

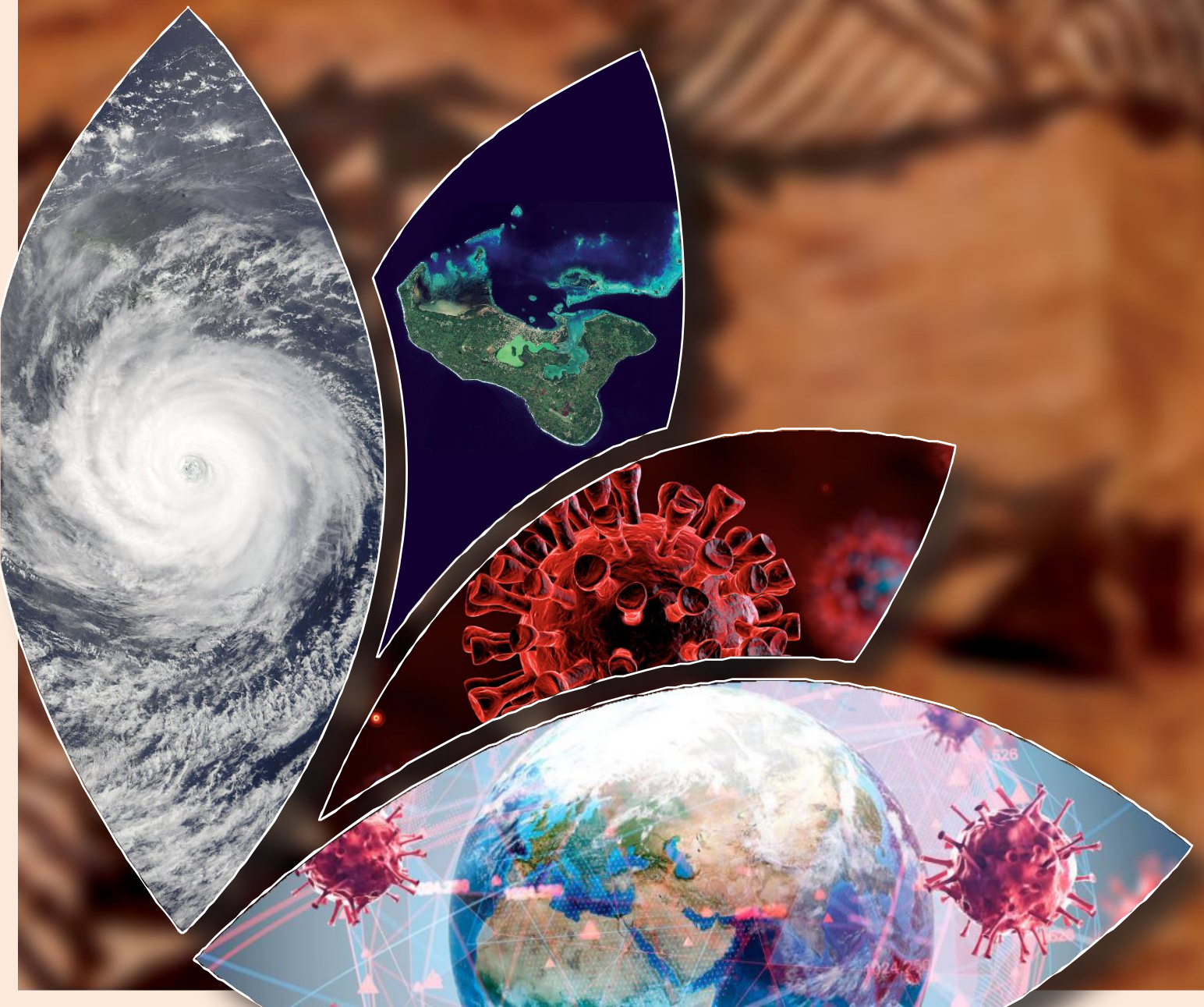


2020 - 2021

# BUDGET STATEMENT



**KO SIHOVA KO HOKU TALITAU'ANGA**  
**GOD IS MY REFUGE AND MY FORTRESS**



## Saame 91: Ko e 'Otua ko Hotau Malu'anga

- 1 Ko ia 'oku nofo 'i he toitoi'anga 'o 'Elioni, 'Oku mohe 'i he malumalu 'o Sātai—
- 2 Ko 'eku lau ē kia Sihova, Ko hoku hūfanga ia mo hoku talitau'anga: Ko hoku 'Otua falala'anga.
- 3 Tā ko e hele 'a e tulimanu te ne fakahaofi koe mei ai, Pea mei he mahaki faka'auha 'oku 'uakai mai.
- 4 Te ne 'ufi'ufi koe 'aki hono fulufulu, Pea te ke toi 'i hono lalo kapakau: Ko 'ene fai mo 'oni ko ho pā mo fakaū.
- 5 'E 'ikai te ke manavahē ki he nānunga 'o e pō, Pe ki he ngahau 'oku puna 'aho;
- 6 Ki he mahaki 'oku ha 'ele 'i he ta 'ehā, Ki he fakamate 'oku tu'usi ho 'atā.
- 7 'E tō 'i ho tafa'aki ha toko afe, Mo e toko 'i mano 'i ho to'omata'u ē; Kae 'ikai ofi kiate koe.
- 8 Ngata pē te ke sio 'aki ho mata, 'O vakai 'a e totongi 'a e kau angahala.
- 9 He ko koe, 'Eiki, hoku hūfanga— Tā kuo ke fili 'a 'Elioni ko ho nofo'anga;
- 10 'E 'ikai fepaki mo koe ha kovi, Pea 'e 'ikai ofi ha tā ki ho tēniti.
- 11 He te ne kouna 'ene kau 'āngelo telia koe, Ke tauhi koe 'i ho hala fua pē.
- 12 Te nau fataki nima koe, Na 'a pākia 'i he maka ho va 'e.
- 13 Ko e laione mo e ngata te ke mala ai; Ko e laione fita mo e tanini te ke molomoloki.
- 14 Ko e me'a 'i he 'ene tu'u kiate au 'ene 'ofa, Ko ia ai, te u fakahaofi ia: Te u 'ai ke ne mā'olunga Koe 'uhi ā kuo ne 'ilo hoku hingoa.
- 15 Te ne ui kiate au, pea te u tali; Te u 'iate ia 'i he mamahi: Te u hamusi ia mo fakalāngilangi 'i.
- 16 Te u 'ai 'a e mo 'ui fuoloa ke ne topono ai, Pea te u tuku ke ne māta 'i 'eku fakamo 'ui.

## Psalm 91: God our Protector

- 1 Whoever goes to the LORD for safety, whoever remains under the protection of the Almighty,
- 2 can say to him, "You are my defender and protector. You are my God; in you I trust."
- 3 He will keep you safe from all hidden dangers and from all deadly diseases.
- 4 He will cover you with his wings; you will be safe in his care; his faithfulness will protect and defend you.
- 5 You need not fear any dangers at night or sudden attacks during the day
- 6 or the plagues that strike in the dark or the evils that kill in daylight.
- 7 A thousand may fall dead beside you, 10,000 all-round you, but you will not be harmed.
- 8 You will look and see how the wicked are punished.
- 9 You have made the LORD your defender, the Most High your protector,
- 10 and so no disaster will strike you, no violence will come near your home.
- 11 God will put his angels in charge of you to protect you wherever you go.
- 12 They will hold you up with their hands to keep you from hurting your feet on the stones.
- 13 You will trample down lions and snakes, fierce lions and poisonous snakes.
- 14 God says, "I will save those who love me and will protect those who acknowledge me as LORD.
- 15 When they call to me, I will answer them; when they are in trouble, I will be with them. I will rescue them and honor them.
- 16 I will reward them with long life; I will save them."



**‘God is my Refuge and my Fortress’**

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**‘God is my Refuge and my Fortress’****1. FOREWORD**

The FY 2020/21 budget is guided by the theme: **‘God is my Refuge and my Fortress’**. The rationale behind the theme emphasizes the call for the nation that the hardship and challenges we face today, in particular the COVID-19 pandemic, our only hope and protection is the Almighty God. The Sovereign Lord is our protector and defender in times of trials and pestilence.

Government will review and refocus its priorities towards prevention and protection against the COVID-19 pandemic as the first and foremost priority given the significant impacts and consequence of the pandemic on countries in the region and in the global arena. To date, Tonga is one of the few countries that is still COVID-19 free.

The expected impacts of the virus should it reach Tonga is huge, considering our economies of scale, vulnerability, and limited capacity and resources. The experience thus far is severe and alarming, with most countries closing their borders with an increasing number of deaths. Key sectors of the economy are affected including tourism and the business sector. Many families experience hardships due to being laid-off from work and the expected impacts will be worsen if COVID-19 prolongs to the second half of the year and going forward.

Economic projection was further reduced from positive 2.8 percent to negative 2.9 percent in FY 2019/20 mainly because of Tropical Cyclone (TC) Harold and the on-going review of forecasts due to the uncertainty of COVID-19. This is compared to 0.6 percent recorded during the preparation of the Budget Statement. An average negative 0.2 percent is forecasted for the period (2019/20 to 2022/23). The huge loss of revenue streams will lead to a significant Budget deficit in FY 2020/21 with a preferred financing option from additional development grants. Government will continue to execute prudence in fiscal management and to prioritise activities over the medium term.

Government has approved an Economic and Social Stimulus Package to provide an immediate relief support, targeting individuals and affected groups. The support will focus on the following key areas:

- a) Investment in COVID-19 response and preparation to help get the virus under control;
- b) Manage economic loss through supporting affected key economic sectors and businesses;
- c) To maintain the operation of critical and essential services; and
- d) Build financial resilience and support of vulnerable groups.

Government will continue to address the Government Priority Agenda (GPA) as approved by the current regime with health as first priority in view of the COVID-19 pandemic. GPAs are: (i) Health; (ii) Illicit drugs and National Security; (iii) Education; (iv) Economic Development; (v) Infrastructure; (vi) Energy, Climate Change and Disaster Risk Reduction; and (vii) Public Sector Reform (including E-government).

We encourage strong coordination and collaboration across Government with all relevant key stakeholders which is paramount for the successful implementation of Government priorities. We also acknowledge the ongoing support by development partners especially during this challenging time.

I wish to conclude with the Psalm 91: *Whoever goes to the LORD for safety, whoever remains under the protection of the Almighty, can say to him, “You are my defender and protector. You are my God; in you I trust”. He will keep you safe from all hidden dangers and from all deadly diseases. A thousand may fall dead beside you, ten thousand all-around you, but you will not be harmed. “I will save those who love me and will protect those who acknowledge me as LORD”.*

**God Bless Tonga**




Hon. Tevita Lavemaau  
Minister for Finance

**‘God is my Refuge and my Fortress’****2. INTRODUCTION**

The Budget theme for FY 2020/21, **‘God is my Refuge and my Fortress’**, provides encouragement and support Government’s plans and initiatives to respond to the unprecedented challenge posed by the COVID-19 pandemic which is affecting Tonga and all other countries in the world.

The areas of focus for the 2020/21 budget is guided by the above theme and prioritizes ‘health’, given the need to combat COVID-19. Other priority areas will still need to be addressed. These include continued efforts to recover growth in the economic sectors including agriculture, fisheries and tourism given their major contribution to economic growth. Other priority areas include infrastructure development; combatting illicit drugs; education; affordable energy sources; reducing the impact of climate change and disaster risks as well as preserving the environment; and Government reforms including e-Government.

Ongoing partnership, strong coordination and collaboration is important across Government and key stakeholders, including the private sector, civil society organisations and development partners, to ensure effective and efficient implementation of Government priorities. This is critical in view of Government’s limited financial capacity.

The budget statement has seven sections as follows.

**Section 3** provides a broad summary of macroeconomic & social outcomes and outlook for Tonga. The GFS classification of the FY 2020/21 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 (2020-2023) outlining the seven strategic areas of focus and linkages to the Budget FY 2020/21.

**Section 5** discusses the FY 2020/21 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 8-11** provide the Appendices with relevant detailed information and supporting tables for the budget as follows:

Annex I: Macroeconomic & Social Outcomes and Outlook;

Annex II: Budget contribution to the Government Priority Agenda FY 2020/21;

Annex III: Development Aid Classification by Location;

Annex IV: Tropical Cyclones Gita and Tino Recovery Report; and

Annex V: Economic and Social Stimulus Package to combat COVID-19.

**Note:**

Differences in numbers could be due to rounding

**‘God is my Refuge and my Fortress’**

## **3. MACROECONOMIC, SOCIAL OUTCOMES AND OUTLOOK**

### **3.1 Global and Regional Highlights**

The International Monetary Fund (IMF) projected a negative growth for the global economy in 2020 following the Coronavirus pandemic, COVID-19. Due to its enormous implications, all economies in the world have further revised down their growth projections. The magnitude of the global downturn is still unknown due to the high degree of uncertainty of when this pandemic will come to an end. COVID-19 has generated shocks for both demand and supply across the global economy weighing down production and trade, foreign aid, remittances, tourism receipts, foreign investment and financial markets.

Following the World Health Organization’s (WHO) official declaration of COVID-19 as a pandemic, the IMF released its projection with a gloomy outlook compared to a modest global growth in 2020<sup>1</sup>.

The IMF projected adverse effects in Pacific Island Countries’ (PIC) economies, leading to a decline by an average of 1.7 percentage points or more, compared to pre-COVID-19 projections in January 2020. At the sectoral level, tourism and travel-related activities will be among the hardest hit industries. The magnitude of the impacts varies by country depending on respective response plans and status of resilience. As per the IMF projection, the most affected economies through tourism will experience the sharpest declines.

PICs that are projected at the growth range up 1 percent include the Marshall Islands, Kiribati and Tuvalu; growth rates between negative 1 to 2 percent include Vanuatu, Solomon Islands and Tonga; growth rates between negative 2 to 4 percent include Fiji, Samoa and PNG; and growth rates between negative 5 to 6 percent includes Palau. Tourist arrivals to the Pacific continue to be slower than expected from Australia as well as New Zealand due to COVID-19.

Other than climate change and natural disaster, the major risk to the Tongan economy and PICs is the unprecedented challenge brought by the COVID-19 pandemic, the increasing uncertainties in the global economy and spill-over effects onto Australia and New Zealand as Tonga’s two main trading partners.

### **3.2 Domestic Economy and Outlook**

While the domestic economy is gradually recuperating from the severe devastation of Tropical Cyclones (TC) GITA and Tino, Tonga has been hard hit by the negative impact of COVID-19 which has been exacerbated by TC Harold in April 2020.

Growth in the domestic economy reflected a slight improvement of 0.7 percent in FY 2018/19 compared to 0.3 percent recorded in FY 2017/18 mainly as a result of commencement of major construction related projects including TC Gita construction activities and recovery in other sectors. Consumer price fell in FY 2018/19 to 1.8 percent from 3.0 percent—on end period basis—in the previous financial year. Moreover, growth projections for FY 2019/20 and 2020/21 saw downward revisions mainly due to the impacts of COVID-19 and TC Harold.

The assumptions for the medium-term forecast is based on the following factors:

- Significant impacts of COVID-19 on the economy;
- COVID-19 impacts prolong to end of FY 2020/21;

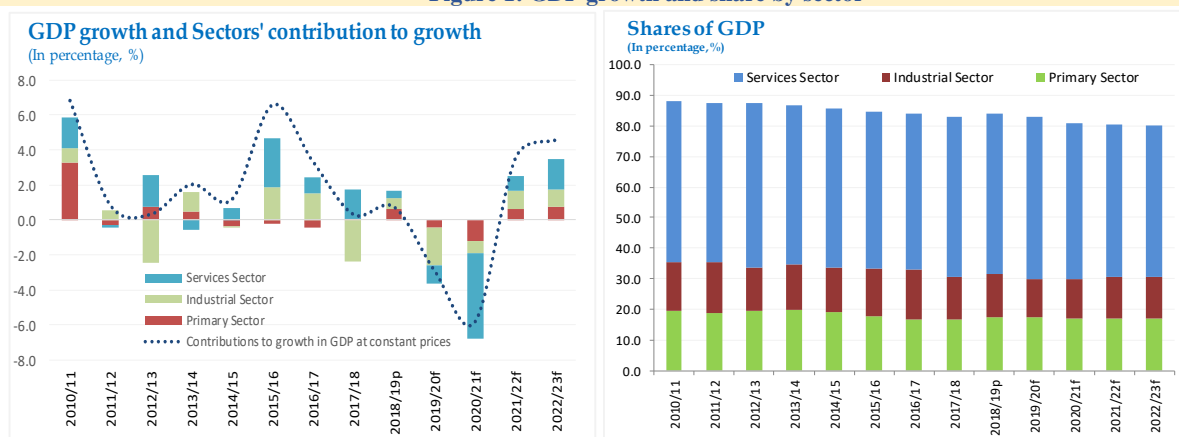
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<sup>1</sup> IMF World Economic Outlook, January 2020

### ‘God is my Refuge and my Fortress’

- Tonga is the second most vulnerable country in the world to natural disasters exacerbated by great exposure to climate change;
- The Tongan economy is dependent on external aid and remittances.
- A further review of the forecast was undertaken following Tropical Cyclone Harold to reflect the damages and losses on the economy as well as the uncertainty posed by COVID-19. Consequently, 2019/20 financial year was further revised down from 0.6 percent (the time when the Budget was submitted to Parliament) to negative 2.9 percent while FY 2020/21 is forecasted at negative 5.8 percent.

**Figure 1: GDP growth and share by sector**



*Sources: Tonga Statistics Department and MOF*

The economic outlook projects a fiscal deficit in FY 2019/20 and expects to worsen in FY 2020/21. This is mainly attributed to the negative impacts of COVID-19 which prompted the implementation of Government’s Economic and Social Stimulus Package (ESSP). There is expected significant loss in revenue streams in FY 2019/20 and FY 2020/21 with a further spike if Tonga faces a worst-case scenario with COVID-19. Government expenditure is prioritized through prudent measures to control spending and to focus on health priorities.

### Main drivers of growth<sup>2</sup> in FY 2019/20

This section briefly discusses the economic performance under the key sectors of the economy including the related impacts of COVID-19. The largest share of GDP is the Services (Tertiary) Sector<sup>3</sup> (52.7 percent), followed by Primary Sector<sup>4</sup> (17.4 percent) and Industrial (Secondary) Sector<sup>5</sup> (12.7 percent).

**Primary Sector** (17.4 percent of GDP): growth increased significantly from 0.4 percent in the previous year to 3.6 percent in FY 2018/19 due to improved performance in the Fisheries sub sector. Taking into account the expected impacts of COVID-19 and damages from TC Harold, an average negative growth of 0.3 percent is estimated for 2019/20 and outer years.

**Industrial (Secondary) Sector** (12.7 percent of GDP): growth is estimated to increase significantly from negative 14.4 percent in FY 2017/18 to 4.6 percent in FY 2018/19 prior falling to a negative

<sup>2</sup> Details on the domestic economy and economic growth are further discussed in *Annex I*

<sup>3</sup> *Services or Tertiary Sector* comprised of 14 subsectors including Wholesale and Retail Trade; Transport and Storage; Accommodation & food services activities; Information & Communication; Financial & Insurance activities; Ownership dwellings; Other real estate activities; Professional, scientific & technical activities; Administrative & support service activities; Public administration & defence; Education; Human health & social work activities; Arts, entertainment & recreation; and Other services activities subsectors.

<sup>4</sup> *Primary Sector* comprised of 2 subsectors: Agriculture & forestry sector and Fisheries subsector.

<sup>5</sup> *Industrial or Secondary Sector* comprised of 4 subsectors: Mining & Quarrying subsector; Manufacturing subsector; Electricity, water & waste subsector; and Construction subsector.



### ‘God is my Refuge and my Fortress’

growth of 1.4 percent on average, for FY 2019/20 and outer years. This sector is mainly driven by construction activities with negative impacts following TC Harold and expects to also impact by COVID-19.

**Services (Tertiary) Sector** (52.7 of GDP): growth was recorded at 3.3 percent in FY 2017/18 compared to an estimated growth of 0.8 percent in FY 2018/19 and an average negative growth of 2 percent is estimated for 2019/20 and outer years. The negative growth is primarily due to the overall impacts of COVID-19 pandemic and TC Harold on the tourism sector, trade, transport and communication sectors.

## Fiscal Policy and Measures

### 3.2.1 Fiscal policy/anchors and position

A deficit fiscal position is estimated by the end of FY 2019/20 against an initial estimated fiscal surplus of \$10.2 million (on GFS basis) mainly due to the impacts of COVID-19. As such, GDP growth is now revised down to negative 2.9 percent from the 2.8 percent forecast in January 2020. Domestic revenue is estimated to drop by \$57 million in FY 2019/20 due to the expected decline in revenue from taxation and non-tax revenue. The total wage bill is estimated at 61.3 percent for FY 2019/20 and 62.9 percent in FY 2020/21, exceeding the set target requires to maintain below 53 percent.

In order to maintain macroeconomic stability, Government will continue to prudently control the expenditure side, noting the challenge and degree of uncertainty on the revenue side due to the COVID-19 situation. The additional Budget Support of \$46.5 million from development partners will certainly help Government’s preparation for a COVID-19 worst case scenario, providing relief support to affected sectors including tourism and business sectors (that were also affected by TC Harold) as well as support to vulnerable groups such as elderlies, disability, women and children.

**Table 1: Fiscal Anchors and Position**

Fiscal Anchors	2018/19 Actual	2019/20 Estimate	2019/20 Estimate Outturn	Budget Estimate 2020 /21	2021/22 Projection	2022/23 Projection
Compensation of Employees (\$m)	134.5	162.2	152.4	166.6	167.2	166.9
<b>Wage Bill Fiscal Anchor &lt;53% of Domestic Revenue</b>	<b>49.3%</b>	<b>53.1%</b>	<b>61.3%</b>	<b>62.9%</b>	<b>57.0%</b>	<b>53.3%</b>
Total Domestic Revenue (\$m)	272.7	305.7	248.7	265.0	293.2	312.9
GDP nominal (\$m)	1,086.3	1,074.4	1,074.4	1,031.0	1,088.4	1,159.3
<b>Domestic revenue as % of GDP (&gt;22% of GDP)</b>	<b>25%</b>	<b>28%</b>	<b>23%</b>	<b>26%</b>	<b>27%</b>	<b>27%</b>

*Source: MOF*

### Expenditure Measures

The occurrence of the COVID-19 has impacted most countries worldwide including our region and Tonga. Government must therefore refocus its priorities towards ‘health’ to address necessary precautionary measures to protect our shores. This is considering our limited resources and capacity to deal with the virus should there be an outbreak. In addition, whilst the economy is still recovering from the impacts of TC Gita, TC Tino and TC Harold, Government must now gear direction towards preparing for the worse given the COVID-19 serious implications and experience worldwide.

Government will adopt the following measures:

- Identify and redirect of budget allocations in FY 2020/21 towards financing the Economic and Social Stimulus Package to support affected individuals/groups, businesses and sectors of the economy;
- Identify funding towards road development as the priority for Infrastructure development;

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- Enforce the implementation of control measures to maintain the total wage bill within the fiscal threshold:
  - Continuous monitoring of recruitment by pooling vacancies and consider only critical positions including consultancy recruitment funds from the recurrent budget and ensuring compliance with recruitment procedures;
- Enforce the existing mechanism in place towards controlling purchasing of new vehicles;
- To maintain the credibility of the budget, all financial matters to be referred to Ministry of Finance for funding confirmation (including Cabinet Submissions) to avoid the accumulation of unbudgeted items;
- Continue to explore an option to establish an insurance mechanism to reduce costs of overseas referrals;
- Review government’s current grant subsidies;
- The Voluntary Early Retirement Policy will have an impact on the wage bill if civil servants decide to take early retirement at 55 years old.

Government will continue to adhere to the 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 to be contained in line with realized revenue compared to planned budget and absorption capacity, hence, the need for proper monitoring of fiscal anchors and relevant fiscal policies.

### **Revenue Reforms**

Government will continue the effort to maintain fiscal sustainability through revenue collection despite the impact of COVID-19. On the revenue side, Government will consider on a case by case basis the application of tax relief to affected businesses due to COVID-19 in view of the shortfall in revenue collection. On the other hand, Government continues to provide exemptions to agriculture on chemical and fertilizers as well as for fisheries on fishing gears to support development in these sectors.

While there are current exemptions and tax deferrals due to the impacts of COVID-19, the following are proposed measures going forward to revive revenue collection and to meet revenue targets: -

- continuous improvement of administration, enforcement and compliance by MORC and to strengthen the existing mechanism to collect revenue arrears;
- continuous works assisted by the IMF to review current exemptions given it is a major revenue loss to Government; and
- relevant MDAs to carry out respective reviews of existing fees and charges.

### **3.2.2 Summary of Overall Budget in GFS Format**

From the Government Finance Statistics<sup>6</sup> (GFS) table, the total revenue estimated outturn for FY 2019/20 declines by \$143 million from the original estimate of \$578.2 million. This is attributed to the decline in taxation and other non-tax revenue by \$57 million due to the impact of COVID-19. Capital grants is also expected to drop by \$84.7 million from the original budget due to the expected delays in major construction activities and the restrictions in relation to COVID-19. The overall assistance from development partners is expected to also be affected considering that all donor countries are also experiencing the COVID-19 pandemic.

<sup>6</sup> GFS table presents the budget data by categorizing cash/in-kind inflow and outflow estimates in the Budget Estimates document in the economic classification according to the GFS manual.

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Total expenses are expected to drop by \$59.4 million from the original estimate of \$456.3 in FY 2019/20. The decrease in expenses reflect COVID-19 impacts on Government normal services to the public since the focus is now only on Government providing the essential services in relation to COVID-19. Net Capital investment is also estimated to drop by \$56.5 million since other major Capital investments will be put on hold given medical equipment and supplies are the essential expenses at this stage. The FY 2019/20 budget estimates a fiscal deficit of \$16.9 million.

The outlook for the next financial year, FY 2020/21, estimates a fiscal deficit of \$37.4 million. Government aims to maintain operation to the best extent with available resources. Revenue collection on the other hand is expected to pick up with a projected fiscal surplus in the outer years. *Annex I Section 8.2.1.1* for more details.

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

	2018/19 Actual	2019/20 Estimate	2019/20 Estimate Outturn	Budget Estimate 2020/21	2021/22 Projection	2022/23 Projection
<b>Revenue</b>	<b>485.2</b>	<b>578.2</b>	<b>435.2</b>	<b>512.9</b>	<b>502.8</b>	<b>556.5</b>
Tax and Non-tax Revenue	272.7	305.7	248.7	265.0	293.2	312.9
Grants	212.5	272.6	186.6	247.9	209.6	243.6
Current	34.9	38.5	37.2	38.5	38.5	38.5
Capital	177.6	234.1	149.4	209.4	171.1	205.1
<b>Expense</b>	<b>352.2</b>	<b>456.3</b>	<b>396.9</b>	<b>495.8</b>	<b>423.5</b>	<b>431.5</b>
Compensation of employees	134.5	162.2	152.4	166.6	167.2	166.9
Use of goods and services	151.0	228.1	188.9	261.4	189.6	197.2
Interest	8.0	7.9	7.9	8.8	8.6	8.3
Subsidies	0.9	0.9	0.9	0.9	0.9	0.9
Grants	2.9	4.3	4.4	4.3	4.3	4.3
Social benefits	25.3	26.8	22.1	28.0	27.8	28.8
Other expense	29.6	26.1	20.4	25.8	25.1	25.1
<b>Gross Operating Balance</b>	<b>132.9</b>	<b>121.9</b>	<b>38.3</b>	<b>17.1</b>	<b>79.3</b>	<b>125.0</b>
Net Acquisition Of Nonfinancial Assets	96.6	111.7	55.2	54.5	71.9	97.1
<b>Net Lending/Borrowing Requirement</b>	<b>36.3</b>	<b>10.2</b>	<b>-16.9</b>	<b>-37.4</b>	<b>7.4</b>	<b>27.9</b>
<b>Net Acquisition Of Financial Assets And Liabilities (Financing)</b>	<b>36.3</b>	<b>10.2</b>	<b>(16.9)</b>	<b>(37.4)</b>	<b>7.4</b>	<b>27.9</b>
<b>Financial Assets</b>	<b>22.9</b>	<b>20.8</b>	<b>(14.6)</b>	<b>(20.1)</b>	<b>5.7</b>	<b>25.9</b>
Domestic	22.9	20.8	(14.6)	(20.1)	(5.7)	(25.9)
Currency and deposits	15.8	21.1	(14.3)	(19.8)	(5.4)	(25.6)
Loans	7.1	(0.7)	(0.3)	(0.7)	(0.7)	(0.7)
Shares and other equity	-	0.4	-	0.4	0.4	0.4
<b>Financial Liabilities</b>	<b>13.4</b>	<b>(10.6)</b>	<b>(2.3)</b>	<b>(17.2)</b>	<b>1.7</b>	<b>2.0</b>
Domestic	0.0	0.9	13.5	20.9	20.9	20.9
Loans	15.2	19.9	32.5	35.9	31.8	30.9
Repayments	15.2	(19.0)	19.0	15.0	10.9	10.0
Foreign	(13.4)	(11.5)	(11.2)	(3.7)	(22.6)	(22.9)
Loans	-	-	-	19.0	-	-
Repayments	(13.4)	(11.5)	(11.2)	(22.7)	(22.6)	(22.9)

Source: MOF

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### **3.2.3 Debt Position**

*Tonga still remains highly vulnerable to external shocks* due to climatic conditions, natural disasters and the recent impacts of the COVID19 on the global economy. Consequentially, Tonga remains highly exposed to foreign currency risks. Further, *Tonga continues to linger on the high debt distress status*, hence any budget support from donors will be in the form of grant only.

*Tonga’s total public debt* as at 30 June 2020 is estimated at \$495.0 million or 46.1 percent of GDP, an increase of about 3 percent from 42.7 percent in June 2019. This is attributed to increase in external debt as a result of disbursements made on on-going projects with a loan portion as well as an increase in domestic debt from a new issuance of \$15.0 million Government Bonds during the FY 2019/20 Financial Year. The composition of total public debt is made up of external debt \$422.7 million (85 percent) and domestic debt \$72.3 (15 percent). *Annex I Section 8.2.1.2* for more details.

### **3.3 Monetary Policy Actions**

The Reserve Bank, in consultation with its Board of Directors, the Commercial Banks and the Non-Bank financial institutions, introduced additional measures in response to the COVID-19 pandemic to support Government as listed below:-

1. Provide liquidity support to the banking system when needed, which may require qualitative easing;
2. The banks are well capitalised to absorb risks but the Reserve Bank will monitor and may adjust further when required;
3. Ease the exchange control requirements;
4. Continue with the current practice on issuing Government Bonds;
5. Regular meetings with the commercial banks to ensure clear communication to enhance preparedness and best practices;
6. Continue to build public awareness and expectations through press releases on the policy responses and the financial system services;
7. Commercial banks are also prepared to assist their customers who are affected by the coronavirus on a case by case basis through the following measures:-
  - i. Reduce or suspend the principal loan repayments to interest only loan repayments;
  - ii. Restructure loans to businesses that have reduced business hours in affected sectors such as tourism and related industries like transportation;
  - iii. Restructure loans to individuals who have been laid off;
  - iv. Extend the term of the loans to reduce repayment;
  - v. Reduce loan interest rates on a case by case basis;
  - vi. Provide access to short-term funding if required.
8. The Reserve Bank also provided financial assistance to Government to facilitate its effort to implement an economic relief package to affected sectors of the economy;
9. Ensure both commercial banks and non-bank financial institutions are kept informed and they adhere to all Government declarations regarding the coronavirus pandemic by putting in safety and preventative measures in the work place as prescribed by the Ministry of Health, as well as ensure essential financial services are delivered to the public during the national state of emergency or national lock downs.

Furthermore, the National Reserve Bank of Tonga during the course of the fiscal year 2019/20 to March 2020, maintained its accommodative monetary policy stance to support economic growth while maintaining financial stability. (*Refer Annex I, section 8.2.2 for more details*)

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### 3.4 Social issues and challenges

This section covers the major social issues face by the country at present. These include the COVID-19 and its implications, illicit drugs, unemployment, education, vulnerable groups—the elderly and disabilities.

#### ***COVID-19 Pandemic***

COVID-19 threatens the health of individuals, families, communities, government and the economy as a whole—domestically and worldwide. This global threat dramatically impacts every system—the livelihood of many, causes disruption to school systems, churches, communities, work opportunities and much more.

In 1918, the Spanish flu pandemic affected the lives of many Tongans as well as other countries. Similarly, COVID-19 is affecting many countries of the world today but Tonga remains one of the few who are still COVID-19 free. Having said that, the whole country needs to be prepared for any worse case scenario. The current status of our health system is not sufficient and does not have the capacity to deal with an outbreak in a worse case scenario both in terms of physical facilities and human resources. Other frontline responders and key stakeholders are also facing limited capacity to deal with the pandemic.

In response, Government is taking the lead through a National Taskforce to implement a National Action Plan (NAP) to combat COVID-19. This is undertaken through the existing Cluster System<sup>7</sup> in implementing the Government’s Economic and Social Stimulus Package of \$60 million.

#### ***Vulnerable groups***

The most vulnerable groups include elderlies, disabilities, people with health conditions and households living below the poverty line (US\$1.90 per day). These are the disadvantage groups that face all forms of hardships in everyday living and needs to be assisted by Government.

#### ***Illicit drugs***

Illicit drugs still remain a major social issue in Tonga with an increasing rate of weekly seizures of drugs and distributors despite the national effort on the war against this major social issue. The challenge for the Ministry of Police and other key players is limited and stretched capacity to deal with both COVID-19 and illicit drugs. At the same time, there is no proper equipment for drug testing and also there is a need to strengthen the implementation of the relevant Policy and Action Plan.

#### ***Unemployment***

The unemployment rate is 16.4 percent<sup>8</sup> as of 2016, which is anticipated to rise due to COVID-19 with its impact on the private and business sector. Employees have been laid-off and future employment opportunities are also affected if COVID-19 prolongs into the future.

<sup>7</sup> Cluster System comprised of: (i) Economic and Social Recovery Cluster; (ii) Education cluster; (iii) Emergency Telecommunication; (iv) Essential Services; (v) Food Security and Livelihood; (vi) Health, Nutrition, Water Sanitation Hygiene (WASH); (vii) Logistic & Coordination; (viii) Safety and Protection cluster; and (ix) Shelter cluster

<sup>8</sup> Unemployment rate (16.4 percent) used in the Population Census 2016: This 16.4 percent was based on the revised definition that ‘people who did not work during the reference week but were available and willing to start work’. The unemployment rate would increase to 34.8 percent, if subsistence workers are included in the unemployed category. On the other hand, the unemployment rate would remain at 1.0 percent if the earlier definition [used in the 2011 Census] of the unemployed as ‘if a person, aged 15 and over, did not work during the reference week, but available and willing to work, and looking for work.’

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### ***Education***

The school system is disrupted by COVID-19 with an early and extended school holidays both in Tonga and also for our Tongan students studying abroad. If the situation worsens, there is a possibility that students will lose a whole academic year. Most of our tertiary students still remain in Fiji, New Zealand and Australia and Government provides them with financial assistance.

### **3.5 Risks**

There are major potential risks that stand to affect the Tongan economy over the medium term. These include the following:

#### *Economic risks:*

- The COVID-19 pandemic poses an unprecedented challenge and threat on economic growth and a potential negative impact on remittances, trade related activities and tourism;
- Negative impact on Government fiscal position which is reflected in the FY 2019/20 and FY 2020/21 budget deficits; and
- Potential drainage of government reserves.

#### *Natural disaster and climate change:*

- Tonga is the second most vulnerable country in the world to the impacts of natural disasters which is exacerbated by the effects of climate change posing an ongoing risk to growth and development efforts. This has been experienced recently through tropical cyclones Ian, Gita, Tino and more recently through TC Harold which caused major damages to key infrastructures such as tourist resorts, wharves and jetties, causeway and coastal roads. It is anticipated that natural disasters will be more frequent and intensifies further in the future.

#### *Financial risk:*

- Currently, the banking sector is well capitalised and the rate of non-performing loans (NPL) is low, however, a potential risk to the stability of the financial sector is acceleration of credit growth. It is anticipated that the financial sector will be greatly affected by COVID-19.

#### *Health risk:*

- Similarly, NCD remains a high risk. In view of the global health challenge facing the world today, those with conditions including NCDs are most vulnerable to COVID-19.

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## 4. GOVERNMENT PRIORITY AGENDA (GPA) 2020-2023

While the number of GPA remains the same, the COVID-19 pandemic is the first and foremost priority for Government to deal with under Health. Government is undertaking a National effort to combat COVID-19 from entering our shores and to avoid all measures leading to loss of lives.

As approved in the Budget Strategy FY 2020/21, the Government Priorities will be implemented through MDAs’ Corporate Plans with the allocated resource envelope both recurrent and development. The seven strategic priority areas for the Medium-Term, FY 2020/21 –2022/23 are:

### 1. Health (COVID-19; Non-Communicable Diseases: NCD; Universal Health Coverage: UHC)

Government is according the highest priority in its agenda to combatting of the COVID-19 pandemic through a whole of nation effort driven by a National Taskforce that is led at the ministerial level by the ministers responsible for Health, National Emergency and Education. The National Taskforce reports to His Majesty’s Cabinet.

A National Action Plan (NAP) for combatting COVID-19 has been established through the existing cluster system comprising of: (i) Economic and Social Recovery Cluster; (ii) Education cluster; (iii) Emergency Telecommunication; (iv) Essential Services; (v) Food Security and Livelihood; (vi) Health, Nutrition, Water Sanitation Hygiene (WASH); (vii) Logistic & Coordination; (viii) Safety and Protection; and (ix) Shelter cluster. Each cluster has established individual plans which inform the NAP.

Government has declared a Public Health Emergency followed by a National State of Emergency including a lockdown of the Fua’amotu airport to all international flights. An order has also been issued for a domestic lockdown of two (2) weeks with an aim to monitor passengers from overseas who were under quarantine for 14 days to ensure Tonga is COVID free.

Government has approved an Economic and Social Stimulus Package of \$60 million to fund the National Action Plan through financial allocations to each of the clusters.

- The major share is dedicated to *Health under the WASH cluster* with \$22.5 million to assist with preparedness and protection, medical supplies and the implementation of the COVID-19 pandemic plan.
- The *Economic and Social cluster* led by Ministry of Finance is allocated with \$22.4 million to assist the business sector, and to provide employment support and help with community livelihood.
- A total of \$3.8 million is allocated to the *Education cluster* for implementation of their cluster plan including assistance to our students overseas.
- The *Emergency and Telecommunication cluster* is allocated \$0.3 million for preparedness and response.
- Funds of \$1 million is to assist the *essential services* for border control and security.
- *Food security and livelihood* is allocated \$3.2 million for food, security, preservation and supplements.
- *Logistics and coordination* is allocated \$1.1 million to fund activities for first responders.
- For *Safety and Protection cluster*, a total of \$1.3 million is allocated to assist vulnerable groups, that is, a \$100 one-off payment and one-month advance for the elderly and disabilities as well as \$200 for each of 1000 households who are under the poverty line.
- The *Shelter cluster* is provided with a total allocation of \$4 million to assist with accommodation and facility upgrade for quarantine requirements.

The details are in *Annex V*.

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The package is funded from the Government’s recurrent budget and the National Emergency Fund (22 percent) while the major part is sourced from Development Partners (78 percent) which comprises of additional Budget Support and funds that are tagged to Ministry of Health as well as health supplies from both multilateral and bilateral partners. Assistance will be disbursed through existing Government system with prudent measures to ensure full accountability and transparency on how funds are spent and utilized.

Government will continue to prioritise other health priorities as listed below:

- ✓ Promoting healthy lifestyles and preventative measures to address Non-Communicable Disease (NCD);
- ✓ Increasing focus to improve universal health coverage and services including the effort to maintain 100 percent immunization as a preventative measure;
- ✓ Improving health infrastructure including the Vava’u hospital;
- ✓ Improving public service delivery with better health information systems in place through the E-Health Project;
- ✓ Design a health insurance scheme to minimize cost of referrals.

## 2. *Illicit Drugs and National Security*

Government needs to strengthen and enforce the implementation of the Tonga National Illicit Drugs Policy (TNIDP) with a focus on the following areas:

- (i) supply reduction of illicit drugs;
- (ii) demand reduction; and
- (iii) harm reduction.
- ✓ Support the oversight role of the Illicit Drugs Steering Committee;
- ✓ Support the existing programs under respective MDAs including:
  - Community prevention programs by Tonga Police;
  - Stronger awareness programs at all levels of Tonga’s society including schools, churches and communities;
  - National Security and Emergency Management and Border control;
  - Capacity building in relevant MDAs: MOP, MORC, MOH and Prisons; and
  - Support towards criminal returnees.
- ✓ Stronger collaboration with relevant regional and global organizations;
- ✓ Development of National Security Strategy.

## 3. *Quality Education*

Priority will be given by Government to implement the Education Cluster Plan as related to the impact of COVID-19 on the Education sector. This will include developing of a system for *e-learning* to allow distance education from home and elsewhere. Financial assistance is provided to Tongan students abroad to help them with accommodation and supplies during the COVID-19 pandemic period. The cluster lead (MET) will prioritize activities to be funded under their plan.

Government will also continue to ensure the achievement of the set development targets and objectives for the sector through:

- ✓ review of the whole educational system;
- ✓ review of school fees with a view to recover the costs of operation with a pilot in one of the Government’s schools;
- ✓ review of the Ministry of Education’s Strategic Plan and Curriculum;
- ✓ expedite the completion of the school reconstruction and repair program;



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- ✓ design of safer school project;
- ✓ Implement the technical and vocational policy framework recently approved by Cabinet;
- ✓ continue support towards early childhood education.

#### **4. Economic Development**

Government identifies Economic Development as one of its key focus areas of priority as it considers targeted activities and programs that work to improve the economic wellbeing and quality of life of all citizens. Priority is given through the Economic and Social Stimulus Package to assist the business sector that has been affected by COVID-19 through the Economic and Social Cluster Recovery Plan. This includes targeted assistance to businesses under the primary, secondary and tertiary sectors as well as employees’ support, particularly those who have been laid-off and have lost their income due to COVID-19. Assistance will also be provided to Women’s groups to support them with income generating activities.

Government will continue to support the following:

- ✓ **Investment in the development of Agriculture, Fisheries and Tourism:**
  - 🌾 **Agriculture:** There are ongoing programs and activities targeted to increase export products, improve the existing packing facilities and seedling productions. The new planned initiatives outlined in the Agriculture Sector Plan 2016-2020 include coconut replanting scheme, sandal wood regulation awareness, a forestry inventory survey and food laboratory analysis. The hard component involves a major priority on improving agricultural and community roads all over Tonga and outer islands.
  - 🐟 **Fisheries:** Ongoing activities include reviews of the existing policy and procedures and provision of extension services to the outer islands. The new initiatives outline in the Fisheries Sector Plan is mainly the phased implementation of the Tonga Fish Pathway Project which seeks to:
    - Expand the implementation of Special Management Area (SMAs);
    - Further development of Aquaculture- farming pearl, giant clams, sea cucumber, tilapia, mud crab, seaweed, prawns;
    - Develop the Management planning and policy- Tuna and Deepwater Snapper fisheries; and
    - Develop of new fisheries such as squid fishery and mini-longline.
  - 🏖️ **Tourism:** priority will be given to revive the Tourism sector through the Economic and Social Stimulus Package. This is given the significant impact that COVID-19 had on the sector due to the global lockdown of international travels which is expected to continue into the future until a vaccine is found. A total of \$21.4 million is allocated to assist businesses including the Tourism sector.
- ✓ **Developing a clear Investment Policy to facilitate development in the key economic sectors:** Government values the importance of establishing a coherent investment policy to promote foreign investment and private sector development thus contributing to growth. On that note, respective ministries are encouraged to carry out appropriate actions required to implement Government initiatives.

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- ✓ **Restructure of Government Development Loan (GDL) and Gita Loan Recovery Fund (GLRF) facilities:** The existing agreement on GDL between Government and Tonga Development Bank with a total of \$13.3 million has been in operation for six years and will expire in August 2020. Government aims to renew the agreement for another six years with a further top-up of \$5 million to continue assistance to the private sector, community groups and individuals with cheaper interest rates. A planned review of GDL will be conducted before the end of the existing agreement to determine whether the objectives that were set for GDL at the beginning were achieved. The review will inform the way forward for the renewal of the GDL for the next six years including the option for allocation by region (outer islands).

Government will also consider diverting the GLRF into a *Government grant scheme* to support economic development by providing quick and easy access funds for businesses and individuals. The scheme can be used as a start-up fund for small businesses, assist farmers and fishermen in exporting their produce and to support tourism development initiatives.

- ✓ **Review the structure of the Public Enterprises (PEs):** Government plans to review the structure of its Public Enterprises to ensure PEs meet Government objectives and profit making. The review anticipates to include the current shared PEs Board of Directors, Tonga Tourism Association (TTA) and the activation of the proposed Road Transport Authority. A Technical Assistance will be engaged to facilitate this proposal.
- ✓ **Review contracts/agreements:** Government to review its current agreements/contracts to ensure Government objectives are met through adherence and compliance to respective obligations and to avoid unnecessary costs to Government.
- ✓ **Creating job opportunities:** Strengthen support towards creating new opportunities through the skills and employment project (SET) pathway which supports vocational training in areas such as butchery, care givers, tourism, information technology that can lead to local and international markets. SET also provides support to the education of children from poor families as well as continued assistance towards employees under the labor schemes to Australia and New Zealand. The Tonga skills funded by DFAT focuses on building the informal sector and small medium enterprises to obtain the relevant skills that can generate income.

## **5. Infrastructure (with priority on road improvement)**

Government prioritises the development of critical infrastructure in view of its important contribution to economic growth and poverty alleviation. Adequate and quality infrastructure facilitates people’s access to basic resources and improve overall standards of living. Government will focus assistance and support on the following:

- ✓ **Review of the National Infrastructure Investment Plan (NIIP II), 2013-2023**  
NIIP was developed to guide all the infrastructure development initiatives in Tonga. As such, all infrastructure developments should reflect and link to the priorities listed in NIIP. Government will review NIIP II to reflect the current and future priorities for the next ten years.
- ✓ **Road maintenance and development - community access, agricultural & fisheries, tourism and coastal roads**  
Government has accorded priority to improving community and agricultural roads with an increased scope to expand access roads to fisheries, tourism and coastal roads. Good access roads will facilitate farmers transporting their produce to markets, and providing access to

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fishermen as well as access to tourist sites. Government will prioritize the implementation of this project in view of competing priorities and limited resources.

✓ ***Extension of Queen Salote Wharf***

The preparation of the extension of Queen Salote Wharf is currently underway and it is expected to be implemented in 2020 with funds from the Asian Development Bank. The preparation is done under the transport TA facility with the scope of services divide into 3 phases: (i) detailed engineering design; (ii) updating of due diligence reports; and (iii) procurement support. The project is to be implemented over a duration of 2-4 years.

✓ ***Construction of the Fanga’uta Bridge***

The project is to be funded by the Asian Development Bank with a total estimated cost of USD55 million. The new bridge is approximately 500-meter-long to be crossed over the Fanga’uta lagoon from Nuku’alofa to southern Tongatapu together with a 4.5 kilometers of approach roads. The project will provide: (i) shorter journeys for people living in the capital of Tonga and southern parts of Tongatapu; (ii) an evacuation route to higher areas in the event of a tsunami and extreme weather events; and (iii) facilitate long-term climate change-induced relocation of communities currently living in low-lying areas to higher grounds. The project is currently in the preparation stage and anticipate the actual implementation to occur in FY 2021/22 financial year.

✓ ***Establishment of Road Maintenance Fund***

With the prioritization of road development, it is essential to *establish a road maintenance fund*. This is to ensure that the infrastructure is well maintained and sustainable. Road maintenance will be a major responsibility under the proposed Land Transport Authority.

✓ ***Establishment of an Infrastructure Insurance Scheme***

This will be implemented in phases: i) approved Asset Management Policy Framework; ii) valuation of Government Assets; and iii) explore insurance options. Other avenues can be looked into such as establishing an *insurance scheme* to finance risks of Government infrastructure and assets and can start with Public Enterprises. Each MDA is also expected, as part of their annual report, to account for the valuation of all their assets and liabilities.

✓ ***Subsidies (Air, Sea Transports, electricity, exemptions)***

Government supports the development of the infrastructure sector through subsidies to support costs of air and sea transport to the outer islands.

- Government is currently subsidizing air transport through covering the costs for Y12 aircraft flights from *Vava’u to the Niuas*. Government is also subsidizing sea transport to the Niuas.
- An allocated fund in FY 2019/20 financial year was initiated to support costs of sea transport to the small and remote *islands of Ha’apai*.
- In *Tongatapu and the outer islands* except Niuas, Government is providing subsidies towards the electricity tariff and maintenance of streetlights.
- A new subsidy to facilitate the *‘Eua* sea transport to be included in FY 2020/21 Budget.

While existing subsidies are to continue in FY 2020/21, it is recommended that a review be undertaken of all Government subsidies to determine whether objectives and purposes still remain relevant and to determine the impacts of subsidies in contributing to overall development. The Taskforce Report on Real Tonga will also inform the way forward for the operation of MA60 and Y12 including the option for a second airline to operate the aircrafts.

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## **6. Energy, Climate Change and Disaster Risk Reduction**

Energy, climate change and our vulnerability and exposure to natural disasters remain a critical priority. In considering our region’s high degree of vulnerability to disaster and climate change, it is paramount to have all the necessary institutional and capacity set up in place aiming at building a resilient economy in preparation for natural disasters and climate change effects. Government will give priority to the following:

- ✓ Establish a Disaster Risk Financing Strategy in collaboration with the World Bank;
- ✓ Establish a new resilience capability within the Ministry of Finance as a new division called Resilience Development and Financing Division (RDFD) with a focus on overall coordination of Government’s resilience agenda and coordination of financing for Climate Change and Disaster Risk Reduction;
- ✓ Implement of the Housing Reconstruction Policy;
- ✓ Initiate and establish a National Public Housing Policy to cater for the less fortunate citizens;
- ✓ Complete the implementation of the individual housing and school reconstruction program;
- ✓ Initiate a ‘Safer School’ Program to be funded by development partners;
- ✓ Enforce compliance with the Building codes for all new construction to enhance resilience;
- ✓ Top-up of the National Emergency Fund;
- ✓ Establish Post Disaster Framework Contracts;
- ✓ Implement of renewable energy, climate change and disaster risk policies including the Climate Change Policy Assessment (CCPA) recently conducted by IMF and mainstreaming of Climate Change Resilience into the Joint National Action Plan (JNAP) and implementation;
- ✓ Government to contribute to the Climate Change Trust Fund (CCTF); and
- ✓ Implement of Energy Projects (TREP and other Renewable Energy projects).

## **7. Public Sector System Reform (including E-Government)**

With the objective to improve Government’s efficiency in executing services to the public, Government will consider changes to the *structure* and *processes* in Government MDAs with an aim for MDAs to undertake tasks in relevance to respective mandates. Government will give priority to the following:

- ✓ **Policy reforms:** implementing the Government reform program and initiatives through the **Joint Policy Reform Matrix (JPRM)**. JPRM focuses on three (3) thematic areas which trigger Budget Support:
  - Strengthening public sector systems and public finances;
  - Enhancing resilience to the effects of climate change and natural hazards;
  - Improving livelihoods, labor market regulations and digital development.
- ✓ **Implementing the Public Expenditure and Financial Accountability (PEFA) Assessment and design of a new PFM roadmap.** PEFA assessment measures the current performance of public financial management (PFM) systems using an objective, internationally-recognized standard. The recent Tonga PEFA assessment was carried out on 11-22 November 2019. While good ratings were received in many of the PEFA’s pillars, the assessment also reflected on key weaknesses in PFM where Government will consider and provide the necessary actions to address those gaps. PEFA assessment is to inform the new PFM roadmap which has expired in June 2018.

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- ✓ *Structural reforms:* Government will consider carrying out proposed restructure of MDAs to ensure better delivery of services. These proposed structural reforms include:
  - ***e-Government function*** to remain with the Ministry of Finance given its major role as a central agency particularly on the financial system and the link to all other MDAs. Ministry of Finance will take the lead with technical assistance provided through the Project Steering Committee (PSC) comprising of members from MEIDECC and other relevant stakeholders. The PSC needs to consider the implementation of the project as a subset of the Digital Strategy Framework that has been approved by Cabinet including redundancy options and the consideration of leases of Tonga’s optical satellite slots.
  
- ✓ Ministry of Finance is to take the lead in e-Financial System including conducting a review of the *Government’s Integrated Financial Management Information System* to improve its service delivery. The Sun System is over 20 years now and needs to be replaced though it was upgraded to the latest version in September 2018. The review should inform a decision for a new modern system that will better facilitate government’s financial matters in one system.
  - ***Economic Development*** is proposed to be consolidated within Ministry of Finance (MOF). The institutional movement is due to Ministry of Finance’s mandate in providing a central role to all Government’s ministries including both financing and policies for Economic Development. MOF conducts the review of the macroeconomic environment, as part of the Budget process, to guide and inform the Government’s Budget process and allocations to achieve Government’s priorities through economic development.

The function of Economic development is therefore recommended to be transferred from the Ministry of Trade and Economic Development to Ministry of Finance as Ministry of Finance and Economic Development.

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## 5. BUDGET ESTIMATE AT A GLANCE FY 2020/21

The total budget for FY 2020/21 is \$589.6 million of which \$380.05 million recurrent (64 percent) and \$209.55 million development (36 percent). Around 41 percent or \$85.77 million of the development budget is cash and 59 percent or \$123.78 million is in-kind. In comparison to FY 2019/20 the total budget was \$599.27 million comprising of \$363.41 million recurrent and \$235.86 million development.

**Table 3: Summary of Budget Estimates FY 2018/19 – 2019/20**

	2019/20 Budget Estimate	Revised 2019/20	2020/21 Budget Estimate
<b>Recurrent</b>	<b>363.41</b>	<b>339.29</b>	<b>380.05</b>
<b>Development</b>	<b>235.86</b>	<b>149.5</b>	<b>209.55</b>
Cash	131.41	45.7	85.77
In-kind	104.45	103.8	123.78
<b>Grand Total</b>	<b>599.27</b>	<b>488.79</b>	<b>589.6</b>

*Source: MOF*

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

### 5.1 Summary of Government Budget by Priority Areas

The table below illustrates the contribution of both the Recurrent Budget (\$380.05 million) and Development Budget (\$209.55 million) to each of the government priority areas, noting the following highlights:

- In terms of the recurrent budget alone, the allocations for majority of the priority areas show a slight decline from FY 2019/20 to 2020/21, due mainly to 5 percent of each ministry's operational budgets (totaling around \$10 million) being diverted into COVID-19 response activities. In other words, due to the COVID-19's negative impact on domestic revenue and therefore government's affordability level, this will mean each ministry is expected to live within the means available including reprioritizing and using their existing allocations more effectively and efficiently.
- A total of \$52.54 million from development partners is allocated for COVID-19 response.
- Despite that the largest share in both years remain as strengthening Public Sector System Reform, from the recurrent budget more than half or between \$80 million - \$90 million represent debt management and the government's general fund (GGF).

**‘God is my Refuge and my Fortress’****Table 4 : Summary of Government Budget by Priority Areas**

Government Priority Areas FY 2020/21 - 2022/23		Budget 2019/20			Budget 2020/21			Budget	Budget	Variance
		Recurrent	Dev	Total Budget	Recurrent	Dev	Total Budget	2019/20	2020/21	
								\$m	\$m	
Health (NCDs & CDs including COVID-19 and Universal Health Coverage, UHC)	<b>COVID-19 Response</b>				<b>15.23</b>	<b>52.54</b>	<b>67.77</b>	<b>0.0%</b>	<b>11.5%</b>	<b>11.5%</b>
	NCDs & CDs excluding COVID-19 and UHC	43.88	18.21	62.09	43.23	13.00	56.23	10.4%	9.5%	-0.8%
	<b>Total</b>	<b>43.88</b>	<b>18.21</b>	<b>62.09</b>	<b>58.46</b>	<b>65.54</b>	<b>124.00</b>	<b>10.4%</b>	<b>21.0%</b>	<b>10.7%</b>
Illicit Drugs and National Security		30.83	0.63	31.5	29.32	14.00	43.32	5.2%	7.3%	2.1%
Quality Education		56.32	19.58	75.90	55.60	19.00	74.60	12.7%	12.7%	0.0%
Economic Development		26.56	17.07	43.6	24.77	12.40	37.17	7.3%	6.3%	-1.0%
Infrastructure (with priority on road improvement)		28.22	73.36	101.58	31.68	22.30	53.98	17.0%	9.2%	-7.8%
Energy, Climate Change and Disaster Risk Reduction		1.24	44.02	45.26	2.58	54.85	57.43	7.6%	9.7%	2.2%
Public Sector System Reform (including e-Government)		176.36	62.99	239.35	177.64	21.46	199.10	39.9%	33.8%	-6.2%
<b>Grand Total</b>		<b>363.41</b>	<b>235.86</b>	<b>599.27</b>	<b>380.05</b>	<b>209.55</b>	<b>589.60</b>	<b>100%</b>	<b>100%</b>	<b>0.0%</b>

Source: MOF

*Note: The above table are crude estimates of allocations of budgets under each GPA. Allocations that do not fall under a GPA are under the Public Sector System Reform GPA.*

## 5.2 Detailed Budget Allocation by Priority Areas

The detailed budget allocation, FY 2020/21, for the priority areas is outlined in *Annex II* and also summarised as follows:

**Health (COVID-19; NCDs; and UHC):** Health remains the second largest share of the total budget (21 percent). The significant increase in the allocation for the next financial year reflects the commitment of both government and development partners to combat impacts of COVID-19 pandemic. Meanwhile, other health related projects to address NCDs and CDs are still ongoing.

**Illicit Drugs and National Security:** Government continues its efforts to fight against the use and distributing of drug through strengthening the Tonga Police Force, Prisons, MORC and HMAF. These relevant MDAs will also jointly work to develop and implement the National Security Strategy.

**Quality Education:** Education receives the third largest share of the recurrent budget, however, the amount is slightly reduced due to diversion of fund to support COVID-19.

**Economic & Social Development:** The allocation for this priority area is slightly declined both in recurrent and development budget. Despite the reduction, a total of \$0.5 million allocated for Community Development Project, administered by MTED aims to enhance economic activities. A new subsidy of \$0.35 million is also proposed for domestic sea transport for ‘Eua.

There is also an increase assistance towards the elderlies and disabled groups by \$1.2 million.

**Infrastructure—with priority on road improvement:** Infrastructure projects funded by development partners declined significantly due to the impact of COVID-19, however, the school

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reconstruction and transport activities are still ongoing. At the same time, government will continue to fund road improvements and other reconstruction projects.

***Energy, Climate change and Disaster Risk Reduction:*** A total of \$54.85 million from development budget is estimated to contribute to these sectors in 2020/21. This includes renewable energy coastal protection, adaptation and disaster risk reduction project.

***Public Sector System Reform (including E-Government):*** The decrease in the allocation for this priority area is mainly due to the development projects reallocation to National Security priority area. The e-government project of \$3 million is currently underway.



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## 6. GOVERNMENT BUDGET: FUNDING ALLOCATION

### 6.1 RECURRENT BUDGET

#### 6.1.1 Recurrent Budget

**Table 5: Recurrent Budget (\$m)**

	Actuals 2018/19	Original Estimates 2019/20	Revised Estimates 2019/20	Variance (original vs. revised)	Variance (revised vs actual)	Budget Projection 2020/21	Budget Projection 2021/22	Budget Projection 2022/23
<b>Receipts</b>	<b>323.5</b>	<b>363.4</b>	<b>318.8</b>	<b>(44.6)</b>	<b>(4.7)</b>	<b>359.4</b>	<b>344.5</b>	<b>363.3</b>
<b>Domestic Rec.</b>	<b>288.6</b>	<b>324.9</b>	<b>281.6</b>	<b>(43.3)</b>	<b>(7.0)</b>	<b>321.0</b>	<b>306.0</b>	<b>324.8</b>
Tax	233.4	249.0	212.4	(36.6)	(21.0)	230.9	250.6	266.7
Non-Tax	55.2	75.9	69.2	(6.7)	14.0	90.0	55.4	58.1
<b>Budget Support</b>	<b>34.9</b>	<b>38.5</b>	<b>37.2</b>	<b>(1.3)</b>	<b>2.3</b>	<b>38.5</b>	<b>38.5</b>	<b>38.5</b>
<b>Payments</b>	<b>306.6</b>	<b>363.4</b>	<b>339.3</b>	<b>24.1</b>	<b>32.7</b>	<b>380.0</b>	<b>357.5</b>	<b>356.1</b>
Salaries	138.0	166.7	153.9	12.8	15.9	166.6	166.9	166.9
Non-Salaries	168.6	196.7	185.4	11.3	16.8	213.5	190.5	189.1
<b>Overall Balance</b>	<b>16.8</b>	<b>0.0</b>	<b>(20.5)</b>			<b>(20.6)</b>	<b>(13.0)</b>	<b>7.2</b>

*Source: MOF*

#### FY 2019/20 Performance

- The Government had appropriated a balanced budget of \$363.4 million in FY 2019/20, of which up to March 2020, is estimated to result rather in a deficit of \$20.5 million by the end of the financial year. This deficit reflects the potential negative impact of COVID-19 on domestic receipts, particularly an under-collection of tax receipts by more than \$35 million. At the same time, the government aims to implement immediate fiscal responses to COVID-19 which were not budgeted for, while delivering essential government operations.
- The government’s major and immediate fiscal responses to COVID-19 in FY 2019/20 from the recurrent budget estimates include: a one-off increase in the allowance for the elderly and people with disabilities (\$100/head plus one-month advance payment), financial support for scholarship students abroad (\$200 for accompanied<sup>9</sup>, \$150 for unaccompanied) and \$400 for private students abroad, assistance to the business sector such as tourism, support for local agricultural and fisheries development, hospital preparedness, communications response and awareness programs. In addition, the government will also increase its Government Development Loans scheme (GDL) administered by the Tonga Development Bank (TDB) up by \$5 million, to assist affected sectors.
- In comparison to the previous year, the revised estimate for recurrent receipts in FY 2019/20 is estimated to be lower by around \$5 million, mainly as a result of the negative impact of COVID-19 on tax receipts despite being offset by one-off non tax receipts such as bond receipts. Furthermore, the level of tax receipts estimated in FY 2019/20 is \$15 million less than FY 2017/18 when TC Gita had occurred. Such indication may mean that the government’s local affordability is set more than two years back, although it could be a much worse situation based on the uncertainty, and the more prolonged and larger magnitude effect of the global pandemic.
- The revised estimates for payments in FY 2019/20 on the other hand, is expected to be \$32.7 million higher than the previous year, of which \$15.9m is salary related payments due to

<sup>9</sup> Accompanied by spouse/children

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increases in number of staff recruitment and their related operating expenses. Non-salary payments are also expected to be higher in FY 2019/20 with mainly those related to the government’s efforts in preparing for COVID-19 and road maintenance works.

- Prior to government’s COVID-19 measures, however, the recurrent budget was estimated to result in a \$1 million deficit based on assumptions such as, an under-collection in tax receipts due to the extension of TC-Gita related tax exemptions, offset by savings in salary related payments and from the deferral of some government activities.

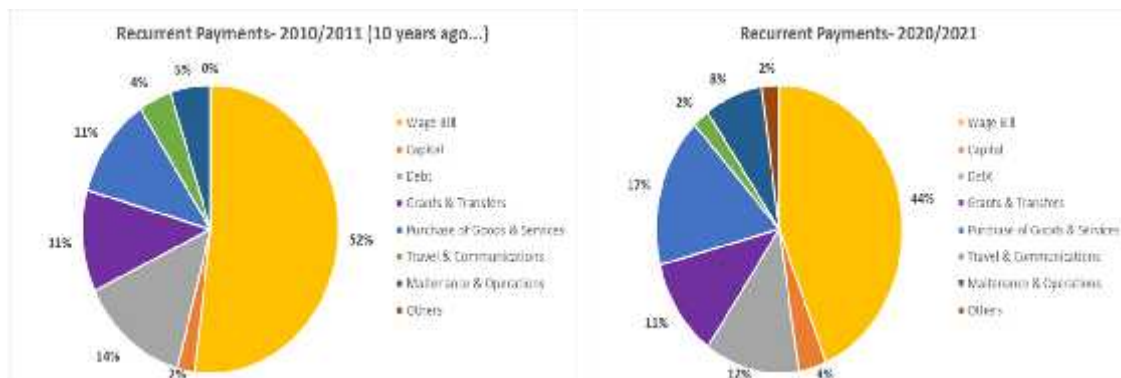
**FY 2020/21 – 2022/23 Projections**

- Despite the significant impact of the COVID-19 pandemic and its high degree of uncertainty on the medium-term budget, the government remains committed towards pursuing its key priorities including COVID-19 response measures in light of sustainable allocation and utilization of resources.
- As such, the above table shows that the FY 2020/21 budget estimates a total of \$359.4 million worth of recurrent receipts will be collected while aiming to spend \$380.0 million. This will result in a deficit budget of \$20.6 million on cash-basis. However, this balance includes a \$19.0 million proposed loan receipt from the IMF on a highly concessional basis and the issuance of \$20.0 million government bonds. Without these financing measures, the underlying budget deficit is \$59.6 million instead, triggered mainly by the ongoing negative impact of COVID-19.
- Additional new budget support from development partners is the preferred option for financing the 2020/21 budget deficit which government is working very hard in collaboration with development partners to make ends meet. While the budget estimate includes the option of a concessional loan from IMF and the issuance of a local bond, these are only approved instruments in our toolbox to be used only as a very last option especially if Tonga reaches an overwhelming situation with COVID-19. Government is strongly against drawing down its hard-earned cash reserves that it has built up over the years as well as worsening its debt dynamics by taking further loans.
- The key priority spending in 2020/21, additional to normal operations include: \$5 million for the Ministry of Health as the front-line agency in leading the implementation of COVID-19 responses, in addition to 5 percent within each ministry’s existing budget allocation (worth around \$10 million) to be assigned as a COVID-19 response activity, commence payment of the EXIM-loan principal amount, an increase on the social welfare scheme (elderly & disability) by \$1.2 million, and strengthening of constituencies administration in contribution towards keeping the country COVID-19 free, and \$5 million for the Tonga road project.
- Going forward, in line with the economic forecasts, the recurrent budget is expected to recover in the medium-term up on the assumptions of no confirmed cases of COVID-19 in the country, and that the necessary response measures and policies are well implemented to limit the pandemic’s potential economic and social damages.

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**6.1.2 Recurrent Expenditure by Category**

**Figure 2: Total Recurrent Budget (Expenditure, \$m) by Category**

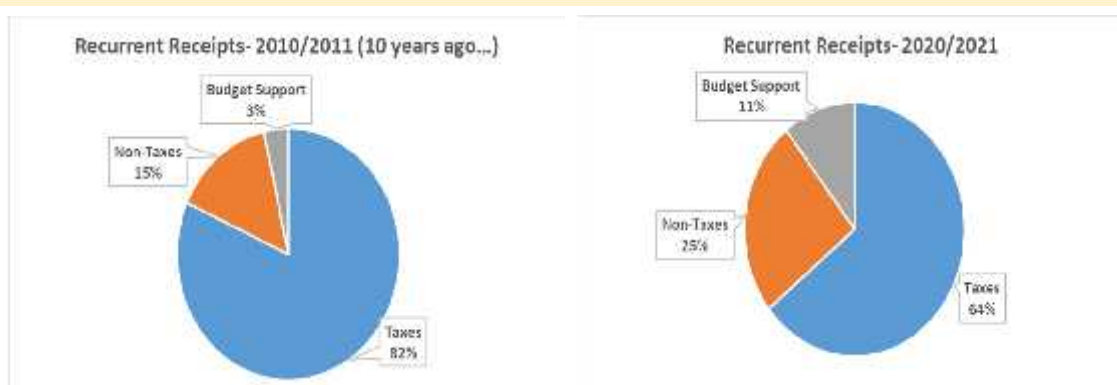


Source: MOF

- The two charts above show a comparison of how the government recurrent payment categories is projected in the next budget (FY 2020/21) and how it was a decade ago (FY 2010/11). It is apparent that the wage bill costs government the most, representing more than half (52 percent) of the recurrent budget in FY 2010/11, however with recent efforts to manage this cost more effectively and efficiently, it is projected that it will decline by 8 percentage points to only 44 percent of the budget in FY 2020/21.
- This downsize in the wage bill proportion, can allow more fiscal space for government operations in terms of implementing its key priorities, including COVID-19 which is the other notable feature in the above comparison. It features an increase in the share of Purchase of Goods & Services spending category from 11 percent in FY 2010/11 to 17 percent in FY 2020/21 or up by \$45 million, of which the majority or 33 percent of this increase reflects the COVID-19 directly related spending in this category alone.

**6.1.3 Recurrent Revenue by Category**

**Figure 3: Total Recurrent Budget (Revenue, \$m) by Category**



Source: MOF

- At the outset, the FY 2020/21 budget aims to receipt \$359.4 million, of which *Figure 3* shows by main categories of how it is compared to the same situation ten years ago- when it collected around less than half of this amount at only \$157.3 million. It shows that despite the higher level of collection estimated for FY 2020/21, the proportion of tax receipts is however declining

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from 82 percent in FY 2010/11 to 64 percent estimated in FY 2020/21 which is mainly attributed to COVID-19, while non-tax sources and budget support have increased by 10 percentage points and 8 percentage points respectively. The increase in the share of non-tax receipts over this period is due mainly to increases in government bond issues and loan receipts (IMF) which are key fiscal measures in financing the deficit budget in FY 2020/21.

- Furthermore, exactly 10 years ago in FY 2010/11 was when Tonga received its first budget support, responding to the then impacts of the global financial crisis. The figures show that this support has increased significantly since then from only 3 percent of total recurrent receipts to around 11 percent projected for FY 2020/21. This may indicate that the government has continued to rely on development partners in this regard. However, it can also mean a stronger partnership established over time and an increase in fiscal policies aimed to develop the local economy through tax reliefs for key economic sectors (agriculture, fisheries and tourism) while addressing national health issues by imposing higher excise taxes on unhealthy imported goods.

### 6.1.4 Recurrent Expenditure by location

Table 6 below illustrates the recurrent expenditure allocated by location across the island groups of Tonga. The size of the population and volume of economic activities had been considered in the allocation of fund. It is apparent that Tongatapu with the most population has the majority of the recurrent budget allocations- averaging at around 60% per annum. However, this share is anticipated to be lower than usual in FY 2020/21 due to the allocations for COVID-19 responses being allocated on a ‘nationwide’ basis. This reflects the effort of government to address the pandemic on a more holistic approach with the support of all relevant stakeholders.

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

Location	Actual 2018/19	Original Estimate 2019/20	Revised Estimate 2019/20	Budget Estimate 2020/21	Projection 2021/22	Projection 2022/23
Nationwide	87.98	101.03	90.15	112.93	93.41	92.31
Tongatapu	183.92	221.02	212.93	224.30	221.50	221.19
Vava'u	12.55	15.28	13.34	16.56	16.68	16.69
Ha'apai	7.16	8.92	7.24	8.94	8.92	8.92
'Eua	4.59	6.39	5.60	6.36	6.04	6.04
Niuatoputapu	1.63	2.00	1.72	2.06	2.03	2.03
Niuafu'ou	1.29	1.53	1.21	1.52	1.51	1.51
Overseas	7.52	7.24	7.09	7.37	7.37	7.37
<b>Grand Total</b>	<b>306.63</b>	<b>363.41</b>	<b>339.29</b>	<b>380.05</b>	<b>357.46</b>	<b>356.07</b>

*Source: MOF*

**‘God is my Refuge and my Fortress’****6.2 DEVELOPMENT BUDGET**

As shown in *Table 7* below, the total development budget for FY 2020/21 comes to 209.55 million. This contributes to 36 % of the total budget for FY 2020/21. The development estimates are further split into a cash balance of \$85.77 million and an in-kind contribution of \$123.78 million respectively.

**Table 7: Total Development Budget by type (\$m)**

Type of Funding	Provisional Actuals 2018/19	Budget 2019/20	Estimated Outturn 2019/20	Budget Estimate 2020/21	Projection 2021/22	Projection 2022/23
	\$m	\$m	\$m	\$m	\$m	\$m
Cash	38.33	131.41	45.70	85.77	35.87	31.53
Inkind	139.62	104.45	103.80	123.78	135.40	173.71
<b>Grand Total</b>	<b>177.96</b>	<b>235.86</b>	<b>149.50</b>	<b>209.55</b>	<b>171.27</b>	<b>205.24</b>

*Source: MOF***6.2.1 Aid Funded Project Expenditure by Ministry**

The total development budget for FY 2020/21 of \$209.55 million is allocated by Ministry as shown in *Table 8* below:

**Table 8: Total Development Budget (Aid Funded Project Expenditure) by MDA (\$m)**

Ministry	Provisional Actuals 2018/19	Budget 2019/20	Estimated Outturn 2019/20	Budget Estimate 2020/21	Projection 2021/22	Projection 2022/23
	\$m	\$m	\$m	\$m	\$m	\$m
Palace Office	-	-	0.01	-	-	-
Legislative Assembly	0.32	1.00	0.10	1.28	2.61	15.61
Tonga Office of the Auditor General	0.20	0.20	0.15	0.20	0.20	0.20
Ministry of Foreign Affairs	0.10	0.50	0.10	0.10	0.10	1.00
His Majesty's Armed Forces	5.95	16.90	12.00	12.13	12.13	11.13
Prime Minister's Office	0.05	0.16	0.01	-	-	-
Ministry of Finance	27.05	26.88	21.77	59.40	12.73	9.21
Ministry of Revenue & Customs	-	-	-	-	-	-
Ministry of Public Enterprise	-	14.00	-	-	-	-
Ministry of Trade and Economic Development	0.62	0.31	0.01	0.01	0.01	0.01
Ministry of Justice and Prison	0.96	1.05	2.89	3.97	3.45	2.45
Attorney General's Office	0.15	0.19	0.17	0.15	-	-
Ministry of Police & Fire Services	1.44	2.90	1.83	1.54	0.76	0.50
Ministry of Health	11.59	13.99	9.43	22.42	8.62	17.60
Ministry of Education & Training	14.76	13.57	8.82	16.53	28.48	24.14
Ministry of Internal Affairs	4.96	19.77	7.17	7.56	9.43	10.43
Ministry of Agriculture, Food & Forests	4.80	4.90	2.67	2.59	2.34	2.19
Ministry of Infrastructure	16.02	28.64	23.07	19.06	24.67	50.39
Ministry of Lands & Natural Resources	1.65	5.83	2.37	6.50	11.72	14.60
Public Service Commission	0.48	0.44	0.34	0.29	-	-
Statistics Department	0.31	-	0.09	1.11	1.01	1.00
Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Communications and Climate Change	84.79	76.85	54.03	49.36	47.51	42.15
Ministry of Fisheries	1.77	3.48	0.67	3.59	3.74	1.37
Ministry of Tourism	0.00	4.30	1.80	1.75	1.75	1.25
<b>Grand Total</b>	<b>177.96</b>	<b>235.86</b>	<b>149.50</b>	<b>209.55</b>	<b>171.27</b>	<b>205.24</b>

*Source: MOF*

**The Ministry of Finance has the largest portion which is 28 percent (\$59.4 million).** This mainly consists of the pooled funds of additional budget support (\$40 million) specifically to implement COVID related activities in the Economic and Social Stimulus Package, which will be monitored by the new Resilience Development and Financing Division (RDFD). The Central Service Unit (CSU)

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comprises of specialists in procurement, social safeguards, civil engineering, finance, project management and monitoring and evaluation which was funded by WB and DFAT. This is to provide capacity training on all established Project Management Units to help expedite the implementation of IDA 18 Projects. In addition, the TC Gita reconstruction project for building of new homes for 171 beneficiaries affected during Gita, is implemented by the Shelter Cluster. The European Union’s National Authority Office is currently implementing its 11<sup>th</sup> EDF operations.

**The Ministry of MEIDECC is second with 24 percent (\$49.36 million).** Major ongoing investments include renewable energy related projects such as the ADB Outer Island Renewable Energy Project, Green Climate Fund Tonga Renewable Energy Project (USD\$53.2million), Nuku’alofa Network upgrade that had commenced in FY 2019/20. Other major projects contribute to the adaptation to climate change impacts which includes the World Bank Pacific Resilience Program (\$28.8 million) that is financing the TC Gita school’s renovation, implementation of the GCF readiness for MOF accreditation and the completion of building the new Tonga Broadcasting Commission funded by Japan. In addition, are smaller projects funded by UNDP such as the coastal protection readiness and others.

**The Ministry of Health is third with 11 percent (\$22.42 million).** This comprises of \$12.5 million to support the Pandemic National Action Plan and strengthening the preparedness and response towards COVID-19. These are goods and services provided by the World Health Organization, WB, ADB, Government of Australia, NZ, Japan, and the People’s Republic of China. There are few existing projects funded by World Health Organization, together with the Tonga Health Support Project funded by the Government of Australia to combat Non-Communicable Disease (NCD’s). In addition, the ADB E-Health Project and the System Strengthening for Effective Coverage of new Vaccine in the Pacific had commenced this year, which will continue for the next 5 years.

**The Ministry of Infrastructure is the fourth with 9 percent (\$19.06 million).** Major projects that are currently underway includes the Pedestrian Pathway Project funded by the Dongguan City of China, WB Tonga Climate Resilience Transport Project (USD\$35 million) that consists of roads, aviation and maritime works inclusive of the outer islands. The Transport Project Development Facility (TPDF, USD\$5 million) is currently undertaking assessments of the Queen Salote Wharf Upgrade and the Fanga’uta Lagoon Bridge. In addition, there are Heavy Machinery Equipment expected to arrive in the next financial year from the People’s Republic of China to support the current Government’s Road Project. The Ministry of Infrastructure continues to lead the implementation of the Housing Reconstruction Project, for 171 beneficiaries post TC Gita funded by World Bank.

**The Ministry of Education and Training is the fifth at 8 percent (\$16.53 million)** which comprises of the WB Skills and Employment in Tonga that is currently underway, to provide a conditional cash transfer program for secondary school enrolment and attendances for the next 5 years. There is also a one-off hardship allowance provided to these beneficiaries during the COVID-19 immediate response period. In addition, is the Tonga Skills Development Programme funded by the Government of Australia focusing on capacity investments into the informal sector such as women’s groups, non-government organizations etc. The Government of Australia and NZ still continue to fund local and regional scholarships, while the People’s Republic of China have confirmed to fund the Tonga High School Sports Complex.

**‘God is my Refuge and my Fortress’****6.2.2 Development Expenditure by Location**

Table 9 shows the development budget expenditure by location throughout Tongatapu, Vava’u, Ha’apai, ‘Eua, the two Niuas and Nationwide.

**Table 9: Total Development Budget (Expenditure) by Location (\$m)**

Location	Provisional	Budget		Budget		Projection	Budget Estimate 2020/21
	Actuals	2019/20	Estimated	Estimate	Projection	2022/23	
	2018/19		Outturn	2020/21	2021/22		
	\$m	\$m	\$m	\$m	\$m	\$m	%
Nationwide	60.77	88.81	51.15	103.53	60.26	89.30	49.4%
Tongatapu	92.13	122.65	76.30	82.60	80.05	87.57	39.4%
Vava’u	6.05	7.23	8.21	8.93	9.59	15.58	4.3%
Ha’apai	9.59	5.32	3.34	6.64	7.77	6.26	3.2%
Eua	0.01	5.15	4.68	2.83	6.08	1.30	1.3%
Niuatoputapu	9.01	4.90	5.44	2.72	1.10	0.50	1.3%
Niuafu’ou	0.40	1.80	0.38	2.31	6.43	4.73	1.1%
<b>Grand Total</b>	<b>177.96</b>	<b>235.86</b>	<b>149.50</b>	<b>209.55</b>	<b>171.27</b>	<b>205.24</b>	<b>100%</b>

Source: MOF

**Nationwide** makes up 49.4 percent or \$103.53 million of the total development budget for FY 2020/21. This total has an approximate 51% increase due to the extra funds provided for COVID-19. These projects reflect the need to ensure there is more inclusiveness in development and growth which will have an impact on the whole nation.

**Tongatapu**

The total amount of projects is \$82.60 million or 39.4 percent of the total development budget for FY 2020/21. Both the economic investments of \$22.81 million and social infrastructure services of \$44.66 million make up the majority of the total projects.

- Major projects under economic and infrastructure services include: Energy related projects \$18.9 million and Transport and storage \$3.7 million.
- Social Infrastructure services include: Education related projects of \$15.8 million, Health \$10.12 million, Government Civil Society \$14.9 million and Communication \$2.1 million.

**Vava’u**

Projects that are scheduled to be implemented in Vava’u amount to \$8.93 million or 4.3 percent of the total development budget. Major projects include Outer Island Renewable energy \$3.3 million, Upgrading of Vava’u Emergency Centre and coastal protection \$2.01 million, Upgrading of Fangatongo Military camp \$1.8 million and renovation of Prince Wellington Ng Hospital in Vava’u (\$0.5 million)

**Ha’apai**

The allocation for Ha’apai is \$6.64 million or 3.0 percent of the total development budget. Renewable energy project amounted to \$3.5 million, while climate change project of \$1.5 million.

**‘Eua**

The allocation for ‘Eua is \$2.83 million or 1.3 percent of the total development budget. \$1.3 million is earmarked for Renewable Energy Projects while \$400,000 is reserved to address Water projects. International Fund for Agricultural Development (IFAD) assistance through Tonga Rural Innovation Project Phase 2 (TRIP 2) of \$500,000 for agricultural activities and the review of the community development plan.

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### Niuatoputapu and Niuafu’ou

The Niuas have a combined total of \$5.03 million which makes up 2.4 percent of the Development Budget. Major initiatives across both Island groups include the Outer Island Renewable Energy Project (OIREP) of \$1.5 million. TRIP 2 with a total of \$ 1.1 million, Tonga Renewable Energy Project \$980,000 million and lastly the Tonga Fish Pathways Project through the provisions of fishing boats and technical equipment of \$900,000.

## 6.2.3 Development Expenditure by Development Partners

### COVID-19 Assistance

Development Partners	T\$million
1 Asian Development Bank	22.90
2 World Bank	5.20
3 New Zealand	6.90
4 Australia	15.80
5 People's Republic of China	0.30
6 Japan	0.10
7 World Health Organisation	1.00
<b>TOTAL</b>	<b>52.20</b>

*Note : Development Partners fund estimates are expected to increase both in terms of budget support and in-kind for both FY2019/20 and FY2020/21*

The government is expected to receive approximately \$52.2 million from its development partners to assist in combatting COVID-19. Of this total, about 23 percent or \$12 million is in-kind assistance directly contributed to the Ministry of Health, \$4.8 million or 10 percent goes to NGOs, and the remaining \$35.4 million or 67% is cash assistance.

A total of \$22.9 million from the ADB which consists of the \$12 million from the Contingent Financing Facility, additional budget support of \$10 million and

\$900,000 from the Asian Pacific Disaster Response Fund facility.

A total of \$5.2 million has been made available from the World Bank through the Tonga Climate Resilience Transport Sector CERC component, and then is later reimbursed from its Immediate Support Facility for COVID19. The SET project also supports approximately 1000 families identified to face economic difficulties in paying school tuition.

The Government of New Zealand (MFAT) had provided a total response package of \$6.9 million which includes additional budget support of \$5.5 million and \$1.3 million for the implementation of the MOH Pandemic Plan. There was also an immediate response fund made available of \$142,000 earmarked for public health promotion.

The Government of Australia (DFAT) has agreed to provide a total support package of \$15.8 million. Approximately \$10.7 million is for government to administer to areas such as businesses and vulnerable groups affected by COVID-19 while the remaining \$4.8 million will be aid support to local NGOs.

The Government of Japan has confirmed the provision of 3 Body Temperature screening cameras worth \$117,000. Personal Protective Equipment is also expected to be received from the People’s Republic of China valued at \$300,000. The World Health Organization is also supporting Technical Support and Protective equipment and its immediate response package against the spread of COVID-19.

Development partners continue to play a critical role in the growth of the country as outlined in *Table 10* below.



**‘God is my Refuge and my Fortress’****Table 10: Total Development Budget (Expenditure) by Development Partners (\$m)**

Development Partners	Provisional Actuals 2018/19	Budget 2019/20	Estimated Outturn 2019/20	Budget Estimate 2020/21	Projection 2021/22	Projection 2022/23	Revised Estimates 2019/20
	\$m	\$m	\$m	\$m	\$m	\$m	Peseti
Asian Development Bank (ADB)	37.46	42.29	15.68	47.96	30.95	42.43	22.9%
World Bank/International Development Agency (IDA)	42.22	67.41	24.56	33.30	32.97	34.68	15.9%
Green Climate Fund	0.31	5.33	0.28	6.21	14.54	14.50	3.0%
Government of Australia	19.42	27.81	22.03	40.83	23.71	35.41	19.0%
Government of New Zealand	21.12	14.72	21.70	25.44	15.02	12.89	12.1%
Pooled Funds - Australia & NZ	3.16	3.40	1.58	-	-	-	0.5%
Government of Japan	15.71	22.25	22.20	2.10	2.90	12.20	1.0%
People's Republic of China	14.92	18.20	18.20	21.94	31.15	34.65	10.5%
United Nations Agencies	9.13	12.46	9.71	14.50	12.71	12.72	6.9%
European Union	0.59	7.98	6.69	0.59	0.48	0.00	0.3%
CROP Agencies	6.24	0.67	1.01	2.05	1.90	1.82	1.0%
Other Donors	7.67	13.35	5.86	14.64	4.95	3.96	7.0%
<b>Grand Total</b>	<b>177.96</b>	<b>235.86</b>	<b>149.50</b>	<b>209.55</b>	<b>171.27</b>	<b>205.24</b>	<b>100.0%</b>

Source: MOF

**World Bank**

Programs and Projects currently funded under **World Bank IDA18 funding cycle totalling to US\$67.8 million** comprising of the following:

- 1. Tonga Climate Resilient Transport Project (USD\$27.8 million).** This project is aimed at improving resilience in the transport sector which includes road, maritime, aviation as well as provide immediate response in the event of an Eligible Crisis or Emergency. Roadwork design has commenced for Tongatapu, ‘Eua, and Vava’u and resurfacing of Ha’apai Airport runway and upgrading of both the Niua and ‘Eua port will commence this financial year. A total of \$4.2 million pa’anga is expected to be expended this financial year.
- 2. Pathway to Sustainable Oceans Project (USD\$5 million).** While the project assists in strengthening the Ministry of Fisheries’ Compliance Capacities, it will also help in monitoring, controlling and surveillance of Tonga’s Exclusive Economic Zone. The project will also provide fisheries equipment, boats, and drones to assist with inshore fisheries compliance activities such as monitoring of Special Management Areas. At the same time, there will be the development of the Fisheries Management Plan, Tuna and Snapper marketing strategies and also the Competent Authority Development Plan. It is anticipated that a total of \$2.2 million pa’anga will be spent in FY 2020/21.
- 3. Tonga Digital Government Support Project (USD\$4.75 million).** The project is currently underway and expected to improve Tonga’s capacity for digital public service delivery.
- 4. Skills and Employment for Tongans Project (USD\$15.0 million).** The project aims to support Tongans through a cash transfer program to address selected households that are facing financial constraints in accessing and keeping children in secondary schools. The PMU is already in place and expected to use \$2 million pa’anga in implementation. Vocational and technical training courses will be addressed to ensure students have the necessary skills to make them more employable in Tonga as well as overseas countries.
- 5. Pacific Resilience Program (USD\$33.89 million).** It is expected that a total of \$8.5 million will be utilized during this financial year to continue the reconstruction of schools as well as repair works. The Emergency Operation Centre for Ha’apai, ‘Eua, and Vava’u has been completed while the Meteorology and NEMO headquarter is yet to commence.

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6. The World Bank has recently approved the **‘Statistical Innovations and Capacity Building Project (USD\$2.5 million)’** for Tonga Statistics Department. The project aims at improving the quality and efficiency of welfare data collection, and accessibility to comparable welfare data in Tonga.
7. The World Bank **budget support (USD\$5.5 million)** for FY 2019/20 has been negotiated and is expected to be received before the end of June 2020. A similar amount is expected to be received in the next fiscal year.
8. **Tonga Aviation Investment Project** had been completed in January 2020 followed by the commissioning of the new Airport Traffic Control Tower in March 2020 by His Majesty King Tupou VI.

Government’s priority for IDA19 (FY 2020/21 – 2022/23) of \$68 million has been confirmed to be in the transport sector with a focus on agricultural and community roads, jetties and wharfs; building further the resilience of safer education schools; and for Tonga to have access to the contingent financing facility known as the Catastrophe Deferred Drawdown Operation (CATDDO). This facility provides immediate liquidity to countries to address shocks related to natural disasters and/or health-related events.

**Asian Development Bank**

ADB supports Government’s five key priority sectors including (i) transport infrastructure; (ii) energy, climate change and disaster risk reduction; (iii) economic development; (iv) public sector reform; and (v) health.

ADB’s active portfolio in Tonga for FY2020 and FY2021 consists of 10 investments with a total of USD\$161.9 million. Ongoing active projects are as follows:

- i. Nuku’alofa Urban Development Sector Project (USD\$14.59 million);
- ii. Integrated Urban Resilience Project (USD\$18.3 million);
- iii. Outer Islands Renewable Energy Project (\$27.72 million);
- iv. Tonga Renewable Energy Project (USD\$53.2 million);
- v. Climate Resilience Sector Project (USD\$23.13 million);
- vi. Pacific Regional Disaster Resilience Program (USD\$6.0 million);
- vii. Cyclone Gita Nukualofa Network Upgrade Project (USD\$9.4 million);
- viii. System Strengthening of Effective Vaccine Project (USD\$4.55 million);
- ix. E-Government through Digital Health (USD\$7.5m); and
- x. Budget Support for Building Macro Resilience (USD\$5 million).

ADB also approved USD\$ 5 million for a Project Readiness Facility (PRF) in 2019 to prepare two high impact transport sector projects, namely:

- The upgrade of the Queen Salote Wharf (USD\$45 million) to be implemented in FY 2021; and
- The Fanga’uta Bridge Project (USD\$55 million) to be implemented in FY 2021.

As part of TREP, ADB working with Tonga Power Limited supported government to mobilize two private sector investors into Tonga valued at over TOP\$ 40 million during FY2020 and FY2021. ADB provides concessional funding for the investors through independent power purchasing agreement with TPL including a 6MW solar with Synergise with site works underway in March 2020. The second project for private financing is the 4.5MW wind that TPL has selected the preferred supplier and entered

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into an agreement to reach an acceptable tariff exclusivity by mid-April 2020. The contractors have approached ADB for concessional funding from its lending facilities.

ADB also leverage from its regional technical assistance to support local components for Tonga.

ADB has established its new Pacific Country Office in Tonga<sup>10</sup> following its pilot as an extended mission since 2016. The new office helps to support the increasing operation of ADB in Tonga, and acts as the ADB field representative to be more proactive with government in its programming. This also includes policy dialogue, aid coordination, disaster response and country reporting.

### **Government of Australia**

The **Government of Australia’s** (DFAT) new Aid Investment Plan (AIP) for the next four years is currently being designed, and will have similar thematic areas as of the current investment plan. These thematic areas are to:

- (i) support economic, governance and private sector development reforms;
- (ii) promote a more effective, efficient and equitable health system;
- (iii) improve economic opportunities for Tongan workers through investments in skills development; and
- (iv) cross-cutting issues (gender, climate change, elderly and disability).

Major projects currently active are the Tonga Health Sector Support Program Phase 2 (THSSP 2) (\$10 million) which aims to support the Ministry of Health to fight the spread and impacts of Non-communicable diseases. Government of Australia has further supported the Government priorities through co-financing with ADB of the Outer Island Renewable Energy Project (OIREP) and further with the Green Climate Fund on the Tonga Renewable Energy Project, in order to reduce the use of fossil fuels in the Kingdom. DFAT has also co-financed with World Bank the Skilled Employment of Tonga (SET) Project. Other ongoing projects includes the Tonga Skills program, and the support to the Women Affairs Division under the Ministry of Internal Affairs. Australia also contributes to financing the Central Services Unit (CSU).

A Public Finance Management team is also scheduled to be established in the Ministry of Finance to assist with the review and implementation of the Public Finance Management Roadmap.

### **Government of New Zealand**

**Government of New Zealand** (MFAT) provides assistance through their Joint Country Program which is still under review. There are indications that they will focus on the following areas:

- (i) energy;
- (ii) economic development;
- (iii) education/skills development; and
- (iv) law and justice.

There are on-going projects including the Tonga Justice Support Sector Project that aims to improve the Tongan community’s access to a fair and effective justice system and to further create a more inclusive, sustainable and responsive governance system. There is also support for a law specialist, and overseas medical treatment scheme. The Tonga Education Support Activity seeks to raise the professional capability of teachers and principals through strengthening core professional development. There is also the investment into the Nuku’alofa Network Upgrade Project (NNUP) with the aim to reduce line loss and to increase access to safe and reliable electricity.

<sup>10</sup> This office was opened by the Hon. PM Pohiva Tu’i’onea in December 2019.

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### European Union

The **European Union** (EU) 11<sup>th</sup> European Development Fund (EDF, €1.1 million) is for the period 2014-2020, 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). For the FY 2020/21, six (6) successful Civil Society Organisations (CSOs) will be implementing projects as follows:

1. **Live and Learn:** The project aims primarily at capacity building and strengthening the youth sector, regarding the impact of climate change;
2. **Growers Federation:** The project aims at strengthening growers/farmers in their capacity to engage government competently and constructively, especially with regards to policy dialogue and national planning. Action also includes the distribution and training of Good Agricultural Practices (GAP) to growers/farmers;
3. **Tonga Health:** The project aims to focus on promoting physical exercises through zumba classes in selected high schools in Tongatapu, and in outer islands. It is also to promote a healthy eating campaign across Tonga;
4. **Tonga Trust:** The project aims to focus on public awareness in the island of Vava’u with regards to renewable energy and energy efficiency (EE). This will include identifying sources of EE that are most viable for the community to use, household energy consumption plan, tree planting and so forth. The actions have been conducted in Tongatapu and Ha’apai in past programs and now the same approach is extended to Vava’u;
5. **Civil Society Forum of Tonga:** The project aims to focus on strengthening the capacity building of CSOs and CBOs here in Tonga to engage competently and constructively with government on policy dialogue and national planning.

An integral activity related to CEDAW had also commenced for consultation and public awareness of what CEDAW is and to ensure that Tonga’s beliefs, values and priorities are still strongly upheld at all times during this process. The Ma’a Fafine mo e Famili will implement this project.

### Peoples Republic of China

The **People’s Republic of China** (PRC) provides technical corporation across various sectors. The most recent grant signed was for RMB 70 million in Apia, Samoa. These investments are in various areas of education, infrastructure, transport, health and agriculture. There are currently ongoing projects such as the Agricultural Technical Cooperation Phase V (RMB 27 million), and the exchange of medical experts and sport trainers to China and vice-versa. The Dongguan City in Guangdong Province, China continues to provide goods such as tractors and water tanks to the Ha’apai Group. The implementation of the pedestrian sidewalks in the Nuku’alofa area is currently ongoing. The Tonga High School Sports complex designs and maps had been submitted to the Chinese Embassy in December 2019 and are currently being processed for biddings. The proposed Heavy Machineries for Road Maintenance are expected to be delivered in the next financial year provided international borders are opened.

### Government of Japan

**Japan’s** Economic Cooperation with Tonga focuses on five main areas:

- (i) *General Grant Aid*, which aims at building hospitals, vocational school facilities, roads, bridges and any related equipment. The current project under this scheme is the Nation-Wide Early Warning System (NEWS) whose completion will be delayed to the end of this year due to COVID-19. JICA’s Data Collection Survey for the Fua’amotu airport is suspended due to COVID-19, yet tele-communication among concerning parties is ongoing.

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- (ii) *Grant Assistance for Grass Roots Human Security Projects (GGP)* which provides financial assistance to NGOs, hospitals, and primary schools to help implement development projects that have direct impact on the well-being of grass root communities.
- (iii) *Non- Project Grant Aid (NPGA)* is a grant aid intended to provide rapid support to developing countries with economic difficulties. The scale of the grant will be determined in consideration of bilateral relations with Japan, and the economic conditions of the country including current account balance, the amount of public external debt, and GNI per capital. This scheme is dedicated to provision of equipment. Preparations for provision of medical equipment for anti-COVID-19 measures are ongoing.
- (iv) *Technical Cooperation* is a program that provides various volunteers with skills to assist in areas such as health and education.

### **United Nations**

The **United Nations** (UN) organized its program support to Tonga through the UN Development Assistance Framework 2018-2022 of \$104.4 million. 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.

### **Green Climate Fund**

While accreditation is underway for the **GCF facility**, ADB and UNDP (accredited entities) have assisted Government with its project proposals for Green Climate fund (GCF) on adaption and mitigation projects. These projects were identified from the Joint National Adaptation Plan (JNAP II). The Tonga Climate Change Trust Fund (CCTF) funded by ADB has also been supported with further financing of USD700,000 from the Irish Trust Fund administered by ADB.

The **CROP Agencies** assistance in the region has been ongoing with technical support services towards climate resilience adaptation and mitigation such as SPREP and SPC. At the same time PRIF will review the National Investment Infrastructure Plan (NIIP) in order to link large projects to Government priorities.

**Other Donor Funds** includes the Korean and India grants that the Government receives on an annual basis. Government priorities of water tanks has been submitted to accommodate for the increasing demand of water storage capacity requested by communities.

**‘God is my Refuge and my Fortress’****7. CONCLUSION**

**‘God is my Refuge and my Fortress’** is the theme for the FY 2020/21 budget which has been selected given the great challenge that we are facing with the COVID19 pandemic. There is a need for all Tongans and human kind to realize that only the Sovereign Lord will protect us, defend us and provide the solution for the world today and in the future.

Government’s Deficit Budget for FY 2020/21 will prioritise nondebt financing measures, that is, additional development grants as the preferred option with priority spending on health to combat COVID-19. Government’s normal operations are to be sustained through addressing of other government’s priorities.

Government—through working in collaboration—with all stakeholders will ensure the safety and good health of all Tongans. Given the current economic and financial situation, there is strong commitment to provide essential support to affected individuals, businesses and vulnerable groups.

MDAs are encouraged to prioritize their respective corporate plans under each priority area that is relevant to them within their respective funding envelopes and to deliver nothing but the best service to the people of Tonga and beyond.

Through God as our heritage, our nation will be safe in His mighty hands.

**‘God is my Refuge and my Fortress’**

## **ANNEXES**

**‘God is my Refuge and my Fortress’**

## 8. ANNEX I: MACROECONOMIC AND SOCIAL OUTCOMES AND OUTLOOK

### 8.1 Regional Highlight

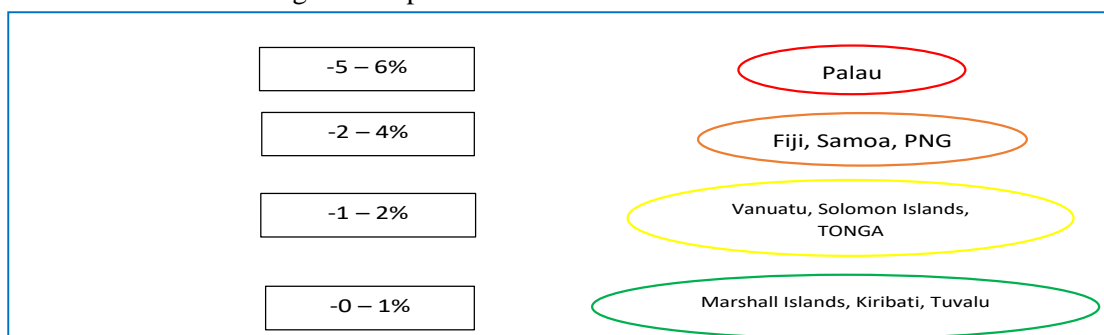
The economic impact of the COVID-19 pandemic expects a slowdown in external demand that will weigh on growth, fiscal revenues, and external balances. How severe these effects will depend not just on the economic structure of each country but also on the duration and severity of the pandemic, and on whether there is a local outbreak in individual Pacific Island Countries (PICs).

The recent decline in commodity prices will cushion the adverse effect of lower external revenues in commodity-importing PICs (which include most tourism-oriented PICs). By contrast, commodity exporters like PNG will suffer an additional hit from the terms of trade shock.

Based on a preliminary set of forecast revisions, IMF projects<sup>11</sup> a significant downward impact on real GDP growth for the PICs in 2020—accompanied by sizeable deterioration in current account and fiscal balances, as well as foreign exchange reserves.

#### Assumptions:

- coronavirus continues to spread in advanced and emerging market economies for the next several months;
- projected growth among the PICs in 2020 is expected to decline by an (unweighted) average of 1.7 percentage points relative to pre-COVID-19 projections (January 2020);
- downward revisions vary by country, with those PICs most affected through the tourism channel showing the sharpest decline.



### 8.2 Domestic Economy and Outlook for Tonga

**Table 11: Real GDP (%)—growth and shares**

Real GDP growth (%)	Actuals (Statistics Dept.)					MOF projections			
	2014/15	2015/16	2016/17	2017/18	2018/19p	2019/20f	2020/21f	2021/22f	2022/23f
Primary Sector	-1.7	-1.3	-2.5	0.4	3.6	-2.5	-6.8	3.5	4.5
Industrial Sector	-0.6	12.7	9.7	-14.4	4.6	-15.0	-5.9	8.3	7.1
Services Sector	1.4	5.5	1.8	3.3	0.8	-4.4	-8.9	2.0	3.2
<b>GDP*</b>	<b>1.2</b>	<b>6.6</b>	<b>3.3</b>	<b>0.3</b>	<b>0.7</b>	<b>-2.9</b>	<b>-5.8</b>	<b>3.5</b>	<b>4.6</b>
<b>Shares of total Real GDP (%)</b>									
Primary Sector	19.2	17.8	16.8	16.8	17.3	17.4	17.2	17.2	17.2
Industrial Sector	14.6	15.4	16.3	13.9	14.5	12.7	12.7	13.2	13.6
Services Sector	52.0	51.4	50.7	52.2	52.2	52.7	50.8	49.9	49.4

*p: preliminary estimates*

*f: forecast*

*\*The 10+ percent balance accounts for net tax and subsidies.*

*Source: MOF*

<sup>11</sup> IMF Economic Impact of Novel Coronavirus (Covid19) on Pacific Island Countries, March 2020



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Growth in the domestic economy reflected a slight improvement to 0.7 percent in FY 2018/19 compared to 0.3 percent recorded in FY 2017/18. The improvement reflects the commencement of the major construction related projects including TC Gita related construction activities and the recovery in other sectors. Consumer prices fell in FY 2018/19 to 1.8 percent from 3.0 percent—on end period basis—in previous financial year. Growth projections for FY 2019/20 and FY 2020/21 has now revised down, taking into account the expected impacts on key sectors of the economy due to COVID-19 pandemic and TC Harold. The economic activities are anticipated to recover and back to more normal levels whereby the growth projection for the period (2021/22-2022/23) is expected to be supported by major construction related projects.

The largest share of GDP is the Services (Tertiary) Sector (52.7 percent), followed by Primary Sector (17.4 percent) and Industrial (Secondary) Sector (12.7 percent).

**Primary Sector** (17.4 percent of GDP): growth increased significantly from 0.4 percent in the previous year to 3.6 percent in 2018/19 was due to the improved performance of Fisheries sub sector. Taking into account the expected impacts of COVID-19 and impacts of TC Harold, an average of negative growth of 0.3 percent is estimated for FY 2019/20 and outer years.

**Agriculture and forestry:** grew by 2.0 percent in FY 2018/19 in compared to 2.3 percent in FY 2017/18. The mild reduction reflects the sector’s slow recovery from the severe impacts of TC Gita which hits the country in February 2018. The impact of COVID-19 expects decline in exports and domestic sales during the lockdown period. Agriculture sub-sector projects a zero growth, on average, for FY 2019/20 and the medium term.

**Fisheries:** a significant growth of 18.6 percent was estimated in FY 2018/19 compared to a negative growth of 14.6 percent in FY 2017/18. The significant growth was attributed to increase in exports, number of foreign fishing vessels operated in Tongan water, and an increase in number of Special Management Area (SMAs). The likely impacts of COVID-19 estimated to an average negative growth of 2.6 percent for the subsector over FY 2019/20 to the end of the forecast period, FY 2022/23.

**Industrial (Secondary) Sector** (12.7 percent of GDP): growth is estimated to rise significantly from negative 14.4 percent in FY 2017/18 to 4.6 percent in FY 2018/19 prior falling to a negative growth of 1.4 percent, on average, for FY 2019/20 and outer years. This sector is mainly driven by construction activities which has negatively impacted by TC Harold and is anticipated to be also impacted by COVID-19.

**Construction:** a negative growth of 32.4 percent recorded in FY 2017/18, a significant increase to a growth of 16.3 percent in FY 2018/19. This was attributed to the commencement of major construction projects including the installation of the Wind Generation System, Ha’apai new hospital, Revenue and Customs main office as well the upgrading of the Fua’amotu International Airport. The forecast for FY 2019/20 and outer years estimate a negative growth of 1.2 percent considering the impacts of COVID-19 and TC Harold.

**Mining and Quarrying** subsector is forecast to move at the same direction, similarly with construction activities.

**Electricity, water and waste:** growth was estimated at 11.0 percent in FY 2018/19, with a similar trend to construction activities. Growth is projected to pick up to an average of 1 percent in FY 2019/20 and the outer years, due to an anticipated further expansion in services and construction activities.

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**Manufacturing:** A negative growth of 4.8 percent estimated in FY 2018/19 and expects to strengthen to an average negative growth of 0.7 percent in FY 2019/20 and outer years. This is due to an anticipated increase in demand for construction materials and inputs, water, bread and others.

**Services (Tertiary) Sector** (52.7 percent of GDP): growth was recorded at 3.3 percent in FY 2017/18, compared to an estimated growth of 0.8 percent in FY 2018/19 and an average negative growth of 2 percent is estimated for FY 2019/20 and outer years. The negative growth is primarily due to the overall impacts of COVID-19 pandemic and TC Harold on the tourism sector, trade, transport and communication sectors.

**Wholesale and retail trade:** an estimated growth of 0.4 percent in FY 2018/19 compared to 6.3 percent recorded in FY 2017/18. The decline was attributed to decrease in imports of food & beverages and consumer goods after the hike in FY 2017/18 due to TC Gita. The subsector is projected to grow at an average negative growth of 3.9 percent in FY 2019/20 and outer years, due to the impacts of COVID-19.

**Accommodation and food service activities:** estimated growth at negative 3.3 percent in FY 2018/19 and further to a negative growth of 32.2 percent in FY 2019/20. These downward trends are due to the fall in tourist arrivals in all mode of transport and the slow recovery in the affected resorts/hotels impacted by TC Gita in FY 2018/19. The tourism sector already experienced the impacts of COVID-19 and with the implementation of necessary precautionary measures including social distancing, prohibiting mass gathering where bars & night clubs closed, travel bans and lockdown, expecting huge impacts on the sector. In addition, the subsector was also affected in negative terms by the recent TC Harold. On the outlook, growth is anticipated to grow at an average negative growth of 2.9 percent over the next three years, FY 2020/21-2022/23.

**Transport and Storage:** The sector grew at 2.2 percent in FY 2018/19, dropped by 3.6 percent from an average growth of 5.8 percent in the past 5 years. The increase from FY 2017/18 (1.8 percent) to FY 2018/19 (2.2 percent) was due to the increase in number of air passengers mainly on the increasing number of seasonal workers departed for New Zealand and Australia. One of the contributing factors to the sector growth is the number of shipping containers registered which increased by 7.9 percent from last year’s registration list. The subsector is projected to grow at an average negative growth of 0.3 percent in FY 2019/20 and outer three years due to the impacts of COVID-19.

**Information and Communication:** Growth for 2018/19 was estimated at 0.4 percent compared to 9.5 percent recorded in FY 2017/18. The reduction was mainly due to impacts of TC Gita and the fibre optic cable damaged in January 2019. The growth projection for 2019/20 and the next three years is to grow at an average growth of 4.9 percent factoring the frequency of communications, availability of public information through Press Conference due to COVID-19.

**Financial and insurance services:** The activities in the banking sector grew by 0.1 percent in FY 2018/19 and a positive growth trend over the medium term. The growth was driven by the increase support towards families and relatives who were affected by TC Gita and TC Harold, other private obligations including insurance claim from impacts of COVID-19, excess liquidity in the banking system and strong credit growth.

**'God is my Refuge and my Fortress'**

**Public Administration and Defence:** a 4.0 percent growth was estimated in FY 2018/19, an increase from 2.8 percent growth recorded in FY 2017/18. A negative growth of 0.9 percent is projected in FY 2019/20. The growth in FY 2018/19 reflects the increase number of civil servants in the public service from 2933 to 3405 (excluding Health and Education) increase of total wage bill. The negative growth in FY 2019/20 reflects the implementation of the recruitment policy to pool vacancies within Ministry of Finance and to consider only the critical positions as a control measure to manage the total wage bill. Going forward, an average growth of 1.3 percent is projected for the outer years.

**Education (both government & non-government):** The growth was estimated at 2.6 percent in FY 2018/19, dropped to negative 1.3 percent in FY 2019/20. The decline was attributed to Government's implementation of the control measures to manage the total wage bill across the public service. A negative growth of 1.7 percent, on average, is projected for the next three years, FY 2020/21-2022/23, reflecting the expected impacts of COVID-19 in the sector.

**Health and social work (both government & non-government):** A negative growth of 3.2 percent was estimated at FY 2018/19, growth of 4.0 percent is projected in FY 2019/20 and an average of 4.7 percent growth in the outer years. The estimated significant growth was attributed to the increase related activities in the sector including Government increased effort and investment to combat the impacts of COVID-19 and expects to be ongoing if COVID-19 prolongs.

**The rest of the smaller subsectors include other real estate activities; professional, scientific and technical activities, administrative and support service activities; arts, entertainment and recreational other service activities** have minimal impact.

Table 12 reflected some of the macroeconomic indicators. These include GDP in nominal and in real terms, inflation, remittances, exports, exchange rate and interest rates.

**Table 12: Macroeconomic Indicators**

	2017/18	2018/19	2019/20f		2020/21f		2021/22f		2022/23f	
			Est.	Projection	Est.	Projection	Est.	Projection		
<b>(annual percentage change)</b>										
Real GDP	0.3	0.7	-2.9	-5.8	3.5	4.6				
CPI inflation (annual average)	4.4	4.0	3.1	3.1	3.1	3.1				
GDP deflator	5.1	0.5	1.9	1.9	2.0	1.8				
Nominal GDP	5.5	1.2	-1.1	-4.0	5.6	6.5				
<b>(T\$ million)</b>										
Remittance	346.1	346.6	307.1	288.7	320.4	320.7				
Export	24.0	28.8	n.a.	n.a.	n.a.	n.a.				
Nominal GDP	1,073.3	1,086.3	1,074.4	1,031.0	1,088.4	1,159.3				
Exchange rate										
T\$ per US (period average)	2.2	2.27	2.32	n.a.	n.a.	n.a.				
Interest rate (%) (end-period)										
Deposit rates	2.03	1.94	n.a.	n.a.	n.a.	n.a.				
Lending rates	7.94	8.03	n.a.	n.a.	n.a.	n.a.				

Note: n.a - not available

(Indicators with 'n.a' are anticipated to be negatively affected by COVID-19 pandemic and due to its uncertainty the magnitude of the impacts are still unpredictable)

\*Exchange rate for T\$ per US (period average) for 2019/20 as at February 2020

\* f - forecast

Source: MOF

**‘God is my Refuge and my Fortress’****8.2.1 Fiscal outlook****8.2.1.1 FY 2020/21 Budget in the GFS Format**

This section presents the Government budget in the Government Finance Statistics (GFS) format. The GFS system of classification is designed to reflect the macro-economic impact of the Government’s financial transactions on the economy and assess the sustainability of fiscal policy objectives. GFS records separately under the ‘below the line’, receipts and payments transactions including loan repayments, and how Government decides to finance deficit/shortfall in Government revenues. GFS system of classification records the inflows/outflows to Government of loan repayments under net lending/borrowing.

**'God is my Refuge and my Fortress'**

	2018/19 Actual	2019/20 Estimate	2019/20 Estimate Outturn	Budget Estimate 2020 /21	2021/22 Projection	2022/23 Projection
<b>Revenue</b>	<b>485.2</b>	<b>578.2</b>	<b>435.2</b>	<b>512.9</b>	<b>502.8</b>	<b>556.5</b>
<b>Taxes</b>	<b>243.0</b>	<b>257.1</b>	<b>220.0</b>	<b>236.7</b>	<b>257.8</b>	<b>274.8</b>
Taxes on income, profits, and capital gains	55.2	57.5	53.0	54.6	57.3	58.1
Taxes on property	0.3	0.4	0.3	0.3	0.3	0.3
Taxes on goods and services	155.3	170.7	142.4	157.9	170.3	183.7
Taxes on international trade and transactions	32.2	28.5	24.3	23.8	29.9	32.7
Other taxes	0.0	0.0	0.0	0.0	0.0	0.0
<b>Grants</b>	<b>212.5</b>	<b>272.6</b>	<b>186.6</b>	<b>247.9</b>	<b>209.6</b>	<b>243.6</b>
Current	34.9	38.5	37.2	38.5	38.5	38.5
Capital	177.6	234.1	149.4	209.4	171.1	205.1
<b>Other revenue</b>	<b>29.6</b>	<b>48.6</b>	<b>28.7</b>	<b>28.3</b>	<b>35.4</b>	<b>38.1</b>
Property income [GFS]	10.1	20.5	10.1	9.3	13.4	14.9
Sales of goods and services	15.3	17.3	11.0	14.9	16.0	17.1
Fines, penalties, and forfeits	0.7	1.2	0.5	1.2	1.2	1.2
Voluntary transfers other than grants	0.0	1.8	0.1	0.1	0.1	0.1
Miscellaneous and unidentified revenue	3.4	7.7	6.9	2.8	4.7	4.7
<b>Expense</b>	<b>352.2</b>	<b>456.3</b>	<b>396.9</b>	<b>495.8</b>	<b>423.5</b>	<b>431.5</b>
<b>Compensation of employees</b>	<b>134.5</b>	<b>162.2</b>	<b>152.4</b>	<b>166.6</b>	<b>167.2</b>	<b>166.9</b>
Wages and salaries	123.4	149.3	141.2	153.8	154.4	154.1
Social contributions	11.2	12.9	11.2	12.8	12.8	12.8
<b>Use of goods and services</b>	<b>151.0</b>	<b>228.1</b>	<b>188.9</b>	<b>261.4</b>	<b>189.6</b>	<b>197.2</b>
<b>Interest</b>	<b>8.0</b>	<b>7.9</b>	<b>7.9</b>	<b>8.8</b>	<b>8.6</b>	<b>8.3</b>
To nonresidents	6.3	6.1	6.3	6.4	6.2	5.9
government	1.7	1.8	1.6	2.4	2.4	2.4
<b>Subsidies</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>
Subsidies to public corporations	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies to private enterprises	0.9	0.9	0.9	0.9	0.9	0.9
<b>Grants</b>	<b>2.9</b>	<b>4.3</b>	<b>4.4</b>	<b>4.3</b>	<b>4.3</b>	<b>4.3</b>
<b>Social benefits</b>	<b>25.3</b>	<b>26.8</b>	<b>22.1</b>	<b>28.0</b>	<b>27.8</b>	<b>28.8</b>
<b>Other expense</b>	<b>29.6</b>	<b>26.1</b>	<b>20.4</b>	<b>25.8</b>	<b>25.1</b>	<b>25.1</b>
<b>Gross Operating Balance</b>	<b>132.9</b>	<b>121.9</b>	<b>38.3</b>	<b>17.1</b>	<b>79.3</b>	<b>125.0</b>
<b>Net Acquisition Of Nonfinancial Assets</b>	<b>96.6</b>	<b>111.7</b>	<b>55.2</b>	<b>54.5</b>	<b>71.9</b>	<b>97.1</b>
<b>Fixed assets</b>	<b>96.1</b>	<b>110.9</b>	<b>54.7</b>	<b>53.1</b>	<b>70.9</b>	<b>96.1</b>
Buildings and structures	26.6	65.6	29.5	30.0	35.2	47.8
Machinery and equipment	63.8	27.9	20.3	16.7	16.7	17.5
Other fixed assets	29.6	17.5	4.4	9.8	17.9	29.8
<b>Nonproduced assets</b>	<b>0.5</b>	<b>0.8</b>	<b>0.5</b>	<b>1.3</b>	<b>1.0</b>	<b>1.0</b>
<b>Net Lending/Borrowing Requirement</b>	<b>36.3</b>	<b>10.2</b>	<b>-16.9</b>	<b>-37.4</b>	<b>7.4</b>	<b>27.9</b>
<b>Net Acquisition Of Financial Assets And Liabilities (Financing)</b>	<b>36.3</b>	<b>10.2</b>	<b>-16.9</b>	<b>-37.4</b>	<b>7.4</b>	<b>27.9</b>
<b>Financial Assets</b>	<b>22.9</b>	<b>20.8</b>	<b>-14.6</b>	<b>-20.1</b>	<b>5.7</b>	<b>25.9</b>
Domestic	22.9	20.8	-14.6	-20.1	-5.7	-25.9
Currency and deposits	15.8	21.1	-14.3	-19.8	-5.4	-25.6
Loans	7.1	-0.7	-0.3	-0.7	-0.7	-0.7
Shares and other equity	0.0	0.4	0.0	0.4	0.4	0.4
<b>Financial Liabilities</b>	<b>13.4</b>	<b>-10.6</b>	<b>-2.3</b>	<b>-17.2</b>	<b>1.7</b>	<b>2.0</b>
Domestic	0.0	0.9	13.5	20.9	20.9	20.9
Loans	15.2	19.9	32.5	35.9	31.8	30.9
Repayments	15.2	-19.0	19.0	15.0	10.9	10.0
Foreign	-13.4	-11.5	-11.2	-3.7	-22.6	-22.9
Loans	0.0	0.0	0.0	19.0	0.0	0.0
Repayments	-13.4	-11.5	-11.2	-22.7	-22.6	-22.9

**‘God is my Refuge and my Fortress’**

An overall fiscal deficit is estimated for FY 2019/20 and FY 2020/21 due to COVID-19. The overall revenue is estimated to decline significantly, from 53.8 percent of GDP as the original estimate for FY 2019/20 to 40.5 percent as the estimated outturn FY 2019/20. Total expenses are estimated to fall from 42.5 percent of GDP to 36.9 percent compared to the FY 2019/20 estimated outturn reflects Government’s effort to control spending and refocus on key essential spending including the preparation to combat COVID-19.

Fiscal position in FY 2020/21 is estimates a deficit of \$37.4 million, taking into the account the current economic situation and the expected worst-case scenario of COVID-19 on the economy. Economic growth is estimated at about negative 5.8 percent, Government will continue to control spending to maintain macroeconomic stability.

## TAX REVENUES

The budget estimate for Tax Revenue is estimated at \$236.7 million (23 percent of GDP) in FY 2020/21, a 7.9 percent lower than the original estimate for FY 2019/20, higher by 7.6 percent than the estimated outturn of \$220 million. The forecast for FY 2020/21 is estimated to decrease by 2.6 percent (\$6.4 million) compared to the actual estimate in FY 2018/19 due to the expected prolong impacts of COVID-19. The forecast for the outer years is positive considering the anticipated recovery in the economy and revenue collection should return to its normal operation.

<i>Tax Revenue</i>						
	2018/19 Actual	2019/20 Estimate	2019/20 Estimate Outturn	Budget Estimate 2020 /21	2021/22 Projection	2022/23 Projection
<b>Taxes</b>						
Taxes on income, profits, and capital gains	55.2	57.5	53.0	54.6	57.3	58.1
Taxes on property	0.3	0.4	0.3	0.3	0.3	0.3
Taxes on goods and services	155.3	170.7	142.4	157.9	170.3	183.7
Taxes on international trade and transactions	32.2	28.5	24.3	23.8	29.9	32.7
Other taxes	0.0		0.0	0.0	0.0	0.0
<b>Total</b>	<b>243.0</b>	<b>257.1</b>	<b>220.0</b>	<b>236.7</b>	<b>257.8</b>	<b>274.8</b>

*Source: MOF*

### *Taxes on Income and Profits*

Taxes on Income and Profits for FY 2019/20 is estimated at \$53.0 million. This is lower by \$4.4 million and \$2.2 million respectively compared to the original and the actual estimates in FY 2018/19. The budget for FY 2020/21 is estimated at \$54.6 million, a \$1.6 million higher than the estimated outturn for FY 2019/20. The estimated increase is attributed to an expected improve in tax collections from large businesses.

### *Tax on goods and services*

Tax on goods and services is estimated at \$173.7 million in FY 2020/21, an increase of \$10.2 million from the estimated outturn of \$163.4 million in FY 2019/20, \$16.1 million higher than the actual estimates in FY 2018/19. The increase was due to the strong revenue collection from consumption taxes (import & domestic), and excise taxes. An increase of \$8.6 million is estimated for FY 2020/21 compared to the original estimate in FY 2019/20. The increase is due to an expected increase on tax collections from CT and the enforcement of cash register system on businesses and the impose of 15% tax on every international call and text messages.

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<i>Tax on Goods and Services</i>						
	2018/19 Actual	2019/20 Estimate	2019/20 Estimate Outturn	Budget Estimate 2020 /21	2021/22 Projection	2022/23 Projection
<b>Taxes on goods and services</b>						
General taxes on goods and services	93.2	93.7	95.0	102.3	91.7	100.9
Excise Tax	59.3	64.9	61.3	62.3	61.4	64.0
Taxes on use of goods and on permission to use goods or perform activities	5.1	5.6	5.2	6.1	4.8	5.4
Other taxes on goods and services	0.0	1.0	2.0	3.0	4.0	5.0
<b>Total</b>	<b>157.6</b>	<b>165.1</b>	<b>163.4</b>	<b>173.7</b>	<b>161.9</b>	<b>175.3</b>

*Source: MOF*

Excise tax is estimated at \$62.3 million for FY 2020/21, an increase of \$1.0 million or 1.6 percent from the estimated outturn in FY 2019/20. The expected increase is attributed to the expected increase collection of excise tax on imported cigarettes and un-healthy food (high-sugar content carbonated drinks, ice-cream, animal fats).

**Trade Tax**

The outturn for trade tax in FY 2019/20 is estimated at \$31.8 million; an 8.9 percent lower compared to the original estimate. The decrease is due to the lower revenue collection on import duties implicates from Government’s granting of tax exemptions. An anticipated decline in collections in FY2020/21 is mainly due to COVID-19 pandemic.

<i>Trade tax</i>						
	2018/19 Actual	2019/20 Estimate	2019/20 Estimate Outturn	Budget Estimate 2020 /21	2021/22 Projection	2022/23 Projection
<b>Trade Tax</b>						
Business Import Duties	22.1	27.2	25.8	22.3	20.6	24.0
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	2.2	4.0
Passenger Service Charge	2.3	1.4	1.1	1.4	0.5	1.4
<b>Total</b>	<b>28.7</b>	<b>34.8</b>	<b>31.8</b>	<b>28.5</b>	<b>23.8</b>	<b>29.9</b>

*Source: MOF*

**OTHER REVENUES**

Other revenue for FY 2020/21 is estimated at \$28.3 million, similarly to the estimated outturn of \$28.7 million for FY 2019/20. All the main components under this category are expected to be affected by COVID-19 impact. Given the uncertainty in the current situations, the estimates for the medium-term is considered quite optimistic.

<i>Non-tax Revenue component</i>						
	2018/19 Actual	2019/20 Estimate	2019/20 Estimate Outturn	Budget Estimate 2020 /21	2021/22 Projection	2022/23 Projection
<b>Other revenue</b>						
Property income [GFS]	10.1	20.5	10.1	9.3	13.4	14.9
Sales of goods and services	15.3	17.3	11.0	14.9	16.0	17.1
Fines, penalties, and forfeits	0.7	1.2	0.5	1.2	1.2	1.2
Voluntary transfers other than grants	0.0	1.8	0.1	0.1	0.1	0.1
Miscellaneous and unidentified revenue	3.4	7.7	6.9	2.8	4.7	4.7
<b>Total</b>	<b>29.6</b>	<b>48.6</b>	<b>28.7</b>	<b>28.3</b>	<b>35.4</b>	<b>38.1</b>

*Source: MOF*

**‘God is my Refuge and my Fortress’****GRANTS**

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

Grants estimated outturn for FY 2019/20 is \$186.6 million, decline by 31.6 percent compared to the original estimate of \$272.6 million and by 12 percent compared to

<i>Grants</i>						
	2018/19 Actual	2019/20 Estimate	2019/20 Estimate Outturn	Budget Estimate 2020/21	2021/22 Projection	2022/23 Projection
<b>Grants</b>						
Current	34.9	38.5	37.2	38.5	38.5	38.5
Capital	177.6	234.1	149.4	209.4	171.1	205.1
<b>Total</b>	<b>212.5</b>	<b>272.6</b>	<b>186.6</b>	<b>247.9</b>	<b>209.6</b>	<b>243.6</b>

*Source: MOF*

the actual estimates in FY 2018/19. The variance shows decline grant assistance mainly on capital grants attributed to donor partners also experience the impacts of the COVID-19 pandemic. On the other hand, budget support is estimated to remain stable in FY 2020/21 and outer years at \$38.5 million while negotiations for more support for COVID-19 assistance continues.

In the medium-term, the total estimated Grants is anticipated to decrease particularly in FY 2021/22 and projected further increase by in FY 2022/23 attributes to major construction projects including Fanga’uta Lagoon Bridge and the upgrading of the Queen Salote Wharf are scheduled to implement during the period.

**TOTAL REVENUE AND GRANTS**

The total estimated outturn for Revenue and Grants is \$435.2 million for FY 2019/20 decline by 25 percent compared to the original estimate of \$578.2 million and by 10.3 percent compared to the actual estimate in FY 2018/19. The decrease was attributed to the decline in taxes

<i>Total Revenue and Grants</i>						
	2018/19 Actual	2019/20 Estimate	2019/20 Estimate Outturn	Budget Estimate 2020/21	2021/22 Projection	2022/23 Projection
<b>Revenue</b>						
Taxes	243.0	257.1	220.0	236.7	257.8	274.8
Grants	212.5	274.1	186.6	247.9	209.6	243.6
Non-tax or Other revenue	29.6	47.0	28.7	28.3	35.4	38.1
<b>Total</b>	<b>485.2</b>	<b>578.2</b>	<b>435.2</b>	<b>512.9</b>	<b>502.8</b>	<b>556.5</b>

*Source: MOF*

collected from international trade and grant assistance. The budget estimate for FY 2020/21 remains below the current estimate for FY 2019/20 reflects the current impacts of COVID-19 and expects a prolong impacts in outer years.



**‘God is my Refuge and my Fortress’****EXPENSES**

Expenditure is classified into seven major components. It consists of: Compensation of employees, Use of goods and services, Interest, Subsidies, Grants, Social benefits and Other expenses. The table below indicated that the two largest components of Expenses are; (i) Use of goods and services and (ii) Compensation of

Employees. They total to about 81 percent (plus) of the overall expense since FY 2018/19. The Estimated Outturn for FY 2019/20 is \$396.9 million, indicates a reduction by \$59.3

<i>Expenses</i>						
	2018/19 Actual	2019/20 Estimate	2019/20 Estimate Outturn	Budget Estimate 2020/21	2021/22 Projection	2022/23 Projection
<b>Expense</b>						
Compensation of employees	134.5	162.2	152.4	166.6	167.2	166.9
Use of goods and services	151.0	228.1	188.9	261.4	189.6	197.2
Interest	8.0	7.9	7.9	8.8	8.6	8.3
Subsidies	0.9	0.9	0.9	0.9	0.9	0.9
Grants	2.9	4.3	4.4	4.3	4.3	4.3
Social benefits	25.3	26.8	22.1	28.0	27.8	28.8
Other expense	29.6	26.1	20.4	25.8	25.1	25.1
<b>Total</b>	<b>352.2</b>	<b>456.2</b>	<b>396.9</b>	<b>495.8</b>	<b>423.5</b>	<b>431.5</b>

*Source: MOF*

million from its Original Estimate. This was largely due to measures established by Government to contain COVID 19. These measures include facing out some of Government activities to provide fiscal space for COVID 19, for example closing of borders etc. In addition, it was also due to savings from the vacant and resultant positions. The total Budget Estimate for FY 2020/21 is \$495.8 million, shows an increase by \$98.9 million from the Estimated Outturn of FY 2019/20. This reflects Government plans to lift its preparations towards the worse-case scenario of COVID 19. For the two outer years, total expenses are expected to decline further than the approved Estimate in FY 2019/20.

**Compensation of Employees**

Compensation of Employees was the second to the largest component of Expenses. It consists of 33 percent (plus) of the total Expenses budget since FY 2018/19. The total Estimated Outturn for FY 2019/20, is \$152.4 million, indicates a reduction of 9.8 million from its Original Estimate. This reduction was largely due to delay in the recruitment process to fill both vacant positions and resultant vacancies in respective MDAs. This also includes freezing of recruitment process since the end of March 2020, except for COVID 19 related recruitments only. Savings assist in finding fiscal space to

address COVID-19 immediate response. Compensation of Employees for FY 2020/21 is reported to increase further by \$32.1 million from its actual spending in FY 2018/19 and by 14.2 million from its Estimated Outturn

for FY 2019/20 to \$166.6 million of the Budget Estimate for FY 2020/21. These increases are largely due to usual replenish of vacant

<i>Compensation of Employees</i>						
	2018/19 Actual	2019/20 Estimate	2019/20 Estimate Outturn	Budget Estimate 2020/21	2021/22 Projection	2022/23 Projection
<b>Compensation of employees</b>						
Wages and salaries	123.4	149.3	141.2	153.8	154.4	154.1
Social contributions	11.2	12.9	11.2	12.8	12.8	12.8
<b>Total</b>	<b>134.5</b>	<b>162.2</b>	<b>152.4</b>	<b>166.6</b>	<b>167.2</b>	<b>166.9</b>

*Source: MOF*

positions fund for MDAs as originally estimated, increase in Salary Revision funds for Performance Management System (PMS) and increasing number of contracted labours.

**Social Contributions**

Social Contributions is classified under the component of Compensation of Employees, as per table above. The Estimated Outturn for FY 2019/20 is reported to be remained the same as its total actual in FY 2018/19, however, lowered by \$1.7 million than the Original Estimate of \$12.9 million. This was largely due to increase in Government contribution to retirement funds. Total social contribution

**‘God is my Refuge and my Fortress’**

estimates for FY 2020/21 is expected to maintain at \$12.8 million, as the Original Estimate of FY 2019/20 as well as in the medium term.

**Use of Goods and Services**

Use of Goods and Services is the top largest component of Expenses. It ranges from nearly 50 percent to 53 percent of the total Expenses budget since FY 2018/19. The total Estimated Outturn for FY 2019/20 is reported at \$188.9 million, indicating a reduction by \$39.2 million from the Original Estimate. This was largely due to the implication of Government measures including declaration the state of emergency, lock down for the country, and facing out some of Government activities to provide fiscal space for COVID 19. Budget Estimate for FY 2020/21 is reported at \$261.4 million, indicating an expected spike in this component by \$72.5 million from the Estimated Outturn for FY 2019/20 and \$110.4 million from its actual in FY 2018/19. These were largely due to Government plans to lift its preparations towards a worse-case scenario of COVID 19.

**Interest Payments**

Interest payments have two major components which are interest payments to non-residents (foreigners) and interest payment

		<i>Interest Payments</i>					
		2018/19	2019/20	2019/20	Budget	2021/22	2022/23
		Actual	Estimate	Estimate	Estimate	Projection	Projection
				Outturn	2020/21		
<b>Interest</b>							
To non-residents		6.3	6.1	6.3	6.4	6.2	5.9
To residents other than general government		1.7	1.8	1.6	2.4	2.4	2.4
<b>Total</b>		<b>8.0</b>	<b>7.9</b>	<b>7.9</b>	<b>8.8</b>	<b>8.6</b>	<b>8.3</b>

*Source: MOF*

to residents other than General Government. The interest payments estimate for FY 2020/21 is \$8.8 million, indicating an increase of \$1.0 million from the Estimated Outturn for FY 2019/20 and \$0.8 million from the actual estimates in FY 2018/19. These were largely due to increase in interest payment expected to be made towards Public Debt Interest Payment Domestic.

**Subsidies**

There are two main components of subsidies which are subsidies to Public Corporations and Private Corporations. The only active subsidies at the moment are the subsidies to Private Enterprises, such as the assistance through Development Committees valued at \$0.9 million as in the Original Estimate for FY 2019/20 as well as anticipated for the medium terms.

**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 as contribution to organisations which was reported to increase by \$1.3 million from its actual in FY 2018/19 to \$4.3 million in the Budget Estimate FY 2020/21. This appeared to be the same as the approved Estimate FY 2019/20 as well as in the medium terms.

**Social Benefits**

Social Benefits are paid by Government to the most vulnerable groups such as: elderly, pensioners and less able. The Budget for FY 2020/21 is estimated at \$28.0 million, indicating an increase by \$5.9 million from the Estimated Outturn FY 2019/20 and \$1.2 million from the approved Estimate FY 2019/20. These increases were largely due to increase in the students' scholarships, social welfare scheme, pensions and gratuities and grant to vulnerabilities.

**‘God is my Refuge and my Fortress’****Other Expenses**

The total Budget Estimate FY 2020/21 is \$25.8 million, indicating an increase by \$5.4 million from the Estimated Outturn FY 2019/20, however declines by \$3.9 million from its actual in FY 2018/19. The reduction is mainly from the reduction in Grants for Sports activities, however the respective increase from the Estimated Outturn was largely due to increase in Government contribution to development project as well as subsidies.

**Acquisition of Non-Financial Assets (payments of capital items)**

The total acquisition of Non-financial assets in FY 2020/21 is estimated at \$57.2 million, a decrease of \$62.9 million compared to the actuals of 2018/19 and an increase of \$2.6 million from the estimated outturn for FY 2019/20. The significant variance was attributed to delays in some of the major construction activities which some of these projects including the GITA reconstructions commenced in December 2019. COVID-19 will certainly hold up most of these reconstructions work in FY 2019/20. In the medium term, total acquisition for non-financial assets projects to increase by \$13.8 million in FY 2021/22 and by \$38.5 million in FY 2022/23. This anticipates an increase amount of spending on essential equipment and medical supplies in preparation for COVID-19 and the implementation of major development projects expect to undertake in outer years.

*Acquisition of Non-financial Assets*

	2018/19 Actual	2019/20 Estimate	2019/20 Estimate Outturn	Budget Estimate 2020 /21	2021/22 Projection	2022/23 Projection
<b>Fixed assets</b>						
Buildings and structures	26.6	65.6	29.5	30.0	35.2	47.8
Machinery and equipment	63.8	27.9	20.3	16.7	16.7	17.5
Other fixed assets	29.6	17.5	4.4	9.8	17.9	29.8
Land	0.1	0.4	0.4	0.8	1.1	0.6
<b>Total</b>	<b>120.1</b>	<b>111.3</b>	<b>54.6</b>	<b>57.2</b>	<b>71.0</b>	<b>95.7</b>

Source: MOF

**FINANCING**

The financing options for the FY 2019/20 include a new bond of \$13 million and reallocations within the recurrent budget to finance the estimated fiscal deficit of \$16.9 million. Options to finance the estimated fiscal deficit in FY 2020/21 include a new bond of \$20.9 million, and an external loan of \$19.0 million (IMF) and around \$19 million from the Government reserve. However, the preferred option for financing the FY2020/21 deficit is additional development grants while the options for bond and loan will be kept in our toolbox and will only be used as a very last option. Government is also strongly against drawing down its hard-earned reserves.

**‘God is my Refuge and my Fortress’***Net Acquisition of Financial Assets & Liabilities*

	2018/19 Actual	2019/20 Estimate	2019/20 Estimate Outturn	Budget Estimate 2020 /21	2021/22 Projection	2022/23 Projection
<b>Net Acquisition Of Financial Assets And Liabilities (Financing)</b>	<b>36.3</b>	<b>10.2</b>	<b>(16.9)</b>	<b>(37.4)</b>	<b>7.4</b>	<b>27.9</b>
<b>Financial Assets</b>	<b>22.9</b>	<b>20.8</b>	<b>(14.6)</b>	<b>(20.1)</b>	<b>5.7</b>	<b>25.9</b>
Domestic	22.9	20.8	(14.6)	(20.1)	(5.7)	(25.9)
Currency and deposits	15.8	21.1	(14.3)	(19.8)	(5.4)	(25.6)
Loans	7.1	(0.7)	(0.3)	(0.7)	(0.7)	(0.7)
Shares and other equity	-	0.4	-	0.4	0.4	0.4
<b>Financial Liabilities</b>	<b>13.4</b>	<b>(10.6)</b>	<b>(2.3)</b>	<b>(17.2)</b>	<b>1.7</b>	<b>2.0</b>
Domestic	0.0	0.9	13.5	20.9	20.9	20.9
Loans	15.2	19.9	32.5	35.9	31.8	30.9
Repayments	15.2	(19.0)	19.0	15.0	10.9	10.0
Foreign	(13.4)	(11.5)	(11.2)	(3.7)	(22.6)	(22.9)
Loans	-	-	-	19.0	-	-
Repayments	(13.4)	(11.5)	(11.2)	(22.7)	(22.6)	(22.9)

*Source: MOF***8.2.1.2 Debt Performances**

Government of Tonga’s public debt portfolio continues to be highly exposed to external shocks especially with the impacts of the recent COVID19 on the global economy, thus Government remains alert to borrowing risks. Going forward, the large share of foreign currency debt in the portfolio continue to leave Tonga highly vulnerable to exchange rate movements, specifically from the People’s Republic of China (PRC), whereby Tonga is paying USD equivalent of Chinese Yuan outstanding. With the theme for this year, “*God is my Refuge and my Fortress*”, Government is tirelessly trying in all aspects to maintain external debt at a sustainable level. This is through maintaining a no external borrowing policy unless at very concessional terms and relates to the development of Tonga.

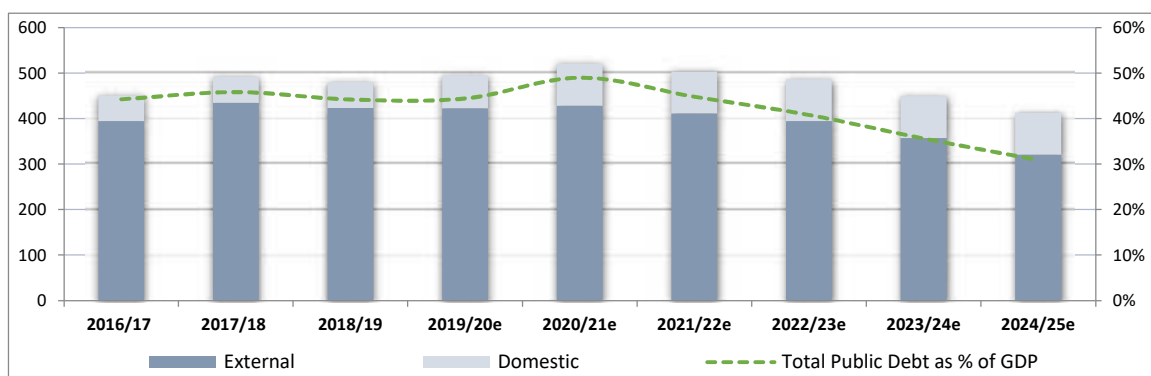
Government has implemented medium-term debt strategies primarily to focus on determining the appropriate composition of the debt portfolio, taking into account macroeconomic indicators and the market environment, while explicitly recognizing the relative costs and risks of alternative financing choices. This is supported by the revised debt sustainability provided by International Monetary Fund (IMF) in January 2018 where Tonga’s debt sustainability was revised from 50:50 percent budget support grant: loan to 100 percent budget support grant only, followed by the IMF Article Mission to Tonga in February 2020. While Tonga continues to be in high debt distress with repayments set to spike from 2024 onwards, the main challenge is to improve climate resilience and meet development goals without worsening the debt dynamics.

Debt Management Section is now working on the review of the first Medium Term Debt Strategy (MTDS), and aiming to complete soon, with the Government’s alternative borrowing strategies which will help to meet Government’s debt objectives and to achieve a more desired balanced composition of public debt.

**‘God is my Refuge and my Fortress’**

**Total Public Debt as at end June 2020**

**Figure 4: Total Public Debt (\$million) 2016/17– 2024/25e (including actual and projected)**



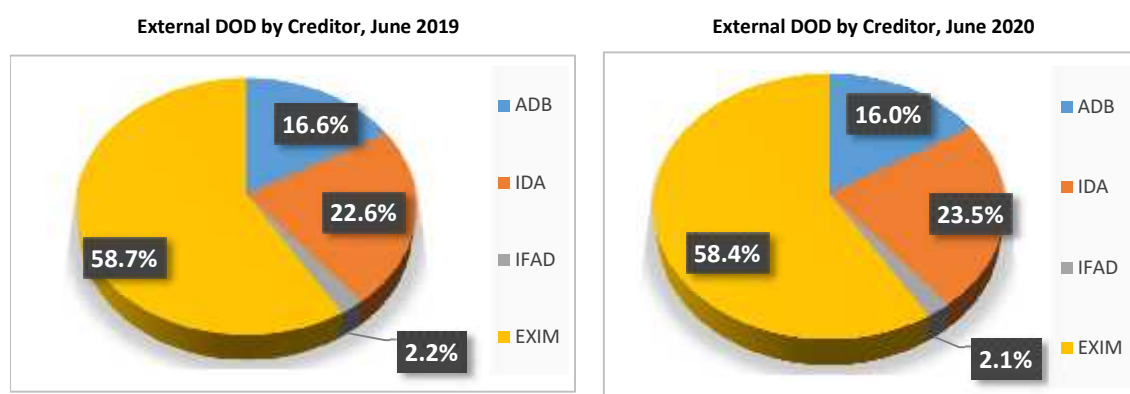
Source: MOF

Total public debt as at 30 June 2020 is estimated at \$495.0 million (at 46.1 percent of GDP), an increase of about 3 percent from 30 June 2019. This is attributed to increase in external debt as a result of disbursements made on on-going projects with a loan portion as well as an increase in domestic debt from a new issuance of \$15 million Government Bonds in FY 2019/20.

**External Debt Stock**

Total external debt, at 30 June 2020, is shown in *Figure 5*, estimated at \$422.7 million<sup>12</sup> (39.3 percent of GDP). Over half of this is owed to EXIM Bank. The main change, since June 2019, was the loan component of ongoing projects, and in addition, to depreciation of the Pa’anga against some of the Borrowing currency.

**Figure 5: External Disbursed Outstanding Debt (DOD) by Creditor, June 2019 and 2020**



Source: MOF

Due to mutual agreement between EXIM Bank and Government of Tonga in late 2018 to defer again only the repayment of principal for Nuku’alofa CBD Reconstructions project only for a period of five years, there is high debt service of estimated \$5 million starting in FY 2019/20 for the Tonga National Road Improvement Project (TNRIP). In FY 2020/21, an estimated \$10 million due to EXIM only for the principal repayment of TNRIP. Government is putting in place a strategy to prepare for future payment of these EXIM loans while noting that it has further requested a restructure of both loans.

<sup>12</sup> Excludes future movement of exchange rates from March 2020

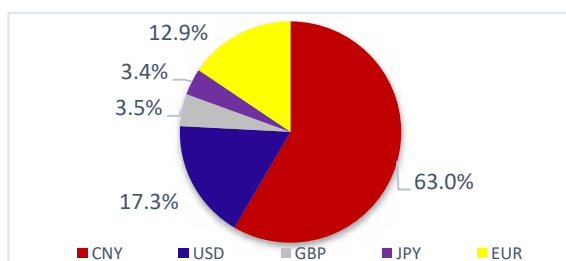
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### Currency Denomination of External Debt

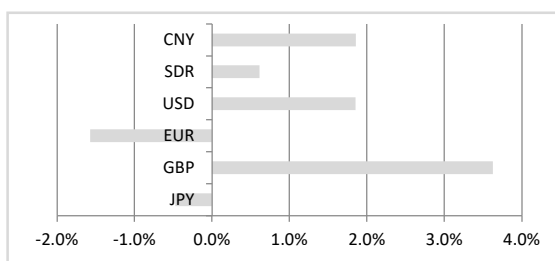
The main outstanding currency denomination of the external debt, as at 30 June 2020, as shown in *Figure 6* is estimated as (CNY) at \$266.2m (63.0 percent) and the Special Drawing Rights (SDR), and other currencies at \$156.5 million (37.0 percent). *Figure 6* also shows the weightings of SDR components, which the majority of this basket is USD (41.7 percent), EUR (30.9 percent), CNY (10.9 percent), JPY (8.3 percent) and GBP (8.1 percent).

The projected changes in value during June 2019 to June 2020 shows the Pa’anga depreciating against the borrowing currencies (SDR and CNY currency components) is shown in *Figure 7*.

**Figure 6: External Disbursed Outstanding Debt (DOD) by Currency, June 2020**



**Figure 7: FC/TOP Exchange rate Fluctuation, June 2019 and 2020**

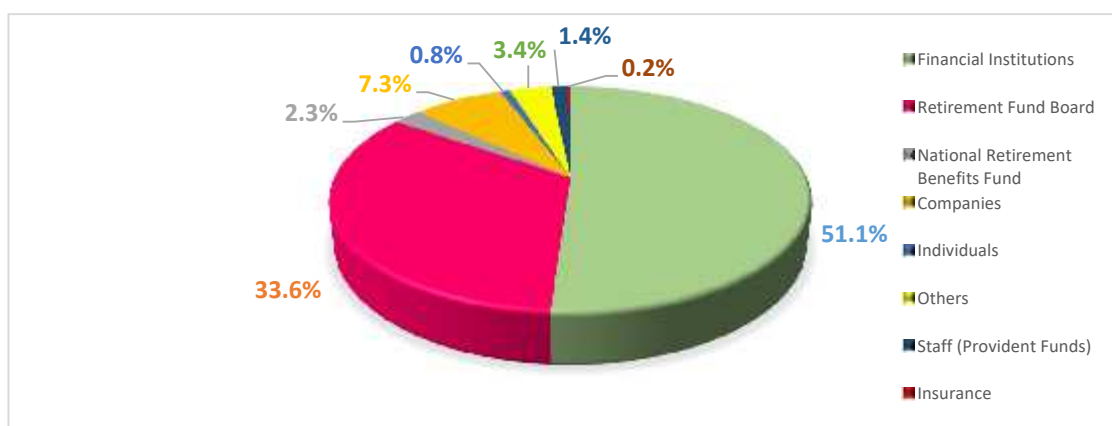


Source: MOF

### Domestic Debt Stock

Total Domestic debt, at 30 June 2020, is estimated at \$72.3 million (6.7 percent of GDP); consisting 100 percent Government bonds on issue. The shares held by different bond holders are shown in *Figure 8* with Financial Institutions accounting for about 51 percent.

**Figure 8: Government Bond Holders (%) as at 30th June 2020**



Source: MOF

### Debt Service

Total debt service (expenditure), for the year ended 30 June 2020, is estimated at \$39.0 million, composing of external \$18.3 million (47 percent) and domestic \$20.7 million (53 percent). This is an increase from \$36.5 million in June 2019, due mainly to increase in Government Bonds maturing in FY 2019/20.

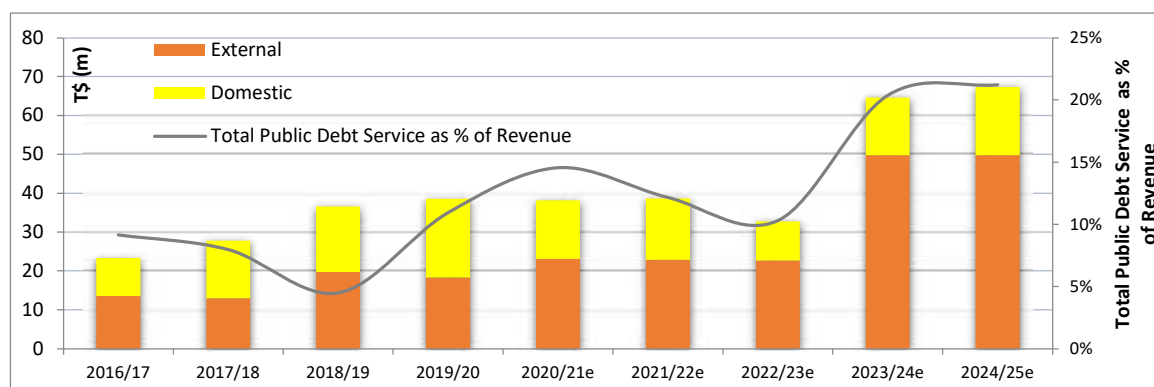
The total debt service is estimated as equivalent to 3.6 percent of GDP and in ratio to 15.7 percent of recurrent revenue and 12.8 percent of recurrent expenditure. The main repayment months for external

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debt, are September 2019 (18.6 percent of total external debt service), and March 2020 (44.8 percent of external debt), when repayment for TNRIP started. For domestic loans the months are July 2019 (25.7 percent of total domestic debt service) and April 2020 (65.3 percent). There are no public debt payment arrears anticipated.

With the deferral of the two EXIM Bank loan repayments from its original due date, the loan repayment for TNRIP commenced in FY 2019/20 which accounts for a significant rise in external debt service. The estimated increase is due to the \$5.0m for the TNRIP loan only and remaining increase is from exchange rate fluctuations.

**Figure 9: Total Public Debt Service (T\$ m) 2016/17 – 2024/25e (including actual and projected)**



Source: MOF

Figure 9 shows the actual and the projected debt service at the latest available exchange rates on hand, not taking into account any future currency movements. The external debt service is based on possible new loans including loan from the IMF Rapid Credit Facility (RCF) of about USD9.4 million that Government might access due to our Balance of Payments needs. The domestic debt service is based on likely new Government Bonds to be issued in the next few years and on current bond maturity (principal) at average term of 3 years and at weighted average (interest) of 3.1 percent of the total bonds on issue (\$72.3 million). For further domestic borrowing in the medium-term, this will be projected on least cost terms and conditions.

### **On-lent Debt**

Total on-lent debt, at 30 June 2020, receivable to Government from various public enterprises and others is estimated at \$47.2 million (4.4 percent of GDP and 11.0 percent of total external loans). The decrease of \$4.1 million in the outstanding on-lent debt between June 2019 and June 2020 is mainly due to repayment made during the Financial Year, and the proposed cancellation of the Sea Star Fishing on-lent loan.

### **Summary of Debt Ratio**

Table 13 illustrates the actual debt sustainability indicators against the various targets. Net Present Value (NPV) of debt ratios against other macro data remains within the new indicators including exports and remittances, but are in breach on the indicator without remittances and NPV of external debt as a ratio of GDP and exports, are above the target value which will limit lending. These estimates are also based on foreign exchange rates at March 2020 and do not account for any future fluctuations against the Pa'anga.

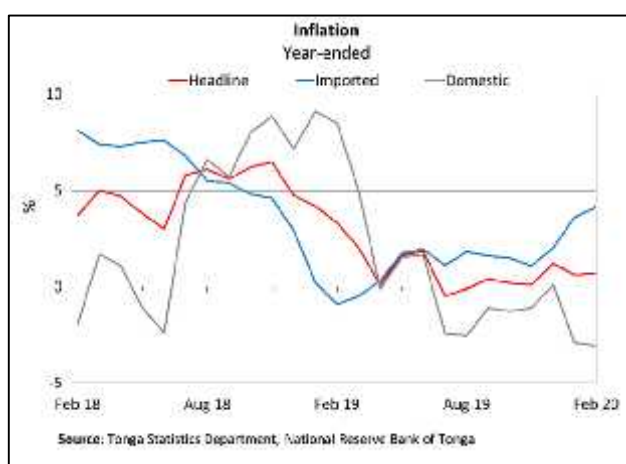
**‘God is my Refuge and my Fortress’****Table 13: Net Present Value of Debt Ratio**

Indicators	(IMF) Tonga Target %	est. FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22
<b>NPV of external debt as:</b>					
% of GDP	40%	38%	37%	36%	31%
% of GDP & remittances	36%	29%	28%	27%	24%
% of exports	150%	188%	183%	171%	156%
% of exports& remittances	120%	74%	72%	67%	61%
% of government revenues	250%	170%	166%	129%	126%
<b>Debt Service as:</b>					
% of exports	20%	6%	16%	22%	22%
% of exports & remittances	16%	2%	6%	8%	9%
% of revenues	20%	6%	15%	16%	18%

Source: MOF

**8.2.2 Monetary Policy Outcomes****Inflation**

Headline inflation has remained below the 5% reference rate throughout the year to February 2020. This is an improvement from the relatively high inflation rates observed in the past 2 years. At the end of the fiscal year 2018/19, headline inflation was at 1.8% compared to 3.0% in June 2018 and 10.7% in June 2017. In July 2019, inflation dipped to a negative growth of 0.5%, the first reported deflation since May 2016. By February 2020, inflation was reported at 0.8% lower than the 3.2% reported in February 2019. The annual average inflation over the year to February 2020 was 0.7% compared to an average of 4.9% over the year to February 2019.



Domestic prices picked up sharply at the beginning of the fiscal year 2018/19, reflecting shortages in domestic food supply and hikes in kava Tonga prices following Cyclone Gita in February 2018. Domestic prices peaked in January 2019 at 9.1% before it started to decline significantly. By June 2019, domestic prices averaged at 5.5% owing mostly to the recovery in the domestic agricultural sector, such as local food products and kava Tonga. Domestic prices continued to decline further during the first eight months of 2019/20, averaging at a negative 1.8% growth.

Import prices on the other hand, generally declined in 2018/19 from 6.8% growth to 1.7%. This was due mostly to the declining prices of imported food products and fuel. Imported prices remained relatively stable throughout the last half of 2019 before it starts to pick up in December 2019 and reaching 4.1% in February 2020 driven by higher imported food prices such as imported meat and poultry.

The Government continued its healthy living initiatives for the 2019/20 fiscal year with new duties and excises on imported eggs and local tobacco, in addition to new excise taxes on older models of motor vehicles. This may contribute to higher inflation in the current financial year. On the global front, trade uncertainties and protectionism continues to weigh down on the world's economic growth. Australia also spent months fighting to contain widespread bushfires destroying thousands of properties. Tonga



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is highly vulnerable to external shocks in global commodity prices being passed through as imported inflation. While Tonga enjoys favourable weather conditions supporting lower domestic food prices, vulnerability to natural disasters remains as downside risks. The outlook for inflation is expected to remain below the 5% reference rate throughout the 2019/20 fiscal year.

However, the Covid-19 pandemic brought business activities in China to a standstill. Being the world’s global manufacturing hub, this means severe disruptions and delays to supply chains with ripple effects to be felt across many countries and industries that are dependent on Chinese imports, including Tonga’s major trading partners. Although global fuel prices has markedly dropped due to weaker demand, supply shortages and higher business costs may push up prices of other imported goods. As such, the Reserve Bank has revised its projections and is now expecting sharper increases in import prices for the upcoming months while domestic prices remains low. Headline inflation is expected to trend near the 5% reference rate by end of June 2020, and may continue to trend higher in 2020/21 depending on how long the pandemic will last.

#### ***Balance of Payment (BOP) Performance (based on Overseas Exchange Transactions)***

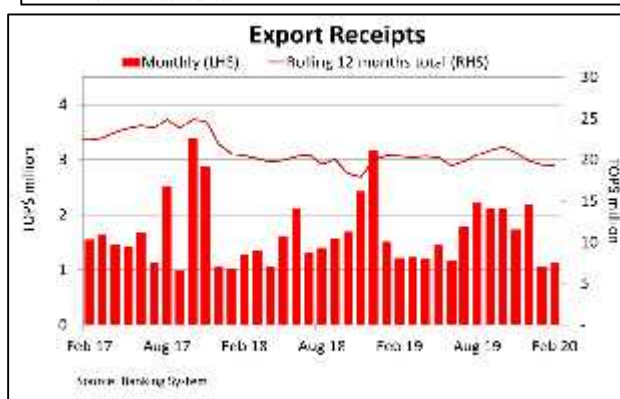
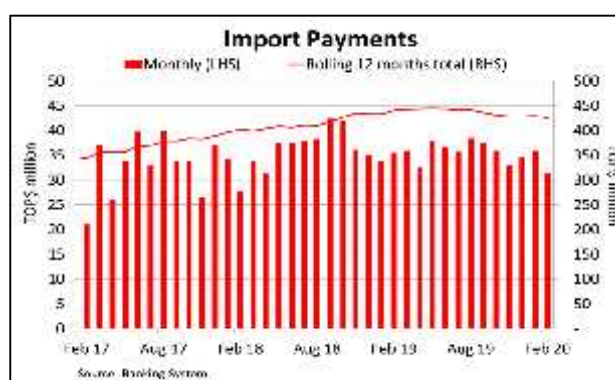
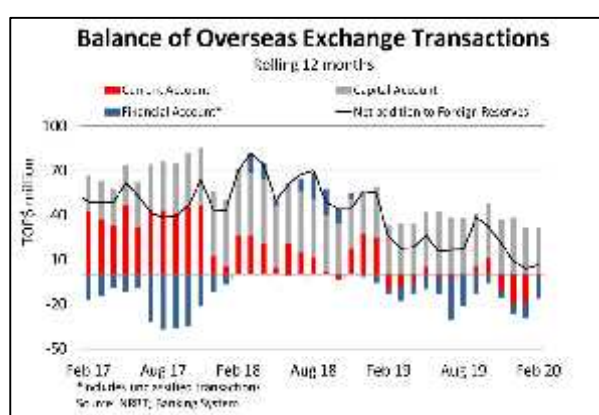
The balance of the Overseas Exchange Transactions (OET) recorded a lower overall surplus of \$6.4 million over the year to February 2020 compared to a surplus of \$25.5 million over the year ended February 2019. The lower surplus was due to a net outflow in the financial account this year compared to a net inflow in the previous year.

#### ***Current account***

The current account deficit of \$2.0 million for the year ending February 2020 is an improvement from the \$9.6 million deficit recorded in the previous year. The deficit balance stems from the merchandise trade deficit outweighing the surpluses in transfers, services, and income accounts.

**Import payments** declined over the year to February 2020 by 3.4% (\$15.2 million) reflecting slower economic activities. Payments for most of the import categories decreased except for oil imports. Payments for imports of oil rose by 9.2% (\$6.8 million) over the year and accounts for almost 20% of total import payments. Majority of the import transactions originates from New Zealand while the bulk of the payments are denominated in US Dollars.

**Export receipts** declined over the year to February 2020 by 5.1% (\$1.0 million) to a total of \$19.4 million. Receipts from fisheries/marines exports accounted for 51.3% of the total proceeds, while agricultural exports accounts for only 40.3% and the remaining 8.3% are from various other exports. The volume of marine exports rose over the year supporting the 46.4% (\$3.1 million) increase in marine export proceeds. The volume of agricultural exports also rose

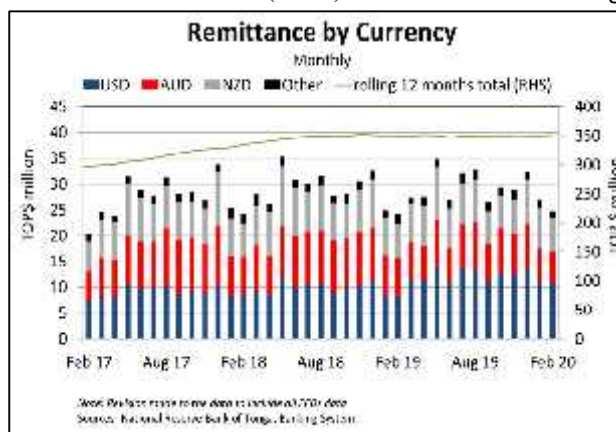


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over the year by 32.2% (3,009.1 tonnes) mostly driven by squash exports, however agricultural export receipts declined by 30.1% (\$3.4 million) indicating a possible lag in the receipt of proceeds.

The **transfer account** surplus declined by \$24.5 million over the year, driven by a \$26.2 million drop in official transfer receipts. This follows the influx of relief funds, grants, and aid in the previous year for Cyclone Gita.

**Remittance** receipts in the year ended February 2020 totalled to \$350.5 million, a slight 0.1% rise from last year’s level. Remittances as a share of Gross Domestic Product (GDP) is around 34%. Foreign Exchange Dealers (FEDs) remained as the preferred channel for remittances, of which approximately 86.1% of total remittances are transferred via FEDs. Majority of remittance receipts are denominated in US Dollars, representing 41.9% of the total remittance receipts. Australian dollars followed with 26.3% and New Zealand Dollars with 26.2% share of total remittance receipts.



The **services account** surplus rose by \$23.5 million due to a 13.4% (\$16.3 million) rise in travel receipts to a total of \$137.2 million over the year, in line with the 6.0% increase in international air arrivals. This outweighed a decline in other services by 0.7% due to lower receipts from insurance claims following cyclone Gita in 2018, and telecommunication services. Services payments also declined over the year by 4.3% (\$7.8 million) for services such as airfares, professional & management, and construction & installation services.

The **capital account** surplus fell over the year by \$1.8 million to \$31.6 million driven by lower receipts for individual construction purposes by \$5.7 million. Official capital receipts rose by \$3.8 million, which are for Government capital projects.

Meanwhile, the **financial account** recorded a \$23.2 million deficit in the year ended February 2020 reflecting outflow of offshore investments and lower interbank transfer receipts.

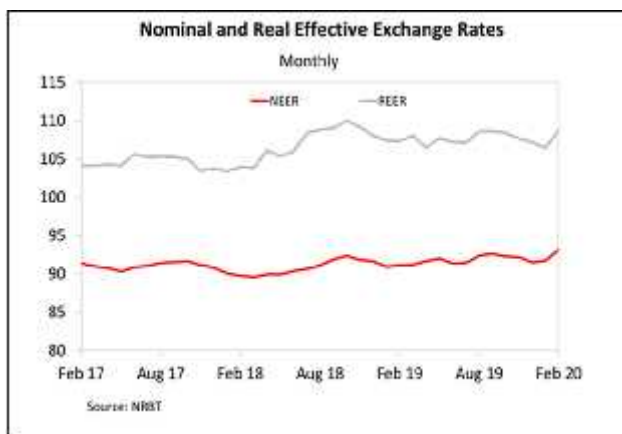
The Reserve Bank’s pre-COVID-19 outlook for Tonga’s balance of payments position, projected imports to grow strongly as new donor funded infrastructure projects are implemented. Exports will continue to improve with better harvests and the active tourism sector will yield higher travel receipts. Remittance receipts stands to benefit from more demands for seasonal workers.

However, the COVID-19 pandemic has evolved rapidly with restrictions on travel mobility and trade. Business events are cancelled and tourists advised not to travel. Disruptions in supply chains prompts delays in project timelines. Governments have to re-prioritize spending and address urgent health needs to combat the spread of the virus. With more and more countries going into extended lock-down periods many businesses are unable to keep up with its expenses and are forced to lay off employees especially in the travel and tourism industries. The ability of our overseas diaspora to support their families here in Tonga through remittances will be affected by their income levels and the economic health of their respective countries. Some of the overseas agents of local FEDs in New Zealand and Australia has closed its offices during the lock down cutting off the flow of remittances from their customers. Foreign investors in Tonga may also wish to repatriate funds back to their respective countries to assist with the economic downfalls in their headquarters. The pace of economic activities are now expected to slow down dramatically over the next few months to June 2020, with major reductions in imports, exports, tourism receipts and remittances. These reductions are expected to continue to the next fiscal year if the pandemic remains in a prolonged state. Meanwhile, additional budget support, grants and aid are now on the pipeline from development partners to assist with Tonga’s preparedness for the COVID-19.

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**Exchange Rates**

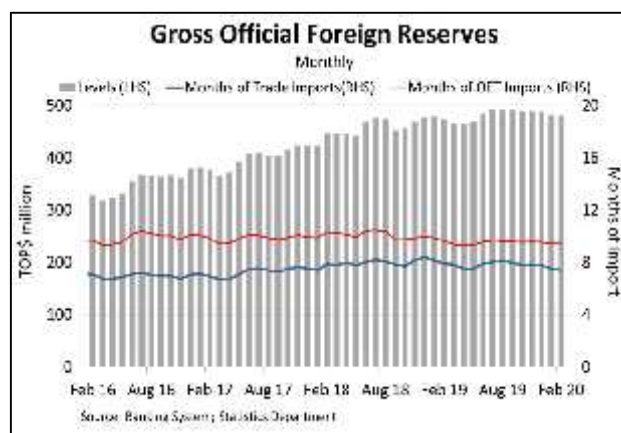
The currencies of Tonga’s major trading partners, such as the AUD, NZD, FJD, GBP, and EUR, weakened against the Tongan Pa’anga over the year to February 2020. Hence the nominal effective exchange rate (NEER) index rose by 2.3% over the year. Similarly, the real effective exchange rate (REER) index also increased over the year by 1.3%, which may indicate a loss in Tonga’s international competitiveness.



The current exchange rate basket maintains the value of Tonga’s foreign assets and contributes to maintaining the foreign reserves at a comfortable level. Most Central Banks opted to ease its monetary policies to assist in mitigating the impacts of the COVID-19 pandemic leading many Central Banks to reduce their policy rates. Exchange rates of our major trading partner currencies has been quite volatile since the pandemic, with the USD strengthening against the TOP while the NZD and AUD tends to weaken. The pandemic has shaken business confidence and sentiment with many investors buying USD as safe haven, hence it is likely that the USD will continue to appreciate in the near term.

**Foreign Reserves**

Gross official foreign reserves rose over the year to February 2020 by \$6.4 million to \$479.8 million, equivalent to 7.4 months of imports of both goods and services. This is well above the minimum threshold of imports cover and the desirable levels recommended by the International Monetary Fund. The annual growth resulted largely from receipt of budget support, grants, and project funds from development partners. During the year, the foreign reserves peaked at \$492.9 million in July 2019.



Prior to the COVID-19 pandemic, the Reserve Bank’s outlook for foreign reserves remained at comfortable levels above 3 months of imports cover supported by expected receipts of budget support and donor funds for infrastructure projects budgeted for the current fiscal year. The delays on the receipt of budget support and donor funds from development partners, and implementation of infrastructure projects pose a risk to the forecast. The Reserve Bank closely monitors the level of foreign reserves given the upcoming debt repayment to the EXIM Bank of China and the expected drawdowns on project funds for implementation of infrastructure projects.

Nevertheless, COVID-19 has changed the setting for many things that the Government, businesses and households has set out to do at the beginning of the year. Survival becomes the new priority with significant costs to the economy. Based on the revised outlook for Balance of payments and Exchange rates, the Reserve Bank expects foreign reserves to slowly decline with expected net outflows. However, the inflow of budget support and grants projected for June 2020 will sustain foreign reserves at sufficient levels for the near to medium term.

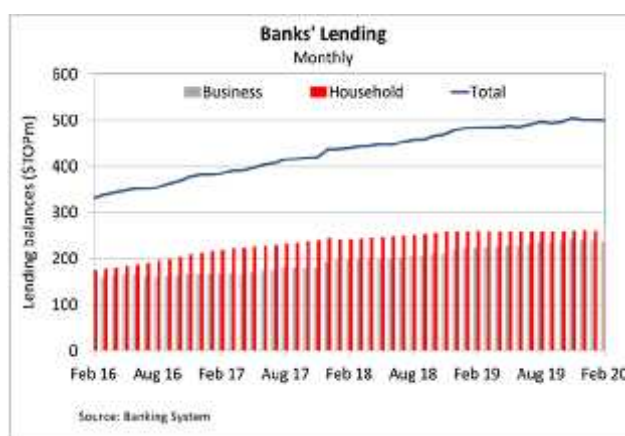
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### **Government Bonds**

As the Registrar of Government bonds, 4 bond series matured and were rolled over in January 2019 (\$7.665 million at 3.0% for 2 years), June 2019 (\$5 million at 3.0% for 4 years and \$2.488 million at 3.5% for 6 years) and July 2019 (\$5 million at 3.0% for 5 years). All these bonds were oversubscribed by \$8.335 million, \$2 million, \$0.477 million, and \$6.7 million, respectively. This indicates there is a strong demand for investment in Government bonds due to the lower interest rates offered on deposits. However, in March 2020 a new Government bond of \$10 million was issued and was undersubscribed by \$1.679 million reflecting market concerns amidst the impact of COVID-19. The Government have indicated to issue another \$5 million new Government bond in May 2020 and more new Government bonds to be issued in the next financial year to assist with its funding needs. The Banks and Retirement funds hold the majority of the Government bonds. Throughout the year, 5 customers redeemed their bonds early before the maturity dates totalling to \$1.281 million due to family and work obligations. At the end of March 2020, Government Bonds totalled \$65.67 million. A total of \$17.96 million bonds will mature in 2020, and \$16.901 million in the year 2021. The electronic transfer of principal and interest on maturing bonds continued with 44% of the bondholders preferring direct credit to their nominated bank accounts, while 56% still prefer payments by bank cheque. The issuing of more government bonds would further assist in developing the financial markets as well as strengthen the monetary policy transmission.

### **Lending Balance**

Credit continued to grow over the year to February 2020 yet at a slower pace. The total bank lending rose by \$16.0 million (3.3%) to \$499.7 million, compared to a growth of \$44.2 million (10.1%) last year. Lending to businesses and households increased by \$15.2 million (6.9%) and \$1.1 million (0.4%), respectively. Business lending (including GDL) continued to rise, driven by more loans issued to public enterprises, professional and other services, agriculture, and transport sectors. Similarly, more housing loans drove the higher household lending, reflecting rising demand for housing and construction services. On the other hand, both vehicle and other personal loans declined. Government Development Loans (GDL) as at the end of February 2020 was a total of \$9.175 million (68% of total funds), of which the majority was for the agriculture 55%, 17% was for education, and 12% for the fisheries sector. New loans approved over the past year was \$1.824 million. This leaves the GDL account with \$4.281 million remaining to be lend out.



The bank's total loans to deposit ratio (excluding GDL) rose from 76.5% over the year to 82.5% in February 2020, which is above the 80% minimum loan to deposit threshold required by the Reserve Bank. High liquidity remains in the banking system, although it declined by \$22.7 million (7.1%) to \$297.9 million in February 2020. This is a result of a \$19.8 million (10.8%) decrease in the commercial bank's Exchange Settlement Accounts (ESA), which are mostly withdrawals from the Reserve Bank vault.

Previously, credit growth was projected to continue rising at a slower pace for the remainder of the fiscal year 2019/20, supported by the accommodative monetary policy, the low-interest rate offered by banks, and the excess liquidity in the banking system.

However, given the negative impacts of the COVID-19 on business earnings and household income levels many borrowers may struggle to finance their current debts. Business investments will be put on

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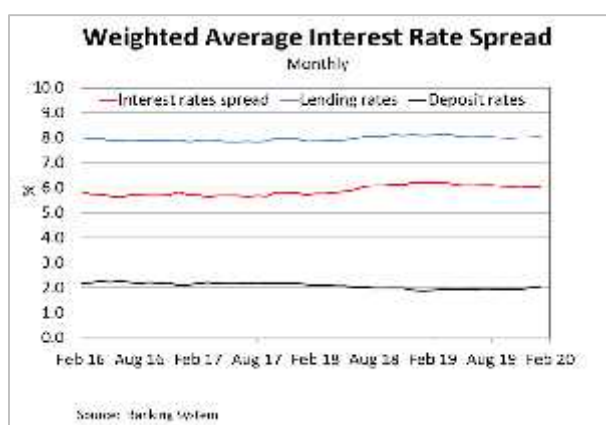
hold until the pandemic passes, and with reduced cash flows many businesses might seek further support from the commercial banks for their working capital needs.

#### **Deposit Balance**

The total banks’ deposits fell over the year to February 2020 by \$28.7 million (4.5%) to \$607.8 million. This fall was driven by the decline in demand deposit of \$29.9 million (10.7%), offsetting the increase in both saving and time deposits by \$1.1 million (1.1%) and \$0.8 million (0.3%) respectively. The lower demand deposits were mainly due to the decrease in public enterprise deposits, reflecting their offshore investment transfers made during the year. On the other hand, the higher savings were due mainly to higher deposits by individuals, churches, and schools, whereas higher time deposits were mostly for public enterprises and central Government.

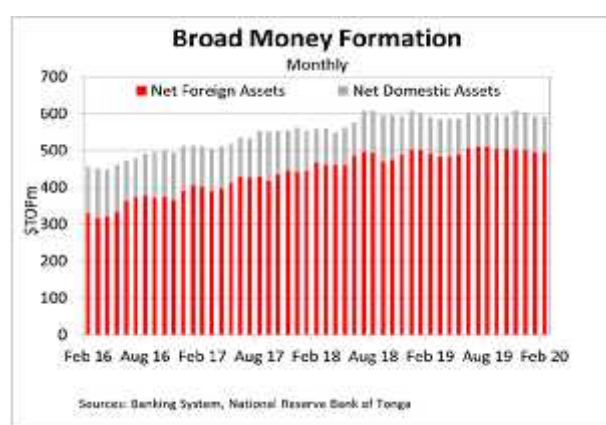
#### **Interest Rates**

The weighted average interest rate spread narrowed by 23.0 basis points to 5.98% over the year to February 2020. The weighted average lending rates decreased by 9.4 basis points from 8.11% last year to 8.02%. This resulted mostly from lower household lending rates supported by a slight decrease in business lending rates. On the other hand, the weighted average deposit rates rose by 13.7 basis points from 1.90% to 2.04%. The higher deposit rates were due mainly to the increase in both saving and demand deposit rates.



#### **Broad Money**

Broad money fell by \$1.1 million (0.2%) over the year to February 2020 to \$590.1 million. This was a result of lower net domestic assets underpinned by lower government deposits and higher capital account. Meanwhile, net foreign assets increased by \$2.3 million (0.5%) over the year in line with the movement in foreign reserves.



#### **Banking System’s Performances**

The total assets of the banking system decreased by 0.5% (\$4.5 million) to \$878.3 million over the year ended February 2020. This was largely attributed to an 8.4% decline in balances with depository institutions, mostly from the Exchange Settlement Accounts of the commercial banks held at the Reserve Bank during the year. In addition, accrued interest receivable particularly on total loans to private sector also fell. On the other hand, growth in total loans during the year by 3.0% (\$14.2 million) was driven by lending to private sector. Total liabilities also decreased by 3.5% (\$24.7 million), which is mostly due to a 4.5% (\$28.0 million) decline in total deposits, reflecting one of the institutional investors’ offshore investments over the year.

Total Assets is forecasted to increase by 0.9% (\$8.0 million) to \$886.2 million up to June 2020 and may contract back down to \$879 by June 2021. The forecasted numbers are to consider the likely impact of COVID-19 on the banks performance. Although the banks will continue to take in new loans as businesses in sectors such as tourism will put in every effort to return their operations to normal over the next few months, most of the banks effort will be focused on ensuring that the quality of their loan portfolios are maintained. Total loan is expected to grow by 1% (\$5.0 million) to \$496 million from February 2020 to June 2020 and may continue to grow by 5.9% (\$29 million) from February 2020 to \$520 million by June 2021. Total Liabilities is expected to continue to grow by 0.9% (\$6.2 million)

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from \$684 million to \$690 million from February 2020 to June 2020 as depositors maintain their funds with banks due to uncertainties in the current climate. However, total liabilities are expected to also contract back by 1.6% (\$10.6 million) to \$674 million by June 2021 as businesses and household alike may start utilising their deposits as well as stimulus packages offered by Government, to return day-to-day activities to normal once the spread of COVID-19 subsides.

The total banking system continued to remain profitable over the year to February 2020 with strong liquidity and capital positions. The Return on Assets (ROA) was 3.7%, and the Return on Equity (ROE) was 13.4% compared to ROA of 3.3% whilst ROE relatively stay stable as of last year. The rise in profitability over the year was due mainly to high interest income outpacing the rise in interest expense, while the provision expenses declined due to loan upgrading. The net interest margin slightly increased to 4.0% in February 2020 from 3.8% in the same period last year due mainly to rise in interest income due to credit growth while the cost of funds remained stable. This was coupled with the lower loan loss provision expense over the year aligning with the lower non-performing loans.

The banks’ profitability will be impacted given that banks have announced moratorium packages to their respective customers. This include repayment holidays of either interest payment only or waiving of both interest and principal repayments for 3 months up to 6 months. There were also other measures to assist customers such as reducing interest rates and waiving of loan restructure fees and charges. With the assumption that quite a few of the businesses and private individuals will opt for the repayment holidays, the banking system’s main profitability streams (interest income and non-interest income) will be impacted. The Banking System’s Interest Income is forecasted to decline by 15.6% (\$7.2 million) from February 2020 to June 2020 and may contract further by 54.7% (\$25.4 million) from the current level of \$46.3 million in February 2020 to June 2021. Non-interest income will also be impacted, as some banks are temporary ceasing their foreign currency conversions and accepting foreign cheques services due to closure of the borders and international flights. However, the impact will not be as significant as the decline in interest income as it is forecasted that non-interest income will decline by 1.2% (\$0.3 million) from \$26.4 million in February 2020 to June 2020 and fall by 11.7% (\$3.1 million) from February 2020 to June 2021 if the closure of the borders is prolonged. Any deteriorations in the banking system’s asset quality will also require banks to raise further loan loss provisions, which will add on to the deteriorations of banks’ profitability levels.

The banking system’s capital position remained strong, the risk-weighted capital ratio was at 33.1% in February 2020 higher than the 30.9% in February 2019 and still comfortably above the Reserve Bank’s minimum requirement of 15%. This resulted from the credit growth contributing to the higher risk-weighted assets, whilst maintaining profitability level over the year. In addition to the higher eligible capital, banks continued to transfer their profits to retained earnings in January of every year.

Even though capital is forecasted to remain strong, with risk weighted capital ratio to be maintained at above 30% to June 2020 and up to June 2021. However, the risks to this position are further deteriorations in the banking system’s asset quality, and payments of dividends of foreign banks to their respective head offices and domestic bank to their shareholders. Whilst the latter can be deferred to assist in cushioning banks’ capital position, the former will have to be borne by banks in order to manage the risks of loss arising for non-performing loans.

Banking system liquidity during the Covid-19 is expected to be utilised by banks as loan to deposit ratio is expected to increase to 83% in June 2020 from 82.5% in February 2020 and to further increase to 91.4% by June 2021 on the assumption that loans may continue to grow whilst deposit on the other hand decline.

The overall quality of the bank’s assets continued to be monitored during the year. Total Non-Performing Loans continued to decline over the year to February 2020 by 9.7% (\$1.7 million) to \$15.6 million. This represented 3.2% of total loans compared to 3.6% a year ago. The decline in the proportion of non-performing loans to total loans was driven by the settlement (refinancing) of some non-

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performing loans and write-offs over the year, mainly private business loans and some housing loans and also coupled with the credit growth over the year. Provisions against loan losses decreased over the year by \$1.1 million to \$14.9 million, due mainly to on-going quarterly review of some banks to ensure that adequate provisioning is in place, also adjustments of provisioning levels to comply with IFRS 9 coupled with the lower non-performing loans over the year. The total coverage ratio of 96.0% compared to 93.0% last year, shows that banks' non-performing loans are well covered by provisions. The value of collateral held against all delinquent loans above 90 days reported by banks was at \$28.3 million compared to total non-performing loans above 90 days of \$15.8 million.

Given the current slowdown in economic activities both globally and domestically, the banks' asset quality is expected to mirror the risk of businesses as well as households' ability to repay their loan obligations. Even though banks in their expense of reduced profitability are offering what they can, to assist their customers, the recovery may not be quick once the impact of COVID-19 slows down. Therefore, non-performing loan is forecasted to grow by 6.9% (\$1.2 million) from \$15.6 million in February 2020 to June 2020 and may further increase by 22.2% (\$3.5 million) from the current levels as of February 2020 to \$19.0 million in June 2021. Non-performing loans to total loans is forecasted to increase from 3.2% in February 2020 to 3.4% in June 2020 and almost 4% by June 2021.

The Reserve Bank continues to monitor and manage the payment system to ensure it is functioning in an efficient, sound, and safe manner. The Reserve Bank continues to work closely with a Fintech company to develop a National Payment System that would suit Tonga and its volume of transactions.

The Reserve Bank's on-going approach to improving financial sector supervision by establishing a stress testing framework, introducing new Prudential Statements for prudent management of operational risks in the banking operation, and effectively supervising credit information system for the banking system in Tonga.

***Supervision of Non-Bank Financial Institutions (NBFIs)***

The Reserve Bank continues with the development of an adequate legal framework for regulating and supervising non-bank financial institutions, thus, fulfilling its objective of promoting a sound and efficient financial system as well as protecting financial consumers. The non-bank financial institutions play an essential role in driving inclusive economic growth, although it accounts for only a small portion, it may pose a risk to the overall financial system. However, the establishment of a robust supervisory framework would mitigate such potential risks.

The Reserve Bank consistently monitors and oversees the conformity and operations of all the eleven (11) licensed foreign exchange dealers as required by the Foreign Exchange Act 2018. Since the banks started de-risking, the money transfer services industry in Tonga were directly impacted in terms of preserving their overseas bank accounts. The Reserve Bank has considered possible solutions to assist local foreign exchange dealers in sustaining its business. This includes upgrading two license foreign exchange dealers from Type B (Inward remittance only) to license Type A (Inward and outward remittance) and one foreign exchange dealer license type B application is currently being processed to upgrade to license type A. This is to facilitate the flow of remittance but at the same time making sure that they still comply with all legal and regulatory requirements especially AML/CFT requirements. There is on-going interaction with authorized foreign exchange dealers such as technical meetings, quarterly spot checks, providing training and advisories on the importance of improving and strengthening of their Anti-Money Laundering/ Counter-Terrorist Financing (AML/CFT) compliance status, in order for the banks to retain their accounts. Furthermore, the Reserve Bank constantly liaised and urged the banks to offer alternative products for de-risking, aiming to reduce the cost of remittances to Tonga.

As required under Section 3 of the Microfinance Act 2018, the Reserve Bank has granted a microfinance license to the South Pacific Business Development Microfinance Tonga Limited (SPBD) to conduct a microfinance business in Tonga effective on 24th February 2020. The SPBD Tonga is due to comply

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with the conditions of the license set by the Reserve Bank at all times in the exercise of its operations. This includes the continuance of submitting a monthly report to the Reserve Bank of Tonga to ensure that SPBD remains financially soundness and will continue to operate in the future. The Reserve Bank will be undertaking quarterly spot checks as part of monitoring SPBD prudent performance, thus promoting confidence in using the financial system. The CoViD-19 pandemic has affected the operation of SPBD Tonga by reducing the number of working days in a week to only open on two days (Monday & Thursday) from 9.00 am to 1.00 pm. The number of staff to work during these days has also been reduced to cater for collecting savings/ withdrawal of members. All loan repayments have been broadcasted to be deferred for four weeks (4) effective on 30th March 2020.

The preparation for the implementation of the Moneylenders Act 2018 is currently underway to be executed in the next financial year. To note the work that is still in progress with drafting the legislation for the supervision of insurance companies and retirement funds. At the same time, the Reserve Bank continues to collect monthly reports from the two (2) retirement funds, and quarterly monthly reports from the four (4) insurance companies. The collating of these reports would enhance the understanding of the NBFIs’ business and to monitor their financial positions and performance to ensure their solvency.

***Impact of COVID-19 on the Non-Bank Institutions***

The COVID-19 pandemic has affected Tonga’s financial system including non-bank financial institutions performance and how they operate especially the foreign exchange dealers, retirement funds, microfinance institutions and insurance companies. Since March 2020, the agents on the main corridors specifically New Zealand, Australia & United States were affected. This resulted in closing down of four (4) foreign exchange dealers during the lockdown period, one (1) foreign exchange dealer is on-call for emergency transfer only from New Zealand for purposes such as funerals, four (4) other foreign exchange dealers will only fund pay-outs of remittances sent from overseas via online services, while two (2) foreign exchange dealers continued with their normal operations. Two foreign exchange dealers continued to operate under 2 commercial banks that continued with their normal operations during this pandemic. The Reserve Bank will continue to monitor the foreign exchange dealers that are operating during this pandemic to ensure they remain compliant with the Reserve Bank anti-money laundering (AML) and exchange control (EC) policies.

**Operational Status of Foreign Exchange Dealers in Tonga as of 6<sup>th</sup> April 2020**

	<b>FOREIGN EXCHANGE DEALERS</b>	<b>OPEN</b>	<b>SERVICES AVAILABLE</b>	<b>OUTLOOK (3-6 MONTHS)</b>
<b>1</b>	<b>FEXCO Tonga Limited</b>	Yes, normal hours	Western Union international/domestic send and receive transactions Foreign Exchange Sell only Business Payment	FEXCO is expecting a decline and hope that it will not be substantial.
<b>2</b>	<b>MoneyGram Agent BSP</b>	Yes, normal hours	All services except foreign cheque purchase	MoneyGram indicated that services will slowdown.
<b>3</b>	<b>Digicel Mobile Money</b>	Yes, normal hours	Receive Money overseas & local transfer	Every year between April to July are always the busiest months. But there will definitely be a decline since all public events are cancelled such as white Sunday, church conferences, Heilala week etc.
<b>4</b>	<b>Ave Pa'anga Pau</b>	Yes, normal hours	All services except FX Buying and restricted services on Money Transfer of \$5,000 max per transaction per remitter.	The push for online and cashless platforms is strong and this should maintain the flow of funds through APP. Once APP is set up in Australia



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				(which is work in progress), this will assist further.
5	<b>S.A.V Money Transfer</b>	Yes, normal hours	Inward remittances from NZ & payout Local transfer	A downward trend is expected due to the global contraction of economic activities affecting remittances.
6	<b>T&amp;T Money Transfer</b>	Yes, but on-call to emergency transfer only through bank account	Receive emergency remittance only from NZ for funeral.	T&T outlook for remittances will significantly drop in the coming months until T&T NZ agent is back to normal business.
7	<b>Rowena Financial Services</b>	Yes, half day (9AM - 1PM)	Receiving remittances & payout	Very slow
8	<b>KlickEx Trading Limited</b>	Yes, normal hours	Same services, sending money to NZ & Australia	No foreseen changes
9	<b>Island Flexi Transfer</b>	Yes, half day (9AM - 1PM)	Receive money overseas & payout to customers	If COVID-19 continues to spread to various places throughout Australia and into places like the farms and urban areas, where our people are working then there is a possibility that remittances from Australia to Tonga will drop significantly.
10	<b>Jones Travel Limited</b>	No	N/A	N/A
11	<b>Manatu Ofa Money Transfer</b>	No	N/A	N/A
12	<b>Frank Money Transfer</b>	No	N/A	N/A
13	<b>Tonga Post Limited</b>	No	N/A	N/A

Given the impact of the pandemic on Tonga’s level of cross border transactions (remittances) listed in Table 1 above, the total Overseas Exchanges Transactions (OET) that are being channelled through Foreign Exchange Dealers is expected to continuously decline throughout the year. Total OET was at \$35.4 million in February 2020, which fell from \$41.2 million in January 2020 and \$38.1 million in the previous year. The total OET is expected to further decline by up to 35.2% (\$12.5 million) to \$23.0 million by June 2020 if the pandemic continued in its current trend. This is mainly due to the following reasons:

- a. FEXCO (Tonga) Limited continued to cease buying of all foreign currency notes and Jones Travel Ltd closed down their operations due to travel ban in and out of Tonga that suspends majority if not all flights to and from Tonga.
- b. Closedown (or impacted) of New Zealand agents that operates over the counter due to lockdown (Frank Money Transfer, Manatu ‘Ofa Money Transfer, Rowena Financial Services, SAV Money Transfer)
- c. Express Money suspend all their money transfer services to Tonga through Tonga Post Limited
- d. Seasonal workers in Australia continues to lose their income as farms are starting to close down as COVID-19 continued to spread and those that are still running are only working half-day or reduced hours resulting in lower remittance flows through agents that caters for them such as Rowena Financial Services and Island Flexi Transfer.

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- e. Online money transfers providers (MoneyGram-BSP, KlickEx Trading Ltd, Digicel Mobile Money, ‘Ave Pa’anga Pau & Rowena Financial Services [USA only]) continue to operate normally except for Tonga Post Ltd as people are shifting from over the counter transfers due to lockdown in respective foreign corridors.

Total OET is expected to decline further to \$16.9 million in December 2020 if the trend continues with the current situation.

The impact of COVID-19 on the insurance industry in Tonga is minimal as only one insurance company closed down its office to the public and urged the public to use digital channels for inquiries as well as making their payments. The other insurance companies were open on the normal working days but only on a half-day basis. Some insurance companies allowed requests from clients to defer premium payments during the lockdown period. However, the performance of Insurance Companies is not expected to change.

In addition, Retirement Fund Board on the other hand also offered relief packages of \$1,000 to its members upon application. Whilst National Retirement Fund Board are expected to deal with thousands of laid off workers in the private sector due to the pandemic. The fund will also pay out one-month advance for elderly people’s welfare, which in total will have an impact on the fund’s level of liquidity coupled.

South Pacific Business Development also offered a one-month moratorium for loan repayments of its members.

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 through monitoring the level of household indebtedness. It would also assist with prudential supervision to monitor systemic risks and the quality of bank assets as well as enhance access to loans.

***Financial Inclusion Initiatives***

The Reserve Bank continues to carry out its functions of promoting financial inclusion in Tonga through attaining its financial inclusion’s key objectives, to enhance access to finance for Micro, Small and Medium Enterprises (MSMEs) and individuals as well as to promote reliable, sound and affordable digital financial services (DFS). These objectives supported the Reserve Bank’s objectives of inclusive economic growth and macroeconomic stability.

Over the year ended June 2019, the number of MSMEs borrowed from the banks fell by 53 (3%) to 1,924 MSMEs, mainly due to a decline in the number of MSMEs that borrowed from the Government Development Loan (GDL) scheme. This decrease outweighs the increase in the number of MSMEs that borrowed from the Tonga Development Bank (TDB). The decline in the number of MSMEs reflected the freezing of the Government Development Loan Fund (GDL) over the year. However, the total value of MSMEs’ outstanding loan rose by \$2.9 million (13%) to T\$25.8 million over the year ended June 2019, driven by an increase in outstanding loans to the agriculture and tourism sector. The increase was predominantly led by TDB and Government Development Loan (GDL) scheme, which provided the main bulk of the MSMEs loan in the banking system. The rise in TDB’s MSMEs’ outstanding loans was fuelled by an increase in the MSMEs loan to the agricultural and manufacturing sector. The freeze of the GDL fund in March 2019 until June 2019 contributed to the rise in TDB’s outstanding loan during the year.

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However, a list of challenges was compiled following consultations with the banks on access to finance for MSMEs. These challenges are:

- 1) No financial record with the banks
- 2) MSMEs not trading long enough to qualify
- 3) Lack of a business plan
- 4) Lack of collateral
- 5) Lack of financial literacy
- 6) Delay in payments received by MSMEs for their services

The NRBT and the banks are working closely to address the abovementioned challenges.

Moreover, the number of financial access points rose by 4% (22 access points) to 621 access points over the year ended in June 2019. This is mainly due to an increase in the number of agents, ATMs and EFTPOS terminals. Bank South Pacific (BSP) contributed the most to the rise as they continue with their outreach program to remote and rural locations with their agent networks. The activities that are carried out in the agent access points are mainly financial transactions such as deposit, and withdrawal of cash from accounts, the printing of mini bank account statements as well as payment for goods. These activities are all done through EFTPOS. In addition, the Non-Banks financial institutions provide 355 access points in Tonga as of June 2019 with 49 access points from FEDs, 6 from Insurance Companies, and 299 from South Pacific Business Development (SPBD) including Village Meeting Centres. About 83% (295 access points) of the total are access points via village meeting centres followed by 14% (51 access points), which are branches access points. The village meeting centres are where SPBD members make deposits to their savings accounts and repay their loans, while loan drawn downs are conducted at SPBD Head office main branches (e.g., Nuku’alofa or Neiafu, etc.).

With regards to the usage of financial services, the total number fell by 17%, mainly due to a decline in the individual number of deposit accounts, outweighing an increase in the number of loan accounts. The decrease in the number of deposit accounts was mainly due to BSP closing down their inactive customer accounts.

The Reserve Bank believes that empowering the financial service provider’s customers by raising awareness on these access points, products, and services through financial literacy programs as well as transparent fees and charges for comparison would further enhance the usage of these access points and financial services.

Building trust in the access points and financial products and services would increase the usage, particularly new digital financial products and services. To build confidence in these financial services, the Reserve Bank sees merit in supervising these agents and digital financial services, review of financial service provider’s fees and charges, and enhance consumer protection services will be incorporated into the National Financial Inclusion Strategy.

The Reserve Bank will continue to monitor financial access and usage as well as liaising with relevant stakeholders in addressing the barriers that limit the individuals and MSMEs from accessing financial products and services. Moreover, the Reserve Bank is currently working closely with the Alliance for Financial Inclusion and the Pacific Islands Regional Initiatives (PIRI) in implementing a Regional Sandbox later on in the year. The Regulatory Sandbox is to assist in understanding the risk and opportunities presented by financial technology (Fintech) innovations. It will also support the development of available infrastructures that will leverage the promotion of financial inclusion using today’s technologies for MSMEs and to improve the standard of living for individuals, particularly those in remote and rural areas, as well as supporting economic growth of Tonga.

**‘God is my Refuge and my Fortress’*****Anti-Money Laundering / Counter Financing of Terrorism (AML/CFT) Efforts***

Tonga underwent its 2nd Mutual Evaluation by the Asia Pacific Group on Money Laundering (APG) in 2019. Tonga's money laundering and terrorist financing framework was evaluated against the Financial Action Taskforce's (FATF) 40 Recommendations on combating money laundering, terrorist financing, and proliferation of weapons of mass destruction.

Tonga received its team of assessors for the Mutual Evaluation onsite visit on 22nd October – 1st November 2019. The onsite visit lasted a couple of weeks which comprised of meetings with law enforcement agencies and relevant Ministries on the country's efforts and practices towards anti-money laundering, counter financing of terrorism and proliferation financing. The team of assessors also met with representatives from the private sector, which provided a perspective into Tonga's AML/CFT risk areas as well as measures and processes in place to mitigate those risks. To conclude the visit, the team delivered their closing presentation of their key findings of Tonga's mutual evaluation assessment. The preliminary report highlighted areas of needs for Tonga to focus on as high priority, which includes legislative amendments, developing a framework for proliferation financing as well as capacity development especially in discharging the functions of the FIU and ML/TF investigators. Tonga has provided its response to the 1st draft of the Mutual Evaluation report in January 2020 and was expected to have face-to-face meeting with the assessors in April 2020 to further discuss its report. However, due to the COVID-19 pandemic, Tonga's face-to-face meeting has been deferred which effectively put its 2<sup>nd</sup> draft report in suspension until the evaluation process can resume.

Part of the Mutual Evaluation process is for the country to understand its ML/TF risks which is why efforts were combined to conduct the first National AML/CFT Risk Assessment for Tonga in the past years. Consultation sessions were held with the private sector for their awareness of the results of the risk assessment as well as to get their perspective as to where they see the risks in Tonga. During the interval of the Mutual Evaluation onsite visit, the Cabinet Committee endorsed Tonga's National AML/CFT Risk Assessment Report as well as the country's first National AML/CFT Strategy. The Working Group planned on finalising the report to be published in early 2020. However, due to the extraordinary developments of the current COVID-19 pandemic, circumstances have changed for majority of the relevant agencies which has adversely affected the timeline for the finalisation of the report. It is anticipated that this can be finalised before end of 2020.

In collaboration with the Financial System Department, compliance visits were conducted to select reporting entities as part of its supervisory activities. The FIU continues to work together with the Financial System Department to ensure that AML/CFT obligations are adhered to. It is planned that with capacity development, the FIU is to be supported to enhance its supervision function to also cover cash dealers (i.e. Real Estate, Lawyers & Accountants, Dealers in Precious Metals) in Tonga.

***Way Forward***

The Reserve Bank maintained its accommodative monetary policy stance during 2019/20 to March 2020. Headline Inflation lingered below the 5% reference rate, foreign reserves was comfortable and a sound financial system was maintained. The Reserve Bank viewed the current monetary policy measures outlined below as appropriate in the medium term, to encourage the utilisation of the excess liquidity in the banking system through prudent lending to support economic growth and strengthen the monetary policy transmission mechanism.

- The monetary policy rate remains unchanged (interest rate on bank's exchange settlement accounts or excess reserves) as it is already at 0% (zero interest rate policy);
- Continue to encourage banks to meet the minimum loans/deposit ratio at 80%;
- The inflation reference rate remains at 5%;
- Statutory Reserve Deposit ratio remains at 10% and can be reduced to provide liquidity support to the banking system when needed;

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The Reserve Bank also recognise the extraordinary challenges that COVID-19 has brought to the Government, businesses, and households in Tonga. It will continue to closely monitor these impacts on economic and financial stability, and stand ready to adjust its monetary policies if needed by:

- Monitoring the commercial banks’ capital reserves and adjust further when required.
- Ease the exchange control requirements.
- Continue to issue Government Bonds.
- Maintain clear channels of effective communications with the financial institutions for adequate preparedness.
- Continue to be transparent and raise awareness of its monetary policy decisions through press releases to the public.
- Closely monitor the impacts of the pandemic in the financial system for early detection of any signs of vulnerability.
- Continue to ensure both commercial banks and non-bank financial institutions adheres to all Government declarations regarding COVID-19 in the work place while delivering essential financial services to the public.

Going forward, the Reserve Bank is implementing the following policies to promote a stable, sound and efficient financial system, conducive to macroeconomic stability and growth.

- Improve financial sector supervision by establishing a stress-testing framework, introducing new Prudential Statements for prudent management of operational risks in the banking operation, and effectively supervising credit information system in Tonga.
- Strengthen the supervision of non-banks through drafting of legislations for the supervision of insurance companies and retirement funds.
  - Development of a national payment system suitable for Tonga.
  - Support inclusive economic growth and drive the financial inclusion initiatives by drafting a National Financial Inclusion Strategy.
  - Strengthen the AML/CFT framework.

The International Monetary Fund (IMF) recommends the current accommodative monetary stance to remain at this time, however the Reserve Bank stands ready to adjust its monetary policy setting where necessary to support its monetary policy objectives. The Reserve Bank remains vigilant and alert of fast evolving developments in the global economy especially with relation to the COVID-19 pandemic and its impacts on economic growth and financial stability.

**'God is my Refuge and my Fortress'****8.2.3 Tonga Selected Indicators****Tonga Selected Indicators, 2011/12 - 2018/19**

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19p
(Annual Percentage change)								
<b>Output and prices 1/</b>								
Real GDP	0.9	-3.1	1.9	3.1	4.1	5.3	0.3	0.7
Consumer prices (period average)	3.4	0.7	2.3	0.1	-0.6	7.3	5.3	4.0
<b>Money and credit (end-period) 2/</b>								
Broad money (M2) % growth	-2.0	7.3	8.1	2.4	12.6	11.3	10.6	1.8
Domestic credit	-16	-0.4	9.2	11.7	18.2	13.3	-2.2	2.8
Private sector credit % growth	-9.6	-7.8	-0.6	8.9	19.8	22.8	7.0	8.6
<b>Balance of payments (OET Basis)</b>								
Exports, f.o.b.	8.8	12.4	15.7	16	19.1	23.7	20.9	19.3
<i>of which: Squash exports</i>	2.2	2.4	2.9	1.8	3.7	4.3	5.5	
Imports, f.o.b.	247.7	260.9	261.7	305.9	320.3	356.4	408.8	443.7
Services (net)	-4.4	6.3	-3.1	-6.0	17.3	26.9	32.1	32.2
Income (net)	5.6	0.9	17.0	13.7	5.6	-15.9	-7.9	8.9
Services and Income (net)	1.2	7.2	13.9	7.7	22.9	11.0	24.2	41.1
Transfers (net)	182.3	174.8	192.2	215.6	301.0	364.9	382.5	380.7
<i>of which: Private transfer receipts</i>	156.8	209.6	208.9	221.1	279.9	334.1	358.3	358.7
Current account balance	-55.4	-66.5	-39.9	-66.7	22.7	43.2	18.8	-2.6
<i>(In percent of GDP)</i>	-6.9%	-8.5%	-5.0%	-7.9%	2.4%	4.2%	1.8%	-0.2%
Overall balance	38.4	17.3	11.4	41.9	66.8	64.1	58.8	15.4
<b>Gross international reserves (end-period)</b>								
In millions of pa'anga	246.1	263.3	274.4	289.7	354.9	407.9	468.7	484.3
In months of imports cover <i>(trade estimate)</i>	8.5	9.1	9.1	8.1	7.2	7.5	8.0	8.1
<b>External debt 3/</b>								
External debt/GDP (%)	44.1	47.7	45.9	49.8	47.7	44.2	44.2	42.9
<b>Exchange rate (period average)</b>								
T\$ per US\$ (end-period)	1.76	1.82	1.79	2.11	2.21	2.21	2.24	2.27

1/ Sources for Output and Prices: Statistics Department

2/ Sources for Money, Credit, BOP, Foreign Reserves &amp; Exchange Rates: NRBT

3/ Sources for External Debt: MOF

**Annual Average Consumer Price Index for 2012 - 2017, Base Period (October 2010 = 100)**

	All Items	Food	Housing	H/Hold goods	Clothing and footwear	Transportation	Tobacco and Alcohol	Misc. Goods & Services	Imported Items	Local Items
<b>Weight.</b>	<b>100.0</b>	<b>45.8</b>	<b>2.5</b>	<b>20.8</b>	<b>3.2</b>	<b>11.9</b>	<b>6.0</b>	<b>9.8</b>	<b>57.8</b>	<b>42.2</b>
<b>2012</b>	105.7	106.4	99.6	103.4	104.6	113.0	102.4	102.1	107.4	103.1
<b>2013</b>	106.4	108.2	100.7	103.4	104.6	113.1	99.8	102.5	109.0	103.0
<b>2014</b>	109.1	112.2	101.4	104	119.1	112.8	100.4	105.3	112.3	104.8
<b>2015</b>	108	114.3	101.3	98.3	129.4	99	106.3	105.9	108.4	107.4
<b>2016</b>	110.7	115.8	103.5	98.5	138.6	96.1	128.4	113.2	107.8	114.8
<b>2017</b>	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	Health	Transportation	Communications	Recreation and culture	Education	Restaurants and hotels	Misc. goods and services	Imported Items	Local Items
<b>Weight.</b>	<b>100.0</b>	<b>39.8</b>	<b>11.6</b>	<b>2.1</b>	<b>10.8</b>	<b>3.2</b>	<b>0.3</b>	<b>16.4</b>	<b>5.2</b>	<b>1.1</b>	<b>2.2</b>	<b>3.1</b>	<b>4.2</b>	<b>55.1</b>	<b>44.9</b>
<b>2018</b>	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
<b>2019</b>	100.1	100.9	97.7	102.6	100.2	101.0	100.0	96.9	100.3	103.6	104.2	108.2	99.5	99.6	100.7

Source: Statistics Department

**'God is my Refuge and my Fortress'****Annual Percentage Change in CPI for December month 2012 - 2017**

	All Items	Food	Housing	H/Hold goods	Clothing and footwear	Transportation	Tobacco and Alcohol	Misc. Goods & Services	Imported Items	Local Items
<b>Weight</b>	<b>100.0</b>	<b>45.8</b>	<b>2.5</b>	<b>20.8</b>	<b>3.2</b>	<b>11.9</b>	<b>6.0</b>	<b>9.8</b>	<b>57.8</b>	<b>42.2</b>
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

Note: Old Consumer Price Index (CPI) using the base period of October 2010 = 100

**Annual Percentage Change in CPI for December month 2018 - 2019**

	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
<b>Weight</b>	<b>100.0</b>	<b>39.8</b>	<b>11.6</b>	<b>2.1</b>	<b>10.8</b>	<b>3.2</b>	<b>0.3</b>	<b>16.4</b>	<b>5.2</b>	<b>1.1</b>	<b>2.2</b>	<b>3.1</b>	<b>4.2</b>	<b>55.1</b>	<b>44.9</b>
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
2019	1.2	2.5	-4.5	4.0	0.3	1.0	0.0	1.2	1.6	3.6	4.2	6.8	-1.2	0.1	2.1

Source: Statistics Department

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

**Exports by Institutional Sector, 2011/12 - 2018/19**

INSTITUTIONAL SECTOR	2011/12		2012/13		2013/14		2014/15		2015/16		2016/17		2017/18		2018/19	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
Private Sector	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	27,721	96.3
Government Sector	6	-	2	-	20	0.1	23	0.1	22	0.1	429	1.2	71	0.3	161	0.6
Quasi-Government Sector	5	-	33	0.1	8	-	82	0.3	1,188	3.9	2,368	6.5	783	3.3	904	3.1
<b>TOTAL</b>	<b>25,354</b>	<b>100</b>	<b>22,901</b>	<b>100</b>	<b>21,733</b>	<b>100</b>	<b>28,135</b>	<b>100</b>	<b>30,744</b>	<b>100</b>	<b>36,286</b>	<b>100</b>	<b>24,028</b>	<b>100</b>	<b>28,786</b>	<b>100</b>

Source: Statistics Department

**Exports by HS Section, 2011/12 - 2018/19**

HS Code SECTION ITEM	2011/12		2012/13		2013/14		2014/15		2015/16p		2016/17p		2017/18p		2018/19p	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
Live Animals;Animal Products	9,277	36.6	8,029	35.1	5,146	23.7	13,005	46.2	8,489	27.6	10,385	29	5,456	22.7	8,907	30.9
Vegetable Products	10,593	41.8	11,393	49.7	12,628	58.1	11,896	42.3	14,774	48.1	18,999	52.4	16,335	68.0	16,872	58.6
Prepared Foodstuff; Beverages, Tobacco	358	1.4	494	2.2	460	2.1	38	0.1	1,103	3.6	276	0.8	384	1.6	209	0.7
Products of the Chemical Or Allied	367	1.4	462	2.0	596	2.7	562	2.0	520	1.7	208	0.6	153	0.6	415	1.4
Wood and Articles of Wood;	416	1.6	424	1.9	739	3.4	413	1.5	1,770	5.8	666	1.8	660	2.7	20	0.1
Miscellaneous Manufactured Articles	27	0.1	112	0.5	90	0.4	34	0.1	130	0.4	165	0.5	53	0.2	50	0.2
Works of Art, Collectors Pieces and	144	0.6	26	0.1	-	-	2.0	-	24	0.1	23	0.1	111	0.5	14	0.0
Other Exports	4,172	16.5	1,961	8.6	2,074	9.5	2,185	7.8	3,933	12.8	5,564	15.3	876	3.6	2,299	8.0
<b>TOTAL</b>	<b>25,354</b>	<b>100</b>	<b>22,901</b>	<b>100</b>	<b>21,733</b>	<b>100</b>	<b>28,135</b>	<b>100</b>	<b>30,744</b>	<b>100</b>	<b>36,286</b>	<b>100</b>	<b>24,028</b>	<b>100</b>	<b>28,786</b>	<b>100</b>

p: provisional numbers

Source: Statistics Department

**Exports by Country of Destination, 2011/12 - 2018/19**

COUNTRY	2011/12		2012/13		2013/14		2014/15		2015/16		2016/17		2017/18		2018/19	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
New Zealand	4,801	18.9	6,550	28.6	7,184	33.1	7,049	25.1	6,748	21.9	8,810	24.3	5,999	25.0	9,096	31.6
Australia	4,622	18.2	1,437	6.3	2,002	9.2	3,200	11.4	4,636	15.1	8,352	23.0	2,863	11.9	2,601	9.0
Fiji	697	2.7	200	0.9	170	0.8	186	0.7	471	1.5	657	1.8	44	0.2	76	0.3
Mainland USA	2,651	10.5	3,590	15.7	3,359	15.5	5,514	19.6	10,484	34.1	8,064	22.2	5,964	24.8	7,077	24.6
Samoa	375	1.5	479	2.1	746	3.4	1,137	4.0	433	1.4	327	0.9	179	0.7	442	1.5
Japan	6,293	24.8	2,754	12.0	2,710	12.5	3,361	11.9	4,064	13.2	4,616	12.7	1,799	7.5	1,691	5.9
Korea	1,548	6.1	2,020	8.8	2,232	10.3	590	2.1	1,543	5.0	2,061	5.7	5,667	23.6	2,747	9.5
Singapore	30	0.1	171	0.7	-	-	4	-	2	0.0	-	-	59	0.2	-	-
American Samoa	282	1.1	323	1.4	50	0.2	453	1.6	546	1.8	430	1.2	263	1.1	791	2.7
Hong Kong	2,354	9.3	3,579	15.6	1,812	8.3	5,368	19.1	59	0.2	12	0.0	7	0.0	17	0.1
All other Countries	1,701	6.7	1,798	7.9	1,467	6.8	1,273	4.5	1,757	5.7	2,957	8.1	1,184	4.9	4,248	14.8
<b>TOTAL</b>	<b>25,354</b>	<b>100</b>	<b>22,901</b>	<b>100</b>	<b>21,733</b>	<b>100</b>	<b>28,135</b>	<b>100</b>	<b>30,744</b>	<b>100</b>	<b>36,286</b>	<b>100</b>	<b>24,028</b>	<b>100</b>	<b>28,786</b>	<b>100</b>

Source: Statistics Department

**'God is my Refuge and my Fortress'****Imports by Institutional Sector, 2011/12 - 2018/19**

INSTITUTIONAL SECTOR	2011/12		2012/13		2013/14		2014/15		2015/16		2016/17		2017/18		2018/19	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
Private Sector	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	487,059	86.4
Government Sector	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	16,856	3.0
Quasi-Government	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	59,862	10.6
<b>TOTAL</b>	<b>345,411</b>	<b>100</b>	<b>345,662</b>	<b>100</b>	<b>361,639</b>	<b>100</b>	<b>428,859</b>	<b>100</b>	<b>478,340</b>	<b>100</b>	<b>508,527</b>	<b>100</b>	<b>533,868</b>	<b>100</b>	<b>563,777</b>	<b>100</b>

Source: Statistics Department

**Imports by Main HS Section, 2011/12 - 2018/19**

HS Code SECTION ITEM	2011/12		2012/13		2013/14		2014/15		2015/16		2016/17		2017/18		2018/19	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
1.Live Animals;Animal Products	39,778	12	43,922	13	44,284	12	46,987	11	48,347	10	53,023	10	60,542	11	55,638	10
2.Vegetable Products	10,536	3	10,838	3	11,005	3	11,341	3	14,588	3	15,142	3	17,630	3	18,513	3
3. Prepared Foodstuff; Beverages & Tobacco	47,152	14	48,283	14	50,800	14	55,893	13	68,575	14	81,580	16	74,511	14	61,244	11
4. Mineral Products	88,675	26	82,697	24	81,783	23	88,805	21	83,105	17	77,515	15	111,259	21	108,850	19
5. Products of the Chemical or Allied	14,794	4	14,346	4	16,556	5	15,701	4	20,121	4	18,599	4	20,956	4	22,299	4
6. Wood and Articles of Wood	9,434	3	8,063	2	9,200	3	13,763	3	16,433	3	20,128	4	20,361	4	20,584	4
7. Pulp of Wood and Other Fibrous Cellulosic Material	12,139	4	12,980	4	10,442	3	10,944	3	12,276	3	9,076	2	9,322	2	13,374	2
8. Base Metals & Articles of Base Metal	20,563	6	15,214	4	16,322	5	20,203	5	26,629	6	38,251	8	29,216	5	35,659	6
9. Machinery and Mechanical Appliance	46,895	14	41,744	12	58,596	16	74,142	17	83,461	17	76,997	15	78,780	15	106,734	19
10. Miscellaneous Manufactured Articles	6,850	2	10,281	3	7,032	2	10,952	3	13,515	3	15,204	3	17,151	3	15,068	3
11. Vehicle, Aircraft, Vessel & Associated, Transport Equipment	15,516	5	19,394	6	17,535	5	40,430	9	50,360	11	46,989	9	46,906	9	56,303	10
12. Works of Art, Collectors Pieces	1,074	-	7,948	2	85	-	17	-	37	-	6	-	4	-	16	-
13. Other Imports	32,005	9	29,952	9	37,999	11	39,681	9	40,895	9	56,017	11	47,229	9	49,495	9
<b>TOTAL</b>	<b>345,411</b>	<b>100</b>	<b>345,662</b>	<b>100</b>	<b>361,639</b>	<b>100</b>	<b>428,859</b>	<b>100</b>	<b>478,340</b>	<b>100</b>	<b>508,527</b>	<b>100</b>	<b>533,868</b>	<b>100</b>	<b>563,777</b>	<b>100</b>

**Imports by Country of Origin, 2011/12 - 2018/19**

COUNTRY	2011/12		2012/13		2013/14		2014/15		2015/16		2016/17		2017/18		2018/19	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
New Zealand	100,067	29	101,254	29	107,341	30	122,470	29	140,074	29	155,900	31	156,775	29	151,889	27
Australia	19,553	6	17,938	5	20,562	6	24,312	6	31,277	7	38,716	8	35,923	7	40,127	7
USA	46,652	14	40,695	12	39,635	11	46,570	11	40,074	8	52,201	10	49,116	9	65,288	12
China	29,260	8	27,878	8	20,424	6	36,049	8	66,129	14	40,242	8	51,932	10	49,599	9
Indonesia	6,157	2	4,954	1	3,429	1	6,431	1	8,174	2	8,185	2	8,929	2	8,063	1
Fiji	29,260	8	27,878	8	31,257	9	34,921	8	50,024	10	40,126	8	44,481	8	40,227	7
Japan	17,175	5	20,275	6	15,500	4	35,709	8	32,339	7	52,818	10	38,824	7	55,417	10
Singapore	78,725	23	81,146	23	83,179	23	63,965	15	54,531	11	77,459	15	82,307	15	98,667	18
Others	18,562	5	23,644	7	40,312	11	58,432	14	55,718	12	42,880	8	65,581	12	54,500	10
<b>TOTAL</b>	<b>345,411</b>	<b>100</b>	<b>345,662</b>	<b>100</b>	<b>361,639</b>	<b>100</b>	<b>428,859</b>	<b>100</b>	<b>478,340</b>	<b>100</b>	<b>508,527</b>	<b>100</b>	<b>533,868</b>	<b>100</b>	<b>563,777</b>	<b>100</b>

Source: Statistics Department



**'God is my Refuge and my Fortress'****Tonga Balance of Payment: 2011/12 - 2018/19**

<i>(T\$m, unless otherwise indicated)</i>	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19p
<b>Balance of Trade</b>	<b>-238.9</b>	<b>-248.5</b>	<b>-246.0</b>	<b>-289.9</b>	<b>-301.2</b>	<b>-332.7</b>	<b>-387.9</b>	<b>-424.4</b>
Exports, f.o.b.	8.8	12.4	15.7	16.0	19.1	23.7	20.9	19.3
<i>of which: Squash exports</i>	2.2	2.4	2.9	1.8	3.7	4.3	5.5	
Imports, f.o.b.	247.7	260.9	261.7	305.9	320.3	356.4	408.8	443.7
<b>Services (net)</b>	<b>-4.3</b>	<b>6.3</b>	<b>-3.1</b>	<b>-6.2</b>	<b>17.3</b>	<b>27.0</b>	<b>32.3</b>	<b>32.2</b>
Receipts	99.4	125.1	109.0	100.4	139.1	169.7	199.0	204.3
<i>of which: Tourism receipts</i>	61.3	71.5	80.3	63	84.1	108.8	111.2	
Payments	103.7	118.8	112.1	106.6	121.8	142.7	166.7	172.1
<b>Income (net)</b>	<b>5.6</b>	<b>0.9</b>	<b>16.9</b>	<b>13.6</b>	<b>5.6</b>	<b>-16</b>	<b>-7.91</b>	<b>8.9</b>
Receipts	13.3	11.7	34.4	26.2	22.2	17.7	23.9	25.9
Payments	7.7	10.8	17.5	12.6	16.6	33.7	31.81	17.00
<b>Current Transfers (net)</b>	<b>182.3</b>	<b>174.7</b>	<b>192.0</b>	<b>215.5</b>	<b>301.0</b>	<b>364.9</b>	<b>382.5</b>	<b>380.7</b>
Official transfers (net)	44.0	2.2	21.7	41.0	78.9	85.3	82.4	87.8
Private transfers (net)	138.3	172.5	170.3	174.5	222.1	279.6	300.2	292.9
Official transfer receipts	45.5	3.4	23	43.1	82.6	87.9	91.1	91.5
Official transfer payments	1.5	1.2	1.3	2.1	3.7	2.6	8.74	3.74
Private transfer receipts	156.8	209.6	208.9	221.1	279.9	334.1	358.3	358.7
Private transfer payments	18.5	37.1	38.6	46.6	57.8	54.5	58.14	65.8
<b>Current account balance</b>	<b>-55.3</b>	<b>-66.6</b>	<b>-40.2</b>	<b>-67.0</b>	<b>22.7</b>	<b>43.2</b>	<b>19.0</b>	<b>-2.6</b>
(Percent of GDP)	-6.9%	-7.8%	-5.0%	-8.0%	2.5%	4.3%	1.7%	
<b>Capital account balance</b>	<b>87.6</b>	<b>88.6</b>	<b>101.2</b>	<b>67.2</b>	<b>15.2</b>	<b>29.7</b>	<b>40.6</b>	<b>42.0</b>
Official capital (net)	55.1	33.5	17.3	8.9	7	9.7	16.37	22.0
Official capital inflows	61.6	38.2	24.6	13.5	7.0	9.8	17.2	22.5
Official capital outflows	6.5	4.7	7.3	4.6	0.0	0.1	0.9	0.5
Private capital (net)	32.5	55.1	83.9	58.3	8.2	20.0	24.2	20.0
Private capital inflows	45.2	71.5	101.5	75.5	10.5	22.7	27.4	22.0
Private capital outflows	12.7	16.4	17.6	17.2	2.3	2.7	3.2	2.0
Other items (net)	6.2	-4.8	-49.8	-14.2	-43.8	-81.8	-59.5	-55.4
<b>Overall balance</b>	<b>38.5</b>	<b>17.2</b>	<b>11.2</b>	<b>-14.0</b>	<b>-5.9</b>	<b>-8.9</b>	<b>0.1</b>	<b>-16.0</b>
<b>Memorandum items:</b>	183.6	181.9	205.8	222.9	323.9	375.9	406.9	421.8
Service, income, and transfers (net)	490.4	519.9	566.5	599.7	802.6	928.2	1,020.1	1,026.8
Receipts	315.0	349.8	375.3	390.8	523.8	609.4	672.3	680.4
Payments	131.4	167.9	169.5	167.9	199.9	233.5	265.4	258.6
Gross official foreign reserves (TOP million)	246.1	263.3	274.4	289.7	354.9	407.9	468.7	484.3
Months of Import cover (trade estimate)	8.5	9.1	9.1	8.1	7.2	7.5	8.0	8.1

Source: National Reserve Bank of Tonga

**'God is my Refuge and my Fortress'****Tonga: Monetary Survey: 2011/12 – 2018/19**

<b>(T\$m, unless otherwise indicated)</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19p</b>	
Net foreign assets	235.3	258.6	265.9	285.9	338.2	409.9	456.1	475.1	
Foreign assets	251.0	268.8	281.7	297.1	373.3	434.4	483.7	507.6	
Foreign liabilities	-15.7	-10.2	-15.8	-11.2	-35.1	-24.5	-27.6	-32.5	
Net domestic assets	59.1	56.4	74.2	62.0	53.6	26.0	26.1	16.0	
Net domestic credit	165.5	167.4	177.8	206.0	247.0	278.0	275.6	278.8	
Government (net)	-47.1	-29.2	-34.1	-26.9	-29.4	-51.5	-90.7	-117.1	
Non-financial public enterprises	10.1	13.1	36.6	41.8	40.4	42.8	49.1	52.2	
Private sector	202.5	183.5	175.3	191.1	236.0	286.7	317.2	343.7	
Non-monetary financial institutions 1/	▼ -7.2	▼ -8.8	▼ -4.0	▼ -3.9	▼ -3.8	▼ -4.2	▼ -6.0	▼ -5.1	
Other items (net)	▼ -99.2	▼ -102.2	▼ -99.6	▼ -140.1	▼ -189.6	▼ -247.8	▼ -243.5	▼ -257.7	
Total domestic liquidity (M2)	▼ 294.4	314.9	340.0	348.0	391.8	436.6	482.2	491.0	
Narrow money (M1)	119.3	152.1	174.6	188.2	216.5	237.9	238.6	258.6	
Currency outside banks	31.3	32.1	40.1	45.4	48.5	61.9	70.3	70.3	
Demand deposits	88.0	120.0	134.4	142.7	168.0	176.0	168.4	188.3	
Quasi money	175.1	162.7	165.4	159.8	175.3	198.1	243.5	232.4	
Savings deposits	41.4	43.0	44.2	49.7	59.4	63.8	73.2	79.6	
Term deposits	121.8	110.1	109.2	98.6	103.7	124.4	154.0	142.3	
Foreign currency accounts	11.9	9.7	12.0	11.5	12.2	9.8	16.3	10.5	
			<b>Annual Percentage Change</b>						
Net foreign assets	9.3	9.9	2.8	7.5	18.3	21.2	11.3	4.2	
Foreign assets	13.3	7.1	4.8	5.5	25.6	16.4	11.3	4.9	
Foreign liabilities	141.5	-35.0	54.9	-29.1	213.4	-30.2	12.7	17.8	
Net domestic assets	-29.7	-4.6	31.6	-16.4	-13.5	-51.5	0.4	-38.7	
Private sector	-11.1	-9.4	-4.5	9.0	23.5	21.5	10.6	8.4	
Total domestic liquidity (M2)	-1.6	7.0	8.0	2.4	12.6	11.4	10.4	1.8	
Narrow money (M1)	23.1	27.5	14.8	7.8	15.0	9.9	0.3	8.4	
Quasi money	-13.4	-7.1	1.7	-3.4	9.7	13.0	22.9	-4.6	
			<b>In US dollars</b>						
Net foreign assets	130.7	141.8	147.7	135.6	153.2	186.3	207.3	206.6	
Foreign assets	139.4	147.4	156.5	140.9	169.1	197.5	219.9	220.7	
Foreign liabilities	-8.7	-5.6	-8.8	-5.3	-15.9	-11.1	-12.5	-14.1	
Memorandum items:									
Velocity (GDP/average M2)	2.7	2.5	2.3	2.4	2.4	2.3	2.2	2.3	
Exchange rate (pa'anga per U.S. dollar; end period)	1.8	1.8	1.8	2.1	2.2	2.2	2.2	2.3	

Source: National Reserve Bank of Tonga

**‘God is my Refuge and my Fortress’****9. ANNEX II: BUDGET CONTRIBUTION to the GPA FY 2020/21****DETAILED BUDGET ALLOCATION BY PRIORITY FOCUS AREAS****Health (COVID-19, NCD and UHC)**

<b>Health (COVID-19, NCDs &amp; UHC)</b>	<b>Recurrent (\$m)</b>	<b>Development (\$m)</b>
Note [1]	58.46	
COVID-19 Projects		52.54
Tonga Health Project		7.80
ADB Vaccine Projects		3.20
Other Health projects		2.00
<b>Sub-Total</b>	<b>58.46</b>	<b>65.54</b>
<b>TOTAL</b>		<b>124.00</b>

## Notes [1]

Ministry of Health \$48.22m, Palace Office \$0.09m; Legislative Assembly \$0.46m; Tonga Office of the Auditor General \$0.02m; Office of the Ombudsman \$0.04m; Ministry of Foreign Affairs \$0.19m; His Majesty’s Armed Forces \$0.20m; Prime Minister’s Office \$0.08m; Ministry of Finance \$4.95m; Ministry of Revenue & Customs \$0.22m; Ministry of Public Enterprises \$0.02m; Ministry of Trade & Economic Development \$0.18m; Ministry of Justice & Prison \$0.20m; Attorney General’s Office \$0.08m; Ministry of Police & Fire \$0.26m; Ministry of Education & Training \$1.18m; Ministry of Internal Affairs \$0.23m; Ministry of Agriculture, Food & Forestry \$0.26m; Ministry of Infrastructure \$0.70m; Ministry of Lands & Survey \$0.13m; Public Service Commission \$0.04m; Statistics Department \$0.08m; Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Communications and Climate Change \$0.20m; Ministry of Fisheries \$0.16m; Ministry of Tourism \$0.27m.

**Illicit Drugs and National Security**

<b>Illicit Drugs and National Security</b>	<b>Recurrent (\$m)</b>	<b>Development (\$m)</b>
Note [2]	29.32	
Tonga Police Development Program Phase 3		0.20
Tonga Police		1.70
Tonga Police Development Program		2.00
In-country and Capacity Training HMAF		9.10
Support to Tonga Justice System		1.00
<b>Sub-Total</b>	<b>29.32</b>	<b>14.00</b>
<b>TOTAL</b>		<b>43.32</b>

## Note [2]

Ministry of Police & Fire Services \$13.47m, Ministry of Justice and Prison \$10.74m, Customs Department \$5.11m.

**‘God is my Refuge and my Fortress’****Quality Education**

<b>Education</b>	<b>Recurrent (\$m)</b>	<b>Development (\$m)</b>
Note [3]	55.6	
Scholarship		9.80
THS Sport Complex		4.00
Tonga Education Support Activity (TESA)		1.40
Skills and Employment for Tongan Project to TVET		1.50
Tonga Skills Development Program		0.80
UNESCO		0.50
Others		1.00
<b>Sub-Total</b>	<b>55.6</b>	<b>19.00</b>
<b>TOTAL</b>		<b>74.6</b>

Notes [3]

Ministry of Education and Training \$55.60m.

**Economic Development**

<b>Economic Development</b>	<b>Recurrent (\$)</b>	<b>Development (\$)</b>
Note [4]	24.77	
Agricultural and Fisheries Project		7.80
Statistical Innovation		1.00
MA60 Certification		0.30
Consultancy Service		1.00
Central Service Unit		1.30
European Union		1.00
<b>Sub-Total</b>	<b>24.77</b>	<b>12.40</b>
<b>TOTAL</b>		<b>37.17</b>

Note [4]

Ministry of Agriculture \$10.09m; Ministry of Fishery \$4.55m; Ministry of Trade and Economic Development \$6.81m; Ministry of Internal Affairs (Community Development &amp; Local Governance) \$3.32m.

**‘God is my Refuge and my Fortress’****Infrastructure (with priority to ROAD improvement)**

<b>Infrastructure</b>	<b>Recurrent (\$)</b>	<b>Development (\$)</b>
Note [5]	31.68	
Integrated Urban Sector		5.20
Tonga Climate Resilience Transport Project		2.20
Tonga Development Project		3.10
E-Government Project		3.00
Communication Project		1.00
Transport Project Development Facilities		3.00
Heavy Machinery for Road Maintenance		4.80
<b>Sub-Total</b>	<b>31.68</b>	<b>22.30</b>
<b>TOTAL</b>		<b>53.98</b>

Note [5]

Ministry of Infrastructure \$24.48m, Ministry of Tourism \$7.20m.

**Energy, Climate Change and Disaster Risk Reduction**

<b>Energy, Climate Change and Disaster Risk Reduction</b>	<b>Recurrent (\$)</b>	<b>Development (\$m)</b>
Note [6]	2.58	
Tropical Cyclone Gita		4.10
Renewable Energy Project		21.60
Climate Change Adaptation Project		27.30
Disaster Risk Project		1.85
<b>Sub-Total</b>	<b>2.58</b>	<b>54.85</b>
<b>TOTAL</b>		<b>57.43</b>

Notes [6]

Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Communications and Climate Change (Energy Department) \$1.20 million, (Climate Change Department) \$0.65m, (Disaster Management Department) \$0.73m

**‘God is my Refuge and my Fortress’****Public Sector System Reform (including e-government)**

<b>Public Sector System Reform (including e-government)</b>	<b>Recurrent (\$m)</b>	<b>Development (\$m)</b>
Note [7]	177.64	
Communication Project		4.50
Multi-Cross Cutting Sector		4.66
Other Social Sector Project		2.60
TRIP II		4.00
Under Social Project		2.00
Capacity Building and Training		1.00
Other		2.70
<b>Sub-Total</b>	<b>177.64</b>	<b>21.46</b>
<b>TOTAL</b>		<b>199.10</b>

## Note [7]

Palace Office \$3.58m; Legislative Assembly \$12.02m; Tonga Office of the Auditor General \$1.92m; Office of the Ombudsman \$1.51m; Ministry of Foreign Affairs \$10.12m; His Majesty’s Armed Forces \$10.50m; Prime Minister’s Office \$4.39m; Ministry of Finance \$101.97m; Ministry of Public Enterprises \$1.45m; Electoral Commission \$0.76m; Attorney General’s Office \$3.15m; Ministry of Lands & Survey \$ 6.00m; Public Service Commission \$2.03m; Statistics Department \$3.25m; Ministry of Internal Affairs \$4.75m; Revenue Department \$4.72m; Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Communications and Climate Change \$5.52m.

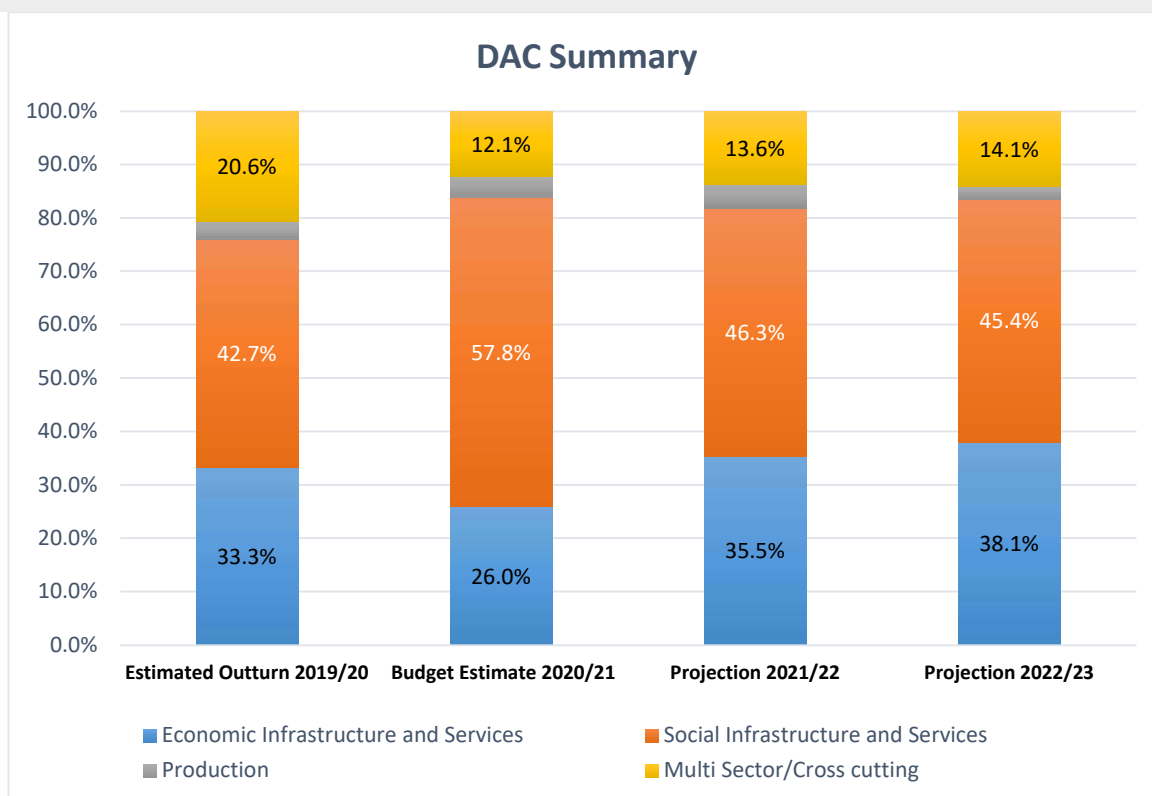
**‘God is my Refuge and my Fortress’**

## 10. ANNEX III: DEVELOPMENT AID CLASSIFICATION BY LOCATION

### 10.1 Aid Funded Project Expenditure by Development Aid Classification (DAC)

Figure 10 below shows the classifications of development projects according to the Organisation for Economic Co-operation and Development’s (OECD), as per Overseas Development Assistance (ODA). This clearly shows that the Social Infrastructure and Services sector remains as the dominant contributor of 46.3 percent of the total development budget estimate, for FY 2020/21.

**Figure 10 : Aid Funded Project Expenditure by Development Aid Classification (DAC)**



Source: MOF

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## 10.2 Development Expenditure by Location

Table 14: Aid Funded Project (Expenditure by DAC) (\$m) by location

DAC Sector	DAC classification	Provisional Budget		Estimated Budget Outturn 2019/20	Budget Estimate 2020/21	Projection 2021/23	Projection 2022/23
		Actuals 2018/19	2019/20				
Nationwide	Economic Infrastructure and Services	12.56	27.90	17.65	15.83	24.45	51.65
	Social Infrastructure and Services	35.66	42.26	26.92	75.6	22.11	21.10
	Production	0.89	4.5	1.15	1.07	1.21	1.000
	Multi Sector/ Cross cutting	11.65	13.65	4.42	11.03	12.48	15.55
<b>Nationwide Total</b>		<b>60.77</b>	<b>88.31</b>	<b>50.15</b>	<b>103.53</b>	<b>60.26</b>	<b>89.30</b>
Tongatapu	Economic Infrastructure and Services	40.05	39.66	17.76	22.81	14.78	15.5
	Social Infrastructure and Services	28.59	52.54	34.82	44.16	50.63	56.08
	Production	5.68	8.10	3.94	5.52	4.80	3.69
	Multi Sector/ Cross cutting	17.81	22.85	21.01	10.11	9.84	12.31
<b>Tongatapu Total</b>		<b>92.13</b>	<b>123.15</b>	<b>77.52</b>	<b>82.60</b>	<b>80.05</b>	<b>87.57</b>
Vava'u	Economic Infrastructure and Services	-	1.00	4.90	3.80	5.70	2.70
	Social Infrastructure and Services	0.04	0.50	1.14	3.16	2.86	12.36
	Production	0.00	0.08	0.04	0.24	0.50	0.00
	Multi Sector/ Cross cutting	6.01	5.65	2.12	1.73	0.52	0.52
<b>Vava'u Total</b>		<b>6.05</b>	<b>7.23</b>	<b>8.21</b>	<b>8.93</b>	<b>9.59</b>	<b>15.58</b>
Ha'apai	Economic Infrastructure and Services	0.00	4.80	1.78	4.01	5.00	4.00
	Social Infrastructure and Services	4.18	0.01	0.32	1.48	1.74	1.74
	Production	0.00	0.00	0.00	0.13	0.50	0.00
	Multi Sector/ Cross cutting	5.40	0.50	1.25	1.02	0.52	0.51
<b>Ha'apai Total</b>		<b>9.59</b>	<b>5.32</b>	<b>3.34</b>	<b>6.64</b>	<b>7.77</b>	<b>6.26</b>
Eua	Economic Infrastructure and Services	-	4.75	2.95	1.80	4.80	0.40
	Social Infrastructure and Services	0.01	0.40	0.45	0.95	0.90	0.90
	Production	0.00	-	-	0.08	0.38	-
	Multi Sector/ Cross cutting	-	0.00	1.28	0.00	0.00	0.00
<b>Eua Total</b>		<b>0.01</b>	<b>5.15</b>	<b>4.68</b>	<b>2.83</b>	<b>6.08</b>	<b>1.30</b>
Niuatoputapu	Economic Infrastructure and Services	-	3.90	4.60	1.50	0.50	-
	Social Infrastructure and Services	-	-	0.04	0.54	0.50	0.50
	Production	-	-	-	0.68	0.10	-
	Multi Sector/ Cross cutting	9.01	1.00	0.80	-	-	-
<b>Niuatoputapu Total</b>		<b>9.01</b>	<b>4.90</b>	<b>5.44</b>	<b>2.72</b>	<b>1.10</b>	<b>0.50</b>
Niufo'ou	Economic Infrastructure and Services	-	1.80	0.38	1.48	5.50	4.00
	Social Infrastructure and Services	-	-	-	0.60	0.60	0.60
	Production	-	-	-	0.23	0.33	0.13
	Multi Sector/ Cross cutting	0.40	-	-	-	-	-
<b>Niufo'ou Total</b>		<b>0.40</b>	<b>1.80</b>	<b>0.38</b>	<b>2.31</b>	<b>6.43</b>	<b>4.73</b>
<b>Grand Total</b>		<b>177.96</b>	<b>235.86</b>	<b>149.72</b>	<b>209.55</b>	<b>171.27</b>	<b>205.24</b>

Source: MOF



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## **11. ANNEX IV: TROPICAL CYCLONES GITA and TINO RECOVERY REPORT**

The purpose of this section is to provide a summary of the recovery works from TC Tino as well as remaining activities from TC Gita recovery in Tongatapu and ‘Eua.

### ***Recovery: Tropical Cyclone Tino***

Category-3 TC Tino hit the Tonga Island Groups on Friday 17th January 2020. The strong storm surge, wind and heavy rains were felt throughout the whole island group. Tongatapu and ‘Eua were spared from heavy damage, however Ha’apai, Vava’u and the two Niuas suffered considerable damages to individual properties (17 households in Ha’apai), public infrastructure (road, causeways, jetties and wharfs) and services (water, electricity and communication). During this disaster there were no casualties reported.

Immediate relief packages, under the administration of the National Emergency Management Committee, were provided to the affected peoples in Ha’apai, Vava’u and the two Niuas. His Majesty’s Armed Force (HMAF) patrol boat, VOA Neiafu was deployed with staff members from the line ministries to the affected areas. The Team carried out detail damage assessments of respective sectors, distributed food rations (flour, sugar and rice) to the two Niuas for food security. Power was immediately restored in Ha’apai and Vava’u Islands and Communications were reconnected in Niuatoputapu. Caritas provided household supplies (kitchen sets) and hygiene kits to the affected communities in Ha’apai, and Tonga Red Cross distributed 10 tarps and other relief supplies to the affected groups in Niuatoputapu.

A national task force team led by the Hon. Prime Minister visited the Outer Islands, firstly to Ha’apai, Vava’u, ‘Eua and then to the two Niuas. This was to assess the impacts of TC Tino and have a better understanding of the overall damage. During this visit, national consultation meetings were held with the Governors, District and Town officers and other relevant stakeholders, to report on damages caused. Major concerns were also raised for coordination.

The Post TC Tino Damage Assessment Report of Ha’apai highlighted the following:

- a) Domestic Port Area and Navy berth area had damages to the existing ladder, capping beams, two-coat chip seal surfacing, mooring bollard on the naval wharf and erosion of the existing rock revetment;
- b) Coastal Protection Walls cracked and heavily damaged;
- c) Holopeka coastal roads (250 km) heavily eroded which is very dangerous for travelling, because there is no reef protection hence there is high risk to give way to erosion any time;
- d) Ha’apai Causeway (‘Ahanga) which connects Lifuka and Foa Islands (approximately 560m) has shown erosion of the rock revetment along the length of the causeway, that needs renovation immediately.

The assessment report provided recommendations for immediate repairs to stabilize the areas as listed above, and further to provide a permanent retaining wall design. The Ministry of Infrastructure is currently reviewing the wall plans before construction will commence.

### ***Recovery: Tropical Cyclone Gita***

#### ***Short Term (Recovery)***

A budget of \$8 million was approved for the clusters to continue implementing the remaining activities of their short-term recovery plans, closely monitored by the National Emergency Recovery Committee chaired by the Hon Minister of MEIDECC. At the end of February 2020, the cluster had utilized 63 percent of available funds and expecting all activities to be completed by the end of FY 2019/20.

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The major activities that are required to be completed by the Clusters are as follows:

- **Water and Sanitation, Health Cluster (WASH):** Tank stand fabrication and installation to schools and villages of Houma, ‘Utulau and Fahefa;
- **Food and security and Livelihood Cluster (FSL):** Continue with Chicken breeding and distribution to household, together with ploughing and livestock requirements;
- **Safety and Protection Cluster:** Continue to provide counselling services to the communities and schools on how to prepare for a cyclone disaster;
- **Shelter Cluster:** Renovations of the Ha’avakatolo Evacuation Centre, Fa’onelua Convention Centre and the PSC Building;
- **Economic and Social Recovery Cluster:** The implementation of the TC Gita loans scheme to businesses that had been affected from TC Gita.

**Medium Term (Reconstruction phase)**

In August 2019, the Housing Reconstruction project commenced the implementation of building new houses for 171 beneficiaries. These beneficiaries are eligible within the assessment of Fully Destroyed Houses (561) that were endorsed in the verification process for the first round of cash grants, (having been granted a payment of \$3,000) but have not re-build their houses at the time of survey. These homes were treated as vulnerable, and occupants must be struggling financially to build back their homes.

As at the end of February 2020, 7 houses were completed, 8 are still under construction, 2 were ready for contract signing, 4 were yet to be awarded to contractors and 9 beneficiaries were awaiting further confirmation from the Ministry of Lands, Survey and Natural Resources.

At the same time, the establishment of a project management unit (PMU) is yet to be created. However, job vacancies are currently being advertised such as the Project Manager, Financial manager, Administration Officer, Procurement officer, and Inspectors.

## **12. Annex V: Economic and Social Stimulus Package to combat COVID-19**

### **Impact on our Vulnerable Economy**

An initial assessment of the overall impact of COVID-19 on the Tongan Economy estimated loss to its gross domestic product at over \$60 million pa’anga for the FY 2019/20.

It is projected at least GDP loss of over \$200 million if the pandemic continues non-stop to the first two quarters of FY 2020/21.

Domestic Revenue as a result is expected to be reduced by \$35 million therefore projected for a fiscal deficit in FY 2019/20, and \$40 million loss of revenue stream for FY 2020/21 with a projected fiscal deficit of \$60 million. Without a vaccine to stop the virus, it is projected that the revenue loss and fiscal deficit could be higher.

### **Government Response**

The Economic and Social Stimulus Package, a short-term assistance program with \$60 million was approved by Government of Tonga in response to the declaration of a State of Emergency in the Kingdom of Tonga to combat COVID-19 which has affected all sectors of the Tongan Economy.

Over 30 percent of the response is to step-up our health care capacity, the remainder earmarks increased commitments for essential services: transport, security, law and order, relief assistance for affected businesses. A provision of social support and assistance for our vulnerable population is also included.

**‘God is my Refuge and my Fortress’****COVID-19 Financing Partnership with Development Partners**

<b>Source of Funds:</b>	<b>TOP(M)</b>
<i>Recurrent</i>	<b>9.7</b>
<i>National Emergency Fund</i>	<b>3.8</b>
<i>Development Funds (Cash tagged to Health)</i>	<b>11.6</b>
<i>Budget Support (Cash)</i>	<b>34.9</b>
<b>Total</b>	<b>60.0</b>

CLUSTER SYSTEM	TOP (M)	TOTAL (M)	REMARKS
Economic and Social Recovery Cluster		<b>22.4</b>	
<ul style="list-style-type: none"> <li><b>Target Affected Businesses</b> <ul style="list-style-type: none"> <li>✓ <b>Primary</b></li> <li>✓ <b>Secondary</b></li> <li>✓ <b>Tertiary</b></li> </ul> </li> <li><b>Employee Support</b></li> <li><b>Community Livelihood</b></li> </ul>	3.4 3.0 10.0 5.0 1.0		Agriculture, Fisheries, Forestry, Exporters Construction, Manufacturing etc Tourism, Wholesale & Retail Trade, Transport (aviation, maritime, roads) Assistance to affected employees through NRBF Income Generating activities for Women Groups & NGOs
Education Cluster	3.8	<b>3.8</b>	Support to Government & Non-Government schools
Emergency Telecommunication	0.3	<b>0.3</b>	
	0.3		Preparedness & response
Essential Services		<b>1.0</b>	
	1.0		Border control activities
Food Security and Livelihood		<b>3.2</b>	
	3.2		Food preservation supplements & Food Security
Health, Nutrition, Water Sanitation Hygiene (WASH)		<b>22.5</b>	
<ul style="list-style-type: none"> <li><b>Preparedness &amp; Protection</b></li> <li><b>Medical Supplies</b></li> <li><b>Implementation of the MOH Pandemic Plan</b></li> </ul>	11.7 6.0 4.8		Preparedness response including water tanks etc.
Logistic & Coordination		<b>1.6</b>	
	1.6		NEMO/MOP/HMAF/TFES/TRS/PD/PSC etc.
Safety and Protection Cluster		<b>1.3</b>	
	1.3		Increase in welfare scheme for vulnerable people (elderly/disability/poor households) & Community Policing & Other activities
Shelter Cluster		<b>4.0</b>	
	4.0		Facility upgrade nationwide
<b>Grand Total</b>		<b>60.0</b>	

**‘God is my Refuge and my Fortress’****13. ACRONYMS**

<b>ADB</b>	Asian Development Bank	<b>GDP</b>	Gross Domestic Product
<b>AGO</b>	Attorney General’s Office	<b>GFS</b>	Government Finance Statistics
<b>AIP</b>	Aid Investment Plan	<b>GGF</b>	Government General Fund
<b>AML/CFT</b>	Anti-Money Laundering/Counter Financing Terrorist	<b>GGP</b>	Grassroots Grant Project
<b>APG</b>	Asia Pacific Group on Money Laundering	<b>GLRF</b>	Gita Loan Recovery Fund
<b>BSP</b>	Bank South Pacific	<b>GPA</b>	Government Priority Agenda 2018-2021
<b>Cat DDO</b>	Catastrophe Deferred Drawdown	<b>HMAF</b>	His Majesty's Armed Forces
<b>CCTF</b>	Climate Change Trust Fund	<b>IDA</b>	World Bank International Development Association
<b>CDs</b>	Communicable Diseases	<b>IFAD</b>	International Fund for Agriculture Development
<b>CEO</b>	Chief Executive Officer	<b>IMF</b>	International Monetary Fund
<b>CNY</b>	Chinese Yuan	<b>JNAP</b>	Joint National Action Plan on climate change adaption and disaster risk management
<b>COVID-19</b>	Novel Coronavirus Disease 2019	<b>JPRM</b>	Joint Policy Reform Matrix
<b>CSOs</b>	Civil Society Organisations.	<b>KPIs</b>	Key Performance Indicators
<b>CSU</b>	Central Service Unit	<b>LA</b>	Legislative Assembly
<b>CT</b>	Consumption Taxes	<b>MAFF</b>	Ministry of Agriculture, Food and Forestry
<b>DAC</b>	Development Assistance Committee	<b>MDAs</b>	Ministries, Departments and Agencies
<b>DFS</b>	Digital Financial Services	<b>MEIDECC</b>	Ministry of Meteorology, Environment, Information, Disaster Management, Energy, Climate Change and Communications
<b>DPP</b>	Director of Public Prosecution	<b>MET</b>	Ministry of Education and Training
<b>DOD</b>	Disbursed Outstanding Debt	<b>MIA</b>	Ministry of Internal Affairs
<b>DRR</b>	Disaster Risk Reduction	<b>MLNR</b>	Ministry of Land and Natural Resources
<b>EDF</b>	European Development Fund	<b>MINOFA</b>	Ministry of Foreign Affairs
<b>EE</b>	Energy Efficiency	<b>MOF</b>	Ministry of Finance
<b>ESA</b>	Exchange Settlement Account	<b>MoF</b>	Ministry of Fisheries
<b>ESSP</b>	Economic and Social Stimulus Package	<b>MOH</b>	Ministry of Health
<b>EU</b>	European Union	<b>MOIT</b>	Ministry of Infrastructure and Tourism
<b>EXIM</b>	Export Import Bank of China	<b>MOJ</b>	Ministry of Justice
<b>FAO</b>	Food and Agriculture Organization	<b>MOP</b>	Ministry of Police, Prison and Fire Services
<b>FATF</b>	Financial Action Taskforce	<b>MORC</b>	Ministry of Revenue and Customs
<b>FED</b>	Foreign Exchange Dealers	<b>MPE</b>	Ministry of Public Enterprises
<b>FIU</b>	Financial Intelligence Unit	<b>MSME</b>	Micro Small and Medium Enterprises
<b>FSL</b>	Food Security and Livelihood	<b>MPS</b>	Monetary Policy Statement
<b>FY</b>	Fiscal Year (July – June)	<b>MTED</b>	Ministry of Trade and Economic Development
<b>GAP</b>	Good Agricultural Practices	<b>NAP</b>	National Action Plan
<b>GCF</b>	Green Climate Fund	<b>NBFIs</b>	Non-Bank Financial Institutions
<b>GDL</b>	Government Development Loan	<b>NCDs</b>	Non-Communicable Diseases

**‘God is my Refuge and my Fortress’**

<b>NEER</b>	Nominal Effective Exchange Rate	<b>TBS</b>	Tonga Bureau of Statistics
<b>NEMO</b>	National Emergency Management Office	<b>TC</b>	Tropical Cyclone
<b>NGOs</b>	Non-Government Organizations	<b>TCC</b>	Tonga Communication Corporation
<b>NIIP</b>	National Infrastructure Investment Plan	<b>SMA</b>	Special Management Areas
<b>NNUP</b>	Nuku’alofa Network Upgrade Project	<b>SNA</b>	System of National Accounts
<b>NPGA</b>	Non-Project Grant Aid	<b>SPAM</b>	Strengthening Protected Area Management
<b>NPL</b>	Non-performing Loans	<b>SPBD</b>	South Pacific Business Development
<b>NRBT</b>	National Reserve Bank of Tonga	<b>SWSE</b>	Social Welfare Scheme for the Elderly
<b>ODA</b>	Overseas Development Assistance	<b>TAL</b>	Tonga Airport Limited
<b>OECD</b>	Organization for Economic Cooperation and Development	<b>TC Gita</b>	Tropical Cyclone Gita
<b>OET</b>	Overseas Exchange Transaction	<b>TCIRP</b>	Tropical Cyclone Ian Recovery Projects
<b>OIREP</b>	Outer Island renewable Energy Projects	<b>TCRTP</b>	Tonga Climate Resilient Transport Project Tropical
<b>OPSC</b>	Office of Public Service Commission	<b>TDB</b>	Tonga Development Bank
<b>PACER</b>	Public Access to Court Electronic Records	<b>TESA</b>	Tonga Education Support Activity
<b>PAMD</b>	Projects and Aid Management Division of the Ministry of Finance	<b>THPF</b>	Tonga Health Promotion Foundation
<b>PAT</b>	Port Authority Limited	<b>THSSP</b>	Tonga Health Sector Support Program
<b>PAYE</b>	Pay As You Earn	<b>TIOE</b>	Tonga Institute of Education
<b>PCRAFI</b>	Pacific Catastrophe Risk Assessment and Financing Initiative	<b>TJSSP</b>	Tonga Justice Sector Support Program
<b>PEs</b>	Public Enterprises	<b>TNIDP</b>	Tonga Nationals Illicit Drugs Policy
<b>PEFA</b>	Public Expenditure and Financial Accountability	<b>TPDF</b>	Transport Project Development Facility
<b>PIC</b>	Pacific Island Countries	<b>TPL</b>	Tonga Power Limited
<b>PIRI</b>	Pacific Islands Regional Initiatives	<b>TREP</b>	Tonga Renewable Energy Project
<b>PFM</b>	Public Financial Management	<b>TRIP</b>	Tonga Rural Innovation Project
<b>PMO</b>	Prime Minister's Office	<b>TSDF</b>	Tonga Strategic Development Framework 2011-2014=I= first
<b>PMU</b>	Project Management Unit	<b>TSDF II</b>	Tonga Strategic Development Framework 2015-2025=II = second
<b>PMS</b>	Performance Management System	<b>TTA</b>	Tonga Tourism Association
<b>PPE</b>	Personal Protective Equipment	<b>UN</b>	United Nations
<b>PRC</b>	People Republic of China	<b>UNFPA</b>	United Nations Fund For Population Activities
<b>PREP</b>	Pacific Resilience Program	<b>UNICEF</b>	United Nations Children Education Fund
<b>PSC</b>	Public Service Commission	<b>USP</b>	University of the South Pacific
<b>RDFD</b>	Resilience Development and Financing Division	<b>WASH</b>	Water Sanitation Hygiene
<b>REER</b>	Real Effective Exchange Rate	<b>WB</b>	The World Bank
<b>ROA</b>	Return of Asset	<b>WBG</b>	World Bank Group
<b>ROE</b>	Return of Equity	<b>WCCC</b>	Women and Children Crisis Centre
<b>SDR</b>	Special Drawing Rights	<b>WHO</b>	World Health Organization
<b>SET</b>	Skills and Employment and Training		