



GOVERNMENT OF TONGA

BUDGET STATEMENT

For the year ending 30th June, 2023

***“Accelerating
Tonga’s Climate and Disaster Resilience
through COVID-19 Recovery”***



**Ministry of Finance
Government of the Kingdom of Tonga
14 JUNE, 2022**

His Majesty King Tupou VI, in his royal address to the Kingdom, proclaiming Psalm 36: 5&7, after the Volcanic Eruption on January 15, 2022.

Psalm 36: 5&7

⁵ Your love, Lord, reaches to the heavens,
Your faithfulness to the skies

⁷ How priceless is your unfailing love, O God!
People take refuge in the shadow of your wings.



TABLE OF CONTENT

FOREWORD	8
1. INTRODUCTION	10
2. SCOPE AND STRUCTURE OF THE BUDGET STATEMENT	12
3. BUDGET OVERVIEW FINANCIAL YEAR 2023	13
4. THEMATIC AREAS AND THE GOVERNMENT PRIORITY AGENDA	14
4.1 <i>Thematic Area 1: National Resilience</i>	15
4.2 <i>Thematic Area 2: Quality of Services and Affordability</i>	22
4.3 <i>Thematic Area 3: Progressive Economic Growth</i>	30
4.4 <i>Allocations of Budget to the Government Priority Agenda</i>	36
4.5 <i>Responsibility for Implementation of each Priority Agenda</i>	37
4.6 <i>Monitoring and Evaluation</i>	38
5. THE POST-CRISIS NATIONAL ECONOMICS OF TONGA	38
5.1 <i>Economic Growth</i>	38
5.2 <i>Inflation</i>	39
5.3 <i>Poverty and Vulnerability</i>	40
5.4 <i>Economic Management</i>	40
5.5 <i>The Macroeconomic Environment</i>	43
5.6 <i>Crisis Management</i>	43
5.7 <i>Reform of Government</i>	44
5.8 <i>Risks and Mitigation</i>	45
6. GOVERNMENT BUDGET: BY FUNDING ALLOCATION	48
6.1 <i>Overview</i>	48
6.2 <i>Recurrent Budget FY 2023</i>	53
6.3 <i>Development Budget</i>	55
7. CONCLUSION	59
ANNEX I: MACROECONOMIC AND FISCAL OUTCOMES AND OUTLOOK	61
ANNEX II: REVIEW OF THE GPA FY 2022	90
ANNEX III: RECONCILIATION BETWEEN THE GFS AND ESTIMATES FOR FY 2023	98
ANNEX IV: DEVELOPMENT AID CLASSIFICATION	99
ANNEX V: RECURRENT BUDGET PERFORMANCE IN FY 2021 AND FY 2022	105
ANNEX VI: TROPICAL CYCLONE GITA AND TROPICAL CYCLONE HAROLD	109
ANNEX VII: GOVERNMENT STIMULUS PACKAGE FOR COVID-19 IMPLEMENTATION REPORT	109
ACRONYMS	113

List of Tables:

Table 1: Total Budget Estimate FY 2023 (\$m)	13
Table 2: HTHH Reconstruction Estimated Allocation (\$m)	13
Table 3: Detailed Budget FY 2023 Allocation for GPA 1	17
Table 4: Detailed Budget FY 2023 Allocation for GPA 2	19
Table 5: Detailed Budget FY 2023 Allocation for GPA 3	21
Table 6: Detailed Budget FY 2023 Allocation for GPA 4	23
Table 7: Detailed Budget FY 2023 Allocation for GPA 5	27
Table 8: Detailed Budget FY 2023 Allocation for GPA 6	29
Table 9: Detailed Budget FY 2023 Allocation for GPA 7	31
Table 10: Detailed Budget FY 2023 Allocation for GPA 8	34
Table 11: Detailed Budget FY 2023 Allocation for GPA 9	36
Table 12: Summary of Government Budget by Priority Areas	37
Table 13: Key Macroeconomic Indicators	39
Table 14: GDP sectors	40
Table 15: Key Fiscal Indicators	41
Table 16: Illustrative Budget Risk Matrix	47
Table 17: Budget Allocation by GPA Thematic Area (\$m)	49
Table 18: Recurrent Budget Projections for FY 2023 – FY 2025 (TOP million)	53
Table 19: Total Recurrent Payments Budget by Category (\$m)	54
Table 20: Total Recurrent Revenue Budget by Category (\$m)	54
Table 21: Recurrent Expenditure by Location (\$m)	55
Table 22: Total Development Budget (Development funded Project Expenditure) by MDAs (\$m)	56
Table 23: Total Development Budget (Expenditure) by Location (\$m)	57
Table 24: Total Development Budget (Expenditure) by Development Partners (\$m)	58

List of Figures:

Figure 1: Three Thematic Areas and the Government Priority Agendas (GPA)	14
Figure 2: GPA 1	16
Figure 3: GPA 2	19
Figure 4: GPA 3	20
Figure 5: GPA 4	22
Figure 6: GPA 5	25
Figure 7: GPA 6	28
Figure 8: GPA 7	30
Figure 9: GPA 8	33
Figure 10: GPA 9	35

Annexes

A-Figure 1: Real Production GDP (\$m)	62
A-Figure 2: Output Gap	63
A-Figure 3: Real GDP Growth projections by sector	63
A-Figure 4: COVID-19 statistics in Tonga as at 29 th March 2022	67
A-Figure 5: Total Public Debt (\$m) FY 2022 – FY 2027 (including actual and projected)	77
A-Figure 6: External Disbursed Outstanding Debt (DOD) by Creditor	78
A-Figure 7: FC/TOP Exchange rate Fluctuations as at 30 th June 2022	78
A-Figure 8: Government Bond Holders as at 30 th June 2022 (%)	78
A-Figure 9: Debt Service with DSSI and IMF – Rapid Credit Facility (RCF)	79
A-Figure 10: Total Public Debt Service FY 2017 – 2027 (including actual and projected)	79
A-Figure 11: Development funded Project Expenditure by Development Aid Classification (DAC)	99
A-Figure 12: Recurrent Budget FY 2021 (\$m)	105
A-Table 1: Key sectors with economic loss	67
A-Table 2: Proposed HTHH Recovery Funding	68
A-Table 3: MOF Fiscal Targets	72
A-Table 4: Government Finance Statistics (GFS)	74
A-Table 5: On-lent Loans as at 30 th June 2022	80
A-Table 6: Sovereign Debt Sustainability Indicators of IMF/ Tonga	80

A-Table 7: Tonga Selected Indicators, FY 2014– FY 2021	86
A-Table 8: Reconciliation Table between GFS and Estimates FY 2023	98
A-Table 9: Development funded Project (Expenditure by DAC) (\$m) by location	104
A-Table 10: Recurrent Performance in FY 2022 (\$m)	106
A-Table 11: Total Recurrent Payments Budget by Ministry (\$m)	108
A-Table 12: Government Stimulus Package due to the COVID-19 impacts	109
A-Table 13: Cluster Allocation, Disbursement and Balance as of December 2021	110
A-Table 14: DFAT Grant Allocation towards poor household as of December 2021	111
A-Table 15: Phase 1 - DFAT Grant Allocation towards poor households as of December 2021	111

FOREWORD

Budget 2023 is presented in unique circumstances.

The eruption of Hunga Tonga Hunga Ha'apai (HTHH) and of COVID-19 are clear examples of the type of uncontrollable risks we will face in the future. They have highlighted the need for wide ranging and holistic approaches to building resilience, providing service to the people of Tonga and facilitating inclusive economic development. The double shock of HTHH and of COVID-19 has a profound impact upon all sectors of the economy, disrupting everyday life.

In these circumstances, the theme of the budget is

"Accelerating Tonga's climate and disaster resilience through COVID-19 recovery".

In response to these HTHH and COVID-19, government has approved and begun implementation of a recovery plan to address reconstruction. The tireless efforts led by the Prime Minister's Office, the National Emergency Management Office (NEMO), and the Ministry of Health to contain spread of the virus are ongoing, including national lockdown and strict preventative measures. It is pleasing to note that vaccination coverage against COVID-19, for both Tongatapu and the outer islands, is now 98 percent of the target population and also started for children under 12 years.

The strength and resilience of the people of Tonga have been severely tested but we continue to stand firm in the face of adversity with the help, encouragement, and support of our families and friends from all over the world.

This Budget, operating in line with the TSDf and the recovery process, focusses upon Government Priority Agenda (GPA) which reflects the resolve and commitment required to overcome these crises. The nine (9) GPA are grouped into three thematic areas:

1. Building National Resilience to external threats and risks
2. Improving the quality services and affordability of government services to the community
3. Progressive Economic Growth.

Delivering the themes and the priorities will require that the ministries and agencies of government share resources and work together in new ways to maximise benefit to the people. The format of this Budget Statement emphasises the cross-organisation nature of the GPA and the plans we have made.

In terms of the economy, FY 2020 recorded positive growth of 0.7 percent, FY 2021 was negative 1.2 percent and FY 2022 negative 2.5 percent. In the case of FY 2022, this contraction was due mainly to the impact of the eruption and the spread of COVID-19. The medium term (FY 2023 to FY 2025) is projected to have an average growth of 3.4 percent, driven by Government Relief Assistance, planned recovery reconstruction activities and other medium-term major development projects. On the fiscal side, an increased expenditure at the same time maintaining a balanced approach will result in a budget deficit of \$30.3 million in FY 2023.

Budget 2023 prioritizes resources so that Government spending can be directed to ensuring the social wellbeing of Tongan citizens. In particular, supporting the elderly and other vulnerable individuals and groups in the community, and assisting affected businesses, is a priority. Government will continue to act with prudence in fiscal management and in the prioritising of activities over the medium term. As is the case for other countries, government has proactively applied fiscal and monetary policy responses to offset the negative economic impact of COVID-19.

Going forward, the Budget 2023 will build on current efforts and key measures to support medium-term economic recovery, rejuvenate private sector activity, protect and create jobs, and maintain overall macro-fiscal sustainability. The Government will continue to attend closely to recovery works and

investment as prime factors for building resilience, restoring growth in key sectors, and maintaining macro-economic stability.

We encourage strong coordination and collaboration across Government by all relevant key stakeholders. This is paramount for the successful implementation of government themes and priorities and the recovery of our beloved country. During this challenging time, we are indebted to the ongoing support of our development partners, the Tongan diaspora and all friends of Tonga.

I look forward to your continuous support and cooperation to build the Kingdom that we love and cherish.

God bless Tonga!



Hon Tatafu Moeaki
Minister of Finance



1. INTRODUCTION

This is the first Budget of the new administration. In the light of recent crises and shocks to the economy, it is inspired by the theme:

'Accelerating Tonga's climate and disaster resilience through COVID-19 recovery'.

The theme draws upon the experiences of the eruption of HTHH, and the spread of COVID variant Omicron. These events challenged us all, but also encouraged us to reflect, and to call upon everyone to work and support each other to build a resilient economy that can withstand future climate change and unpredictable disasters. Through greater resilience, the people of Tonga can be provided with security. The application of the theme throughout the Budget Statement will emphasize and guide the agenda, plans, and initiatives of the Government, helping the Tongan people recover from the damage caused by the crises.

Recovery through the efficient and effective implementation of the priorities of the Government will require ongoing inclusive partnerships, coordination, and collaboration across Government and between key stakeholders, including the private sector, civil society, and development partners. Given the limited financial capacity of the Government, pulling together is critical.

To achieve this, and in line with TSDF II, in the Budget Strategy of 1st February 2022 the new Government has defined its Priority Agenda (Government Priority Agenda (GPA)) and categorized them into three thematic areas which cut across the standard operations of the Government:



The identification of these overarching themes, and the GPA within them, will allow the Government to focus development and recovery efforts to build resilience, early warning, and safer infrastructure. As a result, Tonga will be better able to deal with extreme natural events and economic crises, reducing their impact on the population. Delivering these thematic areas will require that the ministries and agencies of government work together towards the same outputs, allocating their resources towards the development and implementation of collaborative solutions. Working together with shared aims and monitoring systems will enhance the delivery of the themes and improve service delivery to the people of Tonga. Detail of each theme and the GPA within are provided in Section 4 of this Statement.

Response to the Crises

The recent shocks to the economy and the people of Tonga have had a profound impact on all sectors of the economy and have disrupted many aspects of everyday life. In response, the Government has approved and commenced the implementation of a recovery plan, to facilitate the reconstruction of damaged infrastructure.

In addition, the ongoing and tireless efforts, led by the PMO, Ministry of Health, MEIDECC, HMAF and others, to help slow the spread of the virus in the community, have included a national lockdown and a requirement for everyone to implement preventative measures. It is pleasing to note that the first vaccination coverage against COVID-19 has exceeded 97 percent of the target population. In addition, over 90 percent of the population has received a second dose. The rate for the booster third vaccination has reached half of those eligible. With the ongoing support of our development partners, the vaccination for our younger generation has also started. Further, we are now able to accelerate the return of our people stranded in overseas locations. During the period of this budget, the Government is committed to continuing the safe and responsible opening up of our borders, to allow us to reintegrate with our extended diaspora and with the rest of the world. This process will be done responsibly, given the risk of further COVID-19 variants.

Despite the closure of our borders in March 2020, FY 2020 recorded a small positive growth in GDP of 0.7 percent. The economic impact of COVID-19 began to be clear in FY 2021, with a falloff in economic activity and a projected 1.2 percent reduction in GDP. While there were initial signs of some recovery during the first half of FY 2022, the additional impact of the eruption, is likely to result in a reduction of 2.5 percent for the whole of FY 2022. Assuming there are no further serious unexpected events, the medium term (FY 2023 to FY 2025) growth is projected at an annual average of 3.4 percent, reflecting the impact of Government Relief Assistance, planned recovery reconstruction activities, and other major development projects scheduled to be implemented during the period.

On the fiscal side, the disruption to the economy has generated a fiscal deficit for FY 2021 and an anticipated deficit for FY 2022. Continued weakness in domestic revenue, along with the heavy demands on expenditure, will result in a budget deficit of \$30.3 million in FY 2023. We will continue to seek additional development grants so that this deficit may be smaller. However, we retain sufficient access to very low interest loans and reserve cash balances so that these deficits can be financed responsibly. The Government shall continue to observe prudence in fiscal management and prioritization of essential activities over the medium term. This includes continuing, like other countries, the proactive application of fiscal and monetary policy responses, to offset the negative economic impact of COVID-19 and wider geopolitical disruptions.

Moving forward, within the three thematic areas, the Government Budget FY 2023 – FY 2025 will build on the current efforts and key measures to support medium-term economic recovery, rejuvenate private sector activity, support the most vulnerable, and protect and create jobs, and maintain overall macro-fiscal sustainability.

This budget focusses on support for rebuilding and recovery of our damaged infrastructure, economic activities, and fiscal position. With careful management, this is possible. However, within the theme of this budget, we must also note that rebuilding damaged lives may take longer. We must recognize that many of us are still subjected to trauma. During this difficult time of recovery, this is where we must work and support one another to build our resilience.

Physical and human rebuilding will require effective coordination and collaboration across Government with all relevant key stakeholders, both domestic and international. This is paramount for the successful implementation of the Government's priorities and the recovery of our country.

We are indebted to the ongoing support from our development partners, the Tongan diasporas, and all friends of Tonga, especially during this challenging time.

Note:

- (i) All amounts stated in this document are in Tongan Pa'anga unless otherwise indicated.
- (ii) Differences in numbers are due to rounding.
- (iii) Financial Year (FY) is read as, *for example*: FY 2023 = FY 2022/23 ending to the 30th of June 2023.
- (iv) Exchange rate for week ending 29th of April 2022 has been used for conversion in this document, unless otherwise indicated.

2. SCOPE AND STRUCTURE OF THE BUDGET STATEMENT

The budget statement has seven (7) sections, plus Annexes:

Section 1	Introduction
Section 2	Scope and Structure of the Budget Statement
Section 3	Budget Overview FY 2023
Section 4	Thematic Areas and the Government Priority Agenda (GPA)
Section 5	Post-Crisis National Economics of Tonga
Section 6	The Government Budget by funding allocations.
Section 7	Conclusion
Annexes	Detailed information and analysis

The intention of the Budget Statement is to facilitate the actions required of ministries and agencies to deliver the services identified for each Government Priority Agenda (GPA) in the Budget Strategy of 1st February 2022.

This facilitation will take the form of:

- Clear and accurate analysis
- Provision of evidence for decision-making
- Provision of budget in line with the budget envelope identified in the Budget Strategy.

To provide the effective facilitation required, the structure and content of this Budget Statement differ fundamentally from those of previous years. The changes to the form and scope of the Budget Statement have been developed in consultation with stakeholders, with the intention of rendering the statement more useful to stakeholders, with a greater emphasis on evidence and on the decision-making use of the information provided.

As such, in addition to presenting the overall budget at Section 6, the core of this Budget Statement is the discussion of the delivery requirements for each GPA identified by the Budget Strategy. This is provided in detail in Section 4.

Further, efficient and effective delivery of services within each GPA requires an understanding of the wider operating and economic environment. An overview of the operating and economic environment challenges facing Tonga, and against which the GPA will be delivered, is provided in Section 5. Annex 1 provides greater detail of this analysis.

In addition, interpreting the detailed discussions of each GPA contained in Section 4 requires an overview of the overall budget available to the Government. This is provided in Section 3.

3. BUDGET OVERVIEW FINANCIAL YEAR 2023

The total expenditure budget for FY 2023 is \$764.7 million of which \$437.0 million is recurrent (57.1 percent) and \$327.7 million development (42.9 percent). Of the total budget, 74.9 percent or \$573.1 million is the appropriated cash, while 25.1 percent or \$191.6 million is in-kind.

Table 1: Total Budget Estimate FY 2023 (\$m)

Source of Fund	Original FY 2021 Estimates	Approved Budget FY 2022	Budget FY 2023	% of Total Budget
Recurrent	380.1	376.2	437.0	57.1%
Development	209.6	249.0	327.7	42.9%
Cash	85.8	123.1	136.1	41.5%
In-kind	123.8	125.9	191.6	58.5%
Grand Total	589.7	625.2	764.7	100.0%

Source: Ministry of Finance (MOF)

The Government's budget is broadly allocated in terms of the nine (9) strategic focus areas as outlined in *Section 4* below. Major initiatives under the nine strategic focus areas are ongoing work by MDAs under their respective operations.

The Budget 2023 targets to collect a total of \$341.8 million in recurrent receipts whilst aiming to spend a total of \$437.0 million. This will result in a payment deficit of \$95.2 million over receipts. With budget financing, the total recurrent receipts increase to \$406.8 million with a resulting cash-basis Budget Deficit of \$30.3 million. The overall development budget for FY2023 is estimated at \$327.7 million consisting of total cash of \$136.1 million and total in-kind at \$191.6 million listed in Table 22.

The HTHH is mainly financed by the development budget with a government contribution of \$11 million and \$2 million in FY 2023 and FY 2024 respectively. Table 2 below illustrates the estimated HTHH Reconstruction Financing Plan for FY 2022 – 2024.

Table 2: HTHH Reconstruction Estimated Allocation (\$m)

Source of Funds	Estimated Outturn FY 2022	Budget Estimate FY 2023	Budget Estimate FY 2024
	(\$m)	(\$m)	(\$m)
Recurrent	17.8	11.0	2.0
Development	25.1	109.9	52.2
Cash	8.3	49.2	6.1
In-Kind	16.8	60.7	46.1
Total	42.9	120.9	54.2
<i>HTHH % to Total Budget</i>	<i>7.7%</i>	<i>15.8%</i>	<i>7.8%</i>

Source: MOF

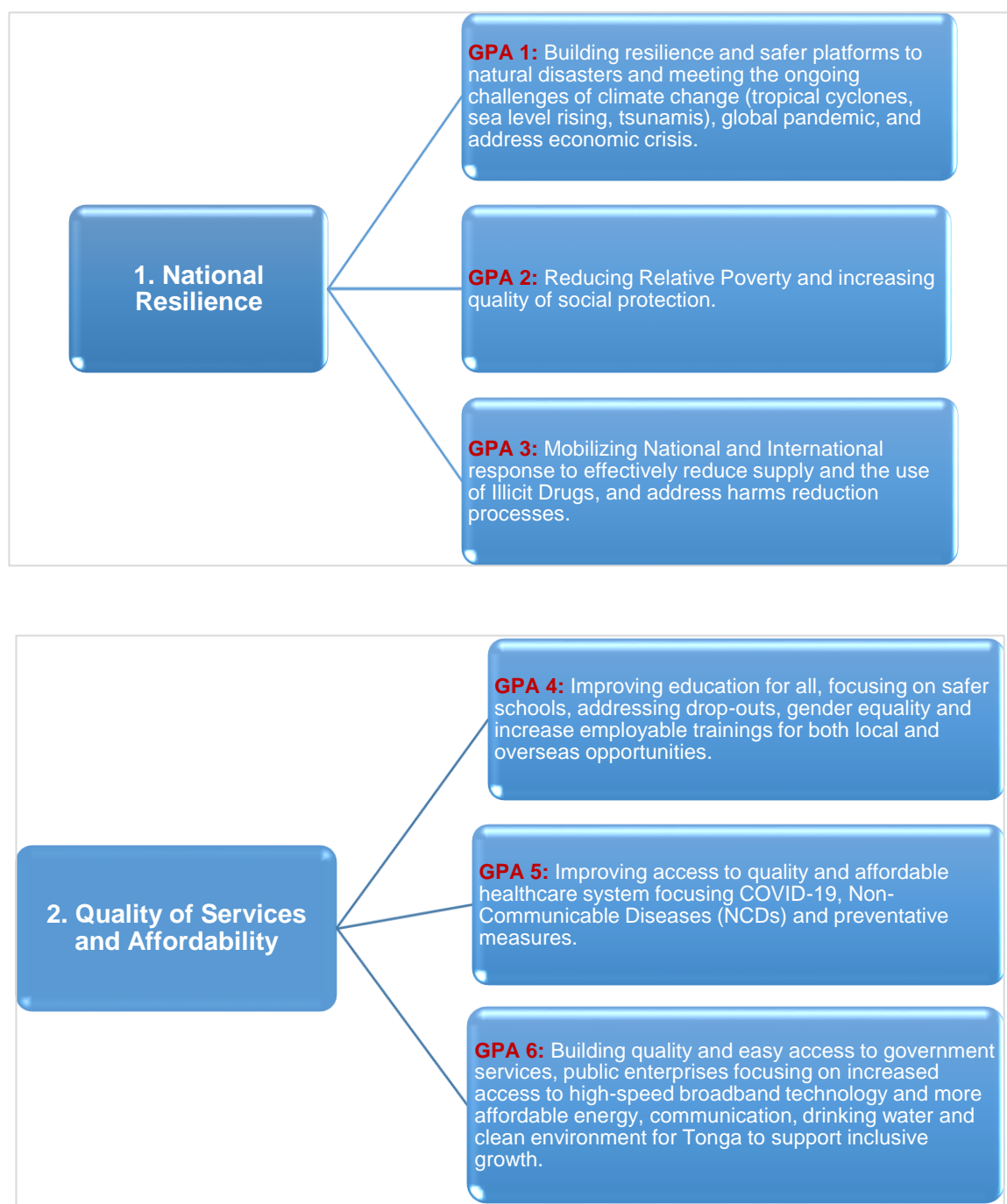
The total confirmed funding over the medium term is equivalent to 38.4 percent of the total HTHH reconstruction cost, of \$567.7 million.

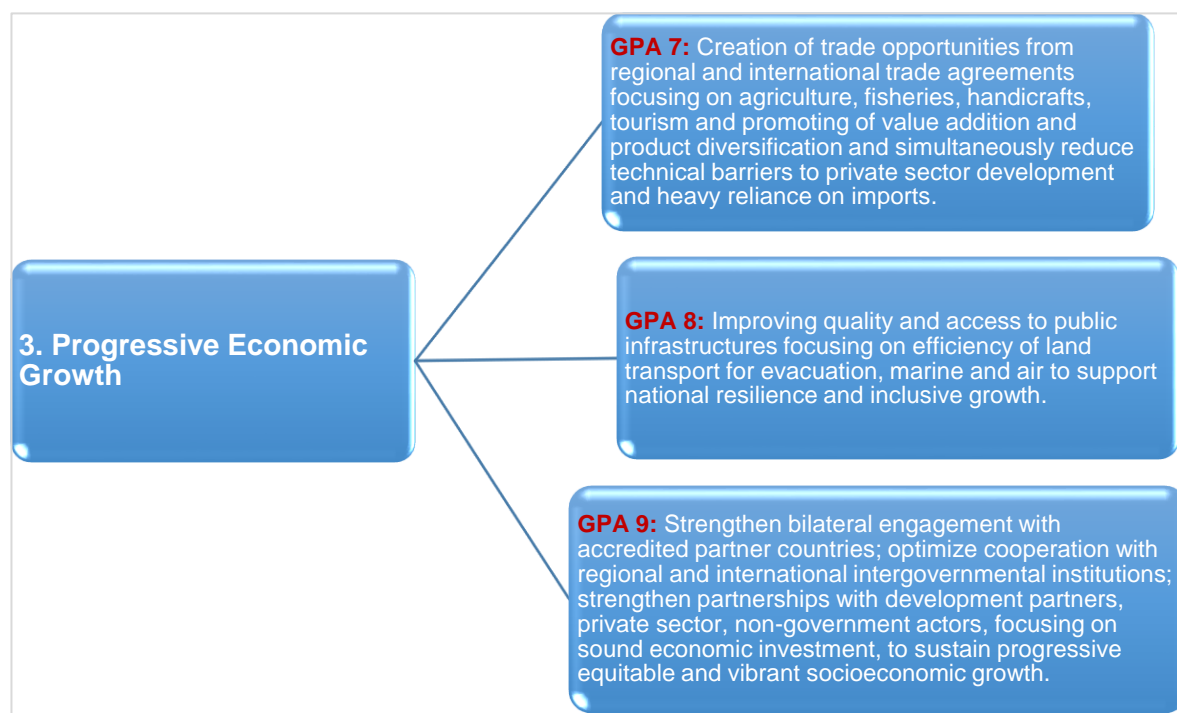
4. THEMATIC AREAS AND THE GOVERNMENT PRIORITY AGENDA

TSDF II defines the long-term national strategy for development within which all plans and budgets are embedded. The GPA defined in the Budget Strategy of 1st February 2022 are a subset of TSDF II, focusing the Government on key priority agendas during their term (2022-2025). This focus guides the budget and other plans of the Government.

This Budget Statement is designed to focus on the three (3) thematic areas and the nine (9) GPA.

Figure 1: Three Thematic Areas and the Government Priority Agendas (GPA)





Source: Prime Minister's Office (PMO), Ministry of Finance (MOF)

Each GPA is discussed in turn in Section 4, providing analysis, performance overview, and funding. Detailed activities and a review of the performance of the GPA are provided in Annex II.

4.1 Thematic Area 1: National Resilience

Overview: The Management of Crisis

The eruption of HTHH and the subsequent ashfall and tsunami on January 15th, 2022, caused damages and losses of over \$416.2 million¹ (36.4 percent of GDP), and caused widespread damages to buildings, schools, roads, undersea cables, power and water supply networks, tourism infrastructure, agricultural crops, livestock, and fisheries.

The eruption and its after-effects are estimated to have affected 85 percent of the population directly, especially impacting poor households reliant on the agriculture and tourism sectors.

The eruption of HTHH resulted in a very substantial unanticipated fiscal financing needs of over 10 percent of GDP in FY 2022.

Coupled with revenue shortfalls due to lower economic activity caused by the disaster, the unanticipated fiscal financing needs are estimated to be \$121.3 million (est. USD52.5 million) (10.5 percent of GDP) in the financial year 2022.

This shortfall has been covered by:

- the mobilization of domestic resources;
- a credit drawdown of \$18.4 million (USD8 million) from the Catastrophe Deferred Drawdown Option (Cat DDO);
- \$23.1 million (USD10 million) Contingency Disaster Facility; and
- substantial commitments from development partners. Fast-disbursing support from development partners has allowed the Government to keep the reform process moving forward

¹ GoT and WB staff estimates, April 28, 2022

and to navigate limited borrowing options and low cash reserves.

Tonga is managing its first outbreak of COVID-19 and is affected by rising global commodity prices due to the political tension between Russian and Ukraine, which have compounded the impact on the economy and public finances. These include the increase on domestic prices, increasing recovery costs, and putting additional pressure on households, particularly the poor and vulnerable groups.

By April 13th 2022, 8,761 cases of COVID-19 were recorded, which is 8.7 percent of the population. The 90 percent vaccination rate and domestic lockdowns in February and March 2022, helped to reduce the impact of COVID-19. The pandemic weakened economic performance:

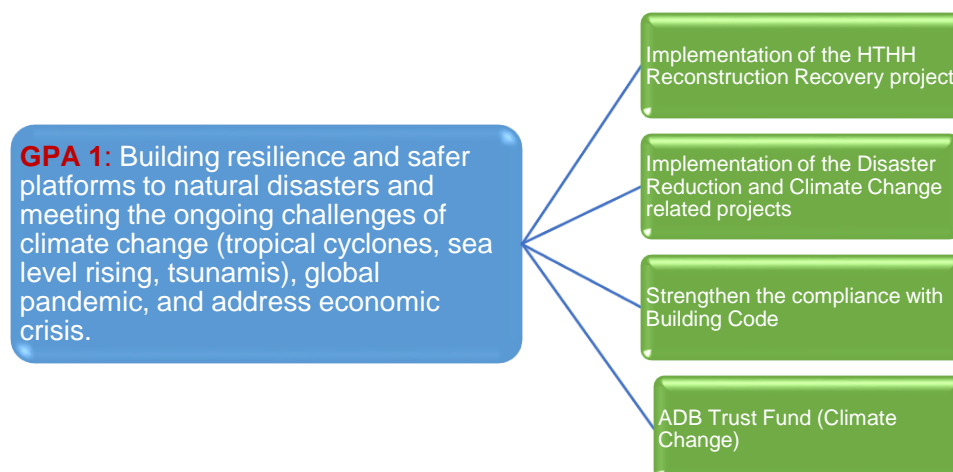
- the lockdowns hampered post-disaster response and recovery efforts; and
- border closures since March 2020, had significant negative impacts on tourism, retail sectors, and government finances.

The pressures on the economy created by the volcanic eruption, COVID-19, and inflating commodity prices clearly illustrate the need for Tonga to develop processes to manage crisis and facilitate resilience and recovery. As a result, the Budget Strategy identified actions in each of the three GPA of Thematic Area 1: National Resilience (GPA 1-3).

GPA 1: Building resilience and safer platforms to natural disasters and meeting the ongoing challenges of climate change (tropical cyclones, sea level rising, tsunamis), global pandemic, and address economic crisis.

In light of recent developments, the Budget Strategy identified four areas of priority GPA 1, implemented through this Budget Statement:

Figure 2: GPA 1



Source: PMO, MOF

GPA 1: Review of Performance, FY 2022

MEIDECC received the largest share of the development budget of all line ministries under this GPA. This is attributed to the ongoing related Climate Resilience development projects.

A Disaster Risk Financial Strategy 2021–2025, Emergency Management Act (2007) and the National Emergency Fund Act (2008) were established to guide Tonga’s overall management of disaster risk. The resulting Disaster Risk Management Bill (2008) is currently awaiting royal assent. Building on the existing legal and policy framework for disaster-related financial risk management will support to quantify, reduce, and mitigate disaster-related financial risk. The objective is to strengthen the

financial resilience of the Government, households, businesses and the vulnerable groups to disaster.

In particular, the Government has taken steps to build a more resilient recovery through strengthened policy, compliance, and implementation capacity:

- The Resilient Development and Financing Unit under the Ministry of Finance continues to facilitate efforts to strengthen national resilience, including the management of financial risks imposed by natural disasters.
- The Energy Bill is yet to be formalized. The Bill is the key legislation, driving sector plans under the TERM PLUS.
- The Ministry of Infrastructure, continues to lead the implementation of World Bank Tonga Climate Change Resilience and Transport project, (which upgrade roads, aviation, and maritime infrastructure).
- Address economic crisis: The Government continued to provide its economic response package to support the affected businesses, households, employees, and vulnerable groups including:

HTHH Assistance

- 1) Tsunami Business Relief Assistance (\$0.38m)
- 2) Social Safety and Protection (\$2.08m) Tsunami households (\$0.3k), vulnerable groups (\$0.17m)
- 3) Government subsidy (\$1.83m)
- 4) Housing Reconstruction (\$42.1m)

COVID-19 Assistance

- 1) Business Relief Assistance (Employees \$2.2m, Occupational Safety Health (OSH) \$2.7m, Informal Sector 0.5m)
- 2) Social Sector (\$4.2m) (Vulnerable Groups 1.35m, Education School Fees 1.5m, Hama E-learning \$1.0m, Constituency 0.4m)
- 3) Government Subsidy – Electricity Price Subsidy (\$1.7m)
- 4) Government Development Loans (\$11.25m)

Other measures including tax deferral, tax exemption, and loan moratorium

GPA 1 BUDGET FY 2023

Table 3: Detailed Budget FY 2023 Allocation for GPA 1

Building Resilience and safer platform to natural disaster & Climate Change	Recurrent (\$m)	Development (\$m)
Note [1]	1.5	
Tonga Volcanic Eruption & Tsunami		33.2
DFAT Budget Support		13.1
Pacific Resilience Program (PREP)		7.3
Integrated Urban Sector Resilience Project (IURSP)		6.5
TREP - Tonga Renewable Energy Project		4.4
Water Management Project		5.0
Nationwide Early Warning System		1.1
Tonga Coastal Resilience Project		0.8
Other		4.8
Sub-Total	1.5	76.1
TOTAL		77.6

Note [1] – MEIDECC (Climate Change Department) & (Disaster Management Department) \$1.5m

Source: MOF

GPA 1 Activities

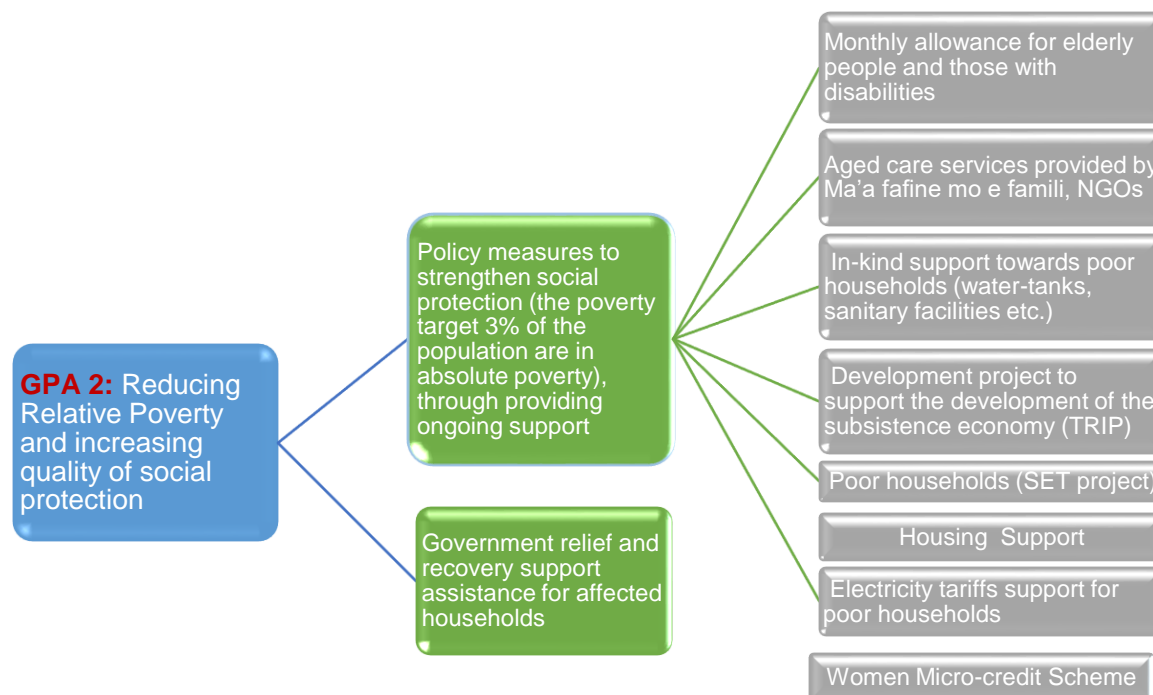
The Government's HTHH build back-better recovery plan, costing over \$500 million, will drive development spending higher over FY 2023 and FY 2024. The overall HTHH spending is estimated to be around 9.4 percent and 3.9 percent of GDP in FY 2023 and FY 2024 respectively.

- The HTHH recovery prioritized BBB for sectors including housing, food security and livelihood, the tourism industry and public infrastructure.
- Housing relief was provided for the reconstruction of 286 houses under category 5 cyclone standard, including elevated structures for low lying areas and sanitation facilities. Retrofitting assistance was also provided for 182 houses that were moderately damaged. The vulnerable communities of Mango, 'Atatā, and Kanokupolu will be relocated as part of the reconstruction plan and to re-establish livelihood.
- *Tourism industry*: a total of 49 businesses, both large and small, resort infrastructures were damaged and require reconstruction. Further review is needed to address resilience and viability of building in existing locations given its vulnerability to disasters.
- *Public infrastructure* projects include the reconstruction of six (6) primary schools, three (3) health facilities and government buildings to house ministry offices in both Eua and Ha'apai. The Nuku'alofa waterfront foreshore and other exposed low-lying areas of Hihifo Tongatapu, 'Eua and Pangai Ha'apai are currently being designed for the rebuild.
 - Improvement to Tonga's evacuation road network to higher lands is underway. Government has further allocated maintenance budget under the Ministry of Infrastructure.
 - The Fanga'uta Lagoon Bridge project under preparation by the ADB was also requested to be expedited to address the evacuation needs of the people of Nuku'alofa.
 - A second marine Cable to address resilience and affordable access to high-speed broadband has been requested, following the recent cable cut from HTHH eruption
 - Before the cyclone season starts in 2023, the Government is supported by the World Bank and Asian Development Bank, in replenishing the disaster contingency financing facilities.
- The following temporary tax relief measures form part of the fiscal package are aimed at assisting taxpayers affected by the volcano eruption and COVID-19. These include:
 - 150 percent tax deduction for businesses who pay salary and wages during pandemic (COVID-19 hard (red) lockdown periods)
 - 150 percent tax deduction for donations made to the COVID-19 fund and for health and educational supplies made to the community.
 - 150 percent deduction allowed for expenses incurred when businesses invest in creating websites and setting up online services and payment options.
 - 150 percent tax deduction for capital expenses incurred by businesses to recover from HTHH
 - Rebate portion of costs for deriving export income for small – medium manufacturing businesses.
 - A 100 percent Tax Deduction will be available on local purchases of total fixed assets up to \$5,000 per business for business purposes within six months of business commencement.

GPA 2: Reducing Relative Poverty and increasing the quality of social protection

Within GPA 2, in the light of recent developments, the Budget Strategy identified two areas of priority, implemented through this Budget Statement:

Figure 3: GPA 2



Source: PMO, MOF

GPA 2 Review of Performance FY 2022

Focus activities are COVID-19 poverty targeted assistance to the vulnerable and marginalised population: the elderly and special needs, women groups through development loans, grants and micro-finance loans, provision of water tanks and sanitation facilities, direct government assistance to the constituencies, electricity lifeline tariff, and tariff subsidy to all households.

GPA 2 BUDGET FY 2023

Table 4: Detailed Budget FY 2023 Allocation for GPA 2

Poverty and Social Protection	Recurrent (\$m)	Development (\$m)
Note [2]	12.1	
Skills & Employment for Tongan Project (IDA)		2.6
Outreach and Community Consultations		0.5
DFAT Budget Support		6.2
Sub-Total	12.1	9.3
TOTAL		21.4

Note [2] - Ministry of Internal Affairs \$4.9m, Ministry of Finance (Grant - Vulnerability & Social Welfare \$7.2m)

Source: MOF

GPA 2 Activities

- Policy measures to strengthen social protection through providing ongoing support with particular focus on:
 - Monthly allowance for elderly people [2,688 females and 1,881 males] and those with disabilities (1,213 females and 1,001 males);
 - Social aged care services;
 - In-kind support towards poor households (water-tanks, sanitary facilities, etc.);
 - Provision of cash support to vulnerable students and families through the SET project;
 - Continuation of the Lifeline Electricity tariffs support for poor households with consumption of up to 150-kilowatt hour per month;
 - Cash support for lockdown employment relief for eligible employees
- Moratorium on the 1 percent interest loan facility for women
- Top-up the allocation for micro-credit loan facility for women (\$3 million)
- Enable the poor to break out of poverty traps by offering additional credit instruments fitted to their needs
- Introduce more affordable housing finance to ease household indebtedness, living in unsatisfactory conditions, or building housing little by little, at higher costs, in-order to bring economic opportunity to households.

GPA 3: Mobilizing National and International response to effectively reduce the supply and use of Illicit Drugs. Address harm reduction processes.

In the light of recent developments, the Budget Strategy identified the core area of priority for GPA 3, implemented through this Budget Statement:

Figure 4: GPA 3



Source: Prime Minister's Office (PMO), Ministry of Finance (MOF)

GPA 3 Review of Performance FY 2022

The prevalence of illicit drugs-related cases in Tonga reported by the Tonga Police rose to 845 (as per the record in November 2021), since the launch of the Police Enforcement Taskforce in April 2018. This is an increase of eight times the total cases (96) in 2018.

The first-ever National Symposium on Illicit Drugs was convened and attended by His Majesty King Tupou VI, marking the country's approach to combat the issue. The symposium theme: "Working together for a Drug Free Tonga", reflects the call for the nation to join hands in this fight against illicit drugs.

Going forward, the government will focus on the implementation of the necessary actions, as an outcome of the symposium, guided by the Tonga National Illicit Drugs Policy (TNIDP), approved in 2019. The policy focuses on three key strategic outcome areas: Supply Reduction, Demand Reduction, and Harm Reduction. Total estimated cost of \$2 million is projected for drugs related activities, and \$3 million is earmarked for the activities under the three key strategic outcome areas.

The Illicit Drugs technical committee chaired by the Police Commissioner lead the implementation of the required action plans and activities. It is clear that combatting the use of illicit drugs must be conducted on a broad front across the whole of society covering all citizens. This requires a multi-faceted approach that incorporates our social values.

GPA 3 BUDGET FY 2023

Table 5: Detailed Budget FY 2023 Allocation for GPA 3

Illicit Drugs	Recurrent (\$m)	Development (\$m)
Note [3]	41.8	
Support to HMAF		7.0
Drug and Alcohol Treatment		1.3
Tonga Police Development Program		1.3
Other		2.4
Sub-Total	41.8	12.0
TOTAL	53.8	

Note [3] – MOF \$7.0m HMAF \$12.0m, Ministry of Police \$12.5m & Ministry of Fire Services \$3.6m, Prisons Dept. \$4.4m, MORC (Boarder Management Division) \$2.3m

Source: MOF

GPA 3 Activities

The government will continue to empower and strengthen the current effort and coordination amongst all key stakeholders to combat illicit drugs in the country. These include the strengthening of the Ministry of Police staffing capacity, with continued partnership across respective MDAs and with NGOs, private sectors, and communities to enable the implementation of the Action Plan to combat illicit drugs. An additional \$2 million is allocated to support the implementation of the National Action Plan on Illicit Drugs 2021-2024, through the related activities under respective MDAs.

The NAPID is further divided into three (3) Specific Priority Areas (SPAs) namely Supply Reduction, Demand Reduction and Harm Reduction with underlying strategic directions that align to the Strategic Focus Areas (SFAs) of the NIDP. The NAPID will serve as a benchmark and guiding framework for the development of the specific Action Plans for the Technical Working Groups (TWGs) namely the Supply Reduction Working Group (SRWG), Demand Reduction Working Group (DRWG) and Harm Reduction Working Group (HRWG). The SPAs and respective strategic focus areas are summarized as follows:

SPA 1: Supply Reduction:

- 1.1 Reduced Supply and availability of Illicit Drugs
- 1.2 Legal and Policy Response Mechanism
- 1.3 Reduce Corruption and Money Laundering
- 1.4 Improve Coordination and Control - Governance Framework
- 1.5 International/Regional Cooperation - Alliances and Networks
- 1.6 Improving Data Collection, Analysis and Information Sharing/Data Analytics and Intelligence

SPA 2: Demand Reduction:

- 2.1 Prevention

2.2 Alternative Development

SPA 3: Harm Reduction:

- 3.1 Treatment, Rehabilitation and Re-integration
- 3.2 Access to Controlled Drugs
- 3.3 Compliance with Human Rights

National Security is essential to defending our Constitutional values, ideals of justice, economic stability, as well as the well-being and lives of our people. Thus, the initiative to develop the first National Security Strategy for Tonga to:

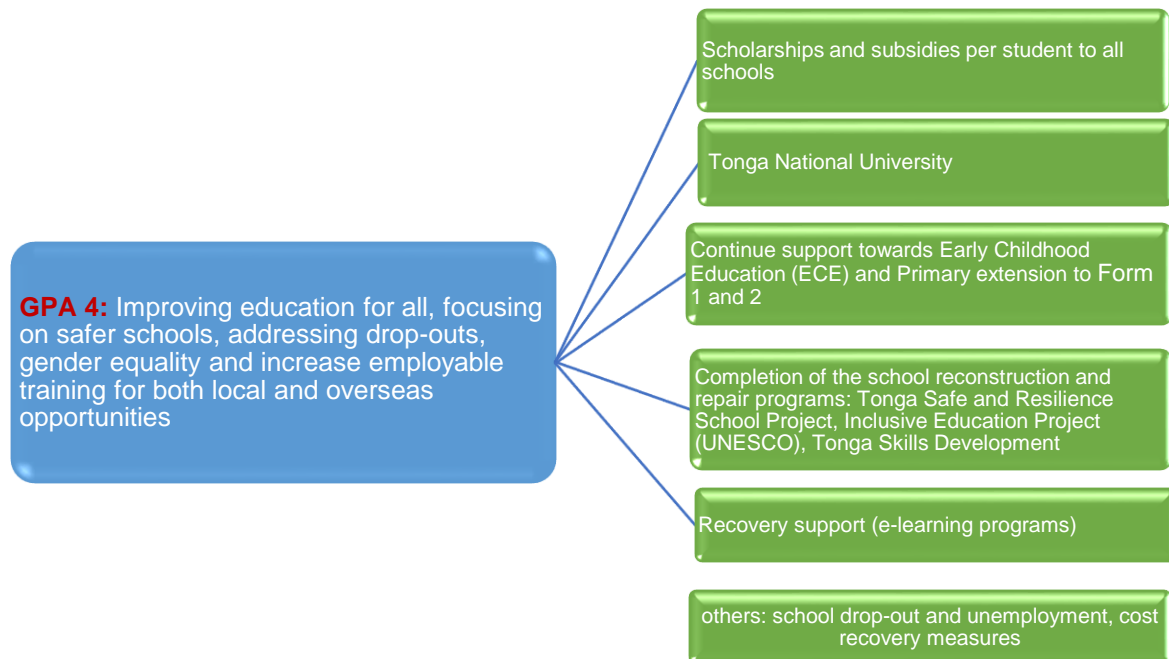
- (i) ensure government identifies, prioritizes, and addresses all threats in a comprehensive manner;
- (ii) increase the effectiveness of the security sector by optimizing contributions from all security and safety actors;
- (iii) guide the implementation of policy; and
- (iv) strengthen the confidence and communication with regional/international community to facilitate cooperation.

4.2 Thematic Area 2: Quality of Services and Affordability

GPA 4: Improving education for all, focusing on safer schools, addressing dropouts, gender equality. Increase 'employable' training for both local and overseas opportunities

In the light of recent developments, the Budget Strategy identified six areas of priority within the theme of education for all, implemented through this Budget Statement:

Figure 5: GPA 4



Source: PMO, MOF

GPA 4 Review of Performance FY 2022

• Education Development

There were various achievements delivered by the Government, through the leadership of the Ministry of Education & Training and in partnership with the Non-Government Schools in Tonga.

- E-Education and ICT Learning: MET is implementing a Tonga Accelerating Resilience Project (TARP) which aims to mitigate the impact of COVID-19 and other natural disasters on Tonga's education systems, with a strong focus on distance and flexible learning.
 - MET is working towards promoting digital literacy right from Early Childhood Education, Inclusive Education, Classes 1- 6 in Primary Schools and Classes 7 & 8 (Form 1 & 2) in the Middle Schools in Tongatapu, 'Eua, Ha'apai, Vava'u, Niuatoputapu and Niuafu'ou through the home-school trials.
 - Various modes of accessible learning delivery, including printed materials, radio, TV, and the internet, are being trialed for students of both government and non-government schools. All students received printed study materials for the lessons of the day and a timetable for lessons broadcast on Tonga Broadcasting Commission's Television and AM and FM radio and internet.
 - The consultation resulted in a review of the Tonga Education Policy Framework (TEPF). The targeted areas in the review were the whole education system, the strategic plan for education, the curriculum, financing options, financial sustainability, and E-learning.
 - Establishment of the new Division, Assessment and Curriculum Division to focus on the Staff Performance Appraisal and the Curriculum Development & Production.
 - The Hon. Minister of Education and Training launched the National Teacher Registration System, a milestone for education in Tonga.
 - Construction of the facilities at 'Api Mataka to relocate the Ministry's Headquarter and Tonga Side School, scheduled to complete by the end of FY 2022.
- **Learning under lockdowns**
 - Subsidies for schools' fees for TERM 1
 - Provision of learning mode and assistance for senior secondary school student laptops.

GPA 4 BUDGET FY 2023

Table 6: Detailed Budget FY 2023 Allocation for GPA 4

Improve Education for All	Recurrent (\$m)	Development (\$m)
Note [4]	60.4	
Tonga Safe and Resilient Schools Project (IDA 19)		18.7
Scholarship		7.0
DFAT Budget Support		1.2
Inclusive Education Programme		1.2
Other		1.1
Sub-Total	60.4	29.2
TOTAL		89.6
Notes [4] – MET \$60.4m		

Source: MOF

GPA 4 Activities

- Continuing scholarships and subsidies per student to all schools

- Tonga Education Policy Framework (TEPF): the new framework will be completed and submitted to the cabinet for approval prior to implementation in the 3rd quarter of FY 2023

- **Education Infrastructure Development**

Safer School Projects are funded by World Bank to increase the resilience of schools and the education sector to a range of hazards and disaster events. There are 4 major components of the project:

Component 1: Improving Safety and Resilience of Education Facilities

Component 2: Establishment of EMIS and improved quality of curricula and assessments,

Component 3: Contingent Emergency Response

Component 4: Project Management.

This project is under the Pacific Resilience Program (PREP) with targeting to implement a total of 295 schools.

- **Tonga National University**

The University Bill has been drafted and approved by the Legislative Assembly for setting up Tonga's first National University. There is a proposed budget (\$1.9 million) for an interim body with key positions plus other expenses.

The University is expected to unite various institutions, including the Tonga Institute of Education, Tonga Institute of Higher Education, Tonga Institute of Science and Technology, Tonga Maritime Polytechnic Institute, Queen Salote Institute of Nursing and Allied Health, as well as the Tonga Police College.

The University will offer academic, technical, and vocational programmes and qualifications from certificate to post-doctorate level.

- **Technical Training (SET Project)**

The Government will continue to implement the Skills and Employment Project (supported by World Bank) and the Tonga Skills programme (co-financed by DFAT and MFAT) on the job training and creating opportunities for grassroots workers.

The SET project aimed to directly address the issue of secondary schools' drop-out rates – which have reached around 20 percent. The project also ensures those who have dropped out of secondary school have alternative vocational and learning pathways.

The project will also ensure vocational education and training courses are improved to help students build skills and to benefit from the Labour Mobility Scheme. The Labour Mobility Scheme has now been expanded to the Butchery and Hospitality industry.

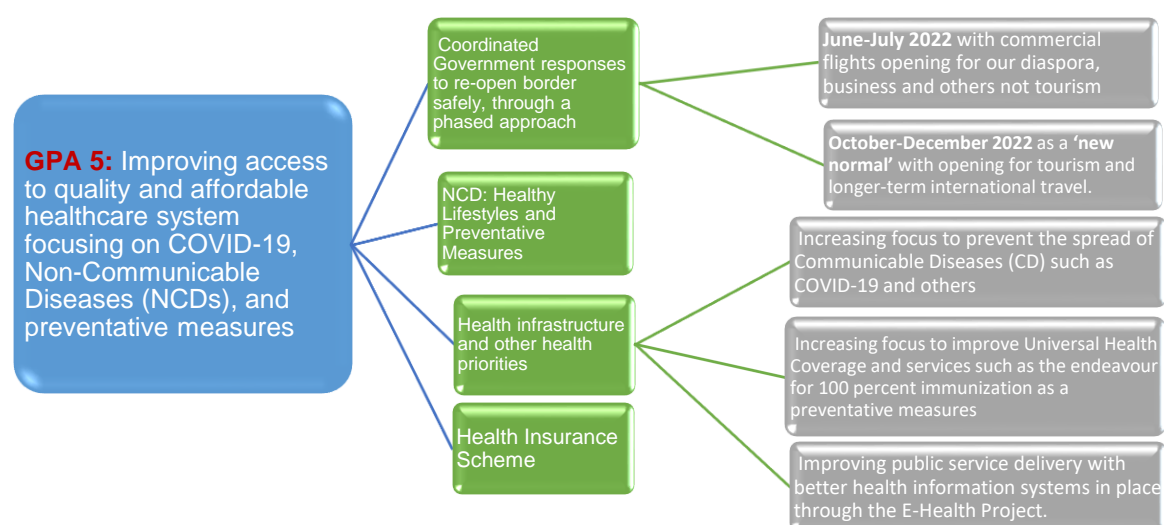
- **Grants for Schools**

Subsidies as a grant for expanding new government ECEs and Form 1.

GPA 5: Improving access to quality and affordable healthcare focusing upon COVID-19, NCDs and preventative measures

In the light of recent developments, the Budget Strategy identified four areas of priority within the theme of quality and affordable healthcare, implemented through this Budget Statement:

Figure 6: GPA 5



Source: PMO, MOF

GPA 5 Review of Performance FY 2022

- Non-Communicable Diseases (NCDs) remains as priority prior to COVID-19, considering the serious health concerns to the population. Tonga remains committed to Universal Health Coverage, pushing toward nationwide coverage and access to high-quality healthcare services.
- Health was accorded the top and foremost priority since the outbreak of the COVID-19 pandemic in the first quarter of 2020. The majority of works, led by the Ministry of Health focused on the preparation, prevention, and promoting public awareness programs in relation to COVID-19. The following highlights the achievements during the review period:
 - ✓ Tonga remained *COVID-free* till its first-ever positive case was declared on the 29th of October 2021. We applaud all the huge effort and works to keep the nation safe.
 - ✓ Successful implementation of the COVID-19 Emergency Plan to guide the works to contain the virus at the quarantine facility and to prevent the spread of the virus in the community.
 - ✓ Increase the vaccination rate coverage to 90 percent coverage of the population (1st dose) and 70 percent (2nd dose).
 - ✓ Effective works by the established committees National Emergency Management Committee (NEMC) and National Task Force Emergency Response (COVID-19), in managing, and coordinating the implementation of the COVID-19 Emergency plan and advising the Cabinet accordingly. The NEMC is chaired by the Hon Minister of MEIDECC.
 - ✓ Activation of nine (9) Clusters, led by relevant Chief Executive Officers in the implementation of the cluster's respective plans. The nine (9) clusters report to the NEMC.
 - ✓ Approval and roll out of the Government Economic and Social Stimulus Package of \$60 million by cluster allocations. The Stimulus package was implemented in three (3) phases:
 - Phase 1: \$15.5 million (FY 2020);* major expenses were:
 - Business and Employee Support (\$4.6 million)
 - Health Preparedness activities, PPE gears (\$5.3 million)
 - Education Assistance programs (\$3.3 million)
 - Vulnerable groups, community activities (\$1.1 million)

- Essential Services, agriculture & fishery sector (\$1.1 million)

Phase 2: \$32.0 million (FY 2021)

- Health Preparedness & PPE, medical supplies (\$17.2 million)
- Business and Employee Support (\$3.7 million)
- Repatriation and quarantine facility (\$6.7 million)
- Border Control related activities; sea transportation (\$0.9 million)
- Assistance to women in hardship, microfinance, seafarer, and seasonal workers (\$2.3 million)
- Agriculture and Fisheries sector (\$0.9 million)
- Logistics cluster (\$0.2 million)

Phase 3: \$12.5 million (FY 2022) – remaining funds of \$12.5 million after Phase 1 & 2, which were re-allocated to the most essential needs, included the following:

- Business and Employee Support (\$3.4 million)
- Repatriation (\$4 million)
- Preparedness & Protection, quarantine facility (\$3.9 million)
- Logistics cluster (\$1.0 million)
- Student allowances (\$0.2 million)

- ✓ Additional COVID-19 Support received from DFAT (AUD 7 million or \$11.7 million):
 - AUD 5 million grant (TOP 8.3 million) tagged to Business Recovery Support Program;
 - AUD 2 million grant (TOP 3.4 million) tagged to vulnerable groups
 - Disbursed support towards businesses (\$3.3 million) and to vulnerable groups (\$1.7 million) by December 2021

Phase 4: January – June 2022 (\$6.7 million)

- \$5 million (tagged to Business Support program); and \$1.7 million (ear-marked to support vulnerable groups).
- Will be fully utilize by June 2022.

- ✓ Upgrade of Health infrastructure facilities:
 - Mu'a Health Centre.
 - Laboratory for COVID-19.
 - Isolation Ward; and
 - Quarantine Facilities- Makeke, Kupesi and Taliai Camp.
- ✓ Donor in-kind support of new generators, ventilators and PPE gears.
- ✓ Proposed new initiatives to implement in FY 2022:
 - Introduction of three (3) new vaccines: i) HPV; ii) Pneumococcal and iii) the Rotavirus under ADB / UNICEF Project.
 - Renovation of Public Health Services Building.
 - Anti – Microbial Resistance Initiative.
 - Physiotherapy / Rehabilitation Expansion; and
 - E- Health Project.

GPA 5 BUDGET FY 2023**Table 7: Detailed Budget FY 2023 Allocation for GPA 5**

Improving Access to Quality and Affordable Healthcare system (incl. COVID-19, NCD & others)	Recurrent (\$m)	Development (\$m)
Note [5]	54.9	
COVID-19 Support Program		31.4
Tonga Health Support System		5.8
Introducing E-Government through Digital Health		2.6
Preventative Support Programme		3.1
Other		1.9
Sub-Total	54.9	44.8
TOTAL	99.7	

Notes [5] – MOH \$51.4m, COVID-19 votes \$3.5m

Source: MOF

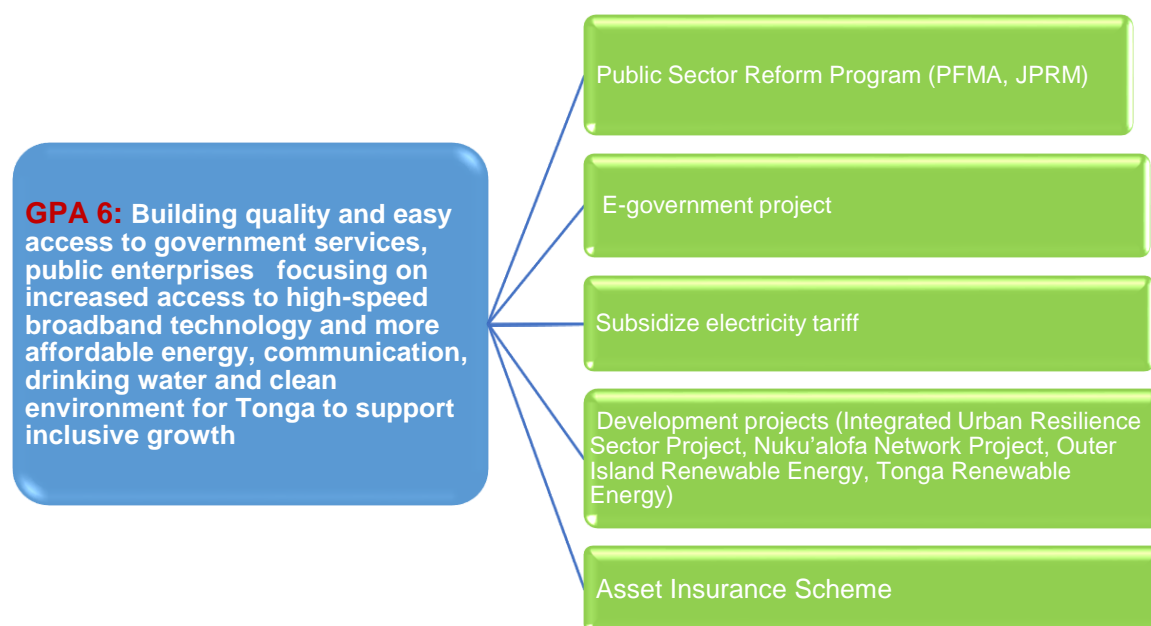
GPA 5 Activities

- Support MOH to improve the quality of healthcare services in Tonga
- Non-Communicable Diseases (NCD)
 - healthy lifestyles and preventative measures
- MOH jointly leads the Government plans to re-open the border safely and the preparation for the 'new norm'.
- Health infrastructure and other health priorities
 - Renovation of the Ngū Hospital, Vava'u and the Queen Salote Nursing School, Tofoa, Tongatapu.
 - Increasing focus to prevent the spread of Communicable Diseases (CD) such as COVID-19 and others.
 - Increasing focus to improve Universal Health Coverage (UHC) and services such as the endeavour for 100 percent immunization as a preventative measure.
 - Support the extension of community clinics to manage the demand in the main hospitals.
 - Support the establishment of dialysis capability in Tonga to meet increasing demand; and
 - Improving public service delivery with better health information systems in place, through the E-Health Project.
- Health Insurance Scheme

GPA 6: In support of inclusive economic growth, building quality and easy access to government services and public enterprises focusing upon increased access to high-speed broadband technology and more affordable energy, communication, drinking water and the development of clean environment

In the light of recent developments, the Budget Strategy identified five areas of priority within the theme, implemented through this Budget Statement:

Figure 7: GPA 6



Source: PMO, MOF

GPA 6 Review of Performance FY 2022

FY 2022 GPA 7 focuses on Public Sector Reform (including E-Government), with the objective of improving the efficiency of providing services to the public. The government overall reform program includes:

- Policy reforms: implementing the Government reform program and initiatives through the Joint Policy Reform Matrix (JPRM):
 - ✓ Strengthening of the public sector systems and public finances;
 - ✓ Enhancing resilience to the effects of climate change and natural hazards; and
 - ✓ Improving livelihoods, labour market regulations and digital development.
- Strengthening Public Sector Systems and Public Finances through review of the Public Finance Management Act (PFMA), 2002 is anticipated to be submitted to Parliament in 2022.
 - ✓ address the critical areas from the 142 activities that were recommended in the PEFA assessment in 2019.
 - ✓ Completed the consultations with relevant stakeholders to review the PFM Act and anticipated to be submitted for Cabinet endorsement by the end of 2022.
- Electricity Cost subsidization through:
 - ✓ Generic tariff subsidy of 6 seniti for all registered meters and lifeline tariff for poor households (now 150 KW from 100 KW)
 - ✓ Relief assistance of \$100 subsidy to each registered residential electricity meter (household) in the islands of Tongatapu and Vava'u, as part of the response at the aftermath of HTHH.
- Development projects with the objective to ensure the people of Tonga have access to effective and efficient energy levels and to reduce cost include, Nuku'alofa Network Project; Outer Island Renewable Energy; Tonga Renewable Energy; and Integrated Urban Resilience Sector Project, supporting urban development water supply and waste management.

GPA 6 BUDGET FY 2023

The Prime Minister has committed to strengthening government ministries to increase access and the quality of the Government services including the public enterprises. Budget resources are provided to support the review of the public sector to work better by revisiting its high-level role, Tonga's economic challenges, affordability and the increasing burden on taxpayers including our reliance on development support.

New measures will be put in place to increase training, competency-based trainings and build the capacity of the public service to help enhance government performance.

Table 8: Detailed Budget FY 2023 Allocation for GPA 6

Building Quality and Accessible to Government Services	Recurrent (\$m)	Development (\$m)
Note [6]	190.6	
TREP - Tonga Renewable Energy Project		21.7
Nuku'alofa Network Upgrade Project (NNUP)		11.6
Outer Island Renewable Energy Project (OIREP)		9.6
Integrated Urban Sector Resilience Project (IURSP) - water supply		4.0
Tonga Digital Government Support Project (TDGSP)		4.8
Other		2.3
Sub-Total	190.6	54.0
TOTAL	244.6	

Note [6] – Ministry of Public Enterprises \$1.6m, MEIDECC - \$6.9m (incl. \$1.2m for Energy Department), MORC \$8.7m, MOF \$116.5m, Palace Office \$3.8m, Legislative Assembly \$14.6m, Tonga Office of Auditor General (TOAG) \$2.2m, Office of the Ombudsman \$1.6m, PMO \$11.0m (incl. e-govt. \$0.3m), Electoral Commission \$0.9m, AGO \$ \$3.5m, MLNR \$6.2m, PSC \$2.1m, Tonga Statistics Department \$3.5m, MOJ \$7.5m

Source: MOF

GPA 6 Activities

Reform of public sector institutions and capacity building such as administrative simplification of government processes, utilizing ICT and high-speed broadband technology for its services, and driving focus on the core responsibilities of the Government towards policy making, service delivery, oversight, and accountability, include:

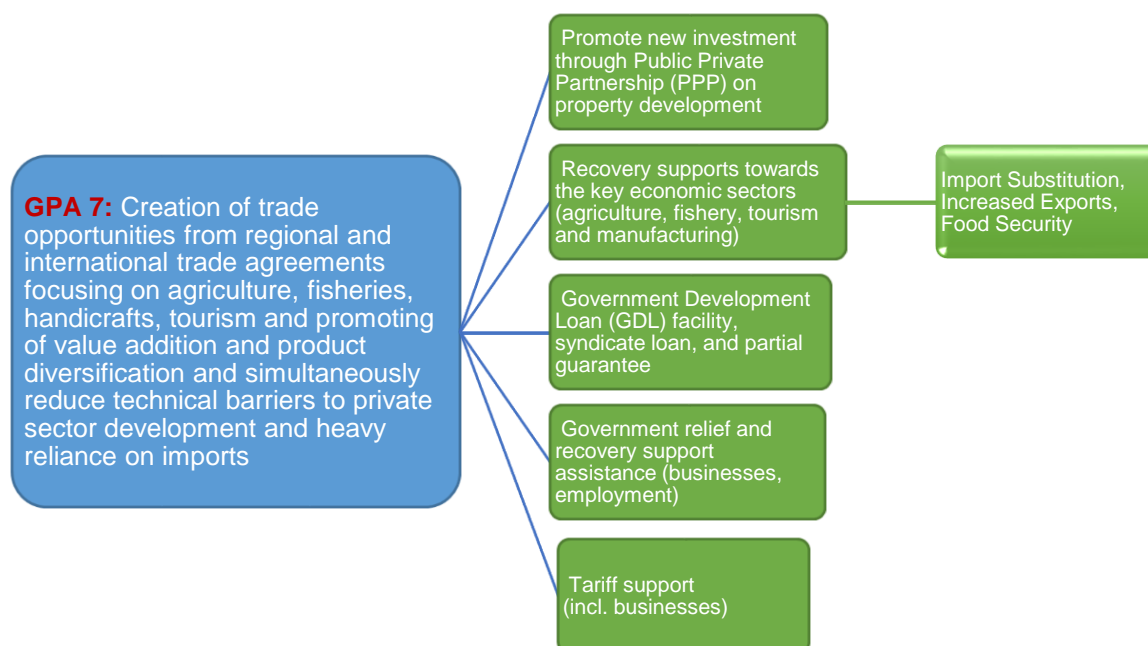
- Capacity strengthening of the public sector institutions reform.
- Increase affordability of electricity through lifeline tariff, water, communication, waste collection.
- The Government and Development Partners Joint Public Sector Reform Program (PFMA, JPRM)
- Stepped-up the E-government implementation
- Restoration of damaged solar systems in Ha'apai Islands, 'Eua and part of Tongatapu – Recovery program.
- Implementing the National single-use plastics roadmap.
- ICT Redundancy Plan; expedite the implementation of the Digital Government Support Projects and secure an integrated Financial Management System (IFMIS) project.
- Implementing the Public Sector System Reform
- Asset Insurance Scheme– With the objective to provide insurance coverage for both Government and PEs' assets, same issue will be discussed under GPA 8.

4.3 Thematic Area 3: Progressive Economic Growth

GPA 7: Creation of trade opportunities from regional and international trade agreements focusing on agriculture, fisheries, handicrafts, tourism. Promoting value addition and product diversification. Reduce technical barriers to private sector development. Reduce heavy reliance on imports

In the light of recent developments, the Budget Strategy identified five areas of priority within the theme, implemented through this Budget Statement:

Figure 8: GPA 7



Source: PMO, MOF

GPA 7 Review of Performance FY 2022

Economic Development and Recovery was accorded a high priority, aiming to improve the economic well-being and quality of life of all Tongans.

- **Open Borders**
 - ✓ Developed the Tourism Crisis Response and Recovery Plan and the implementation plan, outlining the specific activities and roles of the ministry and key stakeholders. This is part of the preparation for a time when the border re-opens.
 - ✓ Arrangement for quarantine free travel with New Zealand was effective on 8th of November 2021.
- **Private Sector**
 - ✓ Implementation of a coherent investment policy to promote foreign investment.
 - ✓ Upgrade of the Business Online Registration System to facilitate online payment;
 - ✓ Support micro and small-medium enterprises through the establishment of cooperative societies and credit unions in the villages and communities.
 - ✓ Restructure and top-up the Government Development Loan (GDL) facilities at Tonga Development Bank to provide loans at concessional rates for key sectors of the economy.
- **Restore economic sectors (Agriculture, Fisheries, Tourism)**
 - ✓ **Agriculture:**
 - Government sector development support:
 - (i) tax exemptions on agricultural materials

- (ii) export promotion activities and
- (iii) access to markets
- construction of pack houses to assist with the assessment of export produce.
- ✓ **Fishery:**
 - Special Management Areas (SMAs), aquaculture, and the development of squid initiative.
 - (i) tax exemption on imported fishing gear and materials of all licensed fishing vessels including fuel and bait;
 - (ii) Government development loan (GDL) facilities for fishermen;
 - (iii) COVID-19 trust fund to subsidize the price of fish (locally); and
 - (iv) recovery assistance on fishing vessels and facilities affected by TC Harold.

GPA 7 BUDGET FY 2023

Table 9: Detailed Budget FY 2023 Allocation for GPA 7

Creation Trade Opportunities private sector development	Recurrent (\$m)	Development (\$m)
Note [7]	40.0	
Tonga Volcanic Eruption & Tsunami		21.0
Tonga Fish Pathways Project-IDA		6.4
Tonga Central Packhouse Project (Vaini)		6.1
Tonga Australia Support Program		4.8
SET Project CSU		3.7
Tonga Rural Innovation Project - Phase II		2.8
GGP & NPGA project		2.3
Other		5.6
Sub-Total	40.0	52.7
TOTAL	92.7	

Note [7] – MTED \$7.1m, Ministry of Fisheries \$5.2m, MAFF \$10.2m, Ministry of Tourism \$7.5m, MOF \$10.0m.

Source: MOF

GPA 7 Activities

Economic Development

- The focus of this priority agenda is to empower the private sector recovery and development of Tonga's private sector following disasters recoveries (2018 TC Gita, 2020 TC Harold), the 2022 volcano eruption, and the global pandemic and COVID-19 transmission since February 2022. The Government identified it as a key focus area and has carried out activities targeted to improve the economic wellbeing and quality of life of its citizens.
- Promote new investment support through Public Private Partnership (PPP) modality to mobilise large-scale property development seeking the Government's assistance.
- Recovery support towards the key economic sectors (agriculture, fishery, tourism, and manufacturing)
 - Import substitution;
 - Increase export production
 - Feasibility study on the Tonga Circular Economy Project
 - Food security.
- Expansion of the Government Development Loan (GDL) facility at the TDB, interest subsidy to promote low-cost lending to targeted sectors such as micro and medium enterprises;
- Government relief and recovery support assistance (businesses, employment)
- Tariff support (including businesses)

Re-opening the Borders

- Preparation to the re-opening of the border by mid-year. This includes the

- capacity building in the tourism industry,
- facilitating training courses for new skippers and whale swim guides,
- maintaining the cleanliness of historical sites and waterfront areas and
- providing safe information guides.

Private Sector

- The Government faces an increasing need to mobilize private sector investments and is in the process of developing additional credit facilities, to share risks to enable businesses to take informed risks for their business expansion, start-ups, and innovative joint ventures.
 - In specific, the government is working with IFC on loan guarantee scheme to share the risks for viable investments that play a key role in the recovery of the economy and development of the private sector. Additionally, working with NRBT to establish a new corridor for the setting of interest rates
- Viable large-scale property development assistance will be considered through the Government solicited advice to ensure bankability. The Government in collaboration with the respective authorities will manage the risks of unintended consequences, especially with regards to shared responsibility for risk management, as the use of limited resources of the Government. Support for the private sector through tax relief is designed to be timely, responsive, and support the recovery, targeted and only temporarily ranging up to 6 months during the fiscal year.
- Supporting micro and small-medium enterprises is vital for inclusive economic recovery. MTED has established cooperative societies and credit unions in villages and communities, OLA has invested in the private sector through the establishment of the Restructure of Government Development Loan (GDL), and Microloans for women (MLW), a quick and accessible start-up fund for planting vegetables and fruit vendors, as well as the production and selling of handicrafts. Collection from the Gita Loan Recovery fund (GLRF) is still ongoing.

Reconstruction and Special Projects

- Post-disaster reconstruction will offer business opportunities of over \$150 million in FY 2023 for the private sector and the Government will contribute to funding the reconstruction and provision of special projects to assist. They include solicited assistance to the \$103.9 million Fua'amotu Resort, Digicel Square Plaza, and First-class Property Development at Poutaha, to house the Government ministries at a more resilient location.
- The Government will also provide targeted assistance to increase both exports and import substitution through the establishment of the Marketing Board by MTED, provision of equipment to the existing pack houses and formalizing economic processing and packaging of kava, vanilla, fish, and root crops for exports with the aim to improve the quality and credibility of these products to the importers at the markets overseas.
- These private sector assistance and investments will be supported by the provision of additional credit facilities through the banking system, in collaboration with the National Reserve Bank of Tonga.

Restore Economic Sectors: Agriculture, Fisheries, Tourism

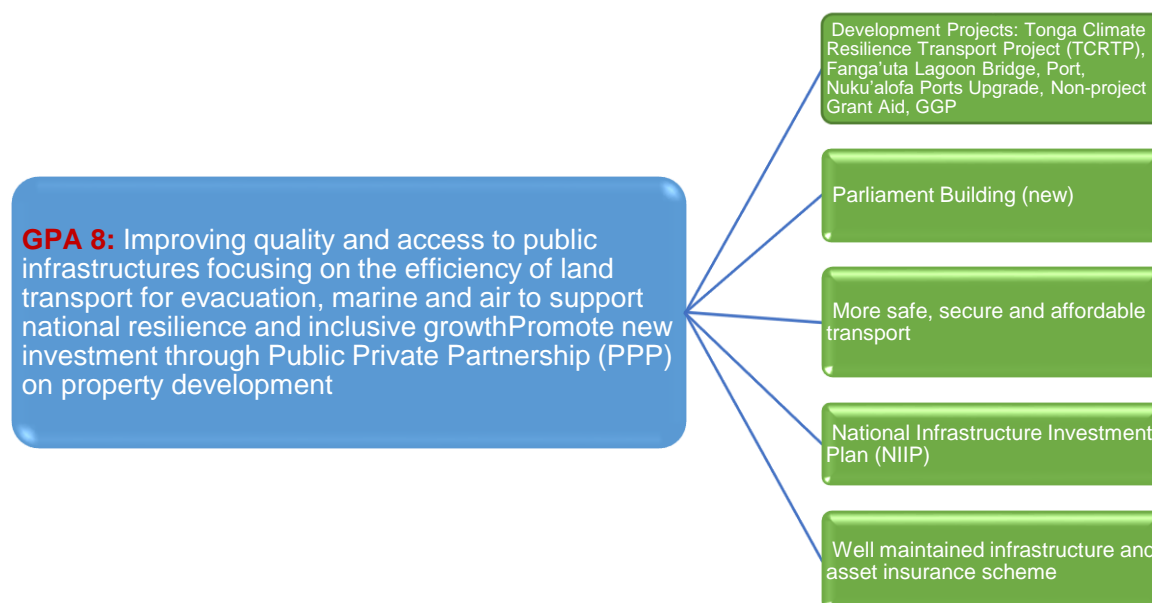
- There is continued investment in the development of Agriculture, Fisheries and Tourism.
- Activities in the Ministry of Agriculture have encouraged production in the agricultural sector resulting in increased product exports which include:
 - Horticulture and coconut products.
 - 12,000 coconut seed nuts were produced in response to climate change mainstreaming which strengthened the status of our National Food Security.
 - Vanilla and other areas such as handicrafts; and

- The reconstruction and upgrade of pack houses have also been an activity enthusiastically pushed through by the Ministry of Agriculture.
- The Ministry of Fisheries continues its implementation of the Tonga Fish Pathway project which include:
 - expansion of the implementation of Special Management Areas (SMAs).
 - further development of aquaculture; and
 - the development of new fishery options such as squid and mini-longline.
- The Ministry of Tourism is currently in the drafting phase of its Implementation Plan for the Tourism Crisis Response and Recovery plan. This implementation plan outlines the role the ministry will play and the assistance it will provide both the private sector and returning tourists. The finalization of this implementation will identify the key roles for other lead agencies such as health, revenue, and customs.

GPA 8: Improving quality and access to public infrastructure focusing on efficiency of land transport for evacuation, and marine and air to support national resilience and inclusive growth

In the light of recent developments, the Budget Strategy identified five areas of priority within the theme, implemented through this Budget Statement:

Figure 9: GPA 8



Source: PMO, MOF

GPA 8 Review of Performance FY 2022

Infrastructure Development

- ✓ Implementation of the 'Road Improvement project', covering all roads (main, agriculture, roads to the tourism sites, community, and village roads).
- ✓ Completed the review of the National Infrastructure Investment Plan (NIIP II), 2013-2023, and the formulation of NIIP III 2020-2030 as the sector plan to guide infrastructure development in Tonga.

- **Road maintenance and development:**
 - Achieved an average of 80 percent of target towards the works to improve all roads in Tonga; improve on the Routine Road Plan.
 - Piloted the initiative to reduce traffic congestion from Pea to Tofoa, through the implementation of three (3) lanes during peak hours.
- **Extension of Queen Salote Wharf (Port):**
 - This is one of the upcoming major projects, total cost of \$45 million, funded by the Asian Development Bank to be implemented over a duration of 2-4years. There is a delay in the procurement due to COVID-19 restrictions.
- **Construction of the Fanga'uta Bridge:**
 - This project is to be funded by the ADB with a total estimated cost of \$52 million. The design has been completed.

GPA 8 BUDGET FY 2023

Table 10: Detailed Budget FY 2023 Allocation for GPA 8

Improve Quality to Public Infrastructures	Recurrent (\$m)	Development (\$m)
Note [8]	20.6	
Tonga Climate Resilience Transport Project (TCRTP)		17.5
Parliament New Building		11.6
Nuku'alofa Ports Upgrade Project - Queen Salote Wharf		7.7
Fanga'uta Lagoon Crossing Bridge		6.3
Tonga Volcanic Eruption & Tsunami		3.0
Other		1.1
Sub-Total	20.6	47.2
TOTAL		67.8

Note [8] – MOI \$20.6m

Source: MOF

GPA 8 Activities

Infrastructure Development

The Infrastructure and Transportation Sectors are two of the key drivers of economic growth and sustainable development in Tonga. Construction and completion of all roads, in all forms (main, agriculture, community, and village roads) was one of the priorities of the previous government. There were significant achievements in this sector through the collaboration with the development partners, PEs, and the private sector.

- **National Infrastructure Investment Plan (NIIP III), 2020-2030**

Further review of NIIP will provide to reflect the planned HTHH reconstruction activities.

- **Extension of Queen Salote Wharf**

The procurement will pick up. This extension of Wharf 2 is aimed to better accommodate larger vessels and the construction of new dolphins (a marine structure with no connection to the shore) between Wharf 1 and 2 to berth or moor vessels is to facilitate trade to promote economic growth.

- **Construction of the Fanga'uta Bridge**

The project is currently in the completion of the re-bidding documents. The importance of this project is more evident, after the recent HTHH eruption and Tsunami, in terms of developing an emergency evacuation route.

- **Establishment of road maintenance fund**

With the prioritization of road development, a road maintenance fund has been established. This is to ensure that the infrastructure is well maintained and sustainable. This has been a critical area highlighted in NIIP III, to ensure the sustainability of the infrastructure.

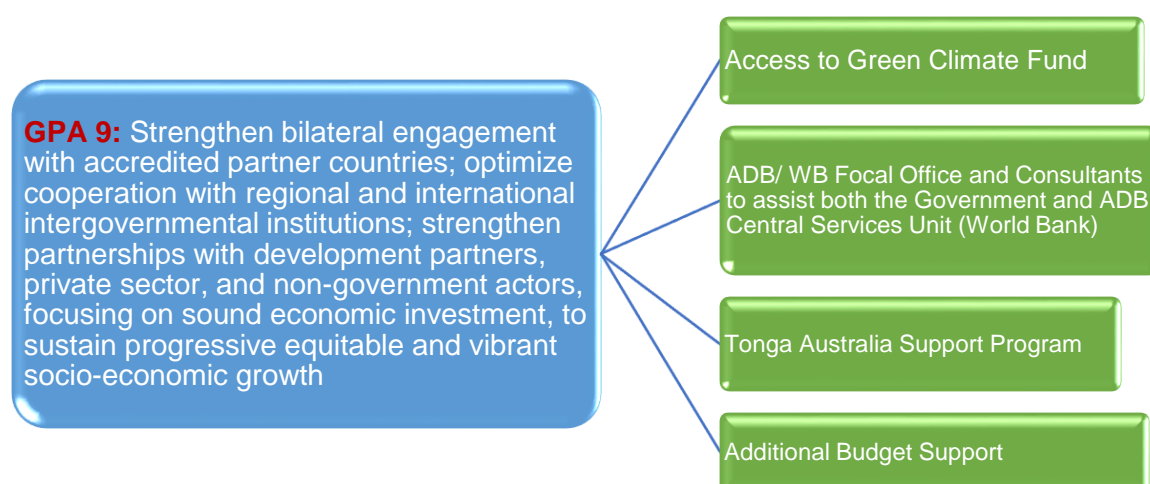
- **Establish an Infrastructure insurance scheme**

Refer to GPA 6 (Asset insurance scheme) and as mentioned in the GPA 8: Review of Performance in FY 2022 above.

GPA 9: Strengthen bilateral engagement with accredited partner countries; optimize cooperation with regional and international intergovernmental institutions; strengthen partnerships with development partners, private sector, non-government actors, focusing on sound economic investment, to sustain progressive equitable and vibrant socioeconomic growth.

In the light of recent developments, the Budget Strategy identified four areas of priority within the theme, implemented through this Budget Statement:

Figure 10: GPA 9



Source: PMO, MOF

GPA 9 Review of Performance 2021-22

- The Government continued to strengthen its bilateral engagement with the following accredited partners:
 - “Green Climate Fund”, through the completion of the TREP 01 and TREP 02 packages for Tongatapu. This included support for GCF Readiness Program and the Outer Island Electrification via mini-grid installations.
 - ADB was strengthened with the expected commencement of the Nuku’alofa Network Upgrade and Fanga’uta Lagoon by the end of 2022. The Government’s engagement with the WB was strengthened by its support for climate resilience and disaster risk management areas. The ADB/WB Focal Office continued to assist the Government throughout the year.

- The Government of Australia through the Tonga Australia Support Programme, included support such as JPRM, Budget Support, Australia Awards Scholarships, and the Pacific Women Shaping Development. During the drastic events of the HTHH, the Government of Australia support Tonga through both air and shipping vessels consisting of humanitarian relief supplies, assisting with the restoration of the communication, cash grant and direct funding arrangements for recovery efforts.
 - Government of New Zealand through its support program, including Education, COVID-19 & Health support package, Climate Change & Risk Disaster and Law & Order Support Programme. During the drastic events of the HTHH, the Government of New Zealand support Tonga through both air and shipping vessels consisting of humanitarian relief supplies, cash grants and direct funding arrangements for recovery efforts.
 - Continuous partnerships with other development partners such as Japan, Peoples Republic of China, United Nation etc.
- The Government also strengthened its bilateral engagement with other accredited partner countries, regional and international intergovernmental institutions development partners, private sector, and non-government actors, focusing on sound economic investment, to sustain progressive equitable and vibrant socio-economic growth.

GPA 9 BUDGET FY 2023

Table 11: Detailed Budget FY 2023 Allocation for GPA 9

Strengthen and Optimize Partnerships	Recurrent (\$m)	Development (\$m)
Note [9]	15.1	
Bilateral and Multilateral Strengthening Partnerships		2.4
Sub-Total	15.1	2.4
TOTAL	17.5	

Note [9] – Ministry of Foreign Affairs & Trade (MFAT) \$14.6m, MOF (Project & Resilient Divisions) \$0.5m

Source: MOF

GPA 9 Activities

- Ongoing initiatives and activities that have been reviewed in FY 2022 continued to the next FY 2023, including:
 - Access to Green Climate Fund.
 - ADB/ WB Focal Office and Consultants to assist both the Government and ADB, Central Services Unit (World Bank).
 - Tonga Australia Support Program, and
 - Additional Budget Support

4.4 Allocations of Budget to the Government Priority Agenda

Table 12 illustrates the allocation of both the Recurrent Budget (\$437.0 million) and Development Budget (\$327.7 million) to each of the Government priority areas, noting the following highlights:

- To continue supporting COVID-19 and response activities to HTHH volcanic eruption and government projects.
- The COVID-19 negative impact on domestic revenue continue to challenge the Government's affordability level. This means that each ministry is expected to live within the resources

available including reprioritizing and using their existing allocations more effectively and efficiently.

- A total of \$31.4 million from development partners is allocated for COVID-19 related activities.
- The majority of the recurrent budget is allocated to the 'Quality and Accessible to Government Services' including the Public Sector System Reform (32.3 percent); followed by Health under the social sector (13.0 percent) and economic sector (12.0 percent). The economic sector includes Trade & Economic Development, Agriculture, Fisheries, and Tourism.

Table 12: Summary of Government Budget by Priority Areas

Government Priority Areas	Approved Budget 2021/22			Budget Estimate 2022/23			Budget Estimate 2021/22	Budget Estimate 2022/23	Variance
	Recurrent	Development	Total	Recurrent	Development	Total			
	\$m	\$m	\$m	\$m	\$m	\$m	%	%	\$m
Illicit Drugs and National Security	32.5	8.8	41.3	41.8	12.0	53.8	6.6%	7.0%	12.5
Resilient and Sustainable Recovery	2.7	84.4	87.1	1.5	76.1	77.6	13.9%	10.2%	-9.4
Poverty & Social Protection				12.1	9.3	21.3	0.0%	2.8%	21.3
Education Development	56.3	18.4	74.7	60.4	29.2	89.6	11.9%	11.7%	14.9
Health Development	47.1	70.5	117.6	54.9	44.8	99.7	18.8%	13.0%	-17.8
<i>Covid-19</i>	3.0	43.6	46.6	3.5	31.4	34.9	7.5%	4.6%	-11.7
<i>Universal Health Coverage & others</i>	44.0	26.9	70.9	51.4	13.4	64.8	11.3%	8.5%	-6.2
Quality & Accessible Services				190.6	54.0	244.6	0.0%	32.0%	244.6
Public Sector Reform (including E-Government)	189.1	4.6	193.7				31.0%	0.0%	-193.7
Economic Development and Recovery	29.4	28.4	57.8	40.0	52.6	92.6	9.3%	12.1%	34.8
Infrastructure Development	19.2	33.9	53.1	20.6	47.2	67.8	8.5%	8.9%	14.8
Strengthen & Optimize Partnerships				15.1	2.4	17.5	0.0%	2.3%	17.5
Grand Total	376.2	249.0	625.2	437.0	327.7	764.7	100%	100%	139.5

Source: MOF

Note: Table 12 are projections of allocations of budgets under each GPA given the crosscutting nature of most of the priority areas. Refer section 4.5 below.

4.5 Responsibility for Implementation of each Priority Agenda

The thematic areas and GPA are not delivered by one ministry/agency. All thematic areas and most of the GPA are cross-cutting. Given that the budgets in Section 6 are allocated to ministries/agencies, to deliver the GPA, organisations will require to work together, sharing resources and reaching compromise solutions. It may be that in some cases, ministries and agencies are not currently designed to focus on the delivery of cross-cutting GPA.

Adapting to the requirement to deliver GPA will require change in the operational activities of the organisations of government. In particular, it will require:

- Budget allocation and management to both traditional and cross-cutting collaborative streams
- Organization systems, managerial and staff capacity development.

Pages 83 and 84 of TSDf II clearly identify the combinations of ministries, departments, and agencies that need to work together to deliver the various functions of government. This process needs to be repeated and formalised for the delivery of the GPA and incorporated into the business plans of each ministry/agency.

The cross-cutting budgets for each GPA shown in Table 12 need to be generated from the budgets of each responsible ministry/agency.

4.6 Monitoring and Evaluation

While the above reviews of performance provided for each GPA are useful, overall, the M&E system remains weak. Building upon the assessment work of the Prime Minister's Office contained in Annex II, further work is required to align the management of the GPA systems, the results required and the measurement and monitoring of budgets.

In future, the delivery of both the line ministry/agency outputs and the outputs required by the three thematic areas and nine GPA will be subject to stronger M&E processes in terms of financial efficiency and effectiveness and operational delivery. All organisations of government will be assessed on their collaborative ability to deliver sector-based outputs and the cross-cutting outputs of the GPA.

5. THE POST-CRISIS NATIONAL ECONOMICS OF TONGA

Delivering the GPA will require a clear and shared understanding of the economic reality facing Tonga.

Prior to HTHH and COVID-19, the macroeconomic outlook for Tonga was expected to recover gradually in the medium term:

- The economy contracted by 1.2 percent in the financial year 2021 and the projections of the Government and development partners forecast that growth would rebound in 2023 and 2024 to around 3 percent per year as tourism and related industries gradually recovered, with borders gradually re-opening in July 2022, and by a recovery in agriculture and reconstruction activity related to Tropical Cyclones (TC) Gita and Harold.
- The fiscal balance was projected to have a small deficit of 1.6 percent of GDP in FY 2022 before returning to a surplus by FY 2023. This was to be supported by a rebound in tax revenues in line with the economic recovery and a decline in current expenditure as economic stimulus spending was reduced.
- Inflation is expected to remain above 5 percent over the medium term.
- The current account deficit would widen in FY 2023, due to increase in commodity price, before narrowing over the medium term. Despite a decline in FY 2022, foreign reserves were expected to remain at adequate levels (seven months of imports cover).

However, a 'crisis dynamics' of the effects of HTHH, COVID-19 and rising commodity prices have resulted in a major change to our macroeconomic position.

5.1 Economic Growth

- The economy revised forecast to contract further to 2.5 percent in FY 2022. Domestic lockdowns and higher global commodity and transport prices are suppressing growth. This is compared to the 1.8 percent projection at pre-HTHH/COVID-19/Ukraine War.

Table 13: Key Macroeconomic Indicators

	2017/18	2018/19	2019/20	2020/21 ^p	2021/22 ^f	2022/23 ^f	2023/24 ^f	2024/25 ^f
	<i>(Annual Percentage change)</i>							
Output and prices								
Real GDP	0.3	0.7	0.7	-1.2	-2.5	3.4	3.6	3.8
GDP Deflator	5.1	7.7	-3.6	4.7	4.7	4.8	4.7	4.7
Consumer prices (period average)	5.3	4.0	0.2	1.4	5.6	11.0	8.0	5.0
Fiscal Accounts	<i>Percent of GDP, unless otherwise indicated</i>							
Total Revenues and Grants	24.9	41.7	43.8	43.7	48.0	53.9	43.1	40.2
Total Expenditures	na	na	na	45.1	45.8	55.7	46.0	41.9
Fiscal Deficit	3.0	3.2	5.3	-1.4	-1.6	-1.8	-2.9	-1.7
Balance of payments	<i>Percent of GDP, unless otherwise indicated</i>							
Overall Balance	5.5	1.3	5.3	15.8	4.6	-5.6	-4.1	0.4
Current Account Balance	1.8	-0.2	4.7	11.1	-0.2	-28.0	-24.2	-11.1
Trade balance	-36.1	-36.5	-35.4	-37.5	-44.7	-41.4	-38.6	-36.5
Goods Exports	1.9	1.7	1.6	1.2	0.8	1.0	1.2	1.5
Goods Imports	38.1	38.1	36.9	38.6	45.5	42.4	39.7	38.0
Services (net)	3.0	2.8	1.7	-1.4	-2.1	-1.8	-0.9	-0.6
Investment Income (net)	-0.7	0.8	0.5	2.1	1.6	1.2	1.2	1.2
Current Transfer (net)	35.6	32.7	37.9	47.9	61.6	44.3	39.9	35.6
Capital and Financial Accounts	3.8	3.6	2.0	4.0	5.9	4.0	3.5	3.6
Gross international reserves (end-period)								
In millions of pa'anga	468.7	484.3	543.8	715.2	776.0	695.3	632.7	637.1
In months of imports cover <i>(trade estimate)</i>	8.0	7.9	9.2	12.5	13.1	11.6	10.2	10.2

p: provisional
f: forecast

Source: MOF, Tonga Statistics Department and National Reserve Bank of Tonga

- Economic recovery should take place over a three-year period, driven by post-disaster reconstruction, recovery in tourism arrivals, and agriculture:
 - Previous disasters in Tonga have shown that recovery generally takes two to three years, due to capacity constraints of both the Government and the domestic construction industry. Consequently, reconstruction and repair activity for housing, transport infrastructure, public buildings, and schools, is projected to ramp up over the next two years before scaling back from FY 2025 onwards.
 - Tourism activity is expected to remain subdued at least until early 2023, with borders now expected to remain closed until at least June 2022. Arrivals are expected to return to around one-third of pre-pandemic levels in FY 2023, and three-quarters in FY 2024—reflecting long-term damages to the tourism sector as a result of HTHH and COVID-19.
 - Crop production is expected to rebound strongly in the FY 2023, and return to full capacity in FY 2024. The projected rebound in agriculture output in FY 2023 has been dampened by the Ukraine war, which is expected to increase costs for fertilizers and transport (both domestically and internationally).
- Combined, these factors are expected to drive a recovery in growth to over 3 percent in FY 2023 through to FY 2025. Growth is expected to return to its long-run potential (1.8 percent) in FY 2026.

5.2 Inflation

- The cascading global impact of the ongoing pandemic, geopolitical tensions and eruption of HTHH have resulted in upward pressure on inflation in the short term. HTHH has had substantial impact on agricultural crops, resulting in local market shortages of some fruits and vegetables. This has been compounded by higher global commodity prices due to the geopolitical tension, which resulted in a 7 percent increase in regulated domestic petrol prices in early March 2022.
- These 'crisis dynamics' have increased pre-disaster price pressures, which had already resulted in inflation of 7.1 percent July – November 2021, predominantly energy and food. The effects of the 'crisis dynamics' resulted in year-on-year inflation of 9.2 percent in February 2022.

- Inflation is expected to remain elevated in FY 2023 due to continued high global commodity prices, partially offset by a rebound in domestic crop production. Over the medium term, inflation is expected to return to more moderate rates due to base effects and as domestic crop production returns to full capacity.

5.3 Poverty and Vulnerability

- The crisis dynamics are expected to increase poverty and vulnerability.
- Extreme poverty was less than 1 percent in FY 2016². This was among the lowest in the Pacific.
- However, a quarter of the population suffers from 'hardship': a lack of cash for basic goods. Many of these people are facing significant additional hardship due to crisis dynamics:
 - Two-thirds of households derive income from agriculture. Tonga's latest HIES indicates that households reliant on agriculture for their primary source of income are more likely to be poor. The impact of the HTHH disaster on crops, livestock and housing will exacerbate poverty and vulnerability.
 - Prior to the pandemic, around 30 percent of households had at least one member working in tourism-linked sectors—the sectors hardest hit by the border closure and domestic lockdowns.
 - Salaried employment is also likely to have been affected by the HTHH disaster and COVID-19 lockdowns.
 - In 2020, business surveys indicated that over 60 percent of firms reduced staff and/or reduced workers' hours in response to the economic downturn. Businesses are likely to have responded in a similar fashion to the most recent disaster and domestic lockdowns.
 - Higher prices will push up the cost of living for all households, but the impacts will be especially acute for the poor and vulnerable. Calculations by development partners³ estimates that a sustained 10 percent increase in prices could lead to a 5.7 percentage point increase in poverty (at the USD5.50 poverty line), in the absence of mitigation measures. Poverty and social protection targeted measures are included in FY 2023 to address the poorer and vulnerable.

5.4 Economic Management

Table 14: GDP sectors

Real GDP growth (%)	Actuals (Statistics Dept)						MOF Projections				
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21f	2021/22f	2022/23f	2023/24f	2024/25f
Agriculture, forestry and fishing	-1.7	-1.3	-2.5	0.4	3.6	0.8	-1.4	-2.9	5.4	3.0	3.1
Construction	-5.1	22.8	18.0	-32.4	16.3	-11.4	-3.8	-7.2	20.8	14.5	1.6
Secondary (excl. construction)	2.4	6.3	3.8	0.4	-2.0	2.6	-6.1	-3.0	3.0	1.2	0.0
Services Sector	1.4	5.5	1.8	3.3	0.8	0.9	0.3	2.3	3.1	2.5	5.8
Wholesale and retails trade	2.6	14.8	2.5	6.3	0.4	2.5	-2.0	0.6	3.6	7.1	9.3
Accommodation/Food services (Tourism Industry)	7.3	16.6	8.6	7.5	-3.3	-0.1	-11.8	-30.3	-10.1	-0.1	0.5
Finance and insurance activities	-8.3	8.2	-4.3	4.5	0.1	1.0	-1.4	-1.6	-0.6	0.2	0.2
Public administration and defence	1.7	0.6	-1.5	2.8	4.0	1.8	0.5	0.5	0.5	-8.6	7.8
Other	2.2	1.5	2.6	0.7	0.4	-0.1	1.4	0.9	3.2	4.2	4.5
GDP	1.2	6.6	3.3	0.3	0.7	0.7	-1.2	-2.5	3.4	3.6	3.8

f: forecast

Source: Tonga Statistics Department, MOF

² Household Income and Expenditure Survey, HIES 2016

³ World Bank

Table 15: Key Fiscal Indicators⁴

Fiscal Indicators (\$millions)	2017/18 Actual	2018/19 Actual	2019/20 Actual	2020/21 Actual	Est. Outturn 2021/22	Budget Est. 2022/23	2023/24 Projection	2024/25 Projection
Overall Revenue	267.3	485.2	494.4	516.6	531.7	695.2	604.1	612.2
Tax Revenue	235.4	243.0	238.6	244.8	227.4	253.3	255.2	262.6
Total Domestic Revenue	267.3	272.7	280.8	277.0	250.0	286.3	287.0	294.5
Total Expense	336.5	352.2	376.9	446.7	484.5	604.4	489.0	470.0
Compensation of Employees	127.5	134.5	148.7	160.2	166.1	177.3	177.2	176.5
Total Expenditures	n.a	n.a	n.a	526.9	545.4	718.5	639.8	633.7
Operating Balance	121.6	132.9	117.5	69.8	47.2	90.9	115.1	142.2
Fiscal Balance Surplus(+)/Deficits(-)	32.2	36.8	59.7	-10.3	-13.5	-22.9	-35.2	-21.0
Total External Debt	454.6	441.2	430.3	447.0	429.7	428.1	408.4	361.5
	<i>% of GDP or otherwise specified</i>							
Overall Revenue to GDP (%)	24.9	41.7	43.8	44.2	44.6	53.9	43.4	40.5
Tax Revenue to GDP (%)	21.9	20.9	21.1	20.9	19.1	19.6	18.4	17.4
Total Domestic Revenue to GDP (%)	24.9	23.4	24.9	23.7	21.0	22.2	20.6	19.5
Total Expense to GDP (%)	31.4	30.3	33.4	38.2	40.7	46.8	35.2	31.1
Compensation of Employees (% of Domestic Revenue <53%)	47.7	49.3	53.0	57.8	66.4	61.9	61.7	59.9
Compensation of Employees (% of Operating Expenses <45%)	37.9	38.2	39.4	35.9	34.3	29.3	36.2	37.6
Total Expenditures to GDP (%)	n.a	n.a	n.a	45.1	45.8	55.7	46.0	41.9
Operating Balance to GDP (%)	11.3	11.4	10.4	13.7	13.9	13.7	12.7	11.7
Fiscal Balance Surplus(+)/Deficits(-) to GDP (%)	3.0	3.2	5.3	-0.9	-1.1	-1.8	-2.5	-1.4
Total External Debt to GDP (%)	n.a	n.a	38.1	38.2	36.1	33.2	29.4	23.9

Source: MOF

- The current account deficit is expected to increase in the medium term, attributing to the spillover effect from the Ukraine war should it continues. Moreover, substantial deficits is projected as imports remain elevated due to reconstruction activity.
- The current account is expected to be balanced in FY 2022 despite the impact of the disaster, as a higher trade deficit is more than offset by continued high remittances and additional development partner grants to support the recovery efforts.
- The fiscal deficit is expected to return to a more manageable levels in FY 2025.
- Total grants (both capital and current) are expected to remain above pre-crisis levels in the medium term, due to development partner support, to enhance resilience to climate change and natural hazards.
- Reserves are projected to be affected in FY 2022 and over the medium term, due to the delayed recovery in tourism receipts and the temporary spike in imports to support reconstruction activities.
- The Government has built credibility for prudent fiscal management through sustained recent efforts to increase domestic revenues, contain spending, and avoid any new non-concessional external borrowing.
- This has resulted in an average fiscal surplus of 2.6 percent of GDP over the period FY 2018-FY 2021, despite multiple external shocks (including COVID-19, TC Harold, and TC Gita).
- Modest fiscal deficits are projected over the period FY 2022 to FY 2024.
 - The FY 2022 fiscal deficit is expected to decline from \$19.4 million to \$13.5 million. This is due to the control and management of spending.
 - Fiscal deficits averaging 2.2 percent of GDP are projected in FY 2023 and FY 2024—compared to pre-disaster projections of fiscal surpluses averaging 1 percent of GDP. The fiscal deficit for FY 2023 is proposed to be financed by \$22 million disbursement from the International Monetary Fund's (IMF) Rapid Credit Facility (RCF).

⁴ Fiscal Indicators are based on the Government Fiscal Statistics (GFS)

- Domestic revenues (as a share of GDP) are projected to decline to 21 percent of GDP in FY 2022, from an average of 24 percent of GDP between FY 2018 – FY 2021, due to COVID-19 restrictions and the TC Harold reconstruction.
- In FY 2022, income tax and excise tax collections (which represent over 40 percent of domestic revenues) are expected to be 15 and 12 percent below pre-crisis projections respectively, due to the impacts of the disaster and COVID-19 lockdown on economic activity.
- Temporary recovery-related tax and customs exemptions are also expected to reduce revenue collection by \$0.8 million.
- In FY 2023, domestic revenues are projected to rebound in line with the economic recovery and the winding down of temporary exemptions. The shortfall in domestic revenues in FY 2022 and FY 2023 will be offset by additional development partner grants to support disaster recovery and reconstruction.
- Over the medium term, domestic revenues are projected to improve due to the economic recovery and recent legislative and institutional reforms to improve revenue administration and compliance. Grant receipts are projected to gradually return to pre-COVID levels, from their unprecedented levels in FY 2021 to FY 2023.
- Disaster recovery spending will drive higher expenditure over the projection period.
 - Overall spending is expected to be around 6 percentage points of GDP higher in FY 2022 and FY 2023, and 3 percentage points higher in FY 2024, compared to the pre-disaster projection. These increases are mainly driven by elevated goods and services and capital spending associated with post-disaster recovery.
 - Over the medium term, elevated spending reflects retrofitting and reconstruction to increase infrastructure resilience, along with support for agriculture and tourism sector recovery.
 - Higher global commodity prices and supply chain disruptions are also pushing up construction, fuel, and transport prices, contributing to higher recovery costs.
- Monetary policy, through the National Reserve Bank of Tonga (NRBT) will remain supportive of the economic recovery:
 - The monetary policy reference interest rate has been zero percent for several years, leaving the statutory reserve deposit ratio (10 percent) and the target minimum loans/deposit ratio to reduce from 80 percent to 70 percent for the banks to meet in the next 6 months as the NRBT's key policy instruments.
 - Address the transmission of higher import prices on increased domestic inflation higher than the policy reference rate of 5 percent since July 2021.
 - Improve the weak transmission mechanism for monetary policy due to high excess reserves, a lack of competition in the banking sector, conservative lending practices, developing the domestic financial market, new corridor for setting the interest rate and various other structural impediments to finance.
 - Consider additional credit instruments and risks sharing to include interest rate subsidy to lower the cost of lending to targeted sectors, government development loans, guaranteed loans.
 - To support economic recovery, the NRBT has approved the provision of liquidity support to the banking system and maintains a weekly dialogue with the commercial banks to track loan performance and liquidity.
 - The nominal and real effective exchange rates have remained relatively stable against the currencies of Tonga's major trading partners over the last few years, and the exchange rate peg is expected to continue providing a credible nominal anchor over the medium term.

- In an updated Debt Sustainability Analysis (DSA) undertaken by WB/IMF, Tonga is assessed as at high risk of external and overall debt distress. The risk ratings are unchanged from the December 2020 IMF/WB joint DSA.
- The present value (PV) of public and publicly guaranteed (PPG), external debt to GDP and public debt to GDP is projected to breach their respective DSA thresholds in FY 2023 and FY2030. A natural disaster shock would lead to an earlier breach.
- In the baseline scenario, debt dynamics are projected to stabilize from FY 2037 onwards. The DSA baseline scenario assumes that all new financing from IDA and the Asian Development Bank (ADB) is provided on credit terms, given its role to inform judgement on Tonga's capacity to receive credit financing from these institutions. This assumption underpins the projected large primary deficits over the medium- to long-term, which drive the debt dynamics.
- Continued adherence to the Government's policy of avoiding new non-concessional external debt is important to protect Tonga's hard-won fiscal sustainability. Once the recovery is underway, the Government remains committed to the ongoing fiscal adjustment plan designed to stabilize debt dynamics, safeguard long-run fiscal sustainability, and support key development goals. The Government's commitment to the fiscal adjustment plan is reiterated in the FY 2023 Budget Strategy.

5.5 The Macroeconomic Environment

- Downside macroeconomic risks are clear, present and have deteriorated. Uncertainty regarding the economic outlook is high. COVID-19 remains a high risk: A prolonged domestic outbreak and the risk of new variants globally could delay further the opening of the borders, delay the recovery of tourism-related services, and put further pressure on the current account, budget, and household incomes.
- Another natural disaster would put additional pressure on the fiscal and external accounts, as well as businesses and households.
- On the upside, to the extent that international arrivals recover faster than expected, economic growth could outperform the baseline projections.
- The macroeconomic policy framework is supportive of recovery.
 - Economic growth is expected to rebound to over 3 percent in FY 2023 and FY 2024 driven by reconstruction activity, a strong rebound in agriculture production, and a gradual recovery in tourism receipts as border is rescheduled to reopen by mid-year.
 - Once the recovery is underway, the Government is committed to a high-quality fiscal adjustment to stabilize debt dynamics and strengthen climate resilience.
 - Key pillars of the fiscal adjustment—including reform to tax exemptions, alignment to trade agreements, international treaties and temporarily relief measures will be supported by development partners.
 - The Government has built credibility for prudent fiscal management through sustained recent efforts to increase domestic revenues, contain spending, and avoid any new non-concessional external borrowing. Monetary policy is supportive of recovery, but the transmission mechanism is weak, the exchange rate peg is expected to continue providing a credible nominal anchor.
 - Foreign reserves are projected to remain adequate at over eight months of imports; and
 - Public debt is sustainable, but the risk of debt distress is high.

5.6 Crisis Management

- In mitigation of the crisis dynamics, the Government immediately activated its key emergency institutions to lead the post-disaster response and coordinate humanitarian aid.
 - Tonga has a well-developed disaster recovery framework, which has been strengthened in recent years through the activities of development partners.

- On 19th January 2022, the Prime Minister declared a national State of Emergency (renewed on February 12 and March 1). Search and rescue operations and emergency response teams were mobilized to the outer islands.
 - On January 18, the Government activated the “cluster” system to coordinate humanitarian partners. The National Emergency Fund (NEF) was fully drawn down to finance urgent repairs to key infrastructure and commence the ash clean-up.
 - The Government also quickly initiated a package of relief measures to mitigate the negative impacts on households, communities, and businesses; and
 - Telecommunication services were re-established in Tongatapu, following the repair of the international submarine fiber optic cable on February 22. Telecommunication services in the outer islands were restored via a donation from a private company (Space X Company)
- Development partners and the international community mobilized swiftly to provide immediate financial assistance and aid.
 - This has included the provision of humanitarian relief supplies by international and in-country non-government organizations and the navies of Australia, Fiji, New Zealand (NZ), Japan and China.
 - Damage assessments, such as air surveillance assessments, have been conducted by the NZ and Australian Defence Forces. Bilateral partners have also provided prefabricated homes, heavy machinery, relief supplies, and medical supplies.
 - On January 21, the Government requested the WB to conduct a rapid post-disaster damage assessment to support the Government’s recovery planning and assist in mobilizing the resources needed for longer-term recovery. The WB presented a Global Rapid post-disaster Rapid Estimation (GRADE) report within two weeks, with damages in selected sectors estimated at USD90.4 million⁵ (18.5 percent of GDP).
 - The Tonga’s National Emergency Management Office completed an Initial Damage Assessment, which resulted in an upward revision of the damage estimate to USD102.2 million.
 - For the longer-term recovery, the HTHH Volcanic Eruption Recovery and Building Better Plan estimates that fiscal financing needs are likely to be at least USD188 million (37.5 percent of GDP) from FY 2022-FY 2025. Combined, the immediate response needs (USD22.2 million) and longer-term recovery needs (USD165.7 million) give the total recovery needs of USD187.9 million.
 - Overall, around 7.7 percent of the recovery needs are expected in FY 2022, a further 15.8 percent in FY 2023, and the remaining percent over the medium term (FY 2024–FY 2025).

5.7 Reform of Government

- Following joint recommendations by the Public Service Commission and the Remuneration Authority in April 2022, the Prime Minister’s Office will support an independent review of the public service to ensure the provision of quality services and affordability. The ongoing strengthening reform program will complement the annual joint policy reforms work with development partners, where the Government has committed to a reform process, comprising three pillars:
 - To Strengthen Public Finances.
 - To Enhance Resilience to Climate Change, Natural Disaster and Health-Related Risks; and
 - To Support Economic Recovery and Improved Labour Market Outcomes.

⁵ Initial Damage Assessment by the World Bank and the Global Facility for Disaster Reduction and Recovery (Global Rapid post-disaster Rapid Estimation (GRADE)), February 7, 2022.

- Implementation progress on all aspects of the reform process has been assessed as ‘satisfactory’ by development partners, with most of the results indicators being achieved. In the aftermath of the crises and an environment of crisis dynamics, the government remains fully committed to the reform program. The Government has a history of committing to, and successfully completing, development operations.

5.8 Risks and Mitigation

Risks to the projection for the Tongan economy remain skewed to the downside due to the following contributing factors:

- As a result of the crisis dynamics, the overall risk rating has increased from moderate to substantial.
- Environmental and social risk remains substantial, given Tonga’s high degree of vulnerability to disasters.
- Fiduciary risk remains substantial and the Government’s commitment to review the PFMA (2002) and submit it to the house in 2022 to strengthen fiduciary.
- The most important risk categories are:
 - Macroeconomic risk, increased from moderate to substantial.
 - ✓ reflecting the economic impact of the crises and the associated deterioration of the fiscal position.
 - ✓ The Government is mitigating this risk by:
 - Seeking supplemental financing and other substantial development partner assistance for medium-term recovery; and
 - Controlling spending and committing to the policy of seeking only highly concessional financing.
 - Increased commodity prices:
 - ✓ Increasing further import costs, putting additional pressure on Tonga’s external and fiscal accounts; and
 - ✓ The Government is mitigating this risk by:
 - The NRBT has substantial international reserves to mitigate a deterioration in the balance of payments. Despite these mitigation measures, residual risk has increased in recent months.
 - Risks related to institutional capacity have increased from moderate to substantial:
 - ✓ Given the impact of the crisis dynamics, there is now a risk that achievement of the target results associated with the reform program could be delayed, as significant parts of the Government and civil service need to shift their attention to short-term recovery efforts; and
 - ✓ The Government is mitigating this risk by:
 - additional development partner financial support to alleviate the acute fiscal pressure; and
 - additional technical assistance to support disaster recovery planning and execution. Despite these mitigation measures, the downside risk of delayed implementation has increased the residual risks around limited institutional capacity.
- High vulnerability to external shocks and the prolonged impact of the pandemic:
 - Disruption to services
 - Decrease in business and household confidence – Vulnerability to external shocks.
- High vulnerability and increased cost of natural disasters and climate change to Tonga and other small islands states can expect degradation of the terrestrial and marine ecosystems, severe coral bleaching, coastal land loss, increased drought, and declines in fish catch. The Government shall

work with development partners to prepare the nation to withstand the possible impacts of climate change.

- In summary, the risks faced by Tonga in the short and medium-term are:

Risk Categories	Rating
1. Political and Governance	● Low
2. Macroeconomic	● Substantial
3. Sector Strategies and Policies	● Low
4. Technical Design of Project or Program	● Low
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● Substantial
7. Environment and Social	● Substantial
8. Stakeholders	● Low
9. Other	● Substantial
Overall	● Substantial

The risks to the implementation of the thematic areas and GPA of the budget are:

Table 16: Illustrative Budget Risk Matrix

Likelihood	Budget Risk	Possible Condition	Impact on the budget	Possible costs TOP (\$)
High	Increased demand for services	Increase in the number of elderly persons without family support	Higher costs associated with health demand	3,000,000
High	Increased demand for services	Illicit drug use continues to grow	Higher costs associated with Police action	500,000
High	Increased costs	Increase in extreme weather events (multi-hazards assessment) including TC due to climate change	Higher costs due to recovery and reconstruction	10,500,000
High	Increased demand for services	Increase in degradation of terrestrial and marine ecosystems leading to internal migration and lower domestic food supplies	Higher costs associated with health and education demand and increased poverty alleviation measures	2,500,000
High	Increased demand for services	Water sources become affected by climate change	Higher costs associated with sourcing alternate sources of drinkable water	3,000,000
High	Inflation	War in Ukraine raises the costs of grain and petroleum	Higher costs associated with costs of inputs for MDAs services and possible price support for low-income persons	4,500,000
Medium	Lower revenues	Reduction in the number of working age persons	RSE and migration slowly drain the number of productive workers undermining the availability of staff in the public and private sectors causing lower productivity and less revenue	10,100,000
Medium	Increased demand for services	Major incident or large-scale emergency	Something similar to HTHH event	10,000,000
Medium	Loss of income	Assumptions regarding revenue collection are incorrect	Remittances decline leading to softer than expected demand and causing less than expected revenue	12,000,000

Source: MOF

These risk assessments should be used to identify risk mitigation strategies in ministries and agencies.

6. GOVERNMENT BUDGET: By FUNDING ALLOCATION

6.1 Overview

For the period to 2025, Budget 2023 begins the process of building the bridge between the present post-crisis situation and towards more resilience Tonga. The theme '**Accelerating Tonga's Climate and Disaster Resilience through COVID-19 Recovery**' will execute a balanced approach to reducing deficits caused by reconstruction and recovery risks, benefitting from an anticipated expansionary impact of stronger domestic investment, export and improved government performance. In addition to providing continuity of services, the new elements of this budget allocation are:

- An acceleration of the budget support reform process, including an **appropriate medium-term fiscal target**, planning today, **for the risks** identified in *Table 16 that may materialize tomorrow*, and to build the capacity of the Government to manage Tonga's exposed hazards risks, and to protect the Government, businesses, families and the vulnerable when future disasters strike. Disasters will continue to affect Tonga in unpredictable ways, and the budget planning to deal with them through the Joint Policy Reform Matrix (JPRM) will strengthen public finance, enhance resilience, improve the management of health-related risks, improve the labour market and support economic recovery.
- **Implement the HTHH reconstruction** in *Table 2*, and to progress ongoing resilience projects and priority pipeline projects with development partners such as Early Warnings (PREP, NEWS, Safer Schools), Nuku'alofa International Port Upgrade, Fanga'uta Lagoon Crossing Bridge, Nuku'alofa Urban Development, expanding public transport infrastructures to provide for more adequate and efficient transport services to expedite national resilience and preparedness for unforeseen disasters.
- Collaboration with the National Reserve Bank of Tonga and development partners to (i) mitigate and **counter imported inflation** and reconstruction pressure on the local economy as increasing inflation disproportionately affects the poor, (ii) additional credit facilities (loan guarantees, interest subsidy, women access to affordable credit, affordable housing loans, insurance instruments), and (iii) temporarily tax relief measures to support crisis recovery.
- More focus on the **efficiency, quality and affordability of the services of government**, the Prime Minister's Office will undertake independent review of the public service, develop guidelines for good governance, the Anti-Corruption Commission start, capitalize on ICT and technology, regulation and financing of public investments where the private sector has a role to play, and the creation of public-private partnerships in sectors where the private sector investments are constrained.
- **Support trade opportunities** for commodities where we have comparative advantages such as kava, vanilla, root crops in agriculture, snapper in fisheries, and tourism. Government will strengthen its contribution to gross domestic investment by, among other initiatives, introducing tax incentives for a fixed period of time to stimulate investment and exports, develop additional and affordable credit instruments to boost domestic investment in food processing in order to reduce our reliance on imported food items.
- A range of **budgetary restructuring initiatives** to align with the nine GPA to improve the quality of the government service expenditures, manage costs, settle arrears over 12 months including deferred external debt payments and, in particular provide careful management of the government increasing wage bill. **Real wages in the Government are under pressure** from increasing cost of living since 2016 as reported by the Remuneration Authority at 8.2 percent with inflation projected to increase in the short term. Budget 2023 will include initiatives to consider lessons learnt, conduct independent review of the quality and access to key services to update relevance of the whole of government responsibilities with its affordability.

- The public service remuneration comparative data increased from 53 percent of domestic revenue in FY 2020, to over 64 percent in FY 2022, and to reduce to 61 percent in FY 2023. Total remuneration of the public service is high due to increasing numbers of staff⁶ rather than to salary levels. We had only partial success in allocating a greater share of personnel resources to priority sectors over the last two years.
- This budget has taken measures in FY 2023 to bring total remuneration under the 63 percent in FY 2023 by reducing the number of floating vacancies and absorb a 3 percent COLA to account for the 6-year delay in awarding COLA and coping with high inflation in the short term without impact on service deliveries. Whilst the wage bill has exceeded the fiscal anchor of 53 percent of total domestic revenue, Budget 2023 has taken measures to reduce the total wage bill percentage starting with non-critical vacancies. The ministries of health, education and infrastructure have been exempted from these measures. There is further scope to reduce the role of allowances, overtime and other non-wage costs in overall remuneration, as well as to contain the use of contract staff and daily paid staff.

Budget Alignment with GPA

As discussed in Section 4, in order to improve the lives of all Tongans, and to build a progressive and high-quality-of-life economy, the Budget 2023 is committed to TSDF II and to the three thematic areas and nine GPA of the Budget Strategy.

In summary, in order to facilitate the GPA, Budget 2023 will:

- Have a total budget of \$764.7 million for FY 2023 with a total cash budget of \$573.1 million
- Increase the recurrent budget from the current financial year by \$60.8 million to a total of \$437.0 million in FY 2023. This increase is driven by budget commitments to support improvements in access to quality government services.
- Increase in the development budget by \$78.7 million to a total of \$327.7 million in FY 2023, mainly driven by the HTHH reconstruction which has a budget of \$120.9 million in FY 2023.
- Create opportunities from the crisis by boosting domestic investment and addressing credit loans distress by providing more accessible credit instruments to support the private sector.

Section 4 above provides budgetary information for each of the nine GPA. Bringing them together into the three thematic areas of the Budget Strategy results in the thematic cross cutting allocation of budget shown in *Table 17*. FY 2022 is used as the baseline and the propose budget for FY 2023 is provided.

Table 17: Budget Allocation by GPA Thematic Area (\$m)

Thematic Areas	Approved Budget 2021/22			Budget Estimate 2022/23		
	Recurrent	Development	Total	Recurrent	Development	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Thematic Area 1: National Resilience	35.2	93.2	128.4	55.4	97.4	152.8
Thematic Area 2: Quality of Services and Affordability	292.4	93.5	385.9	305.9	128.0	433.9
Thematic Area 3: Progressive Economic Growth	48.6	62.3	110.9	75.7	102.3	178.0
GRAND TOTAL	376.2	249.0	625.2	437.0	327.7	764.7

Source: MOF

⁶ Increased from 5,930 headcounts in FY 2020 to 6,030 in FY 2022.

Drawing on the detail of actions provided for each GPA in Section 4, the key thematic activities funded by the budget are:

Thematic Area 1: Building National Resilience (GPA 1 - 3)

The budget provides significant investment to build national resilience, with an increase by over \$30 million in FY 2023. These investments include, among others:

- Making progress in addressing climate change and disaster resilience through a number of development-funded projects to help the Government meet its climate objectives.
- HTHH Reconstruction Program with a budget allocation include housing reconstruction, transport infrastructure (roads, wharves), Nuku'alofa foreshore and waterfront beautifications, six (6) new primary schools, three (3) new health centres, new government buildings for 'Eua and Ha'apai. The budget also includes \$11 million as the Government contribution to the recovery.
- Urgent priority for progressing the Queen Salote Wharf Upgrade and the Fanga'uta Lagoon crossing bridge under preparation with the Asian Development Bank to build national resilience and address the inadequacy of the Nuku'alofa Road network, to support traffic congestion and improve evacuation routes.
- Increasing budget resources by \$9 million to support social measures to alleviate poverty (water tanks, sanitation, and secured development grants) and economic measures such as wage subsidies to support vulnerable groups.
- To increase financial resilience, renew two contingent disaster financing plans to be triggered by an eligible disaster event, adding to the PCRAFI, Contingent Emergency Response Component (CERC). Together, these will support the National Emergency Fund and designated COVID-19 and disaster resources. The probable receipts following an eligible disaster event are estimated to be up to \$70 million but are not included in the budget.
- To support the national response to combat illicit drugs, increase budget resources by \$2 million, taking the total budget to \$7 million.
- Continue focus attention on targeted assistance towards targeted households to reduce poverty using the government and the World Bank SET project assistance, elderly care and continuity of assistance for vulnerable individuals and groups using Ma'a Fafine mo e Famili.
- Explore opportunities to reduce household indebtedness through new initiatives to support increasing access to basic services, water tanks for the 5,400 households without access to drinking water, and 2,124 households with poor sanitation, resilience housing assistance and more affordable housing finance.
- Support increases the access to low-cost credit for women to \$3 million for women working in manufacturing and handicrafts.
- As the Government plans to open up its borders for international travel in July 2022, \$3.1 million budget sourced from the foreign exchange levy will be provided to support national sport events and participation in international competitions in order to enhance well-being.

Thematic Area 2: Quality of services and affordability (GPA 4 – 6)

This priority represents majority of the government expenditure with over 57.1 percent of total budget in FY 2023, recording an increase of \$50.5 million from the baseline. The Prime Minister is committed to the improvement of services provided and the return of trust in government. Budget resources are provided to address key priorities to improve access, quality, and affordability of the government services and to strengthen the connection between the public and the government. The Budget will make progress in this area with increased budgets for:



- Prime Minister's Office to lead public sector reform and to review and update the quality of government services, taking into account access and affordability. The review will examine the potential for e-government and for high-speed broadband and national ICT to improve government process and costs. Budget resources of \$3.3 million is provided to support these improvements, support training and development of capacity gaps.
- An increase of \$6 million to support improvements in healthcare to protect the lives of the Tongan people, and improve the quality of the on-going response to COVID-19.
- An additional \$4.2 million to improve education, focusing upon increasing the quality of early childhood and basic education, the quality of teachers, and higher education through the establishment of the National University.
- Over \$2 million was transferred from the salaries of selected line ministries to increase operational capacity and over \$4 million to support a 3 percent cost of living adjustment for the public service.
- The Ministry of Infrastructure is provided with an additional \$5 million budget to deliver resilience maintenance and to upgrade key transport infrastructure.
- Increased budget of \$4 million to strengthen government capacity to improve quality of services where subsidized prices are required such as the electricity lifeline.

Thematic Area 3: Progressive Economic Growth (GPA 7 – 9)

Despite the negative impacts of the crises on the domestic economy, Government has identified two policy areas with increased budget resources of \$66 million from the baseline that will be a focus of implementation: creating trade opportunities, building on our comparative advantage in the primary sectors and supporting domestic investment to reduce heavy reliance on imports.

Through the budget, the government will provide:

- Increased resources to support for domestic investments and increase exports of our root crops.
- Improve government resources to promote private sector development.
- \$10 million in increased resources to seek advice for Government assistance to private investment and to develop additional credit instruments including a loan guarantee scheme to manage and address loan distress. Government is soliciting the support of development partners to manage risks to both government and the private sector.

- Ensure increased access to 1 percent Government Development Loans to support recovery of the agriculture, tourism, fisheries, and manufacturing sectors, building on the new \$9 million fund already started through TDB.
- Recovery supports towards the agriculture, fishery, tourism, and manufacturing including initiatives/activities to promote:
 - Import substitution;
 - Increase export production (Tonga Circular Economy Project);
 - Food security; and
 - Safely reopen of border and rebuild/upgrade of tourism infrastructure.
- Government temporarily tax relief through the Ministry of Revenue and Customs to support exports and business recovery.

Budget Management and Monitoring & Evaluation (M&E)

As discussed at sections 4.5 and 4.6, budget for the three thematic areas and nine GPA is allocated to the ministries and agencies of government led by the Prime Minister's Office as shown in 6.2 and 6.3 below. A clear understanding of the GPA, the ministries and agencies involved in the delivery of each GPA and the respective budget will be required to manage accordingly and in line with M&E requirements.

6.2 Recurrent Budget FY 2023

6.2.1 Recurrent Budget projections for the medium term (FY 2023 – FY 2025)

Table 18: Recurrent Budget Projections for FY 2023 – FY 2025 (\$m)

	Actual 2020/21 (p)	Approved Budget 2021/22	Outturn 2021/22	Budget 2022/23	Budget 2023/24	Budget 2024/25
RECEIPTS	316.4	333.3	303.8	341.8	342.5	350.0
Taxes	237.4	237.2	220.6	245.6	247.5	254.9
Income Taxes	48.6	50.4	42.8	48.2	49.2	52.0
Trade Taxes	18.2	22.3	20.9	23.3	23.5	23.5
Taxes on goods and services	106.9	99.1	98.5	106.6	107.3	111.9
Excise Taxes	63.7	65.4	58.4	67.6	67.6	67.6
Non-Taxes	39.1	41.0	29.4	41.0	39.9	39.9
Fees and Licenses	24.0	28.3	19.1	28.2	27.3	27.3
Entrepreneurial & Property Income	14.7	11.5	9.8	11.6	11.4	11.4
Miscellaneous Revenue Items	0.4	1.2	0.5	1.2	1.2	1.2
Capital & Other Transfers	12.7	16.6	22.0	16.6	16.6	16.6
Budget Support and Revolving Fund	27.2	38.5	31.9	38.5	38.5	38.5
PAYMENTS	343.6	376.2	323.7	437.0	423.7	411.6
Wage bill	155.8	176.2	160.5	172.9	180.9	180.8
Operation	162.4	158.1	139.4	220.6	179.5	170.3
Debt	25.4	41.9	23.7	43.6	63.2	60.5
OVERALL BALANCE	- 27.2	- 42.8	- 19.8	- 95.3	- 81.1	- 61.6
Financing Options	27.2	42.8	13.2	65.0	-	-
WB Add. BS	-	-	13.2	43.0		
DFAT Grants	-	7.0	-	-		
RCF Loan	22.6	30.0	-	22.0		
Domestic Debt	-	-	-	-		
Cash reserves	4.6	5.8	-	-		
OVERALL BALANCE - post financing	-	-	-6.6	-30.3	-81.1	-61.6

Source: MOF

Budget 2023 targets to collect a total of \$341.8 million recurrent receipts, while aiming to spend \$437.0 million. This will result in a payment deficit of \$95.3 million over receipts, however, with budget financing, the total recurrent receipts total to \$406.8 million resulting in a **Budget Deficit of \$30.3 million in FY 2023**.

In terms of budget financing, the World Bank Group provided an additional budget support grant of USD20.0 million equivalents to around TOP\$43.0 million to assist government close the unanticipated financing gap from the crises and more important to keep the reform program ongoing. As the government did in FY 2021, the government also requested the IMF to provide USD9.9 million interest free loan equivalent to TOP\$ 22.0 million, following the volcano eruption and COVID-19 local transmission. The IMF loan is available on highly concessional financing term of interest free with 10 years maturity period including four (4) and a half year grace period. Other non-debt financing options will be pursued only if needed.

6.2.2 Recurrent Expenditure by Category

Table 19: Total Recurrent Payments Budget by Category (\$m)

Payment's by Major Category	Actual 2020/21 (p)	Approved Budget 2021/22	Outturn 2021/22	Budget 2022/23	Budget 2023/24	Budget 2024/25
Established Staff	140.8	158.0	147.4	155.8	164.3	164.3
Unestablished Staff	10.6	12.6	9.5	13.2	12.8	12.7
Travel and Communication	10.2	10.9	8.3	11.3	10.8	10.8
Maintenance and Operations	27.0	19.7	16.9	20.3	29.8	30.9
Purchase of Goods and Services	58.7	53.0	53.7	62.8	62.2	61.0
Grants and Transfers	46.4	45.5	49.4	89.2	53.6	48.4
Development Duties Expenditure	2.9	5.6	0.5	4.6	1.1	1.1
Debt Management	25.4	41.9	23.7	43.6	63.2	60.5
Contingency Fund	-	10.0	2.8	5.0	5.0	5.0
Pension & Gratuities	4.4	5.5	3.6	3.9	3.8	3.8
Assets	17.2	13.0	7.9	16.4	11.0	11.0
Equity Payment	-	0.4	-	1.0	1.0	1.0
Private Sector Development Support	-	-	-	10.0	5.0	1.0
Grand Total	343.6	376.2	323.7	437.0	423.7	411.6

Source: MOF

Table 19 above reflects the Government's recurrent expenditure categories. The budget expenditure for FY 2023 totals to \$437.0 million, an increase of \$60.8 million from the baseline budget for FY 2022. The personnel remuneration categories for FY 2023 hold the largest allocation by 39.6 percent, a reduction from 46.8 percent in FY 2022, reflecting the effort to increase resources for operations.

On the operational side, grants and transfers is the largest allocation in FY 2023, with a proposed budget of \$89.2 million to support the HTHH reconstruction, encourage bankable domestic investments and financing.

6.2.3 Recurrent Revenue by Category

Table 20: Total Recurrent Revenue Budget by Category (\$m)

RECEIPTS	Actual 2020/21 (p)	Approved Budget 2021/22	Outturn 2021/22	Budget 2022/23	Budget 2023/24	Budget 2024/25
Income Taxes	48.6	50.4	42.8	48.2	49.2	52.0
Trade Taxes	18.2	22.3	20.9	23.3	23.5	23.5
Taxes on goods and services	106.9	99.1	98.5	106.6	107.2	111.9
Excise Taxes	63.7	65.4	58.4	67.6	67.6	67.6
Fees and Licenses	24.0	28.3	19.1	28.2	27.3	27.3
Entrepreneurial & Property Income	14.7	11.5	9.8	11.6	11.4	11.4
Miscellaneous Revenue Items	0.4	1.2	0.5	1.2	1.2	1.2
Capital & Other Transfers	35.2	46.6	22.0	38.6	16.6	16.6
Budget Support and Revolving Fund	27.2	45.5	45.1	81.5	38.5	38.5
Grand Total	338.9	370.3	317.1	406.8	342.5	350.0

Source: MOF

The target to collect \$406.8 million both tax revenue and grant receipts as shown in Table 20 above, with an increase from the baseline in FY 2022, reflecting the development receipts to support reconstruction and recovery. Other than the temporarily relief measures to support recovery, there are no changes to the tax rate. The targeted recovery in tax revenue is mainly due to the strengthened administration, consumption tax reform and electronic point of sale, supported by the projected recovery in the economy and an increase in remittances. Taxes on goods and services is expected to increase by \$7.5 million and the excise taxes by \$2.2 million. The Ministry of Revenue and Customs is resourced to progress the second phase of the Point of Sale (POS), which will allow access to all taxable

transactions and manage fraudulent tax activities and undeclared revenue. A review of tax exemptions is in progress due to overall tax revenue loss of around \$14.0 million per annum, tax arrears, and trade preferential.

Government non-tax revenue continues to be challenged by the increase demand from the public during the crises for concessions and exemptions. Some of the revenue collections were waived or deferred during COVID-19 lockdown, such as the school fees for Term 1 in 2022 among others. Non-tax revenue is expected to improve in the medium term, primarily due to the borders opening around the second half of 2022 and improvement in the capacity and performance of government ministries and agencies.

6.2.4 Recurrent Expenditure by Location

Table 21: Recurrent Expenditure by Location (\$m)

Location	Actual 2020/21 (p)	Approved Budget 2021/22	Outturn 2021/22	Budget 2022/23	Budget 2023/24	Budget 2024/25
Nationwide	93.7	105.6	91.1	135.8	107.3	109.5
Tongatapu	205.6	226.0	193.5	254.2	267.1	252.9
Vava'u	16.7	15.9	14.1	16.9	19.6	19.6
Ha'apai	8.6	8.5	7.8	9.0	8.7	8.7
Eua	6.7	5.9	5.5	6.7	6.5	6.5
Niua Toputapu	1.9	2.2	1.5	2.3	2.3	2.3
Niua Fo'ou	1.4	1.7	1.1	1.8	1.8	1.8
Overseas	9.0	10.4	9.0	10.4	10.4	10.4
Grand Total	343.6	376.2	323.7	437.0	423.7	411.6

Source: MOF

Table 21 above, shows the distribution of Government's budget by location. It is evident that Tongatapu with the most population density has majority of the recurrent budget allocations, averaging at 60 percent per annum. This share is anticipated to increase in FY 2023, reflecting the largest volume of economic activities and the moderate increase on average population growth in Tongatapu, comparing to the rest of the islands.

6.3 Development Budget

The overall development budget for the FY 2023 is estimated at \$327.7 million, consisting of \$136.1 million (42 percent) as Cash and \$191.6 million (58 percent) as an in-kind contribution.

The development budget estimate is expected to increase from FY 2022 by 32 percent, reflecting the additional support towards the HTHH Response and Recovery, and to counter the impact of COVID-19.

6.3.1 Development funded Project Expenditure by Ministry

Table 22 below outlines the total development budget by Ministries:

Table 22: Total Development Budget (Development funded Project Expenditure) by MDAs (\$m)

Ministry	Actual 20/21 (\$m)	Budget Estimate 2021/22 (\$m)	Estimated Outturn 2021/22 (\$m)	Budget Estimate 2022/23 (\$m)	Projection 2023/24 (\$m)	Projection 2024/25 (\$m)	Budget Estimate FY2022/23
Attorney General's Office	0.2	0.2	0.2	0.1	0.0	0.0	0.0%
His Majesty's Armed Forces	2.4	5.5	8.2	8.4	6.7	2.0	2.6%
Legislative Assembly	0.8	7.8	1.6	12.2	15.9	18.1	3.7%
Ministry of Agriculture, Food & Forests	1.7	5.0	4.5	6.7	4.6	2.4	2.0%
Ministry of Education & Training	6.8	18.4	16.1	29.1	52.0	48.9	8.9%
Ministry of Finance	79.3	50.9	72.1	95.6	23.1	16.1	29.2%
Ministry of Fire & Services	0.0	0.0	0.0	0.3	0.3	0.3	0.1%
Ministry of Fisheries	1.8	3.4	2.6	6.8	2.7	2.5	2.1%
Ministry of Foreign Affairs	0.7	0.6	0.6	0.7	0.4	0.4	0.2%
Ministry of Health	24.2	33.9	31.9	26.8	22.6	36.5	8.2%
Ministry of Infrastructure	15.0	24.1	23.7	46.6	85.6	109.8	14.2%
Ministry of Internal Affairs	12.2	9.7	5.3	3.6	2.7	8.5	1.1%
Ministry of Justice and Prison	1.7	2.3	1.8	0.4	0.3	0.1	0.1%
Ministry of Lands & Natural Resources	0.5	9.9	2.0	11.0	11.0	5.6	3.4%
Ministry of Meteorology, Energy, Information, Disaste	43.4	74.0	56.1	69.6	41.0	22.7	21.2%
Ministry of Police	2.7	0.3	1.9	1.1	1.0	1.2	0.3%
Ministry of Tourism	1.8	0.1	0.1	0.0	0.0	0.0	0.0%
Ministry of Trade and Economic Development	8.1	0.0	0.3	3.3	3.1	0.1	1.0%
Prime Minister's Office	0.0	2.6	4.1	4.2	5.2	3.8	1.3%
Public Service Commission	0.3	0.0	1.8	0.1	0.1	0.1	0.0%
Statistics Department	0.7	0.2	2.2	1.1	0.4	0.1	0.3%
Tonga Office of the Auditor General	0.2	0.0	0.0	0.2	0.2	0.2	0.1%
Grand Total	204.6	249.0	236.9	327.7	278.7	279.3	100%

Source: MOF

The Ministry of Finance has the highest allocation of funds with \$95.6 million (29 percent), followed by MEIDECC with \$69.6 million (21 percent), Ministry of Infrastructure with \$46.6 million (14 percent), Ministry of Education and Training with \$29.1 million (9 percent), Ministry of Health \$26.8 million (8 percent), with the remaining ministries implementing donor-funded projects under each respective area.

Ministry of Finance

The estimated budget for FY 2023 reflects an increase of 88 percent, comparing to the current financial year. This is mainly due to the support from the Development Partners towards the HTHH response and recovery plans and activities with an estimated cost of \$45.5 million.

MEIDECC's budget declined from FY 2022 by 7 percent as a result of the completed phases under the renewable energy sector projects. The TREP and OIREP projects have completed part of its phases despite the impact of COVID-19. Both projects are near completion; TREP is scheduled to complete at the second quarter of 2023 and OIREP at the fourth quarter of 2023. The remaining projects were delayed in implementation due to the COVID-19 restrictions, include Pacific Resilience Energy Project (PREP), Nuku'alofa Network Upgrade Project (NNUP), Nationwide Early Warning System (NEWS), Green Climate Fund – Strengthening Adaptation Planning in Tonga, Tonga Power Sector Decarbonization Feasibility Study, and Water Management Project.

The **Ministry of Infrastructure** has an estimated budget of \$46.6 million for FY 2023, a substantial increase from FY 2022 due to:

- The Nuku'alofa Port Upgrade Project, expecting to take place at the fourth quarter of 2022 or early 2023, once the current negotiation is confirmed by the end of the current FY – estimated at \$20 million;
- Fanga'uta Lagoon Crossing Bridge is expected to be under way in 2023 (\$5 million);
- Tonga Climate Resilient Transport Project will be picking up in the upcoming financial year with the Phase II, scheduling to commence in Vava'u, Ha'apai, and 'Eua (\$14 million);

- The reconstruction of residential houses and the restoration of public infrastructure and Government facilities were damaged by the HTHH volcanic eruption is estimated at \$2.5 million.

6.3.2 Development Expenditure by Location

Table 23 below, shows the development budget expenditure by locations: Tongatapu, Vava'u, Ha'apai, 'Eua, the two Niuas, and Nationwide.

Table 23: Total Development Budget (Expenditure) by Location (\$m)

Location	Actual 20/21 (\$m)	Budget Estimate 2021/22 (\$m)	Estimate Outturn 2021/22 (\$m)	Budget Estimate 2022/23 (\$m)	Projection 2023/24 (\$m)	Projection 2024/25 (\$m)	Budget Estimate 2022/23
Eua	1.5	4.5	6.6	7.6	6.3	7.3	2%
Ha'apai	4.4	11.0	10.3	13.5	11.5	3.5	4%
Nationwide	134.8	99.1	117.4	173.6	111.5	116.8	53%
Niuafo'ou	1.0	7.8	2.7	8.4	3.7	0.8	3%
Niuaotoputapu	1.0	2.2	3.7	3.1	1.5	0.5	1%
Overseas	0.6	0.0	0.0	0.0	0.0	0.0	0%
Tongatapu	57.4	116.9	87.0	105.0	135.9	139.4	32%
Vava'u	4.0	7.6	9.2	16.5	8.3	11.0	5%
Total	204.6	249.0	236.9	327.7	278.7	279.3	100%

Source: MOF

Nationwide constitutes the largest percentage (53) of the development estimates for FY 2023, amounting to \$173.6 million. It is expected that a total of around \$109.9 million will be expended on Government recovery works and efforts due to the HTHH volcanic eruption and tsunami. The ongoing projects such as TCRTP I & II, Nuku'alofa Port Upgrades, Tonga Safer School Project, E-Health, and Vaccine projects will continue in FY 2023.

Tongatapu: The major ongoing projects in Tongatapu are the TREP, NNUP, TCRTP I&II, Nuku'alofa Port Upgrade, Fanga'uta Lagoon Bridge, and TRIP II project. An estimated total of \$105.0 million is projected to expend in FY 2023.

Vava'u: The projects to be implemented in Vava'u, with an estimated cost of \$16.5 million, including TREP, TCRTP I&II, and the upgrading of Fangatongo Military Camp.

Ha'apai: The allocation for Ha'apai is estimated at \$13.5 million, consisting of the ongoing projects namely: TREP, OIREP, TRIP, and the rebuilding of infrastructural facilities being destroyed by the HTHH volcanic eruption and tsunami.

'Eua: An estimated budget allocation for 'Eua of \$7.6 million, attributing to TREP, TCRTP, and the HTHH reconstruction project.

Niuaotoputapu and Niuafo'ou: The two (2) Niuas combined total budget of \$11.4 million, comprising of the ongoing renewable energy-related projects, TCRTP I and SET project.

6.3.3 Development Expenditure by Development Partners

Development partners continue to play a critical role in the growth of the country as outlined in Table 24, relevant details are provided in Annex IV.

Table 24: Total Development Budget (Expenditure) by Development Partners (\$m)

Development Partners	Budget Estimate	Estimate Outturn	Budget Estimate	Estimate Outturn	Budget Estimate	Projection	Projection
	2020/21	2020/21	2021/22	2021/22	2022/23	2023/24	2024/25
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Asian Development Bank (ADB)	25.0	19.2	43.3	34.9	76.1	75.2	69.5
Crop Agencies	2.6	0.6	2.4	0.9	0.7	0.6	0.3
Government of Australia	30.8	18.0	29.7	27.5	94.4	50.2	30.6
Government of Japan	2.1	2.0	5.4	5.8	6.4	5.2	3.2
Government of New Zealand	16.4	8.8	28.4	30.6	34.0	27.3	32.5
Green Climate Fund	6.5	3.2	27.7	19.8	19.8	11.4	10.5
Others	56.3	37.6	2.3	32.6	11.4	6.9	3.4
People's Republic of China	21.9	4.9	4.7	7.0	9.4	6.4	3.4
European Union	14.2	6.6	10.5	10.6	7.3	6.4	6.4
World Bank/International Development Agency (IDA)	33.8	85.0	94.6	67.3	68.4	89.1	119.6
Total	209.6	185.8	249.0	236.9	327.7	278.7	279.3

Source: MOF

7. CONCLUSION

The theme for the FY 2023 Budget is '**Accelerating Tonga's Climate and Disaster Resilience through COVID-19 Recovery**'.

Considering the challenges we face due to the impact of the HTHH volcano eruption and tsunami and the spread of the COVID-19, there is still hope, according to God's promise: "*He will never leave you nor forsake you*" (*Deuteronomy 31:8*). Tonga has survived the impact of the Tsunami and Omicron despite their extreme and unpredictable impacts. Looking ahead, the Government is committed to increasing focus on strengthening national resilience at all levels.

The Government's fiscal deficit position in FY 2023 will prioritize funding options from a highly concessional IMF RCF loan (\$22 million). Targeted spending will focus on three thematic areas: (i) National resilience; (ii) Quality Services and Affordability, focusing on health and education; and (iii) Progressive Economic Growth. The Government's recovery efforts will be guided by the approved HTHH Recovery Plan and the respective sector plans, aiming to restore growth in the economy.

Despite the current devastation in the key economic sectors and activities, the outlook is positive as we seek ongoing partnership with all key stakeholders to facilitate economic recovery. This will include supporting the reconstruction and recovery plans for the affected households, business sector, and vulnerable groups.

Effective partnership and collaboration with key stakeholders is crucial and we acknowledge the ongoing support by development partners during this difficult time. We also acknowledge the support both in cash and in-kind, of the Tongan diaspora overseas in maintaining remittances.

Last but not least, Government MDAs are strongly encouraged to streamline expenses to prioritize budget allocations toward the priority needs and the GPA.

We would like to acknowledge the work of the Ministry of Health and that of all frontliners staff in containing the spread of COVID-19 and reducing its impact upon our country.

I wish to reiterate our Budget Theme: '**Accelerating Tonga's climate and disaster resilience through COVID-19 recovery**'. With the Almighty Gods love and protection, our prayer is that by working together, we will get through this difficult time.

ANNEXES

ANNEX I: MACROECONOMIC AND FISCAL OUTCOMES AND OUTLOOK

8.1 Status of the economy and outlook

Global Highlights

The global economy recorded a weaker than projected, position in 2022, due to the rapid spread of the new Omicron COVID-19 variant and a high level of geopolitical tensions. Inflation in the global commodity market is notably higher due to the significant increase in energy prices and supply disruption, following the Russia-Ukraine war. Consequently, global growth is projected to slow down to 3.6 percent in 2022 compared to 6.1 percent in 2021. (IMF-WEO April 2022)

(real GDP, annual percent change)	Estimate 2021	Projections 2022	2023
WORLD OUTPUT	6.1	3.6	3.6
<i>Advanced Economies</i>	5.2	3.3	2.4
United States	5.7	3.7	2.3
Euro Area	5.3	2.8	2.3
Japan	1.6	2.4	2.3
United Kingdom	7.4	3.7	1.2
others Advanced Economies	5.0	3.1	3.0
<i>Emerging Market and Developing Economies</i>	6.5	3.8	4.4
China	8.1	4.4	5.1
India	8.9	8.2	6.9
ASEAN-5	3.4	5.3	5.9
Emerging and Developing Europe	6.7	-2.9	1.3
Russia	4.7	-8.5	-2.3
Others Emerging Market and Developing Economies	4.8	3.3	2.8

Source: IMF WEO April 2022

On this outlook, growth is estimated to remain weaker at 3.6 percent in 2023 and is expected to improve in the medium term, as vaccinations coverage increases and the Russia-Ukraine war ends. The pace of recovery is expected to vary across countries given the prolonged impact of the global pandemic, the degree of the economic and fiscal policies' responsiveness to recovery as well as improvement in business and household confidence.

Regional Highlights

Economic activities in the Pacific region are projected to rebound in 2022, after struggling over the past two years, particularly in the economies that are heavily reliant on tourism. Following the commencement of open borders in some of the Pacific economies, growth for the region is projected to increase to an average of 4.1 percent in 2022, compared to negative growth rates experienced in the two previous years. Growth is expected to continue to strengthen at an average of 4.4 percent in the near term, supported by tourism-related activities. Risks to the outlook tilted to the downside due to the COVID-19 outbreak in the region and the vulnerability of the region to natural disasters and climate change.

	GDP Growth (%)			
	2020	2021e	2022f	2023f
Fiji	-15.7	-4.1	7.8	6.9
Kiribati	-1.9	3	2.6	2.4
Marshall Islands	-2.2	-2.5	3.5	2.5
Nauru	0.7	1.6	0.9	0.8
Palau	-9.7	-16.0	12.0	14.0
PNG	-3.5	1.0	4.0	3.0
Samoa	-2.7	-8.1	1.5	3.0
Solomon Islands	-4.3	2.0	4.5	4.4
Timor-Leste	-8.5	1.9	3.7	4.3
Tonga	0.7	-3.2	2.6	3.3
Tuvalu	1.0	2.5	3.5	3.8
Vanuatu	-6.8	1.2	3.0	4.1

Source: ADB Pacific Economic Monitor Dec 2021

Inflation, particularly the energy prices, is notably high due to the ripple effect of the geopolitical tension in the Russia-Ukraine war. The labour mobility and remittances in the Pacific continued to hold up, supported by more employment opportunities for the Pacific, due to the higher demand for workers under the Seasonal work schemes in Australia and New Zealand.

Tongan Economy

The country's economic performance continues to be affected since the closure of borders, in January 2020 to protect against the virus entering our shore. The current economic situation reflects the economy's vulnerability to economic shocks and events, other than natural disasters. Following the initial sharp drop-in activity, demand, throughout the first half of FY 2022, catalysed broad-based growth, with stronger-than-expected remittances and tax revenues for the first half of FY 2022, exceeding the first half of FY 2021 by \$19 million.

Economic growth projects an approximately 2.5 percent fall in GDP for FY 2022. The disruptions in economic activities from the ashfall and tsunami, the spread of COVID-19 Omicron in communities, and lockdowns expect to wipe out improvements in the first half of the FY 2022. We forecast economic activities to pick up in subsequent months, taking into account the recovery and reconstruction activities, following the volcanic eruption and relevant measures to address the impact of COVID-19.

The COVID-19 recovery activities and the related impact of the volcanic eruption on the supply chain triggered the increase in the Consumers Price Index (CPI) to 9 percent as recorded in December 2021, well

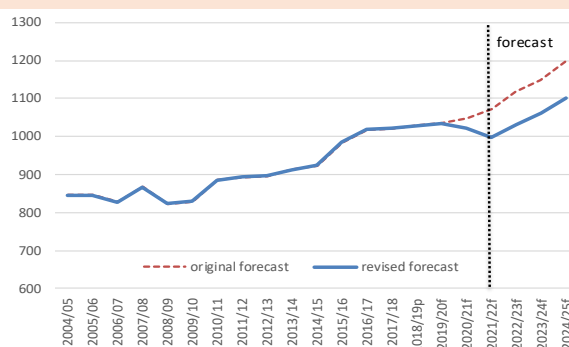
above the National Reserve Bank of Tonga's reference rate of 5 percent. The increase in inflation adds to cost pressures associated with the provision of public services, including the recovery works and reconstruction. The implication of a slow-down in economic activities contributes to the increase in the interest rate spread to 6.12 percent in December 2021 compared to the 5.7 percent in the corresponding period a year ago, and the expected increase in unemployment from 3.1 percent as recorded in March 2022 to above 5.0 percent at the end of FY 2022.

The outlook is positive as the economy is projected to recover and strengthen to an average of 3.6 percent, anticipating the recovery of key sectors. The ongoing Government policy support helps to revive economic activity and growth of the economy.

After two years of coping with the impact of COVID-19, the economy slowly adjusted, referred to as the new normal. The economy slowly pick-up across most industry groups and sectors, except tourism, with strong domestic spending consumption supported by a surge in remittances. Tourism remains weak, reflecting the impact of ongoing border restrictions on international movement.

The economy has a new normal trend as shown by the blue line in *A-Figure 1* after the destruction of the country caused by the volcanic eruption⁷.

A-Figure 1: Real Production GDP (\$m)



Source: SDT & Ministry of Finance

Source: MOF

Remittances continued to support aggregate demand throughout FY 2021 and well into FY 2022 together with the ongoing support from the Government, although businesses experience has been increasingly challenged due to COVID-19 distancing measures and restrictions. The labour mobility schemes in Australia and New Zealand also contribute.

However, the unforeseen HTHH volcanic eruption and tsunami on 15 January generated a further sharp cut in economic activity as reflected in *A-Figure 1*. The event destroyed some big businesses relating to accommodation and restaurants, housing, shelters, and livelihoods including fishing, marine produce, and agriculture. The revised forecast for FY 2022 is estimated to fall by 2.5 percent. The cost of the destruction was estimated at \$208 million by World Bank⁸. Within 2 weeks of the tsunami and ashfall, the first positive cases of COVID-19 Omicron community transmission emerged in Nuku'alofa. Following the rapid spread of Omicron to other parts of Tongatapu, the Government responded initially with mild, then increasingly harder lockdowns in February and through March 2022. Omicron has now spread to Vava'u and Ha'apai which is severely disrupting activity on these islands as well. These double shocks had significantly undermined the momentum that the economy had started to rebuild in the first half of 2022.

Box 3: Forecast development

The GDP forecast as reflected in Figure 5 above, were finalised on the 24th of February in the Macroeconomic Advisory Committee after the committee members approved the forecast. The Committee is chaired by the Minister of Finance. The rest of the members are Governor of the National Reserve Bank of Tonga, CEO of the Ministry of Finance, CEO of the Statistics Department, and staff of these three agencies. This is part of the budget process to establish economic forecast to assist in the fiscal forecast. Event and data released after that are not included in the result of the main forecasts. This time, the country was facing a spike in positive COVID-19 OMICRON cases. The country went into hard lockdown and restrictions effective from the 20th of March prior restrictions easing further in mid-April 2022.

The latest available annual national accounts data is FY2020. Once the national accounts for FY 2021 is available then a comparison of the estimates and the actual data will be made available to the Cabinet and publish in the Ministry's website.

⁷ Volcanic eruption is the main cause of the drop in trend, there is apart from the COVID-19 but assumes lesser than the original impact in FY2020.

⁸ GRADE Report

Supply-side

The constraints on the supply side have also become critical not only coming from international but also domestically after the tsunami interrupted all the sectors. The ashfall and tsunami affected the agricultural supply, especially vegetables and some of the crops vulnerable to ashes.

Labour supply provides further capacity constraints, especially for businesses that are directly affected by workers who joined the seasonal workers' programme in addition to the constraints caused by the COVID-19 lockdown.

The below-than-expected performance in economic activity for FY 2022, together with some historical revisions that were incorporated in the GDP for FY 2022, has resulted in growth trending below what the economy can sustain in the long run. The difference between actual and long-run potential economic activity, a key measure of spare capacity in the economy known as the output gap, has been more negative than previously thought. This lack of capacity is a strong indication of domestic inflationary pressure.

Growth projections by key sectors

This section discusses the sectorial economic performance that reflects the prolonged impacts of COVID-19 and the recent HTHH volcano eruptions and tsunamis.

Primary Sector: (17.3 percent of GDP)⁹

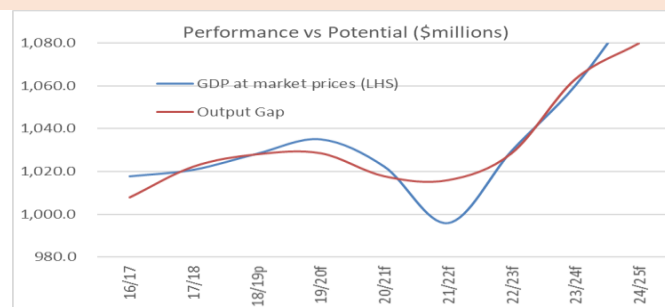
The sector was projected at a negative growth of 1.4 percent in FY 2021, dropping from 0.6 percent on average over the past four years (FY2017-2020). This was driven by a significant decline in the volume of squash productions (exports), and the prolonged impact of COVID-19 on

fresh-fish exports. The agricultural sub-sector continues to dominate the primary sector, accounting for 15.4 percentage points of the sector's share in GDP. In the medium term, the sector is projected to grow moderately at an average of 1.5 percent, with an increased focus on food security and recovery. Special attention is also drawn to boosting the import substitutions, domestic productions, and volume export.

Agriculture and Forestry: Growth in the agriculture sub-sector forecasts to decline further to a negative 2.3 percent in FY 2022 from a negative 1.3 percent in the previous year. This reflects the destructions on the sector caused by the HTHH eruption and tsunamis. It was reported that over 80 percent of estimated damages were felt largely on root crops- mainly on yams of all types, vegetables, and all crops at an early stage. A slight increase was noted, in the volume of squash exported by 36 percent (555mt) in the first half of the FY 2022, compared to last year, however, it remains below the average squash exported for the past four years by 47 percent (3,909mt). Positive stance anticipated for squash and kava due to trial opening of commercial kava from Australia. The sub-sector is projected to grow at an average of 4.2 percent in the medium term (FY 2023-FY 2025)

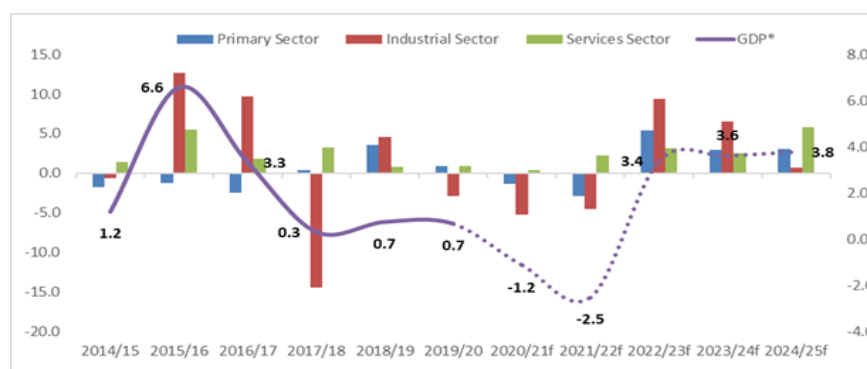
Fisheries: Growth in the sub-sector is projected to decline further to negative 8.0 percent in FY 2022, from negative 1.9 percent in the previous year. This is due to the tremendous fall in the total

A-Figure 2: Output Gap



Source: MOF

A-Figure 3: Real GDP Growth projections by sector



Source: Tonga Statistics Department, MOF

⁹ Primary Sector comprised of 2 subsectors: Agriculture & forestry sector and Fisheries subsector.

volume of exports by 41 percent (279mt) from the marine sector (tuna and snapper) and 48,148 pieces from the aquarium sector (invertebrates and other live species). The ongoing cessation of the export of fresh-fish contributes to the decline in total exports by around 30 percent. The damages caused by the HTHH eruption and tsunami had demolished the majority of the recovery efforts, following TC Harold. The re-opening of our border is expected in June and October 2022, anticipates to gradually revive the export of fresh-fish respectively. The sector is projected to recover at an average growth of 0.4 percent in the medium term (FY 2023-FY 2025).

Industrial Sector: (13.7 percent to GDP) ¹⁰

The industrial sector continues as the driving and mitigating factor of growth behind the challenging years for the economy. The sector provides the impetus for growth and employment, providing both the primary and services sectors were severely impacted by the outbreak of COVID-19 and the damages caused by the volcanic eruption and the tsunami. A slight improvement in sector growth estimates from a negative 5.3 percent in FY 2021 to a negative growth of 4.6 percent in FY 2022. This is attributed to the commencement of recovery reconstruction works which is reflected in the construction sub-sectors: mining & quarrying, manufacturing, electricity, and water. The medium-term outlook is promising with a positive growth forecast, averaging at above 6.0 percent, mainly due to the projects and activities that are expected to occur and implement in the outer years.

Construction sector: The construction sub-sector becomes an important part of the Tongan economy during a very difficult year, due to the outbreak of COVID-19 and the damage by the tsunami. The sector declines to a negative 7.2 percent in FY 2022 compared to the previous year, due to the COVID-19 outbreak, where delays in the implementation of major construction projects, ongoing projects including the National Early Warning System and Emergency Operation Centre for natural disasters.

The medium-term outlook is promising, with a positive growth forecast averaging 3.0 percent, mainly attributed to the new projects and activities such as Volcano eruption and Tsunami reconstruction, Fanga'uta Lagoon Bridge, New Parliament Building, Resurfacing of Ha'apai and 'Eua airport runways and the extension of Queen Salote Wharf that are expected to occur and implemented in the outer years. The Government has developed the National Infrastructure Investment Plan III (NIP III) to guide the prioritization of infrastructure development in Tonga and dialogues with Development Partners for financial support. The NIIP III requires updating to incorporate revised priorities after the volcanic eruption and tsunami in January 2022.

Services Sector: (53.7 percent to GDP) ¹¹

The services sector projects growth at 2.3 percent for FY 2022, up from 0.3 percent growth in FY 2021. The increase in sector growth is attributed to the recovery-related activities in the services sub-sectors. The significant investment both by government and development partners led to the strong growth in the health and social services sub-sector (17 percent), followed by the education sub-sector (3 percent) and the wholesale and retail sub-sector (0.6 percent).

The growth in the health sub-sector reflects the ongoing works and services towards COVID-19, commencing from the preparation phase in Jan 2021 and up to the stage at present. In addition, the ongoing Government services towards recovery from the destruction caused by the HTHH eruption and tsunami, including the works under the education sub-sector to operate classes online (e-learning) have contributed to the projected increase in the sector's growth in FY 2022 and near-term. The services sector is projected to grow at an average of 3.8 percent in the outer years, taking into account the continuous work and effort to contain the spread of Omicron and recovery.

Accommodation and food service activities (Tourism industry): Tourism continues to be the most affected sector in the economy reflecting the significant decline in growth to negative 11.8 percent in FY 2021 and forecasts a further contraction to negative 30.3 percent in FY 2022. These

¹⁰ *Industrial or Secondary Sector* comprised of 4 subsectors: Mining & Quarrying subsector; Manufacturing subsector; Electricity, water & waste subsector; and Construction subsector.

¹¹ *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 & Defense; Education; Human health & social work activities; Arts, entertainment & recreation; and Other services activities subsectors.

downward trends reflected the recent dual destruction caused by the eruption of the HTHH volcano and the subsequent tsunami on January 15th, 2022. Additionally, the sector was further battered by the outbreak of COVID-19 (omicron) resulting in several lockdowns, mainly in Tongatapu and Vava'u.

The tsunami created by the volcanic eruption wreaked havoc along the western coast of Tongatapu and 'Eua, resulting in major damage to accommodations. International and local communication has also been disrupted due to fibre optic cable damage, which affected bookings and tourism advertisements. Domestic tourism has further been halted due to the COVID-19 restrictions throughout the Government. The prolonged closure of our international border contributed to the continuous fall in tourist receipts. In general, all travel-related activities and tourism operations have ground to a standstill.

In response to the ongoing pandemic and multi-natural hazard, the Government continues to financially support the sector, targeting the affected businesses and employees, as well as boosting domestic investment through strengthening private sectors.

The outlook for FY 2023 and the medium term is cautiously optimistic, although it remains highly uncertain. This is supported by Business Recovery, Tourism Recovery Plan, HTHH Recovery and Building Back Better Plan 2022 – 2025, and “Low-Cost Credit” development loan. However, the sector remains extremely vulnerable to natural shocks.

Wholesale & Retail continues to be the main sub-sector of the Services Sector and its growth revived from a negative 2.0 percent in FY 2021 to 0.6 percent in FY 2022. Although the sector felt the impact of COVID-19, businesses continue to operate with the very high demand of consumption from the public especially within the national lockdown due to the spread of Omicron.

The level of remittances continues to hold up as the Tongan families from abroad including the seasonal workers continue to financially support their families. The total remittances at the end of December 2021 were \$498.1 million (25 percent increase) compared to \$398 million in December 2020.

In response to the COVID-19 pandemic, the Government continues to provide support to affected businesses through the Stimulus Package. This is to assist them given the degree of uncertainty on how long the impacts of COVID-19 will continue.

The Government has also provided immediate response to businesses affected by HTHH Volcanic Eruption. There is an Economic Medium Term Recovery Plan has been designed to assist with the construction and recovery of businesses that were affected.

The growth for the medium term is forecasted to grow at an average of 3.7 percent. The optimistic forecast has taken into account the priority set by the Ministry of Revenue and Customs to strongly enforce the implementation of cash registers in businesses to improve sales revenue and collection. These include sector policies developed as part of the Government recovery plan to revive the Tongan economy overall.

Financial & Insurance Activities: The activities in the banking sector declined by a negative 1.4 percent in FY 2021 and a further negative growth trend over the FY 2022 and the medium term is projected. The negative growth projected is due to the COVID-19 restrictions and impacts on the Tongan economy, the increasing cost of operations in line with increasing consumer prices, and lastly, the impact and ripple effect of the HTHH Volcanic Eruption as well as the projected extreme weather conditions.

Human Health & Social Work Activities continue to project a positive growth reflecting Government efforts to strengthen the preparedness for the new norm which is to live with COVID-19. Although Omicron spreads faster than we could imagine, the Ministry of Health continues to advise the public of the precautionary measures to protect those at risk.

The Government continues with the related works to repatriate stranded Tongans overseas and now scheduled to open the border at the second half of 2022.

The vaccination coverage, as of March 2022, reached 98 percent for the first dose, 90 percent for the second dose, and 49 percent for booster doses. The Ministry of Health continues to urge people in Press Conferences and Public Awareness Program to be vaccinated to avoid a huge impact if

being tested positive for COVID-19 Omicron. This is also to ensure the Ministry's staff still has the capacity and resources to address the people with COVID-19.

The Government continues to provide support to the vulnerable groups through the Social Welfare Scheme for Elderlies and Disability as well as Poor Households.

Education Sector: The growth for the Education sub-sector was projected to be 3 percent in FY 2022 and continues at the same level over the medium term. The positive outlook reflects ongoing works and planned initiatives to develop the sector. These works include the establishment of Tonga National University, review of the curriculum, and expansion of ECE and Primary School from Form 1 level last year to Form 2 level. The discontinuity of the Form 5 level Tonga School Certificate Examination, on the other hand, also contributes to addressing the issue of school drop-out.

The Ministry of Education and Training has implemented home school programs since the lockdown in February, due to the COVID-19 restrictions. All relevant efforts had been put forth to enable students at all levels—Primary, Secondary and Tertiary—to access from home via Radio broadcast, at a specific schedule to get their educational curriculum for the day/week, and online Moodle for their respective courses.

The Government also supported the sector through its Stimulus Package to assist all Tongan students stranded overseas. The ministry has submitted their Recovery Plan for HTHH Volcanic Eruption in which they will provide assistance to furnish schools with Proper Facilities.

Box 1: Key economic forecast assumptions

The forecast covers the FY 2021, current year FY 2022 and medium-term and the following assumptions:

- The FY 2021 actual GDP data is not yet available; the impact of COVID-19 predominantly affects the projection for the FY 2021 and outer years.
- The economic loss per quarter is estimated at around 7 percent for FY 2020 since the commencement of the COVID-19 pandemic in 2020.
- Government continues to provide relief and recovery support towards key sectors of the economy considering the prolonged impact of COVID-19.
- Economy will be more resilience in response to future economic shocks and disasters in FY 2023.
- Remittances will continue to hold up at around 42 percent of GDP compared to the initial projection of 38.5 percent. Economic activities in key remitting countries gradually return to normal operation.
- Inflation continues to increase above the NRBT's 5 percent reference target and is expected to increase further to double digit.
- Timely Response and expedite the implementation of the Tonga Volcano Eruption Recovery Plan.
- Adaptation to the new COVID-19 norm by the second half of 2022 (97-99 percentage vaccination, front-liners multiple-shift capability for 500 passengers, adequate capacity for MIQ and contact tracing application functional).

8.2 Economic Shock and Tonga's Exposure to Climate Change and Disasters

Tonga¹² remains one of the most vulnerable countries to natural disasters and will increasingly continue to suffer from the adverse impact of climate change. These impacts will continue to significantly affect economic growth and debt sustainability. The impacts include more frequent/severe tropical cyclones with strong winds, heavy rains, coastal flooding, and high exposure to sea-level rise. These disasters can result in coastal erosion and salination of freshwater systems, drought, and extreme earthquakes and tsunamis. In February 2018, the Tropical Cyclone (TC) Gita had caused extensive damage and loss, equivalent to 38 percent of Tonga's GDP, which the reconstruction effort is looking to complete in June 2022. The country was again hit by TC Harold in April 2020, and while the economy is yet to recover, the country has recently experienced another destructive event, the HTHH volcano eruption, ashfall, and tsunami in January 2022.

¹² IMF Country Report No. 20/212, Tonga – Technical Assistance Report–Climate Change Policy, April 2020

Economic Impact of COVID-19

The earlier estimates¹³ provided in March 2020 for the impact of COVID-19 stood at 5.1 percent of the Gross Domestic Product (GDP). This estimate was based on the assumption that the border would continue to be closed to protect the population from the virus from entering our shore. The estimate also factored in the two weeks lockdown in March 2020, resulting in economic loss to households, businesses, and the Government. The impact on GDP was estimated at \$60 million in 2020.

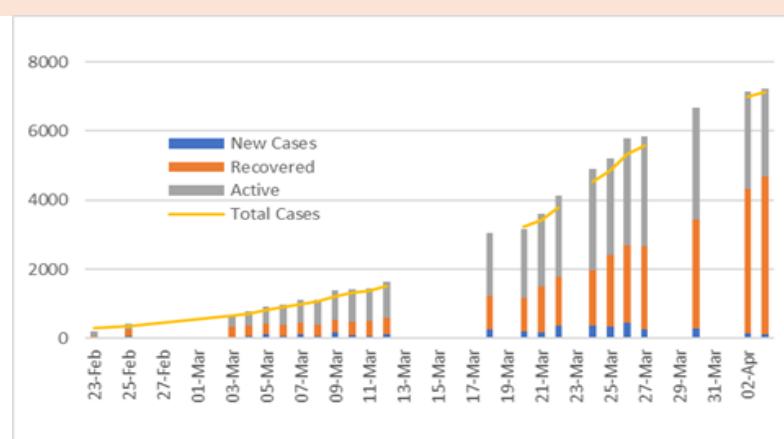
A-Table 1: Key sectors with economic loss

Key sectors	FY 19/20	FY 20/21	FY 21/22
Agriculture & Fisheries	144.77	127.39	53.08
Manufacturing	58.85	56.81	23.67
Construction	49.60	34.69	14.45
Wholesale and retail trade	107.60	10.73	10.73
Accommodation and food services (Tourism)	25.54	10.73	4.47
Financial and insurance activities	52.98	31.65	13.19
Public administration and defence	81.40	64.21	26.76

Source: MOF

Globally¹⁴, the world economies estimated growth to decline by 4.3 percent in 2020 and most of the large economies estimated the economic loss at 2.9 percent of GDP. A-Table 1 reflects the estimated economic loss in key sectors of the domestic economy.

A-Figure 4: Trend of COVID-19 in Tonga up to the 29th March 2022



Sources: Ministry of Health (MOH) facebook page

The first case of positive community transmission of COVID-19 was identified in January 2022. Since then, cases have increasingly spread in the communities in Tongatapu and the outer islands of Vava'u and Ha'apai. As of 30th March 2022, total cases of 6,423 were recorded with 51 percent remaining as active cases while the rest have recovered. Only two deaths were reported to relate to COVID-19, according to the Ministry of Health.

Economic Impacts of the Hunga-Tonga-Hunga-Ha'apai (HTHH) Volcano Eruption and Tsunami

The HTHH volcanic eruption and tsunami that hit Tonga on 15 January 2022 had caused severe economic damages and losses, estimated at T\$416.2 (USD182.2¹⁵) million. The ashfall from the volcanic eruption covered most of the entire nation, including the outer islands. The tsunami caused flooding and damage in mostly the coastal and waterfront locations, with a huge impact on the economic and social well-being of all Tongans. This is due to the destruction of properties including infrastructure, agriculture, livelihoods, and the wellbeing of all citizens. The economy also experienced serious disruption to communications due to the damage to the international and domestic fibre optic submarine cables with large sections were all being destroyed.

The joint rapid assessment led by the World Bank and the Global Facility for Disaster Reduction and Recovery (GFDRR) estimated the economic damages and losses, at an equivalent to 36.4 percent of GDP, featuring the scale of the recovery and the reconstruction efforts required. The initial damage assessment, within two weeks after the HTHH event, was estimated at 18.5 percent¹⁶ of GDP equivalent to T\$208 (USD90.4) million was further revised up to an estimated cost of T\$233.4 (USD102.2) million, equivalent to 20.4 percent of GDP, based on a more comprehensive assessment of the HTHH event. The assessment provides an estimate of the damages caused by the volcanic eruption as well as the impact of the tsunami

¹³ Joint estimates did by the Ministry of Finance and the office of ADB Tonga in March 2019

¹⁴ Estimate by "The Economist" at www.economist.com/finance-and-economics/2021/01/09

¹⁵ World Bank: IDA Tonga Second Resilience Development Policy Financing: Supplemental Financing Report No.: PGD4996, April 28, 2022

¹⁶ Initial Damage Assessment by the World Bank and the Global Facility for Disaster Reduction and Recovery (Global Rapid post-disaster Rapid Estimation (GRADE))

on the communication sector, energy, transport, tourism industry, agriculture and fisheries, education, water, sanitation and hygiene, and others. The break-down of costs include:

- (a) Buildings – T\$106.1 (USD46.4) million i.e., residential T\$45.5 (USD19.9) million and non-residential¹⁷ – T\$60.6 (USD26.5) million.
- (b) Infrastructure¹⁸ (incl. Transport, Communication, Power Supply, and Water) – T\$66.80 (USD29.2) million.
- (c) Agriculture and Fisheries – T\$43.3 (USD19.0) million.
- (d) Education – T\$5.0 (USD2.2) million.
- (e) Water, sanitation and hygiene – T\$2.0 (USD0.9) million; and
- (f) Other economic & social impacts – T\$10.2 (USD4.5) million.

Social Impact: The cost of the mental and emotional impact of the disaster are not included in the assessment, however, the overall impact of adding the social impact is expected to be greater.

Reconstruction, Recovery, and recurrent costs

The Government is committed to ensuring that the implementation of the approved HTHH Recovery Plan will reflect its full commitment to poverty reduction, effective social protection, and gender parity in all their many aspects to ensure that no one is left behind.

The approved HTHH Recovery Plan is estimated at a total cost of \$567.7 million, which is financially supported by the Government and development partner agencies. At the same time, Tongan diasporas, private sectors, NGOs, and Charitable organizations also contributed in various modalities.

The financing of the plan is summarised in the A-Table 2 below:

A-Table 2: Proposed HTHH Recovery Funding

Summary	Total Funding
Total Recovery Cost [A]	567,683,155
Total Proposed Funding [B]	326,930,000
1. Firm Commitments	218,020,000
Government Funds	30,800,000
Development Funds	187,220,000
2. Soft Commitments I	58,910,000
Ongoing Projects	46,910,000
Confirmed Project	12,000,000
3. Soft Commitments II	50,000,000
Pipeline Projects	50,000,000
TOTAL Unfunded Recovery Cost [A-B]	240,753,155

Source: MOF

The Government will continue to explore new and trusted financing tools to ensure that the Recovery Plan is effectively funded.

Financial Sector

The Government will continue to provide financial support for the recovery of key sectors of the economy. These include the following financial support modalities:

- (i) top-up the Government Development Loan (GDL) facility to an estimated total of \$11.25 million at the Tonga Development Bank.
 - ✓ 1 percent loan interest.

¹⁷ The *non-residential buildings* include tourism-related buildings, health facilities, schools, public administrative buildings, religious buildings, commercial offices, and private sector buildings.

¹⁸ *Infrastructure* includes roads, causeways, power supply, ports/ marine, and water supply networks as well as the damage to the undersea telecommunication cable.

- ✓ new/development initiatives in key sectors: agriculture (focusing on the production of kava, watermelon exports and pack houses), fishery, tourism, wholesale and retail and a special facility to support large-scale Tonga owned businesses.
- (ii) explore options for partial guarantee and syndicate loan.
- (iii) mobilize domestic investments through Public-Private Partnership (PPP) towards property development.
- (iv) consider relevant monetary policy/measures to address Non-Performing Loan (NPL) crisis and tension between financial development and financial stability.

Poverty, Social Protection and Gender Development

About 3 percent of Tonga's population are classified as poor households as estimated by the United Nation¹⁹. This follows the international poverty measure for extreme poverty of \$4.39 per person per day. The same study estimated that 27.0 percent of the population is classified as poor; 14.0 percent of the population is vulnerable because of deprivation, and 22.0 percent are vulnerable in terms of income measures. Child and adult poverty rates indicate that one in five (20.0 percent) adults are poor, compared to one in three children. The poverty rates also indicate that women and children are affected differently from males and so the Government's poverty alleviation policies will take these factors into account to ensure parity and justice.

The Government continues its efforts to ensure safety and social protection is delivered to its citizen, particularly to the vulnerable groups—the elderly, disabled, and financially disadvantaged households. Hardship, both financial and non-financial, in individuals and households increased in Tonga given the prolonged impacts of COVID-19 and the loss of homes and properties after the HTHH event. In addition to the current support programs, Government will extend support, targeting the 3 percent of the population that are in absolute poverty (Census 2021), providing basic necessities: (i) water tanks, (ii) sanitary facilities, and (iii) housing support to those in need.

The Government will continue to mainstream gender balance in plans and policy decisions. These include prioritizing women in scholarship opportunities, increased participation of women in the seasonal workers' scheme overseas, supporting women in development and the recognition of women, and taking up top positions in the public service and private sector.

Illicit Drugs

The consequences of illicit drugs-related activities are widespread and continue as one of Tonga's key issues of concern. The prevalence of illicit drugs-related cases in Tonga reported by the Tonga Police rose to 845 (as per the record in November 2021), since the launch of the Police Enforcement Taskforce in April 2018. This is an increase of eight times the total cases (96) in 2018. The first-ever National Symposium on Illicit Drugs was convened and attended by His Majesty King Tupou VI, marking the country's approach to combat the issue. The symposium theme: "Working together for a Drug Free Tonga", reflects the call for the nation to join hands in this fight against illicit drugs.

Going forward, the Government will focus on the implementation of the necessary actions, as an outcome of the symposium, guided by the Tonga National Illicit Drugs Policy (TNIDP), approved in 2019. The policy focuses on three key strategic outcome areas: Supply Reduction, Demand Reduction, and Harm Reduction. The Illicit Drugs technical committee chaired by the Police Commissioner lead the implementation of the required action plans and activities. It is clear that combatting the use of illicit drugs must be conducted on a broad front across the whole of society covering all citizens. This requires a multi-faceted approach that incorporates our social values.

The Government will continue to empower and strengthen the current effort and coordination amongst all key stakeholders to combat illicit drugs in the country. These include the strengthening of the Ministry of Police staffing capacity, with continued partnership across respective MDAs and with NGOs, private sectors, and communities to enable the implementation of the Action Plan to combat illicit drugs.

National Security is essential to defending our Constitutional values, ideals of justice, economic stability, as well as the well-being and lives of our people. Thus, the initiative to develop the first National Security Strategy for Tonga to: (i) ensure government identifies, prioritizes, and addresses all threats in a

¹⁹ Voluntary National Review Report on Tonga's Progress under SDGs, United Nations, 2019.

comprehensive manner; (ii) increase the effectiveness of the security sector by optimizing contributions from all security and safety actors; (iii) guide the implementation of policy; and (iv) strengthen the confidence and communication with regional/international community to facilitate cooperation.

Health (COVID-19)

The current trend after 11 weeks since the COVID-19 outbreak in Tonga is declining, from an estimated average of 200+ to 400 new positive cases a day (second half of March 2022) to an average of 100+ to 200 as of the third week of April 2022. This is in line with the Tonga MOH estimation that the expected peak time of the outbreak will be around mid-April 2022. On the other hand, the vaccination coverage, as of the 22nd of April 2022, reached 98 percent of those who had the first dose (12 years old +), 91 percent for the second dose, and 56 percent for those with the booster. The target for those that took the first two doses is 97-99 percent. In view of the current situation and guidance by MOH, the current discussion is carried out on the proposed re-opening of the border through a phased approach:

- (i) Travel opening is estimated between June-July 2022 with commercial flights opening for our diaspora, business, and others, not tourism.
- (ii) The last phase can be modified to commence from October-December 2022 as a 'new normal' with an opening for tourism and longer-term international travel.

In light of the above, Government calls for closer coordination amongst key stakeholders to provide more structured, coordinated Government responses to ensure the safe re-opening of our border to the outside world. Special consideration will continue to be paid to those who are vulnerable to COVID-19 including those with NCDs, disabilities, and elderlies. It is noted that NCD remains the other health priority of the Government.

Education

Both the HTHH event and the current COVID-19 outbreak in Tonga affected the schools' programs, with the students continuing to do home school learning for the whole of the school semester 1 of 2022 and semester 2. The disruption of the school program contributes to Government's decision that the Year 11 and/ or Form 5 students' national exam is to be discontinued. On the other hand, this arrangement helps to mitigate the issue of school dropouts. As such, school programs are conducted through radio-broadcast and printed materials as well as an e-learning system, following the restoration of the communication network and cable from the HTHH destruction.

The Government will continue to support relevant school arrangements to ensure the continuity of school programs. These include the assistance towards the provision of laptops for students in senior students (Form 6 and 7) in secondary schools, to ensure accessibility to e-learning materials and classes from home. The Government also provides relief support through the payment of the Term 1 school fees for secondary schools (both Non-Government and Government) and non-Government primary schools. On the other hand, the Government will seek to review school fees to support the costs of operation and seek to pilot Tonga Side School and Tonga High School.

Job Creation

Following the HTHH volcano eruption and tsunami, the current COVID-19 outbreak in Tonga, the annual unemployment rate is estimated to be higher than the 16.4 percent recorded in the 2016 Population Census. Most businesses and jobs were affected across all sectors of the economy. The Government provides relief support to affected businesses and employees, considering the prolonged impact of COVID-19. The continuation of the Seasonal Work Schemes in New Zealand and Australia, during the travel restriction period, is encouraging and helpful. Furthermore, the extension from the agricultural sector (fruit picking) to other sectors, such as butchery and construction, contributes to reducing the estimated 43 percent of the working-age population (2016 Population Census), categorized as either unemployed or underemployed in subsistence farming.

The longer-term prosperity of the Government depends on its investment ratio. In developed economies, the investment ratio regularly exceeds 40 percent. The Ministry of Finance reports the average investment ratio for the Pacific is below 20 percent and projects that for Tonga to achieve 5 percent annual growth, the investment ratio needs to grow over 25 percent of GDP, compared to an average of around 20 percent over the past 10 years.

As in the Financial Sector section above, Government will explore options for partial guarantee and syndicate loan to mobilize domestic investments through Public Private Partnership (PPP) on property development. These investment options include the upgrade and management of Teufaiva Stadium, outsourcing Lututai Airlines, and Queen Salote Memorial Hall. Going forward, National Infrastructure Investment Plan (NIIP) was formulated to guide all infrastructure development in the Government, hence the need to update it to reflect the proposed new Government investments and initiatives.

Information Systems and Communication Technology

This ICT sector has taken bold steps, in the era of global digitisation, over the past years when improved connectivity of fibre optic submarine cables boosted Tonga's accessibility to the world faster and quicker. This has increased network rollout and falling prices to an average of 3.0 percent of Gross National Income (GNI), according to the International Telecommunication Unit 2021 statistics²⁰. Furthermore, individuals using the internet in Tonga was 41 percent in 2017 and is anticipated that the usage had increased significantly since then.

- **Redundancy Plan**

The impact of the recent volcanic eruption of HTHH on our main internet connectivity to the rest of the world, had once again underline the significance of having a robust and resilient internet infrastructure. Tonga's excessive vulnerability to natural disasters and lack of redundancy infrastructures in place, has promoted initial investment opportunities such as Redundancy cabling from MFAT and DFAT, and the donation from Elon Musk and SpaceX of the 50 VSat terminals. The Government continues to see further infrastructural investments such as satellite infrastructure to ensure Tonga has reliable and safe connectivity.

The Pandemic and impacts of national lock downs have accelerated digitisation as the new norm for Tonga. The Digital Government Strategic Framework 2019-2024 which was launched in 2021, has been the guiding instrument as the Government continues to expedite its current digital projects to enable safe and secure online digital services. The Government has illustrated the importance of embracing the development of digital services by the merged of ICT capacities with the Digital Transformation Department under the Prime Minister's Office.

- **Opportunities**

Among many of the sectorial digital projects to be implemented according to the frameworks produced by the Digital Government Support Project includes: E-commerce Business Registry, E-health project, Statistical Innovations and Capacity Building Project and an E-Education component under Tonga Safer Schools Project. The Government will continue to secure an integrated Financial Management System (IFMIS) project during this medium-term budget to strengthen public finance management. The intention is in line with Government's overall reform program, aiming to improve efficiency and effectiveness in Government service delivery. ICT access, through these various mechanisms, will provide a positive contribution to social and economic growth and fiscal outcomes. The development partners including World Bank, ADB, DFAT, and MFAT continues to provide financial support to the ICT sector.

²⁰ The ICT Development Index: <https://www.itu.int/en/ITU-D/Statistics/Pages/IDI/default.aspx>

8.3 Fiscal Policy Framework

The Ministry of Finance fiscal targets are summarised below.

A-Table 3: MOF Fiscal Targets

Target	Short-term	Long-term
Growth	Our intention is to encourage rapid recovery, building back better national resilience, boost local investment in targeted sectors and aim to achieve growth of 3.6 percent in FY2023 as economic conditions allow.	The Government will improve national resilience and achieve a long-term average of 3.0 percent growth per annum consistent with macroeconomic stability.
Debt	Our intention is to address our high debt distress by (i) reducing external debt by meeting our external debt service requirements and (ii) borrow in the short-term from domestic or highly concessional external source.	The Government will manage debt risks to fiscal policies, operating balance, and building resilience objectives consistent with Macro objectives.
Operating balance	The Government will consider to use operating reserves to increase fiscal space to build national resilience, improve productivity and affordability of key public services, focus on quality response to COVID-19 and Volcano Eruption, to manage higher deficits for FY2023 and FY2024, and smooth out in FY2025 as economic conditions allow.	The Government will (i) improve fiscal discipline to meet at least 2 months cover to absorb shocks (ii) intend to achieve an annual average of 1 percent of GDP budget surplus in FY2025 and increase to a medium term 4% of GDP budget surplus.
Revenue & Expenses	Our intention is to (i) implement revenue reforms (electronic sales register) aim to achieve 25 percent of GDP in FY2024, control the wage bill within fiscal anchors by FY2025 starting with a reduce by 0.5 percentage points in FY2023, (ii) improve fiscal discipline and transparency, (iii) ensure expenditures are adequate for building resilience to Climate change, disaster risks, COVID-19 recovery, improving education, health, quality and affordability of government services, and (iv) improve transparency and reporting.	The Government will ensure revenue collection increases to 25 percent of GDP and operating expenses support a responsible Government, and provision of public good is in many areas, adequate to support growth, consistent with the fiscal objectives.
Inflation	Our intention is to stabilize inflation and reduce within the approved range up to 5 percent.	Maintain price stability consistent with stronger growth and macroeconomic stability.
Unemployment	Our intention is to use the annual budget to increase new employment opportunities in targeted growth sectors with a focus on boosting investments.	The Government will ensure constant increase in new employment opportunities for our young population.

Source: Government of Tonga, Budget Strategy FY 2023, Ministry of Finance (MOF)

8.3.1 Macroeconomic stability, sustainable fiscal resources, and social programs

The Government will continue to execute sound fiscal policy and prioritize resource allocation to maintain macroeconomic stability and the provision of key services to the public. The Government will also give special attention to supporting the vulnerable groups, through:

- *Promoting opportunities to increase resilience*

The Government, in partnership with development partners, will continue to support recovery initiatives and build a more resilient economy through:

- ✓ providing the relief assistance for businesses and employees.
- ✓ relief measures for taxpayers.
- ✓ electricity price subsidy.
- ✓ education school fees.
- ✓ education HAMA e-learning platform.
- ✓ financial facility (GDL, loan moratorium, partial guarantee options).

The Government will continue to explore and consider options given the geopolitical tensions in the global arena, and the seriousness of the effects on our inflation through the imports of petroleum and food supplies. This will include efforts to conduct a risk assessment study of possible scenarios with options for the Government to consider.

- *Capacity building: address weak capacity and institutions*

The impact of the pandemic is exposing and exacerbating structural weaknesses within Government ministries and across sectors of the economy. Notably, Government will target spending on priority areas including health and education. Equally important is the continuous Government reforms, including institutional strengthening and capacity development to enhance Government service delivery to the most vulnerable groups and the general public.

8.3.2 Overview of Fiscal Outlook (GFS basis)

- The fiscal outlook is expected to improve over the forecast period, following the weakening in the estimated outturn for FY 2022 and FY 2023 years. The improvement reflects the ongoing Government activities in response to the impact of the volcanic eruption and COVID-19 outbreak and lockdown. The overall negative fiscal balance is expected to return to the benchmark of 1 percent of GDP in the medium-term.
- The downturn in economic activities and weaken fiscal stance contribute to the significant fall in tax revenue, estimated outturn, FY 2022 by \$17.4 million, compared to the original Budget estimates for FY 2022. The decline in tax revenue is broadly in line with the depressed state of the economy. Tax revenue is estimated at 19 percent of GDP for FY 2022 which is lower compared to the average of 21 percent of GDP in the last two years.
- In FY 2023, **tax revenue** is expected to increase by \$25.9 million, under the assumption that the economic activities will return to normal operation²¹.

This assumption is strengthened by the fact that remittances appear to continue to be strong. The United States (US) unemployment rate has fallen rapidly since last year and given that the majority of the Tongan diaspora reside in the US, this suggests that remittances will hold up translating to buoyant tax revenue.

²¹ This is a more optimistic forecast and a worse-case may result in a lower revenue

A-Table 4: Government Finance Statistics (GFS)(\$m)

	2017/18 Actual	2018/19 Actual	2019/20 Actual	2020/21 Actual	Budget Est. 2021/22	Est. Outturn 2021/22	Budget Est. 2022/23	2023/24 Projection	2024/25 Projection
Revenue	267.3	485.2	494.4	516.6	572.2	531.7	695.2	604.1	612.2
Tax and Non-tax Revenue	267.3	272.7	280.8	277.0	277.8	250.0	286.3	287.0	294.5
Grants	0.0	212.5	213.7	239.5	294.4	281.8	408.9	317.2	317.8
Current	n.a	34.9	37.6	27.2	45.5	45.1	81.5	38.5	38.5
Capital	n.a	177.6	176.1	212.3	249.0	236.7	327.5	278.7	279.3
Expense	336.5	352.2	376.9	446.7	516.5	484.5	604.4	489.0	470.0
Gross Operating Balance	121.6	132.9	117.5	69.8	55.8	47.2	90.9	115.1	142.2
Net Acquisition Of Nonfinancial Assets	89.4	96.1	57.8	80.1	75.2	60.7	113.7	150.3	163.2
Net Lending/Borrowing Requirement	32.2	36.8	59.7	-10.3	-19.4	-13.5	-22.9	-35.2	-21.0
Net Acquisition Of Financial Assets And Liabilities (Financing)	22.9	(36.8)	(59.7)	10.3	19.4	13.5	22.9	35.2	21.0
Financial Assets	22.9	(23.4)	(61.5)	(4.1)	6.1	7.6	20.0	74.3	58.2
Domestic	22.9	(23.4)	(61.5)	(4.1)	6.1	7.6	20.0	74.3	58.2
Currency and deposits	15.8	(16.3)	(61.7)	(3.9)	6.4	7.6	19.7	74.0	57.9
Loans	7.1	(7.1)	0.2	(0.2)	(0.7)	-	(0.7)	(0.7)	(0.7)
Shares and other equity	-	-	-	-	0.4	-	1.0	1.0	1.0
Financial Liabilities	-	(13.4)	1.9	14.4	13.3	5.9	2.9	(39.2)	(37.3)
Domestic	-	0.0	12.9	(2.3)	0.9	9.6	0.9	8.9	0.1
Loans	-	15.2	31.9	12.7	15.9	21.1	16.0	15.9	15.9
Repayments	-	15.2	19.0	15.0	15.0	11.6	15.1	7.0	15.8
Foreign	-	(13.4)	(10.9)	16.7	12.4	(3.7)	2.0	(48.1)	(37.4)
Loans	-	-	-	22.9	30.0	-	22.0	-	-
Repayments	-	13.4	10.9	6.3	17.6	3.7	20.0	48.1	37.4

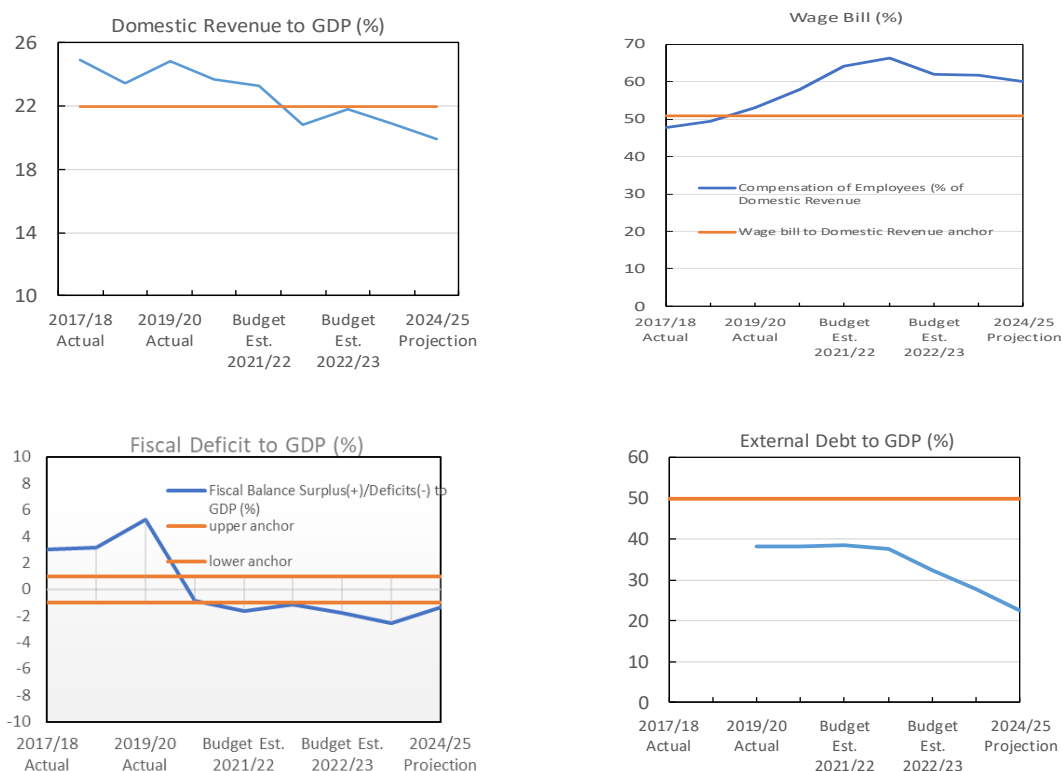
Source: MOF

Note: "Currency and deposits" of \$19.7 million for Budget Est. FY2023 is a net from a total estimated drawdown of \$30 million with \$10 million allocated to Revolving Fund – Private Sector Initiatives or known as GDL at the Tonga Development Bank in additions to "Loans" of \$0.7 million and "Shares and other equity" of \$1 million under the Acquisition of Financial Assets."

- The **total expense** for FY 2022 is estimated to drop by \$31.9 million to \$484.5 million at the end of the financial year, compared to the initial budget allocation of \$516 million.

Total Expenses are projected to further increase to \$604 million in FY 2023, taking into account the planned recovery and reconstruction works towards infrastructure that was damaged by the volcanic eruption.

- The **operating balance** is estimated to be a surplus of \$47.2 million for FY 2022 against the original forecast of \$55.8 million. In FY 2023, the operating balance is projected at \$90.9 million.
- The **fiscal balance** is expected to improve in the medium term to around 1 percent of GDP. A projected fiscal deficit of \$13.5 million is estimated for FY 2022. The outlook for FY 2023 projects the fiscal deficit at 1.8 percent of GDP.
- Total External Debt** is estimated at 37.5 percent of GDP in FY 2022 (estimated outturn), compared to the budget estimation of 38.6 percent of GDP. The estimation takes into account Government plans towards the commencement of the repayment of the China loan in FY 2025. In FY 2023, debt is estimated to decrease to 32.4 percent of GDP and a further reduction in the medium-term.

Box 2: Fiscal Anchors Performance**Notes:**

1. *Domestic Revenue to GDP (%)* indicates that revenue collection is projected to remain below the target (greater than 22 percent of GDP).
2. *Wage Bill (%)* exceeds the threshold (less than 53 percent of Domestic Revenue).
3. *Fiscal Deficit to GDP (%)* highlights that the fiscal performance is weakening by disasters but anticipated to remain within the target at the end of the forecast period (at least 1 percent of GDP).
4. *External Debt to GDP (%)* reflects the efforts aiming to reduce debt and vulnerability by maintaining below target (at least 50 percent of GDP).

8.3.3 Medium-Term Fiscal Strategy

The three-year medium-term budget for FY 2023 – FY 2025 is designed to support the Government Priority Agenda 2022 – 2025, consistent with the TSDf II, and will focus delivery on the following:

- (i) Strengthen the Government's resilience to natural disasters and address economic crises focusing on the quality of responses and smooth recovery.
- (ii) Facilitating broad-based sustainable growth to achieve an average of 3.0 percent growth by FY 2023 and at least 3.0 percent average growth from FY 2024 onwards by increasing finance of bankable local investments, driving and promoting trade opportunities for agriculture, fisheries, tourism, and manufacturing.
- (iii) Improve expenditure prioritization and increase funding for education, health, combat illicit drugs, infrastructures and reprioritize expenditure over the medium term.
- (iv) Increase employability of our youth population nationally and overseas including sports opportunities targeting unemployment to decline by 8 percent in 2025 by addressing school drop-out, increasing the relevance of TVET and post-secondary training, and establishing the national university with a focus on productivity.
- (v) Develop and implement effective government policy responses as a catalyst for strengthening partnerships with the private sector, churches, community, and foreign investors; and
- (vi) Provision of affordable and quality transport infrastructures, public utilities, and social protection to facilitate stronger economic growth, and eradicate absolute poverty in Tonga.

This section will outline the Government's fiscal policies and measures for the Budget FY 2023 – FY 2025:

Revenue Measures

The Government is committed to maintaining fiscal sustainability through domestic revenue²² collection by way of:

1. Adjust public revenue to address the needs of the Disaster Clusters and shocks
2. Implement the electronic sales register system (reduce fraudulent activities), E-tax services to modernize administration, ASYCUDA World System and Nutrients Profile model to classify foods to health profile and applicable health excise taxes.
3. Address tax exemptions including fuel exemptions gradually to subsidize renewable energy, and address the value of sector exemptions to agriculture, fisheries, tourism, and private sector.
4. Address financing gaps for public transport and public housing and the relevance of government fees and charges to consider a mix of general taxation, low-cost credit facilities, insurance options, and household out of pocket expenditures.
5. Review the affordability and relevance of selected government fees and charges for education, electricity, water, waste, communications (internet and telephones), and others by request of the public.

Tax relief measures for activities that will assist in combating COVID-19

1. 150 percent tax deduction for businesses who pay salary and wages during pandemic (COVID-19 hard (red) lockdown periods)
2. 150 percent tax deduction will be available for donations made to the COVID-19 fund and health and educational supplies made to the community.
3. 150 percent deduction allowed for expenses incurred when businesses invest in creating websites and setting up online services and payment options.

Tax relief measures for activities that assist in recovery from the HTHH eruption

1. 150 percent tax deduction for capital expenses incurred by businesses to recover from HTHH

Tax incentives for local food processing and manufacturing activities

1. Rebate portion of costs for deriving export income for small-medium manufacturing businesses.
2. A 100 percent Tax Deduction will be available on local purchases of total fixed assets up to \$5,000 per business for business purposes within six months of business commencement.

Expenditure Measures

1. Adjust public expenditures to address the needs of the Disaster Clusters and smooth out shocks
2. Manage the public sector wage bill to align with actual commitments below the fiscal anchor focusing on recruitment of critical posts
3. Increase transparency of expenditures and reporting for special public funds such as COVID-19, disaster reconstruction, Levy, etc.
4. Align better match between policy priorities and budget allocations through a one-Government approach, capacity building to address weaknesses, and sharing staff and resources with more demanding ministries
5. Improve the percentage of competitive contract awards with a focus on quality and value for money

Ongoing efforts have been put forth to ensure close consultation and coordination with line ministries in identifying areas of possible savings in light of the anticipated deficit.

²² Forecast based on detail analysis of Taxes by MRC and MOF

8.3.4 Public Debt Position

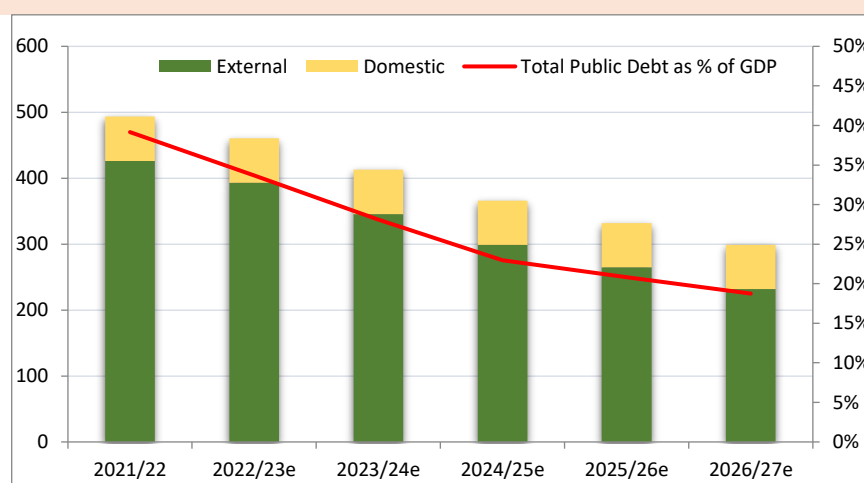
Tonga continues to be in **high debt distress** with the loan repayments set to start in 2024 and all budget support to Tonga, is on a full 100 percent grant. Towards the end of FY 2021, the Government established a Sinking Fund to cater to the loan repayment commitment. Tonga also participated in Debt Service Suspension Initiative (DSSI) scheme, covering the debt service payments to China EXIM Bank since September 2020, and provided fiscal relief for our COVID-19 response. The Medium-Term Debt Strategy (MTDS) was reviewed in May 2021, setting the new Debt Policy to remain with no **new** borrowing except borrowing from highly concessional facilities (free-interest loans), such as IMF Rapid Credit Facility (RCF). The Government is also seeking to reduce the exchange rate risk with the current debt portfolio by promoting the domestic market, with a low interest rate.

In addition, the Government noted that many new instruments have been developed to support small island states with high debt levels. On that note, the Government will also explore other options to support its current debt strategies such as climate swaps and other similar instruments.

Total Public Debt

Total *public* debt as at 30 June 2022 is estimated at \$497 million (39 percent of GDP), a decrease of 3.6 percent from June 2021.

A-Figure 5: Total Public Debt (\$m) FY 2022 – FY 2027 (including actual and projected)



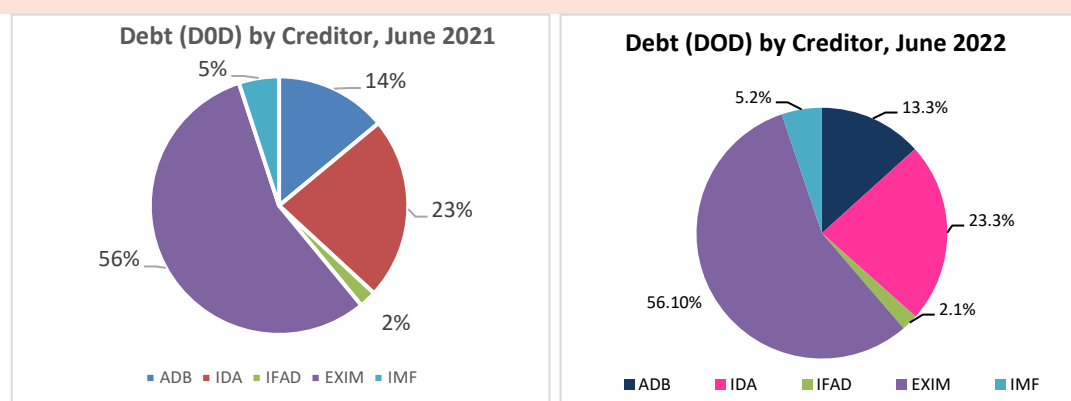
Source: MOF

External Debt

Total *external* debt as at 30 June 2022 is estimated at 429.7 million²³ (33 percent of GDP), of which two-third of the total is owed to EXIM Bank. The main outstanding currency denomination of the external debt, as at 30 June 2022, is estimated as (CNY) at \$245.6 million (55 percent), and the Special Drawing Rights (SDR), and other currencies at \$184.1 million (45 percent). The Government will also review other options for loan repayments. The projected changes in value from June 2021 to June 2022 due to the repayment made to ADB loans and the appreciation of the Pa'anga against borrowing currencies (including SDR currency components) are shown in A-Figure 7 (FC/TOP Exchange rate Fluctuations).

²³ Excludes future movement of exchange rates from November 2021

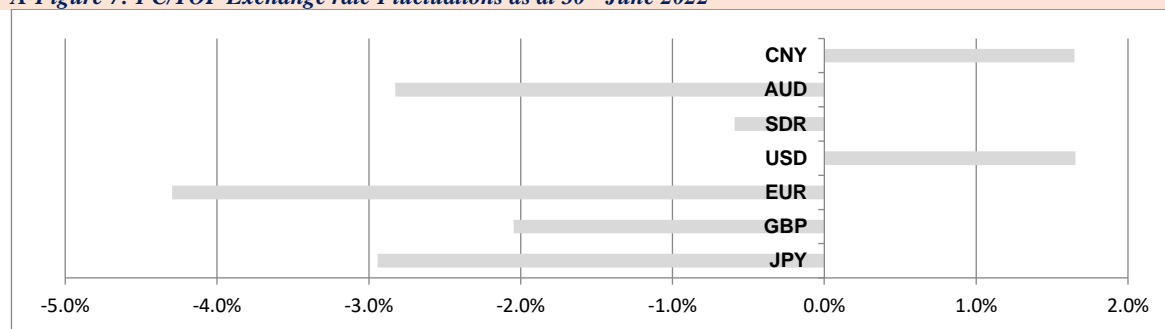
A-Figure 6: External Disbursed Outstanding Debt (DOD) by Creditor



Source: MOF

Currency Denomination of External Debt

A-Figure 7: FC/TOP Exchange rate Fluctuations as at 30th June 2022

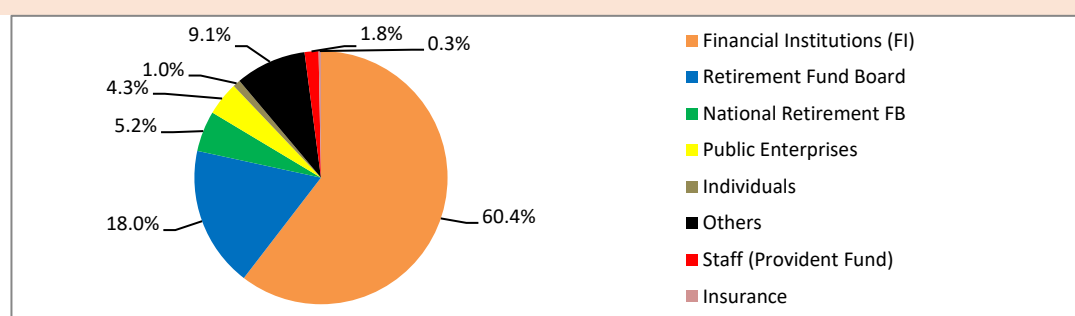


Source: MOF

Domestic Debt

Total domestic debt as at 30 June 2022 is estimated at \$67.3 million (6 percent of GDP), consisting of 100 percent Government bonds on issue. The majority of the bonds at 47 percent are held by Financial Institutions as shown below.

A-Figure 8: Government Bond Holders as at 30th June 2022 (%)



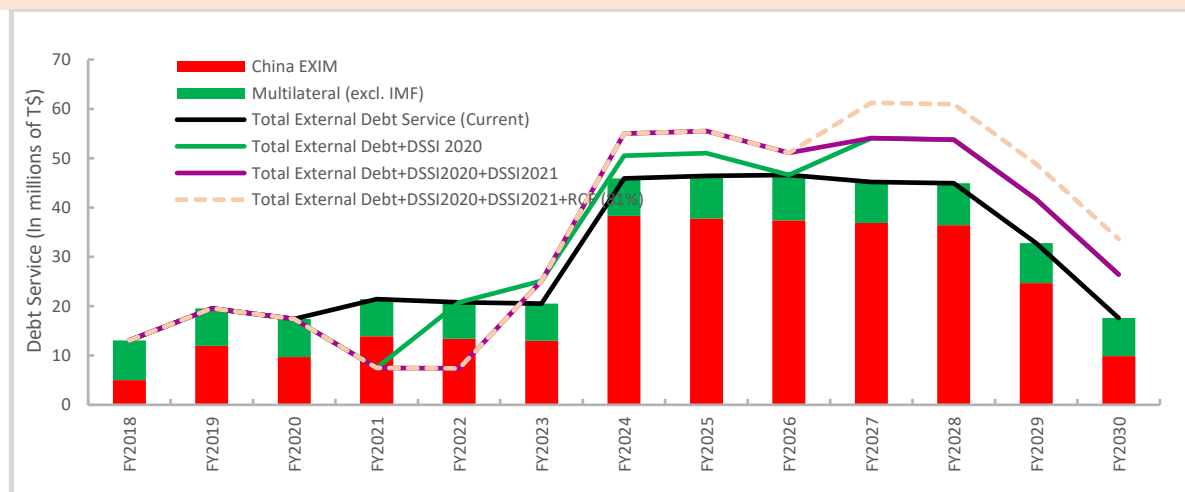
Source: MOF

Debt Service

Total debt service (expenditure), for the year ended 30 June 2022, is estimated at \$33.8 million, comprising of external \$16.8 million (49 percent of total debt service) and domestic \$17.0 million (51 percent of total debt service). This is an increase from \$23.3 million in June 2021, attributed to DSSI and exchange rate fluctuation. The total debt service is estimated as equivalent to 2.6 percent of GDP. There is no arrear on public debt payment at this stage.

A-Figure 9 below reflects all the debt service forecasts including DSSI. However, as Government always alluded to, debt service increases significantly as principal repayment for Nuku’alofa Central Business District Reconstruction (NRCBD) EXIM loan commences in FY FY 2024. The domestic debt service is based on current bond maturity (principal) at an average term of 4 years and at a weighted average (interest) of 2.4 percent on the total bonds on issue (\$67.3m). Further domestic borrowing in the medium term will be subject to market preferences.

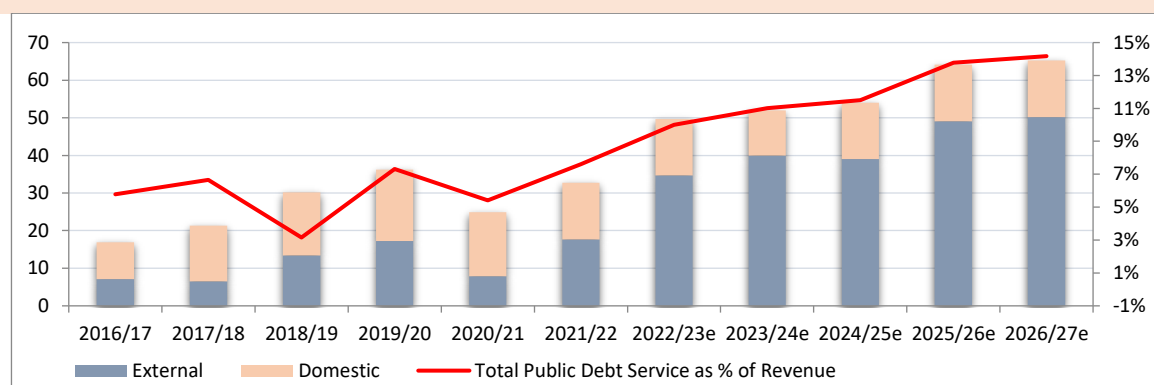
A-Figure 9: Debt Service with DSSI and IMF – Rapid Credit Facility (RCF)



Source: MOF and IMF staff estimates and calculations

This portrays the significant decrease in external debt service due to the ongoing DSSI during FY20/21. However, debt service starts to increase during FY21/22 onwards reflecting the approach of high debt service due to the commencement of the EXIM Bank China loan repayments. The domestic debt service continues to remain constant as the current Government bonds intend to rollover when matured.

A-Figure 10: Total Public Debt Service FY 2017 – 2027 (including actual and projected)



Source: MOF

On-lent Loans

Total on-lent loans, as at 30 June 2022, due to Government from various public and other enterprises are estimated at \$55.6 million²⁴ (4.3 percent of GDP and 12.9 percent of total external loans). The increase of \$1.0 million in the outstanding on-lent debt between June 2021 and June 2022 is due to the TDB and Royco Building loan repayment.

Total debt service from on-lent loans on 30 June 2022 is estimated at \$0.56 million. The on-lent loan repayments consist of repayments received from Tonga Development Bank of \$0.16 million (28.6 percent),

²⁴ Includes Agriculture and Fisheries Loans to private sector, Gita Recovery Loan Fund and Micro-finance loans

Tonga Assets Management Association. \$0.20 million (35.7 percent), and Others of \$0.20 million (35.7 percent).

A-Table 5: On-lent Loans as at 30th June 2022

Borrowers	June - 22 est. (\$m)
TDB	0.18
Seastar Fishing Co. Ltd	3.65
Talamahu Market Co.	1.31
TAMA	2.00
TBC	2.00
Nuku'alofa CBD Projects	
Royco Amalgamated Co. Ltd	1.85
MF Taumoepeau Ltd.	7.20
O.G. Sanft Ltd	10.20
City Assets Ltd	6.76
Tungi Colonnade Ltd	16.57
TOTAL	51.72

Source: MOF

Government Guaranteed Loan

Total Government Guaranteed loan as of June 2022 is estimated at \$18.6 million, 1.5 percent of GDP. These are for Roads Project (64 percent of total government-guaranteed loans), and Lulutai Airlines Ltd (36 percent of total government-guaranteed loans). These guaranteed loans are expected to be fully settled in FY 2025.

Summary of Debt Ratios

A-Table 6 illustrates the actual debt sustainability indicators against the various targets. Net Present Value (NPV) of debt ratios against other macro data remain within the new indicators including exports and remittances but are in breach of the indicator without remittances. NPV of external debt as a ratio of GDP and exports is below the target value. These estimates are based on the latest foreign exchange rates in February 2022 and do not account for any future fluctuations against the Pa'anga.

A-Table 6: Sovereign Debt Sustainability Indicators of IMF/ Tonga

Indicators	(IMF) Tonga Target %	FY 2022	FY 2023	FY 2024	FY 2025
		Debt Indicator % should be < Target %			
NPV of external debt as:					
% of GDP	40%	33%	29%	23%	18%
% of GDP & remittances	36%	25%	22%	19%	17%
% of exports	150%	189%	178%	156%	143%
% of exports & remittances	120%	71%	69%	58%	55%
% of government revenues	250%	151%	141%	120%	98%
Debt Service as:					
% of exports	20%	16%	24%	31%	28%
% of exports & remittances	16%	6%	9%	9%	9%
% of revenues	20%	8%	11%	11%	12%

Source: MOF

8.3.5 Government Budget in the GFS Format²⁵

The Government aims to sustain macroeconomic stability through continuous monitoring of fiscal performance. The estimated outturn at the end of FY 2022 projects to be further affected by the spread of the COVID-19 variant, the associated impact from the Russian and Ukraine war, and the planned reconstruction post-HTHH volcanic eruption. FY 2022 estimated outturn indicates, refer A-Table 3, a decline in fiscal deficit to \$13.5 million from \$19.4 million of the approved estimate. The decline in fiscal deficit is due to the significant drop in the estimated revenue by \$40.5 million (7 percent), greater than the fall in total expense by \$32 million (6 percent) respectively. This implies government observe prudence in fiscal management and prioritisation of essential activities for FY 2022. The fiscal position for FY 2023 is estimated to be further weakened with an expected fiscal deficit of \$22.9 million or 1.8 percent of GDP, taking into account the planned recovery reconstructions to be fully taken place.

Revenue

The prolonged impact of COVID-19 and the series of lockdown continues to affect the domestic revenue collection in FY 2022. **Tax revenue** is expected to decline by 7.1 percent in FY 2022, partly due to the non-collection of tax from PG Passenger Service Charge. The expected decline implies the tax revenue contribution falls from 20.6 percent of GDP to 19.1 percent of GDP. Further, the series of lockdowns have affected business performance, mainly on corporate tax, consumption tax, and excise tax. **Non-tax revenue** is expected to decline by 31.6 percent, owing to the lockdown implication on economic activities. On the other hand, Grant revenue is estimated to decline by 4.3 percent, in line with the failure to receive budget support that has been estimated from the EU, and postponement of World Bank (IDA) funded projects such as PREP and TCRTTP due to COVID-19 have incurred.

In FY 2023, **Total revenue** is projected to improve by 30.8 percent (\$163.5 million) from the estimated outturn of FY 2022, due to the continuous effort to improve revenue process and administration, including the implementation of the cash register in retail businesses, and recovery effort following the HTHH volcanic eruptions. **Non-tax revenue** is projected to increase by 46.4 percent (\$10.5 million), due to the projected recovery in economic activities. An additional 18.3 percent (\$127.2 million) of Grants revenue is projected for the recovery reconstruction post volcanic eruption. In the medium, tax revenue is projected to reach the fiscal anchor, the revenue benchmark of collecting at least 22 percent of domestic revenue.

Revenue									
	2017/18	2018/19	2019/20	2020/21	Budget	Est.	Budget	2023/24	2024/25
	Actual	Actual	Actual	Actual	Est.	Outturn	Est.	Projection	Projection
					2021/22	2021/22	2022/23		
Revenue									
Taxes	235.4	243.0	238.6	244.8	244.9	227.4	253.3	255.2	262.6
Grants	190.8	212.5	213.7	239.5	294.4	281.8	408.9	317.2	317.8
Non-tax or Other revenue	31.9	29.6	42.2	32.2	32.9	22.5	33.0	31.8	31.8
Total	458.0	485.2	494.4	516.6	572.2	531.7	695.2	604.1	612.2

Source: MOF

In FY 2022, the estimated *income tax, profits and capital gains* are expected to decline by 15 percent, mainly due to the impact of lockdown on small businesses. *Taxes on goods and services* is expected to decrease by 5 percent due to the decrease in the *consumption tax* and the extension of exemptions on the private importing of; foods, personal consumer goods, building materials etc., as one of the COVID-19 and HTHH relief measures implemented. *Taxes on international trade* is also expected to fall by 6 percent, owing to the impact of COVID-19 on trade with revenue from excise tax and consumption is projected to fall.

²⁵ This section presents the Government budget in the Government Finance Statistics (GFS) format. The GFS classification is designed to reflect the macro-economic impact of the Government's financial transactions and to assess the sustainability of fiscal policy objectives. GFS records separately '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.

Tax Revenue by main category

	2017/18 Actual	2018/19 Actual	2019/20 Actual	2020/21 Actual	Budget Est. 2021/22	Est. Outturn 2021/22	Budget Est. 2022/23	2023/24 Projection	2024/25 Projection
Taxes									
Taxes on income, profits, and capital gains	48.8	55.2	52.5	48.6	50.4	42.8	48.2	49.2	52.0
Taxes on property	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Taxes on goods and services	157.6	155.3	160.7	173.4	167.9	159.6	176.4	177.0	181.7
Taxes on international trade and transactions	28.7	32.2	25.0	22.6	26.3	24.8	28.5	28.7	28.7
Other taxes		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	235.4	243.0	238.6	244.8	244.9	227.4	253.3	255.2	262.6

Source: MOF

Expense

Total expense declined by 6.2 percent (\$32 million) in the FY 2022 estimated outturn, compared to the budget estimate. Thus, a decrease in overall expense to GDP from 43.4 percent to 40.7 percent of the estimated outturn in FY 2022. An estimated decrease in *Compensation of Employees* by 7.5 percent (\$12.4 million) further to the estimated decrease in *Use of Goods and Services* by 5 percent (\$12.3 million). The increase in *Social Benefits* by 6 percent (\$1.8 million) reflects the one-off grant support towards the vulnerable groups, following the volcanic eruptions and COVID-19 lockdown.

Expenses

	2017/18 Actual	2018/19 Actual	2019/20 Actual	2020/21 Actual	Budget Est. 2021/22	Est. Outturn 2021/22	Budget Est. 2022/23	2023/24 Projection	2024/25 Projection
Expense									
Compensation of employees	127.5	134.5	148.7	160.2	178.5	166.1	177.3	177.2	176.5
Use of goods and services	152.3	151.0	169.7	233.6	264.2	251.9	356.0	253.7	236.3
Interest	8.3	8.0	8.2	4.1	8.8	7.2	7.9	7.6	6.8
Subsidies	0.8	0.9	0.8	0.8	1.3	0.7	1.3	1.3	1.3
Grants	5.1	2.9	3.7	3.9	4.3	4.4	4.3	4.3	4.3
Social benefits	23.0	25.3	22.3	20.2	28.8	30.6	27.2	21.2	22.0
Other expense	19.4	29.6	23.4	23.8	30.6	23.6	30.3	23.8	22.8
Total	336.5	352.2	376.9	446.7	516.5	484.5	604.4	489.0	470.0

Source: MOF

FY 2023 reflects a strong increase in the wage bill and the use of goods and services, contributing to the increase in overall expense to 46.8 percent of GDP in FY 2023 from the 40.6 percent estimated outturn. The increase in *wage bill* is attributed to the delays in the recruitment process and ongoing salary revision (PMS), thus the related cost will shift from the current financial year to the next financial year, FY 2023. Use of goods and services spikes by 41.3 percent, driven by other special projects assigned for residential reconstruction recoveries post HTHH volcanic eruptions and COVID19 assistance respectively.

Subsidies and other expenses are anticipated to increase by 77.5 percent and 28.8 percent, as activities will near to estimate FY 2022 respectively. These estimated increases reflect the continuous support, due to the lockdown and planned recovery reconstruction. The expenditure measures will continue to focus on managing the wage bill so as to give space for other Government priorities.

Acquisition of Fixed Assets

The Government aims to fully implement the recovery reconstruction post the tsunami in FY 2023. This is reflected in the increase in total acquisition of fixed assets to GDP from 5.1 percent estimated outturn for FY 2022 to 8.8 percent in FY 2023 (or \$53 million). Although the impact of the tsunami is a loss to the country, the recovery reconstruction provides an opportunity for domestic employment and revives economic activities and growth of the economy.

Acquisition of Fixed Assets

	2017/18 Actual	2018/19 Actual	2019/20 Actual	2020/21 Actual	Budget Est. 2021/22	Est. Outturn 2021/22	Budget Est. 2022/23	2023/24 Projection	2024/25 Projection
Fixed assets									
Buildings and structures	55.6	26.6	32.9	60.8	51.2	30.6	78.2	116.6	128.2
Machinery and equipment	19.4	63.8	20.0	13.4	10.9	16.5	13.6	12.5	15.7
Other fixed assets	19.4	5.3	4.4	4.9	11.5	13.3	20.5	20.3	18.3
Land	0.1	0.5	0.5	1.0	1.6	0.3	1.5	0.9	0.9
Total	94.5	96.1	57.8	80.1	75.2	60.7	113.7	150.3	163.2

Source: MOF

Fiscal Position

In FY 2022, we anticipate a weaker fiscal position at the end of the financial year compared to the FY 2021, reflecting the increased pressures on expenses due to recovery works and support, following the tsunami and COVID-19 lockdown, thus raising the fiscal deficit from 0.9 percent of GDP to 1.1 percent of GDP. In FY 2023, the fiscal deficit is estimated to further increase to 1.8 percent of GDP, mainly due to the expected increase in costs towards reconstruction and recovery works.

The fiscal deficit for FY 2022 is to be financed by the Budget Support from donor partners, receipts from bonds, and Government reserves. The same financing source will finance the fiscal deficit for FY 2023. The Government will continue to execute prudence measures, reprioritization, and expenditure cuts in its operational expenses to provide fiscal space for other priorities.

8.3.6 Monetary Policy Statement May 2022 (Brief Summary)

The Tongan economy suffered a double blow from the catastrophic impact of the HTHH volcanic eruption and tsunami in January 2022, and the local COVID-19 outbreak since February 2022, amid the prolonged adverse effects of global inflation due to the COVID-19 related disruptions on global supplies and shipping services, rising food and energy prices and of course the effects of the war in Ukraine. These developments have further derailed economic recovery from previous cyclones such as TC Gita and TC Harold.

Primary goals of the Government are to reinstate and reconstruct the economy, improve economic growth and reduce poverty. As stimulus packages boost government expenditure and increase aggregate demand, these also add to imported inflation.

Fighting inflation or supporting economic growth is the main challenge facing the National Reserve Bank of Tonga. Monetary policy has to be conducted carefully to maintain internal and external stability and preserve financial stability while facilitative to the efforts of the Government to improve economic growth with equity.

These are the main economic challenges that the country faces:

- 1. High inflation.** Tonga's annual headline inflation peaked at 9.3% in December 2021 but slowed down to 7.8% in March 2022, which are well above the Reserve Bank's 5% reference rate. The cascading global impact of the ongoing pandemic and geopolitical tensions contribute to the surges in imported prices of goods and services. Inflation has increased for the same reasons in other Pacific Island countries. The higher imported commodity prices as well as the expectation of higher imported prices and supply side bottlenecks have been passed through to domestic producer prices, combined with the ongoing disruptions to domestic supply from natural disasters. The bulk of the inflationary pressures are therefore supply-driven and are beyond the Reserve Bank's control. Domestic inflation is transitory and will moderate once the agricultural sector recovers and secures the domestic food supply.
- 2. Excess liquidity,** (about \$330 million) remains in the banking system as a result of the high inflows of budget supports, project grants, and relief funds from development partners to assist the Government's recovery programme and also the significant inflows of private remittances. These have increased the foreign reserves and money supply way beyond the country's demand for money. The delay in the implementation of Government projects, partly due to the international border closure, contributes to the high liquidity levels holding up, while credit growth has turned negative since mid-2020. Mopping this huge excess supply of liquidity from the banking system through open market operations is a costly exercise and beyond the Reserve Bank's current financial capacity.

3. The **slowdown in credit growth** reflects loan-run offs amid limited local lending opportunities as the ongoing pandemic-related uncertainties weighed on business confidence and investments.
4. **Weak economic growth.** The Reserve Bank estimates GDP growth to contract again by 2.0% in FY 2022, following an estimated -2.5% growth in FY 2021.

Given those competing challenges, the Reserve Bank has carefully examined various channels of monetary policy that could appropriately address them.

Using monetary policy to fight inflation includes measures that would slow down economic growth and aggregate demand, as reflected below. Examining the underlying sources of inflation is also key to the consideration of the appropriate tool that would effectively contribute to curbing inflation.

- i. **Increase interest rates**, (current actions taken by the central banks in New Zealand, Australia and USA to fight inflation).

If the Reserve Bank opts to increase interest rates to curb inflation, this would undermine the request from the Minister of Finance to reduce interest rates as a way of encouraging credit growth in order to facilitate economic growth.

While decreasing interest rates as requested by the Ministry of Finance would ease borrowers' debt service burden, it would not necessarily increase credit growth, given the ongoing COVID-19 related uncertainties. What can be done to encourage lending in the domestic market are enabling infrastructures, such as:

- bankruptcy laws,
- enhancing the land administration system, and
- completing the establishment of the domestic credit registry.

The rising corporate and household indebtedness also limit borrowers' capacity to borrow which further hinders any additional lending by the banks.

The effectiveness of direct controls to reduce interest rates, would be hard to monitor due to the differences in types and sizes of loans, but it may pose risks to financial stability, through impacts on banks' profitability and capital position.

- ii. **Slow down bank lending** to reduce aggregate demand and economic growth.
Slowing down bank lending will undermine the efforts of the Government to increase economic growth and rollout concessional loans through the Tonga Development Bank. Credit growth is also already negative therefore this tool would be redundant at this point.
- iii. **Re-value the Pa'anga to make it stronger.** The scope of the exchange rate to counter inflation is restricted by the exchange rate regime being pegged to a basket of the major trading partners' currencies.

To use the flexibility in the exchange rate to strengthen the Tongan pa'anga to counter inflation would disadvantage recipients of foreign exchange, particularly remittances, an important income subsidy and social safety. The pass through of a stronger exchange rate to import prices and to overall consumer prices, however, is minimal (less than 0.5 percentage points).

Revaluation losses and undue pressure on the foreign reserves may also result.

The costs of an exchange rate policy to strengthen the Tongan pa'anga therefore far outweighs the benefits, while it reduces the much-needed liquidity in the banking system for banks to lend and to support economic activity.

Many of Tonga's major trading partner countries such as the United States, Australia, and New Zealand have already taken action in tightening monetary policy to curb inflation. The effects of these actions will also pass through to Tonga's inflation through imports as reflected in the annual headline inflation trending down to 9.1% in February 2022 and 7.8% in March 2022 without any interventions from the Reserve Bank.

- iv. *Mop the excess liquidity* by increasing the Statutory Reserve Deposit ratio and/or issuing Reserve Bank notes. These two options will signal that the Reserve Bank is conducting contractionary monetary policy, which will undermine the Minister of Finance's 2023 Budget policies. The buildup of excess liquidity is beyond the Reserve Bank's control therefore issuing Reserve Bank notes would be a very expensive exercise while having limited impact on fighting inflation.

Given the above, with the understanding that impacts of our trading partners fighting inflation will be imported to Tonga through our exchange rate basket, the Reserve Bank will therefore take a wait-and-see approach to inflation over the next 6 months.

The Reserve Bank will however continue to maintain its current accommodative monetary policy stance and work in tandem with the Government towards supporting economic growth and macroeconomic stability, while remaining alert to inflation and maintaining financial stability.

To facilitate the Government's efforts in the Budget Strategy FY 2023, the Reserve Bank will continue to maintain the current policy efforts:

- i. Maintain the monetary policy rate at 0% (zero interest rate policy);
- ii. Maintain the current weights in the Exchange rate basket, which supports the country's economic fundamentals;
- iii. Reduce the minimum loans/deposit ratio from 80% to 70% and push the banks to meet this target within the next 6 months;
- iv. Maintain the Statutory Reserve Deposit (SRD) at 10% and stand ready to increase to 15% if high inflation persists;
- v. Maintain the inflation reference rate at 5%.
- vi. Continue to facilitate an enabling financial infrastructure to support prudent credit growth by establishing a domestic credit registry;
- vii. Liaise with the Government on:
 - developing bankruptcy laws to reduce the default risks component of the interest rate structure;
 - enhancing the efficiency of the land administration system;
 - establishing a Loan guarantee scheme to assist the micro, small and medium enterprises (MSMEs); and
 - establishing an interest rate subsidy available to all banks in order to promote low cost lending to targeted sectors such as micro small and medium enterprises.
- viii. Continue to enhance financial sector supervision to better monitor the corporate and household indebtedness, and enhance anti money laundering supervision, while protecting financial consumers' interests, through:
 - robust risk assessments and stress-testing; and
 - up to date prudential guidelines for risk management at banks and non-bank financial institutions.
- ix. Maintain clear channels of effective communications with the financial institutions to ensure delivery of essential financial services to the public, especially during pandemic-related lockdown periods;
- x. Continue to improve the efficiency of the payments system, through the rollout of the Domestic Electronic Payment System (DEPS) which will automate the settlement and clearing system;
- xi. Continue to combat de-risking by global and local banks in order to retain banks' correspondent bank relationships and foreign exchange dealers' bank accounts such as:
 - addressing the recommendations from Tonga's Mutual Evaluation Report to strengthen the Anti-money laundering and combating the financing of Terrorism supervision of financial institutions and cash dealers;
 - encouraging the development of technological solutions (FinTech) including exploring the feasibility of issuing central bank digital currency (CBDC);
 - completing the setup of the Reserve Bank's Know Your Customer (KYC) system with the plan to set up a National KYC framework linking it to the e-Government project.

Having said the above, the Reserve Bank will continue to watch the trend of inflation and will liaise with the Government on the best way forward, as some of the monetary interventions will offset the Government's growth strategies.

8.3.7 Tonga Selected Indicators

A-Table 7: Tonga Selected Indicators, FY 2014– FY 2021

Tonga Selected Indicators, 2013/14 - 2020/21

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21f
(Annual Percentage change)								
Output and prices 1/								
Real GDP	2.0	1.2	6.6	3.3	0.3	0.7	0.7	-1.2
Consumer prices (period average)	2.3	0.1	-0.6	7.3	5.3	4.0	0.2	1.4
Money and credit (end-period) 2/								
Broad money (M2) % growth	8.1	2.4	12.6	11.3	10.6	1.8	1.1	19.3
Domestic credit	9.2	11.7	18.2	13.3	-2.2	2.8	3.2	-23.2
Private sector credit % growth	-0.6	8.9	19.8	22.8	7.0	8.6	3.0	-1.4
Balance of payments (OET Basis)								
Exports, f.o.b.	15.7	16	19.1	23.7	20.9	19.3	17.9	12.8
<i>of which: Squash exports</i>	<i>2.9</i>	<i>1.8</i>	<i>3.7</i>	<i>4.3</i>	<i>5.5</i>	<i>3.6</i>	<i>5.4</i>	-
Imports, f.o.b.	261.7	305.9	320.3	356.4	408.8	443.7	417.2	467.3
Services (net)	-3.1	-6.0	17.3	26.9	32.1	32.2	18.8	-25.1
Income (net)	17.0	13.7	5.6	-15.9	-7.9	8.9	5.6	22.0
Services and Income (net)	13.9	7.7	22.9	11.0	24.2	41.1	24.4	-3.1
Transfers (net)	192.2	215.6	301.0	365.0	382.5	381.4	428.2	593.5
<i>of which: Private transfer receipts</i>	<i>208.9</i>	<i>221.1</i>	<i>279.9</i>	<i>334.1</i>	<i>358.3</i>	<i>358.7</i>	<i>370.6</i>	<i>479.3</i>
Current account balance	-39.9	-66.7	32.2	21.0	18.8	-2.0	53.3	135.8
<i>(in percent of GDP)</i>	<i>-5.0%</i>	<i>-7.9%</i>	<i>3.5%</i>	<i>2.1%</i>	<i>1.8%</i>	<i>-0.2%</i>	<i>4.7%</i>	<i>11.6%</i>
Overall balance	11.4	41.9	66.8	53	60.9	15.6	59.5	171.4
Gross international reserves (end-period)								
In millions of pa'anga	274.4	289.7	354.9	407.9	468.7	484.3	543.8	715.2
In months of imports cover <i>(trade estimate)</i>	9.1	6.5	7.1	7.5	8.0	7.9	9.2	11.9
Total debt 3/								
Total debt/GDP (%)	45.9	49.8	47.7	44.2	44.2	40.9	40.4	41.7
Exchange rate (end -period)								
T\$ per US\$ (end-period)	1.79	2.11	2.21	2.19	2.27	2.28	2.29	2.25

1/ Sources for Output and Prices: Statistics Department & MOF GDP forecasting (f) for 2019/20

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

3/ Sources for Total Debt: MOF

Annual Average Consumer Price Index for 2018 - 2021, 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
Weight.	100.0	39.8	11.6	2.1	10.8	3.2	0.3	16.4	5.2	1.1	2.2	3.1	4.2	55.1	44.9
2018	98.9	99.2	93.3	99.0	99.8	99.4	101.1	98.5	106.6	100.0	100.0	100.3	100.0	98.6	99.3
2019	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
2020	99.7	102.8	98.0	109.2	95.0	102.4	100.0	92.1	100.3	103.6	104.8	108.2	100.5	100.7	98.6
2021	105.4	110.2	99.9	113.7	100.7	104.5	100.0	101.1	99.9	103.6	104.8	109.5	104.2	107.6	102.6

Source: Statistics Department

Annual Percentage Change in CPI for December month 2018 - 2021

	All Items	Food and non-alcoholic beverages	Alcohol beverages, tobacco and kava	Clothing and footwear	Housing, water, electricity and gas	Furnishing, household equipment and household maintenance	Health	Transportation	Communications	Recreation and culture	Education	Restaurants and hotels	Misc. goods and services	Imported Items	Local Items
Weight	100.0	39.8	11.6	2.1	10.8	3.2	0.3	16.4	5.2	1.1	2.2	3.1	4.2	55.1	44.9
2018	4.8	6.8	15.5	4.4	2.2	0.5	0.7	4.1	-10.4	0.1	-	1.3	1.2	2.9	7.2
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
2020	0.3	3.8	5.4	8.0	-6.9	3.9	0.0	-8.2	-1.7	0.0	0.6	0.0	1.7	1.2	-0.7
2021	9.3	10.8	-0.3	0.9	17.1	1.9	0.0	18.2	0.0	0.0	0.0	1.2	6.0	10.4	7.9

Source: Statistics Department

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

Exports by Institutional Sector, 2013/14 - 2020/21

INSTITUTIONAL SECTOR	2013/14		2014/15		2015/16		2016/17		2017/18		2018/19		2019/20		2020/21	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
Private Sector	21,705	99.9	28,030	99.6	29,533	96.1	33,489	92.3	23,174	96.4	27,721	96.3	39,821	97.1	36,036	98.7
Government Sector	20	0.1	23	0.1	22	0.1	429	1.2	71	0.3	161	0.6	869	2.1	68	0.2
Quasi-Government Sector	8	-	82	0.3	1,188	3.9	2,368	6.5	783	3.3	904	3.1	339	0.8	400	1.1
TOTAL	21,733	100	28,135	100	30,744	100	36,286	100	24,028	100	28,786	100	41,029	100	36,504	100

Source: Statistics Department

Exports by HS Section, 2013/14 - 2020/21

HS Code SECTION ITEM	2013/14		2014/15		2015/16p		2016/17		2017/18		2018/19p		2019/20p		2020/21p	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
Live Animals/Animal Products	5,146	23.7	13,005	46.2	8,489	27.6	10,385	29	5,456	22.7	8,907	30.9	14,140	34.5	9,605	26.3
Vegetable Products	12,628	58.1	11,896	42.3	14,774	48.1	18,999	52.4	16,335	68.0	16,872	58.6	20,286	49.4	22,307	61.1
Prepared Foodstuff, Beverages, Tobacco	460	2.1	38	0.1	1,103	3.6	276	0.8	384	1.6	209	0.7	161	0.4	559	1.5
Products of the Chemical Or Allied	596	2.7	562	2.0	520	1.7	208	0.6	153	0.6	415	1.4	172	0.4	410	1.1
Wood and Articles of Wood;	739	3.4	413	1.5	1,770	5.8	666	1.8	660	2.7	20	0.1	516	1.3	1,134	3.1
Miscellaneous Manufactured Articles	90	0.4	34	0.1	130	0.4	165	0.5	53	0.2	50	0.2	158	0.4	12	-
Works of Art, Collectors Pieces and	-	-	2.0	-	24	0.1	23	0.1	111	0.5	14	-	7	-	-	-
Other Exports	2,074	9.5	2,185	7.8	3,933	12.8	5,564	15.3	876	3.6	2,299	8.0	5,589	13.6	2,477	6.8
TOTAL	21,733	100	28,135	100	30,744	100	36,286	100	24,028	100	28,786	100	41,029	100	36,504	100

p: provisional numbers

Source: Statistics Department

Exports by Country of Destination, 2013/14 - 2020/21

COUNTRY	2013/14		2014/15		2015/16		2016/17		2017/18		2018/19		2019/20		2020/21	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
New Zealand	7,184	33.1	7,049	25.1	6,748	21.9	8,810	24.3	5,999	25.0	9,096	31.6	11,136	27.1	15,693	43.0
Australia	2,002	9.2	3,200	11.4	4,636	15.1	8,352	23.0	2,863	11.9	2,601	9.0	3,925	9.6	3,176	8.7
Fiji	170	0.8	186	0.7	471	1.5	657	1.8	44	0.2	76	0.3	273	0.7	292	0.8
Mainland USA	3,359	15.5	5,514	19.6	10,484	34.1	8,064	22.2	5,964	24.8	7,077	24.6	8,498	20.7	6,199	17.0
Samoa	746	3.4	1,137	4.0	433	1.4	327	0.9	179	0.7	442	1.5	1,034	2.5	175	0.5
Japan	2,710	12.5	3,361	11.9	4,064	13.2	4,616	12.7	1,799	7.5	1,691	5.9	2,529	6.2	522	1.4
Korea	2,232	10.3	590	2.1	1,543	5.0	2,061	5.7	5,667	23.6	2,747	9.5	3,488	8.5	1,370	3.8
Singapore	-	-	4	-	2	0.0	-	-	59	0.2	-	-	15	0.0	78	0.2
American Samoa	50	0.2	453	1.6	546	1.8	430	1.2	263	1.1	791	2.7	2,247	5.5	1,208	3.3
Hong Kong	1,812	8.3	5,368	19.1	59	0.2	12	0.0	7	0.0	17	0.1	80	0.2	2,106	5.8
All other Countries	1,467	6.8	1,273	4.5	1,757	5.7	2,957	8.1	1,184	4.9	4,248	14.8	7,804	19.0	5,685	15.6
TOTAL	21,733	100	28,135	100	30,744	100	36,286	100	24,028	100	28,786	100	41,029	100	36,504	100

Source: Statistics Department

Imports by Institutional Sector, 2013/14 - 2020/21

INSTITUTIONAL SECTOR	2013/14		2014/15		2015/16		2016/17		2017/18		2018/19		2019/20		2020/21	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
Private Sector	316,513	87.5	353,566	82.4	423,299	88.5	437,008	85.9	469,903	88.0	487,059	86.4	429,947	79.7	528,858	91.0
Government Sector	12,648	3.5	15,655	3.7	23,984	5.0	31,787	6.3	24,399	4.6	16,856	3.0	80,240	15.3	29,383	5.1
Quasi-Government	32,478	9.0	59,639	13.9	31,057	6.5	39,732	7.8	39,566	7.4	59,862	10.6	32,439	5.0	22,623	3.9
TOTAL	361,639	100	428,859	100	478,340	100	508,527	100	533,868	100	563,777	100	542,626	100	580,864	100

Source: Statistics Department

Imports by Main HS Section, 2013/14 - 2020/21

HS Code SECTION ITEM	2013/14		2014/15		2015/16		2016/17		2017/18		2018/19		2019/20		2020/21	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
1. Live Animals/Animal Products	44,284	12	46,987	11	48,347	10	53,023	10	60,542	11	55,638	10	52,617	10	77,014	13
2. Vegetable Products	11,005	3	11,341	3	14,588	3	15,142	3	17,630	3	18,513	3	17,283	3	24,285	4
3. Prepared Foodstuff, Beverages & Tobacco	50,800	14	55,893	13	68,575	14	81,580	16	74,511	14	61,244	11	66,737	12	91,749	16
4. Mineral Products	81,783	23	88,805	21	83,105	17	77,515	15	111,259	21	108,850	19	109,167	20	84,648	15
5. Products of the Chemical or Allied	16,556	5	15,701	4	20,121	4	18,599	4	20,956	4	22,299	4	21,863	4	29,860	5
6. Wood and Articles of Wood	9,200	3	13,763	3	16,433	3	20,128	4	20,361	4	20,584	4	18,445	3	23,852	4
7. Pulp of Wood and Other Fibrous Cellulosic Material	10,442	3	10,944	3	12,276	3	9,076	2	9,322	2	13,374	2	8,849	2	9,047	2
8. Base Metals & Articles of Base Metal	16,322	5	20,203	5	26,629	6	38,251	8	29,216	5	35,659	6	28,754	5	31,336	5
9. Machinery and Mechanical Appliance	58,596	16	74,142	17	83,461	17	76,997	15	78,780	15	106,734	19	85,352	16	95,751	16
10. Miscellaneous Manufactured Articles	7,032	2	10,952	3	13,515	3	15,204	3	17,151	3	15,068	3	11,709	2	14,393	2
11. Vehicle, Aircraft, Vessel & Associated, Transport Equipment	17,535	5	40,430	9	50,360	11	46,989	9	46,906	9	56,303	10	81,286	15	47,846	8
12. Works of Art, Collectors Pieces	85	-	17	-	37	-	6	-	4	-	16	-	7	0	50	0
13. Other Imports	37,999	11	39,681	9	40,895	9	56,017	11	47,229	9	49,495	9	40,557	7	51,033	9
TOTAL	361,639	100	428,859	100	478,340	100	508,527	100	533,868	100	563,777	100	542,626	100	580,864	100

Source: Statistics Department

Imports by Country of Origin, 2013/14 - 2020/21

COUNTRY	2013/14		2014/15		2015/16		2016/17		2017/18		2018/19		2019/20		2020/21	
	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%	(T\$'000)	%
New Zealand	107,341	30	122,470	29	140,074	29	155,900	31	156,775	29	151,889	27	155,149	29	174,916	30
Australia	20,562	6	24,312	6	31,277	7	38,716	8	35,923	7	40,127	7	36,641	7	56,015	10
USA	39,635	11	46,570	11	40,074	8	52,201	10	49,116	9	65,288	12	70,082	13	57,034	10
China	20,424	6	36,049	8	66,129	14	40,242	8	51,932	10	49,599	9	43,771	8	56,390	10
Indonesia	3,429	1	6,431	1	8,174	2	8,185	2	8,929	2	8,063	1	8,198	2	13,742	2
Fiji	31,257	9	34,921	8	50,024	10	40,126	8	44,481	8	40,227	7	41,521	8	49,591	9
Japan	15,500	4	35,709	8	32,339	7	52,818	10	38,824	7	55,417	10	42,640	8	34,902	6
Singapore	83,179	23	63,965	15	54,531	11	77,459	15	82,307	15	98,667	18	101,557	19	71,713	12
Others	40,312	11	58,432	14	55,718	12	42,880	8	65,581	12	54,500	10	43,067	8	66,561	11
TOTAL	361,639	100	428,859	100	478,340	100	508,527	100	533,868	100	563,777	100	542,626	100	580,864	100

Source: Statistics Department

Tonga Real Sector Developments, 2013/14 - 2019/20

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20		
Nominal GDP									
In pa'anga m.			797.2	849.1	932.6	1,017.7	1,073.2	1,164.0	1,129.2
In US\$ m.			442.7	431.7	401.6	452.2	483.1	476.5	489.2
GDP per capita (US\$)			4,099.5	3,963.2	4,236.0	4,409.9	4,423.3	4,335.4	4,939.0
Population			103,795	104,051	104,307	100,607	100,080	99,555	99,034
			Annual Percentage Change						
GDP (2016/17 prices)			2.0	1.2	6.6	3.3	0.3	0.7	0.7
of which:									
Agriculture, forestry, and fisheries			2.5	-1.7	-1.3	-2.5	0.4	3.6	0.8
Manufacturing			0.9	3.0	7.4	1.5	-0.8	-4.8	3.6
Construction			18.5	-5.1	22.8	18.0	-32.4	16.2	-11.4
Accommodation and food service activities			-4.3	7.3	16.6	8.6	7.5	-3.3	-0.1
Transport and storage			5.8	7.6	-2.1	19.6	1.8	2.2	-10.5
Financial and insurance activities			1.1	-8.3	8.2	-4.3	4.5	0.1	1.0
Public administration and defence			0.3	1.7	0.6	-1.5	2.8	4.0	1.8
Education (Government & Non - government)			0.4	-0.2	0.1	-0.1	0.0	2.6	3.6
Human health & social work activities (Government & Non - government)			2.1	-4.3	21.0	8.6	5.4	-3.2	10.6
			Percentage of GDP						
GDP (by sector; current prices)									
of which:									
Agriculture, forestry, and fisheries			-2.5	9.9	8.2	10.4	7.1	24.7	-12.7
Manufacturing			2.9	2.9	10.0	7.7	3.7	-3.3	4.3
Construction			1.6	5.6	21.1	19.2	-9.2	18.4	-12.2
Accommodation and food service activities			-1.8	7.8	16.0	16.5	13.0	0.6	0.3
Transport and storage			9.6	15.8	-5.1	16.8	0.1	1.4	-9.1
Financial and insurance activities			2.7	-8.2	6.8	2.9	7.6	13.3	1.8
Public administration and defence			10.6	16.4	8.5	-2.2	-2.5	9.4	1.6
Education (Government & Non - government)			-0.4	7.4	3.7	7.1	2.5	3.2	4.2
Human health & social work activities (Government & Non - government)			10.9	7.2	28.8	7.9	0.6	0.2	9.1
Consumer prices (period average)									
All items			2.2	0.1	-0.6	7.3	4.38	4.02	0.2
Imported component			2.6	0.2	-5.4	8.1	7.8	2.7	1.43
Domestic component			1.7	-0.1	6.2	6.3	0.02	5.5	-1.68
p - provisional estimates									
Source: Statistics Department									

Tonga Balance of Payment: FY 2014 – FY 2021

(T\$m, unless otherwise indicated)	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21p
Balance of Trade	-246.0	-289.9	-301.2	-332.7	-387.9	-424.4	-399.3	-454.5
Exports, f.o.b.	15.7	16.0	19.1	23.7	20.9	19.3	17.9	12.8
of which: Squash exports	2.9	1.8	3.7	4.3	5.5	3.6	5.4	-
Imports, f.o.b.	261.7	305.9	320.3	356.4	408.8	443.7	417.2	467.3
Services (net)	-3.1	-6.2	17.3	27.0	32.3	32.2	18.8	-25.2
Receipts	109.0	100.4	139.1	169.7	199.0	204.3	184.0	88.3
of which: Tourism receipts	80.3	63	84.1	108.8	111.2	129.4	108.1	20.7
Payments	112.1	106.6	121.8	142.7	166.7	172.1	165.2	113.5
Income (net)	16.9	13.6	5.6	-16.1	-7.7	8.7	5.6	22.0
Receipts	34.4	26.2	22.2	17.7	24	25.8	25.8	44.2
Payments	17.5	12.6	16.6	33.8	31.7	17.1	20.2	22.2
Current Transfers (net)	192.0	215.5	301.0	364.9	382.6	381.3	428.2	593.5
Official transfers (net)	21.7	41.0	78.9	85.4	82.3	87.8	123.8	185.3
Private transfers (net)	170.3	174.5	222.1	279.5	300.3	293.5	304.4	408.2
Official transfer receipts	23	43.1	82.6	87.9	91.1	91.5	128.2	189.4
Official transfer payments	1.3	2.1	3.7	2.5	8.8	3.7	4.4	4.1
Private transfer receipts	208.9	221.1	279.9	334	358.4	359.3	370.6	479.3
Private transfer payments	38.6	46.6	57.8	54.5	58.1	65.8	66.2	71.1
Current account balance	-40.2	-67.0	22.7	43.1	19.2	-2.2	53.3	135.8
(Percent of GDP)	-5.0%	-7.9%	2.4%	4.2%	1.8%	-0.2%	4.7%	11.3%
Capital account balance	101.2	67.2	15.2	29.8	40.6	42.1	22.2	40.9
Official capital (net)	17.3	8.9	7	9.7	16.37	22.0	11.2	26.2
Official capital inflows	24.6	13.5	7.0	9.8	17.2	22.5	11.6	26.3
Official capital outflows	7.3	4.6	0.0	0.1	0.9	0.5	0.4	0.1
Private capital (net)	83.9	58.3	8.2	20.1	24.2	20.1	11.0	14.7
Private capital inflows	101.5	75.5	10.5	22.7	27.4	22.0	11.7	15.4
Private capital outflows	17.6	17.2	2.3	2.7	3.2	1.9	0.7	0.7
Other items (net)	-49.8	-14.2	-43.8	-81.8	-59.5	-56.1	-55.6	-66.8
Overall balance	11.2	-14.0	-5.9	-8.9	0.3	-16.2	19.9	109.9
Memorandum items:								
Service, income, and transfers (net)	205.8	222.9	323.9	375.8	407.1	422.2	452.6	590.3
Receipts	375.3	390.8	523.8	609.3	672.5	680.9	708.6	801.2
Payments	169.5	167.9	199.9	233.5	265.4	258.7	256.0	210.9
Gross official foreign reserves (TOP million)	274.4	289.7	354.9	407.9	468.7	484.3	543.8	715.2
Months of Import cover (trade estimate)	9.1	8.1	7.2	7.5	8.0	7.9	9.2	12.5

Source: National Reserve Bank of Tonga

Tonga: Monetary Survey: FY 2014 – FY 2022

(T\$m, unless otherwise indicated)	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21p
Net foreign assets	265.9	285.9	338.2	409.9	456.1	475.1	549.9	705.0
Foreign assets	281.7	297.1	373.3	434.4	483.7	507.6	574.0	758.7
Foreign liabilities	-15.8	-11.2	-35.1	-24.5	-27.6	-32.5	-24.1	-53.7
Net domestic assets	74.2	62.0	53.6	26.0	26.1	16.0	-53.5	-112.7
Net domestic credit	177.8	206.0	247.0	278.0	275.6	278.8	248.4	201.9
Government (net)	-34.1	-26.9	-29.4	-51.5	-90.7	-117.1	-158.4	-190.0
Non-financial public enterprises	36.6	41.8	40.4	42.8	49.1	52.2	61.6	50.3
Private sector	175.3	191.1	236.0	286.7	317.2	343.7	345.2	341.6
Non-monetary financial institutions 1/	-4.0	-3.9	-3.8	-4.2	-6.0	-5.1	-4.0	-4.1
Other items (net)	-99.6	-140.1	-189.6	-247.8	-243.5	-257.7	-297.9	-310.5
Total domestic liquidity (M2)	340.0	348.0	391.8	436.0	482.2	491.0	496.4	592.4
Narrow money (M1)	174.6	188.2	216.5	237.9	238.6	258.6	246.0	330.5
Currency outside banks	40.1	45.4	48.5	61.9	70.3	70.3	71.4	94.8
Demand deposits	134.4	142.7	168.0	176.0	168.4	188.3	174.6	235.8
Quasi money	165.4	159.8	175.3	198.1	243.5	232.4	250.4	261.8
Savings deposits	44.2	49.7	59.4	63.8	73.2	79.6	87.8	99.4
Term deposits	109.2	98.6	103.7	124.4	154.0	142.3	156.0	155.0
Foreign currency accounts	12.0	11.5	12.2	9.8	16.3	10.5	6.6	7.4
Annual Percentage Change								
Net foreign assets	2.8	7.5	18.3	21.2	11.3	4.2	15.7	28.2
Foreign assets	4.8	5.5	25.6	16.4	11.3	4.9	13.1	32.2
Foreign liabilities	54.9	-29.1	213.4	-30.2	12.7	17.8	-25.8	122.8
Net domestic assets	31.6	-16.4	-13.5	-51.5	0.4	-38.7	-434.4	110.7
Private sector	-4.5	9.0	23.5	21.5	10.6	8.4	0.4	-1.0
Total domestic liquidity (M2)	8.0	2.4	12.6	11.3	10.6	1.8	1.1	19.3
Narrow money (M1)	14.8	7.8	15.0	9.9	0.3	8.4	-4.9	34.3
Quasi money	1.7	-3.4	9.7	13.0	22.9	-4.6	7.7	4.6
In US dollars								
Net foreign assets	148.3	135.6	153.2	187.1	200.6	208.8	239.8	313.4
Foreign assets	157.2	140.9	169.1	198.3	212.7	223.1	250.3	337.2
Foreign liabilities	-8.8	-5.3	-15.9	-11.2	-12.1	-14.3	-10.5	-23.9
Memorandum items:								
Velocity (GDP/average M2)	2.3	2.4	2.4	2.3	2.2	2.4	2.3	2.0
Exchange rate (pa'anga per U.S. dollar; end period)	1.8	2.1	2.2	2.2	2.3	2.3	2.3	2.2

Source: National Reserve Bank of Tonga

ANNEX II: REVIEW OF THE GPA FY 2022

This section reviews and highlights major activities that were able to be implemented under each of the seven (07) Government Priority Areas during FY 2021 and FY 2022.

A. People Focus

1) Health Development

The Government accorded Health the top and foremost priority since the outbreak of the COVID-19 pandemic in the first quarter of 2020. As such, the majority of works, led by the Ministry of Health focused on the preparation, prevention, and promoting public awareness programs in relation to COVID-19. The following highlights the achievements during the review period:

- ✓ Tonga remained *COVID-free* till its first-ever positive case was declared on the 29th of October 2021. We applaud all the huge effort and works to keep the nation safe.
- ✓ Successful implementation of the COVID-19 Emergency Plan to guide the works to contain the virus at the quarantine facility and to prevent the spread of the virus in the community.
- ✓ Increase the vaccination rate coverage to 90 percent coverage of the population (1st dose) and 70 percent (2nd dose).
- ✓ Effective works by the established committees National Emergency Management Committee (NEMC) and National Task Force Emergency Response (COVID-19), in managing, and coordinating the implementation of the COVID-19 Emergency plan and advising the Cabinet accordingly. The NEMC is chaired by the Hon Minister of MEIDECC.
- ✓ Activation of nine (9) Clusters, led by relevant Chief Executive Officers in the implementation of the cluster's respective plans. The nine (9) clusters report to the NEMC.
- ✓ Approval and roll out of the Government Economic and Social Stimulus Package of \$60 million by cluster allocations. The Stimulus package was implemented in three (3) phases:

Phase 1: \$15.5 million (FY 2020); major expenses were:

- Business and Employee Support (\$4.6 million)
- Health Preparedness activities, PPE gears (\$5.3 million)
- Education Assistance programs (\$3.3 million)
- Vulnerable groups, community activities (\$1.1 million)
- Essential Services, agriculture & fishery sector (\$1.1 million)

Phase 2: \$32.0 million (FY 2021)

- Health Preparedness & PPE, medical supplies (\$17.2 million)
- Business and Employee Support (\$3.7 million)
- Repatriation and quarantine facility (\$6.7 million)
- Border Control related activities; sea transportation (\$0.9 million)
- Assistance to women in hardship, microfinance; seafarer, and seasonal workers (\$2.3 million)
- Agriculture and Fisheries sector (\$0.9 million)
- Logistics cluster (\$0.2 million)

Phase 3: \$12.5 million (FY 2022) – remaining funds of \$12.5 million after Phase 1 & 2, which were re-allocated to the most essential needs, included the following:

- Business and Employee Support (\$3.4 million)
- Repatriation (\$4 million)
- Preparedness & Protection, quarantine facility (\$3.9 million)
- Logistics cluster (\$1.0 million)
- Student allowances (\$0.2 million)

- ✓ Additional COVID-19 Support received from DFAT (AUD 7 million or \$11.7 million):
 - AUD 5 million grant (TOP 8.3 million) tagged to Business Recovery Support Program;
 - AUD 2 million grant (TOP 3.4 million) tagged to vulnerable groups
 - Disbursed support towards businesses (\$3.3 million) and to vulnerable groups (\$1.7 million) by December 2021

Phase 4: January – June 2022 (\$6.7 million)

- \$5 million (tagged to Business Support program); and \$1.7 million (ear-marked to support vulnerable groups).

- Will be fully utilize by June 2022.
- ✓ Upgrade of Health infrastructure facilities:
 - Mu'a Health Centre.
 - Laboratory for COVID-19.
 - Isolation Ward; and
 - Quarantine Facilities- Makeke, Kupesi and Taliai Camp.
- ✓ Donor in-kind support of new generators, ventilators and PPE gears.
- ✓ Proposed new initiatives to implement in FY 2022:
 - Introduction of three (3) new vaccines: i) HPV; ii) Pneumococcal and iii) the Rotavirus) under ADB / UNICEF Project.
 - Renovation of Public Health Services Building.
 - Anti – Microbial Resistance Initiative.
 - Physiotherapy / Rehabilitation Expansion; and
 - E- Health Project.
- ✓ **Support towards the disadvantaged (vulnerable groups):**
 - Ongoing financial assistance towards the most vulnerable groups, including the elderlies, disabilities, women, and children to support their living standards.
 - Additional grant support (\$100 each) was also provided twice as one-off assistance towards the 4,563 elderlies and 2076 disabilities, during the two weeks lock-down (March 2020) and in September 2021. This is on top of their monthly stipend allowance.
 - The Government had also rolled out support for poor households in July 2021 and is continuously working for the next phase of this support.
 - Extended support towards social caretaker services to cover the outer islands, including Ha'apai and 'Eua.

2) **Illicit Drugs and National Security**

Illicit Drugs are a major issue in Tonga, hence the whole country approach to combat the illicit drugs problem is now in force. His Majesty King Tupou VI had also emphasized during his open speech to Parliament in June 2021, the importance for Government to provide immediate actions to address the issue. The following reflects on the works that had been carried out during the period under this priority area:

- ✓ The Government allocated an additional \$5 million on top of the recurrent budget allocation to finance the National Action Plan on Illicit Drugs (NAPID) for 2021 – 2024.
- ✓ Host of the first-ever National Symposium on Illicit Drugs with the theme “*Working together for a Drug Free Tonga*”, as part of the whole of country approach to combat the issue.
- ✓ Established the Illicit Drugs Technical Committee, chaired by the Police Commissioner and members at the Chief Executive Officer level to drive the implementation of relevant actions in relation to addressing the illicit drugs problem. The technical committee reports to the Illicit Drugs Response Steering Committee (IDRSC), where the members are some of the Cabinet ministers.
- ✓ Implementation of the relevant actions, focusing on three (3) Specific Priority Areas (SPAs): namely Supply Reduction, Demand Reduction, and Harm Reduction, included:
 - Support towards MDAs related activities, such as the Ministry of Revenue and Customs on two important interventions:
 - Build a strong border security system to sustain and facilitate lawful cross border trade and travel.
 - Foefoelua Operation – war on substances campaign, as quick action provided to reduce the transportation of illicit drugs.
 - His Majesty's Armed Force (HMAF) joint border surveillance, achieved 80 percent of the targets for FY 2021:
 - Border clearance of over 100 boats and more than 70 aircraft.
 - Approximately 3,000 people on arrival and departure.
 - Over 9,100 cargo clearance.
- ✓ Tonga Police reported 845 drug-related arrests from 96 arrest cases in 2018, as of the third quarter of 2021²⁶

²⁶ National Symposium on Illicit Drugs – October 6th – 7th, 2021

3) **Education Development**

The Government continues to value Quality Education as one of the priority areas under human development. Like other key sectors of the economy, the sector also faced some challenges due to the impacts of the pandemic. The following highlight the major activities under this priority area during the review period:

✓ **E-learning**

- Implementation of E-Education and ICT Learning: Tonga Accelerating Resilience Project (TARP), aims to mitigate the impact of COVID-19 or natural disasters on Tonga's education systems with a strong focus on distance and flexible learning.
- Ongoing initiative to promote digital literacy right from Early Childhood Education, Inclusive Education, Classes 1- 6 in Primary Schools and Classes 7 & 8 (Form 1 & 2) in the Middle Schools in Tongatapu, 'Eua, Ha'apai, Vava'u, Niuatoputapu and Niuafu'ou through the Home school trials.
- Trials of various modes of accessible learning delivery, including printed materials, radio, TV, and internet, for both government and non-government schools.

✓ **Implementation of the Education Framework**

- Completion of the consultation, covering the Government and Non-Government Schools to review the Tonga Education Policy Framework (TEPF). The review targets the following areas:
 - the whole education system, Education's Strategic Plan and Curriculum, Financing options and financial sustainability, and E-learning.
 - finalize the Framework for Cabinet's approval in the 3rd quarter of FY 2022.
- Establishment of the new Division, Assessment and Curriculum Division to focus on the Staff Performance Appraisal and the Curriculum Development & Production.
- Launched of the National Teacher Registration System, requires teachers (ECE to higher education), must register to teach before the start of the academic year 2022. This is a milestone for the sector.

✓ **Education Infrastructure Development**

- Ongoing implementation of the Safer School Project, under the Pacific Resilience Program (PREP) and funded by the World Bank, covered 25 schools in Tonga and the outer islands. The purpose is to increase the resilience of schools and the education sector, in times of disasters.
- Construction of the school premises at 'Api Mataka for the relocation of the Ministry's headquarters and Tonga Side School. The works plan is to complete the relocation before the end of the current fiscal year.

✓ **Tonga National University**

- The drafting of the Bill has been completed and approved by the Legislative Assembly for setting up Tonga's first National University. The intention is to unite various institutions, including the Tonga Institute of Education, Tonga Institute of Higher Education, Tonga Institute of Science and Technology, Tonga Maritime Polytechnic Institute, Queen Salote Institute of Nursing and Allied Health, as well as the Tonga Police College. The University will offer academic, technical, and vocational programmes and qualifications from certificate to post-doctorate level.

✓ **Technical Training (SET Projects)**

- Implementation of the Skills and employment for Tongan project (WB) and the Tonga Skills programme (DFAT) on job training and creating opportunities for the grassroots. The two (2) SET projects aim to address Tonga's high secondary school drop-out rates – which have reached around 20 percent of students annually to have alternative vocational and learning pathways.
- Improve and extend the scope of the technical and vocational education and training courses to build relevant skills required for employment, and the seasonal labour schemes. The Labour Mobility Scheme is now expanded to the Butchery Industries and Hospitality jobs in Australia.

✓ **Grants for Schools**

- established 42 new Government ECEs and Form 1 in 33 primary schools in 2021, with the intention that students in Form 1 proceed to Form 2 level.
- Grant subsidies for the expansion of new government ECEs and Form 1.

B. Economic Recovery

4) Economic Development and Recovery

The Government accorded Economic Development and Recovery a high priority, aiming to improve the economic well-being and quality of life of all Tongans. Tonga's economy continues to be affected by the severe impact of the pandemic, affecting all sectors of the economy. As such, the focus of work and effort under this priority area was to support the affected sectors and individuals to at least maintain operation. The Government had also supported initiatives to sustain economic activities during this difficult time. The following reflects on major activities/ events that were implemented under this priority area.

✓ **Open Borders**

- The Government has indicated the key deciding factor of the country's readiness to re-open the border, is mainly the vaccination rate coverage, reaching 97-99 percent fully-vaccination. To date, only 65 percent of the population have now fully vaccinated, 90 percent who has taken the 1st shot of the vaccine.
- Developed the Tourism Crisis Response and Recovery Plan and noted the tourism sector continues to be the hardest hit sector from the impact of COVID-19. The Ministry of Tourism is working on the implementation plan, which should clearly outline specific activities and roles of the ministry and key stakeholders. This is part of the preparation for a time when the border reopens.
- Effort towards quarantine free travel arrangement with New Zealand which was effective on 8th of November 2021.

✓ **Private Sector**

- The ongoing effort to promote a fair, level playing field for the private sector to play, led by the Ministry of Trade and Economic Development. These include the implementation of a coherent investment policy to promote foreign investment.
- Upgrade of the Business Online Registration System to facilitate online payment; and development of a Foreign Investment Registry is in the pipeline.
- Support micro and small-medium enterprises through the establishment of cooperative societies and credit unions in the villages and communities.
- Restructure and top-up the Government Development Loan (GDL) facilities at Tonga Development Bank to provide loans at concessional rates for key sectors of the economy.

✓ **Stimulus Package**

- Allocate \$22.2 million of the Government Economic and Social Stimulus Package (\$60 million) to support affected businesses and individuals. An approximately total of \$15 million (including the new money as grants from the Australian Government to support the Business Recovery Program) has already been disbursed towards supporting the key economic sectors including the business sector. The remaining balance was re-allocated to support repatriation costs.
- Established a micro-finance loan scheme for women to provide easy access to funds for women to start up a business.
- The Government approved a second Stimulus Package (\$70 million), considering the prolonged impact of the pandemic. Economic Recovery of key sectors of the economy was one of the major focus areas to target assistance in the Stimulus 2. The Ministry of Finance is coordinating requests to development partners to finance the package.

✓ **Restore economic sectors (Agriculture, Fisheries, Tourism)**

➤ **Agriculture:**

- Ongoing support towards the sector, through: (i) tax exemptions on agricultural materials such as machinery, fertilizers, pesticides, seeds, equipment and fuel; (ii) Government development loan (GDL) facility is made available for farmers; (iii) COVID-19 assistance to subsidize the cost of plough, seedlings and to water-melon, squash farmers due to the related export issue of their produce; (iv) technical advisory assistance by Ministry of Agriculture, Food and Forest (MAFF) and (vi) facilitating access to markets;
- The Government provided support towards the cost of freight of agricultural produce from outer islands, including horticulture and coconut products of 12,000 coconut seed nuts produced.
- Supports the building and reconstruction of pack houses to assist with the assessment of export produce.

- **Fishery:**
 - Ongoing implementation of the Tonga Fish Pathway project which includes Special Management Areas (SMAs), aquaculture, and the development of new fishery options such as squid and mini-longline.
 - Continuous support towards the sector through: (i) tax exemption on imported fishing gear and materials of all licensed fishing vessels including fuel and bait; (ii) Government development loan (GDL) facilities for fishermen; (iii) COVID-19 trust fund to subsidize the price of fish (locally); and (iv) recovery assistance on fishing vessels and facilities affected by TC Harold.
- **Tourism:** as covered in the section above under 'Open Border'.

C. Resilience

5. Resilient and Sustainable Recovery

- ✓ Ongoing implementation of the Climate Resilience projects including the: GCF-ADB Tonga Renewable Energy (TREP), Outer Island Renewable Energy, Nuku'alofa Network Upgrade (OIREP), Wind Power projects; WB Pacific Resilience Program; GCF readiness; Japan Nation-Wide Early System (NEWS); GCF Tonga Coastal Resilience Project; GCF strengthening adaptation plan, the Climate Resilience Coastal Fisheries and Aquaculture and Outer Islands Solar Electrification Society (OISES).
- ✓ Mobilize the Implementation of the Disaster Risk Financial Strategy 2021 – 2025.
- ✓ Established the new division in the Ministry of Finance, namely the Resilience Development and Financing Division, purposely to support the effort to build a more resilient recovery through strengthening policy, compliance and implementation capacity, including tapping into Global Climate funds and other funding sources.
- ✓ Energy Bill has been passed and it is now used as the key legislation, that underpins the sector plans and activities, in relation to promoting climate change and resilience such as the TERM PLUS.

6. Infrastructure Development

- ✓ Implementation of the 'Road Improvement project', covering all roads (main, agriculture, roads to the tourism sites, community and village roads);
- ✓ Completed the review of the National Infrastructure Investment Plan (NIIP II), 2013-2023, and the formulation of NIIP III 2020-2030 as the sector plan to guide infrastructure development in Tonga;
- ✓ Policy, planning, and institutional settings for infrastructure development are addressed in the NIIP 3, with attention given to:
 - disaster risk management, climate change, and greater resilience linking with the second Joint National Action Plan for Climate Change Adaptation and Disaster Risk Management.
 - improvement in land use planning, led by the National Spatial Planning Authority.
 - improvement in asset management, including better use of asset registers.
 - linkages to economic recovery due to the impact of the COVID-19 pandemic; and
 - institutional responsibilities, regulatory and supervisory functions in relation to infrastructure development.
- ✓ **Road maintenance and development:**
 - Achieved an average of 80 percent of target towards the works to improve all roads in Tonga; improve on the Routine Road Plan.
 - Pilot the initiative to reduce traffic congestion from Pea to Tofoa, through the implementation of three (3) lanes during peak hours.
- ✓ **Extension of Queen Salote Wharf (Port):**
 - Delays in the implementation due to COVID-19 restrictions. This is one of the upcoming major projects, total cost of \$45 million, funded by the Asian Development Bank to be implemented over a duration of 2-4years.

- ✓ **Construction of the Fanga'uta Bridge:**
 - The design has been completed however delays due to a financing gap of USD 15 million;
- ✓ **Establishment of the Land Transport Authority:**
 - The Government approved the establishment of a Land Transport Authority (LTA) as the body to manage all lands transportation, including road maintenance. A technical committee, chaired by the CEO of Finance is working to operationalize the establishment of LTA.
- ✓ **Establish an Infrastructure insurance scheme:**
 - The Government had also approved the establishment of an infrastructure insurance scheme. Ministry of Finance jointly with the Ministry of Public Enterprises are working together to establish the facility. The intention as a proposed funding option, considering the current financial situation is to collect the insurance premium from all enterprises as start-up capital for the facility.

7. Public Sector Reform

- ✓ **Policy reforms: implementing the Government reform program and initiatives through the Joint Policy Reform Matrix (JPRM):**
 - **Strengthening of the public sector systems and public finances**
 1. revised Excise Tax (Amendment) Order 2021 that applies nutrient profile to determine the application of excise taxes
 2. new medium-term debt strategy (MTDS)
 3. Approval of a Government guarantee policy
 4. Approval of the PFM Reform Plan
 5. Approval of a reform to the guidelines governing overtime in the public sector and implementation of a consolidated establishment registry.
 - **Enhancing resilience to the effects of climate change and natural hazards**
 6. Approval for submission to Parliament of a Bill to amend the Emergency Management Act 2007
 7. Adoption and implementation of a special regime for expedited clearance of essential medical goods.
 - **Improving livelihoods, labour market regulations and digital development**
 8. Institutionalization of the Labour Mobility Steering committee and adoption of the LSU Operations manual.
 9. Approval for submission to Parliament of a revised Credit Union bill.
 10. Approval of the Public service sexual harassment policy.
 11. Approval of the International arbitration bill.
 12. Approval of the National Energy Bill.
- ✓ **Strengthening Public Sector Systems and Public Finances through Implementing of the Public Finance Management Action Plan (PFMAP);**
 - Approval of the Public Financial Management Action Plan (PFMAP) by Cabinet on 16 December 2020, and published on the Ministry of Finance website.
 - While implementing the PFMAP, there are improvements in a wide range of PFM related areas, such as improvement in fiscal sustainability, budget transparency, asset management, accounting and reporting, and internal controls.
 - Progress in implementing the PFMAP has been encouraging, with around half of the activities having been completed or will be completed by the end of December 2021. Some of the main highlights so far include:
 - i. Improved macro-economic and fiscal forecasting.
 - ii. PFM Act revision: draft will be finalized by the end of December 2021 and submitted for Cabinet approval.
 - iii. Medium-Term Debt Strategy (MTDS): updated and approved by Cabinet in May 2021.
 - iv. Guarantee policy: prepared and approved by Cabinet in May 2021.
 - v. IPSAS cash basis adopted for 2019-20 Public Accounts.

- vi. Chart of Accounts review: underway to be completed by end of December 2021.
- vii. Asset Management Framework implementation plan: There's TA confirmed from PFTAC and starting October 2021; and
- viii. Internal Audit: potentially including an explicit mention in the revised PFM Act to strengthen this role.

✓ ***Implementing the Public Sector System Reform***

- Ongoing works and effort to establish a single establishment registry for Schedules I & II of the public service.
- Reviews of the wage bill, outcome in Cabinet approved a new policy for overtime.
- On-going implementation of fiscal policy measures to control expenditure.

ANNEX III: RECONCILIATION BETWEEN THE GFS AND ESTIMATES FOR FY 2023**Alternate Classifications of Financial Transactions (Government Finance Statistics GFS)**

Traditionally, the estimates of receipts and payments in the appropriation bill are predicated on the cash basis of accounting — that is as funds flow into, within, and out of the Government of Tonga's bank accounts. Receipts are brought to account in the period in which they are received, and payments are accounted for when the actual disbursement is made from those bank accounts. This system has been improved to an accrual basis. The presentation of the Government's accounts in this form is predominantly concerned with ensuring money is legally able to be spent and is spent on the purpose for which it was provided. That system of classifying the Government's financial transaction also forms the basis for effective cash planning and management.

However, Government adopted the Government Finance Statistics (GFS) basis as an option for the presentation of the budget estimates. The GFS system of classification is designed to facilitate the study of the macro-economic impact of the Government's financial transactions on the economy and therefore assessments of the sustainability of fiscal policy objectives. It does so by recording separately 'below the line' those receipts and payments transactions, such as those associated with raising or repaying loans, that are primarily associated with the actions necessary to finance a shortfall in government revenues.

The GFS system of classification also records inflows to the Government associated with the repayment of loans made by the Government as net lending within the category 'expenditure and net lending', rather than as revenue of the Government. Furthermore, by bringing together expenditures directed towards like purposes, the GFS system of classification also facilitates the presentation of information on the total resources devoted by the Government to those purposes and allows international comparisons independently of local administrative structures.

A-Table 8: Reconciliation Table between GFS and Estimates FY 2023

Receipts	FY2022/23	
Inflows to the Government of Tonga Fund		325,296,300
<i>Plus: Inflows from other funds</i>		
Budget Support	81,469,600	
Donor Cash Aid	136,089,200	
Inkind	191,557,200	409,116,000
Total Inflows (as per Estimates)		734,412,300
<i>Less Inflows classified Non-financial assets</i>		
Disposal of Non-Financial assets	428,900	
		428,900
<i>Less Inflows classified as Financing assets</i>		
Bond Receipts	16,039,000	
Principal repayments from Onlent to Public En	703,100	
Other Principal repayments from other agenci	-	
RCF loan	22,000,000	
		38,742,100
Total Revenues (as per GFS presentation)		695,241,300
Payments	FY2022/23	
Outflows from Government of Tonga Fund		355,551,300
<i>Plus: Outflows to other funds</i>		
Budget Support	81,469,600	
Donor Cash Aid	136,089,600	
Inkind	191,557,200	409,116,400
Total Outflows (as per Estimates)		764,667,700
<i>Less Outflow classified Non-financial assets</i>		
Acquisition of Non-Financial assets	114,148,100	
		114,148,100
<i>Less Outflows classified as Financing assets</i>		
Economic Growth Fund at TDB	10,000,000	
Equity Payment to Other Enterprises	1,000,000	
Public Debt Principal Repayment Domestic	15,100,000	
Public Debt Principal Repayment Foreign	19,540,000	
Exchange Rate Risk	500,000	
		46,140,000
Total Expenses (as per GFS presentation)		604,379,600

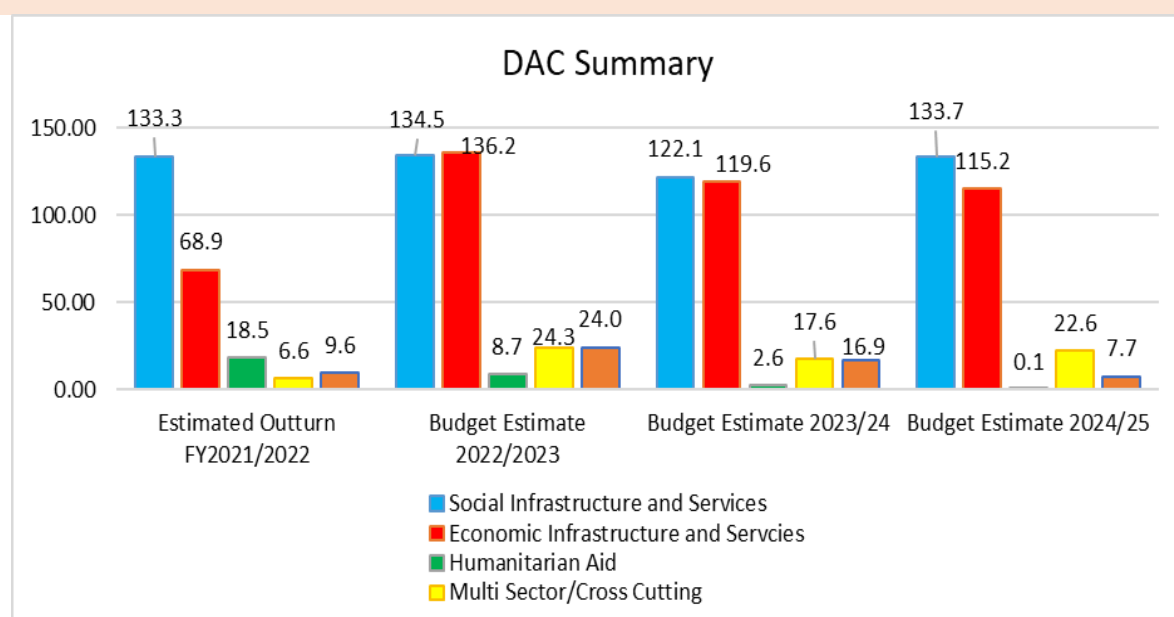
Source: MOF

ANNEX IV: DEVELOPMENT AID CLASSIFICATION

9.1 Development funded Project Expenditure by Development Aid Classification (DAC)

A-Figure 11 illustrates that the Economic Infrastructure and Services Sector has the highest allocation of \$136.2 million in relations to investments on transportation and storage, communication, investments on energy sector, and business support services. Subsequently, the Social Infrastructures and Services Sector has a total of \$134.5 million attributing to education, health, water supply & sanitation, government and civil society, and other social infrastructure services. The Humanitarian Aid Sector has decreased in FY 2023 as a result of the immediate response of the HTHH volcanic eruption and tsunami during FY 2022. Other sectors such as the Production and Multi Sector/Cross Cutting are also seen to be prioritized by Government in the projected years.

A-Figure 11: Development funded Project Expenditure by Development Aid Classification (DAC)



Source: MOF

9.2 FY 2023 Development Budget by Development Partners

World Bank

The investments from the World Bank is estimated at \$68m for FY 2023. This attributes to Additional Budget support, HTHH recovery and also includes COVID-19 support.

The World Bank continues to support the Government through climate resilience and disaster risk management areas. This includes the ongoing *Pacific Resilience Project (PREP)* that was expected to be completed in FY 2022 however, remaining components of the building of the MET/NEMO headquarters in Tongatapu have caused delays and is expected to be completed in FY 2023.

The Bank has been supporting the development of climate-resilient classrooms with WASH facilities and related infrastructures under the Tonga Safe School Resilient Project. This project is expected to continue construction phases in the following years due to disruption from COVID-19.

The support for climate-resilient infrastructure and transportation under the *Tonga Climate Resilient Transport Project (TCRTP)* was also delayed. The implementation under TCRTP 1 is picking up with road routine maintenance and rehabilitation works which has commenced in Vava'u and 'Eua. The recent approval of the TCRTP Phase II will commence infrastructure developments for 'Eua and Ha'apai by Quarter 3 of 2022.

The *Pathway to Sustainable Oceans Project* on the other hand continues to monitor the Special Management Areas (SMA) across Vava'u and other Outer-islands, together with the support of the fishing vessel and equipment procurement later in 2022 due to border restrictions.

The *Tonga Digital Government Support Project* is currently progressing with the assistance of the Ministry of Justice, National Identification Office, Ministry of Health, and the Prime Minister's Office. Given the arrangements under the new Government, the Project is now restructured under the implementation of the Prime Minister's Office for FY 2023.

Asian Development Bank

The ADB is continuously supporting the Government's priority areas related to transportation infrastructure development, disaster recovery, COVID-19, health system development, and urban development.

Additionally, newly commenced projects in 2021 such as the *Integrated Urban Resilience Project* and the *Additional finances of System Strengthening Vaccine* for the COVID-19 rollout Project are slowly underway due to resource mobilization issues.

ADB's climate resilience and renewable energy projects continue to support Tonga's long-term objectives for inclusive accessibility to Renewable energy. The *TREP Project* is finishing off BESS installations in Tongatapu with the outer-island installations for 'Eua, Ha'apai, and the Niua's currently underway and will be completed by 2023. In addition, it has recently approved additional scoping for the Electrification Vava'u Outer-Islands anticipated for Q3 of 2022. The *OIREP project* has completed on-grid installation under phase 1 for Lifuka, and 'Eua; however, implementation during 2021 and 2022 has been affected by the COVID-19 impacts and the HTHH, particularly for the Ha'apai groups of Nomuka, Ha'afeva, 'Uiha and Ha'ano - triggering delays with the possibility of timeline extension.

The ADB has provided support to the Government on the recent HTHH. The Bank assisted in the full drawdown of contingent financing under the *Pacific Disaster Resilience Program* (Phase 3) of \$22 million and the disbursement of \$1 million from the *Asia Pacific Disaster Response Fund (APDRF)* to assist the response and recovery efforts of the event. In addition to the HTHH, ADB disbursed \$2.3 million for COVID-19 support due to the compounding effects of the COVID-19 Community Outbreak after the HTHH event. The funding will be mostly utilized in the upcoming FY with assistance towards reconstruction and economic development.

Large infrastructural projects have been confirmed to the upcoming years as follows:

For 2022

- **Climate Resilience Sector Project, Additional financing:** (\$0.7 million Irish Trust Fund). The project will support community-based climate resilience projects through the Climate Change Trust Fund. Approval is planned for June 2022.
- **Nuku'alofa Port Upgrading Project, Additional Financing:** (\$20 million co-financing to be confirmed). The project will rehabilitate and upgrade the Queen Salote Wharf in Nuku'alofa and improve operations and resilience to disaster risks and climate change. Additional financing will be required to meet higher than expected project costs due to the global escalation in prices.
- **Nuku'alofa Network Upgrade Project:** (\$8.7 million comprising \$5 million ADF country allocation, \$2.2 million from European Commission, \$1.0 million from government and \$0.5 million from Tonga Power Limited). The project will restore reliable access to the electricity network in prioritized Area 5 and upgrade it to make it more resilient to extreme weather and disasters. Approval is planned for July 2022.
- **Contingent Disaster Financing:** (\$10 million from the ADF Disaster Response Fund). ADB will process a new contingent disaster financing (CDF) for approval in Quarter 4, 2022 to respond to future disasters triggered by natural hazards and health-related emergencies. The CDF program will support policy actions strengthening resilience to disasters and provide a source of financing for timely emergency response and early recovery.

For 2023

- **Integrated Aged-Care Project** (total of \$13.5 million comprising \$5 million ADF country allocation, \$5.5 million from ADF13 Thematic Pool, with a current application for \$3 million from the Japan's Fund for Prosperous and Resilient Asia and the Pacific). The project will support: (i) community-based aged-care centers; (ii) aged care services and programs; and (iii) support to caregivers. Government identifies this priority project as a good balance for social inclusion and affirms its commitment to meet operational and maintenance costs of the centers.
- **Policy-Based Lending** (\$5 million ADF country allocation). ADB will continue its engagement on joint policy reforms with government and development partners and included a policy-based program for 2023 approval. The Joint Policy Reform Matrix mission planned for July 2022 will help to confirm policy priorities and timelines with government. Indicative policy actions relate to strengthening public finances and administration; enhancing resilience to climate change and disasters; and improving human capital.
- **Fanga'uta Lagoon Bridge Project** (total of \$65 million comprising \$25 million ADF country allocation, \$10 million ADF thematic pool; \$5 million from government, and \$25 million co-financing to be confirmed). The high priority project will construct a bridge (and approaching roads) across the Fanga'uta Lagoon in Nuku'alofa to ease traffic congestion and open areas for development. The detailed design is prepared and bidding documents for civil works are expected to be ready by the end of July 2022. ADB will also explore funding opportunities within the bank and government is prepared to contribute from its own resources if there is still a funding gap. A phased approach may also be considered as an option.

For 2024

- **Tonga Climate Resilience Pathway** (total of \$50 million comprising \$2 million ADF country allocation and \$48 million co-financing to be confirmed). This project will help government in planning a long-term climate change adaptation solution for its capital Nuku'alofa through a strategic, flexible, and structured investment planning process guided by overall findings from Tonga's Multi-hazard Disaster Risk Assessment. The government confirmed to scale back ADF country allocation to \$2 million to free up all available ADF resources for the Fanga'uta Lagoon Bridge, a critical infrastructure for this adaptation pathway, and until financing and investment options are firmed up. ADB will continue to work with Government including through ADB's Climate Change on how best to stage up this project going forward and exploring funding sources from the Green Climate Fund, other Adaptation Funds, and the ADF Climate Change thematic pool.

Government of New Zealand

The Government of New Zealand has been supporting key areas of the Government through:

- education and skills development in its ongoing Tonga Scholarship Program and Tonga Skills Development Project;
- the COVID-19 Support Package (FY FY 2022) to support the Government's response and recovery from the impacts of COVID-19;
- health sector developments through the Tonga Health Workforce Activity, Medical Treatment Scheme ending in 2022, Drug and Alcohol Treatment, and the Central Pharmacy Warehouse;
- climate change and risk disaster risk management under its Climate Change Programme (CCP) with the new signing of the Building Resilient Water Management System in March 2022;
- law and order through the Tonga Justice Sector Support Programme, New court Management System (FY 2022), Tonga Police Development Programme, and finances for the Director of Public Prosecutions. MFAT also co-finances the new Parliament House Reconstruction with the Government of Australia in the upcoming FY.

In addition to its ongoing bilateral activities, the Government of New Zealand deployed reconnaissance flights in surveys of damages incurred from the HTHH, followed by vessels and cargo flights carrying humanitarian supplies and related items valued at more than NZD\$3 million. MFAT further provided cash grants in addition to the new signing of the CCP: Climate Change Trust Fund that included components to support the Government's HTHH Recovery Plan.

European Union

The Government of Tonga and the European Union (EU) 11th European Development Fund 2021-2027 are closely engaging priority areas under the continued Budget Support implementation modality with Technical Assistance support for Capacity Building & Support to Civil Society Organizations. Under the Energy Sector, the EU continues to assist implementation of the Tonga Energy Bill; similarly, it will be co-financing the NNUP Project with ADB (\$5.3 million) that is set to commence in FY 2023. In supporting the Education Sector, the EU is promoting renewable energy under the 'Green Schools project' to assist Tonga with meeting its national Renewable Energy and Energy Efficiency targets. This also includes investments under the Green-Blue Alliance in the Pacific programme.

Peoples' Republic of China

The People's Republic of China (PRC) has been supporting the Government of Tonga through infrastructure development, agriculture and livestock programmes, and the Renewable Energy sector. The PRC continues with the construction of the New Music Center for HMAF since FY 2021 expecting to be completed in FY 2024. It is now progressing with the installation of the Wind Power Station in the Eastern District with further funding arrangements expected for early 2023. Other infrastructure programs that PRC is engaged with the Government involve the Courthouse, Mala'e Kula Tombs upgrade, and Vava'u Government Building tabled for the upcoming years.

Heavy Plant and Equipment for Road Maintenance (\$26 million) has been received in February 2022 to support the MOI's operation.

The Chicken revitalization Industry and the Livestock Agriculture Programs are progressing well with the MAFF.

The PRC has also provided cash grants of \$2 million, apart from in-kind contributions worth \$8 million in response to the HTHH event. The in-kind support consists of 500 pre-fabricated houses and 30 Ploughs to boost Government's response and recovery actions from the HTHH event.

Government of Japan

Japan's Economic Cooperation continues to support the Government through its usual Grant and Technical assistance programmes:

- (i) *JICA General Grant Aid Cooperation*, the Nation-Wide Early Warning System (NEWS) is delayed due to the unsuccessful mobilization of experts and equipment in 2021. It has been extended to FY 2023. The surveys for the Fua'amotu International Airport upgrade have been completed in 2021 which will consider possible funding for the upcoming years as earmarked under the NIIP.
- (ii) *Non-Project Grant Aid (NPGA)* – has continued supporting the Government through Japanese-made Equipment targeted to promote economic and social development. A number of technical equipment have been negotiated and will be handed over to Government in FY 2023 such as the medical equipment, asphalt distributor trucks, and disaster management equipment. Moreover, the

exchange of notes has been completed in 2021 for the tugboat which is expected to be handed over in the upcoming years.

- (iii) *Technical Cooperation* Japan – this includes J-PRISM Phase 2 (2021-2022) for Waste Management branches in 'Eua and Ha'apai. The CEP (2021-2022) Community Empowerment Project with MAFF and partnership with MORDI – is targeted as a Project for the COVID-19 Response measure and it is currently ongoing. The Grass Root Technical Cooperation project has been extended until FY 2023.

The Government of Japan had also supported the HTHH Response and Recovery efforts. An estimated \$6 million will be funded by the Government of Japan for the Recovery efforts of the Government for FY 2023. This is apart from the \$0.9 million in Humanitarian and Relief supplies in response to the aftermath.

United Nations supports Tonga in various areas such as assistance organized its programme support to Tonga through the UN Development Assistance Framework 2018-2022. There is a total of six thematic areas of support which are: (i) Climate Change, Disaster Resilience, and Environmental Protection through the Biogas Project set to be completed by 2023; (ii) Gender Equality; (iii) Sustainable and Inclusive Economic Empowerment; (iv) Equitable Basic Services (Health, Education, Social Protection) including Ending Violence Against Children programs that are currently ongoing; (v) UNFPA Training set to be extended to FY 2023; and (vi) Human Rights involving Outreach and Communication Consultations.

Green Climate Fund

GCF's Co-financing of the TREP Project has been progressing well with the completion of TREP 01 and TREP 02 packages for Tongatapu. Other areas left for completion are extended to the additional scope on the outer islands. The GCF continues to support its Readiness Program through the National Adaptation Program towards the Climate Change Action Plans and policies. The Outer Island Electrification is extended to FY 2023.

Other Donor Funds cover various funds received from other Development Partners. The Korea and India grants stand firm on their annual support Program each year. From the HTHH aftermath, a number of development partners across countries in the region have contributed to the Government through cash grants of about \$1.06 million and in-kind donations of about \$3 million.

HTHH Eruption and Tsunami Development Funding

The Government has identified an estimate of \$109.9.0 million to assist in financing the HTHH Recovery Plan in FY 2023. The cash assistance consists of funds received from Multilateral, Bilateral and other development partners.

The in-kind assistances include Humanitarian relief and support through existing projects funded by various donors, implemented by government ministries and non-government organizations. These projects are:

- *Tonga Fish Pathways Project; Social Sectors*
- *Tonga Safer and Resilient School Project;*
- *Renewable Energy (TREP and OIREP)*
- *Fanga'uta Lagoon Crossway Bridge*
- *Pacific Resilient Program*
- *Tonga Climate Resilient Transport Project*
- *TRIP project (MORDI)*

The Government continues to seek support from development partners to cover other recovery activities as outlined in the recovery plan.

9.3 Development Expenditure by DAC by Location

A-Table 9: Development funded Project (Expenditure by DAC) (\$m) by location

Location	Sum of Actual 20/21	Sum of Budget 2021/22	Sum of Estimated Outturn FY2021/22	Sum of Budget Estimate 2022/23	Sum of Projection 2023/24	Sum of Projection 2024/25
Eua	1.5	4.5	6.6	7.6	6.3	7.3
Economic Infrastructure and Services	0.9	3.6	5.0	6.3	5.0	6.0
Humanitarian Aid	0.0	0.0	0.0	0.0	0.0	0.0
Multi Sector/Cross Cutting	0.0	0.0	0.0	0.0	0.0	0.0
Production	0.0	0.1	0.0	0.0	0.0	0.0
Social Infrastructure and Services	0.5	0.9	1.6	1.3	1.3	1.3
Ha'apai	4.4	11.0	10.3	13.5	11.5	3.5
Economic Infrastructure and Services	3.0	10.3	9.4	12.9	11.0	3.0
Humanitarian Aid	0.0	0.0	0.0	0.0	0.0	0.0
Multi Sector/Cross Cutting	0.1	0.0	0.0	0.0	0.0	0.0
Production	0.1	0.1	0.1	0.0	0.0	0.0
Social Infrastructure and Services	1.3	0.5	0.8	0.6	0.5	0.5
Nationwide	134.8	99.1	117.4	173.6	111.5	116.8
Economic Infrastructure and Services	15.5	24.2	14.1	66.3	40.1	54.4
Humanitarian Aid	36.3	0.0	18.3	8.6	2.5	0.0
Multi Sector/Cross Cutting	17.7	24.4	5.5	17.2	11.4	8.1
Production	9.6	10.4	2.3	12.1	8.9	5.0
Social Infrastructure and Services	55.8	40.0	77.2	69.4	48.6	49.2
Niufo'ou	1.0	7.8	2.7	8.4	3.7	0.8
Economic Infrastructure and Services	1.0	6.9	2.6	7.6	3.0	0.0
Humanitarian Aid	0.0	0.0	0.0	0.0	0.0	0.0
Production	0.0	0.3	0.1	0.1	0.1	0.2
Social Infrastructure and Services	0.0	0.6	0.0	0.6	0.6	0.6
Niuaotupapu	1.0	2.2	3.7	3.1	1.5	0.5
Economic Infrastructure and Services	1.0	1.0	3.7	2.6	1.0	0.0
Multi Sector/Cross Cutting	0.0	0.0	0.0	0.0	0.0	0.0
Production	0.0	0.7	0.0	0.0	0.0	0.0
Social Infrastructure and Services	0.0	0.5	0.0	0.5	0.5	0.5
Overseas	0.6	0.0	0.0	0.0	0.0	0.0
Social Infrastructure and Services	0.6	0.0	0.0	0.0	0.0	0.0
Tongatapu	57.4	116.9	87.0	105.0	135.9	139.4
Economic Infrastructure and Services	14.7	14.5	27.5	28.7	53.3	51.3
Humanitarian Aid	0.0	0.0	0.2	0.0	0.0	0.0
Multi Sector/Cross Cutting	5.3	9.4	1.0	7.1	6.1	14.5
Production	4.0	5.9	7.0	10.6	7.8	2.5
Social Infrastructure and Services	33.3	87.2	51.4	58.6	68.6	71.1
Vava'u	4.0	7.6	9.2	16.5	8.3	11.0
Economic Infrastructure and Services	1.7	6.3	6.6	11.8	6.3	0.5
Humanitarian Aid	0.1	0.0	0.0	0.0	0.0	0.0
Multi Sector/Cross Cutting	0.1	0.0	0.1	0.0	0.0	0.0
Production	0.1	0.1	0.2	1.2	0.0	0.0
Social Infrastructure and Services	2.0	1.2	2.3	3.5	2.0	10.5
Grand Total	204.6	249.0	236.9	327.7	278.7	279.3

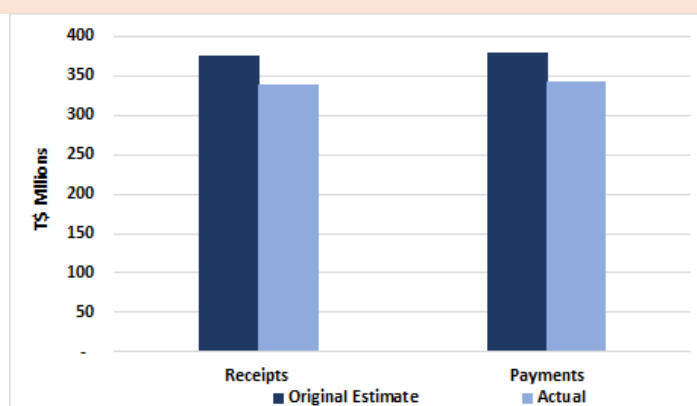
Source: MOF

ANNEX V: RECURRENT BUDGET PERFORMANCE IN FY 2021 and FY 2022

Recurrent Budget Performance in FY 2021

1. **Total receipts** short by \$20.5 million from the original target of \$359.4 million due to deferral of ADB normal budget support coupled with \$20.0 million government bonds were not issued during the year as planned. There was also an offset by \$11.2 million receipts from both tax and non-tax activities.

A-Figure 12: Recurrent Budget FY 2021 (\$m)



Source: MOF

2. **Tax revenues** were over-collected by \$6.5 million compared to original target of \$230.9 million and remained higher by \$1.3 million compared to actual collection in FY 2020. The improvement in collection

was due to increase in taxes on goods and services by \$15.2 million reflecting increased levels of domestic consumption supported by robust level of remittances during COVID-19 (both cash and in-kind) coupled with Government Stimulus Package I which supports local economy. On the other hand, collection from income tax and trade taxes were off target however, the performance from taxes on goods and services was robust to maintain overall performance from tax activities.

3. **Non-tax revenue** collection was higher by \$4.7 million compared to the original target of \$34.4 million triggered by Entrepreneurial and Property Income, which was \$5.8 million higher than estimated due to \$5.0 million collected in dividends from public enterprises (mainly arears from TCC) and a \$1.7 million from FFA Treaty. Conversely, COVID-19 travel restrictions have contributed to less collection from Fees & Licenses such as passport and visa fees, and service charges on international outgoing flight passengers.

4. The Government planned to issue new **bonds** worth \$20.0 million as a financing measure to finance FY 2021's deficit budget however, with concessional loan of \$22.6 million (original budget was \$19.0 million) from IMF, there was no need to issue new bonds.

5. In relation to **budget support**, all anticipated receipts from development partners were received (except ADB as it was deferred to FY 2022) as expected reflecting strong support, coordination, and implementation of Government reforms with development partners.

6. **Total payments** were lower by \$36.5 million in comparison to the original target of \$380.1 million driven largely by debt servicing - \$21.1 million and wage bill expenses - \$10.8 million. The suspension of EXIM Loan payments which is \$14.6 million contributes to under-spending in debt servicing. The wage bill is the largest allocation of spending approximately 45.0 percent of the recurrent budget. There was lower spending recorded due to resultant vacancies majority from Ministry of Health (MOH) and Ministry of Education and Training (MET). The Ministry of Finance (MOF), in liaison with the Office of the Public Service Commission (PSC), monitors and controls wage bill through measures like implementing a sub-committee to vet all staffing proposal requests.

Additionally, instructions for recruitment of resultant vacancies vacated before 14th September 2020 were put on hold while resultant vacancies vacated after 14th September 2020 went through normal recruitment process. It is noted that recruitment is controlled by these measures, however, the spending on other votes related to compensation of employees such as overtime escalates the wage bill.

7. **Operational expenses** were recorded at \$162.4 million or \$4.5 million less than appropriated but \$15.0 million higher, year-on year basis. Main triggers for under-spending relates to the following projects being deferred such as Tonga Side School Project, renovation of Treasury old building, MDAs' office buildings (Ministry of Fisheries & Ministry of Infrastructure in Vava'u) to mention a few.

The under-spent recurrent budget has been offset by increases in the following categories: \$1.0 million travel & communication, \$3.9 million grants, and transfers and \$4.0 million purchasing of fixed assets. Main reasons for increasing domestic travels include rolling out of COVID-19 vaccines to outer islands, launching of projects that have completed, training & conferences and monitoring of projects that are currently implemented.

8. The **overall balance** for FY 2021 was \$4.6 million deficit and it was financed from cash reserves.

Recurrent Budget Performance in FY 2022

A-Table 10: Recurrent Performance in FY 2022 (\$m)

	Actual 2020/21 (p)	Approved Budget 2021/22	Outturn 2021/22	Variance to Orig. Budget	Variance to Actual in 2020/21
RECEIPTS	316.4	333.3	303.8	- 29.5	- 12.5
Taxes	237.4	237.2	220.6	- 16.6	- 16.8
Income Taxes	48.6	50.4	42.8	- 7.6	- 5.8
Trade Taxes	18.2	22.3	20.9	- 1.4	- 2.6
Taxes on goods and services	106.9	99.1	98.5	- 0.6	- 8.4
Excise Taxes	63.7	65.4	58.4	- 7.0	- 5.2
Non-Taxes	39.1	41.0	29.4	- 11.7	- 9.7
Fees and Licenses	24.0	28.3	19.1	- 9.2	- 4.9
Entrepreneurial & Property Income	14.7	11.5	9.8	- 1.7	- 4.8
Miscellaneous Revenue Items	0.4	1.2	0.5	- 0.8	- 0.1
Capital & Other Transfers	12.7	16.6	22.0	5.4	9.3
Budget Support and Revolving Fund	27.2	38.5	31.9	- 6.6	- 4.7
PAYMENTS	343.6	376.2	323.7	- 52.5	- 19.9
Wage bill	155.8	176.2	160.5	- 15.6	- 4.7
Operation	162.4	158.1	139.4	- 18.6	- 22.9
Debt	25.4	41.9	23.7	- 18.2	- 1.7
OVERALL BALANCE	- 27.2	- 42.8	- 19.8		
Financing Options	27.2	42.8	13.2		
WB Add. BS	-	-	13.2		
DFAT Grants	-	7.0	-		
RCF Loan	22.6	30.0	-		
Domestic Debt	-	-	-		
Cash reserves	4.6	5.8	-		
OVERALL BALANCE - post financing	-	-	-6.6		

Source: MOF

- 1) A-Table 10 summarizes the recurrent budget performance for the FY 2022. Accordingly, Government had appropriated a deficit budget of \$42.8 million to be financed by additional grants from DFAT of \$7.0 million, concessional loans from IMF \$30.0 million and Government cash reserves of \$5.8 million.
- 2) Total receipts are expected to under-collect by \$29.5 million (compare to \$12.5 million pre-COVID-19 collection), triggered by under-collection from both tax and non-tax activities of \$16.6 million and \$11.7 million respectively. This is primarily due to the adverse impact of HTHH volcano eruption and tsunami coupled with the COVID-19 pandemic. In that case, Government defers and exempts some of the tax and non-tax revenue budgeted to be collected in FY 2022 in order to assist the affected people during the recovery stage. Such exemptions like duty on goods imported by the people in the affected areas until June 2022, and payment of school fees (Term 1) for all students in Tongatapu, Ha'apai and 'Eua.

- 3) On the other hand, total payment in FY 2022 is expected to be under-spent by \$52.5 million comparison to \$19.9 million pre-COVID-19 disbursements. This has been triggered by \$15.6 million from wage bill, \$18.6 million from operation and \$7.4 million from the deferment of the EXIM loan repayment for September 2021.

Receipts Performance

- 4) At the outset, the FY 2022 overall budget aimed to collect \$333.3 million, around \$12.9 million above the \$320.4 million appropriated in FY2020/2021. At the end of April 2022, **70.4 percent** or **\$260.7 million** of the total appropriated revenue has been received. Performance is expected to remain off-target at the last quarter of the year.
- 5) **Tax revenue** is expected to be under-collect at the end of the fiscal year by \$16.6 million from the original target of \$237.3 million. Collections from July-April was recorded at \$184.6 million, which is below the average benchmark of \$197.7 million and slightly lower by 2.3 percent compared to collection on the same period in FY2020/2021. National lockdown due to confirmed COVID-19 cases and exemptions on tax and non-tax due to HTHH volcano eruption affect the collection from PAYE and profit of Small & Large businesses.
- 6) Taxes on goods and services is anticipated to remain on target, in line with increased remittances (both cash and in-kind), coupled with robust consumption and imports (in nominal terms), to maintain performance on collection from tax activities.
- 7) Collection from **non-tax activities** (excluding capital & other transfers and budget support) is projected to be \$11.7 million less than the annual target due to expected decline in in collection from fees & charges and dividends receipt.
- 8) The Government had originally planned to finance this year's budget deficit from \$30.0 million concessional loan from IMF. However, this option will only be needed at this point unless otherwise if there are no forthcoming grants. Additional budget support from MFAT (\$12.1 million) and DFAT (\$8.6 million) also contribute to finance Government's COVID-19 Response effort including the repatriation costs, Economic and Social Recovery (ESR), Census, planned outer island ports development, and the Budget Deficit.
- 9) Budget support from World Bank (\$25.4 (or USD11.0) million²⁷), ADB (\$11.5 (or USD5.0) million) and DFAT (\$5.8 million) have been received. However, the remaining budget support from MFAT of about \$3.2 million is anticipated to be received by the end of the fiscal year. Budget support from EU is not expected to receive as previously projected.

Payments Performance

- 10) **Wage bill** expense is projected to be \$15.6 million less than the original estimate. This is due to the expected Overtime Policy applications and delays in recruitment.
- 11) **Operation** costs is expected to be under-spent at the end of the year by around \$18.6 million, about \$22.9 million less than provisional actuals of last financial year. This was mainly contributed by the purchase of goods and services including COVID-19 related expenses and grants and transfers to vulnerable groups.
- 12) **Debt services** payment is anticipated to be lower than budgeted mainly due to deferral of \$7.4 million under the Bilateral Donors - Debt Service Suspension Initiative (DSSI) initiated by World Bank Group, IMF, and the G20 countries as part of the COVID-19 pandemic policy responses.
- 13) The anticipated **overall balance** for FY 2022 is a \$19.8 million deficit. This is financed from frontloading of the World Bank's remaining budget support on IDA-19 equivalent to TOP\$13.2 million. Remaining balance of \$6.6 million is to be financed from the Government's cash reserves.

²⁷ Including frontloading of remaining budget support on IDA-19 (USD\$6.0m equivalent to TOP\$13.2m). This was not budgeted for in the current appropriation

Recurrent Expenditure by Ministry FY 2023

A-Table 11: Total Recurrent Payments Budget by Ministry (\$m)

MDAs	Actual 2020/21 (p)	Approved Budget 2021/22	Outturn 2021/22	Budget 2022/23	Budget 2023/24	Budget 2024/25
Palace Office	3.1	3.7	3.4	3.8	3.8	3.8
Legislative Assembly	13.0	14.6	15.2	14.6	15.1	15.1
Tonga Office of the Auditor General	1.5	2.0	1.6	2.2	2.2	2.2
Office of the Ombudsman	1.8	2.2	1.5	1.6	1.6	1.6
Ministry of Foreign Affairs	11.5	14.3	11.5	14.6	14.6	14.6
His Majesty's Armed Forces	10.5	11.2	10.3	12.0	11.6	11.6
Prime Minister's Office	4.2	8.8	7.1	11.0	10.5	10.5
Ministry of Finance	81.0	103.7	69.4	144.7	125.7	112.9
Ministry of Revenue & Customs	8.2	10.6	8.5	11.0	10.5	10.5
Ministry of Public Enterprises	1.2	1.6	1.1	1.6	1.6	1.6
Ministry of Trade and Economic Development	6.2	7.0	6.2	7.1	7.1	7.1
Ministry of Justice and Prison	11.1	12.6	10.8	12.8	12.0	12.0
Attorney General's Office	3.0	3.4	2.9	3.5	3.5	3.5
Ministry of Police & Fire Services	14.0	15.3	14.4	12.5	12.5	12.5
Ministry of Health	47.6	44.0	51.2	51.4	55.0	55.9
Ministry of Education & Training	56.5	56.3	56.0	60.3	56.3	56.3
Ministry of Internal Affairs	7.7	4.9	4.4	4.9	5.1	5.1
Ministry of Agriculture, Food & Forests	9.5	10.2	7.9	10.2	10.3	10.3
Ministry of Infrastructure	23.5	15.5	14.6	20.6	28.0	28.0
Ministry of Lands & Natural Resources	4.8	6.2	5.2	6.2	6.2	6.2
Public Service Commission	1.8	2.1	1.7	2.1	2.1	2.1
Statistics Department	2.9	4.9	3.3	3.5	3.5	3.5
Ministry of Meteorology, Energy, Information, Disaster M	7.7	8.7	6.9	8.4	8.4	8.4
Ministry of Fisheries	4.1	4.9	3.7	5.2	5.1	5.1
Ministry of Tourism	7.0	7.5	4.9	7.5	7.5	7.5
Fire Services	-	-	-	3.6	3.8	3.8
Grand Total	343.6	376.2	323.7	437.0	423.7	411.6

Source: MOF

- 1) The baseline budget for FY 2022/2023 was distributed with the assumption to maintain FY 2022 baseline budget with adjustments in the medium-term to reflect inflationary impact on goods and services, changes in debt repayments, supporting Government's effort in boosting investment and improve trade opportunities through the economic sectors - agriculture, fisheries, tourism, and manufacturing, scaling up maintenance of infrastructure to be more resilient, funding special projects such as the National University, COVID-19 upgrade to new norm, law and order, youth and sports. Due to under-utilizing of Salaries Category (CAT 10) in the past five years, idle resultant vacancies were pooled (around \$2.2 million) and re-allocated to strengthen MDAs' operation.
- 2) MDAs highlighted in red indicate their proposed budget for next year is less than the baseline budget because some of their recurrent payments are paid out from DFAT development funds. These payments are related to COVID-19 and major infrastructure projects. This strategy helps to maintain the deficit budget next year at an affordable level.
- 3) Moreover, adjustments were also made to reflect new initiatives and priorities from MDAs budget and Corporate Plan submissions which can generate additional revenue or accelerate access to affordable and quality service delivery to ensure intended outcomes in TSDf II and GPA are achieved. These initiatives are listed above in Section 6.1 and in A-Table-11 by Ministry (26 MDAs).
- 4) The variance on the recurrent budget for FY 2022 and FY 2023 is \$60.9 million with MOF accounts for 67.4 percent, and 8.4 percent of the total recurrent expenditure budget respectively. The remaining were allocated to the rest of the MDAs.

ANNEX VI: TROPICAL CYCLONE GITA and TROPICAL CYCLONE HAROLD

Tropical Cyclone Gita

A total of 311 cyclone houses were built under this recovery program and 31 evacuation centers across Tonga. The project is expected to close towards the end of this year.

Tropical Cyclone Harold

A total of approximately \$11.5 million was spent on the reconstruction of residential houses that were destroyed by TC Harold in April 2020. A total of 75 houses were built of which 21 houses in 'Eua and 54 in Tongatapu. In addition, support was also extended to the fisheries and tourism sectors to assist in rebuilding facilities damaged by the cyclone.

ANNEX VII: GOVERNMENT STIMULUS PACKAGE FOR COVID-19 IMPLEMENTATION REPORT

a) Funding sources

The total allocation for the Government Economic and Social Stimulus Package was \$60 million of which \$9.7 million was from the recurrent budget; \$3.8 million from the National Emergency Fund; \$11.6 million as cash from the Development Fund; and \$34.9 million from the budget support pooled cash. The details of the funding sources for the total package (\$60 million) are illustrated in the table below:

A-Table 12: Government Stimulus Package due to the COVID-19 impacts

Total Package: TOP60million				
Funding Source:				
	Source	FY	\$ in million	
			Budget	Reallocated Budget
1	Recurrent Budget		9.7	
	<i>Education Cluster</i>	2019-20	2.8	
	<i>Emergency Telecommunication</i>	2019-20	0.2	
	<i>Food Security and Livelihood</i>	2019-20	1.0	
	<i>HN Wash Cluster</i>	2020-21	5.0	
	<i>Safety and Protection</i>	2019-20	0.7	
2	National Emergency Fund		3.8	
3	Development Funds (Cash)		11.6	
	MOH		11.4	
	MIA		0.2	
4	Budget Support (Pooled Cash)		34.9	34.9
	<i>Economic and Social Recovery</i>		22.4	15.76
	<i>Education Cluster</i>		1.0	1.25
	<i>Essential Services Cluster</i>		1.0	1.00
	<i>Food Security and Livelihood</i>		2.1	2.08
	<i>HN Wash Cluster</i>		2.3	3.73
	<i>Logistic & Coordination Cluster</i>		1.6	1.57
	<i>Safety and Protection Cluster</i>		0.5	0.50
	<i>Shelter Cluster</i>		4.0	8.96
	TOTAL		60.00	

Source: MOF

b) Implementation details with major expenses

The implementation of the Government's Stimulus Package was rollout in three phases as per key responsibilities of respective clusters, as per the following details.

Phase 1: \$15.5 million (FY 2020); major expenses were:

- Business and Employee Support (\$4.8 million)
- Health Preparedness activities, PPE gears (\$5.3 million)
- Education Assistance programs (\$3.3 million)
- Vulnerable groups, community activities (\$1.1 million)
- Essential Services, agriculture & fishery sector (\$1.1 million)

Phase 2: \$32.0 million (FY 2021)

- Health Preparedness & PPE, medical supplies (\$17.2 million)
- Business and Employee Support (\$3.9 million)

- Repatriation and quarantine facility (\$6.7 million)
- Border Control related activities; sea transportation (\$0.9 million)
- Assistance to women in hardship, microfinance, seafarers, and seasonal workers (\$2.3 million)
- Agriculture and Fisheries sector (\$0.9 million)
- Logistics cluster (\$0.2 million)

Phase 3: \$12.5 million (FY 2022) – remaining funds of \$12.5 million after Phase 1 & 2, which were re-allocated to the most essential needs, including the following:

- Business and Employee Support (\$3.4 million)
- Repatriation (\$4 million)
- Preparedness & Protection, quarantine facility (\$3.9 million)
- Logistics cluster (\$1.0 million)
- Student allowances (\$0.2 million)

The remaining Balance from the Stimulus Package (\$60 million) as of December 2021: **\$2.48 million**, which will be fully utilised by end of the FY 2022.

Additional Funds received from DFAT:

- AUD 5 million grant (TOP 8.3 million) tagged to Business Recovery Support Program
- AUD 2 million grant (TOP 3.4 million) tagged to vulnerable groups
- Balance amounts as of December 2021: **\$5 million** (Business Support program); and **\$2.02 million** (vulnerable groups).

c) Total Disbursement by Cluster

As at December 2021, it is estimated that eighty-five percent of the Total Cost of the Package (\$60 million) has already been disbursed (\$50.82 million) plus commitment (\$1.17 million), as reflected in the table below. That leaves us with a remaining balance of **\$2.48 million**, fully committed towards repatriation costs and quarantine facility-related expenses.

A-Table 13: Cluster Allocation, Disbursement and Balance as of December 2021

		Amount Allocated (\$m)	Revised Allocated(\$m)	Actual Spent (\$m)	Commitment	Balance
1	Economic and Social Recovery	22.40	15.76	14.53	1.04	0.19
2	Education Cluster	3.80	4.10	3.45	-	0.07
3	Essential Services Cluster	1.00	1.00	1.00	-	-
4	Emergency Telecommunication	0.20	0.20	0.20	-	-
5	Food Security and Livelihood	3.08	3.08	1.80	0.13	-
6	HN Wash Cluster	22.52	23.95	19.46	-	1.33
7	Logistic & Coordination Cluster	1.57	1.57	0.32	-	0.89
8	Safety and Protection Cluster	1.43	1.43	1.12	-	-
9	Shelter Cluster	4.00	8.96	8.94	-	-
	Total	60.00	60.00	50.82	1.17	2.48

Source: MOF

REPORT on DFAT Grant (AUD2million ≈ TOP\$3.4million), tagged to vulnerable groups

a) Grant Allocation

The total grant received of AUD 2 million, equivalent to **TOP \$3.4 million** was budgeted for:

1. ONE-OFF grant support of \$100 each towards Elderly beneficiaries (4,509 elderlies), totalled **\$45k**
2. ONE-OFF grant support of \$100 each towards Disability beneficiaries (1,865 beneficiaries), totalled **\$18k**
3. Government support of **\$1.6 million** towards poor households, according to the cost estimation to carry out the verification process of poor households (as per the 2016 Census record), by the technical committee as shown in the table below:

A-Table 14: DFAT Grant Allocation towards poor household as of December 2021

Poverty score	Number of households	without children AND less than 6 hh size	families with children OR more than 6 hh size	families with children AND more than 6 hh size
5.5 > 8.5	1840	300	350	400
8.5 > 11.5	450	350	400	450
11.5 > 20	250	400	450	500
20 > more	50	450	500	550
		\$	\$	\$
5.5 > 8.5	1840	552,000.00	644,000.00	736,000.00
8.5 > 11.5	450	157,500.00	180,000.00	202,500.00
11.5 > 20	250	100,000.00	112,500.00	125,000.00
20 > more	50	22,500.00	25,000.00	27,500.00
Total cost		832,000.00	961,500.00	1,091,000.00
Verification cost				150,000.00
Other operation cost				50,000.00
Reserve				409,000.00
Total estimate				1,700,000.00

Source: MOF

Note: The total budget allocation of \$1.6 million is based on an extreme scenario (last column of table above)

- An allocation of **\$0.77 million**, to cater to the extension of Social Caretakers Services, to 'Eua and Ha'apai (\$0.67 million) and \$0.1 million to provide financial support towards Ma'a Fafine Building; and
- \$0.4 million** to support Community Policing as per request from the Logistic Cluster.

b) Disbursement

As of December 2021, the actual disbursement to date totalled **\$0.95 million**. A breakdown of costs is provided below:

- A total of \$67k for the ONE-OFF grant for both Elderlies & Disabilities, including:
 - \$100 each for 4,563 elderly beneficiaries, total to \$0.46k; and
 - \$100 each for 2,076 disability beneficiaries, total to \$0.21k

A-Table 15: Phase 1 - DFAT Grant Allocation towards poor households as of December 2021

Poverty score	Number of households	(Families less than 6)	(Families 6+)
3 > 5.5	302	183	119
5.5 > 8.5	127	69	58
8.5 > 11.5	47	21	26
11.5 above	60	26	34
Total	536	299	237
		\$	\$
3 > 5.5		300	350
5.5 > 8.5		400	450
8.5 > 11.5		500	550
11.5 above		600	650
3 > 5.5		54,900	41,650
5.5 > 8.5		27,600	26,100
8.5 > 11.5		10,500	14,300
11.5 above		15,600	22,100
Total		108,600	104,150
Total Estimated Cost			212,750

Source: MOF

- Phase 1 of support towards poor households: 536 beneficiaries, total cost of \$213k, as per the scenario below:
(**Note:** Balance of \$1.3 million is committed to the next Phase of assistance towards poor households)
- Payment to Ma'a Fafine mo e Famili, totalled \$0.071 million, of which:
 - \$50,900 towards the cost of Aged Care Program Services at 'Eua

- ii) \$20,000 (Phase 1), provided as grant support to Ma'a Fafine mo e Famili building construction; (remaining funds of \$0.08k for Phase 2, are yet to be disbursed).

c) Remaining Balance

The remaining funds (balance) to date of **\$2.02 million** as at the first week of December 2021, out of the total allocation of \$3.4 million.

The balance amount will be fully utilised by end of the FY 2022.

ACRONYMS

ADB	Asian Development Bank	FED	Foreign Exchange Dealers
AGO	Attorney General's Office	FIU	Financial Intelligence Unit
AIFFP	Australia Infrastructure Financing Facility Program	FSL	Food Security and Livelihood
AIP	Aid Investment Plan	FY	Financial Year (July – June)
AML/CFT	Anti-Money Laundering/Counter Financing Terrorist	GAP	Good Agricultural Practices
APG	Asia Pacific Group on Money Laundering	GCF	Green Climate Fund
BBB	Build Back Better	GDL	Government Development Loan
BHN	Basic Human Needs	GDP	Gross Domestic Product
BSP	Bank South Pacific	GFS	Government Finance Statistics
Cat DDO	Catastrophe Deferred Drawdown	GGF	Government General Fund
CBD	Central Business Unit	GGP	Grassroots Grant Project
CCT	Conditional Cash Transfer	GLRF	Gita Loan Recovery Fund
CCTF	Climate Change Trust Fund	GPA	Government Priority Agenda 2018-2021
CDs	Communicable Diseases	GPE	Global Partnership of Education
CEO	Chief Executive Officer	GoT	Government of Tonga
		GRADE	Global Rapid Post-Disaster Damage Estimation
CERC	Contingent Emergency Response Component	HMAF	His Majesty's Armed Forces
CNY	Chinese Yuan	IDA	World Bank International Development Association
COVID-19	Novel Coronavirus Disease 2019	IFAD	International Fund for Agriculture Development
CSOs	Civil Society Organisations.	IFMIS	Integrated Financial Management Information System
CSU	Central Service Unit	IMF	International Monetary Fund
CT	Consumption Taxes	JNAP	Joint National Action Plan on climate change adaption and disaster risk management
CTCN	Climate Technology Centre and Network	JPRM	Joint Policy Reform Matrix
DAC	Development Assistance Committee	KPIs	Key Performance Indicators
DFAT	Government of Australia	KYC	Know Your Customer
DFS	Digital Financial Services	LA	Legislative Assembly
DPP	Director of Public Prosecution	LTA	Land Transport Authority
DOD	Disbursed Outstanding Debt	MAFF	Ministry of Agriculture, Food and Forestry
DRR	Disaster Risk Reduction	MDAs	Ministries, Departments and Agencies
DSA	Debt Sustainability Assessment		
DSSI	Debt Service Suspensive Initiative	MET	Ministry of Education and Training
EAP	East Asia and Pacific	MLW	Micro-loans for Women
ECE	Early Childhood Education	MOF	Ministry of Finance
EDF	European Development Fund	MOH	Ministry of Health
EDPO	European Development Policy Operation	MOI	Ministry of Infrastructure
EE	Energy Efficiency	MOJP	Ministry of Justice and Prison
ESA	Exchange Settlement Account	MOPF	Ministry of Police and Fire Services
ESCAP	Economic and Social Commission for Asia and the Pacific	MORC	Ministry of Revenue and Customs
ESSP	Economic and Social Stimulus Package	MOT	Ministry of Tourism

EU	European Union	MPE	Ministry of Public Enterprises
EXIM	Export-Import Bank of China	MSME	Micro Small and Medium Enterprises
FAO	Food and Agriculture Organization	MPS	Monetary Policy Statement
FATF	Financial Action Taskforce	MTEd	Ministry of Trade and Economic Development
FEC	Foreign Exchange Control	NAO	National Authority Office
HTHH	Hunga Tonga Hunga Ha'apai		
NAP	National Action Plan	ROE	Return of Equity
NAPID	National Action Plan on Illicit Drugs		
NBFIs	Non-Bank Financial Institutions	RSE	Recognized Seasonal Employment
NCDs	Non-Communicable Diseases	S.A.M.O.A	SIDS Accelerated Modalities of Action
NEER	Nominal Effective Exchange Rate	SDG	Sustainable Development Goals
NEMO	National Emergency Management Office	SDR	Special Drawing Rights
NEWS	Nation Wide Early Warning System	SET	Skills and Employment and Training
NGOs	Non-Government Organizations	SMA	Special Management Areas
NIIP	National Infrastructure Investment Plan	SNA	System of National Accounts
		SPA	Specific Priority Areas
NNUP	Nuku'alofa Network Upgrade Project	SPAM	Strengthening Protected Area Management
NPGA	Non-Project Grant Aid	SPBD	South Pacific Business Development
NPL	Non-performing Loans	SWSE	Social Welfare Scheme for the Elderly
NPV	Net Present Value	TAL	Tonga Airport Limited
NRBT	National Reserve Bank of Tonga	TBS	Tonga Bureau of Statistics
NSCC	National Security Committee of Cabinet	TC	Tropical Cyclone
NSP	National Security Policy	TCC	Tonga Communication Corporation
ODA	Overseas Development Assistance	TC Gita	Tropical Cyclone Gita
OECD	Organization for Economic Cooperation and Development	TCIRP	Tropical Cyclone Ian Recovery Projects
OET	Overseas Exchange Transaction	TCRTP	Tonga Climate Resilient Transport Project Tropical
OIREP	Outer Island Renewable Energy Projects	TDB	Tonga Development Bank
OISES	Outer Islands Solar Electrification Society	TESA	Tonga Education Support Activity
OPSC	Office of Public Service Commission	TF	Terrorist Financing
PACER	Public Access to Court Electronic Records	TFPP	Tonga Fish Pathway Project
PAMD	Projects and Aid Management Division of the Ministry of Finance	THPF	Tonga Health Promotion Foundation
PAT	Port Authority Limited	THSSP	Tonga Health Sector Support Program
PAYE	Pay As You Earn	TIOE	Tonga Institute of Education
PCRAFI	Pacific Catastrophe Risk Assessment and Financing Initiative	TJSSP	Tonga Justice Sector Support Program
PEs	Public Enterprises	TNIDP	Tonga Nationals Illicit Drugs Policy
PEFA	Public Expenditure and Financial Accountability	TNPS	Tonga National Payment System
PIC	Pacific Island Countries	TPD	Total Public Debt
PIRI	Pacific Islands Regional Initiatives	TPDF	Transport Project Development Facility
PFM	Public Financial Management	TPL	Tonga Power Limited
PMO	Prime Minister's Office	TREP	Tonga Renewable Energy Project
PMU	Project Management Unit	TRIP	Tonga Rural Innovation Project

PMS	Performance Management System	TSDF II	Tonga Strategic Development Framework II
POS	Point of Sale	TTA	Tonga Tourism Association
PPE	Personal Protective Equipment	UN	United Nations
PPP	Public-Private Partnership		
PRC	People Republic of China	UNEP	United Nations Environmental Programme
PREP	Pacific Resilience Program	UNFPA	United Nations Fund for Population Activities
PSC	Public Service Commission	UNICEF	United Nations Children Education Fund
RCF	Rapid Credit Facility	USP	University of the South Pacific
RDFD	Resilience Development and Financing Division	WASH	Water Sanitation Hygiene
REER	Real Effective Exchange Rate	WB	The World Bank
RIE	Regional Implementing Entities	WBG	World Bank Group
RMF	Road Maintenance Fund	WCCC	Women and Children Crisis Centre
ROA	Return of Asset	WHO	World Health Organization