

**Kingdom of Tonga**



**BUDGET STRATEGY  
and  
Funding Envelope FY 2025  
Government of Tonga**

**Ministry of Finance**  
November 2023

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## 1. Introduction

The Budget Strategy for fiscal year 2025 marks the third strategic phase of the current administration, outlining fundamental funding estimates and framework to guide the development of ministries corporate plans and the Budget Estimates for the period from July 1, 2024, to June 30, 2025. This strategic document also provides indicative budget estimates and insights for the subsequent fiscal years, namely FY2026 and FY2027. In addition to financial projections, the Budget Strategy encompasses the government's priority areas, fiscal policies, considers the current economic situations, and the development activities progress in fiscal year 2024.

## 2. Strategic Focus

In the Budget Strategy for FY 2025, the government remains committed to the continued operations of all nine (9) priority agendas (GPAs) under the three thematic areas of: **National Resilience, Quality of Services and Affordability and Progressive Economic Growth**. The nine (9) GPAs were derived as a sub-set of the long-term development strategy for Tonga (TSDFI), continues to focus the Government plans and budgeting on these key priority areas. These inter-connected elements form a cohesive fiscal strategy that promotes responsible fiscal management and sustains long-term economic stability.

### 2.1 Fiscal Objectives and Strategic Priorities with Integration of GPAs:

- **Economic Resilience** remains our central focus, aligned with GPA 1 (Resilience and Climate Change). We are committed towards enhancing economic resilience, safeguarding against unforeseen shocks, and ensuring sustainable growth. This will be achieved by allocating resources to strengthen key sectors, including agriculture, healthcare, tourism, and infrastructure development. These measures will foster resilience and recovery while addressing the challenges posed by climate change and disasters.
- **Social Welfare and Inclusivity** are at the core of our fiscal objectives, which resonate with GPA 2 (Poverty and Social Protection). We prioritize investment in healthcare, education, social service, and support towards the vulnerable groups. These include the ongoing support towards elderlies, less dis-advantage groups, aged care services, women, poor households, returnees, development of the subsistence economy, and lifelong learning opportunities. Our aim is to promote a more equitable society while enhancing the well-being of our people.
- **Investments in Combating illicit drugs:** An ongoing focus on social welfare continues to be aligned with GPA 3 (illicit drugs). By mobilizing national and international efforts to reduce the supply and use of illicit drugs and implementing harm reduction processes, we aim to safeguard the well-being of our citizens,

combat social issues related to drug use, and reinforce the overall stability of our nation.

- **Education for all:** Our budget strategy for GPA 4 (enhancing education for all) is dedicated towards enhancing education for all, with a continuous focus on quality education, improve infrastructure, promoting early childhood education, tertiary educational opportunities, and vocational training to provide employment opportunities. The budget strategy will continue to offer critical support towards vulnerable children and foster a learning environment that prepares our youth for local and overseas opportunities. By investing in education, we are investing in a brighter future for our nation.
- **Quality and Affordable Healthcare** continues to be a foundation to our strategic priorities for the budget of FY 2025. By investing in healthcare infrastructure and preventative measures, we ensure that our citizens have access to quality healthcare services, which is integral to their well-being and supports our broader fiscal objectives and GPA 5 (accessible healthcare for all).
- **Debt Management** is intrinsically linked to our strategy and GPA 6 (Access to Government Services). We are dedicated towards managing our debt profile prudently to ensure that our debt levels remain manageable. This reasonable debt management policy allows us to continue meeting our obligations while investing in vital services, such as renewable energy, digital transformation, and accessible water supply.
- **Environmental Sustainability** is closely connected to GPA 7 (Trade Creation). We recognize the significance of integrating green initiatives into our fiscal strategy. By adopting environmentally responsible policies, we are taking substantial steps towards a more sustainable and eco-friendly future. These initiatives include the development of aquaculture, new fisheries, and circular economy practices that promote sustainable resource use.
- **Infrastructure Development** is paramount in our strategy, aligning with GPA 8 (Quality Public Infrastructure). We strategically invest in critical infrastructure projects that not only support educational initiatives but also contribute to disaster resilience. Our investments in transport infrastructure, health infrastructure, and improvements in public infrastructure are essential for fostering a prosperous and sustainable future. Furthermore, the budget strategy will also focus more on Public Private Partnerships, to improve sustainability in economic development with the blessings of all stakeholders.

As we chart the course for FY 2025, the Government of Tonga remains committed to fiscal responsibility, sound financial management, and the pursuit of long-term economic

stability. We are dedicated to addressing the unique challenges of our nation while building a sustainable and prosperous future for all Tongans, and our alignment with the Government Priority Areas (GPAs) underscores our commitment to fulfilling these strategic objectives and priorities.

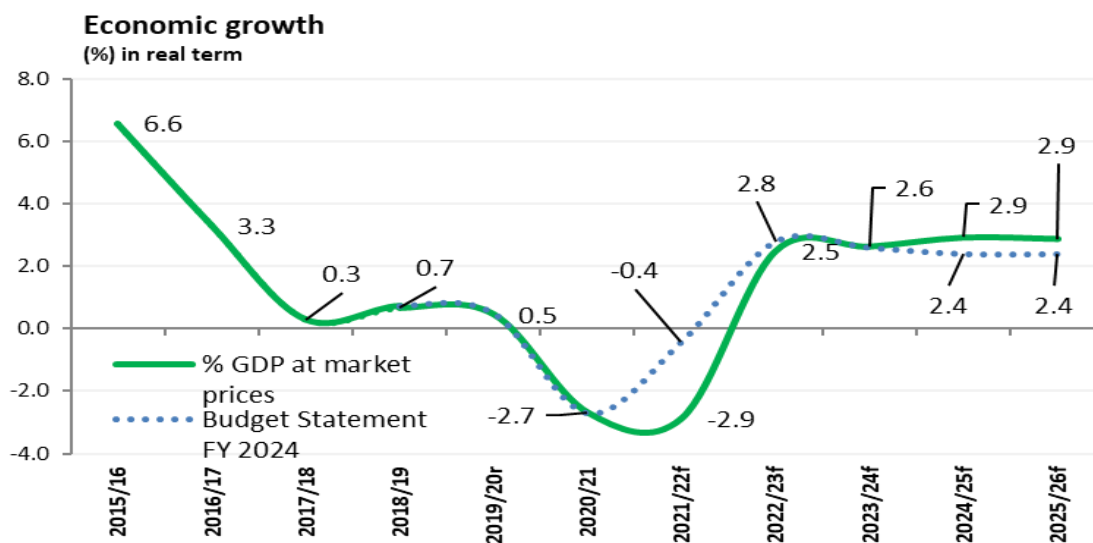
### 3. Economic and Fiscal Performance

#### 3.1 Economic Performance

The economic outlook for Tonga appears promising, with a projected growth rate of 2.6 percent in FY 2024. The positive forecast is underpinned by a combination of factors, including sustained government initiatives, increased foreign investment, and the ongoing recovery from the pandemic and natural disasters.

The construction sector continues to be the key driver of growth, coupled with the improved performance in key sectors, including tourism, agriculture, and fisheries. As depicted on Figure 1 below, economic growth is projected to be 2.9 percent and 2.9 percent respectively in the outer years of FY 2025 and FY 2026, considering the implementation of major development projects that is anticipated to occur during these years, alongside the continuous efforts to restore and improve growth in key economic sectors.

**Figure 1: Tonga GDP Growth Projection**



Source: MOF/NRBT Growth Forecast, September Forecast

For the *primary sector*, which encompasses agriculture and fisheries, an overall recovery growth rate of 0.1 percent is projected in FY 2024. The slight improvement is due to the expected increase in productivity of critical crops like butternut squash, root vegetables, and bananas. On the other hand, the sector is set to be negatively affected, if the “el nino” weather conditions are prolonged leading to severe droughts. Furthermore, the revitalization of the commercial fishing industry is expected, due to a forecasted increase in the volume of fish exports, mainly tuna by 140.0 percent, compared to the previous financial year. The sector's resurgence has been facilitated by the ongoing government support such as the dedicated Public Private Partnership (PPP) allocation, aiming to support growth initiatives. Additionally, an ongoing focus on imports substitutions, diversification, and the promotion of exports are key focus areas for the development of the primary sector. The outlook for the medium term is positive, with an expected sector growth of 0.4 percent, contingent on favourable weather conditions and the absence of severe natural disasters. The primary sector is projected to contribute around **17.9 percent to the GDP**.

The *industrial sector* is also showing signs of recovery with a projected growth rate of 2.5 percent in FY 2024, as it continues to rebound from the dual shocks of the pandemic and the HTHH eruption. Particularly, the construction sub-sector continues to be the major driver of this growth, propelled by government-led reconstruction efforts following the HTHH event and critical climate change-related projects. In FY 2025, the sector is expected to grow by 2.5 percent, due to the several large projects, expected to commence at the start of the fiscal year, including the new parliament complex, Fanga'uta bridge and private sector initiatives. In the medium term, an average growth rate of 2.1 percent is anticipated. The industrial sector is projected to contribute around **14.1 percent to the GDP**.

Tonga's *services sector* is projecting a growth of 4.4 percent in FY 2024 compared to 3.6 percent in FY 2023. The increase in sector growth is attributed partly to the recovery of tourism activities since the re-opening of borders in August 2022. There has been a significant increase in the number of tourist arrivals (51,166 tourists recorded in FY 2023 in compared to 646 tourists in FY 2022 when the borders were closed). The increase was due to the arrival of many cruise ships, resumption of airline services, project missions and meetings as well as incoming tourists for the whale-watching season from July to November 2023. Additionally, other sub-sectors such as government service (10 percent), wholesale and retail (8.7 percent), ownership of dwelling (7.5 percent) are the main contributors to growth under the services sector.

Health and Education are the major social services and historically allocated the largest percentage of Government Budget. In FY 2024 Budget, part of Government new initiatives was the commencement of children's breakfast initiative for primary school

students, and the establishment of the Tonga National University had all contributed to the economic activities/services in the sector. As for the health sub-sector, the planned investment towards improving health infrastructure, facilities, and clinics, including the ongoing priority to improve healthcare services to all Tongans are a key development focus. In the medium term, the sector is anticipated to grow at an average growth rate of 4.6 percent. The services sector remains the largest contributor to the GDP, constituting **51.0 percent of GDP**.

Tonga's medium-to-long-term growth prospects remain stable. These forecasts are made with due consideration of Tonga's unique challenges, such as susceptibility to natural disasters, emigration of workers, and geographical dispersed and isolation.

### 3.2 Monetary Performance

Headline inflation in 2023, after peaking at 14.0 percent in September 2022, has progressively decreased to 3.1 percent in September 2023, below the 5 percent reference rate, yet the risk of resurgence remains high. Elevated core inflation at 6.7 percent, coupled with potential increases in food and energy prices, poses a risk of exceeding the reference rate. Global factors, including geopolitical tensions, adverse weather conditions, and labor shortages, emphasize the need for sustained collaboration between the Reserve Bank and the Government to implement effective policies that can aid in addressing the root causes of inflation.

Tonga's official foreign reserves of \$886.1 million in September 2023, equivalent to 11.4 months of imports, exceed the IMF's prescribed level of 7.5 months. Although \$9.1 million lower than September 2022, this decline is mainly attributed to the commencement of government principal loan repayments to EXIM Bank and increased import expenditures. Despite an anticipated higher trade deficit and external loan repayments, foreign reserves are projected to remain comfortably above the prescribed levels in the near term.

The banking system remains sound supported by *strong capital position and high liquidity*. Broad Money expanded over the year to August 2023 by 1.3 percent owing mostly to higher net foreign assets. With excess liquidity at over \$330 million and the level of foreign reserves at over 11 months of imports, these provide space to continue to support monetary policy and promoting targeted measures for the economic recovery efforts.

*Total lending*, excluding the Government Development Loan (GDL) scheme, rose by \$33.7 million (7.2 percent) by August 2023, indicating increased confidence in the economy. The boost came from higher lending to businesses and households, particularly in distribution, manufacturing, transport, construction, tourism, and personal loans. However, data reveals a need for improved financial access in the vulnerable sectors, MSMEs, and poorer households not well served by commercial banks. While GDL lending increased by \$3.2 million, there were still unused funds due to stringent criteria and sectorial distribution limits, despite concessional interest rates.



*Total deposits* rose over the year by \$51.3 million (6.0 percent) to \$910.3 million corresponding to the movements in both demand and time deposits. Over year, demand deposits from private businesses and Government remained high, as well as the time deposits made by the Retirement Funds. Loans to deposit ratio increased in August 2023 to 55.6 percent compared to 54.7 percent in the previous year. Weighted average interest rate spread narrowed over the year by 7.5 basis points to 6.0 percent.

## Risks

As the Tongan economy experiences recovery, persistent disruptions in global supply chains pose a challenge to domestic growth. While inflation has eased below the central bank's 5 percent reference rate, concerns linger due to expected increases in global oil and commodity prices. The current El Niño phenomenon may also trigger a supply shock, leading to a potential rebound in local food prices. Labor outflows from overseas mobility schemes could further weaken domestic production and later driven local service price higher. The financial sector faces elevated non-performing loans, likely to worsen due to the lagged impacts of recent crises. Tonga's vulnerability to natural disasters necessitates efforts to enhance resilience. Access to finance for sustainable development is deemed crucial, not only for economic growth and entrepreneurship but also for equitable distribution of development benefits. A transparent and efficient financial sector is seen as key to attracting foreign investments and ensuring economic stability.

## 3.3 Fiscal Performance

### 3.3.1 Fiscal Policy Framework

With the aims to provide ongoing support towards meeting the Government priority agenda, Government's fiscal objectives, in line with the three (3) Public Finance Management (PFM) objectives:

- i. **Aggregate fiscal discipline** (i.e maintain a sustainable balance between revenues, expenditures, and the level of public debt).
- ii. **Allocative efficiency** (i.e allocating and spending resources in such a way to obtain maximise the attainment of government objectives and as set out in the TSDF 2).
- iii. **Operational efficiency** (i.e use resources efficiently and effectively in the implementation of strategic priorities in the MDAs Corporate Plan).

The following provides a review of the fiscal framework targets, developed in FY 2024. These fiscal targets remain relevant to continue in FY 2025.

**Table 1: FY 2025 Fiscal Framework Targets**

<b>Fiscal Policies</b>	<b>Short-term</b>	<b>Long-term</b>	<b>Update (October 2023)</b>
<b>Growth</b>	Tonga's economy had experienced a 0.4 percent averaged growth rate in past five years 2017–2021. Growth is forecast to 2.5 percent in 2023 and to grow at an average of 2.8 percent in 2024-2026, given the government's efforts to increase economic recovery following the dual shocks of the pandemic and the HTHH disaster.	Growth long-term target of 3.0 to 4.0 percent growth per annum consistent with macroeconomic stability.	The latest forecast projected a growth of 2.6 in 2023, 2.9 percent in 2024 and 2.9 percent in 2025. The growth is led by the recovery reconstruction, signs of improvements in economic activities in key sectors.
<b>Debt</b>	In line with Government Debt Strategy 2021-2025, aiming to reduce debt distress: (i) no new external borrowing, except for high concessional if need to borrow; (ii) reduce current external debt by loan repayment/commitment; (iii) external borrowing will be as last resort.	The objective is to manage debt risks to Government. Government can only borrow as last resort in terms of financing option.	Continue to execute no external borrowing policy except for high concessional debt. Loan repayment of the EXIM loan
<b>Operating balance</b>	The Government will use fiscal policy to increase productivity and affordability of key public services through continuous implementation of the PFM reforms (organisational review), focus on addressing negative impacts due to inflation, climate change and on vulnerable groups.	The Government will (i) improve fiscal discipline through targeted spending on key priority areas (ii) intend to achieve an annual average of 1-2 percent of GDP budget surplus.	Budget deficit of \$16 million in September 2023, was due to the starting of loan repayment.
<b>Revenue</b>	Target is to Improve revenue collection through: (i) continuous implementation of revenue reforms; (ii) strengthen compliance and administration, and (iii) review tax exemption.	Target is to improve collection to and above the threshold, 25 percent of GDP. This is to support Government objectives towards economic recovery and national resilience. Over the medium term, target is to implement an exit strategy from budget support.	Revenue collection is forecast to remain on track, due to the ongoing implementation of revenue reforms, coupled with the strengthening of revenue administration and compliance.
<b>Expenses</b>	transparency; and ensuring alignment to the	Target is to meet PFM objectives in terms of allocative and operational	-introduced more prudent controls on budget transfers

Fiscal Policies	Short-term	Long-term	Update (October 2023)
	macroeconomic and fiscal framework.	efficiency towards achieving national development objectives.	-implemented more performance-based budgeting during budget formulation and consultations -issuance of budget timetable online to allow more public participatory in budgeting
<b>Inflation</b>	Government will continue to provide support and implement relevant measures (subsidies, renewable energy projects) to address impact of inflation, till a time the inflation decreases to the 5 percent threshold.	Maintain price stability consistent with the current economic situation and to ensure macroeconomic stability.	Latest CPI: 3.1 percent as in September 2023. The future forecast remains uncertain due to the conflict in the middle East which may have implication on global prices.

Source: Ministry of Finance (MOF)

### 3.3.2 Fiscal Performance Review

In the FY 2023, Tonga has witnessed a dedicated recovery effort in response to the challenges posed by the HTHH, which has significantly impacted the nation's socio-economic landscape, which emerged in the first quarter of 2022. Initially, a fiscal surplus of \$25.3 million was projected for FY 2024. However, through the strengthening of revenue administration and compliance, along with the prudent control of expenditure, the outturn for FY 2024 was revised up to \$48.2 million. The below table shows the summary of the expected Government Fiscal Performance for the medium term.

**Table 2: Government Finance Statistic (GFS) Summary Table**

Table 2: Government Finance Statistics (GFS) Summary Table						
	Actual 2022/23	Budget Estimate 2023/24	Budget Outturn 2023/24	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
<b>Revenue</b>	<b>655.7</b>	<b>741.9</b>	<b>708.0</b>	<b>702.8</b>	<b>723.9</b>	<b>750.4</b>
Tax and Non-tax Revenue	316.1	326.5	343.6	346.0	364.7	383.2
Grants	339.6	415.4	364.4	356.8	359.2	367.2
Current	53.7	50.5	48.0	38.5	38.5	38.5
Capital	285.9	364.9	316.4	318.3	320.7	328.7
<b>Expense</b>	<b>484.1</b>	<b>514.8</b>	<b>489.5</b>	<b>455.9</b>	<b>454.8</b>	<b>454.9</b>
<b>Gross Operating Balance</b>	<b>171.6</b>	<b>227.1</b>	<b>218.6</b>	<b>246.9</b>	<b>269.1</b>	<b>295.5</b>
Net Acquisition Of Nonfinancial Assets	96.3	201.8	170.5	233.6	233.3	238.2
<b>Net Lending/Borrowing Requirement</b>	<b>75.3</b>	<b>25.3</b>	<b>48.2</b>	<b>13.4</b>	<b>35.8</b>	<b>57.2</b>
<b>Net Acquisition Of Financial Assets And Liabilities (Financing)</b>	<b>(75.2)</b>	<b>(25.3)</b>	<b>(48.2)</b>	<b>(13.4)</b>	<b>(35.8)</b>	<b>(57.2)</b>
<b>Financial Assets</b>	<b>(76.2)</b>	<b>19.0</b>	<b>(4.3)</b>	<b>28.1</b>	<b>7.4</b>	<b>(13.7)</b>
Domestic	(76.2)	19.0	(4.3)	28.1	7.4	(13.7)
Currency and deposits	(68.5)	27.0	(4.4)	28.1	7.4	(13.8)
Loans	0.2	0.3	0.3	0.3	0.3	0.3
Shares and other equity	(7.9)	(8.2)	(0.2)	(0.2)	(0.2)	(0.2)
<b>Financial Liabilities</b>	<b>0.9</b>	<b>(44.3)</b>	<b>(43.8)</b>	<b>(41.5)</b>	<b>(43.2)</b>	<b>(43.5)</b>
Domestic	0.3	3.1	3.1	4.3	6.5	6.2
Loans	15.4	15.1	15.1	20.1	20.1	20.1
Repayments	15.1	12.0	12.0	15.8	13.6	13.8
Foreign	0.7	(47.3)	(46.9)	(45.7)	(49.8)	(49.8)
Loans	21.0	-	-	-	-	-
Repayments	20.3	47.3	46.9	45.7	49.8	49.8

**Source: Ministry of Finance (MOF)**

On the *expenditure side*, the government has maintained prudence through targeted spending on key priority areas essential for economic revival. In addition, the government has also continued to monitor and manage fiscal anchors as shown in the below table, to maintain macroeconomic stability.

**Table 3: Fiscal Anchors**

Fiscal Anchors						
	Actual 2022/23	Budget Estimate 2023/24	Budget Outturn 2024/25	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Compensation of Employees to Domestic Revenue (%) <53%	51.8%	53.1%	47%	50%	48%	45%
Domestic revenue GDP (>22% of GDP)	23.6%	22.1%	23.1%	21.2%	21.0%	22.0%
Compensation of Employees (<45% of operating expenditure)	34%	34%	33%	38%	38%	38%

The total wage bill, as a percentage of domestic revenue, has maintained below threshold of 53 percent, attributed to the continuous control of new recruitment and the implementation of overtime policy. Going forward, the government will continue to implement the organizational review, as part of the overall government reform programme to promote efficiency within the public service. On the other hand, the total wage bill as a percentage of operate expenditure remains below the target of 45 percent, due to the prudent expenditure management carried out by the Government.

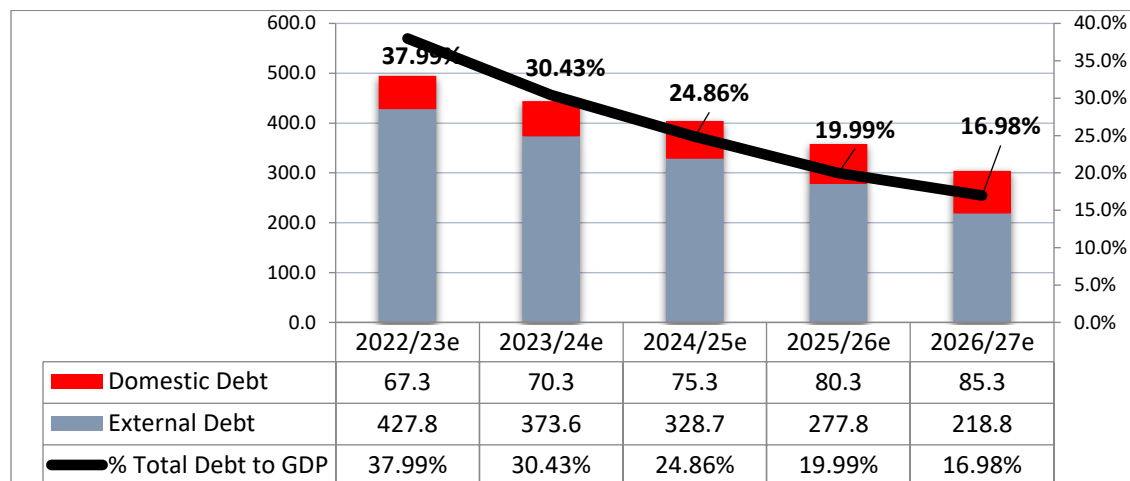
On the *revenue side*, the ongoing reforms and the implementation of relevant measures contribute to the collection of domestic revenue, during a difficult time. The total revenue to GDP is estimated to slightly below the threshold of 23.0 percent. It is however expected to increase given the impact of economic recovery.

Grants remain strong compared to the previous year, due to continued budget support and capital grants from the development partners. Going forward, fiscal policy will continue to focus in completing recovery reconstruction and promote investment to support growth. At the same time, the ongoing rationalisation of spending and the implementation of revenue reform to improve revenue collection.

The fiscal surplus is projected to be 3.2 percent of GDP in FY 2024, increase from the initial estimation of 1.7 percent of GDP. Looking ahead, the fiscal surplus, is expected to increase relative to GDP in the outer years due to the continued recovery across all economic sectors. The government will continue to manage risks, considering the impact of climate change such as the El Nino and the uncertainty in the global environment.

### 3.4 Debt Performance

Figure 2: Tonga’s Percentage of Debt to GDP FY2023 – FY2027



Source: Debt Section, FFD, Ministry of Finance, 2023

Total domestic debt, as of 30 June 2024, is estimated at \$70.3 million consisting of 100 per cent Government bonds on issue. During FY 2024, new bond issuance of \$3 million processed to assist with external debt repayments.

Total debt service projected for FY 2025 is estimated at \$68.3million and will decrease the total level of debt by approximately \$39.9million (2.7 per cent of GDP) by end of FY 2025 and mainly due to principal repayment of loans during the financial year.

The main outstanding currency denomination of the external debt is in CNY, as of 30 June 2024 at \$177.5 accounts for 48 per cent of external debt. However, considering the basket of currency for SDR, the true value that CNY holds is 54 per cent including CNY compositions in the basket of currencies for Special Drawing Rights (SDR).

Total on-lent loans due from various public and other enterprises will be recorded at \$46.9 million<sup>1</sup> (3.2 percent of GDP), and guaranteed loans<sup>2</sup> at \$16.2 million (1.1 percent of GDP) both by 30<sup>th</sup> June 2024. Government has liaised closely with CBD On-lent for a way forward for the On-lent Borrowers to assist with the repayment of the external Nuku’alofa CBD Reconstructions project loan. There are several options raised from the CBD On-lent Borrowers including refinancing of their loans with Commercial Banks, and decision will be finalised soonest. It is recorded that only 32 per cent of the Nuku’alofa CBD Reconstructions project loan utilised to fund 5 damaged buildings and the remaining 68 per cent was utilised for other Government’s project.

### 3.5 Public Finance Management

The Public Sector Reform is advancing steadily towards accomplishing the primary goal of the reform program, which is to achieve overall macroeconomic stability and promote private sector-led growth. This progress reached a new milestone with the establishment of the PFM division within the Ministry of Finance in July 2023. The institutional reforms, including the creation of the PFM Reform Technical Committee with CEOs as members, aim to expedite and enhance the implementation process.

Following a rigorous review process involving public consultations, as well as evaluation by the Sub-Drafting Committee and the Law Committee, the new PFM bill has been officially presented to the Cabinet for consideration. This comprehensive public consultation involved key stakeholders such as former Finance Ministers, former Finance CEOs, past CEO staff, and donors, seeking their input and feedback. The revision of the PFM bill addresses concerns raised in the previous two Public Expenditure and Financial Accountability (PEFA) assessments.

To maintain the momentum of changes in public sector reform, key modifications from the previous PEFA assessment were incorporated, aligning with past PFM reform and action plans. The overarching goal remains focused on achieving specific PFM objectives related to fiscal discipline, allocation efficiency, and operational efficiency. These objectives are in line with the Government Priority Areas outlined in the Tonga Strategic Development Framework and the Strategic Development Goals.

Stakeholder consultations for the PFM Action Plan matrix for FY 2024 have commenced. The purpose of this consultation is to present an overview of the draft PFM Reform and Actions Matrix while concurrently discussing, revising, and prioritizing the proposed reforms and actions with all stakeholders. Consideration is given to staffing capacity and budget allocation during this process. The PFM reform will be integrated into the PFM Act, Regulation, and Treasury Instructions, as well as the MDAs Corporate Plan.

Going forward, the PFM bill is scheduled to be tabled in the Parliament during the next available sittings.

The PFM Reform-Action Plan Matrix 2023 outlines 7 main pillars, each focusing on specific reforms to be implemented upon the bill's approval. Pillar 1 emphasizes budget reliability, with 5 action reforms. Pillar 2, aiming for transparent public finances, includes 9 action reforms, emphasizing accessible and improved reporting. Pillar 3 addresses the Management of Government Assets and Liabilities, with 4 action reforms concentrating on debt management strategies, policies, and procedures.

Pillar 4 introduces a Policy-based Fiscal Strategy and Budgeting, featuring 6 reforms to enhance macroeconomic and fiscal forecasting. Pillar 5, linking forecast with budget

execution control, includes 15 action reforms to monitor revenue, expenditure, government accounts, and quality assurance programs. Nine new action reforms, alongside recommendations from the 2020 PEFA assessments, are incorporated into this pillar.

Pillar 6 focuses on improving bank reconciliation, coverage, and report compatibility, with 2 reform actions. The final Pillar addresses external scrutiny and audit standards, implementing 3 reform actions. This pillar also emphasizes the mandatory scrutiny of audit reports in the Parliament.

This plan is targeted to be implemented through the PFM Act 2023, PFM Regulations, Treasury Instructions 2023, and the next Corporate Plans of the line Ministries. This plan will be included in the PFM Reform and Action Rolling Plan Roadmap 2024-29. There are issues and challenges especially the human resource capacity and a Change Management Plan.



## 4. Budget Performance FY 2023-Q1 FY 2024

### 4.1 Budget Performance by GPA - Summary

Overall, out of the nine (9) GPAs, a similar pattern of spending was seen in FY 2023 and FY 2024; whereby majority of the budget spent was on GPA 6 in delivering more affordable and accessible public services, for instance in FY2023 a total of 34 percent or \$211.4m of the overall budget was spent (almost 80 percent was recurrent funded); understandably because most line ministries are involved in supporting general government services, relatively more to the other GPAs that have more specific line ministries leading on their implementation; such as health and education. At the same time, funding from donor partners have been focussed more on GPA 1, in building national resilience, at around \$55.7m in FY 2023 and \$84.2m estimated for FY 2024, which is an estimated 24 percent – 27 percent share of donor funds spent.

**Table 4: Budget Performance by GPA**

GPA	Original Budget 2022/23		Actuals 2022/23		Actuals 2022/23 as % of Original Budget		Original Budget 2023/24		Revised Estimates 2023/24		Revised Estimates 2023/24 as % of Original Budget	
	Recurrent	Donor	Recurrent	Donor	Recurrent	Donor	Recurrent	Donor	Recurrent	Donor	Recurrent	Donor
1. Resilience	1.5	76.1	1.4	55.7	97%	73%	1.5	78.1	1.4	84.2	91%	108%
2. Social Protection	12.1	9.3	12.6	6.9	104%	74%	12.3	51.7	13.1	36.7	106%	71%
3. Illicit Drugs	41.3	12.0	36.5	11.9	89%	99%	39.9	21.4	38.2	14.3	96%	67%
4. Education	60.3	29.2	59.1	22.3	98%	76%	63.1	21.4	66.1	33.3	105%	156%
5. Health	54.9	44.8	54.3	31.6	99%	71%	55.7	66.4	55.6	50.9	100%	77%
6. Public Services	192.9	54.0	166.8	44.6	86%	83%	178.3	97.4	171.6	77.2	96%	79%
7. Trade	39.2	52.6	29.3	25.6	75%	49%	33.8	11.5	32.0	11.8	95%	103%
8. Infrastructure	19.9	47.2	20.6	29.6	103%	63%	20.0	10.8	17.8	5.4	89%	50%
9. Partnership	14.9	2.4	14.5	2.1	97%	88%	15.0	6.0	14.5	2.6	97%	43%
<b>Grand Total</b>	<b>437.0</b>	<b>327.6</b>	<b>395.1</b>	<b>230.3</b>	<b>90%</b>	<b>70%</b>	<b>419.5</b>	<b>364.7</b>	<b>410.2</b>	<b>316.4</b>	<b>98%</b>	<b>87%</b>

**Source: Ministry of Finance (MOF), 2023**

In addition, both shares of budget spent by donor partners and government have shown significant commitment towards the health and education priorities i.e., around 28 percent of total spending in FY2023 and FY2024 was spent on these two priority areas following GPA 6 as mentioned above.

Furthermore, it is also important to note, that GPA 1 in building national resilience is in effect cross-cutting nature across all the other GPAs but is faced with the challenge of quantifying those efforts to comprehensively reflect these actual spending related to building national resilience, such as on climate-related curriculums and building more climate resilient school facilities that would be reflected under the education GPA 4 instead.

Please refer to Annex for further detail of Budget Performance Review by GPA.

## 4.2 Recurrent Budget Performance - Overview

The government has continued to achieve a relatively positive stance in the recurrent budget performance from the previous FY2023, and up to the first quarter of FY2024, compared to the post-pandemic and the Hunga Tonga Hunga Ha’apai disaster periods. This performance has been reflected in higher than anticipated domestic revenues and correspondingly increasing expenditures particularly to service the burdening public debt levels, while supporting economic growth and providing public services. At the same time however, inflation, labour shortages and natural disasters remain as imposing risks to the positive economic growth and the budget that is anticipated for the forthcoming FY 2025 and over the medium-term.

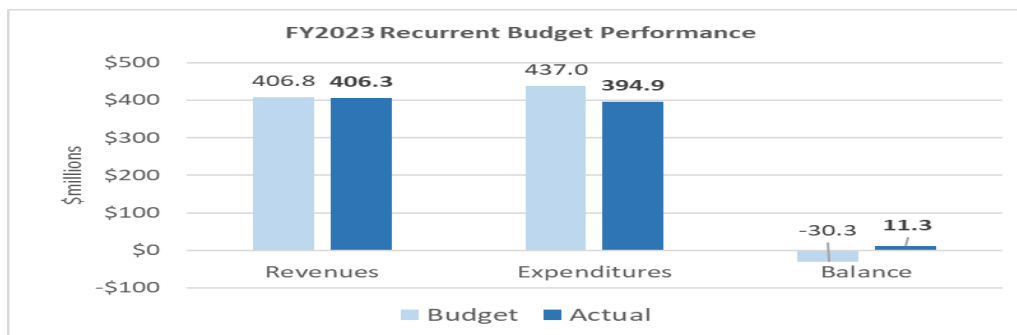
### 4.2.1 Budget Credibility

As such, the credibility of the budget is a key indicator towards reviewing whether government’s expenditures and revenues have been achieved to delivery its intended outcomes and in an effective and efficient manner. The internationally recognized PEFA framework guides countries in assessing such indicator. And according to the execution of the previous FY2023 budget, the aggregate revenue collection achieved 99 percent or rated ‘A’<sup>3</sup>, while aggregate expenditure achieved a 90 percent utilization or rated ‘B’. The breakdown of these performances by composition showed however, relatively poor performance.

### 4.2.2 Recurrent Budget Performance – By Major Category

A recurrent budget surplus of \$11.3m was achieved at the end of FY2023 compared to an original target of \$30.3m deficit. The improved performance was due to domestic revenues, which exceeded its target by \$27.2m, together with an under-spending of the budget by \$42.1m.

**Figure 3: FY 2023 Recurrent Budget Performance**



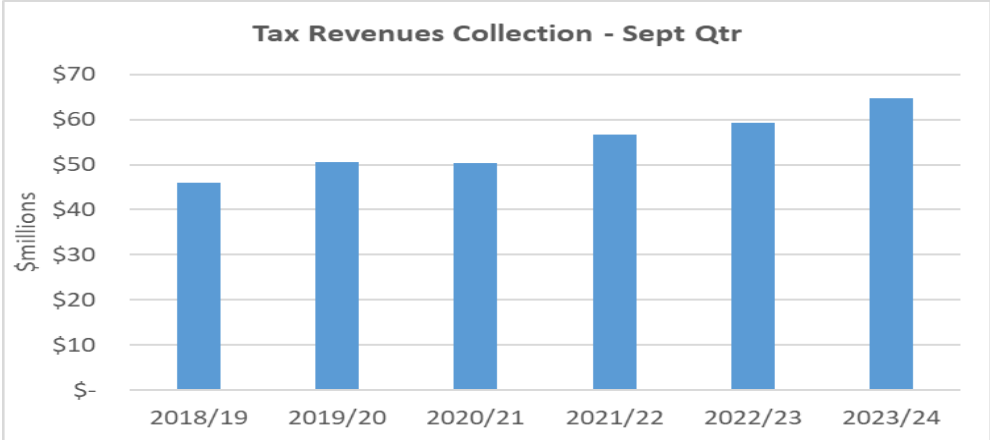
Source: Ministry of Finance (MOF) - Budget Division

<sup>3</sup> Ranking in accordance with the global benchmarks under the Public Expenditure & Financial Accountability (PEFA) framework

**Tax Revenues:** The positive performance of domestic revenue was reflected mainly in the collection under consumption tax (CT) on imports, which is categorized under the Tax on Goods and Services (collecting \$21.7m more than target); followed by the income tax category (exceeded target by \$9.8m). These positive performances were mainly from large businesses, partially implying gradual recovery post COVID and HTHH. At the same time, there is still room to collect more tax revenues through a review and rationalization of existing tax exemptions. According to a report by the IMF<sup>4</sup>, tax exemptions account for 30 percent of total tax revenue in Tonga or close to around TOP\$70 million, which is relatively higher than Fiji at 20 percent rather.

Similarly, in FY 2024, tax revenues continued its strong positive performance. During the first quarter, total revenues recorded was at \$89m, or 23 percent of the original target for the whole FY been achieved; of which tax revenues collection alone was 9 percent higher year-on-year or 23 percent higher than the usual September quarterly collection over the past 5 years. This was mainly driven by increasing trade activities in line with economic growth and recovery from the pandemic, but also from inflationary pressures.

**Figure 4: Tax Revenues Collection- Sept Quarter**



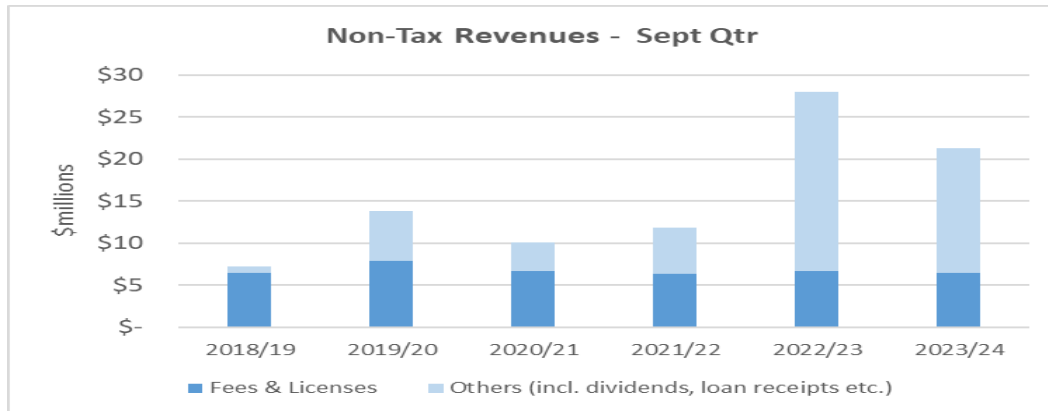
Source: Ministry of Finance (MOF)- Budget Division

**Non-Tax Revenues:** At the end of FY2023, non-tax revenues collected in terms of fees and licenses was at \$27m more than 30 percent higher year-on-year due to the reopening of borders and travel related charges resumed. Despite that this level was slightly below pre-COVID levels by \$1m, it was noted that there are potential revenue arrears due from passenger service charges which ceased during COVID. Therefore, should these potential arrears be accounted for, revenue collection from the fees and licenses category would have been higher than pre-COVID levels.

<sup>4</sup> Funding the Future Tax Revenue Mobilization in the Pacific Island Countries (IMF, 2022)

In the first quarter of FY 2024, non-tax revenues in terms of fees and licenses remained stable in comparison to the same period in previous years, while volatility was seen more on other non-tax revenue categories such as the dividends from the NRBT at \$14m received in FY 2024 due to positive returns from interest rates performances, and the IMF loan receipts of \$21m received in FY 2023. And similarly, to FY 2023, revenue arrears such as from the passenger service charges was not collected in the first quarter of FY 2024, needs to be timely reported and collected to reflect the actual revenue potentials of government to better inform financial allocation roles.

**Figure 5: Non- Tax Revenues – Sept Quarter**

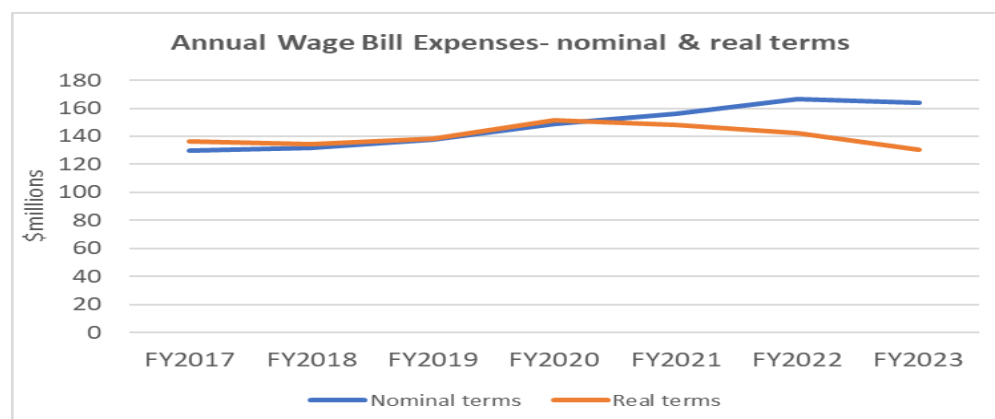


**Source: Ministry of Finance- Budget Division**

**Expenditures:** In terms of expenditures, the under-spending of the FY 2023 recurrent budget by \$41.6m was mainly from the operational spending category (under-spent by \$33.7m) due to more prudent management of spending but also some delays in spending of key project allocations that were then carried forward to the next year FY 2024. This includes execution of the Illicit Drugs Response Fund and public-private partnership projects under the government’s Economic Growth fund.

These were followed by under-spending in the Wage bill category (under-spent by \$9.0m) mainly due to vacancies yet to be filled, and with anecdotal evidence suggesting consequences of labour shortages as staff exit to higher-paid opportunities outside the civil service. In real terms, public wage bill expenses have been decreasing over the past three (3) FYs starting from FY 2021 due to inflationary pressures, particularly in FY 2022 when the annual inflation rate hit two-digits at 11.2 percent by end of June 2022 and continued pressure was experienced over FY 2023 also.

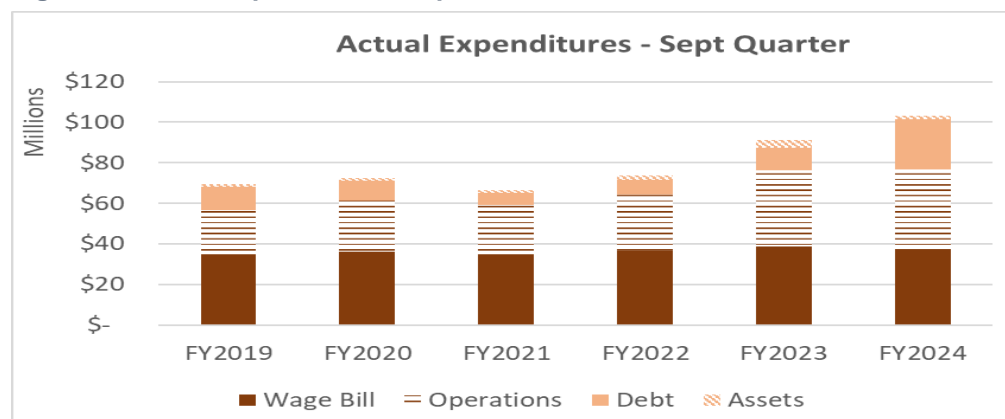
**Figure 6: Annual Wage Bill Expenses- nominal & real terms**



**Source: Ministry of Finance (MOF)- Budget Division**

In the first quarter of FY2024, total expenditures reached \$103.1m, of which unlike the same period last year, almost a quarter of it were debt repayments reflecting government’s commitment to commence the EXIM-loan principal loan repayments. In comparison to the same period in the previous FY2023, expenditure in the September quarter without debt payments was at similar levels.

**Figure 7: Actual Expenditure – Sept Quarter**



**Source: Ministry of Finance (MOF)- Budget Division**

The projection for the remaining months of FY2024 shows a potential under-spending of the wage bill budget by \$12m, with anecdotal evidence showing implications of labour shortages as identified from last FY’s performance. However, this figure may be subject to unknown commitments such as recruitments that are being done without prior funding confirmation, unmanaged overtime spending and implications of labour shortages such as leave encashments towards the end of the year and prolonged acting allowances. At the same time, there are potential spending that would be higher than originally budgeted for FY 2024, including overseas official travels<sup>5</sup> and deferred payouts of grants to non-

<sup>5</sup> Overseas travel expenses in the first quarter of the FY have reached 47 percent of the \$4.7m annual allocation.

government schools from last FY (\$1.5m). There are also recent proposals yet to be factored in in the revised estimate for FY 2024 including road maintenance commitments from the previous financial year and renovation of public sports facilities. These are estimated to worsen the anticipated deficit of \$3 million at the end of the FY 2024 to around \$8 million deficit instead.

In summary, the strong performance of domestic tax revenue collection coupled with the potential under-spending of the budget despite the commitment to paying off majority of public external debt, the anticipated deficit for FY 2024 is estimated at \$3.0m deficit instead of the \$27.2m deficit originally estimated. However, it is noted that this estimation is based on the performance of only one quarter of the financial year, which will require close monitoring of government's cash flow report during the remaining quarters of the financial year to mitigate any potential risks.

### **4.3 Development Budget Performance - Overview**

The Government's overall development budget reflects the increase in assistance from Development Partners following the triple shocks of the Hunga Tonga Hunga Ha'apai volcanic eruption, the resultant tsunami together with the fall of the COVID 19 pandemic. This supplementary budget, that were not budgeted for, was allocated to key MDAs to strengthen their post recovery activities as accounted for in FY 2023 and FY 2024.

However, in terms of project performance, there was an underspent of approved project funds in FY 2023 following the disasters. On the other hand, with the implementation of Government's recovery related projects, the utilization of additional funds is gradually in progress as well as the execution of projects post pandemic up to the first quarter of FY 2024. Nevertheless, development Project Performance is anticipated to improve in the last 3 quarters of the current financial year and the forthcoming medium-term.

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

The actual spending of development funds by the end of the fiscal year was at \$255.4 million, comprising of \$135.1 million in cash and \$120.2 million in in-kind expenditure. This equates to a 78 percent utilization rate of development funds in the year ending in June 2023, with a remaining balance of \$72.3 million or 22 percent.

As a result of HTHH & COVID 19, key intended projects got delayed, due to redirected priorities, such as: (i) Reconstruction of the new Parliament House; (ii) TRIP 2 community projects; (iii) E Government Project; (iv) Safer Schools; and (v) NNUP.

## **5. Budget Strategy FY 2025-2027**

The FY 2025 Budget Strategy places a paramount focus on both revenue maximization and prudent expenditure management. Our commitment is to allocate resources to the vital sectors of our economy, driving their sustained growth and vitality. Building upon the lessons learnt in the past, we aim to foster sustainable economic growth through the following proposed fiscal measures and strategies.

### **Revenue Enhancement:**

The strategy is centred on bolstering revenue collection through various measures. We propose continued reinforcement of tax administration and compliance, encompassing enhanced monitoring, streamlined and strengthen collection processes to address possible loopholes in the current revenue regulation and process in the effort to strengthen the collection of revenue arrears, and measures to combat tax evasion. Government aims to review its tax expenditure policy over the medium-term with the aim of enhancing transparency and effectiveness of achieving national development priorities. A tax expenditure strategy will be guided by principles of fairness, transparency, and budgetary discipline.

Furthermore, a comprehensive review of fees and charges for engagements with foreign entities, including those in the fishing and airline industries needs to be conducted. There is a need to diversify revenue sources beyond taxation as it puts unnecessary pressure on the public.

There is a need to explore new revenue sources, which are currently not in the taxable domain. For example, e-cigarettes that are currently sold openly in the black market. Other potential areas for revenue streams include waste, sugary drinks, fatty food, and prioritized import substitution sectors for ongoing review. Each option will be evaluated economically to determine its viability, revenue potential and public acceptability.

In parallel with these revenue-enhancing efforts, we place a strong emphasis on revenue reform, aligning with the existing government reform agenda. This step underscores the need for seamless coordination with relevant agencies and stakeholders to ensure a unified and effective implementation of reforms that strengthen the revenue collection process.

### **Expenditure Side: Streamlining and Prioritizing:**

The Government of Tonga is taking a cautious approach to cost control while strategically directing resources toward critical sectors. Addressing staff expenditure is a critical aspect of the expenditure strategy. Equally importance, given the increasing trend of staff departures, adjusting wages to align with inflation (COLA) will be considered, at the same time the organizational review of the Public Service will continue in the next budget, which will include possible salary adjustment as a strategic move to retain and motivate our workforce.

An ongoing streamline of operational expenses include travel cost that are funded by Government. Additionally, the ongoing process towards the consideration on purchase new vehicles including the Government's vehicle pool option, public infrastructure maintenance plan in place to ensure sustainability, control overtime cost and new recruitments. Further, the implementation of the voluntary early retirement policy and possible outsourcing of some of the government services that can be carried out by private sector such as delivery and cleaning services.

Moreover, our focus on productivity enhancement involves strategic investments in projects through Public-Private Partnerships (PPPs) and technological advancements. These initiatives not only aim to boost productivity but also to reduce labour losses. Clear project outlines, expected benefits, and well-defined timelines are imperative. Robust monitoring mechanisms will be instituted to ensure a satisfactory return on investment. Additionally, a review of public sector allowances and an emphasis on maximizing impact in government services are essential elements. Critical sectors like healthcare, grappling with staff vacancies, necessitate concerted efforts to fill these positions.

### **External Debt**

The government's objective with its external debt is to continuously strive for its maintenance at a sustainable level. This is achieved through vigilant monitoring and prudent management, ensuring it remains within acceptable thresholds conducive to long-term fiscal stability and growth. Government will therefore follow and adhere to the Medium-Term Debt Sustainability Framework to maintain fiscal stability.



## 6. Budget Envelope for FY2025–FY 2027

### 6.1 Summary of the Budget Envelope FY 2025-2027

#### 6.1.1 Recurrent Budget Envelope FY 2025-2027:

Table 5: Recurrent budget Envelope FY 2025-2027

Recurrent Budget Overview	Actuals 2022/23	Original Estimates 2023/24	Revised Estimates 2023/24	Estimates 2024/25	Estimates 2025/26	Estimates 2026/27
<b>Revenues</b>	\$ 406.3	\$ 392.3	\$ 407.1	\$ 404.9	\$ 423.6	\$ 442.1
<b>Domestic Revenues</b>	\$ 352.5	\$ 341.8	\$ 359.1	\$ 366.4	\$ 385.1	\$ 403.6
Tax	\$ 278.1	\$ 275.4	\$ 290.1	\$ 302.5	\$ 315.9	\$ 329.8
Income Tax	\$ 58.0	\$ 55.4	\$ 58.3	\$ 60.4	\$ 62.7	\$ 65.7
Trade Taxes	\$ 25.8	\$ 24.3	\$ 26.1	\$ 28.0	\$ 28.8	\$ 29.8
Tax on Goods & Services	\$ 128.3	\$ 121.4	\$ 135.3	\$ 141.0	\$ 147.4	\$ 154.3
Excise Tax	\$ 66.0	\$ 74.3	\$ 70.4	\$ 73.1	\$ 77.0	\$ 80.0
Non-Tax	\$ 74.4	\$ 66.4	\$ 69.0	\$ 63.9	\$ 69.2	\$ 73.9
Fees & Licenses	\$ 27.6	\$ 28.9	\$ 29.5	\$ 32.6	\$ 35.8	\$ 39.7
Entrepreneurial & Property	\$ 9.9	\$ 21.7	\$ 23.6	\$ 10.5	\$ 12.5	\$ 13.3
Miscellaneous	\$ 0.5	\$ 0.4	\$ 0.4	\$ 0.5	\$ 0.5	\$ 0.6
Capital & Transfers	\$ 36.5	\$ 15.4	\$ 15.4	\$ 20.3	\$ 20.3	\$ 20.3
<b>Budget Support</b>	\$ 53.7	\$ 50.5	\$ 48.0	\$ 38.5	\$ 38.5	\$ 38.5
<b>Expenditures</b>	\$ 394.9	\$ 419.5	\$ 410.1	\$ 440.9	\$ 439.0	\$ 436.3
Wage Bill	\$ 163.9	\$ 177.4	\$ 165.5	\$ 177.5	\$ 177.4	\$ 177.4
Operations	\$ 170.4	\$ 162.8	\$ 166.5	\$ 183.2	\$ 183.4	\$ 183.4
Assets	\$ 17.2	\$ 12.2	\$ 11.4	\$ 11.6	\$ 8.6	\$ 6.4
Debt	\$ 43.5	\$ 67.1	\$ 66.7	\$ 68.6	\$ 69.6	\$ 69.2
<b>Balance</b>	\$ 11.3	\$ -27.2	\$ -3.0	\$ -36.1	\$ -15.4	\$ 5.8
<b>Financing</b>	\$ -11.3	\$ 27.2	\$ 3.0	\$ 36.1	\$ 15.4	\$ -5.8
Trust Fund				\$ 7.6		
Cash Reserves	\$ -11.3	\$ 27.2	\$ 3.0	\$ 28.5	\$ 15.4	\$ -5.8
<i>of which sinking fund</i>	\$ -	\$ 3.0	\$ 3.0	\$ 7.2	\$ 3.0	
Projected cash reserves balance	\$ 94.2	\$ 67.0	\$ 91.2	\$ 55.2	\$ 39.8	\$ 45.6

Source: Ministry of Finance (MOF) - Budget Division

**Higher projected revenues:** Total revenues projected for FY2025 is at \$404.9m, which is \$12.6m or 3 percent higher than the current FY2024 estimates, reflecting no policy change but based on the continuous positive performance in domestic tax revenue collection experienced in FY2023 and the revised estimates for FY2024, and in line with the projected economic growth.

**Higher mobilization of expenditures:** Total expenditures on the other hand for FY2025 is estimated at \$440.9m, or \$21.4m higher than the current FY2024 estimates due to recurrent spending of more than \$20m that was in the last FY2023 funded under development funds through the additional budget support received from Australia DFAT during the FY; mainly for road infrastructure works and other government-wide assistances.

**Pay-off of high external debt and addressing inflationary impacts on public wage bill are of priority:** Public debt payments are estimated to continue to take up 16 percent of the total recurrent budget over the medium-term per annum, while the wage bill budget compromises 40 percent. The latter's composition is maintained over the medium-term with the anticipation that measures be developed to improve the real purchasing power of current civil servants' remuneration due to inflationary pressures, sourced within the wage bill allocation through existing vacancies and the ongoing organisational reviews.

**Stronger capital or assets management:** In terms of assets purchases, a gradual decline is anticipated over the next medium-term to reflect efforts of government in strengthening asset management towards achieving more value for money, by conducting government assets count and collaborating with line ministries in proper planning and budgeting for capital purchases that are evidence and needs based.

**Building national resilience remains a strong commitment within existing but rationalized allocations:** The \$8m allocation economic growth fund, similar allocation from the last FY is anticipated to remain over the next medium-term per annum to also consider government assistance towards targeted affected groups from the El Nino impacts, in addition to the \$2.4m national emergency fund recurrent allocation.

**Sustainable deficit and financing over the next medium-term:** As a result, a deficit budget of \$36.1m is projected for FY2025; which is to be financed from cash reserves and trust fund (portion of the debt sinking fund); and in line with continuous domestic revenue collection and economic growth also in the outer years, the deficit budget is expected to lessen in FY2026 to \$15.4m; before a surplus of \$5.8m in FY2027. The implied cash reserves balances over the medium-term therefore is estimated to be at \$45.6m at the end of the medium-term.

## 6.1.2 Development Budget Envelope FY 2025-2027:

**Table 6: Development Budget Envelope FY 2025 - 2027**

Development Budget Envelope 2025-2027

	Approved Budget FY2023/24	Provisional Actual FY 2023	Estimated Outturn FY 2023/24	Budget Estimate FY 2024/25	Projection FY 2025/26	Projection FY 2026/27	Percentage of Actual FY2023/24
Cash	96.3	16.6	95.0	81.9	81.7	80.7	17%
Inkind	268.4	67.1	221.3	236.3	238.9	247.9	25%
<b>Grand Total</b>	<b>364.7</b>	<b>83.7</b>	<b>316.3</b>	<b>318.2</b>	<b>320.6</b>	<b>328.6</b>	<b>23%</b>

Source: Ministry of Finance (MOF) - Aid Division

The proposed Development Budget Envelope, for the next medium-term FY 2025 – FY 2027 in the above table, shows that the Budget Estimate for FY 2025 will be at \$318.2 million. There is a slight decline in Cash projects from FY 2024 to FY 2025 as we expect that a few key ventures will be heavily implemented during the last three quarters of FY 2023. This includes MFAT Budget support towards Tonga Police for specialised equipment, building the NEMO Warehouse in Ha’apai, safer schools reconstruction and the near completion of the HTHH housing rebuild.

On the other hand, there is a reduction in the in-kind project by 12.0 percent from FY 2024 to FY 2025 because of the completion of the Outer Island Renewable Energy Project in the currently Financial Year, as well as the completion of the Tonga Renewable Energy Project in the first half of FY 2025. The estimated outturn for FY 2024 is 70 percent of the budget mainly due to the delay in utilizing funds allocated to the recovery works from the Tonga Volcanic eruption and Tsunami and COVID-19.

## 7. Next Steps

The budget preparation will be processed in consultation with the ministries, departments, agencies, selected private sectors, churches and NGOs per the following indicative schedule:

**Table 7: Budget & Corporate Planning Timeline**

<b>Budget Timetable for the FY2024/2025 Annual Budget Process</b>		
<b>Budget Phase</b>	<b>Date</b>	<b>Key Activity</b>
<b>Budget Preparation</b>	26 <sup>th</sup> Sept 2023	-Issue Budget Circular on budget timetable and publish online on Finance website. -Preparation of Budget Strategy by MOF
	19 <sup>th</sup> Oct	-Submission of review on GPA progress from national planning department to Finance -CEOs to be invited to the Macroeconomic Advisory Committee on the draft Budget Strategy for further review
	26 <sup>th</sup> Oct	
	15 <sup>th</sup> Nov	-Submit Budget Strategy to Cabinet for approval
	20 <sup>th</sup> Nov 23 <sup>rd</sup> Nov 15 <sup>th</sup> Dec	-Issue Budget Circular on approved Budget Strategy and Budget Guidance/ Templates -Hold budget orientation (CEO Forum, GFM Forum) -Deadline for all budget and CP submissions to MoF and national planning dept. -Publish Budget Strategy on MoF website -Submit all new staff proposal to the Public Service Commission
<b>Budget Review &amp; Analysis</b>	Jan 2024	-Review of MDA budget & CP submissions by MOF & national planning dept, with on-going consultations with MDAs and Macroeconomic Technical Committee
	31 <sup>st</sup> Jan	-Propose consolidated budget requests to management and Macroeconomic Advisory Committee for further review
	8 <sup>th</sup> Feb- 19 <sup>th</sup> Feb	-Conduct budget consultations with MDAs -Hold Donor forum (8 <sup>th</sup> Feb)
	22 <sup>nd</sup> Feb	- Propose consolidated budget to management for approval
<b>Budget Approval by Cabinet</b>	29 <sup>th</sup> Feb	- Submit draft budget estimates and statement to Cabinet for approval. If there were any changes from Cabinet, MDAs will be notified for readjustment of their CPs.
	14 <sup>th</sup> Mar	- MDAs re-submit their final CP and Budget to MoF and national planning department if there were any changes from Cabinet
<b>Budget Approval by Legislative Assembly</b>	24 <sup>th</sup> Apr	-Table the Draft Annual Budget Estimates and Budget Statement to Parliament -Cabinet Ministers receive budget briefing notes -Prepare presentation for Public Accounts Committee
	30 <sup>th</sup> Apr	-Publish the draft Budget Estimates and Budget Statement online on MoF website
	30 <sup>th</sup> June	-Budget approved by Parliament
	5 <sup>th</sup> July	-Publish approved Budget Estimates and Budget Statement online on MoF website
	24 <sup>th</sup> July	-Publish citizens budget guide
<b>Budget Execution</b>	5 <sup>th</sup> July	-Asset Registers list due from MDAs to Finance
	11 <sup>th</sup> July	-Government Financial Managers Forum on the Budget FY2025
	20 <sup>th</sup> July 31 <sup>st</sup> July	-Annual cash-flow forecast for FY2025 budget due to Finance from MDAs -Annual procurement plan due from MDAs to Finance
	August	-Outreach program to line ministries including those in outer-islands and other relevant stakeholders (from the Departments of Budget, Economics & fiscal policy, Aid Management/ Resilience & National planning)
<b>Budget M&amp;E</b>	September	-Preparation for Budget FY2026 commences
	July- June	-Budget in-year reports (via the regular Economic & Financial Reports)

## 8. Conclusion

To conclude, the approval of the Budget Strategy and Funding Envelope Paper for the Medium-Term Budget Framework (MTBF) period from FY 2025 to FY 2026 is a significant milestone in the Government's fiscal planning strategy. With the unanimous endorsement of this strategy, we are setting a clear path for responsible financial management and sustainable development.

Noting the proposed FY 2025 Budget Envelope, with its breakdown of recurrent and development sources, revenue, and expenditure estimates, underscores our commitment to ensuring the efficient allocation of resources. This transparent breakdown allows for better financial planning and control.

Furthermore, the approval of the Budget Strategy and Envelope as a guiding framework for Ministries, Departments, and Agencies (MDAs) in their Corporate Plans and Budget preparation over the MTBF period reinforces the government's commitment to aligning financial priorities with strategic objectives.

In summary, the approval of this Budget Strategy and Funding Envelope reflects the government's commitment to responsible financial governance and the determination to achieve developmental goals of Tonga over the medium term. It is an essential step in ensuring that our financial resources are allocated wisely and utilized efficiently, ultimately benefitting our citizens, and advancing our nation's prosperity, with the blessings of the Almighty God.

## 9. Recommendations

1. That the Budget Strategy and Funding Envelope Paper covering both recurrent and development budget over the Medium-Term Budget Framework (MTBF) period FY 2025 to FY 2027, be approved.
2. That the proposed FY 2025 Budget Envelope of ***\$759.1 million (\$522.8 million is the appropriated cash)***, comprising of \$440.9 million from recurrent and \$318.2 million from development sources, revenue, and expenditure estimates, be noted.
3. That the FY 2025 underlying deficit recurrent budget of ***\$36.1 million*** to be financed from Trust Fund of \$7.6 million and cash reserve of \$28.5 million of which sinking fund \$7.2 million, be noted.
4. That Government recognizes the need for a tax expenditure strategy guided by principles of fairness, transparency, and budgetary discipline, be noted.
5. That the Budget Strategy and Envelope guides MDAs in the preparation of their Corporate Plans and Budget over the MTBF period FY 2025 to FY 2027, be approved.
6. That all MDAs submit their Corporate Plans and Budgets including any other relevant documents by January, be approved.

Respectfully,

Endorsed.

.....  
Kilisitina Tuamei'api  
**CEO for Finance**  
24 November 2023

.....  
Hon. Tiofilusi Tiueti  
**Minister for Finance**  
24 November 2023.

## Annex I: Monetary Performance

### Policy Actions

To promote a more stable macro-economy in Tonga, there is a need for greater collaboration between the Reserve Bank and the Government. As such, the following proposed fiscal budget actions and measures may be considered to work in conjunction with monetary policy to better manage inflation and price stability, maintain financial sector stability, and promote access to credit for sector growth, ultimately leading to a more stable and resilient economy.

#### 1. Monetary Policy

**a. Maintain a Focus on Managing Inflation:** Continue the current monetary policy stance to focus on managing inflation in the short term. This includes keeping the monetary policy rate at 0 percent and closely monitoring inflation trends.

**b. Coordinate with the Government:** Collaborate closely with the government on fiscal policy initiatives to reduce inflation. This might involve implementing fiscal measures to address the root causes of inflation, such as food and energy price hikes and adverse weather conditions.

**c. Supply Side Policy Actions:** Implement targeted supply side policy actions in coordination with the government to support efforts to reduce inflation while also working towards improving economic growth potential. This might involve addressing supply chain constraints and improving productivity in sectors contributing to inflation.

#### 2. Financial Sector Stability

**a. Foster Regulatory Framework:** A review of the Reserve Bank's regulatory framework such as revisions to the NRBT Act, Foreign Exchange Control Act, Credit Information capability and Consumer Protection are currently underway. Enhancing enforcement of regulatory requirements, establishing the Credit Information capability, and Consumer Protection are critical in ensuring and promoting financial sector stability and resilience.

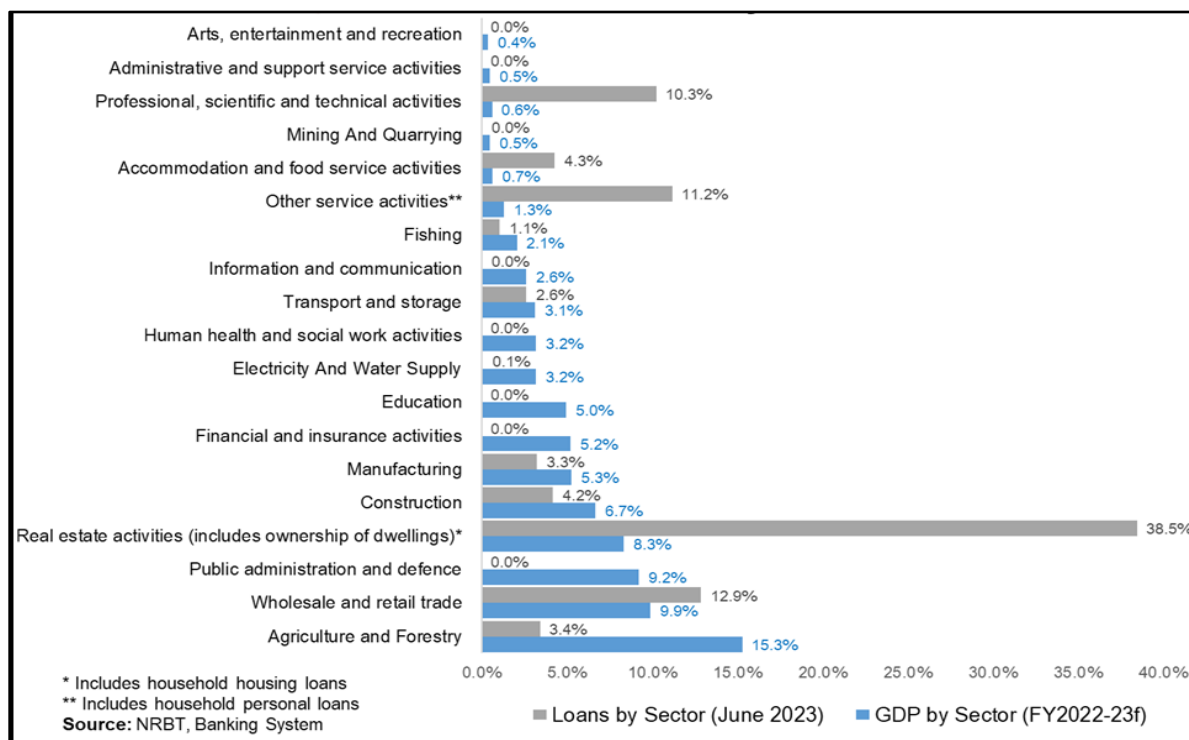
**b. Maintain Strong Capital Position:** Encourage banks to maintain a strong capital position to ensure the soundness of the banking system. This can be achieved through regular stress testing and risk assessments. Government is encouraged to also ensure financial soundness of its state-owned bank.

#### 3. Access to Credit and better economic functioning

**a. Promote Access to Finance for Vulnerable Sectors:** Work on providing greater access to finance for vulnerable sectors, such as agriculture and MSMEs, which are not well served by commercial banks. Explore options like providing guarantees, establishing a pool of funds specifically for these sectors, or enhancing the Government Development Loan (GDL) scheme to make it more accessible.

**b. Address Mismatches in Credit Allocation:** Analyze the discrepancies between sector contributions to GDP and the credit allocated to those sectors as shown in Figure 1 below. Develop policies to ensure that credit is directed more proportionately to sectors with high growth potential.

**A-Figure 1: GDP contribution vs. Credit by sector**



**c. Enhance Collaboration between the Reserve Bank and the Government:** Collaborate more closely with the government to address market failures and promote sustainable development through increased access to finance. This collaboration can include creating mechanisms for sector-specific financing, capacity building, and resilience to external shocks.

**d. Promoting access to climate financing:** Access to finance for sustainable development is also crucial. Greater collaboration between the Reserve Bank and the Government can help address this market failure by either providing forms of guarantees.

**4. Risk Management:**

**a. Supply Chain Disruption:** Prepare contingency plans to address disruptions in supply chains that could hinder domestic growth. Explore measures to enhance domestic production and reduce reliance on external sources.

**b. Inflationary Pressure:** Monitor global oil and commodity prices closely and have a strategy in place to mitigate the impact of potential price increases. Consider measures like subsidies for essential goods, where necessary.

**c. Labor Mobility Schemes:** Develop policies to ensure that the outflow of labor overseas does not weaken domestic production. This might involve workforce development programs and incentives for businesses to invest in local labor.

**d. Non-Performing Loans:** Continue monitoring the level of non-performing loans and ensure that adequate provisions are in place to absorb any shocks to the financial system.



Implement measures to address the root causes of non-performing loans, including supporting borrowers facing financial difficulties.

**e. Climate risks:** Develop policies that can (i) mitigate negative impacts of adverse weather on Tonga's economy and especially vulnerable sectors [eg. Improve access to water during El Nino events] (ii) assist with the redevelopment of these sectors and (iii) enhance their resilience.

## **Annex II: Debt Performance**

The risk of debt distress rating for Tonga remains high as per IMF's Staff report for the 2023 Article IV Consultation, October 2023. The double shocks of volcanic eruptions and tsunami in February 2022, triggered the Donor partners to provide more financial support to Tonga through grants, debt service suspension and even Tonga benefited from IMF's highly concessional facility (Rapid Credit Facility, RCF). Going forward, Tonga is anticipate operating with deficit budget if there will be a gradual decrease in grants under the current commitments and the continuous principal repaying of China loans until full settlement in FY 2029. The large share of external debt in the debt portfolio leaves Tonga highly vulnerable to exchange rate movements, predominantly debt from the EXIM Bank of China. Hence, new borrowings should only be contracted on **highly concessional terms**. As of June 2024, it is expected that Tonga's total debt owed to China EXIM Bank will decrease and accounts for 48 per cent of Tonga's total external debt. The continuous high debt service to China loans will require greater fiscal prudence, hence Government's objective with its external debt, is to lessen the costs and risks in Government's debt portfolio and to emphasize fiscal prudence in managing of its public debt as part of its budget strategy.

The Government remains fully committed to finalizing its Policy Performance Assessments (PPA) and managed to submit the revised Public Finance Management Bill and approved by Law Committee and ready to table to the Legislative Assembly soonest while fulfilling the PPA 2 regarding adherence to the zero non-concessional borrowing ceiling on new external Public and Publicly Guaranteed (PPG) debt.

Ministry of Finance is yet to finalise Medium Term Debt Strategy 2024 - 2026 and publish to online, however, the Government is in consideration of alternative borrowing strategies which will help to meet its debt targets and assist to achieve a more desirable balanced composition of public debt. The table below examines the costs and risks of the current debt portfolio and the costs and risks that could arise from more domestic debt with longer maturities.

**A-Table 1: Cost and risk indicators of debt outstanding as at end June 2023**

Risk Indicators		June 2024	As at end June 2026
		Current	Best Alternative
Nominal debt as percent of GDP		37.6	21.6
Present value debt as percent of GDP		30.6	17.3
Interest payment as percent of GDP		0.6	0.3
Implied interest rate (percent)		1.5	1.1
Refinancing risk <sup>2</sup>	Debt maturing in 1yr (percent of total)	11.9	13.6
	Debt maturing in 1yr (% of GDP)	4.8	2.9
	ATM External Portfolio (years)	9.3	9.4
	ATM Domestic Portfolio (years)	2.2	2.9
	ATM Total Portfolio (years)	8.4	8.4
Interest rate risk <sup>2</sup>	ATR (years)	8.4	8.4
	Debt refixing in 1yr (percent of total)	11.9	13.6
	Fixed rate debt incl T-bills (percent of total)	100.0	100.0
	T-bills (percent of total)	0	0
FX risk	FX debt as % of total	86.6	83.7
	ST FX debt as % of reserves	4.9	3.9

Source: Debt Section, FFD, Ministry of Finance, 2023

In view of the Medium-Term Debt Strategy (MTDS) 2024 – 2026, it aims at domestic market development and extending Government Bond maturities with longer term. This strategy proposed a good compromise by reducing foreign exchange rate risk of the portfolio without drastically increasing the cost of debt. Tonga's public debt as at June 2024 will maintain below both IMF's threshold and government explicit fiscal anchors of below 50 percent of GDP. Tonga has secured its membership with the Asia Infrastructure Investment Bank (AIIB), and the Bank will provide or facilitate financing to any member in a variety of ways, including loans and guarantee, whether as primary or secondary obligor, in whole or in part, loans for economic development. However, Tonga will assure that the facility is concessional before any decision to borrow from AIIB for infrastructure development.

As at end June 2024, total public debt is estimated at \$443.9m consisting of \$373.6m external debt and \$70.3m domestic debt. Government has started in the current financial year, servicing principal repayment of its loan for Nuku'alofa CBD Reconstructions loan approximately \$26m (64 per cent of total external debt service), hence the proposal to issue more Government Bonds to assist with the repayments of China loans. Total public

debt to GDP is expecting to fall by 5.6 from FY 2024 as outlined in *Figure 1*. It is clearly shown in Figure 1 below, that Tonga's debt level will not breach the threshold due to better increase in GDP for FY 2025 and the continuous decrease in external debt due to the repayment of China EXIM Bank loans.

### **Sovereign Debt Sustainability Indicators of Tonga**

The Net present value (NPV) of debt ratios against other macro data remain within the indicators when exports and remittances are included. As shown in the Table 2. below, without remittances there's a breach in the indicators. The NPV of external debt as a ratio of GDP is below target, and this might trigger the movement of high debt distress to moderate risk in the next few years. These estimates are based on foreign exchange rates as at end September 2023 and do not consider any future fluctuations of the Pa'anga.

**A-Table 2: Sovereign sustainability indicators of Tonga**

<b>Indicators</b>	<b>(IMF) Tonga Target %</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2025/27</b>
<b><i>NPV of external debt as:</i></b>					
% of GDP	40%	26%	20%	16%	13%
% of GDP & remittances	36%	19%	15%	12%	10%
% of exports	150%	1135%	998%	848%	698%
% of government revenues	250%	110%	90%	73%	57%
<b><i>Debt Service as:</i></b>					
% of exports	20%	187%	206%	209%	208%
% of exports & remittances	16%	11%	12%	12%	12%
% of revenues	20%	18%	19%	18%	17%

## ANNEX III: Budget Credibility

The table below highlights the top three expenditure and revenue classifications with most deviations of actual performance from the original budget: but also with the proposed mitigating measures:

**A-Table 3: Actual Performance of Expenditure and Revenue (Classification)**

<b>Expenditure Categories</b>	<b>Deviation (%)</b>	<b>Deviation (\$)</b>	<b>Main item in category</b>	<b>Deviation mitigating measures</b>
Grants & Transfers	35%	\$ 31.1m	Other special projects (\$22.9m)	To have clear and transparent guidelines, criteria for grants disbursements in line with the Treasury Instructions, and a monitor & evaluation mechanism to ensure effectiveness and efficiency in targeted objectives of the grant are being achieved.
Private Sector Development	86%	\$ 8.6m	Economic growth fund (\$8.6m PPP)	To review the effectiveness and efficiency of funding arrangement and consider other alternative arrangements such as the GDL.
Travel & Communication	74%	(\$ 8.4m)	Overseas travels (-\$5.0m)	That donor-funded travels are of priority relative to government funded, and for government-funded travels to consider limiting number of participants based on available budget and contribution of travel outcome towards achieving government approved priority areas.
<b>Revenue Categories</b>	<b>Deviation (%)</b>	<b>Deviation (\$)</b>	<b>Main item in category</b>	<b>Deviation mitigating measures</b>

Budget Support	34%	(\$ 27.7m)	World Bank and ADB budget support (-\$23.3m)	Ensure closer collaboration with development partners towards achieving higher predictability of budget support receipts, including strengthening of the Joint-Policy Reform Matrix mechanism.
Tax on Goods & Services	20%	\$ 21.8m	CT on imports (+\$21.3m)	Strengthen collaboration between the Ministry of Finance and the Ministry of Revenue & Customs in revenue forecasting, including reports on differentiating revenue arrears from underlying revenues; amongst others.
Income Tax	20%	\$ 9.8m	Corporate tax from large businesses (+\$8.7m)	

Source: Ministry of Finance (MOF)

In addition, there are other cross-cutting budgetary items that also have high share of the budget and thus implications on budget credibility, to be considered over the medium-term FY 2025 – FY 2027, but also in the longer term:

- Wage Bill
  - o PSC and the RA to collaboratively advance on actions from the wage bill report.
  - o To improve civil servants’ remuneration in real terms
  - o That the budget allocation for wage bill categories is clearly derived and linked to the MDA’s human resource management plan and endorsed by PSC
  
- Technology
  - o That the use of information and communication technology be capitalized on for delivering public services more efficiently and effectively.
  
- Capital expenditure.
  - o Any funding relevant to a line ministry’s asset, including maintenance, must be derived based on the ministry’s asset register that is updated, complete and accurate in line with the Treasury Instructions

- Fiduciary measures:
  - o Strengthening internal financial controls in line ministries to avoid risks of non-compliant procurements. For instance, a significant amount of non-compliant procurement of around more than \$3 million in road maintenance works was recorded in the last FY 2023.
  - o Findings from the Auditor General's financial and compliance report will be considered in determining the MDA's future budget allocation, to avoid any unnecessary fiscal burdens resulting from the identified fiduciary risks in public finance management.

## ANNEX IV: Budget Performance and Projections, FY 2023 - FY 2027

**A-Table 4: Recurrent Revenues Envelope by MDAs**

Revenue by MDA	Actuals 2022/23	Original Estimates 2023/24	Revised Estimates 2023/24	Estimates 2024/25	Estimates 2025/26	Estimates 2026/27
Audit Office	\$ 167,000	\$ 159,000	\$ 169,000	\$ 179,000	\$ 189,000	\$ 199,000
Foreign Affairs	\$ 4,186,109	\$ 4,536,000	\$ 4,444,380	\$ 4,785,641	\$ 5,274,468	\$ 5,864,401
His Majesty's Armed Forces	\$ 300	\$ 10,000	\$ 10,408	\$ 11,599	\$ 12,784	\$ 14,214
Prime Minister's Office	\$ 52,887	\$ 40,000	\$ 65,621	\$ 73,128	\$ 80,597	\$ 89,612
Finance	\$ 98,949,021	\$ 88,205,200	\$ 87,516,243	\$ 69,783,971	\$ 71,708,557	\$ 72,155,317
Revenue & Customs	\$274,066,234	\$271,393,800	\$285,519,445	\$297,420,086	\$310,278,776	\$324,197,826
Public Enterprise	\$ 5,528,654	\$ 4,000,000	\$ 4,309,295	\$ 5,031,056	\$ 5,749,239	\$ 6,115,967
Trade & Economic Develop.	\$ 675,022	\$ 620,300	\$ 716,442	\$ 797,290	\$ 891,364	\$ 996,653
Justice & Prisons	\$ 1,812,620	\$ 1,951,900	\$ 1,987,413	\$ 2,214,766	\$ 2,440,992	\$ 2,714,009
Police	\$ 1,070,446	\$ 1,242,700	\$ 1,140,788	\$ 1,271,390	\$ 1,401,245	\$ 1,557,859
Health	\$ 1,145,953	\$ 1,309,100	\$ 1,057,379	\$ 1,173,340	\$ 1,293,700	\$ 1,438,956
Education & Training	\$ 2,588,057	\$ 2,173,000	\$ 2,020,811	\$ 2,295,455	\$ 2,568,738	\$ 2,898,546
Internal Affairs	\$ 80,600	\$ 70,000	\$ 114,837	\$ 127,974	\$ 141,045	\$ 156,821
Agriculture, Forestry & Food	\$ 1,295,583	\$ 1,236,200	\$ 1,438,434	\$ 1,602,940	\$ 1,766,631	\$ 1,963,778
Infrastructure	\$ 9,229,595	\$ 9,681,600	\$ 10,338,296	\$ 11,592,361	\$ 12,840,705	\$ 14,226,567
Lands, Survey & Natural Res.	\$ 926,174	\$ 895,100	\$ 1,110,346	\$ 1,133,766	\$ 1,249,574	\$ 1,389,335
MEIDECC	\$ 1,122,442	\$ 998,500	\$ 998,413	\$ 1,059,309	\$ 1,097,083	\$ 1,203,011
Fisheries	\$ 3,278,023	\$ 3,681,400	\$ 3,901,854	\$ 4,071,092	\$ 4,338,003	\$ 4,601,488
Tourism	\$ 121,764	\$ 100,800	\$ 238,182	\$ 265,429	\$ 292,541	\$ 325,261
Grand Total	\$406,296,484	\$392,304,600	\$407,097,587	\$404,889,592	\$423,615,042	\$442,108,621

**Source:** Budget Division, Ministry of Finance, 2023

**A-Table 5: Recurrent Expenditures Envelope by MDA**

<b>Expenditure by MDA</b>	<b>Actuals 2022/23</b>	<b>Original Estimates 2023/24</b>	<b>Revised Estimates 2023/24</b>	<b>Estimates 2024/25</b>	<b>Estimates 2025/26</b>	<b>Estimates 2026/27</b>
Palace Office	\$ 4,051,500	\$ 4,903,200	\$ 4,572,741	\$ 4,427,900	\$ 4,424,900	\$ 4,424,900
Legislative Assembly	\$ 15,713,674	\$ 15,031,500	\$ 15,330,173	\$ 14,971,500	\$ 14,971,500	\$ 14,971,500
Audit Office	\$ 1,851,299	\$ 2,156,400	\$ 1,837,028	\$ 2,156,400	\$ 2,156,400	\$ 2,156,400
Ombudsman	\$ 1,475,070	\$ 1,553,500	\$ 1,504,159	\$ 1,552,300	\$ 1,551,100	\$ 1,551,100
Foreign Affairs	\$ 14,086,971	\$ 14,462,800	\$ 14,127,584	\$ 13,802,800	\$ 13,802,800	\$ 13,802,800
His Majesty's Armed Forces	\$ 11,543,046	\$ 11,961,700	\$ 11,528,608	\$ 11,556,700	\$ 11,556,700	\$ 11,556,700
Prime Minister's Office	\$ 9,560,798	\$ 10,234,200	\$ 10,046,221	\$ 10,218,200	\$ 10,102,200	\$ 10,027,200
Finance	\$107,606,012	\$117,208,600	\$115,137,601	\$131,453,878	\$132,410,975	\$131,998,207
Revenue & Customs	\$ 10,600,999	\$ 11,042,400	\$ 9,322,954	\$ 10,994,600	\$ 10,779,100	\$ 10,617,475
Public Enterprise	\$ 1,336,639	\$ 1,863,000	\$ 1,519,002	\$ 1,862,100	\$ 1,861,800	\$ 1,861,800
Trade & Economic Develop.	\$ 7,202,498	\$ 6,633,200	\$ 6,441,397	\$ 6,603,200	\$ 6,593,200	\$ 6,593,200
Justice & Prisons	\$ 12,972,951	\$ 13,447,000	\$ 13,122,123	\$ 13,421,200	\$ 13,159,900	\$ 12,972,925
Attorney General's Office	\$ 3,115,253	\$ 3,347,700	\$ 2,970,134	\$ 3,314,000	\$ 3,310,000	\$ 3,310,000
Police	\$ 12,413,009	\$ 13,250,100	\$ 13,032,082	\$ 13,210,100	\$ 12,999,850	\$ 12,857,163
Health	\$ 52,344,165	\$ 55,687,000	\$ 55,600,237	\$ 55,067,000	\$ 54,365,250	\$ 53,838,938
Education & Training	\$ 59,054,399	\$ 63,105,700	\$ 66,063,388	\$ 63,080,700	\$ 63,058,700	\$ 63,058,700
Internal Affairs	\$ 5,280,955	\$ 6,153,200	\$ 6,465,715	\$ 6,302,200	\$ 6,451,200	\$ 6,451,200
Agriculture, Forestry & Food	\$ 9,394,699	\$ 9,419,400	\$ 8,651,433	\$ 9,386,700	\$ 9,273,400	\$ 9,198,400
Infrastructure	\$ 20,964,339	\$ 20,001,500	\$ 17,782,792	\$ 29,118,900	\$ 28,221,100	\$ 27,547,750
Lands, Survey & Nat. Res	\$ 5,993,900	\$ 6,512,100	\$ 6,179,608	\$ 6,541,100	\$ 6,568,100	\$ 6,568,100
Public Service Commission	\$ 1,919,215	\$ 2,106,600	\$ 1,827,578	\$ 2,104,600	\$ 2,102,600	\$ 2,102,600
Statistics Dept	\$ 2,622,648	\$ 2,975,100	\$ 2,693,335	\$ 2,970,100	\$ 2,907,100	\$ 2,862,100
MEIDECC	\$ 7,947,195	\$ 8,866,500	\$ 8,211,188	\$ 9,135,500	\$ 8,870,000	\$ 8,670,125
Fisheries	\$ 4,604,246	\$ 4,588,800	\$ 4,248,864	\$ 4,585,800	\$ 4,582,800	\$ 4,582,800
Tourism	\$ 7,262,541	\$ 7,679,500	\$ 7,176,659	\$ 7,659,100	\$ 7,569,150	\$ 7,501,688
Tonga Fire Services	\$ 4,004,979	\$ 4,509,300	\$ 4,228,818	\$ 4,509,300	\$ 4,393,000	\$ 4,305,775
Anti-Corruption Commissioner	\$ -	\$ 836,000	\$ 488,250	\$ 937,100	\$ 948,100	\$ 948,100
<b>Grand Total</b>	<b>\$394,923,000</b>	<b>\$419,536,000</b>	<b>\$410,109,672</b>	<b>\$440,942,978</b>	<b>\$438,990,925</b>	<b>\$436,337,645</b>

**Source: Budget Division, Ministry of Finance, 2023**

**A-Table 6: Development Budget Envelope for FY 2025 – FY 2027**

MDAs	Approved Budget	Estimated Outturn	Baseline	Baseline	Baseline
	FY2023/24	FY2023/24	FY2024/25	FY2025/26	FY2026/27
Attorney General's Office	0.1	0.1	0.0	0.0	0.0
His Majesty's Armed Forces	11.7	8.7	2.9	5.7	5.7
Legislative Assembly	2.6	1.6	5.2	25.5	40.5
Ministry of Agriculture, Food & Forests	2.8	2.1	2.5	2.5	2.5
Ministry of Education & Training	72.0	53.5	62.5	55.1	49.9
Ministry of Finance	22.1	27.4	28.5	8.7	8.7
Ministry of Fire & Services	2.6	1.9	1.3	2.4	2.4
Ministry of Fisheries	8.0	7.9	5.7	0.5	0.5
Ministry of Foreign Affairs	0.3	0.2	0.2	0.2	0.2
Ministry of Health	15.2	14.1	24.7	46.4	46.4
Ministry of Infrastructure	123.5	113.0	98.1	87.2	103.2
Ministry of Internal Affairs	10.9	5.6	9.0	14.1	15.1
Ministry of Justice and Prison	0.4	0.4	0.1	0.1	0.1
Ministry of Lands & Natural Resources	14.7	11.4	11.4	7.4	7.4
Ministry of Meteorology, Energy, Informati	64.1	59.8	56.3	48.7	33.9
Ministry of Police	3.4	2.5	3.0	0.6	0.6
Ministry of Tourism	1.2	0.4	5.0	4.0	0.0
Ministry of Trade and Economic Developm	0.5	0.3	0.2	0.2	0.2
Palace Office	0.1	0.0	0.0	10.0	10.0
Prime Minister's Office	7.4	4.3	0.7	0.5	0.5
Public Service Commission	0.1	0.1	0.1	0.1	0.1
Statistics Department	0.9	1.1	0.6	0.6	0.6
Tonga Office of the Auditor General	0.2	0.1	0.2	0.2	0.2
<b>Grand Total</b>	<b>364.7</b>	<b>316.4</b>	<b>318.3</b>	<b>320.7</b>	<b>328.7</b>

**Source: - Ministry of Finance (MOF)- Project & Aid Management Division**



## Annex V: GPA, Recurrent and Development Budget Joint Review FY 2023

### BUDGET PERFORMANCE – BY GOVERNMENT PRIORITY AREA (GPA)

The following sections highlight the budget performance and key deliverables under each GPA and thematic area in FY2023 and FY2024:

#### Thematic Area 1: National Resilience

The three GPAs under this focus area (GPAs 1-3) are focusing on mitigation activities and initiatives to avoid and minimize the impacts of disaster risks and climate change, which always cause economic uncertainty and social challenges.

#### **GPA 1: Building national resilience and safer platforms to natural disasters and meeting the ongoing challenges of climate change and addressing economic crisis.**

##### **Climate Change:**

**Recurrent Programs:** In FY2023, more than half of the recurrent budget allocation was spent on staff compensation (\$0.4m) under the climate change department (MEIDECC), followed by purchases of seedlings (including mangroves) for the tree planting initiative to reach the 1 million target by end of 2023 in collaboration with MAFF and other government and non-government entities. To date, 80 percent of the target has been reached. In addition, recurrent operational costs under the climate change department were also incurred to support the Niufo'ou Water Supply Project (co-funded between NZ and the Tindall Foundation) for households in Niufo'ou to have access to safe drinking water with more than 160 water tanks disbursed. In FY2024, similar recurrent spending continued from the previous FY apart from the absorption by government of previously donor-funded secretariats for the Joint National Action Plan (JNAP) on climate change and disaster risk reduction, to embed the continuity of monitoring and reviewing of Tonga's climate change policy, but also monitor climate change community-based projects including those under the Tonga climate change fund.

**Donor Projects:** The NZ Ministry of Foreign Affairs and Trade (MFAT) contributed \$2.3m towards the Tonga Climate Change Fund (TCCF) during this period, designated to enhance water collection facilities and sanitation for vulnerable households within the community. In addition, were community development programs of cash grants for assistance regarding supplying of mangroves seedlings for tree planting is targeting to plant 1 million trees by end of 2023. The Climate Resilient Water & Sanitation project funded by MFAT focuses on hygiene utilities and distribution of water tanks. Tonga Renewable Energy Project (TREP), an estimated \$2.5m was allocated to help facilitate the installation of Renewable-Based Hybrid Systems and Mini-Grids in Tongatapu and the Outer Islands.

### **Disaster risk management:**

**Recurrent Programs:** almost half of budget was spent on staff compensation (\$0.4m) under the NEMO office in FY2023, followed by operational costs mainly for electricity and the construction of the new parking shed at Matatua for the department's heavy-duty vehicles to stand ready for emergency responses. Similar pattern of recurrent spending continued in FY2024 in addition to efforts in implementing the National Disaster Risk Act 2021, including collaborations between government and donor partners in conducting disaster risk management trainings for officials from government, non-government organizations, and the private sector to equip participants with the knowledge and skills required to perform effective Initial Damage Assessment (IDA) following disasters or emergencies. In addition, were tsunami drills and relevant trainings for other stakeholders to ensure inclusivity in disaster preparedness including high commissioner offices, district and town officers, and vulnerable groups.

**Donor Projects:** as part of the Pacific Resilient Project (PREP), \$4.7m was allocated for various purposes, including PCRIC annual insurance, consultants for a multi-hazard early warning system, and the contract signed for the construction of the NEMO headquarters office at Matatua. Additional spending was also made from the development budget on the National Early Warning System (NEWS) and the Tonga Coastal Resilience Project (TCRP).

### **HTHH Recovery Program:**

**Donor Projects:** at the end of FY 2023, the recovery and reconstruction of houses following the HTHH volcanic eruption amounted to around \$25.3m. This allocation encompassed an additional \$10.3m in budgetary support, which was utilized for utilities and water supply during the construction of these houses. To date, 74 houses out of 260 have been completed and the remaining to be completed before the end of FY 2024. For non-residential buildings, the ongoing construction by the Nippon Foundation is estimated to be completed by April 2024. This includes the 'Atata Si'i (Kanokupolu), Mango (Ta'anga) and the Kanokupolu (Matatua) constructions. There are also non-housing constructions for 'Ohonua, Lofanga, Mo'unga'one and Fonoifua that have all been submitted for procurement process. Finally, the Government house for Ha'apai which includes Nomuka and 'Eua ('Ohonua) are currently in the design and drawing phase.

## **GPA 2: Social Protection – Reduce relative poverty and increase quality of social protection.**

### **Recurrent Programs:**

In FY 2023, government continued spending on the social welfare scheme for the elderly and disability groups – around \$7.3m was spent (under the Ministry of Finance's general fund vote), mainly financial support towards the Tonga Social Service Program (aged-care services to all outer-islands) and early intervention program (<4-year-olds who have

or who are at risk of developmental delays in Tongatapu) at around \$0.6m, monthly allowance for the disabled (Disability Welfare Scheme) at around 1,000+ beneficiaries at around \$1.9m; and monthly allowance for the elderly (Social Welfare Scheme for the Elderly) at around 4,400+ beneficiaries at a cost of around \$4.8m. In addition, the vote of the Ministry of Internal Affairs - around 36.0 percent was spent on staff compensation (\$1.9m), followed by the government's purchase of the property transfer lease from the Tonga Water Board to use the premise as part of the Ministry's main office; helping to provide adequate space for staff and contribute to increased productivity. Additionally, while it is noted that the different program areas of the Ministry would also support other GPAs, their contribution are all towards supporting inclusiveness and leaving no one behind. As such, the Ministry's spending in FY2023 also included key fundings for:

- Tonga's liaison officers under the seasonal workers scheme in Australia and NZ, estimated at around \$0.5m
- Grant for various sports activities mainly through the relevant sporting organizations at around \$0.2m. Much of the spending was rugby related.
- Grant for women-groups was spent close to \$0.09m to empower and support women income generation activities. Most of the spending were towards women groups in Vava'u and Tongatapu.
- Grant for youth-groups empowerment activities close to around \$0.1m was spent, of which included direct support to youth groups covering all the outer-islands (except Niuatoputapu) and most of them were in Vava'u and Tongatapu.
- Social protection and disability department under MIA spent majority of its operational costs at more than \$0.07m supporting key awareness and capacity building programs during the:
  - Annual Caregivers Training to various constituencies in Tongatapu, Vava'u and 'Eua, but also home visits to the Disability Welfare Scheme beneficiaries in these islands
  - International Day of Persons with Disabilities on 3<sup>rd</sup> December 2022 held in Tongatapu and Vava'u



In the first quarter of FY 2024, spending continued a similar trend from previous FY in addition to increased support towards sports development through financial assistance to Tongans represented players in the world cup series for international sports mainly in rugby and netball and Tonga's participation in the Pacific Games 2023. The anticipated

spending at the end of the FY2024 will be higher than the appropriated \$6.2m for MIA by 6 percent or \$0.3m which will include the property lease transfer payment to the Tonga Water Board, which had only started late last FY 2023.

### **Donor Projects:**

Major spending in FY2023 included \$2.0m under the **Skills Employment for Tongan (SET)** project which includes funding for vulnerable students in secondary schools prone to social economic factors. Tuition fees for over 3,600 secondary and tertiary students have been funded by the World Bank and implemented by MIA and Ministry of Education and Training (MET). This includes scholarships opportunities for the locals to have an Age Care Certificate which is executed at the Tupou Tertiary Institutes in collaboration with the Australia School's Board and MIA.

DFAT Budget Support \$4.4m has catered towards vulnerable groups including women, disabled and elderly affected by the HTHH tsunami. Furthermore, in FY2024 the SET project continued to enhance opportunities for labour migration, while the ADB **Integrated Aged Care** Project Grant Negotiation process has been initiated and anticipated for grant signing by December 2023. In addition, MIA led the establishment of the **National Social Protection Policy** that has been approved by the Cabinet this year. The development of the Social Protection Policy was made available through funds received from the World Bank.

### **Joint recurrent and donor programs:**

The Tapanekale Affordable Housing Program (TAHLP) initiative to reduce poverty in Tonga by initial allocation of \$1.0 million under the recurrent budget. The TAHLP funds both new construction of 1- and 2-bedroom houses as well as renovation of existing houses based on the 3.1 percent extreme poverty). The structure of the buildings will partly include the refurbished housing containers provided by the People's Republic of China. There are new buildings that will be provided for the families in the poor category and renovations to existing houses. Due to budget constraints, the scheme will start off at the end of November 2023 with 10 households for new buildings and 10 houses for renovations. The designs for the 1-bedroom buildings have been approved and 10 houses are currently being procured. The launch of the first 10 new houses is scheduled for the end of November 2023. Ongoing verification of the list of families under consideration continues with the Statistics Department and Ministry of Lands and Natural Resources.

On-going assistances continue for the vulnerable and marginalized population such as the elderly and special needs, women's 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 3: Combat illicit drugs.**

#### **Recurrent Programs:**

In FY2023, \$1.7m spent or 24 percent of the \$7.0m original budget allocation for the **Illicit Drugs Response Fund (IDRF)**, mainly for strengthening critical infrastructures, various equipment to assist in efforts of combatting illicit drugs more effectively and efficiently, and grant assistance towards non-government organizations to assist in rehabilitation efforts. In the first quarter of FY2024, very low utilization again remains for the spending of the \$5m IDRFB allocation in the new FY relative to spending on commitments from last FY including, the construction of the new office building for the Drugs Unit under the Prisons department, the construction of the security fence for the Hu'atolitoli Prison's compound which is progressing well, construction of a combined station for the Tonga Fire Emergency and Police Station for the Eastern side at Ha'asini that is due to be completed by December 2023, and to continue to establish the Houma (Tongatapu) and Leimatu'a Stations by early 2024 and anticipated to be completed by late 2024.

The government also allocated \$60k in FY2024 to support the ongoing activities currently undertaken by the (6) existing NGOs in relation to support the implementation of the Returnees Policy. At this stage, a committee has been approved to consider proposals or requests for assistance from the NGOs. In addition, the government has allocated \$836,000 in FY 2024 to establish the Office of the Anti-Corruption Commission. To date, the salary band for the Commissioner is currently being assessed by the Remuneration Authority.

**His Majesty's Armed Forces** – In FY 2023, more than 80.0percent of spending or \$9.3m was towards staff compensation (including rations), followed by \$0.6m in fuel and \$0.5m in electricity costs. Most fuel costs or more than 90.0percent was for the patrol boats and vessels i.e., the VOA Late landcraft, VOA Ngahau Siliva and VOA Ngahau Koula. These have supported more effective and wide-ranging protection of Tonga's maritime borders and resources from risks such as trafficking of illicit drugs, but also as crucial assistance providers during emergencies and official travels to the outer islands. Similar performance is anticipated in FY2024.



**Police force** – In FY 2023, around 66.0percent or \$12.9m was spent on staff compensation, including partial payout of staff based on their revised salary scale to realign compensation with the police force's roles in society. This was followed by spending on fuel (\$0.6m) mainly for the administration and patrol vehicles, and the maintenance of office buildings and compounds (\$0.6m). Efforts under the

illicit drugs dedicated fund included purchases of various drug test equipment and others, and the reconstruction of the Houma police station after being closed for 8 years to serve communities in the Western district. Similar performance is anticipated in FY 2024.

**Tonga Fire & Emergency Services** – In FY 2023, around 62.0 percent or \$4.2m of spending was on staff compensation. This was followed by maintenance of vehicles (\$0.1m), due mainly to high costs of repairing fire trucks. Similar performance is anticipated in FY2024.

**Border Management/ MORC** – In FY 2023, 67.0percent of the budget has been spent on staff compensation. This was followed by spending on office supplies (\$0.3m) mainly to assist border inspection and immigration activities. At the same time, allocations for overtime (due to the new overtime policy limiting overtime hours to 40 per month) and maintenance of specialized equipment were not fully utilized. Similar performance is anticipated in FY 2024.

**Prisons department** – In FY 2023, 62.0percent of the budget was spent on staff compensation, followed by farming supplies (\$0.3m) of which more than 1/3 were for the Prison's poultry farm and plantation; that also supported collection of government revenues of around \$0.5m at the end of FY 2023. Efforts under the illicit drugs dedicated fund included construction of the fence at the Hu'atolitoli prison and the building extension for the new illicit drugs unit and mental health facility. Similar performance is anticipated in FY 2024.

**Donor projects:**

In FY 2023, \$4.6m has been spent mainly on the Fangatongo Military Camp, Leadership Centre at Toulaki. Other projects included the Court Management software system, Family Protection Legal Aid Centre, Tonga Justice Sector Support Program, Director of Public Prosecutions salaries and the on-going Tonga Police Development Program of the Ministry of Police. In FY 2024, the construction of the new Fangatongo Military Camp, Leadership Center at Toulaki funded by New Zealand Defence Force are at its completion stage. Two Naval Ships are maintained every two years. MOH through curative healthcare program are also providing training & conferences, consultants and technical assistance for drug and alcohol control. Fund was allocated for the Ministry of Police from DFAT additional budget support, but the implementation will begin in the next financial year.

## Thematic Area 2: Quality of Services and Affordability

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

### Recurrent Programs:

#### **Learning & Teaching Program:**

- **Truancy & Reconciliation** – 80.0 percent or \$0.2m was spent on staff compensation, followed by spending under the peace and reconciliation fund towards building stronger relationships among schools which amounted to around \$0.09m. These included expenses to assist the weekly patrol of school prefects, combined schools' meetings and staff's intervention with students that have high rates of absenteeism or drop-out from school.



- **Primary Education** – 95.0percent or \$18.2m of spending was on staff compensation both for primary, middle schools and early childhood education providers (majority being teachers), followed by spending on renovations of school buildings at a cost of around \$0.2m, particularly on extensions to government middle schools to include Forms 1 & 2 in primary schools.

- **Secondary Education** – 94.0 percent or \$12.3m of spending was on staff compensation (majority being teachers), followed by office supplies at \$0.2m mainly to facilitate preparation and distribution of school examinations.
- **Subsidies/ grants to non-government schools:** Around \$3.8m was spent.

#### **Post-secondary Education Program:**

- **Tonga Institute of Education** – 51.0 percent or \$0.8m was spent on staff compensation, followed by allowances granted to students at a cost of around \$0.4m as they assist teachers in the classroom during the year, which also contributes towards building their teaching capacity. In addition, government provides financial support to top-performing students at TIOE by paying their tuition fees at the end of the semester.
- **Tonga Institute of Higher Education** – 71.0 percent or \$0.9m was spent on staff compensation (including part-time lecturers), followed by maintenance of school and office facilities at \$0.3m, but also including maintenances of those in government middle schools and other higher education institutes.
- **Tonga Institute of Science & Technology** – 53.0percent or \$0.7m was spent on staff compensation (including part-time lecturers), followed by vocational training costs (\$0.2m) and maintenance of school facilities (\$0.2m).

- **Tonga Maritime Polytechnical Institute** – 47.0percent or \$0.2m was spent on staff compensation, followed by maintenance of buildings (\$0.1m).
- **Tonga National University established-** \$1.9m was allocated to start-off the operations and salaries of the newly established university particularly for the incoming Vice Chancellor and deans of the various faculties.
- **Subsidies/ grants to TVET providers:** Around \$1.8m was spent, including new funding of \$0.1m towards the Christ University in Pacific.
- **Member contributions:** \$1.2m was spent as Tonga’s annual member contribution to the University of the South Pacific, in addition to around \$0.06m of member contribution to the United Nations Educational, Scientific and Cultural Organization (UNESCO).



**Quality Assurance Program:**

- **Tonga National Qualifications & Accreditation Board** - \$1.0m was granted from government towards TNQAB to help deliver their mandate under the TNQAB Act.
- **Staff Professional Development and Curriculum:** 71.0 percent or \$2.0m was spent on staff compensation (including local consultants), followed by operational spending on office supplies (\$0.3m) mainly paper for the publication and supply of schools’ curriculum materials.
- The New Zealand School’s Board had approved the results of the Tonga F/7 to be applicable in the New Zealand University requirement and the same negotiation is continuing with Australia School’s Board. In this regard, there is no further requirement for the IELTSs by Tongan students.

The total budget for the Education sector increased in FY 2024 year-on-year by \$46m or 51 percent from \$89m to \$135m; with the ultimate goals of providing quality education. During the first quarter of the current FY, the Ministry of Education and Training has spent 28 percent of its annual allocation of \$63m, with 47 percent on staff related compensations, but also the commencement of providing free nutritious breakfasts to students in primary, government middle and early childhood schools; at 23 percent or \$280,000 of the annual \$1.2m allocations being spent. In addition, 10 percent of spending during the first quarter was towards various grants to non-government schools and other education authorities including the Tonga National University.

**Development Projects:**

In FY 2023, a total of \$5.4m was allocated to the Tonga Safe & Resilience School Project (TSRSP) is in progress with renovating and rebuilding of classrooms to meet the build



back better standard structure, and staff quarters that were affected by the volcanic eruption. Continued support from DFAT and MFAT amounted to \$7.0m in providing academic scholarships, while the World Bank contributed an additional \$4.0m for constructing a new Tonga Side School building. Funded by the People's Republic of China (PRC), \$2.0m was spent on equipment and material in preparation for the construction of the Tonga High School Sports Complex Phase 2. Other ongoing projects including teacher training and disaster response preparation following the HTHH volcanic eruption.

In FY 2024, the construction of the THS Sport Complex is currently progressing and it is expected to be completed in the next financial year in preparation for the Pacific Island Leaders Forum. The SET project is currently in its last year of operation and will be completed in September 2024. The Tonga Safe & Resilient Schools Project is currently ongoing, having achieved 9,026 student beneficiaries, 100 percent of schools with gender appropriate WASH facilities and 54 new school buildings constructed to improved resilience standards with an initial target of 50 school buildings. In addition, a target of 10 school buildings retrofitted to improved resilience standards was fully achieved. Finally, the PREP component 1 focusing on Strengthening Early Warning and Preparedness had drafted a work plan for rolling out of national drills in different locations such as schools in high-risk areas. Scholarships sponsored by development partners are also ongoing. Under the training and employment initiatives, Tonga's involvement in the Seasonal Worker Program (SWP) in Australia has expanded to include a wider range of potential development opportunities for Tonga's labour mobility including hospitality, construction and aged care. As mentioned in the GPA 2, the SET program provides opportunities for local students to complete a one year of Age Care Certificate level and target to work attachment in Australia. The pioneer students of eight (8) students are already in Australia for their work experiences.

#### **GPA 5: Improving access to quality and affordable healthcare system focusing COVID-19, Non-Communicable Diseases (NCDs) and preventative measures.**

**Recurrent Programs:** In terms of the total Ministry of Health's (MOH) recurrent spending in FY2023, 56.0percent or \$29.3m was spent on staff compensation and the remaining on operations and grant funding towards the Tonga Public Health organization. However, in terms of MOH's key budget programs, most of the spending (58.0percent or \$30.2m) continued to be towards curative health care, followed by 18.0 percent or \$9.2m towards preventative health care services. The former mainly included spending of \$16.3m on staff compensation, followed by \$7.8m spending on overseas medical treatment and medical drugs/ supplies.

In FY 2024, the Government continues to prioritize the enhancement of public access to quality and affordable healthcare. As the Health ministry being the second-highest recipient of the government's recurrent budget (excluding capital expenditure), spending during the first quarter of the current FY was up to 26 percent, of which almost half was staff related compensations, followed by 20 percent in purchasing medical drugs and supplies and operational expenses towards Tonga's hosting of the Pacific Regional Health Ministerial meeting, and hosting of the Open Heart International group to minimize the number of emergency overseas referrals by having operated on more than 20 open heart surgeries or saving government close to \$2m worth of overseas referrals in heart surgeries. In addition, significant upgrade and maintenance works to the main Vaiola hospital and the district health centres were also completed during the first quarter. The Ministry of Health continues in collaboration with Tonga Health and other stakeholders to strengthen the promotion of combatting NCDs through the NCD Strategy.

**Development Projects:** In FY2023, a significant portion of the \$18.2m stems from the Covid-19 support package, strategically allocated to bolster the ministry's operations during the pandemic's impact. The Tonga Health Sector Support Program (THSSP) directed \$5.7m towards improving primary and community health services. An allocation of \$1.3m was dedicated to the central pharmacy warehouse for the secure storage of Covid-19-related medical supplies. The Tonga Digital Government Support Project (E-government) invested \$1.2m to introduce digital operations within the Ministry of Health. These funds also aimed to enhance pharmaceutical management, data capabilities, and software while fostering closer connections between New Zealand and Polynesian nations, including Tonga. Additional contributions supported UN agencies' assistance in covering operational costs for Ministry of Health activities.

In FY 2024, the Central Pharmacy Warehouse in Veitongo is at its completion stage awaiting handover ceremony. Health Related Projects are progressing well. The on-going arrangements for the rebuilding of Ngu Hospital in Vavau where the Ministry is collaborating with relevant government stakeholders to complete the designing phase with potential to start upgrading of the health staff quarters. This project is co-funding by the Government of Australia (DFAT) with TOP\$10million (AUD5million) and ADB by providing TOP\$30million (USD15million). In addition, the reconstruction of the Queen Salote Nursing School which is currently in the design phase. This project is funded by DFAT with TOP\$10million (AUD 5million). Lastly are the significant upgrade and maintenance works to the main Vaiola hospital and the district health centres were also completed during the first quarter.

## **GPA 6: Affordable and accessible public services**

**Recurrent Programs (performance is highlighted below by MDA in FY2023, of which similar performance is expected to continue in FY2024):**

**Ministry of Justice (excluding Prison department under GPA 3):** 63.0percent or \$5.0m was spent on staff compensation, followed by domestic travel costs at \$0.4m mainly to support operations of holding court circuits across Tonga. In addition, close to \$0.2m is spent under the Family Protection Legal Aid Center to provide free legal aid services to survivors of domestic violence and gender-based violence, with offices established in Tongatapu and Vava'u.

**Attorney General's Office:** 45.0percent or \$1.4m was spent on staff compensation, followed by government liability costs worth close to \$0.4m, mainly on land-related and communication cases.

**Ministry of Lands, Survey & Natural Resources:** 52.0percent or \$3.2m was spent on staff compensation, followed by rental costs at \$0.5m as the Ministry had to relocate its branches due to the planned reconstruction of the new Parliament building.

**Public Service Commission:** 74.0percent or \$1.4m was spent on staff compensation (including meeting fees for the commissioners), followed by office renovations worth close to \$0.07m.

**Tonga Statistics Department:** 59.0percent or \$1.5m was spent on staff compensation, followed by office rental costs worth close to \$0.3m and operational costs to commence survey work on the Agricultural Census and Labor Force. Completed surveys in FY2023 to assist with policy decision-making included the:

- Equality Insights Rapid report which focused on individual-level, gender-sensitive measurement of multidimensional poverty and inequality influenced by various social, economic, and environmental factors and context in Tonga.
- Business Register Survey for updating the stock of formally registered businesses in Tonga and the business demographics and economic activity.
- Gender and Environment Survey covered more than 2,500 households in Tongatapu and the outer islands detailing how women and men manage natural resources, deal with hazards and with the consequences of climate change, among many other areas.

**MEIDECC (excluding climate change and disaster management departments under GPA 1):** 56.0percent or \$3.7m was spent on staff compensation, followed by office rental costs worth \$0.8m and electricity costs of almost \$0.5m spent.

**Palace Office:** 48.0percent or \$1.9m was spent on staff compensation, followed by overseas travel costs at \$1.2m that facilitated official and national representation abroad such as the coronation of His Majesty King Charles III and the global climate change conference of the parties (27<sup>th</sup> session).



**Legislative Assembly:** 24.0percent or \$3.7m was spent on staff compensation, followed by the disbursement of constituency grants at around \$10.7m, of which the majority was for various community development programs under each constituency. In FY2024, spending on overseas travels is expected to further increase reflecting ongoing engagement and capacity building programs for both members and staff of the parliament office. In addition, was the hosting of the pacific regional parliamentarians in Tonga, with a special focus on climate change aspects; but also, proposals to allocate funds for broadcasting live sessions of the parliamentary debates towards enhancing transparency of decision-making to the public.

**Office of the Auditor General:** 67.0percent or \$1.2m was spent on staff compensation, followed by overseas travel costs at close to \$0.2m that facilitated official representations abroad such as to the Supreme Audit Institutions congress both at the regional and international levels, amongst other capacity-building workshops and visits to Tonga's overseas missions.

**Ombudsman:** 55.0percent or \$0.8m was spent on staff compensation, followed by office rental costs of \$0.2m and overseas travel costs at \$0.1m that facilitated official travels abroad such as the United States Ombudsman Association, and the Australasian & Pacific Ombudsman regional conferences reaffirming Tonga's commitment towards the Venice Principles and promoting good governance with protection of citizens' rights against injustice executive decisions.

**Prime Minister's Office:** 47.0 percent or \$4.5m was spent on staff compensation (including those for district and town officers), followed by \$1.2m on development committees, of which the majority was for various community development programs under each constituency. The allocations were initially \$0.05m for each constituency in Tongatapu and \$0.1m allocated to each outer-island Ha'apai, Vava'u, 'Eua and the Niuas.

**Ministry of Finance:** 11.0 percent or \$11.2m was spent on staff compensation (including pensions), followed by debt payments at \$43.5m and \$8.3m on government subsidies largely towards lowering electricity prices in response to related inflationary impacts, subsidizing sea transportation to the Niuas and 'Eua, facilitating transport of assistance from abroad to Ha'apai communities and installation of streetlights nation-wide.

**Ministry of Revenue & Customs:** 45.0percent or \$3.9m was spent on staff compensation, followed by the purchase of the cash registers or the POS (Point of Sale) system worth almost \$1.0m, that helped enhanced efforts to track and report on more businesses and their accurate record keeping of tax information, leading to increased coverage and collection of domestic CT.

**Ministry of Public Enterprises:** 66.0percent or \$0.9m was spent on staff compensation, followed by office rental cost at \$0.1m. The Ministry continued to implement activities that supported its mandate under the Public Enterprises Act, such as monitoring performances of the public enterprises including those directly linked to key services to the public such as water, electricity, waste, and communication.

**Development Projects:** In FY2023, total spending of \$20.2m under the Tonga Renewable Energy Project (TREP) included installing Grid Connected Renewable Energy Generation in Tongatapu, 'Eua, and Vava'u Islands including installing On-Grid Solar Photovoltaic (PV) plant with Large Battery Energy Storage Systems (BESS) capacity for all the Islands. The Nuku'alofa Network Upgrade (NNUP) has spent \$11.5m in finishing the phase work for Area 3 (Fasi Area) while working in parallel with the commencement of the procurement for Area 5 (Puke to Sia'atoutai Area) civil works. Outer Island Renewable Energy Project (OIREP) utilized \$9.0m to construct grid-connected Solar Photovoltaic (PV) power plants on the outer islands of Tonga; thereby demonstrating a method for reducing the country's heavy reliance on imported fossil fuels for power generation. The Project will supply secure, environmentally sustainable energy to households, schools, and other public facilities, on the islands of 'Eua, Ha'apai, and Vava'u. The other projects comprise of Tonga Integrated Urban Sector Resilience Project (TIURSP) and E-government project.

In FY 2024, TREP is currently installing BESS and microgrid controller in 'Eua and replacing defects solar panels in Vava'u. Renewable-based hybrid systems and mini-grids materials, plant and personnel mobilized to Niuafo'ou, 'O'ua and Kotu. In addition, the modernization of TPL's Central Control Center in Tongatapu is progressing. IURSP has provided Waste Collection Equipment, rear loader compactor, septage tanker truck, tipper grane truck, 2 utilities service vehicle and drain cleaning equipments & parts (MOI). Discussion is undegoing on flood drainage channel in Sopu, 'Apifo'ou, Fanga & Tofoa. Consultation with private landowners is still ongoing.

The Energy Sector achieved a key milestone through the Nuku'alofa Network Upgrade Project (NNUP). The phase 3 of this project enables 200 households to connect to the grid for the first time which improves power connections and upgrades to 14 villages benefiting 2042 households and 354 businesses in the Nuku'alofa area. Tonga Power Ltd highlighted that this project will help to reduce network losses, increase access to

electricity, and provide a safe and reliable electricity supply to approximately 8,472 households and businesses in the Nuku'alofa area. The project has 2 phases on the pipeline to be completed with financial assistance from the Asian Development Bank (ADB) and MFAT.

Sharing information/data is critical for policymakers. To guide GIS services, the MLNR Geospatial Information System (GIS) launched the first National Geospatial Action Plan (NGAP). One of the NGAP top priorities is to establish the SDG Data Hub for Tonga. The SDG Data Hub is coordinated through the National Statistics Taskforce Committee. The Digital Transformation project under the Prime Minister's Office is in progress with the establishment of the National Portal. An international consultant is currently conducting the consultations with line ministries prior to establishing the National Portal. The purpose of this Data Centre centralizes the dissemination of information to the users and the viewers in an efficient and effective way.

### **Thematic Area 3: Challenges and Opportunities for Progressive Economic Growth**

**GPA 7: Maximize trade opportunities focusing on drivers of economic growth through strengthening of business enabling environment.**

**Recurrent Programs (performance is highlighted below by MDA in FY2023, of which similar performance is expected to continue in FY2024):**

**Ministry of Trade & Economic Development:** 36.0percent or \$2.6m was spent on staff compensation, followed by grant assistance to support local businesses worth \$1.1m. The majority (more than half) of this support was towards agricultural exporters through subsidization of their freight costs, and other remaining support was towards micro, small and medium enterprises across Tonga in producing and promoting locally made products.

**Public Private Partnership Fund (under Ministry of Finance's vote):** 14.0percent or \$1.4m was spent out of the \$10.0m allocated to support economic growth activities, including the kava industry through constructions of kava pounding facilities and machines, and support toward other industries (fisheries, handicraft, agriculture, manufacturing).

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

56.0percent or \$5.3m was spent on staff compensation, followed by purchases of farming supplies worth almost \$0.6m to support local food security through the



nurturing and distribution of various kinds of trees, fruits and vegetables seedlings to households, communities including the district nurseries; but also farming supplies to support the production and distribution of chickens that could in addition to food security purposes but help import substitution objectives. In FY2024, spending in the first quarter reflected the reconvening of the royal agricultural show since the pandemic.

**Ministry of Fisheries:** 46.0percent or \$2.0m was spent on staff compensation, followed by purchases of fishing supplies worth almost \$0.4m to support the implementation of the squid promotion project to address food security, healthy eating habits and livelihoods in Tonga, in addition to aquaculture farming activities and enhancing the special management areas (SMA) program. Like MAFF and MOT, in FY2024, spending in the first quarter reflected the reconvening of the royal agricultural show since the pandemic. Furthermore, it is noted that efforts are underway in the Strengthen the National 'Monitoring, Control, and Surveillance' (MCS) Program to combat Illegal, Unreported, and unregulated (IUU) Fishing activities, but also other relevant international and regional fisheries agreements such as Port State Measure Agreement (PSMA), Regional Air Surveillance and the Regional MCS Strategy.

**Ministry of Tourism:** 39.0percent or \$2.7m was spent on staff compensation, followed by \$1.0m on the maintenance and upgrade of tourist sites but also construction of dining sheds across nationwide to support tourism development and ease of public access to these areas. In addition, was the disbursement of \$1.5m to the Tonga Tourism Authority for tourism promotion and marketing efforts.

**Development Projects:** In FY2023, the Major spending of \$11.0m was for Relief Assistance of the Recovery efforts for the HTHH volcanic eruption and tsunami, benefited by small construction businesses contracted by the MOI for this program. For Tonga Fish Pathways (PSOP) has spent \$3.9m for the PMU operations, fishing boat design and procurement. The SET Project has assigned \$3.2m to CSU operation to assist with overseeing the WB project's major infrastructures that will create opportunities for private economic development. The TRIP Phase II spent \$1.2m through MORDI to assist rural areas with providing crops for their plantation and ensuring that there is sufficient food

supply for Tonga. The on-going GGP Projects provide support to grass root community level while the NPGA Program assists with providing key equipment to strengthen ministries' core function.

In FY 2024, the MFAT Emergency Budget Support was received during the financial year and has been allocated to contribute to financing government priorities such as Community Projects (Feletoa & Holonga Evacuation Centre), Affordable Housing, etc. Nuku'alofa Network Upgrade Project - Area 5 is currently under implementation. NPGA inkind support provided 5 vehicles for the Ministry of Fisheries and medical equipments for the Ministry of Health. Korean Annual Assistance will provide 635 water tanks (5,000L) for the community through the National Water Project. Grassroots Assistance for community development includes the upgrading of the water supply system for Te'ekiu, new classroom for 'Ahopanilolo TVET & 'Ohonua government middle school and new kindergarten in Pangaimotu Vava'u.

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

The National Infrastructure Investment Plan (NIIP 3) is the infrastructure framework for development in Tonga, with the following programs being implemented:

**Recurrent Programs:**

In terms of the total Ministry of Infrastructure's (MOI) recurrent spending in FY2023, 37.0percent or \$7.7m was spent on staff compensation and the remaining on operations. However, in terms of MOI's key budget programs, most of the spending (59.0percent or \$12.1m) was on building control and civil engineering services, followed by 26.0percent or \$5.4m on transport infrastructure services. Both these program services' main spending was on road maintenance works estimated to have spent around \$4.6m largely on construction materials (e.g., coral and bitumen), clearing costs and fuel for the periodic and routine maintenances, which excludes other related costs such as the human resources and travel to conduct these works also in the outer islands. In addition, was \$1.8m spent in FY2023 on building infrastructures such as the new MOI office in Vava'u, emergency house project (fale vela), TC-Gita and HTHH tsunami affected households including the 7 pilot container homes.

In terms of the HTHH reconstruction and affordable housing projects – refer to GPA 1 and 2.





**Development Projects:** In FY 2023, a total spending of \$13.0m under Tonga Climate Resilience Transport Project (TCRTP) 1 & 2 had been spent on design and supervision contract for maritime works. This contract has been signed and the aviation contract is under negotiation. Taufa'ahau road procurement is in the final stage of bid evaluation. The Parliament new building, co-financed by MFAT & DFAT, has spent \$6.0m in the building design. Nuku'alofa Port Upgrade Project had used \$7.3m to mobilize its resources by McConnell Dowell Constructors Ltd/ Heron Ltd (NZ contractor) for the construction of the wharf after delays due to HTHH and Covid-19 impacts. While the Fanga'uta Lagoon Bridge Project has completed the design phase, it is currently in the bid-opening of the procurement process.

In FY 2024, the Nuku'alofa Port Upgrade Construction is on track with additional financing of USD30million confirmed for the next financial year. TCRTP I will be completed in the current financial year. HTHH Housing Reconstruction is still underway with gradual progress (as mentioned under GPA 1). Resurfacing of the Ha'apai airport runway has now been completed while the 'Eua airport runway resurfacing is scheduled to commence in mid-2024. The upgrading of Niuafu'ou wharf is anticipated to be started in November 2023. The Nafanua Bridge project is in progress in its designing phase and agreements with relevant partners and the Ohonua bridge is currently under negotiation for funding. Building of the jetties for the outer islands such as Nomuka, Haano, Uiha and Ovaka are in their designing phase and to be constructed early next year. Furthermore, the bidding for the Fanga'uta Lagoon Bridge had commenced with the deadline for bids was 13th April 2023. The upgrading of the Queen Salote Wharf is currently underway and due to complete as scheduled in 2026 with funds being secured from ADB.

The purchasing of the new twin otter aircraft was funded by a grant received from DFAT of AUD1.2 million and TOP\$6 million loan and TOP\$4 million equity from Retirement Fund Board. The twin otter has arrived in the Kingdom of Tonga and will be commissioned after ensuring the necessary documentation and safety requirements are being met in line with international standards.

### **GPA 9: Partnership**

#### **Recurrent Programs (performance is highlighted below by MDA/ division in FY2023, of which similar performance is expected to continue in FY2024):**

**Aid Management & Resilience Development:** 52.0percent or \$0.3m was spent on staff compensation, followed by \$0.2m on overseas travel costs to facilitate official representation in various forums abroad such as the ADB and WB annual meetings amongst others in advancing national interests including climate change resilience with development partners.

**Ministry of Foreign Affairs:** 59.0percent or \$8.1m was spent on staff compensation, followed by \$1.1m on office rental costs in overseas missions to facilitate space for the diplomats in supporting their crucial role of strengthening Tonga's partnerships with the host countries together with other relevant international and regional organizations.

In FY 2023, the Government spent \$2.1m in strengthened its bilateral engagement with accredited bilateral and multilateral partners, private sectors, and non-government actors focusing on risk-informed investment to improve the standard of living which contributes to the Gross Domestic Product (GDP) of the country. The projects contributed to this GPA comprised of ADB and WB focal office and consultants, Tonga Australia Support Program (TASP) included support for Joint Policy Reform Matrix (JPRM), the continued partnerships with other development partners such as JICA, Peoples Republic of China, United Nation Agency, and other crop agencies.

In FY 2024, The Ministry of Foreign Affairs spearheaded the partnership building of Tonga and international development partners and other countries. This includes early stages of an agreement with the Saudi Arabia Fund for Development (SFD) group for infrastructure projects in the country. A significant milestone for the country was the Pacific Small Islands Developing States (PSIDS) forum which was held at Fa'onelua Convention Center. Opportunities for the leaders of the country to meet with donors and development partners building the relationships needed for development in Tonga.

The government is continuing to implement the Migration Strategic Development Plan (MSDP) led by the Ministry of Foreign Affairs. The Cabinet approved a National Action Plan to implement the priority number eight (8) of the MSDP which is Human Trafficking in Persons. There are also 5 Diplomatic relations formalized which are the Republic of Marshall Island, Kingdom of Bahrain, The Kyrgyz Republic, Federation of Bosnia and Herzegovina, Republic of Tajikistan, and Rwanda. And lastly, the establishment of a new Passport Printer for the Tonga Consulate General in San Francisco to ease the processing of the Tongan diaspora travel arrangement.