	53.1	52.2	51.2
Compensation of employees (<45% of operating expenditure)	76.7	61.0	53.3	55.2	59.8	59.8
External Debt to GDP (<50% of GDP)	45.0	46.4	42.7	42.5	40.3	38.0

Source: MOF

Expenditure Measures

The Government is committing to priority areas, as discussed in *Section 4*, with new initiatives to maintain fiscal balance in 2019/20 and outer years. In the effort to maintain a more sustainable macroeconomic stance, Government continues to adhere to Public Finance Management Act (PFM) at all levels to ensure appropriate medium term planning, accountability, budget control and the efficient use of public funds. Expenditure is contained in line with realized revenue in the expense of planned budget and absorption capacity, hence, the need for proper monitoring of fiscal anchors and relevant fiscal policies.

Wage bill is monitored to ensure sufficient funds for delivery of core services. Consequently, relevant policy for vacant positions had been reviewed, in light of the significant allocation of the wage bill owing to vacant positions that have been carried forward from year to year. For the 2019/20 fiscal year, the wage bill to domestic revenue ratio is expected to be 53.1 percent.

On the debt ratio, an ongoing effort is made by government to maintain external public debt at a sustainable level, particularly given Tonga's high vulnerability to natural disasters. This is a contributing factor to Tonga's new risk rating from moderate to high debt distress. Tonga's external public debt is estimated at 42.7 percent of GDP as at 30 June 2019 which is within the expected threshold. This is a decrease of 4.3 percent from 46.4 percent in June 2018.

In view of capital expenditures, strict prioritization of government funded projects is critical for better delivery of long term returns. Major projects are expected in education, health, roads and building resilience to natural disasters. Project planning needs to be enhanced to avoid delays in implementation.

Revenue Reforms

Government continues its effort to maintain fiscal sustainability associated with relevant revenue reforms in order to finance its priority agenda. In addition to the current revenue initiatives, the most recent revenue policies include the following *Excise Tax*:

1. TOP\$200 per kg on locally manufactured Tapaka – Tonga products;
2. 15% on imported eggs (excluding fertilized eggs for incubation); and
3. amendment for imported motor vehicles of tariff heading 8703 that have a model year of more than 10 years.

This is in addition to the revenue reforms and current ongoing initiatives for healthy food choices and combating NCDs, TC Gita recovery related imports, strengthening of the agriculture, fisheries, manufacturing and tourism activities as well as the duty and CT exemptions for development projects funded by donor partners, Foreign Exchange Levy for sports development and other revenue adjustment.

Ongoing policy changes include enforcement of arrears collection and potential increase in revenue streams from an x-ray machine and pallet scanner funded by The Peoples Republic of China. MOF has also conducted a review and a situation analysis on government fees and charges with the purpose to identify issues associated with under collection. The preliminary finding is to raise level of quality services and delivery to justify new fees and charges. Other MDAs conducted their own internal review, including Immigration and Lands and Survey.

3.3.2 Summary of Overall Budget in GFS Format

Total Revenue for 2019/20 is expected to be \$578.2 million, an increase of 12.0 percent on revised estimate revenue in 2018/19. Total expenses for 2019/20 are expected to be \$456.3 million, an increase of 10.5 per cent on revised estimate expenses in 2018/19.

The expense summarises the budget allocation to priority areas, explained in *Section 5.1* (Budget allocation by GPA table), and their impact on the fiscal balance in table below. More comprehensive information is provided in *Annex 1, Section 8.3.3.3*. Use of Goods and Services dominates the expense with an average share of 50 percent in the medium term budget.

Table 2 : Government Financial Statistics (GFS) Summary Table (provisional)

	2017/18 Actual	2018/19 Estimate	2018/19 Revised Estimate	Budget Estimate 2019/20	2020/21 Projection	2021/22 Projection
Revenue	457.2	617.5	514.8	578.2	554.2	529.8
Tax and Non-tax Revenue	266.4	293.4	278.0	305.6	311.4	317.2
Grants						
Current	14.4	43.5	41.3	38.5	39.3	39.3
Capital	176.4	280.6	195.5	234.1	203.5	173.4
Expense	336.5	422.0	413.0	456.3	433.8	433.8
Gross Operating Balance	101.1	195.5	101.8	121.9	120.4	96.1
Net Acquisition Of Nonfinancial Assets	89.4	194.4	86.3	111.7	101.3	81.1
Net Lending/Borrowing Requirement	11.8	1.1	15.4	10.2	19.1	14.9
Net Acquisition Of Financial Assets And Liabilities (Financing)	11.8	1.1	15.4	10.2	19.1	14.9

Source: MOF

3.3.3 Debt Position

Tonga still remains highly vulnerable to external shocks due to climatic conditions, and natural disasters and consequently, continues to be highly exposed to foreign currency risks. On the same note, Tonga has been upgraded from moderate to high debt distress, changing World Bank and ADB projects and budget support from 50 percent grant and 50 percent loan to 100 percent grant. This provides some room for prudent debt financing.

Total public debt as at 30 June 2019 is estimated at \$470.9 million or 42.7 percent of GDP, a decrease of 4.3 percent from 46.4 percent in June 2018. This is mainly due to the reduction in the total external loan owing since the commencement of the repayment of principals for the Nuku'alofa Central Business District loan in September 2018. This was later approved for an extended grace period by another 5 years by the EXIM Bank. Annex 1 Section 8.3.3.2 for more details.

3.4 Monetary Policy Actions

The National Reserve Bank of Tonga (NRBT) continues to maintain monetary stability, promote financial stability and a sound and efficient financial system. This is implemented through an accommodative monetary policy stance that is appropriate to encourage utilisation of the excess liquidity in the banking system. This is to increase lending to the growth sectors to support domestic economic activities; enhance growth and to strengthen the monetary policy transmission. During 2018/19, the following policy actions were implemented by the Reserve Bank:

- the monetary policy rate remained unchanged (interest rate on bank's exchange settlement accounts or excess reserves) at 0% (zero interest rate policy);
- continued to encourage banks to meet the minimum loans/deposit ratio at 80%;
- the inflation reference rate remained at 5%;
- Statutory Reserve Deposit ratio remained at 10%;
- progressed on strengthening the supervision and regulation of the non-bank sector in which Reserve Bank has implemented policies and directives to enforce the Foreign Exchange Control Act 2018.

Given the above developments and outlook, the Reserve Bank viewed the current accommodative monetary policy stance as appropriate in the medium term and will maintain accordingly going forward.

3.5 Risks

The global economy continues to pose risk for the domestic outlook, with uncertainty across both advanced and emerging market economies. It imposes threats to a stable external financial flows through reduction of remittances, foreign aid and tourism. Domestic risks remain as key challenges to our forecast and economic growth include high vulnerability to changes in the weather conditions and natural disaster; increase in financing needs and fiscal sustainability; NCD remains a high risk in terms of shorter life expectancy of the population, decline in productivity and high cost to government in terms of treatments. The acceleration in credit growth could create risks to stability of the financial sector over the medium term although the banking sector is well capitalised and NPL is low. *Annex I Section 8.3.4* provides details.

4. GOVERNMENT PRIORITY AGENDA 2019-2022

The Government will continue to focus on improving a more sustainable inclusive growth through joint effort with all key stakeholders to build the economy despite economic uncertainty in the global arena. Government also seeks to improve governance and service performance through its public sector reform program. It has established nine strategic focus areas to guide its development effort and initiatives through the corporate planning and medium term budgetary framework for 2019/20 to 2021/22. The nine strategic focus areas are:

1. *Public Sector System Reform*

In terms of service delivery, government will endeavor to balance resources and investment with results and outcome. It will maximise efficiency and effectiveness in meeting citizens' demands within financial constraints and limited capacities. Public administrations are expected to embrace these reforms.

Government plans to contribute to this priority area through implementing public sector system reform focus on:

- ✓ improving the rule of law and leadership;
- ✓ fostering a public service that delivers more efficient, effective and affordable services;
- ✓ promoting good governance; and
- ✓ reviews political structure for better accountability.

2. *Development of the Informal Sector*

GDP growth plays an important role to increase incomes, generate revenue and allow improvements in government delivery of its outputs. This effort needs to be inclusive and sustainable in order to achieve tangible benefits. To accomplish this, Government will provide its contribution to this priority area by:

- ✓ empowering the informal sector;
- ✓ improving marketing and transport strategy;
- ✓ Increasing export products through developing the tourism, agriculture and fisheries sectors;
- ✓ enforcing the 'one team' approach for better coordination.

3. *Combat and Address the Impacts of Illicit Drugs*

Illicit drugs is a serious issue in Tonga which is affecting all levels of society especially youth. Since the launching of the Police Drug Enforcement Taskforce in April 2018, a total of 154 arrests up to the end of February 2019 have been made. Tonga Police takes a regional approach with Australia, New Zealand and Fiji Police to combat serious and harmful effects of illicit drugs on people. Moreover, a National Task Force has been established to coordinate effort to combat illicit drugs.

Government prioritises assistance in this area to:

- ✓ strengthen community policing;
- ✓ empower National Security and Emergency Management and Border control;
- ✓ build capacity in MOP, MORC and Prisons; and
- ✓ provide arrangement for support towards criminal deportees.

4. *Improve Beautification Program (Roads and Infrastructure Development)*

Government prioritises 'beautification' to improve the visual appearance of Tonga as its critical to boosting tourism and other sectors to support economic development and thereby improve the quality of life of people. Beautification is a key aspect of community development. It will help to bring people together and attract tourists. Our people will take pride from an improved road network and infrastructure with green and cleaner environment.

Government contributes towards the beautification program through:

- ✓ road improvement program including bridge and community roads;

- ✓ developing public utilities (water, streetlights, ports, etc.);
- ✓ preserving cultural/heritage sites;
- ✓ improving compliance to international commitments for all transports; and
- ✓ adhering to building codes for constructions.

5. Support Energy sector

Tonga as a developing country strives to alleviate the financial burden of petroleum imports, reduce energy investment requirements, and make the best use of existing supply capacities to improve access to energy. Government considers the importance to have sustainable, secure and affordable energy for all Tongans.

As such, Government prioritises support towards the energy sector through:

- ✓ review the existing energy sector Bill;
- ✓ develop a new legislation and policy for rural electrification;
- ✓ implement the energy roadmap and renewable energy projects for Tongatapu and outer islands;
- ✓ revise the current electricity tariff.

6. Digital Government Framework/E-Government

Government has considered the implementation of digitization of information of government processes and functions. This will allow swift access, communication and delivery of government services, dissemination of information and communication in between government ministries and between government and major stakeholders. This will be through the implementation of E-Government project to:

- ✓ assist with E GOV development;
- ✓ develop digital media platform for dissemination of information;
- ✓ enhance service delivery to clients (call center and help desk); and
- ✓ initiate technical innovation platforms for youth.

7. Health (NCD, CDs and Universal Health Coverage)

Good health is critical for human development. To improve health standards and productivity, Government commits to ensure good health outcomes for its people through contributing towards:

- ✓ promoting healthy lifestyles and preventative measures to address Non Communication Disease (NCD);
- ✓ preventing the spread of Communicable Disease (CD);
- ✓ improving Universal health coverage and service;
- ✓ improving accessibility and infrastructure; and
- ✓ addressing general health issues.

8. Quality Education

A quality education is a prerequisite for learning and human development. Both on personal and national levels, education has proven to increase economic growth and stability. Government values the achievement of inclusive and equitable quality education with particular attention to:

- ✓ address teachers' salary and teachers' shortage;
- ✓ reconstruct schools and schools maintenance;
- ✓ improve administration and vocational training;
- ✓ conduct a whole of educational review;
- ✓ relocate Tonga Side School;
- ✓ pilot early childhood education; and
- ✓ standardize Forms 1-3 school curriculum standards.

9. Land Administration and Management

Land Administration and macroeconomic policies are key to the creation and management of national wealth and sustainable development. Given land is a valuable asset and property for Tongans, it is

important to establish an appropriate policy and mechanism to support land management. This is to ensure land security through a well management system for land in Tonga.

Government will contribute to this priority area through:

- ✓ establishing a Policy and Planning Development Division responsible for the Transport Project; Development Facility (Bridge), Tonga Integrated Urban Resilience Sector Project and strengthening of Geospatial Information Management in Tonga;
- ✓ enhancing land administration services;
- ✓ developing maritime boundary and deep sea mining initiatives; and
- ✓ enhancing better coordination between PUMA, MOI and MLNR.

5. BUDGET ESTIMATE AT A GLANCE 2019/20

The total budget for 2019/20 is \$599.3 million comprising of \$ 363.4 million recurrent (60 percent) and \$235.86 million development (40 percent). The development budget consists of \$131.41 million cash and \$104.45 million inkind. In comparison to 2018/19 the total budget was \$659.22 million comprising of \$365.9 million recurrent and \$293.32 million development.

Summary of Budget Estimates 2018/19 – 2019/20

Budget Estimates	2018/2019	Revised Budget 2018/19	2019/2020
	\$m	\$m	\$m
Recurrent	365.98	335.03	363.41
Development	293.31	195.12	235.86
Cash	110.78	44.77	131.41
Inkind	182.53	150.35	104.45
Grand Total	659.29	530.15	599.27

The total budget is broadly allocated in terms of the nine strategic focus areas as outlined in *sections 5.1* and *5.2* below. Major initiatives under the nine strategic focus areas are ongoing work by MDAs under their respective current operations and current development projects.

5.1 Summary of Government Budget by Priority Areas

Table 3 below illustrates the contribution of both the Recurrent Budget (\$363.41m) and Development Budget (235.86m) to each of the nine (9) priority areas. Notable are the following highlights:

- ✓ Majority of the nine (9) priority areas are increasing in allocations from 2018/19 to 2019/20 including combatting of illicit drugs;
- ✓ Largest share in both 2018/19 and 2019/20 is the Public Sector System Reform;
- ✓ While the allocations for the Beautification and Energy Sectors are declining in 2019/20 compared to 2018/19, there are many large projects under these sectors funded by development partners and the Budget for 2019/20 based on implementation plans. At the same time, relevant projects under 2018/19 have been completed or are winding down such as Cyclone Ian Project and OIREP1. Similarly, Digital Government Framework (E-Government) has also declined in view of the completion of the Cable Connectivity Project. However, two new projects will kick start for 2019/20 and will be implemented for five (5) years such as the E-health and Tonga Digital Infrastructure Projects.

Table 3 : Summary of Government Budget by Priority Areas

Government Priority Areas 2019/20-21/22	Budget 2018/19			Budget 2019/20			Budget 2018/19	Budget 2019/20	Variance
	Recurrent	Dev	Total Budget	Recurrent	Dev	Total Budget	%	%	
	\$m	\$m	\$m	\$m	\$m	\$m			
Public Sector System Reform	175.21	46.31	221.52	166.72	59.83	226.55	29%	34%	4.9%
Development of the Informal Sector	26.37	15.33	41.7	26.56	17.07	43.63	6%	7%	0.9%
Combat and address the impacts of illicit Drugs	28.38	7.12	35.5	30.29	0.63	30.92	8%	8%	0.3%
Improve Beautification Program (Road & Infrastructure Development)	27.79	123.9	151.69	28.22	73.36	101.58	24%	17%	-6.6%
Digital Government Framework (E-Government)	1.61	13.18	14.79	2.69	2.44	5.13	2%	1%	-1.2%
Quality Education	57.71	20.93	78.64	56.32	19.58	75.9	4%	13%	8.8%
Health (NCDs & CDs and Universal Health Coverage)	42.83	20.24	63.07	43.88	18.21	62.09	10%	10%	0.6%
Support Energy Sector	1.21	46.15	47.36	1.24	44.02	45.26	16%	8%	-8.3%
Land Administration and Management System	4.88	0.15	5.03	7.50	0.72	8.22	1%	1%	0.6%
Grand Total	365.9	293.32	659.30	363.42	235.86	599.28	100%	100%	0.0%

Source: MOF

5.2 Detailed Budget Allocation by Priority Areas

Annex II outlines the detailed budget allocation by priority areas as funded by both recurrent and development budget. Notably, the following allocations are specifically made in 2019/20 budget to support the following priorities areas: -

Public Sector System Reform: Allocations have been made in the 2019/20 budget to fund the Independent Commissions for the Passports and Nuku'alofa Riot (\$1 million) and the Anti-Corruption Commissioner (\$0.68 million). Part of the reform is the appointment of the new Attorney General to commence in June 2019.

Development of the Informal Sector: The Government Development Loan (GDL) of \$14.05 million administered by the TDB contributes to the development of the informal sector. This is inclusive of a Micro Finance Pilot Fund \$0.5 million for cooperatives and credit unions. Additionally, there is a Private Sector Marketing Trust Fund \$0.5 million, a PACER Plus Trust Fund \$0.5 million and a Fisheries BAIT Trust Fund \$0.04 million. A TC Gita Loan Recovery Funds of \$2.9 million for MSMEs has also been approved. A new subsidy of \$0.36 million is also proposed for domestic sea transport for the Ha'apai Group of islands.

Combat and Address Illicit Drugs: Assistance has been provided during the current financial year to fund four new vehicles for Ministry of Police as well as a number of new positions to increase capacity for addressing the issue of illicit drugs. Commitments will also be made in the 2019/20 budget to fund an additional 100 positions and relevant consultants and technical assistance for Ministry of Police. At the same time, MORC and Prisons are provided with budget allocations for the same purpose.

Improve Beautification Program (Road & Infrastructure Development): A centralised budget in MOI of \$3 million is allocated for beautification. At the same time, the allocation of \$10 million recurrent budget for road works is maintained in 2019/20. This is complimented by the Tonga Climate Resilient Transport Project with a Road Component of \$16.8 million of which \$10 million is expected to be committed in 2019/20.

Digital Government Framework (E-Government): World Bank has committed \$9.0 million towards e-government project which is currently being mobilized to commence. ADB, at the same time, is working with the Government of Tonga to process their contribution to the e-government project of \$20.0 million.

Quality Education: Education continues to receive the largest share of the recurrent budget (15.5 percent). A new allocation of \$540k under 2019/20 is made towards the allowance of student teachers to increase the capacity in the number of teachers contributing to quality education.

Health (NCDs & CDs and Universal Health Coverage): Health is the second largest share of the recurrent budget (12.1 percent). MOH also receives a large number of assistance from development partners including projects to address NCDs and CDs. ADB currently funds a new vaccine project under the MOH.

Support Energy Sector: A total of \$44.02 million from development budget is estimated to contribute to energy projects in 2019/20. This contribution comes from various development partners including the Green Climate Fund (GCF), which has approved Tonga's first project (Tonga Renewable Energy Project: TREP) of \$53 million with an expectation to commit \$16 million in 2019/20.

Land Administration and Management System: An allocation has been made for a new building for MLNR given the importance of a new infrastructure to house all land documents and management system in view of the importance of this priority asset to Tonga. The new building will help with the relocation to allow the reconstruction of the new Parliament.

5.3 Recovery from Tropical Cyclones Gita and Ian

The purpose of this section is to provide a summary of the status of the recovery from Cyclone Gita as well as remaining works from the Cyclone Ian recovery in Ha'apai. This is also to respond to HM's Parliamentary Address. The details are provided in *Annex V*.

Recovery: Tropical Cyclone Gita

With the timely and generous assistance of development partners, the Government of Tonga received a total cash assistance of \$93.91 million for recovery and reconstruction efforts following TC Gita. Of the total cash assistance received, \$72.02 million (76.7 percent) has been utilized/committed with a remaining balance of \$21.89 million (23.3 percent) for further recovery activities. To guide the implementation of recovery works, Government endorsed a programmatic disaster recovery framework in 2018 which outlines three recovery implementation phases: (i) the immediate phase; (ii) short-term recovery phase; and (iii) medium term recovery phase.

During the immediate phase (February – June 2018), the Government mobilized within two weeks of the disaster insurance funds of \$7.56 million via the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI) as well as \$15 million from ADB's Pacific Disaster Contingency Facility. The National Emergency Recovery Committee in collaboration with lead clusters were instrumental in advancing the timely assistance required for the vulnerable and highly impacted during this phase.

For the current short-term recovery phase (July 2018 – July 2019), recovery works undertaken to-date have included: (i) the pay-out of relief cash grants of \$6.5 million to 8,217 households; (ii) the pay out of grants for registered disabilities and elderlies of \$0.8 million; and (iii) provision of assistance towards key municipal agencies/utilities such as the Tonga Water Board, Tonga Power Limited, and Tonga Broadcasting Commission for repairs and damages.

In terms of the medium-term recovery phase, Government expects to address prioritised reconstruction activities in education, and urban development sectors. With assistance from the WBG, ADB, EU and

DFAT, further recovery works in this phase will include network upgrades via the Nuku'alofa Network Upgrade Project, and the reconstruction of selected schools via the World Bank funded Pacific Resilience Program (PREP).

Recovery: Tropical Cyclone Ian

The Tropical Cyclone Ian project of \$27.6m funded by World Bank has been completed in June 2018 after implementing 2 major components a) reconstruction of 1031 household beneficiaries and b) technical assistances in response to the severe damages caused in Ha'apai in 2014.

The World Bank further approved funding allocated from budget support for the supply of water tanks to 552 households and 18 community halls in Ha'apai which has been transferred to the development budget of the Ministry of Infrastructure as the implementing agency for this component. The status as of to date, the supply of the water tanks is soon to be awarded and implementation is expected to be carried out within the next 6 months. The details are provided in *Annex V*.

6. GOVERNMENT BUDGET: FUNDING ALLOCATION

6.1 RECURRENT BUDGET

6.1.1 Recurrent Expenditure by Ministry

Table 4 below illustrates the total recurrent expenditure of \$363.4m for 2019/20 depicting a decrease of 0.7 percent (\$2.57m) from 2018/19 budget of \$365.9m. This is attributed to a decrease of budget support, removal of one-off expenditures including TC GITA and deferment of the principal repayment for one of the EXIM Bank loans.

For 2019/20, the government allocates its total recurrent budget of \$363.4m to its 25 MDAs. The Ministry of Education and Training (MET) remains as the largest recipient of government's recurrent budget in 2019/20, with a total of \$56.3m (15.5 percent) of the total recurrent budget. The Ministry of Health (MOH) remains as the second largest share in the government's budget with approximately \$43.9m (12.1 percent) of the total recurrent budget. The budget allocation for both MET and MOH in 2019/20 for salaries is approximately \$35.1m (62.3 percent) and \$29.8m (68 percent) respectively. Operations, on the other hand is \$21.2m (37.7 percent) and \$14m (32 percent).

A decrease observed in the recurrent budget of Office of the Ombudsman is due to the pooling of the budget for the Anticorruption office to the Ministry of Finance. This is to await a decision on the establishment of the Office of the Anticorruption Commissioner.

Table 4 : MDAs Allocation (Expenditure, \$m)

Ministry	Actual 2017/2018	Original Budget Estimate 2018/19	Estimated Outturn	Budget Estimate 2019/20	Projection 2020/21	Projection 2021/22
Palace Office	3.86	4.79	4.68	4.74	4.74	4.74
Legislative Assembly	8.14	10.75	6.10	10.83	10.93	10.94
Tonga Office of the Auditor General	1.49	1.93	1.79	2.02	1.96	1.93
Office of the Ombudsman	1.46	1.75	1.41	1.63	1.63	1.63
Ministry of Foreign Affairs	10.15	10.56	8.85	10.52	10.52	10.52
His Majesty's Armed Forces	9.44	9.81	9.54	10.97	10.97	10.97
Prime Minister's Office	3.09	3.69	3.93	3.81	3.89	3.91
Ministry of Finance	61.56	105.05	89.17	96.97	97.58	103.39
Ministry of Revenue & Customs	9.57	10.07	10.06	10.67	11.83	11.83
Ministry of Public Enterprises	1.37	1.57	1.48	1.51	1.51	1.51
Ministry of Trade and Economic Development	5.39	7.71	6.57	8.14	8.04	7.94
Ministry of Justice and Prison	9.35	11.25	11.11	11.88	11.28	11.28
Attorney General's Office	3.13	3.26	3.30	3.44	3.44	3.44
Ministry of Police & Fire Services	11.64	12.40	12.48	13.78	13.78	13.78
Ministry of Health	39.42	42.83	43.90	43.88	43.63	43.63
Ministry of Education & Training	47.18	57.71	50.65	56.32	56.32	56.32
Ministry of Internal Affairs	7.63	9.33	9.44	7.73	7.87	7.87
Ministry of Agriculture, Food & Forests	7.32	10.79	9.66	10.33	10.33	10.33
Ministry of Infrastructure	17.27	22.83	23.44	23.25	24.25	24.25
Ministry of Lands & Natural Resources	3.96	4.88	5.13	7.50	4.80	4.80
Public Service Commission	1.81	2.09	2.00	2.08	2.08	2.08
Statistics Department	2.20	3.44	3.61	3.42	3.42	3.42
Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Communications and Climate Change	6.72	8.27	8.26	8.44	8.44	8.44
Ministry of Fisheries	3.62	4.26	4.12	4.59	4.44	4.49
Ministry of Tourism	4.52	4.96	4.38	4.97	4.92	4.92
Grand Total	281.30	365.98	335.03	363.41	362.60	368.36

Source: MOF

6.1.2 Recurrent Expenditure by Category

The budget allocation of the total recurrent expenditures by Category⁴ is illustrated below on Table 5. For 2019/2020, the largest budget allocation is on Category 10 (Established Staff) consisting 41.9 percent of the total recurrent budget. The budget allocation between the 'Salaries' category (10 & 11) and the 'Operations' category (12 – 22) is \$161.2m (44.4 percent) and \$202.2m (55.6 percent) respectively. It is planned that the remaining vacancies in FY2018/19 will be pooled together under the Ministry of Finance to fund critical positions in 2019/20.

While the total budget has decreased by 0.7 percent as compared to the previous year 2017/18, significant variations among the Government Expenditure Categories are due to the revision of the Chart of Account, pooling of \$2.5m telecommunication funds under MOF and increasing the Contingency Fund to \$5m to cater for unforeseen expenditures.

Grants and Transfer Category includes a subsidy of \$300k for domestic ferries for the Ha'apai islands. This is to facilitate easier access to the islands of Ha'apai to promote inclusive development and ensuring that no one is left behind.

⁴ Expenditure by Category: Established staff (10), Unestablished staff (11), Travel and communication (12), Maintenance and operations (13), Purchase of goods & services (14), Grants & transfers (15), Development Duties & Expenditures (16), Debt Management (17), Continugency (18), Pension & Gratuities (19), Assets (20), Equities Payment (21) and Private Sector Development Support (22)

Table 5: Total Recurrent Budget (Expenditure, \$m) by Category

Category	Actual 2017/2018	Original Budget Estimate 2018/19	Estimated Outturn	Budget Estimate 2019/20	Projection 2020/21	Projection 2021/22
Established Staff	121.24	147.33	135.37	152.20	152.50	152.47
Unestablished Staff	6.05	6.99	7.39	9.03	8.88	8.88
Travel and Communication	11.43	13.22	14.33	11.06	11.34	11.43
Maintenance and Operations	22.62	23.37	26.39	22.85	22.82	23.11
Purchase of Goods and Services	37.15	43.23	44.35	52.35	51.99	52.20
Grants and Transfers	34.90	66.95	49.50	43.10	43.87	52.03
Development Duties and Expenditures	2.96	3.32	1.99	3.00	3.00	4.00
Debt Management	27.79	42.08	36.95	38.91	39.17	35.22
Contingency Fund	0.00	1.04	1.24	5.04	5.04	5.04
Pension & Gratuities	4.70	5.50	3.99	5.50	5.50	5.50
Assets	12.19	12.56	13.14	19.97	18.09	18.09
Equities Payment	0.00	0.40	0.40	0.40	0.40	0.40
Private Sector Development Support	0.27	0.00	0.00	0.00	0.00	0.00
Grand Total	281.30	365.98	335.03	363.41	362.60	368.36

Source: MOF

6.1.3 Recurrent Expenditure by location

Table 6 below illustrates the recurrent expenditure allocated by location across the island groups of Tonga. Tongatapu continues to be the largest proportion of recurrent expenditure with \$221m (60.8 percent). This is mainly because it has the highest population as well as the volume of economic activities compared to the rest of the islands. This is followed by the Nationwide allocation of \$101m (27.8 percent) and Vava'u with the largest next allocation of \$15.2m (4 percent). The rest of the recurrent budget is allocated to Ha'apai and the rest of the islands depending on their population size and other factors.

Table 6: Total Recurrent Budget by Location (\$m)

Location	Actual 2017/2018	Original Budget Estimate 2018/19	Estimated Outturn	Budget Estimate 2019/20	Projection 2020/21	Projection 2021/22
Nationwide	66.83	115.46	96.35	101.03	97.31	96.52
Tongatapu	178.58	211.44	198.77	221.02	223.98	230.52
Vava'u	12.25	14.95	15.42	15.28	15.36	15.36
Ha'apai	7.52	7.68	7.58	8.92	8.77	8.77
Eua	4.88	5.63	6.70	6.39	6.39	6.39
Niuatoputapu	1.69	1.83	2.03	2.00	2.00	2.00
Niufo'ou	1.43	1.42	1.64	1.53	1.55	1.55
Overseas	8.12	7.58	6.54	7.24	7.24	7.24
Grand Total	281.30	365.98	335.03	363.41	362.60	368.36

Source: MOF

6.1.4 Recurrent Revenue by Ministry

Table 7 below illustrates the total recurrent revenue of \$363.4m for 2019/20 depicting an increase of 2.3 percent (\$8.3m) from 2018/19 budget of \$355.1m. The current administration expects a broader revenue base that facilitates the collections of domestic revenue to assist in financing of its priorities in the medium term.

The government allocates its total recurrent revenue budget of \$363.4m for 2019/20 to its 25 MDAs. The Ministry of Revenue & Customs (MORC) is still obligated to collect the largest share of the

government's recurrent revenue budget. It has a total of \$245.9m (67.7 percent) of the total recurrent budget in which Tax on Goods and Services holds the largest allocation of \$102.3m (41.6 percent) of its total budget. This is followed by the Ministry of Finance (MOF) with a total of \$75.4m (20.7 percent) of the total recurrent budget, in which \$38.4m (50.9 percent) belongs to budget support.

Table 7 : MDAs Allocation (Revenue, \$m)

Ministry	Actual 2017/2018	Original Budget Estimate 2018/19	Estimated Outturn	Budget Estimate 2019/20	Projection 2020/21	Projection 2021/22
Tonga Office of the Auditor General	0.07	0.10	0.10	0.10	0.10	0.10
Ministry of Foreign Affairs	2.92	4.00	3.87	4.00	4.00	4.00
His Majesty's Armed Forces	-	0.20	0.11	0.20	0.20	0.20
Prime Minister's Office	0.03	0.15	-	0.01	0.01	0.01
Ministry of Finance	41.69	76.36	70.47	75.38	68.71	67.45
Ministry of Revenue & Customs	226.00	232.09	235.05	245.93	251.99	259.00
Ministry of Public Enterprises	5.76	12.00	8.35	12.00	12.00	12.00
Ministry of Trade and Economic Development	0.60	0.87	0.55	0.67	0.66	0.66
Ministry of Justice and Prison	1.68	2.03	1.69	2.03	2.03	2.03
Ministry of Police & Fire Services	0.40	1.01	0.71	1.01	0.81	0.81
Ministry of Health	1.15	1.50	1.28	1.50	1.50	1.50
Ministry of Education & Training	2.28	2.67	2.44	2.67	2.67	2.67
Ministry of Internal Affairs	0.02	0.03	0.02	0.03	0.03	0.03
Ministry of Agriculture, Food & Forests	1.29	2.10	1.37	1.65	1.65	1.65
Ministry of Infrastructure	7.85	10.00	9.86	10.00	10.00	10.00
Ministry of Lands & Natural Resources	0.83	6.02	0.79	2.02	2.02	2.02
Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Communications and Climate Change	0.86	0.85	0.75	0.85	0.85	0.85
Ministry of Fisheries	2.82	3.00	2.77	3.00	3.00	3.00
Ministry of Tourism	0.15	0.17	0.21	0.37	0.37	0.37
Grand Total	296.41	355.14	340.38	363.41	362.60	368.36

Source: MOF

6.1.5 Recurrent Revenue by Category

It has been anticipated that the total recurrent revenue for the 2019/20 (\$363.4m) would have an increase of \$8.3m (2.3 percent) from 2018/19 (\$363.4m). This is due to some of the revenue's most recent reforms including the use of cash registers, international outbound calls and excise tax on local alcohol and tobacco.

Table 8 below depicts the allocation of the total recurrent revenue by Category⁵. Tax on Goods and Services (Category 02) is the largest proportion of the overall recurrent revenue budget for the 2019/20 consisting of \$102.3m (28.2 percent).

⁵ Revenue by Category: Income Taxes (00), Trade Taxes (01), Taxes on good & services (02), Excise Taxes (03), Fees & Licences (04), Entrepreneurial & Property Income (05), Miscellaneous Revenue Items (06), Capital & other transfers (07) and Budget Support & Revolving Fund (08)

Table 8: Total Recurrent Budget (Revenue, \$m) by Category

Category	Actual 2017/2018	Original Budget Estimate 2018/19	Estimated Outturn	Budget Estimate 2019/20	Projection 2020/21	Projection 2021/22
Income Tax	48.84	45.35	51.60	57.45	57.45	57.45
Trade Taxes	22.43	27.38	26.03	22.73	23.63	24.67
Taxes on Good & Services	93.16	93.66	94.96	102.27	105.30	108.82
Excise Taxes	63.23	70.86	65.53	66.55	68.68	71.14
Fees & Licences	25.16	31.07	25.42	30.16	29.96	29.96
Entrepreneurial & Property Income	10.97	21.85	14.22	19.74	23.74	22.17
Miscellaneous Revenue Items	2.66	3.69	0.46	5.39	2.08	2.39
Capital & Other Transfers	14.74	16.80	18.98	20.65	12.50	12.50
Budget Support & Revolving Fund	15.22	44.49	43.19	38.47	39.27	39.27
Grand Total	296.41	355.14	340.38	363.41	362.60	368.36

Source: MOF

6.2 DEVELOPMENT BUDGET

The total development budget for 2019/20 is \$235.86 million, as shown in Table 9 which is about 47 percent of the total budget for 2019/20. The development budget consists of \$131.40 million (56 percent) which is assigned as Cash and \$104.45 million (44 percent) as in-kind.

Table 9: Total Development Budget by type (\$m)

Type of Funding	Actual 2017/18	Budget 2018/19	Estimated Outturn 2018/19	Budget 2019/20	Projections 2020/21	Projections 2021/22
	\$m	\$m	\$m	\$m	\$m	\$m
Cash	26.74	110.78	44.77	131.41	104.17	93.03
Inkind	137.67	182.53	150.35	104.45	100.36	81.36
Grand Total	164.41	293.32	195.12	235.86	204.54	174.38

Source: MOF

6.2.1 Aid Funded Project Expenditure by Ministry

The total development budget for 2019/20 of \$235.86 million is allocated by MDAs as shown below on Table 10:

Table 10: Total Development Budget (Aid Funded Project Expenditure) by MDA (T\$m)

Ministry	Actual 2017/18	Budget 2018/19	Estimated Outturn 2018/19	Budget 2019/20	Projections 2020/21	Projections 2021/22
	\$m	\$m	\$m	\$m	\$m	\$m
Palace Office	-	-	-	-	-	-
Legislative Assembly (LA)	0.37	0.32	0.24	1.00	1.00	1.00
Audit Office	0.20	0.20	0.15	0.20	0.20	0.20
Office of the Ombudsman	0.02	-	-	-	-	-
Ministry of Foreign Affairs & Trade	0.24	0.10	0.08	0.50	0.50	0.50
His Majesty's Armed Forces (HMAF)	9.93	5.95	4.71	16.90	13.90	13.90
Prime Minister's Office (PMO)	-	-	-	0.16	-	-
Ministry of Finance (MOF)	11.42	72.84	38.01	26.88	17.92	15.54
Ministry of Revenue & Customs (MORC)	-	6.00	4.80	-	-	-
Ministry of Public Enterprises (MPE)	4.38	0.15	1.35	14.00	-	-
Ministry of Trade and Economic Development	0.04	0.22	0.02	0.31	0.01	-
Ministry of Justice and Prisons	1.80	2.32	1.31	1.05	2.70	1.20
Attorney General's Office (AGO)	0.20	0.19	0.02	0.19	-	-
Ministry of Police & Fire Services	2.33	2.90	0.32	2.90	5.00	2.48
Ministry of Health (MOH)	17.04	12.05	8.99	13.99	11.23	13.16
Ministry of Education & Training (MET)	15.16	19.89	11.88	13.57	13.70	13.70
Ministry of Internal Affairs (MIA)	7.67	14.03	6.24	19.77	14.01	12.23
Ministry of Agriculture, Food & Forests (MAFF)	5.22	6.46	4.55	4.90	7.01	5.34
Ministry of Infrastructure (MOI)	47.98	39.45	21.20	28.64	28.69	27.52
Ministry of Lands, Survey & Natural Resources	5.70	1.77	1.24	5.83	6.01	6.01
Public Service Commission (PSC)	0.39	0.44	0.35	0.44	0.10	0.10
Bureau of Statistics	0.19	0.05	0.29	-	-	-
Ministry of Meteorology, Environment, Information, Disaster Management, Energy, Communications and Climate Change (MEIDECCC)	33.12	103.52	87.20	76.85	71.24	51.23
Ministry of Fisheries MoF)	0.84	4.47	2.16	3.48	6.44	6.19
Ministry of Tourism (MOT)	0.17	-	0.00	4.30	4.90	4.10
Grand Total	164.41	293.32	195.12	235.86	204.54	174.38

Source: MOF

The allocation of Development budget by MDAs for 2019/20, MEIDECC has the highest allocation of \$76.85 million followed by Ministry of Infrastructure (MOI) with \$28.64 million, and Ministry of Finance (MOF) with \$26.88 million.

The major projects in MEIDECC for 2019/20, are the ongoing ADB Outer Island Renewable Energy Project (\$21.6 million) and Climate Resilience Sector Project (\$6.6 million); followed by Japan Installation of Winds Power Generation System (\$20.0 million) and Nationwide Early Warning System (\$19.0 million); ongoing World Bank Pacific Resilience Program (\$28.8 million); and the Green Climate Fund Tonga Renewable Energy Project (\$53.2 million) and the proposed Coastal Protection. These major projects are all attributed to mitigation and adaptation to climate change impacts and risks.

The major projects under MOI include the World Bank Tonga Climate Resilient Transport Project (\$21.6 million) and closing of the Tonga Aviation Investment Project (TAIP) (\$6.6 million) followed by ADB Climate Resilience Sector Project (CRSP) (\$5.8 million) focusing on the evacuation and post disaster access roads.

Major projects under MOF for 2019/20, are the recovery funds for Tropical Cyclone GITA (\$25.2 million), Central Services Unit (\$1 million), and E-Government (\$9 million). The TC GITA funds are held under MOF for management purposes and it will be used on the agreed respective clusters.

6.2.2 Development Expenditure by Location

Table 11 below presents the allocation of development expenditure by location throughout Tongatapu, Vava'u, Ha'apai, 'Eua, the two Niuas and nationwide.

Location	Actual 2017/18 \$m	Budget 2018/19 \$m	Estimated Outturn 2018/19 \$m	Budget 2019/20 \$m	Projections 2020/21 \$m	Projections 2021/22 \$m
Nationwide	49.74	141.07	125.76	92.81	88.02	80.73
Tongatapu	95.83	118.10	53.64	118.65	95.05	77.52
Vava'u	10.54	6.00	3.28	7.23	7.49	2.17
Ha'apai	5.04	11.83	7.36	5.32	5.31	5.31
Eua	1.39	3.60	0.26	5.15	5.15	5.15
Niuaatoputapu	1.87	10.98	4.39	4.90	3.00	3.00
Niuafo'ou	-	1.74	0.44	1.80	0.50	0.50
Grand Total	164.41	293.32	195.12	235.86	204.54	174.38

Source: MOF

Nationwide projects take up almost 40 percent of the total projects by location for 2019/20. The amount of national programmes reflect the need to ensure more inclusiveness in development. Just over 45 percent of nationwide projects fall under the social infrastructure and services category at \$39.75 million of which the Government and Civil Society sub-sector records \$20.5 million, as well as educational related projects at \$11.77 million, health at \$7.17 million and other social services at \$0.11 million. The economic infrastructure and services category is made up of 37 percent of the nationwide projects which is the transport & storage projects worth of \$17.0 million, multi-sector aid at \$13.65 million and energy at \$16.4 million. Multi-sector/cross cutting sector takes up 15 percent of the total project amounts and Production of agriculture, fisheries and tourism take up to 6 percent.

For **Tongatapu** as shown in the above table, the total amount of projects is at \$118.65 million or 51 percent of the total budget for 2019/20. This is an increase from 40 percent in 2018/19 as a number of infrastructural projects have reached final phases (Domestic Wharf, the rural solar project and adaption climate change projects). In 2019/20, both the economic and social infrastructure services projects take

up 80 percent of the total projects. The rest falls under the Production sector and Multi-sector cross-cutting projects.

The allocation for *Vava'u* as shown in the above table for 2019/20, was \$7.23 million; allocated for most projects under the Economic and Social Infrastructure and Services. The projects include the renovation of the Ngu Hospital funded by World Bank, and the rehabilitation of approximately 60 percent of the existing Vava'u energy network system to improve operational efficiency through the OIREP which will continue in 2018/19 and 2019/20 to attain the target of 60 percent.

Ha'apai is allocated \$5.32 million in 2019/20. Projects to be implemented include \$2.5 million towards the continuation of OIREP across the Ha'apai group. The World Bank funded Tonga Climate Resilient Transport Project (TCRTP) will also be implemented with a total of \$2.3 million addressing infrastructure maintenance across all modes of land transport ensuring safer and more reliable transport services.

According to the allocation for *'Eua*, a total of \$5.15 million is estimated for 2019/20. Projects to be implemented include the Tonga Climate Resilient Transport Project (TCRTP) which covers: (i) road sector in 'Eua; (ii) increasing the resilience of transport infrastructure to climate change and extreme weather events; and (iii) ensuring safer and more reliable transport services with a total of \$3.2 million for 2019/20. In addition, \$0.4 million is for water storage facilities which is requested to be funded by the Government of India.

Niuaotupapu and Niuafu'ou: A total of \$6.7 million is estimated for 2019/20. This includes the Tonga Climate Resilient Transport Project (TCRTP), component 2 – to address maritime transport infrastructure maintenance backlog, funded by World Bank which was scheduled to commence in September 2018. OIREP is currently ongoing with Phase 2 and 4 implemented in 2018/19. This includes installation of solar power with effective storage and an 80kW back-up diesel generator-set for Niuaotupapu. There is also rehabilitation work on existing Solar Home Systems in Niuafu'ou and a new mini grid which will be installed for network distribution in Niuaotupapu to bring the new installed solar and battery power from the centralised power station to households.

6.2.3 Development Expenditure by Development Partners

Development partners continue to play a critical role in the development of the country as outlined in Table 12 below.

Donor	Actual 2017/18	Budget 2018/19	Estimated Outturn 2018/19	Budget 2019/20	Projections 2020/21	Projections 2021/22
	\$m	\$m	\$m	\$m	\$m	\$m
Asian Development Bank	32.42	53.62	31.54	47.29	34.00	32.87
CROP Agencies	5.95	3.01	1.15	0.67	0.29	0.19
Disaster Donors	-	13.00	16.16	3.00	-	-
European Union	2.08	7.31	0.60	7.98	2.94	3.97
Government of Australia	22.90	22.72	10.54	23.81	21.96	21.67
Government of Japan	28.75	42.70	7.01	22.25	22.25	12.25
Government of New Zealand	23.50	28.48	19.54	15.07	13.27	12.06
Green Climate Fund	0.15	-	0.01	5.23	5.23	5.23
Local Donors	0.94	0.78	0.67	2.48	3.42	1.32
Other Donors	2.89	2.39	7.14	7.79	10.02	9.22
People's Republic of China	3.40	29.05	21.00	18.20	18.97	15.30
Pooled Funds - Australia & NZ	1.67	2.50	0.36	2.50	2.50	2.48
United Nation Agencies	10.18	10.87	4.53	11.45	10.55	9.60
USA Government	1.51	1.51	52.18	0.75	0.51	0.51
World Bank/IDA	28.06	75.38	22.69	67.41	58.63	47.71
Grand Total	164.41	293.32	195.12	235.86	204.54	174.38

Source: MOF

For the **World Bank**, the funding envelope for the current triennium (IDA18: 2017/18 - 2019/20) of US\$67.8 million which is focused on the following sectors: transport (USD\$27.8 million), fisheries (USD\$5 million), E-government (USD\$5 million), youth employability (USD\$15.0 million) and budget support (USD\$15 million). Comparatively, this is a significant increase from a total of USD\$19.2 million provided by World Bank in the previous triennium (IDA17: 2014/15 – 16/17).

Similarly, the **Asian Development Bank's** (ADB) current funding envelope commencing 2018-2020 will be in the areas of Integrated Urban Resilience (USD\$12 million), GCF & Renewable Energy (USD\$6.5 million), Transport Evacuation Bridge (USD\$20 million), Budget support (USD\$15.0 million) and this is also an increase from USD\$44.9 million to an average of USD\$60 million.

The **Government of Australia's** (DFAT) bilateral assistance is led by their Aid Investment Plan (AIP) 2015/16 – 2018/19 of approximately AUD\$60.0 million with support in four strategic areas namely: (i) support to economic, governance and private sector development reforms; (ii) to promote a more effective, efficient and equitable health system; (iii) to improve economic opportunities for Tongan workers through investments in skills development; and (iv) cross-cutting issues (Gender, Climate change, Disability). DFAT is currently designing their next aid investment plan which is likely to focus in the same areas.

Government of New Zealand (MFAT) provides assistance through their Joint Country Program 2015/16 to 2017/18 NZD\$74.0 million in the areas of: (i) energy; (ii) economic development; (iii) education/skills development; and (iv) law and justice. MFAT and the Government of Tonga have agreed upon similar areas for further investment which includes energy, law and Justice, police and education.

The **European Union** (EU) 11th European Development Fund (EDF) 2014-2020 is €11.1 million with €10 million towards the focal sector of energy in the form of budget support and €1.1 million towards the Technical Cooperation Facility (Support to the NAO office and Civil Society). It should be noted that the construction of the new Likamonū Hospital was commissioned in late 2018.

The **People's Republic of China** (PRC) provides technical corporations across various sectors, the most recent grant signed was for RMB 100 million additional to the Kings State Visit in February 2018. Previous years included RMB 150 million in 2016 and RMB 200 million in 2017 respectively. These investments are in various areas of education, transport and agriculture. Recent projects funded include the Agricultural Techniccal Cooperation Phase V (RMB 27m), X-ray Machines for the wharf and airport to arrive in August 2019 (RMB 65m) together with ongoing assistance to Vaiola Hospital from visiting medical teams. There have also been recent donations of both medical equipment and tractors to the Kingdom from Dongguan City in Guangdong Province in China.

Japan's Economic Cooperation with Tonga focuses on 5 main areas which are: (i) *General Grant Aid*, which aims at constructing clinics, hospitals, vocational school facilities, roads, bridges and any related equipment; (ii) *Grant Assistance for Grass Roots Human Security Projects (GGP)*, which provides financial assistance to NGOs, hospitals, primary schools and other non-profit organizations to help implement development projects that have direct impact on the well-being of grass roots and communities; (iii) *Non- Project Grant Aid (NPGA)*, which is a grant aid intended to provide rapid support to developing countries with economic difficulties such as growing accumulated debt or a rising international balance of payments deficit, as part of assistance to improve the country's economic structure; and (iv) *Technical Cooperation*, a programme of various inputs that achieve project purposes.

Major projects moving forward include a Wind Power Generation System approx. \$20 million, and the Nationwide Early Warning System approx. \$19 million.

The **United Nation** (UN) assistance organized its programme support to Tonga through the UN Development Assistance Framework 2018-2022. There is a total of five thematic areas of support which are: (i) Climate Change, Disaster Resilience and Environmental Protection; (ii) Gender Equality; (iii) Sustainable and Inclusive Economic Empowerment; (iv) Equitable Basic Services (Health, Education, Social Protection); and (v) Human Rights approximately \$104.4 million.

7. CONCLUSION

"Our Country Our People," the theme for 2019/20 Budget, emphasizes the one great vision and foundation of the country; "God and Tonga are my inheritance" by His Majesty King Tupou I. This sets the underlying tone—with God's guidance, we invest with great priority in our people with aspirations for a better and stronger country. Government—in unity, harmony and oneness—with all stakeholders will continue to strive forward to ensure a more progressive Tonga supporting a higher quality of life for 'our country and our people' (TSDF II) and to ensure that 'no one is left behind' (SDGs). We therefore emphasis unity and cooperation for the greater good of our nation—supported by better planning and budgeting of our limited resources in an inclusive and sustainable manner. This enables the implementation of MDA's Corporate Plans and the achievement of outputs and targets, consistent with the Government's nine priority areas, which together, should benefit each and every member of society.

**Psalm 33: 12 Blessed is the nation whose God is the Lord,
the people whom he has chosen as his heritage!**

ANNEXES

8. ANNEX I: MACROECONOMIC AND SOCIAL OUTCOMES AND OUTLOOK

8.1 Global and Regional Highlights

According to the latest IMF World Economic Outlook, January 2019, global expansion has weakened to 3.5 percent in 2019 from a 3.7 percent estimated for 2018. Despite weaker performance in some economies, global growth is projected to grow slightly to 3.6 percent in 2020. This growth pattern reflects a persistent decline in the growth rate of advanced economies from the above trend levels together with a temporary decline in the growth rate for emerging market and developing economies in 2019. This reflects contractions - weakening in the financial market sentiment - in Argentina and Turkey, as well as the impact of negative effects of tariff increases enacted in the United States and China. Those were the contributing factors to the downward revision of the global growth projections from the October 2018 forecast.

Precisely, growth in *advanced economies* is anticipated to slow from a projected 2.3 percent in 2018 to 2.0 percent in 2019 and 1.7 percent in 2020. The major contributing factors included moderate growth projected for euro area from 1.8 percent in 2018 to 1.6 percent in 2019 and 1.7 percent in 2020. These included *United Kingdom*—due mainly to the negative effect of prolonged uncertainty about the Brexit outcome. The decrease in the growth forecast for the *United States*—supported by the unwinding of fiscal stimulus and as the federal funds rate temporarily overshoots the neutral rate of interest. Lower growth projection for *Japan's* economy—due to the additional fiscal measures to mitigate the effects of the planned consumption tax rate increase and due to the implementation of the fiscal measures.

Growth for the *emerging market and developing economies* is projected to decline slightly to 4.5 percent in 2019 from 4.6 percent in 2018, before improving to 4.9 percent in 2020. This is supported by projected decline in growth of *emerging and developing Asia* from 6.5 percent (2018) to 6.3 percent (2019) and 6.4 percent (2020). This included a projected slow down in the *China's* economy—due to the combined influence of needed financial regulatory tightening and trade tensions with the United States; while *India's* economy is forecasted to pick up in 2019 benefitting from lower oil prices. Growth in the *emerging and developing Europe* in 2019 is projected to weaken further than initially anticipated. Prospects for the global commodity prices is expected to rise mainly because of projected rise in oil prices due to the latest economic sanction in Iran. Agricultural prices, on average, are also expected to increase in 2019 supported by estimated higher costs of energy and fertilizers.

According to the IMF, key sources of risks to the global outlook are the trade negotiations and the direction of financial conditions as well as the uncertainty about the policy agenda of new administrations—US federal government, and also the geopolitical tensions in the Middle East and East Asia. *Trade tensions* between the United States and trading partners, hence, global trade, investment and output remain under threat from policy uncertainty as well as other ongoing trade tensions. On the note of *financial market sentiment*, slowdown in China is due mainly to financial regulatory tightening as a result of trade dispute with the United States. Overall, risks to global growth is skewed to the downside and policy space limited in many countries, hence, multilateral and domestic policies are urgently needed to focus on preventing additional deceleration and strengthening resilience. A shared priority is to raise medium term growth prospects while enhancing economic inclusion.

The prospects for growth in developing East Asia and Pacific (EAP) is estimated to slow down to 6.3 percent in 2018, from a 6.6 percent in 2017, owing to the moderation in China's economic expansion. In the first half of 2018, growth remains resilient supported by strong domestic demand including strong labour demand and wage growth which underpinned consumption spending across the large ASEAN economies. Growth in developing EAP, excluding China, is anticipated to remain stable from 2018 to

2020 at 5.4 percent, driven primarily by domestic demand. There is a strong domestic demand, particularly, in Thailand and Vietnam, while growth in other countries —Indonesia, Philippines and Malaysia—is supported by the improved investment and private consumption.

Better than expected performance in the Australian economy over the first half of 2018 was driven by strong household sector activity—through the increased consumer spending and higher demand for new homes. In addition, the stable exports and strong government spending were also supportive of this economic expansion. On the other hand, household spending would be lowered as per weak growth in wages. The notable fastest growth, in two years, in the economy of New Zealand is supported by expansion in agriculture—milk production, sheep and beef cattle farming and favourable weather condition.

Despite the high vulnerability to natural disasters, growth prospects for the Pacific island countries and other small states is estimated to strengthen from 3.0 percent in 2017 to 3.7 and 3.9 percent in 2018 and 2019 respectively. This is highly supported by good growth in Fiji given the recovery from Cyclone Winston, as well as Papua New Guinea (PNG) and Timor-Leste which continued to expand in 2019. Another notable contributing factor is the strong performance of tourism activity in the South Pacific region. Recent data showed that tourist departures from New Zealand and Australia to the South Pacific continue to increase by 14.1 percent and 0.6 percent respectively. However, there was widespread destruction caused by Cyclone Gita in Tonga and Samoa. Inflation in the region is expected to be on the rise due to an anticipated increase in oil prices in 2019 at US\$74/barrel before it is expected to fall to US\$69/barrel in 2020.

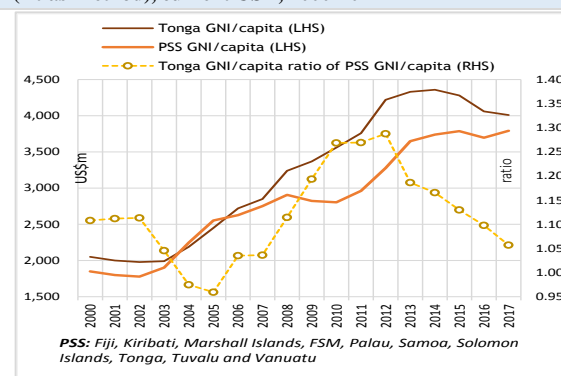
According to the ADB Pacific Economic Monitor (PEM), December 2018, among the Pacific island countries (PIC), Tonga has the highest inflation rate of 5.5 percent in 2018, followed by 5 percent for PNG and 4 percent for Fiji. The rest of the PICs have lower rate than 4 percent. In 2019, a projection of 4.5 percent for PNG, the highest so far, followed by 4 percent for Samoa and 3.4 percent for Tuvalu while the rest of the PICs at 3 percent and less.

Overall, it is important to consider the infrastructure financing needs in the PICs, due to its high vulnerability to natural disasters as well as maintaining the strong growth of tourism through continued and further improvement of tourism infrastructure.

8.2 Growth in Tonga compared to the Region

According to the World Bank data (using the Atlas method), the GNI per capita for Tonga slowed down in 2017 while the GNI per capita for the Pacific Island Small States (PSS) increased. This led to a continuous reduction in the ratio of Tonga's GNI per capita to PSS's GNI per capita, as reflected by the dotted line. Over the past decade to 2017, the average growth for Tonga's GNI per capita was 3.6 percent, lower than the average growth for the past decade to 2016 (4.2 percent) but higher (slightly) than the average for the PSS's GNI per capita of 3.4 percent for the decade to 2017.

Pacific Island Small States (PSS) and Tonga GNI/Capita (Atlas Method), current USD, 2000-2017



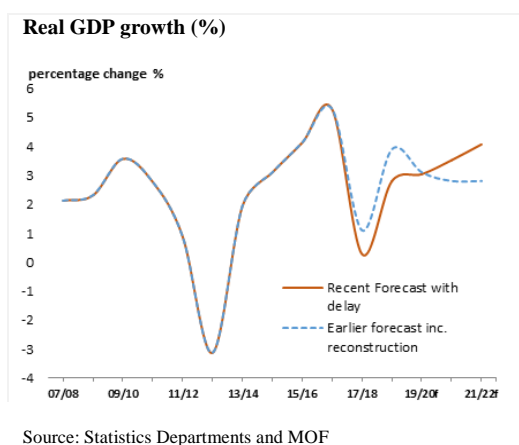
Source: World Bank (data in calendar year)

The slow down in the GNI per capita for Tonga in 2017 reflected the need for measures that will spur growth in Tonga. These may include continuous efforts to create more job opportunities as per one of the focus areas of this budget—the development of informal sector, investment in physical and human capital. The recent signed MOU between the Government of Tonga and Australia, has open doors to other sectors, other than the agricultural sector. Other sectors include accommodation and food services industry, health care and social assistance industry and the non-seasonal agriculture, forestry and fishing industries. Also to continue emphasizing of the quality education which in turn lead to improve the performance of the workforce and productivity. At the same time, collective efforts are required to enhance the GNI per capita for PSS to maintain at the increasing trend.

8.3 Domestic Economy & Social Outcomes and Outlook for Tonga

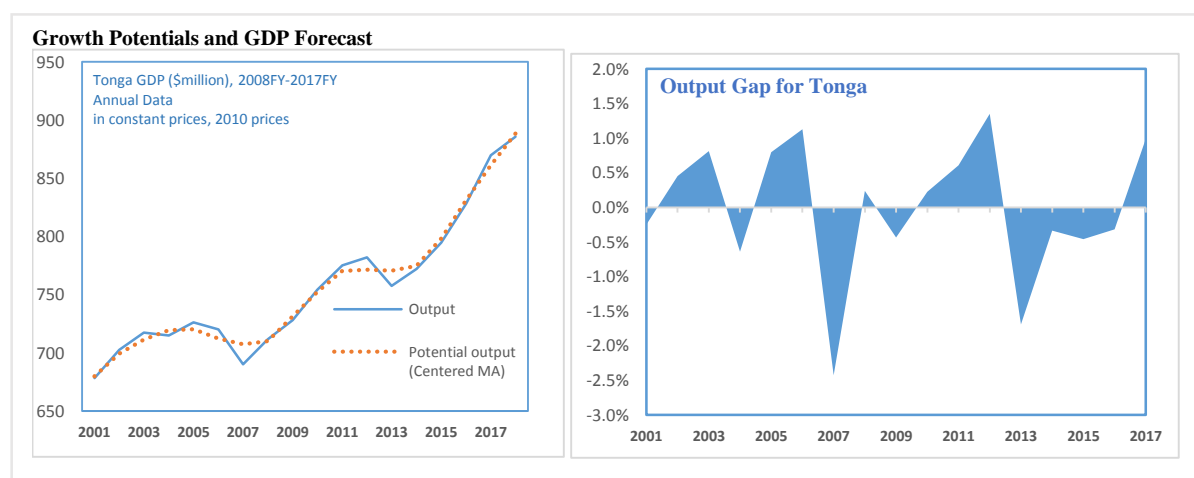
Tonga’s 2017/18 Economic Performance

The economic growth for 2017/18 was 0.3 percent against 1.1 percent earlier forecasted showing the impact of the tropical cyclone and progress of response in the economic activities after the cyclone. Tropical Cyclone Gita paralyzed the country with destruction to a number of sectors in the economy including shelters agriculture, fishing, retail services, electricity and water and public sectors. The impact was a massive economic loss and damage in all sectors estimated at \$328.4 million⁶. Government response was heavily dependent on available financing, which leaves a huge gap estimated at \$190.2 million.



Economic and Fiscal Forecasts

Economic growth plays a vital role in improving well-being and living standards of Tongans. The economy is still growing and will continue at an upward trend while recovering from the aftermath of TC Gita. The Half Yearly Economic Report reported some mixed performance in the indicators with inflation continuing to decline in the first six half of 2018/19. Bank lending remained strong and growth in remittances has slowed down.



⁶ World Bank assessment

On the outlook, Tongan economy is anticipated to remain favourable. Economic growth is forecast to reach 2.8 percent in 2018/19 and continue to strengthen to an average of 3.5 percent over the next three years.

Fiscal Performance

In 2018/19, fiscal policy was expanded to address the recovery from Tropical Cyclone Gita, with a guided fiscal surplus, and the vulnerability of the economy from shocks. The fiscal surplus was estimated at 0.12 percent of GDP, which was forecasted to be stronger supported by the rolling over of major construction projects for the next financial year.

Additional spending is to finance by a drawdown in Government's reserve towards the Disaster Recovery Framework. While the deferment of loan repayment to China provides Government with more fiscal space, it is critical that the Government's overall fiscal position needs to be managed prudentially, in view of a shorter repayment period as well as possibilities of budget deficits.

Foreign Reserves remained high above \$450 million at \$470.1 million at end-November 2018 relative to end-November 2017 (\$424.8 million), equivalent to 7.5 months of imports. The balance of trade (OET basis) deficit is expected to remain at 3.7 percent of GDP in 2018/19; whereas the external position is forecasted to remain strong with net international reserves projected at 7.5 months of imports.

8.3.1 Main drivers of growth in 2018/19

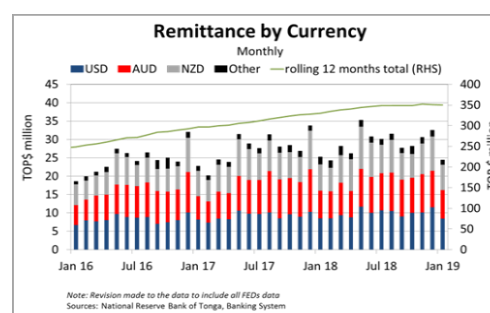
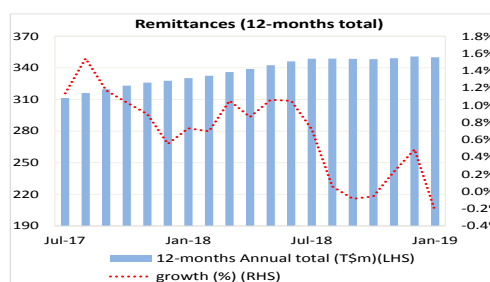
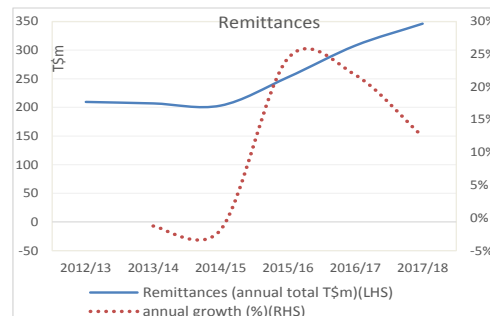
Remittances

Tonga is ranked fourth in the world in terms of reliance on remittances, of which remittances makes up nearly 33 percent of GDP. In comparison to other Pacific Islands, Samoa's remittances accounted for nearly 18 percent of GDP and 14 percent for the Marshall Islands.

The level of remittances continued to increase since 2014/15 (refer blue line in the remittances graph) highly supporting private consumption. However, fundamentals and desirable policies are required as growth in remittances slowed down (refer red dotted line) in the past three years to 2017/18. Similarly, increasing trend continued for the first seven months of 2018/19 (July-Jan) but at a slower growth as reflected on the 'Remittances (12-months total) graph'. Receipts that aimed for family support, events and various occasions that occurred throughout the year have supported the level of remittances.

By category, an average of 90 percent of the remittances are private transfers supporting domestic demand. Eight (8) percent of total remittances are compensations for employees who are on formal employment in overseas market. Three (3) percent are private capital transfers for churches and an insignificant amount are social benefits.

Remittance receipts also increased over the year ended January 2019 by 6% to TOP\$350.0 million. Remittances as a share of Gross Domestic Product (GDP) also increased from 36.9% to about 37.6%. Foreign



Exchange Dealers (FEDs) remained the most popular channel for remittances of which around 86.1% of the total remittances were channeled via FEDs. The USD continued to be the dominant currency and represented 34% of the total remittance receipts. AUD followed closely with 31.8% and NZD with 28.2%.

Remittance receipts are forecasted to remain at high levels in the medium term sustained by the increase in the number of seasonal workers, festivities to take place during the year and the supportive economic conditions in the source remittance countries.

Tourism industry

Tourism continued to consistently support the upward trend of economic growth in Tonga. This is in view that the Hotel and Restaurants subsector is largely related to the development of the tourism industry. TC Gita is estimated to have caused physical damages and economic losses to the tourism sector (13 percent). This is reflected by the negative growth of 0.2 percent estimated for 2017/18.

However, the subsector remains resilient to maintain its shares in the total GDP at an average of 3.1 percent, over the past decade to 2017/18. This was highly supported by the increasing trends both in the number of tourist arrivals and the receipts indicating higher level of demand for the relevant services in the industry. Available statistics showed that tourist arrival continued in its increasing trends in the past two years over to the first half of 2017/18. Latest data for the 12-months ended in January 2018 indicated a 37.9 percent increase in the total visitor arrivals of which 56.2 percent were air arrivals, 43.8 percent were arrivals by cruise ships and the rest by yachts.

Similarly, travel receipts continued in its positive trend with 2.7 percent in 2015/16, 31.1 percent in 2016/17 and an additional 14 percent increase in 2017/18. The annual total for the travel receipts in January 2019 was increased by 5.2 percent higher than the same period a year ago. In addition, 25 cruise ships had planned to arrive into Tonga over the calendar year 2019. This is higher by 6 cruise ships more than the total of last year. During the first quarter of 2019, 9 cruise ships were planned to arrive Tonga of which 2 were cancelled due to bad weather. Therefore, only 7 cruise ships arrived of which 5 cruise ships berthed at Vuna Wharf at Nuku'alofa and 3 at the Pua-Talefusi Harbour, Vava'u, where one cruise ship visited both Nuku'alofa and Vava'u.

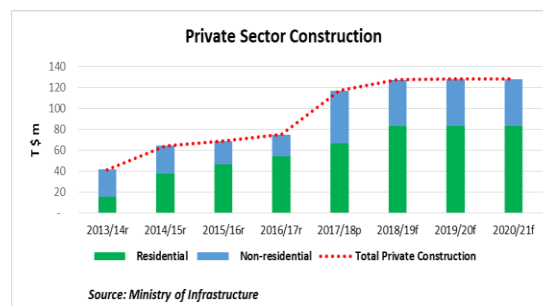
The contributing factors for both trends were the Royal Visit of Prince Harry and Megan Markle of Great Britain and the supporters from abroad for the Mate Ma'a Tonga team for the Float Parade in Nuku'alofa after the League Rugby World Cup in Auckland. The hosting of the Miss South Pacific also contribute to the percentage increase in the first half of 2018/19. These are in addition to some regional conferences held in Tonga as well as the normal events held during the year such as churches' annual conferences, schools' celebrations, the celebration of HM King's birthday in Pangai-Ha'apai in 2018 and others. On the outlook, tourist arrivals and travel receipts are anticipated to continue to increase in 2018/19 and outer years, supported by the improvement in the beautification strategies and programs as well as the anticipated positive impacts of the Tourism Investment Policy Framework for the industry.

Construction activities

Construction remains the main driver of secondary sector growth and a key contributing factor to the growth of other sectors of the economy. The construction sub-sector accounted for 8.9 percent of GDP in 2017/18, down from 10.1 percent in the previous year and an average of 11.3 percent in the outer years. Negative growth in 2017/18 was due to the decrease in the level of public construction spent over the year compared to the previous year. The contributing factors included the delay in the commencement of the construction projects such as Phase II for the Tonga High School project, other

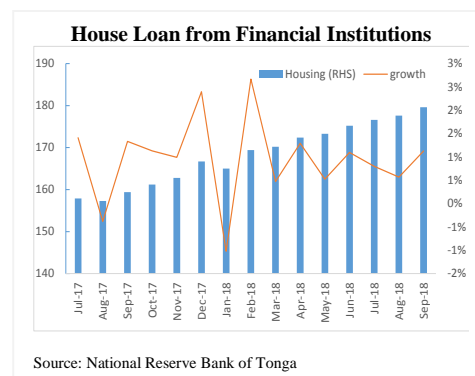
sporting facilities, TC Gita reconstruction; and the completion of other major construction projects like St. George Government Building, Taufaáhou Wharf and Village Upgrade Project construction activity. The positive growth anticipated for 2018/19 and in outer years also supported by the ongoing projects including the Revenue and Customs main office, His Majesty's Army Force's new music centre and Naval base as well as the upgrading of the Teufaiva stadium.

Private construction in 2017/18 slightly increased compared to the previous year but not large enough to cover the fall in the level of the public construction. However, the slight increase was supported by the construction of Kongakava Hotel, LDS new building, Tonga College and Tailulu College new hall. In addition, the pick-up in commercial banks' lending to both business and household in 2017/18 were both increased. The rise was also in line with the increase in the number and value of building permit for both residential and non-residential construction activities by 56 percent and 16 percent respectively.



Construction sector continues to dominate the economic activity for 2018/19 where growth is expected to strength further supported by the projected increases in both public and private construction. Other major projects are expected to commence construction in 2018/19 include the Nationwide Early Warning System, Installation of the Wind Generation System, Rehabilitation and Emergency Operation Centre, Nuku'alofa Network Upgrade Project and ongoing projects such as TC Gita reconstruction and sporting development projects.

In addition, financial lending continues to grow in the first half of 2018 although depicted a slow start in the first two months of July and August 2018 compared to the momentum shown in June 2018. In September 2018, the upward trend in the housing loan continues and recorded at a higher level of \$179.6 million.



The outlook for the construction sector is positive and anticipated to continue to grow stronger in the outer years based on current and planned projects.

Large public construction projects include the Bridge from Folaha to Ma'ufanga, Sports development related projects such as the Tonga High School complex and renovations of the 'Atele Indoor Stadium which are expected to commence in late 2020. This is also supported by an increase in total import of construction materials.

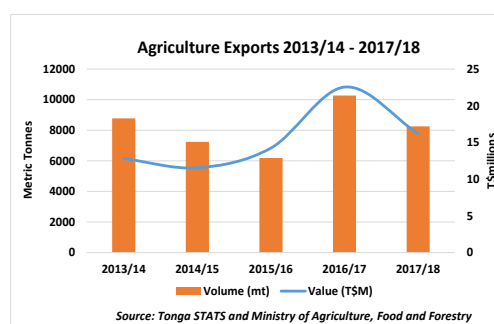
The TC Gita recovery related construction activities had been rescheduled to start in 2019/20, which contributes to the positive outlook for the construction subsector.

Agriculture

Agriculture is the predominant economic activity in Tonga which accounts for 13.2 percent of total GDP. Even though that about less than 10 percent⁷ of Tongan farmers who are commercial producers—any changes in the growth of this subsector will affect the overall growth of the economy. The subsector is highly vulnerable to natural disaster and climate change. For instance, TC Gita affected both domestic and exports productions.

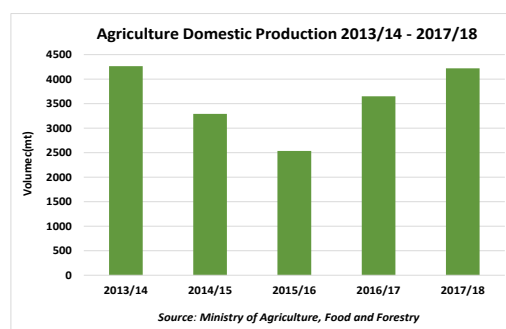
⁷ Tonga Agriculture Sector Plan (TASP) 2016-2020

The estimated growth rate for agriculture subsector was 0.6 percent in 2017/18⁸, a slow down from a 1.6 percent in 2016/17 due to the effects of TC Gita at February 2018. This was also lower, slightly, compared to the average growth rate of 0.7 percent in the past decade. The total volumes for agricultural exports grew at an average of 12 percent since 2013/14 through the years to 2016/17. However, a significant drop in 2017/18, by 20 percent, in export production to 8,253 ('000) mt compared to 10,271 ('000) mt in previous year (*refer chart 'Agriculture Exports 2013/14 – 2017/18'*). The contributing factors included the downward trend in the squash productions (by 21 percent); root crops (by 18 percent); and fruits (by 20 percent) compared to 2016/17. On the other hand, plant and leaves exported were increased (37 percent), mainly taro and pele leaves, in comparison to the 2016/17, but was insufficient to offset the decrease in the above mentioned commodities.



Further improvement in Agricultural exports is expected to be supported by the ongoing initiatives and new proposal including the proposed increase in the quota for personal use of the kava-Tonga to be hand carry to Australia, from 2 to 4 kilograms. Donors supported government to address and consider Climate Change as a threat to the subsector in various development projects including agricultural related projects. Replanting program for vanilla, coconut and sandalwood would also contribute to Agriculture and Forestry subsectors' management and recovery programs from the impact of climate change.

Domestic market and subsistence production (Talamahu market and Roadside stalls) increased, by 16 percent, in 2017/18 (*refer chart 'Agriculture Domestic Production 2013/14 – 2017/18'*) given a good performance in the first half of the year 2017/18. The increase was supported by the improvements in all commodities, led by fruits and vegetables. It was also noted that the increase in the first half was sufficient enough to offset the decrease in the second half of the year and maintain the total at a higher level compared to the year before.



The growth for the agriculture subsector is projected to be 2.5 percent in 2018/19 and anticipated to strengthen to an average of 3 percent in the outer years. An indication of this is the upturn in yam, giant taro, swamp taro, taro tarua and green coconut export to a better record in the first half of 2018/19 due to a spike in demand from New Zealand market. Supported by the implementation of the "Export Development Project" by the Ministry of Trade and Economic Development in partnership with Fresh Rate Market of NZ. Furthermore, TC Gita short term recovery response was completed at the end of 2018 such as ploughing of 2,000 acres, 5,000 tractor hours & planting materials including a grant assistance of \$100,000 towards livestock related activities.

There remains a number of significant limiting factors for the development of the agriculture subsector over the medium-term. These include higher cost of labour in other sectors—highly attractive to those who used to participate in the industry and led to the issue of shortage of labour in the agricultural activities causing higher labour cost for the remaining workers in the subsector. The shortage of labour was also raised in many occasions as an impact of increasing participation in the Seasonal workers

⁸ This is based on the preliminary estimates from the Tonga Department of Statistics

scheme. In addition, is the availability of land—tax allotment now becomes residence; the management of Food security and safety requirements; the capacity to adapt to changing climate such as Water Irrigation; and Training for Growers to plan their plantation according to the Climate Outlook. Focusing on supplying resilient fruit tree and development of food-preservation techniques for fruits and root crops will provide a resilient agricultural sector to withstand future shocks. In this vein, collective and continuous efforts are required to improve the enforcement of relevant policies, legislation and regulations.

Financial services sector

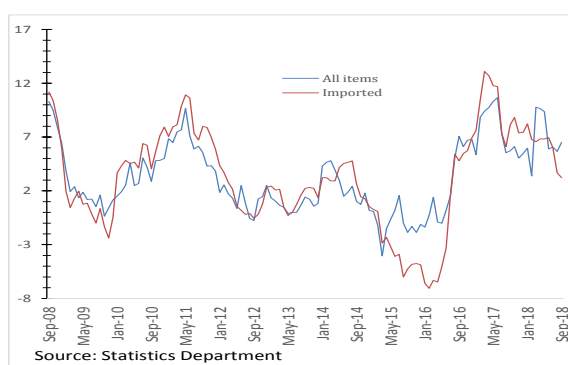
The Financial Intermediation subsector accounted for 5.5 percent of GDP in 2017/18, or 9.8 percent of the total Tertiary sector, compared to 5.3 percent of GDP in 2016/17. This implies the increasing trend in demand for lending. On the outlook, activities in the banking sector are expected to continue growing with estimated growth of 3.9 percent in 2017/18 and positive trend is anticipated to continue through to the end of the forecast period.

The increasing trend supported by the upward trend in the total liquidity encouraging economic activities in the economy. By end of September 2018, the total Liquidity was around \$531.2 million compares to \$476.8 million recorded at the end of September 2017. According to Reserve Bank, the deposit ratio is still under the minimum requirements of 80 percent, an indication that there is excess liquidity in the banking system and will provide more lending opportunities by the banks. Foreign Reserves remained high at end- February 2019 relative to end-February 2018 with more than double of the minimum range—3-4 months—of import coverage. The balance of trade (OET basis) deficit is expected to remain below 4 percent of GDP for 2018/19 whereas the external position is anticipated to remain strong with net international reserves projected at 7.5 months of imports.

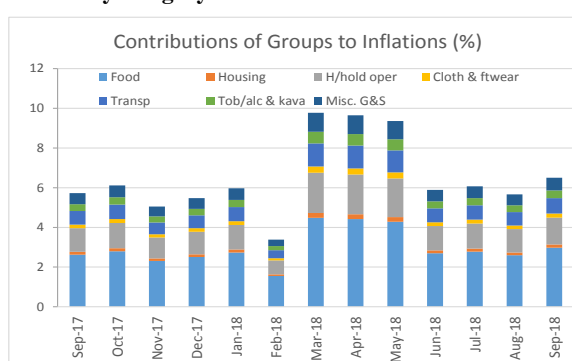
Inflation

Inflation largely reflects to a large extent the previous changes in imported items and movement of oil prices in the last decade. Changes in food prices dominate the fluctuation in prices with contributions around 45 percent of inflation. Around 60 percent of food items in the basket are imported items. Oil price has contributed largely to inflation, which expects to increase further in tandem with more import of vehicles to Tonga. Excess supply is anticipated in the oil market associated with the projected fall in the global price, thus, a reduction in the inflation rate.

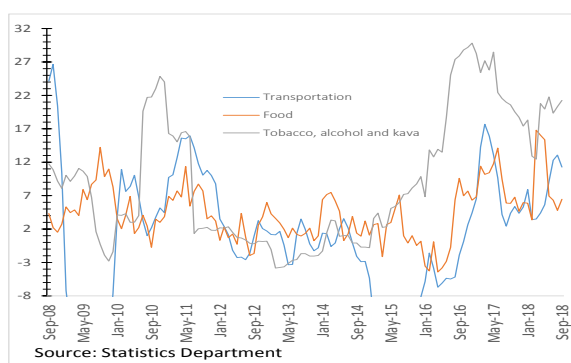
Inflation rate



Inflation by category

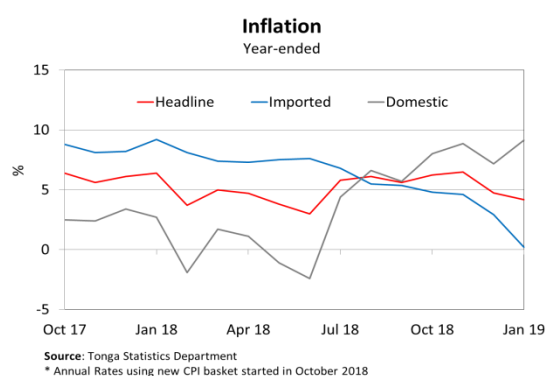


Leading items for Inflation



The Statistics Department recently rebased the Consumer Price Index (CPI), reference to the period of September 2018 and was first published for the month of October 2018. CPI now covers price changes in Tongatapu and Vava'u, and the weights were derived from the Household Income and Expenditure Survey (2015-2016). The prices of imported fruits and vegetables had declined during October 2018 which drove the aggregate food prices lower reflecting excess supply.

The annual headline inflation continued to decline and has now remained below the Reserve Bank reference rate of 5% per annum for two consecutive months (since December 2018). In January 2019, inflation stood at 4.2%, a notable decline from 6.5% in November 2018. This decline was mainly due to a 9.1% rise in domestic prices which contributed 4.1 percentage points to the overall headline inflation primarily due to the increase in prices of tobacco and local food. Moreover, imported inflation rose by 0.3% annually. The most significant contributor to the higher imported prices was the price of imported tobacco with a 29.2% increase, followed by a 6.6% rise in the price of gas and other fuels. Turkey tail prices also increased by 46.4% whilst the price of Pall Mall cigarettes increased by 29.2%. These price increases continued to reflect the 2018 amendments made to the custom duties and excise taxes—addressing efforts to combat NCD issues—that imposed on the already higher base due to the price movements in the global market.



Inflation is anticipated to remain below 5% per annum throughout 2019 however, the increase in world commodity prices as well as Tonga's vulnerability to natural disaster remains a risk to the outlook. The Reserve Bank will continue to closely monitor the developments in the prices of consumer goods.

Wholesale and Retail Trade

Wholesale and retail trade accounted for 12.3 percent of the total GDP or 22.1 percent for Tertiary sector in 2017/18, higher than the 11 percent average of the past five years. This is highly supported by the continuing growth in income and remittances boosting a rise in the level of demand for goods and services, increases in coverage and spread of wholesale and retail trade across the country. In addition, this is also in line with the increase in the number of container registered (both private—by 6.3 percent and business—by 9.5 percent purposes) as encouraged by the spill over effects from TC Gita incentives and consequently boost level of imports as well as total CT for imports.

Moderate growth projected for the subsector in 2018/19. A slight improvement in its performance by 0.08 percent in the first half of 2018/19 due to some recovery related activities undertaken, compared to the previous six months in which activities were affected by the TC GITA. The outlook for the subsector is to continue at this upward trend over the forecast period at an average of around 0.1 percent.

Transport and Communication

Transport and Communication sub-sector consisted of communication, air, land and sea transportation. This subsector is accounted for 7.4 percent of GDP in 2017/18 or 13.4 percent for Tertiary sector in

2017/18 and accounted for an average of about 8 percent in 2018/19 and in the outer years. This upward trend reflects the more frequent and strengthened international flights by the continuous operation of direct flights between Tongatapu and Apia. This is in addition to the ongoing direct flights between Nadi and Vava'u and the international flights that are usually operating to and from the Fua'amotu Airport.

Road transportation services also continue to grow stronger supported by 39 percent increase in the total (7,409) of new vehicle registration over the past two years to 2017/18 compared to the total (5,319 new vehicles registered) in the previous past two years to 2015/16.

Ongoing road maintenance works will continue to enhance land transportation. Furthermore, the continuity and improved of international and domestic shipping and ferry services in the kingdom. This is supported by the increasing trend of containers registered and more cruise ship berthed at Vuna Wharf, Nuku'alofa.

Information for the Communication services indicated a mixed outcome due to the developments took place during the years 2017/18 and 2018/19. The two service providers offered various promotions that contributed to the high level of demand for the services. However, in February 2018, the industry faced challenges due to the event of TC Gita, which caused power off for two to six weeks and consequently caused disruption to landline telephones and internet services, before back on online after two to four weeks from the event.

During the financial year 2018/19, the subsector also experienced disruption to their services due to broken fibre optic cable in January 2019 for about two weeks. In addition, the enforcement of the 15% consumption tax (CT) on all international outbound telephone calls & SMS is still a concern to the public. However, this is the implementation of the amendment approved in 2008 to the Revenue Services Administration Act 2002. Other than this tax enforcement, the two communication operators remain competitive with growing numbers of promotions offered and anticipated that the increase in demand for internet services may offset the differences in sales before and after the enforcement.

On the outlook, strong future growth is anticipated to be supported by the completion of the e-Government Project data centre—aimed at unifying control and management of systems and serve to increase the availability of cross agency information, boosting capacity of the communication services with very supportive domestic cable system.

8.3.2 Other GDP sectoral performance and medium-term outlook

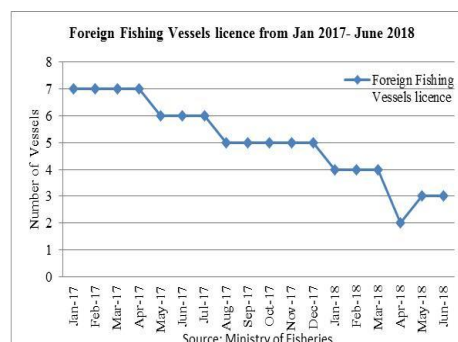
Primary sector

The primary sector accounts for about 15.9 percent of total GDP which consist of Agriculture (13.2), Forestry (0.3), and (2.4) percent for Fisheries subsector. The sector grew at a moderate rate supported by good performance from the agriculture sector despite the drop compared to the previous year. Growth is expected to slow down to negative 1.0 percent in 2017/18 which implies the negative impact of TC Gita in the first half of 2018. This has had major impact on agricultural production such as perennial crops, fruit trees, handicraft trees (mulberry & pandanus), kava and vanilla and also annual crops (cassava, yam and taro) a significant losses. However, a pick up recovery in growth is projected for outer years, supported by an improvement in the performance of all sub-sectors as a result of recovery from Tropical Cyclone Gita. The Credit Union and Micro Finance Development Scheme is also expected to make a positive contribution. The Forestry sector accounts for a very small share of GDP in the primary sector, so it will have minimal effect on aggregate growth rates.

The primary sector accounts for about 15.9 percent of total GDP. Tonga is heavily dependent on fisheries and ocean resources for food, transport, employment, income and economic development. Fisheries contributes to reduce hunger, poverty and improve livelihoods of Tongan families. The industry is the second largest subsector under primary sector and it is forecasted to account for 2.4 percent shares in total GDP for 2017/18.

A negative growth of 9.3 percent was estimated for 2017/18, which brought an additional reduction by 9.2 percent from the negative 0.1 percent growth rate in 2016/17. This reduced growth rate is attributed to the relegation of Fisheries sector by TC Gita, approximately to \$1.3 million.

Damages were mainly on fisheries assets including fishing vessels, engines, fishing gear, fish fences, pearl, clam, and seaweed farms and hatcheries.



In addition; shortfall in prevention, mitigation and preparedness techniques for natural disaster, market changes and changing environment conditions⁹ remain as main challenges for future performance of Fisheries sub-sector. Lower performance was recorded in the first half of 2018/19 compared to the second half of 2017/18. This was contributed by the 30 percent lower in the total Marine export compared to the same period in 2017. While there was an increase in the aquarium exports in the second half, this was insufficient to offset the decline in marine exports as aquarium only contributed 14 percent to total fish exports.

However, despite the downward trend and the aforementioned challenges, moderate growth at average of 1.7 percent is expected over the forecasted period, reflecting some efforts underway to improve performance. These included; (i.) the recovery responses provided by the government in provision of the relief grant assistance to snapper vessels and fence bars that were damaged; (ii.) consultations on drafting Fishing Investment Policy has been conducted in a way to facilitate and attract more investment—for both local and foreigners—in Fisheries Sectors; (iii.) the strong enforcement and compliance to the Tonga Fisheries Sector Plan 2016-2024; (iv.) the implementing and monitoring of Bareboat Charter Policy; (v.) Drafting of Tonga Sport Fishing Management and Development Plan; (vi.) Management and Development Plan initiated for various fisheries product includes Deepwater fishery and Small Management Areas (SMAs) and others purposely to sustainably manage fisheries to support Tonga communities with healthy food, and to generate economic activity and export¹⁰; (vii.) The provision of government subsidy through duty and CT exemption on imported fishing equipment, baits and fuel; (viii) improved policy for foreign fishing vessels including (a) the agreement that all foreign licensed Tuna vessels are to land all their catches into Tonga and (b) all non-target catch of these vessels shall be retained for sale onto the local market at an agreed cheaper rate¹¹. This certifies and ensures that the impacts of aforementioned subsidies provided by government reached to the people; (ix.) On-going supports in implementations of SMAs project continues to rise with planned target to implement more than 100 SMAs by year 2025. Lastly, despite the moratorium for harvesting of sea cucumber from the wild whilst still awaiting the completion of required survey, more potential increase in export of sea cucumber, only at a commercial hatchery spawned in 2019/20 and onwards with a target of 20-30 metric tonnes¹².

⁹ Tonga Fisheries Sector Plan 2016-2024 & Government of Tonga Post Disaster Rapid Assessment TC Gita Report

¹⁰ Ministry of Fisheries Tonga National Fisheries Policy part 1,2 and 3 (March 2018)

¹¹ Ministry of Fisheries Tonga National Fisheries Policy part 1,2 and 3 (March 2018)

¹² Information provided from Vast Ocean Tonga.

Forestry

The forestry subsector accounts for around 0.3 percent of total GDP. The sector mainly comprises of local wood production, power poles and minimal contribution from sandalwood production. Negative growth was experienced in the past two years contributed mainly by the significant decline in exports of sandalwood and others. The resources under the subsector were being heavily exploited included the aftermath of TC Gita earlier 2018 where estimated value of damage is about T\$0.05m¹³. Damaged assets included mature trees in plantations, and native forests, with significant damage to pine, mulberry, pandanus and mahogany trees. In addition the sole plantation resource in ‘Eua is very small and struggles to compete with the economies of scale for timber included power poles for imported from New Zealand and Fiji. Growth is expected to slowly recover and improve over the medium term and it is expected to remain positive through to the end of the forecast period, supported by logging programme (coconut trees) in Tongatapu and ‘Eua.

The availability of data for proper monitoring and evaluation of the forestry remains a challenge; clearing of trees for intensive forms of agriculture results in a significant declining in tree cover. The escape of fires from agricultural land also causes damage to trees and seedlings on adjoining land. The 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. Furthermore, to preserve the ‘Eua National Park & Rainforest and Toloa Forest Reserve which was supported by the Duke & Dutches of Sussex royal visit last year, where Prince Harry unveiled the plaque installed to mark Tonga’s part in Queen’s Forestry Project; and to raising awareness on the value of indigenous forest and saving them for future generations.

Despite these challenges, there are also potential opportunities ahead for the forestry sector such as passing of amendment to the ‘sandalwood regulation 2016’ by the Legislative Assembly—to encourage people to plant more sandalwood saplings and allowing them to mature for a period of 20 years. This would be seen as an investment, as value of such mature sandalwood trees would be around TOP\$20,000. There would have to be a management plan to record all the people who have planted saplings, and how many they plant, in order to i) allow data to be recorded for future economic growth reports, and ii) minimize the amount of sandalwood sold by thieves. This plan also seeks to cut back on the number of intermediaries who currently offer to buy at under-value prices. In addition, the increase in the local timber output hence import substitution, biomass power generation, proper watershed management (include community commitments) to help address issues of water quality and also replanting and seedling maintenance.

Secondary sector

The secondary sector accounted for 18.3 percent of GDP in 2017/18 and similar average over the past ten years, of which 8.9 percentage points from the construction subsector, 6.0 percentage from manufacturing, 2.9 percentage points from the electricity and water supplies and 0.6 percentage points from mining and quarrying. Construction is noticeably the largest industry in the industrial sector and is directly related to the growth of other industries.

The estimated growth for the sector in 2017/18 was negative 5.8 percent, declining from 10.8 percent in the previous year and expected to rise in 2018/19 supported by the commencement of a long delayed construction projects and others. This also includes the efforts towards the completion of the TC Gita recovery and rebuilding programs, which would contribute significantly to improve the performance of

¹³ Post Disaster Rapid Assessment/Tropical Cyclone Gita // February 12, 2018/Government

the sector in 2018/19 and onwards. The decrease in the sector's output in 2017/18 was contributed by a fall in all of its subsectors mainly driven by construction.

Manufacturing is the second largest contributor of Secondary sector, which accounted for around 6.0 percent of total output in 2017/18. The output of manufacturing increases in the last 5 years. This is due to increase in number of foreigners entering to the manufacturing industry specifically in producing of water drink and soft drink, bakery, noodles and other goods for domestic and regional market. Also, the new automated bakery plant set up by Cowley and Sons Bakery that makes approximately 18,000 loaves of bread in a day. However, its growth is considerably less volatile.

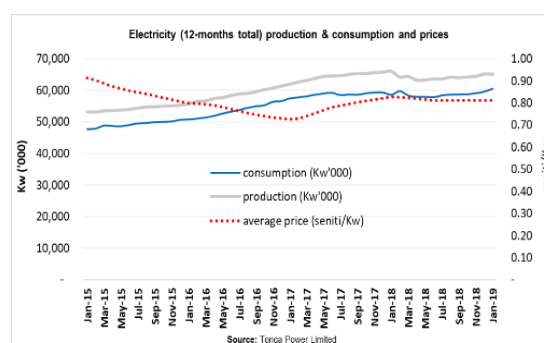
Manufacturing growth has shown a significant drop to 0.2 percent in 2017/18 from 3.8 percent in 2016/17. The drop was mainly due to delay on implementation of related construction activities for Tropical Cyclone Gita recovery and sport development such as Golf course and Tonga High School project. Also, contributed to by the completion of major projects the St. George Government Building and Taufa'ahau Tupou IV Domestic Wharf. Thus, less demand for manufactured goods such as bricks, concrete mix, paints etc. The positive performance of the sector is contributed from rising in kava powder production to meet high domestic demand.

Manufacturing is anticipated to maintain at a positive growth rate of 1.4 percent in 2018/19 and grow at average of 1.6 percent over the forecast period. However, the performance of tourism industries and the informal sector related activities has a spill-over effect on the manufacturing subsector such as cruise ship visits where tourists spend a lot on purchasing of handicrafts.

Electricity and Water supply provide vital services to both social and economic development despite its relatively small share in total GDP. One of the Government responsibility is to ensure no one is left behind. This is by ensuring quality electricity and water is available basically for effective poverty eradication and growth of industries. It is also important to provide reliable universal access of services under an accountable regulatory framework. Production needs to be continuously improved in terms of quantity and consumers accessibility for both Electricity and Water in rural areas. Electricity and Water subsector is assumed to grow in line with construction activities.

The performance of Electricity and Water supply subsector for 2017/18 significant fell to a negative growth rate of 0.3 percent from 8.1 percent in 2016/17. This resulted from completion of major projects such as St. George Government Building and Taufa'ahau Tupou VI Domestic Wharf so there was less demand for Electricity and Water.

The *Electricity* chart depicts that the level of production in kilowatt per hour decreased while level of consumption in kilowatt per hour increased for the 12-month period ended January 2019 compared to same period in the previous year. The weakening in production reflects power shut down as an effect from Tropical Cyclone Gita in February 2018 for Tongatapu and 'Eua. It took about a month for Tonga Power Limited to replace power poles and lines that were damaged.



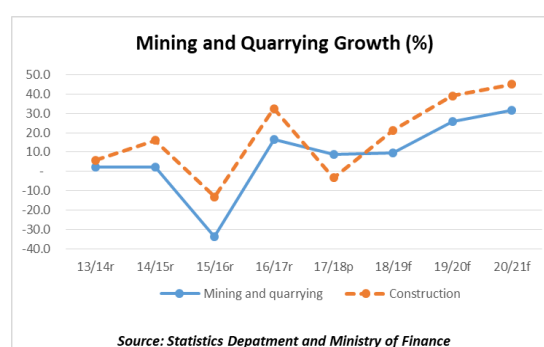
There was an increase of the average price per kilowatt for the 12-month period from January 2018 to January 2019. However, it is noted that there was a slower rate increase in the level of consumption for the same period which is in line with the increase in the number of electricity consumers as shown in above *Table*. The data indicates a slowdown to 1.8 percent compared to 4.2 percent and 3.4 percent in January 2017 and January 2018 respectively.

Number of electricity consumers				
	Jan-16	Jan-17	Jan-18	Jan-19
Number of electricity consumers	21,714	22,617	23,379	23,807
Growth rate	5.9%	4.2%	3.4%	1.8%

Source: Tonga Power Limited

This subsector is anticipated to strengthen to around 3.0 percent for 2018/19 and over the forecast period than 2017/18. This is highly associated with construction activities such as the Tonga High School project and new classrooms for Government Primary Schools which were damaged by Tropical Cyclone Gita. Schools reconstruction is expected to commence next financial year. In addition the solar projects in 5 islands namely 'O'ua, Tungua, Kotu, Mo'unga'one and Niuafu'ou are expected to be completed by 30th August 2019.

The Mining and Quarrying sub-sector accounted for less than 1.0 percent of GDP in 2017/18 and projected to rise further in 2018/19 through to the end of the forecast period. The growth for quarrying is driven largely by movements in the growth in construction as the quarrying industry feeds the construction industry with sand and gravel of different sizes for production, and the manufacturing sector with sand and gravel for the production of cement blocks and cement pre – mix used in construction.



The growth of the subsector in 2017/18 was 8.6 percent compared to 16.5 percent in the previous year. This decline was due to the deferral of construction projects as mentioned above in the construction section.

The outlook for this sector is promising over the forecast period with ongoing projects and major projects such as sports development expected to commence in late 2020.

Tertiary sector

Tertiary sector remains the largest sector at about 55 percent of GDP. It is estimated to grow at 2.9 percent in 2017/18 and continue at positive growth at an average of 1.2 percent from 2018/19 through to the end of the forecast period. This is based on the activities in the following sub-sectors:

Wholesale and retail trade is estimated to grow at an average of 0.1 percent in 2018/19 through to the end of the outer years. These developments are anticipated to associate with the improvement in remittances not only through cash but also with more being directed in the form of goods through the retail sector.

A negative growth estimated for *Hotels & Restaurants* in 2017/18 whereas the outlook for 2018/19 and outer years is to strengthen to an average of 0.9 percent. The negative growth estimated for the subsector in 2017/18 reflects the impacts from TC Gita, in February 2018. Number of resorts and other tourist site were affected—either damaged or fully destroyed—by the cyclone, as well as disruption to the domestic and international flights and cruise ship. For 2018/19, the industry is anticipated to strengthen with improvements in tourist arrivals and travel receipts. This is also in line with the general pick up in visitors within the Pacific; further growth is anticipated to continue over the forecast period. Demand

for services from the restaurant subsector will continue to increase from the public sector even private sector as well as locals due to private celebrations of birthdays, weddings and reunions. Strong performance reflected in the subsector during the first half of 2018/19 as number of other citizens visited the Kingdom increased. This momentum of growth follows from the same period of last year with an increase of 48 percent. This number includes Tongans who have foreign passports.

Strong growth of 9 percent was estimated for *Transport and Communication* in 2017/18, about 4 percent anticipated for 2018/19 and then strengthen to an average of 7.2 percent in the outer years. The communication subsector faced a number of challenges recently. These included the impacts of TC Gita; disruption of the fibre optic cable and the concern arise due to the implementation of the 15 percent CT on all international outbound calls and SMS. Both industries return online and operate in full speed with expansion in the communication and transportation related services. International and domestic shipping services remain strong despite numerous cyclone warnings during the hurricane seasons. Road transportation remains strong due to improved roads and continuity of maintenance services. The uncertainties in the domestic airline industry subject to weather conditions remain, however, it is out of the service provider's control. Efforts were made to improve and to continue the provision of services.

Activities in the banking sector are expected to continue growing with estimated growth of 3.9 percent in 2017/18 and continue on positive trend over the medium term, in the *Financial intermediation* sector. This is driven by the increase in demand due to the need to support family and relatives were affected by TC Gita and other private obligations, excess liquidity in the banking system and also strong credit growth.

Public Administration and Services (including government funded education and health) is expected to grow at 2.8 percent in 2017/18 and grow at an average of about 1 percent in 2018/19 and in outer years. Public Administration remained stable in the first half of 2018/19 although it is significantly accounted for over 10 percent to overall GDP. Service delivery of government continues to have an impact in the economy with numbers of civil servants continuing to rise. The need to maintain fiscal consolidation is likely to keep growth flat for the next few years.

Negative growth was estimated for *other community and personal services* and private *education* which is an indication of the damages and destruction on school buildings and materials due to TC Gita effects. Private *health and social work* sub-sector remain the same in 2017/18. On the outlook, these subsectors are not anticipated to have much impact on growth but continuing at an upward trend. This is supported by a continued expansion of non-government education and services from private health clinics. In addition, the continuity and expansion in social care services and welfare to the elderly and disabled continue to support growth in these subsectors.

8.3.3 Fiscal outlook

8.3.3.1 Current Fiscal Outcomes, Budget projection and Medium-Term Fiscal Targets

Fiscal Anchor and Position

The 2019/20 estimates an overall fiscal balance reflects by the balanced total revenue receipts versus total expenditure. In compared to 2018/19 financial year which was also a fiscal surplus, maintaining the overall favourable position in 2017/18. These favourable fiscal balances mainly attribute to the surplus of funds from development grants assistance and budget supports from development partners towards TC Gita. About 75 percent of the budget support funds expect to receive by May 2019 which have included in the 2019/20 budget. Further, the continued revenue reforms contribute to the improved performance in domestic revenue collection and the ongoing government's prudent financial

management also supported this. To further guide the fiscal resilience of Government, continued monitoring the established fiscal anchors is required to ensure maintaining of macroeconomic stability and to guide future fiscal policy measures. The fiscal outlook for the medium term is more challenging as Government will execute tight control of operating expense including wage bill to give space to other competing priorities.

These fiscal anchors and status are:

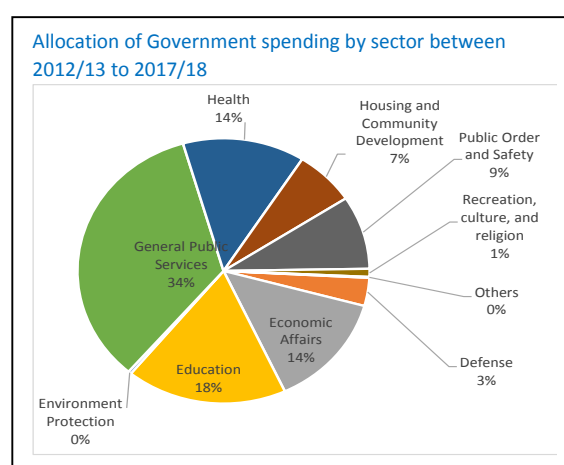
- The government revenue target of a minimum of 22 percent of GDP in both the short and medium-term. In 2019/20 financial year, revenue estimates at 25 percent of GDP, thus exceed the set target.
- Compensation of Employees¹⁴ cost restraint over the whole period – a short-term adjustment target of 53 percent in the medium term will be more feasible to target, towards a longer-term target of 50 percent. However, the other benchmark is to tie the wage bill to the operating expenses and to maintain at 45 percent of operating expense. At this stage, wage bill estimates at 53.1 percent by the end of the current year if all the current vacancies will fill. As such, implementing of appropriate measures in purpose to meet the set target is encouraged.
- Debt target¹⁵ of nominal external debt at no more than 50 percent of GDP with any new external debt contracted on highly concessional terms. Currently, the total debt estimates at 42.7 percent of GDP.

Fiscal anchors	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Domestic revenue to GDP (>22% of GDP)	24.3	25.1	25.2	26.4	25.5	24.5
Compensation of employees (<53% of domestic revenue)	53.2	47.9	51.6	53.1	52.2	51.2
Compensation of employees (<45% of operating expenditure)	76.7	61.0	53.3	55.2	59.8	59.8
External Debt to GDP (<50% of GDP)	45.0	46.4	42.7	42.5	40.3	38.0

Classification of Function of Government

This section will try to bridge Government priority areas with budget allocation using the UN's classification of Function of Government (COFOG). This analysis of COFOG was introduced in the Budget Statement 2018/19 with the objective to raise awareness focusing on Health and Education. This analysis will cover the whole sector as part of awareness initiative.

Looking at the total amount of government spending in the last five years between 2013/14 and 2017/18 as depicted in Figure E classified by the main sectors of COFOG and percentage of Government budget allocation. The highest of 34 percent was allocated to Government's General Public Services. This reflects substantial amount of government spending is allocated to executive, legislative, financial & external affairs. These are being classified under leadership role in the current classification of budget. The second is the spending allocation towards the Education sector of 18 percent, reflects a large number of pupils



¹⁴ Compensation of employees includes salaries and wages and contributions to Retirement Fund. Shortened as Wages bill. It is assume grow in line with inflation plus one percent. Wage bill affordability was assumed to take longer than the medium term as originally estimated in the Macroeconomic model with a high chance of meeting this target in the long run.

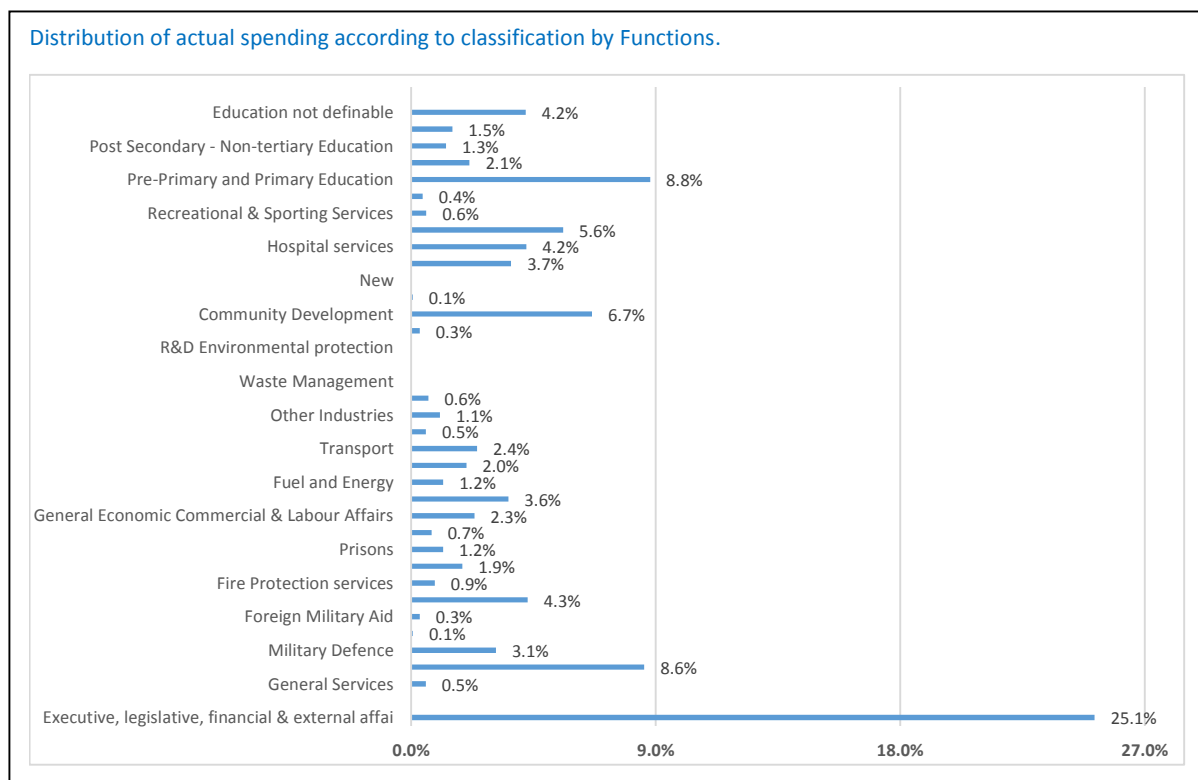
¹⁵ The volatility model illustrates the potential destabilizing impact of rapid debt accumulation in a significant minority of cases where shocks turn out the more severe than average.

between the age of zero and 18 of the population are still at school. Third, is the allocation to Economic Affairs and Health with 14 percent each of the Government Budget. The remaining sectors include Public Order and safety, Housing and Community development, defense and recreation, culture and religion each being allocated less than 10 percent.

The trajectory of spending in the last five years reflects similar trend. The allocation of budget according to functions remain the same order and proportion throughout the years as depicted in the table below. That is, the General Public Services allocated the most with 34 percent of the budget allocation, Health and Education with an average of 13 and 18 percent respectively. The allocation for Education declined from 19 percent in 2013/14 to 16 percent in 2017/18 whereas for Health reflects a slightly increase from 13 percent in 2013/14 to 14 percent in 2017/18. The Economic Affairs functions of Government fluctuate between 14 percent and 15 percent between 2013/14 and 2017/18, the Public Order and Safety maintains at around 9 percent of budget allocation in the past five years. The budget allocation on Defence catered a minimal portion of 3 percent per year.

Sectors	2012/13	2013/14	2014/15	2015/16	2016/17
Defense	4%	4%	3%	3%	3%
Economic Affairs	14%	14%	12%	12%	15%
Education	19%	19%	18%	18%	16%
Environment Protection	0%	0%	0%	1%	1%
General Public Services	34%	34%	36%	33%	35%
Health	13%	13%	13%	14%	14%
Housing and Community Development	6%	6%	7%	10%	7%
Public Order and Safety	9%	9%	9%	9%	9%
Recreation, culture, and religion	1%	1%	1%	1%	1%
Grand Total	100%	100%	100%	100%	100%
Grand Total Budget Allocation	212,371,261	226,896,894	256,248,837	275,718,150	298,396,983

In details, the breakdown of the classification of Government function (COFOG) provides a clearer picture of budget allocation according to the detail sectors.



In summary, COFOG helps to inform Government on the areas it allocates its Budget and focus spending. It is also crucial for future planning and budgeting on what areas Government wishes to invest through spending. As such, it is apparently clear that in the past five years, Government spent one quarter (25.1 percent) of its Budget allocation on Government operation. Health and Education has

always been a priority as its necessity. Public debt and community spending also are in the top five in terms of the highest in government budget allocation.

Moving ahead, should Government wishes to invest more on other areas, it will need to reduce the percentage of spending in Government operation to inject additional budget to other sectors.

8.3.3.2 Debt Performances

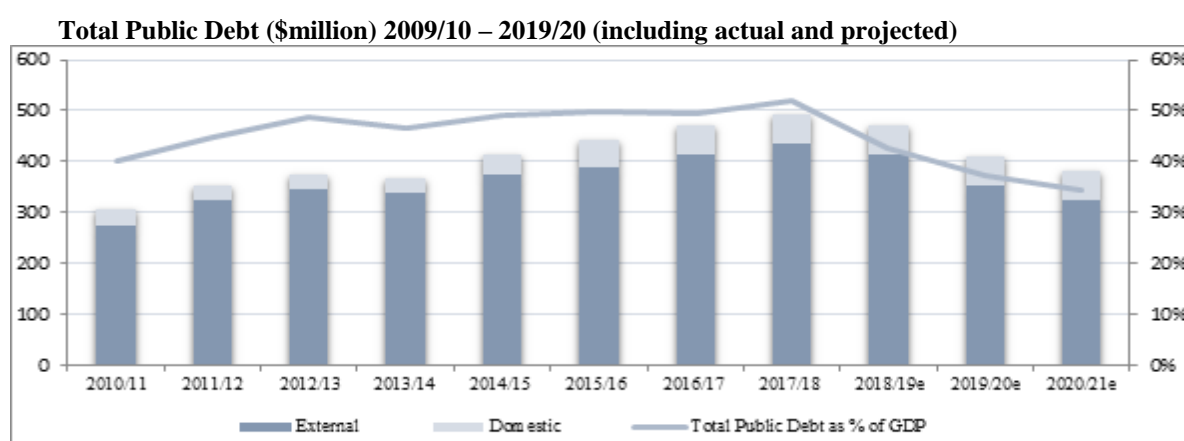
Total public debt to GDP ratio for 2018/19 was 42.7 percent, which is below the approved Government target of 50 percent. This is a result of the start of repayment of the Nuku'alofa CBD loan with the focus in quality spending and improved revenue collection through improved compliance.

In the medium term, the debt to GDP ratio is expected to remain below the target threshold as the Government continues with being prudent and no loan policy. Not only that but Government is aiming to align to the internationally agreed threshold with the IMF of 40% of GDP. In addition, grants from development partners will continue which will finance major infrastructure projects such as Roads under the Tonga Climate Resilient Transport Project and Fanga'uta Lagoon Bridge & Upgrading of Ports Project to mention a few.

Government's total debt stock as at 30 June 2019 is estimated at \$470.9 million or 42.7 percent of GDP, a decrease of 4.3 percent from 46.4 percent in June 2018. This is mainly due to the reduction in the total external loan owing since the commencement of the repayment of principals for the Nuku'alofa Central Business District loan in September 2018 which was later approved for an extended grace period by another 5 years by the EXIM Bank.

Government maintains a domestic and foreign borrowing mix of 88:12 (+/- 5 percent). However, there is a strong need to gauge support to develop the domestic debt market and manage exposure to foreign currency fluctuations.

Total Public Debt as at end June 2019



External Debt Stock

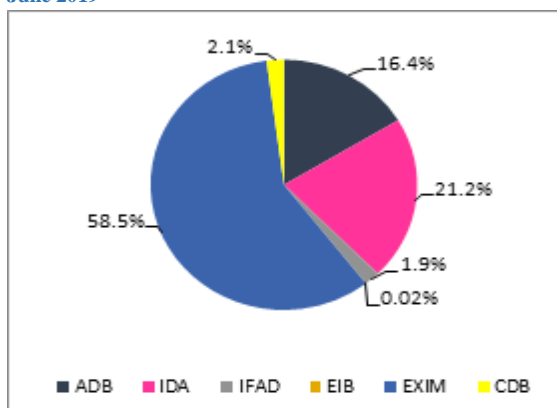
External debt stood at \$413.55 million, equivalent to 37.5 percent of GDP as of June 2019. This table shows Government's actual external debt position for the period June 2018 along with the forecast for June 2019.

Type of Debt	June 2018	June 2019
External	434.95	413.55
Total	434.95	413.55

In terms of composition of external debt as of June 2019, bilateral loans dominate at 60.6 percent and multilateral loans made up the remaining 39.4 percent.

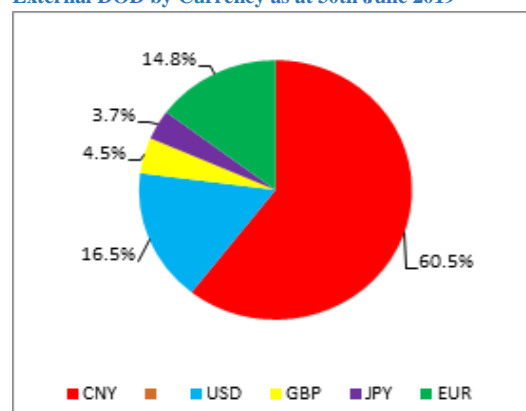
The majority of Tonga’s external debt is denominated in Chinese Yuan (60.5 percent) followed by the Special Drawing Rights and other currencies (39.5 percent).

External Disbursed Outstanding Debt (DOD) by Creditor, June 2019



Source: Ministry of Finance

External DOD by Currency as at 30th June 2019



Source: Ministry of Finance

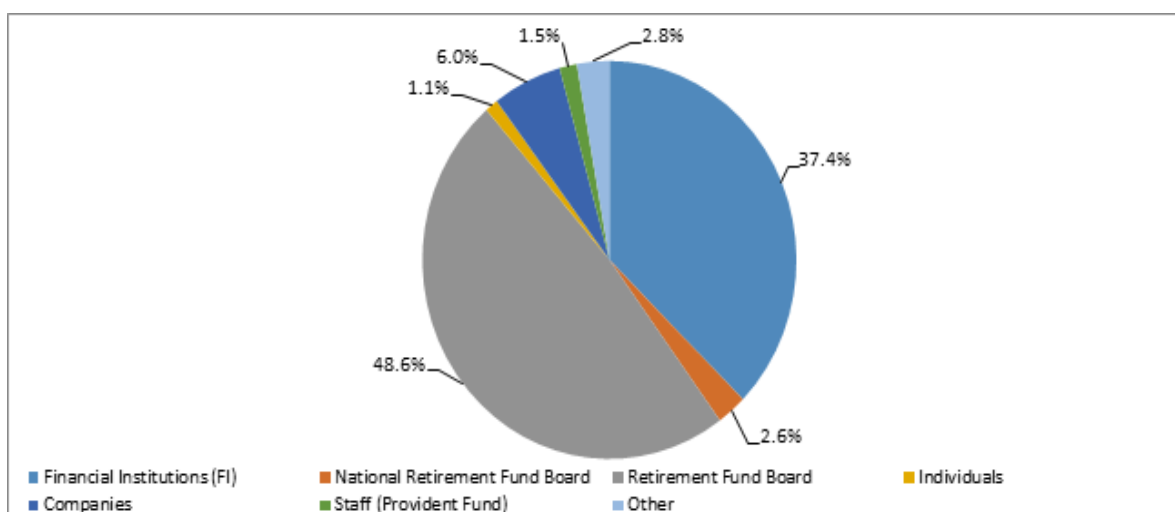
Domestic Debt Stock

The domestic capital market remains as another source of borrowing for Government, with institutional investors such as the two (2) Retirement Funds and commercial banks playing an active role followed by companies and individuals. The debt instrument for the domestic market is 100 percent Government Bond. The maturity period for Government Bond range from 2 – 6 years and interest rates vary from time to time as determined by market conditions.

At the end of June 2019, total domestic debt stood at \$57.35 million or around 5.4 percent of GDP. The domestic debt has remained constant since June 2018 as no new issuance occurred during the financial year.

The distribution of bond holders are shown below, with Retirement Fund Board accounting for about 48.6 percent.

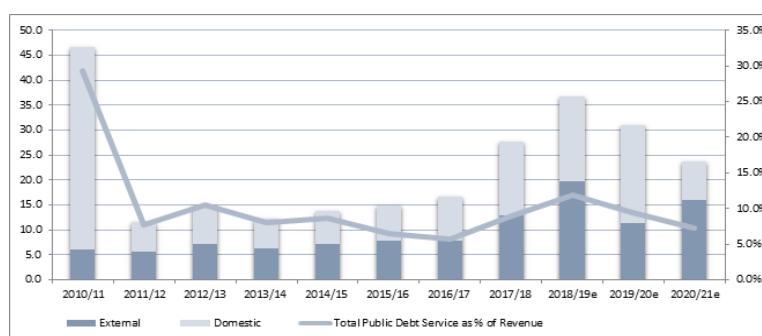
Government Bond Holders (%) as at 30th June 2019



Debt Service

Total debt service (expenditure), for the year ended 30 June 2019, is estimated at \$36.7 million (equivalent to 3.5 percent of GDP). This comprises external debt service of \$19.8 million (54 percent) and domestic of \$16.9 million (46 percent). This is an increase of \$8.9 million from the \$27.8 million debt service in June

Total Public Debt Service (\$million) 2009/10 – 2019/20 (including actual and projected)



2018, which is due mainly to an increase in the Government Bonds maturing in 2018/19 and first principal repayment of the Nuku'alofa Central Business District loans to the EXIM Bank before grace period was later deferred for another 5 years.

On-lent Debt

Total on-lent debt, as at 30 June 2019, due to Government from various public and other quasi-government enterprises is estimated at \$50.2 million¹⁶ (4.6 percent of GDP and 12.1 percent of total external loans). The decrease of \$1.6 million in the outstanding on-lent debt between June 2018 and June 2019 is mainly due to repayment made during the Financial Year.

Guaranteed Debt

There is no Government Guaranteed loan as at 30 June 2019, as the previous guaranteed amount of \$5.0 million which is an undertaking by TDB in favour of Tevita Misa Fifita & Sons Ltd expired in September 2018.

¹⁶ Includes Agriculture and Fisheries Loans to private sector

8.3.3.3 Budget 2019/20 in the GFS Format

This section provide a synopsis of the compilation and presentation of government finance statistics using the 2014 GFS Format approved by the International Monetary Fund (IMF) as part of the harmonized System of National Accounts (SNA). It conforms with standard presentation of fiscal data that is similar to accounting presentation, with a balance sheet and income statement. The format therefore ensures a common government reporting framework that allows for easier cross-country comparisons of fiscal data and assessment of fiscal policy. The Statement of Government Operation table below outlines the fiscal data for 2017/18, 2018/19, 2019/20 and the medium term.

	2017/18 Actual	2018/19 Estimate	2018/19 Revised Estimate	Budget Estimate 2019/20	2020/21 Projection	2021/22 Projection
Revenue	457.2	617.5	514.8	578.2	554.2	529.8
Taxes	235.4	245.4	245.1	257.1	262.9	269.9
Taxes on income, profits, and capital gains	48.8	45.4	51.6	57.5	57.5	57.5
Taxes on property	0.3	1.1	0.3	0.4	0.4	0.4
Taxes on goods and services	157.6	164.1	161.4	170.7	175.6	181.6
Taxes on international trade and transaction	28.7	34.8	31.8	28.5	29.4	30.5
Other taxes						
Grants	190.8	324.0	236.8	272.6	242.8	212.7
Current	14.4	43.5	41.3	38.5	39.3	39.3
Capital	176.4	280.6	195.5	234.1	203.5	173.4
Other revenue	31.0	48.0	32.8	48.5	48.5	47.2
Property income [GFS]	10.8	22.7	14.8	20.5	24.5	23.0
Sales of goods and services	13.8	17.7	14.6	17.3	17.3	17.3
Fines, penalties, and forfeits	0.8	1.2	0.8	1.2	1.2	1.2
Voluntary transfers other than grants	0.0	0.0	0.0	1.8	1.0	1.0
Miscellaneous and unidentified revenue	5.6	6.4	2.6	7.7	4.4	4.7
Expense	336.5	422.0	413.0	456.3	433.8	433.8
Compensation of employees	127.5	154.1	143.5	162.2	162.4	162.4
Wages and salaries	116.9	141.5	132.3	149.3	149.5	149.5
Social contributions	10.7	12.6	11.2	12.9	12.9	12.9
Use of goods and services	152.3	194.9	211.6	228.1	206.0	201.7
Interest	8.3	8.1	6.8	7.9	7.5	7.7
To nonresidents	6.5	6.3	5.9	6.1	5.6	5.9
To residents other than general government	1.8	1.8	0.9	1.8	1.8	1.8
Subsidies	0.8	0.9	0.8	0.9	0.9	0.9
Subsidies to public corporations	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies to private enterprises	0.8	0.9	0.8	0.9	0.9	0.9
Grants	5.1	2.5	2.5	4.3	4.2	5.2
Social benefits	23.0	26.9	25.7	26.8	26.8	27.9
Other expense	19.4	34.6	22.0	26.1	26.1	28.1
Gross Operating Balance	120.7	195.5	101.8	121.9	120.4	96.1
Net Acquisition Of Nonfinancial Assets	89.4	194.4	86.3	111.7	101.3	81.1
Fixed assets	89.2	194.0	85.9	110.9	100.8	80.6
Buildings and structures	55.6	88.0	58.1	65.6	58.4	34.9
Machinery and equipment	19.4	90.3	20.9	27.9	30.8	32.9
Other fixed assets	14.2	15.7	6.9	17.5	11.7	12.9
Nonproduced assets	0.1	0.4	0.4	0.8	0.5	0.5
Land	0.1	0.4	0.4	0.8	0.5	0.5
Net Lending/Borrowing Requirement	31.4	1.1	15.4	10.2	19.1	14.9
Net Acquisition Of Financial Assets And Lial	11.8	1.1	15.4	10.2	19.1	14.9
Financial Assets	17.2	5.8	28.5	20.8	38.6	30.2
Domestic	17.2	5.8	28.5	20.8	38.6	30.2
Financial Liabilities	(5.4)	(4.7)	(13.0)	(10.6)	(19.4)	(15.3)
Domestic	1.1	0.9	1.9	0.9	-3.2	0.9
Foreign	(6.5)	(5.5)	(14.9)	(11.5)	(16.2)	(16.2)

The overall fiscal balance for year ending June 2019 is projected to result in a surplus of \$15.4 million, compared to a original estimate surplus of \$1.1¹⁷ million. Main contributory factors towards this revised

¹⁷ Note the difference in this figure with the Budget Statement 2018/19 as there was some classification change in the current GFS coding

estimate reflects the significant inflows of grant development assistance, \$93 million. This include budget support of USD10 million from the World Bank crisis window towards TC Gita, USD6.8 million from ADB for the upgrading of the Nuku'alofa Network and TOP\$5.2 million as budget support from EU coupled with prudent government spending. In addition, the slow implementation of the TC Gita recovery fund for its purpose together with increased onlent to PEs as well as the increased in foreign liabilities due to the repayment of the Nuku'alofa Central Business District EXIM principal loan.

In the 2019/20 budget, the overall fiscal balance is forecasted to decrease from the revised estimate of 2018/19 to a surplus of only \$10.2 million. Major contributory factor towards this revised estimate reflects the commencement of repayment for the National Road Improvement Loan as well as the expected increase spending on TC Gita as major reconstruction expects to occur in 2019/20 and outer years. The overall fiscal balance is expected to remain positive in the outer two years to surpluses of \$19.1 million and 14.9 million respectively, due mainly to the completion of the recovery reconstruction and major infrastructure projects.

TAX REVENUES

Tax Revenue is budgeted at \$257.1 million (22.2 percent of GDP) in 2019/20, which is 4.8 percent higher than the level originally estimated for 2018/19, and is expected to be 10.2 percent higher than the revised estimate for the same year. The projected amount also represents an increase of 9.2 percent (\$21.7 million) over actual collections in 2017/18. This budgeted increase in tax revenue in 2019/20 is predicted on a positive growth in tax collection, favourable movements in other economic variables, as well as enhanced compliance activities by the Ministry of Revenue and Customs.

<i>Tax Revenue</i>						
	2017/18 Actual	2018/19 Estimate	2018/19 Revised Estimate	Budget Estimate 2019/20	2020/21 Projection	2021/22 Projection
Taxes						
Taxes on income, profits, and capital gains	48.8	45.4	51.6	57.5	57.5	57.5
Taxes on property	0.3	1.1	0.3	0.4	0.4	0.4
Taxes on goods and services	157.6	164.1	161.4	170.7	175.6	181.6
Taxes on international trade and transactions	28.7	34.8	31.8	28.5	29.4	30.5
Other taxes						
Total	235.4	245.4	245.1	257.1	262.9	269.9

Source: MOF

Taxes on Income and Profits

The revised estimate for Taxes on Income and Profits in 2018/19 is projected to be \$51.6 million; \$6.2 million higher than the original estimate and \$2.8 million lower than 2017/18 provisional actual figures. The table also shows that Taxes on Income & profits for 2019/20 are forecasted at \$57.5 million; \$5.9 million higher than the 2018/19 revised estimate. The increase is expected from improved tax collections including those from large businesses. In addition, the expectation is that initiatives of Government to improve the business environment in Tonga with the assistance of the Asian Development Bank including the upgrade of the business registration system will translate into higher collection in the medium-term as the number of investors increase and the levels of compliance improve.

Tax on goods and services

Tax on goods and services for 2019/20 is projected at \$173.7 million, an increase of \$10.3 million from the revised estimate in 2018/19 and \$16.1 million higher than the actual for 2017/18, on the

<i>Tax on Goods and Services</i>						
	2017/18 Actual	2018/19 Estimate	2018/19 Revised Estimate	Budget Estimate 2019/20	2020/21 Projection	2021/22 Projection
Taxes on goods and services						
General taxes on goods and services	93.2	93.7	95.0	102.3	105.3	108.8
Excise Tax	59.3	64.9	61.3	62.3	64.4	66.8
Taxes on use of goods and on permission to use goods or perform activities	5.1	5.6	5.2	6.1	5.9	5.9
Other taxes on goods and services	0.0	1.0	2.0	3.0	4.0	5.0
Total	157.6	165.1	163.4	173.7	179.6	186.6

Source: MOF

basis of sustained growth in consumption taxes, both import and domestic, and excise taxes. However, the 2019/20 projection is expected to be \$8.6 million higher than the 2018/19 original estimate, which results from improvement in collection expected from Consumption Tax-Domestic due to initiating and enforcement using of cash registry by all consumption tax registered businesses, imposing of import duty of 15% on imported eggs (excluding the fertilized eggs for incubation) as well as imposing 15% consumption tax on every international outgoing call and text message.

The table above further shows that excise tax for 2019/20 is budgeted at \$62.3 million; an increase of \$1 million or 1.6 percent from the revised estimate in 2018/19. The increase mainly reflects the impact of proposed excise tax reforms, such as impose excise tax of TOP\$200 per kg on locally manufactured Tapaka-Tonga products as well as amending of excise tax rate on imported motor vehicle of tariff heading 8703 that have model year of more than 10 years. These are in addition to the earlier review of excise tax on imported instant noodles, alcohol, high-sugar content carbonated drinks, mayonnaise, ice-cream, imported turkey tail, fuel, baby diapers and animal fats in support of improved healthy lifestyle in Tonga including efforts towards reducing risks of NCDs.

Trade Tax

The revised estimate for trade tax in 2018/19 is \$31.8 million; around 8.6 percent lower than the original estimate for the year. This is due to low collection of import duties due to the duty exemptions on imports

<i>Trade tax</i>						
	2017/18 Actual	2018/19 Estimate	2018/19 Revised Estimate	Budget Estimate 2019/20	2020/21 Projection	2021/22 Projection
Trade Tax						
Business Import Duties	22.1	27.2	25.8	22.3	23.2	24.2
Government Import Duties	0.3	0.2	0.2	0.4	0.4	0.4
Recoverable Charges	0.0	0.1	0.4	0.2	0.2	0.2
Forex Levy	3.9	6.0	4.2	4.3	4.3	4.3
Passenger Service Charge	2.3	1.4	1.1	1.4	1.4	1.4
Total	28.7	34.8	31.8	28.5	29.4	30.5

Source: MOF

related to TC-Gita responses and also revising down of collection from Forex Levy to align with reality. However, forecasted trade taxes 2019/20 and medium-term remain positive as economic activities are expected to substantially increase, during and post-recovery efforts.

NON-TAX OR OTHER REVENUES

Other revenue for 2018/19 is revised at \$32.8 million, a decrease by 31.7 percent from the original estimate in the same year. This decrease is primarily due to slow collection in (i.) property incomes mainly on dividend from PEs, government land rental and upper air space fees. (ii.) sales of goods and services mainly on survey fees and wharfage of goods. (iii.) miscellaneous and unidentified revenue mainly on sundry revenue.

<i>Non-tax Revenue component</i>						
	2017/18 Actual	2018/19 Estimate	2018/19 Revised Estimate	Budget Estimate 2019/20	2020/21 Projection	2021/22 Projection
Other revenue						
Property income [GFS]	10.8	22.7	14.8	20.5	24.5	23.0
Sales of goods and services	13.8	17.7	14.6	17.3	17.3	17.3
Fines, penalties, and forfeits	0.8	1.2	0.8	1.2	1.2	1.2
Voluntary transfers other than grants	0.0	0.0	0.0	1.8	1.0	1.0
Miscellaneous and unidentified revenue	5.6	6.4	2.6	7.7	4.4	4.7
Total	31.0	48.0	32.8	48.5	48.5	47.2

Source: MOF

In addition, other revenue is expected to increase in 2019/20 by \$15.7 million, or 47.9 percent, from the 2018/19 revised estimate. The rise in other revenue is attributed to a projected increase in (i.) property income, particularly targeting for public enterprises to improved enforcement in collecting of their dividends and same to government land rental; (ii.) voluntary transfers other than grants particularly from local contribution; (iii.) miscellaneous and unidentified revenue particularly on sundry revenue. Furthermore, other revenue collection is expected to decline in the outer years as due solely to decline in sundry revenue.

GRANTS

Grants is divided into three main categories under the GFS format namely: grants from foreign government, grants from international organization, and grants from other general government units. And these are grouped according to the grant's nature of either capital or current.

The grant estimate expected to increase in 2019/20 from the original estimate of 2018/19 which is mainly due to decline assistance from foreign governments after assistance to TC Gita

<i>Grants</i>						
	2017/18 Actual	2018/19 Estimate	2018/19 Revised Estimate	Budget Estimate 2019/20	2020/21 Projection	2021/22 Projection
Grants						
Current		14.4	43.5	41.3	38.5	39.3
Capital		176.4	280.6	195.5	234.1	203.5
Total	190.8	324.0	236.8	272.6	242.8	212.7

Source: MOF

recovery. In addition, budget support is expected to decline in 2019/20 to \$38.5 million, a fall by \$5.0 million from the original estimate of 2018/19. Inclusive of the amount in 2019/20 is a \$6.0 million from the other donors and \$5.9 million from Australian defence corporation.

In the medium-term total Grants is anticipated to decrease particularly in 2021/22 onwards, as donor assistance towards recovery efforts post-TC Gita phase out once projects complete. It is important to note moreover that the ever-present issues of unpredictability of aid flows and budget support remain as major budgetary concern that government continues to grapple with.

TOTAL REVENUE AND GRANTS

Total Revenue and Grants is anticipated to increase from a 32.0 percent share of GDP in revised 2018/19 to 49.9 percent in 2019/20. This is primarily due to flows of the aforementioned donor assistance including current

<i>Total Revenue and Grants</i>						
	2017/18 Actual	2018/19 Estimate	2018/19 Revised Estimate	Budget Estimate 2019/20	2020/21 Projection	2021/22 Projection
Revenue						
Taxes	235.4	245.4	245.1	257.1	262.9	269.9
Grants	190.8	324.0	236.8	272.6	242.8	212.7
Non-tax or Other revenue	31.0	48.0	32.8	48.5	48.5	47.2
Total	457.2	617.5	514.8	578.2	554.2	529.8

Source: MOF

on-going projects and recovery efforts. Positive growth in tax collection resulted from tax reforms, favourable movements in other economic variables, as well as enhanced compliance activities by the Ministry of Revenue and Customs.

TOTAL PAYMENTS, EXPENSES AND ACQUISITION OF NONFINANCIAL ASSETS

Total payments are estimated to \$499.3 million towards the end of 2018/19, a reduction by \$117.0 million from the original estimate of the same year and an increase by \$73.5 million from the actual payment recorded in 2017/18. The total payments for 2019/20 is estimated to \$568.0 million, an increase of \$68.6 million from the revised estimate for 2018/19. In the medium term, total payments are projected to be \$535.1 million and \$514.9 million respectively, an indication of a reduction on both current and capital payments.

Total Payments, Expenses and Acquisition of Nonfinancial Assets

	2017/18 Actual	2018/19 Estimate	2018/19 Revised Estimate	Budget Estimate 2019/20	2020/21 Projection	2021/22 Projection
Expense	336.5	422.0	413.0	456.3	433.8	433.8
Compensation of employees	127.5	154.1	143.5	162.2	162.4	162.4
Wages and salaries	116.9	141.5	132.3	149.3	149.5	149.5
Social contributions	10.7	12.6	11.2	12.9	12.9	12.9
Use of goods and services	152.3	194.9	211.6	228.1	206.0	201.7
Interest	8.3	8.1	6.8	7.9	7.5	7.7
To nonresidents	6.5	6.3	5.9	6.1	5.6	5.9
To residents other than general government	1.8	1.8	0.9	1.8	1.8	1.8
Subsidies	0.8	0.9	0.8	0.9	0.9	0.9
Subsidies to public corporations	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies to private enterprises	0.8	0.9	0.8	0.9	0.9	0.9
Grants	5.1	2.5	2.5	4.3	4.2	5.2
Social benefits	23.0	26.9	25.7	26.8	26.8	27.9
Other expense	19.4	34.6	22.0	26.1	26.1	28.1
Net Acquisition Of Nonfinancial Assets	89.4	194.4	86.3	111.7	101.3	81.1
Fixed assets	89.2	194.0	85.9	110.9	100.8	80.6
Buildings and structures	55.6	88.0	58.1	65.6	58.4	34.9
Machinery and equipment	19.4	90.3	20.9	27.9	30.8	32.9
Other fixed assets	14.2	15.7	6.9	17.5	11.7	12.9
Nonproduced assets	0.1	0.4	0.4	0.8	0.5	0.5
Land	0.1	0.4	0.4	0.8	0.5	0.5
Total Payments	425.8	616.4	499.3	568.0	535.1	514.9

Source: MOF

EXPENSES

There are eight main components of expenses which are: compensation of employees, social contributions, use of goods and services, interest, subsidies, grants (both current and capital), social benefits and other expenses. The trend from the table below shows that the revised estimate for total expenses in 2018/19 is \$413.0 million, a decrease by \$9.0 million from the original estimate at the same year. This is mainly due to saving on salaries due to delay on recruitment process of vacancy post under

Expenses

	2017/18 Actual	2018/19 Estimate	2018/19 Revised Estimate	Budget Estimate 2019/20	2020/21 Projection	2021/22 Projection
Expense						
Compensation of employees	127.5	154.1	143.5	162.2	162.4	162.4
Use of goods and services	152.3	194.9	211.6	228.1	206.0	201.7
Interest	8.3	8.1	6.8	7.9	7.5	7.7
Subsidies	0.8	0.9	0.8	0.9	0.9	0.9
Grants	5.1	2.5	2.5	4.3	4.2	5.2
Social benefits	23.0	26.9	25.7	26.8	26.8	27.9
Other expense	19.4	34.6	22.0	26.1	26.1	28.1
Total	336.5	422.0	413.0	456.3	433.8	433.8

Source: MOF

compensation of employees. The total budget expenses for 2019/2020 is \$456.3 million, an increase of \$43.3 million from the revised estimate of 2018/19. In the medium term, total expenses are expected to reduce compare to the estimate for 2019/20.

Compensation of Employees

The total compensation of employees at the end of 2018/19 is estimated to \$143.5 million, a decrease of \$10.6 million from \$154.1 million in its original estimate. The reduction is caused by the delay in the recruitment process to fill both vacant positions and resultant vacancies in respective MDAs. The delay is due to banding process and also the re-advertise of existing post that has been advertised. A total of \$127.5 million has been recorded as the actual for 2017/18.

Compensation of Employees						
	2017/18 Actual	2018/19 Estimate	2018/19 Revised Estimate	Budget Estimate 2019/20	2020/21 Projection	2021/22 Projection
Compensation of employees						
Wages and salaries	116.9	141.5	132.3	149.3	149.5	149.5
Social contributions	10.7	12.6	11.2	12.9	12.9	12.9
Total	127.5	154.1	143.5	162.2	162.4	162.4

Source: MOF

Compensation of employees accounted for 34.7 percent of the total expenses at the end of 2018/2019 and 35.5 percent to the total expenses of 2019/20. The increases in the estimates of total compensation for 2019/20 is mainly due to Performance Management System (PMS) and the salary re-alignment of HMAF salary structure to the Government salary structure.

Social Contributions

The total social contribution original estimated for 2018/19 is \$12.6 million in the compensation of employees table above. This shows an increase of \$1.9 million from the actual in 2017/18 due to increase in the government contribution to retirement funds. Total social contribution estimate for 2019/20 is 12.9 million, a 0.3 million increase from the original estimate of the same year. It is also expected to be relatively the same in the medium term.

Use of Goods and Services

The total recurrent expenditure on use of goods and services for end of 2018/19 is \$211.6 million, an increase of \$16.7 million from its original estimate. As compared to budget for 2019/20, payment for goods and services will also increase by \$16.5 million from the revised estimate of 2018/19. The increase for 2019/20 are mainly from grants and payments on technical equipment.

Other major increases in payment for goods and services budgeted for 2019/20 are Training and conferences for \$8.2 million, \$1.6 million for community and development programs and \$3.2 million for Licences of micro-pay and visions under Ministry of Finance.

Interest Payments

Interest payments have two major components which are interest payments to non-residents or foreigners and interest payment residents other than general governments. The interest payments estimate for 2019/20 is \$7.9 million from domestic, which is an increase of \$1.1 million from the revised estimate of 2018/19.

Interest Payments						
	2017/18 Actual	2018/19 Estimate	2018/19 Revised Estimate	Budget Estimate 2019/20	2020/21 Projection	2021/22 Projection
Interest						
To non-residents	6.5	6.3	5.9	6.1	5.6	5.9
To residents other than general government	1.8	1.8	0.9	1.8	1.8	1.8
Total	8.3	8.1	6.8	7.9	7.5	7.7

Source: MOF

In addition to that, the interest payment from foreign debts in 2019/20 is \$6.1 million, an increase of \$0.2 million from the revised estimate of \$5.9 million for 2018/19.

Subsidies

There are two main components of subsidies which are subsidies to public corporations and private corporations (non-public corporations). Subsidies for public corporations are not allocated for according to Tonga's budget estimates. The only active subsidies is the assistance through Development Committees. The revised total subsidies for 2018/19 are estimated to fall by \$0.1 million from its original estimates and revive back with the same amount in the budget for 2019/20 and remain stable over the Medium Term.

Grants

Grants have three main areas in the GFS: to foreign governments, to international organizations and to other general government units. The only grants available at the moment is the grants to international organizations which is \$2.5 million both in the original and revised estimate for 2018/19. There is an increase in the budget for 2019/20 by \$1.8 million. This implies the increase in Tonga's financial obligation to international organizations.

Social Benefits

The payments to social benefits are very important especially to those who are in need in the environment such as the elderly, pensioners, less able in the community etc. In 2018/19, the overall revised estimate for social benefits is \$25.7 million, an amount resulted from an increase of \$2.7 million from the original estimates of \$23.0 million. The main causes are from the increases in the student scholarships and their allowances. The total social benefits budget for 2019/20 is estimated to increase due to increase in the allocation for Pensions and Gratuities.

Other Expenses

The total original other expenses estimated for 2018/19 is \$34.6 million compared to an overall actual of \$19.6 million in 2017/18. The total estimates for other expenses in 2019/20 is \$26.1 million which shows a reduction of \$1.5 million from the revised estimate of \$27.6 million in 2018/19. The reduction are mainly from the reduction in grant for sport activities. In the medium term, the total other expenses are expected to slightly increase in government development project costs.

Acquisition of Non-financial Assets (payments of capital items)

The total acquisition of Non-financial assets for 2019/20 is estimated to be \$111.7 million, an increase of \$22.3 million from the actuals of 2017/18 and an increase of \$25.4 million from the revised estimate of 2018/19. In the medium term, total acquisition for non-financial assets will decrease by \$10.4 million in 2020/21 and decrease by \$30.6 million in 2021/22.

<i>Acquisition of Non-financial Assets</i>						
	2017/18 Actual	2018/19 Estimate	2018/19 Revised Estimate	Budget Estimate 2019/20	2020/21 Projection	2021/22 Projection
Fixed assets						
Buildings and structures	55.6	88.0	58.1	65.6	58.4	34.9
Machinery and equipment	19.4	90.3	20.9	27.9	30.8	32.9
Other fixed assets	14.2	15.7	6.9	17.5	11.7	12.9
Land	0.1	0.4	0.4	0.8	0.5	0.5
Total	89.4	194.4	86.3	111.7	101.3	81.1

Source: MOF

FINANCING

The net acquisition for financial assets shows net lending of \$19.1 million in the revised estimate for 2018/19 in comparison to net lending of \$4.7 million is estimated for 2019/20. The actual for 2017/18 experience a total of \$28.4 million net lending in comparison to \$2.1 million net lending on the original estimate for 2018/19.

<i>Net Acquisition of Financial Assets & Liabilities</i>						
	2017/18 Actual	2018/19 Estimate	2018/19 Revised Estimate	Budget Estimate 2019/20	2020/21 Projection	2021/22 Projection
Financial Assets	33.9	6.8	32.1	15.2	28.1	13.7
Domestic	33.9	6.8	32.1	15.2	28.1	13.7
Currency and deposits	31.9	2.1	18.0	10.2	19.1	14.9
Loans	(0.6)	7.9	(1.2)	(0.7)	(0.7)	(0.7)
Shares and other equity	-	0.4	0.4	0.4	0.4	0.4
Foreign	-	-	-	-	-	-
Loans	-	1.0	2.0	3.0	4.0	5.0
Total Assets	33.9	6.8	32.1	15.2	28.1	13.7
Financial Liabilities	(5.4)	(4.7)	(13.0)	(10.6)	(19.4)	(15.3)
Total Financial Assets and Liabilities	28.4	2.1	19.1	4.7	8.6	-1.5

Source: MOF

8.3.4 Risks

The global economy continues to pose risk for the domestic outlook, with uncertainty across both advanced and emerging market economies. It imposes threats to a stable external financial flows through reduction of remittances, foreign aid and tourism. Domestic risks and as key challenges to our forecast and economic growth which includes the following:

- (i) high vulnerability to changes in the weather conditions and natural disaster with risk of prolonged recovery conditions that had limit the productions and growth of agriculture, fisheries—trigger to the continuous changing and migration patterns of commercial fisheries species that directly affect the catches and production, construction—causes delay and other subsectors. The potential for cyclones remains an ongoing risk for all related sectors of the economy;
- (ii) increase in financing needs and fiscal sustainability—due to the impacts of any risen unforeseen and unbudgeted items for expenditures, high cost of natural disaster related and wage growth and restrict spending on other priorities might affect debt sustainability; uncertainties in receiving of approved budget support; degree of uncertainty in the size and timing of fiscal reforms in terms of development funded constructions projects which could cause weaker growth in the near-term. However, it is anticipated that the commencement of many high impact construction projects will mitigate these risks;
- (iii) NCD remains a high risk in terms of shorter life expectancy of the population, decline in productivity; costly to government in provision of treatments; and ongoing revenue loss incurred from introduction of syntax on unhealthy goods, thus NCD still remain in the top strategic priority focus of Tonga in the medium term; and
- (iv) The acceleration in credit growth could create risks to stability of the financial sector over the medium term although the banking sector is well capitalised. NPL is still low and liquidity is high, however, financial hardship remains a challenge for the public.

8.3.5 Monetary Policy Outcome and Balance of Payments

Monetary Policy Actions

The National Reserve Bank of Tonga (NRBT) continues to maintain monetary stability, promote financial stability and a sound and efficient financial system. This is through keeping it at an accommodative monetary policy stance appropriate to encourage the utilisation of the excess liquidity in the banking system to increase lending to the growth sectors to support domestic economic activities; enhance growth and to strengthen the monetary policy transmission. During 2018/19, the following policy actions were implemented by the Reserve Bank:

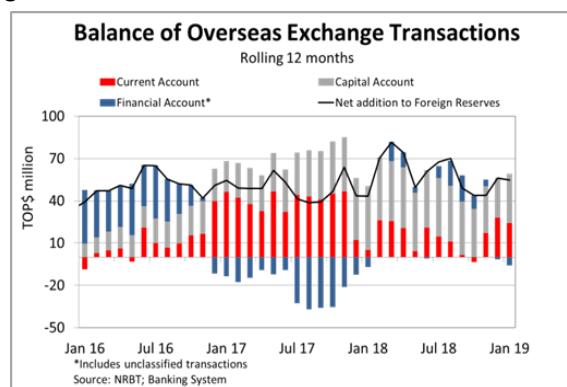
- the monetary policy rate remained unchanged (interest rate on bank's exchange settlement accounts or excess reserves) at 0% (zero interest rate policy);
- continued to encourage banks to meet the minimum loans/deposit ratio at 80%;
- the inflation reference rate remained at 5%;
- Statutory Reserve Deposit ratio remained at 10%;
- progressed on strengthening the supervision and regulation of the non-bank sector in which Reserve Bank has:
 - On the 1st November 2018, implemented policies and directives to enforce the Foreign Exchange Control Act 2018. The supervision and regulation of Foreign Exchange Dealers under this Act¹⁸ was also enhanced;
 - Collaborated closely with stakeholders to ensure compliance with the Microfinance Act before it is proclaimed to come into effect by the end of this financial year;
 - Collaborated with stakeholders to implement the Money Lenders Act in the next financial year.
- continued to develop an enabling financial infrastructure by issuing the Reserve Bank's Credit Bureau Licensing Guideline in July 2017 to license and supervise credit bureau;
- improved data collection and statistics by developing reporting forms on key activities in the non-bank financial sector to support evidence-based policies;
- continued with its financial inclusion initiatives on access to finance for individuals, Micro Small and Medium Enterprise's (MSME) and digital financial services;
- modernised the payment systems by developing an in-house electronic payment system that is suitable for the small financial system at a low cost, to be piloted later in the year.
- explored the development of a macro-prudential policy framework aimed at reducing systemic risk and preserving financial stability as well as the set-up of the financial stability unit.

Monetary Policy Outcomes

Balance of Overseas Exchange Transactions

Based on Overseas Exchange Transactions data, Tonga's international trade and financial transactions recorded an overall BOP surplus of about TOP\$54.9 million at the end of January 2019 (compared to TOP\$43.2 million in the year ended January 2018).

The current account balance improved considerably over the year increasing by TOP\$18.9 million to TOP\$24.2 million. The capital account recorded a net inflow of TOP\$34.7 million (compared to TOP\$44.8 million) while the financial account



¹⁸The FEC Act does not violate the IMF Article VIII Section 2.

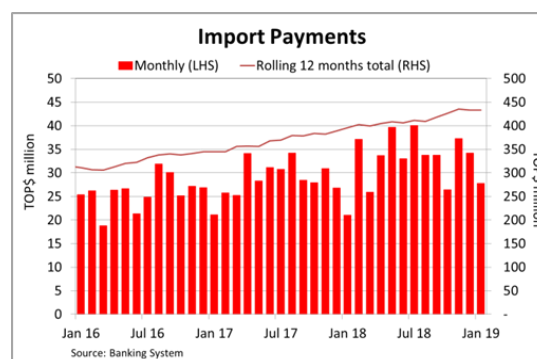
recorded a net outflow of \$4.1 million (compared to a net outflow of \$6.9 million).

Current Account

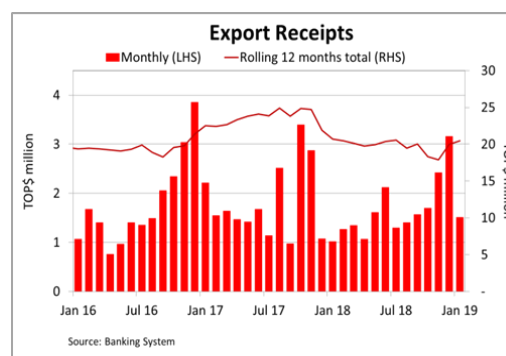
The improvement in the current account surplus was mainly due to higher surpluses in the transfers and income account and the surplus balance in the services account. The transfers account reported a 12% increase in net inflows driven by the inflow of cyclone relief funds, budget support, and grants for projects funded by development partners.

The merchandise trade deficit widened by 9.9% to TOP\$412.6 million (from TOP\$375.4 million).

Import payments increased over the year by 9.3% (TOP\$36.9 million). Major categories of imports increased in line with improved domestic economic activities. This also coincided with a 10.6% increase in container registrations. Imports of oil accounted for almost 20% of total import payments. Majority of the imports were sourced from New Zealand whereas a bulk of the import payments was in USD. Imports are expected to remain high, fueled mainly by firmer credit growth, remittances and the pace of development in domestic activities.



Export receipts somewhat stabilized over the years and accounted for only 2% of the total Overseas Exchange Transactions (OET) receipts. Exports receipts as a share of GDP also remained below 3% yearly. Proceeds from the agricultural exports accounted for over half of the total export receipts. In the year ended January 2019, agricultural export receipts rose by 38% of which most were from squash exports. Majority of export receipts are in USD. The volume of squash exported declined by about 30 tonnes, but the strengthening of the US dollar against the Tongan Pa'anga supported the squash proceeds over the year. The volume of marine exports declined over the year and corresponded with a 12% fall in marine export proceeds.

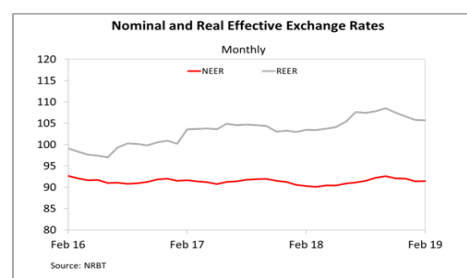


The services surplus rose on account of higher tourist receipts which increased by 5.2% over the year in line with a 3.2% increase in air arrivals.

The **capital and financial account** reflected the increase in capital inflows for both private and Government investment projects for businesses, non-profit organisations, and individuals. However, the delay in receipt of budget support and the implementation of projects contributed to the lower capital account surplus over the year. Meanwhile, the financial accounts show the on-going interbank transfers particularly payments of the commercial banks.

Exchange Rates

The strengthening of the Tongan Pa'anga against the currencies of its main trading partners since January 2018 resulted in Tonga's nominal effective exchange rate (NEER) index to appreciate by 1.3% over the year ended February 2019. The NEER appreciation coincided with the rising inflation differential between Tonga and its main



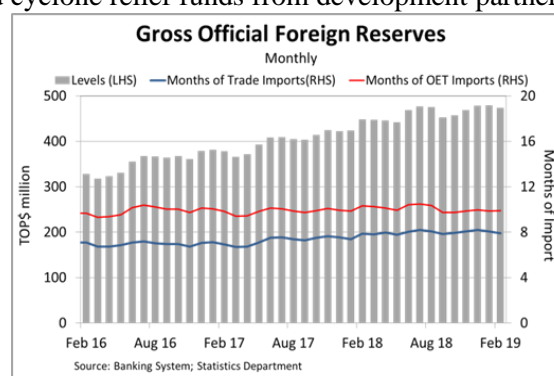
trading partners due to the increase in Tonga's inflation. As a result, the real effective exchange rate (REER) appreciated by 3.1%.

The current exchange rate basket maintained the value of Tonga's foreign assets, and has contributed to maintaining the foreign reserves at a very comfortable level.

Official Foreign Reserves

Gross official foreign reserves increased by TOP\$25.5 million to reach TOP\$473.5 million, thus covering 7.9 months of imports of goods and services at the end of February 2019. The increase was a result of higher receipts of budget support, grants, and cyclone relief funds from development partners and higher remittance receipts. During the year, the foreign reserves have reached a record high of TOP\$481.9 million on 8th January 2019.

The level of foreign reserves is expected to remain at comfortable levels. However, delays to the inflow of aid and budget support from development partners combined with the pace of development in the domestic economic activities pose a risk to the foreign reserve outlook. Uncertainties in the world commodities prices and vulnerability to natural disasters also remain a risk to the outlook of foreign reserves. The Foreign Exchange Control Act stands to support the Reserve Bank's role in managing the foreign reserves if it falls to critically low levels.

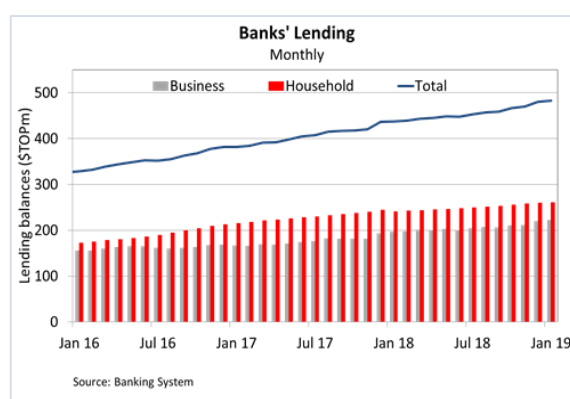


Government Bond

As the Registrar of Government bonds, two bond series matured and were rolled over in April 2018 (TOP\$8.0 million at 3.5% for 2 years) and January 2019 (TOP\$7.665 million at 3.0% for 2 years) at the same face value and interest rate. Both bond series were oversubscribed by TOP\$7.860 million and TOP\$8.335 million respectively. This clearly indicates there is a strong demand for investment in Government bonds due to the lower interest rates on deposits. Majority of the Government bonds are held by banks and retirement funds. Throughout the year, 3 customers redeemed their bonds early before the maturity dates totaled TOP\$7,000. At the end of March 2019, the Government Bonds totaled TOP\$57.349 million. A total of TOP\$12.488 million to mature in June & July 2019 and TOP\$17.960 million in the year 2020. Measures to modernise the purchase and settlement of government bonds by electronic transfers to a nominated bank account instead of payments by cheques was implemented during the financial year. The issuing of more government bonds would further assist in developing the financial markets.

Lending Balances

Credit growth continued to increase recording an annual growth of 10.4% (\$45.3 million) to TOP\$482.8 million in January 2019 driven by new lending to both businesses and households. Lending to businesses (including GDL) grew by \$25.7 million (13.4%) as a result of increased lending to the public enterprises, transport, wholesale & retail, tourism and construction sectors. Lending to the household (including GDL) increased by \$19.1 million (7.8%), driven by a \$16.5 million (9.0%) increase in housing loans coupled by a \$3.7 million (6.2%) rise in other personal loans. The consistent increase in household loans continued to reflect the



constant rising demand of households, capacity to access loans and positive developments for the housing and construction sectors. Total GDL lending as at end February 2019 amounted to TOP\$7.351 million (52% of total funds) of which the agriculture sector accounted for 43%, 20% were for education loans and 17% for the fisheries sector. New loans approved over the past year was TOP\$5.691. This left the GDL account with remaining funds of TOP\$6.699 million to lend out. This further supports the number of economic activities evident throughout the year. Credit growth is anticipated to increase further supported by the accommodative monetary policy, and low-interest rate offered by banks.

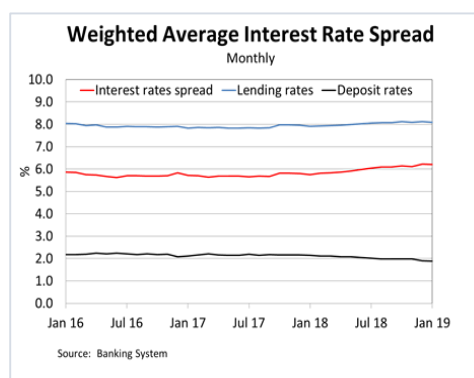
Furthermore, the high liquidity levels within the banking system will support credit outcomes. The bank's total loans to deposit ratio (excluding GDL) remains below the 80% minimum loan to deposit ratio target at 75.4% in January 2019 (against 74.7% in January 2018) indicating the capacity for further lending by banks. Liquidity rose by \$30.7 million (10.4%) to \$326.2 million due mainly to a \$21.1 million (12.9%) increase in the commercial bank's deposits to the Reserve Bank vault backed by strong foreign reserves position.

Deposit Balances

The total banks' deposits marked a new high record of \$631.5 million with an increase of \$60.2 from last year. All three categories of deposits rose with the demand deposit increasing the most by \$43.0 million led by higher deposit from businesses. This was followed by a \$14.3 million rise in saving deposits, which was due mainly to more savings from individuals, and non-profit institutions especially churches. An increase in government's time deposits contributed to a \$2.8 million rise in time deposits.

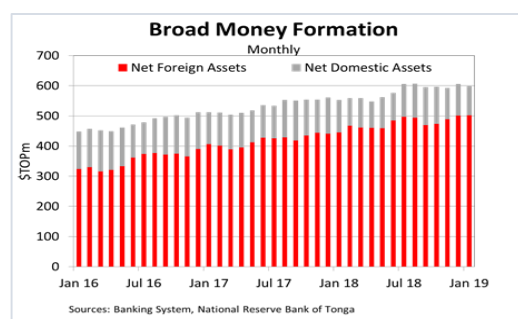
Interest Rates

Interest rates remained low due to the excess liquidity and competition amongst banks. The weighted average lending rate remained at around 8.0% since 2015. As at January 2019, it increased slightly to 8.09% from 7.90% a year ago driven by higher lending rates to businesses and housing loans. Meanwhile, the weighted average deposit rates remained around 2.0% since 2013. The weighted average deposit rates decline to 1.88% in January 2019 from 2.15% in January 2018. As a result, the weighted average interest rate spread widened by 45.4 basis points to 6.21%.



Broad Money Balances

Broad money grew by 8.3% (\$45.8 million) to \$598.3 million. This stemmed from a \$56.0 million (12.6%) increase in net foreign assets largely driven by increased official foreign reserves. Net domestic assets continued to decline over the year by \$10.2 million (9.6%) mainly on lower net domestic credit largely due to an increase in government deposits.



Banking System's Performance

Total assets of the banking system rose by 10.4% (\$84.3 million) to \$892.7 million over the year ended January 2019. This was due mainly to a 10.9% (\$46.6 million) growth in total loans, a 10.8% (\$28 million) growth in banks deposits with the Reserve Bank and other depository institutions and an increase in Items in transit of 186.8% (\$5.4 million). Total liabilities also increased by 9.8% (\$64.2

million) to \$720.6 million which is largely attributed to a 9.9% (\$57 million) growth in total deposits over the year.

The total banking system remained profitable over the year to January 2019 with strong liquidity and capital positions. The Return on Assets (ROA) was 3.2% and the Return on Equity (ROE) was 13.2% compared to 3.2% and 12.6% respectively last year. The improved profitability over the year was due mainly to growth in interest income outpacing the rise in interest expense as well as the provision expenses. The net interest margin slightly increased to 3.8% in January 2019 from 3.2% in the same period last year due mainly to the ongoing rise in interest income due to credit growth while the cost of funds remained stable.

The banking system's capital position remained strong, the risk-weighted capital ratio was at 30.8% in January 2019 which is slightly lower than 30.9% in January 2018 but still comfortably above the Reserve Bank's minimum requirement of 15%. This reflected the credit growth contributing to the higher risk-weighted assets, whilst maintaining profitability level over the year.

The overall quality of the bank's assets continues to be monitored during the year. Total Non-Performing Loans rose by 7.5% (\$1.2 million) to \$17.7 million over the year to January 2019. This represents 3.7% of total loans compared to 3.8% a year ago. The slight decline in the proportion of non-performing loans to total loans was driven by the continuous loan growth, the settlement of some non-performing loans and write-offs over the year mainly private business loans and some housing loans. Provisions against loan losses increased over the year by \$1.9 million to \$15.9 million, due mainly to on-going quarterly review of some banks to ensure that adequate provisioning is in place. Furthermore, all banks are working on complying with the IFRS 9 requirements, warranting more provisions to be raised. The total coverage ratio of 90% compared to 84.9% last year shows that banks non-performing loans are well provisioned. The value of collateral held against all delinquent loans above 90 days reported by banks was at \$21.8 million compared to total non-performing loans above 90 days of \$17.4 million.

The Reserve Bank continues to monitor and manage the payment system to ensure it is functioning in an efficient, sound and safe manner.

Supervision of Non-Bank Financial Institutions (NBFIs)

The supervision and oversight of non-bank financial institutions remains work in progress. The supervision and regulation of Foreign Exchange Dealers under the Foreign Exchange Control Act 2018 was enhanced. Close collaboration with stakeholders is currently underway to ensure compliance with the Microfinance Act before it is proclaimed to come into effect by the end of this financial year and to implement the Money Lenders Act in the next financial year. Other legislation that is being drafted include the legislation for the supervision of insurance companies and retirement funds. The Reserve Bank continues to advocate the regulation of non-bank financial institutions mainly to promote access to finance at the same time protect the interest of customers. In addition, it is to also ensure that potential systemic risks posed by large NBFIs are minimised such as retirement funds and insurance companies, on the total financial system.

The Reserve Bank has licensed 12 foreign exchange dealers under the Foreign Exchange Control Act 2018 and is currently working on licensing one microfinance institution under the Microfinance Institutions Act 2018. The Reserve Bank has also issued monthly reporting templates to all foreign exchange dealers, 2 retirement funds, 1 microfinance and a quarterly monthly reporting template to 4 insurance companies. The purpose of these reporting templates is to understand the type of business that these NBFIs are conducting and to also monitor their financial positions and performance to ensure they are solvent.

The financial system continued to be affected by the banks' de-risking decisions which have resulted in the closing of some of the foreign exchange dealers' accounts as well as the termination of correspondent banking relationships of some of the banks in the past years due to elevated money laundering & terrorist financing risks associated with their operations. The Reserve Bank continued to work together with the authorized restricted foreign exchange dealers to strengthen their Anti-Money Laundering/Counter Financing Terrorist (AML/CFT) compliance status in order for the banks to retain their accounts. The South Pacific Central Bank Governors are currently working on a regional solution to the de-risking with Reserve Bank of Australia and Reserve Bank of New Zealand taking the lead with this exercise. Other developments include TDB 'Ave Pa'anga Pau product being expanded to include Australia with the assistance of the Pacific Financial Inclusion Programme. Nevertheless, efforts continue to encourage the development of technological solutions (fintech) that would facilitate low-cost remittance of funds and at the same time still comply with the AML/CFT requirements.

The Reserve Bank continued to develop an enabling financial infrastructure to license and supervise the existing credit bureau (Data Bureau (Tonga) Limited) under the Reserve Bank's Credit Bureau Licensing Guideline that was issued in July 2017. The credit bureau will contribute to the mandate of maintaining financial stability. It would also assist with prudential supervision to monitor systemic risks and the quality of banks assets as well as enhance access to loans.

Financial Inclusion Initiatives

The Reserve Bank continues to encourage financial inclusion to promote inclusive economic growth and macroeconomic stability. The key objectives of the financial inclusion initiatives include an improved and increased access to a wider range of affordable and appropriate financial products and services across the country to mitigate vulnerabilities in businesses and improve the standard of living of individuals. The Reserve Bank has three main policy areas which focus on Individuals, Micro Small and Medium Enterprises (MSMEs) and Digital Financial Services (DFS).

The Reserve Bank has built a comprehensive database over the years that establishes a national baseline for individuals, MSMEs, and Digital Financial Services. This baseline provides the benchmark to assist in terms of policymaking process as well as measuring the effectiveness of any policies that are to be developed in the near future. The Reserve Bank regularly monitors and evaluates the progress of improving their access to finance through this data collection exercise.

Over the year ended June 2018, 1,997 MSME's borrowed from a bank, an increase of 307 MSME's (18%) compared to the previous year. According to the banks' the value of outstanding loans to MSMEs rose by \$4.2 million (22%) to \$22.9 million and at the same time. These loans were to MSMEs in the manufacturing, agriculture and other services sectors. The lower interest rate on the Government Development Loan (GDL) scheme, an SME loan campaign by one of the commercial bank's, as well as the increase in domestic economic activities over the year, supported the increase in loans to MSMEs. Tonga Development Bank (TDB) holds the majority of the MSMEs outstanding loan with 32% of the total outstanding loan. Furthermore, the growth in the total number of MSMEs loans was attributed to the increase in MSME loans by both TDB and the GDL which outweighed a decline in the number of MSMEs loans at the other commercial banks.

The number of financial access points increased over the year ending June 2018. This increase is mainly due to an increase in the number of BSP's agents and EFTPOS terminals in Tongatapu and the outer islands. This reflects the commercial banks expansion of their digital service platform to their customers in the outer islands and remote areas. Moreover, the usage of financial services also increased evident from the increase in the number of deposit accounts.

The number of Digicel branches, registered and active agents' outlets remained unchanged over the year ended June 2018. These facilities are established in all of Tonga's island groups except the two Niuas. The total number of active mobile money accounts continued to increase over the year ended June 2018 by 3,589 (14%) to 29,523 active mobile money accounts. After Tropical Cyclone Gita, people who were not Digicel customers bought Digicel sim cards and activated the mobile money accounts for easy transferring of money. This is clearly reflected in the significant increase in the total number of mobile money transactions by 35% to 133,644 transactions coincided with a 47% increase in total value of mobile money transactions. Majority of these mobile money transactions were customers in Tongatapu (55%), followed by Vava'u (39%), Ha'apai (3%) and 'Eua (2%).

The Reserve Bank remains committed to monitor financial access and usage. The implementation of the Non-bank financial institutions legislation and the licensing and supervision of these entities would further improve access to finance and usage. Efforts continue to build on the abovementioned statistics in 2018 to firstly, further improve access to finance for the individuals and MSMEs; and secondly, to look at loan products and measures to enable access to finance through a national credit guarantee scheme to assist viable MSMEs that would otherwise be excluded from accessing relevant and affordable financial products and services.

Anti-Money Laundering / Counter Financing of Terrorism (AML/CFT) Efforts

The Financial Intelligence Unit (FIU) continued to carry out its responsibilities in combating money laundering and terrorist financing activities as well as initiate preparation for Tonga's Mutual Evaluation by the Asia Pacific Group on Money Laundering (APG) which will take place in October 2019. This would further support the financial stability mandate of the NRBT.

As a member of the APG, Tonga's money laundering and terrorist financing framework will be evaluated in 2019/2020 against the Financial Action Taskforce's 40 Recommendations on combating money laundering, terrorist financing, and proliferation of weapons of mass destruction. A national risk assessment (NRA) report has been finalized by relevant Ministries and Agencies and is to be submitted to the Cabinet Committee on Serious Financial Crimes for endorsement together with a National Policy/Strategy for addressing the risks identified by the national risk assessment report.

Over the past 12 months, the FIU has been in contact with its counterpart in 5 foreign countries to arrange for a mechanism to enable sharing of information. Template MOUs were received from these counterparts to initiate this process which the FIU have recently received clearance from the Acting Attorney General of the content of these MOUs. The FIU has proceeded with the negotiation process of these MOUs with each of the 5 counterparts in November 2018 by providing its comments on those documents. Once both FIUs come to an agreement then the MOUs can be signed. The 5 foreign counterparts are New Zealand FIU, Bangladesh FIU, Republic of China FIU, Taiwan FIU and Thailand FIU.

During the year, the FIU continues to work closely with its reporting entities in ensuring that they meet all regulatory reporting requirements. Throughout the year compliance spot checks were being conducted to a Foreign Exchange Dealers as part of the licensing conditions requirement checks and to also ensure compliance with AML/CFT requirements. The results of the checks were generally compliant. The FIU continues to receive, analyze and disseminate suspicious transaction reports (STR) filed from its reporting entities. 31 STRs were received and analyzed during the year of which 21 were disseminated to law enforcement agencies for further investigations. The FIU also received 13,375 CTRs and 106 Border Currency Reports (BCRs) over the year.

Way Forward

The Reserve Bank's monetary policy objectives were observed during the year to March 2019.

Inflation has declined to 4.2%, below the reference rate of 5.0% and the foreign reserves has been maintained at an adequate level above 7 months of import cover, well above the Reserve Bank target for a minimum of 3 months. The enforcement of the Foreign Exchange Control Act 2018 will further support the management of the foreign reserves. Through the effective licensing, regulation and supervision of financial institutions, both banks and non-banks, the Reserve Bank has managed to sustain financial stability. The International Monetary Fund (IMF) considered the current accommodative monetary stance appropriate. The IMF believes the NRBT's monetary policy has supported credit growth, mainly through financing owner-occupied dwellings. The Reserve Bank's outlook for strong domestic economic activity remains in the medium term. The inflation outlook is to remain below 5% per annum throughout 2019. The level of foreign reserves is expected to remain at comfortable levels supported by expected higher receipts of remittances and foreign aid and rescheduling of Government's principal loan repayment for 5 years to the EXIM Bank in China. However, this will be partially offset by the projected rise in imports. The stability of the financial is expected to be maintained with no signs of overheating despite the strong credit growth over the year and excess liquidity remains in the financial system. Meanwhile the risk to the outlook, will be the international commodity price developments and natural disasters remains. Given the above developments and outlook, the Reserve Bank viewed the current accommodative monetary policy stance appropriate in the medium term and will maintain its current monetary policy measures outlined below. This to encourage utilisation of the excess liquidity in the banking system, through further lending in order to support economic growth and strengthen the monetary policy transmission mechanism.

- Maintain the monetary policy rate (interest rate on banks' exchange settlement accounts or excess reserves) at 0% (zero interest rate policy);
- Maintain the minimum loans/deposit ratio at 80%;
- Maintain the Statutory Reserve Deposit ratio at 10%;
- Maintain the inflation reference rate at 5%.

However, the Reserve Bank will remain vigilant and continued to closely monitor developments for early signs of vulnerabilities and to change its monetary policy setting where necessary to support its monetary policy objectives.

8.3.6 Social Development

Economic development and social development are complementary and have almost the same constraints. In this vein, government, together with all stakeholders, continue its efforts to maintain higher level of education attainments and some of the health and other social indicators, there are emerging issues to consider ensuring higher standard of living for its citizen at a sustainable development both economically and socially.

This section points out some of the critical social issues to consider including the poverty issue in Tonga; labour force and job creation; youth unemployment; illicit drugs and its implications on the society; health; education and social benefit scheme for vulnerable group.

Poverty issue in Tonga

Poverty is widely accepted to be a multidimensional phenomenon. This has led to open discussions on how the current indicators underestimate the true extent of poverty. Literatures on poverty have commented on the irony that income poverty measures underestimate child poverty which is explained

through dimensions of deprivation. With these dimensions of poverty need understanding and assistance. Access to proper necessities such as accommodation, parental care, basic needs at home, at school and all sort needs required by children. Tonga is now facing a long delay in recovery from TC Gita with children still lived in tents, poor access to water and poor conditions of classrooms.

Extreme poverty in Tonga continues to reflect another dimension of our development agenda that needs extra attention as we go along. This is addressed in the National Plan and the Sustainable Development Goal first target to reduce the number of people who are living on less than the equivalent of \$1.90 per person per day. This is equivalent to \$3.10 pa'anga per day. Around 3.1 percent of Tongans live below this target in 2016 compared to 1.1 percent reported in 2009.

Year	2001	2009	2016
%	2.8	1.1	3.1

Source: 2001, 2009 World Bank: 2016 Fifita 2018

Multidimensional poverty used data on income and index of socially perceived necessities¹⁹ to depict a comprehensive representation of poverty. In other words, poor are those who experience low income and are socially deprived. The index²⁰ contains both household and individual level indicators with different indices used for children and adults to address the characteristics of children needs²¹. According to this national definition, 27 percent of the population is considered poor: low income and deprived. Child poverty rates are higher than adult poverty rates with 33 percent of children living in poverty compared to 23 percent of adults.

Between the combination of the two, there are occasions whereby number of people who are vulnerable in both groups. Vulnerable by deprivation is estimated at 14 percent. These are the ones who experience lack of material but not low income. On the other side, there are vulnerable by income. It is estimated that 22 percent of Tongans are grouped in this category.

The current government has address poverty in its Government Priority Agenda by stating that informal sector is a strong engine for economic growth. By doing this, a stimulus package is designed to revive this sector as a base for economic development and improving the standard of living of informal sector. Government has approved a new structure for its Microfinance fund for women. This will be a pilot project with funding of \$500,000 under the umbrella Societies Act and Credit Union Act. This will be piloted on Agriculture, Fisheries, Handicrafts and Other Household Operational Expenses such as utilities, school fees and other basic needs. Also the general agenda of the development partners is to promote inclusive growth and poverty alleviation. Some of the donor funded projects assist to address this issue including Skills For Education & Training (SET) Project by WB. Government current policy initiatives such as social benefit/welfare schemes and GDL, education/school loan in particular.

Labour force and job creation

The age structure for Tonga is reflecting a large labour force (above 16 years of age)while at the same time there is limited jobs in the economy. Our youth population consist of around 38 percent of the total population which is a huge reserve of labour force for Tonga.

It is anticipated that the policy initiatives of government on informal sector is strong and efficient enough to provide a guide to create employment for the labour force.

¹⁹ “socially perceived necessities” which are items and activities that the majority of people must have to support their life

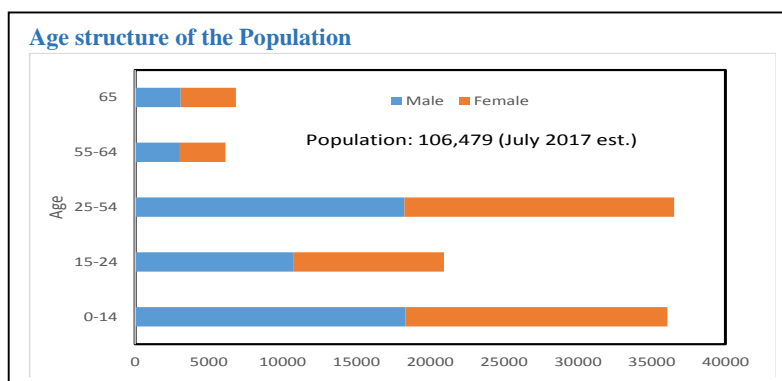
²⁰ This index reflects an income poverty line of \$944 pa'anga per month for children and \$970 pa'anga for an adult per month.

²¹ Minujin and Nandy 2012.

Additionally, Government is currently working on Youth Skills for Employment project with the objective of improving the participation rate.

Our neighboring countries, Australia and New Zealand currently engage Tongans in their fruit picking employment scheme. This scheme has

significantly contributing to our economy through remittances and skills. However, horticultural skills are not fully applied here in the country and negotiations have moved to other sectors such as construction and hospitality so that these skills can contribute to our economy.



Youth unemployment

Tonga has a sizeable young population that generally face poor labour market outcomes. Over half (55 percent) of the total population is aged 24 years old or younger of which about 34 percent are youth, that is between ages of 15-24 years. Of this 34 percent, 51 percent were male and 49 percent were female. Majority of these youth (76 percent) resided in the main island of Tongatapu, and only 36 percent live in what could be classified as urban areas (i.e. Greater Nuku'alofa). Greater Nuku'alofa includes the districts of Kolofo'ou and Kolomotu'a.

In terms of the youth unemployment, referring to the percentage of the 15-24 years old who were part of the labor force but are unemployed. Data indicated that a 37 percent of the youth population are active—of which 76 percent were employed and 24 percent are unemployed; and large proportion—about 63 percent—of youth were inactive in the labour market. This 63 percent comprised of youth that were students—full & part time (69.5 percent), home responsibilities/ duties (29.7 percent), physically or mentally disabled and others (0.8 percent).

By location, youth unemployment is widespread across Tonga with the majority (23.8 percent) resided in the main island of Tongatapu, followed by the rest of the outer islands by size of population. About 24 percent of youth that are unemployed in the rural areas whereas about 23 percent in the urban areas as well as in Greater Nuku'alofa. By gender, data indicated that female youth (63 percent) are more vulnerable and unemployed compared to only 37 percent of unemployed male youth in all location. This gap continued to improve contributed by collective efforts between government, stakeholders and development partners.

Government together with the development partners and stakeholders continued to increase commitments to enhancing youth employability. These collective efforts included the followings:

- short- and long-term reforms to the education system to combat high levels of youth unemployment and school dropouts—the short term scheme aimed at encouraging recent school dropouts back into education, while the long-term reform programme seeks to increase creativity and entrepreneurship through a rewrite of the curriculum and an earlier start to kindergarten;
- emphasizing of the TVET programs;
- donor funded youth employment related Projects such as Skills and Employment for Tongans Project, was previously known as 'Youth Employment Project' funded by the World Bank.
- Ministry of Internal Affairs (MIA) through its Youth Development Unit trainings and youth development related programs;

- Other initiatives through trainings and programs run by the non-government organisations—Tonga National Youth Congress (TNYC), Tonga Youth Employment and Entrepreneurship (TYEE), Tonga Business Enterprises Centre (TBEC) and others.

At the same time, there issues remain to consider as the way forward to minimise youth unemployment. This includes a more recent tracer and consistent survey of secondary school dropouts for better formulation of a sound policy. In addition, limited initiatives in place aimed at preventing youth from dropping out of school, taking into account pressures that drives youth to leave school earlier than it should be such as financial constraints at the household level as well as other reasons.

Illicit Drugs and implications

Drug-related problems has been identified as one of Tonga’s major issues of concern²². The government has committed to combat illicit drugs by including it in its key strategic priority areas for 2019/20 budget. Prior to that, immediate actions have been made by the government at an earlier stage when this issue arised. Staffing levels and police resources have been enhanced as a starting point for capacity building of “Tonga Police Drug Enforcement Task Force” which has been launched in April 2018. This drug enforcement task force is the spearhead in fighting against illicit drugs under the authority of Tonga Police. However, this task force unit does not work in isolation as it is currently supported by other relevant related units within the organization such as the Tactical Response Group, Intelligence Unit, Forensics, Narcotic Detector Dogs Unit and the Police Districts. On 18th of July 2018, another “Illicit Drugs Steering Committee” was established, to provide a unified and effective response to combat the production, supply and consumption of illicit drugs. This committee includes membership from law enforcement, customs, finance, health, education and internal affairs²³.

Health

Ongoing initiatives to address issues related to NCD, CD and Universal Health Coverage (UHC) include government taxation reforms, health training and awareness program and donor funded initiatives.

The antimicrobial resistance (AMR) is a global health threat that Tonga needs to address. In 2014, WHO declared AMR as a global health threat that requires urgent collaborative action. MOH has identified AMR as one of the priority agenda item following a series of infectious disease outbreak which has overburdened the current health system. AMR and its risks, especially its implications to the health of human, animal, environment and economic sectors, is recognised and considered as an issue.

MOH is currently conducted public consultation to increase awareness on the matter. More importantly, a National Multi-sectoral Plan on Antimicrobial Resistance for 2017-2022 had been developed which was later approved by Cabinet in November 2018. Government acknowledged that assistance and support from the WHO, FAO and others for the development and implementation of the multi-sectoral plan.

Education

Education is an ongoing development priority for the young generation. Government and donors continued its partnership to invest considerable resources—building and equipping schools, curriculum and teachers—as well as developing of output measurements on education. Numerous initiatives have been attempted and aimed at increasing the returns to those investments through increase salary for

²² His Majesty closing remarks of Parliamentary 2018/19 closing session.

²³ Kingdom of Tonga Pilon Country Report; 37th Pacific Islands Law Officers’ Network Meeting 8-11 October 2018

teachers at training college, ensure that appropriate training is provided to meet the international standard and to ensure there is consistent effort to match the supply and demand of TVET skills. This is addressed through various development projects such as DFAT's Skills Employment to Tonga project and World Bank SET project.

Social Welfare and Benefit Scheme

Social protection and welfare scheme (Old Age Social Assistance): 70 years and older

Government continues to provide monthly stipend for elderly population, aged 70 years and above.

At the time of census 2016 survey, there were 4,045 elderly people, eligible by age, that is 70 years and older to receive the monthly stipend. Total payment at the end of June 2018 was \$3.8 million (4,105 members) compared to the \$3.3 million (3,900 members) at the end of June 2017, and payment of monthly stipend in 2018/19 would be higher as its current members are 4,209.

Vulnerables (Disability) Benefit Scheme

To date, the total beneficiary from this scheme is 1,038 of which 51 percent female and 49 percent male. More than half were from Tongatapu (63.4 percent); followed by Vava'u (21.5 percent) and the rest from other smaller islands of Ha'apai (8.4 percent), 'Eua (5.7 percent) and the two Niuas (1.1 percent).

Government continues to ensure to eliminate, reduce and minimize risks to vulnerable people by designing, developing and implementing social policies, social programmes and protection mechanisms to safeguard the vulnerables. The table shows the current numbers of extreme persons with disability on the government registry for Tongatapu and outer islands, with cash assistance provided by government with a monthly stipend of \$75 per person with the Disability Welfare Scheme (DWS) A'u kiai cash assistance.

Eligible Recipients for Disability Welfare Scheme 2019

Islands	Female	Male	Total
Tongatapu	332	326	658
Vava'u	119	104	223
Ha'apai	42	45	87
'Eua	34	25	59
Niuaotuputu	2	4	6
Niuafo'ou	1	4	5
Total	530	508	1038

Source: Ministry of Internal Affairs

8.3.7 Tonga Selected Indicators

Tonga Selected Indicators, 2010/11 - 2017/18

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16r	2016/17r	2017/18p
(Annual Percentage change)								
Output and prices 1/								
Real GDP	2.8	0.9	-3.1	1.9	3.1	4.1	5.3	0.3
Consumer prices (period average)	6.0	3.4	0.7	2.2	0.1	-0.6	7.3	5.1
Money and credit (end-period) 2/								
Broad money (M2) % growth	2.6	-2.0	7.3	8.1	2.4	12.6	11.4	10.4
Domestic credit	-11.5	-16	-0.4	9.2	11.7	18.2	13.3	-2.2
Private sector credit % growth	-9.2	-9.6	-7.8	-0.6	8.9	19.8	22.8	7.0
Balance of payments (OET Basis)								
Exports, f.o.b.	11.3	8.8	12.4	15.7	16	19.1	23.7	19.9
<i>of which: Squash exports</i>	<i>0.7</i>	<i>2.2</i>	<i>2.4</i>	<i>2.9</i>	<i>1.8</i>	<i>3.7</i>	<i>4.3</i>	<i>5.5</i>
Imports, f.o.b.	229.6	247.7	260.9	261.7	305.9	320.3	356.4	408.7
Services (net)	5.0	-4.4	6.3	-3.1	-6.0	17.3	26.9	32.1
Income (net)	4.9	5.6	0.9	17.0	13.7	5.6	-15.9	-7.9
Services and Income (net)	9.9	1.2	7.2	13.9	7.7	22.9	11.0	24.2
Transfers (net)	143.8	182.3	174.8	192.2	215.6	301.0	364.9	382.5
<i>of which: Private transfer receipts</i>	<i>146.5</i>	<i>156.8</i>	<i>209.6</i>	<i>208.9</i>	<i>221.1</i>	<i>279.9</i>	<i>334.1</i>	<i>358.3</i>
Current account balance	-64.5	-55.4	-66.5	-39.9	-66.7	22.7	43.2	17.9
<i>(In percent of GDP)</i>	<i>-8.3%</i>	<i>-6.9%</i>	<i>-8.5%</i>	<i>-5.0%</i>	<i>-8.0%</i>	<i>2.5%</i>	<i>4.3%</i>	<i>1.7%</i>
Overall balance	33.2	38.4	17.3	11.4	41.9	66.8	64.1	57.9
Gross international reserves (end-period)								
In millions of pa'anga	203.8	246.1	263.3	274.4	289.7	354.9	407.9	468.7
In months of imports cover <i>(trade estimate)</i>	7.7	8.5	9.1	9.1	8.1	7.2	7.5	7.8
External debt 3/								
External debt/GDP (%)	39.3%	44.1%	47.7%	45.5%	50.4%	49.8%	45.0%	44.7%
Exchange rate (period average)								
T\$ per US\$ (end-period)	1.7	1.8	1.8	1.8	2.1	2.2	2.2	2.2

1/ Sources for Output and Prices: Statistics Department & MOF

2/ Sources for Money, Credit, BOP, Foreign Reserves & Exchange Rates: NRB/T

3/ Sources for External Debt: MOF

Annual Average Consumer Price Index for 2011 - 2018, 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
Weight	100.0	45.8	2.5	20.8	3.2	11.9	6.0	9.8	57.8	42.2
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	119.1	112.8	100.4	105.3	112.3	104.8
2015	108	114.3	101.3	98.3	129.4	99	106.3	105.9	108.4	107.4
2016	110.7	115.8	103.5	98.5	138.6	96.1	128.4	113.2	107.8	114.8
2017	119	125.7	114	102.4	138.8	104.2	157.5	112.1	117.9	120.5

Source: Statistics Department

Annual Average Consumer Price Index for 2018, Base Period (September 2018 = 100)

	All Items	Food and non-alcoholic beverages	Alcohol beverages, tobacco and kava	Clothing and footwear	Housing, water, electricity and gas	Furnishing, household equipment and household maintenance	Health	Transportation	Communications	Recreation and culture	Education	Restaurants and hotels	Misc. goods and services	Imported Items	Local Items
Weight	100.0	39.8	11.6	2.1	10.8	3.2	0.3	16.4	5.2	1.1	2.2	3.1	4.2	55.1	44.9
2018	98.9	99.2	93.3	99.0	99.8	99.4	101.1	98.5	106.6	100.0	100.0	100.3	100.0	98.6	99.3

Source: Statistics Department

Note: New Consumer Price Index (CPI) using the base period of September 2018 = 100

Annual Percentage Change in CPI for December month 2011 - 2017

	All Items	Food	Housing	H/hold goods	Clothing and footwear	Transportation	Tobacco and Alcohol	Misc. Goods & Services	Imported Items	Local Items
Weight	100.0	45.8	2.5	20.8	3.2	11.9	6.0	9.8	57.8	42.2
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
2015	-1.2	0.2	0.4	-5.9	8.9	-8.2	-0.8	-0.1	-4.9	4.4
2016	6.7	6.3	2.3	2.5	4.0	4.5	29.9	6.9	6.9	6.4
2017	5.5	6.0	12.6	3.6	2.0	5.3	17.4	-2.1	7.4	3.0

Source: Statistics Department

Annual Percentage Change in CPI for December month 2018

	All Items	Food and non-alcoholic beverages	Alcohol beverages, tobacco and kava	Clothing and footwear	Housing, water, electricity and gas	Furnishing, household equipment and household maintenance	Health	Transportation	Communications	Recreation and culture	Education	Restaurants and hotels	Misc. goods and services	Imported Items	Local Items
Weight	100.0	39.8	11.6	2.1	10.8	3.2	0.3	16.4	5.2	1.1	2.2	3.1	4.2	55.1	44.9
2018	4.8	6.8	15.5	4.4	2.2	0.5	0.7	4.1	-10.4	0.1	-	1.3	1.2	2.9	7.2

Source: Statistics Department

Note: New Consumer Price Index (CPI) using the base period of September 2018 = 100

Exports by Institutional Sector, 2010/11 - 2017/18

INSTITUTIONAL SECTOR	2010/11		2011/12		2012/13		2013/14		2014/15		2015/16		2016/17		2017/18	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
Private Sector	19,863	100	25,343	100	22,866	99.8	21,705	99.9	28,030	99.6	29,533	96.1	33,489	92.3	23,174	96.4
Government Sector	6	-	6	-	2	-	20	0.1	23	0.1	22	0.1	429	1.2	71	0.3
Quasi-Government Sector	-	-	5	-	33	0.1	8	-	82	0.3	1,188	3.9	2,368	6.5	783	3.3
TOTAL	19,869	100	25,354	100	22,901	100	21,733	100	28,135	100	30,744	100	36,286	100	24,028	100

Source: Statistics Department

Imports by Main HS Section, 2010/11 - 2017/18

HS Code SECTION ITEM	2010/11		2011/12		2012/13		2013/14		2014/15		2015/16		2016/17		2017/18	
	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%
1. Live Animals; Animal Products	40,464	12.7	39,778	12	43,922	13	44,284	12	46,987	11	48,347	10	53,023	10	60,542	11
2. Vegetable Products	10,216	3.2	10,536	3	10,838	3	11,005	3	11,341	3	14,588	3	15,142	3	17,630	3
3. Prepared Foodstuff, Beverages & Tobacco	39,041	12.3	47,152	14	48,283	14	50,800	14	55,893	13	68,575	14	81,580	16	74,511	14
4. Mineral Products	80,726	25.4	88,675	26	82,697	24	81,783	23	88,805	21	83,105	17	77,515	15	111,259	21
5. Products of the Chemical or Allied	13,675	4.3	14,794	4	14,346	4	16,556	5	15,701	4	20,121	4	18,599	4	20,956	4
6. Wood and Articles of Wood	11,243	3.5	9,434	3	8,063	2	9,200	3	13,763	3	16,433	3	20,128	4	20,361	4
7. Pulp of Wood and Other Fibrous Cellulosic Material	10,302	3.2	12,139	4	12,980	4	10,442	3	10,944	3	12,276	3	9,076	2	9,322	2
8. Base Metals & Articles of Base Metal	26,286	8.3	20,563	6	15,214	4	16,322	5	20,203	5	26,629	6	38,251	8	29,216	5
9. Machinery and Mechanical Appliance	41,372	13.0	46,895	14	41,744	12	58,596	16	74,142	17	83,461	17	76,997	15	78,780	15
10. Miscellaneous Manufactured Articles	5,415	1.7	6,850	2	10,281	3	7,032	2	10,952	3	13,515	3	15,204	3	17,151	3
11. Vehicle, Aircraft, Vessel & Associated, Transport Equipment	16,110	5.1	15,516	5	19,394	6	17,535	5	40,430	9	50,360	11	46,989	9	46,906	9
12. Works of Art, Collectors Pieces	1,194	0.4	1,074	-	7,948	2	85	-	17	-	37	-	6	-	4	-
13. Other Imports	21,584	6.8	32,005	9	29,952	9	37,999	11	39,681	9	40,895	9	56,017	11	47,229	9
TOTAL	317,628	100	345,411	100	345,662	100	361,639	100	428,859	100	478,340	100	508,527	100	533,868	100

Source: Statistics Department

Imports by Institutional Sector, 2010/11 - 2017/18

INSTITUTIONAL SECTOR	2010/11		2011/12		2012/13		2013/14		2014/15		2015/16		2016/17		2017/18	
	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%
Private Sector	297,987	93.8	300,026	86.9	308,799	89.3	316,513	87.5	353,566	82.4	423,299	88.5	437,008	85.9	469,903	88.0
Government Sector	9,227	2.9	23,737	6.9	21,284	6.2	12,648	3.5	15,655	3.7	23,984	5.0	31,787	6.3	24,399	4.6
Quasi-Government Sector	10,414	3.3	21,648	6.3	15,579	4.5	32,478	9.0	59,639	13.9	31,057	6.5	39,732	7.8	39,566	7.4
TOTAL	317,628	100	345,411	100	345,662	100	361,639	100	428,859	100	478,340	100	508,527	100	533,868	100

Source: Statistics Department

Imports by Country of Origin, 2010/11 - 2017/18

COUNTRY	2010/11		2011/12		2012/13		2013/14		2014/15		2015/16		2016/17		2017/18	
	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%	(\$'000)	%
New Zealand	107,985	34	100,067	29	101,254	29	107,341	30	122,470	29	140,074	29	155,900	31	156,775	29
Australia	23,736	7	19,553	6	17,938	5	20,562	6	24,312	6	31,277	7	38,716	8	35,923	7
USA	35,741	11	46,652	14	40,695	12	39,635	11	46,570	11	40,074	8	52,201	10	49,116	9
China	25,861	8	29,260	8	27,878	8	20,424	6	36,049	8	66,129	14	40,242	8	51,932	10
Indonesia	3,965	1	6,157	2	4,954	1	3,429	1	6,431	1	8,174	2	8,185	2	8,929	2
Fiji	25,861	8	29,260	8	27,878	8	31,257	9	34,921	8	50,024	10	40,126	8	44,481	8
Japan	8,848	3	17,175	5	20,275	6	15,500	4	35,709	8	32,339	7	52,818	10	38,824	7
Singapore	73,804	23	78,725	23	81,146	23	83,179	23	63,965	15	54,531	11	77,459	15	82,307	15
Others	11,827	4	18,562	5	23,644	7	40,312	11	58,432	14	55,718	12	42,880	8	65,581	12
TOTAL	317,628	100	345,411	100	345,662	100	361,639	100	428,859	100	478,340	100	508,527	100	533,868	100

Source: Statistics Department

Tonga Balance of Payment: 2010/11-2017/18

(In millions of pa'anga, unless otherwise indicated)	2010/11	2011/12	2012/13	2013/14r	2014/15r	2015/16r	2016/17r	2017/18p
Balance of Trade	-218.3	-238.9	-248.5	-246.0	-289.9	-301.2	-332.7	-388.8
Exports, f.o.b.	11.3	8.8	12.4	15.7	16.0	19.1	23.7	19.9
of which: Squash exports	0.7	2.2	2.4	2.9	1.8	3.7	4.3	5.5
Imports, f.o.b.	229.6	247.7	260.9	261.7	305.9	320.3	356.4	408.7
Services (net)	5.0	-4.3	6.3	-3.1	-6.2	17.3	27.0	32.3
Receipts	89.1	99.4	125.1	109.0	100.4	139.1	169.7	199.0
of which: Tourism receipts	60.9	61.3	71.5	80.3	63	84.1	108.8	111.2
Payments	84.1	103.7	118.8	112.1	106.6	121.8	142.7	166.7
Income (net)	4.8	5.6	0.9	16.9	13.6	5.6	-16	-7.91
Receipts	13	13.3	11.7	34.4	26.2	22.2	17.7	23.9
Payments	8.2	7.7	10.8	17.5	12.6	16.6	33.7	31.81
Current Transfers (net)	143.8	182.3	174.7	192.0	215.5	301.0	364.9	382.5
Official transfers (net)	6.1	44.0	2.2	21.7	41.0	78.9	85.3	82.4
Private transfers (net)	137.7	138.3	172.5	170.3	174.5	222.1	279.6	300.2
Official transfer receipts	8.3	45.5	3.4	23	43.1	82.6	87.9	91.1
Official transfer payments	2.2	1.5	1.2	1.3	2.1	3.7	2.6	8.74
Private transfer receipts	146.5	156.8	209.6	208.9	221.1	279.9	334.1	358.3
Private transfer payments	8.8	18.5	37.1	38.6	46.6	57.8	54.5	58.14
Current account balance	-64.7	-55.3	-66.6	-40.2	-67.0	22.7	43.2	18.1
(Percent of GDP)	-8.3%	-6.9%	-7.8%	-5.0%	-8.0%	2.5%	4.3%	1.7%
Capital account balance	118.9	87.6	88.6	101.2	67.2	15.2	29.7	40.6
Official capital (net)	63.6	55.1	33.5	17.3	8.9	7	9.7	16.4
Official capital inflows	105.3	61.6	38.2	24.6	13.5	7.0	9.8	17.2
Official capital outflows	41.7	6.5	4.7	7.3	4.6	0.0	0.1	0.9
Private capital (net)	55.3	32.5	55.1	83.9	58.3	8.2	20.0	24.2
Private capital inflows	77.7	45.2	71.5	101.5	75.5	10.5	22.7	27.4
Private capital outflows	22.4	12.7	16.4	17.6	17.2	2.3	2.7	3.2
Other items (net)	-21.4	6.2	-4.8	-49.8	-14.2	-43.8	-81.8	-59.5
Overall balance	32.8	38.5	17.2	11.2	-14.0	-5.9	-8.9	-0.8
Memorandum items:	153.6	183.6	181.9	205.8	222.9	323.9	375.9	406.9
Service, income, and transfers (net)	366.3	490.4	519.9	566.5	599.7	802.6	928.2	1,020.1
Receipts	256.9	315.0	349.8	375.3	390.8	523.8	609.4	672.3
Payments	103.3	131.4	167.9	169.5	167.9	199.9	233.5	265.4
Gross official foreign reserves (TOP million)	203.8	246.1	263.3	274.4	289.7	354.9	407.9	468.7
Months of Import cover (trade estimate)	7.7	8.5	9.1	9.1	8.1	7.2	7.5	7.8

Source: National Reserve Bank of Tonga

Tonga: Monetary Survey: 2010/11–2017/18

(In millions of Pa'anga, unless otherwise indicated)	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18p	
Net foreign assets	215.2	235.3	258.6	265.9	285.9	338.2	409.9	456.1	
Foreign assets	221.6	251.0	268.8	281.7	297.1	373.3	434.4	483.7	
Foreign liabilities	-6.5	-15.7	-10.2	-15.8	-11.2	-35.1	-24.5	-27.6	
Net domestic assets	84.1	59.1	56.4	74.2	62.0	53.6	26.0	26.1	
Net domestic credit	208.4	165.5	167.4	177.8	206.0	247.0	278.0	275.6	
Government (net)	-32.5	-47.1	-29.2	-34.1	-26.9	-29.4	-51.5	-90.7	
Non-financial public enterprises	13.2	10.1	13.1	36.6	41.8	40.4	42.8	49.1	
Private sector	227.7	202.5	183.5	175.3	191.1	236.0	286.7	317.2	
Non-monetary financial institutions 1/	-10.9	-7.2	-8.8	-4.0	-3.9	-3.8	-4.2	-6.0	
Other items (net)	-113.4	-99.2	-102.2	-99.6	-140.1	-189.6	-247.8	-243.5	
Total domestic liquidity (M2)	299.2	294.4	314.9	340.0	348.0	391.8	436.6	482.2	
Narrow money (M1)	96.9	119.3	152.1	174.6	188.2	216.5	237.9	238.6	
Currency outside banks	27.3	31.3	32.1	40.1	45.4	48.5	61.9	70.3	
Demand deposits	69.7	88.0	120.0	134.4	142.7	168.0	176.0	168.4	
Quasi money	202.3	175.1	162.7	165.4	159.8	175.3	198.1	243.5	
Savings deposits	51.0	41.4	43.0	44.2	49.7	59.4	63.8	73.2	
Term deposits	139.5	121.8	110.1	109.2	98.6	103.7	124.4	154.0	
Foreign currency accounts	11.8	11.9	9.7	12.0	11.5	12.2	9.8	16.3	
				<i>Annual Percentage Change</i>					
Net foreign assets	30.6	9.3	9.9	2.8	7.5	18.3	21.2	11.3	
Foreign assets	18.7	13.3	7.1	4.8	5.5	25.6	16.4	11.3	
Foreign liabilities	-70.3	141.5	-35.0	54.9	-29.1	213.4	-30.2	12.7	
Net domestic assets	-33.6	-29.7	-4.6	31.6	-16.4	-13.5	-51.5	0.4	
Private sector	-9.9	-11.1	-9.4	-4.5	9.0	23.5	21.5	10.6	
Total domestic liquidity (M2)	2.6	-1.6	7.0	8.0	2.4	12.6	11.4	10.4	
Narrow money (M1)	7.5	23.1	27.5	14.8	7.8	15.0	9.9	0.3	
Quasi money	0.4	-13.4	-7.1	1.7	-3.4	9.7	13.0	22.9	
				<i>In US dollars</i>					
Net foreign assets	126.6	130.7	141.8	147.7	135.6	153.2	186.3	207.3	
Foreign assets	130.4	139.4	147.4	156.5	140.9	169.1	197.5	219.9	
Foreign liabilities	-3.8	-8.7	-5.6	-8.8	-5.3	-15.9	-11.1	-12.5	
Memorandum items:									
Velocity (GDP/average M2)	2.6	2.7	2.5	2.4	2.4	2.3	2.3	2.2	
Exchange rate (pa'anga per U.S. dollar; end period)	1.7	1.8	1.8	1.8	2.1	2.2	2.2	2.2	

Source: National Reserve Bank of Tonga

9. ANNEX II: BUDGET CONTRIBUTION to the GPA 2019/20

DETAILED BUDGET ALLOCATION BY PRIORITY FOCUS AREAS

Public Sector System Reform

Public Sector System Reform	Recurrent Budget (\$m)	Development Budget (\$m)
Note [1]	166.72	
Tonga Justice Sector Support Program (TJSSP) - Magistrate Court & Youth Scheme		2.50
Tonga Police Development Program		2.50
Police Commissioner's Salary		0.40
Supreme Court Judge		0.40
Tonga Director of Public Prosecution		0.40
Support to The MIA's - Women Division		0.50
Technical Assistances (renumerations, reviews, procurement, economics etc)		1.00
Training/Workshops -		0.40
Capacity Building for Migration and Sustainable Development in Tonga		0.50
Overseas Courses & Conference in Australia, NZ and USA		8.90
Central Service Unit		1.00
Nuku'alofa Network Upgrade Project		18.00
Nationwide Early Warning System		10.00
PREP - Vava'u & Ha'apai NEMO/MET Office		1.60
11th EDF TCF PE - CSO, NAO and Energy Sector Support		0.78
Music Center		3.00
Uniform Grant		2.00
Touliki Navel Build (HQ Upgrade of Touliki)		1.80
Grants		0.63
Korean annual assistance		0.40
Green Climate Fund		0.23
Maintenance of both Navel Ships		0.20
Maintenance of HMAF communications		0.20
Trainings on INTOSAI \$100k: \$100k PASAI		0.20
Utilities-Electricity, Touliki Navel Base		0.20
GGP & NPGA Grant Aid		2.00
Others		0.09
Sub Total	166.72	59.83
Grand Total	225.59	

Note [1]

Palace Office \$4.74m; Legislative Assembly \$10.83m; Tonga Office of the Auditor General \$2.02m; Office of the Ombudsman \$1.63; Ministry of Foreign Affairs \$10.52; His Majesty's Armed Forces \$10.97m; Prime Minister's Office \$3.81m; Ministry of Finance \$94.44m; Ministry of Public Enterprises \$1.51mil; Electoral Commission \$0.69m; Attorney General's Office \$3.44m; Public Service Commission \$2.08m; Statistics Department \$3.42m; Ministry of Internal Affairs \$4.22m; Revenue Department \$5.36m; Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Communications and Climate Change \$7.04m.

Development of the Informal Sector

Development of the Informal Sector	Recurrent Budget (\$m)	Development Budget (\$m)	Underline (\$m)
Note [2]	26.56		
Gov't Dev Loan (inclusive \$0.50m Micro Finance Pilot Fund)			14.05
TC Gita Loan Recovery Fund - MSMEs			2.90
Private Sector Marketing Trust Fund			0.50
Fisheries BAIT Trust Fund			0.04
PACER Plus Trust Fund			0.50
MORDI Trip II (\$12m - 6 yrs)		3.00	
ILAM (FAO) - Integrated Land Agro Mgt (\$4.68m - 5 yrs)		2.07	
EU CSO Project		0.50	
CRSP Climate Change Trust Fund (\$5m)		0.50	
SET Component 3 - Seasonal Workers (\$3.6m)		2.00	
National Institute of Water and Atmospheric Research Limited (NIWA PROJECTS)		2.00	
Skills for Employment - Component 2 labour migration		1.00	
Others (Livestock, SMA etc)		3.00	
Community Development (Operation for Credit Union/Co-op)			
Sub Total	26.56	17.04	18.00
Grand Total		61.60	

Note[2]

Ministry of Agriculture \$10.33m; Ministry of Fishery \$4.59m; Ministry of Trade and Economic Development \$8.14m; Ministry of Internal Affairs (Community Development & Local Governance) \$3.51m

Combat and Address the Illicit Drugs

Combat and Address the Illicit Drugs	Recurrent Budget (\$m)	Development Budget (\$m)
Note [3]	30.29	
Family free of violence		0.63
Sub Total	30.29	0.63
Grand Total		30.92

Note [3]

Ministry of Police & Fire Services \$13.78m, Ministry of Justice and Prison \$11.19m, Customs Department \$5.31m

Improve Beautification Program (Road and Infrastructure Development)

Improve Beautification Program (Road and Infrastructure Development)	Recurrent Budget (\$m)	Development Budget (\$m)
Note [4]	28.22	
Tonga Climate Resilient Transport (<i>Total TCR Project 56mil - 5 yrs</i>) Road Component (16.8mil)		10.00
Aviation (15.5mil)		5.00
Maritime (15.18mil)		6.40
Tonga Integrated Urban Resilient Programme		10.00
Japan News National Early Warning System		10.00
TAIP - Tonga Aviation Investment Program		3.00
PREP Reconstruction		10.00
Mala'ekula, Treasury Building, Heavy Machinery		3.00
Evacuation Bridge Preparation		1.00
TC Gita Recovery		10.00
Others (Pacific Regional Navigation Initiative, Tsunami Rock, Nukunuku Kolo Hufanga , Supporting Agri-fish-tourism, Waste Disposal, Coastal Protection (Western))		4.68
Road Maintenance (Baseline)		
Beautification		
Sub-Total	28.22	73.08
Grand Total	101.3	

Note[4]

Improvement of Beautification Program consist of Ministry of Infrastructure \$23.25m, Ministry of Tourism \$4.97m

Support Energy Sector

Supporting Energy Sector	Recurrent Budget (\$m)	Development Budget (\$m)
Notes [5]	1.24	
Tonga Renewable Energy Project (TREP)		16.00
Outer Island Renewable Energy (OIREP)		7.95
Nuku'alofa Network Upgrade Project (NNUP)		6.00
Installation of Winds Power Generation System		10.00
TA and consultations of Energy Bill		
Ozone Depletion Substance (ODS)		0.40
Third Communication		0.80
Mounga'one Solar Electrification		1.50
Others (Energy Efficiency Master Plan and Circular Economy, Increasing Capacities for Power Purchase Agreement, Energy Data and Analysis, Strengthening Protected Area Management (SPAM))		1.37
Sub Total	1.24	44.02
Grand Total	45.26	

Notes[5]

Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Communications and Climate Change (Energy Division) \$1.24m

Digital Government Framework/ E-Government

Digital Government Framework/ E-Government	Recurrent Budget (\$m)	Development Budget (\$m)
Notes[6]	2.69	
Tonga Digital Support Programme		2.40
Cyber Cooperation Program		0.04
Sub-Total	2.69	2.44
Grand Total	5.13	

Notes[6]

Ministry of Finance (Government General Fund: Pool Telecommunication) \$2.53m; Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Communications and Climate Change (E - Government) \$0.16m

Health (NCD, CD and Universal Health Coverage)

Health (NCD, CDs and Universal Health Coverage)	Recurrent Budget (\$m)	Development Budget (\$m)
Notes [7]	43.88	
Tonga Health Support System (Phase II)		3.20
Tonga Health Promotion		2.00
UNFPA Training		0.04
Volunteer Led Community Programs on Physical Activity		0.07
WHO Training		0.80
E-Health Project		4.00
Medical experts teams		0.80
Overseas medical treatment scheme - NZ		0.80
PREP - Vava'u Hospital renovation		0.80
THS Sport Complex		2.50
Pacific Sporting Partnerships - Sports for Health (Junior Rugby and Netball)		0.65
Sport Equipment and Materials		1.00
Others (Strengthening Eye Care in Tonga, Central Pharmacy Storage Warehouse , QSC Training House)		1.55
ADB vaccine project		
Total	43.88	18.20
Grand Total	62.08	

Notes[7]

Ministry of Health \$43.88m

Quality Education

Quality Education	Recurrent Budget (\$m)	Development Budget (\$m)
Notes[8]	56.32	
Skills Employment Component 1 - Conditional Cash Transfer Program for Secondary Schools enrolment and attendance		3.00
Skills Employment Component 2 - Strengthening TVET Position		1.50
Skills Employment Component 4 - Project Management Unit		3.00
Tonga Skills		1.61
Tonga Education Support Activity (TESA)		0.77
Overseas Scholarships (NZ, Australia, PRC and others)		9.10
In-country scholarships		0.60
Sub-Total	56.32	19.58
Grand Total	75.9	

Notes [8]

Ministry of Education and Training \$56.32m

Land Administration and Management

Land Administration and Management	Recurrent Budget (\$m)	Development Budget (\$m)
Notes [9]	7.50	
Nuku'alofa Urban Development Sector Project - Additional Financing 3 TC Gita		0.72
Sub-Total	7.50	0.72
Grand Total	8.22	

Notes [9]

Ministry of Lands, Survey & Natural Resources \$7.50m

10. ANNEX III: REVENUE (BOTH RECURRENT AND DEVELOPMENT) FOR 2019/20-2021/22

<i>Revenue by MDAs</i>						
Ministry	Actual 2017/2018	Original Budget Estimate 2018/19	Estimated Outturn	Budget Estimate 2019/20	Projection 2020/21	Projection 2021/22
Palace Office	-	-	6,704	-	-	-
Legislative Assembly	153,475	320,000	-	1,004,000	1,004,000	1,004,000
Tonga Office of the Auditor General	74,750	300,000	100,000	300,000	300,000	300,000
Office of the Ombudsman	26,672	-	-	-	-	-
Ministry of Foreign Affairs	3,043,824	4,100,000	3,872,100	4,500,000	4,500,000	4,500,000
His Majesty's Armed Forces	-	6,149,000	107,600	17,099,700	14,099,700	14,099,700
Prime Minister's Office	34,166	150,000	39,896	170,000	10,000	10,000
Ministry of Finance	44,277,525	149,193,700	89,602,344	102,257,900	86,639,200	82,991,500
Ministry of Revenue & Customs	225,998,822	238,091,300	235,053,100	245,930,000	251,987,600	259,003,600
Ministry of Public Enterprises	9,982,528	12,150,000	8,350,300	26,000,000	12,000,000	12,000,000
Ministry of Trade and Economic Development	602,592	1,092,000	564,995	982,000	669,000	664,000
Ministry of Justice and Prison	2,567,846	4,354,400	3,004,918	3,081,400	4,731,400	3,231,400
Attorney General's Office	207,389	190,000	100	190,000	-	-
Ministry of Police & Fire Services	2,130,623	3,911,300	2,864,669	3,911,300	5,811,300	3,287,800
Ministry of Health	5,947,019	13,547,900	4,973,801	15,489,800	12,727,000	14,663,700
Ministry of Education & Training	3,126,827	22,557,600	3,362,323	16,241,700	16,370,700	16,370,700
Ministry of Internal Affairs	284,778	14,058,400	1,861,438	19,791,900	14,033,200	12,253,200
Ministry of Agriculture, Food & Forests	1,408,346	8,564,600	1,503,714	6,546,300	8,655,000	6,989,400
Ministry of Infrastructure	9,049,419	49,451,700	19,935,799	38,640,100	38,685,000	37,515,000
Ministry of Lands & Natural Resources	1,162,993	7,787,600	848,095	7,841,800	8,020,800	8,020,800
Public Service Commission	-	440,000	-	444,000	100,000	100,000
Statistics Department	127,082	50,000	255,111	-	-	-
Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Communications and Climate Change	20,642,826	104,369,500	5,561,640	77,703,500	72,085,000	52,076,500
Ministry of Fisheries	4,192,365	7,466,200	3,536,352	6,481,000	9,444,000	9,193,000
Ministry of Tourism	152,364	168,200	205,200	4,666,200	5,266,200	4,466,200
Grand Total	335,194,233	648,463,400	385,610,199	599,272,600	567,139,100	542,740,500

Source: MOF

<i>Revenue by Category</i>						
Category	Actual 2017/2018	Original Budget Estimate 2018/19	Estimated Outturn	Budget Estimate	Projection 2020/21	Projection 2021/22
Income Tax	48,843,712	45,353,100	51,595,600	57,450,000	57,450,000	57,450,000
Trade Taxes	22,427,110	27,376,900	26,028,500	22,730,000	23,627,700	24,667,400
Taxes on Good & Services	93,158,292	93,658,400	94,956,100	102,268,600	105,302,500	108,816,500
Excise Taxes	63,231,202	70,857,100	65,533,400	66,551,000	68,677,000	71,139,300
Fees & Licences	25,164,400	31,065,600	25,416,300	30,163,700	29,959,700	29,959,700
Entrepreneurial & Property Income	11,012,118	21,854,100	14,236,186	19,738,600	23,738,600	22,168,600
Miscellaneous Revenue Items	2,658,684	3,690,100	458,800	5,390,100	2,081,000	2,390,100
Capital & Other Transfers	14,737,532	29,554,200	18,980,500	20,649,700	12,495,700	12,495,700
Budget Support & Revolving Fund	53,961,185	325,053,900	88,404,813	274,330,900	243,806,900	213,653,200
Grand Total	335,194,233	648,463,400	385,610,199	599,272,600	567,139,100	542,740,500

Source: MOF

<i>Revenue by Location</i>						
Location	Actual 2017/2018	Original Budget Estimate 2018/19	Estimated Outturn	Budget Estimate 2019/20	Projection 2020/21	Projection 2021/22
Nationwide	299,531,777	488,772,100	353,219,507	445,961,900	443,370,400	441,835,500
Tongatapu	34,991,220	124,984,000	31,833,592	128,334,800	101,738,800	84,206,100
Vava'u	420,080	6,401,600	396,600	7,616,400	7,875,900	2,548,900
Ha'apai	107,215	11,896,700	42,800	5,398,300	5,393,800	5,391,800
Eua	114,867	3,674,800	90,300	5,226,000	5,225,000	5,223,000
Niutoputapu	16,703	10,991,000	13,000	4,921,000	3,021,000	3,021,000
Niuafo'ou	12,371	1,743,200	14,300	1,814,200	514,200	514,200
Overseas	-	-	100	-	-	-
Grand Total	335,194,233	648,463,400	385,610,199	599,272,600	567,139,100	542,740,500

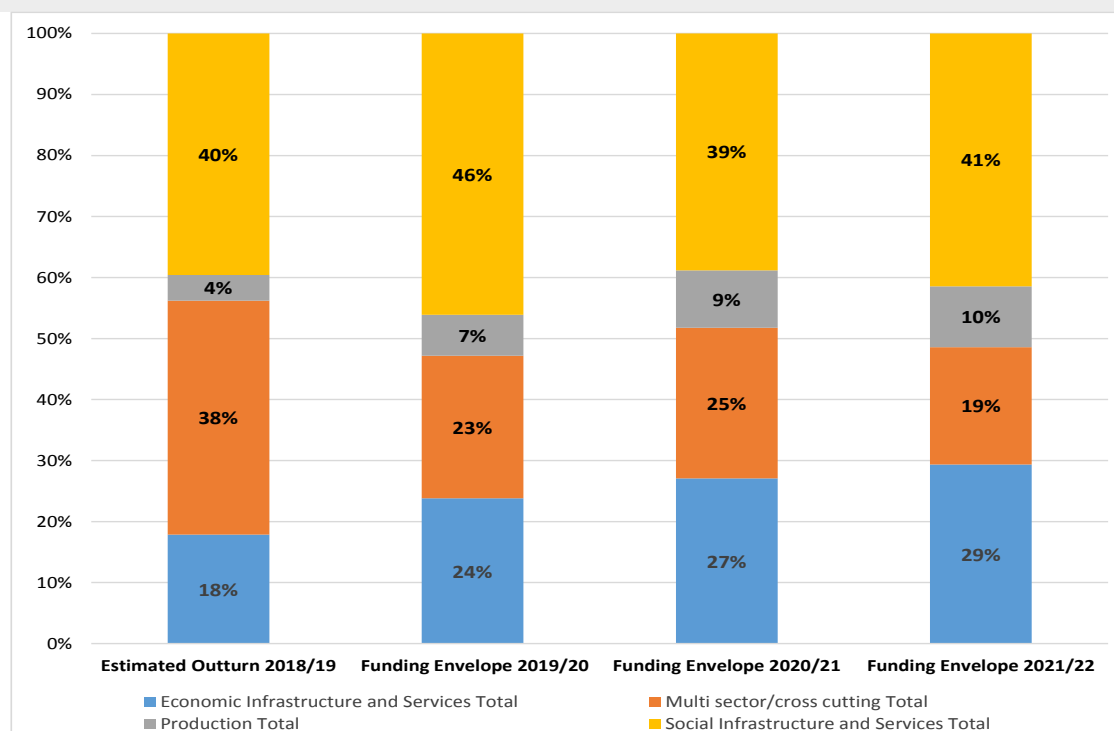
Source: MOF

11. ANNEX IV: DEVELOPMENT AID CLASSIFICATION BY LOCATION

11.1 Aid Funded Project Expenditure by Development Aid Classification (DAC)

According to the Organisation for Economic Co-operation and Development's (OECD), Overseas Development Assistance (ODA) Classification, Figure 1 below shows that the Social Infrastructure and Services still remains as the main contributor of 39 percent of the total budget estimate in 2019/20 and further into the outer years which reflects the development assistance that is tagged for the long term reconstruction and recovery activities to build back better educational infrastructures, home residences, and Government public buildings due to major damages caused by TC Gita Cyclone since February 2018.

Figure 1 : Aid Funded Project Expenditure by Development Aid Classification (DAC)



Source: MOF

The Economic Infrastructure and Services continues to increase to 24 percent in 2019/20 as compared to 18% in 2018/19 due to growing priorities towards energy, communication and improvement of beautification relating to transport, roads and infrastructure of which development partners have confirmed funding towards.

The multi-sector/cross cutting sector takes up 23 percent of the development assistance in 2018/19 which are environmental and climate change adaptation projects which are applicable to all sectors.

DAC Production Sector also has increased to 7% in 2019/20 which consists of Agriculture, Fisheries and Tourism related development projects.

11.2 Development Expenditure by Location

Annex Table 1: Aid Funded Project (Expenditure): Nationwide (\$m)

Nationwide	Estimated Outturn 2018/19	Budget 2019/20	Projection 2020/21	Projection 2021/22	% of 2019/20 Budget
Economic Infrastructure and Services	14.86	33.40	37.57	33.40	36%
Business and other services					
Communication	2.04	-	-	-	-
Energy	0.77	16.40	14.00	11.00	-
Transport & Storage	12.05	17.00	23.57	22.40	-
Multi-cross cutting	57.77	13.65	10.91	8.81	15%
General Environmental Protection					
Multi-Sector Aid	57.77	13.65	10.91	8.81	
Production	2.92	6.01	7.93	8.50	6%
Production (Agriculture)	1.99	3.00	1.93	2.50	
Production (Fisheries)	0.92	3.00	6.00	6.00	
Production (Tourism)	0.01	0.01	-	-	
Social Infrastructure and Services	50.20	39.75	31.61	30.02	43%
Government and Civil Society	37.53	20.50	13.20	9.80	
Other Social Infrastructure and Services	0.19	0.11	0.11	0.02	
Social Infrastructure and Services (Education)	10.86	11.97	12.07	12.07	
Social Infrastructure and Services (Health)	1.62	7.17	6.24	8.14	
Grand Total	125.76	92.81	88.02	80.73	100%

Source: MOF

Annex Table 2: Aid Funded Project (Expenditure): Tongatapu (\$m)

Tongatapu	Estimated Outturn 2018/19	Budget 2019/20	Projection 2020/21	Projection 2021/22	% of 2019/20 Budget
	\$m	\$m	\$m	\$m	
Economic Infrastructure and Services	9.93	6.56	4.78	4.78	6%
Business and other services	-	-	-	-	
Communication	0.78	0.16	0.16	0.16	
Energy	0.03	-	-	-	
Transport & Storage	9.12	6.40	4.62	4.62	
Multi-cross cutting	16.53	34.31	32.46	22.56	29%
General Environmental Protection	0.01	-	-	-	
Multi-Sector Aid	16.52	34.31	32.46	22.56	
Production	5.15	9.67	11.24	8.85	8%
Production (Agriculture)	3.99	4.66	5.94	4.58	
Production (Fisheries)	1.08	0.64	0.40	0.17	
Production (Tourism)	0.08	4.37	4.90	4.10	
Social Infrastructure and Services	22.02	68.12	46.58	41.34	57%
Government and Civil Society	8.55	34.25	30.54	28.17	
Other Social Infrastructure and Services	9.75	22.92	7.21	4.00	
Social Infrastructure and Services (Education)	1.34	4.62	4.63	4.63	
Social Infrastructure and Services (Health)	2.38	6.33	4.20	4.54	
Grand Total	53.64	118.65	95.05	77.52	100%

Source: MOF

Annex Table 3: Aid Funded Project (Expenditure): Vava'u (\$m)

Vava'u	Estimated Outturn 2018/19 \$m	Budget 2019/20 \$m	Projection 2020/21 \$m	Projection 2021/22 \$m	% of 2019/20 Budget
Economic Infrastructure and Services	2.63	1.00	1.00	1.00	14%
Energy	2.63	1.00	1.00	1.00	
Transport & Storage	-	-	-	-	
Multi-cross cutting	0.50	5.65	5.65	0.65	78%
Multi-Sector Aid	0.50	5.65	5.65	0.65	
Production	0.15	0.08	0.04	0.02	1%
Production (Fisheries)	0.15	0.08	0.04	0.02	
Social Infrastructure and Services	-	0.50	0.80	0.50	7%
Social Infrastructure and Services (Health)	-	0.50	0.80	0.50	
Grand Total	3.28	7.23	7.49	2.17	1.00

Source: MOF

Annex Table 4: Aid Funded Project (Expenditure): Ha'apai (\$m)

Ha'apai	Estimated Outturn 2018/19 \$m	Budget 2019/20 \$m	Projection 2020/21 \$m	Projection 2021/22 \$m	% of 2019/20 Budget
Economic Infrastructure and Services	2.33	4.80	4.80	4.80	90%
Energy	2.28	2.50	2.50	2.50	
Transport & Storage	0.05	2.30	2.30	2.30	
Multi-cross cutting	0.03	0.50	0.50	0.50	9%
General Environmental Protection	0.03	0.50	0.50	0.50	
Multi-Sector Aid	0.03	0.50	0.50	0.50	
Social Infrastructure and Services	5.01	0.01	0.01	0.01	0%
Other Social Infrastructure and Services	0.00	0.00	-	-	
Social Infrastructure and Services (Education)	0.01	-	-	-	
Social Infrastructure and Services (Health)	5.00	0.01	0.01	0.01	
Grand Total	7.36	5.32	5.31	5.31	100%

Source: MOF

Annex Table 5: Aid Funded Project (Expenditure): 'Eua (\$m)

Eua	Estimated Outturn 2018/19 \$m	Budget 2019/20 \$m	Projection 2020/21 \$m	Projection 2021/22 \$m	% of 2019/20 Budget
Economic Infrastructure and Services	0.26	4.75	4.75	4.75	92.2%
Energy	-	1.55	1.55	1.55	
Transport & Storage	0.26	3.20	3.20	3.20	
Multi-cross cutting	-	0.003	0.003	0.001	0.06%
Multi-Sector Aid	-	0.003	0.003	0.001	
Social Infrastructure and Services	0.00	0.40	0.40	0.40	7.78%
Government and Civil Society	-	0.40	0.40	0.40	
Other Social Infrastructure and Services	0.00	0.00	-	-	
Grand Total	0.26	5.15	5.15	5.15	1.00

Source: MOF

Annex Table 6: Aid Funded Project (Expenditure): Niuatoputapu and Niuafu'ou (\$m)

Niuatoputapu and Niuafu'ou	Estimated Outturn 2018/19 \$m	Budget 2019/20 \$m	Projection 2020/21 \$m	Projection 2021/22 \$m	% of 2019/20 Budget
Economic Infrastructure and Services	4.81	5.70	2.50	2.50	85%
Energy	4.75	2.50	2.50	2.50	
Transport & Storage	0.06	3.20	-	-	
Multi-cross cutting	-	1.00	1.00	1.00	15%
Multi-Sector Aid	-	1.00	1.00	1.00	
Grand Total	4.81	6.70	3.50	3.50	100%

Source: MOF

12. ANNEX V: TROPICAL CYCLONE GITA and IAN RECOVERY REPORT

Tropical Cyclone Gita Recovery

Government of Tonga had endorsed a programmatic disaster recovery framework in June 2018 to help guide disaster implementation of humanitarian, recovery and reconstruction for greater resilience needs especially after TC Gita Cyclone. The framework carried with it recovery principles such as the Build back better (BBB) communities, infrastructure and institutions and outlined three phases of implementation 1) immediate phase (humanitarian response) 2) short term (recovery phase) and 3) Medium Term (Reconstruction phase) and for each phase, there were recovery plans by cluster and financing gap required.

These recovery plans were based on the coordinated Rapid Damaged Assessment that had been carried out earlier in March 2018 by WB, EU, and UNDP where by an assessment of total disaster effects (damages and losses) was recorded at \$300.84 million (30 percent of GDP) with Housing been affected badly at 37 percent followed by agriculture at 32 percent. TC Gita had disrupted the lives of many Tongans living in the affected areas and left many more vulnerable than before.

The National Emergency Management Committee chaired by the Minister of MEIDECC was activated at the time of Emergency [Emergency Management Act]. Memberships included PMO, Police, HMAF, and lead clusters for Water and Sanitation, Health (WASH), Food and Safety Livelihood (FSL), Essential Services (ES), Economic and Social Recovery (ESR), Telecommunications (TEL), Shelter and Government Buildings, Safety and Protection, Education, Logistics (NEMO) and a National Emergency Fund (NEF) from Government was set for Operation of the immediate response phase.

During the Immediate phase (February – June 2018), the Government of Tonga was able to mobilize quickly within 2 weeks from date of disaster, insurance funds from its membership with the World Bank Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI) of USD3.5 million, also with ADB Pacific Disaster Contingency Facility (PDCF) of USD\$6m and further with a USD\$1m from the Asia Pacific Disaster Response Facility (APDRF).

Development partners had continued support and partnership in the form of cash received from the Republic of China, New Zealand, Australia, and our neighbouring countries Fiji, Vanuatu, Cook Islands and various donor organisations such as the UNDP-India Partnership, International Organisation for Labour (ILO). By June 2018, total development funds received in cash by government had reached \$32.6 million. There were also in-kind forms of humanitarian goods and services that were received towards Tonga Red Cross, NEMO operations, for Education printing materials, relocation of schools programme, Security and Safety enforcement, Tonga Power added capacity for restoration, non-government partners such as CARE, CARITAS, MORDI, LDS and churches on homes that needed immediate repairs.

Government of Tonga endorsed \$32.6 million to implement the clusters response plans for the immediate phase during the period February 2018 to June 2018 and also the short term recovery phase (July 2018 to June 2019) and the activities accounted for 66% as end of February 2019 and have implemented the following:

- a) Relief Cash Grant disbursements of \$6.5 million to 8,217 households that were confirmed by Statistics survey results that were affected by TC Gita. A record of 552 households to have been destroyed and the rest were either partially damaged [1138] or had minor damages [6527] to their homes. Beneficiaries

- of homes destroyed were granted \$3,000, homes partially damaged \$1,500 and minor or minimal damages were granted \$500.00;
- b) Top Up grant disbursements towards registered Disabilities and Elderlies of \$800k were issued;
 - c) Food Security and livelihood activities of \$2.0 million for Community Agricultural Ploughing of 4000 hectares of farming land in Tongatapu and 'Eua with distribution of plant seedlings, livestock chicken breeding, and purchasing of sawmill tools for cutting and clearing of affected trees;
 - d) Relief Cash Grant Agreements \$500k were signed by 27 registered fisherman for maintenance of damaged boats and fencing affected by TC Gita;
 - e) Education Relief Cash Grant Agreements of \$3.4 million for educational schools that were badly damaged. This grant was released to 9 faith-based schools education systems - [\$1.3 million] FWC, [\$0.99 million] Roman Catholic, [\$0.55 million] Seventh Day Advertisement, [\$0.30 million] Equippers Church School, [\$0.12 million] Tokaikolo Fellowship, [\$0.03 million] Bahai Church, [0.03m] Free Church of Tonga, [\$0.026 million] Anglican Church, and [\$0.004 million] Mo'uifo'ou and school equipments;
 - f) Grant Agreement of \$6.7 million with Tonga Power Limited (TPL) to assist with restoration of affected electrical poles and equipments;
 - g) Water, Sanitation and Health activities of \$2 million towards schools and communities, 'Eua Public Restrooms, Nafanua Wharf Repairs, medical equipment (blood centrifuge, intensifier) for Vaiola Hospital and provision for Veitongo Sanitation Facilities for Typhoid homes;
 - h) Safety and Protection activities of \$300k to support projects submitted by vulnerable groups Ma'a Fafine, Women's Crisis Centre, 'Eua Women Water Tanks and NATA. This cluster also conducted psychological support and trainings to affected communities;
 - i) Grant Agreement for repairs of Solar Lights and assistance to Water Board for repairs;
 - j) Renovatons to Fa'onelua Centre [\$0.8 million] and currently works in progress and are aimed to complete Teufaiva Roofing repairs, Atele Tennis Courts and Police Training renovations;
 - k) Concessional loaning of \$2 million being issued to Tonga Broadcasting Commission [TBC] to assist with their capacity in broadcasting in times of disaster, \$2.9 million loan for businesses that were affected by TC Gita and \$0.1 million for further ploughing requirements.

Medium Term (reconstruction phase)

The Government of Tonga had received further funds during the year, a USD\$10 million from the WB Crisis Window Facility for recovery purposes, EUR 1.99 from European Union's B-Envelope for related activities with Energy Sector and these funds are reserved and are yet to be allocated.

The Cabinet Coordination Development Committee (CDCC) has met on a weekly basis in recent weeks in which discussions on potential housing reconstruction options have been made. Such options and associated cost-sharing ratios will be provided for the consideration of Cabinet ministers.

ADB also provided TC Gita recovery funds of USD6.8 million to assist with the recovery works under the Nuku'alofa Network Upgrade project (NNUP) and DFAT offered AUD\$400k to assist with the recovery works under the Nuku'alofa Urban Development Sector project (NUDSP) and further WB offered USD\$14.4 million to assist with the reconstruction of schools under Component 2 of the Pacific Resilience Programme (PREP).

The reconstruction of 28 schools is about to commence, after the recruitment of Cardno NZ in March 2019 and the company is currently setting up and closely working in collaboration with MOI, MEIDECC, and MET to ensure that the reconstruction of the first batch of schools kicks off in August 2019 and aims to complete during the Christmas holidays. The 28 schools include 13 GPS, 12 secondary schools and 1 Police Training Building with 26 schools to be built in Tongatapu and 2 in 'Eua.

Tropical Cyclone Ian Recovery and Reconstruction

With assistance from the World Bank, a reconstruction project - the Tonga Cyclone Ian Reconstruction and Climate Resilience Project (TCIRCRP) was designed and implemented in response to the severe damage caused in Ha'apai as a result of Tropical Cyclone Ian (TC Ian).

The project commenced shortly after the event and aimed to replace destroyed and damaged housing for the most vulnerable members of the community and enhance climate resilience for housing. Through the prompt receipt of funds from the World Bank's Climate Response Window (CRW), the project provided the following at a total cost of \$27.60 million, as shown in Annex Table 1:

Annex Table 7: TCIRPCRP Project Components		
Component A	A1 – 2 room houses	196 houses completed
	A2 – 1 room house	204 houses completed
	Level 3 damage 12k	314
	Level 2 Damage 8	275
	Reimbursement	42
	Final Beneficiaries	1031
	Community halls	18 halls completed
Component B	Technical Assistances	

In addition to the housing reconstruction works, the provision of technical assistance to enhance climate resilience in the housing sector was provided. A notable outcome in this regard is the drafting of the national housing reconstruction policy and the post cyclone-Gita housing reconstruction options. Ongoing works towards finalization of this policy is critical in support of ongoing and future recovery efforts.

Overall, the project has been of great benefit for the highly affected population of Ha'apai regardless of the controversial issues and challenges that were faced with regards to land-related issues, the management of expectations on the part of Government, and the implementation arrangement in terms of the communities' contribution towards implementation.

Status of Ha'apai Water Tanks:

The water tanks component for the Ha'apai Ian Project was agreed between World Bank and Government to be funded from Budget Support funds from the Bank. An assessment was carried out and a total of 255 households were in need of water tanks. Funds were transferred to the development budget of the ministry of Infrastructure as the implementing agency for this component. As of to-date, the water tanks is expected to soon to be award and implementation is expected within the next 6 months.

Annex Table 8: Total Cost: \$700,000		
Houses/Halls	Litres	Quantity
A2A Phase 1	5000	180
A2A Phase 2	5000	4
A1 Phase 1	5000	71
Community Halls	10,000	18

Annex Table 9 : TC Gita Receipts and Payments Statement

TROPICAL CYCLONE GITA
PROGRESS STATUS REPORT - Statement of Receipts and Payments
TC Gita Relief and Recovery Funds
For the Period March 2018 - Ended 28th February, 2019

<u>Receipts</u>	<u>Notes</u>	<u>Foreign Currency</u>	<u>TOP</u>
World Bank	[1] Cash Receipts through Treasury relating to TC Gita Recovery [2] Exrate 0.47, Effective Mar 2018, PCRAFI Facility Exrate 0.46, Effective Nov 2018, WB Crisis Recovery Window <i>Awaiting effectiveness to be implemented by PREP, WB Crisis Recovery Window USD\$10m, DFAT USD \$14.41m Exrate 0.5</i>	USD\$3,528,744 USD\$10m USD\$14.41m	7,575,663 21,888,936 28,820,000
Asian Development Bank	[3] Exrate 0.47, Effective Mar 2018, USD\$6m - Pacific Disaster Contingency Facility (PDCF), USD\$1m - Asia Pacific Disaster Response Facility (APDRF)	USD\$7m	14,998,068
New Zealand	[4] Exrate 0.62, NZD\$4m TC Gita Recovery (Cash), NZD\$3m [TPL replenishment] [5] Assistance to Relocation of Schools	NZD\$7m	11,284,455.00 5,400.00
European Union	[6] Exrate 3.82, Effective Nov 2018, EU-B-envelope earmarked for Energy, Additional Financing to the NNUP	EUR\$1.99	5,206,698.06
Australia	[7] Exrate 0.59, completed June 2018, Top up Grants for Vulnerables (disability, elderly).	AUD\$500k	843,312.53
People's Republic of China	[8] Exrate 0.47, Cash from USD\$500k (cash) - Chinese Embassy Tonga, Chinese Dongguan City Government, Chinese Guangdong Province.	USD\$820k	1,753,710.00
Government of Fiji	[9] Exrate 0.95	FJD\$50k	52,848.54
Government of Vanuatu			194,174.76
Government of Nauru	[11] Exrate 0.61	AUD\$100k	164,085.83
India-UN Partnership	[12] Exrate 0.46	USD\$500k	1,084,984.20
ILO(UN)	[13] Exrate 0.47	USD\$10,000	21,315.00
St Peters College			11,892.00
Total Receipts			93,905,542.61
<u>Payments</u>		<u>Budget Allocation</u>	<u>Payments</u>
WASH Cluster	[13]	2,878,204.55	1,762,621.57
Shelter	[14]	6,855,500.00	6,107,900.00
Government Buildings	[15]	3,419,527.00	17,673.60
Education	[16]	4,075,123.25	3,791,646.10
Food Security and Livelihood	[17]	2,112,828.00	1,800,815.74
Safety and Protection	[18]	300,000.00	141,358.55
Telecommunication Cluster	[19]	232,397.00	230,379.40
Essential Services	[20]	7,679,425.22	7,679,425.22
Economic and Social Recovery	[21]	5,080,000.00	76,490.00
		32,633,005.02	21,608,310.18
Other Payments			
Disability and Elderly Top Up Grants	[22] DFAT assistance : Social Protection [MIA] and National Retirement Fund assisted with listings of beneficiaries for the disbursement of funds		843,312.53
Farm Livelihood (ILO) project	[23] ILO farm cash assistance managed by MCCTIL		21,315.00
Catholic Education assistance	[24] St Peters Assistance to the Catholic Education		11,892.00
Education Relocation Fuel	[25] NZ assistance to MET for relocation of schools badly damaged		5,400.00
Replenishment Relief works with TPL	[26] NZ assistance of NZD\$3m [exrate 0.62]		4,454,342.98
Total Payments			26,944,572.69
BALANCE AS end of Feb 2018			66,960,969.92
Committed			
Education Reconstruction	[27] Estimated funds drawdown anticipated to be received April 2019		28,820,000.00
Nuku'alofa Network Upgrade Project (NNUP)	[28] Additional financing to Area 3 of the NNUP		5,206,698.06
TC Gita Short Term Recovery Funds	[29] Short Term Recovery Activities by clusters managed by National Emergency Recovery Committee (NERC) until 30th June 2019		11,045,335.86
Total Committed			45,072,033.92
BALANCE AS end of Feb 2018	[30] Funds reserved for further Recovery purposes a) Development funds - \$10,944,468 b) Budget Support - Recurrent funds - \$10,944,468		21,888,936.00

Further notes of payments

[13] WASH cluster [\$2.88m] : [\$1.1m]Water and sanitation to 57 schools, [0.37m] Water Tanks to 7 communities including Vaini, Alaki, Te'ekiu, and Sanitation Funds towards Veitongo's, Water Tanks [0.36m] Health equipments (blood centrifuge, intensifier -c-arm), [0.07m]Public sanitation - Eua Wharf, [0.02m] Asbestos removal

[14] Shelter [\$6.86m]: Disbursed Relief Grants of \$5.93m to 8217 shelters: Destroyed Homes [552], Partially Damaged [1138], Minor Damaged [6527] in coordination with Statistics, MIA[town officers], MOI and Finance

[15] Government Buildings[\$3.42m] : Current works on Repairs to Teufaiva Roofing, Fa'onelua Convention Centre, Atele Tennis Courts, Police 3 Flats, Hihifo Evacuation centre

[16] Education [\$4.08m] : Relocations of schools, Replacement of Damaged equipments, Assessment of School Damages, Maintenance of R1-R2, Disbursed Relief Grants of \$3.4m to 9 Faith Based Schools affected [\$1.3m - FWC, \$0.99m - Catholic, \$0.5m - Beulah, \$0.3m - Acts, \$0.03m - Church of Tonga, \$0.12m - Lavengamalie, \$0.004 - Maamafo'ou, Anglican - \$0.02m, Bahai - \$0.03m

[17] Food Security and Livelihood [\$2.11m] : \$1m for 2 phases of Ploughing total 4000 hectares of land (tongatapu and Eua), \$0.5 planting materials and seedlings, \$0.2m for livestock chicken breeding of 1200, \$0.047m for chainsaws for coconut tree logging, \$0.1m Fisheries Relief Grants for Boat Repairs, \$0.05m for Fish Bar Fences

[18] Safety and Protection[\$0.3m] : Disbursement of \$0.2m to projects submitted by vulnerable groups : Ma'a Fafine, Womens Crisis Centre, Eua Women Water Tanks, NATA, Local Government Vehicle, psycholocial support and training

[19] Telecommunication[\$0.23m] : Disbursement of \$0.2m for Repairs of Tonga Broadcasting Commission

[20] Essential Services [\$7.68m] : Disbursement of \$7m to assist with TPL restoration, \$0.2 to Waste Management, \$0.2 for Solar repairs

[21] [Economic and Social Recovery[\$5.08m]] : \$5m concessional loan scheme policy at 2% interest rate to assist for access of funds for small to medium business that were badly damaged from TC Gita and further to assist cooperative farming activities for the informal sector. TBC has been awarded \$2m at 2%, \$3m at 2% to be operated at TDB

13.ACRONYMS

AGO	Attorney General's Office	EMDEs	Emerging Market and Developing Economies
AIMS	Aid Information Management System	ERB	Employment Relations Bill
AML/CFT	Anti-Money Laundering/Counter Financing Terrorist	EXIM	Export Import Bank of China
APG	Asia Pacific Group on Money Laundering	e-waste	electronic Waste
CAPI	Computer Assistance Personal Interviewing	FAD	Fishing Aggregating Device
CDs	Communicable Diseases	FAO	Food and Agriculture Organization
CDCC	Cabinet Development Coordination Committee	FED	Foreign Exchange Dealers
CEO	Chief Executive Officer	FDI	Foreign Direct Investment
CITIES	Convention for International Trades of Endangered Species	FFA	Forum Fishing Agency
CMA	ICAO Continuous Monitoring Approach	FIU	Financial Intelligence Unit
CNY	Chinese Yuan	FSL	Food Security and Livelihood
COFOG	Classification of Function of Government	GCF	Green Climate Fund
CPIA	Country Policy and Institutional Assessment	GDL	Government Development Loan
CPR	Commission of Public Relations	GDP	Gross Domestic Product
CREC	Contingency Emergency Response Component	GFC	Global Financial Crisis
CRPD	Convention on the Right of Persons with Disability	GFS	Government Finance Statistics
CRSP	Climate Resilience Sector Projects	GGP	Grassroots Grant Project
CSOs	Civil Society Organisations	GNI	Gross National Income
CT	Consumption Taxes	GPA	Government Priority Agenda 2018-2021
DAC	Development Assistance Committee	HDI	Human Development Index
DOD	Disbursed Outstanding Debt	HIES	Household Income Expenditure Survey
DPs	Development Partners	HMAF	His Majesty's Armed Forces
DRM	Disaster Risk Management	IATA	International Air Traffic Association
DSA	Debt sustainability Analysis	ICAO	International Civil Aviation Organization
DSPD	Division of Social Protection and Disability	ICCPED	International Convention for the Protection of All Persons from Enforced Disappearance
DWCP	Decent Work Country Program	ICCR	Interfaith Centre on Corporate Responsibility
DWS	Disability Welfare Scheme	ICESCR	International Covenant on Economic, Social, & Cultural Right
EAP	East Asia and Pacific countries	ICT	Information and Communication Technology
ECE	Early Childhood Education	IDA	World Bank International Development Association
EDPF	Eastern District Packing Facility	IFAD	International Fund for Agriculture Development
EEZ	Exclusive Economic Zones	IHDI	Inequality adjusted HDI
IURSP	Integrated Urban Resilience Sector Project	IMF	International Monetary Fund
JNAP	Joint National Action Plan on climate change adaption and disaster risk management	NEER	Nominal Effective Exchange Rate
JPRM	Joint Policy Reform Matrix	NEMO	National Emergency Management Office
KPIs	Key Performance Indicators	NGOs	Non-Government Organizations
LA	Legislative Assembly	NIIP	National Infrastructure Investment Plan
M&E	Monitoring and Evaluation	NLF	National Labour Framework
MAFF	Ministry of Agriculture, Food and Forestry	NPL	Non-performing Loans
MDAs	Ministries, Departments and Agencies	NPV	Net Present Value
MDGs	Millennium Development Goals	NRBT	National Reserve Bank of Tonga
MEIDECC	Ministry of Meteorology, Environment, Information, Disaster Management, Energy, Climate Change and Communications	OECD	Organization for Economic Cooperation and Development
MET	Ministry of Education and Training	R&D	Research and Development
MIA	Ministry of Internal Affairs	SDGs	Sustainable Development Goals

MINOFA	Ministry of Foreign Affairs	SDR	Special Drawing Rights
MLNR	Ministry of Land and Natural Resources	SIDS	Small Island Developing States
MOF	Ministry of Finance	SMA	Special Management Areas
MoF	Ministry of Fisheries	SNA	System of National Accounts
MOH	Ministry of Health	SOP	Standard Operating Procedure
MOIT	Ministry of Infrastructure and Tourism	SWP	Seasonal Worker's program
MOJP	Ministry of Justice and Prisons	SWSE	Social Welfare Scheme for the Elderly
MORC	Ministry of Revenue and Customs	TAL	Tonga Airport Limited
MPE	Ministry of Public Enterprises	TAMA	Tonga Assets Management Authority
MPFS	Ministry of Police and Fire Services	TASP	Tonga Agriculture Sector Plan
MPS	Monetary Policy Statement	TBS	Tonga Bureau of Statistics
MTBF	Medium Term Budget Framework	TCC	Tonga Communication Corporation
MTED	Ministry of Trade and Economic Development	TC Gita	Tropical Cyclone Gita
MTOs	Money Transfer Operators	TCIRP	Tropical Cyclone Ian Recovery Projects
NBFIs	Non-Bank Financial Institutions	TDB	Tonga Development Bank
NCDs	Non-Communicable Diseases	THPF	Tonga Health Promotion Foundation
OET	Overseas Exchange Transaction	THSSP	Tonga Health Sector Support Program
OIREP	Outer Island renewable Energy Projects	TIOE	Tonga Institute of Education
OPSC	Office of Public Service Commission	TNYC	Tonga National Youth Congress
PACER	Public Access to Court Electronic Records	TPL	Tonga Power Limited
PAMD	Projects and Aid Management Division of the Ministry of Finance	TRIP	Tonga Rural Innovation Project
PAIP	Pacific Aviation Investment Project	TSCP	Transport Sector Consolidated Project
PAT	Port Authority Limited	TSDF	Tonga Strategic Development Framework (2011-2014=I= first;
PAYE	Pay As You Earn	TSDF II	2015-2025=II = second)
PCRAFI	Pacific Catastrophe Risk Assessment and Financing Initiative	TSGP	Tonga School Grant Program
PEs	Public Enterprises	TVET	Technical and Vocational, Education & Training
PHAMA	Pacific Horticultural and Agricultural Market Access	TVNUP	Tonga Village Network Upgrade Project
PFM	Public Financial Management	UNICEF	United Nations Children Education Fund
PMO	Prime Minister's Office	UN	United Nations
PMS	Performance Management System	USP	University of the South Pacific
PMU	Project Management Unit	UNFPA	United Nations Fund For Population Activities
PREP	Pacific Resilience Program	WB	The World Bank
PRRP	Pacific Risk Resilience Program	WCCC	Women and Children Crisis Center
PSC	Public Service Commission	WHO	World Health Organization
PSS	Pacific Island Small States		
REER	Real Effective Exchange Rate		
R2R	Ridge to Reef		
RSE	Recognized Seasonal Employers' Program		